

ARTICLE: The future of outsourcing

Globalization has been a burden to thousands of companies in the West who are struggling to pull through after the recent wave of recession. With sales plunging and figures dropping faster than ever, this has meant closure for a number of smaller firms who have been unable to compete with their larger rivals. 2008 in particular was a hard year for economies around the world and the economic downturn has forced major players to reassess their growth, costs and profit margins. Although IT budgets are usually a small fraction of corporate cost base, a number of companies have turned their attention to them in their search for bigger savings. The question that's now being asked is; what will the impact of this economic downturn have on IT budgets and how deep will it effect the current outsourcing that most IT players have in place?

In 2008, neoIT and Goldman Sachs partnered to develop the Global Services Confidence Index (GSCI), to provide an indication as to the demand, risks and opportunities related to globalization and spending patterns. In a survey conducted with 57 respondents, including Vice Presidents, Directors and Global Heads of Offshoring programs; some salient key points emerged that shed light on the direction and pattern that outsourcing will be taking over the next couple of months.

Both the big players and emerging contenders are even more keen on the overused catch phrase- budget. Most organizations have kept their non discretionary budgets untouched, but are closely monitoring their discretionary spending as they experience an increasing pressure on growth and reduction on margins.

And with the big layoffs that 2008 has seen, can one expect to see bigger outsourcing deals? While a lot of companies have been forced to downsize, an equal number are eager to unchain their key executives from routine tasks, in order to capitalize on their innate potential by outsourcing standard, yet much needed requirements. This is a newer trend that is emerging globally and one which makes outsourcing seem even more important and dollar efficient. Better resource management, more products at the same cost, efficient customer service at minimum dollar; all this makes outsourcing continue to be a viable and profitable option.

New contenders are emerging as companies struggle to balance shrinking budgets with rising outsourcing fees. India for example, has witnessed an increase in costs related to real estate and infrastructure, coupled with salary inflation to the tune of a shocking 12%-15%; making it less attractive as a destination for cheaper outsourcing labour.

Yet, as we enter 2009, outsourcing spend for the next six months is expected to remain the same with no great leaps that 2008 saw continue into the new year. As organizations continue to be under pressure to cut costs, a new and significant trend will emerge as companies leverage near shore destinations such as Latin America and Eastern Europe. Companies seeking to realign their spending will do so more in ADM and BOP and infrastructure spending may likely remain the same level of onsite-offshore spend rate. Manufacturers and tech companies

will continue to learn to capitalize on global talent pools, to increase products at a rush rate and lower costs.

Organizations have also realized the need to capitalize on the multi-lingual options newer emerging geographies offer. Latin America can provide the Spanish and Portuguese support that is much needed as the Hispanic population in the West continues to grow. Similarly, corporations are spending a sizeable amount of their budgets in Eastern Europe as they continue to fulfill the language requirements of European markets.

China is vying for position as a dominant contender in the playing field and one can expect to witness an increase in companies moving towards China, despite the current political and intellectual concerns that arise when one speaks of this particular economy. Will stringent contracts and an implementation of stricter security codes address these concerns, remains to be seen.

In addition, many investors are reaching out to nearshore destinations such as Canada and Mexico as a cheaper alternative, and one that fulfills the growing time-zone and language requirements.

As companies work out the smaller details, they are now looking to question actively their own need for outsourcing; and seeking to reap maximum additional benefits such as a dual language deal that workers in these countries can offer. Investment in these new regions could free up hundreds of millions in cash flow annually. And smart use of offshoring can step up the performance of current players on the market. In the end however, the ones that emerge winners will be eventually be those companies that are adept at maximizing the benefits outsourcing offers, while minimizing the risks and costs involved; to the betterment of themselves, their workers and the industry.