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Inside Outsourcing™



Inside with: Michel Janssen

President, Supplier Solutions, Everest Group

Special points of interest:

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Offshoring

From the Editor.

Welcome to our current issue!

Inside Outsourcing's goal is to provide you with articles of interest and with a forum for the exchange of information in this rapidly evolving industry.

Everest Group provides strategic advisory services that help companies worldwide harness the power of outsourcing. Offices in the United States, Canada and Australia enable them to serve clients effectively around the world. Their breadth and depth of experience allow them to deliver expert analysis and strategic results. Since 1991, they've completed hundreds of major outsourcing transactions in more than 30 key business processes.

LJ: What is your view of the competitive landscape in the BPO Outsourcing space?

MJ: The competitive landscape for BPO is continuing to evolve with suppliers both entering and leaving the marketplace. Certainly the big ITO suppliers have to have a BPO strategy not only for growth in top line revenue but also as a defensive strategy to prevent future IT volumes that are contained within the BPO process. If left unchecked by the ITO suppliers, this could be a major source of volume leakage over the long term as buyers execute enterprise-wide BPO strategies. At the other end of the spectrum, you have process specialists who are looking at the potential for growth by enhancing their capabilities and reflecting on the implications of full service suppliers entering the market upstream to their core business. Obviously this creates both opportunities and threats as suppliers vie for their relative space in BPO

LJ: What are the changes taking place in BPO strategy and how do you see this evolving in the future?

MJ: One of the major challenges for buyers considering BPO today is about developing the logical groupings for evaluating outsourcing. Consider the approach TXU took, completing one of the most comprehensive outsourcing transactions of any company when they are outsourced a tremendous number of functions to Cap Gemini in one mega deal. That contrasts to other firms which execute a best-of-breed supplier strategy across the different business processes including HR, finance and accounting, procurement, etc. Still other firms build their strategy at one level lower where they define best-of-breed is among the various functions areas such as benefits, payroll, training etc. At the individual buying firm level, this strategy seems to evolve over time as their sophistication with outsourcing matures AND how well management is able to integrate it into the company's culture.

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LJ: What are the most common misconceptions regarding BPO?

MJ: The most common misconception in BPO is that you can define it neatly into a box. Many people would suggest that BPO is such an overly broad term that it has no meaning and I would agree that it is definitely an over utilized word. When we are advising Everest clients on an enterprise sourcing strategy, we may be looking at 30-40 different business processes and all but two or three could be considered BPO. So rather than worry about the BPO label, we should think about it in the context of defining value creation potential versus risk/complexity of executing a value-capture strategy. Our conversations with our clients really are designed to identify what is possible and to prioritize outsourcing decisions. The other misconception is that if you understand ITO, you understand BPO and our experience would suggest that can be a tragic error in logic. Generally BPO is more complex than ITO, the buying process is different, and the supplier community is certainly less well defined.



LJ: How is offshore changing the outsourcing landscape?

MJ: I would answer that in two parts: Let me address the buyer side first. In the case of buyers, offshoring is acting as an accelerant to support the consideration of outsourcing. Yes the politicians are making lots of noise in this election year around jobs. But the story from the executive suite, especially the CFO, is completely different. The C-suite is absolutely committed to making sure their company is competitive in their market while maintaining profits targets for shareholders. The net result is that offshoring conversations are just being driven underground with the big splashy contract wins being kept from the mainstream public view. On the supplier side, it is really apparent that this is truly a global services story. Yes India is a very prominent destination for all the right reasons, but other regions are definitely participating with global suppliers balancing available talent and price points against risk. One of the reasons that drives the India story is the emergence of three new suppliers into the global supplier marketplace. It is an extremely rare occasion that you find three new prominent players emerge in the market at about the same time to compete with other well-entrenched suppliers. TCS, Infosys, and Wipro each have crossed the billion dollar revenue threshold and are now scaling operations to allow them to compete on large scale opportunities against the other major global suppliers.



LJ: What are the most important value adds that the third party advisory firms bring to the process?

MJ: A firm like Everest brings a combination of experience and objectivity to the process that allows a buyer organization to maximize value creation that is sustainable over time. The process that Everest encourages our executive buyers to consider is one that allows them to create a collaborative joint design process where buyer and supplier start with the business challenge and builds a unique solution that specifically addresses the opportunity. Our experience allows us to navigate both the buyer's and supplier's organizations to prevent them from construction a procurement-style deal based solely upon the lowest possible price. It is our experience that while price can certainly be a qualifier, it is rarely the differentiator that actually decides the winning supplier. Our clients need a process that sheds light on cultural issues, industry/process experience, and the supplier's ability to drive positive business results into the rest of the business. A third party advisor brings that outside objectivity that helps bring the right supplier together in a deal structure that the buying organization can live with over the long term while at the same time mitigating the risk of getting into a long-term relationship that works well for neither party.

Can you say 'offshore' anymore?



<http://www.news.com/>

By Ed Frauenheim
Staff Writer, CNET News.com
http://news.com.com/Can+you+say+offshore+anymore/2100-1011_3-5381532.html

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Euphemism is alive and well again when it comes to axing jobs in America.

For much of the past two years, the business world has been happy to trumpet the benefits of sending technology work and other tasks offshore to lower-cost labor markets such as India and Russia. But as labor advocates and politicians have fumed over the "offshoring" trend, businesses are changing their terms, if not their tune.

It's not too different from the way corporations in an earlier era employed softer words for "layoffs," like "downsizing" and "rightsizing." "Offshoring" is giving way to phrases such as "co-sourcing" and "global sourcing," said John McCarthy, analyst with Forrester Research.

"It's all part of everyone going into the offshore witness protection program," McCarthy quipped. "They're changing the title, but the activity is the same."

Earlier this year, McCarthy reiterated his view that more than 3 million U.S. services jobs will go offshore between 2000 and 2015. And he bumped up his estimate of near-term lost jobs by some 240,000, meaning he expects a total of 830,000 positions to have moved offshore by 2005.

Defenders of offshoring say it ultimately benefits the U.S. economy and U.S. workers, and that protectionist measures would result in lower economic growth and higher unemployment.

Critics respond that offshoring costs U.S. workers jobs and threatens the country's long-term technology leadership.

The exact scope of offshoring has been hard to assess. A recent report by Congress' research arm concluded that government data offer limited insight into the extent of offshoring and its effects.

Meanwhile, companies involved with sending work offshore have come up with alternative labels for what they do—labels that avoid touching the latest political third rail. For example, India-based Infosys Technologies touts its "Global Delivery Model." When serving a U.S. client, some Infosys employees work at the company's site. But the majority of Infosys' employees are in India.

IBM, which has been expanding its operations in India, has moved away from the related term "outsourcing." Outsourcing refers to a business farming tasks out to companies like IBM—which may complete the work abroad. Big Blue avoided using the word "outsourcing" in announcing deals with two energy companies and with two German banks that all involve IBM taking over certain operations.

Big Blue described some of the deals as "business process transformation services" agreements and said the phrase refers to an emerging market category.

Corporate language transformations related to offshoring rile populist commentator Jim Hightower. "Excellent news, Americans! U.S. corporations say that they are no longer 'offshoring' our middle-class jobs," Hightower wrote in an essay published Friday. "Does this mean that greedheaded CEOs are no longer shipping our manufacturing, professional, and high-tech jobs to India, Pakistan, Russia and other low-wage centers? Of course not. It simply means they no longer say the word 'offshoring.'"



Integrated Search Solutions Group



We are a retainer-based executive search firm that has a global presence with specific expertise in outsourcing. We have been involved in outsourcing as a discipline for over seven years. Our experience includes Information Technology, Business Process (Human Resources, Finance & Accounting, and Marketing), and Telecommunications.

We have a proven track record with established Fortune 500 companies as well as venture capi-

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"BPO cost advantage diminishing"

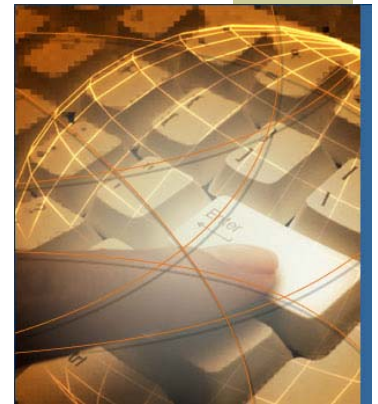
New York, Sep 27.(PTI): The advantages of outsourcing from the US to cheap brain power nations like India have been diminishing because the wage gap between America and Asia is shrinking, a media report has said.

"The wage gap between the US and Asia is shrinking. Pay scales are rising fast in India and China for college- educated, English-speaking professionals," the Business Week said.

The weekly says the reports that General Electric (GE) plans to sell its entire business-processing operation in India for USD one billion raises the "interesting question of whether the offshoring phenomenon may be peaking."

"Not that it will stop being a key part of corporations' global strategy. In an integrated business world, you go where the best talent is. But the surge in companies going to India, China and Eastern Europe in search of very cheap brain power may soon be coming to an end - far sooner than anyone has anticipated," the report said.

The business weekly wrote: "since these Indians and Chinese aren't anyone's fools, they've been demanding - and getting - increasingly higher compensation. After all, these web-savvy men and women just have to check the human-resources websites of eastern companies to see what their counterparts are making. And indeed they have, as their rising compensation proves."



"Only those who dare to fail greatly can ever achieve greatly"

Robert Francis Kennedy
