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# Inside Outsourcing™



## Inside with: William Bangert, Group Vice President and Head of Global Sourcing, Gartner

### Special points of interest:

Larry Janis' interview  
with:  
**William Bangert**  
Gartner

Yankee Group's Survey  
On  
HR BPO Providers

### 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.

Gartner helps build and manage successful sourcing partnerships that deliver value and performance throughout the relationship. They offer full end-to-end sourcing life cycle, including post-sourcing performance management (supported by the largest IT metrics database in the industry) and business process support for F&A, HR, Procurement, CRM.

Gartner's advisors are based worldwide, are vendor independent and have significant experience in private industry and public sector sourcing. They have more than 200 professionals, including former CIOs, CTOs, HR VPs, Finance and Procurement Directors, Corporate and Government Attorneys, Managers from Sourcing Service Providers, Business and Technology strategists from top consulting firms.

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

**WB:** It's a hot area, but it's also immature. Certainly there are sectors which do show great maturity. Payroll is a BPO area that's been around for as long as most of us care to remember, and is well consolidated into a few primary players. Check processing in the banking industry is arguably another one. But for the most part, most BPO sectors don't show this maturity. I had a discussion just a week ago with the Executive Vice President of one of the leading financial BPO companies, by his reckoning his firm is the third largest business in their sector, and granted it was a niche sector, but they have only 6% market share! Many sectors look like this. The only newly immersed sector which really has shown rapid scale and maturity so far is HR.

So this is a marketplace where one big contract puts you in the game, and nobody's track record has been stress-tested over time. I think this means as the economy improves and caution eases a little, that there is a risk that we may see some of the mistakes that were made in the ITO arena repeated as some firms make a land grab for market share and dominance. Expect to see some interesting attempts at gain sharing or contingency pricing. The other thing we have to remember is that BPO is a generic label that covers a lot of different business models, one of the reasons why I say it's immature. There are vertical industry plays which will trend towards aggregation of scale or a concentration on value or knowledge capital; and horizontal cross industry services that may very well price themselves into a commoditized model quite quickly. It will be fun to watch it all unfold, and the most of the major players are still trying to figure out their positioning in all of this. But there is no doubt in my mind that this is going to be a huge sector.

### **LJ: What are the most common misconceptions regarding BPO?**

**WB:** Where shall we begin?! Certainly, the biggest headline grabber right now is the political aspect. It seems that Lou Dobbs and CNN have made it a nightly crusade to instruct America on the perils of outsourcing. In reality, we've been through this before. In the eighties we had a lot of talk about office automation. All clerical jobs were going to disappear in one great elimination of paper processes. It didn't happen. What did happen was an almost imperceptible tightening up of general administrative efficiency and a flow through on productivity which really began to show up in our competitive standing a decade later. I'm sure that BPO will result in leaner more competitive American companies, with more profits to invest in jobs in new emerging areas. Don't get me wrong (continued on next page).

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I don't discount the dislocation to a programmer who suddenly finds their job going to India, but this is not a long term phenomenon for us to fear. We also fear it this time around because it feels like it's hitting white collar jobs. But think about it. Programming, especially when it involves legacy systems, should move to a lower labor based model. This is a rules driven activity, with little decision based discretion, so arguably it's a clerical function, and most businesses balk at paying six figure salaries in such functions. Another major misconception is that the outsourcing is all going to India. There is plenty of BPO being supplied from right here in the United States, and many reasons, both practical and commercial, and not political, why they went go offshore. In fact one school of thought argues that India's lack of core infrastructure alone is going to impede their ability to continue to compete for business at the rate that they have been.

### LJ: As an advisor, what are the predominate concerns of buyers around outsourcing?

**WB:** Some never change. Cost has long been in the top three issues forever. Gartner surveys CIO's annually, and this continues to be a major priority in the annual top ten issues. However, as the economy has improved, we have definitely seen cost shifted down to a second or third consideration, particularly in the BPO arena. The events at the beginning of this decade - Enron, 9/11- had a big impact on the corporate psyche. In BPO you start getting further into the guts of a business than its infrastructure, and considerations like security, customer satisfaction, brand image, business continuity all start to be really big worries. We've seen publicized examples of help desk operations going to India, and then being brought back on shore for exactly these kinds of consideration.



I think the buyers are more experienced with outsourcing than a decade ago. Many were burned in the big ITO era in the late nineties and they know the dangers. That's why we see a lot of selective or multi-source outsourcing going on, which accounts for the demise of the single-source mega-deal era. They recognize the dangers of putting all their eggs into one basket with any vendor who isn't yet established in their sector, and there are various strategies to handle this. Some end-users are cutting deals with vendors where they will have enormous leverage over the vendor because of the scale and significance of their business to that particular vendor. Many smaller end-users are adopting a portfolio approach to spread their risk. Legal process is another major concern. How do you secure legal process and protection in places like India and China, and how do you protect intellectual property when the data goes offshore? It's interesting to see the approaches on this. Traditional reliance on contractual and legal mechanisms doesn't always work. A court in India is not necessarily going to support and enforce a judgment obtained in an American court, although interestingly as a signatory to the UN convention, an Indian court probably will support and enforce an arbitration decision obtained in the United States.

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With stiffer sentiments in congress, buyers and providers are probably wise to consider regulatory changes that might impact their contracts - differential tax treatments for offshore servicers, notice periods to affected workers losing jobs offshore, disclosures of offshore activity on government bids - that sort of thing.

### LJ: Do you view outsourcing and offshoring as two different issues?

**WB:** They are different issues, but frequently confused and used interchangeably. We talked before about CNN, the media does this all the time. Offshoring essentially does three things. It provides access to lower labor rates for the same set of skills and competence. It provides access to dense pockets of expertise in one geographic enclave, centers of excellence. It also facilitates the use of a different time zone. Any combination of these advantages may be utilized within an outsourcing solution, or none of them, for any of the reasons or concerns we already discussed.

Unfortunately we do see major end-users from time to time leading with an offshore strategy, without a well thought out sourcing strategy. The decision to go offshore is secondary, or even tertiary to a proper assessment of the business objectives and then a well thought out sourcing strategy to determine the best sources of services whether internal or external to support these objectives. Usually, we find it's those businesses that have started with a cost objective first and foremost who are likely to be in this vanguard.

And why is this wrong? Well suppose you offshore a number of critical processes for cost objectives, and then find out that you have offended your most important customers with a change to how they are handled, or you have damaged your brand image.

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These operational mistakes are fixable, but the damage to image or equity may not be. Also, if you are dictating an off-shore model to a vendor, you are circumventing their discretion and initiative as to how to achieve the best solution. That's not to say that you should be disinterested in the use of offshoring, there are huge cost advantages, you just have to manage the risks well.

### **LJ: How sustainable are the benefits of offshoring once the labor arbitrage starts to shrink?**

**WB:** Look we all know, when a pure arbitrage disappears, it's gone! But in this networked e-world there are going to be many choices for a long time to come. Offshore work is being done in West Africa and Tahiti, not just India. Fiber has been laid into so many places now; it's one of the positive outcomes of the telecommunications investment frenzy. So it's a big world, and someone will always have a competitive advantage.

But in practice it's not that simple or practical. If you have built up operations in India, it will take time to move it to China. One of the reasons India is attractive is that they speak English, and their education for those who have access to it, is outstanding. So there are barriers to moving stuff around. And then you have to consider the issues of time zone, accessibility, local infrastructure, and local expertise. India is going to be a software programming center for a long time to come, because the skills have been established there. But in the long term all things can change.

It will get really interesting if the Indian providers go for some aggressive shopping. I can think of at least one leading US outsourcing services firm which is in trouble and probably could be acquired any of the top three Indian providers right now. In the long term we may see the offshore providers buying their way into big onshore providers.

### **LJ: What are the top qualities that you would look for in a potential BPO partner?**

**WB:** It will depend in part on what kind of arrangement the end-user is looking for. A commodity service arrangement with low customization of service leads down a different pathway from a transformational arrangement, with a high degree of customization, and more skin in the game from the vendor. But the answers aren't greatly different from those to be considered in an ITO partner. Service excellence and performance, cultural match - frequently under-considered but critical in long term deals, ability to innovate, flexibility, commitment, all play their part. It's also important to match relative size and leverage of the vendor with the end-user, and with the type of partnership being contemplated. Big established vendors provide a peace of mind that comes with a big balance sheet, but if you are a relatively small end-user the significance of your business isn't always going to be their paramount consideration. If that's important to you, it needs to be considered.



### **LJ: What are the most important value adds that Gartner adds to the process for buyers?**

**WB:** You know most people don't realize how big a role we actually play. We are the largest analyst firm in the world by a factor of two. In the background we influence most major deals that are done. Even if we haven't acted as the intermediary advisor in the selection and negotiation with vendors, we have usually provided input to the strategy work up front. This is exactly what happened in the largest banking deal I can think of in the last four years.

And we are very integrated, so the insights that we have in research are directly implemented into the methodologies that we use as an intermediary advisor when a deal gets put together, and the services we provide afterwards to keep it on track.

Unfortunately there are a lot of methodologies out there which give buyers a false sense of well being. A huge, structured and mechanistic process for selecting a vendor which may satisfy a decision governance criterion, can be very costly to the buyer and vendor, and often completely misses the key considerations.

Our research has shown for some time that it is as important to consider the long term factors that make a deal satisfactory and workable, as the short term rush that comes from creating a lot of contract leverage or financial engineering. We more or less predicted the mess that the ITO market headed into three years ago, and a lot of it stemmed from engineered deals, and inflexible contracts. Maybe there was a need for these models when the market was young a decade or more ago, but the world has matured since then, and I don't think these models have stood the test of time. It will be very costly if the BPO world repeats the mistakes of the ITO world by following the same pathway. So I would say that the biggest value add buyers get from us is a proven track record on the workability of the deals - true workability, not just keeping the deals out of court! - also the insights which come from leveraging the real insights of broad and deep research, and an intermediary who is committed to stay on to make a partnership between buyer and vendor work well after the deal is done.

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## IBM, Fidelity and Hewitt Are Top 3 Providers for Companies Considering HR BPO, Says Yankee Group Study

BOSTON--(BUSINESS WIRE)--Nov. 22, 2004--

IBM, Fidelity and Hewitt are the providers most companies are considering for human resource business process outsourcing (HR BPO), according to the Yankee Group HR BPO BrandMonitor(R) survey of decision-makers' perceptions of HR BPO providers.

Other Yankee Group research shows the current top three market share leaders in HR BPO are Hewitt, Accenture and ACS. The BrandMonitor(R) results foreshadow a changing competitive landscape, with IBM and Fidelity likely to replace them as top market share leaders--if Accenture and ACS remain business as usual. Accenture, EDS, Ceridian and Aon are the next set of most considered providers, and Mellon, ACS and Convergys are the least considered.

"Perception of decision-makers is key in attracting clients. The good news is that this is still an emerging market, and all BPO providers in this space have the opportunity to shape the awareness and perceptions of decision-makers through marketing and client delivery," said Matthew Kovar, Yankee Group Business & IT Services vice president.

The HR BPO BrandMonitor(R), jointly developed with Market2Customer(TM) (M2C), a member of Monitor Group LLP, assesses providers' ability to attract clients in this emerging market segment. The study included 303 decision-makers, 50% of whom are C-level executives and 39% from companies with 20,000 or more employees. Respondents to the survey were decision-makers or influencers responsible for the purchase of HR BPO services at their companies.



*There is no more fitting time of the year to express to our colleagues, clients and friends.*

*May the good things in life be yours in abundance, not only at Thanksgiving, but throughout the year.*