Trends in Global Sourcing: Finding and Managing IT Talent
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“I’ve outsourced my job to a dog overseas who will be your companion via web cam.”
AGENDA

• The Changing World Market
• Outsourcing
  – How it has evolved and key trends for the future
  – Today’s model: multi-sourcing, driven by cloud services
• Global Sourcing
  – Key trends and increasing traction
  – Location, location, location!
  – Evaluation criteria and sourcing options
• The Path Forward
Columbus proved the world was not flat

21\textsuperscript{th} century commerce proves otherwise

“The world has been flattened. As a result of the triple convergence, global collaboration and competition -- between individuals and individuals, companies and individuals, companies and companies, and companies and customers -- have been made cheaper, easier, more friction-free, and more productive for more people from more corners of the earth than at any time in the history of the world.”

~ Thomas L. Friedman
KEY TRENDS

• Global economy/environment still in flux; geopolitical pressures abound

• Buyers are more business value-focused
  – Balancing risk and cost, positioning for growth
  – Increasing expectations of IT to be agile, flexible, efficient, transformative
  – Business buyers more active/interactive with technology and sourcing decisions

• Global services industry is more complex, competitive
  – Constrained resource pools and finances
  – Different services, pricing models, delivery models in demand

• Technology has transformed the delivery and pricing model
  – Cloud services
  – Industrialized solutions
  – Mobility, social media
  – Complete capability stacks

HOW DO WE BALANCE IT ALL?
OUTSOURCING HAS EVOLVED OVER TIME

• From the Traditional Model
  – “Your mess for less”
  – Driven by cost reduction and competitive parity
  – Labor-based pricing, embedded productivity, focus on margin protection
  – Absorption of customized applications and environment

• To the “as-a-Service” Models
  – Industrialized solutions: higher automation and standardization
  – Shared, externally-owned asset approach
  – Leverage multiple locations, transparent delivery model
  – More choices for buyers, lower prices, business outcome-based
  – Convergence of business process, applications, platforms, and infrastructure

SERVICE PROVIDERS HAVE HAD TO INCREASE AUTOMATION, DECREASE RESOURCE INTENSITY, DECREASE CUSTOMIZATION, INVEST IN CLOUD AND PREPARE FOR THE REVENUE IMPACT…
AND SOURCING STRATEGY HAS EVOLVED ALONG WITH IT

Factors Driving Sourcing Model

• Demand locations
• Demand restrictions
• Availability of skilled workforce

• Desire for much lower labor costs

• Uneven country inflation rates
• Varying currency exchange
• Varying local attrition rates

• Industrialized services
• Workforce optimization

Sourcing Phases

Time

1990s

1990s

Local

Regional

Regional with India

Global

Global balancing
DEFINITIONS AND TERMS

• Some terms you likely know:
  – Outsource
  – Insource
  – Multi-Source
  – Offshore
  – Onshore

• And some you may not know:
  – Near shore
  – Captive
  – “Re-shore”
  – Rural Source
  – Crowd Source
KEY TRENDS IN OUTSOURCING

- Industrialization of solutions
  - Automation, standardization, agile provisioning
- Technology progression driving solutions to cloud, services to cloud service providers
  - Asset-light, multi-sourced model
  - Mobility, consumerization, social media all key influences
- Bundling of “as-a-Service” components into business stack
  - Business outcome-based pricing, rather than labor-based pricing
- Buyers demanding agility, service transformation, lower TCO
  - Focusing on business value capture and measurement
  - Exploring multiple sourcing types, not just multi-location, multi-vendor
- Providers adapting to new model to survive → delivery, pricing, risk, contracting terms
  - Increased field of non-traditional competitors
  - Convergence through M&A, partnership ecosystem
  - Significant investments in cloud/aaS platforms, industrialized service models
CONTEMPORARY OUTSOURCING MODEL

• **Services**
  - Standard industrialized services
    • Repeatable and standardized across the world
  - Outcomes-based pricing model
    • Aligned to business objectives
  - Provider accepts delivery risk
    • Potential for lower price and higher margins

• **Locations**
  - Scaled locations of critical skills
    • Global Delivery Centers
  - Delivery centers complimented by flexible sourcing options
    • Rural sourcing, onshore/near shore capabilities
  - Sourcing Management and Governance structure supporting multi-sourced model

• **People**
  - People requirements mapped to industrialized services, demand trajectory
    • Business-driven demand planning
  - Lower attrition, increased leverage, career progression all key factors in retention
    • Provider centers may be more attractive employment options than captive centers
  - Productivity improvement and discipline to deliver to standards are critical
BUNDLING OF SERVICES INTO BUSINESS VALUE DRIVEN STACK

Business Process as a Service
Achieve business agility and process innovation
Buyer: Business Unit Execs

Software as a Service
Improve functionality and ease of use
Buyer: Business Unit and IT Execs

Platform as a Service
Develop and deploy applications faster
Buyer: Development

Infrastructure as a Service
Handle peak loads cost effectively
Buyer: IT Management

Biggest Payoff for Customers
Largest Market Opportunity for Providers
Commodity Market
INDUSTRIALIZED/CLOUD OFFERINGS DRIVE GROWTH

Source: Gartner (January 2012)
• Input-Based Pricing
  – Units of measure include labor hours, MIPS, disk space/capacity
  – Provider margin tied solely to reducing individual cost components of each unit
  – Provider goal is to maximize units; buyer goal is to minimize

• Output-Based Pricing
  – Units of measure are business results, e.g. applications maintained, employees served, bills produced
  – Provider margin tied to maximizing efficiency and effectiveness of each unit
  – Buyer neutral on volumes

MOVING FROM INPUT-BASED PRICING TO OUTPUT-BASED PRICING
CHANGES BEHAVIOR AND FINANCIAL RESULTS

Example
For applications work, the only significant method to reduce costs is to reduce the costs of each individual

Targets for meaningful actions

Example
For applications work, greater impact by reducing the number of hours and reuse of standard components across clients
THE IMPACT OF THE CLOUD

• Increased flexibility, lower cost, improved time-to-market capabilities
• Both a compliment to and a substitute for traditional ITO services
  – $150B-$180B market by 2015
• Output-based pricing, flexible and industrialized delivery models
• Externalization of asset ownership
• Supports increasing mobility demand, consumerization

Business Agility
• Accelerate cycle time and speed time to market
• Break down IT barriers to innovation
• Enable first market movers

Risk Mitigation
• Improve ROI for new initiatives
• Increase capacity and availability
• Improve IT control and maintain security
• Respond quickly to competitive threat

Cost Effectiveness
• Preserve capital and shift to an OpEx model
• Refocus on core business
• Optimize IT resources and spend, expand, and contract as needed
MULTI-SOURCING

- Shift to many non-traditional service providers, especially cloud services
- A discipline, not an event → ongoing program and capability
  - Increase profit and competitive advantage
  - Leverage progressive delivery models and industrialized solutions
  - Respectful, healthy competition and appropriate balance to the portfolio
- Requires strong leadership, governance, service integration model
- Scope encompasses all providers, internal and external
- Benefits:
  - Lower cost
  - More efficiency and agility
  - Shorter term contracts, more narrow in scope
  - Access to Best-of-Breed solutions
- Manage providers as an investment portfolio
- Maintain a TCO model and continually measure/improve
• Increasing traction in global sourcing due to economic pressures, emerging markets

• No real impact from domestic legislation and political pressures to-date
  – Creating American Jobs and Ending Offshoring Act – failed
  – U.S. Call Center and Consumer Protection Act – currently in Committee

• Locations are evaluated based on extensive criteria; too many choices!
  – India, China, Malaysia remain strongest in the world
  – Some mature locations (Brazil, Poland), many others emerging (Uruguay, M/E)

• Historical basis is labor arbitrage; relatively sustainable in key markets
  – Salary increases mostly offset by currency devaluation, staff attrition/rotation
  – Migration to outcome-based pricing will have an effect

• Expansion in some markets into Tier 2 and Tier 3 cities
  – Cultivates additional resource pools at low cost; comes with some risk

• Increasing traction for onshore and rural sourcing in lower cost cities

• Trend for “captive centers” remains strong; 89 opened in 2011
Asia led offshore activity during 2011, although adoption also spread to other offshore geographies.

**Source Geographies**
- Philippines
- South Africa
- Czech Republic
- Morocco
- Egypt
- India
- China

**Over 135 Offshore Delivery Centers Were Established in 2011**

**Significant offshore activity during 2011**
- Hungary
- Bulgaria
- Romania
- Poland
- Mexico
- Chile
- Argentina
- Brazil
- El Salvador
- Costa Rica

**Number of Service Delivery Centers Set-Up**
- Includes both captive and service provider delivery centers that were publically announced

**Asia led offshore activity during 2011, although adoption also spread to other offshore geographies**

**Source: Everest Group analysis**
OUTSOURCING: CAPTIVE VS. SERVICE PROVIDER

- Captive – company-owned operations, offshore location
- Over 3,000 Global In-House Centers (GICs); India leads
- Typically focus on high value processes
- Key is building sustained specialty, or develop to sell off
- Not an easy or short-term tactic

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<thead>
<tr>
<th>Offshoring Model</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>Captive</td>
<td>- Largest cost savings&lt;br&gt; - Lowest risk to data and intellectual capital security&lt;br&gt; - Maintains culture and process expertise</td>
<td>- Longest time to achieve maturity and generate savings&lt;br&gt; - Highest investments and exit costs</td>
</tr>
<tr>
<td>Outsource</td>
<td>- Leverages provider familiarity with offshore operations&lt;br&gt; - Influence of scale&lt;br&gt; - Low exit costs&lt;br&gt; - Optimizes expertise by function</td>
<td>- Providers lack scale to serve company’s needs&lt;br&gt; - Complexity of managing multiple relationships&lt;br&gt; - Cultural differences</td>
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<tr>
<td>Strategic Alliance/Joint Ventures</td>
<td>- Limited investment required&lt;br&gt; - Lower business risk due to partner’s process experience&lt;br&gt; - Deep process migration expertise&lt;br&gt; - Easier to implement global, multi-country solution</td>
<td>- Lower operational control&lt;br&gt; - Partner may be unfamiliar with offshore marketplace&lt;br&gt; - More limited skill transfer&lt;br&gt; - Potential competitive issues&lt;br&gt; - There may be many other customers</td>
</tr>
</tbody>
</table>

Source: Offshoring Institute, 2010
EVALUATE LOCATION CRITERIA TO OPTIMIZE WORKFORCE

- Develop workforce profile required to fulfill demand and determine the best location(s) globally to assemble these resources
- For each industrialized service, develop specific profile of labor required to deliver the service, and the most productive location for delivery to achieve and maintain scale/critical mass

### Workforce Dimensions

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<tr>
<th>Dimension</th>
<th>Examples</th>
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<tr>
<td>Capabilities</td>
<td>Applications management, architecture, project manager</td>
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<td>Special skills</td>
<td>Java, .NET</td>
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<td>Training/education</td>
<td>Education, training/development, process maturity, standardization, knowledge transfer/sharing</td>
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<td>Experience level</td>
<td>Junior, intermediate, senior</td>
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<tr>
<td>Skill mix</td>
<td>% of staff with specific capabilities and experience levels</td>
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<td>Industry domain</td>
<td>Financial services, telco, utilities</td>
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<tr>
<td>Pricing type</td>
<td>Input-based (e.g. price/hour) or output-based (e.g. fixed price/call)</td>
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<td>Site requirement</td>
<td>Delivery Center, client site, traveling, home-based, no preference</td>
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<tr>
<td>Location</td>
<td>City, country, time zone, physical proximity to customer base</td>
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<tr>
<td>Soft skills</td>
<td>Language, culture, career path</td>
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### Location Considerations

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<th>Examples</th>
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<td>Country stability</td>
<td>Geopolitical factors</td>
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<td>Employee compensation</td>
<td>Salaries, benefits</td>
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<tr>
<td>Labor laws and practices</td>
<td>Severance notice and payment, overtime rules</td>
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<tr>
<td>Productivity</td>
<td>Available productive work hours, worker productivity</td>
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<tr>
<td>Country economics</td>
<td>GDP, GDP growth, inflation, currency fluctuation, government investment</td>
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<tr>
<td>Security/Data/IP</td>
<td>Data or IP protection constraints</td>
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<tr>
<td>Infrastructure</td>
<td>Facilities, transportation, connectivity, disaster likelihood and recovery</td>
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<tr>
<td>Talent pool</td>
<td>Resource access, attrition, competitive presence, educational/government support</td>
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</tbody>
</table>
## SOURCES OF DATA FOR COUNTRY ASSESSMENT

<table>
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<tr>
<th>Criterion</th>
<th>Source</th>
<th>Description</th>
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<tbody>
<tr>
<td>Global Competitive Index</td>
<td>World Economic Forum</td>
<td>Evaluation of over 100 factors that drive productivity and competitiveness grouped into nine pillars: institutions, infrastructure macro economy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, innovation</td>
</tr>
<tr>
<td>Foreign Direct Investment</td>
<td>World Bank</td>
<td>Net inflows of foreign direct investment</td>
</tr>
<tr>
<td>People Skills and Availability: Global Services Location Index</td>
<td>A.T. Kearney</td>
<td>Index of people skills and availability factors: IT/BPO industry size/quality, labor force availability, educational skills, language skills, attrition risk</td>
</tr>
<tr>
<td>Index of Economic Freedom</td>
<td>Heritage Foundation</td>
<td>Index of 10 factors that reflect economic freedom: business freedom, trade freedom, fiscal freedom, freedom from government, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, labor freedom</td>
</tr>
<tr>
<td>The Risks to Business Profitability or The Business Environment</td>
<td>The Economist</td>
<td>Index of 10 factors that reflect the opportunities for, and the hindrances to, the conduct of business and the risk to making a profit: Security, political stability, government effectiveness, legal and regulatory environment, macroeconomic risks, foreign trade and payment issues, labor markets, financial risks, tax policy, the standard of local infrastructure</td>
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<tr>
<td>Other</td>
<td>Research/analyst firms: Gartner, IDC, Everest Group, Forrester, ISG, Outsourcing Institute, Offshoring Institute, CBRE, McKinsey, U.S. Bureau of Labor Statistics</td>
<td>Various reports on IT services market, technology trends, outsourcing and sourcing locations</td>
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</table>
TOP LOCATION CONSIDERATIONS

• Asia leads in delivery center setup/expansion
  – India unquestionable leader; expansion to Tier 2 and Tier 3 cities
  – Philippines, Malaysia, China still strong; Vietnam emerging
  – China taking on BPO, KPO; strong services, government support, language skills
  – Philippines 500,000 strong in BPO resources

• Central and eastern Europe continue to expand
  – Poland considered mature, Hungary and CZR close behind
  – Estonia, Latvia, Lithuania all buoyant
  – EU near shoring to Bulgaria, Romania, Tier 2 cities in Germany and France
  – Financial distress in Portugal, Ireland, Greece, Spain
  – UK – mutual job creation program with India; demand increasing despite high compensation

• Political developments in M/E and Africa causing slower growth
  – Egypt has drawbacks; UAE, Jordan, Tunisia, South Africa emerging

• CALA locations continue to develop
  – Mexico, Uruguay, Costa Rica attractive markets
  – Unfavorable currency impacts in Brazil, Chile, Malaysia
  – Inflation in Argentina, Columbia
A.T. Kearney ranks countries as to their attractiveness for providing outsourcing services

- Top 50 countries based on total score
- Composite of three categories: financial attractiveness, people skills and availability, and business environment
- The score for financial attractiveness is 0-4; the score for people skills and availability is 0-3; and the score for business environment is 0-3
- Weight distribution for the categories is 40:30:30 respectively

Note: Rankings for the United States, United Kingdom, Germany, and France are based upon Tier 2 Cities

Source: A. T. Kearney Global Services Location Index™, 2011

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## GARTNER – 30 LEADING LOCATIONS

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<tr>
<th>Countries</th>
<th>Language</th>
<th>Government Support</th>
<th>Labor Pool</th>
<th>Infrastructure</th>
<th>Educational System</th>
<th>Cost</th>
<th>Political and economic environment</th>
<th>Cultural Compatibility</th>
<th>Global and legal maturity</th>
<th>Data and IP security and privacy</th>
<th>Total Score</th>
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</tbody>
</table>

Source: Gartner Group, 30 Leading Locations for Offshore Services, 2012, and detailed Analysis Reports for Each Location, 2010-2012
RURAL SOURCING

• Relatively new phenomenon, increasing momentum
• Emerging alternative to offshoring; may be shorter in term
• Overcomes culture, language, time zone, travel ease barriers, may have fewer infrastructure issues
• Data protection/security less of an issue (or is it?)
• Wage rates 20-40% lower than norm
• Politically more “correct”, beneficial to domestic economy
  – “Invest in America” → good for marketing
• Educational institutions are key; access to critical skill mass determines sustainability
• Major offshore providers setting up more onshore locations
• Key issues:
  – Scalability
  – Process maturity
  – Sustainability
ASSESSMENT OF US CITIES BY AVERAGE SALARY AND LABOR AVAILABILITY FOR IT WORKERS

Source: US Department of Labor and CSC analysis, 2012

Good Labor Arbitrage -15%-20% Better

Small Labor Arbitrage

No Labor Arbitrage

Source: US Department of Labor and CSC analysis, 2012
• Support business objectives and innovation
• Initiate and manage sourcing from strategy through transition and delivery
  – Includes management of both internal and external sourcing
    • Multi-sourcing model, shorter term, more agile contracts, explicit scope, outcome pricing
  – Includes multi-disciplinary functions
• Manage demand
  – Continuous process, 3-5-year view minimum
• Mitigate risks – transition, delivery, technology, resources, providers
• Drive transformation – services, pricing, delivery model
• Establish and manage governance framework → service integration
• Measure and report on performance
THE PATH FORWARD

• **Align** business and IT goals and services → build for the future

• Develop strategy to achieve **balance** of growth and cost/risk (10%-30% in benefits)
  – Assess in-house capabilities and needs; leverage research available
  – Project future scale, scope, services → demand planning
  – Pricing and service model requirements → risk/reward, business outcomes focused, terms/conditions for providers

• Build a **portfolio** (and manage it like one!) → diversify!
  – Multiple providers, multiple locations, heat map
  – Demand profile – evergreen!

• Establish **operating/governance model** and measurement/benchmark system to track health
  – Sourcing leadership/management
  – Scope and boundaries, service integration
  – Performance monitoring and measurement

• Think **strategic**! There are no quick fixes… although there are some “slow, fat rabbits”
PARTING WISDOM

“If you don’t know where you are going, you’ll end up somewhere else.” ~ Yogi Berra

“Start with the end in mind.” ~ Stephen Covey

“You have to ‘move with the cheese’, people…” ~ Terri Staton Gale
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