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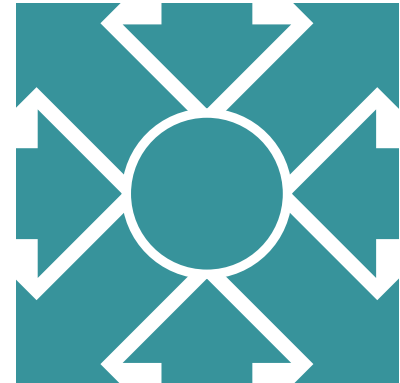
Outsourcing - Are you in control?

When companies are looking at offshoring either technology, call centres or business processes as a strategic management option, they are wise to analyse the advantages as well as the risks rather than slavishly following the trend. Outsourcing is not the right option for all companies, or indeed the only option.

Neither should Outsourcing be used as a quick fix for difficult business issues, or transference of responsibility. Getting it right can add huge advantages to businesses, but getting it wrong can be costly and involve huge legal contract battles. Carefully constructed non-ambiguous contracts are vital to the success of the partnership relationship between customer and supplier. It is also important to keep control of strategic planning and business analysis, and to retain core internal management that can closely monitor the project.

The advantages of Outsourcing generally fall into three categories: Cost, Core and Capability.

Outsourcing generally reduces cost and can (perhaps as important) make costs more predictable. It can also avoid large capital expenditure as this can be passed to the supplier and allow new revenue to be realised more quickly.

The Company is freed up to concentrate on developing its core business as well as having access to world-class services and advantages in developing new and innovative technology and services. This should improve their competitive edge, service quality and response times in its own evolving market area.

Once a company has decided to go this route, it needs to decide how to consolidate its services and from where those services will be delivered - the big offshore/nearshore location, single or multiple supplier decisions. Where the company is currently based, how they are organised and corporate attitude to risk plays a big part in these decisions.

Undertaking a PEST analysis (Political, Economic, Social, and Technology Infrastructure) is vital, as well as factoring in financial risk such as wage arbitration, operational costs and exchange rates. Language skills, education standards and culture are also usually very important.

Eastern Europe has favoured well and is emerging in popularity as a serious contender, in comparison with say, India the number one offshoring location. This can be seen by the number of companies choosing to offshore, nearshore, insource or outsource to the Czech Republic and Poland.

These are exciting times throughout Europe, which we look forward to in earnest. ∎

Alexander Hughes

Outsourcing Trends in Eastern Europe

Kevin Duffy is Principal Consultant at Winchester White, a niche outsourcing consultancy based in the UK. Winchester White helps to guide and direct client organisations through the many stages of outsourcing, from developing the initial strategy, through to the selection of an appropriate supplier or partner and delivery of the required service. In the last few months they have been engaged by a number of organisations to help with service reviews and contract renegotiations which clearly indicates that outsourcing is a complex matter that companies don't always get right the first time. Moreover, it also highlights the need for a degree of flexibility in order to accommodate business changes.

KEVIN DUFFY

[ARTICLE]

It may surprise some to learn that Poland has been the fastest growing offshore location for IT outsourcing during the last 3 years (source: Frost & Sullivan). In that period the number of IT staff engaged in offshore services increased by more than 50% compound per annum. This compares with just 12% CAGR in India. Of course India still leads the way in the total number of export focused IT professionals, estimated to be about 250,000. By comparison, Poland, the Czech Republic and Hungary together represent a total of about 10,000, but this number is growing fast.

In January 2005, the Economist Intelligence Unit published the results of its latest analysis of the attractiveness of 60 countries as destinations for offshoring. Each of these were scored against 9 criteria commonly used by companies when deciding where to offshore: labour costs, labour skills, labour regulation, proximity to major sources of investment, political and security risk, macroeconomic stability, regulatory environment, tax regime, and infrastructure. Eastern Europe scored very strongly with the Czech Republic ranked third after India and China, Poland fifth and Hungary eighth.

There are a number of key reasons for Eastern Europe's potential as a leading offshore destination:

▶ **Education:** the Czech Republic has the second highest rate of secondary school completion in the world, at 80% of those aged 24-64 (OECD Education 2000).

▶ **Low staff costs:** the gross monthly salary for an IT operator in Prague is around €600 compared to about €1,800 in parts of the UK, although it is important to note that these low salaries are rising fast.

▶ **Strong foreign direct investment:** these countries have actively managed inward investment initiatives offering financial grants to all industries. Incentives can include grants of up to 25% (15-20% is normal) of a company's outlay. In Poland an employer typically receives a grant of up to €4,000 for each job created. In addition training grants of €1,150 per employee can also be available. A combination of these grants and lower salaries can deliver up to 30% total cost savings for services or projects offshored.

▶ **Language skills:** 75% of the Czech population speak at least one foreign language. This is particularly attractive to Western European companies and is a strong differentiator over India and China.

▶ **Cultural affinity** with Western Europe, central location and favourable time zone. ●●●

••• Each of the global IT services providers has been establishing operations in Eastern Europe since the late 1990s. Initially this was to enable business growth in these new and emerging local markets, but in the last 2-3 years the focus has shifted more towards the provision of offshored services to companies located in higher cost areas. This is as a result of the lower than expected growth in local demand and the increasing push from existing customers for lower cost services.

It is perhaps interesting to note that, with the exception of Germany, Eastern Europe is not being used on a near-shore basis by others in Europe. Recent reports show that Poland receives up to 25% of its export business for IT services

from Germany, 35% from Japan, 30% from the USA and only 5% from the UK and France combined.

Of course what started out largely as IT services has quickly expanded to cover a very wide range of business processes. There may now be as many as 350 call centres, with over 9,000 staff, in the Czech Republic and about 10,000 staff employed in similar operations in Hungary.

Accenture has been operating its BPO delivery centre in Prague since 2001 and now

employs more than 1,000 staff providing a range of services including finance and accounting, procurement and supply chain management, customer care and processing.

Towards the end of last year Hewlett Packard (HP) announced plans to employ up to 1,000 staff at its new Finance & Accounting centre in Poland. HP is the largest IT services provider in Poland, employing more than 750 staff. It will use this new centre to provide F&A services internally, to existing clients such as Proctor & Gamble and to new clients.

Another interesting trend is the large India-based IT services companies that are now establishing operations in Eastern Europe. Last year Progeon, the BPO subsidiary of Infosys, established its new centre in Brno and is already serving two very large clients from the USA. More than 90% of staff employed by Progeon in Brno have a university degree, of which half are in Business, Management or Economics. Language skills are an essential factor for Progeon, and all their staff speak English and at least one other language, not counting Czech.

There are many questions that a company should ask itself before embarking on any offshoring programme and all of these require careful consideration. Some organisations begin their deliberations by considering 'What?' and 'Where?'. From the above we can see that essentially an organisation could consider offshoring any aspect of its operations and

Eastern Europe is a location that should be considered alongside India and China.

A more important question, and perhaps the one that organisations should consider first, is 'Why?' Reasons such as 'to reduce costs' and 'because all our competitors are' are insufficient. Offshoring must only be considered when it is an integral part of a well structured and all encompassing business strategy. Such a strategy will help determine which parts of your organisation should be offshored and your best approach to doing so. There are a number of alternative models including, for example, establishing your own shared service centre, outsourcing to a third party, build-operate-transfer or a joint venture.

Choosing a suitable model and ensuring that it is well implemented and managed will guarantee that such offshoring delivers the planned savings without damaging your corporate brand or negatively impacting upon the customer experience. ∎

Executives on Demand

Technology and business process outsourcing has experienced exponential growth over the past ten years with the USA and the UK leading the way. The main countries of Central Europe have been slower to outsource or offshore although this is now changing.

▶ Outsourcing Global market revenues have increased from US$9bn in 1990 to a projected US$190bn + by 2006

▶ By 2005 Information Technology Outsourcing will represent 33% of the average IT budget, with offshore outsourcing taking up another 10% and Business Process Outsourcing a further 15%

▶ Over half of Global organisations are outsourcing at least 20% of their IT budget

This growth has generated an insatiable demand for senior executives within companies to manage the outsourcing process, and with service providers who need to build powerful client-facing teams. In either situation the individuals have vast experience and understanding of the projects in hand from the bid process through and beyond completion including troubleshooting projects.

Outsourcing is now a mature, highly competitive and evermore globalised market with contracts continually being reviewed, renegotiated, and terminated for convenience. This has created a genuine demand for strong commercial management, change management and specific industry specialists.

There has also been noticeable growth within the niche consultancies in the UK that provide their clients with an "honest broker" approach and many of these companies are looking to increase their headcount at Principal Consultant and Executive level. ∎

YVONNE EMMERSON-PEIRCE

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Yvonne Emmerson-Peirce is the lead consultant of our specialist team building capability in Global Outsourcing and works from our London Office.

FURTHER READING...

• *Intelligent IT Outsourcing: eight building blocks to success* by Willcocks
(BUTTERWORTH – HEINEMANN Sep 2003. ISBN: 0750656514)

• *Successful IT Outsourcing* by Elizabeth Sparrow
(SPRINGER-VERLAG Apr 2003. ISBN: 1852336102)

• *Strategic Outsourcing: exploiting the third parties* by I. Benn
(HODDER HEADLINE Dec 2002. ISBN: 0340850507)

• *Managing the Risks of Outsourcing* by I. Tho
(BUTTERWORTH-HEINEMANN Apr 2005. ISBN: 0340850507)

• *The Outsourcing Guide* by Rob Aalders
(WILEY. ISBN: 0471499358)

• *The Outsourcing Dilemma: the search for competitiveness* by J. Brian Heywood
(FINANCIAL TIMES PRENTICE HALL Jul 2001. ISBN: 0273656171)

FOR MORE INFORMATION

Outsourcing Enters Second Generation

By Arif Mohamed*

[INTERVIEW]

Jack Noble

Interview with Jack Noble, Director, Core Services at Fujitsu Services

Jack Noble is the Director of Core Services for Fujitsu Services, having joined in January 2004 following service with Electronic Data Systems (EDS). His track record with EDS had included a wide range of roles, most recent of which had been as Vice President responsible for leading Solutions Architects globally, based in EDS Corporate HQ in Plano, Texas.

How has the outsourcing market changed in the past few years?

Jack Noble: It's gone through a morph of substantial proportions in the last few years. A lot of people are asking is outsourcing dead? There have been some notable in-sourcing deals in the news, but I would say no, outsourcing isn't dead.

A decade or more ago, in the era of the big outsourcers, companies went through a pattern of outsourcing all of their business IT to large outsourcers like EDS. The service company would take your problem - "your mess for less" they called it - and would be happy to take it on. Rationalisation of data centres could compensate for low-hanging fruit – and centralising locations for things like application development. You could make a profit off-shoring then.

The mood has changed dramatically in the last two to three years, and some people have decided to in-source. People forget the savings companies made in the last thee of four years through outsourcing data centres for example, taking away difficult people problems.

We had the e- explosion, and that set a huge expectation level that service companies needed to deliver innovation with speed and agility. But there was disappointment in boardrooms because it was expensive to move legacy systems onto newer outsourced platforms in some instances, and there were a few cases where that caused political embarrassment for Government, for example.

How have outsourcers changed to counter customer suspicions?

Jack Noble: Outsourcers now go back to customers and show them they have something to add, and that they can do some good from outsourcing. For example, outsourcers could try and analyse trends and themes in their customers' business, to locate problems and save them costs. We have done this with Sense and Respond – which is now a certified process.

The key for outsourcers is not to be arrogant and say you can do it all, because customers have come to disbelieve that. These days, they want a partnership of at least two or three best-of-breed suppliers and providers. For example, the Inland Revenue replaced EDS with a partnership – Cap Gemini which has a reputation for service innovation, and on the IT infrastructure side Fujitsu Services, which has a strong reputation for infrastructure maintenance.

Outsourcers have to ask themselves: what value would we bring? You have got to embrace business transformation. The days have gone of moving your IT and hoping that a global service provider can flex its muscles and sort it all out.

Larger outsourcers should prove that you have got companies that operate in the niche leading edge, which are providing something exciting. Also reassure the customer that you are underwriting the smaller partner – the customer wants to ●●●

••• know you can provide the agility but also that it won't go pop in the night.

So partnerships are better than single global outsourcers?
Jack Noble: Some people still want global outsourcing, and want to see the IT or service provider produce the same quality of service wherever they are in the world. A global outsourcing company would have to prove and consistently show that they deliver applications the same way in Brazil or the UK.

There will be fewer and fewer - five or six - large scale global outsource providers of any substance going forward. Good partnerships are increasingly becoming the key. You now get construction companies partnering with IT companies to provide a total outsourcing solution. We've just done a deal partnering with a utility company for a local public government authority, over the IT and parks maintenance and management. Not only do organisations want to outsource IT, but they also want someone to take away other problems. Some of them are adopting a solution where they acknowledge the investment and breadth of what they need to do is better served by outsourcing.

What is the interplay between business process and IT outsourcing?

Jack Noble: Business transformation is at the core. One of the challenges in IT is that IT typically talks to the CIO. But to get the best value, you should be talking to the CEO or CFO as well. The question is can Business Process Outsourcing (BPO) solve an IT problem, not just: can IT solve the business problem? For a customer, it's very worthwhile having those dialogues in the boardroom and helping an outsourcer understand your business values.

Current second generation outsourcing is going this way. Customers need a solution that's going to hit a business problem first and foremost, and unless it doesn't, your conversations won't go on for very long.

What sorts of skills are required for this?

Jack Noble: For IT, you need skilled people to try to talk to people in the boardroom about what the business and IT problems are, and we're not necessarily talking about highfalutin consultants, but people who know practically how, for example document management systems work.

Successful outsourcers will have a global reach; the capability to add value, and have skills in business transformation, consulting services, and be able to do BPO, or through partnering – because you might not have all the skills, and also because IT might be part of the project but not central.

The customer will want to know that the global outsourcer will operate to one standard internationally, and can manage the thing end to end, so the off-shoring becomes invisible to them. The skill you need 'in-country' is understanding the business need. You need to up-scale in-country those who have the business knowledge, so you understand the business requirements, when you come to do the work. When you are happy you have got it right, you can then move off-shore. You also need a strong project management element.

What distinct benefits do the different outsourcing regions – India, Eastern Europe etc, have going for them?
There is fierce competition between the regions, based on cost. They all have to have the expertise, but many are taking advantage of cheaper labour rates. We have an offshore outfit in India, with highly educated professionals, but the prime differentiator is you'll take advantage of the lower costs. In some of the European countries the state will subsidise it as well, let's be candid.

The skill level in the subcontinent is very high. China is coming up, but you could have, as a balance, Poland as an alternative to India, which has an enthusiastic government and skilled people. ■

ARIF MOHAMED

Arif Mohamed is a Freelance Editor, Journalist and Media Consultant, and has written for the Sunday Times, the Mail on Sunday, Director Magazine and The Engineer. He has also edited and written for a number of IT publications including Computer Weekly, IT Week, PC Magazine, and Information Age.
Contact: amwriter@onetel.com