



## Global Economic Crisis Ushers in Change to Outsourcing

### Buyers need to bring a sharp focus to decision-making in their outsourcing initiatives

*By Peter Bendor-Samuel, CEO*

We're in the midst of a climate of economic uncertainty and unease. Clearly we're entering into a recession in the United States. Some companies are struggling with how to maintain a profit; others are struggling to survive. In these tough times, the future of outsourcing has been thrust into the spotlight, and buyers of outsourcing services are contacting Everest for our perspective and advice.

As we look forward into the next couple of years, we see two primary trends that will prevail over buyers' decisions:

- The economic crisis is impacting the supplier landscape, which poses more risks to buyers
- Cost reduction will be the main objective of most outsourcing deals, as cost reduction will be the way for companies to create profit

### How the changing supplier landscape creates risks for buyers

The current environment is affecting suppliers in very significant ways, most notably in accelerating industry consolidation. We're hearing executives at several suppliers actively talking about mergers and acquisitions. This creates a significant risk for buyers: with a larger-than-usual number of consolidations, buyers need to realize that the supplier they select for an upcoming outsourcing initiative – or their current existing supplier – may not be the one that ends up doing their work.

When selecting a supplier, or considering renewing a current relationship, buyers need to seriously examine whether their supplier is likely to merge or be acquired. It is important for buyers to really think through the risks that come in tandem with that possibility. They need to be sure the contractual arrangement allows the ability to exit the relationship and change suppliers if need be. Buyers also need to ensure that they have more control over any matters that could become risks to their business while transitioning to another supplier.

Another impact we expect to see from the economic crisis is that buyers will select (or exit an existing relationship and move to) more prominent suppliers that have enough financial stability to withstand the duration of the recession. In addition, the Indian suppliers have been hit hard in the downturn, and their valuation is plummeting. Buyers need to realize that the assumptions they made when they selected their current suppliers may no longer be valid.

**Two options for cost reduction**

Outsourcing presents two clear-cut options for buyers looking for cost savings:

- Labor arbitrage
- Process transformation

There are stark differences between these two plays. Labor arbitrage allows companies to achieve savings quickly. It also takes less time to identify which work is appropriate for outsourcing. Transforming a process takes on a broader, long-term context, and the buyer gives up more control. It also takes more time up front to design the solution and requires up-front capital to achieve it. Given the economic crisis, this longer route to achieve savings over time may be less appetizing.

There is a third play: applications rationalization. But be aware that this strategy may take 18 months to yield cost savings.

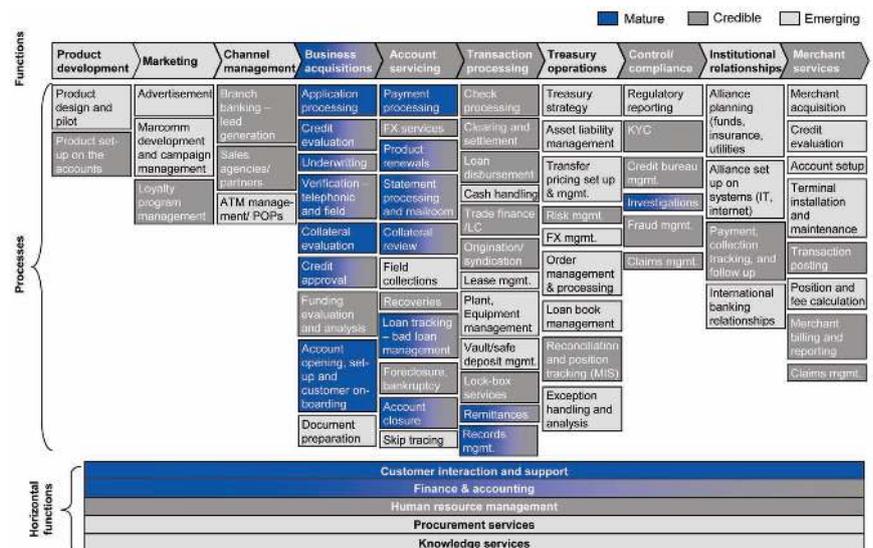
Three major changes have occurred in outsourcing since the last U.S. recession that impact the amount of savings possible through labor arbitrage or process transformation in the current recession.

1. Suppliers' solutions for process transformation now are based on Platform BPO, which brings standardization and domain expertise in the buyer's industry, makes costs more predictable, and enables cost savings. Coupled with labor arbitrage by outsourcing to an offshore supplier, the cost savings are even greater. **Exhibit 1**, reflecting research of Everest Research Institute, displays the market maturity of Indian suppliers possessing domain expertise in processes in the banking industry.

**EXHIBIT 1**

Offshore market maturity – Banking. (Vertical-specific BPO processes)

Source: NASSCOM-Everest India BPO Study



2. Over the last decade, new Indian suppliers entering the market drove companies to move their application development and maintenance (ADM) offshore. Large companies accelerated the growth in that market and achieved large savings from labor arbitrage. However, that market has reached equilibrium. The market has already penetrated most large companies, and most now have a complex web of relationships with multiple suppliers. This increases their relationship management overhead and reduces the cost-savings benefit of outsourcing.
3. Infrastructure outsourcing is now a major play that leverages labor arbitrage. The past model of moving asset ownership to the supplier is less attractive today, as savings are achieved only over time.

Instead, buyers are now switching to remote infrastructure management outsourcing (RIMO). Technology now enables offshore suppliers to provide RIMO services that leverage labor arbitrage. A RIMO play can be deployed quickly and the buyer can maintain more control over the process.

Everest Group provides risk analysis toolkits, decision-support tools on offshore location analysis, market intelligence on suppliers, and other informational components in our Outsourcing Support Services (OSS) offering that help buyers manage their outsourcing initiatives without full-time consulting assistance.

Visit [http://www.everestresearchinstitute.com/Services/OutsourcingSupport Services](http://www.everestresearchinstitute.com/Services/OutsourcingSupportServices) to see a complete listing of these pay-as-you-go offerings along with samples of tools, decision-support deliverables, and workshop agendas. Or call or e-mail us for more information on how we can help buyers achieve optimal cost savings and minimize their risks with supplier selection in today's economic crisis.

## About Everest Group

Everest Group ([www.everestgrp.com](http://www.everestgrp.com)) is a global consulting firm that assists corporations in developing and implementing leading-edge sourcing strategies including captive, outsourced, and shared services approaches. Everest helps companies create strategies and sourcing relationships that deliver total value – improving performance and results while managing the risks in such initiatives.

Since 1991, we have completed 300+ engagements, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 1000 clients in banking, insurance, retail, healthcare, telecom, media & entertainment, and hospitality sectors, among others.

Our breadth and depth of experience enables us to deliver expert analysis and strategic results. Our flexible, collaborative approach analyzes the specifics of each sourcing challenge. Throughout the process, we encourage collaboration between buyers and service providers to spark creativity and lay the groundwork for long-term outsourcing success. The result is a solution that recognizes the strengths, weaknesses, and strategic objectives of both parties.

Everest Group is headquartered in Dallas, Texas and has offices in Toronto, New York, London, Amsterdam, New Delhi, Melbourne, and Sydney.

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