The Near and Long Term Impact of the Global Financial Crisis on Offshore Outsourcing

Presented by:
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The Fuqua School of Business

Lead Principal Investigator
International Offshoring Research Network (ORN)


Key takeaways

- Offshoring reaches the C-level Suite
- Financial Crisis Implications:
  - Increased pressure on providers to increase efficiency and reduce rates
  - Emerging trend to spin off captive
  - Cancelling or postponing discretionary projects
  - Increasing importance of offshoring for company growth
  - Only few plans to relocate to lower cost countries
Offshoring Research Network: History and Scope

- Initiated in 2004 at Duke University CIBER, Fuqua School of Business
- Multi year survey
  - Tracks adoption of offshoring over time by launch year.
  - Tracks adoption of offshoring strategies, on corporate & function level
  - Includes over 1600 companies that do, do not, or are considering.
  - Covers all industries (e.g. financial services) all functions, (e.g. IT) all locations (e.g. Latin America), and all delivery models (e.g. captive, hybrid)
  - Complemented by annual ORN Service Provider Survey (since 2007), focused surveys and participants workshops
  - In-depth analyses, reports, case studies and Academic publications

Offshoring Research Network: Sponsors and Affiliates

- The Conference Board is Lead Collaborator for ORN U.S. Buy-side Survey (since 2007)
- PricewaterhouseCoopers is Lead Founder of ORN Best Practices Institute and sponsor of ORN EU Survey (2008)
  - Past ORN Sponsors
    - Booz Allen Hamilton (2006)
    - Archstone Consulting LLP (2004 and 2005)
- Affiliates:
  - Information Technology Association of America
  - International Association of Outsourcing Professionals
  - Thirteen CIBERs
  - Council for Entrepreneurial Development
  - Enterprise Software Roundtable
Offshoring of knowledge-intensive services is accelerating. In 2008 over 50% of new offshoring-outsourcing projects involved software development and 30% product development.
Clients are becoming more concerned about availability
And expertise of talent when choosing offshore locations

Location factors for software and product development

- Talent pool available
- Low cost of labor
- High level of expertise
- Low costs (besides labor costs)
- Matches language requirements
- Location of the best service provider
- Cultural proximity
- Quality of infrastructure
- Geographical proximity

Percentage of responses rating location factor as “important” or “very important”

Client are concerned with rising wage inflation & employee turnover offshore. Providers face same challenges

Comparison of perceived risks (important and very important) US2007 and US2006 surveys

- Data security
- Lack of acceptance from internal clients
- Lack of acceptance from customers
- Loss of managerial control
- High employee turnover
- Lack of intellectual property protection
- Loss of internal capabilities / process knowledge
- Cultural differences
- Wage inflation
- Incompatibility between IT systems

+9% +17%
Total offshoring of product and software development in India are expanding, but share of India is declining

Distribution of locations for product development implementations in different time periods

- India
- China
- Eastern Europe
- Western Europe
- Russia
- Philippines
- Other Asia
- Mexico
- Canada
- Australia
- Middle East
- Latin America

Time period in which implementation was made

Percentage of total number of implementations

New offshoring investments in India are shifting from IT to administrative functions, and from outsource to captive delivery model
Offshoring Reaches Executive Suite

Since 2005 dramatic growth in companies adopting strategies for guiding offshoring decisions at BU and function level

Percent implementing offshoring strategies before 2005 vs. by end of 2007
75% are large companies

Companies have aggressive plans to **expand** offshoring of existing projects across all functions (58% to 80%). Plans for relocating back onshore are minimal (January 2008)

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Administrative Services</th>
<th>Call Centers</th>
<th>Information Technology</th>
<th>Marketing &amp; Sales</th>
<th>Product Development</th>
<th>Procurement</th>
<th>Software Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding</td>
<td>60</td>
<td>56</td>
<td>67</td>
<td>80</td>
<td>53</td>
<td>67</td>
<td>58</td>
</tr>
<tr>
<td>Relocating to another offshore location</td>
<td>13</td>
<td>21</td>
<td>5</td>
<td>0</td>
<td>7</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Relocating back to US</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Transfer to 3rd party service provider</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Transfer to a wholly owned subsidiary</td>
<td>5</td>
<td>0</td>
<td>12</td>
<td>7</td>
<td>14</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>No change planned</td>
<td>28</td>
<td>24</td>
<td>16</td>
<td>7</td>
<td>25</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

Regardless of industry verticals companies have aggressive plans for new software development projects (January 2008)

Percentage of companies planning new implementations

<table>
<thead>
<tr>
<th>Industry Vertical</th>
<th>Finance and Manufacturing</th>
<th>Professional Services</th>
<th>Software</th>
<th>Technical Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Accounting</td>
<td>50</td>
<td>27</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Human Resources</td>
<td>21</td>
<td>7</td>
<td>40</td>
<td>14</td>
</tr>
<tr>
<td>Marketing and Sales</td>
<td>14</td>
<td>13</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Information technology</td>
<td>43</td>
<td>27</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Call center/help desk</td>
<td>64</td>
<td>27</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Procurement</td>
<td>7</td>
<td>27</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>Legal Services</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Engineering services</td>
<td>0</td>
<td>33</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Research and Development</td>
<td>21</td>
<td>27</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Product Design</td>
<td>14</td>
<td>20</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Software development</td>
<td>36</td>
<td>29</td>
<td>40</td>
<td>43</td>
</tr>
</tbody>
</table>


Companies with offshoring strategy (75% large companies) have aggressive plans for new IT, F&A and Call Center operations offshore

Percent companies planning new functional implementations (next 18 to 36 months)

Software development: 42%
Information technology: 33%
Engineering services: 37%
Finance and Accounting: 40%
Call center/help desk: 37%
Procurement: 40%
Research and Development: 33%
Product Design: 37%
Marketing and Sales: 37%
Human Resources: 35%
Legal Services: 35%

IMPLICATIONS of FINANCIAL CRISIS

The focused survey explored three issues:

- To what extent have the financial crisis and the unfolding economic conditions changed, in any way, the strategic drivers for offshoring at the responding company?
- What are some specific measures involving existing or future offshoring companies are taking or considering in the next 6-12 months as a response to the economic situation?
- To what extent are companies rethinking or modifying their financial strategies for expanding or initiating new offshoring projects?
**Increased Emphasis on Cost and Efficiency**

![Bar chart showing increased emphasis on cost and efficiency]

- **Increased Emphasis on Cost and Efficiency**
  - Labor Cost Savings: 74%
  - Enhancing efficiency through business process redesign: 42%
  - Part of company's overall strategy: 55%
  - Increasing speed to market: 48%
  - Access to new markets for products and services: 61%
  - Access to qualified personnel offshore: 59%
  - Growth strategy: 41%

**Drivers of Offshoring**

- **Source:** Duke University/Pricewaterhouse Coopers Offshoring Research Network Focus Survey 2008

**Actions with Immediate Effect as a Priority**

![Bar chart showing actions with immediate effect as a priority]

- **Actions with Immediate Effect as a Priority**
  - Increase efficiency by improving coordination and integration of processes: 54%
  - Increase speed to market: 54%
  - Increase speed to market: 40%
  - Initiate and accelerate end-to-end process reengineering: 31%
  - Pressure provider to increase savings: 31%
  - Speed up plans to globalize product development/innovation: 33%
  - Pressure provider to relocate to lower cost economies: 31%
  - Relocate offshore activities to the US: 21%
  - Full offshore service: 22%
  - Partial offshore service: 22%

**Offshoring-related Actions/Plans**

- **Quick Fix**
  - Immediate Pay Off: 54%
  - High Upfront Costs: 62%
  - Take Time to Pay Off: 46%

**Source:** Duke University/Pricewaterhouse Coopers Offshoring Research Network Focus Survey 2008
Significant potential for increasing efficiency

The Inefficiency Trap

Expected and Achieved Savings

Low
High

Potential for Increased Efficiencies

Source: Duke University/Archstone Consulting Offshoring Research Network 2005 U.S. Survey and
Duke University/Booz Allen Hamilton Offshoring Research Network 2006 U.S. Survey and

Importance of Corporate-wide Offshoring Strategy

Benefits of Corporate-wide Strategy

Before Implementing Offshoring Strategy

<table>
<thead>
<tr>
<th>Category</th>
<th>Savings Expected</th>
<th>Savings Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call centers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing &amp; sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative services</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

After Implementing Offshoring Strategy

<table>
<thead>
<tr>
<th>Category</th>
<th>Savings Expected</th>
<th>Savings Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement</td>
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<td></td>
</tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Product development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing &amp; sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative services</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Financing Strategies

- Delaying projects: 31%
- Continuing project financing as is: 25%
- Spreading the implementation of projects over a longer period: 23%
- Having service provider finance projects: 9%
- Other: 6%
- Soliciting 3rd party financing: 5%

Source: Duke University/Pricewaterhouse Coopers Offshoring Research Network Focus Survey 2008
### Spin-off Captive: Could it be a trend?

<table>
<thead>
<tr>
<th>Date</th>
<th>Buyer</th>
<th>Seller</th>
<th>Acquired Unit</th>
<th>Size of Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 8, 2008</td>
<td>Capgemini</td>
<td>Unilever</td>
<td>Financial Shared in Chile and Brazil</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>April 10, 2008</td>
<td>Quatro</td>
<td>RSM McGladrey</td>
<td>Indian Accounting Unit</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>July 10, 2008</td>
<td>WNS</td>
<td>Aviva</td>
<td>Indian Outsourcing Units (customer service and BPO)</td>
<td>$228 million</td>
</tr>
<tr>
<td>October 8, 2008</td>
<td>TCS</td>
<td>Citigroup</td>
<td>Citigroup Global Services in India</td>
<td>$505 million</td>
</tr>
<tr>
<td>November 3, 2008</td>
<td>Fiserv</td>
<td>Compass Bank</td>
<td>The Data Center based in Texas</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>November 13, 2008</td>
<td>Bravura</td>
<td>Citigroup</td>
<td>Information Systems Division in Poland</td>
<td>$31.5 million</td>
</tr>
<tr>
<td>November 17, 2008</td>
<td>SCM</td>
<td>Motorola</td>
<td>Malaysian Software Development Unit</td>
<td>Undisclosed</td>
</tr>
</tbody>
</table>

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### Consolidation in Service Provider Industry

<table>
<thead>
<tr>
<th>Date</th>
<th>Buyer</th>
<th>Seller</th>
<th>Acquired Function</th>
<th>Size of Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 25, 2008</td>
<td>Affiliated Computer Services (ACS)</td>
<td>Syan Holding Limited</td>
<td>IT Services</td>
<td>$60 million</td>
</tr>
<tr>
<td>February 29, 2008</td>
<td>NCO Group</td>
<td>Outsourcing Solutions</td>
<td>BPO</td>
<td>$325 million</td>
</tr>
<tr>
<td>April 29, 2008</td>
<td>3I Infotech</td>
<td>Regulus Group</td>
<td>Remittance and Document Processing Services</td>
<td>$40 million</td>
</tr>
<tr>
<td>May 13, 2008</td>
<td>Hewlett-Packard</td>
<td>Electronic Data Systems (EDS)</td>
<td>BPO, IT Application and IT Infrastructure Management</td>
<td>$13.9 billion</td>
</tr>
<tr>
<td>June 10, 2008</td>
<td>Oberon Associates</td>
<td>Biometric System Engineering, IT and Data Management</td>
<td>$170 million</td>
<td></td>
</tr>
<tr>
<td>July 1, 2008</td>
<td>Quatro</td>
<td>Media</td>
<td>BPO</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>July 16, 2008</td>
<td>HCL Technologies</td>
<td>EnPointe Global Services</td>
<td>IT Infrastructure Management and Remote Management Services</td>
<td>$30 million</td>
</tr>
<tr>
<td>January 29, 2008</td>
<td>WNS</td>
<td>Business Application Associates (BUsAps)</td>
<td>BPO, SAP Solutions for Finance and Accounting</td>
<td>$19 million</td>
</tr>
<tr>
<td>July 30, 2008</td>
<td>Capgemini</td>
<td>Getronics PinkRocade</td>
<td>Business Application Services</td>
<td>$255 million</td>
</tr>
<tr>
<td>August 6, 2008</td>
<td>Essar/Aegis Communications</td>
<td>PeopleSupport</td>
<td>BPO</td>
<td>$250 million</td>
</tr>
<tr>
<td>August 26, 2008</td>
<td>HCL Technologies</td>
<td>Control Point Solutions</td>
<td>Telecom Expense Management</td>
<td>$20.8 million</td>
</tr>
<tr>
<td>September 19, 2008</td>
<td>Wipro</td>
<td>Gallagher Financial Systems</td>
<td>Mortgage Solutions</td>
<td>Undisclosed (sources estimate at $6 million)</td>
</tr>
<tr>
<td>October 4, 2008</td>
<td>Xchanging PLC</td>
<td>Solutions</td>
<td>BPO and IT</td>
<td>$83 million</td>
</tr>
<tr>
<td>November 4, 2008</td>
<td>NIS Installation AB</td>
<td></td>
<td></td>
<td>$235 million</td>
</tr>
<tr>
<td>November 10, 2008</td>
<td>EDSI</td>
<td>Convergys Corporation</td>
<td>Insurance BPO</td>
<td>$10-11 million</td>
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<tr>
<td>November 22, 2008</td>
<td>Serco Group</td>
<td>Infusion</td>
<td>BPO</td>
<td>$75 million</td>
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<tr>
<td>November 24, 2008</td>
<td>HCL Technologies</td>
<td>Annu Group</td>
<td>SAP Consultancy Services</td>
<td>$441 million</td>
</tr>
</tbody>
</table>
Key takeaways

- **Offshoring reaches the C-level Suite**
- **Financial Crisis Implications:**
  - Increased pressure on providers to increase efficiency and reduce rates
  - Strong focus on improving process efficiencies and on capabilities to manage outsourcing-offshoring projects
  - Emerging trend to spin off captive and to pressure providers to absorb initial upfront costs for large IT and BPO projects.
  - Cancelling or postponing discretionary projects
  - Increasing importance of offshoring for company growth
  - Very few intentions to relocate to lower cost countries

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For more detailed analyses please see SSON February 1, 2009*

**Getting Serious About Offshoring in a Struggling Economy**

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