

# Global Services Trends: 2012

**Out with the old and in with the new. Well, almost!**



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## 1. DEMAND OUTLOOK

Demand will weaken initially, but then should improve by mid-year. The inhibiting factors will be:

- Continued tight budgets.
- Minimal discretionary spending, with approvals requiring rigorous ROI explanations. The majority of investments will need positive ROI within the fiscal year and as a result, lead times and planning cycles will be short.
- Most IT budgets will be approved on rolling month or quarterly basis

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- Systems integration, led by standardization and migration to common global processes, will lead growth. Simplify remains the buzzword for CIOs
- Cloud computing offerings will stimulate greater demand for infrastructure outsourcing. Outsourcing vendors, therefore, will revamp the architecture of their product offerings to fit the modular needs of a cloud environment. Buyers moving to the cloud will thus will create a big demand for redesigning software architecture, and also for QA and testing services. "2012 is clearly about cloud and mobile", said Sam Rasul, VP, ABB Inc.

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Amanda Sweeney, Director,  
Petco Animal Supplies.

The ROI of Business Process Outsourcing will continue to be challenged. As we support clients in this sourcing area, we see lack of domain skills on supplier teams stymieing deals. “While I agree a return on investment in Business Process Outsourcing can be challenging in some functional areas, the return is no longer generated from the reduced cost of a transaction but rather from staffing quality and flexibility, tools, process improvement and innovation that remains inherent in the culture of third party global service providers. I also would forecast significant growth in the KPO area; for retail, specifically focused on business analytics. I believe retailers are beginning to see the true benefits of a global delivery model and are moving in the direction of working from the ground up to establish the right internal/external model versus starting with a full in-house staff, said Amanda Sweeney, Director, Petco Animal Supplies.

Outsourcing by mid-market companies will be on the rise with much attention on platform- based bundled outsourcing, and transaction- based pricing. The most common example is services such as payroll and hosting services.

“We have witnessed a 20% rise in real estate outsourcing services to middle market firms over the past three years. These firms are outsourcing at a faster pace as a means

to create operational nimbleness and gain strategic competitive advantage. They also want the services available to larger companies to help their competitive position.”, said Bill Concannon, President of CBRE’s Global Corporate Services business.

## 2. OPERATING MODELS GOING RETRO

A mix of factors will affect the market. At the same time, continued hiring and attrition challenges at global businesses, and overall governance requirements, will accelerate buyers’ move to managed services models.

## 3. PROFESSIONALIZATION OF OUTSOURCING

Supplier management and governance challenges will also help clients recognize the need for professionally trained managers on their staff. Programs such as Certified Outsourcing Professional (COP) from International Association of International Professionals (IAOP), and workshops will be leveraged more.

Additionally, customers will increasingly see clear differences in sourcing and managing in the services sector vs. product categories. This will lead them to place a higher importance on sourcing leads and high-quality vendor managers.



## 4. M&A TO CONTINUE, BUT YIELD LITTLE BENEFITS

Small acquisitions, focused on specific domain knowledge, will continue among suppliers. The gap between high-end Tier 1, and smaller Tier 2 providers is wide now. At the same time, there is an interesting mix of billion-dollar firms that have yet to stake a lead claim in their category; they need clearer differentiation.

Some niche, or Tier 2 players, will continue to prosper, but focus is key to their success. Therefore, clear differentiation branding is needed for them as well. There are no clear leaders in this category yet. CIOs need to make sure

that detailed due diligence happens when selecting a Tier 2 partner. Assess if the fit is right with your future plans and their investments.

#### 5. PRICING IS EXPECTED TO BE FLAT IN SPITE OF MANY UPWARD PRESSURES

Pressure on suppliers will continue, meaning that pricing will be flat – but not down --compared to 2010/11 levels. Moreover, weak exchange rates and weakness of the U.S. dollar, will put increased pressure on suppliers. This could be a good time for businesses to get good deals on contract terms. Increasingly, outsourcing will move away from staff augmentation/time and materials toward output-based pricing and managed services.

“There will be greater attention on the diversity of one’s geographic portfolio as well as on monitoring of risk and compliance related to disruption at supply locations and the supplier base.”

#### 6. HIRING AND UTILIZATION WILL STRENGTHEN

Expect to see growth in new graduate hiring by suppliers as a result of market growth and the need to reduce costs. The better firms will continue to operate with staff utilization in the high 70s to low 80s. In addition, hiring in newer geographies-- such as Brazil, Mexico, China, Poland and Colombia-- takes some attention away from India.

#### 7. WAGES WILL RISE CREATING INCREASED PRESSURE ON MARGINS

Higher inflation is causing wages to rise 10% -15% in India and many other Asia/ Pacific locations, while U.S. and Western Europe will see much smaller raises. Latin American wages will rise more than 8 percent.

#### 8. PROACTIVE RISK MANAGEMENT

Proactive Risk Management is important to the continued growth of the outsourcing industry.

There will be greater attention on the diversity of one’s geographic portfolio as well as on monitoring of risk and

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compliance related to disruption at supply locations and the supplier base.



#### 9. RISING GEOGRAPHIES WILL TAKE MARKET SHARE AWAY FROM TRADITIONAL LOCATIONS, BUT THE OVERALL PIE IS GROWING

Eastern Europe and Central and South America are surging and buyers will increasingly utilize existing supplier's Global Delivery Models to provide time-zone coverage and realize true 24x7x365 support. Offshore players will also continue to expand and/or setup operations in new geographies, such as Brazil, Poland, China, Mexico and Colombia.

In conclusion, expect something new, something old and something borrowed in global services and outsourcing as we head into 2012. But most importantly, expect frequent change and so don't go long on risk. **GS**