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## Sourcing Industry – Facts and Figures and Futures

Tower Club of Manila

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Wednesday 22<sup>nd</sup> October 2008

# Our Agenda

**Past**

**A Look Back at 2007**

**Present**

**What is Happening in the Markets Today?**

**Future**

**The Future of Sourcing**

# Our Agenda

**Past**      **A Look Back at 2007**

# Outsourcing in 2007 – A Look Back at the Dynamics

*A maturing industry with a lot of moving pieces continued to yield growth in annualized revenues.*

## Signs of Componentization

- **Multi Sourcing**
- **Shorter Duration Contracts**
- **Commodity Pricing**

## Some Tarnish

- **Unfulfilled Promises of Innovation**
- **BPO False Starts**
- **Effort-based Contracting**

## Crowded Field

- **U.S./Euro-heritage Providers**
- **Indian-heritage Providers**
- **Vertical Industry Providers**

# Outsourcing in 2007 – A Look Back at the Dynamics (cont'd)

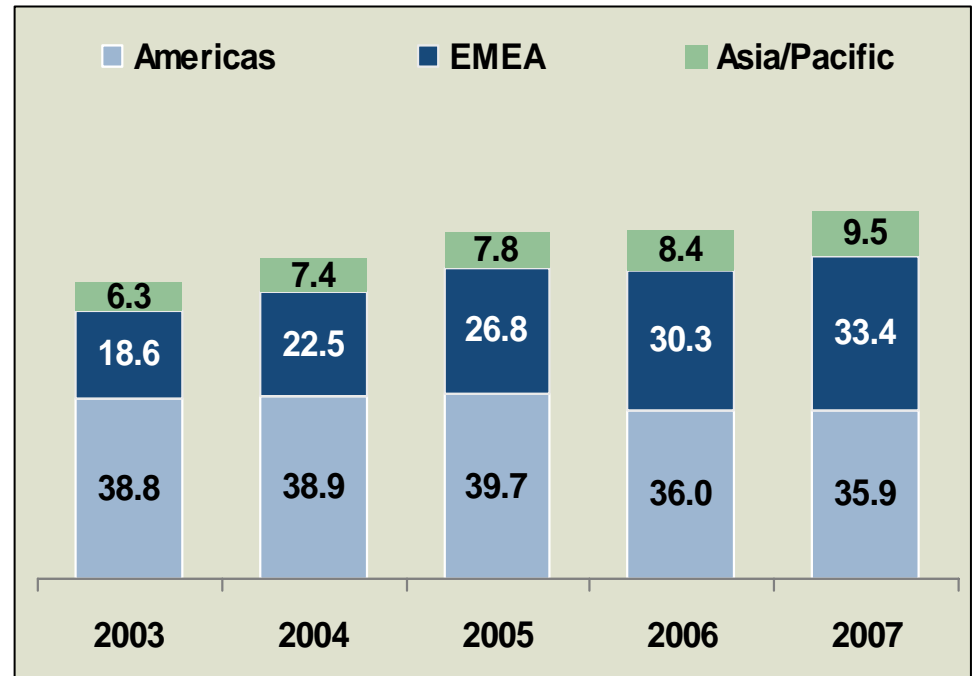
## Declining Growth (Americas)

- Offshoring as Avoidance Mechanism

## Global Pressures

- Foreign Exchange Fluctuations
- Taxation Policies
- Wage Escalation

Annualized Revenue (\$B) based on Industrywide Contracts With TCV > \$25M



2007 annual revenue available to service providers: \$78.7B  
 Y/Y Growth: 7.3%  
 5-year CAGR: 5.3%  
 2,701 active contracts

# Outsourcing in 2007 – Buyers Began to Wonder

*We observed common questions among prospective adopters of outsourcing.*

**Signs of  
Componentization**

**Some Tarnish**

**Crowded Field**

## Core Questions

- **Is innovation, through outsourcing possible?**
- **Business process outsourcing**
  - **Horizontal?**
  - **Vertical?**
- **What are the real benefits from scale?**

## TPI Viewpoints

- Absolutely; the key is to select a provider with innovation as a requirement and a framework to achieve
- Both are viable
  - Horizontal orientation focusing on discrete process specialization
  - Vertical partnerships offer greater value creation potential
- Business resiliency and follow-the-sun capacity form basis of pathway-to-scale

# Outsourcing in 2007 – Buyers Began to Wonder

**Declining Growth  
(Americas)**

**Global Pressures**

## Core Questions

- **Return to pay-for-results from pay-for-effort?**
- **Software as a service?**
- **Industry consolidation?**

## TPI Viewpoints

- With the pressure on effort-based contracting, transactional pricing will return to favor
- Few examples are evident with respect to distinct offerings
- We believe it will accelerate in 2008-2010 around global process specialists

# The Context for Competitiveness

*We detect certain socio-economic factors influencing the services value chain of major corporate enterprises. Sourcing strategies will be influenced by these factors.*

**Services Value Chain: The network of people, processes and technologies that enable business**

## Demographics

The world population will continue to grow. However this growth will not be evenly distributed, with some populations, notably in Western economies and Japan, aging and even declining.

## Mind the Gap

Although parts of the world are enjoying the consequences of rapid economic growth – prosperity, innovation, better health, longevity, education, freedom of choice and greater opportunity to travel – others are not benefiting.

## Environmental Factors

Growth is leading to greatly increased pressure on resources and on the environment.

## Privacy
















Increasing individual awareness and concern coupled with government and regulatory reactions is rising across various domains and regions.

# Our Agenda

**Present**

**What is Happening in the Markets Today?**

# Headlines

First Half of 2008	Number of Contracts	TCV of Contracts	ACV of Contracts
Global Broader Market	 7%	 24%	 36%
Global New Scope	 11%	 26%	 43%
Asia Pacific	 9%	 - 44%	 - 38%
EMEA	 11%	 58%	 78%
Americas	 3.5%	 7%	 19%

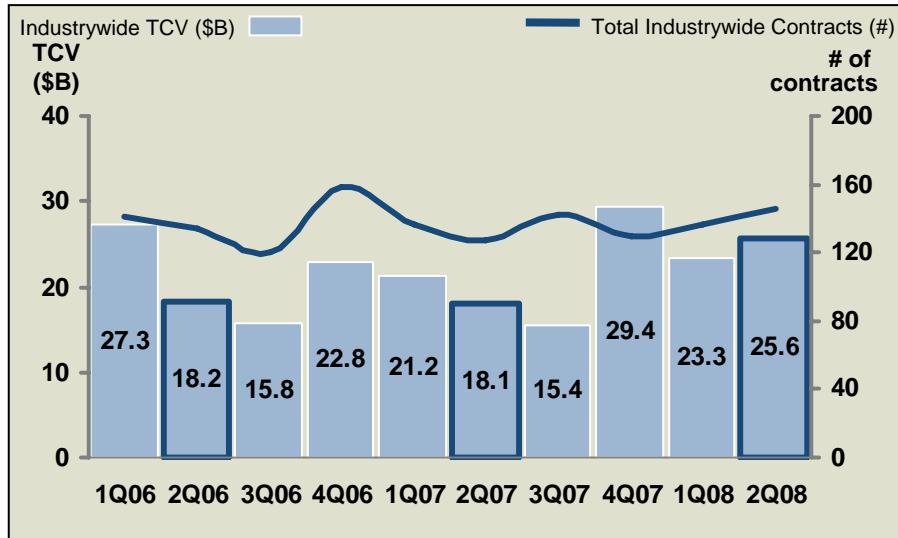
*Broader Market = commercial outsourcing contracts valued at >\$25M*

*New Scope = contracts that are incremental to the market (excludes renegotiations, extensions and renewals)*

# Industrywide Contract Award Trends

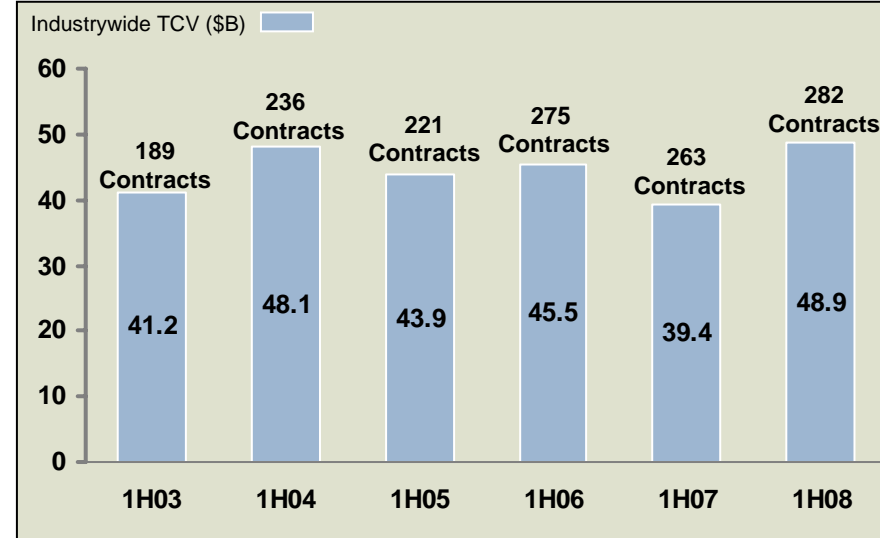
*Market momentum is unprecedented in terms of contract awards, accounting for the best sequential nine months in the history of outsourcing*

## Q/Q Comparison



***Strongest second quarter performance since 2000***

## 1H Y/Y Comparison



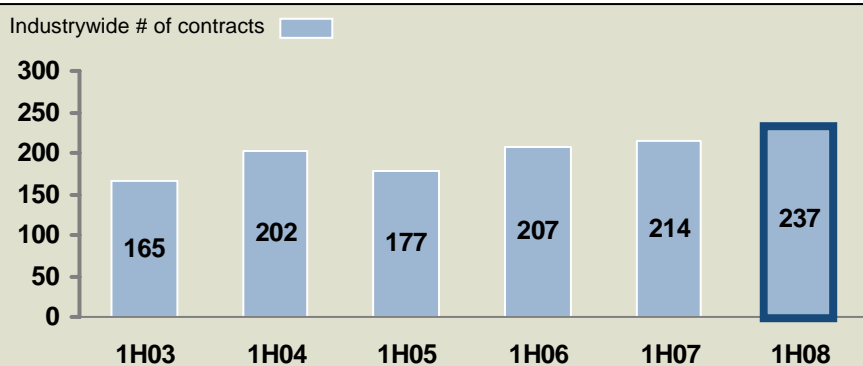
***Highest measures by number, TCV and ACV in more than ten years***

**Total Contract Value > \$25M**

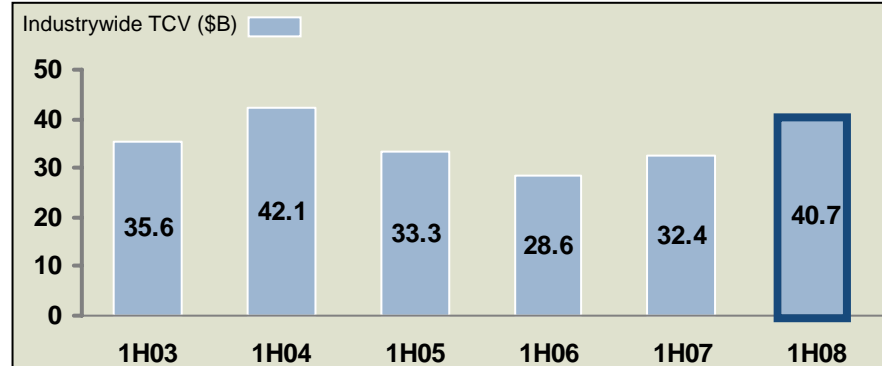
# Y/Y Comparison of Industrywide New Scope

**Contracts** *Expanding volume and value incremental to the market affirms fundamental momentum in the demand for outsourcing*

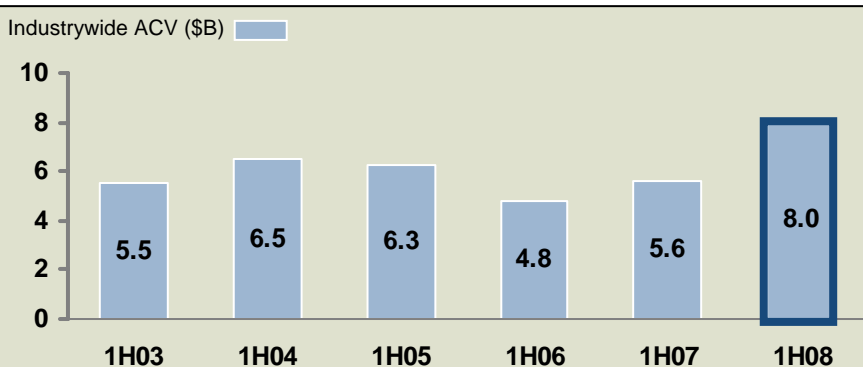
## 1H Number of Contracts



## 1H TCV of Contracts



## 1H ACV of Contracts



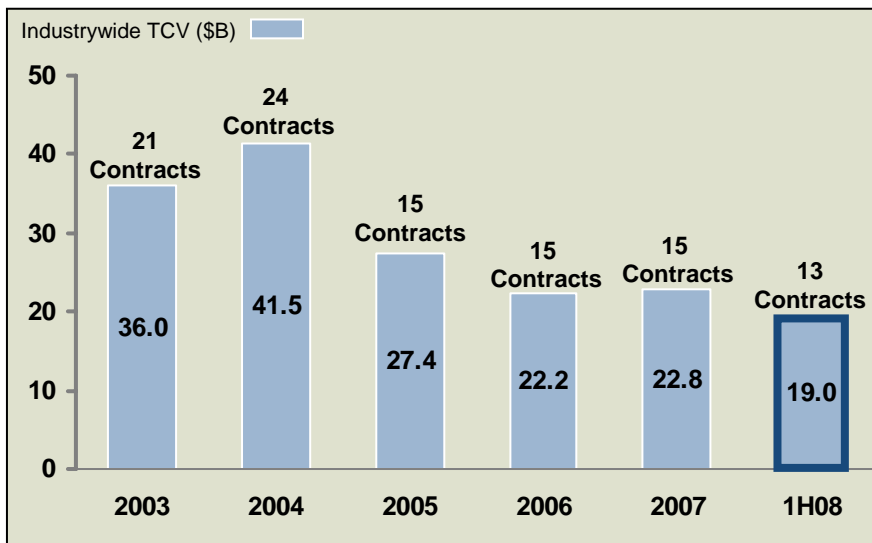
***Year-over-year, new scope added is up across the board, by volume and value in both ITO and BPO***

**Total Contract Value > \$25M**

# Record of Mega Deals and Mega Relationships

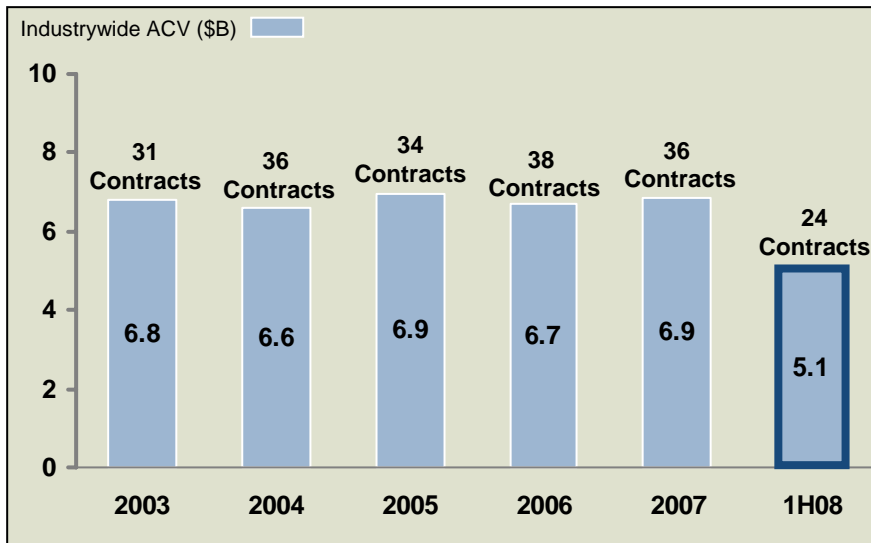
*1H08 performance propels the global*

## Mega Deal TCV > \$1B



***Mega deals contributed almost 39% of the Broader Market's TCV for 1H08***

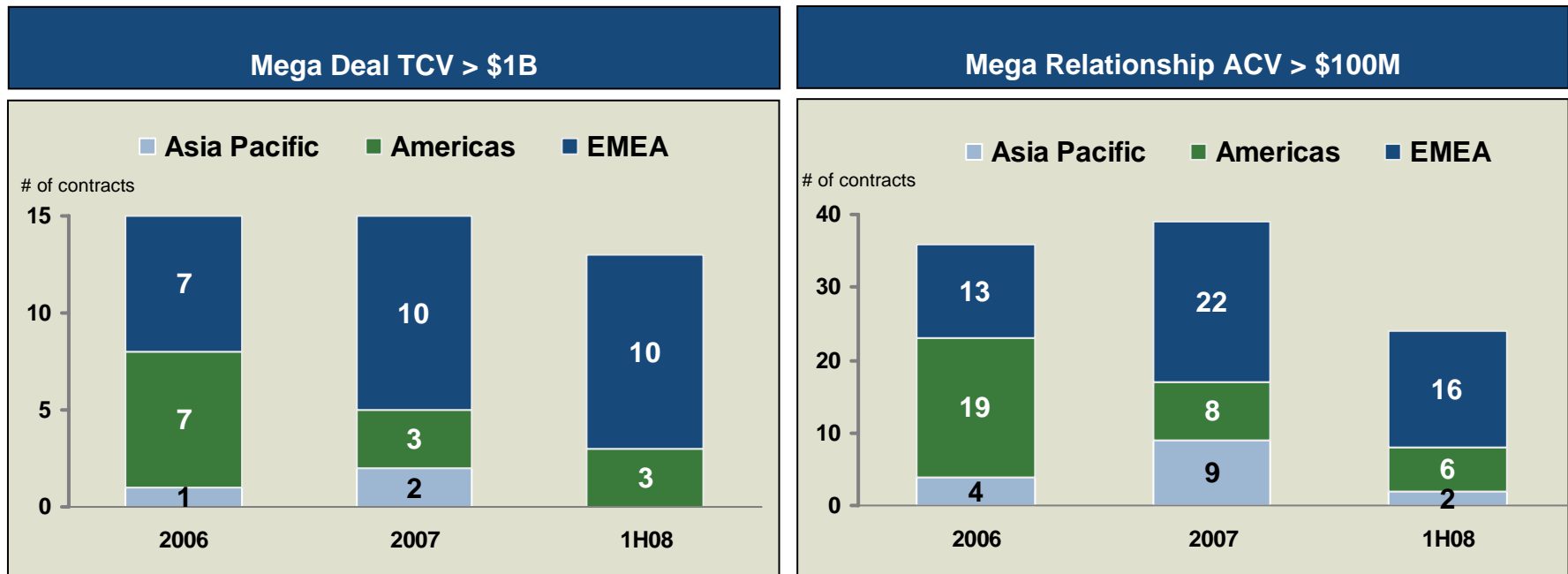
## Mega Relationship ACV > \$100M



***Mega relationships contributed almost 53% of the Broader Market's ACV for 1H08***

# Mega Deals and Mega Relationships

*Lack of mega deals and limited number of mega relationships significantly dampened Asia Pacific's contribution to the Broader Market in 1H08*



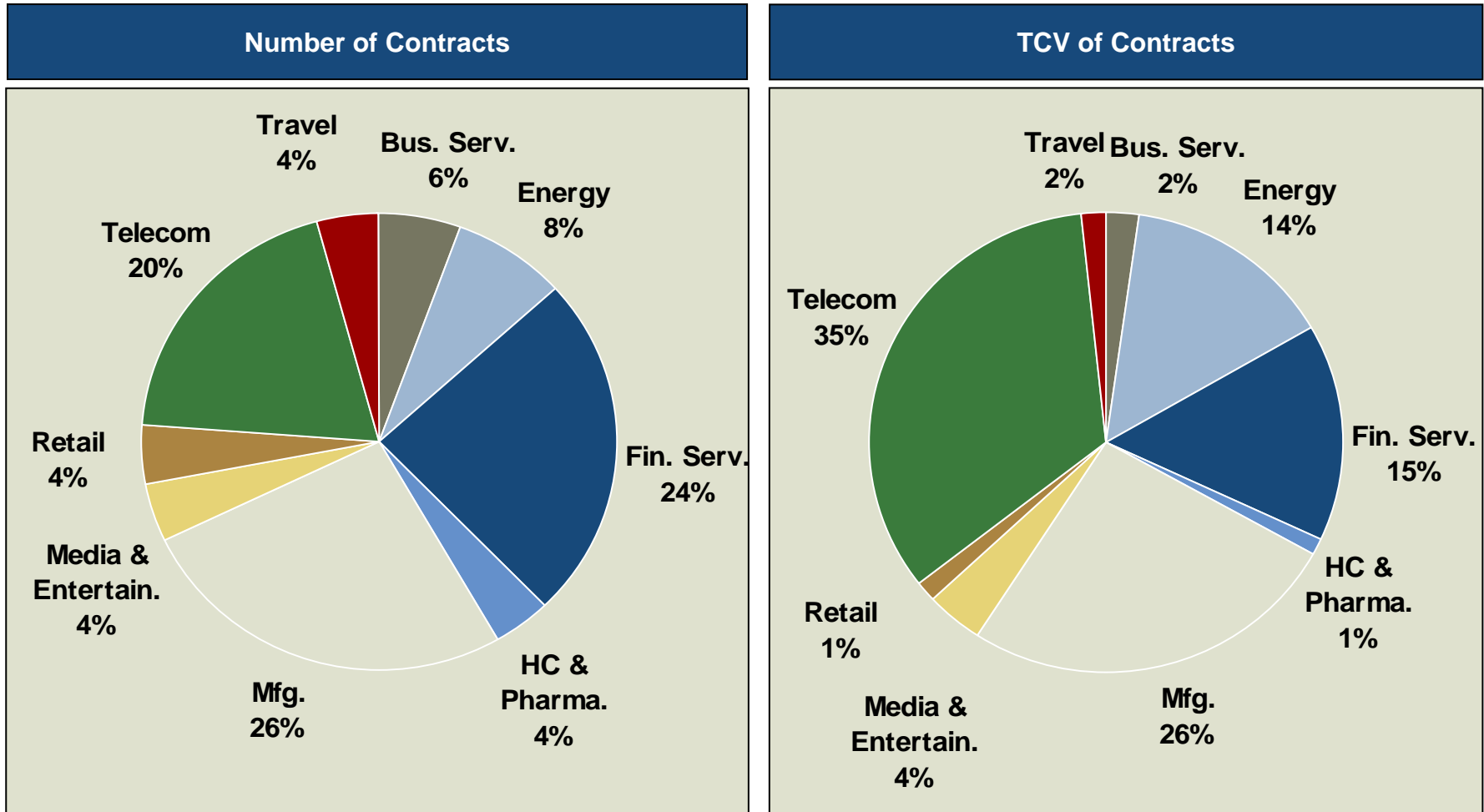
*Note: All charts on this slide are comparing one half year in 2008 to full years in 2007 and 2006*

**13 Mega deals contributed almost 39% of the Broader Market's TCV for 1H08**

**24 Mega relationships contributed almost 53% of the Broader Market's ACV for 1H08**

# 1H08 Industry Segment Comparison

*Telecom and Manufacturing sectors lead the way in TCV awards*

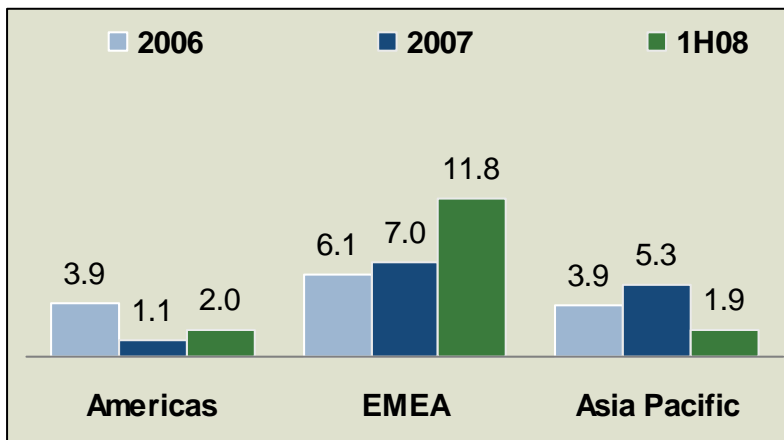


Total Contract Value > \$25M

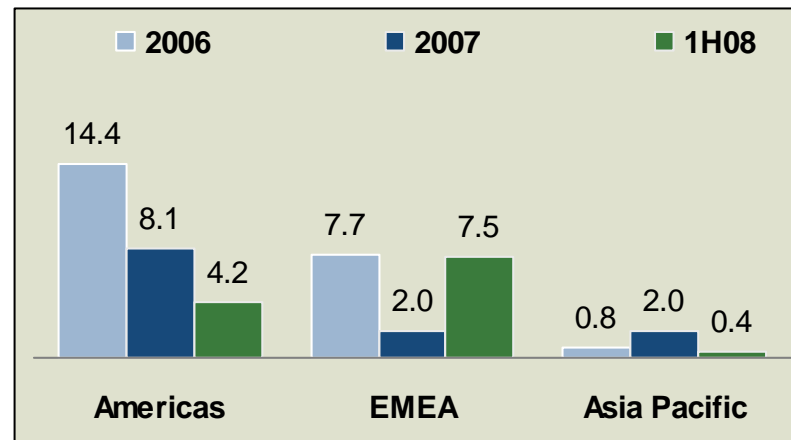
# Comparison of Industrywide Contracts by Region

*Industry strengths and weaknesses vary from region to region*

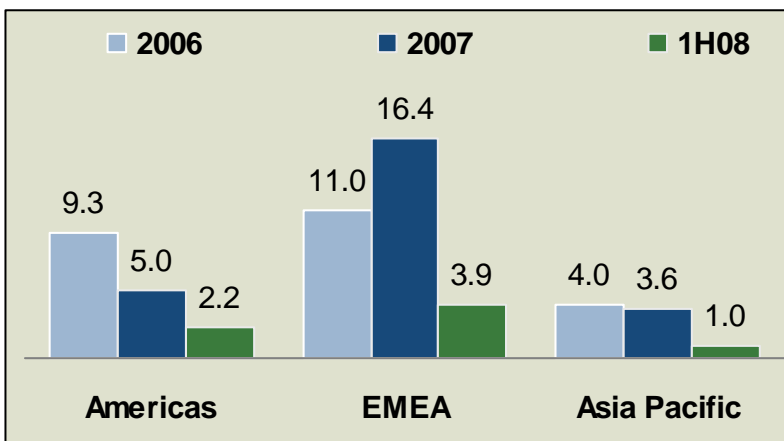
## Telecommunications (\$B) by Region



## Manufacturing (\$B) by Region



## Financial Services (\$B) by Region



*Note: All charts on this slide are comparing one half year in 2008 to full years in 2007 and 2006*

***Most industries outside of Telecom and Manufacturing are experiencing softness in the Americas***

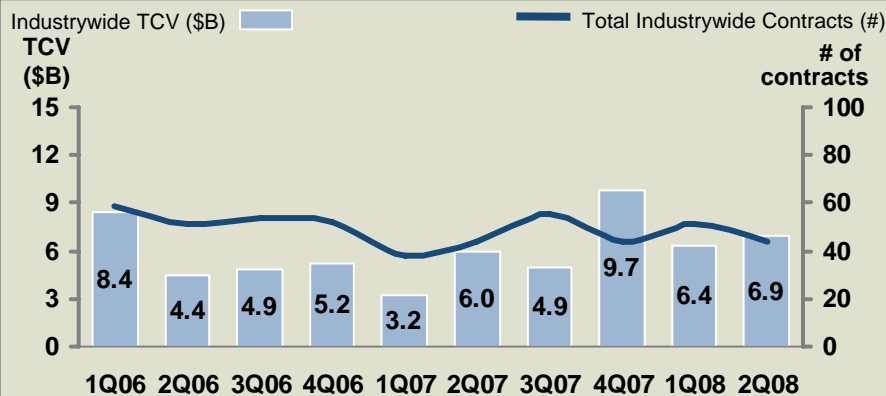
**Total Contract Value > \$25M**

# BPO Market Trends

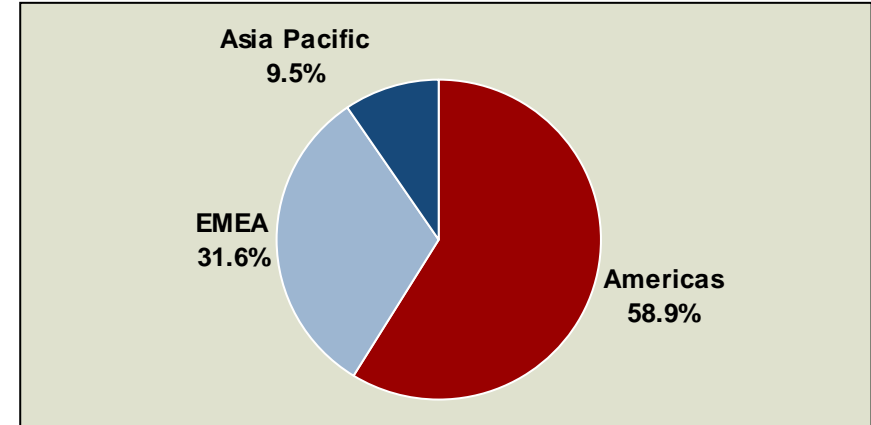
The half-year brought in more contracts with greater TCV and ACV than in each of the previous three half-years

Total Contract Value > \$25M

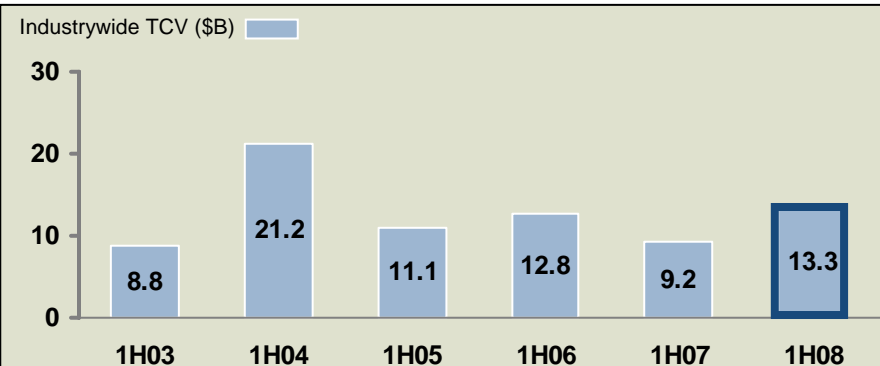
## Q/Q Comparison



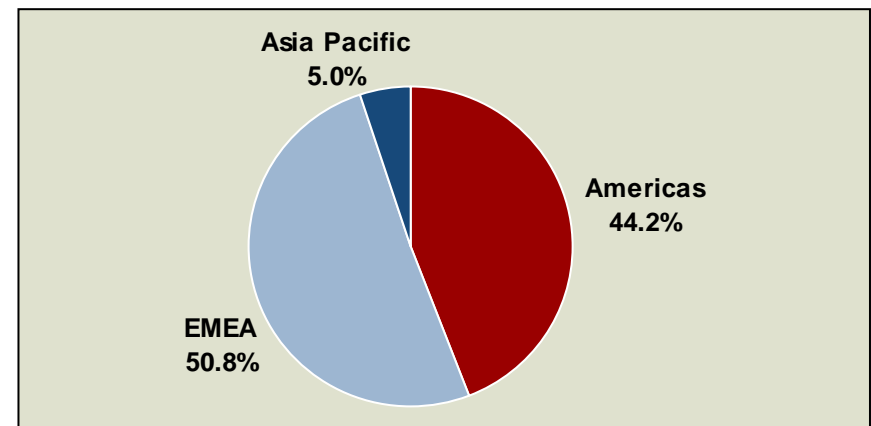
## 1H08 Number of Contracts – Regional Comparison



## 1H TCV of Contracts



## 1H08 TCV of Contracts – Regional Comparison

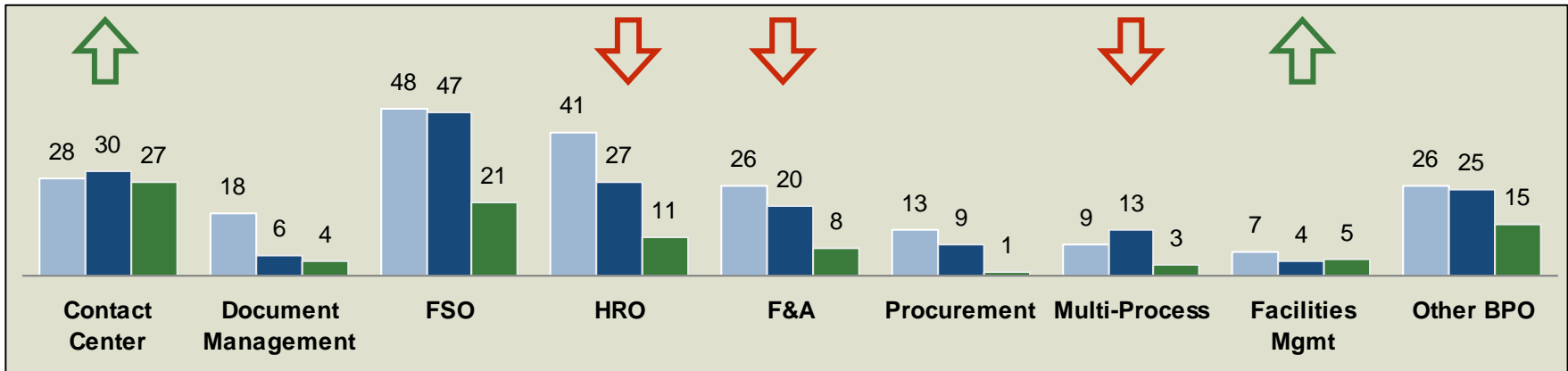


# BPO Market Trends Comparison

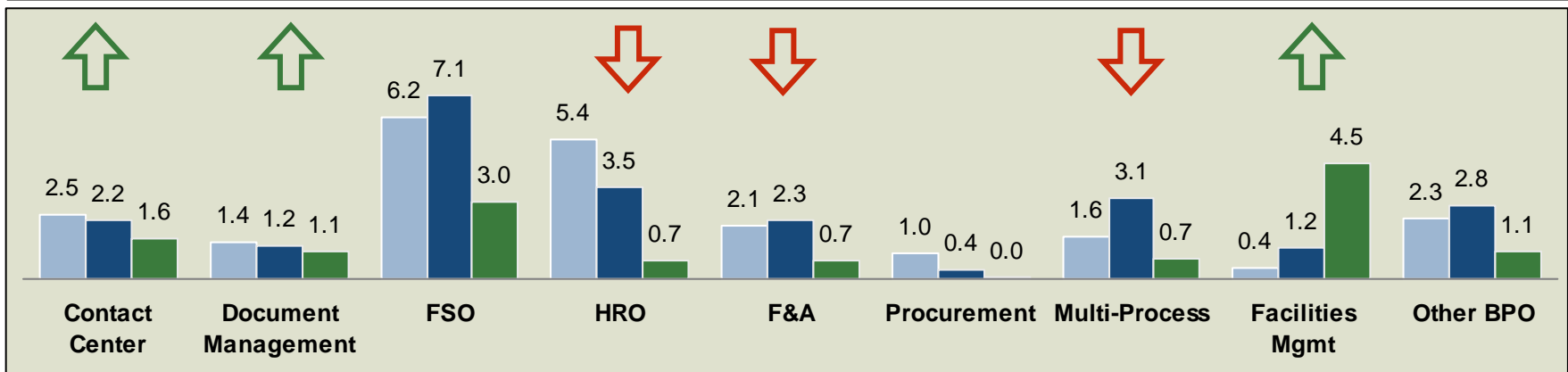
*Facilities Management and Financial Services Operations comprise over half the BPO contracts TCV awarded YTD*

2006 2007 1H08 Total Contract Value > \$25M

## Number of Contracts Awarded



## TCV Awarded



**Note: All charts on this slide are comparing one half year in 2008 to full years in 2007 and 2006**

# Annualized Revenue for BPO Segments

*Five-year view of annualized revenues tends to smooth out the ups and downs of contract awards we witness each quarter*

Process Area	Market Size as of June 30, 2008	5-Year CAGR	# of Active Contracts with a TCV > \$25M
Contact Center	\$3.9B	-0.8%	153
F&A	\$1.9B	17.2%	115
FSO	\$4.0B	19.7%	229
HR	\$3.2B	16.9%	179
Multi-Process BPO	\$2.7B	5.2%	80
Procurement	\$680M	29.2%	37
All Other BPO	\$4.5B	26.2%	181

# Record Setting First Half

*We now expect annualized revenue to grow between 9% - 10% for 2008 to over \$87B*

1H08

- Strongest number of awards, TCV and ACV in past 10 years
- New scope added was up by number of award and value in both ITO and BPO

Regional  
Performance

- Dramatic increase in TCV awarded impacted by EMEA's large share of mega deals and mega relationships

Industry

- Telecom industry sector led the industry in TCV awarded passing both Financial Services and Manufacturing

# Record Setting First Half (cont'd)

## Business Process Outsourcing

- 1H08 saw more contracts with greater TCV and ACV than in each of the previous three half years
- Contact Center and Facilities Management gain traction; HRO and F&A outsourcing remain sluggish

## Service Providers

- More service providers won more contracts in 1H08 than in 1H07
- India-heritage and Telecom providers emerged as contenders for multiple contract awards

# Our Agenda

**Future**

**The Future of Sourcing**

# The 3C Framework for Sourcing

*3C will have a distinct orientation around business processes that unite technology and operations ... yielding direct and indirect benefits for clients.*

## Cost

**Achieve substantial and sustainable improvements in total costs of operations.**

## Capability

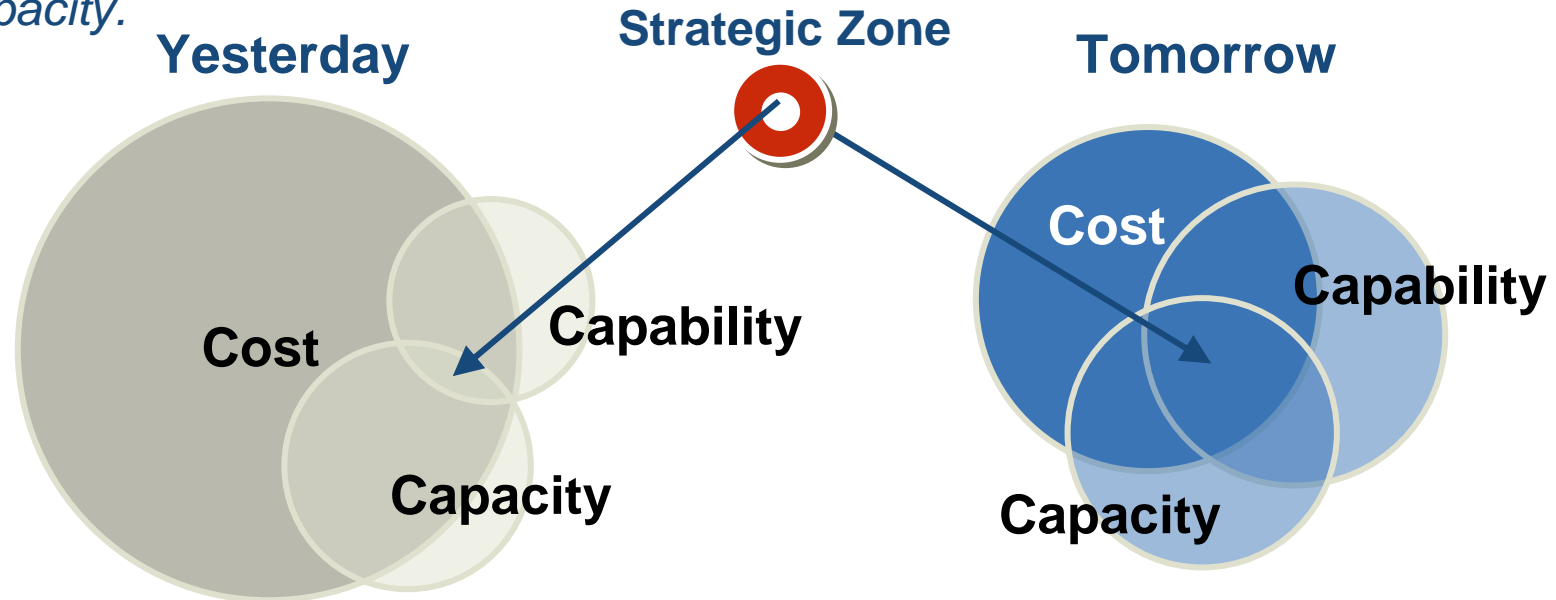
**Deploy new and innovative services that materially enable attainment of strategic business objectives.**

## Capacity

**Provide access to scaleable and resilient sources of talent and infrastructure to enable attainment of business goals.**

# 3C ... the Compounding of Sourcing Attributes

*For experienced adopters of outsourcing, we perceive a shift towards a more balanced emphasis and greater compound orientation among Cost / Capability / Capacity.*



## Cost is King

- Near-term cost attributes
- Access to skilled resources
- Effort-oriented, rather than productivity-driven

## Compounding Effect

- Relative equilibrium among sourcing imperatives
- Capability prominence for business value dimensions
- Greater Client-Provider collaboration

**Maintain/Enhance Competitive Positioning while Sourcing for Efficiency**

# Key Sourcing Destinations

*The “Four Corners” of today’s sourcing landscape will remain popular, but rising wages will force new value propositions — quickly.*

## A Look Ahead

### India

- Will remain one of the world’s primary sources for cost-efficient technical talent, but costs are escalating rapidly
- Proficiency in English provides continued advantage
- The India socio-economic network is positioned to sustain its first-mover advantage as a destination for serving the technology-driven sourcing needs of Western corporations

### China

- Will demonstrate a remarkable improvement in the adoption of English, but ... not enough
- The Government will look to establish favorable taxation and regulatory realities to negate concerns relating to uncertainty of commercial terms and protection of intellectual property
- Education will continue as a focus for skill enhancement
- China will increasingly become a formidable alternative to India

# Key Sourcing Destinations (cont'd)

## A Look Ahead

### Brazil & Mexico

- Will emerge as a serious contender as a sourcing destination for companies in the Americas
- Favorable time zone characteristics for the Americas fuels growth
- Call center operations will be quite common in 2010, with other functions to follow

### Central/ Eastern Europe

- Driven by language requirements
- Will continue to be fragmented among many countries

***Global Outsourcing Marketplace is at the cusp of another significant change....***

# Interesting counter trends....

**On the one hand...**

**Existing captives  
being monetized**

**Vendor base being  
Consolidated**

**Offshore  
destinations  
increasing**

**And On the other...**

**New captives continue to be  
set up**

**Multi-sourcing becoming more  
prevalent**

**India continues to receive lion's  
share of the market**

***...sourcing market is not limited to the developed world***

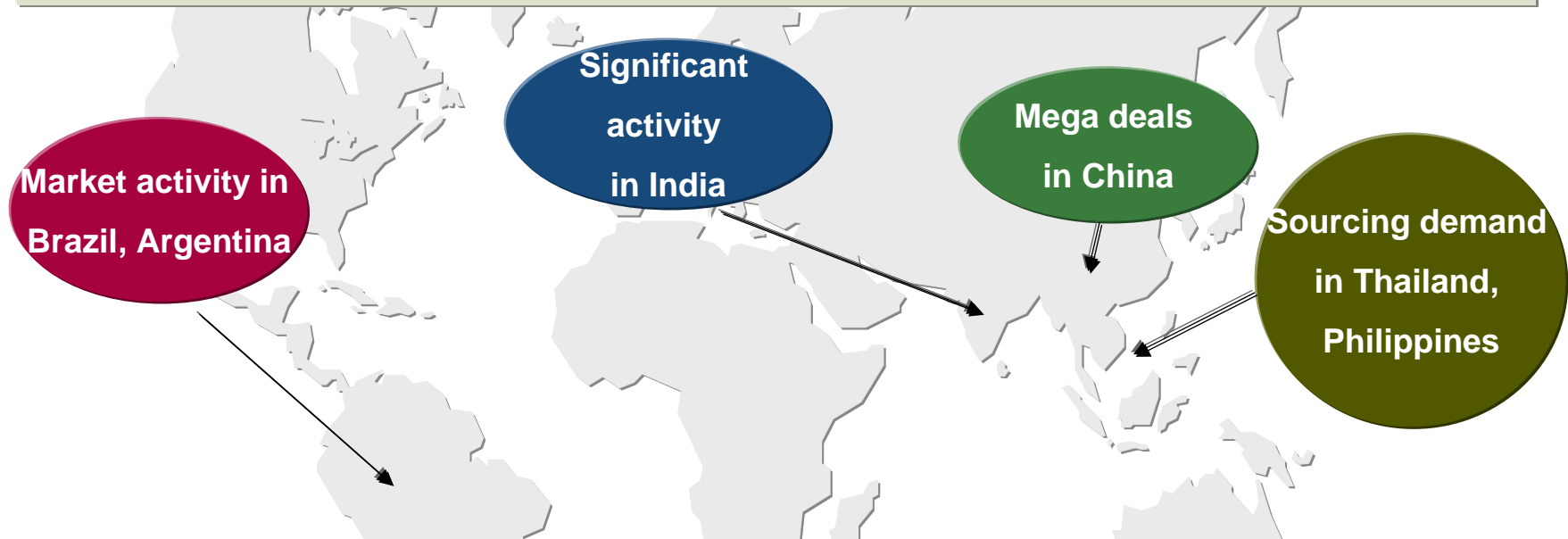
***Battlefield has become global for providers***

***Buyer expectations are evolving***

***Captives offer new paradigms....***

# Sourcing is not limited to the developed world anymore....

Emerging markets offer increasing demand for sourcing given the fast pace of their economic growth



Increasing number of global sourcing transactions by F 500 companies that require a network of regional delivery centers

**Demand as well as Supply markets have become global for sourcing of services**

# Battlefield has become global for service providers....

## “Onsite Heritage Providers”



### Stage I

- Domestic/near-shore sourcing
- Limited presence in low cost geos

### Stage II

- Rapid expansion in low cost geos
- Onsite/Near-shore/Offshore sourcing

### Stage III

- Continued expansion in low cost geos
- Building “deep and wide” global capabilities

## “Offshore Heritage Providers”



- Offshore sourcing
- Limited presence onsite

- Continued growth in Offshore sourcing
- Onsite presence growth largely limited to Sales

- Continued expansion of onsite presence
- Building “deep and wide” global capabilities

# What we are observing in the marketplace...

## “SELL SIDE”

### Globalization

- Providers aggressively increasing their global capabilities and presence
- Diversifying their revenue base

### Consolidation

- Increasing momentum of M&A activity amongst providers
- Attempts to bridge regional/niche capability gaps

### Solution Orientation

- Platform based offerings
- Bundled solutions for verticals
- Focus on alliances/investments/R&D

# What we are observing in the marketplace...

## “BUY SIDE”

### Maturity

- Most have been on the “outsourcing bus”
- Understand the strategic options and tactics of outsourcing

### Complexity

- Increasing number of service delivery models
- Too many delivery location options

### More than “Cost”

- What can we gain beyond “cost”?

### Revisit Sourcing Strategy

- Review existing service delivery framework
- Need for captives vs third party providers

# What do customers increasingly expect...

**Network of Partners (not providers) who can collectively offer a unique combination of expertise at a competitive cost structure to help them stay ahead of the curve in their Core business.**

**Industry  
Knowledge &  
Domain Expertise**

**Skin in the Game –  
Risk/Reward Balance**

**Outcome Based  
Orientation – Pay for  
Business Impact**

**Ability to support  
business growth or  
new markets entry**

**Compelling cost  
structures**

# Finally...

## What will position Service Providers to win?

# What Service Providers ought to focus on...

*Providers will need to focus on a few critical areas to enhance their competitive positions in the growing industry of outsourcing.*

1

**Global scale and presence or Niche segment/industry expertise –  
Readiness to compete in key global markets (Me-too players will have limited room)**

2

**Actively consider consolidation opportunities (speed is of the essence):  
Competitor provider with potential for a strategic combination, Captives that offer strategic fit (scale or capability)**

3

**Develop compelling industry solutions – Platform based offerings, bundled services, transformation solutions**

4

**Play the Risk/Reward game – Willingness to aggressively try risk/reward arrangements with clients**

5

**Outcome (instead of effort) based orientation - Continuously strive to deliver Business Benefits to Customers**



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