

Costa Rica Chapter Launch

Outsourcing – Succeeding in a Global Competitive Market

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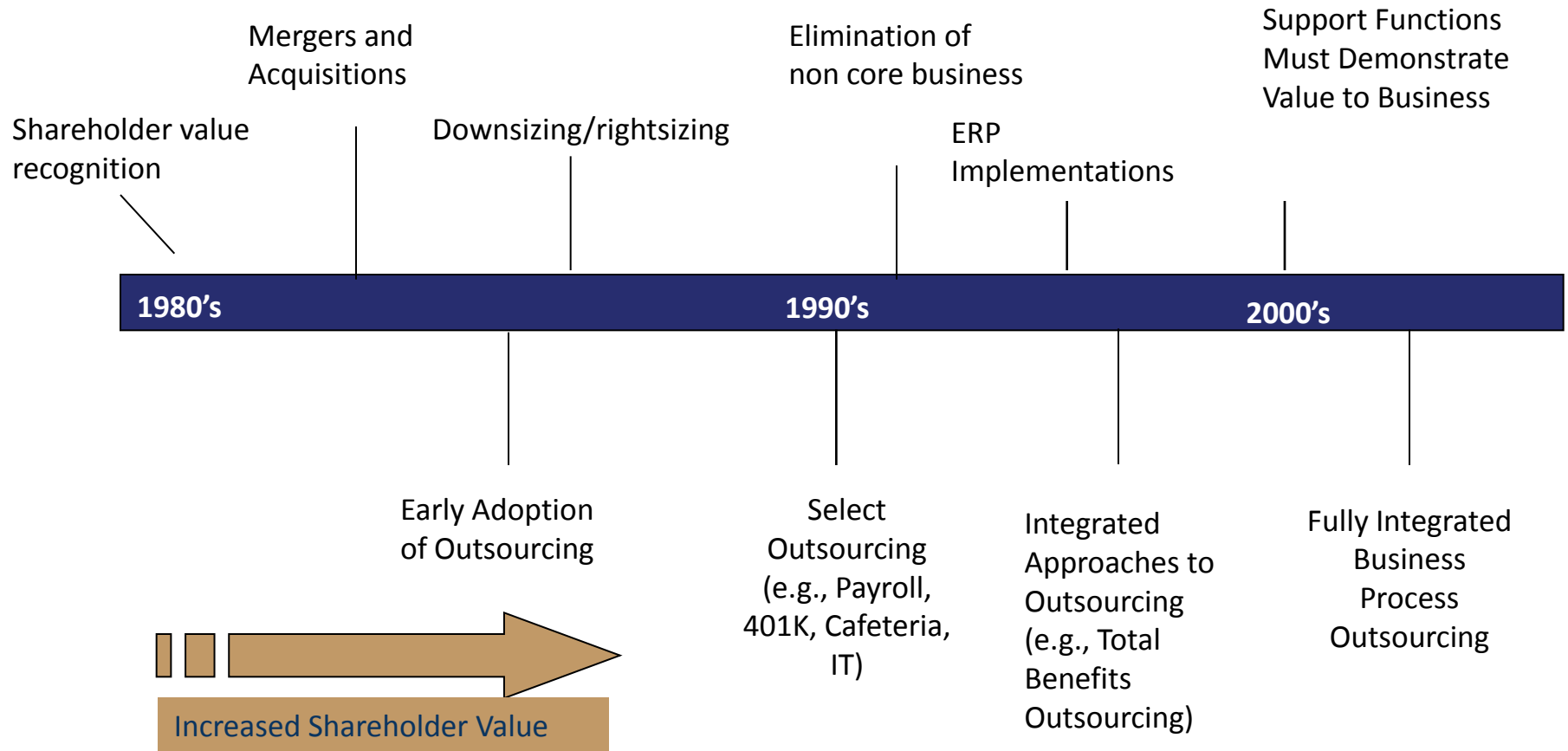
- Introductions and Welcome
- Outsourcing today
- Principles of outsourcing
- What do customers want
- Offshoring
- Global competition landscape
- How to compete and succeed in the global market
- Discussion/questions

Outsourcing Today



- Globalization of businesses
 - New markets
 - New supplier sources
- Economic pressures (countries, companies)
 - Employment
- Risk assessment
 - Alternatives for risk mitigation
- Technology
 - Facilitator
 - Disintermediator

GREAT OPPORTUNITY – LOTS OF COMPETITION



A US\$6 Trillion Global Industry



Across*:

- All Functions... Manufacturing (50%); ITO & BPO (25%); Real Estate & Facility Services (10%); Telecom (5%); Other (10%)
- All Industries... Manufacturing (40%); IT & Services (20%); Financial Services (10%); Pharma (5%); Government (5%); Other (20%)
- Globally... US (50%); Europe (25%); Asia (20%); Other (5%)

Why:

- 56% - Cost Savings; 44% - Other: Skills, Variable Cost Structure, Innovation, Focus (IAOP OWS 2013)

*IAOP Estimates

The Industry's Top Companies*:

- Size: \$1.6B Revenue
- Growth: 6% Globally (In Spite of Continued Economic Pressures)
- Employment: 17,400
- Operations: 11+ countries

Trend:

- 94% See Outsourcing in Growth Mode (IAOP OWS 2013)



*Averages: 2013 Global Outsourcing 100®

SOURCING SPEND

~ 47% of Revenue

~ 1/3 Splits: <\$100k, \$100-500k, >\$500k

Microsoft

MICROSOFT VENDOR PROGRAM

More Than 700 Preferred Vendors

Operational Services:

Compass:

- Catering, Dining, Vending, Conferences
- 200+ Sites Worldwide

PBMS:

- Mail, Freight, Reception, Technology
- ~ 100 Buildings Puget Sound

Business Services:

Accenture:

- AP, Document Management, General Ledger, Procurement
- 95 countries, Controller Workspace

ADP:

- Global Payroll Management
- ~ 21,000 Employees in EMEA & APAC

AMS:

- Recruitment, Contingency Workforce

Microsoft

Customer Services:

Cross-tab:

- Market Research – Concept to Analysis
- Global relationship, On-Offshore Model

Xceed (Egypt):

- X-Box Technical Support across EMEA
- Just 1 Example of Global Network of Customer Support Relationships

Product Services:

Software:

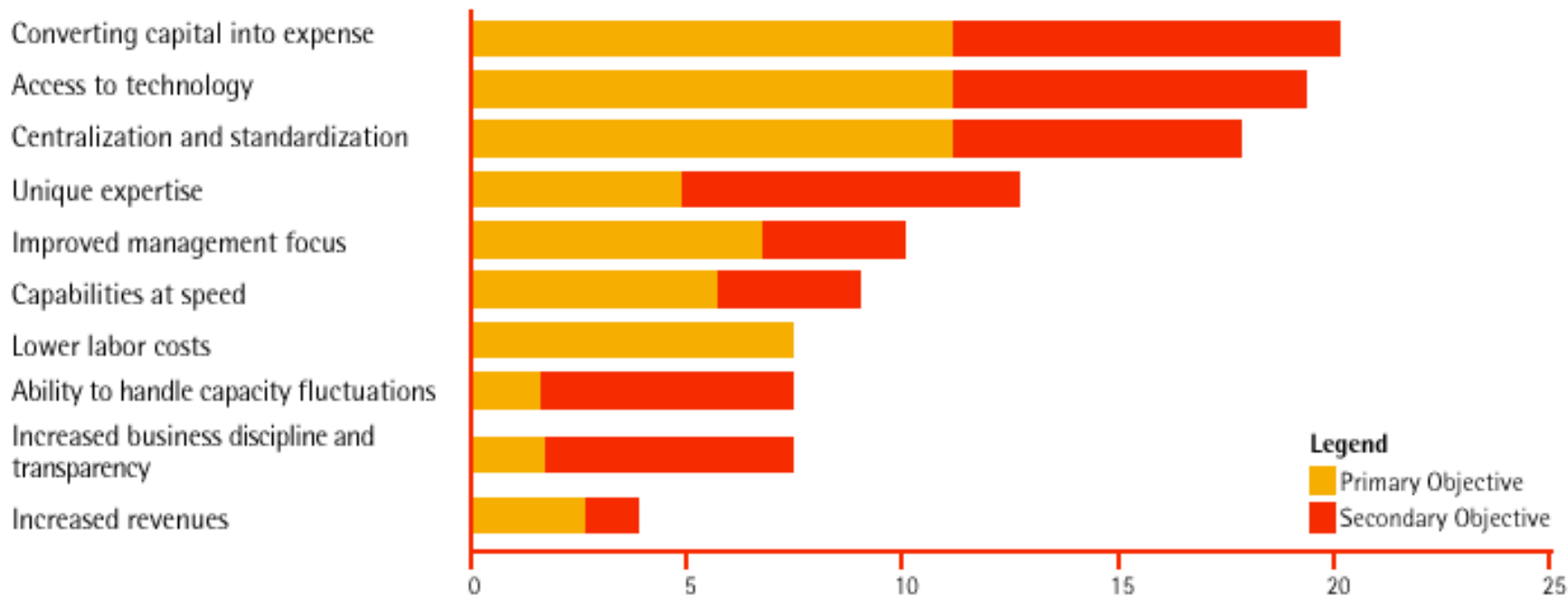
- Beyondsoft, ChinaSoft, Cybage, HiSoft, Harbinger, Inspur, iSoftStone, Lionbridge, MindTree, VancelInfo, Wicresoft ...

Hardware:

- Flextronics, Hitachi ...



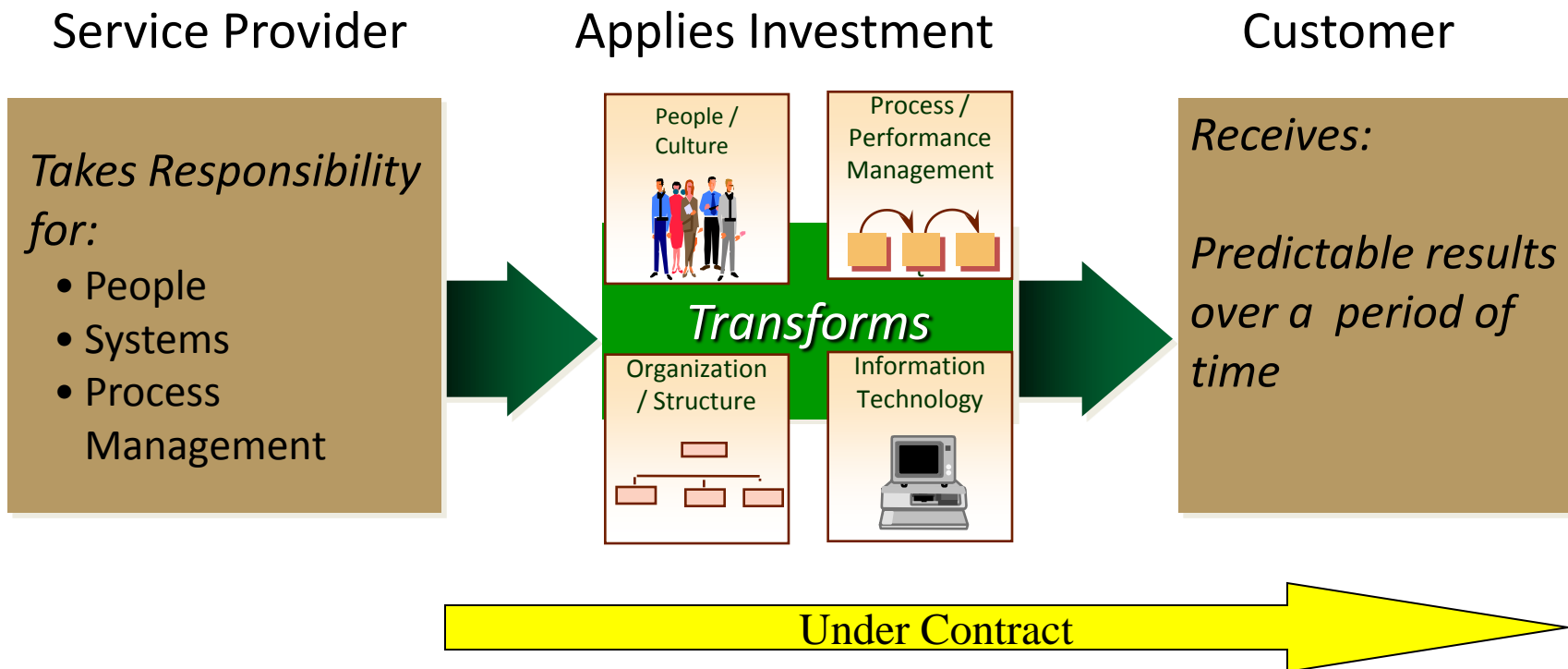
IAOP definition: Outsourcing is a long-term, **results-oriented** business relationship with a specialized 3rd party services provider.

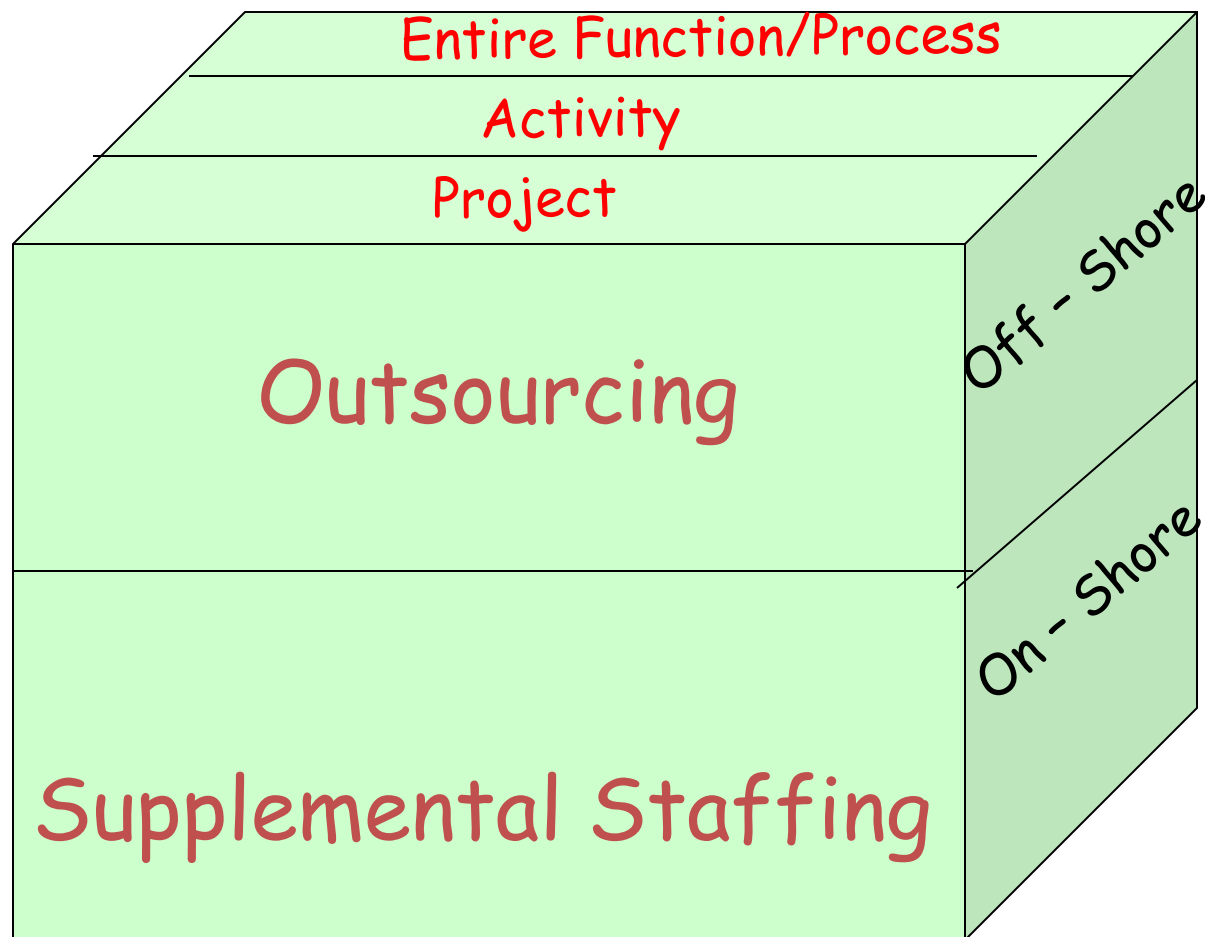


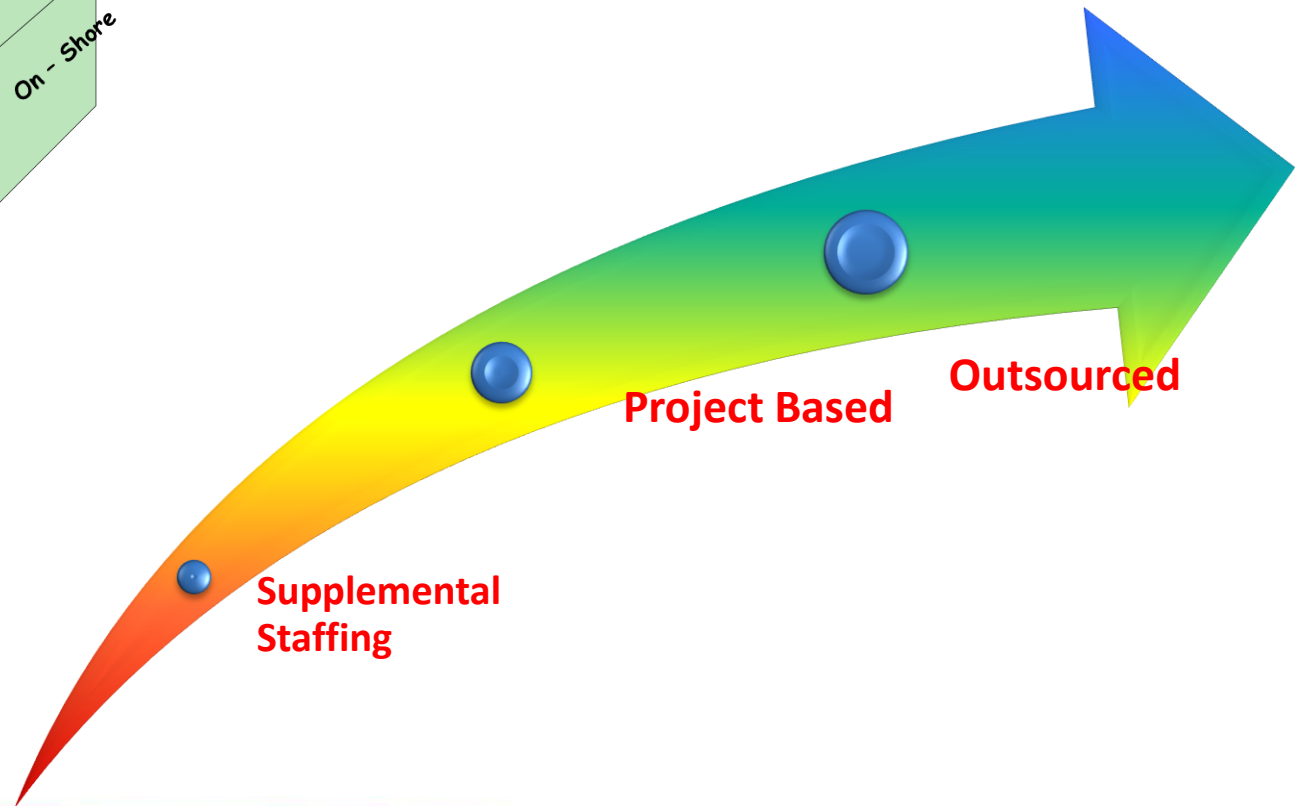
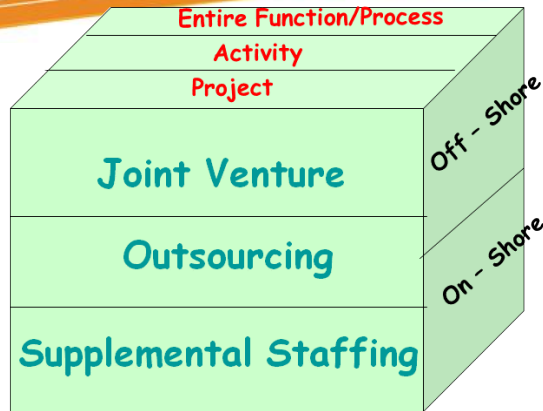
Source: Accenture



Principles of Outsourcing



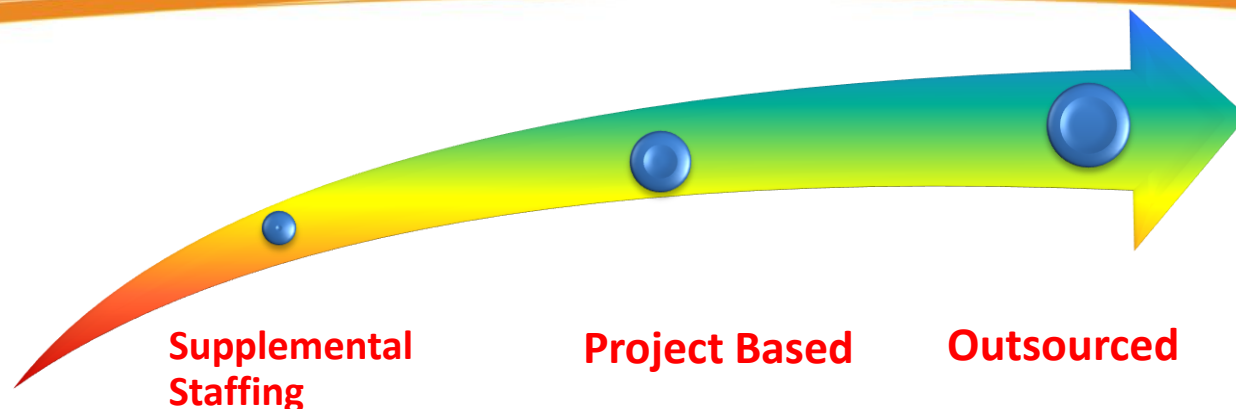






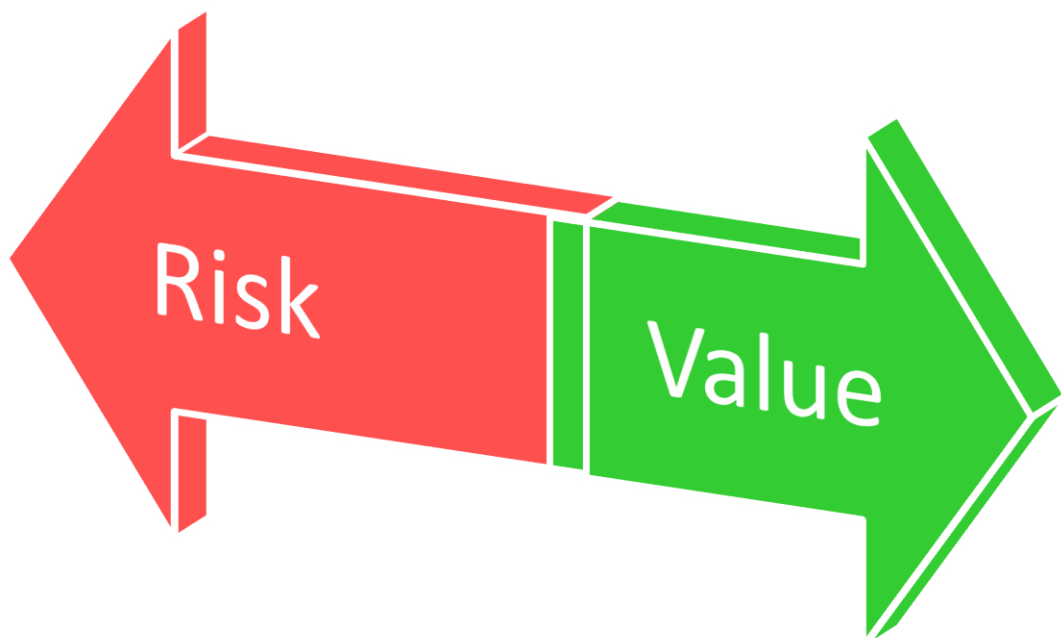
- Provider responsible for providing “acceptable” staffing
- Customer provides methodology, direction, management and is responsible for the outcome
- Provider is accountable only to meet customer’s specifications for the staff – skills and rates
- Customer can select staff and manage turnover when appropriate

- Customer responsible for indicating “what” is required to be done – including time required, cost expected
- Provider responsible for “how” it is done, what staffing is necessary and how the work will be managed – including how much it will “cost”
- Customer doesn’t have any access or rights to select staff engaged in the process

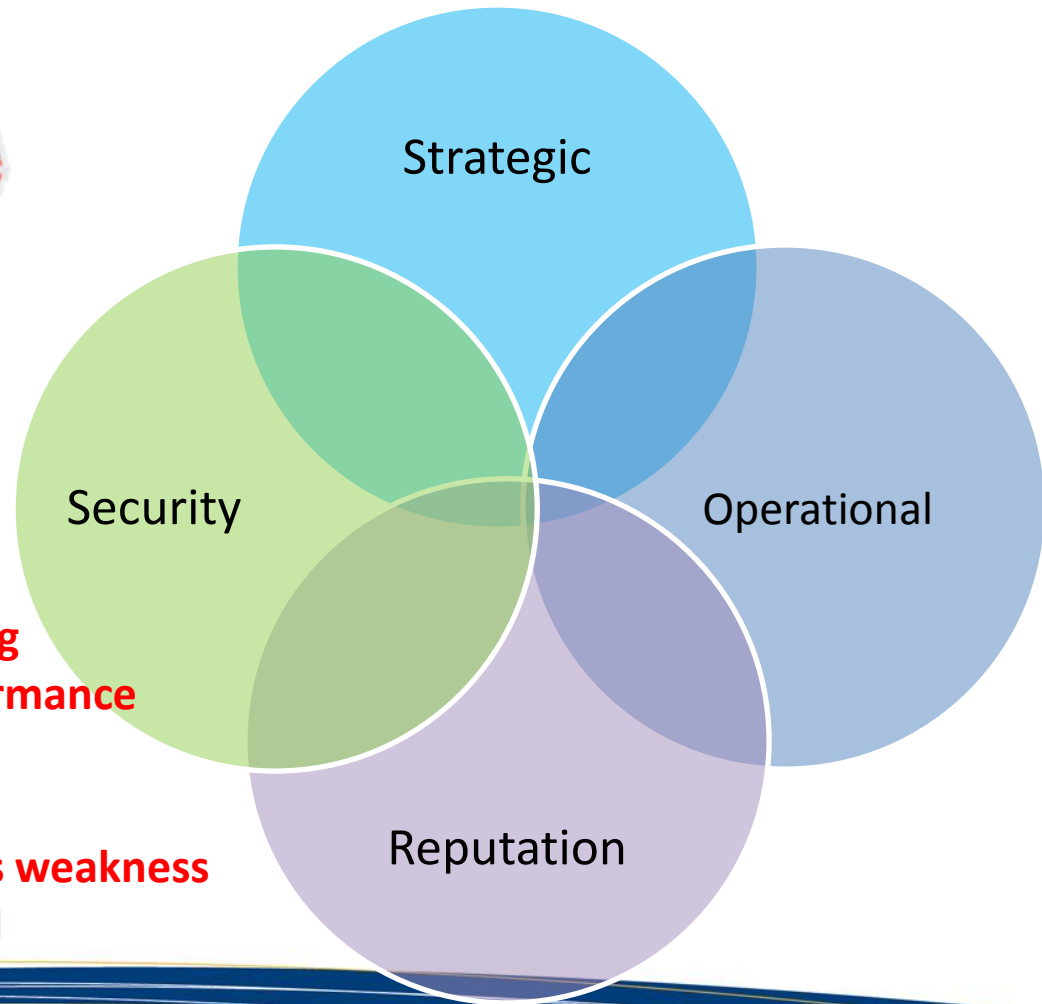


	Supplemental Staffing	Project Based	Outsourced
• Long Term	✗	✓ or ✗	✗
• Contract-based	✓	✓	✓
• Business Processes	✗	✗	✓
• Outside provider (3 rd party)	✓	✓	✓
• Results oriented	✗	✓ or ✗	✓

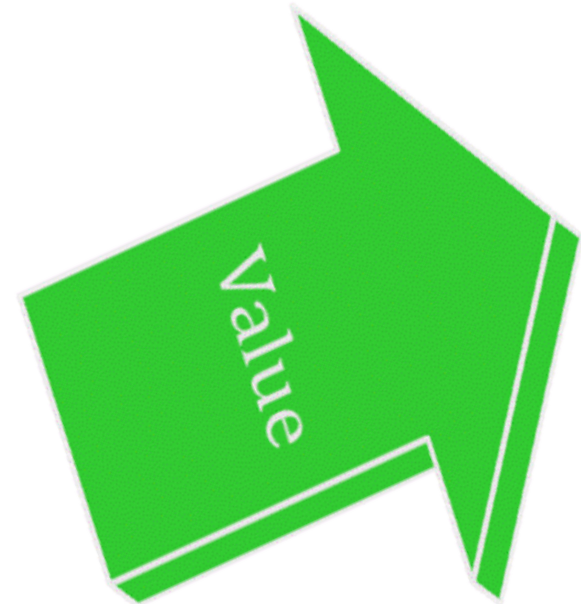
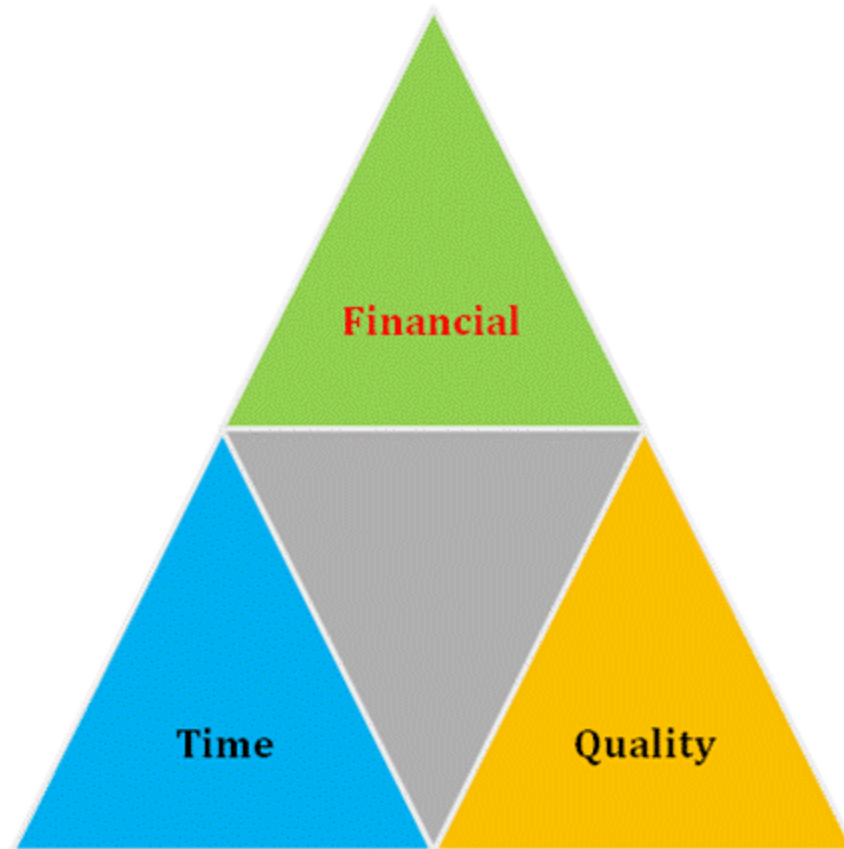
What do customers want



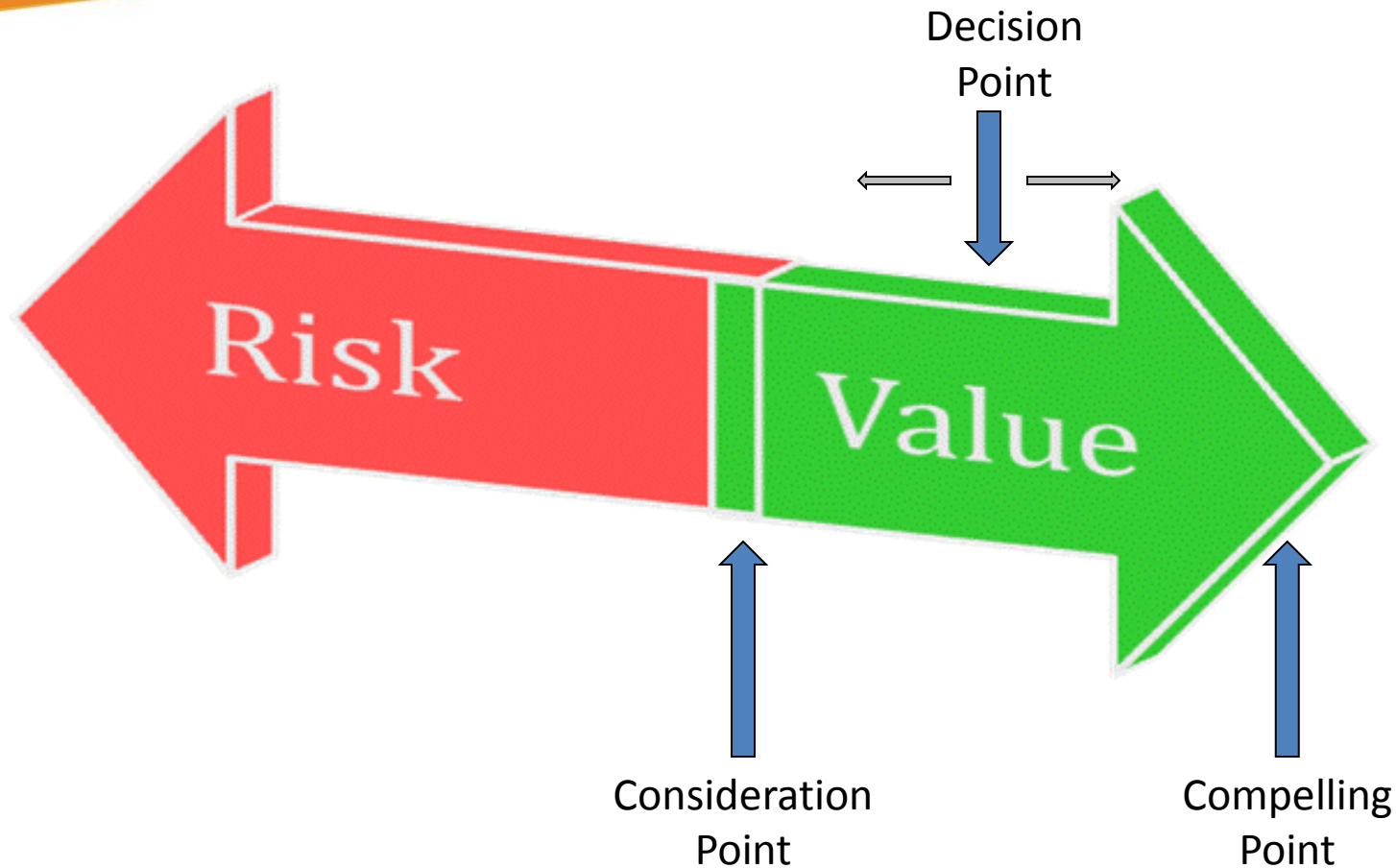
It is a continuum

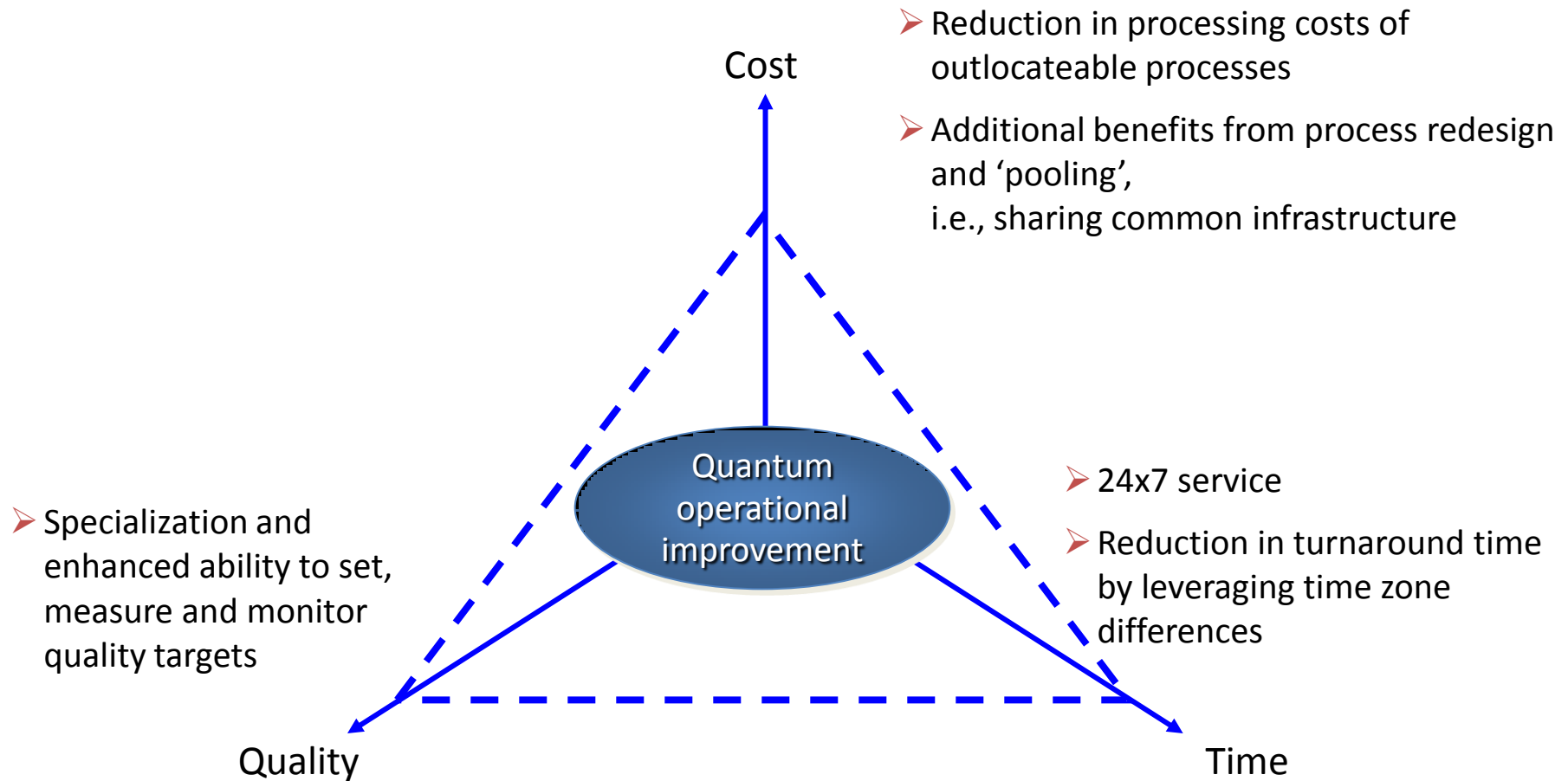


- Strategic decision making
- Operational underperformance
- Transactional difficulties
- Security challenges
- Compliance and controls weakness
- Reputation and goodwill



- Reduce operating costs
- Refocus management attention
- Leverage capital assets
- Obtain predictable results
- Access to difficult skills
- Look for innovation





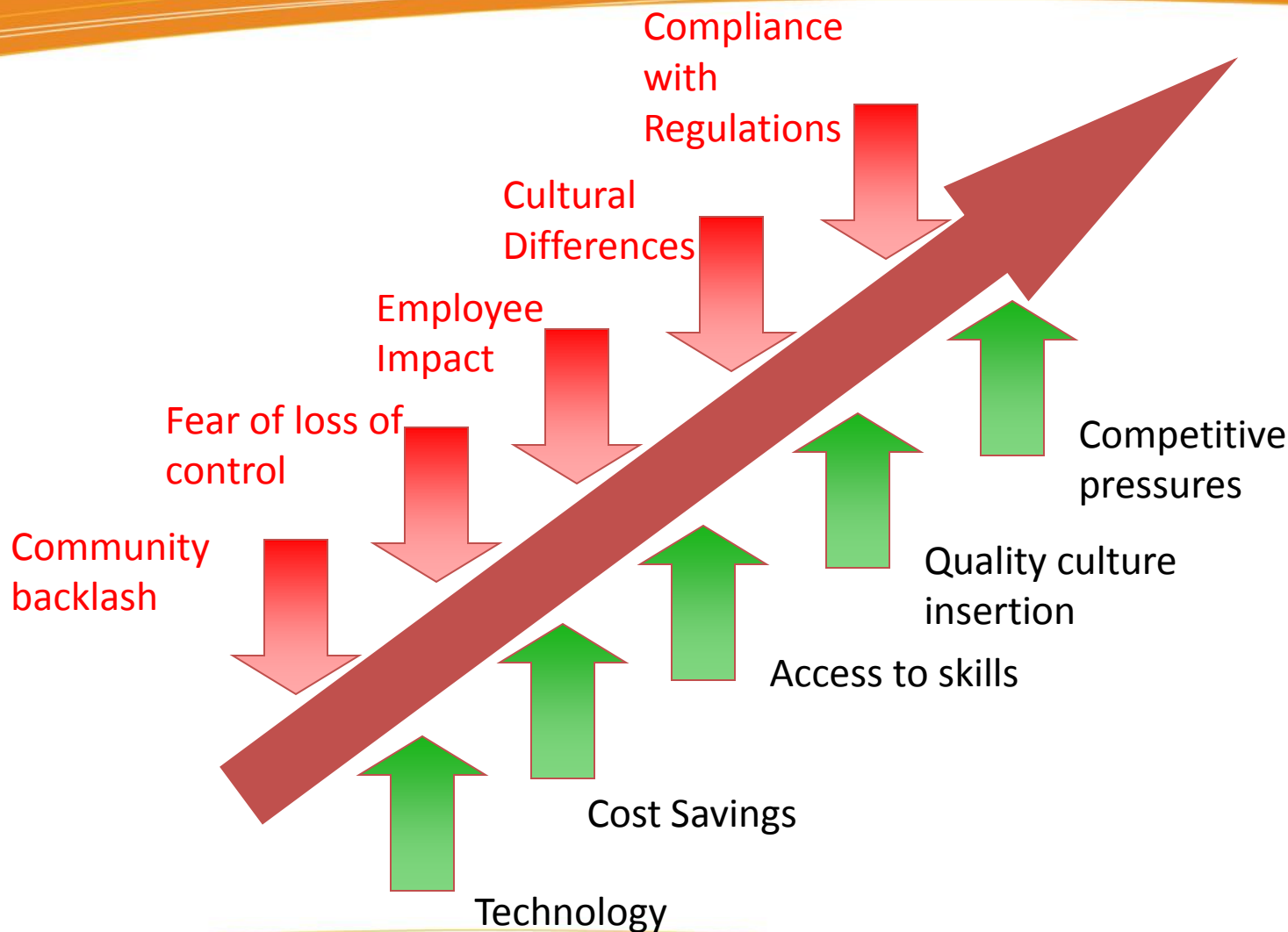
Offshoring

Leveraging skills from a location that is outside of the country where the work is generally done

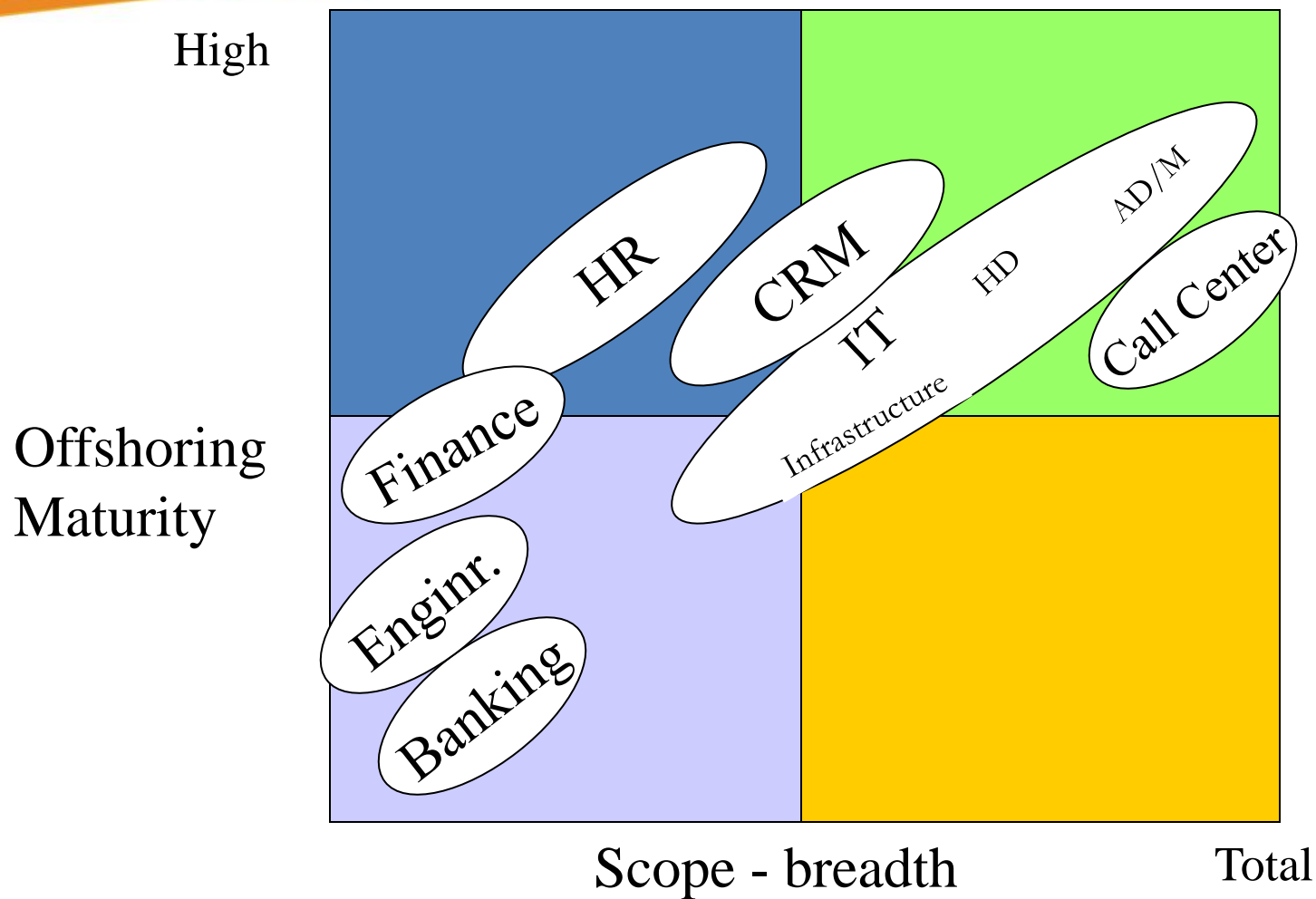
It can be:

- Near shore (such as Costa Rica for USA)
- Far shore (such as India or China or Brasil)
- Using resources “on shore” – as in supplemental staffing
- Using resources “off shore” – also as in supplemental staffing
- An operating unit established there
- Outsourced to a third party

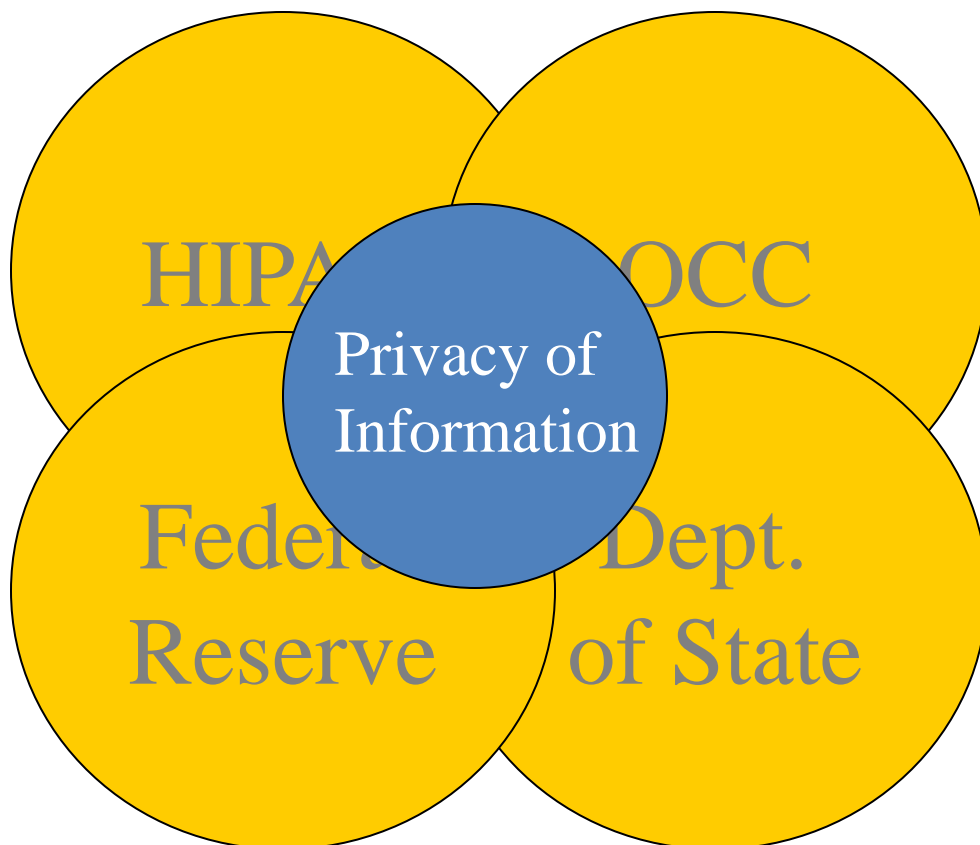
Offshoring – obstacles and drivers



- Natural evolution of “global sourcing” model
- Birthed as a result of:
 - Technology enablement
 - Pressure to acquire skills for Y2K problem
 - Open World Trade Agreements
 - Economic shift in Western countries
- Aggressive entrepreneurs took advantage of it (especially in India)
- Began the economic cycle – offshoring → Market development → Business presence → Offshoring (new models)



Other Regulations



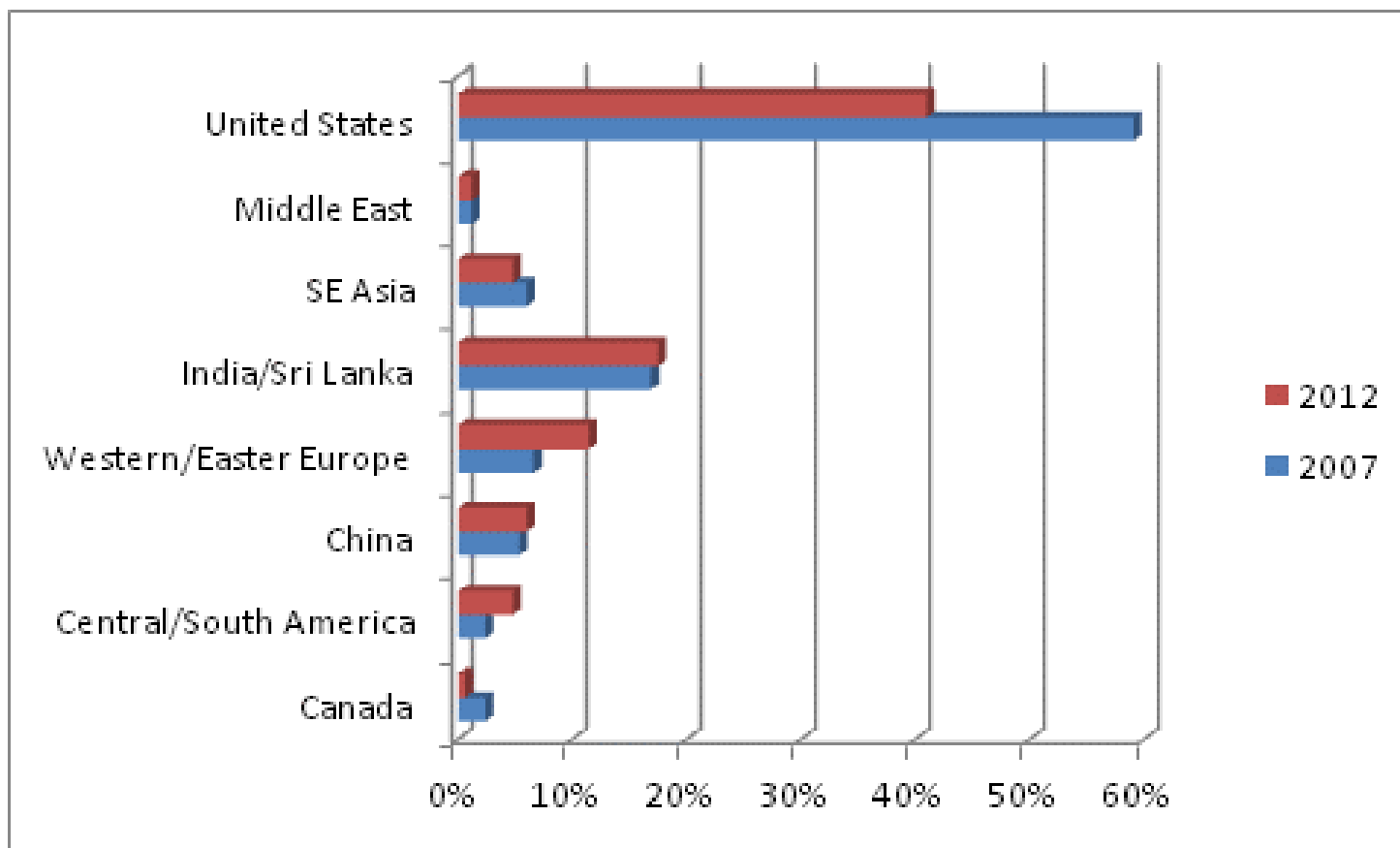
- Title 15, sections 730-774 of the Code of Federal Regulations (Export Administration Regulations)
- Title 22, sections 120 – 130 of the Code of Federal Regulations (International Traffic in Arms Regulations (ITAR))
- Patriot's Act of 2001
- SEC regulations for public companies (disclosure) – including compliance to Sarbanes-Oxley certification
- Other state, federal funding related regulations

Banking & Insurance are the key target industry segments for offshore

Global cost base industry	High	<ul style="list-style-type: none"> • Steel • Chemicals • Ship building 	<ul style="list-style-type: none"> • Utilities • Car manufacturers 	<ul style="list-style-type: none"> • Banking • Insurance
	Medium	<ul style="list-style-type: none"> • Energy equipment • Electronics 	<ul style="list-style-type: none"> • Airlines • Pharmaceuticals • Retailing • Packaged goods • Computer manufacturers 	<ul style="list-style-type: none"> • Telecom
	Low	<ul style="list-style-type: none"> • Aerospace 	<ul style="list-style-type: none"> • Entertainment • Real estate brokerage • Hotels 	<ul style="list-style-type: none"> • E-commerce • SW-producer
		Low	Medium	High
Relative share of remote serviceable processes				

Global Competition (Landscape)

2012 vs. 2007 – Global Outsourcing 100[®] Applicant Countries





➤ Advantages:

- Established infrastructure (selected locations)
- Education feeder system – culture of learning
- English speaking workforce
- Established companies available for outsourcing
- English-American business framework
- (recently) government encouragement
- New “marketing” opportunity for US businesses

❖ Challenges:

- ❖ History of political instability (in the region and within the country)
- ❖ Sudden growth of Offshoring activities
- ❖ Stretched and unreliable physical infrastructure
- ❖ Competitive workforce environment (rising salaries, turnover)
- ❖ “too much” westernization of workforce
- ❖ 9 ½-10 ½ time difference (can be an advantage)¹¹

STRENGTH

- ❖ Low wage rates and qualified talent
- ❖ Established business models
- ❖ Good reputation for delivery of service
- ❖ Global companies with on going investment
- ❖ Quality culture and process orientation

WEAKNESS

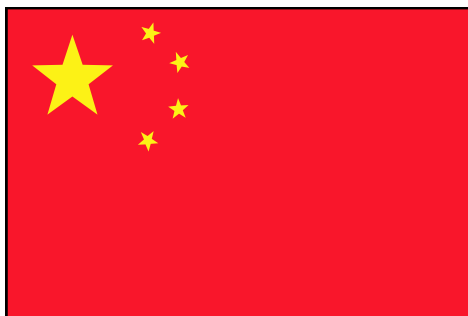
- ❖ No (limited) experience in outsourcing (versus alternate staffing model)
- ❖ Lack of investment in developing business in the Western world (resources, marketing, promotion)
- ❖ Domain expertise (especially in BPO processes and functions)

OPPORTUNITY

- ❖ Value added services (BPO)
- ❖ Expanded service offerings
- ❖ Greater investment opportunities from established US (and other countries) service providers

THREAT

- ❖ Established US service providers (large and small – IBM, Accenture, EDS, ACS, HP....)
- ❖ China and other low cost countries
- ❖ Political conditions

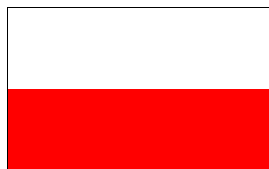


Advantages:

- Competitive wages
- Established infrastructure (selected locations)
- Education feeder system growing
- Active government encouragement
- High growth economy
- New “marketing” opportunity for US businesses

Challenges:

- ❖ Political (economic) environment
- ❖ Recent concerns over cyber security
- ❖ IP protection remains a major issue for certain industries
- ❖ English speaking workforce (getting better)
- ❖ Exposure to US business principles (and certifications)
- ❖ Lack of known, established outsourcing businesses
- ❖ Legal system not pro-business and not well understood
- ❖ Up to 12 hour time difference to US businesses



Advantages:

- Lower wages – compared to developed countries (competing with India-China)
- Education feeder system growing
- Large engineering capability base
- English language acceptance (in certain countries)
- (recently) government encouragement
- Expansion through European Economic Union

Challenges:

- ❖ Political structure still evolving
- ❖ English speaking workforce (in certain countries)
- ❖ Availability of qualified workforce
- ❖ Exposure to US business principles
- ❖ Lack of outsourcing experience



Advantages:

- Lower wage structure
- Education feeder system just beginning to grow
- English language acceptance (in certain countries)
- Established record for doing business with U.S.
- Alternatives for Spanish speaking requirement
- (recently) government encouragement
- Smaller time zone difference with U.S.

Challenges:

- ❖ Lack of robust infrastructure – consistent across territory
- ❖ Limited numbers of qualified resources graduating
- ❖ Political structure still evolving but stable
- ❖ English as a “second” language
- ❖ Lack of outsourcing experience

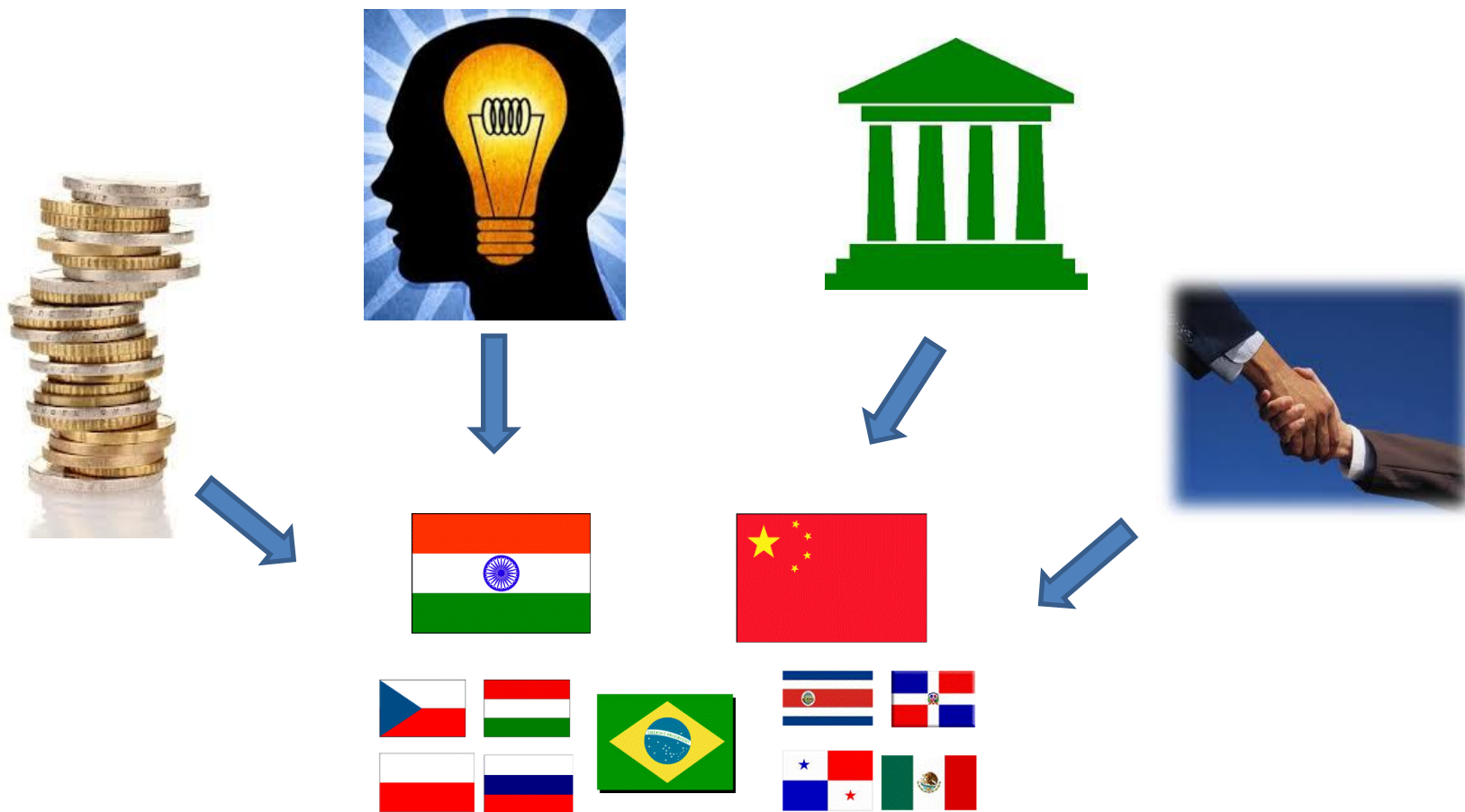


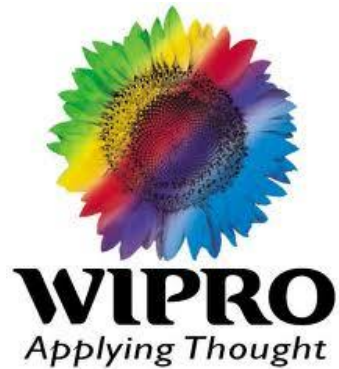
Advantages:

- Established infrastructure
- Relatively lower wages for Americas region
- Education feeder system growing
- Experienced in US business trade (manufacturing mostly)
- Presence of US and multinational businesses
- Relatively close to US time zones
- Growing economy and continuing higher level of investment (in front of World Cup and Olympics)

Challenges:

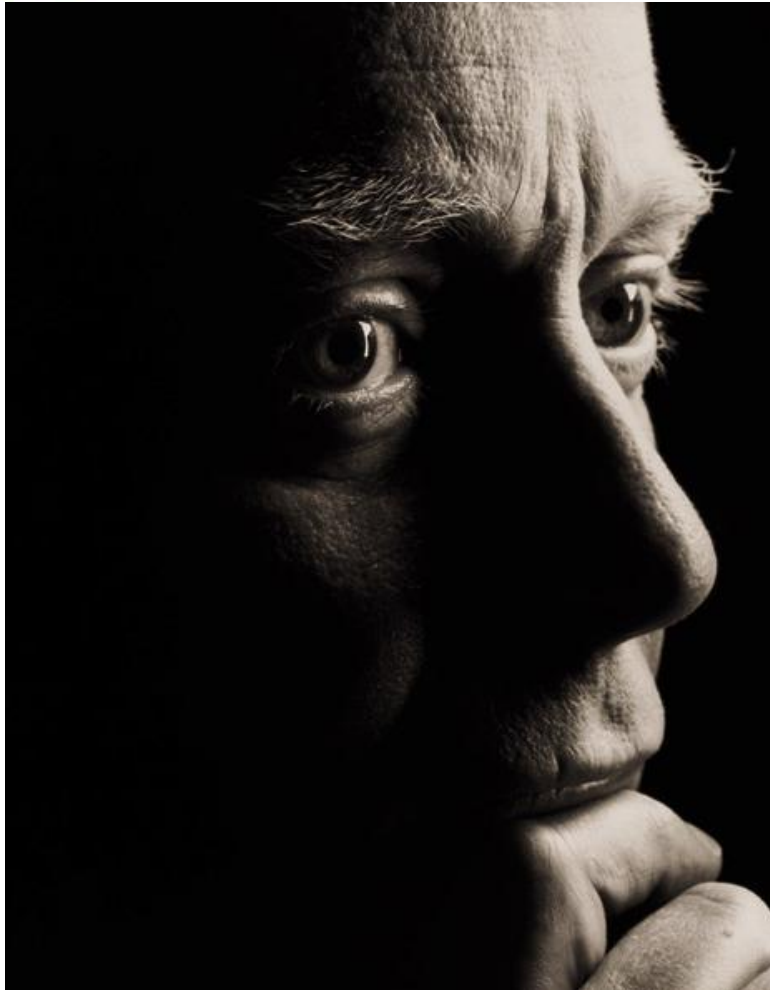
- ❖ English speaking workforce
- ❖ Lacking established service providers
- ❖ Stretched infrastructure (outside trade zones)
- ❖ Economic incentives for attracting non-manufacturing activities





ZARA





Commit to succeed

**Understand the
“game” and become
competitive**



**“THIS IS NOT THE END,
THIS IS NOT EVEN THE BEGINNING OF THE END
THIS IS ONLY THE END OF THE BEGINNING”**

Jagdish Dalal (COP)



Founder and Principal, JDalal Associates, LLC Managing Director, Thought Leadership, IAOP

Jag formed JDalal Associates, LLC in April 2002. JDalal Associates, LLC specializes in consulting in the field of Information Technology and Business Process outsourcing. His deep experience as a business executive who contracted for these services as well as his leadership experience in establishing outsourcing practice for some of the world's largest professional services companies; allow him to bring a unique perspective to consulting. His clients range from Fortune 100 companies to small "start up" companies. He has also been invited by the Indian, Chinese, Japanese, Australian, Brazilian and South African governments to hold conferences in promoting the outsourcing concepts for the local service provider companies.

Prior to forming JDalal Associates, LLC, Jag was the Vice President, e-Business and CIO for Carrier Corporation (a \$12B division of United Technologies Corp.) with responsibilities for worldwide IS and e-business functions. Previously, Jag was a Partner in PricewaterhouseCoopers responsible for Business Process Outsourcing (BPO) in the Technology and Communication industry group. At PwC, he was responsible for the largest BPO deal recorded to date- Nortel Networks outsourced its Human Resources and Procurement functions to PwC under a \$630M (5 year) agreement. Jag also led the "thought leadership" and marketing efforts at PwC in building the BPO brand.

Jag has held senior MIS leadership positions at Xerox, Unisys, Data General, Brookhaven National Laboratory and Teledyne. In 1994, as Vice President of Information Management at Xerox, Jag created the strategy and led the team responsible for a \$3.2B global outsourcing contract for EDS. The strategy and development of this major contract was documented and is now part of a Harvard Business School case study.

He is a noted speaker and publishes extensively on outsourcing, offshore outsourcing, shared services and information technology management topics. Jag's series of lectures on outsourcing have been recognized as "pushing the envelope" in strategic thinking about outsourcing, while providing a practical framework for businesses- users and providers alike. He has been interviewed and quoted by Wall Street Journal®, Fortune®, TIME®, Newsweek®, Financial Times®, Times of India®, South China Morning Post as well as CBS News and NPR®; for his commentary on outsourcing and management strategies.

Jag has received numerous awards and recognition for his contributions in the field of Information technology management and outsourcing. He was a finalist for the World Outsourcing Achievement Award and was honored at the World Outsourcing Conference in 2001. Jag has also been recognized as one of the "2003 sourcing pros to know" by the leading sourcing magazine – iSource. As Managing Director for Thought Leadership for IAOP (International Association of Outsourcing Professionals), Jag has created the curricula, text book and testing process for becoming a Certified Outsourcing Professional and it is used globally by outsourcing professionals. Jag has been a lead judge for the IAOP®-Fortune® magazine's Global Outsourcing 100 list.



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