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Outsourcing Consolidation: - Trends, Predictions, and Impacts

IAOP Texas Chapter Meeting – June 2, 2010

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North America Public Sector

Agenda

- Outsourcing Marketplace (2009 & Q1-2010)
- Outsourcing Industry Consolidation
- Panel Discussion – Impact on Texas & Broader Market

At a Glance

TPI is the sourcing data and advisory leader with a passion for results and the most recognized global brand.

Revenue

2009 revenues were approximately US \$133 million. This represents about a 25% compound annual growth rate for the past 10 years.

Leadership

Investment analyst community's source for outsourcing market information:

- > TPI Index
- > TPI Prevalence Database™

Engagements

Since 1989 we have:

- > Assisted with 3,566 engagements
- > Completed 886 transactions valued at more than US\$306B



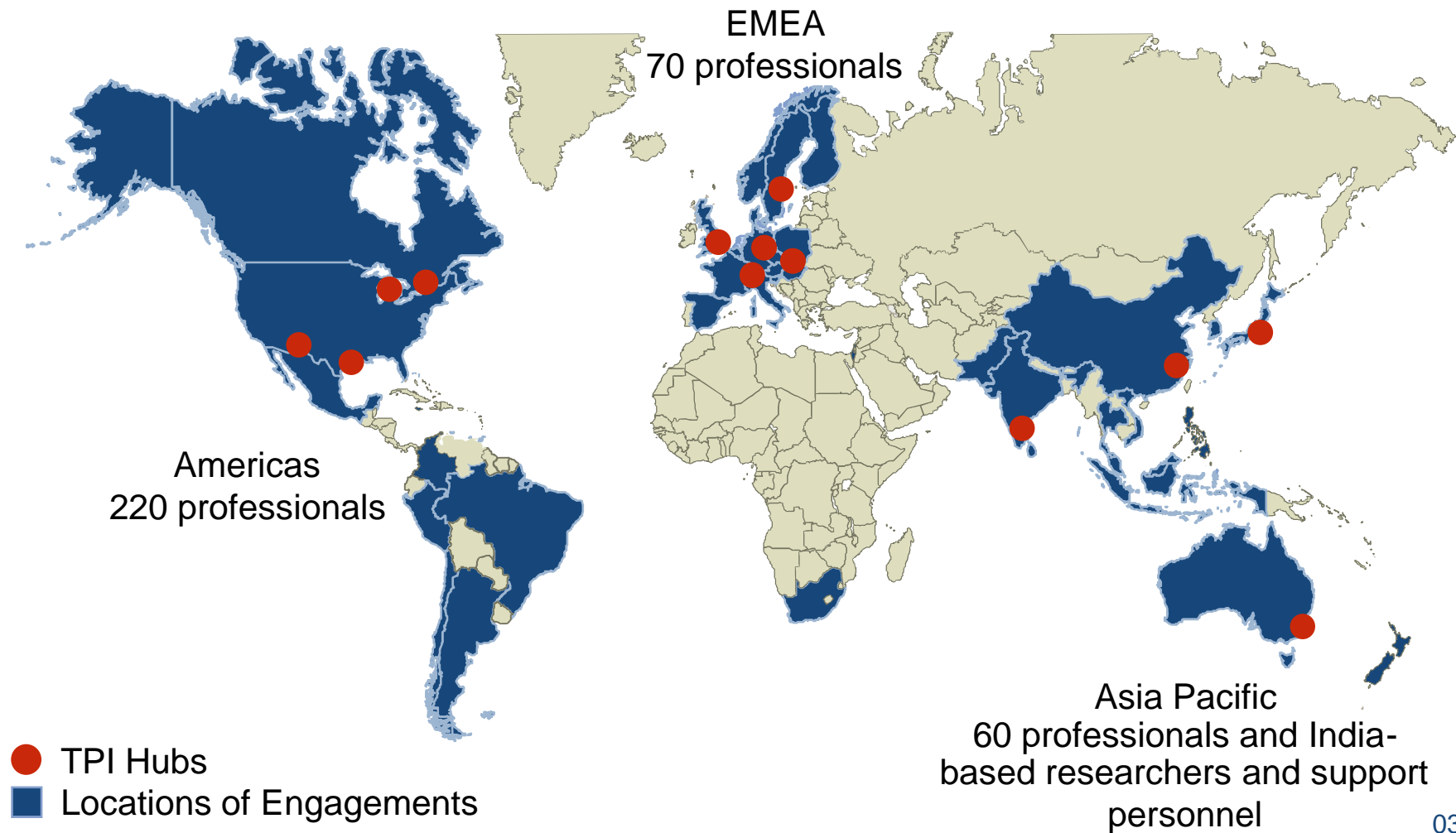
Clients

Today, more than 80% of our revenue comes from previous clients of TPI.

We have advised 45% of the world's 250 largest companies.

The Largest Sourcing Advisory Firm

TPI is the largest sourcing advisory firm, with experts based in the Americas, Asia Pacific and EMEA. We have the resources to assist you in any locality throughout the world.

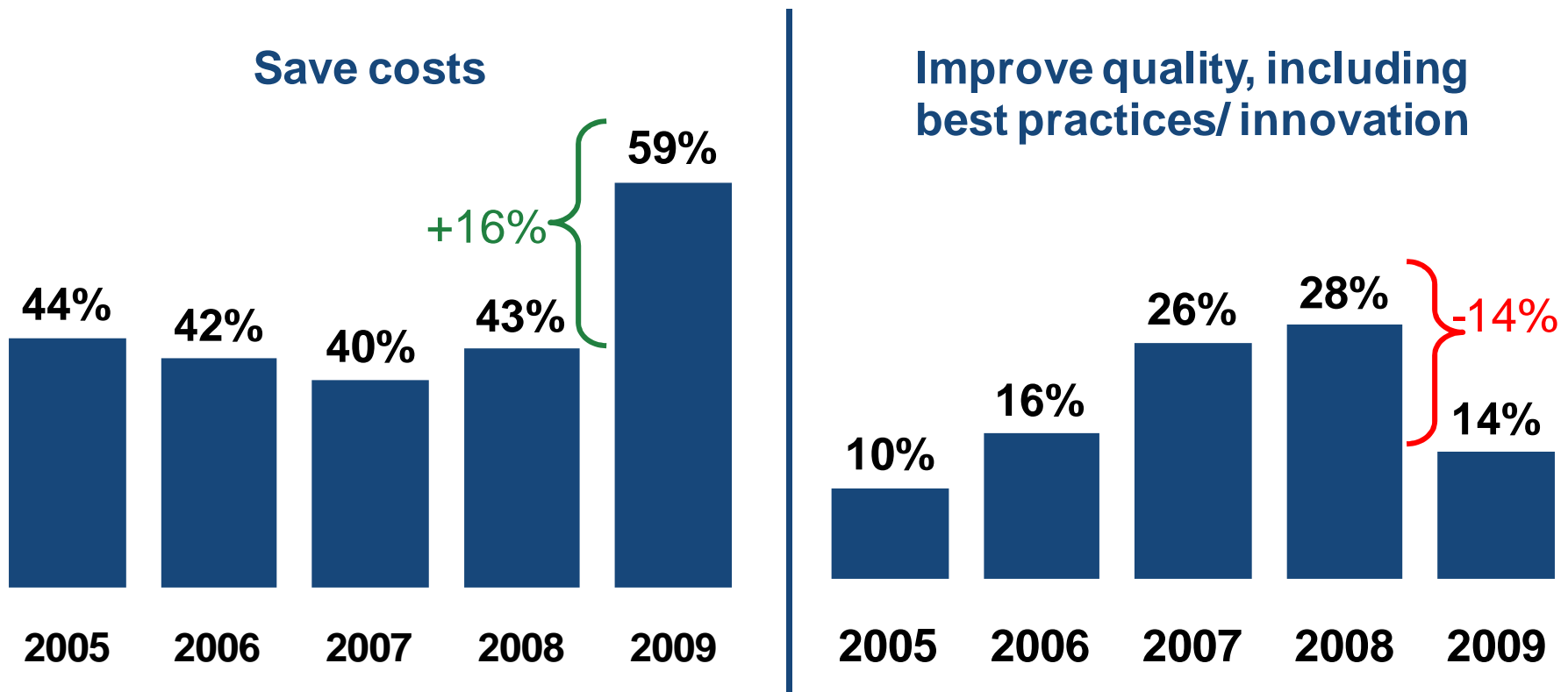


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2009 Reflections: Economic Factors and Sourcing Decisions

Fall-out of “The Great Recession”

- TPI saw the reason that clients outsource change dramatically in 2009, with a much stronger focus on “reducing costs”
- Improving quality had been rising in importance since 2005 but took a back seat in 2009



2010 - Marketplace Update

Restructuring contracts drove strong first-quarter results.

- TCV of \$19.5 billion, up 25% Y/Y
- 109 total contracts, down 21% Y/Y
- Restructuring activity accounted for 42% of the market, the highest ever, and three of four mega-deals
- Restructurings also fueled strong TCV growth in EMEA and the Americas
- By scope, ITO dominated results, while BPO continued to decline
- Key verticals: Financial Services down, Manufacturing and Travel, Transportation and Hospitality up
- Unusually large number of delayed contracts in pipeline now “cleared”

Conclusions

- Market’s growth driven by unusually high level of restructuring activity
- Recovery continuing slowly and unevenly

Looking Ahead...

TPI believe that buyers and providers will be positioning to enhance their respective competitive positions through participation in the growing industry of outsourcing.

1. **Election Year** will influence Boards and CEO focus on PR, DR and HR impacts pre & post outsourcing decisions amid unemployment and political uncertainty
2. **Cloud Computing** – market adoption will be led by small, mid-sized companies out of operational necessity and are not constrained by legacy platforms
3. **Governance**...clients and providers continue to struggle with performing all governance functions well to mitigate value leakage; technology enablement gains traction ; multi-sourcing malaise may lead to portfolio rationalization; cloud solutions a new disruptor
4. **Green Sourcing** will be driven by the greenback and not by legislation/social factors
5. **Managed Network Services** – with the inability of most carriers to provide global solutions outside of their own facility footprint and service quality – service providers integrators will step back in the mix of providing telecommunication services
6. **Inflation** – clients will be re-examining their outsourcing contracts for exposure in case inflation returns; service provider global service delivery expansion plan accelerate
7. **Buyers will continue to demand** the industry step up to the challenge of data privacy and security

Looking Ahead - 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

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

Looking Ahead - The Future of Captives

The pace of establishing new captive offshore operations slowing, largely due to the relatively attractive alternative presented by outsourcing.

Captive Outlook

- Captive Centers will continue to be employed medium term/long term; fewer new Captives will be seen
- Captives will be integrated into sourcing strategies in order to build a “process and product innovation network” (R&D centers, Design centers, Analytics KPO units, etc.)
- Captives have a distinct life cycle and evolve in one of several ways:
 - Fully-integrated “super captives”
 - Outsource and manage their lower end commodity pieces through local i2i (India to India) contracting
 - Sell – either via a “reverse BOT” to a Provider or to a Private Equity buyer. However, currently ~ 5% of the captives are actually going this route.

Factors Influencing Captive Sourcing Decisions

- Desire to start small and grow with experience
- Perceived complexity/uniqueness of the work processes; perceived regulatory drivers
- Desire to establish brand identity in new markets
- Concerns relating to intellectual property
- Risks relating to retention/training via outsourcing
- Belief that higher percentage of available cost savings can be captured
- Ambition to couple KSO with horizontal support processes to create scale

KSO (Knowledge Services Offshoring): a means of creating “internal scale” in offshore destinations is fueling the continued adoption of Captive Service Centers.

Outsourcing Industry Provider Consolidation

Legacy hardware companies have led consolidation activity, although non-hardware companies have also been players.



Panel Discussion – *Trends, Predictions and Impact*

- What is behind/driving consolidation?
- What are the impacts?
- What is the buy-side perspective?
- What is the sell-side perspective?
- What does this mean to Texas?

“The best way to predict the future is to invent it.” - Alan Kay

“Prediction is very difficult, especially about the future.” - Niels Bohr

“The future ain't what it used to be.” -Yogi Berra



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