HunterMaclean

HunterMaclean

Trends in Outsourcing in the Great Recession

ITechLaw 2010 World Technology Law Conference
May 20-21, 2010
Boston, Massachusetts

Diana J.P. McKenzie
Partner and Chair, Information Technology & Outsourcing Practice Group
Hunter Maclean
Direct: 912-238-2627
Cell: 847-370-1121
Fax: 912-236-4936
Email: dmckenzie@huntermaclean.com

ITECHLAW™
INTERNATIONAL TECHNOLOGY LAW ASSOCIATION

HunterMaclean

Outsourcing 2009

Almost 90% of c

costs in 2009

- Pricewaterhouse Coopers

13th Annual Global CEO Survey

Outsourcing 2009

- 35% of companies outsourced a business process or function

  - Pricewatherhouse Coopers

  13th Annual Global CEO Survey

- Contract renegotiations increased

  - Compass America

HunterMaclean

Trends

IT

BPO

2009

Total contract value = $56 billion

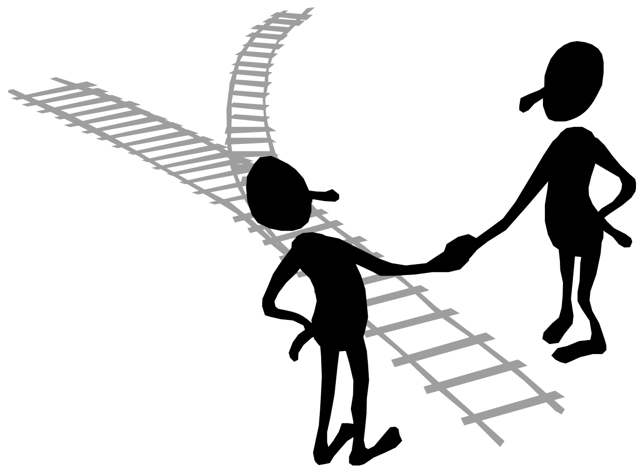
Steady at $54-$56 billion since 2006

Total contract value = $18.5 billion

Lowest since 2001

Source – TPI Index, 2009

Trends



Why?

1. Many providers cut costs too low during recession and need assistance.
2. Larger or combined companies are better able to absorb losses.
3. Consolidated providers can cover more niche markets.
4. Outsourcers are realizing that multi-sourcing means multi-managing, and want one company to cover multiple aspects of business.
1. Large companies without outsourcing divisions do not want to create one, so they buy one.

<u>**Consolidation and Acquisition**</u>

EDS → HP

Perot → Dell

ACS → Xerox

HunterMaclean

Trends

Many commentators believe that deals cobbled together quickly to cut costs during the recession will unravel, leading to an increase in disputes.

HunterMaclean

IT Outsourcing Destinations

Current	2010	2009	2008	Future	2010	2009	2008
U.S.	11%	8%	N/A	U.S.	2%	22%	N/A
Canada	11%	4%	17%	Canada	2%	5%	4%
China	44%	19%	46%	China	28%	16%	23%
Eastern Europe	17%	12%	19%	Eastern Europe	11%	3%	4%
India	36%	50%	60%	India	20%	13%	30%
Latin America	22%	8%	19%	Latin America	4%	7%	6%
Southeast Asia	36%	31%	50%	Southeast Asia	22%	7%	22%
Western Europe	22%	19%	21%	Western Europe	0%	6%	10%

Source: BDO 2010 Technology Outlook Survey

HunterMaclean

Outsourcing 2010

Most senior business executives' priorities shifting from cost cutting to revenue growth in 2010

- Gartner CEO and Business Executive Survey (Oct.-Nov. 2009)

Trends

- Cost cutting remains a priority
- Emphasis on quality
- Higher volume of deals
- Smaller dollar value per deal
- Shorter time to close deal
- More flexibility built into agreements

HunterMaclean

Trends

- Some renegotiations continue
- 422 Outsourcing contracts with TCV of $15 billion expected to expire in 2010 (40% increase over TCV of contracts expiring last year).
  - These are large contracts likely to be spread over many niche providers (one reason for industry consolidation)

Source – TPI Index, 2009

HunterMaclean

CEO and Senior Business Executive Priorities

2009	2010
1. Cut costs through efficiency	1. Retain customers; enhance relationships
2. Retain customers; enhance relationships	2. Maintain competitive edge
3. Attract new customers	3. Attract new customers
4. Maintain competitive edge	4. Attract/retain talent
5. Build responsive, flexible company	5. Cut costs through efficiency

Source - Gartner CEO and Business Executive Survey (Oct.-Nov. 2009)

Economic Recovery - LUV

- Europe – slow L-shaped recovery
- United States – slow U-shaped recovery
- Brazil, Russia, India, China (BRIC) – faster V-shaped recovery

Source - The Economist

HunterMaclean

EU Nearshoring

Ukraine
Romania
Slovakia

U.S. - Second most spoken language is Spanish; Hispanic population = 47 Million

U.S. Nearshoring

Chile (NY time zone)
Mexico
Brazil
Costa Rica
Argentina
Uruguay

- 2009 A.T. Kearney Global Services Location Index Top 50

Egypt
South Africa

Latin America –
Fastest growing outsourcing industry in the world - KPMG

↑
India –
Continued dominance

← China – Increasing dominance

Philippines –
← Increasing BPO

HunterMaclean

Diana J.P. McKenzie
Partner and Chair, Information Technology & Outsourcing Practice Group
HunterMaclean
200 E. Saint Julian Street
Post Office Box 9848
Savannah, GA 31412-0048
Direct: 912-238-2627
Cell: 847-370-1121
Fax: 912-236-4936
Email: dmckenzie@huntermaclean.com