

# A new year ray of hope



By Dr Alan G. Downe

ECONOMIC recovery. The phrase sounds pretty darn nice, doesn't it? And after the horrible year that just ended, there's probably not an outsourcing person around who hasn't included it as an item on their New Year's wish-list.

Well, folks, there is a ray of hope on the horizon. Some early signals are flickering to suggest that the current downturn – the longest economic crisis in the United States since the Great Depression and a two-year monkey on the backs of global markets – may finally be drawing to a fragile close.

At this point, we seem to have avoided the feared collapse of global financial systems and, in the last quarter of 2009, most major economies moved from contraction to expansion for the first time in over a year. December job growth statistics from the US have been encouraging. There have been optimistic statements, in advance of London's upcoming IBDG European IT Directors Annual Strategy Meeting, that infotech sectors are limping back to normalcy. And the International Association of Outsourcing Professionals (IAOP) just predicted that a flurry of delayed outsourcing deals is expected to get the green light and start moving quickly through sourcing and RFP stages early in 2010.

A high dose of caution is still in order, though. As promisingly as we all want to interpret these indicators, the economy remains shaky. According to Dr. Heidi Shierholz of the Economic Policy Institute in Washington DC there is "finally some healing in the labour market, as indicated by both the increase in hours and mostly steady payroll employment".

He said: "Unemployment, however, is expected to continue on an upward trend until we start adding jobs, in a healthy way, which will likely not happen until next spring or summer."

Burton Crapps is Managing Director of the Atlanta-based Purlieu Solutions Group and has spent his last 20 years working in just about every global software services and BPO niche there is. He agrees with Dr. Shierholz: "From a global viewpoint, indeed, Q4/2009 has been fragile in



**Crapps ... 'It will be important in 2010 to find partners that provide extra value and innovative services.'**

recovery at best, and non-existent in many global and market sectors. The news from the US of 10% employment simply does not reflect the reality of the situation, where in fact more than 20% of the workforce are without work, or are working for subsistence-level compensation and simply not recovering."

And even if, or when, the effects of an improved economic forecast begin to impact on outsourcing business, players will find a lot has changed. Continuing economic uncertainty will motivate client firms

to demand shorter term contracts, currency exchange protection and the flexibility to dissolve relationships quickly.

Watch for lots of merger activity as Outsource Service Providers (OSPs) try to ramp up for larger scale projects and a move up the value chain. Belt-tightening pressures over the last two years have undoubtedly damaged relationships between OSPs and even their best clients, so current-year re-negotiations will have to be done tenderly, with an increased focus on rebuilding priorities for collaboration and value.

This last trend, according to Crapps, is not necessarily a bad thing. More than ever before, he predicts, companies will be on the look-out for "partners that can provide extra value, innovative services that are outside the traditional, and companies with visionary leadership".

He added: "2010 and beyond will force all of us to re-think the leadership of companies, and break out of the traditional thinking that led to our current situation. I believe that companies must link with BPO

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partners that are able to see and sustain beyond the ordinary and lead into new market areas.”

And, in fact, there's a crop of BPO firms that's positioning itself to do exactly that. Brazilian-based CPM Braxis is one of them. The result of a 2007 merger between CPM and Braxis, two of Brazil's largest IT services companies, it has averaged a 25% annual growth rate since the merger, and has leapfrogged into 33rd place on the FinTech 100 ranking of technology service leaders in the financial vertical and 28th place on IAOP's Global Outsourcing 100.

Not bad performance for recessionary times. Its Q4/2009 take-over of Dimensi, a big mover and shaker in the Brazilian enterprise performance innovation and business intelligence spheres, is only bound to strengthen CPM Braxis's capacity to offer full-service one-stop shopping for BPO and ITO services.

Softtek and Qualfon are two Mexican companies that bear watching, the former in application-related services, IT infrastructure and software products, and the latter in contact centre outsourcing.

Both have flown mostly under the radar through the dismal economic times, quietly building a presence primarily in South and Central America. They're now poised to expand an international client base that has already included heavyweights like Citibank, HSBC, HP, BMW and GM.

Another hot corporate prospect

**Joining hands ... Watch for lots of merger activity as Outsourcing Service Providers try to ramp up for larger scale projects and move up the value chain.**

for the early-recovery period is Annex Global Services. Headquartered in Celebration, Florida – just outside Orlando – with a growing footprint in Southeast Asia, the Middle East and both North and South America. This new-comer is intriguing not only because of its wide range of traditional outsource service offerings but also because of its innovative approach to content management as a well-rounded provision for each individual client. They have recently landed some huge global companies out of the gate, and are expected to make a major splash in the market throughout Q1-Q2/2010.

Notice anything about these OSPs? All four are aggressively marketing their placement in new nearshore locations in the southerly Americas, maximising geographic advantages in places like Monterrey (Mexico), Buenos Aires (Argentina), Heredia (Costa Rica), São Paulo and Rio de Janeiro (Brazil) ... even in Celebration, Florida.

This, in fact, signals a geographic shift about which many observers were already wound up even before the economy went for a slide. Destinations-of-choice during the post-recession recovery are continuing to shift away from 1990s hotspots in India. It only makes sense. During a period of fragile uncertainty, companies are more likely to want to keep outsourced operations a little closer to home.

Indian giants Tata Consultancy Services (TCS), Infosys and Wipro

realised this awhile ago and have not only established themselves in emerging outsourcing locations in Latin America and Eastern Europe, but have emphasised hiring locals to polish their image in economies reeling from job losses.

“I do in fact believe that many US firms are looking to South America for outsourcing as opposed to India,” said Burton Crapps. “Regrettably, we all realise that the quality of the India BPO services market has declined in recent years, and the economic downturn has alerted many US companies to look for alternatives. New players like Qualfon and Annex may find that a much friendlier USA market is ready to embrace a nearshoring model.”

He added: “I believe that even these companies however, must focus on providing additional and innovative BPO services to be able to gain the larger market-share as the pull-back on outsourcing of the past six to nine months has had more to do with value than location.”

More flexible business models, a greater focus on innovation, up-and-coming trendsetters and fresh outsourcing destinations – even in an environment of fragile recovery, 2010 could be a pretty exciting ride.

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