

## PRESS RELEASE

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### Outsourcing on the rise - but trouble may lie ahead

*~ Outsourcing becoming a necessary evil for business sector recovery and public sector spending reform ~*

The impact of the economic recession has been to increase the appetite for more outsourcing, **up 20% from last year**, but not necessarily offshoring, to the dismay of offshore supplier organisations, according to Op2i's Outsourcing 2010 survey report released today.

Whilst interest in outsourcing has increased, focus has yet again shifted to cost reduction, with suppliers pressured to deliver more for less – the U turn from strategic to tactical outsourcing has the potential to **push the outsourcing industry back a decade**, if the industry does not heed the warnings.

There's been a shift in the perception of the main driver for outsourcing, away from productivity and efficiency (**from 40% to 34%**) towards cost cutting (**from 46% to 58%**).

Both improved performance and quality appear to have dropped **from 20% and 13% to 13% and 5% respectively**. With a race to deliver services at the lowest cost, performance and quality appear to have been sacrificed. This may well have a detrimental effect in the longer run, as the market picks up and customers seek to differentiate based on quality and performance.

Whereas organisations were happy to invest upfront in transition and transformation activities with payback within 3 to 5 years, customers now expect payback within 18 months, and ideally don't want to invest / spend any money upfront. The public sector seems hell bent on following a similar course.

With the success rate of outsourcing somewhere in the range **40-60%**, (failing programmes being the result of poor decision or programme governance) we are likely to see the failure rate rise as more organisations extend this cost focus to decision and programme governance.

The best approach to reducing the risks from outsourcing remains the development of a partnership relationship between customer and supplier (**at 72%**). Strong contracts (**at 11%**) follow, but significantly dwarfed by the partnership approach.

There appears to be little change, albeit a slight increase in those considering good governance as being the best means of achieving a low risk outsourcing project implementation, **from 46% last year to 52%**. Governance (whether this is monitoring SLAs, escalation procedures or dispute resolution procedures) is ranked highly both within the business and academic world as a determinate of success. Whereas last year governance mediated by an experienced specialist was ranked highest, this year a governance model negotiated with the vendor features on top.

Op2i research suggests the key to successful cost focused outsourcing programmes is a rigorous approach to decision and programme governance across the organisation. Successful outsourcing is dependent on having an inclusive decision process that involves all stakeholders in both the decision and ongoing governance, and one which documents

and links contractual and performance obligations to the original drivers for outsourcing. Op2i sees this as a critical measure for successful public sector expenditure reform through outsourcing.

Dr Bharat Vagadia, CEO Op2i commented: “There have been significant cost pressures on outsourcing deals, many renegotiating existing deals and new comers seeing cost cutting as the only real driver. Business transformation is dead for now, but may well reappear as organisations realise that a pure focus on cost will lead to adversarial relationships, and may well lead to lower quality”.

“The outsourcing decision making process must be done rigorously, otherwise you end up fighting a lost cause, trying to stop a runaway juggernaut. The decision making process must be all encompassing, assessing all options; for outsourcing is not always the answer”.

The research was conducted by Op2i amongst global outsourcing users, suppliers and advisors. The Op2i Outsourcing Survey Report 2010 is available for download from [www.Op2i.com](http://www.Op2i.com)

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**About Op2i:**

Op2i ([www.Op2i.com](http://www.Op2i.com)) is a Business Improvement Firm specialising in Outsourcing: providing research, advisory, training and implementation services. Op2i provides an Online Strategic Decision Governance System ([www.GovernanceDirector.com](http://www.GovernanceDirector.com)): for decision modelling, stakeholder consultation, decision analysis and visualisation, documentation and management of organisation decision process.

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