



THE OUTSOURCING INSTITUTE

Gateway to the Outsourcing Marketplace

Outsourcing 2.0

The new outsourcing and what it means to you.

By Frank J. Casale, Founder and CEO
The Outsourcing Institute

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The Outsourcing Institute conducted breakthrough research over the past 18 months. Conclusion: We are rapidly approaching a tipping point in

the outsourcing marketplace, the impact of which will be significant and far reaching. I refer to this imminent inflection point as *Outsourcing 2.0*. It is, in essence, the New Outsourcing. The objective of this white paper is to define *Outsourcing 2.0*, explain the three key drivers behind it, and highlight how it will effect those of you who buy, sell, advise, and manage outsourcing.

Outsourcing 1.0: A Brief History

The emergence of outsourcing can be traced most notably to the landmark IT outsourcing contract signed by Eastman Kodak Company in 1989. This deal brought about the first major tipping point that outsourcing had experienced. It revolutionized the way outsourcing had been used previously and launched Outsourcing 1.0, although we did not know it at the time. Throughout the early 1990's, outsourcing was all about big companies – in serious trouble – negotiating complex, multi-party contracts, as a last resort to affect a turnaround. These early deals were driven at the board level and facilitated by highly skilled third-party advisors.

From the client company's perspective, these transactions were all-consuming. After 12 to 15 months or so, once the contracts were finally signed, everyone breathed a sigh of relief and went back to their day jobs. The criticality of managing an outsourcing relationship was not fully

recognized, and few firms allocated sufficient resources to properly direct the relationship with the outsourcing provider. No surprise that with both parties experiencing levels of discontent, many of these early deals struggled, failed, or had to be restructured. Additional characteristics of Outsourcing 1.0 transactions included:

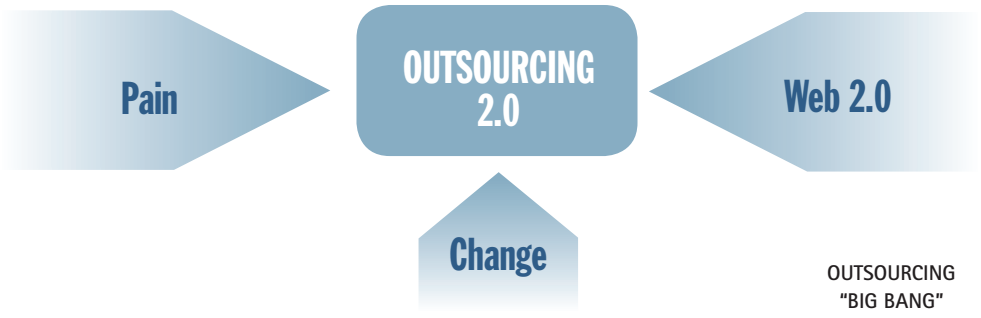
- The transition of many hundreds of people
- Price tags in the hundreds of millions, if not billions, of dollars
- Outsourcing being treated mostly as an event that ended at contract signing
- Each transaction also presumed to be an anomaly; therefore, there was no effort to retain the intellectual property
- Typically no one in the company had any related experience whatsoever

MILESTONE RESEARCH

Today, there is much dissatisfaction, inefficiency, and frustration associated with the status quo of Outsourcing 1.0. To better understand what was driving the dissatisfaction, inefficiency, and frustration, the Outsourcing Institute conducted landmark research over the last 2 years across all vertical and horizontal segments of the industry – buyers, providers, and influencers. The response was passionate and eye-opening.

There are three key forces driving the shift to *Outsourcing 2.0*: 1) Universal pain in all dimensions of outsourcing; 2) changes in who is outsourcing and how it is done and 3) the evolution of Web 2.0 and the growing impact it is having on communication, collaboration and knowledge sharing.

We are rapidly approaching a tipping point in the outsourcing marketplace, the impact of which will be significant and far reaching.



Driver #1: Pain

To many of you on the client (buyer) side, the outsourcing process is quite candidly a painful process. And the more outsourcing you do the more pain you seem to endure. When we probed buyers as to whether or not they were benefiting from the breadth of different sources available for outsourcing information and advice, we were exposed firsthand to the pain of the marketplace. (See Figure 1) Nearly one-half the buyers in the outsourcing community reported they didn't have the time or expertise to identify and evaluate the kinds

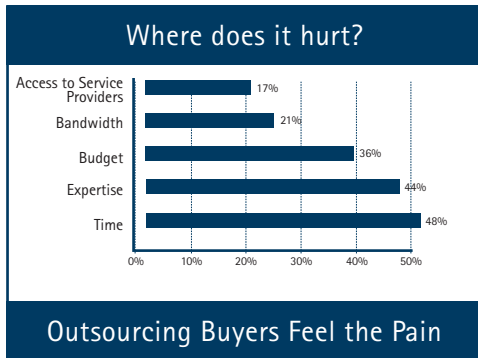


Figure 1

of information that would enable them to elevate the outsourcing decision making process and/or implement best practices on a consistent basis. Just over a third of the buyers told us they didn't have the budget to access this kind of information. Many of the buyers even said they didn't have the internal resources or bandwidth to capture this information – and had limited access to service providers who might have been able to provide this information to them.

Challenges for most members of the outsourcing ecosystem are at an all-time

high from the standpoints of marketplace efficiencies, access to best practices and processes, peer networking and professional development. The problems of the marketplace have affected both large and small players alike. Some would say that the marketplace has achieved true equilibrium in that everyone at the table is being equally distressed. Yes, indeed, outsourcing has been a painful process for many people for many years.

Driver #2: Change

Outsourcing has changed – tremendously – over the past decade. What is being outsourced, who is doing the outsourcing, how they are outsourcing and where they are outsourcing has all changed. Key changes include the entrance of the “do-it-yourself,” extraordinary growth in the mid-market, more plentiful yet smaller contracts, globalization, and defining outsourcing as a career.

The fact that these changes occurred in this time frame is not unusual. What is unusual though is the fact that processes, approaches to third party assistance, and available pricing models for the most part have not changed. The market has not sufficiently responded to the new people and the new problems with many new alternatives.

THE RISE OF THE DO-IT-YOURSELFER

Since most Global 2000 Companies have been outsourcing for more than a decade, this process is no longer alien to them. The internal, independent sourcing teams in most of these organizations have become fairly competent. It's not that these power buyers are no longer hiring consultants – there always will be

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Web 2.0 is dynamic, organic and ever-changing with the marketplace. It encourages more dialogue and less monologue.

a need for advisors – it's just that they are hiring them for different reasons and more selectively. (See Figure 2) In addition, many companies are expanding the role of the outsourcing professional because they prefer to retain the bulk of their outsourcing intellectual property in-house. As a result, many sourcing pro-

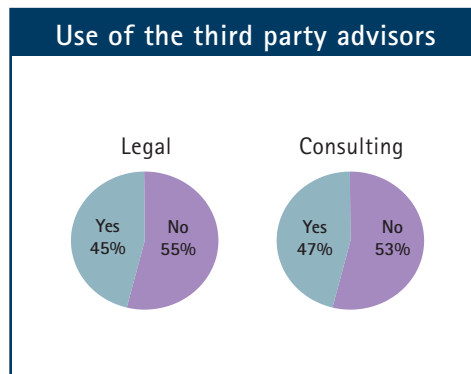


Figure 2

professionals are now viewing outsourcing expertise as a necessary skill set.

As a result, a new and very large market has appeared on the scene: the "do-it-yourselfer." These buyer organizations, both large and small, are increasingly taking a do-it-yourself approach to outsourcing. They are not seeking to outsource their outsourcing processes. This is not to say there is less of a need for professional outsourcing advisors; quite the contrary, only the types of services needed have changed. Buyers need access to more specialized services on an a la carte basis. This market is large and growing. This segment needs access to best practices information, case studies, and tools to guide them in shaping successful outsourcing contracts and relationships. Unfortunately, what this new group of buyers has found is that the typical industry sources for information, trends, and best practices such as trade associations, conferences, newsletters, and vendor whitepapers – are mostly inadequate. These sources are passive, often sponsored opinions rather than objective, inflexible and expensive.

Other changes include:

- Perpetual outsourcing
- Relationship management as the new holy grail
- Hyper competition
- The trend toward building internal outsourcing dream teams
- The hunger for tools

MID-MARKET OUTSOURCING

Regardless of how you define or segment this often-debated market, this is one of the fastest growing sectors in the outsourcing space. There are many thousands of companies in the mid-market space in need of outsourcing resources. These companies are relatively new to outsourcing and have tremendous needs for information and advice, yet most have limited resources, expertise and budgets.

CONTRACTS GETTING SMALLER

The size of the average outsourcing deal has plummeted over the past decade, regardless of the size of the company. There are many reasons for this including the trend toward selective sourcing and the growth in BPO deals, which tend to be much smaller than the infrastructure engagements of their predecessors.

GLOBAL OPPORTUNITIES AND ASSOCIATED CHALLENGES

Globalization is creating significant opportunities for all. However, realities of time and space are creating daunting obstacles for many. Common examples of these challenges are due diligence, building and maintaining relationships, and open collaboration. Culture, chemistry, and communication issues have become the new critical success factors for many offshore and near shore engagements.

OUTSOURCING AS A CAREER

While outsourcing was once a part of what you did it is now what you do. This is a big change. One of the great paradox-

es in outsourcing today is the fact outsourcing professionals are responsible for delivering millions of dollars in cost savings, managing billion dollar outsourcing portfolios, and driving significant financial and organizational impact across the business. Yet there is no clear career path or industry accepted norms around compensation or recognition.

Driver #3: The Emergence of Web 2.0

Amazing advances continue to be made in the way information is gathered, evaluated, organized, and distributed. This revolution has been named Web 2.0.

Web 2.0 will have a transformational impact on many businesses, processes, and marketplaces. The new Web 2.0 technologies are affordable, accessible and scalable. Web 2.0 presents an opportunity to transform the way people learn, share, communicate, collaborate, and transact.

If you doubt the presence of Web 2.0, consider this: In the '80's, you had a full-sized PC at work. You carried documents in your briefcase. Perhaps you had a fax at home. In the late 80's, email was common but it was non-portable, hard-wired and limited to text. In the '90's, we saw the advent of the Internet joined up with remote access, graphical user interface, and document sharing. Today we have wireless and ubiquitous access, PDA's, laptops, camera phones, and the like. Collaboration and document sharing is taken for granted. Information is shared and developed on the fly. Google, web sites, blogs, and Wikipedia have changed how we gather, rank, and sort information.

Web 2.0 is the definition of the new technologies that deliver proactive solutions, flexibility, and tailored, targeted, relevant information. Web 2.0 is dynamic, organic and ever-changing with the marketplace. It encourages more dialogue and less monologue. Perhaps most importantly it allows us to harness the collective wisdom of a marketplace and self-select our experts and solutions.

OUTSOURCING 2.0: THE NEW OUTSOURCING

Outsourcing 2.0 is not a buzz word. It is not a product or a strategy. It is not owned or shaped by any segment of the market. It is a confluence of this new and evolving outsourcing demographic and the power and capabilities of Web 2.0. It already has been building momentum for several years. What makes it so extraordinary is that it is a movement powered by people and technology. Like any movement, as it gathers momentum, it becomes hard to ignore. It is being further fueled and supported by many of the advanced technologies currently shaping the transformation of consumer purchases and social networking.

How do we know when we've reached an *Outsourcing 2.0* environment? Web 2.0 capabilities will have brought an entirely new mindset to the outsourcing community that will become just as contagious as the technology tools themselves. We will see that through *Outsourcing 2.0* the buyers, sellers and influencers will now have access to data that in the past was difficult to obtain. That data will only get richer as more people use it because the users themselves will be considered co-developers. The long tail of market penetration will be leveraged through the existence of central platforms, aggregating and harnessing the collective wisdom of all segments of the industry. The adoption of *Outsourcing 2.0* will bring together a global community of thousands of companies, buyers, sellers and influencers having equal access to the best practices and practical tools to take outsourcing to another level of business value. This global community will come together to share whitepapers and innovative tools.

Responding to the needs and requests of its members and collaborating with the leading advisors and practitioners in the marketplace, the Outsourcing Institute has broken ground by developing a platform to support the movement toward *Outsourcing 2.0*. - to leverage and harness the collective wisdom of the marketplace. This new industry-wide platform, supported by advanced technology, will serve the needs of the thousands of com-

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Outsourcing 2.0 is the result of the perfectly timed collision of outsourcing and Web 2.0.

panies and millions of executives who use outsourcing across all industry segments.

Through the advancement of *Outsourcing 2.0*, the global outsourcing community will be able to more efficiently identify ideal partners, exchange information and ideas, create more intelligent market channels, and collaborate on best practices and standards. The merge of outsourcing and Web 2.0 is a real phenomenon that will take the outsourcing community to the next level of efficiency and enhanced capabilities. It will also enable and empower each of the individual members of the community to enjoy a greater level of productivity, gratification and recognition.

BENEFITS

Every segment of the market will benefit from the central platform *Outsourcing 2.0* will provide. Following is a summary and breakdown of its impact on key participants in this ecosystem.

BENEFITS TO GLOBAL 1000 BUYERS

- Greater access to peers for collaboration, networking, professional development resources, best practices, and latest vendor management and tools
- Greater access to relevant and timely benchmarking data as well as an outsourcing talent pool
- Greater responsiveness to internal client needs as well as to the marketplace
- More successful and more comprehensive Governance strategies
- Finally, acknowledgement, enablement and empowerment

BENEFITS TO SMALL AND MEDIUM SIZE BUYERS — AS WELL AS FIRST TIME BUYERS

- Leverage, as well as a level playing field
- Ability to network and tap into the collective wisdom and best practices of your more experienced peers
- Innovative alternatives to the traditional consultant you cannot afford or a more efficient and intelligent

way of finding the specialized one you can afford

- Access to best practices, templates and a large and evolving global supplier database
- Lower risks and greater rewards

BENEFITS TO SERVICE PROVIDERS

- Efficient selling channels, shorter selling cycles and lower cost of sales
- Opportunity to establish a true dialogue with your target audience
- More targeted marketing efforts and greater marketing ROI.
- Access to real-time market intelligence and buyer intelligence
- Easier new market entry
- Greater access to potential partners

BENEFITS TO CONSULTANTS, LAW FIRMS AND ALL OTHER ADVISORS AND INTERMEDIARIES

- Greater opportunities to showcase your thought leadership
- Leverage for limited marketing dollars
- Greater access to new clients
- Ability to aggregate and harness market intelligence and highly specialized tools and IP for your clients benefit
- Powerful opportunities to differentiate as well as develop new business models as well as pricing and delivery models
- Opportunity to serve small and mid-market clients
- Greater scalability

The adoption of *Outsourcing 2.0* will bring together a global community of thousands of companies, buyers, sellers and influencers having equal access to the best practices and practical tools to take outsourcing to another level of value. This global community will come together to share whitepapers and innovative tools.

Outsourcing 2.0 is the result of the perfectly timed collision of outsourcing and Web 2.0. *Outsourcing 2.0* will propel outsourcing beyond any known definition of

10 Critical Outsourcing 2.0 shifts

| FROM | TO |
|-------------------------|---|
| 1) Limited access | Virtually unlimited access to collective wisdom and market intelligence |
| 2) Procurement | Relationship management as the Holy Grail |
| 3) Process | People as the center of the outsourcing universe |
| 4) Mostly closed IP | Mostly open IP/more sharing |
| 5) Terms and conditions | Rolodex and relationships |
| 6) Low Price | Best Value |
| 7) Static | Dynamic, Actionable, interactive content and IP and data |
| 8) Hunting | Shopping |
| 9) Betting | Investing |
| 10) Medication | Gratification |

Outsourcing Institute, and outsourcing.com will serve as hub for change, a catalyst for discussion and a go-to place for collaboration.

success. In addition, our jobs will actually be a little bit easier. *Outsourcing 2.0* will reach beyond the current definition of our market.

Our principles will shift. Our measures will change. Our expectations will be exceeded. A new philosophy will be written.

Outsourcing Institute: Driving Change

Tim O'Reilly noted, "Like many important concepts, Web 2.0 doesn't have a hard boundary, but rather, a gravitational core." True to the premise of Web 2.0, the concept of collective wisdom and our own promise to support the outsourcing industry, the Outsourcing Institute, and outsourcing.com will serve as a hub for change, a catalyst for discussion and a go-to place for collabora-

tion. We will provide the location, the framework and some tools and you will build the epicenter of change.

We are not launching a product or developing a rigid proprietary methodology owned by the Outsourcing Institute; we are creating a space that is a flexible and malleable platform. An open platform and knowledge base that will be an ever-evolving product of the marketplace – driven by you and your peers. No one owns it and everyone owns it. This platform will take advantage of these dramatic shifts that we believe will spark a movement throughout the industry.

So, if you are like the many thousands who struggle with the inefficiencies and complexities traditionally associated with outsourcing, rest assure that change is in the air and life is about to get better.

For more information on Outsourcing 2.0 as well as a schedule of upcoming regional 020 networking mixers and Roadshows, visit www.outsourcing.com and click on the event banner on the left side of the homepage.

About the Author

Frank Casale is founder and Chief Executive Office of the The Outsourcing Institute and creator of outsourcing.com. Conceived and launched in 1993 with a mission to be the "Neutral network and source for information, advice and transaction facilitation," OI has grown to more than 70,000 members worldwide while serving the needs of buyers, sellers and influencers in the outsourcing community. Mr. Casale is an industry pioneer and serial innovator who has built the premiere source for outsourcing information and shaped many of the best practices and processes that have guided the industry in the past decade.

Frank can be reached for feedback, questions or suggestions at fcasale@outsourcing.com.

**For Outsourcing Information, Advice or Support Contact
please visit us at www.outsourcing.com**



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