

Offshore Locations: Buyers' Perceptions and Plans for 2011-2012

Understanding Current Footprint, Expansion Plans, and Location Risk Perception of Buyer Organizations

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Introduction

As the global economy recovers from the recession of 2009, the global sourcing market is witnessing an increase in activity. Companies are expanding offshore operations through both captive and third-party models. Further, the geographic spread of offshoring is expanding with new locations emerging across Asia, Central America, and Eastern Europe.

To gain further insight into these trends, Everest conducted a market survey during January-February 2010. The survey focused on understanding the current location footprint, expansion plans, and perceptions of risk in offshore locations.

In this whitepaper, we present a summary of how buyers are thinking about their expansion plans, specifically with respect to scale and locations. We also explore typical location risk perceptions of buyer organizations.



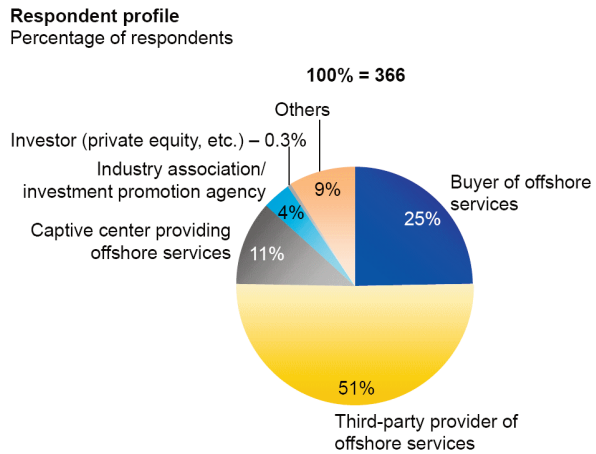
Background and Research Methodology

This research is extracted and summarized from a larger survey spanning 366 respondents from leading buyer organizations, supplier organizations, captives, industry associations, and other industry stakeholders. **Exhibit 1** depicts a break-down of survey respondents by type of organization.

EXHIBIT 1

Break-down of overall survey respondents

Source: Everest Survey on Offshore Locations: Perceptions and Plans; Jan-Feb 2010



In this paper, we analyze responses from buyer organizations, comprising 90 respondents from organizations across the globe.

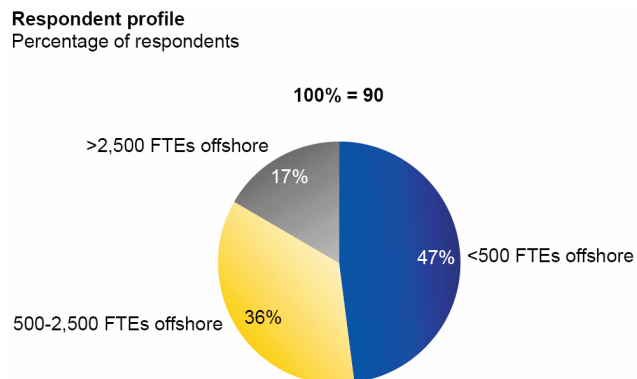
Exhibit 2 depicts the composition of the set of respondents with respect to their offshore headcount. For the purpose of this study, we classified organizations into three segments:

- **Small adopters:** Organizations with less than 500 FTEs offshore
- **Medium adopters:** Organizations with 500-2,500 FTEs offshore
- **Large adopters:** Organizations with more than 2,500 FTEs offshore

EXHIBIT 2

Types of organizations by number of FTEs offshore

Source: Everest Survey on Offshore Locations: Perceptions and Plans; Jan-Feb 2010



In line with the overall market, small and medium adopters account for the majority of respondents (83%), and large adopters account for a little less than one-fifth (17%).



Summary of Key Findings

- Most buyers plan to expand offshoring and a significant proportion plan to do so aggressively. Approximately 75 percent of small and medium adopters and 90 percent of large adopters plan to expand their offshore scale by more than 500 FTEs over the next two years.
- India is the dominant location and more than 75 percent of respondents currently leverage India. As buyers grow offshore scale, they are increasingly building multi-location portfolios.
 - India will continue to be an important anchor for global portfolios with more than 70 percent of buyers planning to expand in India.
 - For those who plan to expand in India, Philippines and China are the most prominent locations for expansion. Malaysia, Brazil and Mexico are other locations that buyers plan to grow within their global portfolio.
- Operational risks (e.g., attrition, inflation) are the most prominent concerns for India and Philippines. Structural risks (e.g., regulatory environment) are important concerns for China. Buyers perceive Mexico to pose both structural and operational risks and growth in Mexico is primarily likely to be driven by companies who already leverage the country as a service delivery location.

India is the Most Popular Destination Across Segments. Philippines, Mexico, Malaysia and China are Important for Medium and Large Adopters

India enjoys prominence as the destination of choice for offshore operations. More than 75 percent of respondents reported operations in India. This is supported by Everest's Market Vista research that shows more than 25 percent of all new delivery centers set up in 2009 were in India. Low cost of operations, presence of a large employable labor pool, and a mature offshore industry make India an attractive destination for establishing offshore operations. In terms of preference, the Philippines come in second, primarily due to good English-language skills and cultural affinity with the United States. Other locations expected to witness significant offshore activity include China, Malaysia, Mexico, and Singapore. **Exhibit 3** details the current location portfolio of leading buyer organizations.



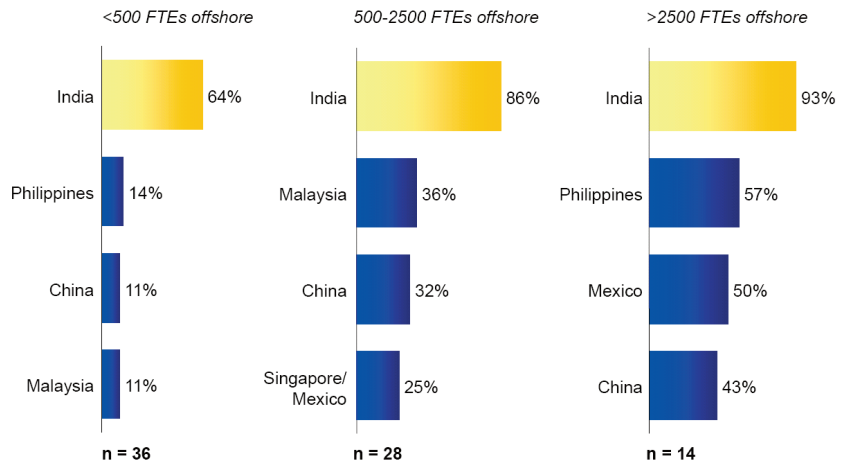
EXHIBIT 3

Location portfolio across organization segments

Source: Everest Survey on Offshore Locations: Perceptions and Plans; Jan-Feb 2010

While India is the location of choice across segments, the Philippines and China figure prominently as the other choices

Current location portfolio
Percentage of respondents



Note: Percentages total to greater than 100 percent where multiple choices were indicated by respondents

It is important to note that the location portfolio does not include the impact of scale. Most buyers have significant scale in India and the Philippines; the scale of operations starts to drop significantly as they enter their third and fourth geographies. Our Location Optimization research suggests that for a medium-size adopter, the typical scale of a center in China, Malaysia, or Singapore is 50 - 250 FTEs while those in India and the Philippines are 1,000+ FTEs.

A Significant Proportion of Medium and Large Adopters Plan to Grow Offshore Scale by 500 FTEs or More

Expansion plans vary widely across the three segments of buyers. Most small adopters plan to increase their offshore scale by fewer than 500 FTEs. The group of small adopters primarily comprises of companies that are either conservative adopters, late adopters, or relatively small companies (i.e., have smaller offshore requirements). As a result, their expected scale growth in the next two years is small.

In contrast, large adopters, which have already reaped the benefit of offshoring and anticipate a surge in demand, plan to significantly grow offshoring. More than 90 percent of respondents in this group plan to grow by over 500 FTEs. This also represents an improvement in the business sentiment of large organizations, which increasingly believe that the worst of the 2009 economic crisis is now behind them.

Exhibit 4 depicts the growth plans of organizations across the three groups.

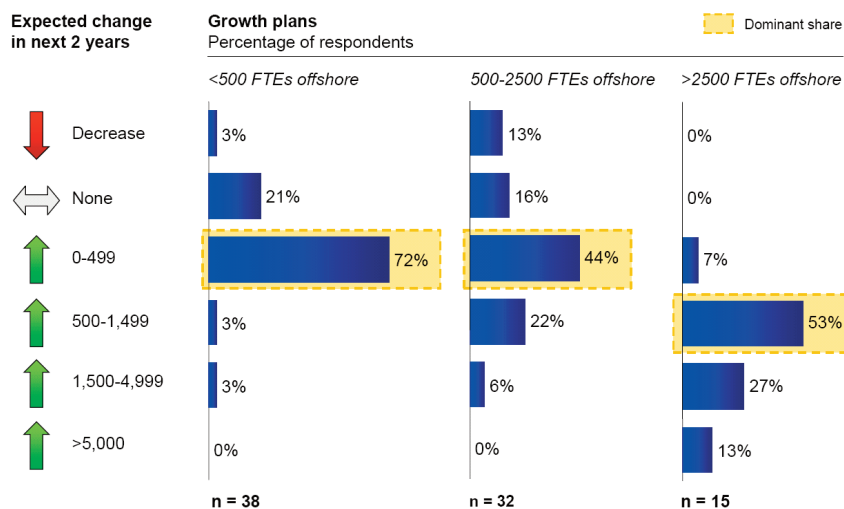


EXHIBIT 4

Growth plans across organization segments

Source: Everest Survey on Offshore Locations: Perceptions and Plans; Jan-Feb 2010

While small and medium adopters primarily plan to add fewer than 500 FTEs, large adopters have more aggressive growth plans



This growth comprises a combination of third-party outsourcing and expansion of captive operations. Small adopters typically do not have captives or have small captives; as a result, the expansion is likely to be skewed towards third-party outsourcing. Large adopters typically have a combination of captives and third parties, and the expansion is likely to be mixed across both models.

Those Who Plan to Expand In India Plan to Expand In One or More of Philippines, China, Malaysia, Mexico and Brazil

Although India is expected to retain its position as a key hub for offshoring work in the future, buyers are increasingly looking at other complementary locations in Asia, Latin/Central America, and Eastern Europe for setting up centers that will make up a global location portfolio. The drivers of this approach include:

- Risk diversification and business continuity
- Need for capabilities in specific skill sets or for support in specific languages
- Regulatory requirements/constraints
- Time zone coverage requirements

The Philippines, China, Malaysia, Mexico, and Brazil are the prominent alternative locations to which companies are planning to expand. **Exhibit 5** details growth plans of companies planning to expand in India.



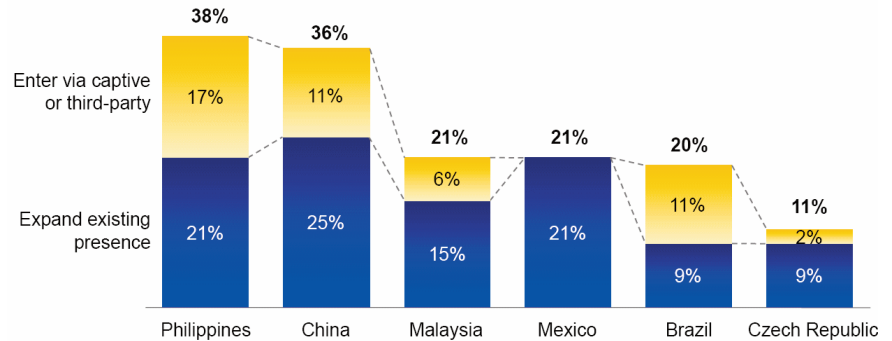
EXHIBIT 5

Growth plans of companies expanding in India

Source: Everest Survey on Offshore Locations: Perceptions and Plans; Jan-Feb 2010

While India remains an important hub, companies growing in India plan to expand into other locations in order to put in place a global location portfolio

Key countries of growth for buyers planning to expand in India
Percentage of respondents



Note: Percentages total to greater than 100 percent where multiple choices were indicated by respondents

As depicted above, the planned mode of growth is a combination of expanding existing presence and adding new centers in countries in which the companies do not currently operate.

The notable exception is Mexico, where only companies with an existing presence plan to grow their offshoring; no new buyers from the set of respondents are planning to enter the country. This is primarily driven by enhanced security concerns due to the escalation in narco-violence in Mexico in 2008-2009. While the violence has not impacted any operations and has been restricted to a few border cities, it remains an important consideration that affects the confidence of companies in adding Mexico to their portfolio.

Operational Risks Are Perceived to Be Concerns for India and Philippines, While Structural Risks Are Concerns for Brazil and China

While companies are planning to expand their offshoring base, they are, and will need to remain, cognizant of the risks to which they will be exposed in the different locations. These risks are also expected to dictate location-selection decisions as buyers move towards hedging overall portfolio risk by choosing locations with complementary risk profiles.

In India and the Philippines (perceived as the most attractive locations), organizations view operational risks as a major area of concern. Although, typhoons and political unrest in the Philippines and the internal security situation and terrorism in India failed to disrupt business significantly, they have started figuring in buyers' perceptions about these locations. Also, other operational issues, such as high attrition levels, wage inflation, etc. present significant risks in these established locations. However, these factors do not seem to affect location selection decisions, as 63 percent of respondents plan to expand in India and 31 percent to the Philippines.



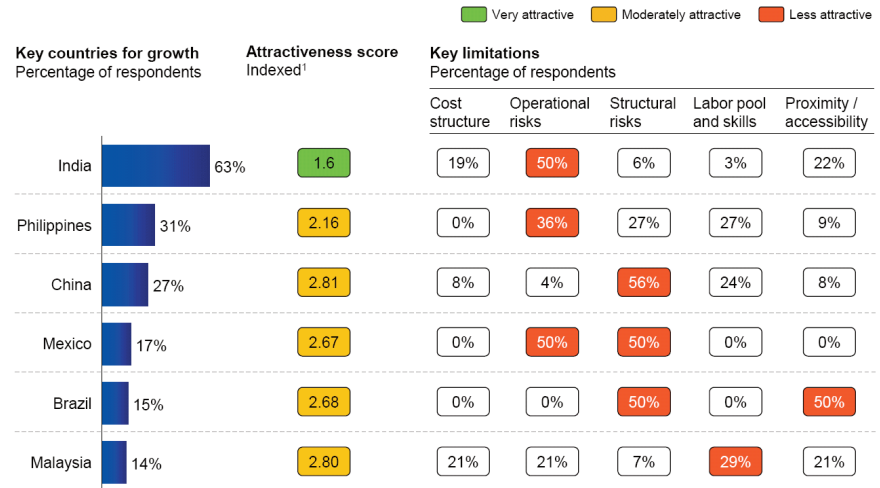
EXHIBIT 6

Growth plans of companies expanding in India

Source: Everest Survey on Offshore Locations: Perceptions and Plans; Jan-Feb 2010

Organizations view operational risks as an area of concern for India and the Philippines, whereas structural risks figure prominently in regard to China, Brazil, and Mexico

In contrast, organizations view structural risks (such as macroeconomic and geopolitical risks) as key limitations for moderately attractive locations such as China, Mexico, and Brazil. In emerging locations such as Malaysia, the labor pool comes across as a key limitation. **Exhibit 6** captures the perceptions of buyer organizations on risks and limitations presented by various locations.



¹ Indexed on a scale of 1-5 (1 = most attractive; 5 = least attractive)

Key Implications

Buyers:

- Continuously monitoring and mitigating concentration risks will be important as buyers develop global location portfolios
- Effectively leveraging skill sets and capabilities of each location will require a methodical approach to allocating incremental scope to the appropriate location
- Clearly defining the role of each location in the portfolio (e.g., scaled hub, functional Center of Excellence) is key to supporting appropriate work allocation and helping grow key capabilities in each location

Suppliers:

- The surge in buyer demand may create pressures on delivery capacity, especially in India. Appropriate planning and investments are necessary
- Capabilities in Latin America will be critical to supporting emerging buyer needs. This needs to comprise a combination of centers; one center in Latin America may be insufficient to address the mix of language and technology skill sets buyers will require

Country associations:

- The growth in the next two years presents an important opportunity to position as an attractive destination. It is important to base the positioning on the role that the country can play in a buyer's global portfolio and anchor the role to the most distinctive characteristics the country offers



About Everest

Everest Group is a global consulting and research firm that comprehensively serves the sourcing market. An industry leader since creating the sourcing consultancy practice in 1991, Everest has earned a worldwide reputation for ongoing innovation by helping clients capture optimum value through the development and implementation of sourcing strategies and implementations, including captive, outsourced and shared services approaches. We help companies create strategies and sourcing relationships that deliver total value – improving performance and results while effectively managing risks.

Since its inception, Everest has forged over 600 major outsourcing relationships, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 500 clients in industries including banking, energy & utilities, healthcare, hospitality, insurance, manufacturing, media & entertainment, retail, and telecom.

The Everest Research Institute serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, suppliers, technology providers, and investors in the global outsourcing and offshoring marketplace. Our research analysts address both business process and information technology sourcing topics, providing the global sourcing community with information that empowers highly productive, sustainable sourcing strategies and relationships.

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