

Demand for Outsourcing Remains Steady as Organizations Strive to Slash Operating Costs to Weather Extended Worldwide Recession; India's Ranking as Preferred Outsourcing Location Drops 20 Percent in Last Two Years

Submitted by: Equaterra Europe Ltd
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Houston and London (July 15, 2009) – Organizations looking for ways to cut the basic cost of doing business are fueling steady demand for global outsourcing services, according to EquaTerra's 2Q09 Advisor and Business/IT Service Provider Pulse Survey.* For most outsourcing buyers, the continued recession has shifted the goal of outsourcing from achieving competitive advantage to weathering the economic storm. "The fundamental motivation for outsourcing has always been cost savings. Now, that aspiration has become a mandate, driving narrowly focused, low-risk deals with specific cost-saving targets," said Stan Lepeak, managing director of global research for EquaTerra.

Key findings from EquaTerra's 2Q09 Pulse:

- o On the heels of a first-quarter surge in demand for business process/information technology outsourcing, demand in the second quarter remains steady with 46 percent of EquaTerra's client-facing advisors citing increased demand (down only 3 percent quarter-over-quarter) and 65 percent of the service providers polled reporting continued growth in their new deal pipeline, up 8 percent over last quarter and 13 percent year-over-year.

- o A majority of service providers polled (58 percent) cite the stagnant economic climate as fueling demand for outsourcing, a jump of 20 percent from last quarter and the fourth consecutive quarter the percentage increased.

- o Given the high-stakes nature of current outsourcing deals, EquaTerra's 2Q Pulse polled both its advisors and service providers to pinpoint the most frequent cause of failure to meet outsourcing objectives. Not surprisingly, respondents flagged transition issues and observed that getting off on the wrong foot at this critical stage in the process typically proves to have a lasting negative impact.

- o EquaTerra advisors pegged the two most common transition-related issues subsequently resulting in failure to meet cost-savings goals as being insufficient transition management by both parties and a lack of understanding of the deal/scope. Service providers (71 percent) attributed failure to meet objectives to an inability to form effective relationships and poor program governance during transition.

Globalization: Service Providers Find Themselves in New Territory

Since 3Q07, the last time EquaTerra polled to determine the hottest geographical destinations for both near and offshore outsourcing services, numerous factors have contributed to alter the global outsourcing landscape: the maturation of the industry and emergence of new outsourcing destinations; the expanded footprint of traditional offshore providers into emerging locations; industry upheavals caused by terrorism and financial fraud resulting in a flight to established providers and lower-risk geographic destinations; and prolonged economic recession, which has bolstered nearshore markets in South America and Central/Eastern Europe as U.S. and Western European buyers opt for outsourcing solutions closer to

home where there is a perception of greater control.

In the 2Q09 Pulse, EquaTerra advisors and service providers identified India, Central/Eastern Europe and South America as the top three destinations for outsourcing, followed closely by the Philippines. While India remains the preferred location according to both advisors (61 percent) and service providers (60 percent), the level of preference has fallen dramatically, declining over 20 percent in last 24 months. India is still the top choice for IT outsourcing, but it has been steadily losing ground in business process outsourcing to emerging locations, especially China and South America.

This shift is attributed to the growing number of viable destinations coupled with the availability of outsourcing opportunities within destination domestic markets, and, in the case of South/Central America and the Philippines, desirable language skills. It's important to note that while preference for India as a destination may be eroding, Indian service providers are still powerful players in the global outsourcing market and have expanded operations into emerging geographic locations to retain their competitive edge.

"What we're seeing is the maturing of a worldwide industry and the emergence of a true global sourcing model where buyers deploy and manage global service chains just as they have global supply chains," said Lepeak.

About EquaTerra's 2Q09 Pulse*

EquaTerra combines relevant recent research with trending data gathered through a quarterly survey of leading outsourcing service providers and EquaTerra's own client-facing advisors to create the quarterly Pulse survey. For insight into the global outsourcing market and a comprehensive discussion of survey results, please register for EquaTerra's 2Q Pulse Webcast Wednesday, July 15, at 11 a.m. (EDT). Presenters: Mark Toon, CEO of EquaTerra, Bill Thomas, executive director for EquaTerra in Europe and Asia, and Stan Lepeak, managing director of global research for EquaTerra and EquaSiis. To obtain a copy of the 2Q09 Pulse survey, please contact Stan Lepeak.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions. For more information, please contact Lee Ann Moore at +1 713.669.9292; www.equaterra.com.

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