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Outsourcing IT services yesterday, today and tomorrow

According to data from the IT Ročenky 2012, the market of outsourcing services should generate a turnover of USD 150 million this year. Without a crystal ball, I wouldn't like to hazard a guess at the level of market growth we can expect. This article will concentrate more on underlining past and current trends in development, complemented by a humble forecast of the direction that outsourcing IT services will take in the near future.

About ten years ago in the USA and Western Europe we saw the biggest long-term outsourcing contracts being carried out. Some of them spread over a decade. We can mention, for instance, Deutsche Bank, Unilever, Endesa, Continenatal and other companies that took the step. Many of these companies decided for offshoring or nearshoring with the aim of achieving the best possible price thanks to cheap labour in Central and Eastern Europe, with the more ambitious heading to Asia. Results were varied. The long-term contracts were later revised, which allowed providers and customers alike a healthy degree of self-reflection.

In Slovakia, about four or five years ago we could read articles on the benefits and risks of outsourcing IT services and academic debates with a marketing undertone would take place on the subject at conferences. Today, though, outsourcing is common practice and is now well known on the Slovak IT market, by both providers and customers. In fact, it is the years of economic transformation – I deliberately avoid the word crisis – that will prove to be crucial for the future development of this part of the Slovak IT sector.

At present on the Slovak market we can witness two basic trends. One of them is the renewal of existing contracts for the provision of IT services, which were concluded some five or more years ago. On the side of the customer, this is a pragmatic step that allows it to open up contracts and revise prices, or set the level of provided services. For the provider, on one hand this means an opportunity to replace another provider, but on the other it might the one under threat.
For the customer, foremost this provides an opportunity to utilise the competitive battle of interested companies to its own benefit. The trend of replacing one provider for another is therefore just as gradually finding a home also on the Slovak IT market. In the USA and Western Europe, many of these switches have taken place in the past and will continue to do so. In some cases, we even saw the opposite trend: towards insourcing the provided services. It is therefore only right to ask: until when will customers put pressure on the price so that – after including one-off costs – it is worthwhile for them to change provider? This question will be a key factor for decision-making in future, upon the next round of renewing outsourcing contracts.

The second trend we see at present is increasing experience on the side of the customer. We could say that in many ways they exceed the methodical and business experience of the providers.
On the side of customers, the rising level of experience reflects in the education of workers in the field of service management (ITIL, ISO 2000), realistic demands of service level, complete knowledge of their own direct and indirect costs (see also Inforware no. 6-7/2012), more advanced price models, or better quality specifications for providers.
Large customers often reach out for the services of external consultants. From consultants we learn that many customers have a fairly clear idea of what their outsourcing relationship should look like, and what benefits they expect from it.

The situation is developing similarly on the side of providers. They are becoming more professional. This translates into specific application of methodologies for managing services in practice (ITIL, ISO 20000, CobIT and so on), increased work productivity, the use of quality support tools, transparent cost management, or increasing the qualification of the workers providing services. Professionalisation often means having to bring in external specialists that particular providers would not have at their disposal or whose work time would not be fully utilised.

Just as customers diversify suppliers for main processes, they also split up the supply of IT services. More and more often we see how customers create their own model of services management, getting not one but several providers involved in the process from the outset. Outsourcing relations in which one provider supplies all the services to one customer are now something of a rarity, or even a remnant of the past in some cases.

In conclusion, we look at the near future. Consolidation of the internal environment in Slovak companies will continue and for several years to come will provide sufficient space for outsourcing.
I would guess that this process will gradually slow down, just as it did in more developed countries. Slovak IT providers have a bigger capacity at their disposal than those that can be used by market opportunities. This leads to strong price competition and a drop in the unit prices of services. Customers can look forward cautiously to this phenomenon.

Likewise, the mentioned gap between providers and the growing experience of customers will also diminish. Providers will not go on forever extracting cost-effectiveness from advanced processes, producing better work organisation and the sharing of sources.
This area will gradually reduce competition, but with growth in experiences on the side of customers. This will most likely lead to the creation of new opportunities that complement technological innovations such as cloud, bring your own PC, virtual desktops, replacing PC with tablet and smartphone and so on. At the same time, this change will encourage innovations on the side of business, such as by the development of business hubs intended for the customer community. Imagine a company where the infrastructure and applications in a cloud are part of the business hub, its employees use private PCs that they connect to the company network, while interaction with suppliers and third parties is substantially automated. With such a scenario, some providers would find their space reduced, while for others it could represent a significant innovative advance and maybe new models will come out of it also in outsourcing.

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