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Global outsourcing market to be worth $1,430bn by 2009

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The global shared services and outsourcing (SSO) market is enjoying significant growth as companies look to outsourcing as a way to reduce costs. A new study by global growth consultancy Frost & Sullivan estimates that the worldwide SSO market was worth US$930 billion in 2006 and forecasts that it will grow at a compound annual growth rate of 15% to reach a market size of US$1,430 billion by the end of 2009.

The study outlines the global SSO activity across seven major industry verticals based on a survey of Fortune 500 and Forbes 2000 companies.

The top vertical by SSO spending in 2006 was the banking, financial services and insurance (BFSI) sector at US$273 billion. The technology/ICT sector was the second biggest spender at US$233 billion, while the healthcare industry spent an estimated US$130 billion on SSO.

The BFSI and technology verticals together constituted over 50% of the total spend on SSO last year.

The other verticals covered include transportation and logistics (US$113 billion), energy (US $84 billion), fast-moving consumer goods (FMCG US$59 billion), and media and entertainment (US$39 billion).

The key drivers for SSO continue to be cost benefits through standardisation, leveraging benefits of scale, and cost arbitrage. The study also observes that SSO operations, which are an integral part of business architecture, need to adapt to vertical specialisation models for businesses to achieve higher productivity and profitability.

Verticals such as transportation and logistics, energy, FMCG, and media and entertainment, for example, have developed effective SSO operating models for non-core functions such as IT services, finance and accounting, HR services, procurement, customer support and call centres.

Sectors like healthcare even outsource core research and development (R&D) functions, and this is likely to continue for a few years as healthcare companies try to find new drugs and reduce operating costs.

While the captive model and the third party models have become dominant, increasing instances of hybrid models involving equity participation, joint ventures and project funding, are noted to be on the rise.

"SSO is no longer just about cost arbitrage," says Frost & Sullivan Asia-Pacific vice president for the ICT practice Nitin Bhat. "Instead, SSO operations are adding value by providing access to skill sets and competencies wherever they are located. Service providers are gaining domain specific capabilities to move-up the value chain and compete effectively in the marketplace."

The global SSO study reveals that India remains the top destination for SSO operations across these seven verticals, followed by China, Ireland, Singapore, Malaysia, Mexico, Czech Republic, Poland, the Philippines and Canada. Emerging destinations for specialised functions include Russia for high-end software development and Dubai for BFSI services.

Key factors in determining the choice of location include costs, availability of skills and IP regulations. Inherent factors such as low labour costs and an abundant supply of skilled manpower have ensured that India is a prominent top-of-the-mind location for SSO investments.

India's SSO market is now experiencing consolidation and SSO providers are maturing and moving up the value chain, expanding their onshore presence to strengthen their global delivery capabilities.

India is however facing a threat from China. The Indian market is beleaguered by high attrition rates, poor infrastructure, rising wages, and the appreciation of the Indian Rupee against the US dollar. China is therefore quickly emerging as an attractive location for outsourcing IT, R&D and procurement services.

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As a stable country coupled with excellent infrastructure and low attrition rates, Malaysia makes for an ideal SSO hub that is still under exploited. A strong player in the BFSI, transportation and logistics, and energy verticals, Malaysia is also developing into a hub for technology companies with recent SSO investments, such as Dell, Satyam and IBM.

The Philippines, which is another preferred location for SSO activity, specialises in back-office operations for IT and IT services. The country is home to over 60 BPO service providers with an estimated 22 500 full-time employees involved in back-office services, raking-in revenues of US$180 million in 2005 from this segment alone. Several notable SSO centres in the Philippines include HSBC's BPO delivery centre, Citigroup's Shared Services Center (SSC), Dell's SSC, Safeway's SSC and Global eXchange SSC. Several companies like IBM and Sykes have moved their SSO operations out of India to the Philippines.

For more information on Frost & Sullivan's analysis of the global SSO market, please e-mail Sarah Lourdes at sara.lourdes@frost.com with your full name, company name, title, telephone number, city and country. Upon receipt of this information more detail will be forwarded to you.

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