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The Global Outsourcing Report

Opportunities, Costs and Risks

Despite the supercharged politics surrounding the issue, outsourcing IT offshore has become a fact of life, and it's growing quickly. Why? Because despite the difficulties, offshoring can provide huge benefits in terms of productivity, prices, profits and wages—an irresistible combination in a highly competitive world. A natural evolution of how the global marketplace operates today, offshoring is on the way to becoming a mainstream business. And the future for outsourcing looks even brighter.

Still, offshore outsourcing brings with it a wide variation in costs from country to country, as well as significant risks—geopolitical, economic, legal, cultural, and IT infrastructure and competency—and companies making decisions about where to outsource must take these into account. The goal of this whiteboard is to provide a thorough country-by-country analysis of the current outsourcing market, and to point out where to find the best opportunities for a variety of services. The result is the Global Outsourcing Index, which rates each country on the basis of a combination of relative cost, risk, and market opportunity. And because the world is changing so fast, the whiteboard also looks at where offshoring opportunities can be found in the future.

The trend toward offshore outsourcing is a lot more complex than simply seeking skills and resources in the lowest-cost locations. The driving forces in the IT outsourcing market are quality and speed to market, not just cost of services.

A new wave of outsourcing is allowing companies to acquire reliable IT quickly, in order to deploy specialized services, and ramp down easily when these services are no longer needed.

At the same time, offshoring is pushing the world beyond the information economy and toward a global knowledge-based economy. Technology enables knowledge to be shared quickly throughout the developed and developing world, allowing a variety of regional specializations to arise.

These trends are conspiring to bring further changes to the global outsourcing market in the next decade or so. First of all,

consumer demand and spending power in the emerging economies is growing more quickly than expected. And as they grow in strength and stability, the risks of outsourcing can be spread further as companies have a wider variety of geographic locations to choose from.

In the future, many companies will not outsource to a particular country at all. Instead, they will turn to large multinational corporations with access to a variety of resources and expertise across the globe and the ability to spread risk. As these one-stop shops grow in size and skills, they will gain a significant competitive advantage over even the strongest individual outsourcing markets.

The Top Three

	2005	2015
1	India	China
2	China	India
3	Costa Rica	U.S.A.

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THE GLOBAL OUTSOURCING REPORT: Opportunities, Costs and Risks

HOW TO READ

The goal of this whiteboard is to provide the reader with a country-by-country guide to the worldwide outsourcing market, its opportunities, costs and risks. It was compiled from surveys and interviews with outsourcing, economics and business experts.

The 20 countries we analyzed are ranked along the top of the chart in their order of finish in the Global Outsourcing Index (GOI), which rates each country according to its competitiveness as an outsourcing destination. The index comprises three main factors:

Cost: Few companies would outsource at all if doing so didn't save them money. The cost factor, which includes compensation and wages, infrastructure cost, and tax and regulatory cost, makes up 30 percent of the GOI.

Risk: Every country possesses its own strengths and weaknesses, risks and rewards. The Overall Risk Rating, which makes up 54 percent of the GOI, aggregates a variety of risks every potential outsourcer must take into account:

Geopolitical risk (10% of GOI)

Includes stability of government, corruption, geopolitics, security.

Human capital risk (10%)

Includes quality of educational system, labor pool, number of new IT graduates.

IT competency risk (10%)

Includes project management skills, high-end skills and competence (custom code writing, system writing, R&D, business process experience).

Economic risk (6%)

Includes currency volatility, GDP growth.

Legal risk (6%)

Includes overall legislation, tax, intellectual property.

Cultural risk (6%)

Includes language compatibility, cultural affinities, innovation, adaptability.

IT infrastructure risk (6%)

Includes IT expenditure, quality of key access infrastructure.

Market Opportunity Rating: This number, which makes up 16 percent of the GOI, includes expert third-party analysis of each country, its global competitiveness and IT market share. The rating serves as a check on any imbalances elsewhere in the report.

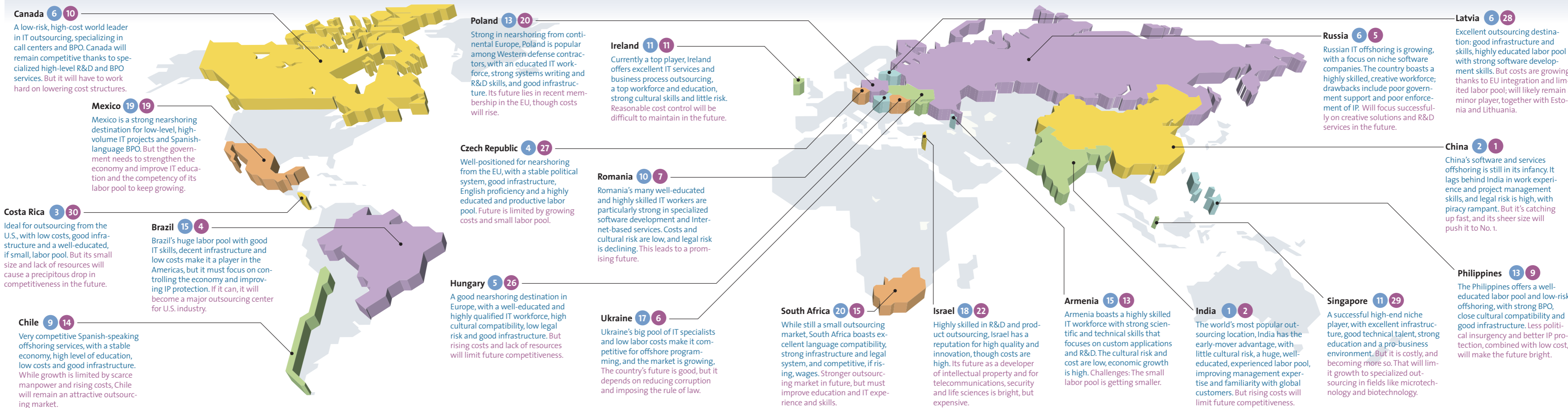
Finally, the map itself includes brief descriptions of the strengths, weaknesses and future prospects of each country in the GOI.

Rating: 1 2 3 4 5

Cost, risk and market opportunity are rated on a scale of 1 to 5, where 1 is the least risk and 5 is the greatest.

Notes: For a list of the experts who contributed to this whiteboard, please see page 97. For the complete report, log onto www.cioinsight.com/whiteboard and click on the Global Outsourcing Report.

Global Outsourcing Rank	1	2	3	4	5	6	6	6	9	10	11	11	13	13	15	15	17	18	19	20
Global Outsourcing Index (GOI)	2.02	2.16	2.24	2.26	2.28	2.40	2.40	2.40	2.42	2.46	2.50	2.50	2.56	2.56	2.58	2.58	2.74	2.76	2.78	2.86
Country	India	China	Costa Rica	Czech Republic	Hungary	Canada	Latvia	Russia	Chile	Romania	Ireland	Singapore	Philippines	Poland	Armenia	Brazil	Ukraine	Israel	Mexico	South Africa
Cost	\$\$	\$	\$\$	\$\$\$	\$\$\$	\$\$\$\$	\$\$\$	\$\$	\$\$\$	\$\$	\$\$\$\$	\$\$\$\$	\$\$	\$\$\$	\$	\$\$\$	\$\$	\$\$\$\$	\$\$	\$\$\$\$
Geopolitical risk	3	3	2	1	1	1	2	3	2	2	1	1	3	2	3	2	3	3	2	3
Human capital risk	1	1	2	2	2	1	2	1	3	2	2	2	1	2	3	2	2	2	3	3
IT competency risk	2	4	3	2	2	1	2	2	3	2	1	1	4	2	3	2	3	1	5	2
Economic risk	1	1	2	3	3	2	3	2	2	3	2	3	3	3	2	2	2	3	3	2
Legal risk	3	5	3	2	2	1	2	5	2	5	1	1	4	3	4	4	5	1	3	2
Cultural risk	1	4	2	2	2	1	2	3	2	2	1	1	1	2	2	3	3	1	2	1
IT infrastructure risk	4	3	2	2	2	1	2	2	2	3	1	1	3	2	4	3	2	1	3	3
Overall Risk Rating	2.1	2.9	2.3	1.9	1.9	1.1	2.1	2.4	2.4	2.6	1.3	1.4	2.7	2.2	3.0	2.4	2.8	1.8	3.1	2.4
Market Opportunity Rating	1.8	1.8	2.5	2.0	2.1	1.9	2.3	3.0	1.5	3.0	1.9	1.5	3.1	2.9	4.1	2.3	3.9	1.9	3.3	2.4
Future Outsourcing Rank	2	1	30	27	26	10	28	5	14	7	11	29	9	20	13	4	6	22	19	15



Outsourcing in the Future

The Future Outsourcing Rank compares each country by its competitive position in the overall outsourcing market as it will look in ten years, based on such factors as population growth, GDP growth, labor supply and IT expertise. As the bottom row of the country listings shows, China will rise to No. 1, while India will drop to No. 2. The U.S. will enter the list at No. 3, thanks to competitively priced high-value offerings. Countries such as Israel and Singapore will become much less competitive because they won't be able to slow rising costs, while others, such as Costa Rica, will struggle to remain competitive because they'll be unable to maintain the population growth and skilled workforces necessary to remain attractive. Here is a ranking of the countries not currently included in the Global Outsourcing Index that should rise to the top 30 over the next ten years:

- 3 U.S.A.
- 8 Belarus
- 12 Malaysia
- 16 Thailand
- 17 Vietnam
- 18 Moldova
- 21 Bulgaria
- 23 Pakistan
- 24 Kazakhstan
- 25 Albania

The Rise of the Multinationals

The Global Outsourcing Report only ranks countries active in outsourcing now and in the future. Among the major trends over the next ten years, however, is the growth of multinational outsourcers—large corporations with the capacity to go anywhere in the world for the skills their clients need. In ten years, they will actually become the second most attractive outsourcing option, after China, not just because of their wide-ranging outsourcing options, but because they will be better able to spread the costs and risks of outsourcing, relieving many corporations of the need to make country-by-country decisions.

***CIO Insight* and the whiteboard authors appreciate the input from the following global experts:**

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