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Global Sourcing Trends in 2009

By Alistair Maughan (London), Julian Millstein (New York), Nigel Stamp (Hong Kong)

At the beginning of each year, we survey Morrison & Foerster's Global Sourcing Group lawyers in Asia, Europe, and the United States regarding the current state of the world's outsourcing market and emerging trends likely to shape that market over the next twelve months. In this year's update, our lawyers comment on the impact of the economic downturn on outsourcing, identify key business and legal considerations in today's sourcing deals, and highlight new sourcing-related developments in various regions of the world. Our lawyers' views are based on what they have seen in their outsourcing projects during 2008, as well as on the views expressed by service providers, outsourcing consultants, and clients.

GLOBAL ECONOMIC PROBLEMS	
Recession Deepens	For many businesses, outsourcing will remain an attractive response to the on-going recession and the consequent need to reduce expenses. However, as a result of the global credit crunch, deferred investment deals financed by outsourcing service providers are unlikely to be widely available over the coming months.
Cost-Driven Deals	Although outsourcings driven by cost-saving issues tend to be short-term solutions, such "outsourcing to survive" deals are likely to become the norm in 2009.
Do More With Less	Companies are understandably focusing on their existing outsourcing relationships, with some companies concluding that the rationale for outsourcing has evaporated. Many more companies, however, are looking to drive further value and cost improvements in their existing deals, often via re-negotiation of pricing, service levels and other key terms.
Financial Services	In the past, financial services companies have fuelled significant growth in outsourcing. This has changed dramatically with the global economic crisis. Most banks are currently focused on maximizing value and rationalizing existing deals, not on new outsourcing activity. On the other hand, look to industries that have been slower to embrace sourcing – such as the retail and entertainment industries – to pick up some of the slack.
Effect on Service Providers	Some service providers will not survive the current economic upheaval, while others will thrive. The service providers most likely to survive will be those that have sectoral and geographic diversity, well-managed overheads, and deep, long-term customer relationships. Consolidation in the service provider community may mean less leverage for customers in future negotiations, and the recent high-profile Satyam scandal in the Indian service provider market may prompt a "flight to quality" by outsourcing customers.

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OTHER GLOBAL TRENDS	
Data Privacy and Security	The potential impact of a data security breach has never been higher. Outsourcing customers continue to focus extensively on the risk of data loss presented by their service providers. Encryption, secure data transfer, and enhanced loss notification and liability provisions are increasingly common negotiation topics.
Claims and Disputes	As contract margins get tighter and customer tolerances for underperformance shrink, we are already seeing an increase in the number of disputes (including litigation) between outsourcing customers and suppliers. Unless properly handled, such claims and disputes can have a devastating impact on the overall outsourcing relationship.
Green IT	Clean-tech and Green IT initiatives will remain on CIOs' agendas during 2009. In light of the current economic climate, however, the interest of outsourcing customers in more energy-efficient IT solutions will be limited primarily to those solutions that offer cost savings either immediately or in the near future.
ASIA	
"China factor" Cushions the Recessionary Effect	The recession has been delayed in reaching Asia, and its overall effect may well be softened by the "China factor." Some observers are projecting that the growth of outsourcing in China may accelerate during 2009; at worst, it will slow only a little.
Growth in Outsourcing Within Asia	Outsourcing within Asia from high-cost to low-cost jurisdictions is set to increase and, because it starts from a relatively low baseline, may have the greatest mid- to long-term growth potential.
EUROPE	
Sleeping Giant Dozes Off	The European outsourcing market has slipped back after two years of strong growth. But there is still latent demand, and more scope for first-time outsourcing than in more mature markets such as the UK and U.S.
Data Security and Privacy	Data security and privacy issues remain high on the European agenda – with a resulting impact on trends in Europe-based outsourcing deals.
UNITED STATES	
Moderate Growth and "Re-Sourcing"	Outsourcing by U.S. companies is expected to continue growing, although more moderately than in recent years. 2009 is shaping up to be the "Year of Re-Sourcing" as firms review their sourcing strategies to deal with the short-term and potential long-term effects of the deepening recession.
U.S. Jobs Policy	The new administration of President Obama has an overt U.S. jobs-creation policy. Combined with organized labor pressure and caps on visas, this could mean more outsourcing solutions biased towards on-shore delivery.
An Outsourcing Rebound	The outsourcing model provides an opportunity for companies emerging from the current economic downturn to choose solutions that are less dependent on raising capital and more based on partnering with others who can provide necessary people, processes and tools in a cost-effective manner.

GLOBAL ECONOMIC PROBLEMS

Deepening World Recession

No prizes for guessing the key trend affecting the global outsourcing market in 2008 and 2009. Since we last published our annual review of the outsourcing market, the global economic news has been uniformly bad. As 2008's severe credit crunch and banking industry turmoil begin affecting other sectors of industry and the economy, the recession is likely to become deeper and wider during 2009. And, of course, the outsourcing market is intrinsically linked to the success of the businesses that use outsourcing as a management tool.

The impact of this recession will be significantly greater than the last economic downturn, which occurred after the bursting of the tech bubble in 2000/2001. The reason for this is the causes are significantly wider and more complex.

In previous recessions, the outsourcing market revealed counter-cyclical tendencies because many companies have used outsourcing as a way to cut short-term costs. While this may not make for the most satisfying, long-term, strategic partnering arrangements, it is clearly seen by many companies as a way to increase the flexibility of their cost base while, at the same time, tapping into more specialist resources and greater quality in the delivery of certain essential services.

One of the problems with this recession, however, is that it follows hard on the heels of a tightening of credit. A resulting impact is that service providers are finding it harder to structure their arrangements and include financing packages within their proposals. So some of the attractive "buy now, pay later" deals that may have been available in prior years are now simply not capable of being externally financed.

We have already seen over the past few months a return to cost-driven outsourcing, despite the fact that, over the long term, service-driven or value-driven projects tend to deliver more stable, successful relationships. We have also seen a slow-down in the initiation of new outsourcing projects. Businesses – especially in the financial services sector (see below) – are much slower to initiate new projects and are spending considerably longer in evaluating and assessing their needs before commencing any sort of procurement or negotiation activity.

Cost-Driven Deals

As we wrote in November 2008 (*Outsourcing Services in the Face of an Economic Downturn*), as a result of the current economic crisis, all companies are looking for ways to decrease expenses significantly and quickly, and to streamline operations, as the economies of many of the world's developed nations head into what could be a lengthy recession. Outsourcing seemingly offers a solution to the requirement to save costs and focus on core competencies. In an environment where Fortune 500 companies have disappeared overnight, a successfully executed outsourcing deal could make a difference in a company's ability to ride out these challenging times.

Last year, Morrison & Foerster's annual review of global sourcing trends accurately predicted that the anticipated economic slowdown in 2008 would result in more outsourcing projects driven by cost saving issues rather than "added value" issues such as access to new skill-sets, best-of-breed services, greater innovation and transformation, and better speed-to-market for new products and services. But, as we also observed, outsourcings driven by cost-saving issues tend to be short-term solutions.

Nonetheless, as Europe and the United States sink deeper into recession, we expect an even greater increase in the percentage of cost-driven deals in 2009 as compared to 2008. Customers with extensive outsourcing experience may be the exception to the rule, as previous experience may have taught them that outsourcing projects driven by longer-term value or service issues tend to be more successful – because, for example, a cost can only be saved once; efficiency or quality improvements become lasting, compound benefits. Those with outsourcing experience will also recognize that outsourcing does not necessarily guarantee cost savings.

Given the cost drivers likely to be underlying most customers' decision to outsource, 2009 may also see an increase in the provision of commoditised services by suppliers, whereby the customer must conform its business processes to receive services from the supplier in accordance with the supplier's processes, not the customer's.

Depending upon the type of services to be outsourced by the customer, this may result in relatively significant upfront costs, off-set by longer-term cost savings and increased business efficiency. The willingness of customers to conform their business processes to those offered by suppliers will be determined by the type of services in question and the potential benefits that the supplier can offer. Nonetheless, this may be one route that an increasing number of companies explore in 2009 as they contemplate their options for cost savings and operational efficiency.

Do More With Less

Many outsourcing customers routinely do very little to revisit their outsourcing contracts once the deal has commenced. Some customers rely on benchmarking or other value for money mechanisms to produce gradual improvements over time in quality of service or reducing certain pricing inputs.

We are now seeing, however, more outsourcing customers consider how existing outsourcing contracts are affected by the economic climate and whether re-negotiation is required in order to derive maximum immediate value from the existing relationship. In our December 2008 update *Outsourcing and the Economic Crises, Part II: Re-structuring Existing Outsourcing*, we discussed the effect of an economic downturn on outsourcing deals entered into during better times. Companies that negotiated deals over the past five years could not have possibly anticipated economic upheaval on the scale that we are witnessing today. Accordingly, many outsourcing customers are reviewing their existing outsourcing arrangements and determining whether those arrangements need to be re-structured to reflect the realities of today's business environment.

At the extreme, this can mean re-considering whether the original rationale for the outsourcing still exists – and therefore whether the outsourcing still makes sense. More often, however, it results in less dramatic measures such as putting planned investments on hold or elongating technology refresh cycles. Other obvious approaches include re-assessing the requirement for particular service levels (and relaxing particular SLAs if cost savings might result) – or even considering whether in-sourcing certain aspects of the outsource relationship may be a more practical way forward, in particular if the area of business served by the outsourced function has dramatically shrunk as a result of the on-going recession.

Other possible actions include extending contract terms in return for the delivery of immediate cost savings and moving towards much greater standardisation of processes. This latter point has always been a factor that companies have taken into account – but the need to deliver on it is now much greater than ever before.

Customers are reviewing their existing outsourcing arrangements to determine whether those arrangements need to be re-structured to reflect today's business environment.

Financial Services Market

For many years, the financial services sector has been one of the key drivers of the outsourcing and technology services market. Banks and insurance companies have spent billions of dollars in developing new technology platforms to support their various businesses and in outsourcing increasingly-core elements of their technology platforms and business processes.

As a result of the 2008 banking crisis, many of these organisations, which for years have fuelled the growth in the financial services outsourcing market, are either no longer in existence, are significantly reducing in size, or are focusing more on consolidation of their newly merged structures, rather than on commencing new deals. So, for those service providers that relied on doing business with the likes of Lehman Brothers, Wachovia, HBOS or the failed Icelandic banks, they are having to get used to the fact that those businesses are no longer in existence, are being acquired or have been bailed out by government in return for government part-ownership.

Numerous financial services organisations are now focusing primarily on how to align their newly merged infrastructure – and that is more likely to mean a re-negotiation and rationalisation of existing deals than the commencement of new projects. Clearly, this presents a threat for service providers primarily focused at the financial services market.

Effect on Service Providers

The impact of the current global economic crisis on service providers will be more significant than previous downturns. Service providers which have a wide diversity in both industry base and geographic diversity will be better placed to survive the next 12 months. We expect almost every service provider to go through a process of redundancy and potential downsizing. Small to medium sized vendors focused on particular countries or regions or particular industry sectors will be particularly vulnerable.

However, although geographic diversity and a low cost base are important factors, it is not automatically the case that the native Indian off-shore vendors will be the ones to succeed. We are already seeing an increase in demand for off-shore outsourced services from our clients. But alongside the increasing demand comes ever increasing pressure on margins. It will be impossible for the Indian off-shore vendors to continue to deliver the sorts of margins that they have achieved over the past few years. We note that many of the main Indian vendors are reducing staff hiring and continuing their strategic plans to gravitate towards the higher end of the market. Moreover, Indian services providers may be impacted by a "flight to quality" as western customers react to the recent high profile Satyam Scandal.

Companies such as IBM and Accenture which have a wide portfolio of existing clients with whom they are able to maintain a relationship will be best positioned to survive the recession. Indeed, IBM recently reported increased earnings over its most recent quarter. That reflects the deep and wide relationships that IBM has with its clients. It is exactly those sorts of deeply embedded relationships that companies need if they are to survive the current downturn.

Outsourcing remains a buyer's market and there are more people competing for business than ever before with an increased desire to "do deals". The perilous state of the credit markets, however, means that the ability to structure innovative deals is reduced compared to previous years. Nor are service providers able to carry deals on their balance sheets in the early stages pending increased profitability in the later stages of deals. This will focus attention on the vendors which are already efficient at both pricing their deals and delivering to that pricing. Service providers which, in the past, have sought to disguise a lack of efficiency by more innovative pricing structures or by promising either sophisticated gainsharing or productivity baselining techniques will become increasingly disappointed.

The focus is going to be, more than ever, straight to the bottom line in terms of what pricing can be done in the near term.

OTHER GLOBAL TRENDS

Data Security and Privacy

Europe has joined the ranks of regions grappling with high-profile breaches of data security and loss of personal data. As with Japan in 2004-05 and the U.S. in 2006-07, 2008 was the year of mass media attention on data breaches in Europe.

Europe was hardly alone in experiencing data breaches: there were hundreds of reported data breaches around the world in 2008 – and this is likely to continue in 2009. In South Korea, for example, GS Caltex call center employees were accused of downloading and attempting to sell names, Social Security numbers and e-mail addresses of 11 million customers.

More than ever before, the risks of experiencing a data security incident include not only financial costs (the costs of notifying individuals alone can be high), significant embarrassment and reputational damage for the relevant culprit's company or organisation, but also the risk of losing business.

We are already seeing outsourcing customers devote significantly more energy to incorporating new risk and liability provisions in contracts with their suppliers in respect of data loss (and the consequences of breaching data security obligations). Outsourcing customers also seek better assurance mechanisms that give them as much transparency and confidence as possible that any personal data transferred to a supplier is processed securely and in many instances raising the bar beyond what is statutorily required. This may translate into great scrutiny and due diligence at the inception of an outsourcing relationship into data security, more detailed provisions relating to data security and more assurances regarding obligations following a breach.

In no small part as a result of the volume of data breaches, customers are being more precise in their data security expectations. We are already seeing specific provisions in outsourcing contracts requiring, for example, the encryption of service providers' employee laptops and the encryption of sensitive personal data sent via e-mail. Further, we are seeing requirements specifically limiting access to the fewest number of people truly necessary to perform the service, data masking and limitations on remote access to data centers.

Other trends that we expect to see during 2009 include: increased requirements for the use of encryption and other encoding mechanisms to protect data in transit and at rest; and customers requiring service providers to maintain comprehensive written security procedures. New regulations in Massachusetts will make certification by service providers that they have a comprehensive written security program statutorily required, but even before those regulations take effect and even in states without such regulations, we expect to see a growing demand for such representations by service providers.

A further development in respect of data security – specifically in relation to financial data – is manifested in the new privacy standard issued by the ISO (*International Organization for Standardization*): ISO 22307:2008. This is intended to help private and public sector organisations identify and mitigate privacy issues and risks associated with processing financial data of customers and consumers using automated, networked information systems. Particularly in light of the current focus on data security, we expect to see banks and other financial institutions requiring their outsourcing service providers to comply with ISO 22307:2008.

For all of the above reasons, data privacy and security is an issue that is sure to be high on the list of concerns and potential risks of all outsourcing customers in 2009.

Claims and Disputes

An indirect consequence of the global economic downturn will be an increase in the number of disputes (including litigation) between outsourcing customers and suppliers.

As cash-strapped customers increasingly focus on their bottom line, they will become less likely to waive or ignore any potential claims that they may have against service providers in breach of their obligations. And service providers will be equally reluctant to turn a blind eye to customer actions that reduce contract margins.

In the pre-credit crunch environment, customers might have been more willing to overlook relatively minor breaches (such as short-term slippage in an implementation plan) in an effort to encourage a more co-operative approach to outsourcing projects with their suppliers, and avoid any adversarial behaviour in their outsourcing relationships. However, in an environment where customers are more focused than ever on their cost base, the efficiency of their business and on the delivery of projects on time and within budget, it seems likely that suppliers should brace themselves for an increase in finger-pointing, breach notices and claim forms if they fail to adhere strictly to their contractual obligations. Customers will not be slow to attribute blame to suppliers if they cause delays to projects or perform services poorly.

There will be an increase in the number of disputes (including litigation) between outsourcing customers and suppliers.

Contract disputes are never pleasant but, unless carefully handled, a dispute between outsourcing customer and supplier can escalate into a potentially very serious situation. It is vital to ensure that the dispute is isolated and escalated as soon as possible, before it has the chance to spill over into unrelated areas. Both sides ought to take steps to separate management and resolution of the dispute from business-as-usual – since, in most cases, what has gone wrong is likely to affect only a small minority of the parties' on-going working relationship.

Green IT

Before the on-set of the credit crunch and the banking crisis, one of the hot topics for governments and companies in the developed world was how to reduce the environmental impact of corporate IT use. A recent study by McKinsey suggested that the world's data centres will produce more greenhouse gases than the airline industry by 2020. The varied potential solutions to such problems have become labelled "Green IT".

In the light of the current economic climate, we expect the interest of outsourcing customers in more energy-efficient IT solutions to be limited predominantly in 2009 to those solutions that offer cost savings either immediately or in the near future.

As we anticipated in last year's annual review of trends in the sourcing market, we continue to believe that, in the long-term, outsourcing customers will increasingly insist upon the introduction of energy efficient best-practice standards and processes. However, in the short-term we expect those same customers to be focused intently on cost reduction and business efficiency. To the extent that "Green IT" solutions cannot satisfy those requirements, they are likely to be put on the back-burner until relative normality returns to the global economy and business-as-usual resumes.

It also seems possible that the political impetus for companies to reduce their carbon footprints may falter (and that regulations may be temporarily relaxed) as economic concerns continue to take centre stage. This may be another factor that, temporarily, moves the spotlight away from Green IT

ASIA

"China Factor" Cushions the Recession

The full effects of the current global economic recession were not really felt in much of Asia until the last quarter of 2008, when businesses across most economic sectors started to notice a real downturn in work volumes. However, there is also a feeling in Asia, whether real or imagined, that if the global recession worsens in 2009, as is widely predicted, that the China and Hong Kong market, and other countries closely associated (economically) with China in Asia, may be cushioned against the full effect of it. In part, this view relies upon the more recent history of a deflationary economy in Japan, and a view that the Chinese economy is now largely de-linked from that of the U.S.A. This latter point is widely disbelieved, so the cushioning effect may be less than Asia's economic boosters might hope.

Nevertheless, there is real hope and expectation in Asia that China (and other Asian countries such as the Philippines and Thailand) will actually benefit from the global recession as companies seek more actively to cut costs through outsourcing to lower cost jurisdictions. This is clearly a view shared by vendors such as CSC and TCS, both of whom opened new centres in China in late 2008. The enhanced drive to cut costs comes at a time when confidence is increasing in the ability of outsourcing operations in China to deliver value and stability.

The perennial problems of English language ability and intellectual property issues are also improving as well, although there is still a long way to go. However, there are more English speaking (often U.S. educated) IT professionals in China every year, and the issue of adequate IP protection is becoming perceived as less of a problem than it was — or at least in the drive to cut costs perhaps businesses are just more prepared to take a view on it.

In our view, growth of outsourcing in China in 2009, at worst, will slow a little, and may well even accelerate if the projections of some are to be believed.

Outsourcing Within Asia

Outsourcing within Asia from high-cost to low-cost jurisdictions (*e.g.*, from Japan, Singapore and Hong Kong) is set to increase and, because it starts from a relatively low baseline, may have the greatest mid- to long-term growth potential.

Traditionally, Asian companies have been the slowest adopters of outsourcing of the three main global regions. This may be for cultural reasons as much as anything – especially in Japan where the Westernised concept of outsourcing seems to be limited to Japanese subsidiaries of foreign businesses, or to contract manufacturing

However, there are predictions that this is about to change, triggered partly by the recession, with high-cost jurisdictions like Japan, and now Singapore (perhaps even Hong Kong) outsourcing to China and lower cost countries (*e.g.*, the Philippines and Thailand). Gartner recently reported that outsourcing will still increase 17.7% over Asia generally in the next five years, and by 22.7% in Singapore in particular, driven by the desire to cut costs.

EUROPE

A Sleeping Giant Dozes Off

The European outsourcing market (aside from the UK) has been a sleeping giant for many years. However, between 2006 and 2008, Europe became a market leader in the generation of new outsourcing work – perhaps because there was so much latent capacity for services to be outsourced.

The effect of the economic downturn is hitting the European outsourcing market in equal proportions to the global market. There are similar structural issues in the European and financial markets, and the concerns of European based multi-nationals will cause a slow down over the next 12 months. The financial services market in Europe is particularly likely to be hard hit. Research firm IDC predicts only 3% growth in IT spending across the EMEA region, down 1.5% below its own pre-September 2008 forecast.

But there are potential green shoots of recovery outside the financial sector. Other vertical sectors such as pharmaceuticals, life sciences, manufacturing and telecoms may be better placed to weather the recession. Also, the strength of the Euro currency could potentially help to fuel demand in the Euro zone.

Indian off-shore services providers are focusing on Europe in an increasing degree. The issue for those vendors is that they have not yet invested enough in the European market – as they have in the UK or U.S. – to establish a clear differentiation of position, nor to establish a clear infrastructure foothold. It may be difficult to do so in the current tightening credit market.

Data Privacy and Security Developments

Data security and privacy issues remain high on the European agenda – with a resulting impact on trends in Europe-based outsourcing deals.

For example, the introduction of breach notification rules is currently one of the privacy "hot topics" in many EU Member States. Breach notification legislation exists in a number of countries and U.S. states already – and requires public notification to affected individuals if their data has been lost by a data holder.

During the second half of 2008, the EU's regulators continued to debate the need for an EU-wide requirement to notify regulators of data privacy breaches; the related notification triggers and thresholds; and the consequences of any such breach depending on its seriousness. Irrespective of the exact outcome of that debate, in 2009 we expect to see more European outsourcing customers following their counterparts elsewhere in the world and requiring service providers to immediately report any actual or suspected data breaches, and to cooperate in the response to any data breach, and the inclusion of related risk and liability provisions.

As we report above, encryption of data is a developing global trend. Spain already requires encryption of sensitive information when it is transmitted. The UK Information Commissioner earlier this year fined retailer Marks & Spencer when a service provider lost an unencrypted laptop containing personal information of 26,000 employees and ordered Marks & Spencer to encrypt all laptops containing personal information. Data protection authorities around Europe are beginning to recommend, and in some cases require, encryption as a necessary security measure for transfers involving critical personal data (and to comply with Article 17 of the EU's Data Protection Directive which requires data controllers to implement appropriate technical and organisational measures to protect personal data against accidental or unlawful destruction or accidental loss, alteration, unauthorised disclosure or access) and of all laptop computers containing sensitive personal information. This trend will affect security requirements written into many future outsourcing contracts.

UNITED STATES

Moderate Growth and "Re-Sourcing"

Despite the enormous effect of the recession, outsourcing by U.S. companies is expected to continue growing, although more moderately than in prior years. Much of the increase in the early part of 2009 will be in the use of off-shoring to reduce cost. Most of these agreements will be short-term transactions intended to produce immediate improvements to the bottom line. The reduction in scope will have an additional benefit – reduction in the sales, contracting and transition cycle.

Also, because of bottom line pressure, we are already seeing an increase in outsourcing deals in industries that have been slow to embrace outsourcing, such as retailing, media and entertainment.

The Wall Street shake up, including effects felt throughout the U.S. economy, has resulted in the actual or likely business restructuring of traditional users of many outsourced services, such as Lehman Brothers or Merrill Lynch. 2009 in the U.S. is shaping up to be the "Year of Re-Sourcing" as firms review their sourcing strategies to deal with the short-term and potential long-term effects of the recession.

In any situation where two or more companies combine operations whether forced by bankruptcy or other economic stress, the firms concerned will review outstanding outsourcing relationships, and seek to rationalize the best set of relationships for the new entity. During the latter part of 2009 and into 2010, this is likely to result in the shift of sourcing solutions to and from various on-shore, near-shore and off-shore locations.

U.S. Jobs Policy

In the U.S. in 2009, policy will be set by the new Obama administration, which has asserted a priority of "creating 2.5 million U.S. jobs," and may or may not fulfill a campaign promise to "stop giving tax breaks to companies that ship jobs overseas." Concerned about the loss of jobs in the U.S., some customers and their suppliers are likely to create new captive U.S. entities to operate outsourced functions, and take advantage of increasingly idled domestic labor pools.

Other factors may also militate against off-shoring in the U.S. The machinists strike against Boeing, the third longest in history against that company, was largely related to issues of outsourcing in the delivery of components of the 787 Dreamliner, and highlighted organized labor's increased sensitivity to outsourcing.

Another potential impediment is the availability of visas for the on-shore operations of off-shore providers. Unless the H-1B visa cap is raised, off-shore companies will have more difficulty putting resources in the U.S. to help with transition assistance, governance, project management and the like, but may instead themselves begin to hire from the U.S. labor pool for these functions.

Finally, as a result of continued threats of terrorism, such as the attack in Mumbai, companies will re-visit their sourcing decisions in terms of business continuity, which could also lead to the adoption of more on-shore solutions.

2009 – the "Year of Re-Sourcing".

An Outsourcing Rebound

The freezing of the credit markets and shortage of liquidity means that companies that begin to emerge from the current economic downturn will be more inclined to avoid seeking capital and instead partner with others who can provide necessary people, processes and tools. The outsourcing model provides this opportunity, whether denominated "outsourcing", "collaboration" or "strategic alliance". Those organizations that understand the importance of the advantages that outsourcing provides in this respect will be at the vanguard, toward the end of 2009 and into 2010, of establishing new outsourcing relationships intended to provide a kick-start to growth. In the U.S., therefore, we can also expect to see the creation of domestic U.S. business units that will take advantage of the availability of a domestic labor pool, together with any incentives created by the Obama administration, to provide services on a collaborative basis to growing businesses. ■