

The recession and its impact on Canadian outsourcing

A summary from the research conducted by IDC, CORE and PRIMA



Frank Hart is President of Prima Management Consulting.

The Canadian outsourcing market averages about \$5 to \$6 billion annually, with an estimated minimum of \$57 billion in outsourcing contracts signed since 1998. The Canadian outsourcing market grew significantly following the 2001 recession as Canadian companies looked for new ways to reduce operating costs and focus on their core business operations. Following a period of rapid market growth in 2002 and 2003, the Canadian market flattened. However, it appears poised to grow rapidly once again, beginning later in 2009 and into 2010, based on stated intentions of buyers and recent growth in the deal pipelines of service providers.

During March and through June of 2009, a consortium of organizations including IDC, The Centre for Outsourcing Research and Education and Prima Management Consulting undertook a study to assess the impact of the current recession on the demand for Canadian outsourcing services. The study included a survey of about 200 Canadian chief executives, selected procurement executives, outsourcing advisory firms and most major service providers in Canada. The study also included one-on-one interviews with senior outsourcing executives. The study assessed the market expectations and outsourcing intentions of companies and compared these to the market patterns following the 2001 recession.

Market observations

The study found that the current recession is stimulating outsourcing demand, acting as a catalyst to accelerate trends already present (deals narrower in scope, more examination of off-shore, and so on). Canadian business executives see outsourcing as one of the best ways to attain sustained cost reduction. Canadian providers

of outsourcing services are reporting their pipeline of opportunities has risen by approximately 25 per cent on average over the same period last year.

Increased market demand for outsourcing services is being driven primarily as a key part of clients' cost-reduction strategies. Executives see outsourcing as the best way to reduce their IT costs. Unlike the post-2001 recession market activity, renewals and renegotiations have been about 50 per cent of the deal mix to date, versus 30 per cent post 2001, as existing contracts are re-opened or re-negotiated to find cost reductions and efficiencies.



However, there is also growing interest amongst companies that have not undertaken much if any outsourcing activity to date. Those that have been active outsourcers in the past are looking to broaden the scope of business functions that they outsource, moving beyond outsourcing IT infrastructure and applications to consider outsourcing selected business processes.

Future market

New deal volumes are expected to increase through late 2009 and through 2010. Increased adoption in the use of off-shore resources is expected to create permanent shifts in the market as

clients grow more accustomed to the use of off-shore resources. Not surprisingly, those sectors of the economy generating the greatest interest in outsourcing are industries hardest hit by the recession, such as financial services, retail and manufacturing. Other factors such as the shifting role of the office of the CIO and the move toward cloud computing are also more fundamental factors driving long term growth trends in outsourcing demand.

Going forward

The study found that while outsourcing typically can provide significant reduc-

tions to a company's operating costs, cost reduction alone should not be the only driver. The decision to outsource should properly be considered in the context of the company's overall business strategy. For many companies the current recession has been deeper and more severe than those previous, causing many companies to fundamentally rethink their business strategy as they prepare for a post-recession economy. For service providers and clients alike, this means finding ways to create effective business partnerships that remain flexible and take the long-term view, rather than just a short-term approach to cost reduction.