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RIQ Editorial

New face of outsourcing?

By Galiya Sayfutdinova
Editor, Russian IT Quarterly

“What I call the generator of historical events is different from the events themselves, much as the minds of the gods cannot be read just by witnessing their deeds. You are very likely to be fooled about their intentions.”

Nassim Nicholas Taleb, *The Black Swan*

It's traditional at the beginning of a new year to try to predict the future, guessing what the defining market tendencies will be and how the software outsourcing industry will develop.

This year is no exception, but fortune-telling is not going to be easy. Though it's obvious that the global economy is in recovery after the downturn, reverberations are still being felt everywhere. As a result, the outsourcing industry remains between the scissors of enterprises' appetite for offshore projects and the continued cost-cutting that affects outsourcing contracts. Price, however, is no longer the prime concern in contract negotiation; business value, as well as the provider's flexibility, is increasingly seen as more important.

With relative stability, clients' interest in more sophisticated solutions has shown stable growth. Cloud computing, social communication and collaboration and context technologies seem to be mantra words for this year.

Of course, the complexity of outsourced tasks makes the demands for the provider even tougher.

The overall level of education, staff creativity and the ability to cope with unusual tasks has become as important in choosing a provider as productivity and price. Conceivably, the situation may well lead to more pronounced labour arbitrage between major outsourcing destinations, with some places focused on complex software engineering on one side, and huge software and BPO factories on the other. Efforts at protectionism by various governments who would prefer to see the full production cycle take place in their own countries can slow the process down but won't stop it.

At the same time, we can expect further mergers between Eastern providers and large Western service companies – partly as a way of reducing costs for western IT companies and partly as a way for them to access emerging markets. The latter factor is a tendency that will only grow more significant. Developing countries' service companies have already begun making sales at home, not just overseas, as domestic demand for their services has been steadily forming.

The face of the outsourcing industry is changing. Who can say what it will look like tomorrow? We can only work hard to keep it smiling!

Summary

Mobile App Market to Grow to \$35 Billion by 2014

International Data Corporation predicts that the number of mobile application downloads worldwide will grow from 10.9 billion in 2010 to 76.9 billion in 2014. The market intelligence company also anticipates mobile app revenues will surpass \$35 billion in 2014 [read more](#)

Computer Business Week
21.12.2010

10 Outsourcing Trends to Watch in 2011

Outsourcing activity is expected to creep back in 2011, but things are hardly getting back to normal in the IT services space. The new year will be marked largely by upheaval - smaller contracts, cloud-related chaos, increased offshoring and decreased quality, for a start. Read on for more. It's not all bad, we promise. [read more](#)

By the materials of Global Services
21.12.2010

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This year St-Petersburg repeatedly entered the list of GS Top 100 Outsourcing Destinations [read more](#)

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The call center outsourcing and hosting trend is picking up significant steam in Russia where improved infrastructure and the ability to offer more advanced services has many vendors adopting it in some form. [read more](#)

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Gartner, Inc. highlighted the top 10 technologies and trends that will be strategic for most organizations in 2011. The analysts presented their findings during Gartner Symposium/ITxpo, being held here through October 21 [read more](#)

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International Data Corporation predicts that the number of mobile application downloads worldwide will grow from 10.9 billion in 2010 to 76.9 billion in 2014. The market intelligence company also anticipates mobile app revenues will surpass \$35 billion in 2014.

IDC's findings are based on company financials, product announcements and its quarterly survey of the Appcelerator mobile developer base.

Based on its research, the organization expects accelerated growth in the mobile apps market as even more applications make their way to tablets, Internet (Internet)-connected TVs and other devices in the years ahead.

"Mobile app developers will 'appify' just about every interaction you can think of in your physical and digital worlds," says Scott Ellison, IDC mobile and wireless research vice president.

Essentially, IDC is making the claim that mobile applications, and associated revenues, are here to stay. It's a conclusion that seems reasonable considering how lucrative and popular apps like Angry Birds have been, and the current ubiquity of mobile applications. Previous research from the Pew Internet Project points to 24% of the U.S. adult population using apps, with app users having 18 apps on their device on average.

Still, there are some — RIM co-CEO Jim Balsillie, for instance — who believe that the "appification" of the web is a fad that is destined to flatline.

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Outsourcing activity is expected to creep back in 2011, but things are hardly getting back to normal in the IT services space. The new year will be marked largely by upheaval - smaller contracts, cloud-related chaos, increased offshoring and decreased quality, for a start.

Read on for more. It's not all bad, we promise.

1. Progressive Outsourcing

The year will be marked by the inking of smaller IT services deals, many of them by first-time buyers who sat on the sidelines in 2010, say industry watchers. Providers, happy to have a foothold, will push such customers to expand the scope of their relationships over time--the old "penetrate and radiate" approach. Contract activity will "creep back throughout 2011, as the recover stutters and buyers pull the trigger on sourcing activity," says Phil Fersht, founder of outsourcing analyst firm HfS Research.

2. Diving for Dollars

Facing a slow economic recovery, IT leaders will continue to scour their existing outsourcing arrangements for savings. "There's a pot of gold in every contract, and in some cases we have found a pot worth millions," says Mark Ruckman, an independent outsourcing consulting working in conjunction with Sanda Partners. IT services customers

may reconcile their invoices with their original contracts with an eye toward under-delivery or over-payment, for example, or replace contractors from large sourcing providers with IT professionals from local temp agencies.

3. Outsourcing, Meet Cloudsourcing

Even if some of the discussion of cloud-based offerings from IT service providers is largely hot air, it will continue to be a hot topic in the industry. "The emerging cloud sourcing market will cause the destruction of the outsourcing market as we know it today," predicts Ben Trowbridge, CEO of outsourcing consultancy Alsbridge. "The two markets will merge and cloud sourcing will drive the rebirth of outsourcing."

Cloud players like Amazon, Google, and Rackspace are hitting traditional service providers like IBM and HP where it hurts. "An executive of one of the current low cost leaders recently told me they're forecasting the need to be able to remain profitable while seeing the price of some of their services drop by 70 percent over the coming year," says Trowbridge.

Look for mergers and acquisitions as legacy providers fumble their way forward. Customers, too, will need help stitching together old and new. "IT is going to be coordinating an increasing portfolio of third-party applications hosted externally," says Brian Walker, managing director of EquaTerra's information technology advisory. "The theme in 2011: SaaS-to-SaaS integration."

4. Back-Door Deals Put CIOs at Risk

Many of the discussions and decisions about cloud-based offerings will be handled by business unit or function owners rather than IT, says Kamran Ozair, executive vice president and CTO at offshore outsourcer MindTree. That could pose problems down the road. "CIOs must get ahead of business users reasonable zeal for the power of focused SaaS applications that could back the enterprise into stealth architecture decisions that could be expensive to undo," says Trowbridge. "Business stakeholders want cloud, and they know smart CIOs can mitigate its risks," adds Fersht. "However, IT professionals must tool-up to deliver cloud to their business stakeholders, otherwise they risk a gap growing between business demand and IT supply."

5. The End of Customization

"Clients will be increasingly open to changing their internal processes and accepting standard 'vanilla' services in 2011," predicts Bob Mathers, principal consultant for Compass Management Consulting. "Service providers will put renewed emphasis on internal initiatives to standardize their own offerings to leverage economies of scale and stabilize profit margins." It's the stuff of benchmarking dreams, but economic conditions may turn it into a reality. Stan Lepeak, managing director of global research for outsourcing consultancy EquaTerra, also predicts more process, technology, and location standardization including platform-based solutions.

6. Prices Get Firm

Remember when you could persuade (read: bully) your provider into lower pricing? Days of auld lang syne, my friends! "Outsourcing providers have filled up their prior excess capacity and will be driving to secure higher price points," says David Rutchik, partner with outsourcing consultancy Pace Harmon. "Pounding on the table for price reduction is unlikely to be effective this year."

Customers seeking savings will have to bone up on delivery models, deal structures, and value drivers instead. And vendors will have to woo clients with performance rather than a low bid, says Peter Bendor-Samuel, CEO of outsourcing consultancy Everest Group. "As a result, we will see select players grow disproportionately, taking clients away from others."

Cloud-computing prices could also become less - well, cloudy. Pricing models will mature, predicts Dave Brown, managing director of EquaTerra's IT advisory, and buyers will better understand the specific offerings.

7. M&A: East Meets West

A merger between a major Indian IT service provider and a U.S.-based outsourcer? It could happen next year, say some industry watchers, and an Indian company may be on the buying end. Western providers have adopted the process and cost initiatives first embraced by their Eastern counterparts. Indian providers are skilling up to try to win more consulting and integration work. "The cultures are moving closer together," says Fersht of HfS Research. "2011 will see the first mega-merger between a major Indian services provider and one of the Western incumbents."

"It has long been talked about," says Joseph King, Chief Marketing Officer at MindTree. "There is no longer [cost] that CIOs can squeeze from their India partners. So for differentiation, India providers will be forced to move up the value chain."

8. Protectionism Will Continue...With Limited Effect

It's practically inevitable with continued high U.S. unemployment levels that the new year will bring with it more proposals by American politicians that appear to limit the use of offshoring.

But any proposed protectionist legislation will be marked mostly by sound and fury. "Most of these measures will fail to gain traction and pass into law, and those that do will be difficult to implement and audit," says Bendor-Samuel.

The attention that such measures, successful or not, draw could put pressure on offshore companies to increase their onshore capabilities, Bendor-Samuel says. But they hardly need more impetus to do that (see prediction №7 above). Concerns about a tax on offshore call centers specifically could be an incentive to reduce call volumes through the use of more self-service and automation tools, says Compass's Mathers. But they hardly need more incentive to take more labor costs out of the outsourcing equation (see prediction below).

9. Providers Embrace Mass Automation...

"It continues to become harder to turn a good profit as a third party service provider," notes EquaTerra's Lepeak. Pressure to keep costs down and rive performance up, outsourcers will rely more heavily on automation, says Rutchik of Pace Harmon, from optical character recognition to whole lights-out, employee-free delivery centers.

Providers will increasingly be slinging such automation tools as well. "Applications that reduce the labor a client is required to perform the services will be offered at lower implementation and running costs than they have in the past," says EquaTerra's Brown. "This will continue to create demand for additional opportunities and reduce the staff necessary to support critical business applications."

10. And Mass (Offshore) Migration

The internal corporate IT job isn't the only one expected to go the way of the dodo in coming years. IT enterprise customers aren't the only expect more vendors to make like HP and attack labor costs through layoffs and offshoring in 2011. "[HP] has emerged leaner and dramatically more price competitive," says Bendor Samuel. "This increased competitiveness has already set off a chain reaction as competitors increasingly recognize the new competitive realities and move, in turn, to cut cost and match price." The easiest way to do that it is to move large swaths of delivery personnel to lower cost locations. "This

mass migration of work is and will further stretch offshore delivery capabilities, resulting in decreasing quality and communication problems," Bendor-Samuel predicts.

St-Petersburg, Russia, entered GS Top 100 Outsourcing Destinations

Reksoft press service by the materials of Global Services magazine
20.11.2010

This year St-Petersburg repeatedly entered the list of GS Top 100 Outsourcing Destinations.

St. Petersburg, Global Services magazine writes, is one of the country's major business centers. Its close location to Western Europe also makes it attractive for foreign businesspeople. The fourth-largest megapolis of Europe, its geopolitical, intellectual, economical, cultural, and historical advantages are unique.

In the product-development sub category, the city of St. Petersburg has figured as a new entrant in the emerging city space. Unlike IT-BPO companies, product-development companies have a very niche market. The educational structure of St. Petersburg is capable of generating skills required to make the city one of the most potential outsourcing cities for product development. The strong presence of offshored product-development companies such as Reksoft and DataArt displays the growing activities in this space. The city is known as an established destination for engineering and R&D services. St. Petersburg also has expertise in areas such as R&D, health-care services, engineering services, etc.

Local governments provide additional incentives to IT companies. For example, St Petersburg allows IT companies that have invested more than \$1.8M in the city to enjoy a reduced profit tax rate of 20 percent (normal rate 24 percent) and companies whose investment in the city exceeds \$5.6M additionally enjoy 50percent concession on property tax.

St. Petersburg is well ahead of the other regions of North-West Federal Region by the basic indices of social and economic development, especially in civil construction and trade. A lot has been done for the development of the transport complex, improvement of the industry structure, attracting tourists, and culture development. All these actions have set the base for steady economic growth in the coming years. St. Petersburg is a strong leader in the ratings of the most investment-attractive regions of Russia. Its great intellectual, scientific, and personnel potential and stable development in the previous years gives the city a comfortable atmosphere for business start-up and development. The government is trying to encourage economic growth and assist the business community in the city.

With an increasing amount of foreign interest and investment in St. Petersburg, the city is fast becoming rich along with its inhabitants. This has a great effect on property prices, which has driven skywards over the past few years. As per the World Bank, Russia's economy will see a robust recovery in 2010, but unemployment will remain high.

Call Center Outsourcing from Russia Picking up Steam in the Global Recession

Global Services
04.11.2010

The call center outsourcing and hosting trend is picking up significant steam in Russia where improved infrastructure and the ability to offer more advanced services has many vendors adopting it in some form.

As more companies attempt to cut cost and save profit in this global recession many are looking at call center outsourcing as a major way to accomplish reduction of cost. The call center outsourcing and hosting trend is picking up significant steam in Russia where improved infrastructure and the ability to offer more advanced services has many vendors adopting it in some form. As the economic climate in Russia has increases the outsourcing of growth of Russia as a whole, hosted and outsourced call centers are like to follow the trend and could see dramatic growth in Russian clientele.

“The market and technology developments in Russia are similar to those in Europe. This includes contact channel integration, agent performance optimization, and self-service improvements. These trends, however, fall 5-6 years behind the rest of Europe. In spite of this lag, companies providing outsourcing services will operate on the cutting edge, utilizing the latest, state-of-the-art technologies, as they will not have to rely on the contact centre ‘legacy’ technologies,” notes Iwona Petruczynek head research analyst for the Unified Communication and Collaboration group.

The competition in the Russian outsourcing market has few local leaders or international players and is currently disorganized, but those involved full expect a more mature fleshed out model to emerge in the coming years. Again with as large a market it as it had, the growth in the market is expected to be huge.

Gartner Identifies the Top 10 Strategic Technologies for 2011

Outsourcing-russia.com
19.10.2010

Gartner, Inc. highlighted the top 10 technologies and trends that will be strategic for most organizations in 2011. The analysts presented their findings during Gartner Symposium/ITxpo, being held here through October 21.

Gartner defines a strategic technology as one with the potential for significant impact on the enterprise in the next three years. Factors that denote significant impact include a high potential for disruption to IT or the business, the need for a major dollar investment, or the risk of being late to adopt.

A strategic technology may be an existing technology that has matured and/or become suitable for a wider range of uses. It may also be an emerging technology that offers an opportunity for strategic business advantage for early adopters or with potential for

significant market disruption in the next five years. As such, these technologies impact the organization's long-term plans, programs and initiatives.

"Companies should factor these top 10 technologies in their strategic planning process by asking key questions and making deliberate decisions about them during the next two years," said David Cearley, vice president and distinguished analyst at Gartner.

"Sometimes the decision will be to do nothing with a particular technology," said Carl Claunch, vice president and distinguished analyst at Gartner. "In other cases, it will be to continue investing in the technology at the current rate. In still other cases, the decision may be to test or more aggressively deploy the technology."

The top 10 strategic technologies for 2011 include:

Cloud Computing. Cloud computing services exist along a spectrum from open public to closed private. The next three years will see the delivery of a range of cloud service approaches that fall between these two extremes. Vendors will offer packaged private cloud implementations that deliver the vendor's public cloud service technologies (software and/or hardware) and methodologies (i.e., best practices to build and run the service) in a form that can be implemented inside the consumer's enterprise. Many will also offer management services to remotely manage the cloud service implementation. Gartner expects large enterprises to have a dynamic sourcing team in place by 2012 that is responsible for ongoing cloudsourcing decisions and management.

Mobile Applications and Media Tablets. Gartner estimates that by the end of 2010, 1.2 billion people will carry handsets capable of rich, mobile commerce providing an ideal environment for the convergence of mobility and the Web. Mobile devices are becoming computers in their own right, with an astounding amount of processing ability and bandwidth. There are already hundreds of thousands of applications for platforms like the Apple iPhone, in spite of the limited market (only for the one platform) and need for unique coding.

The quality of the experience of applications on these devices, which can apply location, motion and other context in their behavior, is leading customers to interact with companies preferentially through mobile devices. This has led to a race to push out applications as a competitive tool to improve relationships and gain advantage over competitors whose interfaces are purely browser-based.

Social Communications and Collaboration. Social media can be divided into: (1) Social networking — social profile management products, such as MySpace, Facebook, LinkedIn and Friendster as well as social networking analysis (SNA) technologies that employ algorithms to understand and utilize human relationships for the discovery of people and expertise. (2) Social collaboration — technologies, such as wikis, blogs, instant messaging, collaborative office, and crowdsourcing. (3) Social publishing — technologies that assist communities in pooling individual content into a usable and community accessible content repository such as YouTube and flickr. (4) Social feedback - gaining feedback and opinion from the community on specific items as witnessed on YouTube, flickr, Digg, Del.icio.us, and Amazon. Gartner predicts that by 2016, social technologies will be integrated with most business applications. Companies should bring together their social CRM, internal communications and collaboration, and public social site initiatives into a coordinated strategy.

Video. Video is not a new media form, but its use as a standard media type used in non-media companies is expanding rapidly. Technology trends in digital photography, consumer electronics, the web, social software, unified communications, digital and Internet-based television and mobile computing are all reaching critical tipping points that bring video into the mainstream. Over the next three years Gartner believes that video will

become a commonplace content type and interaction model for most users, and by 2013, more than 25 percent of the content that workers see in a day will be dominated by pictures, video or audio.

Next Generation Analytics. Increasing compute capabilities of computers including mobile devices along with improving connectivity are enabling a shift in how businesses support operational decisions. It is becoming possible to run simulations or models to predict the future outcome, rather than to simply provide backward looking data about past interactions, and to do these predictions in real-time to support each individual business action. While this may require significant changes to existing operational and business intelligence infrastructure, the potential exists to unlock significant improvements in business results and other success rates.

Social Analytics. Social analytics describes the process of measuring, analyzing and interpreting the results of interactions and associations among people, topics and ideas. These interactions may occur on social software applications used in the workplace, in internally or externally facing communities or on the social web. Social analytics is an umbrella term that includes a number of specialized analysis techniques such as social filtering, social-network analysis, sentiment analysis and social-media analytics. Social network analysis tools are useful for examining social structure and interdependencies as well as the work patterns of individuals, groups or organizations. Social network analysis involves collecting data from multiple sources, identifying relationships, and evaluating the impact, quality or effectiveness of a relationship.

Context-Aware Computing. Context-aware computing centers on the concept of using information about an end user or object's environment, activities connections and preferences to improve the quality of interaction with that end user. The end user may be a customer, business partner or employee. A contextually aware system anticipates the user's needs and proactively serves up the most appropriate and customized content, product or service. Gartner predicts that by 2013, more than half of Fortune 500 companies will have context-aware computing initiatives and by 2016, one-third of worldwide mobile consumer marketing will be context-awareness-based.

Storage Class Memory. Gartner sees huge use of flash memory in consumer devices, entertainment equipment and other embedded IT systems. It also offers a new layer of the storage hierarchy in servers and client computers that has key advantages — space, heat, performance and ruggedness among them. Unlike RAM, the main memory in servers and PCs, flash memory is persistent even when power is removed. In that way, it looks more like disk drives where information is placed and must survive power-downs and reboots. Given the cost premium, simply building solid state disk drives from flash will tie up that valuable space on all the data in a file or entire volume, while a new explicitly addressed layer, not part of the file system, permits targeted placement of only the high-leverage items of information that need to experience the mix of performance and persistence available with flash memory.

Ubiquitous Computing. The work of Mark Weiser and other researchers at Xerox's PARC paints a picture of the coming third wave of computing where computers are invisibly embedded into the world. As computers proliferate and as everyday objects are given the ability to communicate with RFID tags and their successors, networks will approach and surpass the scale that can be managed in traditional centralized ways. This leads to the important trend of imbuing computing systems into operational technology, whether done as calming technology or explicitly managed and integrated with IT. In addition, it gives us important guidance on what to expect with proliferating personal devices, the effect of consumerization on IT decisions, and the necessary capabilities that will be driven by the pressure of rapid inflation in the number of computers for each person.

Fabric-Based Infrastructure and Computers. A fabric-based computer is a modular form of computing where a system can be aggregated from separate building-block modules connected over a fabric or switched backplane. In its basic form, a fabric-based computer comprises a separate processor, memory, I/O, and offload modules (GPU, NPU, etc.) that are connected to a switched interconnect and, importantly, the software required to configure and manage the resulting system(s). The fabric-based infrastructure (FBI) model abstracts physical resources — processor cores, network bandwidth and links and storage — into pools of resources that are managed by the Fabric Resource Pool Manager (FRPM), software functionality. The FRPM in turn is driven by the Real Time Infrastructure (RTI) Service Governor software component. An FBI can be supplied by a single vendor or by a group of vendors working closely together, or by an integrator — internal or external.

Outcomes Focus Shakes Up Outsourcing

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08.10.2010

In-house, outsourcing, multi-sourcing, discrete outsourcing ... For a long time, the industry has been divided in its view of outsourcing. Some aren't in favour of it at all, some are, and there has been exhaustive discussion and comparison over which type is best. We have seen monolithic engagements such as those at Telecom, Westpac and Fonterra, and we have seen outsourcing in its simplest form with desktop or software support fiercely contested. And the end goal? I suppose it has been to achieve certain objectives, almost all of which are operationally focused.

Something I've noticed on the rise in 2010 — and this is really a reference to a discernable increase in an already rising trend — is a focus on outcomes. Companies have dabbled in all sorts of objectives for IT services — from cost reduction and service level agreement-based engagements, to buying power and a focus on the core business. It is interesting that in the past, outsourcing was the preferred format, and in some cases the only way to achieve these. But as outcomes become the focus, so it seems, does flexibility.

Outcomes are always important. But the trend we are seeing in the market now is more about outcomes being the key performance indicator for the engagement. There has always been a degree of interest in shared risk engagements — and there are a number of different guises these can take. The simplest of these is the fixed price engagement.

But these shared risk engagements have not really taken off very often. The first conclusion people draw is that the risk will be taken on by service provider — with perhaps a small slice of the upside (or business savings) on offer for successful delivery.

The tendency has been to go for the extreme, or for customers to use shared risk as a stick to beat suppliers with. But I believe that the change we are starting to see in the use of these constructs is the result of toned down expectations on both sides.

In the past, the best way to drive cost down and to get benefits from specialisation, and economies of scale offered by specialists, was to outsource. However, I have seen a number of cases, where similar economies are being driven out of project based engagements.

Customers are prepared to trade off paying a higher daily rate over the course of the engagement to compensate for a fixed price agreement. And service providers are accepting deals that will see them earn a slice of the profit or savings if they deliver as per

the business case. With a little creativity, deals can be structured to provide upside for both customers and service providers.

So with better pricing, and greater flexibility on offer for project-based services — where does this leave outsourcing? Will this force greater flexibility, and greater accountability into the outsourcing world, or will it highlight some of the less favourable traits of traditional outsourcing engagements. I expect companies will at the very least change the mix, and increase the smaller, project-based engagements.

I am a firm believer in outcome-based engagements, and the good that they can do for the industry. It is Darwinism for the business world — those that can't perform won't survive, but those that can will prosper.

However, in practice, balance is the key. Customers need to be realistic in their expectations of shared risk, and service providers need to stand behind their staff and their services and be prepared to deliver what they say they can deliver. If they can't, it will cost them — literally.

With better pricing constructs on the rise, and greater flexibility in negotiation — will we start to see a move away from outsourcing? There won't be a move across the board. There is a place for outsourcing in the case of commodity products, and when purchasing on a large scale. But for higher value services there are other ways to skin the cat. Customers will demand, and get, greater flexibility, better pricing and above all, a means to control performance and business outcomes.