OUTSOURCING TRENDS FOR 2006

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US-based outsourcing providers will begin to control and reduce their internal G&A costs. Many still have large, onshore, non-client value adding G&A functions and as a result are burdened with higher overheads when competing against India based providers. Leveraging offshore resources should help them to reduce the strain caused by narrow profit margins.

Offshore "client owned" captive BPO and IT centers will continue to take market share away from outsourcing providers. Fifty percent or more of BPO jobs will go to "client owned" captive centers. Alsbridge experience indicates that the term "offshoring" now means "offshore captive" first and "offshore outsourcing" second.

US-based outsourcing providers will finally begin to take this as a serious client option and begin to make inroads to be a part of it.

India-based outsourcing providers' (TCS, Infosys, Wipro amongst others) margins will continue to improve while US-based providers could be challenged to maintain their dominant positions in the market. Improved profitability and increased market capitalizations will allow India-based outsourcing providers to acquire talent from US and European-based providers.

This talent influx will allow India-based providers to move higher up the value chain and win increasingly complex projects.

M&A will continue to play a major role in the global provider community in 2006 and could result in the consolidation of one or more of the major outsourcing provider organizations. Any consolidation among the "Global Nine" (ACS, Accenture, Atos Origin, BT, Capgemini, EDS, HP, IBM, and T-Systems) would have a serious impact on the global market as a whole.

Of particular interest would be the impact on the current commodity-like procurement process used by buyer organizations. Provider consolidation may allow the providers to opt out of participating in such processes and therefore cause a shift in the market.

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