Loughborough Research Centre for Global Sourcing and Services

REPORT for UK Trade and Investment

UK ATTRACTIVENESS: OUTSOURCING SERVICES

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Executive Summary

Outsourcing is in a new era: an era of value-adding services, innovation and transformation. An era that shifts competition to skills and expertise and that shapes the firm’s strategic objectives on business transformation rather than technical solutions. As the outsourcing landscape is changing, so competition between countries for outsourcing work is reconstructing. It is no-longer competition for low-costs, but a search for superior skills, both technical and managerial, that provide the strategic guidance and operational excellence needed in the 21st century.

The United Kingdom (UK) has long been perceived as a lucrative outsourcing market. It is considered to be the second largest consumer of outsourcing services and a hub for leading global vendors that provide end-to-end BPO and ITO services to UK- and European-based customers. However, the shift in value sought from outsourcing engagement is now positioning the UK as a contender for high-value outsourcing destinations.

In this report we analyse the relative competitive position of the UK in the context of outsourcing services. We examine the UK position in light of the following three trends that we have reported about in both the academic and the professional literature:¹

1. The maturity of the outsourcing industry will drive more and more client firms to seek impact on business and strategic performance from their vendors;
2. Client firms and vendors will deploy complex sourcing models that will increase the importance of sourcing managerial capabilities, such as relationship management, against technical and delivery capabilities;
3. As growth through outsourcing is becoming a key strategic driver for partnership, locations with promising entry points to lucrative markets will become more attractive for outsourcing investments such as; the UK market as an entry point to the US market.

These trends change the nature of competition in the outsourcing industry, placing greater importance on the knowledge-base of the country, both technical and managerial skills, and on the trade opportunities a country may offer as entry points to other lucrative markets.

This report compares the UK with 7 European countries (Germany, France, the Netherlands, Spain, Ireland, Czech Republic and Poland) to conclude that the UK, as a talent-base, value-adding country that also offers advanced sourcing capabilities, has positioned its economy to attract investments from both outsourcing vendors and client firms. While we acknowledge the relative high-cost base of the UK economy, we assert that the high service standards, access to skills, entry point to mainland Europe and the USA, government support and supportive infrastructure are unique value propositions offered by the UK in the context of outsourcing services.

In this report we mainly refer to information technology outsourcing (ITO) and business process outsourcing (BPO) as the main outsourcing services provided in and from the UK. An ITO is defined as the use of external service providers to effectively deliver IT-enabled business processes, application services and infrastructure solutions for business outcomes. BPO is the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics.

**UK FDI: Ahead of Europe**

The global financial crisis of 2008 clearly affected foreign direct investment (FDI) levels. The deceleration in world growth and trade coupled with the forecast of a slow recovery meant that in the immediate aftermath of the crisis companies were very cautious and hesitant when committing to new transactions and investments abroad. But a rebound of sorts seems to be in sight. A recent report from UNCTAD shows that global FDI inflows in 2011 stood at $1.5 trillion, an increase of 16% from 2010. Although final figures are not available yet, estimates in the same report indicate that the 2013 inflows are likely to touch the $1.8 trillion mark. It is noteworthy that these figures are still below the pre-crisis levels (FDI flows in 2007: $2.1 trillion), suggesting that the process of regaining momentum is going to be very gradual. While the US continues to maintain its position as the top destination for FDI inflows, the BRIC countries with their investor friendly policies (e.g., special economic zones, deregulation of hitherto protected sectors of the economy) and favourable demographic

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2 Gartner glossary.
dividends are slowly but surely catching up. For instance, in 2011 FDI inflows into China at $124 billion was second only to the US.

As more and more governments liberalize and deregulate, a strong inward FDI position is critical for maintaining and further enhancing the competitive position of a nation. FDI brings with it a number of advantages for an economy such as modern technology, innovative managerial practices and creation of new jobs. It is therefore worrying that some western economies have taken up aggressively protectionist positions in the recent past, especially in relation to emerging markets. This is a stance that western economies can ill-afford to take. If rapidly growing BRIC economies retaliate, it will only lead to disastrous trade wars and, from an FDI perspective, may result in the drying up of much needed inflows from emerging markets.

In the specific case of the UK, the latest available (2011) FDI figures from the Office for National Statistics (ONS) and Ernst and Young’s (E&Y) 2012 UK attractiveness survey present a case for both cheer and caution. The net 2011 FDI earnings by foreign companies in the UK stood at $66 billion, an increase of 16.25% from the corresponding figure for 2010. This is clear evidence that investment earnings are on an upward trajectory after the shocks of 2008. The level of investment positions by foreign companies in the UK also rose significantly (about 6% from the corresponding level in 2010) to $1.16 trillion. Europe accounted for about 57% of this direct investment while the Americas contributed 32%. The E&Y survey further reaffirms UK’s position as the prime destination for FDI projects in Europe (see Figure 1). However, it is also evident from the survey that the gap between UK and Germany is narrowing fast. While UK’s share of the total FDI into Europe stands at 17%, Germany comes a very close second with a market share of 15%. In general, Germany has been very successful in attracting investment projects from the BRIC countries. In particular, Germany’s close trade relationship with China has contributed to a significant increase in the number of FDI projects coming into Germany from that country. Years of carefully sequenced and paced reforms means that Germany now has flexible labour markets, social and political stability, robust infrastructure and a skilled workforce, all of which are undoubtedly key factors underpinning this investment upsurge. It is noteworthy that FDI into Germany are mostly manufacturing-related investments in contrast to the UK’s focus
on services. Taking a historical view of inward FDI investment, it is evident that the UK comes out on top in Europe (see Figure 2). In 2011, FDI flows into the UK rose to $54 billion, well ahead of France, Germany and Italy, which are its closest competitors.

Figure 1. European FDI market share – the top 4 countries

![Graph showing European FDI market share from 2002 to 2011 for UK, France, Germany, and Spain.]

Source: Ernst and Young’s European Investment Monitor 2012

![Graph showing world inward FDI flows and stock from 1970 to 2011 for Developed Economies and EU total.]

Source: UNCTAD, World Investment Report, 2012 (figures in $ millions)

At country level, the US remains the biggest investor into the UK followed by Germany, India, France and China. The E & Y survey brings some good news to the UK on the job creation
front. For FDI job creation, the UK has maintained its top position in Europe (see Table 1). FDI projects created close to 30,000 jobs in the UK in 2011. Given that employment data was provided for only 46% of the total recorded projects, the actual number of jobs created is likely to be much higher.

Table 1. Employment creation by FDI

<table>
<thead>
<tr>
<th>Countries</th>
<th>2011 employment</th>
<th>2010 employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>29,888</td>
<td>21,209</td>
</tr>
<tr>
<td>Germany</td>
<td>17,276</td>
<td>12,044</td>
</tr>
<tr>
<td>France</td>
<td>13,164</td>
<td>14,922</td>
</tr>
<tr>
<td>Spain</td>
<td>9,205</td>
<td>7,723</td>
</tr>
<tr>
<td>Poland</td>
<td>7,838</td>
<td>12,366</td>
</tr>
<tr>
<td>Ireland</td>
<td>5,373</td>
<td>5,785</td>
</tr>
<tr>
<td>Romania</td>
<td>5,985</td>
<td>4,789</td>
</tr>
</tbody>
</table>

Source: Ernst and Young’s European Investment Monitor 2012

**Inward FDI and the UK Services Sector**

With the globalization of the services sector and as emerging markets become more dominant in delivering commoditized services, western economies need to differentiate their service offerings and attract high-value investments into their knowledge-based economies. The services sector includes a range of activities including business services, financial services, software development, information and communication technologies, tourism, retail and housing. At the end of 2011, UK’s services sector inward net positions rose to $751.2 billion, which is an increase of 11% from the corresponding figure of $676 billion at the end of 2010 (see Figure 3). The services sector accounted for 71% of the UK’s total inward FDI positions in 2011. In terms of net earnings from FDI directed into the UK in 2011, the services sector witnessed an increase of $9.6 billion between 2010 and 2011 (see Figure 4), with the financial services alone contributing around $5.9 billion of this increase.
The UK has demonstrated a strong FDI position in the services sector as compared to other leading European countries. Multiple sources confirm that the UK has attracted substantial investments from foreign markets over a five-year period (see Figure 5). Business services, software and financial intermediation have dominated the UK’s services sector FDI landscape. According to the E&Y 2012 UK attractiveness survey, UK is the leading recipient of FDI in Europe in these three areas with an overall market share of 24%, 34% and 23% respectively. From a services sector perspective, the UK is a highly attractive destination and enjoys significant advantages over its European counterparts owing to a number of factors. The UK shares a common cultural and linguistic background with developed services sector powerhouses such as the US and with emerging ones such as India. Access to skilled labour, a stable political climate and an advanced technology and telecommunication infrastructure are some of the other aspects that make the UK an attractive proposition, especially for FDI in the services sector.
The UK Outsourcing Service Industry: The Demand Side

In 2012, the global information technology outsourcing (ITO) market was reported to be $290 billion, and business process outsourcing (BPO) was $175 billion. Recent predictions show that in just the next 4 years (2012–2016), ITO will experience a 5-8% per annum
growth rate, while the BPO market will grow at a rate of 8 -12%, with the BPO market size overtaking the ITO market.

Outsourcing has grown far beyond its roots. All manner of non-core functions are now outsourced or offshored. A study conducted by Ilan Oshri and Julia Kotlarsky\(^3\) revealed that nearly any business function is now a candidate for either outsourcing or offshoring. Among the wide range of possible services to outsource, IT infrastructure and data management are at the top of the list followed closely by IT and technology consultancy and enterprise resource planning support. Business processes, such as finance and administration, human resources, payroll, and many others that, in the past, were largely moved offshore to captive facilities, are now increasingly outsourced to third parties instead. While more knowledge-intensive processes, such as customer relationship management (CRM) and business analytics (data warehousing and business intelligence systems), are less popular subjects for outsourcing, an increase in outsourcing these processes was also observed as well.

The UK has been a major player in the ITO industry. Inward FDI for ITO between 2006 and 2010 positions the UK well ahead of its main European competitors such as France, the Netherlands, Germany and Spain as well as Poland and the Czech Republic (see Figure 6), only second to Ireland in 2010.

\(^3\) Oshri and Kotlarsky, Value and Innovation in Outsourcing, 2010.
The main reason for the leadership position of the UK ITO market in Europe is the maturity of client firms in the UK. Interviewees from Infosys Technologies and Aegis confirm the leading position of the UK ITO sector, indicating that their presence and ongoing investment in the UK is motivated by the ‘lively and fast growing ITO market’, second in size to the USA ITO sector. Further, the UK ITO sector has moved to what Aegis has coined as ‘Outsourcing 3.0’ in which client firms focus on benefiting from value-adding services delivered by their outsourcing partners. The UK ITO market is a good example of the shift in the outsourcing sector from a transactional to a relational approach in which client firms and suppliers develop long-term partnerships to mutually benefit from the wealth created through new services and products.

The business process outsourcing (BPO) sector in the UK has maintained its leadership position despite the significant decline in demand for BPO services in 2008 and 2009. While Germany and France, its two main competitors, have lost a total of $US80 billion between 2007 and 2010, the UK BPO sector maintained the same level of inward BPO for the same period (see Figure 7). Interviews conducted with leading BPO firms in the UK confirmed that the UK maintained its leadership in the contact centre market mainly because of a large domestic customer base and the availability of language skills. Further, the UK has developed clusters of contact centres, in particular in London and North East.

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4 See Gartner report, 2011.
England where talent is considered to be more appropriate for this line of work and the attrition levels have been kept below industry standards.

Figure 7. UK inward FDI for business process outsourcing in US$ million 2006–2010 (figures for 2011/2012 were not available)

Source: OECD International direct investment database, 2013

Examining the turnover of outsourcing activities of IT and business processes in the UK provides a clear picture of a large outsourcing market (see Table 2). The turnover of IT and data-related outsourcing services in 2012 was about 10% of the global outsourcing revenue; only second to the US outsourcing market. Further, value added from outsourcing activities in the UK, which is computed as the value of the service delivered minus the value of services acquired from the suppliers has been rather healthy, indicating that outsourcing activities in the UK have been generating positive value for the UK economy.

Table 2. Outsourcing revenues in the UK, 2012

<table>
<thead>
<tr>
<th>Services</th>
<th>Turnover in £billion</th>
<th>Value added in £billion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public Sector</td>
<td>Private Sector</td>
</tr>
<tr>
<td>IT and data-related services</td>
<td>4.10</td>
<td>34.60</td>
</tr>
<tr>
<td>Call centre operations</td>
<td>0.10</td>
<td>1.00</td>
</tr>
<tr>
<td>Other office &amp; admin support services</td>
<td>1.80</td>
<td>13.70</td>
</tr>
<tr>
<td>Business consultancy</td>
<td>0.40</td>
<td>4.90</td>
</tr>
<tr>
<td>Technical consultancy</td>
<td>3.70</td>
<td>5.30</td>
</tr>
</tbody>
</table>

The Attractiveness of the UK

In the search to develop their global business services organization, firms have been considering various locations for their operations. Some firms have been focusing on the quality of infrastructure in offshore locations, while others considered the quality of the human capital offered by a near-shore location. There are firms that have put costs prior to any other factors, while others examined the growth potential in a market.

Indeed in this contest to attract offshoring and outsourcing work, many emerging sourcing destinations have been differentiating their offerings. For example, Egypt has promoted itself as a low-cost destination for call centres that specialize in European languages. Dubai and Singapore present their IT security systems and legal systems as an advantage in particular with regard to the outsourcing of high-security and business-continuity services. The Philippines, being a former US colony, stresses its long cultural ties with the US and the excellent English skills of its population in order to attract English-speaking call centres. Morocco is trying to attract French-speaking European clients to set up call centres, while Central and South American Spanish-speaking countries are hoping to establish call centres that can provide services to the Hispanic market in the US.

However, in many of the attractive countries for offshoring such as Brazil, Russia, India, and China (also known as BRIC), there have been upward pressures on wages combined with rising, sometimes high attrition levels. As costs tend to erode rather quickly and as some firms learn to appreciate long-term value delivered through outsourcing relationships, there is a firm foundation for the argument that a war for talent between attractive locations is now taking place that at times diminishes the centrality of costs saving as a key factor in a sourcing location decision.

Outsourcing: A New Competitive Regime

As the outsourcing industry of ITO and BPO enters its 4th decade, a shift has taken place in terms of the value expected from large global players. Firms are shifting their attention from
a single one-off cost reduction to seek ongoing value delivered through partnership and close ties. As part of this major shift in the outsourcing arena, firms are now paying more attention to the ability to work closely with the vendor on technical and business challenges and deliver innovation and transformational programmes as a key vendor selection criterion. Such changes in the outsourcing landscape offer great opportunities for countries that developed their outsourcing offerings around high-quality and value-adding services that are customer-centric enabled by advanced sourcing capabilities.

While such a strategic shift in the outsourcing landscape has been observed in the last 5 years, the tools to assess the attractiveness of high-talent and advanced sourcing capabilities of countries have not been updated. Indeed, several frameworks for country attractiveness have been offered in the existing academic and professional literature; however, these tools have been designed to assist managers to assess the attractiveness of mainly low-cost countries with a highly specializing workforce. We offer a six-factor framework, which is based on the country attractiveness framework by Debra Farrel; however, is modified to fit the challenges that talent-base, value-adding countries such as the UK is facing in attracting outsourcing investments.

A Framework to Assess Country Attractiveness: The Case of Talent-based, Value-Adding and Advanced Sourcing (TAVAAS) Capabilities Countries

In order to assess the attractiveness of TAVAAS countries, we focus on the following factors and their weights:

Table 3. TAVAAS countries attractiveness framework

<table>
<thead>
<tr>
<th>Factor</th>
<th>Categories</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>Average wage per skilled employee and manager</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>Average rental office space per square metre (€/sq.m/yr)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost of telecom, internet access (US$ per month)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost of power (Kw/H)</td>
<td></td>
</tr>
<tr>
<td>Availability of skills</td>
<td>Size of the labour market</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>Quality of relevant delivery skills</td>
<td></td>
</tr>
</tbody>
</table>

5 Farrel framework.
The development of this framework is based on over 300 case studies that members of the Loughborough Centre for Global Sourcing and Services have carried out with outsourcing stakeholders (vendors, client firms, advisory) over 10 years of research.

In developing the weights per factor, both the demand and supply side of outsourcing services were considered. For example, we assert that client firms that seek high-quality service based on an advanced platform of sourcing capabilities are likely to consider costs as a less important factor than the availability and quality of skills. Similarly, vendor firms that invest in TAVAAS countries are more likely to attribute high importance to growth opportunities over the cost-base of the country.

Based on data collected from various sources including interviews with key informants from leading vendors and client firms, we have developed a perceptual map of the attractiveness of 6 countries in Europe: the United Kingdom, Ireland, Germany, France, the Netherlands, Czech Republic and Poland. We report on data collected from various public sources but
also offer expert opinion regarding some of the factors, in particular where public information was not available. A detailed account of the data and expert opinions for each factor can be found in Appendix A.

Figure 8. Outsourcing attractiveness – a perceptual map of a comparative analysis

**Competitive Position of the UK**

The UK position in this perceptual map is strong. Its main competition is Ireland, with Germany making significant progress in recent years.
Cost Position:

The UK is certainly positioned as a high-cost location, in particular as compared with the Czech Republic and Poland. However, the UK cost base is not significantly more expensive than Germany and Ireland. For example, the average wage per skilled employee in the UK is $33,513 compared with $41,170 in Ireland. The cost of telecommunications and power in the UK is lower than Ireland; however corporate tax in Ireland (12.5%) is lower than the UK (20%–24%).

Figure 9. Average wage per skilled employee and managers ($)

![Average wage per skilled employee and managers (\$) (OECD)](image)

Figure 10. Average rental office space per square metre

![Average rental office space per square meter (e/sq.m/yr)](image)
Availability of Skills Position:

The UK is offering a highly skilled and well-rounded workforce that is capable of both managing and delivering outsourcing services. The supply of both technical and management talent from UK universities, combined with the extensive experience in outsourcing, positions the UK ahead of any other country in Europe. Informants from leading vendors such as Infosys and Aegis indicated that their growing investment in the UK is motivated by the highly skilled outsourcing management talent available in various parts of the country including the North East, Wales, and Scotland. For example, the quality of outsourcing management skills in the UK has scored 0.93 higher than the Netherlands (0.90), Ireland (0.83), or Spain (0.8). Also, the vendor landscape in the UK in terms of presence and scope of services has scored much higher than any other European country, reflecting the interest that vendors express in making significant investments in the UK.

Figure 11. Availability of skills

Environment Position:

The environment in the UK is also attractive, mainly because of low levels of corruption, good quality of life and low levels of crime compared with other European countries. With
462 airports, the UK has one of the highest number of airports per capita in Europe, a positive indicator of country accessibility⁶.

Figure 12. Accessibility to countries

Infrastructure Position:

The quality of the UK’s infrastructure is moderate but well ahead of Poland and the Czech Republic, and not too distant from other European countries. For example, the availability of real-estate in the UK has scored 93.7 compared with only 65.9 in Ireland and 84.7 in Germany. While network downtime performance is below industry standards, the quality of housing in the UK is among the best in these European countries. The UK government has recently acknowledged the shortcomings with regard to broadband access and has massively invested in improving technological capabilities such as an upgrade to 4G and 5G technologies and the expansion of broadband usage across the UK⁷.

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⁶ http://world.bymap.org/Airports.html
⁷ http://smartinnovation.forumpa.it/story/70050/uk-preparing-move-4g-and-starts-planning-5g-mobile
Risk Position:

The UK offers a low risk profile (along with Ireland, Germany, France and the Netherlands); however, the UK’s personal security indicator (80.2) is far better than Ireland (62.3) and nearly the same as Germany (86.6). The UK enjoys a moderate to low score on risk of labour strikes, on a par with Ireland but slightly better than the risk in Germany.
Market Position:

The UK has the strongest market entry point in Europe. Among the reasons identified for the strong market attractiveness by the expert panel is the high service mentality and delivery system, the availability of language skills and the strong trade ties with the USA, which are considered leverage for many of the vendors investing in the UK.

Figure 15. Access to nearby markets

UK Outsourcing Service Industry: Strengths and Opportunities

So far we have based our analysis of the UK attractiveness on information at the national and industry level. However, there is much to be learned from the experience of firms that invested in the UK. We now present you four stories that provide an insight into the strengths of the UK as an outsourcing location and the opportunities the UK offers from a personal viewpoint:

Konecta: The UK as a Service Mentality Hub

Mr Swanson, the Head of UK Sales & Operations, Konecta UK, explained the reason why Konecta established itself in the UK very simply: ‘We wanted to come to the UK because it is a mature country. The UK is where you want to be in order to be in a position to jump into the USA market.’ Konecta UK, headquartered in Milton Keynes, specializes in business process outsourcing and contact centres. The firm has opened 3 contact centres in the UK
since 2008 and has experienced an impressive growth in the last 5 years. Its workforce in the UK grew from 120 to 535 positions over less than 5 years with the intention to grow to 3,500 positions by 2016.

According to Mr Swanson, the quality of service in the UK is among the best in the world and therefore for any firm that seeks to establish itself as a leading player in the BPO and contact centre sphere, a UK experience is essential. Mr Swanson continued: ‘Finding talent in the UK was never a major challenge. It was always possible for us to fill our positions in the contact centres we established in the UK and retain talent with attrition levels on or below industry standards.’

In addition to the strong talent position the UK demonstrates as compared with other European countries, the UK has also offered Konecta excellent technological infrastructure for contact centres. When considering future investments in the UK, Mr Swanson concluded: ‘The UK is and was always about service quality. We are here for the growing clientele base that seeks high-quality service.’

**Aegis: The UK as a Global Delivery Centre**

Aegis has been in the UK since 2011. After a careful examination of major cities in Western Europe, Aegis chose Manchester as its central European hub. Manchester was selected to lead Aegis European operations because of its superior quality of talent and infrastructure. Manchester is home to 4 major universities and 17 higher education institutions. Manchester has offered Aegis a conducive business environment supported by government incentives. **Mr Ali, Vice President Europe at Aegis Outsourcing UK explained the move into the UK: ‘The UK is the 2nd largest BPO market globally. Our strategy is to develop global footprints and therefore having presence in the UK makes perfect sense.’**

Eyeing the fast growth in Europe, Aegis has set up a 600-people inbound and outbound call centre that provides a range of contact centre and IT outsourcing services. **Mr Ali further explained the changes in how BO services are consumed nowadays: ‘It is about skills more than anything else. Clients expect vendors to provide the skills and vendors need to demonstrate that they are capable of providing excellent services using the best skills available. We compete on talent and we offer partnerships by accessing skills. In this regard,**
the UK is very attractive.’

Aegis is planning to open another delivery centre in the UK in order to strengthen its European position.

Infosys: The UK as a Growth Engine

Infosys Technologies, one of the largest Indian vendors, has been in the UK since 1996. With two large delivery centres, one in London and one in Swindon, Infosys has developed a stronghold in the UK to offer onshore support to its clientele-base. Mr Iyengar, Infosys’s Global Sales Head and Head of UK Centre explained Infosys’s onshore strategy: ‘It is our strategy to stay close to client, and as such we always attempt to set up delivery centres onshore. We have chosen London and Swindon mainly because of our clients as well as the accessibility to skills.’

With 11% of the global revenue ($100M BPO and $700M ITO revenues) and as the 2nd largest global market for outsourcing services, the UK has played a major role in Infosys’ growth. More importantly, Mr Iyengar sees the UK as playing a role in Infosys’ future growth: ‘We see massive investment in outsourcing in the UK as well as openness by UK-based firms for a technological leapfrog. It is about the maturity of the market.’

In the last 3 years, Infosys recruited 300 highly skilled employees, topping 3,000 employees across the UK, with the expectation to carry on recruiting at a rate 10% every year.

WebHelp.TSC: The UK as a Strategic Transformative Experience

Webhelp.TSC, formally Hero, has been in the UK since 1994. It has built its customer relationship business over the years with currently 6,300 employees spread over 9 sites: 6 in Scotland and 3 in the Midlands and South East of England. Until 2008, the company operated in the UK as a traditional inbound and outbound call centre business. Changes in the market and growing demand from UK clients to deliver value have challenged Webhelp TSC. The CEO, David Turner explained: ‘We needed to respond to changes in the market and reinvent ourselves. It was not easy, but we realized that this experience could put us on a different trajectory where we deliver true value, beyond cost savings, to our strategic
partners. We have decided to seek business solutions, critical for our clients, in the form of multi-channel centres and even experiment with business analytics, a rather revolutionary approach in this business.’

Critical to the success of Webhelp TSC is the ability to tap into advanced technical and managerial talent that will demonstrate to clients the actual value delivered as a differentiator in an industry that often competes on costs.

These four cases represent a common perception held by other small, medium and large vendors such as Convergys and Respondez which can be summarized as follows: they are in the UK because of its:

(i) large and growing outsourcing market
(ii) maturity of the clientele-base that allows us to focus on value-adding services
(iii) supply of both technical, customer-support and managerial talent

However, these advantages should be examined in view of challenges the UK is facing when attempting to attract outsourcing investments. The following analysis, therefore, examines the Strengths, Weaknesses, Opportunities and Threats (SWOT) of the UK in the context of its outsourcing attractiveness.

Figure 16. SWOT analysis of UK attractiveness

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Large outsourcing market</td>
<td>• High cost base in big cities</td>
</tr>
<tr>
<td>• Mature outsourcing market</td>
<td>• Moderate cost base in rural areas</td>
</tr>
<tr>
<td>• Advanced sourcing managerial skills</td>
<td>• Moderate performance of broadband and network infrastructure in certain areas</td>
</tr>
<tr>
<td>• Strong service mentality</td>
<td>• Tough competition at entry point for newcomers</td>
</tr>
<tr>
<td>• Availability of language skills</td>
<td>• Government incentive schemes do not accommodate small–medium size vendors</td>
</tr>
<tr>
<td>• Low attrition levels for most BPOs</td>
<td>• Flexible employment laws</td>
</tr>
<tr>
<td>• Several hubs of outsourcing management and delivery specialization</td>
<td></td>
</tr>
<tr>
<td>• Strong presence of leading outsourcing vendors</td>
<td></td>
</tr>
<tr>
<td>• Strong presence of outsourcing advisory firms</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fast growing BPO market</td>
<td>• Lack of attention by government to sustain interest in the UK through incentives</td>
</tr>
<tr>
<td>• Stable, yet large ITO market</td>
<td>• Lack of attention by government to support talent mobility</td>
</tr>
<tr>
<td>• Entry point to attractive markets in the USA and Western Europe</td>
<td>• Emerging sourcing models based on utility</td>
</tr>
<tr>
<td>• Positioned to deliver innovation to client</td>
<td></td>
</tr>
</tbody>
</table>
While the UK offers opportunities to outsourcing vendors, there are numerous areas of weaknesses and threats that the UK government, client firms and vendors should be aware of, and act to mitigate these risks. In particular, newcomers into the UK are expected to face tough competition from already established vendors. In this regard, Mr Patel, Director of Respondez explained: ‘On the one hand we felt left out by not benefiting from the government’s (incentive) scheme, but on the other hand, this made us invest in efficiency to make sure we can compete on skills but at the same time do well on price.’ Indeed, the list of threats the UK is facing is alarming. Some can be avoided should the government allocate resources and continue to pursue a welcoming FDI strategy. However, other threats are global and are driven by changes in the global sourcing industry. Certain regions have been emerging as hubs for specific sourcing models such as Bulgaria and Germany for shared service centres, or cities in Poland where there is supply for IT skills. Similarly, sourcing models are changing fast with new concepts that have recently emerged such as cloud services, which may erode the advantage of advanced sourcing managerial skills and customer support functions the UK developed for its outsourcing attractiveness. In this regard, the attractiveness of TAVAAS countries is still driven by the unique skills set and, as such, the UK should attempt to shape the nature of competition in the outsourcing industry to value the contribution of unique expertise, innovation and partnership.

The UK Talent Base

The UK is clearly re-establishing its status as an important strategic destination for the global ITO and BPO sectors. According to a recent report by Information Services Group (ISG), the UK accounted for 12% of the global ITO and BPO contracts in the second quarter of 2012. There are several reasons for the UK’s resurgence in these sectors in the aftermath of the financial crisis. First, in line with its cost-cutting agenda, the UK government appears more willing than ever to outsource public sector IT work. Outsourcing projects in this space are
an obvious attraction for the leading IT outsourcers. Secondly, in relation to firms in other European countries, the UK private sector is more open to the idea of engaging with ITO and BPO providers, especially if this outsourced work does not go offshore. Thirdly, the attractiveness of traditional ITO and BPO hubs such as India have suffered in the last few years on account of rising costs, wage inflation, attrition issues, continuing infrastructural problems and political instability. In the last few months, a number of large IT outsourcing clients (e.g., Bank of America, GM, American Express) have shifted some of their IT projects out of India.

**Structurally and institutionally, the UK enjoys several strategic benefits, which suggest that it is well placed to become a leading outsourcing destination.** From the perspective of ITO and BPO vendors, these include proximity to key European markets, predictable and reliable legal frameworks, availability of skills, cultural familiarity and regional competitiveness (e.g., Scotland and Wales). In the last three years vendor companies have significantly increased their presence in the UK. In contact centre outsourcing, for example, the UK is by far the most attractive location in Europe. Figures from the National Outsourcing Association (NOA) show the establishment or growth of more than 150 contact centres belonging to international companies. OVUM forecasts (CRM Outsourcing Forecast: EMEA) the rate of annual growth in UK contact centre outsourcing to significantly overtake other European competitors. According to industry sources, the BPO sector in the UK employs over 800,000 people and is a vital cog in the global economic wheel.

An emerging trend in the global ITO and BPO sector is of clients insisting on moving towards business models in which contracts are linked to performance and business value creation rather than just the number of bodies involved. As a result, **ITO and BPO vendors are no longer looking for employees with only a limited set of technical skills.** Instead, outsourcers are aggressively looking to recruit employees with well-rounded business skills and in-depth knowledge of different client verticals and horizontals. In this context, the shortcomings of outsourcing hot spots like India are well documented. Management education and training remains the Achilles heel for outsourcers in the BRIC markets as business education in these countries, despite a few notable exceptions, falls short of client
expectations. In contrast, for ITO and BPO providers wishing to access a highly talented and rich employee pool with advanced business skills, the UK provides an extremely attractive proposition.

The business skills and competences that the ITO and BPO sector needs for its growth are being imparted in a number of business schools across the UK. Business schools in the UK have a long and distinguished history. The leading schools are accredited by reputed agencies such as the Association to Advance Collegiate Schools of Business (AACSB), European Quality Improvement System (EQUIS) and the Association for MBA (AMBA).

With stringent entry standards, business schools in the UK attract the best and the brightest students from the EU countries and from elsewhere in the world. Statistics from the Higher Education Statistics Agency (HESA) show that over 140,000 undergraduate and postgraduate students graduated from business schools in 2012 (see Table 4 below). Many schools include a coveted year-long professional placement as part of their degree programmes. Indeed, many students have worked for leading ITO and BPO companies in their placement year. Thus, graduating students are invariably highly employable individuals ready to work in challenging global environments. Teaching in UK business schools is informed by world-class research and many schools have revamped their curriculum over the years to increase the business and managerial skills of students. Industry-centric modules on global ITO, BPO, innovation management and emerging markets are now a core part of the curriculum at both undergraduate and postgraduate levels. Companies in the ITO and BPO sector looking to establish and expand their operations in the UK thus have access to a rich talent pool of business graduates with specializations in financial management, retailing, marketing, operations, human-resource management, international business and strategic management.

Table 4. UK business and management schools – the talent pool

<table>
<thead>
<tr>
<th>Qualifications obtained by students on HE courses at HEIs in the UK by subject area obtained 2007/08 to 2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business &amp; Administrative Studies</strong></td>
</tr>
<tr>
<td>All level</td>
</tr>
</tbody>
</table>
Some global outsourcers have already made their move. For instance, as part of their quest to be a global leader, Infosys, the well-known Indian IT outsourcer, now regularly recruits candidates from UK business schools at both the undergraduate and postgraduate levels.

Table 5 below is a region-wise list of the 50 most reputed, internationally renowned schools of business and management in the UK. As IT and BPO outsourcers look to move up the value chain, they would be well advised to turn to these schools in their quest to recruit globally minded and highly skilled business professionals. Crucially, these schools are not restricted to, or clustered in any one particular geographical area in the UK. Rather, they operate from attractive and accessible campuses in all major regions in the UK, which can be a significant advantage for firms that are considering establishing and running their operations from different parts of the UK. In our view, despite the growing interest shown by a few companies (e.g., Infosys), the ITO and BPO sectors do not seem to have fully exploited this opportunity to access a talent pool that is potentially a great fit with their emerging strategic and operational needs.

Table 5. Top business and management schools (by region)

<table>
<thead>
<tr>
<th>Region</th>
<th>Internationally accredited world-class business and management schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>Cass Business School, City University</td>
</tr>
<tr>
<td></td>
<td>University of Essex Business School</td>
</tr>
<tr>
<td></td>
<td>Imperial College Business School</td>
</tr>
<tr>
<td></td>
<td>London Business School</td>
</tr>
<tr>
<td></td>
<td>Queen Mary University London</td>
</tr>
<tr>
<td></td>
<td>Royal Holloway, University of London – School of Management</td>
</tr>
<tr>
<td>South East</td>
<td>Ashridge Business School</td>
</tr>
<tr>
<td></td>
<td>Cranfield School of Management</td>
</tr>
<tr>
<td></td>
<td>Henley Business School, University of Reading</td>
</tr>
<tr>
<td></td>
<td>Kent Business School</td>
</tr>
<tr>
<td></td>
<td>University of Oxford, Said Business School</td>
</tr>
<tr>
<td></td>
<td>Surrey Business School</td>
</tr>
<tr>
<td>Region</td>
<td>Universities and Schools</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| South West           | University of Sussex, Brighton — SPRU
                       | University of Bath, School of Management
                       | University of Bristol, Department of Management
                       | University of Exeter Business School
                       | School of Management – Southampton University |
| West Midlands        | Aston Business School
                       | University of Birmingham – Birmingham Business School
                       | Open University Business School
                       | Warwick Business School |
| East Midlands        | University of Leicester School of Management
                       | School of Business and Economics, Loughborough University
                       | Nottingham Business School – Nottingham Trent University
                       | Nottingham University Business School |
| East Anglia          | Lord Ashcroft International Business School, Anglia Ruskin University
                       | Judge Business School, University of Cambridge
                       | Norwich Business School, University of East Anglia, School of Management |
| Yorks and Humberside | Bradford University School of Management
                       | University of Hull Business School
                       | University of Leeds, Leeds University Business School
                       | University of Sheffield – Management School
                       | Sheffield Hallam University – School of Business and Finance
                       | The York Management School |
| North West           | Keele University, School of Economic and Management Studies
                       | Lancaster University Management School
                       | The Management School – University of Liverpool
                       | Manchester Business School
                       | Salford Business School |
| North and Scotland   | Durham University Business School
                       | Newcastle University Business School
                       | Aberdeen Business School, Robert Gordon University
                       | University of Edinburgh Business School
                       | University of Glasgow – Adam Smith Business School
                       | University of St. Andrews – School of Management
                       | Stirling Management School – University of Stirling
                       | University of Strathclyde Business School |
| Wales                | Cardiff Business School
                       | School of Management and Business – The University of Wales, Aberystwyth |
The higher education sector in the UK also boasts several centres of excellence. These centres employ scholars and practitioners, who have years of expertise and experience of working with companies in the ITO and BPO sectors. The centres of excellence not only enhance the skill sets of students in UK universities but also conduct cutting-edge research and provide management training and consulting for companies in the ITO and BPO sector. A few noteworthy examples include the Centre for Global Sourcing and Services at Loughborough University, the Outsourcing Unit at the London School of Economics and the Centre for Business Process Outsourcing at the University of Strathclyde.

The UK Vendor Landscape

The UK is a home for many outsourcing vendors. Large vendors such as IBM, Accenture, Infosys and Tata Consultancy Services set up delivery centres and sales offices across the UK with a total of nearly 50,000 employees operating onshore. For these vendors, the UK outsourcing market represents a slice of 10%–15% of their global revenues as well as a growth market where client firms seek value-adding solutions and often long-term relationships. Further, the large outsourcing vendor landscape in the UK offers a wide range of IT and business process solutions whereas much of the capabilities are onshore in the form of delivery centres.

The mid-size outsourcing vendor landscape in the UK is also impressive with some of the leading specialized vendors in the area of BPO and ITO such as AEGIS, Sitel and Convergys. The mid-size outsourcing vendors have set up centres around the UK, capitalizing on the supply of talent in the North for contact centres as well as technical skills in the South East of the country.

The small-size outsourcing vendor landscape is made of outlets specializing in either ITO or BPO services. Among them is WNS, a rising BPO vendor that expanded its operations in the UK recently and Steria, with 4,000 employees in the UK.
Table 6 provides a list of international outsourcing vendors that set up operations in the UK over the years in the area of ITO and BPO.

Table 6. List of international outsourcing vendors invested in the UK

<table>
<thead>
<tr>
<th>Vendor name</th>
<th>Number of employees</th>
<th>Annual revenue (estimate)</th>
<th>Expertise</th>
<th>Delivery centres in the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large-size vendors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 IBM</td>
<td>433,362 Worldwide (20,000)</td>
<td>$104 Billion (2012)</td>
<td>ITO/BPO</td>
<td>Nottingham, Milton Keynes, Hursley, Manchester, Greenock, Norwich, Edinburgh</td>
</tr>
<tr>
<td>2 ACCENTURE</td>
<td>257,000 Worldwide (9,000)</td>
<td>$27.9 Billion (2012)</td>
<td>ITO/BPO</td>
<td>Aberdeen, Surrey, Manchester, Edinburgh</td>
</tr>
<tr>
<td>3 INFOSYS</td>
<td>156,000 Worldwide (5,000)</td>
<td>$7.4 Billion (2013)</td>
<td>BPO/ITO</td>
<td>London, Milton Keynes, Swindon, Croydon</td>
</tr>
<tr>
<td>4 TCS</td>
<td>263,537 Worldwide (5,465)</td>
<td>$10 Billion (2012)</td>
<td>ITO</td>
<td>Manchester, Nottingham, Edinburgh, Peterborough</td>
</tr>
<tr>
<td>5 WIPRO</td>
<td>140,000 Worldwide (3,800)</td>
<td>$7 Billion (2012) (Financials, 2013)</td>
<td>ITO</td>
<td>Hempstead, Aberdeen</td>
</tr>
<tr>
<td>6 EDS – HP</td>
<td>136,000 Worldwide (3,000)</td>
<td>$24 Billion (2010)</td>
<td>ITO/BPO</td>
<td>Bristol, Warrington</td>
</tr>
<tr>
<td>7 XEROX-ACS</td>
<td>74,000 Worldwide (3,198)</td>
<td>$6.25 Billion (2009)</td>
<td>ITO/BPO</td>
<td>Telford</td>
</tr>
<tr>
<td>8 CAPGEMINI</td>
<td>125,110 Worldwide (9,000)</td>
<td>$12 Billion (2012)</td>
<td>ITO/BPO</td>
<td>Aberdeen, Swansea, Nottingham, Liverpool, Leeds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Medium-size Vendors</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendor name</td>
<td>Size # of employees</td>
<td>Annual revenue</td>
<td>Specialization</td>
<td>Delivery centres in the UK</td>
</tr>
</tbody>
</table>

30
<table>
<thead>
<tr>
<th>Vendor name</th>
<th>Size # of employees</th>
<th>Annual revenue</th>
<th>Specialization</th>
<th>Delivery centres in the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATOS</td>
<td>73,969 Worldwide (3,000)</td>
<td>$8.8 Billion (2012)</td>
<td>BPO</td>
<td>London, Bristol, Wolverhampton</td>
</tr>
<tr>
<td>ADP</td>
<td>57,000 Worldwide</td>
<td>$10.6 Billion (2012)</td>
<td>BPO</td>
<td>Surrey, Stockport</td>
</tr>
<tr>
<td>PEROT - DELL</td>
<td>23,000 + Worldwide (2,353)</td>
<td>$2.8 Billion (2010)</td>
<td>ITO</td>
<td>Glasgow, Berkshire</td>
</tr>
<tr>
<td>AEGIS</td>
<td>55,000 + Worldwide</td>
<td>$205 Million (2012)</td>
<td>ITO/BPO</td>
<td>Manchester</td>
</tr>
<tr>
<td>CGI - LOGICA</td>
<td>71,000 Worldwide (5,600)</td>
<td>$4.8 Billion (2012)</td>
<td>ITO</td>
<td>Aberdeen, Basingstoke, Brentwood, Birmingham</td>
</tr>
<tr>
<td>HCL TECH</td>
<td>85,000 Worldwide (4,711)</td>
<td>$4.4 Billion (2013)</td>
<td>ITO</td>
<td>Surrey, London</td>
</tr>
<tr>
<td>GEN PACT</td>
<td>60,500 Worldwide</td>
<td>$1.6 Billion (2013)</td>
<td>ITO</td>
<td>London</td>
</tr>
<tr>
<td>SITEL - CLIENT LOGIC</td>
<td>59,000 Worldwide (2,100)</td>
<td>$1.4 Billion (2012)</td>
<td>ITO</td>
<td>Watford</td>
</tr>
<tr>
<td>CONVERGYS</td>
<td>77,000 Worldwide</td>
<td>$2.2 Billion (2012)</td>
<td>ITO</td>
<td>Manchester, New castle, Cambridge</td>
</tr>
<tr>
<td>AON HEWITT</td>
<td>29,000 Worldwide (5,000)</td>
<td>3.2 Billion (2012)</td>
<td>BPO</td>
<td>London, Bristol, Manchester, Southampton, Leicester</td>
</tr>
</tbody>
</table>

Small –Sized Vendors

<table>
<thead>
<tr>
<th>Vendor name</th>
<th>Size # of employees</th>
<th>Annual revenue</th>
<th>Specialization</th>
<th>Delivery centres in the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNISYS</td>
<td>22,700 Worldwide</td>
<td>$3.7 Billion (2012)</td>
<td>ITO</td>
<td>Hertfordshire, Surrey, Milton Keynes</td>
</tr>
<tr>
<td>WNS GLOBAL</td>
<td>25,000 Worldwide</td>
<td>$474.1 M (2012)</td>
<td>BPO/IPO</td>
<td>Ipswich, Stockport, Middlesex, Mansfield</td>
</tr>
<tr>
<td>GETRONICS</td>
<td>23,000 Worldwide</td>
<td>$18 Billion (2012)</td>
<td>ITO/BPO</td>
<td>Reading, Glasgow, Milton Keynes, Runcorn</td>
</tr>
<tr>
<td>STERIA</td>
<td>8,600 Worldwide (4,000+)</td>
<td>$1.5 Billion (2012)</td>
<td>ITO/BPO</td>
<td>Edinburgh, Manchester, Birmingham, Reading, Warrington, Hemptstead</td>
</tr>
<tr>
<td>CERIDIAN</td>
<td>9,000 Worldwide (1,000+)</td>
<td>$1.5 Billion (2011)</td>
<td>BPO</td>
<td>Glasgow, Leeds, Reading, Manchester</td>
</tr>
<tr>
<td>SUTHERLAND GLOBAL</td>
<td>30,000 + Worldwide</td>
<td>$340 Million (2012)</td>
<td>BPO</td>
<td>London</td>
</tr>
</tbody>
</table>


### Hubs of Outsourcing Specialization in the UK

While Table 6 shows that vendors have set up delivery centres across the UK, there are in fact several regions that have specialized in a particular area of ITO or BPO.

Based on the analysis of 211 ITO and BPO projects between 2007 and 2012, the following map of outsourcing specialization hubs in the UK emerges.

**Sixty-one new contact centres were established between 2007 and 2012 across the UK. Of these 21% were set up in Northern Ireland, 20% in the North of England, 18.3% in Scotland and 10% in the North West of England.** Informants interviewed for this study as well as recent publications reveal that there is a growing demand for European languages such as German, French and Dutch in the UK to support contact centres that provide services in the UK and Western Europe. New contact centres created 7,500 new jobs, supporting regional economic development.

**Figure 17. Spread of new contact centres in the UK, 2007–2012**

<table>
<thead>
<tr>
<th></th>
<th>Vendor</th>
<th>Employees Worldwide</th>
<th>Revenue (2012)</th>
<th>Method</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>MAHINDIRA SATYAM</td>
<td>36,000</td>
<td>$1.3 Billion (2012)</td>
<td>BPO</td>
<td>Hampshire, London</td>
</tr>
<tr>
<td>28</td>
<td>PATNI - IGATE</td>
<td>18,273</td>
<td>$400 Million (2012)</td>
<td>ITO/BPO</td>
<td>Heathrow</td>
</tr>
<tr>
<td>29</td>
<td>DATAMATICS</td>
<td>4,900</td>
<td>$48 Million (2010)</td>
<td>ITO</td>
<td>Middlesex</td>
</tr>
<tr>
<td>30</td>
<td>SOFTTEK</td>
<td>7,000</td>
<td>$200 Million (2012)</td>
<td>BPO/ITO</td>
<td>London</td>
</tr>
</tbody>
</table>
Eighty-one Research and Development (R&D) centres have been set up in the UK between 2007 and 2012. Nearly a third of these centres were established in the South East of England, 22.5% in Northern Ireland and 15% in Scotland. Multinationals that have established R&D centres in the UK not only tap into its vast technical and managerial talent but are also looking to localize the development of new services as they target the vast European and US market.

Figure 18. Spread of new R&D centres in the UK, 2007–2012

Other significant investments in the UK are the 32 Internet Data Centres (IDC) which were established in the UK between 2007 and 2012 nearly all of them in the South East of England and 28 software testing facilities of which 11 centres were also established in the South East of England.
The UK Proposition

Synthesizing the insights developed above into a concluding section by emphasizing the strengths and opportunities of the UK as compared to other EU countries (scope, specialities,
infrastructure, managerial skills etc). This section will also include some testimonials from vendors and client firms that support this view.

Having analysed the competitive position of the UK to attract outsourcing services, we now turn to summarize our findings by addressing two key stakeholders: international vendors and client firms.

The UK Proposition for International Vendors

As the outsourcing of IT and business processes enters its 4th decade, a significant change has taken place. **Client firms now seek to benefit from value-adding services and access to unique skills in their engagements with outsourcing vendors.** Innovation and business transformation have come to the fore when client firms and vendors negotiate a contract, and success is assessed based on both operational excellence and strategic transformation. Talent management and supply of skills capable of engaging in business solutions delivered through cutting-edge technology have become a critical source of competitiveness for vendors. These critical skills are hard to develop and exploit, in particular in countries that have emerged only recently as attractive locations for outsourcing such as Poland, Czech Republic, Hungary, Spain, Egypt, South Africa, and Morocco. Other locations such as Brazil, Russia, India and China (also known as BRIC countries) have not managed to develop strong managerial and business innovation capabilities. As the outsourcing competitive landscape is changing towards higher value services, the traditional offshoring location will continue to compete on cost in an ever search for cost reduction through automation and relocation to cheaper locations. However, **countries with a strong talent position combined with an innovative and nimble economy will shift their value proposition towards value-adding services that command premium fees for higher value services.**

The UK outsourcing landscape is at the heart of this change. Being the second largest outsourcing market in the world, populated with sophisticated consumers of outsourcing services and a supply of technical and managerial talent, the UK has attracted top tier vendors to set up delivery centres and sales offices around the country. In this regard, the UK value proposition for vendors and client firms to invest in outsourcing activities is attractive:

- A premium service mentality;
- Large scale, sophisticated outsourcing economy;
- Supply of linguistic, technical and managerial talent;
- Flexible workforce distributed around the country.

**Opportunities for growth in the UK are also attractive.** The UK ITO sector is one of the largest in the world and its BPO sector is growing fast. In particular, the contact centre sector has been attracting investments in recent years as client firms sought to benefit
from access to talent in more affordable locations such as the North of England and in some cases have brought back their operations from offshore locations to the UK to improve customer experience.

Without doubt, the UK has maintained its competitive position in the outsourcing industry despite its disadvantageous cost position. The CEO of Webhelp TSC, Mr David Turner, put it simply: ‘The UK is competitive because we adopt new concepts that allow us to re-invent ourselves very quickly.’ While some European countries may be seen as more attractive on the cost side, other factors play a far more important role. Mr Plamen Nikolov, Head of Finance at HCL Insurance BPO Services explained: ‘Ireland might be more attractive from a corporate tax viewpoint, but access to businesses such as we gain in the UK is more important.’ Mr Mark Lewis, Partner at BLP, summarizes the essence of what competitiveness is for vendors: ‘Outsourcing is where the clients are!’

However, making an investment decision is complex. To guide vendors in their decision-making to invest in the UK, we offer a decision tool that considers the key factors affecting outsourcing FDI and a 3-step assessment process.

Step 1: Assess your Propensity to Invest in the UK

Using the Decision Matrix please keep track of your score by carefully answering the questions below. If your answer falls within the description provided under ‘Tend to invest in the UK’, then you score the maximum points for this question. If your answer falls within the description provided under ‘Do not tend to invest in the UK’, then your score is zero. If your answer is somehow in between the two answers, please make a judgment regarding your score. For example, if your answer for the first question ‘What is my value proposition?’ is a combination of high value services that drive innovation and cost reductions, then your score should be 4 or above.

A Decision Matrix to Assess your Propensity to Invest in the UK

<table>
<thead>
<tr>
<th>What is my...</th>
<th>Tend to invest in the UK</th>
<th>Do not tend to invest in the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>...value proposition? (7%)</td>
<td>High-value services that deliver innovation</td>
<td>Mainly cost reductions</td>
</tr>
<tr>
<td>...service mentality? (15%)</td>
<td>High quality, working closely with my clients</td>
<td>Mainly driven by SLAs, offshore-based</td>
</tr>
<tr>
<td>...governance philosophy? (6%)</td>
<td>Combination of transactional and relational approaches</td>
<td>Mainly transactional</td>
</tr>
<tr>
<td>...strategy to remain relevant in my market? (8%)</td>
<td>Innovate my business models and technological platforms</td>
<td>Mainly innovate my technological platforms</td>
</tr>
<tr>
<td>...strategy to growth? (10%)</td>
<td>Enter competitive and demanding markets to improve service quality as test-bed for more challenging markets</td>
<td>Avoid competitive and demanding markets; mainly focus on existing markets</td>
</tr>
</tbody>
</table>
### Philosophy Towards Competition in the Market? (5%)
- **Competition Drives Innovation and Creates Opportunities to Differentiate**
- **Competition Destroys Value and Ability to Command Margins**

### Strategy to Acquire Global Clients? (9%)
- **Set Up Global Centres of Excellence**
- **Set Up Regional Delivery Centres**

### Strategy to Acquire Talent? (10%)
- **Talent Comes at Cost**
- **Talent is Cheaper in Offshore Locations**

### Strategy to Talent Management? (5%)
- **Offer a Career Path**
- **Offer a Job**

### Sourcing Models Strategy? (8%)
- **A Combination of Sourcing Models to Arrive in an Optimal Utilization of Assets**
- **The Application of Those Sourcing Models That Drive Operational Excellence**

### Risk Mitigation Strategy? (7%)
- **Investments in Both High- and Low-Risk Locations**
- **Investments in Mainly High-Risk Locations**

### Strategy to Select a Location to Set Up a New Centre of Excellence? (10%)
- **Evaluate Multiple Factors That Weigh in Growth Opportunities, Costs, Infrastructure and Risk**
- **Mainly Focus on Costs**

---

**Step 2: Sum Up Your Score**

Having scored each factor, total the scores to make a single score out of 100.

**Step 3: Assess Your Propensity to Invest in the UK**

A score between 66 and 100 is past the tipping point to invest in the UK as a destination for outsourcing services. A score below 33 signals that the vendor is unlikely to benefit from investing in the UK as a destination for outsourcing services. A score between 34 and 65 is in the area that requires additional analysis to understand the tendency of this vendor to shift its strategy and operations to deliver higher value, talent-based outsourcing services; however, without aligning the strategic vision with the operational strategy.
The UK Proposition for Client Firms

There are also opportunities for client firms to benefit from the UK outsourcing proposition. Client firms with extensive outsourcing experience that have developed a strong retained organization and a sophisticated internal sourcing unit may consider back-sourcing (also known as re-shoring or in-sourcing) part or an entire outsourced function. Back-sourcing is the act of bringing back in-house previously outsourced services as outsourcing contracts expire or have been terminated. **Many of the back-sourcing decisions are made on the basis of the client firms attempting to achieve higher value from, or better control over, the back-sourced function.** Indeed, the UK proposition toward investment in outsourcing services offers advanced capabilities in the area of value services and control.

Sophisticated outsourcing consumers should consider back-sourcing as a strategic decision that will allow them to benefit from advanced sourcing management capabilities in the UK as a means of control and innovative capabilities to drive value from re-shored services. Client firms that decide to back-source as a strategic decision can further enhance their performance by incorporating the talent offered by top-tier vendors in the UK as part of their onshore delivery system.
Conclusion

One key finding in this study is that the UK is a key player in the outsourcing industry. While most commentators will consider the UK as a consumer-base outsourcing economy, this report highlights the opportunities to operate from the UK as an attractive location to provide outsourcing services. Positioning the UK as a value-adding, talent-based with advanced sourcing capabilities location is a proposition that many top-tier IT and BPO vendors have already realized in the past 20 years. And yet, the vast consumer-base of outsourcing services in the UK offers far more opportunities to vendors seeking to establish their presence in growth markets.

Appendix A – Comparative analysis of attractive European destinations

<table>
<thead>
<tr>
<th>Costs</th>
<th>UK</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Czech</th>
<th>Ireland</th>
<th>Spain</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average wage per skilled employee and managers ($) (2011)</td>
<td>33,513</td>
<td>27,452</td>
<td>24,174</td>
<td>29,269</td>
<td>15,115</td>
<td>41,170</td>
<td>26,856</td>
<td>14,390</td>
</tr>
<tr>
<td>Average rental office space per square metre €/sq.m/yr (2013)</td>
<td>717 (London)</td>
<td>915</td>
<td>533</td>
<td>500</td>
<td>339</td>
<td>437</td>
<td>439</td>
<td>415</td>
</tr>
<tr>
<td>Cost of telecom, internet access(US$ per month) (2012)</td>
<td>27.25</td>
<td>12.43</td>
<td>27.4</td>
<td>12.37</td>
<td>18.76</td>
<td>31.06</td>
<td>31.72</td>
<td>11.27</td>
</tr>
<tr>
<td>Cost of power (Kw/H) (2011)</td>
<td>0.158</td>
<td>0.142</td>
<td>0.253</td>
<td>0.298</td>
<td>0.147</td>
<td>0.209</td>
<td>0.209</td>
<td>0.135</td>
</tr>
<tr>
<td>Corporate taxes (2011-13)</td>
<td>20-24%</td>
<td>33.33%</td>
<td>29.8%</td>
<td>25%</td>
<td>19%</td>
<td>12.5%</td>
<td>25-30%</td>
<td>19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(2011)</th>
<th>Size of the labour market</th>
<th>Availability of skills</th>
<th>Size of the local vendor market indicator (0.1-1.0)</th>
<th>Quality of delivery skills indicator (0.1-1.0)</th>
<th>Quality of sourcing management skills indicator (0.1-1.0)</th>
<th>Size of the labour market</th>
<th>Quality of overall infrastructure (2012)</th>
<th>Quality of electrical</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.72 million</td>
<td>27.99 million</td>
<td>43.51 million</td>
<td>8.33 million</td>
<td>5.4 million</td>
<td>2.3 million</td>
<td>22.97 million</td>
<td>5.58 million</td>
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<tr>
<td></td>
<td>0.92</td>
<td>0.41</td>
<td>0.53</td>
<td>0.73</td>
<td>0.34</td>
<td>0.83</td>
<td>0.62</td>
<td>0.28</td>
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<tr>
<td></td>
<td>0.9</td>
<td>0.65</td>
<td>0.65</td>
<td>0.66</td>
<td>0.71</td>
<td>0.9</td>
<td>0.68</td>
<td>0.74</td>
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<tr>
<td></td>
<td>0.93</td>
<td>0.65</td>
<td>0.74</td>
<td>0.91</td>
<td>0.55</td>
<td>0.83</td>
<td>0.87</td>
<td>0.5</td>
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<tr>
<td></td>
<td>74</td>
<td>71</td>
<td>79</td>
<td>84</td>
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<tr>
<td></td>
<td>148.12</td>
<td>151.36</td>
<td>204.84</td>
<td>160.54</td>
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<tr>
<td></td>
<td>&lt;0.7</td>
<td>8.0</td>
<td>2.5</td>
<td>8.7</td>
</tr>
<tr>
<td></td>
<td>90</td>
<td>85</td>
<td>80</td>
<td>70</td>
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<tbody>
<tr>
<td></td>
<td>25hrs</td>
<td>13hrs</td>
<td>24hrs</td>
<td>16hrs</td>
<td>14hrs</td>
</tr>
<tr>
<td></td>
<td>93.7</td>
<td>89.0</td>
<td>84.7</td>
<td>86.4</td>
<td>54</td>
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<tr>
<td></td>
<td>5.6</td>
<td>6.4</td>
<td>6.2</td>
<td>6.2</td>
<td>5.5</td>
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<tr>
<td></td>
<td>6.7</td>
<td>6.7</td>
<td>6.7</td>
<td>6.7</td>
<td>6.4</td>
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</table>

19 CATechnologies, "The impact of IT downtime on employee productivity", CATechnologies, 2011.
<table>
<thead>
<tr>
<th>Risk Profile</th>
<th>Risk to personal security (fraud, crime and terrorism)</th>
<th>Moderate-Low</th>
<th>High</th>
<th>Moderate-High</th>
<th>High</th>
<th>Moderate-Low</th>
<th>Moderat e-Low</th>
<th>High</th>
<th>Moderat e-Low</th>
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<tbody>
<tr>
<td>Risk of labour strikes indicator (0.1-1.0)</td>
<td>4.6</td>
<td>5.3</td>
<td>3.8</td>
<td>4.0</td>
<td>3.7</td>
<td>4.6</td>
<td>5.5</td>
<td>4.5</td>
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<tr>
<td>Political unrest (Political Instability Index) (2010)</td>
<td>80.222</td>
<td>80.9</td>
<td>84.98</td>
<td>86.67</td>
<td>74.77</td>
<td>62.33</td>
<td>66.71</td>
<td>70.99</td>
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<tr>
<td>Natural disasters (Economic Damage per year US$ X 1,000): (2009)</td>
<td>960,215</td>
<td>1,256,82</td>
<td>9</td>
<td>1,171,036</td>
<td>145,829</td>
<td>161,470</td>
<td>11,389</td>
<td>846,784</td>
<td>266,650</td>
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<tr>
<td>Disaster reported (2009)</td>
<td>Flood, Storm</td>
<td>Flood</td>
<td>Flood</td>
<td>Flood</td>
<td>Flood Epidemic</td>
<td>Drought</td>
<td>Flood Wildfire</td>
<td>Flood</td>
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</tr>
<tr>
<td>Cost inflation (2012)</td>
<td>2.8</td>
<td>2.3</td>
<td>2.2</td>
<td>2.4</td>
<td>3.3</td>
<td>1.3</td>
<td>2.5</td>
<td>3.6</td>
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<tr>
<td>Intellectual property risks (2013)</td>
<td>Not Listed</td>
<td>Not Listed</td>
<td>Not Listed</td>
<td>Not Listed</td>
<td>Not Listed</td>
<td>Not Listed</td>
<td>On a Watch List</td>
<td>Not Listed</td>
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<tr>
<td>Market potential</td>
<td>Attractiveness of local market (GDP growth rate &amp; GDP): (2012)</td>
<td>0.2</td>
<td>0.1</td>
<td>0.9</td>
<td>-0.5</td>
<td>-1.0</td>
<td>0.7</td>
<td>-1.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Access to nearby markets Indicator (0.1-1.0)</td>
<td>35,657</td>
<td>35,246</td>
<td>39,491</td>
<td>42,772</td>
<td>26,208</td>
<td>41,682</td>
<td>32,045</td>
<td>21,261</td>
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