



Sourcing Perspectives*

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1st edition

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PRICEWATERHOUSECOOPERS 

Sourcing Perspectives

Purpose

The Canadian marketplace is unique and this holds true for the outsourcing market: buyer behavior; market trends; regional differences; and corporate culture are all distinctively Canadian. However, Canadian outsourcing content is scarce in comparison to American content. In an effort to fill this void, PricewaterhouseCoopers (PwC) *Sourcing Perspectives* was developed to track and report on trends in Canadian outsourcing.

Sourcing Perspectives content is compiled in two phases:

1. Conduct interviews and surveys to uncover trends.
2. Confirm trends using secondary research where applicable.

The survey participants and interviewees are asked a standardized list of questions. This format allows for statistical results that can be tracked with each passing *Sourcing Perspectives* edition. We explore issues from the vendor, client, and market perspectives, and obtain feedback from outsourcing industry executives and PwC practitioners in the Advisory practice.

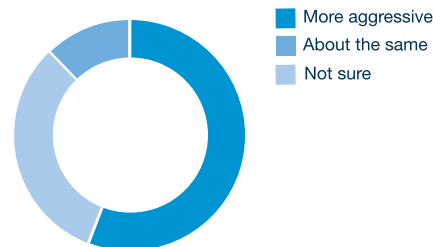
A new edition of *Sourcing Perspectives* will be available periodically. Each edition will highlight key trends and explore a particularly important trend in detail.

Highlights

Vendors are competing more aggressively

Participants found that over the past six months vendors have become more aggressive in their sales pursuits. In fact, 58% of those surveyed characterized vendors as being more aggressive. This behavior is largely a function of supply and demand—the supply of outsourcing deals available is limited and new vendors are entering the Canadian market. It is expected that the supply demand dynamics will change as a large number of outsourcing deals are due to expire over the next few years. In the near term, businesses considering outsourcing may be able to take advantage of market conditions in their favour.

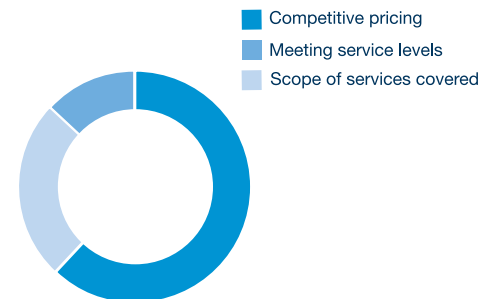
Competitive dynamic among outsourcing vendors



Where are the outsourcing deals taking place this half?

Sixty-two percent of respondents found deal increases in three main areas: Finance and Accounting, Human Resources and Information Technology. Businesses are still more comfortable with Information Technology Outsourcing as compared to Business Process Outsourcing, but the gap is narrowing.

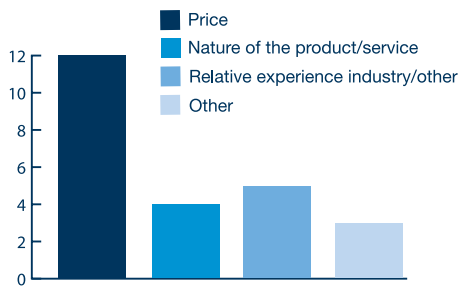
Key factors to outsourcing clients



Price is still paramount

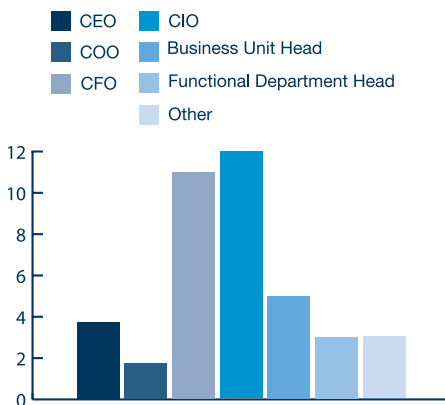
At 50%, those surveyed found price to be the key point of differentiation for outsourcing vendors in marketing their services. Following sequentially in importance was relative experience (ex. industry experience) and the nature of the product or service. Outsourcing buyers also considered competitive pricing the most important factor

Vendor strategy differentiation



when making outsourcing decisions. This correlation is not coincidental; the vendor strategy for differentiation is largely a function of what the customer requests from the vendor. Put another way, the vendor marketing strategy is formed by a pull from the client as opposed to a push from the vendor. Outsourcing customers could use this to their advantage when selecting vendors.

Resources responsible for developing outsourcing strategy



C-suite increasing involvement

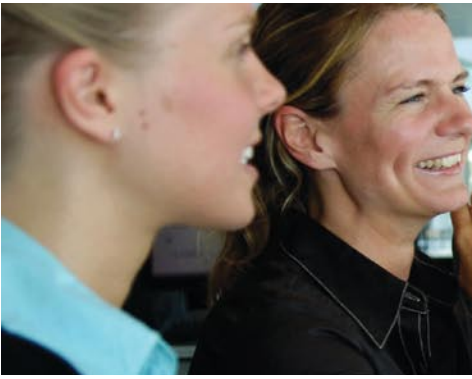
There is a wide variety of organizational roles/positions that are responsible for developing outsourcing strategies. At 58%, respondents most often identified the CFO or CIO as one of the resources responsible for developing their clients' outsourcing strategy. As the business community moves from considering outsourcing as a pure cost-cutting measure to a strategic and necessary management tool, involvement from the c-suite is expected to increase.

Resource flexibility and risk management

Resource flexibility and risk management were two reasons for outsourcing that were commonly noted by respondents. Resource flexibility is the ability to ramp up and down team members on a project basis. This goal can be realized by working with an outsourcing vendor that is willing to provide additional temporary staff members on an as needed basis. In this role, the outsourcing vendor assumes some of its client's resource management risk. This is a particularly effective strategy for businesses that experience large variations in labour demand.

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This type of outsourcing is most commonly found in Application Development and the voice-related BPO (Business Process Outsourcing) segment of the market.

Repeat or first time outsourcers

On average, respondents said that outsourcing deal activity is evenly split between repeat buyers and first-time buyers. This is evidence that although some segments of the outsourcing market are mature; there are other segments like the SMB (Small to Medium-sized Business) space where the market is growing. For first time outsourcers, given the complexities of outsourcing processes and governance, the risks associated with inexperience are high. The key to success is to ensure your company is well educated when making outsourcing decisions. The existence of repeat outsourcers demonstrates there is value to be realized and internal outsourcing competency is developing.

Active industry verticals

According to 78% of respondents, the traditional industry verticals—Telecommunications, Government and Financial—are still the most active outsourcers in Canada. Our respondents noted that the healthcare segment of the Government was most active. The activities range from feasibility and readiness assessments to outsourcing

transactions. However, the highlight over the last two quarters is the lack of large transactions in Canada.

Feature

Market factors—threat or opportunity?

There are two market factors that survey respondents consistently found to be impacting outsourcing decision-making: the value of the Canadian dollar and Canadian labour shortages.

The Canadian/US dollar conversion rate has risen approximately 20 cents in Canada's favour from the lows experienced throughout 2001-2002.ⁱ With the United States as Canada's main trading partner, Canadian exports have become relatively more expensive. In response, Canadian companies have explored various alternatives to cut costs and remain competitive in the global marketplace. One alternative being explored is offshore outsourcing to low-cost destinations such as India, China and Brazil. This factor applies primarily to the export driven industry verticals, such as manufacturing.

Survey respondents cited labour shortage as the market factor that most often impacted outsourcing decision making. In February 2007, the Canadian unemployment rate dipped to 6.1%.ⁱⁱ This is historically low and has a couple of unique aspects that are relevant to outsourcing:

On the whole, the tight labour market in Western Canada is making it increasingly difficult to meet business objectives.

regional labour shortage and a shortage in specific Information Technology skills.

The regional problem is most severe and widespread in Western Canada, specifically: British Columbia, Alberta and Saskatchewan. With an unemployment rate of 3.5% in February, Alberta is already experiencing labour shortages and it is projected to worsen. Unemployment rates in British Columbia and Saskatchewan, at 4.3% and 4.1%, respectively, were also below the national average in February.ⁱⁱⁱ In June 2006, the Conference Board of Canada reported that “By 2025, Alberta would face an annual shortfall of 332,000 workers, if current trends continued.”^{iv} It is expected that in practice the economy will adjust to prevent a labour shortage of this magnitude.

The impact of labour shortage is already visible in Western Canada.

Companies looking to grow their businesses are often unable to expand because the people they require are unavailable. The Conference Board of Canada reports that Alberta will continue to face this problem: “if labour productivity fails to significantly outpace its recent performance, labour shortages would render the already modest economic growth of 2.5 per cent unattainable.”^v Those that can find qualified people usually suffer the affects of wage inflation, which increases costs and hurts the bottom line. On the whole, the tight labour market in Western Canada is making it increasingly difficult to meet business objectives.

Western Canada’s tight labour market is also affecting the rest of Canada. The most direct impact is felt by employers that are losing staff to better offers from companies in Western Canada. As labour shortages grow in the West, the impact on the rest of Canada will also grow.

For a thorough Canadian perspective on offshore outsourcing, please refer to the “A Fine Balance” series at: www.pwc.com/ca/afinebalance

PwC offers comprehensive, independent and objective sourcing advisory services. Expert PwC advisors utilize a structured, disciplined methodology that will help you assess the health of your sourcing operations and relationships. For an informed opinion on how the following relate to your business please contact one of our trusted advisors.

If you would like to participate in future *Sourcing Perspectives* surveys please contact John Chang.

Labour shortage is an emerging issue in Canada, but it has been a reality in other countries such as Bermuda for years. Many Bermuda-based businesses have learned to grow despite limited resources. One approach they have used successfully is BPO (Business Process Outsourcing) of fairly routine tasks, such as accounting and administrative work. In fact, Nova Scotia has become a major offshore destination for Bermuda-based businesses. David Ezekiel, President of the Association of Bermuda International Companies said: “routine work can be done elsewhere, yet we retain the customers. This means businesses can continue to grow.”^{vi} One of the key factors that led Bermuda-based businesses to select Canada as an offshore destination was that the jobs they were looking to outsource were sometimes occupied by Canadians working in Bermuda. Canadian businesses looking to offshore outsource can also benefit from this strategy.

In this edition of Sourcing Perspectives, the impact of labour shortage in Western Canada, IT labour shortages and the rising value of the Canadian dollar were the key trends that significantly affected outsourcing and offshoring in Canada. We anticipate that more organizations will assess the feasibility of offshoring/outourcing to meet the challenges of labour shortages and the rising value of the Canadian dollar over the next several quarters.

Source:

- i Bank of Canada
- ii Statistics Canada: Latest release from the Labour Force Survey. February
- iii Statistics Canada: Latest release from the Labour Force Survey. February
- iv The Conference Board of Canada: Alberta's Labour Shortage: Just the Tip of the Iceberg
- v The Conference Board of Canada: Alberta's Labour Shortage: Just the Tip of the Iceberg
- vi David Ezekiel, President of the Association of Bermuda International Companies (quote retrieved from Bermuda newspaper)

Outsourcing Contact List

Toronto

John Chang
416 869 2606
john.y.chang@ca.pwc.com

Calgary

Scott Bolton
403 509 7502
scott.r.bolton@ca.pwc.com

Halifax

Mike Anaka
902 491 7442
michael.t.anaka@ca.pwc.com

Montreal

Caroline Emond
514 205 5103
caroline.edmond@ca.pwc.com

Ottawa

Genevieve Bonin
613 755 5669
genevieve.m.bonin@ca.pwc.com

Vancouver

Tom Wong
604 806 7138
tom.c.wong@ca.pwc.com

Winnipeg

Robert Reimer
204 926 2442
robert.j.reimer@ca.pwc.com

www.pwc.com/ca/outsourcing

