

Outsourcing: right reason, right destination?

New research from Egypt's Information Technology Industry Development Agency (ITIDA)¹ explores the GCC outsourcing market and reveals emerging trends in destination choice and reason for outsourcing.

Over half (52%) of GCC companies outsource some aspect of their IT or business processes, with 43% of outsourcing contracts based on a need to reduce costs and control operating cost - but are companies getting the most out of their outsourcing and are they doing it for the right reasons?

This new study looking at GCC companies' outsourcing requirements and the results they receive was commissioned by ITIDA to support its constant effort to respond to the market's needs and deliver solutions.

The reasons for outsourcing

Almost half (48%) of all outsourcing is related to back-office support with only a third (32%) outsourcing their data center. This implies that IT security is not a priority concern for companies in the GCC and/or that they are not backing-up their data effectively. Other forms of outsourcing include research and development functions (46%) and contact centers (21%).

When it comes to why companies are outsourcing, almost half (43%) of contracts in the GCC are based on a need to reduce and control operating costs. Other reasons cited include gaining access to world-class services (42%) and to free-up internal resources (15%).

The benefit of freeing up internal resources is an area that should be of more focus in order to manage a companies' talent-base more effectively. By outsourcing certain activity, internal resources can be re-deployed and this is

¹ ITIDA partnered with YouGov, a full-service market research company, specializing in qualitative research and online polling, with the region's largest pure research panel. The research was conducted in September 2009 with over 600 executives based in Bahrain, Kingdom of Saudi Arabia, Kuwait, Oman, Qatar and the United Arab Emirates (UAE).

an area that GCC companies should look to take advantage of. When asked, almost half (49%) of respondents recognize that outsourcing allows the organization to access to skills not present within their own organization.

The survey identified that the outsourcer becomes an extension of the company, and in some cases can become the 'face' of the organization. Not surprisingly, 96% of respondents believe professionalism is extremely important or important.

Three quarters of respondents also require the outsourcer to have Arabic capabilities and this gives Egypt the innate advantage over other outsourcing nations with just under three quarters of respondents (71%) associating Egypt with high levels of Arabic capabilities and 73% placing highlighting proliferation in European languages as being important.

The need to reduce and control costs is a key factor behind outsourcing for GCC and this was reflected in their views on the importance of cost-competitiveness of their chosen outsourcing destination. Nine in ten respondents (92%) classified it as an important factor in the decision making process.

Infrastructure and dedicated outsourcing zone are also high on the check list for GCC companies, with almost a quarter of respondents (23%) placing an emphasis on the need for Availability of dedicated/specialized outsourcing zones. Egypt is already well-placed with its dedicated Smart Village and the development of Maadi Park Contact Center.

Four in five (79%) GCC companies perceive an understanding of local cultures as being important and almost half (47%) directly associate this quality with Egypt, mainly due to its close proximity to the GCC.

Choosing the right destination

Views from across the GCC

India remains the 'first choice' destination for GCC companies with a fifth (22%) naming it as the destination they currently outsource to most often. Egypt is hot on its heels with 17% of respondents selecting it as their most popular outsourcing destination.

When looking across all outsourcing destinations used, 43% of those interviewed in the GCC say their company was already outsourcing to India. Egypt was the second most popular outsourcing destination with 31% of those interviewed stating their companies were outsourcing to the country.

When asked which country they perceive to be the current leader in the outsourcing industry, half (50%) selected Egypt, making it the third most 'powerful' outsourcing destination, behind India (78%) and China (66%).

Looking ahead, Egypt is well-placed to expand its position on the global outsourcing map. Nearly a third (31%) would consider outsourcing to Egypt in the future, with one in ten (13%) already taking advantage of the benefits the country has to offer.

Views from within the UAE

For companies based in the UAE, India is also the 'first choice' destination for outsourcing with Egypt emerging as a leading competitor. The country is firmly ahead of other growing destinations such as Russia (1%), Sri Lanka (1%) and Ukraine (1%).

For UAE companies, the top three reasons for outsourcing to Egypt are:

- To reduce costs (53%)
- Availability of Arabic speakers (50%)
- Close geographical location (26%)

As with the broader GCC market, cost management is an important factor when deciding on an outsourcing destination. Almost all (94%) respondents said it was a key consideration when deciding on an outsourcing destination.

Other factors considered important include:

- A highly qualified and skilled talent pool (98%)
- Professionalism of client service teams (97%)
- Well-established and reliable infrastructure (94%)

Egypt looks set to be a global leader in the future, with over a quarter of UAE respondents saying they would consider outsourcing there in the future. Over two in five UAE respondents (44%) listed Egypt as the current leader in the outsourcing industry for companies across the MENA region with almost half



(48%) citing it as the country that is set to receive most outsourcing from MENA countries in the next five years. Egypt was placed ahead of Russia [20%], Sri Lanka [16%] and Brazil [14%] as a future global outsourcing leader.

Appendix

About ITIDA:

The Information Technology Industry Development Agency (ITIDA) is a governmental entity affiliated to Egypt's Ministry of Communications and Information Technology. It is responsible for growing and developing Egypt's position as a leading global outsourcing location by attracting foreign direct investment to the industry and maximizing the exports of IT services and applications.

Located in the heart of the modern business environment at Smart Village, the six hundred acre business park on the outskirts of Cairo, ITIDA is a self sustainable entity that drives the IT industry in Egypt and raises awareness among the Egyptian people of the benefits and use of ICT to advance socio-economic welfare of the whole community.

About YouGov

YouGov is a full-service market research company, specialising in qualitative research and online polling. YouGov has the region's largest pure research panel of approximately 200,000 members, who respond to surveys. The company has particularly strong analytical skills, with research specialists who have many years regional experience. YouGov acts as a research consultancy for clients on research projects of any size, outsourcing face-to-face and telephone when needed, ensuring the very best service the region can offer. It is part of the YouGov Group, which applies the same online methodology and has proven levels of accuracy.