

OUTSOURCING IN SWEDEN, AND HOW TO CHOOSE YOUR IT OUTSOURCING SERVICES PROVIDER

A SPECIAL REPORT FOR CEOs



Executive Summary

This white paper asks the question: Why should your company outsource, and how can you make an informed choice on your outsourcing service provider?

IT outsourcing has been a steadily growing part of the Swedish IT market, which is considered to be the largest market within the Nordic region and the 3rd largest in Europe. Every year, more Swedish companies decide to outsource. The majority of Swedish companies decide to outsource due to conditions such as a shortage of IT domestic skills and high costs of performing in-house solutions, or a need to re-focus on core competencies.

In order to avoid multiplied risks associated to outsourcing, CEOs need to carefully consider where to outsource, and how to choose a provider. An informed choice on both of these aspects will guarantee added values to your organization through the satisfaction of a quality delivered service and a trustworthy relationship with your service provider.

Thus, this white paper helps to:

- ✓ Gain a better understanding of the current Swedish outsourcing market within the Nordics
- ✓ See what different modes of outsourcing solutions exist and what are their respective benefits and drawbacks
- ✓ Evaluate different outsourcing solutions
- ✓ Evaluate the values/benefits of having local “Bridge Managers” as intermediaries between the Swedish clients and the nearshore vendors.

It also includes some short testimonials from Swedish companies who have gained high values by opting for nearshoring solutions, under the lead of Swedish Bridge Managers. CEOs need to push back the veil of darkness over the apprehension of outsourcing to uncover the hidden benefits of nearshoring solutions and light the way to a long-lasting trustworthy relationship with reliable providers.

Outsourcing IT activities: A critical challenge for CEOs

40% of outsourcers think that outsourcing saves operating costs, but inevitable increases management costs

Are you considering outsourcing but feel uncertain that this is a suitable solution for your company? You want to outsource but fear the risks associated with having a third party handle some of your critical business activities? You are reluctant to let part of your activity go overseas?

Those questions, if not treated correctly, can have dramatic consequences on your company. As you decide to outsource, you put your trust into a provider you rely on to deliver on time and at a high quality. Unfortunately, uninformed provider's choice might put your activity at stake, if you bought empty promises and false competencies.

35% faced incurred costs of ITO, up 25% higher than expected

In fact, the Swedish ITO Intelligence report 2011 showed that a poor choice of service provider could lead to problems such as:

- ✓ Poor communication with vendor
- ✓ Actual costs exceeding contracted costs
- ✓ Poor project management
- ✓ Poor quality and delays of delivered product
- ✓ Lack of appropriate resources on provider's side.

Why outsourcing?

Between 2010 and 2011, the number of Swedish outsourcers increased by 8.9%, and is projected to grow

Given the rapid globalization, free movement of capital, people, and enhanced competition, companies nowadays need to streamline their operations and focus all their attention on their core business activities, thus bringing more value to their shareholders and satisfaction to their customers. Willingness to concentrate on core business activities and company growth are named among the primary reasons to outsource, resulting in necessity of having more flexibility in staffing and / or capacity.

Swedish legislation, with its strict policies regarding layoffs, makes outsourcing the best choice when the cost of mistakes in hiring a wrong specialist is very high, or when specific competencies are sought for. Cost-cutting can also act as a driver to outsource, especially at larger companies, who can reach economies of scale by outsourcing larger parts of their routine tasks.

Drivers of decision to outsource in Sweden, 2011 [2]



Our research demonstrated that drivers to outsource can be classified according to four dimensions: strategic, organizational, operational and economic. Main strategic reasons consist of focusing on core business and increasing strategic flexibility. Organizational reasons include reduction of internal complexity. Access to skills and knowledge are the main operational reasons, while operating costs reduction falls into economic motivations.

Swedish companies are mainly driven by economic (outsource to reduce operating costs), operational (access to the resources which are costly or even not available in the country) and strategic reasons (willingness to focus on core competencies).

Our empirical research through interviewing key decision-makers at Swedish companies confirmed that firms in Sweden are opting for outsourcing at a time when they grow and want to eliminate spending time on supporting functions and routines.

Where to outsource?

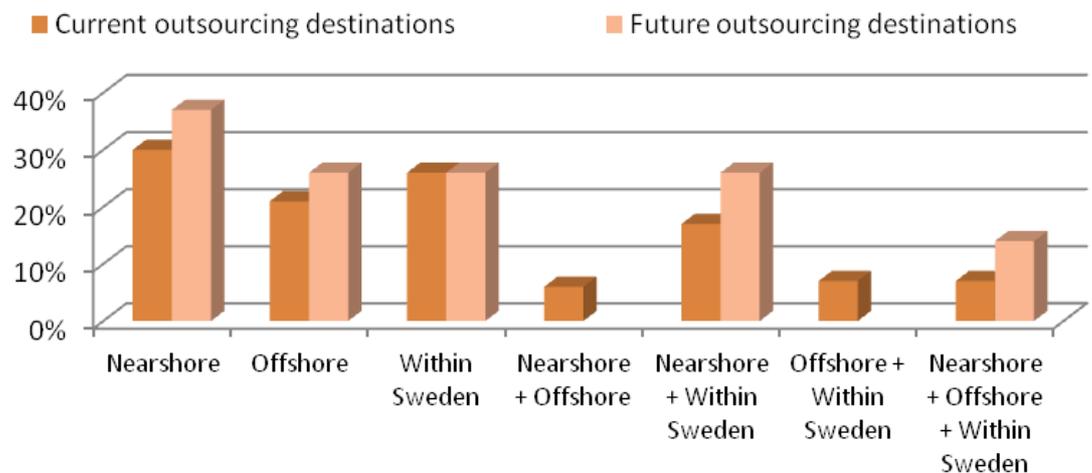
With the decision to outsource, multiple questions come into light: where to outsource? How to choose the right reliable provider?

As Swedish Information Technology Report Q1 2012 states, the IT industry in Sweden is projected to grow steadily at the 3.1% compound annual growth rate over 2009-2014 serving the largest market in the Nordics and the third largest market in Europe. It is also noted that outsourcing gains more popularity each year. Although outsourcing is not new to Swedish companies, it was mostly associated with relocating of goods production to Asian countries. Outsourcing of services has been chosen more often lately due to the recent economic recession in Europe that put certain limitations on firms' IT budgets. The recent trends have witnessed an increase in service outsourcing from small and medium-sized companies, which

53% of Swedish outsourcer use Nearshore or Inshore solutions

tend to opt for outsourcing their activities rather than doing everything in house.

European IT Outsourcing Intelligence Report 2011, by surveying 479 Swedish companies in February – March 2011, demonstrated that most Swedish companies tend to outsource within Sweden or Nearshore. Nearshoring solutions are expected to grow popular due to their cost efficiency and risks significant lower than those associated with offshoring.



41% of non-outsourcer companies state that given they made a decision to outsource, they would first look for a Swedish sourcer

The mix of outsourcing solutions is wide, with various implications for the outsourcer, but all of them fall into three main categories: **inshoring**, **offshoring** or **nearshoring**.

- **Inshoring**, i.e. outsourcing within Sweden, is traditionally considered as the most reliable and least risky solution by Swedish IT managers, as all contracts are held within Swedish legislation meaning strict penalties for the party which has not met the contract terms. Proximity and ease of communication with the service provider comes as risk reducers and are highly valued by the outsourcer. The quality of local services is also considered to be high despite the shortage of qualified IT personnel on the job market. However, Swedish outsourcing service providers sell inshoring solutions at high prices.

- **Offshoring** i.e. relocation of outsourcing activities to an overseas service provider which is located not less than 3 time zones away from the customer's. The most traditional destinations for offshoring are India, China and Philippines, with interest to the latter growing in recent years.

The top reason to outsource overseas is to benefit from lower costs and cheaper prices

Although prices associated to offshoring solutions are considered the cheapest, they usually incur increase in management costs, and on average a 10% rise in contracted price due to delays and communication difficulties

Offshoring outsourcing locations achieved their fair fame in the beginning of 2000s, and still remain stably popular, especially amongst larger corporations, which can reach economies of scale by outsourcing large volumes to the offshore service provider. The high risks associated to time difference, cultural differences, difficulty of communication, poor intellectual property protection, and high personnel turnover make offshoring solutions more expensive than the contracted price and less attractive for uncertainty avoidant companies.

Nearshoring benefits from lower pricing than inshoring, at a higher quality and more reliable than offshoring solutions

- **Nearshoring**, i.e. the transfer of business or IT processes to companies in a nearby country, often sharing a border with your own country where both parties expect to benefit from one or more of the following dimensions of proximity: geographic, temporal (time zone), cultural, linguistic, economic, political, or historical linkages. It represents the “golden middle” solution between inshoring’s high costs and offshoring’s high risks. Nearshore destinations from Sweden therefore include Central & Eastern Europe.

Swedish companies mainly target Baltic countries as services delivery channels since these countries are easily accessible from Sweden. They offer rather lower pricing than inshoring solutions and higher quality thanks to a strong engineering tradition. Risks associated with nearshoring are considered as medium since companies in the region are still operating under EU legislations. Moreover, cultural barriers between Baltic countries and Sweden are rather low since they have years of common pasts and share the same values.

Nearshoring companies based in such countries as Russia, Ukraine and Belarus have their own distinctive characteristics because they are formally not part of Europe, which means that they are subject to VISA regulations; moreover, many general EU policies (such as IP rights protection) are different for these countries. The level of attractiveness of these regions also decreases because of political instability in the countries and rapid economic growth resulting in increasing salary rates.

Nearshore is the preferred outsourcing destination in Sweden, and comes as first choice for future outsourcing destinations

Mode of outsourcing	Price	Risk	Quality
Inshoring	HIGH	LOW	HIGH
Offshoring	LOW	HIGH	LOW
Nearshoring	MEDIUM	MEDIUM	HIGH

How to choose a service provider?

You need to become clear about whether you can compromise on risk or price. A good decision can also be to opt for a middle solution which mitigates risks and provides higher quality for a reasonable price.

However, the outsourcing mode only is half of the decision, as the benefits from outsourcing solutions can be written off by an unreliable service provider. Based on our research, the common decision criterias are listed to the left.

Common Decision Criteria:

- ✓ Price
- ✓ Size of vendor
- ✓ Location
- ✓ Language skills
- ✓ Reliability
- ✓ References

- **Price** is an important part of the contract and has impact on the decision to go in business with a company. However, all companies we interviewed admitted that they can't rely on the price only and tend to value trust and commitment of the partner more, and can even prefer to pay premium for reliability and trust. This is especially true for Swedish outsourcing providers since many companies opt for insourcing not to get better quality or lower price but to be confident they are in business with the right partner.

- **Size** of the vendor is another important dimension. Although it is commonly believed that larger companies can provide more quality, it is not necessarily true. Contrastingly, smaller companies often value their customers more and hence as more flexible and willing to change their procedures to best satisfy client's needs.

- **Location** close to your company means less miscommunication caused by time and culture differences since geographical proximity leads to closer connections between cultures. Also, if a service provider company is based in a nearby country, it takes less time to travel there which saves transportation costs.

- **Language skills** can be extremely important if you are operating in particular areas (such as healthcare for example); otherwise Swedish-speaking managers can be a good bonus if you are looking for enhanced communication and genuine synergies between your in-house IT department and overseas outsourcing provider.

- **Reliability** is the most influential factor in the choice of service provider. Our Swedish outsourcer interviews as well as theoretical research suggest that building up a strong personal relationship with your Swedish service provider is of the utmost importance. All companies want to feel confident about their partners and therefore have to check the background of the company. All service providers

Smaller service providers tend to be more flexible and more customer-focused than larger companies

A good service providers choice comes down to opting for the most reliable one based on reputation and similar project completion

should be able to provide you with case studies, and display their proven track records of similar projects. As you look into selecting an outsourcing partner, do not hesitate to enquire about successful similar projects.

- **References** are the proofs of what the service provider is claiming in terms of recommendations via contacts with former clients of the vendor for first-hand experiences. In order to get insights into company's track records, check the websites and trustworthy professional networks such as LinkedIn. Note which companies have been in business with this service provider (established and trustworthy companies are not afraid to provide this information openly) and look for reliable testimonials.

Is there an optimal tradeoff between trust, risk and price?

Is it possible to combine the benefits of all outsourcing solutions in one service provider?

What if you do not want to compromise quality for price?

After analyzing the market, we realized there was an incredible source of values for Swedish CEOs to use Nearshore solutions, but coordinated by a Swedish service provider acting as "bridge managers" between the outsourcer and the delivery channel. With this unique value proposition, CEOs can feel confident about contracting a trustworthy third party to handle part of their IT that will deliver a high quality at a lower price.

Is Bridge Management the solution?

Bridge Management guarantees:

- ✓ Low Price
- ✓ Low Risk
- ✓ High Quality

The "bridge managers" build and maintain closer interpersonal relationships, minimize the cultural gaps that may exist between the Swedish customers and the nearshore delivery channel, and create a trustworthy environment. They enable the Swedish outsourcer to deal with a Swedish service provider comparable to inshoring, who brings the skills and competencies of nearshoring to Sweden at a lower price.

Bridge Managers bring to the Swedish outsourcer the price benefits and high IT competencies offered by the Baltics, in the safe environment of "Inshore" outsourcing solutions

Building on their cross-cultural knowledge, and years of work experiences on both sides of the Baltic Sea, bridge managers are responsible for supporting Swedish customers onsite both in Sweden and in the Baltics, securing the quality and the time planning as well as taking responsibility for the continuance and the efficiency over time. This includes areas like marketing packaging, service development, knowledge transfer, "on-boarding", documenting, follow-up and identifying and qualifying of the right competencies.

Conclusions

The continuous growth of outsourced projects on the Swedish market shows an increased need of Swedish companies to gain in flexibility, streamline their operations and focus on their core competencies to remain competitive, and achieve high customer satisfaction.

CEOs looking into outsourcing part of their operations face a real challenge when choosing both the right outsourcing mode, and a reliable service provider. Nearshore solutions appear the most valuable compromise between price quality and risk. When this outsourcing solution is combined with a Swedish bridge manager connecting and enhancing the business relationships between the Baltics and Sweden, the risks associated to cultural differences, service quality and management costs inflation are completely written off. Baltic Quality was able to identify such opportunity and went into strategic partnerships with IT service providers with proven track records in the Baltics, and brought their expertise to Swedish companies looking for reliable IT solutions for less, combined with the safety of inshore outsourcing solutions.

To see more examples of companies that gained from using nearshoring solutions through Baltic Quality, please visit our website: www.balticquality.se or follow us on [LinkedIn](#) or [Facebook](#).

About Baltic Quality

“Partnership with Baltic Quality was driven by loyalty”

- Leading Swedish/International Telco Company

“Reliable firm and hard workers”

-Swedish Clearing Service Company

“Trustworthy and committed partner”

- Global IT Consulting Company

Baltic Quality reflects the current market demand in helping businesses to streamline their operations with the support of IT.

The idea came to us at the end of 2005 when we worked at WM-data, currently Logica: Why choose between running the IT function in-house / by Swedish consultants or “offshore” with IT professionals far away in Asia? There should be another option - at a lower cost than at home, the same or better quality and much closer to our Swedish market.

And it did, less than 500 km from Stockholm. Nearshore, that is. The best part was that the IT-engineers were at least as high class as the Swedish. We called it “Nearshore - Reliable IT for less”. But even if the price is lower, we have pledged ourselves that the lower price will never be our main argument. Therefore our name is Baltic Quality. We now have 200 highly qualified IT consultants working for us throughout the Baltics.

Baltic Quality provides IT services within four main domains:

- ✓ Development
- ✓ Implementation
- ✓ QA & Test
- ✓ Application Maintenance

To find out more about our company, please feel free to contact us:



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Sources

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