Outsourcing & Offshoring Trends in the Retail Industry: 2007-2010

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- The Retail Industry Still Consumes Only 5% of the Offshoring Market
- Outsourcing and Offshoring in Retail is Still Dominated by ITO

### 4. WHY
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EXECUTIVE SUMMARY: Outsourcing Trends in the Retail Industry

- Retail industry accounts for only 5% of all offshore services
- Outsourcing in retail still heavily dominated by ITO; levels of BPO lag other industry sectors
- Retailers remain conservative in the locations chosen for offshoring - India still the primary destination despite the rise of other centers such as Eastern Europe, China, Philippines

- Shift away from large transformational deals to smaller, tactical outsourcing engagements
  - Number of deals up 40% 2009 vs. 2008 but average contract size in the retail sector only ~$60 million, smallest transaction sizes in last 5 years sector
  - Exit of major ‘transformational’ outsourcing deals by e.g. Sears, Sainsbury’s, Barclay’s Retail Bank
- Most major retailers now maintain a ‘mixed portfolio’ of operating models in ITO/BPO
- Only the biggest retailers have sufficient scale to consider captive offshore centers (e.g. Tesco, Target, Supervalu, etc.)

- Outsourcing to become an increasingly key tool in retailers arsenal to maintain competitiveness on cost and capability
  - Due to economic pressures, offshoring is being considered by companies who traditionally have shunned it (e.g. Walmart)
  - Move to packaged software for core retail applications (e.g. Supervalu, Walmart) indicates a move away from IT as a point of differentiation for retailers opening up further scope for outsourcing
  - Increased complexity of multi-channel retail environment driving change from pure cost arbitrage outsourcing to sourcing a portfolio of integrated services

Sources: Elix-IRR analysis, DataMonitor 2010, TPI 2009., press releases
Introduction

This analysis takes the form of:

- An overview of the trends in outsourcing and offshoring by major retailers in the last 3 years, covering the following dimensions
  - **What** (functions outsourced / offshored)
  - **Why** (trends in the retail industry and implications for outsourcing)
  - **How** (form of offshoring and outsourcing)
  - **Where** (popular and emerging locations for delivery)
  - **Who** (summary of major outsourcing transactions by major retailers and outsourcers)
WHAT: Overall Growth in BPO, ITO and KPO Services

Retail companies have continued to outsource and offshore throughout the downturn, though at a slower rate than in previous years, mirroring the broader outsourcing market.

- The IDC reports that outsourced offshoring generated $260bn in revenues and had grown by 25% during 2007-09.
- However, most activity has been an extension of existing deals or services – relatively few major new transactions.
- Datamonitor reports that the value of new offshoring deals signed between Oct 2008 to Jan 2009 fell by 38%, when compared to the previous year.
- NASSCOM, the Indian software association, revised offshoring growth forecasts downwards for the 2009 period.

Growth in Offshore Services, 2007-2010E

WHAT: The Retail industry Still Consumes Only 5% of the Global Offshore Services Market

- The retail industry accounts for only 5% of all offshore services, outsourced and captive.

- According to a 2009 study by TPI, outsourcing contracts in the retail market were up 40% from 2008, but average and total values of deals signed in the retail industry fell to their lowest levels in five years.

- Increasingly, the industry has seen an acceleration of BPO activities due to the current economic climate, particularly in F&A, HR, CRM and procurement.

- Everest Group estimates that retailers can save up to 20% in HR and up to 35% in IT ADM and CRM if they engage offshore service providers.

- Despite product sourcing being one of the core competencies for success in retail, the retail industry has not been a leader in outsourcing (particularly ITO). This is in juxtaposition to the Financial Services (FS) industry, who are many steps ahead in this regard.

- The average contract size in the retail sector between 2007-2010 was only $60 million compared to just under $240 million in FS.
WHAT: Outsourcing and Offshoring in Retail is still dominated by ITO

- ITO, as the most mature and understood form of outsourcing and offshoring, is the most prevalent in the retail industry.

- Whilst basic BPO is now relatively common, especially among the larger retailers, it is far less exploited than in other sectors such as Financial Services.

- KPO remains very niche for the retail sector. Largely only basic customer data analytics or market research type activities have been considered to date.
WHY: Trends in the Retail Industry & Outsourcing

Economic Pressures

- Retailers across North America and Europe have continued to suffer as a result of the financial crisis and low consumer confidence.
- As revenue streams become uncertain in this economic climate, retailers are re-focusing their priorities on saving costs and protecting margins.
- Reduction in capital for investment.

Implications for Outsourcing

- Outsourcing is being considered even by companies who traditionally have shunned it (e.g. Walmart) - potential to yield over 30% savings for retailers that outsource F&A, HR, procurement and IT.
- Outsourcing cost savings typically go straight to the bottom-line.
- Outsourcing deals need to help retailers ‘variable-ize’ their cost base in response to revenue pressure – utility-based infrastructure and cloud computing deals are two examples of where outsourcing can support this strategy.
- Transforming assets to the outsourcer can be used to ‘smooth’ the large investment costs involved in transformation, development and refresh programs.
WHY: Trends in the Retail Industry & Outsourcing

Keeping up with the consumer

- Rapidly changing consumer tastes and shorter product life cycles in the retail business environment
- Information availability to consumers and the rise of eCommerce applies further cost pressure to all retail sectors

Implications for Outsourcing

- Companies are outsourcing more and more R&D and product development to outsourcing partners to access new ideas and creativity
- Efficiency in SG&A costs will be mandatory for margin protection for almost all retailers – outsourcing is one way of achieving this
- CRM and multi-channel execution will be key to removing intermediaries in the supply chain
WHY: Trends in the Retail Industry & Outsourcing

Retail IT Evolution

- Technology plays an increasingly important role in enabling complex business functions: pricing, promotions, product innovation, enhanced customer service, integrated life-cycle management, dynamic forecasting, and multi-channel retailing

- Even major retailers are adopting packaged solutions for core technology platforms previously seen as sources of competitive differentiation – e.g. Walmart and Supervalu implementing elements of Oracle Retail software suite

Implications for Outsourcing

- Use of outsourcing to access broader talent pools and increase speed to market
- Portfolio-sourcing: retailers are increasingly recognizing the need to balance between the industrial strength of a large supplier vs. the responsiveness and point-capabilities of smaller and / or larger pools of providers
- Effective Service Management of multiple sourcing arrangements will be a key skill for retail IT departments

- IT capability is seen as less of a differentiator and more of a commoditized service – leaving retailers more open to the outsourcing of previously retained areas in their IT departments
WHY: IT Trends in the Retail Industry & Outsourcing

Retail IT Evolution

- Many retailers spend over 50% of their IT budget just to maintain their IT infrastructure (‘lights on’)
- The IT industry has seen a rise in “software-as-service” or on-demand services, such as SalesForce or cloud computing

Implications for Outsourcing

- On Demand services will be increasingly used to help reduce cost and bring flexibility to the cost base
- Retailers will conflict with incumbent outsource providers with less motivation to offer “software-as-service” type options (fee cannibalization)

- 40% of mid-tiered retailers say there is a strong probability they will outsource, compared to 18% of small retailers and 14% of large retailers

- IT Outsourcing is considerably more ‘saturated’ for major retailers than other domains – outsourcing will be a story of change rather than growth in this sector
WHY: IT Trends in the Retail Industry & Outsourcing

**IT Trends in Retail**

- The retail industry is placing more importance on customer-centricity and end-to-end supplier management, thereby demanding increased visibility around customers and suppliers, to help collaboration across all channels.

- The retail market faces pressure on headcount and development budgets, forcing retailers’ IT divisions to rely increasingly on development and support services by third party software houses.

- Retailers are realizing that the most cost-effective approach to gain competitive advantage is to focus on improving / changing business processes rather than spending heavily customizing or acquiring IT systems that may not be a good fit for the business.

**Implications for Outsourcing**

- There is increased demand for customer and vendor management software and toolsets in the outsourcing market.

- Similar to other industries, this has lead to the ‘invisible sourcing’ phenomenon whereby using software houses for ADM work results in creep in discretionary software spend (disguised in short term by amortization).

- Companies are increasingly seeing IT systems as an enabler of differentiating strategies, not a differentiator in and of themselves.

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HOW: Operating Model

**Prevalent Retail Sector Sourcing Operating Models**

- Captives
- Dedicated Service Centre
- Labor Augmentation
- Out -Tasking
- Managed Service
- Transformational Outsource
- Commercialize Assets

- Most major retailers maintain a ‘mixed portfolio’ of operating models in ITO/BPO
- Only the biggest retailers have had sufficient scale to consider captive centers
- KPO is still a very minor/niche sector with a couple of players experimenting with outsourcing basic arrangements e.g. customer data and market research

**NOTE:** This picture has been simplified – many retailers straddle multiple operating models
NOTE: This picture has been simplified – many retailers straddle multiple operating models.

- **Infrastructure operating model consolidation on managed service, with some more innovative utility and cloud computing models are emerging.**
- **Only the biggest retailers have had sufficient scale to consider captive centers.**
- **ADM shows more diverse operating models, with many retailers coming full circle and bringing capabilities back in-house.**
- **Very few large transformational deals over the last 3 years – most remaining deals of this kind have been terminated or are under review (e.g. Sears/CSC, Sainsbury’s/Accenture).**
This is a cost-effective way of leveraging the expertise of third parties to develop a potential key strategic component without the full investment, reducing the cost of development and freeing capital for other initiatives.

Examples of companies that have brought functions back in-house include American Express, Dell, Nike, Barclays and Sainsbury's.

Companies begin outsourcing AD tentatively, such as basic task outsourcing, non-core applications, packaged software, etc.

To transform their AD functions, retailers have embarked on full managed service and transformational deals to:
- Improve service
- Reduce cost
- Build capability

Several companies have decided to bring their IT back in-house either because:
- They are no longer satisfied with service
- They believe the benefits have been achieved and in-sourcing will save further money (removal of third party margin)
HOW: ‘Invisible’ Sourcing – Software Houses in ADM

In response to pressures on headcount and IT development budgets, IT divisions are relying increasingly on development and support services by third party software houses

<table>
<thead>
<tr>
<th>Cause</th>
<th>Effect</th>
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<tbody>
<tr>
<td>▪ Retailers’ IT divisions have experienced overall headcount reductions over the last 2-3 years</td>
<td>▪ Use of 3rd party software houses to develop and support own product – for specialized products it is more difficult to source staff in the open market or via basic outsource providers</td>
</tr>
<tr>
<td>▪ Increased scrutiny of IT consulting and development spend</td>
<td>▪ Leads to creep in discretionary software spend (disguised in short term by amortization)</td>
</tr>
<tr>
<td>▪ Tighter procurement controls</td>
<td>▪ IT divisions are unable to develop in-house capabilities due to lead times and investment requirements</td>
</tr>
<tr>
<td>▪ Focus on short term cost reductions vs. long term capability development</td>
<td>▪ Typical vendors for retailers would include:</td>
</tr>
<tr>
<td>▪ Perceived risk of giving bespoke/specialist software products to generic outsourcers</td>
<td>▪ ERP giants: Oracle, SAP, Sage</td>
</tr>
<tr>
<td></td>
<td>▪ Web-platform providers: Blue Martini, IBM Websphere Commerce, etc.</td>
</tr>
<tr>
<td></td>
<td>▪ POS vendors: DatamaxSys, etc.</td>
</tr>
</tbody>
</table>
HOW: Operating Model for BPO

There is far less diversity of operating model in the BPO space with most retailers opting for outsourcing of basic, low value activities:
- HRO: payroll, benefits, admin
- F&A: AP, invoice processing

Some retailers with typically disparate locations have used HRO to transform their HR systems to implement global/scalable processes and platforms

Retail-specific process outsourcing is relatively varied – from non core areas such as check processing and facilities management to supply chain and customer care functions

Tesco and Target have leveraged their existing IT center infrastructure to add more and more non-core BPO processes

DSGi have outsourced their CRM and customer contact center to HCL – other retailers have typically maintained customer touchpoints in-house
HOW: Operating Model for KPO

- **Prevalent Retail Sector Sourcing Operating Models**
  - Captives
  - Dedicated Service Centre
  - Labour Augmentation
  - Out-Tasking
  - Managed Service
  - Transformational Outsource
  - Commercialise Assets

- **Major activity areas**
  - KPO shows the least levels of activity – as with all industries, this is the least mature and smallest sector of outsourcing
  - Mainly dominated by out-tasking of customer data analytics, loyalty programmes or marketing research
  - These functions, when outsourced, are typically performed by specialist third parties not major outsource providers in the IT and BPO sector (similar to FS where these players have been acquiring KPO players aggressively)

- **Research and Analytics**
  - As with BPO, the captive centers have taken on analytics and other KPO type activities such as planning and forecasting
  - Walmart, not known for their propensity to outsource, have shed some small, typically core, retail functions such as product sampling and events management
  - Sainsbury’s and BP Retail are partners along with several other UK retailers in a third party owned and run loyalty scheme – this includes the card/reward administration, analytics and marketing. However, Sainsbury’s continues to maintain and analyze their own customer data

NOTE: This picture has been simplified – many retailers straddle multiple operating models
WHERE: Growth in Major Offshore Geographies

Growth in outsourcing revenues ($B 2008-10)

- Major outsourcing centers have continued to grow over the last 3 years
- Whilst other industries, such as FS, have seen a lot of growth in other emerging offshore locations besides India, for the retail sector, India remains the primary destination, both for outsourced services and captive centers (e.g. Tesco, Target, Supervalu)
- For other sectors, Eastern Europe has also started becoming increasingly prevalent for ITO and BPO, while the Philippines is increasingly popular for front-line support, especially for US call center support due to language capabilities
- Despite being a key location for offshore production and sourcing for retailers, China remains comparatively unexploited by the retail industry for other offshore services

Sources: Everest (10), KPMG (09), NASSCOM (09), McKinsey (08)
WHERE: Offshoring in India

India remains the primary offshore destination for retailers, particularly through captive centers

- Captive centers continue to come under pressure from large-scale outsourcers, particularly the Tier 1 Indian players
- Large retailers have been able to leverage cost arbitrage opportunities in the Indian outsourcing market
- The experience and maturity of India’s own retail industry has brought a lot of talent and expertise to help the country’s outsourcing industry

Total operations in Indian captive delivery centers (2007-09)

<table>
<thead>
<tr>
<th></th>
<th>IT captives</th>
<th>BPO captives</th>
<th>KPO captives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scaled Up</td>
<td>38%</td>
<td>33%</td>
<td>45%</td>
</tr>
<tr>
<td>Shut Down/Sold Off</td>
<td>22%</td>
<td>37%</td>
<td>24%</td>
</tr>
<tr>
<td>Scaled Down</td>
<td>6%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Stagnant</td>
<td>34%</td>
<td>13%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Evalueserve – Captives in India, 2009

Retailers with established captives in India:

**Tesco** set up a shared services center, Hindustan Service Center in Bangalore in 2004. The back office runs IT functions such as enterprise application integration and BPO functions such as financial, payroll and invoice processing. It has approx. 2000 FTEs and is making plans to source higher-end services, e.g. ERP services testing.

**Target** set up its software development captive center in Bangalore. It also sources ADM work from other major Indian vendors, such as TCS, Infosys and Wipro. The center currently has c. 2100 FTEs. Rumors persist of a potential sale to Wipro or TCS.

**Supervalu** also set up a software development center, Supervalu Services India, in 2006 in Bangalore. It planned to invest $50 million over a 5-year period for a 300-member strong team. By setting up operations in India, the move is said to have helped Supervalu gain a 40-50% cost advantage.
WHERE: Other Emerging & Niche Delivery Centers

South America
- Mexico, Costa Rica, Panama: Popular for BPO and also call centers for Spanish language services
- Chile, Colombia, Argentina: Provide Spanish-language services to US and Spain. Chile, in particular, is viewed as a stable environment without the hyperinflation issues previously seen in Argentina and Brazil
- Brazil: Growing as an IT service provider, particularly Curitiba (‘Silicon Valley of South America’) but the majority of services are still consumed by the domestic market due to language issues

Africa and Middle East
- South Africa: Popular for BPO from the UK due to language and time zone although there are still security concerns
- Egypt: Leading emerging offshore center in Northern Africa
- Morocco, Tunisia and Algeria: Developing language-specific offshoring capabilities for the French market, largely in the contact center space
- Jordan: Has grown as an offshore center for Middle Eastern/Arabic businesses – solid ITO capabilities though relatively small talent pool and language constraints
## WHO: Most Popular Outsourcing Vendors in Retail

Ranking of vendors who entered or renewed contracts from 2007 by contract size

<table>
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<tr>
<th>Ranking</th>
<th>Most Popular Outsourcing Vendor</th>
<th>Total No. of Contracts</th>
<th>Total Value of All Contracts (US$ million)</th>
<th>Example of Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1*</td>
<td>HP</td>
<td>8</td>
<td>2,712</td>
<td>KarstadtQuelle AG, Royal Ahold NV, Guthy-Renker, 7-Eleven, etc.</td>
</tr>
<tr>
<td>2**</td>
<td>IBM***</td>
<td>26</td>
<td>1,765</td>
<td>Carrefour, Belk, Bharti Retail, etc.</td>
</tr>
<tr>
<td>3</td>
<td>Wipro</td>
<td>7</td>
<td>229</td>
<td>Charming Shoppes, Pantaloons Retail, Spencers Retail, Morrisons Supermarket, etc.</td>
</tr>
<tr>
<td>4</td>
<td>Cable &amp; Wireless</td>
<td>3</td>
<td>216</td>
<td>Tesco, Next, etc.</td>
</tr>
<tr>
<td>5</td>
<td>Patni</td>
<td>1</td>
<td>200</td>
<td>Carphone Warehouse</td>
</tr>
</tbody>
</table>

Source: Datamonitor

* The total contract value for HP for new deals and renewed contracts from the beginning of 2007 includes the $1 billion 8-year ITO contract with KarstadtQuelle AG (which was renamed Arcandor AG in June 2007); however, Arcandor filed for liquidation in June 2009 and the contract is not currently in effect, although some of Arcandor’s businesses are still operating.

** The total contract value for IBM for new deals and renewed contracts from beginning of 2007 includes the 7-year $775 million ITO contract with Circuit City Stores; however, this contract lasted only until March 2009 when Circuit City Stores filed for liquidation, although the website CircuitCity.com still operates under a new ownership.

*** In 2009, IBM was the top outsourcing provider to the retail market with 14% market share.
WHO: Top Retailer in Total Value of Outsourcing Contract Spend

Ranking of retailers who entered or renewed contracts from 2007 by total contract value

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Retailer Name</th>
<th>Total No. of Contracts</th>
<th>Total Value of All Contracts (US$ million)</th>
<th>Example of Outsourcing Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1*</td>
<td>KarstadtQuelle AG (renamed Arcandor AG)</td>
<td>1</td>
<td>1,000</td>
<td>HP</td>
</tr>
<tr>
<td>2**</td>
<td>Circuit City Stores</td>
<td>2</td>
<td>780</td>
<td>IBM, Convergys</td>
</tr>
<tr>
<td>3</td>
<td>Royal Ahold NV</td>
<td>1</td>
<td>560</td>
<td>HP</td>
</tr>
<tr>
<td>4</td>
<td>7-Eleven</td>
<td>2</td>
<td>506</td>
<td>HP, Unisys</td>
</tr>
<tr>
<td>5</td>
<td>Carrefour</td>
<td>1</td>
<td>251</td>
<td>IBM</td>
</tr>
</tbody>
</table>

Source: Datamonitor

* The total contract value spend for KarstadtQuelle/ Arcandor for new deals and renewed contracts from beginning of 2007 includes the $1 billion 8-year ITO contract with IBM; however, Arcandor filed for liquidation in June 2009 and the contract is not currently in effect, although some of Arcandor’s businesses are still operating.

** The total contract value spend for Circuit City for new deals and renewed contracts from beginning of 2007 includes the 7-year $775 million ITO contract with IBM; however, this contract lasted only until March 2009 when Circuit City Stores filed for liquidation, although the website CircuitCity.com still under a new ownership.

• After taking away the two large deals which are no longer in effect, Royal Ahold is the retailer with the largest IT contract from the beginning of 2007 onwards, although this was a contract extension rather than new business.
WHO: Selection of key activities by institution

- Historically have been anti-outsourcing in IT which they saw as a source of competitive advantage - relied mostly on applications that were developed in-house
- Although they currently have a product sourcing operation in India, they do not yet have a technology captive in India
- In June 2009, there is speculation that Walmart is considering TCS, Wipro and Infosys for a $500 million outsourcing deal to India to manage their business applications and back office activities
- Their outsourcing initiatives will not simply be about bringing down costs, but more about globalizing their IT sourcing initiatives, especially as Walmart looks to grow its businesses in emerging markets such as India and SE Asia
- Some small BPO activities - recently renewed a BPO contract with Xchanging to provide worker’s compensation claims handling and medical management services

- In 2009, Carrefour awarded IBM a $251 million contract over 5 years to provide IT infrastructure services – the terms were for IBM to take over the transformation and maintenance of Carrefour’s IT infrastructure and applications in France (their entire IT infrastructure to be hosted from IBM’s first green datacenter, Montpellier)
- The agreement aimed at optimizing Carrefour’s IT costs, especially in France, to secure and improve service for end users and to rationalize sub-contracting
- The deal is expected to help Carrefour cut costs by approx. $5.72 billion over the next three years by cutting down on their energy expenses and increasing their security and their ability to upgrade technology
WHO: Selection of key activities by institution

- In 2008, Tesco awarded a 5-year contract worth $197.8 million to Cable & Wireless to provide IT infrastructure services, including data, fixed and mobile voice telecommunications services and streamlining the existing systems into a single IP network.
- The deal will connect Tesco’s networks of 1400 sites, including stores, offices and distribution centers, across operations in 14 countries.
- In 2007, Tesco extended its IT contract with Xansa, worth $35.9 million, to support and manage the retailer’s business applications, leveraging Xansa’s cost-effective onshore and offshore capabilities and delivery channels in the UK and India.
- Tesco saves over $100 million a year by outsourcing its IT projects to India, and primarily drives projects from the Hindustan Service Center, its own captive center in Bangalore (which employs over 2700 people). This center was set up to service the entire IT life cycle management of the parent company’s global retail operations, besides BPO services like payroll, pension management and store design support.

- In 2010, Office Depot renewed a contract with Convergys HR Solutions worth $10 million.
- The BPO deal will see Convergys continue to provide HR administration for Office Depot, which has been a client since 2003.
- ACS has also been awarded a BPO contract extension valued at approx. $25 million up until 2011 to continue providing accounts payable and workflow services for the office products supplier. ACS are also to continue to employ its total document management system, a web-based workflow technology platform.
WHO: Selection of key activities by institution

- In 2007, 7-Eleven signed a $500 million contract IT extension with HP-EDS over five years for enterprise application and infrastructure management. The agreement gives 7-Eleven the flexibility to easily manage its portfolio of applications, enabling the retailer to focus on its Retailer Initiative strategy, which places decision-making with store franchisees and managers. In 2006, 7-Eleven signed with ExcellerateHRO in a 64-months HRO contract to provide benefits administration services.

- In 2006, electronics retail company DSG International awarded Capita Group a 7-year BPO contract worth $210 million to provide telephone support services. Also in 2006, the company outsourced its IT infrastructure, including system development, application delivery and infrastructure support, to Indian company HCL Technologies in an ITO deal worth $335 million over 5 years.

- In 2009, Marks & Spencer awarded Fujitsu Services a 7-year IT contract worth $42 million to provide IT support services, including in-store IT support for their stores. In 2007, the retailer renewed a $39 million 5-year IT contract with Computacenter Services to improve core technology provision to its head-office users across six sites and drive down costs, including software asset management and security administration.
WHO: Selection of key activities by institution

- In 2010, Starbucks announced that it was closing its call center in Seattle and the outsourcing firm, Sitel, will take over call center functions from its Albuquerque operations; the 3-year deal is valued at $18 million.
- In 2007, Starbucks signed with Convergys for its global HR administration and payroll services in a $50 million deal over 5 years, with the aim of building a single global platform for HR services to support Starbucks’ global expansion.
- In 2006, Starbucks awarded Unisys a 5-year $50 million contract to provide IT services.
- As part of their global sourcing strategy, Starbucks sees Unisys as their IT partner to simplify the deployment and management of IT infrastructure used in their international retail stores, support centers and manufacturing facilities.

- In 2009, Royal Ahold awarded a 7-year contract worth $560 million to HP-EDS to provide IT infrastructure and application services.
- Under this contract, HP continues to provide management and support services for Ahold’s global datacenter, which includes mainframes, servers and storage as well as network services for supply chain & distribution across 3000 stores, warehouses and offices throughout Europe and the US.
WHO: Selection of key activities by institution

- In 2003, Target awarded IBM a 10-year contract to manage its mainframe IT infrastructure
- The agreement relies on a variable, on-demand pricing model under which Target will only pay for the IT services it uses
- In 2009, there is news that Indian IT outsourcing companies TCS and Wipro are looking to buy Target’s technology captive center in a potential transaction coupled with a long-term outsourcing contract worth $300-$400 million
- Target’s IT captive center in Bangalore currently employs 1,500 FTEs to carry out software development and maintenance work
- Target first set up its Indian captive operation in 2005 through a JV with ANSR Source, a Texas-based BPO outsourcing firm. This followed a trend at the time when many retailers were starting their own Indian captives as there were not many Indian service providers who were fully able to understand their core operations
### WHO: Top 20 Outsourcing Contracts in the Retail Sector

Contracts signed/renewed with start date from 2007 onwards

<table>
<thead>
<tr>
<th>Rank</th>
<th>Retailer</th>
<th>Outsource Vendor</th>
<th>Start Date</th>
<th>End Date</th>
<th>Total Contract Value (US$ million)</th>
<th>Still in Effect (Y/N)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>KarstadtQuelle AG</td>
<td>HP</td>
<td>7 May 2007</td>
<td>07 May 2015(E)</td>
<td>1,000</td>
<td>N</td>
</tr>
<tr>
<td>2</td>
<td>Circuit City Stores</td>
<td>IBM</td>
<td>29 Mar 2007</td>
<td>29 Mar 2014(E)</td>
<td>775</td>
<td>N</td>
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<td>3</td>
<td>Royal Ahold NV</td>
<td>HP</td>
<td>1 Dec 2009</td>
<td>01 Dec 2016(E)</td>
<td>560</td>
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<tr>
<td>5</td>
<td>7-Eleven</td>
<td>HP</td>
<td>29 Mar 2007</td>
<td>29 Mar 2012(E)</td>
<td>500</td>
<td>Y</td>
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<td>6</td>
<td>Carrefour</td>
<td>IBM</td>
<td>6 Jun 2009</td>
<td>6 Jun 2014</td>
<td>251</td>
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<td>7</td>
<td>Carphone Warehouse Group</td>
<td>Patni Computer Systems</td>
<td>17 Oct 2007</td>
<td>17 Oct 2012(E)</td>
<td>200.0</td>
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<td>8</td>
<td>Tesco</td>
<td>Cable &amp; Wireless</td>
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<td>28 May 2013</td>
<td>198</td>
<td>Y</td>
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<td>9</td>
<td>Lantmannen</td>
<td>Logica Plc</td>
<td>19 Apr 2010</td>
<td>19 Apr 2015(E)</td>
<td>125</td>
<td>Y</td>
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<td>10</td>
<td>Pao de Acucar</td>
<td>IBM</td>
<td>1 Sept 2009</td>
<td>1 Sept 2014</td>
<td>115</td>
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Source: Datamonitor
### WHO: Top 20 Outsourcing Contracts in the Retail Sector

Contracts signed/renewed with start date from 2007 onwards

<table>
<thead>
<tr>
<th>Rank</th>
<th>Retailer</th>
<th>Outsource Vendor</th>
<th>Start Date</th>
<th>End Date</th>
<th>Total Contract Value (US$ million)</th>
<th>Still in Effect (Y/N)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>4U Group</td>
<td>TCS</td>
<td>28 Jan 2009</td>
<td>28 Jan 2012(E)</td>
<td>100</td>
<td>Y</td>
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<tr>
<td>12</td>
<td>McDonald’s</td>
<td>Affiliated Computer Services</td>
<td>25 Jan 2010</td>
<td>15 Jan 2015(E)</td>
<td>100</td>
<td>Y</td>
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<tr>
<td>13</td>
<td>Mitsui &amp; Co Ltd</td>
<td>Verizon</td>
<td>14 Apr 2010</td>
<td>14 Apr 2015(E)</td>
<td>100</td>
<td>Y</td>
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<td>14</td>
<td>Belk</td>
<td>IBM</td>
<td>2 Sep 2007</td>
<td>1 Sep 2014</td>
<td>98</td>
<td>Y</td>
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<td>15</td>
<td>Bharti Retail</td>
<td>IBM</td>
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<td>25 Aug 2018</td>
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<td>16</td>
<td>Europart</td>
<td>Xerox</td>
<td>16 Oct 2007</td>
<td>16 Oct 2014</td>
<td>82</td>
<td>Y</td>
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<td>17</td>
<td>Unnamed mass merchant</td>
<td>Convergys</td>
<td>31 Jan 2008</td>
<td>31 Jan 2012</td>
<td>80</td>
<td>Y</td>
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<td>18</td>
<td>Apoteket AB</td>
<td>TietoEnator</td>
<td>12 Jun 2007</td>
<td>12 Jun 2011</td>
<td>76</td>
<td>Y</td>
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<td>19</td>
<td>Dagrofa</td>
<td>IBM</td>
<td>13 Feb 2007</td>
<td>13 Feb 2017</td>
<td>65</td>
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<td>20</td>
<td>Charming Shoppes</td>
<td>Wirpo</td>
<td>4 Aug 2009</td>
<td>4 Aug 2014</td>
<td>60</td>
<td>Y</td>
</tr>
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Source: Datamonitor
For Further Information, please contact:

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