An ESP's new paradigm – the unbroken promises

A Report on how to provide the competitive edge for an Indian IT service provider through client retention

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NEW DELHI

*ESP: External IT Service Provider

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SYNOPSIS

INTRODUCTION

Every generation has its own buzzword or in fact, sometimes a couple of them. The 21st century is no such exemption which is ubiquitously filled with the buzzword called "outsourcing" in every context. This particular term has re- evolutionized the entire world to the acme as much as no concept could do. The world witnessed the Stone Age and then the industrial revolution and has now placed itself in a plasma of information age.

The very context of outsourcing has impacted the corporate world and has bombarded so many models within its cordon that the dynamics of business literally has gone for a toss and we still find people delving to make the best out of it. Outsourcing has accentuated its prominence across the globe impacting nations, cultures, people and not the least, even the legislations shrinking the world.

But outsourcing, all by itself covers a plethora of activities under its umbrella and the effective enhancement of this concept has taken it across industries. This report intends to portray outsourcing within the IT industry and especially in an Indian context to mark it as first of its kind. This report would be from an external service provider's (ESP) point of view and aims at ameliorating their competitive advantage to enhance their business and eventually the business results by retention of clients. Thus, the report is christened as "An Indian ESP's new paradigm – the unbroken promises", accentuating the demand-supply relationship pertaining to an offshore client and means of bolstering the same with a model or a framework.

Thus the above paragraph gives a gist of the report' outcome and also added along to top, would be the rationale drawn from the above study to bring in a need for effective service management principles within the ESP's IT organization. For the sake of study, the ESP's organization is dissected into 3 parts namely the client interface – the concept which would evolve from the report called as the customer governance framework (CGF) at a strategic level, the IT organization at a tactical and operational level where the need for Industry's best practice on IT Service Management (ITSM) should be employed and the third portion called the supplier interface if the ESP further outsources some activities called as the sourcing governance framework (SGF) which is a very well established concept in the Europe and UK. The principles and functions of the SGF would be profoundly explained over the due course.
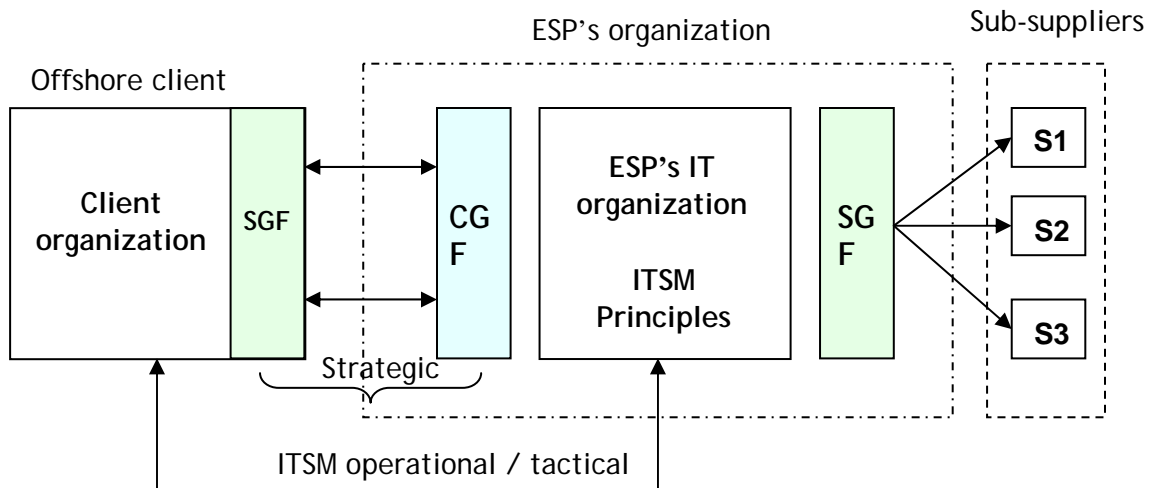
Fig-Syn: Offshore outsourcing organizational set up

IT has come a long way through and investments on IT is no more seen as a strategic event by any CEO, says a latest white paper from the Harvard press. It has become mandatory and is not a deployed factor for consequence of the business strategy but to thwart competition. Hence viewing IT as the one which brings in more risks is judicial than to make it fancier with advantages. This statement is so laid because of the facts that just like power, energy, water; IT has also widely become a commodity. IT services are now a means of production and this paradigm rightly serves those who visualize IT in this context rather than aiming at competitive advantage or as a utopian concept.

THE NEED FOR CGF

If one talks about outsourcing, then there pours a heavy gush of white papers in this context, but also realize the fact that they all talk about outsourcing from an offshore client's point of view. Thus to overcome, one main objective of the research was to provide an insight on outsourcing from an ESP's view point and analyze and find a solution to ameliorate the business and cover up those common issues of the client.

A detailed study on SGF, revealed certain facts about the ESPs and those with which the clients in the west posted as complaints.

- The irrational promises the ESP makes and never keeps up.
- In the bidding stage, some ESPs go below their cost line just to strike the   deal   or are financially squeezed during negotiations that he can't deliver at   the   stated level and fiddles at the lower toleration limit of the SLA.

- The ESPs sometimes do not define mechanism of control measures, service levels and pricing

- One reason, the ESPs falter in the pricing mechanism is that they do not take other market forces into account maintaining citrus paribus condition.

- The ESPs are not pro-active

- The sorry state of affairs sometimes is that the contract structures like RFP, SLA, and UPC do not have connectivity.

- Employee arbitration especially in India is a major deterrence of service provisions

- The ESP does not view himself as a strategic partner of the client.

Kindly note the fact that browsing few articles for the synopsis could yield so much from the client's end and it is sure that an in-depth research could help bring out more gaps. What do the service providers do about this? Is there any mechanism to control these issues or is there any function or a frame work to tackle these critical issues? A customer governance framework, which is nothing but an integral part of the ESP's organization with an expertise in areas like demand management would constitute a team to cover all these issues. The idea of CGF is dealt only over a platitude and would go profound with the research results. This report would profoundly delve for solutions and aim at providing a structure for the CGF and its core functions and interfaces. At a random selection, ponder over few points which would bring in a rationale for a demand in a professional dedicated organization to lay down the deliverables and promises which are realistic and also could be delivered within limits. Thus at an outset, the CGF would tackle,

- Client's expectations and needs
- Contract management and negotiations
- Service level management
- Pricing and bidding
- Cost analysis of the service taking all factors into consideration
- Ensure service support and delivery
- Marketing and sales activities

A quick research could determine the following functions but an in-depth analysis is sure to bring out more and would give the proposed CGF model a definite shape. This report would help find a perfect

partner for an SGF and their marriage would determine an enhancing client-supplier relationship and an efficient demand-supply management for 'built to last'.

A CGF's function would not only be in managing demand, but also enhancing client relationship. This factor can only be fulfilled if the promised service is delivered to the client that would add value. The very concept of value is sometime misconstrued among the ESPs. Value is not what a supplier thinks he delivers, but something what the client perceives as. Thus empathizing from a client's view point would define value. But even before steering the discussion with value, an ESP is primarily responsible to deliver the core service and then comes in augmentation of services. Thus a CGF's promises should be buttressed by a strong back-end. Back-end here we mean the IT organization which is the second component of the ESP's organization and thus becomes the scrutinized entity under study.

INFORMATION SOURCES

Primary sources

The following sources have been identified to provide primary information regarding the existing business dynamics and the demand-supply gap in the industry.

- The delivery heads, personnel involved in contract negotiations through

    o Discussion guidelines / Questionnaires

    o Depth interviews

- Industry experts

- Industry specific consultants

Secondary sources

The following sources have been identified to provide secondary information regarding the industry dynamics.

- Literature

    o Research publications

    o Industry reports

    o Whitepapers / Fact sheets

    o Business magazines and journals

- The internet (related websites)

Tertiary sources

Some tertiary sources like referring to some of the research works done could be of some information and help for easier comprehension.

RESEARCH METHODOLOGY

Literature

　　White papers, articles,
　　industry reports

Hypothesis

　　Rudimentary CGF model

Primary Research

　　Interviews,
　　Questionnaires, etc.

Analysis / Inference

　　Service management
　　inclusion

Prove / Disprove hypothesis

| Client's view point | Bridge the gap | ESP's view point |

　　Refined Model

Develop model / framework
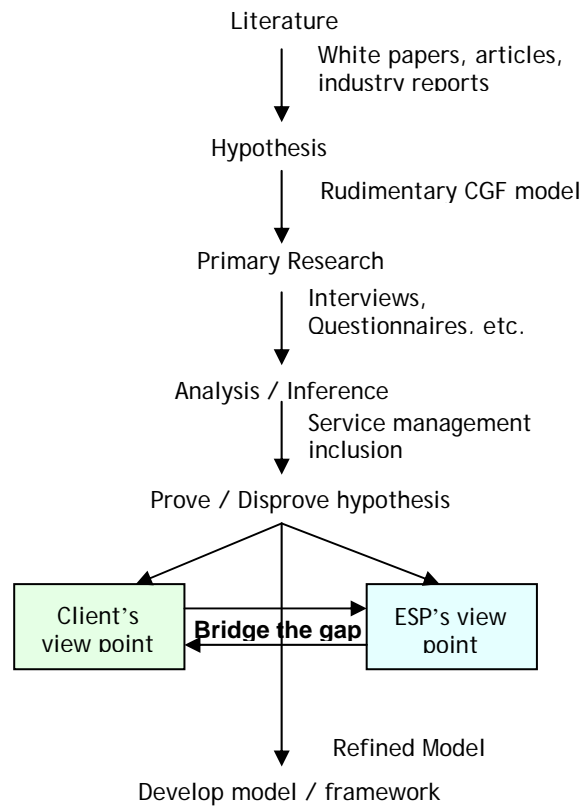
SOURCING - Introduction

Sourcing is rated high on the priority lists of the directors' agendas. Cost reduction, better efficiency, the focus of faster deliver, makes sourcing a more and more popular topic in the IT-Service Delivery.

Sourcing however encompasses more than simply outsourcing and focuses on optimization and utilization of personnel in addition to other resources within, and between organizations. The focal point in sourcing is the delivery of added value (core value). After focusing on the core business and core competencies which are primarily led by the internal business goals, the core value emphasizes the added value towards the customer. Sourcing often comes with a strategic re-orientation. The organization makes a conscious decision on which activities distinguish them from competitors, and focuses on those activities while outsourcing the other activities. By focusing on core competencies of an organization, activities can be executed for other organizations or executed concurrently with third parties.

In all cases, the choice of sourcing is the result of a strategic re-orientation with extreme consequences. Practical experience proves that the process for making sourcing decisions is inadequate. Market research shows that the rate of success of sourcing is very low, of which insufficient preparation and poor due diligence are often the main causes. Though outsourcing is an essential part of today's global economy, little do many know that the concept has been existent for decades.

A BRIEF HISTORY OF OUTSOURCING

For some, globalization is about opening up free trade between countries – increasing globalization helps to create opportunities for nations and benefits workers in both rich and poor countries. For others, globalization is yet another way for the rich to line their pockets at the expense of the poor – a non-sustainable system that excludes developing nations. Whichever opinion, there is much history for globalized trade.

Back in the early years of US History, the making of America's covered wagon covers and clipper ships' sails was a job outsourced to workers in Scotland, with raw material imported from India. England's textile industry became so efficient in the 1830s that eventually Indian manufacturers couldn't compete, and that work was outsourced to England.

In the US in the 1970s, it was common for computer companies to export their payrolls to outside service providers for processing. This continued into the 1980s, where accounting services, payroll, billing, and word processing all became outsourced work.

But most of this work was outsourced to service providers only as far away as another state, not overseas, and the reasons for outsourcing had more to do with small efficiencies than reshaping the economy. It wasn't until the late 1980s that outsourcing began to emerge as a potentially powerful force in transforming global economies. Meanwhile, in technology circles, the focus on outsourcing turned from its efficiency to its economy and productivity. Early outsourcing to overseas providers by corporations like Kodak and American Standard began to capture the public's attention. Kathleen Hudson, then Kodak's CIO, said, her goal was to "plug into the wall and have data come out." That type of thinking helped put outsourcing on the map.

IT-Outsourcing

The fundamentals for the success of an IT services outsourcing project is largely determined based on how thorough the preparation is. The design of a long lasting service relationship between parties is not easy. In addition to the design of the required relationship and the selection from possible vendors, thought must be put into the organizational structure and management of the outsourcing relationship. Several risks and/or roadblocks might appear during the sourcing process. These risks need to be identified as early as possible and loss of intellectual capital must be avoided. In outsourcing especially the business and IT-objectives, with its business models, the maturity of the internal IT organization and the organizational structure is the key.

In order to gain insight into the sourcing status of an organization, the organization must be benchmarked to the ever so important initial situation by performing a baseline assessment. In this assessment the organization will be checked from five different perspectives, and each perspective will be judged based on the SWOG-analysis (Strengths, Weaknesses, Organization and Governance). This not only provides insight into the status of the five critical perspectives, but also gives an all over picture of the organization with respect to sourcing.

In this section, each of the five perspectives will be discussed and will be explained what the approach is and how this supports the decision making process. On the basis of the results, from every perspective, where this could become a risk or roadblock for the outsourcing process and when countermeasures will be necessary to avoid disruption of the process and the projected result.

Support the relationship

The outsourcing relationship should be supported by an executive function. This function must be completely operational directly after finishing the transition from the internal IT service provider, and become an instant benefit to contract management.

This executive function supports organizational and IT management by using standardized methods for intelligent buying and safeguarding the delivery of IT services and products delivered by internal and external parties.

The executive function supports the core value by managing and controlling suppliers on policy making and operational levels. The customer requirements are translated to service requirements, and responsibility is taken for the evolution of IT services. After the actual outsourcing, the executive function ensures the quality of the operational delivery of services by on reporting, as well as performing periodic audits.

Leading in those activities is the mission of the executive function which depends on the business and IT strategy of the customer's organization and the focus on core competencies.

After the initial analysis of the five perspectives, independently and in relation to the other perspectives, the results will be viewed in relation to the sourcing process and the Executive function. In this process the design of the Executive function is an integral part of the outsourcing process. The findings eventually lead to a plan of action in order to prevent and avoid roadblocks and decreasing the associated risks, thereby increasing the viability of the projected goals and objectives of the outsourcing of the IT services.

Early recognition and removal of roadblocks in sourcing relationships is essential to be successful. *Before* the actual outsourcing, the business and IT objectives need to be researched, the controlling mechanisms and the maturity of the internal IT organization must be assessed, and finally, the future Executive function of the sourcing relationship must be researched from the five described perspectives.

This described methodology can also be used in existing sourcing relationships. This function has a bigger scope than only the support of IT sourcing. Preconditions for successful sourcing are that the organization accepts to rethink their already made decisions and focus on core value. All this to benefit a controllable service delivery in which actual measurable improvements happen, are guaranteed, and can be justified.

COMMON TYPES OF OUTSOURCING MODELS

'Outsourcing' as a term has revolutionized the entire world to the acme as much as no concept could do. The very context of outsourcing has impacted the corporate world and has influenced so many models within its cordon that the dynamics of business has undergone a strategic inflection curve. Outsourcing has accentuated its prominence across the globe, and has impacted nations, cultures, peoples, and - not least – even legislations. In short, Outsourcing says, 'honey, I shrunk the world'. The following are the most predominant models in outsourcing.

Onshore model: In this model, the outsourcing client hands over his operations to a vendor of the same land. This is purely explained by geography. Any vendor who services his client who is present within the same geography comes under an onshore model.

Near shore model: As the name suggests, in this model, the supplier is within a close proximity from the client. For example, a vendor in the Western Europe who services a client in the central Europe or some American companies who outsource their operations to Canada is a perfect example to cite.

Onsite model: In this delivery model, the employees of the vendor, regardless of where he is based out of sit at the client's site and work. They become the contracted employees of the client organization.

Offshore model: The most famous and widely spread jargon in today's management suites, the offshore outsourcing model has come a long way. In this model, the client outsources its operations to a vendor who is situated at a far off land primarily due to low cost opportunities and other domain expertise benefits. Most of the Indian vendors follow this approach and has proved an efficient way of working that it has earned a considerable percentage of India's GDP. The following matrix shows the evolution of offshore outsourcing and India is unequivocally in the 4th generation offshore outsourcing and is the most preferred destination for the 4th quadrant as below.
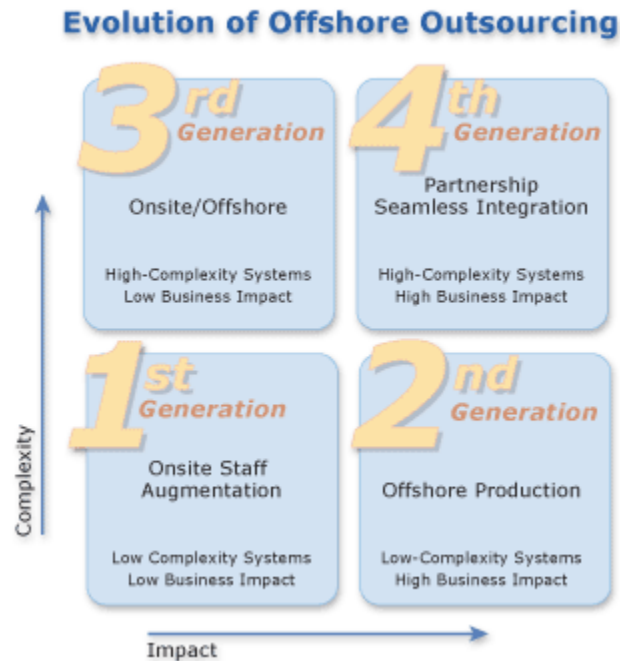
Fig-1: Evolution of offshore outsourcing

However, there are still other models like the BOT (Build, Operate and Transfer), JV (Joint Venture, etc) which are present in the global outsourcing market. But even these kinds of engagement models primarily follow one of the above mentioned types. Though there has been a surge in the level of sophistication in refining the delivery models, the base concept of delivery hovers around one of these models and especially in a market like India, one can witness the adoption of various delivery models for the same client for effective delivery. This is also possible because some Indian players and other MNCs who swarm the Indian market due to the cost advantage have the band width to expand and adopt different models. A simple representation of an offshore outsourcing set up is shown below.
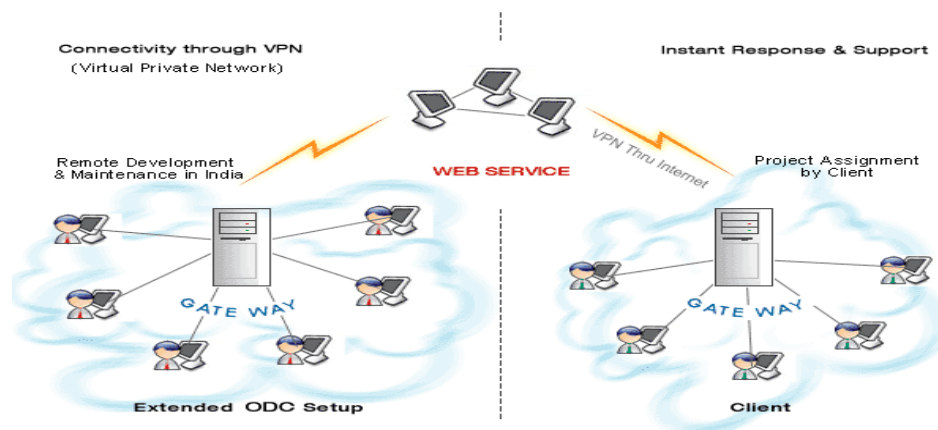
Fig-2: An offshore development centre set up (ODC)

The main flavor of the report is that, whatever the engagement model is, relationship management to retain the client is the heart of any business objective. Thus for the existing models and for more models to come, the outcome of this report would always be helpful for both the clients and the IT vendors. But, due to the fact that the report covers the scope of Indian IT vendors (aboriginal and MNCs in India), the discussion is now driven more towards the offshore outsourcing market in India.

RISKS IN OFFSHORE OUTSOURCING

*There are no secrets to success. It is the result of preparation, hard work, and learning from failure.
(Colin Powell)*

When we discuss offshore outsourcing, the first item usually raised is cost savings. The second item raised immediately after is: *Risk.* As realized by all, risk is an important issue when considering offshore outsourcing. But risk by itself should not intimidate from further exploring offshore outsourcing. Organizations should learn to understand the risks and take the appropriate measures to make offshore outsourcing a S*uccess.*

*Risk comes from not knowing what you're doing.
(Warren Buffett*)

While many companies are still in the very early stages of outsourcing discrete projects/components offshore, some companies have reached a mature outsourcing practice where cost reductions of more than 30% are made. This outlook for high ROI's is very tempting, but the risks perceived are often a reason for companies not to go offshore, delay or slow down the outsourcing process.

The top 7 risks of offshore outsourcing software development and support we encounter are:

1. Cost Reduction Perceptions

The cost reduction perceptions associated with offshore outsourcing are often more than 40%. These perceptions are mainly based on comparing local and offshore labour costs. In reality, typical cost reductions are around 5% to 10% the first year, 10% to 25% the second year and >25% the third year. This effect is to a large extend based on the need to initially invest in offshore governance, knowledge transfer and the fact that organizations have to go through a learning curve of tailoring their internal development and support processes. If organizations are not realistic about expected

cost reductions, the offshore outsourcing results will be disappointing, often resulting in failure of the whole offshore expenditure.

2. <u>Process Maturity Gap</u>

For successful outsourcing, the internal processes must have a minimal level of maturity. Without this minimal level of maturity, organizations will not be able to manage a result-driven outsourcing process. This will undermine the reduction of costs intensively. The process maturity gap will even be more visible if offshore suppliers have high levels of process maturity (for example CMM level 5). Although this might seem to be very attractive at first sight, organizations must realize that this puts high demands on its capability to manage and control the relationship.

3. <u>Social and HR consequences</u>

Outsourcing of services, in general and especially offshore outsourcing, will have impact on internal personnel. Even when there will be no compulsory loss of internal jobs, offshore outsourcing will cause tumult. There are many cases where offshore outsourcing expenditures lead to bad publicity, obstruction by trade unions, political interference, etc.. If these risks are not managed from the start, the consequences can be significant, resulting in, for example, the deterioration of the corporate image.

4. <u>Slipping Project timelines (or failure to deliver)</u>

For various reasons, there is the risk that offshore project timelines are not met. Basically, the expectations of the collaborative project were higher than in reality. There are many reasons for this symptom, but in most cases project management issues, requirements management issues or communication issues are the cause. The fact that projects and processes are geographically spread and collaborative in nature, causes these issues to become significant risks.

5. <u>Business Knowledge Transfer and Loss</u>

Specific Business Knowledge is the central added value of internal ICT organizations compared to external suppliers. The first issue is to determine if such information is business critical and/or innovative for competition. If so, there is a good chance that it will be risky to outsource and even riskier to outsource offshore. The second issue is the cost of the transfer of business knowledge.

Companies should realize that this is a costly and continuous process, which is made more difficult by the physical distance, language and cultural differences. Knowledge transfer is known to reduce the productivity in the first year by more than 15%.

6. Culture Gap

If culture is described as a combination of 'balance of power' and 'reduction of uncertainty', you will see a difference in the cultures of the 'customer' organizations and the offshore 'supplier' organizations. Measures should be taken to manage these differences, as neglecting them will result in serious project delays, quality gaps and large unexpected cost. For example; Asian organizations often have a very hierarchical culture in combination with a tendency to avoid conflicts. In such a culture, people do not question the often poorly specified demand of a customer. This, in combination with high development process maturity (high CMM levels), will result in fast delivery of well structured software, which does not meet the expectations and as such is not usable.

7. Information security/ Intellectual property protection

Often, offshore suppliers are perfectly able to deliver high levels of security. You should however be aware that the risk of security breaks, privacy violations or the fact that intellectual property is stolen, is increased when working in an international environment. In the event that these types of security demands are not met, taking legal steps is difficult and costly.

By understanding these risks, and taking the appropriate measures, organizations can make offshore outsourcing of software development and support a success.

IT OUTSOURCING & INDIA: The perfect analogy

"We have seen savings of 50 percent in salary costs by offshoring operations to India. There is no shortage of the right people to do the jobs, and the productivity of the people is higher than expected."

– Simon Bush, Standard Chartered Bank, Head of Global Shared Business Services in India

Offshore outsourcing is being done in a dozen countries, but India has emerged as the global model for offshore outsourcing for these reasons:

- It has one of the world's largest pools of highly educated, English-speaking workers (250 million), many with scientific and technical skills. By 2010, India is expected to be the largest English-speaking country in the world.

- India has very low wages. Starting salaries for IT engineers in India range from $5,000-$10,000, low by US standards but very attractive in a country with a per capita annual income of $500.

India remains a fore runner in offshore IT services accounting for the current and the future strengths

Future strengths

- Expected size of IT exports
- Sustainability of cost advantage
- Depth of talent pool
- Likely quality of service delivery
- Expected conduciveness of regulatory environment

India serves over 255 Fortune 500 companies and many more.

Source: McKinsey analysis

Current Strengths

- Current industry size
- Cost structure for service delivery
- Quality of service delivery
- Regulatory environment
- Culture for services

Fig-3: Current and future strengths of India

Financial institutions also benefit from the unique partnership between the Indian government and NASSCOM, the National Association of Software and Services Companies, which maintains a concerted development effort aimed at attracting ITO and BPO business. As a result, the country has encouraged a favorable business climate for US firms seeking India offshore outsourcing services, and early concerns about the business risk of offshore outsourcing in India have been largely laid to rest.
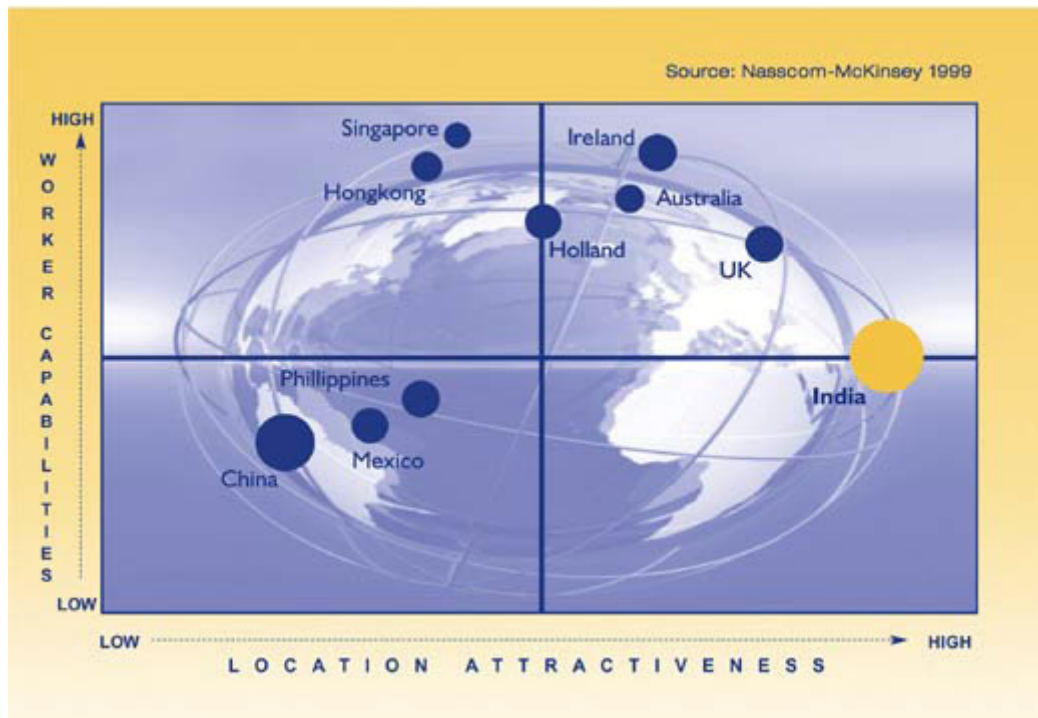
Fig-4: Outsourcing advantage to India

In contrast to circumstances in the US, the jobs that banks typically outsource today are high status career positions in India. Offshore outsourcing is a path for career-minded individuals, a majority of whom have master's degrees, to gain experience in the global economy. In addition, because they hold positions that embody the full mission of their companies, they are proud of their positions. Their pay is high by local standards and they receive a variety of benefits that American workers would find enviable.
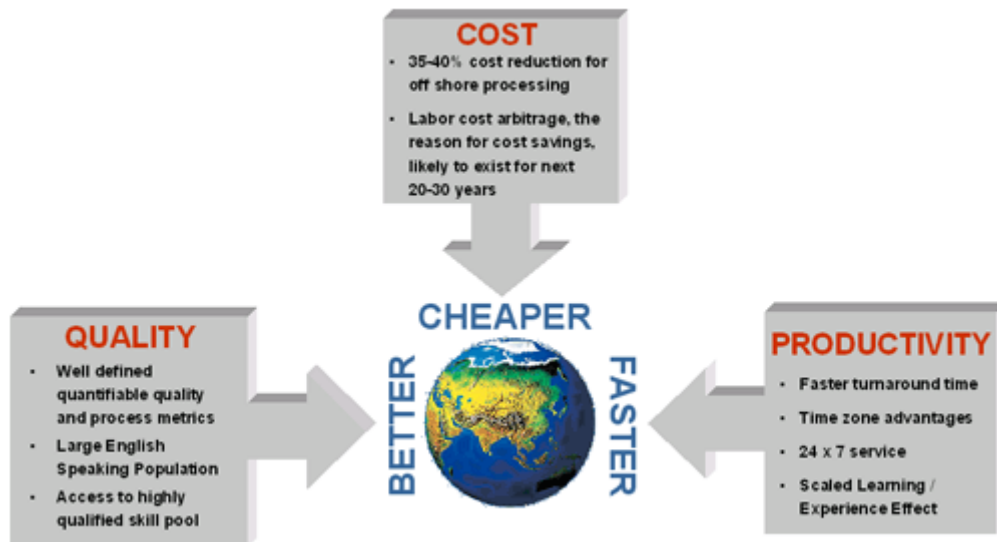
Fig-5: Attributes of IT services in India

In the 1970s and 1980s, manufacturing companies around the globe began to move large parts of their operations to places such as Mexico, the Philippines, and Puerto Rico, where lower labor costs made

them more cost competitive. For the same reason, some companies attempted to outsource their software development efforts offshore in the 1980s, but it took the enormous amount of reprogramming required by the Y2K transition to catalyze the process. In the course of carrying out those projects, the poor reputation that most offshore firms had in the early 1990s was transformed: many of them did high-quality work and used sophisticated application-management processes to do it.

Realizing cost savings are evident to customers across industries

Impact of offshoring business		
Overall cost		**Key opportunity areas**

	Percen	Multipl	Key opportunity areas
Insurance	10.0–15.0	3.5	• Claims processing • Servicing
Banking	8.0-	1.5	• Call centre operations • Loans processing
Pharma	5.0-	1.3	• Research and
Telecom	1.5-	1.1	• Call centre operations
Automotive	1.0-	1.1	• Engineering and design
Airline	0.8-	1.2	• Revenue accounting • Call centre operations

40 – 60% cost saving by offshoring processes

Source: McKinsey

Fig-6: Cost savings in different verticals

As a result, over the past five years, companies have begun to outsource many of their internal IT services, such as help desks, software support, and software development. The most popular offshore location is India, which combines high quality with low costs. Other possibilities, involving a variety of trade-offs, include China, Ireland, and Israel. Companies in the most popular offshore locations have excellent capabilities and are now in an ideal position to provide more sophisticated value-added software development services.

Clashes between different languages, cultures, and work practices can make collaborating with offshore developers a challenge, especially in the early stages. Politics too can be a problem in some countries, and encryption regulations in the United States might wholly prevent certain work from being done offshore.

In fact, many an offshore developer now has standards equal to or higher than those of US companies. To help them evaluate the qualifications of offshore software developers, the Software Engineering Institute has developed a framework called the capability maturity model (CMM), which applies total-quality-management principles to software development. Case studies show that this

approach improves the quality of software and the productivity of the people who develop it, and the model has been widely accepted in the industry.

Of the companies around the world that achieved the valued level-5 CMM certification in 1999, half were based in India. One US high-tech company studied had only a single in-house development location rated even at CMM-4, with the rest at levels 2 or below, while its offshore developers were all certified at CMM levels 4 and 5. Indeed, it is not uncommon for US companies to climb up a CMM level as a result of their interactions with Indian outsourcers.

Furthermore, India has twice as many technical graduates as the United States does, on an absolute basis. The result is that Indian software developers can maintain a critical mass of qualified employees in any specialty despite turnover rates that can be quite high. Thanks to quality-of-supply and cost advantages, India is by far the preferred offshore location. Ireland and Israel offer strong infrastructures and multilingual workforces, but at premium prices. In some countries, factors other than quality and cost come to the fore. China, for instance, offers low costs and special expertise in supporting software for which most documentation has been lost (often because of the age of the software in question). But intellectual-property concerns and cultural conflicts are probably greater in China than in any of the other regions.

If cost is an advantage, India has also ramped up its quality ensuring a persistent quality of service delivery

Parameter	India
IT export industry size (US$ million)	9500
Active export focused knowledge professionals	195,000
IT employee cost (US$ per year)	5000 - 12000
No. of CMM level 5 certified cos	65
IT labor force	Low cost, high quality
Infrastructure	Average
Main positives	English lang skills, work force, robust project mgt. experience
Main negatives	Ordinary infrastructure, some geo-political issues

Source: McKinsey analysis, E valueserve,

Fig-7: India on quality of service delivery

Last but not the least; an overall location analysis bolsters the fact that India is the preferred destination.

Rating outsourcing locations

Criteria	India	Malaysia	Ireland	Philippines	China	Sri Lanka
Skilled Labor pool						
English speaking labor pool						
Factor costs						
Stable Political and legal system						
Infrastructure: Telecom & Power						
Time Zone						

Degree of favorability — High → Low

Source: BCG analysis
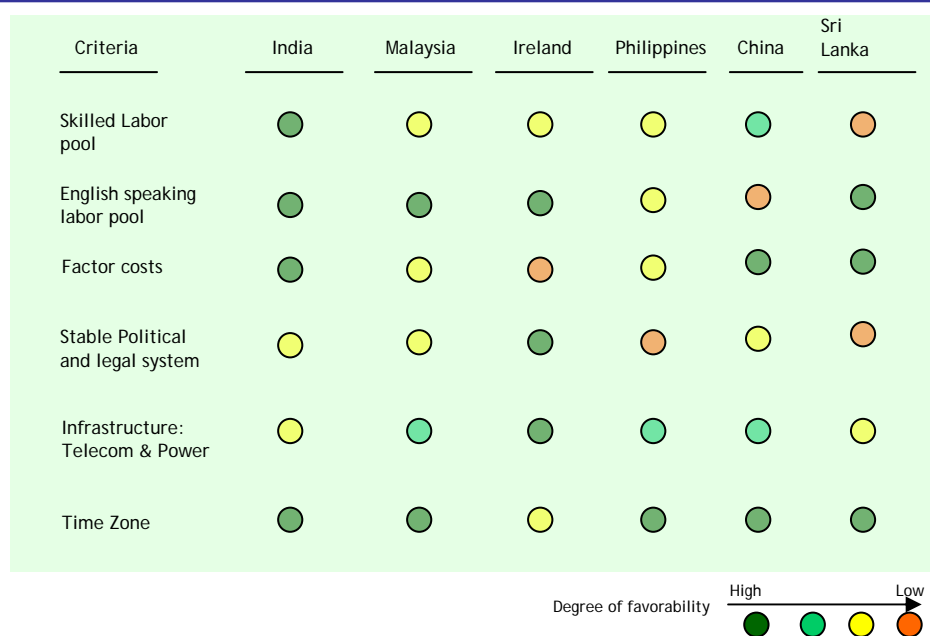
Fig-8: Location attractiveness

THE INDIAN IT INDUSTRY

INTRODUCTION

The Indian IT industry in India is one such identified industry that has created a surge in the country's economy. With still a plethora of areas left untapped, the industry has shown some steady and bullish growth in the past couple of years and has been expected to grow further positively. The industry's contribution to the country's GDP was 1.4% in 1998-'99 and grew to a robust 3% in 2002-'03 and is projected to be 3.8% in the current fiscal. Currently a 15.8 billion USD market in India is now projected at 19.6 billion USD by 2004.

INDUSTRY STRUCTURE

The IT industry in India is broadly classified into two types namely the domestic IT market and IT exports. The IT exports market actually remains the major contributor to the industry in terms of revenue especially foreign exchange. The market is so humungous that it contributes nearly 60% to the IT industry. The major components of the IT exports market are the ITeS industry and the software and service exports.

The domestic IT market in India is further broken into Software service, hardware, peripherals and networking and training. The software service further constitutes of packaged software and services. A diagrammatic representation of the same is provided below for better comprehension.
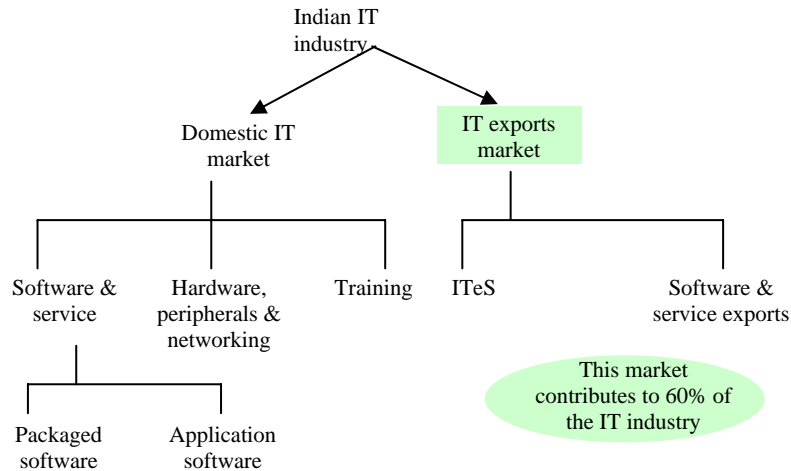
Fig-9: Indian IT Industry

IT EXPORTS MARKET

This sector of the industry has shown optimistic trends in the previous years by putting India in the global trade market. The sector is projected at a whooping 12.2 billion USD from a current 9.55 billion USD, a 62% of the entire industry. They continue to be the dominating factor in the overall growth of the Indian IT industry. This sector's contribution to India's invisible receipts is also continuously increasing.

EXPORT DESTINATIONS

By destination, all the software and services are exported to only three regions by and large. N.America takes the lion's share of the Indian IT exports to nearly 70% and is projected to grow further. European Union region ranks second with UK, Germany and France grabbing 70% of the share of exports to EU. The remaining is targeted to Asia Pacific region to countries like Japan, Australia and China.

The Indian market is trying to further reach to the horizons in terms of destinations but is not able to penetrate into other markets because of the following dominant drawbacks given beside either from the importer's end or from the Indian perspective.

Local competition

Language and cultural issues

Outsourcing inexperience

VERTICALS

Verticals in the IT industry refers to the different kinds of industries to which this industry caters need to. In fact, IT industry is one which actually caters to the need of almost all the major industries in the country and thus the rational for a surge in growth. Some major verticals in the IT exports market are the financial services, telecom, and manufacturing. The IT exports market also caters to other verticals and is keen on expanding their focus to enter into new industries.

Fin serv	Telecom	Manufac	Health care	Utilities	Retailing	Logistics	Govt

Presence of Indian IT market
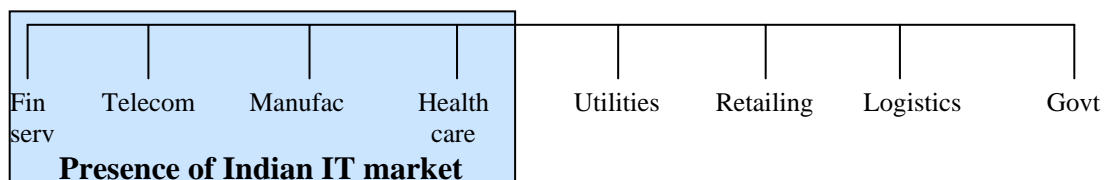
Fig-10: India presence in verticals

Indian IT software services and BPO (ITES) revenue by verticals and their applications

BFSI	39%	CRM, Knowledge management, enterprise integration projects, security & enterprise portals
Manufacturing	12%	ERP, SCM
Telecom	9%	Messaging services, WAP, SMS, Business & operational support systems
Health care	5%	Patient management systems, record management, data security clinical systems management
Retail	5%	Customer management, data mining, CRM, SCM, ERP, business intelligence.
Telecom service providers	4%	Extension of IP services, application integration
Utilities	3%	Forecasting, scheduling and load balancing software
Transportation	1%	Baggage handling, ticketing, cargo security systems, crew scheduling
Government	1%	Online applications for driving license, passports, etc.

EXPORTS BY SERVICE LINES

Service lines refer to the operational aspect of every player in the industry. It refers to the service that they provide to their clients and to comprehend the nitty-gritty, it requires a sound technical base of the subject. At present, India has presence only in two of the ten major IT services. Custom application development and maintenance and application outsourcing, account for nearly 88% of total

software exports. Indian companies have started moving up the value chain by offering services in IT consulting and system integration.

Network consulting & integration

Hardware support & installation

Untapped potential of the Indian IT export sector

India has already started moving up the value chain by offering IT consulting and systems integration

Procuring services

IS outsourcing
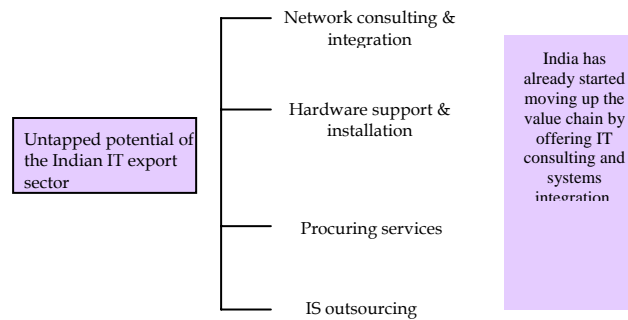
Fig-11: Untapped Service Lines

INDUSTRY TIERS

Tier-1 top-5 — Contributes to 32% of total exports & accounts to less than 50% of the market

Tier-2 Rs 1bn – Rs 10 bn — Contributes to 24% of total exports

MNC back ends 26% contribution

Focused companies 3-4% contribution

Small companies < Rs 1 bn
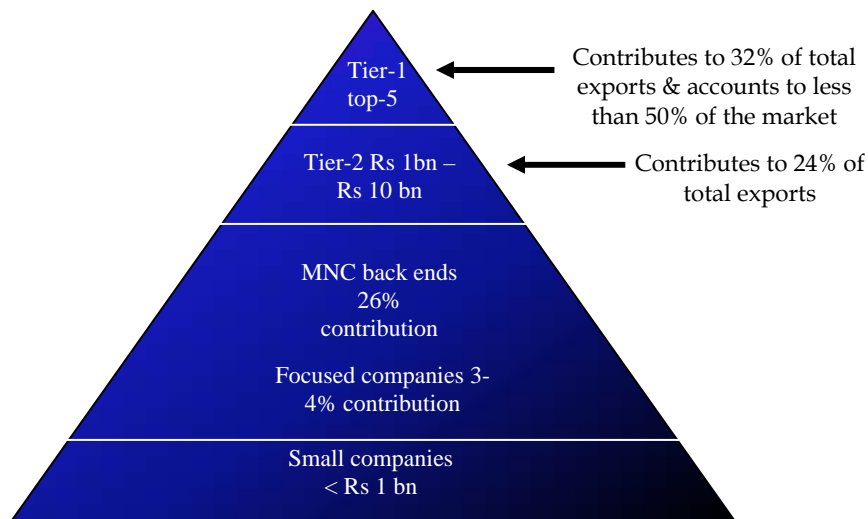
Fig-12: Industry Tiers

Though it is said that size does matter in the IT industry, it anyway does not affect the small and medium sized companies. Constant technical churn and the lure of entrepreneurial success have led to many small and medium companies flourishing in the IT services market. Thus moving up the value chain for the players provides the cutting edge over others and therefore not size but innovation and to spot the market discontinuities have been the drive.

The Indian IT Services & products market

VERTICAL
BFSI
Manufacturing
Telecom
Health care
Utilities
Airlines
Retail
Government

Indian IT Services & products (USD bn)

2002-03	2003-04	2004-05E
9.9	12.5	16.8

Service Lines

- Application development, maintenance & outsourcing
- System integration
- Network consulting
- IT consulting
- Infrastructure support
- IS outsourcing

India's next leap

- Creation of global household brands
- Specialized expertise in service lines like system integration, IT consulting

Highlights

- Indian IT services grow at 35% CAGR
- Main driver of forex reserves
- Median age of software prof – 27.5 yrs
- Companies opting for ISO 17799
- Increasing importance for

Fig-13: Indian IT Services market

India's attractiveness vis-à-vis its competitors in ITeS industry is significant

Location attractiveness

- Infrastructure
  - Communications
  - Other basic infrastructure
- Country risk / FDI incentives
  - Attractive incentives
  - Political environment
- Time zone attractiveness

HIGH — Ireland, Australia, Singapore, UK

India — Quantity of knowledge workers

China

LOW — Philippines, Mexico

LOW — HIGH

People attractiveness

- Quality
- Cost
- Skill
- English language

Source: McKinsey

Fig-14: India attractiveness in ITeS

The Indian ITeS / BPO market

VERTICAL	KEY OPPORTUNITY AREAS
Financial services	Accounting, billing and payment services, transaction processing, equity research
Retailing	Transaction processing, billing, tele-marketing and inventory management
Pharmaceutic	Research and development
Telecom	Customer support, technical support, offshore development of products, billing
Automotive	Engineering and design, simulation and product, process documentation
Airlines	Revenue accounting, call centre operations

Indian ITES-BPO (US $ bn)

2002-03	2003-04	2004-05E
2.7	3.9	5.7

Service Lines in the Indian ITeS / BPO

- Customer care
- Finance
- HR
- Payment service
- Administration
- Content development

India's value proposition

- Focus on margins and cost pressures
- High quality, skilled work force
- Global quality accreditations
- Secured environment
- Increasing focus on core competencies
- Process experts
- Bundled service provider
- Superior project management skills

Highlights

- Client satisfaction level of above 80%
- Less than 2% of quality fatal defects
- World class offerings
- Some mediocre issues, needs improvement

Source: NASSCOM Strategic review

Fig-15: Indian ITeS / BPO market

PROFILING THE SIX LEADING INDIAN SUPPLIERS

Cognizant

Overview: Cognizant has emerged as the most successful and prestigious of the US-based hybrid offshore suppliers. It has roughly $350 million in revenue, nearly all of which is application development and maintenance.

Strengths: Cognizant can point with pride to high customer satisfaction and a reputation for flexibility among its clients. The recent transition from former CEO Kumar Mahadeva to current CEO Lakshmi Narayanan has been smooth. Cognizant is known for its excellent customer relationship disciplines, including its pioneering use of American nationals for key customer relationship roles in North America.

Weaknesses: Cognizant has a relatively narrow range of service offerings and does not yet participate significantly in the infrastructure management and IT enabled services (ITES) segments. It has only recently moved to pursue the enterprise applications opportunity with a recent hire out of Intelligroup and its acquisition of Ygyan, an SAP consulting shop based in Pune, India.

The skinny: Cognizant is beginning to expand its range of options, but it remains firmly rooted in the application development and maintenance market. Potential customers should consider it a strong choice for application development and maintenance projects, particularly for customers that need a high degree of relationship transparency and customer intimacy. Cognizant's emerging capabilities in package implementation and ITES are intriguing but remain in an embryonic stage.

<u>HCL Technologies</u>

Overview: Hindustan Computers (HCL) was founded in 1976 as a minicomputer-oriented IT hardware company. It is India's most well-known hardware company. In 1994, it spun off a separate software development company called HCL Technologies, which has since become one of India's leading export suppliers. HCL Technologies has been prolific in forming joint ventures with other companies, having established alliances with Perot Systems, James Martin (now Headstrong), and Answerthink. In 2001, HCL Technologies purchased a controlling interest in Deutsche Bank's IT subsidiary, Deutsche Software.

Strengths: HCL Technologies is the fifth largest Indian IT services supplier and is one of the oldest. It has an impressive breadth of skills outside the enterprise application space. HCL also has significant experience providing product development services to independent software vendors and also possesses strong expertise in embedded systems.

Weaknesses: HCL has only recently begun to focus on growing its own direct user business and is still learning how to accommodate the enterprise customer. While it has an impressive list of enterprise customers, HCL's revenues have been derived primarily from joint venture partners. This means HCL is less experienced in addressing the non-technical, soft needs of enterprise customers.

The skinny: For companies that want to form a joint venture in India or engage in a large staff augmentation relationship, HCL is a top choice. It is also a top choice for embedded systems engineering and product development work. To accommodate the enterprise user customer that wants to fully exploit offshore outsourcing, however, HCL will need to improve its customer relationship management skills and processes.

<u>Satyam</u>

Overview: Satyam was founded in 1987 and is listed on the New York Stock Exchange. Its core business is application development and maintenance, primarily to North American customers. In addition to serving

customers directly, Satyam partners with large US-based systems integrators like EDS, CSC, and IBM to support its customers' global delivery needs.

Strengths: Satyam possesses excellent skills across the IT spectrum — from application development and maintenance to enterprise resource planning (ERP) and infrastructure management. It is also one of the few Indian vendors that have taken over a US-based client's data center. Satyam's geographic reach is also superior to any vendor in the leader category, except TCS. Satyam has strong practices in the financial services, insurance, and healthcare industries. Its telecom and automotive industry practices, in which Satyam provides IT support as well as embedded and engineering support, are especially strong, too.

Weaknesses: Satyam's strategy of holding strong partnerships with large global players has a downside — it often leaves the company in the position of a subcontractor, which doesn't encourage Satyam to develop its relationship management skills. Consequently, Satyam's relationship management capabilities lag those of other leading Indian suppliers — Cognizant and Infosys, in particular.

The skinny: Companies in the automotive and telecom space, where Satyam has robust relationship management and industry skills, should consider Satyam a top alternative. However, customers in other industries should be prepared to participate in project oversight because Satyam has yet to develop the client management skills to provide full relationship management transparency. In some industries, such as automotive and telecom, Satyam clients can expect the vendor to be proactive. In others, clients will have to take a more active approach.

<u>Infosys</u>

Overview: Infosys is among the largest and most successful of Indian outsourcers and has demonstrated mature relationship management skills in dealing with its large North American client base. Infosys expects to end fiscal year 2004 with $1.05 billion in revenues and 23,000 employees. Software package implementation and management are growing priorities: Infosys expects to perform $140 million in package business this year, primarily in SAP and Oracle.

Strengths: Infosys possesses great strengths in application development and maintenance. In 2002, it formed its Progeon BPO subsidiary, which had roughly 1,400 employees at the end of last year. Infosys has been able to maintain impressive growth despite some executive turnover, particularly in the marketing ranks.

Weaknesses: Although Infosys' progress in ITES and IT infrastructure management are promising, the company's revenues remain highly concentrated in application development and maintenance activities. Infosys is growing so rapidly that it may be a victim of growth — some customers detect arrogance in its recent approach to the market.

The skinny: Infosys should be considered among the premier suppliers of application development and maintenance and evaluated primarily as such. Its significant investment in ITES and infrastructure management skills will improve Infosys position and skills in these areas by year end 2004. Its mature go-to-market disciplines are strengths for North American customers, despite the challenges brought by rapid growth.

<u>TCS</u>

Overview: TCS is part of the Tata Group, the largest industrial conglomerate in India, and was spun off in 1968. It is arguably the first firm to provide offshore development and maintenance for US-based firms and is indisputably the father of the professional services industry in India.

Strengths: TCS has a strong blue-chip client base and can provide a client with a full-service offering. Since its CMC acquisition, TCS has the most experience with infrastructure outsourcing of any of the Indian vendors. Most of these services are delivered on-site. TCS also possesses expertise in financial services and strong ERP skills, and its size and geographic reach are unparalleled among leading Indian suppliers.

Weaknesses: TCS' weaknesses are not related to its technical skills or its ability to deliver quality results. The company is well-equipped on both counts. Rather, they are related to its lack of transparency in financial results and relationship management. TCS, because of its size and staff augmentation history, tends to lag some of the other providers in its relationship management capabilities. TCS is working to improve these capabilities, but it still lags the leaders.

The skinny: Its role in project-related engagements may lag that of other providers, but its size, track record, and broad capabilities cannot be overlooked. Companies interested in working with TCS simply need to ensure that TCS provides sufficient relationship management expertise.

<u>**Wipro**</u>

Overview: Wipro was originally a cooking oil company (Western Indian Vegetable Products), but Azim Hasham Premji took over the company in 1968 after the death of his father and formed Wipro Technologies. Since that time, the company has diversified into hardware, software, and IT services, and today Wipro Technologies is the third largest software services exporter in India (behind TCS and Infosys).

Strengths: Wipro is a well-managed and progressive company. The company has a good feel for the North American market and what it needs to do to become a strategic supplier. In fact, because of its brand, impressive size, and breadth of capability, Wipro is often selected as a strategic partner by customers seeking large, broad-based capability in their primary offshore outsourcing providers. Recent acquisitions aimed at improving vertical go-to-market efficiencies are bearing fruit.

Weaknesses: The transition from an India-centric firm to one of the favorites among North American customers is well under way but remains incomplete. Wipro is improving its relationship management disciplines but still lags the world-class capabilities of Cognizant and Infosys.

The skinny: Customers that have a broad range of requirements but only have one major supplier should choose Wipro. It is active in all major functional segments with a broad range of vertical industry capabilities.

The IT Vendor score card - Source: Forrester research

Now that the reader has been brought through a detailed description of the industry and the leaders in the industry, it would also be wiser to see how the clients perceive the IT vendors services. Thus, the following section would take the reader through a small research finding where in some of the outsourcing clients who have worked with the Indian vendors and also other MNC vendors who offshore their operation to India were asked to rate the services provided by the IT vendors on different parameters. The following were the outcomes.

As part of the survey of end users regarding their IT services buying plans, clients were asked who had worked with 11 major IT service providers during the past 12 months how satisfied they were with their providers. Most clients were satisfied, and all of the providers fell into a very narrow band, with no real gaps in satisfaction — either positive or negative. Within that band:

• **Outsourcing clients are slightly more satisfied than consulting clients.** On an average, clients are satisfied, with consulting clients reporting an average score of 2.9 on a four-point scale (where 1 is very unsatisfied and 4 is very satisfied) and outsourcing clients reporting an average of 3.

• **Bearing Point leads among consultants for client satisfaction.** Among consultants and systems integration firms, Bearing Point scored an average of 3.07, and IBM was a close second with 3.04.

"How satisfied is your company with the following major IT service providers, specifically for consulting and implementation services?"*

Very dissatisfied (1) ▪ Dissatisfied (2) ▪ Satisfied (3) ▪ Very satisfied (4)

	Average
HP 2 8 23 8	2.90
IBM 2 10 25 16	3.04
Infosys 1 2 6 4	3.00
Tata Consultancy Services (TCS) 1 2 3 2	2.75
Wipro 2 4 2	2.75

Base: US business and IT decision-makers

*Companies were allowed to rate every provider that they have used in the past 12 months

Fig: 16(a)

"How satisfied is your company with the following major IT service providers, specifically for consulting and implementation services?"*

Very dissatisfied (1) ▪ Dissatisfied (2) ▪ Satisfied (3) ▪ Very satisfied (4)

	Average
Accenture 2 3 17 5	2.92
BearingPoint 1 1 8 4	3.07
Capgemini 2 5 8 5	2.80
Computer Sciences Corporation (CSC) 2 4 8 6	2.90
Deloitte 3 11 5	2.95
EDS 2 5 6 6	2.84

Base: US business and IT decision-makers

*Companies were allowed to rate every provider that they have used in the past 12 months

Fig-16(b)

• **Infosys is strong in client satisfaction among outsourcers.** Infosys received the highest satisfaction score — 3.27 in apps and infrastructure outsourcing. IBM was second in overall client satisfaction, with an average score of 3.09.

"How satisfied is your company with the following major IT service providers, specifically for applications or infrastructure outsourcing services?" *

Very dissatisfied (1) ▪ Dissatisfied (2) ▪ Satisfied (3) ▪ Very satisfied (4)

		Average
Accenture	2 2 11 5	2.95
BearingPoint	1 1 10 4	3.06
Capgemini	1 1 8 4	3.07
CSC	1 3 6 6	3.06
Deloitte	1 1 7 3	3.00
EDS	2 5 7 3	2.64

Base: US business and IT decision-makers

*Companies were allowed to rate every provider that they have used in the past 12 months

Fig-16(c)

"How satisfied is your company with the following major IT service providers, specifically for applications or infrastructure outsourcing services?" *

Very dissatisfied (1) ▪ Dissatisfied (2) ▪ Satisfied (3) ▪ Very satisfied (4)

		Average
HP	2 4 16 8	3.00
IBM	2 7 19 15	3.09
Infosys	3 6	3.27
TCS	1 1 4 3	3.00
Wipro	2 4 3	2.88

Base: US business and IT decision-makers

*Companies were allowed to rate every provider that they have used in the past 12 months

Fig-16(d)

▪ **IBM leads among providers that firms plan to hire in future.** For each of the three categories, which providers the clients would hire in future, among named providers, IBM wins by a wide margin again. However, the percentage of clients choosing IBM this year for consulting was only 22%, compared with 41% last year. In the outsourcing category, IBM's percentages were 21% for infrastructure and 20% for applications.

Local Contractors and IBM Top the List for Planned Consultant Hiring In future

We will use only local, independent contractors	25%
IBM	22%
HP	14%
Other	11%
Accenture	10%
Capgemini	7%
CSC	5%

Base: US business and IT decision-makers
(multiple responses accepted)
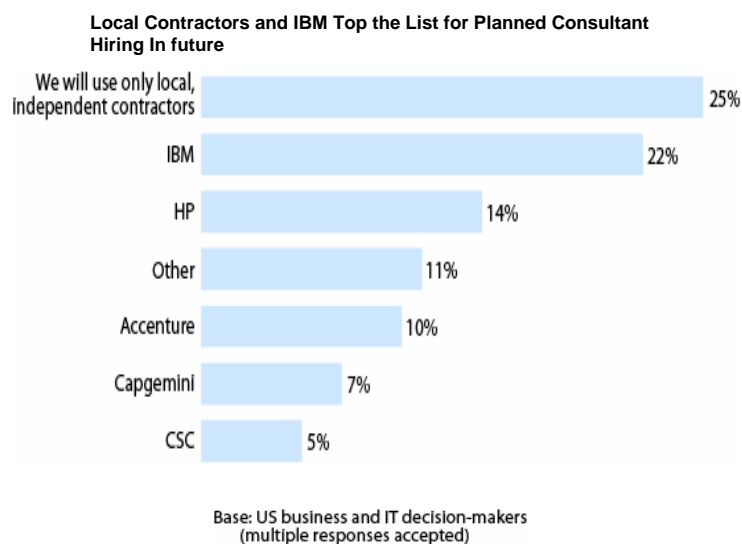
Fig-16(e)

Local Contractors and IBM Top the List for Planned Consultant Hiring In future

TCS	4%
EDS	4%
Deloitte	4%
Infosys	4%
BearingPoint	3%
Don't know	16%
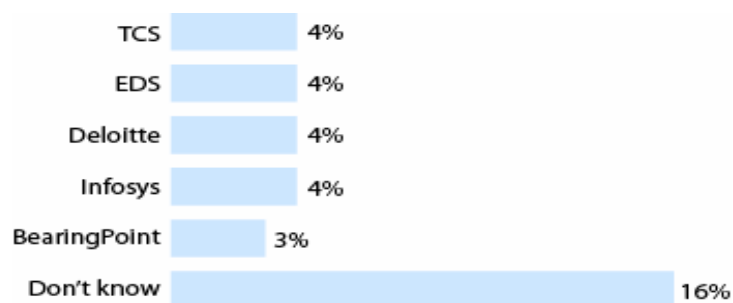
Base: US business and IT decision-makers
(multiple responses accepted)

Fig-16(f)

- **Hewlett-Packard has gained ground.** HP went up in the infrastructure outsourcing category, from 6% last year to 11% this year. Fourteen percent of respondents plan to use HP for consulting and integration services in 2005 — an increase, compared with 2004, when 13% of firms reported that they would use HP. Also, HP is the only provider to have increased its percentages from last year in these categories.

The following are the responses provided by clients when asked their preferences on application and infrastructure outsourcing.

"Which provider(s) will you hire for applications outsourcing in 2005?"
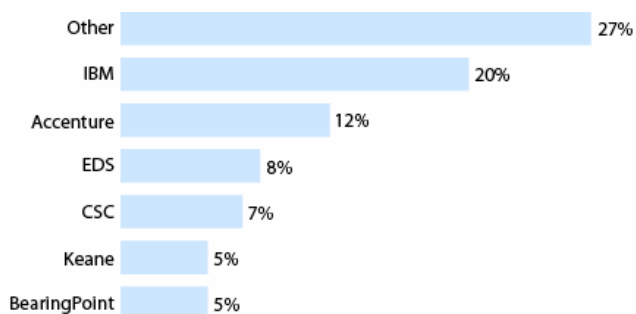
Other	27%
IBM	20%
Accenture	12%
EDS	8%
CSC	7%
Keane	5%
BearingPoint	5%

Base: US business and IT decision-makers
(multiple responses accepted)

"Which provider(s) will you hire for applications outsourcing in 2005?"

Deloitte	5%
TCS	5%
CGI	3%
Capgemini	3%
Infosys	3%
Don't know	37%
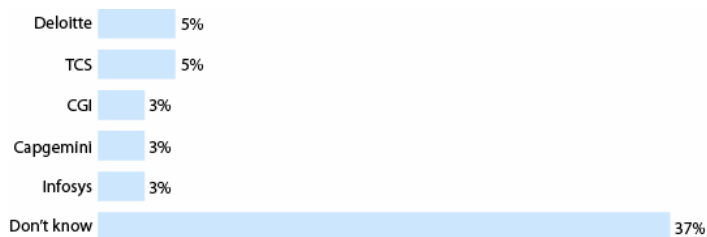
Base: US business and IT decision-makers
(multiple responses accepted)

Fig 16(g) & 16(h)

"Which provider(s) will you hire for infrastructure outsourcing in 2005?" *
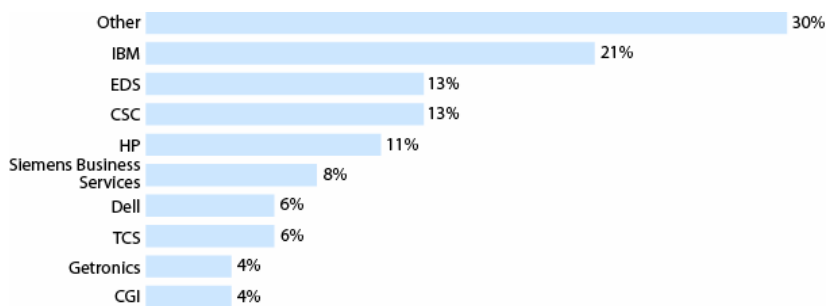
Other	30%
IBM	21%
EDS	13%
CSC	13%
HP	11%
Siemens Business Services	8%
Dell	6%
TCS	6%
Getronics	4%
CGI	4%

Base: US business and IT decision-makers
(multiple responses accepted)

"Which provider(s) will you hire for infrastructure outsourcing in 2005?" *

Provider	Percentage
CompuCom	4%
Infosys	4%
Atos Origin/Sema	2%
Accenture	2%
BearingPoint	2%
Capgemini	2%
Wipro	2%
Don't know	23%
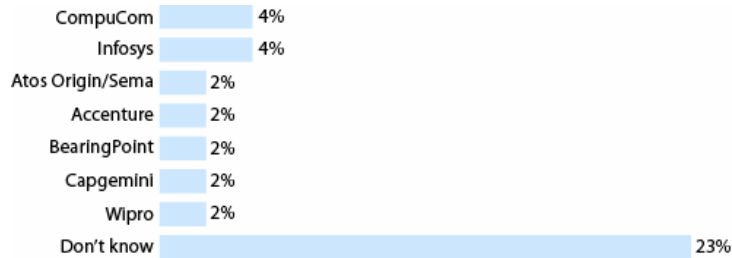
Base: US business and IT decision-makers
(multiple responses accepted)

Fig-16 (i) & 16(j)

PRIMARY INFORMATION

The importance of client management for competitive advantage

All of the leading Indian suppliers possess mature infrastructure, robust development processes, and typically very broad capabilities. In fact, these capabilities are so broad it can be difficult for many customers to tell the leading vendors apart. Since significant differences exist, customers should evaluate these capabilities carefully. One of the most important areas of differentiation lies in the vendor's engagement and relationship management philosophy and overall relationship management skills. Some Indian suppliers are easier to work with than others. By providing the kind of engagement style that customers are used to from domestic suppliers, these suppliers provide transparency in relationship management. The level of relationship transparency required by any customer will vary depending on the offshore outsourcing maturity of that customer. Early adopters with significant experience in managing offshore suppliers, for example, will not need these skills as much as beginners. Moreover, these competencies will not be as important in a relationship based on staff augmentation as they are with project-based engagements, where a close, flexible, and transparent relationship with suppliers are essential. One of the principal reasons Cognizant has been included in the leader category is its mature relationship management skills. The importance of relationship managers — called different things in different companies — cannot be underestimated. For the vendor, good relationship managers pay for themselves because they are experts at winning new business, as well as uncovering or developing revenue opportunities within existing accounts. Ideally, they also perform critical customer care functions by identifying and attacking problems as they arise. They also act as the intermediary between the client and the supplier's numerous development or support teams. Unfortunately, Indian vendors are

inconsistent in their approach to relationship management and have experienced difficulty in establishing effective relationship oversight across multiple service lines. The goal for all leading Indian vendors is to become one of the top 10 IT services vendors in the world — not just one of the leading Indian suppliers. Although they still have a long way to go to match the size and scale of long-term global integrators, nothing less than the future of the entire IT services industry is at stake. In an effort toward this, many leading Indian suppliers have expanded their service offerings and put in place seasoned management teams. However, the key success factor will be the vendors' ability to function at all levels like a global IT services consulting firm. It starts with the vendor paying more attention to client retention through a sophisticated governance frame work.

THE UNBROKEN PROMISES

The following article written by the same author was published in the knowledge centre of Quint Wellington Redwood. With reference to the following article, a primary research was conducted whose inferences are summed up after the article

PRIMARY RESEARCH FINDINGS

VERTICALS

The first part of the survey was to tap the vertical strength of the service providers. Verticals here mean the different industries to which the Indian IT industry caters its services to. The following was the cumulative output derived from all the respondents.

Fig-17(a)
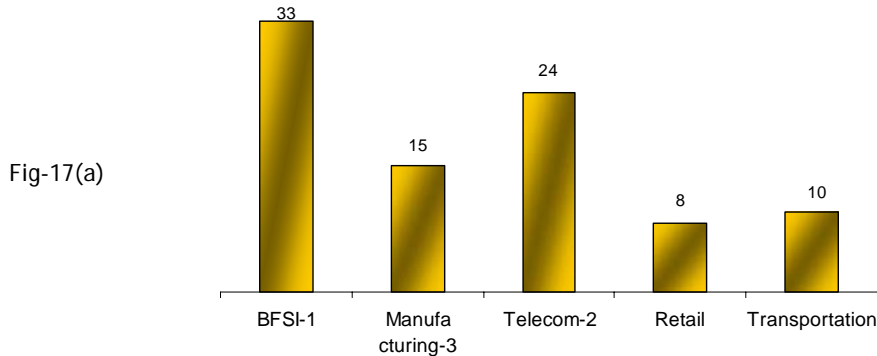
It is pretty evident that the BFSI (Banking, Financial Services and Insurances) vertical still holds the major revenue drive for the Indian IT industry and so does any report say, followed by telecom as the next powerful driver. But it is also worth while to note that retail and transportation are some verticals which have slowly got into the automation mode worldwide and thus earning more revenue to the IT sector. Though this might be a consolidated picture, a profound analysis was done pertaining to the Tier-1 companies alone. When the same analysis was performed, the following were the results:
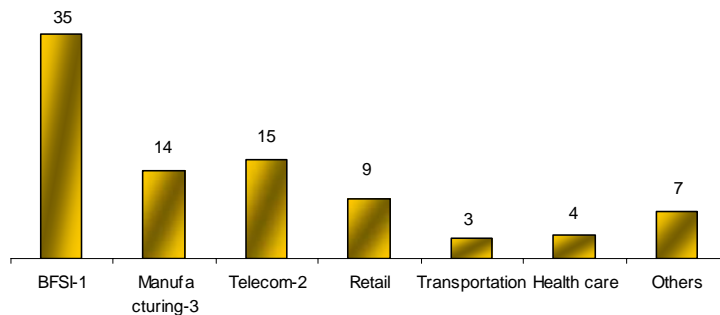
Fig-17 (b)

This graph further compliments the previous one and BFSI is what the Tier-1 companies really concentrate on. Also the organizational structure depends on this split as the tier-1 companies are now becoming more verticalized in their structure. It is worth to be noted that verticals like manufacturing are treated very closely as a crucial vertical. This is more specific to Satyam computers which has its own R&D centre on engineering services. Automobile is also considered as a part of manufacturing here. It is

also clear that health care is one other vertical that is slowly catching up and would make the other tier companies follow the same break-up. There are also some companies which concentrate on some newly upcoming verticals like media, entertainment, travel and hospitality, embedded systems, hi-tech industries etc. These are some non-conventional industries to which the Indian IT industry has started working with. With this kind of an approach, the Indian IT industry is trying to spread its wings across every possible industry vertical to become a pure global player.

SERVICE LINES

Once the discussion about verticals reaches a conclusion, the next immediate factor of discussion is the service lines in which the Indian IT industry operates. Service lines are also referred to as horizontals in the industry. A service line is basically the type of service provided for any vertical. Typical common service lines are application development, support, infrastructure support, consulting etc. The trend in the IT industry is that companies verticalize themselves to make the presence felt across industries and then start scaling up on service lines within the verticals. The following is the consolidated break-up on service lines.
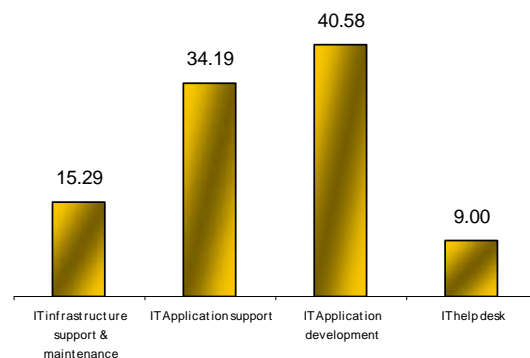
Fig-17 (c)

This is again a very evident graph which states that Application development, support and maintenance constitutes to about 75% of the revenue followed by infrastructure support which is normally mentioned as the next age of outsourcing which the Indian companies are scaling up with. Some of the specific areas under application development and support would be enterprise solutions, CRM, etc and in infrastructure support, the specific areas would be desktop support, server hosting, LAN/WAN, etc.

Also, the same analysis was done only for the Tier-1 companies and this resulted in some interesting conclusions.
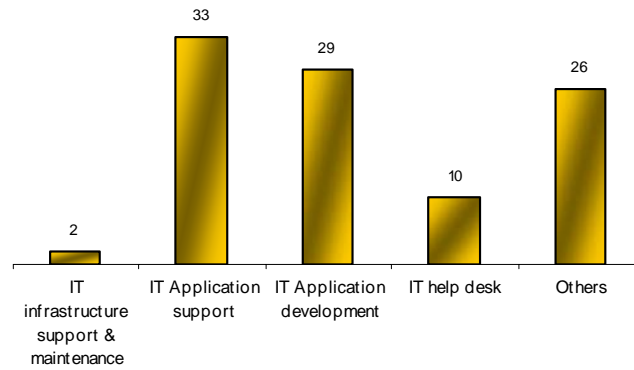
Fig-17 (d)

The graph depicts some different behavior when compared with the previous one. Though application development and support constitutes about 65% of the revenue, unlike the previous one, the tier-1 companies do not earn more on IT infrastructure support and maintenance. The main reason for the inflated percentage in the previous graph was due to some pure play infra companies like Microland involved. Also Patni computers derives 40% of its revenue from infrastructure outsourcing. The other main aspect to be noted is that, for tier-1 companies, 26% of the revenue is derived from other services. For those who are very curious to know what the other services are, they are those which help these Tier-1 companies to stand apart in the Indian IT industry making the followers difficult to catch up with them. The other services mainly includes consulting, enterprise solutions, asset leveraged solutions, mass changes & re-engineering, system integration, business solutions etc.

An analyst with business acumen would surely not surpass this finding because, if taken a close look, these other services are more solutions based, i.e. those which would have a direct impact on the business results of the clients. These are the services which help the Tier-1 companies provide end – to – end solutions and these are the services that make them a solution provider and not a mere service provider and this explicitly states the future of the Indian IT industry and this is exactly referred to as "Transformational outsourcing" where in the service provider takes one step pro-active by providing a solution for the client and then implementing the same. Already companies like Patni and others have started getting into consulting mode in the tier-2. This is where, the tier-1 companies bring in more value for the clients and fosters relationships. The revenue by verticals for the tier-1 does not depend more on scale but on scope. This is one reason where in some top tier IT companies are terminating some deals which bring in no value to them.

EXPORT DESTINATIONS

        The following pie gives the break up of the destinations to which the Indian IT services are exported considering all the respondents.
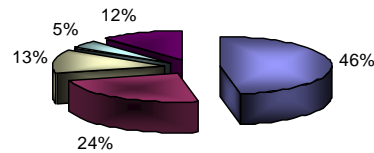
Fig-17 (e)

The same analysis when considering the tier-1 companies alone resulted in the following pie.
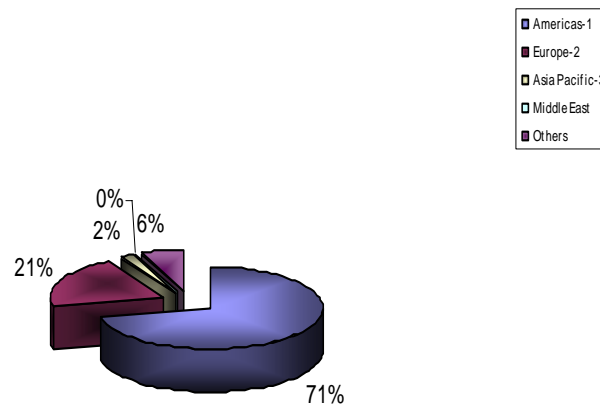
Fig-17 (f)

        The second graph gives a different geographical split when considered with the first one because most of the tier-1 companies still earn their revenue from the Americas pertaining more to the North American region, though they have really scaled up in the European region with their own offices which includes the UK market too. Companies like Infosys, Wipro, TCS, NIIT, Mphasis have their own offices in countries like Netherlands, UK , etc. But as on date, it is still a 70-20 ratio in the US-Europe segment. But for years to come, the tier-1 companies would be really scaling up their operation in the European segment overcoming the language and cultural barrier by employing local resources but would move cost based operation to their delivery centers in India.

The split in the first graph gives more space for Europe because of companies like Xansa which is a UK based company and entire revenue being reported there and Flextronics which specifically caters to the Europe market only.

Why do clients offshore?

This is one particular question which has always rendered some good conclusions but mostly driven from the clients. This part of the research covered the same question which gauges more the perception of a supplier towards outsourcing as a rationale for the client and as a good sign, the suppliers also think in the same lines of the client.

Category	Value
Others . i.e	9
Increasing innovative capacity	22
Increasing the manageability of services	26
Increasing productivity - 3	48
Accessing new expertise	26
sharing risks	13
Focus on core activities - 3	48
Standardizing work processes	26
Improving service levels - 2	57
Making costs more flexible	30
Cost saving - 1	74

Fig-17 (g)

As the clients and the industry experts say, suppliers also perceive the same reason and the 3 main reasons that the supplier thinks is cost saving, improving service levels and increasing productivity and focus on core activities. Also, worth to be noticed is the perception of improvement of service level as the second main reason for a supplier which makes them adhere to it and increase customer satisfaction which might lead to loyalty.

What holds back clients from offshoring?

The supplier's perception on why some prospective clients hesitate to offshore was also gauged and the following were the reasons delineated by the supplier.

Fig-17 (h)
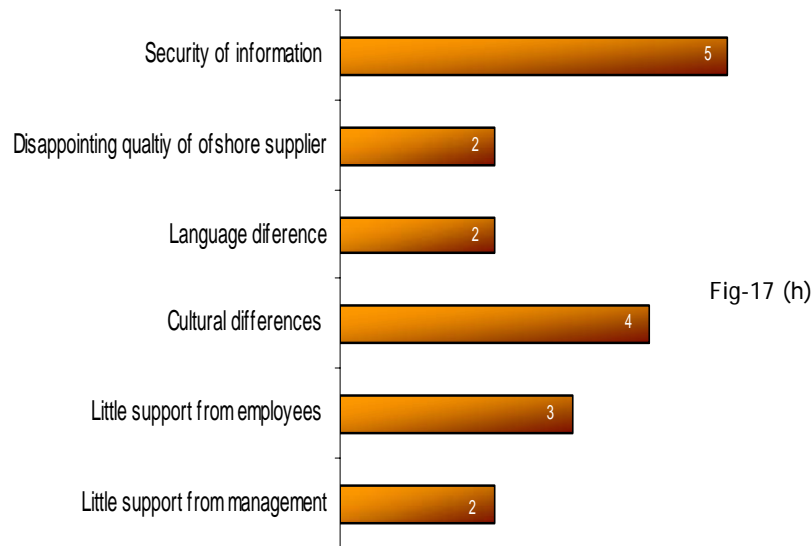
The Indian vendors felt that security of information was the foremost reason for a prospective client to hold back from offshoring, but again this is one aspect which can be covered provided the vendor could increase his competency level in this area. Cultural differences were stated as the second main reason. This is particularly true in the European market. The third valid reason which the vendors felt was the support which the in-house employees provide to the management during an offshoring option. This is also related to societal risks and other factors in some nations which hold them back from offshoring operations.

COMPETENCE MAPPING

To cover some of the above mentioned issues, the vendors were questioned on the important competence aspect required for a vendor and at what level is it present currently in the organization. The following were the results yielded.

Fig-17 (i)
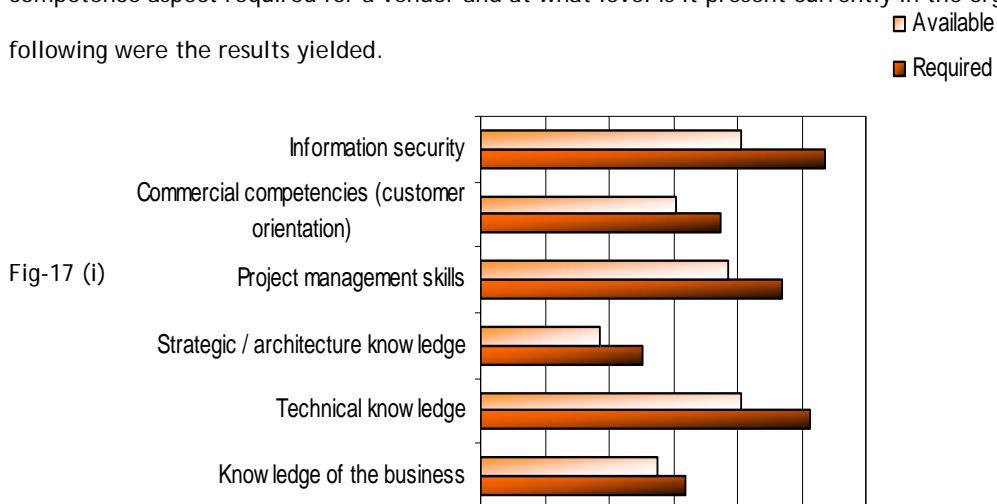
It is clearly seen that complimenting to the previous graph, the vendors feel that Information security is the most important competence required for an Indian IT vendor followed by the technical knowledge of the business and project management skills. The other main finding was that, in the top five competencies required, vendors placed the importance of commercial competencies which in a broader term covers the aspect of a CGF. The research gave a credibility of the study done and also the vendors felt the need for client orientation in their organization. Overall, when quantified, the IT vendors said that they required competency level of 4.6 on a scale of 5 and had an availability level of 4.45 which is close.

EXPECTATIONS OF THE VENDOR

It is the age when outsourcing as a concept is being discussed by all analysts. Anything that has a boom is bound to be criticized on its shady aspects and so do we find many unsuccessful stories in outsourcing. The secondary research done also provided more insights on the expectation of the customer and those being not fulfilled. To further do a match making, this research aimed at questioning the vendors on their expectations and the level to which they are satisfied. The results were so explicit as follows.
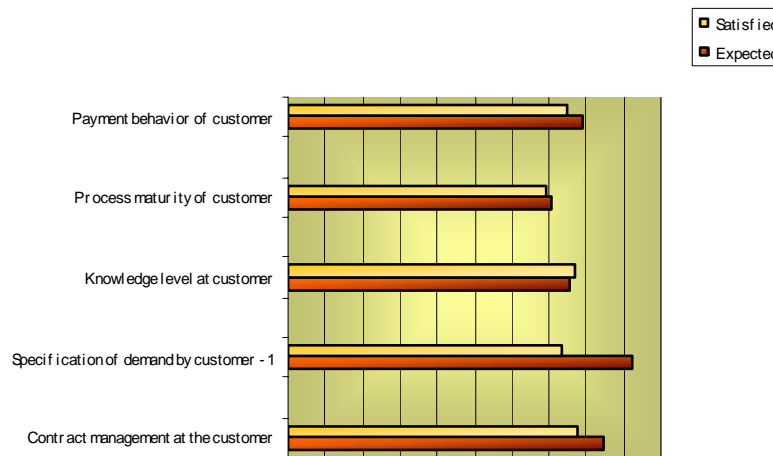
Fig-17 (j)
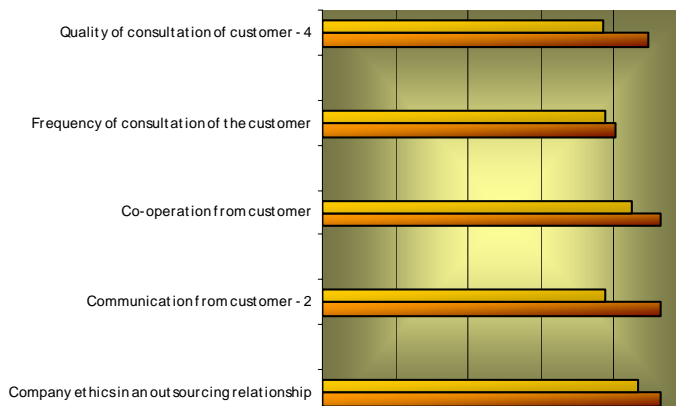
Fig-17 (k)
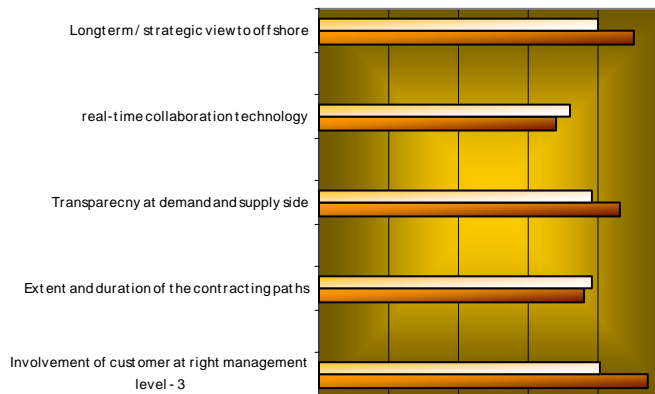
Fig-17 (I)

What the vendor expects the most is the specification of the demand by the customer. This is something very crucial as any service offering from the vendor is basically based out of the demand specification. This also refers to the Business – IT alignment at the client's end. This is one area in which there exists a large gap in terms of expectation and satisfaction. This point validates the fact that a client who wishes to outsource should also be at a matured level to align his IT requirements with the existing business. Becoming more proactive, some vendors are getting into consulting mode in providing a solution to align the IT needs with the client's business at the first place which is a pre-requisite for the functional demand to be given to the vendor.

Communication from the customer is considered the next important expectation of the vendor and to bolster the credibility of CGF, the gap exists here too where in the CGF and SGF would be the solution at the vendor's and client's end.

The third important expectation of the vendors is the involvement of management at the right level in the clients end. This is a rationale expectation because the top management is always convinced about the outsourcing option and problems normally erupt at the middle management only. Thus involvement of customer at right management level at the client's end would help the vendors.

When quantified, the overall expectation level of the vendor was at 8.43 on a scale of 10 and was satisfied at a level of 7.76.

VENDOR MITIGATION

The special part covered by this research was the posting of some customer complaints in the offshore outsourcing context and asked the vendors to mitigate. There were some interesting conclusions derived:
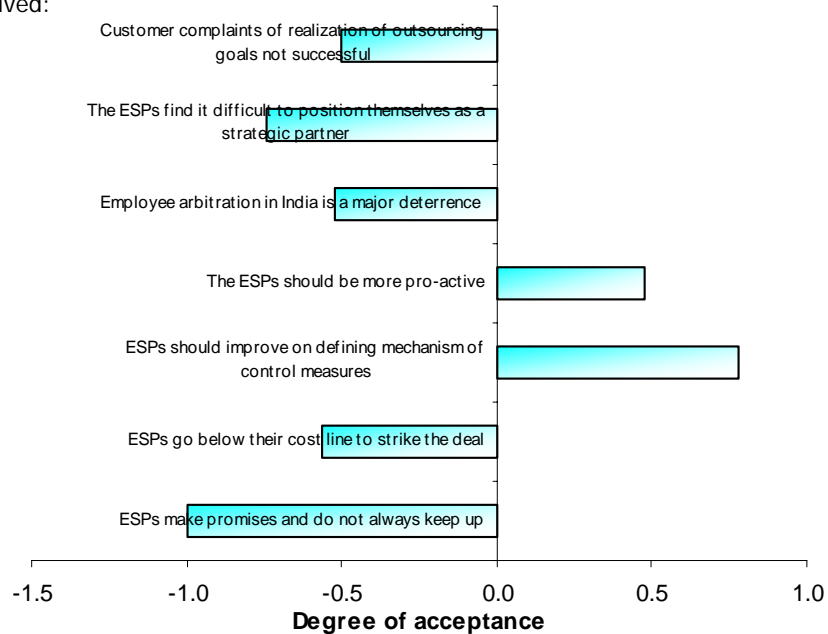
Fig-17 (m)
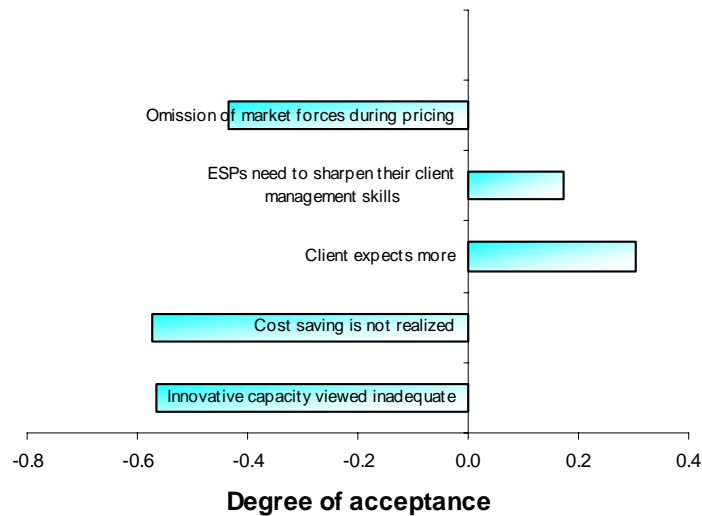
Fig-17 (n)

It is quite explicit that the vendors did not accept to most of the complaints and this was expected. What drives the study more interesting is that when taken a close look, there were a few

places where the vendor's acceptance rate was positive. They accepted that they should be more pro-active and should better define the control measures in terms of pricing, service levels, etc. They also felt that clients expect more which is more a common remark from both the ends but also accepted that vendors should sharpen the skills on client management which is a direct measure of the need for a CGF.

When further probed, it was found that in 48% of the cases there was a structure like a CGF in place to manage clients centrally. This further motivated the study as infosys has a group called the CFG (Client Facing Group) which is similar to a CGF and also some other companies which had a basic structure in place. This further bolsters the fact that CGF at the vendor's end is an important proposition today to manage clients holistically and it is also noted that the Indian IT vendors are already scaling up initiatives to put them in place as client management becomes the key to success in today's outsourcing dynamics.

OFFSHORE OUTSOURCING CLIENT CLASSIFICATION

Offshore is not a simple six-month project that firms can dial up instantly. As it has been observed in research, there is a four-stage migration that companies go through over a period of 24 to 60, or more, months. Offshore governance evolves through three levels in parallel, changing dramatically as firms migrate through the offshore journey. What starts as an administrative function evolves over three or more years into a program management and development discipline.

1. Bystanders

Despite the rising tide of offshore hype, the reality is that most firms are either doing nothing or just starting their journey to locations like India, Russia, or the Philippines. Today, more than 60% of the Fortune 1,000 falls into this segment. These firms have no offshore relationships. Research shows that the perceptions of those with no overseas experience vary dramatically when compared with the perceptions of companies that do have offshore IT or BPO expertise. The bystander period tends to run five years or more.

2. Experimenters

Another 25% to 30% of Fortune 1,000 firms have offshore experience and relationships with offshore vendors, but offshore is not a key element of their overall IT strategy or spending plans. This segment is typified by its use of multiple offshore providers — often more than 10 different firms — as well

as its perception of offshore as providers of staff augmentation or low-cost contractors. For experimenters, offshore spend often represents less than 20% of their overall IT third-party services (in most cases less than $2 million) budget. The experimenter phase ranges from one to five years

3. Committeds

A small group of firms — 5% to 10% of the Fortune 1,000 — has scaled its offshore efforts to incorporate sophisticated governance techniques, such as creating an offshore-specific sourcing office and focusing its spending with only two to three key providers. These firms employ the offshore suppliers for more complex application maintenance and mission-critical development services. Companies tend to stay in this category for one to three years.

4. Full exploiters

At the top of the offshore pyramid sit those companies — less than 5% of the Fortune 1,000 — that take complete advantage of offshore through the combination of development of global sourcing as a core skill and investment in the IT process maturity to take a high percentage of work offshore. They have retrained their staffs to use a consistent methodology and CMM-based processes to drive their higher utilization of offshore suppliers. For example, one company in this camp has 95% or more of its legacy maintenance being done in India. The full exploiter stage ranges up to five years in length.

Evolution of the Governance Framework for the client and the vendor

Termination, renegotiation, in-sourcing of contracts are learning steps in the outsourcing industry's quest for that perfect deal.

LIVE EXAMPLES
THE EDS STORY

July 2004, EDS made a startling announcement when declaring its quarterly results. Tucked away in the midst of its earnings report was a line that announced, it has reached an "amicable agreement" to pay $ 135 million to get out of a bad commercial contract. Though the company declined to identify the customer, market speculation was rife that it was Dow Chemical. Apparently EDS CEO, Michael Jordan

drew up a hit list of troublesome contracts to see whether they could be salvaged. While most of the other contracts were turned around, this was the only contract that could not be retrieved.

What could go so wrong to make a vendor decide to pay its way out of a contract?

The Leader too loses business sometimes: Outsourcing is really vibrant

While it is not common for a vendor to walk out of contracts, contract termination by customers has become commonplace. In September 2004, JP Morgan announced that it had terminated its IT outsourcing contract with IBM after its merger with Bank One. The seven year $ 5 billion deal, signed in December 2002, was billed as IBM's poster child for its on-demand business. More recently in May 2005, Sears terminated its 10 year $1.6 billion IT infrastructure support services with CSC citing, "…failure to perform certain of its obligations".

These were the most high-profile deal failures. A quick Google search is bound to throw up a dozen deals that went belly-up. And if that were not enough, analysts had also been predicting with alarming regularity the pitfalls in IT outsourcing contracts. Gartner warned 80 per cent of customer service outsourcing deals will fail because they are too cost-focused and renegotiation will become common. Deloitte found 70 per cent of its survey participants were disappointed with outsourcing and were considering in-sourcing. (Deloitte took its findings seriously and exited the BPO business by selling its F&A BPO to Convergys recently). The Data monitor quarterly IT deal tracker has found that deal sizes have consistently been on the decline.

So what exactly is going on? What happened to the great dream called outsourcing? Is the halo around the much-hyped concept of outsourcing beginning to fade? Are customers so disillusioned, as to walk out off contracts that were once hailed when they were signed? The truth is just the opposite. Outsourcing is alive and kicking, but as a mature phenomenon. News about termination of contracts or renegotiations is reflections of vibrancy in the sector that was not seen in the early days. The initial experiments have convinced customers about the benefits of outsourcing. With their studied approach, outsourcing has become a strategic tool rather than a tactical move. This is a significant shift in the customers' learning curve, spurring organizations to revamp earlier associations.

Even to the casual eye, mergers and acquisitions will appear as one of the most frequent reasons why deals are getting axed or brought in-house. Both the JP Morgan and the Sears deal got scrapped after

their merger with BankOne and KMart respectively. While JP Morgan wanted to leverage on the more efficient IT systems within BankOne, it was the internal politics at KMart that resulted in the termination of Sears' outsourcing contract to CSC.

Mergers and acquisitions aside, the changing dynamics within the industry has made organizations bold enough to scrap untenable deals or consider deal renegotiation. No longer a contract spread over 7-10 years deemed so sacrosanct that it cannot be touched before the expiry of its term. To understand today's scenario, let's rewind to the early phase of outsourcing. A lot of IT Outsourcing (ITO) contracts were signed during the economic downturn in 1999-2000. Companies were under pressure to cut costs and outsourcing was an immediate step they could resort, to affect savings. "Much of those decisions were taken as a knee-jerk reaction and were tactical in nature," says Gianlunca Tramacere, Principal Analyst Research, IT Services and Sourcing Group, Gartner. And, a lot of cracks are now showing in those ITO deals because they were not aligned to the needs of the organization.

Added to the flaw of hurried decision-making was an even bigger baggage of inexperience. Organizations had chosen to outsource as response to immediate market condition and specific opportunities to cut costs rather than any long-term strategic thinking. Which is why we find an increasing number of organizations taking a re-look at their earlier contracts? ITO is a hugely complex phenomenon and unfortunately organizations have begun to realize it only after burning their fingers. Customers need to have management bandwidth to manage the migration and ensure smooth operation. Outsourcing is not a one-time affair that can be forgotten after it is handed over to the supplier but requires continuous close co-ordination with the supplier.

Says John Powers, Senior VP, Solutions Management of ACS, "The dynamic nature of business entities can challenge any structured solution and services contract. And the health of the servicing agreement is based on the relationships and cultures of organizations with an acknowledgement of managing expectations."

In fact many deals involve integration or migration of complex collections of legacy systems, often involving disparate platforms and highly patched in-house applications mixed with off-the-shelf applications and custom applications. "When firms take on the outsourcing of legacy systems like these, it is almost inevitable that there will be delays and missed milestones, at least during the initial phases of the migration. If the customer is impatient and becomes discontent with initial progress, as is often the

case, the ITO deal may be scrutinized and scrapped," says Michael Guilbault, Analyst with Technology Business Research Inc.

Customer impatience is often because of inflexibility in the deal. Sometimes deals are so inflexible that customers are forced to sign a fresh deal each time there is a requirement. For instance, Continental Group-the leading tire, auto component and electronics maker-signed as many as 30,000 deals with IBM between 1995-2001 during its ITO contract. With each contract, costs spiraled making the project completely unviable and ultimately the deal had to be scrapped.

Vendors on the other hand allege that outsourcing deals are inflexible because customers are too focused on driving down costs, often at the expense of other expected benefits. Customers cannot ask for innovation without being ready to pay for it. "Each time a customer asks for a new service, there is an additional cost for vendors because he has to invest and the customer has to understand that. Otherwise the deal becomes unprofitable for the vendor and the vendor can even opt out of such contracts," says Girish S Paranjpe, President Financial Solutions, Wipro Technologies. The EDS-Dow Chemicals contract is a case in point.

In fact being too cost-focused can sometimes backfire on the customer. A LogicaCMG report-*The CEO role in delivering strategic advantage*-says that while driving down costs, it can also cost profitability and market share and illustrates it with an example of the Xerox-EDS deal. The deal signed between 1999-2004 brought down costs for Xerox but the company lost control over its billing and sales commission system which badly hit its profitability. Talk about being penny-wise and be pound-foolish! Who do you think can be blamed in this case? Sometimes it pays to have a long-term perspective than revel in short term cost savings. Of course there may be individual imperatives and it is for each organization to take a call.

That is why some suppliers have rightly taken the stand that unless customers understand their needs and design outsourcing contracts accordingly it will do no one any good. Says Powers, of ACS, "Customers must acknowledge problem operations cannot be sold off in a service contract. Outsourcing does not advocate your mess for less."

Evolution of the CIO

With hindsight another realization has dawned on the industry: that outsourcing is not simply a technical decision as much as a business equation. ITO cannot remain as a compartmentalized project executed without a business vision. Paul Schwefer, Vice President and CIO of the euro 12.6 billion Continental Group puts it succinctly, "You have to bring a business perspective to technology."

An increasing number of people are subscribing to that view. Peter Bendor-Samuel, who has worked as a buyer, a supplier as is now a consultant writes in his book, *Turning Lead into Gold*, "The first thing a buyer and a supplier must do is put a businessperson in charge of the outsourcing process.... a businessman can understand the overall context in which the relationship takes place and is able to take a balanced approach to issues."

Schwefer is the new breed of CIO who does not have a technical background. His achievements include successful stints at Mercedes during the 1980s where he hived off the company's IT operations to T-Systems. He describes himself as a 'business person' who joined the Continental Group in 2001 to take over the ongoing ITO program of the group, which was in disarray. Schwefer took a fresh perspective to the initiative and saw the problem for what it was: he found costs were too high, quality levels not up to the mark, and technology was not up-to-date.

Schwefer scrapped the deal, entered into a fresh relationship with IBM Global Services and brought back a lot of functions in-house to regain control of the program. He is subsequently talking with HP to enter into an innovative relationship where the cost is measured on the basis of a pre-agreed "index" that takes into account all variable factors such as cost of the computing hardware and what's more, pay only if he uses.

Schwefer is a bit of a maverick, though. He believes that his IT requirement can be divided into two parts-the big chunk that includes hardware and infrastructure along with standard applications accounting for 80-85 per cent of his IT requirement; and the rest 15-20 per cent which is a small but crucial part of his business applications. He calls these niche business-requirement to which he pays detailed attention. While the bulk is outsourced to a service provider, the SLAs for which he thinks can be measured through metrics, he wants a more controlled environment for the specialized needs by working

partly in-house and partly with a small third-party who under stands his business and culture and can innovate accordingly.

The likes of Paul Schwefer have left indeligible impressions on the swinging fortunes of the outsourcing industry. From drab technical personnel, happy with the nitty-grities of operations have emerged suave businessmen who can think of outsourcing as a vision and quantify its benefits in business terms.

Square peg in a round hole?

The evolution of CIO is partly a natural process, and partly due to the long-term problematic deals that organizations were often forced to sign. In the early phase of outsourcing, contracts were often designed and written by suppliers. Sometimes this resulted in total mismatch between the customers' requirement and the suppliers' solutions. Outsourcing core applications meant that the vendor had to understand the organizational need and design customized solutions. And since customers themselves did not have a strategic business approach to outsourcing, the flaws in the outsourcing proposals went undetected.

Often the wrong firms were seen to walk off with contracts because fewer questions were asked when the contract was handed to a top tier company. *"No one would lose his job if the contract was handed to an Accenture or an IBM,"* quips Gartner's Tramacere.

Sometimes even if CIOs did have opinions on the contrary, the views were over-ridden by decisions makers-CEOs and Board members-who preferred to play safe and work with top-tier companies. Sarvesh Goorha, who owns a consultancy firm called Six Sigma Practices, was on the CIO forum of a Fortune 500 insurance company when it had decided to outsource its IT operations in 2002. Speaking of the experience, Goorha says, "Even though the bids were all by top-tier companies, the design of the proposals were flawed. Despite the flaws being pointed out, the Board still went ahead with one of the top bidders because no one wanted to take a risk." However, seeing the logic, the contract was subsequently reversed and split between multiple vendors.

In reality, negotiating an IT outsourcing deal is much like any other deal where personal rapport and networking between CEOs of buyer and supplier companies can play a significant role in deciding which way a deal goes. "What is required for a successful outsourcing deal is ownership at the highest

level wherein CEOs and board members are willing to make informed decisions and take a stand," adds Goorha. This is also advocated in the LogicaCMG report, *The CEO role in delivering strategic advantage,* that ownership of outsourcing deals by CEOs will go a long way in ensuring the success of the contract.

The disruptive upstarts

Finally the disruption caused by India-centric offshore players cannot be ignored while discussing the evolution of outsourcing contracts. It is true that Indian players were basically fence sitting marginal players in the early days of outsourcing. But the potential was always lurking and it was only a matter of time before the 'genie in the bottle' was uncorked. There were many reasons why Indian players made that impact. First, they were prepared to do smaller pieces of the outsourcing processes like only database management or network support while the top tier global companies insisted on entire end-to-end jobs. Gradually they demonstrated niche competencies and offered extremely competitive pricing with their offshore-centric model, which made very compelling reasons to score over incumbent players.

Consequently, a number of distinct trends have begun to emerge. Organizations have shown a preference to work with multiple vendors rather than hand over the entire contract to one vendor. Besides spreading risks, it allows the customer to leverage on the best of breed solutions.

Paul Schwefer, for instance, now wants to work with multiple vendors including Indian vendors. (He puts a cap at a maximum of 10 vendors). This calls for greater co-ordination and vendor management skills for which he is willing to invest.

At the same time long-term contracts are dwindling with increasing realization that dynamic nature of business require frequent review of ongoing contracts. While outsourcing is a given, there are fundamental changes affecting the face of IT outsourcing. Terminations, renegotiations, reviews are not blemishes but cosmetic changes in the quest for a fair deal. The IT outsourcing ball is on the roll. Now brace yourself for rollicking times. You ain't seen nothing yet! Now, after these bombarding discussions, what can really boost an outsourcing relationship? Who is held responsible? Rather than delving for a solution all across, it is logical and rational to know that it should be the client and the service provider who should do their own home works in bringing out a long lasting relationship. A professionally managed relationship can take business to the zenith and this report provides a solution for both the client and the service provider in implementing a dedicated division within an organization to manage the outsourcing relationships.

Few companies today have a central organization dedicated to managing offshore vendor relationships. While many companies have multiple offshore relationships with multiple vendors within different business units or groups, individual project owners often have no visibility on offshore relationships other than their own and don't have access to existing internal knowledge, experience, standards, processes, best practices, evaluation metrics, SLAs, master services agreements (MSAs), or contracts. This results in increased overhead costs and risk and an inability to leverage vendor relationships. Every time someone wants to send work offshore, he or she has to do such things as research the vendors, develop evaluation criteria, send out an RFP, negotiate with the finalists, visit the finalists, develop service-level metrics, and write contracts. Not only is this process extremely expensive, it assumes that application managers or system managers or their lieutenants have strong vendor management and offshore outsourcing relationship management skills. Unfortunately, most do not have this very specialized skill set. As such, companies need to put in place a centralized PMO or governance structure to manage, monitor, and/or consult on offshore outsourcing relationships. As companies' approach to offshore outsourcing matures, global sourcing governance structures, in the form of global sourcing program management offices or add-ons to existing outsourcing program management offices will become a standard practice.

Suppliers Must Tailor Approaches To Different Segments – The need for an executive function at the vendor to manage clients

The growing diversity of the customer or prospect base means that it cannot be treated as a single constituency. A new level of investment and higher level of sophistication is required, especially in the area of marketing and services segmentation, from offshore players like Infosys Technologies, Cognizant Technology Solutions, and Satyam Computer Services. Clients and prospects in each of the four stages have different challenges with different support requirements.

Bystanders need to feel comfortable with security risks. As neophytes, their lack of activity is driven by management concerns and a perception that the savings in offshore are overstated. They need to hear about vendors' base-level security investments and processes, as well as disaster-recovery plans. Bystanders also need simple spreadsheets that lay out the costs and savings based on referenceable case studies to allay their skepticism.

Experimenters require assistance to put program management in place. The biggest challenge for experimenters is their lack of a centralized global program management office and the resulting hodgepodge of vendors with hit-or-miss project results. As they move to the next stage and winnow down their suppliers, experimenters represent the primary sales battleground for suppliers. Vendors need to bolster their soft project management skills so they can help clients develop their program management office. Suppliers with consistent on-time and on-budget delivery track records can leverage the resulting credibility to share best practices from committeds or full exploiters on consolidating and managing multiple vendors.

Committeds are open to new services and locations. These clients are looking for help with driving additional usage across the organization and pushing a higher percentage of the work offshore. This means that vendors need to deliver workshops on best practices and consult on how to bolster the client's CMM capabilities. Small multiclient events for sharing best practices on driving offshore usage and developing and implementing utilization metrics will help accounts move to the next level. These clients are also open to hearing about more advanced packaged app implementation and BPO services.

Full exploiters want to hear about innovative pricing/relationship models. The most sophisticated accounts are looking to evolve their relationships into full partnerships. This is where vendors need to deploy their bolstered domain expertise and train account teams to have business-level discussions with non-IT executives. These investments in business acumen will allow vendors to proactively suggest innovative risk/reward pricing models. The complexity of full exploiters' projects dictates this level of pricing and delivery creativity.

How crucial is a Relationship / Account Manager at the vendor's end

Vendors have also had to expand their engagement and relationship management staff, an area where there has always been a critical shortage. Therefore, most staff in this category will have little offshore outsourcing experience and even less client engagement management experience. It is critical that vendor relationship or engagement managers understand the offshore outsourcing process fully and are able to help clients navigate its complexity. If they cannot, the project's chances for success are limited, particularly when the client does not already possess experience in outsourcing. Clients must ensure that the vendor's engagement or relationship manager is qualified to play this vital role. The

bottom line is that this scaling is likely to cause service degradation as the vendors attempt to assimilate masses of new employees. Clients must guard against such potential degradation of service through effective contract clauses and SLAs, as well as close examination of HR policies at the vendor selection stage. The very crucial parameter in any outsourcing deal has now shifted itself from the technical perspective to the business perspective. Contracts and SLA's are no more management jargons that fly in the air, instead for the basis of an outsourcing deal and relationship management catalyses the best output of any deal which in turn makes the client happy and helps the vendor retain their clients in a relationship lock-in.

THE SOURCING GOVERNANCE FRAMEWORK

"In today's competitive business environment,
the capability to build and maintain a network of best-in-class suppliers
is a key prerequisite for strategic success"
- **Marjolein Berends, Sr. Consultant, QWR.**

Summary

Outsourcing does not reduce the CIO role. On the contrary, the desired IT outcome and cost levels have to be achieved within the context of commercial supplier relations and contracts, instead of by exerting direct control on IT operations. This introduces opportunities and risk, requires different competencies, a changed management capability and a new form of organization and control. Ten years of collective experience in managing outsourced services have resulted in best practices in this field. These best practices are bundled and unlocked in a model that helps organizations build their own 'Smart Buyer Function (SBF)' – an intermediary function between internal customers and (external and/or internal) suppliers. The SBF concept provides the CIO's with new ways of effectively managing IT demand and IT supply. What's more, this new way of managing IT appears to be equally applicable to both situations of external sources of supply (outsourcing) and to situations of internal sources of supply.

The SBF is usually an intermediary organizational entity (in some small organizations or in case of limited scope, the SBF can be a 'virtual' organization) positioned within business units or divisions and internal and external suppliers. Every organization can build its own SBF based on a set of generic best practices. Three fields of best practices are available:

1. The *activities* a SBF performs to realize its mission. The best practice consists of a standard set of processes, clustered in 6 'management flows': strategy, HR and Finance, Information Services (IS)

innovation, IS control, Customer management (demand management) and Vendor management (supply management);

2. The *competencies* required to execute those activities. The best practice consists of four groups of standard competencies in the field of business knowledge, general management and organization, Business IT Alignment and sourcing.

3. The *performance management* system required to manage and control the SBF. The best practice consists of a modeled IS Value chain based on KPI measurement and control.

Of course processes, competencies and KPI alone do not deliver in a working solution. Whereas processes, competencies and KPI are generic, the way they are organized in a specific situation is definitely not generic. Drawing on experience in SBF design and implementation, Quint has developed proven Organization Design Guidelines that help an organization design its own SBF. The Organization Design Guidelines approach is based on four contingency factors: the specific business and IT strategy, the customer context, the scope of (out) sourced services and the sourcing model. The specific constellation of these factors is different in every situation and determines the design of the SBF in terms of its role and position within the organization, strategy and objectives, processes, jobs and competency profiles, size, structure and systems.

A typical SBF project is first and foremost an organization change effort and consists of five phases, each phase beginning and ending with a go/no go decision: orientation, global design, blueprint, implementation and operation. The operational phase is when it actually begins. In this phase, the SBF has two main lines of work: realizing the regular objectives and targets of the SBF (as determined in the design phases) and realizing – if applicable – thematic improvements such as portfolio rationalization and standardization, enabled by the SBF.

Five SBF maturity stages can be distinguished: local chaos, centralized portfolio, insight and quick wins, control and improvement. Although most organizations depart from stage 1 or 2, not all stages apply to all organizations. The starting point of an organization determines particular cost-benefit profiles.

Getting from stage 1 to stage 2 generally has a negative cost-benefit profile for an initial investment in building a SBF is required. The benefits gained in this phase relate to organization efficiency and transparency. Getting from stage 2 to stage 3, the quick wins resulting from economies of scale and rationalizing the contract portfolio are realized, which lead to a strongly positive cost-benefit profile. Financial benefits tend to lie between 5 and 40% cost reduction on the contract portfolio. Getting from stage 3 to stage 4 the SBF matures as processes are executed in a structured and controlled manner and personnel grows into their new roles and develops the competencies and experience required. The benefits reaped in this stage are more difficult to quantify because they follow from the improved capabilities of the SBF in terms of processes, personnel and management control. After stage 4 new benefits are to be gained. The SBF is running smoothly now and is ready for thematic improvement plans. Systematic benefits can be realized in the field of negotiation results, transparency, policy implementation, standardization and service quality.

Introduction

A persistent mistake regarding outsourcing is that it transfers the responsibility for 'providing the business with the IT services it needs against best prices and conditions' to an external supplier. True, the CIO no longer manages IT people and IT processes. That does not mean that the CIO responsibility in terms of budgets, outcomes and risk management is reduced or becomes any simpler. On the contrary, we might say the desired IT outcome and cost levels have to be achieved within the context of a commercial relationship and the contracts defining it, instead of exerting direct control on IT operations. This changed management context provides the CIO with real opportunities for performance improvement and cost reduction, but also poses serious risks and requires a different management capability. Thus, outsourcing certainly does not reduce the CIO role but fundamentally changes it. This paper shows why and how the CIO role changes, presents a proven best practice based organizational solution for effectively managing outsourcing - the Smart Buyer Function (SBF) – and provides guidance on building your own SBF.

The list below summarizes the most common problems in outsourcing relationships:
- Lack of clarity in defining company objectives on the part of the client;
- Unrealistic expectations from the client and/or a supplier who promises too much;
- The supplier has bid below cost-price or is financially squeezed during negotiations and, in consequence, can no longer deliver the quality required;
- The client does not adequately structure and manage the deal in terms of attention, time and resources;
- Discussions arise – due to deficient processes and procedures – concerning services, quality and performance;
- Changes in market prices are insufficiently taken into account in the deal;
- A lack of outsourcing experience on the part of employees involved in structuring the deal;
- Suppliers not pro-active enough;
- Not enough employees available who understand the contract's prerequisites and conditions;
- Unexpected changes in technology or the business itself create a new context for the deal;
- Contract structures are often inflexible and lack transparency. There is insufficient connectivity between the various contract documents (framework agreement, RfP, SLA, UPC, Service Quality Plans, etc.).

More and more organizations acknowledge the need for structural outsourcing management. However, with most customers the emphasis clearly lay with the supply side: sourcing, procurement and contract management aspects were central. These are the primary requirements when outsourcing. During the last year, insights have slightly changed. Managing the supply side is critical but its success depends to a large extent on adequate management of the internal customer relation and business demand. This SBF integrates these insights, experiences and best practices. The body of thought surrounding SBF has expanded beyond what can be presented in a single paper.

The outsourcing problem

Over a decade of experience in Information Services (IS) outsourcing and BPO have proved that realizing outsourcing objectives is not as straightforward as it seems. A recent international market study by the Quint Research Center indicated that sourcing goals are not met in nearly half of the cases. Obtaining more insight into service quality is successful in only 59% of cases; increasing innovative capacity in a modest 43%; and cost savings - still the dominant rationale for outsourcing - were realized in only 47% of cases.

A number of organizations are struggling with the issue of managing outsourced services. Taking services to the market introduces the market mechanism - at least during the contracting process – and in general allows for better performance against lower cost (as shown by extensive research into outsourcing by Simon Domberger, 1998). It also causes the interests of customer and supplier to diverge, introducing risk that the customer must manage. Most organizations are not sufficiently equipped for dealing with a commercial supplier relationship. More organizations today acknowledge that outsourcing is not a once-only action but results in permanent change and requires a structural organizational solution.

However, practice shows that such an organizational solution is currently either partly or completely lacking in most companies. Research confirms this view. Three key indicators of outsourcing management maturity scored unsatisfactory in nearly half of cases: quality of contract management on the part of the customer; process maturity in the customer organization and the degree to which the customer organization is capable of clearly defining its demand.

Today there is no need for organizations to come up with an organizational solution for managing outsourcing themselves. They can draw on learning experiences of many organizations. Ten years of

collective experience in managing outsourced services have resulted in best practices. These best practices are bundled and unlocked in a model that helps organizations build their own 'Smart Buyer Function' (SBF) – an intermediary between internal customers and external1 suppliers.

The IS Value Chain

Our basic point of departure regarding SBF is the following generic IT mission: '*To provide the business with information services, which are actively aligned with their needs on both strategic and operational levels, and delivered against best prices and conditions*'

The mission reflects a classical issue of coordinating IS demand and IS supply. The figure below depicts the IS Value Chain that underlies the mission. The IS Value Chain comprises three interdependent domains. Each of the three domains has a certain indispensable function regarding the realization of this mission. In order to realize the mission, each domain has to perform well in its own right and each has to co-operate. To achieve this, the organization and management of the domains is key and must be approached in an integrated manner. Improving a single domain without translating the consequences to or upgrading the performance of other domains is in many cases suboptimal.
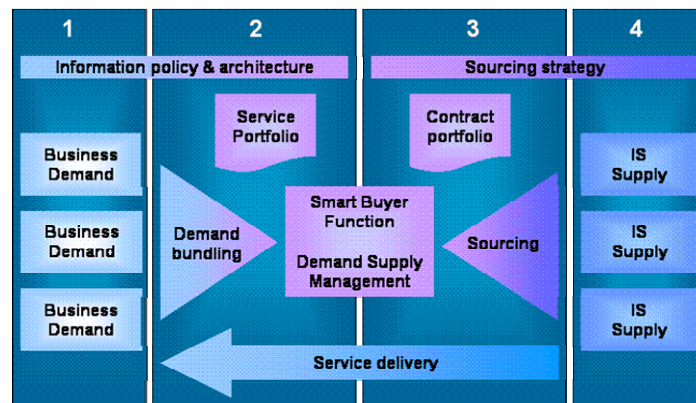
Fig-18: The IT org

Business Demand Management:

Clear definition of functional business needs by the IS owner, the recipient of IS. Adequate demand management is both critical and scarce. Demand Management defines business needs. Based on those needs, laid down in Functional Requirements or Service Level Agreements, an intermediary contracting authority (in this paper a SBF) contracts suppliers and manages service delivery. If business

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[1] Practice shows that the SBF SI concept can also be applied to manage internal suppliers, either to prepare organizational units for outsourcing, to promote standardization or to introduce 'competition'.

need definition is inadequate, so will the contracts with suppliers. Even if suppliers perform excellent

(that is, according to contract) the result will not be what the customer needed. It is common practice to

attribute such inadequate services to either the suppliers or

the SBF, while in fact the problem often lies with inadequate

demand management on the part of the business units.

IS Demand Supply Management (SBF):

      Contracting is preferably not executed by each

individual Business Unit itself, but by an intermediary function

which can be a project organization, the procurement

department, or a permanent intermediary SBF (to be

discussed in more detail later on). The intermediary is

necessary because services contracted out are usually shared

> Inadequate Demand management was found in a Dutch Utilities company, where Quint was asked to do an assessment of the Demand Supply Management Function because service delivery lagged behind customer needs and was not responsive enough. The Business Units believed that the suppliers and especially the Demand Supply Management Function (after all, it is their responsibility) did not perform. The results were striking. The assessment showed that both SBF and supplier performed to reasonable standards. The main cause of the problem lay with the Business Units themselves, that had no Information or Demand management in place. The suppliers Quint interviewed were unanimous "The business is not capable of defining its functional needs. This is costing both them and us a lot of money and hassle". In addition, with the outsourcing of application management, the Functional Management tasks had disappeared because those were informally part of the activities of application managers who had been outsourced.

amongst various internal customers (e.g. IT infrastructure services, company wide applications, etc.);

economies of scale apply (e.g. desktop services, software licenses); or a policy of technology

standardization makes individual contracting by individual Business Units undesirable from a

technological, cost and control perspective. Within this intermediary, we can clearly distinguish between

the demand management side and the supply management side:

- Demand management (customer management) bundles and translates functional business needs –

  within the frameworks provided by Information Policy and Architecture - to an IT services portfolio,

  laid down in a generic Products and Services Catalogue (PDC) and Service Level Agreements (SLA's)

  with internal Business Units;

- Supply Management (vendor management): departs from the IT services portfolio and sources these

  services – within the framework provided by sourcing strategy – from the most capable suppliers,

  resulting in a balanced and suitable supplier and contract portfolio. Depending on the sourcing

  strategy, any mix of internal and external suppliers can apply.

SBF best practices

Changing Economic Dynamics

      In order to better understand and interpret problems in an outsourcing relationship, we will start

to review what happens in the client-supplier relationship dynamics whenever this is an external rather

than internal relationship. The relationship with an external supplier differs fundamentally from that of

one with an internal supplier, because different economic principles apply. Three economic principles will play a part.

1. Market dynamics

Regardless talk about 'strategic partnership' and so forth, a commercial supplier's bottom-line goals are sales and profit maximization. The external supplier aims to obtain a healthy financial return on his services – especially since the competitive outsourcing can drive suppliers to engage in deals with very low profit margins or even at a loss. The supplier can improve his return by using three control instruments to influence services:

Fig-19: Control mechanism for vendor
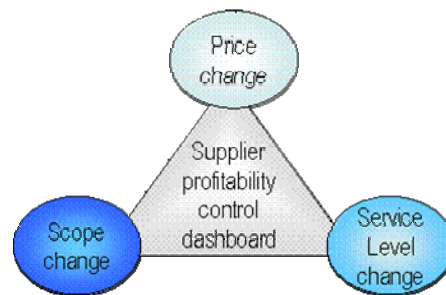
Control mechanism in outsourcing

Increasing the price of the service delivered depending on the scope and degree of freedom of underlying SLA's (Service Level Agreements) this may be possible; Lowering the service level within the range allowed under the SLA; Changing the scope (extent and content) of the service thus creating opportunities for more work allowing additional charges to be made to the client.

Lessons to be learned from these dynamics are that clients should be aware of how suppliers can improve their returns using these control instruments and that, in the end, entering into deals that are insufficiently lucrative for the supplier is of no benefit to the client.

2. Sharing of benefits from economies of scale and efficiency improvement

The second economic principle is related to potential advantages due to economies of scale and economies of scope. The drive to reduce costs after closing a deal is often greater for a commercial supplier than for an internal supplier. The external supplier, however, has primarily little incentive to share these benefits with the client. If the supplier succeeds in reducing costs below the (cost-price) level based on which he negotiated the deal, benefits will be applied to increase his profit margin or invests cash elsewhere to stimulate growth. In any case, unless contractual terms on risk- and gain sharing

have been agreed upon, it is by no means clear that the client company will profit from the benefits generated by a supplier after the deal is closed.
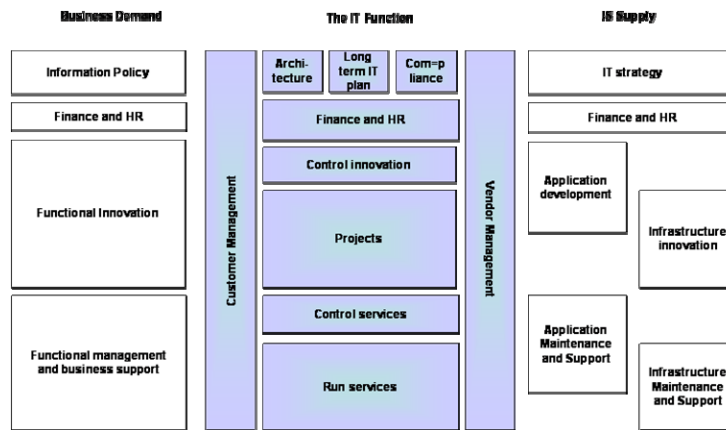
Fig-20: The IT Function

3. Transaction costs

The third economic principle arises from transaction costs. Transaction cost theory teaches us that the classic 'make or buy' decision on which every outsourcing issue ultimately depends is based on the search for a balance between production costs and transaction costs (Williamson, 1975). Production costs tend to be lower outside of one's own organization due to specialization advantages. External IS suppliers can, therefore, often produce at lower cost. Transaction costs on the other hand are lower within one's own organization. Transaction costs include all costs associated with creating and maintaining the client-supplier relationship. Such costs may occur as a result of searching for the right client or supplier (tender procedures), in closing deals (contract preparation), managing deals and trivial matters such as invoice processing. Such additional and to a large extent structural costs must be taken into consideration in the make or buy decision.

The Changing IT function

Besides the dynamics in the customer – supplier relation, outsourcing changes the IT function itself as well. The figure below depicts a simplified model of a traditional IT function and its key domains, based on an innovated version of the Quint Wellington Redwood IPW™ model (Bom et. Al, 2001). The model has been innovated based on a 'best of breed' approach, in which available IT best practice frameworks (ITIL, CMM, ISPL, ASL, BISL, Prince2) were confronted with COBIT processes, resulting in a new COBIT compliant process model using the 'best of both worlds'.

There are three columns in the model. The left side of the model depicts the Business Demand Domain. External IS suppliers are located on the right side of the model (delivering application development, application maintenance and infrastructure services). In the center we find the domains of the IT Function:

- strategy (architecture, Long Term IT Plan and Compliance),

- Finance and HR (the two key resourced to be managed)

- Control Innovation (managing innovation)

- Projects (execution of innovation),

- Control Services (managing services)

- Run services (operations)

- Customer management (demand management)

- Vendor management (supply management)

Vendor management comprises all processes required to procure and manage products and services on the market. In a traditional non-outsourced IT function vendor management is merely a back-end procurement function, purchasing the inputs for the IT delivery domain. This model is complete in that it contains all processes any organization can possibly perform in relation to IT.

The retained IT Function

Outsourcing changes the model:

1. Substantial parts of the IT function – 'projects' and 'run services' - are transferred to the column on the right: the external suppliers. The management of projects and services (control) usually remain with the client organization. Exactly how much or what type of management is required depends on the scope and type of outsourcing and so forth. For example, full outsourcing to a single supplier with end-2-end responsibility allows for functionality based contracting: IT delivery can be considered 'black box'. However, in case of partial outsourcing of for example Mainframe services, a large technical interface with the remaining IT delivery domains remain. This necessitates a large involvement of the IT delivery processes (ITIL) surrounding the Mainframe.

2. Strategic processes are retained although with reduced scale and scope. Some architecture and compliance related activities can be transferred to the suppliers. The scope of the HR process is reduced because outsourcing results the headcount reductions. The nature of financial process changes as outsourcing introduces commercial dynamics and aspects

3. The scope, scale and importance of 'vendor management' activities dramatically increase. Instead of purchasing the inputs for the IT Function, Vendor management now closes and manages large, complex and critical outsourcing deals.
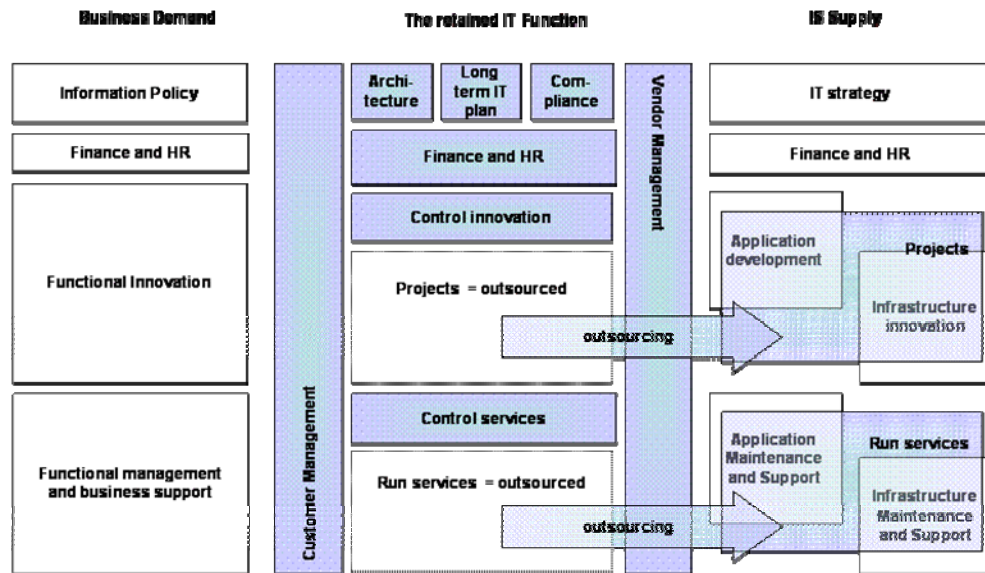
Fig-21: The retained IT Function

SBF process model

The retained activities – clustered in processes - are regrouped into the SBF. The SBF model presented below is a best practice process model. Note that it does not necessarily correspond to an organizational entity. The regrouped processes do right to the changed IT function and the different competencies required. The processes in this model are generic for all organizations. However, how the processes are implemented in a particular situation is of course not generic and will be discussed in the next section. The SBF process model comprises six blocks of related processes. The logic of the clustering of processes in these blocks lies in coherence of activities and the competencies required to perform processes. The blocks represent the 6 key areas of management attention. Below each block is briefly introduced.

The strategy block is comprised of the processes ICT policy, architecture, governance and sourcing strategy. Most of these processes are 'retained processes': they were performed in the pre-outsourcing IT function's strategy domain. Sourcing strategy is a new process, introduced by outsourcing. The "make or buy" decision is a one-time decision and should be reconsidered on a fairly regular basis.

Are the stated aims being achieved with outsourcing? Given altered circumstances, should other services be considered for outsourcing that was not previously considered suitable? Strategic sourcing is the policy process in which the objectives of outsourcing are determined and the realization of the goals monitored. The strategy block defines the policies within which the SBF operates. A performance management system is required to monitor the execution of strategy and SBF performance.

The finance and HR block manages the two most important resources of the SBF: its budgets and its people. Financial management is performed in the pre-outsourcing situation as well. Within a commercial relationship however, 'monopoly money' changes in to hard cash and financial controls tend to tighten. The commercial context puts financial management in a different light: procedures should be evaluated and controls tightened. With respect to Human Resources it is clear that SBF competencies are very scarce within organizations. A Key Success Factor of a SBF lies with its ability to effectively build and manage knowledge and competencies of SBF employees.

A sourcing deal is a snapshot in time. IT services are dynamic and both small continuous changes and large innovations apply to outsourced IT services. Small changes are dealt with in the IT Service Management block where Change Management occurs. How to deal with innovation on where it concerns unknown, future services that are not covered by the product services catalogue? From a contractual perspective, customer and supplier should agree on innovation arrangements for improvement of service delivery and infrastructure. From a management perspective, the SBF will play a certain role in innovation projects. This role can vary from being a 'principal' on behalf of an internal customer, who merely defines needs, monitors and accepts outcomes, to actually running a project itself (the SBF maintains a pool of project managers) to running an entire innovation program. Whatever role applies, the SBF has to deal with innovation and needs competencies to perform its role in projects.

The service control block is responsible for managing the day-2-day IT services delivered by the supplier, by means of the process 'delivery management'. Delivery management encompasses all the IT processes (in the field of ITIL and ASL) in which the SBF still has a role. The scope and scale of delivery management varies depending on the outsourcing situation. Two extreme examples illustrate this.

▪ In case of outsourcing to a single vendor with an end-2-end responsibility, contracts are usually based on functionality (availability of a certain service). *How* the supplier delivers the service in terms of infrastructure is not the concern of the SBF: it can be considered 'black box'. In this case,

delivery management is minimal. The SBF has either a very limited or no role at all in the IT processes (ITIL and ASL)

- In case of outsourcing to multiple vendors – for example one for networking, one for workstations and one for applications management – none of the suppliers have an end-2-end responsibility. In Service Management, the ITIL and ASL processes that used to run across the IT department and its networking, workstations and applications management teams, are suddenly cut off. There is no longer an IT department, rather there are three independently contracted IT suppliers. Who now guarantees end-2-end services to the customer? This is the responsibility of the SBF. In such an outsourcing situation, the SBF still plays a (managing or coordinating) role in some or most ITIL and ASL processes. The SBF may play a leading role in processes such as change management, availability management and capacity management, as well as address the issues that concern more than one of the suppliers.

- A balanced supplier portfolio. The organization transacts business with the right number of suppliers, the organization remains relatively independent of its suppliers and the number of suppliers is such that the organization does not need to spend an inordinate amount of time managing its portfolio, contracts and relationships.

- Cost benefits by consolidating demands:

- By purchasing via one supplier rather than several an increase in volume occurs and results in economies of scale, particularly of a financial and qualitative nature.

- Purchasing for the BU's can be concentrated with a limited number of suppliers. This implies an increase in purchasing volume per supplier and a better focus on vendor management, governance structure, etc.

- A more manageable situation is created, whereby the management costs of contracts that have been entered into can be decreased (overhead reduction).

- Active quality monitoring of the services, taking into consideration the intentions expressed in the contract. A SBF specializes in and focuses on managing contracts and reviews in depth these complex and comprehensive documents and the manner in which intentions and objectives are expressed in the contractual texts. One prerequisite is that setting up a SBF must be started early in the process and it must be staffed with employees who are involved in preparation and negotiation of contracts at the time the agreement is signed!

Vendor Management does not work if the demand side is not adequately managed. Customer Management focuses on the relation between the SBF, internal customers and corporate Information Management. The core responsibility of Customer Management is to build and maintain a Services Portfolio that addresses both the specific needs of internal customers as well as implements the corporate information and architecture policies. It builds this service portfolio – within the boundaries of corporate information policies – by defining and bundling the demand of the internal customers, laid down in SLA's, by building and maintaining a PDC and by reporting on service performance to all internal stakeholders. Practice shows that such an approach fundamentally boosts the standardization efforts of larger decentralized organizations. A problem often encountered in this field is lacking or inadequate counterparts in the business with the capability to clearly define business needs. This issue is elaborated upon in the next section.

SBF Competencies

From the above it will be clear that the blocks of SBF processes require a wide variety of competencies that differ from the traditional IT function's competencies. Competency profiles shift from operations and technology to IT management and management of the business relation. Moreover, outsourcing introduces the need for new competencies in the field of sourcing, market knowledge, negotiation and the like.

Four categories of competencies are required:

1. Sourcing competencies are the most obvious 'new competencies' required after outsourcing. Knowledge of supplier markets, supplier tactics, procurement and legal aspects of outsourcing are required as well as negotiation skills and relationship building skills. Sourcing competencies are generally not widely available within the (IT) organization. They can be 'sourced' from (strategic) procurement, legal and auditing departments, from external consultants who perform temporary interim and coaching roles and ex-IT personnel to be trained. It is often not necessary to have all competencies 'in-house'. Internal departments as well as external partners can supply competencies 'on demand'.

2. Knowledge of the industry the organization is in and its dynamics, business strategy and systems, business processes, governance and organization;

3. General organization and management competencies such as financial management, managing programs and projects and management of change. The latter is key for implementing and positioning of the SBF implies a organizational change. More changes follow as outsourcing progresses: each outsourcing project results in structural organizational change. Therefore, general management and organization competencies are key.

4. Management of the Business – IT relation is a key necessity and in many cases the most problematic competency to build. Bridging the gap between business and IT has proved difficult for many organizations and in an outsourcing situation, it becomes even more important to clearly define functional business needs and translate these to bundled IT services. Knowledge of IT processes and outsourced services is also required, but the extent to which depends on the scope and type of outsourcing deals. End-2-end contracting allows for a 'black box' approach whereas a more technical form of contracting and multi-vendor situations require more in-depth technical and process knowledge to be retained.

SBF Role and position

It is clear that explanation of the effects of each contingency factor on all design parameters is beyond the scope of this paper. However, we will discuss the effect of the combination of two contingency factors (outsourcing scope and the integrator role) on one of the design parameters: SBF role and position. SBF role and position form the starting point of designing the SBF. Matching the two contingency factors (dimensions) in matrix results in four basic forms and 6 archetypes (both in the 'back-end vendor management' and in the 'broker' form we can distinguish 2 types). Practice shows a natural growth path from 1 to 4. Below we will discuss each of the 6 archetypes, illustrated by the 'simple model of an outsourcing situation' presented in the first

section.
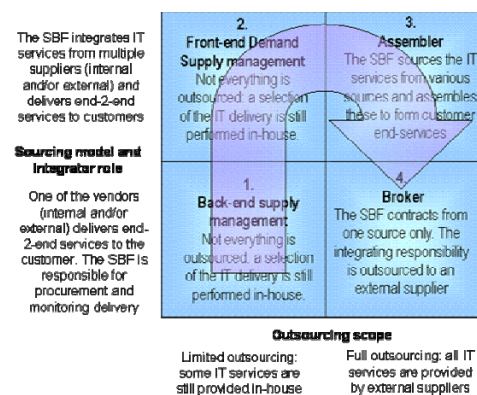
Fig-22: Outsourcing Scope

In a pre-outsourcing situation, there is an internal IT department delivering IT services to the customer. There are always several minor subcontractors but no major outsourcing deals.
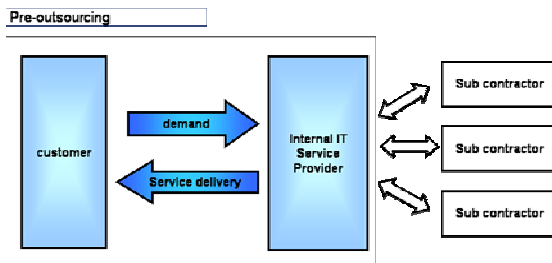
Fig-23 (a): Pre-outsourcing
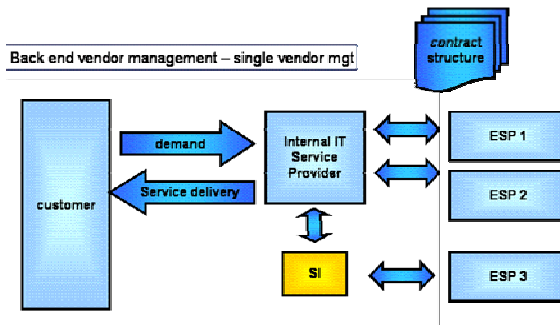
In stage 'back end vendor management' the internal IT department delivers services to the customer, but besides minor contractors, a substantial part of IT services are outsourced to an external vendor. The SBF - perhaps consisting only of 1 or a few vendor managers - is positioned at the back-end of the IT department, not having direct relations with the customer.

Fig-23(b): Back-end vendor management

Another possibility - often a logical next step - is to centralize vendor management at the back end of the IT department. In this form, all IT procurement of the internal IT organization is centralized in the SBF. This means that a larger quantity of smaller contracts is managed alongside complex outsourcing deals.
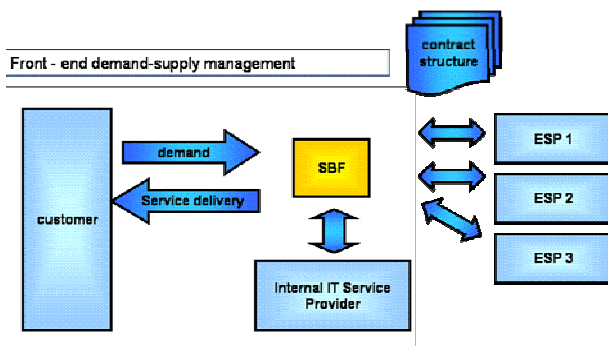
Fig-23(c): front end demand supply management

Some organizations have discovered that the best practices of managing external suppliers can be successfully applied to internal suppliers as well. Research shows that it is the threat of competition – not only the actual externalization of supply - that drives performance improvements and cost reduction (Domberger, 1998). In this case, the SBF is positioned at the front-end of the IT organization. It manages both the internal IT department and external suppliers alike. The rationale for this form can be either to put the IT department at a distance whereby the SBF is used as a control and governance mechanism, or it can be a very useful predecessor of

full outsourcing. Managing the internal IT department as external supplier promotes formalization of the customer – supplier relationship and transparency of services and cost, both necessities for successful outsourcing. This form of managing internal IT supply is expected to become more common.
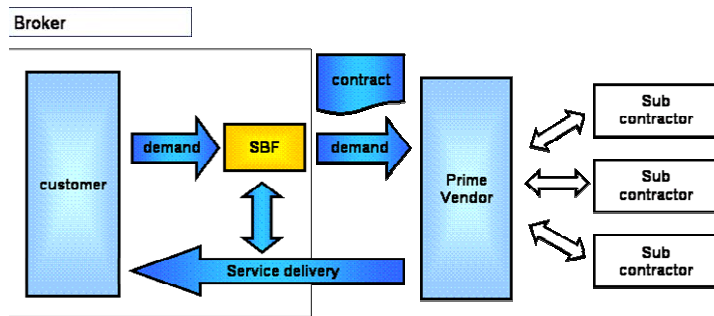
Fig-23(d): The broker

The assembler is perhaps the purest, most comprehensive and most demanding SBF role. Here it sources the IT services from various sources and assembles these to form end-2-end services to various internal customers. This is a common situation. Research shows that of the 80% of organizations that have outsourced, 69% have outsourcing relations with more than one vendor. Thus, a majority of organizations that have outsourced are in a 'multi-vendor situation'. Note that in most cases, this situation is not the outcome of well-considered sourcing strategy, but results from a very common approach to outsourcing whereby one lot at a time is taken to the market based on lot-specific considerations and business case. The end result is a multi vendor portfolio with complex interdependencies to be managed, and whereas the lot-specific business cases were justified, the overall generic business case has not been sufficiently considered.
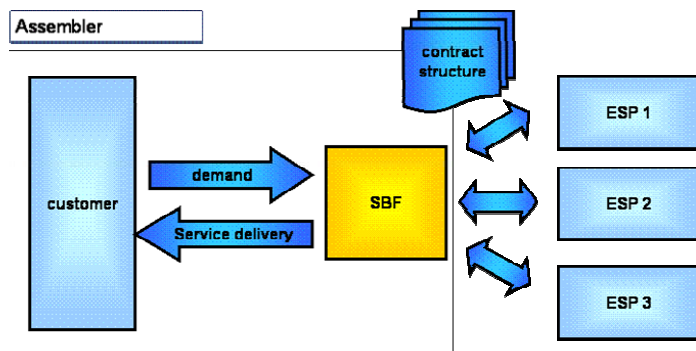
Fig-23(e): The assembler

Fig-24: The service integrator
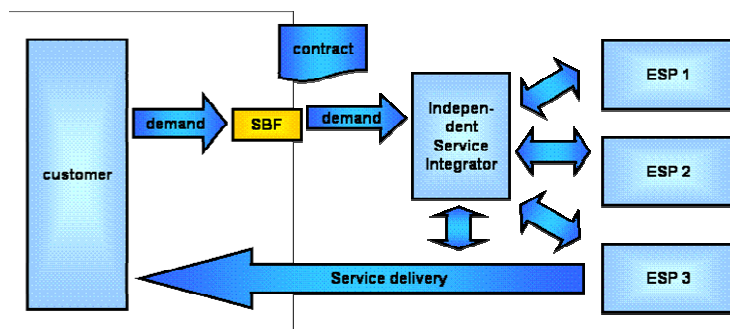
The SBF contracts from one source only. Building on the assembler model, it can be decided to ask one of the suppliers to take on the integrator role and manage the other suppliers. The integrating

responsibility is thus 'outsourced' to one supplier, who delivers end-2-end services directly to customers. The SBF monitors service delivery. Such models are not yet very common and not recommended if the rationale lies with lacking capabilities to perform the integrator role yourself. Outsourcing of such a core responsibility to a single supplier requires knowledge of what it means and takes to perform that role.

A new solution for the problem of the integrator role is to outsource a large part of the SBF to an independent third party, a 'Service Integrator'. This form is expected to gain momentum in the market. Because we expect market expansion for Service Integration solutions, we elaborate on the 'SBF' in the next paragraph.

Maturity stages

We can distinguish five maturity stages regarding managing outsourcing. The stage 1 and 2 are the most common points of departure for the SBF. There are four steps between the stages. Each step has its own cost, results and business case. The figure below illustrates that there are two 'substantial performance leaps' – between stage 2 and 3 and between stage 4 and 5. The stages in between prepare the organization for the leaps. This section starts to describe the nature of the five stages. Next we focus on the steps to be taken and related benefits. Notice that each level and step equally apply to both the demand side (internal customer) and the supply side (external suppliers).
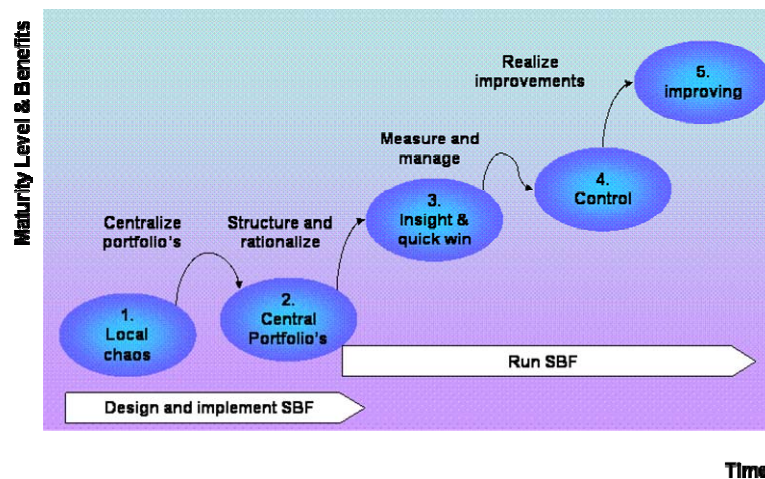
Fig-25: Maturity stages of SGF

1. <u>Local Chaos</u>: situation in which individual Business Units hold contracts with suppliers, there is no central insight into cost and performance, economies of scale are not exploited and demand is not bundled. Research shows that as much as 80% or organization do not carry sound contract administration. There are cases in which contracts were not up to date or could not be found and

large payments were made for services that were no longer in use (e.g. payment of monthly invoices for servers that had been phased out two years before).

2. <u>Central portfolio</u>: a first prerequisite for improvement is centralization of local service and contract portfolio's, contracting authority and related budgets and people. At this point the SBF has been implemented and the operational phase starts

3. <u>Insight and quick wins</u>: after the SBF has become operational, contracts can be structured and rationalized. Several rationalization options apply:

   ▪ Combination of several contracts into one

   ▪ Renegotiation of existing contracts

   ▪ Termination of contracts that no longer have a business case

Rationalization has a cost and time focus and tends to result in substantial cost benefits. Moreover, the rationalization focuses primarily on the supply side and less on the demand side because demand-side change usually entails longer term programs (such as standardization). The quick wins on the supply side are mainly derived from 'paper' (contract) changes and not from fundamental changes to service portfolios.

4. <u>Control</u>: in the control phase, the SBF matures and structurally monitors and manages demand and supply. Whereas phase three had a rationalization and cost focus, phase four also generates insight into service performance. The SBF's processes are structured and in control and personnel gains the competencies and experience required to perform their roles effectively. The focus tends to shift to the to the demand side

5. <u>Improvement</u>: after a period of monitoring, improvement plans can be defined. Each contract manager drafts an improvement plan for the contract portfolio he or she is responsible for and gets assigned specific cost, quality or relation improvement targets. Also, contracts themselves can be improved, making them better manageable, introducing new KPI or pricing models or contracting of end-2-end responsibility. At this point the SBF focuses on real value creation for the business.

The cost and benefits of each activity (to get from one stage to the next) stage are discussed below.

Benefits and Business Case

A SBF has clear benefits. Some of the benefits – such as economies of scale - are straightforward and can be demonstrated, measured, quantified and predicted. Other benefits – such as the effects of competent contract managers on negotiation results and service quality - are intangible by nature, though everyone acknowledges their relevance.

1. Financial benefits

   - economies of scale

   - organizational efficiency

   - negotiation result

   - demand bundling and contract portfolio rationalization

2. Control

   - compliancy : auditable processes

   - transparency and insight into services and costs

   - closer link between policy and operations by means of performance management

3. Service Quality

   - Support of standardization policies

   - Higher quality services by actions of contract managers and improvement plans

The steps that help the organization to get from one maturity level to the next (as described above) do not contribute to each and every benefits. Each stage has its own cost-benefit profile. The table below illustrates which activities contribute to which benefit. Needless to say is that both cost and benefit are highly situation-dependent.

	Economies of scale	Organization efficiency	Negotiation result	Demand Doubling	compliancy	transparency	Policy - operations	Standardization	Service quality
Centralize portfolio's		■				■			
Structure and rationalize	■			■		■			
Measure and manage			■	■		■	■		■
Improve			■			■	■	■	■

Not all stages apply to all organizations. The specific starting point of an organization determines particular cost-benefit profiles. The starting point is easily assessed based on the above description of the five stages.

Phase 1 generally has a negative cost-benefit profile for an initial investment in building a SBF is required. The former section described a typical project approach to the design and implement a SBF.

These are the activities performed in this phase: orientation, global design, blueprint and implementation. The investment can vary – depending on scale and scope of the SBF – from 40.000 to well over 250.000 euros (consultancy and internal cost). The benefits gained in this phase relate to organization efficiency (headcount reduction resulting from centralization) and transparency (first insights into the nature, scale and scope of activities and contracts)

As was mentioned in the project approach, it does not stop but begin when the SBF has been implemented. In phase 2, the quick wins resulting from economies of scale and rationalizing the contract portfolio are realized, which lead to a positive cost-benefit profile. Costs in this stage are those of analyzing the contract portfolio and executing rationalization, the costs of which can – depending on scale and scope – vary between 10.000 and 100.000 euros. Financial benefits lie between 5 and 40% cost reduction on the contract portfolio.

In stage 3 the SBF matures as processes are executed in a structured and controlled manner and personnel grows into their new roles and develops the competencies and experience required. The costs of this stage are low. Apart from the operational organization cost, extra investment in coaching and training of personnel may prove useful. The benefits reaped in this stage are more difficult to quantify because they follow from the improved capabilities of the SBF:

- Mature procurement processes and capable purchasing offers will improve negotiation results
- Mature contract management processes and capable contract managers process will improve service transparency and service quality as suppliers are managed.
- Structured – auditable - processes contribute to regulatory compliance
- Structured processes and KPI will help the SBF to begin to monitor the extent to which its strategic objectives are realized

Stage 4 may allow for new benefits to be gained. The SBF has run smoothly in stage 3 and is now ready for thematic improvement plans. A common approach is to assign contract managers to portfolio's and to define yearly improvement plans and assign specific improvement targets to contract managers. These can lie in the field of cost reduction, quality improvement, risk management, improved continuity, etc. Similar action can be taken for all SBF personnel. Systematic benefits can be realized in the field of negotiation results, transparency, policy implementation, standardization and service quality.

Case study: Insurance Company

A large insurance company recently discovered it had 17 separate offshore outsourcing projects in progress in 17 different parts of the business. Individual offshore project owners were at best peripherally aware of what other business units or groups were doing offshore. And the company had no central visibility into these discrete projects. The degree to which the company was using offshore vendors only came to light when the CEO requested that the corporate CIO take a look at the offshore outsourcing option as a way to cut costs. Little did the CEO know that his company was already engaged in offshore outsourcing, and the CIO, while he knew that these relationships existed, had no idea just how large or extensive his offshore vendor relationships were. In looking at the individual offshore relationships, it quickly became clear that some were more successful than others in terms of quality delivered and money saved. These inconsistent results were due to lack of process and governance. One group was paying almost 50% more for similar services from the same vendor than another group simply because one group had a manager with strong negotiation skills and experience with outsourcing contracts while the other had an application development manager negotiating the deal.

METHODOLOGY OF OUTSOURCING FOR CLIENT

The reason for the inclusion of this topic is two-folded. One: It would help the clients learn the planned phases that they need to undergo during the execution of an outsourcing decision. Two: It would be very evident in the following paragraphs that the vendor enters the planned phase of the client at an early stage thus giving ample space for the vendor to help the client follow those phases in a pro-active environment. This way, the vendor strengthens his possibility of retaining the client and is also able to cross-sell more propositions provided the vendor has the band width to include these services with resource scaling. This is one area that is left untapped by many vendors. They can really scale up resources and move up the value chain by providing solutions for the clients rather than mere service. Already, some Indian biggies have got into the consulting bandwagon. The other main reason for them to get into this mode is that, vendors have been in this business and they are certainly at a higher level in the learning curve when compared to the clients or potential clients. Some prominent examples following this approach is companies like Infosys, Wipro, Patni in India and MNC biggies like IBM and Accenture who have their own strong consulting base.

I am not afraid of storms, for I am learning how to sail my ship

(Louisa May Alcott)

The following text would clearly delineate a procedure that a potential outsourcing organization should adopt for effective results.

1. 7-Phase Model for outsourcing
2. Preparation and Implementation of the Demand Organization
3. Offshore Sourcing Assessment
4. Mediation
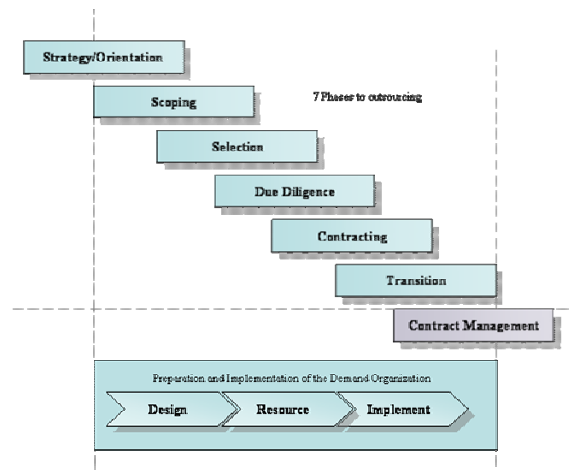
Fig-26: 7-Phase model

The 7-Phase Model

The 7-Phase model is a well-balanced process created from years of experience of outsourcing business and IT services. The phases focus on all aspects of sourcing where each phase builds on the results of the previous ones, resulting in a manageable sourcing process and end result.

In the case of offshore outsourcing software development and support, there are specific matters in each of the 7 Phases that one should take into account. In the following table, for every phase is shown some examples of activities that will mitigate the aforementioned top 7 risks.

Phase	Examples for Offshore Top 7 Risks Mitigations
Strategy 'Giving a clear answer to the question why you should outsource, and defining the appropriate sourcing delivery model'	No.1 Cost Reduction Perception A well-defined sourcing strategy will contain a realistic insight in cost reduction over time for all stakeholders. No.3 Social and HR Consequences As part of the Strategy phase, a stakeholder analysis will be performed and a communication plan will be put in place. This includes the internal personnel, employees council, trade unions, etc.. No.6 Culture Gap The cultures of the customer and possible external supplier organizations are regarded as invariables. During this phase, the culture of the customer organization is assessed, and measured against the possible outsourcing regions. The culture gap can be defined and mitigations for the following phases set. Part of the strategy phase is to determine if an organization wants to outsource directly to an offshore supplier, or use a local supplier that distributes work offshore. A well considered choice of cooperation will automatically mitigate several of the before mentioned risks.
Scoping 'Define the services you would like to outsource'	No.5 Business Knowledge Transfer and Loss The loss of essential or competitive business knowledge can be prevented by keeping these types of knowledge out of scope. This must be done both for specific applications (critical/non-critical against innovative/efficiency) but also for the various development and support processes.
Selection 'Selection of a supplier(s)'	No 5. Business Knowledge Transfer and Loss To prevent expensive transfer of business knowledge, one must select suppliers that already have a successful track record in developing and supporting software in the same line of business.
Due Diligence 'checking the supplier's offer(s)'	No.7 Information Security / Intellectual Property Protection The information security and intellectual property protection policies of the supplier are audited explicitly, comparing the answers from the RFI and RFP against reality. No.4 Slipping Project Timelines Running a Proof of Concept project with the selected offshore supplier(s), will give a far better idea of what you can expect from this supplier than the responses to the RFP. Also new processes, deliverables, roles etc. that are defined for the demand organization can be tested on a small scale.
Contracting 'formally stating the agreement and service levels in a contract'	No.7 Information Security / Intellectual Property Protection Explicit guidelines and rules of conduct for information security and intellectual property protection must be stated in the contract. During this phase, expertise in local legislation of the offshore supplier must be taken into account.
Transition 'setting up the outsourcing relation'	See risk mitigations for implementing the demand organization in the next paragraph.
Contract Management 'Continuously managing the SLA's and contract'	

Preparation and Implementation of the Demand Organization

In the situation where organizations have outsourced services to external suppliers, the demand organization has to be tailored towards the outsourcing relationship. This organization must be able to effectively manage the demand and supply of the outsourced services (offshore governance). Thus, the above detailed Sourcing Governance framework (SGF) would help mitigate some of the risks.

Process Improvement

To effectively manage (day-to-day) result-driven outsourcing, the demand organization will need a minimum level of process maturity. This means that organizations have to look at assessing and improving parts of the internal development and support processes to optimize the offshore outsourcing relationship. Adopting best practices like CMMI, ITIL, PRINCE2 etc., to fit result-driven outsourcing in general and the specific supplier's processes in particular is the key to success.

This will mitigate risk: No.2 Process Maturity Gap.

Selective Outsourcing

Instead of outsourcing whole applications, organizations must consider decomposing applications into discrete components (or (web)services) and outsource these (Service & Component Based Sourcing). This will create a more manageable and flexible outsourcing process, since demand is managed through discrete, well-separated work packages. But even better, you will be able to assess the best way of sourcing the delivery of these components (or services); by choosing between in-house, outsource local or outsource offshore.

This will mitigate risks:

No.4 Slipping Project timelines (or failure to deliver), by being able to plan and monitor small incremental delivery.

No.5 Business Knowledge Transfer and Loss, by only outsourcing components with minor business knowledge involved.

No.7 Information Security / Intellectual Property Protection, by only outsourcing components with minor security or intellectual property protection requirements.

Collaborative Environment

For distributed software development and support, organizations should seriously consider implementing a collaborative web-environment to support Project Communication, Knowledge Management, and Project Administration. These types of environments have proved to play a crucial role in making offshore software development and support a success. The right collaborative environment will mitigate risks:

No.4 Slipping Project timelines (or failure to deliver), by supporting transparent project communication (for example planning, tracking, requirements communication, change management, etc.) for all parties at anyplace.

No.5 Business Knowledge Transfer and Loss, by enabling customers and suppliers to store, publish and reuse knowledge about their business and IT. On top of improving knowledge transfer, all knowledge is protected and kept safe for the customer, in case the offshore cooperation is terminated.

No.6 Culture Gap, transparent communication and nature of a collaborative web-environment is known to overcome cultural misfits. This is based on the observation that the environment will create a culture of its own, which is more open and non-hierarchical in nature (very similar to the internet-community having a culture of its own.)

No.7 Information Security / Intellectual Property Protection, a collaborative environment will support the safe-keeping of intellectual property by levelled authorization and audit-tracking.

Offshore Sourcing Assessment

To quickly assess the risks and success factors for offshore outsourcing, an offshore sourcing assessment could also be carried out without biases.

- the software development and support organizations and/or

- software development project(s) and/or

- the application(s) to be developed or supported,

Based on market best practices like CMM, ITIL, ISPL and PRINCE2, this assessment gives a good insight in the maturity, feasibility and the risks related to offshore outsourcing. By assessing all important aspects like financial, legal, people, IT processes, stakeholders, etc., the assessment ensures all top 7 risks are analyzed upfront. The results of the assessment are the basis for further tailoring the process towards outsourcing (see figure 1).

Mediation

Mediators are required in times of conflicts between customers and suppliers. The purpose of mediations is to support the negotiations between parties to achieve common agreement in a short time. The objective mediator will ensure that all interests are served, all parties' objectives are clear and people keep working towards a solution.

The sad part is, not all clients are so mature to have implemented the SGF. Also there is a wide belief among some of them that IT outsourcing is just like any other form of outsourcing which is basically driven out of the question 'make or buy'? Some organizations think that once outsourced, it's the responsibility of the service provider to deliver the business IT needs. But IT is simply not a product, and

is an integral part of one's business. This report goes one step beyond the conventional solution provision in this context. If the clients do not some with the right perspective, then the external service provider should take up the onus and should be very pro-active in not simply providing the service but rather providing a solution for the client's business. This not only increases the brand equity of the vendor but also helps them scale up the value chain in providing end-to-end service in IT outsourcing. What needs to be done at the supplier's end is to maintain a professionally managed group which would face clients and it would simply not be the conventional sales and marketing group but would go beyond and literally would enter the client's flesh deep to know the business and would rather provide solutions and then architect.

RELATIONSHIP MANAGEMENT SKILLS FOR VENDOR

The offshore relationship is not an easy one to manage. It requires constant attention to ensure consistent results. This means that the vendors companies engage must have formal and strong relationship management processes and resources. Without this component, projects can be derailed, deliverables may not meet expectations, and service levels may not be consistent with what end users require. During vendor selection, companies must evaluate a vendor's relationship management maturity. Several of the top-tier vendors do very well in this arena. Many have hired former client partners from the former Big Five consulting firms, such as Accenture and PwC, or even the management consulting firms, such as McKinsey or Bain, to support this level of relationship. But some vendors don't yet understand the importance of this skill set and have not been able to perfect the provisioning of it.

Also, in India, especially below the top eight or 10 vendors (by revenue only), many of the firms are weak in this area, although they have brilliant technical skills. This means that the client has to provide more of the relationship and engagement management resources. Not only can this be challenging, since it requires a unique and higher level skill set, but it also represents additional overhead that companies may not have anticipated. For clients that don't realize they have to provide this skill, the relationship contains much more risk.

As anyone who has tried to evaluate and differentiate the top-tier Indian vendors knows, they all look alike initially. They all have great technical skills; the highest quality assessments; and beautiful, safe campuses. In doing more in-depth research, however, differences rapidly emerge. The area of relationship, engagement, and account management is one area where there is clear differentiation between vendors. The following pyramid lucidly explains the approach every IT vendor should adopt

towards one's business and as rightly said the top of the pyramid, "dedication to client's business" is what the report stresses as the Indian IT vendor market is more technically driven than business driven.
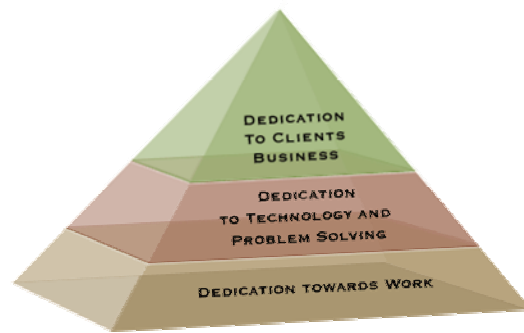
Fig-27 Engagement skills for a vendor

THE CUSTOMER GOVERNANCE FRAMEWORK

ESPs depend often heavily on sub-suppliers to deliver an end-to-end service from a customer perspective. ESP's should therefore explicitly think about their position in the value chain and translate this in a strategic make or buy policy. This makes sourcing not only a strategic issue for customers, but also for ESP's themselves.

ESP's lacking the skills and experience to manage sub-suppliers in an effective way might opt for buying them, though this will most likely lead in the long term to losing out to competitors which organise themselves in lose partnerships, enabling them to be more flexible and focussed on certain core-competencies, thus realising economies of scale. More valid reasons to assimilate a sub-supplier are based on economic principles. The economic relationship with an external supplier differs fundamentally from that of one with an internal supplier. Principles related to market mechanisms have two key characteristics - one which is potentially very advantageous for the ESP and one which poses a threat.

The obvious economic advantage is of course that market competition leads to a continuous strive for new service offerings, higher quality of existing services and lower costs. But the competitive environment also forces sub-suppliers to engage in deals with very low profit margins or even at a loss. The winners' curse materializes: The sub-supplier who wins the deal succeeds at what is an undesirable or impossible price. After the deal has been closed the sub-supplier will attempt to achieve a higher yield

by supplying lower quality, increasing prices or, and this happens frequently, increasing the scope to generate additional work (see figure 28). Buying a sub-supplier eliminates this pressure as internal suppliers rarely have a profit-loss responsibility, but act as a cost-centre, charging at cost.
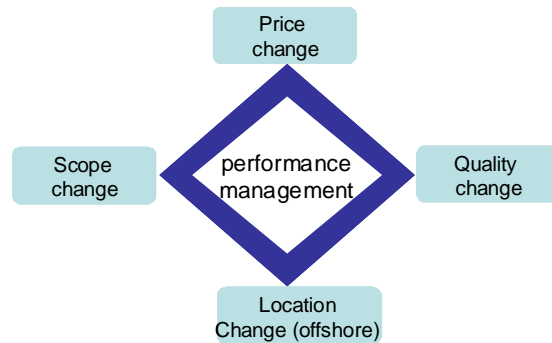
Figure 28: Steering your sub-suppliers

The last economic principle worth mentioning arises from transaction costs. Transaction cost theory describes that every make or buy decision depends on the search for a balance between production costs and transaction costs. Production costs tend to be lower outside of one's own organization due to specialization advantages as mentioned earlier. Transaction costs on the other hand are lower within one's own organization. Transaction costs include all costs associated with creating and maintaining the client-supplier relationship. Such costs may occur as a result of searching for the right sub-supplier (tender procedures), in closing deals (contract preparation), managing deals and trivial matters such as invoice processing. Such additional and to a large extent structural costs must be taken into consideration in the make or buy decision

So what to make and when to buy? Or stated differently, how to prevent taking over other suppliers for the wrong reasons? Establishing a Customer Governance Framework (CGF) helps. The figure below captures the essence of this function and is now further explained.

The ESPs' customers, local or offshore, are portrayed on the left in figure 29. The IT services are delivered to them by the ESP, in the middle, who acts as prime contractor and integrator. The service delivery relation with the customer is portrayed in the arrows and is formalized using a combination of a Master Services Agreement (e.g. legal terms) and more operational oriented Service Level Agreements (SLAs). But the lifecycle of a contract starts with a requirement from a (potential) customer and one of the functions of an CGF is thus translating this demand into an IT service. The CGF acts here as an intermediary between customer and the internal and external delivery organizations, concentrating the

ESP's knowledge and skills regarding among others marketing, contracting and finance (see figure 30). The CGF determines based on the demand which internal and external service components from its service portfolio are required to fulfill the requirement. After signing the deal with the customer the CGF contracts the delivery with the internal IT organization using Operational Level Agreements (OLA's) and Underpinning Contracts (UC) for the external sub-suppliers. Next the function monitors the service delivery against contracts and ideally also against market best practices. This last part is usually done by means of benchmarking.
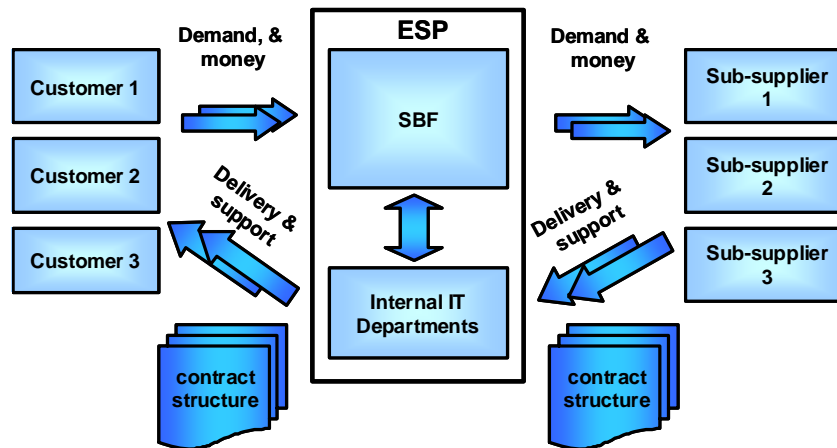
Figure 29: The Customer Governance Framework Concept

But which knowledge and skills should be centralized and why? The added value of a CGF is discussed in the next paragraph, leaving the question: what processes and competencies do we need to centralise? The answer is based on best practises of Quint gathered and fine tuned during counselling of more than fifty outsourcing cases and a dozen CGF implementations.

Figure 29 shows the CGF processes within the two primary domains: the 'demand' domain which is the prime responsibility of the (offshore) customer and the 'supply' domain which is the prime responsibility of the ESP.

People are key in managing your customer and supply relations. An CGF employee differs from both a traditional IT employee and a business manager. A highly specific set of competencies is required. These competencies are grouped into four categories:

- Customer Knowledge: the member should have extensive knowledge of the market, knowledge of business processes of (potential) customers, compliance (SOX, Basel 2, 8th Directive), marketing policies, and the strategy and key goals of the ESP itself.

- Organisation and management: pricing policies and other financial skills are required together with extensive project and program management.

- Management of customer-ESP relation: think about capabilities regarding business and application analysis, information and demand management, architecture and knowledge of IT processes and security.

- Management of supplier-ESP relation: procurement and negotiating skills combined with knowledge of contract management, result based management, auditing and the supplier market.

Figure 30 maps the skills and knowledge mentioned above into processes at three levels: strategic, tactics and operational. At strategic level the long term policy making and planning takes place, while the tactical level is responsible for clinging deals, managing contracts of both customers and sub-suppliers and the budgeting, accounting and charging cycle. At the lowest level the CGF monitors and manages the actual day-to-day service delivery and support.
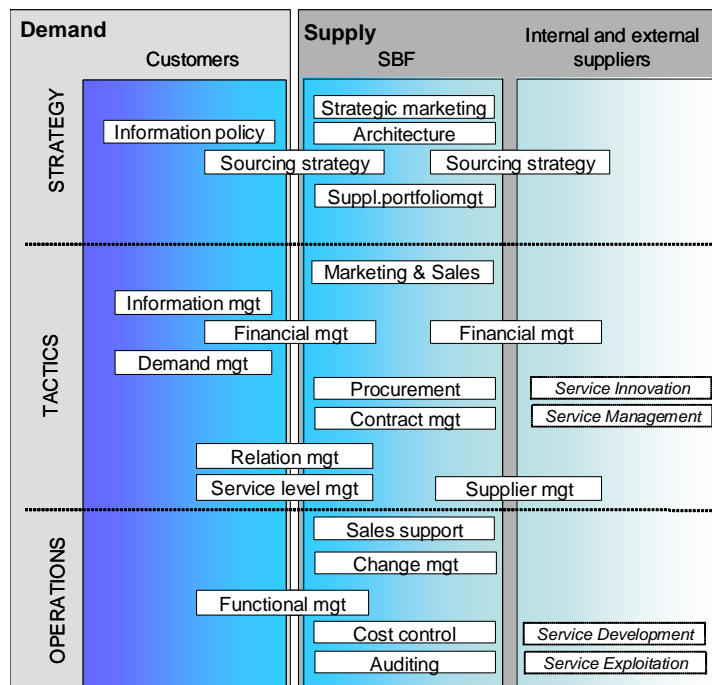
Figure 30: The processes of the Customer Governance framework

Where does CGF add value

A survey among European companies by Quint on outsourcing in 2004 showed that there is still a lot of room for EPS's to improve their performance. Realization of the outsourcing goals relating to get more insight into the quality of services was not successful in 41% of cases. Increasing innovative capacity was successful in a modest 43% of cases. Costs saving – still the dominant rationale for outsourcing - were realized in only 47% of cases. Both customer and ESP have a role to play in improving these figures. Often several internal parties within the customer have disparate expectations and requirements. Precisely because several parties within the customer domain are involved tension may arise between the ESP and the customer during and after the agreement is being finalized. For the ESP this means that it does not have to deal with one customer, but with the emotions of different parties. Add to this the hyped expectations based on promises made in the heat of the bidding process by ESP's and there is potentially a big gap between customer expectations, the contract and actual delivery. Managing these complex issues requires from the ESP a combination of specific soft skills and hard knowledge. And as the people possessing these skills and knowledge are rare, is centralisation a valid option to leverage and further enhance them.

After signing the contract with the customer finalising the contracts with both internal and external suppliers is on the list. The selection of a capable sub-supplier is a process that requires a lot of time and effort from both ESP and potential sub-supplier and should be based on objective criteria. It is not uncommon for ESP's to sign a contract with a sub-supplier without a sound selection process or having even compared several competitive offerings, for example selecting a supplier based on the preference of one of the technical guys. A traditional purchase department is often unable to counteract the arguments of the techie due to their lack of specific knowledge.

Translating functional business needs into IT solutions is still an extremely difficult yet essential task. The system of demand and supply can be viewed as a 'value chain' which is as strong as its weakest link. A CGF is able to function as 'a spider in a web' coming up with a balanced and well thought of contract en delivery structure. If the contracts have for example too many fixed elements, it can be difficult to enforce lower prices if the market develops as such. The importance of a good contract cannot be underestimated. The contract in essence defines the distribution of risk and benefits between customer and supplier. Moreover, the contract forms the basis upon which service delivery and

interaction takes place and defines the possibilities of the customer and sub-suppliers to change them, monitor performance and subsequently influence both customer and sub-suppliers' behaviour. Good contracts are based on thorough consideration of incentives. Some key choices with respect to contracting are outlined in table given below.

Options with respect to contracting	
Contract flexibility	Contract flexibility refers to the opportunities for the parties involved to change requirements, costs and time aspects after contracting. Some contracts are completely fixed, others have contract change control sections, stressing the conditions for changing terms.
Distribution of benefits	Suppliers have a strong drive to realise efficiency gains after signing a deal. The possibility of such benefits should be considered during contracting. Contracts containing clauses defining the distribution of benefits after the deal has been signed have proven successful. (Domberger, 1998).
KPI and reporting	KPI should be defined from as early as requirements specification and be included in contracts. KPI are the basis upon which suppliers should report and include not only 'service levels' themselves but all the information necessary in order to determine whether service delivery takes place according to specification. Determining the monitoring strategy is a key pre-contracting decision.
Penalties and rewards	Being able to monitor performance effectively is useless if not used to influence performance. Usually contracts provide the customer with the possibility to apply penalties if performance does not match certain criteria. However, the use of rewards – possibly in terms of extra payments - should be considered as well when suppliers perform above standard. This serves as a major incentive for service improvement.

Table 1: Relevant options regarding contracting

But than again, what should be the scope of the services bought from sub-suppliers? The CGF can support senior decision makers in making these often complex make or buy decisions by for example creating financial models capturing the economic principles mentioned before. But there are more ways to look at the subject. Kraljic (1983) looks at procurement turnover and suppliers based on two dimensions (1) Procurement's impact on bottom line financial results: the profit impact of a procured item, which is higher when volumes are high or larger amounts of money are involved. (2) Supply risk: is measured against criteria such as availability, competitive structures and number of suppliers. Depending on the product segment, four types of supplier strategies – as depicted in the matrix - are possible.

- ▪ Partnering. Usually the majority of procurement turnover is related to strategic and leverage products. As impact on financial results is high, small price changes can have large effects. Prices and markets must be monitored closely. Partnering based on cooperation and open cost calculations are preferable. It is key to select the right suppliers

- Competitive bidding. Small price reductions can have major effects. The focus is on minimising price while maintaining the required quality levels. Contracts are usually short term and suppliers interchangeable.

- Continuity of supply. The relationship with suppliers of bottleneck products is key and must be secured while at the same time trying to reduce dependency on the supplier by finding alternative sources or substitutes. Bottleneck products pose a risk to the organisation.

- Systems contracting. Often large organisational (administrative and logistics) costs are related to routine products. Efforts should be focused on reducing such costs.
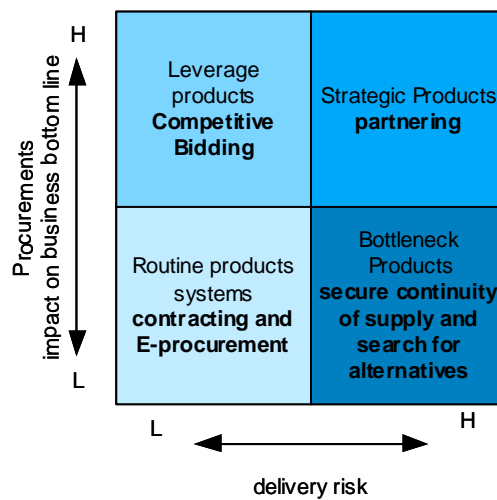
Figure 31: Make or buy decisions based on risk and financial impact

Moreover, this is no mere concept or not something that evolves only in Utopia. Not to go very far away, the following section would really accentuate the business importance of having a CGF in place at the service provider's end. Here is one service provider who maintains a CGF like structure within their organization and analysts say that it is one of the main contributing reasons for this service provider to remain at the pinnacle and make their own presence in the tier-I category of vendors.

CASE STUDY

Deep insights into Cognizant's relationship management model

To market insiders, Cognizant Technology Solutions' rapid rise to the top has been somewhat mystifying. Once firmly planted in the mid-tier vendor category, Cognizant has been able to break into the tier one vendor space and has soundly beat its tier one brethren in many competitive situations —

despite the fact that it lags behind its competitors in terms of breadth of services offered and global footprint. To be sure, Cognizant manages Western customers very well, has a dynamo marketing and branding organization, and still subscribes to the "customer is always right" rule. But there is more to Cognizant's success than just these factors. Cognizant's "secret sauce" is its team of high-value resources — consultants internally labeled as "MBAs" who are dedicated to knowing Cognizant customers and prospects and who architect solutions specifically for each client.

COGNIZANT LEAPFROGS INTO TIER ONE STATUS

Despite the fact that Cognizant does not yet have either the breadth of services or the global footprint of the other tier one Indian vendors, the company has been able to position itself in the tier one vendor category. Part of Cognizant's positioning is due to its top-notch marketing team, its customer intimacy, management capability, and the fact that it is easier for Western companies to do business with than any of the other top-tier vendors. In addition, however, Cognizant seems to consistently understand its clients and their businesses better than its competitors.

- *Cognizant MBAs make the difference. Cognizant's ability to consistently understand its customers and prospects is not accidental, and it is not due to just a couple of hero account managers. Rather, the firm has a formal process and an internal organization dedicated to analyzing its clients and prospects and proactively architecting solutions for them. Cognizant employs about 300 consultants — for whom it does not typically bill — to research and analyze its client and prospect base and to proactively develop solutions for them. These employees are known internally as MBAs, and indeed, all of them have MBAs. In addition to the advanced degree, most also have an undergraduate degree in technology or engineering, and most have worked in IT in a technology company or in a user enterprise. Thus, MBAs are technical and have vertical industry expertise.*

- *Cognizant MBAs research industry, company, and management teams. Cognizant MBAs do more than just learn about the client or prospect's organizational structure. They do in-depth research and become experts on industry trends and best practices — both from a technology perspective and from a business perspective. They look at the target company's position in the market — its strengths and weaknesses, with respect to the competition. They study the management team and company financial filings to get an idea about what their strategic initiatives are or should be, as well as what types of solutions are likely to appeal to a particular CIO, CFO, etc.*

- *Cognizant MBAs support the business development and client management organizations. The MBAs work in conjunction with account management and business development teams to bring solutions to the clients and prospects. Thus, the sales organization and the account management teams are not solely responsible for growing business or winning new business. The team of MBAs helps them with this burden and, in fact, the success of the overall MBA team is based on its ability to help grow the business.*

Cognizant, arguably the most westernized of the tier one Indian vendors, has taken a lesson from the former Big Five firms, in that it creates revenue opportunities for itself by proactively architecting strategic solutions for clients and prospects — rather than just responding to RFPs. Indian vendors have never excelled in this proactive approach, almost always waiting for the customer to come to them. However, the bar has been raised. Mature clients are no longer just searching for low-cost bodies — they are looking for their offshore vendors to provide business value through optimization and innovation. To compete with the global providers and move up the value chain to avoid commoditization, Indian vendors will need to move in this direction in the future.

Cognizant has a vocal and loyal customer base because it has been able to manage its clients in such a way that they are generally very enthusiastic about the services that the company provides. It was this differentiating factor that made Cognizant slew itself into the tier-I and still a long way to reach the pinnacle. This organization has scored the exact formula in the outsourcing market by having a strong delivery model which is front-ended by an exemplary client governance framework.

CONCLUSION

A major determinant of competitive success is the ability of the ESP to build and manage networks of best-of-class sub-suppliers and manage its customers. This ability is to a large extent reflected in the internal skills and knowledge and structure of the inter-organizational relationships.

Overall, ESP should think well about their position in the value chain. They should preferably focus on certain core competencies and outsource peripheral activities. The wish to be perceived by the market as a one-stop-shop should not lead to buying other suppliers just for their portfolio. More customer value might be generated in the long term by partnering, thus leveraging on economies of scale

and other economic market forces. The drawbacks related to having sub-suppliers can be largely tacked by creating a function dedicated to managing both customer and internal and external suppliers. This Customer governance framework should not be seen as a kind of enhanced procurement department but as a entity with a much broader scope from supporting strategic make or buy decision making to operational monitoring of service levels.

The other means by which an Indian IT vendor can increase his competitive advantage is by providing differentiated solutions and providing end to end turn key solutions. The other main aspect which a vendor should spend thought on would be innovation. This turns to be a key differentiator in the industry and to enhance and promote innovation; vendors must fund research projects, should maintain a close interaction with the academia and should take initiatives of presenting papers at some International conferences. It is an unshakeable fact that there is no dearth of technical skill sin India and to an extent no paucity of financial resources too. Thus, there is an urge for the vendors to pursuit new heights and provide the business performance for their clients and foster a relation that is *'Built to Last'*.

ANNEXURE

Bigger, better BPOs

FACE**to**FACE

Adaptive Outsourcer
BIGBYTE — VIVEK GUPTA

Adopting the Commod(IT)y
BIGBYTE — B G SRINIVAS & VIDYASAGAR JAIN

Indian IT: Leveraging Global Relations

BIGBYTE — R RAMKUMAR

> We often hear and read about global delivery management. However, little is spoken, or written, about the global relationship dimension

An adaptive vendor can respond real - time to changes in an outsourcing engagement

There is a need to change the way an organisation approaches IT investments

Making The Most Of A Vertical Challenge

Entrepreneur Of The Year
L NARAYANAN, FRANCISCO D'SOUZA

Too Close For Comfort: Harish Manwani

A Changing Paradigm

Offshoring Of IT Services Is Changing. Outsourcing Is Increasingly Looking At Marrying A Company's Business Goals With Its Technology Needs — That Too Over The Long Term, Chiranjoy Sen Digs Deeper

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External IT service providers

Customer as a strategic partner

KEERTHI KUMAR

> With 70 per cent of the revenue for an Indian external service provider coming from repeat businesses, there is a need for a centralised entity within the IT service provider's organisation to interface with clients.

A volatile

D. MURALI

India Inc has finally got a fix on what drives innovation. And the new CXO in town is the Chief Innovation Officer, whose job is to see that every idea is screened for potential and that the big ones are implemented

CD FIGHT TO THE FINISH

CORPORATE DOSSIER

The Economic Times

July 15, 2005

Global stalwarts like IBM and Accenture are turbo-charging their offshoring operations in India. And there's a battle royale between the pioneers Infosys, Wipro and TCS for a slew of mega deals slated to hit the IT outsourcing industry

techcheck

THE ET-CIO SURVEY

IT's On Everyone's Mind

BRANDWAGON

ET SPOTLIGHT

MERA BUDGET

THE WORKS

Outsourcing industry

at the crossroads

Networked
INSIGHTS INTO THE IT WORLD

Small is beautiful – and profitable

Every drop makes an ocean, goes the cliche. IT vendors are realising that put together, the small customers can make up a huge portion of their sales. **R Subramanyam** reports

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INSIGHTS INTO THE IT WORLD

Analyse this: more moolah

New jargon may be tiring, but it's also a sign that there might be more and different work to do. KPO isn't as boring as it sounds, and is far more profitable and exciting than BPO, reports **R Subramanyam**

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Wanted: Out of the box thinking

CONTRARIAN VIEW

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Pressing Ctrl+Alt+Exit

Of Late, Infotech Biggies Have Seen The Exit Of Some Of Their Very Senior Managers — High-Up On The Totem Pole. What Moved Them? Was It Pressure? Was It The Urge To Do Something Different? Was It Belied Expectations? **Asha Rai** Takes A Tour On The Exit Highway.

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The Choking of

The author is managing director, JumpStartUp Fund Advisors. The views expressed are his own.

India's much-vaunted IT industry has to change dramatically to maintain its leadership. A fundamental re-think of the business has to occur. By Sanjay Anandaram

"On 6 January 2005, the Prime Minister spoke about his intention to set up a Knowledge Commission to look into the issue of building quality human capital. The government believes that investments in institutions of higher education and R&D organisations are as important as investments in physical capital and physical infrastructure. What we need are world-class universities and we must make a beginning with one institution. We must have a university that will be ranked alongside Oxford and Cambridge or Harvard and Stanford. I am happy to inform the House that we have selected the IISc, Bangalore, which enjoys a high reputation as a centre of excellence in R&D. We shall work to make IISc, in a few years, a world-class university. I propose to provide an additional sum of Rs100 crore as a grant for this purpose."
— Finance Minister P. Chidambaram in his 2005 budget speech

PERHAPS for the first time, an Indian finance minister has acknowledged and acted upon the need for developing R&D excellence as a policy measure for achieving national goals. It is also an acknowledgement of the fact that for India to find its place in the sun in the years to come, R&D-based excellence — or innovation-based solutions — is an absolute must. If India's destiny lay in just being a low-cost supplier of the world's goods and services, then the tryst with that destiny would be short-lived. But if India's destiny lies in being an international leader in the supply of goods and services, then it has no choice but to embrace innovation and R&D-based excellence.

Over the past 57 years, India's share in world trade has shrunk from over 2 per cent to about 0.6 per cent. India's top items of merchandise export are traditional commodities like textiles, gems and jewellery, leather, chemicals, engineering goods, minerals and agro-products. The value-added by India in the commodities is minimal and, hence, prone to international price pressures. Because of the lack of investments and innovation along the entire value-chain — from design to marketing to technology to the business model itself — these industries capture just a tiny share of their respective global markets. These industries have grown largely because of an abundant supply of low-cost labour. In the world of tomorrow, innovation has to take centre-stage if they are to reach positions of dominance on the world stage.

Non-traditional businesses like IT services and pharmaceuticals have grown significantly in the last decade and are recognised as having 'arrived' on the global stage. Both these businesses are knowledge-driven and employ a significantly

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when they have the luxury of enviable margins and revenue growth.

Investments in R&D, sales and marketing and business development activities take time to fructify, but they will stand the Indian companies in good stead when growth starts tapering off. The past 10 years have seen the Indian IT services industry successfully perfect the equivalent of the CM business model, but will the next 10 years see them perfect the equivalent of the ODM model? After all, pay-offs from investments in soft infrastructure like R&D, culture, and mindsets take a lot longer than investments in hard infrastructure like land and buildings.

Industry Maturity: Reports from the top Indian IT service companies (TCS, Wipro, Infosys) for the year ending March 2005 bring another aspect to light. Their growth is being largely driven by volumes (increased deployment of headcounts), as opposed to increases in prices. It is no surprise then, that the *Strategic Review 2005* goes on to say that the industry is maturing. The ability of the large companies to continue to hire and deploy large pools of manpower appears to be the only constraint to growth at this point. However, rising costs, attrition rates due to increased choices for employees, increased awareness of customers, competition from other countries, and concerns about availability of skilled and trained talent will start to make an impact on these impressive growth rates.

As in any service industry, India is clearly skewed in favour of the large companies in the lower end of value-added activities. [...] different services across different industry verticals. The small companies do not offer any differentiated services and are more often than not hamstrung by lack of capital and lack of management talent. Mergers and acquisitions are the way for many smaller companies to offer differentiated capabilities. The others will continue to struggle against market forces to remain afloat.

Evidence of the industry's maturity is found in the fact that no IT service startup has been financed by venture capitalists in the last three years. On the other hand, capital is available for purposes of consolidating holdings and undertaking M&As.

Impact of MNCs: Global companies are becoming 'Indian' faster than Indian companies are becoming global. IBM, Accenture and HP alone employ over 50,000 people in India as part of their global service operations. They also have operations in other low-cost countries to which they are rapidly moving low-end, price-sensitive activities to face the threat from Indian IT services. As their headcounts in India and in other lower cost locations increase, their ability to compete on price against vendors from India (and other low-cost countries) will only increase.

Indian companies, on the other hand, have their centres of gravity and the locus of operations in India. They are yet to make serious investments in building capacity, competence, and relationships globally. In the coming years, notwithstanding their 'global delivery model', Indian services companies will need to aggressively step out of their India-centric delivery models and invest in global workforces and global relationships with customers, partners and vendors. Meanwhile, here's what Chandra Van Munce, managing director of IBM's Venture Capital Group, had to say in a 23 March 2005 interview with *Always On*: "IBM used to be known as the company that only played with the large corporations. But then, if you look at Nasdaq, 70 per cent of the Nasdaq 100 was at one time a venture-funded startup. So, we're

Low premium software services

INPUT	Contract manufacturing	Indian software services
	RAW MATERIALS	**ENGINEERS**
Focus	Flexible manufacturing	Flexible Delivery (Global, onsite, offshore)
	Quality	Quality
	Low cost	Low cost
	Volume-led	Volume-led
	Yield management	Yield management ($/seat)
Quality measures	Six Sigma	Six Sigma
	TQM	CMM
	Doming	
Efficiency measures	Reduced manufacturing cycle time (e.g. finished good to shipment)	Improved utilisation (Reduced benchtime)
Costs	Sourcing (hiring)	Sourcing (hiring)
	Conversion	Training
	Carrying costs	Bench costs
R&D	Negligible	Negligible
Capital expenditure	Plant	Real estate
	Machinery	Workstations
Marketing	Low; no brand premium	Low; low brand premium

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should be brought in to create industry experts instead of professional managers.

Indian IT services companies are prisoners of their own success. Enjoying unprecedented market capitalisations thanks to terrific earnings growth, they find it hard to make investments with unsure time horizons and pay-offs. Investments will dent their earnings and affect stock prices. Investments to explore new business models, partnerships, undertake M&A transactions of any significance, hire globally, do research, and create organisational change are sure to impact near-term earnings. But what of the serious possibility of an adverse impact on business in a few years if these investments are not made now?

Instead of investing their cash surpluses in long-term investments, Indian companies tend to reward their shareholders with hefty, tax-free dividend payouts (thereby enjoying shareholder loyalty) and perform treasury management functions by investing the money in safe mutual funds. Clearly, these companies are signalling that they have no other productive or imaginative use for this capital (e.g. investing in long-term competence and capability development) than paying dividends. The management's conservativeness is reinforced by the pressure of maintaining quarterly earnings.

It is disheartening from an industry standpoint to see hundreds of millions of dollars simply lying on the balance sheet and not being invested in creating innovative competitive advantages for the future. It is disheartening to see companies lack the confidence to take big, bold steps, even after 20 successful years in the global arena. The ability to dream big on a global level and then take the required steps to realise the dreams is what will distinguish the true global players from the also-rans in the next 10 years.

Mindsets need to change dramatically, especially among leadership levels. From managing status quos to managing risks, from managing people to managing businesses and leveraging opportunities, from managing Indians to managing a diverse global workforce, from a 'span of control' to a 'span of competencies' — all these initiatives are essential for success. Career paths for R&D and industry experts, for example, need to be made as attractive as jobs that are oriented to people management. An entrepreneurial environment and mindset has to be put in place.

A Presumptuous Prescription

Why can't the large companies look at developing their own 'global eco-systems', much like the MNCs have done (see 'How To Grow...')?

How to grow global success

TECH & MARKET
- VCs
- Tech startup
- Customers
- Academic institutions

STRENGTHS

BUSINESS MODELS
- Think tanks
- Customers
- Analysts
- Academic institutions

Size · Cash rich · Technical capabilities · Project Mgt. · Low cost · Service delivery · Quality · Customers

Services

DOMAIN KNOWLEDGE
- Industry experts
- Analysts
- Consultants
- Academic institutions

CAPABILITIES

MARKET ACCESS
- Startups
- VCs
- Partners (service companies)
- Consultants
- Press

Activities in each spoke have to be driven by qualified entrepreneurial business managers with clear goals and objectives. Resources must be made available — this availability will only be guaranteed if executive management sponsorship is real and visible. Initial failure must not force the company to immediately withdraw and get into an 'I told you so' mindset. For all of this to happen, companies will need to acquire and develop new competencies and capabilities. And, as always, the change has to be driven from the top. The mindset change has to be driven by a recognition of the impending reality of the next 10 years. Some of the larger companies are thinking of such things and have taken their first hesitant steps. But are they displaying the confident strides of a 20-plus year-old industry with a global footprint, global recognition, enviable top- and bottomline growth, and access to large amounts of cash? The answer cannot be yes.

As a well-wisher of Indian IT, I am keeping my fingers firmly crossed! Is the picture so disquieting that innovation is unlikely? The answer is that innovative people will find a way and, as everywhere else, small companies are at the forefront of this effort. There's a quiet but rapidly developing wave of innovation in Indian companies. ■

Possible engagement models
- Joint ventures
- M&A
- Strategic investments
- Partnership programmes
- 'Vendor' developments
- Spin-outs & spin-ins

Indian IT services competencies
- Global M&A
- Investments
- Risk evaluation
- Managing diverse work forces
- Partner management
- Research

Creeping up the information

...ood chain in BPOs

By SUSAN GEORGE

Wipro eyes big deal

▶ From Page 1

Officials at TCS, the country's largest software exporter, announcing Q1 FY06 results said they had closed a $100 million three-year deal," they said.

TCS also said that it was a month away from announcing a large contract from a European client.

Though Satyam, unlike its rival, did not make any big deal announcement, company officials announcing the Q1 06 results said they added four Fortune Global 500 clients.

As large multi-million dollar deals come from giant blue chip firms, analysts said that winning projects from big Fortune 500 companies is the first step for Satyam to clinch big contracts.

Market sources said that Wipro will soon announce a big win from General Motors.

The company's chief executive, America, Rich Garnik, had recently said that Wipro was the only Indian out-sourcing firm in the race to win the contract.

GM is ending a $2 billion contract with EDS.

Market sources said that Wipro is certain to win a portion of this deal, through partnership with other vendors.

When asked, Azim Premji, chairman, Wipro said "all kinds of speculative reports on the size of GM deal are floating around. GM is a critical customer and we do not speculate on business deals." he said.

He also said that marquee customers and not size of the deal won is what Wipro is going after.

Analysts said that large deals, not just by size, but by nature are complicated.

They typically are not restricted to one geography or location, and are spread over multiple years.

They require significant amount of due diligence, and should be structured in an innovative way.

IT biggies anticipate bigger deals ahead

Marque Customers To Complete The Picture

R Subramanyam
BANGALORE 24 JULY

HUGE projects, increased penetration into Fortune 500 accounts, and large multi-million dollar deals within arm's length are the key take-aways from the first quarter FY06 financial results announced by leading Indian software service vendors. Although the speculation on leading Indian software service exporters winning large multi-million dollar contracts has been rife for a year past, not many deals were visible. Now they are beginning to emerge on the horizon, but in smaller sizes than speculated.

Announcing the first quarter FY06 results, Wipro on Friday last said that it has won an export contract of $44 million deal from Northern Gas Networks, a gas utility in England. Two weeks earlier, Infosys said it was close to winning a $100 million plus deal. Although, Nandan M Nilekani, CEO, Infosys did not name the client, analysts said it was ABN Amro. Infosys did announce a $40 million account, its biggest so far — an old account which has scaled to the current size.

Infosys officials declined to divulge the name again, which market sources said was Telstra. At the Q1 FY06 results press conference, Infosys COO S Gopalakrishnan said the company now had 14 clients in $50 million-plus category, up from 10 a

ndia's hot for Fortune 500 cos

Saadat Ali
NEW DELHI 7 JULY

AS MUCH as 50% of Fortune 500 companies are clients of Indian IT companies and over 300 of these top names are currently outsourcing their service and support services to India.

But it is just not IT. Big global companies are setting up R&D, software development and engineering centers that cater to their global operations. They are also using India as a test market for clinical trials and developing products for the global market.

These are the findings of a survey on Fortune500 companies in India, conducted by KPMG and the India Brand Equity Foundation (IBEF). The study describes the strategies that are being adopted by global majors

report, MNCs are setting up their own shared service centres in India to offer services such as financial and accounting services, payroll processing and taxation among others.

Citigroup has established a company in India for its BPO activities and to handle all cash management and trade finance transaction processing not only for India but also for countries of Eastern Europe, Middle East and Africa. Fortune 500 companies have begun to recognise the high managerial talent present in India and thus are training Indians to serve abroad. Companies like Citigroup and GSK are routinely assigning global positions on their Indian staff.

The KPMG report describes the world's leading MNCs are not just tapping India's large market but also leveraging the country's domestic market to develop products for global markets. These companies have started to export components and products to group companies across the world. For instance, Ford India exported 28,000 units in completely knocked down (CKD) form to South Africa, Mexico, and Brazil in '03.

Along with developing products for global markets in India, these companies have also acknowledged the preference for local tastes and are customising global products and services for the Indian market. Companies like Samsung, Philips and Nestle are developing products specifically for local needs.

Also, localisation of supply chains is being done to avoid paying high import duties and to leverage India's low-cost and productive workforce.

Progeon sublets Ingram deal

Filipino Co Identified As Part Of De-Risking Strategy

R Subramanyam
BANGALORE 23 JUNE

PROGEON, the BPO arm of Infosys Technologies, has sub-contracted a portion of the outsourcing deal it recently bagged from Ingram Micro, the $29 billion wholesale provider of technology products and supply chain services, to a Filipino firm.

The size of the Ingram deal was not disclosed it is, however, is said to be a $50 million, five-year project. Progeon and the Filipino vendor would together have subcontracted deep-work involving the Ingram account.

Progeon would do the back-end processing work for Ingram's accounting functions. This would involve processing trans- and other payables handling, tax settlement, order-based processing etc.

Progeon's changed business model is inspired primarily at the "de-risk" clients with the company as the image of India. Wall Street wants to understand the entire section that just lies off it. "The reason that we take on all, say 100 people currently handling that activity, even if only 250 people actually move. We need to give the customer's complete deal and this includes support for all products, multiple language with the ability to pick up processes and the underlying technology and the ability to combine on-site and off-site model," Mr Bhargava explained.

Progeon, which announced the commutation of its business in April, has now operationalised it. Mr Bhargava said, What this does is to involve the client team, from sales to operations and design, to

Progeon set to replicate Infy's delivery model

Gouri Agtey Athale
JUNE 9 LINE

BUY parent, like offspring. Progeon, the Infosys unit, now process outsourcing (BPO) arm of Infosys, wants to replicate the parent's global delivery model.

"Today, we are 100% off shore. Over the next few years we want to move to deliver '70-30 model', of being 70% off site and 30% on site. Yes, we are looking to scale up the like unit it could happen," Akshay Bhargava, MD and CEO of Progeon, said.

This is part of Progeon's change of strategy, as it comes up against the likes of 'de-riskers' which can offer both a world-wide model and even a separate proximity for the country's has proving BPO industry. The industry is polarising along call-centre and low-call-centre lines, with Mr Bhargava expressing interest that the market be clearly defined.

Progeon's changed business model is targeted primarily at the "de-risk" clients, with managers in the image of India, Wall Street wants to understand the entire section that just lies off it.

Mr Akshay Bhargava, CEO Progeon, said that the spouse of work is complex and in future there is a plan to do a contact-centre also in the last unit during the next year. Progeon expects this segment to contribute as much as 18-20% of its revenue. It contributed just over 3% of its $42.8m (March '05) revenues.

"We will expand our knowledge services further to cover healthcare, legal and retail. We have to shift in these areas," Mr Bhargava said. Currently, Progeon is running a pilot in the healthcare segment, the fastest-growing market segment of outsourcing and one of its most lucrative practice. On the enterprises strategy, Mr Bhargava said it would set up a national services centre for last say this year.

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