The International ICT Sourcing Ecosystem

Key value enablers...

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Agenda

- The ICT value enablers
- Defining the Ecosystem
- Understanding the key players
- The underlying economics
- Some lessons from India
- Satyam & international ICT sourcing
ICT international sourcing: Challenges

- Offshore outsourcing is costing local jobs.
- There's a stigma to offshore outsourcing.
- The cost benefits of outsourcing are overstated.
- It's a buyer's market for IT workers right now anyway.
- There are huge cultural barriers.
- What about the other risks of outsourcing?
- The ROI of outsourcing hasn't been proved.
How it started: 2001 ICT Sourcing Worldscape

Offshored services market size

$550 Bn Total IT market
International Sourcing: 2003 Scenario

Leaders
- **Canada**
  - ITO: $8.0 b
  - BPO: $7.0 b

- **India**
  - ITO: $9.5 b
  - BPO: $3.1 b

- **Russia**
  - ITO: $475m

Contenders
- **Mexico**
  - ITO: $150m
  - BPO: $80m

- **Czech Republic**
  - ITO: $26 m
  - BPO: $15 m

- **Hungary**
  - ITO: $22 m
  - BPO: $10 m

- **Philippines**
  - ITO: $300m
  - BPO: $600m

Challengers
- **China**
  - ITO: $700m
  - BPO: $210m
What does the market look like?

- **Back office**
  - Basic data entry
  - Application forms
  - Data conversion
  - Transaction processing
  - Document management

- **Customer contact**
  - Customer relations
  - Call centers (inbound and outbound)
  - On-line customer service
  - Telemarketing
  - Collections

- **Common corporate functions**
  - Shared corporate services
  - Finance/accounting
  - HR
  - Procurement
  - IT
    - Help desk
    - Maintenance
    - Infrastructure
    - Applications development

- **Knowledge services and decision analysis**
  - Research services
  - Customer analysis
  - Portfolio analysis
  - Claims processing
  - Risk management
    - Credit underwriting

- **Research and development**
  - Content development, engineering and design
  - New product design
    - Design specs
    - Pilot/prototypes
  - Testing
  - Production design and optimization

**Sample functions**
- American Express
- Oracle
- HSBC
- American Express
- McKinsey & Company
- AIG
- SAP
- GE
- Microsoft
## What has changed?

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<th>Present</th>
<th>Implications</th>
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<tr>
<td>Offshore</td>
<td>Global sourcing</td>
<td>Broader canvas</td>
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<td>Binary choice (onsite/offshore)</td>
<td>Range of options</td>
<td>Risk mitigation and closer control</td>
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<td>Short term edge</td>
<td>Sustained value add</td>
<td>Hype to ROI</td>
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<td>Plain application development</td>
<td>More diverse and complicated tasks</td>
<td>Mainstream activity</td>
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<td>Offered mainly by Indian firms</td>
<td>Multiple including the main consulting firms</td>
<td>Global standards and acceptance</td>
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<td>Sourced from India</td>
<td>Multiple location including developed economies</td>
<td>Broader outlook</td>
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<td>Mainly US focussed</td>
<td>Across geographies</td>
<td>Broader acceptance</td>
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<td>Mainly Global 2000 enterprises</td>
<td>Large and SMB</td>
<td>Broader base</td>
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<tr>
<td>Cost driven</td>
<td>Quality and competence driven</td>
<td>Better focus</td>
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<td>Risky</td>
<td>Better understood and managed</td>
<td>Broader Confidence</td>
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<td>Controversial topic of public debate</td>
<td>Normal part of global trade (still controversial)</td>
<td>Better Prospects?</td>
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International Sourcing Comes of Age

New independent Service Providers
- Move up IT Value chain
- Look to acquire International Firms
- Become global end-to-end players
- Invest in new low-cost countries

- Global players use international labor
- Create subsidiaries offshore
- Tie-up with service providers in

- Cross-country collaboration
- Development of offshore BPO
- Growth in offshore contact centers

- Y2K validates offshore sourcing
- Global Expansion of local players
- Move to United States/ Europe
- Gain “mind share”


Source: Gartner
The ICT Value Enablers: Key location aspects

ActiOn site
- Requirements Gathering & Prioritization
- Statement of Work
- Implementation sign-off & Launch Approval
- Onsite testing
- Implementation

Offsite / Nearshore
- Planning
- Prototyping
- Project Management
- Localization
- Language and Culture
- Business continuity
- Post Implementation Support

Offshore centers
- Project Management
- Technical Design
- Build / Programming
- Unit/Assembly Testing
- Documentation
- Post implementation Support
- Help Desk
- System. Admin.
- Maintenance
- Integration

The answer: Source the service from the right location...
... Where It Makes Economic Sense

Nearshore: Mexico
- Easier travel
- Cultural similarities
- Time zone

Nearshore: Canada

Nearshore: East. EU

Offshore: Ireland
- Lower costs
- Time to market
- Resources
- Quality

Offshore: Russia

Offshore: China

Offshore: Philippines/Malaysia

Onsite/Offsite

Current Priorities

Longer-Term Prospects

Source: Gartner
Specialization by Niche in the Ecosystem

Canada
- Application Dev.
- BPO
- Contact Centers

Eastern Europe
- Software Engineering / App Dev.
- BPO / Contact Centres

Ireland
- Packaged Applications
- Localization
- Product Dev.

Israel
- High-End Software
- Learning Systems

India
- Application Outsourcing
- IT Services
- BPO
- Product Dev.
- Contact Centers

China
- Embedded Software
- Hardware Services
- Localization
- Application Dev.

Philippines / Malaysia
- BPO
- Contact Centers
- Animation
- Application Dev.

Source: Gartner
Satyam Rightsourcing Model

The approach:
- Optimum mix between onsite, nearshore, and off-shore
- Use of dedicated development centers around the world
- “24 X 7” delivery model

Near Shore Benefits
- Proximity Comfort
- Local Language
- Easy Buy-in

Value proposition
Brings the customer the most suitable and optimal combination of Onsite, Offshore and Nearshore delivery capabilities to provide the best cost and time advantage.
A Case – India

- Established methodologies and processes being rapidly adopted for better performance
- Well-defined, quantifiable metrics for quality and process
- Access to highly qualified – skilled pool

- Faster turnaround time
  - Time zone difference
  - 24x7 service
  - Learning curve effect, given increased activity across companies and increased centralization within company

40%-60% cost reduction for offshored process
- Differential in wages from the US or UK parent location at approx 70%-80%.
- Interaction costs increase 10%-20% because of India being a remote location…thus net savings of 40%-60%
- Labor cost arbitrage, the reason for cost savings likely to exist for next 20-30 years
...Not merely lower cost but also...

- World class quality
- Shorter development cycles
- Innovative, phased and tailored approach
- Ability to offer Solutions across the Globe
- Expertise and talent across the globe
- Local Language flexibility
- Ability to execute strategic partnership
How the benefits accrue

Drivers of Cost Advantage for Buyers

- **Experience** / **Speed**
  - Domain expertise
  - Sig-Sigma process excellence
  - Technology infrastructure
  - "Lean and mean" operations
  - Process and overhead scale

- **Access to Financing**
  - Lower labor rates
  - Offset by higher communication costs
  - Rationalized management costs

- **Proprietary Systems & Tools**
  - Custom applications, tools, and interfaces to increase efficiency

Other Sources of Advantage for Buyers

- Technology platform*
- Conversions and renewals
- Process standardization and innovation
- Operations and people management
- Ability to variablize fixed costs and smooth out front expenses
- Ability to operate with lower costs of capital by leveraging debt financing against cash flows from long term agreements

* When sourcing business processes, I/T components are also included
Government Role: Laws and Regulation

- Making the existing laws more Industry friendly
- Giving tax exemption for exporting IT enabled software outsourcing services
- Deregulation & liberalization policies
- Removed restrictions on investment and easier investment process
- Enactment of Cyber Legislation
- Developing a stronger data protection and privacy law with industry participation
- Reduced licensing requirements and import subsidies to make foreign technology accessible.
- All policies are custom made, keeping in mind the need to achieve maximum benefit to the outsourcing industry
Key focus area for industry stimulation

- **Investments**
  - Infrastructure
  - Education including vocational training
  - Government IT usage

- **Policy**
  - Industry facilitating tax and regulation
  - Supporting new technology
  - Research and Development
  - Encourage travel

- **Increase Competition**
  - Open foreign trade
  - Easy immigration and labour movement
  - State level international forums and tie-ups
  - International tendering for state-projects
Country level benefits

- **Overall economic gain**
  - Increased exports and export oriented growth
  - Job creation due to new roles and activities
  - Efficiency and productivity gains

- **Positive and negative impact of IT skills redistribution**
  - Balanced human capital development
  - Enhanced local skill levels
  - Access to new labour markets
  - Access to latest technology and process competencies

- **Global citizens due to IT automation v/s distant IT workers**
  - Better world with enhanced sensitivities
  - Better quality of life
Pioneers in the concept of IT services remoting...
About Us...

- 21,000 people 47 countries, 20 development centres
- Youngest of the pack
- Fastest growing 47% + from 1997
- Serves 6 of global 10 & 104 of F-500
- 325 plus clients, long standing relationships
- Strong learning culture; domain focus
- Process innovator (CMU) and quality leader
- Multiple national and international recognition
Globalization: Infrastructure to support a global delivery model

20 development centers spread across the globe
Operations in 45 countries across 6 continents and across approximately 25 time zones
Your comments:

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Still needs much nurturing...