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IT Trends 2003: Offshore Outsourcing

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Question

What are the key trends in offshore outsourcing for 2003?

Answer

Despite instability in parts of India and other offshore programming destinations, there is an increasing acceptance of the value and viability of using remote programming resources (see IdeaByte, Increasing Acceptance of Remote Programming and Maintenance Resources, Stephanie Moore.) Companies are continuing to learn about global sourcing and their approach is maturing. During 2003 more companies will consider remote programming and business processing resources to support corporate goals.

Drivers

- Companies need to reduce costs and remain competitive.
- Companies need to improve the quality of their software maintenance and development efforts.
- Many offshore firms have largely mitigated the risks associated with offshore outsourcing relationships.
- Offshore IT-enabled services firms are maturing and have legitimate customer references to support their value and safety propositions.

Trends

- **Offshore outsourcing will grow**: Outsourcing will grow at lest 25 percent during 2003 as companies struggle to do more with less and realize the incomparable quality and cost benefits that India has to offer. Using India as an offshore destination has quickly developed into an optimization strategy rather than a pure cost containment strategy due to the quality and productivity benefits being realized
- **US-based outsourcing and consulting firms will increase offshore resource pools**: Some firms will increase offshore partnerships, while others will open/increase their own facilities in countries such as India, Mexico, the Philippines, the Czech Republic and Hungary. They will have to do this to satisfy client demand for labor arbitrage, to lower cost of delivery in a *highly* price sensitive market and to compete with the increasingly influential and inexpensive offshore vendors. **Accenture** has already announced that it will increase its "offshore" resource pool from approximately 4,000 people in 2002 to 12,000 by the end of 2003. Similarly, **IBM Global Services** (IGS) is counting on its global delivery capability (read: low cost, remote programming and support capability) to differentiate it against competitors, such as **EDS** and **CSC**, as well as grow its business. IGS is significantly in front of EDS and CSC in terms of this capability but it will invest

even more during 2003 to grow this group.

- **India will continue to dominate as the preferred offshore country**: Indian vendors will begin to (in some cases continue to) develop facilities in other low-cost countries such as China and Eastern Europe. India subscribes to the "if you can't beat them join them" school of thinking. It realizes that China, because of its immense, inexpensive labor pool and government support for software exports, will be a force to be reckoned with in the not too distant future. India wants to control some part of this market before it becomes a threat to its dominance. In the short term, Indian vendors in China, such as **Satyam** and **TCS**, will use these facilities to grow their Asia-Pacific business, as well as service existing clients. Chinese language skills and remote management processes are not yet ready for the Western market but are well suited to support close neighbors such as Japan.
- **Indian vendors will continue to move up the value chain**: By offering architecture, design, development and technology strategy services, Indian vendors will continue to move up the value chain. In 2002, companies such as the Philadelphia Stock Exchange, which used **Cognizant** for an extremely successful architecture engagement, and General Motors, which used Cognizant for the strategy design and development of a complex GM car owner's Web site, have found "unbeatable" value in using low-cost, yet highly skilled labor. Interestingly enough, the Indian vendors are moving up the value chain just as US-based firms are making the shift to provide the low-cost "commodity" services that the used to be the Indian vendors' domain.
- **Business process outsourcing in India, also called IT enabled services (ITES), will grow at least 65 percent during 2003**: Today this market is still small. During 2001, India exported $7.68 billion worth of software and related services, while it only exported $1.5 billion in ITES (this is however up from $264 million worth of IT-enabled services exported in 2000). However, given the cost benefits and the early successes that Fortune-class companies have had with Indian IT-enabled service outsourcing, this market will grow dramatically over the next several years (see Planning Assumption, Outsourcing Business Processes to India: IT-Enabled Service Offerings Decrease Costs and Increase Quality, Stephanie Moore).
- **Companies will continue to focus on contingency plans for offshore vendor relationships** (see IdeaByte, Outsourcing to India: Still a Viable Option After Terrorist Attack, Stephanie Moore): Since Sept. 11, reputable vendors have created and/or published contingency plans, new processes and workarounds to ensure the safety of their clients' systems in the event of a communications outage or a bombing in India. These contingencies include "near-site" employee pools and built-in network redundancy, as well as guarantees of onsite-ready staff if war affects vendors' communications capabilities.
- **Fortune-class companies will require offshore vendors to have mature processes in place before they are engaged**: The majority of large, reputable Indian outsourcing firms' development centers (e.g., TCS, **Syntel**, **Infosys**, **Wipro**, Cognizant, **Covansys**, Satyam) have been assessed at level five on the Software Engineering Institute's Capability Maturity Model (see Planning Assumption, SEI's Capability Maturity Model: What Does It Mean For IT Outsourcers and IT Organizations? Stephanie Moore). Sophisticated buyers realize that process maturity equals quality. Further, they will be unwilling to deal with offshore firms that can't guarantee this quality. It is now a prerequisite for most Fortune-class companies investigating offshore relationships.
- **Companies will increase investments with offshore service providers, even first timers**: In the past, pilot projects were very small ($100,000 to $300,000 range). Today, companies are increasing their first time project size as they grow more comfortable with the process and the vendors themselves.
- **Companies will put in place centralized program management offices or governance structures to manage, monitor or consult on offshore outsourcing relationships at the corporate level**: Today, companies often have multiple offshore relationships with multiple vendors within different business units or groups. In many cases, these projects don't take

advantage of existing knowledge, experience, standard processes and practices, evaluation metrics, service-level agreements (SLAs) or master services agreements/contracts. The result is that companies have increased overhead costs and risk and are not able to leverage existing vendor relationships. As companies' approach to offshore outsourcing matures, sourcing governance structures will become a standard practice.