



Illustration: Sarah Jones

India's offshore tide

Kiran Karnik, president of NASSCOM, India's National Association of Software and Service Companies, highlights his country's credentials as an outsourcing haven.

Outsourcing and, more specifically offshoring, has been generating growing interest in the IT industry and, indeed, in all business sectors. According to a recent **Forrester Research** (NASDAQ: FORR) survey, average spending on offshore providers will rise from its current level of around 12 percent of revenues to more than 28 percent by 2004. For many companies, offshoring is seen as a route to lower-cost IT services.

Current trends indicate that companies are increasingly outsourcing critical (though non-core) projects and processes, and that the nature of outsourcing work has graduated from limited software projects to include areas such as offshore development centers and business process outsourcing. A recent McKinsey report, for example,

predicts that the global HR outsourcing market will grow to \$78 billion by 2004.

As a result, offshoring – once seen as somewhat adventurous, though desirable – is now becoming a necessity for businesses that want to maintain a competitive edge. According to a recent report from TowerGroup, a Massachusetts-based research firm, spending on outsourcing on middle and back-office operations by U.S. institutional brokers will grow at an annual compound rate of 24 percent this year. "There's no one who's not outsourcing some part of their business," says report author Robert Iati. Companies that anticipate and react quickly to the offshoring wave can rise with the tide, while for others, it is necessary for survival. Experts such as Gartner and Giga believe that in five years or less, the gap between

those offshoring and those which are not will become unbridgeable.

Today, decisionmakers are closely scrutinizing IT expenditure from the point of view of benefits to the organization in terms of improvement in efficiency, profitability, market share and customer satisfaction. This has also resulted in an increased focus on implementing and integrating existing IT infrastructure rather than new initiatives. Companies are also focusing on long-term strategic outsourcing, rather than the outsourcing of small and short to medium-term software development projects. Thus, given the focus on maximizing ROI and reducing costs, "to offshore or not to offshore" is no longer a question; rather, it is when, what and how to offshore that are the issues.

The value proposition for offshoring is simple: significant cost savings, and improvement in quality and access to scarce resources. Among the offshoring options, India is proving itself the most attractive. Forrester notes in its study that India's competitive edge in the IT outsourcing business is based on the country's decade-old experience in this area, fluency in the English language, supportive government policy infrastructure and high-quality offerings. In fact, with the huge interest in offshoring, India's remote services industry has taken off extremely well,

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Wipro and Lattice Group, a telecoms utility, in systems integration; Patni and GE for network infrastructure management; Patni and Hewlett-Packard for packaged software installation and support; and Tata Consultancy Services and United Utilities.

In terms of vertical expertise, financial services, telecoms equipment and manufacturing currently account for nearly 45 percent of the Indian IT services industry's revenues. Indian companies, with their strong project management skills, have a reputation in these verticals for quality execution at low costs. Apart from these three star sectors, other verticals such as government, retail, utilities and healthcare offer significant outsourcing opportunities for global companies.

At the core of India's attraction as an outsourcing destination is its value proposition. While customers are initially attracted by low costs, they expand because of the quality and productivity on offer. Low attrition rates make for not only lower recruitment and training costs, but also mean that employees are higher up the learning curve. This enables them to provide better service,

Remote services

In remote services, offshoring opportunities to India vary from standardized corporate center activities such as accounting and payroll to more niche and vertical-specific opportunities such as clinical trials, support for pharmaceutical companies, claims processing for the insurance sector and account opening support for the banking sector. Opportunities exist both across a wide range of processes as well as across multiple verticals. The top three service lines – customer care, human resources and payment services – are expected to constitute some 70 percent of the long-term remote services potential.

Insurance and banking are sectors with the potential to generate very substantial savings, because of the high proportion of processes that they can offshore. As a result, companies in these two verticals are taking the lead in sourcing remote services from India which are rapidly growing in scale. Opportunities also exist in other verticals such as telecoms, retail, utilities, automotive and pharmaceuticals.

Over the last year we have seen global majors either setting up captive units or collaborating with Indian vendors to offshore non-traditional services lines to India. These include packaged software installation and support, system integration and IS outsourcing. Significant activity has also taken place in the call center market, and value-added opportunities exist in database marketing, benefits administration, payroll services, engineering and design, claims processing and billing services.

All in all, offshore outsourcing has proved to be a major boon for businesses in a tough global climate. Companies that have outsourced some of their operations have been able to weather the slowdown, to service their customers better and to concentrate on their core competencies. With technology making it easier for enterprises to outsource business processes and given India's strong technical and domain expertise, it is emerging as a major hub for catering to global outsourcing needs. We see this trend continuing and, indeed, accelerating. ■

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keeps rising

witnessing a growth of 67 percent in 2001-02. We expect the industry to grow at a rate of about 60 percent this year, generating revenues of between \$21 billion and \$24 billion.

Mainstream service model

With companies increasingly looking to outsource higher value service lines such as packaged software integration, systems integration and R&D/engineering services to Indian IT companies, many vendors are developing domain expertise to cater to niche segments and vertical markets. Thus, as the offshoring model becomes more mainstream, outsourcing vendors are penetrating a whole host of new service lines. Recent contracts won by Indian companies are indicative of the country's growth in this sector, including contracts between

with fewer mistakes and higher productivity. When this is done at lower cost, the value proposition is unparalleled.

Product and technology

The products and technology services space is another area in which Indian companies have a strong hold. Global independent sales vendors (ISVs) are under pressure to supplement their development teams and reduce costs, and India offers them abundant intellectual capital. Areas such as embedded systems, which have a rising software content, can be outsourced to Indian companies, since these already possess significant expertise in this space. Several aspects such as component development, validation, maintenance services and professional services can also be conducted offshore.