

Pros & Cons of The Indian Firms Becoming Global Offshoring Majors

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One question, just one question is being asked in every corner of every IT galley, Will any Indian company prosper enough to be rated amongst the top 10 global IT companies? The scorching fact is that till the recent past, the three Indian IT giants namely Tata Consultancy Services (TCS), Infosys Technologies and Wipro had combined turnover of \$600 million and together employed 20000 people. Its another matter of fact though, each of these companies showed turnover of \$1 billion individually. The most appealing part of this development is that every year 20000 more people are being provided the prerogative to be a part of such associations. Adding to this there are some 6-7 companies, which have employee strength of 5000. But you know what? This question is inquired again and again, inspite of the fact that Indian companies have grown 5-10 folds in the last five years. The reason being only that still they can not withstand against the big IT global corporates either in size, money or employee strength. The fact that Indian IT companies' share in the world IT market is just 5% dumfounds every those individuals who are showering praises on these companies every now and then.

Once again, that one question hounds everyone only because offshoring is undisputedly the fastest growing phenomenon in the global IT services landscape. According to every renowned advisory firm's report of 2003, offshoring will continue to exceed outsourcing by 2006. An IT research firm IDC says, in next four years U.S component of offshoring is going to exceed by 23% from 5% which prevails now. There are multitudinous vendors in the global market but few have reached critical mass. A majority of these are Indian. The more exciting aspect towards this issue is that rise of offshoring is coming to India when there has not been spending on newer technologies. In fact in other sectors like consulting and systems integration actually declined last year. All that collectively puts Indian firms in a really strong position now. But with every bouquet of roses comes few

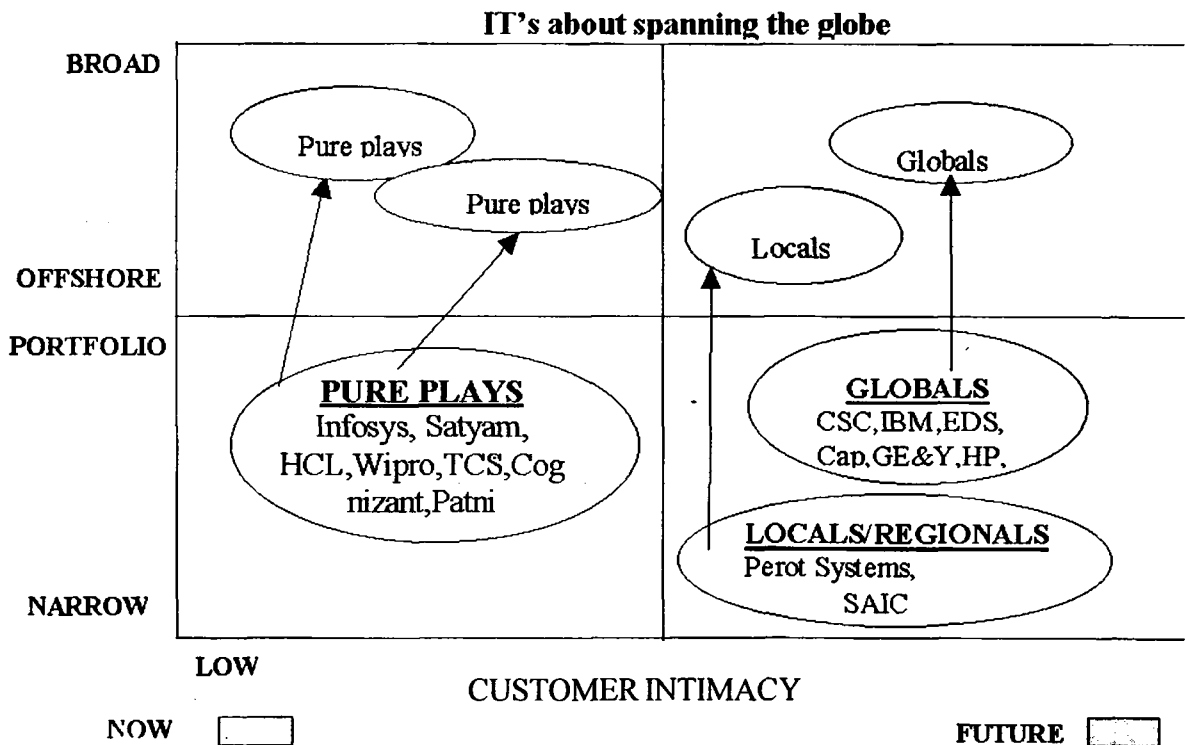
pieces of thorns. What is being tried to convey is that until and unless the Indian corporate mark their presence on the global arena, one can not see them aquisitiong the really big profitable projects against the big guns like IBM and Microsoft. In spite of the appreciable 5-10 times growth of some Indian companies, these companies remain too small against the global majors. According to a NASSCOM report, only 1000 companies in the world have offshored work to the Indian companies. Of this only 40 companies offshore work of worth more than \$25 million per year to India. Combining all this facts, it is very hard to realize that Indian giants like TCS, Wipro and Infosys will stand against IBM which has a turnover of \$1 billion and more than 1000 clients.

So, why are we talking so much on an issue, which seems to be so much unprogressive? Is it really worthless to talk on the issue? Not actually. There is a fact behind the things, the magazine is trying to convey and drag the attention of the readers towards it. No one ever thought that an industry which was exporting the manpower to US and UK till late as 1999 to fix minor bugs (Y2k) in old applications can raise its heads in such a threatening proportions in the global IT scene. Not even the Indians. None of the Indian IT companies bought which has higher market capital could have bought EDS when its market capitalization was hovering the world over. Most of the investments made by Indian companies so far have been in their domestic base, i.e. in adding new facilities and opening new centres. The proportion of the amount invested on-site (including the salaries) is the fraction of investments offshore. In fact, their only big move abroad was to list their shares on US stock exchanges, that too five years ago. So much so that inspite of reaching a billion dollars in size, the majority of sales personnel are still expert Indians. For many Indian firms, the management team is still based in India. So, there is plethora of problems while moving in Chief Investment Officer

(CIO) based relations to Chief Executive Officer (CEO) based ones. The former head (Europe) of HCL technologies V.N. Krishnan says "Unless the CEO of the *fortune 500* company sees you regularly in his business and unless you are in hurry to finish the appointment with him, its quiet difficult to create that relationship".

But things do change and thus are Indian companies. They have started investing outside their domestic base-albeit slowly. Since the last year or so the Indian companies are changing the complexion of their client-facing roles by bringing in more locals. There have also been few acquisitions in the near past. Cognizant has made four acquisitions, Wipro has made four and even Infosys has done the same in Australia. But barring the Wipro's acquisition of spectra mind, the others acquisitions have been smaller, adding only a few hundred people at its office. They will have to ramp

up that process because the competition has started in their own backyard. Every large MNC today is building up an offshore presence. Dean Davison,Analyst, Meta group says "IBM and Accenture are fighting against Wipro and Infosys but due to their higher offshoring capability, they are making sure that they don't loose any business .In the present scenario, most MNC s still do not have large presence in India. Only 10% of their employees work in offshore centers. But it seems they are in hurry to ramp up that number. IDC estimates that in the coming 36 months, just four firms—EDS, CSC, Accenture and IBM will add up to 50,0000 employees in India. Sapient which started its offshore centre nearly three years ago, has half its workforce over there. Accenture already has 5000 peoples in India and the possibility is that its Bangalore center is undergoing as-



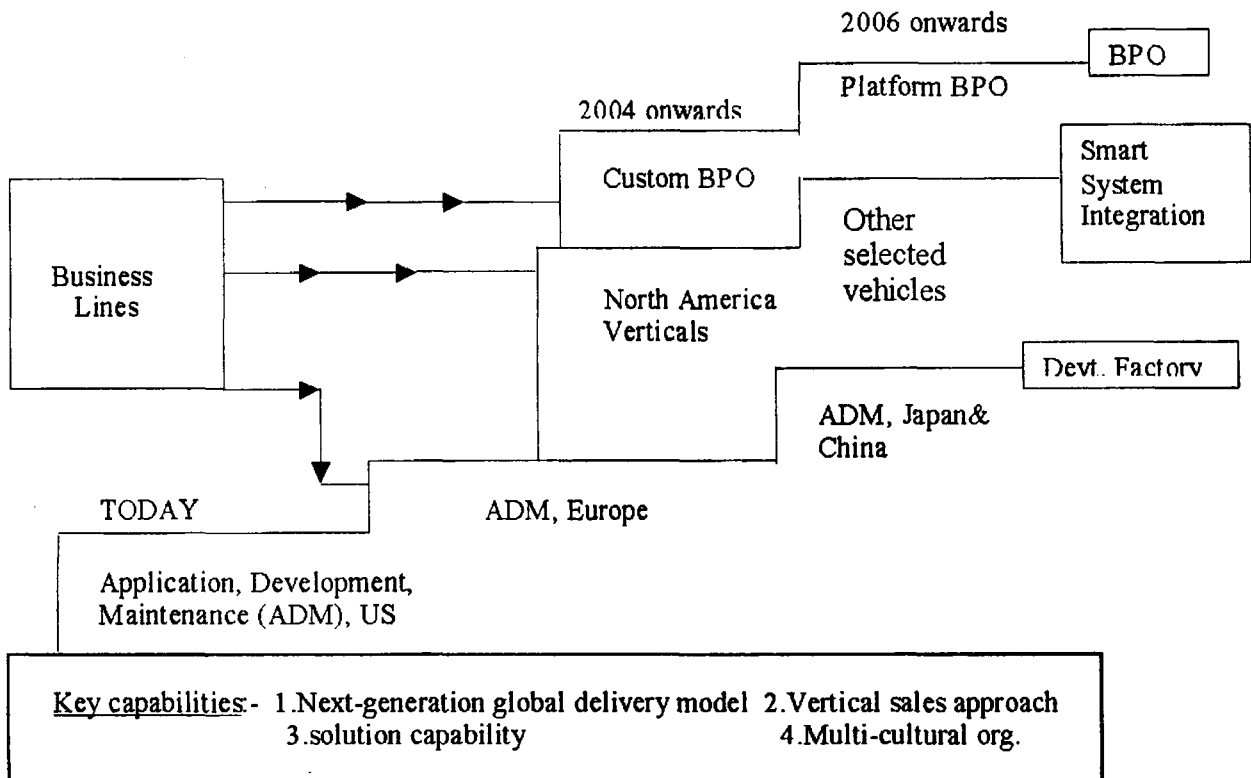
assessment for a CMM level 5 certificates. The other problems with the Indian companies are that the MNC s are on the buying spree for the senior managers of the Indian companies at a much higher

salary. In the current fiscal year the Indian companies have increased the salaries by 10-15% after three years of stagnancy. A placement cell in Banga-

lore covects that around 700-1000 project managers are demanded by the MNC s and the obvious fact is that lion's share of them will be poached

from the Indian companies. But there is a great cause of worry. The existing customers of the Indian companies are forcing the Indian companies

Possible roadmaps for Indian IT services companies



to start taking more responsibilities. Earlier they would tell the companies what they should do and now they want the companies to tell them what to be done as S.Gopalakrishnan, Chief Operating Officer, Infosys explains the situation. Clearly the customers want offshore vendors to shift from being suppliers to becoming partners. Questions asked by the customers are changing now a day. Earlier, the queries would be of type 'can you hire JAVA Engineers?' or 'what is the attrition rate?' Now the queries have become like 'do you understand retailing of consumer electronics?' Suppliers are usually concerned with run-

ning their own business and are to some extent, insulated from customer's risk. But partners also take on some of their customer's risk. For instance, taking ownership of a project for creating a customer's website is completely different from taking over an insurance company's claims processing system. It would be immaturity to think that a customer will part its ways with a critical application like a claims processing system overnight but they want that the companies should take that responsibilities when time comes. DHL, one of the top five customers of Infosys warns they can fluctuate to some other vendors if the exist-

ing vendor doesn't have the right people in their office. The problem doesn't end with losing the existing business but it continues till not getting any further projects. So, this is a serious concern for threat to the companies as the existing clients of the Indian companies may well transfer their business to some of the MNCs. In the early stages of offshoring it was mostly the early adopters-the GEs and AT &Ts-who came to India, the aggressive drivers of offshoring model. Gartner calls them the type A customers. But in the last six months Type B customers like Pittney, Aviva and Prudential, which have big IT budgets and have never offshored before-have started running pilots with offshore vendors. "Not only are their numbers larger, the Type B companies prefer to work with only one vendor since they do not have the process maturity to split work between 2-3 large vendors", says Partha Iyengar, vice -president (research), Gartner. In fact, Type A companies, in search of better prices are ready to work with Tier-2 and Tier-3 companies in India. The best example in this Section is GE. Indian companies are now investing in increasing their foothold from doing just application development work to other service

lines like package implementation, BPO, data centre outsourcing and so on. Within each of these service lines, companies have won large orders. The greater task to gain depth lies along with expanding the width of service lines. The Indian companies though have a vertically-aligned structure, that lack real domain depth. Gartner's Iyengar makes apppoint that Indian companies do not have domain experts who has actually experienced industries first hand, write white papers, are eminent speakers in industry forums and their name commands respects in their field. The reason is not difficult to understand. These experts demand and command high salary as much as half a million dollar per year, because they are paid in such amounts at the companies they are presently working in. Obviously these prices are not affordable by the Indian companies. Apart from the affordability there is one more thing lacking in them, i.e. brand pull which can attract the talent. Even the senior managers who are hired are hired for the sake of personal relationships. Premji could hire Vivek Paul just because he knew him personally and Paul successfully lured some professionals from GE, but at the end of the day, it was too

The offshore component of global IT services companies

	IBM	Cognizant	Accenture	CBC	Keane	ACS	EDS	Sapient	
Total Employees	165,000	7,740	83,400		92,500	7,770	36,000	135,000	1,449
India based	6,000	5,418	3,000		1,100	950	7000	700	679
Employees									
As %total	60%	100%	27%		69%	76%	7%	7%	100%
offshore employees									
As % total billable	N.A	77%	4%		N.A.	15%	N.A	N.A.	59%
employees									
As % total	4%	70%	4%		1%	12%	2%	0.5%	47%
employees									

handful against those in the MNCs. Here we are not talking about the experts just because we need to. Basically until and unless the companies do not have confidence on the vendor's talents and experts, it will never be ready to become the customer, points out Meta Group's Davison.

While Indian companies have received success in client's internal IT departments, its own boardroom is still screaming for penetration. Most companies have sold only to the managers reporting to the CIOs and not to the CIOs. They generally do not have relations with the EVPs and the CFOs of the company. This is a serious issue and the Indian companies have started addressing this issue. Recently Infosys sponsored a CEO roundtable session at the world economic forum at Davos which was moderated by Tim Sebastian of BBC's *HARD TALK* fame. It helped to increase

its visibility in the American markets. Every large Indian company has increased sales and marketing professionals. Wipro and Cognizant have hired many biggies in this field. But the days of generic selling may be over. So far, Indian companies seem to be same to most foreign companies. This reduces their position to a commodity-seller, which is felt as a great threat to their market standings. Global firms have the well-defined positions. So, IBM is a very smart system Integrator while Accenture represents itself for IT consulting and strategy. These firms also have vertical specializations. So EDS has strong governments accounts, IBM has very strong and robust Media and Publishing practice and Accenture has good penetrations in high-tech accounts like HP and Microsoft. So for wandering about every field, Indian companies need to present itself as a spe-

THE DILEMMA OF CONSULTING

Pure-play offshore firms have higher margins, but for how long

MNCs	Operating margins(%)
IBM	10.1
Accenture	13.1
EDS	8.7
CSC	13.8

Indian firms	Operating margins(%)
Wipro	26.8
Infosys	35.1
Satyam	22.4
HCL	14.9

Source: Company Reports

cialized vendor in any of the fields in demand. So far no Indian company has any vertical specializations, though a few have started building critical mass in service lines. Satyam computer services have created a niche in package implementation. With 1500 consultants, it has largest package implementation practice in Asia-Pacific region. Wipro is ahead of the pack in data center outsourcing, R&D services and BPO.

"To win the new global landscape, Indian firms will have to transfer themselves. History suggests that only 1-2 will become global majors" says Jayant Sinha of McKinsey at a NASSCOM meeting two months ago. At this moment, it doesn't seem In-

dian firms are moving ahead since all of them seem to have their finger in every pie. Another challenge in the transformation process, says McKinsey's Sinha, is to strike a balance between revenue-generating and capability-building initiatives. Will the Indian companies strike the right balance or not, we being Indians should back them and hope for their huge global success. May they cross every hurdle to prove out to be the best among the rest? Let us see.