

Realising the benefits of offshore outsourcing

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Offshore outsourcing still popular despite political tensions

Companies are willing to ship software development projects overseas even as issues of political unrest and data security loom, according to a recent report. Boston-based AMR Research says the offshore outsourcing industry will see 22% growth in FY02.

(CIO Magazine, Jon Surmacz, July 27, 2002)

Pru to transfer jobs to India

The insurer Prudential is to cut 850 UK jobs and transfer the work to India. The company said it would establish an offshore service centre in Bombay to reduce its costs

(BBC News, September 30, 2002.)

J.P. Morgan to expand in India

J.P. Morgan is amongst the first Wall Street Banks to not only outsource back-office and call-center operations but also research functions to India, where English speaking financial analyst with advanced university degrees cost a fraction of their North American, European and other Asian counterparts.

(Asian Wall Street Journal, October 15, 2003)

PA is a leading management, systems and technology consulting firm

Established in 1943, with 3,100 staff operating worldwide from over 40 offices in 20 countries. PA has a strong presence in Asia and we have been in Hong Kong for over 25 years.



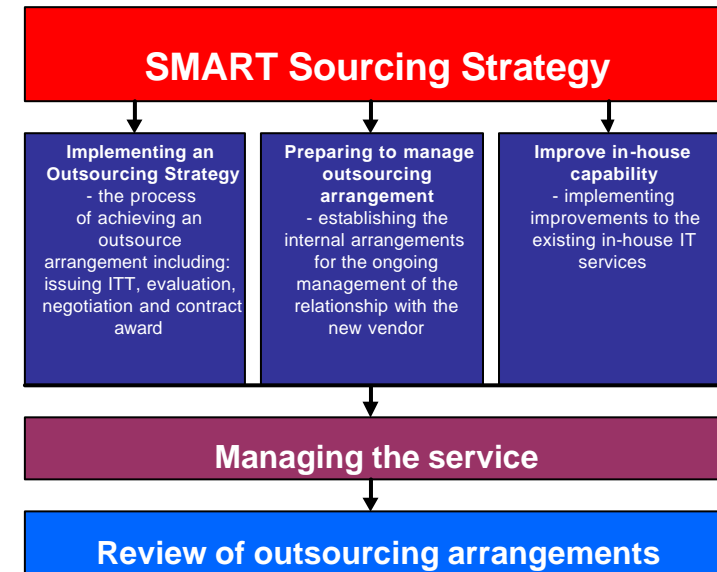
PA is a leading supplier of independent sourcing advice

Building on over 100 major outsourcing assignments over 15 years, we offer three primary sourcing services:

Establishing a sourcing strategy helps client organisations to take a strategic view of outsourcing, ensuring all sourcing decisions are made after considering potential benefits and risks.

Procuring and implementing outsourced services provides clients with a process to ensure the potential benefits of the outsourcing arrangement are realised.

Establishing management of outsourced services focuses on developing and nurturing successful and mutually rewarding client/supplier relationships.



PA's Outsourcing Model



PA also offers a range of other sourcing services



In the last decade PA has commissioned a number of surveys analysing all aspects of the outsourcing process. The 2002 research focuses on the sourcing relationship. PA also

- helps suppliers win bids
- acts as a trusted third party arbitrator
- provides conference speakers
- is developing new thought leadership
- is called upon as an expert witness
- advises industry, governmental and regulatory bodies



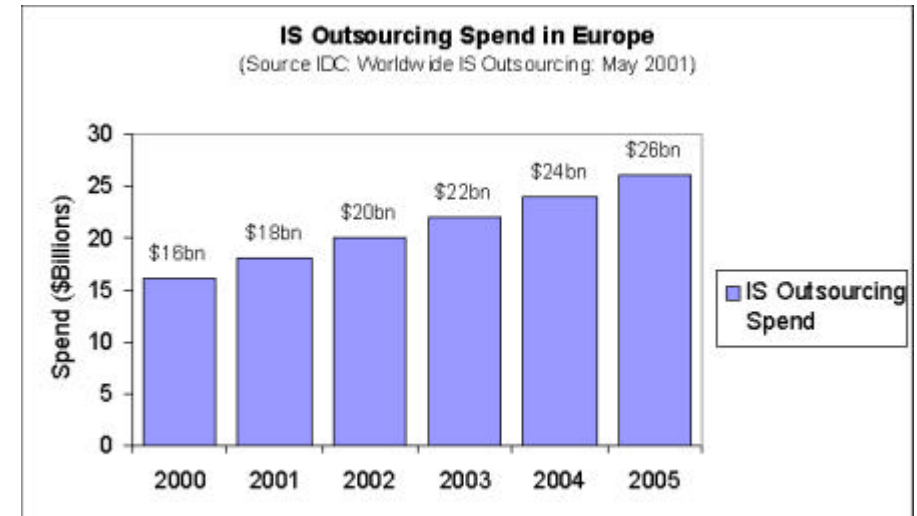
The outsourcing bubble shows no sign of bursting

Outsourcing continues to grow strongly.

A recent report estimated that Western European IT Outsourcing Services spend would grow from \$16bn in 2000 to \$26bn by 2005.

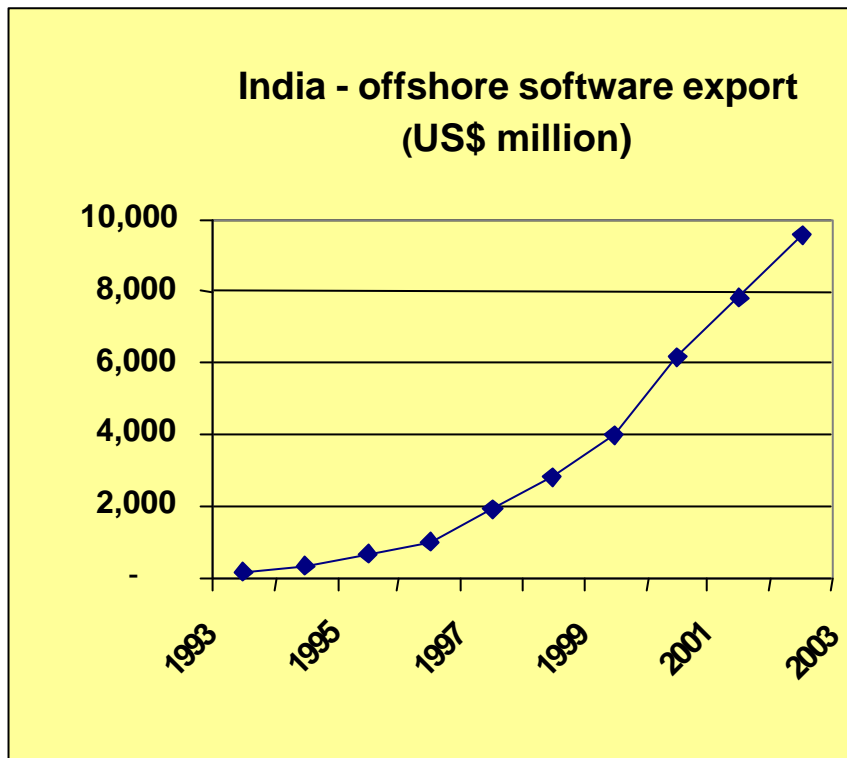
The major factors that are driving growth:

- ✂ Cost reduction or cost variability
- ✂ Access to specialist skills
- ✂ Greater confidence in the sourcing process, and the external market,
- ✂ There is now a continuous challenge as to what is 'core' business
- ✂ Increasing globalisation of white collar work



Despite (or because of) the economic downturn, off-shore outsourcing is experiencing hyper growth

The offshore outsourcing market in India has grown almost 50 times in the last decade...



Source: www.nasscom.org

...and there are multiple variants...

- ✍ Fortune 100 suppliers and customers have set up development centres in India (e.g. GE, American Express, HSBC, Microsoft and IBM)
- ✍ Western European institutions are now transferring services to Eastern Europe (e.g. Deutsche Bank, ING).
- ✍ Indian top vendors are setting up centres to 'back source' in China to meet growing demand (e.g. Wipro)
- ✍ Companies have outsourced back office processes to cheap, stable geographies and are in turn now becoming suppliers (e.g. SCB in Malaysia)

Offshoring IT and business processes can potentially bring substantial benefits compared with in-country options

The average first-year salaries for trained software professionals (US\$):

India	\$5000 - \$8000
China	\$6000 - \$8000
Russia	\$5000 - \$8000
Pakistan	\$3600 - \$6120
Philippines	\$8000 - \$10000
Bulgaria	\$3000 - \$6000

Sources: National Association of Software and Services Companies; Software Association of Pakistan; CEEBICnet Market Research; META Group Inc.; and www.metricnet.com

- ✍ **COST:** savings are real – an overall saving of 40% on a project is a sensible expectation
- ✍ **QUALITY:** 62 of the 89 SEI CMM 5 organisations are from India
- ✍ **AVAILABILITY:** of skilled resources, even for older and less fashionable technologies
- ✍ **SPEED:** e.g. responsiveness through 3 shift work day.

West:East rates still broadly average at 3:2:1...



But there are substantial commercial and business risks associated with off shore outsourcing

Is the country politically stable? What are the risks?

Is their working environment too bureaucratic?

What is the quality of resources there? What are the retention rates?

Do they understand and can they adapt to western working style?

How big a hurdle is language? What are the cultural barriers?

What are the commercial risks? Is there really contract redress?

Which projects are suitable candidates for offshoring?

Is there a real business case? How much management overhead needs to be put in? What are the hidden costs?

Can business requirements be understood remotely from end users?

50% of deals still fail ...



Business benefits can only be realised if three issues are managed properly

ISSUE 1

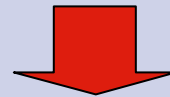
Who (country and vendor) should be chosen to outsource to and how?



Understand the geography as well as the suppliers. Select the right contract model

ISSUE 2

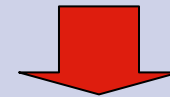
Which projects or services can be moved offshore and how can we reap the anticipated benefits?



Only the right services to move offshore

ISSUE 3

How can the distance between offshore and onshore providers be overcome?



Invest, build and maintain new relationships with all stakeholders

Offshore selection often puts country before company

Country selection criteria include:

- ✍ Language
- ✍ Government support
- ✍ Legal and commercial environment
- ✍ Educational system
- ✍ Labour pool and skills
- ✍ Political stability
- ✍ Cultural issues
- ✍ Infrastructure

Countries with capability include:

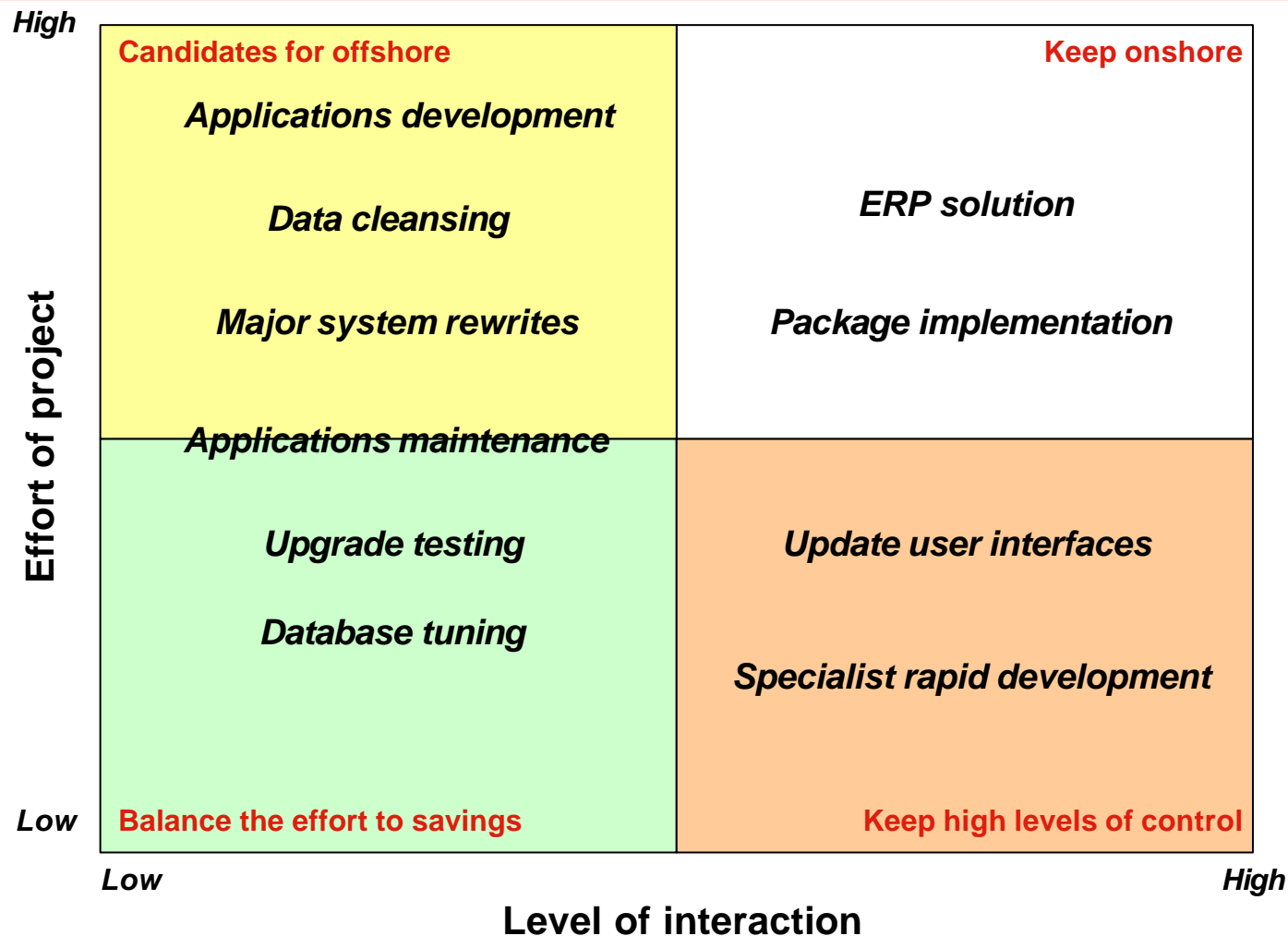
✍ *Today*

- India
- Malaysia and Philippines
- Ireland
- Israel

✍ *Up and coming*

- China
- Russia and Eastern Europe
- Vietnam
- South Africa
- Caribbean
- Mexico

Choose the right sourcing option for the particular service

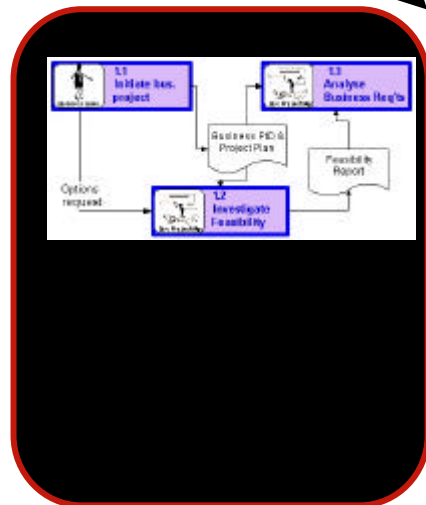


Often the end result is a mixed model ...

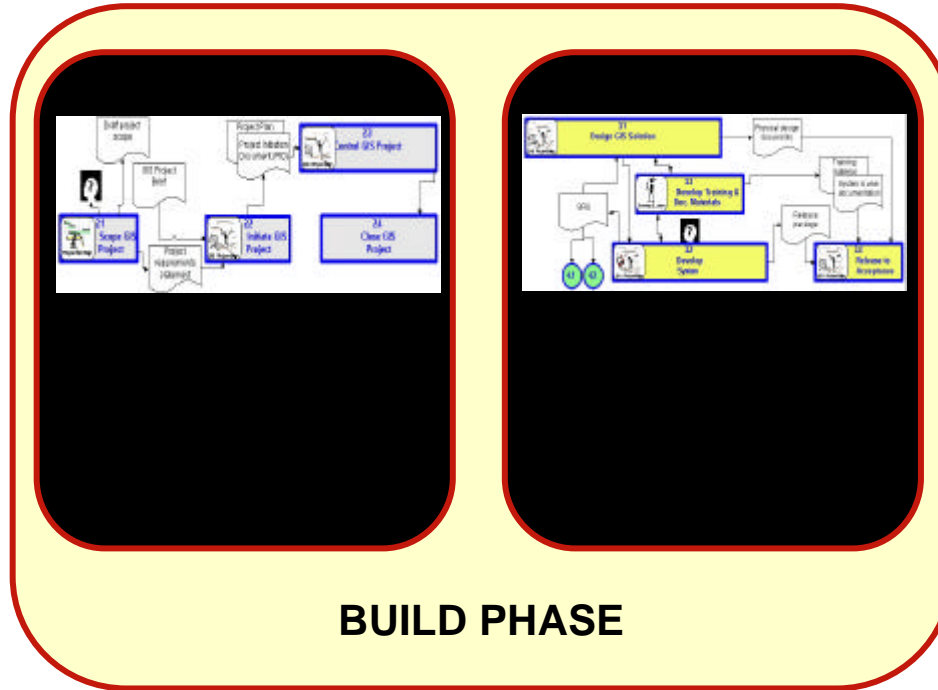
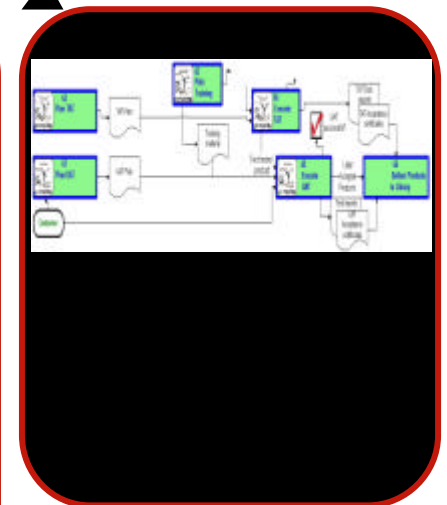


Invest time in managing the interfaces

Get the right governance in place



Ensure the retained organisation is in place



BUILD PHASE

Challenge poorly articulated business requirements

Rigorously test the delivered solution

70% of application problems are there before a line of code is cut ...



Finally, be wary of a clever model that looks great in theory

**“..our offshore requirements are discussed
in Cantonese, drafted in English, debated
in Hindi, developed in Java, and
documented in English for use in Africa..”**

***Global Financial Services
Organisation*** (October 2003)

