



Moderated by  
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## My, How ITO's Grown...

The information technology outsourcing (ITO) market has grown and changed dramatically since Eastman Kodak inked the industry's first "mega-deal" in 1988. Yet, while the industry has matured, its dynamics continue to change – in some cases dramatically.

Today, ITO has become global in nature, with Indian-based firms vying with traditional multinationals for new and existing business. Both as a result of changing service provider market dynamics and end-user buying patterns, multisourcing is becoming more common, and while "best of breed" outsourcing is conceptually appealing, it introduces new challenges to both buyers and service providers. More existing ITO deals are reaching maturity and problems or challenges with existing deal structures are driving more contract renegotiations, creating both risks and opportunities for buyers and service providers.

ITO is often bundled with business process outsourcing (BPO), creating more compelling but also complex business cases and operating models. ITO must respond to this, but is simultaneously a driver of the adoption of new and emerging technologies (e.g., Internet and Web-based business applications, service-oriented architecture applications and models). Both ITO buyers and service providers must respond to and address increased challenges and risks associated with intellectual property and data protection, privacy, security, regulatory compliance and global geopolitical risks. While buyers are becoming more sophisticated, their demands are becoming more complex, and successful processes and models for outsourcing management and governance remain elusive.

**Obviously, ITO has occurred for many years and has grown and matured, but one of the major trends we have seen over the past few years is the globalization of where services are delivered from. What are some of the key issues that the buyers of information technology outsourcing should understand as they look at it from a global perspective?**

**JH:** Offshore outsourcing has become a normal business practice. Because it has become normal, all the labor markets in the world have become accessible to western companies looking to outsource. We've found that when companies look to outsource, they need to be looking at it from a long-term perspective in terms of the stability of the labor force. Some very hot outsourcing markets like Bangalore, Shanghai or Beijing have risen very quickly over the last few years. The demand for outsourcing has now outstretched the supply of qualified labor in a lot of these cities. That is why many companies employ a multi-regional strategy which can help access the talent pool from different areas.

With the globalization of ITO, we see that companies increasingly are moving to a model where instead of trying to find the talent in different countries and cities, they are actually trying to create the talent. In addition to having an in-house training program, Symbio has also established a software institute at major universities in China, whereby we are actually running our own university programs – including four-year undergraduate and three-year graduate programs. With this approach, we are able to reach engineers very early in their careers and develop their talent. There is always a lot of talk about the population in different countries, but ultimately all that matters is the supply of the labor force that can actually work on multinational outsourcing projects.

**Where then does this trend take us? In five years, will the IT services market become one big, homogenous, global Internet-connected environment? To take the long-term perspective, how much should companies worry about which countries they are getting service from down the road, or does that become irrelevant as the world becomes more integrated?**

**JH:** I think that as different service providers become more and more specialized, companies will be looking at what specialties are involved in their multi-geographic sourcing. At Symbio, we are very focused in going very deep into product development organizations. Instead of general IT product outsourcing, we are very focused on a specific domain area. What is driving a lot of the outsourcing market in China is research and development and product development. We are not seeing a lot of work there from financial institutions, insurance companies or the traditional types of Indian outsourcing. Companies will be also looking at having multiple offshore development centers. For the past few years, India has been the No. 1 destination for companies looking to go offshore. The largest corporations want to diversify the offshore locations. The first reason that comes to people's minds is political mitigation, but really politics have little influence compared to risk mitigation in the area of business and business conditions.

**NP:** It depends since there are several different types of outsourcing arrangements. The first thing to look at is the appropriateness of a particular location and how it fits in with the type of outsourcing you are trying to do. In our case, we deal a lot with software and technical services. When you are looking at appropriateness, it means that you are looking at process maturity. Some things to consider are how sophisticated the service providers are in a particular region and how well they know the technology and how adept they are operating in that labor environment. Every country has its own legal system, and in many cases they differ greatly from the U.S. We're able to navigate many of the intricacies of operating in India.

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**STAN LEPEAK** is a Managing Director of Research at EquaTerra, the global outsourcing and insourcing advisory services firm. He has followed the business and IT services and IT marketplaces for more than 20 years. He is a noted commentator and frequent speaker on business and IT professional services, business process outsourcing, organizational change, risk management, compliance, and underlying supporting technologies. From 2003-2004, Stan was VP and Research Lead at the META Group. He also spent six years with META Group as VP of its Electronic Business Strategies service. During 2000-2002, Stan was an executive at Elance, and SVP and Chief Research Officer at Ajunto.

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**NIRAJ PATEL** is President of Vipana LLC, an entrepreneurial organization focused on consulting, product development and outsourcing. Niraj has spent the last 10 years researching automated systems, next-generation telecom networks and the intricacies of doing business in India. He founded the company in early 2002 to address the growing necessity for scaling knowledge-based processes. He has worked at Merrill Lynch and Goldman Sachs and holds degrees in Financial Engineering and Operations Research from Columbia University.

JACOB HSU  
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**JACOB HSU** is President of Symbio and is responsible for global operations, as well as managing worldwide strategic planning, marketing and business development. In his nine years at Symbio, Jacob has served as Chief Operating Officer, Chief Marketing Office and Managing Director of the company's North American operations. He also headed Symbio's Japanese operations and led Symbio's investment and corporate development initiatives. Prior to Symbio, Jacob was the CEO of Trilogica Technologies. Before that, he was an investment banker specializing in mergers and acquisitions.

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**-Niraj Patel**

The other thing to look at is logistical efficiency, with regards to time zones and communication. When you are outsourcing to a foreign country, you have to be able to communicate with the people in your company and manage their processes while they are 12 hours ahead of yourself. You must also make sure that you have a proper team in place to oversee your operations. Whether you do it in China, India, Poland or Mexico, the more you expand your operations around the globe, the more you must look at what it means in terms of going forward and servicing your own clients.

**Relative to doing that type of market assessment or service provider assessment, how mature do you think the majority of average buyers are today? Do you believe buyers have a good understanding of how to conduct this assessment?**

**NP:** If you don't have the sophistication, time or budget in an organization to analyze the location, then you'll just take the path of least resistance and go to India. I think you need to be very diligent in analyzing what process you are trying to outsource and why a particular place is most appropriate. In our case, we work with many different providers who have different skill sets and levels of maturity. You have to find a right fit from both a provider perspective and a location perspective. If you don't have the expertise in-house, you can work with firms like ours to help put that analysis together.

**One trend we are certainly seeing in the ITO market is that there are more service providers, and subsequently there is more diversification. Buyers have always been enamored with the idea of “best of breed.” Over time, though, there tends to be a consolidation driven by vendors buying each other out or buyers deciding they want to consolidate their portfolios. Relative to the idea of multisourcing – or a buyer using multiple service providers simultaneously – what are some of the challenges?**

**NP:** If you have a process or project and you are going to execute it using vendors in different locations, the first thing you need to have is solid outsourcing management. You also need very strong relationships with your vendors. You don't want a situation where people are pointing fingers and making accusations; you must be able to manage multiple vendors. You must also be practical about preventing conflicts between vendors by having open lines of communication between yourself and the various vendors. If you are in the U.S. and you have a team in China, India and Eastern Europe, there are many logistical and culture issues that must be anticipated.

**JH:** Within our sector, which is product development outsourcing, we are seeing a bit of a move away from spot services and into an integrated solution approach. A leading technology company, here in the U.S., that produces multiple enterprise software products used to outsource to two or three vendors, each with a specific job. They would also send their testing and documentation out to multiple vendors. The result was a lot more management overhead on their end and an environment where vendors could point to different contingencies that they were waiting for from different vendors.

Symbio approached the company and proposed a solution where we could help them handle the entire product lifecycle. The same team would then be in place to create visibility because they would be in charge of software development, testing, localization, documentation and even technical support. This closed loop creates an environment where any problems that occur would be owned by Symbio. The client puts together regiments in which we become very tightly integrated with them, and we are on the same mission with them. Ultimately it comes down to creating transparency and visibility.

**Obviously, outsourcing management and governance is highly important to outsourcing success. One thing that we see quite often is that when buyers are entering into outsourcing efforts, they tend to be focused on doing the deal and finding the right service provider. Perhaps they don't plan enough in advance about managing their project or the relationship with the service provider. What are the key things that you have seen work best relative to outsourcing management and governance?**

**JH:** Ultimately, when it comes down to key things that buyers can do to improve their outsourcing management, first they should be aware of hidden costs. They also need to allocate the resources internally on their own and manage the outsourcing process. Many companies have looked at this from an activity standpoint. They may look at testing and how many hours of testing they will outsource. This does not have a whole lot of bearing on the end result that they are trying to achieve. Many companies are now embracing the fact that it is necessary to pay for innovation and optimization.

**NP:** In many cases the accountability hasn't been assigned; the initiative isn't championed by someone higher in the organization. When you are looking at governance and management, we actually help clients manage various vendors with an outlook of offering a solution to a problem. When you are going through a project, you want to make sure that there is somebody accountable – on both the vendor's side as well as the client's side, at a very high level. This is important because it puts somebody in the hot seat. The transition governance is very critical. You can outsource an entire project, but people in the organization have to buy into it and ensure that the offshore process is integrated seamlessly with their current process.

**Many organizations today have invested in outsourcing and are continuing to do so on a global scale. Organizations have also made investments into their enterprise software. How do you see the ongoing evolution of enterprise software and the movement to service-oriented architectures (SOA), component software and software as a service (SaaS) impacting outsourcing? What are some of the things buyers need to keep in mind when they are thinking about their enterprise software investments and looking to potentially migrate that software out to a third party via outsourcing?**

**NP:** SOA will enable outsourcing by making it much easier for a third party to integrate with legacy enterprise applications in a platform-independent manner. Currently, there are a lot of legacy applications hobbled together and born from mergers and acquisitions. It takes a great deal of effort to merge different workflows and databases together. If you can reach the sweet spot where you can define a common interface and the main components, and you can just plug into another system, this might drive more work overseas for ITO. SOA is a very good concept, but the reliability of these systems remains to be seen. However, at a conceptual level, it definitely offers a lot more interoperability between disparate systems, and that is where a lot of the focus is going to be in the coming years.

**JH:** Ultimately, a lot of the new developments in technology are making it easier to come out with components more quickly and are also allowing outsourcing of a lot of work. What it is changing is the nature of the way the outsourcing teams are managed. This requires outsourcing suppliers and buyers to be much more tightly integrated with the client. Many years ago when we talked about large monolithic software development projects, we were focused on waterfall software development processes with large teams. Today, we are seeing a lot more development focused on more incremental processes.

When you look at the software development teams at Symbio, they've become smaller cells. Each client will have multiple cells of development teams that are working together to build a system. This requires us to become focused on the domain expertise of what our clients are looking to build and understand the business and operational needs that are driving the software development.

**NP:** Leveraging SOAs requires a deep understanding of the workflow of an organization, and it is at this point where companies can take a vanilla ITO engagement and begin to evolve into business process outsourcing (BPO). You are no longer talking about just building applications, but actually engineering processes. So beyond facilitating a plug-and-play environment, we will start to see a lot of processes that have graduated to BPO and where the complexity increases over time.

**There is a huge amount of opportunity for buyers to tap into external expertise and skills via the use of third-party service providers in an increasing range of global markets. As with anything, where there is opportunity there are also costs and risks. There are risks associated, for example, relative to Sarbanes-Oxley requirements, data privacy and theft, for buyers that are using third-party service providers and outsourcers. How do you as service providers help buyers understand the risks they face? Do you see that over time these risks will drive more outsourcing, or will regulatory compliance requirements restrict a buyer's potential around using outsourcing?**

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-Jacob Hsu

**NP:** Regulation, in general, hampers outsourcing potential because it creates more hurdles that must be overcome in order to make a deal. Even once a deal is signed, regulation increases the amount of oversight required and alters the risk profile of the engagement. In terms of the risks, the buyers should do their due diligence when embarking on something like this, start working on a formal risk management strategy and identify someone to oversee all of it. At Vipana, we help companies navigate some of the unique issues that arise from doing projects in India, and in many cases, manage the entire process so companies can focus on evolving and transitioning their internal operations.

**JH:** There is also a perception versus reality with regards to the risk issues of outsourcing. From our perspective of being a Chinese outsourcing company, we often have to overcompensate for the risk. Security procedures, insurance and certifications are all necessary from a tactical perspective; as an outsourcing company, we can prove and overcompensate for the risk. When you get to the top-tier outsourcing companies in India or China, they have the most security, IP protection and compliance of processes in the world, simply because they have to overcompensate for the perception of risk. That being said, it is always an ongoing mission for outsourcing companies to stay on the leading-edge of risk mitigation.

**Finally, there is some amount of negativity in the market relative to the use of outsourcing, particularly global services or “offshore” outsourcing. It is obviously a sensitive and politicized topic. But with regards to global outsourcing’s cultural and economic implications and globalization of IT services in general, how should buyers best address the potential negativity they may face when understaking such outsourcing?**

**JH:** The workforce structure needs to change. There are two sides of what is going on with outsourcing. On one end, people have the perception that white-collar jobs are going overseas, but in most cases it creates more specialization of jobs. There are very few companies that have outsourced the work and then cut jobs. What they do is outsource work that they cannot meet the demands of. Offshoring enables more productivity and helps companies scale faster to get more work done.

If you look at today’s technology companies, they are probably releasing many more products every year with faster release cycles than ever before, simply because they can tap into a global workforce where before they couldn’t afford to. Today, the real trend that we are seeing globally is that there is a more ubiquitous shortage of software engineers. Today, even in the U.S., it is very hard to find good developers, testers and engineers. What companies are tapping into in offshore development centers for clients is a labor pool that can grow over time. People are going to China, not so much for the cost savings, but more for the talent.

**NP:** We are somewhat in the middle of a global war for talent. On a macroeconomic level, one of the key issues is immigration. Large companies like Microsoft want unlimited H1-B visas for skilled professionals. When qualified workers are scarce, companies are forced to look overseas. Do we increase these quotas, theoretically enabling an influx of foreign workers and compress American wage growth, or do we lower the quota to artificially raise American wages, which would actually increase demand for outsourcing to places like India? This fundamental labor shortage issue needs to be addressed by the market; some would say it is a perceived shortage. Either way, there is a major demographic shift happening in the U.S., with baby boomers retiring and less Americans graduating with scientific and engineering degrees every year. Some argue that by enriching foreign countries, we are developing export markets for our products overseas, and hence more jobs for Americans in the long run. There is a lot of weight in that argument.