

# **On offshore outsourcing IT and why India is the best bet**

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## **Introduction**

Offshore outsourcing for most companies means outsourcing their IT needs. Globalisation, increased competition, and a challenging economic environment are driving many organisations to re-evaluate their business models in an effort to enhance performance. IT outsourcing is an effective strategy to achieve this. IT outsourcing is usually defined as the practice of moving software and other IT work from companies in developed countries to software companies in low-wage areas.

## **Offshore outsourcing IT**

IT outsourcing has indeed become a mainstream delivery methodology. It can help companies to streamline their IT related work to enhance the overall functionality. Most Fortune 500 companies use offshore development services or have their own branches set up offshore.

An IBM study report published last month found that, companies who have outsourced their IT operations get tangible benefits in terms of a higher return on assets and earnings before interest and taxes and lower - selling, general and administrative expenses. The 18-month study relying on case studies, interviews and questionnaires and covering 56 publicly traded companies also found that when compared to their sector peers, the majority of infrastructure outsourcing clients experienced significant operational improvements within the first two years of engagement.

Though adopted mainly for its cost-containment benefits, it entails other benefits like increased efficiency, quality, and productivity; improved customer and vendor relationships; enhanced technology; assured business continuity; and renewed focus on innovation and excellence. Together, these benefits can help an enterprise drive revenue, cultivate growth, and seize opportunities for improvement.

IT outsourcing can help organisations to cut application development and maintenance costs, deal effectively with the peaks and valleys of software demands, and focus on more strategic work. It will help to gain as well as maintain competitive advantage when executed as part of an overall program to build a high-performance organisation.

Companies prefer to focus their attention and resources on developing their internal core competencies and outsource other functions that are not considered core to their business. Certain IT services application development and

maintenance, help desk functions etc., fall within the category of functions that are ideal for outsourcing.

The decision on what to outsource should be based upon the each organisation's assessment of non-core IT services and the degree of risk it is willing to take in order to achieve their desired balance of cost and quality.

These days one can outsource to offshore locations works like client/server and intranet systems, advanced engineering and system integration, consulting and re-engineering, customisation and localisation, testing and bug fixing, multimedia and Web design, data entry, processing and conversion etc.

## **Advantages of offshore outsourcing IT**

**Reduced costs:** The costs of implementation and maintenance of highly efficient systems can be saved. The cost to maintain the talent needed to operate and run such a system can also be saved. Thus, by outsourcing your IT needs you can control costs as well as benefit from higher quality of services and innovative solutions to meet your business challenges.

**Technological advantage:** IT service providers are specialists in technology and processes; they typically have a larger repository of IT knowledge and skilled IT professionals than most enterprises. By combining knowledgeable, skilled people with proven technologies and best-practice methodologies, an IT service provider can increase the efficiency and quality of an enterprise's process and help boost its productivity. Thanks to their technology focus, IT service providers are often aware of innovations that can give enterprises a competitive advantage.

**High quality-standards:** They are also well versed in key industry standards such as ISO (International Standards Organization), CMM (Capability Maturity Model), and ITIL (Information Technology Infrastructure Library) guidelines. Through IT service providers that maintain both on- and offshore facilities, enterprises can also enjoy access to global sources of technology and choose the "best-shore" solution to meet their unique needs and goals.

**Better security and backup:** World-class IT service providers can establish infrastructure safeguards, develop reliable back-up systems, and implement sound data security.

## **IT functions ideal for mid-size companies to outsource**

As the numbers of mid-market companies outsourcing various IT functions grow, the number of services outsourced by them also has increased. Here is a short

report on why some areas are ideal to outsource, especially for midsize companies. Though midsize companies may outsource some of the same IT activities as their billion dollar-plus brethren, they're definitely looking for a different type of relationship with their vendors. Whereas Fortune 500 companies tend to focus on service levels and delivery, midsize companies value flexibility. It's important for mid-market companies and their service providers to be culturally compatible. It is said that outsourcing should be viewed less as a supplier-customer relationship and more as collaboration, particularly at the mid-market level.

### ***Telecommunications***

Outsourcing voice and data lines continues to be a relatively easy sell to these firms since it's clearly not a core competency and not an area of strategic advantage, unless you're a telemarketing company. Also, it's a cost-effective way for medium-sized businesses to provide telecom services without adding staff.

### ***Connectivity***

Companies have over the years expressed high levels of satisfaction outsourcing the networks (LAN and WAN). Those companies who may not be able to afford to invest in new equipment can take advantage of technological advances like virtual private networks (VPNs) and wireless local area networks (WLANs) by outsourcing.

### ***Security***

As focus on the importance of IT security has increased, many mid-market companies have found that the only way to meet this new demand (often for non-stop monitoring) is to send out the work. Services include intrusion detection and firewalls and staff to keep an eye on things.

### ***Servers***

This is one of the rare areas in which outsourcing is more accepted within the mid-market community than among Fortune 500 clientele.

### ***Application development and maintenance***

Outsourcing application development and maintenance enable companies to afford to implement and run the kind of enterprise applications that were once only available to large corporations.

### ***E-commerce/Web hosting***

Creating an e-commerce infrastructure and developing web-based services is an expensive and tricky proposition. That's particularly true for mid-market companies that can't afford to have all the necessary skills (from web strategy design to QA testing and traffic analysis) on staff.

### ***Business continuity and disaster recovery***

IT business continuity and disaster recovery is a good activity to outsource not only for cost savings but also for the reliability and much quicker deployment that a dedicated outsourcer in this area can provide.

### ***Desktop Management***

Increased productivity in the IT department and 24x7 availability are the two big reasons mid-market companies are increasingly outsourcing the relatively non-strategic task of desktop deployment and management.

## **India, the IT outsourcing paradise**

Today, India is the undisputed leader of the offshore outsourcing world. And IT outsourcing is its forte. The emergence and promotion of other offshore locations around the globe have done little to damage its popularity as the best offshore IT destination in the world. This is evident in the confident tone of Kiran Karnik, President, National Association of Software & Service Companies, the premier association for IT in India (NASSCOM), when he says, "India and IT are like France and wine".

It is estimated that one-half to two-thirds of all Fortune 500 companies are now outsourcing to India. According to Forrester Research, the amount of work done in India for U.S. companies is expected to more than double this year. According to a latest study by International Data Corporation (IDC), worldwide market for Offshore IT Services is booming, driven primarily by U.S. customer demand even as Indian vendors begin to threaten the market share of top global players.

Yet another research said that the Indian IT sector has shown the most rapid momentum with a sustained pace of growth at 50% YOY with the industry aggregate revenue for the fiscal year (FY 2004-05) reaching USD 28.2 billion. Statistics apart, India offers the best 'bundle' of benefits sought from global sourcing.

A rapidly growing infrastructure and proven experience of doing business with the west has helped to consolidate the Indian position. Nasscom lists inherent advantages like abundant talent supply, strong cost-and leadership-oriented companies, regulatory support, scaleable high-quality infrastructure, and a growing domestic market as factors instrumental in driving the growth of this sector in India.

Barry Rubenstein, program manager for Application Outsourcing and Offshore Services at IDC. "By continuing to appeal to the customer need for low-cost labor, while simultaneously offering services that truly add value by helping customers increase revenue, ensure compliance, and become more responsive

to changing business conditions, offshore vendors are continuing on an impressive trajectory."

## **India has the global best in IT**

India has IT companies that can compete on a global level. The Indian universities graduate around 350,000 engineers each year -- five times as many as the U.S. -- and a stunning 2.5 million university graduates overall. However, those taken in by the top software firms are given high quality on the job training, making them capable to handle the most complex job with ease.

The biggest Indian companies focus on quality and comply with ISO 9000, Six Sigma, SEI CMM & PCMM level 5 standards and processes. They offer truly world-class service that will add value to any organisation. Some of the biggest Indian software outsourcing companies are Tata Consultancy Services, Infosys Technologies, Wipro Technologies, Satyam Computer Services and HCL Technologies etc. Some of these companies figure in the Fortune 1000 as well as Forbes 500 lists'. Apart from these, there are several foreign multi-national companies as well. Three out of every four SEI-CMM5 companies worldwide is located in India. Some of these companies figure in the Fortune 1000 as well as Forbes 500 lists'.

Huge Indian conglomerates compete at every aspect from prices and services to user-friendly websites and attractive offices.

## **Value added service, at the lowest rates**

The IT outsourcing companies in India are evolving day by day and increasing their capabilities by adhering to the highest quality norms, adopting latest technologies, developing the best talent and expanding their capabilities to newer, complex and demanding development services. Offering unique IT solutions that enhance the value and productivity of any organisation anywhere in the world has become easy for them.

Most top IT service companies offer complete service that set-up, sustain and manage total IT Infrastructure need of the customer. Their service package is marked by robust service delivery capabilities, established project management expertise, alliances with global technology leaders and consulting services.

These companies cater to a number of clients ranging from manufacturing, telecom, Finance & Banking; IT & IT enabled services, healthcare etc.

## **Large number of services**

India is almost the only destination in the world where large number of quality talent is available at low cost, to perform tasks that need very high qualifications. Starting from routine programming jobs, the Indian IT outsourcing industry has grown enough to handle even the most complicated jobs. And developing high-quality software is what most IT outsourcing firms specialise in.

Biggest Indian companies provide varied services ranging from comprehensive IT solutions and services, including systems integration, Information Systems outsourcing, package implementation, software application development and maintenance, and research and development services, to corporations globally.

## **Conclusion**

Recent Nasscom-McKinsey report suggested that the total addressable market for global offshoring is approximately \$300 bn, of which \$110 bn will be offshored by 2010. The report further says that India has the potential to capture over 50% of this opportunity and generate export revenues of approximately \$60 bn by growing at 25% year-on-year till 2010.

That neatly summarize the current global market reality- offshore outsourcing is definitely in, and India is the place to outsource.