

## The Flat World Goes Round and Round

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The CXO article (July 2006) entitled "What goes around, comes around"<sup>1</sup> predicted that in the flat world, businesses from one part of the world will challenge businesses in other parts of the world, and aggressively disrupt each other's business models. This phenomenon picked up momentum, and saw rapid acceleration in 2006-2007. The Global Systems Integrators (GSIs) such as IBM, EDS, Accenture, Dell, etc. are hiring aggressively in India, and the Emerging Systems Integrators (ESIs) such as TCS, Infosys, Wipro, Satyam, etc. are moving up the value chain by competing directly with the GSIs and winning large multi-year outsourcing contracts. This is evident in the announcements from major players in both – GSI and ESI – categories this year:

### News reported on the GSI front:

- IBM's Indian workforce has more than doubled to 53,000 in the past two years.<sup>2</sup> and is poised to become one of the largest private sector employers in India.
- Accenture planned to expand its head-count in India to about 30,000 by mid-2007.<sup>3</sup>
- EDS' recent acquisition of MphasiS boosted its headcount in India from 3,000 to 14,000, and it plans to increase this to between 25,000 and 30,000 by 2008 (Datamonitor)
- IT services giant CSC has recently made moves aimed at boosting its offshore presence, the most notable being its \$1.3bn acquisition of Covansys earlier this year. (Datamonitor)
- In addition to its operations in Noida, Chennai, and Coimbatore, Dell is continuing to expand in India by setting up an operation in Tamil Nadu.<sup>4</sup>

Mature Global Delivery Capabilities in the Information Technology (IT) Infrastructure Management space put Global Systems Integrators (GSIs) back in the driver's seat

### And news from the ESI front:

- "TCS bags \$1.2 bn MSO contract from Nielsen"<sup>5</sup>: TCS will assume responsibility for important IT and operational processes and help Nielsen to integrate and centralize multiple systems, technologies, and processes on a global scale. (The Financial Express)
- TCS, Satyam get seven-year Qantas deals: India's top software exporter, Tata Consultancy Services Ltd., and number four Satyam Computer Services Ltd. said on Thursday a new order from Qantas Airways Ltd. was worth about US\$145 million. (Reuters)
- Wipro eyes large deals to drive non-linear growth: The large deals signed in Q2 include the \$275-million order ... Total Contract Value (TCV) and another valued at \$160 million with the same multinational firm for multi-layer and multi-year engagements in the infrastructure outsourcing space, including IT infrastructure management. (India eNews)
- Largest Indian Outsourcing Deal Ever: Tech Mahindra Wins \$1 Billion Pact From BT; The deal is the latest indication that Western businesses now view India's low-cost outsourcers as viable alternatives to global giants like IBM and EDS for comprehensive services engagements. (Information Week)

With the GSIs and ESIs getting into each other's core competency areas, the author predicts that the global sourcing business is going to expand exponentially, and the GSIs will have a distinct short term advantage.

Of the \$2.3 trillion Information Technology (IT) industry, the IT Services sector, at \$672 billion, represents 28% of the global IT spend on External IT Services including product support (software support, hardware maintenance & support) and professional services (consulting, development & integration, IT management, process management). Offshoring, an integral part of global sourcing, currently addresses merely \$80 billion of the \$672 billion IT services spend, with India representing about half of it. Clearly, the high degree of acceptance of the global

delivery model will see an increased shift towards offshoring, for which both the GSIs and ESIs are working feverishly to position themselves, and benefit from. But the addressable IT Services sector is expected to expand dramatically, as Internal IT Services spend to the tune of \$523 billion (a large majority of which is in support of IT Infrastructure management) will be outsourced through the global delivery model, to GSIs and ESIs. Collectively, the IT Services and the Internal IT Services spend represent a staggering \$1 trillion opportunity for the GSIs and ESIs<sup>6</sup>.

The ESIs have already proven their expertise in IT Applications Management Outsourcing (AMO) as well as Business Process Outsourcing (BPO). Over the last two decades, they gained customers' confidence by consistently delivering high quality, cost effective services using the offshore delivery model they had pioneered. They exploited the strategy of 'penetrate and radiate' by converting staff augmentation work into managed work, and eventually multi-year arrangements that deliver both quantifiable and qualitative value through an onshore-offshore model. Over the years the ESIs gained in-depth knowledge about the various business models their customers use while developing a deep understanding of a highly leveraged, industry agnostic business model.

### Highly Leveraged, Industry Agnostic Business Model

The ESIs now can claim domain expertise in several industries and are rapidly moving up and across the IT value chain. The ESIs have transformed themselves from being a low cost IT service and resource provider to a value-added solutions delivery organization. Today, ESIs have earned a seat at the customers' table and are actively engaged with the customer in shaping their IT and even business strategies, with the expectation that with their technology and industry knowledge they will enable the

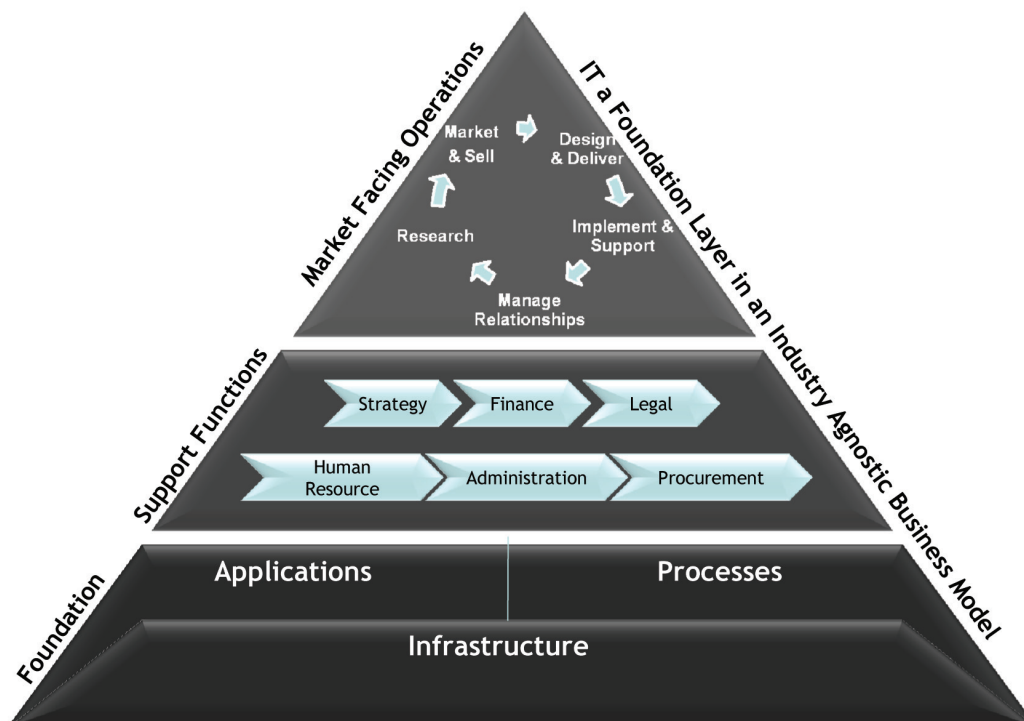
customer to gain competitive advantage in their marketplace.

A recent phenomenon picking up momentum is in the area of offshore-based Remote Infrastructure Management Services (RIMS). Continuing with their success formula of 'penetrate and radiate' the ESIs are finding new opportunities in the Infrastructure side of their customers' IT shop. After becoming a leader in the BPO space, and a serious competitor in the AMO space, the ESIs are now being asked by their customers to drive the cost out of their large infrastructure investments, while improving performance, and extending around the clock support arrangements through a highly integrated, globally dispersed IT operation.

### Advantage GSIs:

It is interesting to note that while this shift toward remote infrastructure management services provides the ESIs the opportunity to dramatically grow their operations, it actually plays directly into the hands of the GSIs.

This advantage comes from the valuable insights GSIs have gained through large multi-year Infrastructure Outsourcing (ITO) arrangements. They are known as pioneers and experts of the IT Outsourcing industry, because of decades of experience from managing the highly complex tasks of taking over, streamlining and managing customers' global IT environment (may that be data centers, networks, desktops, or applications). Through investments made in best-practices, disciplined processes and methodologies, as well as tested and proven models, they have converted the management of ITO deals into a science. Successful GSIs have developed proprietary methods to meticulously manage the change associated with the transition of people, processes and technology from customers' environment over to theirs.



The ESIs getting into this business are in the tough position of having to invest in the capabilities and building the needed capacities to effectively take on any infrastructure work that comes their way. This phenomenon towards offshoring of Infrastructure Management actually gives the GSIs a small window of opportunity to leverage their expertise in ITO and use it to regain their leadership position in the global IT space – AMO, BPO and ITO.

Forward-looking and cash rich ESIs have recognized this need, and are wisely shopping for infrastructure oriented companies to fill this gap within their service offerings. Wipro's purchase of Infocrossing, an infrastructure company, is a recent example of this trend. According to Wipro, the acquisition will fill in a number of gaps in the company's infrastructure services portfolio, including IT operations management, data center services, and co-location and hosting services. The company said that its infrastructure operation had been experiencing strong demand over the last year.

Some of the ESIs are trying to build this expertise organically. They are doing so by hiring senior infrastructure experts away from other infrastructure intensive companies and empowering them to build a world class ITO practice. It is important to note that they are ready to make large investments to kick-start this practice. While the expertise can be acquired, integration of leaders in senior ranks at the ESIs can pose an enormous challenge. Also, the practices, processes, methodologies, tools, templates, etc. that the GSIs took decades to build cannot simply be dropped in and institutionalized within an ESI organization. Organically or through acquisition, the ESIs face major challenges related to the integration and launch of an ITO practice.

Because of these challenges the GSIs seem temporarily back in the driver's seat. To solidify this position, they need to rapidly shift their ITO delivery model to a right blend of onshore and offshore arrangement. This may necessitate them to cannibalize some of their revenue due to the transfer of remote infrastructure management services to their offshore destinations where it can be done as well or better, definitely cheaper and faster, while enabling around the clock support. While this will result in some decline in revenue, the GSIs will experience improved profitability due to the low cost resources benefit associated with the offshore arrangement.

The shift to offshore and to a global delivery model, actually comes naturally to GSIs who are accustomed to moving their customers' infrastructure from one part of the country to another to gain efficiencies and consistency through consolidation. They have a well-defined ITO portfolio of services, backed with proven models and frameworks, as well as governance that addresses all aspects of scoping, transitioning, stabilizing, and managing initiatives to agreed-upon Service Level Agreements (SLAs).

Possibly the most compelling edge the GSIs have over the ESIs is their ability to invest heavily in asset backed deals. The GSIs have the needed appetite to make large, up-front investment as required in the majority of infrastructure deals in exchange for large multi-year arrangements.

## What GSIs must do to sustain competitive momentum

- GSIs must quickly revisit their infrastructure service offerings and determine what part of their services can be delivered remotely through the global delivery model. Doing so will allow them to effectively compete with the ESIs on the price front, while winning business against them because of their track record and experience.
- Once they have re-organized their Portfolio of Service Offerings (PoS) – which leverages the global delivery model – the GSIs must proactively and aggressively move toward offering remote infrastructure management services to their new and existing customers. Through this shift they must demonstrate to their customers how they can provide the same or improved levels of service at a reduced cost, while improving performance, throughput, and providing around-the-clock operations support. Most importantly, they need to do this before the ESIs gain a foothold in the ITO space and extend it as their value proposition to the customer. Today's customer is highly sophisticated, and in many cases already engaged with the ESIs on the AMO and BPO fronts. In more cases than not the customers are encouraging the ESIs to get into the ITO space and provide a similar cost advantage they have become used to on the AMO and BPO work.
- Since ESIs are struggling to get into the ITO space, GSIs may decide to partner with select ESIs to offer ITO services to their existing customer base. The challenge in partnering with the ESIs is that, as in the AMO area, the GSIs will be creating future competitors in the final leg of the IT competition – the infrastructure services space. Therefore, safeguarding intellectual property and other items which provide competitive advantage becomes extremely critical in such an arrangement.

## What ESIs must do to capture competitive momentum

1) ESIs must rapidly accelerate their capabilities and capacities in the area of infrastructure management. Organic growth and development in this area will be a long road, and if they choose to go that route, very likely, they will miss the window of opportunity. Serious ESIs must consider key acquisitions to get into the ITO space. Probably the most important requirements for selecting an organization would be its tenure in the ITO space, track record, and the reusable Intellectual Property that can be immediately leveraged on ITO deals.

2) Expectation from the investor community is that the ESIs continue to deliver high growth and high profitability. Therefore, it is critical for the ESIs to analyze the infrastructure space, and decide where they want to enter without significantly diluting their margins. Frankly speaking, that is the "asset light" model. Basically, the ESIs will find it very difficult to enter the ITO business in the manner in which the GSIs have done it. For the most part, they will have to stay clear of any asset acquisition based multi-year arrangement, especially those that take several years into the contract just to reach break-even. A single large deal of this nature can convert the ESIs from a highly profitable business to a low margin or even worse, a money losing organization.

## In Closing

We are living the prediction made in the July 2006 edition of CXO. Announcements of ESIs winning large AMO and BPO deals have become quite common, and the GSIs workforce expansion in India has become a matter of reality. As the ESIs have proven their skills in the world of AMO and BPO, they are now being encouraged by their customers to take on their IT infrastructure, and help them reduce the Total Cost of Ownership of their IT investments. Infrastructure management remains a new space for the ESIs as they lack the know-how, methods and tools required to take on the management of complex infrastructure environment. ESIs only route to quickly getting into this space is through acquisition.

GSIs on the other hand, find themselves back in the driver's seat due to the decades of experience and knowledge they have built in managing global infrastructures. But for them to capitalize on this fortunate turn in their favor, they must quickly shift over to a global delivery model based ITO offering.

The flat world, while making it a level playing field for all parties, does provide competitive advantages to those who have the knowledge and expertise to deliver, and most importantly the courage to invest and discipline to execute.

[For more information about any of our service offerings, please contact your Dell representative or visit \[dell.com/services\]\(http://dell.com/services\).](#)

1 URL: <http://www.cxoamerica.com/pastissue/article.asp?art=27040&issue=168>

2 Business Week, August 2007

3 Economic Times, August 2007

4 Express Healthcare, October 2007

5 The Economic Times, 19 October 2007

6 Sources: Gartner, July 2007 and NASSCOM website

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