

February 2003

# Unlocking The Savings In Offshore

FORRESTER®



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FEBRUARY 2003

## Unlocking The Savings In Offshore

Firms that closely manage offshore providers see benefits beyond lower labor costs. To harness the savings, users must make the right governance investments and build up their project management acumen.

### 2 INTERVIEWS

- 30% of 145 respondents will use offshore providers in 2003 -- unchanged from 2002.
- Offshore firms rate higher in quality than their US counterparts.
- Lack of project management skills holds users back.

### 7 ANALYSIS

- Users will see benefits beyond lower offshore wages.
- Firms need a clear governance model and management mechanisms to make offshore work.

### 16 ACTION

- Successful firms must assess and retrain IT staff.

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- US providers must upgrade their COPC/CMM processes.

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## INTERVIEWS

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### Firms Rate Offshore Vendors Above US Players

The 30% of respondents that use offshore providers grade their performance above US services counterparts. However, US firms' lack of project management skills hinder their offshore initiatives.

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### OFFSHORE BENEFITS ARE REAL, BUT CHALLENGES REMAIN

To understand current demand for offshore services, Forrester interviewed VPs and directors of IT as well as business unit decision-makers at 145 North American firms.<sup>1</sup> We also did in-depth follow-up interviews with 20 of the firms that are using offshore providers.

Only 30% of the respondents used offshore providers in 2002 and the same percentage plan to go offshore in 2003 (see Figure 1-1). Meanwhile, those that use offshore suppliers plan to spend more in 2003, as well (see Figure 1-2). Seventy percent of those respondents send both old and new application work offshore, and call center and BPO (business process outsourcing) work is also moving to lower cost countries (see Figure 1-3). India is by far the dominant location, and the large Indian firms are the top suppliers mentioned by name.

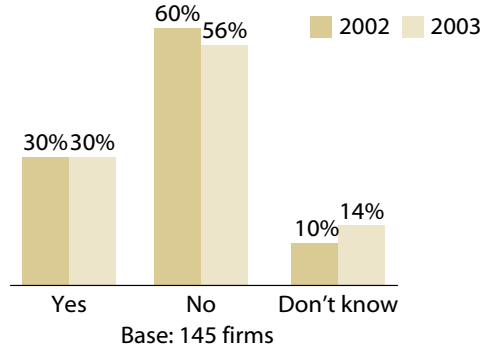
“Last year, we spent less than \$1 million across five offshore development projects. We are looking this year to move maintenance of our SAP system offshore. Given that we spent upwards of \$500 million to install it, this will be a significant project.” (Beverage company)

“A year ago, we had lots of small projects with mixed results. So we created a central offshore office, cut the number of offshore vendors from 25 to three, and outsourced more maintenance and larger development efforts. This, coupled with sharing best practices, gives us more than \$10 million in annual savings.” (Commercial bank)

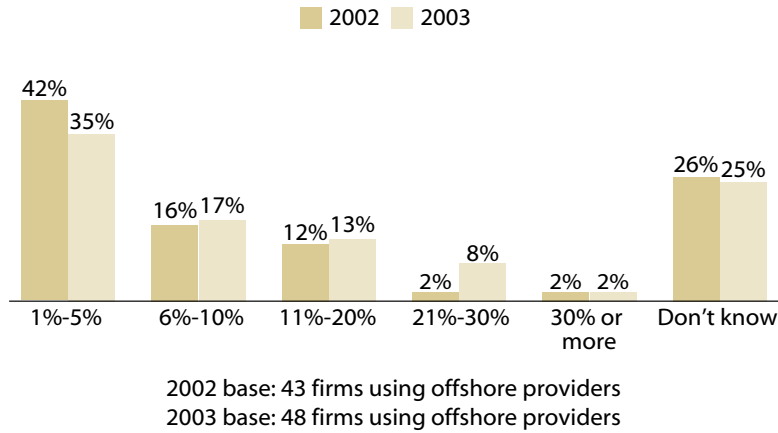
“We moved the maintenance of applications offshore to Infosys. The move was driven by a need to lower our costs and improve the quality of our systems and maintenance processes.” (Telecommunications company)

**Figure 1** Firms Using Offshore Providers Plan To Spend More In 2003

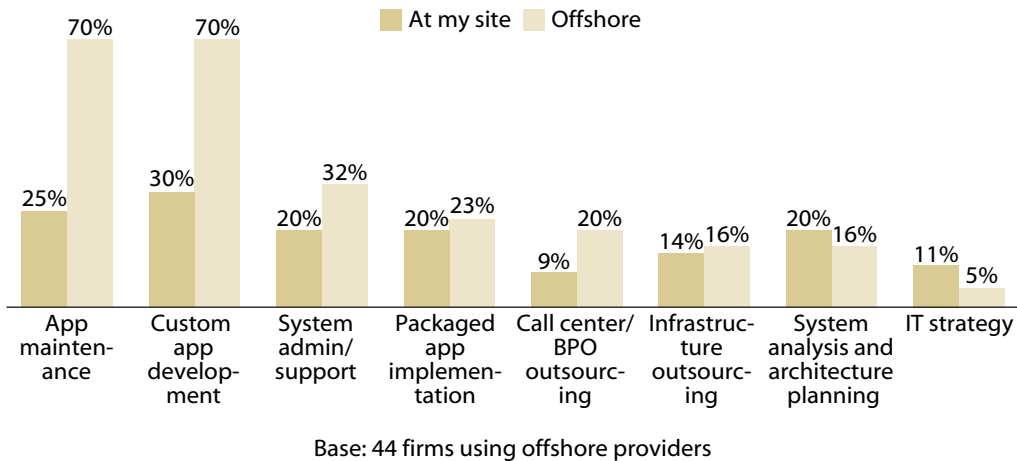
**1-1** "Is your company using offshore service providers for technology services or outsourcing?"



**1-2** "What percentage of your company's total external technology services and outsourcing spending went to offshore IT services firms in 2002? In 2003?"



**1-3** "For each of the following services, please indicate where offshore firms provide their services to your company."



Source: Forrester Research, Inc.

### Benefits Of Offshore Are Clear To Those With Experience

The 44 respondents using offshore providers clearly felt they provide real value -- 75% somewhat or strongly agreed that offshore providers do high-quality work, and 76% felt that they provide a low-cost solution. As a result, 65% of firms using offshore services acknowledged that cost savings offset additional management overhead incurred by having work done remotely. A number of firms also saw second-order benefits from the process discipline of the third parties.

“Our catalyst to go offshore was not to save money; rather, we wanted to improve IT. We spent \$1.5 million the first year to ramp up for offshore. By year two, we saw cost savings. Now our budget is the same as 1999, but we are working on 16 incremental new initiatives.” (Diversified outsourcing services company)

“The error rate when patches are applied to our production systems is less than 1%, down from 3% when we did all the work. This improvement is a direct result of our offshore providers’ adherence to Capability Maturity Model (CMM) processes.”<sup>2</sup> (Insurance company)

“As a result of offshore, we have cut our internal IT rates 5% to 10% per year, even as infrastructure and salary costs have increased. And a key measure of performance -- system availability -- has improved by 10% to 15%.” (Financial company)

### Respondents Feel Offshore Providers Provide Better Value Than US Counterparts

When we asked interviewees how their offshore suppliers rated, 88% say that they provide somewhat better or much better value for the money compared to their US-based counterparts (see Figure 2). In addition, 71% of the users stated that offshore providers delivered somewhat better or much better quality work.

“A hidden benefit was the vendor’s due diligence process, which revealed that our traditional Big Five vendor was not adhering to its service-level agreements (SLAs) for creating and maintaining documentation.” (Telecommunications company)

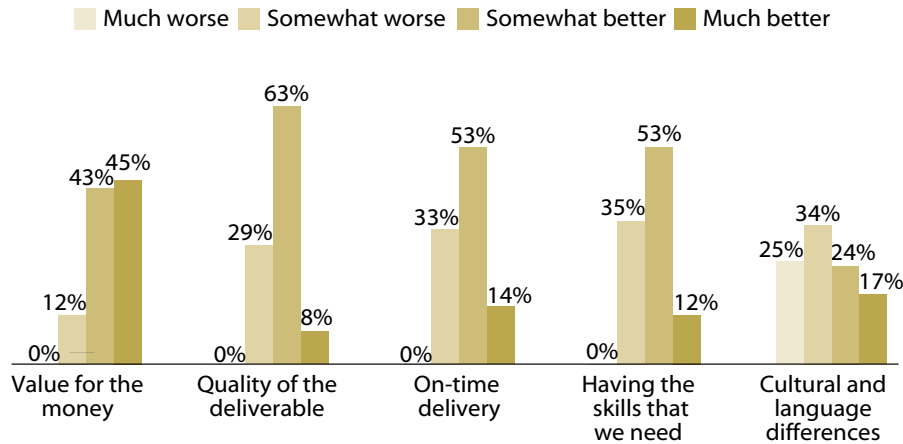
“Our Big Five providers’ CMM levels are lower than our offshore providers’. For example, when a Big Five player took our maintenance offshore, it did not warn us that to transfer work to India, we needed a multisite license for our development tools. We were delayed by weeks because of this oversight by the Big Five firm.” (Commercial bank)

### Internal Management Is A Top Challenge

The biggest issues for interviewees using offshore firms revolved around areas like project management and defining accurate performance metrics for managing the remote vendor (see Figure 3).<sup>3</sup>

**Figure 2** How Clients Rate Offshore Versus US Providers

**“How would you compare offshore providers with large US services firms on each of the following attributes?”**

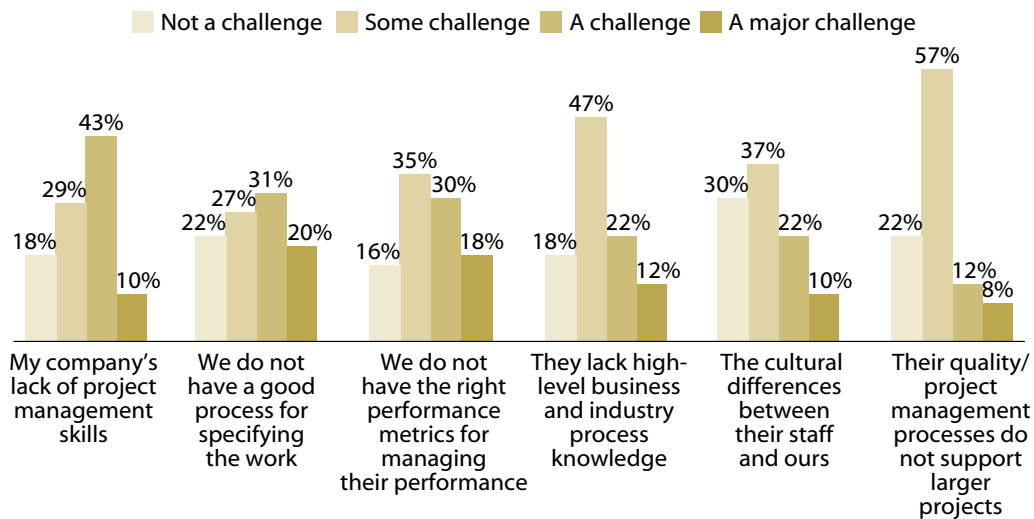


Base: 44 firms using offshore providers

Source: Forrester Research, Inc.

**Figure 3** Firms Face A Variety Of Offshore Hurdles

**“Based on your experience, how challenging are the following when working with offshore providers?”**



Base: 44 firms using offshore providers

Source: Forrester Research, Inc.

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“Historically, we have been lax in creating specifications, and this has caused problems in an offshore engagement -- you cannot ask questions and expect responses on demand when your staff is half the world away. We have a renewed focus on creating clear work orders.” (Financial company)

“We had to recast every process to leverage offshore -- our development methodology, our network architecture, as well as our compliance and risk- management practices. We had to put a long-term plan in place for network and security infrastructure.” (Commercial bank)

### INTERVIEW CONCLUSIONS

- Experienced users plan to spend more offshore in 2003, but the percentage of firms planning to go offshore remains unchanged from 2002.
- The firms using offshore providers have seen the value in higher quality work at lower costs.
- The lack of internal project management holds back offshore efforts.

## ANALYSIS

### Successful Firms' Best Practices For Offshore

Companies going offshore see increasing savings over time as they more closely manage their initiatives. Best practices for offshore? Setting up the right governance and due diligence structures, and putting the correct ongoing management processes in place.

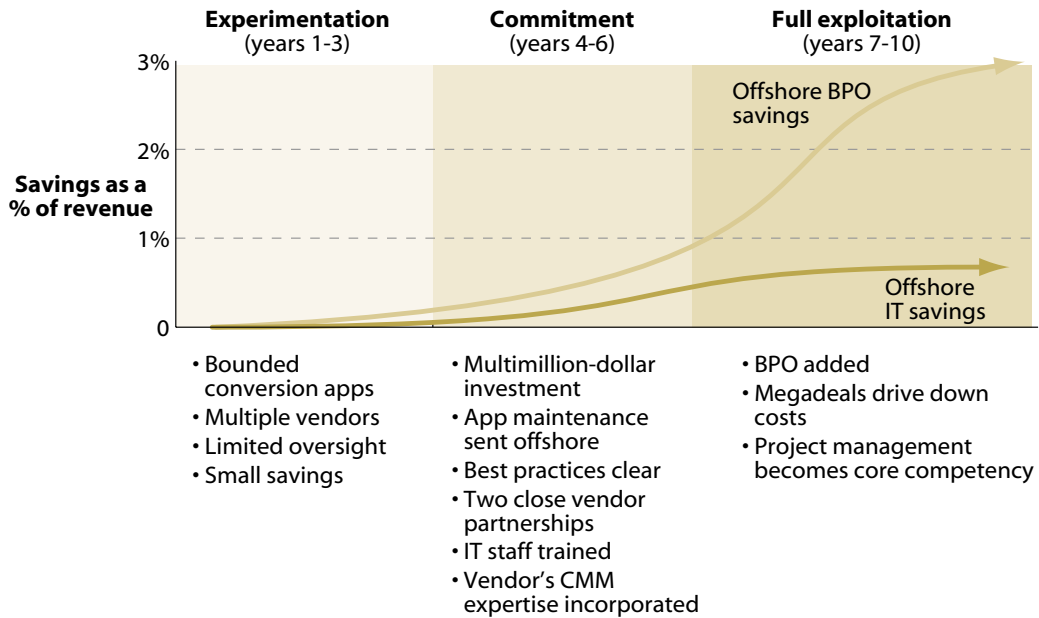
#### VETERANS REALIZE ADDITIONAL PRODUCTIVITY GAINS OVER TIME

Although total offshore utilization is unchanged, experienced offshore outsourcers are satisfied -- noting additional savings over time. Customers at CMM level 1 or below take increasing advantage of providers' CMM level 3+ process discipline -- enabling more efficient IT and more cost-effective BPO operations. The two waves of savings beyond a simple reduction in labor costs include (see Figure 4):

1. **Application of the vendor's CMM expertise.** Suppliers like Infosys Technologies, Larsen & Toubro Infotech (L&T Infotech), and 24/7 Customer apply their CMM or COPC expertise to further re-engineer client work. This second round of savings could be 15% to 20% of the initial contract depending on its size (see Figure 5).<sup>4</sup> For example, Wipro clients see additional application maintenance productivity of 10% to 15% from added familiarity with systems; another 10% to 15% raise in productivity after applying Wipro's CMM-based methodology and consolidating redundant programs applications; and yet another 3% to 30% productivity improvement thanks to process automation and tools.
2. **Significant BPO benefits.** Pioneers today take advantage of third-party BPO startups as well as IT-heritage companies that provide second-generation offshore services like call centers and transaction processing. The savings as a percentage of company revenue from these functions will be 4 to 5 times those from IT -- using the model where IT spending averages 4% of revenue and SG&A is 22% of revenue (see the February 2002 Forrester Report "US Outsourcing Decelerates").<sup>5</sup> The same process improvement will be applied to a broader segment of the company in areas like accounting and claims processing (see the November 11, 2002 Forrester Brief "3.3 Million US Service Jobs To Go Offshore").<sup>6</sup>



**Figure 4 Model: Offshore Savings As A Percentage Of Revenue**



Source: Forrester Research, Inc.

**Figure 5 Examples Of Offshore Vendors And Second-Order Productivity Savings**

Work taken offshore	Offshore productivity savings	How vendor delivered savings
Infrastructure management for Pan Asian financial services firm	<ul style="list-style-type: none"> <li>TCS met 25% productivity gains of initial SLA and boosted efficiency by another 20%.</li> <li>TCS rationalized the existing pool of 2,000 apps down to 200.</li> </ul>	An eight-month rationalization process that added new functions to surviving apps
SAP application maintenance at large utility	<ul style="list-style-type: none"> <li>The maintenance staff of 60 people is now 15 with 50% of work offshore.</li> <li>SAP usage increased 1.6 times given the simplification work done by L&amp;T Infotech.</li> </ul>	Cataloged simplification opportunities at both a maintenance and business process level that were implemented by offshore staff
Monthly customer satisfaction survey for a UK bank	Internal staffing levels were cut an additional 40% from process improvements and full offshore utilization.	<ul style="list-style-type: none"> <li>Vendor's predictive dialer improved throughput.</li> <li>Offshore agents redesigned call process to incorporate access to previous surveys.</li> </ul>
Customer service call center for logistics company -- average call handle time, 240 seconds.	<ul style="list-style-type: none"> <li>24/7 beat original SLA of 185-second handle time by 15 seconds.</li> <li>Final time with process improvements was 170 seconds.</li> <li>Client applied Indian practices to UK for another 10% gain.</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge mapping of historical data to manage volume peaks.</li> <li>Close monitoring of staff skills.</li> <li>FAQ to put more answers at operator's fingertips.</li> </ul>

Source: Forrester Research, Inc.

## BUT FIRMS MUST FIX THEIR INTERNAL HOUSES FIRST

To realize the labor as well as productivity benefits that offshore firms provide, clients must take a structured management approach to eliminate common miscues (see Figure 6). Instead of just focusing on assessing vendors and their capabilities, firms will 1) establish a governance structure to provide focus, and 2) perform due diligence to assess internal readiness.

### Establish A Governance Structure To Provide Focus

Companies new to offshore or stuck in the experimentation phase with mixed results must make a strategic commitment to centralized vendor management. Too often, firms view offshore as a mere extension of their contract developers, when in reality managing the remote resource is more complex -- but the productivity and process benefits are more significant. The change of processes required for long-term success and savings make it a business decision -- not just simple IT sourcing. Critical success factors are (see Figure 7):

- **A steering committee that demonstrates commitment.** The leadership group is comprised of both the CIO and senior IT executives as well as a range of business and operational leaders. In building a strategic plan, the team needs to look not just at the cost savings, but also at the second-level benefits of more predictable IT planning -- higher quality processes and faster time-to-market.
- **A program management office that applies best practices.** Chartered by the steering committee, this group oversees the day-to-day offshore projects. The key is hiring a director who has worked outside of the US and has a mix of project management and communication skills. The leader must be a good listener and resolve problems in a structured manner. Additional must-haves? A relationship manager with contracting and technical skills, one reporting and metrics manager, and a staffer with a PR-type background for communications.

### Perform Due Diligence To Assess Internal Readiness

To get started, the offshore program office will step back and honestly appraise its own operating environment and how it will be impacted by moving IT or BPO work offshore. This broader level of research helps customers gain a more accurate assessment of the savings involved, as well as how they will interact with the vendors. The key to-do items:

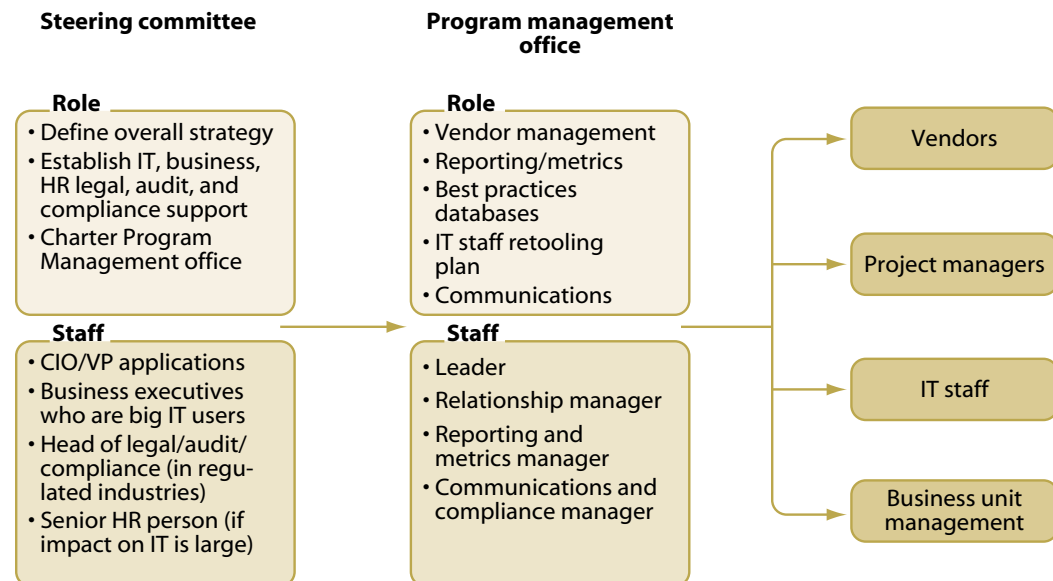
- **Take an inventory of current applications.** Firms need to get an accurate count of the applications, their inputs and outputs, their architecture, level of documentation, and history to accurately assess savings and the offshore migration. Vendors like Infosys Technologies and Syntel will run the process for anywhere from \$0 to \$100,000 depending on the number of systems involved.

**Figure 6** Top Five Issues Undermining Firms' Offshore Initiatives

Issue	Description	Problems	Telltale signs
Smaller is not better	Firms pick one or more small applications (fewer than 5 people and less than \$100,000) to pilot offshore initiative.	Small scale negates savings, and transition takes forever.	No one can find the savings to justify the expense and oversight overhead.
1,000 points of offshore light	Each business unit does its own thing with a separate vendor.	No best practices or governance model established; for every success, there is a cost or on-time delivery failure.	People struggle to validate offshore savings.
Bargain shopper	Firms become obsessed with getting the lowest rates.	Vendors put junior people on the project; they miss second-level benefits because contract lacks productivity incentives.	Firms use reverse auctions to get lowest rates.
Infrastructure detour	Firms overlook all logistics details for security procedures, setting up network links, and software licensing.	Projects delayed by months as client addresses security issues and attains correct licenses from software vendors.	Staff in India is idle waiting for access to development tools.
Absentee landlords	Companies abdicate responsibility for project to the vendor and don't manage project on an ongoing basis.	Projects late because vendor lacks feedback on specifications, requests for clarification, or acceptance criteria.	No weekly check-in meetings.

Source: Forrester Research, Inc.

**Figure 7** The Appropriate Offshore Governance Structure



Source: Forrester Research, Inc.

This can be done as part of a security or disaster recovery audit. In fact, one firm found that 50% of its critical systems were not covered by disaster recovery plans as a result of an audit.

- **Document current development practices.** To elicit best results, firms should log current development practices, such as specifications creation, documentation maintenance, acceptance criteria development, and change management. Doing homework at this level enables firms to formulate more accurate SLAs and map how the vendor will link into IT processes as well as improve them. For \$50,000 to \$60,000, firms like Cognizant Technology Solutions (CTS) will assess the current development methodology, including existing documentation.
- **Pilot applications with the right critical mass.** Most firms start with contained new development or the conversion of existing systems. Conversion of existing and well-understood applications will show the highest rate of savings because more work can be sent offshore. Initial projects in the \$150,000 to \$750,000 range with 10 to 20 staff will justify assigning a top project manager, delivering meaningful savings, and establishing offshore's credibility. Companies like Eaton had internal IT and US-based firms bid on projects to set a cost baseline.

## DISCIPLINED ONGOING MANAGEMENT GUARANTEES SUCCESS

With the appropriate governance structure and clear strategy in place, offshore wannabes need structured processes to get the maximum benefit from providers. Firms must follow three management steps (see Figure 8):

### 1. Negotiations Lay A Rational Contract Foundation

Customers initially become fixated on contracts with precise punitive terms and rates. But this narrow focus reflects lack of trust and a dearth of internal experience with SLAs. Firms should use the contracting phase to create a companywide framework that new projects can use without having to renegotiate every initiative. In this step, firms can improve their success ratio by:

- **Selecting two vendors.** To limit the risk and drive responsiveness, firms should ideally split the work between two vendors -- this division results in greater flexibility in terms, skills, and manpower scheduling as well as a broader set of quality processes. One financial company divided the work in order to tap into the broad base of legacy skills from one provider and the CMM expertise of another. Knowing this competition existed made both providers more responsive.

**Figure 8 Checklist For Managing Offshore Initiatives**

**Checklist item**

**1) Negotiation**

- Visit the vendor's offshore location and interview the head of quality and delivery.
- Audit the CMM-based paper trail of an actual client project and compare that with customer's actual referenced documentation.
- Build a vendor due diligence plan based on technologies and skills uncovered in earlier application audit.
- Craft a contract with volume discounts and different wage rates based on different levels of offshore provider's staff's experience.
- Define SLAs that reflect overall goals of offshore strategy, such as helping client improve its CMM capabilities, not just the punitive awards.

**2) Transition**

- Begin work on security and telecom issues as soon as letter of intent is signed so that system access and multicountry telco connections do not derail project start.
- Hold weekly meetings for transition team to review milestones for infrastructure setup, build vendor's knowledge base, and smooth handoff of work between suppliers.
- Charter a risk management subgroup as part of offshore steering committee to focus on compliance issues, data, security, and privacy.
- Run background checks on offshore staff, gathering the passport numbers for project team and comparing those with the actual travel documents on future visits.
- Update tool and application licenses to support multiple sites and allow offshore provider customer support access with the vendor.
- Install a common configuration management system between customer and vendor so that projects are not undone by inconsistent release levels.
- Run business 101 training for offshore development team on a quarterly basis to build up offshore staff knowledge of how the business operates.

**3) Project management**

- Define the acceptance criteria upfront including, signoffs by business and IT, documenting required functions, system performance, and test case scripts.
- Get CIO to sign off on any redesign work to limit changes and force project team to build watertight justification.
- Establish a clear escalation criteria for moving work back on-site if tensions escalate in the offshore region.
- Develop and maintain a database on the offshore staff with their subject matter expertise and visa status so staff can be pulled back to a client's office on short notice.
- Conduct unannounced spot test at least once a year where providers are tested on their ability to transfer applications and support to a backup location in less than two hours.

Source: Forrester Research, Inc.

- **Forging the right master agreement.** A correctly crafted contract establishes a common framework for the whole firm and dramatically cuts the overhead for project teams. This agreement establishes rules for issues like: labor rates, IP ownership, disaster recovery, security, staffing rotation schedules, and even vacation/festival dates.<sup>7</sup> One smart firm negotiated a tiered wage structure based on staff seniority so that junior staffers would not flood the project.
- **Setting the right SLAs.** Users must look at SLAs from both a vendor and internal vantage point. Supplier SLA levels cover: operational service commitments, specific results based on the class of project (new development or maintenance), and productivity measures to lower costs. In parallel, the customer must agree to a basis level of responsiveness -- such as signing off on specifications in a timely manner. GE goes as far as to measure its own scope creep problems. Smart IT shops have used vendors' CMM-based detailed reporting to show business units how their changes directly impacted the cost and schedule of a project.

## 2. Transition Addresses Knowledge Transfer And Infrastructure Setup

During project transition, expenses can be in the millions for management overhead, knowledge transfer investments, and infrastructure setup costs. These expenses can shrink labor savings of 50% to 60% down to 25% to 30%. Taking a systematic approach that delineates clear knowledge transfer and internal training programs helps customers see savings sooner. An effective transition depends on:

- **A focused transition plan that clarifies responsibilities.** As soon as the firm commits, senior staff from the program management office, IT, and the business units must be assigned to the transition team. If work is being shifted from an existing outsource provider, there must be a contact assigned there as well. In parallel, the program manager from the vendor needs to be brought to the client site as soon as possible -- even before the contract is signed.
- **Dedicated knowledge transfer resources.** The firm must dedicate the team with inherent business knowledge in their heads to augment the permanent paper-based documentation. The vendor will use its methodology to validate the process steps and shadow people as they work, posting all the insight on a supplier-run Web portal. One company negotiated the first eight weeks at no charge to avoid being billed by their current vendor and the offshore provider at the same time. Transition costs were then spread out over first 12 months of maintenance work.
- **Training to minimize cultural miscues.** Workshops with formal lecture and role-play elements led by a mix of vendor and specialist trainers help staff see and deal with cultural differences. One issue for Indian nationals is their reluctance to say no. To compensate, firms going offshore should ask for specific project plans as

a follow-up to really understand what it will take in terms of time, money, and skills. Language miscues can also be an issue in places such as India or Russia. Instead of asking, “Do you understand?” US staffers should say, “Please tell me what you just heard.”

### 3. Project Management Processes Clearly Define Roles And Milestones

The last element in a successful offshore campaign is establishing ongoing process flows and communications mechanisms to keep projects on track (see Figure 9).

- **Work orders link the master agreement to specific projects.** As an output of the specification process, the work order lists the work being done, the staffing requirements, applicable SLAs, acceptance criteria, and completion milestones -- ensuring that change management authority is clearly defined. The vendor-designate checks on cost and schedule ramifications and then shares information with his customer counterpart for final signoff. To minimize rework, companies use set design reviews around data flows, screen flows, and the application architecture.
- **A clear check-in and reporting structure maintains visibility.** To contain issues, all three levels of customer oversight will have regular reviews based on set agendas with their vendor peers. During due diligence, companies should look closely at the suppliers' ability to deliver a portal that automatically updates SLAs and progress each day. For example, some vendors, such as CTS, license their Web-based reporting tools so that firms can manage their stable of providers with one “dashboard.”
- **Continuous communication diffuses employee resistance.** To the person, user interviewees said that they did not communicate enough with internal staff. The process starts with an IT-wide kickoff meeting with the CIO that identifies strategy and key dates. These milestones and success stories are posted both on an intranet and in an internal newsletter. One-on-ones and town hall meetings help drive home the strategy and retraining commitments. Last, workshops with vendors review culture issues and best practices.

**Figure 9** Offshore Project Management Check-In Schedule And Participants

Customer	Vendor counterparts	Agenda	Frequency and location
Steering committee/ CIO	Senior management • VP, Quality • VP, Delivery • VP, Vertical	<ul style="list-style-type: none"> <li>• Resolve escalation issues</li> <li>• Review customer satisfaction</li> <li>• Assess resource allocations</li> <li>• Troubleshoot process problems</li> <li>• Evaluate progress on savings and productivity gains</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly</li> <li>• User goes offshore once a year</li> <li>• Vendor goes on-site once a year</li> </ul>
Offshore program office	Account manager/ Program manager	<ul style="list-style-type: none"> <li>• Look for consistent issues across program management teams</li> <li>• SLAs</li> <li>• Best practices</li> <li>• Resolve escalation issues</li> <li>• Innovations for future</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly (1 to 2 hours)</li> <li>• User goes offshore twice per year</li> </ul>
Project management team	Project delivery team	<ul style="list-style-type: none"> <li>• Planned versus executed progress</li> <li>• Communications problems</li> <li>• Frequency of questions</li> <li>• SLAs</li> <li>• Outstanding issues</li> <li>• Dependencies</li> <li>• Project context review</li> </ul>	<ul style="list-style-type: none"> <li>• Weekly (1.5 to 2 hours)</li> </ul>

Source: Forrester Research, Inc.



## ACTION

To drive offshore success:



**Don't let consultants make the RFP process overly complex.**

In order to justify their large fees, third-party helpers tend to err on the side of more than enough criteria (see the April 2002 Forrester Report “Putting Services RFPs On A Diet”).<sup>8</sup> To limit complications and costs, clients should focus offshore vendors’ RFI and RFP responses on questions and qualifications that link to the customers’ overall offshore strategy.



**Define an IT retooling/retraining plan.**

Along with drafting the offshore plan, companies must assess the skills of current staff for ways to determine how best to retrain them. Firms will need a new mix of a limited number of senior program managers to oversee large complex initiatives like ERP; a small team of project managers; and a limited set of senior developers tasked to handle quick-turnaround projects. Most developers will be placed on a development track toward becoming business analysts.

Offshore presents both opportunities and challenges for vendors.



**Telcos can offer preconfigured offshore connections.**

Given the headaches of setting up multivendor and redundant links to places like India, WorldCom, et al., should provide preset VPN connections with built-in security protections and redundancy as a way to minimize the headaches.



**Sun and Dell should partner with offshore providers.**

Instead of building their own expensive onshore services army that will be obsolete before it starts, the services wannabes should forge strategic links with the top-tier Indian players. Indian firms will want to leverage hardware relationships to move into infrastructure services like data center management, storage provisioning, and network optimization.



**ISVs must cut maintenance fees for legacy apps.**

Given that a number of interviewees justified offshore forays as a means of getting out from under onerous maintenance contracts, ISVs with large “legacy product lines,” such as CA and IBM, need to lower their support costs or risk a client exodus at the hands of the offshore providers.

## WHAT IT MEANS

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The emergence of best practices will only help accelerate the use of offshore providers by Fortune 1,000 firms. This will have a range of internal and external impacts.



### **The process-centric IT era will begin by getting offshore right.**

The next 10 years will be focused on the use of technology to automate business processes between organizations. Investments will no longer focus on automating the transaction or providing access to information. Rather, it will center on the facilitation of intercompany processes like customer service and supply chain optimization. Leaders like IBM, Cisco, and Ross Laboratories focus IT around process owners that manage a single procedure across the whole firm. Today, a CIO under siege calls IBM or EDS to throw his/her IT infrastructure overboard. In the future, smart IT executives will address their process problems by moving development, maintenance, and even infrastructure offshore with a contract that is loaded with CMM skills transfer incentives.



### **Increased offshore use will lead to the emergence of the CRO.**

The title of chief resource officer is popping up on business cards as firms bolster their outsourcing commitment -- on- or offshore. Over the next five years, the CRO will emerge as a corporate power broker alongside the CIO, CFO, and COO. Smart offshore program management directors will reorient their career aspirations away from the CIO role toward becoming a CRO.



### **Note to Big Five CEOs: You need a major process upgrade.**

While Big Five firms have the dominant IT mindshare today, Indian firms are challenging them for the BPO opportunity from the onset. To meet the Indian BPO challenge, executives like Doug Elix at IBM and Dick Brown at EDS need to make a major commitment to remaking their organizations around the process discipline of CMM and COPC.<sup>9</sup> This process expertise coupled with traditional business knowledge strength will keep the offshore players at bay. Given these firms' size and entrenched culture, the process change will require an "Extreme Makeover," not an ancillary service offering like many of their current offshore forays.

## RELATED MATERIAL

### Methodology

Forrester conducted an email survey with 145 decision-makers to learn about their plans to use offshore providers in 2003. We also interviewed 20 firms for best practices.

### Offshore Providers Interviewed For This Report

24/7 Customer  
*www.247customer.com*

Auriga  
*www.auriga.com*

Avaya  
*www.avaya.com*

Birlasoft  
*www.birlasoft.com*

CAC Shanghai  
*www.cacshanghai.com*

Cap Gemini Ernst & Young  
*www.cgey.com*

Cognizant Technology Solutions  
*www.cognizant.com*

Datamatics  
*www.datamatics.com*

DataMetrics  
*www.datametricscorp.com*

EDS  
*www.eds.com*

EPAM Systems  
*epam.com*

Global Reach & Associates  
*www.globalreachusa.com*

HCL Technologies  
*www.hcltech.com*

Hinduja TMT  
*www.hindujatmt.com*

i-flex solutions  
*www.iflexsolutions.com*

I-OneSource  
*www.icionessource.com*

ICICI Infotech  
*www.icici-infotech.com*

Infosys Technologies  
*www.infosys.com*

Infowavz  
*www.infowavz.com*

Larsen & Toubro Infotech  
*www.lntinfotech.com*

LUXOFT  
*www.luxoft.com*

Mahindra-British Telecom  
*www.mahindrabt.com*

Mascot Systems  
*www.mascotsystems.com*

Mastek  
*www.mastek.com*

MindTree Consulting  
*www.mindtree.com*

Motif  
*www.motifinc.com*

Mphasis  
*www.mphasis.com*

NIIT  
*www.niit.com*

Outsource Partners International  
*www.opiglobal.com*

Patni Computer Systems  
*www.patni.com*

PeopleSupport  
*www.peoplesupport.com*

Philippine IT Offshore Network  
*www.piton-global.com*

Polaris Software Lab  
*www.polaris.co.in*

PWI  
*www.pwicorp.com*

Ramco Systems  
*www.ramco.com*

Sapient  
*www.sapient.com*

Satyam Computer Services  
*www.satyam.com*

Sonata Software  
*www.sonata-software.com*

SSI  
*www.ssiworldwide.com*

Sykes Enterprises  
*www.sykes.com*

Syntel  
*www.syntelinc.com*

Tata Consultancy Services  
*www.tcs.com*

Tata Infotech  
*www.tatainfotech.com*

TransWorks Information Services  
*www.transworks.com*

Wipro  
*www.wipro.com*

Xansa  
*www.xansa.com*

## G R A P E V I N E

### **Riding the magic call center bus.**

It turns out that one of the key areas that BPO firms must invest in is local transportation. In order to run three shifts, one company has 42 bus routes in Delhi, another has 120. One firm admitted that it employed 200 minibuses to pick up workers. Another company even runs an ERP system to schedule the transport services required to get everyone to the office, along with call patterns, shift timing, and the rest of its infrastructure.

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### **Nervous contract managers nearly bankrupt vendors.**

A number of suppliers lament that overzealous lawyers and contract negotiators are forcing them to take on exorbitant insurance policies for very minor projects. One company required a \$5 million consequential-loss policy on a \$300,000 project. Another firm went as far as to ask for a \$5 million policy on each project employee -- the entire project was only worth \$500,000.

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### **Hey, hey, I'm the Hindi tax man.**

As accounting BPO picks up steam, one of the hotspots is the preparation of US 1040 tax returns. Estimates state that at least 75,000 2002 IRS forms will be done in India in the coming months by CGE&Y and other third parties.

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### **Seats, seats how many seats?**

While in India researching "Unlocking The Savings In Offshore," Forrester asked BPO interviewees about the number of and utilization rate of third-party call center seats in the country, given the current investment rate. Needless to say, the number varied. Low-end estimates came in at 5,000 with a 50% utilization rate -- the high-end was 20,000, but with the same utilization rate. Most expect number of seats to at least double in 2003 as existing contracts ramp up and deals in the pipeline are signed and started.

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### **Cultural miscues 101.**

One client told the story of how his firm highlighted a number of urgent issues on a to-do list document that was sent to India. Two weeks passed and nothing happened. Turns out that highlighting items in India means that those issues are NOT important.

## ENDNOTES

- 1 The demographics of the sample group by annual revenue are: 26%, greater than \$10 billion; 45%, \$1 billion to less than \$10 billion; 17%, \$500 million to less than \$1 billion; and 9%, less than \$500 million. The top five verticals are technology and telecom (17%), finished goods manufacturing (8%), transportation (8%), insurance (7%), and intermediate manufacturing (6%).
- 2 The Capability Maturity Model for Software (CMM or SW-CMM) is a model for judging the maturity of the software processes of an organization and for identifying the key practices that are required to increase the maturity of these processes. It was developed by the Software Engineering Institute (SEI) at Carnegie Mellon. For more information, please go to [www.sei.cmu.edu/cmm/cmm.html](http://www.sei.cmu.edu/cmm/cmm.html).
- 3 In reviewing the response to, “What is keeping you from doing more with offshore providers?” Forrester saw a stark contrast between those respondents with offshore experience and those without. For more information, please see the online spreadsheet behind Figure 1.
- 4 The pioneers of offshore, such as CitiGroup and GE, have aggregated work around large contracts (\$20 million to \$100 million) and put them out to bid with only one or two suppliers winning the bid for another 15% to 20% savings.
- 5 The US BPO market will break \$20 billion in mid-2004. Mainstream adoption will begin with noncore processes that benefit from economies of scale and take root in manufacturing verticals like high-tech and apparel.
- 6 Over the next 15 years, 3.3 million US services industry jobs and \$136 billion in wages will move offshore to countries like India, Russia, China, and the Philippines. The jobs will include a wide range from IT to sales and back-office positions as well.
- 7 Forrester’s research in India shows that average labor rates for offshore work range from \$19 to \$27 and \$55 to \$75 depending on the type of work and experience. Doing a full application audit will help in the rate-setting phase -- it gives vendors a sense of the upside, so they commit to lower rates.
- 8 Traditional RFPs are too cumbersome for today’s short technology consulting and integration projects. Firms need a rapid decision tool to speed up service provider evaluations.
- 9 The COPC-2000 Standard was written in 1995 by a core group of users of call center services and associated distribution fulfillment operations, including representatives from American Express, Dell, Microsoft, Novell, and L.L.Bean. These companies wanted something to distinguish the “really good” from the “mediocre” call centers and other service providers, and they wanted to be able to do this prior to granting business to the provider(s). See [www.copc.com](http://www.copc.com) for more detail.