

Volume 2 Issue 3

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# Inside Outsourcing™



## Inside with: Atul Vashistha

Chairman & CEO of neoIT

### Special points of interest:

Larry Janis' Inside Interview with:

Atul Vashistha

HP- new deal and new hire

Outsourcing at MIT

### From the Editor.

Welcome to our current issue!

Inside Outsourcing's goal is to provide you with articles of interest and with a forum for the exchange of information in this rapidly evolving industry.

*neoIT is focused exclusively on assisting companies in maximizing their returns from offshoring both information technology and business processes on either a project or enterprise wide basis. Clients include Global 2000 clients in financial services, healthcare, logistics, consumer goods, Hi-Tech manufacturing, utilities, oil & gas and others*

#### **LJ: What is your view of the competitive landscape in offshore BPO??**

**AV:** We look at the competitive landscape in the "Offshore BPO" space in three ways. We look at it as competition between countries, kind of suppliers and substitutes. First, there are countries that compete with each other for this business. As one looks at offshoring BPO, the country's decision needs to be made prior to the supplier decision. At the top of list are India and Canada. Followed by the Philippines. However, when you look at data entry and call center work functions they would be at the top of the list with the others. Some other emerging countries that are quickly gaining credibility in offshore BPO are Mexico, Hungary, Poland and the Czech Republic.

Second, the suppliers are part of this competitive landscape, and these break out into several categories: MNC IT Outsourcers (for example, Accenture, IBM, Keane, EDS), MNC Process Specialists (Exult, Hewitt, ADP), Pure-play offshore (WNS, Daksh, SPI) and Offshore IT players (Wipro, Infosys, Satyam, TCS, Patni).

Third, the substitutes, such as captive centers. These are the operations that companies have set-up themselves instead of using the suppliers. Examples include GE, American Express, AOL, Dell, P&G and ChevronTexaco.

The country choices are limited at this point in time but locations are constantly evolving. If a firm is locating outside India, Canada or Philippines, it is very likely to be a captive center or through an MNC IT Outsourcers. When you compare the suppliers, one finds that the supplier landscape is evolving even more rapidly but deep domain expertise, process knowledge and brand is lacking in most players. Typically, the offshore pure play suppliers have better capabilities than the others. A thorough supplier due diligence is critical to selecting the right supplier. It is the above issues that lead many firms to setup their own centers. It is our believe that as the market and suppliers mature, this market will get even more exciting.

#### **LJ: What are the most common misconceptions about offshore BPO?**

**AV:** The biggest myth is that you lose control when you offshore. This is probably the most common myth of offshoring with the misconception that a company essentially gives up all control over its business processes to people and companies in a faraway land. Modern technology has all but eliminated that risk. New Internet-based technology solutions now make it possible for companies to get a clear view – right on their desktops -- of what's happening at their offshore captive centers or at their offshore suppliers. Supply chains at remote locations can now be managed with the click of a mouse, or in many cases automatically as a new customer order is placed or a process change becomes necessary. But to make sure that the clients retain control, appropriate governance should be build in with any offshore suppliers.

## Inside with: Atul Vashistha

### Chairman & CEO of neoIT (continued)

Second is the misconception that only large companies offshore. While offshoring began with large companies sending their services offshore, the industry has evolved so quickly that even small firms with less than 50 people can improve their workflow processes and reduce costs by offshoring services. Hundreds of small and mid-sized firms already offshore everything from financial and accounting services to IT, human relations functions and customer service.

Third is the belief that all offshore suppliers and locations are the same. This statement couldn't be further from the truth. As in any fast-growing industry, there are those offshore suppliers that were set up only to take advantage of the offshoring trend and are not dedicated to the kind of quality service and building long-term relationships as are the better players in the industry. This is why it's so important to conduct a thorough analysis of a client's outsourcing needs and to perform strict due diligence on potential suppliers before making any decisions. And again, hiring a third-party sourcing advisor is tantamount to starting off right so that the expertise is on the client side. The next most popular misconception is that taking work offshore will always save you money. It's probably a fair statement that you'll almost always be able to find people in other countries that can perform any given task for a less amount of money. But that doesn't mean that offshoring will always save you money. Sometimes, the cost of managing an offshore operation can reduce or even eliminate the savings from cheaper labor. What's more, sometimes there are services that simply weren't meant to be offshored, or that would be better kept in-house, even from a cost standpoint. And for those services that are ripe for offshoring, finding the right supplier in the right country can be the difference between a 40 percent reduction in costs and simply breaking even.



Then there are people that believe that once you sign the contract, throw it over the wall and forget about it. Signing the contract is just the starting point. Offshoring isn't only about picking the right supplier. You need constant collaboration, monitoring, oversight, setting expectations, holding suppliers accountable, and ongoing due diligence. In other words, you have to manage the offshore relationship as you would any other key business partner.

**LJ: What are the top qualities you look for in a vendor when you are advising a buyer?**



**AV:** neoIT has an onsite due diligence framework called *neoQA*, that guides our consultants and clients through the process of carefully evaluating a supplier for a specific engagement. The framework enables clients to see beyond basic process verifications, like SEI-CMM. By examining a company's 4 strategic pillars (market, customer, competition and financial) over 17 evaluation criteria, a prospective client or acquirer is able to assess the company's ability to succeed in its current market segment, identify additional segments for expansion and determine costs or fair market value as input for the transaction

**LJ: As the head of an advisory firm what do you see as the direction of offshore outsourcing?**

**AV:** Offshore or as we refer to it also as "Globalization of Services" is a strategic shift in the global economy. This will become an important component of most successful businesses. The countries will continue to evolve and so will the suppliers. Also, the complexity of work that will go offshore is also constantly increasing. During this phase there will be supplier consolidation, the emergence of more captive operations in BPO and advisory management models. At the same time suppliers themselves will tap into lower wage markets (i.e. India outsourcing/partnering with China). In the U.S., since it is an election year, the backlash against offshoring will continue, but will be presented with a more balanced view as the economy and job hiring improves.

**LJ: How would you define the role of an advisory firm?**

**AV:** Role of an advisory firm is to provide clients with independent and objective expertise to help optimize return on investment while reducing risks. neoIT advisors provides strategic and tactical depth to the client team through our three strategic anchors: Global Knowledge, Trusted Advisors and Global Delivery Model. With these three anchors in place we are able to give our clients real-time experience and expertise, minimized personal and operational risks, and provide a disciplined process, thus yielding extraordinary results.

## HP Expands Relationship with Procter & Gamble; Announces New Finance and Administration Business Process Outsourcing

### Agreement builds on \$3 billion global IT outsourcing contract signed in 2003

PALO ALTO, Calif., March 16, 2004 — HP and The Procter & Gamble Company (P&G) today announced an agreement in principle to transition P&G's corporate-wide transactional accounts payable operations to HP Services in order to improve productivity and make the company more adaptive.

The deal, expected by HP and P&G to be signed in April 2004, would expand upon the companies' existing \$3 billion, 10-year information technology outsourcing contract signed in 2003. P&G selected HP after a comprehensive and competitive process that included major business process outsourcing (BPO) and IT service providers.

"Our existing alliance and HP's proven ability to innovate makes them a strong fit and an ideal partner for our accounts payable services," said Filippo Passerini, global business services officer, Procter & Gamble. "During the past ten months of our partnership, HP has exhibited a deep understanding of our business, culture and values. Its own business operations are similar in scope and scale, and we are confident that HP can effectively leverage its own experience to help P&G innovate and drive value for consumers and shareholders."

"In this strategic expansion of our collaboration with P&G, we will help enhance P&G's financial business services, helping link business processes and applications across its suppliers," said Ann Livermore, executive vice president, HP Services. "This deal builds on our more than 250 managed services wins in the past 20 months, including most recently, the Bank of Ireland, Bank of India and China Development Bank deals."

HP also announced that Marc Schwarz, formerly the director of global outsourcing of Deloitte Consulting, will lead its new BPO finance and administration (F&A) function. HP has extensive F&A capabilities and can process more than 4 million invoices per year for its own outsourced finance and administration function. Under Schwarz' leadership, the BPO team will target business opportunities in the growing F&A segment within the BPO industry. HP plans to continue working with its system integrator partners in BPO areas outside of finance and administration.



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*ISSG was the firm that brought Marc and HP together. "From the beginning, we were confident that Marc's business acumen and personality profile would be a great fit for their business model," states Larry Janis, Managing Partner.*

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## Integrated Search Solutions Group



We are a retainer-based executive search firm that has a global presence with specific expertise in outsourcing. We have been involved in outsourcing as a discipline for over eight years. Our experience includes Information Technology, Business Process (Human Resources, Finance & Accounting, and Marketing), and Telecommunications.

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## Now, a course on outsourcing: MIT shows the way

**S Rajagopalan** Washington, March 2

Outsourcing is here to stay. And the tacit acknowledgement comes from the redoubtable Massachusetts Institute of Technology (MIT) by starting a regular course on outsourcing at its famed Alfred P Sloan School of Management. Whatever the current political rhetoric, the course that got under way last week is turning out to be hugely popular with business executives and management students. All 55 seats were picked up within 24 hours of the announcement and there is now a long waiting list.. It is the first course of its kind in the US, but more business schools are expected to follow suit soon enough. Students from Harvard, not wanting to be left out, have begun flocking to Sloan with requests to stand in the aisle and benefit from the guest lectures!

As on the jobs front, the curriculum on outsourcing is not without its Indian connection. The course is the brainchild of two senior faculty members, one of whom is an Indian American. Dr Amar Gupta, a product of IIT Kanpur, has been on the MIT faculty for the last 25 years.

"As managers, our MBAs will have to deal with outsourcing. But their own jobs could potentially be outsourced. So on several levels, students need to be able to think clearly and fully about this important issue," Gupta told the Hindustan Times from Cambridge, Massachusetts.

The course, he says, will make students aware of both the positive and negative aspects of outsourcing. "We know the pain that comes with lost jobs, but people don't necessarily appreciate some of the benefits we get every day because of outsourcing." He talks of lower consumer prices and higher dividends because of the corporate turnaround due to outsourcing.

While the average American may frown upon outsourcing, many of the MBAs who have signed up for the course look at it differently. They view it as a positive. The aim of the course, says Gupta, is to make students understand all aspects of outsourcing so that they will have all the requisite skills when they go into the market.

The course, designed by Gupta and former Sloan dean Lester Thurow, includes case discussions of different delivery models, value addition and impact of business and policy environments. Students will get an opportunity to hear and interact with top corporate leaders with first hand experience of outsourcing as also policy makers and labor leaders. As Gupta puts it, students can acquire skills that could lead to "win-win solutions" for all instead of looking at the evolving global business environment as a "zero-sum game".

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*Imagination is more important than knowledge...*

*Albert Einstein*

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