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Offshoring Vendors Slice 15%Off Some Deals

Sarah Johnson, CFO.com | US

Outsourcing service providers are shaving as much as 10%to 15%off existing contracts in order to keep their customers during these uncertain times, according to A.T. Kearney, a consultancy.

In a white paper released this week, the firm notes that vendors have become more flexible in their pricing and are accepting lower margins on agreements. They're waiving some of their clients' start-up costs or amortizing those costs over the length of the contract. In some cases, they're extending credit and payment terms. What's more, service providers are agreeing to renegotiate existing contracts so that they don't lose business — a growing concern for an industry whose rapid growth earlier this decade has slowed in recent months.

The outsourcing industry has taken many financial and reputational hits lately. Consolidation on Wall Street has especially hit the vendors hard, since financial-services firms provide 30%of outsourcing firms' IT and back-office business, according to A.T. Kearney. On top of that, offshoring firms are dealing with defending their stability as the accounting scandal at India's fourth largest service provider, Satyam Computer Services, continues to unfold and the country is still reeling from the terrorist attacks in Mumbai.

As a result, says A.T. Kearney partner Uday Singh, outsourcers are hungry for work and have been giving their new and existing clients more of the upper hand over the past three months. 'We firmly believe it's a buyer's market,' Singh told CFO.com.

To be sure, many companies have more immediate concerns than taking a fresh look at their outsourcing strategies or worrying about whether to take advantage of low-cost wage options like those offered in India. 'Many companies right now are looking at mere survival, and saving 10% here or 5% there probably isn't going to be a deal breaker,' says Phil Fersht of AMR Research.

Besides the current paucity of buyers, outsourcers are dealing with economic uncertainty in their own countries, the higher value of the U.S. dollar, tighter competition, and President Obama's pledge to reward companies for not moving job overseas (although A.T. Kearney believes the administration will concentrate on manufacturing work and not IT and back-office jobs).

At the same time, outsourcing vendors will be focusing their clients' renewed interest in pulling back on their risk comfort level. Companies don't want to put 'all their eggs in one basket' and are spreading out their outsourcing risk among vendors and locations, such as the Philippines and Malaysia, Singh says. Moreover, customers are favouring more big-name, tier-one service providers following the Mumbai attacks. Customers feel that better-known vendors have more mature business practices and may have better security controls, Singh explains. 'They don't cut corners,' he adds.

Some suppliers are trying to use India's problems to their advantage. China IT outsourcer Freeborders Inc., which is based in San Francisco, recently advertised 'zero cost transition' for moving customers from Satyam to using its services. Satyam clients have been moving work to IT vendors they already have relationships with when they should be further diversifying and considering new suppliers, Freeborders CEO Jean Cholka contends.

Vendors themselves are looking to diversify. To expand their client base and put less reliance on any one industry, they may be more aggressive in making deals with companies relatively new to them to expand their customer portfolio, Singh suggests. Consumer-goods makers might be a prime new target, for example.

From their point of view, companies aren't likely to automatically reward the cheapest-priced vendors, thinks Peter Allen, a partner and managing director for TPI, an outsourcing advisory firm. 'Clients are tending to ask themselves whether the lowest-price approach doesn't introduce unacceptable levels of operational risk,' Allen says. 'Business resilience comes at a price, and these recent events accentuate the importance of paying that price.'

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Call us to assess the developments across buyer dynamics, transaction trends, health of the captive model, supplier developments, location risks and opportunities.

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Key Highlights of Indian Industry Performance - Published by NASSCOM -February 2009

**Total IT-BPO industry to reach US$71.7 billion accounting for 5.8% of India's GDP; software and services revenues (exports+ domestic) aggregated to about US$60 billion.

– Software and Services export revenues estimated to grow over 16-17% to reach US$47 billion in FY09.

– India's domestic IT-BPO market to cross INR 1,110 billion in FY2009 at nearly 20% growth rate; growth over 40% in Domestic BPO.

***Industry remains a net hirer: Direct employment in Indian IT-BPO estimated to reach nearly 2.23 million up from 2 million the previous year; indirect job creation estimated at ~8 million*

***Growth witnessed across all segments with BPO exports leading*

– BPO exports estimated to grow by 17.5% to be US$12.8 billion.

– IT Services exports estimated to grow by 16.5% to be US$ 26.9 billion.

– Software Products and Engineering Services estimated to grow by 14.4% to be US$ 7.3 billion.

***The industry continued to diversify geographically with Continental Europe registering the highest growth rate though US remains the dominant market.*

– Over a four year period (FY04-FY08) Continental Europe is estimated to grow 51.4% as against an industry growth rate of 33.3%.

– Over a four year period (FY04-FY08), US share came down from 68.2% to 60% of the industry revenues.

***Domestic market estimated to grow by 20%; growth witnessed across all segments*

– Hardware is estimated to grow by 17% to be INR 540.7 billion.

– IT Services is estimated to grow by 20% to be INR 380.2 billion.

– Software Products estimated to grow by 15% to be INR 103.3 billion.

– BPO is estimated to grow by 40% to be INR 88.7 billion.

*** Uncertain economic environment to prevail in 2009. World growth projected to fall 0.5% in 2009, lowest since 60 years, recovers to 3% in 2010.*

***In that context, NASSCOM has taken a two year view to factor in the volatile environment and estimates the Indian IT industry to grow at 15% CAGR to achieve exports revenues of US$ 60-62 billion by FY11.*

Top Stories

Recession drives more IT outsourcing in UK
The latest survey of over 100 UK businesses carried out by sourcing consultancy Equaterra revealed that the recession is not reducing businesses' demand for outsourced IT services. Over 60% of UK businesses will increase the amount of IT functions they have carried out by suppliers while less than 10% of UK businesses will reduce the amount of IT they outsource.

MNCs step up hiring in India to boost offshoring
At a time when Indian software services companies are increasingly cutting down their hiring targets due to slowdown, MNCs seem to be on a hiring spree in India. Global players such as IBM, Accenture and Cap Gemini are all set to increase their hiring in the country, reported The Economic Times.

Polls predict legal outsourcing growth
Two recent surveys, emerging from both sides of the Atlantic, have forecast a positive outlook for the legal process outsourcing (LPO) sector over the coming years. Although the UK Law Society's In-house Survey on Offshoring was more conservative in its predictions, it still indicated that larger firms would outsource more work as an alternative to hiring traditional law firms for assistance.

BP and Hewitt renew HR outsourcing deal
Energy company BP, which announced two years ago that it was ditching its pioneering HR outsourcing deal with Hewitt, has made a surprise U-turn, signing a new contract with the US-based supplier. A BP spokesperson said: 'We have reached a global agreement with Hewitt and expect to roll out implementation across the company from 2009 onwards.'

Telecom looks to move 250 jobs offshore
Telecom is proposing to move about 250 contact centre positions from New Zealand to the Philippines during the next 18 months. The company said that when the process was complete, it would have around 1,600 contact centre positions in New Zealand and 700 positions outsourced in Manila.

Nokia inks 5-yr outsourcing agreement with HCL
HCL Technologies today said it has entered into a five-year agreement with Finnish mobile giant Nokia for providing end-to-end global helpdesk and desktop management outsourcing services.

Warner Bros to outsource jobs to India
It is believed that about 200 positions are to be outsourced to India and Poland by Warner Bros, which also said it would slash about 10% of its 8,000-strong workforce in the coming days.

Phones 4U signs £70 million outsourcing deal
Phones 4U has signed a $100-million (£70.31 million) deal to outsource almost its entire IT operations. The deal, covers a wide range of managed IT services, in addition to large programme management.

Wataniya Airways inks outsourcing deal with Kale
As part of the deal, Kale will deliver complete outsourced revenue accounting and passenger audit services from its delivery centre. Kale will put into service its industry leading passenger revenue accounting solution REVERA®, as the backbone of this platform-based BPO deal. Kale will provide services to the airline from its Managed Processing Services centres in India.

ENDESA Signs a 7-Year, €360 Million IT Services Agreement With IBM
ENDESA and IBM today announced the signature of a seven-year €360 million agreement for IBM to manage all the infrastructure and information technology (IT) solutions that ENDESA uses in Spain

and Latin America. The agreement will allow Endesa an estimated cost saving of 20%.

US Senate vote for stricter H-1B rules not to hit Indians: Nasscom

'The impact will only be on those directly employed with Troubled Asset Relief Program (TARP) companies which are H-1B dependent. The dependent companies are those which have 15% of their workforce carrying H-1B visas,' says Nasscom president Som Mittal.

BlackBerry resumes bid to buy Indian-owned company

BlackBerry maker Research In Motion (RIM) has launched a fresh bid to acquire Indian-owned Certicom Corp. which supplies vital technology for its smart phones

Service Provider News

Nasscom lowers IT services exports growth to 17% in FY09

T-BPO industry association Nasscom on Wednesday said software and service exports will grow 16-17% in 2008-09 to $47 billion, lower than earlier estimates of $50 billion as the global economic slowdown dampened demand. The association had also estimated total IT-BPO revenues to grow 21-24% in the current fiscal. As per revised estimates, the total IT software and services revenues, including domestic revenues, are poised to grow 15.3% in FY09 to $60 billion. The total IT- BPO industry, including hardware, will be worth $71.7 billion in FY09.

China’s budding outsourcing sector to get subsidies

China’s outsourcing industry is to get government tax breaks and subsidies to boost its growth as a new report shows it is struggling to reach its potential.

Outsourcing in Philippines grew 26pct in 2008: industry

Call-centres and other outsourcing companies in the Philippines earned 6.06 billion dollars in 2008, a 26%increase over 2007, the industry association said Monday. The number of people working in the industry also rose over the same period, by 24.8% to 371,965

IT attrition rate dips to three-year low

For Wipro, the attrition rate has come down from as high as 20% two years ago, to 12%. For Infosys, the rate is down from 13.7% in the first quarter of 2007-08 to 11.8% in the last quarter. TCS has seen a percentage point decline in the rate between the first quarter of this year and the third quarter.

India R&D offshoring mkt may face stiff competition from China

India, the most favoured global R&D offshoring destination, need to strengthen its research and development abilities, as the country is likely to face stiff competition from neighbouring China, says a study.

IT vendors set to grow lean as contracts assume a fixed price

The last quarter has seen IT service providers facing requests from clients to restructure their relationship contracts as well as statement of work. Some clients have sought a discount in pricing in return for assurance of projects for a given time period. A recent report from Zinnov management consulting has indicated that tier II vendors have had to offer 25% discount on pricing to obtain commitment from their clients through the year 2009.

IBM offers jobs in India to redundant staff

The company announced the loss of thousands of jobs last week, and those affected will be offered a place in IBM's new Project Match programme that helps ex-employees to relocate to IBM's low-cost operation countries, such as India, China and Brazil.

TCS likely to shift 20% of U.S staff to India

Tackling the ongoing recession, India's largest IT exporter Tata Consultancy Services (TCS) is looking to shift 20%of its onsite workers in U.S., to India, realizing that offshoring is a better option in times of downturn. The company, which has been witnessing a dip in the clients' onsite requirements due to financial crunch, has realized that keeping a large workforce in U.S. would not be a good move, reported The Economic Times.

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