

Offshore Outsourcing Grows To Global Proportions

U.S. companies extend their search beyond India for IT help overseas

The growing demand for inexpensive yet competent programming talent is pushing the offshore-outsourcing market beyond its roots in India and encouraging U.S. IT service providers to increase their use of overseas workers.

The technology skills needed to program in languages such as C++, Cobol, and even Java are available in China, the Philippines, Russia, and other countries, but offshore outsourcing is most mature in India, where the government has been supportive of IT for decades and continued to improve on the solid educational systems built by the British, says Mukesh Mehta, VP of corporate systems for Metropolitan Life Insurance Co., which has an offshore-outsourcing contract with Cognizant Technology Solutions Corp. For instance, the Indian Parliament granted the Indian Institute of Technology its charter in 1961 and the school has evolved into a center for teaching, research, and industrial consulting.

"The difference between India's universities and a school like Harvard is that an Indian university is harder to get into," Mehta says, referring to the stringent entrance requirements and the small number of students accepted.

India is also home to dozens of software-development companies touting certification from Carnegie Mellon University's Software Engineering Institute. The institute's Capability Maturity Model provides five levels of software certification that rate software-development proficiency. The model requires that software-development processes be defined, repeatable, documented, and improved in response to customer feedback.

While India is the biggest resource for offshore programmers and project managers, Forrester Research predicts that demand for offshore workers will outstrip that country's supply in a few years. India has about 445,000 IT workers, a population that's expected to grow to 625,000 by 2005. But Forrester also predicts that demand for offshore IT workers will reach more than 1 million by 2006, compared with about 360,000 this year.

U.S. executives are becoming increasingly comfortable with outsourcing proj-

ects to companies that do the work in remote locations at lower prices than can be found domestically. A 25% cost savings on an outsourcing contract is a realistic goal when working with an offshore provider, Forrester analyst Christine Overby says. To mitigate risk, many offshore companies have management personnel in the United States who act as liaisons with overseas staff. The continued reliance on offshore talent by well-known service providers, such as Accen-



Use of overseas IT talent helped MasterCard save 20% on system-development costs, Reeg says.

ture, EDS, and IBM Global Services, also lends credence to the offshore model.

Fifty IT executives interviewed in a recent Forrester study of offshore outsourcing say they each spent an average of \$8 million on these services in 2000—roughly 12% of their IT budgets. The research firm projects that the average outlay will jump to \$28 million, or 28% of IT budgets, in 2003.

MasterCard International Inc., no stranger to global operations, saw opportunities in offshore outsourcing not only to save money but to make money as well. MasterCard in June launched an IT-services joint venture with Mascon Global Ltd., an offshore service provider in Chennai, India. The companies launched Mascon-MasterCard Global Technology Services Ltd. to develop and maintain software for MasterCard's core processing functions—authorization, clearing, and settlement. The

startup also provides consulting services to MasterCard member financial institutions, processors, and vendors.

The joint venture was built on an existing outsourcing relationship between MasterCard and Mascon. At the end of January, Mascon helped MasterCard deploy a clearing system to more efficiently transfer data and funds between financial institutions and businesses worldwide that accept MasterCard. With Mascon's programming talent, the development portion of the project was completed in 18 months, three months sooner than MasterCard could have done by relying on internal resources, says Robert Reeg, MasterCard's senior VP of systems development. Although Reeg wouldn't specify a dollar figure, he says Mascon saved his company 20% of the cost of doing the work internally.

MasterCard addresses security by training Mascon's project-management staff at U.S. MasterCard facilities, Reeg says. MasterCard also stores the clearing data in the United States, giving Mascon access to only the data it requires for its development project.

MasterCard plans to continue to outsource application development projects to Mascon-MasterCard, of which Mascon owns 51%, and also to build it up as an application developer for other customers. By year's end, Mascon-MasterCard will have 50 programmers working on MasterCard projects and another 50 working on client projects from a facility in Chennai.

At United States Cold Storage Inc., executives were satisfied enough with a business-to-business E-commerce site Cognizant built for it that in late January the company extended the relationship. Cognizant, which has four development facilities in India, will build a Web-based transportation-management system for US Cold Storage, a Cherry Hill, N.J., provider of refrigerated warehousing and storage. Once deployed in May, the system will control US Cold Storage's interactions with its logistics carriers to ensure that shipments are loaded and dispatched properly, says Timothy Brennan, the company's director of IT.

"The offshore model works for me be-

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cause I have a small staff of 12," Brennan says. By complementing his staff with Cognizant programmers, Brennan has access to a variety of development talent proficient in a number of platforms, including IBM's iSeries, Windows NT, and the Internet.

The developer won US Cold Storage's business not on cost savings but

with Russian programmers working for Relativity Technologies Inc. The Research Triangle Park, N.C., company offered its RescueWare code-conversion tool, but it wasn't designed to translate KnowledgeWare's software at the time. Guzman attributes Relativity's ability to carry out the code conversion, for a fraction of the cost of doing it in-house, to skilled Russian programmers that Relativity CEO Vivek Wadhwa recruited from the Russian government, St. Petersburg State University, and other educational institutions.

Unlike U.S. manufacturers, which have used offshore outsourcers for decades, large

phasing on offshore outsourcing since 1995, when the company began shipping application development work to lower-paid EDS employees in India to cut costs for clients. EDS has been actively offering application development contracts since 1998 that include some element of offshore outsourcing. The service provider has 17 offshore facilities in locations such as India, Brazil, Ireland, and the Czech Republic. Its largest offshore presence is in India.

For Accenture, the ability to leverage offshore resources helped win a contract extension in early January from DuPont & Co. that's estimated to be worth \$250 million, to customize and install SAP R/3 4.6C. Accenture says about 40% of the development work will be done from its facilities in India and Spain. Accenture has been expanding its presence in offshore markets; in July, it opened facilities in the Czech Republic and in Mumbai, India.

Indian service providers such as Mphasis BFL, Tata Consultancy Services, and Wipro Technologies encourage U.S. service providers to more fully embrace offshore outsourcing. "Movement of prominent U.S. vendors into the offshore market gives our market validity. It shows that offshore is an established industry now," says Vikram Jai-puria, a business manager for Mphasis.

To address security concerns, offshore outsourcers are creating distributed IT environments and connecting with clients via private networks. Companies are demanding that offshore pro-

U.S. professional-services providers have only recently picked up on the trend. Accenture, EDS, IBM Global Services, and PricewaterhouseCoopers have opened offshore development facilities in India, the Czech Republic, and Spain in recent years. As the economy has slowed, these providers are seeking ways to bring prices down while maintaining profit margins. In fact, many large companies have taken advantage of the brutal economic conditions to demand that service providers use the offshore model to drive down costs, Forrester's Overby says. And once clients grow accustomed to saving 25% off the cost of using all-U.S. consultants,

Offshore Winners

Indian companies that have the Capability Maturity Model's top rating, by revenue

Company	Revenue
Tata Consultancy Services	\$689.0 million
Wipro Technologies	\$661.7 million
Infosys Technologies	\$413.9 million
Satyam Computer Services	\$308.2 million
Cognizant Technology Solutions	\$177.8 million

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on efficiency and ease, Brennan says. Cognizant does all interviewing and screening of development staff for both the E-commerce site and the transportation-management system. Cognizant also impressed Brennan when he visited Chennai and Bangalore, India, to inspect its facilities. There he found high levels of physical and data security, including redundant systems and uninterruptible power supplies similar to those in U.S. data centers.

Offshore talent in Russia proved to be the answer for Owens & Minor Inc. when it came time for the health-care products distributor to renovate its contract and pricing system. The system

What risks and rewards has your company found in outsourcing IT projects overseas? Let us know at informationweek.com/discuss.

had been written in now-obsolete KnowledgeWare software and ran atop an OS/2 operating system. Despite Owens & Minor's leadership as a user of IT, the company found the prospect of rewriting the system's nearly 6 million lines of code at a cost of as much as \$5 million a daunting challenge, says David Guzman, the company's senior VP and CIO.

The greatest risk of outsourcing was "If something went wrong with the code generation, who would fix it?" Guzman says. "KnowledgeWare doesn't exist anymore. Unless we rewrote the code, we wouldn't know exactly how it all worked."

Owens & Minor found its solution

they're not likely to pay more even when the economy improves.

What the large U.S. service providers lack in offshore experience, they more than make up for in management expertise. "Most project management—assigning projects, meeting deadlines, setting metrics—is handled from the client site anyway," Overby says. These are skills that take years of experience to develop, whereas most offshore service providers hire much of their talent fresh from local universities, she says.

EDS has placed an increasing em-

phasizing business-continuity plans and that most of the critical code developed be stored in the United States and accessed by offshore providers via secure private networks, Overby says.

What began more than a decade ago as a way to cheaply supplement over-worked internal application developers with workers from India has grown into a worldwide search for the right mixture of talent, resources, and cost savings to create and manage today's most complex IT environments. —LARRY GREENEMEIER (lgreenem@cmp.com)

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