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## **Offshoring flows with business**

Commentary--Realignment and paradigm shifts are a common occurrence in the global IT industry. What we are now witnessing is a much larger phenomenon of the offshoring industry settling down to a new equilibrium where organizations have embraced service providers to meet their operational requirements.

As Indian service providers have enjoyed long-term relationship with their clients and acquired adequate knowledge about their business, from a long-term perspective, the Indian IT industry stands to gain. From a demand viewpoint, the size of the offshoring pie is increasing--larger deals are flowing offshore, and more global organizations are coming to India to evaluate and finalize their outsourcing strategies.

Previously, the key motivation behind the majority of offshore engagements was simply to reduce costs. Using offshore locations, with a lower cost base clearly was an attractive option in a bid to cut expenses. However, as offshoring evolved, customers and vendors discovered the benefits of improved processes and service quality as equally important factors in the choice of an offshore location.

"They come for the price, but stay for the quality" is the mantra which many offshore providers currently subscribe to. Today besides cost and quality, some of the other drivers for offshoring are aspects like easy access to technical talent, flexible work practices and the exploiting different time zones. Creating 24-hour processes, which were previously limited to certain parts of the day, access to highly qualified and motivated staff diversifies the organizations work culture and additionally assists in the improvement of service quality.

While the offshore benefits are being accepted across organizations there are certain concerns related to the aligning their IT portfolio with the current business processes. Various industry research estimates that 80 percent of IT budgets go into maintaining existing applications leaving only 20 percent for the new projects.

In addition, economic and regulatory frameworks over the last few years has resulted in several emerging challenges for organizations. Such dynamic considerations have made it imperative for them to assess the financial viability of their IT portfolio, so that they can address the change in business scenario in an effective manner and optimize returns on investment on existing applications as well.

The fact that applications are being supported from offshore makes clients feel that there is very little or no control left over their applications. This also raises the concerns as to how can they align the applications with the business remotely and have transformation as an integral part of their offshore strategy.

The typical analysis of an application portfolio reveals one end of the spectrum where modern applications leverage and capitalize on the potential of the Internet, while the other end comprises traditional, close-ended, legacy business systems.

In the midst of this technological diversity comes a surprising fact that more than 70 percent of corporate data still resides on legacy systems. The challenge that technology and business

leaders have to address is the successful management and re-deployment of legacy systems to meet tomorrow's business needs, while they are offshore. In this scenario organizations need to understand impact of legacy applications to answer following application rationalization questions like: What legacy applications do I have? How many of them are being supported from offshore? How are they performing? Which applications support my most critical business processes? Who are the end-users? Which applications have poor data, high maintenance requirements, and high support cost? What is the TCO?

The question of offshoring has dogged businesses globally. A study by McKinsey Global Institute (see PDF) shows that potential cost savings from typical offshoring will be in the range of 45 to 55 percent. Offshoring with focus on transformation will add another 15 to 22 percent in the total cost savings.

### **Outsourcing models**

Today, there are a multiple options of structuring an offshore arrangement for achieving financial and IT transformation objectives. The four preferred outsourcing models are: captive unit, build-operate-transfer (BOT), joint venture and dedicated offshore development center.

In the captive center model, the business sets up its own subsidiary offshore so that all assets and staff are owned by the client business.

For a BOT, the client and supplier set up an arrangement, wherein the supplier establishes the operation and then provides services for a defined period. When the center and services are established, management and ownership is transferred to the client.

Joint venture is a model wherein client and offshore supplier set up a joint venture vehicle, which will predominantly service the client's business. Both the client and the JV partner share the risk and the revenues resulting from the operations.

An offshore development center, solely engaged in developing, testing and deploying software solutions and applications, is located outside the client's premises and most often outside the client's country. The purpose behind an offshore development center is to take advantages of the technological know-how, cost advantages or the reduced time to market.

Though each model has its pros and cons, businesses must choose a standalone model or a hybrid structure to maximize the benefits of offshoring and aligning the offshore initiative to their business model.

Clearly, there is no one fit for an offshoring strategy. It is the consulting skills of the vendor and the client's desired end result that will result in the evolution of the offshoring model to meet business requirements.

### **Biography**

*Prashant Halari is in charge of Portfolio Rationalization for Patni Computer Systems Limited, a global IT Services provider servicing Global 2000 clients. Patni caters to its clients through its industry-focused practices, including insurance, manufacturing, financial services, telecommunications, and its technology-focused practices. For more information on Patni, visit <http://www.patni.com/>*

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