

## VOICE & DATA

### OFFSHORE IMS



## Riding High on Value

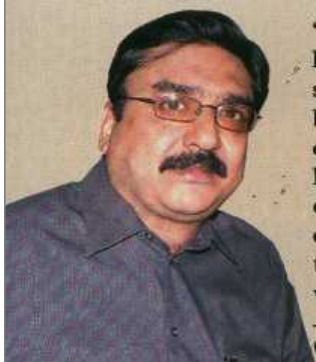
**What's driving customers to offshore their IMS to Indian offshore vendors is the value offering, in terms of addressing real customer issues**

**T**he number of people dedicated to offshore infrastructure management services doubled in the past year, so did the number of devices being managed by offshore service providers based out of India. If that is any indication, offshore infrastructure management services was surely the fastest growing segment of the Indian outsourcing industry in 2005. The growth was particularly substantial

in respect to the top two offshore IMS providers—HCL Comnet and Wipro Technologies—who between them added around 3,000 people, more than double the number of people dedicated to-IMS in 2004. Obviously, there was a huge spurt in the volume of IMS work being handled by these companies. MNC offshore service providers too had similar growth stories. For instance, one of the largest outsourcing compa-

nies, which has built up a significant base in India, almost trebled its Indian manpower dedicated to IMS. It now has 1,200 people dedicated to managing thousands of devices of its mostly Fortune 500 clients across the globe.

Businesses have been outsourcing infrastructure management for quite a few years. With global vendors in the lead it was more of an onsite/nearshore business. Indian vendors too were in



**"India is still a leader in this space primarily because companies like ours have consistently driven to offer transformational value to clients"**

—Anant Gupta  
COO, HCL Comnet

**"Besides cost there are several other factors that make India a preferred IT destination—skilled workers, favorable business climate, and strong technical and language skills"**

—Brian J Manning  
director, Global Infrastructure Services, CSC India



## VOICE & DATA

the business, but mostly as fringe doing odd jobs. It was only after they pioneered the offshore delivery model that they emerged as significant players. The growing acceptance and maturity of the offshore model of IMS delivery brought a sort of windfall for the Indian companies. It is now widely recognized that even though the likes of IBM, EDS or HP have the depth in terms of experience and technology, it is the Indian companies who are at advantage when it comes to process maturity in offshore service delivery. The growing acceptance of the offshore IMS delivery can be gauged from the fact that the on site component of Indian companies' IMS business has gone down considerably in the past year. For instance, Wipro—the offshore component has grown from 58% last year to 70% this year.

The global market for infrastructure management services is estimated to lie between \$86-150 bn depending on the market estimates subscribed to. A 2004 report by Deutsche Bank estimated the size of the global infrastructure-management market at \$86 bn. On the other hand Forrester estimates the IMS market to be at \$111bn. According to Gartner the market is much bigger—at \$150 bn. It says that the IT management market in the US alone is expected to be \$80 bn in 2006.

Nasscom estimates that 40-60% of the overall IMS pie may be efficiently delivered through a global delivery model. This translates to a market

potential (for remote infrastructure management) of approximately \$55 bn. Current estimates indicate that approximately \$200-300 mn (0.5% penetration) is spent annually on infrastructure-related services, delivered remotely from India. According to Gartner, the collective contract value for this annualized spending is more than \$600 mn, because infrastructure deals usually involve multi-year contracts. Growing adoption resulting in increasing penetration is expected to result in high growth in this segment over the next few years (estimates range from high double digits to triple digits—given the small base).

No doubt, IMS is becoming an important component of the offshore services business with Indian companies using it to gain new clients and

### IMS: MARKET ESTIMATES (in \$)

Deutsche Bank	86 bn
Forrester	111 bn
Gartner	150 bn

bag large long-term contracts. "Infrastructure services have become a door opener for new business," says Venkataraman KNK, VP, Technology Infrastructure Services, Wipro Technologies. Wipro, which registered 70% growth in its IMS business in Q2 2005-06 on a year-on-year basis, has 165 global customers.

While Indian service providers have been building their IMS business mostly on the offshore model, they aren't discounting the importance of going nearshore. For instance, Wipro has an NOC and delivery center in Reading (UK) and Mountain View in California (US) besides three POPs in the US, UK, and Japan.

### IMS VENDORS

#### Indian Companies

HCL Comnet  
Wipro Technologies  
TATA Consultancy Services  
Satyam Computer Services  
Sify  
ITC Infotech  
Infosys  
Patni Computer Systems

#### MNCs in India

CSC  
HP  
IBM Global Services  
EDS  
ACS  
Cognizant Technology Solutions  
Atos Origin

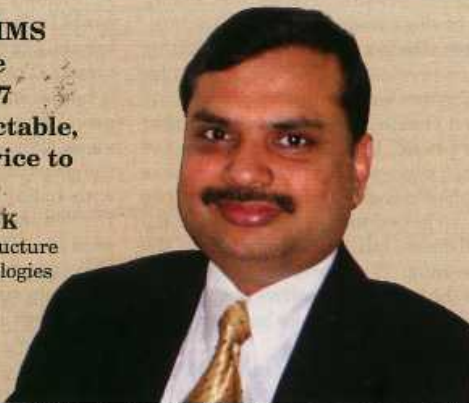
### Cost's a Sweetener, but There's More Value Beyond It

Cost is certainly a sweetener that's driving companies from the US, Europe, and rest of the world to outsource the management of their IT infrastructure to India-based companies. Depending on the function that they have outsourced to India, customers have witnessed a saving of 30-50% in managing and operating cost of their IT infrastructure. However, cost is just one driver. In fact, it's getting less significant as service provider-customer relationships mature and service providers deliver new values to their customers. "India is still a leader in this space primarily because companies like ours have consistently driven to offer transformational value to clients which is way beyond the cost factor," emphasizes. HCL Comnet has more than 97 customers out of which 20 are Fortune/Global 500 companies. Wipro's Venkataraman agrees. "We are getting IMS business because we can offer a 24x7 proactive predictable and reliable service to our customers," he says.

"Besides cost there are several other factors that make India a preferred IT destination—skilled workers, favorable business climate, and strong technical and language skills," Brian J Manning, director, Global Infrastructure Services, CSC India. Manning's company has a fast growing infrastructure management business out of India that relies

**"We are getting IMS business because we can offer 24x7 proactive, predictable, and reliable service to our customers"**

—Venkataraman KNK  
VP, technology infrastructure services, Wipro Technologies



## VOICE & DATA

heavily on the remote delivery model to offer an array of infrastructure management services to its clients across the globe.

So besides the cost factor, what is making offshoring of infrastructure management services attractive to customers?

The value that offshore vendors are offering in terms of addressing what Venkataraman calls "real customer issues" and the paradigm shift that India companies are bringing in this domain attracts customers. "Because of mergers and acquisitions, companies are left with heterogeneous applications and tools. We are putting tool agnostic CPEs to protect customer investment," Venkataraman points out that infrastructure management service was earlier based on two strong matrices—response time and resolution time. That's no more the case. "We have changed the entire paradigm. We are now talking availability and proactive services to customers. The value we offer is measured by availability of critical infrastructure," he says.

HCL's Gupta says that the trend towards remote infrastructure management is largely driven by positive customer gains. "In our experience these gains have largely been due to five factors—proactive problem resolution, visibility and control, access to domain expertise, quality and process edge, and flexibility that gives customers the choice of outsourcing a single selected function, several functions, or an engagement in phases. Gupta says that proactive problem resolution is the real 'make or break' critical success factor—client end user's satisfaction. "Today's CIO's wish they were in a position where they get to know about a problem before the user brings it up? Now through the use of integrated proactive monitoring and management tools, advanced correlation engines and qualified resources they can resolve the problems in a faster and structured manner and reduce business losses due to IT downtime," he adds talking about the value that Indian service providers are offering to their clients.

What's also driving customers offshore for IMS is the growing demand for complex services that 24x7 access to high-end expertise and skills that Indian companies have been able to provide. "As the need for new security



### FACTORS FAVORING INDIA'S CASE FOR REMOTE IMS

- The increasing trend towards selective—'asset-light' IMS, which is opening up the market for Indian vendors
- Higher reliability and lower cost of telecom connectivity—an essential element in remote IMS delivery is increasing the viability of using Indian vendors
- As hardware costs are fast approaching global standards (across markets), customers are laying more emphasis on managing operating costs—a large part of which is labor cost—which being significantly lower in India forms a competitive differentiator
- Billing rates (and profitability) in the remote IMS space is similar to that in the application development and maintenance space.
- High offshore-able component in volume IMS
- Though unlike the ADM space Indian vendors lack a head start in this segment, with global players actually having the advantage of experience as well as seemingly superior tools and techniques, Indian vendors have a clear advantage in terms of process maturity in offshore service delivery
- Higher risk perception of offshoring IMS to with global vendors—though they have the resources offshore and experience to offer this service, they do not have the references to show capabilities for support primarily through remote offshore centers.

Source: IASSCOM

features is growing because of factors like compliance and a growing online presence, customers have now found value in outsourcing security too," Venkataraman says.

Even though, the growth in the volume of work may not have meant a similar growth in revenue, over all IMS is having a positive impact on the business of Indian service providers. Stating that revenue is a function of price realization, volume growth, productivity and Onsite-offshore ratio of number of people, Venkataraman points out that while the first two factors have helped increase revenues, the last two have helped increase stickiness of the business, but has brought down the revenue. "The combined implication of the four is still positive at an overall level since the business has been growing strongly," he adds.

Is the emergence of other low-cost IMS destination a real threat to In-

dian companies? Most Indian service providers don't think so as they don't consider cost as the only reason that's sending IMS offshore, though they do agree that it's an important factor. They are confident that other low cost vendors in places such as China, Philippines or Eastern Europe cannot easily replicate the value that Indian service providers offer to their customers. They feel that nothing much is happening in these countries as of now. However, CSC India's Manning views China and Eastern Europe as the emerging regions that can compete with India. Venkataraman feels that Brazil might come up strongly in IMS as in the same time zone as US and is also a fast growing economy. However, he points out that even in Brazil the cost of services are higher than those in India.

**Ravi Shekhar Pandey**  
ravisp@cybermedia.co.in