Indian Outsourcers Go Global

by William Holstein

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Facing mounting competitive pressure, India's biggest firms are reshaping themselves as multinationals.

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When the Indian outsourcing phenomenon first burst onto the U.S. corporate stage just a few years ago, the outsourcing companies maintained some personnel in the United States to stay in touch with customers. But the vast majority of their engineers, software designers, and programmers were in Indian cities such as Bangalore, Hyderabad, and Chennai (formerly Madras). The work, whether supporting information technology systems or performing business process outsourcing, was labor-intensive and could essentially be uploaded to the Internet in the United States and downloaded in India to be completed. The business model was relatively simple and India-centric.

But something happened on the way to the future for the Indian players, the top six of which — Satyam, Wipro, Infosys, Tata Consulting Services, Cognizant Technology Solutions, and HCL Technologies — are known by the acronym SWITCH.

The increasing complexity of contracts with big U.S. customers; growing wage pressure at home; the rising value of the rupee; and a fierce counterassault by IBM, Accenture, and Electronic Data Systems (EDS) (recently purchased by Hewlett-Packard Company) have obliged the Indian companies to go global and create new multinationals that are much less India-focused. "The Indians are reshaping their business model and are trying to move up the value spectrum," says Tarun Khanna, professor at Harvard Business School and author of *Billions of Entrepreneurs: How China and India Are Reshaping Their Futures and Yours* (Harvard Business School Press, 2007). "They're trying to reinvent themselves in much the same way that Japanese car makers did after they started making basic cars. When other people started offering simple cars, they moved up and began to make more complicated cars."

Today Indian firms are expanding rapidly in the United States and elsewhere. They are also moving into traditional business consulting and striking new kinds of partnerships with clients — all of which mimic more closely the structure and business mix of the major U.S. outsourcing consultancies. Thus the battle between the fast-growing Indian outsourcers and the big U.S. firms shapes up as an intriguing test of the ability of companies from emerging countries to go toe-to-toe with the best that the West has to offer.

Consider the case of Cognizant, which has maintained a headquarters in Teaneck, N.J., mirroring its other headquarters in Chennai. The company has about 12,000 employees in the United States and 40,000 in India. Altogether, it operates in 25 countries. Cognizant's largest U.S. customers include J.P. Morgan Chase & Company and Kimberly-Clark. Chandra

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Sekaran, president and managing director of Cognizant's global delivery division, based in Chennai, explains that the firm has adopted a three-tiered model for performing its services. First, it has global delivery centers in India and China that work for customers around the world. These already have, or will soon have, tens of thousands of employees.

Then, for the North American market, it has regional, or near-shore, delivery centers in Buenos Aires and Toronto, where it bases thousands of workers. The goal is to maintain more employees in the same time zones as U.S. customers (so that customers who get on the telephone in the evening to give instructions to India don't have to wait until the next day for results) but not to incur the costs of having U.S.-based employees.

Last, Cognizant has local, or onshore, development centers in Phoenix, Ariz., and Bridgewater, N.J. In the parlance of the trade, Cognizant is striving to achieve strong "front-end" relationship management with customers, much as an IBM or an Accenture would have, and at the same time maintain a strong "back end" to offer high-quality, low-cost services. "We're now gearing up for a global delivery model," says Sekaran. "It's not enough to have people just at the customer location. You also must have people near the customer location as well as offshore, not just in India but also in places like China." To be sure, it's a much more complex model, because now Cognizant is attempting to divvy up the work for a single customer and perform it at multiple locations concurrently, depending on the skills sets and costs at each of its facilities. The management challenges inherent in doing this loom large, and IBM and Accenture have a big head start. But the model has been working for Cognizant so far: Its 2007 revenues were US$2.1 billion, and the company says it is expected to grow by 38 percent this year, to $2.95 billion. Cognizant professes to be the fastest-growing among the top-tier IT companies globally, although each of the Indian firms makes similar claims.

There's little question, however, that all of them are coming on strong. They are starting to make acquisitions of other firms, particularly those that are customer-facing, a trend that IT research and advisory company Gartner Inc. expects to accelerate.

And the leading Indian firms are creating consulting divisions to further their ambitions. "Our business model is clearly changing," says Infosys Consulting CEO Stephen Pratt (based in Fremont, Calif.), moving beyond pure outsourcing. "Forty percent of our revenues are from services we introduced over the past five years. We've gone from all outsourcing to much more of a project-based company." This puts him in direct competition with the IBMs and Accentures of the world. The competition "is getting really serious now," says Pratt, who worked for Booz Allen Hamilton for eight years and Deloitte Touche Tohmatsu for 12 years. "The idea that we were on a collision course started four or five years ago, and now we're actually colliding."

HCL, formerly Hindustan Computer Ltd., says that of all the Indian firms, it is the one leading the way into more complex work traditionally dominated by the U.S. majors. Shami Khorana, president of HCL America, based in Vienna, Va., says three deals are at the center of this drive. The first was HCL's $40 million acquisition in February of Capital Stream, a Seattle-based provider of consulting services for commercial banks. Second, HCL inked a $100 million deal with CA, the former Computer Associates, in which the

Indian firm has taken responsibility for developing and supporting an antivirus product for CA's customers; CA sells the service but shares revenue with HCL. "It's absolutely a new model," says Khorana. Third, HCL signed a joint venture a year ago with Toronto-based Celestica, an electronics contract manufacturer, in which the Indian company designs, prototypes, and manufacturers new products.

For its part, IBM maintains that it still enjoys a commanding advantage over its Indian challengers. It is the number one seller of technology services in India. IBM spokeswoman Angela L. Sullivan says that the company's revenues from India approached $1 billion in 2007, and that it has recently launched the IBM India Institute for Business Value, a think thank that will enhance IBM's lead over its Indian rivals.

Overall, the company has 53,000 employees in India, and believes it is beating the Indians on their own turf. IBM says it won out over Wipro and Tata, for example, to help the Delhi International Airport Ltd. implement an enterprise resource planning system. "IBM is seizing opportunities to win in India and is beating the Indian pure plays in their own backyard," says Sullivan. She adds, "IBM's approach to global delivery is very different from the Indian players, who are still almost completely reliant on low-cost talent in one or two countries."

The question is how much longer the Indians will be relying on low-cost talent in one or two countries and be considered pure plays. The answer appears to be: not much longer. "These companies are going to get dramatically bigger and dramatically more complicated in the next three to five years," says Harvard's Khanna.

How does the battle shape up from a customer's perspective? Tom Lamming, chief information officer of Australian telecommunications provider Telstra, in Melbourne, spent 25 years with Accenture and now buys services from both the U.S. giants and the Indian challengers. He likens the industry to construction. First, an architect has to draw up a concept. Then engineers need to create detailed blueprints. Only then can contractors and builders get to work. "An architect makes more money than a carpenter," he says.

Keeping with that analogy, the Americans have been better at designing solutions for Telstra. "Indian firms deal well with very structured problems," says Lamming. "But if I have a business problem and ask, 'How do I solve it?' they can't do that as well."

The challenge for the Indians is to learn how to interview a client's customers and senior executives to figure out what the right technology frameworks are. "That's where they have to develop their skills," says Lamming. "They'll get there." At the same time, Lamming believes that the Americans have to continue driving down their cost structures by expanding their offshore presences.

The arrival of HP in the outsourcing battle, through its acquisition of EDS, will almost certainly rev up the level of competition. But Khanna, for one, argues that IBM, HP/EDS, and Accenture face a fundamental gap in their cost structure, and therefore the prices they're able to offer to customers. "They have opened massive development centers in India, but I don't think they can come close to matching the costs of Infosys and Wipro, because they are still centered in their headquarters in the United States," Khanna argues. "They can cut down the difference between themselves and the Indian vendors, but they can't eliminate it." +

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