

CEO Spotlight



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Globalization has affected all facets of the world economy. This includes services, which in most economies are the single largest contributor to economic growth and employment. Earlier, buyers looked at cost benefits and therefore considered targeted countries when they considered outsourcing.

Today, the scenario is changing and buyers are looking at cities with specialized talent pools for specific functions and processes.

Organizations will move towards a distributed model for services globalization, looking to source the best possible skills from locations that can best deliver them. Over the years, many cities have developed pools of expert resources in specific domains or processes. This is particularly true in the case of Global Tier II cities that have recently emerged. For example, cities that have been developing expertise in one or more specific areas include Colombo (Finance and Accounting), Ho Chi Minh City (PC based applications), Moscow (Aerospace Engineering) and Krakow (Hi-Tech Engineering).

We will see many more cities emerging as services globalization centers of excellence in 2007. Prague, Halifax, Budapest, Warsaw, Pune, Krakow and Bucharest are already on the offshoring map, but they are becoming increasingly expensive and less differentiated. As a result, other cities such as Moscow, Bratislava, Ho Chi Minh City, Kolkata, Xi'an, Buenos Aires, Brno, Colombo and Sofia are on their way to becoming the new centers of excellence.

Organizations will also look at scale which is vital to meeting the huge demand in ITO and BPO. India is indeed a good solution and is currently the most popular destination in terms of scale. India will continue to provide the scale for the next decade, and will be followed by the Philippines and China. . However, multi-country sourcing is the need of the day and such multi-country solutions will be architected keeping in mind centers of excellence emerging in cities across the globe. It is about finding a “Solution” that will meet globalization needs in the true sense, and provide a competitive edge.

Areas of Outsourcing and Sub-Processes

Information Technology	IT Infrastructure Management	KPO	BPO	ESO	Life Sciences
<ul style="list-style-type: none"> • Applications Development • Applications Maintenance • Applications Support • Applications Integration & Testing • Animation • Product Development & Testing • Product Support & Maintenance 	<ul style="list-style-type: none"> • IT Services - Infrastructure • Desktop mgmt. • Technical Helpdesk Services • Remote Network mgmt. • System, Server and Applications mgmt. • Data Center mgmt. • Compliance • DR/BCP • Security mgmt. 	<ul style="list-style-type: none"> • Legal • Media • Publishing • Equity Research (Financial, Insurance) • Market/ Business Research • Education & Training • Analytics • Financial Modeling 	<ul style="list-style-type: none"> • FAO • HRO • Logistics/ Distribution • Supply Chain Management • Claims • Payment Processing • Procurement • Contact Centers • Medical Transcription 	<ul style="list-style-type: none"> • Engineering & Design Services • Aerospace • Automotive • Naval • Hi-Tech • Telecom • Utilities • Construction/ Industrial 	<ul style="list-style-type: none"> • Healthcare • Drug Discovery • Drug Development • Pharmaceutical Database mgmt. • Clinical Trials mgmt. • Clinical Datamining and Analytics • Bio-Informatics

Information Technology Outsourcing (ITO)

Information technology was one of the first to be outsourced. Under ITO there are several sub processes, including consulting and integration, infrastructure and managed services, application development and maintenance, R&D and product development. The initial IT outsourcing boom took place in India. Now it is spreading its roots all across the world to destinations including **Kiev** and **Prague** are amongst the top cities for IT outsourcing. **Bangalore** also remains a top ITO destination.

Kiev, the capital of the Ukraine, has a large pool of IT programmers, an advanced educational system, stable wages and growing productivity. These are the primary factors that attract offshorers to the city. Boeing, Cisco, Citibank, DaimlerChrysler and GE are some of the companies with centers in Kiev.

Prague is the capital and the largest city of the Czech Republic. Labor arbitrage and English-language skills are the aces that the Czech Republic has, with its universities turning out highly skilled technical graduates. KPMG, Dell, Fujitsu, Siemens, HP, Microsoft and IBM are a few of the companies with a presence in Prague.

Bangalore continues to attract a large number of ITO clients. Moderate climate, good labor relations, excellent education and research institutions, good telecom connectivity, advanced infrastructure, and investor perception are just some of the reasons that make it a popular destination. Dell, IBM, Microsoft, HP and Oracle are just a few of the many IT companies that have service centers in Bangalore.

IT Infrastructure Management

IT infrastructure management is a sub process of Information Technology. However, since it is outsourced on a larger scale than some of the other sub-processes, it is almost considered a main process. Some of the cities for IT infrastructure management are **Xi'an, Santiago, and Halifax**.

Xi'an is the capital of southwest China's Shaaxi Province, and is the pioneer in the software industry in China. It has been retaining a sustainable and booming economy, which in turn increases the development of the software industry. Outstanding contractor enterprises, rich human resources and preferential policies are some the reasons that make Xi'an a popular outsourcing destination.

Santiago, Chile is one of the most popular destinations for outsourcing in South America. Apart from the proximity to the US, transparent legal framework, solid macroeconomics, political and social stability provide an attractive setting for businesses. Yahoo, Synopsys, GE and Software AG have centers in Santiago. Halifax is a popular outsourcing destination for many US firms, primarily because it is close by geographically. There are also the factors such as, cultural proximity and lower costs that make Halifax a popular destination.

Halifax is known as the Silicon Valley of Canada. AOL, Convergys, Diaphonics, EDS, HB Studios, IBM, InfoInteractive, Keane, Nicom IT Solutions, Research in Motion (RIM) and Sun Microsystems are a few of the companies in Halifax.

KPO

Knowledge Process Outsourcing, or KPO as it is popularly known, is another growing category of services being outsourced. Areas with significant potential for KPO include pharmaceuticals, biotechnology, legal services, intellectual property, research and design, and development of automotive and aerospace industries. **Delhi (NCR)** is one of the leading destinations for KPO work. Apart from being the capital of India, it has a large qualified labor pool. Evalueserve & Genpact are just a few of the numerous companies performing KPO work in Delhi and other Indian cities.

Shanghai, China is likely to get a bigger share of the Japanese and Korean markets due to the similarity in culture. Evalueserve and Pfizer are a few of the many companies that have a presence in Shanghai. **Moscow** can claim a large population of engineers and scientists. Half of all Russian students major in mathematics and science, specializing mostly in R&D and engineering. Companies such as Alacatel, Nokia, and Siemens have research and design centers in Moscow.

BPO

Business Process Outsourcing, also known as BPO, is a major part of outsourcing. Some of the BPO sub-processes include FAO, HRO, Logistics, Distribution, Supply Chain Management, Payment Processing, and Compliance. **Manila**, Philippines has emerged as a preferred destination for shared service centers of companies like P&G, Chevron Texaco, Citibank and HP.

Colombo, Sri Lanka, is becoming a hot spot for FAO. This success may be primarily attributed to the fact that it has the highest number of UK certified accountants after the UK itself. Additionally, the cost of setting up FAO centers here is relatively cheaper than it is even in India. HSBC, Office Tiger, Astron, WNS and others have helped make Colombo a financial center of excellence. **Krakow**, Poland has a qualified talent pool and relatively cheaper labor. There are approximately 30,000 graduates in Krakow, out of which about 21,000 graduated in economics. Capgemini has its largest FAO center in Krakow.

Engineering Services Outsourcing

Engineering Services Outsourcing (ESO) refers to the creation of a new product or processes, which includes designing the equipment, infrastructure, and processes involved in manufacturing products or services. **Moscow**, **Rayong** and **Ulsan** are some of the emerging cities providing ESO, catching up with the more prominent locations such as Delhi and Shenzhen.

Moscow has a large number of scientists and engineers, and is one of the largest aeronautics manufacturing cities in the world. Most of the airplanes designed and manufactured in Moscow are exported to nations worldwide. Boeing and Airbus have manufacturing and design centers there. Another ESO up-and-comer is **Rayong**, Thailand, which is able to produce inexpensive bulk automotive parts in bulk while also providing a cheap labor pool. As a result, Chevrolet and GM have set up manufacturing units in Rayong.

Ulsan, South Korea is known primarily for its ship-building capabilities, as labor costs are less when compared to Norwegian ship-building companies. Hyundai has its largest shipyard in Ulsan, where parts are manufactured and shipped to other cities of the world for use by other shipping companies.

Lifesciences

The life sciences industry is in a period of transition. It seeks to use IT in resolving the process inefficiencies that cause a lot of money to be wasted across the spectrum —from R&D to post-marketing. **Halifax** has a mature and diverse services markets, its level of infrastructure is almost the same as the US, and attrition rates are low. ForeignExchange Translations, Inc., headquartered in Boston, has a center in Halifax.

Singapore is also an advanced destination for life sciences. It has good infrastructure and it can tap into Asian populations for clinical testing. Johns Hopkins has a biomedical research center in Singapore; CIBA Vision houses a contact lens manufacturing center. **Beijing** is also a city where life sciences outsourcing

is popular. Since labor is cheap and there is a large workforce to work with, many companies such as Quintiles and PPD have their manufacturing and other units in Beijing.

Conclusion

As outsourcing evolves and clients and buyers get more demanding, cities will also develop. It might be in terms of the skill or the scale of the workforce or the quality of the services provided. Clients are already more choosy about where they want to outsource. Clients are looking to diversify how they outsource and who they outsource to. They are looking for specific providers with specialized talents. It doesn't matter if they have to outsource to more than one destination to get the job done, as long as they are getting top quality services.

In order for cities to become centers of excellence, they will have to carve out a specific niche and become specialists in one or two areas. 2007 marks the end of destinations being a one-stop-shop for every kind of service. To stay in the game, individual cities will need to understand their own potential offerings, refine and focus them, and market themselves wisely. If they fail to do this, they will be left on the sidelines of services globalization.

