

## CEO Spotlight



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## Emerging Cities for Outsourcing – The New Wave

**Last year,  
Tholons and  
Global Services  
Media ranked  
the Top 50  
Emerging  
Outsourcing  
Cities.**

Encouraged with the response we received and our commitment to bring you incisive research, we are making it an ongoing annual study. This is the first of its kind, global study,

where cities instead of countries have been ranked based on their attractiveness as a services outsourcing destination. There is a marked change in the way strategic decision making on location selection for expansion or growth has happened. CIOs and decision makers need to know how costs and efficiency are affected by moving from one city to another. They need to understand what

advantages a city provides over another city within the same geographic region. Geographic borders have become transparent as businesses look for business value as the primary criteria in selecting a location. For example, companies need to identify calculated benefits of expanding to Cebu City in the Philippines, as opposed to simply expanding their already established operations in Manila NCR.

Another dimension that was discovered during the study is of the trend of what we call - “Best in Class” cities. That means, taking the work to a location which has the best skills, business catalysts and sufficient resources rather than just the best cost. In our study we found many such “Centers of Excellence” which are emerging. For example, Prague is an emerging location for engineering services; Ho Chi Minh City is an emerging location for IT software and hardware testing services while Bucharest is an emerging city for its business analytics capabilities.

The full report can be found at [http://www.tholons.com/pages/cover\\_story.asp](http://www.tholons.com/pages/cover_story.asp).

## **So how much has changed since we did our last study a year back. Here are three areas we’ve noticed that the market has matured in...**

- Before companies talked in terms of countries (“should we source application-development services from India or China”), now they discuss cities (“should we source from Bangalore or Shanghai”).
- Before they discussed generic availability of talent (“how many students does Manila graduate each year”), now they analyze skill sets specific to the function they want to outsource (“how many U.S. GAAP-trained accountants are there in Manila”).
- Before they considered only the large, established centers for sourcing (“we have a delivery center in Bangalore”), now they are actively talking about — and getting work done from — tier-2 cities (“we have delivery centers in Bangalore and Coimbatore”).

## **So what drove the change? In the last couple of years, Tholons has observed distinct trends that have tied into this...**

- ITO and BPO growth will be supply-constrained in an extremely strong demand market. We’re filling up at our current location, where else can we go?
- Globally, service providers will witness a significant resource crunch. Is there enough staff and management talent in other parts of the world? To what level can these new locations scale? What about the cost?

In this regard, and in realizing the continued strain on resources - service providers have had to aggressively seek alternative operational measures to maintain their respective business demands. This predicament has thus given rise to the proposition that Tier II destinations can in fact be viable

outsourcing locations. As is often the case in business, this is a critical time when some companies will elect to take the risk and dive into unexplored territory while others will wait and see. The risks are clear – time, money, reputation and client relationships. The rewards can be quite attractive – first-mover advantage, intellectual capital, branding, networking, and hopefully a good return on investment for taking on the risks.

The industry leaders and pioneers like Nortel Networks, GE, Citibank, American Express, IBM, Aviva, Texas Instruments, Intel, Microsoft and others have reaped the benefits of taking the first step in offshoring – Trusting virgin markets like Bangalore, Manila, Sao Paolo to drive their future services delivery engines. It is time other companies take the plunge.

## **So who do we think will win? It will be impossible for me to name the companies, but I think the winners will have a couple of things in common...**

- **They will be committed to winning in the long term while remaining grounded but ready to innovate as they progress.**

Some companies we have spoken to are very set in their ways. They expect to be able to replicate exactly what they're doing in Tier 1 cities (Highly developed cities at par with global cities like New York, London etc. in standards for doing business) when they expand into Tier 2 cities (Developing cities). However, the reality is that there are very real differences between Tier 1 and Tier 2 cities. A typical restriction is they only want to go where they can employ 1,000 people right away otherwise; it won't be worth their time. This expectation may not be reasonable since the outsourcing ecosystem will likely be underdeveloped. Bangalore was not the same when Nortel Networks or Texas Instruments opened shop in the late Eighties. The biggest brand today Infosys was not more than few hundred people at that time and did not have any exposure to working with global clients at that time. However, the pioneering companies found a way to design their delivery engine to produce high quality work output at a lower cost and most importantly found a way to scale up dramatically. These companies today employ 10,000 plus people on an average and are some of the most productive work force anywhere. It will take some patience, some investment to develop the ecosystem and some management agility but I believe those that come into the Tier 2 cities with the right mindset can position themselves to win in the long term.

- **They will be excellent at hiring, developing and retaining talent.**

Time and again, we hear industry executives proclaim that they are in the people business or that their people are their greatest asset. The current supply crunch is already testing which companies actually walk the talk. This will be even more evident as companies enter Tier 2 cities. What percentage will actually be employable? Will the compensation and benefits packages be lower? How much more do you need to invest in training? Can you expect attrition rates to be lower? These are some of the many questions companies sort through.

At Tholons, we are closely watching how things will play out. We have commissioned specific research projects that will ensure our clients remain on top of the developments in this space. Our commitment to

our client's growth has made them look to us as partners for their expansion strategies. Be it entering a new geography or entering a new business segment, we are undertaking projects that will help our clients build competitive advantages in the industry. To mention a few, we are conducting a detailed benchmarking study covering Tier-1 and Tier-2 cities in India and the Philippines. As part of that study, we've also partnered with Meritrac, India's leading skills assessment company. We are also in the process of developing an Outsourcing conference featuring current and emerging global centers of excellence with speakers from North America, Europe, Latin America and Asia. I will write more about this in our next newsletter.

See you around ...



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