

Indian outsourcing finds big takers in Nordic region

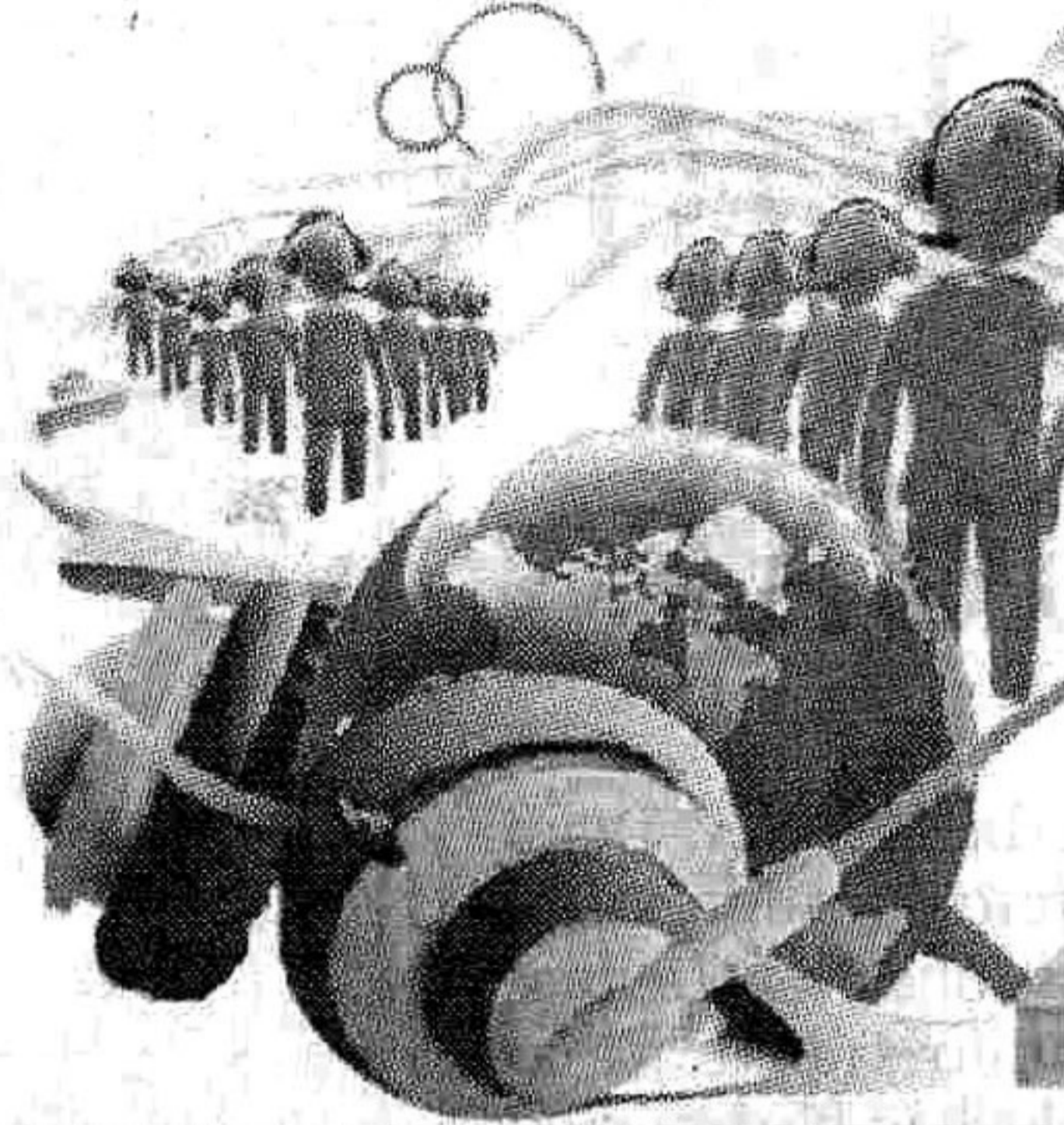
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NORDEA AB, the biggest regional bank in the Nordic region, along with peers Svenska Handelsbanken and SEB, are among a new set of customers planning to offshore technology work to India, as they aim to bring down operational costs by up to 30% and cope with the slump more effectively. Indian tech vendors such as TCS, HCL, L&T Infotech, Wipro, Infosys and Cognizant are in discussion with Nordic customers for outsourcing contracts potentially worth around \$100 million each over next few years.

Outsourcing advisory firm EquaTerra recently analysed around 370 outsourcing contracts signed by over 200 Nordic customers and concluded that the Indian service providers scored better than European vendors such as TietoEnator and Capgemini when it came to customer satisfaction. EquaTerra analysed almost \$4.3 billion worth of outsourcing contracts signed by these customers.

"Many Nordic firms are looking at some of the successful offshoring case studies in their region such as Ericsson and Ikea, and are now beginning to explore similar opportunities," said Sridhar Vedala, managing director of offshoring advisory firm Quantam Step.

Most Nordic countries, especially Sweden, have high cost structures. This is putting pressure on local customers to seek low-cost resources in locations like India, which will help them tighten belts by up to 30-40%. For instance, when Handelsbanken was seeking suppliers for a new outsourcing contract, it short-listed six vendors including Logica, TietoEnator, TCS, L&T Infotech, HCL



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Technologies and Hexaware. However, despite the presence of European outsourcers, the firm finally decided to go ahead with pure offshore vendors such as HCL and L&T Infotech.

"India remains the dominant offshore destination for Nordics firms. 61% of the respondents are using India to fulfill at least some of their global sourcing needs," EquaTerra said in a recent report. When contacted by ET, Indian tech vendors declined to comment on any potential outsourcing contract being pursued by them.

TCS, India's biggest software outsourcing firm, said Nordic customers are indeed beginning to explore more outsourcing options. "While the overall Nordic IT market is expected to remain flat in 2009, the demand for serv-

ices outsourcing continues to be firm and we are seeing continued growth," said AS Lakhminarayanan, vice-president and head(Europe), TCS. "Norway in particular is expected to demonstrate one of the highest IT market growth rates in Europe in 2009, estimated at between 1-2% annually, while most other markets have remained flat or even declined," he added.

Customers such as Handelsbanken have been exploring offshoring of IT work for almost a year, and a worsening economic crisis forced them to look at offshoring more seriously. The bank is now seeking suppliers for maintaining its legacy mainframe systems, and also make them work with newer business software applications. Nordic customers prefer to start an outsourcing engagement with smaller contracts of \$10-20 million, but are expected to ramp up after experiencing the promised benefits. "Belgium, which is another big market for outsourcing, had a similar evolution — now the customers are signing contracts worth \$30-40 million and more," added Mr Vedala.

Unlike other European markets such as Germany where labour laws make it difficult for an offshoring contract, countries in the Nordic region are more flexible. However, they still prefer to exercise caution during early relationships without succumbing to doling out multi-year, mega outsourcing contracts. "If you look at the last 100 deals signed over the past six to eight months, you would find that they range from €500,000 to €150 million, which is a broad range. The most significant deal size segment, in terms of frequency, would lie in the range of €8-20 million," agreed Mr Lakhminarayanan.

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