

IT's an Identity Crisis

THAT SINKING FEELING Top technology customers feel days of labour arbitrage are over, and it is time for companies to adapt and transform their business models

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Bengaluru: Even as India's \$160-billion IT sector grapples with one of the slowest years of growth in the industry's history, some of their largest customers such as Citigroup, Target and Royal Bank of Scotland feel the traditional labour arbitrage model is starting to become less relevant, and that top outsourcing vendors need to adapt and transform fast.

In an exclusive roundtable with **ET**, top technology heads and CIOs of companies such as Target, Royal Bank of Scotland, Lowe's and Cargill said India's largest software services firms need to offer more than just cost benefits and strengthen their capabilities in newer, futuristic areas of technology.

"We were late to this game (of outsourcing) - even at the beginning, we clearly said we should not bother to do this for arbitrage. If we're doing it for salary arbitrage, we're already too late in that door; that opportunity is diminishing. So it's about completely modernising our world. If for some reason we were doing it for salary arbitrage, I would encourage us to not even start. We're really focussed on the bigger benefits," said Kathy L Fortmann, president, Cargill Business Services. These customer organisations have, over the course of the past two decades, leveraged India as a low-cost destination for software development and have outsourced hundreds of millions of dollars of back-office software projects to India's largest IT firms.

"I think it's also about changing the dynamics around how it is looked at today, and how it was viewed in the past. For example, in the past when we looked at arbitrage, we looked at headcount. It was more like 'you're told and we will do' versus looking at customer outcomes. Headcount is no longer a discussion -

STANDING AGAINST THE TIDE



KATSUSHIKA HOKUSAI, The Great Wave off Kanagawa

so I think it's more about customer-centric outcomes," said Pankaj Phatarphod, country head of services at Royal Bank of Scotland, which currently outsources IT to companies such as Infosys.

With increasing costs of doing business in India over the past decade, India's IT industry is slowly but steadily losing its unique selling point of being the world's foremost destination for low-cost software development and maintenance.

And more worryingly for top executives at companies such as Infosys and TCS, some of their largest customers are talking about insourcing and shifting business away from IT services firms into their own technology centres in places like India. "There's a lot more insourcing that we've been focussing on. We're seeing it across mature GICs. Most GICs have leveraged third party providers and will continue to leverage them, but there's a shift towards more insourcing because technology is core IP today and will continue to be so in the future," said Navneet Kapoor, president of Target India.

LOSING TOUCH

India's IT industry is slowly but steadily losing its unique selling point and facing disruption from new-age technology rivals like Google and Facebook

What is driving these moves around insourcing is also the fact that some of the largest customers of Indian IT are facing disruption from new-age tech rivals such as Apple, Google and Facebook. And India, which was always seen as a plain-vanilla outsourcing destination, has also become a key battleground from where online retail wars are fought globally, with customers like Target tapping into local technology talent aggressively to gain an edge and manage this transition faster inside their own companies.

"For a fast-changing business model like the one that we are in, we don't have the luxury of moving slower. So, I would be in India, even if the cost structures were similar because of scale of talent available. India provides the talent in the scale that I'm looking for," said Kapoor.

And customers now expect India's software firms to do more with less, even as tech budgets are coming under unprecedented pressure. "And just as global corporations are transforming, we expect more and different out of the service providers. We expect them to operate differently, we expect them to operate agile, and move away from a more historical service model. The expectation is much more from a service provider because the environment is much more disruptive," said Kapoor.

"Everybody says it's not about cost arbitrage, maybe not anymore but it still plays an important role. If we had hourly rates like in Europe and the US, nobody would come to India. Cost is still a discussion," said Gerd Hoefner, MD, Siemens Technology & Services, India.