‘The only thing that is non-changing is change itself’ – Ancient Indian proverb.

For years, the Indian outsourcing industry has been the flag bearer of India’s renewed optimism in the global arena. However, the supply landscape has been changing significantly over the years with the global delivery model being replicated by all large players and several nations including China and Philippines building competitiveness in the global outsourcing market. The demand side has also been maturing gradually, moving away from commoditized services at lowest possible cost to demand for higher end solutions and measurable business value. There is also a visible shift towards developing a highly rationalized and competent vendor base. This transformation on the demand side has been significantly precipitated by the recent economic crisis and its impact on businesses worldwide.

KPMG’s survey of the Indian Outsourcing Industry has been in this context and with a view to assess the extent of challenge faced and change readiness in the Indian outsourcing industry across segments. The document also tries to identify broadly the capability to be developed to remain competitive in the market.

In alignment with CII’s Vision 2020 for the Outsourcing Industry, we are pleased to release this perspective document on strategic imperatives for the sector as a discussion paper for the Indian Outsourcing industry.

Pradeep Udhas
Executive Director &
Sector Lead - IT/ITeS
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary and take-away</td>
<td>1</td>
</tr>
<tr>
<td>Economic and business context</td>
<td>5</td>
</tr>
<tr>
<td>Findings from our study</td>
<td>7</td>
</tr>
<tr>
<td>Leadership perspective: Interview with S Mahalingam, Chief Financial Officer and Executive Director, TCS</td>
<td>13</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>15</td>
</tr>
</tbody>
</table>
Summary and take-away
Outsourcing industry has been undergoing a significant transformation, accelerated by the recent economic crisis. IT departments are increasingly coming under pressure to contribute tangibly to their organization's bottom line. CIO’s are continuously exploring innovative options to reduce the costs of maintaining ‘lights on’ applications and thereby release resources for change programs which are gaining priority. KPMG spoke to business leaders on challenges faced, changed dynamics of client engagements and strategic initiatives being driven in their respective organizations in the backdrop of the changing industry environment.

We spoke to a cross section of firms ranging from large full-service players to small start ups and niche players in the outsourcing space - from large SEI CMMi level 5 organizations to startup entities were covered. Respondents were senior market facing executives including CEOs, Business Unit heads, Lead Sales / Marketing and Directors in charge of Marketing and customer relations.

The study provided insights on the business environment and strategic imperatives for IT and IT enabled Services companies. This translates into the following actionable inferences and take-aways for the players concerned:

**For Large Players**

*Keep moving up the value chain*

In seeking to build comprehensive solution capabilities, large players would have to build significant credibility across the global business consulting space. Given the existing relationships with clients across verticals and capability to invest in expansion, this downturn would be a good opportunity for the large IT players to acquire small to medium consulting firms and further consolidate their service offering in that space. Another interesting option is to tie-up with large consulting firms and bridge the gap effectively. In this option, besides becoming comprehensive, the quality of the solution is also enhanced.

*Address the CEO's agenda*

All the large players have well-structured account governance processes in place that necessitate participation from the business side. While the account management structure adopted by large IT players’ link client and service provider executives across the hierarchy, the focus is largely on the CIO/CTO. While seeking to move up the value chain it is imperative that the account management process is increasingly focused on more strategic issues: addressing the CFO and CEO agenda.

**For Medium Players**

*Focus on capability enhancement*

Many ‘long-term’ vendor-customer relationships could run into rough weather, as customers begin exploring options for comprehensive solutions from a rationalized vendor base. Medium-sized IT organizations would be the worst hit by such a shift in the decision process. Given their limited resources, medium scale players will need to focus their energies on demonstrating expertise in a chosen domain to position them advantageously before spreading out to build capability across verticals and geographies. One option would be to look at M&A as the route to address scale and capability gaps.

*Lights on – Applications such as payroll those are critical to run businesses.*

*Effectively manage key accounts*

Increasingly customers are looking for vendors who could evolve into advisers and solution partners helping the IT function increase its contribution to their organization’s bottom line. This requires that the account managers develop relationships with the business. Account management and customer engagement processes had been entirely restructured by most large players, who had prepared for the demand side shifts well in advance. In current circumstances, this function is being accorded increased priority with the entire organizational hierarchy from CEO to Account Manager being involved in the process. The focus on such extensive account management continues to give the large players significant advantage over other players as evident from their enhanced rate of growth. Medium-sized organizations will have to build such good practices rapidly to remain relevant and competitive in the market.

Most of the large players invest in account management even with prospective clients. While such proactive investments across the board may not be advisable for the medium scale players, they could prioritize and plan for such investments with prospective clients within a chosen sector.
For niche players

Plan resources and prioritize
While there is a natural tendency to de-risk by vertically and horizontally spreading out the product offerings, this is more often counter-productive. Increasingly, it will be impossible for small and niche players to compete with the large and even medium scale players. Instead of thinly spreading out the available resources, the small players must focus on offering differentiated capabilities in select areas of competency. The players will have to look at dedicating their entire capability into building a Unique Value proposition, rather than spreading out their priorities

Develop a sector-specific solution rather than client-focused services
Most players in the niche software services space have a limited set of clients. This is a risky proposition. To remain relevant, the niche players will have to look beyond individual client services and realign their focus to developing sector-specific solutions

Collate intellectual property-driven productization in areas of expertise
IP driven growth is a key area for the niche players to explore. Niche players will have to build and productize intellectual property that can differentiate themselves from the rest of the industry. Since they cannot compete with the larger players in terms of cost and scale, it becomes imperative that the niche players innovate and continue to remain at the cutting edge of technology solutions in chosen domains. The central idea is to position themselves as technology leaders who can be strategic partners for the larger entities in complex programs. Since the large players would not be in a position to invest in developing such niche capabilities across the board, the smaller niche players can leverage this industry sweet spot.
2 Economic and business context
Increasingly, the corporate perception on extent and effects of global downturn is shifting from one of outright pessimism to cautious optimism.

Industrial growth is regaining momentum across advanced and emerging economies. Despite the turbulence in financial markets and uncertainties surrounding policy responses, the general momentum in Industrial growth remains persistent, as reflected in various independent studies and projections.

The world economy expanded at an annualized rate of over 5 percent during the first quarter of 2010. According to IMF, this was driven by emerging economies and in particular, driven by the growth in private demand across the world.

The recent financial crisis has accelerated the process of evolution of the global Outsourcing industry. As the industry approaches its maturity phase, Indian players will have to revisit their strategic game plan to retain their current position in the market. Sustainability in the new era requires a new set of capabilities to build on the fundamentals that drove the growth in the past decades.

Given the impact of recession, new investments in building business capabilities are a difficult choice, leaving organizations in a growth versus risk mitigation dilemma. Increasingly businesses are looking out for solution partners who can solve this dilemma by innovatively applying technology options. With IT department budgets coming under meticulous scrutiny, the pressure to evaluate projects and vendors in terms of business value they can deliver, is gaining hold. The key objective is to reduce the cost for ‘lights-on’ programs and divert the savings into supporting new business capabilities. Application rationalization, a traditional approach to reduce costs, is now further supported by new trends such as SaaS and Cloud.

Nations such as China, Philippines and Brazil acquiring competitiveness could pose a credible challenge to India as the preferred destination for outsourcing. With key drivers for IT spend decisions undergoing a significant shift, players will have to build their strategies around their respective core capabilities, even while building new skills.
3 Findings from our study
Almost all the industry managers we spoke to believe that the industry environment is positive and advantageous for the service providers. However, they also added that the demand is for comprehensive and innovative solutions that can deliver tangible business value and not necessarily for commoditized services such as pure play applications maintenance. Service providers who can appeal to this value-driven approach with solutions like managed services will be best positioned to leverage the new wave of growth in the industry.

**Customer priorities**

**Innovation**

Q. What are the top priorities for your clients’ CIO/CTOs after the economic crisis?

What are the top priorities for your clients’ CIO/CTO recent global economic crisis
Over 80 percent of respondents said that clients are demanding “innovations” that could translate into business value. Customers are looking for solution partners who can understand the business pressures and innovatively apply the right technologies (such as service-oriented architecture, server and storage virtualization, cloud computing, and unified communications) to release productive investment for business growth oriented spends. The respondents also stressed that these priorities translated into efforts for creation of a highly competent and rationalized vendor base and demand for a comprehensive range of solutions from the selected vendors.

Comprehensive solution partner

Q. How critical is it for the service providers to build capability across comprehensive range of solutions?

Are Clients preferring comprehensive range of solutions across IT, ITES and consulting?

Consolidated vendor base

Q. Do you believe vendor rationalization is high on priority for your clients?

Sixty five percent of industry managers are beginning to see indications of customers considering moving towards vendor rationalization. As the CIO’s are coming under increasing pressure they are now actively taking a re-look at the existing set of service providers and are considering exiting from relationships where they do not see long term value. These could be either based on the capability, or in some cases based on feedback from the business.

Are customers are moving towards vendor rationalization?
Service providers – strategic focus

Q. How would you rate the importance of customer retention as a strategic priority for your firm during and post recession?

Around 58 percent of respondents said that the key strategic priority during and post recession continues to be customer retention. Over 95 percent of respondents added that the highest priority pre-recession was new customer acquisition. Post recession, while there is a continued focus in this area, the attempt is to only target strategic customers – many also said they are consciously ramping down in accounts where they see no long term value.

Is Customer Retention the key strategy during and post recession?

![Pie chart showing the percentage of respondents rating customer retention as high, medium, and low.]

Source: KPMG Analysis

Most of the respondents rated well-structured account management practices as the only way to ensure customer retention.

Q. How diversified is your client base?

During our discussion with representatives from niche service providers, we were keen to understand their de-risking approach in terms of market strategy and customer spread. Over 80 percent of respondents said they are catering primarily to a small number of customers.

How diversified is your client base? (Response taken only from Small/Niche Players)

![Pie chart showing the percentage of respondents catering to 80% or more and 20% or less of clients.]

Source: KPMG Analysis

- Moderately (More than 10)
- Not diversified (Less than 10)
Account management strategy

1) Staffing

Q. On what basis do you select managers for priority accounts?

Eighty two percent of respondents rated people skills followed by appreciation of the client business as the key requirement for a good account manager. Most of them noted that traditional practice of moving an engineer to account management could no longer suffice. Since customers are demanding a comprehensive solution a person requires business acumen to understand the business challenges and people skills to connect within the firm and with the client.

2) Prospecting

Q. Do you have account management for prospective clients?

All the large players said that they invest significantly in account management for prospective clients, while almost all the medium scale and niche players said that they do not have an account management process aimed at prospective clients.
3) Effectiveness

All the respondents were of the opinion that relationship management is the most critical element which ensures knowledge of customer’s challenges. Twenty nine percent of respondents were of the opinion that account management in their respective company is below satisfactory levels. Another 53 percent were of the opinion that account management needs to be more effective given the challenging landscape.

![How would you rate effectiveness of Account Management in your company?](image)

Source: KPMG Analysis

While most of the large players were satisfied with their processes and account management structure, they were also of the view that there was significant scope for improvement, especially in areas like getting clued in to CEO/CFO agenda.

Most of the medium scale players were of the opinion that there was no standard account management structure or processes in their organization. However, some of them were of the opinion that the informal channels of account management were effective in a limited way.

4) Customer engagement

Twenty four percent of the respondents said account managers in their organization almost never interact with personnel from business side. Larger players who have direct relationship with the business have strong governance processes that encourage business participation. They also mentioned interaction with business helps increase the strength of the relationship as it gives them first hand information on the challenges. Inputs from interactions from business helps the business consulting teams provide directions to the

![How frequently does your account manager interface with Client Senior Managers from Business Side](image)

Source: KPMG Analysis
Leadership perspective: Interview with S Mahalingam, Chief Financial Officer and Executive Director, TCS
How would you describe the current Industry Outlook – especially from a CIO’s perspective?

I think the crisis has blown away and there is a positive outlook in terms of future. I no longer hear business leaders speaking of a possible ‘Double Dip’!

CIO’s are under pressure from business to reopen discretionary spend – money invested to enable the organization develop new capabilities. However, I would still say, that the sentiment is one of cautious optimism.

What are the key changes observed in the way client organizations approach IT Spend post the financial crisis? Could you also please share industry specific changes in behaviour?

Every program is double checked before kick off – clients do not want to put programs on hold midway.

Value management is the key. Client and service provider relationships are being evaluated in terms of value. Not that it was non-existent earlier, but now it is has taken deep root. This could result in vendor rationalization. This behavior is seen more in FS clients.

Sectors like Retail which are going through rapid transformation and need to keep investing in technology to remain competitive. Given narrow margins in which the sector operates, the focus continues to be on cost.

In the Manufacturing sector, the IT spend has not recovered. There is still a certain degree of uncertainty about the strength of recovery.

Outlook for small and medium-sized service provider?

Clear value proposition is the key - combined with a focus on the right industry/geography. Large companies have the resources to cast their nets wide. Whereas, small/medium should not try and emulate the large companies which could result in spreading their resources too thin.

At TCS, when we were small we operated on the basis of a clear value proposition. Those days, when communications were not as advanced as today, customers were concerned about how we would be able to help. We made investments in establishing computing capabilities in close proximity of our customers.

What, in your view, are the essential pre-requisites for effective account management?

Account management cannot rely on an individual. It has to be an entire organization structure backed up with the right set of processes and skills that will lead to effective account management.

It all boils down to trust in the service provider’s ability to provide the requisite support, which can be built through a combination of factors:

- Understanding of client business challenges via deep research
- Delivery of innovative solutions based on technology and industry expertise
- Strong relationship across the hierarchy of the client organization, orchestrated by the Account Manager.

Any thoughts on the Indian ICT Industry that is surging ahead into the new decade?

Innovation and time to market will be determining factors in the next decade. Our clients seem to have clearly moved from cost-reduction, optimization, rationalization outlook to a participative outlook with IT service providers. This would mean the Indian ICT players should equip themselves with business and domain skills and start thinking for the client in terms of business enhancement through ICT. Equally imperative is the applied research and constant improvement of solutions with respect to technology that will enhance the business prospects of clients. This approach of innovation and business partnership will be the hallmark of success for ICT players in the coming decade.

S Mahalingam
Chief Financial Officer &
Executive Director,
TCS
This paper would not have been possible without the commitment and contributions of the following individuals.

Sanjay Maradi  
Associate Director,  
Performance and Technology,  
KPMG in India

Vaidyanathan Iyer  
Consultant,  
Performance and Technology,  
KPMG in India

Atul Garg  
Analyst,  
Performance and Technology,  
KPMG in India

The team would like to thank:

• All the survey respondents from various IT / ITeS organizations for their generosity with their time and inputs.
• KK Raman, Pradeep Udhas and Narayanan Ramaswamy for their guidance.
• Shweta Mhatre, Nisha Fernandes, Siera D’costa and Remedios D’silva from Design Cell, KPMG in India who did their usual magic on the plain text we had shared.
• Ramesh and Merin from CII.
KPMG in India

Bangalore
Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala, Bangalore – 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh
SCO 22-23 (1st Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai
No.10, Mahatma Gandhi Road
Nungambakkam
Chennai - 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Delhi
Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurgaon, Haryana 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad
8-2-618/2
Reliance Humsafar, 4th Floor
Road No.11, Banjara Hills
Hyderabad - 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Kochi
4/F, Palal Towers
M. G. Road, Ravipuram,
Kochi 682 016
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata
Infinity Benchmark, Plot No. G-1
10th Floor, Block – EP & GP, Sector V
Salt Lake City, Kolkata 700 091
Tel: +91 33 44034000
Fax: +91 33 44034199

Mumbai
Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Pune
703, Godrej Castlemaine
Bund Garden
Pune - 411 001
Tel: +91 20 3058 5764/65
Fax: +91 20 3058 5775

Key Contacts

Pradeep Udhas
Executive Director &
Sector Lead - IT/ITeS
e-Mail: pudhas@kpmg.com
Tel: +91 22 3090 2040

Narayanan Ramaswamy
Executive Director
e-Mail: narayananr@kpmg.com
Tel: +91 44 3914 5200

KK Raman
Executive Director
e-Mail: kkothandaraman@kpmg.com
Tel: +91 80 3065 4700

CII Contacts

Madhu Vasanthy
Director
e-Mail: madhu.vasanthy@cii.in
Tel: +91 44 4244 4516

© 2010 KPMG, an Indian Partnership and a member firm of the
KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss
entity. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG In-
ternational Cooperative ("KPMG International"), a Swiss entity.
Printed in India.

The information contained herein is of a general nature and is not intended to address the circumstances of
any particular individual or entity. Although we endeavour to provide accurate and timely information, there
can be no guarantee that such information is accurate as of the date it is received or that it will continue to be
accurate in the future. No one should act on such information without appropriate professional advice after a
thorough examination of the particular situation.