

Big 6 to lose clout in global outsourcing

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The Indian IT outsourcing service sector is finally poised to challenge the dominance of the six global biggies.

TPI, a large outsource consulting firm, revealed Thursday that the Big Six could well see their dominance challenged in the outsourcing deals that are in its pipeline. The company said that over 50 percent of the of the \$100 billion worth of outsourcing contracts due for renewal globally in the next two years -- out of which \$17 billion could come in the next six months -- have a significant offshoring component "much of which could come India's way."

"The Big Six of outsourcing could see their dominance challenged," said Dennis McGuire, founder and chairman, TPI. "Historically, buyers would outsource to a single vendor. Now they look for multiple vendors and specialists around the world."

McGuire was speaking on the sidelines of the three-day mega outsourcing event that ended in Mumbai Friday and conducted by India's software industry lobby NASSCOM.

According to TPI, the mega outsourcing deals that were struck globally over the last six months reveals that instead of focusing on a single or a few outsourcing service providers clients that are seeking such services are increasingly splitting their contracts by competence.

Take a look at the large outsourcing deals signed since September and this trend becomes evident.

In the biggest outsourcing deal coming out of Europe ever, when the ABN Amro Bank awarded its \$2.2 billion outsourcing contract in September last year, it didn't just go to the old-timers like IBM and Accenture. About \$400 million worth of contracts were awarded to TCS (\$260 million) and Infosys (\$140 million), two of India's offshore IT outsourcing service providers.

But what caused the biggest shift from old practices in the global IT outsourcing arena is the huge package of outsourcing contracts worth \$7.5 billion that General Motors announced at the beginning of this month. It saw EDS, GM's longtime primary supplier, losing ground while Hewlett-Packard, ignored at times getting a lift. Although EDS, which was used to bagging about two-thirds of GM's outsourcing business, still managed to bag about half -- or \$3.8 billion -- of the total deal, IBM, France's Cap Gemini, the Compuware Covisint, along with HP ended up as the biggest encroachers.

And most significantly, for the first time ever GM's recognized Wipro, one of India's top five IT services companies, as its tier-1 supplier by awarding it \$27 million contract directly, which Wipro says would scale up to \$300 million in next five years.

"There is a definite shift towards the best of breed," said Siddharth Pai, leader of TPI's Global Service Delivery group, who heads its office in Bangalore, India. "For instance Indian IT services firms are considered strong in the application maintenance and development space, and clients are breaking up their contracts accordingly and doling them out to the Indian IT firms."

TPI says that an examination of the deals on which TPI advised in 2005 also revealed a higher percentage of offshore contracts were competitive (83 percent), and the Big Six's share of this market is falling. In 2005 they won only 37 percent of TPI-advised contracts involving offshoring, down from over half (52 percent) in 2004.

"These figures are particularly worrying for the Big Six as the offshore market continues to grow," said Pai, adding that "the other challenge for the Big Six, and a particular opportunity for both Indian and specialist outsourcing providers, is the trend towards a larger number of smaller deals.

According to TPI, 293 contracts were signed in 2005, more than in any other year. Of these 70

percent were small to medium sized contracts -- worth \$50 to \$200 million -- where Indian IT firms were invited to pitch for 30 percent of contracts and went on to win 70 percent of these.

"The trend to a larger number of smaller single function contracts and the increasing use of multiple providers is creating opportunities for a wider range of providers, but diluting the complete advantage of the Big Six," Pai said.

Nevertheless, the Big-Six are "fighting back too," says Pai. For one, they are reacting to this by setting up offshore service centers all over the world and offering their clients an array of destinations, "whereas Indian firms are still not sufficiently globalized and offer primarily the India-advantage," he said.

And secondly, the Big-Six are ramping up their Indian operations on war footing "so that they too can offer the India-advantage touted by the Indian IT firms," Pai added.

For instance, says Pai, IBM, EDS and Accenture currently employs over 60,000 employees in their Indian operations, and "I wouldn't be surprised if they embark upon acquisitions in India too."

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