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**The Future of Offshoring
Strategies for Indian BPO Firms**

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1. Background

Over the last decade India has established itself as the global offshoring hub for IT and IT-enabled services. It has been able to do this by harnessing the strength of its readily available, IT-savvy and English-speaking labor pool to capitalize on the opportunities presented by advancement in information technology and reduction in telecommunication costs. In recent years, however, its position as the global offshoring hub has begun to face challenges in the form of rising domestic wage rate, concerns about data security, competition from other offshore destinations and backlash in developed countries. Moreover, the nature of offshored work is gradually evolving into high-end services such as financial planning & forecasting, legal & paralegal services, engineering & design and R&D, which require higher levels of skills in a variety of disciplines. Currently, the Indian Business Process Outsourcing (BPO) industry derives majority of its revenue from offshoring of IT and low-end IT-enabled services, which are soon becoming an easily replicable commodity. This trend is posing both margin pressure and customer retention challenge with the shrinkage in the magnitude of labor cost arbitrage.

2. Research Objective, Time Frame and Scope

This research attempts to explore the future of offshoring and its implications for the Indian offshoring industry. It attempts to find out appropriate business strategies for the Indian BPO players that will prepare them for the future.

Some of the questions that led to this study are:

- What are the major forces that are shaping the future of the offshoring industry?
- Which are they highly predictable in terms of their direction and timing of occurrence?
- Which of them are not highly predictable but still very important? What are the possible directions they can take?

- How all of these forces will play out and together what impact will they have on the future of offshoring?
- How should the Indian offshoring industry in general and individual players in particular, position themselves in preparation for the future?

The concept of offshoring, more so, the offshoring of high-end services such as engineering & design, R&D, education, medicine and surgery made possible through innovations in information processing and telecommunication, is an emerging technology, the future of which is not easily predictable. Additionally, the concept of offshoring as it relates to high-end services has profound policy implications. Lack of clarity about the manner in which general public and government in developed countries will react to this concept adds another level of uncertainty. In addition, ambiguity regarding the ability of Indian government to deliver on the imperatives of high-end services offshoring, introduces another unknown variable. This unknown variable not only makes the analysis complex, but also magnifies the uncertainty of what is already very uncertain.

Given the uncertainty about the future and its complexity, the objective of the research therefore becomes which set of multiple futures might be likely and how can the Indian players best prepare for each one of them.

The time frame of this study is next 20 years, that is, from now until the year 2025. A 20 year time frame has been chosen since the Indian government has recently taken many significant policy decisions which will get implemented over the next 10 years. It will take another 10 years to see their effect in the context of offshoring.

The scope of this research is limited to offshoring in the context of India. However, it is believed that the insights generated from this research will benefit policy makers, regulators, government, media, consumers, customers and general public in both offshorer and offshore countries.

It is relevant to note here that there are several interesting areas, which are related to this research topic. They range from labor laws to educational system to international politics. These interesting areas, though not the primary purpose of this research, have been investigated only to the extent needed to answer the questions relevant to the research objective.

3. Conceptual Framework

3.1. Frameworks Considered

After examining various conceptual frameworks that were available, a few conceptual frameworks were shortlisted as relevant frameworks to study this topic. An attempt was made to go a level deeper and understand what specific issues each of these conceptual frameworks was best suited to answer. The objective at this stage was to understand the advantages as well as the limitation of each framework with respect to the research topic and gather necessary information to enable the choice of one final framework for in-depth study of the research topic.

The frameworks that were shortlisted are indicated below along with the questions that each of those frameworks is best suited to answer.

1. ***Technology speculation:*** Is it possible to transplant the current outsourcing model into new domains such high-end services, where it can evolve in new directions?
2. ***Technology strategy in lumpy market landscapes:*** With new technologies creating new attribute sets, will the firm (and industry) boundary be redrawn with existing players invading and dominating an entire attribute space or new entrants reconfiguring the existing pattern of market demand?
3. ***Commercializing emerging technologies:*** How the existing players can invest in building complementary assets, prepare themselves to address new market needs and meet the challenges of new rivals?
4. ***Real options:*** Can current players make a small investment today which will give them option to make more extensive investments or commercialization in future?

5. **Scenario planning:** What are the key trends and key uncertainties? What are the various possible scenarios and the threats and opportunities that each of those scenarios present to existing players? How should the firms plan for these scenarios?

3.2. Evaluation of Frameworks

Technology speciation: Speciation event such as transplanting the existing offshoring model to a new domain of application such as basic research, education or even surgery where it may evolve in new directions is a relevant study topic. However, the focus of this research paper is broader than that. In addition to studying technology speciation and the opportunities it may create for the Indian offshoring industry, this research will also study what opportunity lies ahead for the Indian players in the *current domain*. Moreover, this research paper will delve deeper than just technology and study a whole host of other relevant ideas such as the role of government.

In addition, it is a little late to apply the concept of technology speciation to the offshoring phenomenon at this point. Speciation event occurs when there is a shift in the domain of application causing a discontinuous “creative destructive” even though the scientific/technological developments may be incrementalⁱ. True technology speciation took place when telecommunication technology which was developed with the purpose of enabling human beings to communicate over distance was applied in the context of services for the purpose of enabling work to be packed, distributed and remotely performed.

Technology strategy in lumpy market landscapes: Based on preliminary examination, there is no doubt that offshoring market landscape is lumpy. A small push along one dimension such as reliability or customer service may have a much greater impact than a larger movement along other dimensions such as cost. The static analysis of market lumpiness and barriers offers a valuable frameworkⁱⁱ. However, it is too simplistic to apply to the complex and dynamic offshoring market landscape. Virtually every element that defines the current state of Indian offshoring landscape has an element of uncertainty. The real issue is not technology barrier. The real issue is that the market landscape is changing. Customers are constantly demanding better performance at same or lower costs. IT services are becoming an easily replicable commodity. In addition, customers have better choices since other English-speaking countries are beginning to provide services that Indian IT/BPO

firms were offering. As the governments in developed countries are waking up to offshoring and enacting laws, while organizations are redesigning the way they run their operations, the needs of offshoring customers may change in ways that were not anticipated. It is this dynamism that renders this framework to be too simplistic for this research topic.

Commercializing emerging technologiesⁱⁱⁱ: The focus of this research paper is on understanding what new opportunities lies ahead for Indian players. At this point, it is not known what possible states are likely in the Indian offshoring landscape. Hence, the issue of commercializing technology is premature. This framework is needed a little later in the analysis after scenarios have been worked out and relevant strategy under different scenarios has been discussed. For example, based on scenario planning, if under certain scenario a new complementary asset is needed or a new market needs to be addressed, then this framework is a useful framework to deal with the narrow issue of commercializing emerging technology.

Real options: Real options framework is a tool for managing the uncertainty inherent in various future states. It deals with a specific aspect of realizing value from uncertainty. To use real options framework, what is needed is an understanding of likely future scenarios and their key characteristics. Only once scenario planning is done, it will become known how relevant and important are real options that pertain to flexibility to defer, expand or contract, terminate or otherwise modify projects. If scenario planning points that particular market will experience a boom under certain scenario then it makes sense to make early stage investments in R&D which can lead to proprietary knowledge, new products, and new business opportunities^{iv}. However, currently the offshoring industry situation is so hazy that it is not possible to know which types of options may prove valuable. As we will discuss in greater detail later, scenario planning can prove to be a valuable tool in this regard. Given the uncertainty and complexity, scenario planning can help managers understand and appreciate the range of possibilities and bring them a step closer to understanding which real options are truly valuable. Therefore, decision to invest in real options is an output of scenario planning exercise.

3.3. Chosen Framework: Scenario Planning

While all frameworks are powerful to study various important aspects of the research topic, Scenario Planning emerges as the most comprehensive and relevant framework. Simultaneous existence of the

elements of uncertainty, complexity and paradigm shift in the emerging Indian offshoring landscape, calls for a framework that can capture a whole range of possibilities in rich details. Scenario Planning, which incorporates uncertainty as the central element in its process, focuses on how diverse set of forces dynamically influence each other as a complex system and challenges the prevailing mindset, meets this need. With respect to the research project at hand, Scenario Planning can be used to examine how new technologies and advancements in the arena of offshoring might change the rules of the game as well as the playing field for Indian firms^v.

Scenario Planning is superior to other frameworks from a managerial application perspective since it simplifies tons of data into a few key possible future states, with an understanding of how various variable elements might interact under certain conditions. Thus it explores joint impact of several uncertainties. Many of the uncertainties involved in Indian offshoring landscape cannot be formally modeled or whose effect cannot be properly understood on its own, such as, new regulations in developed countries that prohibit offshoring. Scenarios go beyond objective analysis to include subjective interpretations. Through identification of basic trend and key uncertainties, Scenario Planning framework will allow construction of a series of scenarios and thus help amplify weak but relevant signals and avoid the usual managerial limitation of tunnel vision^{vi}.

In sum, Scenarios Planning captures richness and range of possibilities, stimulating decision makers to consider changes which they would otherwise ignore. At the same time, it organizes those possibilities into few key narratives that are easier to grasp. Therefore, it has emerged as the most appropriate tool to study this research topic.

Table 1: Comparative Evaluation of Frameworks

Dimension of evaluation →	<i>Degree of comprehensiveness</i>	<i>Ability to deal with uncertainty</i>	<i>Ability to deal with complexity</i>	<i>Ability to capture range of possibilities</i>	<i>Ability to cause paradigm shift in thinking</i>	<i>Overall relevance to research topic</i>
Frameworks ↓						
Technology speciation	Low	Medium	Low	Medium	Medium	Low
Strategy in lumpy market landscapes	Medium	Low	Medium	Low	Low	Low
Commercializing emerging technologies	Low	Low	Medium	Medium	Medium	Medium
Real options	Low	High	Low	High	High	Medium
Scenario planning	High	High	High	High	High	High

4. Stakeholders

While offshoring will affect many individuals both in the offshorer countries and in India, the key stakeholder institutions/groups are governments, corporations that benefit from offshoring, the managers, shareholders and employees of those corporations, end-users/customers, media, labor rights advocacy groups, the BPO Industry in India and its managers, shareholder and employees.

In general corporations in developed countries that benefit from offshoring, their managers and shareholders are either neutral or mildly supportive of offshoring. End-users of services are generally neutral to offshoring. In fact, many have welcomed the decrease in price made possible by offshoring. Employees, and particularly those employees that are rendered redundant because of offshoring, are highly critical of offshoring. Since job cuts affect real people, the general public can very well relate to their plight. Media, in general, picks up such stories and makes them the headlines in developed countries, thereby shaping public opinion against offshoring. Politicians seeking people's support for reelection, pay attention to such public opinions and enact laws that restrict or prohibit offshoring.

In India, the BPO industry represented through NASSCOM is very active in promoting the concept of offshoring. It is working very closely with the Indian government to improve infrastructure and data security to create an environment conducive to offshoring.

The role of government as a stakeholder is discussed in greater detail since it has profound implication on the future of Indian offshoring landscape.

4.1. Role of Government

Both commercial and government interests will seek a legal and/or political response to disruptions created by emerging technology to their way of doing business. Legal and/or political responses to disruptions will offer great opportunities to those who can influence the political demands and responses, and provide profitable support for those firms who suffer disruption. At each stage,

companies can take advantage of opportunities for government support and anticipate or influence government intervention. Companies need to carefully assess potential areas of government action and develop strategies to respond to and shape the policies that will shape their emerging industries^{vii}.

Since offshoring in the context of this research paper involves two countries, in order to capture the richness and range of possibilities, it is necessary to study the role that government plays in both the countries. Government may act as a passive spectator or it may play an active role either as a catalyst or a barrier. This project will study the role that government plays in India as well as developed countries such as the US and to some extent EU where offshoring customers reside.

Not more than a decade ago, government and regulatory framework in India were widely perceived as barriers to entrepreneurship and commercialization of new technologies. Bureaucracy, overregulation, central planning and general mistrust of private enterprise were believed to be the key reasons for India's slow economic growth. In fact, many experts believe that IT services and BPO industry grew so rapidly in India because it was novel and invisible to the government and hence the government could not interfere and regulate it.

Over the last decade, the Indian government has realized that Information Technology has the potential to augment economic development of the country. Indian government has openly acknowledged IT as one of the top priorities and favorable policies are being formulated to promote this industry. For example, latest reforms have reduced licensing requirements and made foreign technology accessible to BPO firms in India. The reforms have also removed restrictions on investment and made the process of investment easier, which has tremendously helped the offshoring industry. Many similar policy changes are in the offing leading to positive uncertainty regarding the future regulatory environment in India. Moreover, the IT services and BPO industry have become one of the major foreign exchange earners for the nation with enormous clout to shape government policies and regulations.

What still remains a major wild card, however, is how soon and how effectively the Indian government will enact and enforce strong intellectual property rights and data privacy laws, the lack of which have been cited as key concerns by many critics of offshoring in the developed countries. There are other important areas where the government needs to deliver, chief among them are

physical infrastructure and telecommunications. Offshoring of high-end services will require a variety of different high-level skills in future. Indian government will need to appropriately adjust its educational policy and overhaul country's educational infrastructure to suitably meet those needs. Given the multi-party democracy system in India and the constraints of a coalition government, not much can be said with certainty as to long the implementation of these policy improvements will take.

Another important aspect to explore is the role of government in developed countries such as the US as well as EU which are now under increased pressure from offshoring opponents. Banners and slogans demanding a ban on outsourcing of jobs to India have become increasingly noticeable. Various legislative restrictions on outsourcing are being considered at the state and national levels in the US. At the state level, 196 bills are being considered in state houses that would restrict offshoring and outsourcing activity including call centers. At this stage, 4 of these bills have been enacted while 2 are pending. For example, if a company resides in a particular state with anti-offshoring laws and conducts offshoring regardless, the company could be at a disadvantage when bidding for a state government contract. At the federal level, Congress has considered 82 bills that would restrict offshoring and outsourcing activity including call centers. The Thomas-Voinovich Amendment enacted in January 2004, for example, imposes a one-year narrow ban on the offshore outsourcing of new government contracts involving the Departments of Treasury and Transportation under OMB Circular 76. The proposed Dodd Amendment aims to make the Thomas-Voinovich Amendment permanent and would extend the ban to all federal and state contracts that receive federal funding^{viii}. Despite the bill being passed by the US senate barring the offshoring of work to India, the offshoring supporters lobby in the US is working at changing the mindset and perceptions.

In the UK, three of the country's biggest trade unions have come together to fight the loss of jobs to India, especially British Telecom's move to open a huge call center in Bangalore. These unions fear that the competitors of BT will emulate this act. German protesters have been running an unrelenting political campaign against the German green-card scheme for a while now^{ix}. In this context, it becomes relevant to analyze and understand what Indian players can do to allay these concerns and how they can work with the government of developed countries to prevent deterioration of regulatory environment.

In addition to factors such as technology, market landscape and customer preferences, the research paper will examine how public policy can cause changes and influence the growth in the offshoring space. The paper will explore what players in India need to do to not only shield them from the adverse impact of government interference, but also benefit from the opportunities arising out of changes in public policy. To the extent that it is relevant, government's role will be incorporated in key uncertainties for the purpose of building scenarios. Here again scenario planning emerges as a better framework as compared to other frameworks on account of its ability to incorporate the role of the government, which cannot be objectively modeled.

5. Forces Shaping the Future of Indian Offshoring Industry

Major forces shaping the future of Indian offshoring industry are:

1. **Technological advancement:** With advancement in information technology and reduction in telecommunication costs, services which were hitherto considered technologically impossible or prohibitively expensive to outsource will become attractive candidates for the next wave of offshoring. This force will affect the demand side since it will make clients more willing to offshore. It will also affect the supply side because it will make the Indian vendors capable of handling more complex processes at better price and reliability.
2. **Globalization:** Increased global integration, free flow of knowledge, people and resources between countries and lowering of trade barriers will positively affect the offshoring industry. Globalization will affect the demand side by facilitating the acceptance of global sourcing model where companies will look at their value chain and source each of its component from where it can be done most efficiently. Globalization, which expands the size of the value pie available for sharing, will also positively shape the public perception, provided the proportion in which the pie is shared is perceived as fair. Such positive public perception will eventually manifest itself in the form of favorable government policy action. On the supply side, higher level of global integration and knowledge sharing will improve the capability and maturity of Indian vendors to handle complex processes and satisfy their customers.
3. **Public Perception:** As offshoring begins to affect the daily lives of more and more individuals, the level of awareness among general public will rise. Depending on how the general public perceives offshoring, it can positively or negatively affect the Indian offshoring industry. A negative public perception of offshoring in developed countries will discourage companies from offshoring and affect the demand side. Public perception of offshoring in India is important as well. A positive public perception of offshoring in India will ensure steady labor supply and favorable government policy thereby improving the supply.

4. **Government Policy:** It is unlikely that governments of offshorer countries will act as a mute spectator on the issue of offshoring given that this issue has serious ramifications on nation's competitiveness, employment and standard of living. Government policy may have a positive or negative effect on the demand for offshoring depending on whether it acts as a catalyst or a barrier. Government policy action is no less important in the context of India. Failure of the government to improve intellectual property rights and infrastructure may adversely affect the competitiveness of Indian players and affect the supply side.
5. **Supply of Human Capital:** With its IT-savvy and low-cost labor force, India was able to lead the first wave of offshoring. However, as offshoring moves up the value chain, a very different skill set is needed in order to capture the market for high-end services. BPO players may need to go to tier-II cities or tap non-traditional labor sources. Government intervention may be required to either overhaul the current educational infrastructure or develop new educational system in order to secure the supply of needed human capital. Inability to adequately respond to these imperatives will adversely affect Indian offshoring industry from the supply side.
6. **Competition:** Other nations may position themselves either as a better location for offshoring in general or as a specialized location for a particular type of offshoring and thus affect the Indian offshoring industry from a demand perspective. Furthermore, without any historical baggage, other nations may be able to leapfrog India and capture a leadership share in the next wave of high-end outsourcing.

5.1. Trends

Based on the analysis of forces shaping the future of Indian offshoring industry, the following *trends* emerge as highly likely to happen in the next 20 years:

1. Offshoring will become technologically easier and cheaper with further advancement in information processing and reduction in telecommunication costs. Services which were

hitherto considered technologically impossible or prohibitively expensive to outsource will become attractive candidates for the next wave of offshoring from a business standpoint.

2. Offshoring will move up the value chain - from IT services and call centers and to high-end services such as Finance & Accounting, Legal & Para-legal services, R&D and Engineering and Design i.e. offshoring will move away from the realms of plain Business Process Outsourcing (BPO) to more advanced Knowledge Process Outsourcing (KPO). (Note: While evolution from BPO to KPO is a predictable trend, it is not clear whether this move will gain widespread acceptance in terms of public support and favorable government policy, which has been captured as an uncertainty in the next section.)
3. Considerations such as revenue enhancement, capital productivity improvement and risk mitigation will become more important to clients than pure cost savings. As a result, vendor-client relationship will mature into a partnership-based approach.
4. Demand for skilled labor will intensify. Talented individuals in India will have better job options and they will be able to command higher wages and better working conditions.
5. Offshoring work will move away from captive units and into the hands of third-party domain/industry specialized providers.
6. Other low-cost and high-skill countries will jump into the offshoring bandwagon and compete with India for business.
7. Adequate intellectual property rights, data privacy and security will become a pre-requisite for offshoring.
8. General public as well as government will become more aware and sensitive to the issues and ramifications of offshoring.

5.2. *Uncertainties*

As regards some of the other forces, it is not clear as to which direction they will take over the next 20 years. They have been captured as *uncertainties* clubbed into two broad categories, namely:

5.2.1. Demand-related Uncertainties

U1: Will the offshoring of knowledge processes such as Finance & Accounting, R&D, higher education, clinical trials and surgery become a normal part of everyday life in developed countries?

U2: Will corporate and non-corporate bodies gain the confidence and the maturity to deal with the realities of a truly global world? Will they be able to re-organize themselves around a global supply model where different components of their value chain are sourced from different places?

U3: Will the cost savings and other benefits generated by offshoring be big enough to generate widespread public support in developed countries?

U4: Will the media in the developed countries blame offshoring for job cuts and loss of national competitiveness or will it paint it as a technological innovation that benefits the society at large?

U5: Will “global sourcing model” become an accepted practice supported by favorable government policy action in developed countries or will US and other developed countries enact stringent laws either prohibiting or severely curtailing offshoring?

5.2.2. Supply-related Uncertainties

U6: Will Indian government enact and enforce stronger Intellectual property rights and data privacy laws fast enough to encourage offshoring of high-end services to India?

U7: Will the improvement in infrastructure catch up with what is needed to ensure India's status as an attractive offshoring destination?

U8: Will India's talent pool and labor supply catch up to meet the offshoring needs of high-end services?

U9: Will the Indian players be able to secure the supply of necessary human capital on a sustainable basis?

U10: With demand for skilled labor increasing, will it be possible to contain the total cost of offshoring?

U11: Will Indian players be able to jettison their historical baggage and think of their value proposition in terms of revenue enhancement, capital productivity improvement and risk mitigation rather than pure cost arbitrage? And will they be able to do it better than competition?

U12: Will India maintain its lead and withstand competition– both from other offshoring destinations such as China, Philippines and Morocco and nearshoring destinations such as Canada and Ireland?

Based on discussion with industry experts and policy makers, the two most important uncertainties that emerge are (a) Will “global sourcing model” become an accepted practice supported by favorable government policy action? [U5], and (b) Will India maintain its lead? [U12].

6. Building the Scenarios

Table 2: Scenario Framework

		GLOBAL SOURCING MODEL ACCEPTANCE	
		High	Low
I N D I A	Leads	A. India Shining	B. India Anticipating
	Lags	C. Lost Opportunity	D. No Regrets

Table 3: Scenario Blueprint

<i>Demand-Related Uncertainty</i>	<i>A: India Shining</i>	<i>B: India Anticipating</i>	<i>C: Lost Opportunity</i>	<i>D: No Regrets</i>
U1: Will the offshoring of knowledge processes such as Finance & Accounting, R&D, higher education, clinical trials and surgery become a normal part of everyday life in developed countries?	Yes, very much	No, not quite	Yes, very much	No, not quite
U2: Will corporate and non-corporate bodies gain the confidence and the maturity to deal with the realities of a truly global world? Will they be able to re-organize themselves around a global supply model where different components of their value chain are sourced from different places?	Yes	Not quite yet, except in a few areas	Yes	Not quite yet
U3: Will the cost savings and other benefits generated by offshoring be big enough to generate widespread public support?	Yes	Yet to be seen	Yes	Yet to be seen
U4: Will the media in the developed countries blame offshoring for job cuts and loss of national competitiveness or will it paint it as a technological innovation that benefits the society at large?	Positive media coverage	Negative media coverage	Positive media coverage	Negative media coverage
U5: Will “global sourcing model” become an accepted practice supported by favorable government policy action in developed countries or will US and other developed countries enact stringent laws prohibiting offshoring?	High acceptance. Favorable government policy actions	Low acceptance. Unfavorable government policy actions	High acceptance. Favorable government policy actions	Low acceptance. Unfavorable government policy actions

<i>Supply-Related Uncertainty</i>	<i>A: India Shining</i>	<i>B: India Anticipating</i>	<i>C: Lost Opportunity</i>	<i>D: No Regrets</i>
U6: Will Indian government enact and enforce stronger Intellectual property rights and data privacy laws fast enough to encourage offshoring of high-end services to India?	Yes, very much	Not enough to convince the critics of offshoring	Not as quickly as other offshore destination	No, not strong enough and not fast enough
U7: Will the improvement in infrastructure catch up with what is needed to ensure India's status as an attractive offshoring destination?	Very likely	May be	Not as good as other offshore destination	No
U8: Will India's talent pool and labor supply catch up to meet the offshoring needs of high-end services?	Yes, very much	Supply expanded but not enough demand	Not as fast as other offshore destinations	No, not good enough and not fast enough
U9: Will the Indian players be able to secure the supply of necessary human capital on a sustainable basis?	Yes, very much	May not have had the need to	No	May not have had the need to
U10: With demand for skilled labor increasing, will it be possible to contain the total cost of offshoring?	Yes, through productivity and synergy	Yes, likely	Yes in general, but India could not do it.	No
U11: Will Indian players be able to jettison their historical baggage and think of their value proposition in terms of revenue enhancement, capital productivity improvement and risk mitigation rather than pure cost arbitrage? And will they be able to do it better than competition?	Yes	Yes. However, the developed counties are still not convinced	No. Indian focus is still on cost arbitrage	No
U12: Will India maintain its lead and withstand competition– both from other offshoring destinations such as China, Philippines and Morocco and nearshoring destinations such as Canada and Ireland?	Yes, very much	Yes	No, not at all	No

7. Developing the Story

7.1. Scenario A in 2025: India Shining

In 2025, “global sourcing model” has become widely accepted for all kinds of services. India is the globally preferred destination for all services.

In addition to the basic IT and IT-enabled services, offshoring of high-end knowledge processes such as Finance & Accounting, R&D, higher education, academic research, clinical trials and surgery has become a normal part of everyday life in developed countries. Corporations as well as non-government bodies such as universities and hospitals have gained the confidence and maturity to deal with the realities of a truly global world. They have been able to successfully re-organize themselves around a “global supply model”, where different components of their value chain are sourced from different places. The savings and other benefits generated by offshoring have proved to be large enough to outweigh the costs. Such savings and benefits have trickled down and benefited general public resulting in widespread public support. Media has also noticed such benefits and responded with a positive coverage further improving public perception of offshoring. Seeing the public support for offshoring and overall benefit to the society at large, policy makers have accepted the “global sourcing model” for services as a necessary business practice. Governments in developed countries have responded with favorable policy actions such as tax breaks on expenditure incurred to train staff made redundant because of offshoring.

Although a thousand miles away, separated only by a digital millisecond, India has emerged as the offshoring destination of choice. Stronger intellectual property rights and data privacy laws enacted and enforced by the Indian government have silenced the critics of offshoring. The passing of IT Act, training of investigating officers about IT crimes, educating companies on security measures and setting up of a self regulatory organization for IT and BPO companies has helped bolster confidence among overseas companies about security of their work sent to centers in India. Over the last 20 years, improvement in telecommunication facilities has enabled the offshoring sector to get on to the growth path. Physical infrastructure has markedly improved, reducing congestion and pollution and

improving the reliability of public utilities. Real estate has been added in the Silicon cities of India to meet the increasing demand for commercial space by IT-enabled services and BPO companies. The State Governments too have made available land at discounted prices and streamlined the approvals process to help in the building of infrastructure. In the area of talent supply, the initiatives taken by the government and the Indian offshoring industry, under the banner of NASSCOM, have proved to be successful in growing the 2.5 million graduates that India produced in 2005 by a CAGR of over 7% over the last 20 years. Besides certification and assessment programs for entry-level talent and lower-middle management and the development of a "National Skills Registry", NASSCOM has also been able to successfully work with the government and other agencies such as the University Grants Commission (UGC) to upgrade India's overall talent base. Key policy interventions such as setting up of software technology and BPO parks, financial incentives and telecom reforms have enabled India to further build on its human resource base in order to sustain the country's edge in the global offshoring market. Indian players have also sustained their cost positions in the face of escalating labor costs by reducing IT and facility-related expenses and improving productivity and utilization. Global companies have continued to seek supply from India for its reputed and competent service providers, who have been able to broaden their service offering from mere cost savings to revenue enhancement, capital productivity improvement and risk mitigation services. The relationship has evolved from that of client-vendor to partnership-based approach.

Taking the specific case of R&D, the work being offshored to India has evolved from advanced development for products to basic research and now to a point when all major companies globally have moved their R&D operations to India turning the country into an R&D powerhouse.

Refer to exhibit 1 on "Evolution to Global Sourcing".

7.2. Scenario B in 2025: India Anticipating

India has maintained its lead as the globally preferred provider even for high-end services. However, the global sourcing model for services has not become widely accepted by the regulators as well as general public in the developed countries. As a result, despite high quality supply there is inadequate demand for high-end services from India.

Despite the ready availability and commercial viability of the needed technology, offshoring of high-end knowledge processes such as Finance & Accounting, R&D, higher education, academic research, clinical trials and surgery has so far been limited. It has still not made enough inroads so as to become a normal part of everyday life in developed countries. Except for a few forward-looking corporations, others have not gained the confidence and maturity to deal with the realities of a truly global world. They fear the “global supply model” as highly disruptive to their existence, and perceive its cost to be more than the benefits. Media has continued to cover offshoring in a negative light blaming it for job cuts and loss of national competitiveness. Seeing the public opposition for offshoring, policy makers have responded with stringent laws which completely prohibit offshoring of knowledge work and allowing only limited offshoring of less critical low-end work.

India, however, has continued to maintain its lead as the offshoring destination. Intellectual property rights and data privacy laws have been strengthened, but still they are not perceived as strong enough to convince the critics of offshoring. Telecom and physical infrastructure have improved. Real estate has been added in the Silicon cities of India but there is not much demand for commercial space by ITES and BPO companies. In the area of talent supply, the initiatives taken by the government and the Indian offshoring industry, under the banner of NASSCOM, have come to fruition. Key policy interventions such as setting up of software technology and BPO parks, financial incentives and telecom reforms have enabled India to further build on its human resource base in order to sustain the country's edge in the global offshoring market. Indian players have sustained their cost positions by reducing IT and facility-related expenses and improving productivity and utilization. Indian players have been able to broaden their service offering from mere cost savings to revenue enhancement, capital productivity improvement and risk mitigation services. However, the demand from Global companies seeking supply from India has been lukewarm.

Taking the specific case of R&D, critics have been able to successfully argue that such a move will impact high-paying jobs and the U.S. will lose its capacity to innovate. U.S. policymakers have responded with restrictions on offshoring of knowledge work critical for innovation such as R&D. This has resulting in a decline of R&D work outsourced to India.

7.3. Scenario C in 2025: Lost Opportunity

Global sourcing model has gained widespread acceptance for all services. However, other offshoring destinations such as China, Philippines and Morocco and nearshoring destinations such as Canada and Ireland have leapfrogged India.

Overcoming the initial hiccups, offshoring of high-end knowledge processes such as Finance & Accounting, R&D, higher education, academic research, clinical trials and surgery has become a normal part of everyday life in developed countries. However, offshoring is not dominated by India. Different work is being offshored to different countries. Work involving high-labor input and cost pressure is being offshored to China, Philippines and Morocco. Work requiring cultural understanding and soft-skills is being nearshored to Canada and Ireland. Corporations and non-government bodies such as universities and hospitals have gained the confidence and maturity to deal with the realities of a truly global world, where each component of their value chain comes from a different country. The savings and other benefits, such as quality and reliability, generated by offshoring have proved to be large enough to outweigh the costs resulting in public support for offshoring. Media has responded with a positive coverage and policy makers have accepted the “global sourcing model” as a necessary business practice for services. Governments in developed countries have responded with favorable policy actions such as tax breaks on expenditure incurred to train staff made redundant because of offshoring.

Despite its initial success in offshoring pertaining to IT and IT-enabled services, India has lost ground in the next wave of outsourcing. Failure to enact and enforce strong intellectual property rights and data privacy laws turned the customers away from India when the time came to offshore high-end knowledge work. Moreover, lack of telecom and physical infrastructure, adversely impact the ability of Indian players to deliver on their promises. In the area of talent supply, India failed to develop skilled resources suited for high-end processes. Inadequate labor supply resulted in escalating labor costs. Burdening by their historical baggage, Indian players failed to broaden their service proposition to revenue enhancement, capital productivity improvement and risk mitigation services, thereby eroding the country's edge in the global offshoring market.

Taking the specific case of R&D, India could not manage the transition from product development to research. Meeting the demands of intellectual property regime proved to be too big an impediment to

cross. Poor infrastructure adversely affected mass-scale investments by global multinational firms in India. This prevented production of cutting-edge technologies and products in India, and hindered the creation of strong agglomeration effects. In terms of talent pool, India failed to make the necessary investment and improve the research atmosphere at Indian universities. India players tried but failed in learning how to operate in the global context and become world class faster than the players in other offshoring destinations. Refer to exhibit 2 for SWOT analysis of various offshoring destination vis-à-vis India.

7.4. Scenario D in 2025: No Regrets

Global sourcing model for services has failed to overcome resistance in the developed countries. At the same, India has lost out to other countries when the offshoring model got extended to high-end services. While this is unfortunate, this is a “no regret” outcome for India since lack of preparation coincided with lack of opportunity.

Despite the ready availability and commercial viability of the needed technology, offshoring of high-end knowledge processes has so far been limited. Except for a few forward-looking corporations, others have not gained the confidence and maturity to deal with the realities of a truly global world. Its cost is perceived to be more than the benefits. Media has continued to cover offshoring in a negative light blaming it for job cuts and loss of national competitiveness. Seeing the public opposition for offshoring, policy makers have responded with stringent laws which completely prohibit offshoring of knowledge work and allowing only limited offshoring of less critical low-end work.

Despite its initial success in offshoring of IT and IT-enables services, India lost ground in the next wave of outsourcing. Poor intellectual property rights and data privacy laws have confirmed the fears of policy-makers and general public in developed countries. Lack of telecom and physical infrastructure has made offshoring to India a logistically challenging affair. In the area of talent supply, India has failed to develop skilled resources suited for high-end processes. The primary value

proposition of Indian players continues to be labor cost arbitrage with very limited traction among clients.

Taking the specific case of R&D, critics have been able to successfully argue that such a move will adversely impact the U.S. and its capacity to innovate. U.S. policymakers have responded with restrictions on offshoring of knowledge work critical for innovation such as R&D. In addition, India has not been able to upgrade its capability and transition from product development to research. Meeting the demands of intellectual property regime proved to be too big an impediment to cross. In terms of talent pool, India failed to make the necessary investment and improve the research atmosphere at Indian universities. Overall, work being offshored to India is confined to low-skill product development work from only a few US corporations.

8. Analyzing the Scenarios: Strategic Implications and Managerial Recommendations

8.1. Scenario A: India Shining

This is the best scenario that India can hope for. However, just because a scenario is good for the country, it is not necessary that it will also be good for all players. Acceptance of global sourcing model in developed countries will increase the demand for offshoring services from India. However, better infrastructure and talent availability will increase supply of such services from India, which can potentially erode profitability of existing players.

8.1.1. Indian Offshoring Industry Structure

On the demand-side, with offshoring becoming a normal part of everyday life in developed countries, switching costs between providers will increase. Early movers will have considerable economies of scale and cost advantage. Large established Indian players can entrench themselves into comfortable position from where it may be difficult for small players or new entrants to dislodge them. Competitive pressures, public support for offshoring and favorable government policy will cause all companies in the developed countries to seek offshoring partnership, lowering buyer power. However, increased maturity of customers to deal with the realities of a truly global world and their ability to organize themselves around a “global supply model” will give them power to play off one provider against the other. Indian offshoring industry with its unbeatable supply-side advantages will enjoy low threat of substitutes in the form of other offshoring destinations.

On the supply-side, requirement to comply with strict intellectual property and data privacy laws will increase the barriers to entry and provide advantage to large established players. Government’s investment in telecom and physical infrastructure will level the playing field to the advantage of small players and new entrants. The advantage enjoyed by large players, which are currently able to invest in their own infrastructure and telecommunication will be severely diminished. Ready availability and

quality of talent pool will result in mushrooming of BPO shops around India, intensifying industry rivalry and increasing buyer power. Players which are able to look beyond cost arbitrage and expand their value proposition to include revenue enhancement, capital productivity improvement and risk mitigation as well as develop customer intimacy will reap abnormal profits. How the various forces will play out and who will be advantaged as a result, is summarized in the table that follows.

Table 4: Indian Offshoring Industry Analysis under “India Shining” Scenario

<i>Demand-Related Uncertainty</i>	<i>Barriers to Entry</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitutes</i>	<i>Industry Rivalry</i>	<i>Advantage to</i>
U1: Offshoring of knowledge processes becomes a normal part of everyday life in developed countries.	↑	↓	↑	↓	↓	Established players
U2: Corporate and non-corporate bodies gain the confidence and the maturity to deal with the realities of a truly global world by re-organizing themselves around a “global supply model”.	↓	↑	↑	↑	↑	Niche players
U3: Cost savings and other benefits generated by offshoring are large enough to generate widespread public support.	↓	↓	↑	↑	↓	All players
U4: Media in the developed countries paint offshoring as a technological innovation that benefits the society at large.	↓	↓	↑	↑	↑	All players
U5: “Global sourcing model” becomes an accepted practice supported by favorable government policy action in developed countries.	↓	↓	↑	↑	↓	New entrants

<i>Supply-Related Uncertainty</i>	<i>Barriers to Entry</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitutes</i>	<i>Industry Rivalry</i>	<i>Advantage to</i>
U6: Indian government enforces stronger Intellectual property and data privacy laws.	↑	↓	↓	↓	↓	Established players
U7: Improvement in infrastructure catches up with what is needed to ensure India's status as an attractive offshoring destination.	↓	↑	↑	↓	↑	Small players, New entrants
U8: India's talent pool and labor supply catches up to meet the offshoring needs of high-end services.	↓	↑	↓	↓	↑	Small players, New entrants
U9: Indian players are able to secure the supply of necessary human capital on a sustainable basis.	↑	↓	↓	↓	↑	Small players, New entrants
U10: Despite demand for skilled labor increasing, total cost of offshoring has been contained through productivity.	↑	↓	↑	↓	↑	All players
U11: Indian players expand their value proposition to include revenue enhancement, capital productivity improvement and risk mitigation rather than pure cost arbitrage. And they are able to do it better than competition.	↑	↓	↑	↓	↓	All players
U12: India maintains its lead and withstands competition—both from other offshoring destinations such as China, Philippines and Morocco and nearshoring destinations such as Canada and Ireland.	↔	↓	↑	↓	↓	Small players, New entrants

8.1.2. Managerial Recommendation

Large established player should fortify their position to make themselves unassailable. Several levers are available to do this. One is to develop and strengthen customer intimacy. From handling customer's non-core non-critical processes, move up the value chain to handle their non-core yet critical processes and ultimately the periphery of their core process. Expand the value proposition and help customer improve their revenue, improve capital productivity and mitigate risk by offshoring. Understand their business model and become ingrained in the way they conduct their business. This will not only improve the ability to provide better service but also increase customer loyalty. Furthermore, this will result in significant switching costs for the client if ever it considers switching vendor. Such an entrenched position will not only enable established player to guard themselves from new entrants but also command higher pricing from their clients. Also, explore new relationships with non-corporate clients such as hospitals and universities. Expand into areas such as offshoring of medical advice, surgery, academic research and teaching. Create an organizational culture where learnings and best practices are openly shared between various divisions and client engagements. In a rapidly evolving field such as this, connecting the pools of knowledge locked in organizational silos can be extremely beneficial. Encourage employee rotation between divisions. Institute a formal employee rotation program for all high-potential employees and position it as a reward for superior performance. This will facilitate employee growth and job enrichment thereby improving retention. Furthermore, this will facilitate sharing of best practices and key managers to have a broader perspective beyond their immediate division.

For new entrants, it is important to do a detailed market research and identify the right entry point before jumping into the BPO bandwagon. Identify specific industry/domain niches that are either underserved or have a very specialized need. Adopt a strategy of differentiation-based focus to begin with and gradually broaden it to dominate the entire domain. Leverage specific domain expertise to create "centers of excellence" around specific areas of strategic importance to customers in that industry/domain and deliver value-added solutions to meet the business needs of customers. Initial focus should be on meeting unique needs of customers that could not be addressed by standard product offering of large established players or new areas where others do not have an expertise. Place bets on small but promising clients who are expected to grow. Become entrenched in the way

they run their business. Identify non-US and non-European customers that need outsourcing solutions and build a credible track record before entering the US and Western European markets. If necessary, explore penetrating US and Europe through strategic alliances and acquisitions to gather the necessary resources and connections. Refer to exhibit 3 on i-flex solutions as a case example.

Table 5: Strategies for Indian BPO Players under “India Shining” Scenario

	<i>Established Players</i>	<i>New Entrants</i>
Large Players	<ul style="list-style-type: none"> Establish a name for high-quality service. Expand client value proposition to include revenue enhancement, capital cost avoidance and risk mitigation services in addition to cost savings Develop customer intimacy. Understand their business model and get entrenched into the way they do business Move up the value chain to critical services and knowledge work Retain the nimbleness of a small organization, while having scale advantage through creation of entrepreneurial sub-divisions Create a culture of learning and sharing of best practices. Connect pools of knowledge locked in organizational silos Improve employee retention, motivation and development through identification of high-potential employee for broader responsibility, formal job rotation program, investment in training and reward structure Secure talent supply through close relationships with universities and colleges Establish operations in other offshoring destinations to optimize global delivery model both in terms of cost and quality. Consider acquiring smaller BPO players in China, Philippines and Poland. 	<ul style="list-style-type: none"> Identify growth areas that can either support new large players or are currently occupied by weak players Acquire small players whose operations are scalable Take over a captive unit and enter into a multi-year service contract with the parent company. This will not only allow an immediate foothold in the BPO space but also provide the necessary scale to operate as a large player Invest in technology to gain advantage over established players. Leapfrog them Acquire necessary talent from existing BPO players during the initial phase. Developing internal talent may take time which a new entrant may not be able to afford Identify and service non-US and non-European customers that need outsourcing solutions in order to build a credible track record before entering the US and Western European markets on a large scale Penetrate US and European market through strategic alliances and acquisitions to gather the necessary resources, knowledge and connections
Small Players	<ul style="list-style-type: none"> Identify areas which are underserved by large players either because they lack the necessary skills or because it is unprofitable for large players to operate Specialize in a particular niche/domain 	<ul style="list-style-type: none"> Do the necessary market research before jumping into the BPO bandwagon Identify domains/niches which are either underserved or have a very specialized need

and strengthen competitive position by providing better services than larger players for the clients in that domain

- Establish a name for high-quality reliable service in that specific domain
- Develop customer intimacy. Understand their business model and get entrenched into the way they do business
- Move up the value chain to critical services and knowledge work
- Invest in training and development of employees with the necessary specialized skills relevant to that domain
- Explore the possibility of expanding to other domains which are related to current domain or where there are significant cross-selling opportunities

- Match domain needs with internal delivery capability to decide which domain to enter

- Leverage specific domain expertise to create “centers of excellence” around specific areas of strategic importance to customers in that industry/domain and deliver value-added solutions to meet the business needs of customers

- Adopt a strategy of differentiation-based focus to begin with and gradually broaden it to dominate the entire domain

Refer to exhibit 3 on I-Flex Solutions as a case example.

8.2. Scenario B: India Anticipating

This scenario implies status-quo on the demand side, while significant improvements happen on the supply side.

8.2.1. Indian Offshoring Industry Structure

On the demand-side, offshoring is still limited to low-end processes, where India continues to maintain its lead. This implies that not much have changed for players that entered this field 20 years ago with IT and IT-enabled service such as call centers. While barrier to entry is low, the industry is not a very attractive one to enter. Offshoring of high-end knowledge work is yet to gain acceptance. In such a situation, buyers will have better choices and more power, which will be translate into margin pressure for Indian players.

On the supply side, while stronger intellectual property and data privacy laws will make compliance difficult for smaller players, availability of better infrastructure will level the playing field and lower the entry barrier. Higher skilled and more productive human resources will reduce the total cost of offshoring, lowering the threat of substitutes in the form of alternate offshore destinations. Abundant supply of talented labor coupled with limited demand for skills needed for high-end services will reduce the power of talent suppliers. Low demand and overcapacity will intensify industry rivalry.

How the various forces will play out and who will be advantaged as a result, is summarized in the table that follows.

Table 6: Indian Offshoring Industry Analysis under “India Anticipating” Scenario

<i>Demand-Related Uncertainty</i>	<i>Barriers to Entry</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitutes</i>	<i>Industry Rivalry</i>	<i>Advantage to</i>
U1: Offshoring of knowledge processes has yet not become a normal part of everyday life in developed countries.	↑	↑	↓	↓	↓	Established players
U2: Corporate and non-corporate bodies do not have the confidence and maturity to deal with the realities of a truly global world by re-organizing themselves around a “global supply model”.	↑	↓	↓	↓	↓	Established players
U3: Cost savings and other benefits generated by offshoring are not large enough to generate widespread public support.	↑	↑	↓	↓	↓	Low-cost new entrants
U4: Media in the developed countries blame offshoring for job cuts and loss of national competitiveness.	↑	↑	↓	↓	↓	None
U5: “Global sourcing model” has not become an accepted practice. Government has enacted laws prohibiting offshoring of high-end work	↑	↑	↓	↓	↓	None

<i>Supply-Related Uncertainty</i>	<i>Barriers to Entry</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitutes</i>	<i>Industry Rivalry</i>	<i>Advantage to</i>
U6: Indian government enforces stronger Intellectual property and data privacy laws.	↑	↓	↓	↓	↓	Established players
U7: Improvement in infrastructure catches up with what is needed to ensure India's status as an attractive offshoring destination.	↓	↑	↑	↓	↑	Small players, New entrants
U8: India's talent pool and labor supply catches up to meet the offshoring needs of high-end services.	↓	↑	↓	↓	↑	Small players, New entrants
U9: Indian players are able to secure the supply of necessary human capital on a sustainable basis.	↑	↓	↓	↓	↑	Small players, New entrants
U10: Despite demand for skilled labor increasing, total cost of offshoring has been contained through productivity.	↑	↓	↑	↓	↑	All players
U11: Indian players expand their value proposition to include revenue enhancement, capital productivity improvement and risk mitigation rather than pure cost arbitrage. And they are able to do it better than competition.	↑	↓	↑	↓	↓	All players
U12: India maintains its lead and withstands competition—both from other offshoring destinations such as China, Philippines and Morocco and nearshoring destinations such as Canada and Ireland.	↔	↓	↑	↓	↓	Small players, New entrants

8.2.2. Managerial Recommendation

India's capability has been held hostage under this scenario. However, for some of the Indian players, there may be a silver lining.

For established players, it becomes imperative to fortify their position so as to make themselves immune to industry rivalry and low-cost competition. Leverage existing relationship to get closer to clients and provide either more of low-end services or limited quantity of high-end services in a few areas without attracting too much public attention or negative government action. Look at servicing those developed regions of the world, where there are not too many restrictions on offshoring or those areas of work which are not under close public scrutiny. Continue maintaining a low profile in developed countries while highlighting the benefits accruing to the clients. Other revenue sources such as serving domestic clients should be explored. Established players should also organize themselves into powerful coalition, gain the support of Indian government and lobby for removing restrictions on offshoring by highlighting the potential benefits to the developed countries.

For small players and new entrants, the industry is not very promising. There is low demand, overcapacity and high compliance cost. Small players should specialize and strengthen their position in domains where they have relative advantage versus large players. New entrants should reconsider their decision to enter this market. If there are no better alternatives available, they should identify underserved area and follow a focused strategy targeted at specific niches where they have either an absolute cost advantage or superior customer understanding.

Table 7: Strategies for Indian BPO Players under “India Anticipating” Scenario

	Established Players	New Entrants
Large Players	<ul style="list-style-type: none"> • Develop customer intimacy to fortify position and develop immunity to industry rivalry and low-cost competition. Deeply understand client’s business model and get entrenched into the way they do business to provide higher quality and more reliable service • Leverage existing relationship to provide either more of low-end services or limited quantity of high-end services in a few areas without attracting too much public attention or negative government action • Target those developed regions of the world, where there are not too many restrictions on offshoring or those areas of work which are not under close public scrutiny. Continue maintaining a low profile while highlighting the benefits accruing to the clients • Explore other revenue sources such as serving domestic clients • Organize into powerful coalitions, gain the support of Indian government and lobby for removing restrictions on offshoring by highlighting the potential benefits to the developed countries 	<ul style="list-style-type: none"> • Reconsider the decision to enter the market given the lack of demand
Small Players	<ul style="list-style-type: none"> • Specialize in a particular niche/domain and strengthen competitive position by providing better services than larger players for the clients in that domain • Become a member of BPO coalition and lobby for removing restrictions on offshoring 	<ul style="list-style-type: none"> • Reconsider the decision to enter the market given the lack of demand

8.3. Scenario C: Lost Opportunity

This is the worst scenario for India. However, just because a scenario is bad for the country, it is not necessary that it will be bad for each of the individual BPO firms. When India has failed to develop capability to deliver what is needed, Indian firms may not have to remain restricted to national borders.

8.3.1. Indian Offshoring Industry Structure

On the demand-side, acceptance of global sourcing model in developed countries will increase the demand for offshoring services, which will reduce buyer power. Competitive pressures, public support for offshoring and favorable government policy will cause all companies in the developed countries to seek offshoring partnership. Increased maturity of customers to deal with the realities of a truly global world and their ability to organize themselves around a “global supply model” will give them buyer power to play off one provider against the other. With high industry growth, rivalry will reduce.

On the supply-side, poor intellectual property and data privacy laws will weaken the position of Indian firms. Lack of infrastructure will increase the barriers to entry since new firms will have to invest in building their own proprietary infrastructure to compete successfully. Limited talent pool will require significant expenditure on identifying, recruiting, developing and retaining human resources which again will increase the barrier to entry for new firms. Higher total cost of offshoring will require firms to quickly achieve scale and invest in technology to improve productivity which will increase industry rivalry. Inability to broaden the value proposition to include revenue enhancement, capital productivity improvement and risk mitigation services, will make price cutting the only way to secure more business. This will not only increase industry rivalry but also increase the threat of substitutes. How the various forces will play out and who will be advantaged as a result, is summarized in the table that follows.

Table 8: Indian Offshoring Industry Analysis under “Lost Opportunity” Scenario

<i>Demand-Related Uncertainty</i>	<i>Barriers to Entry</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitutes</i>	<i>Industry Rivalry</i>	<i>Advantage to</i>
U1: Offshoring of knowledge processes becomes a normal part of everyday life in developed countries.	↑	↓	↑	↓	↓	Established players
U2: Corporate and non-corporate bodies gain the confidence and the maturity to deal with the realities of a truly global world by re-organizing themselves around a “global supply model”.	↓	↑	↑	↑	↑	Niche players
U3: Cost savings and other benefits generated by offshoring are large enough to generate widespread public support.	↓	↓	↑	↑	↓	All players
U4: Media in the developed countries paint offshoring as a technological innovation that benefits the society at large.	↓	↓	↑	↑	↑	All players
U5: “Global sourcing model” becomes an accepted practice supported by favorable government policy action in developed countries.	↓	↓	↑	↑	↓	New entrants

<i>Supply-Related Uncertainty</i>	<i>Barriers to Entry</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitutes</i>	<i>Industry Rivalry</i>	<i>Advantage to</i>
U6: Indian government fails to enforce stronger Intellectual property and data privacy laws.	↓	↑	↔	↑	↑	None
U7: Improvement in infrastructure is not enough to ensure India's status as an attractive offshoring destination.	↑	↓	↓	↑	↓	Established players
U8: India's talent pool and labor supply fails to meet the offshoring needs of high-end services.	↑	↑	↑	↑	↓	Established players
U9: Indian players are unable to secure the supply of necessary human capital on a sustainable basis.	↑	↑	↑	↑	↓	Established players
U10: With demand for skilled labor increasing, total cost of offshoring has escalated.	↑	↑	↑	↑	↑	None
U11: Indian players fail to expand their value proposition to include revenue enhancement, capital productivity improvement and risk mitigation services. They continue to focus on pure cost arbitrage.	↑	↑	↓	↑	↑	None
U12: India loses its lead and succumbs to competition– both from other offshoring destinations such as China, Philippines and Morocco and nearshoring destinations such as Canada and Ireland.	↑	↑	↓	↑	↓	Established players

8.3.2. Managerial Recommendation

While the nation has lost the opportunity, large and established Indian BPO firms can still participate in this opportunity by looking beyond nation's borders. They should establish their presence in other offshore destinations such as China, Philippines, Poland and Ireland that has robust infrastructure, adequate talent supply, cost advantage and superior high-end skills. Acquiring smaller players in these countries will be ideal way to gain a foothold which can later be expanded depending on how the demand evolves. Presence in multiple offshore destinations will allow established players to optimize their service delivery from the standpoint of both cost and quality. Established players should explore moving up the value chain from handling customer's non-core non-critical processes to non-core yet critical processes and ultimately the periphery of their core process. They should deeply understand their client's business model and become ingrained in the way they conduct their business. This will not only improve the ability to provide better service but also increase customer loyalty. Furthermore, this will result in significant switching costs for the client if it ever considers switching vendor. Such an entrenched position will not only enable established player to guard themselves from new entrants but also command higher pricing from their clients. They should also create an organizational culture where learnings and best practices are openly shared between the operations in various countries and client engagements. They should form coalition with other players and lobby the Indian government for better intellectual property and data privacy laws and improvement in educational infrastructure.

Small players should also look beyond national borders and gain a foothold in countries such as China, Philippines, Poland and Ireland through joint-ventures and alliances. They should follow a focused strategy trading their superior cost position or customer understanding in their specific niche with their alliance partner. Ally with large players to form a coalition and lobby the Indian government for better conditions. New entrants should consider either waiting until the situation improves in India or becoming a sub-contractor to large global BPO player wanting to gain a foothold in India to maintain a strategic presence.

Table 9: Strategies for Indian BPO Players under “Lost Opportunity” Scenario

	Established Players	New Entrants
Large Players	<ul style="list-style-type: none"> • Establish presence in other offshore destinations such as China, Philippines, Poland and Ireland that has robust infrastructure, adequate talent supply, cost advantage and superior high-end skills • Acquire smaller players in these countries to optimize service delivery from both cost and quality perspective • Deeply understand client’s business model and get entrenched into the way they do business to provide higher quality and more reliable service • Form coalition with other players and lobby Indian government for better intellectual property and data privacy laws and improvement in educational infrastructure 	<ul style="list-style-type: none"> • Reconsider the decision to enter the Indian market given the supply constraints • Instead, consider starting out in other offshore destinations that have favorable supply situation • Acquire small players in China, Philippines and Poland whose operations are scalable
Small Players	<ul style="list-style-type: none"> • Establish foothold in other offshore destinations such as China and Philippines through joint-venture and alliances • Follow a focused strategy trading their superior cost position or customer understanding in their specific niche with their alliance partner for favors • Become a BPO coalition member and lobby the Indian government for better conditions 	<ul style="list-style-type: none"> • Reconsider the decision to enter the Indian market given the supply constraints

8.4. Scenario D: No Regrets

This scenario is roughly status quo versus today.

8.4.1. Indian Offshoring Industry Structure

On the demand side, offshored work will remain confined to non-critical low-end work in limited areas. Buyers will continue to have high power and industry rivalry will intensify.

On supply side, lack of infrastructure and need to secure talent supply will require significant upfront investment increasing the barriers to entry. Continued focus on labor cost arbitrage and need for scale to deliver cost savings will intensify the industry rivalry.

How the various forces will play out and who will be advantaged as a result, is summarized in the table that follows.

Table 10: Indian Offshoring Industry Analysis under “No Regrets” Scenario

<i>Demand-Related Uncertainty</i>	<i>Barriers to Entry</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitutes</i>	<i>Industry Rivalry</i>	<i>Advantage to</i>
U1: Offshoring of knowledge processes has yet not become a normal part of everyday life in developed countries.	↑	↑	↓	↓	↓	Established players
U2: Corporate and non-corporate bodies do not have the confidence and maturity to deal with the realities of a truly global world by re-organizing themselves around a “global supply model”.	↑	↓	↓	↓	↓	Established players
U3: Cost savings and other benefits generated by offshoring are not large enough to generate widespread public support.	↑	↑	↓	↓	↓	Low-cost new entrants
U4: Media in the developed countries blame offshoring for job cuts and loss of national competitiveness.	↑	↑	↓	↓	↓	None
U5: “Global sourcing model” has not become an accepted practice. Government has enacted laws prohibiting offshoring of high-end work	↑	↑	↓	↓	↓	None

Supply-Related Uncertainty	Barriers to Entry	Buyer Power	Supplier Power	Substitutes	Industry Rivalry	Advantage to
U6: Indian government fails to enforce stronger Intellectual property and data privacy laws.	↓	↑	↔	↑	↑	None
U7: Improvement in infrastructure is not enough to ensure India's status as an attractive offshoring destination.	↑	↓	↓	↑	↓	Established players
U8: India's talent pool and labor supply fails to meet the offshoring needs of high-end services.	↑	↑	↑	↑	↓	Established players
U9: Indian players are unable to secure the supply of necessary human capital on a sustainable basis.	↑	↑	↑	↑	↓	Established players
U10: With demand for skilled labor increasing, total cost of offshoring has escalated.	↑	↑	↑	↑	↑	None
U11: Indian players fail to expand their value proposition to include revenue enhancement, capital productivity improvement and risk mitigation services. They continue to focus on pure cost arbitrage.	↑	↑	↓	↑	↑	None
U12: India loses its lead and succumbs to competition– both from other offshoring destinations such as China, Philippines and Morocco and nearshoring destinations such as Canada and Ireland.	↑	↑	↓	↑	↓	Established players

8.4.2. Managerial Recommendation

Overall offshoring has not become an accepted activity, but still some money can be made by providing low-end IT and IT-enabled services in certain specific industries and regions. For established players, it becomes imperative to fortify their position so as to make themselves immune to industry rivalry and low-cost competition. They may also look at servicing those developed regions of the world, where there are not too many restrictions on offshoring or those areas of work which are not under close public scrutiny. Other revenue sources such as serving domestic clients should be explored. Established players should also organize themselves into powerful coalition, gain the support of Indian government and lobby for removing restrictions on offshoring by highlighting the potential benefits to the developed countries. To overcome the home country limitations, large and established Indian BPO firms should establish their presence in other offshore destinations such as China, Philippines, Poland and Ireland that has robust infrastructure, skilled talent supply and cost advantage.

For small players and new entrants, the industry is not very promising. There is low demand and intense rivalry. Small players should either consider exiting or maintaining just a nominal presence waiting in anticipation for offshoring to become an accepted practice and home country situation to improve. New entrants should reconsider their decision to enter this market. If there are no better alternatives available, they should identify underserved area and follow a focused strategy targeted at specific niches where they have either an absolute cost advantage or superior customer understanding.

Table 11: Strategies for Indian BPO Players under “No Regrets” Scenario

	Established Players	New Entrants
Large Players	<ul style="list-style-type: none"> • Develop customer intimacy to fortify competitive position and develop immunity to industry rivalry and low-cost competition. • Target those developed regions of the world, where there are not too many restrictions on offshoring or those areas of work which are not under close public scrutiny. • Explore other revenue sources such as serving domestic clients • Organize into powerful coalitions, gain the support of Indian government and lobby for removing restrictions on offshoring by highlighting the potential benefits to the developed countries • Establish presence in other offshore destinations such as China, Philippines, Poland and Ireland that have robust infrastructure and cost advantage. This will help overcome home country limitations 	<ul style="list-style-type: none"> • Reconsider the decision to enter the market
Small Players	<ul style="list-style-type: none"> • Consider exiting or maintaining just a nominal presence waiting in anticipation for offshoring to become an accepted practice and home country situation to improve • Become a BPO coalition member and lobby for removing restrictions on offshoring and improving the infrastructure in home country 	<ul style="list-style-type: none"> • Reconsider the decision to enter the market

9. Strategies for Today

The preceding section was devoting to analysis of scenarios in 2025 and discussion of appropriate strategies for Indian BPO players in those specific scenario contexts.

However, what the players may want to know today is which scenario is likely to occur in 2025 and what should be an appropriate strategy for them today. Future is uncertain. Therefore, it is not possible to say with certainty today which scenario is likely to occur in 2025. However, the scenario planning exercise does identify key forces that will shape the future. It also highlights the key uncertainties. The manner in which these uncertainties will unfold and the direction they take will decide which scenario will be realized in 2025. By thinking through the possible scenarios and the key uncertainty that will define them, this exercise sensitizes managers and organizations to what is obscure but probable. It also opens their eyes to a range of possibilities any of which may become a reality depending on how the forces play out. This sensitivity and heightened awareness will translate into ability to better identify and monitor weak but relevant signals about how the key uncertainties are unfolding before they become obvious to all. With this ability, managers and organization will be able to discern emergence of a particular scenario much before it becomes a general public knowledge and be better prepared to face it.

As regards strategies for today, Indian BPO players should do the following to be better prepared for any scenario that emerges in 2025:

1. **Monitor weak signals:** Offshoring industry is evolving very rapidly. What might appear as an innocuous change in government policy or public perception today, may radically change the direction of offshoring industry over the next 20 years. In an environment like this, it is particularly important for existing players to closely monitor weak signals. Pay particular attention to how the media is presenting issues since that has significant impact on public perception. Monitor how the labor unions and advocacy groups in developed countries are perceiving offshoring-related issues and what position they are adopting. Understand how this public perception is translating into political action and influencing government policy in

- the developed countries. Analyze it both from the perspective of what threat it poses and also how it may be an opportunity in future.
2. ***Invest in flexibility through real options:*** When it is not clear how the future will shape out, it pays to invest in flexibility and be prepared for multiple outcomes. Existing BPO players may approach this situation through the real options framework. The more the uncertainty, the more is the value of the option. They may purchase an option to expand into a particular offshoring area such as R&D or medical services, by making a small initial investment to keep them in the game but withholding a major investment until the uncertainty clears out.
 3. ***Develop customer intimacy:*** To secure one's position, no matter what the future holds, it is important to be close to one's customers- so close as to be inextricable from the client's business. BPO players should constantly try to move up the value chain from non-critical non-core processes to non-core but critical processes and ultimately even doing what is periphery of their client's core. The more intimate the relationship, the more immune they will become to environmental changes and competition.
 4. ***Expand value proposition:*** In order to improve margin and create client stickiness it is essential to broaden the value proposition from reducing costs to exploiting value-added opportunities and generating revenues. As and when customers improve in their sophistication, they will evaluate where a job should be done based on the broader list of factors other than cost alone. Players that offer quality, reliability and flexibility in addition to value for money will enjoy not only higher client loyalty but also bigger share of their wallet.
 5. ***Build organizational capability:*** The work that is currently being offshored is just the proverbial tip of the iceberg. There is potential to offshore most of the high-end knowledge work from basic research to legal service to surgery. To be able to capture that, it is essential that existing BPO players invest in building their capability. Not only they should secure their talent supply, but create an organizational system to develop, motivate and retain the best talent. Offshoring of knowledge work is a people's business. Organizations with the best human resources and the right system and capability to harness them will lead the next wave of knowledge outsourcing.

6. ***Find niches and fill them:*** As the market expands, there are always going to be some areas which are underserved. There may be areas that have just come into existence. It may also be possible that bigger players either have not noticed them or have chosen to ignore them since they cannot service it profitably. These are areas of opportunity for small players and new entrants. New entrants should first identify their relative advantage and find a niche they can serve better than an established player either from a cost or quality of service standpoint. Even in a market dominated by large established players, smaller firms not only can survive but also can reap abnormal profits by finding appropriate niches.

7. ***Diversify across product and geography:*** Diversification is an excellent way to mitigate risks. Firms that play in multiple categories, service clients based in different countries and maintain their presence in multiple offshoring destinations have a better chance of withstanding adverse outcome both from the demand side and the supply side.

8. ***Build coalitions:*** In an evolving area, where rules are being written it is significantly easier to shape policies in one's favor. To do so, it is important for BPO players to organize themselves into strong groups with one voice. Existing players should form a powerful coalition and lobby to remove restrictions on offshoring. They should also work with the Indian government to make the necessary improvements needed to position India as the global outsourcing hub for all knowledge work.

9. ***Adopt public-private partnership model:*** While the Indian government may be supportive, it may not have the vision, resources and skills to bring about the necessary improvements. Therefore, it becomes imperative to adopt public-private partnership model to make rapid improvements before it is too late. For example, the industry as a whole as well as individual player can benefit tremendously working hand-in-hand with the government in training investigating officers about IT crimes, educating companies as well as general public on security measures and setting up a self regulatory organization. This will help bolster confidence among overseas companies about security of their work sent to centers in India and silence the critics of offshoring.

10. ***Proactively shape public opinion:*** Where the facts are not easily verifiable, perceptions count a lot. BPO players should proactively seek out and forge strong relationships with media, opinion leaders, advocacy groups, non-profit organizations and public figures, get their buy in and seek their help to proactively shaping public opinion in their favor. To the extent that they have data available to highlight the benefits of offshoring, they should proactively share it to support their position. They should use multiple fora for doing this ranging from seminars to press conferences to publicity events.

11. ***Fund and leverage research:*** In an emerging field such as offshoring where there is not much history or data to support or counter a particular point of view, established BPO players can turn the tide in their favor by funding and leveraging research. They should reach out fund research at universities, think tanks and research institutions to highlight the benefits of offshoring. It is important that such institutions are credible. Funding research is expensive and hence it may not be possible for any single player to do it alone. Moreover, such a research will benefit the entire offshoring industry. BPO players should, therefore, take this up together as a coalition and jointly support research funding.

10. Ending Note

One might argue that the analysis of scenarios in 2025 adopts a fatalistic approach. The forces that shape those scenarios appear to be exogenous and outside the control of BPO players.

Here is a clarification. Assuming that we are in 2025 and those scenarios have occurred; the forces that have shaped those scenarios are indeed exogenous. Given that we are in 2025, the forces have already shaped the scenario and now it is not possible to alter them. However, in the discussion pertaining to strategies for today, the forces have been considered to be within the influence of firm either individually or collectively through coalition and lobbying. Some of the strategies do talk about how the Indian BPO players can influence the relevant forces in their favor to increase the likelihood of the occurrence of their preferred scenario.

Exhibit 1: Evolution to Global Sourcing

<i>Evolving From</i>	<i>Evolving To</i>
Offshore	Global Sourcing
Novel Approach for Leading-Edge Adopters	Business as usual for the mainstream
Binary Choice: Onshore or Offshore	Range of global delivery options
Competitive Differentiator	Competitive imperative
Straightforward Application Development Tasks	Broad array of more complex IT and business services
Delivered by Indian Firms	A part of the offering of all major service providers regardless of the location of their headquarters
Services Sold Mainly to U.S. Enterprises	Services sold to companies in many geographic markets
Services Mainly for Global 2000 Enterprises	Services sold to both midsize and large businesses
Driven by Cost-Saving Potential	Driven by a need to use the best resources and achieve the best quality at the best price
Risky	Better understood and better managed by service providers and recipients
Controversial Subject of Public Policy Debate	Normal part of global trade (but still controversial)

Source: Gartner Research (June 2004)

Exhibit 2: SWOT Analysis of Offshoring Destinations

SWOT Analysis of Key Global Sourcing Locations						
	Strength	Weakness	Opportunity	Threat	Future Attractiveness (ITO)	Future Attractiveness (BPO)
India	<ul style="list-style-type: none"> Huge skilled labour pool Superior service maturity Strong government support Cost competitiveness 	<ul style="list-style-type: none"> Infrastructure Bureaucracy 	<ul style="list-style-type: none"> Move up the value chain Expand into countries other than US 	<ul style="list-style-type: none"> Emerging low-cost nations Unstable geopolitical situation Rising costs 	High	High
Canada	<ul style="list-style-type: none"> Geographical proximity to US Excellent business environment Excellent supplier capabilities 	<ul style="list-style-type: none"> High wage rates 	<ul style="list-style-type: none"> Further penetrate US market using geographical proximity as leverage High-end niche jobs 	<ul style="list-style-type: none"> Increasing service maturities and capabilities of low-cost nations 	Moderate	Moderate
China	<ul style="list-style-type: none"> Very cost-competitive Large labour pool Strong government support 	<ul style="list-style-type: none"> Low service maturity Lack of English proficiency Negative perception of geopolitical risk generally low country image 	<ul style="list-style-type: none"> Further penetration into Japanese market Penetration into English-speaking countries Non-voice BPO 	<ul style="list-style-type: none"> Increasing salary levels that may dilute low-cost advantage 	High	Moderate
Poland	<ul style="list-style-type: none"> Proximity to Western Europe EU membership Compatible time zones Cultural compatibility 	<ul style="list-style-type: none"> Lack of service maturity Comparatively smaller labour pool 	<ul style="list-style-type: none"> Lucrative Western Europe market 	<ul style="list-style-type: none"> Other CEE nations 	High	High
Russia	<ul style="list-style-type: none"> Low wage rates Highly skilled ITO labour pool Ability to carry out complex ITO projects 	<ul style="list-style-type: none"> Lack of project management skills Unfavourable geopolitical situation 	<ul style="list-style-type: none"> High-end niche IT jobs Technical non-voice BPO 	<ul style="list-style-type: none"> Brain drain Government apathy 	Moderate	Low
Malaysia	<ul style="list-style-type: none"> Strong governmental support Excellent business environment Cost competitiveness 	<ul style="list-style-type: none"> Low service maturity BPO jobs not popular 	<ul style="list-style-type: none"> Leverage as firms' secondary location to spread risk 	<ul style="list-style-type: none"> Small labour pool 	High	Low
Mexico	<ul style="list-style-type: none"> Geographical proximity to US Large labour pool Spanish language proficiency 	<ul style="list-style-type: none"> Lack of English language proficiency Low maturity Not very cost-competitive 	<ul style="list-style-type: none"> Leverage nearshore opportunities with US Other Spanish speaking countries 	<ul style="list-style-type: none"> Other emerging Latin American countries 	Moderate	Moderate
Hungary	<ul style="list-style-type: none"> EU membership Language and cultural compatibility 	<ul style="list-style-type: none"> Small labour pool Low service maturity 	<ul style="list-style-type: none"> Penetrate the Western Europe markets, particularly Germany and France 	<ul style="list-style-type: none"> Other neighbouring countries 	Moderate	Moderate
Philippines	<ul style="list-style-type: none"> Cost competitiveness Excellent English language proficiency 	<ul style="list-style-type: none"> Low maturity for ITO Labour pool not highly skilled in ITO Unfavourable geopolitical situation Lacks infrastructure 	<ul style="list-style-type: none"> Leverage existing relationships with BPO players to get ITO deals Penetrate English speaking markets other than US 	<ul style="list-style-type: none"> Emerging low-cost nations (especially for non-voice project) 	Moderate	High
South Africa	<ul style="list-style-type: none"> Superior English language proficiency Time zone compatibility with Western Europe 	<ul style="list-style-type: none"> High wage rates Education system incompatible with ITO Low maturity 	<ul style="list-style-type: none"> UK market 	<ul style="list-style-type: none"> High-cost structure 	Low	Moderate

Source: NASSCOM Website, Accessed on March 8, 2006

Exhibit 3: I-Flex Solutions Success Story

I-Flex is a leading provider of IT solutions to the financial services industry worldwide. It has ranked first globally in terms of new customers signed for the last three years. It ranks fifth globally in terms of total number of live sites. It was incorporated in September, 1989. In 1997, it launched FLEXCUBE, its flagship product. In March, 2000, it was renamed I-Flex Solutions Limited to create an independent brand name and to build on the success of FLEXCUBE.

During the initial years (pre 2000) its strategy was to provide low cost banking product to customers ignored by the larger competitors, particularly in Middle East and Africa. During the recent years (post 2000) its strategy has been to penetrate US and Europe through strategic alliances and acquisitions, broaden the product offerings, introduce services and position itself as a diversified provider of banking and financial solutions.

Services business revenue has grown by CAGR of 38% over last 5 years as a result of differentiated business model founded on domain expertise and value addition

- Domain expertise in financial services was leveraged to create “Centers of Excellence” around specific areas of strategic importance to financial institutions and value-added solutions were delivered to meet the business needs of customers
- Focus areas for Centers of Excellence (CoE) include
 - customer relationship management
 - business intelligence
 - e-services
 - development and integration services, and
 - payment systems
- Services business complemented product portfolio by
 - meeting unique needs of customers that could not be addressed by standard product offerings
 - offering complete end-to-end solutions to capture a larger share of the customer’s IT spend
 - creating new customer relationships that could be leveraged to cross-sell other components of solutions portfolio, and
 - helping enrich the product offerings by leveraging the domain expertise gained from services business

In recent years, I-Flex has grown by broadening the product offerings, expanding reach and introducing services

- Broadening the product offering
 - Creating new products, e.g. Reveleus, which is a new offering in the area of analytics and business intelligence for financial institutions
 - Enriching existing products, e.g. creation of language specific versions to meet the needs of specific markets
- Expanding reach
 - Expanding into new markets, e.g. setting up subsidiaries in the Netherlands, Singapore and the US
 - Forging global alliances with major hardware and software vendors and system integrators
 - Acquiring large global/regional banks as customers with opportunities for high-visibility implementation across multiple countries
- Introducing services
 - Launching technology deployment and management services offering
 - Investing in centers of excellence in specific domains of strategic importance to financial institutions
 - Servicing new business segments, e.g. internet and application service provider (ASP) space

Source: Factiva; I-Flex annual reports; I-Flex corporate website

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