

## A Look at India for Offshore Sourcing Options

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Use our Vendor Ratings and qualitative analyses of IT service providers that deliver work with Indian resources to develop sourcing strategies that combine on-site, domestic, nearshore and offshore services from various vendors.

## ANALYSIS

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Enterprise buyers are demanding that IT service providers offer a range of global sourcing alternatives, including on-site, domestic, nearshore (services delivered from an adjacent or nearby country) and offshore capabilities. Thousands of external service providers (ESPs) worldwide are responding to this demand by providing part of their offerings through lower-cost labor markets, such as India. This makes the evaluation and selection of service providers more complex.

In 2002, Gartner published the following Strategic Planning Assumption:

*By 2004, more than 80 percent of U.S. executive boards will have discussed offshore sourcing and more than 40 percent of U.S. enterprises will have completed some type of pilot or will be sourcing IT services through a global delivery model, such as nearshore and offshore (0.7 probability).*

According to a BusinessWorld article published in March 2000, General Electric (GE) adopted an outsourcing rule of thumb called "70:70:70." This approach was that 70 percent of GE's work would be outsourced. Of this amount, 70 percent would be done in offshore development centers. And of this amount, about 70 percent would be done in India. This ultimately would result in about 30 percent of GE's work being sourced in India.

In 2003, Gartner declares its "80/80/80 Discuss, Analyze, Act" prediction for the growth of global delivery models (nearshore and offshore):

*Through 2004, despite the potential human resource backlash, 80 percent of U.S. executive boardrooms will have discussed global delivery options (nearshore and offshore); of those, 80 percent will pursue an analysis of global delivery options (nearshore and offshore) and 80 percent of those enterprises using global delivery models will act by increasing their level of people resources (nearshore and offshore) by as much as 30 percent (0.8 probability).*

### **Offshore ESPs Dominate Offshore Sourcing Markets**

Despite economic and geopolitical uncertainties, offshore IT service providers are the dominant offshore vendors with regard to exporting IT services to U.S. enterprise buyers and software companies. Indian IT service providers account for an estimated \$10 billion of IT services delivered in 2002.

Using Gartner's Vendor Ratings process, we analyzed a select group of ESPs that have significant resources in India, and that deliver IT services to customers in the United States and Europe. Key criteria used to determine which vendors to examine include:

- Received (by Gartner analysts) the largest number of enterprise client inquiries and requests for information from enterprise buyers in the United States and Europe
- A sampling of the largest vendors with significant growth in the past two years
- Headquarters in India or the United States that specifically incorporate the global delivery model from a lower-cost labor market as part of their value proposition

Many large traditional global ESPs — for example, Accenture, BearingPoint (formerly KPMG Consulting), Cap Gemini Ernst & Young, Computer Sciences Corp., Deloitte, Electronic Data Systems, IBM Global Services and Keane — are aggressively pursuing global delivery strategies. However, we analyzed ESPs that have less name recognition in the United States and Europe than many of these brand names. Table 1 shows ESPs that are based in India. Table 2 shows

ESPs that are based in the United States, but that derive significant revenue from Indian resources. *By year-end 2004, a select group of traditional U.S. ESPs will have successfully expanded their nearshore and offshore capabilities to effectively compete on price and execution capability in a global delivery model (0.6 probability).*

**Table 1. ESPs Headquartered in India**

ESP (in Revenue Order)	Total Revenue (Estimate)	Approximate Worldwide Head Count	Vendor Rating Research
<b>Tata Consultancy Services</b>	\$1.02 billion (as of 31 March 2003)	23,400 (as of March 2003)	"Vendor Rating: Tata Consultancy Services"
<b>Infosys Technologies</b>	\$754 million (as of 31 March 2003)	15,500 (as of March 2003)	"Vendor Rating: Infosys Technologies"
<b>Wipro Technologies</b>	\$690 million (as of 31 March 2003)	19,780 (as of March 2003)	"Vendor Rating: Wipro Technologies"
<b>Satyam Computer Services</b>	\$459 million (as of 31 March 2003)	9,759 (as of March 2003)	"Vendor Rating: Satyam Computer Services"
<b>HCL Technologies</b>	\$333 million (as of 30 June 2002)	9,600 (as of May 2003)	"Vendor Rating: HCL Technologies"
<b>Patni Computer Systems</b>	\$188 million (as of 31 December 2002)	5,600 (as of December 2002)	"Vendor Rating: Patni Computer Systems"

Source: Gartner Research (July 2003)

**Table 2. ESPs Headquartered in the United States With Significant Revenue From Indian Resources**

ESP (in Revenue Order)	Total Revenue (Estimate)	Approximate Worldwide Head Count	Vendor Rating Research
<b>Covansys</b>	\$382 million (as of 31 December 2002)	4,860 (as of December 2002)	"Vendor Rating: Covansys Corporation"
<b>Cognizant Technology Solutions</b>	\$230 million (as of 31 December 2002)	6,500 (as of December 2002)	"Vendor Rating: Cognizant Technology Solutions"
<b>Syntel</b>	\$164 million (as of 31 December 2002)	2,794 (as of March 2003)	"Vendor Rating: Syntel"

Source: Gartner Research (July 2003)

### Bigger Is Not Necessarily Better

The largest vendors with significant scale are not always the best option for customer enterprises. Small and midsize ESPs that operate in India are viable sourcing options (see "Small/Midsize

Offshore ESPs: Application Outsourcing Vendors" and "Small/Midsize Offshore ESPs: Packaged-Application Focus"). These ESPs are grouped into three categories:

- Generalized application service providers — Birlasoft, HPS America and Mastek
- Providers that focus on financial services offerings — i-flex and Mphasis BFL
- Providers that focus on packaged applications — Hexaware Technologies, iGATE, Intelligroup and L&T Infotech Ltd.

This list is not inclusive of all small and midsize ESPs that operate in India. We applied key criteria to select which ESPs to analyze:

- Received (by Gartner analysts) the largest number of inquiries and requests for information from buyers in the United States and Europe
- Achieved revenue from offshore services of \$50 million or greater

### Using Gartner's Vendor Ratings

The Vendor Ratings provided in this Spotlight should not be evaluated in isolation, but rather should be used as part of enterprises' comprehensive analysis of a vendor evaluation model (see "Selecting an ESP: Using a Vendor Evaluation Model").

### Features

"Vendor Rating: Tata Consultancy Services" — Tata Consultancy Services plans to enter the public markets through an initial public offering; it will have to adjust to public scrutiny of its growth strategies and investment plans. **By Partha Iyengar, Debashish Sinha, Rebecca S. Scholl and Ian Marriott**

"Vendor Rating: Infosys Technologies" — Infosys has achieved tremendous growth, but to remain competitive, it must differentiate from its competitors, build brand equity and expand its geographic reach. **By Frances Karamouzis, Kingshuk Hazra, Dion Wiggins and Rebecca S. Scholl**

"Vendor Rating: Wipro Technologies" — Wipro's competition beyond Indian providers will be formidable, and it needs to shift to a more-managed growth phase rather than continuing to be entrepreneurial and opportunistic. **By Frances Karamouzis, Partha Iyengar, Rebecca S. Scholl and Ian Marriott**

"Vendor Rating: Satyam Computer Services" — Satyam needs more name recognition, as well as a clearly articulated message, to differentiate from new vendors competing for the same business. **By Allie Young and Frances Karamouzis**

"Vendor Rating: HCL Technologies" — HCL Technologies must leverage its alliance, partnership and joint-venture activity into growth, as well as mitigate confusion among U.S. enterprise buyers regarding its name and identify. **By Debashish Sinha and Ted Kempf**

"Vendor Rating: Patni Computer Systems" — Patni should focus on differentiation and stronger branding to keep pace with its peers. **By Ian Marriott, Ted Kempf, Frances Karamouzis and Rahul Singhal**

"Vendor Rating: Covansys Corporation" — Covansys must clearly articulate and leverage the benefits of being a "hybrid" vendor, with headquarters in the United States and significant resources in India. **By Ted Kempf and Frances Karamouzis**

"Vendor Rating: Cognizant Technology Solutions" — Cognizant is the emerging vendor to watch as it bids for a leadership position among the more-established firms. **By Rita Terdiman and Frances Karamouzis**

"Vendor Rating: Syntel" — Syntel's near-term strategy is uncertain because of recent top-level management changes. **By Rita Terdiman and Allie Young**

"Small/Midsize Offshore ESPs: Application Outsourcing Vendors" — Small and midsize vendors are viable alternatives to large external service providers. **By Rita Terdiman, Partha Iyengar and Frances Karamouzis**

"Small/Midsize Offshore ESPs: Packaged-Application Focus" — Small and midsize offshore external service providers offer packaged-application competencies. **By Frances Karamouzis, Partha Iyengar and Rita Terdiman**

This research is part of a set of related research pieces. See "Offshore ESP Vendor Ratings and Analysis" for an overview.

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