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The Case for Transformation

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The Next Wave of Outsourcing



Remote Infrastructure Management

The rapid evolution in remote server-management technologies and IT architectures, changes in customer behaviors and demand patterns, and developments in the provider and offshore supply environment is propelling the industry toward accelerated adoption of RIM

By Dr. P. K. Mukherji and Amit Singh

THOUGH 50 PERCENT OF IT resources in global organizations are engaged in managing the various elements of IT infrastructure, there has historically been some resistance to sending out this core IT function to remote geographies because of perceived higher risks in managing and maintaining enterprise IT environments. This mind-set, however, has started changing over the last few years. A survey of global organizations undertaken by *CIO Magazine* found that 27 percent of respondents are actively considering Remote Infrastructure Management (RIM) as a viable business option.

Last few years, three independent forces have converged together — the rapid evolution in remote server-management technologies and IT architectures, changes in customer behaviors and demand patterns, and developments in the provider and offshore supply environment — and this is propelling the industry toward accelerated adoption of RIM.

What is RIM?

RIM services, as defined by Gartner, are “the remote support and management of various IT services that are related to infrastructure support from global delivery sites.” These services include the remote system monitoring of the following:

- Data center
- Networks (WAN and/or LAN)

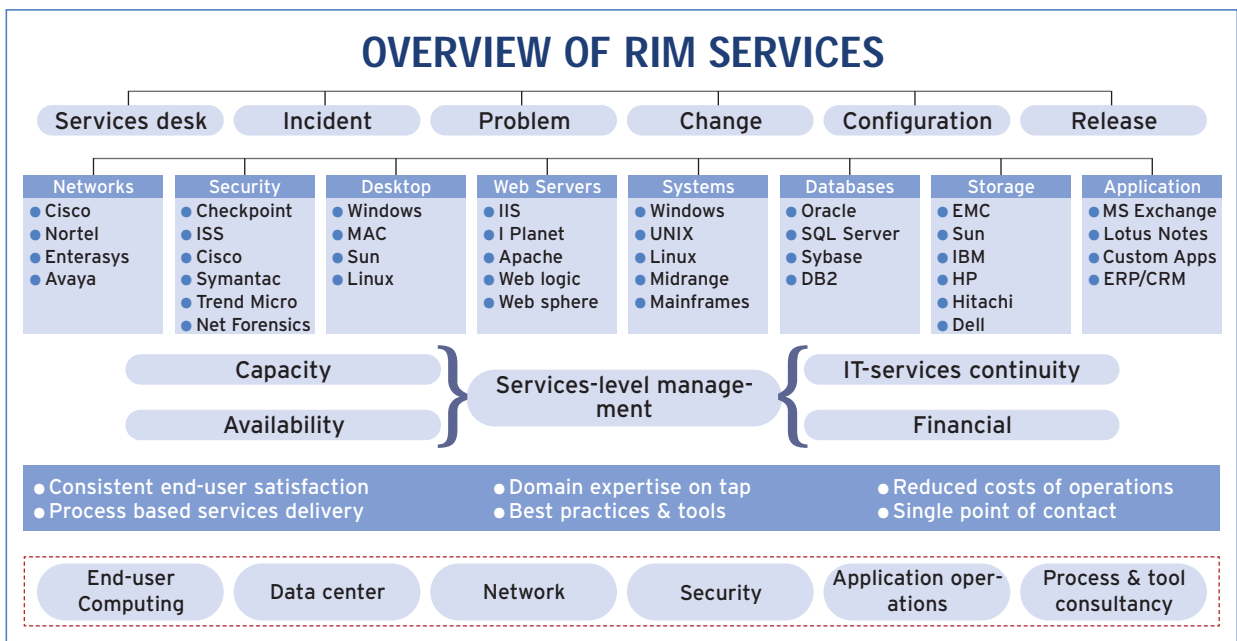
- E-mail systems
- Desktops/laptops and related peripherals
- ERP system level support (such as SAP basis support)
- Operating system and technical support such as Unix technical support and mainframe technical support
- Database administration.

Delivery of RIM services requires deployment of highly skilled professionals with vertical competencies in technology segments and subsystems. Telecom and bandwidth requirements for managing the enterprise environments, data flow needs, redundant network architectures and disaster recovery/business-continuity plan and compliance needs are more complicated as RIM services involve direct access and permissions to core customer network and server infrastructure.

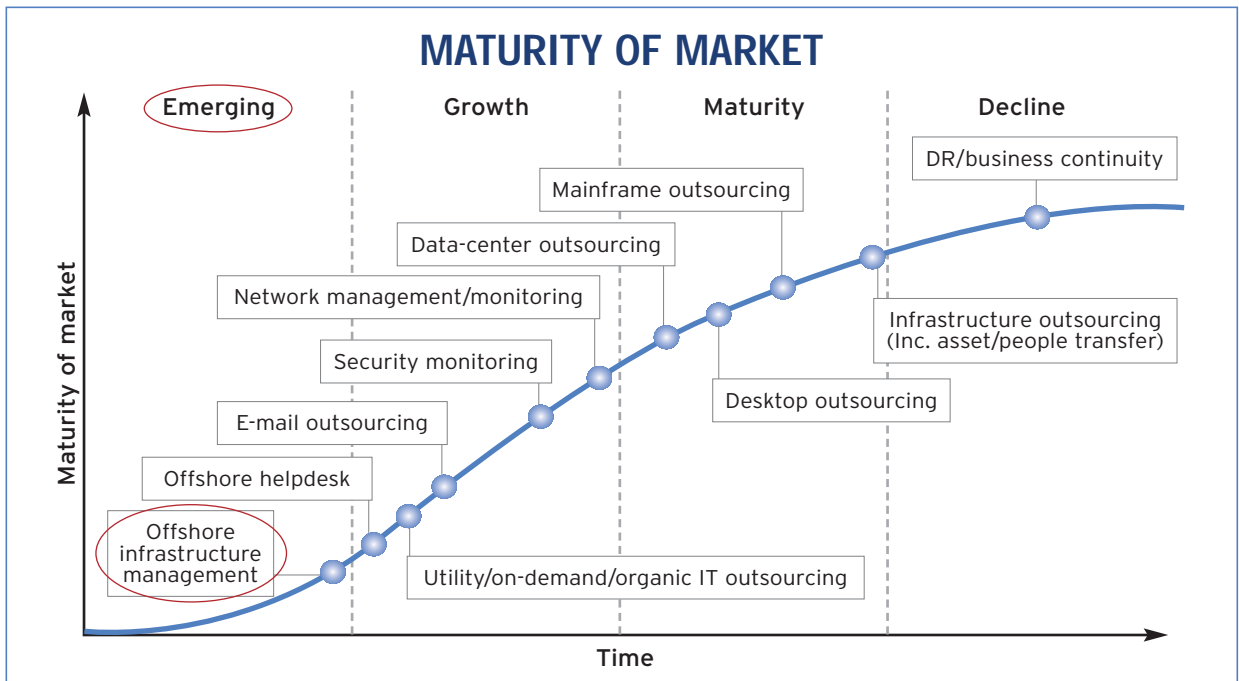
These challenging requirements have attracted quality global service providers into the domain with a very well defined set of service offering.

Market Maturity and Size

Full outsourcing of IT infrastructure has been prevalent since the early days of computing. Companies such as EDS, IBM and CSC were the leading service providers in the space. Since full outsourcing was also single provider based, and has traditionally been a five to 10-year deal, it increased client's dependence on provider. This at times reduced customer's flexibility in planning IT costs based on changing business conditions. Also, this dependence led to a poten-



SOURCE: HCL



tial risk of occasional lower responsiveness of provider to customer needs, thus enhancing customer's risk exposure.

Challenges in 'full outsourcing' resulted in customers adopting 'selective outsourcing'. This involves breaking up the outsourcing of different IT functions such as applications management, network management, e-mail management, etc. to 'best of breed' providers, best suited for each. This approach allows clients to leverage the specialized skills of the providers and reduce the risk of overdependence on one provider. This shift toward selective outsourcing of infrastructure management also catalyzed the growth of offshore sourcing of RIM. Providers could now offer a bouquet of services, adopting an 'asset-light model,' that did not require upfront large capital investment, thus reducing the cost entry barrier.

As per Forrester Research, full infrastructure outsourcing (inc. asset/people transfer) is approaching the decline stage, while elements of selective outsourcing like offshore help desk, e-mail outsourcing, security monitoring and network management/monitoring are positioned at the growth stage and RIM is an emerging opportunity.

Based on reports from various industry research analysts, the total market for RIM services is anywhere from \$80 billion to \$120 billion. As per Nasscom, the Indian association for IT services industry, the global IS outsourcing in 2007 was around \$96 billion with an annual growth rate of little over 5 percent per annum. Only 5 to 6 percent of the total spend is used in sourcing infrastructure management from a low-cost global sourcing geography (offshoring). However, offshoring of RIM is growing at a rate of over 35 percent and experts predict that this rate will grow to

around 50 percent per annum as global IT-services providers ramp up their offshore delivery capabilities and CIOs look to cut infrastructure costs. It is estimated that approximately 70 to 80 percent of provider IT outsourcing proposals hitting the market today contain some form of offshore infrastructure delivery of services.

What Can be Sent Offshore?

As per a recent study undertaken by Nasscom-McKinsey, between 50 to 70 percent of infrastructure management roles can be offshored. Most aspects of infrastructure management which do not require actual physical presence, such as installation of hardware and repair of equipment can now be delivered from a remote location. Some IT services are more easily shipped abroad due to skills availability and proximity requirements.

What are the Drivers & Inhibitors for Growth of RIM?

Cost saving is one of key drivers combined with high off-shorability of processes. Infrastructure management accounts for around 60 percent of the IT budget of an organization, and RIM provides significant opportunity.

Infrastructure is becoming complex, and its dynamics needs special focus and skills to manage. RIM provides an opportunity to access such skills available in abundance in some of the low-cost geographies.

Other drivers include:

- Availability of telecom network having large bandwidth
- Maturity in standards and frameworks (MOF-Microsoft Operations Framework, BS15000, etc.)

- Special tools and technologies built for RIM
- Processes like ITIL for managing services and Cobit for governance providing a common language for interacting with service providers
- Evolving maturity of offshore service providers.

However, there are still many inhibitors ranging from risk appetite of customer to legal and statutory environment, which restricts the adoption of RIM. Some of these inhibitors are:

- Managers apprehensive about loss of control
- Concern about security
- Lack of confidence on skill and financial strength of offshore service providers
- Perceived higher business risks
- Lack of full-service capabilities of offshore service providers
- Legal and compliance issues like security laws in the U.S., which do not allow non-U.S. citizens to have access to data related to some mission critical systems.

In spite of these inhibitors, the acceptance of RIM as evident by the growth rates has been possible because of the value proposition that it provides.

Dynamics of the Service Provider Landscape for RIM

Traditionally, MNC organizations such as EDS, Accenture, IBM and Unisys have been the main players in the market for infrastructure outsourcing. They had a full range of services, and were able to undertake full outsourcing, by taking over the assets of customer and engaging them in a long-term contract. Today, offshore providers are starting to compete head-to-head with legacy providers. In order to quickly ramp up and offer a full set of services to the market, some of the larger offshore service providers have shown an openness towards asset acquisition than in the past — making some of their offerings more like those of the traditional MNC providers. Last year, for example,

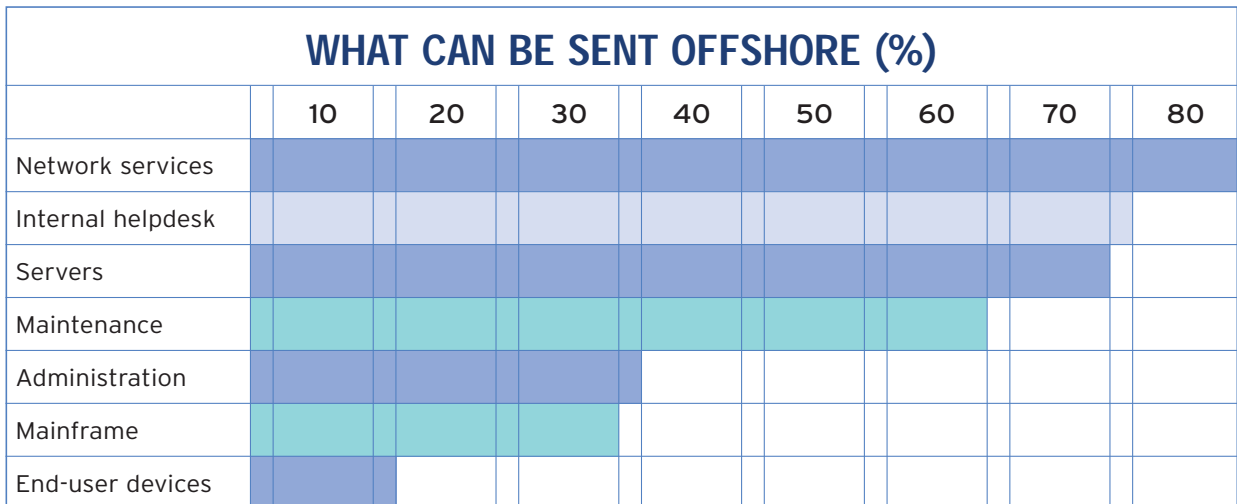
Wipro acquired the U.S.-based infrastructure services provider InfoCrossing, and TCS is promising to build out its delivery infrastructure in Ohio. Meanwhile, IBM and EDS are supporting their established infrastructure deals with lower-cost, offshore labor. Their data center may be in Plano, Texas, or Boulder, Colo., but the people supporting these centers are operating out of low-cost countries. Unless there are any restrictive clauses in a customer contract, service providers are moving a significant part of the service delivery to offshore.

As is evident from Forrester’s research, offshore organizations like Wipro and TCS are aggressively taking up leadership position in the market through strong performance.

In RIM, the scale of operations drives profitability to a large extent. Most of the offshore providers such as TCS, Wipro, etc. are looking at inorganic growth through M&A. Consolidation in the industry, evident by HP merging with EDS, is creating mega organizations with capability of providing customers end-to-end services across all time zones. In addition to the M&A growth, the offshore providers are moving past the wage-arbitrage play and focusing on value generation through better infrastructure management.

RIM market also provides opportunity for niche service providers with a differentiated offering and deep domain knowledge. Tech Mahindra is one such provider focused on the Telecom sector. L&T Infotech, specializes in providing SAP application support. Similarly, mainframe support service is a good area for niche providers with such capability like Patni, to focus on.

Indian service providers are leading contenders in the space as the growth rate for India-based service providers was 71 percent compared to 14 percent for non-India based providers. Some of the emerging Indian providers in this space, who do not come from an application development lineage, include companies such as Microland and Sify. Other service providers from the Philippines, China and Eastern Europe are trying to replicate India’s success.



SOURCE: MCKINSEY

OFFSHOREABILITY OF VARIOUS INFRASTRUCTURE SERVICES

Operations function	Offshoreability	Comments
Facilities management	Low	Clearly the majority of tasks associated with data-center administration require a local presence, and the primary offshore market today – India – is still a relatively high-risk market for such services.
Production support	Low	Production support (job scheduling, JCL support, file management, etc.) is not easily sent offshore as it assumes a good knowledge of applications, not just generic technologies. Even tier-1 outsourcers can only support this by hiring experienced staff from the customer.
Server and storage administration	Moderate	Remote server and storage administration is technically viable and the tasks are standard across organizations, making offshore support possible. However, since some administration tasks require physical access, many organizations are reluctant to split responsibilities.
Technical support	High	Technical support is well-suited for remote support, offshore or otherwise. It requires high skill levels, but standard product areas (Windows, Unix, z/OS, Oracle, etc.) are supportable.
Performance monitoring and capacity planning	High	Well-suited to offshore support, as these tasks, though very important, are not typically real-time. Organizations outsourcing in this area should assume they will have to retain responsibility for forward-looking business growth aspects of capacity planning.
Database administration	High	Very similar characteristics to technical support above—mostly well suited to remote/offshore support, but crises management/recovers can be more difficult.
Network operations	High	By definition, a remote support function and well-suited to outsourcing.
Helpdesk	High	Technically well-suited to remote/offshore outsourcing for commodity technology and OTS applications.

SOURCE: FORRESTER RESEARCH

Brazil is also positioning itself to be a strong competitor in the space.

How Can the Risks in RIM be Managed?

Though the trend of delivering RIM services from an offshore location is being embraced by organizations at a very fast pace, not all initiatives have been successful and met the business objectives that were planned. This is the result of lack of appreciation of risks with such initiatives, and the way to manage these. Some of the common risks are:

- **Inadequate readiness of outsourcing organization**

It is important that the pros and cons of the initiative are

well understood by the leadership and communicated across the organization. This helps in setting the right expectations. Managers need to have a handle on delivery processes and the outsourcing readiness of the organization. Having a solid process foundation helps ensure outsourcing success. But some firms go down the outsourcing path because of the opposite reason — for not having implemented strong service management.

- **Lack of a clear strategy**

It is important that adequate effort is spent on developing an effective strategy. Organization must analyze their portfolio to establish which functions are right for global sourcing what is the right business model for

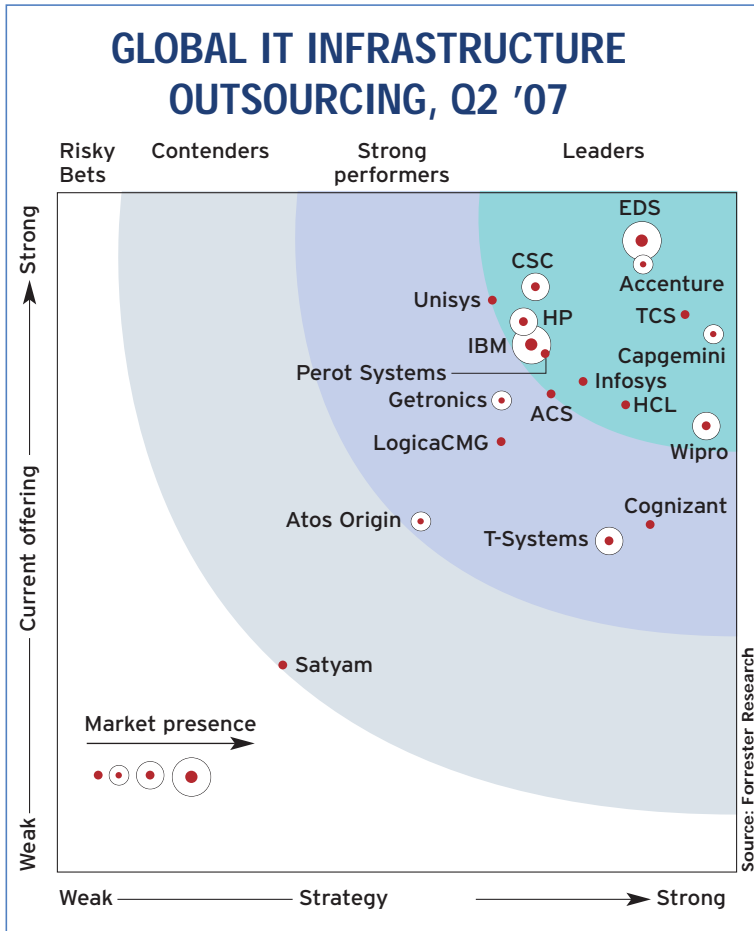


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strategy must invest in advanced competencies to manage multiple providers. For example, even with a sound sourcing strategy and best-in-class sourcing management, contracts will be hard to manage without the right people that understand outsourcing dynamics, and can structure the right terms and conditions.

● **Challenge of knowledge retention**

The attrition level of employees within service provider organization in low-cost geographies could be as high as 15 to 20 percent. The risk of losing key resources having deep knowledge of the client's infrastructure is high. It is essential to make sure that the following are achieved:

- Partner with service providers to put in place the right HR processes and provide a work environment, which helps in reducing attrition
- Have an effective knowledge-transfer plan during transition and document the knowledge, so that knowledge loss is minimized.

● **Cultural and communication issues**

It is essential to invest management effort in understanding the work culture in the service provider geographies. Challenges with working with a partner organization located in a very different time zone can be very

implementing the strategy.

● **Wrong choice of service provider**

It is important to go through a rigorous sourcing process to select the right partner, who has required skills and capabilities. Customers need to perform due diligence, specifically around infrastructure capabilities. It is essential to develop a partnership with selected provider and work jointly to develop best practices and optimized service delivery processes.

● **Lack of sourcing competency**

Organizations that use outsourcing as a pillar of business

challenging. Not being able to effectively communicate with the service provider may mean the early demise of the initiative.

● **Security and disaster recovery/business-continuity plan issues**

Security breaches and discontinuity in service because of inadequate disaster recovery/business-continuity plan planning have at time resulted in failure of RIM initiative. It is important that the service contract clearly define this requirement and a strong governance structure is put in place to oversee the implementation of the processes.

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● Compliance issues

Regulatory compliances are constantly changing and becoming all inclusive. Two areas of importance are:

- Sarbanes-Oxley Act and the Patriot Act for Electronic Record Management

- European Union Data Protection Directive (EUDPD) and ISO 17799:2005 Code of Practice for Information Security Management (ISO 17799) for Electronic Data Usage and Protection Codes.

There is also other industry specific compliance like HIPPA and Payment Card Industry standards. Service provider must demonstrate capability to adhere to such regulatory requirement.

As the industry has matured, risk mitigation methods have evolved to manage these risks. It is better to seek expert advice in undertaking careful planning, provider selection, and transition and governance management to effectively manage the risks and realize the business benefits. Most importantly commitment from executive leadership is critical to the success of a strategic RIM initiative.

Evolving Trends in RIM

- Global MNCs such as IBM, HP and Accenture will continue to dominate the large accounts due to :

- Existing large customer base and relationships

- Ability to provide end-to-end solutions including taking over customer assets

- Criticality of infrastructure facilities making CIOs hesitant to try out new providers

- Most MNC's will aggressively scale up their offshore presence and pass down the benefit to their customers

- Ability to move from labor arbitrage to value creation and implement global delivery and 'right sourcing' model.

- Offshore providers like TCS, Cognizant will aggressively grow their service offering and register large growth rates. They will setup their data centers and NOC in U.S. and Europe, either through organic growth or M&A, to gain customer confidence. They will have a strategy to address the SMB sector to increase their customer base.

- As RIM market matures and a few of the functions

become commoditized business, scale of operation will become critical for broad based service provider. Niche players have to focus on specific verticals (for example, telecom-service management).

- As more and more functions in infrastructure management become commoditized, major providers will be competing to support business transformation based on their outsourcing footprint and use IT sourcing as enabler for broader business value generation such as local market penetration and global value chain support.

- Focus areas will continue to be offshore helpdesk, network management and database management with more thrust moving from plain operations coverage to performance management, quality improvement, design and lifecycle. Emerging areas will be utility/on-demand/shared services. One of the most significant of these new models is Infrastructure as a Service, an on-demand solution that integrates hardware, software and services. Variabilizing the IT delivery model will allow the company to easily scale operational expenses up and down according to business needs.

- Move toward server and storage virtualization will enhance the viability of remote monitoring and management of the infrastructure. Tools to do more remote takeover of PCs will become more mature, for example, Intel's new enterprise platform, vPro, enables hardware to respond to management commands even when the PC is locked up or powered off. Such developments will further accelerate RIM growth. **GS**



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