

The New Global Marketplace: Challenges and Opportunities for Indian Service Providers

Primavera Systems

As Indian service providers continue their ascent up the industry value chain, they face profound new challenges in an evolving global market. Three stand out.

First, as outsourcing grows, so does the level of sophistication with which customers choose their vendors; in many cases, today's customers are not just looking for low-cost approaches, but for providers who can offer close strategic partnerships and transformational ideas and services. To respond, all service providers will need offshore and onshore capabilities that meet the same global standard whether it is for new services or products, customer service, or operational efficiency.

Second, because talent with more than five years of experience is hard to find, salary bidding wars are the norm.

Third, profit margins are shrinking due to vendor competition and their willingness to accept smaller contracts in order build reputation.

The strategic challenge for the vendor is to:

1. Devise new, high-value service and product offerings.
2. Refine business practices that improve customer loyalty through better communication and collaboration; innovative contracting arrangements; and good human resource development.

To achieve these goals, project portfolio management (PPM) tools can help. This paper will discuss the use of PPM tools for improving the quality of vendor services in the context of the current BPO environment.

We first report the outcomes of semi-structured interviews conducted in 2005 and 2006 with 14 prominent Indian service providers and 14 of their largest customers from around the world. We then discuss a series of case studies of Primavera's global customers to explore lessons learned about how service providers can and do use PPM tools to compete in the global marketplace.

Survey Findings

1. Need to Increase Operational Productivity

Vendors interviewed indicated that the factors preventing them from increasing their leadership position and selling more high value projects often had to do operational inefficiencies (Exhibit One).

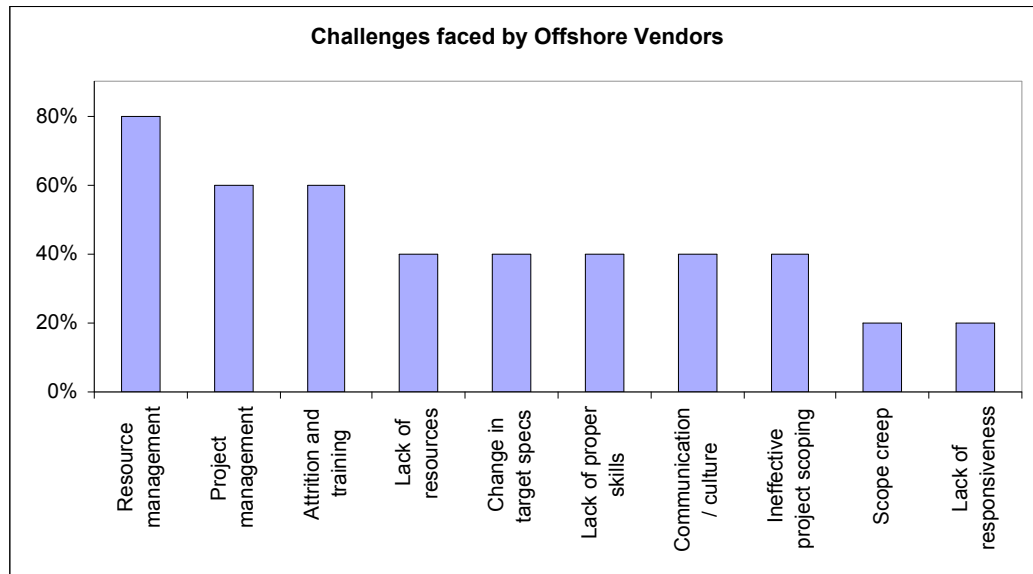


Exhibit One

Vendor comments and concerns:

- Need to better manage global accounts including projects and delivery teams. More specifically:
 - o Forecasting demand and skilled/available resources
 - o Lack of consistent processes to assign the right resources to the right jobs
 - o Lack of insight into what skills are needed for existing and future projects. One service provider said: "It seems that we are always in the middle of fighting fires and pulling resources from one project to save another project."
 - o Scope creep— "I never know my budget overrun until after a project is already in trouble."
- Retaining high quality people
 - o In particular the critical workforce with 5-7 years experience
 - o Balance customer needs with high performing resource needs
- Training:
 - o Not having the right skills long-term to staff future projects
 - o Implementing best practices across global teams

2. Need to improve success rates with RFP/RFQ

The challenges included:

- Forecasting which projects had the highest probability of winning
- Gaining insight into which projects are driving profits or carry the most risk
- Gaining insight into resources across geographies and practices
- Project pricing
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3. **The Need for New Tools**

All vendors invested considerable sums on operations but most agreed that they need access to quality tools. Most typically use spreadsheets, and in some cases even manual notes to track project issues, share information with team members and communicate information to the rest of the organization. One vendor stated that they do not have resource management tools and use conference calls to discuss project needs and locate delivery professionals. Another vendor felt that the lack of a proper resource management tool made project assessments and delivery commitments extremely difficult to estimate accurately. A third service provider described the lack of a robust tool for project pricing and managing cost through the entire project cycle, which in turn makes it difficult to manage profitability. A number of vendors indicated that their skill tracking tools are inadequate to monitor ongoing training and skill development of employees, thus often posing difficulties in finding appropriate resources for upcoming customer projects.

The new competitive pressures have interviewees looking for next generation tools that will support their efforts to improve operational productivity (Exhibit Two). As these service providers grow, there will be an even greater need for such tools.

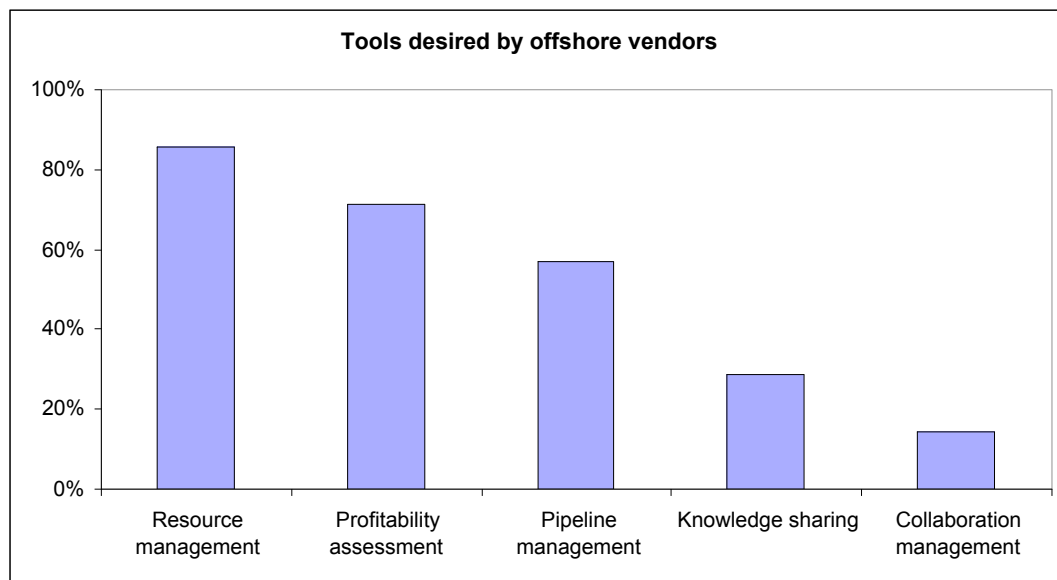


Exhibit Two

Case Study of a Primavera client: *A large global services firm that used home grown tools to manage its operations was convinced it was at an 85 percent utilization rate, but after having deployed an*

enterprise resource management solution discovered it was only at 55 percent. Rather than leaving so many people on the bench and having to scramble unnecessarily to cover jobs, the company was able to leverage the solution's capabilities to replace contractors with dedicated, internal personnel. The increased utilization rate translated into \$15 million in savings over one year. The company also developed a web tool portal for all constituencies to 'manage' work and productivity.

It's important to note, however, that innovative tools are not enough by themselves to increase operational productivity. Internal processes, such as incentive systems, are also important. For example, consider the need for efficient skill tracking. Even if a tool is potentially outstanding at performing this task it's useless unless employees update their skill profile on a regular basis. Too often valuable engineers ignore this as undesirable administrative work. One innovative solution interviewees mentioned is to tie performance bonuses to up-to-date skill profiles, thus ensuring employee compliance and optimizing the value of powerful new technology.

Assessment of capabilities and offerings

In the early '90s, Indian firms correctly understood that capturing and automating processes were important factors in improving project delivery and gaining the trust of western customers. They raced to be certified by standards such as the Capabilities Maturity Model (CMM) level 1 to 5, Six Sigma, and ISO standards. Those certifications are still important, but today most vendors of any significant size have achieved the highest ratings and this is no longer a differentiator.

Consequently, service providers seek to differentiate by forging new products and services that position them as high value strategic partners – a relationship that both vendors and customers say they desire. For example, some vendors build domain expertise in emerging technologies and industry specific issues such as RFID (Radio Frequency Identification), Bluetooth, Wiki, Ajax, and open source. Others hire industry experts so they can specialize by industry. Still others acquire or merge with companies that have already developed domain expertise. In all three cases, however, fostering a collaborative workforce that ensures efficient resource use in product and service development – and rapid time-to-market – can be a difficult hurdle. Here is one place where tools can play an absolutely critical role.

Case Study: *A billion dollar global technology leader has fueled much of its growth through acquisitions of companies with significant domain expertise, particularly in the development of analytical science products. In one year, the company introduced 75 new products, including one cutting edge tool that was developed by interdisciplinary teams spanning three continents and disciplines from software engineering through molecular biology. The company believes that its use of sophisticated project and resource management tools enabled it to profitably introduce these products. (It saw an 11 percent jump in operating margin in the first year of use.)*

Resource management tools allowed the company to more efficiently manage its operation, especially since it could integrate those tools with other pipeline planning tools to easily view who was working on

what throughout the company's global portfolio and, therefore, eliminate overlapping efforts. The tools also improved knowledge sharing, which the company says accelerated the introduction of new products, created a boundary-free workplace, and standardized best practices for research and development.

Another interesting trend is collaboration among key industry groups. Organizations like the Consortium for Service Innovation and The Monitor Networks strive to develop innovative ideas by bringing together expert players who can share their thinking and experience. While these types of organization are really just in their pilot phases, they are already making their mark. The Consortium, for example, includes tech leaders like Microsoft, Hewlett-Packard, and Novell, and is doing things like developing a business methodology to capture, structure and reuse support experiences that results in reduced support costs and improved customer satisfaction and capability.

The Monitor Network has a variety of service offerings that, according to its website, share a three-part philosophy:

1. Start with a diverse set of perspectives.
2. Arrange interactions that combine these perspectives in new ways.
3. Create a feedback process that eliminates the merely novel and selects the valuable.

So for example, one offering applies this thinking to rapid prototyping of new products or services. The network also uses this approach to identify trends and emerging issues, address supply chain concerns, or improve internal collaboration within a company.

Assessment of customer-friendly practices

Innovative service offerings are important, but there are other ways – often overlooked – to innovate and differentiate in this new global market. One of the most intriguing avenues for service firms is to create practices and business models that generate greater levels of customer intimacy and loyalty. PPM tools can be especially helpful in facilitating customer friendly practices in three areas: communication and collaboration, contracting, and resource management.

Communication and Collaboration: Perhaps the most important pursuit in the context of today's business environment – especially given the complexity of today's projects, an increasingly dispersed workforce, and the inevitability of disputes with customers – is the ability to communicate and collaborate. Customers yearn for effective and well-designed organizational interfaces that facilitate things like daily status reports. Internally, service providers know that project success depends on putting key personnel on the same page and making them accountable.

Nothing, of course, can replace face-to-face communications. Indian providers should recognize that and, where possible, create opportunities to make it happen with their customers. Firms must also hire and train with a focus on strong communications, including the ability to bridge language gaps. But when in-person communication is

impossible, service providers should take advantage of web-based project collaboration software that can speed up project-specific communication and keep people informed and on task. Advanced dashboards can supply people throughout the enterprise with the most up-to-date information they need at a glance.

Case Study: *A multibillion provider of technology solutions for the travel industry retired its homegrown tools in favor of an integrated portfolio management, resource management, time tracking, and reporting solution. This significantly increased human resource utilization, saved money by stopping redundant work and, through advanced dashboards, provided executives and key decision makers with a central source for up-to-date information that could be accessed globally. The system allowed the company to create a centralized view of its projects, the personnel working on them, and the time charged to each project.*

One key executive noted: "Without a single source on which executives, portfolio managers, and resource managers can rely for accurate information, project prioritization and resource utilization will never be efficient." The executive says that the new integrated solution enabled dramatically more informed portfolio and resource decisions. It did this in large part by delivering portfolio data on demand and providing the capability to drill down instantly, as demonstrated in Exhibits Three, Four, and Five.

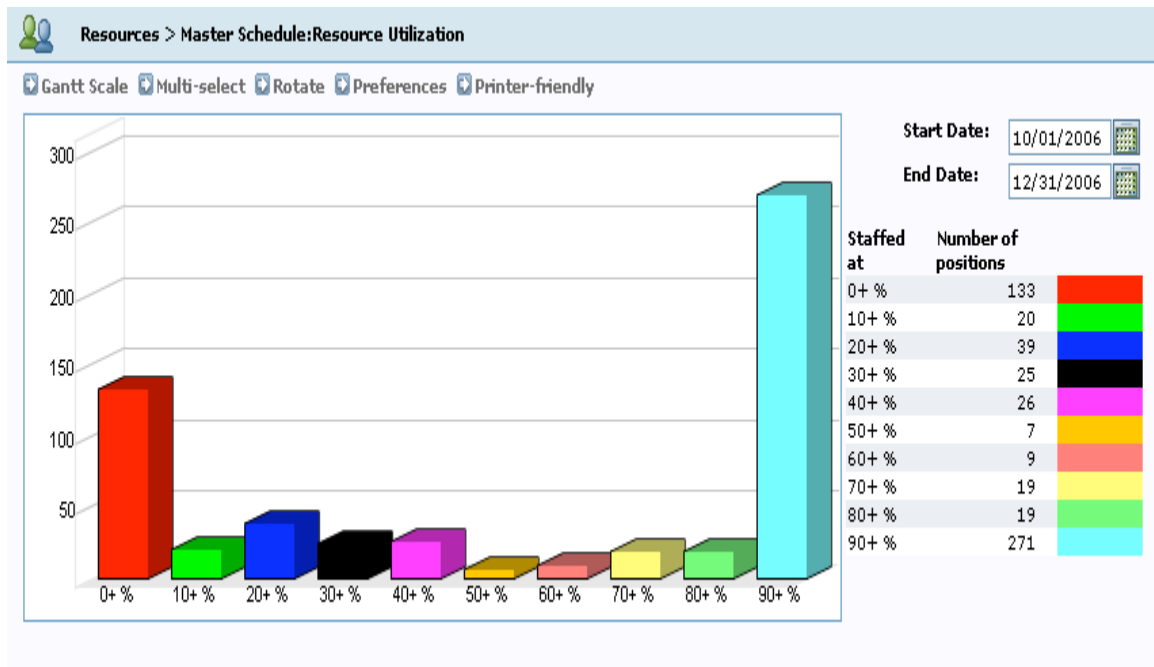


Exhibit Three: A Global View

Hide Legend Commitment Type: Reserved Assigned Non-project
Allocation Type: Standard Non-standard No Allocation Multiple Allocation

Resource	TVL - Role	Pool	SAP Manager	Utilization	Q4 '06		
					Oct	Nov	Dec
Justin A.	PM/	TVL_Shopping	Rajeev	89%			
Elizabeth C.	PM/	TVL_Checkout	Alberto	85%			
Heather	TA/	TVL_Merchandising	Gururaj	88%			
Shelly		TVL_Process & Quality Practices	Carl	82%			
Fulbert		TVL_Merchandising	Alan	83%			
Nicole		TVL_Checkout	Mark	88%			
W robbie J.		TVL_Systems Engineering	Open Manager	88%			
Charles		TVL_Systems Engineering	Kevin	88%			

Exhibit Four: Drill down by resource

Resources > Justin A. Layout

Team Locator Request Position Printer-friendly

General Information

Schedule As Of: 06/05/2006

Start Date	End Date	Status	Project	Position/Task	Utilization
05/15/2006	12/29/2006	Assigned	TVL - Maintenance/Minor Enhancements - Zuij	PM	0%
05/15/2006	12/29/2006	Assigned	TVL - Minor Enhancements- Hotel	PM	0%
05/15/2006	12/29/2006	Assigned	TVL - Zuij -	PM	0%
05/17/2006	12/29/2006	Assigned	TVL - Maintenance- Cruise	PM	40%
05/17/2006	12/31/2006	Assigned	TVL - Maintenance- Hotel	PM	50%

Exhibit Five: Drill down further into individual schedule

Contracting: Another customer-friendly approach revolves around adapting to the changes in project contracting. Indian service providers have typically used pricing structures based on hours worked, but some leading vendors now offer customers a fixed project price as a way to share some of the risk in the project. Others interviewed indicated they are trying to differentiate themselves by offering a pricing mechanism tied to service level agreements or value contribution to the customer. These types of innovations can help to create deeper relationships with customers that lead to the types of partnerships that both vendors and customers prefer.

***Case Study:** One of the largest professional services organizations – over 40,000 employees available to staff any given application*

development project in the world –had to match those employees with more than 9,000 projects, either active or in the pipeline at the time of adoption, and a foundation of 18,000 clients. To develop effective proposals and contracts, the company wanted quick, companywide answers to a host of critical workforce management questions. For example, how does the pipeline of deals translate into workforce demand? What is our supply of talent and how do we optimize it with demand? Which skills do our people have, and which do they need? Who is assigned to which project, and for how long?

The company adopted integrated resource management tools that gave it far greater visibility into its available resources and their qualifications, enabling it to improve staffing of projects from two weeks to two days. In turn, the company was able to develop more competitive contracts, price more effectively, and win more business, while retaining profit margins.

Resource Management: A third example of innovative business practices for customer intimacy revolves around how firms manage their resources for their strategic initiatives.

Most Indian service providers have traditionally used internal, offshore talent when they launch new services, despite the fact that this internal talent might have lacked the skills, experience and senior level customer relationships required for success for US or European operations.

Case Study: *After several unsuccessful attempts to launch new services with internal staff, one Indian firm realized they had to break the mold. The firm got creative by hiring several partners from their US competitors and placing them in senior executive positions with the goal of building a US consulting practice. That practice is now gaining traction in ways that far exceed previous attempts.*

Indian providers also should recognize that customers want more than people with the appropriate experience and qualifications; they want reasonable assurances that those people will be the ones on board when the project ends. This means that Indian firms must have much greater levels of visibility into when projects that involve high value resources are beginning and ending, and to what degree each project is demanding those resources' time. This level of visibility has the added benefit of improving employee retention by making it easier to continuously train high-value employees and place them on the right project at the right time.

Case Study: *Using the direct interface between a PPM solution and a large service provider's sales pipeline system, resources got insight into the workforce demand for future assignments and needed skills. Employees entered and maintained information about their skills and experiences and used the team locator to look for positions they wanted. "We think this gives employees insight into our corporate direction and control over their careers," said a company executive. "We expect that to translate into better employee retention and a sense of empowerment. Those employee benefits should extend to the enterprise, giving us increased client retention and profitability through better decision making. Even our clients should benefit – getting more*

consistent results and the service excellence that is the hallmark of our company.”

Conclusion

There seems little question that Indian service providers are entering a new historical cycle that is characterized by significant new competitive challenges and an increasingly savvy and demanding customer base. A true global marketplace – without distinctions among offshore and domestic vendors – is taking shape. As it does, it is putting pressure on profit margins, growth rates, and the ability to maintain a stable workforce. Every vendor and every customer interviewed confirmed that this transformation is taking place.

Overcoming the challenges demands that Indian firms look to innovative approaches that will allow them to differentiate themselves from competition they have not had to face to date. That innovation includes the development of new products and services, of course, but it must go beyond that to include business processes for customer intimacy, ways of competing, and enhancements to operational productivity. Successful initiatives – fully relevant to customer needs and executed with precision – demand tools that offer real insight into projects and resources, as well as new avenues for collaboration and communication.