

A decorative graphic on the right side of the page features three overlapping circles of varying sizes, each composed of concentric blue rings. Two thin blue lines intersect at the top left, forming a large 'V' shape that frames the circles. The circles are positioned in the upper right and lower right areas of the page.

# Market Scan 2008

IT Outsourcing panorama of USA

This report highlights several significant trends observed in analysis of a market research survey, covering key pointers like current and emerging location analysis, decision metrics for vendor selection , pricing models among others

**India**

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Prepared for



Jointly prepared by



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## Executive summary

The ongoing slowdown in the world economy has forced many enterprises to relook IT Outsourcing as a strategic tool rather than being viewed a mere support activity. As a result, ITO (Information Technology Outsourcing) service vendors are now regarded as strategic partners, playing a pivotal role in business transformation.

The IT Outsourcing world too is slowly evolving to meet the varying order of business needs. Global delivery platforms have now become a norm rather than a choice. Now ITO offering is being bundled with BPO and Business advisory/development services.

Over the past decade, companies have been flocking to select few destinations in India and Eastern Europe to offshore their IT activities. As a consequence, demand for young professionals has outstripped supply, salaries have shot up and attrition increased. Infrastructure too is struggling to keep pace with the demand. Many attractive alternatives are now emerging around the world.

While the Western Europe still prefers regional vendors, USA is keen towards western hemisphere providers, considered as likely alternatives to China and India, to what it is being termed as “near shoring”. However, these nearshores will essentially have to overcome their disadvantages of high costs, domain inexperience and low productivity levels.

In choosing a location, companies are now focusing less on wage cost savings and more on other ways that vendor destinations can fulfill their business needs. Factors like time proximity are important to a select sector of industries like Financial Services, Healthcare etc which can be targeted by Brazil IT industry.

Brazil has invoked a positive perception and has evinced keen interest among corporate in USA and Canada. While it would need to overcome issues like language capabilities, skill set or inexperience in serving varied industry types, it has set itself in a good position to cash in on “near shore” opportunities vis-à-vis other emerging destinations in Latin America.

Efficiency and Optimization is expected to drive the cost management policies for companies outsourcing their IT functions. The effect of the cost optimization efforts on IT services expenditure will vary based on factors like Service delivery mode and Cost cutting efforts exerted by the ITO suppliers.

Benchmarking on Service Level Agreements data and strict compliance of Service level agreement conditions have been emphasized as critical success factors for emerging destinations like Brazil.

More than 3/4<sup>th</sup>s of the respondents have exhibited reliance on more than one ITO service provider. Thus, one may see a trend of small scaled but substantial number of multi-shoring contracts i.e. mix of Onshore, Nearshores and Offshores. This creates opportunities for an upcoming destination like Brazil to make a mark for itself in US markets.

To sum up, Brazil IT needs to ready itself for the upcoming challenges and ever increasing customer expectations, by investing in building greater knowledge and awareness through more number of marketing and promotion programs from the government side, more conducive policies, benchmarking against popular destinations, improving scales and breadth of ITO offerings, better vendor accountability and resolving critical issues like English language and protection of intellectual property/security.

## Methodology

### Survey Background

An Online Survey was undertaken between August and December 2008, with the objective of understanding better, the current IT outsourcing market dynamics in the United States and study what are the key decision factors the buyers believe, should be met while sourcing to an off shore IT Service provider.

### Database compilation

The database was diligently compiled with high qualification standards keeping into mind, the nature of the survey and desired end objective.

A database covering over 800 respondents including participants of Gartner IT Xpo 2007 and 2008, Gartner Mid-Size Enterprise Summit – East - May 2008 and Gartner Mid-Size Enterprise Summit – West - September 2008 was compiled. In this manner most of the respondents who were chosen to be a part of the sample had a prior exposure with BRAZIL-IT.

VIAFORUM also provided its international database which is formed by corporate organizations met at other IT events in North America. AGR also provided a list of personal references and professional contacts, in addition to contacts extracted through professional networking sites, IT blogs and forums among others.

Thus, a database of about 1000 leads was exhausted for this study. This database of leads collected in person at prestigious events is expected to have a positive impact on the overall quality of the results as compared to any other *off the rack* database that could be rented out or purchased.

### Survey Instrument and Results

Online survey methodology was adopted for obtaining primary inputs for the study. The survey was hosted in an online platform, seeking responses for over 20 questions keeping in mind the response time frame of 15 minutes. The link was then e-mailed to the respondents based on the database provided to AGR.

The questionnaire is attached as an Annexure at the end of the report

## **Survey Universe and Response rates**

The survey respondents include CIOs or Senior Management responsible for development and maintenance of the respective company's technological platform. A total of 800-900 telephone contacts were made while about 650-700 emails were sent out after obtaining prior consent. Of these, a total of 50 people responded.

A total of 5 mails including an introductory and 4 reminder mails were sent to the target set over the period of time, needless to mention that couple of rounds of telephonic follow-ups were also conducted to obtain higher successful response. At the same time, a similar effort was exerted by VIAFORUM in form of an introductory mail and a couple of reminder mails.

Better numbers could have been obtained but for the depressing sentiments in the US economy in the current downturn. Though we don't see the total number of responses obtained as a critical mass for such a research study, however the qualification process of the database has ensured that the findings of the report from a sample base of 50 are quite enriching, representative and fall in line with common logic and business sense.

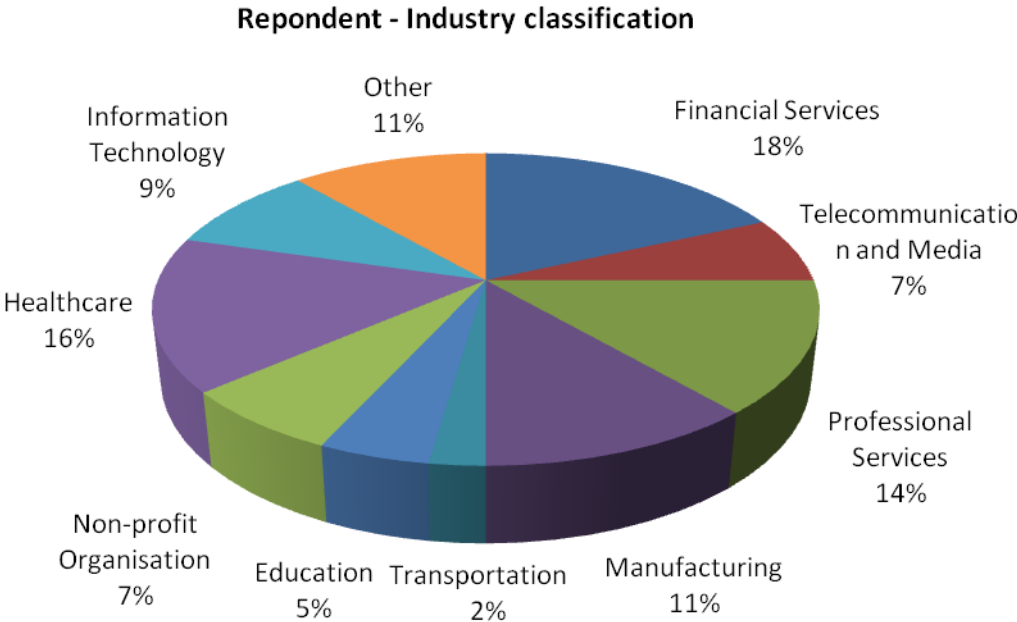
### **Disclaimer:**

The research team has taken every effort to validate the findings of this report to the extent possible. Given the scope of this study, the readers are hereby advised to use the findings in this report as a guiding tool for identifying the customer perceptions and business trends in offshore outsourcing space.

## Profile of the Respondents

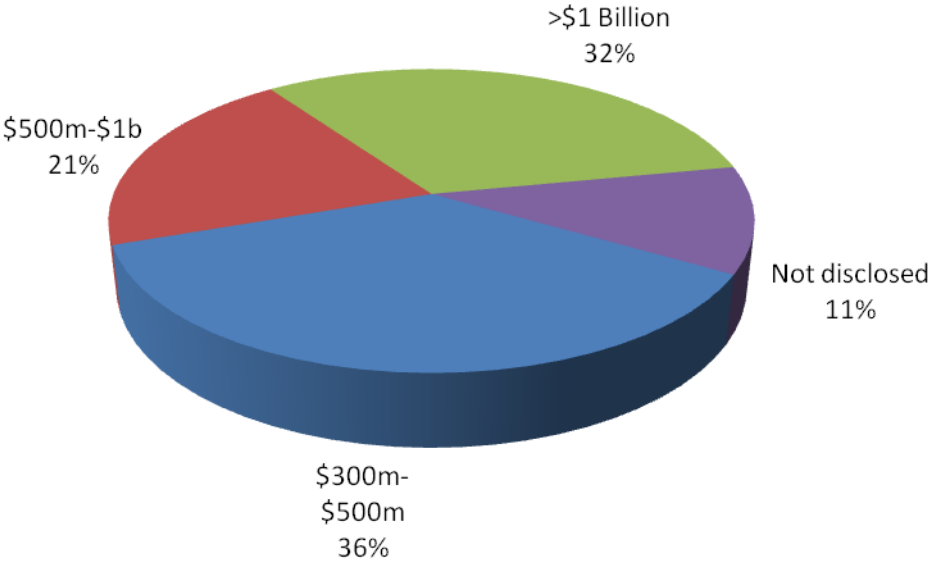
The survey was administered with key IT decision makers of companies based in USA with the turnover ranging between USD 100 Million and USD 1 Billion.

Out of the respondents who participated in the survey, about 18% of them represented the Financial Services industry followed by Pharmaceuticals & Healthcare industry at 16%, Professional Services market and Manufacturing at 11% amongst the prominent ones.

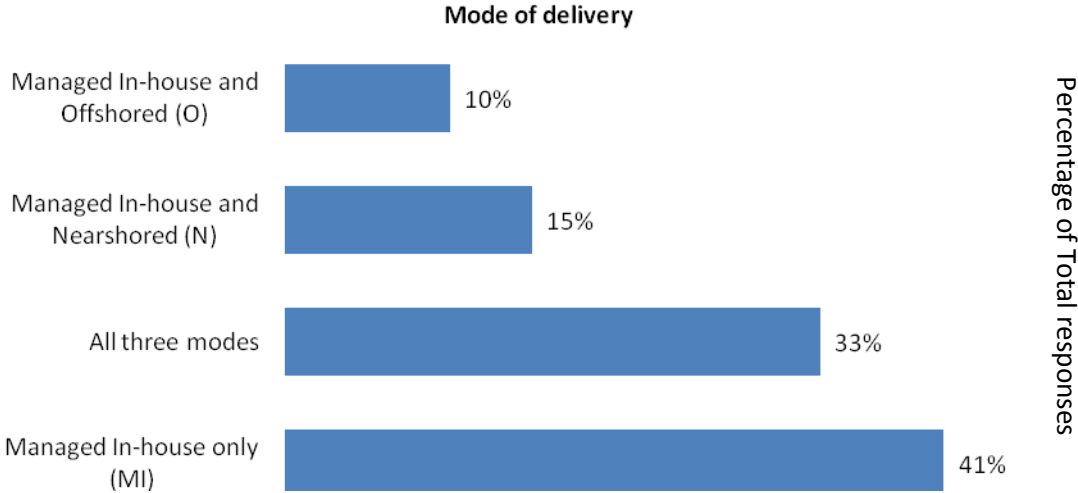


In terms of split by turnover, majority of the companies ranged between USD 300 Million to USD 500 Million (36%), while 32% of them had a turnover in excess of USD 1 billion. Some of the respondents chose not to disclose the company's turnover.

**Respondents split by Company turnover**



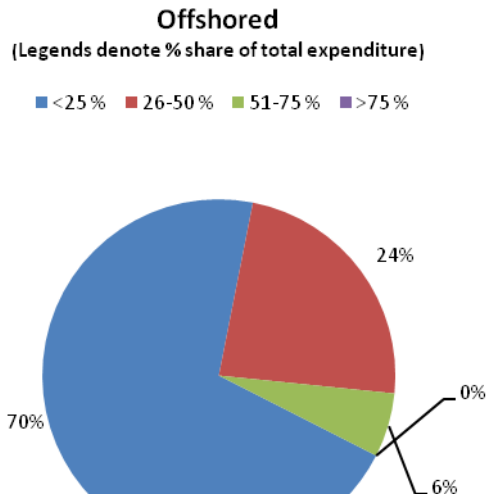
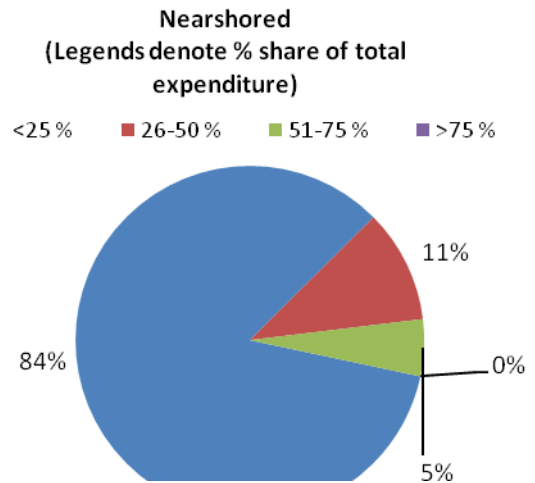
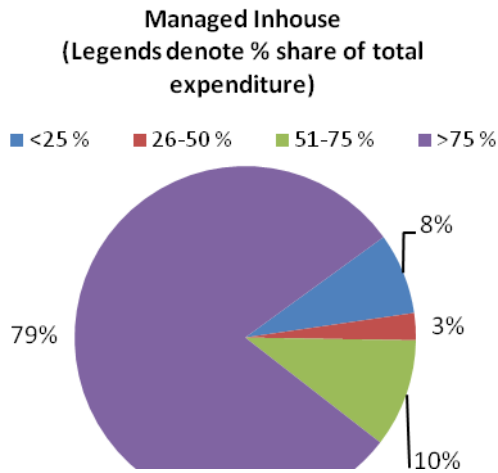
# Mode of delivery and Annual IT expenditure



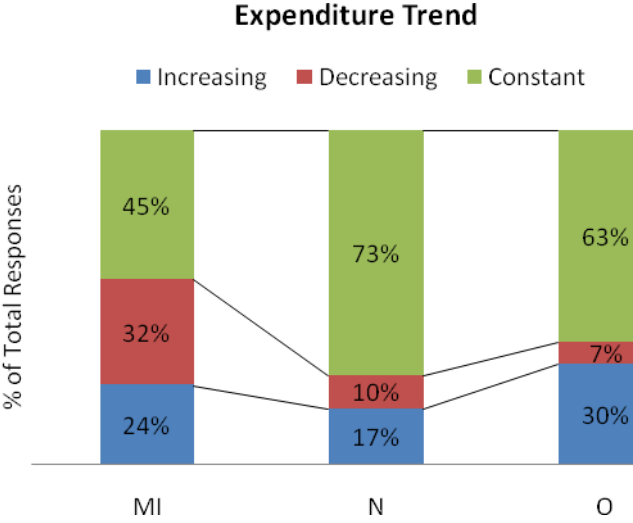
Note: This is a multiple choice question and hence, responses would not add up to 100%

Although majority of the respondents still manage the IT functions internally, there is a significant number which uses all three modes of IT management i.e. Managed In-house, Nearshoring, Offshoring in varying proportions.

In terms of the average annual expenditure on IT, In-house IT management forms the major proportion. About 79% of the respondents, who chose this alternative, typically exhaust more than 75% of their IT budget over in-house IT management. Of respondents using Nearshore, less than 25% of the IT expenditure is allocated to Nearshore IT management by a majority of the users. Of respondents using offshore, Offshoring IT function is a relatively popular choice with 30% of the users accommodating anywhere between 25-75%.



The dependence on in-house IT management has been declining with almost a third of the respondents having vindicated the same. About 30% of the respondents using off-shored services have indicated that off-shoring has picked up over the past few years. Of the respondents using nearshore, nearshoring as a percentage of total IT expenditure has seen slower rise as compared to other forms, with the majority of the respondents (73%) maintain stable levels of IT spending towards nearshores.



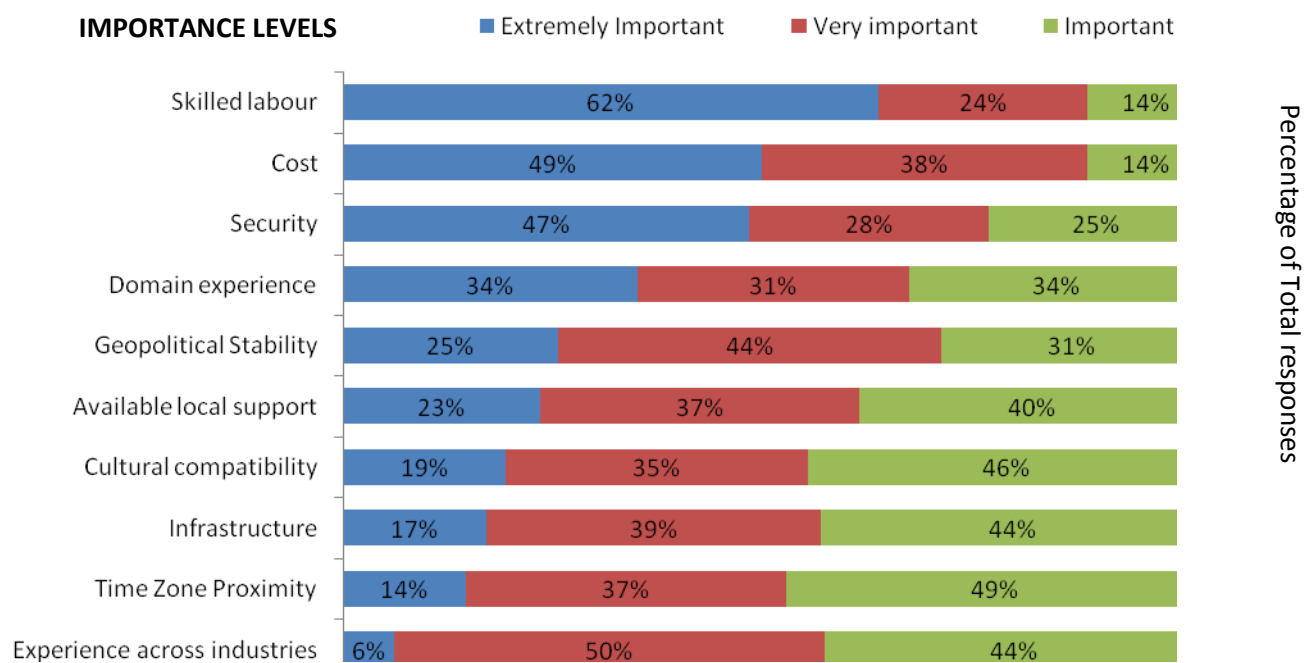
However, more than a third of them have indicated that they are increasingly looking at Nearshore destinations like Brazil, Costa Rica and Mexico over other popular offshores like India and China. *(Discussed in detail in the subsequent sections)*

*According to a recent survey jointly conducted by Bernstein Research and Everest Research Institute, if the business environment of IT services customers were to substantially weaken, most individuals believe that there will be a slowdown on onshore budgets and the buyers will look to move offshore / nearshore.*

Key decision metrics pertaining to selection of a solutions provider

Cost is considered as a key lever of outsourcing and hence one could safely assume it would be the most important factor for selection of a vendor. However, this buyer attitude has been changing. As evident from the survey, about 62 % of the respondents are laying more emphasis on quality of labor / skilled labor, having classified them in 'Extremely Important' category.

The most sophisticated buyers are developing rich portfolios of providers as they implement strategic sourcing solutions that balance cost, risk and value. These buyers are very focused on the technical skills of their providers as they want to partner with someone that has the exact skill sets that they need. About half of the respondents accord high importance to vendor experience across industries.



Factors that have received the score of 9 and 10 have been classified as extremely important factors, while anything lesser than that but greater than 5 has been considered as very important factor. Rest have been classified as important factors

*"...IT industry has been operating in a 24/7 mode for past 10+ years so time zone factor is less critical for operational success..."*

*Senior Executive of a prominent IT solutions company*

Security (75%) and Geopolitical ability (69%) too have been emphasized as crucial parameters by a substantial number of respondents.

Time zone proximity has been accorded a lower importance rating amongst others. There have been mixed views expressed on this parameter by the respondents.

However, one must understand that this is quite specific to one's

*"Time zone and geographical proximity would be helpful in achieving better coordination and real time communication"*

*Director of Financial services major*

business operations, kind of markets served or industry represented. **For example, Financial Services industries are increasingly looking at moving from offshoring to Nearshoring.**

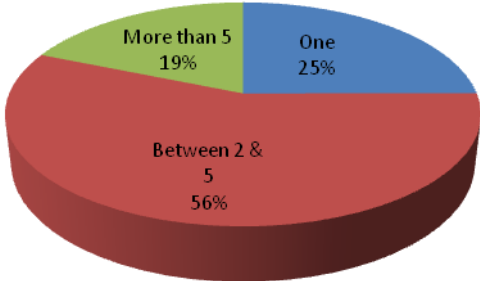
**Similar is the case with Healthcare and Logistics Industries, who require real time support and hassle free communication.**

So Brazil must evaluate other value propositions in addition to the time zone proximity advantage for competitive positioning.

## Diversification of IT Outsourcing Service providers

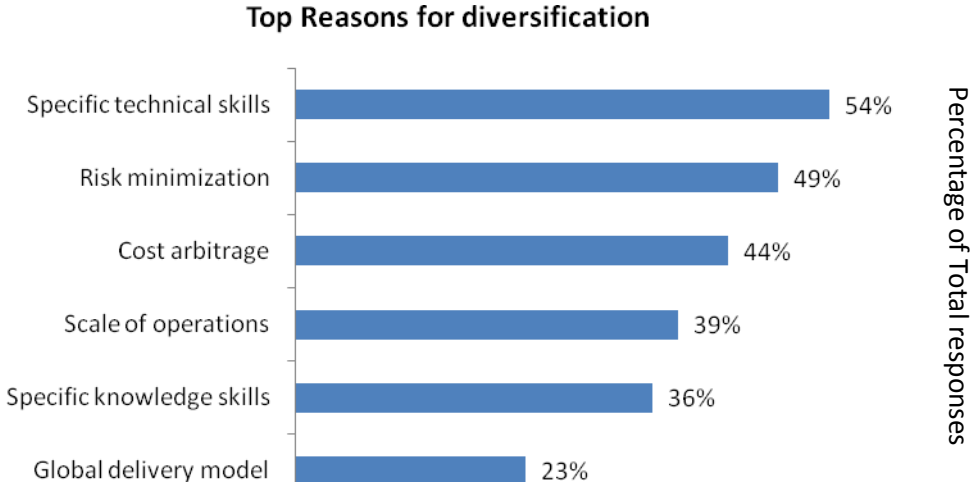
More than half of the respondents have used between two and five service providers to fulfill their IT outsourcing objectives. Thus, over 3/4<sup>th</sup> of them have chosen to opt for multiple vendors than relying on just one vendor for IT management needs.

Number of service providers used for ITO



### Reasons for diversification of ITO service providers

There could be varied reasons for diversifying the IT Outsourcing services. However, top reasons for diversifying your ITO services are as follows:



Note: This is a multiple choice question and hence, responses would not add up to 100%

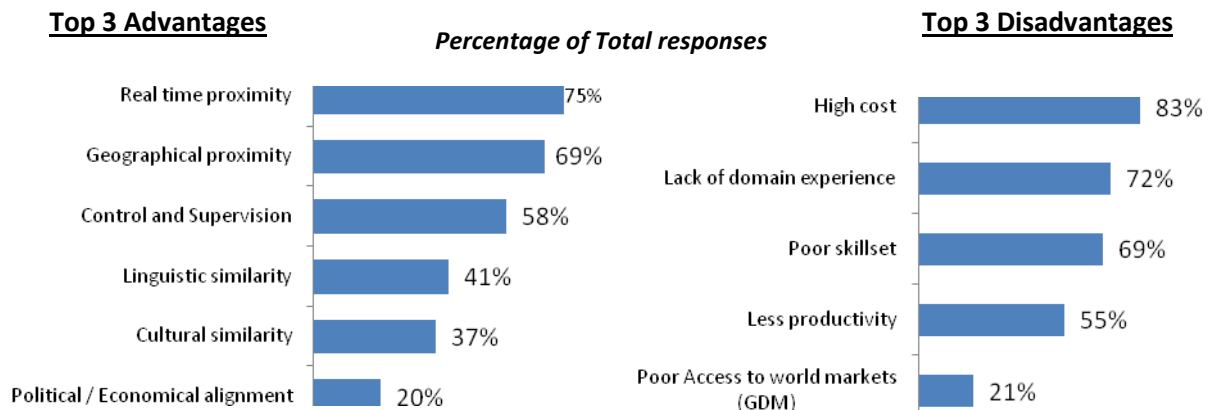
Lack of adequate specific technical skills is the top reason cited for diversification (54%). Interestingly, Cost arbitrage was rated lower (44%) than Risk Minimization/Mitigation motive (49%). Though Global delivery model has been ranked the lowest on a relative basis, this is a prominent motive for large enterprises having presence / who wish to have a presence around the globe.

## Location choice for IT Outsourcing

### Comparison - Nearshore over Offshore

The emergence of Nearshoring in an industry, that itself encourages virtual form of working, is a clear evidence of the fact that *distance still matters*. Nearshore emphasizes location and proximity as opposed to the prevailing offshoring archetypes of location transparency and irrelevance of distance and time.

Research in related areas, such as the distributed organization of work, global strategy, and economic geography, support the view that despite current globalization trends, location, and distance still does matter.



Note: This is a multiple choice question and hence, responses would not add up to 100%

Real Time proximity and Geographical proximity are the top two reasons for choosing nearshore versus offshores. The geographical advantages of Nearshoring can allow a company's internal staff and external developers to meet in person. The great distances between offshoring providers and their clients make frequent trips rare and expensive. Thus there is very little face-time between project managers and offshored staff, which often results in misunderstandings about the direction a project is taking. Besides, many enterprises (58%) also feel that there is an increased need to have some degree of control over the processes with the supervision too being relatively easier and cost effective.

Political and Economic alignment also play a role in making Nearshoring advantageous. For example, Regulatory requirements in areas like the EU do not allow personal information to be taken outside its borders, particularly in the financial services and healthcare industries.

Additionally, local professionals are more in tune with geography-specific legislative and corporate issues, giving them an edge. Add to that time-zone proximity and stern intellectual property laws in some areas, and the popularity of near-shoring becomes evident.

Talking about the disadvantages, High costs of operation, Lack of domain expertise and Poor skill set are prominent reasons cited by the respondents that still render offshoring to nations like India, Eastern Europe

advantageous, while Nearshoring to destinations like Brazil, Canada or Costa Rica disadvantageous. Also, for companies who are looking to have a presence and access to other global markets, opt for farshores like India, China and Philippines.

**A Birdseye view of the Nearshores**

Given below is a research finding extracted from a Gartner Report at the end of year 2007. The table below depicts the relative positioning of various destinations on key outsourcing parameters.

As clearly seen India, one of the most popular destinations for IT Outsourcing has been rated the best on Labor pool and Government support.

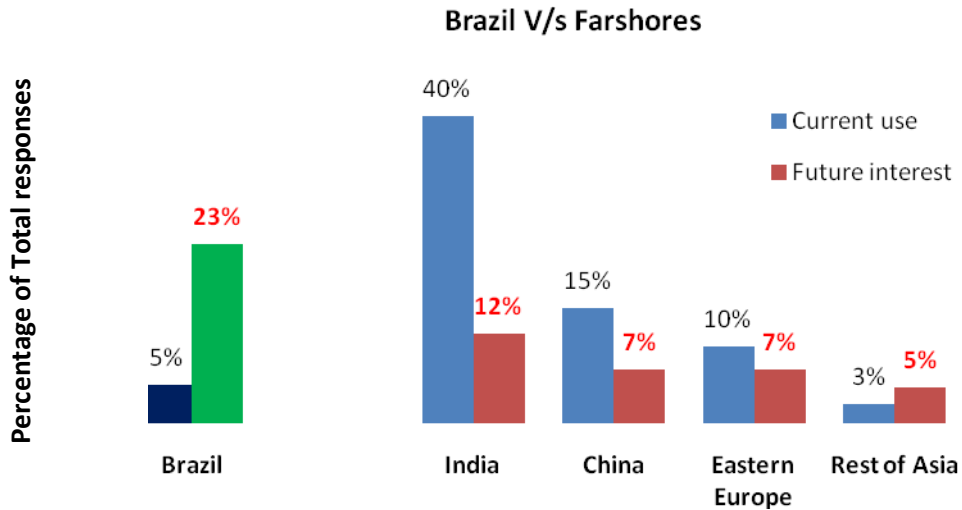
	India	Mexico	Chile	Brazil	Uruguay	Argentina	Costa Rica
Language	Very Good	Good	Fair	Good	Fair	Good	Good
Government support	Excellent	Very Good	Fair	Fair	Good	Fair	Fair
Labor pool	Excellent	Very Good	Good	Good	Poor	Fair	Fair
Infrastructure	Fair	Good	Very Good	Very Good	Good	Fair	Good
Educational System	Very Good	Good	Good	Fair	Good	Good	Fair
Cost	Very Good	Very Good	Very Good	Good	Very Good	Very Good	Good
Political and Economic environment	Good	Very Good	Very Good	Good	Good	Fair	Good
Cultural Compatibility	Good	Very Good	Good	Very Good	Good	Good	Good
Global & Legal maturity	Good	Good	Good	Good	Good	Good	Good
Security	Good	Very Good	Fair	Fair	Fair	Fair	Fair

Source: Gartner Research - November 2007

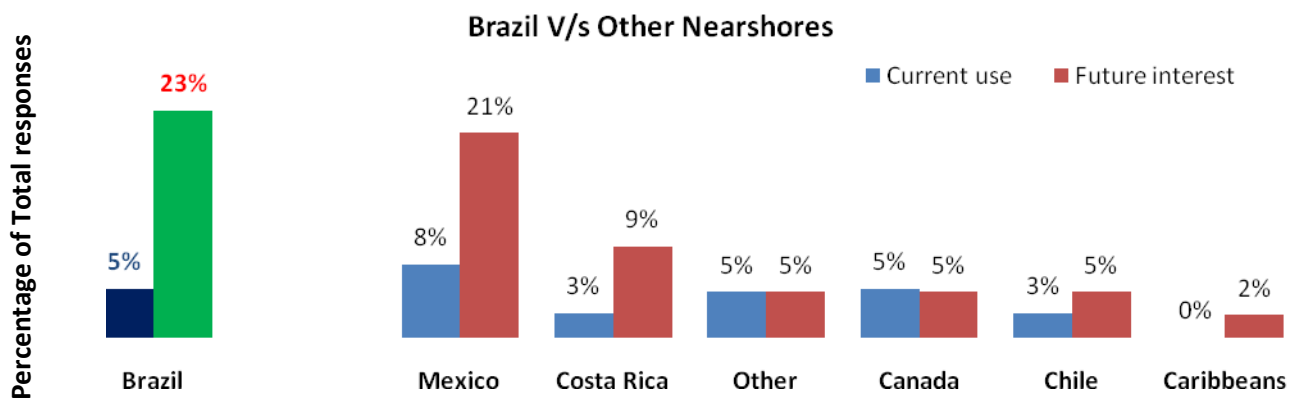
As seen from above Brazil has outscored all others in Infrastructure and Cultural compatibility. However, for it to sustain its potential and emerge as a prominent ITO destination, it should focus on bettering its offering in terms of Language skills, Government support and address Security aspects among others.

### Current destinations and Future Destinations

The traditional ITO shops continue to dominate the IT Outsourcing destinations decisions. Over 40% of the respondents have partnered with Indian IT companies for their outsourcing needs. China, which is being understood to have the potential to compete with India, comes second with 15%. Only 5% of the total respondents use Brazil as their current ITO partner. However, when probed about the destinations that these companies are keeping a close eye on, Brazil tops the list with 23% of them having said that they are keeping a track on Brazil for future ITO deals.



Comparing it with other nearshores, the situation looks quite competitive. While Brazil (5%) is currently competing with Mexico (8%) and Canada (5%) for ITO contracts, new challengers like Costa Rica, Chile, Argentina and even Caribbeans, are slowly emerging. Eventhough Brazil has significant corporate interest of 23% respondents and Mexico from about 21% of them, respondents have asserted the need for Brazil to improve upon a few frontiers, in order to sustain this active interest.

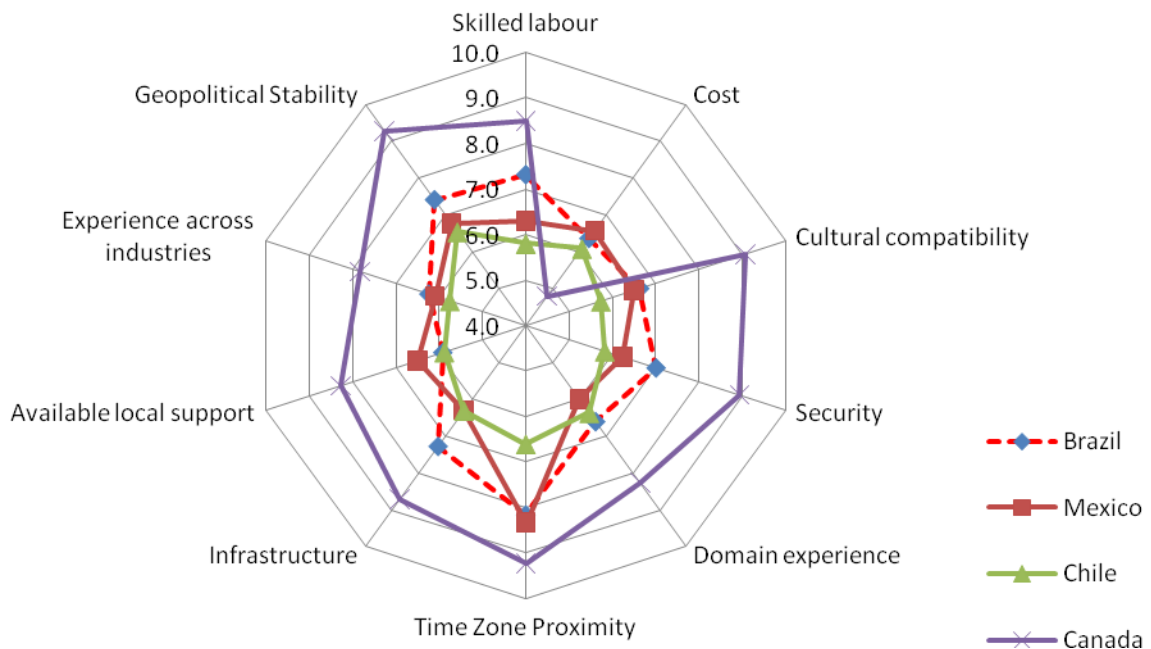


### Location scores

Canada has outscored every other nearshore destination on all parameters but Cost. This could act as a small window of opportunity for other nearshores, especially given the present economic downturn in USA.

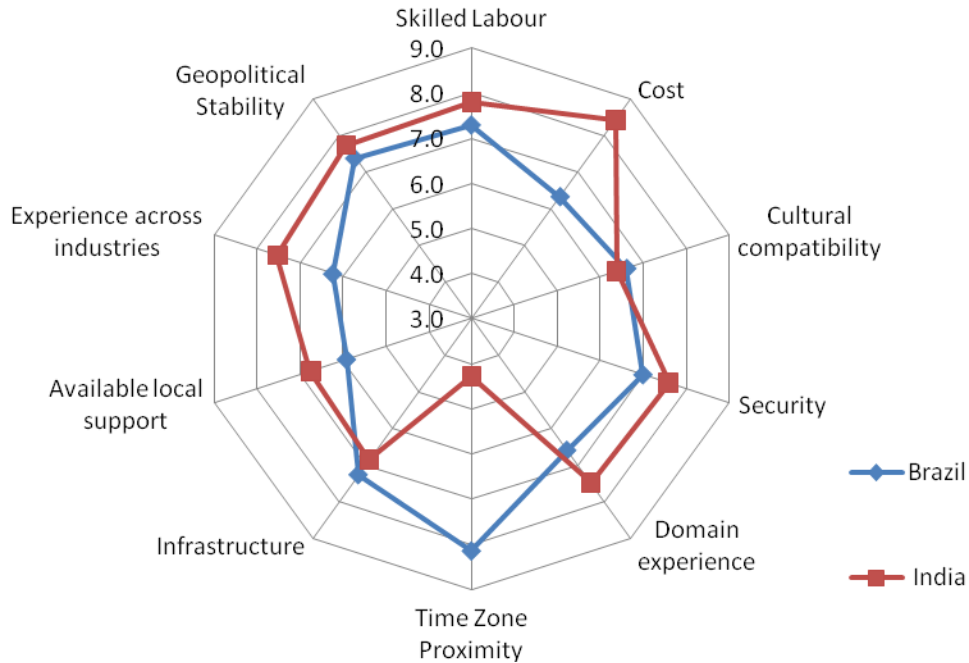
Brazil and Mexico are competing very closely on all parameters. Where Mexico has been rated better than Brazil on Cost, Available local support and Time zone proximity, Brazil has outscored Mexico on rest others, with Skill set and Infrastructure being its key strengths. It would need to provide favorable local support and value proposition to sustain its potential. Though it has scored lower than other destinations, US enterprises are closely watching the ITO developments in Chile.

Comparison of average ratings (Nearshores)



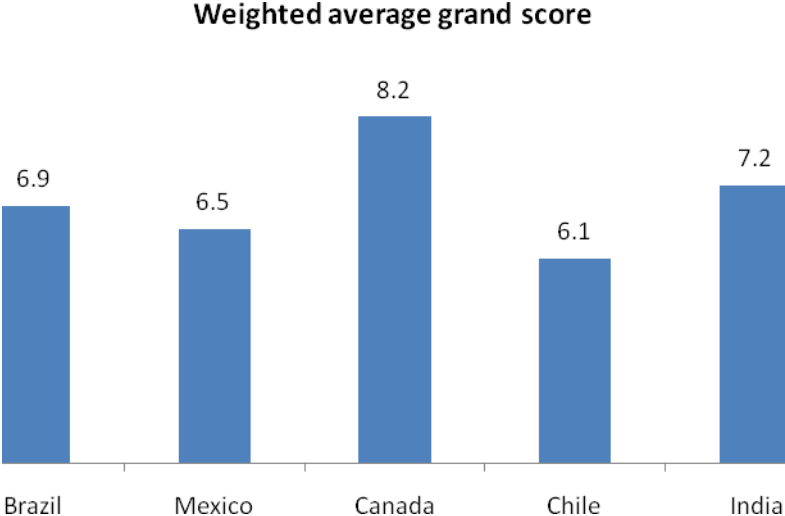
It will be sometime before Brazil can match the value proposition of India. India has an edge over Brazil on all fronts but for Time Zone proximity. So, Brazil would need to improve its skillset and make local support available, so as to attract the time-zone sensitive US enterprises and minimise the cost disadvantage.

### Comparison of average ratings (Brazil V/s India)



Another player to watch out for in Asia would be China. The recent efforts from the China's presence in the service provider world is good news, since much of the impetus to outsourcing is cost management, particularly in the area of labor. China's cost advantage - which can translate into as much as a 70% savings over US salaries - sounds compelling. However, there are a few issues like language, relevant experience, security and intellectual property etc which need to be taken care of, before it can pose any further threat.

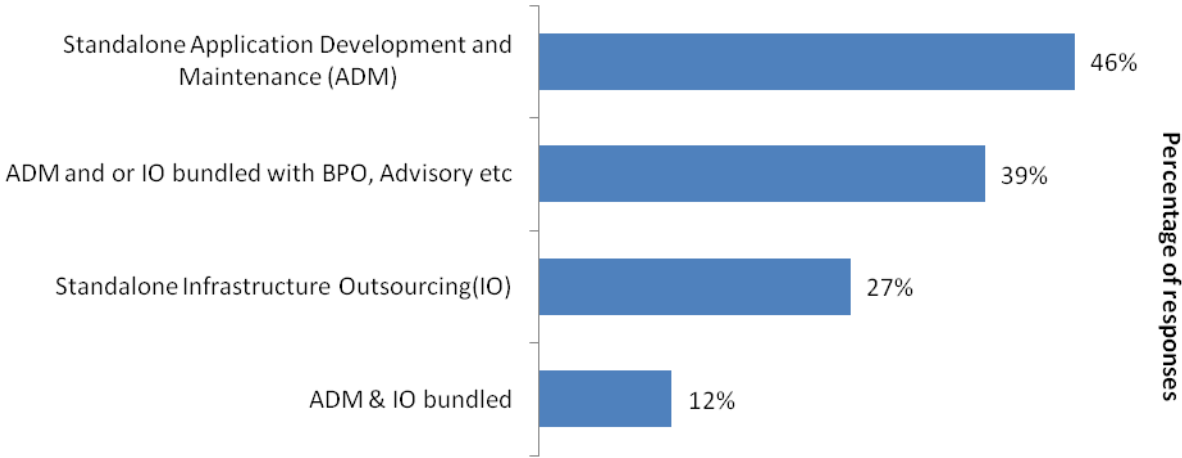
Thus, following are the overall weighted average scores obtained on the basis of parameter scores and their respective importance scores. The scores indicate that Canada is a more preferred location than India and other nearshores. However, it is also seen that, Brazil has been rated as the most favorable amongst other nearshores.



Note: USA as a destination for IT outsourcing was also being evaluated. However, responses for the same have been decided owing to a possible element of partiality or any form of bias as revealed in the scores. USA was nominated with highest scores across all parameters, except for Cost.

# IT activities preferences

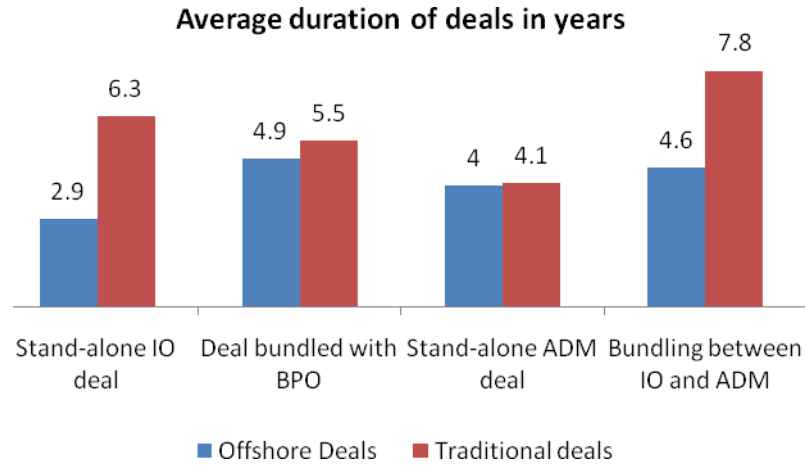
## Bundling of ITO offering



Note: This is a multiple choice question and hence, responses would not add up to 100%

It is clearly evident that Standalone ADM is the most desired form of ITO bundling (46%). However, there are substantial number of respondents who are also looking at other services like BPO, Advisory and other development services in addition to ITO services.

However, this might be still limited to a fewer number of deals in the market or a possible upcoming trend, as indicated by an Everest Research Report which stated that such a type of offering has been an infrequent occurrence and accounts for less than 10% of the total contracts<sup>1</sup>. The same report also indicated that while standalone IO and ADM deals occur more frequently, both offshore and traditional players derive the largest share of their signings from contracts which are a bundle of IO and ADM.

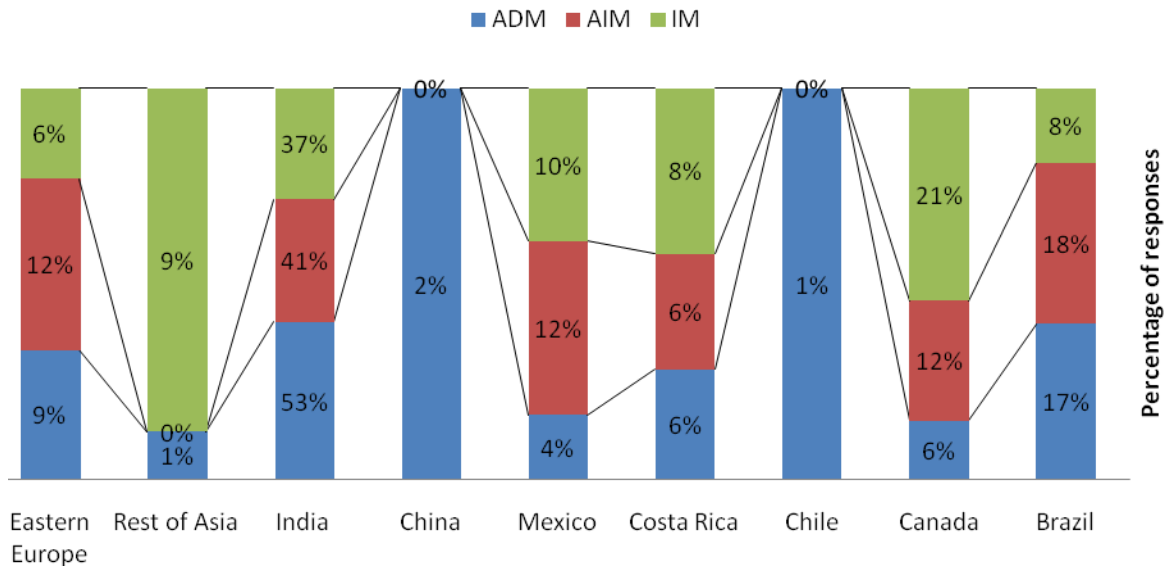


Source: Everest Research, 2007, Traditional deals refers to the typical outsourcing contract deals

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<sup>1</sup> Findings from the Everest ITO RFI, 2007 – Everest Research Institute

**Location preference for various IT activities**



ADM: Application Development and Maintenance, AIM: Application Integration and Maintenance, IM: Infrastructure Management

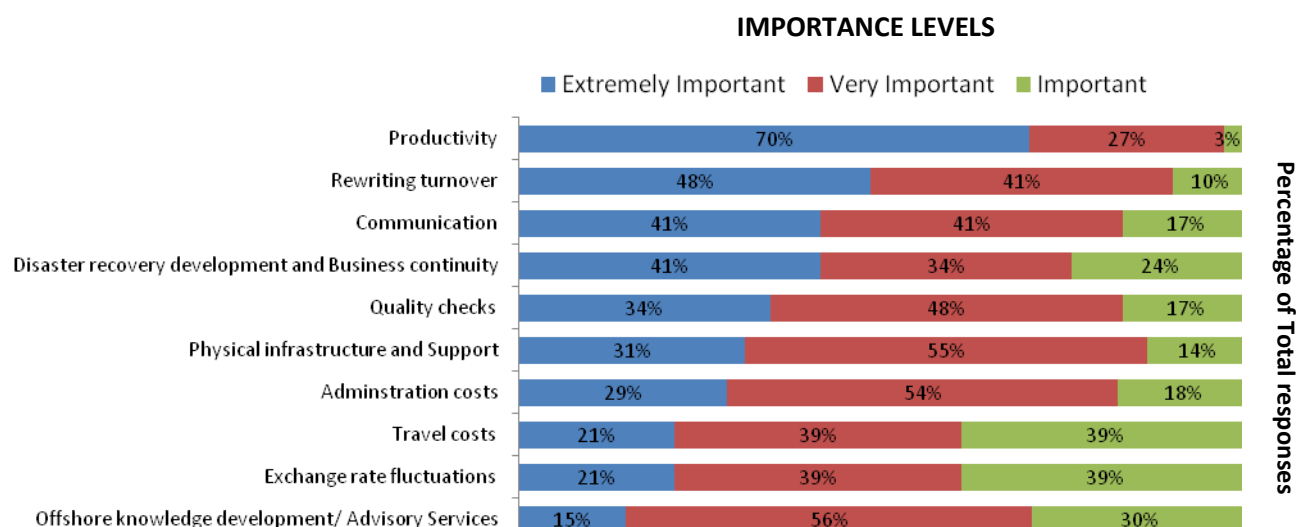
In terms of the destination preferences for outsourcing various IT functions, India has been rated as the most preferred destination for outsourcing all functions. Brazil however has earned active interest in outsourcing of ADM activities (18%). Canada has been rated high for outsourcing Infrastructure Management (21%). Although alternatives like China, Costa Rica, and Mexico have received fewer favorable responses, these have often been talked about emerging IT outsourcing destinations to watch out for.

If one were to exclude India and look at the same picture then, Brazil leads the pack for ADM and AIM, with Canada being a favorable choice for IM.

## Outsourcing Service Cost management

Cost optimization has been one of the primary objectives for developing global outsourcing initiatives. It is common for companies to set expectations of cost savings entirely on labor arbitrage. However, this assumption may lead to a false sense of anticipated savings.

It is very essential to ensure that in pursuit of cost optimization, companies are realistic about the costs & direct financial benefits of offshore sourcing, and manage all components of cost, not just the few obvious ones. There are several components of cost that are inevitable in a global delivery model and others that are elective, but critical in managing the risk and complexity of the global delivery model.



Factors that have received the score of 9 and 10 have been classified as extremely important factors, while anything lesser than that but greater than 5 has been considered as very important factor. Rest have been classified as important factors

Efficiency and Optimization will continue to drive the cost management policies for companies outsourcing their IT functions. Hence, costs relating to productivity (*like Wage rate, Training needs, Quality of resources, capability of business managers etc*) have been voted as an extremely important parameter by large number of respondents (70%).

On an overall basis, Costs pertaining to Physical Infrastructure & support and offshore knowledge development have been regarded as crucial factors (both extremely important and very important) by most of the respondents.

The development of a Business Continuity Plan (BCP) and a Disaster Recovery Plan (DRP) can be a significant additional cost to the initiative. Both include taking regular back-ups in a facility not likely to be effected by any broad force major event. Both also require some built in redundancy in People, Technology and Process.

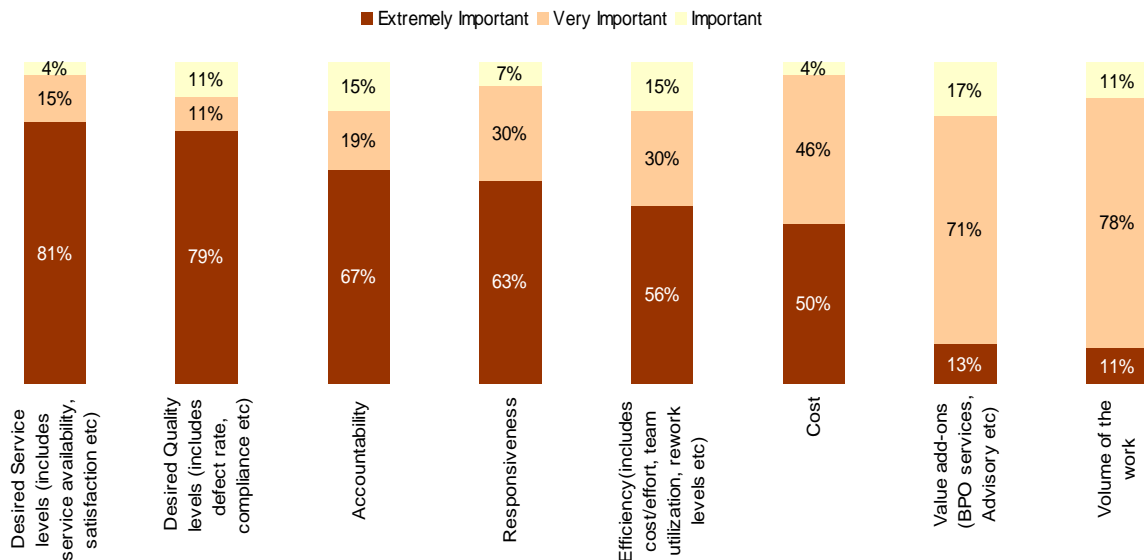
Travel Costs (39%) and Exchange rate fluctuations (39%) have been assigned relatively lower weights by a substantial number of respondents.

## Service Level Agreement metrics

A well-defined and crafted SLA aptly sets expectations for both sides of the relationship and provides targets for accurately measuring performance to those objectives.

A variety of metrics is required to manage the numerous aspects of an outsourcing project. While some metrics will be unique to a given project, many are common to all outsourcing projects.

The desired service levels which includes aspects like Service availability<sup>2</sup>, Service Satisfaction etc was voted as an extremely important factor by most of the respondents (81%) followed by Desired Quality levels (79%) that includes defect rates, standards compliance<sup>3</sup>, technical quality etc.



Factors that have received the score of 9 and 10 have been classified as extremely important factors, while anything lesser than that but greater than 5 has been considered as very important factor. Rest have been classified as important factors

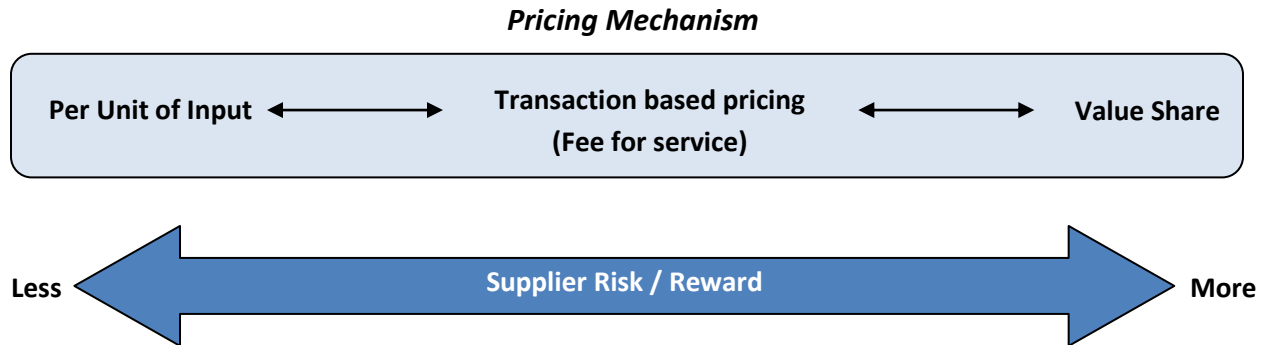
Although responsiveness has obtained lower importance scores on a relative basis, it has traditionally assumed greater prominence with factors like time-to-market/implement, backlog size etc serving differentiation pointers between various outsourcing destinations.

<sup>2</sup> The amount of time that the services managed by the outsourcer are available, ranging from on-line application availability to delivery of reports by a specified time-of-day

<sup>3</sup> Internal standards for application source code, documentation, reports and other tangible deliverables, including number of enhancement tasks passing standards reviews, number of documented programs, etc

Few respondents have also commented on need for Compliance of SLAs and Benchmarking on SLA data, as being critical areas of improvement for Brazilian IT companies.

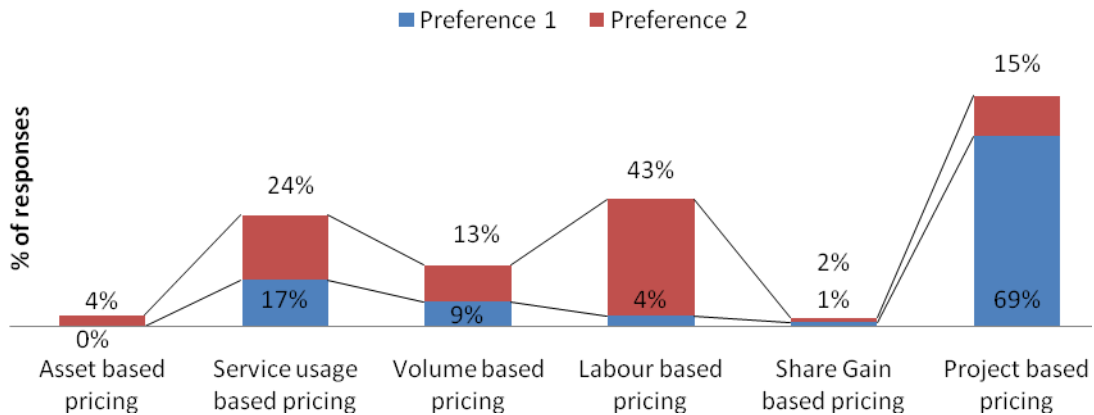
## Pricing model preferences



Source: Everest Research Institute, AGR analysis

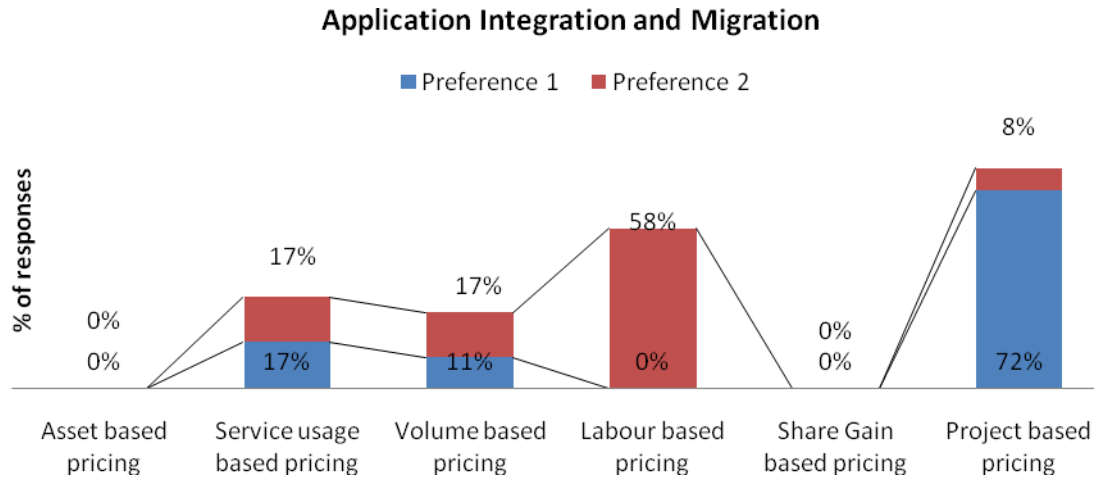
As inferred from above, if the supplier risk is low, he is more likely to settle for a Volume based pricing. However, if the risk and the subsequent rewards are higher than usual, we may see what is popularly termed as Gain-sharing based pricing.

### Application Development & Maintenance

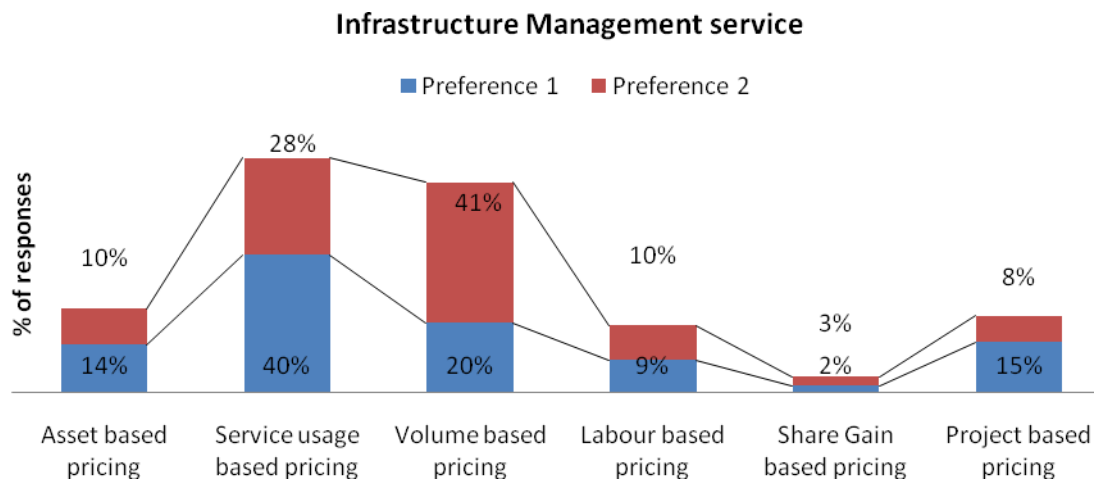


Project based pricing and Labor based pricing are popular options when it comes to pricing of Application development and maintenance services as well as Application integration and migration.

Favorable response levels for Labor pricing indicate that staff augmentation is still one of the prominent drivers of outsourcing decision. ITO is still centered on labor arbitrage.



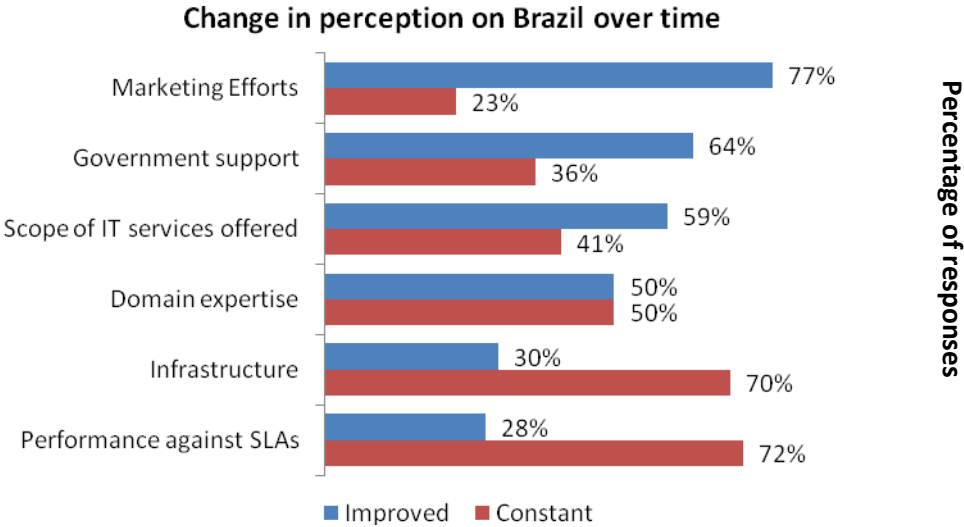
Although, gain sharing model of pricing is amongst the lesser preferred ones, it is expected that as the relationship between the vendor and the supplier grows stronger, they are more likely to adopt this contemporary mechanism of pricing.



For the IT infrastructure outsourcing, Volume based pricing and Service usage based pricing have traditionally been popular choice for pricing.

## Brazil – an emerging IT outsourcing player

Brazil is well placed to supply labor to the global offshoring market, given its strong telecom infrastructure, attractive market for IT vendors and relatively lower cost. However, the only few stumbling blocks are weak English language skills and lack of international experience among locals. Let us examine how Brazil’s perception has fared over the past few years.



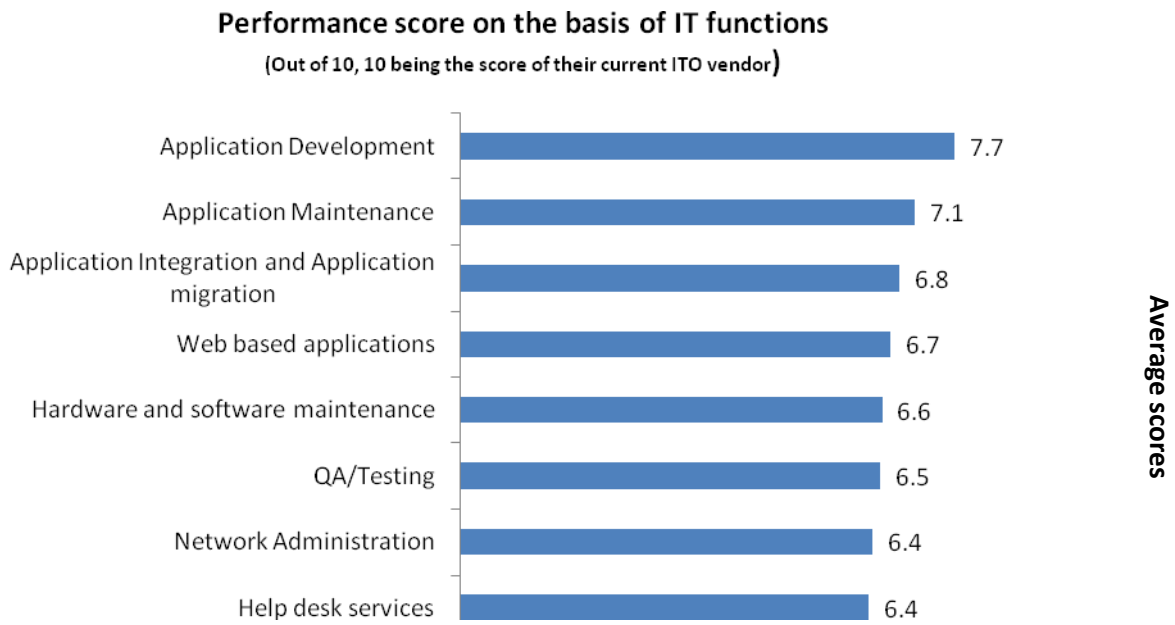
None of the respondents have felt that the Brazilian IT industry has worsened by any chance or any aspect.

Seventy seven percent of the respondents felt that the Brazilian IT industry has come a long way in terms of its marketing and promotion programs. However, they also feel that it needs to further improve its marketing efforts in order to compete and sustain future growth. About two thirds of them have also felt that the government support has also improved over the past few years. Also, the scope of ITO services offered has definitely seen a good improvement.

However, about 70% of them also felt that the present infrastructure is inadequate to support the boom in IT Outsourcing industry and that there hasn’t been pretty much of a change in quality of infrastructure. Similarly, Brazilian companies are yet to move up to the next pedigree when it comes to fulfilling performance against the service level agreements.

**Satisfaction scores on various IT functions**

Brazil is a good destination for application development and maintenance services. However, it would need to do some serious work on Infrastructure management services as a part of their ITO portfolio, which is expected to be a hot area of outsourcing activity in the near future. Low scores on help desk services have been attributed to the weak language skills.



## IT Outsourcing and the current economic downturn

Over the last few months the US economy has undergone several changes with the sub-prime crisis hitting the economy, rising unemployment and the US dollar having plummeted to its record levels.

This might have a favorable or adverse impact on the IT outsourcing industry. Conventional wisdom says that outsourcing is countercyclical business. Companies might need to slash their overheads and protect their bottom lines. So a downturn in US economy could open a plethora of opportunities for IT Outsourcing vendors.

However, this could also imply that end user companies scale down their IT Outsourcing and believing that a scaled down internal team of IT experts would serve the purpose as opposed to an outsourced contract. The nature of outsourcing deals, the service level agreements, multi-shoring instead of big-bang deals, pricing structures etc might evolve differently. Companies may need to rethink their shoring decisions and ITO delivery models, keeping into mind the respective pros and cons.

Time and again it has been argued that Service levels and quality are more important factors in IT decision making. However, few would disagree to the fact that a recession could force the US companies to focus on cost as a more decisive factor.

*According to Forrester group, companies are now holding back their IT budgets to cut expenses. However, over a period companies may choose to outsource large parts of their processes when cost-cutting pressurizes them, in case the present recession settles to become a mild one; though a marginal fall in growth rate for IT outsourcing seems inevitable.*

To sum up the current state of affairs is at an unpredictable tipping point, wherein all the IT outsourcing destinations seem to be at par in terms of contention, with the onus lying on these destinations to differentiate themselves with a better value proposition.

## Customer Voices

*"I had a bad experience that they are very slow in their responses to RFPs and learning about requirements"*

**Director of a Professional Services Enterprise**

*"They have been great. Good communication and good quality"*

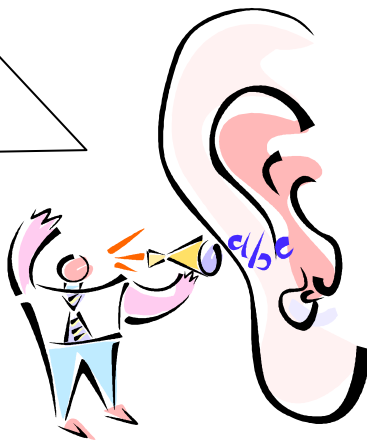
**Senior Executive of a Healthcare major**

*"I think Brazil is headed in the right direction. I and many others are likely mis-perceiving the country's actual capabilities. They need more marketing in concert with government initiatives. We see very few marketing thrusts from Brazil here"*

**Senior personnel of a Research and Publishing Company**

*"....I tried hard to learn about Brazilian programs and contractors....Lack of government representatives' interest in promoting Brazil as an outsourcing destination.....A Brazilian company was unable to provide corporate capability statement and case study related to 75 Million USD project that we have"*

**Director of a Professional Services Enterprise**



*"Reach out to the Canadian market. My impression at the mid size enterprise summit in Texas this year that the Brazil presentation is aimed at the US, and not Canada"*

**Senior Executive of a Security Solutions company**

*"(Should) meet the value proposition of India and China"*

**Senior Executive of a Telecommunication and Technology solutions company**

*"...there is a perception that Brazil is at a disadvantage to India when it comes to English speakers. Costs are higher in Brazil than India..... The Brazilian firms I have talked to were interested in leading technology work rather than legacy COBOL work....There are concerns about the security of intellectual property and privacy"*

**Senior Executive of a Financial Services enterprise**

***Suggested areas of improvement for Brazil based on respondent feedback***

- ✓ Language skills
- ✓ Improve in cost competitiveness to match the value proposition of India and China
- ✓ Government marketing promotion programs could be further improved
- ✓ Lack of government representatives' interest in promoting Brazil as an outsourcing destination
- ✓ More direct marketing efforts and increase awareness
- ✓ Benchmarking data on SLAs and Service delivery
- ✓ Build strong domain knowledge
- ✓ Benchmark against the best ITO practices globally

## Glossary

### **Asset Based pricing Model**

1. Transfer ownership of IT assets along with operational responsibility to the supplier of the service
2. Retain the assets while the supplier assumes the operational responsibility
3. Transfer the asset ownership to the third party (i.e., financial intermediary) under a leaseback arrangement

### **Labor based pricing**

There is an hourly or monthly labor rate assigned to different skill levels. Here the contract anticipates a general volume of work, has quality of service goals, and places constraints on the total labor anticipated for accomplishing the work within that framework. In this type of contract there is little to no incentive for the service provider to improve efficiency, since the result is fewer billable hours and less revenue

### **Gain-sharing Pricing**

Technology services firms are moving to a revenue/gain share model where they get a chunk of the client's revenues or gains made due to increased productivity or reduction in processing time

The customer and the service provider establish efficiency and effectiveness goals together in a way that it encourages improvements. This is accomplished as a result of transparency and accountability. The customer and the service provider can jointly investigate efficiency and effectiveness initiatives, quantify the potential impact, and share the benefits of achieving the goal of the initiative.

### **Project based pricing / Fixed Price Model**

Under this option, the customer pays a pre-negotiated fixed price for the complete project, which in turn is linked to well-defined deliverables. This model guarantees on-time, on-budget delivery of projects. Deliverables, Costs and Timelines are clearly defined in the Fixed Time/Fixed Price model

### **Service usage based pricing model**

In service usage based pricing, the user's fees depend on the amount that they use the software (e.g., the user of an online-database service might be charged for each data query)

**Activity-based pricing:** Clients agree to pay a flat fee to cover the service provider's fixed and variable costs - including hardware and software, labor, infrastructure and administration and maintenance. Activity-based costing is often used when establishing an offshore development center (ODC) or putting together a build-operate-transfer model.

## Annexure - Questionnaire

The respondents were asked a total of 23 questions as a part of this survey.



Outsourcing Survey  
Form.pdf