

# Globalization and SPPI in the IT Industry:

after study visits to Multinational Companies

24th Voorburg Group

Oslo

september 14-18th 2009



Denis Gac  
INSEE

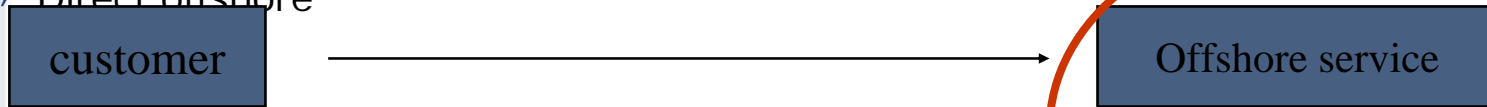
# outsourcing

- › Many services activities can be outsourced
  - IT
  - Call Centres
  - BPO (Business Process Outsourcing)
  - Back offices in banks, insurance
  - R&D
  - ...
- › Some of them can be offshored
- › Cf: International Sourcing/ Moving Business functions abroad (statistics Denmark, Finland, Netherlands, Norway, Sweden)

# IT outsourcing

## › Different organisation models:

### › Direct offshore



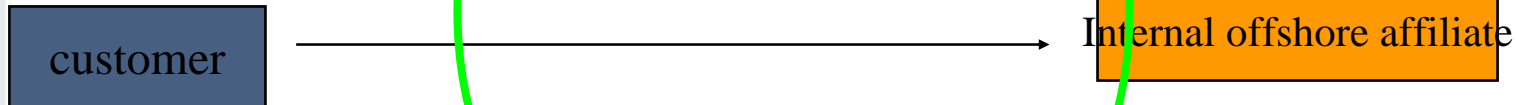
### › Direct offshore with intermediary



### › Transparent offshore services



### › Creation of affiliates



### › Offshore services with front-office in the customer country





# What we have learned from MNE...

- › **2 main categories of IT offshored services**
- › **AMS : Application Management Services**
- › **IMS : Infrastructure Management Services**

# What we have learned from MNE...

## › AMS

–Programming

–Writing

–Application maintenance

– the « build »

– the « run »

–

## › AMS needs « people »

# What we have learned from MNE...

## › IMS

- IT System
- Technical maintenance
- Machines
- Servers
- Network
- Workstations
- Helpdesks
- But rarely datacenters (too strategic) !

› IMS needs telecommunications, networks, capacity

# What we have learned from MNE...

- › **Long life to charge-out-rates !**
- › **But**
- › **definitions change with the time**
- › **the only well-known indicator**
- › **profiles not harmonized**
- › **good only for AMS**

## What we have learned from MNE...

- › For AMS the « blended charge-out-rate » ?
- › A new indicator often used in estimates
  
- › But productivity?



# What we have learned from MNE...

- › **For IMS charge out rates are not appropriate**
- › **We must looking for unit values**
- › **Many theoretical examples are proposed:**
  - Price per call ticket (by phone)
  - Price per user (laptop, desktop)
  - Price per corrective action
  - Price per backup unit
  - Price per gigabyte of managed storage
  - price per IMACD (install, move, add, change, delete)
  - price per Oracle data base

# What we have learned from MNE...

- › **Price units and quality changes...**
- › **quality depends on SLA (service level agreement)**
- › **(speed of correction,**
- › **speed of help ...)**
- › **The « function point »... not used**

# What we have learned from MNE...

- › **Prices are lower in some countries**
- › **But wages are not the only cost in the price : distance, culture, risks...**



# A solution?

- › A price calculation approach with
  - 1 Front office / Back office
  - 2 Levels and differences in wages
  - 3 Pyramid of offshored functions

# Market trends

- › Low cost countries impact the prices
- › After offshoring in a single country global sourcing round the world
- › We are at the beginning of offshoring
- › IMS
  - High productivity due to pooling, virtualization, consolidation
  - Decline of infrastructure prices
  - But wages are rising
- › AMS
  - Wages are rising



# Findings

Strength / Weakness  
Opportunities/Threats

## › Strength

- Maturity of most offshore countries
- Reduction of costs
- Capacity for gathering quickly big teams
- Flexibility
- IT support all day long 24h/24h





# Findings

Strength / Weakness  
Opportunities/Threats



## › Opportunities

- The company concentrates on its core activity
- It can obtain new markets in new countries
- Great reactivity
- Access to new technologies
- Obligation to formalize and optimize the processes



# Findings

Strength / Weakness  
Opportunities/Threats

## › Weakness

- English speaking countries
- Cultural differences to overcome
- Change in the working methods
- Bad image in the general public
- Constant increase of wages in offshore countries
- Uneven quality of services
- Extra overheads







# Findings

Strength / Weakness  
Opportunities/Threats

## › Threats

- Governmental pressure on offshoring companies
- Pressure from the employees
- Loss of certain skills





# Thank you