Globalization and SPPI in the IT Industry:

after study visits to Multinational Companies

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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

  customer

  Offshore service

› Direct offshore with intermediary

  customer

  IT company

  Offshore service

› Transparent offshore services

  customer

  IT company

  Internal offshore resources

› Creation of affiliates

  customer

  Internal offshore affiliate

› Offshore services with front-office in the customer country

  customer

  offshore IT Company

  Internal offshore resources
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

› 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