

A decorative graphic in the top left corner consisting of a network of grey dots connected by thin grey lines, forming a web-like structure that extends across the top of the page.

INT.

OUTSOURCING FOR PROFIT

Make Your Investment Count

2021: New dynamics for IT Outsourcing Industry

2020 has witnessed the speed of change that **COVID-19** has brought into the world. As pandemic unfolded, it has elevated the urgency of companies becoming flexible and responsive to sudden shocks like this.

As we slowly settled into the ‘new normal’, we are concerned with how IT companies are serving their clients! Are they finding pragmatic solutions to support their clients? Or are they feeling the heat from the clients for missing the Service Level Agreement (SLAs) and deadlines?

Initial pandemic days went against IT outsourcing and reduced the value by 5% as incoming of the projects started to decline and companies facing reduced revenue. But, as companies started accelerating their digital adoption, it has “reinforced the benefits of IT outsourcing” to weather the future disruption.

Key Insights: 2021 IT Outsourcing

The **Global IT outsourcing market** was valued at

\$333.7 bn

in **2019**

and it is expected to reach

\$397.6 bn

by **2025**

registering a **CAGR** of

4.5%

during the forecast period
(2020 - 2025)

The value of IT services companies delegate to external suppliers may exceed

\$413.72 bn

by the end of **2021** says Statista

Application development is one of the most frequently outsourced IT functions in **2021**.

More than

60%

of tech companies are outsourcing at least a part of their application development.

Despite the lockdown, the total IT budget rose from

12.7%

in **2019** to

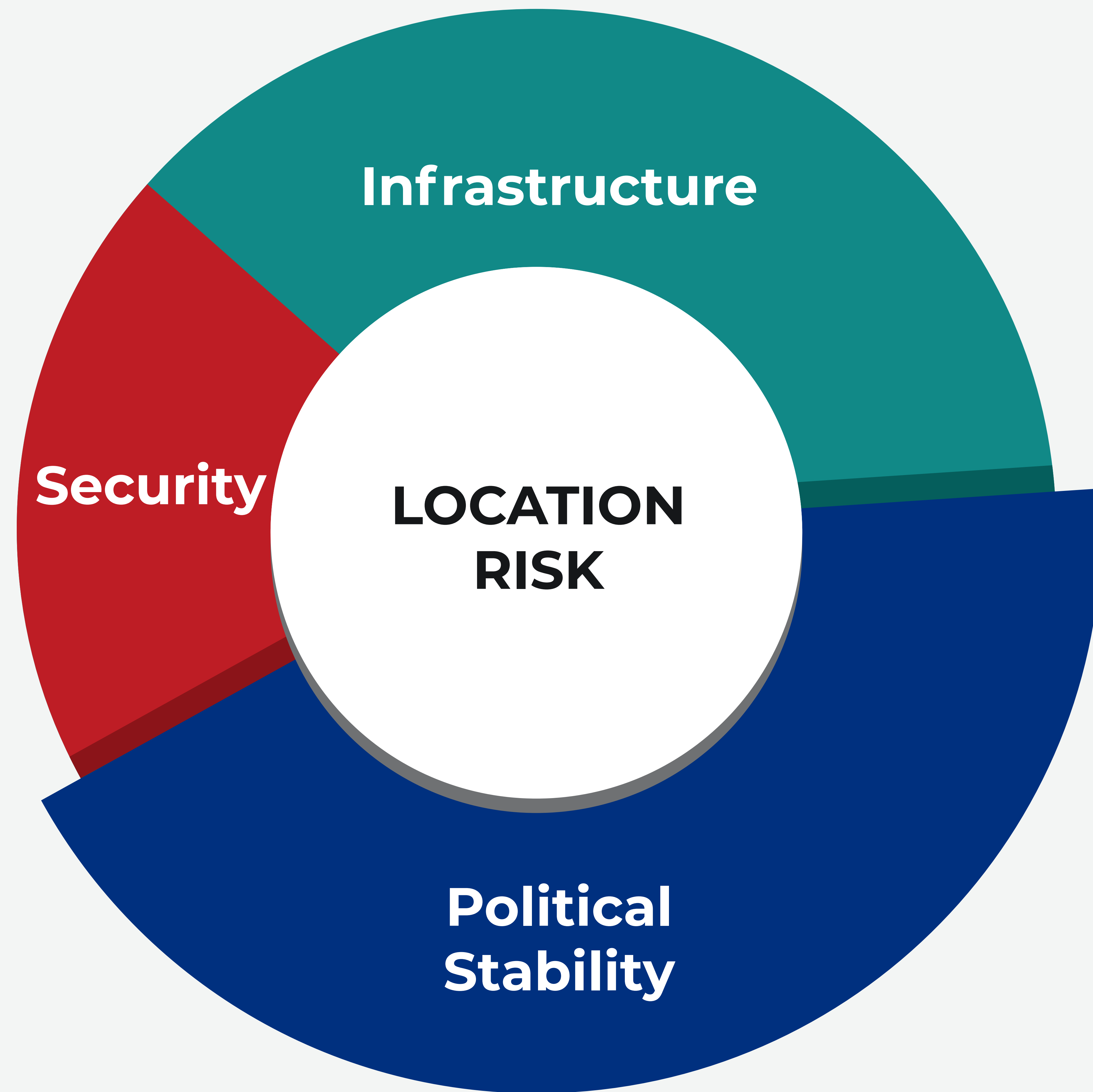
13.6%

in **2020**

2021: IT outsourcing companies are looking for Diversification to Mitigate Risk

The pandemic led disruptions has led companies to scramble for stability from operational point of view. Covid-19 has made sure that diversification can help companies in staying resilient throughout the challenging period.

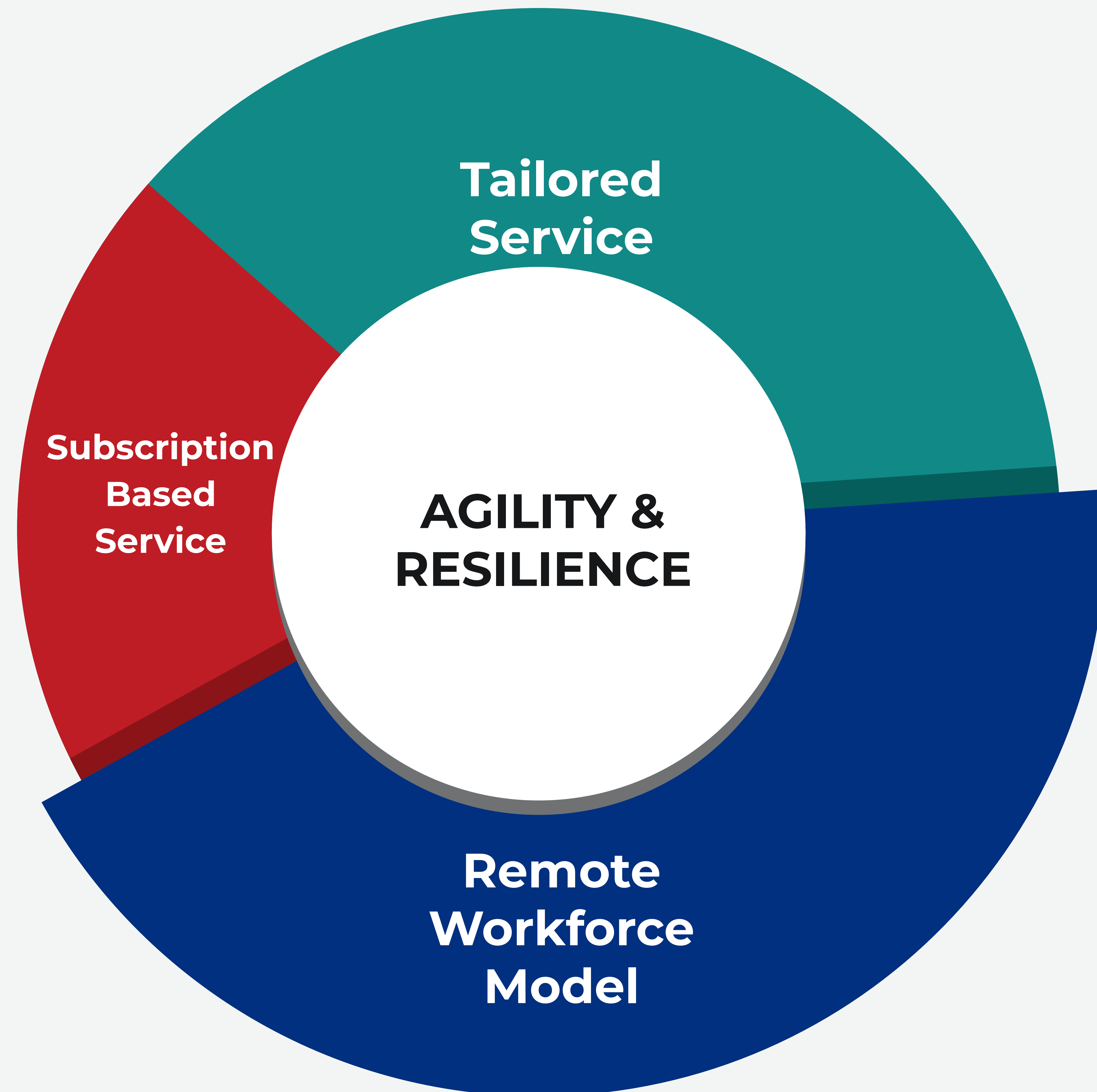
2020 has uncovered the risk associated with “putting all eggs at one place”. Risk mitigation can be done with the help of diversifying. Today there are certain key areas, on which companies must focus to mitigate the risk through diversification. They are:



As IT outsourcing is picking up the pace countries from where the services/task has been outsourced must also look out to the areas such as infrastructure, political stability and security as a factor. Factoring in the key areas, evaluation must be done to see the convenience of outsourcing.



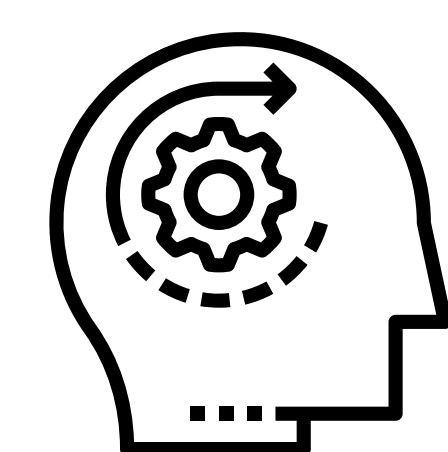
There can be hidden cost associated with currency fluctuation , different time zone delays, travel restrictions and sudden requirements of the resources. Companies must follow balance strategy between cost savings and risk.



Bringing resilience comes with agility.

Companies must understand that the concept of “one-size-fits-all” has long gone! Today the time has come for “subscription as-a-service”. Clients will pay for the amount of work needed and there is an option for flexibility too. Companies must also consider “remote workforce” model for the time of new normal.

Un-box the benefits of IT outsourcing



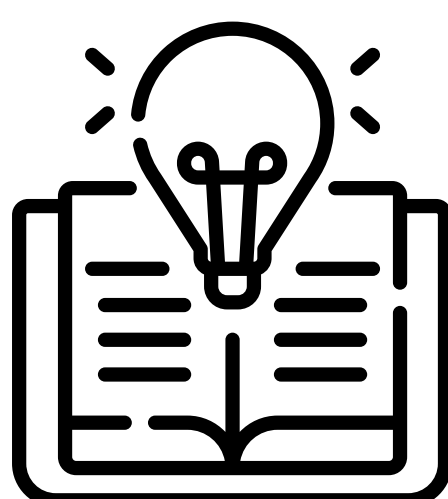
Capability

The USP of IT solution firms is the capability to deliver efficient solution to complex problems.



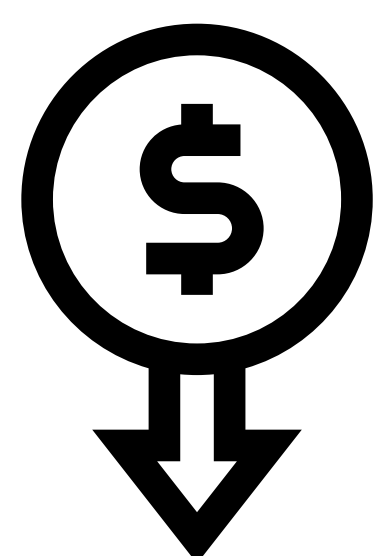
Talent Pool

The IT industry has a huge talent pool of skilled resources catering to various technology problems



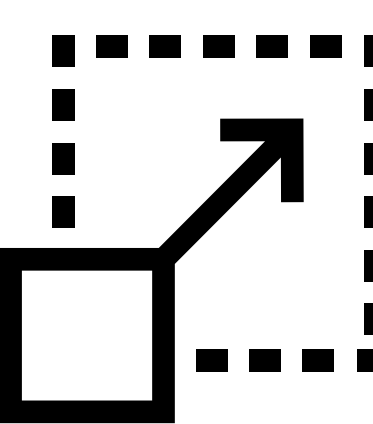
Learning Curve

The learning curve effect reduces the turn around time and enhances the quality of the delivery



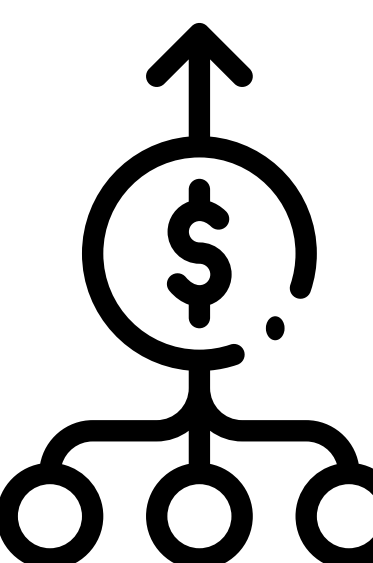
Low Cost Solution

The outsourced market provides resources with lesser billing rates leading to cost reduction



Scalable Solution

The seasoned IT firms can foresee future pain points bridging the future business gaps



Diversification

The IT industry has resources having diversified background enriched with technical and business skillset.

2020: How IT Outsourcing has brought resilience in the time of Pandemic?



Four Step Process to **Assess, Analyse, Evaluate & Optimise** Your IT outsourcing

In a 4- Step Process Model, we are building a framework to evaluate every decision before looking for IT outsourcing. As companies are looking for increasing efficiency and optimising cost through outsourcing, but handing over crucial activities to “lower cost specialist” can create a repelling effect. Thus it is important to Assess, Analyse, Evaluate and optimise your IT outsourcing.

PROCESS

01

Assess

- IT outsourcing based on company's goal and objectives
- What is company's immediate requirements?
- Factors to consider to minimize risk

02

Analyse

- Employ decision matrix to identify activities for outsourcing
- Steps to employ decision matrix

03

Evaluate

Vendor evaluation process through

- Weighted average method
- Score Card

04

Optimise

- IT outsourcing

Assess Your Need For IT Outsourcing

The most obvious reason for ‘outsourcing’ is cost saving, but companies need to assess their need for IT outsourcing before floating their RFP. In the following model, companies can evaluate their need for IT outsourcing based on the following factors.

Assess the reason against Company's Objectives & Culture

- Cost Benefit
- Growth Spurt
- Creating Capabilities by freeing up experience workforce
- Specialized Expertise
- Outreach the Market

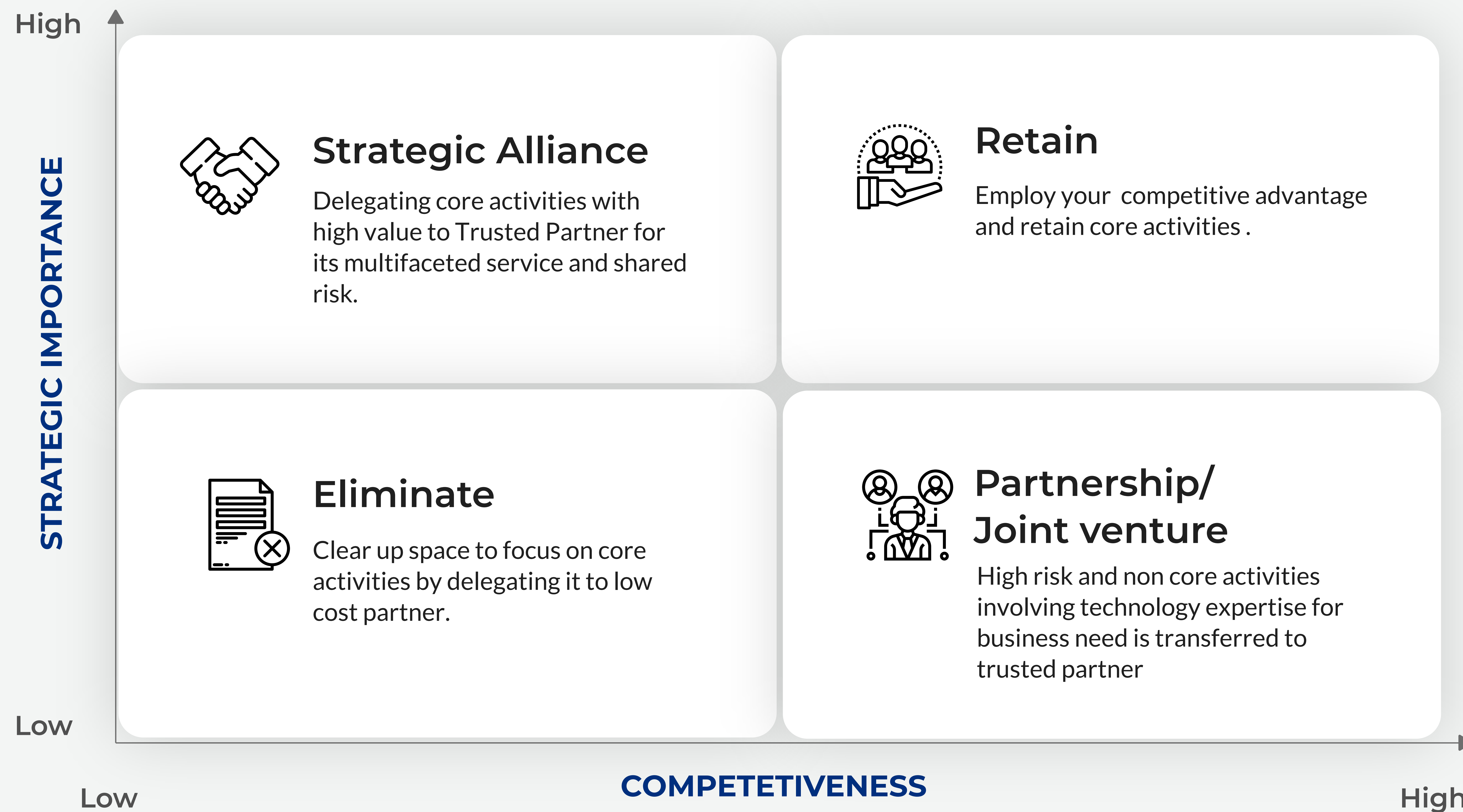
Assess your immediate requirements from IT outsourcing

- What to outsource?
- Stable government policies and security compliance
- Expanding Expertise

Assess For Risk Minimisation

- Your flexibility/comfortability regarding outsourcing
- Report from conducting due diligence
- Vendor's IT security
- Vendor payment policy

Harnessing Decision Making Matrix to identify outsourcing activities for **Eliminate, Retain, Partnership and Strategic Alliance**



Each of the unique activities identified for assessment are rated for (i) **strategic importance to the organization** and (ii) **how competitively the task can be executed compared to external service providers.**

Source: <https://www.wipro.com/engineeringNXT/harnessing-a-decision-matrix-to-derive-outsourcing-strategy/>

PARAMETER	ELIMINATE	RETAIN	PARTNERSHIP	STRATEGIC ALLIANCE
Non-Core Activities	✓	✗	✓	✗
Core Activities	✗	✓	✗	✓
Non-core activities + High Risk	✗	✗	✓	✗
Non-core activities + Low Risk	✓	✗	✓	✗
Core Activities + High Risk	✗	✓	✗	✗
Core Activities + Shared Risk	✗	✗	✗	✓

Source: <https://www.wipro.com/engineeringNXT/harnessing-a-decision-matrix-to-derive-outsourcing-strategy/>

Top 8 Checklist Questions to Analyse the Competitive Advantage of **Strategic Alliance, Partnership and In-house**

QUESTIONS	STRATEGIC ALLIANCE	PARTNERSHIP	IN-HOUSE
Will it deliver guaranteed quality work?	✓	✗	✓
Will there be management issues?	✗	✓	✗
Will it reduce personnel size?	✓	✓	✗
Will it help in focussing on core function of operation?	✓	✓	✗
Will there be huge access to talent pool?	✓	✓	✗

QUESTIONS	STRATEGIC ALLIANCE	PARTNERSHIP	IN-HOUSE
Will there be communication problem?	✗	✓	✗
Will there be deep understanding of the process?	✓	✗	✓
Will there be huge expenses?	✗	✗	✓

Competitive Comparison Matrix- Remote Team, Full Time Employee, Freelancers, Sub-Contracts

For a successful project development, it is important to analyse you team members. If hiring a full time employee ensures smooth operations then remote team is a game changer due to its high cost saving model. The following competitive model will help in analysing the difference among four:

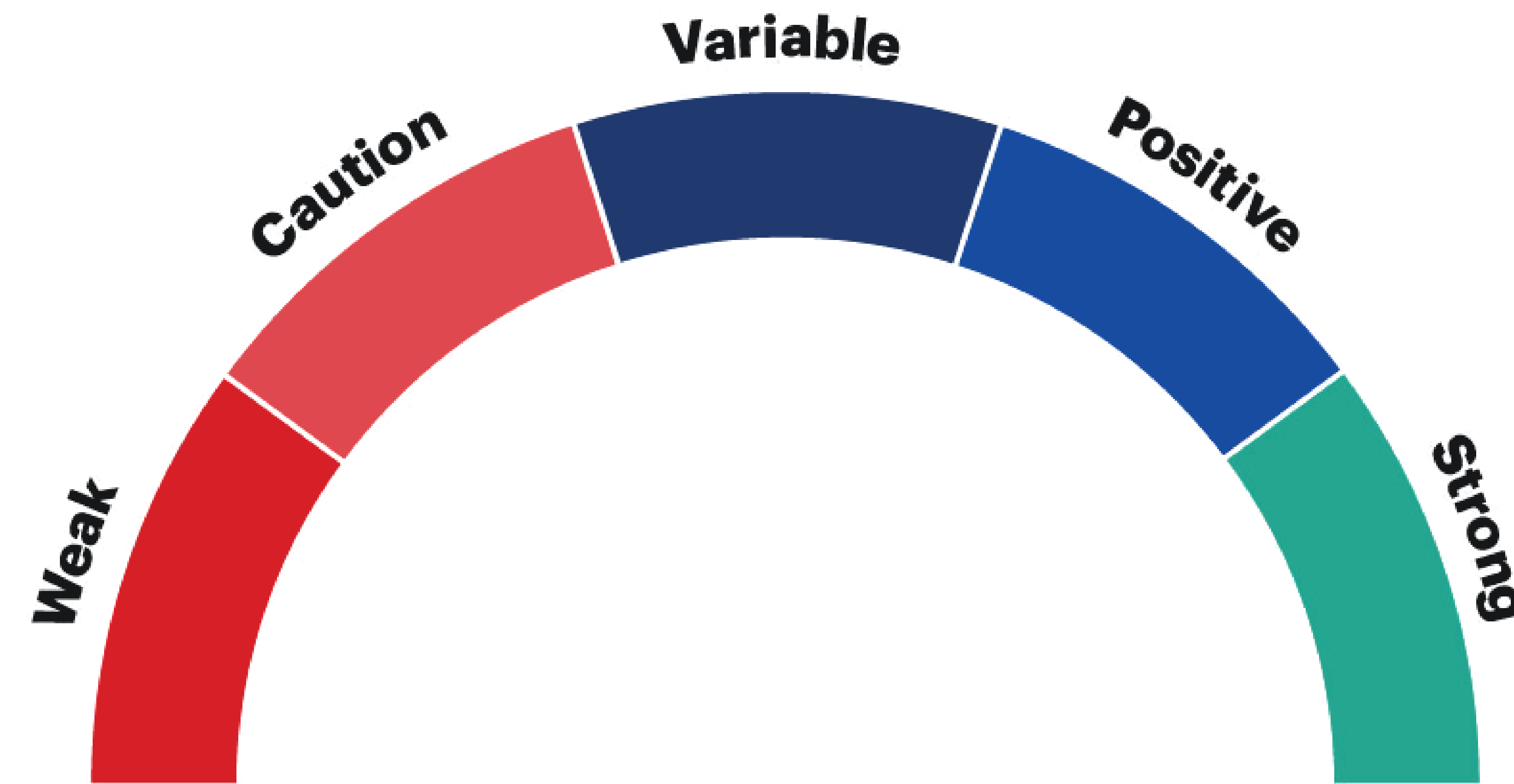
PARAMETER	REMOTE TEAM	FULL-TIME EMPLOYEE	FREELANCERS	SUB-CONTRACTS
Price	Low	High	Low	Low
Quality	High	High	Low	Low
Accountability	High	High	Low	High
Flexibility	High	Low	Low	High

Evaluate the Partnership: Strategic Vision

Evaluating partnership is the next step after deciding on IT outsourcing. This is the most crucial stage for a business to be successful.

Listing down all potential vendors and collecting data points for vendor rating helps in identifying the best partnership for your company.

Gartner vendor rating tool helps us in achieving a balanced provider portfolio. It gives us a holistic view on providings of the vendor and how it aligns our business.



	Weak	Caution	Variable	Positive	Strong
Product/Service					
Support/Account Management					
Pricing Structure					
Technology/Methodology					
Strategy					
Corporate Viability					

Strong: Customers can feel comfortable investing in a continued relationship with this provider. Potential customers should consider this provider a strong choice for new strategic investments.

Positive: Customers should continue planned investments. Potential customers should consider this provider a viable choice for strategic or tactical investments, while planning for known limitations.

Variable: Customers should consider the short- and long-term impact of possible changes in status. Potential customers should factor issues and opportunities related to the ongoing evolution and maturity of this provider into their decisions.

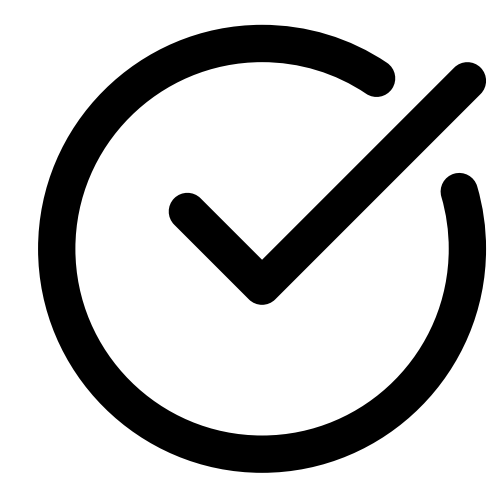
Caution: Customers should understand challenges in relevant areas and develop contingency plans based on risk tolerance and possible business impact. Potential customers should consider the provider's challenges in their due diligence.

Weak: Customers should execute contingency options. Potential customers should consider this provider only for tactical investments with rapid payback.

Source: <https://www.gartner.com/en/research/methodologies/vendor-rating>

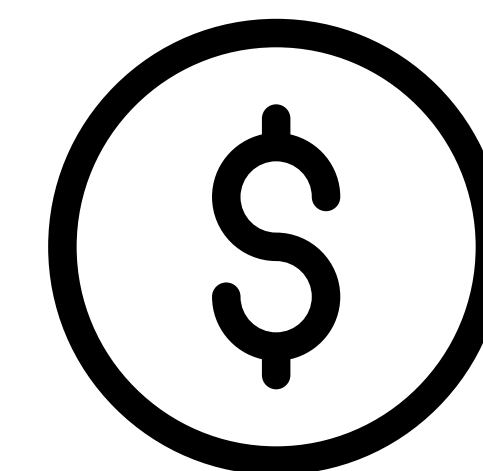
Evaluate the Right Partnership via Scorecard

The weighted-average methodology is another method to score the vendors based on the following criteria such as :



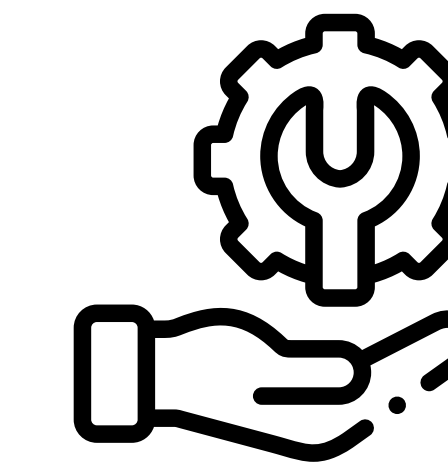
Basic preliminary check

It relates to the Vendor experience and technical capabilities



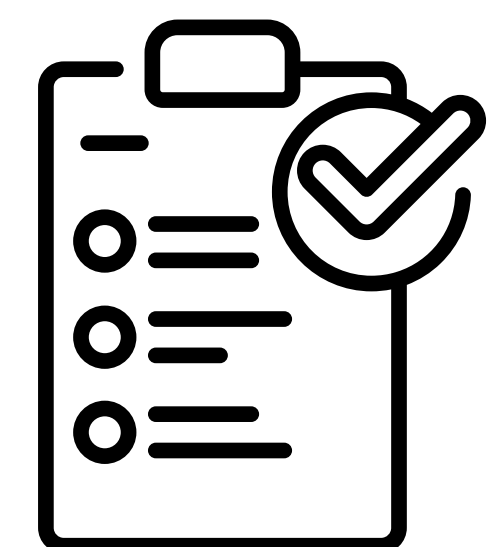
Pricing

The type of payment structure followed, the pricing model and the competitive rate.



IT solutions

Measures the robustness and the scalability of the development and testing strategy.



Project Delivery

Measures the turnaround time, delivery process and also the process followed.



Legal

Measures the compliance and security strategy of the vendor.

Define the parameters, sub-parameters and assign a score to each of them

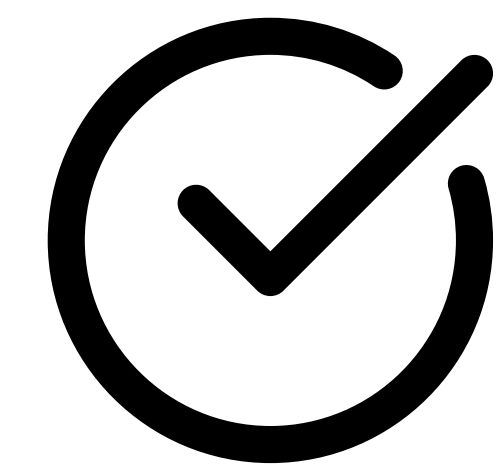
PARAMETER	SUB-PARAMETER	SCORE (out of 100)	PARAMETER	SUB-PARAMETER	SCORE (out of 100)
Basic Preliminary Check	Industry Experience	15%	Project Delivery	Project Methodology (Agile/Waterfall)	15%
	Experience in similar projects			Resource Allocation (Onsite-Offshore)	
	Technical Capability			Quality Standards (e.g. code review)	
Pricing	Pricing Model	25%	Legal	Legal Implication in the outsourced country	10%
	Payment Structure			Intellectual property management	
	Billing Rate				
IT Solution	Solution Architecture	35%			
	Development Strategy				
	Testing Strategy				
	Robustness & Scalability				

Optimizing the Partnership to Improve Efficiency

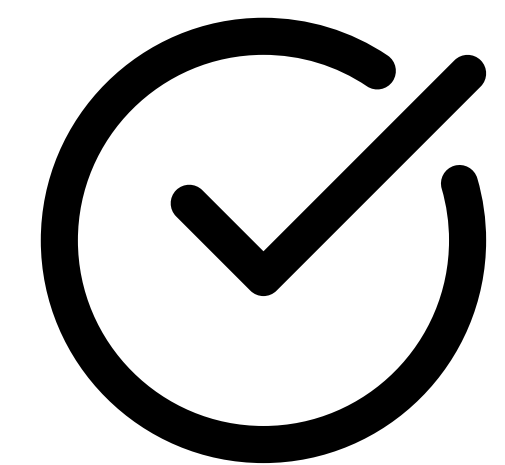
“As per a Deloitte study, 64% of the companies consider cost-savings as the primary factor driving them towards outsourcing.”

In the optimisation phase, companies must look for cost optimization along with maintaining the quality of the work. A cost optimization is not the only reason companies are looking to for outsourcing. Cost optimization cannot be the roadblock to innovation. Today companies are more inclined towards IT outsourcing for the access to the huge talent pool, speed and agility.

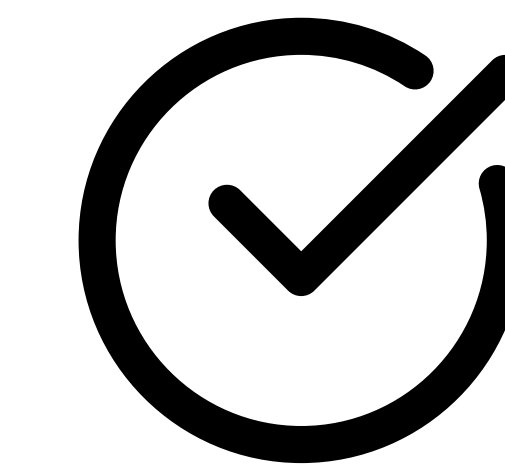
To optimise partnership, the following checklist has been made:



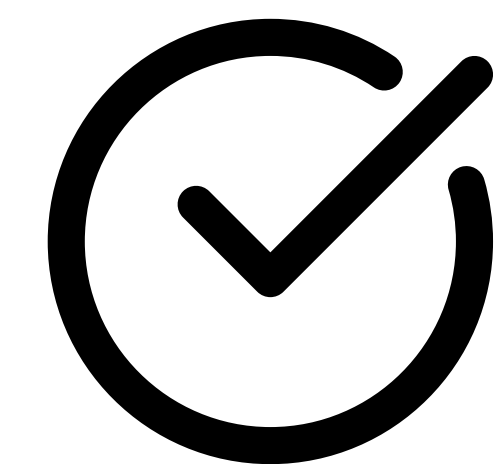
Understand your spending analysis on vendors



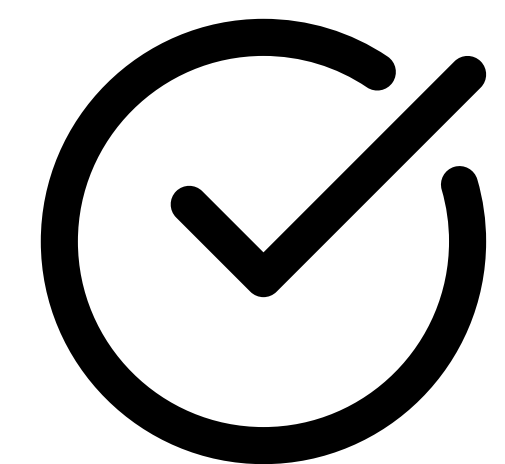
Segment vendors on the basis of value creation



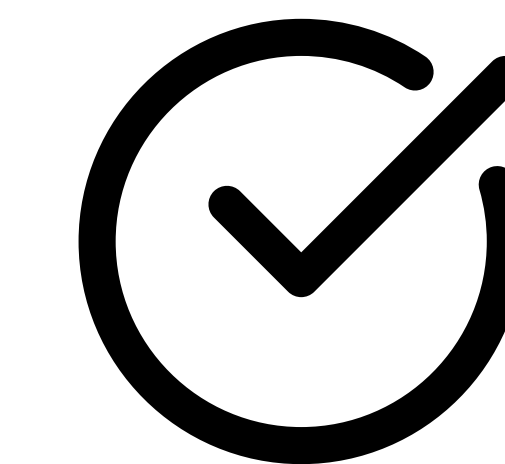
Identify the vendors who are benefiting more than creating resistance



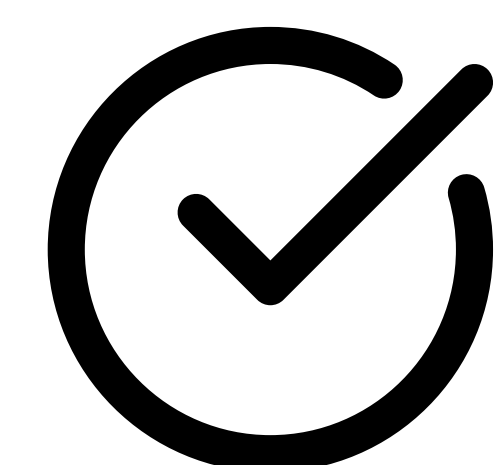
Check your profile with each vendor based on the historical spending and expected spending



Measure the returns that is expected from them & consider the value creation too



Identify the preferred vendors and risk associated with the transition



To keep the vendors competitive, assign stakeholders to analyse their performance and review it quarterly

23+
Years

750+
Professionals

11k+
Projects

6m+
Hours

We are a team of digital engineers working towards innovation, reinvention and reshaping business models. We cater to multiple enterprise clients, fast growing product companies, digital agencies operating in the domain of banking, insurance, finserve, health, professional services and others in more than 45 countries.



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Resources:

<https://www.daxx.com/blog/development-trends/it-outsourcing-trends>

<https://www.forbes.com/sites/forbestechcouncil/2021/01/28/why-the-pandemic-led-to-an-increase-in-it-outsourcing/?sh=364c0baa2daa>

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<https://www.moentek.com/blog/how-does-outsourcing-reduce-costs/>