

Lost in Translation

Unique issues in tech vendor
outsourcing

Vinnie Mirchandani

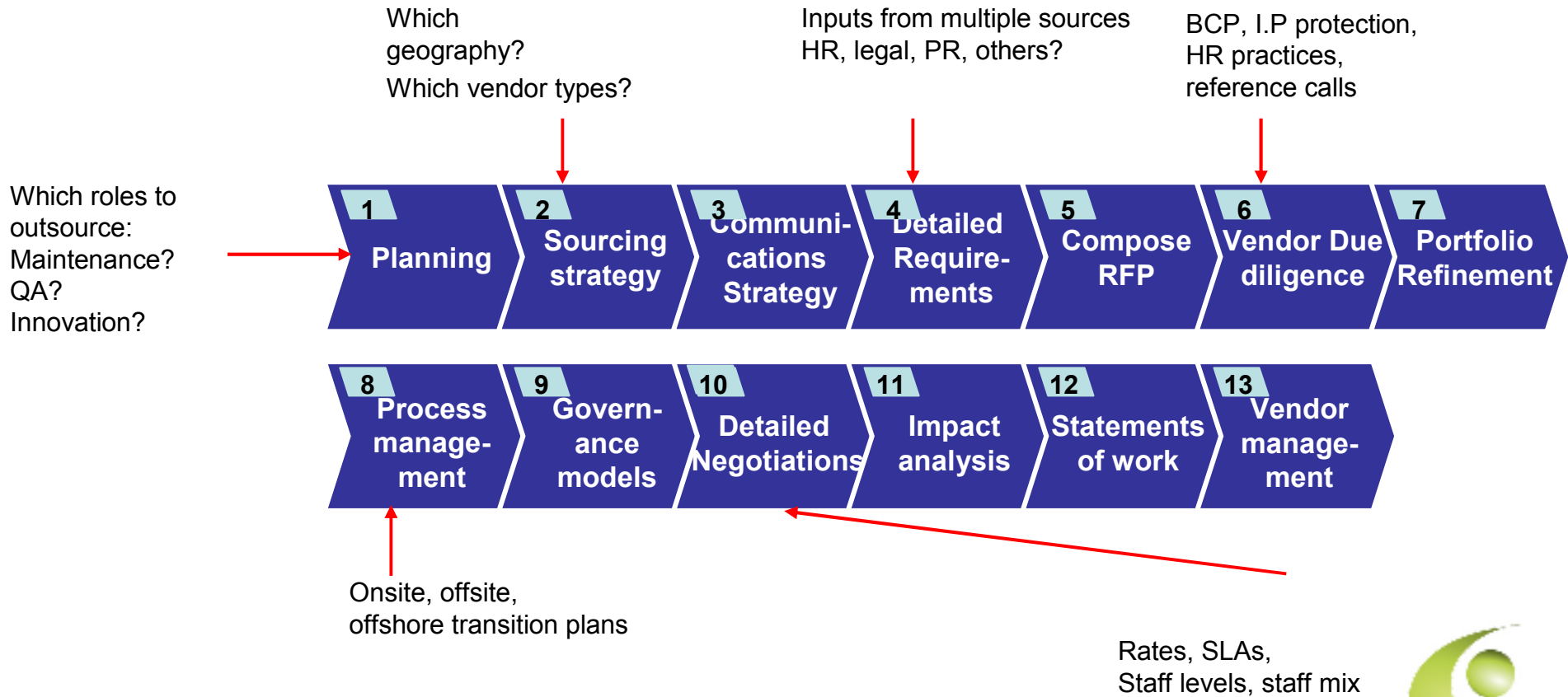
software2008
The Future of Software is Here



Speaker Profile

- Ex Gartner analyst, PwC consultant
- Founder of Deal Architect, advisory firm which helps buyers (corporations and vendors) in technology sourcing and negotiations
- Over \$ 5 billion in technology transaction experience
- Writes two technology blogs – Deal Architect and New Florence, New Renaissance which keep up with technology trends around world
- Exposure to number of global sourcing locations and issues

30+ years of outsourcing has taught us a few things

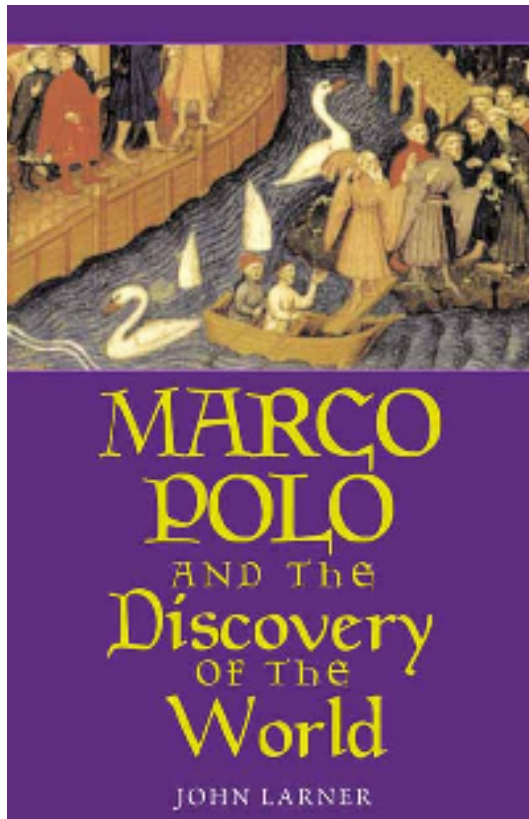


Vendor CTO versus Corporate CIO Outsourcing

- 5 years versus 30+ years outsourcing experience
- Tech vertical less than 5% of total outsourcing
- Still grudging acceptance by vendor CTOs, vendor procurement/contracting maturity weak – captives still preferred model
- Supplier/location decisions often driven by VC relationships or “repatriation” factors, not formal evaluations
- Niche, but geographically broader supplier base
- More willing to look at newer talent models like communities



Tech talent pools



- **Till recently, tech sector has lagged its customers in use of global labor pools**
 - GE and 70/70/70
 - Several banks with thousands of head count offshore
- **Changing rapidly**
 - Most startups last few years have had global delivery baked in to business plans
 - IBM, Accenture, Oracle – 3 of the biggest employers in India now
- **But preference for captives**
 - In most sectors, outsourced global resources far exceed captive resources
 - In tech, reverse e.g. Oracle bought out outsource contracts after PeopleSoft acquisition

Captives – the justifications and the realities



- **Product is lifeblood**
 - True, but focus on core, not context. Plenty of development, testing, maintenance activities can be outsourced
 - Captives often run by executives whose prime qualification is they are repatriating to offshore location
- **IP Risks of Outsourcing**
 - Lots of contractual, tactical risk mitigation techniques have emerged
- **Large outsource margins**
 - Undocumented cost of slower ramp ups and recruiting challenges at captives
 - Staff Productivity at captives often lags those of outsourcers Captives are also prime raiding ground for product centric outsourcers
- **Cultural differences with services firms**
 - True of larger outsource firms, but specialists focused on ISVs like Symphony and CSS are typically much more culturally aligned
- **Most outsourcers leverage India which has turnover, inflation issues**
 - Plenty of E. European, China and S. American choices emerging
 - Major outsourcers themselves hedging India bets

Outsourcing – also hard work



- **In spite of scale, economics an issue**
 - Size, repetition economies not passed through
 - Reluctant automation
- **Vendor Management not a core competence for most companies**
 - Takes governance, service level management and legal skill sets
 - Concern of getting “lost” in outsourcer’s list of customers
- **Staffing inconsistency**
 - Junior staff, typically lack of functional/process skills, rapid turnover in some markets
 - Core competence often IT support, not product development
- **Outsourcing market itself in considerable churn**
 - Utility computing, SaaS, fractional staffing, service “productizing” expectations
 - Global diversification a challenge for most outsourcers – considerable upheavals



Too global for most vendors?

Type 1 – US Centric vendors



Type 2 – Large India centric vendors



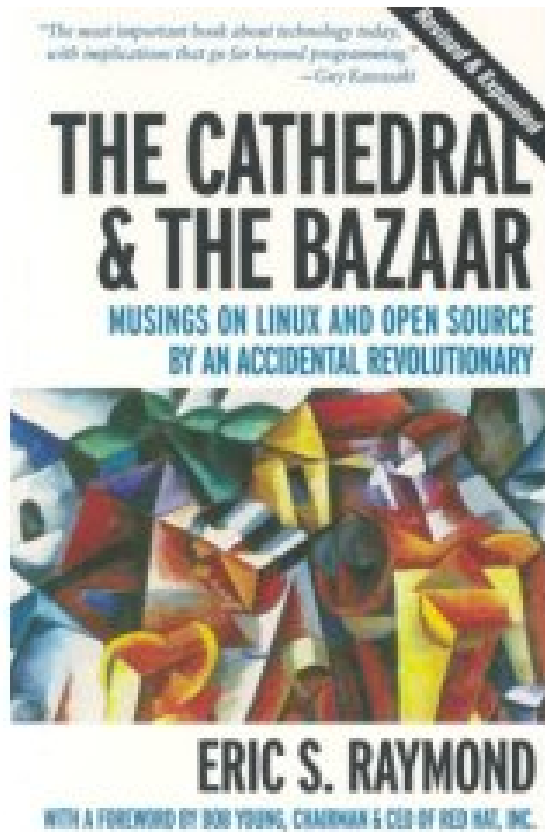
Type 3 – Mid-tier Indian/US



Type 4 – Other country reps



Next gen talent sourcing



- **Hybrid Outsourcing Models**
 - Build/Operate/Transfer – concept not new, but newer wrinkles emerging
 - Hire to Spec options
 - “Rural” Sourcing as a option to get over hassles of time zones, travel fatigue, accents
- **“Micro-nationals”**
 - Emergence of new start-ups with key executives who are nationals of different countries around the world. They then drive local talent sourcing
- **Communities**
 - Open Source successes
 - SAP’s SDN – over million members. Q&A response within 30 minutes. Shai Agassi: “I wish our support channels were that effective”
- **Crowdsourcing**
 - Amazon’s “Mechanical Turk”
 - uTest – open testing community



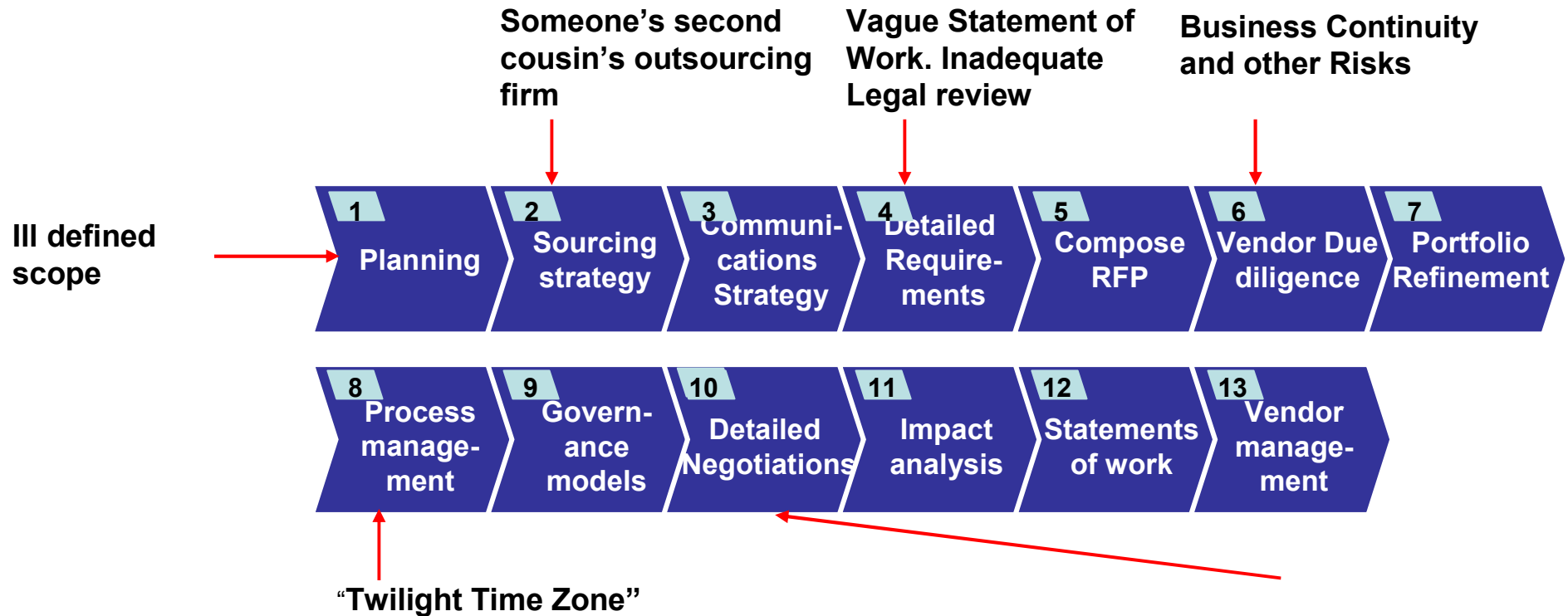
Outsourcing in tech world often gets off to bad start



- **Religious war number 1**
 - Captive versus outsource
- **Religious war number 2**
 - Core versus context – what to keep in-house
 - Maintenance, QA, Innovation?
- **Religious war number 3**
 - Country choice – the “repatriation” influence
 - Vendor choice – often polluted by VC/partnering considerations



And can end up with many points of failure



Disappointing
Economics



SaaS and BPO will mature vendor talent strategies

- As customers push SLAs, business continuity standards on SaaS vendors
- As software vendors partner with/compete against BPO vendors
- As cloud computing becomes more pervasive
- Tech vendors will apply similar rigor to their own talent/outourcing models

In Summary

- Easy to point fingers on why talent strategies and outsourcing contracts fail
- The reality is there are too many paths and choices and not enough experience in the community
- Tech world is trying to learn in 5 years what the corporate world has been trying for 30+ years

