Outsourcing: India and the future

Stephen Barnett, Manavendra Misra, Chan Pollock

Stephen Barnett is a partner with Arrow Partnership, LLC, a team of senior executives that brings advice, analysis and implementation services to clients. Barnett’s background is in the orchestration and implementation of major organizational change initiatives. He has significant experience with Fortune 500 companies in productivity creation and execution of paradigm shifting strategic models. During his 35 years with Accenture (previously Andersen Consulting), he started and was managing director of three US offices and served on the senior management staff for the Americas and Global Organization.

Manavendra Misra is a cofounder and director of corporate development at Denver-based StorePerform Technologies, which creates enterprise software for store execution management. Six of the 15 largest retailers are among its customers. StorePerform has offices in London, UK and Bangalore, India. Prior to StorePerform, Misra was the senior director of strategy at KBkids (now eToys Direct) where he also held the role of senior director of business intelligence. He has a BTech (EE) from the Indian Institute of Technology-Kanpur and a Ph.D. in computer engineering from the University of Southern California.

Chan Pollock is a partner with Arrow Partnership, LLC, a team of senior executives that brings advice, analysis and implementation services to clients. Pollock has over 28 years of business-focused systems and technology management experience including internal IT operations, outsourcing assessment and offshore partner development. He has held CIO positions at global manufacturers Johns Manville and StorageTek. His experience encompasses manufacturing and distribution operations in North America, Europe and Asia.

Moderator Stephen Barnett asked the panel to focus on four main aspects of outsourcing: the forces that drive decisions to contract abroad, the structures and processes needed for managing these ventures, the hurdles involved and the future prospects for what has become a controversial business strategy. Manavendra Misra and Chan Pollock brought their diverse experiences in company operations to the discussion.

Footprint of globalism
Stephen Barnett

“Technology enabled by software has been one of the key drivers of outsourcing and offshoring. Companies utilize technology in delivering their products so they can be more competitive in the marketplace.

“What began to drive this movement was the shortage of skills in this country. At the same time we had workforces being created in other places and supply and demand converged. Demand continues to run very, very fast. This is all part of the footprint of globalism. As long as companies and countries embrace globalism this is going to continue.

“Discipline is necessary if you’re going to manage these processes internally instead of through an outsourcing company. And you certainly need standards and methodologies. If you put distance in terms of the communication between you and your offshore team then you’re going to make the process more complex which in turn will call for a higher level of complexity in the way you communicate. But it also causes you to think through what you’re trying to accomplish up-front and to break it down into pieces that you can manage and control.
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High quality talent at best price
Manavendra Misra

StorePerform’s decision to go offshore for talent was based primarily on reducing costs.

“As a start-up – the company is now three years old – you have a limited amount of cash and a limited amount of resources. You have to figure out the best way to utilize them. We felt that if we could reduce our costs to about a quarter to a third of our costs in the US we would be successful.

“Other factors included the ability to have a 24-hour development cycle with our US team working closely with the Indian team, the need to offer 24-hour customer support and to do that in a cost-effective manner; access to high-quality talent, and the opportunity to innovate and to make mistakes without a huge cost of failure attached to them.

“We chose Bangalore because this is where a lot of the developers were coming to find jobs. In January 2003, a year after we founded the company, we contracted with an outsourcing company and set up a small team. We wanted to take it one step at a time, learn from our mistakes and go from there.

“When a lot of communication is needed between the team and the customers, that has to be done over here in the US. We’ve added a significant number of people within the Denver team on the development side. And we brought people from there to here, sent people from here to there to facilitate that communication.

“When we started we had a small team of 10 developers and they could easily communicate with each other without leaving their cubicles. But when you transform that to a much larger team and across oceans, you have to have formal processes. We’ve worked hard on that and we’re still not there.

“Amongst the Indian team there was a significant amount of turnover. Initially we thought it was just the outsourcing company we were working with. Since then we’ve discovered that turnover is an inherent problem in Bangalore. So we’ve come up with a solution and established a legal entity in India. Right now we have a team of about 50 in Bangalore and we’ve kept a small group from the outsourcing company that we were working with.

“The market for talent is absolutely crazy in Bangalore, much worse than the Silicon Valley market in 1999. Recruiting was a huge problem when we started; there were too many companies chasing too few people. We were an unknown company and developers, though they liked our message, would choose to go with name-brand companies like IBM or MicroSoft. But rather than tell us of their decision they’d just go completely silent since people there often have a hard time communicating bad news.”

“There’s been a significant amount of salary inflation and we’ve addressed this by providing equity in the company and more interesting work. The team has full responsibility end to end – from product management to the delivery of the product on some of our product lines. So we’re developing some of the skills that just didn’t exist in India.

“Travel in both directions is necessary. It’s extremely important for the senior management here to go and communicate the vision to the folks over there. As for the future, companies are going to look for talent wherever they can find it at the best price they can find it. So everyone get used to it.”
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Capitalism 101
Chan Pollock

Speaking from the perspective of internal IT operations, Pollock said, “The key word in IT is balance and some of the issues are exactly the same as the issues relative to product development.

“When you’re developing an internal product for your business, you want to do it as cost-effectively as possible in the shortest time possible. And you want to find a balance between IT as a cost to avoid and IT as an enabler of productivity.

“A flexible labor pool is also important. If you need 10 Java engineers this week, your partner offshore can help you source those jobs quickly and without the overhead connected to recruiting.

“Outsourcing/offshoring is nothing but capitalism 101. It has nothing to do with tax incentives for going overseas as some politicians claim. It’s all about scale. If you can get work done for $1,000 instead of $100,000, tax incentives don’t enter into your thinking. The only consideration is Can I get it done in a reasonable amount of time for the lowest amount of cost at the highest quality.

“We also chose not to go with the big sourcing firms. I’m sure they would have taken our business but I wanted to be sure I had the attention that a smaller firm would give me. We used very small boutique firms, 50 to 150 employees. With one of the companies we were actually their first US customer. Yes, I was taking a risk. A moral of my story is to take your risks with things that don’t matter out of the chute. If you’ve never done this before it’s hard work. It’s very hard to manage; it’s not something that you can just let grow on its own.

“My pet peeve is about how the politicians have turned this into something it is not. Outsourcing is a very small percentage of what an IT organization does. In my case it was less than 5 percent and it was all the stuff that my US-based workers wanted nothing to do with because it was boring.

“The educational institutions need to be teaching the higher level things. And the commodities are going to go where we can get work done for the lowest cost, the highest quality and in the quickest amount of time. India has offered us that opportunity but there are plenty of other places where you can do this.

“Incidentally, why is it called outsourcing if you’re a manufacturing company putting a disk drive from China in a PC, but it is called offshoring if your company is sourcing labor? It’s the same thing, you need the same contracts, and it’s just people versus product. But the people aspect is much easier to politicize than product ever will be.”

Barnett: In addition to the successful outcomes that we’ve heard about there are many failures out there. Those are the companies that chose to just throw it over the fence and hope something good would happen. They didn’t know how to project manage and you have to do that whether the company is next door or an ocean away.

Pollock: There’s also in many cases extreme cultural internal resistance to this sort of thing. I always built it into my managers’ objectives that their bonus depended on making something like this work.

Guest: What you’re getting from an Indian university is a very highly qualified individual with the ability to absorb knowledge. I’d like to see companies in the US develop more effective training methods, working
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with local universities and actually creating courses where the individual can plan a career path that includes movement into higher level positions. With that kind of a plan they’re less apt to be job hopping for higher pay and more likely to stay at a job where they have growth opportunities.

Barnett: One of the things that Andersen Consulting did years ago was develop a career development model relative to the skills that were needed. In fact, part of our offering was career development and career advancement. There needs to be a pathway, a way to guide the employee and a way to measure performance. This concept of ongoing development is important not only to companies but also to universities as they look at how to begin developing programs that are more appropriate for today’s rapidly changing environment.

Misra: About the political aspect, I think we need to distinguish between the macro level and the micro level. At the macro level things will work themselves out over time. At the micro level there are people who are losing jobs and we have to figure out a way to make sure that the pain is diminished. Sending them to a two-year community college, as President Bush wants to do, and getting them retooled is not going to work.

Barnett: Politicians talk about the number of unemployed but they don’t talk about the number of employed and how that number has grown in this country. As you reflect on this complex issue, I think some of these things need to be put in the proper perspective.