

Report:

USA Continues to Harness the Power of Offshore IT Outsourcing to India

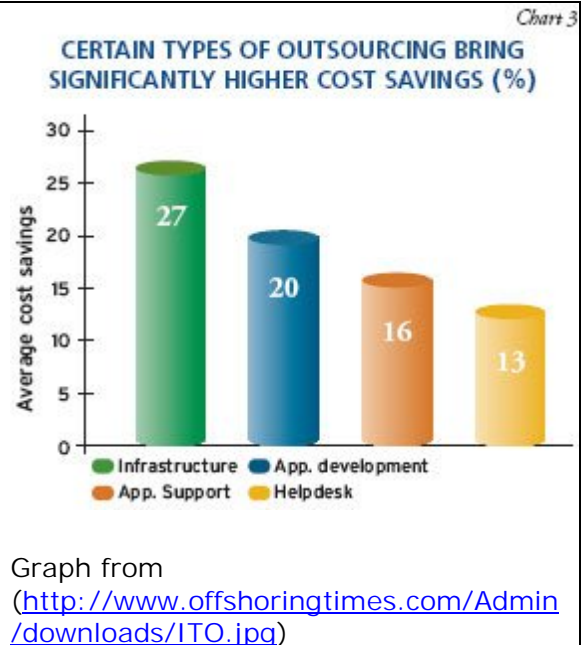
Harnessing the Power of Offshore IT Outsourcing requires focused expertise, which abounds in India, the world leading provider in the field of Offshore Outsourcing, and IT Outsourcing in particular. Expertise in outsourced product development and custom enterprise application development services, a collaborative approach perfected over the years of working closely with US companies, helping them leverage the power of web-based technologies, has placed India at the top spot, unrivaled by any other Outsourcing services providing country.

Globalization was brutal with companies falling on hard times, and profits dipping by almost 50%. Hope came from an unusual source- India. With US companies collaborating with Indian service providers 24/7, there was an unprecedented slash in development costs and time. More business was generated, which was earlier often missed due to constraints. The same strategy has boosted the profits of thousands of US companies. Widespread debate and a political firestorm there may still be about offshore outsourcing to India, as it has been portrayed as the killer of good-paying American jobs. Yet today, America can compete and create great jobs, but not without offshoring to India.

It has not simply been about jumping on the outsourcing bandwagon, as some are wont to say. Legions of hungry college grads in India are not after the jobs of highly educated American tech and service professionals. But a more enlightened, strategic view of outsourcing to India prevails. The always strengthening and growing business relationship between India and USA is based on transformational outsourcing, is really about corporate growth, making better use of skilled US staff, and even job creation in the US, not just cheap wages.

True, the labor savings of US companies from outsourcing to India can still be substantial. But it's peanuts compared to the enormous gains in efficiency, productivity, quality, and revenues that can be achieved by fully leveraging Indian talent. Here's a chance to turn around dying businesses, speed up their pace of innovation, or fund development projects that otherwise would have been unaffordable.

The IT outsourcing relationship between India and the US has increasingly emerged as a key strategic tool in achieving cost reduction, quality and delivery improvement, cycle time reduction, and improved responsiveness to customer, competitive, and financial market demands. While cost savings has been the predominant motive for these outsourcing efforts, other strategic drivers have been access to superior quality of goods, services, and labor; improved flexibility with respect to 'lean' production cycles; quickness in response times; and the ability to focus on a core set of activities and increased responsiveness to market changes.



IT Outsourcing to India benefits US Economy

Contrary to common perception, information technology outsourcing to India benefits the US economy by increasing the number of US jobs, improving real wages for American workers, and pushing the US economy to perform at a higher level, according to a new study. "Global sourcing continues to be a net positive for American workers and the US economy," said Harris N. Miller, president of Information Technology Association of America, the leading trade association for the IT industry.

By driving down the costs associated with computer software and services and by opening more overseas markets to US competition, global sourcing sharpens America's competitive edge at home and abroad. The result is more American jobs, higher wages and a faster growing economy overall. The study, conducted by Global Insight, found that worldwide sourcing of IT services and software generated an additional 257,042 net new US jobs in 2005, a number that is expected to rise to 337,625 by 2010. With low inflation and high productivity, global sourcing also increased real hourly wages in the US by \$0.06 in 2005.

The report added that worldwide sourcing contributed \$68.7 billion in real US GDP.

Spending for global sourcing of computer software and services will grow at a compound annual rate of 20 per cent, from approximately \$15.2 billion in 2005 to \$38.2 billion in 2010.

The total cost savings from outsourcing of computer software and services will grow from \$8.7 billion in 2005 to \$20.4 billion in 2010, much of which will be reinvested in the US.

Global sourcing contributed \$5.1 billion to US exports in 2005 and is expected to grow to \$9.7 billion by 2010. The benefits of free trade clearly provide a boost to the US economy.

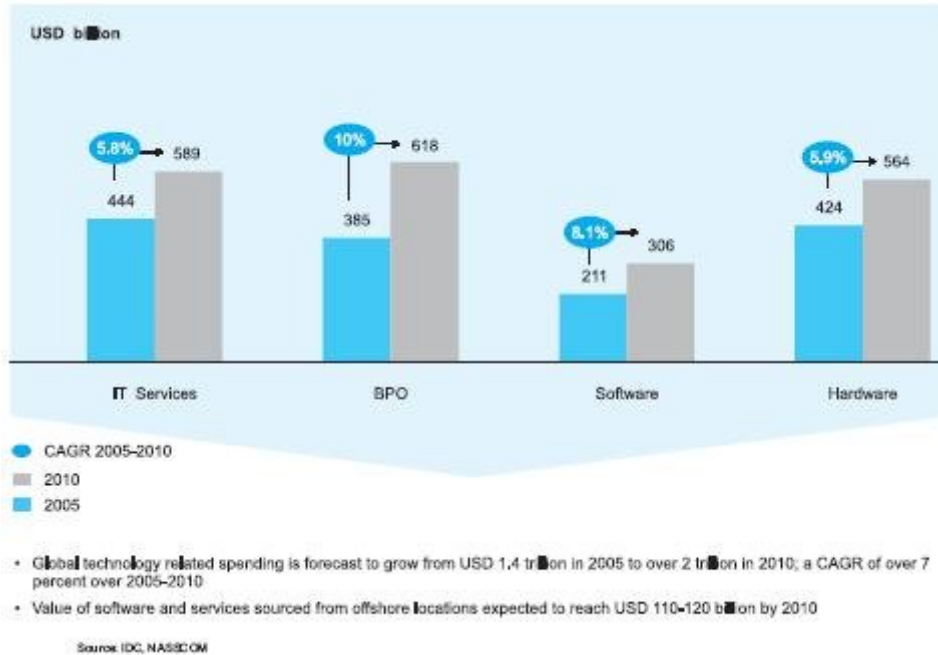
Using offshore resources creates additional jobs, increases efficiency, reduces costs, dampens inflation, lowers interest rates, and increases spending. The challenge is to help transition of displaced workers to other productive activities.

The study found that raising barriers to worldwide sourcing would adversely impact US workers and US firms. If all global sourcing of software and IT services terminated completely, the impact would slow the US economy and actually reduce the number of new jobs available to American workers.

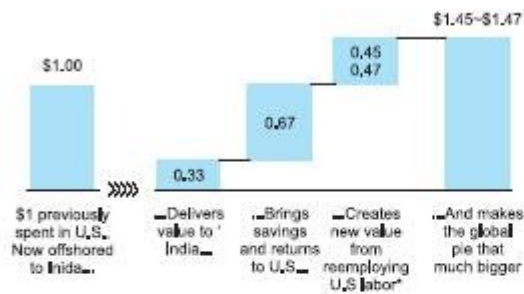
There can be no doubt about India's importance as an emerging center for outsourcing service type activities with a special emphasis on IT. A joint study conducted by McKinsey & Co. and Nasscom, an Indian software association, predicted that by 2008, India will generate \$57 billion in revenues from IT work and other service related exports.

NASSCOM's 2007 annual assessment of the Indian IT-BPO industry indicates that the sector will be greatly buoyed by an escalation in global technology spend, which is expected to exceed US\$ 2 trillion by 2010. Interestingly, the spend on offshoring will account for a hefty US\$ 110-120 billion of this total.

Global technology related spending is forecast to exceed USD 2 trillion by 2010; offshore spends to reach USD 110-120 billion



The following graph demonstrates the significant gains for participating economies: India and the US:



"The benefits of global sourcing contribute significantly to real Gross Domestic Product in the US, adding USD 33.6 billion in 2003. By 2008, real GDP is expected to be USD 124.2 billion higher than it would be in an environment in which offshore IT software and services outsourcing does not occur."

Global Insight Inc.

"Job change is a much larger part of life than it used to be, and the challenge for policy makers is to make it less painful."

McKinsey Quarterly

"The current debate over the offshoring of US jobs misses the mark. Short-term disruption from job losses must be weighed against the much broader benefit to US consumers and businesses, as well as the consequences of resisting change. If US companies can't move work abroad, they will become less competitive—weakening the economy and endangering still more jobs—and miss the chance to raise productivity and to concentrate resources on the creation of higher-value jobs."

Exploring the Myths of Offshoring, MGI

The offshore-outsourcing debate needs to evolve into a deeper appreciation of its imperatives and benefits

* Quoted excerpts are examples of the conclusions arrived at by leading think-tanks and research firms based on detailed analyses of the offshore outsourcing issue and its impact on the US. There have been several other studies, exploring the same issue in different countries – which have all arrived at similar conclusions.

These trends in offshore outsourcing will not only help countries like India to draw vital foreign investment, they will also help it generate more jobs for its youth. The Indian IT-BPO sector for instance, has created around 1.6 million jobs, contributed around 5.4 percent to the country's GDP, accounted for a leading share of the foreign exchange earnings, and spearheaded India's move to position itself as global brand in the area of professional services.

In addition, this trend in the IT/BPO industry has also helped catalyze developments in the country, enabled the creation of urban infrastructure, led to the growth of Tier II and III cities and encouraged and facilitated the adoption of e-governance applications, to take IT benefits to the common person and narrow the digital divide.

(The 2007 Strategic Review, NASSCOM)

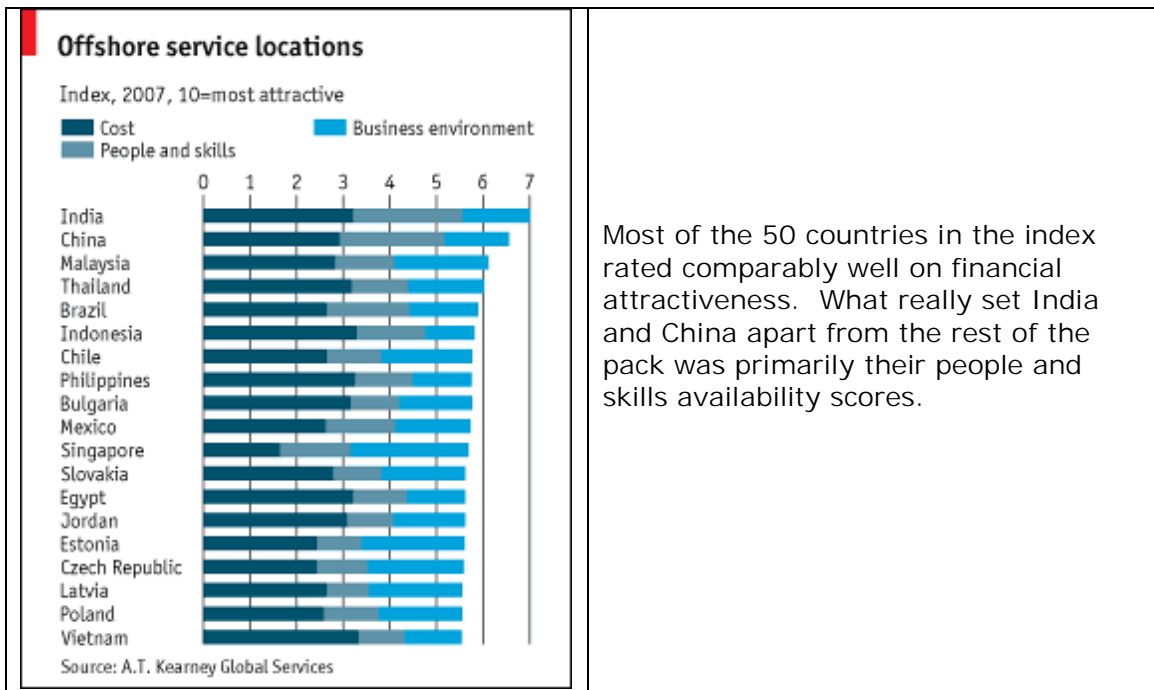
In the last two years the aspects of the Outsourcing industry have changed in material ways. Some of the more notable influences are:

- Increasing tendency toward multi-sourcing strategies, with multiple service providers engaged across a spectrum of business support functions.
- Rapid adoption of global service delivery platforms, with attendant opportunities for flexible contracting relationships
- Shorter-duration contracting terms, reducing the risks associated with long-term agreements but also potentially restricting the upside
- Dramatic increase in service provider diversity, across service families, and industries.
- Gaining popularity of provider-defined solutions that contrast with historical models of provider-assumed assets and staff, with associated incremental improvements delivered over time
- Breakthrough potential of transformation in business operations made possible by focused investments and risk-taking on the part of the service provider community

Another interesting fact in the last couple of years has been that established U.S. based companies surpassed overseas competition to earn the top two spots on Global Outsourcing 100, the annual expert ranking of the worlds best outsourcing service providers compiled by the International Association of Outsourcing Professionals IAOP. Accenture was ranked the number one outsourcing service provider for the first time, coming out ahead of IBM, who had garnered the leading position since the lists inception three years ago.

Half of the top 10 companies are from India, reflecting the countrys strong outsourcing growth. Infosys Technologies was number three on the Leaders List, representing firms with annual sales of USD60 million or more. The other topranked Indiabased firms were Tata Consultancy Services, Wipro Technologies, Genpact and Tech Mahindra.

The statistics for 2007, as compiled by A.T. Kearney in GSLI or the Global Services Local Index are as follows:



Most of the 50 countries in the index rated comparably well on financial attractiveness. What really set India and China apart from the rest of the pack was primarily their people and skills availability scores.

In 2008, the IT and IT enabled services (ITES / BPO) industries are supposed to be the major drivers of India's economic growth. According to Nasscom, the two industries combined will employ 4 Million people, account for 7% of GDP, and 33% of foreign exchange inflow. Death of this industry is far from anyone's mind.

One has to acquiesce that wages are rising in India, attrition is high, and IT/ITES being a "services" industry, the country has barely come up with technology products of its own. The problem is ... the demand for IT is high. The supply of IT workers is low (at least in the US). Hiring and firing workers is not a great option. Outsourcing IT to a specialized corporation is a great idea. Beyond a point, Quality is hard to measure in software, hence the need for commodity outsourcing will remain HIGH and countries other than India are yet to provide a very competent workforce.

There is another positive side to this story:

1. Indian economy is growing at scorching pace, without including IT and ITES exports.
Indian financial services, banks, healthcare, telecom and government, all of which will need IT services of global standard. Companies like Infosys, Wipro, and TCS who have developed those skills while servicing American clients.
2. It all started with cost advantage but now it is gyrating towards skill advantage. Even if US companies don't have any cost advantage they will top dollars to Indian outsourcers to get the required skill .
3. Not all economies are built the same way and there really may not be anything negative about Indian companies not putting too much money into innovation. While Indian may not be home to an Apple Computers, it definitely can create another Accenture or IBM ..

Business Process Outsourcing (BPO) will include IT outsourcing and mainstream BPO expenditure was predicted to grow worldwide by [10 per cent a year from \\$140 billion in 2005 to over \\$220 billion by 2010.](#) (Source: Logica CMG study). According to the National Association of Software Companies (Nasscom), India's premier trade body of the IT software and services industry, technology and IT services exports in India were worth \$17.2bn (£9.5bn) in the year ended March 2005, a rise of 34.5% over the previous year. The US accounts for 68% of Indian exports.

Companies in USA continue to outsource their IT related projects to India for the following reasons:

- The Indian Government's commitment to economic liberalization and globalization.
- Indian educational system
- Internationally competitive labor costs
- Strong work ethic with an emphasis on customer satisfaction
- Achieving high levels of software certification.
- Time difference
- Independent judiciary that protects intellectual property.

Plenty has changed in the field of offshore outsourcing
Plenty has happened in the last two years, and plenty of change lies ahead.

- Use of Collaborative Tools : Greater communication capability via the Internet was the initial driver of the offshoring trend, according to the Forrester report.

- India Remains No. 1 : India continues to lead the way as an offshore destination, ranking at the top of A.T. Kearney's 2007 Global Services Location index and claiming an estimated 11.5 percent share of the global market, according to estimates from research firm XMG. India's advantages remain its talent pool, English-speaking population and government support.
- Significant wage increases in India have further shaved the cost advantage. Engineers trained in basic research are harder to find, says R&D consulting firm Zinnov (via IndustryWeek).
- Onshore and Nearshore: U.S.: In 2007, Wipro Technologies, India's third-largest outsourcer, set up its first U.S. — or onshore — development center in Atlanta, Ga. The Bangalore-based firm also established a near-shore location in Monterrey, Mexico. Mumbai-based Hexaware has also selected Mexico for a nearshore location. Among the drivers for locating facilities closer to U.S. borders is a more mature client base looking for alternatives to India and hoping to invest in outsourcing contracts in locations with a greater cultural affinity with the U.S., according to CIO Today.
- Blended Contracts: "More likely," says CIO Today "U.S. clients will engage in blended contracts in which the customer-facing processes or services are outsourced to a nearshore location while back-office functions continue to be sent to India."

Emerging India- US Outsourcing Trends

Trend #1: Indian firms will face increased competition in two ways. First, firms based in other developing countries will position themselves as perfectly acceptable substitutes to India-based firms. Second, American firms (such as EDS and IBM) will open their own development centers in India and in other countries that are low-cost locations.

Cometitors will be able to compete effectively with India by 2015. Companies such as GE, EDS, Accenture, McKinsey, Prudential and others are also opening their own development centers in India. Indian firms will have to increasingly compete for the high-tech high-skill labor pool with foreign competitors. Indian companies must expand their geographic presence by opening offices in multiple locations around the world. International expansion will enable Indian firms to expand their client base, increase their employee pool (they can draw upon intellectual capital in multiple locations), and address client concerns about data safety in case of a war between India and Pakistan. Many Indian firms will evolve into global companies taking advantage of international opportunities in the high-skilled services offshore market.

Trend #2: Increased number of joint ventures and strategic alliances between Indian and US firms

The client-vendor relationship that starts with outsourcing will spawn an increased number of joint ventures and strategic alliances between Western and Indian firms. Joint venture operations result in additional revenue for both firms as they provide a variety of services to third parties. The creation of a joint venture (with an equity involvement by both firms), clearly indicates that the relationship has progressed to a new level.

Trend #3: Within the IT/IS area, Indian firms are aggressively moving up the value chain by being more involved in clients' business planning and decision making. The nature and sophistication of outsourced IT/IS work will continue to increase.

To offset growing competition from other low-cost sites, and to create a stronger longer lasting relationships with their clients, many Indian firms are becoming more "embedded" with their clients' strategic planning and decision making process. As this transition takes place, the type of employee skill sets also change. Top level consulting talent is needed.

Trend #4: Besides the IT/IS field, outsourcing will expand to high-knowledge/skill jobs in pharmaceuticals, biotechnology, financial services, media, medical services and basic research (such as semi-conductors)

These areas represent the best prospects for outsourcing to India. Due to its biodiversity in ecology and population, India represents an attractive market for market testing new drugs. Additionally, it represents a fertile ground for conducting basic research due to its large number of scientists.

Trend #5: Political Backlash in the USA due to exodus of white collar occupations

If the US economy does not improve in the short run, one could anticipate a growing US public resentment against outsourcing to India—under this scenario, effective public relations management skills are a must. One suggestion would be to aggressively publicize the added taxes and income coming into the US by various offshore activities. Nasscom's Vice President Sunil Mehta points out that offshore Indian companies contribute approximately \$13 billion back to the US economy by hardware and software purchases, customer savings and US taxes paid by Indian workers (Kripalani et al., 2003). India based firms must realize that maintaining a favorable public image is critical for being successful in the US in the long run.

Despite all the furore about outsourcing in the US, several companies ranging from Fortune 500 giants to smaller organisations are successfully outsourcing work to India.

Conclusion

Outsourcing of skill-intensive service activities will continue to increase (Cole et al., 2003). According to the National Association of Software and Service Companies (NASSCOM), US firms saved nearly \$8 billion over the four years (1999-2002) by outsourcing to India. They have also realized added gains in terms of productivity,

competitiveness, and savings. Indian executives are optimistic that negative publicity in the US towards outsourcing will decrease once the US economy gets more robust.

Despite increased competition from China, US firms will continue to favor India for outsourcing knowledge-based work as they perceive less cultural and language obstacles and greater protection for their intellectual property concerns.

As Indian firms provide higher-end skills and value-based consulting services to their clients, they have become more integrated into their client's overall business strategy. Additionally, they have fulfilled the need to recruit more host country nationals in their efforts to be more global. These relationships have become more close-knit and long term, and shall continue to strengthen. New organizational structures have emerged and continue to emerge with integrated value chains between firms and their outsourcing partners. Joint ventures are becoming more common between clients and their offshore partners. Taking a long-term approach to relationship building, sharing information and trust are now critical components for the ongoing success of IT outsourcing from US to India.

India is the hotbed of IT Outsourcing, hence it is home to several companies that provide Offshore Outsourcing services in IT and other industries as well. These companies range from big names to medium-sized, small as well as local companies, all of which compete and survive in the world of outsourcing.

A-1 Technology, Inc. is an ISO CERTIFIED 9001:2000 Software Outsourcing Company. This entails that the services and products offered at A-1 Technology, Inc are at par with the standards of excellence that are recognized and respected throughout the world. ISO certification designates A-1 Technology as a company that has the scope, the framework, the expertise and the experience to provide technical support for the growth of the global market. Additionally, A-1 technology is a member of Software Technology Parks of India (STPI).

Also A-1 technology, Inc. headquartered in New York has made its presence felt worldwide, with offices in other locations like Texas, New Jersey, California, Florida, Toronto (Canada), Stuttgart (Germany), Singapore. In India, A-1 technology offices are situated in Delhi and Chandigarh having valuable asset of approximately 500 employees and consultants.

Furthermore, A-1 Technology is a company that has partnered with a number of American industry giants and had the great privilege of working with eBay, Paypal, Microsoft, Compuware and many more. A partnership that has delivered

sophisticated, high-caliber solutions for providing advanced applications to users while simplifying user experience.

A leading edge technology and IT-consulting firm, A-1 Technology has a strong focus on delivering the best, cost-effective services and solutions to meet all client needs to companies ranging from Fortune 500 / Global 2000 to promising start-ups .A-1 Technology approaches development and maintenance through a simplified access to project domains. A-1 Technology provides 24/7 support channels via phone, fax, e-mail and cutting-edge messenger services and is accessible to global customers around the clock, no matter the time or the hour.