Welcome

to Delphi Group's BPIS2006
Business & Process Innovation Summit

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Founding Partner - RomAdvice
Owner - Fast Track Consulting

SessionTitle:
When Your Business Knowledge Goes East... Key Risks and Benefits of Offshoring Business Critical Applications

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Who am I?

Whatever the BPIS programme says…

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Christian De Neef

- **Business Consultant**
- **Knowledge and Content Management**
- Former Director at **Fujitsu Consulting** (2005)
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  - Romanian based, international consultancy
  - Ensure Romanian companies' success in the European marketplace & vice-versa
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What is this presentation about?

When Your Business Knowledge Goes East... Key Risks and Benefits of Offshoring Business Critical Applications

– The changing geopolitics of offshore outsourcing
– The evolving maturity of the Tier 1 suppliers
– Case study
– Discussion & Lessons Learned

The changing geopolitics of offshore outsourcing...

Where have you been lately?
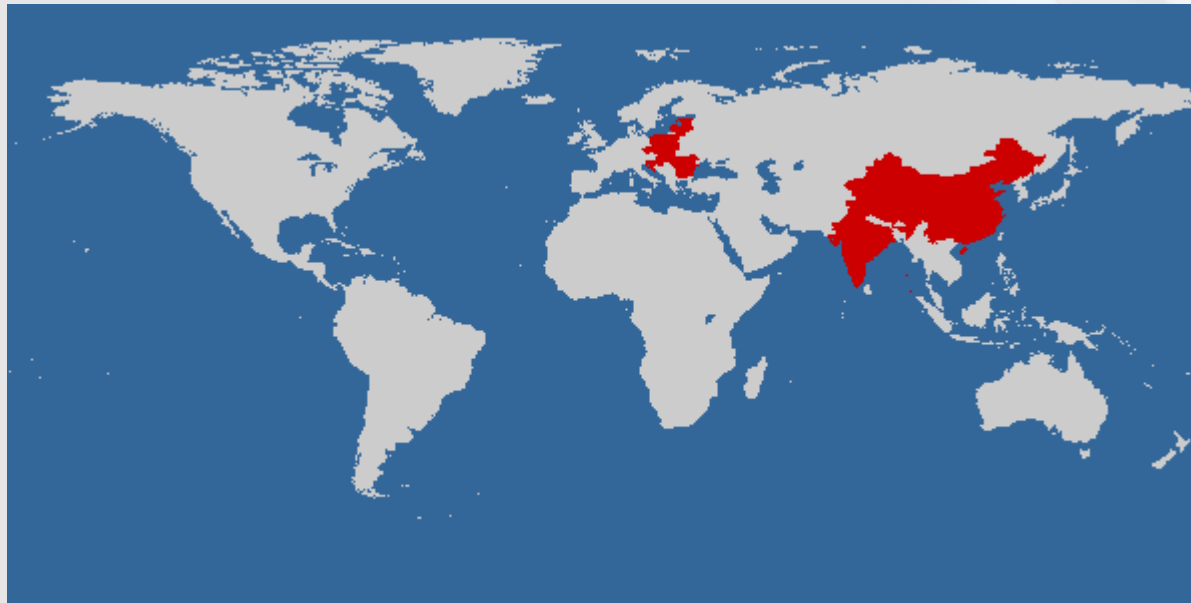
China, India, Eastern Europe?

The changing geopolitics of offshore outsourcing…

CHINA

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☺	☹
Enormous Potential	Mostly Tier 2 Suppliers
Liberalization	Technology Focus
Very Business Driven	Culture Barrier
Large supply of low(est) cost labor	Family Traditions
Agile/Dynamic Economy	Language Issue
2-digit Economic Growth	Trust…

Companies: ChineTech, …
Future: China will move from 'manufacturing' to 'information technology' to 'business processes' -- China is already today the manufacturing plant of the world; cf. the "made in China" label

The changing geopolitics of offshore outsourcing...

INDIA (& let's not forget the Philippines...)

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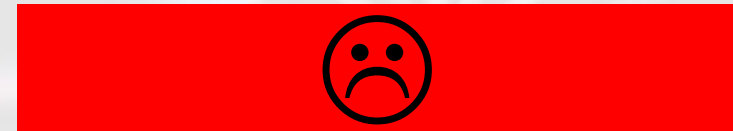
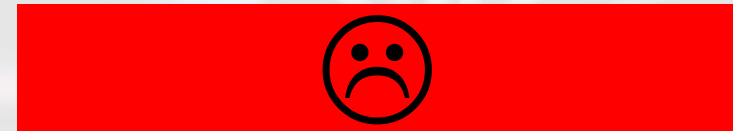| 🙂	☹
Traditional Outsourcer	Becoming more expensive…
Agile/Dynamic Economy	Many success stories, but (with time) also a few failures
High Process Maturity	
Shift from Technology – Business	
English Speaking	
Highly Educated Workforce	

Companies: Hexaware, Infosys, TCS, Wipro, etc.
Future: India is the Word's Fastest Growing Free Market Democracy!
India is also a growing market, and companies that have invested in India are at an advantage (CitiBank, ING, etc.) – Reverse Investments!

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The changing geopolitics of offshore outsourcing…

ROMANIA (& Eastern Europe)

🙂	☹

The New Offshore Outsourcers	Mostly Tier 2 Suppliers
European Member State In 2007	Post-communism Economy
European (Latin) Culture	Low Process Maturity
Shift From Technology – Business	
English/French Speaking	
Highly Educated Workforce	

Companies: Kepler-Rominfo (French-Romanian), Romsys (Lockheed Martin is a client), EPAM (Hungary/Russia), Comarch (Poland), etc.
Future: IT Services Market is still highly fragmented, offers an emerging nearshore solution for European/UK companies

The evolving maturity of the Tier 1 suppliers

INDIA – Some examples

American Express
– Pioneer in offshoring processes to India
– Global back office operations
  - Accounting & Financial Processes
  - Global Service Centre

Barclays Bank
– Acquired 50 per cent stake in Intelenet Global Services (BPO)
– Currently outsources over 1700 positions to India

Allianz Group
– Wipro's offshore development centers act as an extension of the Allianz IT department

The evolving maturity of the Tier 1 suppliers

INDIA – Some examples

ABN AMRO Bank
- "Home Bank" status = Top Three priority market!
- Plans to invest US$ 1 billion in India for selective acquisitions
- Currently outsources over 2400 positions to India (BPO)

CITIBANK
- India = Source for managerial talent (300 people)
- Polaris Software Lab has developed, deployed and supported solutions for over 10 million Citibank customers in 70 countries across the world.
- Back office operations for Global Operations (3000 people)

The evolving maturity of the Tier 1 suppliers

INDIA – A Developing Nation…

An emerging middle class

India as a country has developed a brand!

One of the best educational systems in the world…

Potential power

– Infosys now has a market cap that exceeds that of EDS, even though it is just one-twentieth the size!

India companies claim process maturity…

– CMM Level 5, Six Sigma, ISO 9000, BS 7799/ISO 27001 certifications

But…

– proper governance is important in all outsourcing engagements to ensure buyers receive the quality implied in the certifications!

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The evolving maturity of the Tier 1 suppliers

From Horizontal to Vertical…

– "Increasingly large deals, the need to deliver services to buyers outside the US and UK, the diverse set of services offered, and the need to build deep vertical/process expertise is going to recast the offshore market during the next 18 to 36 months" -- John C. McCarthy, Forrester Research, June 8, 2006.

Traditional Outsourcing

– Infrastructure, Applications

Business Process Outsourcing

– Back Office

Knowledge Process Outsourcing

– R&D, Business Logic, Knowledge Centric Processes

Case study – Retail Insurance

New Retail Insurance business model

- What?
  - Fine-grained segmentation
  - Product packaging
  - Loyalty management
- How?
  - Business rules to be separated from application code
- Challenge:
  - Fundamental business knowledge is lost
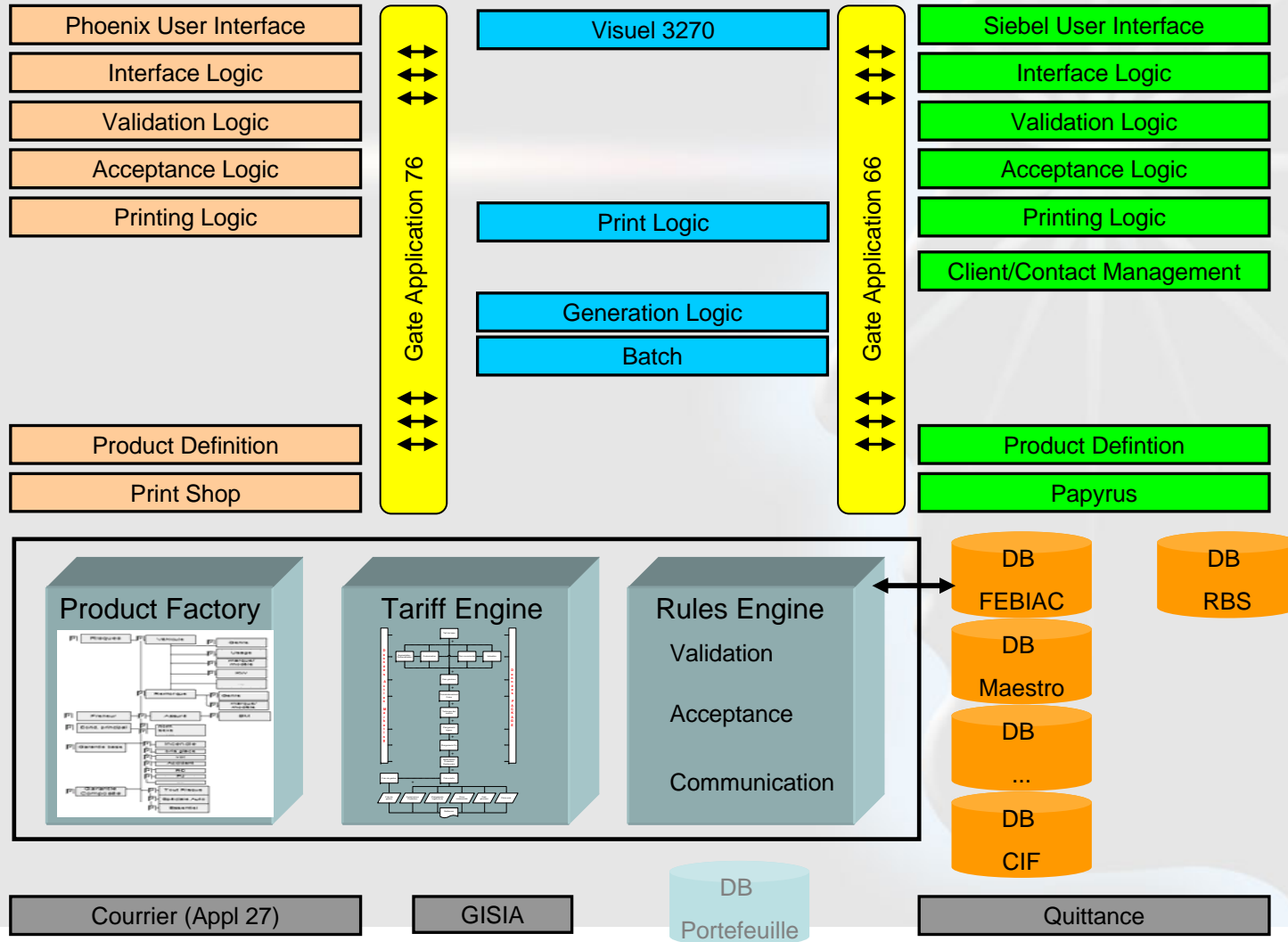 - Approximately 3500 rules, millions of LOC

Case study – Retail Insurance

Case study – Retail Insurance

Issues BEFORE Contracting…

- Strong Time Dependency
  - Part of a large programme > 10 projects

- Quality is Paramount
  - Errors impact customer experience
  - Changes to existing contracts -> litigation/fallout

- Internal Resources are Scarce
  - Lack of motivation
  - Redirected to other projects
  - Documentation is not trustworthy

Case study – Retail Insurance

Issues AFTER Contracting…

- Underestimated the Complexity
  - Start-up time extended
  - Output below expectations
- Internal Resources are Scarce (bis repetita)
  - Insufficient support – Data dictionary
  - Lack of functional knowledge
  - Validation/Quality Control takes time
  - Legacy is not a priority
- Quality of the Rules is Poor
  - Dead Code – Products developed but never sold…
  - Redundancy
  - Poor Logic

Case study – Retail Insurance

Issues AFTER Delivery…

- Business Rules are not usable as-is
  - Legacy code complexity
  - 3500 rules could/should be reduced to 800
  - Product streamlining
- Don't have the internal knowledge (anymore)
  - Lack of product knowledge
  - Who will/How to maintain?
  - Supplier dependency
- Maintenance
  - Legacy code
  - Tariff & Rules Engine
- Accuracy – legal implications

Discussion & Lessons Learned

Key Questions

– What are the advantages/dangers of the offshore outsourcing approach?

– Can a company afford to leave its key business logic in the hands of a third party?

– What if things go wrong (knowledge which is not uncovered, or wrongly identified)?

– What are the alternatives (tools for legacy transformation and migration)?

– What are the longer-term implications?

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Thank You

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