The Finish Line - August 2010

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Welcome to the inaugural edition of *The Finish Line*! We will endeavor to gather and distill the significant news and information in global sourcing on a monthly basis to present to you. On selected key issues, we will provide insight and commentary from the Horses team and other thought leaders. We hope that you find *The Finish Line* useful, interesting and insightful. We welcome your comments.

In this month's "The Finish Line"

Mahindra Satyam – Tomorrow never dies or a view to a kill?

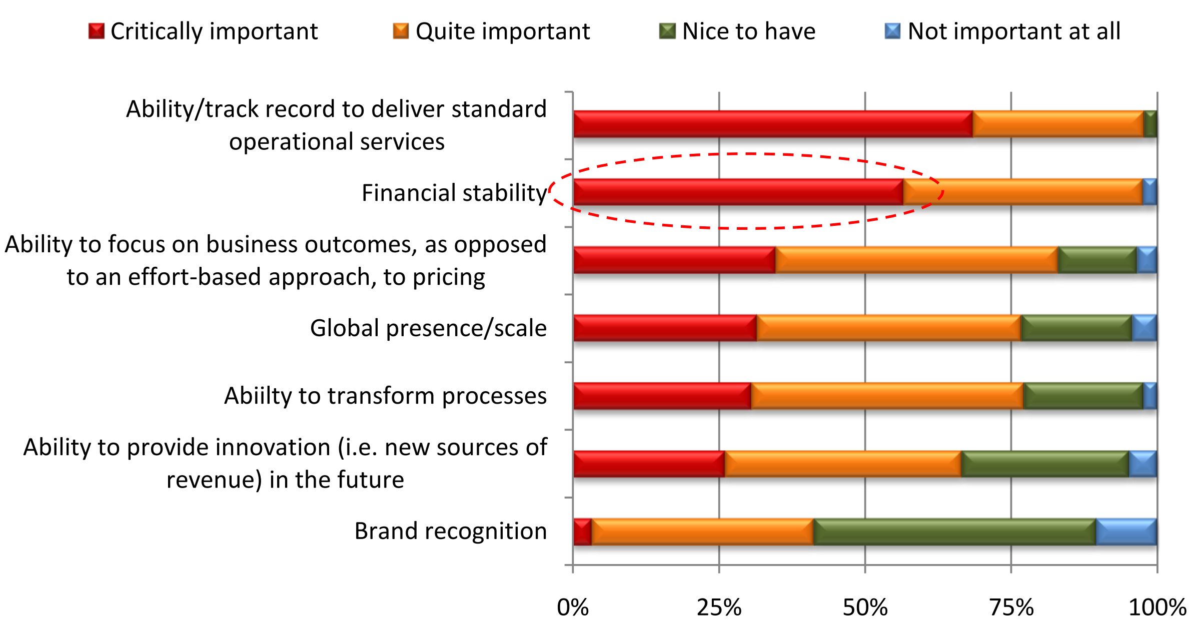
The newly-merged Mahindra Satyam organization is forming alliances, opening new service centers, and extending contracts with clients, eager to shed any last remnants of notoriety from the financial scandal that plagued the firm last year. The provider is striving hard to maintain the image of being a tier one provider (remember the advertising at the recent World Cup), while some analysts have already come out and stated that is no longer the case.

During its "scandal-months", many high-level executives left the tech firm which eroded its internal expertise and leadership, its stock price suffered and revenues declined. Moreover, Mahindra Satyam has not provided financial results for two years, missed its financial reporting deadline, but does have an extension until September 30, which could avoid the firm being taken off of the NYSE. In India, investigations for fraud continue to be conducted by the Enforcement Directorate, Central Bureau of Investigation, and Ministry of Corporate Affairs. So what is the future for Mahindra Satyam?

In a recent study, conducted by HfS Research, financial stability was cited as a major factor by enterprises in choosing a service provider as demonstrated in **Figure 1**.

Figure 1: Financial stability overwhelmingly important to enterprises selecting a provider

Q In today's economy, how important are the following attributes, when selecting a service provider for IT/BPO services?



Source: HfS Research, 2010
Sample: 209 Enterprises
Survey conducted in conjunction in the Shared Services & Outsourcing Network (SSON)

As HfS Research points out, a provider's financial stability is a table-stake for providers to be even considered for service delivery – so is the damage to Mahindra Satyam's reputation irrepairable ? We have asked some thought leaders for what their take is on the future of the beleaguered tech firm:

- Vinnie Mirchandani, CEO of Advisory, Deal Architect, and author of The New Polymath
- Ben Trowbridge, CEO of Alsbridge, a leading outsourcing advisory firm
- HfS Research CEO and Founder, Phil Fersht

HfS: Is Mahindra Satyam still a tier one provider and do you see this changing in the foreseeable future?

Mirchandani: The Satyam field was insulated from what was happening at the top, so fundamentally little should have changed in the delivery.

Trowbridge: The fact that they have been able to stay in the game and grow their customers is a credit to the company. There is questioning, but they are still there.

Fersht: I hate the "Tier one" description (even though I'm guilty of using it too). Satyam was a great firm, and the majority of its clients loved them, which why most of them stuck by the firm through the tough times. Mahindra Satyam has some great people, a strong work ethos and some excellent vertical expertise in industries such as financial services and life sciences. Its new parent firm has deep pockets, a strong telco heritage and a strong reputation for good delivery. On the negative side, the financial problems for Satyam happened at a time when its competitors, such as Cognizant, stole a march on the industry and gained share, while Satyam struggled to maintain market position during the recession times. As a result it has slipped a little behind the major Indian pure plays (Cognizant, HCL, Wipro, TCS and Infosys), but has stabilized as a solid provider, with every chance of breaking through to the top tier again in the next 18 months, or so.

HfS: Are advisors/consultants and prospective buyers reluctant or declining to consider Mahindra Satyam?

Mirchandani: I think several clients panicked early on. Of course, the shock of the disclosures and the employee turnover since has had significant impact.

Trowbridge: No, I don't think that there is a huge difference now. I think that it has kind of leveled out for them. They come up when they should come up. I don't see a real difference now. I don't see them in everything. They just aren't positioned like an Infosys or EDS or some of the others because of their size and scale.

Fersht: Not at all, most the industry folks with good relationships with MS and its clients, and knowledge of the firm, hold them in high regard and recommend them frequently, now that their issues are behind them.

HfS: Can Mahindra Satyam survive?

Mirchandani: The Mahindras are a well-run Indian industrial family house, but have been only modestly successful in technology services, even before Satyam. So, while they have stabilized Satyam, not sure they can easily guide it to innovation areas and rapid growth.

Trowbridge: Yes, as it is it will survive. But how it is depends on the broader provider market, how much is it going to consolidate. For the ones aren't so big, are they going to be combining companies? This could be one of them for that reason.

Fersht: Most definitely! I also think it will get stronger in the telco/wireless space as a strong integration provider. It does need to make some re-investments in KPO/BPO though. This was a growing area for the old Satyam firm, and needs to be invested in, or the firm could lose ground.

HfS: Will Mahindra Satyam as we know it today be around a year from now?

Mirchandani: In terms of survival, I think there are sufficient long-term application management contracts that continue to provide backbone revenue. Unless there are severe delivery issues, not sure those will decline rapidly.

Trowbridge: Yes, I think that they have enough support from government authorities and investors but I think that they need to get their leadership back.

Fersht: *Unl*ess Raju has any more hidden bombshells, it most definitely will!

*This July 10 **article by Time Magazine** provides a good overview of Mahindra Satyam and the company's efforts to exploit the services it provided during the World Cup.*

Enterprises show signs of adopting Business-Process-as-a-Service (BPaaS) as modular components

EquaTerra released its Q2 Pulse Report assessing the state of outsourcing in the second quarter of 2010. We spoke to Managing Director of global research, Stan Lepeak, to investigate further

"Faced with modest demand and a questionable financial system, organizations remain focused on avoiding risks and conserving capital. Buyer interest continues to trend toward internal transformation efforts, shared services and, increasingly, pay-for-use cloud-based services."

Observations included, "Organizations were expected to emerge from a long period of retrenchment in the first quarter of this year with a laundry list of things they wanted to outsource," said Stan Lepeak, Managing Director of Global Research for EquaTerra. "While there is significant interest in conventional outsourcing, a growing number of buyers are also exploring options like virtual IT infrastructure and software as a service."

The report also cited the emergence of business processing as a platform (BPaaS). Elements of BPaaS include:

- The provision of enterprise (not consumer) business process offerings that encompass integrated optimization of process, technology, and people.
- Typical business processes include horizontal functions such as payroll, order-to-cash, procure-to-pay, hire-to-retire. Processes can also includes industry-specific (vertical) business process, such as healthcare claims processing, trade settlements, clinical data management, etc.
- These offerings are underpinned by complete applications that can be customized by clients, and delivered over the Internet via either public or private Cloud computing.
- The client does not manage the underlying software, platform or infrastructure including, networking, operating system, database management systems, storage, processing, storage, networking, security,
- The client only has one service-provider touch point, which caters for the entire business process delivery in a utility model.
- The client typically will pay for the service via a subscription model that can be modified at any time based upon volume and usage requirements.
- The offering delivers measurable outcomes in terms of cost, compliance, risk and quality.

We asked Lepeak to elaborate on Equaterra's findings regarding BPaaS adoption.

HFS: "EquaTerra advisors generally characterized buyers as being more interested in IaaS and PaaS than BPaaS." Expand upon this statement and why you feel buyers are less interested in BPaas.

Lepeak: There are two main reasons for this. One is the different degrees of awareness and understanding of the four different layers of cloud computing (IaaS, PaaS, SaaS, BPaaS). While the average buyer may not fully understand the nuances between IaaS vs. PaaS, the general concept of cloud based infrastructure is relatively straightforward. It is also a concept that many buyers have experienced to a degree with traditional outsourcing (i.e., a third party is managing/providing IT infrastructure) and going back as far as time-sharing. Similarly, SaaS resonates because of commonly know applications like salesforce.com or from more basic web hosted applications and application service provider/ASP offerings. BPaaS is less commonly known and understood and is arguably the most complex of the cloud based services and hence is experiencing less buyer demand. Secondly, if an organization has not undertaken extensive BPO and/or does not have a strong interest in BPO (and this is more often the case with BPO than with ITO), it is unlikely that BPaaS, if interpreted as next generation BPO, will have broad market appeal. So both from a familiarity perspective as well as a hierarchy of needs BPaaS is further out on most buyers – and most service providers for that matter - exploration and adoption horizon.

HFS: "Service providers (39 percent) reported buyers already have BPaaS efforts underway." Explain and expand upon this statement, what kinds of efforts does EquaTerra see within the 39 percent?

Lepeak: It is important to clarify that the 39 percent is the proportion of *service providers* polled in the 2Q10 Pulse that indicated buyers already have BPaaS efforts underway. The levels cited by advisors is much lower at just two percent citing active deployment and nine percent indicating buyers having plans to launch efforts in the next 12 months. Explaining the difference in responses levels between service provider and EquaTerra advisors who speak on behalf of their buyer clients in part define what is typically involved with current efforts. EquaTerra finds that nearly all buyers pursuing cloud activities overall and BPaaS in particularly are for the most part experimenting or "dabbling" at least when it comes to more complex or expansive efforts. While most large organizations are using SaaS applications only a fraction of these are proactively migrating away from traditional enterprise software towards more heavy reliance on multiple, integrated SaaS offerings. Similarly, many organizations may deployed selective IaaS offerings, for example remote storage, but again few are actively migrating towards significant reliance on IaaS and PaaS in lieu of traditional IT infrastructure. So the difference in the reporting of adoption levels is based on identifying more broadly defined strategic adoption trending (representative of EquaTerra advisor responses) and example of where buyers are piloting efforts (representative of service provider responses). It is different interpretations of the term "adoption."

In terms of what EquaTerra advisors and service provider polled are seeing in the market in term of BPaaS solutions it is across the board. The characteristics of the solutions are similar - integrated, standardized configurable – but where they are being applied varies widely across industry and business function. If there is one common characteristic is that BPaaS is more often deployed where existing applications and processes are antiquated and fragmented. If an organization has already moved a functional area to commercial ERP or has already outsourced it, for example, BPaaS is of less appeal than if the functional area is still running on legacy systems and/or is perceived as sub-optimal from a performance standpoint.

HFS: What doe EquaTerra see as the motivation for service providers moving to offering their proprietary platforms as a BPaaS offering (i.e. client demand, penetrating the SMB market, new revenue streams, etc.)?

Lepeak: This depends a bit on the provider or class of providers. Legacy multinational providers struggle with gaining economies of scale and adequate levels of profitability utilizing their current platforms that are often an amalgamation of various client platforms inherited over the years. They have long talked about enabling greater standardization and moving clients collectively towards best practices and simultaneously lowering process costs, but for the most part the efforts to achieve these goals have met only partial success. At the same time, clients are increasingly disappointed with their outsourcing service providers' performance levels, flexibility, and the inability to easily introduce new capabilities into the current platforms. They are also increasingly interested in the potential benefits of SaaS. So legacy providers are pushing and also being pulled towards BPaaS, though the migration will take a long time given the current investment in legacy enterprise systems and BPO operating models. The situation is different for providers new to the BPO/BPaaS market or moving towards BPaaS from SaaS. These firms have the advantage of less baggage and hence the ability to adopt the best current models for delivering business processes services. They also need an angle of differentiation to compete against legacy, embedded BPO incumbents. This being said, often these firms have struggle to get traction in BPO and need a more lighter weight and efficient way to compete though they will remain challenge going forward relative to their real and perceived vertical industry and horizontal functional capabilities and resources.

HFS: Does EquaTerra see customers adopting BPaaS components on an individual modular basis or opting for the full platform?

Lepeak: Keeping in line with the predominance of experimentation in the market today nearly all efforts we are seeing are occurring on a modular basis though more and more organizations are laying out longer term plans and strategies that will start to knit together individual modular efforts into more integrated platforms. The day that an integrated BPaaS platform fully replaces a legacy internally hosted environment is still a long ways off, however, both on the buyer and the outsourcer side of things.

HFS: What pricing models does EquaTerra see as the most attractive to buyers?

Lepeak: This varies and there is still a lot of confusion and a lot of questions from buyers around pricing models and options and also what are optimal and standard pricing models available in the market. This will remain the norm for some time to come given the lack of clarity around BPaaS TCO and without a clear understanding of total costs over the lifetime of the effort and the ability to compare these cost levels to legacy models buyers will not be able to gain a true degree of comfort on pricing levels. Even when prices are perceived as very low buyers still have a suspicion that the service provider is still making too much money off of them. On the flip side, if buyers do not understand what is the true TCO and the service provider does not adequately explain what it is, buyers must push for unrealistically low prices, potentially by extrapolating very low SaaS unit pricing for simple software applications to BPaaS applications that have much higher upfront and ongoing integration requirements and higher direct and indirect support costs. Buyers may want BPO in the cloud but want to pay for SaaS. Back to the original question of preferred model, however, per seat or per user is the most commonly preferred in BPaaS, similar to SaaS.

The shrinking world of HRO providers

The acquisition of of Hewitt by AON has resulted in quite a stir in HRO space with varied opinions and mixed emotions. This acquisition combines with others to produce a narrowing of providers at a time when, in many other disciplines, there is an expansion of providers entering the playing field.

We have selected three different perspectives on the significance of this acquisition and changes in the HRO landscape. Earlier in the month HfS CEO Phil Fersht posted a blog about this acquisition. Phil made the following observations among others:

- "I am concerned with the impact on Hewitt's culture and brand, which is steeped in HR consulting culture over four decades."
- "…you have to question two very different cultures and the potential impact on Hewitt's consulting and managed services offerings…"
- "Hewitt needed to be acquired by a true enterprise global provider with real HR heritage, and global HR offerings (especially pan-Europe)."

Veteran HR consultant and Managing Partner of Bloom and Wallace, Naomi Bloom posed these questions on the blog about the shake up in the HRO marketplace:

- "In a business where scale and automating everything that moves with great tech are critical to long-term viability, who now has best benefits administration platform among the major contenders? Can any of them provide the technology that's really needed without major investments?"
- "Given SO many platforms, how soon and to which platform will each acquirer move customers for each market? Who will pay for the cost of such moves? And how will customers tolerate the disruption, let alone the cost?"
- "For those providers with scale galore but without great platforms, how do they compete when those providers with better software and, if handled well, better margins, create real pricing pressure? And what happens to those customers running on less profitable platforms?"
- "How well are each of these firms going to reconcile totally different cultures, HRM practices, let alone technology? Some of the major mergers in our industry appear to be going well, but that's until you see which, if any, of the brain trust has stayed after their various agreements run out."

Mark Trepanier, Managing Director, Human Resources Advisory Services for EquaTerra saw good, bad and unknown elements in the acquisition:

The good -

- "Hewitt will be part of an organization that is three times as big."
- "The combination will clearly be a benefits powerhouse with both benefits outsourcing and consulting."
- "There will be strong focus on leveraging the combined consulting capabilities of Aon and Hewitt."
- "Russ Fradin has driven Hewitt forward, and will continue to have a leadership role, so this is a "friendly" transaction."

The bad -

- "The transaction will not close for another four to five months, so uncertainty will continue."
- "Clients may not be able to get clear answers on technology spend and contract issues during this period."

The unknown -

- "Aon has an unsuccessful track record in HRO, and HRO will only be 11 percent of the combined businesses, so commitment to this business line is uncertain."
- "Will senior Hewitt leadership be with the new entity for the long term?"
- "Aon's strategy of synergies and cost reductions makes Hewitt's intended investment plan (mainly technology) in the HRO business uncertain."
- "Aon is the survivor and buyer. Its culture will be the dominant one. Does that fit well with Hewitt clients?"

Post and paddock

On July 1, Accenture announced a five-year FAO contract to provide accounts payable process for global energy firm, Statoil.

On July 1, ADP announced an agreement to acquire HR benefits provider Workscape with the takeover projected in Q3.

On July 5, it was announced that HP will provide FAO services to Smith & Nephew, a medical devices specialist, in a seven-year deal covering operations in Europe.

On July 5, it was announced that Mphasis, an HP company, will open a BPO center in Columbo.

On July 8, HCL announced the launch of its Cloud services offering dubbed HCL O'zone.

On July 8, Premier BPO announced that they have entered into an agreement with JT Healthcare Services, LLC for the purposes of establishing a Chinese based Joint Venture that will include FAO services.

On July 12, it was announced that Genpact will provide FAO services to Walgreens, a US based drug store retailer, in a ten-year deal.

On July 16, it was announced that Infosys has closed its BPO center in Bangkok and transitioned work to its centers in India and China.

On July 18, it was announced that Genpact has entered into an agreement with Hikari Tsushin, a Japanese telecommunications distributor, to provide services including FAO in a multi-year deal.

On July 20, advisory firm TPI announced results of its survey on Cloud adoption from 140 survey respondents.

On July 27, EXL announced a multi-year agreement to provide FAO services to Petrogas, operator of the Applegreen chain of service stations in Ireland.

On July 30, it was announced that the top 20 Indian BPO providers grew their combined exports earnings by 15 percent in 2009-10 to $6.1 billion.

On July 30, it was announced that HCL will transform its BPO segment into business plus service platform to be known as Business Services.

About Horses for Sources

Horses for Sources (HfS) is the foremost advisory analyst firm and social networking community, focused on helping enterprises make complex decisions with their global outsourcing strategies.

HfS provides the most impactful and frequently-visited collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing dynamics. The organization is unique in the fact that it integrates personable social networking with market research and advisory services.

HfS' mission provide a unique environment for collective research, opinion, experience and knowledge across the global outsourcing industry to help enterprises explore new performance thresholds. Led by industry expert Phil Fersht, the HfS team is a multi-disciplinary group of analysts across North America, Europe and Asia/Pacific regions, with deep domain knowledge in Business Process Outsourcing, Information Technology Services and Cloud Computing.

Launched in 2007, the HfS blog has more than 100,000 monthly visitors across the global outsourcing industry, and is widely recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The HfS LinkedIn community is thriving with over 10,000 industry professionals sharing views and information daily. More information about Horses for Sources can be accessed at www.horsesforsources.com. The company can be followed on Twitter at www.twitter.com/horses4sources and LinkedIn by joining "The BPO and Offshoring Best Practices Forum group."

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