

Beyond Outsourcing

Lessons Learned from the front lines

Claudio Muruzabal
Neoris CEO

For the last few years, the IT services industry evolved towards the establishment of services models based on delivery advantages derived from labor cost arbitrage in certain geographic locations. This concept was introduced by Indian providers during the Y2K rush and rapidly became the prevailing trend in the new millennium.

In the last few years, a number of “closer to home” models were introduced projecting nearshore providers from Latin America to become challengers in the IT services industry. While Latin America emerged as a key destination for US based businesses looking for productivity improvements in their IT shops, Eastern Europe was the prevailing beachhead for Western European counterparts. Asian destinations such as the Philippines and most recently China also began to gain significant traction.

However, a new pattern is emerging in the way that large companies with painful outsourcing scars, are looking at the IT services provisioning space. Low cost delivery is no longer the key differentiating factor. It is a given. Vendors are expected to utilize the most efficient model to deliver their services. Labor arbitrage in services rendering is no longer a defining factor for the more advanced buyers in the market.

Value in this space is now determined by the true business understanding that the IT services vendor brings to the table. Large enterprise CIOs expect IT services vendors to provide world class service in alignment with established industry standards across different platforms and geographies. This is key if you want to be in the IT services business. In addition to near zero defects in service delivery, clients are now focused on the domain expertise the provider has to offer, ranging from specific technical proficiency to proven knowledge of the clients industry and functional models.

This is not different from what sophisticated CIOs demanded from the traditional IT services firms 10 years ago. The change resides in the fact that low cost delivery through labor arbitrage is now a feature that should be built into any offering. With this change, the lines between traditional IT services providers, Indian outsourcers and nearshore vendors, have blurred. While capabilities among the three groups converge, decision criteria become more complex for IT management.

In a world where vendor service excellence and domain expertise is at parity, and price/performance is consistent due to comprehensive use of lower cost delivery mechanisms by all players, vendors must focus in building additional sources of differentiation. In this context, I am convinced that client-vendor relationship as a defining factor for success is gaining even more ground. The vendor's ability to understand the dynamics of the client environment coupled with the ability to adjust to needs and request is becoming a key differentiator in an industry whose players are increasingly more alike. The vendor that offers the most flexibility and is capable of building trust with IT management, is going to be the winner in the new era. When everything is even, the vendor's ability to more effectively understand the client's more subtle inner workings is going to win.

As we approach the next decade, once more it will be salesmanship and personalized service that will make the difference.