

# Achieving Real Results Utilizing the Pivotal Provider Model

*Find The Better Way*

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## Introduction

Offshore outsourcing of IT Services (Offshore Services) has evolved significantly since first hitting the US shores in the early 1990's. Over the last 15 years there have been three distinct "waves" of popularity for Offshore Services, *1. the Outsourcing wave, 2. the Y2K wave, and 3. the Global Services wave*. Today we are on the cusp of realizing true results from 'Global Services' - the third wave. Many organizations researched and even implemented Offshore Services during previous waves, only to see lack-luster results. In order to realize results from global services, organizations need to understand the history of Offshore Services and the differences between the global services wave and the previous waves. This paper briefly describes each wave and explains how the Pivotal Provider Model can help organizations leverage their IT needs.

## The Historic Track of Offshore Outsourcing

**1990- Offshore Outsourcing – The First Wave** - The first wave of '**Offshore Outsourcing**' began in the early 1990s with a drive for cost savings. Though this wave is known by the name '*Offshore Outsourcing*', it was primarily an effort of utilizing low cost resources or 'body-shopping'. Most of the work was performed onsite at the client's facilities. Low paid, highly technically qualified workers were brought onsite using work permit visas. Limitations of communications infrastructure and networks were the main obstacles to sending work abroad. Also, American firms lacked the capability and experience to manage global teams. IT managers were reluctant to create virtual teams consisting of invisible team members sitting thousands of miles away and working in different time zones.

**1999- Y2K – The Second Wave** - As the Y2K storm gathered strength in the late 1990s the American shores were hit by a much larger wave of Offshore Outsourcing. Organizations raced against time to upgrade legacy computer applications before the turn of the century. They created large teams of offshore programmers to dig through millions of lines of legacy code. Companies were eager to see that fixes were provided to prevent the systems from crashing. While the use of offshore resources provided a solution to the scarce supply of trained IT resources in the US, it also demonstrated the effective use of Offshore Outsourcing.

**2005- Global Services – The Third Wave** - Following additional exposure of Offshore Outsourcing that came about in the Y2K wave, the current wave is part of a flow of general acceptance of mature offshore outsourcing services. With the improvement of infrastructure and network services, it is now possible to execute IT related work from offshore without bringing resources onsite. Offshore service providers, especially those in India have matured in terms of the range of services provided, technology, quality, experience, and domain knowledge.

## Global Services

Though generally termed 'Offshore Services', the actual delivery model of such services is more often 'dual-shore' and sometimes 'multi-shore' in composition. The service providing team is generally a mix of a client facing 'onshore' team assisted by an 'offshore' team. Considering the global composition of such teams, the term 'Global Services' is a more comprehensive and describes such services more accurately than the more limiting term 'Offshore Services'.

American companies view globally sourced IT services as an excellent opportunity to save on the ever increasing costs of IT. Retaining or gaining a technological edge in a highly competitive playing field is vital for growth and survival. Global sourcing is a convenient means of stretching a limited budget. Thus cost savings was the big driving force initially. However, over the years things have changed. It is now understood and accepted that global sourcing of IT services can provide many other benefits besides a savings in IT spending. Some of the benefits other than cost savings are –

- i. Quality
- ii. Improved time-to-market
- iii. Expanding of the work day
- iv. Wider access to highly qualified technical skills

***Challenges of Using Global Services*** – While there are many advantages of global sourcing of IT services, there are also hurdles to overcome. Many recent studies show that a large percentage of globally sourced IT projects fail. The main reason these projects fail is because IT managers don't recognize, and take action to overcome, the challenges inherent in global services. Below is a list of some of the typical challenges that must be overcome to ensure global sourcing success -

- o **Vendor Selection** – The search for a suitable offshore vendor can be a difficult and time consuming process for a company that does not have a multi-national presence. Finding the right business partner can be a trial and error process especially because little or no information may be available about the service providing company.
- o **Negotiation** – It is common knowledge that labor costs are substantially lower in developing countries such as India. However, determining current market rates of services offered assumes an expert level knowledge of the laws, culture and business practices of the service provider's country. An offer that is too low may end up as a compromise of quality in exchange for savings.
- o **Knowledge Transfer** – Most of the critical knowledge of systems is locked in the minds of individuals. This knowledge has to be disseminated to the project team before it can become productive. According to a recent Meta Group Research paper on risks of global services – "The time and effort to transfer knowledge to the vendor is a cost rarely accounted for by IT organizations. Indeed, we observe that most IT organizations experience a 20% decline in productivity during the first year of an agreement, largely due to time spent transferring both technical and business knowledge to the vendor."

- **Cultural gaps** – The alignment of social, ethnic, language and corporate cultural issues pose a major challenge. Because of the differences in pronunciation and accent, language can become a barrier even when both parties speak English. A ballpark and ballgame do not mean the same thing in India as they do in the United States.
- **Arbitration** – What do you do when the relationship does not work? How do you enforce the terms of the contract? Are you prepared for an international legal battle that may be long and expensive? These are a few questions that must be resolved before you consider a direct contract for global services.
- **Hidden Costs** – All the challenges listed above create hidden costs that must be recognized and accounted for. Inadequate knowledge and ability to manage hidden costs can result in the erosion of any anticipated savings and thus defeating the original purpose of seeking offshore services.

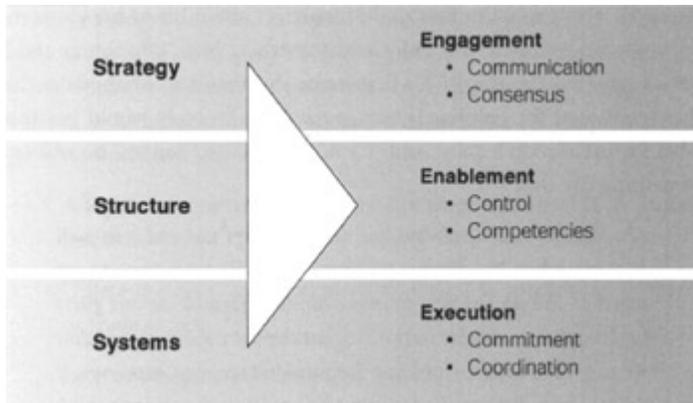
### ***The "3 S's" and the "3 E's"***

In addition to the challenges listed above, a shift in the management perspective has to occur. This is elaborated upon by author Ernest Gundling who offers further insight into why global services projects fail. In his book 'Working GlobeSmart: 12 People Skills for Doing Business Across Borders' describes three situations in which managers from American companies try to apply traditional management principles to resolve issues concerning management of global teams.

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Working GlobeSmart: 12 People Skills for Doing Business Across Borders  
by Ernest Gundling

The management levers that Western-trained businesspeople still customarily reach for when they encounter problems doing business abroad are those that McKinsey consultants coined long ago as the hard S's: strategy, structure, and systems. In the three scenarios, these levers by themselves were insufficient in fact, the bias toward "3S" solutions is in itself a major source of problems in global business settings. The 3 S's tend to work well only when accompanied by a parallel set of factors that are grounded in people skills, the 3 E's: engagement, enablement, and execution.



People skills are the best way to bring the 3 E's to bear in a global business context. The negative outcomes in each of the three scenarios presented were due first and foremost to a deficit of people skills at all three levels: interpersonal, group, and organizational.

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## The Pivotal Provider Model of Global Services

To be able to reap the many advantages of global services, organizations have to be able to find a means of overcoming the challenges of engaging offshore teams. According to **Christine Spivey Overby (Forrester Research)** "to reduce risks, most firms initiating offshore relationships in the next few years will go through a new class of domestic services firms that we call **pivotal providers.**" A 'Pivotal Provider' is a local consulting firm that partners with an offshore vendor to provide global services. This model provides the customer with the best of both worlds - the experience and knowledge of its onshore consultants coupled with the cost effective quality IT services of its offshore partners. The pivotal provider insulates its clients from all the risks associated with going offshore directly by assuming the responsibilities of project management, quality of services and final delivery.

### ***Pivotal Provider Model Advantages***

- **The Pivotal Provider eliminates the risks of going offshore directly** – most of the vendor management functions associated with direct contracting of offshore vendors is taken over by the pivotal provider. In doing so the pivotal provider assumes the risks associated with some of the challenges listed above. The pivotal provider has already established relationships with offshore IT service providers. This represents a huge savings in time and costs. Fair and perhaps best market rates have already been negotiated between the pivotal provider and the offshore IT services provider.
- **Bridging the communication gap** - The biggest advantage of all is that of communication and the bridging of the culture gap. Service seekers deal with a local IT consulting company who speaks the same language and is familiar with their culture.
- **Elimination of the hidden costs associated with direct offshore contracting** – When engaging offshore services most firms are unaware that the process can

involve many hidden costs. If these costs are not managed carefully and accounted for at the very beginning, all potential cost savings can be wiped out by these hidden costs. Vendor selection, start up and transition are all examples of some of the hidden costs.

- **Shorter knowledge transfer curves** – Typically knowledge transfer can take three to six months. In most cases local firms already have acquired a good knowledge of the client's business processes. As pivotal providers they have an existing relationship with their offshore partners and in many cases have an established knowledge transfer process that results in shortening the project duration. An indirect result is a substantial cost savings due to the shortened project duration.
- **Best of both worlds – Onsite and Offshore** - The local company provides the knowledge experts. The bulk of labor and effort in an IT project is required during the development and coding phase. The resource pool for this labor-oriented phase is provided by the local company's offshore partner. The result of this mix is a significantly low blended per hour rate of services.
- **Contract locally deliver Globally** – The contract for services is signed by a company incorporated in the US. As such the financial burden of deliveries rests with the local company. Clients are thus effectively shielded from the complexities of international contracting.

## About Ambient Consulting

Founded in 1984, Ambient Consulting helps companies find the better way to achieve measurable business results by leveraging real business experience and technology expertise. With 175 employees and 20 years of experience, Ambient has established a solid track record as IT and management consulting specialists focusing on Application Development and Management, Enterprise Quality, IT Governance, Networking / Security, and CRM Effectiveness.

Our consultants utilize industry best practices to manage project scope, timeline, budget, and risks. From planning and requirements gathering to implementation and deployment, we are experts in managing complex projects, even ones dispersed across multiple geographies and involving multiple parties.

### ***Ambient's Partners***

Ambient has chosen its global service partners very carefully. In doing so, we have taken care to build and establish long term relationships that are based on sharing of business objectives. Ambient and its partners have a synergy that provides a commitment of seamless service to its clients. Ambient's current global partners are NIIT Technologies Ltd (NTL) India and FPT Software, Vietnam. Both are ISO 9000 and SEI certified companies that have excellent track record of success working with organizations in a variety of industries.

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