

# THE LANDSCAPE OF IT OUTSOURCING

Niu, Qingxiang, 2007

[http://www.geocities.com/qingxiang\\_niu/Outsourcing.html](http://www.geocities.com/qingxiang_niu/Outsourcing.html)

# A Couple of Definitions

- Outsourcing

The concept of taking internal company functions and paying an outside firm to handle them. Outsourcing is done to save money, improve quality, or free company resources for other activities.

- Insourcing

The opposite of [outsourcing](#); that is insourcing (or contracting in) is often defined as the delegation of operations or jobs from production within a business to an internal (but 'stand-alone') entity (such as a subcontractor) that specializes in that operation.

- Offshoring

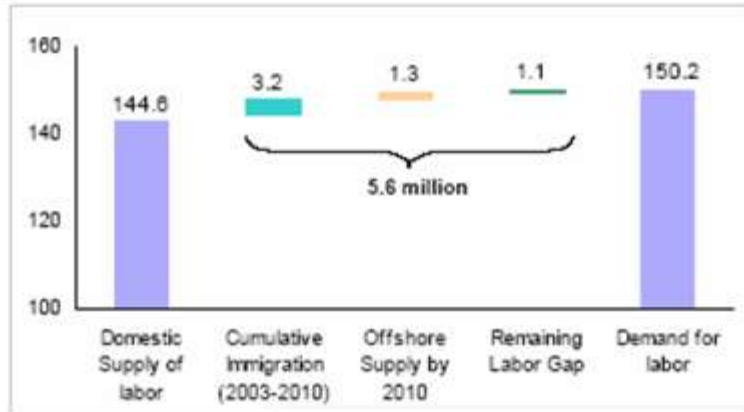
The relocation of business processes/services from one country to another. This includes any business process such as production, manufacturing, or services.

# Drivers for Outsourcing

- ⊙ Economic necessity
  - 5.6 M labor force deficit forecast in US by 2010.
  - The excess labor supply in outsourcing destinations.
- ⊙ Market globalization
- ⊙ Revolution of the enabling telecom platform and capacity
  - The Internet
  - NetMeeting, WebEx, AIM, MSN, Skype, QQ...

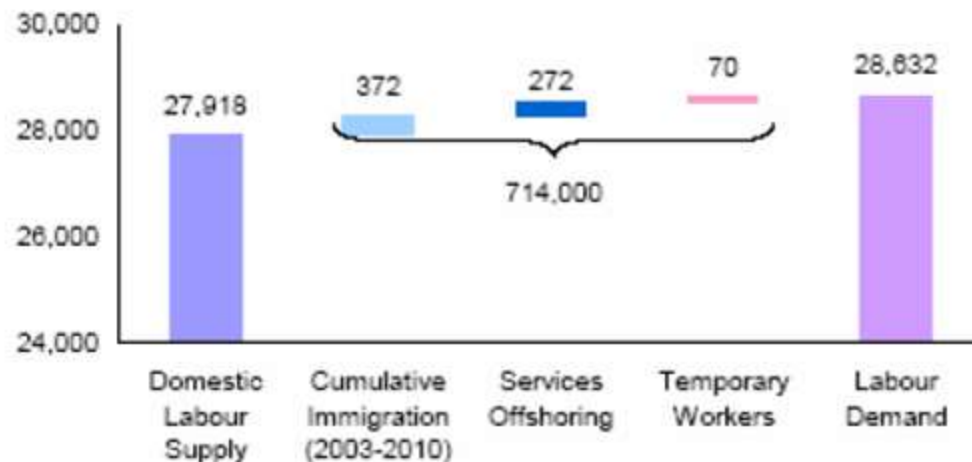
# Labor Shortfall at Source Countries

Figure 1: Demand and Supply of US Labor in 2010 (in Millions)



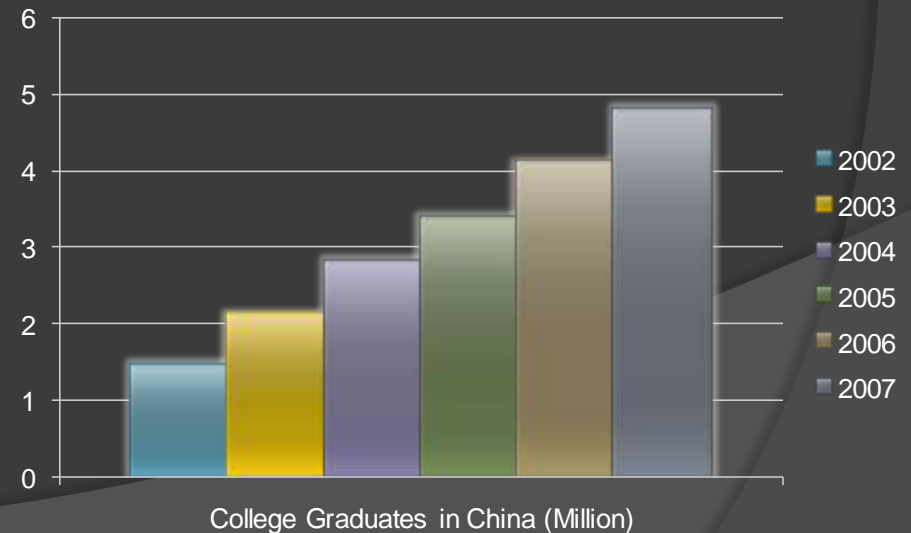
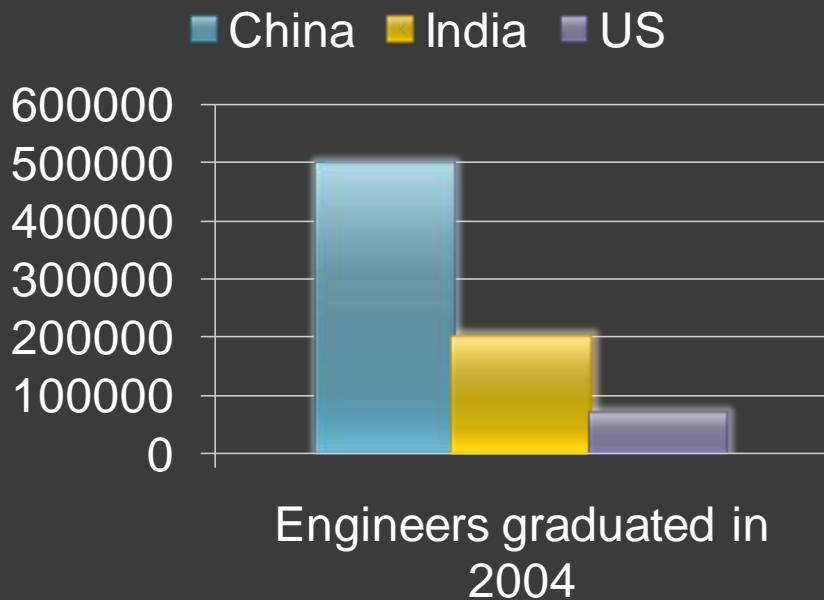
Source: *Evalueserve-Nasscom report: The*

Figure 2: Demand and Supply of UK Labor in 2010 (In Thousands)



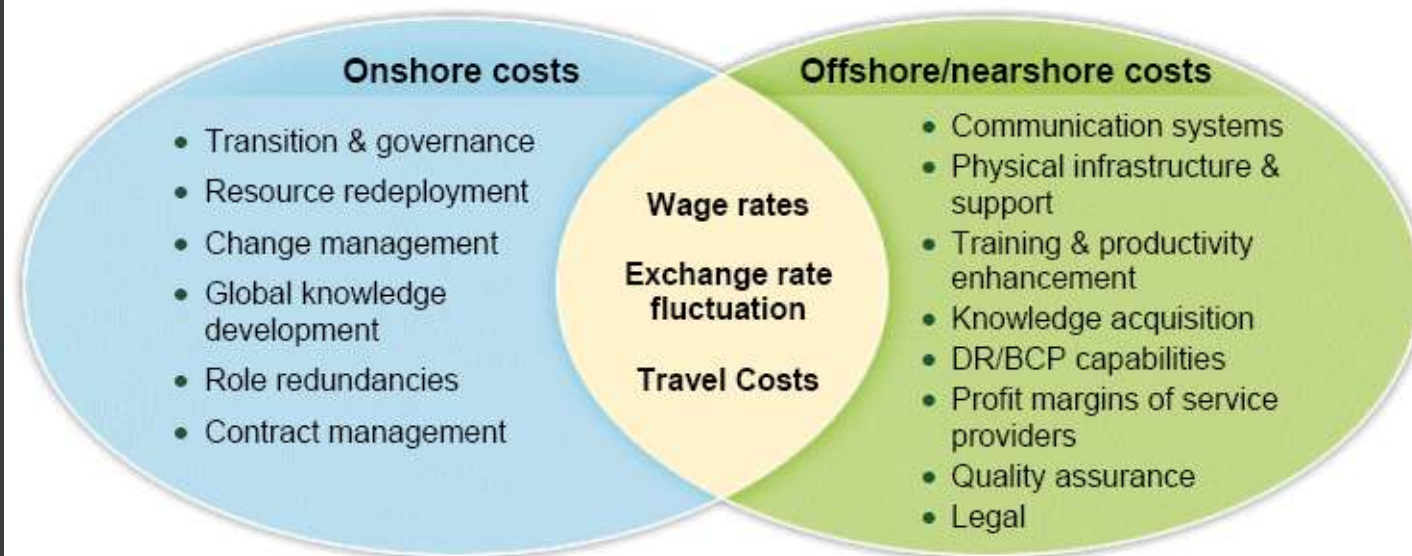
Source: *Evalueserve-Nasscom Report: "Impact of Global Sourcing on the UK Economy: 2003-2010"*

# Labor Supply at Outsource Destinations



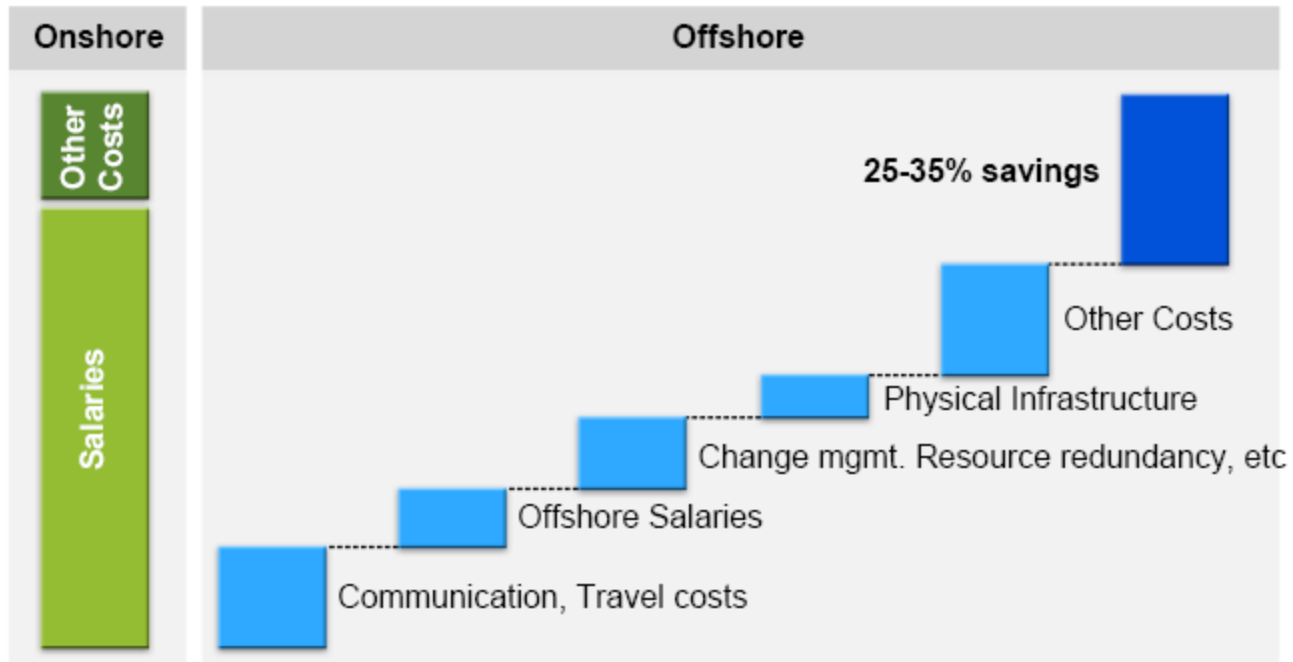
# Outsourcing: the Cost Structure

Figure 1: **Direct and Hidden Costs in Global Services Sourcing**



Source: **neoIT**

# The Economics of Offshore Outsourcing

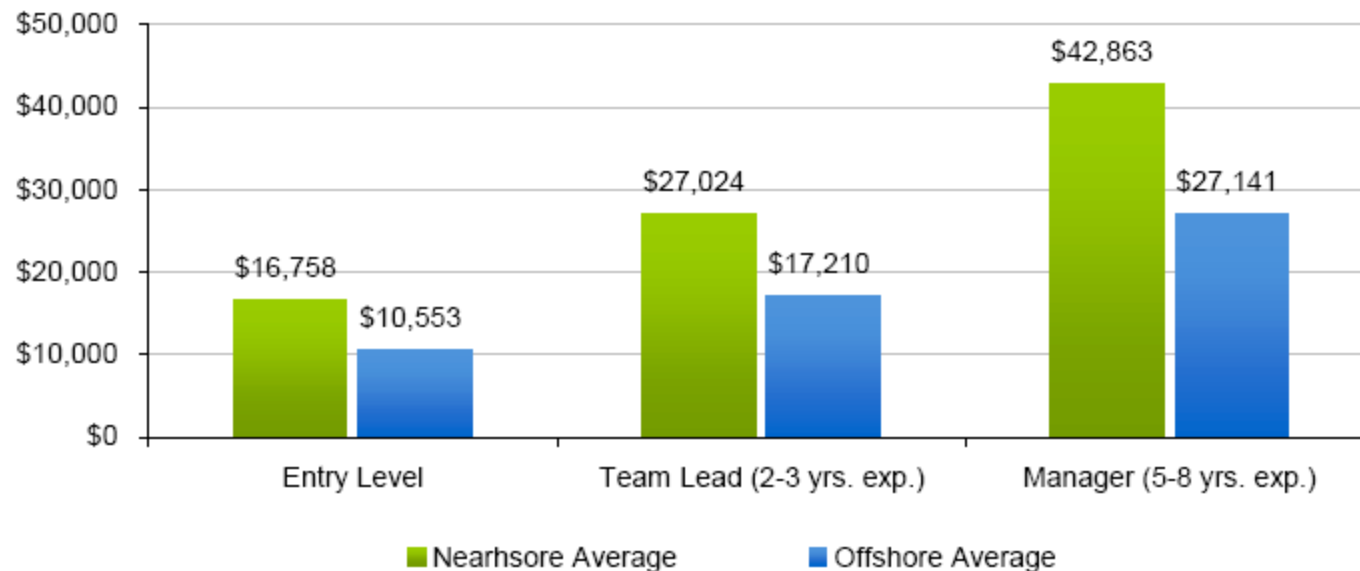


Source: **neoIT**

Note: Chart not to scale

# Average ITO Salary in Offshore/Nearshore Locations (2004)

Average annual salary, USD

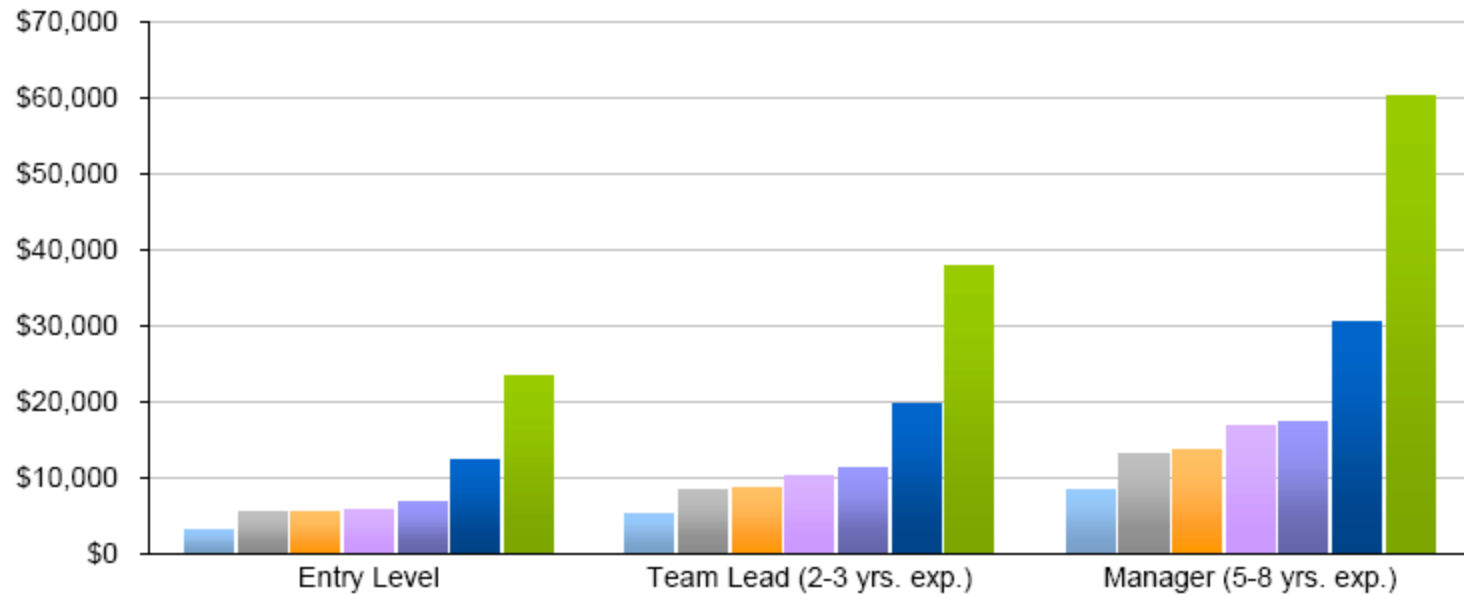


Source: *neoIT Research*

- *Nearshore Destinations include: Brazil, Canada, Hungary, Ireland, Mexico, Poland and Romania*
- *Offshore Destinations include: China, Costa Rica, India, Malaysia, Philippines, Russia, Singapore, South Africa, Thailand and Vietnam*

# Average ITO Salary in APEC Countries (2004)

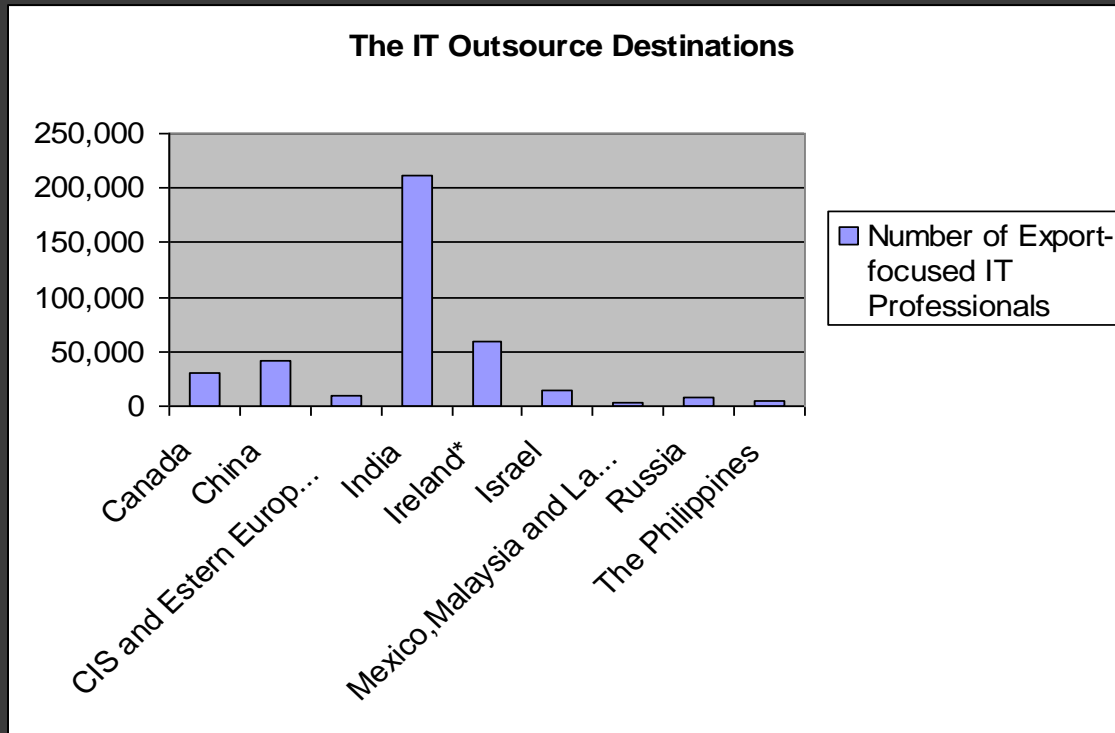
Average annual salary, USD



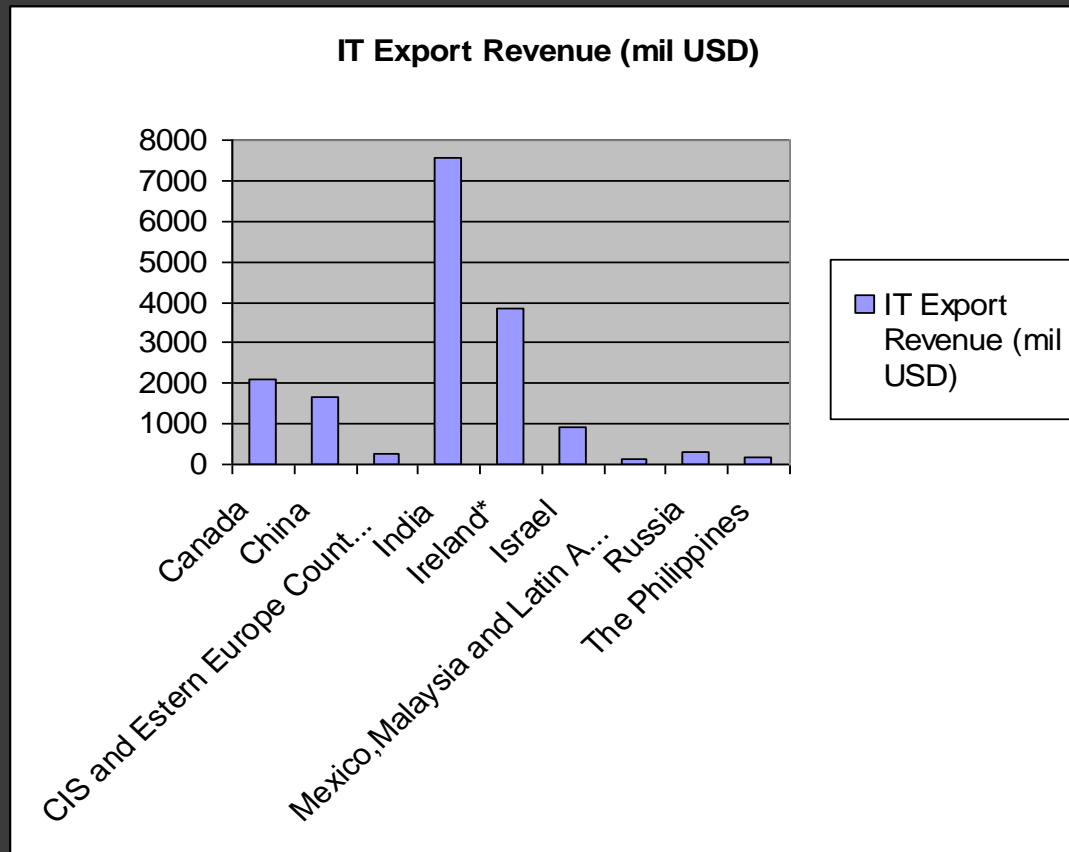
Country	Entry Level	Team Lead (2-3 yrs. exp.)	Manager (5-8 yrs. exp.)
Vietnam	\$3,276	\$5,404	\$8,571
India	\$5,443	\$8,429	\$13,124
China	\$5,460	\$8,799	\$13,732
Thailand	\$5,778	\$10,272	\$16,848
Philippines	\$6,930	\$11,256	\$17,425
Malaysia	\$12,455	\$19,915	\$30,580
Singapore	\$23,532	\$37,924	\$60,156

Source: *neoIT Research*

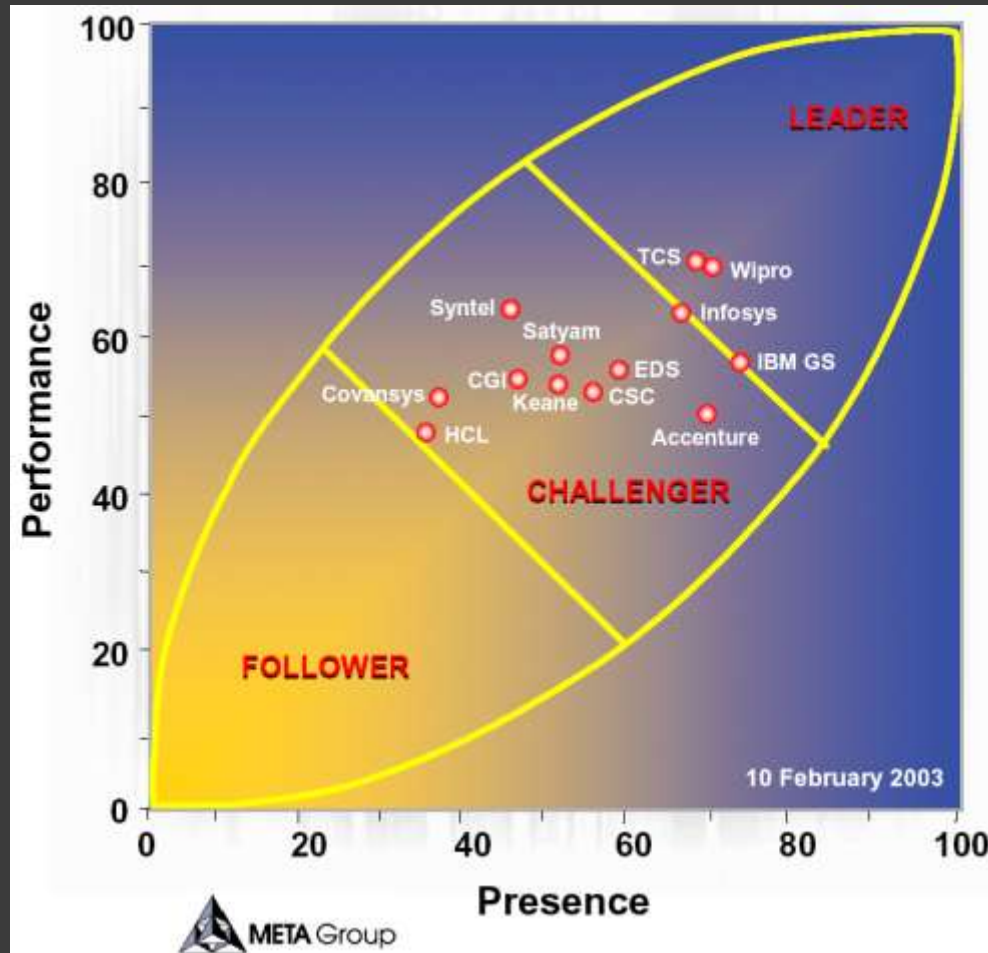
# The Outsourcing Landscape



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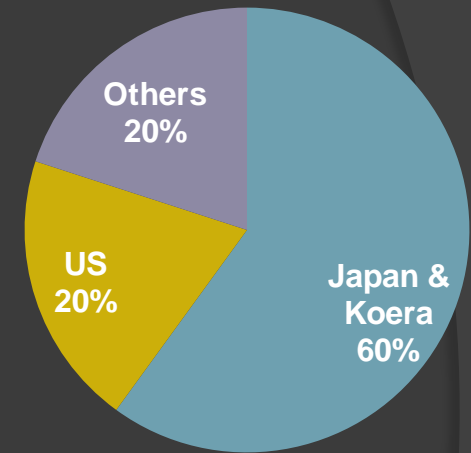


# The “visible” Global IT Service Providers




# China: The outsourcing Market

- ◎ China Outsourcing Market: \$1.4B (2006)
- ◎ Market: Domestic, Asia heavy
  - 60% - Japan & Korea alone.
  - 40% - from multi-national companies located in China.
- ◎ Growth: 38% annually for the next 5 Years.
- ◎ First-tier Cities: Beijing, Shanghai, Dalian...
- ◎ Second-tier: Xian, Chengdu...



# China Outsourcing: Top 10 Second Tier Cities (Alsbridge 2007)

- Chengdu
- Guangzhou
- Hangzhou
- Jinan
- Nanjing
- Shengyang
- Shenzhen
- Tianjin
- Wuhan
- Xian

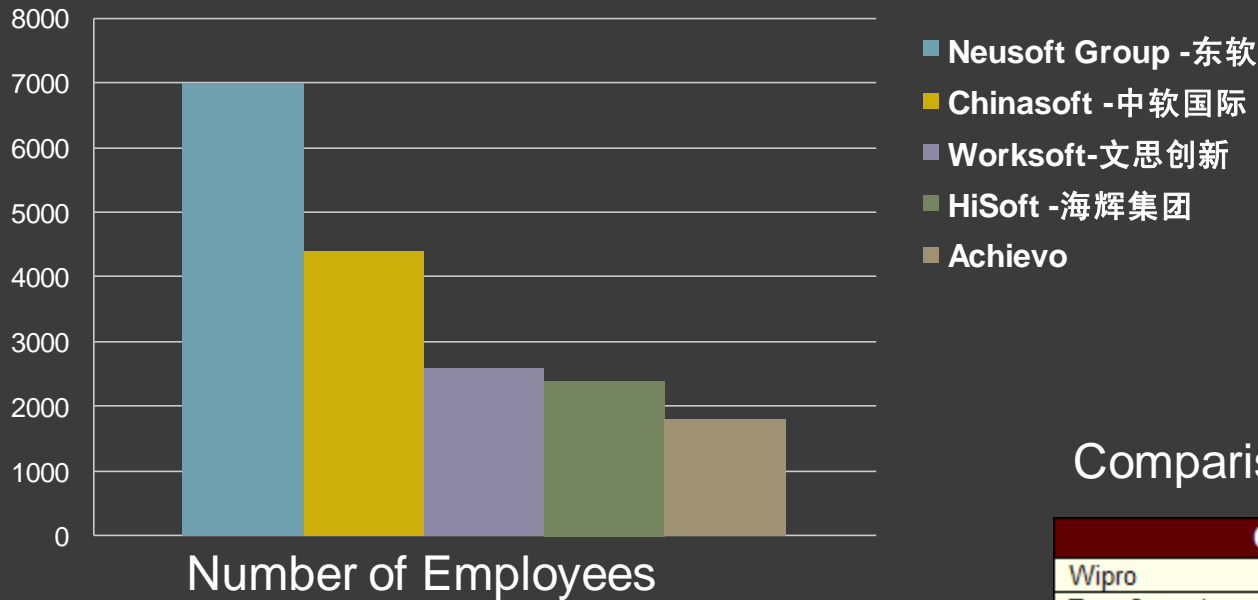
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# China: The Major Players

Neusoft 东软

CS&S  
中软国际

WORKSOFT



## Comparison: Top 10 in India (2005)

Company	Employees
Wipro	41,857
Tata Consultancy Services	40,992
Infosys Technologies	35,000
HCL Ltd	22,034
Satyam Computer Services	20,000
Cognizant Technology Solutions	17,000
Patni Computers	10,000
BFL Mphasis	8,375
Polaris	6,003
i-flex	4,747

hiSoft

ACHIEVO®

# China: The fragmented field

ASTI Application Solutions and Technologies Inc. ....	Objectiva Software Solutions.....
BaiRuan Software China INC. ....	Shaanxi GLNPU Software Co., Ltd. ....
Bamboo Networks Limited.....	Shanghai Baosight Software Co.,Ltd.....
Bleum Inc. ....	Shanghai Codex Inc. ....
Boffin Technologies Ltd.....	Shanghai DragonSoft Information Technology Co.,Ltd.....
CAC Shanghai Corporation.....	Shanghai Epro Software.....
China Offshore Outsourcing Development.....	Shanghai Newtouch Software Co.,Ltd. ....
ConnectITChina.....	Shanghai Wicresoft Co., Ltd. ....
CVIC Software Engineering Co. Ltd. ....	
Dalian Haihui Sci-Tech Company Limited (DMK).....	
Dalian Modern Hi-Tech Development Co.,Ltd. ....	
Dalian Yongjia Electronic Co., Ltd.....	
Dreamscope Consultants Ltd. ....	
EPRO Technology Limited.....	
Excel Technology International Holdings Limited.....	
Forlink Software Corporation, Inc. ....	
Guangzhou Zhongjie Hi-Tech Development Co.,Ltd. ....	
Handsome Electronics Ltd.....	
I.T. UNITED.....	
iSoftStone Technologies Ltd.....	
MSD.....	
Neusoft Group Ltd.....	

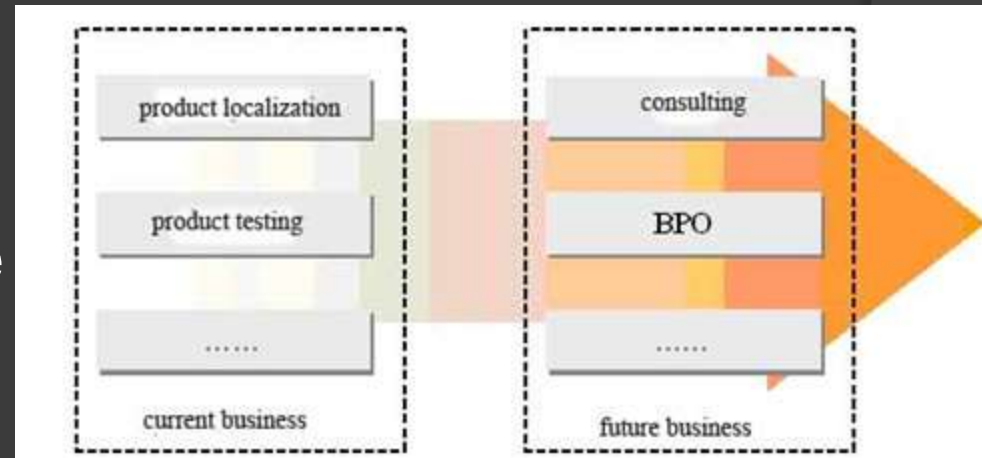


# China Outsourcing: Some Characteristics and Challenges

- Level of Energy!
- Time Zone
- Language
- Culture
- The Single-Child Effect
- Industry Maturity
  - More than 10000 software service suppliers
  - Only 5 has over 2000 employees (CCID Consulting)
  - Only 7 passed CMM5 certification.
- Technical Leadership Talent
- Programming Talent
- Turn-Over

# China Outsourcing: The Outlook

- ◎ Software as a fundamental Industry
  - Strong government support across the country
  - Globalization need
- ◎ Fast expanding domains
  - BPO
  - Consulting
  - Engineering Software
  - ...



# China Outsourcing: Impacts to Jobs in the source countries

- ◎ Shifts lower end technical jobs outbound
- ◎ Requires new skill sets to remain competitive
  - Flexibility
  - Communication skills
  - Management skills – people, project
  - Technology leadership and delegation skills
- ◎ Opens up enormous, unique opportunities for cross-culture professionals

# China Outsourcing: A lighter note – Subtle Influences that last



October 16, 1964



# Questions?

For an executive summary and further information, refer to

[http://www.geocities.com/qingxiang\\_niu/Outsourcing.html](http://www.geocities.com/qingxiang_niu/Outsourcing.html)