Publication : The Times of India
Date : 19 July 2012
Edition : Print

News

Small IT cos gain as clients break up deals

Mini Joseph Tejaswi & Shilpa Phadnis | TNN

Bangalore: Smaller outsourcing providers are increasingly able to have a seat at the global IT outsourcing deal negotiation table — alongside big-ticket players like IBM, Accenture and Capgemini—thanks to customers now breaking up large deals into smaller components.

With the global economy slowing and cost pressures rising, IT customers do not want to put all their eggs in one basket. For instance, a $300-million deal, which potentially would stretch up to $500 million in three years, is often broken into multiple pieces and given to three or four mid-tier vendors, instead of the entire contract being given to a single or the existing vendor. And while it may be more complicated to manage multiple vendors, the overall cost still comes down.

BIG BIZ IN SMALL SPACE

- $1-billion deals are out; the biggest battleground is the $100m deal space
- Contract durations come down from 5-10 years to 3 years and less
- Breaking up contracts and giving them to smaller players reduces cost
- Companies don't want to block money over a number of years
- Companies want flexibility to change suppliers based on market conditions

"The landscape has changed," says Sid Pai, partner in research and consulting firm Information Services Group. "From 10 to 12 bidders for a deal some time ago to as many as 45 bidders today, the basket has really expanded with many local players participating in the process."

Ankita Vashistha, managing director of IT consulting and research firm Tholons, says in some cases big players like IBM and Accenture have lost contracts to small upcoming players.

Mid and small-tier companies, she says, are not equipped to handle billion dollar projects that are spread across a number of years, but they are the apt choice when it comes to small discretionary projects. "You can see more of Indian mid-tier firms — like MindTree, Hexaware, Omnitech, iGate, Tech Mahindra — in global bids now," says Vashistha.

Contract durations have also come down—from 5-10 years to 3 years and less. Companies don't want to block money over a number of years. They want the flexibility to change suppliers based on the market conditions and the company's financial and operational health.

So billion-dollar deals are things of the past. Many deals are happening in the $200 million range, but the biggest battleground is the $100 million space. Every time a deal comes up for renewal, there's a good chance for a new service provider to come in.

Amneet Singh, VP (global sourcing) at advisory firm Everest Group, says specialized IT firms have compelling value propositions to offer. "These firms compete with big IT players on pricing and domain expertise," he says.

Atos for instance specializes in SAP implementation. Some niche players have end-to-end capabilities, from consulting and technology to tech support. "Tech clients are convinced about the domain expertise and capabilities of some of these companies," says Sundararaman Viswanathan, engagement manager at Zinnov Management Consulting.

And it's not just the Indian IT companies that are benefiting from smaller contracts. It's benefiting the relatively smaller companies elsewhere too – like T-Systems (Germany), XChanging (US), Atos Origin and Steria (France), the IT arms of Fujitsu and Hitachi (Japan), the IT divisions of Samsung and LG (South Korea), and Neusoft and VanceInfo Technologies (China). BPO deals are increasingly seeing the presence of companies like ExlServices, Genpact and WNS, alongside IBM, Accenture and ACS.