InformationWeek
THE BUSINESS VALUE OF TECHNOLOGY

Indian Outsourcing Model 'Over,' Says HCL Exec

Offshore player builds out U.S. presence and plans to hire more domestic talent to support customers' strategic IT engagements.

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November 14, 2011
URL: http://www.informationweek.com/news/services/outsourcing/231902873

Offshore outsourcing, where U.S. companies farm out tech work to low-cost countries like India, will wane as routine data center functions become automated and businesses start to employ IT for more strategic purposes--like building new sales channels--and seek service providers that can help them along that path, according to a senior industry exec.

"You can look at the early signs that the Indian IT model is over," said Krishnan Chatterjee, head of global strategy and marketing at HCL Technologies, during an interview last week. "The question that customers are now asking is, 'Are you willing to blend multiple services into an integrated offering, so we can talk as business partners, rather than you giving me 10 bodies who will churn out x lines of code at the cheapest rate."

What's driving the change is that new technologies like virtualization, cloud computing, and smart analytics are automating many routine IT tasks--such as network provisioning and monitoring--that have often been offshored. That means companies can use more of their technology budgets for strategic projects that can drive growth through new products and services. They need IT service providers who can keep up.

[There is a lot of debate on the future of outsourcing. Read Occupy Wall Street A Threat To Outsourcing?]

A deal that HCL announced last week illustrates the type of higher level engagements the company is seeking. U.S.-based healthcare payer United Health Group said it would use proprietary software tools developed by HCL to support its adoption of new disease classification codes, known as ICD-10, which go into effect in 2013.

"Customers are asking, 'Do you have the competence to leverage technology on behalf of my business, as opposed to just recruitment and workforce management," said Chatterjee.

Many of these engagements--such as building a digital supply chain to support an e-commerce initiative--require onsite specialists with skills in project management and architectural design. "The more we move up the value chain, the more of our traditional services business we start killing. But that's okay because we're going to add value in new ways," said Chatterjee.

To meet demand for onshore services, HCL is building out its presence in the U.S. Company officials said about 8,000 of the their 83,000 employees are now in the United States, and that number will grow.

Ultimately, it wants more than 12% of its employees to be based in the U.S. or Europe by 2015. About 40% of HCL's current U.S.-based workers are Americans or green card holders; the rest are on H-1B and other temporary visas. Officials say they also want a larger percentage of their U.S.-based workers to be citizens or permanent residents.

In September, HCL announced the opening of a development center in Redmond, Wash., where it plans to hire about 400 local workers over the next two years. HCL's Collaborative Engineering Hub will provide development services for Microsoft. The company has also built out development centers for anchor customers in Rochester, N.Y. and in Raleigh, N.C.

While higher labor costs will mean that HCL will ultimately have to charge more for services provided in the U.S., Chatterjee said customers will be willing to pay more if those services aren't just about "keeping the lights on," but help deliver an advantage over competitors. "When differentiation comes into play, the conversation is no longer about who is cheapest and who has the most bodies," he said.

HCL's strategy isn't without risk. It's possible that many U.S.-based customers will turn to American services providers like IBM or Accenture to perform onsite work. A significant advantage held by the domestic players is that they already have large teams of experts in place in key areas like cloud and mobility.

Chatterjee conceded that it could be tough for HCL to find individuals with the skills it needs. "Finding talent can be very difficult," he said, "but we are actively working with universities so that we get people that have the necessary skills and capabilities."

The institutions HCL is working with include Virginia Tech, Seattle University, Oregon State University, and University of California, Irvine.

HCL's strategy of focusing on higher value work more than some of its Indian peers appears to be paying off. In its most recent quarter, net income spiked 49% year over year, while quarterly revenues surpassed the $1 billion mark for the first time. To continue that growth, it will need to convince customers that require onshore services that it's coming to America to stay.