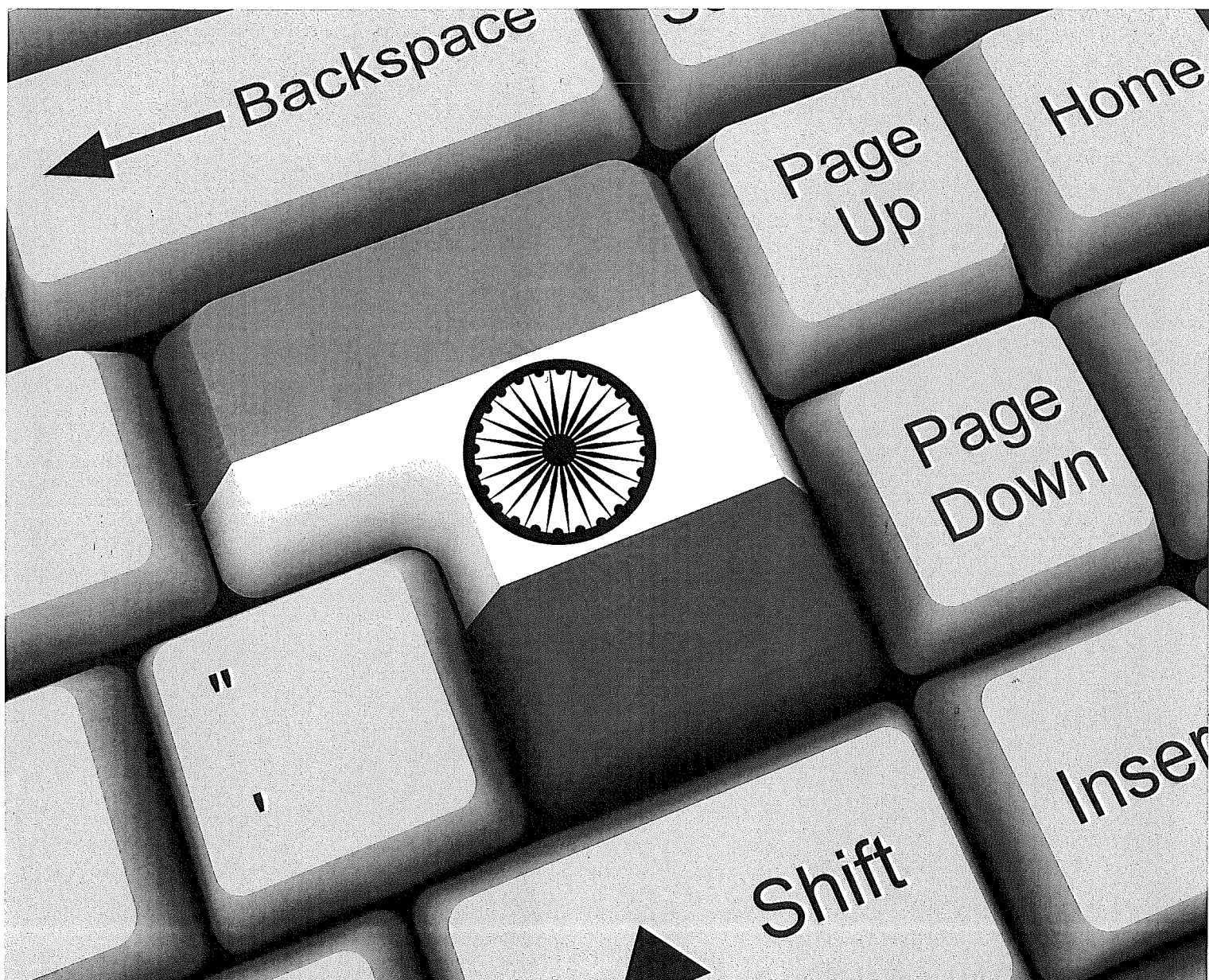


SICC Bulletin

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IT in India: Opportunities for Collaboration with Switzerland



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SECTORAL FOCUS

India and Switzerland's IT Sectors
Clusters, Developments,
Opportunities

Sourcing Strategies for IT and ITES in India: Some Lessons Learned



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Sourcing Strategy

Sourcing strategies focus on a specific product or service. The major elements of any sourcing strategy are defined as suppliers, sourcing markets and internal customers driving the requirements for the respective product or service. All three aspects have to be well managed by sourcing professionals depending on the specific business context and companies' overall strategic priorities.

A one-size-fits-all sourcing strategy makes little sense across a company's category portfolio. In some cases, suppliers might be plentiful and eager to compete while for other categories, supply options might be limited. Some sourcing categories requested by internal customers may have a larger impact on business in terms of total expenditures or on a company's strategic position while the impact of other categories might be relatively small. In many cases, the specific characteristics of the products and services requested by internal customers will drive the sourcing strategy. However, in certain cases products or services might only be sourced from a specific supplier due to worldwide intellectual property rights or unique access to resources. This gives the relationship with the supplier a more prominent role in the sourcing strategy.

Finally, factor cost advantages or local content requirements might lead to the decision to source a specific volume from a single sourcing market such as India or the Czech Republic. Consequently, sourcing managers must integrate their companies' specific strategic priorities into the sourcing strategy for each category and then decide about the relevance and detailed implementation of all three sourcing strategy elements.

Sourcing IT and ITES

Managers responsible for the sourcing of information technology (IT) and information technology-enabled services (ITES) have to consider three key elements – internal customers, suppliers and supplier markets – in light of their company's strategic objectives. The following discussion, based on a study of over 150 sourcing managers, illuminates ways to win internal customers, offer supplier development support and choose a specific supplier market.

Winning Internal Customers First

Although global sourcing organizations manage suppliers in emerging markets well, they often fail to integrate their internal customers from functions other than purchasing. Empirical evidence from our first study shows that companies take one of two customer "conviction" approaches. In the top-down approach, they try to convince top management of the overall strategic necessity of sourcing in emerging markets such as India. In the bottom-up approach, they convince internal customers individually by clarifying potential threats and unrealized opportunities.

Both approaches seem to have a positive impact on earnings before interest and tax (EBIT). However, our data analysis reveals that different sourcing-related objectives are either positively or negatively influenced by each of the customer 'conviction' approaches.

The study results in Table 1 first of all reveal that proactive 'conviction' management has a positive impact on corporate performance (improved EBIT) in both cases. As Table 1 shows, a top-down approach reduces the purchase price and avoids late deliveries in the form of service interruptions. A bottom-up 'conviction' management approach has a positive impact on the internal costs of managing the interface to the supplier and the costs of the engineers/specialists involved in the sourcing process.

Supplier Development Support

Even highly qualified IT and ITES suppliers in emerging markets such as India often require technical or project management support. This is especially the case at the early stages of the buyer-supplier relationship. Support is necessary in order to improve service processes and the risk management system or simply to adapt processes to the buyer's requirements.

The study results reveal two organizational approaches that companies can take to support their suppliers in emerging markets. First, they can form mobile supplier development teams that act or react on an ad-hoc basis whenever there is a requirement/emergency from a supplier but otherwise do not regularly engage in systematic supplier improvement activities. Second, companies can

Strategic Objectives	Winning Internal Customers	
	Top-down Approach	Bottom-up Approach
EBIT	+	++
Costs of Supplier Management of Purchasing Function	--	++
Costs of Engineering Department involved in Sourcing Process	---	++
Purchase Price	+	-
Delivery Delays	++	-

Strategic Objectives	Supplier Development Support	
	Ad-Hoc, Short-Term	Formal, Long-Term
EBIT	+	+
Costs of Supplier Management of Purchasing Function	+	-
Purchase Price	--	++
Delivery Delays	0	-
Access to New Technologies	+	+
Quality Standards	+	+

Strategic Objectives	Supplier Market Selection/Focus	
	Cluster Focus	Globally Dispersed
EBIT	+	+
Costs of Supplier Management of Purchasing Function	-	+
Costs of Engineering Department involved in Sourcing Process	--	+
Purchase Price	-	+
Delivery Delays	+	0
Quality Standards	+++	--
Access to New Sales Markets	+++	--
Access to Human Resources	++	--
Costs of Intellectual Property Protection	+	-

Note: A "+" (plus) denotes an improving impact on the strategic objective, A "-" (minus) denotes a deteriorating impact on the strategic objective.

Table 1: Impact on Internal Customer, Supplier Development and Market Selection Choices on Strategic Sourcing Objectives and EBIT

engage in formal, long-term oriented supplier support programs that involve regular joint improvement initiatives without any specific problem triggering the project.

Analysis regarding the impact of each of those two basic alternatives on different performance measures is shown in Table 1. First, the results confirm that both proactive supplier support activities have a positive impact on EBIT. With both approaches, ad-hoc short-term and long-term formal, quality improvements and an improved access to new technologies can be achieved.

Moreover, Table 1 reveals that a long-term, formal supplier support approach has an almost neutral impact on the avoidance of delivery delays and a negative impact on the reduction of supplier management costs. In contrast, an ad-hoc, short-term approach creates the opposite effect.

Finally, a formal, long-term approach towards supplier support has a positive influence on purchasing price reduction. The reason is that a formal, long-term oriented approach might better allow for jointly achieved cost reductions which the buyer can turn into reduced purchasing prices.

Supplier Markets: Reducing Complexity and Realizing Synergies

The challenge of winning internal clients for sourcing projects in emerging markets is connected to the question of whether to reduce or maximize the number of industrial (manufacturing) and/or, in the case of IT & ITES knowledge (service) clusters to source from.

The willingness of internal clients to engage in sourcing projects in emerging markets is higher if they have already had experience with a specific sourcing market or when the number of "exotic" sourcing markets is limited. At the same time, internal customers and the sourcing staff can be overwhelmed by the differences in culture, language, time zone, business behavior, communication styles etc.

Therefore, a key question for global sourcing managers today is as follows: Whether to maximize existing business relationships of internal clients to suppliers in emerging markets? This results in a globally dispersed network of suppliers. Alternatively, whether to minimize the number

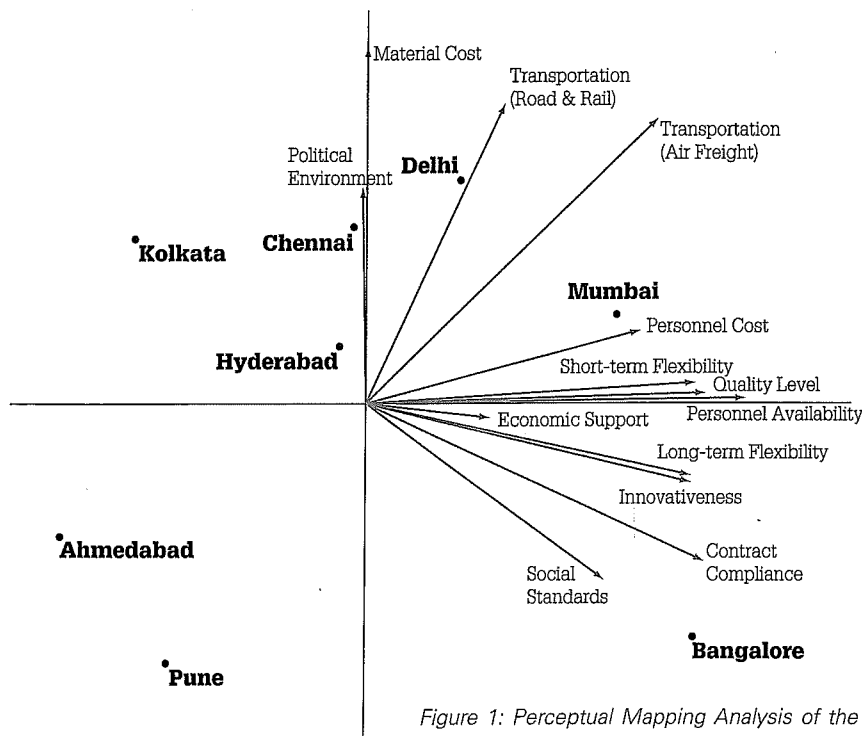


Figure 1: Perceptual Mapping Analysis of the IT & ITES Performance Ranking of Eight Indian Cities

of sourcing clusters for a specific category, division or the company as a whole? This reduces internal complexity for the sourcing staff and internal customers as much as possible.

The results in Table 1 illustrate that a proactive approach, the choice of a cluster focus or a globally-dispersed network approach, influences corporate performance in the form of improved EBIT results. The results, however, indicate that a globally-dispersed network approach decreases the total costs of supplier management in general and the costs for internal engineering/specialist support in particular. It can also improve company performance by reducing the purchasing price of products and services.

At the same time, the results in Table 1 show that a cluster focus improves quality and delivery time, and reduces the costs of IP infringements. It also provides access to scarce human resources, new sales markets and technologies.

Sourcing from Clusters: IT & ITES Supplier Cluster Performance of Eight Indian Cities

The three elements of strategic sourcing evidently contribute to a sustainable and successful sourcing approach. Yet, Western purchasing managers are not aware of the strengths and weaknesses of different regions and cities in India as viewed by local sourcing experts.

In another study with more than 150 local sourcing managers in India, we examined how they evaluated 13 sourcing cluster criteria and the performance of eight economic hotspots according to these criteria. Figure 1 illustrates the results.

Figure 1 reveals that office costs (vertical axis upwards), social standards and contract compliance (vertical axis downwards) and availability of (qualified) personnel (horizontal axis) are the most relevant sourcing criteria managers in India. Bangalore and Mumbai are the best rated locations for availability of qualified personnel (from right to left) while Delhi and Chennai are better in terms of office costs (top-down). Finally, Pune and Bangalore perform best with regard to social standards and contract compliance (bottom-up perspective).

In conclusion, sourcing IT and ITES services in India requires careful consideration of three strategic sourcing elements. The choice of approach should be determined by the main strategic objectives of the IT and ITES services or the business unit in general. The results shown here might help sourcing managers to better understand the strategic implications of their choices and the specific characteristics of major Indian cities with respect to IT and ITES suppliers located there.

About the Author

Dr. Roger Moser has been the EADS-SMI Endowed Chair for Sourcing and Supply Management at the Indian Institute of Management in Bangalore (IIM-B) since 2007 and a member of the Indian Institute of Materials Management (IIMM). He is also a professor at the University of St. Gallen.