

As in-house research booms, BPOs, outsourcing lose ground

Sujit John & Shilpa Phadnis | TNN

Bengaluru: General Electric (GE) was once the lifeblood of many Indian IT services companies. The maker of aircraft engines, locomotives, electric motors and wind turbines was one of the earliest and biggest outsourcers of IT. Over the last couple of years, though, GE's chief information officer Jim Fowler has been trying to reverse that.

In late 2016, about 74% of the company's IT functions were outsourced. Fowler told TOI then that he was working to bring it down to 50% by the end of 2017. "We had given up a lot of our intellectual property. We didn't understand our own business processes and one of the things is to rebuild that talent base," he said on a visit to Bengaluru to launch a centre to do digital work.

GE is no exception. A number of multinational companies (MNCs) are setting up global in-house centres (GICs) to do jobs that were previously outsourced, and that's a reason why Indian IT services companies are witnessing a sharp slowdown in their growth. "The first thing an MNC does when it sets up a global in-house centre in India is to take work away from these partners, not bring work from their overseas centres," says Pari Natarajan, co-founder of GIC and R&D

ENGINEERING TECHNOLOGY CAN BE A COMPETITIVE ADVANTAGE FOR A COMPANY. ABOUT 80% OF THE TECH WAS OUTSOURCED [IN 2013], NOW IT'S ABOUT 50%.



WE'LL CONTINUE TO MOVE INTO INSOURCING

**—KIM HAMMONDS
COO, DEUTSCHE BANK**

consulting firm Zinnov. Multinationals in the banking, financial services and insurance (BFSI) sector are leading in the setting up of GICs. This explains the slowing of the BFSI segment for IT services firms.

Deutsche Bank's COO Kim Hammonds told TOI late last year that she had reduced the extent of outsourced tech from 80% in 2013 to about 50%, and that the downward trend would continue.

Lalit Ahuja, CEO of Ansr Consulting, which has helped bring a slew of GICs to India, says that with insourcing GICs see a 20% cost benefit, and 30% to 50% productivity improvement. "1,000

outsourcing people become 600 GIC people. Outsourcing companies hire freshers from tier-3 institutions. GICs hire high-quality people who have unhindered access to intra-company resources. They are driven by a mission — to do a job, not a project," he says.

GE's Fowler made the same point: "Where they (the IT vendor) had a team of 30, we had a team of 10 here. And the 10 people are producing code of a higher quality than we were getting from the 30."

Therace Risch, CIO of JCPenney, believes an in-house centre would lead to lower turnover of people. The company would have "people who really understand our systems, people who are passionate," he says.

Nitin Prasad, chairman of Shell India, which too is insourcing rapidly, said the company finds it "can create greater value and synergy when our people talk to our own people".

So is this part of a cycle in which the MNCs would sell the GICs or turn to other outsourcers when the new technologies cease to be competitive differentiators, like it happened a decade ago? Natarajan thinks it will happen, but Ahuja is more hopeful. He's convinced a fundamental shift has occurred, where technology will remain core to enterprises. The casualty, he believes, will be outsourcing.