

Offshore Update

Best practices by Applied Development

• Quarterly newsletter
• Nr. 2
• June 2008

Applied
Development

Applied Development in India

"Understanding the needs of our European clients"

In India **Applied Development** has already built a team of about twenty employees, working mainly for Belgian clients. Mohan Ram, who worked a couple of years in Belgium, now leads the development team in India. One of his current challenges includes recruitment and building up teams of developers to manage the present growth of the company.

Mohan Ram holds a master's degree in computer applications. After a first job experience with a company that specializes in banking software, he started working for ValueSource, around end 2000, on a high-end technology project



• **Mohan Ram**, delivery manager at Applied Development in India: "I have worked in Belgium for a couple of years. I understand how our European clients think, what their needs are and how we can deliver the best results together."

for a Belgian client. After KBC took over ValueSource, Mohan left and joined the original shareholders and helped start up Applied Development. "I enjoy being part of a structure that is growing rapidly", he said. "It is nice to be hands-on with everything, not only in terms of technology, but also on the various aspects of running an organization." Mohan admits it is a challenge to select the right people with the right skills sets for his development team, as the demand for well trained IT employees exceeds the supply, also in India. "Of course we do better than in Belgium. We have a much larger talent pool. But that doesn't necessarily mean that we don't have to be very strict on who we select to be on the team." However, Applied Development seems to be a preferred company in the eyes of Indian IT professionals. "We are a company with European management and with a European focus. That is

definitely a plus in the Indian market." Apart from the salaries and wages a company can offer, Indian IT employees strongly value the cultural aspects of the organization as well. "It really makes a difference if you have to work in a strictly hierarchically organized company, or in an environment with a rather flat structure." Besides that, IT specialists are always on the look-out for projects that are intellectually and technologically challenging. "It is important to provide them with the opportunity to learn new things." At Applied Development, there is attention for the cultural aspects of the job as well. "Since I have worked in Belgium for a number of years, I had the opportunity to better understand the expectations and the needs of our European clients, and how we can deliver the best results together. My experience in Belgium has helped me a lot coordinating projects with both Belgian clients and Indian developers."

Shortage of ICT professionals

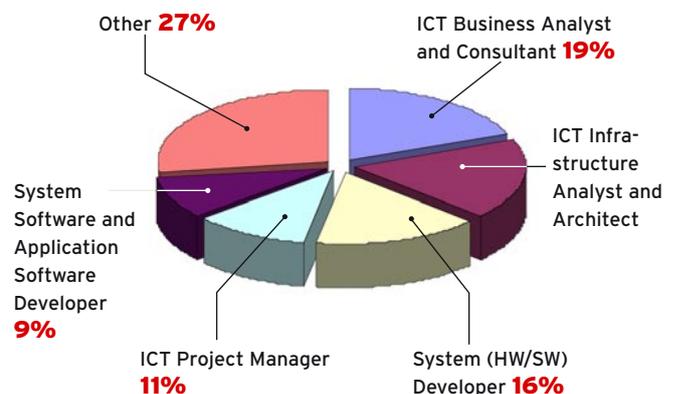
Increasing need to go offshore

A recent market research publication by Gartner discerns **a worldwide shortage in IT personnel**. This shortage affects all areas of the ICT industry. In Belgium and The Netherlands, the inflow of new IT professionals is not enough to cover the growing demand. Offshoring can offer a solution for companies that seek to expand their IT activities.

According to Agoria, the Belgian ICT federation, there is a total of about 14,250 ICT vacancies in Belgium. It is clear that the inflow of new ICT professionals is not sufficient to cover the growing demand. Agoria noted that offshoring can offer a favourable solution for companies that seek to expand their ICT activities. The Dutch ICT industry faces more or less the same challenges as the Belgian market. According to ICT Office's 'ICT Market Monitor 2008', a structural shortage of ICT professionals remains the most important criterion for a company to choose for outsourcing and offshoring. Agoria's and ICT Office's announcements were preceded by Gartner's market

research publication on the actual risk of a worldwide shortage in IT personnel. Apparently, the coming generation shows little to no interest in the ICT industry as it is perceived to lack glamour and to have a reputation for hard work. "The current shortage in ICT employees is different from the one that emerged in the dotcom era", the report said. "Back then, the shortage mainly occurred in the fields of specific technical skills. Today's shortage affects all areas of the ICT industry." Gartner described the current skills shortage as 'devastating', since there is a worldwide surge in the number of projects that are required from IT.

TOP 5 ICT VACANCIES IN 2008



The most wanted profiles include ICT business analysts, business consultants, ICT infrastructure analysts and architects. Source: Agoria, the Belgian ICT federation.

Peter Schumacher, Value Leadership Group Inc.

“Offshoring strategy should create differentiation and greater business value”

From the USA, **Peter Schumacher** is the president & CEO of the Value Leadership Group, an international management consultancy focused on strategic offshoring. His work addresses difficult strategic and operational issues in the areas of growth, corporate strategy, organizational transformation, alliances, and business model innovation. Peter holds an MBA in finance and strategy from the Leonard N. Stern School of Business at New York University.

Offshore Update: What is offshoring strategy?

Peter Schumacher: “The essence of strategy is about being different. I mean, consciously doing something ‘differently’ from competitors to achieve sustainable advantages and superior performance. So offshoring strategy, like business strategy, should create differentiation and greater business value.”

O.U.: Are you saying that cost cutting isn’t offshoring strategy?

P. Schumacher: “The enormous opportunity for savings, while important in itself, can lead companies and managers to focus only on labour savings and arbitrage opportunities. While cost advantages are easily achieved in offshoring, they offer little or no long-term competitive advantage. If you can cut costs offshore, your competitors can too and sooner or later they will.”

O.U.: What are some of the advantages companies gain with an offshoring business strategy?

P. Schumacher: “Best practice companies – regardless of size – are those that leverage offshoring to do things they would not be able to do otherwise. Offshoring allows you to reconfigure your value chain and acquire new capabilities and competitive strengths. You can entrepreneurially rethink your business by leveraging other firms’ resources, increasing the range of your strategic options, and implementing organizational innovations. The value derived from synergies between these activities, in sum, helps build real competitive advantage. This is very different from most offshoring relationships today that are largely simple supplier-buyer relationships.”

O.U.: Can you share with us an example of a company that is doing this?

P. Schumacher: “Let me highlight the offshoring strategy of an innovative consumer business from the Nordics. This company built a compelling value proposition around an offshore-enabled business model that is fundamentally different from its traditional competitors. Their brand and value proposition stand for ‘affordable luxury’ – not the lowest price, as

many people might have assumed. By thinking about offshoring strategically, this company found a way to capture an entirely new customer segment. Offshoring enabled them to reframe their opportunity space and successfully take their business beyond the traditional boundaries of their industry.”

O.U.: What are some of the strategic offshoring opportunities CIOs should be thinking about?

P. Schumacher: “In many companies the role of the CIO is changing from that of a technologist to a new role that requires a much stronger customer-orientation and business strategy capabilities. Just think of sectors like publishing where the physical paper is being replaced by a digital one. Within just a few years these ‘old industries’ have become state-of-the-art digital technology companies. Publishing is not the only industry where these transformations are occurring. In many other industries, the role of the CIO is becoming much more of a co-creator who develops integrated solutions with business, suppliers, and the customer. So companies are looking to their IT department to contribute more business value. Offshoring can help CIOs achieve this goal. How? Let me give you three examples. One, offshoring can help open up strategic opportunities for innovation and value creation because solutions previously unaffordable become economically feasible with offshoring. So the lower cost of offshoring enables more projects to exceed the hurdle rate. Two, the significantly larger talent pool in India, across many technology and increasingly important analytical disciplines, allows companies to bring innovative services to market faster at lower cost. Lastly, offshoring allows companies to leverage global talent pools to provide seamlessly integrated offerings of consistently high quality to internal and external customers around the world. When seen as an integrated value system these individual advantages carry a big punch that becomes difficult to imitate. Coming back to the intent of strategy – what sets best practice companies apart are not the specific activities performed offshore, but the degree to which these activi-



• **Peter Schumacher**, president and CEO of the Value Leadership Group

ties are embedded in the DNA of the business. It is this tightly integrated web of high value activities that can create effective differentiation and greater business value.”

O.U.: Why should companies focus on these questions now?

P. Schumacher: “I think the most important insight is that a new global economic paradigm is taking shape, triggering a broad and fundamental shift in the underlying competitive dynamics of business, even those that are local. Simple cost cutting, and other tactical responses, will not solve the puzzle. As the rules of the game change, an offshoring business strategy should be part of any blueprint for action.”

O.U.: How should companies approach this challenge?

P. Schumacher: “Articulating the intent for a strategic offshoring approach really starts at the top of the organization. The executive mindset needs to be open to entrepreneurial globalization to seek, recognize and exploit new strategic options for offshore-enabled growth and innovation. Clearly, offshoring represents an opportunity for discontinuous change that can create significant new value. Our view is that, companies that are not thinking about this strategically are likely to miss this opportunity.”