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## InformationWeek

BUSINESS INNOVATION POWERED BY TECHNOLOGY

### IBM To Buy Service Provider In India

Several tech vendors look offshore for business-process-outsourcing partners

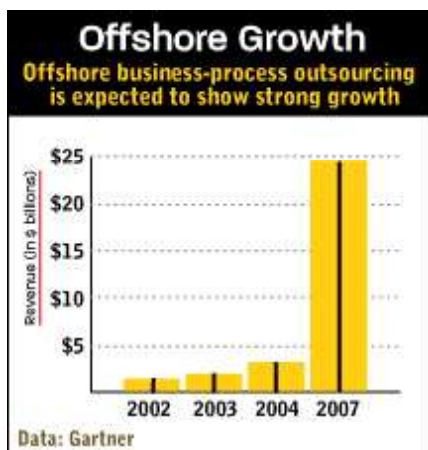
By Paul McDougall, InformationWeek

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Business-process outsourcing could be the next services sector to follow call centers, application development, and maintenance offshore as large IT vendors build BPO practices in India, Mexico, and other low-cost countries.

Last week, IBM disclosed plans to acquire an Indian business-services firm that has provided offshore customer service for Amazon.com, Sprint, Yahoo, and a number of other well-known U.S. companies. IBM is buying Daksh eServices, which operates customer-care centers in New Delhi and Mumbai. Daksh, which has around 6,000 employees, recently opened a center in the Philippines. Terms of the deal weren't disclosed, although some estimates put the price at \$100 million to \$150 million.



Oracle is looking in a similar direction. Earlier this month, CEO Larry Ellison said his company is looking to forge closer ties with offshore BPO firms as more customers access Oracle software indirectly through service providers. Oracle is working with a number of BPO companies worldwide, including several in Bangalore, India, Ellison said at a meeting with CIOs. The company is in "early discussions" with several major Indian firms, he said.

In March, Hewlett-Packard unveiled its first major customer win in business-process outsourcing, a multiyear deal to provide financial and administrative services to consumer-products maker Procter & Gamble Co. Under the deal, which has yet to be

finalized, HP would process P&G's payments to its vendors across all major geographic regions. HP maintains payment-processing centers in Barcelona, Spain; Singapore; Guadalajara, Mexico; and Bangalore. To date, those centers have been used primarily for HP's internal requirements.

Analysts expect more large IT vendors to seek closer ties with BPO firms or to launch their own offshore centers. Vendors are simply following the money, says Cindy Shaw, an analyst at Schwab Soundview Capital Markets. "More and more IT work is being implemented by BPO companies on behalf of end users, so the vendors worry about getting disintermediated," she says. However, that work requires more customer interaction than conventional IT outsourcing, she notes, meaning that language and cultural differences may inhibit growth in offshore BPO.

Others voice concerns about privacy and data protection. Robert Ewald, president of

human-resource solutions at Ceridian Corp., says he's wary of moving the company's operations offshore. "I'm not sure that the data safeguards are in place and that there would be adequate protection of our intellectual property in many of the locales that are becoming popular offshoring destinations," Ewald says. The company does a small amount of data processing in Mauritius, off the coast of southern Africa.

Some BPO customers have reservations about moving their data abroad. "I would have to have some very compelling reasons that go beyond cost," says Robert Holloway, VP of worldwide human resources at Checkpoint Systems Inc., which buys HR services from Ceridian. He's concerned about the macroeconomic impact of offshore outsourcing. "The jobs issue is of concern to me," he says.

Offshore BPO spending hit \$1.8 billion in 2003, a 38% year-over-year increase, according to research firm Gartner. That represented just 1.5% of total worldwide BPO spending in 2003. However, Gartner expects that more than 15% of BPO work will be done offshore by 2007.