

Mid-sized Indian Service Providers: Stepping Up in Changing Times

Relevance of Mid-sized Indian IT Service Providers

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This research report is intended to demonstrate examples of best practices within specific segments of the IT global services market. Everest Group and the enterprises discussed in this report do not in any way intend to endorse specific service providers, by way of the case examples cited in this report.

Executive Summary

India continues to remain the dominant IT services offshoring market, characterized by the presence of a large set of diverse and competent service providers. The Indian IT services service provider market, thereby, provides a wide array of choices for enterprise and mid-market IT services buyers, as they seek to optimize their service provider portfolio.

In recent times, the evolving IT offshoring landscape has thrown out a new competitive dynamic, with IT outsourcing no longer remaining just “back-office”, but in effect a key business enablement tool for enterprises. New value drivers for outsourcing, such as innovation and responsiveness, as well as the advent of disruptive technologies, such as cloud computing, are pushing enterprises to look for specialized products and solutions that help lower time-to-market, and enhance the overall customer experience.

Mid-sized Indian IT service providers have identified a unique opportunity in addressing these specialized requirements of enterprises. These players have created specific niches by building specialized offerings (for specific industry verticals, service lines, or technology stacks), and have created a differentiated positioning amongst enterprises of varying sizes through their maturing capabilities and a flexible engagement approach.

This Everest Group research examines the relevance of Indian mid-sized service providers within the context of an enterprise services portfolio. As examples, we also look at the distinctive value proposition of four leading mid-sized service providers. These service providers, in aggregate, have achieved a higher revenue growth than the industry average over the past few years. This is mainly attributable to their success in establishing differentiated offerings through focused investments, efficient mining of existing clients, and creation of a strong brand in their niche areas.

This is illustrative of the imperative for mid-sized players to break away from the undifferentiated, “me-too” positioning platform that has traditionally revolved around labor arbitrage values. In order to succeed in the market, mid-sized Indian IT service providers must pick their areas of specialization, excel in them, and communicate their capabilities to the broader market.

In this report we examine:

- The role of mid-sized service providers in a buyer’s portfolio
- Dimensions for differentiation of mid-sized service providers
- Fact-based snapshots, including details on the differentiated foundations for growth, and a case study highlighting success for each of the four service providers
- Implications for buyers and service providers

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Exhibit 1

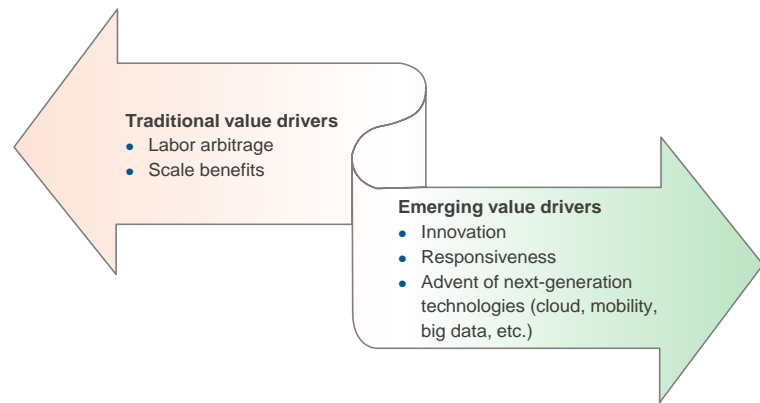
Value drivers – IT offshoring industry

Source: Everest Group

Winds of Change in the Global IT Services Market

A perfect storm...

The global IT sourcing market has witnessed a gradual shift in the focus of customers from pure cost reduction to obtaining more tangible value and improved process efficiencies through outsourcing programs. Budgetary constraints are pushing enterprises towards aligning cost structures with business volumes – consequently, service providers are under relentless pressure to improve the price-quality ratio for their offerings. This development has resulted in the exhaustion of value levers that have traditionally formed the basis for global IT outsourcing.



- **Labor arbitrage:** While cost remains the motive for outsourcing adoption, contracts are being evaluated by customers on service level attainment and quality. Improving process efficiency and quality, and obtaining tangible RoI have now replaced OPEX reduction as the outsourcing objectives. Consequently, companies aspire to gain access to higher levels of skills and business acumen, with IT outsourcing no longer remaining just “back-office”.
- **Scale benefits:** Customers increasingly prefer multi-sourcing arrangements over single-source deals and discounts, intending to leverage specific provider skills and competitive contract prices. Output-based pricing models with shorter contract durations are being preferred as clients seek to transfer productivity and management risks to the service providers. Further, mature markets, such as the United States, are witnessing saturation in IT penetration in large organizations, and consequently, there remains very little scope for “Big Bang” outsourcing deals.

The search for new value drivers...

With businesses looking at IT outsourcing to assist top line enablement rather than just as a cost-saving measure, new value drivers have emerged.

- **Innovation:** Clients expect IT outsourcing service providers to not just act as “functional support” providers, but rather as partners who can understand and, therefore, help them drive their business. This outlook is underscored

by the increased proportion of the core and strategic IT processes that clients now look to outsource. Service providers are consequently being pushed to innovate their product and services strategy and come up with offerings that go beyond addressing the traditional non-core IT functions of enterprises

- **Responsiveness:** With time-to-market becoming a critical element in overcoming cut-throat competition, clients expect IT contracts to have lower payback time, instead of being long-drawn, end-to-end transformational deals. Outsourcing providers are expected to showcase flexibility, not only in terms of pricing, but also in terms of the scope and nature of services to be covered over contract durations. Clients prefer contracts that can help scale up parts of their business witnessing growth, and scale down outsourcing volume for areas with declining transaction levels
- **Advent of next-generation technologies:** The adoption of next-generation technologies, such as cloud computing, mobility, and big data & analytics, allows enterprises to achieve a high degree of collaboration, real-time information sharing, and enhanced corporate end-user experience across business functions, in a cost-effective manner. However, this also calls for more specialized skills, and leads to increased complexity in management of the IT estate.

India Continues to Lead the Transforming IT Offshoring Landscape

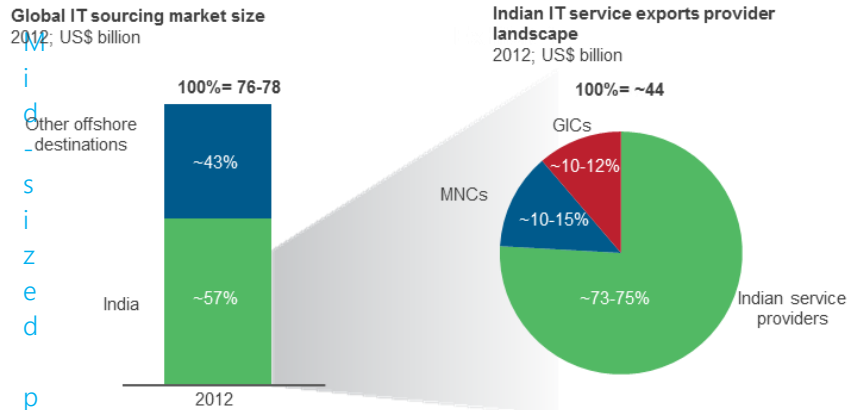
The emerging trends and value drivers in the IT outsourcing space call for innovative products and solutions that help businesses reap tangible benefits over a relatively short timeframe. Only service providers with experience in relevant technologies, verticals, and a willingness to engage through flexible models can address such requirements.

In spite of technology services undergoing a sea change, India continues to be the most preferred outsourcing location. Indian service providers have successfully leveraged their experience to innovate, and retain their competitive advantage in the market. This, coupled with traditional strengths, such as cost arbitrage, availability of a large talent pool, strong service delivery infrastructure, and meaningful government policies and initiatives, has ensured that India continues to command more than half of the global offshore IT services market.

Exhibit 2

Indian offshore IT services market and service provider landscape – 2012

Source: NASSCOM, 2013



ayers have made strides...

The Indian service provider base is characterized by the presence of diverse and competent providers, which offers a wide array of choices for enterprise and mid-market IT services buyers.

Global MNCs and large offshore service providers have traditionally dominated the IT offshoring services through a strong global delivery footprint and an aggressive growth strategy. However, with the value drivers for IT outsourcing undergoing a fundamental change, mid-sized, home-grown service providers (with revenues in the range of US\$100 million to US\$1 billion) have become an integral part of India’s IT offshoring growth story.

Mid-sized service providers have created a niche for themselves in the IT offshoring market through prudent investments and channeled focus on specific technology silos and industry verticals. These players have become highly competitive through a balanced approach of mining existing accounts and investing in new clients and technologies. The increasing maturity of these providers has enabled them to not only target mid-market enterprises, but also compete on large deals with global majors.

Consequently, mid-sized service providers now account for a sizeable chunk of the Indian IT offshoring services market, and are expected to continue to play an important and meaningful role in the future.

...but there are miles to go

While it is evident that mid-sized Indian service providers are here to stay, their task remains cut out in order to remain highly competitive in the offshore services marketplace. These service providers will need to differentiate themselves from the pack and build mindshare and credibility based on unique value propositions (e.g., domain and service expertise) in order to remain relevant and deliver compelling value to their customers.

Carving out specific niches and demonstrating a differentiated value proposition that goes beyond labor arbitrage and lower billing rates will be key for these providers to sustain growth and remain successful.

Mid-sized Service Providers – Increasingly Relevant across Buyer Segments

Enterprises increasingly view IT services outsourcing as a key business enabler that promotes business agility, responsiveness, and an enhanced customer experience. Evidently, the fundamental shift in value drivers has transformed the perspective of businesses regarding IT outsourcing, be it first-generation adopters or businesses experienced in outsourcing. This change in perspective is typically characterized by a need for specialized capabilities (for specific verticals, technology, workloads, etc.), faster time-to-market, and a flexible engagement model that is tailored to the buyer's unique requirements.

- **Relevance to mid-market enterprises:** Mid-sized IT service providers are well-positioned to address the mid-market segment by virtue of their maturing capabilities, specialized offerings, and strong service orientation. Mid-sized players continue to remain highly relevant to mid-market buyer organizations looking for flexible outsourcing partners who can dedicate the desired amount of attention and resources. Mid-sized service providers perceive this as an opportunity to become a strategic and core part of the services portfolio of mid-market buyers, including first-generation adopters.
- **Relevance to large enterprises:** Mid-sized players also play an increasingly significant role within the portfolio of large enterprises, primarily in the form of domain specialists. Large buyers seek to leverage the experience and understanding of mid-sized service providers in dealing within specific industry verticals and technology environments. Mid-sized players are also well-suited to address ad-hoc requirements and volume fluctuations of large buyers (one-off project engagements), owing to favorable pricing terms (with lower corporate overheads as compared to larger players), flexible engagement models, and high levels of delivery agility. Finally, mid-sized players remain highly relevant to large enterprises as credible alternatives to a core provider, and thereby help promote healthy competition within the portfolio.

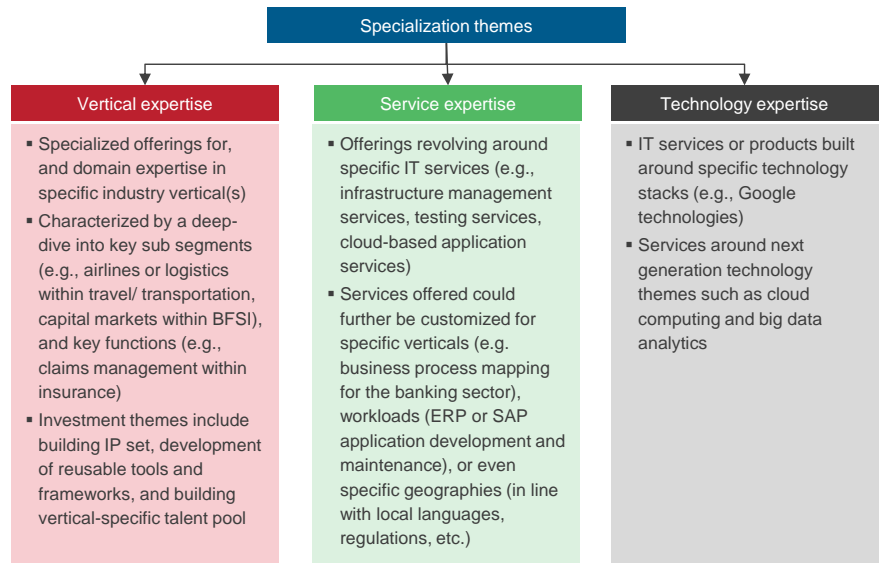
Differentiated Value Proposition of Mid-sized Service Providers

A closer look at the mid-sized IT service providers reveals three broad themes along which mid-sized players typically provide a differentiated value proposition - vertical specialization, service offering specialization, and technology expertise. Service providers also leverage other differentiated propositions architected around specific geographic expertise, engagement models (e.g., virtual captive, build-operate-transfer), or pricing models (e.g., outcome-based pricing). However, these are more relevant for specific client relationships or market segments, and do not feature as consistent differentiation themes across the broader set of mid-sized service providers.

Exhibit 3

Differentiated value propositions of mid-sized IT service providers

Source: Everest Group



Microland: Company profile

Summary assessment:

Microland has firmly established itself as an IT infrastructure services specialist and continues to be one of the specialist players in this space in India. High flexibility in engagement models, strong focus on quality delivery and innovation, diversified customer base, and investments in building IP, alliances & differentiated offerings in emerging technologies are expected to help the company sustain its growth and consolidate its strong position in the IT infrastructure services space.

Established: 1989

Headquarters: Bengaluru, India

Microland does not report financials being a privately held firm

Employees (as of March 2013): 2,520

Leadership:

- Pradeep Kar, Founder, Chairman & Managing Director
- Rakesh Bhardwaj, Chief Delivery Officer
- M S Rangaraj, Chief Innovation Officer
- Sharad Heda, President, India & Middle East

Quality certifications:

- ITIL & Six Sigma
- ISO 9001
- ISO 27001
- ISO 20000-1

Delivery locations:

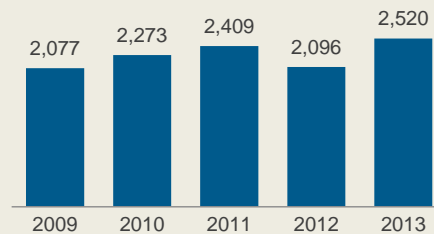
- India (Bengaluru, Mumbai, Gurgaon, Chennai)
- UK (Birmingham and others)
- U.S. (Various client locations)
- Saudi Arabia (Riyadh)

Website: www.microland.com

Company overview

Microland is an IT infrastructure services specialist and one of the first companies to promote the remote IT infrastructure management model. It continues to be one of the largest pure-play remote IT infrastructure management services providers in India with emphasis on outcome-based model, element-based pricing, automation & analytics, service management and hybrid IT services. The company is headquartered in Bengaluru, India and is a privately held firm. Microland is present across North America, Europe and Middle East and has its operations hub in India. It provides IT infrastructure & cloud services across advisory, design & build, deployment & roll out, migration, integration & automation, and management services across a wide range of industries.

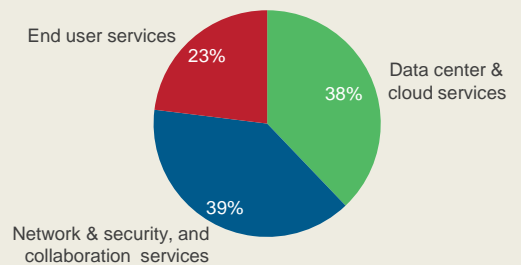
Headcount
Number of employees



Key service offerings

- Data center and cloud services
- Network, & security, and collaboration services
- End user services

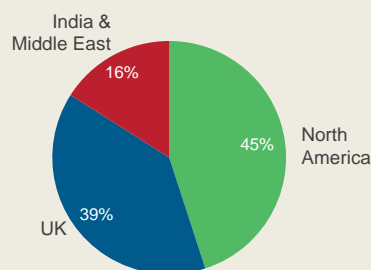
Services mix (as of Mar 2013)
Percentage



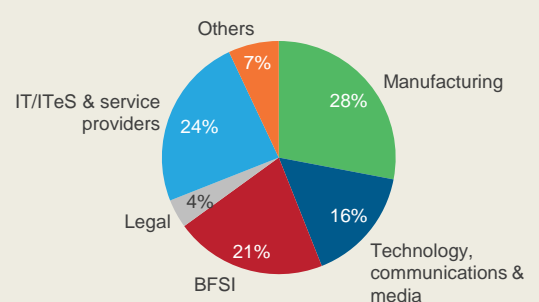
Key business segments

Microland's largest market is North America, followed by the UK – these two regions together account for more than 80% of Microland's revenue. Microland's clientele is spread across multiple industries, as it provides horizontal services that are vertical agnostic. The leading verticals it services though are manufacturing, BFSI, IT/ ITeS & service providers, and technology, communications, & media.

Geographic mix (as of Mar 2013)
Percentage



Industry mix (as of Mar 2013)
Percentage



Microland: Key differentiators

Service expertise – IT infrastructure management services

- 100% of Microland's revenue comes from IT infrastructure services with 80-85% being accounted for by IT infrastructure management & service desk support services and 10-15% being accounted for by IT infrastructure & cloud consulting services
- Microland is one of the pioneers of remote IT infrastructure management services (RIMS) – services were started in 2002
- Microland is making investments in automation & analytics, and building capabilities in cloud services to address the needs of the Hybrid IT world

Key highlights

- Team size of 2,500+ professionals
- Services provided to more than 70 customers across 6 countries
- Operations management centers are ISO 20000-1 and ISO 27001 certified
- Strong technology alliances in place with VMware, Microsoft, Citrix, AWS, Cisco, and Eucalyptus, amongst others

Examples of key operations managed

- One of the world's largest private Exchange set-ups consisting of several hundred thousand mailboxes
- One of the largest global network backbones consisting of several thousand circuits and network & security devices
- A multi-tenant, multi-technology environment consisting of several thousand infrastructure devices spread across multiple end-clients
- Wing-to-wing infrastructure operations including service desk support & several other service lines
- A large global roll-out of Win7 across several thousand desktops and multiple countries

Overview

Microland is a specialist in providing IT infrastructure management services, and one of the pioneers of the RIMS model. Microland's services are based on a flexible engagement model in terms of delivery, pricing, service window, and service performance metrics. Microland believes in a co-creation approach with both clients and partners, in order to effectively address its clients' business challenges. It is committed to attaining high levels of customer satisfaction by providing quality services (e.g. ITIL-based service delivery & outcome-based models) and having a strong focus on innovation.

Key Service Offerings

- Messaging & collaboration services
- Network, security & voice services
- Data center & enterprise computing services
- End user services & service desk
- Application operations services
- Cloud services
 - Advisory services (now2cloud assessment)
 - Design & build, and integration & automation services
 - Private & public cloud & hybrid IT management services
- Microsoft consulting services such as Win7/8 migration & roll out, Exchange & O365 migration, System Center services
- Application packaging services
- Process consulting services

Investment Themes

Microland made significant investments to build its infrastructure management service capabilities. Key investment themes include:

- Automation and innovation – Microland has established centres of excellence (CoEs) for automation and innovation, which are dedicated to developing proprietary solutions and offerings based on emerging technologies
 - One of the flagship products of Microland is its integrated service management platform, SmartCenterSM and is deployed on the cloud.
 - SmartCenterSM is a cornerstone of Microland's differentiated service delivery, focused on enhancing customer experience
 - Developed in-house, it has an orchestration engine and predictive analytics capabilities
- Cloud services and desktop virtualization services – Microland helps its clients through their cloud adoption journey by providing cloud advisory, design & build, migration, integration & automation, and management services
 - Microland uses its proprietary now2cloud consulting framework to chalk suitable cloud adoption roadmaps for its clients
 - Microland helps in building hybrid IT environments through its cloud integration & automation services

Case study: Waste management – NOC transformation

Client overview

Waste Management, Inc. (WM) is a leading North American provider of integrated environmental solutions, including waste management, recovery of valuable resources, and creation of clean & renewable energy. WM has around 45,000 employees and serves over 20 million residential, industrial, municipal, and commercial customers.

Engagement Overview

Until three years ago, WM's network operation center (NOC) services were being delivered primarily by an in-house team, with pre-defined processes driving these services. The WM team, led by VP of Infrastructure, Operations and Client Services, Gautam Roy, outlined a vision and roadmap to transform the IT function to be in line with global standards, thereby achieving a higher degree of control over operations and aligning the operations with business objectives.

The key objectives of this transformation included:

- Introducing a stable and well-defined process framework that allowed for:
 - Standardization of management tools and platforms
 - Proactive monitoring of tickets/ alerts to identify and mitigate chokepoints, and
 - Complete process adherence
- Consolidating and upgrading the set of tools and technologies being used, for a holistic and real-time view of the IT operations
- Acquiring a globalized skill set and talent base to drive the process improvement

The scope of the engagement included managing more than 15,000 incidents covering more than twenty million customers on a round-the-clock basis.

Partnered by Microland, the team at WM executed the transition with minimum production risk, putting in place an ITIL-based service delivery model that allowed for monitoring and troubleshooting of application service maps based on criticality levels. WM conducted an overhaul of processes, SLAs and real-time performance monitoring, and developed SOPs for faster resolution of incidents. The engagement followed a hybrid delivery model with an optimal mix of resources at Microland's remote Command Center and onsite at WM premises.

Post evaluating a wide array of suppliers, WM chose to engage Microland, considering the provider's core focus and credentials in the IT infrastructure services space. Given the scale and urgency of the transformation process, WM wanted to partner with a flexible service provider who could align itself with WM's vision, showcase high levels of innovation and flexibility, and provide a cost-effective model with global delivery capabilities.

- Improved business services agility and availability of globally distributed setup with ability to fix problems proactively & effectively, thereby increasing customer satisfaction levels
- Overall process improvement leading to improved business-IT alignment
- Standard processes and technologies have enabled WM's IT team to support rapid business growth and adoption of next-generation technologies in a seamless manner

Rationale for selecting Microland

Key benefits and results

"Waste Management's (WM) collaboration with a flexible solution delivery partner like Microland enabled the implementation of a uniquely customized and economically sustainable Network Operations Center (NOC) solution.

Via an agile, federated, multi-country operation model enabled by standardized technologies, and the industrialization of global processes we continue on our commitment to excellent customer satisfaction.

This transformation is aligned with our business strategy and provides a framework to reduce risk and minimize the cost of operational continuity."

– Gautam Roy,
VP of Infrastructure,
Operations and Client
Services

Conclusion: Implications for Buyers and Service Providers

Several mid-sized Indian service providers seem to have caught the right pulse by looking to create differentiated value propositions, and positioning themselves as best-of-breed service providers within their specific focus areas. Given the evolving IT offshoring landscape, where cost arbitrage and scale alone no longer remain the underlying value drivers, this differentiated positioning has resonated well with buyers, both large and small enterprises alike. However, the dynamic set-up of the IT offshoring landscape holds some key implications which both global sourcing buyers and service providers need to be aware of.

Implications for global sourcing buyers

- Recognize the importance of the mid-sized Indian service providers and the value they can potentially bring to the table within the outsourcing portfolio. Identify specific scenarios, where mid-sized providers can add value by virtue of their specialized capabilities
- Invest the requisite time and effort to evaluate and identify the right mid-sized service providers that align with portfolio objectives
- Define clear and realistic roles for mid-sized service providers that optimally leverage their capabilities and specialized offerings to obtain the desired sourcing outcomes
- Proactively track service provider performances, and design plans to prevent possible service delivery disruption due to potential consolidation and M&A in the mid-provider segment

Implications for Indian mid-sized service providers

- Recognize the need for differentiation and specialization as critical factors for success; generic positioning often leads to credibility erosion due to questions related to size and process maturity
- Remain proactive in identifying new segments/service lines that hold potential for growth, and constantly reevaluate existing portfolios to identify core offerings / focus segments that will drive differentiation
- Invest in targeted marketing and branding initiatives, and remain aggressive in building recognition and brand-recall with global buyers, especially within areas of specialization
- Invest in building solutions that leverage emerging technologies that could provide a differentiated positioning, specifically amongst large buyers looking for state-of-the-art solutions

About Everest Group

Everest Group is an advisor to business leaders on next generation global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research, and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies, and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

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