Outsourcing (But Not as We Know It)

IN THE NEXT FIVE YEARS, outsourcing as we know it will disappear. The legion of Indian service providers will be sidelined or absorbed. U.S. and European companies that pioneered this corner of the high-tech industry will suffer similar fates if they don't wake up. Who will emerge as the new leaders? Google and Amazon.com, brands that we associate with search and retail, will become better known for outsourcing.

Ludicrous? Not if you follow this industry. Desktop computers yielded to laptops. Web portals AOL, MSN and Yahoo! are giving way to social media sites Facebook, Twitter and LinkedIn. Software once distributed by disk is now available as apps on the Web—and so it goes. The same Darwinian process is creating a fresh ecosystem in outsourcing.

In this new model, outsourcers provide standard off-the-shelf software on a "pay-per-drink" basis. For that, they will leverage so-called cloud technology, which lets users tap into computing power available via the Internet, rather than on a desktop or computer server housed locally. In outsourcing, cloud shifts the center of gravity from physical ownership of assets and process expertise to the skills necessary to manage computing operations—to scale up to simultaneously handle scores of different tasks.

This will set off a wave of global consolidation in tech services. Indian outsourcing companies are investing to get up to speed on the cloud—but how quickly can they build sufficient scale?

The Winners and Losers

It's not merely Indian companies wrestling with these changes. Let's handicap the winners and losers in the race to become players in the evolving outsourcing business.

The losers. Mid-tier Indian outsourcers will be acquired by larger, more aggressive companies. They are attractive because of their client list, operations in low-cost countries and process expertise. Leading Indian players such as MphasiS and eServe have already fallen prey to Hewlett-Packard and TCS, respectively, while Infosys and Wipro are at risk.

The winners. Amazon.com, Google and IBM are the future leaders in outsourcing. Amazon.com and Google are already providing services to Eli Lilly and Pfizer. They own data centers and can operate them efficiently. They will gain capabilities they don't yet have by acquiring Indian or other global outsourcers. Amazon.com has made so much headway in cloud technology that this area of their business will generate nearly $750 million in 2011, according to UBS.

The possible winners. Microsoft, Oracle and SAP know about enterprise platforms and applications and captive client portfolios. Their success will depend on the speed at which they build up capabilities they are currently missing in connectivity, infrastructure and the cloud. It will also depend on their appetite for risk, as getting into the cloud will require nothing less than reengineering their DNA.

Those on the fence. Xerox, HP and Accenture have the technical and financial resources to expand their capabilities. Recent acquisitions by HP (EDS) and Xerox (Affiliated Computer Services) show that they see the writing on the wall. Nevertheless, it's uncertain that these behemoths will shift seamlessly from large integration projects to cloud-based solutions.

Reshaping a Market

For outsourcers, cloud computing creates an unprecedented opportunity to reshape how services get delivered. For clients, it opens up a new era characterized by the arrival of new players that are eager to build relationships and showcase their capabilities. That means more choices and a new model that will sustain the price advantage that outsourcing has hitherto provided. ea

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