

# The Future of Global Delivery

**Finding the Right Balance Between Short-Term Stability  
and Long-Term Prosperity**



# Finding the Right Balance

In today's volatile environment, businesses are looking for ways to resist the downturn by balancing their short-term need for cost-cutting and stability with their long-term objective of profitable growth when the economic upturn arrives. For those that are well positioned, the downturn can even be an opportunity to gain competitive advantage.

Organizations that have survived thus far were able to quickly address activities pertaining to the short- and medium-term, such as de-prioritization of capital projects, optimizing accounts receivable/accounts payable terms, and securing long-term and short-term credit. The next challenge has been to optimize operational expenditures. This entailed, and in many cases still entails, going through various cost-cutting initiatives across functions, but without damaging the long-term. These measures have been primarily about stability, however, and have offered limited scope for future differentiation and competitive advantage.

In contrast, tomorrow's business leaders are not only putting into place short- and medium-term measures. These organizations are considering what they need to do now to make themselves fit for a post-recession upturn. How can organizations differentiate for long-term prosperity? How can they invest in critical areas such as innovation and transformation while still keeping a tight rein on costs?

One way that businesses can address both short-term and long-term objectives is by taking a new approach to global delivery and sourcing – one that balances quality, efficiency, talent and collaboration to achieve strategic business objectives. Such an approach focuses on:

- Sustainable competitive advantage, innovation and growth as well as cutting costs
- Optimizing capital, streamlining processes and providing transformational solutions through the pooling of industry and technology capabilities
- Business agility and flexibility
- Value derived from innovation, speed to market, risk sharing and a focus on providing the appropriate total cost of ownership.

This paper examines the state of global delivery today and in the future, and looks at how the model is evolving to help businesses gain long-term value. The paper is based on quantitative research conducted by Capgemini as well as qualitative interviews with analysts, and business and IT executives. We hope the findings will improve your understanding of how offshoring — or what we at Capgemini call Rightshore<sup>®1</sup> — can help you achieve the right balance between short-term stability and long-term prosperity.



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Cover photo: Shanghai

<sup>1</sup> Rightshore<sup>®</sup> is Capgemini's approach to global delivery that combines global talent from the right balance of locations working together with our clients as "One Team."

# Perceptions and Realities of Global Delivery

To gain a better understanding of existing perceptions and the potential future direction of offshoring, Capgemini conducted a research study titled “Perceptions and Realities of Global Sourcing/Global Delivery.”<sup>2</sup> We surveyed nearly 1,000 executives working in organizations of varying sizes and industries in 13 North American and European countries. To supplement the quantitative survey, we also conducted multiple interviews and advisory sessions with analysts, and business and IT professionals, providing a sharper picture of the

new offshoring context that is being profoundly transformed by the global economic climate.

The following are key findings from the research:

- **Current market conditions are impacting offshoring decisions.** In today’s economic environment, businesses face competing pressures as they struggle with the need to save costs as well as concerns about keeping jobs at home. About half of the respondents in our research

indicated that the economy has affected their reasons for offshoring, although in different ways. For example, some respondents indicated that the desire for cost savings was underlying their decisions to *increase* offshoring, while others noted that concern about start-up costs and keeping jobs and decision-making local were leading them to *decrease* offshoring. Flexible global delivery models (offshore/nearshore/onshore/on-site) that balance these issues may be the key to success in the immediate future.

- **Cost savings leads the list of short-term offshoring drivers, but other factors are emerging.**

Overall, strategic objectives such as innovation and customer intimacy are important to businesses, but for offshoring decisions, cost savings/price continues to take precedence in the short-term. Other offshoring drivers named by respondents included global delivery capability; knowledge of the business, industry and critical business processes; and a strong local team. Executives also indicated that they were looking for ways to balance longer-term objectives such as innovation with cost savings. This is particularly true in more mature offshoring markets such as the U.S., UK and Nordic region.

- **Although organizations have increasingly moved to offshoring, barriers remain.** These include doubts about the ability to realize savings/cost reduction and “hygiene” factors such as security and fear of dependency. The least mature offshoring markets (such as France,

## CASE STUDY

### Mölnlycke Health Care Realizes 40% Savings Through Global Delivery Approach

Mölnlycke Health Care asked Capgemini to implement a major upgrade of its SAP ERP system. This has been such a positive experience for Mölnlycke that it is increasingly applying Rightshore®, Capgemini’s global delivery model, to more complex, critical projects right across the organization, from management of infrastructure and SAP applications to complex SAP projects.

The approach creates an optimum solution through one team providing the best global talent in the right location at the right time. This way of working reduces the cost of system development, maintenance and programming for Mölnlycke by as much as 40%. It also provides them with the right balance of an onshore front-office capability in Sweden and a back-office capability of experts in India that can be quickly scaled up whenever extra resource is required.

Using this approach means that 60% of the project team assigned to Mölnlycke is now located at Capgemini’s Center of Excellence in Mumbai. Stefan Fransson, Mölnlycke’s CIO, explained: “Partly this move to India was due to a need to reduce costs but equally important was the fact that we sometimes were unable to find sufficient resources locally for the new applications and the projects we were planning in SAP.”

<sup>2</sup> Capgemini’s quantitative research was conducted in late 2008 and early 2009, with follow-up qualitative interviews and sessions held in the ensuing months. Capgemini worked with SmartRevenue, a Ridgefield, Connecticut-based research firm to conduct the quantitative study.



Italy, Germany, Spain and Portugal) were almost twice as likely to focus on security and dependency issues than were the most mature markets like the U.S. and UK. A provider's experience, industrialized approach, templated solutions, and proven tools and methodologies will be key to ensuring that both cost savings and security levels are achieved.

- **New markets will continue to emerge as offshoring destinations.** Eight out of 10 executives said they expect an offshoring provider to have a global delivery model. Respondents indicated that India will remain the offshoring location of choice in the next few years, followed closely by China. However, a significant number expect that India's attractiveness will begin to

wane as costs rise, with new lower-cost locations emerging. Increasingly, offshoring providers must be able to respond quickly in emerging locations such as Eastern Europe, Latin America, Malaysia, Africa and Thailand.

- **Offshoring of information technology will remain popular, with growth likely in strategic areas such as CRM.** Respondents indicated that IT will remain the area most likely to be offshored in the coming few years, especially application maintenance, application development/testing, e-business and infrastructure management. Additional growth areas are expected to be finance and administration, CRM functions such as customer service (especially call

centers) and manufacturing. Less likely to be offshored are research and development and supply chain.

- **Medium-size businesses<sup>3</sup> will expand their use of offshoring.** Executives from medium-size businesses, in particular, reported aggressive offshoring plans for the coming years, especially for IT and customer service. Providers must understand the needs and concerns of medium-size businesses such as security and quality issues, which tended to be more pronounced than among executives at larger organizations in our survey.

While this topline review provides a summary of key findings from Capgemini's research, the pages that follow offer additional analysis.

<sup>3</sup> In the research, large organizations were defined as having annual revenue of US\$2 billion/€1.6 billion or more; medium-size businesses as having revenue of US\$500 million to US\$2 billion/€400 million to €1.6 billion; and small as having revenue of less than US\$500 million/€400 million. Among the executives surveyed, 60% were affiliated with medium and large businesses.

# A New Era in Global Delivery

The structural shift the market is experiencing as a result of the economic uncertainty is exacerbated by technology shifts such as the introduction of cloud computing and software-as-a-service. These new technologies are challenging traditional delivery models, which must coordinate complex elements into a cohesive outcome. This will lead to the continued growth of global delivery models, particularly those that encompass new emerging offshoring destinations, as well as nearshore and onshore locations.

Based on our research as well as our experience with clients, we anticipate that a number of factors will be important in shaping the face of global delivery in the coming years:

- **The evolution of IT services and outsourcing promise new ways to profoundly transform and perform through technologies.** Increasingly, organizations need technology solutions that directly address business requirements such as cost management, flexibility for transformation, supply chain efficiency and increased customer centricity and that can be implemented quickly and effectively. This is where “information technology” evolves into genuine “business technology,” leveraging global delivery as a key asset for success.
- **The need for greater expertise, insights and capabilities** that can help businesses boost their freedom

## CASE STUDY

### Innovation and Speed of ‘One Team’ Strengthens International Presence for Société Générale

BHFM, the international retail banking division at Société Générale, needed to harmonize its IT systems because each of its 40 subsidiaries abroad had completely different systems in place. As its international expansion is a major growth driver requiring the rollout of the new IT system to be speeded up, Société Générale turned to Capgemini for help.

Taking a next-generation global delivery approach with Capgemini’s Rightshore® model enabled Société Générale to execute this strategic international project in 36 countries around the world. The rollout to all 40 subsidiaries is on target to be completed over the next three years. Expected benefits include increased net bank income, the sharing of best practices and improvements in products, risks and service quality.

A dedicated program coordinator located in Paris acts as the interface among the teams on the ground, the service center in India and Société Générale. “The biggest issue we had in this program was to have the right level of resource in the right country at the right time. The second issue was speed of deployment,” said Yvon Puyou, Head of Core Banking, Risk & Finance Global IT Projects, Société Générale. “Capgemini has enabled us to successfully overcome both of these.”

to achieve superior results in a challenging environment will be more important than ever.

- **New — and in some cases more complex — challenges and decisions must be addressed**, as the offshoring market matures and the focus shifts from cost savings alone to more strategic objectives such as growth, transformation and innovation.

- **As globalization flattens the world, a holistic understanding of global delivery will grow.** Talent, low costs and innovation are not limited to one country. The optimum solution for many organizations will involve a well-balanced mix of onshore, nearshore and offshore locations across the globe.

# Globalization Makes the World Flat

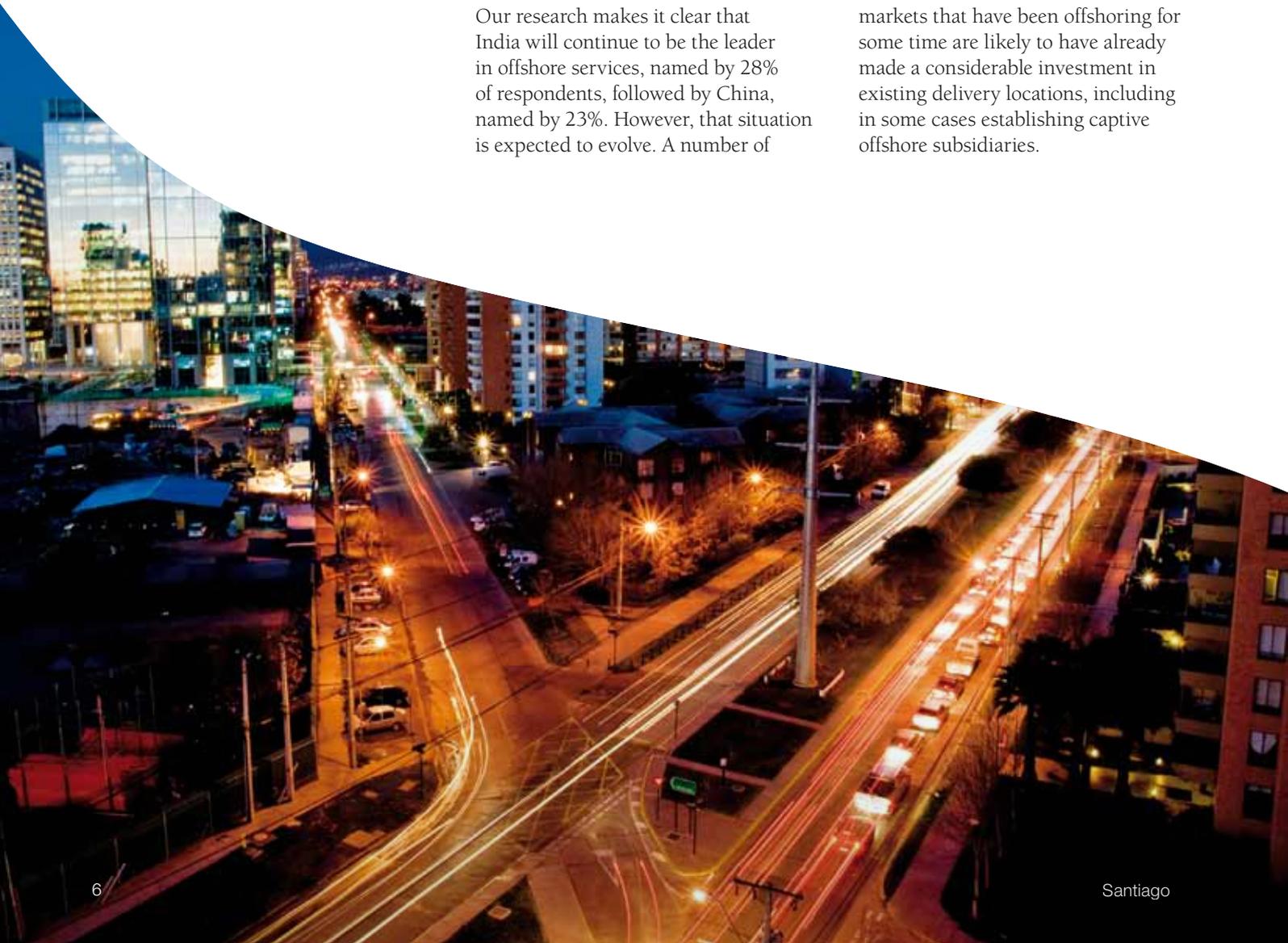
**The dynamic nature of the market has seen new destinations making progress, driven by a strong interest in nearshore locations.**

As organizations manage an increasingly complex ecosystem of both internal and external service providers, the search for talent, uniqueness, cost savings, and innovative and differentiating solutions must expand. A growing number of countries are positioning themselves as credible offshoring alternatives to the more traditional BRIC countries (Brazil, Russia, India and China). The dynamic nature of the market has seen new destinations making progress, driven by a strong interest in nearshore locations where language skills, cultural compatibility, time zone and travel time are important considerations.

Our research makes it clear that India will continue to be the leader in offshore services, named by 28% of respondents, followed by China, named by 23%. However, that situation is expected to evolve. A number of

additional markets, including Poland, Russia, Brazil and Romania were identified as future offshoring locations by the survey respondents.

Executives from the less mature offshoring countries were more likely to focus on multiple delivery destinations, compared with respondents from the most mature countries, which expect to continue to focus on destinations such as India and China. For example, 49% of executives from the U.S. and UK said they would offshore to India vs. only 18% of respondents from France, Italy, Germany, Spain and Portugal. This is likely due to language preferences and the fact that businesses in more mature markets that have been offshoring for some time are likely to have already made a considerable investment in existing delivery locations, including in some cases establishing captive offshore subsidiaries.



**CASE STUDY**

## Capgemini and Unilever Extend Services Relationship for Latin American Operations

In 2008, Unilever and Capgemini signed an agreement to reduce costs and improve the consistency of processes in the finance function. Under this seven-year agreement, Capgemini is integrating Unilever’s shared service centers in Santiago, Chile, and Sao Paulo, Brazil.

Capgemini provides a full range of Finance & Accounting services for the 20 affiliates of Unilever Group in Latin America, including specific tax transactional services.

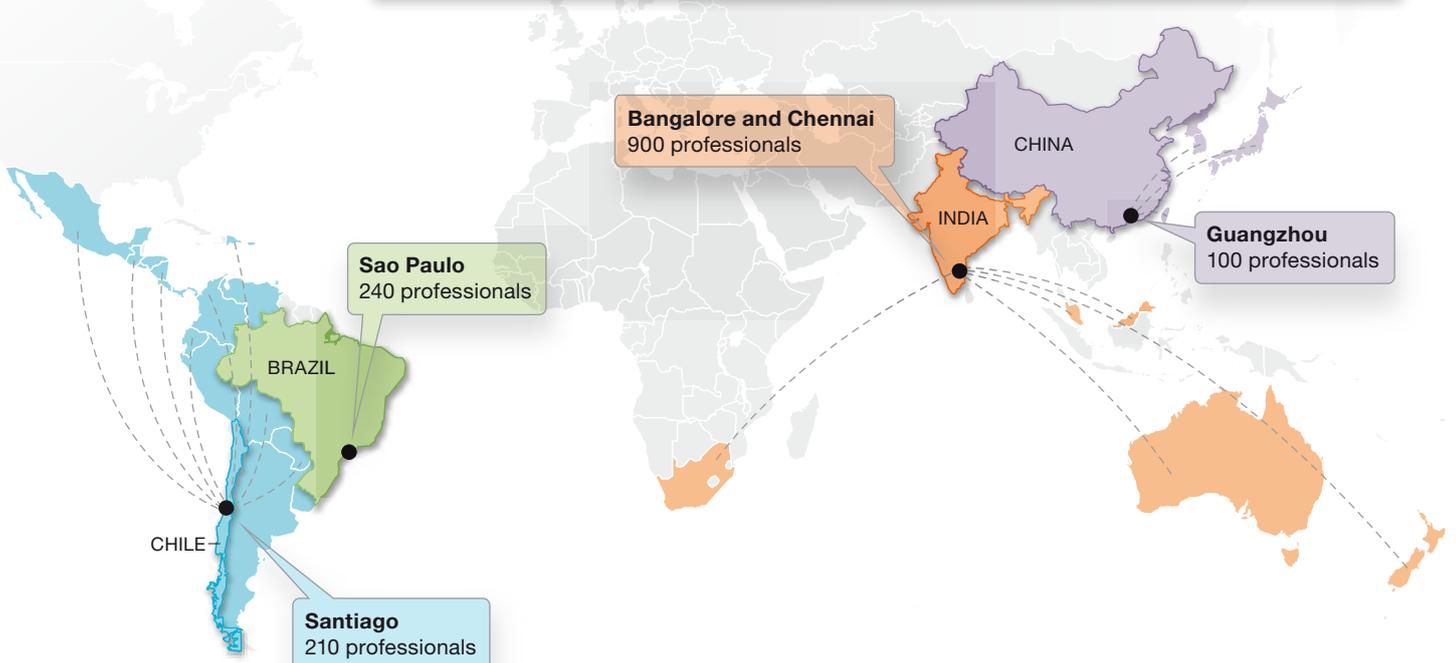
“This decision is consistent with Unilever’s strategy to seek efficiencies in its ways of working by reducing complexity and leveraging the scale and best practices of outsourcing providers,” said John Bird, Senior Vice President, Finance and IT, Unilever Americas.

This agreement was built upon the excellent relationship between Unilever and Capgemini and a similar agreement signed in 2006 to provide BPO financial shared services in Asia, Africa and the Middle East in which Capgemini acquired a majority stake of Unilever’s shared service centers in Bangalore and Chennai in India.

Today, close to 1,500 BPO professionals deliver to the Unilever Group Finance & Accounting services for Asia, Africa, Middle East and Latin America from:

- Guangzhou (China): Close to 100 professionals are servicing Unilever operations in China, Hong Kong, Japan, Korea and Taiwan.
- Bangalore and Chennai (India): More than 900 professionals are servicing Unilever operations in Australia, India, Malaysia, New Zealand, Singapore and South Africa.
- Sao Paulo (Brazil): More than 240 professionals are providing services to Unilever operations in Brazil.
- Santiago (Chile): 210 professionals deliver services to Unilever operations in Argentina, Bolivia, Colombia, Chile, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Puerto Rico, Peru, Trinidad & Tobago, Uruguay and Venezuela.

**Capgemini Delivers to Unilever Across Asia, Africa, Middle East and Latin America**



# Responsibility for Business Innovation Begins to Shift

Not everything can be offshored or delivered remotely, but increasingly organizations are looking to third-party providers for strategic support in areas such as business innovation. Almost half of the respondents in our research indicated that they see a trend to shift the responsibility for business process innovations to a third-party provider due to a lack of internal resources, or a lack of the right skills internally. However, they also expressed a wait-and-see attitude regarding the further development of this trend. IT executives were somewhat more likely than their business counterparts to see this shift occurring.

This shift appears to be driven in part by the maturing offshoring business. As offshore skills and capabilities mature and expand, more innovative solutions can be delivered from offshore locations.

An additional driver is the increasing focus on business technology rather than information technology. In this new view, IT is less likely to be seen simply as an enabler but increasingly as a driver of business results and improved performance. This is leading organizations to focus more on a value-based distributed delivery model that addresses the

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## Next-Generation Global Delivery

Yesterday's offshore models were focused solely on cost-cutting. Over time, businesses have taken a more integrated approach to offshore delivery. The next generation of delivery – the value-based distributed delivery model – is about gaining sustainable competitive advantage, innovation and scalability while continuing to realize cost savings.





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business challenges and incorporates strong global capabilities, business process expertise and a business technology framework. Increasingly, organizations expect innovation to be well integrated in global delivery models and leveraged as part of the delivery from low-cost locations.

Capgemini has begun to see this shift, for example, in our work with clients in the telecommunications industry, where many companies recognize the need for a business transformation due to factors such as an uncompetitive cost structure, high customer churn rates or an inability to launch new products or services quickly.

Increasingly telecom companies are turning to third-party providers to help implement the transformation and accompanying innovation needed in systems and business processes.

For example, Capgemini has begun to help communications businesses with a transformation platform consisting of an integrated set of systems and business processes. This framework enables organizations to capitalize on ready-made processes, such as business support and operational support systems, which require very little bespoke adaptation. This is underpinned by the global expertise in key industry delivery skills from dedicated centers of excellence that link IT to the business transformation outcome.

# Accelerating into the Future

Our research also found the use of so-called solution accelerators to be an emerging trend, identified by about half the respondents, with IT executives somewhat more likely than their business counterparts to be aware of the trend. Accelerators are tools or methodologies that allow previously expensive onshore resources, supported by

offshore resources, to become more productive and less expensive to the customers. These accelerators can include solution templates, reusable objects, test scenarios and industry reference models.

The use of accelerators is a new way to deliver business information systems and has the potential to

change the offshore game, although the ultimate impact of the trend on offshoring is not yet clear. This more holistic approach to global delivery offers the freedom to use all the resources and assets available in a common delivery framework.

The benefits of these kinds of accelerators typically stem from the solution industrialization and industry expertise of service providers resulting from their maturing offshoring business. Typically, we have found that about 20% of delivery is customized through the use of onshore accelerators, while 80% is delivered with the use of more standardized, offshore accelerators.

Research conducted by Forrester found that “when clients accept the concept and are ready to pay for the value, solution accelerators will yield savings of 12% to 15% in the overall project cost.”<sup>4</sup> In addition to cost savings, these accelerators can help businesses reach their objectives more quickly and at the same time minimize risk and make rollouts more predictable because the solutions have been previously tested and implemented.

<sup>4</sup> “Solution Accelerators Will Disrupt the IT Services Landscape: Providers Must Develop Business Process and Product Development IP to Survive,” Forrester Research, Inc., Sudin Apte

## CASE STUDY

### CRESCENT: Proven Accelerators to Reduce Risks and Lower Costs

Today, more than ever, systems must go live quickly, with lower cost, minimal risk and measurable benefits. Capgemini is helping companies in the consumer industry achieve these objectives using its Consumer Products and Retail Solutions Center (CRESCENT) as an offshore accelerator together with onshore accelerators such as Rapid Design & Visualization (RDV).

CRESCENT, located in Kolkata, India, industrializes the way that complex systems are integrated and offers acceleration tools to help businesses reach their objectives more quickly, while minimizing risk and cost, and maximizing the quality of the solution. In one example, Capgemini is working with American Greetings to leverage the CRESCENT center and its proprietary methodology for SAP for Retail as part of a large technology implementation.

In another instance, Capgemini worked with a global luxury manufacturing/wholesale/retail company on an SAP-based business transformation program to strengthen the client’s back office, supply chain and retail operations. Keys to the successful implementation included preconfigured solutions, which accelerated development time, resulting in a more comprehensive, higher-quality solution; a consistent retail business process model approach to map the client’s processes; our increased consumer products and retail domain expertise in India via our CRESCENT center; and Capgemini’s global delivery model.

# Conclusion: Looking Beyond the Horizon



**The companies that will truly benefit from the period of uncertainty will be those that look over and beyond the horizon.**

In today's volatile economic environment, organizations are challenged to resist the downturn and thrive, and they often face conflicting priorities and pressures. Cost reduction is critical, but alone it's not enough to grow and position a business for success in the future. The companies that will truly benefit from this period of uncertainty will be those that resist the myopic quarter-to-quarter management of targets and instead look over and beyond the horizon.

Differentiation is never easy, but Capgemini believes that the changing global delivery model outlined in this paper can help position companies for success when the economy picks up again – not only through cost reduction but also through a focus on value-added strategic objectives such as innovation, growth and competitive advantage. The game has started to shift from surviving today to winning tomorrow. This requires a different mindset, and additional tools and techniques that are increasingly becoming an essential part of global delivery.



## About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery

model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients. Present in more than 30 countries, Capgemini reported 2008 global revenues of EUR 8.7 billion and employs 90,000 people worldwide.

More information is available at [www.capgemini.com](http://www.capgemini.com).

### About Capgemini's Rightshore® Global Delivery Model

Rightshore® is the registered trademark of Capgemini's approach to global delivery that combines global talent from the right balance of locations working together with our clients as "One Team." Getting the balance right ensures that we create and deliver optimum solutions that generate significant value for our clients by addressing their specific need for cost reduction, as well as focusing on growth, innovation and sustainable competitive advantage.

Our extensive Rightshore® network includes 35,291 people working in center-based operations, with 6,025 in onshore centers, 20,111 in offshore and nearshore centers, and 9,155 in Business Process Outsourcing (BPO) centers. Our centers are located across the globe: Argentina (Buenos Aires); Australia (Adelaide); Brazil (Sao Paulo); Canada (Toronto); Chile (Santiago); China (Guangzhou, Kun-Shan, Shanghai); Finland (Helsinki); France (Clemont Ferrand, Grenoble, Lille, Nantes, Paris, Saint Cloud, Toulouse); Germany (Düsseldorf, Frankfurt, München); Guatemala (Guatemala City); India (Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, Pune); Italy (La Spezia); Mexico (Mexico City); Morocco (Casablanca); Netherlands (Utrecht); Poland (Katowice, Kraków, Wroclow); Romania (Iasi); Spain (Asturias, Madrid, Murcia, Zaragoza); The Philippines (Manila); United Kingdom (Birmingham, Inverness, London, Sale, Woking); United States (Dallas, Kansas City).

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