



Are SMBs Ready to Outsource?

Indian SMBs are gearing up to take the outsourcing plunge; numbers and expert opinions indicate huge opportunities

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When enterprises the world over are touting technology-led transformation as the new game changer, how long can Indian SMBs shy away from it? High-end technology capabilities have for a long time eluded SMBs, or probably SMBs have deliberately stayed away due to various reasons. But the emergence of alternative avenues in the form of technology outsourcing models and the cloud is playing a major role in bridging the gap.

Technologies that remained unreachable till a few years back are very much a reality now. And there is a visible change in mindsets as SMBs look out for smarter ways of doing business to maintain their hold in a tough market scenario. All indicators seem to be pointing towards one direction—SMBs are all geared up to take the ‘outsourcing plunge’.

According to a Zinnov report on SMBs, there is a growing affinity towards technology adoption in SMBs. IT spendings are going up significantly in India, and a huge chunk of this is coming from the SMB space. SMB IT spendings is surging at a rate of 15% per year and is estimated to reach \$15 bn by 2015. This indicates the enormous opportunity for technology outsourcing in the SMB landscape.

Competing with the Big Brothers

Ultimately SMBs have to compete and survive in the same playing field as the large enterprises. Viral Thakker, partner KPMG, says, “There is no compromise to the quality of products offered by SMBs. They have to bring out products that give the look and feel as that of big brands.” Being competitive is high on the agenda and this is driving the search for new technology avenues.

Moreover with new technology

SMB Outsourcing Opportunity

- Ten million SMBs are ‘IT ready’, will reach 11 mn by 2015
- India’s domestic IT spend to reach \$36 bn by 2015, growing at a CAGR of 12%
- IT adoption in SMB segment is growing at 15% and expected to reach \$15 bn by 2015
- Four million SMBs in the country are using PCs which is expected to grow at 30% from 2011 to 2015

Source: Zinnov study titled Indian SMB ICT Adoption Insights



—Amitabh Misra, VP, engineering, Snapdeal.com

“The single biggest driver is execution speed. It takes a lot of time and effort to hire. For a start-up, that much time may be fatal with respect to competition. So a start-up growing very fast would like to complement internal work with outsourced work”

“Outsourcing has benefited us in a big way. We could migrate to a different service provider without much effort. The mundane activities which were difficult to get enforced from within are outsourced with an SLA”



—CR Narayanan, chief information officer, Tulip Telecom

trends bombarding the enterprise landscape, businesses need to be ‘IT prepared’. Globalization, explosion of mobile devices, advanced collaboration and networking requirements, and the ever-increasing computing needs make it essential for enterprises to strengthen their technology capabilities. On most instances, SMBs, especially start-

ups, are not in a position to do this on their own and need some hand-holding from a third party service provider.

Variablizing the Cost

Experts believe that while drivers are pretty much similar to that of large enterprises, SMBs do have their own specific issues to deal

with, both internal and external pressures coupled with the inherent objective to cut down costs. Thakker says, “By variabilizing the cost, cloud based outsourcing services make technology affordable for small-sized businesses.”

Along with it brings the much needed flexibility to scale up and down as and when required. Enterprises no longer need to invest huge amounts in technology resources and get access to the same on a pay-as-you-go basis. Venkatesh M, managing director, Pinehill, an online start-up that has opted for a cloud based CRM application from Microsoft, is happy with the way cloud has helped his company. He says, “I haven’t hired an IT guy which is a big relief. I am sure that as the business grows, the company would be able to scale its business on the same platform.”

Focusing on Strategic Areas

Till some time back IT infrastructure for SMBs was more about sustenance and support, but it has grown beyond that. Enterprises look to align their IT infrastructure with the strategic goals of their business. At the same time they want to ensure that they do not lose track of the more strategic issues.

Outsourcing and shared services models help them concentrate on the crucial aspects of business while the expert takes care of the technology part. Robin Wessel, director, new business development, Xerox, says, “It’s a huge benefit to hand over the responsibility of a non-core competency to an expert. When you outsource IT or other businesses processes you’re hiring someone who knows the technology, functionality, and benefits inside and out.”

Hot Areas

So what are the major technology trends that are dominating the SMB



—Brijesh Agrawal
COO, IndiaMART.com

“Almost 40% data of IndiaMART.com is on the cloud. We also have our attendance and payroll systems on the cloud. This allows for faster processes and anytime, anywhere access for our employees. This way our data also gets consolidated in one place than different systems”

“SMBs have to be educated that they can invest lesser and acquire better security processes through cloud than having their own infrastructure to meet the consumer demand and at the same time be secure”



—Vish Sivaswamy, head,
global practices, Anthelio
Business Technologies

APAC SMB Trends

According to Symantec's 2012 SMB Disaster Preparedness Survey, Virtualization, cloud and mobility are most popular trends for SMBs in the Asia Pacific. Virtualization and mobile devices have shown an upsurge, but cloud computing clearly leads the race.

IT outsourcing scene? This varies depending on the size and type of business. Wessel adds, “Major trends include navigating the cloud; managing a mobile workforce, or a workforce that is increasingly looking to bring their own device to work; taking advantage of digital marketing; implementing managed print services; maintaining data security and exploring virtualization opportunities.”

Cloud: The Biggest Driver

Cloud definitely seems to be the most prominent technology trend for SMBs right now. The willingness to move traditional infrastructure models to a cloud based environment is increasingly growing. Praveen Bhadada, director, Zinnov Management Consulting says, “The cloud market in India is a multi-billion dollar opportunity. In 2011, 25% of IT investments happened through

Key Cloud Trends for SMBs

- According to AMI-Partners latest research, in 2012, upto two-thirds of the total cloud investment is estimated to come from SMBs in India, Korea and China, investing upto \$11 bn in cloud related technologies
- Remotely managed IT services (RMITS) is the most common cloud service offered
- Security still remains a big concern
- Lack of awareness a major hindrance to adoption

SMBs and around \$6-7 bn came from there.”

Other than the numerous benefits that cloud entails, the increasing maturity of cloud based offerings and the service provider landscape is another big driver for cloud adoption across SMBs.

IT vendors are aware of the big opportunity that lies unexplored in this part of the market, and to capitalize on that they are coming up with customized solutions for the SMBs. They know that what works well for a large enterprise might not work here.

Xerox believes that it's really about making sure you have offerings that are scalable to smaller organizations. The IT service provider has recently launched a set of business cloud services specifically tailored to the SMB. “These are the type of services—IaaS for mid range and Intel systems, disaster recovery, and mobile management—that would historically only have been available to global corporations,” says Wessel.

TCS iON is another SMB focused offering. It offers enterprises the flexibility to choose from integrated suite of hardware, network, and software solutions on a pay-as-you-go model.

There is also a visible increase in cloud channel partners in India. According to AMI's recent India Channel Partner study, with cloud services showing increased demand among SMBs, the number of channel partners offering cloud solutions

in their product/services portfolio has gone up by around 35% in the last one year.

What type of cloud offerings are being preferred the most? Arup Roy, principal research analyst, Gartner says, “The preference is more for infrastructure cloud offerings as compared to application development.” The AMI study reveals that remotely managed IT services (RMITS) is the most common cloud service offered, as it requires less investment for partners, followed by software-as-a-service (SaaS). Other cloud services include infrastructure-as-a-service (IaaS) and cloud consulting services.

Reality Check

Affinity to the cloud and other outsourcing models is certainly going up. Barriers in the form of closed mindsets and security fears are gradually being broken. Security fears around the cloud still remains, but instances were companies have realized better security through cloud cannot be denied. According to a recent study by Microsoft, 64% of Indian companies have experienced noticeably higher levels of security since moving to the cloud.

Things have changed a lot in the last one year but it is still very tough to change the mindset of Indian SMBs. Security concerns are paramount and that is again related to lack of awareness. Bhadada says, “Lack of awareness is still a big hindrance and there are not enough case studies to substantiate cloud

Barriers in the form of closed mindsets and security fears are gradually being broken

benefits.” Similar is the case with other outsourcing models.

The SMB outsourcing scene in India is in a nascent stage where most enterprises do not know what services are available for them in the market and whom to partner with, so that they get the best outcomes. Understanding about the basics is very essential to get the most out of outsourcing deals. “It may take some initial efforts, but in the long run the benefits are likely to outweigh the costs,” sums up Thakker.

How SMBs Can Make the Most of it

Outsourcing outcomes can be very different for different organizations. It depends a lot on how effective the overall outsourcing strategy is and how strictly is it adhered to.

On most aspects, outsourcing is similar for both large and small enterprises, but there are certain elements that differ. What might work for a large enterprise might not work for an SMB. The way an SMB approaches an outsourcing relationship determines the outcome to a large extent. Globally, outsourcing outcomes for SMBs have also turned out to be better than large enterprises in some instances.

According to the State of Outsourcing 2011 Study by Horses for Sources, mid-market buyers have been enjoying considerable success

The willingness to move traditional infrastructure models to a cloud based environment is increasingly growing

in every area—from cost reduction to global effectiveness to getting business process improvement and technology.

But considering the unique demands, expectations, and resource capabilities of SMBs, there are high chances of things going wrong. SMBs that decide to take the outsourcing plunge should carefully look into each of these aspects and understand the concepts well—

■ **Get the Basics Right:** It's very important to understand the basics before moving ahead. Ask yourself what is the objective of doing this in the first place and why your enterprise wants to outsource. Once the objectives are set, it will be easier to decide what to outsource. Roy of Gartner says, "Never outsource crown jewels of your business."

■ **Diligence:** Kishan Bhat, engagement manager, Zinnov Management Consulting says, "SMBs need to offer great deal of diligence before they strike an outsourcing deal. It is advisable that they take legal advice." He pointed out that at times SMBs enter into contracts based on personal connections. Also there are instances when the contract terms are very basic, and that creates a lot of scope for errors.

Suggestions for Other SMBs that are Yet to Embrace Outsourcing

- Technology only can help you remain competitive
- Never try to build skill within as retention would be difficult
- IT management is not your core strength leave it to the experts in the field

10 Best Outsourcing Practices for Small and Medium Enterprises

- Develop standard outsourcing procedures and stick to it
- Do your research well, take expert advise wherever required and do not rely too much on word of mouth
- Clearly list down your objectives before going for outsourcing. What works for your peer might not work for you
- Do not outsource too much too quickly
- Do not outsource your crown jewels—functions that form the core of your business
- Opt for simple pricing strategies and avoid complicated service offerings
- Flexibility is the key. So look for an outsourcing contract that has flexible terms and offerings
- Go for a service provider that isn't too big and understands the specific requirements of a small business
- There should be a structured mechanism to keep track of the outcomes and to ensure that service providers deliver according to SLAs
- Do not get into outsourcing contracts that you can't get out of

■ **Decide the Right Partner:** Selecting the right outsourcing partner is crucial. The size does matter a lot in case of mid market. A very large service provider might not be able to offer the required level of attention most of the times. Instead, a mid market service provider might be able to understand better the unique requirements and challenges of the segment. Some service providers offer specialized packages for mid market players and at favorable price points. An awareness of what all is available in the marketplace is essential.

■ **Deal Size—Big Or Small:** Most experts that we interacted with pointed out that deal sizes are better kept short and small. Roy says, "From a best practice perspective mid market buyers should go for shorter term contracts." It is advisable to start with a few chunks of tasks outsourced for shorter tenures rather

than offloading the entire work at one go. This way you can also evaluate the outcomes better, and pull out easily if things are not working out.

Interestingly, there is another contrasting view to this. The HFS study states that better outcomes for mid-market buyers is possibly because of the fact that they outsource a greater proportion of their staff and processes to make the economics work. This leads to faster transition and improvements.

■ **Governance:** There has to be a proper mechanism to keep a tab on the outsourcing contract and to ensure that the service provider is delivering in line with the SLAs. Roy says, "Smaller organizations often cannot have full-fledged governance teams should go for a make shift arrangement where the a part of the IT department takes up the governance task." ■