Australian Computer Society

Policy Statement

On

ONSHORING ICT BASED ANALYTICS

ICT Professionals Shaping Our Future

www.acs.org.au

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Summary of ACS Position

The ACS believes that Australia has the necessary building blocks to become a destination of choice as a global hub for knowledge based ICT enabled analytics services for the US, European and Japanese markets.

The outsourcing of ICT enabled analytics functions – knowledge based activities requiring the use of sophisticated ICT platforms for data manipulation and analysis using highly skilled staff – is gaining momentum globally.

Third party offshoring service providers in low cost offshoring destinations such as India, Philippines and Poland are experiencing difficulty in taking on this work because of limitations in their financial market maturity, available skill sets, multi lingual and multi cultural capabilities, infrastructure and transparent governance necessary to carry out these functions successfully.

Australia cannot match the labour costs offered by low cost destinations. However, as a medium cost destination, with a sophisticated financial services sector, highly skilled workforce, transparent legal and corporate governance systems, Australia is perfectly suited to take advantage of this impending wave of knowledge based ICT enabled analytics outsourcing.

Australian skill sets range from between 20 to 40% cheaper relative to those in the UK, Japan, US and major European centres and its workforce is amongst the most productive in the world.

ACS research has identified four main areas suitable for onshoring to Australia over the next 3 to 5 years, being: financial services, strategic business intelligence and research, risk and quality management and research and development.

To drive this opportunity, the ACS believes that Australia has a critical need for a national apex ICT body established by the federal government to actively promote and develop a 10 to 15 year strategy for the Australian ICT sector, facilitate partnerships and the benefits of onshoring work to Australia.

Recommendations

The ACS recommends the following pathway forward to take advantage of this opportunity.

- Raising awareness of this opportunity with federal and state governments and relevant Australian industry sectors.

- Joint federal and state government and ICT industry discussions on establishing an Australian apex ICT body to drive the national ICT agenda, develop case studies and promote successful Australian onshoring developments.

- Joint federal/state government sponsored ‘roundtable’ with government, key industry sectors and Indian outsourcing firms.

- Identifying key target analytics sectors to kick start this opportunity.

- Identifying service providers and end clients in the US, Japan and Europe and developing an actionable short list of target orgnanisations to actively engage.

- Federal/state government facilitated ‘one on one’ discussions with interested Indian and Australian parties.

- Ongoing promotion of this opportunity within Australia by the proposed federal apex ICT body, promoting Australian ICT onshoring opportunities internationally and developing a 10 to 15 year strategy and marketing plan for the Australian ICT sector.

1. INTRODUCTION AND BACKGROUND

Offshoring strategies came to prominence in the late 80s when a number of multinationals began setting up ICT systems maintenance and development centres in low cost places such as Mumbai, Bangalore, Kuala Lumpur and Warsaw.

Many third party offshoring ICT service providers (Tata, Infosys, Wipro etc) emerged to take advantage of this phenomenon and commenced outsourcing ICT enabled service activities and business processes, particularly those that were highly labour intensive. Increasingly, global markets now involve competition between entire production systems that are orchestrated and coordinated by these multinational third party offshoring firms.

The offshoring experience has shown that it is not simply a matter of moving processes to lower cost destinations. There are many other considerations to take into account, such as infrastructure, stability, transparency of corporate governance and legal systems and availability of a highly skilled workforce.

As a result, relatively high capital intensive and intellectual property intensive services and functions have, by and large, remained in higher wage locations because of these factors.

However, current outsourcing trends indicate that this is changing. While the origins of offshoring have been in low value business processes to exploit cheap labour, current outsourcing trends are focusing on high value add, knowledge based processes and analysis activities.

The ability to be able to successfully outsource processes and functions is closely linked to technical advances. As ICT and communications platforms become more advanced, so the more highly skilled professional positions and high level analysis functions become vulnerable to outsourcing.

2. OUTSOURCING ICT ENABLED ANALYTICS

Based on positive experiences in outsourcing low level business processes, firms in banking, insurance, financial services, accounts management and economic analysis are beginning to outsource their high value add, high skill, analysis functions.

The general trend to offshore these services and functions is unmistakable and predictions are that whole service areas in medial analysis, financial services, editing, architectural services, legal advice and even public services will be part of the next outsourcing wave.

Firms are restructuring to take advantage of the potential benefits of outsourcing these functions. Third party outsourcing outfits are looking for suitable locations to take advantage of this opportunity.

ACS research has indicated that the value of analytics outsourcing could be worth up to 12 billion dollars globally over the next 5 years. GlobalSourcingNow has estimated that it will reach the $17 billion mark by 2010, with around $12 billion of that going to the third party (Indian based) outsourcing outfits.

The current low cost offshoring destinations such as India, Philippines and Poland, are experiencing difficulty in taking on this work due to limitations in their financial market maturity, skill sets, multi lingual capabilities, infrastructure and stable and transparent governance.

Importantly, they have not established a reputation of ‘trust’ necessary for many US and European firms to outsource their confidential systems information, industrial property or financial data with confidence.

3. AUSTRALIA AS A GLOBAL ANALYTICS HUB

Australia is in an ideal situation take advantage of the limitations being experienced by the low cost offshoring destinations to position itself globally as an innovative ICT and financial services outsourcing hub.

As a medium cost destination, it has the necessary building blocks to become the destination of choice for onshoring knowledge based ICT analytics from the US, European and Japanese financial services, insurance and banking sectors.

ACS research has identified four main business sectors as being suitable for ICT enabled analytics onshoring to Australia over the next 3 to 5 years.

Financial services

- Actuarial and insurance services - compliance based actuarial support; embedded value and appraisal value calculations and reviews, MoS based product profitability and capital adequacy and solvency calculations.
- Equity markets and mergers and acquisitions – target valuation modelling, due diligence, cost modelling, new product development, pricing and support.
- Credit research services - databases, updating, support, credit proposal preparation and presentation, credit scoring algorithms.
- Retail banking – product management, economic modelling, business casing to support new product development, data warehousing, data

mining and CRM, customer segmentation analysis, TERADATA warehouses, SAS database extraction, Informatica and COGNOS report preparation, production and data analysis.

- Branch location and closure analysis – non linear programming and transportation models, customer behaviour and queuing analysis, workforce planning and productivity monitoring.

Strategic business intelligence and research

- Creation and maintenance of business intelligence platforms supporting industry research and analysis.

- SAS and SPSS platforms based strategic trend analysis, reports, documentation.

Risk and quality management

- Business continuity planning – process mapping, risk analysis evaluation, disaster recovery plans preparation, scenario analysis and testing.

- ICT governance and compliance – risk incidence analysis, risk based controls and compliance manuals development, updating, monitoring etc.

- Quality management – program management of company wide six sigma programs and training programs, certification for BPO service providers.

Research and development

- ICT product design and development – next generation computer and wireless chip design, nano materials development and applications.

- Customised research – analysis and development for pharmaceutical companies and academic research labs.

- Clinical testing and global central reference labs - pharmaceutical companies and government agencies.

The activities and processes outlined above are high value add knowledge based activities driven by sophisticated ICT systems that can readily be performed from a remote location.

Specifically, these are functions currently being outsourced by European and US based firms. While many are outsourcing to captive knowledge based service outfits (McKinsey’s Knowledge Centre, Morgan Stanley’s Advantage Global Services, JP Morgan’s Global Research Group etc), like business process outsourcing, the third party (multi location) offshoring service providers will ultimately dominate this market.

From Australia's perspective, this is the most important group since they are looking to diversify their revenue streams and delivery centres to be able to provide these services. Partnership with Australian businesses provides a strong strategic resource base on which the third party analytics providers can move forward into this market.

The key question is – "What do these third party service providers know about Australia, its capabilities and how do we demonstrate Australia's advantages to them?"

Despite its significant advantages, Australia is simply 'not at the table' when it comes to considering partnerships and locations for outsourcing delivery centre locations for ICT enabled analytics functions.

4. AUSTRALIA'S ADVANTAGES

As of today, the Indian offshoring industry is experiencing significant impediments to its growth in the area of ICT enabled analytics because of:

- Shortage of appropriately skilled staff;
- Lack of dependable infrastructure;
- Lack of transparency and regulatory and corporate governance concerns by western countries about current low cost destinations such as India;
- Concerns over confidential data protection, privacy and IP theft;
- Lack of multi lingual and multi cultural capabilities.

Australia can play a significant role in alleviating these fundamental problems faced by the Indian offshoring sector. It has the necessary building blocks to fill the gaps.

- Size and sophistication of the Australian financial markets and the financial and ICT services sector with a strong culture and knowledge of outsourcing – fundamental building blocks for the ICT enabled analytics outsourcing industry;

- Highly skilled and experienced workforce, rigorous qualification process to supply a steady steam of quality graduates in areas suitable to the ICT analytics outsourcing industry;

- Stable and transparent government, robust legal and corporate governance systems – a high trust destination in terms of data protection, privacy legislation and IP;

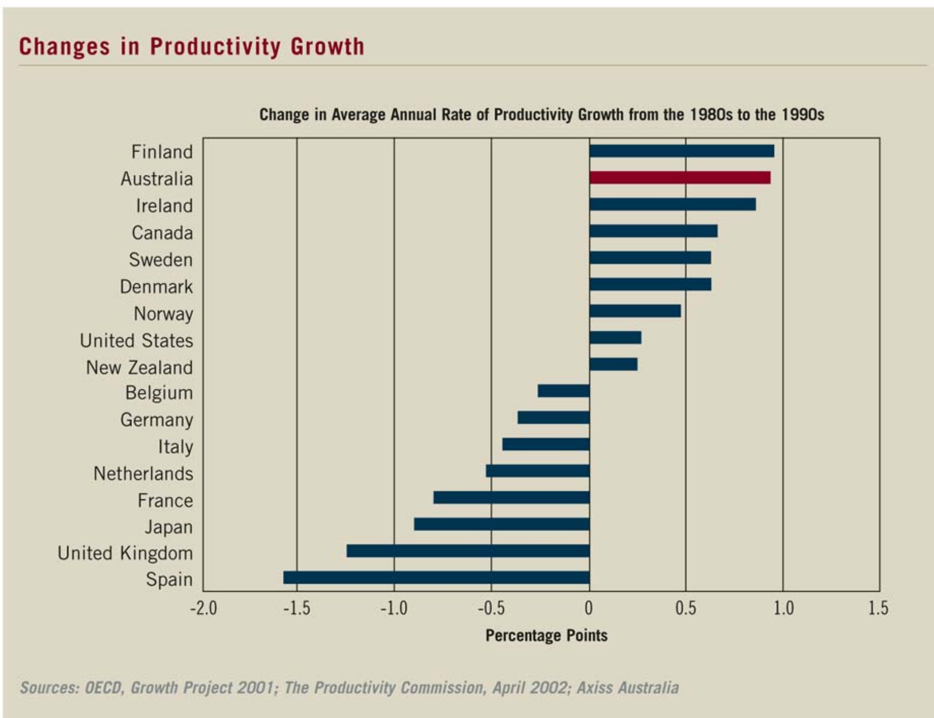
- High level of ICT workforce productivity compared to most other countries. This productivity is not merely labour and other cost advantages (that will be competed away with time) but rather it is associated with the strong use and uptake of technology that is integrated into business infrastructure;

- Australia has one of the most multilingual and multicultural workforces in the world and can provide a level of language services virtually not available in any other delivery centre in the world.

Australia's attractiveness as a medium cost outsourcing destination is supported by the Business Council's 2004 offshoring report and a 2004 KPMG study examining 27 business cost components across a significant number of cities in developed nations.

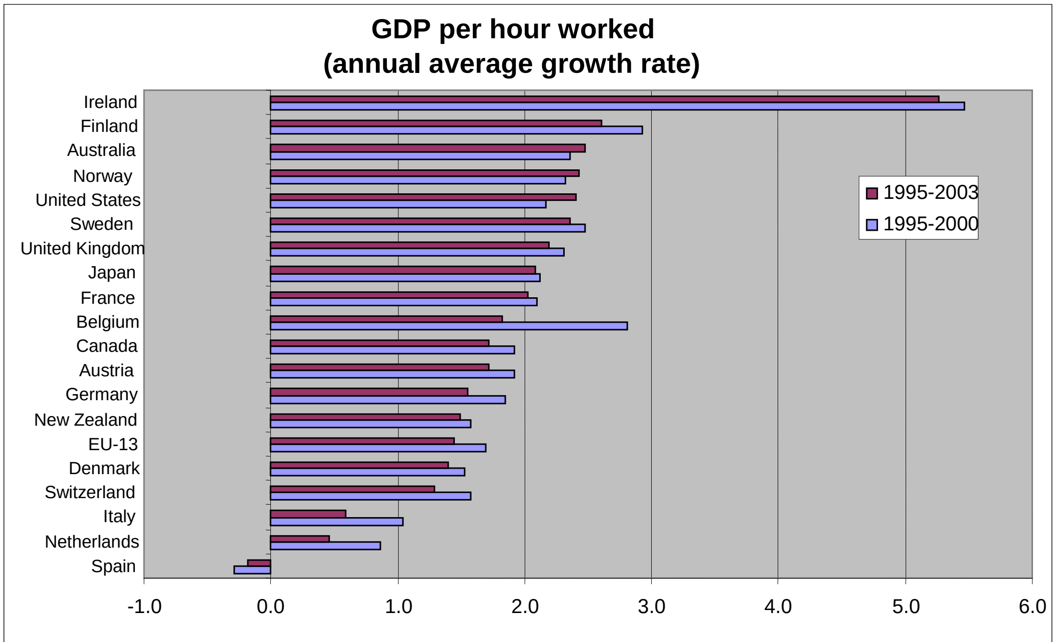
Workforce Productivity

The table below shows Australia's comparative workforce productivity with other OECD countries. This high level of productivity is underpinned by Australia's flexible labour system, infrastructure, high skill levels and high use and adoption of new Technologies.



Even on a simple hourly productivity basis (GDP output per hour of labour), Australia ranks third in the world after Ireland and Finland.

Australian skill sets range from between 20 to 40% cheaper relative to those in the UK, major European centres and the US.



Source: OECD Productivity Database, December 2004

5. AUSTRALIAN APEX ICT ORGANISATION

The ACS believes that Australia has a critical need for an apex national ICT body to drive the promotion of the Australian ICT sector. The absence of such a body has essentially meant that Australia has ‘not been at the table’ in terms of the global ICT services outsourcing revolution.

The Australian ICT sector is fragmented at the state and federal levels, often spread across a number of portfolios, with each state running its own programs without reference or coordination with what is happening in other states or at the federal level. This has resulted in a series of well intentioned but uncoordinated programs with the consequence that the full potential of the ICT sector has not been harnessed.

Additionally, the ICT sector has many representative agencies making the process of developing a collaborative national approach to ICT difficult.

The ACS believes the Federal Government should establish a national apex ICT body that will unify government and ICT stakeholders and spearhead the development of a national 10 to 15 year ICT strategy for Australia.

The apex ICT body could communicate nationally and internationally the benefits, capabilities and cost advantages of the Australian ICT industry, ensuring that Australia is a ‘top of the mind’ destination for multinational service providers looking to diversify their delivery locations and skill set offerings.

The ACS believes such a body could:

- Create and market an Australian ICT brand;
- Develop ICT sales and marketing growth strategies;
- Encourage investment in Australia;
- Develop a global positioning strategy, reports and policies to position Australia within the outsourcing debate;
- Work with private sector firms, professional associations and the higher education sector to create and promote the 'onshore to Australia' story;
- Establish close relationships with multinational service providers, broker partnerships and facilitate their start up operations in Australia by addressing perceived concerns and limitations;
- Establish strong relationships with major domestic and international venture capital and angel investors to promote investment in Australian ICT.

6. RECOMMENDATIONS ON THE WAY FORWARD

The ACS believes that ICT enabled analytics onshoring represents an outstanding opportunity for the Australian ICT services sector, but we need to act decisively to turn this opportunity into a reality.

It will need a concerted effort over the next 12 to 18 months involving a combined approach by the state and federal governments, the peak ICT industry bodies and the ICT, financial and insurance services sectors.

The ACS recommends the following pathway forward.

- Raising awareness of this opportunity with federal and state governments and relevant Australian industry sectors.

- Joint federal and state government and ICT industry discussions on establishing an Australian apex ICT body to drive the national ICT agenda, develop case studies and promote successful Australian onshoring developments.

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