



## US firms invest in India offshoring centres

*Pankaj Mishra, May 10 2004*

**Bangalore:** More US IT companies are adopting a new strategy in India to deal with the offshoring backlash back home.

Instead of sub-contracting their projects to third-party vendors in India like they used to, they are setting up their own development centres there.

The latest of these companies is US\$5.9 billion Unisys, which has announced it will invest US\$180 million in a development centre in India over the next five years, and employ 2,000 professionals.

“Apart from obvious cost advantages, we chose to establish this centre because of the concerns in the US about sub-contracting ‘sensitive’ projects to third-party vendors in India,” said Cal Killen, vice-president, Unisys Global Services.

Unisys focuses heavily on government projects and had recently faced considerable criticism in the US for sub-contracting a State Police project to an Indian vendor.

“There have been instances of some state and federal clients not being happy when their work gets offshored,” Killen admitted.

He also indicated that such sensitive projects may not be sub-contracted to third-party vendors in future, and that these projects would be undertaken by Unisys India.

According to Nasscom, insourcing companies—companies having captive development centres—have more than doubled their presence compared with third-party Indian vendors. Nasscom said the number of insourcing companies grew from 710 to 1,350 in 2002–2003.

In contrast, the number of third-party companies grew modestly, from 769 to 985.

In addition, a recent Ernst & Young report said that American companies plan to increase outsourcing to India by 50%.

However, Gartner analyst Ravi Datar does not agree that MNCs can combat the backlash through these captive centres in India.

“I don’t know how offshoring backlash issues can be addressed by setting up a development centre, because the jobs would be lost anyway. However, in the case of offshoring sensitive projects, clients may have security apprehensions,” he argued.

He added that with Indian companies like Tata Consultancy Services and Wipro being able to offer

competitive offshore rates, the MNCs are setting up offshore centres for cost competitiveness.

Earlier, another US vendor—3Com—had also announced that it will establish a software development centre in India, which would employ around 100 professionals by end-2004. But it declined to disclose its investment in monetary terms.

The Hyderabad-based design centre will focus on VoIP software features and applications development, while the US-based team will focus on VoIP architecture and production platform direction.

3Com's vice-president of engineering, Liam Keily, admitted that leading-edge R&D would still be done out of North America and the India centre will undertake testing and maintenance-related projects, which are perceived as "low-end".

With the backlash against offshoring not expected to die anytime soon, it is expected that American companies will continue to explore setting up more captive centres in India.

—*Additional reporting by Teresa Leung*