

## Sourcing & Management

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### Focused, Global and Growing!

***Specialization and global delivery need not be mutually exclusive. Small and medium specialist companies are increasingly taking an inorganic route to build global delivery. Sometimes, scale is a valuable by-product of that exercise***  
by Shyamanuja Das

Cross-border mergers, as a phenomenon, are nothing new. But cross-border mergers have almost always been those between unequals — and very often that means a very large company grabbing a small, specialist company. In essence, large companies have used them to create entry barriers or catch up with small, innovative challengers in a new market — be it for goods and services traditionally or be it for talent, in the last few years.

Welcome to the changing realities of the flat world. The same cross-border mergers are now being used by the small challengers — in outsourcing, often synonymous with specialist, focused companies — to catch up with the biggies.

Take, for instance, the merger between Lawrenceville, N.J. and Budapest based EPAM Systems and Burlington, M.A and Moscow based Vested Development, announced last month. The combined entity, also called EPAM Systems, has over 2,200 software professionals, operating out of eight countries — U.S.A, U.K, Germany, Russia, Ukraine, Hungary, Belarus and Armenia. At a revenue run rate of \$70 million, it is still a tiny player compared to the North American and Indian outsourcing majors, and is also far smaller than the tier two Indian players. But the difference is that unlike the numerous software and BPO companies in India, EPAM is fairly focused on the high value software engineering market. And with this merger, it has become a regional superpower. The premerger EPAM was adjudged the top service provider in Central and Eastern Europe in *Global Services 100* in 2006, *Global Service's* annual list of top global service providers.

But why a regional focus? “We do believe that the talent pool in CEE is still relatively big (for our purpose) and allows us to avoid the complexity of going into other geographies yet,” says Arkadiy Dobkin, CEO, EPAM Systems.

What Dobkin leaves unsaid is that the talent in this region is fairly untapped, unlike in India, where in certain locations, the competition for talent is so intense that wages have inflated significantly, despite a sizeable pool. According to the *Global Skills Report 2006*

published by IT certification agency, BrainBench, as many as five of the top 10 countries in the world, in terms of number of IT skills certifications, were from the region.

That has made other offshore companies to seriously look at the region. India-based IndusLogic, an offshore product-development firm, merged with Ukrainian company, Bonus Technology, around the same time as EPAM-VDI merger to create a more global delivery footprint. The new merged entity, called GlobalLogic, with close to 1,400 people, is another example of how cross-border mergers among smaller companies is creating focused, global companies. GlobalLogic does not share revenue figures but rough estimates suggest its revenue would be in the lower side of \$50 million — smaller than say, the revenue realization from one client of Infosys in a year.

"It is increasingly a global world, and a global sales and delivery capability is crucial for a company like ours," says Rajul Garg, VP, Corporate Development, GlobalLogic. He is unequivocal about tapping into newer regions for delivery. "I would expect us to tap into China within the next 6–12 months inorganically," he says matter-of-factly. Not only is Garg sold to the idea of global delivery, he is pretty clear about the route: Inorganic.

More and more firms are now daring to tackle the global delivery challenge by taking this route. In May this year, two HRO firms — Secova, with its U.S. headquarters at Costa Meca, Calif., with facilities in Chennai, India and UltraLink, based in Brick, N.J., merged to form a new entity, called Secova, powered by UltraLink. The merged company has delivery capabilities in the U.S.A. and India, and is focused only on the HR outsourcing space.

All the three mergers have a few things in common.

1. These are all between smaller companies
2. Their primary model is offshore
3. Building global delivery capability has driven these acquisitions, though other strengths sometimes supplement each other
4. These mergers have not resulted in a dilution of focus of the merging firms. If anything, in some cases, like Secova's, they have strengthened that focus.

### **Size is Not the Driver; It's a Good to Have**

"This merger enabled the combined company to leverage technology, global delivery centers and best-in-class processes to deliver an integrated HR and benefit administration supply chain at a cost effective price point," says Venkat Tadanki, CEO of the new Secova,

No boasting about scale here; no mention of the vision to become top five or top ten; just global delivery and HR focus.

But does that mean that scale is not important? Answers Garg of GlobalLogic, "It depends on the market one is in. I believe that the market we are in (OPD) is big enough to allow very large players — of over a billion in revenue — to exist without diluting the focus. In other words: Size is great to have; but "without diluting the focus."

EPAM's Dobkin echoes exactly the same. "If the demand for the specialized services remain high, the vendor can grow without diluting its focus. Today, we think, there are unlimited opportunities for us to grow with specialized software-engineering outsourcing services." He is clearly focused on "software- engineering outsourcing services."

Unlike most of the offshore companies of the earlier era, that wanted to replicate Infosys and TCS, these companies have stayed away from the me-too strategy from day one and have focused on their specialization area. Now, their going global means there is really no alternative to global delivery — scale or no scale.