WIPRO: ESCALATING EFFICIENCY IN A DELIVERY MODEL

Preethi Raghuram prepared this case under the supervision of Professor Deepa Mani and Professor Nishtha Langer. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

IN November 2007, K V Krishnan, the Delivery Head, Managed Services in Enterprise Applications (EAS), Wipro had 24 hours to make a recommendation of whether or not to introduce a delivery model that could significantly impact the revenues and costs of Wipro and its clients.

Wipro was a market leader in the business of providing IT services and EAS was the fastest growing service line and served as a key contributor to the revenue base. Traditionally, these services were provided through the “offshore development centre” (ODC) model wherein a client was supported by a team of dedicated support staff and was typically billed the full-time cost of the strength of this team. This model had been operational for 15+ years and customers were happy. There was no real demand from customers for an alternative delivery model. The new model, “flex delivery model” was a customer-centric model delivered through competency towers rather than underutilized dedicated teams for the managed services business. Though it sounded promising, customer resistance to change and the absence of real-demand compounded Krishnan’s dilemma about long-term sustenance of this delivery paradigm.

In order to take a decision on whether or not to pursue the proposed Flex model he had been meeting a lot of people - the different stakeholders, senior managers and clients across the globe in the last month to size the opportunity, segment the prospective market, understand challenges to its implementation, and position it in the overall context of Wipro’s business model. He still thought about the key question: was this model really commercially viable, customer-friendly, optimally delivered and priced, and measurable through appropriate SLAs?

Main Characters:
K V Krishnan – Delivery Head. Key decision maker.
Senthil - EAS division head. Proposed the new delivery model
Vishal – reports to Senthil. Worked extensively on the delivery model.
Milind – A new business grad and worked extensively on monetizing the model.

1 SLAs- Service Level Agreements that govern the relationship between client and vendor in typical outsourcing relationships
HISTORY

In 1947 M H Premji started Wipro as a vegetable oils trading company. Wipro later diversified into consumer goods, manufacturing, infrastructure, etc., over the years. In 1980, it entered the information technology (IT) sector and, in 1992, went global with its IT services and operations. Wipro Technologies did business process outsourcing in proprietary software development, maintenance and customer support, standardized ERP/CRM implementations and managed services support. As of November 2009, it was one of the top five service providers in the global software marketplace. It was the first CMMi Level 5 certified software services company and the first outside the USA to receive the IEEE Software Process Award². The Lean Process Model initiated and piloted in 2004 resulted in significant cost savings by improved productivity, schedule adherence and lower maintenance and development efforts. Wipro had grown into a reliable IT partner of choice and built a solid clientele. With a history of innovation, the industry looked to Wipro to solve the inefficiencies in the traditional outsourcing paradigm too.

Outsourcing industry models and the new proposal

IT Outsourcing itself was a 1990s phenomenon. India as an outsourcing destination promised cost advantages. However as the competition grew India progressed from being a cost-leveraging vendor to a value-leveraging partner. One of the most important ways of creating value was to increase efficiencies in the system. Optimizing business processes, removing bottlenecks, introducing efficiency, improving systems and procedures and effectively utilizing the available resources in delivering the service contributed to the evolution of the IT outsourcing industry in the value proposition.

MODELS

Various models had been in practice in the spectrum of phases of industry maturity. Different models exploited differences in the changing dynamics of the industry and the customer base. One of the most successful models that had been around for more than a decade was the ODC Model.

Off-shore Development Centre (ODC) model

One of the earliest outsourcing paradigms was the dedicated global delivery centre. Clients outsourced their software maintenance activities to low-cost locations, providing cost benefits along with "follow the sun" coverage around the clock. Due to labour arbitrage, costs to the firms in this kind of dedicated centre model were highly economical. It was best suited for development and support engagements and was very successful. Typical outsourcing engagements included support of ERP post-implementation, and development of business enterprise software. Both these types of outsourcing engagements demanded a dedicated team of people for the project, as it ensured that the project was always manned. As the costs were relatively lower, this model worked best in ensuring a 24x7 reliable support.

Pain-points of ODC

² From WIPRO website – www.wipro.com
As the industry matured with the ODC model, severe inefficiencies were discovered. These inadequacies kept the cost high in a market striving for maximum optimization. The top three pain points were:

I. **Idleness and employee dissatisfaction**

The volume of work in support engagements always came in spurts. Especially in a stable ERP implementation engagement, the volume of work tended to be concentrated during a certain time, like the end of the month. A dedicated team was a wasteful resource if there was a lot of idle time. Also, from the employees’ standpoint, they needed continuous learning and challenging work assignments to keep them healthily motivated. Compared with other industries, employee satisfaction over the last few years in the IT outsourcing industry had been very low, leading to high turnover and absenteeism. When employees left the team, new employees needed to be hired and ramped up to start delivering the same value. This overhead translated to hiring cost, training cost and ‘reduced value’ cost until ramping up was complete.

II. **Knowledge management and vacation fill-ins**

As the people-project assignment was fairly fixed, these dedicated teams usually had no formal knowledge or process document that could be shared with an outsider. This kind of lack of knowledge repository in technology and domain expertise that can be easily retrieved is a huge loss in the long term. In such a scenario, where resources were tightly coupled with a project, leave of absence could be a matter of concern. While the resource was away, it was extremely expensive for someone to fill-in, as the cost–benefit analysis for ramping-up and performing in office for a short duration was not very attractive.

III. **Enhancement requests**

Enhancements that were requested by a client were often pushed back for lack of resources. There is a potential benefit in being able to deliver the enhancement with a small incremental cost as against adding a headcount. As cited by Senthil:

“In a typical situation what we in the project team would go and tell the client was that we needed to add people. The client would say ‘I don’t have the budget to add people, but I know you guys have troughs.’ To which we would say, ‘We need it; otherwise it will take 3 months to do this. We can take on only 30 per cent of the additional work in each month”

Such pushback could be avoided if resources were always available as a pool and the client could be billed by the workload.

**Shared service centre (SSC)**

SSC is a model in which a group of support staff is assigned to a group of clients. They have centralized tools and processes which are shared between the teams, thereby reducing the application management costs. This model works well for small and mid-size organizations that generally use standard ERP applications. The shared teams are unable to gain the deep knowledge required to support a heavily customized ERP application which is the norm in the larger corporations.

**Software-as-a-service (SaaS)**

With the commoditization of IT, some standard and uncomplicated processes like payroll, HR, etc. was able to be packaged as a solution encompassing license costs and
support costs. For example, a portal like salesforce.com has a web-based continuous support model for all customers using their functions. Conventional wisdom indicates that this model will primarily appeal to the SMB space. For larger organizations, multi-tenancy is an unwanted risk that’s not going away in the near future.

ADDRESSING THE UNREST: Proposing the FlexDelivery Model
Wipro tried to increase value by passing on the idle time of each employee to different clients, thereby reducing the cost of ownership. It recognized that this may improve the efficiencies in the outsourcing model. It was realized that the additional capacity could be put to better use by having the teams support more than one customer under the assumption that spikes in volume occurred for only one customer at a time. This model proposed a flexi-time approach to projects: instead of having a team of people work full-time on one project, they could be made to support many customers at the same time, thereby also defeating boredom from sameness and idleness.

See exhibit 1

FlexDelivery Model: Perspective from the proposers
Mr. Krishnan in his attempt to understand the model had called Senthil for a thorough briefing of the model.
Senthil started excitedly, “This is a whole new paradigm. This is going to take us to a different level. Imagine if we could use the same resources and get three times the revenue?”
“Three times?” asked Krishnan.
“Well, we have to do the math, build the revenue and pricing model. Yet assuming 50% resources work on one support engagement project where this model is best utilized, it’s going to mean huge savings.”
“OK - what exactly is your model?” persisted Krishnan.
Senthil continued:
“Somewhere in the middle of the spectrum of services, between the wholly-dedicated and wholly-shared models, lies the FlexDelivery concept. It is based on the theory of flexibility without compromising on the assured degree of focus. This model focuses on providing support and other value added services to ERP applications like SAP, Oracle, JD Edwards etc. Some of the value added services include functions of a service desk, business support, application corrective support, application enhancement, preventive maintenance, regression testing, application administration and infrastructure services. Modular definition of these services allows clients to use any of the combinations of the services and can also use other service providers or vendors for other services.

Let me brief you about the team structure.

The team from Wipro is comprised of two constituents – the core client team and the Flex team. The core client team is the dedicated portion of the model akin to the ODC team with a smaller subset of responsibilities; including relationship management, service delivery, complex tickets and quality assurance. The Flex team has two parts – the application management team (or the generalist team) and the specialist team. There are functional silos in the application management team aligned by skill-sets. Low priority tickets and enhancement requests are handled by the flex-application management team managed by shift leads and enhancement leads respectively. The specialist team is critical to the value proposition of this model in that, they can provide high-end value added services on-demand. It is comprised of functional or domain
experts whose services can be used by all client teams on a short notice and at a lower cost.

See Exhibit 2.

40% of the technical support work coming our way could be done by anybody from the shared resource pool, the flex-application management team, cutting across multiple projects, 50% of the work that requires in-depth knowledge of the client would be undertaken by the core client team dedicated to the client. The balance 10% work that requires niche skills would be handled by flex-specialist team that are shared across clients. Generalists are on the higher tier of operational understanding and the Specialists are on the higher tier of domain knowledge. The generalists pick most of the operational understanding on the job. Specialists belong to the high domain-knowledge group - also known as the core competency group. They understand the businesses behind the processes. They are more expensive resources and efficiency has to be built top-down. Knowledge management in this tier is crucial to the efficient functioning of this model."

At that time a young looking man entered the room and Senthil introduced him: “This is Vishal who has been instrumental in designing the Core Competency Wing. He can elaborate on it.”

Vishal elaborated:

“One of the distinguishing factors of the Flex model is the enhanced role of a specialist. The team of specialists is managed by a competency lead, who is a super-specialist himself. A model leader in any domain, say finance, is building a competency tower. His skill in the ‘finance’ domain is harnessed across multiple accounts.

On the other hand, a customer account is managed by the service delivery manager: he cuts across several competency towers, one core client team and several generalist teams. He is responsible for load-balancing and pulling in the required resources for his timely client delivery.

Consider the example of two SAP FICO\(^3\) consultants in the post-ERP implementation of SAP FICO landscape in the ODC model. The best service level for the client is limited to these two resources. In the Flex model, there is a pool of consultants and a knowledge bank that is readily available for the project. The service level is now not limited to two people. The extent of valuable innovation in a business process depends on the business-specific domain knowledge. This is provided by the core competency wing.

Compare the role of a specialist in the FlexDelivery model with how the resource would be utilized in the ODC model. In the FlexDelivery model, more than one client is handled at a given point in time. This kind of increased exposure to multiple clients and multiple problems in her area of expertise is mutually beneficial. It improves employee morale and hence reduces turnover costs and chances of tedium from lack of challenging problems are also reduced.”

**Merits of the proposed FlexDelivery Model**

\(^3\) SAP FICO – SAP’s Finance and Costing module
After having understood the characteristics of the FlexDelivery, Krishnan invited Senthil to explain the merits of the new model and how it solved some of the pain points of the old ODC model that it would replace. Senthil explained:

“Let us consider the two sides of the coin – the client’s and the service provider’s. Let us list the merits for both the sides:

Firstly from the client’s viewpoint of price and quality:

Cost – The ODC model was priced at a fixed rate. That meant some clients that were in the growth phase and had fewer users are paying disproportionately higher cost per user. This could lead to discontent amongst the client community. However, a more efficient pricing scheme could not be devised with the dedicated teams mandated by the ODC model. This cost of growth is partly transferred to the service provider in the FlexDelivery model, which spreads this cost over multiple clients, thereby creating value and driving efficiency.

Quality – The quality of service that can be delivered by the dedicated teams of the ODC model is limited to the best mind on the dedicated team. Whereas, with the FlexDelivery and the knowledge centre, there is an almost infinite pool of talent available on any super-specialty”

Flexibility in pricing options – Fixed price is based on fixed scope of services. However in the uncertain market conditions, a little flexibility on that scale could be high on the client demand. Krishnan could immediately foresee a number of ways FlexDelivery could be priced. Could this be the differentiating factor?

Additionally, there are also other merits of the model, considering driving efficiency from the service-provider standpoint

Managing the resources is one of the critical operating strategies. The FlexDelivery model minimizes the human capital inefficiencies that exist in the traditional model. Human capital inefficiencies include sub-optimal resource allocation, inability to maintain high employee morale, and allowing high turnover rates. All of these are addressed in the FlexDelivery model where a given employee has more projects and challenges and hence the utilisation is improved.

Another optimisation in the human capital management is in resource availability and allocation for peaks and troughs of workload. By keeping the resources flexible and by reprioritising constantly, peak loads and trough loads can be effectively managed.

Positioning the proposed FlexDelivery Model

Krishnan continued to ponder: “So how could we position the model in front of the customers? How do we get the ODC clients to sign into the new model? Could we expect to attract new customers through this model? Who are our target customers? Most of the customers are Fortune 500 and Fortune 1000 companies, meaning service quality and timeliness of completion is more important to them than saving a few bucks. While efficiency is most welcome in the business, cost is not the driving factor any more.”
According the Senthil, “The managed services space brings in 45 per cent of EAS revenue. The market in this 45 per cent includes 6-7 products for each business; for instance, the manufacturing business could be provided by products like SAP, Oracle, PeopleSoft, etc. In all, there could be 120 standard environments with demanding customizations that need support. From our standpoint, that’s a small number of environments and a spectrum of our staff could be trained to support all kinds of customers”

The road ahead before implementing the FlexDelivery Model
Krishnan in the effort to put the puzzle together invited a bunch of potential clients to a meeting to address how the SLAs⁴ have to govern the prioritization issue. He addressed the consortium: “My primary goal in this initiative while servicing the outsourced business is to see my resources fully utilized without compromising on service quality. I know we have to break even on every project between the resource and the effort required and I will coordinate my priorities accordingly. If a certain ticket is more important to you, so is it to us. High utilisation has to be balanced against availability and it always will be.” Effectively addressing the challenges in the implementation of this model could make or break the proposition. And Krishnan was not going to walk away from it. Obtaining the customers’ buy-in was an important milestone in establishing the model as a commercially viable one. He flew into Europe and met with a few prospective clients. He talked with a few more on the phone to get their perspectives on the model, unearthed and discussed all the potential pitfalls and used the client feedback to understand and tackle the challenges. The reactions received from each kind of customer are given below.

The paranoid customer:
A European customer who had no outsourcing relationships with India welcomed the FlexDelivery concept. The client wasn’t too hung-up on the traditional ODC as he was fresh to the market. He understood how ODC relationships worked - people not on the firm’s payroll were an extended part of the team, and signed the non-disclosure agreement and thereby information leakage was in principle absent. However he voiced a concern: “However, in the FlexDelivery concept, the team could be using the same computer for different clients and hence would there be a risk of data sharing?”

He was concerned with the security mechanisms. Mr. Smith, the security specialist who worked on the Enterprise Security platform of Wipro, was called to ideate a solution to this valid concern.

Krishnan said: “Welcome, Mr. Smith. We are looking at the Flex model as the newer efficiency scalable model for the managed services support group. I hope you had the time to go over Senthil’s presentation? In that context, one of our potential interest groups raised a valid concern and I was wondering if you could help?”

Mr. Smith responded: “Virtualization could be a solution, conceptually. There are products that are available in the market that allow your desktop to be connected to a customer site without any download of information on to the desktop. The desktop can

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⁴ SLAs- Service Level Agreements that govern the relationship between client and vendor in typical outsourcing relationships
have one valid connection at a time; thus, by virtually being on different networks, data sharing can be prevented."

Krishnan mulled over what was said. Krishnan quickly asked Mr. Smith and his team to demonstrate through POC (Proof of concept). The POC was successfully demonstrated in a lab within two weeks.

He was looking for more options. He turned to the next challenge.

The Cost-conscious customer

The traditional ODC model had fixed pricing. One of the major distinguishing features of FlexDelivery could be its pricing. Everything in the spectrum from fixed, time & material to outcome based and pay-per-use pricing were discussed. Customers, however cost conscious, were more service and value conscious. Any downtime could be translated into loss of business and that meant all issues reported should be solved in the order of priority. All tickets would be assigned priority. How these tickets could be tracked and resolved within the Flex team was another logistical business process flow problem.

Krishnan ponders: “As the target clients for FlexDelivery models included dynamic growing businesses, more often than not project requirements and size kept changing, and the flexibility of modulating the size and price would suit the vendor and the client well. Therefore an optimized model over fixed price would be essential”

Krishnan recalled a certain client who had needed a global support system across 18-20 countries. The requirements included supporting the SAP application that was spread across 18-20 countries that had implemented 20 different flavours of SAP with country customization. The requirement was very small from each country – as small as 1 or 2 tickets\(^5\) per week. A study of 18 months of data had been conducted and it was found that there was a correlation between the number of users and the number of tickets. With 18-20 countries, it did not make sense to have a dedicated team in every country, as that would create a lot of idle time. The customer was going to grow to 250 per cent in the next three years.

Are we onto something here?

The sceptic customer

Another client, a Japanese company, was worried whether consistency of delivery could be achieved in this model. With the Flex set-up, a large number of people were going to be touching the data and service. Would there be standards that would be followed? How would they be enforced?

Wu was a friend of Krishnan’s, whom he had partnered in another project. Wu had provided Wipro a tool in ITIL standards. It was the best-in-market, or so he was told, incident management tool. Wu explained the steps that the integrated tool installed on each of the clients' and the Flex site could do.\(^6\)

- Incident detection and recording
- Classification and initial support

\(^5\) Ticket in IT terminology is a tracking number for a reported bug/enhancement request

• Investigation and diagnosis
• Resolution and recovery
• Incident closure
• Incident ownership, monitoring, tracking and communication

ITIL was a set of practices and procedures that an organisation could use to manage IT operations. Within ITIL were definitions for operational procedures and practices related to all aspects of an IT operation. Krishnan was a very client-centric person. There was nothing more important in his decision-making process than reading the client’s pulse. He was sure that the clients always wanted to thoroughly understand the incident-management process. That was the first step in gaining customer confidence. Quality of service started with good communication, and Krishnan was always one-up on that.

This tool would help them track the different incidents and haul everything to closure. The same tool installed on the client side and the service provider side reduced time lag and hence improved coordination in managing the incidents.

**Size of the opportunity**
The fact that the model was currently built keeping in mind the SAP platform was good. That meant they had a potential customer-base that they could target for the new model. But, given that this market was specific to growing large-scale businesses with a current standardized ERP / CRM / SCM implementation, how sustainable was this market? Should some market research be carried out to analyze this?

Mr. Milind, a young and promising service delivery team member volunteered to help in the commercialization strategy of the model. He was a recent grad from a leading business school in the country. His market analyses revealed that the current $200M market of managed services is the potential market for the FlexDelivery and the expected adoption rate would be 25%, 50% and 70% in the next three years respectively. Also after the first year’s success we might be able to win newer business opportunity of $2M and $5M in the second and third years.

**Do the math**
Krishnan paused. He was thinking “In order to arrive at this most important decision, all the qualitative data is not sufficient. How am I going to segment the market potential for this delivery model?”

He called Mr. Milind and shared: “Let us dissect the proposal on two axes – cost and revenue. And let us see how the profit is affected by the proposal. What do you think? Is that a good idea?”

Mr. Milind nodded in agreement. Krishnan continued: “Also there is a potential to achieve economies of scale in the FlexDelivery”

Mr. Milind looked confused.
Krishnan elaborated: “Imagine only one client signing up for FlexDelivery? That’s getting us nowhere. We need more clients to spread the cost of the Flex team and the competency wing. Does that make sense?”

Sensing the puzzled look, he further elaborated:
“We need to compare the costs of the two models- right? The cost of the ODC is calculated straightforward, because each resource has a certain hourly rate. And the fact that they are attached to a project attributes their cost to the project cost. Apart from these, the overheads include machine cost and other miscellaneous expenses, especially if the resources are staffed in-house. Not to forget at least a 20% overhead for training related expenses due to 10% attrition.

See Exhibit 4

However calculating cost on the FlexDelivery is not that simple as the costs are shared by the projects. So may be we could take the approach of adding up the costs for the *Flex-application management team, Flex-specialist team (or competency wing) and the core client team*. The total costs could be shared across the clients (or projects) that are serviced by these teams put together.
Do you see economies of scale here now?” Krishnan pleaded jokingly.

It seemed like a revelation for Mr. Milind. He slowly nodded “That’s right!”
When there are more clients, an optimal size of the Flex and fixed teams should be able to cater to the spectrum of projects. You may also want to factor in attrition rates and a little extra miscellaneous overhead of knowledge management

Mr. Milind smarter than he first seemed, wondered:
“What about the contract lengths, time value of money while being paid in installments or in full? Contract lengths can help in risk assessment, low cost lock-ins and improved spread of the clients or projects across the Flex teams. What about the cost in all the specialized software required attesting data security? Assuming some fixed first time costs, at how many customers and how many projects later, can the model be commercially viable? We can’t forget the fact that there will be additional investment costs could be up to $5M, $1M and $1M in the first three years.”

See Exhibit 5

Krishnan appreciated the insight and set out to put a number to each of these cost center items. Is Krishnan going down the right path? Is there a future for this model?
<table>
<thead>
<tr>
<th></th>
<th><strong>Dedicated Centers</strong></th>
<th><strong>Centralized Shared Services</strong></th>
<th><strong>Leveraged Flex Delivery</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buyer</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Wipro</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Cost</td>
<td>Higher</td>
<td>Lower</td>
<td>Optimized</td>
</tr>
<tr>
<td>2. Special skills</td>
<td>Limited</td>
<td>Available</td>
<td>Available</td>
</tr>
<tr>
<td>3. Risk</td>
<td>Lower</td>
<td>Higher</td>
<td>Mitigated</td>
</tr>
<tr>
<td>4. Tools and Processing</td>
<td>Client Specific and Non-standardized</td>
<td>Centralized and inflexible</td>
<td>Industry best practices, customized and flexible</td>
</tr>
<tr>
<td>5. Pricing</td>
<td>Fixed</td>
<td>Usage based</td>
<td>Usage based</td>
</tr>
</tbody>
</table>
Exhibit 2:

TICKETS FROM ALL REGIONS – AMERICAS, EUROPE, APAC

HELP DESK

FLEX TEAM

Application management teams (aligned by skills)

- ERF Helpdesk
- Order to cash
- Finance
- Technical
- Procure to pay

Specialist teams

- Problem management
- Regression testing
- Performance testing

CORE CLIENT TEAM

(Dedicated to individual client)

- Relation management
- Service Delivery
- Complex tickets
- Quality assurance

Unit tested code

Functional specs for enhancement

Training Center

Central error database

QA & Productivity

Service management
Exhibit 3

<table>
<thead>
<tr>
<th>Suitability</th>
<th>User-based pricing</th>
<th>Transaction-based pricing</th>
<th>Application instance-based pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage and support volume not easily predictable</td>
<td>Mature systems &amp; ticket volumes predictable</td>
<td>Typically for application administration and infrastructure services</td>
<td></td>
</tr>
</tbody>
</table>

**Advantages**
- Predictable budget outlay
- Vendor owns support and takes on risk of varying work volume
- Reduced management overhead
- Can leverage savings related to ticket reductions
- Transparent pricing - clear visibility to vendor productivity
- Predictable costs for managing an application landscape
- Transparent pricing and productivity
- Easy change back to business units
- Certain constraints in terms of variable services

**Disadvantages**
- Could pay premium for vendor taking on variability risk
- No incentive to vendor to reduce tickets
- Higher management overhead for client

Exhibit 4

<table>
<thead>
<tr>
<th>ODC:</th>
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<tbody>
<tr>
<td>Number of projects in a year</td>
</tr>
<tr>
<td>Annual Revenue</td>
</tr>
<tr>
<td>Cost of a resource per hour</td>
</tr>
<tr>
<td>Operating margin</td>
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</tbody>
</table>

Exhibit 5

<table>
<thead>
<tr>
<th>FlexDelivery Targets</th>
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</thead>
<tbody>
<tr>
<td>Target Operating margin in the FlexDelivery</td>
</tr>
<tr>
<td>Target profit after three years</td>
</tr>
</tbody>
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