



BUSINESS MODEL INNOVATION

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Global IT Services Market Dynamics

All of the innovation demands from small firms to large MNCs represent exceptional opportunity for the IT industry. Global IT firms have unprecedented access and reach to capabilities worldwide. There are three keys to capitalizing on this opportunity: first, building relationships and insight to client challenges and growth plans; second, leveraging local expertise in combination with worldwide delivery centers to provide cost effective breadth of capabilities and third, possessing a point of view on industry, country growth opportunities and the prerequisite IT solutions.

Global IT firm strategies now revolve around these three dimensions – client relationships and business insight, cost effectiveness and distinctive solutions. A firm can carve out a niche in any one of these areas, but need varying degrees of all three to succeed. The strategies of leading firms are well known: most of the MNC consulting companies are focused on client relationships while many Indian pure plays began with an emphasis on cost. IBM is focused on all three dimensions with distinctive capability around differentiated solutions. Within IBM, the combination of client relationships, industry insight, cost effective global models, software and hardware development provide the capability to create exceptionally valuable solutions -- differentiated and cost effective. The market shift underway is twofold: first, firms are seeking partners that can cost effectively deliver all three elements of value; second, global IT firms are systemically extending their capabilities to attempt to fulfill all client needs.

When applied against the innovation demands of growing companies the subtleties of Global IT firm strategy become more apparent. For example, consider the skills required to develop a solution for a German bank that is introducing a product to penetrate the emerging consumer market in Poland. Assuming the firm wants to partner with a global IT firm for this project, what are the requirements? First, the firm needs an understanding of the underwriting market in Poland. What is the consumer buying pattern -- do they prefer to buy from independent agents or from large firms? What are the different processes to originate loans in an agency model versus a company owned direct or branch model. Moreover, what are the local legal, regulatory considerations for loan origination in Poland? Finally, what are the technologies (hardware, software, network etc.) best suited to enable a differentiated product?

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Take another example of a multi-national retailer developing a network in India or China...the same considerations apply: 1) buying behavior of consumers in the market and the appropriate retail configurations (kiosk or large format, mall or standalone) 2) processes necessary to support the consumer buying pattern 3) country specific considerations: legal, regulatory or perhaps infrastructure of each market and 4) ability to provision technology to enable the retail network.

In each case we can generalize the innovation demands into four categories: consumer buying patterns, process considerations in light of the firm's strategy, local legal, regulatory or infrastructure considerations and finally technology options. Of course, in addition to all of these capabilities the partner must be able to deliver the solution for the right cost.

Due to the variety of vendor skill and cost models, many firms contract with multiple partners to secure all the required solution elements. They hire a consulting firm to advise on the business process design in Poland, an IT delivery organization to build the solution and often a third firm to manage the IT and network infrastructure. The pivotal question is whether a global IT firm's specialty – cost, relationship or solutions is sufficient for the client to carve out that role. Sometimes, this is still the right decision, but most firms are looking for partners that can fulfill multiple if not all the roles. Similarly, Global IT firms are squarely focused on fulfilling all roles in order to mitigate risk and materialize a broader value proposition. The acquisition and growth strategies of leading IT firms demonstrate their desire to fulfill all the client partnership roles.

The starting point for IT firms to capitalize on the global market opportunity is twofold: first, relationships with the client and second, their market reputation. Both will create opportunity. For example, a firm may be a recognized expert in retail point of sale and store solutions which may lead to contacts for potential projects. Similarly, through local relationships, the firm may know client business leaders who are driving a business agenda. Based on this relationship and a more general perception of the consulting firm's capabilities, the client may seek counsel and ideas through this relationship. Very quickly, however, clients gravitate to firms that provide distinctly valuable service. Once again, value for IT services can be summarized as the combination of business insight (industry, country and process point of view), cost effectiveness, and ability to deliver (solutions, capabilities). Softer elements such as flexibility, creativity and innovation are very important and best portrayed by the individuals representing the consulting firms.

A client definition of valuable service corresponds neatly with most Global IT firms strategies: Business Insight, Cost & Capabilities, Differentiated Solutions (ability to deliver). The nuances of delivering all dimensions of value, however, are quite difficult.

In order to implement value generating IT partnering strategies, CIOs need to understand how leading global IT firms are managing and developing their complex, diverse, global talent pool; what constitutes an effective partnering model and the foremost management challenge for global IT firms.