Working with Boutique Providers

Customers looking to outsource IT services often overlook the small and mid-sized providers, fearing that they would have to compromise on quality. Quite the contrary is true

By Rinku Tyagi

A few years ago when an industrial-design dropout decided to set up an IT-services firm, he knew that the big fish in the sea had all that was needed to survive — process maturity, proven track record and deep pockets to grab any customer, big or small — unlike him who just had a vision to offer innovative solutions, something that these biggies did not. Sunil Malhotra, the founder and CEO of a very small IT-solutions firm, knew he had to build his core competency somewhere else. He chose interdisciplinary capabilities, ideas and innovation to be it. And that remains the seed of his venture called Ideafarms, where he and his team of 30 work toward not delivering a good cost or technology model, but ideas.

Small and mid-sized service providers may not have thousands of workers on their payrolls or funds to last them very long, but innovation by means of personalization is core to them. While they have to work many times as hard to deliver on the promises and to match up to the biggies in the game, boutique service providers need to bring in more innovation in the solutions they offer. Many a times, they are trusted for not the cost or technology they are going to deliver, but for ideas and quality with which they will.

Yet, many companies prefer to outsource to the big players. The risk of things not working out is very high, and it's better to opt for a known devil than an unknown one, they reason. The large service providers give the comfort of well-designed processes as a result of having repeatedly done

the same job for hundreds of customers. So what, if they offer the best fit (the closest possible match to the customer needs) and not the perfect fit? They are too big to devote time to the nuances of your business.

Myths Surrounding Boutiques

While boutique outsourcing service providers — companies providing specialized services, with strength varying between few tens of people to may be a thousand odd — may not have something for everyone because of the limited resources they have, they intend to excel in any service they provide. As a consequence, most of these firms have specialist areas in which they operate. And since they have to work twice as hard to win customer confidence, they need to exhibit quality to survive. Where it is difficult for the Tier-2 players to make a mark in this highly competitive market, there are many myths surrounding them. Some of them are:

Contracts with boutiques come at a lower price: While there may be a price differential, Tier-2 providers are not always the cheapest solution providers. In a conscious attempt to provide some services that the big companies are not able to provide, these companies go that extra mile to service their customers.

"None of our projects come to us because we were cheapest on the bid," says Kevin Bolen, CMO, Lionbridge, a company into content support and software development and testing services that has six centers worldwide with two in Eastern Europe (about 350 staff), two in India (more than 1,300 workers) and two in China (a total of about 300 employees). "They come to us because of the level of the relationship, the level of access to talent that we bring to the project, and our flexibility to respond as the customer grows," adds Bolen.

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Another reason why clients consider smaller outsourcing firms against the bigwigs is that they provide more intimacy and agility, and lesser bureaucracy than the big players. The Tier-2 players operate with minimal level of intervention as against the large providers that take decisions slowly due to multiple layers of bureaucracy. Customers also opt for the smaller players as a means to spread risk across providers.

"A big advantage [of working with a small provider] is that customers can reach decision makers without too many intervening layers, and so work proceeds quicker," says Vijay Menon, VP, Marketing, QuEST, a boutique IT firm in the engineering services outsourcing space.

Smaller and lower priority projects come to boutiques: Important projects and big clientele is proof that this is not true. Companies as big as Pizza Hut, Continental AG, AOL, Merck, DocuSign and Palm are working with these specialized players for some of their important projects. It is also not a good idea to work with boutique providers for routine tasks like quality testing and maintenance; these are better left to the larger players who have over time developed process maturity and trained people for such tasks. The smaller firms are more suited for innovative projects — they have the time to invest in your business.

Against the popular belief that the large customer companies choose only the bigger service providers, Continental Group, the world's fourth largest tire manufacturer, set a dif-

MAPPING NEEDS TO THE PROVIDER

According to a recent study by Forrester, customers considering using Indian smaller providers should:

Expand for appropriate reasons. Clients that rely exclusively on Tier-1 providers should consider diversifying their global portfolio to include reputable Tier-2 providers, if they are looking for more intimacy, more control, more flexibility, or specialist skills. Moving to mid tier strictly for cost reasons often will not generate the desired results.

Take the time for due diligence. All mid-tier providers are not equal. Clients must do their homework and ensure that their prospective providers are stable and credible. Financial due diligence will help clients determine stability.

Develop strategies for exit or transition as mid-sized providers get acquired. Mid-tier providers are hot acquisition targets for global multinational IT-services providers that don't have sufficient offshore capability. Clients must make sure that they are prepared for any change of ownership that could occur during the life of their contracts.

Source: Forrester

ferent precedent. They were not afraid to pull out of a bad deal with IBM, which was one of the biggest outsourcing deals in Europe in 1995. They pulled out of the $1 billion deal because "the cost was too high, the quality low, and the technology outdated," says Paul Schwefer, VP and CIO, Continental Group. Continental chose Ideafarms for taking up niche services for the company. Why? "An IBM or an HP will not understand our business culture," says Schwefer. "Moreover, they cannot take quick decisions. I am looking for agility."

Agrees Malhotra, "Most business heads are technophobic and the IT guys don't want to know business. We bridge this gap by being bilingual. Our people understand what business guys are saying and, therefore, what technology would be required to translate that into action."

Boutique firms have less satisfied employees: Like the big providers, the niche ones are not immune to attrition. Yet, employees are their most important assets — the loss of one individual might mean the loss of a customer to them. So they spend a lot of time in hiring the best talent and focusing on knowledge-management and employee-retention practices.

Small is Here to Stay

A popular perception is that the niche firms don't have the fuel that will last them for very long. But these providers themselves believe that they are here to make their mark.

"For the next two to three years, the big players will be occupying center stage," says Pradeep Rathinam, President, North America, Aditi Technologies, a boutique firm specializing in product development, and high-end architecture development and maintenance. "But as individuals keep attaining a great degree of expertise, some big firms will face the problems of churn, as some already are. Employees would increasingly seek exposure and growth. That's where boutiques will catch on in hunting and targeting talent from the big firms."

"Small companies are focused on selected domains and, therefore, downtime for ramping up to the required knowledge level is minimal," adds Menon.

IT goes without second thoughts that the decision to choose a particular boutique provider must always be taken very cautiously. One must always do necessary background research and be sure about the credentials of the company, else they might end up being cheated. The market is full of those fraudulent setups that call themselves IT firms, who are known to run away with your money, abandoning the contract.

The Flip Side

While many niche service providers offer personal care that the biggies are unable to provide, there are some factors that make customers think twice about working with them.

Scale: A primary reason why many small firms lose credibility is because of their inability to scale up fast. This applies to scaling up on both the manpower and other facilities.

Risk: It is risky to work with the smaller providers, as they are highly dependent on the capabilities of the individuals that work on a project.

Financial instability: Shallow pockets and limited funds increase the risk of working with boutiques.

Concentration: Mostly smaller providers don't have an onsite presence, so they can't provide critical support that is often required onsite. GS