

TECHNOLOGY ASSESSMENT

Vendor Viewpoint: Talentica

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IDC OPINION

Cost savings, lack of skilled labor, and complexity in the technological environment continue to remain key drivers for outsourcing. Outsourced product development (OPD) is not an exception to this trend, and Talentica, a company based in India leverages its strength and understanding of market demands in sustaining its growth. Talentica has used its build-operate-transfer (BOT) model to create a niche strategy for itself, while competitive players have moved towards pure-play outsourcing models.

IDC has identified the following strengths and differentiators which have enabled Talentica to successfully engage with 25 customers and 3 transfers:

- ☒ With technology rapidly evolving and changing, independent software vendors (ISVs) have become agile to compete effectively in their target markets. However, these companies face challenges from a cost and skills outlook. Talentica capitalizes on its BOT approach to reduce capital expenses, talent acquisition, and training overheads for its customers. Cost savings are not only achieved from a capex perspective but also from its flexibility in billing, adopting best practices, leaner processes, timely delivery, and scalability in team sizing depending on process requirements.
- ☒ By choice, Talentica focuses on providing only core engineering development to its customers. While other OPD vendors have partnered with larger ISVs for maintenance and testing services that enhance bottom-line cost savings, Talentica offers its clients core product development which contributes to top-line revenue and helps in making inroads into new and emerging verticals, geographies, and niche markets.
- ☒ Mitigating risks and gaining trust is crucial for OPD vendors and software product development is increasingly becoming more agile with multiple iterations. In these cases, creating an extension of the customer's team proves far more effective rather than relying on product specifications and waiting for development. Talentica leverages its BOT model by working on a dedicated team basis, which acts as an extension of the customer's staff. This allows Talentica's dedicated teams to develop a strong sense of ownership for the customer's product, enabling them to contribute to innovation and not restricting themselves to product specifications.

IN THIS STUDY

In this study, IDC provides insight into the trends, challenges, strengths, and differentiations of Talentica as well as its ' approach, strategy, and business model in the OPD market.

SITUATION OVERVIEW

Company Overview

Talentica Software is a product development company based in Pune, India that caters to the needs of small and medium-sized enterprises (SMEs) and ISVs. Founded by Nitin and Manjusha in 2003 with experience in key positions in development and operations, the company has strong understanding of the intricacies of product development from both demand and supply sides of the market. This company, which has 125 employees, offers OPD services to global customers focusing on the United States and Europe and garnered revenue of nearly US\$4 million in 2009. With seven years in operation, Talentica has offered services to 25 customers to date and is currently engaged in 14 live projects. The company operates from its headquarters and a development center in Pune, and has a sales office in San Jose, California.

Talentica provides OPD services to its clients utilizing the BOT model with the "transfer" option usually dependent on client requirements. While the company has engaged in three transfers to date, the process and delivery model has facilitated some of its clients to stay with Talentica for nearly six years, continuing its operations with dedicated teams from the offshore delivery center (ODC).

Company and Business Strategy

Since its inception, Talentica has been strategically approaching clients and prefers to acquire clients only from a targeted market consisting of SMEs and smaller ISVs that do not typically exceed revenues of US\$100 million. The company prefers not to engage with ISVs for purely maintenance or testing engagements, unless there is an opportunity to provide core engineering services. While competitors in the market are moving towards offering services such as maintenance, testing and quality assurance (QA), and verification, Talentica's business model allows it to maintain competitive advantage by providing specialized core engineering services, thereby adding value to the customer's key business objectives.

Although outsourcing core development has its own perceived risks, the company has been working through sales and technology partners' references to secure clients, which mitigates some of the associated risks for their clients as well as for Talentica. The company also employs a structured approach, starting from client acquisition, understanding of the client's goals, and recruitment of specialized skills through delivery and transfer, allowing it to maintain a "niche" as well as satisfied customers in the market. Moreover, the company favors long-term engagements (1.5 years) with its customers and long-term engagements ensure that Talentica can

make significant contributions to customers' products. It also ensures that its clients get dedicated and skilled personnel who have worked on and understood the visions and goals of the customer organization especially for transfer-oriented projects.

Talentica: Demystifying OPD Market Challenges

Market Overview

In today's evolving market environment, ISVs and SMEs face challenges of shrinking budgets, product life cycles, technology burst, and newer delivery models amid staying competitive and sustaining growth. With emerging opportunities in evolving technology areas like open source, social platform—enabling networking, mobility and Web 2.0, SMEs are forced to look for a cost-effective way to accelerate product development and go-to-market without adding complexity.

The OPD market has long been viewed as an attractive option to save cost, speed up time to market, compensate for lack of expertise and skill, and boost bottom-line growth. OPD vendors offer end-to-end product engineering services, thereby enabling customers acquire the right expertise, resources, customization, frequent upgrades in releases, and minimize development costs. This enables SMEs and smaller ISVs to focus on their core competence. Moreover, such specialized OPD vendors are positioned to develop products that are configurable, flexible, scalable, and secure. This helps SMEs to reduce time between product releases and low development costs to maintain competitive advantage in their market.

Challenges

In the past, players in the market especially Indian vendors, capitalized on the BOT model which Talentica also leverages to provide services to its clients. However, many traditional OPD companies are shying away from engaging in this model as it has been fraught with the following disadvantages:

- ☒ *Clients and customers realize the real cost benefits from these engagements only after the transfer of ODC.*

The real cost benefit from a transferred ODC accrues when the offshore team size is larger than a certain threshold. Talentica can keep costs lower than a client subsidiary in the initial phase, when team size is lower than this threshold. This is possible since the company is able to share its infrastructure, senior management, and support staff between multiple teams. However, the customer should exercise the BOT option beyond this threshold. Talentica addresses the cost benefit using the following models:

- ☐ **Delivery option.** It offers cost benefits not only from an offshore-based center, but also in terms of flexibility in engaging its dedicated team. In cases where the client continues to leverage ODC instead of opting to transfer, Talentica reduces the team size to a minimum for operation until the client is ready for transfer.

- ❑ **Billing option.** The company's billing process also differs from those of traditional OPD vendors in the sense that in Talentica's billing option, customers are billed on a monthly basis rather than on a per-hour basis. While the pricing model creates significant cost savings for the customer, it also emphasizes Talentica's responsibility on delivering on time and within the cost.

☒ *Clients also face complexities during the transfer of ODC from perspectives of resources, market understanding, legal issues, and talent acquisition.*

The company also rigorously adheres to structured hiring and talent retention programs, hence creating dedicated teams for its customers. Since the core and ODC teams work collaboratively on development, the customer has a clear understanding and existing relationship with them, which will be transferred upon the client's requirement. This eliminates surprises that most clients face in terms of skill shortages and market understanding. Talentica also assists in setting up the subsidiary along with legal processing and hiring of senior management.

☒ *From a vendor perspective, the BOT model is not being favored as it affects both top-line line and bottom-line line revenue after the transfer. Moreover, the model is critiqued for lacking long-term sustainability for vendors. Although some are delivering services based on BOT engagements, acquisition of clients with transfer options is decreasing in the market.*

Talentica works with well-funded startups and SMEs to avoid risks in the OPD market. The vendor leverages careful assessment and due diligence with its partner network to acquire clients for OPD engagements. Its business approach is to enable transfer of ODC to clients and Talentica's business model helps in offsetting their top-line line and bottom line growth. While traditional companies view the long-term sustainability of their teams to ensure continued billing, Talentica advocates that if the processes and model work well for customers, they would set up a subsidiary on their own. Talentica offers to transfer the client with the required skills as the existing teams have already established a collaborative work environment, released several products for the client, and also attained a financially viable scale, thereby resulting in generating revenue as well as a satisfied customer.

☒ *Risks are higher in the OPD market especially for core product development as end-user organizations perceive threats from expenditure and control over processes.*

Talentica aligns its processes with those of clients they are engaged with. Alignment starts from "building" the process right from recruitment of employees with skills that match the client's technology and domain. The process also includes acclimatizing the team with the processes and methods, followed by the customer and OPD team's adoption of processes and methodologies over the delivery of the project. This model not only eases the complexity and risk of embracing the vendor's processes but also guarantees a smooth transfer of ODC including its processes and methodologies.

- ☒ *Client organizations perceive intellectual property (IP) risks as among the key factors for not outsourcing product development, especially core product development.*

While the BOT model in essence resolves the risk of IP being stolen, Talentica's business approach of having all prospects, customers as well as employees sign nondisclosure agreements when sharing any IP-related information further mitigates such risk.

Differentiators and Strengths

Differentiation from Competitors

Organizations working with OPD vendors usually look for cost savings and faster time to market as these vendors have expertise in working with large ISVs. Most of these traditional OPD companies involve themselves in developing enterprise-related products that enhance existing products in terms of productivity, cost savings, and operational performance. Talentica's differentiation is its approach to provide core engineering services that are more focused on revenue generation and hence aid market expansion and growth. The vendor is also able to generate cost savings to the customer in terms of leveraging agile methodologies, billing, lean processes, and flexible staffing based on requirement and product delivery stages.

Another key differentiation is Talentica's approach to product development with emphasis on understanding the customer's business. Typical OPD vendors rely heavily on clients to write out complete product specifications based on which the offshore team does the development. However, this creates big communication overheads for the customer. Talentica focuses on making its team understand the business of its clients. Moreover, as the team is dedicated to working on the client's product and understanding end-user needs well, it does not need detailed specifications for each feature it develops. Short specifications, usually delivered over the phone or email, are sufficient for the developers to understand what is needed and delivered accordingly. Talentica uses short-term specifications, periodically revisiting product development to keep the clients updated with the latest technology in their respective markets. The ODC team also proactively collects information on competitive products and market feedback on their product to constantly reengineer the product, thus creating a competitive edge for their customer.

However, Talentica should note that competitors in the market are offering services including value analysis, testing and quality assurance, maintenance, and thus creating an end-to-end-solution portfolio for product engineering. As most of the OPD players have shifted from the BOT model to the outsourced model, vendors are allowed to retain IP ownership of the product, thereby enabling them to offer customized solutions to other relevant customers. Such tried and tested products with customization help vendors in gaining the trust of their customers with cost reduction and faster time to market benefits, which translate into additional revenues for vendors.

Strengths

In the OPD market, successful delivery and relationship relies on technology and domain expertise of team members, collaboration, tenure of skilled team members, and a strong business model. Talentica has positioned itself in the OPD market, leveraging its strength in the BOT model and business approach.

Talent and Expertise

One of the key factors that helps Talentica sustain growth in the OPD market is its talent pool. In the sales acquisition phase, once the client has engaged, the company recruits the required talent for the right domain and technology then provides the client prior notification on the start of the project after 2–4 weeks. Product development engineers with experience or specialized expertise are recruited; usually these recruits are graduates only of top schools in India, primarily the Indian Institutes of Technology (IITs) and the National Institutes of Technology (NITs or REC). This not only offers Talentica the required expertise, but also the right candidates with flair for core development, and knowledge on the client's domain and technology.

Longevity of Skilled Team Members

Talentica is willing to pay higher costs than multinational corporations (MNCs) to recruit the right talent from top universities for the required expertise. However, this cost is offset due to the company's policy of acquiring talent based on client requirements and it has no bench, where employees are waiting for projects to be deployed. Moreover, as the recruitment is based on specific technology and domain using the BOT model, Talentica provides its employees a clear understanding about the possibility of transfer to the parent company. Adding to this, expert product developers prefer to work on core engineering development rather than testing and QA projects, which makes it easier for Talentica to absorb the right workforce. The company capitalizes on this factor to provide its clients dedicated teams that will work for the entire duration of the project, in effect becoming an extension of their customers' teams.

Collaboration

Depending on the project, Talentica's teams provide clients daily, weekly, and fortnightly briefings to ensure companywide, multiple points of contact to avoid delivery bottlenecks. As SME and small ISV clients are agile, the challenge is to deliver on time because of intense competition and rapidly evolving technology. Talentica utilizes agile methodologies that are tried and tested with previous customers. The company engages in proactive consulting on latest technologies and necessary add-ons for product development to successfully survive competition and market dynamics.

FUTURE OUTLOOK

Challenges and Opportunities

Talentica faces challenges from its competitors as many players are leveraging various delivery models, moving away from time and material-based billing. Such

models enunciate not only the timely delivery of products but also business outcome-based rather than output-based aligning more closely with client's business objectives.

As Talentica mostly engages with clients from SMEs and small ISVs to develop core engineering products, the company will face challenges from an request for proposal (RFP) perspective. Moreover, as small ISVs will tend to prefer operating their ODCs with minimal costs, the option to transfer will also get abated in the future.

However, mature markets like Australia, Singapore, and Hong Kong are eyeing developing markets like India and China for their product development needs. While it is not essentially from a cost perspective, the lack of talent and emerging opportunities in developing markets is favorable to vendors like Talentica to grow their business. With strong expertise and focus to engage only in core engineering development, Talentica has established a niche market for itself. With emerging opportunities in technologies like Web 2.0, social networking, mobility, and gaming, a lot of ISVs are investing in the OPD market.

ESSENTIAL GUIDANCE

Talentica is strategically positioned in a market where players are moving away from core engineering to provide services which include maintenance, support, and testing and QA services. While these services have an impact on an enterprise's bottom-line revenue, the company has chosen to engage itself in developing products that contribute or act as additional sources of revenue, thereby increasing the customer's wallet share. IDC recommends the following for Talentica to further increase its share in the OPD market.

- ☒ Talentica should leverage newer delivery and pricing models like outcome-based and risk or reward models to further enunciate its delivery capabilities and talent pool. Some OPD vendors are using the outcome-based model, in which the vendor is initially paid a percentage of the total contract upfront. While this results in on-time delivery, improved efficiency, and margins, the vendor is incentivized with a share in financial benefits from savings or profits depending on the contract. With small ISVs preferring not to transfer because of budget constraints and lesser operating costs, Talentica should utilize these opportunities for garnering additional revenues from its clients.
- ☒ With the world market eyeing the Asia/Pacific region for business opportunities, Talentica should increase its sales channel presence in the region, especially in mature markets like Australia and Singapore.
- ☒ Talentica should also use the verticalized approach to explore more opportunities, niche segments, and emerging verticals to successfully grow its share of wallet.

LEARN MORE

Related Research

- ☒ *Worldwide and U.S. Offshore IT Services 2010–2014 Forecast* (IDC #223080, May 2010)
 - ☒ *Worldwide and U.S. Research and Development/Product Engineering Services 2009–2013 Forecast: The Changing Winds of Technology Product Innovation and Creation* (IDC #219921, September 2009)
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Synopsis

This IDC study provides insight into Talentica's approach, strategy, and business model in the outsourced product development (OPD) market. With a positive outlook for OPD, this study also provides insight into the trends, challenges, strengths, and differentiators of Talentica in the OPD market.

"Talentica is rightly positioned in a market that is poised to grow, and IDC advises that the vendor strategically align its delivery and pricing models and verticalize its approach to further grow and expand in this market" says Gowtham Sampath, market analyst, IT Services, IDC Asia/Pacific.

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