Notes on Case

"Globant"

Introduction/Overview of the Case

The Globant case discusses a four year-old venture making business headlines in Argentina as the largest independent information technology (IT) outsourcer in South America. From the beginning, Martin Migoya and cofounder Guibert Englebienne have fueled sales by tapping their personal networks and by successfully following up on every lead and referral coming their way. Their sustained push for wins, however, has resulted in such a broadly diversified portfolio of clients and service offerings that they risk being marginalized by larger, more focused competitors. This case allows students to examine opportunity criteria such as skill sets, geography, industry segments, and client needs with the aim of determining a best-fit growth strategy on the fly.

The case provides a detailed background of the four leading entrepreneurs who make up the Globant executives. Students can assess the fit of the ideas presented in the case with the teams, resources, and balances of risk and reward as discussed in Chapter 6 – "Screening Venture Opportunities." Material is provided in the case on various market segments, competitors, and the strengths and weaknesses of Globant that allowing students to perform the due diligence needed to determine the future opportunities Globant should pursue. In fact, the case ends with Martin Migoya, CEO, considering how to confront major competitors moving to set up satellite offices for IT outsourcing in Argentina. Even with his skilled workers, an excellent service record, and great referrals from customers in Argentina, Mr. Migoya knows the company should narrow and prioritize IT outsourcing.

Positioning and Objectives of the Case

The case is positioned to follow Chapter 6 – Screening Venture Opportunities. The case can be covered mid-way through the course once students have covered Opportunity Creating in Chapter 5. In this case, the partners have a good if not great opportunity; in fact, they have many good opportunity alternatives to consider as their firm moves from late growth to maturity stages of the life cycle. The decision focus of this case is to carefully screen the various venture growth opportunities given in the case. In the early growth of the company, the partners did not specifically target a particular industry or segment of the outsourcing work. They are now considering four target market segments as focus areas for the firm including high-tech, travel, telecom, and financial services. Profiles are given for key competitors and issues within each industry segment to use for decision making.

The student is provided with information about competitors in each of the segments and must correlate this material with the past expertise of the firm, the future of the market for IT outsourcing, and the likely actions of competitors. Thus, students must consider strategic implications of Globant in light of what competitor reactions might be. They must also consider competition and customers on an international scale.

This case has rich material for an in-class discussion over an entire class period covering the industry and the venture team. The issues in the case also yield themselves for a thorough market and marketing analysis that could be the subject of a class presentation by various student teams.

Preparation Questions

These questions should be assigned as homework for students as they prepare the case for the subsequent class discussion. Answers to these preparation questions are as follows:

1. *Discuss the nature of the challenge the team faces as they seek to build a global company. What are the strengths and weaknesses of their model?*

<u>Challenges facing the team in building a global company include:</u>

- Moving beyond the traditional word of mouth customer testimonials that have been successful in gathering new business in the past. The market is growing and is attractive for many competitors who have entered the market and are also considering targeting competitors.
- A more tactical and focused approach to business development is critical and time is of the essence, otherwise Globant could be marginalized by new entrants and entrenched competitors pursuing growth.
- Another challenge is the risk customers may feel about doing business with a company in South America in general and Argentina in particular. Fears of past criminal activity and political instability may make the country seem risky for outsourcing. The firm must sell their company and their expertise while explaining away the potential issues surrounding Argentina.
- Agreeing on a portfolio of services is necessary while keeping talented workers is also a challenge.
- Ensuring that workers are happy, but skilled in their various platforms and technologies and applications design as well as having an English fluency are keys to growth.
- Differentiation among the smaller, regional companies that compete on cost, speed, cultural fit, and size is a challenge as are the larger areas and industries, many with entrenched outsourcing partners and relationships.
- Selecting from among the various target markets is key and the company must carefully select one or more segments from high-tech, travel, telecom, and financial services. Specializing in one or more of these segments also offers risks and challenges.
- Lack of experience in competitive bidding situations (they've traditionally found new business through networking) may be a challenge. Cold calling is not seen as effective and finding other ways to gather new business is needed.

<u>Strengths of their Model:</u>

- A key strength of their model is the Argentine location of the company which offers an educated talent pool, competitive wage economics, and a favorable time zone to serve Europe and the Americas.
- Happy, skilled, talented workers who are the best and brightest in their field are other strengths evidenced by their low rate of employee turnover (8 percent).
- Strong, experienced top management team and emphasis on human resources.
- Variety of backgrounds, technical skills and employees' knowledge domains across various platforms (Linux, Unix, and Windows) and over various technologies (Java, NET, LAMP and Oracle), along with system administration experience and application design work.

- Customers site their ease of communication with Globant along with high levels of service and strong management ethics to be strengths of the company.

Weaknesses of their Model:

- Weaknesses include the reliance on direct contact and word-of-mouth for growth.
- Other challenges include matching company strengths with the consumer IT needs life cycle (See Exhibit 2), and offering an advantage over competitors with lower employee salaries and hourly rates.
- Lack of specialization may also be hurting the company as the industry moves toward maturity and shake-out. Many of the bigger companies already have IT oursourcing partners and it may be difficult for Globant to grow according to their more ambitious scale.
- Not having specialized like other firms, Globant may be less likely to become a key player in any of the four potential segments for targeting. In fact, there may be some advantage in being an "all-services" competitor at this stage of the life cycle.

2. *Describe the sales cycle in offshore IT services. What differentiating factors should the Globant team focus on?*

As shown in Exhibit 2, customers first look to IT outsourcing for help with software development including inception and design, system architecture, product development, hard-core engineering and quality assurance. As their customers move to infrastructure management they require offshore expertise in operations control, 24/7 real-time system monitoring and support for networks and applications, and security management. As customers globalize, their IT needs include web site design and maintenance, Internet marketing, and Internationalization issues.

IT spending continues to grow (see Exhibit 3) with a combined average annual growth rate (CAGR) of 9.2% from 2002 to 2004 with growth predictions for the future.

Most important to the customer is cost savings, access to outside expertise, and ways to improve focus on a company's core business. Of lesser importance are service improvement, access to better technology and time savings. Obviously, Globant should focus on these top IT needs of current and potential customers.

3. What industry segment(s) present the best opportunity for the Globant team, and why?

Students should vote on the four possible target markets Globant is considering based on their past experience, current clients, and their project expertise. These include: 1) high-tech, (2) travel, (3) telecom, and (4) financial services.

High-Tech is a good choice and an obvious target. Concentrating on California and their high-tech market cluster would provide access to big-name companies. IT spending in high-tech is in data analysis; IT cost containment, compliance, and manufacturing operations. Large firms require customization and expertise in packaged software. Some 80 percent of the high-tech companies outsource applications and product development. They are seeking low-cost labor to make their own consultants more productive. High-tech offers opportunities on the East Coast of the U.S. (40%) with the remainder spread throughout but with the lowest concentration in the Texas market selected for consideration. Sales are projected to be highest in this segment and the number of target companies is large as is the market for outsourcing.

Travel is a growing area for outsourcing since travel transactions are now almost exclusively conducted on-line. Customers want convenience, speed, and access to pricing and travel choices. Travel is the fastest-growing category of e-commerce but offshoring is new to the travel industry. The suppliers are many and include airlines, car rentals, hotels, and a number of on-line operators and Web portals. There are fewer target companies in travel and leisure in the East Coast and Texas than the other three options Globant is considering. This industry is most interested in business processes, Web hosting, and solutions as well as back office automation and 24/7 operations and support. Reducing distribution costs and ongoing targeted dialog is also important to the travel industry as they work to improve customer loyalty.

Telecom is an important industry and the CTO of Globant has much past experience in their sector. Growth is expected to be between 32 and 50% in telecom and competitors also have much knowledge of this area. Small and midsized companies need offshoring assistance and have not been targeted by larger Indian outsources. Outsourcing partners must have expertise in both telecom and the specific technology of their customers to be considered as a vendor.

Financial Services is an area of expertise of COO Umaran. Some 90% of financial services firms outsource and this is expected to grow at 4.2 percent through 2009. There is a large mid-size market but competition is fierce. Data security is an important issue. Legacy systems too must be updated and/or maintained. Smaller firms were purchasing third-party software to handle core banking, trading, online presence, and other functions. Commercial software use is widespread in financial services.

Class Discussion Guidelines

Begin by reviewing the preparation questions assigned for homework and study as shown above.

Voting- To stimulate the class discussion, review the data from student e-mail responses to preparation question 3. (Or alternatively, have students log-on to a discussion board before class to share their ideas of the best market segment choice).

A good question once you've discussed the four alternatives (in Question 3): *What are Globant's strengths? Which segments appeal to the partners? Which have the greatest current and future market potential? Which segments will fit each of these three questions?*

Divide the board into four parts where you can list the strengths and weaknesses of each of the four industry segments. Be sure to leave space at the bottom of each of the four segments for listing Globant's strengths and weaknesses in each of the segments (or requirements of customers in the segments).

What will become evident is that all of the four segments have both strengths and weaknesses and Globant, given their broad, past experience, has some expertise in each of the four segments. While there are no right and wrong answers, make sure students justify their choices using facts and data from the case. There is much data in the exhibits and you may need to encourage students to use this data.

Another teaching tactic is to divide students at random into four groups representing one of the four industry segments for targeting and allow students 10-15 minutes of class time to organize their information and ask them to come to the front of the room and make a presentation on the value of targeting this segment to Globant's management. The rest of the class should ask questions and act as Globant employees when considering the presentations.

Additional Discussion Questions

1. How do employee skills match current client needs and future trends?

Currently employees have a wide variety of backgrounds and technological skills. Their knowledge domains differ across platforms, technologies, system administration experience and application design work. Their strength is being able to deal with any client request and having talent with industry-specific experience. Globant employees compete on service, ease of communication, and a strong management ethic.

Future trends, depending on the choice of industry segment may vary. Employees must develop deeper skills within the chosen segment or segments which means losing expertise in other areas. The risk is that the chosen segment will shrink leaving Globant without enough customers or broad expertise to remain flexible.

2. What clues are given in the exhibits and case as to the stage of this industry's life cycle?

It is easy to tell the stage of the life cycle from Exhibit 3 and the growth of outsourcing spending. Also Exhibit 2 shows customer needs changing. As globalization of customers is mentioned, students should recognize that the first targeted customers are traditionally within a firm's home country. Next firms seek international customers so this is a clue as to the late growth/early maturity stage of the life cycle for the IT outsourcing industry. The continued entry of new competitors into this industry and the customer emphasis on cost savings is also another indication. The number of competitors and their own globalization strategies are further proof as is the mix of countries involved in this industry.

3. Discuss the nature of competition in the IT Offshoring industry.

Competition is large and varied. Specialized skills and expertise is available in the US and Canada and Mexico as well as overseas. Countries involved include Ireland, Canada, Singapore, Mexico, Russia, India, Philippines, Vietnam and China. The most experienced firms are in India which targeted IT outsourcing due to their experience and the large number of existing relationships and reference customers, yet India has had staffing limitations. Firms in China and Southeast Asia had the lowest labor costs and a large, growing labor pool but had difficulties providing a cultural fit with Western companies. West Europe tended to outsource to East Europe. American firms wanted partners with similar business culture and language skills. American firms sometimes oustsource to Canada or even the lower-cost Midwestern states to get a better cultural fit, but not necessarily cost savings. Entrenched competitors include Tata Consulting in Mumbai, India; Infosys in Pune, India; Luxoft in Eastern Europe; and Accenture in Chicago, Illinois in the U.S.

4. Why do firms typically not switch Outsourcing partners?

Many companies have long-standing relationships with offshore partners (five years or more on average). These relationships represent invested time and recourses and make switching costs difficult. This is a barrier to competitors trying to steal competitors. Because they share confidential information and are involved in current and future projects, it is difficult to switch, particularly if the firm is happy with the partner. However, some firms do diversity or multisource with partners in several geographic regions to spread the geopolitical risks. Selling themselves as a multisourcing partner (to firms who already have partners) might be another idea for Globant as they expand.

5. What are the strengths of an Argentine offshoring IT partner?

In addition to their educated talent pool, competitive wage economics, and a time zone favorable for service in Europe and the Americas, the country is seen as a global player in the IT industry and many competitors are setting up offices in Latin America. They seem ahead of India and China when considering labor quality, labor supply, and time zone differences are taken into account. Other strengths are talented employees within Argentina. A physical presence in Argentina too assures this employee talent country, having a presence there assures talent is not lost to international competitors.

6. Discuss the unique HR practices at Globant. How important are they for the firm's growth.

IT cultures, in particular, seem to work best when they are nurturing but informal. Creative people spend their workday problem-solving. They need freedom from excessive rules and procedures. Globant instituted creative rooms where employees could play games, brainstorm, or just meet over a good meal. They organized their HR department into people care, career and talent development, and staffing and recruiting. Benefits to workers include massages, yoga lessons, personal trainers, sports, and even a gym. Continuing education programs were augmented by mentoring and English lessons.

Applicable Teaching Tips

Bring a globe or world map to class along with push pins and have students locate key IT offshoring countries. Then have students discuss the advantages of various partners for customers in the western U.S., the eastern U.S. and Texas. Discuss the advantages and disadvantages of a partner in a varying time zone. (Note the key advantage is the partner can update programs; de-bug software, batch process work, etc. during their day while the U.S. customer is sleeping. After work ends in the U.S., the partner can pick up offering 24/7 services and availability that is so important to this industry).

Another option is to have students assume the roles of the four top managers – the CEO, CTO, COO, and VP of Corporate Services – and have them give a short bio on themselves (using the information in Exhibit 1). Then have students present and/or discuss the four industry segment choices, and have the class vote to see which one each of the executives might prefer and why.

If time permits, students may want to research the IT offshoring industry and give a brief update. Also an update on Argentina and business practices would be helpful to students unfamiliar with this country.

A final exercise would be for students to research the various industry segments and provide an update on them for the class. Students can also visit the websites of the various competitors mentioned in the case and discuss how their services have changes and grown since the case was written. Students might end the class hypothesizing the trends we can expect for the future in the offshoring industry for IT services. As competition increases, more small and mid-sized businesses will be customers of this industry, particularly for countries and companies with a lower cost structure.