

## IBM Has a Great IDEA – Idea Cellular and IBM Sign a US\$700 M Outsourcing Deal

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### KEY POINTS

- IBM and Pune, India-based Idea Cellular have signed a 10-year comprehensive outsourcing deal with a contract value of approximately \$700M. Under the agreement, Idea Cellular will outsource many of its IT services, notably application management, to IBM.
- Pricing is based on an “on-demand” model, similar to the IBM-Bharti deal. IBM will benefit from the expected growth in Idea Cellular’s client base, and Idea Cellular’s growing demand for IT.
- This partnership represents the fourth significant outsourcing deal in India since 2004. Of interest is that Indian “heritage” vendors have not won any of these deals. HP has won two IT outsourcing engagements in the banking sector and IBM now has two (significantly larger) telecommunications-related deals to their credit. The reluctance of Indian providers to run data center operations is clearly having an impact.

### THE ANNOUNCEMENT

On Monday, March 19th, 2007, IBM and Idea Cellular announced a 10-year outsourcing deal that is valued at US\$600 to US\$800 million, depending on Idea Cellular’s revenue growth. Under the terms of the deal, IBM will assume core operations of the telecommunication provider’s IT infrastructure and applications, as well as provide consulting. From an application point of view, it is of note that billing, customer relationship management (CRM) and subscriber management applications have been integrated into the agreement. This is a relatively unique bundling.

As with most telecommunications vendors in India, Idea Cellular is currently enjoying strong growth in its subscriber base. As of February 2007, Idea Cellular had approximately 13.6 million subscribers, providing the company with approximately 12% market share in India’s mobile market. The recent contract signed with IBM is priced to allow growth in Idea Cellular’s market base, and of increasing importance, to consolidate as efficiencies are gained by both IBM and Idea Cellular.

### OUTCOMES

This deal is a reflection of the success that IBM has enjoyed in recent times with telecommunication providers. IBM also has a strong history of outsourcing in this market. In March 2004, the company signed a deal with Bharti in India and also recently contracted with Telstra in Australia, as well as Vodafone USA and Hanaro in Korea. In the telecommunications sector, IBM has been successful in extending its reach into other areas of the organization, notably to business process outsourcing (BPO), for which deals have been hard to come by. Recent examples of this include successes in the procurement management processes at Telstra and in customer care at Bharti.

What is of interest to Springboard Research is the fact that these two deals, along with contracts HP signed with Bank of Baroda and Bank of India in 2005 and 2004 respectively, highlight that Indian service providers are unable to win infrastructure outsourcing deals in their own country. To do this, Indian providers will need to aggressively market data center management services and capabilities. Some Indian providers offer these services, but do not have the experience and services scalability required by rapidly growing Indian enterprises. While Springboard Research expects that some local providers will play a part in this deal, the heritage of Idea Cellular with the Tata Group has a certain level of irony given that Tata Consultancy Services is not a prime provider.

### **FOCUS POINT**

If executed properly, the IBM-Idea Cellular deal is a win-win for both companies. IBM had not signed any major outsourcing deals in Asia Pacific or globally to date in 2007, so this may be an impetus for growth for them. Idea Cellular has partnered with a provider who has a strong track record in the telecommunications sector and in IT infrastructure and applications outsourcing that will enable their growth.