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QUEBEC IT: MOVING AHEAD ON THE GLOBAL STAGE

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“Think globally, act locally.”
Marshall McLuhan

CHECK AGAINST DELIVERY

Merci, Robert,
Madam President
Distinguished guests
Good afternoon
Bonjour à tous,

Thank you for inviting me to be with you today.

Before addressing today's topic "Québec IT: Moving ahead on the Global Stage", I would like to begin on a more personal note. It is a special honour for me to address the Montreal Board of Trade, particularly as a new resident of Montreal.

My move to Montreal is actually a return to my family roots. My mother's ancestors, believe it or not – the Godin family – established themselves in Québec during the time of the French colony... in fact in 1752. This return to our roots has been an extremely positive experience for my wife Deborah and me. I would like to thank all of our new friends and business colleagues who have been most helpful to us in our transition. You have made us feel at home. Merci beaucoup, mes amis.

Montreal and Québec have always been a key part of CGI's success and continues to be today. In fact, we were pleased to announce this morning the signing of an MOU with CAE, another Québec-based technology leader.

This end-to-end outsourcing contract is valued at 200 million dollars over a ten year period. In the process, we will be adding new members to our Montreal teams, which already total over 7,000 employees.

Ladies and gentlemen,
Mesdames et messieurs,

Today we are all competing across borders and continents. Fortunately, Montreal has moved ahead with the times and is finding a very special place in the world of global trade and knowledge industries. Montreal's international flair and cultural diversity contribute greatly to our business and personal lives and – in many ways – make Montreal truly unique.

In this context, it is not a surprise that Montreal has been attracting global talent and has been ranked fourth in North America as the best place for high-tech employment.

The Information and Communications Technology sector alone represents 2,700 companies and close to 110,000 jobs in our city. It contributes greatly to the prosperity of Montréal, with exports totalling over \$4 billion in 2004.

And the future looks bright, especially with the recent creation of TechnoMontreal, the ICT's own cluster, which will no doubt help fuel additional growth in this sector.

In addition to being an important aspect of the Montreal economy, the ICT sector is essential to the development of the Québec economy as a whole. With 140,000 jobs and total revenues of 26.4 billion dollars, the sector generates exports of 8 billion dollars, and invests over 800 million dollars in research and development.

And, most importantly, it is a sector that is poised for tremendous growth for a very simple reason: Government and private enterprise must continue to invest in technology to remain competitive in order to serve their clients and their citizens.

In other words, we need to continue to invest in technology to win on the global stage!

Of all economic sectors, this sector is the one which brings the greatest contribution to productivity and economic growth. This point was reinforced by the Prime Minister just last week as he released Canada's national science and technology strategy in which he pointed out "no country can remain prosperous and healthy without reinvesting a substantial portion of its wealth in science and technology."

Over the next 15 minutes, I would like to share with you how other countries have successfully grown their technology capabilities and, in the process, reshaped their standing in the global economy. In examining their strategies and successes, I believe we can further improve our own position on the global stage.

It is my contention that we need to continue to maximize the opportunities provided by the ICT sector to successfully shape our city, province and indeed our country for the future.

As we are the only remaining, publicly-traded, Canadian headquartered company in our sector, I would like to share with you a bit of CGI's history, its evolution into a global player and some of the challenges that we face today.

As some of you may know, CGI was founded in a basement in Québec City in 1976 by two young entrepreneurs: Serge Godin and André Imbeau. From these modest beginnings, CGI has been a case study in IT and business success. Our total revenue in 1976 was \$138,000. Today, we generate those same revenues in under 4 minutes as we approach \$4 billion in global revenue.

While more than 40% of our revenue comes from outside Canada, we plan to increase this number to 60% or greater over the next three to five years and double the size of our company.

For CGI, global growth is not an option... it is a necessity. When we look at our top 100 clients, 61 of them have operations in both North America and Europe, and 30 of them have operations in North America, Europe and Asia. If we don't follow them, we run the risk of losing them and foregoing a significant growth opportunity.

As a point of reference, a decade ago our competitive landscape was composed of a multitude of regional companies, serving local clients with local resources. Most of these one-time competitors have been sold or merged, leaving CGI as one of the very few end-to-end IT and business process services firms operating and competing on a global basis.

Another reality in our operating environment is that businesses can conduct approximately 40% of software development and maintenance activities from anywhere in the world. To meet our client demands in this area, CGI has developed a global supply chain capable of serving clients from around the world, allowing for the best combination of quality, flexibility and cost.

With our Global Delivery Model, we develop and maintain systems for our clients in their own community or abroad. True to our practice of listening to our clients, where we deliver the work is always determined by client preference.

As you know, our sector is labour intensive. For this reason, it is an area where we have a very good opportunity to create a growing number of quality jobs in the future. In fact, we have been creating quality jobs throughout our 31-year history. Today, we have 25,000 employees in 16 countries around the world.

Let me give you a few examples of how we have leveraged our global delivery model to create quality jobs.

Through a partnership with Manulife/John Hancock we established a centre of excellence in Halifax in 2004 and, in the process, we created 500 jobs in Atlantic Canada.

Last year, this centre was enlarged with the addition of a satellite centre in Charlottetown, PEI which is now home to 150 IT specialists remotely serving one of our largest clients.

In Saguenay, through our 25-year partnership with Alcan, we created over 400 jobs where our teams are supporting the IT needs of Alcan's global operations.

For a very large, New York-based financial institution, we have been designated as their North American nearshore partner of choice and, as such, we are maintaining and developing some of their applications... here in Montreal... and this opportunity continues to grow.

These examples demonstrate how CGI has been able to use its Global Delivery Model to become a net importer of high-value jobs to many regions of Canada. Our "think globally, act locally" strategy has paid off for all our stakeholders, including those 107 communities in which we operate around the world.

That is why we are looking at building more local IT centres of excellence. For example, we believe that there are opportunities for developing additional remote delivery centres throughout Québec that would serve new US and European clients.

When opening these remote delivery centres we look at a number of criteria, including:

- a stable, growing and highly qualified workforce
- the presence of post-secondary educational institutions
- a mature and robust technological infrastructure; and
- competitive labour and production costs, supported by targeted, long-term government incentives

And while labour arbitrage is a component of global delivery, CGI's global delivery is much more. Clients are looking for value... lower costs, but not at the expense of quality delivery.

It is very important to understand that, in our industry, more value has been lost due to poor project management than will ever be gained by labour arbitrage. Success is about managing the brightest talent and the best technology from around the world and delivering it anywhere in the client's world ... on time and on budget... and, against this standard, we believe Québec can continue to compete and win.

This is why many locations in Québec would qualify for the establishment of such remote delivery centers. The social and economic benefits of establishing these remote centres would be significant at many levels in these communities.

For example, it helps us address what has been a long-standing social and economic challenge in Canada – that of regional economic disparities. In the Industrial Age, people had to move to where the work was, mainly in urban centres. In the Knowledge era, and more specifically in our industry, we can move the work to smaller, more rural communities. In the process, we can strengthen our rural communities while relieving the pressure on our cities and urban infrastructure.

The question is how can we do this? In the global economy, the winners will be those that are focussed, fast and work more effectively.

The problem is not money alone. After a half century of prosperity, the world is awash in cash and ready to invest. But these investment dollars have no loyalty to any country or corporation. Investment decisions are based on where the return is the greatest. And the greatest return will be where the best talent is working the smartest. The question facing us is – how do we ensure we have the best talent – and how do we ensure that we are working the smartest?

Let's take a few minutes to look at two real examples of how this kind of economic advancement in the technology sector has happened in Ireland and India.

With its regional economy, Ireland was one of the worst performing countries in Europe in the 1960s. Today, it is one of the most successful. Ireland's astounding turnaround has given birth to a new name: the Celtic Tiger.

Meanwhile, half a world away, India now has one of the world's leading ICT industries. Let me give you an updated version of the classic A Tale of Two Cities. In the literary version the two cities are London and Paris. In my version the two cities are Dublin and Bangalore: A half a world apart, both cities have taken up the IT growth challenge and made it work. The IT development success in both Ireland and India can only be called staggering, exciting and impressive!

The Irish miracle was built under a very simple banner: "Ireland, knowledge is in our nature." Today, Ireland is one of the most prosperous economies in the world. And it had nothing to do with the luck of the Irish or a four leaf clover. It was a concerted and conscious policy of attracting high-tech and knowledge-based industries to the island.

In the 1960s the UK and Ireland were becoming a European economic backwater. In a bold, nation-building action, the Irish created the Irish Development Agency – or the IDA. When the IDA first opened its doors, it made a decision to make Ireland the best address for knowledge-based industries. A generation later, Ireland has the second highest gross domestic product per capita in Europe, after Luxembourg, and one of the lowest tax rates – at 12.5% – in the European community.

Beginning in 1958 with a policy entitled Economic Development, Ireland began to open up to targeted foreign investment. Incentives included long-term tax credits, research and development grants, and a wide diplomatic commercial service that featured academic, government and citizen participation.

A decade later, over 450 new companies have established themselves in Ireland. Focusing on industries of future growth, the IDA concentrated on attracting computer, pharmaceutical, medical technology and international service companies. These companies have invested hundreds of millions of dollars in the emerald isle.

And importantly, much of this investment is going into the kinds of projects that will lead to future growth: R&D projects and research facilities which will keep the national talent at the leading edge of global competition as the knowledge economy moves forward.

In the past, Ireland's best exports were its people. Not any more. From 1996 to 2005, the population actually increased by 15%. Unemployment in Ireland is now less than half the European average.

The Irish example is encouraging. It can now be said with conviction that a policy of "think globally, act locally" does work. The change in Ireland's fortunes did not happen by chance. It was a cooperative policy of change that was embraced by business, academia, government and the people of Ireland.

Now let's turn our focus from Dublin to Bangalore.

In India, the transition has been equally marked. To foster the growth of the IT sector, India formed Nasscom ICT, an industry non-profit association, which has become a bridge between Indian IT and foreign governments. Nasscom developed the "India Inc." brand by creating awareness about India's strengths in the technology sector, both domestically and internationally.

The association encourages offshoring to India and engages in a variety of governmental and promotional activities including tax concessions in IT software and IT enabled services. There is a huge pool of IT professionals in India.

Each year, India graduates over 400,000 high-quality information technology professionals. By comparison, Canada graduates 35,000 students each year who specialize in math, engineering and related fields.

As I said, their results are impressive. Today, according to the McKinsey Global Institute, Ireland and India respectively derive 8.6 and 12.2 billion dollars US in offshored services. Canada is next with 3.8 billion dollars, but followed very closely by China.

Yes, Canada is a global IT player. But what can we do better to ensure that we remain a true global player? What can we learn from the successes of Ireland and India? When you think about it, Québec is better positioned than either of these two countries to grow on the global stage, as we are literally next door to U.S. market, which is the largest in the world for ICT services. Dublin is 3,000 miles away... India, 8,000 miles away. We are right next door. Moreover, we share with the US both the same time zones and a similar business culture. Our economies are linked by free trade agreements.

In short, we have many natural advantages that both India and Ireland lack, yet they have taken a leadership role in an industry where frankly, because of the natural advantages I mentioned earlier, Québec and Canada should be able to fight above their weight.

In my view, India and Ireland took four common steps to achieve their phenomenal success. These four steps were:

- First, they shared a long-term common vision to become a leader in the global knowledge economy
- They aligned business, academia, governments and the population around the vision
- They made some very strategic long-term investments in education and infrastructure – they focussed on quality

- Finally, they established a fiscal environment that encouraged foreign investment while prioritizing and targeting the investment to ensure maximum alignment to their long-term vision

To paraphrase Albert Einstein... “Out of clutter they found simplicity. From discord, they found harmony and in the middle of difficulty, they found great opportunity.”

I believe Québec has been a leader in Canada in targeting the ICT industry for future growth and prosperity. The Québec vision and long-term commitment to invest in the sector and to compete with other jurisdictions for the best jobs has reaped significant long-term benefits for the province.

But Einstein’s advice also applies to us as an industry and a nation. Clearly, we are facing some real challenges and therefore some great opportunities. We are currently experiencing a very real education and manpower crisis in IT.

The demand for IT professionals is at a 25 year high – higher than at the height of the dot-com boom. Between 1990 and 2004, the growth for IT jobs was four times higher than the overall employment growth in Canada. And across North America this trend continues. More job openings, fewer students. In the US there was a 23% drop in computer science enrolment in 2003 and a 10% drop in 2004.

In Canada the statistics are even more alarming. In the five years between 2000 and 2005 enrolment in computer science declined by 70%.

With an aging workforce heading for retirement, this crisis in manpower can only get worse. The decline in North American computer science enrolment coincided with the tech bubble burst in the 1990s and with the rise of India. We believe that computer science can still offer significant opportunities for young people right here in Québec.

To address this decline, we must take our case directly to the parents and the students... and not at the university level, but rather at the primary and secondary levels. We must demonstrate to them that by participating in the technology sector, they are securing themselves a bright future in the Knowledge economy. We must bridge this labour shortage quickly, because success in this age is defined by knowledge. This will help address the quantity of the workforce, but we must also address the quality of the workforce. This means rethinking our attitude and approach to education.

In 1995, Canada was second among OEDC countries in education spending, investing 6.2% of GDP. By 2002, we dropped to 18th place owing to our smaller investment of 4.6% of GDP.

In Thomas Friedman's national best seller The World is Flat, he shares with us advice given to his daughters. He says "Girls, when I was growing up, my parents used to say to me, 'Tom, finish your dinner – people in China and India are starving.' My advice to you is: Girls, finish your homework – people in China and India are starving for your jobs."

To compete globally, we must reverse this trend and in doing so we must think of education as not a cost to our society, but rather as an investment designed to improve our society.

As parents, we need to be ready to invest in our children's future by paying more in tuition fees to ensure that they are being fully equipped for success in the Knowledge era. As business leaders, academia and government, we need to put aside our philosophical differences and focus on what we have in common... the future of our children and grandchildren. In the process, we need to discuss openly some of the underpinnings of our current education system.

While lower tuition fees may address the availability and access to an education, it does not necessarily ensure the best education. And while one can argue that little is broken in our education system, one can as easily argue that nothing is optimized either and, as a result, we're losing ground.

We need to spend more time in creating peaks of excellence in our education system to ensure that our children not only get their fair share of the good jobs, but our share of the best jobs... those that are responsible for strategic and leadership decisions.

The complex challenges facing IT in Québec – globalization, education and investment incentives – can distract us from a simple truth. The knowledge-based economy is the path to future growth and long-term prosperity.

The Irish and Indian examples illustrate just how rapid and significant advancement can be when all stakeholders work together, united by a common, long-term vision.

From a CGI perspective, we remain confident in the future of our company and in the future of Québec as we move ahead together on the global stage.

Thank you for your attention. Merci beaucoup.

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