WEB-BASED and TRADITIONAL OUTSOURCING

Vivek Sharma
Varun Sharma

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Contents

SECTION IV OUTSOURCING—MISCELLANEOUS CONCERNS AND THE FUTURE

Foreword

With hardly any foreign exchange reserves in 1990, India's government was forced to change economic policies, and thus the economic liberalization opened up gates for new industries. Over the last 15 years, on the strength of rupee depreciation and cost arbitrage, India has grown into an economic powerhouse with one of the highest GDP growths for emerging economies. Coupled with an abundant English-speaking talent pool essential for the information technology (IT) and information technology enabled services (ITES) industry, India is one of the destinations for most IT companies to set up operations. India was earlier viewed as a cost arbitrage opportunity, but today it is a strategic IT destination. Some of the institutions like the Indian Institute of Technology (IIT), the Indian Institute of Management (IIM), and the Indian School of Business (ISB) are ranked among the top engineering and management institutions in the world. Each year, world-class companies come to these campuses to pick up talent for their global operations. Every large product company like Microsoft, Oracle, Intel, SAP, etc., has a large R&D hub out of India which works on cutting edge technologies by leveraging the talent pool available in the country.

The Indian IT industry has grown by leaps and bounds with the economic liberalization. In the 1990s most of the U.S. companies were looking at reducing their IT labor cost (including work for Y2K), and Indian IT vendors were mainly working on maintenance and smaller enhancements of existing projects. Hence, the Indian IT industry was mostly viewed as a cost arbitrage for U.S. companies in those days. Using Y2K as an entry point, many Indian IT vendors made entries into IT services, and over a period of time Western businesses developed greater confidence regarding IT outsourcing to the Indian providers. Some Indian IT vendors redefined the outsourcing landscape as they successfully competed with the IBMs and Accentures of the world. Indian service providers used the different time zones (especially between the United States and India) for strategic advantage by offering business continuity over these zones. The trend moved toward outsourcing of larger projects to Indian vendors, and the India IT industry steadily expanded on its competencies and now includes both niche players offering specific services and generic companies offering end-to-end services. With hardly any Indian vendor having revenues of $10 million in the early 1990s, today at least a few of the them have more than a billion dollars of profit. Accentures and IBMs also have large setups in India. In the consolidation phase of the IT industry today, Indian vendors are taking the lead and expanding their reach by acquiring niche consulting players to increase their competencies.

Western companies are increasingly looking at Indian IT vendors as strategic partners in order to focus on core competencies and gain competitive advantage. Vendors are expected to not only define the technology landscape but also take complete end-to-end responsibility for IT infrastructure and bring a strategic business advantage. Indian industry has a robust outsourcing business with the United States, and in the last few years they have also expanded their footprint in Europe and other parts of the world. Being aware of the best practices, Indian vendors are now able to set up global centers of excellence in related business verticals and efficiently make use of cross-domain knowledge.

The Internet was officially launched in 1989 and the World Wide Web in 1993. It was cited as the biggest business opportunity ever, and the industry was flooded with enormous unviable business models. The venture capitalists (VCs) thought of it as excellent opportunities, and funds were pumped into businesses without evaluating their viability. Huge funds poured into unviable businesses finally resulted in a big Internet bubble burst in the early part of this century. Most unviable business models perished with this bubble, but some companies (like Google) not only came out with innovative models but also changed the business landscape entirely by using the Web. They completely redefined how business could run on the Internet, and coupled with the huge technological advancement in communication technologies, the world has grown flat with the emergence of the Internet. Communication between different parts of the globe has improved drastically, and you can access any machine in any place in the world from any other place in the world. Technology has become cheaper with open source code communities, and virtually everything is available free with the open source. With technology innovations like cloud computing, entry barriers to start IT operations have come down drastically, and business on the Web has become a norm. With technology moving toward 3G, 4G, and wi-max, there is an abundance of network bandwidth and the cost of communication has been tremendously reduced. Thus the Web is the main channel of business today. It has already emerged as an excellent base for large-scale, business-critical applications.

The authors of this book have been part of this vibrant industry for the last 20 years. They have seen the various changes in the IT landscape in India during the last two decades, including the Internet bubble in the early part of this century and the meltdown of the financial markets with the collapse of Lehman Brothers in 2008. They completely understand the IT landscape and have produced this book, which highlights how outsourcing will be done in the future. It covers not only the strategic aspects of outsourcing but also the practical challenges in the deployment. They have drawn examples in the book based on their experience.

This book also targets people who want to do business on the Web and would like to outsource work to a vendor, discussing the different aspects of choosing the right vendor, starting from vendor selection, pricing models, what to outsource and what not to, challenges in outsourcing to Indian vendors, and Web-based outsourcing models. The material is well organized and comprehensive, and I am sure these experiences will be found useful by most readers.

I have known Vivek Sharma for more than 14 years, and he has always been known to us as "Swamiji." We joined Infosys within a span of few months and were part of the same group for 13 years. Over this period, we have worked together on multiple outsourcing projects from customers located worldwide for resolving critical issues. Swamiji is one of the best technology consultants. He carries great respect among customers and peers alike, and his advice was an authority of sorts on the subject. He believes in his intuition, and it never fails him.

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Preface

Outsourcing and Wealth Creation

Competition and wealth creation have assumed new dimensions with the outsourcing phenomenon. Process reengineering and innovation have been at the core of business process outsourcing. The concept may seem new, about two decades old, but actually it is one of the oldest in mankind's history. Major breakthroughs have occurred in the field, starting right from the outsourcing decision and strategy making, up to implementation and business evolution. Speed of execution and increased focus, along with quality enhancement and revenue augmentation, are some of its hallmarks. Managers feeling the heat of global economic uncertainty relentlessly try to figure out optimal management strategies, models, and tactics leading to higher levels of success.

This book elucidates various outsourcing aspects and tackles nagging questions:

- Should outsourcing be considered at all or not? If so, what functions are potential candidates?
- What factors contribute to outsourcing success, and why do some companies flounder?
- What do successful companies that solve customer problems do differently?
- How can the Web be tapped to open a whole new world of outsourcing online?
- During economic slowdown, what outsourcing business strategies need to be applied?

The current business culture demands focus on delivery under pressure within stringent timelines and with limited resource, in a fast-changing world with so many optional choices available to customers. There is a continuous emphasis to do more with less.

Offering counsel on whether or not a function should be in house or contracted/outsourced and further how it should be properly evaluated is considered a complex and debatable topic, and often there seem to be too many variables that favor one over the other. This book provides deep insight into such aspects of the outsourcing industry, which is under great flux. Lowering costs, enhancing quality, and development of life cycle have been at the core of the information technology-information technology enabled service (IT–ITES) space. Outsourcing is now considered a strategic tool in the arsenal with businesses reaping its benefits in a fiercely competitive global business environment.

Outsourcing is here to stay, and companies cannot afford to ignore it, for it touches umpteen aspects of everyday life. Costly infrastructures could be associated with outsourced functions, and that cannot be reasonably underwritten by most organizations. Basic rules of thumb with exceptions exist when deciding between an insourced and an outsourced model. Business approaches need to undergo suitable necessary and sometimes radical changes in an economic climate.

Before one outsources, it is important to answer some questions:

- What is the strategic gain?
- To maximize quality, and cost advantage, which functions should be outsourced, and how does one effectively exchange knowledge?
- What risks need to be tackled when shifting business operations offshore, and what change management issues need to be addressed?
- To evaluate and choose offshore vendors, what evaluation criteria should clients use, what talents and skills will the employees need, what primary location selection criteria are needed, and what is the best location for your infrastructure needs?

This book is concerned with various outsourcing facets and provides current exhaustive business-relevant material about the industry. Managing outsourced projects involves continuous people–technology dynamics along with cross-cultural and geographic challenges. The authors have elucidated in the book that the greatest business enablers are the concept, people, and technology. Emerging trends and practices in the outsourcing industry have been dealt with, including practical ideas to facilitate success in outsourcing initiatives.

Structure and Content of This Book

Outsourcing has become a mainstream business with a bright future, although during recessionary periods the line between opportunity and risk is often blurred. There is greater emphasis on faster turnaround as outsourcing pushes the world beyond information economy toward knowledge economy. Quick sharing of knowledge through technology aids in value enhancement and cost reduction. Emergence of more geographical outsourcing destinations globally and service provider performance benchmarking tools have enhanced outsourcing attractiveness.

Clients can streamline business operations and incorporate greater flexibility by accessing professional, experienced, and high-quality service. Less capital expenditure, greater focus on core competencies, and fewer management hiccups are some outsourcing benefits along with increased control, saving on investing in latest technology, and sharing of business risks. Firms are spared the nightmare of hiring and retaining employees regularly, installing and upgrading equipment, and finding solutions to inherent process-related problems.

The initial chapters of the book provide an overview dealing with the factors favoring outsourcing, basic rudiments, if an organization should consider outsourcing at all or not, the nature and types of projects, processes, and functions that are potential candidates for outsourcing, best practices, various categories of vendors, and optimal operations execution which have greatly boosted this megatrend.

The Internet with its tremendous opportunities and potential for leveraging outsourcing online is introduced. Supported by many examples and criteria for success, this subject has been largely untouched in the past. Additionally mostly unexplored, innovative business models and concepts which allow entrepreneurs to make significant gains are put forth. These new ideas can mostly be deployed with relatively small investments. E-commerce to transport content and electronic payment systems are also discussed.

Chapters on outsourcing during recession and economic slowdown discuss strategies, approaches to be used during times of slashed IT budgets, dwindling orders, contract renegotiations, layoffs, depression, and fatigue; how organizations reposition to sustain business value; examples from outsourcing organizations that successfully managed slowdown; and entrepreneurial advice from leading business figures on mitigation methods.

The final chapters provide insight into intellectual property rights, data security, and the future of outsourcing. The future will be driven by value and competing ideas, and not so much on competing organizational sizes. The future outsourcing trends shall provide valuable insights to organizations, leaders, readers, and others.

I

GENERAL OUTSOURCING

Chapter 1

Outsourcing Rudiments

Old ways give way to the new.

Brief Background

As barriers crumbled in the passage of time.

Contracting is one of the oldest and most common practices of work. Even in ancient times, trade existed between countries, providing access to goods and services not available in the home countries. In the early years, when the word outsourcing actually came about, people would vend things to a third party. This is contracting in its basic form. Thus there would be value addition, with the consumers getting products and services they needed, and the suppliers getting money or some acceptable mode of exchange in return.

As a concept it is prevalent in all aspects of our lives—domestic and professional. Some visible examples are "security services," "housekeeping," "pantry," "laundry service," and "car driver." In domestic lives, household chores are done by "domestic aids." Thus persons or institutions, not household members, execute activities requested by the household for a fee. Some may not be so visible, but are nonetheless important.

In the business context, outsourcing is all-pervasive. In the outsourcing world people learn about products differently (e.g., a virtual marketplace through electronic publishing and various other customer interface channels), buy them differently using electronic cash and secure payments systems, and have them delivered differently. There may also be a difference in how they allocate their loyalty. In this business jungle, the outsourcing organization has to adapt rapidly to a world where the traditional concepts no longer hold, where "quality" has a new meaning, where "content" is not equated to product, and where "distribution" does not necessarily mean physical transportation. Brand equity can rapidly evaporate in this new environment, forcing firms to develop new ways of doing business and leveraging from the same.

Suitable business strategy and design drivers evolve through the ability to make quick changes based on the nature and magnitude of the outsourcing business. The ability and flexibility to quickly change and reposition is needed to survive in the world of outsourcing. Supporting automation, infrastructure, resources, etc., are basic logistics needed for this.

Competition is no longer between outsourcing companies but between ideas, concepts, products, services, speed and ease of transaction initiation, execution, delivery, and closure.

Outsourcing organizations and vendors in order to remain business leaders will not just add value, they will invent and furthermore create value. The world as it exists today is replete with many examples of organizations, ideas, and products which have successfully created need and value through innovation. In the world of business outsourcing versus other traditional business industries, business setup is much quicker.

An advisable strategy is quick setup and execution, evaluating results, and rapidly making suitable changes (big or small) or exiting altogether. The cycle is quickly repeated for other ideas and products till desirable results are achieved. Thus not too much time and effort should be invested in very long-term strategy planning.

Should the outsourcing organization maintain strategic status quo and seek manageable challenges by tweaking the existing product set, or radically change the strategy to possibly induce a state of chaos, risk, and uncertainty? While such models may not be needed in a stable environment, they are relevant in the current age of volatility, especially in the very fast-changing world of the Web. This was aptly referred to as a force of "creative destruction" by Joseph Schumpeter (http://en.wikipedia.org/wiki/Joseph_Schumpeter), a professor of economics at Harvard. By destruction he meant doing away with the inertia and replacing old ways with new ones. Inability to throw away a time-tested, used, and currently successful business strategy may lead to failure over a long term. Thus organizations may need to improve on, change, and even do away with older strategies, approaches, and resources over time. This foresight to cannibalize has inherent risks and needs suitable lead times for executing and reaping benefits from introducing change. A common concern with manufacturing organizations may be that selling directly to customers may destroy the existing balance between mechanisms, structures, distribution, relationships, etc. For Internet-based businesses, the Web automatically induces deployment of the end-to-end business or transaction cycle, in its respective context, thus the need to have a focus toward innovation and research and development, whatever be the nature of the outsourcing business.

The Goals of the Game

Adding value up and down the life cycle chain.

Businesses have some basic goals, despite changes taking place: stay competitive, improve productivity through innovation, deliver quality, minimize transaction time. For firms plotting their course in the turbulent waters of outsourcing, these goals are the guiding buoys.

Altogether different management strategies are required in collaborative or committed relationships in an interconnected world. They call for relationships based on data access across the end-to-end process life cycle by all interacting players, employing openness and mutual collaboration instead of an adversarial relationship in the outsourcing business. The same is true for organizations in this highly competitive business world of outsourcing. Relationship forms another component of the strategy. A great relationship between the buyer and the vendor can be immensely helpful. The compatibility and coordination of the vendor can prove to be very useful.

Leveraging outsourcing to rewrite the rules of the game is a highlight. Such ventures aid in creating and distributing wealth and have long-term impact on the economy, environment, and social fabric of the society at large of various nations. It is the firm conviction of optimists that, even during the worst financial periods, opportunities exist in outsourcing that are just waiting to be tapped.

Market-driven outsourcing business is governed by a few principles. Customer orientation is the first. This is achieved through customization specific to the customer's needs, products, and services. Mass customization (not customization for the masses) must always remain a focus point of delivery. The outsourcing business must strive through such mass customization to meet the personalized needs of the end consumers/customers. Cross-functional coordination between teams across the organization to achieve seamless delivery is the second. Advertising, marketing, and business spread make up the third.

Market conditions are driving convergence. High performance and increasingly low-cost technologies (like high computing power, storage and display devices, communication systems, and operating systems) are driving vendors to deliver ever improving products and services at consistently faster speeds, with higher quality and at continuously lower costs. The outsourcing customer organizations accordingly demand customized products and services in this age and era of fierce competition.

Integrate, Integrate, and Still Integrate

Integrating the various pieces into a cohesive whole.

Such end-to-end life cycle integration requires overhaul of major processes, approaches, resources, and systems for seamless flow and integration with the parts of the outsourcing business life cycle. A virtually interconnected organization built on a networked foundation of enabling resources, processes, and people will automatically push and drive various interacting players, suppliers, etc., to become networked or fail and exit the relationship. Enormous information technology investments have been made by outsourcing players to automate key processes, some of which are purchasing, invoicing, and other business functions. Information technology is becoming an appealing investment for many businesses as the prices for computer hardware and network equipment continue to fall, and information technology can especially be used for high-impact applications such as linking their distributed operations. However, it would be akin to driving with blinders on, if investment is made without a clear need, idea, approach, and game plan for Web-based outsourcing. The full potential of Web-based outsourcing cannot be delivered by any one single technology. Integrated architecture, the likes of which has never been seen before, is required. We are beginning to see sophisticated applications being developed in the virtual world as Web-based outsourcing matures ever so rapidly. Constraints of availability of skilled local resources, learnability, and deadlines are being constantly shrunk in the fast-changing virtual world of outsourcing business.

Usually the greater the distance between the countries of the buyer and the supplier, the greater is the number of intermediaries. Not so in the case of outsourcing. The various players that comprise a global outsourcing business usually consist of basically the outsourcing organization, the vendor provider, and suitable enabling infrastructure. The outsourcing organization and the vendor provider are usually located in different geographic areas.

Any strategy has timelines and schedules attached to it. Speed is the essence. The colossal advancement in science and technology has increased the speed tremendously. Present-day computers can perform millions of computations in seconds. People's traveling time across geographies has shrunk from months and days to a couple of hours. Speed and success go hand in hand. The endeavor of the vendor is to continuously strive to reduce the timeframe/schedule set by the buyer and deliver the services in time. Of course, this may involve effort and innovation, but it not only benefits the buyer but also helps in placing the vendor head and shoulders above other suppliers, thus becoming the supplier of choice for many buyers. Outsourcing deliverables can now be executed by vendor organizations who can complete it much faster than the outsourcing organization through optimal usage of skilled people, large experience pools, resources, and technological means.

Another important component upon which any strategy hinges is "subject matter expertise." Here managerial skills may prove very vital. Improper management can give rise to exceeded budgets. A well-informed and knowledgeable manager can greatly reduce the budget for a project. On the other hand, lack of information and knowledge can lead to inflated budgets, and even after investing more money, it may not guarantee success. Usually if one party is knowledgeable, it can judge fairly how knowledgeable the other party is. In a global contracting/outsourcing assignment, knowledge of the market conditions becomes all the more imperative, especially if one is conducting business with the supplier in that country for the first time. If the buyer has not done its spadework well, then frequent travels over long distances to resolve issues will prove to be very expensive, yet may not give the desired results. Thus information is power, and knowledge a greater power. Knowledge is a byproduct of information and data. Data exists in large volumes, of which most may be useless and incoherent. Information results from the filtering of large volumes of data, and when information is further refined, it gives rise to knowledge which is the summation. *Thus outsourcing business is essentially a knowledge industry.*

Although geographic barriers have gotten blurred with the advent of the Internet, language/culture issues along with the government policies need to be considered. The government and industry should lend constant support to local entrepreneurs so that there is more social justice.

Outsourcing Basics

The rules and limits of each game, select wisely
based on your playing potential.

Traditional entrepreneurship is conditioned by three types of cultural and business environments according to Tugrul Atamer (2007), dean of the faculty and deputy managing director at EMLYON Business School in France. These three environments are referred to as "ethos":

- **The free market system or ethos**: The market creates and distributes wealth, known as the Anglo-Saxon model.
- **The cooperative system or ethos**: Though the market is the primary wealth creator, the state plays an important role in its redistribution. European countries including France are examples.
- **The parallel system or ethos**: Creation of wealth and social justice is done locally, and neither the state nor the market plays a significant role. Emerging countries, the famous BRIC (Brazil, Russia, India, and China) are examples of this ethos. Outsourcing industries prosper best in this environment. Big Indian outsourcing players like Infosys, HCL, Wipro, etc., are some examples, providing employment to millions.

Outsourcing—An organization (buyer) purchases goods or services from another organization (vendor or supplier), and the buyer "owns" and controls (not always) the process. In other words, the buyer tells the supplier exactly what it wants and how it wants the supplier to deliver the product or perform those services. The supplier cannot vary from the buyer's instructions in any way, and the buyer can replace the supplier with relative ease by terminating the contract.

As organizations continued to look for more innovative ways to improve efficiency and cut costs to survive the fast-paced marketplace, outsourcing took off with two broad approaches, which still continue to be popular: (1) *centralizing non-core processes in-house as shared service functions to derive the benefits of centralization through a suitable wholly owned subsidiary or in-house process*; (2) *to* identify *an acceptable external third-party service provider or supplier to bring in value-added services.* Markets favor either of the two depending on various factors like nature of business, organizational competence, organizational strategy, etc. With an increase in supplier market competition, the product or service is not seen as strategically critical, and environmental uncertainty makes internal investment risky, thereby making outsourcing more attractive.

Contracting or outsourcing grows in good times because companies want to focus on growth and in bad times because companies want to cut costs. Contracting enhances productivity and cost reduction and is a unique win–win situation wherein the supplier adds strategic value to the project and aids in shareholder value increment, thus making the difference between leaders and followers. Contracting involves transfer of some projects or processes to the contractor. The outsourcing company may retain "what" aspects of the projects like results collection, monitoring, strategic decision taking, direction setting, etc., but hands over the "how" aspect of the process to the supplier like governance, execution, technology setup, etc. The decision rights may be totally retained by the buyer or totally passed over to the supplier so that there is a greater shared responsibility between the two organizations.

Outsourcing involves many perspectives, some of which are

1. *Differentiating value and need* to outsource certain business aspects
2. Alignment of corporate strategy with the supplier strategy
3. Establishment of clear timelines and mechanisms
4. Identification of proficient, prolific suppliers

The suppliers aim to

1. Create *business value* and bring in suitable *transformation*
2. Provide first-rate quality
3. Produce at a cost that is lower than what it costs the buyer to do it in-house
4. Accomplish tasks faster than it could be done by the buyer in-house

Businesses contract/outsource almost any project if it costs less to perform the activity outside the organization than inside. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner but from their regard to their own interest. It is this self-interest which leads to innovation, wealth creation, and the tendency to focus on what one can do best.

Insourcing versus Outsourcing

The two sides of a coin.

Both insourcing and outsourcing (the paths in Figure 1.1) have some advantages and disadvantages which should be borne in mind while making a decision regarding them. *For an organization owning proprietary designs or processes, insourcing is advisable because a high degree of control over operations is needed.* Also, for a company enjoying business volume necessary to achieve economies of scale, insourcing can lower manufacturing costs (e.g., Merck products are sold exclusively by its workforce, unlike many smaller pharmaceutical firms). *Finally, core competencies are developed during insourcing.* Identifying and building core competencies like organizational strength or abilities developed over long periods, which customers find valuable and competitors find difficult or even impossible to copy, are a major part of business strategy development effort. Prime candidates for insourcing are products or processes that could also evolve into core competencies. *Insourcing*

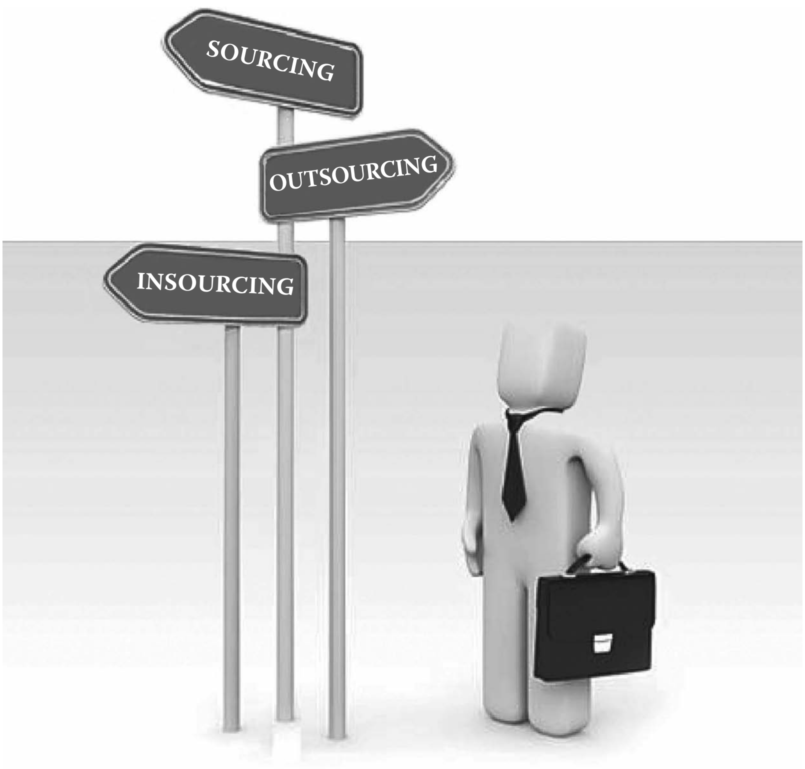

Figure 1.1 The outsourcing paths.

is preferred when environmental uncertainty is low, reducing the risk of investing in capacity, when supplier market is not well developed, and when the product and service being considered are not directly related to the buying firm's core competencies. Insourcing disadvantages may consist of risks that decrease the firm's strategic flexibility. Insourcing risk was glaringly evident in the semiconductor industry wherein associated manufacturing technologies had extremely short life cycles, some of just six months, after which they were expected to be superseded by newer technologies. Thus risk of investing in process technologies which became outdated very fast was continuously faced by the semiconductor manufacturers, and to justify growth under such risky conditions, investing for higher capacities was linked to the feasibility study of quick paybacks.

Deploying in-house scarce resources to upgrade their processes versus outsourcing, if suppliers can provide the product or service more effectively than the company itself, is a key consideration. The financial viability of the firm can be put to the test, even risk, as its ability to invest in other projects also gets restricted, in trying to catch up with technologically advanced suppliers, which can prove to be an expensive proposition. In outsourcing, a firm's flexibility and access to the state-of-the-art products and processes increase. Also, changing supply-chain partners is easier than changing internal processes as markets or technologies change. Outsourcing improves a firm's cash flow in addition to increasing the firm's strategic flexibility and access to new technologies, with less up-front investment for resources needed to provide a product or service. Dell, which sells computers, supported \$3 billion in annual revenues with only \$60 million of fixed assets by using contract manufacturers. Thus the benefits can be obviously significant. Risks and disadvantages of outsourcing can come from suppliers misstating their capabilities. Their performance may not meet the buyer's expectations; the process and technology may not match to deliver the requirements. Consider the case of Apple Computers, which accumulated a backlog of more than \$1 billion when demand for new line Macintosh computers increased dramatically in the 1990s. Timely delivery of critical parts including modems and custom chips could not be obtained, because many of them had been custom designed and outsourced from a single supplier. Many customers who did not want to wait for new products became alienated because Apple was unable to deliver in time. Another issue with outsourcing is that buying firms need to use suitable mechanisms to ensure sustained quality, availability, confidentiality, and performance of outsourced goods or services. Key skills and technologies that are a part of their core competencies may be lost at worst. Many companies manage these challenges by closely overseeing key design, operations, and supply-chain activities. They also solicit constant feedback from customers and react suitably by changing their products and services.

Thus, in a nutshell, insourcing advantages consist of economies of scale and/or scope, ability to oversee the entire process, and a high degree of control. The disadvantages are that it requires sufficient and sustained investment, and potential suppliers may offer *superior products and services*. Thus strategic flexibility may be reduced. On the other hand, outsourcing merits consist of low investment risk, improved cash flow, access to state-of-the-art products and services, and high strategic flexibility. Demerits are loss of control over substantial processes and core technologies, possibility of choosing a bad supplier, and "hollowing out" of the corporation, in exceptional cases.

Offshoring versus Outsourcing

The choices we consciously make, in life, big and small.

It is important to differentiate between offshoring and outsourcing. *Off-shored processes may be handed off to third-party vendors or remain in house, while outsourced processes are necessarily handed over to third-party vendors*. All offshoring does not necessarily involve outsourcing. The advantage of lower cost labor in another country is made use of by both.

Business Process Outsourcing (BPO)

A means, an end, and the path walked in between.

Business process outsourcing (BPO) involves migration of services to an external service provider. It includes call centers, back office services, transaction processing across various industries like manufacturing, finance, accounting, human resources, IT, etc. Supplier vendors use best practices and technology-driven applications to deliver quality service and products.

Types of Outsourcing

The options and their relative needs and deeds.

Outsourcing can be of different types depending upon the geographical distance between the buyer outsourcing organization and the supplier vendor.

Onshore Outsourcing

If the supplier is in the same country as the buyer but outside the company of the buyer, then it is an onshore type of outsourcing. Since the country is the same, there are likely hardly any language-related issues, and even if languages spoken are different, it will be easier to find translators/representatives to bridge the communication gap. The government policies will be almost uniform throughout the country, and travel time and distances between the buyer's and seller's locations will not be much.

Nearshore Outsourcing

If the supplier is located in a neighboring country (usually on the same continent), then it is a nearshore type of contracting/outsourcing. It provides the benefits of the same time zone and a possibly low-cost alternative to domestic sourcing. Additionally there are similarities in language and culture, and the travel time and distances not being much. U.S. and European businesses could see Latin America emerging as a nearshoring location due to its Spanish language capability. Another example is if the buyer is located in the United Kingdom and the seller is located in Germany or France.

Offshore Outsourcing

If a supplier is located in a foreign country which is far away from the country in which the buyer is located (usually a different continent), then it is an offshore type of outsourcing. The distance being great, factors like long travel times and respective government policies are matters of significance. In this case low labor rates may be of immense benefit to the company. So the decision for offshore outsourcing needs careful deliberation to reap a rich harvest. Outsourcing is not the panacea for all business problems. Offshoring from the United States to India is the most prevalent example. Global footprint expansion and opening of delivery centers by Indian firms in China, Philippines, Cairo, etc., are also similar examples.

Outsourcing Decision and Its Consequences

"Selection and maintenance of aim," an old war saying.

Managers should clearly understand the issues and the differences pertaining to outsourcing within a country and outside a country. Only then can a decision be made which is mutually beneficial both to the buyer and the seller. Lack of knowledge regarding the intricacies of outsourcing can prove expensive and in some cases can cause irretrievable loss. *It could cause a loss of name, reputation, waste of time, and effort apart from huge revenue losses.* The decision to outsource is driven by many reasons, among which could be reduced cycle times in which technology plays an important role, gaining from the core competencies and the best practices of the supplier, reduction in cost, improvement in quality, and lesser risk. Outsourcing provides the buyer with more time and enables it to focus better on its in-house key core activities and processes. These subjects are discussed in the following chapters of this book.

Growth of Outsourcing Worldwide

"Be the change you wish to see in the world."—Gandhi

Companies from around the globe arrive in the Asia Pacific region with great expectations because opportunities are abundant and businesses envision tantalizing growth scenarios. In this region all things seem possible, but at the same time many matters may not be clear and simple about how to realize those possibilities. Every business that ventures here must be flexible and willing to adapt. Many companies see value in working with established outsourcing partners in this dazzling but complicated market. Outsourcing has enabled clients to save up to 50% on operational costs of finance and recover 1% of audited expenditure. Managers are grasping the offshore outsourcing megatrend—strategies, implications, high-growth application areas, and related issues. *U.S. and European companies have widely outsourced offshore, with larger Fortune 1000 firms outsourcing to markets like Ireland, Singapore, Russia, Malaysia, South Africa, Hungary, Thailand, Vietnam, Philippines, China, and India. Offshore outsourcing now has many synonyms like value sourcing, global sourcing, global resourcing, global delivery capability, blended outsourcing, and alternative staffing with companies calling it by different terms.*

As the vistas expand to include a myriad set of services.

Chapter 2

Outsourcing Benefits

Like a wave cascading out into the masses.

Immense strides in science and technology have given an impetus to outsourcing in a big way. Outsourcing can have a great positive impact on the lives of many if deployed appropriately, by improving people's careers and lifestyles. Contingencies for rapid business growth and business slowdowns need to be considered. Business transformation metrics and standards need to be constantly evolving. The challenges may consist of cultural hurdles, technical barriers and financial issues but the benefits can far surpass the obstacles.

The Strategic Call

Harkening to the call, so individual.

The companies that kept a tight business focus, even if it meant shedding profitable operations, were the winners in return on invested capital. *In the Asia Pacific environment, the do what you do best lesson may be particularly fitting.* A business can do what it does best and compete more aggressively in the market, unfettered by the responsibility for back office services.

Firms thus focus on their "in-house" core business activities by outsourcing. This helps to take the load off the organization, allowing it to spend more time on its in-house core processes, business needs, and strategic business areas. The senior management is freed to do the creative thinking, once the less high-value work is outsourced. There is an increase in focus as outsourcing is a means of managing burden. Real growth in outsourcing business has been fostered with the rise of the virtual organization, a business that focuses on its core activities and lets others deal with the rest, in this age of fast changing economic conditions. Companies that focus on operating the core business prosper best in a stalled economy, according to a 2008 study by Accenture of 850 largest companies in the United States following various global recessions.

The Various Approaches

The synergies of disparate entities.

Outsourcing in its present-day form has its roots spread across joint ventures, subcontracting, and business partnerships. In a highly competitive environment and as the products become more and more complex, organizations find it more prudent to subcontract certain components. This mutual interdependence of manufacturers/buyers and subcontractors/suppliers increases sustained performance and innovation and gives rise to quality improvement and reduced costs. *Note*: No two outsourcing arrangements are the same; therefore an approach has to be tailored to accommodate the business objectives, timelines, and budgetary needs of clients.

Subject Matter Expertise

Those men and means that burn the paths
in their wake, for others to follow.

The access to new technologies with proven expertise, reduction in costs/time incurred in recruiting and training staff, economies of scale, and higher efficiencies through the implementation of best practices have made outsourcing an attractive option. The proven expertise of the service provider effectively manages the analytical and transactional activities. Risks are mitigated, and business continuity is enhanced, resulting in such saving opportunities. By turning to a niche provider and taking advantage of lower wage ranges in outsourced regions (e.g., India), service costs are substantially reduced.

The causes for outsourcing may include lack of local talent, lower working wages offshore, a jump start to attain presence, and benefiting from the best practices. Such enabling vendors have large expanses of knowledge gained from many previous outsourcing engagements. *Sharing of knowledge, and doing things cheaper, faster, and better are thus known advantages.*

Technology's Transformation Touch

In times of massive changes, do we currently exist?