Outsource2india
Managing your entire outsourcing venture

Articles

Strategies for Offshoring: Cost vs. Performance

There has been a lot of interest in recent times on the perceived benefits of offshoring as a long term business model. Many organizations have tried offshoring both routine and mission critical processes and the outcome in some cases have been far from satisfactory.

Recent studies on the success rate in offshoring projects make a comparison of two variables: the operational performance and the savings achieved by the organization post offshoring. A common thread that runs through all such studies is that most companies face inconsistent results from offshoring. Some companies make substantial to moderate savings while many others have incurred hidden costs and even losses. There are many instances of critical time and money lost on offshoring projects that went awry, and it appears that most such disaster scenarios are characterized by

- Absence of an effective performance strategy for offshoring
- Lack of planning
- Poor execution

A study of 42 companies by leading Australian consultants, A.T. Kearney, looked at the post offshoring operational performance of these companies with a focus on six parameters: capacity, organizational flexibility, revenue performance, organizational capability, process maturity and service levels. The findings of the study reveal that in general there are significant benefits to be achieved from offshoring, but the overall success rate of offshoring strategies vary as widely as 0 to 75%.

Planning an Offshoring Strategy

Assess the Need: Organizations need to first evaluate whether they actually need to outsource a process at all. Many factors influence this assessment, chief among them being capacity and cost constraints of the organization and the attitude of employees towards offshoring.

Identify a Vendor: Often offshoring projects fail because of a wrong assessment of the technical competencies of the vendor. Identifying a vendor with proven expertise, clear performance track record and execution strategies in the outsourced process is crucial to the success of the offshoring project.

Creating an internal awareness within the organization on offshoring strategies and sensitizing employees towards the legitimate need for offshoring will be helpful for the management to transition to the offshore model.

Phased-out Offshoring: Companies that have successfully transitioned to outsourced processes vouch for the benefits of offloading select functions and processes to the vendor in a phased-out manner. Right through this transitioning and well into the project life cycle, there has to be a focus on knowledge transfer among teams of both vendor and client and jointly developing a performance strategy.

Transition to Full Offshoring: Only after successfully weathering the earlier few steps is it advisable for companies to launch into full fledged offshoring. Even where the company transitions to full offshoring, close tracking of operational performance is a must to ensure

that QA checks are in place and that standards are not slipping up.

O2I's Performance Strategy for Offshoring Projects

Outsource2india has consistently focused on planning and execution as part of its performance strategy in offshoring projects irrespective of the size or value of the project. This has enabled O2I to deliver on both cost and performance fronts to our global clients. Some of the other factors behind Outsource2india's unerring performance record in offshoring are:

- Optimized business processes
- Optimized supply chains
- Vendor partnerships
- Accountability for process results
- Cultural sensitization
- Knowledge transfer

Trends in Offshoring Strategies

Offshoring has become an increasingly competitive arena and vendors in India have been re-designing their business models and service offerings to rise to the challenge. Some of the main offshoring trends observed among vendors in India are:

- Emergence of domain/industry specialized vendors
- Client-vendor relationships maturing into Partnerships
- Offshoring vendors no longer compete on price
- Vendor companies striving for high quality levels
- Widespread use of BOT model in offshoring

Offshoring strategies: Cost versus performance

Companies need to look for offshore vendors with high-caliber systems and capabilities that go beyond the "we'll-do-it-all" approach. The focus when searching for a vendor should shift to 'performance' and not 'price'.

Vendors should focus on specific performance strategies. Effective planning and execution of offshoring projects is critical to delivering value and achieving success in offshoring. Such vendors will even push their clients to optimize their own internal processes and achieve better results in offshoring.