Chapter 3

Outsourcing

Managing Growth through Outsourcing

Outsourcing: It is shifting a company's essential operations to a third party vendor in order to gain various benefits including better services, low cost and speedy work. The company that chooses to outsource is known as the customer or buyer while the third party that provides outsourced services is known as the supplier or vendor.

The vendor may be a firm or a group of individuals, which is generally situated at a different physical location (sometimes even a different country). In outsourcing, the vendor has complete control over the process being outsourced as compared to contracting in which the customer has more control over the process being contracted.

Levels of Outsourcing

Outsourcing has moved from tactical to strategic level and companies have started pursuing outsourcing as an important business strategy. Companies generally use the following three levels of outsourcing:

1. **Project level:** Discrete aspects of a project are outsourced
2. **Program level:** Different projects in a program are outsourced
3. **Division level:** The entire operation of a division is outsourced

There are various factors that govern the decision to outsource at a particular level by a customer. These factors include:

- Critical nature of the work: If the work is critical to a company's core business, the company will prefer to outsource as little as possible and in discrete parts.
- Faith of the customer in a vendor: The higher the faith a customer has in its vendor, the more it will outsource. In some cases, it will outsource even the operations of an entire division.
- Cost advantage: Cost efficiency is an important deciding criterion, with larger work being outsourced if cost savings are large.
- Proven track record of the vendor: A proven track record of the supplier inculcates a feeling of trust and the customer prefers to outsource larger work to the vendor.

Outsourcing at above-mentioned levels is achieved through various modes as detailed below. Each mode has its own specific advantages. Companies examine their core competencies and work out the right mix for outsourcing modes to maximize their returns. Modes of outsourcing are:

Outsourcing Mode	Description
On-shoring	Outsourcing to a vendor that is located at a destination domestic to the customer
Offshoring	Outsourcing to a vendor that is located in a far-off country
Near-shoring	Outsourcing to vendor in a nearby country
Home-sourcing	Outsourcing to workers who work from home

Companies are also resorting to the option of multi-sourcing where a combination of offshoring, on-shoring, near-shoring and home-shoring is used. For example, Satyam Computer Services provides its customers a global delivery mode called Rightsourcing which is a combination of onsite, offshore, on-shore or near-shore delivery capabilities. This model enables Satyam's clients harness additional time and cost advantage as compared to sourcing via a single mode.

Advantages of Outsourcing

Outsourcing offers numerous advantages to the customers, some of which have been elaborated below:

1. **Focus on core competencies:** Outsourcing enables customers to divert their attention from supplementary tasks and focus on their core functions. Customer care, documentation, IT up gradation and administrative tasks such as internal audit and payroll processing are the non-core tasks for many companies and consume the time of the management if handled in-house. When these tasks are outsourced, the company management can focus on the company's core competency and bring better services and products into the market. For example Hero Honda Motors outsources its IT maintenance work so that its staff can focus on user requirements to deliver better services instead of spending time on routine complaints.

2. **Cost savings:** Cost savings is an important consideration in outsourcing decision. Outsourcing enables companies reduce their costs on resource management, labor, space, etc. According to Accenture, outsourcing leads to a cost saving of 25 percent to 30 percent. Outsource Partners International estimates the cost savings to reach up to 50 percent when the outsourced work is offshored.

3. **Quality:** Vendors have expert employees along with specialized processes and technology that ensure better quality of output for the customer. However, the customer has to carefully select a vendor that will provide it with the quality of services that it requires.

4. **Flexibility:** Outsourcing provides flexibility to the customer as the buyer can change a vendor if required. Changing a vendor in case of poor delivery is much easier than changing a full-time employee. Many outsourcing deals incorporate conditions for change in requirement or termination of contract ensuring flexibility.

5. **Time-to-market:** Offshore outsourcing offers round the clock work benefits and hence reduces the time-to-market. Both on-shore and offshore outsourcing may also result in time saving if the vendor has skills and expertise that are not internal to the customer organization. Outsourcing also enables faster start-up, development and scalability for new operations.

6. **Access to diverse technologies:** Vendors have focus on particular services and play in volume. This enables them to keep themselves up-to-date with the technology required in these services. The customer can thus avoid technology obsolescence and leverage the vendor's access to diverse and advanced technologies.

In addition to the above advantages, outsourcing offers other benefits such as provider alternatives, transfer of risk to vendor, elimination of internal policies, elimination of recruitment, training and staff retention in non-core functions, and scalability (faster scale-up or scale-down capability).

Reasons for outsourcing
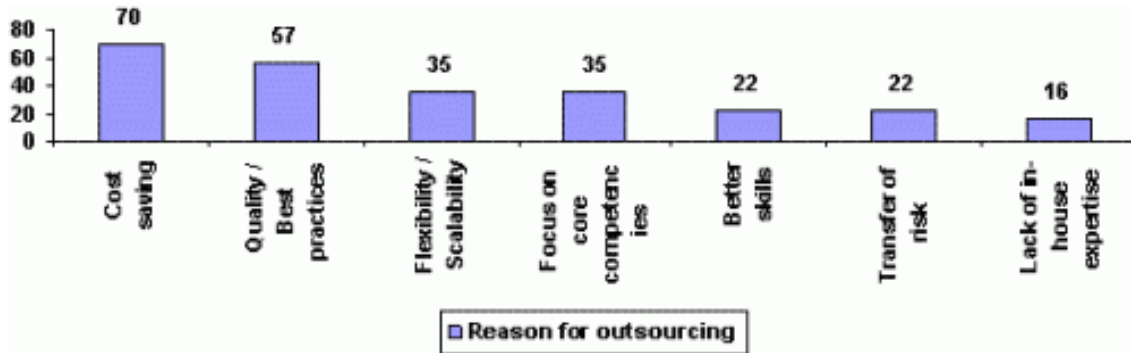
Source: Deloitte Consulting (www.deloitte.com)

How important is outsourced work

The notion that unimportant work is being outsourced no-more holds true. The software development magazine conducted a survey in October 2003 to find what kind of work was being outsourced. Results compiled from 414 respondents (engineers and development managers) is given below:

Figure   2:   Outsourced   work   according   to   importance   of   the   work
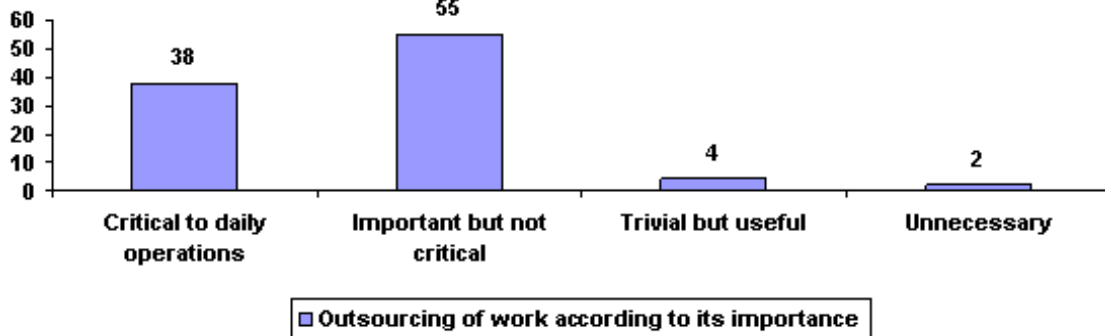
Source: Software Development Magazine (www.sdmagazine.com)

What is being outsourced?

Outsourced services can be categorized into two groups
1) Technology services 2) Business Processes

Technology Services

Companies requires advanced IT and communication technologies for their regular operations. Rapid changes in the technology sector bring new capabilities to use for companies that need to select the right kind of vendor to get the best technology at the cheapest cost. Following technology services are generally outsourced by customers:

- Software and applications
- Infrastructure
- Telecommunications
- E-commerce
- Web security and solutions
- Web hosting, website designing, development and maintenance

Business Processes

Various business processes are not core to a company's main line of business. Companies outsource such processes and focus on their core competence. The various business processes that are being outsourced include the following:

- Back office operations
- Customer relationship management
- Sales and marketing (including telemarketing)
- Administrative support
- Payroll maintenance and other transaction processing
- Finance and Accounting
- Human resources and Training
- Logistics, procurement and supply chain management
- Medical transcription
- Security
- Research and analysis
- Product development
- Legal services
- Intellectual property research and documentation

Synonymous with these services are various commonly used terminologies such as Business Process Outsourcing (BPO), Knowledge Process Outsourcing (KPO), Legal Process Outsourcing (LPO), Research Process Outsourcing (RPO), Recruitment Process Outsourcing (this is also called RPO) and Education Process Outsourcing (EPO). As the market for each service grows, vendors coin a term for their service to showcase a distinct presence of their industry.

Criteria for selecting an outsourcing vendor

In an outsourcing deal, buyers want to achieve superior quality service at lower cost and minimum involvement. On the other hand, outsourcing the work to an external agency exposes the customer to risks of the work being delivered poorly. In such a scenario, selection of a vendor for outsourcing is a difficult task, which becomes even more complex while selecting an offshore vendor. Customers generally follow the criteria mentioned below for selecting an outsourcing supplier:

1. Quality commitment: The vendor should be quality focused.
2. Cost: The vendor should have prices that enable the customer sufficient cost saving.
3. Additional resources and capabilities: The vendor should have resources and capabilities that are not available to the customer internally.
4. Prior work: The vendor should have experience working with other organizations and should have delivered satisfactorily to them. Checking with the references help the customer understand the vendor's capabilities properly.
5. Contract terms: The terms of contract should offer flexibility to the client to modify the requirements or terminate the contract easily, if required.
6. Confidentiality: How secure is the customer's data at the vendor site? The vendor should have well-defined security policies in place.

In addition to these criteria, other parameters such as location, reporting methodologies, vendor processes, financial stability of the vendor and cultural similarity play a vital role in deciding the supplier.

Key to outsourcing success

Outsourcing involves getting work from an external firm which has limited knowledge about the customer's internal processes and operations. Hence, a customers needs to pay attention to certain considerations, apart from selecting the right vendor, to achieve outsourcing success. These considerations include the following:

1. Setting the right expectations: The customer needs to set right expectations upfront about the services that it needs (and will get) from its vendor. It should also have a proper plan in place with well defined (outsourcing) goals and objectives.
2. Benchmarking methodology: The customer should establish tools or criteria to benchmark the quality of output required from the vendor. Vendor's performance should be regularly monitored using these criteria.
3. Experience in handling outsourcing projects: If the vendor and customer both have experience in handling outsourcing projects, the chances of making the outsourcing deal a success increase significantly. Adequate planning and back-up plans for any foreseeable pitfalls will help both the client and supplier maintain a successful relationship.
4. Internal resistance: The buyer's management should explain the advantages of outsourcing to its employees and ensure agreement on the outsourcing decision internally before taking the outsourcing plunge. It should gather support for its decision from the top management as well as lower ranked employees.

Last but not the least, the customer should exhibit trust towards its vendor, which in turn should ensure transparency in its operations.

Examples of Outsourcing in Indian Telecom Sector

- 2004: Bharti Tele-Ventures signed $400 million (around Rs 1,800 crore) contract with Swedish technology provider Ericsson to outsource the management of its cellular network.Ericsson to provide, manage and maintain the equipment as well as provide quality assurance in Airtel's 13 mobile circles for three years. Following the deal, around 250 Bharti employees working on planning and designing of the company's network had to be absorbed by Ericsson. Bharti also outsourced all its IT needs to IBM in a $750 Million deal. In 2005 Bharti Tele-Ventures signed a Rs 1,000-crore deal with four global business process outsourcing companies to outsource its call centre operations for the next 4-5 years. In 2006, Airtel signed another $100 million deal with IBM to manage and deliver services delivery platform.
- 2007: Vodafone Essar an Indian cellular phone company outsourced its information technology-related work to IBM under a 5-year contract to reduce costs and improve services. About 300 of the 390 full-time employees, engaged in information technology-related work at Vodafone Essar were to be transferred to IBM
- 2008: Tata Consultancy Services (TCS), a leading Indian IT services firm signed a multi-million Euro agreement with Nokia Siemens Networks, one of the world's foremost enablers of communications services. Under the agreement, Nokia Siemens Networks will transfer its product engineering and R&D services as well as part of the operations and business unit activities to TCS. The company decided to transfer 90 employees from its development center in Dusseldorf, Germany to TCS.
- 2008: India-based telecom giant Reliance Communications and Alcatel-Lucent have formed a global joint venture to offer outsourced managed network services to telcos
- http://www.blonnet.com/2009/06/18/stories/2009061851620400.htm   BSNL Outsourcing route : BSNL is increasingly outsourcing its operations to private players. To save on capital expenditure and roll out services faster, BSNL is taking the outsourcing route in a big way for new projects. The PSU has invited bids from private players for at least five of its projects including offering WiMax services, Internet Protocol Television and setting up Internet Data Services. It recently sought expression of interest from large retail chains to sell BSNL products and services. The trend is in line with what private telecom operators are doing. Majors such as Bharti Airtel have outsourced most of their operations to third party vendors.
- http://itvoir.com/portal/news/Local-News/BSNL-to-delay-its-1-billion-IT-outsourcing-deal-6-476.asp (4 Jan 2010): According to latest report, BSNL, state-owned telecom giant has put on hold its tender for 93 million GSM lines, which will result in the telco's $1-billion IT outsourcing contract also being put 'on hold.' It is reported that the decision will affect IT firm HCL Infosystems, which will be supported by HP and Convergys for the contract. The group is backing half of BSNL's Rs 2,000-crore IT deal, and was the lowest bidder for all the four

zones. The remaining half of the deal was supported by Mahindra Satyam/Spanco, which stand a chance to win part of the deal.

QUESTIONS

Qn 1) How to manage growth through outsourcing? Define.

Qn 2) What are various phases of outsourcing being adopted in BSNL?

Qn 3) What is the difference between On-shoring and Off-shoring outsourcing mode? Define with examples.

Qn 4) Write any three advantages of outsourcing.

Qn 5) What are various reasons for outsourcing?

Qn 6) What service are being outsourced by BSNL?

Qn 7) Define   Business Process Outsourcing. What is the difference between BPO & KPO?

Qn 8) Mention criteria for selecting and outsourcing vendor.

Qn 9) How to assess outsourcing success?

Qn 10) Give some examples of Outsourcing in Indian Telecom Sector.

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