Know About Offshore IT Outsourcing

By Aman Kumar

Outsourcing in literal terms, means sourcing from outside. The term is increasingly used to refer to sub-contracting of a set of functions or processes by one firm to another, or to a group of individuals. Outsourcing is being pursued as an active business strategy in the current economic scenario, since it enables a firm to focus on core-competency areas. It also frees the firm from resource and labour intensive functions, which are now performed by trained personnel at much lower costs. The processes or activities that are being outsourced could range from customer service and telemarketing, to IT management, software development, market research and even financial portfolio management.

Outsourcing can be considered a strategic management tool that helps companies concentrate on their core competence and delegate other peripheral activities to an external agency that specializes in that task. Division of labor which entails delegating responsibilities to people who are specialists in what they do, can be seen as a very primitive form of outsourcing. Outsourcing is a strategic tool used by companies to improve their ability to concentrate on the core competencies, outsourcing non-core functions. Outsourcing is not contacting or fixing business processes. It is about creating value. It is about reengineering and being able to provide customers a greater value faster, at a lower cost and higher quality.

Worldwide companies are using outsourcing as a strategic tool to improve their ability to concentrate on the core competencies. By outsourcing non-core functions, companies are able to concentrate on improving core competencies, provide customers a greater value faster, at a lower cost and higher quality and look at the broader business issues. It has helped companies gain competitive advantage by allocating resources to develop new tools, technologies, methodologies and procedures.

Using outsourcing as a strategic tool companies can gain competitive edge by outsourcing non-core functions to an outside organization and concentrating on internal reengineering. The reengineering process is referred to the fundamental rethinking and radical change in the

business outlook, focusing on broader business issues, employing resources towards developing new tools, technologies and skills. A dramatic improvement in performance may be realized, providing value to the customer in terms of productivity, quality, service and speed. Thus offering customers a greater performance at lower cost.

Outsourcing - A Strategic Decision

Decision about outsourcing and what to outsource requires careful assessment and planning. In this regard, it is different from subcontracting or fixing business processes. In contrast, outsourcing would involve carefully restructuring the company around its core competencies and the business relationship with outsourcing partner.

Right reasons for outsourcing and its benefits should be carefully analyzed and clearly understood. Although strategically the non-core functions are outsourced, a function that does not fit or is wrong or it cannot be done in house should not be selected. However, the selected partner would have access to superior technology, higher quality standards, better manufacturing practices, be able to save time. Consequently, it will translate to lower cost. Internal benchmarking and competitive analysis tools may be employed to evaluate internal processes and functions to assess and evaluate your own company and also in the selection of a supplier partner.
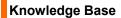
Stages of Outsourcing

> ➢ Selection of the business process/processes to be outsourced
> ➢ Selection of a suitable partner
> ➢ Selection of a suitable engagement model e.g. captive, BOT
> ➢ Drawing up the Service Level Agreement (SLA)

Key to Success: Why do companies outsource??

One of the most often cited reasons for outsourcing has been the cost reduction factor. Simply put, what this means is that an organization delegates a job to a vendor who can perform the same job at a much lower cost. The comparative cost advantage that a vendor offers forms the basis for outsourcing. Apart from the cost reduction factor there are other reasons as to why a company would want to outsource. **These include:**

- Improve focus on core competencies
- Improve focus on broader business issues
- Gain competitive advantage through new tools, technologies, methodologies and procedures
- Avoid capital expenditure
- Accelerate reengineering
- Offload non-core functions
- Save on manpower and training costs
- Shared/reduced risk associated with reengineering changes
- Reduce operating cost
- Control and redirect valuable resources
- Migrate to new technology
- Gain process knowledge.
- Provide value-added services
- Increase customer satisfaction

Among the most compelling reasons to outsource are: cost reduction, improved customer service, and access to leading edge technology.

Outsourcing Process Steps: Outsourcing essentially requires three steps

> ➢ Goal development
> ➢ Supplier selection
> ➢ Implementation of business relationship

Goal development:

Success of the outsourcing project may depend upon the assessment of your own capabilities, needs and expectations. A clear understanding of the expectations and schedule is essential in the supplier selection and subsequent implementation of the business relationship. Internal benchmarking and competitive analysis tools may be used or outside consultant help may be worth the expense.

Supplier selection:

Following supplier attributes and considerations are important.
- Common business and strategic objectives
- Business and cultural compatibility
- Technical expertise
- Quality focus
- Supplier resources
- Business reputation - stability and credibility
- Contract terms – flexibility
- Risk sharing
- Cost
- Consultants help

Supplier's business and strategic goals should compliment that of your own organization. Cultural match and compatibility should include the language, values, agreements, commitments, and written and verbal communications.

Technical expertise and the focus on quality are of utmost importance. The outsourcing partner is being selected based on the best practices in the industry. Cost is very important, but upfront cost consideration may lead to a wrong decision. The superior technology, skills, focuses on quality, availability of resources and qualified people would provide the cost advantage in improved product, quality and speed.

Supplier should be able to supply adequate resources and be able to expand and grow with the industry and the client. Stability, credibility and business reputation of the supplier are important in long-term relationship. Outside consultants are valuable in identifying potential partners and best practices in the industry. SEMICON West and NEPCON West have offered workshops on benchmarking.

Implementation of business relationship

Following considerations would result in a strong and successful business relationship.
- Common strategies and goals
- Well-defined project goals and schedules

- Flexibility in agreement to accommodate change
- Risk and rewards sharing
- Employee support
- Transition management
- Relationship monitoring and management

India – a promising candidate for outsourcing IT services

World Bank studies, several studies at Stanford and more recently McKinsey & company analysis has shown that India is best positioned for outsourcing IT services. Fortune 1000 companies have looked at the Indian software companies for the following advantages:

- Low cost – high quality
a) Considering the currency conversion and the pay scale, 30-40 percent lower development cost is possible.
- Virtual software factories => reduced time to market
b) The 11-hour time difference allows combined professional teams in USA and India 20-24 hour workdays.
- Established high quality standards
c) Companies have SEI's CMM level-5 quality rating
d) Companies have SEI's CMM level-3 and level-4 quality rating
e) Companies have level-2 quality rating
f) Companies are ISO 9000 certified
- Globally competitive skills and state-of-the-art technology, proven capability to handle large projects
- High speed (Satellite data links and services available
- Access to large pool of qualified English speaking professionals with mathematical and logical expertise

Software industry in India is supported by a strong and sustaining infrastructure. India exports software to 86 countries. North America is the biggest customer [6] with 61% of the exports from the Indian software industry. With 21% Europe is the next largest recipient of the software exports. Over 203 fortune 1000 companies have outsourced software development in India.

National Association of Software and Service Companies (NASSCOM)

National Association of Software and Service Companies (NASSCOM) is the umbrella organization for IT software and service companies in India. Formed in 1988, NASSCOM's objective is to act as a catalyst for the growth of the globally competitive software-driven IT industry in India. NASSCOM is a non-profit organization with over 850 member companies that collectively contribute to more than 95 percent of revenues of Indian software industry. Its members include software, Internet and E-commerce companies spanning private, public sectors that include home-grown companies and multi-nationals. NASSCOM has played a significant role in the development of Indian Software Industry Infrastructure

NASSCOM's as the advisory, consultative and coordinating body for the Indian software industry:

- Provides information on Government policies, domestic/export opportunities, seminars and conferences abroad, visas, etc.
- Represents industry on various Government of India committees and industry associations

- Maintains membership in international societies and organizations, and lobbies with foreign Governments
- Provides assistance in achieving ISO 9000 certification, organizes in India and abroad seminars, conferences, workshops, trade fairs and trade missions
- Does market research, maintains database and publishes India software Directory

Provides public confidence, respect for software industry and conducts anti-piracy campaign

Government support – policies and schemes

Indian Government has introduced several other policies and schemes to create investment friendly and open business environment in India.

- Software identified as a Thrust Area for economic development.
- India signed ITA agreement at WTO
- Automatic permission for 51% foreign equity and up to 100% foreign equity permitted
- Duty Free Imports subject to export obligations
- Software Import via high speed Datacom/internet links
- Indian Copyright Act, strict penalties to protect IPRs
- Other special Schemes to facilitate the import/export of technologies, hardware and software include Software Technology Parks of India (STPI), Export Processing Zones (EPZ), 100% Export Oriented Units (EOU), Electronic Hardware Technology Parks (EHTP), and Domestic Tariff Area (DTA)

Conclusions

- A report released by McKinsey & Co. and Nasscom has forecast that the India's outsourcing industry can grow at an annual rate of more than 25 percent to generate export revenue of about $60 billion by 2010.
- IT continues to dominate outsourcing, but other areas are following strongly
- OEMs and CEMs are outsourcing approximately 25%, and outsourcing is accelerating their growth.
- Outsourcing specific software applications development, Assembly and packaging manufacturing companies could realize the desired competitive advantage.
- Indian software industry has a strong industry infrastructure and supportive Government policies and schemes
- Indian software companies are among the world leaders in IT services and potential candidates for establishing outsourcing business relationships.

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