

Strategic Outsourcing

– An Indian Perspective

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Strategic Outsourcing – The Premise

Strategic Outsourcing *can* be a key factor in attaining and sustaining competitive advantage.

Providing, both the Client and the Service Provider are adequately geared to effectively address and achieve the defined business objectives of the Client organization – as opposed to merely meeting the Process SLA's.

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Strategic Outsourcing – The Definitions

Strategic Outsourcing ~ a structured, collaborative, long-term initiative to achieve significant cost reductions and value enhancements.

Structured ~ a comprehensive Plan with defined Programmes, Timelines, Benefits, and Relationship.

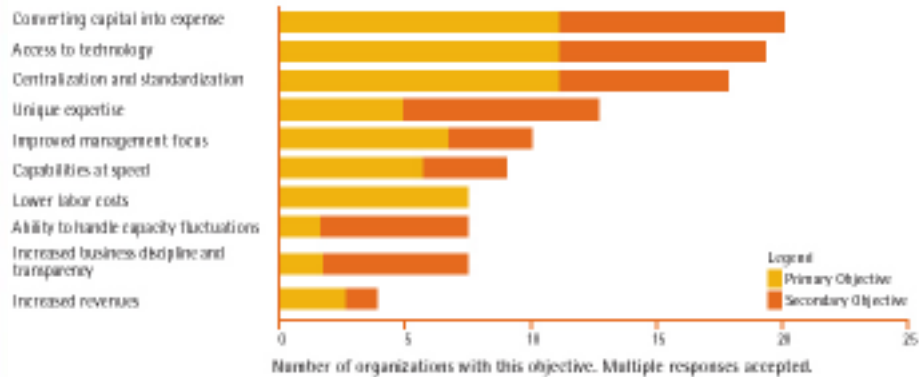
Collaborative ~ realizing the Benefits of the outsourcing initiative is a shared endeavor between the Outsourcing Organization and the Service Provider.

Long-term ~ strategic outsourcing becomes integral to the objectives and operations of the Organization.

Strategic Outsourcing – Determinants

- The Client's perception of Outsourcing
- The Service Provider's Value Proposition – the corollary being how the Service Provider is geared in terms of assets and attributes to deliver the Value Proposition.

Strategic Outsourcing – Client Expectations and Objectives



Strategic Outsourcing – Implications & Challenges

Implications

- Business Processes Will Need To Be Reviewed and Re-engineered.
- Current Task-sets, Reporting Structure, Applications and I.T Infrastructure Will Need To Be Reviewed and Modified/ Optimized.
- 'Virtual' Teams Will Need To Be Built.
- Managerial and Operational Alignment Between Outsourcing Organization and Service Provider.

Challenges

- Defining and Dimensioning The Outsourcing Strategy & Plan.
- Managing Internal Change Process
- Re-aligning Abilities and Attitudes.
- Managing Expectations.

Strategic Outsourcing – Process Overview



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Strategic Outsourcing – The Initial Approach

- Macro Definition Of The Potential Areas For Outsourcing
- Dimensioning & Time lining The Potential Benefits – i.e. Cost Savings & Value Gains.
- Evolving Delivery Partner Selection Criteria & Process
- Assessing Potential Organization Changes
- Evolving Internal Communication & Change Management Programme

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Strategic Outsourcing – Potential Areas

- Operations
- Applications
- Infrastructure

Strategic Outsourcing – Operations



Strategic Outsourcing – Applications

- Design & Development
- Upgrades & Maintenance
- Customization & Integration
- Porting & Optimization

Strategic Outsourcing – Infrastructure

- Servers/ Desktops/Laptops/PDA's/ Fax
- Operating Systems
- Utilities
- Decision Support Systems
- Networks

Strategic Outsourcing – Client Perception

Organizations perceive outsourcing at essentially three levels:

- 1. Transactional:** Utility relationship; focus primarily on cost reduction, with the goal of maintaining consistency in the delivery of services.
- 2. Strategic:** Enhanced relationship; focus extended to span productivity and y-o-y cost savings.
- 3. Transformational:** The relationship is characterized by a partnership focused on innovation and new business, changing the very nature of how an enterprise operates and competes.

Strategic Outsourcing – Client Perception (contd.)

TACTICAL	STRATEGIC	TRANSFORMATIONAL
1. Reduce and Control Operating Costs	1. Improve Business Focus	1. Bring New Solutions to Customers, Faster
2. Free Investment	2. Access to World-Class Capabilities	2. Respond to Shortening Product Lifecycles
3. Cash Infusion	3. Accelerated Reengineering Efforts	3. Redefine Relationships with Suppliers and Business Partners
4. Resources Not Available Internally	4. Shared Risks	4. Leapfrog Competitors
5. Function Difficult to Manage or Out of Control	5. Free Resources for other purposes	5. Enter New Markets with reduced Risks

Strategic Outsourcing – An Approach Framework

Phase 1: Maximize short-term cost reduction

- This is the acid test and therefore a necessary condition for the migration to the subsequent phases.
- The focus on maximization of cost reduction – with minimal backlash noise – will facilitate a broad focus on all potentially 'outsourcable' cost pockets.
- A broadened focus will help initiate the realization across the organization, of the potential scope and impact of outsourcing

Strategic Outsourcing – An Approach Framework

Phase 2: Focus on core competence

- As the outsourcing organization develops comfort and confidence in the Service Provider's capabilities and commitment, the initiative accelerates with wide segments of Front and Back office processes being outsourced.
- The core objective however still remains as Cost Reduction with the significantly incremental expectation of y-o-y cost savings.

Strategic Outsourcing – An Approach Framework

Phase 3: Generating innovation and speed to market

- By this stage, the value-addition capabilities of the Service Provider are established and accepted by the client organization.
- The relationship between the two organizations has broadened and deepened to the extent that the Service Provider is now perceived –at all relevant levels – as a virtual extension of the Client organization
- The focus of the client organization now extends to profit enhancement – i.e. cost reduction + additional revenue generation

Strategic Outsourcing – An Approach Framework

Phase 4: Maximize Shareholder value through integrated approach

- In this phase, the client organization revisits all assumptions related to structure, tasks and strategy – essentially the organization is restructured to address the following processes directly:
 - Business objectives and directions
 - Strategic, operational and financial planning
 - Product/Service definition and packaging
 - Technology architecture
 - Core manufacturing
 - Performance management
 - Delivery partnership management
- At this stage there is the client organization may also consider a change in the structure of the ongoing relationship in terms of equity participation.

Thank you