

Different Models of Outsourcing

If your organization is looking to outsource some of your business processes to service providers based in a low cost destination, then you might want to know some of the prevalent models of outsourcing. This will help you in structuring the arrangement in the manner best suited for your outsourcing needs.

Organizations look at outsourcing and off-shoring with various objectives in mind. Some of the typical reasons why organizations take up services of offshore solution providers are:

- 1) Bringing down costs
- 2) Getting access to resources with specific/specialized skills.
- 3) Achieve more with lower investments
- 4) Test the attractiveness of local market before setting up local operations
- 5) Leverage offshore partner's capabilities and expertise to address specific organizational issues

The different ways in which you could utilize offshore services are as below:

- 1) **Staff Augmentation**: Typically, organizations resort to this mode of services, when they want to manage the entire project in-house. This is helpful when the organization is short of the required resources to staff the project. In such scenarios, they could look at resources outside the organization (temp staff for short duration, low skill jobs). However, if the project is a long duration project, and the skill set of the resources required is very specialized, then organizations look at overseas partners to get skilled resources for longer durations. Because the resources from low cost countries like India are cheaper than the local resources, having such resources on the team brings down the project cost and make it attractive for management approval. Such a model was extensively used by large firms like Microsoft, GE, Citibank, HSBC, etc to staff their information technology teams.
- 2) **Offshore Center Model**: Organizations looking to optimize their costs or hire large number of skilled resources for a project/process that can be executed remotely will opt for the 'offshore center model'. In this model, the entire process is transitioned to the team that would work on processes at an offshore destination. This destination, like India, would have significantly lower costs of operation than the local set-up. The off-shoring organization is only involved in supervising the end product/service delivered by the offshore team. Software maintenance or customer support types of business processes are well suited for this model of offshore engagement.
- 3) **Build-Operate-Transfer Model**: This model is an extension of the 'Offshore Center Model' described earlier. In this model, the organization mandates the offshore partner to build a team at offshore location (e.g. a low cost destination like India) and transition the complete process/project to the offshore team. Till this point, the model is exactly the same as the 'Offshore Center Model'. However, in the BOT Model, after certain phase of stability, the entire infrastructure is transferred to the client for a one time transfer payment. This ensures that the organization intending to set-up a low cost off-shore presence does so by leveraging the capabilities of the offshore partner & improve the chances of its success.

- 4) **Captive Model:** In this model, the organization takes the organic route to set-up its offshore operations. It identifies the senior management to run the offshore set-up, and then builds it ground up to transition the responsibilities from the parent organization to the captive unit at a low cost offshore destination. This is similar to setting up a subsidiary in a different country, and then transferring responsibilities based on the intent of creation of that particular subsidiary.

The below table maps the organization objectives to the type of off-shore model best suited to meet those objectives

Objective	Appropriate Model	Advantages & Challenges	Recommendations for long term
Short Term: Reduce Costs Long Term: No Long Term Objective	Bring on board – low cost appropriately skilled resources from low cost destination	Addresses the immediate requirement. Low Risk in Nature	Would be better if the organization looks at defining a clear long term objective for off-shoring that aligns with their business objectives to leverage the offshore relationship.
Short Term: Reduce Costs Long Term: Reduce Costs	Either of ‘Staff Augmentation’ OR ‘Offshore Center Model’ would work; although the later is more suited since there is a clear long term objective defined	Addresses the immediate requirement. Setting up an offshore center will take up lot of managerial resource till the offshore center is established. Need to have a dedicated resource to manage the initial engagement with the offshore partner	Since the organization intends to stay in a long term relationship with the offshore partner, they might want to leverage the partner’s expertise in other areas like optimizing the current business processes and gaining access to local markets
Short Term: Access to Niche Skills Long Term: No Long Term Objective	Bring on board the resource with the requisite niche skills. Getting it from a low cost destination like India would give an additional benefit of lower cost	Addresses the immediate requirement. Low Risk in Nature	Would be better if the organization looks at defining a clear long term objective for off-shoring that aligns with their business objectives. If the organization requires skilled resources for an extended period of time, they should consider setting up a captive on their own or through the BOT Model

Short Term: Flexibility in Staffing Long Term: Flexibility in Staffing	Set up an Offshore Center with Offshore partner and structure it so that you pay for the resources deployed on the project	Fixed Costs of staffing is converted to variable cost. The challenge is that resources that gain expertise with organization's requirements may not be available when needed as they would be redeployed to some other project	Leverage the expertise being built on offshore vendor team and include them in process optimization initiatives or new process/product development tasks.
Short Term: Improve Responsiveness Long Term: Gain Strategic Advantage	Set up a Captive – depending upon the time available go for a BOT approach if the time available is short, or build your own captive in a low cost high skilled destination	The biggest challenge is ensuring successful transition of product ownership/process ownership to the new location	
Short Term: Access to Scale Long Term: Access to Scale	Start with an Offshore center, and move to a captive through the BOT or the organic route	Ability to set the right organization culture and scale up the organization whose culture aligns with the cultural fabric of the parent	
Short Term: None Long Term: Access to growing markets	Work with the offshore partner in an offshore center model and ride on the resources to get entry into the local growth markets	No major risks involved. Would have to work very closely with the right offshore partner to succeed in the objective of accessing the growth market	

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