

# Outsourcing and Off Shoring – Effects on Projects

Ramesh Murthy



# Definitions

- Outsourcing- Purchase of an value adding activity from an external supplier
- Off shoring- moving operations to countries, which have a low cost structure

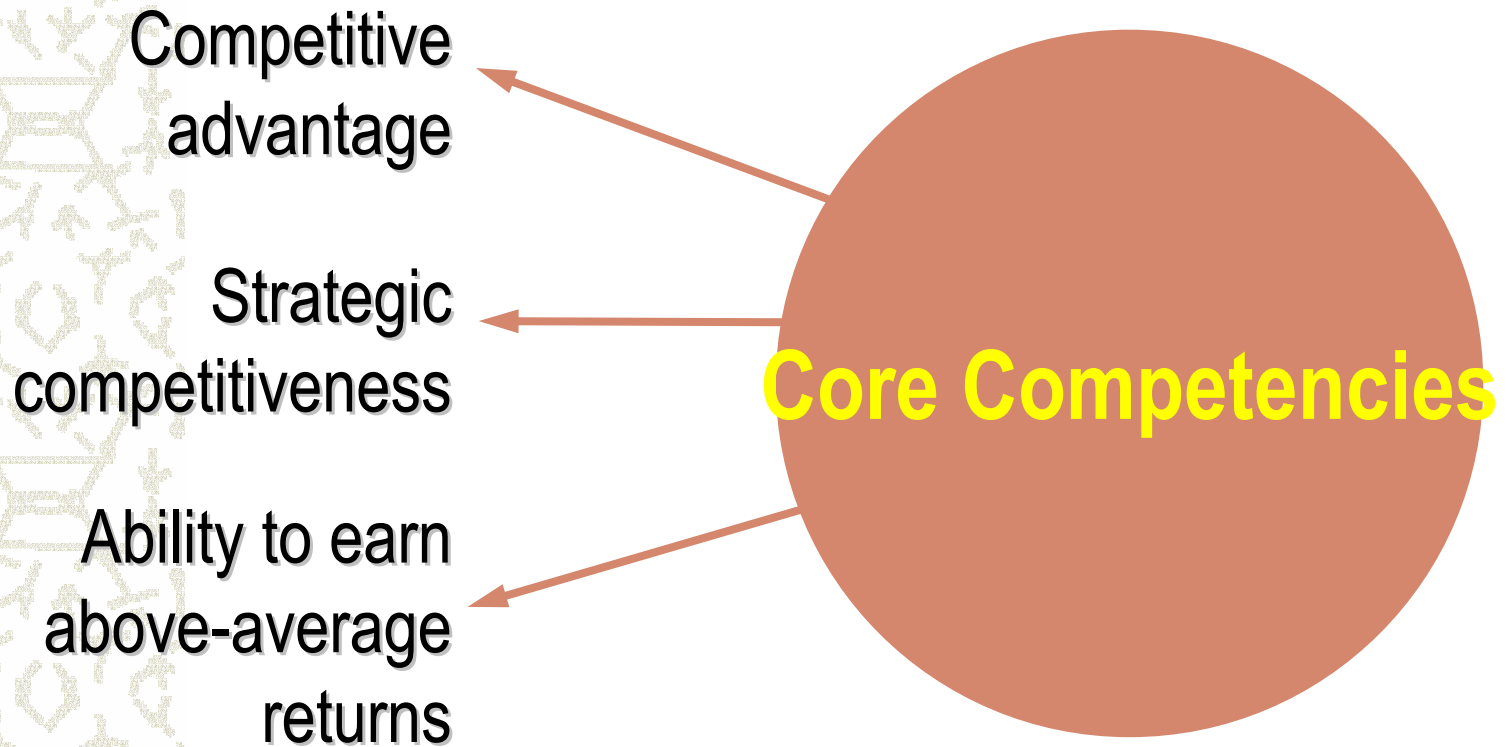


# Strategic Schools of Thought

- Resource Based Approach – Porter
  - 5 forces of market competition
  - Competitive advantage through positioning
- ✿ Core Competency Approach-  
Hamel/Prahalad
  - Resources and capability of the firm
  - Core competencies and core products

# Leveraging Core Competencies

M.A.Hitt





# Why Offshore and Outsource?

## External Factors

- Globalization: vast market potential
- Exploiting the latest technology talent
- Improved IT infrastructure to facilitate the process

## Internal Factors

- Economies of scale and scope
- Uniform vs. localized positioning strategies
- Cost savings
- Better service to customer
  - 24/7, follow the sun



# Why Offshore and Outsource?

## External Factors

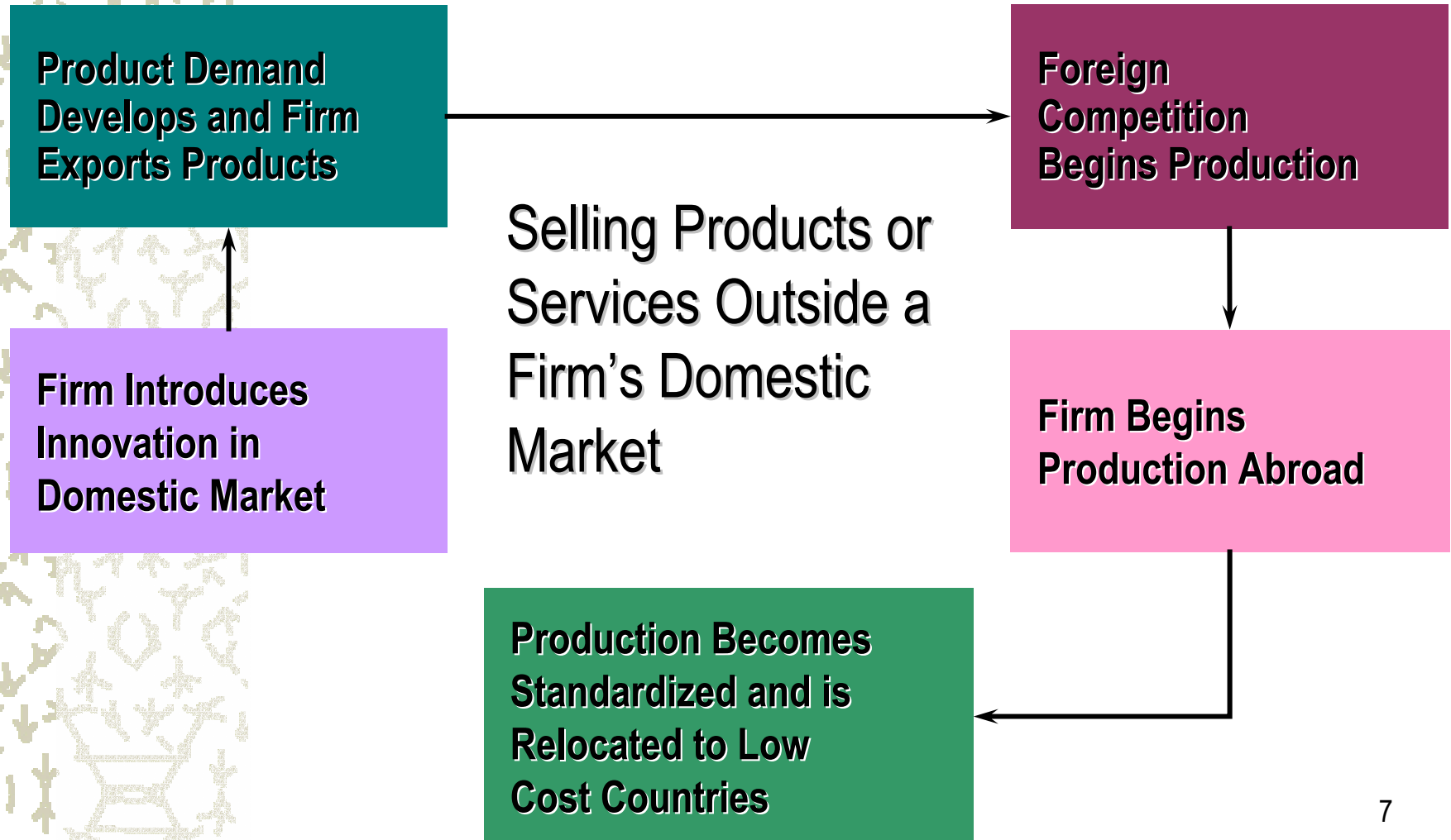
- Risk mitigation
- Think global act local-  
Market entry using  
Contract Manufacturing,  
JV's, Wholly owned  
subsidiaries, M&A,  
strategic alliances
- Exploit government  
incentives
- Improved levels of  
educations

## Internal Factors

- Concentrate on core  
business
- Supplement core business  
activities
- Product maturity life cycle
- Flexibility
- Time to market pressures
- Leaner corporate headcount
- Scalability

# International Strategy Life Cycle

M.A.Hitt



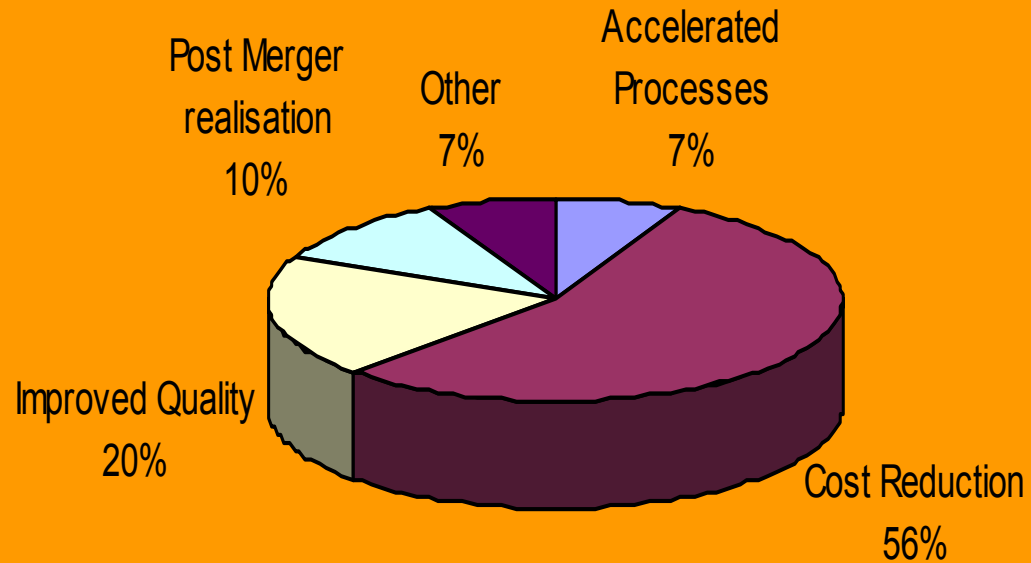
# Business Objectives in Outsourcing

Gartner Research



# Main Drivers of Off-shoring

Deloitte Research Dec 2003





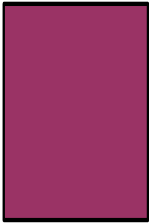
# What to Offshore and Outsource?

- Is it inline with your corporate strategy?
- Identify your core competencies
- Identify the competencies required to serve your market- e.g. basis for competition
- Redesign of value chain dynamics
- Have inside out and out side in views for a holistic assessment of core competency
- Makes best economic sense

# Value Chain Dynamics

Deloitte Research

Design



Manufacturing



Assembly



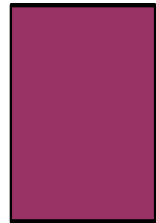
Marketing



Sales



Distribution



---

When functionality is the basis for competition integrate

---

When convenience is the basis for competition integrate

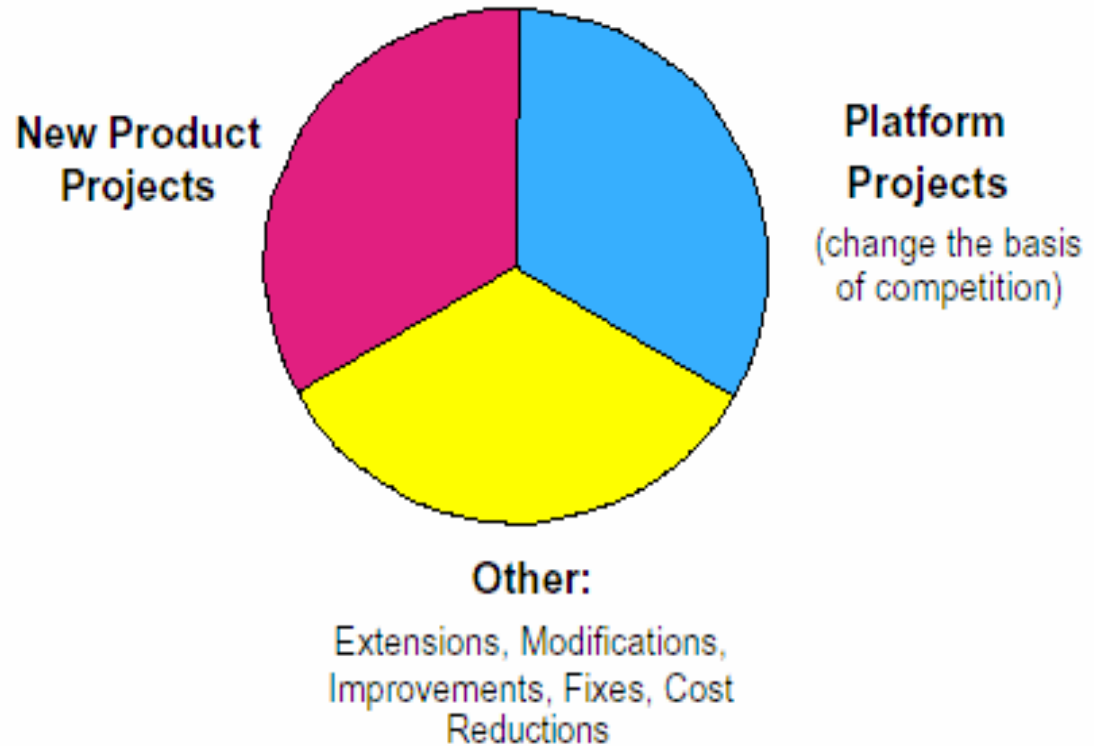
# What to Offshore and Outsource?

Deloitte Research

- IBM and main frames- when main frames were maturing had a fully integrated value chain from design to distribution
- Compaq and PC's – Concentrated on 'assembly' and left design and manufacturing, marketing and distribution to outsourced vendors
- Dell started customized computing and concentrated on assembly though to distribution, leaving design and manufacturing to vendors

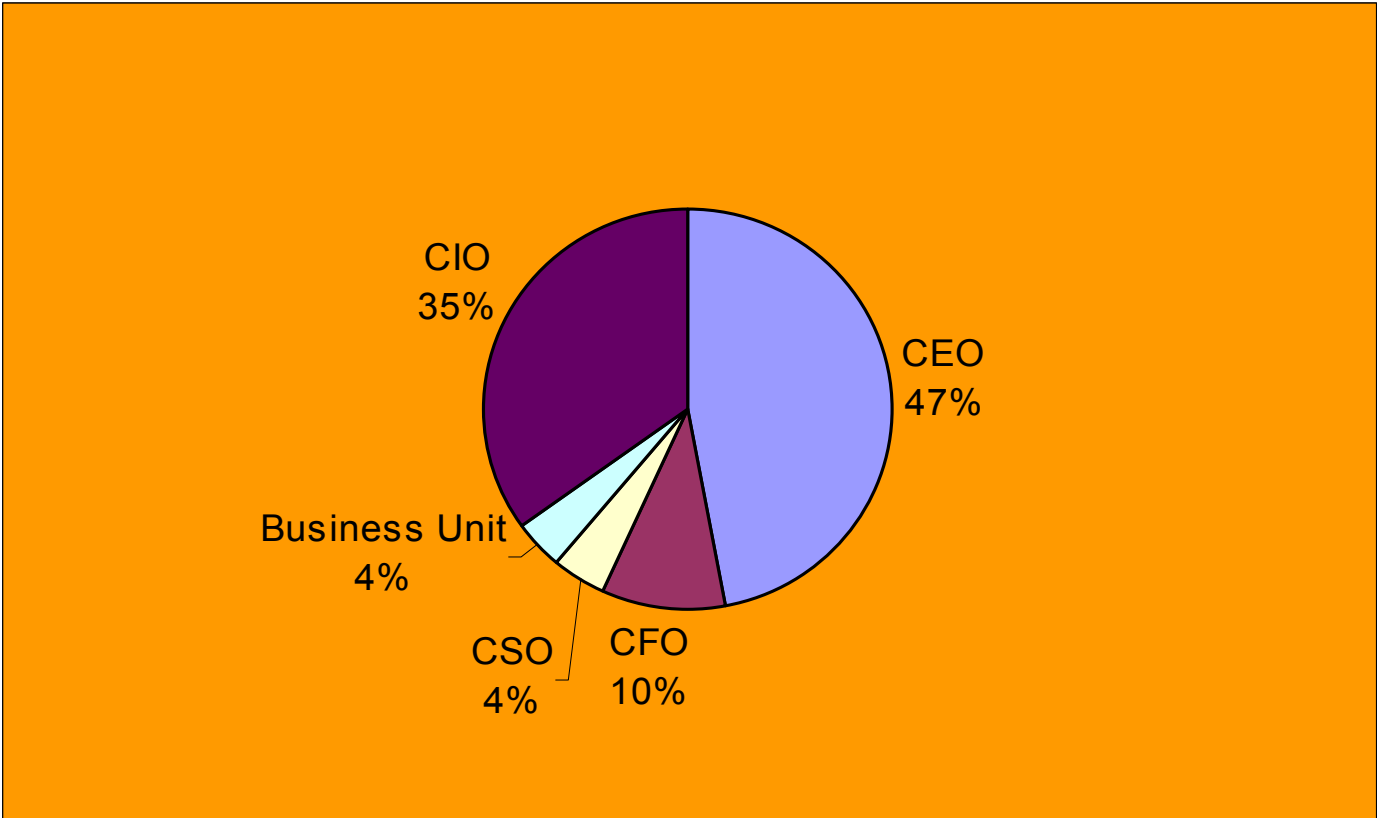
# Project Portfolio

Dr.R.G.Cooper



# Who makes the decision?

Deloitte Research



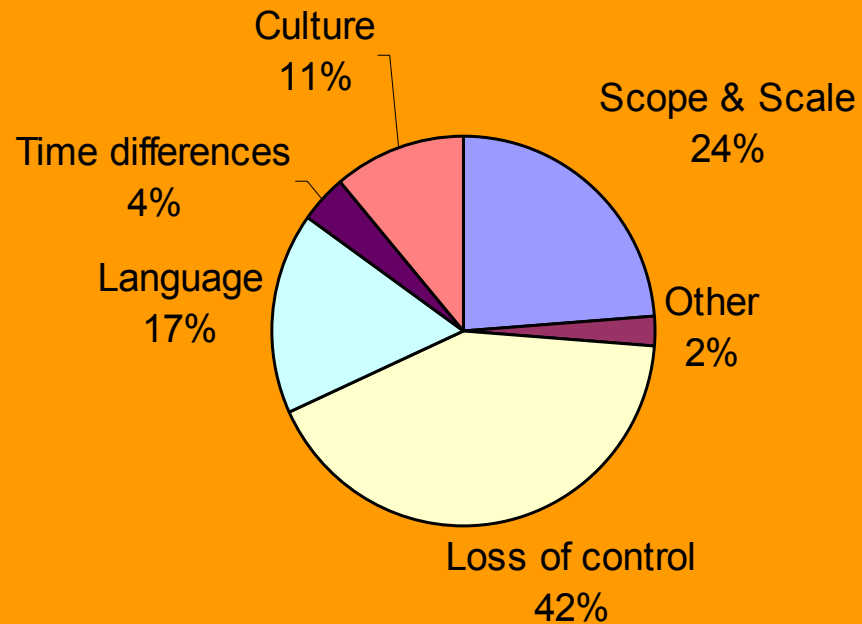


# Risks of Offshoring and Outsourcing

- Country of origin- quality perceptions
- Political stability
- Trade tariffs
- Long term contracts are quiet complex
- Vendor stability
- Cultural differences
- Brand image
- Time zones
- Logistics and distribution
- Trade unions
- Language skills
- IP protection

# Challenges of Global Sourcing

Deloitte Research





# Location Decisions

- Government incentives
- Technology Infrastructure
- Technical expertise
- Political stability
- Cost base
- English language skills
- Time zones

# Off Shoring Supply Countries

Deloitte Research

<b>Leaders</b>	India
<b>Challengers</b>	Canada, Russia, Spain, China, Ireland, Israel, South Africa
<b>Up and Comers</b>	Malaysia, Phillipines, Egypt, Singapore, New Zealand, Venezuela
<b>Neophytes</b>	Cuba, Ghana, Sri Lanka, Vietnam, Korea, Bangladesh



# Managing Outsourcing and Off Shoring

- Selection criteria- skills, costs, stability, delivery capability and one stop shop concept
- Internal communications to keep employees morale up
- Core team to manage activities
- Sound contract structure
- Managing deliverables and quality
- End to end program delivery management
- Knowledge management
- Lessons learnt at every stage of the delivery process
- Have a strategic global sourcing strategy



# Managing Outsourcing and Off shoring

- Vendor management across a range of vendors
- Managing dependencies
- Ensure vendor understands your processes
- Induction for new comers in the vendor space
- Proactively manage- complacency
- Keep abreast of taxation/government laws in local country
- Understand the accounting standards
- Project management methodologies differ



# Managing Outsourcing and Off Shoring

- Ensure no over dependencies- have the control
- Corporate governance - change management, definition of roles and responsibilities
- Avoid middlemen
- Project risks stay with you
- Protect your IP and costumers information
- Define and monitor vendor SLA's
- Have a Plan "B"
- Start small



## How Vendors are reacting

- Looking at partnerships
- CMM
- ISO
- PMI
- Six sigma
- Wider range of services
- Consolidation inevitable?



## Government Policies and Attitudes

- USA- Federal contracts restrictive, 23 other states are thinking on same lines
- India, China etc.,- FDI encouragement
- Australia – Open to Off shoring, managing the political ramifications of job losses in certain industries to be managed



# Customer Reaction

- Supportive
- Don't care
- Apprehensive



## Trends in Off shoring and Outsourcing

- Interest in Offshoring value increasing
- Trend towards Global Delivery Model
- Strategic plan sharing
- Partnership orientated
- Not just Fortune 500 companies
- India is leading the race
- Niche players emerging



# Balanced View of Benefits

McKinsey Research

- Every \$ spent returns \$1.14
- US Companies reported 58c savings on a \$1
- Consumer wins
- Improved exports
- Repatriated profits
- Job changes imminent even in a growing economy



# Discussions

- ✓ Offshoring/Outsourcing – can it add value to your business?



Thank You