Indian organisations are not new to the concept of services outsourcing. Banks and telecom companies have been outsourcing customer support, cross-selling, data validation and transaction processing services for many years. While Indian companies have explored outsourcing, they have limited scope for labour cost arbitrage. Companies have also tended to consider outsourcing in non-critical processes such as IT support, contact centre services and facilities management; naturally, the gains they have made are marginal. To make comprehensive gains they must adopt a holistic approach.

### Cast your net wide: Evaluate both critical and non-critical processes

While evaluating services for outsourcing it is important that organisations look at a comprehensive set of business processes. Start by mapping all the businesses and support processes. Run the processes through an initial assessment where each process is categorised separately. To illustrate, the processes in a telecom services company have been categorised into four quadrants in Figure 1.

The horizontal axis of the quadrant categorises processes into critical and non-critical processes, and the vertical axis marks their importance (or lack of it) as sources of competitive advantage or differentiation to the organisation. Organisations should retain with them processes that are both critical and sources of competitive advantage and consider all others for outsourcing. It is evident that companies such as Bharti have gained considerable advantage by outsourcing processes that are critical but not a source of differentiation as well as processes that are a source of differentiation but not critical.

In a recent engagement with a multilateral development bank, Tata Strategic Management Group suggested outsourcing of such processes as analysis of financial accounts and environmental and social impact assessment of projects, which fall in the lower right corner of the above matrix. This allowed the bank to handle more projects with the same amount of resources besides saving costs.

Similarly, in an exercise with an education company, content development was identified as an activity that could be outsourced as it gave the company faster time-to-market and greater flexibility. This again is an activity that is a source of differentiation for the organisation but is low on process criticality. These processes include product development, business strategy, marketing and branding, financial planning, product innovation, network design and maintenance, IT design and development, logistics, payroll, finance and accounts, facilities management, IT infrastructure management, and customized care.
examples provide ample evidence that a comprehensive evaluation of critical and non-critical processes can lead to significant business benefits.

**Think big: Consider business benefits beyond cost savings**

The domestic market offers Indian companies limited scope for cost savings through labour cost arbitrage. Hence they need to be alive to outsourcing opportunities that offer other business benefits. Processes need to be assessed on a business benefits scale that objectively measures all potential types of business benefits (eg, flexibility, faster time-to-market, process excellence) that are possible in a given business context.

Highlighted below are examples of various types of business benefits, other than cost savings, that are relevant in the Indian context.

**Greater flexibility:** Outsourcing gives organisations the flexibility to tap into vendor resources when needed, resulting in faster time to market. The benefits are higher for services or processes where the variability in workload is high either due to seasonality or due to the project-based nature of work. The volume of transactions in a process, whether support or business-related, can sometimes vary significantly.

Organisations can evaluate adoption of a ‘pay per use’ or ‘transaction based’ pricing model in their outsourcing contract to further gain from flexibility benefits.

**More bandwidth for senior management:** Moving some business processes to an external service provider expands management bandwidth for core initiatives that create competitive advantage. A lean internal team that is responsible for monitoring and control of processes, not on actual execution itself, can focus on strategic rather than operational issues. This can lead to greater innovation and agility to make an impact in the marketplace through better services and products for the customer.

**Better quality of service:** Organisations can also look at outsourcing as a means to access better quality of service. This is more evident in case of services where mature
vendors are present. For instance, in the case of outsourced contact centre services, finance and accounts processing, and payroll processing, there are established vendors with significant experience in serving clients across geographies and industry verticals. As a result, they are able to provide the client access to operational best practices leading to enhanced quality of service and higher customer satisfaction.

**Increased productivity:** Vendors focused on a niche service have economies of scale and bring in efficiencies by introducing automation and process improvement initiatives. The increased productivity resulting from these measures translates into savings for the client.

**Access to specialised vendors:** In certain services, the delivery model and associated technologies in the domain are constantly evolving. Companies that are focused on providing a particular service can have the required economies of scale and motivation to keep pace with changes in the field as compared to organisations for which the service is a support service. IT services and other services that require an IT or communication backbone are areas where the underlying technology and service offerings tend to evolve at a rapid pace. There are many world-class IT services vendors with the necessary capability and focus to keep pace with changes in the field and are therefore in a better position to create value for their clients.

**Framework for risks and benefits assessment**

An outsourcing assessment in the Indian context, as explained above, has to start by evaluating both critical and non-critical processes and assessing the potential for business benefits beyond cost savings. However, this approach would still require the use of a detailed framework that can help an organisation conduct an objective risks-benefits assessment and prioritise the final set of processes for outsourcing.

The outsourcing assessment framework should consider two important and independent aspects of outsourcing decision making. The first relates to computing the degree of ease (or, low risk) with which a process can be outsourced.

The second relates to estimating the business benefits resulting from outsourcing. The mapping done through such an exercise would help an organisation prioritise the processes that should actually be outsourced.

Tata Strategic Management Group has developed a proprietary methodology and framework that encompasses all the factors discussed above to help organisations take an objective view of outsourcing (See Figure 2 on pg79). As with all frameworks, its value lies in how it is appropriately applied in a certain business context to aid decision making.

**Outsourcing ease assessment:** The 'outsourcing ease' for each process under consideration is arrived at by evaluating processes on a set of decision criteria such as level of process complexity, data confidentiality and criticality. So the more critical a process or higher the data confidentiality in a process, the lower is its outsourcing ease. An initial list of processes with high outsourcing ease is selected after all processes are rated on the decision criteria.

**Outsourcing attractiveness evaluation:** Each process is also evaluated not only on its cost savings potential but also on other business benefits such as quality, flexibility and maturity of vendors to determine their 'outsourcing attractiveness'. For instance, a process with high variability in volume of work across months would get a higher attractiveness score as outsourcing could provide the flexibility to handle the variation.

A final list of prioritised services is then compiled based on both the outsourcing ease and outsourcing attractiveness scores.

In a recent engagement with a mid-sized Indian firm in the education sector, an organisation-wide assessment of outsourcing opportunities was conducted. Over 80 processes across core and non-core functions in business units and support functions were evaluated.

Initially, a long list of opportunities was created on the basis of outsourcing ease scores of various processes. Then the outsourcing attractiveness of these processes (which considered various business benefits, including cost, time and quality) was computed for each process. The final list of outsourcing opportunities was generated on the basis of both outsourcing ease and outsourcing attractiveness scores. The final list of 17 processes was then clubbed into seven service groups for final outsourcing.

Apart from non-core activities such as document processing, call centre support and finance and accounts, core service activities such as content creation and franchisee quality control were also identified as potential outsourcing opportunities. Besides providing a cost saving of around 30 per cent, implementation is expected to significantly increase speed to market and enhance quality of delivery.

To sum up, domestic firms must look at outsourcing in a holistic and structured manner to derive maximum benefit from the activity. A comprehensive view of all business processes would ensure that business imperatives are understood and all potential opportunities evaluated. Companies that do such comprehensive evaluation would derive competitive advantages through outsourcing that go beyond cost savings.