VIEWPOINT
Offshoring to India – realising savings and capturing value

Wolfgang Messner
Capgemini, Munich, Germany

Abstract

Purpose – The paper aims to describe the drivers of offshoring to India and how savings and value can be generated by understanding and structuring the offshore journey as a lifecycle.

Design/methodology/approach – While offshoring is a contentious topic, more than 50 per cent of companies across the industries already offshore some of their functions. However, focussing on cost cutting alone can only lead to short-term benefits while potentially putting at risk the mid- and long-term position. Instead, successful offshoring is a multifaceted transformation, which includes industrialised approaches to service delivery. Levers for the business case not only comprise factor-cost and effort savings, but also flexibility options and risk normalisation. An offshore delivery strategy can best be implemented by following a lifecycle approach ensuring stringent and informed governance decisions.

Findings – The paper finds that cost savings through offshoring are not only generated through factor cost savings, but increasingly through industrialisation and innovation engineering. To capture savings and value, corporations should actively manage the offshore lifecycle.

Originality/value – Value creation through offshoring is neither inherent to the offshoring process nor to India as a target destination. Instead, a series of governance decisions in the offshore lifecycle lead to the desired result.

Keywords India, Industrialized economies, Outsourcing, Service delivery

Paper type Viewpoint

Offshoring is a contentious topic. Policy makers, business executives, thought leaders, and sometimes even presidential candidates express strong and often conflicting opinions about deploying young employees in emerging countries like India to take over business processes, information technology (IT) development, or maintenance functions previously performed in a company’s home location. Critics do not get tired of citing horror stories about failed offshoring endeavours, quality issues, cultural clashes, and data theft, which may eventually have culminated in shifting the offshored functions back to the company’s home country. Service providers and both firms of Indian origin (FIOs) and multi-national companies (MNCs) with Indian subsidiaries highlight the strength of India’s educated workforce and showcase successful examples of offshoring which have helped to reduce a function’s total cost of ownership for the client.

The drivers of offshoring

Studies show that across industry sectors, more than 50 per cent of all companies already offshore some of their IT functions, with health/pharma/biotech and financial services leading the way with much higher percentages, respectively, (Lewin and Couto, 2006). There are no hard and fast rules about which part of the services value chain corporations can offshore and how they should go about it. In the past, some areas have
been more popular than others, mostly the ones in well-known and mature technologies with predictable and established models. What is much more important is maintaining a clear perspective and an understanding of the levers affecting the business case rather than following a patchwork approach attempting to resolve resource constraints, realise cost savings, and simultaneously address end-user support or network management issues.

When it comes to offshoring, many companies focus first and foremost on cost cutting. While they may achieve short-term cost savings by participating in worldwide labour markets, they dramatically fail to evolve their IT or process functions. In fact, they may even worsen their internal situation by moving work offshore before fixing their internal delivery processes and by losing sight of the bigger picture of enhancing performance to better support business priorities.

**Industrialisation of service delivery**
Successful offshoring is not merely a transformation in terms of delivery location, which in itself already involves many challenges with respect to switching from face-to-face communication to stringent documentation, using collaborative tools, adapting to other cultures, values and aspirations, and normalising risk for business continuity management. What is more, the transformation also affects the way functions are served in an industrialised fashion from centralised multi-client delivery centres, using standardisation and segmentation for the most efficient results. Karmarkar (2004) described this services revolution in a groundbreaking *Harvard Business Review* article:

> Think of technology as creating an information assembly line; information today can be standardised, built to order, assembled from components, picked, packed, stored, and shipped all using processes resembling manufacturing. Industrialised information becomes steadily more efficient, less expensive, and more highly automated. The costs of logistics and storage are minimal; only labour and intellectual property matter.

In practical terms, what makes industrialised services factories work is a flexible capacity management through the quick staffing and de-staffing of a highly specialised workforce, together with specialised tools, templates, and prefabricated code pieces for IT delivery (Thun, 2008) as well as a modular process chain for business process outsourcing. Of course, industrialisation can be equally achieved through outsourcing within the home country, through near shoring, or through offshoring to countries other than India. However, India has the unique advantage of having an established and comparatively mature process-driven services industry with more than 2.2 million direct employees (in the financial year 2010). Both MNCs and FIOs are currently moving towards IT industrialisation driven by client expectations not only for cheaper resources but also for a more efficient and predictable service delivery. It is a gradual shift from cost efficiency to service efficiency and from project management to delivery process management. Project managers and team leaders now need to know how to set up, maintain, control, and tune a production chain in which each deliverable is built by various people. Thus, the standardisation of processes and deliverables, an appropriate use of technology, and specialised training processes, tools, and standards are at the heart of the offshore industrialisation revolution. Leading offshore service providers estimate the effort saving potentials at around 25 per cent compared with “normal” best practice onsite delivery.
Achieving these benefits on top of some 40 per cent savings in factor costs is a journey on which service providers and their clients need to embark together; they depend on each other, their cooperation, and thrift to drive things forward. An isolated approach does not lead anywhere, but may potentially move isolated captive centres further into niche areas or force them to collaborate with the bigger delivery factories of external service providers.

**Business case**

An offshore business case is hence based on two positive levers with an immediate financial impact: the factor cost difference of an individual Indian resource versus a home country employee, and the intelligent use of the industrialisation experience. The business case is weakened by knowledge transfer efforts, setup costs, overheads by managing distributed delivery, productivity losses through remote resources, and potential redundancy costs. A realistic projection also needs to build in levels of uncertainty and quantify risks focusing on five categories. Implementation and impact risks are applied to individual cost-benefit estimates; provider and measurement risks are calculated at the investment level; and business continuity risk is estimated at the business level.

However, very often offshoring creates flexibility options to accelerate other initiatives at a later stage, for instance, the ability to expand into other areas with reduced costs and time and to scale quickly to meet increased demand at lower incremental costs. While these options do not produce an immediate financial return, they create value by preparing an organisation for future growth or adaptation. While it is mathematically challenging to specify the value of future flexibility, for example through an adapted Black-Scholes call option formula, it is important to highlight the inherent value of flexibility in industrialised offshoring because in times of budget pressures, flexibility and scalability tend to be among the first things to be axed in standard investments.

**Offshoring as a lifecycle**

In the light of these drivers, how can companies best implement an offshore delivery strategy that overcomes the obstacles of distance and differences while fully leveraging the advantages India’s industrialised offshore industry has to offer?

Offshoring is most successful when managed as a lifecycle, and not as a one-off activity. Initiating and managing this lifecycle is one of the real essential competencies that need to be mastered. There is no right way of going through the lifecycle, but a general sequence of six stages can be identified (Messner, 2010) (Figure 1):

1. **Evaluate.** Understand the concepts and drivers behind offshoring, sourcing strategy, and provider governance. Define the business rationale and the high-level scope for offshoring. Adopt a holistic view and choose the right mix of offshoring models. Critically evaluate global delivery readiness, thereby setting the parameters for the next stages.

2. **Plan.** Examine the current as well as the anticipated future IT costs, draw up the offshore business case, and compare it against the status quo. Look at the risks and quantify them. Establish management oversight.
Figure 1. The offshore lifecycle

- **Market intelligence**
  Understand concepts, drivers, and status of offshoring and sourcing management

- **Competitive intelligence**
  Get the picture of what your competitors do with offshoring

- **Offshore target definition**
  Establish high level scope and business rationale: what do you want to achieve with offshoring?

- **Readiness assessment**
  Evaluate your readiness to change your IT delivery model by business unit, geography and application

- **Scenario analysis**
  Create and compare alternative offshoring models by business case

- **Risk analysis**
  Conduct a comprehensive India offshore risk assessment

- **Sourcing governance**
  Evaluate your IT and sourcing governance

- **IT transformation**
  Specify new set of capabilities and investments required in your company

- **Transition planning**
  Plan and detail scope, new governance structures, industrialization of delivery, transition process to offshore, and change management

- **Business continuity**
  Conduct business impact analysis; create business continuity plan

- **S-LEAN RFPTM**
  Shortlist providers; conduct RFP, evaluate, and negotiate

- **Contract**
  Negotiate final contract and sign

- **Setup offshore**
  Establish organization, processes, and recruit team

- **Change management**
  Manage communication to employees and stakeholders

- **Organizational transformation**
  Engineer cooperation workflows; build up people, structures, and systems. Conduct intercultural trainings

- **Knowledge & work transfer**
  Prepare KT plan and train offshore team. Plan for transition phase and migrate work

- **Relationship management**
  Manage the cooperation with the provider for value

- **Planning and forecasting**
  Estimate workload, plan resource utilization, ramp-ups, and -downs

- **Continuous improvement**
  Institutionalize process for monitoring and reporting KPIs; analyze and implement improvements

- **Invoicing**
  Handle invoicing, free payments, and negotiate fee reductions

- **Performance assessment**
  Assess overall performance of offshore endeavor

- **Market review**
  Update your insight about offshore trends, market, and competitor moves

- **Option analysis**
  Assess your options to transfer operations to another provider, country, captive unit, or back-source to your company

- **Contract management**
  Extend, amend, or re-negotiate your contract with provider

---

**Note:** Reproduced with permission of Palgrave Macmillan

**Source:** Messner (2010)
(3) **Select.** Detail the offshoring scope, governance structures, and the transition process. Develop risk normalisation strategies (elimination will not be possible). Only then shortlist possible providers and assemble the request for proposal documents, following a very lean and straightforward process.

(4) **Transfer.** Setup the organisational structure, institutionalise the processes, and recruit the team. Transfer knowledge to the offshore service provider, plan and execute the transition.

(5) **Operate.** While the functions are being executed, the offshore endeavour needs to be continuously managed for outputs and value creation, rather than for inputs and processes.

(6) **Reconsider.** Review the provider’s performance, the market environment, and assess future options. Based on an analysis of the options, there are different re-entry points into the lifecycle.

Industrialisation transformation favours the large service providers as small companies do not have the necessary numbers of employees to support a factory model and will be confined to standard best practice delivery models, unless they operate in small “niche” technologies or markets.

Going forward, offshoring will transcend mere cost cutting and industrialised delivery more than ever; it will be about sourcing the talent needed to sustain a company’s innovation engine. Corporations cannot find sufficient numbers of highly skilled employees at acceptable costs in their home countries. Instead, they need to look at more labour-efficient locations such as India to sustain their innovation engine in knowledge-intensive areas.

**Conclusion**

Offshoring can deliver benefits to organisations and help them achieve their business priorities. However, these benefits are neither inherent to the act of offshoring nor to India as a destination for outsourced IT delivery. In order to capture the value of offshoring and balance the associated risks companies need to make informed decisions and plan and execute the offshoring process carefully. Offshoring is not a single transaction led by a contract; instead, it is a series of governance decisions best depicted as a lifecycle.

**References**


About the author
Wolfgang Messner is a Principal with Capgemini and Head of Offshore Delivery in Germany, Austria, and Switzerland; he was on expatriate assignments to India for Capgemini and Deutsche Bank for a total of four years. He was also a Visiting Professor at the Indian Institute of Management Bangalore and holds a PhD in Marketing from the University of Kassel, an MBA from the University of Wales, and a Masters Degree in Computing Science from the Technical University Munich with studies at the University of Newcastle upon Tyne. He has published five books and more than 25 papers about the business impact of information technologies, intercultural collaboration, and strategic marketing management. Wolfgang Messner can be contacted at: wolfgang.messner@gmail.com