Business Process Outsourcing
and Offshoring –

New Strategies in Support Service
Optimization and Global Sourcing

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The Offshoring Institute offers a wide range of services on location strategies and optimizing back office processes

- Location analyses and studies based on our Location Selection Criteria Database (> 100 Metropolitan Areas)

- Consulting & advisory services on optimizing support functions

- Courses and corporate trainings on Business Process Outsourcing, Shared Services, offshoring and optimizing support functions

*We know* how to make the globe transparent.
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Support Function Optimization
Challenges

Optimization of business support functions – Is Offshore Outsourcing the ultimate right solution?

78% of large-scale European players do see optimization potentials in processes and systems of the support functions.

73% of all companies analyzed are maintaining or are planning SSC activities in Europe only.

However:
atorial.

Companies need to be prepared to respond to the Offshoring question.

Shareholder, banks, board members will ask questions about it.

Challenge: many companies feel not being prepared to cope with the challenges of an Offshoring project (and Offshoring is often not the right solution).

73% of all companies analyzed are maintaining or are planning SSC activities in Europe only.

Decentralized Processes and Systems

Standardized Processes and Systems

Bundling of activities on national level/ National SSC

Regional SSC/ Captive Nearshore

Captive Offshore - Global transaction center - Center of expertise

Offshore Outsourcing

Improve
ment potential (cost and quality optimization)

Source: Offshoring Institute Research
Global companies with strong focus on core competencies and high margin pressure are mainly Offshore Outsourcing candidates.

**Case Study Phillips**
Step 1: From decentralized units and divisional SSCs to Regional (EMEA) SSC in Lodz (Poland)
Step 2: Sell off of facility in Lodz to BPO Provider (Nearshore captive)
Step 3: Further relocation of transactional processes to BPO centers in India

- Typical solution for global corporations with the intend to focus on the core business (e.g. GE)
- Or companies with great need to capture cost advantages due to significant margin pressure (e.g. Dell)

**Improvement potential (cost and quality optimization)**

- Decentralized Processes and Systems
- Standardized Processes and Systems
- Bundling of activities on national level/National SSC
- Regional SSC/Captive Nearshore
- Captive Offshore
- Offshore Outsourcing
Support Function Optimization
Challenges

Local players compensate difficult to reach labor cost advantages through technology solutions such as workflow systems

Case Study: International Construction service provider with focus on Germany
Step 1: Implementation of standardized processes
Step 2: Bundling of accounting activities in one center
Step 3: Implementation of technology and workflow solutions to reduce human intervention

- No further improvement potentials expected due to drastically reduced manual activities
- Labor arbitrage advantages would be very small in impact
- Typical solution for companies with mainly domestic business focus

Decentralized Processes and Systems
Standardized Processes and Systems
Bundling of activities on national level/National SSC
Regional SSC/Captive Nearshore
Captive Offshore
Offshore Outsourcing

Improvement potential (cost and quality optimization)
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Successful Outsourcing Projects

Variables

Many variables determine the success of an Outsourcing initiative

- Communication
- Trust
- Costs
- Quality improvements
- Deadlines
- Knowledge
- How transfer
- Efficiency
- Location
- Change Management
- Margin
- Availability
- Reputation
- Teams
- Skills and capabilities
- Process Split
- Stakeholder support
- Service Level
- Agreements
- Stability
- Infrastructure
- Governance
- Contract duration
- Relationship
- Management
- Systems

In order to select the right outsourcing partner, specific requirements need to be captured and weighted in a sound selection model

(Example – categories for outsourcing partner selection model)
Successful Outsourcing Projects
Provider Selection

Selection of outsourcing partners is key to a successful initiative

Example: provider selection model of the Offshoring Institute
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The labor cost advantages of places such as India are still significant.

Gross salaries in Euro

<table>
<thead>
<tr>
<th>Role</th>
<th>Berlin</th>
<th>Prague</th>
<th>Monterrey</th>
<th>Bangalore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Manager</td>
<td>50k</td>
<td>40k</td>
<td>30k</td>
<td>20k</td>
</tr>
<tr>
<td>Software Engineer</td>
<td>40k</td>
<td>30k</td>
<td>20k</td>
<td>15k</td>
</tr>
<tr>
<td>Help Desk Analyst</td>
<td>30k</td>
<td>20k</td>
<td>15k</td>
<td>10k</td>
</tr>
</tbody>
</table>

Source: Offshoring Institute, 2008
Sufficient talent availability is decisive in order to staff operations appropriately and to keep attrition low.

Source: Offshoring Institute, 2008
The weighted ranking model leads technically to the best suited location

**Ranking results**

- **Prague**: Infrastructure - 6, People - 4, Labor Cost - 4
- **Berlin**: Infrastructure - 6, People - 4, Labor Cost - 4
- **Monterrey**: Infrastructure - 8, People - 6, Labor Cost - 8
- **Bangalore**: Infrastructure - 14, People - 10, Labor Cost - 10

**Approach (simplified)**

- **Ranking**: Rating of absolute values, Weighting of criteria, Calculation of ranks
- **Categories (standard)**: Labor Cost, People, Infrastructure, Environment
- **Feedback and verification**: through senior management/key stakeholders, creation of buy-in/identification of road blocks

Source: Offshoring Institute, 2008
## Qualitative decision factors for shoring options in location selection are as important and need to be assessed as well

<table>
<thead>
<tr>
<th>Decision Factors</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural Empathy</td>
<td></td>
<td></td>
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<tr>
<td>Languages Affinity</td>
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<tr>
<td>Geographical Proximity</td>
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<td>Time Zone Immediacy</td>
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<tr>
<td>Regular Staff Traveling</td>
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<tr>
<td>Project Urgency</td>
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<tr>
<td>Management Retention</td>
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</tbody>
</table>

### Basic Conclusion (simplified)

<table>
<thead>
<tr>
<th>Offshore</th>
<th>Nearshore</th>
<th>Onshore</th>
</tr>
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### Comments

- These assessments deliver immediate input for the weighting of the respective criteria
- Whereas talent pool and labour cost are usually consensual factors other factors such as language and cultural affinity need to be determined by company specific preferences
- This tool allows to include non monetary factors or other figures
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The role of technology is determined by kind of outsourcing scope and respective innovations

- **IT Outsourcing**
  - Infrastructure Outsourcing
  - Helpdesk / Support
  - Application Hosting
  - Application Development
  - System Design
  - Function Transformation

- **Business Process Outsourcing**
  - Finance & Accounting
  - Human resources
  - Procurement
  - Customer operations
  - Industry-specific BPO
  - …

- **Technology innovations**
  - State-of-the-art server architecture and hardware
  - ERP systems and software innovations
  - Webhosting and cloud computing
  - Remote computing

- **Technology innovations**
  - Document Management System
  - Electronic Data Interface
  - Business Warehousing
  - Employee Self Services
  - Web Applications
  - …
The Role of Technology in Offshore Outsourcing

Is the offshoring trend already history?

Advantages Offshoring:

- Labor Cost Arbitrage
- Qualified staff and talent availability
- Global allocation of work for global players (language, culture, regional footprint)

But

- There is no „Wonderland“

Advantages Technology

- Increased productivities
- Reduction of manual workload
- Global technology and systems standards

But:

- Increased complexity and system dependency, investment risks
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Summary

The Offshore Outsourcing strategy of a company is as unique as the business strategy itself

- Global players have to deal with the Offshore Outsourcing Question – it can not be ignored
- However, there are multiple ways of applying Offshore Outsourcing solutions – it depends heavily on the specific situation and strategic goals
- Implementing Outsourcing requires proper planning and a structured approach
- Finding the right location footprint for support functions depends on many variables – access to talent might be even more important than plain cost savings
- Hard to measure „soft facts“ have usually the strongest impact on the location questions
- Technology is on the rise – more and more corporations prefer automation instead of relocation
- However, „lights out processing“ is still a vision and so far only applicable to pure transactional activities
Thank you for your attention

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