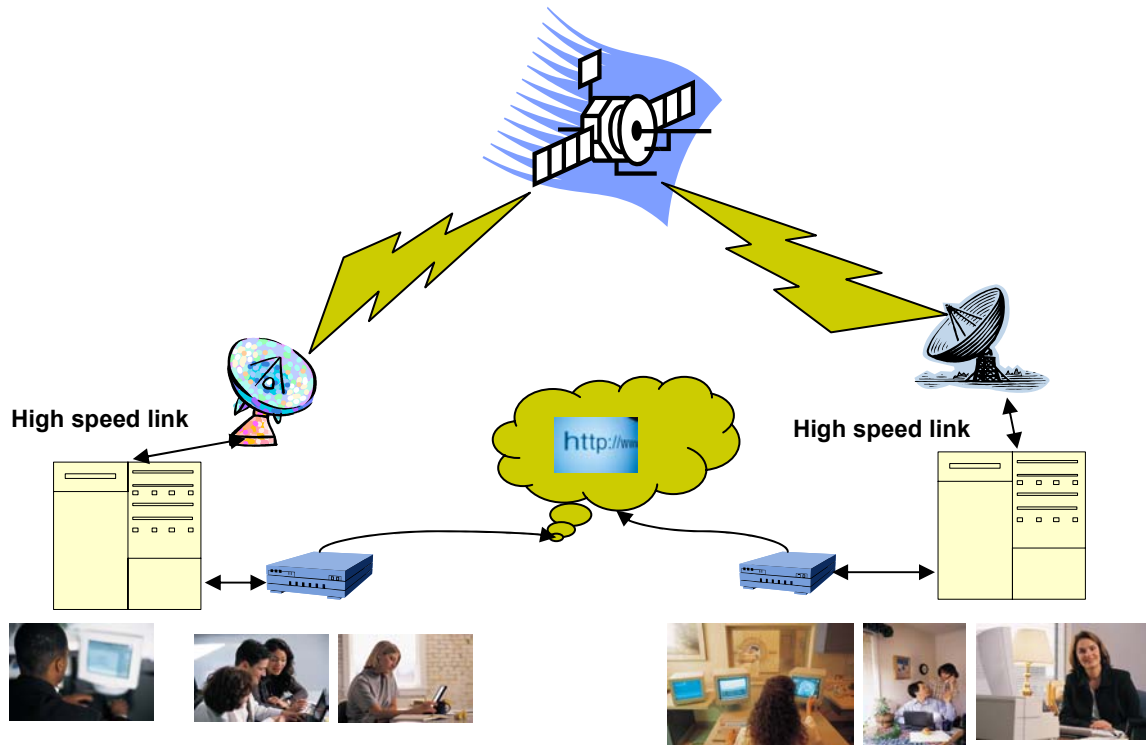


Offshore Outsourcing - Models (Part 3)

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Your long term business strategy and commitment will determine an appropriate business model for Offshore Outsourcing. Some models to consider:

Transactional Partnering

This is done to “test the waters” or for isolated outsourcing. The work is subcontracted for a project only; if it works - great it grows, if not - it’s over. There is low commitment to the relationship on either side. The outsource service provider may perceive this as a “pilot” and give you extra attention.

“Pilots” should never be used to assess the outsource service provider as the OSP may put its best people on the job. “Pilots” should be used build the interfaces and processes required for remote development.

Tactical Partnering - the offshore development center

This is a major commitment from the company’s and the outsource service provider’s perspective. The outsourcer enterprise “assures” work for a dedicated number of resources for at least 2 to 3 years with a growth plan. The outsourcer would define the type of work it would outsource and the skill levels that the OSP should provide. The outsourcer is responsible for allocating work and any “idle time” in the event of insufficient work. The outsourcer would also project the resource ramp up required every quarter if any.

The OSP would provide dedicated facilities, a dedicated communication link, an Offshore Development Center Manager who would be responsible for staffing and running the center. The OSP would also commit to training its resources at its own cost and providing basic infrastructure such as personal computers, telephone and fax. The outsourcer company would be responsible for routers, switches and any special hardware and software needed for the project.

Both parties would work together to build the "process manual" that would determine how the work would be done and how the interfaces would work. They would also establish "service levels" and monitor these regularly.

Strategic Partnering - a joint venture

The joint venture is more strategic in nature, with goals beyond opportunistic outsourcing. The outsourcer establishes a "beachhead" in the geographic area where the outsourcing work is performed. Its goals may go beyond the "outsourcing" to include selling some of its products or services in the geography. The service provider may add value to further these interests of the outsourcer.

The outsourcer enterprise contributes to business knowledge whereas the OSP provides local knowledge and local management skills.

Both invest in the infrastructure in the form of equity and establish common goals to be met. The path to profitability could be slower but could accelerate if the offshore revenues are high and there is a "critical mass".

The biggest challenges to a joint venture relate to merging two cultures.

Collaborative Partnering - build-operate-transfer

Collaborative Partnering takes the ODC a step further. Here the service provider and the outsourcing company pre-negotiate an Agreement whereby the Outsourcing Company would acquire the ODC its assets and all the people after a pre-determined time. The economics of the acquisition are negotiated prior to entering into a Agreement. The Build - Operate - Transfer (BOT) business model allows a company to get comfortable with the terrain, with remote development and also has adequate time to structure an entity legally in the Offshore country.

Extension - a wholly-owned subsidiary

It is not unusual to build a remote wholly owned subsidiary - Cadence, Microsoft, Intergraph, Motorola and Texas Instruments have done it.

Know the locale well enough to attempt this. Understand all local laws and local bureaucracy that relate to business and employment. Get local managers to manage legal structuring, human resources and government liaison; and expatriates or outsourcer managers for technical and operations management.

A wholly owned subsidiary will ramp up a lot slower and would also take a significant amount of management time and attention. But once the creases have been ironed out, this has potential to be the most rewarding structure.