



OFFSHORE VS. ONSHORE OUTSOURCING



Offshoring is a global phenomenon. One cannot deny the irreversible flow that it has created across the business world globally. While the competition is increasing from companies with multinational presence with onshore and offshore delivery capabilities, it would not marginalize “pure plays” with low onshore presence.

The entire dynamics of the BPO industry is a high volume repetitive process, low margin game. While onshore capability might help in specific functions and also provide the psychological comfort of a local presence for customers, it directly works against the cost and quality dynamics. Here is why:

The dynamics of processes vs. projects for offshore outsourcing

Offshore outsourcing of business processes is quite different from that of projects as in IT services. In IT services onshore presence would enable closer interaction to complete projects on time and also help in creating work packets for offshore. However the BPO industry deals with processes that run the day-to-day business of the customer. Process work does not get packetized and shipped offshore. What is required is a mature transition and service delivery model from offshore to handle processes of varying complexities. Hence the need for increased onshore capability except from a technology, network and relationship perspective does not arise.

Service delivery disruption

Increasing onshore presence would provide customers and service providers with the option of proximity and psychological reassurance while outsourcing. In the process, it is bound to create distribution of work between onshore and offshore. Since the entire work is “process based” it can create discontinuity in service delivery due to work being split and hence would impact the quality of output and the business of the customer. Increasing onshore capability therefore might end up being a deterrent than strength.

The dynamics of cost efficiency

The first and foremost key driver to choose offshore is cost efficiency. Cost efficiency in the offshore outsourcing business is a result of continuous optimization through scalability of operations. In a recent move, a large multinational IT hardware manufacturer announced that one of their key goals in the mid term was to increase productivity per employee. Their plan is to reduce the presence of service functions and processes in global high cost locations and move them to an offshore location.

The lesser the onshore presence, the more profitable the organization, and hence better the ability to provide “value for money” services. In a volume driven industry size and scale play an important role. If the pure play does not continue to scale offshore but increases onshore presence instead, the ability of the company to provide the services at the cost levels expected by customers becomes unachievable.

Increasing onshore would change the cost dynamics and would make the pure plays an unattractive option to work with. “Pure play” companies would then face an uphill



task of being able to manage profitability to run the operations and also meet customer expectations of better value realization.

“Beyond the sweat shop”

“Pure plays” have and are continuously demonstrating the ability to be value added players and not sweat shops. “Pure plays” have outperformed the best performance levels of the customer’s business processes globally and have emerged as “model players” for many. A perception and positioning that has taken time and effort to create and nurture. By significantly increasing onshore capabilities this positioning would get hampered as the “low end low value” work is what would get outsourced to offshore and the industry would not benefit from such a perception or positioning.

Understanding “The Turf war”

By creating onshore presence offshore companies would not be able to significantly gain inroads into new customers. The reason is simple. Today “pure plays” are positioned as strong offshore players. It is their position of strength. Multinationals with international presence are positioned as international players who provide service delivery across different locations globally. Since the type and scope of onshore work for the BPO segment is significantly limited, the entire dynamics revolves around volume of work and offshore scalability. If pure plays move away from this in an effort to project themselves as onshore-offshore players, then they would commit the blunder of moving away from their position of strength and compete on the turf of multinationals.

Instead of significantly ramping up onshore capabilities it would make sense for “pure plays” to increase capability to service global customers through multiple offshore delivery centers located globally. Offshore in this context is not limited to India alone but any other country with high cost efficiency and is an offshore location to the customer’s country.

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