**GENPACT**

# Top Ten Things to Consider When Selecting an Outsourcing Destination

**Look Beyond the Obvious to Arrive at the Optimal Decision**

Growth in business process outsourcing (BPO) continues to accelerate as the global economy regains momentum. For many companies large and small, the discussion is no longer about "why" or "what" they should outsource, but "where."

Location assessment is becoming more nuanced as the potential benefits of outsourcing expand and as BPO options multiply worldwide. Today, businesses must carefully evaluate a wide range of considerations beyond costs in determining the optimal outsourcing destination. This paper, based on Genpact's experience of setting up its network of global delivery centers, servicing over 400 customers across 13 countries, provides an overview of the top ten criteria that should factor into the destination decision.

## THE BUSINESS STRATEGY

Outsourcing presents new opportunities to accomplish key business goals. It can provide access to new customer segments, help companies get closer to existing customer groups, deliver new/more options for understanding and responding to customer demand, and provide innovative new ways to develop and evolve business processes.

Thus, the first step in determining the right BPO destination is to articulate how BPO will advance your business strategy: What benefits do you expect in terms of cost savings, process efficiency gains, quality improvements, and competitive advantages? And what level of risk are you willing to accept to reap the rewards?

Simply put, the goal is to identify the location that will yield the maximum strategic benefit—combining the best talent, cost structure, infrastructure, etc.—at the minimum risk.

One option many companies have turned to is "multi-sourcing," a diversification strategy that distributes outsourced projects among multiple destinations. Another is "smart sourcing," which elevates the degree of cooperation and collaboration among providers, reducing risk by making partners interdependent. Genpact was an early pioneer of a concept called "Smart Location Strategy," an approach that adopts Tier 2 cities to expand the talent pool and sustain pricing advantages for clients for maintaining a singular service culture.

Other more specific business goals may also impact the destination decision. Do you want to keep mission-critical projects captive and outsource only non-critical projects? Then you might want to start your search with high-cost-differential countries. Do you want an outsourced team to operate as an extension of your workgroup? You may want to give extra weight to the physical proximity of the outsourcing location and the time zone difference. Are you outsourcing a project that requires a very specific type of expertise,

such as manual regression testing? China, India, and the Philippines—countries that have built considerable expertise in that discipline—will have higher appeal. Are you developing mobile handsets? You'll want to take a harder look at outsourcing options in Eastern Europe.

Today there are outsourcing service providers in dozens of countries and thousands of locations, all with their own strengths and weaknesses, and due diligence requires that the risks and rewards of all major options be considered. There is no silver bullet, and you can't simply follow in the footsteps of other companies. Each business must formulate its own evaluation criteria. The considerations below give you some additional guidance.

## COSTS

We've entered a more enlightened era of outsourcing in which cost arbitrage is no longer the key driver for most companies—today global service delivery is more about efficiency and quality improvement. Of course, the allure of cost savings remains an important motivator. Yet in many cases companies still look only at surface-level cost criteria such as salary differentials.

Yes, big money can be saved by outsourcing projects to a skilled labor force with relatively low cost. But those savings can quickly disappear if taxes are high, if telecommunications and data networks are poor quality or unreliable, if intellectual property can be stolen without legal recourse, if new legislation is passed that imposes new fees and restrictions on your business activities—the list goes on.

Moreover, today's cost differentials are always subject to change. It pays to examine key economic trends in any destination country. Are salaries rising? Are housing and property costs increasing? What about education and training costs? Is new tax-related legislation or protectionist action under consideration by the government? What are the currency exchange rate and the relative inflation rate, and how volatile have they been over the past few years?

Perhaps more important, consider the hard-dollar cost to your business of unexpected disruption caused by political instability, natural disasters, labor unrest, and infrastructure breakdowns—and evaluate the risks of such circumstances in light of your business strategy.

## TALENT POOL

The obvious question is whether a given region, country, or locality has enough skilled workers to support your particular outsourcing initiative at a cost that makes sense for your business. Since there will be competition for skilled workers, you must also consider the talent saturation level: will those workers be available to your business, and will there be enough talent to support your growing requirements? Equally important, do local workers have expertise in the specific business process your company is looking to outsource?

Take a deeper look at the talent pool: What is the overall education/skill level in the areas that are most important to your business? What percentage of the workforce has been specifically trained and certified in the relevant

disciplines? Are workers trained in quality methodologies such as Six Sigma, ISO 9000, and TQM? What has the attrition rate been among workers in similar projects? And what are the recent trends in local universities?

Equally important, consider the communication skills of the workforce. Analysts agree that communication is the key problem facing outsourcing relationships today. Will your teams be able to communicate effectively and comfortably with the service provider's team?

Also, factor in the "scalability" of the workforce. Does the size of the skilled labor pool meet your immediate needs, and can it grow to meet your growing requirements? And is the workforce mobile enough, both internally and externally, to meet your expectations now and tomorrow?

## CULTURE AND LANGUAGE

In addition to the communication considerations mentioned above, it is important to factor in an evaluation of the "cultural compatibility" of any potential outsourcing destination. Is your native language commonly spoken by both executive management and workers in this location? What sensitivities might your employees and customers have about doing business in a particular country or region? Could civil unrest or religion-related issues potentially impact your business?

Look closely at the university system and how languages are taught. What percentage of students are studying foreign languages? How prevalent are specialized language schools? What percentage of people are bilingual or trilingual? Simply put, is there a sustainable supply engine for the language skills your business will require?

As part of your evaluation process, you may also want to examine the country's ranking in independent studies of outsourcing destinations, and it's always a good idea to get the input and feedback of other companies who have done business in the destination you're considering.

## TIME ZONE/GEOGRAPHICAL LOCATION

Outsourcing to a service provider on the other side of the globe can make it financially practical for companies to offer extended support hours and expanded services. Outsourcing can also enable companies with complex development projects to accelerate time-to-market by allowing development work to continue around the clock.



**66,500**
Estimated hours saved by employees who use PfizerWorks
Data: Pfizer

And so-called "personal outsourcing" can dramatically improve productivity. One example is PfizerWorks, launched last year by Pfizer, allowing employees to pass lower-priority tasks to Genpact in a different time zone so that they can focus on more important tasks. Employees send a task to an outsourcer in the evening, and it's done and waiting for them when they return to work in the morning. However, a huge time difference can make communications much more difficult and create delays. It can also cause frustration among

engineers who are asked to synchronize work with outsourced teams who are multiple times zones apart. Be sure to assess the pluses and minuses of time zone issues carefully.

## TECHNOLOGY INFRASTRUCTURE

The key consideration is not the performance of the telecommunications and data networks in a prospective destination; it's how reliable they are. Many things can cause unexpected failures in computer networks, satellite links, cell towers, power grids, and other infrastructure elements. The result is always the same: expensive and unpredictable downtime that disrupts your business.

You'll want to examine the prevalence of infrastructure-related outages in the destination you're considering as well as the key causes: environmental (natural disasters), cultural (civil unrest, strikes, etc.), and mechanical (obsolete equipment, poor maintenance, etc.).

In particular, consider the ability to assure business continuity in the event of equipment failures. Can your data be backed up or mirrored in real time to remote destinations? Can you find alternative power sources in the event of a local power outage? Can you rely on mobile communications if land lines become unavailable?

Check to see whether prospective BPO providers have invested in robust back-up infrastructure and business continuity solutions. Genpact, for example, has an organization-level framework that defines crisis and provides detailed plans to handle a crisis, including a communication plan, evacuation of the primary site, roles & responsibilities of various teams, and more. Be sure that prospective BPO partners can mitigate the risk and expense of all causes of downtime.

Another vital check that must not be forgotten is the availability & quality of physical infrastructure. While this is almost a given and considered hygiene in outsourcing relationships, it may be wise to critically examine if the infrastructure set-up is robust enough to support long term growth.

## GEOPOLITICAL RISKS

Some of the inherent risks in any outsourcing decision is that a major change in the government will result in business disruption. There are no easy ways to predict the stability of a given government, but at least there are a few criteria to examine.

The first is simply the longevity and track record of the current government. Has it been in place at least 10 years? Are elections impending? How is the government perceived locally, by neighbouring countries, and by your country? What is the general level of confidence relative to the governments of other countries you're considering as outsourcing destinations?

Also important is a close examination of any political corruption, alleged or under active investigation, in the prospective destination. Corruption is typically a precursor to unrest, and unrest is a threat to business activities. If you're confident about the stability of the government in a prospective

destination, look next at the level of support that government provides to outsourcing. How much investment has been made at the government level in telecommunications and IT infrastructure? What plans are in the works or underway for further improvements? Does the government have a record of active participation in industry bodies and associations? Is there strong support for foreign investment?

Also, consider the government's interactions with the workforce. How easy is it for workers to get needed permits and visas? What level of bureaucracy is in place, and how much does it expedite or interfere with business activities?

## IP PROTECTION AND LEGAL MATURITY

The World Trade Organization (WTO) has made strides in harmonizing intellectual property (IP) laws worldwide, but legal protections and legal recourse still vary widely from one country to the next. If your outsourcing initiative requires the use of your IP by the service provider, an exchange of IP, or the creation of IP by the service provider's team, be sure the destination country you're considering has adequate enforcement of patent, trademark, and copyright law—or counterfeiting and piracy could go unchecked.

Note that countries with fast-growing consumer classes have a vested interest in protecting IP rights—both their own and those of others. Recent victories in Chinese and Indian civil courts by global companies highlight a commitment to improving IP protections. For example, 3M successfully sued a Shanghai-based manufacturer for infringement of 3M's Chinese patents for respirator masks, and in 2007 the Supreme Court of India, in a landmark ruling, ordered Dabur to stop using a package design that was deceptively similar to a package created by Heinz.

## LOCAL CONSIDERATIONS

In many cases the search for the right outsourcing destination doesn't end with the selection of the country—you also need to apply many of the same decision criteria to select the optimal city within that country. For example, say you've chosen India. There are significant differences between Chennai and Bangalore, Pune and Hyderabad, Kolkata and Gurgaon. Each location will have its own service specialties, advantages and limitations, risks and rewards. Assess all leading locales for availability and quality of infrastructure, cost of living, workforce skill levels, political climate, quality of living, and educational institutions, and assess the experiences of other companies who have outsourced there.

## THE BPO PARTNER

The choice of a BPO partner is a key consideration in the destination decision because outsourcing providers have vastly different global approaches and capabilities. The right partner will help you maximize the benefits of BPO with minimal risk, regardless where you choose to outsource.

Genpact, for example, has a broad global presence and uses a common methodology to set up and run its operations worldwide, leveraging local nuances where necessary. This enables us to quickly solve a global client's needs. We manage every client relationship and operation at a global level,

regardless of the number of delivery centers. Genpact also appreciates that a global footprint enables our clients to achieve their risk mitigation objectives in sourcing.

Moreover, Genpact offers a very broad portfolio of enterprise G&A, industry-specific operational and technology services. In every area, we go from meeting simple transactional needs to providing process management where complex decision making and keen judgment are required. This drives both a commitment to client excellence and a commitment to process excellence.

## HOW TO PUT IT ALL TOGETHER

This paper has put forth a large number of considerations that should factor into the destination decision, but has not yet offered a structured methodology for evaluating all the criteria. Clearly, the simplest and most direct method is to create a weighting system for each variable: rank the importance of each criterion to your business, rate your prospective destination for each criterion, add up the score, and use this as a basis

of comparison. This process will help in winnowing the options, but you may still require the advice and expertise of a specialist to make the final determination.

For additional reading on this subject, we recommend the Gartner Group resource entitled "Toolkit: How to Select the Right Offshore Service Location for Outsourcing or Captive Services,"[1] and its companion report, "How to Assess Country Options for Offshore Outsourcing and Captive Centers."[2]

## CONCLUSION

If the process of selecting an outsourcing destination seems daunting, you're probably doing it right. A thorough consideration of all the relevant factors—with a look beyond the obvious criteria—is the only way to arrive at the best decision for your business and your specific circumstances. This paper has attempted to provide a structured way of approaching this complex issue, and we hope it provides a useful starting point for your selection process.

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**About Genpact**

Genpact is a leader in managing business processes, offering a broad portfolio of enterprise and industry-specific services. The company manages over 3,000 processes for more than 400 clients worldwide. Putting process in the forefront, Genpact couples its deep process knowledge and insights with focused IT capabilities, targeted analytics and pragmatic reengineering to deliver comprehensive solutions for clients. Lean and Six Sigma are ingrained in the company's culture, which views the management of business processes as a science. Genpact has developed Smart Enterprise Processes (SEP[SM]), a groundbreaking, rigorously scientific methodology for managing business processes, which focuses on optimizing process effectiveness in addition to efficiency to deliver superior business outcomes. Services are seamlessly delivered from a global network of centers to meet a client's business objectives, cultural and language needs and cost reduction goals. For more information, visit: www.genpact.com.

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