



# *Global Collaborations*

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## Choosing the Right Outsourcing Partner

Kam Patel, CEO

### *Global Collaborations*

*Innovative Solutions, Quality Leadership*

Globalization has not only broken the traditional business boundaries across countries but Also opened vast markets for global companies. But along with this, it has brought vast Competition and has forced many companies to concentrate more on their core business and outsource the non-core business practices to BSPs. A closer look at the current state of the market suggests that companies need to do a lot of homework before choosing a BSP for their non-core businesses. This whitepaper addresses the key considerations that companies need to make before choosing a BSP

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## Introduction

**“Tenzing Norgay was one of 20th century’s most famous outsource providers who helped Sir Edmund Hillary get to the top of Mount Everest”**

**- Scott Leibs, CFO Magazine**

Business changes come as waves gathering shape, gaining energy and momentum and then crash across the organizations that find themselves in their path. Those companies that anticipate and react quickly to these waves of change can often rise with the tide; those that don’t, are often crushed by the impact. Technology, reengineering, the Internet, globalization etc. are some of the waves reshaping business today.

Globalization removed the barriers in trading across countries and continents. Globalization not only created vast markets for companies but also created enormous competition. Yet, companies are not growing exponentially. The reasons are aplenty: 1) Increased competition from fellow and local companies 2) Increased need of skilled resources across continents in a tight labor market 3) Increased maintenance costs on non-core business practices. Enter the magic world of BPO, the current buzzword in markets around the world, which promises to solve the problems with most of the non-core business practices adopted by a company. The first and the foremost question that each company CIO/CFO needs to ask is “*why should I outsource my functions?*” The answer to this question is not very simple and straightforward. Following are some of the key areas which need to be considered while outsourcing any of the non-core activities of a company.

- Concentration on core competencies
- Tap vendor-domain expertise to handle non-core business activities
- Focus on business strategic growth
- Reduce overall expenses on non-core activities
- Redirect capital budget to core activities

## Why to outsource?

**“Outsourcing that to us allows them to put their energy into other activities where they create greater value for their customers.”**

**Michael Dennis**

*Vice President, Services, Avaya group*

IT is stretching its abilities and efficiencies in influencing organizations to relook the processes which are being adopted in their day-to-day activities for increasing productivity and reducing overall costs. This upswing in IT trends has given rise to the process of outsourcing noncore business practices to the BSPs. IT must struggle to cope with the ongoing operations of legacy systems and at the same time should implement new architectures. The new architectures support wider functions in addressing the current market trends and needs, to compete in a global market place. They involve networks that integrate computers internal to the company to that of its customers and suppliers. IT outsourcing provides a means of sharing the combined burden of the past and the future, whereas BPO provides a means to increase the efficiency and overall productivity of the organization by reducing

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operating costs.

During a recent survey, respondents revealed the rationale behind outsourcing their business functions to a BSP.

This provides a strong reason to outsource the non-core business activities and to restrict overall operating costs to a BSP. Alas! No BSP is available off the shelf in the market where organizations can hire their services. It is often felt that organizations need to do a lot of homework before choosing a BSP.

## What to outsource?

Again, markets do not provide any respite to organizations in identifying the business functions which can be outsourced. Many models have emerged in this segment to identify the noncore business functions, but none of them proved to effectively address the issue. Gartner has developed a model to identify all the major functions in an organization. In each segment top executives need to identify what constitutes their core business and what does not. Often, this is an uphill task since all business functions are intertwined so tightly. Identifying and separating them is a tough job.

## Choosing the right BSP

Organizations need to identify the amount of focus on the identified business functions to be outsourced. Generally markets do not provide necessary tools or directions to identify the amount of focus necessary in outsourcing. the amount of focus necessary in outsourcing. Following chart provides some necessary drivers for executives in an organization to think on the amount of focus needed in outsourcing a particular business function.

## Why to outsource HR?

A recent survey conducted by *CFO Magazine* and AMR Research on the possible business functions that can be outsourced to a BSP, identifies the need to outsource HR function to a BSP. But many factors need to be considered before outsourcing HR to a BSP. The following table summarizes the need for outsourcing the HR function.

### Act Impact

Globalization Companies moving around the globe need help to adopt local HR practices

Consolidation Merging companies need to integrate two separate HR entities

Shortage of resources Shortage of skilled labor with HR expertise

Economic downturn HR departments under pressure to do more with less, increased complexity of HR function and reduced headcount within HR departments

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## Current Scenario of BSP

**With a multitude of BPO providers, offering a wide range of services and deal structures, buyers must do their homework to evaluate the right group of competitors in this difficult landscape.**

- Gartner

BPO is a buyer-driven market. Especially today, there is more demand than supply. Two factors have caused this imbalance. Firstly, many of the early BPO start-up suppliers are now in the process of recapitalizing. Secondly, some of the most astute outsourcing suppliers are the Big 5 accounting firms. However, the SEC is beginning to pressure these firms to divest their outsourcing practices. Some of them are expected to head out on their own because of federal regulations.

This leaves very little scope for companies to outsource non-core activities to a BSP. There are various alternatives to tackle the issue.

### Choice Solution

- 1 Choose an existing BSP
  - 2 Create own market
  - 3 Partnership with a firm that will make the necessary capital investment for outsourcing
  - 4 Joint venture with an existing supplier
  - 5 Sharing with a supplier who will bear the risks and rewards
- A deeper and closer look at each choice reveals some interesting developments.

### Choice 1: Choose an existing BSP

If a company can find a BSP with the requisite skills to handle BPO, the company can directly negotiate with it. This will bring a great advantage to the company since finding a BSP in a drought market is extremely difficult. This will not only help the company to start the BPO process instantly but also see the results quicker.

But there is a catch in this scenario. Due to lack of choices to the company, the BSP may offer its services at a premium which the company may not be able to bear.

### Choice 2: Create own market

Buyers who believe they have a first mover advantage can capitalize on this opportunity. If the company top management has a vision that one day a larger market will develop, they can create their own outsourcing company with 100 percent ownership. Creating your own outsourcing company works only if the board and the senior management clearly understand the outsourcing model. They must also be willing to make the capital investment to generate the kind of leverage that makes outsourcing attractive.

Unfortunately, the list of success stories in this model is too short. The reasons are simple:

- 1) Senior management decides to concentrate on their core business function than strengthening the non-core business areas
- 2) Lack of support from the top management
- 3) Lack of capital funding
- 4) Lack of vision on the new process for emergence as a new business process

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### Choice 3: Partnership

The buyer has the required processes. He needs to find someone with a seasoned management team that understands the outsourcing principles and has experience in implementing the processes along with the equity and form a partnership. This model allows outside capital and new process to flow into the company.

This partnership works well with a company which has been a leader in BPO outsourcing for years. Its leadership understands the model and knows how to govern its suppliers. This is crucial when creating a new partnership with a supplier. Unfortunately even this model has its own flaws.

### Choice 4: Joint Venture

A company wishing to outsource its non-core activities can have a joint venture with an existing supplier or a consulting group that wants to become a BPO player.

Joint ventures work only when a strong governance program acts as the glue that holds the participating companies together. Governance is the major bottleneck where joint ventures crack. Conflicts may arise if the process owner wants to own all the equity in the new supplier. Joint ventures may also face trouble sustaining capital formation unless the partners have agreed in advance to these continuing expenditures for process improvement.

### Choice 5: Gain-Sharing

The buyer is not interested in owning the supplier but it wants to own a portion of the success the outsourcing supplier earns by bringing something new to the marketplace. Buyers need to be compensated for the risks they shoulder in the work along with the supplier in the new venture.

This is the easiest and fastest route to success for a buyer. Buyers can achieve their goals of lower costs and improved service much more rapidly. The supplier bears the risk and shares the upside potential.

In addition to private equity firms, companies with well-honed core processes which are eager to enter the outsourcing world are good gain-sharing partners. These companies want to become suppliers by wrapping an outsourcing offering around their process.

The core objectives of any BPO function through a BSP should satisfy atleast the following:

- **Saving potential:** Like many applications, it would require no complex user manuals
- **Strong and well tuned process:** Companies wish to see the new process not to turn their existing process upside down, rather fine tune them to increase the productivity and reduction of expenses. The new process must connect easily with diverse global processes adopted inside and outside an organization's infrastructure
- **Fast implementation and ROI:** Companies need solutions that are quick to implement and can guarantee results
- **Low cost to implement and maintain:** Companies are always on a lookout for a "tested model," one that maximizes the utility of their current systems with little or no fuss

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## How to choose a BSP?

**“HR outsourcing requires multiple skills, including consultative selling, project management, technology skills, process and industry expertise, and change management.”**

- **Rebecca Scholl**

*Project Analyst, Gartner*

The single most important element for the success of an outsourcing evaluation is the selection of the right provider. The capabilities of that provider, both its track record and future directions, and the ability of the two organizations to blend their operations over time are essential. There is no yardstick or gauge that exists in the market to be used to measure the effectiveness and trustworthiness of a BSP. The following are some of the recommendations for companies committed to outsource their HR function:

### **Balanced mix of standardization and customization**

Evaluate the BSP to know whether standardized and customized solutions have been developed. This is one key success factor, but standardization is often difficult as it relates to business processes instead of pure technology. The BSP should have the art of balancing the standardization and customization required in any business transformation engagement without losing focus on client needs.

### **Ensuring financial stability**

To ensure a long-term partnership model between clients and the BSP of HR outsourcing services, the BSP needs to be financially stable to make significant investments in their delivery capabilities such as ERP, shared-service centers, process experts etc. Ensure that they have a worldwide presence and various development centers across the globe to provide a cost effective solution.

### **Process Benchmarking**

The BSP needs to have a standard, robust and well-tuned process in place. This will help the company to measure process improvements and performance against the BSP throughout the lifecycle of HR outsourcing. The BSP also needs capabilities to benchmark clients' internal HR costs and performance and compare them to their own, throughout the HR outsourcing engagement.

### **Selecting opportunities**

The BSP should have the necessary knowledge to identify all the potential flaws and target them with a robust process and plan. This means the BSP should have the capability to identify the appropriate process mix, scope of services and geographies to implement the new process.

### **Developing partnerships**

Evaluate whether the BSP complements its existing capabilities with companies through partnerships in order to provide a comprehensive scope of process expertise and service lines. Sometimes, even niche specialists must be prepared to refer their clients to partners for services beyond their capabilities. Ensure that the BSP has the capability to enter into partnerships with other partners.

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## Capability to build a best-in-class process

Evaluate whether the BSP has the “killer” technology platform or process which is a key success factor and requirement for the company before choosing a BSP. The BSP needs to have the capability to build the human element of their delivery model — shared-service centers, call center, change management teams, and so on.

## Smooth transition

The BSP must have a solid transition plan for the HR department. By sharing and communicating this plan, the BSP can dramatically reduce the risk of client dissatisfaction during the transition stage.

## Obtain necessary references

Before evaluating the strengths and weaknesses of a BSP it would be wise to check the credibility, capability and trust worthiness of the BSP with other clients where the particular BSP is already functioning.

## Think Call2Gain (Global Collaborations)

Call2Gain offers a broad and diverse range of services spanning across various technologies, applications and vertical markets.

## Advantage India

India has an enormous talent pool from which highly skilled outsourcing professionals can be drawn. It has a population of more than 1 billion people, of which 300 million speak English. At any given moment, more than 6 million people are enrolled in the subcontinent’s 200 universities, 5,000 colleges, and 100,000 secondary schools.

## Outsourcing services to India offers many advantages:

- A virtual 12-hour time zone difference with USA and 6-hour with UK can leverage in 24X7 support
- A huge pool of English speaking and computer literate graduate manpower
- Cost of qualified personnel is amongst the lowest in the World
- Stable legislative and economic framework
- Support from all government bodies for all IT led industries
- India enjoys very strong brand equity with many Fortune 500 companies, thanks to its growing and globally competitive software industry

## Conclusion

The key for improved organization management processes rests with the organization in identifying its non-core activities and outsourcing it to a BSP. Both the organization and the BSP need to work hand-in-hand to achieve the necessary benefits of BPO. Though everybody understands that the savings gained through effective outsourcing of business processes to a BSP is enormous, the process is too slow. A major reason for the slow transition to the new methodology is the lack of proper analysis of tolls for the organizations to identify their non-core business practices. The lack of proper tools to measure the effectiveness and trustworthiness in finding a proper BSP add to this. However, the technological impetus will eventually take over, producing a more efficient and effective system.

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