



Outcome-based offshore outsourcing: what you need to understand to make the move

Traditional offshore labor arbitrage model is focused on tasks and activities rather than outcomes. However, you do not want to buy person hours, but you want an outcome -- such as a completed product or a satisfied customer. Outcome based model can provide you this. Though conceptually simple, there are many issues to be addressed in making this approach successful.

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What is outcome-based offshore outsourcing?

Traditional outsourcing models focus on input; for example man hours, person months, emails answered or number of calls processed. On the other hand outcome-based focuses on output i.e. reaching a business goal such as customer satisfaction, customer loyalty, support cost as a percentage of revenues etc.

Why the interest in outcome-based approach?

1. From the buyer point of view, cost savings through labor arbitrage has plateaued in many offshore outsourcing relationships; labor costs in places like India have risen during the past decade. So these buyers are looking for additional ways to realize value from their offshore outsourcing efforts.
2. Many offshore providers want to move up the value chain and add value in new and different ways – they see it as a differentiator in the market place.
3. Ultimately, buyers do not want to buy person hours, but you want an outcome -- such as a completed product or a satisfied customer.
4. This model helps align the business goals of providers and buyers.
5. Potential for higher eventual savings as labor arbitrage is replaced by productivity and synergies between tasks as key savings drivers
6. Freedom from operational issues such as interviewing and monitoring individual members of the provider's staff
7. Ability to incent more innovative behavior from provider
8. More cohesion of work being delivered

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What are the challenges for buyers?

- Potential lack of transparency into how work is being performed
- Little insight into cost of service (unless visibility into resource consumption is maintained)
- Additional administrative burdens associated with root cause analysis (if service is not being delivered as promised) and evaluation of service delivery
- Resistance from vendor
- Measure of success needs to be tied to the outcome under the vendor's control
- Often difficult to measure the outcome

Case Study

Background

Company is a leading security software company headquartered in the US with customers worldwide. They work through several distribution channels for sales. Company has established a relationship with an offshore service provider in India to provide technical support (voice, email, chat) and currently has about 500 engineers operating from India, U.S. and U.K.

Offshore outsourcing – The first year

Company began the relationship using traditional offshoring approach. They calculated number of engineers required offshore based on number of calls and SLA parameters. Role of the service provider was to provide the right staffing and to manage them efficiently. At the end of one year offshore vendor was taking 1.2 calls per case.

The problem

The offshore provider had no motivation to improve effectiveness of operations or to innovate. The larger the staff, their revenues would be better. Hence the business goals of the company and the service provider were not aligned.

Outcome-based approach as an alternative

The company proposed to change the model to price per case. Initially the vendor felt that this approach will negatively impact its revenue. However, flexibility was given to

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the to concentrate only on the outcome for different categories of customers (Pre agreed CSAT levels) and supplier takes complete responsibility to deliver the CSAT levels and compensation will be on price per case basis. Supplier also was given flexibility to split a single call between India and the USA (L1 in the USA and L2 and L3 in India etc) to serve premium customers at different price points.

3. How it has worked

Both company and vendor are happy. Benefits to each:

To the Company: Range of services, service packages at different price points, higher support revenue, scalability and better CSAT.

To the vendor: Increase in size of business and range of services, higher revenues than was anticipated, productivity improvement, significantly higher than industry average EBIDTA.

Key implementation steps at the buyer's end

In order for this approach to succeed, you need to re-think the entire relationship and address key fundamentals.

1. Move away from a vendor/supplier model to a partner model.

In a typical activity based outsourcing contract, the vendor does not need to know much about your business other than meeting deliverables he has promised. However in a partner model, you need to trust each other with increase in level of transparency, collaboration and information-sharing. Transparency needs to go beyond sharing basic information about volumes and costs. It needs to extend to both companies discussing their business issues, where the issues are, what the opportunities can be and move towards a shared vision.

2. Define which business goals to align with

Aligning your business goals with the partner is not as easy as it sounds; for example, depending on the level in the organization, business goals change. For example, Support executive is concerned with customer satisfaction, loyalty and of course cost of support; but CFO may be most interested in cost of support with the other issues taking a less priority; you need to develop a common ground across the leadership and agree on what business goals are important for the particular situation.

3. Establish metrics specific to this approach

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In the traditional outsourcing model, companies are used to measure activities such as:

- Average handle time by channel
- Average speed of answer
- # of calls
- Error rate
- Adherence to schedule

In the outcome-based model, your measurements should align with desired strategic business outcome, such as:

- Customer Delight
- First Call Resolution
- Transfer rate
- Customer Sat rating
- Abandonment rate
- Contribution
- Customer Lifetime Value
- Revenue/call (or interaction)
- Customer Retention
- Agent Retention
- Upsell/Cross-Sell Opportunities (count - % of close)
- Business Intelligence
- Campaign performance
- Competitive actions (account saves steals?)
- Root causes of customer defections

4. Revise management processes

The way you manage the outsourcing partner needs to be reviewed and revised. Some key areas to address:

- How do you manage staffing?
- How do you maintain transparency?
- How do you maintain visibility and control?
- Do you need to maintain current tools for management or replace them?

5. Redefine the organization

Your partner will have to take on a larger responsibility, which will enhance the roles of some of his staff; roles of your staff is also likely to change; you need to take a closer look and align roles, responsibilities across both organizations to make sure that at the end of the day, business intent will be met.

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6. Determine level of training

With your partner taking on more responsibility, you may need to help some of your partner's staff understand more about the function, domain knowledge and business issues, in addition to the traditional training involving product and process knowledge. You need to understand and assess these needs ahead of time.

7. Re-negotiate contracts

If you are currently using the traditional model, you will require a revised contract outlining the new roles, responsibilities, metrics, and organizational visibility. Contracts need to be at the level of a senior exec such as CIO or a VP level, because of the orientation towards a function rather than a task. This requires a thorough review and revision of your current contract, getting operational buy-in for the revised model.

Should you move to outcome-based?

Outcome based approach can dramatically improve benefits from offshore outsourcing. But it is not for everyone. Moving to an outcome-based model requires that you establish a win-win model both for you and the vendor replete with both business and operational considerations outlined before.

Can we help?

Usually the best starting point for a move to outcome-based offshoring is an analysis of your current outsourcing contract. If you like, we can review the terms and conditions of your contract and make recommendations for upcoming renewals or discussions with a new vendor. In addition, we can play a hands-on role in implementing a new business model and negotiating a revised vendor contract.

Sath Associates LLC provides advisory services on key aspects of global outsourcing and RPA. The firm was founded in 2001 by veteran offshoring expert Sath Sathyanarayan, who has helped leading technology clients dramatically improve the effectiveness of their offshore initiatives. Sath is the author of *Offshore Development & Technical Support*, the definitive guide to offshoring success.

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