

Strategy for Offshore Vendor Evaluation

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Future of business is very intricate with shorter life of any business model. Last three decades have observed the shriveling life cycle of products. The reason certainly is the competition. The appetite for larger market share has resulted in continuous innovation on both business model and its offerings. This century has seen the transitioning of supply oriented to demand intensive business model. Over the last two decades cost has been very critical driver of business, negative pressure of cost has been active topic of discussion for modern management thinkers and executives. The first wave in this direction was through implementing rationalized processes.

Aetna life & Casualty typically took twenty eight days to process applications for home owner's insurance, only twenty six minutes of which represented real productive work. The problem was not with the people but with the processes, higher degree of duplication and outmoded processes not only increases the cycle time but also the cost. Today, in insurance industry the average time for application processing is 2-3 days as a result of streamlining the processes.

Next wave indeed has been integrating quality tools and scales to the processes. Deming's PDCA cycle, Juran's Quality trilogy, Feigenbaum's total quality control, Dr Kaoru Ishikawa's tool kit, Shigeo Shingo's Just in Time, Philip Crosby's zero defect, has been effectual contributions towards process excellence.

General Electric, one of the most successful companies implementing Six Sigma (quality tool), has estimated benefits on the order of \$10 billion during the first five years of implementation. GE first began Six Sigma in 1995 after Motorola and Allied Signal blazed the Six Sigma trail. General Electric's revenue soared by 11%, profits by 13% and operating margins increased by 17% during 1996-1998.

The Process automation and information technology became the core to any business strategy; last two decades of the last century saw significant development in field of IT. Automating and integrating processes indeed changed the way business was done. Most of the management principles related to cost advantage has been process driven. Last decade was the metamorphosis of the cost advantage theory, paradigm shift from process to people has successfully evolved most controversial management tool called "Outsourcing". The theory to attain cost advantage through low cost labor and concentrate on core competency became the drivers of outsourcing. Outsourcing involved into offshoring to further capitalize on the geographic traits of labor arbitrage and time zones. India, China, Philippines became hot destinations for offshoring.

Outsourcing is the migration of process or processes to an external entity which excels in performing that process. Offshoring refers to migrating the process to another country taking advantage of lower-cost labor. Offshore outsourcing encompasses manufacturing, IT, and back-office services. GE has been instrumental in success of outsourcing and

offshoring. In the early 1990s, Jack Welch, the former CEO of GE, introduced a new rule that governed GE's offshore actions. It is called the 70:70:70 rule. In an e-mail to GE employees, Welch mandated that 70% of GE's work would be outsourced. Out of this, 70% of that work would be completed from offshore development centers. And out of this, about 70% would be sent to India. This comes out to about 30% of GE's work being outsourced to India. Recent market surveys show that almost 80 percent of companies expect to increase their investment in outsourcing both IT operations and business processes. As every business has its risks, outsourcing has its share too.

One of the most critical risks is the failure to deliver apart from Data security, cost advantage and knowledge transfer. The success of the outsourcing project depends upon the vendor that you select. Vendor evaluation should be done in a very scientific and methodological manner. Equally important is the selection of geography.

- **Evaluate the vendor country:**
Analyze the political, cultural and economic climate of the vendor country. Look at the future of offshore outsourcing in the country where the offshore unit is located. One should refer federal regulations and the stability of economic policies. One of the critical aspects which we forget in evaluating the geography is evaluation of its higher education framework and supply of skilled labor. Infrastructure especially in terms of communication is very important.
- **SWOT and Competitive analysis:**
A detailed analysis of labor skill sets, technology infrastructure, data security, quality control processes, Intellectual property and other systems as per your requirements. Factors like Business Continuity planning and redundancy plans of the vendor are critical for your business continuity. At this stage do visit the potential vendor, and verify the credentials. A vendor check list should always be prepared and the entire vendor should be rated on the common requirements scale. The scalability of the vendor both in terms of labor and infrastructure should also be evaluated. Understand the objectives and vision of the offshore vendor. Be convinced of the vendor's short-term, medium-term and long term business goals. Evaluate their willingness to implement your standards and processes.
- **Is the partner right?**

It is the most vital question that should be asked; in vendor selection process a questionnaire should be made which should address the following concerns:

- Are they a workable vendor/partner?

- capabilities and services, location, political stability, culture, size, financials, references
 - Do they have required delivery capabilities?
 - staff skills and experience, resources availability and retention, ability to ramp up, software development process, infrastructure, knowledge management, quality focus
- **Selecting the offshore vendor:**

For effective offshore vendor management, a contract should clearly define the roles and responsibilities, timelines, financial details, payment modes, quality standards and other details necessary for better offshore vendor management. Clearly defined SLA (Service Level Agreement) and a termination clause are also an integral part of the contract. Vendor should be selected on the basis of three year time horizon.

These questions should form a document generally known as RFP (Request for Proposal), RFP should be meticulously written. It should clearly indicate the requirements both in terms of processes and facilitators. Companies can hire professional advisory firms like TPI, Everest Group & NeoIT which can assist them in not only writing RFP but also in vendor evaluation and carving the outsourcing/ offshoring road map.

A matrix to scale vendors always helps in evaluation process. Vendors should be given waitage scores is the best way of first round of elimination. The following parameters should be counted on the scale of 1 to 4, according to the criticality of the parameters waitage in terms of percentage should be assigned to them. The scale then multiplied by the waitage and its total sum will give the vendor points. Few parameters can be- Offshore Process/ Methodologies, Cost, Quality of Resources, Project Management Capabilities, Certifications, Multi Vendor Capabilities, Domain Expertise, Delivery Capabilities, Infrastructure and human resource rating.

It's always advisable to select 2-3 vendors and run a pilot with each of them as a proof of concept. Their delivery should be evaluated on a time frame to select a vendor. We have seen a trend over last three years wherein companies select two vendors to de-risk their project of outsourcing and offshoring. It's a very successful model and it imbibes sense of competition amongst the vendors.

Success of your marriage depends upon how compatible your partner is, the same theory is applied in marriage of businesses. Select the right partner for your business continuity and to achieve business goals.