

5 Outsourcing Models: What are They?

By [ExecutiveBrief](#) Staff

Knowing the five outsourcing models should equip you in deciding which one to adopt. Which one would benefit your organization more?

Do you want to cut operational costs but retain, if not increase, the integrity and efficiency of your company? Then, it would be worth your time to consider outsourcing by looking at these 5 industry models. With burgeoning vendors and outsourcing hosts halfway across the globe such as in India, Philippines and Eastern Europe, looking for a competent outsourcing partner can be very easy.

Anindya Bhattacharya, an outsourcing expert from The City University of New York (CUNY), said that outsourcing can give “freedom [to a firm] from an internal source to an external source. Outsourcing can provide dramatic cost-savings... and leverage resources to sustain a competitive advantage.” The challenge is simply to ascertain which outsourcing setup is fit for your organization.

Now, this challenge can be simplified by carefully considering the five outsourcing models--*staff augmentation, out-tasking, project-based outsourcing, managed services, and build-operate-transfer (BOT)*--and deciding which of these suit your company's needs. Each one has its own merits but, suffice to say, can be summarized into the following aspects: *Strategic priority*: “How much process or strategies are you willing to control and augment in support of your business objectives?” and *Risk tolerance*: “What type of vendor-client relationship are you comfortable with?”

Answers to these questions put your organization a step closer to the right outsourcing setup.

Staff Augmentation

This is the most basic of all outsourcing models. You add contractors to increase your output as demanded by the organization. You still control all resources but this setup allows add-on services which are presently deficient in your company (i.e. support services for market expansion). In addition to being the most basic setup, this has the least risk among all the outsourcing models. You may use this to expand current capacity to serve short-term immediate business needs.

Model in Action: iBeam Solutions used staff augmentation as a solution to their client Inoveris by providing the space and personnel requirement for business requirements. Instead of hiring new people and expanding space, Innoveris used outsourcing as an opportunity to cut down costs, which allowed them to save US\$ 10,000 per month and focus on their core competencies.

Out-Tasking

If you can identify certain skill gaps that can easily be disaggregated in your company's processes, you may consider out-tasking. This setup provides further responsibility to the vendor where certain aspects of projects that you usually do in-house is outsourced. Examples of tasks include software deployment and integration, system testing, and desktop management.

Model in Action: Rutgers, an educational institution in New Jersey, wanted to streamline its operations by acting like a Fortune 500 company while maintaining the depth of its academic and research programs. They employed Verizon to provide a cost-effective structure for a flexible web application for their 60,000-plus student registration. With added tasking needed only for periods of enrollment, out-tasking perfectly fits for making this institution more business-like. This enabled Rutgers to keep up with demand for information access and enable it to attract top-level faculty and students.

Project-Based Outsourcing

There are cases, though, that you cannot thoroughly define or compartmentalize a task or tasks within a project. As such, the best solution for your company is to outsource the whole project. In this setup, your vendor acts as your partner where necessary competencies in completing a project are handled by your vendor. You will not be focusing on the daily operations but rather towards the final results or desired outcomes. Examples of this type of outsourcing include research, desktop upgrade, and quality assurance. This can be as short as a one-time engagement.

Model in Action: Orbys acted as the consultant for Allied Irish Bank when it went into Poland by buying two Polish banks, merging them and deploying a new branch banking system. Projects included information gathering, creating a framework, drafting work packages, building a detailed commercial model, and leading negotiations over 9 weeks. Working with this model provided a smooth transition for the bank upon entering a new country while focusing on post-rollout strategies. As such, they were not bogged down by policy matters, which are considered to be a non-core competency of the bank.

Managed Services

It is sometimes better to have a long-term engagement of services with your vendors. For growth, profit, or expansion, you need concrete indicators of improvements in your business. For this, you may use the managed services outsourcing model where vendors would act as consultants. In this case, projects are treated as part of a system where a competency of the client's business is managed. Examples include offshore research facilities and multilingual systems and technology for emerging markets. This setup is based upon mutual trust of the client and vendor.

Model in Action: Clifford Chance, one of the largest law firms in the world, asked Integreon to support its administrative functions. Here, the whole process is implemented by the vendor and is done over multiple cycles. For the two years that these two companies worked together, quality assurance of the administrative work, where physical and data security is of importance, has been met. This outsourcing model has cut costs (US\$18 million annual savings) for Clifford Chance while retaining the same high standards. Moreover, Integreon acts not only as a consultant but also as a strategic business partner.

Build-Operate-Transfer

Finally, you may opt to contract an offshore partner to start your own subsidiary through the build-operate-transfer (BOT) model. In this setup, the offshore partner face the obstacles - taxes, legal, hiring, and management - from start to finish. Your offshore partner will operate your business for a definite period of time. The outsourcing contract generally includes a clause allowing you to buy the entire operation after a fixed period. The idea behind this setup is that your offshore partner can initiate operations and reach stability a lot faster than you can with your in-house effort.

Model in Action: J.D. Edwards, an application enterprise software maker, signed a BOT contract with Covansys in 2003. J.D. Edwards bet that full-time Covansys developers focusing on quality assurance, testing, and maintenance of J.D. Edwards products would significantly increase its efficiency and decrease the time it took for the company to deliver new products. In addition to this, J.D. Edwards' own testing and maintenance teams will be freed up to deal with new and strategic software development efforts. If this setup (which will expire in 2009) will work out well, J.D. Edwards, now owned by PeopleSoft, can opt to take over the Covansys operations in Chennai. J.D. Edwards was able to maximize the potential gain of having full-blown operations but minimize the cost and risk of establishing new offshore operations.

Selecting an Outsourcing Model

Given the five outsourcing models, the advantage of picking one over the other is based upon the intrinsic quality of each model juxtaposed with the needs of your company. Ravi Nayar, Managing Director of UHY Advisors said that "It's not just a cost issue. It's also an efficiency, competency, and maturity of a process issue [when it comes to outsourcing]. A company [adopting] an outsourcing strategy should also consider that when they free up the operations, [they] now no longer have to perform the operations done by their business partner; it actually frees up a lot of resources within a company to start to do higher level tasks for a client or the customer."

The goal of outsourcing is to provide you with more profitable margins. You should look at your cost structure first, study the available models, and decide which to apply based on your strategic priority and risk tolerance. Look at what you are comfortable with retaining in-house, and which tasks or projects to outsource. Consider your outsourcing maturity as a client. It is easier to begin with staff augmentation and work your way towards more mature models.

Remember to work on a relationship with your vendor that you are comfortable with. If you perceive them as a business partner, then it may be more meaningful to enter into a mature outsourcing strategy.

Strategies will change over time as your company grows, and the dynamic interplay in choosing different models will take effect. Look for one that works for you and can leverage on optimally and surely you will be on the path towards cost savings, efficiency, and further business development.

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