Destination Strategy - What Makes/Breaks It?

The news about most of the offshoring deals that have gone kaput have probably not even seen the light of day. Sceptics in the buyer organisation would have voiced their “I told you so” opinion, and vendors would have put this down as another lesson learnt. Every unshared experience is only likely to give way to similar instances of failed deals between the buyers and vendors, eventually contributing to the notion of the difficulty of outsourcing. A failed outsourcing transaction is the result of many issues and a number of them have their roots in an ill-informed decision on destination. This article puts into perspective the importance of an educated location strategy.

The Usual Suspects of a Broken Deal

Some of the usual suspects blamed for the failure of an offshoring deal include –

Change ‘mis-management’ - It is imperative that a company prepares its employees for the changes that are expected once the decision to offshore has been taken. The importance of clarity in communication, cultural sensitivity, understanding
certain inherent nuances cannot be stressed enough when making the transition.

**Communication disparity** - Something as simple as saying “yes”, when employees of an Asian service provider mean “maybe/maybe not” has been a source of great consternation for companies in the US and UK. While service providers are doing their bit to overcome this issue, efforts from buyers are equally vital.

**Ambiguous deliverables** - Lack of clarity on deliverables is the single largest reason for deals to fall through. This has its roots in lack of communication, pre-conceived assumptions and lack of pre-deal preparedness.

When Everdream, based in the United States, outsourced its help desk to Costa Rica, it did not take long for customers to start complaining. The service provider was selected post a process that invited bids, and opted for the one that appeared most balanced - in terms of costs savings and risk management. The company states that initial efforts and training went through smoothly. However, within a few weeks of going live, customer satisfaction plummeted. In hindsight, the reasons cited were accent issues, poor telecom infrastructure, non-resolution of customer problems, differences in companies’ philosophy, among others.

While each of the earlier reasons cited by Everdream is valid, the inherent source of problem seems to be lack of insights into the destination strategy. Why did accent issues and poor telecom connections have to be ‘revelations’ post the deal? Considering this was a voice-based service, where end users would need technical support - language capabilities with neutral accent and good telecom infrastructure appear to be the natural filters. Even a basic destination analysis would have brought out these issues.

**Behind the Scenes – the Real Issue**

Companies typically decide to outsource to achieve certain benefits such as cost arbitrage, talent pool, and risk management, among others. Destination strategy is one of the many governing factors that eventually contribute to the overall
success of a deal. Companies must focus on these dynamics rather than the outcome to ensure success.

**The ability to scale up is the result of sustained efforts -**

For a company that is looking to offshore as a long-term strategy, the ability to scale up is an important decision making input. People resources and infrastructure, the two primary components of any growth plan, are available only after years of sustained efforts. For instance, it is not just the number of engineers that graduate each year; it is the employability that is more likely to impact scalability issues. The availability of top-quality institutes in the country will reveal accurate statistics of the available talent. Keeping the future in mind, the sentiments of the education sector towards corporate participation can offer some insights into the kind of resources that a destination is likely to have. For instance in legal process outsourcing (LPO), efforts by Indira Gandhi National Open University (IGNOU) in New Delhi to launch a course in LPO has been received with enthusiasm.

Rome is not the only city that was not built in a day. Developing infrastructure that can become an asset to business, takes years to build. Excellent telecommunications in Gurgaon may not necessarily mean good telecom facilities in every part of India. Not every city in China will be as well equipped as Dalian or Shanghai. Monopoly of a telecom company in Costa Rica during early years of outsourcing in the country did prove to be a source of some concern.

Over the years many countries have tried to emulate the National Association of Software and Services Companies (NASSCOM) and its successes. Slasscom in Sri Lanka and BPAP in the Philippines are some examples. Associations contribute a lot to the industry and its ability to scale up by providing a common platform to discuss and resolve all issues. Other aspects related to talent will also reveal the sustainability of the location. General comfort level with other languages, the
training and development culture, the standard of education compared internationally, etc. can lead to some valuable insights regarding future possibilities. For infrastructure, some of the areas that companies can look at are - regulations related to telecom and real estate, recent and long term real estate lease trends, overall connectivity with respect to roads and airports, presence of global companies in these industries, etc. These parameters will provide insights to the current state and future trends of the outsourcing industry growth.

**Good Governance needed for Business Growth**

Business growth depends on government policies that are looking for value addition as in KPO from offshoring need to also take into account certain issues that may crop up with changes in policies. While most governments will not discourage the outsourcing industry in particular, companies must take cognizance of the policies and their impact.

An understanding of the existing political system will provide insights to business continuity. While the ruling political parties are an obvious choice for due diligence, opposition (or its lack thereof) and regional political conditions also need to be given a serious consideration. The recent unrest in Egypt would have caused many companies serious concern. Internal law and order situation, threats, the country’s ability to deal with them are all important inputs to risk management. The prevailing economic growth can indicate the strength of policies that the government has undertaken in the past. Many countries have established regulations that are designed to encourage the outsourcing industry, such as setting up of SEZs.

Some of the related economic parameters that need to be considered are: stability of currency, standard wage norms, disaster management among others. Similarly presence of other companies using outsourcing service providers from a destination can provide valuable insights into salary structures, and information on challenges and benefits.

**Need for a Customized Solution**

Just like other outsourcing solutions that are customized to enhance benefits, destination evaluation has to be in accordance with company needs. Though cost cutting continues to be the major driver for outsourcing, the deals that are cancelled are hardly due to lack of cost advantage. Companies have to invest in background checks to understand a location and its offerings. This will help them align their expectations leading to better preparedness and lower chances of failure. If destination strategy feeds into selection of vendors, who anyway are ultimately responsible for delivery and maintaining customer satisfaction, the rate of success of outsourcing deals will improve.