OFFSHORE WITH A TWIST -- 'DO-IT-YOURSELF' OUTSOURCING

By Ed Parry, SearchCIO.com News Editor

08.26.2003 | SearchCIO.com

Offshore outsourcing -- everyone's doing it, but not everyone's doing it the same way. One firm, Cambridge, Mass.-based i-Vantage Inc., helps you bypass the middleman and set up shop in India yourself. Call it the "third-party pooper." Amit Maheshwari, i-Vantage CEO, told SearchCIO.com how this nontraditional take on offshoring works.

You obviously saw that there was a need for the 'do-it-yourself' offshoring approach. What clued you in to such a need?
Amit Maheshwari: My first clue came from my experience as an IT manager at General Electric in 1997. I started to realize that, while GE continued to outsource to various tier 1 offshore vendors, it had started to create its own Indian global delivery centers (GDC) either in joint venture fashion or 100% subsidiary fashion. The value proposition was clear: Now that India is not an unknown, how do we reduce costs further; how do we maintain control over IP, quality and processes? Very soon, other companies with large technology product development and call center/back-office needs started to set up their own operations in India with the do-it-yourself model as well.

What are the advantages to a firm's setting up its own offshore operation, as opposed to using the 'traditional' approach of letting a services firm take over the work? Is one approach less expensive than the other?
Maheshwari: This model is highly advantageous if a company's core competencies reside in technology products, services and business process outsourcing. Setting up one's subsidiary in India enables these companies to retain intellectual property within the global four walls of their company. It also allows companies to develop a long-term relationship with its resources in India as employees, not as contractors. Indian resources prefer to work for American companies versus Indian ones (certain exceptions exist) and, as such, better resources can be attracted. In addition, the company has full independence to dictate infrastructure, process and quality in the way it wants it (versus the way the outsourcer does it).

Setting up one's setup in India is less expensive -- to the tune of 40% -- since the company does not have to pay the traditional outsourcer's margin. Moreover, for companies with no Indian market presence, this setup can help them develop an Indian market base as well. Finally, there are certain tax incentives for Indian export-oriented companies (tax holiday for 10 years) that multinational companies can leverage while setting up their own operations in India.

What are the obstacles to this approach?
Maheshwari: Companies that decide to go with the do-it-yourself approach do deal with a different set of obstacles as compared to traditional outsourcing. These obstacles include understanding the culture and business mechanisms of India (which is time consuming); committing capital to building one's own center; and coming to terms with the fact that, if the project fails, there is no outsourcer to take the blame for it. In other cases, the learning curve is so high that a do-it-yourself approach can end up taking a long time to materialize.

Does this approach mean a firm's U.S.-based employees would have to pack up and move to another country? If so, how does a firm persuade employees that they should go?
Maheshwari: This approach does not mean that U.S.-based employees would have to pack up and move to another country. This is a supplemental resource approach, where either additional employees are hired in the offshore GDC or open positions are filled in the GDC. Typically, certain U.S.-based employees will need to relocate to India as expatriates for six to 12 months to build a team and transition it to a GDC manager. The firm provides this as an opportunity to the U.S. manager to make a name in an important initiative to the company.

How does your firm facilitate the offshore outsourcing process?
Maheshwari: Our firm provides assessment services on whether the right offshoring strategy is to outsource do-it-yourself [style]. If the strategy is to do it yourself, we put a plan together for the offshore facility, infrastructure and resource creation. At this stage, if a customer wants to prove out offshore before committing to capital investment, we provide our own resources, infrastructure and facilities in a pilot phase. Once the pilot is over and the do-it-yourself plan is approved by the customer, we provide turnkey buildout, infrastructure and staffing services.

In the meantime, we have change management and coordination experts at the customer's U.S. location to work on helping managers understand how to work with their Indian GDC. Once the GDC is up and running, we provide day-to-day operations of the GDC (such as procurement, regulatory, finance, HR and IT functions) while the customer focuses on delivery. After a year or two, once the customer feels comfortable with taking over the entire GDC operations, we transition out. Our approach increases the speed of GDC implementation while reducing the risk and cost.

One of our messages is that a company does not need to be a Fortune 500 company to set up GDC operations in India. Using us, a company can get up and running by investing as low as $15,000, since we provide the pilot/incubation services.

Do you think this approach is a good way for emerging markets, like those in India and Russia, to blunt some of the backlash in the U.S. that comes with onshore job loss?
Maheshwari: This approach will definitely help blunt some of the backlash. Instead of advocating a 100% outsource strategy, where all the jobs go to an offshore provider, the do-it-yourself [approach] requires a company to look at what parts of the organization could be built offshore versus what parts would need to be in the U.S. [Because] the company is not outsourcing, managers, designers and other such leaders will need to remain in the U.S. to ensure quality delivery from their offshore employees.

Do you specialize in India, or do you place firms in other countries as well?
Maheshwari: We specialize in India only at this time.

What are the drawbacks to this approach? Are there instances where it's the *wrong* move?
Maheshwari: The drawbacks for this approach include:

1. Capital investment. It can be lowered with i-Vantage's involvement, but there is still capital investment to consider.
2. The U.S. company/sponsor is directly responsible for delivery if things do not work out. An outsourcer cannot be assigned blame.
3. In-house knowledge on 'how to do offshore' is often lacking within customers in the U.S., and this can result in longer setup times, higher costs, a 'bad image' of the project, and higher chance of failure.

Because do-it-yourself offshoring is a strategic and long-term solution, instances when a company is looking to offload one-time or short-term internal information technology work to offshore might not be a suitable fit for this model.

Are any big-name companies doing this now?
Amit Maheshwari: There are many, many big-name companies doing this now, including General Electric, Hewlett-Packard, Philips, Microsoft, Intel, Texas Instruments, Oracle, ADP, HSBC Bank, IBM, Deloitte & Touche, Keane, etc.

Do you see this becoming a trend as offshore outsourcing matures in the IT sector?
Maheshwari: Yes, we see this as a trend. Last year, subsidiary-to-parent-based IT exports from India to the U.S./Europe doubled.

Amit Maheshwari is a former senior technology strategy consultant at Mainspring Inc. He was also a director at GE Medical Systems and has worked with major Indian outsourcers such as Tata Consultancy Services, Wipro InfoTech, Mascot Systems and Satyam Computers.

http://searchcio.techtarget.com/qna/0,289202,sid19_gci919964,00.html