

Strategic Sourcing the efficiency game

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Strategic Sourcing- the Genesis

Strategic sourcing assumed urgent priority for smarter management of enterprise costs, especially for knowledge based industries

Globalisation

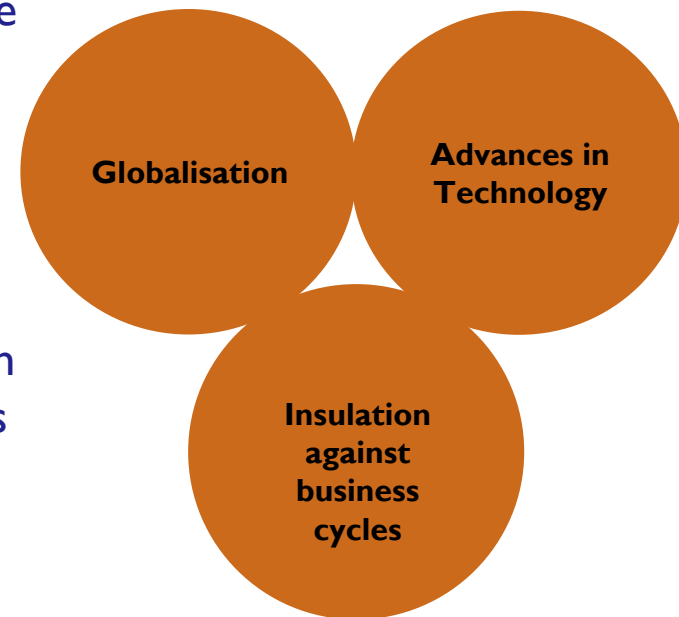
- Opening up of the markets, cultures
- Lower cost local/ larger competitors entering the business arena
- Global realignment of businesses
- Need to focus on core competencies
- Regulatory openness to remote servicing

Technology

- Rapid advances in technology and communication
- Emergence of technology driven business models
- Sharp decline in telecommunication costs

An insulation against business cycles

- Stagnating top-lines
- Lower Profits across markets/industries
- Competitors have already taken strategic sourcing decisions



Strategy Vs End-result

Original strategy

- Drive down cost by off-shoring, to take advantage of labour cost arbitrage

The spin offs

- Benefits of scale
- Increased service levels
- Quality improvements & reverse engineering of processes/ services
- Increased control and risk minimisation
- World Class Operations in a Shared Services model
- Lesser capital / investment requirements in a centralised environment vis a vis a distributed setup
- Opportunities to unlock value
- Reduction in time to market new products/ services

Offshoring: the benefits?

Offshoring lets firms fundamentally change their service delivery model

Known benefits of Offshoring

- **Improved service quality:** Market surveys conclude that 70% of organisations experienced an improved service quality through Offshoring
- **Low cost of service:** There are clear cost benefits with typical savings ranging between 40–50%, primarily through labour cost arbitrage
- **Variable/flexible resourcing:** Locations like India provide large pools of educated resources at short notice allowing volume fluctuations to be managed more effectively
- **Asset utilisation:** Offshoring enables cost effective 24/7 operations, significantly improving asset utilisation.

What does this mean for the organisation

- **Maintaining service levels; & the pursuit of quality improvements.** Creation of centres of excellence through co-location of common activities
- Opportunity to migrate non-complex and later, complex processes from high-cost locations
- Will enable units to react more quickly to a change in business activities and the economic cycle enabling us to better manage peaks and troughs in demand
- Can support processing for different time zones in the same location which will yield property and infrastructure savings.

Challenges

With increasing pace of off-shoring, new challenges assume significance

Challenges

- Sustained business development



Increased input costs; threat of shrinking margins; need to reinvent & further refine off-shored processes, freeing expertise for truly enhanced product development-delivery

- Resource right people and enhance the enterprise talent pool



Increased efforts on recruitment; focussed learning & development requirements

- Ascend the value chain



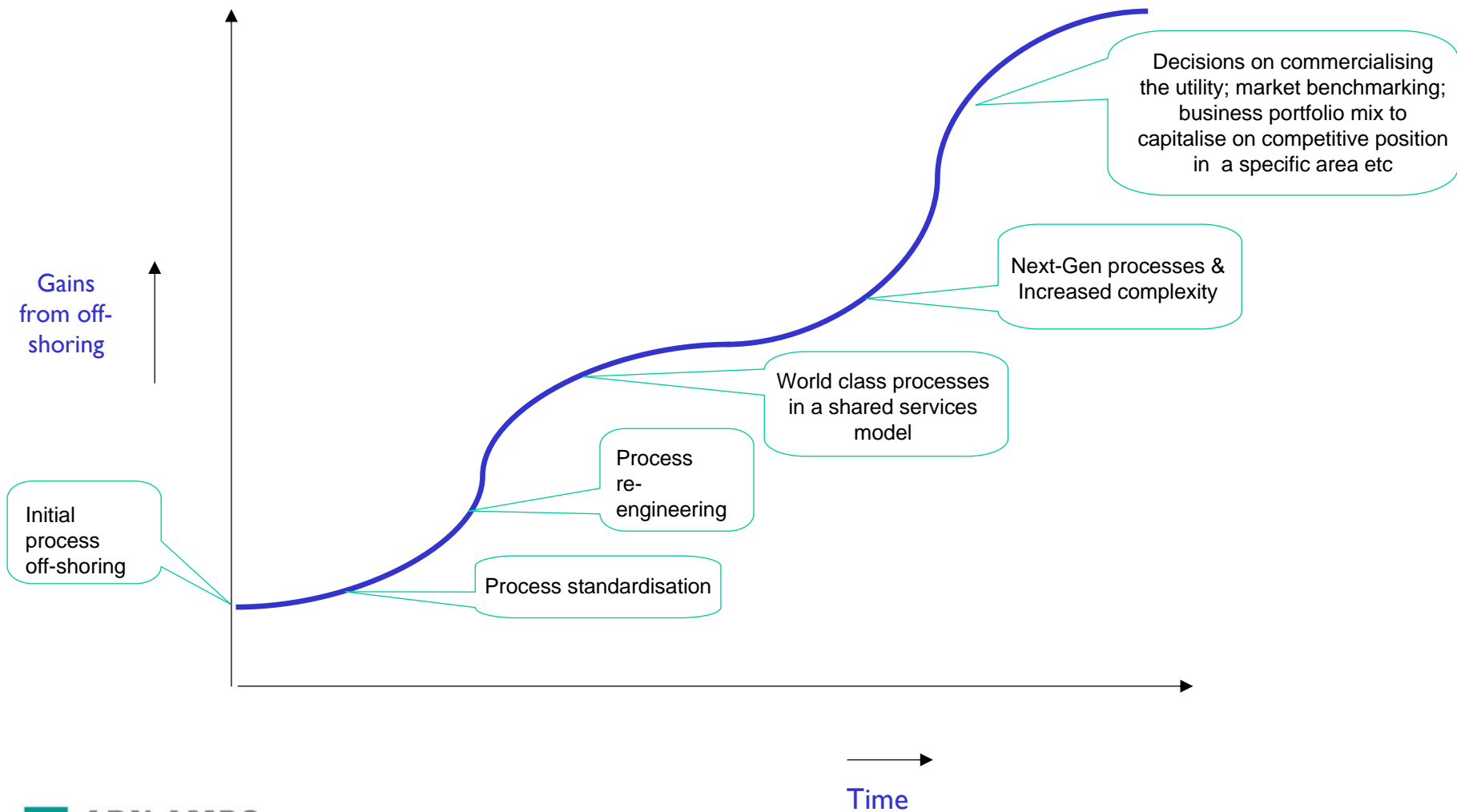
Changes to the business / product mix; focussed sales efforts and new revenue streams

- Risk concentration



Need to de-risk business and develop adequate BCP responses; Evolve multi-location/ multi-region processing capabilities; manage information security & reduce operational risks

Strategic Sourcing & Off-shoring- Maturity model



Excerpts from AT Kearney Offshoring Success report

- “Taking the longer view, we also expect that offshoring will evolve from being perceived as a discrete initiative to a more overarching integral aspect of organisational design”.
- “.....we anticipate that not only will the offshoring tide roll uninterruptedly forward, but also that the Global Delivery Model will become the next major innovation in corporate organisational design.”