



Outcome Based Offshore Outsourcing - What is it, Why the Interest and What Are the Challenges?

What is outcome-based offshore outsourcing?

Traditional outsourcing models focus on input; for example man hours, person months, emails answered or number of calls processed. On the other hand outcome-based focuses on output i.e. reaching a business goal such as customer satisfaction, customer loyalty, support cost as a percentage of revenues etc.

Why the interest in outcome-based approach?

1. From the buyer point of view, cost savings through labor arbitrage has plateaued in many offshore outsourcing relationships; labor costs in places like India have risen during the past decade. So these buyers are looking for additional ways to realize value from their offshore outsourcing efforts.
2. Many offshore providers want to move up the value chain and add value in new and different ways - they see it as a differentiator in the market place.
3. Ultimately, buyers do not want to buy person hours, but you want an outcome -- such as a completed product or a satisfied customer.
4. This model helps align the business goals of providers and buyers.
5. 5. Potential for higher eventual savings as labor arbitrage is replaced by productivity and synergies between tasks as key savings drivers
6. Freedom from operational issues such as interviewing and monitoring individual members of the provider's staff
7. 7. Ability to incent more innovative behavior from provider
8. More cohesion of work being delivered

What are the challenges for buyers?

- Potential lack of transparency into how work is being performed
- Little insight into cost of service (unless visibility into resource consumption is maintained)
- Additional administrative burdens associated with root cause analysis (if service is not being delivered as promised) and evaluation of service delivery
- Resistance from vendor

- Measure of success needs to be tied to the outcome under the vendor's control
- Often difficult to measure the outcome

Traditional model will continue be sufficient for many buyer organizations

Outcome based model is not for everyone. You may find that traditional activity based model is the better suited for your situation. If you cannot define the outcome clearly and if they are not under the control of the offshore provider, it is hard to hold them responsible for the outcome. In addition, your organization may not be culturally ready to enter into a true partnership with a provider where you need to share strategic information. In some cases even if the cultural orientation is there, for competitive reasons you may not be willing to share strategic information.

Do you want to learn more about outcome-based offshore outsourcing including specific steps you need to take? Down load my free white paper - Outcome-based Offshore Outsourcing: What you need to understand to make the move [Click here to know more](#)

M. M. Sathyanarayan is President of Global Development Consulting, Inc., an advisory firm focused on global outsourcing. He led the pioneering effort in global outsourcing at HP/Tandem beginning in early 90s, was Founder/CEO of a startup. He is now internationally recognized consultant, author, trainer and global outsourcing coach. He has helped a number of companies achieve rapid and measurable improvement in their business performance through global outsourcing.