



Whitepaper

# Strategic Co-sourcing

## A WIN-WIN DECISION

The decision to outsource is one of the toughest decisions for an organisation to espouse, the reasons being not just strategic but also highly emotional. It is a decision that is always likely to face huge emotional backlash from the employees.

In the following pages, *Gagan Oberoi*, *Managing Director, Espire Infolabs*, shares his views & in-depth study of the processes that can be adopted for a successful co-sourcing decision.



**Gagan Oberoi**  
Managing Director

Co-sourcing leverages on the partnership model, in which a company sets out to engage a vendor to hire resources for its dedicated use. It ensures that the control on a company's key processes and knowledge assets is retained with the firm without relinquishing control of processes to an outside vendor.

The following whitepaper explains in detail the systematic approach for an analysis-based co-sourcing decision, accompanied by a thorough discussion and investigation of the concerned factors.

The decision basis for a successful co-sourcing is based on key issues such as:

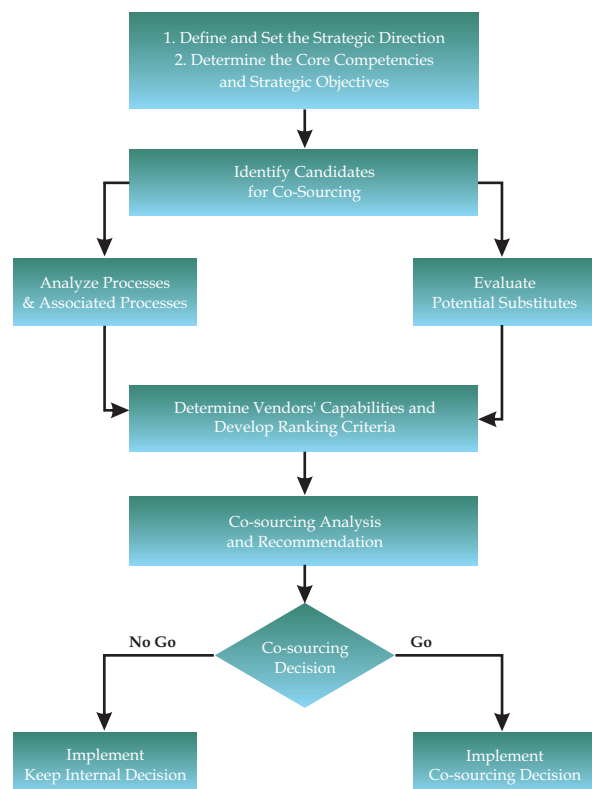
- Business continuity and the growth strategy of the Organisation
- Equal emphasis on strategic interests of the Organisation and employee relations
- Cost advantages and impact of the decision on the current and future operations

Espire recommends two forms of co-sourcing decisions, which are based on an in-depth comparison of cost vs benefits:

**1. Strategic Co-sourcing:** Under this model an Organisation decides to outsource **only a specific part** of IT system(s).

**2. Non Tactical Co-sourcing:** Under this model the Organisation decides to develop/ maintain an IT system(s) or outsource it in **totality**.

#### High-level flow of the co-sourcing procedure, as advocated by Espire:



# The Initial Steps Towards a Co-sourcing Decision

Co-sourcing decision requires significant investments, both in terms of time and effort. So it's essential to take the following steps before heading towards a Co-Sourcing strategy.

- Define the strategic mission & vision and secure budgeting
- Determine the organizational core competencies and strategic objectives to be achieved from co-sourcing
- Prepare the list of candidates (IT system(s)) to outsource
- Set-up and organize the core group

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Espire's approach during this entire process is to pay special attention to not indulge in over-familiarity with the candidate(s) under consideration. Conduction of a proper co-sourcing study may be hampered if the people gathering data and building models are far too familiar with the IT system(s) (candidates) under consideration. This over familiarity with the candidates may result in assumptions, which may lead to overshadowing of key factors as costs.

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# A Systematic Approach to Strategic Co-sourcing

## Identify Potential Candidates for Co-Sourcing (A)

In this step, Espire’s consultants generate a prioritized list of candidate(s) for the co-engagement. The following process for generating the list of the candidates has been found to be very useful by Espire.

1. The initial list building exercise requires a top down approach starting with covering various systems being used by the client and then giving objective weightage to each of them in order to come up with the initial list. Espire ensures this process is as comprehensive as possible by trying to include all possible candidates in this study.

2. We now modify the list through identification and removal of the candidates that meet one or more of the key criteria and maintains a record of the document which forms the basis of this decision. This document also comes handy for future references, if any.

3. Finally, Espire draws up the final list taking into consideration a good mix of the potential for success and long-term benefit.

### A1: Initiate the Co-sourcing Process

Based on the work done in the initial steps, the core group selects candidate(s) to evaluate for co-sourcing. If the project/business mandates, then the core group may identify additional members required for the particular candidate(s), based on their expertise or direct involvement with the candidate(s).

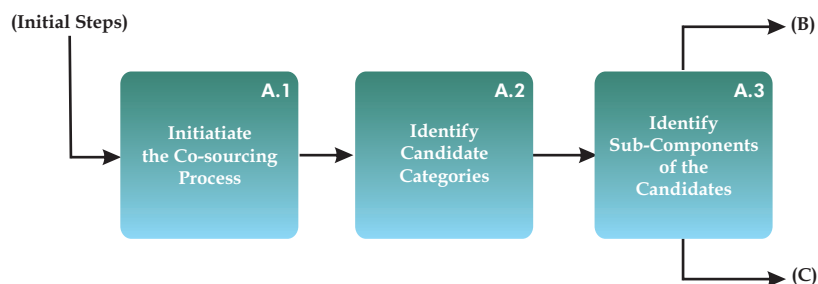
### A2: Identify Candidate Categories

The core group performs segregation of the complete list of candidates, either by the processes required to develop (in case of technology companies) or by supporting/ maintaining the candidates (in case of non-technology companies).

### A3: Identify Sub-Components of the Candidates

The candidates identified in the step above are divided into their components and sub components.

The core group may recommend co-sourcing the entire candidate(s) to a single vendor or co-source various sub-components to different vendors. This decision is based on the evaluation of its possible impact on key areas, such as other IT applications, systems, department and functions and employees.



## Analyze Processes & Associated Processes (B)

After identification of the candidate(s) and their sub components it is now time to define processes such as development, support, maintenance and enhancement and testing/QA.



### B.1: Process Map for Each Candidate

Develop a process map for each of the identified candidate or candidate sub-component, describing all processes and activities ranging from design to deployment. The activities involved in support and maintenance work begin with the planning process, eventually extending to the testing phase.

Ideally two to three core group members should be identified for gathering data from the process map.

### B.2: Perform 'Keep Internal' Cost Analysis

Determining whether co-sourcing will cost less than when retaining development resources internally within the Organisation is a key decision point. The core group should conduct a thorough cost factor analysis, based on costs of the entire life-cycle of activities involved in developing/ maintaining the candidate(s). The cost factors will cover actual costs for various resources, such as people, processes, time and material. Apart from that, the cost factor is also likely to include the costs incurred in enhancing the team and infrastructure and the opportunity costs associated with the enhancement budget.

### B.3: Define the Requirements to the Vendors

Vendors are likely to have a diverse range of responsibilities. As far as development is concerned, the concerned vendor responsibilities could be anything from custom development of the desired IT application/system to customization of an existing off-the-shelf application and implementation of the same in the client's environment. And in the case of support and maintenance, the responsibilities may range from providing end-to-end support to supporting specific parts of a system.

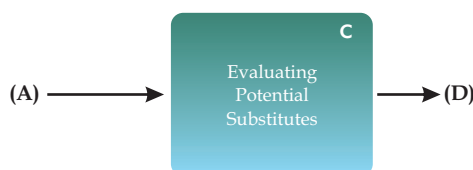
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At the end of this stage of the entire study, we would have gained a significant understanding of the internal activities and costs involved in the development/maintenance of the candidate(s), and also identified expectations from the vendor.

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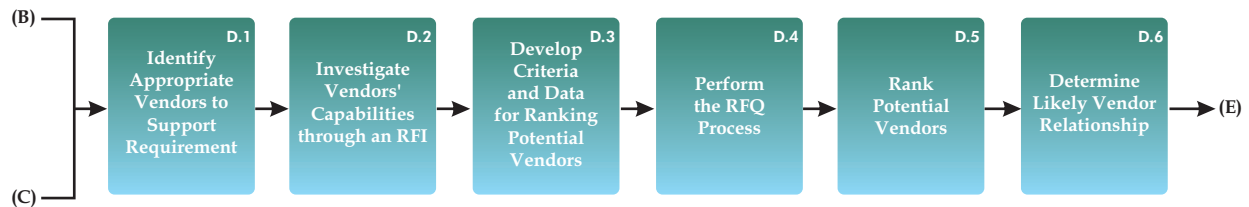
## Evaluate Potential Substitutes (C)

Evaluating a candidate's potential substitute is based on the candidate's business benefits. This involves identifying the indispensability of the candidate, if any. If the profile of the candidate(s) is found to be dispensable, it could be dispensed with for cost savings. Or the core group would need to deliberate to find alternates.



## Evaluate Vendors' Capabilities and Develop Ranking Criteria (D)

The following figure shows the steps to use in determining the appropriate vendor relationship strategy and process:



### D.1: Identify Vendors to Support Requirements

This step seeks to identify the possible vendors for the co-sourcing engagement. While these vendors could be drawn from the existing panel of vendors, more vendors could be identified through the usual RFI/ RFP mechanisms.

### D.2: Investigate Vendors' Capabilities through an RFI

A thorough evaluation of the capabilities of the potential vendors is mandatory, given the fact that it is very crucial to determine whether existing vendors can address entire set of requirements for the concerned candidate(s).

The core group should initiate a formal communication with every vendor through a Request For Information (RFI), with the communication focusing on the scope of the requirement(s) and the available time.

### D.3: Criteria to Rank Potential Vendors

Ranking the vendors could be based on any of the factors mentioned below or on a combination thereof. The criteria should be spelt out clearly as per the business imperatives of the Organisation.

1. Stability of the Vendor Organisation
2. Onsite audit of processes
3. Competency/reliability
4. Long term partnership potential
5. Total cost
6. Technology capability
7. Quality controls and process maturity
8. Customer service
9. Geographic location(s)
10. Ability to address special requirements
11. IPR security and redundancy

### D.4: Perform the RFQ Process

All the information gathered from the RFI process is meant to be used for building the RFQ, which is then sent to the shortlisted vendors. The RFQ process will result in gathering the best informational estimates from vendors.

### D.5: Rank the Shortlisted Vendors

The Core group can now use the information collected in the previous steps to rank the vendors and select the probable vendor(s).

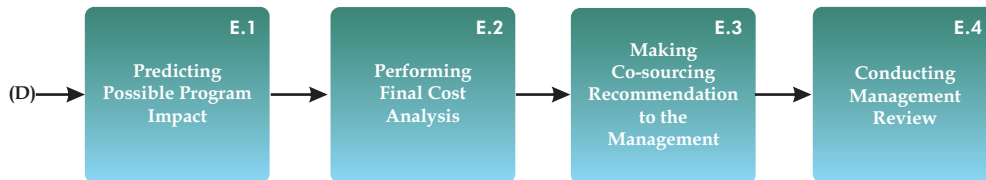
### D.6: Define Vendor Relationship

At this stage it is very crucial and helpful to outline the vendor relationship strategy and process. Determine the required level of supervision for managing the vendor on the basis of following factors:

- a. Identify the nature of the candidate(s) outsourced
- b. Identify the capacity and deliverability of the vendor(s)
- c. Identify whether there is any past history related to co-sourcing the candidate(s) or with the vendor(s)

## Analysis and Recommendation (E)

The following figure explains the steps involved in performing the co-sourcing analysis and tabling the recommendation to the decision makers. The core group uses the entire data gathered from the preceding steps to compare the real internal cost, thus ensuring that the candidate is developed/maintained with the vendors' prices.



### E.1: Predict the Probable Program Impact

In case the ultimate decision goes in favor of co-sourcing, it is very important to ensure, beforehand, that the decision does not have any negative impact on key organizational elements. The issues that need to be analyzed are as follows:

**1. Allocation of Development/ Maintenance Resources:** The Core group addresses the following two issues:

- a. The new roles and responsibilities within the Organisation
- b. The roles that have ceased to be important

The Core group from the Organisation must identify the people likely to work with the vendors, and then train them. The transition should be smooth, flawless and successful. Meanwhile, Espire recommends that the Organisation invests time and efforts in identifying ways to redeploy the people freed, as a result of the co-sourcing activity, preferably within the same Organisation.

**2. Asset and Facility Disposal:** If a co-sourcing decision results in the complete shutdown of a facility leaving behind excess equipment, it needs to be disposed or realigned with another facility within the Organisation. Ideally the vendor itself could purchase the facility and equipment.

### E.2: Performing Final Cost Analysis

The cost sheet developed so far, should at this stage be subjected to a thorough review, ensuring that all the costs involved in the development and maintenance of the candidate are captured. While the best case will be a combination of the most economical vendor with the highest likely forecast of internal costs if not outsourced, the worst case will represent a combination of the most expensive vendor with the least costly estimate of internal costs to keep the work inside. The reality is likely to be somewhere between these two scenarios.

### E.3: Recommending Co-sourcing to Management

After the investigations and analysis, the core group should now be prepared with its final recommendation to the Management regarding co-sourcing. Cost comparisons and vendor capabilities are the key determinants that go towards this recommendation. The recommendations could yield any of the five possible situations given below:

- ▶ **Situation 1:** The cost comparison clearly supports co-sourcing and the vendors demonstrate the capability to address the Organisation's needs. Going in for Co-sourcing is the ideal recommendation in this scenario.
- ▶ **Situation 2:** The investigations lead to the conclusion that the vendors have failed to demonstrate the required capabilities. In this case, the Core group should recommend that the work is retained internally.
- ▶ **Situation 3:** The cost comparison presents complex results, making it difficult to take any final decision. In this case, the vendor(s)' capabilities may still be enough to go in favor of a co-sourcing decision, because factors such

as warranties, capacity, freeing up resources and availability of personnel may still provide the required benefit.

- ▶ **Situation 4:** While the cost comparison supports co-sourcing, the current vendor(s)' capabilities are not quite up to the mark. In this scenario co-sourcing may still be appropriate, especially when one or more vendors are ready to upscale to meet the needs.
- ▶ **Situation 5:** The cost comparison could also turn out to be ambiguous, with the vendor(s)' capabilities being just fairly up to the mark. This offers the most difficult situation as far as making a decision is concerned. The best possible recommendation in this scenario may be to present the cases for both sides to the steering committee and leave it for further deliberations and discussions.

#### **E.4: Conducting Management Review**

The objective of this step is to review the information gathered by the core group and consider the recommendation made therein on co-sourcing. A management review should take a broader view of the core group's recommendations.

Once the Co-sourcing decision is made, a very well thought out transition and implementation plan needs to be developed.

# About Espire

Espire Infolabs is a full spectrum information technology company offering forward-looking, scalable, robust and cost-efficient solutions to its clients. With our collaborative approach to work and mature frameworks of delivery we bring measurable benefits and a competitive edge to the business operations of our customers. From consulting to implementation and deployment, we are fully geared to meet the software requirements of our clients. Espire's world-class services add value, minimise time-to-profit and improve efficiency for our customers.

Espire, a CMMi Level 5 compliant company, has strategic alliances and partnerships with key industry players, such as Microsoft (Gold Certified), Oracle (Gold Certified) and SDL Tridion, to ensure software solutions of an enhanced customer value. Espire is also certified for ISO 9001:2008, ISO 27001:2005.

Espire has a global presence with offices and operations in the US, Europe and the APAC region. We are headquartered in New Delhi and have a modern state-of-the-art offshore development facility which can deliver mission critical projects.

## Espire Infolabs Pvt. Ltd.

(Global Headquarters)

A-41, Mohan Co-operative Estate,  
Mathura Road,

New Delhi - 110 044

India

Tel: +91 (11) 4152-0000

+91 (11) 4153-0000

Fax: +91 (11) 4167-8790

Email: [marketing@espire.com](mailto:marketing@espire.com)

[sales.in@espire.com](mailto:sales.in@espire.com)

AUSTRALIA

+61 (3) 9909-7090 (Melbourne)

+61 (2) 9004-8880 (Sydney)

JAPAN

+81 (3) 6805-0091

UNITED KINGDOM

+44 (208) 822-3401, 02

UNITED STATES

+1 (609) 378-5598

SINGAPORE

+65 3158-1616

[www.espire.com](http://www.espire.com)

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