

# Offshoring Services for SME's in Continental Europe

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## Abstract

This paper outlines the offshoring opportunities and ways to achieve these opportunities. for the Small and Medium Enterprises (SME's) in the continental Europe. Faced with the same challenges, in an increasingly globalized business environment, the SME's are not deploying the same IT sourcing strategies as the large enterprises. This paper also describes the market environment, offshoring challenges and approaches to achieve the benefits of offshoring while minimizing the risks for the SME's.

## Offshoring Market In Continental Europe

Currently the offshoring is well employed by many large enterprises in the Nordics, Germany, Switzerland, Benelux with reasonable success. It's advantageous for European enterprises not only in cost containment but also increasingly in accessing flexible, vast, highly qualified resource pools offered by the large offshoring vendors in India.

The Small and Medium Enterprises (SME's) are key components of the European economy, especially in Germany and Switzerland. These businesses are facing the same market pressures – IT costs and lack of skilled resources – to the extent that their very existence is challenged. Yet, so far the SME's are not utilizing the offshoring services.

## Reasons why SME are not employing offshoring

There are two main reasons. First, the large Indian vendors who have access to the European market through their own field force are focusing on the large enterprises with large revenue potential. The

SME's simply do not have the revenue potential for the large offshore service providers to attract their attention. Second, the smaller businesses cannot initiate their own offshoring programs as they lack the experience and/or the necessary investment.

On the other hand, there are hundreds of smaller offshore vendors (50-500 employees) that cannot access the European SME market as they do not have the necessary field force. Whatever field force they have is focused in the US or in the UK. High cost of field force and uncertainty of the returns in an unknown market prevent them from endeavouring into the continental European market.

In short, the offshoring is a viable choice for the SME's but there is a gap to be bridged between the demand and supply in the offshoring market for SME's.

Are the SME's ready for employing Offshored services?

Until recently, the technological and cultural aspects also played a role in limiting the SME's from utilizing offshored IT and BPO Services. However, as the internet and voice over IP become ubiquitous, the technological advantage enjoyed by the large enterprises is no more relevant. Also, the SME business too are becoming global and the IT management is more open to access offshore resources due to their prior experience with offshoring and comfort in dealing with English language.

In addition,

- As the businesses are increasingly global and more complex, demands on the CIO's to provide more sophisticated information systems are growing, without corresponding increases in their budgets.
- The resource market is geared towards the larger enterprises, forcing the SME's to look for less experienced resources.
- From language and cultural point of view, many SME's are ready – many are concerned about the inherent risks but once the early adaptors show positive results, most would follow suit.
- There is a sizable Indian population on the continental Europe that could play a key role in accelerating the adoption of offshoring services by the SME's.

## **Near Shoring**

Apart from depending on the local supply, many SME's have tried near shoring I.e, sourcing in the eastern European countries or other low cost countries near Europe. The results in the worst case are ending up with the same issues as with the offshoring (managing remote teams, added coordination effort, connectivity issues, lower productivity etc.) without achieving cost savings or access to a large pool of resources. In the best case, the cost savings are realized but the strategy cannot be scaled up. As the economies in the eastern Europe grow, the supply is drying up fast while the costs are becoming comparable to Germany or France.

## **Offshoring approach for SME's**

For larger SME's, it may be still possible to go alone, typically with the following approach:

- Define objectives for offshoring and a sourcing strategy
- Evaluate vendors and select two or more (not advisable, due to size) vendors
- Establish an offshoring program
- Conduct pilots, tune the objectives, strategy, processes and infrastructure.
- Define offshoring phases
- Manage the offshoring program

For medium sized and smaller SME's however, the above approach may prove too costly or difficult to implement. For them, one needs to be more creative for the offshoring to bear fruits.

First, lets understand the offshoring program in a large company. The drive is typically from the Headquarters with a PMO and a governance organization comprising of various stakeholders, starting with offshoring specific technologies/services in global IT functions/departments. Once a stable offshoring program is achieved, the offshoring is extended to the affiliates in different countries. It's no different from a ERP implementation program.

Focusing back on the SME's, a group of SME's with similar characteristics can have an offshoring program akin to the large enterprises, acting as a large virtual organization. This can be achieved by creating a consortium of companies say within a geographical region with the same language or an within an industry, and let the consortium create and manage the offshoring program for all. However, this approach needs an influential driver acting as a change agent.

## Outsource your Offshoring

A more flexible approach for offshoring is hiring an external business to provide the offshoring as a service. The SME's will be outsourcing a project or a service to a local company focusing on providing services to the SME's, who in turn will use their offshore delivery center or offshore partners to offer better value for money to the local customer. The local service provider takes the responsibility not only for the delivery of the quality work but also for all the offshoring aspects like program initiation, portfolio analysis for offshorability of work, creating the necessary KPI's and metrics and where necessary, operational management of the offshoring program. In a nutshell, the SME enjoys the benefits of the offshoring without having to do offshoring by themselves.

## The challenges and risks

Typically, the CIO of an SME is averse to offshore his work considering various real and perceived threats. The following table outlines these and offers how these can be avoided/mitigated.

Dealing with India	<p>For most people in Europe, India invoke positive feelings but it remains a relatively unknown culture. Also, there are concerns on how to manage the work done by remote companies in an unfamiliar country.</p> <p>Despite being a developing nation, many Indian companies have emerged as global players on an international level. They have developed business processes and intra-company cultures that are found in most European and American companies.</p> <p>While dealing with India still remains a challenge, the risks can be</p>
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	mitigated by providing cultural training and coaching to internal employees. Also, outsourcing the management of the offshoring program at least thru the initial phases is an effective way of mitigating the risks.
Security and privacy	Information Security, IP, Data Privacy etc. These are serious threats and must be addressed before embarking on an offshoring program. However, these can be and are being addressed by the offshoring industry – most companies in pharma, banking and software industries that are highly sensitive to security and provacy and intellectual property aspects are offshoring IT by addressing these risks correctly.
Costs	<p>Often there is a misconception that the offshoring costs more when the total cost of ownership is taken into account. True that there are exaggerated expectations created by the sales people of the Indian companies that are not always considering the hideen costs of coordination, communication and new processes. Despite these factors, sourcing to India remains an attractive alternative not only from cost perspective but also in terms of procuring the right skill in a short term without fixed costs.</p> <p>Another argument is that India is becoming costly and the current cost savings cannot be maintained. India is a large country with over a billion population and only about 30-40% urbanization. While the costs are raising in India, it will still take over 10 years before the business case for offshoring becomes unattractive.</p>
Delivery Quality	<p>The local companies expect high quality as a norm. Achieving high quality depends on how well the operational management of the offshoring program is working. The same Indian company can produce high quality for one client and low for another – the differentiator is the management of the offshoring.</p> <p>The main challenge in achieving high quality in offshoring is dealing with remote teams that comprise of people who are typically</p> <ul style="list-style-type: none"> <li>● senior developers with excellent technology knowhow but little industry knowhow and</li> <li>● young graduates with little experience in technologies and little or no experinece in the industry.</li> </ul> <p>The local IT team is the bridge between the talent pool in India and the business community in the company.</p>

## Typical Services to be offshored

Selecting the services or projects for offshoring is essential to the the success of the program, especially during the initial stages. Not all projects and services can be offshored and some are more difficult than some others – the term offshorability is used in the context of determining the ease with which a given service/project can be offshored. For example, the higher the business criticality and business interaction needed, the lower the offshorability of the maintenance of an application. The higher the

complexity and lower the documentation available, the lower the offshorability.

The offshorability also depends on the internal expertise available, experience with offshoring and the motivation for offshoring. As the offshoring program matures, so does the relationship between the client and the vendor, resulting in higher confidence and the offshorability of services increases.

Hence, it is essential to conduct an analysis of the IT portfolio (both projects and services) and create a roadmap for the offshoring program. Starting from highly offshorable services/projects the program can be expanded as the early successes increase the confidence. Some services/projects are not suitable for offshoring and one should not attempt to offshore these, irrespective of the internal or external pressures.

Typical services that can be offshored initially are:

- Web based application development and maintenance,
- Web content management
- Testing
- Data entry
- Platform management for non-business critical platforms (e.g. Sandpit/development environments)
- Developing Proofs-of-concept for new technologies.

Each company is unique and hence their IT landscape. One must note that what works for a given company may or may not work for another – each company should create their own offshoring program based on their unique IT landscape and needs.

## **Managing an offshoring program**

Managing an offshoring program involves the following key components:

- Maintaining a good relationship between the client and vendor organizations,
- Keeping the program intact
- Managing the virtual team of individuals that in turn manage specific services and projects
- Reporting on KPI's to higher management
- Continuously looking for ways for improving the processes, quality and further reducing the costs
- Looking for opportunities to expanding the IT offshoring program and business process offshoring
- Acting promptly and decisively on escalations.

Most of the above tasks are of operational nature and even in large companies, external assistance is often sought for managing them. For SME's, it is advisable that the CIO manages the offshoring program directly with almost all of the above tasks are outsourced to a local offshoring service provider, lest the CIO finds himself bogged down by the details.

## **Conclusion**

Offshoring for SME's is a question of “when” and “how” rather than an “if”. On the supply side, The Indian providers are mature and the technologies that enable offshoring (mail, internet, etc.) are affordable. On the demand side, the pressure on costs is high and the availability of skills is limited. Even for an SME, there are opportunities in offshoring not only to reduce costs but also to release

internal resources for strategic work, access to flexible skill pool and gaining experience. The approach outlined here helps the CIO of an SME to exploit the opportunities and gain experience without risking his neck in the process.

## **About the Author**

Govinda Sadhu, born in 1964, is a Swiss national of Indian origin, based in Basel. Govinda has over 20 years of IT experience in project management, line management and offshoring know-how from both customer and vendor perspectives. He is currently building his own company focusing on providing offshoring services for SME's in Switzerland, Germany and Austria. He also operates as a freelance management consultant in offshoring, supporting sourcing, strategy definition, portfolio/project management and vendor management.