

Six Reasons to Work with an Offshore Outsourcing Firm

It Makes More Financial and Business Sense Than Ever

By P. Venkat

Cost savings and faster time-to-market have historically driven the trend of offshore outsourcing as a means for transferring work to a lower-cost region. But the realities of fierce competition and tough economic times has many U.S. firms taking a fresh look at outsourcing in order to achieve a more predictable cost base and to avoid new capital expenditures for non-core activities. What these companies are discovering is that the business case for offshore outsourcing is better than ever. Here are six reasons why:

1. Reduced capital costs. Offshore outsourcing offers two types of savings: capital expenditures and revenue expenditures. U.S. companies can save up to 100 percent of their intended capital expenditure (land, facilities, hardware, etc.) by working with an offshore firm. If the U.S. company's workload increases because of sales growth or acquisition, an offshore firm obviates the need to invest in additional capital or ramp up capacity. Similarly, the U.S. company may find that the service bureau's capacity may be a competitive advantage, particularly when dealing with price sensitive customers where the U.S. company can't sell at a loss. If facilities already exist, they can be sold or used for other purposes. In terms of revenue expenditures, U.S. companies can save 50 percent or more, plus the operational and administrative headaches of running the shop.

2. Converting fixed expenses to variable expenses. To the delight of CFOs, most offshore service bureaus work on a 'per unit of work' basis, meaning a U.S. firm can eliminate a fixed expense that is a constant drain on the finances of the company. Fixed expenses can have a major impact on the bottom line, particularly during a recession when income levels are down. With offshore firms, you only pay when work is done.

3. Easy access to skilled labor. The wealth of new technology skills in countries like India is enabling U.S. companies to offload more sophisticated jobs. At Vital Link, all our operators are graduates who have completed at least five years of college. They stay with us an average of three to four years, viewing their job as the springboard for a career elsewhere. Our senior management is more highly skilled. Partnering with an offshore firm also allows U.S. companies to augment the skills of their in-house staff, meaning they don't have to turn away business their staff can't handle.

4. Cost-effective solution to seasonal or one-time work. Companies such as catalog retailers often experience peaks of 80 percent over normal volumes. By working with an offshore service bureau, these companies don't have to create capacities to handle peak loads, and then support that capacity (and burn through precious capital)



Headquartered in Bombay, India, **Vital Link Outsourcing** is a 21-year-old, quality-driven offshore service bureau specializing in electronic data and document conversion. Vital Link offers the benefit of proven processes and standards to all of its customers; the company's state-of-the-art production facilities are ISO 9002 certified and its internal quality processes are at eSCM level 4 and Sigma 5.35. Its clients represent a wide range of verticals markets, including publishing, banking, financial services, government, education, telecommunications, and land title management.
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the rest of the year. Additionally, what is a holiday season in the U.S. is not a peak time elsewhere.

5. Disaster recovery. In our increasingly uncertain world, an offshore service bureau can provide U.S. companies with additional protection in the event of a catastrophe, as a hot site, or a data storage facility. Also, our production facility is located in Pune, a small town that most likely wouldn't be targeted the way Bombay or another major city might.

6. Time can work in your favor. Service bureaus in India begin work when the U.S. is asleep, meaning your work will be completed when you return the next morning.

The combination of the slow economy, rising internal cost pressures, and the increasing number of U.S. companies outsourcing non-core activities will fuel continued growth in offshore outsourcing over the next several years. As Sun Tzu said in the "The Art of War," "If you don't seek out allies and helpers, then you will be isolated and weak."

A comparative chart on potential cost savings of offshore outsourcing is available at www.vitallinkcorp.com/ta.pdf. Related white papers also are posted on the site. ■

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Roadmap to a Sustainable Competitive Advantage

Duration of Advantage					Managerial, financial integration
				<ul style="list-style-type: none"> Substantial with Management interests Minority with financial interests only 	
			<ul style="list-style-type: none"> Shared Services Co production 		
		<ul style="list-style-type: none"> Contractual Joint bidding Preferred supplier 			
		Project based arms length transaction			
	Short		Degree of	Advantage	
Type of Advantage →	Production level restricted to project	Production level with some project management	Production and Managerial	Production Managerial Some Financial	Fully integrated operations
Type of Alliance →	One Off	Ongoing	Captive capacity	Cross Equity	Joint Venture

A comparative study of the potential cost savings of outsourcing to India

Assumptions	US costs	India costs
1. Assume a 100 seat attended workstation facility	100	100
2. Working in 2 shifts	2	2
3. Mandays per day (1 x 2)	200	200
4. Working hours per day	8	8
5. Man hours per day (3 x 4)	1600	1600
6. Working days per month	22	22
7. Man hours per month (6 x 7)	35200	35200
8. Fully loaded cost of each operator	15	3
9. Facility cost per month	528000	105600
Potential saving		422400
% age of facility costs		80%