Managing Customer Relationships in Offshore Outsourcing: A Case Study of an Israeli Consulting Firm *B2Bcs (Creative Solutions)*

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It's a mid-week working day at *B2Bcs (Creative Solutions)* , a small ten-member Israeli consulting firm, specializing in offshore outsourcing consulting to high-tech Israeli client firms. The recent economic meltdown worldwide is having its impact at Israel too. Says their Chief Consultant, "*Over the last few months, the Israeli firms are looking for cheaper outsourcing solutions, as part of their various cost reduction initiatives. They expect that the rates that they get from the offshore service providers of low cost destination countries like India, eastern Europe will be low, much lower than they heard in the past. Unfortunately, India is not suffering much from recession unlike the west and the offered service prices are not reducing at all*". The two-member management team (Managing Director & founder and Chief Consultant) was busy discussing what kind of offshore outsourcing business strategy should *B2Bcs (Creative Solutions)* focus and what kind of unique value propositions should *B2Bcs (Creative Solutions)* offer now to retain and enhance their customer base.

Israel Geo-Political[1]
Israel borders the Mediterranean Sea between Egypt, Lebanon, the Gaza Strip, Jordan, Syria and the West Bank . The population of around 7.2 million includes about 187,000 Israeli settlers in the West Bank, about 20,000 in the Israeli-occupied Golan Heights, and around 177,000 in East Jerusalem. From outside, Israel looks as if it's in turmoil, largely because the entire political leadership seems to be under investigation. But Israel is a state with a strong civil society. The economy has exploded from the bottom up. Israel's currency, the shekel, appreciated significantly against the dollar since the start of 2007 until middle of 2008. It has a population drawn from 100 different countries, speaking 100 different languages, with a business culture that strongly encourages individual imagination and adaptation, making it a country that is hard-wired to compete in a flat world. Israel has gone from "oranges to software", or as they say around there, from "Jaffa to Java".

Israel Economy[2]
Israel economy grew more than 10% annually between 1990 and 2008. The years after the 1973 Yom Kippur War were a lost decade economically when growth stalled and inflation soared significantly reaching a catastrophic level by 1984. However, the successful economic stabilization plan implemented in 1985 and the subsequent introduction of market-oriented structural reforms revived the economy and paved the way for its rapid growth in the 1990s which became a model for other countries facing similar economic crises.

Two developments have helped Israel's economy to transform since early 1990s. The first such development is the Jewish immigration from USSR during 1990-91, that has brought over one million new citizens to Israel. These new immigrants, many of them highly educated, now constitute to 16% of Israel's seven million population. The second

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[1] Central Intelligence Agency: The World Fact Book **https://www.cia.gov/library/publications/the-world-factbook/geos/is.html#Econxxxx**, accessed April 10, 2009.

[2] **Manufacturers Association of Israel, December 2008**
http://en.wikipedia.org/wiki/Economy_of_Israel#cite_note-w-3#cite_note-w-3, accessed April 10, 2009.

significant development is the peace treaty between Israel and Jordan which got inked in 1994. In spite of Israel's difficult security situation with the Arabian countries, it managed to open up new markets to Israeli exporters, such as in the rapidly growing countries of East Asia. Late 90s saw rapid economic growth, continuous decline in unemployment rate, and rapid growth in exports, along with continuous surplus in current account balance & decrease in government's budgetary deficit and a massive industrial growth with large contributions coming from high tech industries. The Manufacturers Association of Israel provides more informtion about the state of Israel economy in the 21st century, specially with regards to IT investments and outsourcing.[3] In Israeli terms, as they say, economic prosperity was achieved, regardless of whether peace or immigrant migration happened or not.

Growth of IT Outsourcing
Israel experienced a global outsourcing boom since the beginning of the 21st century and the government of Israel took adequate steps to support it[4]. Israel has a vibrant technology sector, attracting the likes of IBM, Microsoft, Motorola, Compaq, HP, Intel, and Google. A world leader in civilian R&D investments (4.7% of GDP spent in 2007) and with highly educated immigrants, Israel boasts of quality scientific research institutions and availability of quality scientists and engineers. In the past, there has been greater enthusiasm for outsourcing services to Israel, as it offered a pool of highly educated quality workers (45% of population are post high school educated in the ages of 25-64), who are native English speakers and share a cultural affinity with the western world. Due to the multicultural population mix, Israelis have shown better English language fluency. Their customs and values are similar to those of US citizens, the infrastructure and security being much better than in other foreign countries; and also its workers have a high work ethic. The information and communication technology contributed 17% of the overall GDP in 2006. The software export sales from Israel in 2006 was over $3 billion. The country is also a home to software product development where high quality embedded system software gets produced from high tech firms. During this time, Israel successfully managed to establish itself as one of the 3Is of outsourcing destinations (India, Ireland and Israel). However, the major IT spending was accounted for by government and military sector projects[5]. The IT spending touched a little under $5 billion in Q1 2009, with a CAGR of 7.6% and the market is expected to reach around US$7 billion by 2013[6]. Inspite of the economic downturn, indeed, the government is likely to up its own consumption levels in a bid to prop up the economy.

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[3] Manufacturers Association of Israel, December 2008,
http://www.industry.org.il/Eng/Publications/GetFile.asp?ArticleID=789&File=2accessed April 10, 2009.
[4]   Excerpts   from   Matthew   Kalman,   Globe   Correspondent
http://www.boston.com/business/globe/articles/2006/11/24/us_firms_turn_to_israel_as_outsourcing_alternative

[5] Israel Information Technology Report Q2 2008
http://www.reportbuyer.com/computing_electronics/country_overview_computing_electronics_/israel_information_technology_report_q2_2008_1.html
[6] Israel Information Technology Report Q1 2009 http://www.pr-inside.com/israel-information-technology-report-q-r1113341.htm

Despite this opportunity, due to high cost of on-shore outsourcing within Israel, hi-tech Israeli client firms started relying on low cost offshore outsourcing destinations of India and eastern European countries from 2007 onwards. At an average experienced software engineer's salary of US $68,000, compared to US $15,000 in India, Israel's labour cost is 4.5 times costlier than in low cost geographies[7]. The manufacturers association of Israel predicts that more than half of its high tech industries will resort to offshoring. Underlining this advantage of outsourcing, India turned out to be the most preferred destination for doing business in the IT sector.

B2Bcs (Creative Solutions)
Based out of TelAviv, *B2Bcs* is a consulting firm that provides full services in establishing offshore software development teams and offshore project outsourcing decisions to several hi-tech and telecom client firms at Israel. *B2Bcs* helps clients, throughout the entire lifecycle, to outsource or build their operations offshore. It offers strategic planning guidance, provides site selection services, and deal flow analyses[8]. Before starting an offshore outsourcing process[9], there are important areas with which any company should familiarize itself, in order to make the right decisions. Examples for such decisions are choosing the country, choosing the type of vendor, deciding on the outsourcing model, assessing the organizational implications etc. This is where, *B2Bcs* provides their expert services.

The Team
B2Bcs has a team of ten people, all with vast experience in offshoring. The team has experience in establishment, recruitment, consultancy and management of onshore-offshore groups. The management team comes with deep experience in establishing groups.

The management team is headed by Dudi Ness & Omri Barkan who has over 20 years in project management, engineering and sales support, in large companies such as IAI, Alcatel and ECI Telecom. During the last four years, Dudi led the establishment and management of R&D centers in India from inception phase to successful execution. Dudi has a BS in engineering from the Univeristy of Connecticut in the USA and an MBA in a special program for engineers and managers from the Technion (Israel Institute of Technology), Haifa.

The Customers
B2Bcs has been working for quite some time with some of the big names in the Israeli high-tech industry[10]. Some of these firms are well established telecom equipment manufacturers and have been doing global business. They are outsourcing to European countries like Ukraine, Romania, Maldova, Bulgaria and also to India. Cost is a key factor for decision to outsource since the salaries the Israeli clients need to pay to their

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[7] **Manufacturers Association of Israel, December 2008.**
[8] Appendix-B: Outsourcing Life Cycle Process
[9] Appendix-A : Strategic Outsourcing Concepts
[10] Appendix-D: Saphire's Customers

employees for any piece of work is much higher than the Time & Material (T&M)[11] rates that the companies may get from their service providers to execute the same work. However, the cost advantage can vary depending on the type of offshore skills one get to employ. All these depend on the type of service provider organizations. Tier-1 vendor organizations are costly but provide high quality services compared to Tier-2 vendors who are cost effective but offers services associated with many human resource related problems.

Apart from the cost, the need to outsource is guided by the fact that projects, at times, need to ramp up in large numbers. With a 3 year mandatory military service obligation, high-tech firms face huge challenge to get skilled manpower to staff up projects. India and eastern European nations bring this advantage of availability of large number of skilled manpower resources any point of time. The challenge here is to identify the right service provider firm who can provide the right skills for the project.

Over the years, it was common for Israeli firms to keep core technology development work within Israel and only outsource the non-core work to provider nations. This kind of work include technical support services, software maintenance, software testing services *et. al*. However, now the Israeli firms are also open to outsource a complete new product line or product portfolio to these provider nations like, India and eastern Europe.

B2Bcs 's service provider clients are based out of India and eastern Europe, with whom *B2Bcs* works closely through their local teams. *B2Bcs* has established contacts with several Tier-1 and Tier-2 IT companies in India, providers of quality IT software services, as well as several smaller IT companies providing significant cost advantage to their Israeli client firms.

The Value Proposition
B2Bcs believes that people are the key to optimizing technology and that the global village requires sensitivity to 'people convergence'. Understanding the sensitivity to regional preferences, ethnic differences and organizational dynamics is what helps them build success with their clients. Their theme:
- talk
- plan
- communicate and
- create lasting solutions.

The ability to develop different technologies in remote locations is possible due to the modern development of telecommunication infrastructures, the free-flow of high-level programming techniques, and the use of English as the common global language of business. The question of where to best locate your employees depends upon the specific technology industry.

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[11] Time & Material : This is a form of outsourcing where service provider organizations get paid by time (i.e. hours put by people for any work). The responsibility lies with the client organizations to assign work and monitor to get it executed by the service provider organizations efficiently.

So, what is the value that *B2Bcs* provides to its customers? Says Dudi Ness, "*In one case, the challenge we had was to find, in a month's time, a vendor that could provide our customer with customer support services, with excellent speaking, writing and reading skills in three different languages. In another case, the challenge was to find a vendor that had proven experience and capability in working with R&D companies and had a working culture that complements our customer's one*".

In both these cases the value provided to the Israeli client firms had been in terms of helping them to find the right vendor that could provide outsourcing services that the client firm is looking for. The value is not only in terms of providing the right partner but also to ensure that the client firm gets maximum benefit out of the outsourcing services.

B2Bcs brings significant expertise in telecom and high-tech industries. Ranit has vast experience & contacts in European Union (EU). EU brings very high technical skilled work forces, that come out of good technical universities, at low costs. Also, culture wise and language wise there is a similarity between EU and Israel, having so many people in Israel migrated from these countries. Distance wise it is closer and for many of the EU countries - one can fly in the morning and come back to Israel on the same day, in the evening. As a result, cost of travel is lower. In addition there is no time difference, which is good for R&D activities that are tightly linked to the activities happening in Israel. The other management team member (Dudi) has deep contacts in India. He visits India quite frequently and keeps a close tap on the technology offerings of the Indian firms – e.g. new product offerings, new service development skills etc.

B2Bcs has a stringent process to evaluate & reach out to their service provider clients:
1. *B2Bcs* first speaks with their clients firms to find out what types of skills they require and what type of work they want to outsource. They also identify what kind of offsource outsourcing model their clients are looking for – like, ODC (Offshore Development Centre), JV (Joint Venture), or just mere body sourcing.
2. At next steps *B2Bcs* helps Israeli client organizations to B2Bcs RFPs (Request for Proposal)
3. *B2Bcs* helps in submitting these RFPs to service provider organizations in India or eastern Europe.
4. The service provider organizations respond with their proposals within the deadline timeframe.
5. Subsequently, each service provider organizations send their sales presentations. Sometimes, they invite *B2Bcs* to learn about the company in India also.
6. At the next step, *B2Bcs* take these presentations to their Israeli client organizations.
7. Together with the client, *B2Bcs* chooses the right service provider organization.
8. Then the service provider organization comes to Israel and the client also visits the service provider organizations at India / east Europe.

At times, clients are choosy about a particular service provider location. *B2Bcs* then helps to identify the best service provider organization for the outsourcing work. The evaluation of service provider's capability is done by the *B2Bcs 's* technical team. The team uses the appropriate opportunity to understand the product & service capabilities

being offered by the provider firms. Typical evaluation parameters are: (a) Provider organization background – size, capability, reference accounts; (b) Product portfolio – features, architecture design, reference sales, support; (c) Service portfolio – organization structure, skills, resumes, average turnover; (d) Others – Reachability, Promptness, Professionalism demonstrated etc.

Most Israeli companies are aware of the various outsourcing models like, ODC (Offshore Development Center) model, DIY (Do-It-Yourself) model, and BOT (Build-Operate-Transfer) model[12]. According to *B2Bcs* 's Chief Consultant, they helped set up a joint venture between an Israeli military company and an Indian service provider firm. In this case, the service provider firm had to detach themselves working for other clients and only focus on the Israeli client. At the end, it was a 50-50 joint venture.

Dudi continued, *"In one case we developed a new outsourcing model altogether (Cost Plus model) with our client. In this case, the Indian outsourcing firm recruited people and managed the HR process themselves. The rest was up to the Israeli company to provide technology support, administrative support, salary payments etc. This model helped both the parties. The client didn't have to pay any fixed outsourcing price per month and paid only the costs to run the Indian entity and added incentives to the Indian service provider organization to just manage the HR"*.

However, ODC provides a comprehensive outsourcing option, which is why it's popular amongst many Israeli client organizations. ODC is a long term option and brings in all 3 aspects of outsourcing – viz. transaction cost economics, resource based view, and relationship view. Service providers deploy skilled resources, who are capable to execute the work outsourced by the client organizations (resource view). Providers get paid by the time & material (T&M) services. Any new requirements are charged to client organizations at additional cost (transactional economics). However, relationship building is at the core of a successful ODC relationship.

B2Bcs also brings in significant value-add by bridging the cross-cultural diversity. They help their client firms to recruit project staff, however limit themselves to technical interviews only. Staffing the right skills for a project is a recipe for success. That's why *B2Bcs* advice their clients to get involve in staff recruitments. Telephonic interviews, at times, may be inadequate to recruit the right candidate. This may be taken care of using face to face interviews. They also advice their clients to regularly monitor the project staffing skill level by conducting monthly and quarterly executive reviews. HR B2Bcs is usually the responsibility of the service provider firms to handle - though *B2Bcs* , at times, help the clients who approach them directly. Cross cultural divide brings in a significant gap in understanding the people B2Bcs s, and *B2Bcs* helps their clients by staying connected for a significant period post contract sign-off.

B2Bcs helps their clients (both Israeli client organizations as well as their Indian / east European service provider organizations) to setup their agreements. Contract has to be agreed by both parties. The Israeli client companies usually prefer the service provider

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[12] Appendix-C: Offshore Development Center

organizations to write the first drafts, while Israeli companies get them reviewed and then they negotiate to close the contracts. Interestingly, Tier-1 or Tier-2 companies in India usually take 2-4 months to close a contract. On the other hand, small companies close contracts in less than a week. *B2Bcs* believes that contract is something which one agrees to during signup and usually one doesn't invoke until forced to. In their experience, hardly any of their clients faced the need to invoke contractual disagreements. Rigid contracts are usually preferred when relations are transactional in nature and service output is strictly limited to the requirements mentioned in the contract. On the other hand, flexible contracts are preferred in complex, long term relationships where it is difficult to quantify contractual measures and hence partners prefer open ended, flexible contracts. Fixed price contracts are rare (1%) as it requires deep, accurate understanding of customer's requirements. Israeli clients prefer flexible contracts since requirements are often open ended. T&M contracts (99%) provide the client organizations the flexibility to execute work they like and may include any new requirements that may comeup while project execution is in progress. However, the client organizations also run a risk of effort overshoot, if the resource utilizations are not closely monitored.

Post agreement sign-off and kick-off, *B2Bcs* get themselves involved for a period of 3-6 months. This is because they have seen that in the initial period both the client and the service provider organizations prefer talking to each other keeping *B2Bcs* involved. During this time, *B2Bcs* provides cross cultural training. They help train - how to talk, how often to talk, since they know the people in both the organizations. They also help the Israeli company and the Indian/east European service provider organizations to define a structure in the outsourcing relationship as to who is working with whom, who is the focal point, how best to communicate, reporting mechanisms (like, weekly status reports, monthly reports, quarterly face-to-face meeting) etc. and also help the client organizations to monitor service quality of the service provider organizations. This is a unique value-addition that they provide to both their clients. This not only helps them in keeping close contacts with the project progress, but also helps them in tracking their customer's future offshoring needs thereby helping themselves to retain old customers.

However, business is not as easy as it was before. Early part of 2009 saw a major cost cutting in Israeli client firms, who looked for cheaper outsourcing solutions as part of their various cost reduction initiatives. The 2009 global economic meltdown has impacted the Israeli economy too. During these recession times, more and more service provider organizations are looking to provide value added services for their client organizations. Building partnering relationship is one such value added service. *B2Bcs* has been working with their client and service provider firms to develop new partnership options like: Revenue Sharing model, Cost Plus model etc.

Quinn & Hilmer (1994) identified two strategic outsourcing approaches used by executives of organizations (Sridhar, 2009):

1. Concentrate on the firm's own resources on a set of "core competencies" where it can achieve definable preeminence and provide unique value for customers.

2. Strategically outsource other activities – including many traditionally considered integral to any company – for which the firm has neither a critical strategic need nor special capabilities.

Outsourcing has progressed from involving only peripheral business activities towards encompassing more critical business activities that contribute to competitive advantage. On one hand, outsourcing can involve transfer of business support functions & business processes to obtain a higher level of performance at a lower cost with relatively little upheaval for the organization. On the other, it can lead to major organizational change that involves transferring staff to external service providers and redefining staff terms & conditions. As a result, outsourcing has become an increasingly important and complex B2Bcs for many organizations.

The Challenges Ahead
The corporate and enterprise survey conducted by the Bank of Israel points to a substantial continuing slowdown in economic activity, which begun at the beginning of 2008 and became more prominent by year-end. Analysis of industrial and commercial sectors indicated that demand dropped significantly along with increasing credit supply difficulties in all sectors. The firms are expecting the shekel to depreciate further. It had moved up from 3.8 shekels a dollar a quarter back to a shade above 4 now and analysts predict it to settle it around 4.15 by the end of 2009.

The Indian IT service provider industry is responding cautiously to the global economic meltdown. India was a preferred outsourcing destination before too, however current conditions offer a greater opportunity to get closer to the customers and build great relationships, as most clients of the Indian IT majors are in trouble themselves, and are looking for ideas that will help them improve their market share. Turnover is also at its low and the service provider organizations are looking towards transforming 'transactions' in the form of projects to 'relationships' that are focused on creating long-term value for the client.

The Israeli client firms face a lot of internal resistance when their management decides to announce an outsourcing partner to the rest of the organization. There is a huge backlash due to fear of job losses. The Israeli engineers are willing to work at lower salaries - higher than what is offered by offshore service providers, but still lower than usual.

Offshore outsourcing has grown phenomenally in Israel over the last few years. In spite of continuing demand, the recent economic downturn has posed a challenging situation. In such a scenario, two broad questions arise.
- What is the new value proposition that *B2Bcs* should offer to their clients?
- How can they help their clients to get to service provider firms at a competitive price?

The New Value Propositions
There are many options where *B2Bcs* can focus in this recession period. Firstly, *B2Bcs* can focus on government R&D industries, which is expected to have increased activity to

counter the recession. This should open up the need for more offshore outsourcing requirements. A falling shekel means that for the same dollar an Israeli organization would now need to spend more for outsourcing. This may induce some temporary slowdown. However, this is likely to catch up once shekel starts improving.

Secondly, *B2Bcs* should advice their Israeli clients to focus on long term relationships with their service partners instead of low cost transactional cost economics. Indian service provider organizations are also looking for opportunities to establish long term relationships. Revenue sharing with client firms, setting up joint ventures in India or eastern Europe are some of the various types of offshore outsourcing options *B2Bcs* may explore with their Israeli clients.

Thirdly, *B2Bcs* can help setup flexible contracts between their client and service provider firms. This means their client firms can take advantage of deferred payments by linking payments to the product launch.

Fourthly, *B2Bcs* can advice their client firms to fund startups to develop joint IP (Intellectual Property). This means their clients continue innovating even at these difficult times by building IPs at half the cost.

Though, *B2Bcs* doesn't have offices outside Israel, but in future they can explore this as an option to setup offices in other geographies to work more closely with their service providers. This can also help them to generate more confidence from their Israeli client firms due to their proximity to provider firms. In such scenarios, they would be required to work more closely with local governments & local authorities.

Lastly, *B2Bcs* can provide consulting services to their Israeli clients in handling internal communication when it comes to handling internal resistance on offshore outsourcing announcements. Options are to use existing resources not only to manage offshore partners but also to have them involved in transfer-of-technology and monitoring of service quality outputs of provider firms.

Only recently, the *B2Bcs* management learned that an Israeli client who seemed almost certain to sign a contract with an Indian IT firm has decided to postpone the decision until one more quarter. The leadership team looks like a worried lot. One of them said, "*We need to find out how we can get a good price for outsourcing to our Israeli clients. The recent economic downturn has made our customers extra cautious when it comes to the decision to setup an offshore development center. We need to help our clients to sign-up flexible contracts and look for ways to suggest attractive pricing models (like milestone and slab-based pricing, revenue share) for our clients. The decision is strategic and much more complex than what it looks like on paper. Also, we would like to go to the Indian and east European service provider firms and help them to build value propositions in line with what our Israeli clients are looking for. We are exploring with*

some of our client firms to fund startups in India and develop joint IPs[13], which can help them in their quest for innovation at a low cost in these difficult times. "

------------- *End of Case* -----------

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[13] IP: Intellectual Property

APPENDIX-A: Strategic Outsourcing Concepts

What is Outsourcing?
Outsourcing can be defined as the act of transferring a piece of work to an external party. Organizations are often faced with the decision of whether to expend resources to create an asset, resource, product or service internally (*in-sourcing*) or buy it from an external party. If the organization chooses to buy, it is said to be engaging in *outsourcing*. An outsourcing initiative usually calls for the transfer of the production process, the resources used to perform the work and the decision rights, or responsibilities for making such decisions.

Who is a Client?
A client is the person or organization that would like to outsource a given project. Normally, this entity utilizes outsourcing as a strategic tool. Clients can range in scope as well as size. A client can be an entire organization as well as may consist of a unit within an organization.

Who is a Service Provider?
A service provider is the organization who takes over and executes the outsourced work. Like clients, service providers may constitute of an entire organization as well as a subsidiary of an organization.

Types of Outsourcing
Location
Outsourcing efforts can be segmented by location: on site or off site. In case of on-site work the service provider's team members conduct their work within client premises. However, in case of off-site work the service provider's team members conduct their work at their own location. Off-site work can be categorized as offshore or near-shore. Service providers can be tagged as '*offshore*' if it provides services from a different country or a different continent, or '*nearshore*' if it provides services from a neighboring country.
Depth
Outsourcing projects can also be segmented by their depth level: individual, functional or competency. Individual outsourcing involves outsourcing specific positions out of the organization (e.g. outsourcing Web design or public relations personnel). Functional outsourcing involves outsourcing of an individual functional area (e.g. outsourcing accounts function). Competency outsourcing involves outsourcing of activities that control how products and/or services flow through an organization (e.g. new technology development by outsourced vendor).
Type of work
Finally, outsourcing can also be categorized by the nature of work: process-oriented work or project-oriented work. A process-oriented work is usually easier to manage and involves the outsourcing of a well-structured, standardized and documented process. On the other hand, project-oriented work involves the outsourcing of unique and non-routine, unstructured and nonstandardized work and is more laborious to manage.

Factors Driving Global Outsourcing

Outsourcing has moved from initiatives that were just financially motivated to being strategically motivated. There are several factors that influence firms to consider outsourcing as a business strategy. These factors include and not just limited to:

      (a) Cost savings
      (b) Focus on core competencies
      (c) Access to resources and knowledge
      (d) Rise of global knowledge workforce
      (e) Increased sophistication of IT, and
      (f) Global knowledge diffusion.

APPENDIX-B: Outsourcing Life Cycle Process

The outsourcing life cycle is a process driven approach (Power, Mark J., Desouza, Kevin C., Bonifazi, Carlo, 2007) as shown in the following diagram:
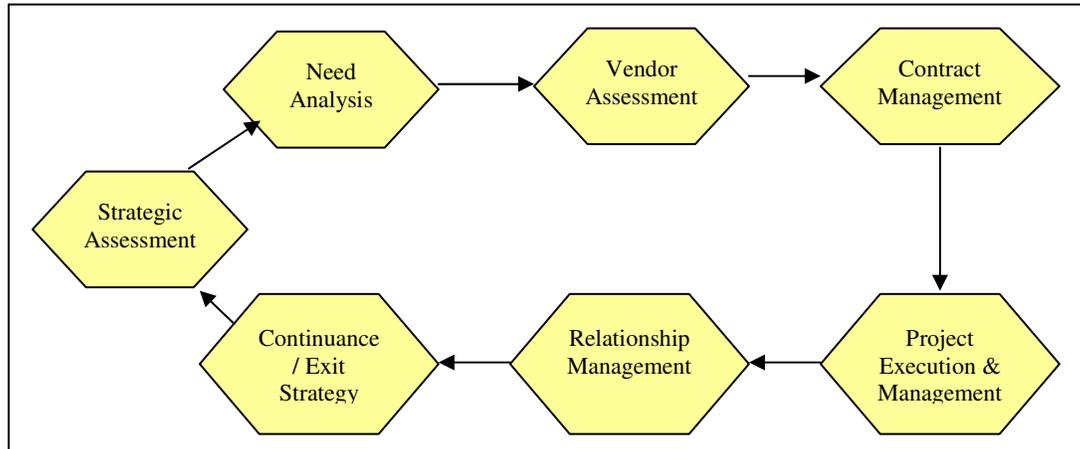
Each of these stages of outsourcing has sub-components and sub-processes that need attention. The strategic assessment is the focal activity in the first stage of outsourcing process. During this stage, the organization makes a business case clearly identifying the intended benefits of employing outsourcing as a strategy. For each potential projects targeted for outsourcing, the next stage is to conduct a thorough need analysis, which is a much more detailed process. The third stage is one of soliciting, evaluating and choosing the right vendor. Once a vendor is chosen, the next steps are to engage in negotiations until an agreement is reached about the details of the outsourcing work. The stages of project initiation and transition are the most seminal stages of outsourcing relationship, where the client organization slowly starts to relinquish control of the work to the outsourcing vendor. After the initial stages, the outsourcing relationship becomes routine enough for vendor to begin manage the day-to-day operations of the relationship, also known as governance. The focus at this stage is to keep up-to-date with the outsourcing relationship. While management of the relationship is a continuous process, occasionally the client firm may face events that require to pause or evaluate the future course of the relationship. Events such as new strategic alliances, challenges to the vendor's business or innovations in the market place can also trigger discussions to evaluate continuance / exit strategy.

APPENDIX-C: Offshore Development Center

What is an ODC?
An Offshore Development Center or ODC is located in another country away from the company's workplace / country, solely engaged in offshore project work. The purpose behind an ODC is to take advantages of the technological know-how, cost advantages and/or the reduced time to market.

Establishment of an ODC
An ODC is setup is various phases as mentioned below:
- Initiation Phase : In this phase, the infrastructure for the ODC is setup which includes setup of physical infrastructure as well as the human resources / professionals with relevant skills to execute the complete project.
- Definition Phase : This phase consists of setting up of functional processes to be used during the project implementation phase. Discussions between the client team and the vendor team take place to setup the communication protocol, operational efficiency/reporting structure, specific roles and responsibilities assigned to specific personnel, project delivery methodology and the escalation procedures.
- Execution Phase : In this phase, the ODC setup activity gets executed. The key B2Bcs s that need to be handled in any ODC activities are: protection of intellectual property(IP), exit policy, security and backup policies, ramp up and ramp down, risk management plan, attrition B2Bcs s, cultural integration, and transition / skill orientation.

Dedicated ODC
A dedicated offshore development center is a special case of ODC, where the vendor firm focuses on one client firm as its only source of business & project activity. In this case, the complete office space, infrastructure and resources may be dedicated to the client. Clients can also start with a small team initially and scale up the team at a later stage. The development center can be setup in a phased manner.

BOT (Build-Operate-Transfer)
In this model, the ODC is built based on the requirements of the client and runs on pre-defined terms and conditions, after which the ODC gets transferred to the client. At times, client firm may propose to buy the ODC at a negotiated price between the client and the ODC vendor. This model helps clients to build their own facility in a different country without having to be exposed to entry-level hassles.

Captive Centres
In this model, the client firm develops and maintains a subsidiary organization at a low cost geography. The client firm uses this centre to outsource work (IT as well as business process outsourcing) to get significant cost advantages. The model is similar to ODC (offshore development centre). The only difference being, unlike ODC – this captive centre is owned & maintained by the client firm only as part of its low cost geography / growth market development strategy.

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