

Expert's Forum

Making Small Beautiful



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If you decide to work with tier two providers of offshoring services, and want to measure them by the same parameters you measure the big companies with, you would be making a big mistake.

You may not be in that elite club of Fortune 1000 that everyone is after. Or may be, you want to take a cautious approach to offshoring and would like to test out a small process without any commitment for future growth. In that case, few Indian vendors would be interested in your work. It is party time for them anyway, with demand exceeding supply in the market. Or, you may not find the specific skill-set that is so important to you in any of the big Indian vendors that a company ABC in Pune (India) or an XYZ in Gurgaon (India) has.

In all these cases-and in many more-you may have to go for a vendor who is not among the 20-30 names that everyone repeatedly talks about. How do you measure them?

If the need is to select a smaller vendor, whether by compulsion or by choice, the process has to be very different from the one adopted for identifying the larger ones. Typically, the criteria for selection need to change. Moreover, the RFP may need to be redesigned completely. In most cases, the approach to evaluation will change given the fact that the vendor is smaller and has been in business for a shorter length of time. In this note I try and identify some of these differences that need to be looked at while evaluating a smaller vendor.

Focus On The Capabilities Of The Management Team

What is of foremost importance is to find out the capability of the management team. The people may or may not have prior experience in the industry. The industry is only a few years old and it is not easy to find good people with relevant experience. It is important to understand the background of the management team, where they have worked earlier, if they have a service orientation, the right attitude and mindset, and above all, if they have invested in learning about the outsourcing business.

Commitment of the management team is the next important consideration. The team may pass with flying colors on the points mentioned above, but will they stay. A smaller company would have a smaller team and their continuity is of great importance. The industry is extremely fluid and it is not uncommon to see senior managers moving organizations quite rapidly. It may be worthwhile to see if the top management team has been locked in through some mechanism like ESOP etc. The industry has grown through innovation, and the ability to adapt to new situations and to learn from the same. Demonstrated skills in this area would also be key in ensuring that the objectives are met.

Look For Flexibility In Contract Structuring And Governance

A smaller company, in order to win a marquee client, often makes a few concessions. You should know, which concession to take and which one to refuse. This is because your long-term success will depend on the health of the service provider. Good companies, though small, would not provide you too many unrealistic concessions. However, make the vendor provide flexibility in contract structuring and governance. It may even make sense for you to take equity in the vendors operation and partner in the governance model. This to my mind takes the organization towards the in-sourced model or the captive unit model, which has been pretty successful. The outsourcer and vendor need to adopt a partnership model for mutual gain and maximizing returns. Evaluating the relationship with existing customers will also give a good idea of the management team's openness to work in a partnership mode. This model allows the outsourcer to have better visibility of operations thereby preventing surprises. It can also be restructured to help the vendor in case he is financially weak and not able to fund during a rapid growth phase. The variables discussed above are important when dealing with smaller vendors. The focus while evaluating smaller vendors has to shift more and more to qualitative evaluation versus quantitative approach. The evaluation of a larger vendor will be more objective and most of the points mentioned above, will not be as relevant. Many other questions of the typical RFP relating to reporting systems, SLAs with other customers, past performance data in terms of various operational variables etc. may become less important because of the smaller size of operation or because the organization has not been operation for a long enough time.

There have been a number of success stories where outsourcers have joined hands with smaller vendors and worked together for mutual gains.

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