When is a "Hybrid" Sourcing Model not a Hybrid?

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Where are the world's leading companies heading with their use of outsourcing and offshoring efforts to achieve their competitive advantages? Everest recently completed a study of insights provided by global services executives in large organizations that are mature in their use of offshoring to drive optimized services and sustain their competitive edge. The study focused on their learnings to date and the challenges they face moving forward in using global sourcing to meet the objectives of their organization. The study revealed a phenomenon around "hybrids," which has significant implications for delivery of services and where the world's leading adopters of offshoring should channel their investments.

The so-called hybrid model was at the top of discussions with executives participating in the study. However, the term "hybrid" is used very loosely, typically implying only something that is no different than the situation in which many organizations find themselves today – that the organization uses both outsourcing and captive shared-services models.

When and why is a so-called "hybrid" sourcing model not really a hybrid? Using the term "hybrid" to simply mean that an organization accesses services from both captive shared-services and outsourcing is not helpful; utilizing both models is simply a mixed model, not a hybrid. One can liken this to the options available for automobiles.

Today, one can own a car that runs on a gas engine or a car such as the Chevy Volt that runs on an electric motor. Each has advantages and disadvantages, but owning both a gasoline-powered car and an electric car does not mean that one owns a hybrid car (nor does it create a hybrid garage that serves as home for the two cars). A hybrid vehicle such as a Toyota Prius solves challenges of both gas and electric models, creating a new breed composed of a mixture of elements of both the gas and electric breeds.

By extension, a hybrid sourcing model should combine the best attributes of each model into a model. More specifically, a hybrid sourcing model is one that combines the strengths of outsourcing and captive shared-services models to create a new model that is designed to capture additional value not available through a single model while better managing risk.

Before exploring the design points that one can use to shape a hybrid model, two other factors deserve consideration. First, hybrid models will not be applicable across all types of services. In many cases for a particular scope, a pure captive shared-service model or outsourcing model will be appropriate. As a result, utilizing a hybrid model will not mean that all services operate in a hybrid context. Second, since one must combine both models into a sensible solution, additional integrated design is required which will seldom occur if utilizing traditional sourcing frameworks and processes. In many cases, sourcing processes and organizations consider an outsourcing or captive model in isolation and do not attempt to combine the two.

Design points in the hybrid model. Our analysis identified several angles from which leading companies are successfully uniting or combining the use of both models to achieve greater value in delivery of services. We can liken them to a model's design points.

Let's look at three of the design points or service delivery purposes that drive uniting the two models into a hybrid:

- Speed and flexibility
- Operational resiliency
- Investment leverage

As the following examples show, there are advantages to combining the two models at certain points for certain purposes yet still maintaining both separately for other purposes.

Service delivery speed and flexibility. The business needs in this design point include gaining access to new skills, controlling the concentration of risks or accelerating the provision of new services. Companies establish their captive shared-services centers in locations such as India or the Philippines, which provide adequate labor pools to allow operating at a large scale. But they lack flexibility and are constrained from delivering services on a global basis because they cannot easily and directly participate in labor pools in other locations.

For example, an integrated oil and gas company has several large captive shared-services centers in tier-one cities in India but now wants to expand its services in different languages. It needs to be able to participate in the labor pools and language skill sets in South America and China. Combining with a third-party outsourcer's labor pool to quickly deliver the newly needed language skill sets solves the business challenge while enabling the company to retain the well-honed advantages of its captive centers and leveraging existing process definitions and supporting tools.

Operational resiliency. This design point enables an organization to more consistently deliver services as market conditions change. Several large global banks are using this strategy to control their concentration of risk. If, for example, a captive shared-services location overheats due to high inflation rate for scarce skills such that continuing those operations is unsustainable, the bank can use an existing third-party outsourcer to quickly scale-up the necessary skills in a different location in which the third-party has a pre-existing delivery capability and recruiting pipeline. At the same time, the company can maintain judgment functions in the captive unit that it is not comfortable turning over to a third party.

By combining the best of both models, the bank can deliver more services from offshore (greater total labor arbitrage) than it can do with either model alone. Additionally, having more sources of supply that each operate at an efficient scale provides the option to scale volumes up or down to more quickly respond to changes. Although this may temporarily increase costs, it provides a comparatively cost-efficient mechanism for making significant changes to a sourcing model when conditions change.

Leveraged investments. This design point ensures investments in capabilities, productivity, technology, and knowledge are better leveraged to create increased returns. Simple examples of this include facility sharing to ease capacity planning constraints or common project management tool sets.

A more complex example is the investment third parties make in training fresh talent. By cultivating relationships with universities and building corporate campus training programs, outsourcing suppliers can develop a scaled stream of lower-cost talent that can be used to provide services at the bottom of the pyramid. This then can allow captive resources with scarce, high-order skills to allocate more of their effort to experience-based activities such as system design, planning, and interpretation of analytics.

Analytics is a key area for business intelligence investments in today's competitive business arena. Organizations can leverage a third-party outsourcer's investments in analytics to operate at a scale prohibitive to the capital investments in a captive shared-service center. At the same time, the organization can invest in building deeper domain and company expertise within the captive unit to ensure that it applies the results of analytics to the business.

Predators or Collaborators? While the market talks about using a "hybrid" model, very few companies actually have a clear vision of how to use this model. Analysis of examples to date reveals that organizations wish to attain new types of value while better managing risk. Its "design points" are also becoming more clear as mature users of outsourcing innovate within their own models.

In reality, the vision is to leverage the advantages of a collaborative approach to services, uniting a mix of captive shared-services with outsourcing for certain needs. By combining the benefits of one model at a weak point in another model, companies can achieve better outcomes at a much lower cost and risk profile.

A key to success in leveraging the united model is balanced leadership that aligns the parties so the two models do not end up preying on each other. With effective leadership, the united model will result in both models expanding their scope together.

Please note that the article was originally published in the following Infosys publication:
http://www.infosysbpo.com/bpo-journal/Documents/BPO-future-forward-V.pdf

About Everest

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Since its inception, Everest has forged over 600 major outsourcing relationships, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 500 clients in industries including banking, energy & utilities, healthcare, hospitality, insurance, manufacturing, media & entertainment, retail, and telecom.

The Everest Research Institute serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, suppliers, technology providers, and investors in the global outsourcing and offshoring marketplace. Our research analysts address both business process and information technology sourcing topics, providing the global sourcing community with information that empowers highly productive, sustainable sourcing strategies and relationships.

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