

CAPTIVE
ODC

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Individual commitment to a group effort - that is what makes a team work, a company work, a society work, a civilization work.

-Vince Lombardi





OFFSHORE DEVELOPMENT CENTRE OVERVIEW

Offshoring refers to shifting a business function from one country to another. For a business, this can entail moving product manufacturing, IT functions, service centers or operations to a different country. Offshoring is often used to reduce the cost of business, with the company seeking to move parts of operations to countries with more favorable economic conditions.

So far the key drivers for the majority of offshore engagements have been the desire to reduce costs and improve the service quality. Using offshore locations with a lower cost base is clearly an attractive option in the search for cost reductions.

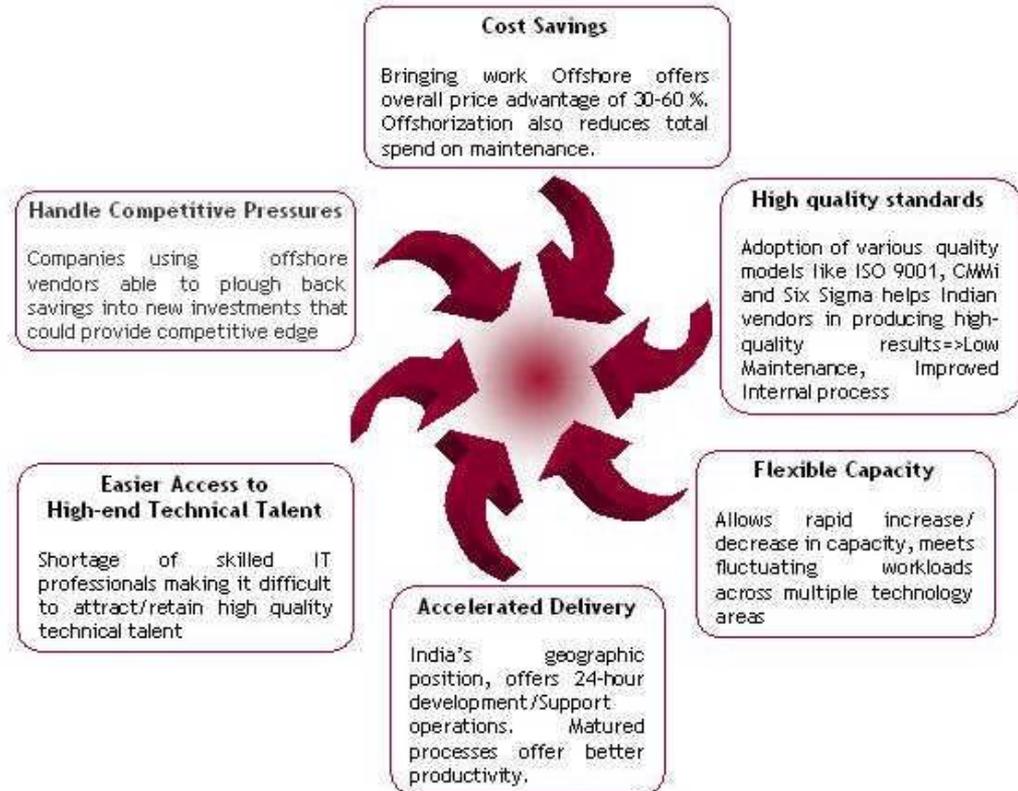
The following are the predominant benefits of using offshore services:

- 1. Cost savings***
- 2. High quality standards***
- 3. Flexible capacity***
- 4. Accelerated delivery***
- 5. Easier access to high-end technical talent***
- 6. Handling of competitive pressure.***

OFFSHORING BENEFITS

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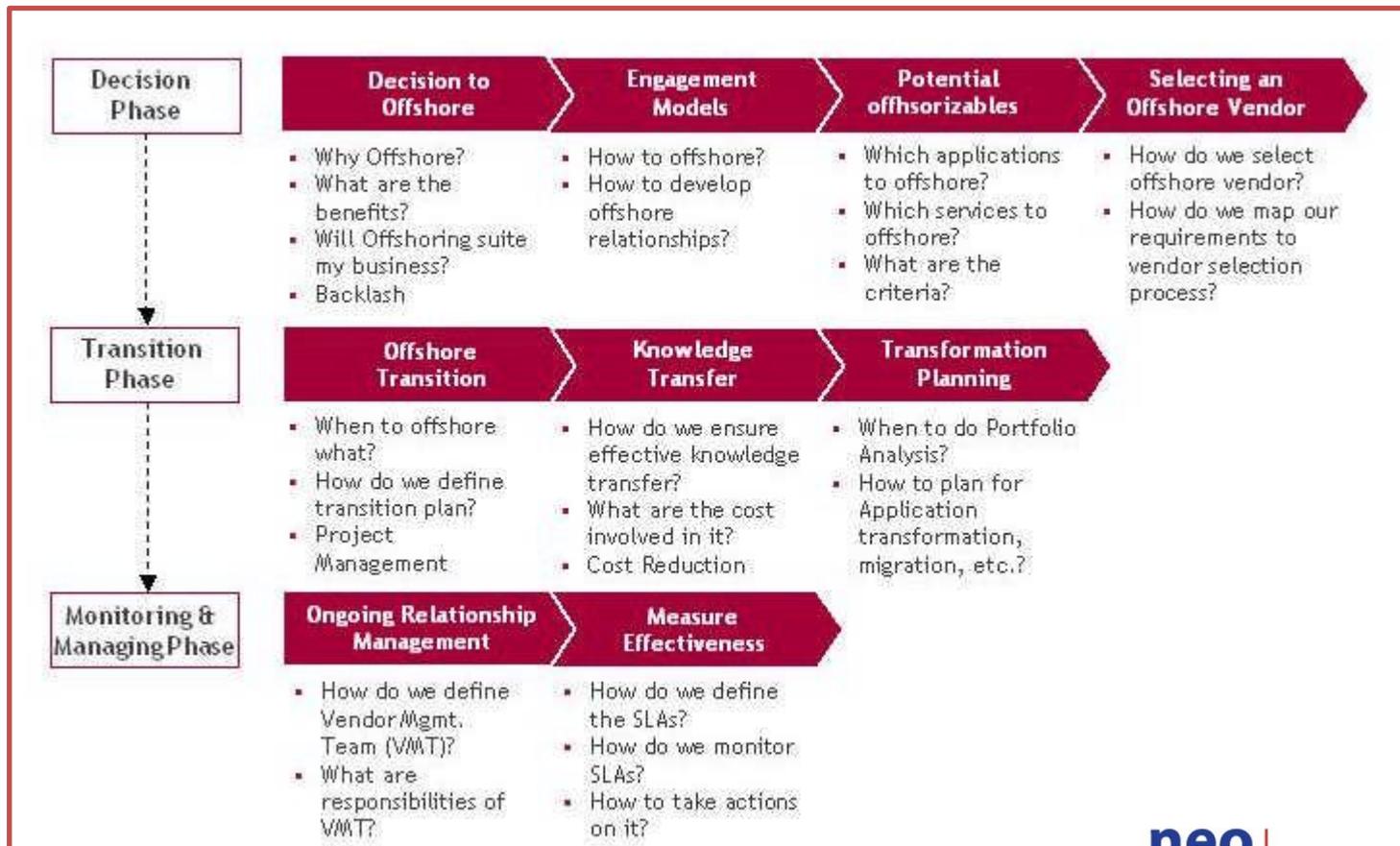
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OFFSHORE ENGAGEMENT PROCESS

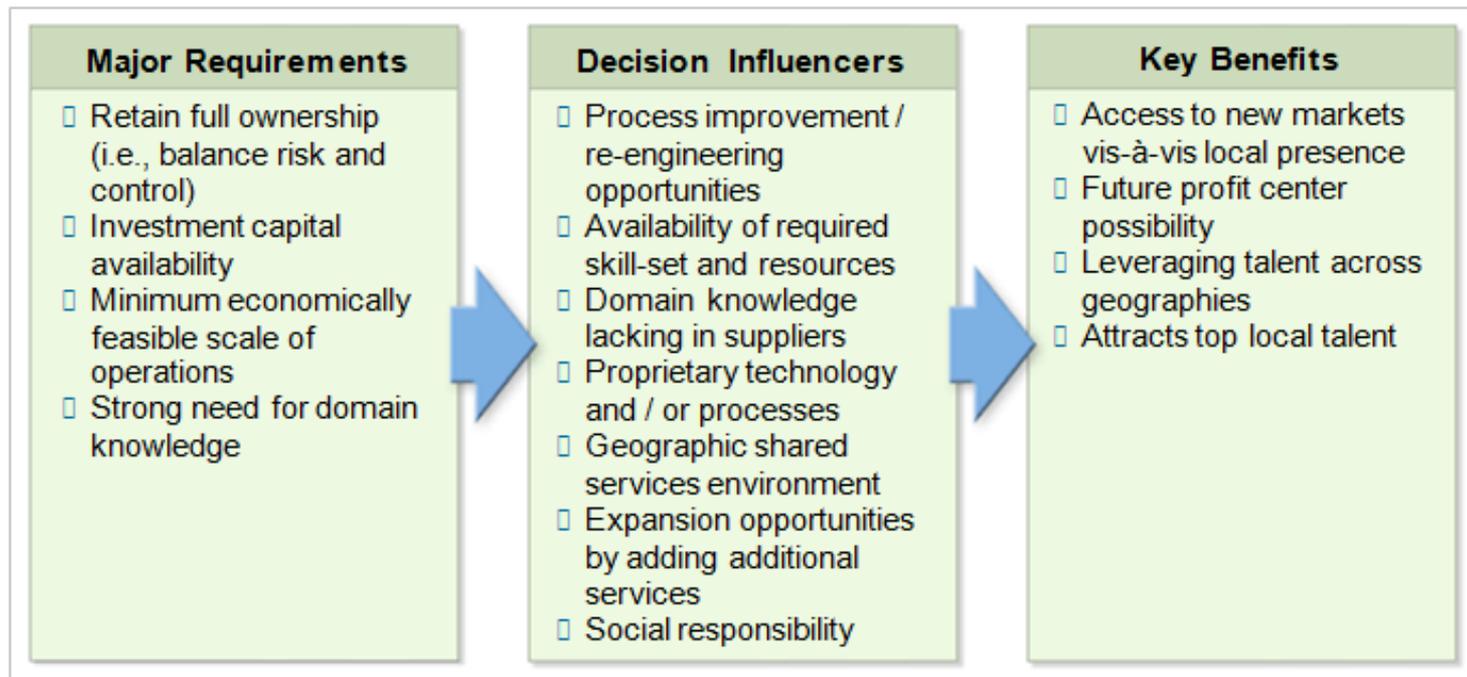
A typical Offshore engagement process can be diagrammatically represented as below. As shown in this diagram it goes through three key phases:

- ✓ *Decision phase*
- ✓ *Transition phase*
- ✓ *Monitoring and managing phase.*



CAPTIVE ODC CHOICE FRAMEWORK

The process of choosing Captive ODC model depends upon an analysis of a company's strategic requirements, decision influencers and key benefits afforded.



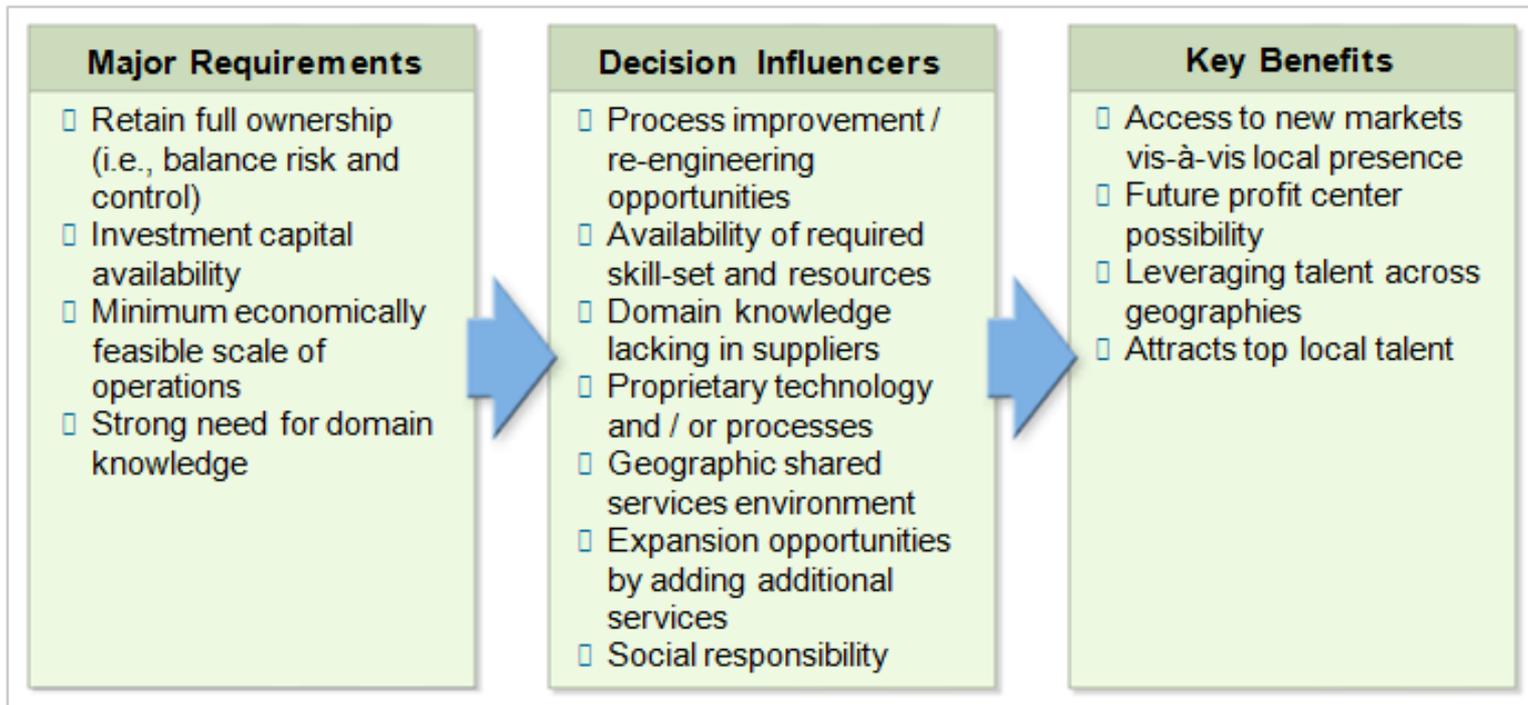
CAPTIVE OFFSHORE DEVELOPMENT CENTER

What Captive ODC Model?

In the captive center model, the business sets up its own subsidiary offshore so that all assets and staff are owned by the client business. The client then sets up its own operations through hiring local staff and leveraging expatriate staff. This model has the advantage of the client retaining ownership and operational control. Captive centers will best serve clients that want to migrate core business processes offshore including IT.

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CAPTIVE ODC – MAJOR REQUIREMENTS

Control

Captive is an obvious choice if the company has a need to have total control over the quality, timeliness, process, security, data privacy etc. of the process in question. With a captive, companies will have the advantage of offshore operations without the management challenges of working with a third-party.

Risk

Captive is a strong choice if the company needs to aggressively manage and retain control over their risk profile. Many firms that are regulated tend to manage their offshore business processes in captive centers, especially for critical business areas.

Location Scale

When choosing an ownership model it is important to understand the economical feasibility for the location in question, which includes the resource availability, infrastructure, etc.

Domain Knowledge

A captive is often the best option when there is a high need for industry- or domain-specific knowledge and suppliers in the offshore location do not have the required deep process expertise.

Incremental investment costs:

Instead going for investments in one go, depending upon the load of work that is being taken up from the parent company; the investments could be brought in an incremental manner.

CAPTIVE ODC DECISION INFLUENCERS

Process Improvements

Sourcing complex business functions across multiple cultures presents multifaceted challenges. These facts force many companies to look at a long-term globalization strategy, driven not solely by labor arbitrage but also by potential for increased quality and process improvements or business process reengineering.

Recruiting Benefits

Historically offshore outsourcing has involved moving work from a developed nation to a developing nation. In this situation, the offshore talent pool often looks fondly on working for a large multinational company headquartered in a developed nation. Hence, attracting the right talent, which is crucial to success of an offshore BPO center, becomes easier.

Proprietary Processes

With captive centers, companies can have more control over proprietary processes or technologies that require greater assurance of security/data privacy than could be provided by a third-party service provider.

Geographical Shared Services

When there is a need to coordinate disintegrated processes serving similar product lines across different geographies, often companies will use offshore captive centers to create a shared services environment. By nurturing this environment companies can enhance global service levels across functional areas.

Expansion Opportunities

A third party supplier will always include a margin for future growth plans of their organization. Client companies may find it advantageous to invest the money in growing their own operations.

Social Responsibility

Although not the primary reason for choosing a captive operating model, social responsibility can play a role in the decision process.

CAPTIVE ODC BENEFITS

New Markets

With business going global, and countries becoming virtual boundaries, there is an immense opportunity to leverage old investments in new markets, utilizing local expertise and talent. GE, Intel, Motorola, Mattel are doing this in China. In other examples, firms have been able to either speed up entry into new markets or make underserved markets attractive.

Profit Centers

Traditionally offshore captive centers act as cost centers. The long-term opportunity with such centers is to convert them to profit centers, or strategic business units, which can help generate additional revenues. Historically the best practices captive centers have reincarnated as the best-of-breed suppliers. Successful examples of firms turning a captive into a profit center include British Airways, Conoco, Citi and Deloitte Corporation.

Talent

Skilled managerial resources can be leveraged and redeployed to the various offshore locations. Business knowledge and experience with the processes adds value to the second level managers who are usually recruited from within the local marketplace where the site exists. For specialist processes such as Insurance Underwriting or Taxes, there is a need for certified individuals who have extensive experience in a particular domain. Such individuals are becoming increasingly scarce in mature markets, and can be very expensive to employ and retain. Local suppliers are not likely to train and retain these individuals unless they are involved in client work. Captive centers have a good chance of attracting top-talent for industry-specific skills. AIG and E&Y have done this successfully.

Human Capital

A captive center will generally attract a more educated worker than it would in the parent country. These same workers are also more likely to be committed to a multinational captive center than a local supplier. Jobs in captive centers are seen in the local offshore market as a career not just a stepping-stone to better things. The people are driven not only by the opportunity to work for respected organizations, but also by the fact that the company has made a long-term commitment to the local market.

Driving factors for Captive ODC

Scalability – Altering size of facilities, skills, technologies etc

Resources Flexibility – Availability of adequate resources with right skill-sets reduces the dependency. It also helps in executing short-term projects.

Security – Infrastructure & Application access, authorization and audit

Adaptability – Quick change over to latest technologies and skills

Productivity – Resources delivery effectiveness

Quality – Quality control and process improvements

Knowledge Retention – Application and process knowledge

Operational Control – Effective process, policies, procedures and practices control

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