

# 4 OUTSOURCING CHALLENGES

While outsourcing has its own benefits, a key issue is the misalignment of Client and Vendor goals. Outsourcing to an external vendor can bring increased operating efficiency and process maturity to client organizations. However, the very nature of the outsourcing model is sometimes at odds with client objectives. This misalignment can impact performance, profitability and client control. These are the most common challenges we see on a regular basis



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## Client and vendor do not share the same business horizon

Clients naturally take a longer term view of the business. While outsourcing providers typically focus on recouping investments over the short term. This leads to:

- Maximizing profits by deploying cheaper resources but quality suffers
- Creating artificial attrition by rotating out the most experienced people

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## An "us" versus "them" culture that impacts performance

Creating a shared sense of values and a strong culture is a challenge in any large organization. Outsourcing makes this more difficult with the need for collaboration between organization that don't share the same culture. Symptoms indicating a lack of trust can result in hitting a performance ceiling

- The inability to fully integrate the client and vendor team leads to higher management overheads
- Problems surface too late for alternative measures

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## Limited incentives to drive innovation

Innovation requires the application of new technologies and the development of new knowledge from skilled resources who have gained insight to processes. Outsourcing models put constraints on innovation by pursuing limited risk, incremental improvements

- Vendor focus on SLAs takes the incentives to improve beyond agreed upon terms
- Domain knowledge does not grow due to constant rotations for cost control.

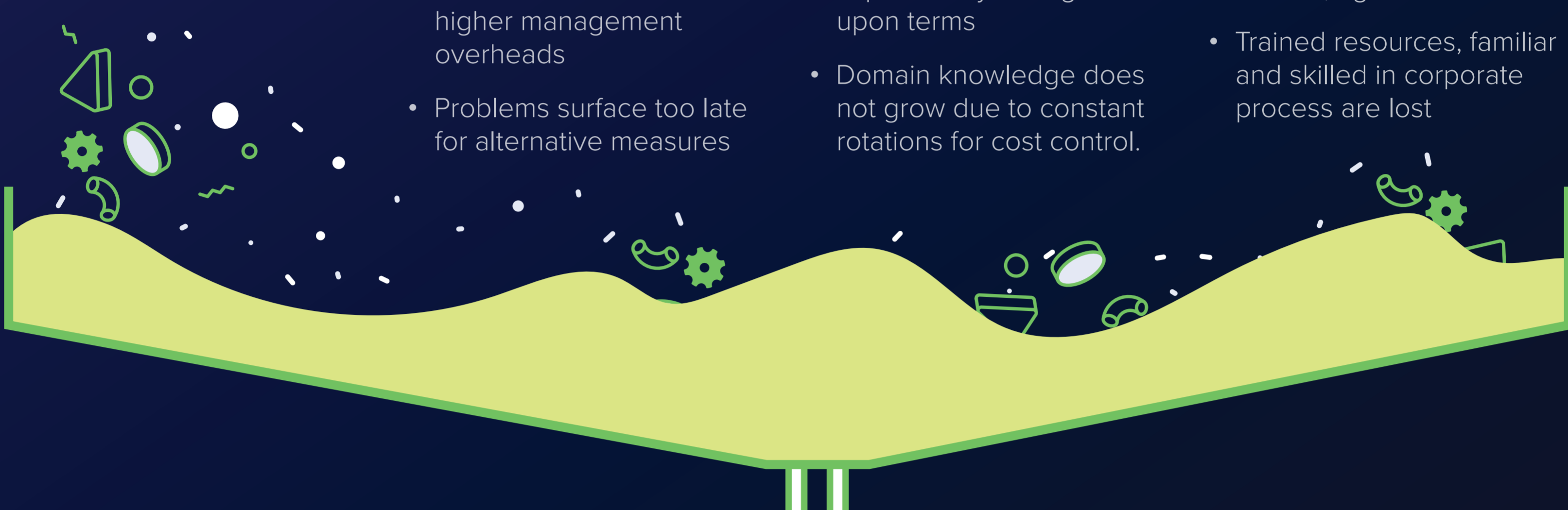
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## Inadequate planning or no plan for transition

Many companies change outsourcing providers at the end of the term. In other circumstances, vendor outsourced operations may move back in-house to a captive. End of contract transitions can present challenges because offshore capabilities are not a permanent asset.

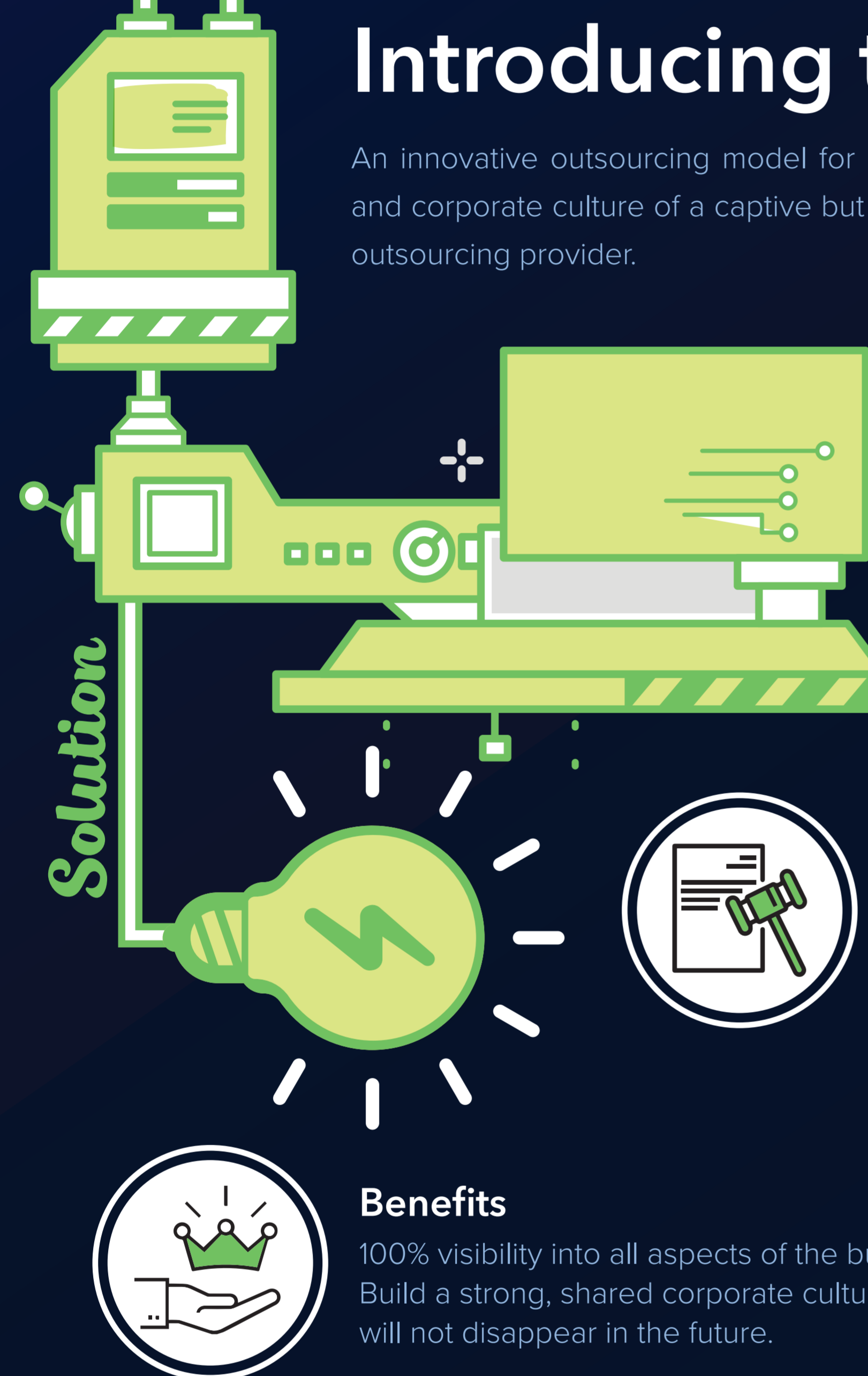
- With a change in vendor, the client has to start from scratch, again
- Trained resources, familiar and skilled in corporate process are lost



## Introducing the Hybrid Captive

An innovative outsourcing model for Private Equity that provides the operational transparency and corporate culture of a captive but with the cost efficiencies and process specialization of an outsourcing provider.

## Here's how the Hybrid Captive Center (HCC) works



### Attributes

Cost plus model with full financial transparency and reporting. Governance model built around active client participation. All legal, financial, and regulatory risks assumed by ThoughtFocus. Option to transfer the HCC to the client in fully operational condition.

### Benefits

100% visibility into all aspects of the business including hiring. Captive-like control over all issues. Build a strong, shared corporate culture with retained tribal knowledge. Create a long term asset that will not disappear in the future.

## Here's how the major outsourcing models compare to the Hybrid Captive Center

Goal	Traditional Captive	Hybrid Captive	Traditional Outsourcing
Adoption of client culture	██████████	██████████	███
Ability to attract and retain talent	██████████	██████████	██████████
Knowledge retention	██████████	██████████	███
Adoption of new technology / innovation	██████████	██████████	██████████
Process maturity	██████████	██████████	██████████
Transparency	██████████	██████████	███
Total cost of delivery	██████████	██████████	███
Control over operations	██████████	██████████	███