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# Beyond Offshoring

*Building Regional  
Service Networks  
In Asia*

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# Beyond Offshoring

## Building Regional Service Networks in Asia

The relocation of business processes from one country to another, better known as offshoring, is an established global trend. But successful companies now realize that there is more to offshoring than cost reduction. Moving offshore can bring a company closer to new customers in high-growth markets. With the right plan and effective execution, offshoring can also be a critical step toward the creation of an integrated regional service network.

### I. Introduction

Mention offshoring, and many people think of Asian “service factories,” where multinational corporations handle such functions as data entry and record keeping. Today, these back-office activities are supplemented by call centers and IT help desks, and leaders in a variety of industries are moving engineering, portfolio modeling, and other knowledge-intensive processes offshore. Global investment bank Goldman Sachs, for example, recently announced that Bangalore, India, would soon displace Tokyo as its third-largest operation by head count.

Almost all multinationals can benefit from moving in-house support functions offshore. The opportunities are particularly compelling for activities such as customer care, billing, and transaction and claims processing, and for companies in service-intensive sectors such as telecommunications, banking, health care, and airlines.

India’s educated, English-speaking population makes that country a popular offshoring destination. However, India is only one piece of the puzzle. Other Asian countries, including China and the Philippines, are expanding their offshoring capabilities. The growing number of locations to choose from, coupled with regional business hubs such as Hong Kong and Singapore, and mature, larger markets such as Japan and Australia, has changed the logic of offshoring in two ways.

First, rather than simply moving activities from country to country in search of lower costs, companies are using offshoring to establish cohesive regional service networks across multiple jurisdictions. This portfolio approach mitigates some of the risk involved in setting up in a single country and allows companies to benefit from the different skills available in each location.

Second, many offshoring destinations are becoming important markets in their own right, and a local presence supported by an offshore network can be a successful way to tap these markets. A local/offshore combination is particularly appropriate where deep understanding of cultural concerns is important or where acceptance of a product or service is at an early stage. Local companies in China, for example, are less familiar with business process outsourcing than are their peers in India.

Aligning and rationalizing legacy organizations is one of the most complex tasks in creating an integrated regional service network. In many companies, the service function evolved at a national level, often with each country’s service organization built to accommodate local needs in a way that was never intended to work across countries. Worldwide, chief operating officers now face the challenge of transforming this so-called multidomestic model and its legacy organizations into integrated, efficient, and effective service-delivery platforms that capture the benefits of multiple locations. This transformation requires coordination across multiple geographies and multiple functions.

### II. Ambition versus Reality

In client assignments, Booz Allen Hamilton has noted three areas in which ambitions must be reconciled with reality: service offerings, footprint and capacity, and processes and organization (see Exhibit 1, page 2).

For many companies interested in creating a regional service network, one of the main goals is establishing a consistent value proposition, with uniform service levels and pricing, and with a single point of contact for customers. However, local regulations and client expectations can make standardization difficult. Furthermore, without extra investment, it is challenging to achieve high service levels in markets that are too small to break even. Furthermore, “silo thinking”—in which managers focus on their national operation to the exclusion of regional or global objectives—can frustrate coordination across multiple geographies.

Clear definition of the service offering can help to resolve these issues. Companies should consider the type and level of services required locally; the mix of local and global customers and their potential for growth and profitability; the service level and value proposition offered to each customer segment; and

how the company's service is differentiated from the service offered by competitors.

The introduction of a regional service network is also an opportunity to realign existing skills and capacities with new growth markets, and to access lower wages offshore. To achieve these benefits, companies must move expertise from mature markets to emerging ones. However, skill transfers can generate opposition from employees who feel threatened by the offshoring process, and offshore training and development frequently takes longer than expected. Customers who have longstanding relationships with local service personnel or concerns about offshore workers' language or technical skills may also offer resistance to these efforts.

Unhappy employees can cripple a service-based company, so it is important to take a long view of the organization's capacity requirements and need for economies of scale. A positive first step is to create "virtual scale" through global or regional workload sharing. To provide an effective balance between creating scale and offering a local face to customers, consider consolidating service centers.

Finally, many companies use the establishment of a regional service network to standardize their operations and organization, align global service delivery processes for scalability, and introduce consistent IT applications and training programs. In doing this, management aims to benchmark costs, eliminate inefficiencies, and cultivate best practices on a global basis. These benefits, although achievable, must be attained by overcoming cultural and linguistic barriers that can hinder standardization at the process and activity level, as well as taking into account local laws, regulations, and client requirements. In addition, different customer needs and levels of business maturity

complicate meaningful "apples-to-apples" comparisons, and legacy policies, metrics, and systems are often too inflexible or costly to standardize.

### III. Making the Transition

#### *Focus on Customer Benefits*

Transforming a collection of disconnected, country-based service organizations into an integrated regional or global service organization can be complex. A clear objective—rooted in how the transition will benefit customers and the service provider—will guide the difficult business choices necessary in the change program.

For one of our clients, the goal was to deliver uniform service levels across the globe. This seemingly simple objective had significant implications. For example, should there be a single, global price for a given service? Or should prices vary to reflect different input costs and competitors in each market? This can be a vexing challenge, particularly when a customer has the lead time and inclination to move work around the world in pursuit of the lowest cost. Finding the optimal price for a service in an environment with a matrix of geographies and key customers requires sophisticated cross-geography coordination, IT tools, and organizational alignment that provides incentives to perform work with which the service provider maximizes profitability and meets agreed-upon service levels.

The same issues apply to the delivery platform, which should allow a company to provide services in such a way that the customer never knows, or cares, where the work is done. Yet customers frequently have to interact with service providers to exchange information or ideas. Whether by telephone, via e-mail, or in person, this interaction makes the service provider's location transparent to the customer. For some

**Exhibit 1**  
Three Steps to Success

<b>Define the Service Offering</b>	<ul style="list-style-type: none"> <li>▪ Type and level of services required locally</li> <li>▪ Mix of local and global customers and their profit/growth potential</li> <li>▪ Service levels and value propositions offered to each customer segment</li> <li>▪ Differentiation from competitors</li> </ul>
<b>Specify Footprint and Capacity</b>	<ul style="list-style-type: none"> <li>▪ Define current and future capacity requirements</li> <li>▪ Move capacity to new geographies and rationalize existing capacity</li> <li>▪ Achieve economies of scale and scope by consolidating service centers</li> <li>▪ Create "virtual scale" via regional or global workload sharing</li> <li>▪ Create balance between presenting a local face (e.g., local language and physical proximity) and scale-driven considerations</li> </ul>
<b>Design Processes and Organization</b>	<ul style="list-style-type: none"> <li>▪ Mission and respective roles of national and regional organizations</li> <li>▪ Process and policy standardization and optimization</li> <li>▪ Metrics and performance management</li> <li>▪ Organizational structure and skills development</li> </ul>

customers, having service providers speak to them in their own language is important, as it improves intimacy, which is often an implicit element of the service promise.

As U.S.-based computer manufacturer Dell discovered, this is not always easy to do. Dell repatriated some customer service activities from India after receiving complaints about the English fluency and technical abilities of its call center staff. Cost savings are a secondary consideration if dissatisfaction with a service platform causes customers to defect.

#### ***Achieve a Balance between Standardization and Customization***

Every service organization must make a trade-off between the local customization needed to satisfy clients in a specific country and the scale efficiencies that result from standardization across geographies. A useful starting point is to isolate the elements that are critical to local customers, and then identify the impact of these elements on the global platform. From the results of this assessment, we typically find three ways to proceed:

**Local Customization:** Customize services for local clients. Country organizations must be able to make a clear business case for incremental local customization.

**Limited Local Customization:** Permit customization, but only in specific circumstances, such as accommodating intermediaries or meeting local regulations.

**Standardize, Then Integrate:** Adapt for local factor cost differences, such as lower wages. Then standardize to improve efficiency and integrate to achieve scale and maximize consistency.

Each of these approaches determines the degree to which country organizations can customize services for local clients while remaining consistent with global operations. Increasingly, though, “Smart Customization” is expanding the range of local choices that companies can offer while retaining the benefits of scale<sup>1</sup>.

#### ***Make Structural and System Choices That Create Scale***

A regional or global service network made up of individual country units can easily become a string of subscale operations, each of which is too small to achieve breakeven economics. As a result of language and cultural requirements, for example, many companies have service organizations in smaller markets, such as Thailand, Singapore, and Korea. However, these service organizations frequently remain subscale because the markets they serve are not large enough to justify offering a full range of services.

Companies can use several approaches to increase scale:

- Combine subscale organizations into a single regional center.

- Establish regional centers to handle low-value-added work, such as document processing.
- Form regional competency centers to achieve economies of scale and continuous learning. The centers develop and maintain expertise in complementary areas and share that expertise with other regional centers.

#### ***Improve Visibility and Balance Workloads***

Successful service organizations gather information on aggregate demand from multiple locations and use this data to enhance supply planning. The challenge here is to segment demand into addressable “buckets,” or types of work. Activities may use similar processes but be hard to combine because of language barriers, technical requirements, or operational factors.

To better serve global customers, leading service organizations combine visibility of aggregate demand with regional coordination that allows them to rapidly allocate supply capacity and smooth out variations in demand. On one recent client assignment, we found that demand-side volatility—which measures variance from the average workload—decreased to less than 40 percent per month from 60 to 80 percent per month when several Asian country organizations were integrated.

However, identifying potential efficiency improvements is just the first step. Achieving these gains requires systems that allow cross-functional teams to dynamically manage capacity. Companies that put these systems in place and craft agreements on how to manage trade-offs across geographies, costs, and other factors can see significant impacts. Higher service levels, larger market share, and lower costs are all possible.

#### ***Organize for Success***

Having the right organizational structure is critical. However, designing that structure in Asia is often difficult because the region’s rapidly changing, diverse economic and operating conditions call for a centralized and a decentralized approach at the same time (see Exhibit 2, page 4). The difficulties in achieving the right organization are exacerbated by differences in factor costs and—in countries like China—acute shortages of skilled workers, especially for critical management positions.

Although many companies hope for a single solution, the optimum structure is usually a hybrid that uses arrangements that are appropriate for each market and function, and that combines skills and expertise in a way that ensures profitability. Inevitably, this produces compromises that must be managed, up to and including adjusting the company’s business approach and ambitions so that they are aligned with organizational limitations. For example, certain service levels may not be realistic given customers’ ability or willingness to pay.

## Exhibit 2

### Optimizing the Balance

**When optimizing the balance between centralization versus decentralization in regional servicing network structures, companies should focus on four principles:**

- Decentralize only the functions and activities that are essential. Allocate scarce, high-capability decision-making and technical resources only to the most critical markets; extend them to sub-regions on a project or transactional basis.
- Centralize more than would be considered ideal in other markets to preserve economies of scale (volume) and scope (expertise). Use lead markets to make directional or policy decisions for smaller markets with exceptions to policy approved centrally. Maintain consistency especially in reporting metrics/measures. Aggregate support functions at the highest possible level: corporate, region, or sub-region. Build local support only when economically justified.
- Actively manage the resulting balance. Ensure consistency of decentralized decision making through formal policy and process reviews at regular intervals. Be vigilant of creeping, local processes that differ from best practices. Focus and reinforce the capabilities of local resources, and transfer those capabilities across affiliates.
- Develop carefully structured plan for the organization's evolution overtime, as growth allows increased local adaptation and specialization. Prepare a HR plan for key positions and functions as local affiliates develop the size of market to support greater specialization.

Source: Booz Allen Hamilton

For one company, the challenge was to achieve scale and reduce costs while improving collaboration at the regional and global levels. To do this, they moved from a country-centric to a function-oriented organization (see Exhibit 3). From a change-management perspective, the company needed to encourage country-level general managers to look beyond the profitability of their own operations and reduce processing time and costs by sending work to other parts of the organization.

#### **Empower the Local Team**

Many companies built their Asian service organizations through a series of acquisitions or via multiple, country-level investments without planning for consolidation. This situation is similar to the environment in the United States and Europe before low-cost telecommunications and computing networks provided the foundation upon which geographically diverse operations could be integrated (see Exhibit 4).

For one such company, a global provider of safety certification services for consumer and industrial products with high electronics content, the challenge was integrating its Asian offices—including Japan, Korea, several locations in China, Hong Kong, Taiwan, Singapore, and India—keeping in mind that China was the focus for future growth. The company's goal was to standardize and selectively localize its operations, a move that represented a radical change in the company's philosophy and operating model.

To make this change, company leaders needed to find the optimum operating model. This required them to determine how much customization and localization would be permitted for each office, and how the new regional organization would integrate with the global structure. The company was then

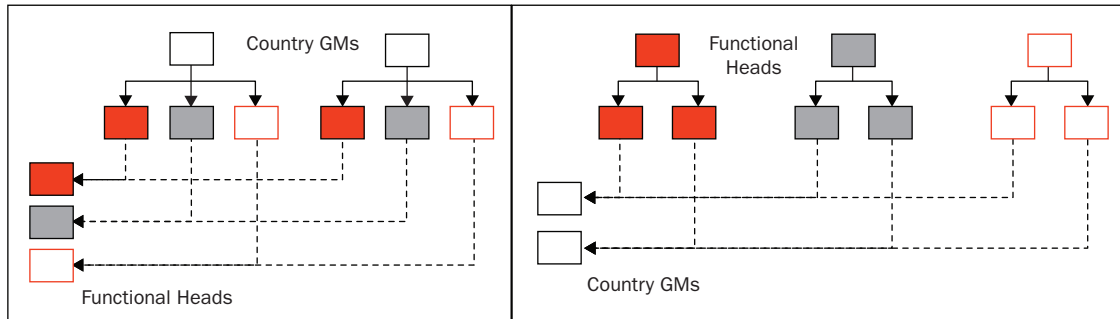
ready to plan the transition to the new structure, including the sequence in which the offices would be converted, the management of customers through the transition process, and the best methods to achieve buy-in and maintain good employee morale.

When these organizational questions were resolved, the company was ready to launch a pilot program. Generally, a good place to start is in an office where the implementation difficulty is relatively low, in order to build confidence and address unforeseen issues in a “safe” setting. Typically, this should be a smaller office where the operations are not too complex, but not an office that is so small that the pilot may be seen as unrepresentative. Mature offices with strong, experienced staff can manage the process of change more smoothly, and are usually seen as credible pilot sites.

Ideally, the country general manager should champion the transition, have a global perspective on the new model's benefits, and provide visible leadership to ensure the pilot's success. Communication ability is critical, especially when expertise is being transferred from another market. In this example, the parent company was based in the United States, so English skills were essential, and Hong Kong and Singapore were identified as ideal locations to begin the rollout.

Once the pilot is complete, it becomes easier to tackle locations with more complex operations. At some point, it is crucial for the change agenda and implementation to be “owned” by a regional leadership team, rather than by the head office. The most successful examples use a mix of Asian and head-office resources to tap the full power of the company. This regional/head office combination not only

**Exhibit 3**  
From Country Orientation to Functional Orientation



Source: Booz Allen Hamilton

minimizes cultural and linguistic difficulties but also provides training for the Asian team before they tackle more difficult implementations.

For this company, the benefits of building a regional service organization included:

- Improved staff utilization. Staff time spent on customer work increased by 10 to 50 percent across the Asia Pacific region.
- Reduced lead time. For most product categories, lead times declined by 40 to 60 percent.
- Higher quality. Improved visibility and accountability eliminated the 2 to 3 percent of orders that were periodically “lost in the system.”
- Better compliance. Enhanced transparency and

communication increased compliance with promised delivery dates by one-third.

- Reduced training costs. Delivering training across seasonal work cycles and improved career planning resulted in significantly lower costs.

**IV. Conclusion**

Asia’s diversity makes the creation of a regional service network a formidable task, one that requires significant management time and attention. However, the business benefits—including reduced country risk, improved access to growth markets, and cost and efficiency gains—can be dramatic. These benefits can also provide an important competitive advantage for organizations that are searching for ways to serve customers more effectively.

**Exhibit 4**  
Building a Regional Network

Regional Locations	Regional Network Development
	<ul style="list-style-type: none"> <li>▪ <b>Hong Kong, Taiwan</b>—Historical center of operations, tied to traditional centers of electronics ecosystems—served as “centers of excellence” and “centers of company culture.”</li> <li>▪ <b>Japan and Korea</b>—Entered these markets through acquisitions—strong positions, but need to integrate and adapt to new corporate culture, processes, etc. as part of regional servicing network.</li> <li>▪ <b>India, Singapore</b>—Started greenfield operations in India to support emergent growth. Singapore serves support role across region.</li> <li>▪ <b>Mainland China</b>—Newest operations, but with largest growth, with focus on serving Chinese customers and global customers with Mainland China operations. Challenge is in rapidly training large numbers of new staff to support growing customer demand.</li> </ul>

Source: Booz Allen Hamilton

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