

April 2010

CEO Spotlight

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Point of Scale ResistanceSM

Tholons has introduced the concept of Point of Scale Resistance (POSR)SM in analyzing service delivery locations, the concept refers to the point beyond which organizations will encounter challenges in ramping up operations in a location

The dynamics in today's outsourcing landscape has evolved to a level that competitive pressure is being exerted from multiple fronts. Global expansion by multinational service providers, increasing dominance of countries such as India and the Philippines in specific service lines, and the emergence of aspiring service delivery regions such as Eastern Europe and Latin America – are all eagerly cornering their respective shares of the outsourcing market.

Given this heightened level of competition, one of the biggest challenges for smaller or *scale-restricted* locations is sustaining and productively competing in the current scenario. Further, an ancillary challenge for these locations is how they can better integrate their smaller labor pools into the outsourcing sector. Large service providers often prioritize choice of location for their delivery centers based on accessibility to qualified talent over the longer-term.

With the shifting of priorities from basic availability of talent pool to a sustainable supply of employable labor, Tholons has introduced the concept of **Point of Scale Resistance (POSR)SM** in analyzing service delivery locations. The POSRSM concept refers to the point beyond which organizations will encounter challenges in ramping up operations in a specific location; essentially underlining that a large population and labor force do not necessarily guarantee scalability – the pivotal point now for labor scalability is quality of labor force and thus employability.

We believe that the POSRSM concept is a tool that scale-restricted countries should implement to efficiently compete in the global outsourcing market. For these countries, employability and appropriate identification (profiling) of labor pool skills, and consequently, of targeted service lines, are essential. The POSRSM concept is based on a proprietary Tholons model which takes into consideration multiple, interrelated supply and demand side metrics in generating a POSRSM score (or level). Further, the POSRSM concept will become an increasingly important consideration for emerging delivery locations to promote their capabilities. This idea will allow smaller countries, or even individual city locations, to compete in more relevant and appropriate service lines. POSRSM assists in identifying what a location *can/cannot or should not* do when looking at the outsourcing industry.

We also see the value of the POSRSM concept as a platform for comparative analysis across destinations with distinct scale properties. Take the case of Colombia and the Philippines for example. Colombia's POSRSM is pegged at 1,500. This means that service providers would theoretically encounter difficulties in ramping up headcount beyond 1,500 employees. Looking at Colombia's close competitors, smaller countries like Chile and Costa Rica are at 1,000 while Argentina, with a population of 40 million, has 2,300 as its POSRSM. On the other hand, outsourcing incumbents such as India and the Philippines have POSRSM levels of 16,000 and 4,000 respectively. This means that if Colombia, with half the Philippines' population, is to achieve a POSRSM that is proportionately equal to what the best-in-class (the Philippines for BPO) has attained, it should target at least a 2,000 POSRSM.

The fact of the matter is, even if the competitive nature of today's outsourcing landscape has evolved; it does not necessarily imply that smaller players will be unable to compete with larger payers. On the contrary, the POSRSM concept allows for better and more focused identification of specific service delivery capabilities and capacities of a given location. Through this concentrated approach, scale-restricted destinations are best able to capitalize on their inherent advantages and take advantage of the *most relevant* outsourcing opportunities.

If you have any questions or comments about this article please contact at avi@tholons.com

