

Purpose-Built Model: 7 value creation levers for PE & PortCo Outsourcing





Abstract

In this whitepaper, we describe the traditional models in the outsourcing industry, the vendor and subsidiary models and their evolution to provide more value to stakeholders.

It then covers in detail the 'Purpose Built Model', Aeries' innovative solution that has been tried, tested, and fine-tuned over the last 10 years. This model is designed to overcome the challenges that traditional outsourcing models pose, such as functional silos, compliance, taxation, and transfer pricing issues.

The Aeries Purpose-Built Model is a next-generation service delivery model that can help Private Equity (PE) firms and Portfolio companies (Portcos) overcome business challenges and offer the best of both the captive and vendor models. Read in detail to explore more.

Who will benefit from this whitepaper?




- PE and Portcos looking at value creation
- Businesses looking at inorganic growth, but not sure which is the best approach
- Companies who want to increase productivity, scale and optimize their operations, thereby improving their bottom-line
- Companies looking to outsource non-core business functions to save costs and reduce system complexity
- Business entities looking to set up their Business Process Operations and Product Development Centers in India

Evolution of Outsourcing Industry

The outsourcing industry has been evolving over the past few decades with a shift from a traditional value chain to more scalable value-based services, with an enhanced focus on digital transformation. While traditionally the major purpose of outsourcing was to reduce costs and resource optimization, off-late the driving factors have been more strategic – including access to niche

technologies & specialized resources, cost optimization while improving velocity for time to market. The nature of the outsourcing industry enables organizations to take advantage of the geography and time zone coverage to augment business capabilities. This provides an edge over competitors as well as improves customer experience with greater global coverage.

Trends in Outsourcing arrangements

 Traditional	 Current	 Emerging
Take over existing processes	Process enhancement, benchmarking, develop new improved processes	Create Solutions, Collaborative Partnership
Specialized provider	Diversified provider	Networked partners
Single provider	Multiple providers	Symbiotic ecosystems
Captive / Vendor	Captive / Vendor	Facilitators/Dedicated delivery model
SLA driven	SLA driven	Organization driven
Price-driven partnerships	Process-driven partnerships	People-driven partnerships

Outsourcing models cater to the differing requirements of organizations and the nature of engagement, and the most common ones are either working with a third-party vendor or establishing one's captive subsidiary in a preferred location. In today's dynamic work landscape, critical questions arise when finalizing the optimal way of delivering services. Global captive shared services or third-party vendor organizations have helped the world's largest companies to save millions of dollars. The major factors that differentiate these models are control and ease of operations, cost, flexibility, and risks. In the following sections, we will do a quick assessment of these models and what they offer.



Subsidiary or Captive model

A captive model helps retain entire operational and functional control within the organization. It generates cost savings through labor arbitrage by setting up operations in low-cost geography and performing business as part of its own operations. Here, the company

needs to set up the captive from scratch, including setting up the office and infrastructure, regulatory licenses, hiring, and training resources to get them to be productive. Below is a quick snapshot of the pros and cons of the subsidiary model.

Benefits



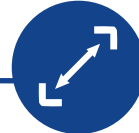
Control

- With complete control over resources and day-to-day business management, the organization can closely monitor the tasks
- Change management is easier to manage as the organization is not bound by contractual terms



Risk Management

- The client can mitigate risks associated with intellectual property and other data security issues
- The subsidiary also retains the knowledge of industry-specific business processes and techniques



Scalability

- A captive model would offer higher scalability for a long term strategic outlook where a company can benefit from economies of scale
- Large organizations can look at business growth by setting subsidiaries in financially attractive locations



Culture & Policies

- A subsidiary can enable consistent employee engagement and unified HR processes
- The company culture, branding, and values are seamlessly transferred to the captive unit

Challenges



Cost & Effort

- The costs for capital equipment or operating overheads would typically be high
- There is a lot of time and effort needed to set up the infrastructure & operations in an unfamiliar culture and foreign legal, tax accounting and business practices



Tax & Cash Repatriation

- Tax implication, compliance and risk related to assessment and scrutiny results in cash outflow
- Some countries have cash repatriation restrictions resulting in –
 - (a) cash outflow due to taxes and other costs at the time of repatriation
 - (b) regulatory restriction many times set limit on the amount that can be repatriated



Benchmarking

- Benchmarking performance and processes in a subsidiary could be difficult, as there is no standard guideline against which it can be compared
- The resources and standards set are internal to the organization and learnings from industry best practices could be limited



Regulatory Risks

- The dynamic regulatory landscape poses huge challenges for organizations to keep in pace with the change, assess its impact & update internal policies

The Vendor Model

A typical vendor model taps the global talent pool of resources who can work on client functions and processes, through an agreement with the service provider to provide an agreed scope and level of service in return for an agreed price. The operational, administrative overhead and control lies with the service provider,

and the customer, in turn, receives a set level of quality and volume of work as defined in the service level agreements. While this model can leverage the technology, knowledge and expertise of the service provider, there are both benefits and challenges to this model as well.

Benefits



Availability of Bench

- Quick ramp-up to meet immediate hiring requirements, through resources on the bench, that reduces the delay in starting the project due to the non-availability of skilled resources



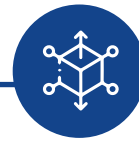
Fewer efforts and time commitment

- The service provider does the heavy lifting of setting up the administrative, hiring and HR services
- The service provider will take up the responsibility of delivering the work on time and with the quality agreed, while the client can focus on high priority tasks



Best Practices

- Vendors have access to industry best practices and can apply learnings from other customers to optimize operations. As their core business, vendors have more industry knowledge and experience



Economies of Scale

- Enhanced ROI owing to economies of scale, and low cost owing to labor arbitrage
- Reduces cost and optimizes resource utilization

Challenges



Intellectual Property infringement

- It may be difficult to verify if the service provider is following appropriate safeguards for intellectual property
- Resources can be transferred to other projects, possibly of competitors, which can present IP risks



Control

- Since the resource would typically be a contractor and being managed by the service provider, there is little control on his tasks and processes
- The client typically would not know the resources working on the project and their skills, and there is a disconnect in understanding the client's business and culture



Quality

- In spite of the agreed SLAs and service agreements, the quality of the work delivered may not be at par with the organization's internal resources, considering their higher understanding of business
- Communication issues owing to resources being part of a separate organization can deter fruitful results



Realization of Benefits

- The benefits realized could be lower than expected, with slow response times and at times, slow issue resolutions
- The understanding of the issues and priorities may not be synced, which could lead to slippages

Aeries Purpose-Built Model: Best of Captive and Vendor models

There has been a need to integrate the standalone shared captive service centers and third-party vendor models into a model that extends the advantages of both, moving away from silos by function and creating a single organization without any hassles of compliance, taxation and transfer pricing issues, time and effort to set-up infrastructure and control.

Aeries Purpose-built model is a next-generation service delivery model that is far superior to traditional offshoring, and as the name indicates, is tailored to client needs and augments the best of both the captive and vendor model.

Purpose-Built Model - Unique features

It operates as a Center of Excellence with a complete client service focus and replicates the headquarter setup and extends the organization chart, to quickly ramp up operations as a virtual extension of the teams in the desired location.



With 100% dedicated resources, complete functional and operational control rests with the client organization, with full flexibility to ramp-up/down, as per evolving business needs, leading to an effective and efficient expansion. This enables organizations to completely concentrate on their strategic focus and initiatives as their daily functions are managed through these Dedicated Delivery Centers.

The dedicated centers ensure consistently high-quality output with cost optimization and control, while not having to worry about tax, regulatory and compliance issues.



The Aeries Talent Management team, Talent Acquisition team, Project Management team, Facility and Administration team and Aeries core team, work in collaboration with clients to ensure the highest standards and performance that is expected of a captive subsidiary. Aeries Leadership team provides oversight & governance on the engagement.

Purpose-Built model – The right choice for Private Equity and Portfolio Companies

In today's world it is increasingly important for Private Equity firms and Portfolio Companies to remain relevant in an ever-expanding marketplace, maximize their value creation and achieve their exit strategy.

Outsourcing your non-core business functions is one of the best ways to save costs and reduce complexity. Whether you're a private equity firm looking for the right portfolio, or a portfolio company in need of a new non-core business function, finding a right outsourcing partner is a strategic imperative to value creation.

The Aeries Purpose-Built model has been disruptive and has created a unique and flexible approach to help organizations manage their talent, technology and operations delivery requirements.

With a customized approach and industry and function agnostic solutions, clients experience benefits like significant cost savings, improving efficiencies in processes, greater compliance, ownership and accountability, enhancing organization agility and momentum to adapt to changes, scalability and innovation.

Purpose-Built Model has been effective in contributing actively to profit generation and reduction of the bottom line, thereby improving the cost-income ratio. Aeries has a great deal of experience supporting PortCo companies, covering the entire life cycle post acquisition, including Due Diligence for identification of synergy opportunities and the ability to deliver increased margins. Our Purpose-Built model ensures risk based execution with optimal treatment of resources, technology and processes, providing a proven non-traditional approach for boosting returns.



Why consider Aeries Model? – The Seven Levers to Value Creation

Aeries supports and drives your global growth, by building and managing your dedicated delivery centers in appropriate locations based on business needs. The delivery model is flexible to the type of industry and geography. Aeries model has evolved to be an arrangement that brings in significant and continued tangible and intangible benefits to the client over the short and long term coupled with substantial flexibility.

Below are seven parameters, that differentiate the Purpose-Built model and provide value creation levers for Private Equity and Portfolio Companies, along with a comparison of how the model scores over the vendor or captive models.

1. Cost of Operations

Vendor Captive Aeries Model

Aeries scale of operations allows us to operate far cheaper than a captive international subsidiary or native US-based model. The pricing model is simple, clean, transparent and highly cost-efficient. Aeries charges a margin on direct cost (resource-related cost) and passes on all indirect costs (rental, utilities, etc.) to the customer on an actual basis.

Cost Savings



While we guarantee a minimum of **40% cost savings** (over a 3-year term for transition from the US and high-cost European geographies) as part of our contractual terms, **most of our clients have experienced 60%+ cost savings.**

The model allows for an approval system that has a structure for client approval enabling continuous cost tracking and cost control. Further, the invoices are itemized and show year-to-date overall cost and optimization. The client gets visibility to every single supporting documents/evidence for expenses.



2. Talent Management

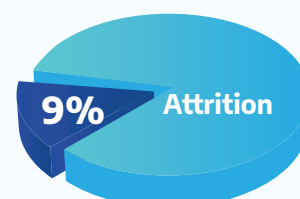
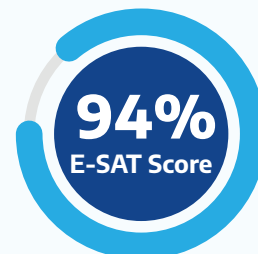
Vendor Captive Aeries Model

Aeries model ensures quality availability of talent with desired skillsets to ensure the client gets the right-fit hiring for their business. We employ the best industry practices and use diversified sourcing channels to hire the right skill set, with the client's team active involvement to match the organization's needs. Aeries has a **strong in-house recruitment team** and is well connected with leading recruitment agencies, resulting in quick sourcing of the right talent. Other than vendors, Aeries also sources through employee referrals and direct sourcing through job portals. Aeries follows an effective and efficient screening process to narrow down the right candidates within tight timelines, which takes client feedback as well, especially for all senior positions.

Best in class HR practices

We follow the best HR practices for compensation, benefits, incentives and rewards, along with the best learning and development programs to support performance and career growth. We create a One-Team culture by closely understanding and integrating Client's HR practices and company culture, to ensure the employees build active affinity and recognition towards the client brand and corporate culture. This approach yields better synergies and collaboration in delivery and ensures we have amongst the highest satisfaction and retention rates in the industry.

Aeries Key Stats 2021 Talent Management



3. Functional & operational Control



Aeries teams operate as an extension of your organizational chart, with direct management control of operations and dedicated delivery resources by your department heads. Aeries engagement model provides complete functional and operational control and transparency into the processes while avoiding the administrative and regulatory overheads.

At Aeries, the client has direct visibility of the team structure as well as the resources within each function. With the access and control over every decision, the client can collaborate with the site head on Aeries side for service quality and delivery levels and adherence to SLAs. The site-head acts as the Go-To person for all matters related to the dedicated teams working under the aegis of the client’s corporate culture. The Aeries team constantly engages with the client’s leadership with a partnership approach to align all functions and resources specific to the client’s requirements to build the operations as ‘one team.’

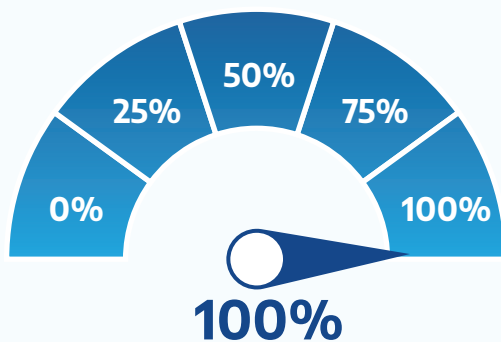
4. Flexibility



Aeries model is built to adapt to your needs, so you can quickly scale up or scale down resources depending on your business situations and objectives, with no financial penalty. Aeries supports and drives your global growth, by building and managing your dedicated delivery centers in appropriate locations based on business needs. The delivery model is flexible to the type of industry and geography, and it provides an arrangement that brings in significant and continued tangible and intangible benefits to the client over the short and long term coupled with substantial flexibility.

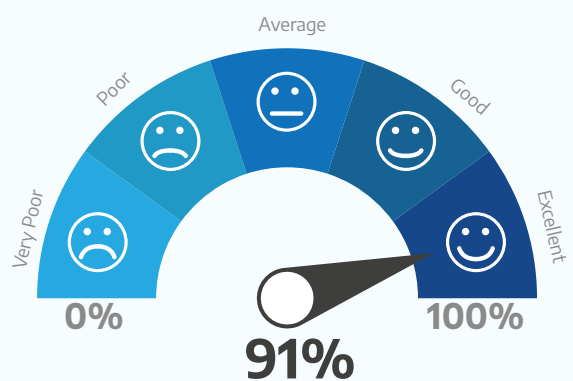
Aeries also provides a Build-Operate-Transfer (BOT) option to buy the dedicated operations from Aeries once it is set up and optimized, and the client is ready to take full control of the project and set up its own subsidiary. This provides the clients the ease of taking over operations that are already established and running efficiently, thus avoiding the initial hassles of setting up one's captive unit. In a vendor model, this operation can be extremely time-consuming and difficult, and it is not cost-efficient as well.

Client Retention



With a 100% client retention, we know that our clients value the control framework that we provide, through which they can steer the business operations to maximize value.

C-SAT



Our C-SAT score of 91% re-iterates our client's satisfaction with Aeries on fulfilling their program and business objectives, with a high regard to collaboration and flexibility.

5. Culture and Branding

Vendor Captive Aeries Model

The dedicated delivery center is fully aligned to your branding, culture, and your organization policies for a unified engagement experience and a One-Team culture.

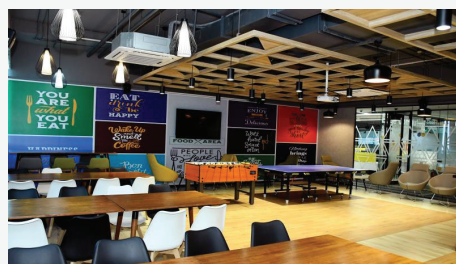
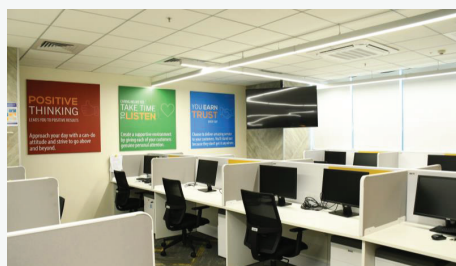
Culture and Branding Initiatives at Aeries

- Client logo prominently displayed in the offices.
- Office and workstation set up, furniture & stationery as per client brand guidelines & colors.
- Client HR policies applicable to employees.
- Fun at work sessions, celebrations, R&R, etc. completely aligned with the client.

The culture and branding initiatives ensure alignment with client culture and helps ease building strong working relationships. In addition, the work hours of dedicated client resources are aligned with the client requirements in different geographies, and can **provide 24/7/365 days operations (as per requirement)**, using both shift-based and the **'follow-the-sun model'**. Aeries client-dedicated resources are flexible to adapt and cater to different cultural sensitivities aligned to the geographies they work with. The relationships are also strengthened by resources traveling to the client location and client team traveling to their centers in Aeries offices.



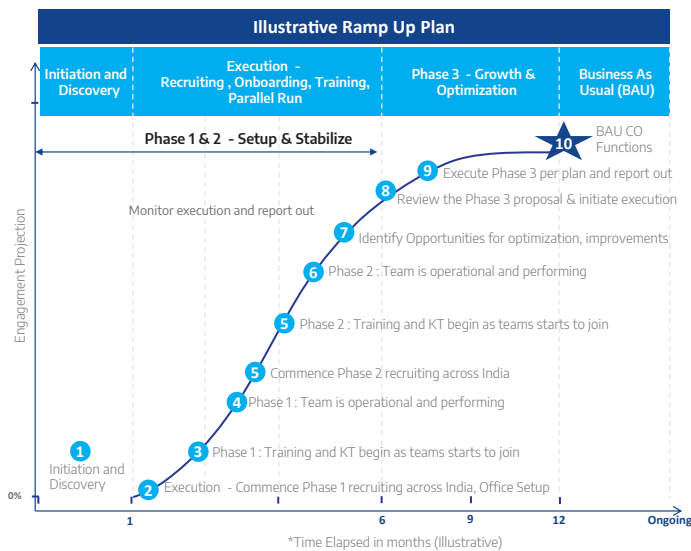
Aeries - Client dedicated offices in India - Few samples



6. Engagement & Governance Framework

Vendor Captive Aeries Model

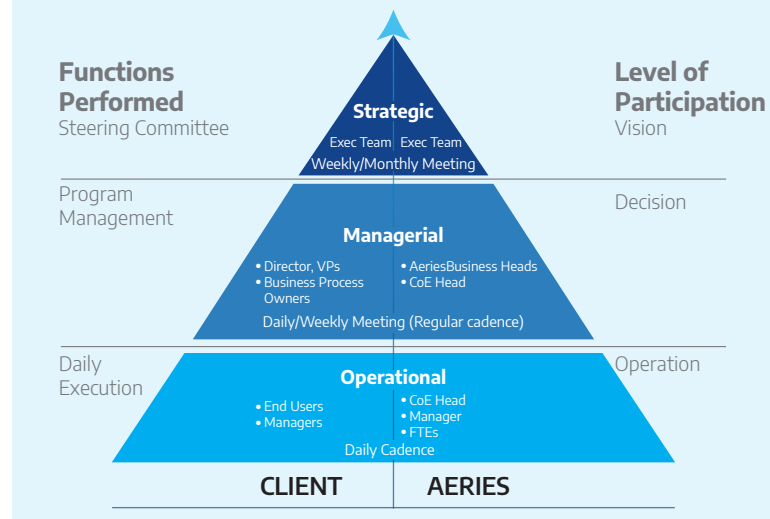
The Aeries engagement framework ensures a quick transition and ramp-up time for your business operations through the phases indicated below.



Aeries provides high-quality supervision, administrative and operations support, functional upskilling in local geography together with strategic inputs relevant to client business through the Aeries Engagement Framework, which consists of the following five layers of engagement.

- **Executive Sponsors (Client + Aeries)** represented by the respective executive sponsors from the client organization and Aeries. This layer provides the Relationship, Strategy, Direction & Governance for the engagement.
- **Steering Committee (Client + Aeries)** represented by key designates from both the client organization and Aeries, is responsible for Planning, Coordination, Issue Resolution & Oversight for the engagement.
- **Aeries Senior Management Oversight** to provide Local Oversight, Planning & Stabilization of Operations.
- **Aeries Corporate Core Team and Support Functions** provide Project Management, Planning & Operational Excellence oversight for the engagement during initial setup and steady-state.
- **Functional Operations Teams** represent the actual client matrixed and dedicated functional teams.

Aeries Governance & Oversight Model



Aeries also plays an anchor role by taking up Senior position/s in client org on an interim basis when required. This helps fill in important positions when needed, especially during carveout or M&A, when Aeries senior management can step in and provide valuable expertise and direction. Aeries senior management interacts very closely with the client's senior management on strategic matters including organic and inorganic growth, business expansion opportunities.

In the Purpose-Built Model, Aeries by default, engages the operational excellence and technology team to evaluate opportunities for refining process workflows, automating and identifying areas to incorporate new age technology tools including Robotics Process Automation (RPA), Artificial Intelligence (AI) and Data Analytics. The team acts as a layer over its core outsource operations and provides business process re-engineering consulting and technology solutions enabled transformations.



NPS

Our NPS score of 93 reflects the confidence and trust that our Client Executive Team place in us, and the results we help them achieve through our unique governance model

7. Taxation & Compliance

Vendor Captive Aeries Model

Owing to the nature of the Purpose-Built model, the entity in India set up as your extension limits your tax liability. The tax implication, compliance and risk related to assessment and scrutiny are managed by Aeries, ensuring there is no cash outflow. Also, many countries have strict guidelines on the right price to charge for inter-company

services and at times, can become a long outstanding litigation matter. Aeries model overcomes this challenge and you can avoid transfer pricing, thus avoiding adverse impact due to cash outflow of tax, tax disputes, cash accumulation and dividend distribution tax.

Outsourcing Next - Aeries Purpose-Built Model

With all the above benefits, Aeries Purpose-Built Model provides the perfect blend, the benefits of having an own captive center, along with the flexibility to ramp up or down as per business needs.

Aeries enables organizations to effectively manage their business operations, processes, customer outreach, technology, security & compliance requirements through customized, industry-agnostic solutions in a unique partnership-based model that eliminates the deficiencies of the vendor model or the subsidiary arrangement. With no infrastructure costs and access to the best resources, our team can ensure that your international expansion plans can be fructified in a cost-effective manner.

Aeries empowers stakeholders and their organizations to be flexible, competitive and nimble to achieve their goals of enduring cost efficiencies, ops excellence and value creation. As a seamless extension of your organization, Aeries provides you operational control, flexibility, organizational strengthening and talent nurturing, which are necessary for a business to grow in today's fast-paced business environment.



About Aeries

Aeries enables organizations to effectively manage their technology and business operation requirements for growth and business expansion through customized industry-agnostic solutions. We help Private Equity and their Portfolio Companies to manage their technology, transformation and business process management requirements through varied partnership-based engagement models suited to their needs. With skilled dedicated resources, flexibility and leadership support, we empower organizations to be flexible, competitive and nimble to achieve their goals of enduring cost efficiencies, operational excellence and value creation in today's fast-paced environment.

