Five Things To Consider Before Outsourcing

The decision to outsource requires careful planning and research. Simply applying known outsourcing strategies is not always effective, as no two organizations are the same. To assist in the initial understanding of outsourcing this document analyzes five considerations that should be considered before entering an outsourcing arrangement.

Who Should Outsource

Every company is a candidate for some form of outsourcing. There are many tasks that companies perform that are repeatable and well-defined that can be completed by an outsourced resource. Growing organizations that do not yet have the internal resources necessary for growth can utilize outsourced resources to fulfill project needs. Moderate to large companies that are struggling to meet customer needs or project demands should consider outsourcing. Companies experiencing fast growth or entering new service areas where they lack expertise make great candidates for outsourcing.

What should be Outsourced

Traditionally, only non-core tasks were outsourced, but as technology and outsourcing skills have improved both core and non-core tasks can be outsourced. However, only those projects which are repeatable and clearly defined should be outsourced. A client cannot expect to have a poorly functioning internal task run better when it is outsourced thousands of miles away. Defining the task so that it is a clearly defined repeatable job is essential. The rule of thumb is that a process should be iterated internally until the investment in improvement outweighs the return.

Back office non-consumer facing tasks make the best candidates for outsourcing including; data entry, technical support, accounting, writing, human resources and payroll. Consumer facing tasks can be outsourced but more consideration must be given to the market impact of outsourcing to avoid negative impacts to the business.

Where to Outsource to

Choosing the right vendor can make the difference between success and complete chaos. Choosing a vendor means choosing a partner that will run a portion of the business. This huge responsibility must be considered carefully. Do you really want the cheapest vendor managing your business? Too often companies select the vendor that delivers the lowest price and after the transition is complete the business learns the important lesson that value comes with a price.

Business Understanding

The first thing to examine when looking for an offsite vendor is the market(s) or industry that dominates their business acumen. A vendor that does not understand the client's business will take longer to acclimate to the work, more prone to making mistakes, create delays because of a lack of understanding and failing to meet expectations. When speed to market is impeded by outsourcing the business can lose its competitive edge. Ensuring the vendor has an understanding of the client's industry or business market includes the lingo, problems, enablers, business processes and procedures.

Similar Procedures

Clients should seek out vendors that have similar management processes. This will facilitate communication between the business and the offsite resources. Similar management structures increases the value of reporting procedures. Clients should not expect to dictate to the vendor how to perform the job. Many outsourcing services providers have a pricing model based on their already existing procedures. If a client wishes to change or modify a procedure the cost is typically increased. It also adds to the complexity of the relationship, which can lead to failure. Businesses should take advantage of the experience, processes and procedures outsourcing vendors bring to the engagement.

Location

Location plays a considerable factor in the off-site model. Today's telecommuting delivers the means necessary to allow off-site resources to meet business demands from anywhere in the world. Current security measures, techniques and processes allow information to be shared quickly and securely. Manufactured products require other considerations including; transportation, trademarks, and IP rights that often get lost in translation and are later found in a competitor's product. Time-zone impacts, communication gaps, along with ideology and cultural differences can turn a simple off-site project into a management nightmare that seems to be never ending.

Communication

The number one complaint and reason organizations are unsatisfied with off-site vendors is communication. This can be due to language barriers, time zone differences, or cultural misunderstandings. Communication can be bolstered by allowing ad-hoc communication for quick questions or clarifications. Language and cultural differences are the most common communication problems. The difference between speaking a language and understanding a language can be huge. Language barriers, if left unchecked, will have a huge impact on business relations, and that can impact customer satisfaction. Frequent communication is a prerequisite in the early days of the off-site arrangement.

When searching for a vendor, clients should ensure that the vendor has enough onshore resources to help facilitate project and relationship management. Getting onshore resources can also help avoid conflict in language and time zone differences. Recording teleconferences and recording

other communications along with documented discussions is also helpful to ensure that both parties are understood.

When to Outsource

Costs

Companies should outsource when it is financially wise. This means more than just labor savings. Businesses must also consider the market impact of the decision. The cost of outsourcing should be at least 10 to 15% less than current internal costs and deliver additional value. When the business needs its own internal resources for other projects it may make an exception to this guideline.

Flexibility

Outsourcing offers a tremendous amount of flexibility. The ability to ramp up and down resources to meet schedule demands can be the difference between winning or losing the speed to market race. Outsourcing provides the opportunity for the business to focus on its core operations or revenue generating activities. If a project requires specialized skills that are not available in-house outsourcing can be the fastest way to obtain those talents.

When to avoid

Outsourcing should not be considered until an organization has a clear understanding of what is required and expected of a vendor. A strong governance program should be created to manage the outsourced relationship. Businesses face considerable risk with outsource relationships that don't include a strong governance program.

While there are many reasons for an organization to outsource and as many reasons not to outsource forcing businesses to consider their own maturity levels before outsourcing. Like how well developed are the tasks to be outsourced? If tasks are poorly defined it's not the best time to outsource. Likewise if an upgrade or process change is upcoming it's certainly worth reconsidering the plan before pulling the outsourcing trigger. Businesses experiencing change, high growth, buy out, acquisitions, etc., should avoid outsourcing. The business change can be hard to handle and the benefits even harder to measure.

Why Outsource

Entire articles are written about the benefits of outsourcing. The two largest benefits are those of cost-avoidances and flexibility. Outsourcing avoids training and hiring costs, employment benefits, and state and federal taxes. While there are obvious financials gains perhaps the greatest benefit is the flexibility offered by outsourcing. An organization can quickly get the resources it needs, allowing for a faster response to workloads. The increased flexibility also allows organizations to increase or decrease their workforce based on current project demands.

Other benefits of outsourcing include
- Gaining access to specialized skills
- Lower operational costs
- Greater Flexibility
- Enhanced performance
- More effective operations

About Rosewood Partners, LLC

Headquartered in a rural East Texas town, Rosewood Partners, LLC is a unique management consulting group that builds on its small town roots of loyalty, partnership and commitment. Its team is comprised of industry specialists with centuries of combined practical hands on business experience in the areas of change management, operations management, off-site and staff augmentation services. Rosewood's leadership philosophy is drawn from actually having led teams located all over the world through corporate downsizing, merger and acquisition activities and everyday business operations.

With its down-to-earth small town roots Rosewood believes in keeping things simple. Real-life experience has granted its team members the ability to employ simplicity to solve real world business problems. The straightforward tasks that simplicity demands deliver the reward of constant and consistent results. It is this simplicity that drives Rosewood's OES methodology, Operational Excellence Simplified.