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Outsourcing and Offshoring: Where Do You Stand? Where Will You Go?

Whether you know it as outsourcing, offshoring, or business process re-engineering, the practice of moving repetitive and transactional activities overseas continues to increase as a major factor in today's markets. Outsourcing in its broadest terms topped \$1 trillion in 2002 (Dunn & Bradstreet) with a CAGR of 13 % over then next five years. In IT terms, this market is probably closer to a very significant \$250 billion after professions not directly related to the IT industry have been segmented out.

Outsourcing will effect most organizations in the next five years, so it is important to go beyond the reactionary question of how the outsourcing movement will effect your organization. Each of us should be asking how the potential benefits of outsourcing could be leveraged to directly impact our companies' bottom lines and to increase our competitive advantages. These are not easy questions. However, done correctly, outsourcing can move up the spectrum from a tactical effort to reduce costs to a strategic weapon in areas like time-to-market and customer lifetime value.

Where To Start

Picking the right place to start lays the foundation to the success of the implementation and sets the compass for growth in value of the initiative over time. The Oxford Institute has done an exhaustive study suggesting 2 out of 3 outsourcing projects failed to meet expectations when the targets were not selected within the framework of a long-term strategy. This figure reverses when steps are taken to plan activities and stage them strategically to leverage the benefits of the prior initiatives. It is interesting to note in this study that "success" was based on the impression of the sponsors and managers, not necessarily on how well initial objectives were met. This discontinuity between results and impressions points to a manager's evolutionary understanding of outsourcing's potential, and how objectives as they were originally laid out – not simply the execution to plan – fell short of their potential.

Choosing A Vendor

Vendor selection is often gauged by criteria that do not necessarily create the optimal engagement. Proper selection can be a very strategic initiative, while ranking outsourcing companies primarily on their ability to meet immediate technical demands

may significantly reduce the value of the long-term relationship. For a spot solution to a short-term problem, capability comparison is logical. For extending or re-positioning a significant portion of your employees and processes (and this will include a shifting reporting structure), evaluating requirements in the context of an extended roadmap will create the expected return on effort. Compatibility in company size, ability to adapt as requirements evolve, and a shared vision for the future are as important for an outsourcing relationship as they are for divisions within a company.

Outsourcing Can Be Tricky

Simply handing over the keys to an experienced vendor is not enough to succeed. While reducing management will be a welcome benefit, don't relinquish problem areas of your organization and expect them to resolve themselves. Problems that exist in current operations will persist or amplify in outsourced environments. Even in smoothly run operations with well-documented methodologies, each process must be evaluated for compatibility with the offshore team. Business processes, almost by definition, must evolve in order to get the most out of the new capabilities available to the client. Managers should look out for these opportunities and plan to implement them.

Savvy managers recognize the investment required for a seamless transition, and smart vendors will share the burden with you. When negotiating your current contract, keep the long term relationship in mind. In your efforts to get a fair price, be careful that you are not getting the vendor's low cost resources as a result. At the end of the day, good outsourcing is about strong partnerships. A good vendor wants that partnership, and so should you. This new team will be an ongoing, evolving, and in all probability a growing piece of your current infrastructure. If the relationship isn't a win for both parties, dissatisfaction and ultimately failure will result from a process intended to achieve increases in focus, resources, and skill diversification, all core components to competitive advantage in our increasingly competitive global market.

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