

# DOES OUTSOURCING WORK FOR YOU?

Prasanna Bharatan

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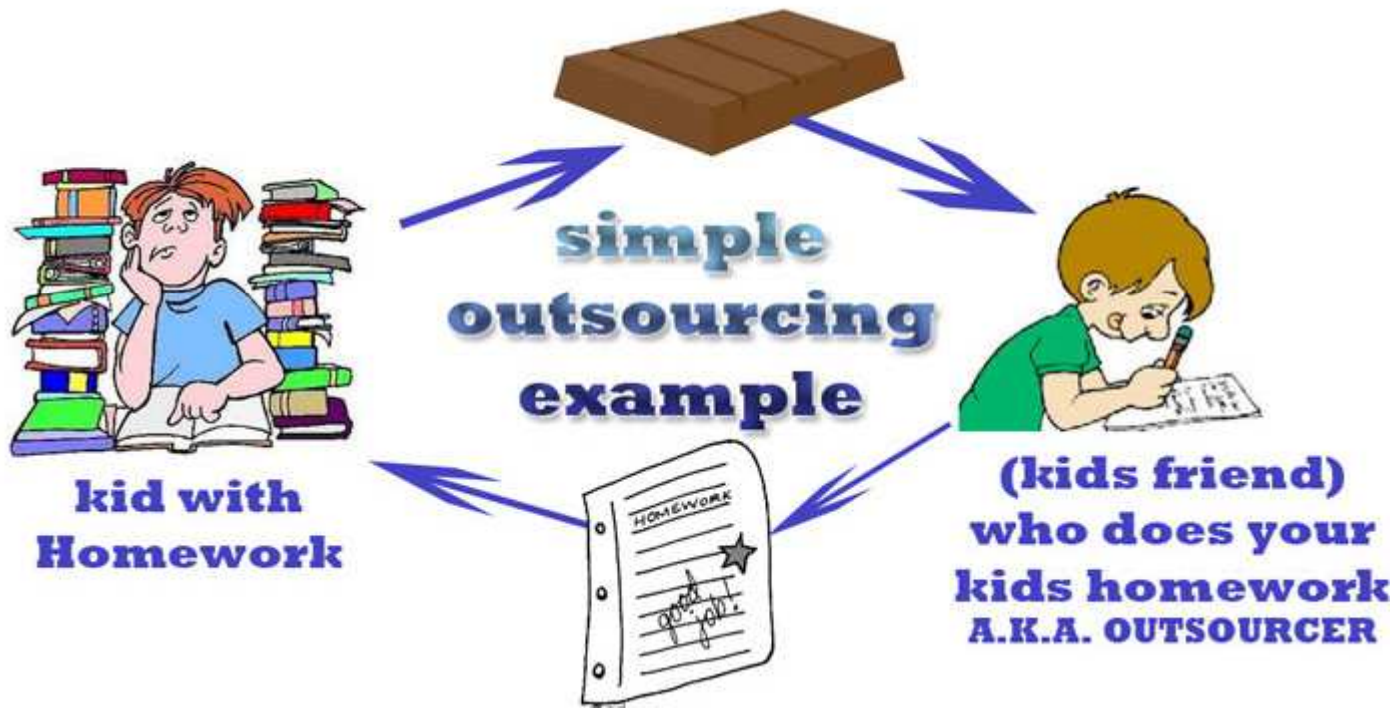
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# AGENDA

- ⦿ Primer on Outsourcing
- ⦿ Outsourcing Models
- ⦿ Decision Making
- ⦿ Key Drivers
- ⦿ How does it happen
- ⦿ Does it Work For you



# LAZY MANS GUIDE TO OUTSOURCING



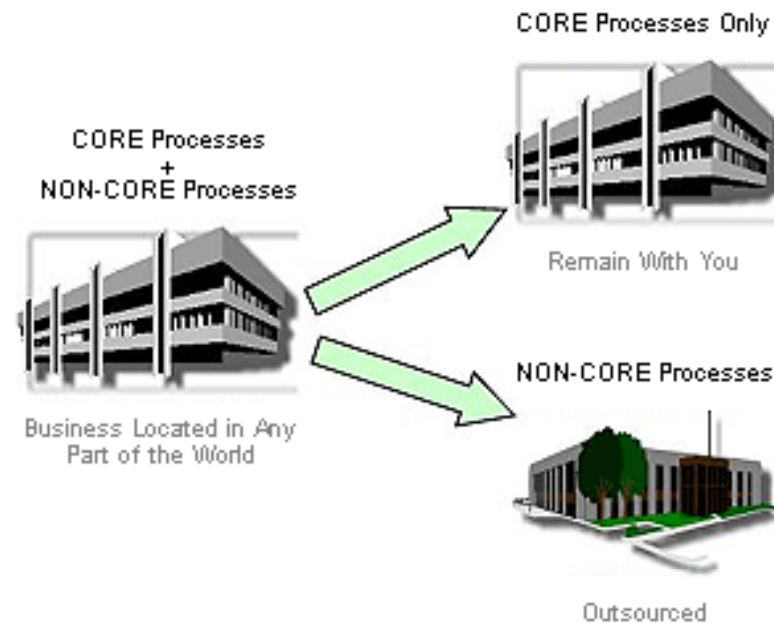
“Outsource everything except your SOUL”- Tom Peters

# MODELS

- ⊙ Offshoring –Across the border
- ⊙ On boarding- Have temp staff on board
- ⊙ Sub contracting across the town- domestic
- ⊙ Outsource processes- Eg Payroll, Bank recon
- ⊙ Outsource a function- Eg Internal Audit, HR
- ⊙ Outsource transactions-Call centre operations, customer service
- ⊙ Material Sourcing- Building supply chain
- ⊙ Value sourcing-Marketing, ebiz, Sales..

# EMERGENCE

- ⊙ Timing Difference
- ⊙ Cost Arbitrage
- ⊙ Cheap and better technology
- ⊙ Measurement of error/process efficiency/  
productivity/cost etc



# OUTSOURCING STRATEGY OR DECISION?

- ⊙ Some say you need to have an outsourcing strategy
- ⊙ Outsourcing could be a MAKE Or BUY decision making situation a subset of overall strategy
- ⊙ Both statements are true depending on the size of the organisation/geographic spread/nature of operations/situational position of the organisation and its financial position
- ⊙ Emotional aspect cannot be Ignored

# DRIVERS TO OUTSOURCING



# DOMESTIC RELEVANCE

- ◉ Is there a cost arbitrage advantage ?
- ◉ No timing difference ???
- ◉ So does outsourcing for domestic firm really matter
- ◉ Is it only a Make Vs Buy Decision ie Inhouse Vs  
Outsource decision



# COST OR TRANSFORMATION ?

- ◎ Outsourcing can deliver:
  - Process Excellence
  - Hi quality to internal and external customers
  - Effective systems appropriate for tasks
  - Rigorous recruitment process
  - Hi skill and shop floor management interventions
  - Attrition management
  - Flexibility
  - Value Addition through data analytics
  - Transferring operational risks

## 10 Top Reasons Companies Outsource

Improve company focus	55%
Reduce and control operating costs	54%
Free resources for other purposes	38%
Gain access to world-class capabilities	36%
Resources not available internally	25%
Accelerate reengineering benefits	20%
Reduce time to market	18%
Share risks	12%
Take advantage of offshore capabilities	12%
Function difficult to manage or out of control	10%

NOTE: Numbers don't add up to 100% since respondents selected more than one answer.

# DEFINE EXPECTATIONS FROM OUTSOURCING

- ⊙ Spell the expectations- Define & Quantify
  - Relate it to current base case
- ⊙ Align it to your strategy
- ⊙ Have a clear understanding of current state
  - Understand the business themes
  - Business drivers
  - Your core strengths
  - Your weaknesses
- ⊙ Spell out a roadmap
- ⊙ Prepare for readiness
- ⊙ Move beyond cost

# REMEMBER

- ◉ IT'S A PARTNERSHIP **but**
- ◉ You are still responsible for the outsourced process
- ◉ The relationship is Principal- Agent most occasions
- ◉ Professional, legal and all liabilities to your customer remains with you
- ◉ You still own and control the outsourced process

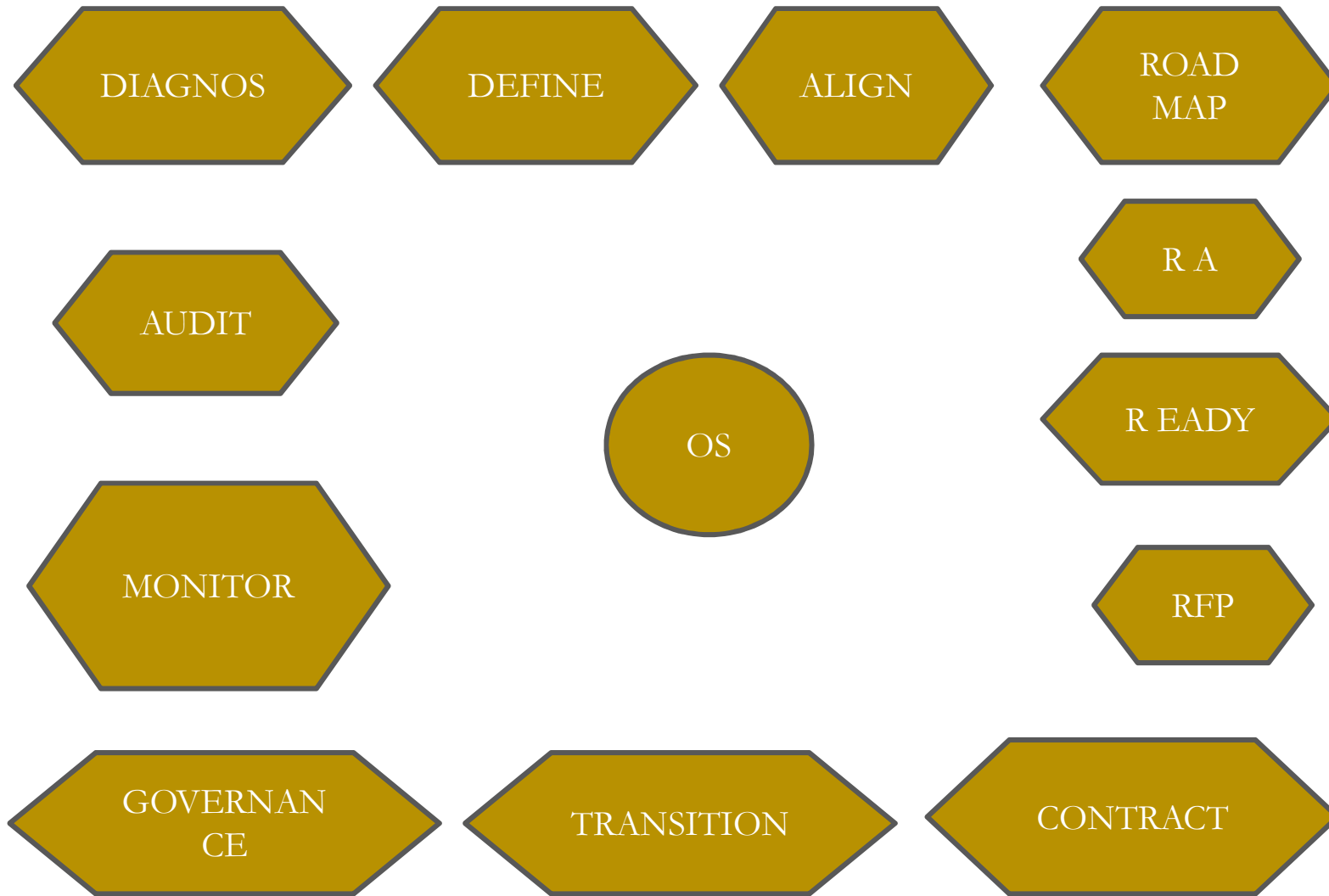


# WHAT IS IN IT FOR VENDOR

- ⊙ Makes Money !!! At your cost
- ⊙ Will do what you want provided
  - You spell very clearly what you want (SCOPE +SLA)
  - Its put down in writing (contracted)
  - Precise to the last molecule
  - Will not do what u have not contracted unless you pay more
  - Responsible for not meeting your Service Levels

VENDOR IS CRITICAL- GET IT RIGHT- PARTNERING ABSOLUTELY ESSENTIAL

# THE PROCESS



# RISKS TO PONDER

- ⊙ Vendor stability
- ⊙ Vendor competency
- ⊙ Vendor dependency (concentration risk)
- ⊙ Cultural alignment between the partners
- ⊙ BCM/BCP
- ⊙ Change management (resistance risk)
- ⊙ People risk
- ⊙ Regulatory prohibition
- ⊙ Transfer pricing - if its a related party relationship

# COMMON REASONS TO FAIL

- ⊙ Blurred vision and expectations
- ⊙ Got the diagnostics wrong
  - Got the process and other metrics wrong
  - Got the current costs wrong
  - Aggressive or Ultra conservative assumptions
- ⊙ Wrong vendor
- ⊙ Ill defined scope of work
- ⊙ Poorly defined SLA
- ⊙ Poor delivery
- ⊙ In effective governance
- ⊙ Non alignment between partners

# VENDOR REALLY MATTERS

- ⊙ Check your vendor capability
- ⊙ Does vendor strengths compliment you
- ⊙ Understand his technical competency and scalability to adopt to your needs
- ⊙ Understand vendor hiring efficiency and attrition
- ⊙ Understand robustness of training process
- ⊙ Check efficacy of measurement of all metrics and understand it in terms of contracting and commercial pricing



# SCALE GRADUALLY

- ⊙ Start with the easy ones
- ⊙ Learn from experience and refine
- ⊙ Gain confidence through easy transitions
- ⊙ You control the transition not the vendor
- ⊙ Give every chance for sure measured success
- ⊙ Move on to higher challenges when u get wiser
- ⊙ Consolidate the gains at every stage before u move to next level
- ⊙ Keep insisting on value adds at every stage

# IT DOESN'T WORK FROM DAY 1

- ⊙ You've got to be patient
- ⊙ Benefits will begin to flow slowly but surely
- ⊙ Measure both tangible and intangible benefits
- ⊙ Don't see gains in isolation
- ⊙ Don't fail to notice process improvements, improved documentation, reduced errors
- ⊙ Measure customer satisfaction and improvement
- ⊙ Measure change in throughput
- ⊙ Measure how much time is freed up for core tasks
- ⊙ Take a collective view and monitor over a period
- ⊙ Celebrate and show case every success

# GOVERNANCE - CRITICAL

- ⊙ Setup your governance matrix
- ⊙ Get the right people
  - Must know the SLA
  - Must understand the process
  - Should know the expectations
  - Should enforce and extract maximum
- ⊙ Need to have good negotiation skills
- ⊙ Ensure escalations work
- ⊙ Governance should get highest attention
- ⊙ As a buyer keep exercising your rights
- ⊙ Being hawkish on SLAs always may not help

# CONTRACTING

- ◉ Clearly spelt out scope of work SLAs and definitions
- ◉ Understand pricing dynamics
- ◉ Realistic turnaround times and metrics
- ◉ Document each party's roles and responsibility
- ◉ Define the SLA
- ◉ May be work out a MOU and see how it works before a formal agreement
- ◉ Wordings of SLA critical
- ◉ Be vary of SLA manipulation

THANK YOU

