

Walking Down the Outsourcing Aisle

(As Appeared in the May 2004 Issue of Vancouver Board of Trade Sounding Board Magazine)

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Outsourcing is one of the fastest growing organizational trends in the world. It is defined as 'a strategic long term relationship with an outside supplier to manage work traditionally performed in the organization'. It can result in dramatic cost savings in the range of 20% to 40 % while quality and service levels are improved. The number and scope of outsourcing providers is growing dramatically. The outsourcing relationship can bring great joy to both parties but, like a marriage, its path can be rocky.

Outsourcing is not a new phenomenon. Organizations have been outsourcing elements of their operations for decades. Automotive and garment companies outsource a great deal of their manufacturing. Increasingly non-core internal services and processes are being outsourced. And it isn't just large organizations. According to the Outsourcing Institute 60% of business with less than 500 employees are planning or undertaking outsourcing initiatives.

The key driver for outsourcing is about saving money, lots of money. There are dramatic savings to be achieved by differentials in labour rates, however, outsourcing for cost gains based on wage differential alone can be short sighted. In addition to direct savings, substantial real value in outsourcing can come from freeing up internal management time to focus on core business processes, avoidance of large capital expenditures, reducing fixed and operating costs, and accruing benefits from innovations developed by the service provider.

Most organizations that are considering outsourcing first look to what are referred to as 'non-core' services. These typically include financial processing of accounts payable, accounts receivable, travel and entertainment expenses, payroll and benefits. They also include property management, warehousing and distribution, human resources, recruitment, printing, document management and customer contact. The future growth in outsourcing will include functions that were

previously considered core. These include engineering, design, marketing and purchasing.

While outsourcing is growing exponentially, hastily constructed or poorly managed deals have difficulty sustaining themselves over the long term. It is estimated that over 50% of outsourcing relationships fail to achieve their original objectives.

The cause of these failures can be attributed to five key factors:

- Lack of preparation rigor which includes a business case, risk management plan, clear definition of current process and costs
- A poor contract that does not support the mutual success of both parties and which does not adequately address issues
- Lack of sufficient contract governance structure and methodology
- Insufficient development of relationship management skills, principles and methodologies
- Inadequate efforts to assist people in the organization (leaving or staying) who are affected by the change

Organizations should consider outsourcing as one of their key strategic options for reducing costs and increasing performance. To ensure success, however, they must do it properly, in a manner that will result in long term sustainable relationships with their service provider partners. This means following a rigorous process, negotiating a fair and reasonable contract for all parties, managing the people impacts, and focusing on building a solid relationship throughout the process; one that ensures success well beyond the signing of the contract.

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