

Outsourcing Without Fear

Many people use outsourcing in their every day lives. It is often so routine that the process is no longer thought of as outsourcing, and in many cases, the process of selecting a favorite provider has been forgotten. It is the simple things, like dropping-off clothes to be dry cleaned or an exposed roll of film to be developed, that are so much a part of the fabric of life that they don't feel like outsourcing.



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In the corporate business community, outsourcing is becoming much more common as well. Dun and Bradstreet reports that 90% of major U.S. corporations have outsourced some services. Further, they report that many executives will soon be spending one-third of their total budgets on outsourced services. The types of services sought from outside providers have evolved from being a cost-reduction tool into sources of higher productivity, problem solving, new business initiatives, and support for core businesses and competencies. Outsourcing can help smaller firms gain leverage in areas in which they already excel and may help buffer businesses against swings in the business climate

or surges for which it may be difficult, if not impossible, to predict the duration.

Successful outsourcing cannot occur unless the buyer recognizes the significant change in mindset that is required. Most managers are accustomed to managing workers and some details about the processes utilized to achieve an objective. Outsourcing managers must shift from managing workers to managing contracts and relationships with providers. Further, they must shift from managing how to do something to managing a provider who does something. Effective relationships result when a manager realizes that control over some steps in the process must be given to the provider. When partnered with the right provider, the buyer may achieve better levels of overall project control, especially when the budget is used as a control feature.

Before Shopping for a Provider

To achieve the best relationship with a provider, buyers first must fully consider what they hope to gain from outsourcing. Although this sounds obvious, there are many instances in which buyers do not take the time to clearly define their objectives. Buyers should be able to clearly articulate the desired result, who is responsible for what, and the timeline for the project.

Buyers should have their internal mechanics in order prior to outsourcing. The communication system and how the project will be managed should be defined in advance to prevent the buyer

from sending mixed messages or leaving gaps in the flow of information to the provider. In some cases, the buyers may be dissatisfied with a provider's performance when it is actually the buyer's internal management of the project that is at issue. The types of problems that could derail or undermine the relationship, as well as potential solutions, should also be considered in advance.

The Selection Process

Investing time in the selection process can make the difference between a terrific relationship and a disastrous one. Site visits and careful examination of the provider's capabilities, as well as the provider's ability to overcome challenges and obstacles, are all warranted. When possible, speaking with other clients of the provider is recommended to gain insight into how well other buyers' needs have been served.

The cultural compatibility of the two companies must also be considered. For example, there could be conflict if one party expects certain levels of formality in the decision-making process, while the other party is accustomed to making decisions on the fly. Consider also whether one party documents every action, while the other party operates with little or no record of decisions that are made. Further, it is best to work out how the parties will interact with each other prior to reaching an agreement to work together. Signing the papers first and working out the details later is akin to a marriage in which the bride and groom have not met but have high hopes that everything will work out.

Some characteristics to look for in a provider are a high level of flexibility and a forward-looking mentality. For instance, a provider may demonstrate ways to anticipate challenges that will occur during the course of a project. Another desirable characteristic is the willingness to invest in infrastructure for the client, indicating the provider looks to the future and unanticipated business requirements.

Perhaps the most critical phase in the selection process is the communication to management of how long it will take to obtain the desired outcome. Outsourcing cannot take a buyer from an extremely long project cycle to an extraordinarily short project cycle. Consideration must be given to the amount of time required between the initiation of the search process to signing contracts, conducting the work, and implementation. Because the relationship between the buyer and provider is new, the buyer should recognize that it will take time to develop appropriate methods of communication and information transfer. A wild card that can be thrown into the selection process is a business merger or acquisition. Outsourcing during this type of transition can be difficult for both partners for many reasons, and the time it takes to select a partner and begin work on the project can be even longer.

Careful examination of how much expertise the provider has in the buyer's area of interest is critical, especially when obtaining bids. Lower costs do not necessarily translate into savings. The actual costs may go well beyond the nominal cost of the service. It is possible that a provider with a younger, less experienced workforce may provide a lower bid. However, the provider may also have less understanding of potential issues and risks, which could reduce the overall odds of the project's success.

After Choosing a Provider

After a provider has been chosen, some of the most detailed work begins. The critical nature of understanding and setting expectations for the provider cannot be overemphasized. Dun and Bradstreet report that 20–25% of outsourcing relationships fail after two years and 50% fail after five years. The most common reasons given were that providers did not know what they were supposed to do and that costs were too high coupled with poor service.

Several processes need to be defined at the outset of the project for the relationship to work. The buyer must clearly set the objectives, define how they will be measured, and be responsible for measuring and evaluating the results. If the results do not match the buyer's expectations, there should be some means by which feedback can be provided. Providing feedback early in the process will enable the provider to make changes so the relationship can be improved. There should also be some means of dealing with differences and conflicts. In the event that things change or differences cannot be resolved, it is wise to have a well-defined exit process in place for both parties. Another option is to use a continually renewable short-term contract rather than a long-term contract.

The two parties should have a clearly defined and understood decision-making process, including who will make which decisions and on what basis. There should be a set of guidelines concerning who is to be consulted prior to decisions being made, as well as which decisions require a consult. If changes or key decisions are made, both parties need to know who should be informed.

It's All About the Relationship

Outsourcing work is much different than conducting work internally. With employees, there can be a sense of trust that is established simply because they work for the same company or because the work can be readily checked on at any time. Outsourcing can be taken to the same level of comfort, but not without some effort. The provider needs to appreciate that the buyer cannot always see, touch, or in other tangible ways measure the progress of the project. Trust and confidence may be built instead by meeting in person throughout the course of the project, allowing the buyer to see the methods used to resolve different issues, and allowing the buyer to get a feel for the work style and environment. The buyer may need to become comfortable with the provider's staff, their capabilities, and their management processes. The buyer also needs to know that the provider will do whatever is necessary to maintain the confidentiality of the information entrusted to them. The best financial deal is not necessarily the goal—finding the best and most trusted partner is.

Buyers can select providers who offer their company tangible and intangible benefits. Benefits can range from allowing the buyer to focus on their core competencies, to reducing the number of functions, to gaining expertise in new areas, to reducing the cycle time for product development. If the buyer explains to the provider why they have been selected, the relationship may be enhanced further. The provider may also be able to help the buyer in areas the buyer has not previously considered.

Managing the Risks

The provider needs to have a sound understanding of how the buyer approaches risk. With this information, the provider can design the work to be similar in style and depth to that of the buyer. In a similar vein, the provider should understand which financial measures are most important to the buyer. Buyers that are concerned about the absolute cost of the project or the final product cost may have a very different perspective than those who are concerned about the timing to an introduction window. The buyer's

lost opportunity costs may drive projects for which there is less concern about total project expense.

Another method for managing risk is to select a partner with business acumen and backbone. If a buyer's request is not the best idea or approach, the best providers will say so. The provider should be able to challenge the buyer if it is in the buyer's best interest. The provider may provide a different perspective and lay out some alternatives. With the buyer and provider working together, the overall risk may be reduced, and the success rate may increase. In contrast, a provider without the appropriate experience or one who does not consider the buyer's best interests will simply conduct the work without question.

Preparing for Success

Perhaps the hardest step for a buyer is to articulate in great detail what is needed and then back away. Allowing providers autonomy to determine how to approach a problem and craft a solution is frequently the best approach. Providers often are retained for their specific area of expertise. It follows that they should be allowed to use it! It is possible that processes or approaches that have been used in-house may not work for the provider or may drive the costs much higher. The buyer must bear in mind that it is the solution that matters, not necessarily the path to the solution.

Supplying the provider with enough information sounds obvious, but it doesn't always happen. There can be roadblocks to the flow of information caused by the buyer's corporate culture, the buyer's lack of experience with outsourcing, or the buyer's high level of familiarity with the project area. Once familiar with an area, most people no longer consider the detailed information that was required when they were first introduced to the topic. Two examples in which information may appear to be legitimately withheld are 1) protection of proprietary information about a manufacturing process, which may result in the provider creating a product design that will not function; and 2) failure to disclose results of internal research efforts, which may inadvertently lengthen the project timeline instead of "preventing bias" on the part of the provider.

One other area to consider is a shared vocabulary. Most companies use jargon and acronyms that are unique to their company. Sharing internal documents with the provider may be of limited value if a translator is needed to understand the content. A shared vocabulary can extend beyond words to other types of information. Some buyers are very concerned about cost structures but are unwilling to share that information with their providers. As a result, the providers have no way of knowing whether changes that they propose will violate the desired cost structure. Buyers need to recognize that appropriate sharing of information reduces project time, cost, and number of recycle loops.

A final recommendation is for the buyer to remain open to innovations and new ideas that may come from the provider. Although some companies outsource under the pretense of obtaining great new ideas and insights, the "not invented here" syndrome still exists. As in many situations, the more ideas that are shot down, the fewer attempts there will be to offer them. Buyers need to be aware of the effect their actions can have on their relationship with a provider and how it may affect what they get out of it.

Outsourcing Successfully

In the end, both parties want to succeed and build great, sustained relationships. Win-win relationships between buyers and providers can and do exist. By practicing the principles discussed in this column, your company can be the next one to successfully utilize outside resources.

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