



WHITE PAPER – COMMON OUTSOURCING MISTAKES



Outsourcing Business critical processes involves a certain amount of rewards and risks. Rewards are in terms of reduced costs, process efficiency & effectiveness and increased business value. Risk is in terms of proprietary software, business processes, customer relationship management, brand recognition and competitive edge. As a consequence organizations want to tread into this area with utmost caution. This white paper provides detailed information on common outsourcing mistakes that can be avoided to reap maximum benefits from outsourcing. It also mentions ways and means of avoiding these mistakes for a healthy relationship with the outsourcer.

Organizations outsource for various reasons- reduced costs, increased customer focus and business value. But regardless of the reason, it also could lead to expensive mistakes, unmet expectations and even project failure. Industry analysts say very few outsourcing projects are problem free. There's simply too many things that can go wrong, from the numerous aspects of the project that need to be carefully overseen, to control aspects of the contract that have to be delicately negotiated.

This entails a cautious and detailed approach to the various stages of outsourcing. This document describes the common outsourcing mistakes committed by organizations and also recommends different ways of tackling the issues.

Mistake #1 Pure Cost Focus

Several organizations outsource business critical processes purely to reduce costs rather than improve the efficiency of the business process.

While many companies have undoubtedly saved money, several others have seen costs spiral, quality plummet or, worst of all, operations crash. This is because the organizations have not focused on their organizational goals. Organizations must look at how BPO will add value – value for customers, organizations, shareholders and employees. It can also add value by customer analytics that can provide increased revenue and improve the way of doing business. BPO can also create value through integration of processes like the back-office and customer facing processes. It can also provide value in terms of technology, access to good talent, increased customer focus and world-class quality practices – things than organization couldn't otherwise cost-justify.

Costs should also be looked in the context of other external factors such as responsiveness of the vendor's customer service, guarantees in service-level agreements, Industry expertise and flexibility in terms of changing business needs. Sometimes extra costs could be incurred in the time and efforts with regard to the control of the business process. Extra costs could be incurred in terms of travel of the management staff and the time spent by the management with regard to the process. These costs are generally not included during the initial stages of outsourcing. This calls for a comprehensive costs analysis and business value obtained, prior to the outsourcing of the business process.

Mistake #2 Lack of clarity with regard to objectives of outsourcing

Organizations often outsource processes without clarity on the business goals that need to be achieved. A top-down approach right from the management level on what processes need to be outsourced, possible results that need to be achieved and the reasons for outsourcing ensures successful implementation of the outsourcing strategy.

Mistake # 3 Improper evaluation of vendors

Often, selection of vendors purely on price, results in disenchantment with regard to outsourcing. So it is imperative for organizations to develop a detailed, stepwise approach to reviewing potential outsourcers. The three most important criteria are proven track record, requisite infrastructure and the ability to deliver process improvement. Other factors include

- o Technology and business expertise to make your business processes work more efficiently and effectively.
- o Efficient and qualified staff
- o Industry specific expertise
- o Global reach of the vendor
- o Type and size of clients, they are working with and the kind of volumes they handle.
- o Facilities at the contact centers of the outsourcer such as disaster recovery, backup infrastructure etc.
- o Investment in training
- o Cultural fit
- o Quality Practices
- o Portfolios of services- for instance some organization offer value-added services other than the typical offshore services.
- o Security policies and practices
- o Financial Ability

Site visits and customer references are also essential in the vendor selection process. Site visit is essential as it provides the opportunity to meet the senior management, the offshore team, work done for other customers, view the facilities and assess the long term goals of the organization.

Mistake #4 Not building a relationship.

Failure to foster a relationship of trust can impact the organization in terms of its competitive advantages and customer relationship management. It is complicated by the fact that it extends across various departments involved in the project from IT HR and Finance. Outsourcing is a partnership, where both organizations need to work with each other to achieve their respective organizational goals. It is ultimately about trust, the right cultural fit and sharing of business ideals. A right relationship is not just defined by the contracts and SLA. The result is more than reduced costs and greater efficiencies- it's a relationship that delivers value in the long run.

Mistake #5 Inappropriate Control Management

Outsourcing enables an organization to avoid the hassles of building IT infrastructure administrative tasks, responsibility of recruiting training and retaining staff. It also means a single point of accountability for managing the business process. But sometimes organizations expect to retain full control of how the particulars are carried out. This results in mistrust and, minimal use of the vendor's capabilities. The outsourcing decision is taken to leverage the vendor's experience and capability to enhance the business process. Outsourcing is different from consulting, and hence involves delegation of the process to the vendor. The vendor shall carry out the operations based on the predefined metrics and other aspects mentioned in the service level agreement.

Similarly lesser control can also have adverse effects. The organization cannot assume that once the business process is outsourced, the vendor takes full charge." The relationships also require communication between the vendor and the client. On an ongoing basis. They also require a great deal of flexibility. Control procedures should be decided at the onset of the relationship and must involve the capabilities of the vendor to the core.

Mistake #6 Inadequate Service Level Agreements and Contracts.

Outsourcing agreements often fail to set the parameters for measuring performance. The result of which is a mismatch of expectations and deliverables.

The contract is the most important part of the outsourcing relationship and must clearly define the rules of engagement. At its core is the Service Level Agreement that must clearly specify the organization's expectations from the outsourcing deal and the deliverables from the outsourcer's side. The SLA must address metrics, report formats, client policies and regulations, confidentiality clauses, detailed security and capacity provisions. Metrics should be chosen carefully based on the process improvement and not from a control perspective. The metrics must ensure that the processes are done on time, with good quality and reduced costs.

In Business Process Outsourcing the Service Level Agreement (SLA) should define acceptable levels of performance in terms of business relevance. For e.g., increased customer satisfaction rates or and online conversion rate—the rate at which online browsers become online buyers for an e-commerce site. The contract should also specify fixed costs, and other costs that can change over time. It must make provision for scaling with the organization's needs.

The contract should also incorporate worst-scenario plans, when both the organizations do not wish to proceed with the relationship.

Mistake #7 Internal Approval with regard to outsourcing

Organizations outsource- for various reasons and lack of skilled staff or high operational costs is among them. This entails keeping the staff informed about the outsourcing decision – its benefits to the employees and the organization.

Mistake #8 Short-term focus towards process improvement

The primary focus for outsourcing is reduction of costs, and companies view process improvement as an added benefit. Also companies commit the blunder of focusing on the one time immediate impact of reducing costs rather than long-term continuous improvement. Improvement must come from both the buyer and the service provider's side. Buyers must include continuous improvement in the contractual documents, while the service provider must look at adding value to the business process. Some measures include new metrics, customer analytics and quality issues like Six Sigma and Lean initiatives – all of which guarantee long-term benefits for both the buyer and the service provider.



Conclusion

Outsourcing is about building a long-term relationship, where both parties are convinced of mutual benefits. From careful selection of the vendor, to framing the right contract to identifying the measurement criteria, every facet of the outsourcing process needs proper focus. Avoiding these mistakes could make the difference between a costly, difficult exercise and a strategic move that delivers measurable business benefits.