



Shifting Sources: Tapping Outsourcing's True Value

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- **Background & Definitions**
- **The Changing Business model**
- **Strategic Challenge**
- **Strategic Planning**
- **What to Outsource**
- **Factors to Minimize Risk**
- **5 Steps: A Process to Improve Success**
- **The Do's and Don'ts**
- **Outsourcing Trends**
- **Summary**

Now available for Corporate Members



Moving from an industrial to a post-industrial society

- **Outsourcing comes in all shapes and sizes**
 - Outsourcing phenomenon has began in the 1970s transferring factories from the developed to the developing world
 - And have become mainstream options causing a structural change from an industrial to a post-industrial service society
- **Outsourcing Industry matured so has the complexity and the challenge**
 - Handles everything from IT functions to ‘artful fusions of material and technology’
- **Outsourcing is a people’s business based on building relationships and on increasing the possibility of achieving a good match between strategy and operations**
 - Industry started thinking about legal agreements encouraging collaboration instead of ‘us and them’

- **Offshoring**

- The movement of an internal business process performed at a company in one country to the same company in another location outside of the company's home country.

- **Outsourcing**

- Handing over a non-core function or process to a third party that can use economies of scale to run that function at much-reduced costs, using outsourcing to support company's strategic goals.

- **Managed Services**

- The practice of transferring day-to-day related management responsibility as a strategic method for improved effective and efficient operations

Options for increasing efficiency and effectiveness

- **Urging for More Collaboration, meaning**
 - Less emphasize on seizing the value to get a piece of the final pie
 - More on co-value creation and collaborative experiences and ROI
- **Seizing the Value**
 - Offerings at different price structures: use-per-month fee, T&M, price per desktop
- **More co-value creation with more collaborative experiences**
 - Value-based pricing is getting more attention

Less about “us and them” more about “live the collaboration”

- **Strategic Outsourcing**

- Involves some element of organizational transformation
- Building long-term value of the relationships by virtue of \$\$, the integrated scope of services, and the length of the new relationships
- Changing from relationship between buyer and vendor to relationship between partners

- **Tactical Outsourcing**

- Tied to specific problems that company was experiencing
 - Absence of talent
 - Desire to reduce headcount
 - To address the lack of financial resources to make capital investments, inadequate managerial competence

Dollar value, [integrated] scope, and duration of relationship

- **What is involved?**
 - Assets, people, contracts
 - If not then more tactical
 - Otherwise more organization transformational
- **Both types of relationships offer pro-active management and guaranteed service levels**
- **Issues**
 - Goals, objectives → financial performance improvement
 - Costs → operational effectiveness/efficiency
 - Operational effectiveness → customer satisfaction/loyalty
 - People/staffing → risk management, relationship management, collaboration

What are you trying to solve, at what costs and for how long?

Issues To Be Considered

Figure 1

Choosing Your S-Business Sourcing and Out-Tasking Strategy ⁴		
	Simple Process Low-End	Complex Process High-End
Standardized Service	Automation Self-Service End-to-End Service Captive Offshoring Selective Outsourcing	Insourcing, Outsourcing Deintegration, Decoupling Selective Automation Selective Outsourcing
Customized Service	Offshoring, Outsourcing Globalization One-Stop Shop End-to-End Service	Captive Offshoring In-House Automation Selective Outsourcing Globalization

Captive center: A company-owned offshore operation. The activities are performed offshore, but they are not outsourced to another company.

Figure 2

	High Domain Expertise Required	Low Domain Expertise Required
Highly Mission-Critical	Not suitable for outsourcing.	Suitable for outsourcing, but requires safeguards to reduce risk of project disruption.
Less Mission-Critical	Suitable for outsourcing, but requires a strong knowledge-transfer mechanism.	Suitable for outsourcing.

Gauging Your Competitive Capability

“If you are going to get into the outsourcing business, you must be a true partner with your customer and create win-win opportunities. If you don’t do that, someone else will.”

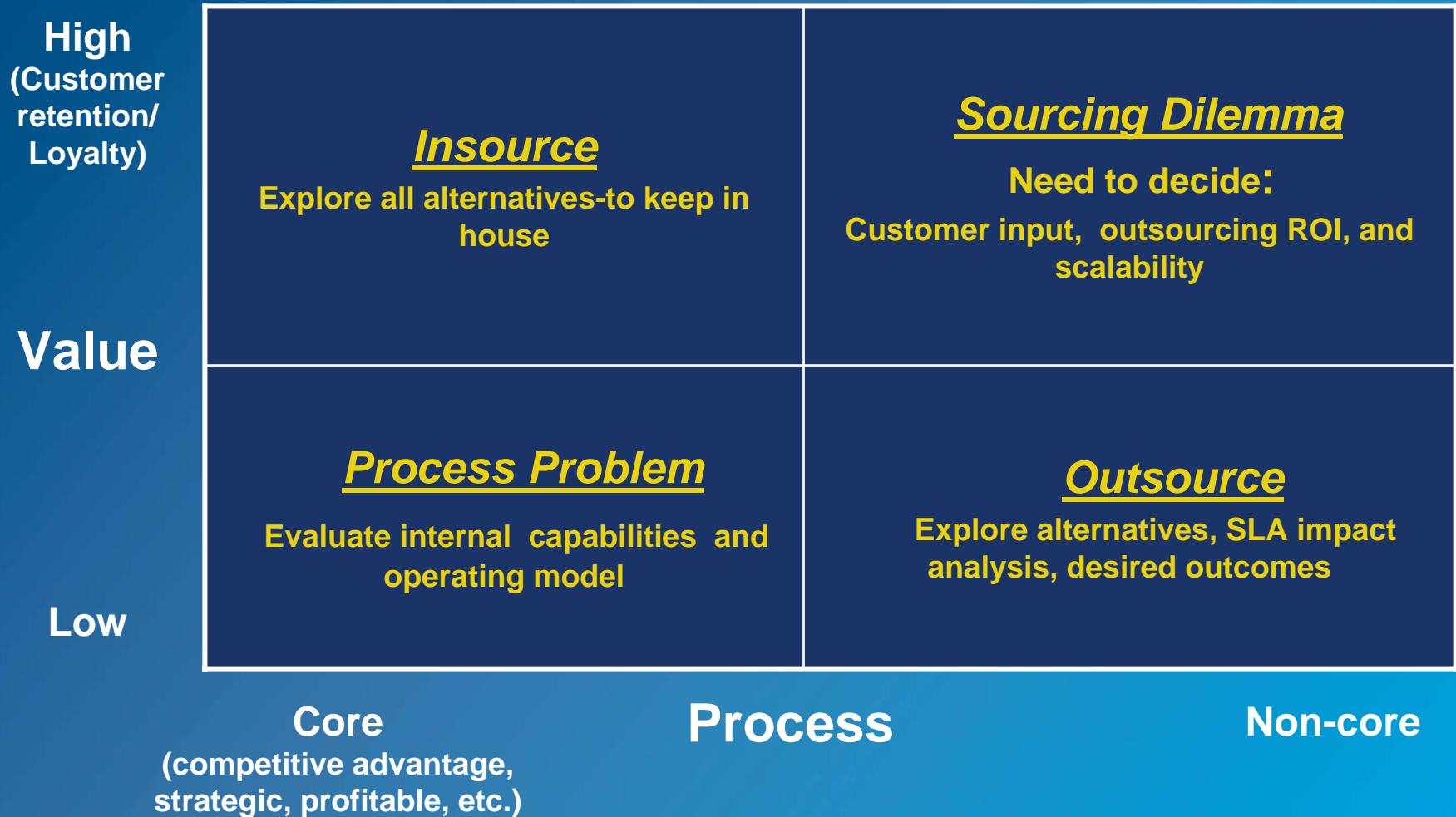
***William Steenburgh,
Senior Vice President Xerox Services***



Outsourcing Tips and Tidbits

Matt Kochan
CEO and Co-Founder,
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What to Outsource



- **Typical Processes to consider**
 - Call Center (voice, email, chat)
 - Cross sell/ Up sell
 - Product Support
 - Customer Service
 - Field Service Support/Logistics
 - Telesales
 - Telemarketing
 - Back Office Data Entry
 - Software Development/Programming/IT

Today there are thousands of companies – “virtual companies” that have outsourced everything

- **Clearly define your goals and success criteria**
 - Clarity is key; entire team –executives included know what goals, key elements for success in clear and quantifiable terms
 - Short term contracts are better than long-term contracts. Start with modest goals
- **Engaged and proactive management**
 - Senior executives and managers should decide jointly
 - Agreement on total level of service, how much can improved and continually checking and validating set targets
- **Communication, communication, communication**
- **Structure the relationship as two-way and win-win**
 - Don't nail your service partner into the ground on profitability

- **Don't outsource problems:**
 - Fix the problem first ,otherwise garbage in will produce garbage
- **Establish very specific and simple measurable SLA's**
 - Tailored contracts are are more successful than strategic partnerships: no ambiguity but simple and measurable service
- **Due diligence on provider AND Outsourcee is critical**
- **Carefully manage internal resistance to**
 - Eliminate/minimize future problems
 - Ensure that key people have the responsibility to deal with problems quickly

A PROCESS to Improve Success

- 1. Develop Strategy: Take the time-it is about relationship**
 - Business case
 - Cost of ownership
 - Goals/Objectives
 - Risk assessment
 - Evaluate what, why, when, and how
- 2. Vendor (Partner) Selection; It is a test for cultural fit and will the relationship work?**
 - Visits
 - Build relationship opportunities
 - Contract negotiation
- 3. Proof on Concept A short insurance plan to make sure everyone is aligned before hiring and production starts**
 - Methodology
 - Scope
 - Timeframe
 - Success criteria

4. Ramp-Up is stressful time but to reduce you need

- Project Plan
 - Infrastructure
 - Recruitment methodology
 - Training
 - Migration
 - Knowledge Transfer
 - Process Transfer
- Relationship Management
 - Meetings
 - Reports
 - Escalation path

5. Daily Operation will work better if following elements are defined, discussed and documented

- Reported Metrics – who, what , when
- Problems and root cause
- On-going training
- Continuous Improvement step goals
- Change Management

- **Executive buy-in**
 - To harness for stability
- **Understood and accepted Governance**
 - roles/responsibilities
- **Understood and accepted expectations**
 - Dealing with performance metrics/goals
- **Understood and accepted assumptions**
 - e.g., infrastructure, resources, etc.
- **Measure before and after**
 - knowing where you are and where you should be
- **Anticipate and plan for change**
- **Have an Exit Plan up front**

- **“Out-foxing” the provider/partner (e.g., inappropriate SLA’S)**
- **Not taking ownership and accountability- hands- off management**
 - Doesn’t work here or anywhere
- **Failure to map customer facing processes so the intersection/hand off is unclear**
 - e.g. when parts of total, big process are outsourced like tier 1- and 2 support
- **Under-estimating management cost and time required**
 - Don’t forget to Measure before, during whole outsourcing process the management time and cost
- **Forgetting that Outsourcing is hard**

Outsourcing Trends

(September 3 Fortune magazine)



- **It is not just India anymore**
 - India is still #1 and will be but.....
 - Russia/Eastern Europe – software development
 - The Philippines – strong English skills/cultural fit
 - Mexico/Latin America – Time zone/close to US
 - China – manufacturing/R&D
- **More knowledge-based work is going Offshore**
 - Product Development
 - Pharmacuetical R&D
 - Surgery
 - Legal
 - Real Estate

- **The NEW Partnership Paradigm**
 - From Vendor-Supplier where cost is all
 - To a true partnership with real added value creating a competitive edge
 - An extension of team/company
- **A Shift in Global Standardization**
 - Processes and Procedures consistent
 - Work Flow
 - Management tools
 - IT Framework

- **Strategic Value becoming as important as cost reduction**
 - Customer feedback, best-in-class processes, added capabilities, etc.)
- **Clients want fewer providers/partners**
 - Too many relationships to manage
- **Low Cost Labor delivery will continue to expand**
 - Searching for undiscovered quality labor
- **Home-shoring (work@home) continues to grow for**
 - In-house as well as outsourcing especially with aging population
- **There will be outsourcer consolidation through M&A activity**
 - bigger is better for economies of scale

- **Co-value Creation and Collaboration becoming crucial**
- **Outsourcing almost similar to an M&A deal (Due diligence) given**
 - Size,
 - Degree of complexity and
 - the importance of outsourcing deals to a company's overall strategy
- **Rigid SLAs make no sense if you don't collaborate with services outsourcing providers, unless things go wrong**
- **Clarity is key to successful outsourcing**
- **SLAs are toughest and most-time consuming to negotiate**
- **Outsourcing is a co-joint decision making process between senior execs and managers.**
 - Agreement on total level of service, working out how much can be improved, how to communicate and about what and when

Don't outsource your problem or poor process

“The more services technology you have embedded into your different systems, the more the ability to outsource reduces.”

Cees van Wichen

Vice President, Customer Services

Philips Medical Systems

October webcast date to be announced shortly

September	Shifting Service Sources: “Outsourcing, offshoring and managed services”
October	Customer Relationship Management “Using your market antennae”
November	Employee Loyalty: “Pillar or pitfall for generating growth?”
December	Using a Common Foundation: “Service maturity and global consistency”
January	Selling the Service Experience: “Are we finally becoming customer-centric?”
February	Leadership: “The convergence of value-added support and professional services”
March	Driving Service Productivity
April	Matching Self-Service and Customer Support
May	Defending Maintenance
June	Service Performance Management: “Measuring Service Business Reality”
July	Annuity Management: “Service Level Contracting”
Aug	Differentiation vs. Standardization in Services: “Is Standardization conflicting with our USP?”



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Questions