

Allo SBT | The About Series

About Outsourcing:

Outsourcing can be defined as the process of subcontracting network operations and support to an organisation outside your company. It is a system whereby a company allows another company provide a service that they would otherwise have provided. This could be a transfer of some segments of the organisation like the IT infrastructure or staff processes to another company. Outsourcing involves business to business inter relations either because the main company does not have the production capacity at the required time or the service is specialised and there is no similar product or service offering within the company.

Outsourcing can also occur as a result of the inability to continue to provide the particular service in house thereby transferring the performance of the particular product or service to a third party. Usually outsourcing comes in two forms. IT Outsourcing and Business Process Outsourcing; the former involves networking computer systems and other technologically related issues and the latter; accounting; procurement and human resources.

Outsourcing also involves interdependence between the companies who have a business relationship. If for example company X is outsourcing its e-commerce services, it means that it is relying on another company to do this job rather than doing it internally using its own employees and resources. As such, its performance in this particular sector in terms of delivery will be dependent upon the outside company who will be performing the service on its behalf. Therefore, careful consideration is necessary when choosing the company to handle outsourcing on your behalf.

As a guide, the first thing is to be sceptical about which company you choose and what you want them to handle. A company might be very good at handling a particular service and be inefficient in handling others. You will need to ensure that the particular service being outsourced is being delivered in an efficient and effective manner.

The next thing to do is to get advice from a professional or someone whose is well informed about the market situation in terms of outsourcing. This is to enable you make an informed choice about whom should handle your outsourcing. You should also realise that you do not necessarily have to go with the company you are advised to use especially if you feel that your adviser(s) is/are biased towards recommending that particular company not necessarily out of their ability to deliver but for reasons otherwise.

It is also advisable to take a look at the financial records of the company and get a brief history or profile on their business operations for the past relevant years. This is to give you insight in terms of performance measurement and service delivery. It would also show the long term profitability of the business and if at all it has going concern problems. It would also be beneficial to seek the help of a consultant to look at the financial forecasts made by the company and how realistic they are. This will help you decide whether it makes economic sense to outsource to the company.

It is wise to seek legal advice before outsourcing. A solicitor will help you go through the contract carefully, and fully explain any restrictions or underlying clauses that might be there-in; and how the company you are looking to outsource to intends to generate revenue over the period of the business relationship.

It might also be worthwhile to find out how many other companies have a business relationship with the company and in particular those that have outsourced some of their services to the company in question. This will help you decipher if the company has too much to handle or if it will be effective and efficient in handling your own operations.

You will be better off if you find out about those companies that have equally outsourced the department or service you are looking to outsource to the same company. Go in to see them, find out if they have been satisfied with the company's services; if their expectations have been met or exceeded, and if they are happy to continue to use the same company. There is nothing like hearing from the horse's mouth. In the same vein, do not limit yourself to the references given by the company you are looking to outsource to. Obviously because every company would only refer you to those clients that are satisfied with its service delivery; ironically they may be way less than the unsatisfied ones.

Be particularly weary if you are the first to outsource to the particular company. There has been no one to test the waters. Chances are that you are taking a gamble; it is better to take extra precaution by going on a fact finding mission as to the capabilities of the company in the particular area you are looking to outsource to them and the resources available to them.

It is also worth looking at the cost of the outsourcing. Is it value for money? Does it meet your budget? Are you satisfied it's the best deal you can get? What is the payment pattern? Is it suitable, feasible and acceptable? Are you required to pay a large sum upfront and smaller sums later? If so, you might want to look at the future of the company and whether it is being well managed so that you ensure you are safe going with the payment method.

You also need to look at what sort of product or service you are outsourcing. Does it have a specific life span? If that is the case, then are you better off only outsourcing for the full length of the life span or less? If the product or service doesn't have a lifespan are you happy to have a short term contract or a renewable contract?

Like you would do for a new business venture, it is advisable to do a market research into what your competitors are doing regarding your proposed outsourcing. Are they outsourcing the same service? Is it profitable to outsource or is it just convenient to outsource? Are you looking to achieve competitive advantage by outsourcing or is it a case of copying the players in the market? There is also a likelihood that you are just looking to outsource because this has been the company's practice for many years. It is advisable to look at where the competencies of the company lie. If one of it is outside; i.e. has to do with the outsourcing, then it might be advisable for the company to develop the activity within, so that it brings the competency inside where it would have more control over it.

Notwithstanding, outsourcing can be beneficial. Better use of permanent staff is an obvious benefit. For instance, many small companies may elect someone to perform an IT role, but this is unlikely to be as effective as a company whose purpose is to provide IT services.

Reduced operating costs are also another benefit. Most times, outsourcing partners provide an element of infrastructure to support their offering. However, if the contract is large, you might also want to consider selling your IT department altogether to the outsourcing provider, which can provide you with a large cash payment and a healthy cash flow.

Outsourcing can also provide you with a large range of skills, abilities and resources. This helps because if you encounter hiccups in the line of duty, the outsourcing provider is likely to be able to put more people on the problem to get it resolved.

That being said; at what cost should you outsource?

As mentioned earlier, it is important to make sure the specifics of the contract are understood and agreed to by both parties to avoid disputes over costs, what should be delivered and grey areas of what is and isn't included in the deal.

Furthermore, you should bear in mind that everything doesn't start to work immediately you have signed the contract; things can take time.

You should also take note of the varying methods of paying for outsourcing. Some providers will accept a monthly fee. Others may be more flexible allowing; you to pay only for what you use.

Costs shouldn't be your main consideration; instead, you should think of the return on the investment you have already made in say equipment and software.

Finally, what kind of business relationship exists between you and the company you are looking to outsource to? Is it a healthy relationship? If so can it last?

If it is profitable for you to outsource, you think of the following:

- (i) Try the product or service before you buy the product or service.
- (ii) Speak to current customers of the outsourcer about the current service of the outsourcer.
- (iii) Compare your current annual spend on the product or service to be outsourced with the quote you are given.
- (iv) Add up the costs of providing the services in house-including the management costs.
- (v) Try to find a 'pay as you use' outsourcing service and evaluate the potential benefits.
- (vi) Assess outsourcing companies according to factors like their price, service levels and track record.
- (vii) If you do use several outsourcers on the same project, e.g. creating a fully integrated website, it is best to designate one of them as lead partner.
- (viii) It is strongly recommended that you establish a single point of reference between you and the outsourcing company.
- (ix) Agree a procedure for dealing with any of the outsourcer's failures to deliver to the agreed levels.