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Outsourcing 101:
A Guide For First Time Outsourcers

Author: Eric Liebross

C'mon, you know you want to do it. It really works, and when it does it will make you feel really good. All the big kids are doing it. Just give it a try.

Outsourcing. Offshoring. Nearshoring. Managed Services. Shared Services. Whatever you choose to call it, outsourcing has been a growing business trend since the 1990's. The outsourcing industry has helped launch the global economy by establishing professional services markets in far off locations such as India, the Philippines and China, and has opened the doors to emerging markets in Latin America, Eastern Europe, the Caribbean and Africa.

The opportunities that are available from outsourcing to these markets are well known in the business community: lower costs, improved processing efficiencies, a greater focus on strategic activities. Until recently, these advantages have only been available to larger, global enterprises, and many of them have been realizing the benefits. Go down the list of the Fortune 500 and you will see that most of these companies utilize outsourcing, in one form or another, as part of their business operating model. In a recent survey published by Duke University's Fuqua School of Business, "Global Sourcing of Business Services-2012", 80% of large companies (defined as those with more than 20,000 employees) use outsourcing in one form or another.

Recently, the outsourcing service sector has become more accessible to smaller businesses. Driven by technology innovations and great improvements in telecommunications infrastructure in offshore regions, as well as economic pressures to reduce cost and operate more efficiently, the SMB ("small and mid-market business) market has begun to look at outsourcing to support its business model. The Duke University survey reported that 58% of mid-sized companies (500-20,000 employees) and 43% of small companies (less than 500 employees) use outsourcing services.

This article is designed to help answer the fundamental questions that many business executives who are new to outsourcing are asking, and give them some guidance on how to get started. The four key questions are:

- **"Is Outsourcing Right For My Business?"**
- **"What Functions Should I Consider Outsourcing?"**
- **"Which Location Should I Outsource To"?**
- **"How Do I Get Started?"**

Let's start by defining the differences between the two prevalent offshore service delivery models: outsourcing and shared services.

OUTSOURCING

Outsourcing involves an external third party providing services to organizations that were previously performed by internal staff. It is now common for many back office functions that are considered "transactional" to be provided by third party outsourcers, sometimes in domestic locations, also known as "Onshoring", but more typically done offshore, in locations ranging from Asia to Latin America.

Some niche services, such as legal and medical transcription, computer aided design and engineering, web and graphics design, even movie production special effects, are now being provided by outsourcers, as well.

SHARED SERVICES

Shared Services, also known as "captive" service centers, differ from outsourcing in that these services are being provided to business unit(s) by a separate entity, which remains a part of the overall organization. Generally, multiple business units receive these services from the shared services center, which provides a consolidated operation that standardizes the business processes, systems and controls across all of these entities.

In both cases, transactional activities are the staple of these service delivery models, however, higher value activities, such as treasury, statutory reporting, financial planning and reporting, internal audit, and business analytics are now being provided through these service offerings.

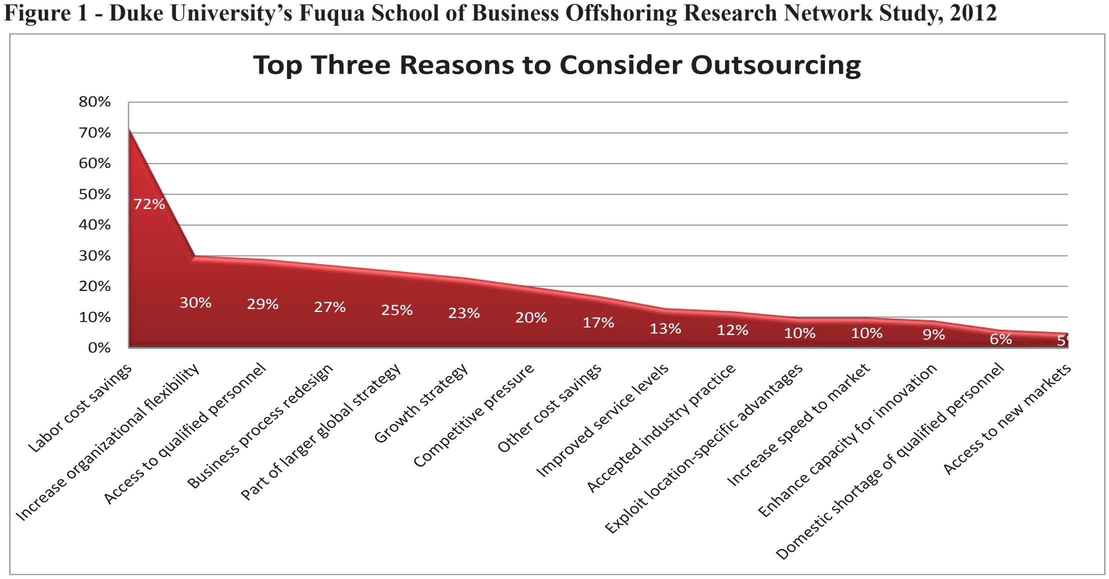
The goal of both shared services and outsourcing is to reduce operating cost through labor arbitrage and/or greater economies of scale amongst the labor force. Other benefits that are being realized include cost effective access to specialized skills, and operational redundancy/business continuity. In addition, businesses are realizing improvements in operational performance through access to tools provided by third party outsourcers that drive automation and process standardization. With outsourcing, due to the nature of the third party relationship, companies are also able to establish a higher level of operational visibility and accountability through contractual service levels and performance metrics.

Is Outsourcing Right For My Business?

To answer this question, you must first answer another question: "Do I really want to outsource?" It's a simple question to ask, but not that simple to answer.

As noted, Outsourcing is increasing in the SMB sector, with the Duke University study reporting that SMB companies had aggressive offshore expansion plans over the next 18-36 months, with 73% looking to expand current operations. According to the Duke study, cost savings was the leading driver for outsourcing, but a number of other factors weighed heavily on the decision to move functions offshore (see Figure 1).

Figure 1 - Duke University's Fuqua School of Business Offshoring Research Network Study, 2012



The Duke study pointed out that, " …companies that moved processes offshore say they have gained in flexibility and agility, and the ability to compete in challenging economic environments."

Figure 2, below, provides additional details of the benefits that were highlighted in the Duke study.

Labor cost savings clearly is the leading benefit derived from outsourcing, with offshoring locations providing a broad range of potential cost savings, ranging from 30-75% according to a study published by the Everest Research Institute.

But other factors play a significant role in the decision to outsource, including the ability to improve overall business operations and performance through the re-engineering of business technologies to increase automation, visibility and control.

And in some cases, other growth related benefits are available, such as more cost effective access to specialized skills and capabilities, which can facilitate new production innovation, and open up new markets to the company.

Consider, for example, the explosive growth of the hispanic consumer market in the United States. Having greater access to Spanish-speaking personnel can help companies reach out to previously untapped domestic markets for its products and services, while establishing operations in these regions provides a gateway to an emerging consumer market.

Clearly, there are many potential benefits available from outsourcing, but there are also many factors that inhibit businesses from jumping into it. These factors range from political to operational, and the Duke study provides insight into the concerns expressed by SMB executives (See Figure 3).

Figure 2 – Business Outcomes Attributed to Outsourcing, Duke University's Fuqua School of Business Offshoring Research Network Study, 2012

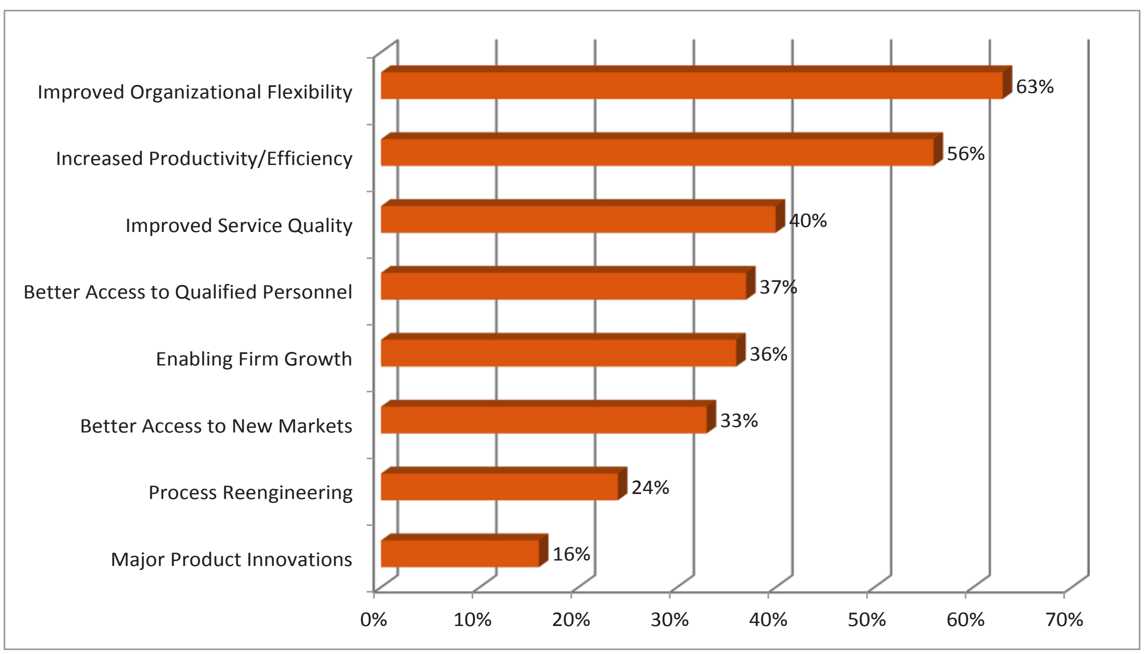
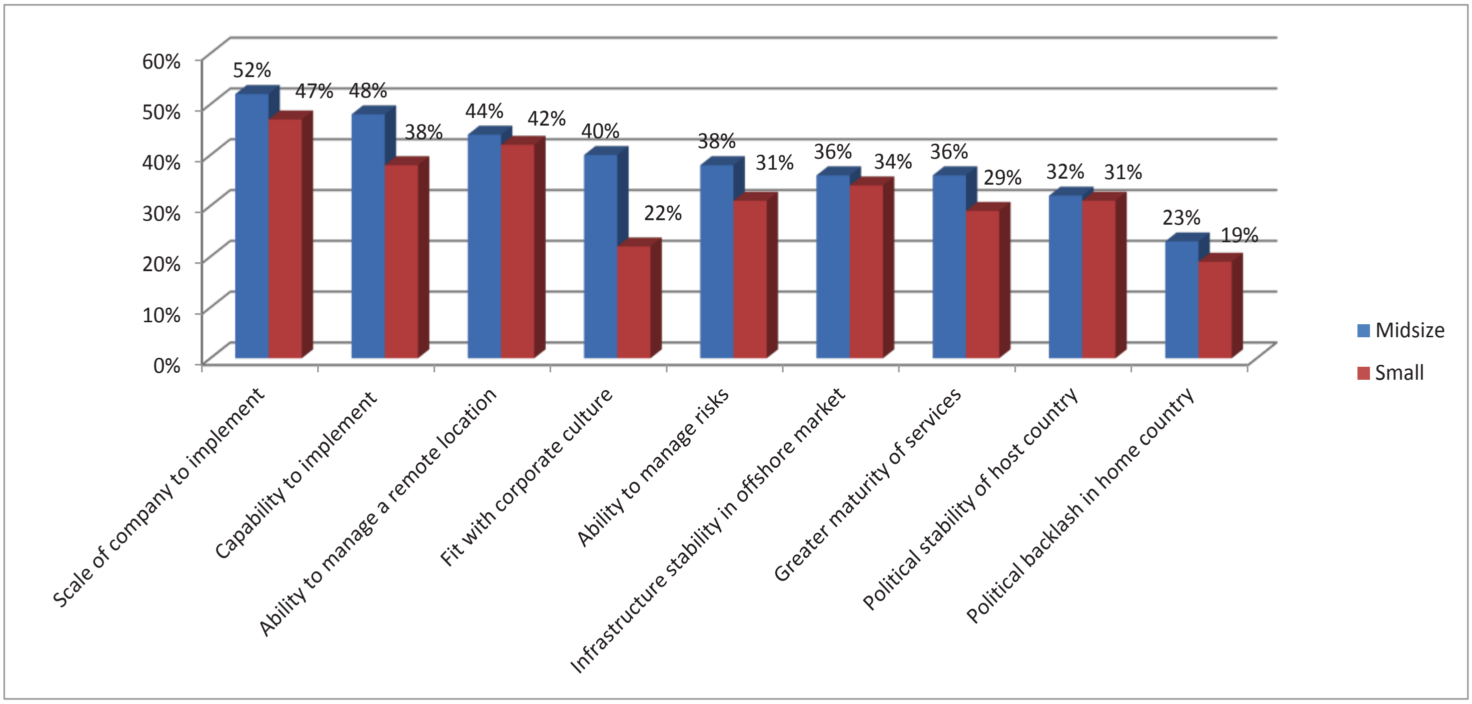


Figure 3 – Concerns of SMB Executives on Outsourcing, Duke University's Fuqua School of Business Offshoring Research Network Study, 2012



In the end, as a business executive, you need to make the decision if outsourcing is right for you. There are many factors that support the decision, and some that will make you give pause.

For a business that needs to reduce its costs, it becomes an easier decision. The labor cost savings that are available through offshoring simply cannot be achieved in the US market, and at some point, reducing staff becomes detrimental to business operations. Utilizing offshore resources is a way to reduce cost without increasing the burden on already overtaxed personnel, and layoffs do not exactly buy you any more "political capital" than outsourcing does.

For companies facing tighter margins and increased competitive pressure, outsourcing can be a quick way to significantly reduce bottom line costs.

And for those companies whose competitors are already utilizing offshore back office services, you will find it difficult to keep up with the lower costs and competitive advantage that your rivals are achieving.

In most cases, however, businesses that elect to move functions offshore do not do it because of labor savings alone. It may not be the "politically correct" thing to say, but outsourcing is often more about performance than cost savings.

Companies usually want to outsource some of their transactional activities because of the improvements they can gain from often inefficient operations. Poor back office operations, due to weak or non-existent automation, inefficient processes and (political correctness aside) poor workforce quality, are the other primary drivers for outsourcing. The reality is, if the process is performing effectively, the company is not going to be inclined to outsource it. The maturity and documented outcomes of businesses who have utilized offshore services should give a business executive some degree of comfort in making the decision to consider outsourcing. But the concerns are legitimate, and need to be managed effectively.

If the answer is "Yes" to the outsourcing question, you need to ask and answer some additional questions before you take the next step:

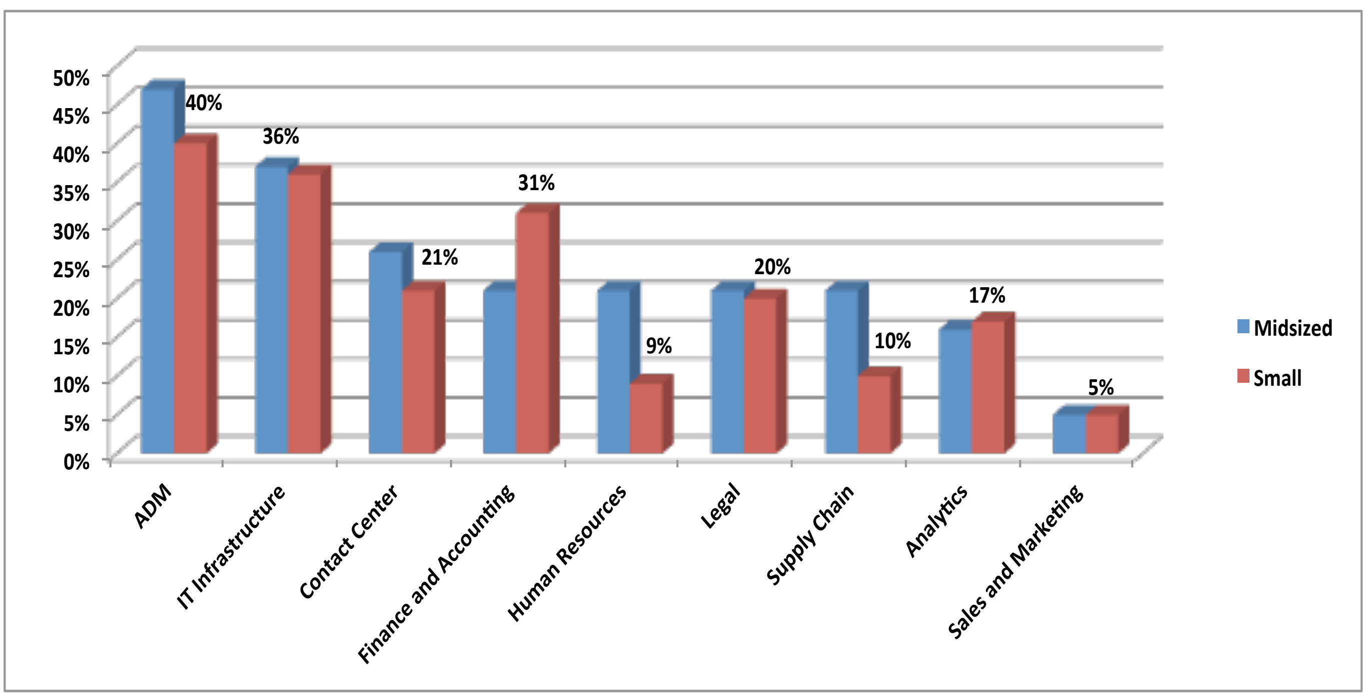
- What am I looking to gain? Is this about cost savings, efficiency, performance improvement?
- If it's cost savings, am I confident that I will achieve the savings?
- If it's efficiency or performance improvement, how will I measure the benefits?
- Have I assessed the impact to the business, operationally and culturally?
- What are the risks and how do I mitigate them?

Having well defined expectations and outcomes is critical to the success of an outsourcing function.

What Functions Should I Consider Outsourcing?

According to the Duke University study, several areas were the top targets of SMB business executives to be moved offshore, led by the technology functions, Application Development and Maintenance ("ADM") and IT Infrastructure Management, and on the business side, Finance and Accounting and Customer Service. These are typically activities where larger companies have already migrated some functionality offshore (see Figure 4 below.)

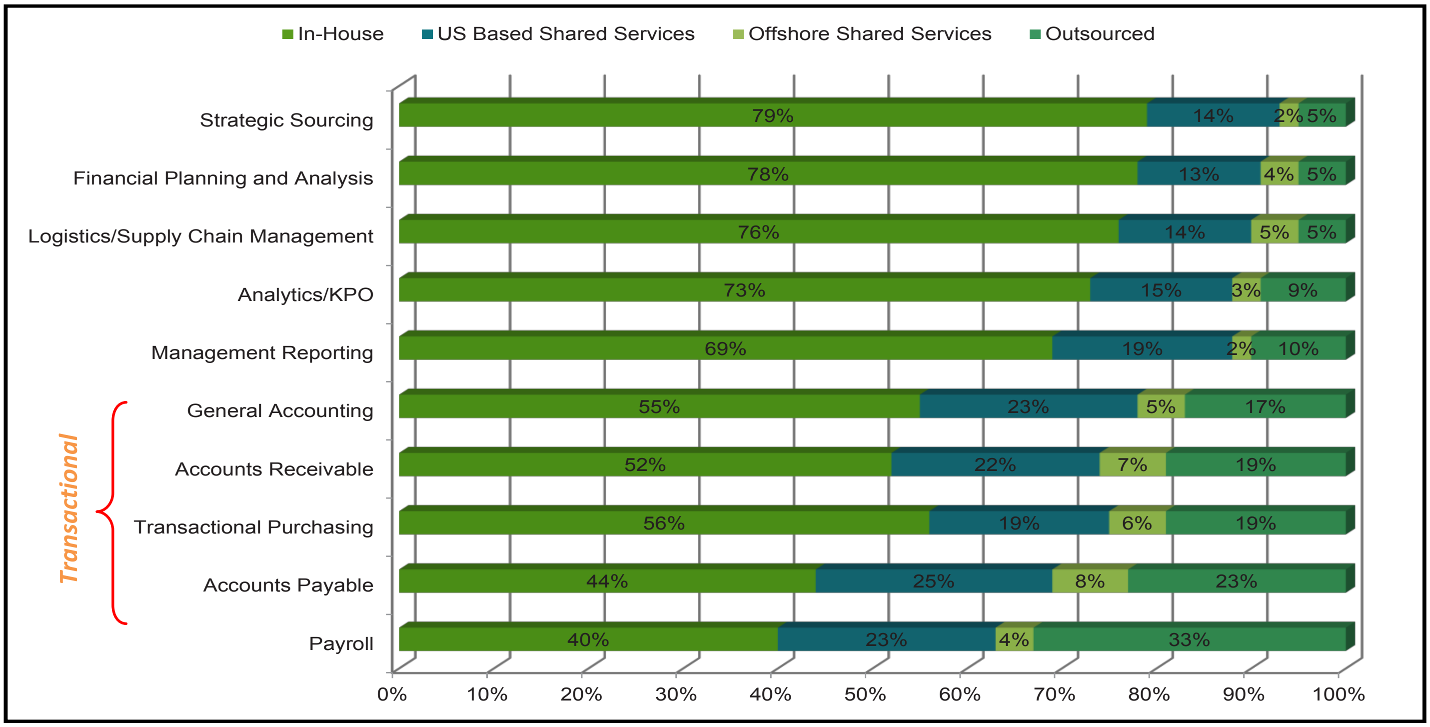
Figure 4 - SMB Functions Considered for Offshoring, Duke University's Fuqua School of Business Offshoring Research Network Study, 2012



These are functions that are well established in the outsourcing services sector, with ADM and Contact Centers at the top of the Offshoring Maturity Curve, and F&A ("Finance and Accounting") and IT Infrastructure Management right behind, according to a study published by the Everest Research Institute.

A closer look at various business functions show that the more transactional, less management intensive activities are the ones that are typically outsourced:

Figure 5 - "2013 State of Outsourcing" by Hfs Research and KPMG

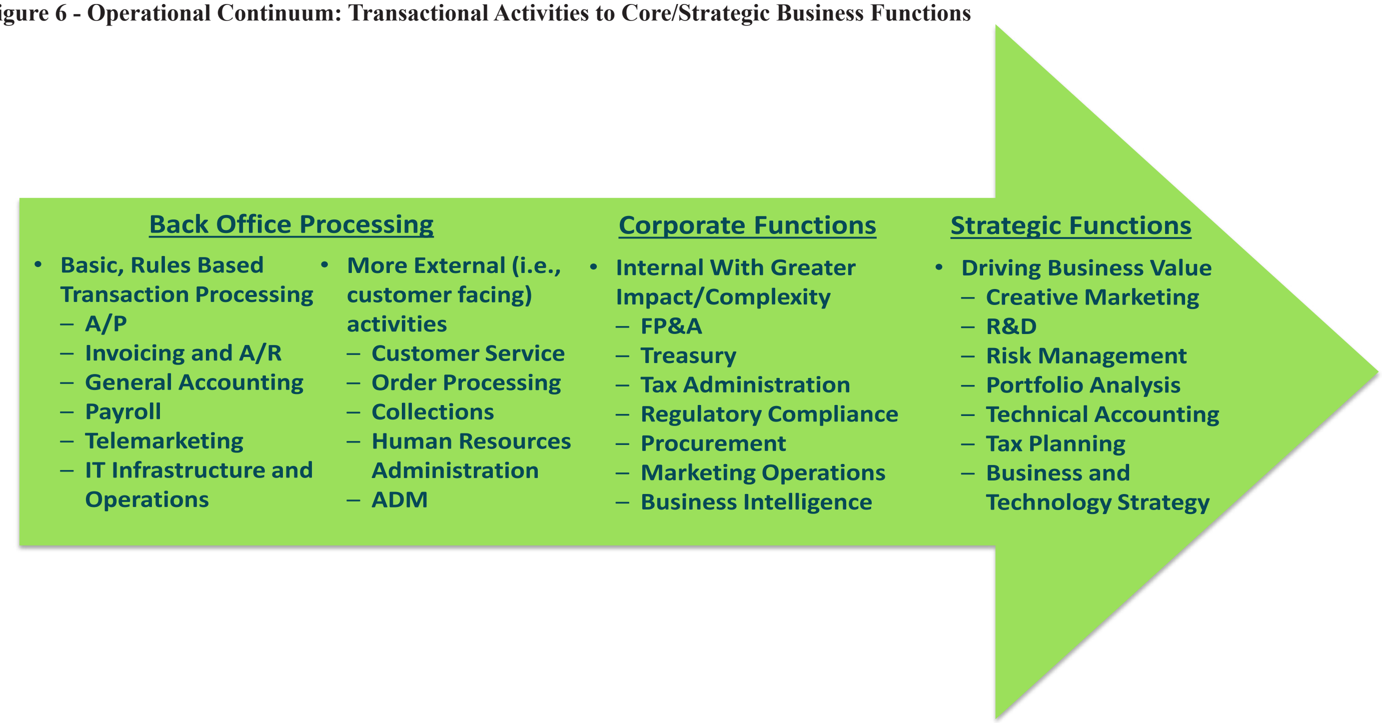


If you are like most businesses, you will find that the functions that are most ripe for outsourcing are the ones that should not require a lot of management involvement. This is why transactional functions, such as Accounts Payable or Account Reconciliations, are the ones that are typically migrated first. On the technology side, internal help desk functions, network and server management, are often viewed as the functions that are most applicable to outsourcing. They are lower risk, in that they don't typically impact customers, are not relatively complex in their execution, and are not strategic to your business.

You will also find, however, that these types of functions often end up involving more management involvement than you would want. Migrating these functions to a third party makes sense because you can reduce your operational costs, expect to gain greater performance efficiencies, and allow management to focus on higher value activities.

Many studies have been published that highlight the relationship between functional complexity and labor cost in offshore service delivery. Figure 6 below, provides a good framework for targeting the types of functions that

Figure 6 - Operational Continuum: Transactional Activities to Core/Strategic Business Functions



would lend itself to offshore service delivery, based on the complexity and cost associated with delivering these services. Starting with less complex functions typically will facilitate the establishment of an offshore service delivery model.

As that model stabilizes and matures, adding more complex functions will be easier to do, as the offshore organization has a foundational understanding of the way the company operates. This generally translates across all functions, regardless of complexity.

In reality, however, the decision on which functions you should look to outsource goes back to the first question, "Is Outsourcing Right for your Business?" It comes down to what you are looking to achieve. In answering the first question, you will answer the second one.

Most businesses look for a combination of cost savings and performance improvements. As stated earlier, well run business functions typically are not the ones that a company looks to outsource, regardless of the savings.

If an area within your business has performance issues, it is probably a good target for outsourcing, with one caveat. Do you really understand why a function is not performing well? Have you taken the time to analyze and understand the challenges that a third party will face in taking over the function?

The first step in solving a problem is acknowledging that a problem exists. Are you close enough to the details of a function to understand the challenges inherent in making it work effectively? Don't assume that it's just bad people, bad processes or bad systems.

Migrating a poorly functioning process with no plans to improve it will result in a poor process being done somewhere else.

Start with functions where you understand the process, and the issues involved in performing it. Then work on a plan to improve the process, either through process improvement, automation, organizational change or all of the above.

If you plan to migrate a function that is customer facing, you will need to ensure that there is no negative impact to customer satisfaction and productivity. Establishing a realistic timeline and effective training, communication and transition plans are critical to the success of the migration. For example, if a department relies on another department for activities, such as sales and customer service, both areas must be aware of and aligned with any operational changes that will occur. All parties must understand the service levels and escalation paths to ensure that business operations are not impacted.

Make sure that the skills involved in performing the process are available from the third party service provider. For example, if your company uses a certain type of ERP system, be certain that the service provider has access to resources experienced with this system. If you utilize a proprietary system to perform transactional processes, realize that there is no vendor who will have the knowledge and experience in this system, and make plans to transfer that knowledge to the service provider. And, if there are certain language skills that are required in performing a process, ensure that the language skills are available from the service provider at a reasonable cost.

Too often, a business does not really have a good handle on its current transactional performance levels, and this results in unrealistic expectations, either from the current staff or from the service provider who will assume the function. **To quote Steven Covey's "Seven Habits of Highly Effective People," first seek to understand, then to be understood.**

Which Location Should I Outsource To?

Once you have made the decision to utilize outsourcing in your business, the next big question is, "Where?" The term "offshore" is commonly used to describe services provided in another country where labor costs are lower than in the United States. However, the diversity in service delivery locations is as geographically dispersed, as, well, the world.

An annual study published by the consulting and advisory firm, Tholon's (www.tholons.com) ranks the top 100 outsourcing destinations in the world. As indicated by Tholon's, today's outsourcing market has reached across the globe, and services are being provided in locations ranging from Asia (with leading locations that include India, the Philippines, China and Vietnam), Eastern and Western Europe (with Ireland, Poland, the Czech Republic and Hungary as leading locations), Africa (South Africa, Ghana, Morocco and Egypt the leading locations), Latin America (Costa Rica, Brazil, Chile and Argentina).

There are many other countries within these regions that provide various types of outsourcing services, and even the Caribbean (Puerto Rico, Jamaica, and the Dominican Republic) and North America (Toronto, Canada, San Antonio Texas, St. Louis, Missouri) are well represented in the service delivery sector, according to Tholon's.

To distinguish between the various locations, it makes sense to provide a regionalized view and assess the pros and cons of each region. Let's start with simple definitions of three different kind of outsourcing models:

- **Domestic:** services are generally performed in the same country that the services are received (i.e., US based companies utilizing service delivery from US based locations)

- **Offshoring:** services are generally performed in another country where there are significant difference in proximity and time zones (i.e., US based companies utilizing service delivery from Asia based locations)

- **Nearshoring:** services are generally performed in another country which is generally in close proximity and has similar time zones to the country receiving services (i.e., US based companies utilizing service delivery from Latin American based locations)

However, even these definitions can be overly simplistic, as the perception is that for US based companies, Latin America as a whole is a nearshoring service delivery destination.

The reality is, Latin America is a very large region, and in some cases, traveling to these locations can prove to be very challenging from a travel time and logistics basis.

Time zones and proximity play a significant factor in effectively managing an offshore service delivery model. The ability to easily bring quickly offshore staff to US locations, or send US staff to engage with offshore service providers can help across a broad range of areas, including facilitating the transition, to managing risk, improving communication and resolving issues.

Time zone issues have also resulted in higher costs in some of the Asia markets, as increasingly competitive employment situations are requiring service providers in those countries to pay a premium for people to work the overnight shifts that align with US working hours.

Wage comparisons between Asia and Latin America show that the Asia markets are still lower cost, but the gap is closing. According to the consulting and advisory firm, AT Kearny, the Philippines is the lowest cost country of

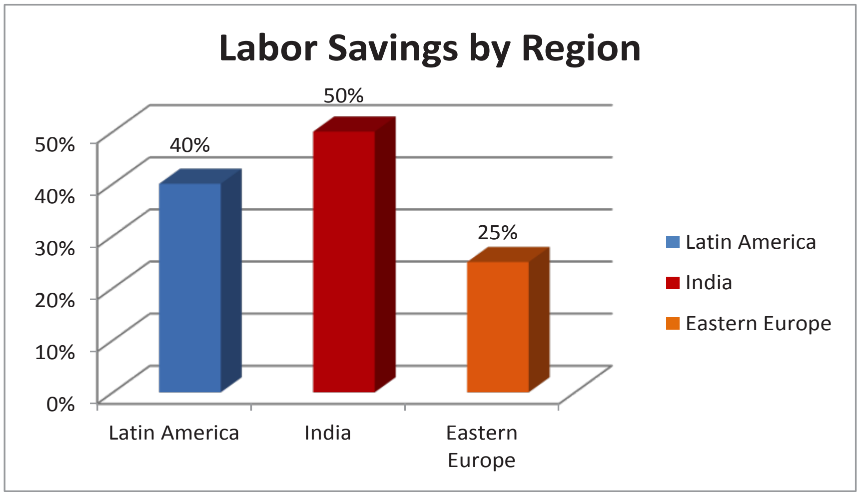


Figure 7 – Labor Cost Savings Compared to US Labor Costs, AT Kearney Global Services Location Index, 2011

the major offshore service delivery locations, followed closely behind by India. Latin America countries can be considerably more expensive, in some cases 20-30% higher, as demonstrated in this chart comparing labor cost savings to the US in three major offshoring regions, Latin America, India and Eastern Europe.

Latin America still represents significant labor arbitrage compared to US costs, ranging from 30-50%, but Asia is still the lowest cost outsourcing region compared to US labor cost. You can anticipate labor cost savings ranging from 40-70% in these markets, depending on the function.

Labor savings across all markets is being offset by currency exchange issues, as the US dollar has fallen sharply against many foreign currencies over the past 5 years. In the past, wage inflation in these countries was cancelled out by the valuation of the US dollar against local currencies. More recently, labor costs have taken a **"double hit"**, with rising labor cost and the weaker US dollar causing a spike in outsourcing fees to customers.

Other factors affecting labor costs in these markets are more unique to each region. In Latin America, there are many countries that have very strict labor regulations relating to such diverse factors as working hours, severance, maternity leave, vacation days and other required benefits such as the mandatory 13th month salary ("Aguinaldo") in many Latin American countries.

Conversely, high demand in the Asia markets has resulted in significant wage inflation, ranging from 15-30% per year, according to AT Kearny; and KPMG has stated that wages in competitive Asia markets are rising up to 7 times faster than in the west.

In addition to labor cost, proximity and time zone, there are many other factors to consider when looking at outsourcing to a non-domestic location, including:

- Available labor pool and attrition rates
- Available professional and/or technical skill sets
- Language skills
- Cultural compatibility
- Power and Telecommunications infrastructure
- Political stability
- Economic stability
- Regulatory requirements
- Risks to intellectual property

The following chart provides a comparison of the comparative "key decision factors" within each outsourcing market:

Figure 8 – Comparison of Outsourcing Location "Key Decision Factors"

Key Factors	Domestic	Nearshore	Offshore
Geographic Proximity	1	1	3
Time Zone Compatibility	1	1	3
Labor Cost	3	2	1
Available Labor Pool	2	3	1
Attrition Rates	1	1	3
English Language Skills	1	3	2
Spanish Language Skills	2	1	3
Cultural Compatibility	1	2	3
Geopolitical/Security Concerns	1	2	3
Power and Telecomm Infrastructure	1	2	3
Economic Stability	1	2	3
Regulatory Environment	1	2	3
Risks to Intellectual Property	1	2	3

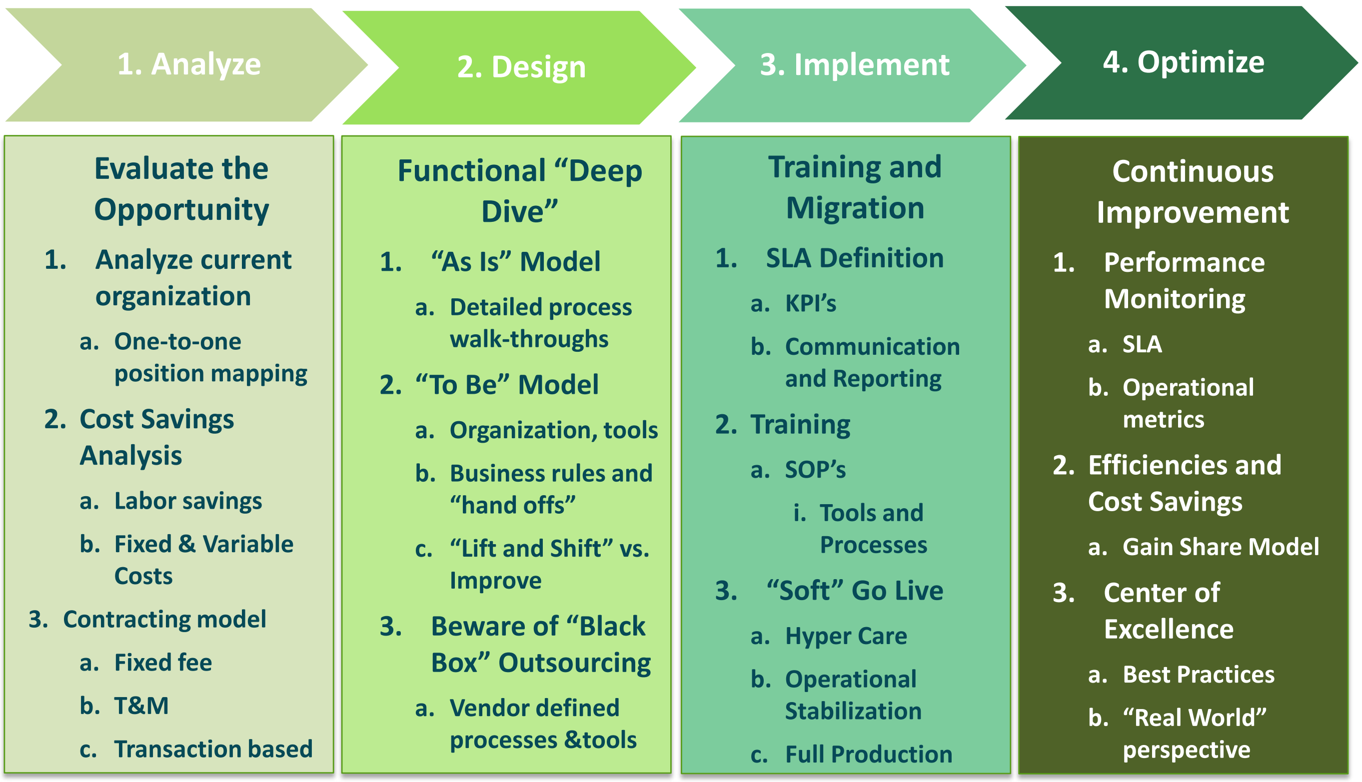
Clearly, domestic locations offer many benefits, but the bottom line is "the bottom line", domestic outsourcing will cost you 40-50% more than offshoring

The final decision on where to outsource should involve an assessment of many factors. If the primary driver is cost savings, Asia will present the strongest business case. If you are willing to trade some savings for the proximity and time zone benefits, then for US based companies, Latin America presents a great option. Economics and geography are always going to be the top factors in answering the location question.

How Do I Get Started?

As you can see, there are a lot of decisions that need to go into answering the outsourcing question. But once you have made the decision that outsourcing is right for your business, it is important to have a realistic and practical approach towards how to proceed. There are some fundamental steps that you should take to finalize your decision on what to outsource, where to do it and with whom. For a successful transition, we recommend that you follow the ***Game Plan for First Time Outsourcers (***see Figure 9**)**.

Figure 9 – Auxis "Game Plan for First Time Outsourcers"



#1 Analyze:

This stage involves several key steps:

Evaluate and document the business case.

This is typically a cost savings analysis, detailing the potential savings from moving the target positions offshore, and includes more than labor savings, incorporating other variable and fixed costs that a business incurs in providing services internally.

Start with a ***position mapping exercise.*** This involves analyzing the roles and responsibilities currently being performed, and the background and experience of the people performing them. Generally, job descriptions, plus discussions with functional management staff will provide the information that is needed.

These roles are then mapped to comparable positions in the third party service provider's operation, and a high level outsourcing organizational model is developed. Validate this model with your functional management to make sure that it makes sense in the context of the operation to be performed.

Once the mapping is agreed upon, a labor arbitrage analysis is conducted. This is simply a one-to-one comparison of your current, fully loaded labor cost (wages, other incentive compensation, benefits and regulatory load) to the service provider's fully loaded cost, which should include all of their fixed overhead cost (i.e., facilities, telecommunications, equipment, etc.) as well as their fully loaded wage.

The differential represents the cost savings opportunity, and as a general rule of thumb, it should be at least in the 30-50% range for each function analyzed. This will not include any potential additional savings that you can obtain from process efficiencies, automation, organizational redesign and position leveling, etc.

Define the Contracting Model.
Concurrent with the business case analysis, the contract details should be determined. There are many components that go into the contracting process, beyond the legal haggling over the terms and conditions.

First and foremost, how will the outsourcing pricing be structured? In outsourcing there are various options, including fixed fee, time and materials, per transaction, per device (for ITO agreements). Each option has pros and cons.

For example, fixed fee is a simple agreement to establish, as both parties have a good understanding of the cost to do business, but it requires a clearly defined scope and set of requirements, and typically works best when there are standardized processes in place that will not require much flexibility, customization of exception processing.

Time and materials, on the other hand, provides much more flexibility, but will typically result in a higher cost. Per transaction/device arrangements often provide the greatest degree of flexibility for all parties, and by moving from a cost per hour or resource, you are incenting both parties to look for ways to be more productive.

If a vendor is being paid by the resource hour, that vendor is not going to be inclined to want to reduce heads or effort to get the work done. By moving to a more transactional model, the vendor and its customer are both looking for ways to be more efficient.

Transactional pricing models, however, normally will require a solid baseline from which to work, so that the vendor and the customer fully understand the workload and productivity levels that are established, and then determine ways to improve them, whether it's through automation, process improvement, or some combination. In this regard, transactional models are harder to implement upfront, and are often established after a baseline performance period is completed.

Other factors that need to be evaluated as part of the contracting process include anything that may impact the cost to perform the required scope of work. This may include IT and telecommunications infrastructure cost, resource availability, specialized skillsets, work hours and shifts, travel cost, etc. All of these factors should be defined and included in the pricing model, and memorialized in the contract documents. Additional concerns that should be addressed are such things as contract term, termination (with and without cause), annual rate increases, COLA, transition and training cost, defined service levels, etc.

Establishing a "Win-Win" Relationship.
Another important consideration is establishing a "win-win" relationship. The deal needs to be something that both the customer and the provider are comfortable with. This is the

cornerstone of an effective outsourcing relationship. Both parties need to get what they need from the engagement. The customer needs high performance at a lower cost. The service provider needs a reasonable margin to deliver the expected results.

The potential impact of a low cost deal, while attractive in the beginning, may, for example, result in high attrition, as the vendor "underhires" and either does not attract good people or loses them to better paying jobs. Low fees may also result in short changing the operation, as the vendor may be unwilling or unable to invest to improve business operations and performance. Doing this "on the cheap" does not benefit either party. In the end, you get what you pay for.

#2 Design:

After you decide which function(s) you want to migrate, you may want to start with one process as a proof-of-concept to make sure that the outsourcing model works for your business, and that all the "bugs" are worked out prior to extending to other functions. Focus on a function where the process is well understood, has sufficient scale, and where both cost savings and productivity improvements can be achieved.

To accomplish this, there should be a detailed process walk-through, documenting the current organization, processes, tools, controls and any special requirements, such as compliance related issues.

Documenting the "As Is" and "To Be" Models.
This "as is" process analysis should cover the full scope of the process, from its initiation through final output, and include all of the key activities, resources, tools and controls inherent in performing the work.

The next step is to design and document the "to be" operating model. During this process, the final outsourcing service delivery model is defined. For many businesses, it is important that the service provider be flexible in its design and execution, allowing for a custom approach that accommodates the unique requirements of the customer's function. This may involve the use of tools and/or processes that are unique to the individual business, or the way exceptions are handled.

Steps include segmenting and standardizing the activities and incorporating tools to improve performance. This is a critical element of the migration, as the future state process should be clearly defined and documented, reviewed and validated with the client, and finalized.

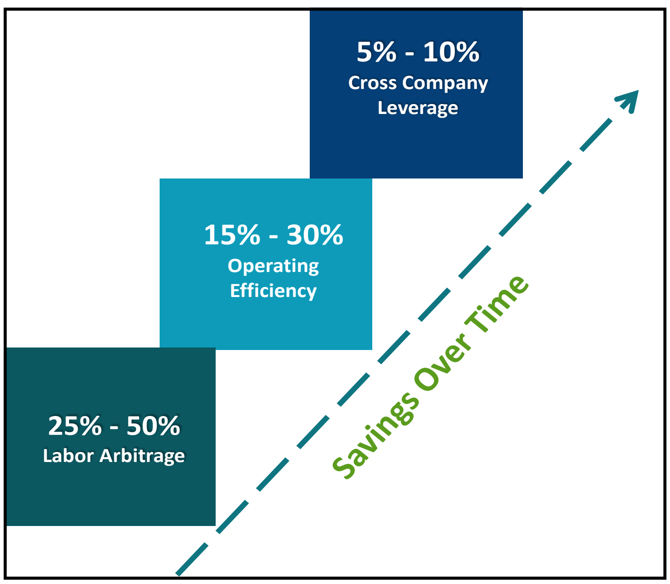
Included with these activities is the development of detailed process flows that lay out the functions to be performed, including all of the work streams and their associated activities, "hand offs", systems and controls.

There should be a focus on driving productivity improvements as part of the transition. The real advantage in outsourcing is not just the initial cost savings but the savings achieved over time, through improvements and cost effective access to shared resources.

Without this, outsourcing is no more than staff augmentation across borders.

Figure 10 below represents the potential savings opportunity over time that can be available to a business utilizing outsourcing. The initial savings opportunity is available immediately through labor arbitrage. Note that the 25-50% typical savings is based on an offshore model, and in all likelihood would not be realized in a domestic outsourcing model.

Figure 10 – Financial Cost Savings Roadmap through Outsourcing



But another 15%-30% can be achieved through operating efficiencies gained over time, generally 2-3 years. The final 5%-10% is attained from the leveraging of resources by the outsource provider across multiple clients (i.e., shared management resources or as needed access to special skills), and passing these savings onto its clients.

Beware "Black Box" Outsourcing.

Many outsourcing service providers want to impose their processes on the customer, with transactions conducted in a "black box" and the customers only getting to see the output of the transaction. When speaking with a service provider, make sure that you have a good understanding of how the operating model will work, and where the "hand offs" will occur. For first time outsourcers, managing the change is often the most difficult part, and significantly altering a process to adapt to the vendor's methods may not work for you.

These same service providers may agree to implement a custom model, but may charge more for it. Make sure that you understand all of the nuances of service delivery, and the fees associated with it.

Other Concurrent Activities.

» **Hiring of Outsourcing Personnel**
Sufficient time should be allowed for the hiring stage, to ensure that the staff hired is the most qualified to perform the job. This may take longer, depending on the requirements of the job, and the customer and vendor should decide if they want the client's functional management to participate in the interviews to provide input to the process.

» **Facilities and Infrastructure Preparation**
Having the facilities and infrastructure ready for the new staff is an often overlooked activity. There is nothing more frustrating than "flipping the switch"

to start the new process and having IT or facilities issues stop you in your tracks.

This step will typically require a good deal of coordination between the IT Departments of the service provider and the client. Access to systems, set up of users, connectivity, and infrastructure deployment requires strong collaboration, project management and communication.

» **Communication and Risk Management Plans.** It is important to make sure that an appropriate communication plan is established, both internally within your organization, as well as between the service provider and the client's back office organization. Too often, internal communication is lacking or incomplete, and no one within your organization should be surprised about the transition. Establishing the communication and escalation protocols upfront should be part of the operating model, and implemented as part of the migration process.

Communicating internally within the organization should also involve the appropriate messaging regarding the use of outsourcing within your business. This type of transition can result in political and/or morale issues, and rumors can spread that are inaccurate and/or inappropriate among the company's workforce. You should "own the message," and crafting the right message to the organization, and the manner in which it is communicated, is an important step in deploying an outsourcing model.

One often overlooked aspect of communication is the interaction that takes place between the company and the service provider located in another country. If the outsourcing center is located offshore, you must account for the cultural aspects of that country and its people. For example, in many (non-US) cultures, it is common that communication is low key and non-confrontational, especially face-to-face.

Sometimes a frank discussion between the two parties may need to be held, which may be "culturally" difficult. Work with the service provider upfront to determine how communication will be managed to ensure that open, honest and direct communication can occur. Often, the service provider will establish an Account Management layer to handle this requirement, letting the Account Manager be the "voice" to any issues, and the conduit between outsourcing operational staff and client staff and management, helping to ensure that they are addressed professionally and timely, and that a clear resolution is achieved.

Lastly, a risk management plan should be defined, with key risks identified and mitigation strategies worked through by both the client and its service provider. This will include transactional specific risks, prioritization and escalation protocols, as well as a broader strategy to support business continuity/disaster recovery concerns.

#3 Implement:

The Implementation stage involves multiple steps, many happening at the same time. All these "moving parts" requires extensive coordination and communication between the client and the service provider. Some of the key activities include:

Development of Standard Operating Procedures (SOP's) and Training Materials.
In addition to the documentation developed during the Design phase, detailed operating documentation ("Standard Operating Procedures" or "SOP's") are developed, providing a step by step guide to the activities to be performed. These documents are used as the key material for training, as well as supporting the ongoing operations once they have "gone live." Both documents should be reviewed and updated regularly to ensure that any changes to processes over time have been captured.

Training.
There are many training models that can be utilized, but the most effective one typically involves client functional management working closely with outsourced personnel to learn and perform the function.

Ideally, a combination of classroom training and "shadowing" is employed, wherein the outsource staff walk first through the functions and activities to be performed, in a controlled classroom like environment, using client systems and test data. During this step, the SOP's developed earlier, should serve as an excellent training guide, providing staff with step-by-step instructions on how to perform the key activities involved in the job.

Hyper Care.
After completing the training period, typically the outsource staff works in a "hyper care" mode, meaning that they are performing live transaction processing, but with the client is providing more intensive oversight and support. Transactions volumes are typically lower than normal, as the outsourced staff ramps up to full production levels. This may require that the client retain its in-house staff in their current functions for an overlapping period, to ensure that there is no impact to production and performance. Hyper care typically lasts anywhere for 30-90 days, after which full production levels are expected from the provider.

This type of phased approach generally provides the most seamless process towards transitioning a function offshore, and will minimize errors and any potential operational impact.

Service Level Agreement and Reporting.
During the Hyper Care stage, the Service Level Agreement is finalized. The baseline transaction volumes, which were identified during the Process Design stage, will now have been validated and updated accordingly.

A formal Service Level Agreement ("SLA") should be developed, documented and agreed to by all parties. The SLA should describe the key activities to be performed by the service provider, any assumptions should be defined, and key dependencies identified. Dependencies may include operational “hand offs” wherein client staff may assume part of the process, with the service provider’s staff being dependent upon the client to complete certain activities in order to complete the process. An example of this may be transactions over a certain dollar amount that require the approval of an authorized client manager in order to complete the processing of the transaction.

The SLA should also list the key performance metrics to which the service provider will be measured against. This can include transaction volumes, error rates, utilization, response time, or any other applicable metric. Additional reports, such as operational reports that are not necessarily contractual service levels, may also be developed to provide greater visibility and control over the activities being performed in the outsourced function.

Go Live.
At the conclusion of the Hyper Care stage, full production should be provided by the outsourced staff. “Full production” should mean transaction volumes that are aligned with the Service Level Agreement, and that service level reporting is conducted on a regular basis. Typically, you will hold daily or weekly operational meetings, and monthly or quarterly service level performance reviews.

#4 Optimize:

This stage, occurring after go-live and when service delivery has been stabilized, focuses on a Continuous Improvement program. It starts by having strong performance metrics that accurately reflect the critical activities, volume and timing, which are being performed within a function.

In this model, both the client and the service provider work together to drive additional efficiencies and cost savings, and both should be able to benefit from this outcome. A Gain Share model, wherein both parties can receive financial benefit from reducing operating costs, is a highly effective method of incenting both parties to improve operations.

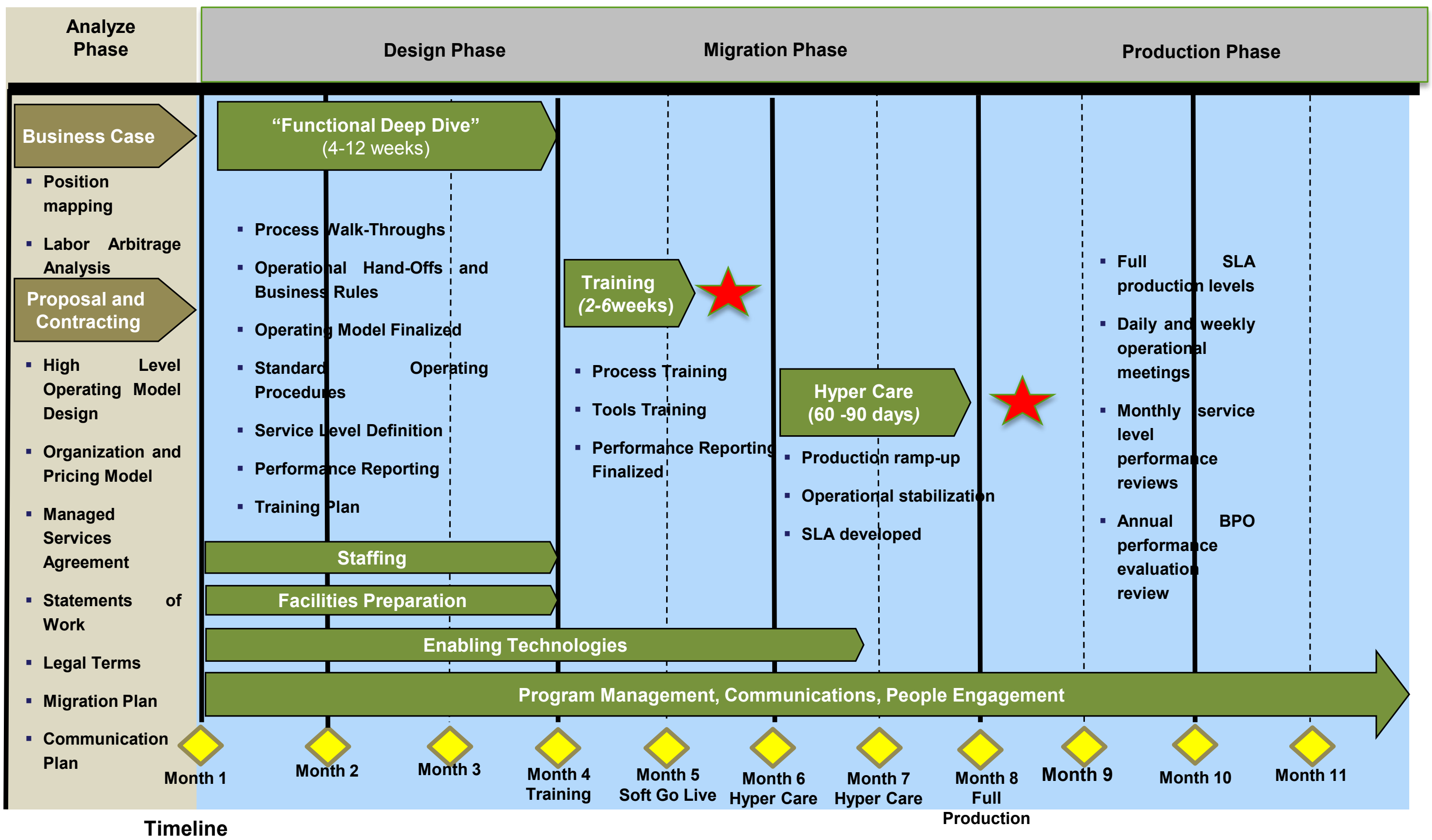
There are many well established methodologies to drive performance improvements, such as Six Sigma, Lean, and others, and you should work with the service provider to determine how this program will be implemented, and what outcomes can be expected. Many contracting models include additional efficiency targets by which the service provider is measured, and once a process is stabilized, this can be effectively implemented.

The **“Center of Excellence” concept (”COE”)** is another model that can lead to a high performance organization. COE’s incorporate industry best practices, across a broad range of areas, focused on process improvement, automation and organizational design. But you must bear in mind that “best practices” are not “once size fits all.” Certain best practices may not lend themselves to your business operation, and the time and cost to implement may outweigh the benefits.

There needs to be a “real world” approach to what can and cannot be implemented within an operation, but a focus on Continuous Improvement is an important, ongoing benefit of the outsourcing model.

The following is a graphical representation of the activities involved in migration of a function offshore, including the key checkpoints that should be employed throughout the process. The timelines indicated are estimates and may vary.

Figure 11 – Typical Outsourcing Implementation Roadmap Summary



The key point is to understand the activities and timing involved in the process, and to not short-change them. Be realistic about what it takes to implement an effective outsourcing process, and work with your vendor to establish timelines that are agreed upon by all parties.

SUMMARY:

A good outsourcing relationship is one that essentially becomes an extension of your current staff; a true business partner rather than a vendor.

If you are interested in outsourcing, it is incumbent upon you to evaluate the opportunities and the risks, and not get overwhelmed by the process. Realizing that outsourcing has become a part of today's business operating model, and that many businesses are successfully utilizing it to reduce their operating cost, and gain other key benefits, such as improved processing efficiencies, a greater focus on strategic activities, cost effective access to specialized skills, operational redundancy, and more, should give you some confidence.

You can take advantage of these same opportunities, and help your business to be more competitive and agile, if you "do outsourcing right."

The Game Plan described in this article will help you to "take the leap," painlessly and effectively. **"C'mon, you know you want to do it. Give it a try."**

About the Author

Eric Liebross is Senior Vice President of Operations for Auxis LLC. To reach Eric, contact him at eric.liebross@auxis.com.

About Auxis

Auxis is a management consulting and outsourcing firm with a proven track record of delivering high-value results. The firm specializes in helping organizations develop the strategies and business infrastructure to support long-term, profitable growth. Auxis practices a multi-disciplined approach, delivering practical, robust and scalable solutions that generate superior business performance for our clients.

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