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An Outsourcing Center White Paper

SEVEN SUCCESS FACTORS FOR OUTSOURCING

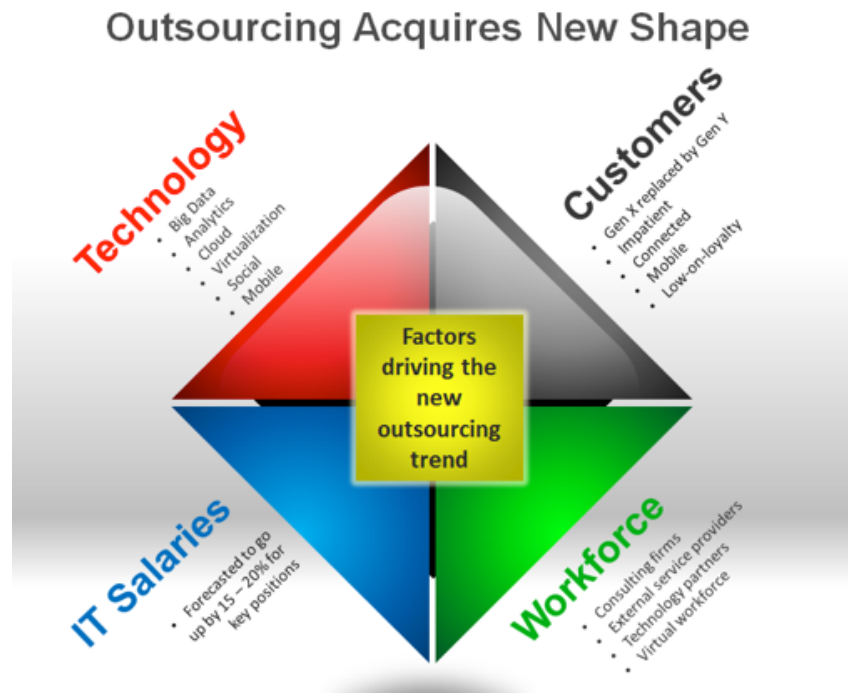
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Completely new challenges in 2012 are surfacing. CIOs are being forced to consider Big Data, Analytics, Cloud, Virtualization, Social and Mobile technologies to deliver business value. Customers are changing. Gen X is being replaced by an information hungry, mobile Gen Y. The workforce is changing. Businesses have greater dependencies on consulting firms, external service providers, technology partners and remote employees. Salaries are changing. And mind you, this is critical. The hottest jobs in IT—those that have to do with replacing legacy systems, managing risk, compliance and security, creating Business Intelligence, application development and even those that keep the lights on—are seeing rising compensations. Michael Page International’s Salary & Employment Forecast for 2012/13 *suggests that compensation could go up by as much as 15 to 20 percent in the Information & Technology sector.

To believe that the landscape is evolving would be an understatement (see Figure 1). It is changing at an overwhelming and often confusing pace. With rapid change, demand for flexibility and the urgency of real-time needs, organizations are increasing their reliance on outsourcing.

Figure 1





It is also clear that outsourcing, which was once a way of augmenting low-cost staff and saving costs, is now a way of finding talent, deploying technology, meeting customer needs, working with partners to increase business velocity and lower operational costs. Companies are increasingly harnessing new technologies to deliver higher efficiencies. It is these new technologies that are helping businesses survive sluggish markets.

In fact, in the context of a slowdown, the traditional reasons to outsource continue to gain in validity: your organization does not have to make expensive new hires; it does not have to create the bandwidth to manage the new hires or invest in retaining the talent; training costs can be kept under control; statutory expenses involved with health insurance and retirement plans can be avoided and so on.

Expected growth in outsourcing in the near future

Outsourcing is becoming a way to access the right resources when business demands them. Global spending on IT outsourcing (ITO) services is set to reach US\$251.7 billion this year, increasing 2.1 percent from US\$246.6 billion in 2011 according to a recent **Gartner study. The study says that the Asia-Pacific region will experience the highest growth. Figures released by the analyst suggest that spending in Asia-Pacific will grow 1 percent in U.S. dollars in 2012 and exceed 2.5 percent growth in 2013.

Today, the focus of outsourcing is around scaling and flexibility. Outsourcing partners have reached levels of maturity that are very different than they were a decade ago. This is because of cultural change, the fact that collaboration technologies have improved and the tools to manage outsourcing have been significantly refined.

Now, a remote workforce has become an internal reality for practically every enterprise. Managing remote partners is not such an uphill task. Collaboration tools like video have shrunk the world. Bandwidth has improved and access costs have dropped. Social and technological globalization is more than a reality. 24X7 is no longer an idea accessible to only a handful of enterprises with sophisticated infrastructure and management capabilities—it's a reality to most organizations across the globe.



For those who have come late to the outsourcing party, this is a wonderful opportunity to understand the forces of globalization and embrace the phenomenon for efficiency and growth. Here are seven success factors to keep in mind:

#1: Put your arms around the world

Become a champion of globalization. The world is making an increasing number of resources, ideas and intellectual capabilities available to everyone. Champions and proponents of globalization are extracting capability from remote corners of the world and creating new opportunities for business. What do new markets/ geographies offer your business? Take a 50,000 ft view of the world. Find the talent, find the technology, find the price that is ideal for you. Look for provider partners that can sustain a relationship and drive innovation through their expertise.

#2: Watch out for changes in outsourcing law

With economic change there are undercurrents of political change. Watch out for them. As you embrace globalization, the need to pay attention to local laws related to outsourcing become even more important. This is not to suggest that outsourcing is risky because of regulatory changes. This is only to indicate that outsourcing is reaching its next level of maturity and for those who are not alert, it could prove to be a stumbling block. Outsourcing laws and regulations also cover issues such as privacy policies, intellectual property rights, consumer protection and liabilities on service providers for violations. Often, an enterprise may decide to near source (outsourcing within the same geography) and leverage legal and cultural comfort levels.



#3: Treat outsourcing providers as partners

Regardless of where you outsource / near source, treat your outsourcing provider as a partner. Discuss your needs with the provider (specific to outsourcing), but don't fail to discuss your overall business plan, strategy and goal. Provide your partner with business context. Communication is the key to successful outsourcing. Meet the outsourcing provider the same way you meet other vendors and suppliers. In many countries, a meeting goes a longer way than a signed MOU or a SOW. In fact, we'd go a step further and suggest you treat your outsourcing provider as an employee. Just as an employee has a well-rounded understanding of your business, its vision, ethics and goals, so should your outsourcing provider. And as a demonstration of your commitment to the outsourcing provider, ensure that it grows with your business. In several instances, your outsourcing provider may be able to help you expand in new geographies and become a very real extension of your business. As a practical footnote, visiting your provider's facility is critical for a completely different reason: to ensure that the resource promised to you is the one performing the task. It is not totally unknown to have outsourcing tasks subcontracted to the next level of outsourcing vendors. Finally, there are unexpected advantages of visiting your outsourcing provider: Your provider may have capabilities that are relevant to you and you may have failed to leverage them! Travelling inordinate distances may appear expensive and counter intuitive, but sometimes it is wise to invest money in order to save it.

#4: Consider what to outsource based on clearly-defined needs

Managing employees in the next building is difficult. Imagine having to manage a team that does not directly report to you and that is 5,000 miles away! With outsourced teams there are time zones and language barriers to overcome. There are cultural differences and legal hurdles to cross. It is therefore essential to ensure that you clearly define what you will outsource. Today, R&D, design, prototyping, testing, manufacturing, service, support, quality, infrastructure and talent can be outsourced within the IT vertical. Define what is being outsourced. Define the required outcomes. Define the processes to follow. Define the regulations that have to be met. Set down the SLAs. Capture all this in a language that both parties understand and agree to. Bridge the distance between yourself and your provider through clear goals and communication.



#5: Opt for innovative commercial models

You pay your employees for performance. That should be the central approach to outsourcing. Don't sign inflexible service agreements, based on resources or tickets or devices. Instead, ensure that your contracts incentivize your provider to deliver outcomes that are aligned with your business. It may be important for your business to lower capex, and that can become a leading reason to pick a particular provider who is willing to make investments in tools, people and infrastructure. You may want your provider to have more skin in the game by ensuring that contracts are outcome based and not resource or effort based. This may mean accepting operating risks by making investments in material specific to your business (unlike tools, people and infrastructure that can become a shared resource). Work at defining value creation with your outsourcing provider. This will help your provider restructure the outsourcing strategy to suit your needs and ensure business-aligned outcomes. You can examine tiered pricing to ensure that your provider partner is motivated to grow the account and harvest better returns.

#6: Reduce risk

Ensuring that your outsourcing service provider is a domain expert automatically reduces the risk such a partnership presents. Domain expertise reduces the risk of decisions that can prove to be expensive to your business. Similarly, there are a variety of risks that need to be assessed and addressed: does your provider have the ability to scale and remain in sync with your business growth? Does your provider have access to technologies and best practices that you require in the foreseeable future? Will the provider make investments in technology necessary to run your business? Keeping up with uncertain technology changes is a risk – and one of the ways to mitigate it is to transfer the risk to a partner. There are other areas of risk management that may require your attention. For example, is your IP at risk? Are you in control in the event of a disaster or a disruption? Is there a disaster recovery plan? Do your contracts lock you in with the provider, giving you no flexibility in terms of exploring new partnerships and technologies?



#7: Green is good

This last factor for success is gaining in importance, although it hasn't become a persistent blip on the outsourcing radar of most companies. Does your outsourcing service provider follow norms that safeguard the environment, show responsibility towards finite resources, and is willing to adhere to stringent regulations in relation to environmental protection? This is not a make or break factor, but when you think about it, it is important to do business with a conscience.

* <http://www.michaelpage.co.in/websitepdf/2012-Michael-Page-India-Salary-Employment-Forecast-Complete.pdf>

**Gartner Says Worldwide IT Outsourcing Services Spending on Pace to Surpass \$251 Billion in 2012, <http://www.gartner.com/it/page.jsp?id=2108715>