

Welcome to Basis Points! Each month, Basis Points provides you tips and techniques that we've gleaned from a variety of sources to help better your business life. This month's theme is "Outsourcing", one of the biggest, fastest-growing and most transformative business trends all around the globe. In this issue, we'll define outsourcing, show you its pros and cons, and discuss the values and risks outsourcing can present.

What is Outsourcing?

Outsourcing is the transfer of ownership of a process – such as accounting, staffing or technology – to a third-party company. Firms that provide outsourced services are usually specialists (i.e. they focus their energies on one thing). Often, they're located overseas. Companies turn to outsourcing for a variety of reasons, the most popular being to:

1 **Save money.** Economies of scale can often translate to significant cost savings.

2 **Focus on core competencies.** Outsourcing lets managers concentrate on their core business.

3 **Improve service.** By engaging outside suppliers whose skills and experience are highly focused, companies (and their clients) often report dramatic improvements in overall service.

4 **Enhance risk management.** Hiring outside experts, rather than 'doing it yourself', can help mitigate risk and is recognized as a sound practice.

5 **Elevate reputation.** In choosing superior third party providers, a firm's business reputation is often strengthened.

Source: *The Outsourcing Management Zone* (www.theoutsourcerzone.com)

"Outsourcing is much more than a smart business tactic. It's a vital part of corporate strategy."

- Michael Corbett

You'd Be Amazed What Can Be Outsourced

While the preponderance of outsourced services are in such realms as investor relations, document management, customer service and a host of processing and administrative tasks, virtually any function of any business can be provided by an outside firm.

- Accenture's **Navitaire** unit handles reservations, plans routes, assigns crews and calculates optimal seat prices for airlines that choose to outsource these tasks rather than build and maintain an in-house capability. And this is no small business: over 75 airlines worldwide, including six of the ten largest low-cost carriers, use Navitaire.
- **Procter & Gamble**, the world's largest household products company, now outsources product development. Several years ago, the company's CEO, A.G. Lafley, unveiled a global innovation model, themed "connect and develop", whose ambition was to replace the "invent-it-ourselves" process that had governed P&G product development since the company's founding in 1837. Today, more than 40% of P&G's new products have elements that originate outside the company.
- DuPont, the third-largest chemical maker in the U.S., employs 60,000 people in 70 countries. In 2006, with its data a hodge-podge of multiple software platforms, DuPont appointed **Convergys**, the world's largest call-center operator, to redesign, organize and administer all of the firm's human resources responsibilities worldwide. Since making this decision, DuPont management believes its HR costs have been trimmed by more than 30%.



Sources: "P&G's New Innovation Model", *Harvard Business Review*, March 2006;
"The Future of Outsourcing", *Business Week*, January 2006

Three Key Trends in Outsourcing

Until the global credit crisis hit fullforce in Fall 2009, outsourcing, which is estimated to be a \$500 billion a year industry, had been growing at a 29% annual rate. This year, outsourcing is projected to grow roughly 10%. Three trends likely to shape outsourcing this year:

Person-to-Person Offshoring (PPO) – While use of offshore providers (especially in India and China) is traditionally associated with large-scale businesses, this new trend – in which entrepreneurs outsource specific skills to individuals – is growing exponentially. Among the services provided in PPO: online tutoring, accounting/finance/tax preparation, graphic design and software coding.

"Green" Initiatives – According to one consulting firm, more than 21% of U.S. and European companies that outsource have added green policies (i.e. language that speaks to environmental protection) to their outsourcing agreements.

Consolidation – Economic pressures have aggravated the already fierce competition between outsourcing companies. While specialization and scale can help reduce costs and improve efficiency, these factors also serve to turn up the heat on competitor outsourcing providers. Result: some will be gobbled up, others will simply disappear.

Sources: "Statistics Related to Offshore Outsourcing", *Real-Time Technology Solutions*, 2009
"The 2009 Black Book of Outsourcing", *Brown-Wilson Group*

It's Not All Peaches and Cream

While the decision to outsource – when properly evaluated and smartly implemented – can add terrific value to an organization, there are several factors that need to be carefully reviewed prior to making this important decision. Ask yourself these questions:

- 1 What specific process am I looking to outsource?
- 2 Are there circumstances specific to my industry that render outsourcing less than optimal?
- 3 If I choose to outsource, what's to be gained? (e.g. cost savings, opportunity to let me focus on my core business)
- 4 Equally important, what could I lose? (e.g. tight control)

Experts advise that the key to success in any outsourced arrangement is the ability to measure performance – both on a cost-basis and in terms of service quality – before a process is outsourced and during the life cycle of the engagement.

Source: "Business Process Outsourcing: It's Not One Market", *Gartner Research*