HIGHPOINT ASSOCIATES: INSIGHTS

REIMAGINING OUTSOURCING

BOB KAPLAN & KRISTINA TOBER

HighPoint InSights taps into the expertise of HighPoint Associates' senior professionals to provide perspective on the latest issues facing businesses today. To follow up directly with any HighPoint Associates experts, please contact us at **InSights@HighPoint-Associates.com.**

HPA | HighPoint Associates

Reimagining Outsourcing

BOB KAPLAN & KRISTINA TOBER

Outsourcing is like a marriage. At the beginning, the relationship promises so much potential. But without good communication and mutual respect, it often struggles and can even fail. In the early 1990s, outsourcing was going to keep America competitive. But the honeymoon quickly ended.

Outsourced labor costs, once thought to be a 15 to 20 percent advantage in emerging markets, started to rise, often at rates higher than in the U.S. Distance and cultural barriers inhibited process improvements, and the quality of customer interactions and service failed to live up to established standards.

No surprise, problems resulted from the actions of both partners in the relationship. Too many outsourcers created an environment where employees were viewed as expendable and lacked any incentive to improve processes or raise productivity. Often the way the work was designed discouraged creativity, and high turnover prevented outsourcers from meeting, let alone exceeding, operational targets as workers weren't on the job long enough to develop meaningful knowledge and expertise.

At the other end, clients often exacerbated the problem by under-investing in the management of the outsourced relationship. They treated outsourcers as vendors rather than strategic partners, placing little priority on sharing company strategy or boosting employee morale at their vendor companies. Many companies still take a laissez-faire management approach with their outsourcing partners, assigning few operational contacts and placing little emphasis on offshore visits and supervision. Their view is to keep"overhead"as low as possible – a short-sighted perspective that only worsens the problems.

Contractually, the relationship can also be flawed. The outsourcer is set up to perform set tasks at a reduced, defined cost. Knowing that the parameters of the contract remain static and that they themselves won't benefit from any advantages gained, the outsourcing provider has little incentive to look for process improvements. Likewise, as business conditions change, there's not a lot of leeway to change processes without a significant overhaul in training (with the subsequent surcharges and change fees being passed along to the client).

RETHINKING THE RELATIONSHIP

Don't give up hope. The fact remains that outsourcing can still be a favorable option, particularly in non-core functions like information technology, customer service and back-office or administrative services. As confirmed by a 2014 survey, companies are maintaining and even shifting back to outsourcing relationships, but their expectations are changing. Clients are demanding more collaboration, expecting their vendors to raise the bar in terms of value and quality.[i]

Specifically, clients are looking for multiple sources of value from their outsourced relationship:

- Higher quality across run, manage and change activities
- Industry and technological expertise on the part of the provider that informs solution design and processes
- Adaptability and flexibility to meet changing business demands
- Risk management to ensure that systems are stable and compliant
- Financial value through scale and skill

It's naïve to think that the client/outsourcer relationship can achieve all of this unless the fundamentals of that relationship change. It requires very different behaviors and assumptions on the parts of both the client and outsourcer.

Think of it as an opportunity to build a competitive advantage. If you counter-position your approach to outsourcing, you get away from seeing this relationship as simply a means to temporarily reduce costs and retain focus on core competencies. Instead, see your outsourcers as equal partners who can offer inspiration, innovation and opportunity.

FOR THE OUTSOURCE PROVIDER

For the outsource provider, it requires a change in mind set and culture. Recognizing that high turnover destroys the potential for process improvement and institutional knowledge, the outsourcer will need to start treating employees as its most important asset and resource. By sustaining and growing the knowledge base and expertise of its own organization, it not only makes itself more competitive, but delivers immeasurable value to its partners.

In addition to investing in internal knowledge systems, the outsource provider will need to become an expert in continuous process improvement methodologies and pass these through to every level of its organization. Employees must be encouraged and rewarded for challenging the status quo and delivering both incremental and monumental changes.

If an outsource provider wants to be valued as an extension of its client, it must also be willing to create a transparent reporting structure and share operational and financial metrics. With greater granularity and cost segmentation comes further validation of the outsourcer's value. It's no longer enough to give lip service to the partnership, but to demonstrate and validate that you are acting in your client's best interests.

This degree of change will be impossible for most large outsource providers to undertake. It requires a complete overhaul of their approach, processes, mindset and culture. Many will view making these changes as a threat to their profitability.

The opportunity is ripe for a new breed of outsource provider who can counter-position themselves to the existing dominant players. Like other industries seeing disruption from counter-positioning, the established players are stuck between a rock and a hard place: Change yourself or watch your business erode with time.

CHANGING MINDSETS AT THE CLIENT

Companies need to change their perspective on out- sourcers (and outsourcing) and see them not just as a source of cheap labor, but a way to create value and spread risk. It will require them to view their outsource provider as an extension of their own operations, not a walled-off vendor of services.

Partner companies will also need to provide timely information regarding corporate strategy and operational directions. They will need to improve dialogue and invest in communication at multiple levels. The better your outsource provider understands its specific role in achieving your financial and strategic objectives, the more likely they can look for ways to improve. If your provider sees where your company is headed, they can anticipate process changes and implement them incrementally.

In addition to requesting transparency, client companies should back-up the outsource provider with qualified staff at home who don't just manage offshore services, but have the expertise and knowledge to identify pitfalls and provide counsel as needed.

There is no such thing as a "hands-off" relationship. While shopping for an offshore provider of IT applications support, a large U.S. financial services company was attracted to providers who offered a U.S.-based "middleman" to manage day-to-day operations and communications. They were sold on the idea that this provider could execute the service plan with little supervision, allowing the client's management team to focus on core services. It was no surprise that as business conditions changed, the outsource provider failed to meet its financial and service objectives, and the limited communication channels and geographic separation degraded quality and efficiency.

Finally, never underestimate the value of emotional engagement. Be open to experimentation and sharing productivity gains with your outsourcer. Profit sharing doesn't just pay off with your employees at home, but can strengthen your offshore partnerships as well.

A MODEL OF EXCELLENCE

One of the best examples of excellence in outsourcing comes from a HighPoint client based in India with oper- ations in India and the Philippines. Motif was founded by two Indian electrical engineers who, after working in Silicon Valley for 10 years, recognized a demand for an offshore services provider who practices the same workplace principles used in successful U.S. companies.

Their first priority was to focus on treating employees as a key asset. They target hire highly educated individuals who want more than just a paycheck, but also stimulating work, opportunities for growth and improvement, and a culture that invites creativity and individual initiative. Employees are rewarded with stock ownership and other incentives for best new ideas or best agent, as well as significant opportunities for promotion.

As outsourcers for large U.S. e-commerce clients, they provide complete transparency in negotiations and contractual arrangements, as well as full disclosure of their internal financials (everything from wage rates to the number of supervisors per team member). They pass along any gains from productivity improvements to the client, with the belief that, in the long-term, these benefit them.

By keeping a high supervisor-to-team ratio, the company encourages creativity and innovation, and has set up a series of internal tools to capture and share new ideas within and across teams. Employees are encouraged to think about how a process can improve over time, and are rewarded for their ideas.

For example, the company assigns IT staff to observe teams on the floor so they can see firsthand how they use the programs and software to service customer needs. One IT staff member noticed that the agents had to jump from screen to screen to access data from multiple sources. He quickly made software and data modifications that allowed employees to view three screens at once, thereby cutting a minute per client transaction. Over the course of a year, this type of simple process modification added a six to eight percent productivity improvement, which Motif passed along to the client.

Taking a "train the trainer" approach, local employees were sent to client headquarters to become certified trainers. Not only did these individuals develop training methodologies that were consistent with the parent company and took into account cultural differences, but they also made improvements to the core training methodologies used by the client, which the client then adopted for its internal operations as well.

As for the e-commerce client, they set up an internal organization devoted entirely to managing outsourced relationships. The emphasis is always on creating dialogue and getting their outsource providers to think and feel like an extension of the parent company. This group runs everything from daily operations calls and weekly forecasting with the outsourced team, to outsourcer staff training and monthly business reviews. Strategic business reviews are conducted on aregular basis to share company goals for the next one to three years and to discuss and brainstorm how this relates to the work being done by the outsourcers. Finally, four to five times a year, senior company staff visit their vendors' offshore facilities.

The success of this partnership is most evident at the offshore facilities, where team members proudly wear and display the e-commerce company logo. They aren't just giving lip service to the partnership, but are visibly connected too. Tenure of team leads and agents is far above the industry average, leading to a positive cycle of continuous improvement.

EVALUATING THE OPTIONS

Outsourcing remains a viable option for many companies, despite its historical flaws. Certainly many factors come into play when choosing the right partner and right functions to outsource, and even the best country and region in which to venture.

As with any business model, outsourcing needs to evolve. Some outsource providers may not be able to adapt quickly enough to survive. Others will take the lead in driving change and delivering better quality. At the client end, companies can no longer "dial out" for help without establishing the structure and precedent for ongoing dialogue and collaboration.

---

i Deloitte's 2014 Global Outsourcing and Insourcing Survey, December 2014. Deloitte Development LLC.

ARTICLE CONTRIBUTORS

BOB KAPLAN has over 30 years of experience as a senior executive and management consultant. He currently counsels CEOs and other senior executives on strategy, IT and organizational issues. Bob has held senior executive positions such as acting CEO and acting CIO for multiple companies including: Motif Inc, ITM Software, Netliant, Alibris and Silicon Valley Bank. Bob spent 11 years at McKinsey & Company, where he was a Director in the San Francisco and Silicon Valley offices, and a Leader of the IT and Systems Practice. Prior to joining McKinsey, Bob was the Managing Partner of the San Francisco office of The Boston Consulting Group. He also worked at Peat, Marwick, Mitchell & Co. (now KPMG) as a Systems Consultant. From 2005-2007, Bob was a member of the Technology Advisory Peer Group for the State of California. This group of private sector executives provided advice and counsel to the state CIO as part of the Governor's Information Technology Consolidation and Realignment Initiative. Bob holds an MBA from the Stanford Graduate School of Business and a BA from Yale University.

KRISTINA TOBER is a communications consultant with over 21 years of experience. After working at The Wyatt Company, Kristina supervised and executed all areas of corporate communications for Helene Curtis, Inc., with an emphasis on investor relations, employee communi- cations, and executive speechwriting. She also served key agency accounts at Ogilvy Public Relations Worldwide, providing communications strategy development and implementation, labor relations, and investor relations. More recently, Kristina has served a variety of clients on a freelance basis with an emphasis on copywriting and website content development. Kristina holds a BA from St. Olaf College.

HIGHPOINT WEST
100 North Sepulveda Blvd, Suite 620
Los Angeles, CA 90245
(310) 616-0100
contact@highpoint-associates.com

HIGHPOINT EAST
641 Lexington Avenue, 15th Floor
New York, NY 10022
(212)-634-6496
contact@highpoint-associates.com

HPA | HighPoint Associates