

Is Outsourcing For Me?

By Eli Willner, President, Trebuchet Outsourcing Services, Inc.

What is Outsourcing?

As a small or medium-sized business owner and entrepreneur you are continually looking for ways to squeeze maximum value out of your dollar and you may be wondering whether outsourcing can benefit you. I run an outsourcing company and I'd like to educate you about outsourcing so you can make an intelligent decision about whether or not outsourcing is for you – and if you decide it is for you, this will assist you in finding an outsourcing partner.

First, let's define "outsourcing". Outsourcing is the process of identifying certain business activities of and contracting with another company to handle those activities for you rather than doing them in-house. What kinds of activities might you want to outsource? There are four general areas:

- 1) "Non-core" activities – These are activities that are crucial to your business but don't involve the special expertise or experience that your business, in particular, brings to the table. Let's say, for example, that your business manufactures and sells widgets. Your focus, naturally, is on making sure that you have the best widgets, that they are competitively priced, that they reach the right markets, etc. These are your core activities.

Things like billing, accounts receivable, payroll, collections, etc. are critical to the running of your business but are not "core" – they are standard business activities. Rather than distracting yourself by recruiting and managing a staff to handle those functions you might want to consider contracting with an outsourcing firm that specializes in those activities to handle them for you. This allows you to maintain your focus while not neglecting the standard functions without which a business cannot exist.

- 2) "Bread and butter" activities – These are activities that require some level of training and skill but don't require a long onboarding period and don't vary much in challenge from day to day. Some examples:
 - a. Product research and database maintenance (such as finding out detailed data about products you sell so that you can provide that information to your customers)
 - b. Business-to-business or business-to-consumer telemarketing (this is a big outsourcing area)
 - c. Transcription (financial, legal, medical, broadcast)
 - d. Online and phone based customer service
 - e. Editing (reviewing and correcting material for publication, including marketing material)

These are just illustrations; the list goes on.

There are several advantages to outsourcing these kinds of activities. First of all – and this is often cited as the major benefit of outsourcing – it’s usually less expensive to outsource these activities than it is to do them in-house.

But cost isn’t the only or even the most important benefit. Let’s consider telemarketing as an example. Telemarketing is a discipline in its own right; the difference between a professional telemarketing operation and an ad hoc home-grown effort can be the difference between marketing success and abject marketing failure. An outsourcing firm with a solid telemarketing team provides professionals who know how to sell by phone and have proven track records – they will do a much better job than a team you recruit and hire in-house. Moreover the outsourcing firm will have sophisticated tools to manage the calling and reporting processes that most firms can’t afford in-house.

Similar considerations apply to customer service and the other services in this category, mentioned above.

- 3) Seasonal activities – These are similar in nature to bread-and-butter activities but are seasonal in nature rather than ongoing. For example a training program that runs several courses per year will need assistance handling course registration but only in the weeks leading up to the start of a new course. Or, a larger company may have some level of customer service capability but that level is inadequate for busy seasons.

In both cases it’s more effective to outsource the seasonal load (or overload) to avoid the HR overhead of continually recruiting and training temporary workers. An established outsourcing firm will anticipate their clients’ needs and will have “rolling” staff that are moved from project to project within a particular domain so that they can always provide their clients the seasonal coverage they need. Typically, most of the staff assigned to a particular project will have worked on that project last season – and a good outsourcing firm will handle any necessary training and monitoring for new staff in a manner transparent to the client.

- 4) Special expertise activities – These are activities that require specialized skill and training and are typically used to augment a client’s in-house staff. For example, a law firm might utilize a legal outsourcing firm to supply qualified attorneys for research, drafting briefs, document review – activities that would otherwise be done in their law library – but can be done just as effectively, and far less expensively, in an outsourced mode. Companies that do software development often utilize outsourced programming talent to supplement or even replace their in-house staffs, again enjoying lower costs without sacrificing quality.

Outsourcing's "Bad Rap"

Unfortunately the word "outsourcing" has developed some negative connotations over the past few years, for a variety of reasons. First, many people have heard horror stories about outsourcing engagements that went bad, causing financial loss to hapless clients. Second, outsourcing has come to be viewed in some circles as unpatriotic or as exploitative.

There is no question that there are outsourcing horror stories resulting from "bad apple" outsourcing shops but that's no reason to condemn on a wholesale basis a valid business practice that can save your business money and enable it to grow, and to provide services, that would be impossible otherwise. The key is in knowing how to choose an outsourcing partner wisely. We will provide some pointers that will hopefully help in distinguishing reputable shops from the shysters.

There are those who argue that outsourcing provides jobs to foreign workers that would otherwise go to Americans, so outsourcing is "unpatriotic". There are several things wrong with that argument. First, "outsourcing" does not necessarily imply offshore outsourcing – companies can outsource work to American outsourcing shops as well as to foreign companies.

It is true, though, that the major cost savings can be achieved by outsourcing to companies with an offshore workforce, located where labor costs are less expensive than they are in the USA. But is that really unpatriotic? Consider that companies are budget-driven. If a company has \$X available for a telemarketing campaign and \$X buys them twice as many calls offshore as it would in the USA, that translates to twice the potential sales to the company – and to twice the production, which produces more revenue, more jobs, more consumer spending and more tax dollars.

More fundamentally, though, in the 21st century international commerce is the default way of doing business. Companies that don't allow themselves to benefit from the cost savings of working offshore will be driven out of business by competitors that do participate in the international labor market and enjoy lower costs, higher margins and the ability to offer better end-user pricing.

And lower offshore wages do not translate into "exploitation". Offshore workers aren't slaves – they compete in an open labor market and typically live comfortable middle class lives in accord with local standards. Sure, no one wants to outsource work to a Chinese prison labor camp – and no one has to.

How to Pick an Outsource Vendor

Here is a list of 10 points to look for when shopping for an outsource vendor:

- 1) Look for a company that has been in business at least 3 years
- 2) Always ask a company for US client references, preferably references who have used services similar to the ones you need
- 3) Ask if you may view the credentials of and interview your proposed offshore team lead
- 4) Ask about the experience level of your individual team members on projects similar to yours

- 5) Expect a serious business analysis – it is a good sign if your prospective outsourcer asks a lot of questions, makes suggestions and seems genuinely engaged in understanding not only the particular project you are bringing to him but also your larger business needs
- 6) Ask for a quotation and be sure that there are no hidden costs. Basis for pricing may be per man-hour, piece of work or other metric, depending on the project. If possible get several quotations and be sure that they are pricing on the same basis so you can compare pricing “apples to apples”.
- 7) Beware of cultural or language or accent issues. This is especially a consideration when working with third-world outsourcers. On one project an India-based staff was asked to categorize newspaper ads (real estate, auto, employment, etc.). An ad for a condo was classified as “auto”. Why? “Condos” aren’t common in India so the operator guessed that it was a car. Certain accents will be associated in your customer’s minds with low quality – so you don’t want to confront your customers with those accents in a customer service or sales scenario.
- 8) If possible ask to visit or at least see pictures of your outsourcer’s facility. Home-based personnel are acceptable on certain projects, in carefully controlled circumstances. If your prospective outsourcer has no workplace at all, though, look elsewhere.
- 9) Ask about your outsourcer’s quality control procedures. Expect a detailed QC and QA plan in writing.
- 10) Ask about the chain of command. Who do you call if there is a problem? What is the problem resolution process? Will you have ready access to senior company management personnel?

Summary

There is a lot to be said about outsourcing but I hope I’ve given you an idea of what outsourcing is all about and started you thinking about how it can benefit your business and how you can start the process of utilizing this valuable practice to save your business money while increasing its capabilities.

Author bio: *Eli Willner is Founder and President of Trebuchet Outsourcing Services, Inc., a 5-year old US based corporation with a work force consisting of American and other Anglo professionals currently living in Israel. He has been involved in outsourcing for more than 15 years and has also managed outsourced workforces in India, Philippines and Sri Lanka. He can be reached at eli.willner@trebout.com.*