

## The Four Basics of Successful Outsourcing

There are four basic steps in designing and implementing an outsourcing strategy. These help the management of small and medium enterprises to derive the benefits of outsourcing while avoiding the pitfalls and legal wrangles that can undo the advantages of outsourcing.

The key to any success is ability to seek and get help from the experts. As a beginner you might not be experienced in the intricacies of outsourcing. All you need to do is to hire an experienced consultant to lead you through the process. There are many accounting firms and outsourcing service providers who can give dependable support. However, if you do choose to manage the outsourcing decision process on your own, there are four stages of project management that you can rely on.

- a.) Needs Analysis
- b.) Evaluation of alternatives
- c.) Implementation
- d.) Review of results - change of tactics

Once you have identified the areas where you can outsource your activities, follow these steps to decide if outsourcing is the real solution to the challenges faced by your organization.

**Needs Analysis:** The purpose of this exercise is to crystallize your company's core business and to short list high cost - low performance secondary, support functions that can be outsourced.

Identify the absolutely critical products and services that are the main stay of your company and must be managed by your own people. Then list out the supporting functions to analyze which of these are not core business, are mainly high cost centers and currently not delivering results. These functions are the first off functions to be outsourced. You must quantify the cost of "time" in fire fighting or damage control of a particular function if the same is to be carried out in-house. It is good to remember that even the smallest of problems takes the time of your staff and that time equals money.

**Evaluate the options:** At this stage you will match the needs of the short listed functions with the services provided by the outsourcing agencies.

Initially, you must logically sort out the key functions of a department into major component structural parts and major functions. A chart showing the department name function, the work product and resources required can be made. This chart can be made for "as is" status and also "how it should be" requirement. This is the written summary of the objectives of the department or function.

At this stage, you must identify outsourcing agencies either local or offshore and get a Non Disclosure Agreement (NDA) signed by them. You can send them your base document outlining the needs. The outsourcing provider is bound to ask many questions and you need to respond with simple answers and guidelines. You will also send out a RFQ - request for quote or a Request for Proposal that contains your needs analysis requesting the provider to quote for a solution. You can also ask for a draft copy of the contract from the outsourcing provider so that you can review the same.

Next, you will do a comparative analysis of the providers who have responded to your RFQ. Also carry out an NPV (net present value) analysis to see if the project makes any economic sense. It is important not to get carried away by numbers. You must make a balanced decision after weighing both the quantifiable as well as the qualitative aspects of the outsourcing service providers.

**Implementing the plan:** This is crucial because it involves transfer of data and knowledge to the outsourcing provider, gathering inputs from them on best practices. Then you commence operations using the new practices.

The key to successful implementation is defining the step-by-step project plan with clearly identified actions, deliverables, time lines. Ensure that a weekly review process is in place that identifies and resolves problems as they occur. At this stage, there is no scope for dilly dallying on decisions or waiting for a post mortem analysis when things go wrong. Ensure that the outsourcing partner provides with a clearly traceable project plan with key milestones, mentions penalties if the milestones are not met. If your plan involves relocating of staff, you need to prepare them for this as well as any staff reductions. Depending on the structure of your company the new outsourcing program can be just accessing the outsourcing company's system and entering data or it could stretch to committing an entire division of your company to the complex task.

**Review of progress and results:** A good leader always reviews the progress at regular intervals. You must set up an ongoing system that tracks the progress and performance of both your own staff as well as your outsourcing partner. Only then you will be able to assess the impact of the

outsourcing decision.

There is a saying - "What gets measured, gets done". You must make this as the mantra for your team if you want good results from the outsourcing effort. Set up specific service level agreements (SLAs) that define the time bound targets. If you adopt the policy of pay for results you can expect big improvements in the quality of the services provided by your outsourcing partners.

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