



# Four Simple Steps to Successful Outsourcing

*“You shouldn’t have something in your back office that exists in someone else’s front office.”*

*- Jack Welch*

The practice of business outsourcing began about 50 years ago in the manufacturing industry as a means to reduce costs and, therefore, improve profit margins. Because product manufacturing has a very discernable breakdown of components such as labor, parts, and research and development, the cost benefits of outsourcing are easily computed. Accounting methods such as cost analysis can be applied easily to these discrete units in order to justify the outsourcing. Milton Hershey benefited from the first well-known success in manufacturing outsourcing when he moved the sugar farms of the Hershey Chocolate Company to Cuba to take advantage of lower wages.

Knowledge-based outsourcing began in the 1980’s when companies began to out-task their payroll and financial tasks to others. Because these tasks are repeatable and easy to reproduce, a specialized outsourcer can provide huge cost savings. The success in these areas established a benchmark and provided a business model for the outsourcing of information systems. In the 1980’s and 1990’s, information technology outsourcing saved companies an amazing 30% in operating costs.

The trend toward outsourcing has continued and expanded to include entire business processes. Business process outsourcing (BPO), where companies outsource an entire process such as human resources services, has become much more prevalent as efficiencies and cost savings are realized.

## How to Outsource: Four Simple Steps

Many might think that the decision to outsource will bring on nothing but headaches and undelivered promises. With the right approach and follow-through, however, outsourcing can achieve significant financial results. Outsourcing a product or service can be broken down into four simple steps:

1. Definition of strategy and scope of project
2. Evaluation and selection of a company
3. Development of the contract
4. Management of the relationship

### 1. Definition of strategy and scope of project

The first step in the process is critical to the success of any outsourcing venture. Develop an overall philosophy for your organization's outsourcing needs at the outset of your decision-making, and you will create a firm foundation for a successful transition. If you know your project scope and the overall direction of your strategy in detail, those details will allow you to clearly define your expectations and communicate them to your outsourcing service provider. And, the best way to get what you want is to simply ask for it.

### 2. Evaluation and selection of a company

The second step is to evaluate and to select an outsourcing provider. Once you have determined your outsourcing strategy, which includes your overall direction and scope, you should be able to walk smoothly through this step. For instance, if you have decided that you want to outsource your Internet marketing efforts to include Web design, graphics and text within a defined budget and objective, the search for providers and the evaluation of the options they provide will be efficient and productive. No matter which service you seek, you should consider all the following when you select a provider:

- Culture and Fit
- Customer Service and Responsiveness
- Experience and Scope



### 3. Development of the contract

The third step allows you to “iron out all of the wrinkles” in the relationship with your provider. When you negotiate with suppliers, focus on points such as price, time frame, transition and terms for the termination of the project. During this process, consider how each component will affect your business and how it will lead to a successful partnership with your supplier. The creation, at this point, of any type of adversarial relationship will not help you achieve your objectives, so make sure that you have established your position before going into negotiations. A good understanding of your business needs will allow you to negotiate terms that lead to both a professional and a mutually beneficial relationship with your supplier.

### 4. Management of the relationship

The fourth step is often the most forgotten step. In order to capitalize on the benefits of outsourcing, you need to nurture and to manage the relationship with your supplier. Both parties should understand that both the supplier and the client company can succeed only if there is a reciprocal sharing of insight and knowledge. Both parties should emphasize open communication, the establishment of guidelines and the commitment to achieve common goals. In fact, the proper management of the relationship can lead to not only achieving your goals, but exceeding them.

In today’s fast-paced and competitive environment, outsourcing can provide a unique competitive advantage. If you approach outsourcing with caution and with clearly defined objectives, your company can realize benefits such as cost savings, improved service and quality, achievement of its growth goals, rapid international expansion and increased flexibility in the management of key resources.

To learn more about how to create a successful outsourcing plan, and about how to achieve a sustainable competitive advantage not easily duplicated by others, read **“Outsourcing to Succeed in Any Economy,”** a Kore Access white paper.

