EUROPE CONNECT
A Total Solution to Expanding & Maintaining Your Business in Europe

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Avoiding the Five Pitfalls

Even as the scope, speed and scale of outsourcing increase, companies fail to take full advantage of the benefits outsourcing has to offer. Instead, they're falling into the booby traps along the way. To take one well-publicized example, Dell's enterprise customers barraged the computer maker with negative feedback after their experiences with Dell's offshore customer support. That led to some managerial back-pedalling and questions about whether off shoring had gone too far.

Getting it right is a challenge and some common pitfalls can be outlined:

- Pursuing an outsourcing strategy to "remove a headache" is a misdirected motive. More than one executive has let the thought cross his or her mind that "it really would be nice if my managers didn't complain about system downtime and connectivity problems every time they speak to me." Operational headaches can be cured, and outsourcing is indeed one of the ways of doing so, but that should not be the primary motivation.

- Treating outsourcing as a monolithic, oversimplified strategic concept can prevent managers from exploring other, potentially more beneficial options. Outsourcing is related to but is not the same as moving operations offshore, relocating operations or functions within a geography, and sharing and centralizing services. In addition to the various "how's" of outsourcing, there are many other questions: Do we outsource an entire function, or just selected services? Do we enter into a long-term agreement, or conduct a series of short-term "experiments?" Do we multi-source to several vendors at once, or find a single outsourcing partner?

- Outsourcing poorly managed operations in the hopes that someone else can manage them better. This is a way of trading one headache for another. While it is critical for value chain partners in an outsourcing relationship to play to their relative strengths, outsourcing something you don't know how to manage or understand can lead to problems later on. It is also unlikely that the ongoing management of the relationship with the vendor will be results-driven, since the optimal results and performance indicators won't be defined and managed systematically, let alone understood.

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- The failure to follow a sound approach to evaluating, selecting and implementing an outsourcing strategy can lead to less than optimal results. When pursuing an outsourcing strategy, success will depend on the depth to which management can understand operational performance and the degree to which the team follows a well-tested process for evaluating the opportunity, selecting the best way of optimising the operation or function, implementing the change program and regularly monitoring the service going forward.

- Market developments can change the relative value to be gained from outsourcing altogether. Many observers of the pharmaceutical industry had high hopes for a rapid increase in the use of small drug manufacturers in emerging markets as outsourcing partners. But when large pharmaceutical and biotech companies decided to merge operations, there was a tendency to emphasize improving the utilization of unused internal capacity rather than looking to move functions and operations outside. External factors can change the relative pay-offs.

While the first two of these issues require a change in mind-set, the last three demand a clear, systematic and results-oriented approach to understanding and realizing the opportunities from outsourcing. In other words, overcoming the issues of poorly managed operations, finding and following a sound approach to outsourcing, and monitoring market developments are all very much about implementation and execution.

" For more than 400 years, managers have wrestled with the problem of how to realize the benefits of successful outsourcing.

Business Process Outsourcing is the optimisation and management of a business function. Companies will be better off when the attention moves from building hype to crafting practical, implement able outsourcing solutions."

- John Norcross

~ By John Norcross, a principal at Celerant Consulting, a global management consultancy with offices in Lexington, Mass., and London, England.