Myth: Offshoring - Five Things to Get Right

Rule 1: Don’t Offshore What You Can Eliminate or Automate

Getting rid of a process altogether or moving it to automation has to be better than offshoring to a low cost location. Many organisations don’t seem to go through that thought process. In our regular diagnostics of contacts we can spot which interactions shouldn’t be there. For example, a customer chasing work and asking “where is my X?” We watch for this type of customer language as it is a key indicator that a better managed process will get rid of the contacts in the first place. This is a far bigger benefit than sending them offshore. Similarly, an automated answer such as a process completed online or via speech or IVR, will also be cheaper than completion offshore. Simple transactions and limited information enquiries are good examples of automatable transactions. We know there is a cost for the technology required, but these one-off costs are offset by the elimination and automation benefits over time.

Rule 2: Don’t Offshore a Mess

It’s very tempting sometimes when something isn’t working well to send it offshore. The logic is that it will at least be cheaper that way. One organisation we knew coined the term “mess for less”. Unfortunately they probably should have called it “mess for stress”. The volumes of complaints and backlogs arising from these processes escalated dramatically once it was offshore. The issues got so complex that the company had to send groups of managers offshore to try and manage the mess and the impacts drove up costs and caused customer attrition. The net increased costs from complaints and re-work more than offset any savings from cheaper labour. The company had been warned that the processes weren’t in a state to be offshore.

If anything we find companies need the opposite strategy to “mess for less”. We recommend that processes should only be offshored once they are very well defined and proven to be working well. We have observed many times that processes offshore don’t work well if there is any ambiguity. Offshore workers are often working in their second language and also lack the industry and business context needed to deal with the ambiguity. What typically happens is deferral, confusion and rework, not to mention creating irate customers. So it is critical to make processes well documented and easy to follow before they can be moved offshore. It is therefore only the best defined and least messy processes that should be offshored.

Rule 3: Chose the Right Offshoring Model and Partner

There are two key offshoring models in use: captive and non-captive. In captive models the organisation owns and runs the facilities and operations offshore. This works well if the company has the scale and knowledge to manage their own facility offshore. Large companies such as Dell and AXA use this model as do ANZ Bank for IT. However, it only works if the organisation has the scale to operate that way and is willing to take on all the risk of the offshore operation. It means that a company needs to find the facilities people and so forth to make offshoring work.
The more common model is using a third party (outsourcer). This removes the risk of owning and running the operation but adds the risks of contracting and working with a third party. The risk therefore moves to selecting the right partner. These vary in type from multinational providers with their own offshore facilities to smaller businesses operating solely from the offshored location. The latter are cheaper but pose more risks because the company seeking the offshore provider is contracting a third party in an offshore location that it may not be able to assess as well.

We would recommend that price alone is not the basis for selecting a partner. The company selected needs to have the capabilities and track record you need to deal with your customers. We have seen some unfortunate consequence of companies selecting low cost providers and then being disappointed with the services provided. In the end the short term benefits of a lower cost contract were outweighed by the management costs of controlling an inexperienced and immature operator.

Rule 4: Contract for True Partnership

The fourth secret of a successful offshore relationship, particularly with a third party provider, is that it is a relationship. The term partnership gets over used but in this case it applies. Using an offshore provider means that your business is dependent on another. The contractual arrangements need to reflect the fact that it is a partnership and that the partnership needs to be sustained over many years.

A good contract will mean that both sides win. The outsource provider can make a profit from the contract and run a sustainable business. The company moving things offshore has a stable partner who hits the service level and quality measures provided and helps them achieve some savings. Creating a contract that favours one side or the other tends not to be a recipe for success. We observed a relationship recently where the offshore provider had given up on the quality and other measures that were built into the contract. The contract allowed for this and hit the company with heavy penalties but the offshore company was happy to wear the penalties. Basically, they no longer believed the targets were achievable and therefore managed down the cost of their operations to offset the cost of the penalties. Neither side was happy. So it’s a delicate balance between the needs of two parties negotiated at a time when neither knows each other well. If the sourcing or contracting groups from either side negotiate too effectively, it will produce a one sided arrangement that won't work. We would recommend using a third party in these arrangements to provide some neutrality and keep both sides honest.

Rule 5: Keep Process Intellectual Property Onshore

Another risk of offshoring is that knowledge of the process shifts offshore. Somehow the company shifting the process needs to keep sufficient knowledge of the process onshore to manage it over time. Inevitably there will be changes to products, regulations and systems that require changes to these offshored processes. The company also needs to find a way to check quality and execution.

So there is a significant process management and control overhead to shifting processes offshore that may be underestimated. Organisations are seduced by the difference in labour costs but don’t allow for the management and control overheads that will be required. It is also rarely possible to manage an offshore operation 100% remotely. We have seen many instances of onshore experts having to make frequent offshore visits to inspect, change or control processes. This in turn runs the risks that the onshore process control experts may leave if the travel burden becomes too great. Hence an organisation can quickly lose its process experts and with the processes offshore it is hard to rebuild that capability. We would always recommend that the offshoring company keeps a small team onshore to act as a buffer for this situation as well as having process documentation to act as a store of the intellectual property.

Conclusions

Offshoring can be highly productive, seductive and hard to get right. We hope these five tips help organisations make it effective and are happy to share these insights in more detail. If you would like to discuss how to improve your outsourcing programme or discuss these topics further, please drop us a line.