

managing risk



delivering value

SME Outsourcing

The story of David and Goliath

“How outsourcing can provide a lifeline to SMEs”

Op2i - a business improvement firm specialising in outsourcing

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The story of David and Goliath dates back a few thousand years, but its inspirational qualities still live on, whether you are religiously minded or not.

Although different religious groups may ascribe the story to their particular affiliation, the generic story describes the battle between two armies (*read companies*) - an ongoing battle



without much success. Goliath (a very large man heading one of the armies – *read multinational corporation*) constantly came out between the lines and challenged the other side to send out a champion of their own to decide the outcome of the battle in single combat, but the other army were afraid. David (a small man, not really a warrior – *read a SME company*) was also present on the battle field (*read market*). When told about the challenge, he declared he is not afraid and goes forth without any armour, in favour of his sling and five stones (*read limited resources*).

David and Goliath confront each other (*read compete*), Goliath with his armour and shield-bearer (*read significant resources*), David with his staff and sling.

David strikes Goliath with a stone from his sling, and Goliath falls on his face to the ground. David seizes the sword of the giant and kills him, and cuts off his head (*don't read anything into this*).

Relevance to the SME Market

Clearly in a battle when facing a corporation with significant resources at its disposal - an SME with somewhat limited resources (human, technical, legal, financial and global reach) may find the battle somewhat difficult and short lived.

No one loves Goliath. What is surprising is the world's failure to respond to the market power of the multinational corporations as it did to the Goliaths of the past. However, the time has now come, when the many David's of the world can compete with the few Goliaths that have dominated the markets till now. With the increasing availability of outsourcing and offshoring to the SME market, times are changing.

Outsourcing is nothing new – probably as old as the David and Goliath story. Outsourcing is essentially an elaborate description for an arrangement whereby a company carves out certain services that it has been providing internally and

retains a third party to provide these services. Offshoring is sometimes described as outsourcing to service providers in another country.

The UK is now the second leading nation for the use of outsourcing after the USA. Most large corporate organisations within the UK have embraced outsourcing in one form or another. The Banking, Financial Services and Insurance (BFSI) sector within the UK, probably one of the most advanced, has been the engine for growth of the UK for the last two decades (and unfortunately some may say the cause of the downturn now....).

It may not be a coincidence that the UK BFSI sector is one of the key users of outsourcing. The industry has benefited intensely from outsourcing, allowing these large companies to cut costs, access world class skills and concentrate on customer facing aspects of their business.

With a slowing economy, which is expected to continue for the next few

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years, the impact of the USA credit crunch and housing crisis impacting the UK financial markets, together with lower consumer and business confidence – the implications for businesses community cannot be understated. Under these circumstances, it is very likely that larger companies will increasingly embrace outsourcing as a means of global survival.

However the SME market tends to get hit the hardest when the economy slows. Larger companies may derive their revenues from multiple geographies and may be protected from the adverse economic conditions here in the UK. SMEs also tend to be singly focused – either vertically or from a service /product perspective, and therefore less diversified in comparison to the larger organisation.

The SME market must embrace outsourcing and offshoring now as both a means of survival and as a means to level the battlefield with their larger competitors - who in most cases already benefits from outsourcing and offshoring.

Although most SMEs outsource something (how many SMEs do their own accounts or clean the offices?), they have been reluctant to outsource beyond these “traditional” functions. The SME market in the UK has been slow to take-up broader outsourcing and in particular offshoring, primarily because there are not many service providers who cater for this market with targeted propositions.

In addition, practical experience of outsourcing and offshoring is clearly

missing within the SME market. Although the benefits and drivers for outsourcing are pretty clear, operational execution and risk mitigation strategies are more difficult for the SME market to comprehend – they also lack the deep pockets of the large corporations, who can afford to pay expensive lawyers to manage the commercial process on their behalf.

Offshoring may now be the only means of survival. Mounting margin pressure, global competition, and an increased focus on core business are driving companies like never before to look for new ways to get things done at a lower cost (typically between 25-50% when offshoring). While cost saving is a primary driver of outsourcing, companies benefit in other ways, including freeing up internal resources and accessing world-class skills and capabilities.

The typical drivers for SME outsourcing include: free-up executive time and enable on-demand access to specialist expertise not available internally, gaining access to best practices processes and best-of-breed technology and tools, gaining the ability to scale more efficiently, improving performance and cut costs.

However companies must assess the risk – reward trade-off: for the benefits that outsourcing and offshoring can provide there are some real risks that need to be managed.

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Benefits	Risks
<i>Allows focus on “core” competence of the company</i>	<i>Loss of day-to-day management control of outsourced services and excessive dependence on the service provider for performance</i>
<i>Cost-savings from reduced overheads and consequent reduction in training needs</i>	<i>Dependence on the service provider for strategic information on internal technology, operational and business options</i>
<i>Cost-savings through economies of scale gained by the outsourcing service provider</i>	<i>By transferring employees and assets to the outsourcing service provider, the customer risks losing valuable knowledge and experience from displaced workers</i>
<i>Higher levels of service and performance due to specialisation of the service provider</i>	<i>Additional costs associated with managing the outsourcing service provider</i>
<i>Reduction of capital expenditure (IT systems, support systems etc)</i>	<i>Reassuming responsibility for the outsourced services on termination of outsourced services can be inherently difficult and risky</i>
<i>Shorter times to market for a customer’s services (more flexible and responsive process for the outsourced services)</i>	<i>Potential risk of IPR theft and data protection</i>
<i>Improvement in processes and their documentation – something that tends to get ignored internally</i>	<i>Regulatory obligations still responsibility of company</i>

Because SMEs often use outsourcing as means of enabling growth of the business, it is likely that once growth has been achieved, some processes may want to be brought back in-house – how easy will this be to achieve? The innovation and efficiency that the outsourcing supplier may have achieved for the customer may not necessarily transfer back in-house with the processes / functions, and therefore there is a real risk that the quality of service will suffer. SMEs must always seek to complement outsourcing with automation, which will make the job of bringing the outsourced processes and functions back in-house easier.

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The not so unlucky



practical tips for optimum outsourcing:

1. Determine what is your real value proposition is to your customers – outsourcing must add to this value proposition
2. Determine functional and process value chains of your business – who does what, when and how?
3. Determine profitability analysis of each function / process and benchmark - don't outsource a bad process
4. Analyse current functions /processes and determine which would be candidates for outsourcing - don't outsource your crown jewels
5. Determine your sourcing approach and objectives – what would be the ideal deal?
6. Prepare your organisation for outsourcing - don't underestimate the time & effort input or do it in a half hearted fashion
7. Ensure you undertake a thorough supplier assessment – try using suppliers that may have been pre-screened
8. Ensure you have a well constructed and detailed contract - don't assume anything - contract for everything – but don't pass on your outsourcing savings to expensive lawyers
9. Ensure you have a transition plan and manage this carefully – don't assume there won't be any teething problems
10. Manage, measure and monitor the service delivery and review regularly – identify problems earlier than later
11. Manage the service provider – try to create a partnership relationship
12. Have a strong governance framework – ensure you can resolve problems without having to resort to the contract
13. Think about and plan for exit – all relationships have a finite life

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Conclusion

During periods of general economic crisis it is critical for companies to conserve cash, while standing out from their competitors, offering better value to their existing clients and seeking new prospects. While internal efficiency programmes you may have already initiated may have had some impact on your business, there is only so much they can achieve.

Offshoring services may offer you a lifeline to overcome these economic challenges. Offshoring of services has the potential to deliver cost savings (up to 50% cost savings from your current costs), generate new business (double your lead generation, telemarketing and customer service activities with the same budget) and benefit from supplier investments in technology and processes without the need for up-front investment.

Getting started

If you want to benefit from outsourcing and offshoring, please take our 5 minute online evaluation assessment, which will provide an analysis of the appropriateness of outsourcing and offshoring as a strategy, given your objectives, business environment and organisational capabilities. Click here to go to our online evaluation assessment: [http://www.Op2i.com/Readiness Assessment](http://www.Op2i.com/Readiness_Assessment)

About Op2i

Op2i Ltd provides outsourcing training, brokerage and managed outsourcing services for its clients and would be pleased to discuss with you how we can help you in your outsourcing programme. If Op2i can be of assistance to you in any way please contact us via our web site <http://www.op2i.com>

Op2i Ltd - A Business Improvement Firm, specialising in Offshoring

London

Tel: +44 (0) 20 7193 4339

<http://www.Op2i.com>