

Managing External Resources – Forms of Outsourcing

How classifying the task can improve vendor selection and reduce problems

By Jim Everett – Think180™

Over the last decade, the changes in business and technology have reshaped today's work institutions and the way work is done, more than any other time in history. Businesses are downsizing, merging, restructuring, and outsourcing. New companies appear in the marketplace almost overnight, often changing it dramatically. Many companies are making increasing use of external resources as a way of running selected aspects of the business.

Why Outsourcing?

Outsourcing is a leveraged business model that allows flexible use of the most appropriate resources for a particular project. It can be cost-effective to use external resources where expertise is needed on an irregular basis, or is specialized or unique. This approach works particularly well where there are pre-qualified resources that can be drawn on to meet the needs of a particular project.

Reasons and benefits include creating efficiencies; accessing costly expertise as needed; improving responsiveness; reducing costs; increasing organizational flexibility. Companies need to quickly locate and engage sources of key expertise and manage these resources appropriately to achieve success.

Reasons for Using External Resources

The decision to outsource may be strategic, or operational. Ideally, it is supported by sound business reasons. Here are some situations where outsourcing can work best:

- The required unique or specialized expertise is neither available internally nor cost-effective to hire
- Short timelines require additional or dedicated resources for limited period(s) of time
- Suitable internal expertise is committed to other projects and not available when needed
- Provider has reputation that adds special credibility to an event or project
- Provider is geared to produce a particular deliverable at low cost or very short time frame

Managing Outsourcing

Outsourcing brings a new set of management, legal and operational issues to address. These must be understood and handled correctly for the outsourcing process to work effectively. Professionals and technical specialists are now becoming increasingly involved in the selection and management of external resources to carry out specialized work. This can be a new and uncomfortable experience for some. Even managers and experienced project leaders find working with vendors brings new challenges.

Common Outsourcing Problem Areas

When problems arise with vendors or an outsourced project, most often where:

- Short-term benefits and expediency dominate as the reason for outsourcing
- Finance, legal and vendors dominate the decision process
- Scope of work is incomplete or inaccurately defined
- Milestones are loosely defined or not measurable
- Vendors are not selected on their total capabilities against project requirements
- A project manager or sponsor is not clearly designated
- Payment schedule is unrelated to deliverables
- Changes in project are not well managed

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Dimensions of Outsourcing and Management Priorities

Outsourcing can be designated in four different forms, depending on two key differentiators:

1. **Integration with the Business** – the extent to which the function, activity or project is integrated with company operations, and whether the vendor participates in the meetings and decisions of the business.
2. **Recipients of Service** – who receives the results of the function, activity or project. This may be employees or internal company functions, or customers, partners, channel members, or other outside stakeholders of the company.

These differentiators make up the two axes on the Think180 Outsourcing Matrix on page 3. The resulting matrix creates the four forms of outsourcing, characteristics of each with examples, what key value is provided, the top two priorities for each, and the actions essential to achieve the best results through selecting and managing vendors effectively for each distinct form.

Outsourcing Forms

1. **Team Partner** – Contract expertise is brought in to work internally as part of a team or within a function. Of the four, it is the most integrated with company functions and decision-making. Many IT projects use this form of outsourcing. Examples include contract developers and project managers.
2. **Delivery Partner** – External 3rd parties provide integrated solutions or deliver strategic information on company products to customers, as part of the overall marketing and product definition. Examples include VARs and product sales training providers.
3. **Delivery Vendor** – The delivery of a service or product to the customer is contracted out and completely handled by an external agency. Outsourced functions may include merchandise fulfillment, technical support and national service providers for company products.
4. **Facility Vendor** – An internal service or function is contracted to an external agency. Of the four, it is the least integrated with company functions and decision-making. Examples include a company travel agency and graphic production service.

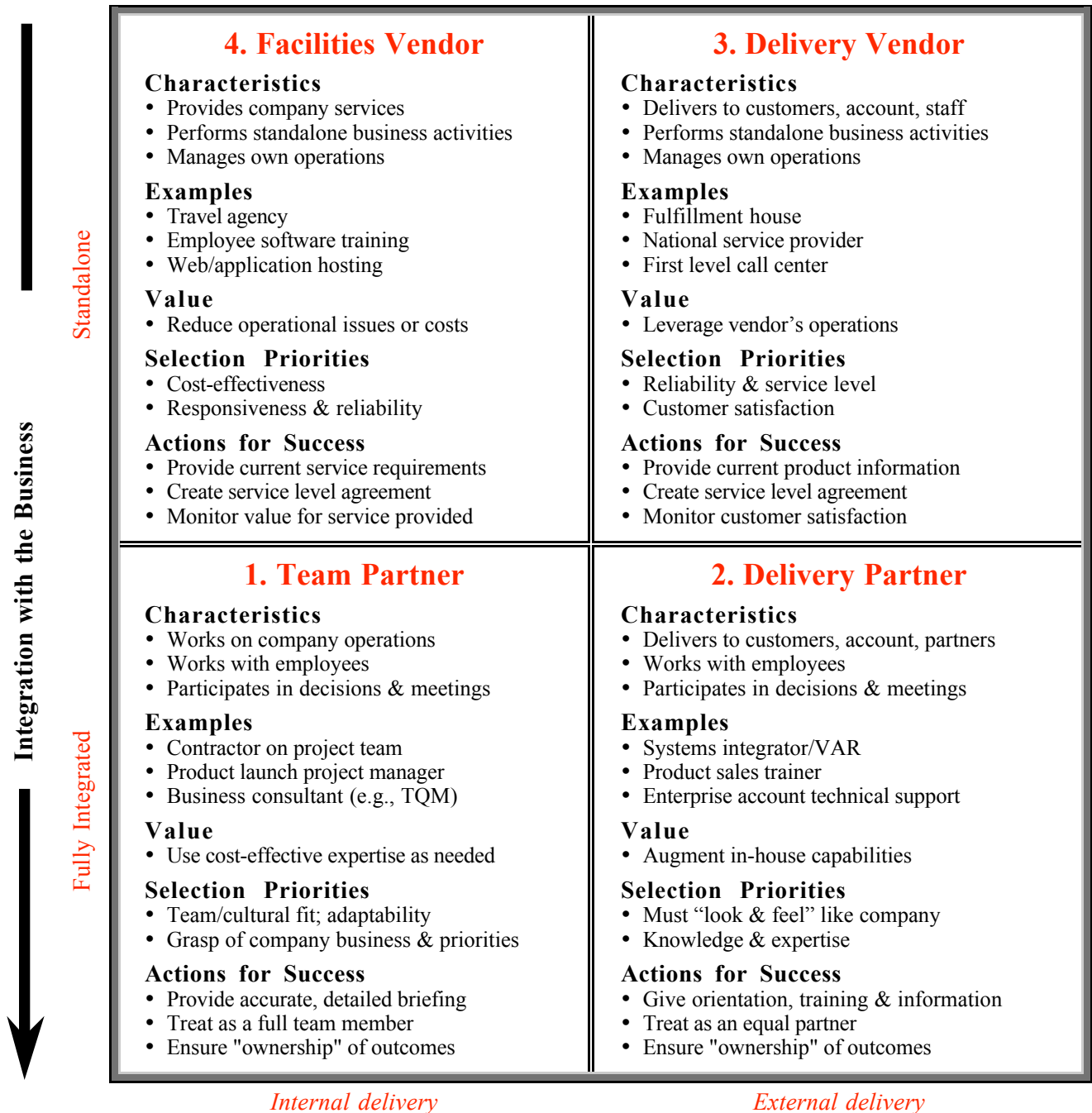
As shown in the matrix, each of these forms has a particular value that is added through the outsourcing approach. Each has particular issues that must be addressed. Naturally, there are issues that apply to more than one form (e.g., proficiency, ethical practice); however, each form has strategic priorities that relate to the business objectives for the task.

When outsourcing is implemented, the particular form has very important strategic priorities that need to be followed, to ensure the success of the outsourcing initiative. These are shown in the matrix, and each relates to the job to be done, and the context in which it is done. The actions recommended ensuring these priorities are listed in the matrix for each form.

When evaluating resourcing options, and making a decision to outsource, it is important to take into account how the nature of the task, the context in which it will be done, and the audience or recipients of the work will impact the plans for implementation. Using the matrix can be a useful guide and starting point.

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Think180 Outsourcing Matrix



Recipients of the Services

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Think180™ (formerly Endeavour Business Learning) is based in Los Angeles and focuses on enhancing effective and productive client-vendor relations. We work with companies, large and small, on both sides of the equation – those who are using vendors, consultants and contractors, and those who want to enhance the services they provide to clients. Think180 provides workshops and consulting on “Managing External Resources” and “Creating Effective Partnerships”.

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