

Recasting the outsourcing solution

And so we find ourselves in the depths of a global recession. However, it is now more important than ever to ensure business competitiveness and efficiency. For the small and medium business (SMB), adopting the right outsourcing strategy should not be about shaving costs but finding value that can result in overcoming challenges and increased business returns.



“If you deprive yourself of outsourcing and your competitors do not, you’re putting yourself out of business.”¹

Singapore Minister Mentor Lee Kuan Yew

STANDFAST

For most businesses, and the small and medium business (SMB) especially, the reality is that they are very good at their primary competencies but lack the expertise or time to consolidate all peripheral activities into their operations. For example, while the Fortune 1000 companies can afford to

bear the mounting costs of IT services, SMBs must provide the same services from e-business services to dynamic websites to mobile applications. It is also highly unlikely for a small business to possess all the skills necessary to build their company, grow their business and dominate their market place. For the SMB, the challenge is then to always provide enterprise-scale services with a mid-size budget.

Enter the perennial outsourcing solution.

EVOLUTION OF A BUSINESS SOLUTION

Traditionally, outsourcing is contracting another company or person to do a particular function.² It is used to describe any corporate activity that is managed by an outside vendor, from the running of a company’s cafeteria to the transfer of management responsibility for a company’s IT needs.³ Outsourcing has been around as long as work specialization has existed and the evolution of this corporate activity from labor arbitrage⁴ to transferring the management of specialized functions is now recognized as the cornerstone strategic business planning.

For the SMB, outsourcing offers the economies of scale that can be gained by a third party that is able to pool the activity of a large number of firms. It is also frequently cheaper for a firm to outsource specialist activities than it is to carry them out on its own. The specialist outsourcing firm has the ability to keep abreast of the latest development in its field. This is nowhere more prevalent than in the IT sphere where technological change has been so rapid that companies’ in-house capabilities are hard pressed to keep up with it. Finally, it enables small firms to do things for which they could not justify hiring full-time employees.⁵

¹ <http://www.brainyquote.com/quotes/quotes//leekuan407049.html>

² “Outsourcing – What is outsourcing?”, www.sourcimgmag.com

³ “Outsourcing”, *The Economist*, 29 Sep 2008

⁴ “The Future of Outsourcing”, *Business Week*, 30 Jan 2006

⁵ “Outsourcing”, *The Economist*, 29 Sep 2008

What started then off as a straightforward arm's-length agreement between a buyer and supplier has now moved on to become structured more like a partnership between client and solutions provider. In this, not only is any increase in the client's volume of business reflected in the outsourcer's scale of charges, both parties in some way share the risks and the rewards of the outsourced activity.

BRING IN THE EXPERTS



Before selecting and engaging an outsourcing partner, it makes business sense to realize that providers and their customers may have different business motivations. Outsource customers want to get maximum support for dollars invested whereas providers want to increase profitability for each unit of support provided. In addition, some of the failures can be attributed to poor planning and lack of program governance by both providers and their customers. It is obvious then, that outsourcing requires careful planning, focus and flawless execution to deliver expectations.⁶

To optimize the ability to sustain success over the life of a program, companies must understand both the dynamics of the outsourcing business and the alignment with business objectives. Thus, business owners need to consider carefully and be clear on their own standards for their businesses and then use those standards as measures with which they gauge their outsourcing partners. In these times, businesses can also expect that outsourcing partners can provide expertise within sub-industry verticals including best practices, advice on implementation and suggestions for organizational changes.

Whether outsourcing is a one-off incident or a long-term commitment, it is important for businesses to analyze their operations and arrive at an informed decision. Typically, when outsourcing is done as a knee-jerk reaction to fulfill a sudden or immediate need, it may prove to be more detrimental to the business than providing a valuable service.

REAPING THE REWARDS

With an increasingly competitive global market, employers are determined to keep both headcount and overheads below current levels by relying more on external resources to relieve skill shortages and allow the business to concentrate on its core activities. In a couple of examples, it is clear how, when applied strategically, outsourcing can reap rewards for businesses.

TEMPS – A POPULAR TREND IN THAILAND

A recent survey conducted with 11 major sectors across 49 leading companies in Thailand revealed that employers are using more temporary and seasonal staff, including freelance consultants and experts to relieve skills shortages.⁷ A major aspect of these outsourced resources is that while they may not always be cheaper, they can be replaced or eliminated at will.

The survey also found that in these leading companies, HR functions has been singled out as those that can benefit most from outsourced expertise. Over the last few years, as companies grow, changes have been too fast for the HR team to upgrade its skills in time to adapt its functions. To bridge these gaps,

⁶ "Transformational IT service outsourcing", Cisco White Paper

⁷ "Outsourcing popular trend in Thailand", Bangkok Post, Business, 30 Oct 2008

two Thai companies⁸ engaged external help to provide temporary support and demonstrated that HR excellence depends more on corporate culture and local leadership than any traditional indicators.

HOTEL OPERATIONS – THE TAIWANESE SOLUTION

In externalizing hotel operations in Taiwan, a study showed that there is a tendency to outsource those departments which need more special equipments or skills to external service providers.⁹

Hotels are less willing to outsource front-line departments which are guest-facing (e.g. reception, housekeeping and food and beverages) and administrative departments. The most outsourced areas are those related to common areas cleaning, laundry, security and surveillance, information system and provision of leisure activities.¹⁰

A majority of hotel managers indicated that outsourcing those areas of work allow the hotel to obtain skills and capabilities that are difficult to access; increases flexibility in operations and allow concentration on the hotel's core activities.

ALL ROADS LEAD TO ROME



In the case of SMBs in the ASEAN countries, reports indicate the continued trend in IT investments; with an expected spend of US\$13.4 billion, with Indonesia, Malaysia and Thailand leading the pack¹¹. ICT vendors are eyeing the manufacturing sector in particular as reports point to a positive spending growth despite a gloomy outlook for this sector.¹²

Good news for those in the outsourcing business. For the SMB embarking on an outsourcing project, the Lewis Carroll quote, "If you don't know where you're going, any road will get you there"¹³, is applicable in many situations in pointing out the value of planning and clarifying goals and objectives. Despite these uncertain times, applied strategically, outsourcing continues to possess the potential to add tremendous value to the business.

⁸ *ibid*

⁹ "Outsourcing hotel service operations: The case of Taiwan hotels", Pei-Chun Lai and Ebrahim Soltani

¹⁰ *ibid*

¹¹ "ASEAN SMBs to spend US\$13.4 billion on IT", ZDNet Asia, 25 Feb 2008

¹² "Asian manufacturers go digital", ZDNet Asia, 12 Feb 2009)

¹³ "Transformational IT service outsourcing", Cisco Systems White Paper

Copyright & Reprints:

All materials in now are protected under the copyright act. No material may be reproduced in part or whole without the prior consent of the publisher and the copyright holder. All rights reserved.

Disclaimer:

The views and opinions expressed by contributors are not necessarily those of Cisco System. Whilst every reasonable care has been taken to ensure the accuracy of the information within, neither the publisher, editor or writers may be held liable for errors and/or omissions however caused.



Americas Headquarters
Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA
www.cisco.com
Tel : 408 526-4000
800 553-NETS (6387)
Fax : 408 527-0883

Asia Pacific Headquarters
Cisco Systems, Inc.
168 Robinson Road
#28-01 Capital Tower
Singapore 068912
www.cisco.com
Tel: +65 6317 7777
Fax: +65 6317 7799

Europe Headquarters
Cisco Systems International BV
Haarlerbergpark
Haarlerbergweg 13-19
1101 CH Amsterdam
The Netherlands
www-europe.cisco.com
Tel: +31 0 800 020 0791
Fax: +31 0 20 357 1100

Cisco has more than 200 offices worldwide. Addresses, phone numbers, and fax numbers are listed on the Cisco Website at www.cisco.com/go/offices.



Copyright © 2009 Cisco Systems, Inc. All rights reserved. Cisco, Cisco Systems, Cisco Systems Capital and the Cisco Systems logo are registered trademarks or trademarks of Cisco Systems, Inc. and/or its affiliates in the United States and certain other countries. APAC 022009