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Strategic Sourcing

Make and/or Buy?

François Rossillion

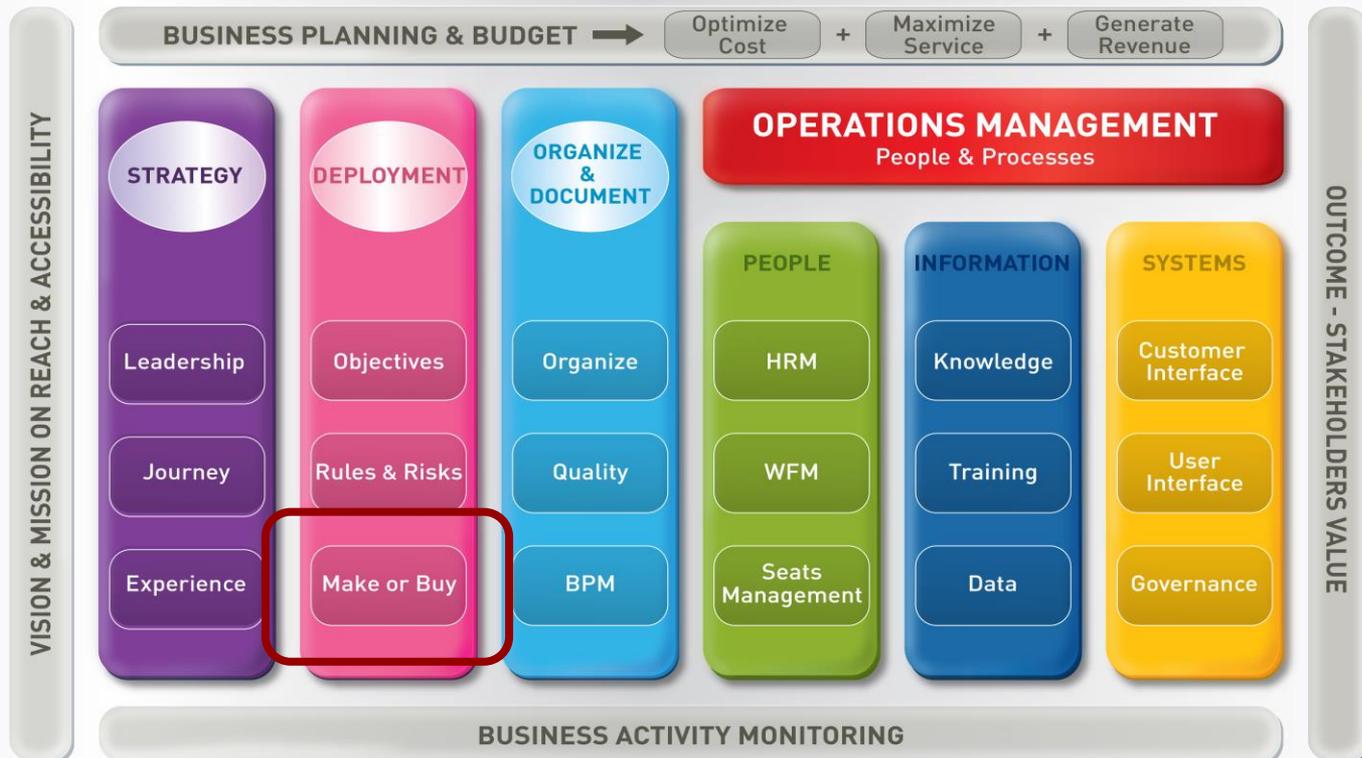
2017, September 18



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British Airways to outsource major part of BA.com



Kevin May

December 9, 2008 11:00 AM GMT

0 Comments

British Airways is looking at outsourcing some operations for its flagship **ba.com** website as part of a major cost-cutting exercise around the business.

Travolution can reveal the booking and servicing elements of **ba.com** – a major part of the ecommerce programme for the carrier's online platform – will be run by a third party under proposals currently being considered by senior figures in the company.

It is understood the carrier is hoping to radically reduce expenditure across a number of divisions and offloading operations for **ba.com** is a major priority for 2009.

A number of sources have confirmed to Travolution that costs associated with running **ba.com** are currently in the region of £30 million a year.

Although BA uses third party suppliers to run the online FAQ service and payment authorisation system, outsourcing the ecommerce platform for **ba.com** is expected to put some of the biggest travel technology firms in the industry on full alert.

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Travolution on Twitter

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 **kFakhouri** RT @LimelightPR_ME: 'Appalling' Groupon will 'trash your brand', says BA and Tui [bit.ly/z1dtEw](#)
about 4 hours ago · retweet · favorite

BA is an outsourcing champion

The screenshot shows the WNS website's Press Releases section. The header includes the WNS logo with the tagline "Extending Your Enterprise", language options for English, French, and German, and navigation links for Press Room, Careers, and a search bar. A secondary navigation bar contains links for Home, Services, Resources, WNS Advantage, Investor Relations, About Us, and Contact Us. The main content area features a "Press Releases" header with an image of a newspaper. Below this, there is a link to "View printer-friendly version" and a navigation arrow labeled "<< Back". The main headline is "British Airways Extends Outsourcing Contract with WNS". The text of the press release states: "LONDON & MUMBAI, India, Oct 25, 2011 (BUSINESS WIRE) – WNS (Holdings) Limited (NYSE: WNS), a leading provider of global Business Process Outsourcing (BPO) services, today announced a 20-month extension in the outsourcing contract with its founder company, British Airways (BA), U.K.'s largest flag carrier airline. Under the renewed service agreement, WNS will focus on further strengthening the back-office operations center of excellence that delivers a range of airline operations, including customer relations, fares and PNR servicing requests, passenger and cargo revenue accounting, finance and accounting, research and analytics, revenue and yield management and HR shared services." A link is provided to view the video announcement: <http://www.wns.com/British-Airways-Extends-Outsourcing-Contract-with-WNS.html>. Two quotes are included: "This is an extremely proud moment for us; we are delighted to take this fifteen-year-old relationship with BA to the next level of growth. BA continues to be one of our most important and exciting clients and with the new service agreement we aim to provide strategic benefits to both parties, and drive further innovation for BA," said Keshav R. Muruges, Group CEO, WNS Global Services. and "The contract extension through to January 2014 will align the BA-WNS relationship with modern BPO practices that provide strategic benefits to both partners, with increased focus on process improvement and driving a cultural change en route to innovation and partnership. Under the renewed contract, WNS will introduce enhanced deliverables and a new service quality scheme, along with best practice sharing programs from other WNS clients and sectors. The engagement will embark on newer investments in technology, process improvement, Lean, Kaizen and Six Sigma reviews to provide greater access to functional leadership with a consultancy lead approach and increased operational efficiency." and "We are delighted to extend our partnership with WNS. The company has a highly professional and experienced delivery team, which clearly understands our project goals and requirements. This has enabled us to realize significant cost efficiency and business value operationally, over the years," said Philip Osmond, Director of Business, British Airways.

20 month extension of outsourcing contract

We are delighted to extend our partnership with WNS. This company clearly understands our project goals and requirements. This has enabled us to realise significant cost efficiency and business value operationally, over the years.

Philips insources business IT applications

The screenshot shows the website 'COMPUTABLE' with a navigation menu and a main article. The article is titled 'Philips doet deels insourcing' and discusses the company's strategy to bring back business IT applications in-house. A red box highlights the main text of the article.

Philips doet deels insourcing
Elektronicareus speurt naar zeventig SAP-consultants

Royal Philips Electronics is niet van plan zijn zakelijke IT-applicaties binnen afzienbare tijd uit te besteden. Integendeel, de elektronicagigant houdt de applicaties in eigen huis bij de productdivisies, waar ze dicht bij de business worden ingezet.

Dat zegt Daniel Hartert, corporate chief information officer van Philips. De onderneming stooft zijn ict-beleid volgens Hartert op een aantal overwegingen en trends. De belangrijkste daarvan is dat de IT-infrastructuur in snel tempo een massaproduct wordt en dus uitbesteed is of dat spoedig wordt. "Philips blijft het managen, maar het runnen geschiedt in een gecontroleerde outsourcingopzet." De applicaties blijven als gezegd in huis, Philips wil daarbij niet te afhankelijk blijven van consultants. "We realiseren ons dat we met consultants kennis buiten onze onderneming brengen, en dat terwijl we juist continuïteit zoeken. We gaan het aantal consultants dan ook omlaag brengen. Ook het kostenelement speelt daarin een rol."

De tweede trend waarop Philips zich baseert is dat it steeds meer consumentachtig wordt, marktonderzoeker Gartner hamert al een jaar of wat op deze ontwikkeling. Dat betekent volgens Hartert dat Philips kiest voor een it-model dat is opgebouwd rondom de gebruiker (user centric), net zoals die dat thuis ook heeft gerealiseerd.

Beleid uitstippelen

Op groepsniveau zet de 'IT Policy Board', bestaand uit de IT-directeuren van alle Philips-divisies en de beide shared service centers (waar personeelszaken en financiële afdelingen zijn ondergebracht), het beleid uit. Atos Origin neemt een groot deel van de beherdiensten voor zijn rekening en blijft dat doen. Het globale netwerk en de e-mail-diensten worden gerund door één it-service-organisatie.

Het beleid van Philips beoogt de expertise van de geconsolideerde zakelijke applicaties in huis te houden via speciale interne en externe wervingsprogramma's. "Die applicaties vormen de enablers van het management van de Philips Groep en daarom draaien we die met eigen medewerkers, overigens binnen de grenzen van budget, kosten, beveiliging en SOX-reglementering."

SAP-software

IBM outsourced jobs to cut costs

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GREAT PLACES OF HISTORY

IBM and the Rebirth of Outsourcing

By 24/7 WALL ST. Thursday, Mar. 26, 2009

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A sign marks the entrance to IBM Corporate Headquarters in Armonk, New York.
STAN HONDA/AFP/Getty

But, outsourcing may be making a big comeback as word leaked that IBM would cut about 5,000 jobs in the U.S. and move the work to India. This may be the beginning of a new wave of exporting of American jobs to developing countries which have large pools of well-educated workers. India's GDP grew at a rate of 7% or better the last two years. That rate is expected to move down sharply due to the recession. The central government has the goal of continuing the growth rate it enjoyed until last year, but as GDP falls throughout the balance of the developing and developed world, it will be nearly impossible for the government to meet those goals.

Ford Brazil fined for outsourcing



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Ford Brazil fined for outsourcing

07.03.2013 *Ford Brazil has been fined R\$400 million (US\$200 million) for illegal outsourcing at its Tatui plant, in the interior of Sao Paulo state, where it has a development centre and a test track.*

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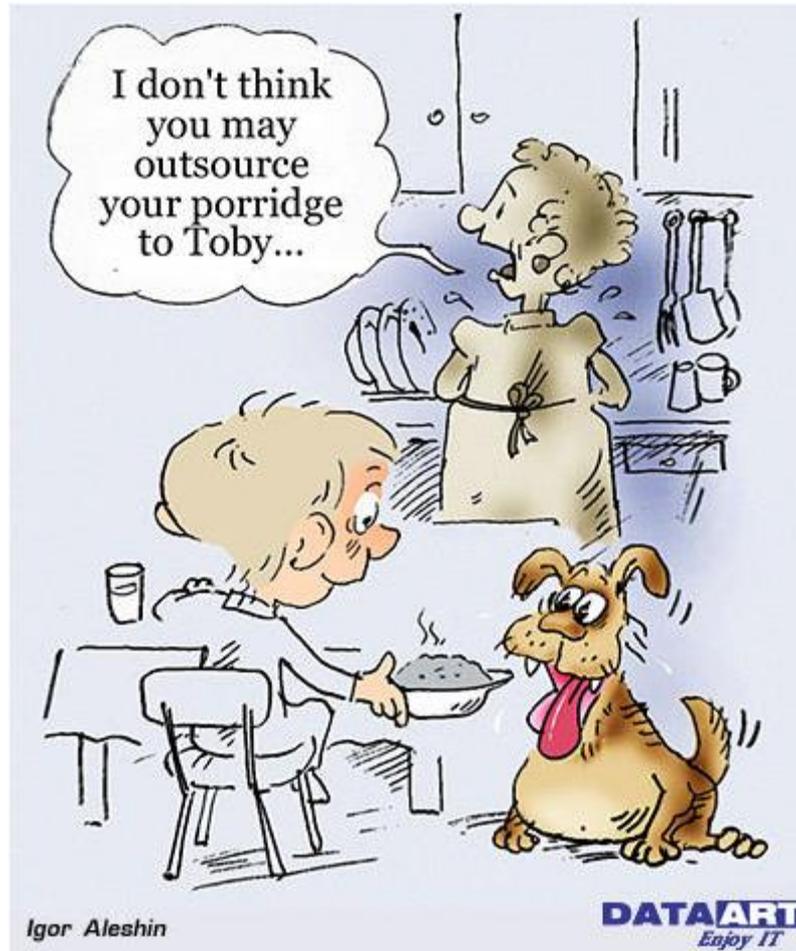
The Labour Prosecutor's office in Brazil said that Ford recruited workers employed at its Tatui plant through AVAPE, an association to promote the interests of disabled people, in order to gain tax benefits. However, none of the 280 employees supplied by AVAPE for more than a decade was disabled.

The judge, Marcurs Menezes Barberino, said Ford would be fined an additional R\$ 500,000 (US\$250,000) per day if it did not begin direct recruitment for the jobs in question within 60 days. As AVAPE does not have the resources to pay a share of the fine, Ford will have to pay the entire fine of R\$400 million (R\$200 million to the National and State Funds for Rights and R\$200 million to the town of Tatui for investment in training programmes for disabled people).



Key learning

- **(Out)sourcing is everywhere in various forms**



Agenda of today

1. **(Out)sourcing: a strategy or a tactic?**
2. **Understanding the (out)sourcing business**
3. **The process path to success**
4. **An exercise**

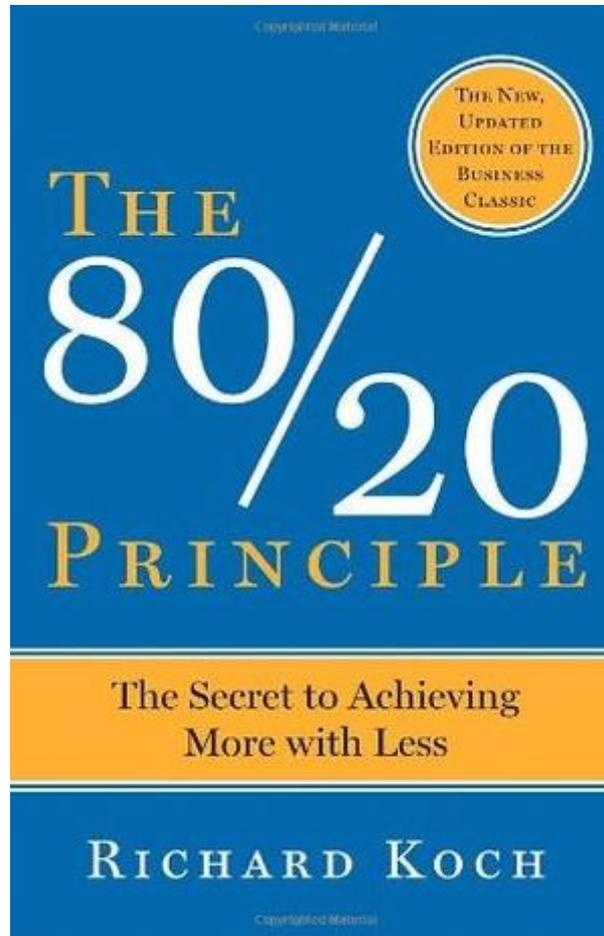
When and why do we outsource?

Individuals:

Individuals occasionally outsource tasks:

- Baby-sitting, Crèche, Cleaning, Ironing, Gardening...
- Construction or refurbishment of a house, ...

Pareto



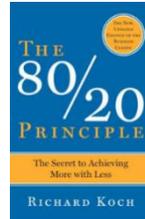
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But outsourcing is not a strategy ⁽¹⁾ :

Individuals should:

1. Specialise, develop core competencies
2. Choose a niche to excel
3. Realise that knowledge is power
4. Learn from the best
5. Which 20% effort delivers 80% result?
6. Understand your market and core customers
7. Start your own company at early age
8. Recruit people producing net value
9. Outsource everything except your core competencies
10. Use the leverage of capital (= complement of sourcing)



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(1) Source: The 80/20 principle: The secret of achieving More with Less, Richard Koch, (2) Source: Outsourcing strategie: een zaak voor de board, Koen Bergers
(3) Source: Business Marketing

So, what is your specialism?



MBTI

1. Are you outwardly or inwardly focused? If you:

- Could be described as talkative, outgoing
- Like to be in a fast-paced environment
- Tend to work out ideas with others, think out loud
- Enjoy being the center of attention

then you prefer

E

Extraversion

- Could be described as reserved, private
- Prefer a slower pace with time for contemplation
- Tend to think things through inside your head
- Would rather observe than be the center of attention

then you prefer

I

Introversion

2. How do you prefer to take in information? If you:

- Focus on the reality of how things are
- Pay attention to concrete facts and details
- Prefer ideas that have practical applications
- Like to describe things in a specific, literal way

then you prefer

S

Sensing

- Imagine the possibilities of how things could be
- Notice the big picture, see how everything connects
- Enjoy ideas and concepts for their own sake
- Like to describe things in a figurative, poetic way

then you prefer

N

Intuition

3. How do you prefer to make decisions? If you:

- Make decisions in an impersonal way, using logical reasoning
- Value justice, fairness
- Enjoy finding the flaws in an argument
- Could be described as reasonable, level-headed

then you prefer

T

Thinking

- Base your decisions on personal values and how your actions affect others
- Value harmony, forgiveness
- Like to please others and point out the best in people
- Could be described as warm, empathetic

then you prefer

F

Feeling

4. How do you prefer to live your outer life? If you:

- Prefer to have matters settled
- Think rules and deadlines should be respected
- Prefer to have detailed, step-by-step instructions
- Make plans, want to know what you're getting into

then you prefer

J

Judging

- Prefer to leave your options open
- See rules and deadlines as flexible
- Like to improvise and make things up as you go
- Are spontaneous, enjoy surprises and new situations

then you prefer

P

Perceiving

ISTJ

Responsible, sincere, analytical, reserved, realistic, systematic. Hardworking and trustworthy with sound practical judgment.

ISFJ

Warm, considerate, gentle, responsible, pragmatic, thorough. Devoted caretakers who enjoy being helpful to others.

INFJ

Idealistic, organized, insightful, dependable, compassionate, gentle. Seek harmony and cooperation, enjoy intellectual stimulation.

INTJ

Innovative, independent, strategic, logical, reserved, insightful. Driven by their own original ideas to achieve improvements.

ISTP

Action-oriented, logical, analytical, spontaneous, reserved, independent. Enjoy adventure, skilled at understanding how mechanical things work.

ISFP

Gentle, sensitive, nurturing, helpful, flexible, realistic. Seek to create a personal environment that is both beautiful and practical.

INFP

Sensitive, creative, idealistic, perceptive, caring, loyal. Value inner harmony and personal growth, focus on dreams and possibilities.

INTP

Intellectual, logical, precise, reserved, flexible, imaginative. Original thinkers who enjoy speculation and creative problem solving.

ESTP

Outgoing, realistic, action-oriented, curious, versatile, spontaneous. Pragmatic problem solvers and skillful negotiators.

ESFP

Playful, enthusiastic, friendly, spontaneous, tactful, flexible. Have strong common sense, enjoy helping people in tangible ways.

ENFP

Enthusiastic, creative, spontaneous, optimistic, supportive, playful. Value inspiration, enjoy starting new projects, see potential in others.

ENTP

Inventive, enthusiastic, strategic, enterprising, inquisitive, versatile. Enjoy new ideas and challenges, value inspiration.

ESTJ

Efficient, outgoing, analytical, systematic, dependable, realistic. Like to run the show and get things done in an orderly fashion.

ESFJ

Friendly, outgoing, reliable, conscientious, organized, practical. Seek to be helpful and please others, enjoy being active and productive.

ENFJ

Caring, enthusiastic, idealistic, organized, diplomatic, responsible. Skilled communicators who value connection with people.

ENTJ

Strategic, logical, efficient, outgoing, ambitious, independent. Effective organizers of people and long-range planners.

How do you find out?

The screenshot shows the StrengthsFinder website interface. At the top right, there is a language selection dropdown set to 'English' and a 'Select Language' button. Below this are 'Sign In' and 'Enter Access Code' buttons. The main navigation bar includes 'HOME', 'PUBLICATIONS', 'PURCHASE', and 'ABOUT CLIFTON STRENGTHSFINDER', with the 'GALLUP' logo on the right. The main content area features a sidebar on the left with links for 'About the Book', 'History', 'What's New', 'StrengthsFinder 2.0 Research', 'Use Your Access Code', and 'Learn More'. The central text area is titled 'About StrengthsFinder 2.0' and includes a quote from Benjamin Franklin: "Hide not your talents. They for use were made. What's a sundial in the shade?" followed by "-- Benjamin Franklin". Below the quote, it asks "Do you have the opportunity to do what you do best every day?" and explains that many talents go untapped. It mentions the 2001 management book 'Now, Discover Your Strengths' and the newer 'StrengthsFinder 2.0' assessment. A large image of the 'Now, Discover Your Strengths' book by Tom Rath is shown on the right. Below the book image is a section for 'StrengthsExplorer' described as 'Discover Your Child's Strengths For ages 10-14'. The sidebar also lists other publications like 'Strengths Based Leadership' and 'How Full Is Your Bucket?'.

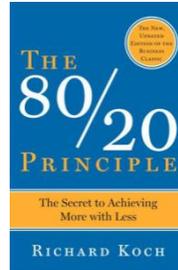
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(1) Source: The 80/20 principle: The secret of achieving More with Less, Richard Koch, (2) Source: Outsourcing strategie: een zaak voor de board, Koen Bergers

(3) Source: Business Marketing

What is the leverage of capital?

Je hebt de beschikking over een bedrag van 100.000 EUR.

Je kan dit bedrag investeren in een bedrijf met een opbrengst van 20.000 euro.

Wat doe je? Investeer je het volledige bedrag?

Of leen je een deel? Wat als de rente 15% bedraagt en je niet meer dan 50% kan lenen?

Solution

No leverage

Cost	100,000 EUR
Debt	0 EUR
Equity	100,000 EUR

Income	20,000 EUR
Debt service	0 EUR
Cash to equity	<u>20,000 EUR</u>

Return on equity

$$\frac{20,000}{100,000} = 0,20$$

Leverage with 50% debt

Cost	100,000 EUR
Debt	50,000 EUR
Equity	50,000 EUR

Income	20,000 EUR
Debt service	<u>-7,500 EUR</u>
Cash to equity	<u>12,500 EUR</u>

Return on equity

$$\frac{12,500}{50,000} = 0,25$$

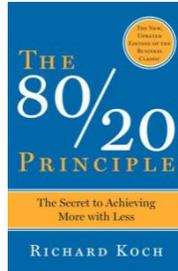
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Companies:

But sourcing often is not a strategy ⁽²⁾ :

“Organisations should focus more on core competencies for maximising company goals. **Therefore, they need to make better use of strategic sourcing.** Today issues are tackled separately. There is a need of a holistic approach”.

Research study showed that 85% of Fortune 500 sales and marketing executives were outsourcing more key marketing services. When asked why they are outsourcing more today, 90% of these companies reported that the more they outsource the more competitive they become ⁽³⁾ .

Strategic Sourcing

Realising the company's strategy and goals through a well considered choice between self-execution and outsourcing to third parties.



Companies outsource task, knowledge, processes:

- Mail distribution, Catering, Salary-administration...
- ICT, ...

(1) Source: The 80/20 principle: The secret of achieving More with Less, Richard Koch, (2) Source: Outsourcing strategie: een zaak voor de board, Koen Bergers

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Terms related to sourcing

Buyer, Outsourcer, Customer
Supplier, Service Provider, Outsource Service Provider
On-shore
Near-shore
Off-shore
On site
Off site

Terms related to sourcing

Buyer, Outsourcer, Customer	The organisation which buys services from one or more service providers.
Supplier, Service Provider, Outsource Service Provider	The organisation(s) which provide(s) services to the buyer/outsourcer.
On-shore	Outsourcing within the country.
Near-shore	Outsourcing to a firm whose main base of operation (delivery of service) is not far outside the country (nearby territory, accessible by short travel in the same or neighbouring time zone) where the work is performed. Most important advantages are a less significant time change and/or cultural differences.
Off-shore	A global service delivery model to outsource to a firm whose main base of operation (delivery of service) is outside the country (accessible by long travel several time zones away) where the work is performed. For example, India, Israel and the Philippines are all considered offshore. Offshore outsourcing may involve a significant time change and/or cultural differences.
On site	The service is provided at the customer's' site
Off site	The service is provided of the customer's site

Sourcing types

In-sourcing

Co-sourcing

Facilities Outsourcing

Business Process

Outsourcing

BPO

Sourcing types

<p>In-sourcing</p>	<p>In house execution of specific tasks or processes through hired staff e.g. telemarketing campaigns with temporary workers.</p>
<p>Co-sourcing</p>	<p>Sources, often personnel are shared by the customer and the outsource-partner to execute tasks/transactions with different competencies. Both organisations are responsible for providing appropriate resources.</p>
<p>Facilities Outsourcing</p>	<p>Oldest form of Outsourcing. Complete or partial outsourcing of facilities, tasks and transactions (sub-processes) that are not core and not critical e.g. mail-distribution, catering, salary-administration, training or telemarketing campaigns.</p> <p>Application Outsourcing (AO) concerns development and management of specific application software e.g. web building.</p>
<p>Business Process Outsourcing BPO</p>	<p>In BPO a particular standardised process task (either back office or front office) is outsourced e.g. book keeping, financial administration, procurement, business consultancy, CAD/ CAM, call centre, DTP, data entry, proof reading and editing, typesetting, handwriting services, marketing, medical billing and transcription, web design and development etc.</p> <p>Knowledge Process Outsourcing (KPO) typically calls for work that needs higher levels of involvement from the worker. The worker has to employ advanced levels of research, analytical and technical skills and has to make decisions of a higher order than BPO work. Examples are pharmaceutical research and development, patent/ intellectual property research, animation and simulation. KPO industry is less older and mature.</p> <p>ITO or Information Technology Outsourcing is another major category.</p> <p>Expectation concerning BPO are high. In upturn BPO is great, in downturn it is fantastic.</p>

Other examples



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Citibank - Barcelona Sales and Service Center is part of Citigroup. Positions available for phone service and sales representatives to provide administrative support or telephone banking services from Barcelona to customers in Europe. Usually looking for native or proficient speakers in English, Dutch, French, Swedish, Norwegian, Danish, Finnish, Italian and Portuguese. Application can be sent to Barcelona Sales and Service Center. Dpto. Recursos Humanos, Plaza Catalunya 1, 1-6, 08002, Barcelona



In May 2008, oil multinational Royal Dutch Shell opened a call centre in Cape Town. The centre services Shell's customers in Belgium, Luxembourg and the Netherlands, with native Afrikaans-speaking operators trained to converse in Dutch and Flemish.

Why is strategic sourcing unexplored?

1. Strategic Sourcing often has no process-base and is not scanned periodically:

- The sourcing process comprises three steps: choice, change and control.
- The change-track often causes radical changes in the organisation with FTE impact.

2. Strategic Sourcing is a means to professionalize the organisation:

- It is necessary that the outsourcing company organises the activities in scope professionally first.
- Next a *demand* organisation must be created to define the expectations and requested quality level

3. Strategic Sourcing is only appropriate if the organisation is ready:

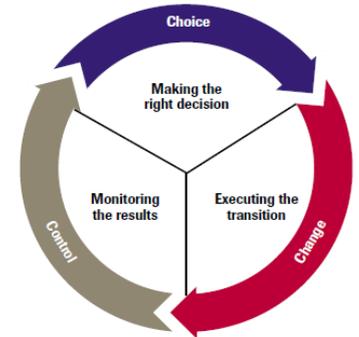
- Hoping that the external partner will solve the stubborn problem is not the right approach.
- The organisation must develop clear insights and competences on the issue first.

4. Strategic Sourcing depends on the strategic importance of the organisation:

- The overall starting point must be maximisation of profit through effective and efficient management of core-competencies: how can sourcing contribute to this?
- Decisions about core competencies is a strategic matter and therefore it's the board's responsibility to set up a sourcing strategy.

5. Sourcing external staff is often considered as a disadvantage:

- External personnel comes and goes. Afterwards organisations feel deserted facing a lack of competence and through this becoming more dependent on external support.



Strategic Sourcing requires Maturity

To make Strategic Sourcing a success, companies must be mature: processes must be written-out in detail, responsibilities must be defined without overlap, monitoring must be in place.

Q: How transparent and measurable is the business?

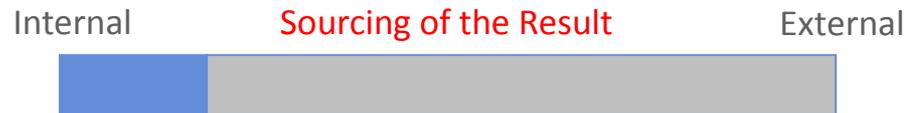
Perhaps trivial, the more business chains are decided to outsource, the more clear insight and transparency is needed in the own organisation.



Only a small part of the activities is outsourced. Lacking knowledge is brought in.



A bigger part of activities is put outside the organisation which requires an advanced level of maturity.



In this case all activities necessary to achieve a specific result are outsourced. Outsourcing a complete chain of activities is a form of sourcing of the result.

Possible reasons for outsourcing

1. Cost savings.

Decreasing the overall service-cost of to the business. This will involve reducing the scope, defining quality levels, re-pricing, re-negotiation, cost re-structuring. E.g. Access to lower cost economies through offshoring called "labour arbitrage" generated by the wage gap between industrialized and developing nations.

2. Focus on Core Business.

Resources (for example investment-budget, people, infrastructure) are focused on developing the core business. For example, organisations often outsource their IT support to specialised IT services companies.

3. Cost restructuring.

Operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by moving fixed to variable cost and also by making variable costs more predictable.

4. Improve quality.

Achieve a step change in quality through contracting out the service with a new service level agreement.

5. Knowledge.

Access to intellectual property and wider experience and knowledge.

6. Contract.

Services will be provided to a legally binding contract with financial penalties and legal redress. This is not the case with internal services.

7. Operational expertise.

Access to operational best practices that would be too difficult or time consuming to develop in-house.

8. Access to talent.

Access to a larger talent pool and a sustainable source of skills, in particular in science and engineering.

Possible reasons for outsourcing

9. Capacity management.

An improved method of capacity management of services and technology (Workforce management systems).

10. Catalyst for change.

An organisation can use outsourcing as a catalyst for major step change that can't be achieved alone.

11. Enhance capacity for innovation.

Companies increasingly use external knowledge service providers to supplement limited in-house capacity for product innovation.

12. Reduce time to market.

The acceleration of the product development through the additional capability brought by the supplier.

13. Commodification.

The trend of standardising business processes, IT Services and application services enabling businesses to intelligently buy at the right price. Allows a wide range of businesses access to services previously only available to large corporations.

14. Risk management.

An approach to risk management for some types of risks is to partner with an outsourcer who is better able to provide the mitigation.

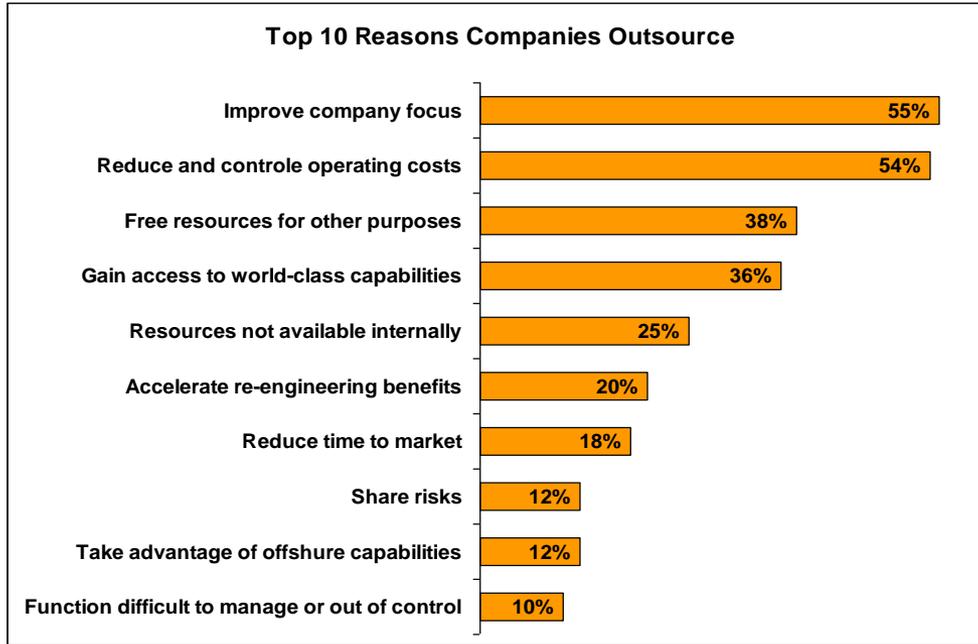
15. Venture Capital.

Some countries match government funds venture capital with private venture capital for start ups in their country.

16. Tax Benefit.

Countries offer tax incentives to move manufacturing operations from countries with high corporate taxes.

Most important reasons



Source: The Outsourcing Institute – 5th Annual Outsourcing Index:
http://www.outsourcinginstitute.com/oi_index/no_longer.html

“When asked what are the three primary reasons for outsourcing, more respondents singled out “improving their company’s focus” (55%) than any other factor. Alas, the second most popular response—reducing and controlling operating costs—was cited 54% of the time.

Not much of a difference, right? Keep in mind, however, that until recently saving money was regularly given as the priority among purchasers of outsourcing services. In fact, in the Outsourcing Institute’s 2001 IT Index, reducing and controlling operating costs was singled out by most respondents (48%). Improving their company’s focus was a distant second, identified by just 40% of that survey’s participants”.



Most important failure factors

Here are the 5 most important failure factors:

1. The expected output and results were insufficiently defined.

This is caused by a complete absence of or poorly defined SLA's.

2. Killer contract with too little room to move for the provider.

When the supplier has very little (financial) margin, discussions will continuously pop up concerning included services and conditions.

3. The absence of a 'direction-responsible' or a 'producer' (both with the customer and the supplier).

A signed contract, defined SLA's and a standardised service-package is not the end. A specific structure is necessary for follow-up and monitoring. Supplier and customer need constant interaction. This 'production' aspect is very often underestimated from a financial point of view.

4. An offer you can't refuse.

Sometimes suppliers' offers are so attractive companies simply decide on the (cheap) price. Extra budget needed to solve unconsidered problems afterwards, rise disappointments quickly.

5. Poor performing technology.

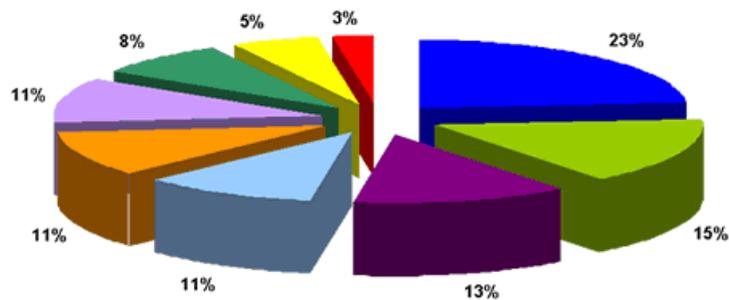
Some customers expect that after outsourcing a process, output quality will improve substantially at once. It will improve, but this costs time and money and also additional investments from the customer.

Research (Gartner) revealed that about 50% of all outsourcing-relationships did not deliver the expected results or failed completely. In 2006, 25% of ICT outsourcing contracts went wrong. Today only 10% (Jef Loos – EquaTerra)

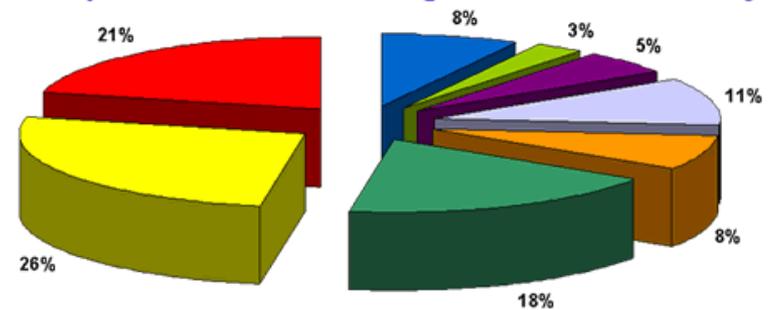
Most and least important failure factors



Most Frequent Cause of Outsourcing Failures as reported in Outsourcing Center 2004 survey



Least Frequent Cause of Outsourcing Failures as reported in Outsourcing Center 2004 survey



- Buyer's unclear expectations up front
- Poor governance
- Poor communication
- Provider's poor performance
- Buyer's multi-supplier environment
- Interests become misaligned over time
- Not mutually beneficial
- Other
- Poor cultural fit

- Buyer's unclear expectations up front
- Poor governance
- Poor communication
- Poor cultural fit
- Interests become misaligned over time
- Not mutually beneficial
- Provider's poor performance
- Buyer's multi-supplier environment

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- Requirements not clearly defined
- No common goal
- Poor governance
- No win – win
- Poor communication

- Poor cultural fit
- Client has different providers
- Provider's poor performance

Reasons for outsourcing CC

Pros of Call Center Offshore Outsourcing

1. Lower costs

Proponents of offshore outsourcing claim that it significantly reduces or eliminates the costs associated with running a call center. When call center operational, infrastructure, overhead and labor costs are significantly reduced (or being handled by an external service provider), the savings can be significant.

2. Eliminate staffing issues

External service providers typically handle all of the hiring, training, scheduling, and managing of a team of call center agents. This can save your company time, money and headache.

3. 24/7 customer service for a fraction of the price

Outsourcing call center functions often allow companies to provide 24/7 customer support at a price point that won't break the bank.

4. Easily handle overflow call volume

Outsourcing part of your call center operation to a service provider (that is only responsible for answering overflow calls during periods of high call volume) can be an invaluable solution to a costly problem.

5. Increase business continuity

When your call center provider guarantees 100% uptime, has servers located in multiple geographic locations and has staff dedicated to making sure call quality is excellent round the clock, you can be more confident with their ability to meet your customer's needs.

Reasons for outsourcing CC

Cons of Call Center Offshore Outsourcing

1. **Decreased customer satisfaction**

A recent study conducted by researchers from MIT Sloan School of Management stated that call center offshore outsourcing results in a significant decrease in service quality and customer satisfaction. This is likely due to a combination of some or all of the factors listed below.

2. **Linguistic and cultural barriers**

Agents located overseas may lack the cultural knowledge, fluency and communication skills necessary to provide excellent support.

3. **Decreased control over business functions**

When outsourcing call center operations to an external service provider, you are putting vital business functions in a stranger's hands. It may therefore be more difficult to monitor for quality assurance and put policies in place to help increase customer satisfaction.

4. **Lack of company knowledge**

Outsourced call center agents are often unfamiliar with company culture, practices and values. They therefore may not be dedicated to the company, devoted to the customer or provide a level of service that is in line with company standards and reflects the company culture.

5. **Focus of agent may be divided**

Call center agents who work for outsourcing companies often are assigned to make and receive calls for multiple clients. Therefore, their attention and time may be divided and they may never be 100% devoted to (or passionate about) your company.

Reasons for outsourcing CC

Cons of Call Center Offshore Outsourcing

6. Lack of collaboration and communication between agents and departments

Often, all of the agents who make and receive calls for a single company do not work in the same building and likely do not have the means to communicate with each other. Thus, collaboration and communication between agents and departments is limited.

7. Hidden costs

When outsourcing call center operations, there are often hidden costs that can be overlooked. Costs associated with unforeseen legal issues, hiring a lawyer who is well versed in international law, losing customers due to poor customer service and the cost of re-acquiring lost customers can all significantly impact your bottom line.

8. Security and privacy concerns

Overseas call center agents are often not subject the same background checks that US-based agents are. Thus, confidential or sensitive information may be less secure than with local agents who have undergone a strict background check.

Houston, we have a problem



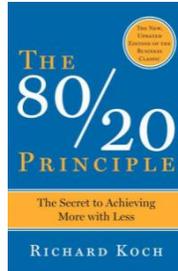
When and why do we outsource?

Individuals:

But outsourcing is not a strategy ⁽¹⁾ :

Individuals should:

1. Specialise, develop core competencies
2. Choose a niche to excel
3. Realise that knowledge is power
4. Learn from the best
5. Which 20% effort delivers 80% result?
6. Understand your market and core customers
7. Start your own company at early age
8. Recruit people producing net value
9. Outsource everything except your core competencies
10. Use the leverage of capital (= complement of sourcing)



Individuals occasionally outsource tasks:

- Baby-sitting, Crèche, Cleaning, Ironing, Gardening...
- Construction or refurbishment of a house, ...

Companies:

But sourcing often is not a strategy ⁽²⁾ :

“Organisations should focus more on core competencies for maximising company goals. **Therefore, they need to make better use of strategic sourcing.** Today issues are tackled separately. There is a need of a holistic approach”.

Research study showed that 85% of Fortune 500 sales and marketing executives were outsourcing more key marketing services. When asked why they are outsourcing more today, 90% of these companies reported that the more they outsource the more competitive they become ⁽³⁾ .

Strategic Sourcing

Realising the company's strategy and goals through a well considered choice between self-execution and outsourcing to third parties.



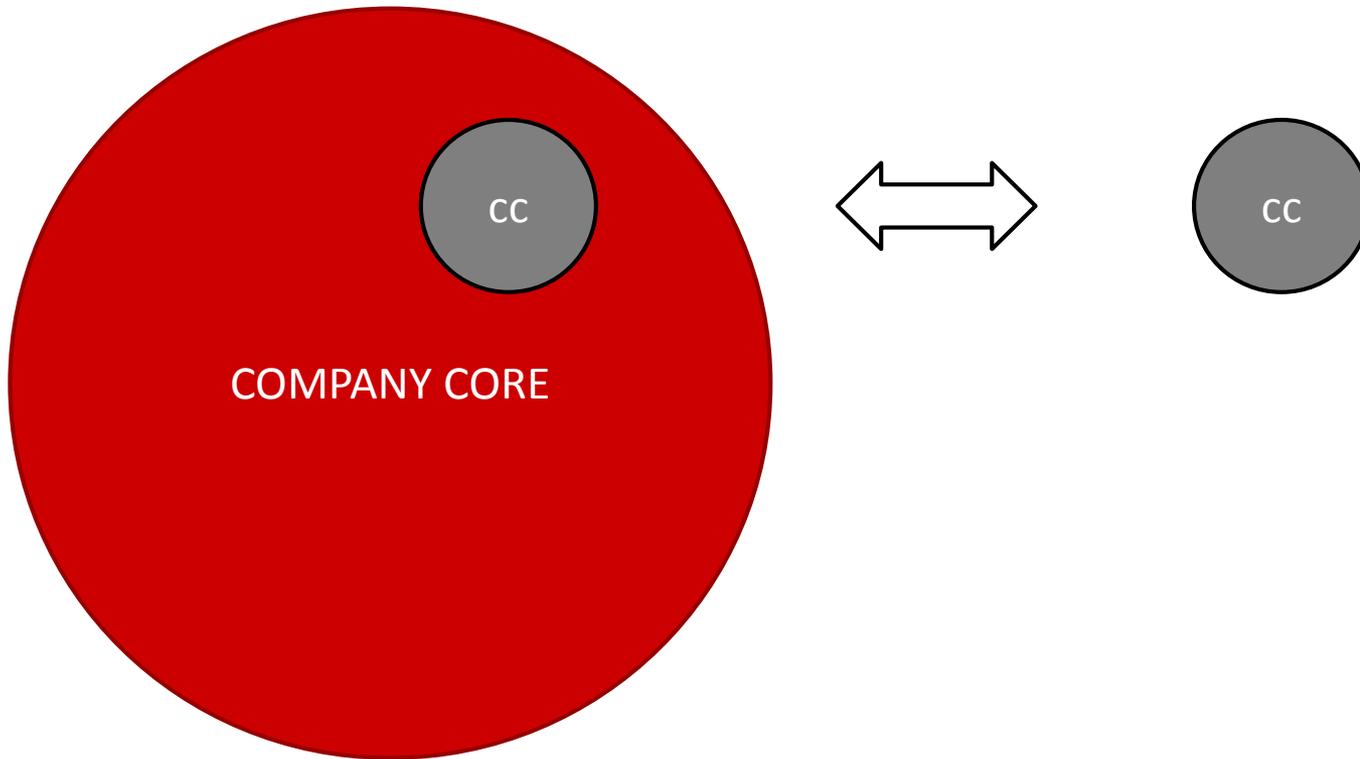
Companies outsource task, knowledge, processes:

- Mail distribution, Catering, Salary-administration...
- ICT, ...

(1) Source: The 80/20 principle: The secret of achieving More with Less, Richard Koch, (2) Source: Outsourcing strategie: een zaak voor de board, Koen Bergers

(3) Source: Business Marketing

Does the CC belong to the core?



About Microsoft's core competency

Every company has a core competency. What is Microsoft's? Bill and Steve continuously hawk "innovation" as their core competency. I'm not so sure. MS-DOS was bought from Seattle Computer. The GUI interface? Wasn't that started by PARC? Maybe they invented NT? Oops, NT started out as IBM's OS/2. Internet Explorer? Nope, much of the technology was from the Mosaic browser, licensed from Spyglass. So if they don't innovate, what do they do?

So what's Microsoft's core competency? My view of the marketplace tells me that their core competency is monopolization. Microsoft's main business strategy is the acquisition, exploitation and defense of monopoly power in various marketplaces. Now at last we can explain Microsoft's loathing for modularity. Modularity enables third parties to interact with Windows. While most normal companies would see this as a customer benefit, Microsoft sees this as a threat to their monopoly. If you can use one piece of non-Microsoft software, and if you can later use that software with somebody else's software, you can migrate to non-Microsoft software. Would people be tempted to migrate away from crash-prone, intermittent and bloated software if given the chance? Better not give them the chance. Destruction of modularity removes the migration path.

<http://havetoremember.wordpress.com/2007/10/04/microsofts-core-competency/>

How to identify?

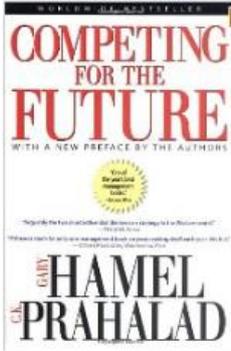


The starting point for understanding core competences is understanding that businesses need to have something that customers uniquely value if they're to make good profits.

"Me too" businesses (with nothing unique to distinguish them from their competition) are doomed to compete on price. The only thing they can do to make themselves the customer's top choice is drop price. And as other "me too" businesses do the same, profit margins become thinner and thinner. This is why there's such an emphasis on building and selling USPs (Unique Selling Proposition) in business.

If you're able to offer something uniquely good, customers will want to choose your products and will be willing to pay more for them. The question, though, is where this uniqueness comes from, and how it can be sustained.

How to identify?



Hamel and Prahalad give three tests to see whether competencies are true core competencies:

- 1. Relevance:** Firstly, the competence must give your customer something that strongly influences him or her to choose your product or service. If it does not, then it has no effect on your competitive position and is not a core competence.
- 2. Difficulty of Imitation:** Secondly, the core competence should be difficult to imitate. This allows you to provide products that are better than those of your competition. And because you're continually working to improve these skills, means that you can sustain its competitive position.
- 3. Breadth of Application:** Thirdly, it should be something that opens up a good number of potential markets. If it only opens up a few small, niche markets, then success in these markets will not be enough to sustain significant growth.

Core Competency?



Veelgestelde vragen
Heeft u een vraag? Vind uw antwoord bij de Veelgestelde Vragen.

[FAQ](#)

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Per telefoon (24/7 bereikbaar)
0800 162 64

Per fax 0800 964 81

Postadres
Nespresso Club
Rue de Birminghamstraat 221
1070 Brussel/Bruuxelles

Core Competency?



CUSTOMER SERVICE

LOCATIONS
WORLDWIDE

CUSTOMER
SERVICE

MEDIA CONTACTS

IDEAS

CHARITY AND
DONATIONS

STUDENTS

SUSTAINABILITY
MATERIALS CENTRE

Feel free to contact our dedicated team of Customer Service Advisors for any reason you might have, such as:

- Photos/building experiences you would like to share
- Ideas for new LEGO products/concepts
- Missing pieces
- Building instructions
- Praise/complaints
- Status of LEGO Shop orders
- FAQ (Frequently Asked Questions)

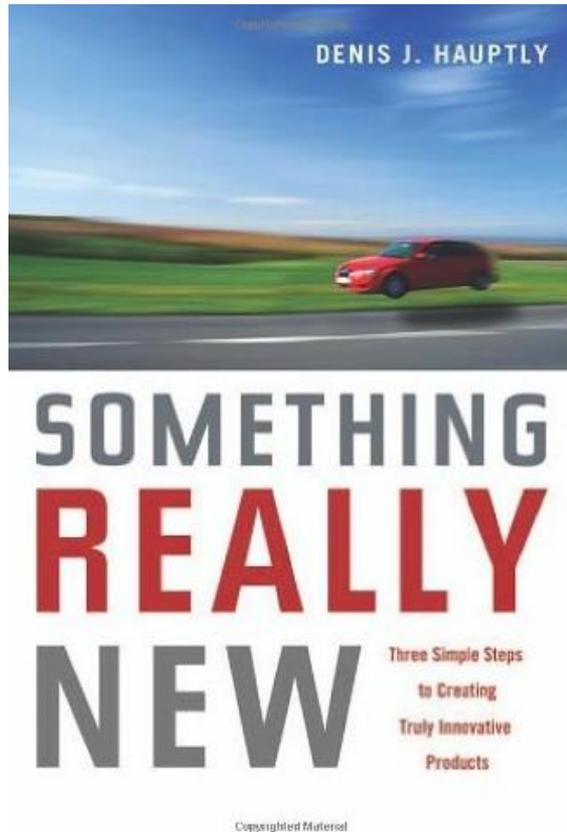
Please follow the instructions at this site: [Customer Service](#)

Checklist

Does the CC belong to the Core of the Company?

Does the Contact Centre have a USP?

Real innovation

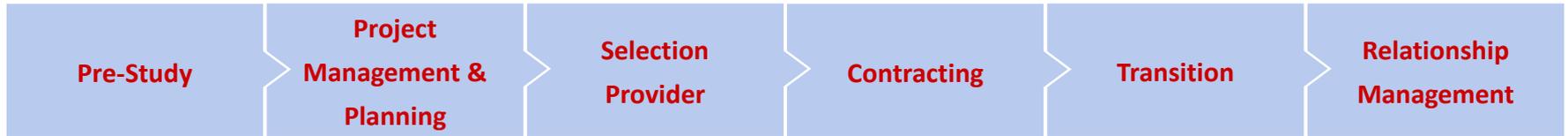


1. What practical use will the contact center provide?
2. How can we simplify the delivery of services?
3. How can the CC contribution be lifted? (After utilizing products or services, what are the next tasks that customers will want to perform?)

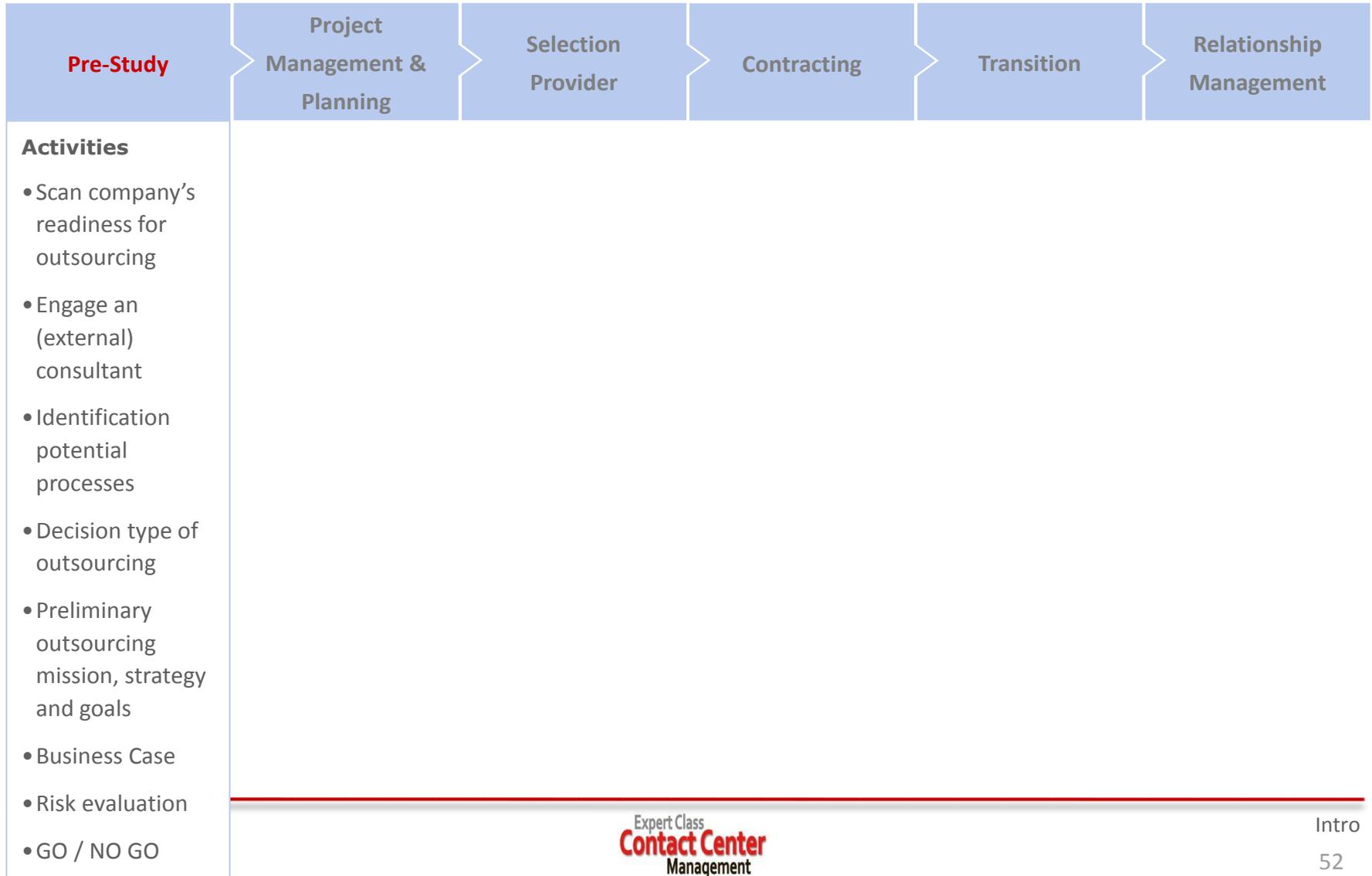
Agenda of today

- (Out)sourcing, a strategy or a tactic?
- Understanding the (out)sourcing business
- **The process path to success**
- An exercise

Outsourcing Process



Outsourcing Process



Pre study

1. Scan company's readiness for outsourcing:

Fit with the (customer) strategy of the company. Higher management (sponsors) needs to decide the outsourcing principles first.

2. Engage an (external) consultant:

Especially when experience in outsourcing is limited, companies should engage a consultant early in the process for guidance and sparring-partnership.

3. Identification potential processes:

Core-business and core-competencies must not be mixed. In principle non-core activities can be outsourced if they are not a core-competency. E.g. back-office activities.

4. Decision type of outsourcing:

In-sourcing, Co-sourcing, Facilities outsourcing, BPO,....?

5. Preliminary mission, strategy and goals:

Description in brief: What do we want to achieve?
How do we want to achieve this? What are the concrete goals?

6. Business case:

Cost-benefit analysis for all sourcing options (doing it yourself, in-sourcing, co-sourcing...) through interviews, work-place monitoring, workshops, brown-paper sessions, zero-measurement,

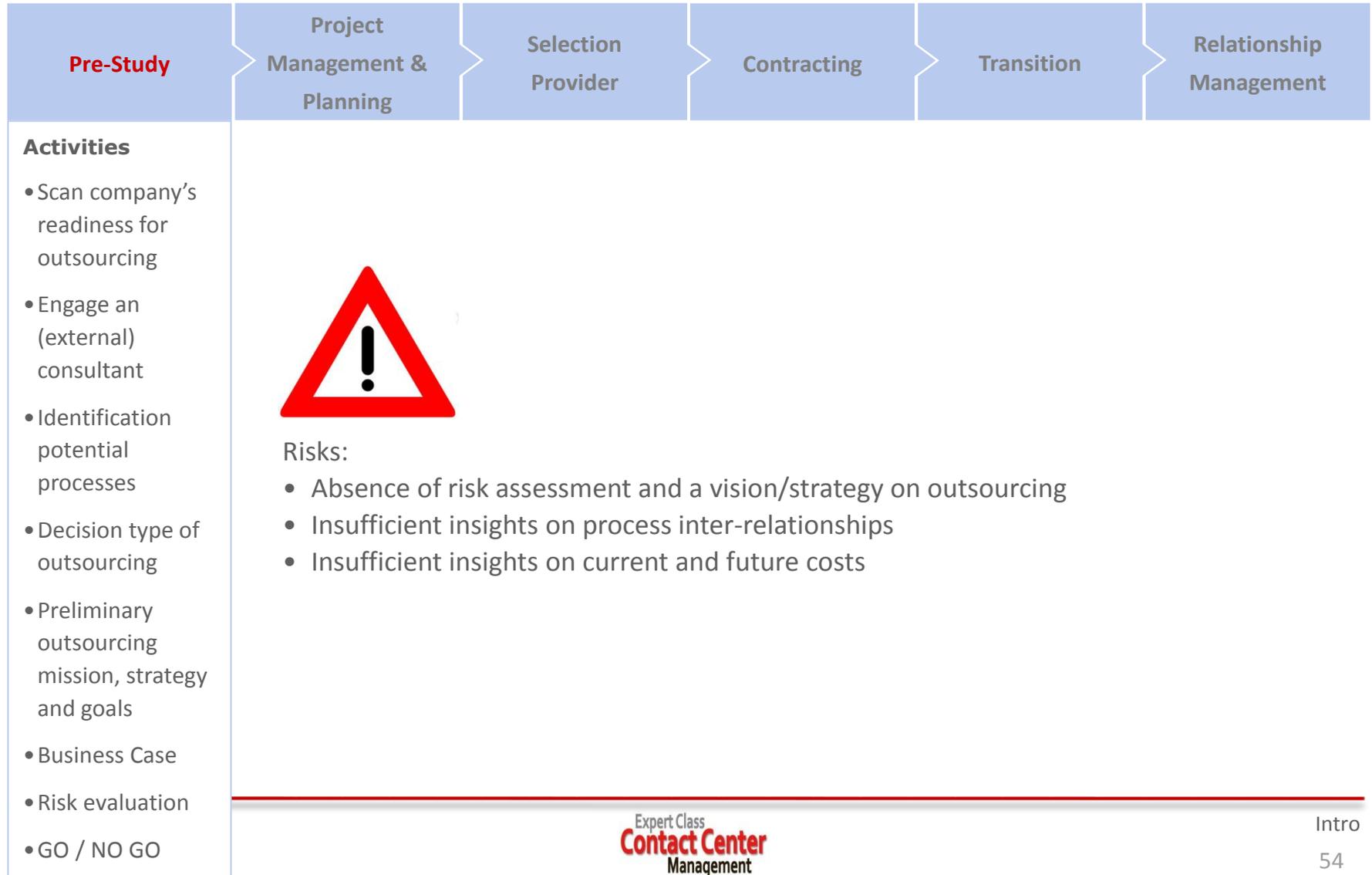
7. Risk evaluation: Reliability: quality of data, information concerning processes, ...?

8. Decision: GO / NO GO

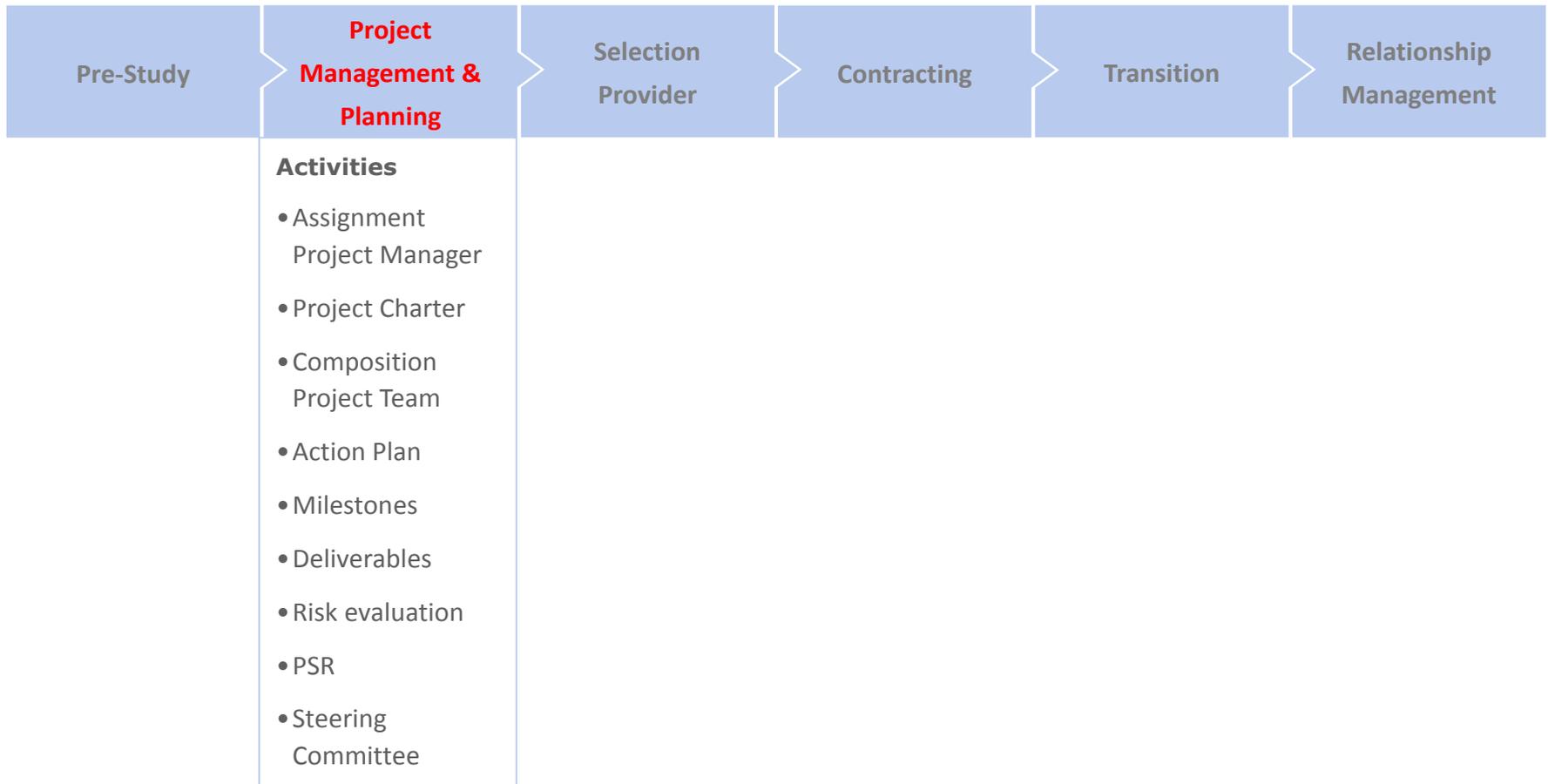
Example: Contact Centre Outsourcing

Strategy, Policy, Steering	Never outsource
Process design, innovation and re-engineering incl.	'Sharing', Preserve know-how.
Administration and execution	Outsource
Systems, Technology, Infrastructure	Outsource but preserve know-how

Outsourcing Process



Outsourcing Process



Project Management & Planning

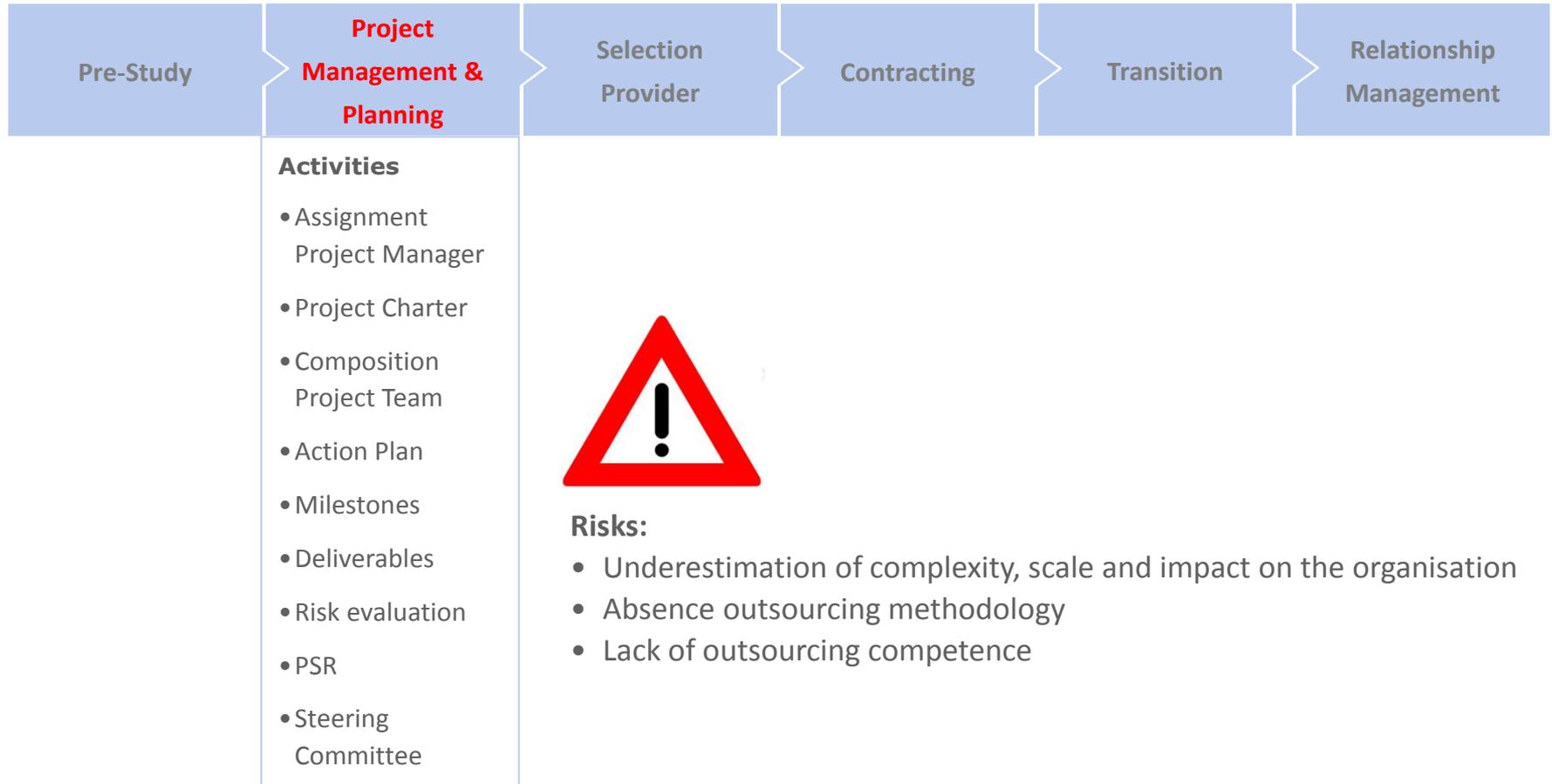
<Project name>

PROJECT JOB BUSINESS

Table of contents

1. Identification.....	3
2. Basis	3
3. Objective.....	3
4. Definition	4
4.1. Assumptions.....	4
4.2. In scope.....	4
4.3. Out of scope.....	4
5. Impact.....	5
6. Management aspects.....	5
6.1. Organization.....	5
6.1.1. Management.....	5
6.1.2. Team composition.....	6
6.1.3. Parties involved (correlations).....	6
6.2. Milestones & time.....	6
6.3. Budget	7
6.4. Information.....	7
6.4.1. Reporting and Follow-up:	7
6.4.2. Information flow.....	7
6.4.3. Amendment requests.....	7
6.4.4. Documentation management	8
6.5. Quality/Project evaluation criteria.....	8
6.6. Risk management.....	8

Outsourcing Process



Outsourcing Process



Selection Provider: RFI, RFQ, RFT, RFP

- **RFI – Request for Information**

An open enquiry that spans the market seeking broad data and understanding.

- **RFQ – Request for Quotation**

An opportunity for potential suppliers to competitively cost the final chosen solution(s) (excellent for pricing on fairly commoditised products).

- **RFT – Request for Tender**

An opportunity for potential suppliers to submit an offer to supply goods or services against a detailed tender.

- **RFP – Request for Proposal**

An RFP is a solicitation sent to potential suppliers with whom a creative relationship or partnership is being considered. RFPs are typically most valuable in large, complex, or high-impact projects. Typically, the RFP leaves all or part of the precise structure and format of the response to the discretion of the suppliers. Indeed, the creativity and innovation that suppliers choose to build into their proposals may be used to distinguish one from another.

RFPs are an extremely valuable tool to ensure that vendors deliver the exact solutions that you need. An RFP provides value in the following ways: internal alignment, more accurate proposals and comparable solutions.

The Request for Proposal Process

An effective RFP helps (1) to eliminate inferior vendors, (2) to formalize your problem and (3) to reduce project cost. There is no perfect method for selecting a vendor. However, the typical RFP process consists of the following steps:

1. **Determine Your Evaluation Criteria:**

First, determine the criteria to evaluate the provider's proposals and establish the weight each criterion will hold. Evaluations based on established criteria will help to eliminate any situational bias that may occur. Common criteria include experience, team strength, project understanding, differential advantage and price.

2. **Provider Research:**

Next, select a series of possible providers and form a long list with their contact information. Try to diversify your list in the areas of price, expertise and any other factors you feel are important.

3. **Request for Information (RFI):**

The next step (commonly forgotten), is to submit a request for information. The responses will allow to eliminate all obvious inferior providers. This simple step can save evaluation time and help to initially narrow provider search.

4. **Write the RFP and Send to Providers:**

Once you have eliminated the inferior vendors, write an RFP and send it to the remaining providers.

5. **Review the Proposals:**

After receiving the proposals, holistically evaluate each proposal based on the evaluation criteria to get the short list.

6. **Interview Vendors:**

Most important but also time-consuming is the interview. Develop a standardized interview outline. This allows you to evaluate each vendor equally and, ultimately, help you select the vendor that will best fit your project and organisation.

7. **Select Your Vendor:**

If the RFP process went smoothly, the last step of selecting a vendor should be narrowed to only a few lucky companies.

How to write an RFP?

There is no standardized or absolute format for an RFP.

An RFP should be structured in a manner that best conveys all aspects of your project to potential vendors.

Start by converting your project notes into formal sentences that are concise and descriptive. This will allow you to clearly outline your project to the potential vendors.

The most important elements of the RFP are the requirements sections. Be as descriptive and detailed as possible in these sections. The requirements portion of the RFP contains most of the information that will determine the estimated cost of your project and should be well thought out by all stakeholders in your project. RFPs that have vague requirements often result in wasted interview time and high cost estimates to compensate for the unknown.

Specify the desired results in terms of output
= Key Performance Indicators (KPI's).
Define for each KPI the required Service Level
= Service Level Agreement (SLA)

Project Title

Company Background

[Insert a concise paragraph outlining your company's background. Four to five sentences is a typical length for a small or medium-sized company.]

Project Description

[Insert a summary of your project, including the problem/opportunity, goals/objectives and any information that will help the vendors understand the need for the project. Be sure not to outline specific requirements in this section. A small project may consist of eight to 10 sentences while a larger project could be several pages in length.]

Design Requirements

[Insert an outline of any requirements that pertain to the design of the project. This could vary depending on the type of project. For example, a website or marketing-related project may include information regarding branding standards or a style guide, whereas an IT project may include information pertaining to how the project deliverable will operate. Length varies widely based on the type of project.]

Technical and Infrastructure Requirements

[Insert any technical or infrastructure-related requirements, such as a server or database configuration. Length varies depending on the type of project.]

Functional Requirements

[Insert an outline of all the functionality you would like your project to have and include a short description. For example, an e-commerce project may include a catalog, shopping cart, order history and a related products page. Length varies widely based on the type of project.]

Estimated Project Duration

[Insert the estimated duration of the project or the required completion date.]

Assumptions and Agreements

[Insert a list of any assumptions or agreements the vendors must meet. For example, you may want to indicate that bids cannot exceed a certain amount, that the proposals will not be returned or that you reserve the right to dismiss any proposal for any reason. Length varies depending on the type of project.]

Submission Information

[Insert the deadline for submission and the mailing and/or e-mail address]

For Additional Information or Clarification

[Insert a list of contacts who will be available to clarify any questions regarding the RFP. It is not uncommon to have separate contacts for specific disciplines; for example, one contact for technical questions and another for marketing questions.]

Basis for Award of Contract

[Insert a short paragraph or list that outlines your evaluation criteria. It is not uncommon to list the weight that each criterion holds in relation to the others.]

Anticipated Selection Schedule

[Insert the schedule for your selection process.]

Key decision criteria to choose a provider

1. **Commitment and quality**
2. **Price**
3. References / reputation
4. Flexible contract conditions
5. Scope of resources
6. Additional added value opportunities
7. Culture match
8. Existing relationship
9. Location
10. Other

Costs/price should count for not more or less than 30%

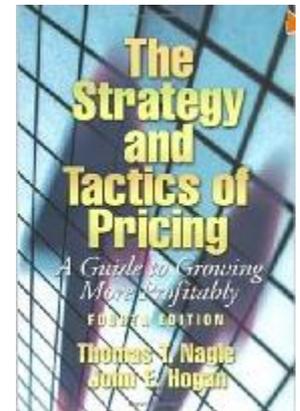
Decision Rules:

1. Identify the most competent providers from a technical point-of-view first.
2. Next evaluate costs / price.

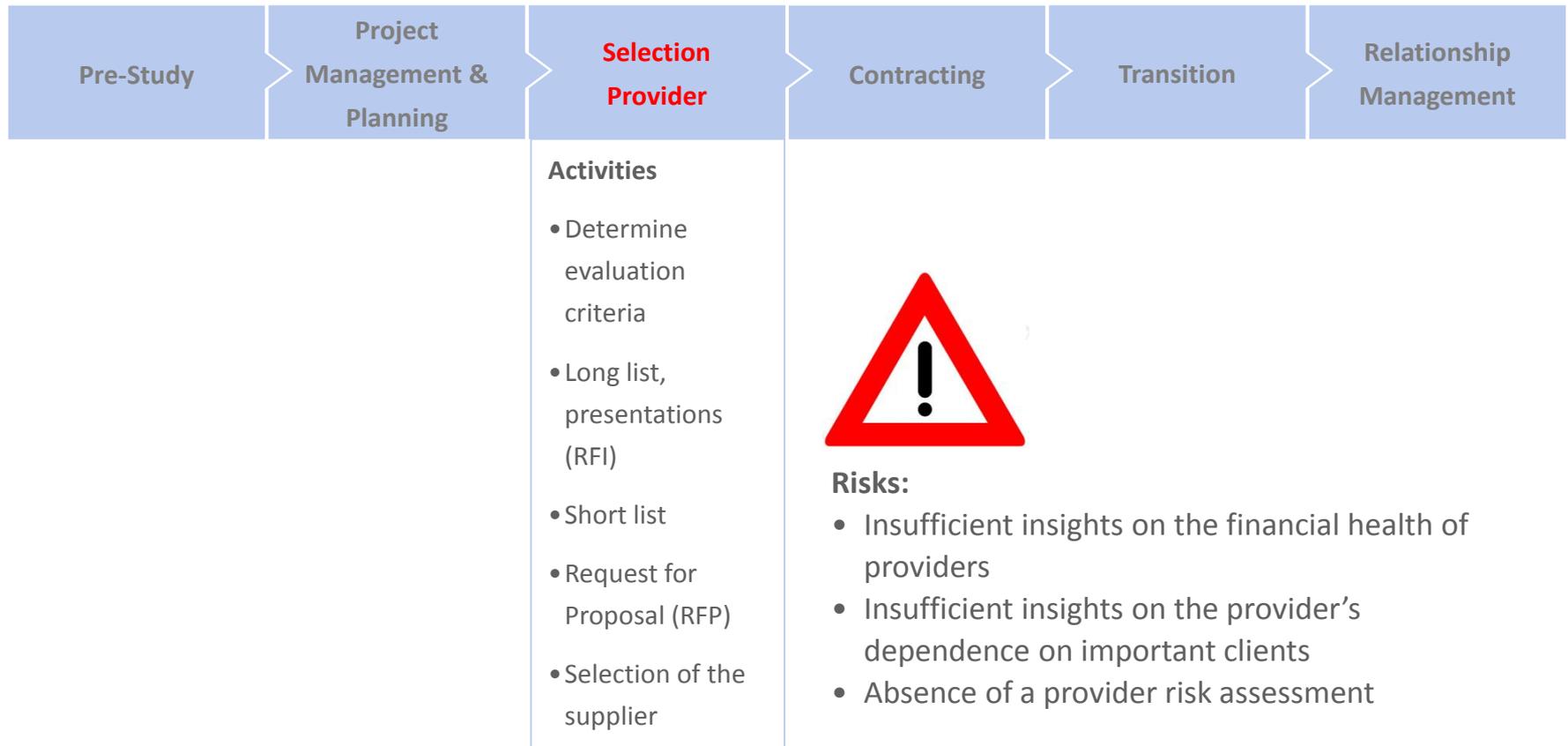
Price models:

- Fixed costs per month: estimated budget by the outsourcer
- Fixed or variable cost based on the needed capacity (agents and working-hours)
- Fixed cost based on the number of seats needed to execute the job.
- Variable cost per call minute performed.
- Fixed or variable cost per box: the better the box, the less calls achieved.

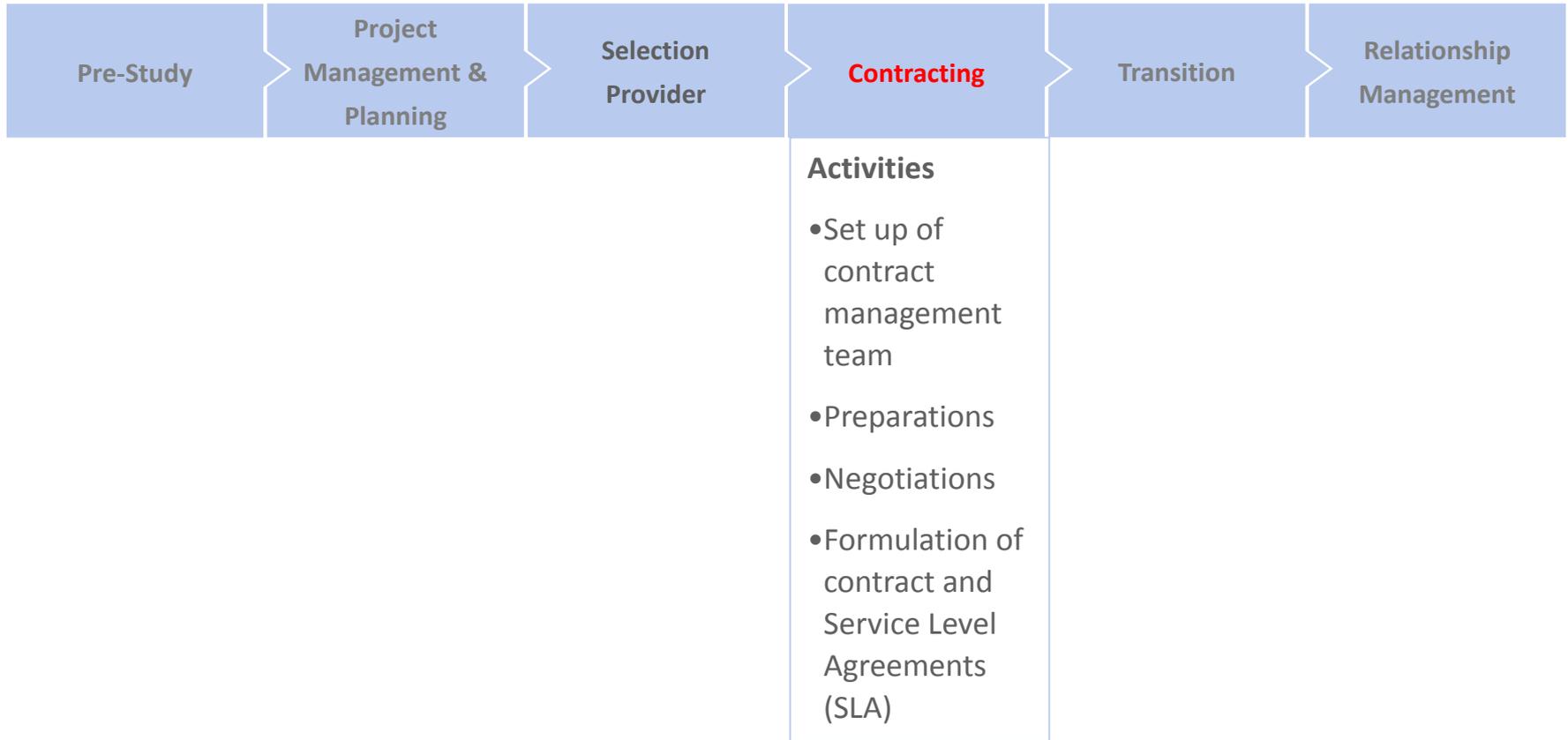
The Strategy and Tactics of Pricing: A Guide to Growing More Profitably



Outsourcing Process



Outsourcing Process



Outsourcing Contract

According to legal scholar Sir John William Salmond, a contract is

"an agreement creating and defining the obligations between two or more parties" (1).

The content of an outsourcing contract is very important. Once an outsourcing contract is in place, the clauses of this agreement will guide outsourcer's every move, and may act to free to do business or feel like a straitjacket.

Therefore contracts must be developed and negotiated by a competent team involving legal experts.

Outsourcing Contract

The major parts of the contract are:

- **Scope of the work:**

Very important part of the contract because it describes what the outsourcer will do. It comprises next to obvious service and/or sales aspects also equipment to procure and/or maintain, software to procure and/or maintain, telecommunications circuits, data backup, work plan (what will be accomplished by who and when). To avoid disagreement when the contract is in force clear and extensive description of the scope is a must.

- **Services and Deliverables:**

Services and deliverables are specific things that will be put in place, delivered, and turned over to the client in as much detail as possible (such as data, documentation, completed equipment, working systems, etc).

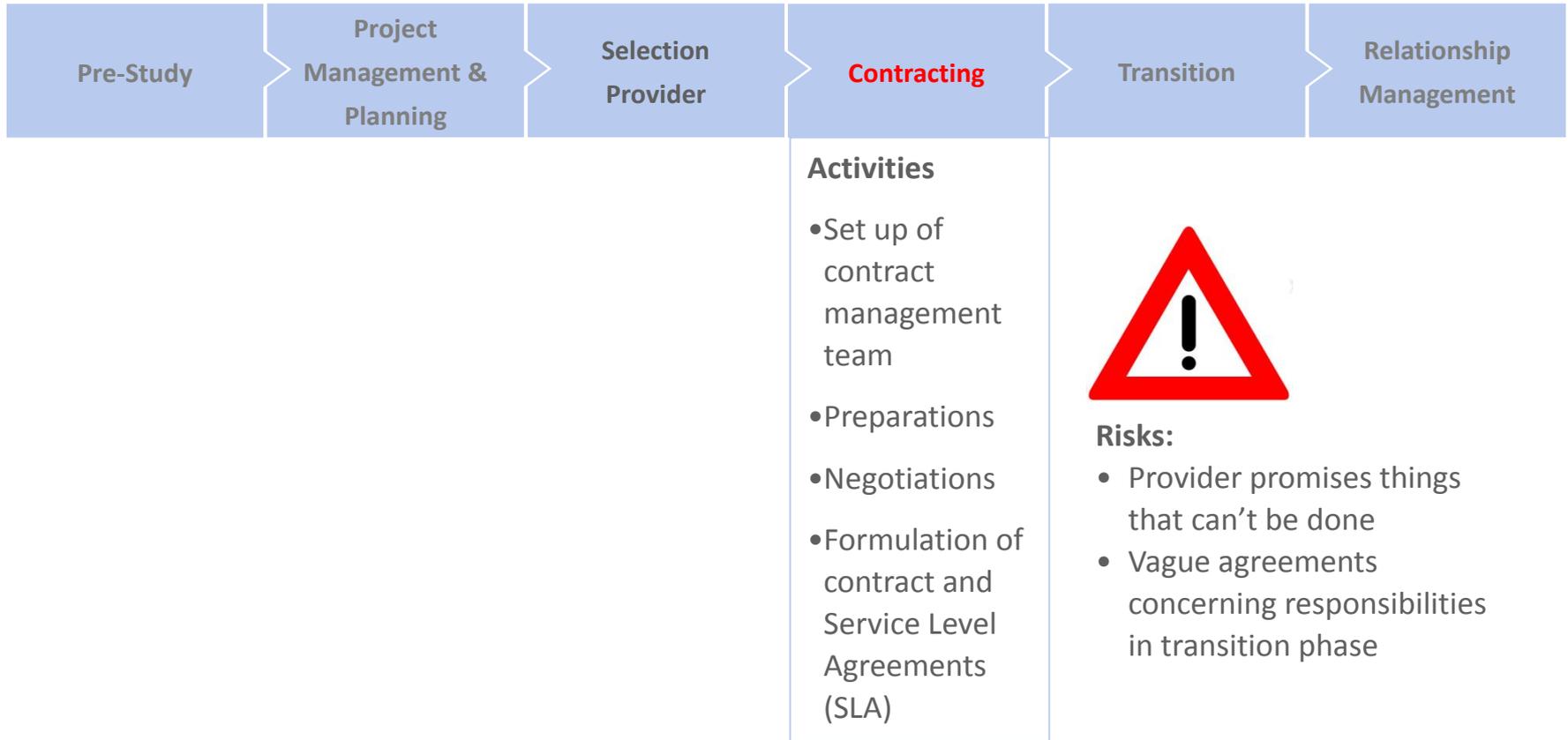
- **Terms and conditions:**

Bulkiest part of the contract, covering issues such as ownership of data, responsibilities, reviews (types and frequency), escalation procedures, benchmarking agreement, transition plan (pilot), financial arrangements (bonuses, ...), dispute regulations,

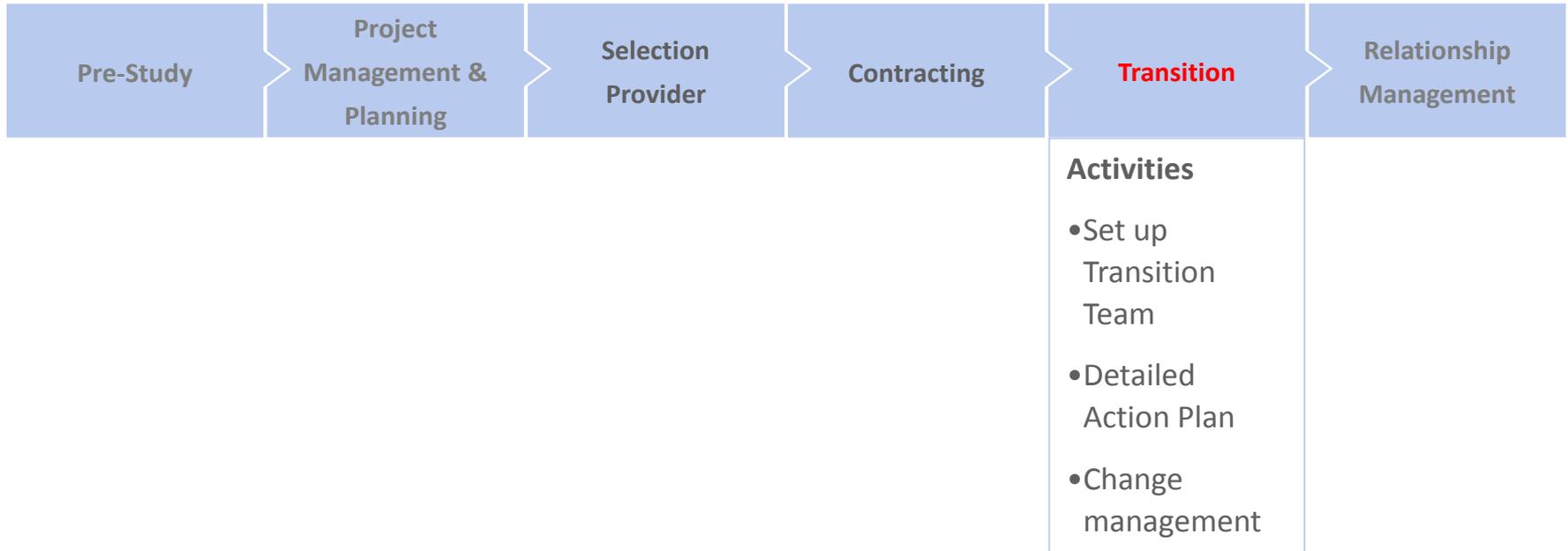
- **Service Level Agreement:**

The Service Level Agreement, or SLA, lists the services which will be supplied on a regular basis, and includes volumes, response times, and quantitative/qualitative descriptions of these. This may be tied in with payment terms (i.e., more payment for heavier processing loads, more help desk calls, volume of training provided, more data transferred, more transactions processed, more equipment installed, greater user satisfaction as measured by survey, etc., - and conversely, less for less). The SLA should emphasize measurable items so you can see in objective terms whether you are receiving what you have paid for.

Outsourcing Process



Outsourcing Process



The Translation

The relationship manager and provider account manager must develop **a transition plan to smoothly move the factors of production to the provider**. Up to this point, both parties have been negotiating. Now they should collaborate to execute a single transition plan.

The parties should have the full cooperation and involvement of **the human resources function, or an outsource adviser**, in counselling the employees directly affected by outsourcing. Most large providers have a human resources function that will contribute to the transition as well. Together, they should also be responsible for implementing tightened security where it is needed to protect those employees and the organization's other valuable assets.

The Translation

The list of potential transition issues is endless. As the relationship manager and the account manager combine their transition plans, they should try to identify issues that may have been missed. They ask questions such as:

- How and when will the employees (directly affected and unaffected) by the outsourcing initiative be advised?
- What will be offered to each of the employees who:
 - Will be asked to remain with the organization in another capacity?
 - Will be asked to move to the provider?
 - May be asked to move to the provider?
 - Will be terminated?
- How will the offers be presented?
- How and when will the employees, who will move to the provider, do so (for example, in a staged transition or one-time transition)?
- How and when will the other (non-employee) factors of production be moved to the provider?
- What flexibility are we building into our plan?
- What alternative plans should be considered?
- How will we know if the transition is being implemented poorly?
- Do we have a contingency plan in case unforeseen problems arise?
- How does the organization respond to failure, real or perceived?
- Must the internal unit be transferred in one coordinated movement or stagger the transition over several phases?
A variation of the staggered approach is for the provider to be asked to run a test, or run in parallel for some period of time. Delays can kill outsourcing initiatives, and speed is important, so a single implementation is preferred.
- ...

Change Management

These are techniques for creating change in any organization:

Boiling the frog: Incremental changes may well not be noticed.

Burning bridges: Ensure there is no way back.

Burning platform: Expose or create a crisis to get things going.

Challenge: Inspire them to achieve remarkable things.

Coaching: Psychological support for executives.

Command: Tell them what to do.

Destabilizing: Shake people of their comfort zone.

Evidence for change: Cold, hard data to show need for change.

Evidence stream: Show them time and again that the change is happening.

Education: Learn them to change.

Facilitation: Use a facilitator to guide team meetings.

First steps: Make it easy to get going.

Golden handcuffs: Keep key people with delayed rewards.

Institutionalization: Building change into the formal systems and structures.

Involvement: Give them an important role.

Management by Objectives (MBO): Tell people what to do, but not how.

Management causality mapping: Helping a team see its own role.

Open Space: People talking about what interests them.

Rationalization trap: Get them into action first.

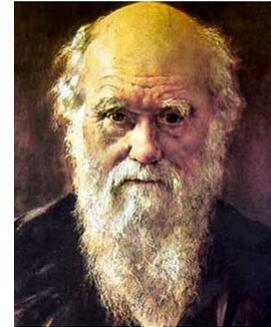
Re-education: Train the people you have in new knowledge/skills.

Restructuring: Redesign the organization to force behavior change.

Reward alignment: Align rewards with desired behaviors.

Rites of passage: Use formal rituals to confirm change.

Setting goals: Give them a formal objective.



Charles Darwin:

“It’s not the strongest pieces that survives nor the most intelligent, but the ones most responsive to change.”

Shift-and-sync: Change a bit then pause to restabilize.

Socializing: Build it into the social fabric.

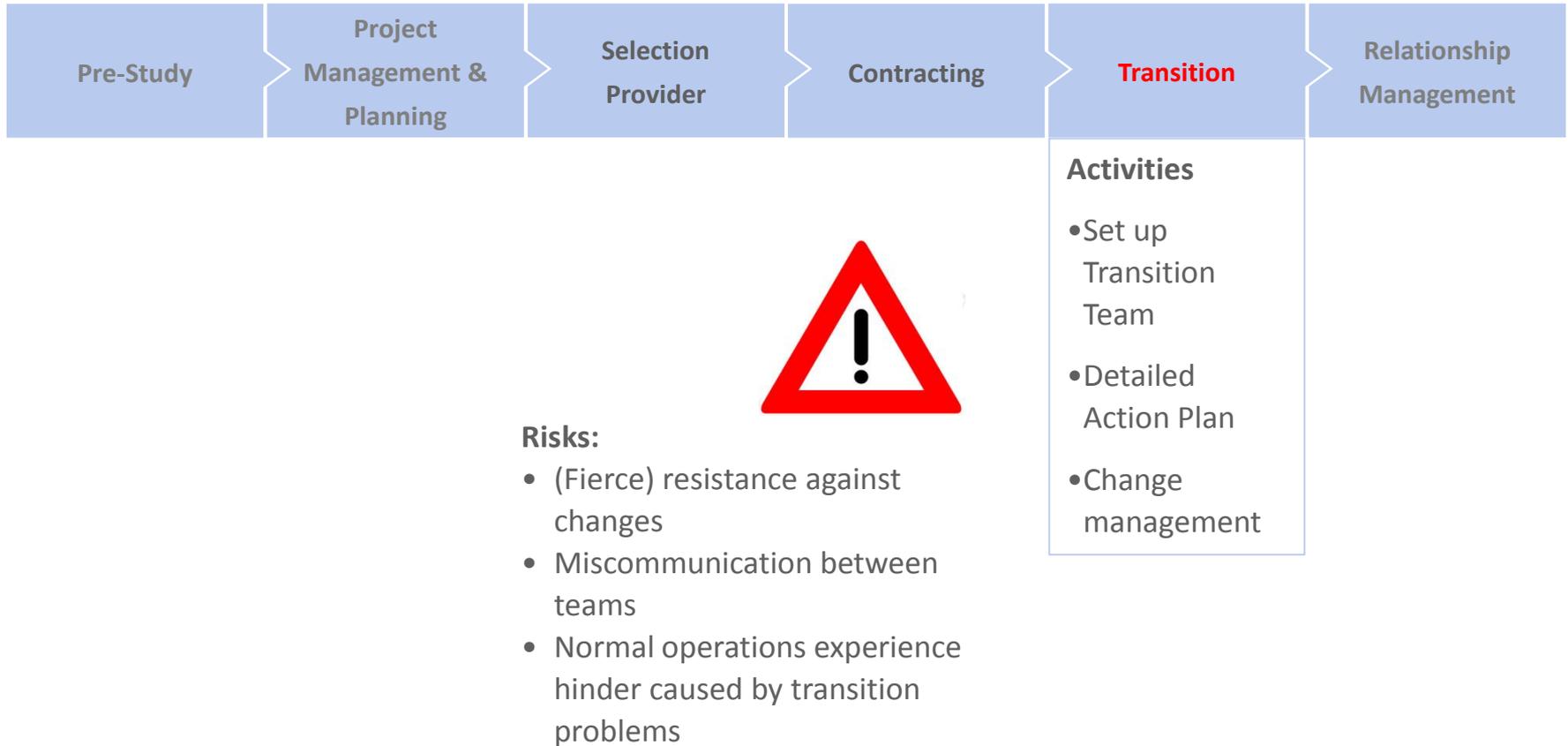
Spill-and-fill: Incremental movement to a new organization.

Stepwise change: Breaking things down into smaller packages.

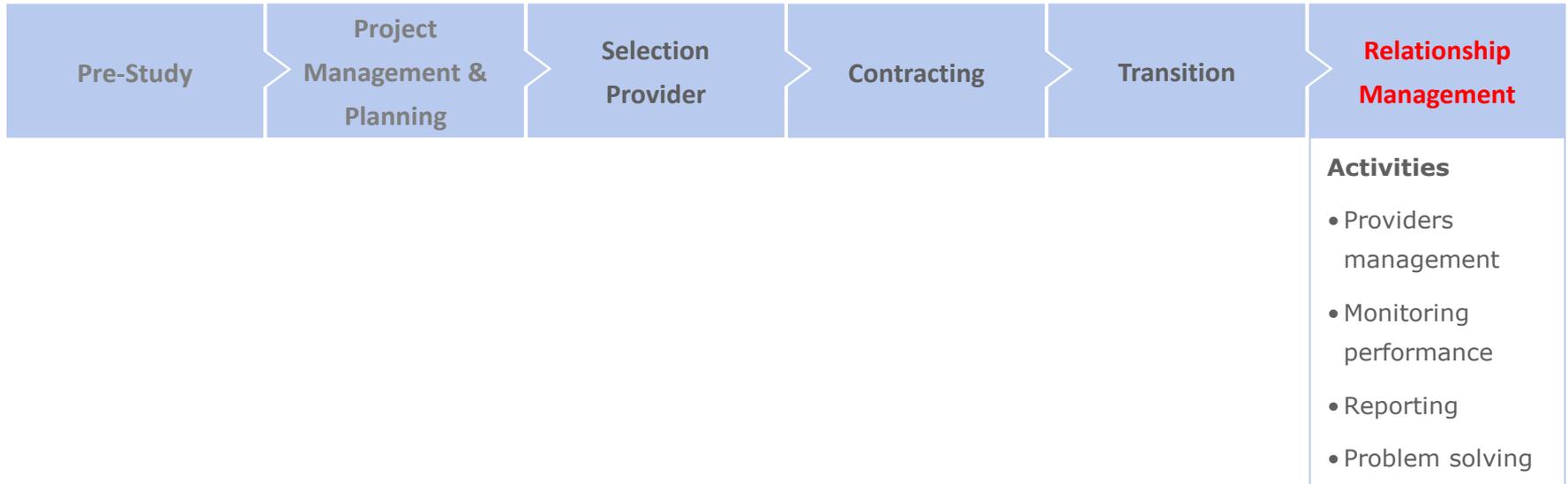
Visioning: Create a motivating view of the future.

Whole-system Planning: Everyone planning together.

Outsourcing Process



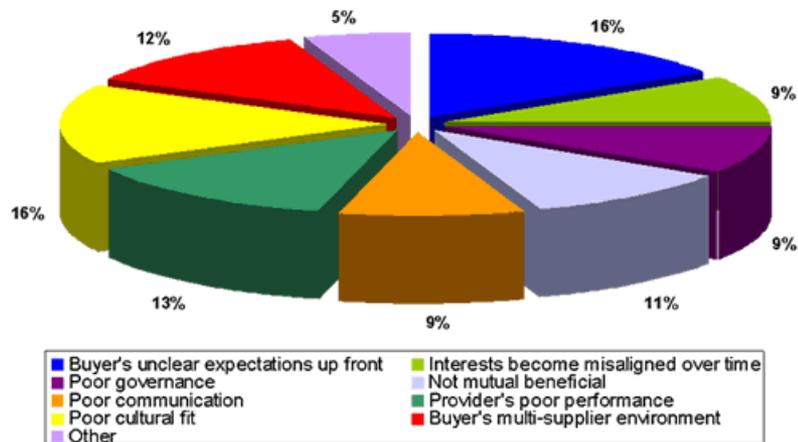
Outsourcing Process



Relationship Management

Ideally, the provider and customer become close partners co-operating on continuous improvements. If this is less the case, the outsourcer must closely manage the relationship with the provider to guaranty the cost effectiveness and quality of the external processes.

Most Frequent Cause of Relationship Failures
(Survey Composite Responses)
as reported in Outsourcing Center 2004 survey



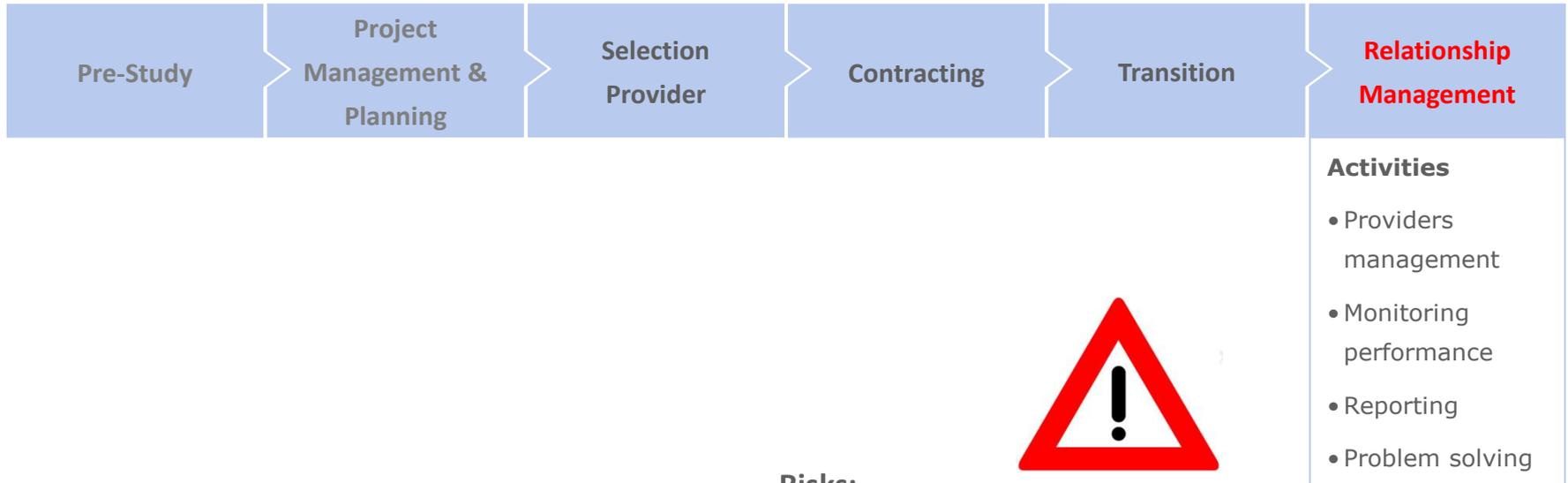
Conclusion:

All nine causes have an almost equal level of support among respondents = reasons of failure are not always clear.

Due to poorly defined conditions?

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Outsourcing Process



Risks:

- Impossible to measure KPI's correctly
- Misunderstandings concerning SLA's
- Ineffective provider management: poorly set tasks and responsibilities.

Outsourcing Process Problems

Problem	Mentioned
Time	44 %
Expertise	44 %
Budget	33 %
Band width	20 %
Access to service providers	15 %

Worst practices:

- Not knowing your own service-levels as a company.
- Presenting a weak business-case (underestimation of own costs, not recognising potential advantages).
- Serious under-investment in resources needed to monitor and manage the execution of the contract.
- Deciding without a competitive play (you play to much for solutions that are not always the best).
- Not making use of independent advisors (causes expensive mistakes).
- Providers considering they 'own' the customer for the duration of the contract not needing to invest
- Providers playing on price, hoping to 'recover' profit by charging extra activities that were promised for free.
- Both providers an customers not putting their best people on the job.

Agenda of today

- (Out)sourcing, a strategy or a tactic?
- Understanding the (out)sourcing business
- The process path to success
- **An exercise**

Case Time:

To outsource or not to outsource?



Board Discussion



Team Cheap



Team Luxury



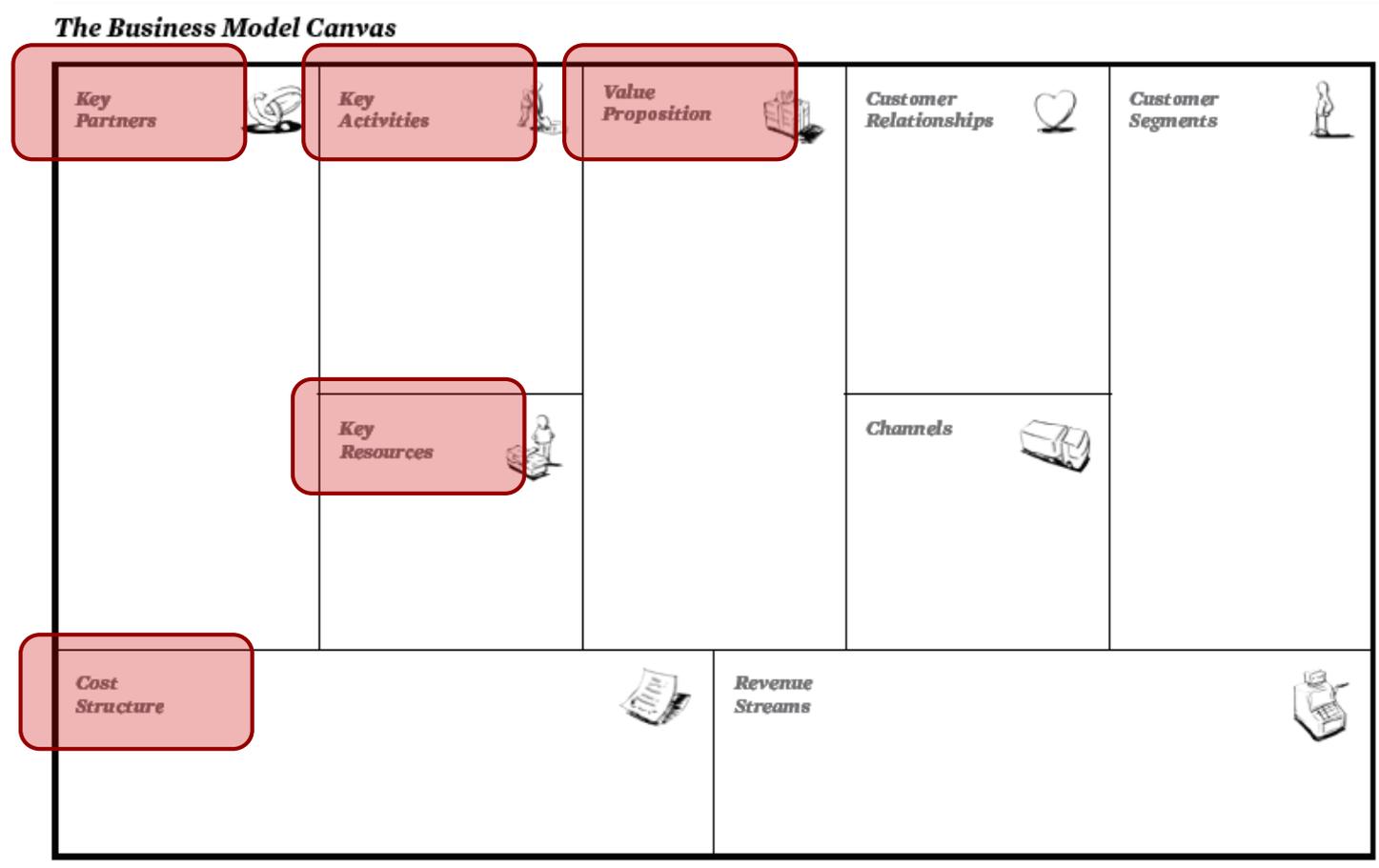
Q:

1. To outsource or not to outsource?
2. Partial? What? With whom?
3. Arguments? (Extensive reasoning using BMC (USP) / SWOT / story telling / ...)

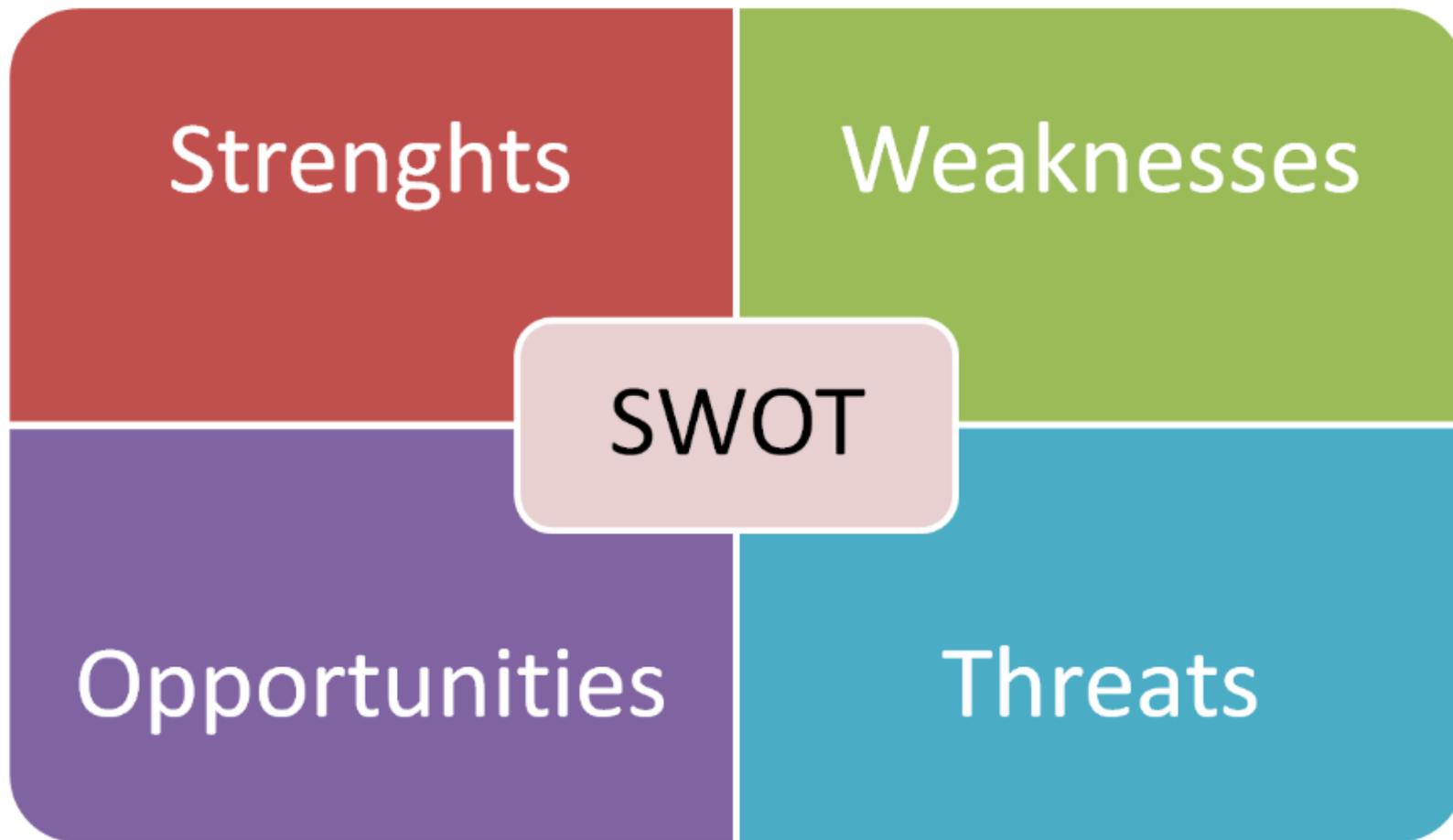


Counter attacking

Business Model Canvas



SWOT



Outsourcing / Insourcing Call Centre

Advantages

Disadvantages

Outsourced

In-house

Outsourcing / Insourcing Call Centre

Advantages

Disadvantages

Outsourced

1. Cost and time-saving in hiring and training staff
2. No need to invest in high end infrastructure and technology
3. Well trained work-force to handle customers
4. Easy to scale up and down

1. Risking brand identity
2. Gaps and challenges in passing along new technical and product information

In-house

1. Proper communication of brand
2. Vital insights from the customer conversations
3. Integration in the call centre with organisation's resources

1. Lots of investments in terms of money and time to setup technology, hiring and training of workforce
2. Managing attrition and morale boosting will be resource intensive
3. Not easy to upscale and downscale