

# GOT OUTSOURCING?



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# GOT OUTSOURCING?

**Outsourcing** ...just the “word” conjures up several different meanings and emotions. With companies of all sizes moving their manufacturing, software development and business processes to **Outsourcing** Providers in far lands; this topic has become “the defining issue” of our time.

There are several things that have become very apparent over the last decade:

- **Outsourcing** has gone Mainstream
- **Outsourcing** changes Everything
- **Outsourcing** is Not for Everyone
- He who *Outsources* Best...Wins

So is **Outsourcing** a “Miracle Cure” or a “Fatal Disease” for your company? That appears to be the Sixty-Four Thousand dollar question of our time.

Why do companies choose to Outsource? Let’s take a look at the reasons...

## Cost Reduction...period.

It all evolves around cost reduction in some form or fashion. Every company in today’s hyper-competitive environment is constantly challenged to do everything bigger, better, faster....and always “cheaper.” Some companies explain that there are other reasons behind **Outsourcing** ...“increase capacity” ...“access to advanced technology” ...“allow them to focus on their “core values” ...but; it always seems to come back around to Cost Reduction.

In the world of **Outsourcing**, there are some basic principles that will occur in every single project. These principles must be followed, or the chances of a successful project will be greatly diminished. With an apology to religion, we will call these principles and rules the *Ten Commandments of Outsourcing*.

1. **Outsourcing is not for everyone**...While it seems as if all companies are doing it and constantly talking about it...the reality of the situation is that **Outsourcing** is “not for every company.”
2. **Outsourcing changes everything!!!** Different resources are required. Different skill-sets for your people are required...new training must take place. Different Communication methods are required...it is not your normal business relationship. Different software tools are required for you to properly manage the project. Different legal contracts and operational documents are required....Everything will an does Change...you need to get ready and be prepared.
3. **The majority of all Outsourcing Projects FAIL before they get started.** This is due to the fact that most companies practice STUPID OUTSOURCING. They have no strategy or plan...they Pick the Wrong Supplier...they fail to do their homework first...and they have little or no knowledge of their own costs.

4. If you are *Outsourcing* “simply” to cut costs...you will fail.
5. *Outsourcing* is both a “strategic” and a “tactical decision...companies should not take this decision lightly. They must take their time in a careful decision making process that address all factors.
6. *The Prime Directive of Outsourcing is to Choose the Right Supplier...not simply the lowest cost...(enough said...)*

#### 7. It's the Costs Stupid...

- a. Understanding costs is a key, before you start...and after you start.
  - b. It costs money to *outsource*...you must invest up front to save money later.
  - c. Suppliers are masters at hiding costs and confusing their customers...hence the term “shell game” applies to *Outsourcing*.
  - d. HIDDEN COSTS will kill your project
  - e. QUOTES are worthless...use RFPs (Request for Proposals) instead
  - f. The “*Low Cost*” region of today is getting *more expensive* every day that goes by. Remember Japan in the 70s...Mexico in the 80s...now everyone goes to China or India...Vietnam... What region is next?
8. *You can not outsource from your Desk*...(or your cubicle...or your big office with a window)...You need to travel...hire local people speaking local languages to manage your projects...you need “feet on the street” ...nothing takes the place of meeting and managing your suppliers face-to-face.
  9. *The flaw of Outsourcing is in the Practice...not the idea.* Every company makes mistakes when they outsource...some mistakes can be fatal...make sure you know what you are doing...be prepared...get experts to help...this is not for the faint of heart...
  10. *He who Outsources Best Wins.* There are many successful companies today who have a business model heavily built on *Outsourcing*. It can be extremely successful...there are risks everywhere you turn...you must know what you are doing.

While there continues to be a political discussion about the pros and cons of *Outsourcing*, the internal debate among companies continues to rage about the important question....Do Companies really

Save Money when *Outsourcing*? While there are vigorous arguments on both sides of this question, there are several truths that need to be examined. First, the “stage” of the *Outsourcing* project will determine the type and amount of savings you are receiving. Typically, the longer you *outsource* a product or business process, the more you will save. Secondly, by looking at the total cost of your *outsourcing* projects, you will be able to better monitor and track your savings progress. One of the typical “gotchas” that always pops up is the fact that most companies are unaware of the “Hidden Costs” of *Outsourcing*.

Hidden Costs typically revolve around the following categories:

- Travel – all of the travel costs...don’t forget all of the “emergency” trips that arise...and the endless management reviews that happen. (It’s interesting, but true, that a lot of unexpected travel for the management teams occur around the Christmas Holidays...when the executives love to visit suppliers (especially in the Far East) for official business trips...that allow them to also take care of their personal holiday shopping duties.)
- Communication or the lack thereof. Differences in language and culture are the biggest issue here...but don’t forget to look at the cost of differences in time zones resulting in endless late night phone calls and meetings.
- Transfer of Knowledge...which include your people, process, and intellectual property. Be careful of losing control over the important stuff...what’s the cost to losing something private and crucial to your firm?
- Quality issues and the cost of resolution. This is always a major concern regardless whether it is a product or service you are *outsourcing*. Companies can not afford to suffer quality problems simply due to *outsourcing*.

**So *Outsourcing* is not Rocket Science...but most companies screw it up.**

What is the Secret Sauce to *Outsourcing*? What can your company do to succeed? Should you avoid *Outsourcing* all together or simply jump in the game with all the rest of your competitors?

It is not a Magic Cure for business today.

It is not a “One size fits all” technique for business today.

I have seen many companies who have successfully *outsourced* and enjoyed major financial wins.

On the other hand, the field is littered with companies who have made mistakes during *Outsourcing*...resulting in disastrous results.

You will need to choose wisely...get prepared...get expert help before you start.

Good luck.

Author’s note

*While I choose to leave the complex political discussion of Outsourcing to the television pundits...I continue to believe in Outsourcing, when done properly and only in the right situation.*

*You will need to judge for yourself.*

*If you wish to get any additional information on this (or other) topic related to Outsourcing, please visit our website at <http://www.bootongroup.com>*

*Bob Booton's latest book entitled "Outsourcing-in-a-Box" is available for purchase at either Amazon or our website.*