

A question of outsourcing: answers from the top...

ROUNDTABLE Here four top executives in the international outsourcing industry take part in an expert panel Q&A session. **Peter Archer** poses the questions

What are the main benefits of outsourcing?

Tony Morgan: Access to scarce skills, expertise and the latest technology, cost reduction, turning capital

expenditure into operating expenditure, and the opportunity to concentrate resources on core business.

Paul Pindar: Outsourcing provides contractual certainty of cost savings and service standards, and can free up resources to the benefit of customers and citizens. It opens up opportunities and advantages to organisations of all sizes. It provides access to additional expertise and to the benefits of increased scale, such as shared infrastructure and more competitive procurement. One of the key benefits is the access to state-of-the-art systems without having

offerings – and find a trusted technology partner to support them.

Ian Cherry: Outsourcing offers businesses something rare: the potential to improve outputs, such as customer satisfaction, collections or sales at the same time as cutting costs. Outputs are improved by engaging experts. Clients benefit from an outsourcer's experience and knowledge, usually gathered from a broad client-base and a range of industries. Outsourcers operate at a scale where they employ some of the best people and latest practices across a range of specialist areas. They also focus on driving cost efficiencies by getting the most out of their resources and the people they employ. Ultimately, outsourcing can offer a fast track to delivering an organisation's strategic objectives, be it growth, downsizing, improved customer satisfaction or cost cutting and allows the client to focus on their core business.

What makes a successful outsourcing business?

Dmitry Loschinin: The two pillars of collaboration and transparency must be strong and evident to support any outsourcing partnership. Collaboration means working together to solve problems and avoid others, but it goes much deeper than a simple transactional arrangement. For the client, it means they are free to focus on building their business while the outsource provider handles the technological heavy lifting.

Transparency means gaining insight into the performance, risks and issues experienced by the whole collaborative team, but transparency goes far beyond service level agreements (SLAs).

Tony Morgan: A successful IT outsourcing business is one that can combine the knowledge and experience of IT with equal knowledge and experience of the industry that the client is in. Successful outsourcing is about understanding where the client wants to go with their business, as well as with their technology. When this happens, a partnership between

TONY MORGAN
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to invest in or maintain them. It is also a low-risk alternative that allows an organisation to concentrate on its core competencies. And the outsourcing model can provide reduction of fixed costs, investment avoidance, effective customer-relationship management, and access to consistent and compliant advice.

Dmitry Loschinin: Once upon a time, the answer for this question was cost savings based on labour arbitrage, but today that response would be superficial and incomplete. The key phrase to consider is organisations must focus on core competencies to excel in the marketplace. Most non-software vendor organisations don't make money on in-house software development. It is not what they do to differentiate themselves and it is also not what they do best. They should focus on differentiating themselves in their business marketplace – that is best customer focus, best product or service, or lowest cost

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Outsourcing choices should be based on more than cost savings

supplier and client can develop in which the combined team builds a road map to help get the client's business to where they want to go.

Ian Cherry: Outsourcers have to be experts in their field and deliver on the promises they make to clients. To be successful, the business needs to be passionate about its area of expertise. For Ventura, that means being passionate about delivering a great customer experience. Additionally, it is important to have strong relationships with clients, and not just when things are going well. Ultimately the people who work for the business determine its success. Ensuring the right people are employed, they are well trained and engaged is critical.

Paul Pindar: The outsourcing model has evolved and expert external providers are being used to oversee more complex, value-added and sensitive services. So the outsourcing company must work in close partnership with the client, understanding fully its challenges, objectives and culture, as well as the desired outcomes. A successful outsourcing business will have scale and financial stability, as well as a good track record of service delivery. A good outsourcing business knows that outsourcing is a

continuous, not a one-off, process. It involves setting objectives and ensuring that they're met.

How does outsourcing impact on staff?

Ian Cherry: At the point of transfer, it is a difficult time for existing staff and that needs to be handled sensitively. When an employee is transferred, their rights are protected under TUPE (Transfer of Undertakings and Protection of Employment) legislation. We work hard to communicate well during the process and see it as an opportunity to transfer new people to Ventura. Our employees feel close to the client which is supported by branding, training, communication as well as extending good staff offers from the clients' business.

Paul Pindar: The cynical view of outsourcing is that it's just a good excuse to make people redundant or the easy way out when it comes to cost-cutting. Well if that is the premise of an outsourcing contract it is doomed to failure. In reality, though, the motivation to outsource is usually a positive one; to ensure the continuation of a service, for example, that wouldn't be cost effective to retain in-house. Fortunately, where a few jobs are lost

through the decision to outsource, many jobs are protected.

Dmitry Loschinin: Are there some individuals for whom an outsourcing arrangement means career dislocation? Yes, but given that Luxoft is called upon for innovation and invention, rather than rote operation of dead-end software and processes, seeing us at the door does not usually mean a career-ending jolt.

Our client's business staff are very pleased. With us on their side, they are free to focus on building their business and achieving their goals, while confident that their IT needs are properly handled. Now, let's consider the client's IT staff. No IT professional wants to remain in a dull maintenance job when the tech-

PAUL PINDAR
Capita chief executive





nology action has passed to an outsourcer. There is good news here for the client's IT professionals. Many of them have found a much more rewarding role liaising with Luxoft, as part of a joint development team.

Tony Morgan: For many staff, outsourcing can be liberating. If you are a good IT person, for example, working in an industry or organisation which does not particularly value IT or place it at the core of company strategy, moving to an IT specialist supplier can open up tremendous career opportunities. On the other hand people who do not relish change and new career challenges may find it daunting. My own personal experience has been very positive; I transferred into IBM as part of an outsourcing contract and have developed the sort of career that would not have been possible if I'd remained in my original organisation.

Are there new opportunities for outsourcing, particularly in the public sector?

Dmitry Loschinin: Yes there certainly are. Public institutions have suffered an erosion of tax-based income that mirrors the difficulties that our global

IAN CHERRY
managing director of Ventura



economy has weathered. These institutions are not immune from such stress. Transformative outsourcing with innovative approaches and inventive outlook is exactly what the public sector needs to increase efficiency while improving the deliverables to the taxpayer.

Paul Pindar: In central government we expect to see a series of tactical, immediate initiatives to drive out costs through standardised and shared procurement, and management of commodity items and essential infrastructure and services, such as IT, property and human resources. In the longer term, we think that government will engage with outsourcing companies more widely and innovatively to help streamline and administer public services through different, more flexible delivery models.

Tony Morgan: There are new opportunities for outsourcing in both the private and the public sectors. Budget cuts inevitably lead to clients thinking about what is their core business and what should they let someone else do more efficiently than they can do themselves. IT is one of those areas which may benefit from outsourcing. This is as true of the public sector as of the private.

Ian Cherry: I think outsourcing will continue to see double-digit growth as more and more companies face up to their business challenges in a tough economic environment. The general consensus is that the public sector will look for support from the private sector to meet its challenges, particularly in delivering cost savings. In the private sector, companies will rightly be cautious about investing heavily, so outsourcing can be a great way of being in good shape to handle growing demand without large investment or long-term commitments. Further opportunities exist in providing insight to clients on how their business can be improved and what customers are saying about them.

What is the future of outsourcing?

Paul Pindar: Industry analysts estimate the total potential UK market

outsourcing at £94.2 billion per annum (private sector 67 per cent and public sector 33 per cent) with only 6 per cent outsourced to date. So the long-term growth potential remains substantial as organisations across the public and private sectors review their business models and acknowledge the benefits of outsourcing.

Ian Cherry: Customer management outsourcing is changing as consumer trends evolve. As consumers become more demanding and specific about what they expect from companies, our services must change to reflect this. We expect to see greater emphasis on 24-hour service and an increase in consumer use of newer contact channels, such as email, web chat and possibly social media. Our clients will increasingly demand quality of service at the right price. Offshore locations will continue to play their part by offering significant cost savings for both voice and back office processes.

Tony Morgan: The opportunities to outsource in the current economic climate seem likely to grow and, with new technologies enabling cloud-based services for both business and IT, the flexibility which can be offered to clients is going to increase. No one will be immune from the challenges facing us all as we get our economy back in shape, but out-

DMITRY LOSCHININ
chief executive of Luxoft



sourcing is one of the areas where there is likely to continue to be opportunity for the foreseeable future.

Dmitry Loschinin: As William Gibson said, "The future is already here, it is just unevenly distributed." The age of focus is here and clients must focus on building their business, rather than on solving technology puzzles. Whether you believe that we swim in a blue ocean – client market domination comes from transformative innovation – or a red ocean – red because of the bloodshed from clients fighting with each other to have the lowest cost, best customer relationships, best service – staying afloat will demand partnerships with outsourcing firms focused on excellence. The age of focus is upon us and the one-size-fits-none model simply can't deliver.

An end-user's experience

Jayesh Govindarajan is senior director of research and development at Avaya, a global leader in enterprise communications systems, based in Milpitas, California. The company supplies small and medium-size enterprises with the communications capabilities big businesses are used to. It chooses to outsource aspects of its business to enhance performance.

Mr Govindarajan tells of his experience as an end-user of outsourcing expertise?

"Typically companies pursue outsourcing solely for cost benefits; that is but one dimension," he says. "We have sought and found a partner in Luxoft that can help us add flexible resource capacity, reduce time-to-market and help with innovation critical to pursuing new and emerging markets.

"Their R&D centres in the UK and Eastern Europe are located in one of two large markets we serve, Europe. Proximity to the market breeds an understanding of customer needs which is essential to building products. Partnering with Luxoft has given us access to this engineering talent pool.

"For most companies a strategic approach to outsourcing adds leverage. Combining internal skills with that of the vendor

enables firms to focus their resources on a set of core competencies.

"Additionally, an end-user is also able to take advantage of the partner's investments and specialised capabilities that would otherwise be expensive to replicate. Avaya is no different. Our decision to outsource decreases risk, lowers costs and improves feature velocity in areas of our core competency.

"To determine where to outsource, we take into account factors such as access to talent, proximity to market served, rates of attrition and cost structure. Geography is what determines each of these variables. Typically, we have outsourced work to teams in UK, Eastern Europe and India. And every centre brings with it a distinct area of focus and expertise that is aggregated with our core competency.

"An end-user needs to be aware of the risks and work at continually mitigating them. First, outsourcing generally results in a degree of loss in cross-functional collaboration across teams, particularly exacerbated by distance and geography.

Companies need to put in place systems to ensure that its employees are in constant conversations with outsourcing partners and are working to develop a collective, common knowledge-base.

"Second, projects with a high assumption-to-knowledge ratio are generally fraught with risk and, when outsourced, this risk is usually multiplied. Up-front planning in product/project definition, most critically early market validation, goes a long way in converting assumptions into facts, thereby reducing risk."

