



# A Different Kind of Outsourcing

'Lift and drop' has given outsourcing a bad name. Huw Rogers explains why co-sourcing is the way of the future.

**D**isturbing reports about the hidden costs of outsourcing have been circulating for over a year now. In front office IT and in customer service, the tide is clearly turning. Today, innovative companies are learning from experience and employing a new approach, bringing some functions back in-house and rediscovering the virtues of traditional diligence in vendor selection and management in light of their damaging experiences.

## Lift and Drop

While outsourcing remains an ever-more popular business trend, in many circles it has become synonymous with a global lemming-like rush to lift entire business functions and drop them offshore with scant regard for customers, employees or preservation of business process integrity. This approach has resulted in numerous failures. A recent study by Deloitte found that 70 per cent of companies it surveyed had experienced significant problems outsourcing, with over a quarter subsequently reversing course. JP Morgan

Chase, Dell and Capital One all tried outsourcing customer service – and all gave up and brought it back in-house.

A major U.S. automaker outsourced so many IT projects that it lost control. The company finished up trying to rehire hundreds of former employees, only to find that most had subsequently changed jobs entirely and no longer worked for the outsourcing company. Those that remained were generally of poorer quality and, more than likely, had been assigned to other customers. The key staff that knew and understood the business

processes, proprietary software systems and the auto industry were gone forever.

Other downsides emerge. Simple system deployments become shambolic drawn-out efforts that drain management time. Outages that should only last minutes turn into nightmares of systems repeatedly falling over themselves for weeks, with the blame always seeming to lie with unaccountable third parties.

### **Mistakenly Applying Lessons from the Back Office to Front Office**

As companies in all industries have invested heavily in IT in recent decades, perceptions of IT's strategic importance have changed. IT budgets are increasingly spent on entrenched back-office systems, with cost-savings and productivity being the most frequent business justifications. While IT spending as a whole continued to grow, the percentage of IT budgets going towards development of profit-making line-of-business applications declined precipitously until recently, up to the point that, in 2003, Nicholas Carr famously declared "The End of Corporate IT."

fact. Forget TCO (total cost of ownership, a frequent justification for outsourcing): on the trading floor or the production assembly line, TCO is often irrelevant compared to the absolute imperative of TTM (time to market).

### **Co-sourcing: Gaining Renewed Prominence**

So is co-sourcing the answer or just another fashion? Certainly the term is not new. It has been in use for years, and is typically defined as:

"a business function performed by both internal staff and external resources, such as consultants or outsourcing vendors, with specialised knowledge of the business function."

Co-sourcing is gaining renewed prominence as companies such as IBM, Kanbay, Mercer and Fusion adopt it. They do this in part to distance themselves from unwanted associations with hostile call centres, politically sensitive job losses back home and the disruption caused by 'lift and drop' project abandonment. It is also a natural result of treating customers as you would like to be treated yourself.

simply say that co-sourcing is no more than best practice outsourcing. However, that may be missing the point – 'best practice,' like 'outsourcing' itself, sounds like a tired cliché that's far easier to say than achieve.

Here's the practical difference – 10 principles that define how the best technology service providers operate, regardless of what they call their approach.

- Joint project execution.
- A "we're in it together for the long haul" risk-sharing approach to partnering with customers.
- Nearby, responsive consultants on-site as needed.
- A capable, dedicated 'A team' staff.
- Multi-disciplinary teams that appreciate business priorities rather than blinkered, over-specialised technicians that demand intensive management.
- Transparency, accountability and guaranteed quality of service.
- Minimised external third-party dependencies.
- No excuses for failure – no blame game.
- Deep technical expertise supporting front-to-back systems engineering and troubleshooting of any problem regardless of whether its 'in scope.'
- Travel worldwide to work with the client anywhere at any time without arbitrary restrictions (such as an inability to obtain travel visas).

The future is clear – successful firms will join forces with vendors for front office IT projects and business processes, and will demand these levels of performance. IT is a strategic source of competitive advantage and should be outsourced with great care. Those companies that don't take such care are making sacrifices that will eventually impact customers and shareholders. □

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In the back office, even lift-and-drop outsourcing can work with the right partner. No one can argue with the cost savings, assuming that the cost benefits actually materialise, the vendor management overhead isn't unexpectedly high, projects haven't been disowned without knowledge transfer, service levels are assured or the outsourcer doesn't go out of business or simply ditch you if you prove too troublesome.

Little of this has any relevance to the front office. Here, yesteryear's adage is the rediscovered truth of today – front office IT remains a *strategic source of competitive advantage* – since it is where the money is made. The most sophisticated adopters of technology for competitive advantage – the world's top-tier investment banks – never neglected this

Sophisticated consumers of consulting services have always understood the old saying "penny wise, pound foolish". They know that consulting firms have an A team, a B team, and so on. They refuse to let themselves be sold on an A team only to be serviced by the B team. 'A' team staffers supporting pre-sales for offshore outsourcers have a very short half-life. In many cases, the software developers that sounded impressive on the conference call have quit and moved onshore to work for savvier companies even before the contract is signed.

### **Is Co-Sourcing just 'Best Practice Outsourcing'?**

So what defines co-sourcing? And is it really different? Good outsourcers will