

Remember the lessons of the past

Attitudes towards outsourcing have matured over the years as companies learnt, often the hard way, that the lowest price does not guarantee the best value. Now the global economy has suddenly stuttered, some of those important lessons could be forgotten, which could spell further danger for companies already under pressure, **Gartner's Helen Huntley** tells Jim Banks.

The dramatic nosedive in the world's economic fortunes has left many companies facing difficult decisions, none more crucial than how to drive more cost out of their business. There has already been a noticeable impact on outsourcing decisions, for instance, with companies once again drawn to the prospect of cost saving and efficiency gains.

Market analysts, however, sound a note of caution. Will the combination of uncertainty and the need for quick action take us back to the old days of ad hoc outsourcing, where long-term value comes second to short-term cost-cutting?

'The challenge of the economic crisis means we are seeing many quick deals to take out cost. But long-term, you have to ask whether a deal set up just on the basis of cost is going to be successful. Clients are jumping into three or five-year deals, but things will change a lot during that time,' says Helen Huntley, Research VP, Strategic Sourcing Worldwide for independent research firm Gartner.

Huntley focuses on analysis of offshore and domestic outsourcing, strategy and contract negotiation, and with her broad view of the market she has seen a growing tendency for companies to panic.

'The punch of the economic downturn means firms are very tactical in their approach, but today's reality is not the same as downstream reality. Companies need an outsourcing strategy that is true and its focus may be cost, but they have to look at how to get long-term success as well,' she says.

Companies may need to act quickly to improve their prospects, but Huntley believes that they cannot ignore the fact that outsourcing deals are multi-year contracts

that can greatly affect the structure of a business, so cannot be viewed solely in a tactical light.

Reassessing risk

Approached with the right diligence and a clear set of goals, Huntley believes that outsourcing can be highly advantageous to companies in their attempts to combat the economic downturn. She notes, however, that clients must not be too simplistic in their approach to using third parties to help cut costs.

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'Saving money is not just about taking heads out, which is disruptive to business. Companies need to look at whether a service provider could cut costs in other ways, perhaps by taking on less customised work and moving to a more standardised set of services. Clients will still get business benefit, but in a different way,' she says.

She also warns against pushing services offshore solely to access cheaper labour.

'Offshore is cheaper, but there may be performance implications and other risks, such as availability of labour. There may be



productivity dips and cultural issues to factor in. Risk can blossom,' she observes.

A recent Gartner report examining the suitability of 30 countries for offshoring found, for instance, that Vietnam is the cheapest location, but has problems due to a lack of infrastructure, language skills and IP protection.

'For any outsourcing decision you need a risk assessment and a risk mitigation plan. You need to have brakes, know the risks and how to circumvent them. It might take more time, but this mitigates the risk and means there is less disruption when outsourcing is implemented,' Huntley comments.

'I tell clients to sit down with all the stakeholders in their business, not just IT, and identify all the risks and concerns. Risk assessment is very important to corporates right now, so they need rigour in their approach to risk analysis,' she adds.

Balancing business value, cost and risk is never easy, but a little time taken to clarify a sourcing strategy could yield great rewards down the line. ■

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