

Managing Outsourcing Projects for Success

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Abstract

Many companies run into trouble when they shift work offshore, but they usually persist since this process is critical to corporate success. This paper explores this ever growing trend and will help the audience avoid the common pitfalls when outsourcing. A proven formula for project success will be outlined here. This is based upon the writers many years of experience in moving and managing various projects in both Asia and Latin America coupled with long stays on the ground at various overseas locations.

Summary

Outsourcing projects usually are remotely managed, involve less developed organizations and involve other diverse cultures. These factors add complexity and are more challenging to Project Managers than purely domestic projects. This paper addresses the common challenges/pitfalls facing those responsible for outsourcing project success. It provides the reader with a time tested outsourcing approach that has worked in low cost locations such as China, India, Southeast Asia and Latin America. .

Factors that are driving outsourcing

Besides low direct labor costs overseas companies enjoy lower operational costs due to the following:

- Lower overhead
- Fewer front office (indirect) personnel
- Less comprehensive and often difficult to enforce regulatory, safety, labor and environmental laws
- Foreign workers, especially in Asia/China, work substantially more hours than their western counterparts (a 70+ hour work week is common in Asia)
- Governments in developing countries provide various incentives and financial assistance to local businesses
- Material, rental and real estate costs are less
- Due to low labor rates, capital investment in automation is not necessary
- Favorable currency exchange rates
- Ability/opportunity to sell into the local (in-country) market
- In some cases North American companies are forced to follow their customers overseas, thus providing a local source of goods and services to their clients. Organizations that do not follow their customers have begun to loose key customers. "If you are not willing to be with us in China, etc., you will not be with us" is a common phrase, thus forcing some organizations to look overseas

Challenges to Outsourcing and Hidden Costs

Organizations typically face many obstacles/hidden costs during the outsourcing transition. Some major ones are:

- Significant productivity decrease by as much as a factor of 2.4 is common in low cost regions. In most cases it takes over one year to bring productivity levels to 90% of what they were prior to the outsourcing move. Most organizations grossly underestimate this!
- Most overseas concerns have poor material control systems, leading to frequent product shortages and late deliveries
- East Asia, for example, is 12 or 13 hours ahead of North American Eastern Time, thus making it difficult for critical communication to take place for most of the work day. Early morning and night work is necessary, thus causing those involved to give up more of their free time.
- Most overseas businesses have inadequate accounting systems and accurate financial data is sometimes difficult to obtain. This makes it difficult to judge the financial health of a potential partner. Chinese Universities, for example, produce many more engineers than the USA does, but they produce too few Accountants!
- Quality Assurance/Control systems are generally inadequate causing frequent noncompliant, defective product & service deliveries. The receiver needs to perform more costly incoming inspection and process monitoring on their end.
- Skilled labor is difficult to retain. Personnel tend to leave after significant effort is spent on training and development. In India, for example, annual turnover rates are as high as 80%!
- Cultural/communication issues can cause difficulty, especially with the vastly different Asian culture. Lack of cultural sensitivity can lead to various problems and setbacks
- Late deliveries are commonplace, especially at startup and air shipments become necessary. This increases freight costs by a factor of 5-9%.
- As problems arise unanticipated travel becomes necessary, thus driving up costs. Oftentimes, someone needs to be placed overseas. These Expiate packages can cost up to \$500K/year. Once during 2006, I needed to travel on short notice on behalf of a client (in order to address a crisis) to the Far East. Due to short notice, the business class plane ticket cost \$11,000.
- Some organizations do not have adequate resources to support the overseas operation and keep the domestic one running and may not have the necessary skills. These organizations typically have one of each technical specialty and these individuals are needed to be in two locations at the same time Outside help/consultants may be required, thus adding to the cost.

Success Factors

Here are some time tested approaches that ensure Outsourcing Project Success:

- *Due Diligence, Due Diligence, Due Diligence, Due Diligence!*

The first step is to perform extensive research so that the most optimum region and the right business partner is found. I experience so many organizations that become infatuated by the lowest price alternative and do not consider total cost. Many organizations fall into this trap and suffer the negative consequences. Some become my client and ask me to rescue a faltering project. I prefer to be brought in during the early phases of a project so that major problems can be avoided.

One needs to perform Due Diligence and then repeat at least three more times in order to avoid being "beaten before you start".

-Manage the Risk

Risk analysis is to be performed next. Figure 1 contains an example of an analytical technique that one of my clients employed to select the overall best business partner. *Note: although price was rated very high the low price supplier was not chosen, other important factors were also seriously considered.* This client is now enjoying a very productive product launch and all indications are that this product will be very profitable.

Supplier Selection Matrix								
Criteria (1-10)	Cost 9	Development Time 10	Skills/ Experience 8	Capacity 2	Production Lead Time 4	Quality 10	Investment 2	Total
Sup #1	3 27	8 80	10 80	5 10	4 16	9 90	2 4	307
Sup #2	7 63	3 30	2 16	0 0	4 16	3 30	10 20	175
Sup #3	5 45	5 50	4 32	2 4	4 16	5 50	5 10	207

Chart Explanation

- Criteria = The level of relative importance from 1 to 10 with 10 being the most important
- Top row for each supplier = The relative rating from 1 to 10 for each supplier with 10 being the best potential performance
- Bottom row for each supplier = criteria x rating
- Total = The sum of the bottom row for each supplier. In this example it is obvious who the best supplier is. #1 with 307 points!

Figure 1 Supplier Selection Matrix

- Relationship Building

Business relationship expectations in low cost regions are different than in North America/Europe where getting down to business fast is the norm. Your Asian and Latin American counterparts expect to spend considerable time to get to know you better before discussing business. Some desire a friendship first. Spend the time up front to develop a relationship, as it will pay dividends in the future. I recommend that the first meeting is in a social setting or at least over dinner. Suppress your urge to get down to business fast as it could be taken as an insult.

-“*You only have one chance to make a good first impression*”

Although widely spoken as an auxiliary language, English is not normally the first language in most low cost regions. The savvy international business person will learn some of the local language (ie. good morning, hello, how are you, thank you) and will begin conversations in the native language. This technique has worked wonders for me in establishing a positive rapport at the first meeting. Another helpful tip is to have critical material translated into the local language for use at meetings; the benefits are well worth the cost and effort.

-*In Country Support*

Engage the services of a local agent or law firm. The local government official can make recommendations. These services should be connected to the local government and can be invaluable in moving things along in a timely fashion and for resolving problems.

-*Know the Local Government Officials*

The local officials are paramount to ones success overseas. Without their help most ventures are doomed to fail. When helping clients establish business operations, the first meeting is usually with the local officials. Spare no expense in wining and dining them

-*Benchmarking*

When considering a particular region seek out other foreign businesses that have operations there. Set up a meeting with them in order to learn from their experiences there.

-*Local Managing Director*

It is usually best to hire a local General Manager to run the day to day operations. This will help with the retention of key personnel and the workforce will be more apt to follow a local manager. My experience has demonstrated that the motivation levels are higher when a local person is in charge. Take the necessary time to hire the right person for this vital role and spare no expense here. Hire someone with local government affiliations.

-*Look Before You Leap!*

When in the final stages of selecting a supplier, ensure that a Comprehensive Evaluation of all of your partners systems is conducted. Do not limit it to just operations, quality and capability. Include other areas such as social accountability, accounting, material control, safety, planning, logistics and supplier management. It is best to use the assistance of a westerner who has the background in these disciplines along with experience in the region that you are considering.

-*Learn the Culture-The Magic Ingredient!*

So many organizations overlook this one and loose out on an avenue to enhanced performance. Understanding and embracing culture can win over hearts and minds and work wonders in business dealings. I have been fortunate enough to have learned and engaged many other cultures and it has been a wonderful and enriching personal experience. Learning about and applying the local culture will facilitate positive relationships, allow for enhanced communication/motivation/respect, will result in fewer problems and will enhance productivity. If nothing else, bring in an outsider to conduct a one day cross cultural training program. *It is one of the **best training investments** that an organization can make* Avoid being the *Ugly American*.

-*Support Personal*

Many organizations make the mistake of assigning outsourcing work/support to the most technically competent personnel while not considering other factors. Sometimes these individuals do not possess the necessary attitude, communication, teaching and personnel development skills. Some even resent the fact that work is going overseas and either consciously or subconsciously work against the successful completion of the project. It is more important to select personnel who possess the right attitude and who are willing and able to develop people and organizations. Not everyone has this skill!

It is also important to inform those selected of the magnitude of the required travel as adequate time “on the ground” at the outsourcing facility is necessary. Frequent long stays are usually needed in order to ensure success. Those involved should agree to the travel expectations in advance.

When dealing with Asia, frequent evening phone calls become necessary. When involved with Asian projects, I typically find myself on the phone ~ four evenings per week. This can be disruptive to ones

family life and not all are willing to do this. Make sure that those assigned to these projects are willing to perform this extra work.

- Develop your partners

Most outsourcing involves organizations in low cost areas and the level of technical and managerial expertise is usually below that of the more developed world. A comprehensive training and development program is necessary. It has always benefited the organizations that have retained me when I invested in and developed a business partner.

Start the development process in all areas immediately (do not wait until things settle down, as they will probably not). Your business partners must realize from the start that continuous improvement is a business necessity and a part of everyday life

- Time on the Ground is Essential

Developing and maintaining a business partner or satellite organization is a serious and involving undertaking. One must be willing and able to spend significant time at the overseas facility. Long stays are normally required for success.

By applying the above mentioned approaches, organizations can achieve greater success in their outsourcing projects.

Protecting Your Intellectual Property (IP)

When doing business in low cost areas, one must accept the fact that some of your IP will be pirated.

One strategy in protecting your IP is to move only select parts (low technology) to low cost regions, thus keeping the key components close to home. Another strategy is to separate the hardware and software components and develop/product them in different countries. A pirate usually cannot copy something unless he/she has it all. I have helped some past clients protect their IP by setting up the hardware portion in China and the software development in Vietnam/India.

Do not rely on the in country legal system to protect you. Most countries, including China, have enacted IP laws, however enforcement is weak. It is very difficult to win in court and it may be impossible to have a decision enforced.

The following contains some other anti piracy tips from Mr. James Chan of Asia Marketing and Management:

- 1. Always assume that your product or technology will be pirated. The more Successful your product, the faster it gets pirated.*
- 2. Don't let fear of piracy keep you from introducing your product. If the product is attractive, some people there will try to pirate it.*
- 3. Travel the region and study the weaknesses of the pirates and the real needs of your customers. Based on such field knowledge, design and improve your product and technology to stay ahead of the pirate's capabilities.*
- 4. Don't compete with the pirates on price. If the pirate's price is 20% of yours but his product is only 80% of your quality level, focus your marketing effort on the quality-conscious segment of the market.*
- 5. Discerning customers yearn for authentic foreign-made products once they see how much better they are than pirated products. Educate your customers and make them see the difference.*
- 6. Find creative ways to keep the secrets of your technology to yourself. How you keep such secrets should itself be a secret.*

7. *Pick the most talented people whom you can trust to work the regional market and duel with the pirates. Don't send your weakest link.*

Slowing the revolving door

Educated, experienced and developed technical/managerial personnel are in short supply in most low cost regions. Organizations operating there experience high turnover, with India being the highest (up to 80% per year). As soon as an individual is trained and developed to work independently he/she leaves for a higher paying situation, creating the need to start this process over again. This increases costs and negativity effects operations. This is something that should be anticipated and planned for. Some companies back up personnel up to three deep. There are other ways to control this situation, these include:

- Hiring an experienced human resource manager who knows the culture can implement programs that will help retention.
- In some cultures, regular company sponsored and funded social events will help slow the revolving door
- One of the most effective ways to retain professionals is to jointly plan and initiate a training and development scenario for each individual. I recommend that this plan include one training event that is located in North America or Europe. Travel to the west is still out of financial reach of most Asian technical professionals. This will help in your retention efforts.

Conclusion

Outsourcing is an involving and serious undertaking. Prior to making the decision, one needs to consider all of the hidden costs and the required commitment of resources. Making it work and ensuring success requires diligence and specialized set of project management skills.

References

Chan, J, PhD: *Dueling with the Pirates- How U.S. technology-based companies can stay ahead of the 'China Curve' and prosper in the China market: 2007:* www.AsiaMarketingManagement.com

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