Perfect Learning Breakout Session:

TO OUTSOURCE OR NOT TO OUTSOURCE?

Two library managers from the Financial Services sector draw from their own outsourcing experiences to discuss the myths and realities of outsourcing in today's market place**.**

Case study A was presented by Mark Jewell (Director, BIS, Lehman Brothers)
Case Study B was presented by Jessica Frankel (Director, Library & Information Services, CSFB, USA)

The breakout session looked at:
1)   Issues of planning
2)   Experienced "realities" of outsourcing.

INTRODUCTION

The seminar was introduced by Jessica Frankel who emphasised that the concept of the session was to provide an interactive discussion group.

A straw poll showed that 1/5 were looking at outsourcing in the near future.

Jessica observed that the stimulus to outsource should amount to much more than straightforward costs savings. The idea of the seminar was to look at the pros and cons of outsourcing, This should mean that each individual should be able to evaluate the evidence and come to their own conclusions about outsourcing as a suitable mechanism for their current employer.

CASE STUDY A: MARK PROVIDED SOME INTERESTING DATA ON THE DRIVERS TO OUTSOURCE

➢ *It costs c.$100k per annum to employ an experienced researcher in the UK or the US, possibly more if the costs are loaded with an extra value for real estate.*

A researcher in India costs about 25% of this, fully loaded. The actual salary is a much smaller amount. Why would you not try to capture some of this cost saving?

➢ *If you don't think, plan and produce a strategy around this, ready to communicate to senior management, you will be exposed as the commercial issues are far too high profile to ignore.*
It is important for Library Managers to keep the initiative, and to face the following questions:
a) *Would an off-shore service replace your unit*
b) *Could an off-shore service enhance your capability? Augmenting existing resources, add capacity.*
c) *Apart from cost, what else is important?*

Mark explained that he began to look at this in 2001 as a way to cope with cyclical demand and ensuring Lehman Brothers' BIS is well-placed to respond to global events.

To succeed one must start cautiously and tailor the service absolutely to the needs of the institution, and be inventive, if necessary to get things to work well.

Mark observed that in his opinion outsourcing initiatives with some firms fail because of the force of negative motivation, in response to cost pressures. It is, Mark commented, a bad place to start.

CASE STUDY B: WHEN IT IS NOT SENSIBLE TO OUTSOURCE

Scene-setting: According to Gartner, about 80% of companies that outsource customer service projects to cut costs will fail by 2007 because of high attrition rates and neglecting to manage their outsourced operations.

Jessica explained that CSFB has run 2 trials so far and then put outsourcing on ice for the time being, but stressed that she is far from complacent about the issue and knows she will have to revisit the subject time and again.

Jessica explained that it is important to test not only the theory but also the practice and validate proposed outsourcing mechanisms for your individual organisation's culture and size.

For CSFB, Jessica focused on testing service output. For testing purposes, CSFB differentiated the simple requests form the most difficult. For a new arms length relationship, it is best to start off simply with replicable tasks which are suitable for a "rule-based approach". Complex requests require trust and initiative, and to develop these takes time.

Jessica commented that the most successful outsource models seem to be in India but one factor CSFB took into account was that they don't have an office

there already – nearest is in Singapore. They are unable to utilise space and local expertise in setting up a unit, so just setting up would be prohibitive in terms of set up costs.

It had been observed that the Indian graduates were smart but their skills in reference interviewing and consequently their suitability for interfacing with the analysts/bankers regarded as low. It would require significant time to train and acclimatise; more than practicable at this time.

The primary drivers of a successful outsourcing plan are:
- ➤ ***Planning, planning, planning***
- ➤ ***Defining, defining, defining***
- ➤ ***Managing, managing, managing***

Can there ever be too much of these things?

In summary, Jessica provided the following example situations where outsourcing is not appropriate or the model has weakpoints which need to be compensated for:

Top Reasons for Outsourcing Failures:
- ➤ Failure to map intersection points that effect customers
- ➤ Failure to define key drivers for client satisfaction

   Organisations fail to fully consider or appreciate the risk associated with processes that require a seamless transition between the outsourcer and the client.

- ➤ Inadequate knowledge management processes

   Much of the knowledge required to fully and adequately answer a certain level of client requests is often tacitly held in the minds of the in-house staff or ingrained in the culture of the enterprise; it is not documents in a procedure map or a process map.

- ➤ Inappropriate or unmeasurable service levels

   How do you measure productivity? Do you measure it the way others in your organisation measure it?
   How do you define appropriate service levels?
   Have you or are you able to segment your customer base, really know what they want?

- ➤ Failure to understand how outsourced functions fit into the organisation.

   What are your core competencies?
   Do you provide services which do not fit into your core competencies?
   Are there repairs required to the internal organisation in order to sustain outsourcing services?

- ➤ Failure to negotiate an appropriated SLA/contract:
  - *Terms of agreement*
  - *Minimum service levels*
  - *Ownership/confidentiality of data*
  - *Warranty*
  - *Performance incentives*
  - *Disclaimers*
  - *Performance measures*

- *Accommodating/anticipating change.*

GOING AHEAD?   PREPARATION AND PLANNING

From case study A, Mark produced these pointers:

➢ **Why are you doing it?** *To replace onshore staff?*
…Augment them with additional resource?
….Free up capacity for more value-added work (if so, what work?)
Is there an ultimate objective? (there may not be one)

➢ **Choose what you wish to outsource carefully**
Much research in Financial Services is quite structured and quantitative. It is susceptible to routinisation and a rule-based approach. Examples of this includes corporate documents, simple news runs and routine data collection for aggregated products like company profiles.

Complex secondary market research

Library research or analyst desktop research.

➢ **Are your clients "on board"?** *If not, why are you doing it?*

➢ **Think carefully about the management of an ongoing off-shore arrangement.**
Decide how you want to manage this:
- Outsourcing to a third party
- or Managing your own captive.

Unless you have your own infrastructure the former is better since they will handle all the local issues for you.

But how do you select; some are pulling back from pure research.

➢ **Invest heavily in training and managing**
Visit, or bring staff to your shop, but you don't need to do it often.

➢ **Do you have enough internal resource available to manage the operation?**
(Lehman use c. 1 day per week)

*For Workflow Management
Quality Control
Supervision – vendors can be variable in service
quality*

OUTSOURCING: OTHER IMPLICATIONS

Costs
➢ Aside from the service costs of establishing and running a new service unit or provider, these directly attributable costs need to be taken into account and set against the potential staff-cost savings: *Training, travel, additional database costs and licences*
➢ The move to an off-shore model takes enormous effort in the beginning to set things up, even if the investment of time and energy diminishes over time, eventually. There is often no budget for change management, business continues as normal. This can put enormous strains on the service and is a substantial hidden cost.

Technology & Security (Especially a problem for non-captives)
➢ The service provider will need access to your systems for Data Transfer, email, large files
➢ Disaster Recovery planning/ can you cope if all goes wrong?
➢ Security: current practice should be that no CDs, briefcases etc are allowed onsite. Nothing can be removed from offices. No PDAs allowed. No admission without security cards.

Outsource contracts: ties that bind
➢ **Staff.**   You need to review the vendor's contracts to assure the retention clauses are adequate. In India, these tend to be draconian.
➢ **Revised data contracts.**   These are likely to cost more and will affect saving overall.
- *Your passwords or a new set?*
- *Often the former, for control purposes*
- *Liability would be yours for off-shore mis-use, if they are on your contact*

Staffing
➢ There isn't a pool of experienced researchers to draw upon, LB mostly uses business and finance graduates, as the library schools develop people for a different career path.
➢ This means training is essential.
➢ To mitigate this the staff are highly motivated, intelligent, see these as very high status jobs.

The caveats are that:
➢ Business and finance graduates my not perceive research as their real career
➢ Staff are highly mobile, so attrition can be high
➢ The graduates need to be constantly challenged to feel that what they are doing is worthwhile.

Cultural Issues
➢ Indian English is not the same as English English, and may be an individuals 3rd or 4th language
➢ There is some divergence between the Indian and English education systems, although some roots are common. There is a high level of rote-learning in the system, with less emphasis on problem-solving.
➢ Mark explained that he has a personal preference for taking on History graduates for their level of initiative and inquisitiveness. He explained that the Indian library schools channel graduates into the public sector in the main – not easily retrained for business research.
➢ This means the mindset of your graduate may no be the same as you are used to
➢ Keeping control of suitable behaviours; making sure bankers, for example, don't ask Researchers to call companies directly
➢ Arranged marriages.

Timescales
➢ As it takes 3 years to develop a researcher to a high standard in the UK, it will not be any quicker off-shore, and may be much longer. Lead time for this has to be built in to your plan, and the scheme therefore has to have a long potential lifespan to be viable.

Metrics and MIS
➢ If you have good measures in place already, you can use the same to compare and contrast effectiveness and output
➢ Measures which work include average labour cost per request.
[Mark gave a current cost per enquiry of $14+$7 for quality control]
➢ Effectiveness of the model should be re-assessed every 6 months or so.
It has been foreseen that over time the difference in absolute labour costs will close as the off-shore markets mature.

Selling it to your staff
In Mark's own words:
➢ Addressing this subject can feel like weaving out own hangman's noose
➢ It is important not to neglect their development as time is freed up
➢ Mark explains that he has never seen outsourcing as staff reduction, but feels his view is not   always believed, and he knows some individuals in senior management see it this way. Mark is still unclear about the long term shape for BIS but is clear about the systems working well today.
➢ It takes 1 full (senior) man day a week to maintain the services
➢ It is important to re-evaluate off-shore and in-house staff systematically
➢ Train-the trainers – leveraging experienced US/UK staff to train on-site pays off for the buy and sell-side staff.
➢ To weigh against inexpensive direct costs of staffing in India, staff in the UK are still 1.5 – 2x more productive – a factor of experience and being "tuned-in" to business need.

Data Pricing Issues
- Necessary tariff and access issues need to be inspected carefully, data vendors policy varies between products and locations
- There may be conflicts between local and global contract negotiations
- Jessica Frankel commented that there was an issue to do with passwords provided temporarily for contractors. Whilst vendors accepted this as common practice on-shore, vendors were seeking changes to the rules of engagement for pricing purposes as well as defence against mis-use of the data and copyright.
- Mark Jewell commented that as the Lehman off-shore model means the extra staff use the same systems and the same interface, handling the same volume of enquiries, there had been no need for any significant changes to the contract. Mark also commented however, that the BIS in London would have to accept liability for any transgressions. Prevention of problems was a matter for training and adequate supervision.
- The consensus around the table that data pricing issues had to be addressed by inspection for each unique set of circumstances.

Evaluating Options
- When Mark made his choices, Lehman picked 6 potential outsource partners, trialling each of them.
- The other option was to wait and observe, join the off-shore rush late, having learnt from others experiences.
- "Near-shoring" (i.e. Out-sourcing to cheaper regions of your own country) was a route which should be explored for Jessica Frankel this model does not suffer from the same cultural, language and educational gaps, but can also get high resistance in-house. For this to work, it is often the case that there is no contact allowed, to avoid issues of employee status and security, and a move to this can still be bad for "PR".
- The next logical step will be for experienced researchers to tack-p tasks currently executed by Bankers, and if possible add more value and reduce the costs of information flow within a large scale organisation even further.

OTHER CONTRIBUTORS

Angus Davidson/ BVD gave some valuable observations and advice

- Vendor evaluation: always test with real enquiries, check results against costs from the beginning. Time taken for results is an important marker
- Some vendors have evolved very rapidly from document processing/WP solutions
- Commented that Gartner predicts a high level of attrition/acquisition in Indian providers
- With off-shore units, the rate of churn of employees is judged to be between 25% - 75% within one year; this causes concern of consistency of output.
- As trials are often set on low key tasks, it is important to built some flexibility into your vendor contract
- Offshore relationships, in his view take up much more time than planned, and often quality levels plateau early. This is because of the time it takes

for the provider to fully comprehend all the aspects of research service provision.
- ➢ The early providers, which formerly showed flexibility when seeking established contracts, are becoming less so as they have established routine, becoming less accommodating.
- ➢ Angus recommends that potential commissioners of off-shore services need to be absolutely clear about the goals and standards, key outputs you wish to achieve, and understand that is takes high effort to set things up in a fail-safe way.
- ➢ Angus commented that buyers should not accept a one-size-fits-all service offering, because a successful introduction depends on taste and practicality as well as good pricing theory.

 [*In reply, Mark Jewell commented that the had been a variance in feedback from London and New York offices, as there normal office routines varied between themselves. For example, the development of standardised company profiles for pitchbooks. The requirements for data retrieval, newsruns profiles and biographies demand training on a variety of packaged products and databases – requiring high training time but were formulaic therefore replicable. London began slowly by asking for replicable actions first, accelerating the complexity of request over time. London requests have always been more bespoke, therefore, require development of experience rather than simply routine.*

In addition, Mark said that off-shore staff benefited enormously from some time in London, where they could understand the effect of time pressure and the level of high expectation for service and research quality for Investment Banking.]
- ➢ Angus concluded that there would be a substantial cost of set up in year one, reduced costs, so no absolute savings until at least year 3 of offshore operations.
- ➢ Angus commented that off-shored facilities in the area were differentiated as follows:

- Fundamental business information
- News Runs
- Document delivery (30%)
- Research
- Analytics
- Sector Research
- Formulaic market research

CASE STUDY B: CONCLUSIONS

Although there are clearly some very positive experiences which Mark Jewell shared with the groups, Jessica Frankel summarised her current assessment of the viability of the off-shore model for CSFB as approximately 60/40 against.

Jessica's stated reasons:
- ➢ It takes 3 years to get to satisfactory levels of output
- ➢ For the model to work, your research team has to start large enough for the economies to really make a difference
- ➢ You would have to save at least $12000 per cubicle in London for the model to work
- ➢ Management and change management costs would be substantial
- ➢ Issues about loss of insight and ultimately of delivery
- ➢ Can still outsource truly repetitive tasks, leverage technology where possible
- ➢ Develop further enriched roles for qualified staff aligned to bankers and business units – high visibility highly focused, consultative role, emphasising the value of information professional within the business, justifying the margin of difference between co-located and remote workers.

CASE STUDY A: CONCLUSIONS

Mark commented that it is a case of so far so good. He is confident that he has a structure which is useful for all eventualities.

He explained that performance evaluations indicate that user satisfaction is consistent with levels prior to outsourcing.
Life will be easier if they can work with the Indian library schools, deploy experienced researchers to India to mentor and coach, but this all takes time.

Mark commented that success hinges on getting the right supplier for your organisation, and on well thought out service level agreements. This in particular is vital with a 3rd party provider because as a customer, you cannot appraise outsourced staff directly. In the end, success for your end-user is only about quality of delivery, even if the pressure to change model is applied for cost-saving reasons.

[Recommended background reading: an article dated 07/05/05 "The best Job in town: Americanisation of Chenai"] – exact reference can be obtained from Mark Jewell.

Scribers note: Thanks to Mark Jewell and Jessica Frankel who passed over their written preparation notes for the session, these have been woven in with the additional comments arising from the two groups interaction. Some of the opinions given were understood to be "off the record" on the day so may not be included here.   Julia Hordle, May 2005