BACKOFFICE PRO

IS OUTSOURCING YOUR BEST PATH TO GROWTH?

OUTSOURCING RISKS AND REWARDS

THE RISKS OF OUTSOURCING

It is difficult to find the right outsourcing supplier who can meet 100% expectations. This is because many outsourcing companies either over promise or under-deliver. Many deals break-up after six months due to quality issues, and the clients search for new partners… and the cycle continues.

Internal Auditor Magazine reported in their May, 2013 issue that "Important factors driving outsourcing decisions stem from the desire to reduce cost, increase customer satisfaction, and improve the [company's] ability to continuously deliver new and enhanced services to their customers."

But…"Despite its benefits, outsourcing does create risks that should be managed adequately to ensure that these benefits are realized fully. **A common risk companies face is the early termination of contracts; nearly half** of respondent organizations in the Deloitte survey have ended a contract early, with concerns about service quality being the top reason. In the case of IT products/services, it will be difficult for organizations to develop in-house expertise to replace the outsourced service/product. That may explain why **66 percent** of respondents to Deloitte's survey **moved to another vendor** after terminating a contract, rather than bringing the function in-house."
(Source)

MORE EVIDENCE OF THE RISKS

According to an APICS (the American Production and Inventory Control Society) study, nearly 57 percent of manufacturing and technology companies using outsourcing report average or less than average satisfaction, with their outsourcing strategy effectiveness. For companies dealing with consumer products, the level of dissatisfaction was even higher. (Source)

"Painful lessons from IT outsourcing gone bad," *InfoWorld,* August, 2008.
"In the pantheon of outsourcing horror stories, the $4 billion deal between the U.S. Navy and global services provider EDS stands out as one of the most horrific. It started back in 2003 when the Plano, Texas, vendor beat out the likes of IBM and Accenture for the contract. The deal was to manage

voice, video, networking, training, and desktops for 350,000 Navy and Marine Corps users. But just one year later, EDS was writing off close to $350 million due to its inability to come even close to fulfilling its obligations.

"The reasons behind the failure are complex, but it suffices to say that one of the major causes behind the debacle was that EDS, perhaps anxious to win the prize, never realized that the Navy and Marine Corps had tens of thousands of legacy and custom applications for which it was expected to either integrate or rip and replace. An EDS spokesperson said at the time that the company's goal was to get the number of legacy apps down to a mere 10,000 to 12,000. (Source)

"The Boeing Debacle: Seven Lessons Every CEO Must Learn," Steve Denning, Contributor, *Forbes Online Magazine,* January, 2013.
"Brake problems. A fuel leak. A cracked windshield. One electrical fire. Then another. An emergency landing in Japan. A safety investigation imposed by the FAA. Then two premier customers—Japan's two main airlines, ANA and JAL, ground their fleet of Boeing 787s. Then the FAA grounds all 787s used by the only American carrier. Now other regulators around the world follow suit, grounding all 50 of the 787s delivered so far.

"And keep in mind: Boeing's 787 project is already billions of dollars over budget. The delivery schedule has been pushed back at least seven times. The first planes were delivered over three years late. In fact, out of a total of 848 planes sold, only 6 percent have been delivered."
The Problem? "…flawed offshoring decisions." Boeing outsourced critical aircraft components, and then some of the Outsourcing partners outsourced it. Boeing lost control. Mr. Denning warns, "Offshoring is not some menial matter to be left to accountants in the backroom or with high-priced consultants armed with spreadsheets, promising quick profits. It raises mission-critical issues potentially affecting the survival of entire firms, whole industry and ultimately the economy."(Source)

ADDITIONAL CHALLENGES

"Outsourcing—A Risk Management Perspective," *ISACA* Journal, 2005.
"In outsourcing, a company is relying on someone else to run certain business functions. If not properly managed, Companies may negatively affect their operations and customers. The product or service can be outsourced, but the risk cannot. Some of the potential negative outcomes can include product or service Quality Issues and budget and schedule overruns. Additionally, Offshore Outsourcing can be plagued by Port or Customs issues, Severe Weather, or Labor Disputes." (Source)

"Why IT Outsourcing May Be Riskier Than Ever," by Deloitte, *CIO Journal*, July, 2012.
"If there's one activity CIOs can't outsource, however, it's risk management. They're accountable for the business and IT risks associated with their third-party relationships, says Walter Hoogmoed, a Deloitte & Touche LLP principal in the Information and Technology Risk Management practice of its Audit & Enterprise Risk Services business." (Source)

"Anticipating the hidden risks of outsourcing," by Olivier Fainsilber and Andrew Chadwick-Jones, Mercer Management Journal.
"Outsourcing risks can be grouped into four categories. Strategic risks threaten the business by moving it in a fundamentally harmful direction. Operational risks arise during outsourcing and encompass a range of service-related, staffing, and governance issues. Financial risks include the unexpected costs, regulatory issues, and liabilities acquired through outsourcing. Hazard risks entail potential natural disasters as well as the political and trade elements associated with offshore outsourcing. While certain risks can be insured against, many cannot and require other countermeasures by senior managers." (Source)

"Top 10 Risks of Offshore Outsourcing" by Dean Davison, Dec. 2003, ZDNet's newsletter.
Among the risks associated with Offshore Outsourcing, Mr. Dean lists the following: Cost-Reduction Expectations; Data Security/Protection; Process Discipline; Loss of Business Knowledge; Vendor Failure to Deliver; Scope Creep; Government Oversight/Regulation; Culture; Turnover of Key Personnel; and Knowledge Transfer. (Source)

"The Outsourcing Risk Management Survey," cosponsored by APICS and Protiviti, was placed on the APICS Web site on June 6, 2004. The purpose of

the survey was two-fold. First, to examine the risks involved in outsourcing and second, to evaluate the effectiveness of outsourcing risk management practices.

"The lack of a rigorous strategic sourcing methodology and complete market and risk analyses to produce an effective outsourcing strategy, presents significant risks to an organization. These risks include inconsistent sourcing and selection criteria, lower quality, higher pricing, the loss of purchasing leverage, and so on." (Source)

HOW TO FIND THE RIGHT OUTSOURCING PARTNER

The most important step after having decided to outsource your business processes is identifying the right outsourcing partner.

This step is pivotal in the outsourcing experience, and decides the direction that your project will take. Your development partner and you will be embarking on a business relationship and your partner's business practices will have a direct impact on your project. The repercussions of making the wrong choice at this nascent stage will be severe. Therefore, the importance of identifying the right outsourcing partner cannot be emphasized enough.

It is imperative to obtain as much background information about your prospective solution provider, before zoning in on any one source. The following pointers could serve as a rough guideline while choosing the right outsourcing partner.

- Check Credentials and Track Record: How long has the outsource company been in business? Have they handled projects similar to your own? Is the company financially viable?

- References: Try to personally contact former and existing customers of the outsourcing company. What is the company's record on adhering to budget and schedule? Any quality issues?

- Understanding Business Objectives: Your outsourcing partner must clearly understand your business objective and goals. This goes beyond any single product or service you are considering outsourcing.

- Communication: You must be certain your business partner clearly understands your requirements. Have your contact repeat back to you what he understands regarding your product specifications.

- Work Samples: Ask for samples of work performed by any outsourcing partner you are considering. Work samples can often be found on the company's website.

- Technical Competence: Does the outsource supplier have sufficient people with the right technical skills available for your project.

- Risk Mitigation: Does the supplier have suitable reporting procedures in place so that you will have accurate progress reports, and payment history?

- Post Development Support: Can the supplier provide implementation and maintenance support if needed?

MORE RECOMMENDATIONS ON CHOOSING AN OUTSOURCING PARTNER ARE IDENTIFIED IN THE ARTICLES BELOW

"Outsourcing: A Risk Management Perspective," ISACA Journal, 2005.

"One of the easiest management actions to put in practice is a rigorous selection process. The primary steps of a good selection process include:

- Identification of best providers/sources: Determining the right vendors for the service required that fit the company profile

- Comprehensive request for proposal (RFP)/request for quote (RFQ): Developing and implementing an RFP process that clearly articulates the services desired and defines management expectations. The process must require standardized responses in easily comparable categories to allow for a meaningful analysis.

- Provider financial viability: Evaluating the long-term viability of the vendor. Financial viability cannot be overlooked as a major consideration when selecting providers and managing outsourced providers. It may be important that the provider has the capital necessary for research and development. Additionally, it is important to understand other aspects of the provider's business, such as who the provider's major customers are; the provider's susceptibility to the loss of a major account, including the account of the company planning to do the outsourcing; and the provider's ability to remain in business if such a loss occurs. In addition, what kind of financing is employed, how likely is it that note covenants will be triggered, and if they are, will the company be able to meet its obligations? These are some of the important questions that should be considered when assessing financial viability.

- Technical evaluation: Evaluating the ability of the vendor to provide the services required. It is crucial to understand the vendor's expertise in delivering similar services to other companies with the same complexities of the business model, geographical dispersion, use of technologies, etc.

- Country/third-party risk assessment: Understanding and evaluating where the provider will execute the delivery of the service, as well as whether it will all be done in-house or whether the vendor plans to outsource components to other third parties. This could be a major problem because the rise in global sourcing is making it necessary to give more attention to country-specific risks. Management must be aware of these risks and either accept them or develop risk mitigation or contingency plans to handle them."

(Source)

"Tips for Managing Outsourcing Risks," by Ben Sady, CPA Practice Advisor, August 16, 2013
"…perceived and real risk of outsourcing also seems to be increasing daily. News media and published reports frequently highlight cases of data breaches through rogue employees, hackers and lost/stolen devices. Additionally, there is a risk of receiving poor services from a vendor which can result in operational inefficiencies, lower quality of products and decreasing customer satisfaction.

"Companies should be managing their outsourced vendor relationships to ensure their processes, data and systems are protected. The employees tasked with vendor management and managing these risks should consider implementing the following processes:

- Requirements Definition: Before the decision is made to use a third party to outsource a process or technology, a company should identify the concerns and pitfalls associated with outsourcing and the risks associated with each perspective vendor. This process should include the appropriate stakeholders (e.g. process owners, IT, legal, internal audit) and can be used as the starting point to create risk-based written requirements. Documented requirements for each outsourced process are important to guide and manage the process from vendor selection through monitoring.

- Vendor Selection and Due Diligence: A well-defined vendor selection process will include evaluating proposals against the requirements definitions, performing vendor due diligence, obtaining the necessary approvals and retention of contracts in a central filing system or contract database. Involving the appropriate stakeholders in the vendor selection process is essential and provides the different perspectives needed to make sound decisions. The scope and effort of the vendor selection procedures should be consistent with the riskiness of the outsourced process.
As for due diligence efforts, this should be risk-based and done prior to entering into a contract. For low risk vendors, it may involve phone inquiries and reviewing company websites. For high risk vendors, it may involve site visits,

reviewing financials, reviewing policies and procedures, reviewing internal controls and reviewing third party assessments.

- Contract Negotiation and Implementation: The vendor management policy should identify who has the authority to execute contracts. Engage legal counsel to review the contract. You do not want to enter a contract that legal counsel disapproves, so use counsel in contract negotiation to filter out the unfavorable terms. The contract should clearly define the rights and responsibilities of both parties and contain adequate and measurable (SLAs) Service Level Agreements. A few service level agreements to consider include: timeliness of report delivery, timeliness of transaction processing, percentage of errors in processing, instances of IT security issues and non-compliance, and system uptime.

Most people think that (SLAs) Service Level Agreements are meant only as a protective measure. They are protective, but the measurements can also be used to help identify chronic issues by all parties involved. Look for areas of consistent non-compliance or non-performance and ask your vendor, "Why is that occurring? Does there need to be a personnel, process, or technology change to improve?"

- On-going Monitoring: The vendor management policy should identify an annual risk assessment approach that can be followed to identify high, medium and low risk vendors. To begin the monitoring process, you first need to identify your population of vendors and then perform your risk assessment for vendors according to your policy and methodology." (Source)

BACK OFFICE PRO

We are your full-service outsourcing partner

Back Office Pro offers a full suite of Back Office outsourcing services designed to expedite and streamline the development of new products, marketing collateral and creative tools for your company. From data management and analysis to transcription and engineering services, our team of highly skilled individuals has years of experience performing exceptional work in their fields of expertise. We specialize in solutions for the following:

- Film & Video
- Print & Design
- Animation
- Engineering
- Research & Analytics
- Data Management
- Image Editing
- Transcription Services

Back Office Pro is your right choice for Outsourcing, because we meet or exceed all of the criteria recommended for selecting your business partner. We have the qualifications you should look for in a prospective outsourcing partner—qualifications like these:

- Credentials and Track Record: For much of the last decade, Back Office Pro has offered exceptional levels of quality to each of our customers in countries around the globe including in the United States, Canada, Australia, and throughout Europe. We have an office in the US (New Jersey) and we are ISO 9001 Certified.

- References: We are a Company known to meet 100% of our Clients' expectations. See what our Clients have to say about our work in the section ' Clients Speak.'

- Understanding Your Business Objectives: We have a great deal of experience meeting our Client's business objectives. There are many benefits to business process outsourcing depending on your company's specific needs and what you are hoping to outsource. Some advantages of business process outsourcing that could affect you include faster turnaround time for your customers, quick access to new technologies and highly skilled individuals who can use that technology.

- Communication: This has never been an issue for us. For many years we have been a trusted partner for businesses of all sizes, providing exceptional service at a value that makes it possible to get the services you need while remaining on budget. With experts on call, scalable operations and payment only for services you need, Back Office Pro is the perfect fit for your outsourcing needs.

- Sample Work Products: One of the reasons we have been able to stand out among our competitors and become a trusted partner for so many of the companies we work with is that we offer a full range of services across the spectrum of medium sized business, corporations and entrepreneurship. This allows us to provide for whatever needs you might have, from production

of a feature film to due diligence before a major merger or transcription of thousands of hours of audio or video content. Sample work products are available upon request.

- Technical Competence: Back Office Pro hires and utilizes staff members that are the best in their respective field, further ensuring quality by following ISO quality standards and maintaining constant training and regular quality checks for all of our staff. We place teamwork and integrity at the center of our business and expect each of our specialists to work within an ecosystem that is designed to foster creativity and exceptional work ethic while maintaining the level of quality you expect from an offshore firm.

- Risk Mitigation: We adhere to strict ISO quality standards and maintain a workflow that prioritizes accuracy, quality and completion of projects on time and within budget. Our comprehensive set of reporting tools mean that you will always know exactly where you project stands.

- Post Development Support: We strive to offer what our customers need by customizing services to match those needs, including Post-Development Support. While our staff is trained to provide specific services, we will customize the finished product and ensure that the format, style, and finished product you have in mind is exactly what you will receive.

CLIENTS SPEAK

"Substantial cost savings and time savings on several projects. The services provided by Back Office Pro helped us to achieve this. Attention to detail and prompt attention to requests are excellent."
-Sr. Vice President (Transportation Industry in USA)

"Overwhelming support level and understanding at Back Office Pro. Quick turnaround helped us reap immense profits. Looking forward for a successful business relationship in the coming years."
-Graphics Manager (Electronics Company in South Korea)

"Back Office Pro's price, quality and turnaround time has been very impressive, I honestly say. Using their services saved me over a month of full time labor and expenses." –Principal (Accounting Company in the USA)

"The quality of animation delivered was exceptional and it helped us close on our new outsourcing partner." –Director (Pharmaceuticals Company in Netherlands)

"Our assigned executive at Back Office Pro was extremely well-versed in engineering drawings and architectural designs. This made our communication effortless, and their customer service very professional and courtesy." - President (Construction Company in the USA)

WHY YOU SHOULD
ACT NOW:

"Analysis: Morning in America? U.S. economy poised to accelerate," by Jason Lange. Reuters, Mon Feb 25, 2013. Famed U.S. economist Milton Friedman once observed that a recovery from recession is like plucking a guitar string: The harder the economy is pushed down, the faster it snaps back.

That didn't happen when America began to exit a deep downturn in 2009. Now, though, after years of paltry growth and despite a government austerity drive that could batter the economy for months, signs are emerging that a more robust recovery is around the bend.

"We finally are getting something that looks more like a normal recovery," said Nigel Gault, an economist at IHS Global Insight in Lexington, Massachusetts. (Source)

We are reading more and more reports like this –not just for the US economy, but also for the Global Economy. The time is ripe for you to have growth on your mind. At Back Office Pro we stand ready to support you in your growth strategy.

The Next Step:

Go to our website: http://www.BackOfficePro.com and see for yourself the benefits of working with a premier outsourcing service. Fill out the "Contact Us" block to the right of each of our web pages and we will put you in touch with one of our representatives.