

Next-Gen Outsourcing: Adaptive Tactics

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While the marketplace generates an ongoing buzz of controversy on outsourcing, the development of best-practice strategies and tactics steadily gains steam. Behind the rhetoric lies one solid fact: successful outsourcing is based on well-defined processes with clear business rules and outcomes. It must address long-term business objectives, rather than short-term cost savings where vendors are selected on a price-based, ad hoc basis.

"One of the great clashes in the market today is driven by the dominant use of outsourcing to cut costs along with requirements for customized services," said Allie Young, research vice president for Gartner's Sourcing research group. "Only by forgoing customization and moving to standardized services can the market effectively and reliably deliver the cost efficiency goals." "The truth of the matter is that cost focus alone is not going to be satisfying over the long term."¹

Clearly, there is a dichotomy in how companies select outsource partners; treating them as a commodity while expecting a highly customized outcome simply does not work. As the CEO of an outsourcer focused on customer acquisition solutions, naturally the following best practices suggestions are targeting strengths in this arena; however, many of them are applicable to any outsourcing scenario.

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Forrester Research analyst Julie Giera agreed that the outsourcing market is heading for a shake-up. "What needs to happen," she said, "is something Forrester is calling "adaptive sourcing," an outsourcing arrangement that evolves as customer needs change over time."²

It is critical to identify if your potential outsource vendor is adaptive or if they are commodity-based. Using a poker analogy, the most typical adaptive outsourcer "tell" would reflect a business model based on a value-based performance pricing structure.

In other words - if the scope of the project is not defined from the top down and the selection process not carefully monitored to ensure the outsourcer's business model fits that scope, then your project is destined to fail. Or, as Young explains, "They blame the outsourcer when the root of the problem is their inability to pick the right outsourcer."

In addition to a very strategic approach during the vendor selection process, there are a number of deployment tactics that can ensure that the project is successfully outsourced and predefined outcomes are delivered, regardless of the type of project or function that is outsourced. As outsourcing evolves into its Next-generation based on an educated history of

challenges and successes, the following areas are essential for any adaptive outsourcer and will become much more prevalent:

- Establishing expectations,
- Discovery and testing,
- Intelligence-based campaign refinement, and
- Client and vendor role definition.

Establishing Expectations

One of the most fundamental aspects of an outsourcing initiative, and one that makes the largest impact on the partnership, is ensuring that everyone has the same expectations from the outset. While it may sound fairly simple, establishing expectations between client and outsourcer is not always clear-cut or obvious.

Using another example of expectations that are not aligned, what if the outsourcer learns that the client has ROI expectations that are unrealistic or impossible to achieve? In a software or hardware technology purchasing scenario, for instance, new technology introduced into the market sometimes will lengthen the decision process while prospective buyers review a larger selection of competitive products, resulting in a longer sales cycle with sluggish activity. A client that is unaware of competitive activity may expect a purchasing decision cycle of six months when realistically it is closer to nine or twelve months and deem the project unsuccessful when the initiative is not delivering leads for ready-to-buy prospects at the six-month mark.

Best practices demand that expectations are thoroughly addressed from the beginning of the project or relationship to avoid these types of issues, and continue to openly communicate them throughout the project or partnership.

In the high-tech field where purchasing patterns continually shift, it can be difficult to anticipate the market's direction. A vendor with deep expertise in a specific product or service area can identify or clarify minute details about the market to define measurable, realistic expectations. In the example above where the decision cycle was longer than expected, leveraging a vendor already immersed in this industry might share that intelligence, preventing the above scenario entirely.

When combined with the agility of an adaptive outsourcer, this next-gen model of outsourcing offers fluidity that cost-based, commoditized outsourcing models just cannot compete with.

Just as important as setting clear expectations, it is critical to take time for discovery and testing before fully launching the campaign or relationship.

Discovery and Testing

At the beginning of an outsourcing project or partnership, the outsourcer should extensively collaborate with the client during a period of discovery and testing. As the next-gen of outsourcing moves forward, the market should demand this as a critical implementation phase for any type of technology outsourcing.

Gathering as much detail as possible during discovery will give the partner a thorough picture

of the client's business, ranging from the product or service level to a deep understanding of the competitive landscape. While a surface level understanding may work for the commodity-based outsourcer that is doing a rote task for the client such as technical support or taking simple catalog orders, that approach does not work for outsourcing of complex products or services that requires dialogue of a deeper nature.

The purpose of a detailed testing phase is to verify and explore the knowledge gained through the discovery dialog. If it is a voice-based outsourcing project, such as lead generation or customer acquisition, the testing phase should determine if the messaging resonates with the prospects and if the target audience is pinpointed correctly. Depending on the scope of the campaign, an adaptive outsourcer might implement a three- to four-week testing period.

For a lead-generation campaign, for example, the testing would be aimed at a core sample of the clients' target market. It allows assumptions and key facts to be verified or disputed at a level that can accommodate rapid changes prior to full implementation of the campaign. Testing should be used to establish metrics, such as the quality and quantity of leads desired, and serve as an opportunity to avoid problems that otherwise might crop up later.

There are times when discovery reveals that the expected results are misaligned. Perhaps the client has defined a target market built on completely untested assumptions. If the outsourcer is calling on companies in the \$50 million to \$100 million range in revenue but discovers that the product instead resonates with companies in the \$20 million to \$60 million range, this identifies a critical gap. More commonly, maybe the client expects delivery of an extremely high percentage of prequalified leads within the first few months of the campaign, while the database they provided was hopelessly out of date and brimming with misinformation. It would be far better to determine in a testing mode that assumptions are incorrect or that data is incorrect, rather than discovering inaccuracies further into the campaign after full resources are deployed and it becomes a longer term, expensive process to make drastic changes - or even worse, discover the problems at the end of a campaign when the results are analyzed and they fall short of projections.

The revelations of the testing phase can be extremely enlightening and lead to upfront fine-tuning or sometimes even drastic changes that have enormous impact on the direction of the campaign.

In a customer acquisition or lead-generation scenario, the outsourcer should act as a seamless extension of the client's sales force, not as a superficial party that just passes along leads based on flat demographics.

Next-generation outsourcing takes recognizes this need and takes it to the next level, where clients demand an outsourcing partner that has the expertise and conviction to push back, even against the client's most deeply rooted assumptions.

Intelligence-Based Campaign Refinement

To be successful, clients must keep an open mind when they hear feedback or recommendations from an outsourcer, however jarring. If clients can't or won't change their campaign based on intelligence obtained and verified during testing, then their expectations may not be realistic for what the outsourcer can deliver for them.

Because the testing delivers fact-based feedback, Next-Generation outsourcing promises to be strongly based on performance-pricing. Recent documentation from the major analysts and research groups support this tactical change. Because outsourcers in this model have a higher-risk commitment if they are not delivering as expected, companies can rely on a more open, collaborative approach that remains flexible throughout the engagement as intelligence is gained.

If market intelligence reliably indicates that a tactical or strategic change in the client's approach is necessary, the outsourcer may have the power to recommend the change but cannot force it to happen. Clients who ignore recommendations or refuse to modify a program based on what is learned through testing increase the odds that the campaign and/or relationship will fail. This becomes a critical juncture that determines the success or failure.

For flexible clients partnering with strategic, adaptive outsourcers, the intelligence-based changes are tested further to validate the modifications and refine the campaign. This is an area where an adaptive outsourcer can make the largest impact. If a second component is needed, such as adding a customer acquisition initiative to a target market profiling program because the timing of the prospect's interest is immediate, not all outsourcers have the flexibility to add a new component on the fly.

Client and Vendor Role Definition

When testing reveals no changes are necessary, or clients successfully change behavior and testing indicates the campaign should move forward, both parties must define the logistical roles each will play during the campaign.

This can be a challenge. Some clients want to control certain aspects that should remain the outsourcer's responsibility, leading to conflicts that must be resolved. Typically, the outsourcer was hired because they offer a core competency that the client cannot address internally, and there is value in ensuring their role allows them to maximize those strengths with as little interference possible.

For instance, when outsourcing a direct marketing activity to enhance lead generation, the program ownership as well as the disposition of the information obtained (leads, profiles, event attendees) could be owned by either sales or marketing. Either way, the experience should be both collaborative and adaptive. Programs designed to support specific "net new business" initiatives, however, require far greater visibility into and direct contact with the actual user of the program. These programs must be adapted to the behaviors and capabilities of the users - in this case, the sales reps. The effectiveness of the program can be impacted greatly if the deliverable is not crafted to address the specific needs of the user. The experience is dynamic and changing, and it is often affected by factors not visible at the management level. Best practices would suggest that filters are designed into programs to ensure that the good news is delivered with the news that is not so good.

Thus, with the right collaboration between sales, marketing and the adaptive outsourcer, adjustments can be made to solutions, pricing, sales readiness and improvements to the prospect experience. Short-term metrics and expectations may morph into more realistic and stable strategies.

Not every outsourcer can successfully manage sensitive logistics in a technology environment.

When the engagement reaches a tipping point where the program will either succeed or fail, the outsourcer's ability to clearly and consistently communicate with the client on many levels is often the deciding factor.

Next-Gen Projection

In addition to the growing focus on establishing expectations, discovery and testing, intelligence-based campaign refinement and logistical role definition, clients will look to third-party service providers only if they demonstrate a comprehensive knowledge of the client's market. Outsourcers must act as objective information arbiters, pricing their services to reflect clear metrics refined over time to enable the client to understand and better manage short-term objectives and long-term goals. Depending on the company and the project, outsourcing can be based on commoditized transactional or performance pricing; however, as companies seek adaptive outsourcing partners, outsourcing is likely to shift toward a pure pay-for-performance industry.

References:

1. Kate Evans-Correia. " Gartner: Outsourcing Deals Based On Price Alone Are Likely Doomed." SearchCIO.com, 15 March 2006.
2. Linda Tucci. " Changes In Outsourcing Landscape Could Aid CIOs." SearchCIO.com, 31 January 2006.

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