



40 Risks to Establishing an Outsourcing Relationship

By Jim Tompkins, President
Tompkins Associates

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There are huge potential benefits from outsourcing. There are also huge potential risks associated with outsourcing. The following listing presents the 40 major risks in outsourcing by the steps: Strategy, Selection, Implementation and Management.

Outsourcing strategy is the process of determining whether or not to outsource and, if so, what to outsource. Outsourcing selection is the process of finding and evaluating potential outsourcing partners. Outsourcing implementation is where the relationship between outsourcing partners is defined and established. Outsourcing management is the monitoring and evolution of the ongoing outsourcing relationship.

Each step comes with its own unique set of risks. Addressing these risks will go a long way to making the benefits of outsourcing reality.

Outsourcing Strategy Risks

1. Outsourcing undesirable functions versus the ones that provide greatest competitive advantage
2. Not clearly defining goals and objectives before starting the outsource process
3. Not establishing an effective internal baseline to measure providers against, including costs, service, and value adds
4. Outsourcing in the international market without international operations experience
5. Inadequate business case development for the outsourcing decision
6. Making the decision to outsource without complete information on internal costs and processes
7. Not considering the impact of outsourcing on other functions and areas of risk such as environmental and regulatory factors
8. Lack of understanding the human relations and employment law requirements for an outsourcing initiative
9. Announcing outsourcing before sufficient details have been finalized, creating morale issues
10. Lack of risk analysis and risk assessment planning

Outsourcing Selection Risks

1. Not including enough resources to effectively manage the vendor selection process
2. Not having the proper internal skill set to effectively manage the selection process
3. Not understanding or leveraging the benefits a Request for Information (RFI) can have in narrowing the potential provider field before entering the Request for Proposal (RFP) process
4. Not casting one's net widely enough for potential providers of the service, and thus missing good candidates
5. Not involving a variety of perspectives in the selection process
6. Poorly developed and documented service or product specifications
7. Inaccurate costing of assets that will be transferred to the service or product provider
8. Not doing business and financial due diligence on potential providers
9. Insufficient knowledge of service provider capacity limitations
10. Making the selection process a personal rather than a commercial decision

Outsourcing Implementation Risks

1. Not establishing an outsource relationship that has sufficient flexibility to deal with business fluctuations
2. Initiating an agreement with a service provider that limits flexibility in the future
3. Having an unrealistic timeline for any of the steps of the outsource process including start up
4. Poor implementation planning with respect to timing of transition to service provider and demands on the organization
5. Underestimating the time required to negotiate a Service Agreement
6. Not fully defining an employee transition plan
7. Not getting the operational issues resolved in the Service Agreement before moving into the legal aspects of the agreement
8. Inadequate planning concerning information systems and interfacing with the service provider
9. Insufficient technology development before implementation
10. Not training the provider on critical elements of the company product line or service expectations

Outsourcing Management Risks

1. Not considering the full impact of an outsourcing agreement on a company's financial condition
2. Lack of internal communication
3. Lack of incentives for provider continuous improvement
4. Not establishing multiple touch points between the company and the provider
5. Lack of a contingency plan for major disruptions at the service provider
6. Not putting a full communication plan into effect including escalation processes, regularly scheduled meetings, review periods, and employee communication
7. Doing a poor job managing expectations around the go-live
8. Expecting too much from a provider in the early months after go-live
9. Neglecting to "flex" the outsource relationship as outsource requirements evolve
10. Lack of a formal "lessons learned" roundtable on outsourcing in general and, specifically, established outsource relationship

The process of Outsource Strategy, Selection, Implementation and Management is critical to achieving success from outsourcing. Avoiding the risks presented via a robust outsourcing process will significantly contribute to your ability to realize the benefits of outsourcing. Investing time and resource in the design and deployment of a proven outsource process will help you avoid the risks of outsourcing and move your organization forward to the next level of performance excellence.

About Tompkins Associates

Tompkins Associates delivers solutions focused on the entire supply chain—from operations to technology implementation to material handling integration—and are all designed to improve your bottom line and help you provide total customer satisfaction. Our expertise encompasses the operations and technology of supply chain planning, procurement, manufacturing, supply chain execution, organizational excellence/training

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Corporate Headquarters:

8970 Southall Road

Raleigh, NC 27616

800-789-1257

919-876-3667