Outsourcing whitepaper

How to Select, Engage and Manage an Outsource Service Provider

Outsourcing is an economic principle developed by the 19th century economist David Ricardo. The basis of the principle is that companies should outsource the production of low value goods and services even if they can produce them more efficiently themselves. This is because there is an opportunity cost; for every hour consumed by non-productive tasks, there exists some high-value activity you could be dedicated to. Technological advancements have enabled outsourcing services to be accessible to businesses of all sizes, although there are additional challenges faced by small and medium-sized businesses. This paper addresses some of these challenges and provides guidance on ways to embrace outsourcing so as to improve productivity and business value.

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Executive Summary

Access for Small and Medium Enterprises (SME's) to quality outsourcing services has significantly improved over the last 10 years. The Business Process Outsourcing (BPO) industry has matured over time and has established itself as a viable business model supported by specialist technologies, improved delivery and a wider range of services.

For Australian business owners, the Philippines is now emerging as the destination of choice to engage BPO services due to the favourable time zones, access to young qualified resources, quality English communication and a closer cultural alignment.

While accessing a lower cost of delivery is the initial driver to implement outsourced services, there are a range of further significant advantages to be captured such as the access to higher quality resources, constant technology refreshment, the transition from fixed costs to variable costs, and improved systems integration as a result of the process and technology knowledge embedded in a BPO provider.

Unfortunately, many business owners fail to capture many of these benefits as they underestimate the impact on their existing business, apply insufficient resources or allocate insufficient time or skill to managing the change that accompanies the utilisation of a BPO service. Transitioning some of the businesses operational procedures to an outsource provider can result in significant disruptions to the business. Changes to processing procedures impact staff duties and responsibilities, resulting in new handling and oversight procedures in addition to complications from remote communications, all of which contribute too many BPO implementations under-delivering.

Fortunately, these challenges can be identified and managed.

In order to capture the full scope of benefits available and to minimise the disruption to employees and clients, it is imperative that business owners support the transition by treating the move as a significant change project and by allocating sufficient resources with the appropriate skills to oversee the transition.

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Purpose of Paper

Seaview Consulting, as part of its succession planning and transaction capabilities, has been focusing on educating business owners on the drivers of "value". To assist businesses, Seaview has published a number of articles in relation to succession and valuation. This paper is a continuation of this educational assistance for business owners.

In January 2014, Seaview Director, David Fotheringham, participated in an outsourcing research tour of the Philippines and returned in March 2014 to conduct further research. David visited over 20 providers in three separate locations which provide a variety of services including document processing, call centre support, help desk support, accounting, financial planning, risk insurance, legal services, web development, marketing, Search Engine Optimisation services, and animation.

David has extensive experience in managing large and small business operations, including managing the delivery of outsourced services of a financial services business. He also has experience in engaging outsource providers both locally and internationally.

The Philippines was selected following increased activity from local businesses driven by perceived improvements in communication and cultural understanding when compared to services being offered in Thailand, India and Vietnam. Furthermore, one of Seaview's U.S. strategic partners, Beechwood International, has secured increased activity from this region, particularly the technology growth region around Cebu.

Seaview believes a successful outsourcing engagement is built on communication, with both parties having an excellent understanding of each other's needs, capabilities, and capacities. Size, capability and capacity are critical considerations when reviewing an outsource provider. Physical site visits to assess the quality of the operations, security arrangements and work environment of the employees are the most effective way to assess a supplier. Building a solid relationship with good, clear and open communication without physically meeting each other is difficult.

As part of Seaview's commitment to building better relationships with potential suppliers, David will regularly visit suppliers to monitor their operations and maintain relationships.

In addition to introducing Seaview's capabilities and services to support the implementation of outsourced services, the primary purpose of this paper is to assist business owners;

1) understand why outsourcing should be assessed as a delivery option;

2) in providing guidance on what factors should be considered when discussing outsourcing with a third party supplier; and

3) in providing guidance on some of the pitfalls to avoid.

This paper will highlight many risks that need to be addressed if you elect to self-manage an outsourcing implementation. Alternatively, you can engage an expert like Seaview with the necessary experience and capabilities to manage the whole process on your behalf.

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Outsourcing as an Approach

Outsourcing is an economic principle developed by the 19th century economist David Ricardo. The basis of the principle is that companies should outsource the production of low value goods and services even if they can produce them more efficiently themselves. This is because there is an opportunity cost; for every hour consumed by non-productive tasks, there exists some high-value activity you could be dedicated to.

Technological advancements have enabled outsourcing services to be accessible to businesses of all sizes. The confidence of business owners to embrace this principle, and entrust in their own abilities to achieve higher value results from their focussed efforts in areas of their own expertise, will ultimately be the measure of success.

Outsourcing offers more than just cost savings. The real opportunity of outsourcing lies in SME's accessing skilled expertise in specialist areas which can assist them implement new ways to get things done at a higher quality level while ensuring a lower cost. Accessing outsourced specialist skills supports growth by removing administrative tasks from staff, creating capacity that allows the re-assignment of skilled local resources into higher value add activities. In addition, specialist advice on attracting new business through digital communications and improved client engagement will also support growth.

Outsourcing less value-contributing tasks to a lower cost provider enables businesses to capitalise on higher value opportunities. This remains the case even after quality controls to ensure accuracy, completeness and timeliness, are implemented into the procedures.

As a business grows, so will the demands on the business owner grow, in areas previously not as critical to the business such as accounting, marketing, IT and staff management.

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Terminology & Engagement Models

The focus of this paper is to assist the SME business owner move selected administrative and operational activities to a Business Process Outsourcing (BPO) business on a Business-to-Business (B2B) basis.

Knowledge Process Outsourcing (KPO) is usually an evolutionary process as it involves moving core business activities requiring decision-making capabilities into an outsourced environment. This critical business decision is usually only taken after a successful relationship with a supplier has been developed and proven over time. Whilst the concept of KPO has been introduced it in this paper, a more detailed understanding requires further commentary beyond the scope of this paper.

BPO - Business Process Outsourcing

Business Process Outsourcing (BPO) is electing to move the delivery of specific activities or tasks to a third party, rather than delivering that activity or task through employed staff. BPO activities can be delivered from a local supplier, i.e. in the same country, or sent to another country (off-shoring). It is known as "near-shoring" if the activity is done with a neighbouring country, such as New Zealand and "off-shoring" when the activities are completed from a country further away. Another form of BPO focusing specifically on the delivery of technology is known as Information-Technology-Enabled Service (ITES).

KPO - Knowledge Process Outsourcing

Knowledge Process Outsourcing (KPO) is the allocation of relatively high-level tasks that require the application of knowledge, skills, expertise, and experience to make a decision in regards to how to complete the task. Examples of KPO include research, the production of financial statements and para-planning. KPO is often used within industries such as research and development, financial consultancy, business and technical analysis.

Desk Hire

This approach involves hiring a single individual who operates as a freelance resource. Often, these resources operate from their home on mobile devices. Tasks are usually very specific and one-off in nature, with the average fee paid around $250.00. There is limited infrastructure or security controls put in place unless implemented by the contractor. It is unlikely any freelance resources would hold appropriate insurances and enforcing any agreements would be extremely difficult and costly. This solution is not recommended for regular business processes but may be useful for small one-off assignments such as research. Freelance resources usually register their skills with online marketplaces and bid for work posted through online market websites, examples include oDesk, Freelancer, Guru, RemoteStaff, Redfords, and VirtualDoneWell.

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Seat Hire / Labour Hire Revenue Distance Model

Seat Hire is similar to Desk Hire in that a resource is secured for a one-off assignment; however, the contract is made with a business rather than with an individual. The business employs staff, operates an infrastructure that can support the secure receipt and handling of assignments, offers ongoing training to its employees and holds the necessary insurances and other business registrations. Employed staff will not be dedicated to any one client and assignments are allocated to available staff as it arrives.

Seat Leasing / Global Delivery Model

Seat leasing is also done through an established outsource business provider and involves securing one or more individuals on a full time basis. The outsource employee is 100% dedicated to your business to perform tasks as you direct. The outsource provider maintains employment-related responsibilities and oversees local performance. Under this model, you pay for the staff member whether you use them or not. Ensuring sufficient work is directed to the outsource resource requires planning and a change in the way local employees allocate their work.

Build-Operate-Transfer (BOT) Model

When the size of the operations being outsourced involves a significant number of people, it may be more economical to build a team and assume responsibility for that team under a foreign ownership model.

Ownership of operations in a foreign jurisdiction brings an additional layer of complexity and risk. Implementing a BOT solution requires additional investigation and management involvement and is only appropriate for businesses employing in excess of 25 employees in the overseas operation.

This model may be appropriate for a number of similar businesses electing to collaborate together and implement a shared solution.

Discussion and guidance on the issues in the BOT model is beyond the scope of this report, however, Seaview is able to assist plan, source and implement a BOT solution.

Blended Offshore Outsourcing Model (BOOM)

This model incorporates a mixture of the above models depending on the frequency of use and task being outsourced. Discussion and guidance on this model is beyond the scope of this report, however, Seaview is able to assist in investigating the implementation of this model if required.

Refer to Appendix 1 for a list of outsource services available.

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The Benefits of Outsourcing

Seaview recently published an article addressing the drivers of business values. The illustration below explains the value formula and is designed to assist business owners appreciate the need to focus on aspects that grow revenue, reduce costs and reduce risk within their business.
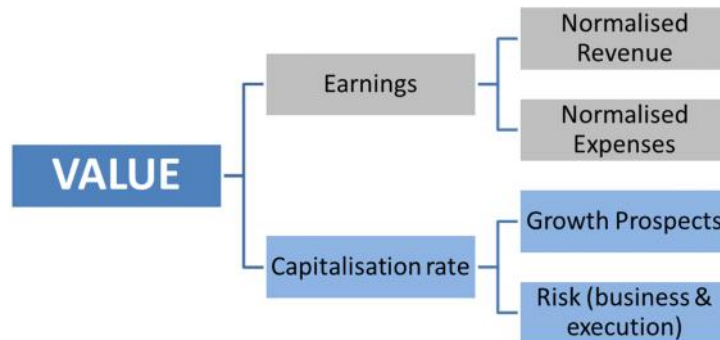
A recently published study of financial advice firms completed by global asset manager Dimensional identified five building blocks for success. Systemising core business processes was identified as one of the five building blocks. Outsourcing can assist with this.

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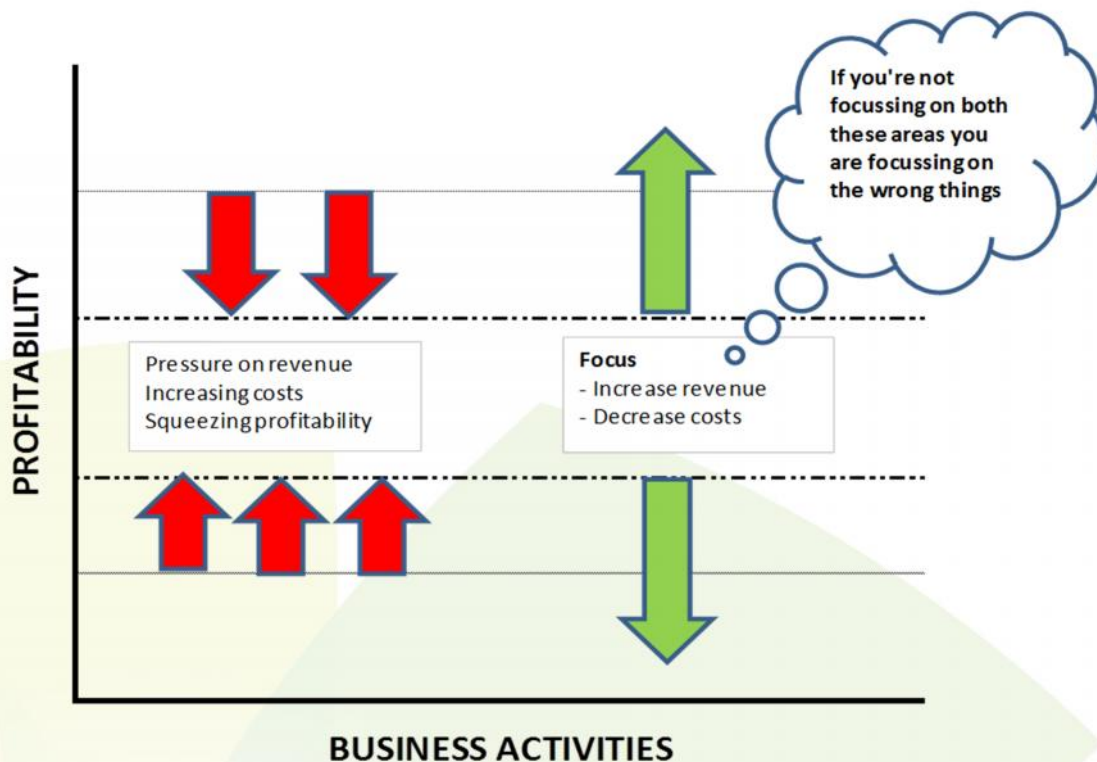
The Transition Gap

While outsourcing is not exclusively relevant to growth businesses, growth businesses are best positioned to benefit from outsourcing.

As illustrated below, growth businesses begin to struggle as the demands of the growing business go beyond the availability and capability of the business owner or owners. However, the business is usually not in a position to employ a skilled multi-disciplined expert to address the increasing number of complex issues.

This creates a transition gap. The traditional approach to addressing this gap is the business owner working longer hours in areas they are less skilled or interested in.

This approach fails to embrace the principles of outsourcing and generally demonstrates a lack of confidence by the business owner to reap the benefits of applying their time to higher value activities instead of lower value overhead matters.

Seaview has identified this challenge and describes it as the leap of faith. It is the period where the business owner needs to embrace the expertise of others and to back their own capabilities and strengths to achieve a better outcome. That better outcome is not only limited to improved financial performance but also contributes to a significant uplift in the value of the business due to improved growth prospects, improved operational procedures, and reduced key person dependency risk.
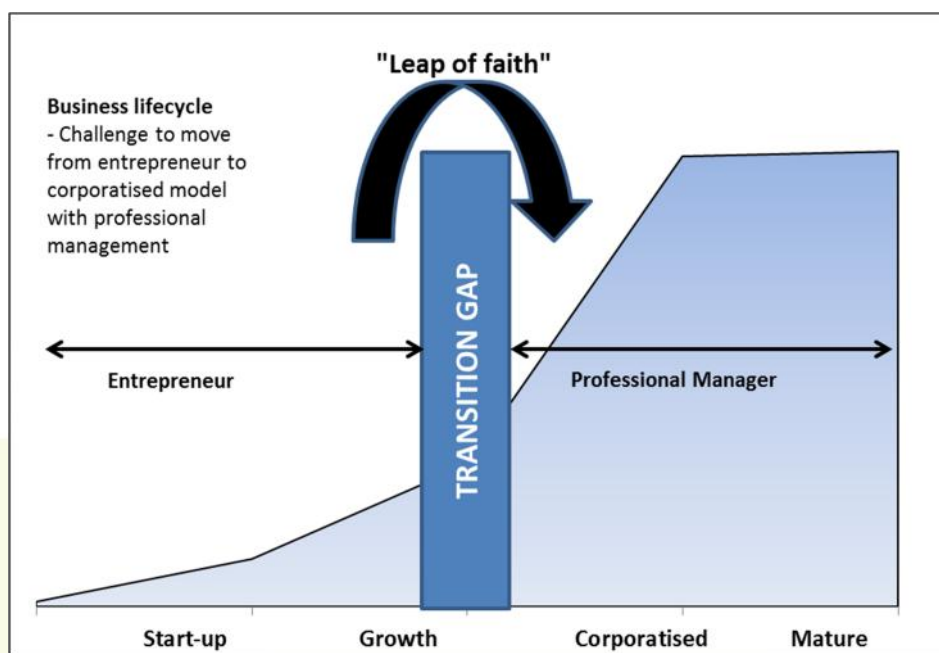
Allocation of Tasks

This increasing demand on the business owner from overhead activities is usually addressed by the business owner taking on these emerging challenges personally, resulting in time and effort being redirected away from the drivers of success. Furthermore, the skills required to address the emerging issues are often beyond the skill set of most business owners, or at least is an unproductive use of the business owner's time.

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The resulting impact is less growth, reduced time on client-facing activities and increased time spent in the business, reducing the overall enjoyment and satisfaction for the business owner.

An alternative approach is to utilise outsourcing to reassign low value tasks to cheaper resources more skilled and faster at completing these tasks.

Outsourcing combined with utilising a part-time skilled specialist resource provides for a lower cost and flexible alternative for the business.

Where value & margin added

ADMINISTRATION | CLIENT SUPPORT | CLIENT ADVICE

Profit margin highest on advice

Loss or minimal contribution from administration tasks

—— Cost of task   —— Revenue from task
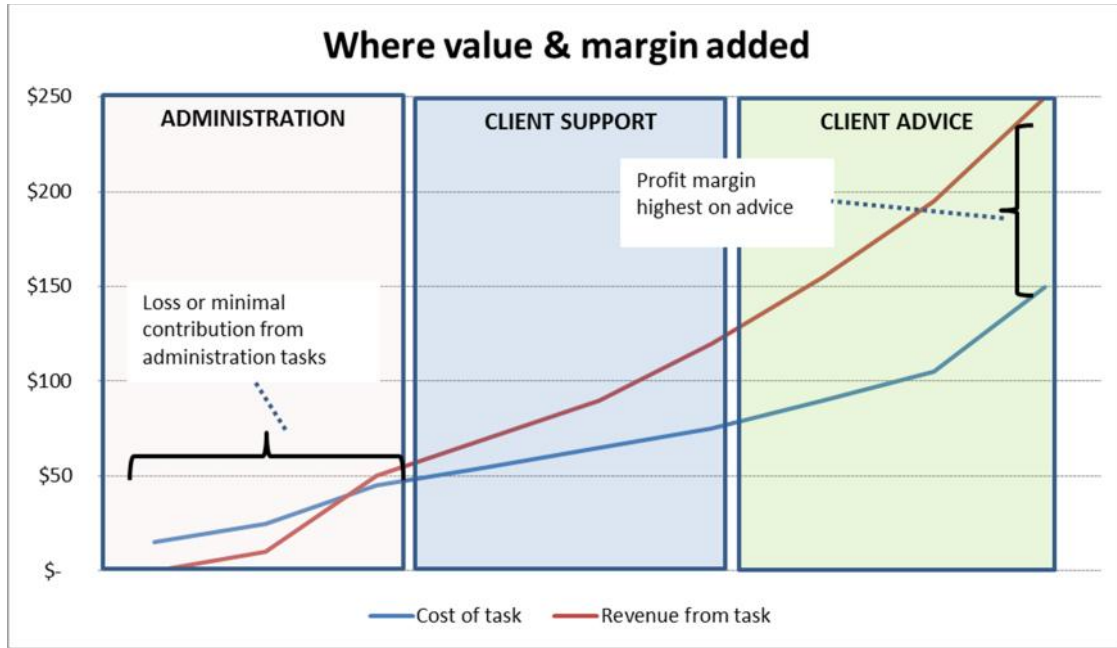
SME business owners often have limited skills and time to address all the emerging issues of a growing business while also trying to capture new opportunities.

The time, cost and risk associated with retention from hiring an appropriately skilled General Manager is considered uneconomical. Outsourcing provides SME owners with an alternative approach to addressing the skills gap; however, there remains a transition period to capitalise on the opportunity.

Through the combination of part-time and temporary resources, implementing outsourced solutions can address the transition capability gap and make available capabilities previously only available to the larger businesses.

Refer to Appendix 2 for a case study examples.

Refer to Appendix 3 for a list of advantages from outsourcing.

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The Risks and Challenges of Outsourcing

Cultural Alignment

Cultural differences should not be underestimated. The cultural adjustment is both at a foreign outsource operation level as well as local operations.

Time must be spent in assisting local staff adjust to new operational processes as well as how to utilise and maximise the additional capacity created by engaging outsource resources.

The adjustment required impacts on existing work processes and engagement between staff, software vendors, product providers, and potentially clients.

Time should be invested in ensuring staff engaged at an outsource provider understand the culture of your business and your client base and should be educated in local aspects such as key community events, sporting preferences and local news in order to effectively engage and relate with the Australian businesses and clients.

So too should the staff of Australian operations learn more about the culture of the outsource provider, in particular their attitude and acceptance of Australian slang and humour. An effective selection and initiation program will assist in this critical aspect. Seaview works with the Australian and foreign outsource providers to address these issues.

Refer to Appendix 4 list of supplier assessment considerations.

Refer to Appendix 5 for a template checklist.

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How to Mitigate and Manage the Risks

BPO Countries, Selection Considerations & Why the Philippines

BPO Countries

BPO services have evolved over the last ten years with businesses operating in most low cost countries that have a strong relationship to a developed country. BPO operations exist in countries such as Ireland, Czechoslovakia, Hungry, South Africa, Zimbabwe, Malaysia, Vietnam, Thailand, India, Singapore, Fiji, and the Philippines.

BPO in the Philippines

The Philippines has several advantages:

1) a large workforce supported by a large pool of highly educated people;

2) English-speaking;

3) a strong customer-service orientation;

4) cultural similarities due to historical reasons;

5) a strong cultural affinity to North America (which must be adjusted to the Australian culture);

6) 450,000 college graduates annually;

7) highly reliable low-cost international telecommunications infrastructure;

8) multiple diverse and inexpensive suitable site locations;

9) large population of western management skills present; and

10) strong government support.

A survey by a leading industry expert showed call centre operating costs in the Philippines were roughly the same as in China and India, and about 75% less than in the US.

"The Philippines can be the next India, with the right government support. The work ethic is strong, English skills are better. But the government should drive education around technology. Now is the time to move forward, to drive growth and innovation. The Philippines is in a strong position to do that."

—Scott Murray, Chair and CEO, Stream, an American BPO firm in the Philippines.

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Managing Outsourced Resources

The success of any supplier relationship is based on the level of engagement between the parties. The depth of understanding of the drivers of success requires constant monitoring, with proactive actions taken to address deficiencies.

Ensuring enough time and skill is dedicated to identifying the right supplier, implementing an appropriate monitoring framework and reporting requirements supported by regular meetings will assist to mitigate and minimise the risks. Engaging an expert with broad capabilities and experience enables this critical aspect of the business to be effectively managed while business owners continue to grow the business without the distractions associated with supplier performance issues and ongoing management.

Practical examples of this include:

1) Treat outsourced staff members as if they were your own

A successful outsourcing relationship requires that the outsource staff feel part of a team. A conscious effort should be made to ensure activities are created that involve outsource staff as well as regular communications of internal matters and news.

2) Managing expectations

Both management and staff should have a realistic expectation of when the benefits can be expected. Just as hiring a new staff member results in a disruption and lost productivity as the new staff member adjust to the business, time must be invested in training and mentoring outsource staff. As a guide, a minimum of three months should be used before an outsource staff member becomes productive.

3) Document each task

Each task should be documented in an online learning system that can incorporate videos as well as texts to help outsource staff complete tasks efficiently and effectively. This documentation should be regularly updated as changes occur or additional decision points arise. A good outsource operator will be able to track the completion of tasks to identify areas of difficulty or misunderstanding as well monitor the efficient and effective completion of the task. Over time, service level agreements should be built around the performance levels achieved. Performance levels should improve with time and this should be factored into any contractual arrangements.

4) Set clear deadlines

For a remote worker, in a different culture, it is often difficult to notice cues or implied deadlines with work. You should encourage your staff to set very clear and realistic deadlines and you will see your virtual staff go beyond to meet them.

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5) Set regular meeting rhythm

Implementing a clear structure to a meeting rhythm is important when outsourcing. It gives employees a chance to engage you in their work, check-in, or change direction if need be, so that their time and effort is used most effectively. It also ensures that all involved are working toward the same goals. Over time, the frequency, content and duration of meetings is likely to reduce as outsourced staff becomes more familiar with the business.

6) Make regular voice contact

Just like local employees, remote employees respond extremely well to interacting with other team members. We encourage you to make voice contact daily, but every 2-3 days as a minimum. It will keep them engaged, motivated and excited to work hard for you. If you fail to engage your outsourced staff member, you risk the remote employee disengaging. A regular voice call is a simple thing, but very effective in building a long-term relationship.

7) Leverage collaboration tools

Using collaborative business tools can save time and give virtual workers the access to information they need from you. Most of these tools are free and intuitive. They help keep you organised and control your workflow, as if you and the virtual worker were in the same room.

8) Link SLA monitoring to the outsource providers system

Evidence on the performance of each staff member on each activity should be able to be reported directly from the outsource providers operational systems and linked to SLA agreements. If this cannot be achieved, review your ability to monitor the supplier.

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Managing Remotely

Outsourcing does not resolve managerial deficiencies.

Managing people is a skill. If managers cannot effectively manage and communicate with their staff when physically located in the same location, do not expect them to embrace and succeed at managing an outsourced resource.

1. Work around the communication style

Filipinos are taught the English language as early as pre-school. By the time they graduate college, their skill in the language is amongst the most competitive in the world. However, the subtleties of written communication can cause misunderstandings.

In addition, Filipinos indirectness, as with many Asian cultures, can result in misunderstandings. Foreign management and expatriates, who have worked in the Philippines, note that "Yes" could mean "yes, but…" or "yes, however…" or "maybe."

The best way to identify whether "yes" is actually "yes" is to listen to the intonation. It would help as well to clarify or ask questions from Filipino outsourced workers to make sure that "yes" is not merely "okay."

2. Emphasise management and leadership roles

The Philippines ranks relatively high on the power-distance index, which explains the emphasis that workers put on hierarchies. Most decisions are deferred to team leaders and managers, and most importantly, to clients. One implication of this working style is the tendency to strictly follow processes or established methodologies and communication line. To make the most out of this cultural quirk, clients should recognise the role that leaders and managers play in working with them and rallying subordinates. Cultures where results are more important than the processes taken to arrive at them will initially find it uncomfortable. However, most successful outsourcing projects are those that have allowed for results, open communication, and escalation of issues at the initial stages of the project.

3. Take advantage of service orientation and time differences

Filipinos are service-orientated; therefore, there is the emphasis to please clients or customers. Clients can take advantage of this trait by providing feedback as much as they can to their staff and spell out their expectations at pivotal stages of the project.

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Outsourcing the Task not the Responsibility

A common mistake made by many business owners is believing they have outsourced their responsibility with the task. From a regulatory perceptive such as APRA or ASIC, the responsibility for compliance to the law and regulations rests with the business. Contractual claims and make-good provisions, while useful, do not alleviate the business from their own responsibility to operate a compliant business.

It is therefore essential that the business understands the key risks associated with a late, incomplete or inaccurate service delivered by an outsource provider. SLA arrangements should ensure the prompt notification of any breach and detail the corrective action that needs to be taken. These SLA's arrangements need to be monitored to ensure reporting and corrective procedures are being adhered to. Independent testing of these should be implemented to demonstrate to regulatory bodies such as Licensees, ASIC and APRA that the business maintained reasonable procedures to oversee their responsibilities.

The bottom line is an organisation can outsource its operations, but not its responsibilities.

SLA – Construction – template

Task	Risk/ Obligation relationship	Adherence Check	Monitoring method	Breach Reporting requirements	Corrective responsibility & timeline	Penalty/ consequence for breach	Auditing Procedure

An example of the ongoing obligations remaining with the business is access and use of client data.

When any IT operation of an organisation is contracted out, the external service provider (or the outsourcing vendor) effectively becomes an "insider", having access to and handling sensitive and important information for the company. While the services provided by an outsourcing vendor may be beneficial and cost-effective, proper security management processes and procedures must be in place to protect sensitive data and customer privacy in outsourced IT projects or service. Data owners need to monitor and review all access rights granted to outsourcing vendors to protect key data at all times.

Governance

It is very common for businesses to implement SLA arrangements but then fail to monitor the reporting of these arrangements or test that there is the correct adherence to the arrangements. Failing to implement ongoing monitoring and testing would minimise the businesses defence if an action were brought against the business and may jeopardise insurance recoveries. PI insurance arrangements should be reviewed and understood to ensure arrangements entered into do not impact insurance cover. Equally, evidence of the outsourced provider's insurance cover including the ongoing monitoring that the cover remains in place and appropriate for the size of the business is essential.

Refer to Appendix 6 for a list of governance considerations.

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Appendix 1 – Outsource Services

Marketing	• Branding, Website design, Website hosting • SEO services, Outbound calls
Sales	• Outbound calls, Direct marketing, • Email Campaign
Customer Support	• Sales support, Inbound calls • Help desk
IT	• IaaS, SaaS, VOIP, Telephony, S/W development, HelpDesk • Outlook, Office, Exchange, Storage, Backup, Security
Administration	• PA Support, Reception, Document processing • Content management
Operations	• Process Documentaion, data input • Document conversion, Document management
HR	• Recruitment, training, performance review • Development plans, policy construction
Finance	• Bookkeeping, debt collection, AP, AR • Management & Financial Statements, ABS forms
Legal & Compliance	• Company Secretarial, remote auditing reviews • IP management, Contract reviews
Enginering	• CAD drawings, Quantity Surveying, Drafting • Review & Quality Control

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Appendix 2 – Outsourcing examples

Rule of thumb: the cost of one staff in Australia is the equivalent to 4 times the cost from an offshore outsource provider.

The calculations that follow provide a more detail analysis of costs associated with implementing an outsource arrangement. The analysis incorporates set-up costs including recruitment and a three month training period before resources are effective.

While there are generally immediate savings available by moving some activities to an outsource provider, the real benefits that can be captured by the business if done well is to improve business documentation, reduced key person dependencies, improve the volume, accuracy and completeness of data on core operational systems that assist increase productivity and increase the ability to absorb growth.

Example 1 – Transitional support

Engaging a specialist resource to manage the transition to a corporatised business structure and then appoint a lower level office manager instead of a general manager moving forward, once systems and processes are in place, can result in a long term benefit and reduce staff retention risk.

First Year Comparative

Dedicated GM Resource

Full time GM/Ops manager 12 month cost $120,000 – 150,000

Transitional Professional Support & Office Manager

	Scenario 1		Scenario 2	
Seaview Consulting	4 months	56,000	6 months	84,000
Junior Ops Mgr ($80k)	8 months	53,333	6 months	40,000
Total		**109,333**		**124,000**

In addition to a higher likelihood of success, over a 12-month period the cost is comparable, although the future ongoing cost to the business is $40,000 cheaper (scenario 1), ignoring benefits attributable to outsourcing.

Seaview's support

Seaview's David Fotheringham has extensive operational change experience and systems implementations, supported by qualifications in accountancy, applied finance, project management and governance. Accessing this resource addresses the skills, capacity, and capability gap.

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Example 2 – Replacing a departing office assistance with outsourced labour (2.25 people)

Refer Base case calculations in example provided on the next page

	$
Year 1 cumulative net position	(22,020)
3 Year Net position	371
Year 3 – future annual benefit	11,195

Figures including additional resources and productivity improvement over time, adjusted for the potential additional Australian management time are:

	$
Year 1 cumulative net position	(54,968)
3 Year Net position	44,325
Year 3 – future annual benefit	86,995

The Year 3, ongoing benefits reflect the benefit of extra resources.

Example 3 – Running out of space – 2 new people joining business instead of moving to larger premises, reallocate some activities to outsourced staff

Additional savings and benefits

- Avoid capital outlay associated with move including lost time connected with finding, negotiating, and transitioning to new premises
- Avoid CAPEX associated with two extra staff including configuration of systems
- Saving on additional rent necessary to accommodate increased staff
- Avoid disruptions to staff and clients associated with a move

Other examples – Other opportunities when to invest in outsourcing

1. Instead of hiring two graduates each year, hire one and invest difference in transitioning low value-add items to an outsourced service provider
2. Investing in a major software or IT infrastructure upgrade, look for outsource providers skilled in the upgrade areas and leverage their knowledge and skills to reconfigure the business
3. As part of a merger or acquisition where processes and roles are being redefined, embrace the change to adopt alternative ways to achieve the desired outcome

The calculation on the following page highlight the ROI available in year 1 and over time is significant, even after, acknowledging implementation costs, training time, additional consultancy and Australian management time supervising arrangements and productivity inefficiencies.

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Illustrative example		Role: Office assistant		
Description	Australia	Outsource provider	Philippines	
Wage	45,000	PHP: Monthly salary & benefits	20,956	6,985
Super	4,163	Exchange rate	40.852	
Office Space & IT*	0	AUD$	512.97	
Training	4,500	Service fee monthly	700.00	
Admin /It / Payroll support	1,200	Total monthly cost	1,213	
Total Annual Cost	54,863	Total Cost	14,556	
Monthly cost	4,572	Monthly cost	1,213	
	Hrs. p.w.		Hrs. p.w.	
Hours at XX Hrs. per week	37.50 1,650	Hours at XX Hrs. per week	40.0 1,800	
Weeks worked in year	44	Weeks worked in year	45	
Cost per hour	33.25	Cost per hour	8.09	
Number of staff	1.0	Number of staff	2.25	

Nb: Excluded costs   * Penalty / Overtime payments   * Any Back-fill cost for critical roles
* This is an indirect cost, est $12,000, the costs are unlikely to saved despite the lower headcount, however, capacity is created and if filled this would be a saving

BASE CASE	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Set-up												
Implementation assistance	15,000											
Recruitment costs	2,250											
3 Month Training / back fill	13,716											
Ongoing supplier management		750	750	750								
Ongoing												
Outsource cost	10,917	10,917	10,917	10,917	10,917	10,917	10,917	10,917	10,917	10,917	10,917	10,917
TOTAL Outsource cost	41,882	11,667	11,667	11,667	10,917	10,917	10,917	10,917	10,917	10,917	10,917	10,917
Australian Cost	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716
Net	(28,167)	2,049	2,049	2,049	2,799	2,799	2,799	2,799	2,799	2,799	2,799	2,799
Cumulative position	(28,167)	(26,118)	(24,069)	(22,020)	(19,221)	(16,422)	(13,624)	(10,825)	(8,026)	(5,227)	(2,428)	371
Year 1 net position		(22,020)										
Annual benefit year 3										11,195		

Australian management time adjustment	Note: Additional cost of time spent managing outsource resources, reducing over time											
Australian Mgt time (per Qtr.)	3,000	3,000	3,000	3,000	3,000	2,000	2,000	2,000	2,000	1,000	1,000	1,000	1,000
Adjusted Net	(31,167)	(951)	(951)	(951)	799	799	799	799	1,799	1,799	1,799	1,799
Cumulative position	(31,167)	(32,118)	(33,069)	(34,020)	(33,221)	(32,422)	(31,624)	(30,825)	(29,026)	(27,227)	(25,428)	(23,629)
Year 1 net position		(34,020)										
Annual benefit year 3										7,195		

Productivity adjustment		Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Total Outsource hours		1,013	1,013	1,013	1,013	1,013	1,013	1,013	1,013	1,013	1,013	1,013	1,013
Productivity & Efficiency	Cap at 100%		10 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %	90 %	100 %	100 %
Adjusted hours			101	203	304	405	506	608	709	810	911	1,013	1,013
Australian hours			413	413	413	413	413	413	413	413	413	413	413
Adjustment in hours for productivity difference			(311)	(210)	(109)	(8)	94	195	296	398	499	600	600
Productivity Adjustment A$ rate	$33.25		(10,349)	(6,983)	(3,616)	(249)	3,117	6,484	9,850	13,217	16,583	19,950	19,950
Cumulative		0	(10,349)	(17,332)	(20,948)	(21,197)	(18,080)	(11,596)	(1,746)	11,471	28,055	48,005	67,955
Year 1 net position			(20,948)										
Annual benefit year 3											79,800		

Note: Organisations visited advised that over time the productivity equals or exceeds those being achieved in Australia.

Base Case - All of the above	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Total Outsource cost	41,882	11,667	11,667	11,667	10,917	10,917	10,917	10,917	10,917	10,917	10,917	10,917
Australian anagement time adjustment	3,000	3,000	3,000	3,000	2,000	2,000	2,000	2,000	1,000	1,000	1,000	1,000
Productivity Adjustment	0	10,349	6,983	3,616	249	(3,117)	(6,484)	(9,850)	(13,217)	(16,583)	(19,950)	(19,950)
Total costs	44,882	25,016	21,649	18,283	13,166	9,800	6,433	3,066	(1,300)	(4,667)	(8,033)	(8,033)
Australian Cost	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	13,716	
Net	(31,167)	(11,300)	(7,934)	(4,567)	549	3,916	7,283	10,649	15,016	18,382	21,749	21,749
Cumulative position	(31,167)	(42,467)	(50,401)	(54,968)	(54,418)	(50,502)	(43,220)	(32,570)	(17,555)	828	22,577	44,325
Year 1 net position		(54,968)										
Annual benefit year 3 including productivity										86,995		

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Appendix 3 – Advantages of Outsourcing

1. Cost savings
2. No lock in arrangements
3. Access higher level of technical skills
4. Only pay for skills when used
5. Flexibility in accessing resources
6. On demand availability
7. Improve processing speeds
8. Extend working hours
9. Remotely monitor progress
10. Provides technology leap to catch up for previous underinvestment
11. Access skills not available in local market
12. Access new technology with staff being skilled in new technologies
13. Reduce CAPEX locally
14. Documented processes
15. Outsource provider assists to identify further efficiencies
16. Reinvest savings back into business
17. Diversified skills within the business
18. Access best of breed technology solutions
19. Extend support hours to 24/7
20. Access additional reporting capabilities to provide insight
21. Provide foreign language support capability
22. Digitise file notes and store electronic images more effectively
23. Expand delivery channels
24. Provide real-time interactions for clients
25. Leveraging SEO
26. Access other digital marketing capabilities
27. Improved service to client

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Appendix 4 – Supplier Assessment Considerations

1. Financial strength of the supplier
2. Depth of management of the supplier
3. Quality of suppliers infrastructure
4. Quality of business continuity plans (BCP) and disaster recovery plans (DRP)
5. Complexity of legal agreements
6. Quality of exit arrangements, responsibilities, timeframes, costs, assistance
7. Availability of alternative suppliers
8. Changes in communication equipment and style
9. Lack of time and skill to assess adequately
10. Inability to manage ongoing relationship
11. Pushback from clients
12. Potential turnover of employees resulting in increased disruption
13. Poor client interaction
14. Frustration due to communication challenges
15. Inability of supplier to understand business and value proposition
16. High error rate resulting in rework
17. Poor quality of work
18. Inadequate quality control
19. Access to private data
20. Inability to control output
21. Locked in to long term contract- unable or expensive to exit
22. Inability to enforce contractual commitments
23. Give away business process IP
24. Increase costs to enforce rights
25. Inability to have a trial period
26. Foreign currency obligations
27. Lack of history or skills to operate
28. Change in communication methods - not everyone able to adapt
29. Inability to understand local compliance requirements
30. Inability to integrate core business systems
31. Difficulty to regain control
32. Managers are not trained to manage effectively in a remote virtual environment

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Appendix 5 – BPO Selection Template

Consideration	Weight	Positive	Negative	Score 0-5	Weighted
Political stability					
Economic growth					
Inflation & exchange rate					
Language					
Govt support for BPO					
Ease of access, DFAT, warnings					
Cultural alignment					
Quality of infrastructure					
Experience in BPO					
Management experience					
Rang and quality of alternative suppliers					
Employment conditions /requirements/min std					
Education of workforce					
Ancillary services industry e.g. Recruitment firms, training firms,					
Time zone					
Human rights record					
Prevalence of corruption					

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Appendix 6 – Governance Checklist

1) Selection – Criteria & matching
2) Due diligence
   a. Organisation review including financial and resource capacity
   b. Record keeping
   c. Confidentiality
   d. Business Continuity & Disaster Recovery preparedness & testing results
   e. Independent Audit reports & External system penetration testing
   f. Technical Ability
   g. Risk Management & Control framework
   h. Insurance
   i. Offshoring – additional requirements
   j. Breach reporting
   k. Urgent Action Requirements
   l. SLA configuration
3) Contract review & Execution
   a. Scope & Definition
   b. Commencement & end dates
   c. Pricing & fee structure including penalties & discounts
   d. SLA, performance reporting, monitoring, audit
   e. Urgent action process
   f. BCP, DRP testing & results, Penetration testing
   g. Confidentiality, Data, ownership or documentation
   h. Termination & existing arrangements
   i. Dispute resolution process
   j. Liability & indemnity
   k. Subcontracting
   l. Insurance
   m. Right of access
   n. Staffing, poaching, payments to non-employees
   o. Corruption
   p. Communication
   q. Authority& Access by third parties
4) Reporting

Guidelines available from

- Australian Prudential Standard (APS) 231

- Prudential Practice Guide (PPG) 231 – Outsourcing.

Professional bodies such as the ICA and CPA provide guidance under their professional standards.

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Appendix 7 – Seaview's Support Services

Investigating, assessing, and entering into outsourcing arrangements is a critical and potentially complex process requiring the application of time and skills. The ultimate success of any change initiative comes from the ability to effectively manage the transition as a project and ensure sufficient time, resources and commitment from the business is given to the project to ensure it is successful.
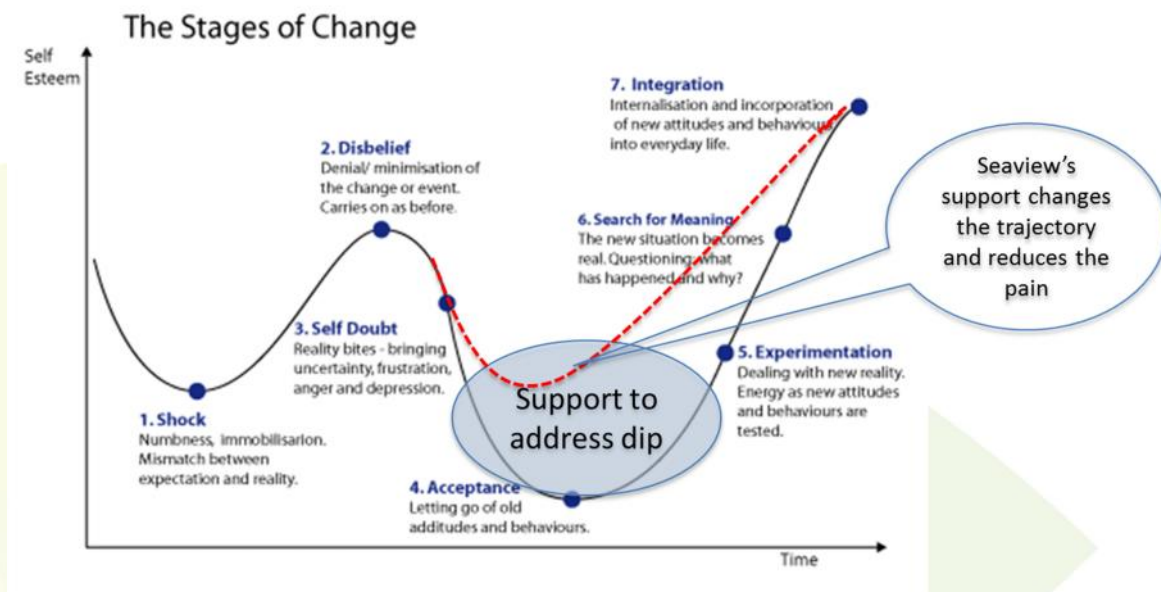
Outsourcing is a Significant Change Project

Effective implementation requires an appreciation that documented processes and procedures will evolve during the implementation period and cannot be understood 100% prior to implementation.

The willingness by staff to actively participate and support the changes is necessary in order to have a speedy and effective transition. Business owners need to appreciate the impact of the change on the morale and productivity of their own staff and make allowances during the transition period to accommodate the uncertainty and the disruption caused.

Time must be spent in assisting local staff adjust to new operational processes as well as how to utilise and maximise the additional capacity created by engaging outsourced resources. The adjustment required impacts on existing work processes and engagement between staff, software vendors, product providers and potentially clients.

It is critical that the business owner continually emphasises the long-term benefits of the change and the increased importance of the local staff's role in the business moving forward.

The Stages of Change

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Seaview's services

1) **Outsourcing information service**

   Initial consultation (1 hour)   Free

2) **Tailored services based on needs highlighted during 4 hour initial assessment**

   a. Initial services - outsourcing selection service

      i)   Review of business processed & identification of tasks able to be outsourced

      ii)   Documented requirements & request for proposal

      iii)   Review of proposals

      iv)   Selection of preferred vendor

      v)   Service Level Agreement (SLA) definition

      vi)   Contract negotiations & pricing

   b. Ongoing services

      i)   Monthly monitoring of performance to SLA

      ii)   Delivery dispute management

      iii)   Annual performance review

      iv)   Contract renewal

3) **Transitional general manager**

   Bespoke design of activities to monitor, manage, and report operational matters including

   - Accountancy
   - Management reporting
   - HR
   - Training
   - IT
   - Local supplier management
   - Outsource supplier management
   - Product provider management
   - Process documentation & change management

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Appendix 8 – Security & Privacy

There is a lack of understanding and misrepresentation concerning the ability to utilise offshore outsourcing services. Generally, utilising offshore processing services and storing data offshore is acceptable and in specific circumstances provided certain requirements are met.

What is important is for businesses to make the effort to inform themselves of the requirements and to understand the technical manner in which these requirements are being met. Ignorance is not an excuse. With cybercrime and identity theft becoming increasingly more regular, it is essential appropriate protection strategies across the physical and digital environments are implemented.

The Ponemon Institute estimated the cost to reconstruct data (ignoring regulatory penalties and reputational damage) for a single client record was between $133 and $215. Depending on the business and the data lost,the restoration cost could be in the hundreds to thousands of dollars.

Security

Modern technology and devices have resulted in new risks and challenges in regards to protecting the business and business data.

Data is regularly being transmitted in an insecure manner which can be intercepted and used without the user knowing. Remote connections by mobile devices results in new security issues that need to be understood and managed.

For example, popular cloud solutions like DropBox and Google Drive store data on servers located across the globe and have their own business recovery and disaster recovery practices, resulting in data being stored multiple times in multiple locations including potentially multiple countries. Understanding your data storage arrangements in your cloud environment and the security practices of the cloud provider, is essential in order to demonstrate appropriate oversight of your data has occurred.

Implementing solutions such as encrypted communications, unique users, user identification and tracking, no sharing of access codes or passwords, regular password changes, using one-time passwords, USB tokens or smart cards, IP address restrictions, adopting authentication standards (HTTP, OCRA TOTP) are all examples of active security management necessary to minimise the risk of penetration resulting in data loss. In addition, audit reporting that is actively managed with exceptions reported to executives/owners will assist businesses defend their position in the event of a cyber-breach.

The best defence from the risk of privacy breaches is implementing appropriate security into business practices. Support from appropriately qualified suppliers capable of assessing the physical and digital environment, arranging for cyber-attack penetration testing and producing reports on the systems overall security preparedness. Requesting independent audit reports from technology providers on the adequacy of their systems should be done annually. Implementing these types of procedures will assist the business demonstrate their attempts to prevent privacy breaches which are an essential element to minimise liability in the event of a breach.

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Privacy laws

On March 12 the Privacy Laws applicable to Australian businesses change. Whether or not your business is obligated to implement specific practices, the requirements outlined should be embraced.

For details on these changes refer to the Office of the Australian Information Commission (OAIC) http://www.oaic.gov.au/ .

As stated below there is now guidance on the application of privacy laws to offshore (cross border) environments.

Extract from OAIC website

The Privacy Act now includes a set of 13 new harmonised privacy principles that regulate the handling of personal information by Australian and Norfolk Island Government agencies and some private sector organisations. These principles are called the Australian Privacy Principles (APPs). They replace both the Information Privacy Principles (IPPs) that applied to Australian Government agencies and the National Privacy Principles (NPPs) that applied to some private sector organisations.

A number of the APPs are significantly different from the existing principles, including APP 7 on the use and disclosure of personal information for the purpose of direct marketing, and APP 8 on cross-border disclosure of personal information.

Specifically, in relation the requirement for businesses to proactively engage and manage their exposure to data loss from cyber-attack, the OAIC recently released a media statement emphasising the need for businesses to comply with APP11. APP 11 requires an organisation that holds personal information to take reasonable steps to protect the information from misuse, interference and loss, and from unauthorised access, modification or disclosure. Failure to take reasonable steps to prevent unauthorised access such as a cyber-intrusion may be a breach of APP 11.

The release states that the OAIC has previously found, after investigation, that organisations were in breach of the Privacy Act by not taking reasonable steps to prevent a data breach involving a cyber-attack.

Refer press release Cyber-attacks-do-not-mean-businesses-are-off-the-hook

Conclusion

In summary, businesses owners should engage IT & Cyber security experts to assist them implement appropriate security practices and to ensure suppliers both local and overseas have adopted appropriate security protocols and evidence of the adequacy of these protocols have been independently audited and confirm to be satisfactory is provided.

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Appendix 9 - Research Reference Material

- http://www.entrepreneur.com/article/204652

- http://www.wpi.edu/Pubs/ETD/Available/etd-073112-200910/unrestricted/ncao.pdf

- http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.104.8961&rep=rep1&type=pdf

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- http://www.computerweekly.com/feature/What-are-the-options-for-an-SMB-when-it-comes-to-outsourcing

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- http://outsourcemagazine.co.uk/how-do-small-and-medium-sized-enterprises-smes-best-benefit-from-outsourcing/http://gradworks.umi.com/35/72/3572642.html

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- http://jmf.wzr.pl/pim/2013_3_1_10.pdf

- http://www.shrm.org/hrdisciplines/compensation/articles/pages/incentive-sales-comp-outsourcing.aspxhttp://www.contactcenterworld.com/view/contact-center-article/managing-bpo-performance-improvement.aspx

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