

SMALL
BUSINESS

**BIG
OPPORTUNITIES**

AN SME GUIDE
TO OFFSHORING

EMAPTA



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Chapter 1

The Outsourcing Journey

All journeys start with a destination in mind.

Some journeys are planned out meticulously in advance, leaving very little to chance. Others are more flexible, allowing opportunity for discovery and diversion.

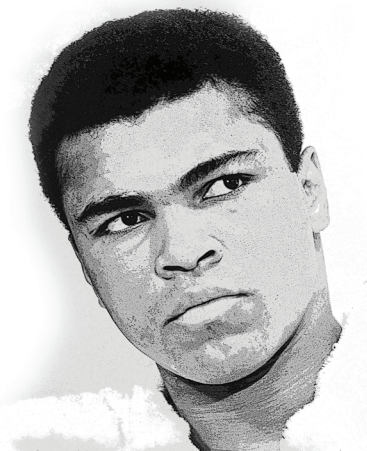
Some travelers arrive at their destination quickly. Others through a longer, more difficult route. And some may never arrive at their destination at all.

For start-up entrepreneurs and small business owners, the route to success can be equally varied and challenging.

Most new companies are founded on a 'great idea' or built on the experience and expertise of the founder. Some have only modest ambitions to generate a regular and secure income, others seek the glory and rewards of global success. Some will achieve their aims. Sadly, many will not.

“You’re not going to enjoy every minute of the journey, but the success you’ll find at the end will make it all worth it.”

- Muhammed Ali



A 2012 study into corporate insolvencies by the Australian Securities and Investment Commission found the risk of failure for most companies was not in the first or second years but in the years following. The causes of failure could be attributed to three key factors:

44%

suffered poor strategic management; they didn't have a plan on how to reach their destination

40%

fell victim to inadequate cash flow or high cash use; they just ran out of money

33%

went out of business because of trading losses

So, how can start-up and small business owners avoid these bumps in the road and insulate themselves from these risks?

For an increasing number of Australian business owners, the answer is to outsource or offshore work to leverage the benefits of premium talent and significantly lower labour costs to reduce spend and increase cash flow without compromising business performance.

Free cash means greater opportunity to invest in growth, increase revenues, improve profitability and achieve stability and durability.

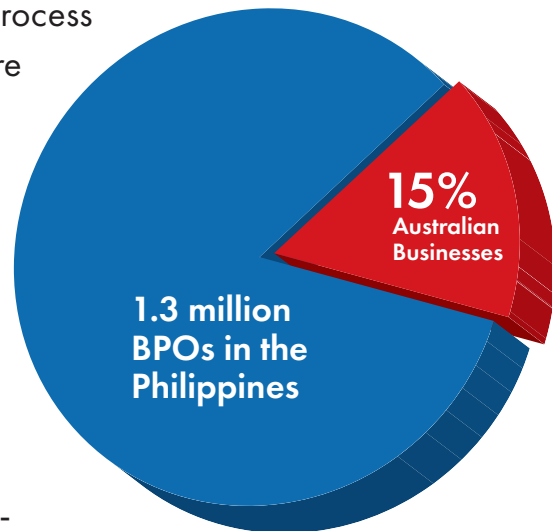
It is estimated that almost 15% of the 1.3million people directly working in the Business Process Outsourcing industry in the Philippines are supporting Australian businesses from the very large (like Telstra, QBE, ANZ Bank and Salmat) to the very small that you've likely never heard of.

The point is, outsourcing and offshoring are not new. It is tried and tested and it works, for businesses of all types and sizes. So why aren't more Australian business owners doing it?

One reason is that they just don't know enough to be able to consider it. Many small business owners believe that outsourcing is only for large corporate multinationals; or they have read too many internet horror stories to want to try it; or they are influenced by conventional opinion.

The reality is that outsourcing is becoming a must-visit staging post in any small business's journey to success.

Our SME Guide to Outsourcing will hopefully explode some myths, educate, inform and open your mind to a world of possibilities.



In a little over a decade, outsourcing as a business strategy has moved beyond something only large corporations with deep pockets could entertain to something even the smallest companies can leverage, often to even bigger and more dramatic effect.

What was once simple has become increasingly complex, driven by emerging technologies, cloud computing, market competition, talent availability and, as ever, the need to drive bottom line performance.

But there is also innovation.

Traditional business models have been turned on their head and an ever-growing range of outsourcing options introduced to serve all levels of a global market.

To help you make sense of it all, we've crunched it down to the 5 W's:

WHAT is outsourcing? Let's understand what outsourcing is and the models that might be right for small businesses.

WHY outsource? What are the benefits of outsourcing (what's in it for you)?

WHEN should I consider outsourcing as a strategy?

WHERE should I look to outsource work?

WHO should I outsource with? Choosing your service partner.

Chapter 2

What is Outsourcing?

In the twenty-plus years outsourcing has been recognized as an industry, its players have invented a whole alphabet of terms to describe what it does as a crowded market seeks to re-label the same product and service to achieve some differentiation.

For example, do you know the difference between co-sourcing, hybrid outsourcing and the virtual captive model? (Just to satisfy your curiosity, there is no difference. They are all used to describe an outsourcing model where client and service provider share responsibility for service delivery).

To an industry outsider, the jargon can seem like a foreign language.

So, let's keep it simple. Here's what you need to know:

Outsourcing is simply the act or process of contracting out the provision of a service to a third party provider that a company may otherwise have undertaken itself.

Offshoring (sometimes confused with outsourcing) is the transfer of business processes or activities from one country to another, i.e. from Australia to the Philippines, usually to be undertaken by the same company

Offshore Outsourcing refers to moving work to another country to be undertaken by a third party service provider (although, just to add to the confusion, this is often abbreviated to 'offshoring')

For the purposes of this e-Book, we are primarily concerned with Offshoring and Offshore Outsourcing - moving work to another country, either to be done within the same company in another part of the world, or by another company on its behalf.

So let's consider the three business models typically employed by companies looking to leverage the benefit of lower labour and operating costs, large available talent pools and outside expertise:



The Do-It-Yourself Approach

The DIY approach is exactly what it suggests – companies set up their own operations in another country to handle the processes and activities from its mother organisation (often referred to as a 'captive' or 'in-house' operation).

The process is easy to imagine – incorporate a new business in your destination country, find and fit-out your office, hire your management team and the rest of your workforce, and transition the work. (We've made it sound easy but of course there are a lot of variables and moving parts to setting up your operation so it is never straightforward).

The major objective to be achieved in this approach is financial – it requires capital investment with the expectation that you will achieve a lower long-term cost. You also need to operate at scale to make it worthwhile (typically 200 employees or more to achieve economic efficiency) which puts it out of reach of most small and medium sized businesses.

It also has its dependencies, key among which is knowing something about how things work in your new foreign location – labour laws and practices, compliance, business customs, networks and knowing how to get things done. The learning curve can be long and painful for those who jump in with both feet without looking.

Neither is the DIY model for those who are looking for a quick-fix solution to business needs or who are not looking at their investments over the longer-term (dismantling a business if it doesn't work out as planned is a lot more painful than starting it up).



Pay Someone Else to Do It for You

At the opposite end of the spectrum is the outsourcing or offshore outsourcing model – paying another company to do the work for you.

Largely transactional in nature, the relationship between client and service provider is mostly black and white, based on delivery of a service (as with a customer service center) or achievement of a goal (maybe something more sales focused).

It is typically easy and quick to set up, relatively easy to disengage from, and pricing is simple if not always transparent. Pricing models can vary from a cost per person to a price per hour (and the industry has multiple ways to define an hour) or even cost per minute.

Any downside? More disadvantages than downside but bear in mind everything is relative. Outsourcing is a \$250-billion-dollar global industry which means there is a lot of choice and huge variation in the scope and price of services. Based on experience, you get what you pay for so all the usual 'buyer beware' warnings apply.

Companies usually outsource for one or both of two reasons:

1

Either a service provider can provide a solution cheaper than you can do it yourself and/or

2

They have a capability you do not have and therefore add value (and expertise) in extending your business' effectiveness

As a model, it can be incredibly effective but it requires a strategic commitment to make it work which typically applies to the slightly larger more mature organisation versus the start-up or small business with limited resources.

But the model is evolving and the market is moving away from the transactional approach (paying for a service or outcome) towards a more collaborative, almost partner-like arrangement where risk and reward are shared by both parties based on a mutual understanding of the wider client strategy and business objectives.

The challenge for SMEs is that due to financial constraints, they are most often forced to operate at the lower-price end of the market where there is less value-add and a higher risk (those internet horror stories I referred to earlier).



Straight Down the Middle

But there is another way which takes components from both the DIY and outsourcing models to create a hybrid outsourcing solution often specifically geared around the needs and requirements of smaller businesses.

Most often referred to as co-sourcing (or sometimes hybrid outsourcing, staff leasing, seat leasing, virtual captive, virtual office to name just a few), this model sees the service provider take responsibility for the business infrastructure – office, IT equipment, connectivity and business support functions – giving the client greater autonomy over their staff and operational performance.

The value of this approach for business owners is in retaining command of their operation and full control of their business without the distraction of managing real estate, suppliers and support teams – allowing each party to concentrate on their own areas of expertise.

Given the nature of this compromise model, this sector of the market is where you will find the most variety – in scope of service, business approach, pricing, commercial terms and more.

You'll find service providers operating in a specific niche, like accounting and bookkeeping; to those with a geographic focus, e.g. UK clients; to others who prefer to operate at the 'M' end of the SME market. The main takeaway is that it is a buyers' market so shop around for what you want.

Approaches to pricing also vary considerably from a Fixed Cost per Employee per month, to segmented pricing per core component (Seat plus Labour), to a full service menu model (what I call the 'plus plus' approach because everything is extra).

For business owners looking further ahead in time, the co-sourcing model provides the greatest flexibility and options to future-proof your business. Typically, it is easy to ramp up or down, exit or scale. And if your business grows to the point where economically it makes sense to go it alone, it is relatively simple to convert the co-sourcing model to a captive business without losing business momentum.



Oh, there is one other way..

If you are a business owner at the 's' end of the SME range, there is probably one other option you have looked at – the freelancer.

The growth of online freelancer portals like Upwork, Guru and Freelance (to name only a few) is testimony to the demand for freelance labour, mostly offshore, for project work, full-time engagements and everything in between.

But finding Mr. or Mrs. Right can be a bit of a lottery and takes time and patience (after all, the only people preaching about what they can do or have achieved is the freelancer themselves). Get it right and you can do great things at a fraction of the cost of hiring another employee; but get it wrong and you've wasted time and effort for little or no reward.

It is offshore outsourcing on a micro scale. It works for short-term projects or businesses with cash constraints but it is seldom sustainable over the longer term and is difficult to scale (although technology which provides for online collaboration and communication is starting to make this easier).

So, quick recap on the 'what' of outsourcing with our 'keep it simple' reference guide below:

	Captive	Co-Source	Out Source
Capital Investment	Y	N	N
Ease of Entry/Exit	N	Y	Y
Command & Control	Y	Y	N
Pricing Transparency	Y	Y	N
Learning Curve	Y	N	N
Flexibility	N	Y	Y
Short-term	N	Y	Y
Long term	Y	Y	Y
Set Up Time	120-180 Days	30-45 Days	30-60 Days
Convertible Model	N	Y	M
SME Suited	M	Y	Y

M = Maybe

Chapter 3

Why Outsource?

If you've taken the trouble to download and read this eBook then chances are you already get the 'why' and are ready to dive into more detail so we'll keep this section short.

For most organisations, whatever their size or ambition, the business case for outsourcing or offshoring comes down to one or both of two reasons – either someone else can provide a better/cheaper service than you can do for yourself or you can do it better/cheaper yourself somewhere else.

The advantages of outsourcing and offshoring for larger operations and corporate players is largely manifest in the economies and efficiencies that can be achieved operating at scale.

These don't apply so much to the SME sector but there are plenty of other reasons why outsourcing and offshoring can make sense for the little guy.

Consider these:

- Moving work offshore for SMEs is often less about saving money and more about making money or creating opportunities to make money. This will usually take the form of:

1

Moving some tasks currently handled by an internal employee offshore where they can be done cheaper but just as well (like accounting, bookkeeping, admin tasks etc.) which frees up the time of the local resource to focus on other higher-value tasks to grow the business

2

Starting an activity that would otherwise be cost prohibitive to do in Australia, for example, such as sales or lead generation where low conversion rates do not stack up against top dollar Australian salaries when it comes to a business case

3

Expanding an activity to give greater coverage or higher levels of service such as out of hours/weekend call handling for IT support or customer service

4

Reducing operational expenditure by replacing internal leavers with new resources offshore to free up cash to reinvest in the business

5

Taking advantage of large pools of available talent in offshore markets to hire skills and experience essential to your business and that are hard to find and expensive to maintain at home, e.g. accountants, IT developers

- It's not just businesses that reap the benefits of outsourcing offshore; business owners have as much if not more to gain at an individual level. In most small and growing companies, the owner is a one-man management team – sales, marketing, finance, HR and more. A study by accounting software firm Intuit found owners spent more than 40% of their time on administrative tasks like bookkeeping, chasing creditors, logistics etc. – so why not get someone else to do it and free up your time to do what you do best, manage and grow your business (and maybe give you time to have a life outside work).
- The addition of a bookkeeper, front-end sales person, executive assistant or marketing all-rounder who can manage your website and drive social media engagement can be a game changer in time management for business owners.

All that said, cost (lower, of course) remains the top driver for businesses when considering outsourcing as a strategy.

Chapter 4

When to Outsource. And Where.

For many organisations, the timing of decisions to outsource are most often driven by either business need or business opportunity.

Business need may be something that comes from inside the business but could equally be the result of market forces and a need to respond such as rising costs, increased competition, economic trends and so on.

Business opportunity will more often refer to expansion activity, a new product or line of business, or maybe even a start-up organisation looking to minimize costs from the outset.

Bottom line, if you have a need and the resources you require can be sourced at a price that is attractive, the timing is always good.

Now, we are just a little biased here, but the 'where' should be an equally straightforward decision: The Philippines.

If spoken and written English is a primary requirement for your business, then the only outsourcing destination you should consider is the Philippines.

Here are just a few reasons why:

1

The Philippines is the third largest English-speaking country in the world behind the US and the UK and just ahead of Australia (based on population size)

2

It is the most westernized of all Asian countries thanks to its 300-year Spanish and American heritage and many of its institutions – government, education, taxation etc. – follow the US model

3

The country boasts adult literacy rates of 93%, the highest in Asia, with English taught as standard in schools from primary age through to college

4

The education system produces over 500,000 college and university graduates every year, more than half of them with vocational degrees and qualifications in subjects relevant to the Business Process Outsourcing (BPO) industry – accounting (100k), engineering, communication/media, finance and business, healthcare and IT (60k).

5

In less than 10 years the Philippine BPO industry has grown to achieve revenues of over \$22bn annually and now employs over 1.3m Filipinos, making it the world's number one destination for voice services (and is fast catching India for non-voice work)



**3RD LARGEST ENGLISH-SPEAKING
COUNTRY IN THE WORLD**

93% LITERACY RATE

**OVER 500K
GRADUATES YEARLY**

6

While work outsourced from the US forms the major share of the outsourcing market, an estimated 150,000 workers are dedicated to supporting Australian businesses with a similar number working for UK clients (and these are growing at a much faster rate than the US)

7

Australian business hours are the preferred shift for many Filipinos, providing the greatest opportunity to maintain a work-life balance (and avoid Manila's rush-hour traffic)

8

Filipinos are naturally empathetic, eager to please and have customer service ingrained in their DNA; they learn quickly, are adaptable, respond well to constructive criticism and have a strong work ethic

9

And if you are visiting the country and have some free time on your hands, the country's 7,107 islands (minus seven at high tide) have some of the most amazing beaches in the world.

There is so much more we could say about the Philippines and why it makes business sense as an outsourcing destination but you've probably already got the picture.

The point is that you are not the first to travel this road and there is a great deal of confidence that can be attained in the knowledge that the Philippines is tried, tested and continues to grow at double digit pace.

Chapter 5

Who to Outsource with...

I'll say it first (because you are expecting it) but EMAPTA, of course... But we understand if you want to shop around a bit first. For that reason, this section is probably less about 'who' and more about 'how' you should go about finding a partner you are happy working with.



Know what you want to achieve

You'll find it much easier to find the service provider you're happy to work with if you already have a clear understanding of what you want to achieve by outsourcing/offshoring and have defined your objectives.

These may be short-term, or long-term, or a mix of both. They may relate specifically to the activities you are outsourcing (e.g. 20 sales leads per month), or could be more business related and tied to financial performance, e.g. increased profitability, reduction in operating costs, etc.

The important thing here is that as the owner or leader of the business, only you can know what you want to achieve and be able to set the proper expectations.

It will also enable you to create a mental or actual checklist of deliverables that are critical in achieving your objectives (and makes comparing different vendors much easier).



Identify what is important to you

You are going to need to think about what priorities your various success factors should have compared to each other. If a low price is more important than the quality of work, then it should be weighted accordingly.

No business owner wants to pay more than they have to but somewhere there is a trade-off between cheap and best that gives you the right balance between the two.

Maybe you have other factors that you consider important to the relationship you will have with your service provider – how much control you have over operations delivery, how responsive they are, whether their IT infrastructure is secure, how well they treat their staff, the caliber of their management team and so on.

Note it all down and then rank your requirements in order of importance to build a scorecard you can use to assess and compare all providers' capabilities.



Window Shopping

There are a lot of potential vendors out there so do your research and be selective. Look for vendors who have experience doing what you need them to do, a solid reputation and brand, and strong public image. A flaky website isn't going to fill you with much confidence.

Make it easy for yourself by creating a short briefing document you can share with prospect providers detailing what you are looking for, your expectations and the things that are important to you (which makes it much easier for them).

Do the discovery call so you can find out more about them, expand on your requirements and, if you are getting a warm cosy glow, request a proposal that addresses all the points you have made.



Making Up Your Mind

It's likely that by the time you've crunched all the data into your scorecard, you are comparing apples, pears and bananas. This is normal and should be expected as every provider seeks to differentiate themselves in one or more aspects of the service.

What follows next is validation. Don't be afraid to ask for client references if you want an almost impartial view of the business and the service. Alternatively, if it is appropriate, arrange to visit the company's office. You can learn a lot just by looking and listening, and know when you look your contact in the eye and shake hands whether you can do business with them.

If there is a slam dunk winner, then the decision is made. But if it's close, then shortlist and go another round with the preferred vendors, fine tune requirements and compare again.



The Contract Negotiation

As far as possible, try and get the legal stuff out of the way early in the discussions so you don't waste time going through the process only to find they won't accept your payment terms or there's some contract provisions that don't work for you.

Push back on the things that are important to you but remember they are also in business and have their own interests to protect. What you are looking to achieve is a win-win for both of you, not an outright victory.

Often pricing comes back into play at this point and each vendor will have their own strategy. Some will have baked in extra margin anticipating it being negotiated down while others may have come in with their best price first time out. General rule of thumb – push until they push back and that's likely where the deal can be struck.

Chapter 6

Wrapping Up

Whole books have been written on outsourcing from all perspectives so we're not telling you anything new here, just presenting it in a way that is relevant to the smaller business owner looking to dip their toe in the global market for the first time.

It is supplemented with real-life practical tips and experience that will hopefully help you navigate your journey to successfully arrive at your destination.

And we didn't try sell you anything!

That's not to say we're not interested in your business because we are, but you decide if we are worthy of your attention. You can learn everything you need about our business, **EMAPTA**, at **www.emapta.com**.

About the Author

For almost 20 years Martin Shearsmith has been at the forefront of offshore outsourcing having directed organisations and operations in India, Pakistan, South Africa and, for the last 10 years, the Philippines. At various times, he has been the client, led service delivery for some of the world's best known brands and, as a consultant, advised companies on their outsourcing/offshoring strategy and execution.



As Chief Revenue Officer at EMAPTA, Martin heads up sales, marketing and client services and has responsibility for the seamless implementation and delivery of all new client operations in the Philippines.

His vast knowledge and experience and willingness to share his expertise has made him a sought after speaker at conferences and industry events and a go-to resource for anyone wanting to know more about outsourcing in the Philippines.

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