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Outsourcing Panacea or a Path to Customer Dissatisfaction?

Summary

Outsourcing of non-core business functions has become increasingly popular among American companies. This *Management Insight* briefly reviews: various reasons for outsourcing; those key factors that must be addressed to outsource successfully; and a warning that if not done properly, outsourcing can lead to serious customer service and customer relationship difficulties.

Outsourcing can be a sound business move, but can also become a CEO's nightmare. One such unpleasant experience befell a Midwestern telecommunications CEO last spring when he received a letter from an irate customer regarding a phone line that had been repaired six months earlier. Although the phone had been fixed, the cable to the customer's home had remained above ground (first on the snow, then on his lawn) for the six months because the company had outsourced its "cable burying" program. After numerous phone calls to the utility, it became obvious to the customer that not only had the company outsourced the cable burial, but it had also outsourced all responsibility for, knowledge of, and control over the cable burial contractor. While customer service responsibility had been outsourced in the mind of the telecommunications company, the customer thought differently. After all, to whom did he pay his monthly phone bill? Not to the contractor whom he couldn't even contact.

Reasons for Outsourcing

In today's more competitive environment, companies increasingly seek out opportunities to outsource non-core business activities, often with some success. The reasons for doing so vary among the various companies. Nonetheless, the principal reasons have remained fairly stable over time, and some are listed in Table 1 below.

Table 1: Top 10 Reasons Companies Outsource
<ul style="list-style-type: none">• Reduce and control operating costs• Improve company focus• Gain access to world-class capabilities• Free internal resources for other purposes• Resources are not available internally• Accelerate reengineering benefits• Function is difficult to manage/out of control• Make capital funds available• Share risks• Cash infusion

While all of these reasons are valid, none of them excuse the abdication of customer service responsibility. In another, more egregious example, a major natural gas Local Distribution Company (LDC) found itself with a "broken infrastructure." The incoming CEO found that its customer service call centers had recently been outsourced, an increasingly popular alternative for cutting utility operating costs. Unfortunately, the transition to the call center contractor had not

been well thought out in advance, and the contractor was unable to access the utility’s information systems in a timely manner to answer customer inquiries or respond adequately to customer complaints.

The resultant tumult took the entire utility’s management team considerable time to fix, and it became a monumental issue in the eyes of the regulators and the state legislature. What was instituted as a cost-savings measure resulted in significantly increased cost and a regulatory/political/customer service fiasco.

Limiting Risk When Outsourcing

Companies routinely identify several concerns when considering outsourcing opportunities, including:

- Possibility of decreased performance/ service quality
- Loss of control
- Decrease in customer satisfaction
- Insufficient cost savings
- Employee resistance

Even after outsourcing for some time, performance issues remain a concern for many companies. Retaining strong customer relationships and maintaining appropriate levels of service should be a priority, especially among those companies that outsource heavily. Thus, before embarking on an outsourcing strategy, several factors must be kept in mind, and are summarized in Table 2. As shown in this table, outsourcing should fit in well with the Company’s overall plan, and should not simply be done on an ad hoc basis. Furthermore, senior management must be assured that the contractor hired can in fact deliver a superior product or at a lower cost than the company can provide itself.

Equally important, of course, is the selection of those business activities to outsource in the first

place. Perhaps most important, however, is the principle that outsourcing business activities does not relieve you of the business responsibility to monitor, evaluate, and control (as necessary) your sub-contractor’s performance, particularly as it relates to customer service. Just as in the examples cited earlier, you may think that you have delegated responsibility for that outsourced function, but your customers won’t. And if they are unhappy, you lose!

Table 2: Top 10 Factors for Successful Outsourcing
<ul style="list-style-type: none"> • An understanding of company goals and objectives • A strategic vision and plan • Selecting the right vendor • Ongoing management and oversight of the customer relationship • A properly structured contract • Open communication with affected individuals and/or groups • Senior executive support and involvement • Careful attention to personnel issues • Near term financial justification • Use of outside expertise

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