WHITE PAPER

IT outsourcing, the new "it" for start-ups

OSF | Global Services

INTRODUCTION

Today, 95% of the world's top 1,000 companies have adopted offshore service outsourcing strategies. A recent survey suggests that global expenditure on service outsourcing totaled US $120 billion. But what are small businesses doing?

Outsourcing is by definition, the greatest economic resource for startup companies. It's basically designed to help them run their business to the fullest, especially in the beginning years, when profit is nowhere to be found and expenses have to be done.

TABLE OF CONTENTS

One of the greatest changes that the past decade has brought is the ease with which a start-up can outsource it's every need. These days almost **every service your company needs is available in outsourced form**. This means you can cut capital costs, keep flexibility, and improve business efficiency by acquiring every service on a monthly basis.

Affordable IT solutions that are **easy to install and configure**, **service/support requirements** and, most of all, **integrated ready-to-use methodologies and tools** are the most critical demands of a start-up, looking to outsource its IT needs.

Outsourcing benefits for start-ups

One of the most important benefits of any outsourcing deal is that you have **trained professionals** working for your company, at only **a fraction of the cost** it would take, if you were to hire them full-time. This way, all your business processes are taken care of by experienced workers, giving you the "horse-power" you need as a start-up. This way, your company can **focus on the core business activity**, **generate more growth,** and **keep a competitive advantage**.

Here are some **areas of benefit** for your company:

Gain access to more "horsepower"

Allow your firm to concentrate on its core competencies

Develop value-added capabilities that improve customer satisfaction

Improve operations and customer service

Achieve flexibility to handle changes in business cycles

Lay a stable foundation for long-term growth

Build long-term partnerships to share the burden of multiple resources

Increase growth and retention

Cut costs

Avoid capital expenditures

Avoid additional employee costs such as insurance and benefits

There are many proven benefits that should encourage SMBs to outsource their IT function. And, more importantly, there are providers of outsourcing services that accommodate on a small business' model and already have experience in dealing with these kinds of projects. As mentioned before, it's not a

question of whether to outsource but more likely when to do it and especially who is the right outsourcing vendor for your buying profile.

When should you start outsourcing?

There is really **no time limit** to when you can start outsourcing. As an entrepreneur, you are the only one who can tell when the time is right. There are some companies that still wait to reach a certain level of growth before they start outsourcing, and there are others that begin outsourcing the first day they open for business.

For example **series B start-ups** - or later stage start-ups - are companies that have already proven their concept. They have started to generate revenue, proving to the investors that their idea is profitable. Having reached a certain growth, these start-ups have developed new needs, like enhanced IT infrastructure, or business management tools. The only way for these companies to get what they need, without making any significant investments, is to outsource these needs.

In their early years, most companies ignore important aspects of their business, such as IT, accounting, marketing and others, in order to focus on their core business activity. They plan to change this attitude at a later time, when the business is better situated and reached a certain level of growth. What they don't take into consideration is that these basic elements play a very important role in why so many start-ups fail.

If you are to achieve success, **every aspect of your business should be run by professionals**. Unfortunately, these professionals are rather expensive to hire. And you don't want to invest too much in activities that aren't core for your business. Fortunately, today there are a large number of SMBs, or freelancer professionals that offer the exact services your company needs. They work remotely, so they don't take up any of your office space, they have a solid background in their field of activity and they work at very competitive costs.

An interesting example is the one of **a start-up CEO who decided to offshore his IT needs** to a foreign country. He managed to hire five PhD level programmers, for 45.000$ per year, each. This would cost about 70.000$ in the U.K. or U.S., meaning over 55% more. (http://globotrends.pbworks.com) However, if you are a western culture start-up, with little experience in the outsourcing process, you

might want to opt for nearshoring (i.e. outsourcing to Eastern Europe, or Ireland), rather than offshoring (i.e. outsourcing to China, or India). Cultural differences are not something to be ignored in the outsourcing process, especially, when you have no background in managing such a relationship.

What should you outsource?

The usual areas of outsourcing are the foundational elements of every business. In order to decide exactly **what** your business should outsource, you should **answer the following questions**:

- Is this job a routine one, wasting valuable time and energy?   Is this task only a temporary or a cyclic one?
- Is it more costly to do this job in-house?
- Can your resources be put to better use for other purposes? (although the activity can be done cheaper in-house)
- Does the job you need require a high specialization that makes it impractical for a regular employee to do it?

If the answer is yes, then you really should consider outsourcing those activities. Usually, one of the first things that start-ups outsource is **IT activities**. Most common of these are:

Network Connectivity: Monitoring and Management of WAN, Routers, Internet Connections, VPN

Security: Monitoring and Management of Firewall, Virus Protection, Spam Prevention, IDS / IPS

Data Backup / Archiving: Offsite Storage, Shared SAN, Data Centers, Archiving Services

Messaging and Collaboration: Email, Web Conferencing

Software Applications: Licensing Management, ASP

Desktop Management: Helpdesk, Break/Fix

Server Management: Monitoring Health and Performance Thresholds, Break/Fix, Administration

Web Development / Ecommerce

Database Administration

Practical tips for start-up IT outsourcing

Let's start with the outsourcing agreement. There are a few things you should take into consideration when drafting such a contract. Most of these are pretty standard, but the thing is that most of them are drafted for large companies. But the start-up environment is radically different from that of big companies. While these usually outsource peripheral work, the start-up outsourcing model is usually build-operate-transfer (BOT) based.

Here are some things you have to bear in mind **when elaborating an outsourcing agreement**:

Hiring procedures

All new employees that will be assigned to your project should take your qualification test. You can only afford to hire qualified people to do your job, as you can't afford to pay for people's training.

Intellectual property protection

You have to include a nondisclosure clause in your agreement. Also, make sure all inventions, discoveries or algorithms discovered by your outsourced development team remain solely your intellectual property.

Employee performance

The contract you sign should include a clause that identifies strict performance criteria and clearly stipulates a notice period in which your outsourcing partner should get a replacement for a non-performing individual.

There are some things you are better off keeping in-house. Product development for example might be too much of a strategic advantage to lose control of. However, if you do outsource your product development, or parts of it, here are some tips:

Hire an "inside man"

When offshoring you might be safer hiring someone who was originally from the same country you are planning to outsource to. There might be some language/cultural nuances you won't understand and this person can help you with.

Pay attention

After your collaboration begins, you should take the time to pay a visit to the outsourcing location, in order to show support and motivate those who are working for you.

Unify communications

This is also a very important aspect of managing your outsource relationship. All communication between your company and the outsourced service provider should be the care of only one person. If you hired the man mentioned at the first point, the communication process should be left to him. By doing this you avoid those "he said/she said" situations.

Here are some things you, as a start-up, **shouldn't do:**

Project-based outsourcing

Meaning hiring someone new every time a need arises, instead of finding someone that does a good job and maintain a constant collaboration with that person. This way, you know the quality of the work will be according to your standards, and also, you make sure that your partner already knows your business.

Looking for the cheapest price

This isn't the best approach. Usually you get what you pay for, and your business can't afford that. You have to keep an eye on quality as well.

Unclear expectations

If you don't know exactly what you want from that project, you can't expect your outsourced service provider to know that for you. This is actually the main reason outsourcing deals fail. So make sure you know what you want, and you make that clear for everyone involved in the project.

Not checking work

You have to check the work the outsourced service provider performs, as it won't be perfect right away. Feedback – negative or positive – is needed for your partner to better understand your business's needs.

Start-ups today

In the new economic context it's a bit hard for entrepreneurs to find cash resources. Venture capital firms are also affected, as they are now forced to take a closer look at the companies already in their portfolio.

Bloomberg reported that U.S. **venture capital investments fell 61%** to $3 billion in the first quarter of 2009, reaching the lowest level recorded for the last twelve years. However, while a world of failing corporations and constant changing government policy might be chaotic, it also creates opportunity. The current situation brings start-ups in the perfect position to launch innovative business ideas.

Furthermore, one of the first consequences of the current "credit crunch" is that many **labor providers lowered their rates** in order to continue getting hired. Another bright side of the situation is the reduction of the labor buyers' budgets. This results in a diminished workload, allowing for everything to be adapted to a necessary level.

The important thing here is to **insure stability**, while keeping in line with your goals. You can achieve this by reducing expenses and fulfilling needs at only the most basic levels. You have to get your goals straight, and keep in mind that you have to achieve them in certain order. In some cases, the best way for you to reach these goals is by outsourcing some of your business needs to places where this financial crisis also struck. This will provide you with a strong negotiation platform.

According to Gartner, the world's leading outsourcing consultancy company, each existing project must be approached as if it had never existed. It is necessary to **determine the role each project plays** in your company's growth and efficiency. As a result of the above inventory, you should come up with a list of things that really matter for your business.