

Managing Global Outsourcing

Byron Laws
PreMedia Global

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Introduction









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...back to business

- 15 years in content services
- 10 years in publishing outsourcing/offshoring
- My specialty is business development
- Recently expanded services to packaging graphics

Globalization

“An ongoing process by which regional economies, societies, and cultures become integrated through a global network. The integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.”

—Wikipedia



Problems of Globalization

ILLUSTRATED



Outsourcing

“The transfer of a business function to a external service provider. The decision whether to outsource is often based upon achieving lower production cost or making better use of available resources.”

-Wikipedia





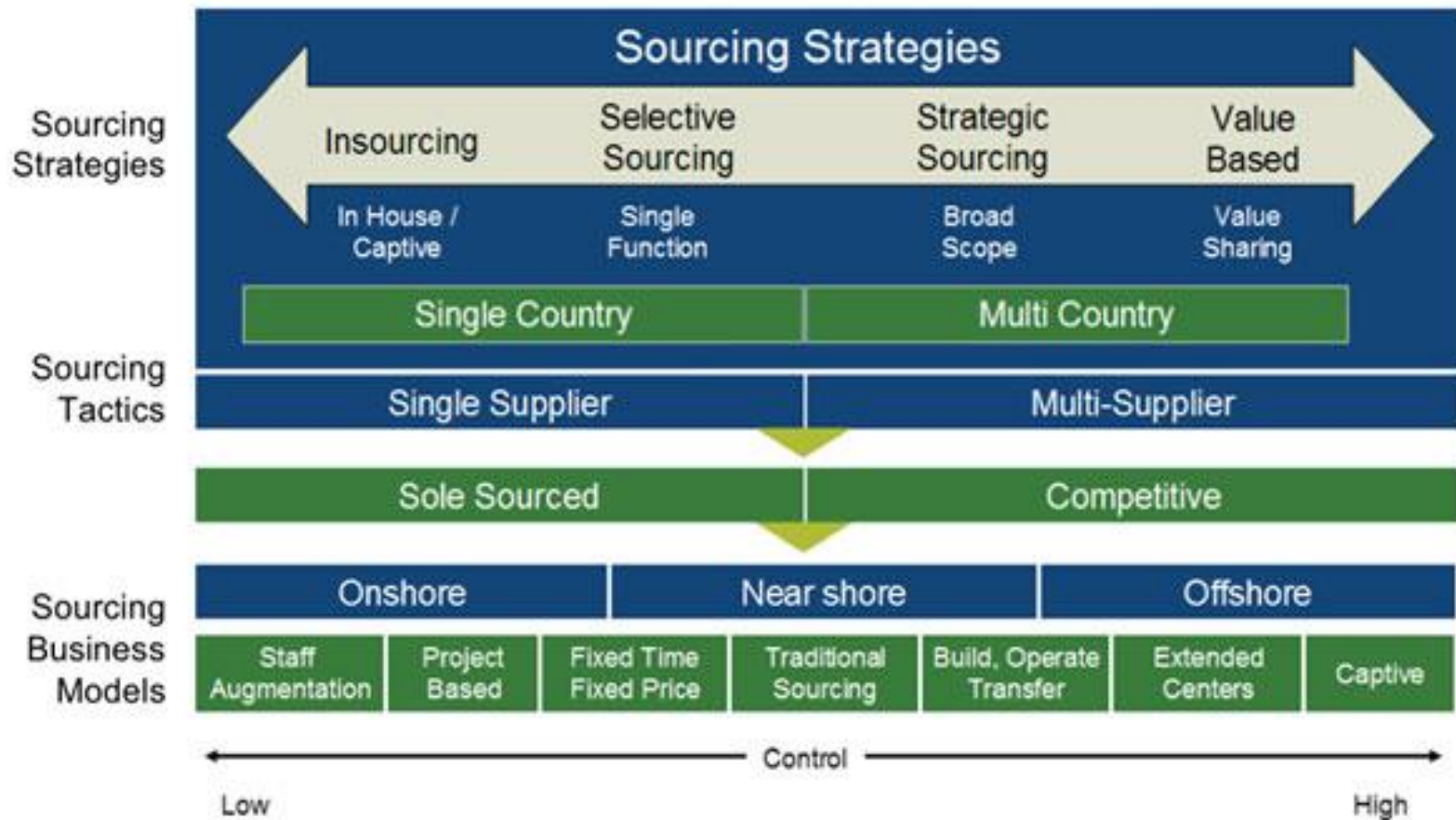
The law of comparative advantage

- In economics, the **law of comparative advantage** refers to the ability of a party (an individual, a firm, or a country) to produce a particular good or service at a lower opportunity cost than another party.



Offshoring

- Offshoring is the transfer of an organizational function to another country.
- Globalization combined with outsourcing and the Law of Comparative Advantage have created offshoring.
- With increasing globalization of outsourcing companies, the distinction between outsourcing and offshoring is becoming less clear.
- New outsourcing operating models have resulted in new terms such as nearshoring and rightshoring.



Offshoring, more info

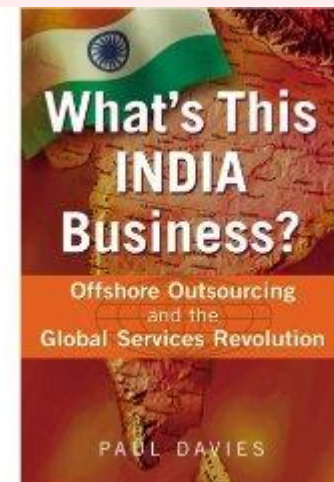
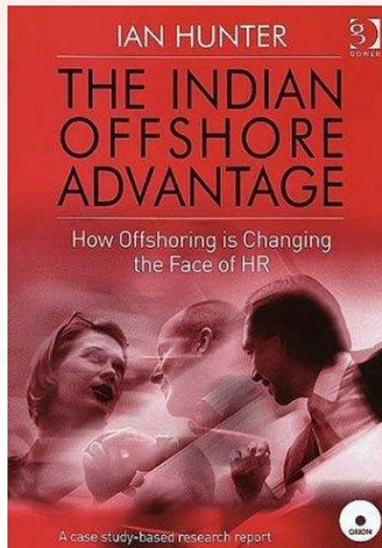
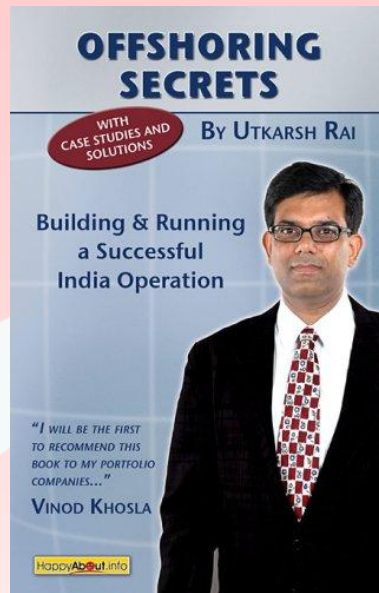
- Initially limited to highly-codified, transactional work
 - credit card processing, claims administration, call center functions
- The second wave involved more technical work
 - finance and accounting, mortgage origination, and other back-office functions
- Now companies are offshoring high-end work that has traditionally been considered “core” to the business.
- BPO, BTO, KPO

Specific functions currently offshored

- Call Centers
- Data and Document Management
- Online Catalog Solutions
- Health Care Services
- Banking & Financial
- Engineering & Architectural Services
- HR Services
- Software & IT Services
- E-learning Services
- Publishing services
- Content Transformation Services
- Market Research Services



Lots of attention



Common misperceptions



Uncommon realities



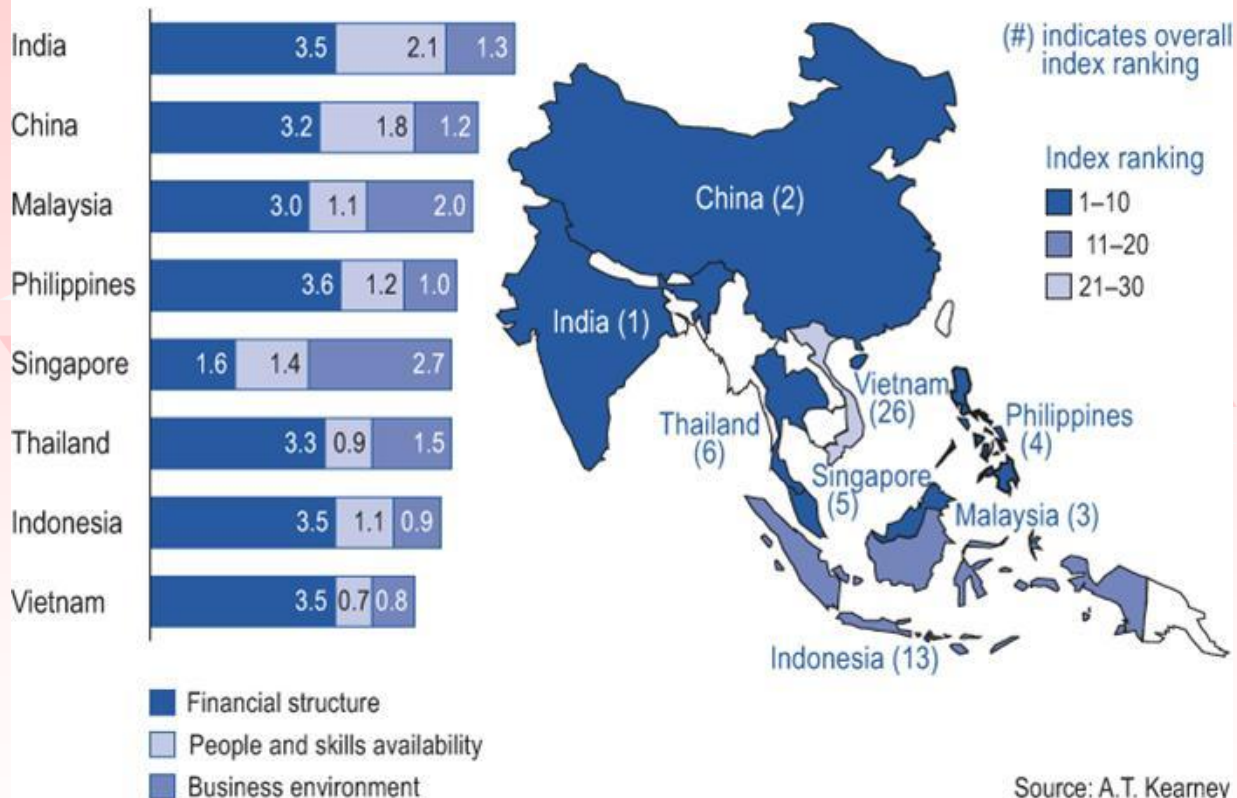
Like it or not...



Regional players

FIGURE 2

China and India dominate region, but other countries are finding niche positions



Some facts & figures

- Offshoring is one small part of a \$5 trillion global outsourcing market
- The offshore services market is growing by more than 15% per year
- The KPO industry predicted to be anywhere between \$12 billion and \$15.5 billion by 2010 at an annual growth rate of 40 to 50 percent
- More than 40% of all call centers are now outsourced
- Content outsourcing revenues in India for 2005 were around \$200 million
- 2010 year end revenue estimates are \$1.1 billion

Primary reasons for outsourcing

- Cost savings
- Schedule improvement
- Added capacity



What customers are saying

“After 10 years, the concerns we had about offshoring quality are gone, and the offshore personnel are outcompeting us with similar or better quality, significantly more availability, and lower cost.”

— Director of Technology, Major Canadian Manufacturer



...and a recent US publishing industry survey

What do you think about outsourcing?

- 16% don't support outsourcing
- 40% say outsourcing may work sometimes
- 44% say outsourcing works and is a good concept

- © ValueNotes Sourcing Practice, 2010



Assessment

- “Offshoring is fundamentally redefining the organizational structures and management practices of major corporations around the globe.”

– 2006 Duke/Booz Allen Offshoring Research Network Survey

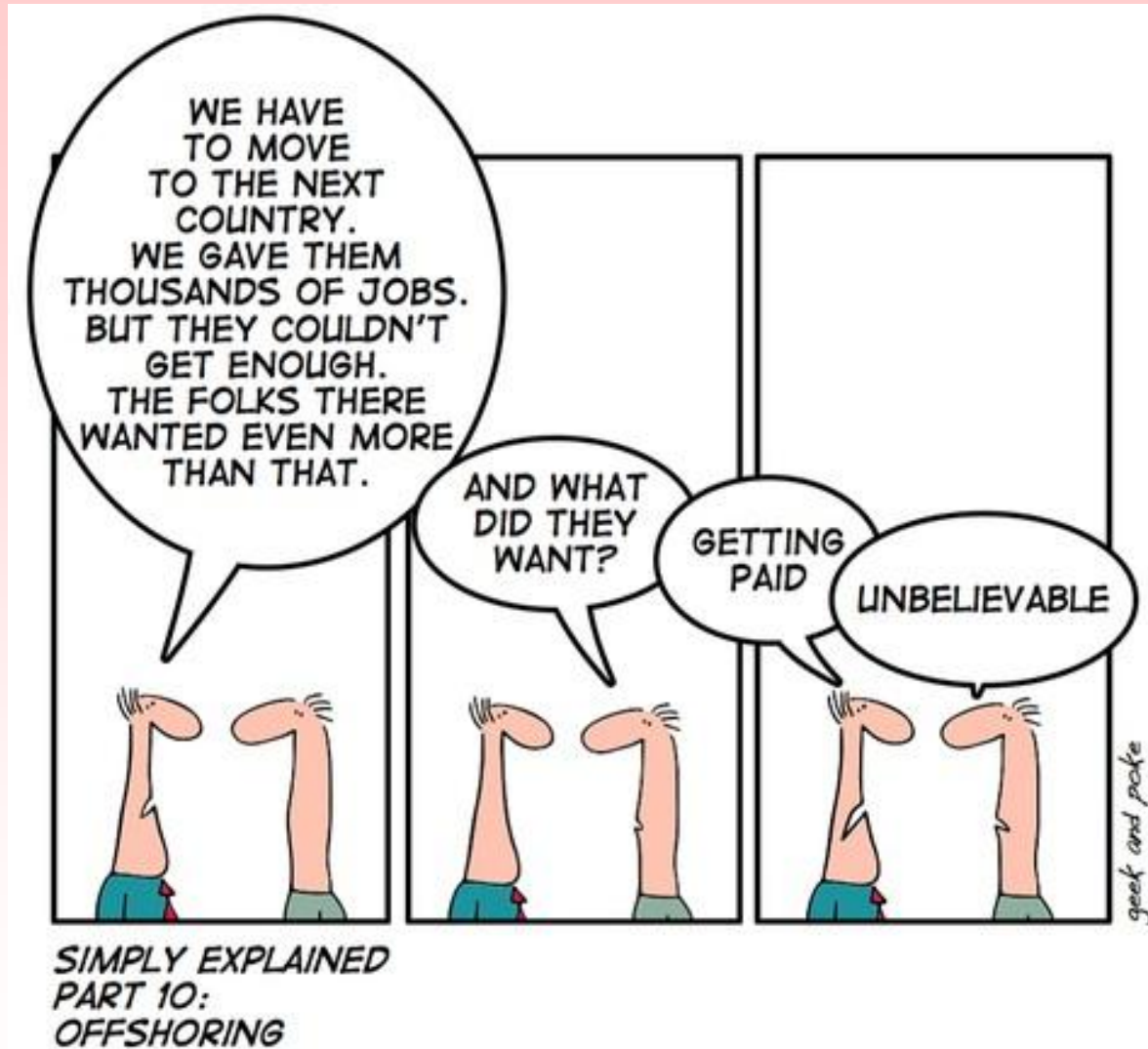


Tips

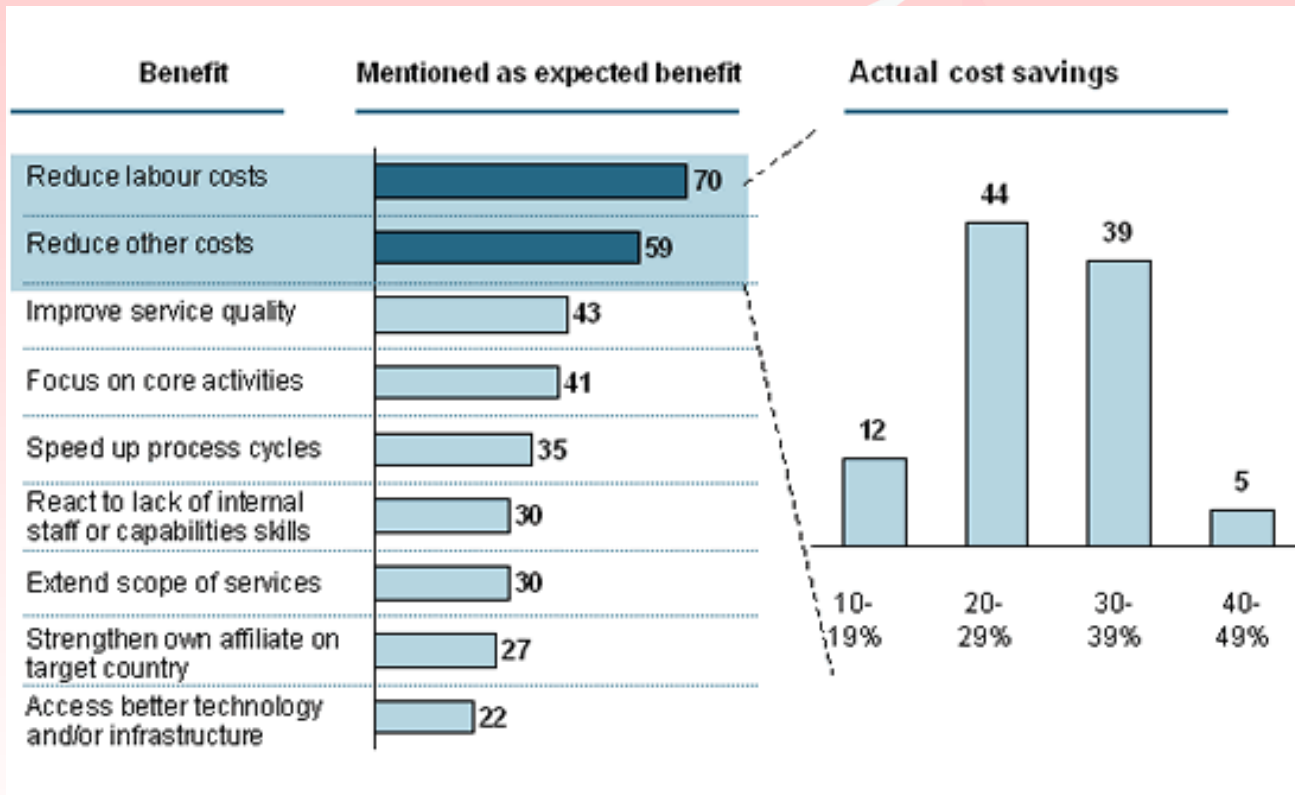
- Plan carefully, keep it simple, focus on needs
- Manage the process from a single point
- Be clear in your expectations and specifications
- Be realistic about outcomes and time required
- Track results



Pricing expectations



So...let's be realistic



Managing suppliers

- Work with 1-2 vendors total
- Seek out companies you like and respect
- Choose vendors who wholly own their facilities
- Adjust volume of work based on vendor performance
- Get contracts in place (MSA, SOW, Pricing)
- Check disaster recovery plans
- Periodically review progress on key indicators (KPIs)



Managing internal staff

- Identify positive, effective people
- Focus on how the process will improve things
- Be clear about expected outcomes
- Provide incentives for meeting objectives
- Correct broken processes quickly
- Consider site visits (for both sides)
- Work toward a true partnership with suppliers



Best practices yield good results

Sophistication of client companies' offshoring-management practices

Attrition among vendors' employees, %



Best-in-class practices

- Offshore supplier's teams are fully integrated with client's teams
- Offshore supplier gets a good mix of interesting and repetitive work from client
- Engagements are long enough for offshore supplier's teams to build deeper domain expertise
- Offshore supplier's project managers spend enough time at client's site in early phases of project
- Client brings onshore and offshore leaders together in same place to determine how to improve supplier's skills for complex business processes

Source: 2008–09 McKinsey survey of the global IT offshoring and outsourcing industry

Risk factors



Outsourcing Risk Factors

Other things to be aware of

- The offshore learning curve
- Cultural differences
- Time differences
- Internal resistance to change
- Communication challenges
- The “YES” tendency



The production model...

- Start with simple work and connect key staff directly
- Develop and communicate clear specifications
- Process and review samples of each new deliverable
- Provide quick, clear feedback on work completed
- Use US-based project management to start
- Adopt a simple, transparent pricing model
- Add new requirements after current work settles in
- Continue to sample results

Sample 24 hour workflow

- Hardcopy, files or digital images to US PM by EOD
- US PM confirms complexity and schedule, then uploads files and production notes to dedicated file transfer server
- India production assigns and completes work, uploads initial files in 12-16 hours
- US PM reviews files and requests corrections, if necessary
- Corrected files reviewed and supplied to customer

FPPA member-specific services

- Design creation or modification
- Art rendering
- Image manipulation
- Image layout and assembly
- Proofing
- Separations
- Photo and logo permissions
- Digital asset management

Future of offshoring

- A dramatic increase in demand
- Major changes in the supplier landscape
- Technology will make outsourcing easier than ever
- Changing expectations
- Changing destinations



Conclusions

- For most American companies, the most successful production processes have both on and offshore components.
- US employees who learn to work effectively with offshore teams will be in high future demand.
- Offshoring can create domestic jobs as US companies become more competitive within their own markets.

PreMedia Global at a glance

- Global content services company, based in Chennai, India
- Founded in 2005 with six employees and a big vision
- Moved into large, new facility in 2006
- Acquired domestic firms, with long history in prepress:
 - **The Beacon Group, Inc.**
 - **The PrePress Company, Inc.**
 - **GGG Creative Services**
- More than 800 employees in multiple locations
 - **New York City**
 - **Plymouth, MA**
 - **York, PA**
 - **Ashland, OH**
 - **Chennai, India**
- Packaging graphics services
 - **US-based project management**
 - **Graphic design and creation**
 - **Graphics production**
 - **Final file prep and proofing**

