

Mitigation Strategies to Avoid Common Pitfalls Encountered When Firms Outsource Functions

Risks of Outsourcing	Mitigation Strategy
Outsourcing Broken Process	Fix The Process And Then Outsource The Improved Process.
Poor Scoping Leading To Over-Promises	Spend Time Up Front Scoping The Work Packages – Time Spent In Reconnaissance Is Never Wasted
Cost Only Focus Leads To Quality Problems	Consider All Relevant Supplier Capabilities Although Prioritise The Most Important
Cultural And Relationship Problems	Build Team Mentality Rather Than Us And Them – Use The Enterprise Concept Of Partner Not Supplier
Lost Control	Maintain Strategic Activities In House And Try To Transfer Some Existing Staff Supplier While Transferring Other Staff Internally. Think About What Is Needed If Outsourcing Fails
Little Or No Advantage	Understand The True Advantages Of The Supplier And Structure The Relationship To Bring Out And Reward Those Capabilities To Align Interest
Importance To Supplier	Analyse The Suppliers Business Including Size And Profitability And Understand How Important The Contract Will Be To Their Business
Costs Do Not Reduce	Understand Full Cost Picture Before Outsourcing Relationship Begins And Align Interests Through Incentives For The Supplier To Reduce Costs In Agreed Areas
Managing Remaining Activities	Invest To Be The Absolute Best At These Remaining Activities (E.G. Capital Expenditure, Training)

Source: Booz Allen Hamilton; Hilmer & Quinn (Sloan Management Review/McKinsey Quarterly, Purchasing Journal; Contracting Organisation; seek.com.au