



# Midmarket Outsourcing: A Triple Play Value Addition

Outsourcing adoption by midmarket firms, though growing, still remains an unexplored strategic business option.

Several factors seem to hold back midmarket firms from adopting outsourcing as a strong strategic business tool: resources to manage the outsourcing program, low ability to absorb the initial investment cost, difficulty in finding the right fit vendor, etc. This prevents them from reaping the same benefits of outsourcing as a Fortune 500 organization where this practice is relatively mature.

The outsourcing roadmap and vendor partnerships required by midmarket firms certainly differ from the ones required by larger enterprises. Today several midsize vendor firms focused on serving this market segment have structured themselves to suit the needs of these midmarket buyers and have demonstrated their ability to do so by delivering a triple play value addition of

- ▶ Improved quality
- ▶ Increased productivity
- ▶ Reduced cost ... Sustainable annual savings upwards of 40%

Though Outsourcing has become a well-adopted strategy for growth, delivering phenomenal value to organizations of all sizes, it is still being perceived as a valuable business strategic option for large enterprises only. Small and midsize businesses contributing to nearly 65% of global GDP, representing more than 90% of all businesses and employing more than 90% of the world's workforce<sup>1</sup> seem to wear a different thinking that when it comes to outsourcing unlike their larger counterparts, who have been active adopters of business outsourcing.

## What holds back a midmarket company from Outsourcing?

Though outsourcing adoption by midmarket is growing, it still remains an unexplored strategic business weapon among small and midmarket firms. Midmarket firms have local presence, a niche focus, centralized business decision making, limited number of resources, and these attributes differentiate them from the Fortune 500 companies with global presence, broader focus, with decentralized business decision making and more access to resources.

Among the several reasons for reluctance to outsourcing shown by midmarket firms include:

- ▶ Lack of enough resources (e.g. a dedicated sourcing team ) in place to manage outsourced processes
- ▶ Fear of losing control over their processes
- ▶ Difficulty in finding the right fit with a vendor of similar size who will provide them enough attention and flexibility (outsourcing seems to be dominated by the large vendors)
- ▶ Unprepared to absorb even the one time high initial investment necessary, or commit to large business deals and hence typically prefer to 'test the waters' before full scale adoption
- ▶ A general feeling that they are too small to outsource which is actually a myth

## Main Drivers for Outsourcing

In the current environment, growth is slow and cost pressures are high, and midmarket firms do not find credit available at low cost. Businesses are focused on improving efficiencies and quality of service through innovation and continuous process improvement. For this scalability is needed and an ability to grow without adding significant fixed cost base which is a challenge for midmarket firms.

Midmarket firms also see a challenge in accessing talent and human capital, and an inability to invest in technology. They may not have benefits of scale in driving efficiency and effectiveness as compared to larger players. The perceived lower negotiating power with the large service providers due to smaller scale is another challenge.

Some of these challenges are being addressed by midmarket firms by outsourcing, something the Fortune 500 companies already have used to resolve some of these challenges. Besides cost arbitrage, outsourcing/offshoring helps midmarket firms gain access to skilled resources, improved technology, enhanced efficiency in operations, and better compliance to regulations and quality - something that they may not be able to afford in-house.

Outsourcing by mid-market companies has been gaining traction. Midmarket firms commenced outsourcing IT functions, and have then moved on to outsource non-core back-office functions and some knowledge intensive/analytical functions.

## Different Roadmap

Our experience shows that midmarket firms certainly need to tread a different outsourcing path as compared to their larger counterparts.

Midmarket firms need more hand holding for the outsourcing process as compared to larger organizations. They should outsource to small and midsize vendors as they may get inadequate attention when dealing with large global vendors because of their small deal size and may also not be able to negotiate the terms and conditions favorably due to smaller scale.



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These firms need to focus on outsourcing single or several independent processes bundled together under a deal, and may not even need to expend effort on the Request for Proposal (RFP) process for vendor selection, unlike larger firms. They should prefer to conduct a proof of concept with a couple of vendors to evaluate and finalize the best vendor. End to End process outsourcing, though gaining traction, is yet to become the starting point of an outsourcing relationship for midmarket companies.

Midmarket firms perceive themselves as not the 'right' size for outsourcing. Any organization large, midsize or small while evaluating outsourcing feasibility, should conduct a due diligence to assess the benefits in the form of savings, improved productivity, enhanced customer experience and evaluate the best outsourcing model. The total size of an organization or the number of resources should not be considered as the only major decisioning criteria - one way to do this is to decouple the customer-facing functions from the 'back-office' functions as this then achieves enough scale of the back-office business processes to make it viable to outsource. Our experience indicates that, using this approach, small firms also reap the same benefits from an outsourcing relationship just like larger firms.

Midmarket firms may lack scale to setup captive centers and therefore we suggest a third party outsourcing model as the most viable option. The preference should be to go with vendors that offer pay-as-you-go pricing this offers them huge cost reduction even with lower volumes, and allows them to grow the business without adding to the fixed costs. This model works particularly well for processes that are cyclical in nature and also for processes which may have recurring (daily/ monthly/ seasonal) volume peaks and troughs.

The other aspect for midmarket firms that we stress, when they make an outsourcing choice, is that their decision should be far more based on relationship comfort that they may have with their service provider, and they should expect a very hands on engagement style so that they get the requisite guidance and hand holding to initiate and sustain the outsourcing engagement.

## Expectations from a Service Provider

In the current environment cost arbitrage is a given. The key differentiator is improving efficiencies and quality of service through innovation and process improvement. Some key expectations that midmarket firms have from their service providers include:

- ▶ Partnership approach
- ▶ Outcome based pricing model
- ▶ Deep domain expertise
- ▶ Flexible and Scalable delivery model
- ▶ Strong engagement and governance model including senior management involvement
- ▶ Mature framework and toolkit for knowledge transfer, operational excellence and compliance
- ▶ Seamless transition methodology
- ▶ Convert fixed costs to variable...unit transactional pricing

There are only very few outsourced services providers, like SLK Global, which are structured and focused on serving the mid-market companies and have successfully demonstrated this model and have done so over the last 10 years of their operations.

## About SLK

The SLK Group is a leading business process and software services provider serving multiple industries with key focus on the financial services industry.

SLK's 3,000 trained and experienced professionals operate out of 10 operational centers across 3 cities. SLK's clients include 25 small and midsize title insurance companies, mid-size mortgage lenders, 3 of the 4 top title insurance companies and leading U.S. banks.

SLK's easy to start engagement methodology, on-demand services combined with pay-as-you-go pricing has delivered triple play value addition of improved quality, increased productivity and reduced cost with sustainable annual savings upwards of 40% to its clients.