



In-house or Outsourced: Checklist

Calculating the cost case for outsourcing

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Technology Service & Support

About this Guide

In the Qcom guide *In-house or Outsourced? Achieving Technical Service & Support Excellence For Your Business*, we reviewed the factors which will determine a manufacturer's decision to deliver technical services and support via either an in-house team or an outsourced service provider.

That guide, available as a free download at www.qcom.co.uk/whitepapers, addresses these factors under two broad headings: operational/strategic advantage; and cost benefit.

This supplementary document provides a checklist which can be used to structure the cost benefit analysis.



Caption: Precisely defining the processes you are considering outsourcing is a critical first step towards an accurate and comprehensive costing (see p.4)

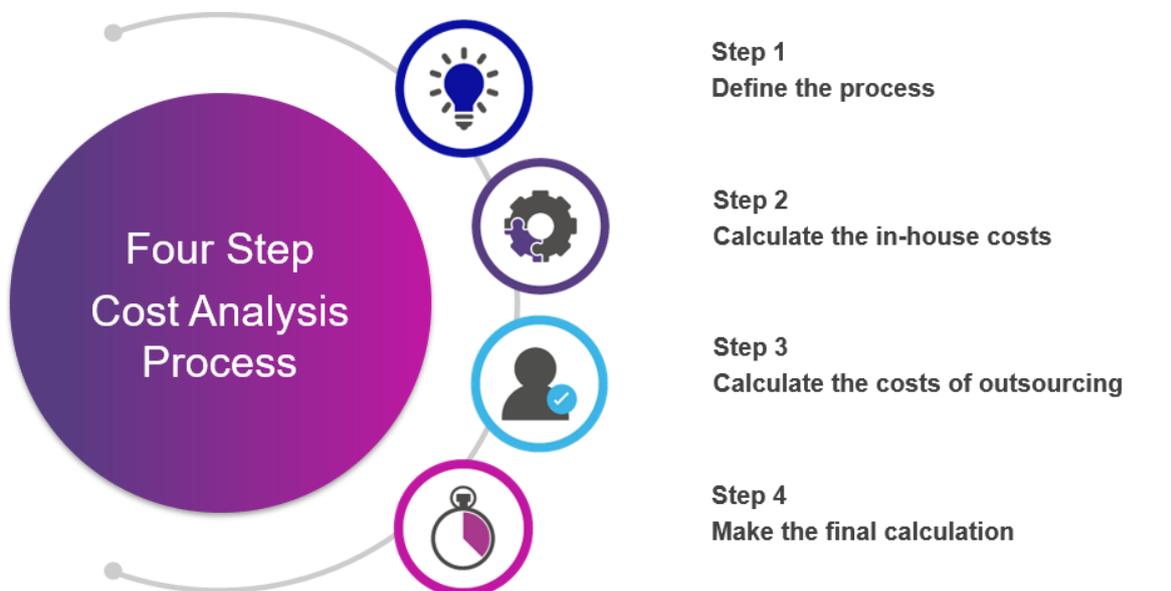
1. Introduction

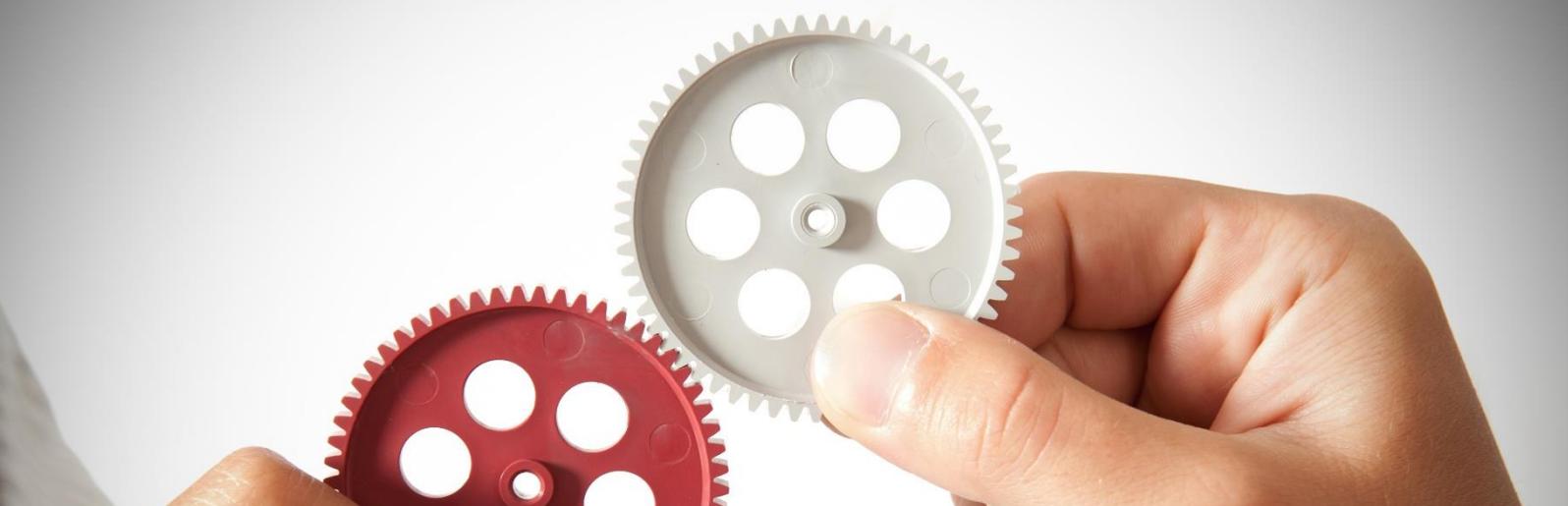
An accurate cost analysis will help you determine whether the financial case weighs in favour of keeping a process in-house or outsourcing it instead to a specialist provider.

It is important to appreciate that an accurate cost analysis is not simply a matter of comparing the current annual cost of running your in-house function with a number of quotes from outsource providers.

Instead, this checklist proposes the following four-step process for a more comprehensive and accurate cost-analysis:

1. Clearly defining the process that you would like to outsource.
2. Calculating the in-house costs that would be avoided by outsourcing.
3. Calculating the costs of outsourcing.
4. Making the final calculation.





2. Calculating the Cost

This four-step process will help you arrive at a more comprehensive and accurate cost analysis.

STEP 1: Define the process(es) to outsource

The number one mistake made by companies considering outsourcing is not forming a clear and accurate picture of exactly what they are outsourcing. This can make it almost impossible to accurately calculate existing in-house costs and equally difficult to give potential outsource providers a reliable brief from which they can give you an accurate quote.

When thinking about technical service and support in particular, it is vital that you consider the entire technical service and support lifecycle. Qcom's whole-of-life model (see p.2) provides a useful guide to the many aspects of technical service and support, from pre-sales engagement through sales execution and implementation, and on to the full range of aftermarket support activities.

To carry out an accurate cost analysis you need to be clear which of these you want to assess for possible outsourcing. Is it the entire function, a subset of services, or percentage of some services (by volume, territory, or product category for example)?

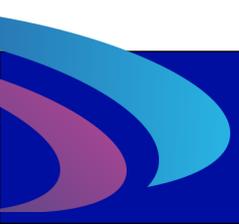
STEP 2: Calculate the Potential Reductions to In-House Costs

Once you have clearly defined the business processes under consideration, it is time to identify and calculate the associated costs.

First itemise all the costs relating to the process. This includes both direct costs (salaries, equipment, supplies, etc.) and indirect costs (general administration and internal services).

It should not include sunk costs however (which are those costs that have already been incurred and cannot be recovered, such as in physical infrastructure and facilities).

Remember that decision-making based on a cost analysis should focus on avoidable future costs, so as well as avoiding sunk costs it's now time to work through all of the costs you have listed in order to identify those which could, at least potentially, be eliminated or reduced if the business process is outsourced.



STEP 3: Calculate the total cost of outsourcing

With in-house costs calculated, it is time to determine the total costs of outsourcing the business processes.

By building an accurate brief at Step 1 you should be in a strong position to request accurate quotations from one or more outsource service providers.

In addition to these you should consider the costs that your organisation will incur in administering the outsourcing engagement, such as processing orders and monitoring and evaluating the provider's performance.

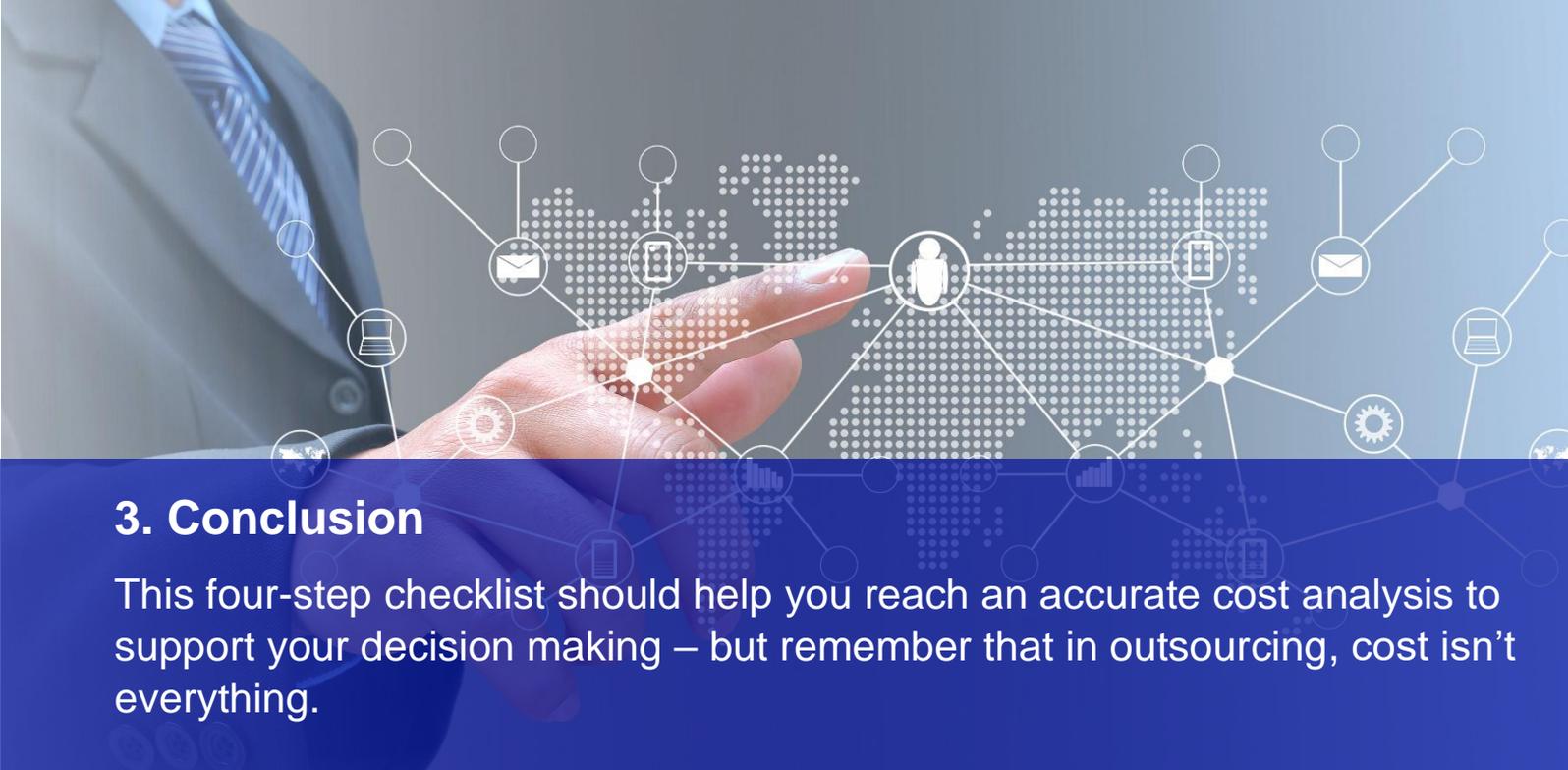
Note also that in year one, there will typically be costs involved in the transition to outsourced provision. But there may also be some revenue opportunities, such as income from the sale of unneeded equipment, or the release of resources to focus more effectively on other important – and revenue earning – areas of the business.

STEP 4: Making the final calculation

The final step of the cost analysis is to calculate the cost savings that outsourcing can be expected to deliver.

By subtracting the expected cost of outsourcing from the total avoidable cost of running in-house functions, you will be able to identify whether there is a cost advantage and whether it is significant enough to justify taking further steps towards an outsourcing process.





3. Conclusion

This four-step checklist should help you reach an accurate cost analysis to support your decision making – but remember that in outsourcing, cost isn't everything.

Even if you conclude that outsourcing would not reduce your costs (and even if it might increase them), an outsourcing strategy could still be appropriate for a host of other business or operational reasons.

Conversely, even if you identify the potential for significant cost saving, those wider business or operational factors might mean it still isn't the best option for you.

For a complete discussion of these wider issues, please see our guide *In-House or Outsourced? Achieving Technical Service & Support Excellence*, available as a free download at www.qcom.co.uk/whitepapers

You can read more about Qcom, our services and 'the Qcom Advantage', on our website at www.qcom.co.uk

Or contact us today on +44(0)1905 827650 or outsourcing@qcom.co.uk to discuss how we could help you achieve technical service and support excellence.