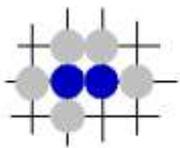


# ***Services Sourcing Triage –***

## ***Identifying Services for Outsourcing or Insourcing***



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## ***Introduction***

Although many organisations provide a wide range of services internally across various departments and internal service providers (e.g. Human Resources, Legal, IT, Accounting, etc.) it is extremely rare for the organisation to provide all the required services purely with its own staff. In some cases it is better, for reasons of cost, availability or required expertise, to source some services from external vendors, while at the same time managing the delivery of those services through internal management.

In the latest wave of outsourcing, many organizations have adopted a dual strategy of multi-sourcing and / or selective sourcing to obtain the most cost effective services for the organisation. Multi-sourcing refers to obtaining the required services from various service providers based on their ability to provide a specific, related set of services. Selective sourcing refers to the process of analyzing the services required by the organization and only outsourcing certain services, the remainder being kept in-house to be provided internally. This paper discusses the methodology of Services Sourcing Triage (from the French "*trier*" meaning "to sort"), which can be used by an organization to identify which of its services should be outsourced, which should definitely not be outsourced and, from the rest of the services, which could be outsourced.

## ***The Services Sourcing Triage***

There are two main steps in conducting the triage. The first step is to determine whether the service is strategic, tactical or operational. Strategic services are those which provide sustainable competitive advantage to the organization and are typically related to supporting the strategic goals and / or business plans of the organisation. They are either impossible to duplicate outside the organization, or at the least are extremely difficult to copy. Strategic services typically use knowledge that has been built up in the organization over many years, and much of this knowledge is tacit knowledge. They will use very specific processes and procedures that have been developed in-house and are not in common use in industry or the marketplace. They may also require specialist skills that have also been developed in-house and cannot be duplicated externally. In many of the wholesale outsourcing ventures during the 1990s, it was the strategic services that service providers sought from their customers, as the service providers knew that, once they gained access to these services, they could in turn gain a sustainable competitive advantage in their marketplace, and charge a premium price for them. In most organizations, around 10 – 15% of the entire set of services are strategic, and they should always be retained in-house.

Operational services on the other hand provide no sustainable competitive advantage. They are considered commodities, i.e. any reputable service provider should be able to provide the service at a reasonably inexpensive price. At the same time, it may cost a considerable amount of money to continue providing the service in-house, due to the typically high "holding" cost, i.e. having all the necessary infrastructure and resources required to deliver the service, whether or not the services is required dozens of times per day or maybe only once a month. Operational services will also typically requires specialist skills and knowledge, however this knowledge does not provide the organization with any sustainable competitive advantage, e.g. network hardware support. In most organizations, around 15%-20% of services are operational, and these services are always outsourced.

The remainder of the organisation's services (around 65% - 75%) are tactical. They are not commodity services, yet they do not necessarily provide any sustainable competitive advantage. Any advantage provided by the service to the organization will depend on specific skills and knowledge for its delivery, including specific processes & procedures. For example, its possible the service is commonly provided in the industry, however the organization has developed specific processes and procedures for delivering the service which provide a unique advantage to the organization. The second step in outsourcing triage is the analysis of the tactical services to determine which should be outsourced and which should remain in-house.

The first part of this analysis is to determine the cost of the service in terms of either a cost per transaction or a cost per hour for the delivery of the service. To determine this, it is necessary to identify all the costs associated with the service, and these costs fall into two general types. There are the holding costs for the service, i.e. the costs involved in setting up and maintaining all the necessary infrastructure necessary to deliver the service. This could be costs for plant & equipment, technology, offices, training rooms, people, etc. the other type of costs are those associated with the actual delivery of the service. They may include documentation, electricity, transport, people, etc. with the vast majority of services, the holding costs are by far most significant cost, the delivery costs being very small by comparison. Associated with the costs of the service are the anticipated number of times the service will be required during a given timeframe, and the times when the service is to be made available. All of these determine the total cost per service delivery, which is measured either in terms of a cost per hour, or a cost per transaction.

Once this cost has been determined, it can be compared with industry benchmark figures to ascertain whether the organization is providing the service cost-effectively or not. If external

organizations can provide the service cheaper than the organisation can provide it internally, it may be more cost effective to outsource it. Before deciding to outsource the service however, some further analysis is required. For example, it may be more cost-effective to retain some services in-house. A service provider may be able to package a group of services together however in such a way that the total cost of the group is less than the internal cost of the individual services.

There is one more aspect of analysis of the tactical services that needs to be undertaken, however before the final decision is made – whether or not the organization gains any competitive advantage (possibly indirectly) from providing the service in-house. Although the service may be broadly available in the marketplace, the organization may have developed certain specific processes & procedures for the delivery of the service, or to support some aspect of its delivery. Thus, in spite of the fact that the service is more expensive to provide in-house versus externally, there is added value in retaining the service in-house in terms of the competitive advantage.

### ***Conclusion***

Carrying out Services Sourcing Triage in an organisation is not necessarily a complex task, however it can definitely be a long one. Identifying the services, defining them, and working out which is strategic or operational can take several weeks. For example, experience has shown that to properly define a service can take anywhere from 8 to 20 hours per service. Given that there are around 50 – 70 services in the average organization, this reflects a workload of between 400 to 1,400 person hours, just to define the services. The second step in outsourcing triage costing the services, can also take anywhere from a few days to several weeks – the most difficult aspect being the correct allocation of costs to the right services. Following this is the analysis of the processes and procedures to ascertain whether the organization gains any competitive advantage from them.

In total, a Services Sourcing Triage project may take three to four months to complete. The benefits from such an exercise however far outweigh the time and cost involved. Firstly the organisation's intellectual property in the form of its strategic (and possibly tactical) services will be protected. Secondly, any services that are outsourced will be provided at less cost than they could have been if they had been retained in-house. In summary, the organization will gain significant financial benefits and be able realize the seemingly impossible task of actually saving money through outsourcing.