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## Is it smart to outsource?

*by Jayne Marks, managing director, Macmillan Publisher Services*

***Outsourcing is nothing new for publishers although the well established practice of using external suppliers for typesetting and printing has not really been thought of as 'outsourcing'. Largely for cost reasons, publishers have gradually outsourced much of their production process over the last 10 years so that few academic publishers now typeset or even copy edit pages in house.***

The whole issue of outsourcing is now [headline news](#) with the advent of 'offshoring' or outsourcing to an overseas, usually low labour-cost, location. The need for complex data formats to enhance web publishing coinciding with the need to drive down costs has led many publishers to consider, in particular, the use of companies in India, China or Malaysia.

The Indian Business Process Outsourcing (BPO) net is now being cast over a wider variety of publishing tasks. Macmillan (among other suppliers) has for the past 30 years offered outsourcing services in India for typesetting, editing, archiving and electronic file generation and has recently expanded its offering with the formation of a new company which undertakes a range of publishing back office functions from the

creation and management of a web platform to subscription fulfilment and customer services.

### **Why outsource?**

It is important to the success of any outsourcing project to understand why it is the right business decision. It may be a tactical reason – a short-term response to a need or issue within the business. This might be to drive down costs, cope with a staff shortage or avoid a major technology investment decision. Alternatively it may be strategic. There is an excellent McKinsey article on [strategic outsourcing](#) which explores the decision to focus on the core competency of the business and let others deliver the non-core functions. [John Hagel](#) outlines the reasoning behind the leveraged growth model, ie the desire to grow the business by using external suppliers to meet new demand, rather than invest in new company assets.

Outsourcing offers the opportunity to grow a business, improve quality and drive down costs all at the same time.

### **Benefits**

It is simplistic to suggest that outsourcing, whether on or offshore, is only about saving money, although that is undoubtedly a

major advantage. Even with the lower labour costs in India, for example, successful [outsourced](#) contracts see a wider range of benefits. These include higher quality, higher efficiency and speed of new technology implementation. These are delivered by a high quality, well-educated workforce, typically a higher manager to staff ratio and more time made available for training and new skill development.

### What can be outsourced?

Historically most aspects of the production process have been outsourced, including copy editing, typesetting, printing and despatch. Data capture and conversion is now routinely outsourced and all aspects of web publishing are now available including design, development, hosting, maintenance and security. Marketing, advertising sales and fulfilment services have also been outsourced in the past and some of these functions are now beginning to be developed offshore. Recent estimates of the size of the [outsourced business in publishing](#) put this at around \$2.5 billion globally and it is expected to rise to \$4.6 billion by 2007.

### The process

The eventual success of an outsourced project will be driven by how well the whole process is planned, both by the publisher and the supplier. It is widely recognised that 25% of all outsourcing relationships (across all industries) fail after 2 years and 50% fail after 5 years ([Dun and Bradstreet's Barometer of Global Outsourcing 2000](#)) so it is important that the process is taken seriously by the whole organisation. Mistakes will happen and it will take time to get right so the management team must be behind the project. The following key steps will help to reduce risk: and are covered well in *Outsourcing to India: the offshore advantage*, Mark Kobayashi-Hillary, Springer 2004.

*Setting objectives* This is deciding why you need/want to outsource some of your functions. It is important to analyse carefully why this is the right decision for your company and which functions they should be. What outcome do you expect: better service or just lower costs; increased capacity and/or avoiding the need to invest in new technology; flexibility to enter new markets or to grow in existing markets; faster development of new services or

enhanced performance of existing services? Clearly identifying the problem or opportunity will drive both the solution and a successful result.

*Analysis* Having decided what part of the business is to be outsourced, you need to undertake a thorough analysis of this function, what is the workflow, can it be improved, where are the rate limiting steps, where are the critical areas for quality control? If you don't understand how your business works you will not be able to define your requirements with a supplier or negotiate improvements. Clarity of communication on this issue is essential to a successful outsourced project. Once the process has been clearly defined, your new supplier will offer process improvements and can undertake a process re-engineering when taking on the new work.

*Choosing a supplier* It is vital to take time in the selection of the supplier. To make the right decision means going through careful steps including researching options, requests for information, visiting supplier sites, visiting reference sites, request for proposals, negotiation with final choice and awarding the contract. Key issues to be researched about each supplier are: technology skills, quality control methodology, quality of the staff, project management methodology, proven specialties and financial status. But it is not just the ability to undertake the work. A successful working relationship will come from finding a supplier with the right policies, culture, procedures, management disciplines and financial stability to be a long term partner. To get the right contract needs an approach to find a business partner not just a supplier.

*Price* There are three options to structuring the price of an outsourced project.

- **Cost plus:** the price is arrived by agreeing the cost and adding a mark up to give the supplier a margin. The problem with this model is that it gives the supplier no incentive to drive down costs over time. If this model is used a regular review which benchmarks the service against the market prices needs to be written into the contract.
- **Gain sharing model:** both partners agree to share any savings that are made. This can be successful but will need a

high level of disclosure both before and during the term of the contract. A lot of detail should be included in the contract to back up the calculations and the danger is that the complexity gives rise to disagreement over how the costs are calculated.

- Fixed price: this is the clearest and simplest model to adopt. The prices should be clearly stated in the contract and the only risk is in the cost of any 'add on' services which should be monitored closely.

*Contract* The contract needs to reflect all the elements of the agreement negotiated, including the service levels expected from the supplier. If the contract is with an offshore company, it will be important to cover the following areas. IPR is not recognised in the same way in all countries in Asia as it is in the West. Therefore it is important to cover these issues carefully in the contract, especially for any software development undertaken by the supplier. There is also no equivalent of the Data Protection Act in India, for example, and if personal data is to be held by the supplier then a safe harbour agreement will be needed to define exactly what is expected of the supplier. Can the supplier offer a contract covered by UK or US law or will this be Indian or Chinese law? Most suppliers will be flexible on this issue. Before starting detailed negotiation with a supplier it is advisable to sign a non-disclosure agreement.

*Implementation* This takes meticulous planning and early outputs may take longer than usual. Don't panic: it is good to take time to get it right. It is important to be clear about what exactly you expect of your supplier, how will processes work and most critical how will you communicate.

*Managing the contract* The contract should specify the project management and quality control methodologies and these should include clear agreements on how the contract is to be monitored. Most important is communication and you should expect to agree response time to email queries, regular phone conference schedules and written reports. Key performance indicators and how they will be monitored should be agreed. Each contract should also have a review clause to check the supplier is on track and prices are still competitive.

## Risk management

Letting go of the control of any part of a business comes with some measure of risk and it is important to identify and recognise this at the beginning. Users of offshore [journal production companies](#) are aware that mistakes will sometimes happen and it is important that the company is behind the contract. Risks of outsourcing and offshoring include:

*Suppliers financial stability* Due diligence and ongoing monitoring of the company can mitigate against this problem. It is worth asking for a parental guarantee if a supplier is backed by a larger company.

*Communication* This is particularly important when offshoring as this adds extra dimensions of distance and time zones. It is impossible to underestimate the need for clarity in all aspects of the process, whether it is defining the service to be delivered or how quality should be managed and monitored. In addition, culture can be an issue. For example, publishers sometimes find that Indian suppliers are reluctant to say no to requests even if they cannot deliver. These issues can be helped by choosing a supplier with a good UK or US local base. If use of English is important then India is more attractive than other Asian countries.

*Management time* The time needed to negotiate the deal should not be underestimated if it is to be planned and executed properly. To ensure good project management and quality control it is helpful to appoint a key manager within the publishing company to be responsible for supplier management (see below). In fact, there has been a noticeable trend over the last few years for customers to become more hands-on in managing the contract. It is clear that outsourcing projects work best when time is taken to visit the supplier, prepare clear specifications, establish good communication channels and feedback processes.

*Organisational issues* The internal changes to workflow and working practices need to be carefully managed. If the outsourced project involves some job losses the whole process needs clear goals and processes to ensure success. It is also vital that the process to be outsourced works even if you are looking for efficiencies. Where a

process is clearly not working then simply outsourcing it is not going to help. You need to fix the problems first then find your supplier.

*Supplier management* It is surprising how many customers focus on the process of outsourcing without thinking ahead to how the supplier is to be managed in the future. If clear goals are not set at the beginning and backed up with metrics to measure success, it is going to be hard to know if everything is going OK or even to identify where it is going wrong. Ideally these metrics need to be incorporated into the contract in some way. There needs to be a clear 'owner' of the supplier to ensure accountability for the ongoing process. Out of sight must not be out of mind.

### Conclusions

Outsourcing whether on or offshore can offer an organisation real benefits in terms of efficiency, increased capacity, enhanced technologies without upfront investment and of course, lower costs. However low cost alone is not the main gain. Improved

quality and flexibility are also key outcomes. Communication with an offshore supplier can be an issue so "dual shoring" where an Asian supplier has a local base in the US or Europe might be a good option to look for. It is critical to know why you are outsourcing a process and what you want to gain. The planning of all stages of the implementation and ongoing management of the contract is key. Setting up metrics to be measured is vital. Things will go wrong and may take a while to set up but overall the gains from outsourcing can be significant new growth for the customer in terms of capacity, new business, better quality and higher profits.

#### About the author

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