

Is your outsourcing provider right for your business?

Four quick questions to ensure you have the right fit

Many middle market organizations have embraced outsourcing strategies for several key areas of their businesses, especially for back-office finance and accounting processes, human resources, and IT staffing and services. However, while outsourcing continues to become more prevalent, many companies do not understand how to successfully manage a third-party relationship. They often lack effective oversight and controls to understand whether they are receiving the expected value from their service providers.

In order to be effective, utilizing third parties requires oversight. A third-party strategy should, at a minimum, be periodically evaluated by every organization. An effective outsourcing framework can provide several significant benefits, including leveraging qualified resources to combat the current labor shortage, bringing continuity and consistency to operations, and introducing more experienced and strategic insights into business processes.

In many settings, outsourcing is the right move. But do you know if your provider is doing a good job? Is your provider giving you the added value and strategic advice necessary to enhance your success? If the answer is unclear, some adjustments may be necessary to take advantage of the full range of benefits that outsourcing has to offer.

Case study

A nonprofit trade organization recently reached out to RSM because it was uncertain of the efficiency of its outsourced IT provider. We came in and evaluated the current situation and quickly realized that the provider was not bringing strategy and forward-looking decision-making to the organization. The provider may have been managing simple transactional processes well, but was failing to help the nonprofit with strategic perspective and advice necessary to enhance operations.

For example, several technology issues were readily apparent, as servers were at the end-of-life and out of warranty, and the organization lacked an effective cloud strategy. These concerns prevented the nonprofit from becoming as efficient and productive as other peer organizations. We provided an assessment for the organization, determining the market for the outsourced work it needed and what it should pay for those services, and started a process to help select a new, more appropriate provider.

Answering the following questions will help you strengthen your own outsourcing strategy.

1. How did you select your provider?

Many organizations hire an outsourced provider based on a referral from a peer, or sign a contract with someone they have an existing relationship with before going through the necessary due diligence. Most of the issues that we see within subpar outsourcing relationships are related to scoping. You must go through a thoughtful process to ensure the provider understands your expectations upfront and that the level of work necessary is clearly defined.

In addition to scoping challenges, some outsourcing providers may not be a fit from a culture perspective. An outsourced provider is an extension of your organization, so an initial evaluation process must consider how a potential partner aligns with your goals and values. Perhaps most importantly, your outsourcing provider must be scalable, with its processes and capabilities available to expand along with your expected growth.

Changing your outsourced provider is not something you want to do very often, as the process can be painful and time-consuming. However, effective due diligence and evaluations can help you find the right provider from the start.

2. How well do you manage the relationship?

In too many cases, organizations select a third-party provider and assume they have no more worries, allowing the outsourced function to go forward without effective oversight. Unfortunately, some providers become complacent as a relationship endures, and you may not be getting the same level of service in later years as you were in the first year. The value and strategic advice from the relationship may slowly diminish if your organization is not keeping an eye on the provider.

For example, even if you outsource IT, your company must still have significant involvement in the IT steering committee to understand the direction of the function and whether it aligns with your vision. With any outsourcing relationship, you must closely monitor service level agreements (SLAs) and make sure that the third parties are providing the service and insight they promised from a higher strategic perspective down to a more granular level.

To ensure consistent communication and service, your organization should have a specific point of contact with the outsourcing provider. Regular meetings with the third party—whether they are weekly, monthly or quarterly—should be utilized to present progress and data, and financials if the outsourcing relationship is related to accounting.

3. Does your provider understand your business?

Some outsourcing providers are simply a better fit for a company in a certain industry or of a specific size. Your provider must know your business and how you plan on growing in order to deliver strategic advice.

The outsourced function should support your business strategy. However, if your third-party provider does not have a deep understanding of what you are trying to accomplish and how the business works, it cannot provide effective advice. If your provider lacks experience in your industry, it will be hard for it to be relevant and provide truly strategic advice.

4. Is your provider still meeting your expectations?

Regardless of the qualifications or capabilities of your outsourcing provider, you must evaluate your vendors periodically to ensure they align with your industry demands, as well as your short- and long-term goals. If you are unsure whether you are getting the most out of your outsourcing investment, an assessment from an experienced advisor can uncover any potential issues or inefficiencies. This process can help ensure that your provider's capabilities match your needs, and you are receiving the right level of service.

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Conclusion

Choosing the right outsourcing provider is not easy, and many companies do not have the right processes in place to manage third-party relationships effectively. The week-to-week work third-parties provide within IT, finance and accounting, and human resources is important, but the overall business strategy you should also receive is critical to guide the company. If your outsourcing provider is not meeting your expectations, you must act quickly to adjust your outsourcing strategy and gain the projected value out of the function, or potentially evaluate a new provider.