

New-generation outsourcing

Outsourcing companies have become more sophisticated, with outsourcing service level agreements focusing on turnkey solutions and reliable delivery standards.

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STATISTICS FROM THE RECENT WORLD OUTSOURCING CONFERENCE (USA) show that one in four clients who use outsourcing services have perceived their experience as being negative. In response, clients have begun to formalise service level agreements with suppliers on the principles of risk, reliability, professionalism, strategy, workability and for the networks outsourcing companies provide.

They no longer see outsourcing as a way of simply reducing internal risk (and maximising short term profit) but as a relationship with a specialist service provider that enhances their business practice. Clients look first to branded outsourcing companies for security and for consistency in their contract. Their preferences are for companies that have a reputation for high-quality processing and provide a one-stop-shop service.

Needs to suit

Within each client group there exists a need for outsourcing relationships. Typically, smaller companies (one to 20 employees) and set-up companies do not have formal human resource departments. They are often not aware of statutory employment requirements, leaving themselves open to criticism from authorities and abuse from employees. Within this client group, outsourcing suppliers provide remuneration processing products and statutory employee parameter guidance and management training.

Medium-sized companies (21–150 employees) have an existing human resource infrastructure of sorts. However, many are not equipped to keep themselves up to date with changes in labour legislation and employee tax management. Outsourcing suppliers within this group provide clients with statutory employment guidance, management training and specific processing. Larger companies have formal human resource (HR) departments but require the skill of external consultants for services, such as staff training and unique payroll processing.

HR's one-stop-shop

New-generation outsourcing companies, through their client-needs analysis, have developed individual products to cater for the one-stop-shop needs of their target clients. In the HR

environment these products include payroll processing, contract employee management, employee tax management, HR consulting (audit and training), employee benefits and employee placements.

To supply these services at one-point convenience (and at satisfactory cost), new generation outsourcing companies identify their core service as turnkey HR solutions, and have access to professional services to satisfy their client's total HR requirement.

To date there is only a small percentage of outsourcing companies that provide a one-stop shop service to their clients. The complexity in establishing an organisation to satisfy client expectation on delivery consistency and cost, across a full range of HR products, is enormous. This has become the barrier to growth in many outsourcing companies and has created an environment for mergers and acquisitions among similar companies within the outsourcing industry.

New generation outsourcing companies distribute their products and services through well-tendered vertical markets using referral marketing techniques. They provide clients with a menu of administrative services and, as the need arises, the clients are able to draw these services into their business.

Looking ahead

The new generation brands that will dominate the HR outsourcing arena will be companies that understand their clients' existing and future requirements, are able to keep themselves up to date with the latest field developments and who have built solid operational and marketing structures to service those one-stop shop needs. These companies adapt to environmental change, are well prepared for client growth and are not constrained by geographical boundaries. Their income streams are recurring-based while client relationships are based on logic and formal ethics.

New-generation outsourcing companies look for win-win relationships with their clients and have long-term intentions with each approved customer they service. They are sophisticated in product and delivery design but follow 'out of clutter find simplicity' business principles.