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Theory & Practice

Smaller Companies Join The Outsourcing Trend

Fixed Costs Are Expensive, Oversight Can Be Difficult, But Move Is Often Worth It

By ERIN WHITE
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Two years ago, executives at Subrogation Partners LLC of Connecticut outsourced some paperwork-processing tasks to India. That is hardly unusual. But Subrogation's size is: It has about 90 employees.

Tapping cheaper labor overseas isn't just for large companies anymore. The spread of low-cost technology makes it easier for smaller companies to take advantage of the savings and flexibility, especially in places where big companies have laid the groundwork with labor practices and infrastructure.

But smaller firms face different challenges in moving operations thousands of miles away. Because some costs are fixed, it can cost small firms more per worker to shift a job overseas. Monitoring and managing far-flung workers takes time away from a smaller cadre of executives based in the U.S.; retention and work-quality problems can wreak more havoc on a small company than a large one.

"Smaller companies going offshore are making, relatively speaking, bigger bets," says Rick Guzzo, a Washington, D.C.,-based principal in Mercer Human Resource Consulting's Workforce Strategies group. "Large companies have a little more slack."

Reaching Out

Smaller companies increasingly look to tap offshore labor markets, as larger companies have for years. Consultants and executives offer these tips for managers at small firms thinking of expanding overseas.

- Locate overseas offices in regions that are home to bigger, multinational companies
- Monitor quality closely; errors can really hurt a small business
- Ensure that key executives visit frequently, and plan for the travel costs
- Offer consistent company-wide training so all workers use similar processes
- Track retention of overseas workers, as a few key departures could be crippling

Source: WSJ Research

Executives at Subrogation Partners began considering outsourcing in 2004, after the company bought several portfolios of insurance claims. Subrogation, Westport, Conn., purchases and services claims that have been paid, then seeks to recover the money from other parties involved in the incidents.

The new portfolios meant Subrogation's business would come in waves that make it hard to plan for a steady number of workers, says Michael Murphy, chief operating officer. Hiring workers and then idling them wouldn't be efficient. Subrogation executives also rejected the idea of opening and staffing their own office overseas. "We didn't have the management resources to do it ourselves," Mr. Murphy says.

So Subrogation sought a company to provide workers who would organize material collected by Subrogation employees in the U.S., such as police reports and photographs, into a digital "file" that the U.S. employees would use while handling claims. Subrogation aimed to divide the work among the overseas workers and its own employees in Farmingville, N.Y.; sending some work to India would allow files to be compiled more quickly, by spreading the work around the clock.

Evaluating outsourcing firms raised new concerns. Subrogation needed to trust the company with sensitive business knowledge and feel confident that the partner wouldn't ditch Subrogation in favor of a larger client. "For a small company, that is the biggest risk," says Kevin Manion, Subrogation's chief financial officer. "We were very concerned that all of a sudden we were going to be unimportant."

Before committing, Subrogation wanted to nail down its expected costs. Initially, Subrogation thought labor costs in India would be 70% less than in the U.S. But executives heard stories where the savings amounted to less than 30%, which they thought wouldn't be worth the effort. Subrogation would regularly have to send managers to monitor the overseas work force; beyond travel costs, that would mean losing a manager for several weeks a year. At a 90-person company, that "impacts your business," Mr. Manion says.

Ultimately, Subrogation found Sumpraxis LLC of Delray Beach, Fla., which owns work centers in India and China, and subcontracts with other outsourcers in India to provide workers for clients such as Subrogation. Sumpraxis caters to small- and medium-size companies that might be ignored by larger outsourcers. "We wanted to be important to them, and they made us feel that way," Mr. Murphy says.

Sumpraxis typically provides Subrogation with 20 to 30 workers at a time, mostly in a partner center near Delhi. Mr. Manion says the per-hour labor costs are about half what its U.S. workers cost, even after it pays Sumpraxis.

Subrogation had to work out some kinks. Managers at first couldn't understand why the Indian workers performed basic tasks more slowly than staffers in the U.S., until a U.S.-based manager visited the Indian office. There, he noticed that the Indian workers had only one computer monitor, whereas the workers in the U.S. had two, making it easier for them to juggle tasks. It hadn't occurred to the U.S. managers to tell the Indian center that they equip each worker with two monitors. "You bop your hand on the forehead and say, 'I can't believe we didn't think of this,' " Mr. Manion says.

As a smaller company, Subrogation also pays close attention to retention rates in the work center. When Subrogation managers notice several new names on the worker list, they ask how they can reduce turnover. In one case, Subrogation bought new chairs for the Indian workers.

Mr. Manion says that after about two years Subrogation is happy with the arrangement and plans to move more work offshore later this year.

Some small companies that send work overseas choose to use their own employees, presenting a different set of challenges. When shipping-logistics company Inttra Inc. of Parsippany, N.J., moved its customer-, carrier- and technical-support unit mainly to Hong Kong, Chief Executive Ken Bloom wanted to ensure that the roughly dozen workers didn't feel isolated or second-class. He also wanted to improve communication between the Hong Kong workers and Inttra's U.S. employees.

So he provided increased training for all of Inttra's 155 employees on company values and ways of communicating. Hong Kong workers learned to speak more candidly and directly with their American colleagues. American workers, in turn, learned to encourage more candor when asked a perhaps-too-polite question by a Hong Kong colleague.

"The global mindset requires that you don't just think of your own culture," Mr. Bloom says.

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