MD+DI
MEDICAL DEVICE AND DIAGNOSTIC INDUSTRY

Five Success Factors in Outsourcing

Companies that embrace these key points are more likely to experience a boost in sales and reduced commercial operations costs.

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In recent years, many medical device and diagnostics companies have expanded commercial operations functions to support sophisticated sales and marketing strategies. However, as companies experience slow growth and thinner margins in a sluggish economy, there is also growing pressure to reduce the cost of commercial operations.

Although many of these firms have turned to outsourcing for manufacturing, engineering, and other functions, relatively few have outsourced their sales and marketing operations. Companies must explore this option to sustain growth and contain costs. They would also do well to draw lessons from other industries that have successfully leveraged outsourcing to revamp commercial operations. Companies that outsource many aspects of their sales and marketing operations have similar goals: concentrate effort on core areas of expertise or strategic importance, reduce costs, and improve services (see Figure 1).

While the overarching goals are generally the same, companies have different priorities for efficiency, flexibility and speed, and their outsourcing operations must reflect these needs. Based on our client work across different industries, we have developed five key factors that organizations must follow to successfully meet their outsourcing goals (see Figure 2).

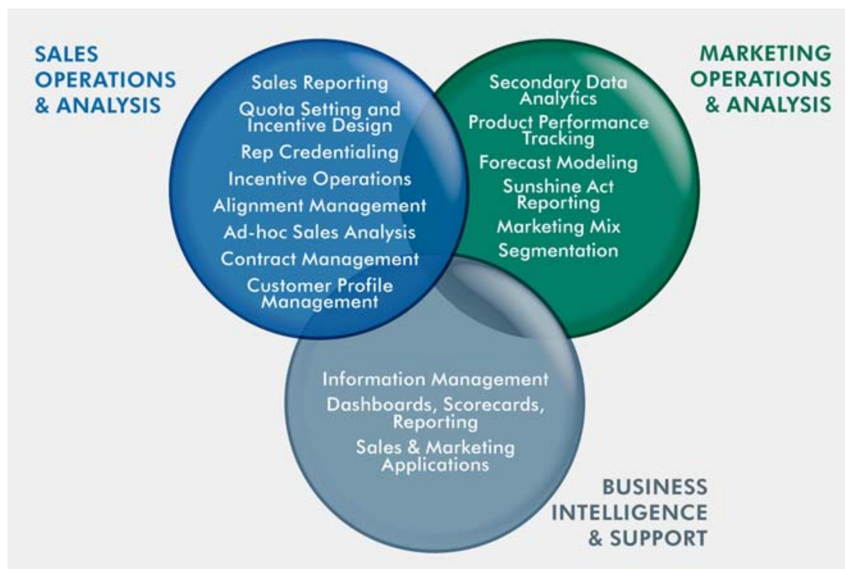

Figure 1. Sales and marketing processes suitable for outsourcing

Putting these success factors into action requires concerted effort. Sometimes companies do not clearly define their idea of success, or fail to resolve and prioritize conflicting objectives. In addition, some organizations have not established the discipline to successfully work in an outsourced environment.

Moving to outsourcing is not easy. However, it is an opportunity to not only improve operations, but also enhance organizational satisfaction and effectiveness. This article describes these success factors in more detail and explains how they can be leveraged to ensure a successful outsourcing operation. Assuming a company is otherwise ready for outsourcing—meaning it can work in a focused and flexible manner—these success factors apply to any medical device and diagnostic company looking to outsource its sales and marketing operations. As more companies explore commercial outsourcing to support their commercial strategies, the companies that fully understand and embrace these success factors are far more likely to experience targeted sales growth and cost reductions from their commercial operations outsourcing.

Success Factor 1: Define Success
All key stakeholders within an organization (e.g., IT, sales, and marketing management) must agree on the meaning of "success" before outsourcing their sales and marketing

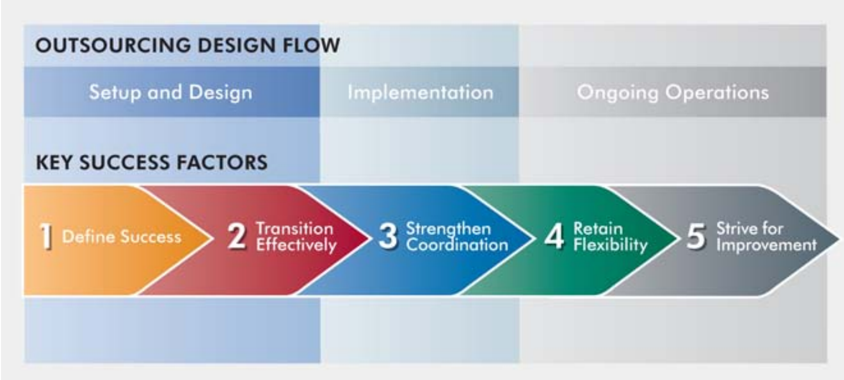

Figure 2. Success factors for outsourcing.

operations. Some may want to maximize cost savings (potentially forfeiting some flexibility), while others may want to maximize flexibility (potentially giving up some cost savings). Appropriate investment upfront that defines clear success metrics is critical to ensure success in outsourcing design and implementation.

The tensions between these goals are worth examining. For example, rapid turnaround time can cut into labor savings because it may require dedicated or onshore support. Alternatively, highly automated processes can be relatively inexpensive and offer fast turnaround, but may hinder flexibility needed for managing ad hoc requests. As a result, companies are unlikely to simultaneously achieve low-cost, rapid process turnaround, and flexibility.

After a company defines success, key performance indicators (KPIs) will help track goals. KPIs can measure costs, timeliness, customer satisfaction, and other measures of success. Companies and their outsourcing partners need to develop KPIs that are objective, measurable, and have specific targets—for instance, a maximum delivery time of four days for a given process.

Case Study. A large company wanted to outsource operations for standardized sales contests. Its primary goals in working with an outsourcing partner were to reduce costs and cut cycle times. Initially, all appeared well. Before contests went live, upper management approved predefined contest parameters, including performance metrics, awards, and ranking groups. The automated system and outsourcing team were organized specifically to support these contests.

However, after the contest plans rolled out, sales management felt uncomfortable with the new contest restrictions, while others were not aware of them. For upper management, success meant lower cost and faster turnaround, but for sales management, it meant greater flexibility. To remedy the issue, the company and its partner worked to define success throughout the organization. The company modified its outsourced contest operations to include greater flexibility and was rewarded with improved customer satisfaction.

Success Factor 2: Transition Effectively
Transitioning to outsourced operations is difficult. When done well, the transition brings benefits to fruition faster; when done poorly, a transition can impede operations.

There are two parts to ensuring a smooth transition: First, the current operations must proceed uninterrupted; second, there must be a parallel initiative to transition seamlessly to outsourced operations. To ensure a strong transition, companies must analyze the requirements for their outsourced operation, and design, build, test, and

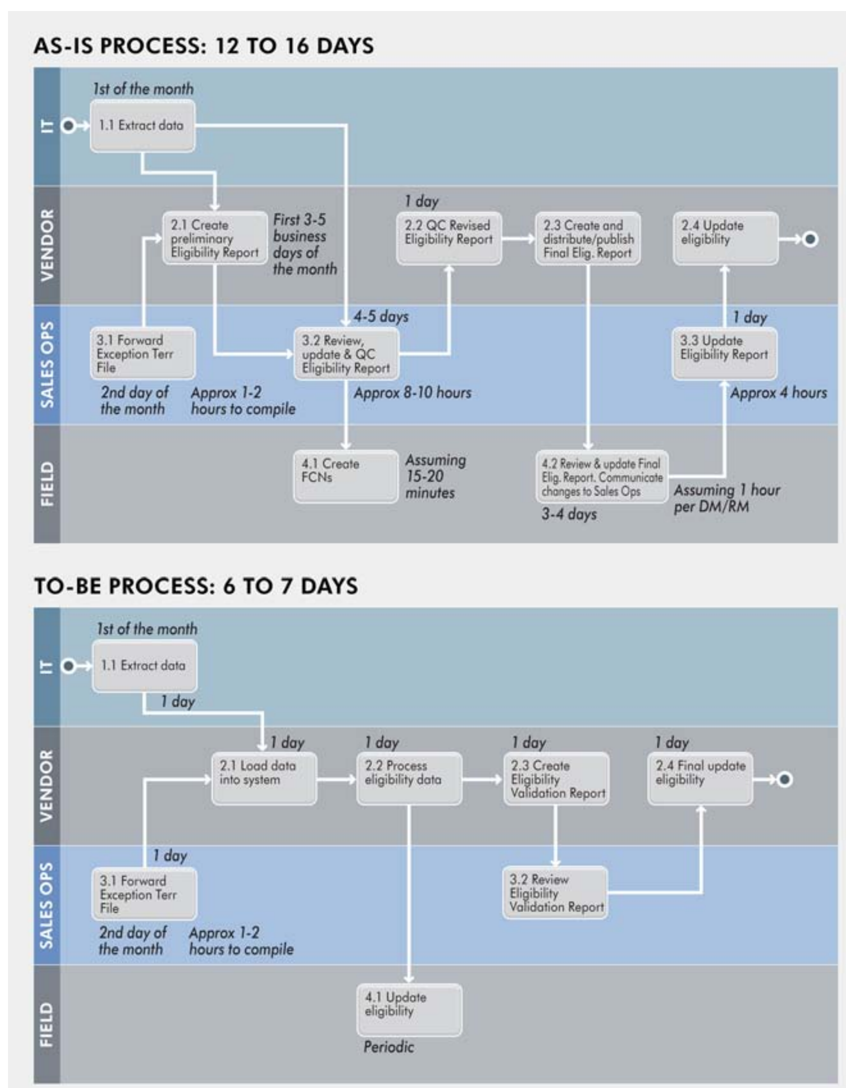

Figure 3. By reducing the number of hand-offs and removing low-value activities, the process is significantly streamlined.

Figure 4. A project management dashboard.

deploy each stage of the project, with formal approval at each stage.

There are challenges on the personnel side, as well. Making the transition to an outsourced model can be traumatic; staffing levels will be different, while some employees' responsibilities will completely change. Some employees will be inherently against outsourcing; others, unconvinced of its benefits. However, it is essential to keep key individuals engaged during a transition. Companies should allow ample time and effort for those affected by outsourcing to be informed and contribute to the outsourced work model. And the company must ensure that resources are aligned with outsourcing for the organization to proceed.

Case Study. While transitioning from a model in which it was solely responsible for designing and operating its sales reporting program, a company contracted with an outsourcing partner to jointly manage its ongoing operations. The new operating model aimed to reduce cycle times by 70%. However, it became apparent that some team members doubted the initiative would succeed; many feared for their jobs. Recognizing this potential problem, the company's leadership met with each employee, listened to concerns, and described expectations. The company also worked closely with its outsourcing partner to build team relationships. The strength of its relationship building was illustrated when the joint team celebrated key milestones as the go-live date approached.
The joint implementation team spent significant time planning the transition, documenting extensive swim-lane process diagrams and defining specific responsibilities. A program management office (PMO) collected feedback to help redefine the team's approach.

As a result, the team fully understood how the outsourcing plan would work, which formed the foundation for an effective transition. Employees knew exactly what their roles and responsibilities would entail. The transition went smoothly and the company exceeded its goals.

Success Factor 3: Strengthen Coordination
Once an outsourcing relationship has started, the background work does not cease—it requires ongoing coordination to sustain operational excellence. Both the company and outsourcing partners must develop processes, and adopt project and workflow management tools.

It is also important to create thorough documentation, including process maps, procedures manuals, and operations plans. These documents should include standard operating procedures for change requests and issue tracking and resolution. Companies need proper documentation to understand the process and respective responsibilities, and to help bring new team members on board (see Figure 3).

We don't advocate blind adherence to protocols when business needs demand otherwise, but deviations should be conscious, and not due to a lack of discipline.

To maintain coordination, project management tools such as operational calendars and dashboards (see Figure 4) can be extremely effective. It is critical that these tools and processes balance the level of detail with users' abilities. Tools that are too detailed will collect dust; those that are too simplistic will not provide valuable data. Companies that operate in a coordinated manner enjoy shorter cycle times, improved quality, and lower costs. What is more, with proper planning, coordinated and disciplined processes do not mean decreased flexibility.

Case Study. For a European company's sales and marketing departments, operations procedures were limited and meeting deadlines was not a priority. When the company decided to outsource its customer targeting and alignment, it needed to transform its operations.

The team carefully mapped "as-is" and "to-be" processes, and documented standard operating procedures (SOPs) for all of the outsourced services. The outsourcing partner's tools, including operational calendars, dashboards, and business intelligence systems, increased the company's functional coordination and discipline. The company experienced improvements from the inception of its outsourcing, and within sixmonths, it had reduced cycle times up to 40% and improved quality.

Success Factor 4: Retain Flexibility
Many companies enjoy the flexibility of having outsourcing partners adjust staffing levels as business needs ebb and flow, but equally important is the need to have flexible processes and systems. There are two approaches to accommodate flexibility, both of which are essential — first, building the system to accommodate flexibility; and second, instituting a rigorous change-control process for adapting to unanticipated changes.

Building such a system entails anticipating when an operation needs flexibility and doing so in a methodical, automated manner. Building in this level of foresight dramatically improves the ability to accommodate changes without affecting timelines or costs.
It is equally important to smoothly handle unanticipated changes, such as shifts in market dynamics or new regulations. Changes cause

MONTHLY KEY PERFORMANCE INDICATOR REPORT

Key Performance Indicator	Objective	Actual	Result	Trend
Portal availability: Proportion of time portal is available	> 99.9%	99.94%		
System backup and recovery: Length of time to fully recover system	< 36 business hours	17 BHs		
Project team responsiveness: Proportion of calls responded to within designated period	100%	100%		
Timeliness of core deliverables: Proportion of core deliverables on time	100%	96%		
Accuracy of core deliverables: Proportion of accurate calculations	95%	99.7%		

Figure 5. KPI reports are important in evaluating success.

the majority of delays, errors, and cost overruns in outsourcing, and companies should carefully evaluate the business merits against the costs of implementing the change (Note: costs include not only financial costs, but also include risk of delays, quality problems, or process inefficiencies.).

An assessment should guide management on whether it should approve or deny the proposal. A well-structured outsourcing contract can lay the framework for evaluating and managing changes. And though it may seem obvious, it's important to follow a process: solicit design requirements, make changes using these requirements, complete testing, and then finally deploy any changes.

Case Study. A company wanted to reduce its processing and reporting cycle from more than two weeks to fewer than three days, but worried about losing its flexibility. Further, the company decentralized decision-making to managers at the local level, which risked confusion and its associated delays.

To maintain flexibility, the company identified where flexibility would be needed in the future. Its outsourcing partner built business-rule templates that allowed the system to automatically read the company's business decisions, which reduced the risk of errors or delays. Recognizing that it could not anticipate all changes, the company and outsourcing partner developed change control SOPs and workflow management tools to facilitate the process. As a result, the company reduced cycle times more than 70% while accommodating significant flexibility and decentralized decision-making.

Success Factor 5: Strive for Improvement

Long-term outsourcing success requires a process to ensure improvement for the long haul. Examining KPIs when striving for improvement is fundamental—KPIs are important in evaluating success (see Figure 5). Meeting or missing KPIs may trigger a financial reward or penalty, as stipulated in a service level agreement (SLA).

Meeting or exceeding goals is a major achievement, and organizations should recognize the motivational impact of celebrating successes with the team and rallying around future opportunities for improvement.

When there are failures, such as missed deadlines, quality problems, or cost overruns, the company, its outsourcing partner, or both must initiate a formal tracking and resolution process. They need to log the issue, analyze the root causes of the failure and resolve the issue—permanently—at the source. Using KPIs, the team should also periodically evaluate the sales and marketing operations through a formal process (such as Six Sigma) to identify areas for continued improvement.

Case Study. In a sales operations outsourcing arrangement, data challenges and changing market conditions caused delays as cycle times exceeded target levels by nearly 40%. Recognizing cycle times were increasing, the outsourcing partner underwent a Six Sigma exercise that analyzed customer needs, and then carefully mapped "as-is" and "to-be" processes that helped meet these needs. KPIs provided much-needed data throughout the process.

The Six Sigma process yielded outstanding results. Work hours for standard processing dropped more than 35%, and cycle times dropped almost 50%. In addition, eliminating unnecessary labor allowed the team to take on other, more valuable work.

Conclusion

Market conditions are pressuring medical device and diagnostics companies to implement more sophisticated commercial strategies while cutting costs. While not yet a common practice, several companies have begun exploring commercial operations outsourcing to achieve these two strategies in unison. However, outsourcing may not achieve these goals if lessons from other industries are ignored. Implementing a commercial outsourcing plan that incorporates the key success factors discussed in this article will greatly improve the likelihood of a positive economic outcome.

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