

The Hidden Costs of Outsourcing

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In the new global economy, one of the more tempting techniques for gaining competitive advantage is to outsource non-strategic functions to lower-cost labor areas. The practice has become ubiquitous for most US-based organizations. Unfortunately, there is a kind of false economy in outsourcing, because the dollar savings are easy to calculate and the eventual hidden costs are not evident until the damage has been done. Several organizations have elected to tuck their tail between their legs and "insource" the jobs back to the home base because the damage being done is far greater than the savings enjoyed by paying for lower cost labor. For brevity, this article will deal with only one classic example.

I had a graduate-level class that was studying the impact of outsourcing, and I gave them a discussion question to recall an incident with outsourcing that caused problems for them. Amazingly, more than 25% of the class came up with examples from a single company with remarkably similar stories. The company is Dell.

Each person recalled having some piece of Dell equipment that needed customer service. The frustrations described were so similar it was astounding. The students described having a hard time getting through to customer support in a timely manner because the function had been outsourced to India. Once the wait was over (sometimes after more than one hour), and they had a human being on the phone, the frustrations only grew. The students all complained of the inability to understand the customer service person due to a heavy accent. They described having to ask the service person to repeat a sentence multiple times, then still needing to guess at some of the words. These customer service reps were speaking English, but the students could not understand them. In some cases, the students escalated the call to a supervisor but had the same problem with the replacement. Those students who fought through the heavy accent to get the needed support found that the reps were not very helpful technically. It became obvious that the service person was reading from a decision tree or script and did not have the in-depth knowledge of the equipment and

software to resolve the problem. If the students were talking to a hardware guy, the problem was eventually blamed on the software and vice versa.

In each case, the students expressed that they were totally disgusted with the service and had no intention of purchasing any Dell equipment in the future. Here is how one person described his frustration:

"Dell is a classic example. The lost reputation of Dell is a number that cannot be calculated, but it is huge, hundreds of times larger than the money they saved by outsourcing customer service to India. For example, in our family, we will never again buy a product made by Dell, yet we have done so in the past. We have lost trust in the company, and they simply cannot get it back. From our perspective, their products are not even on the market at any price. They can say they have "learned their lesson," but that will not bring us back as customers. A damaged reputation spreads out over a company like a kind of cancer. You cannot see it working unless you have some very sensitive instruments, but it is really there doing damage every day."

I am trying to think of an analogy to use here. Try this one...

For a CEO to consider outsourcing customer service to save money due to lower labor costs, it is like taking a bath every day in the warm waste water from a nuclear plant. "What is the problem? The water is nice and warm, and it seems perfectly clean. I'll just take a nice hot bath every day because this water is less costly than what I have at home, and I do not have to pay to heat it up." Hello? Anybody home? Nope...I guess not!



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