

# Finding opportunity: the benefits of outsourcing

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# Introduction

Increased regulatory requirements and global market changes are translating into much more complicated and costly middle and back office functions for alternative investments.

Institutional investors are only adding to those complexities, as their push for greater transparency around fees, performance calculations and fund structures create additional work for funds.

The challenges in the market have certainly caused managers to look for cost-savings measures, turning to outsourcing to handle many of their middle and back office functions.

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# What is outsourcing?

## **Outsourcing:**

subcontracting a process, such as administration or company secretary services, director and trusteeships to a third-party provider.

## **Outsourcing:**

defined as contracting one or more of a company's business processes to an outside service provider to help increase shareholder value, by primarily reducing operating cost and focusing on core competencies.

# The entire spectrum of outsourcing

## **Outsourcing:**

- To obtain components for products or services from sources outside the organisation

## **Insourcing:**

- Transfer tasks that were performed outside the organisation into the organisation

## **Offshoring:**

- Outsourcing overseas or in a separate country

## **Near-shoring:**

- Outsourcing to cheaper overseas, still geographically closer locations

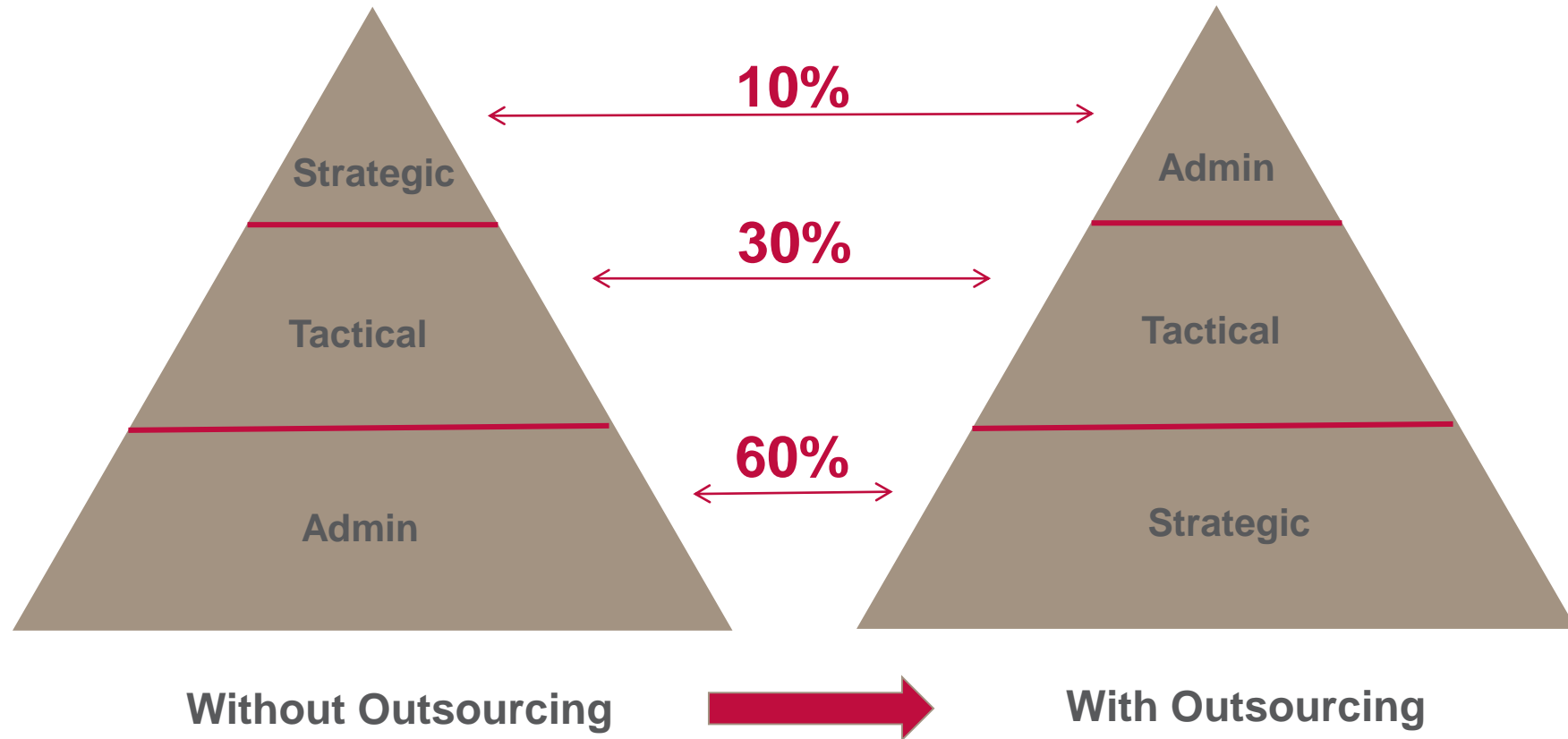
## **Rural-sourcing:**

- Outsourcing to cheaper rural areas in the same geographic country

## Why do companies outsource?

- Reduces administrative burdens
- Focus on strategic areas
- Reduce costs
- Focus on core functions
- Acquire new skills
- Acquire better management
- Assist a fast growth situation
- Avoid labour problems
- Focus on strategy
- Avoid major investments
- Handle overflow situations
- Improve flexibility
- Improve ratios
- Enhance credibility
- Maintain old functions
- Improve performance
- Begin strategic initiatives

# Why do companies outsource?



# Outsourcing risks

## Short term:

- Pricing issues
- Operational issues at third party end

## Long term:

- Non-performance by third party end
- Non-alignment of company's goals with third party goals



# Outsourcing processes

1. Understanding company goals and objectives
2. A strategic vision and plan
3. Selecting the right vendor
4. Management of the relationships
5. Properly structured contract
6. Open communication
7. Senior executive support
8. Use of outside expertise

# Drafting an outsourcing contract

- Why and what to be outsourced
- Clear business objectives
- Internal and external benchmarking
- Develop performance and cost targets
- Develop initiative-based targets
- Fulfilment of initiatives beneficiary for both parties
- Review performance regularly
- Expand or shrink the relationship

# Concerns about outsourcing

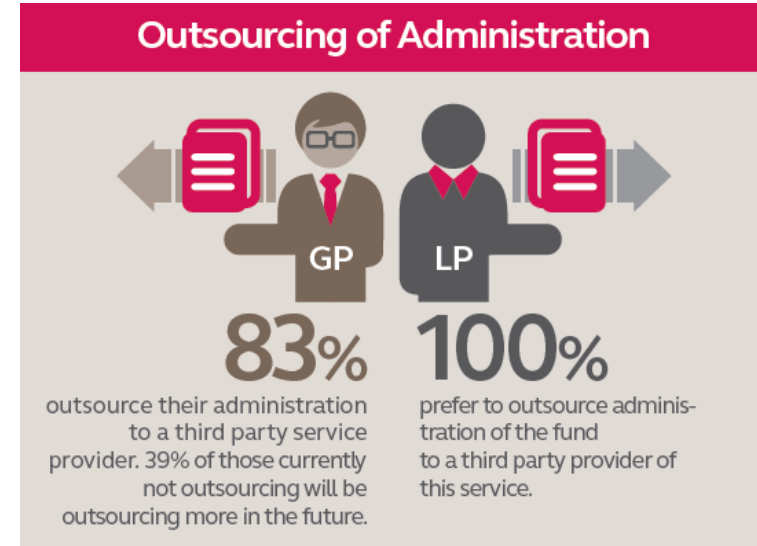
- Loss of control
- Lack of confidence
- Lack of outsourcing education
- Management philosophy and tradition

# Myths of outsourcing

- Outsourced partners are all experts
- Partners have state-of-the-art IT infrastructure
- By outsourcing no need to worry about strategy execution
- Outsourced partners will provide expert project management
- Outsourcing automatically gives a time-to-market advantage

# Outsourcing: case-study on PE Sector

- All LPs surveyed prefer the administration function of the fund to be outsourced to a third-party provider of this service.
- 83% of GPs interviewed outsource some of their administration to third-party providers and approximately half of these say that they expect to outsource more functions in future.
- Reasons given for outsourcing (ranked by frequency of mentions):
  - Investor demand
  - Fees/cost-benefit
  - Expertise/Skill set ('Outsourcers are the experts')
  - More efficient
  - Regulators prefer it (however cannot outsource final responsibility)
  - Scalability–Benefits of outsourcing grow with increases in size and complexity
- **CyberSecurity was the most critical issue surrounding outsourcing**



# What to look for in an outsource administrator

- Responsiveness
- Capability
- Geographic reach
- Breadth and depth of services
- Industry experts
- Track record
- Economies of scale
- Specialist skills
- Industry focus
- Potential cultural differences