



# Outsourcing Non-core Activities - A strategy for SMBs that actually works



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## Introduction - Defining SMBs

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Before delving into the topic 'An Outsourcing Strategy for SMBs that actually works', it is important to define what constitutes a small to medium sized business. For this whitepaper, we will define it as Gartner does, i.e. 'A typical small business is one having one to 99 employees with less than \$50 million annual revenue'. Gartner further defines mid-sized businesses as those having 100 to 999 employees and \$50 million to \$500 million annual revenue.

Do SMBs really want to outsource their requirements and if they do what are their reasons for outsourcing, is the next question that needs to be addressed.

As research indicates, the small to medium-sized business (SMB) market is more than eager to find cost-effective and affordable IT solutions that are easily accessible. They want solutions that are easy to install and configure, requiring minimal intervention. They want intuitive and responsive partners who can determine and address pain points, which are specific and relate to their particular requirements. They do not have the luxury of trial and error and this makes the task of identifying the right partner that much more difficult. While SMBs prefer IT solutions that come with straightforward pricing, they also want the flexibility to consume technology in modular components. Security is another concern but most SMBs don't have resources dedicated to managing security.

Over the last five years or so, there is a shift in the reason for SMBs considering outsourcing. According to Gartner the reason they cite is 'Help me focus on my core business'.

Some - mostly midsize enterprises - have chosen to move up the value chain from infrastructure into the applications stack when it comes to outsourcing. These companies are differentiating activities based on core and non-core activities. Non-core activities are tactical in nature, do not necessarily add business value and are not a profit center. Core activities are strategic, aimed to improve customer value and most importantly, drive profit margins.

With this need in mind, the whitepaper delves into the functions or areas which SMBs can consider outsourcing in order to help them focus on their core businesses.

## Why to Consider Outsourcing

SMBs, as a rule, prefer to maintain control and independence and they, therefore, do not see outsourcing as the first option. Those who do, are pressured by IT departments and turn to outsourcing to ensure that critical technology service delivery is achieved on time and within budget. The fact is, SMB project managers struggle to find the right mix of IT resources and waiting to hire or acquire the right skill set can be disastrous in a constantly shifting customer and economy landscape. This can result in costly mistakes which are disruptive and result in lost relationships and revenue. It is also true that it is only for tactical purposes that SMBs pursue outsourcing and this again leads to inefficient cost and time management.

Thus, instead of following the well-trodden path of cost and resource advantage, SMBs should focus on outsourcing all those activities that are not core to their respective businesses. They should especially focus on those activities which eat up revenue and resources.

### Common benefits of traditional outsourcing

- Cost savings
- Operational efficiency
- Variable costing
- Improved quality
- Access to specialized knowledge or operational expertise
- Reduced go-to-market time for a product or service.
- Enhanced security

# How to differentiate Core and Non-Core Activities

Focusing on IT and its related non-core functions which can be outsourced is a good yard stick to measure core and non-core activities. A few trigger pointers are as follows:

- The partnership provides access to better technologies than available (affordable) in-house
- Improves communication and reduces information silos
- Reduces costs and increases efficiency as a result of new technologies
- Increases company level control and compliance
- Improves accuracy of reports to empower decision-making

Core activities are those which are strategic in nature while non-core activities are mostly process driven. If these processes are rules-based and do not require key business judgement, they can be outsourced.

## Checklist for identifying Core and Non-Core Activities



Core Activities	Non- Core Activities
<ul style="list-style-type: none"><li>■ Strategy</li><li>■ Vision</li><li>■ Policy-making</li><li>■ Proximity to business</li><li>■ Decision-making authority</li><li>■ Approvals</li></ul>	<ul style="list-style-type: none"><li>■ Routine and repetitive activities</li><li>■ Process driven</li><li>■ Rules based</li><li>■ Cannot be automated</li><li>■ Data mining Risk Management</li></ul>

# Few Examples of Non-Core Activities

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## QA and Testing

Testing new releases, for example, is a massive drain on resources for a period of time. It is not that testing is not important! On the other hand, for an SMB, data protection, recovery, speedy releases are on the top of the list of priorities. IT operations is like the backbone of a small business and without it, a business could fail. Outsourcing the testing function – fully or partially – is a viable option for companies. It provides independence, specialization, resource leverage along with cost benefits. If an SMB is not sure if outsourcing the testing function makes sense, the following questions may help:

- Does the company have frequent releases which needed to be tested for both release scope and for regression
- Is the product required to comply with performance guidelines
- Does the software need to be tested on multiple platforms and operating systems?
- Is the product usability ready?

For short, quick deliverables as well as long-term management of a product lifecycle, outsourcing is an ideal option. With increased IT spends and companies facing cost constraints, investing in a large in-house testing team, can be a drain on the company's finances and resources.

The advantages of outsourcing testing can include, a business approach instead of a project approach, where periodic testing helps to achieve short term goals and risks are mitigated well in time.

When SMBs stop viewing testing as an IT-related function and instead view it as a crucial part of their overall business strategy, they will realize that their actual spend of 30-40% on testing still does not assure end-user satisfaction. The reason for this is, testing experts need not necessarily be a domain or industry experts. In such situations, testing engineers view the product from the 'bugs and fixes' angle, which may not necessarily be aligned to end-user satisfaction. It takes domain experts to view the product from that angle which is where

outsourcing comes in useful. The smarter outsourcing companies have learned to focus on a few domains and build expertise in these domain spaces. These 'centers of excellence' are geared to tackle testing both from the technical and the business aspect which gives them the advantage of quick ramp up, faster delivery and reduced cost.

## User Interface and Acceptance

In many cases end-users are also business users and therefore Acceptance Testing is another crucial area that though non-core to the business requires a great deal of time and effort. This is one more area that can be outsourced during the project onset stage rather than wait till the end only to find that there are bugs which need fixing, people who need training and systems that are so complex that many will go back to the tried and tested method of working.

“Information technology is so sophisticated that it can affect business strategy and organizational structure” - (Lisa R Williams, Avril Nibbs and Dimples Irby, Terrence Finley, 1997.

## Product and Service Customization

On the same note, SMBs which have a product which works well, often find it difficult to expand their business or user-base because of inherent issues with the software. Their systems require customization to manage the expansion. Outsourcing companies often handle customization projects and it is easier for them to come on board, assess the existing system, offer roadmaps and then dive into executing the project. If this same activity had to be done in-house, the company will need to expend time and energy hiring a new set of people, put them through intensive training programs before they can start delivering. Working with an experienced testing outsourcer enables organizations to benefit from the supplier's extensive client-facing experience and the development and refinement over the years of standardized testing processes that have been proved to deliver the greatest benefit in the shortest possible timeframe.

## Upgradation and Maintenance

Legacy software and standalone systems are a constant hurdle in the pathway of SMBs aiming to expand their businesses. The short term solution to the business vision, during initiation, may not hold well when the business is established or stable and suddenly the same infrastructure which helped to form a foundation for the business, can become its biggest impediment in the path of growth. Evaluating and researching tools and products, either for integration or use in their products or building connectors to them – CRM systems, ERP systems, payment gateways, security software, SharePoint etc. can be difficult to such a point that many SMBs prefer to compromise and stay with what they have rather than expend time, money and resources on integration, up gradation, and connectivity.

Outsourcing companies, focusing on certain domains, have specialized knowledge of the best systems for a particular business within a domain space. Their knowledge transfers into immediate results as they can suggest quick improvements which are cost effective. They can then execute them, test the product, train users and ensure end-user satisfaction.

In the above cases, we have taken functions which impact the business but are not necessarily core to the business. By taking them away SMBs can focus on what is really important for their business.

A few other examples of non-core activities that can be outsourced include:

- Building APIs, Integrations, Connectors, testing
- Writing business requirements, writing user manuals, technical engineering documentation
- Web research on tools, market information
- Data entry tasks – field customer generated forms, any other data entry
- Email customer support that can be routine and repetitive

The above activities are only a sample list of the kind of non-core activities that can be considered for outsourcing. However, the list can vary greatly depending on individual businesses and there are no hard and fast rules that only these activities need to be outsourced.

## Summary

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Identifying non-core activities enables business heads to look beyond processes, transactions and tasks to examine the final output of all these activities. It offers them the time and the freedom to see the comprehensive picture and that is what will make a difference to SMBs venturing out into the marketplace.

To look beyond the tried and accepted advantages of outsourcing, i.e. cost benefits, requires business heads to look at the whole outsourcing picture from a different angle, i.e. core to the business and not core to the business. If viewed from this angle, a lot of pieces will fall into place and the results can be outstanding.

This shift facilitates a transformation from peripheral distractions and a drain on resources to a highly focused organization that is positioned for growth. This renewed vision on core competencies is the difference between industry leaders that can build market share, respond quickly to opportunities and move ahead of competitors, and industry laggards that stagnate.

## About Trigent

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