

Outsourcing and Total Cost of Ownership Details

The following quotes from the *Harvard Business Review* and *Business Week* apply to the Digital Insurance business case and apply across industries for businesses large and small.

Harvard Business Review

"Today, outsourcing is not just a trend; it is an integral part of how smart companies do business. But this was not always true; as business has evolved - from the vertical organizations of the '70s, to the horizontal organizations of the '80s and '90s, toward the virtual organizations of the next century - the scope and focus of outsourcing has changed. It can no longer be defined simply as a long-term contract with another company for supplies/services. The concept has matured. It now connotes a strategic relationship between partners, with shared risks and goals - a relationship in which a company concentrates on its core business and relies on outsourcing partnerships to get the rest done. Unless managers periodically reexamine how they make sourcing decisions - and how resources get allocated - they can find themselves... starving what is core".
- **Harvard Business Review**

The Outsource decision tree... three factors to consider when making an outsourcing decision:

1. The Financial Component: Will an agreement with Digital Insurance reduce expenses, help control future costs, preserve working capital and help your firm avoid additional investment expenses downstream?
2. The Business Component: Ask yourself if the small group benefits business (and at what size threshold) is part of your "Core" services and where you add real value in the marketplace. Secondly, will outsourcing increase your competitive position and focus?
3. The Technological Component: Decide whether outsourcing will provide flexibility, improve the level of service, give your firm access to new talent, and/or help solve problems stemming from increased complexity of technology?

After spending time reflecting upon the strategic elements of our business model and the transitional dimensions of introducing our firm to yours, the short and long term financial drivers need to be analyzed. The first data set that needs to be created is that of building to your **Total Cost of Ownership (TOC)** of small group business.

1. **Staff Costs by Employee**
 - Salary, overtime, bonus, profit sharing, benefits including 401k costs if applicable, entertainment expenses, travel and meals
 - Taxes (FICA, State, Federal, State Unemployment, NY DBL etc)
2. **Management of Staff costs at the supervisor and above level**
 - % Time of manager as a % of total comp
 - Performance management and QA issues
 - Incident Handling
 - Liability Issues and professional E&O exposure
3. **General Corporate Overhead**
 - Office space, desks, electricity, local and long distance phone costs
 - Savings from differed expansion expenses
4. **Technology Infrastructure**



- Phones, fax, cell phones, copier, computer, software, maintenance, service contracts, upgrades
5. **Networking and Telecommunication costs**
 - Hardware, software, consulting services and maintenance, upgrades
 6. **Document Handling**
 - Mail, coping, fax, storage management and QA
 7. **Procurement Costs**
 - Supplies, equipment, management and QA
 8. **Personnel Issues**
 - Recruitment (time, energy, assoc. costs, management and QA)
 - Training (time, energy, assoc. costs, management and QA)
 - Temp services and phone coverage for volume of small group cases
 - Absentee costs and cost associated with lack of service continuity



*"Whatever specific reasons a company may have for outsourcing, the underlying principle is a conviction that astute companies share: To stay competitive they must outsource non-core aspects of their business. Because each partner brings its "core competence" to the effort, it may be possible to create a best of everything organization. Every function and process could be world-class - something that no single company could achieve." - **Business Week***

THE OUTSOURCING ADVANTAGE

In summation, there are four main reasons why a savvy company would choose to outsource their call center operations:

1. To retain your focus on core competencies and core case size segment
2. To achieve superior customer service and continuity of service
3. To leverage infrastructure
4. To maintain flexibility to whatever the market presents

*"Outsourcing is a strategic tool that can react faster to the demands of the marketplace and your customers. It allows companies to shift gears quickly while not losing their emphasis on maintaining the core business." - **Business Week**.*