Outsourcing and the Role of Strategic Alliances

Introduction

The Times They Are A-changin' – Bob Dylan

As publishers, we recognize that our own operations need to evolve if we are going to survive in the long run. Advances in technology are not only creating new opportunities in the development of digital product, they are also forcing us to become more sophisticated in the way we manage our content, our metadata, and our workflows. Changing times demand an ongoing evaluation of the way we are operating, and outsourcing is a key factor. We need to examine our assumptions of what should be outsourced and how we outsource it. That means first distinguishing between which functions should be handled in house and which better belong with outside vendors. Also, we need to look with a critical eye at our current client-vendor relationships and be certain they are working to our greater benefit. If not, then it is time to consider change.

What should be outsourced? If we are to become better at handling our content, we need better systems for managing its development and production. There are now vendors with technical expertise specific to content management and production. Third party systems are often more efficient, and up-grades become someone else's responsibility.

How well do our current outsourcing relationships work? Certain outsourced solutions that looked great when first adopted may not always be the best choice going forward. On the content production side, it has become popular to employ a full-service model, in which one of multiple suppliers provides all production services, including management of the process itself. This model has served as a reliable and convenient way to contain costs with lower labor rates. Not all parts of the production supply chain, however, benefit equally from a low labor cost environment. For certain tasks, we will find that technological automation realizes the best cost savings and efficiencies.

What are our options going forward? The nature of the client-vendor relationship may be at a turning point. The current model of outsourcing on a project-by-project basis is often shortsighted. It is time for publishers to consider the possibility of a strategic alliance approach to outsourcing. There are vendors now with specific services offering technological advantages. A strategic alliance would not mean handing over the entire supply chain to a single vendor, but targeting that portion of the work best suited to the vendor's expertise. Consequently, an alliance would allow both publisher and vendor to focus on its own core business strength.

What Functions Should Be Outsourced?

New World Decisions

Looking back, publishers have a long history of reevaluating and reassigning internal and outsourced work. During the pre-digital years of publishing, it was common to keep more functions in house. From a practical standpoint, there was a lot less to manage in the print-centric universe. Publishers did much of their own production, sometimes even in-house printing.

All that has changed. Single titles now have whole families of electronic products, each version with its own set of metadata. First run workflows lead to a myriad of formats and distribution profiles. Finished goods repositories have taken on a new life, requiring sophisticated management systems. Most of the old home-grown scheduling and tracking systems simply do not have the architecture to support all this. It is no exaggeration to say that the future health of a publisher's business is largely dependent on adjusting correctly to this new world. The question remains as to which functions are now best suited for outsourcing and which should remain in house. First, there are other important questions to consider.

What should we keep in mind about outside vendors? As noted previously, there is now an entire industry specializing in content, metadata, and workflow systems. There are important factors to keep in mind when looking into what a tech vendor has to offer. First, understand that, unlike us publishers who are shopping for the right tool, the vendor develops these systems and associated services as its core business. The vendor has invested up front to hire the specialists for building and testing those systems; the health of the vendor's business depends on not only properly maintaining that system but also investing in keeping it up to date with technology and market demands.

What are the implications of developing a system with internal resources? Every publisher's business is different, but there are questions we should all be asking when considering developing a system in-house. Do we have the internal expertise or are we willing to hire expert developers? Are we confident in the estimated development cost and timetable? Do we have the corporate will to manage the ongoing staffing needs and inevitable investments in maintenance and upgrades? Does system development and maintenance really belong in our business?

Honest answers to these questions provide guidance as to which functions should be outsourced. In general, the answer is going to be that only functions consistent with our core business and core resource strengths should remain in-house. If the function does not belong in our wheelhouse, then it emphatically belongs outside.

Even purchasing an outside system and then adapting it to in-house processes is risky business. There have been too many nightmare stories of publishers making huge investments of time and money in an attempt to adapt an existing commercial system to their own internal workflows. Then, when the commercial system is in place, there is a dawning realization that business processes work no better and may be even worse than before.

In the best case scenario, the publisher invests the time to find the right tech partner for providing a system that meets all the publisher's needs. Then, the vendor adapts its system to the publisher's processes (not the other way around). This last point is particularly important. If a system was not developed specifically for the publishing industry, then it is unlikely to be a good fit. If the tech partner is truly servicing the publishing industry, then its system should have the flexibility to be adapted to the publisher's workflows. Finally, there needs to be an understanding about the role and responsibility of the vendor over time. It must be the vendor's task to maintain the host system. Also, there should be the understanding that since technology and the market do not remain static, the vendor must stay committed to finding ways to further develop and evolve the software to accommodate new business needs. The vendor gets the benefit of ongoing work from the publisher, while the publisher gets tools and services that are vital to business. That relationship can be the basis of a strategic alliance, which will be discussed later in more detail.

Evaluating a Current Outsourcing Relationship—The Full-Service Model

Handing Over the Supply Chain

As mentioned earlier, with the full-service model, a single vendor manages a title from author manuscript to delivery of final files. That includes copyediting, page composition, proofreading, indexing, and the creation of final file formats. We might characterize this model as the one-stop shopping option for content production.

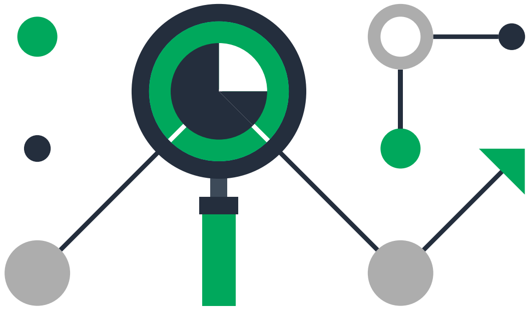
The full-service model has become increasingly popular with publishers. During the early years, there were some serious performance issues, but over time, full service operations have become more stabilized and their output more consistent. The quality of copyediting can still be a problem. While some publishers have adopted a "good enough" attitude, others make arrangements with vendors to have the copyediting done by onshore sources. All-in-all, the model has been working, and publishers are benefiting from low labor rates that translate into low prices.

There is a problem, however, in the very nature of full service: it means handing over responsibility for each title's entire production supply chain. The underlying assumption is that a good vendor will perform each task at the best cost, turnaround time, and quality. That is simply an unreasonable expectation. For one thing, we need to remember that the full service model is built on low labor rates, and not all functions are best suited for that.

In fact, it may be that now we are hitting bottom with low labor rates. In a number of offshore domains, the cost of labor is rising. That is particularly true for functions like composition and conversion. Here, the best way to stabilize or lower costs and maintain or improve quality and turn times is through technology. There is evidence in recent years that tech companies with the right software tools can cut the price of page composition dramatically from that of a manual full-service solution. Also, turnaround time can be significantly reduced, and quality made far more consistent. We will examine that in more detail later.

Another issue with full service is that each vendor contracted does things differently, and some are better than others at certain functions. Quality consistency is hard to enforce through multiple vendors and can have some unforeseen consequences. Files with inconsistent structure come back to haunt the publisher when it is time to repurpose content. Larger publishers are now having to accommodate for this problem by running a separate quality check and correction cycle through third-party vendors before accepting new files into archives.

While the full-service model is unlikely to disappear anytime soon, it is time to consider alternative models, especially ones that could offer more economy, efficiency, and consistency through a single source. What follows is a discussion of one model that is used regularly in other industries but has not been seen much in publishing. That is the strategic alliance.



An Understanding of Strategic Alliances

Let's Talk About Our Relationship

In the publishing industry, we have become too fixated on the client-vendor model. It has been our standard outsourcing relationship for a long time. Over the years, publishers have squeezed a lot of cost out of the process, but the pressure to reduce margins does not stop. How much more can we expect to get from our vendors in this current arrangement?

When the end of a path is in sight, maybe it is time to look for a different one. That will require making some bold moves, but it is worth examining carefully.

Let's take a closer look at a model successfully employed in a number of other industries–the strategic alliance. That is a term that has no doubt been overused and not always fully understood. So, to be clear, here is a definition borrowed from Bain & Company:

"Strategic alliances are agreements among firms in which each commits resources to achieve a common set of objectives. Companies may form Strategic Alliances with a wide variety of players, customers, suppliers, competitors, universities, or divisions of government. Through Strategic Alliances, companies can improve competitive positioning, gain entry to new markets, supplement critical skills and share the risk or cost of major development projects."

There are any number of strategic alliance examples in other industries. One that is well known is the Apple/Foxconn alliance. Key to the success of Apple's breakthrough with the iPhone and iPad was Foxconn's low-cost integrated manufacturing model eCMMS (e-enabled Components, Modules, Moves, and Services). Each company had a particular expertise that, when combined, became an extremely powerful vehicle for growing the businesses of both companies.

In a strategic alliance, both companies gain something that neither would be able to accomplish on its own. A successful alliance means both companies are building value and sharing risk. The right partner must bring essential know-how to the table, and both partners must have a shared vision and code of ethics. (For example, some companies require that their vendor partners pledge to humane labor practices). Finally, even though it is inherent in the nature of an alliance, shared trust is vital.

With Apple and Foxconn, the relationship is between a hardware/software provider and an electronic product assembly operation. It is an example in which the success of the customer's product is dependent in part upon the particular expertise of a sole supplier. We as publishers are often wary of sole suppliers because of the risk of putting "all our eggs into one basket." In some cases, however, it is the only way for us to fully exploit a new technology. A single source with expertise provides the consistent pricing, turnaround times, and quality we cannot expect from multiple vendors. Our concern about consolidating a function with one source harks back to that fixation on the standard client-vendor model. With the strategic alliance, it makes good sense.

Applying the Strategic Alliance to Publishing

Taking Back the Steering Wheel

For this section, let's take a more focused look at another area already discussed: our full-service model and the production supply chain. There is good reason to examine every function within that chain, but a single example will do. As noted, page composition is an area in which technological automation trumps low labor costs.

There has been a dangerous tendency to see page composition as a function of creative design. Some high-end publishers still treat each page as custom. For the rest of us, that labor-intensive model is far too expensive to be sustainable. The fact is, once an initial design is created, the actual composition of pages is ideally suited for technological automation. A style template provides a consistent set of rules, and that places the task securely in the realm of information technology. That argument becomes even more compelling when the pages include elements like equations and tables, which will add time and cost for a labor-dependent operation. Equations and tables simply follow another set of consistent rules. Those rules can be tricky for manual composition but are well suited for a software composition engine.

For the sake of this example, imagine a publisher entering into a strategic alliance with a tech company that is expert in the automation of page composition. This means redirecting all page composition through that single partner. In this alliance, the tech vendor gets the benefit of consistent volume. The publisher gets consistently better cost, turnaround time, and quality. Let's look at the cost savings in some detail with an example that could be typical in an STEM operation.

Assuming a page of medium complexity, it would be reasonable to figure a current price of $5 per page in the full-service model. From experience, this writer can predict that tech automation can reduce that cost to $3 per page, a dramatic 40 percent savings. While a mere $2 savings does not seem all that much, we need to examine how its overall influence is not insignificant.

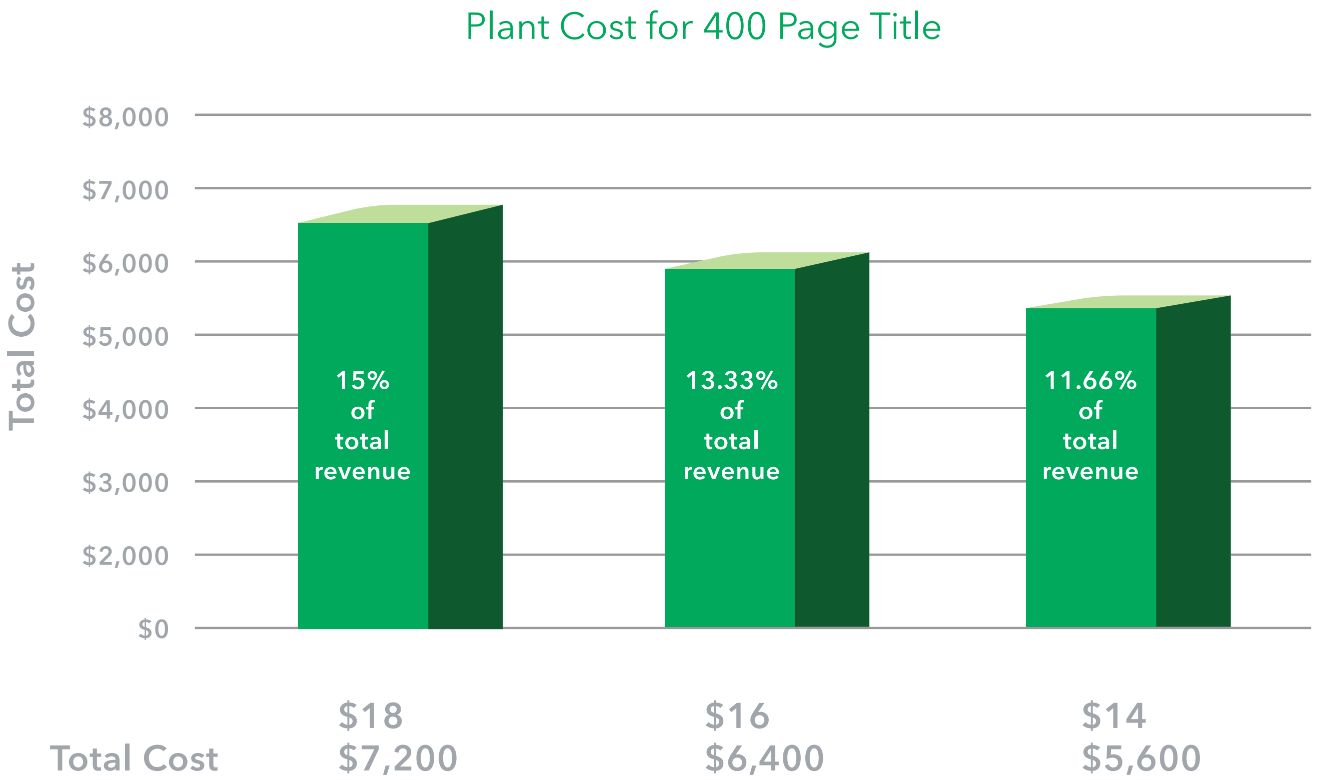
- If we assume the publisher's total plant costs presently come to $18 per page, the composition savings brings it down to $16, which is a 16.66 percent reduction.

- If the publisher produces a 400-page book, total composition costs are reduced from $2,000 to $1,200.

- Now let's look at what happens when that book is sold. Assume our publisher manages to sell 480 books at $100 each. That would be revenues of $48,000. The current plant cost of $18 X 400 equals $7,200, or a respectable 15 percent of revenue. However, that $2 comp savings means plant cost is $16 X 400, which equals $6,400, or an even more respectable 13.33 percent of revenue.

- Ultimately, we need to look at what happens in one year. If our publisher is mid-size, it would not be unreasonable to expect a total annual production of 500,000 pages. It doesn't take high math to realize the comp savings here amount to $1,000,000.

Chart 1



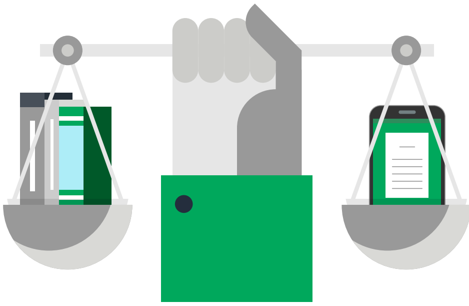
Shown here are overall plant costs relative to three different cost-per-page rates. With a theoretical 400-page title that realizes $48K in revenue, we can see how the percent of plant to revenue comes down with each reduction of cost per page.

The other two key measures of a job—turnaround time and quality—also deserve a mention here. The average turn time for initial page composition in a standard production schedule is two weeks. With automated composition, however, there is much less manual intervention, meaning a real opportunity to save time. There is evidence that with an automated system, a tech vendor can reduce that turn time to two days.

With quality, tech automation has the advantage of consistency over the numerous possibilities of human error or varying interpretations from a labor-centric vendor. In a publisher's page composition test administered to many dozens of vendors over time, this writer witnessed the highest score going to a vendor that achieved composition through tech automation.
This is just one narrowly-focused example to make a point. In fact, we could reexamine the entire production supplier chain through the possibility of strategic alliances. Even when there is not an advantage for tech automation, consolidation and specialization can improve the metrics. Strategic alliance experts in editorial services, project management, and file conversion could reduce costs and turn-times, while increasing quality.

Consider the possibility of consolidating these remaining production tasks in addition to page composition. It is not unreasonable to expect we could shave another $2 off of the per-page plant costs. In that case, our plant cost percentage, using the same example as above, would come down to 11.66 percent (see Chart), and the overall savings for 500,000 pages annually would be $2,000,000.

We are limited mainly by ability to imagine the possibilities and perhaps our courage to make the changes.



Summary and Conclusions

The changing world requires us as publishers to consistently reexamine how we are operating and whether it is time to make some changes. With the practice of outsourcing, that means not only evaluating what functions make sense to outsource, but also the very nature our outsourcing relationships.
The management of content, metadata, and workflows may have been an appropriate in-house function in a more print-centric world, but now that management has become far more complex and in need of specialized systems, creating our own in-house systems can too easily lead to nightmare scenarios, especially since this is not our core business and quite likely beyond the scope of our existing internal resources. In this case, outsourcing is not simply going out to buy a commercial system, but linking in with an outside system that can accommodate our existing workflows.

The full-service model of outsourcing has become popular with publishers for content production. In general, the model has worked for containing costs with low labor rates and has provided publishers with convenient one-stop shopping. However, the very nature of the model is also its limitation: full service means handing over the entire production supply chain for a title to one vendor, and that may not always give us the best cost and efficiencies. As we have seen, with a function like page composition, technical automation can provide better results than low labor rates.

Finally, the publishing business may have become too fixated on the standard client-vendor relationship. While outsourcing on a project-by-project basis has its place, the changing nature of our business is such that more collaboration is required than ever before. The publisher cannot be expected to become a technical expert in every area of the business that now requires complex technical tools, and in fact, there is really no need for that. There are companies that specialize in technology solutions, and there is good argument for them working with the publisher in a more ongoing, synchronized relationship.

Strategic alliances are more common in other businesses but may soon be finding their place in publishing. When two or more companies combine their core talents in a mutually beneficial alliance, then the sum is always going to be greater than the parts.