

Underground Outsourcing Strategies

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What Is Outsourcing?

There's been a lot of buzz and both positive and negative press on outsourcing over the last few years. You hear a lot about "lost" jobs and big companies changing the way they do things. But what is outsourcing, and how can it help you make more money?

In its simplest sense outsourcing is just paying someone else (a third party) to do something that either you, or an employee or yours, could do, but is better done by someone else.

When you go to the dentist, you're not "outsourcing" your dental work because you couldn't do it yourself – even if you happen to be a dentist too.

On the other hand, if you hire a service to clean your house or mow your lawn, that really is a form of outsourcing – because it is something you could do, or hire people directly to do, but that it makes more sense, and probably costs less money, to have someone do who specializes in it.

Hiring a full-time maid is not outsourcing, whereas hiring a once per week cleaning service is.

While outsourcing is not new either in private lives or business, it has gotten a lot of press because it is happening with unprecedented speed and in ways that never happened before. If you call the customer service lines for hundreds of big American companies, you will now be speaking to someone in India, not Indiana.

We're not saying this is good or bad, but it is new, and it is increasingly common. But "outsourcing" goes back a long time, and one of the original outsourcers probably cut your last paycheck.

ADP is the ABC of business outsourcing

The original and most common "outsourced" function is payroll.

ADP and its competitors have been around for many decades, handling one of the more complex and mundane tasks many businesses face. Before the advent of payroll processors, companies did all of that in house. Today almost no companies do it in house, from 350,000 employee multinationals to 30 employee companies in Smalltown, USA.

As technology and bandwidth have increasingly enabled big companies to outsource more and more "non core" aspects of their businesses, so too has the opportunity for the individual entrepreneur to leverage this evolved.

Speaking of payroll... you don't need to have one

Small businesses once had many challenges – chief among them, hiring good people and "making payroll" each month. You no longer need to hire anyone, and will not have a payroll. You will have vendors, and vendor payment plans can be more flexible than individual employees are likely to be, as we'll discuss shortly.

Today, you don't need to "hire" anyone – if you have an idea for an online business, you can outsource all of it – and for many of us that is a faster, easier, more profitable way to go than building a company the old-fashioned way.

If you're familiar with the expression "virtual company," this report is all about showing you how to make your own virtual company.

You can control a whole company built from outsourced pieces right from your living room or home office with nothing more than your cell phone and PC you already have!

Why should you outsource?

The short answer of course is to save or make money but here are some more specific reasons. These apply equally well to large companies as to small ones.

 Variable headcount or capacity – your needs may change and you don't want to be stuck paying for people you only need sometimes

- Lower basic costs as a result of economy of scale or actual lower rates
- Lower investment costs you can rent rather than build infrastructure and systems
- Increasing effectiveness by focusing on what you want like the big picture of the business not what you don't want, like non-core tasks
- Lack of your own resources either because of skill or cost
- Better control on costs most outsourcing deals are very predictable in price over time once they are agreed
- Better innovation you may know "two heads are better than one" and with outsourcing you can often get way more than two heads for less than the price of one full time employee

What kinds of business can you outsource?

Basically any business you can run online can be almost completely outsourced, but the way you'll outsource it, and to whom, will change with the kind of business. Just a few examples of businesses we'll discuss include:

- Ebay style auction and sales sites
- Information portals and market research sites
- Almost any kind of website, per se
- Blogs
- Newsletters
- Software development
- Gaming systems

And much more! We'll come back to these after we take a look at what pieces of any business it makes the most sense to outsource.

What kinds of services can your business outsource?

The secret is: You can outsource almost anything these days. And if you did a little digging you would be surprised how many "well known" businesses actually do very little other than manage a brand anymore.

Remember that what outsourcing is all about is leveraging the specialty resources of people focused on doing just a few things and doing them really well.

Also, if you live in a relatively expensive area, you can find people in a relatively inexpensive area to do work for much less than your local market pricing might suggest.

You can even find people halfway across the world – and in fact, much of the outsourcing movement is all about "offshore" resources, which our modern technology-driven economy has made a practical reality for many businesses, including small businesses.

If you said you wanted to find a programmer in India 10 years ago, people would have thought you were crazy, or heading for a long and expensive flight to a very dusty country.

Today you can hire programmers in India without leaving your house, and nobody will be surprised that you did. On top of that, most of the programmers in India are in modern glass and steel facilities in a few areas that have been built up to meet the demand of technology.

And India may be the leader but it is far from the only place with inexpensive skilled labor. We know several one-man-shops who have "teams" of developers in places like Malaysia and the Ukraine!

This was unthinkable a few years ago, but it would be foolish to ignore it now.

Traditional brick and mortar businesses outsource areas that might not be relevant to you. Those areas often include:

- IT or IS
- Accounting
- Supply chain management and logistics
- Benefits administration

- Physical plant maintenance
- Customer service
- Sales

While you can outsource almost anything, there are several obvious categories any online business will be interested in looking at most.

These include:

- Software development
- Software testing
- Website development
- Web hosting
- Web marketing
- Web maintenance
- Web analytics
- Publishing or printing
- Customer service
- Call centers
- Fulfillment services (shipping/receiving)

We'll take a quick look at each one of these then talk a little about where to find resources and how to start and manage those relationships.

Commonly-outsourced business services

Software development

You can outsource all of your software development or just some of it. You can come up with a functional specification – or you can pay someone else to come up with a functional specification.

You actually don't need much more knowledge than a business idea and an example of a website or piece of software you want to do something like – or emulate – or even copy directly.

We're not saying anything about the ethics of copying directly, but we are saying that it can be done, and these days can be done cheap.

If you look at www.wikipedia.org for example, there are hundreds of other sites that are built on almost exactly the same software platform. Some of these sites are "licensed" by the Wikipedia people (open source has complex licensing implications, what we mean is that the sites are above-board users of the code) and some are not. Some of the sites are, like Wikipedia, not for profit, while others are.

Similarly, you can point to almost any popular site – Yahoo, Google, eBay – and find programmers who can "copy" the basic functionality very inexpensively.

If you are looking to make software itself rather than a functional website, you can often just tell a developer what you want it to do, and they can make it happen.

We know a guy who was an executive at a software company, who quoted a major financial company more than \$1 million to make a simple transaction database tool, but using high-priced NYC resources.

But...The financial company went with a so-called "near shore" developer in Mexico, who built exactly the same thing for under \$100k – a tenth of the price, and finished faster. The finished product might only have been 80% as good. But at a 90% discount, who would complain?

This was bad news if you are an expensive developer, but it's fantastic news if you are looking to get software made well and cheaply.

Software testing

Software development is not the same as testing, and while almost all software developers offer some kind of testing many do not offer enough.

On top of that, you may be able to "almost" get your software built in-house or using local resources – we know a guy who paid a friend's kid brother about 7 bucks an hour to make him some search tools which he then had professionally debugged for a few hundred bucks, had a graphic front end put on for a few hundred bucks, and then sold several hundred copies at a grand each – not bad for doing almost no work yourself.

Testing can be expensive because to be done right, it requires both certain kinds of software, very high-end machines, and highly skilled labor running the machines and making the fixes.

It can be one of the most expensive parts of any tech project. And now it can be done offshore for a tiny fraction of hiring people locally.

Website development

We mentioned copying the complex functionality of popular sites above – that is really a software challenge, not a website building challenge.

Here we mean the more "traditional" aspects of web development like design, layout and architecture, coding, and graphics. While the price for these services has generally dropped dramatically, there is no question that an offshore resource will do it cheaper and faster too.

We recently got quotes from Web companies around the San Francisco area for a new 5-page site. They averaged \$3500. This isn't completely crazy, since the same kind of work would have been three or four times that a few years ago.

Then we got a quote from a company in a small town in Texas - about \$1500.

Then we got a quote from a company in Russia – just \$500 – and that included a year of hosting!

Web hosting

Hosting is something that has gone from being very expensive to being almost free. The trick with hosting is to make sure that the system you rent has the bandwidth to handle your likely traffic (which, with our traffic generating tips in other reports, will of course be huge).

Once upon a time you needed to buy a box and lines. Expensive and a hassle. Then you could go to large hosting companies like Exodus. No hassle, but not much less expensive.

Today you can get hosting for a few dollars per month from hundreds of vendors.

Web marketing

This is all about driving traffic and conversions. Once you have your websites up, you need people to come to them, and there are a lot of ways to skin this cat.

Among the easiest is just to hire a company to do it all for you. There are numerous ways to drive traffic online, including:

- SEO paid search
- SEO natural search
- Banner placements
- Text link placements
- Referral websites
- PPC deals
- CPC deals
- And many more

A good web marketing company will work with you to understand the kind of people you want to reach and the cheapest way to reach them.

In addition to that, if you have good traffic, you can also outsource someone to "monetize" the unused space on your site by filling it with advertising or other material that generates some money. Something like Google AdSense (see our report) can be great, but managing that process can be very confusing for newbies. So you can hire someone to manage AdSense and other campaigns for you. You just sit back and wait for the revenue to come in.

Web analytics

Tracking basic traffic on a website is now very easy – almost any hosting system, in house or outsourced, will show you basic traffic numbers in real time at a glance.

But a lot of the time you want to know much more than that. If you are running a hundred different online campaigns, tracking them can be a ton of work, and is probably work you don't want to do (we sure don't want to do it!).

So you can outsource the analytics function, and just reports, and from the better companies also recommendations.

Writing/Publishing/Printing

Websites and other marketing materials involve a lot of words, and most of us are not very good writers. Copywriting is one of the oldest forms of freelance work, and outsourcing and freelance aren't that different, except in outsourcing you will often use a firm or agency rather than an individual as is the traditional freelance model.

In addition to writing, you can outsource publishing and printing.

Let's say for example (as we discuss below) you have some ideas for ebooks.

All you need is the idea. You can find someone to write it, someone else to turn it into a sellable package like a PDF, and possibly someone else to actually print some for sale in stores or at trade shows or through mail order. Print/publish on demand technology has made this easy and painless.

In the 1980s with offset printing a minimum print run would be 20,000 or so paperback books. In 2006 you can literally print a dozen books at low cost, and print more as you need them. Do you have the equipment to do this? Of course not...so you outsource it, even though the "publishing company" on the materials is you.

Customer Service and Sales

Let's say you have a business that requires customer service, like software products. People will have questions. People will need updates and installation help.

Do you want to hire and manage people to deal with this? Of course not, you want to contract with someone who does this all day, and let them deal with it.

For that matter you can also outsource a sales operation, but that has less relevance to online businesses than it does to other kinds of businesses.

Call Centers

In the customer service model above we assume it would mostly be email support or similar "hands off" help. Some businesses require live support, which once upon a time was incredibly expensive and a logistical nightmare.

Today, whether you want US-based call centers or foreign ones in any of a dozen popular countries, VOIP and other low-cost technologies have enabled almost any business to enjoy the same kind of call center support that big computer and consumer goods companies have been using for many years. Some kinds of support can even be revenue streams, just like the computer companies handle things. A warranty question is "free" but any other question costs money.

Shipping/Receiving

If you're familiar with the concept of "drop shipping" you're already very comfortable with the idea of outsourcing your shipping, receiving or logistics operation.

Let's say for example you do a huge business on eBay and need to ship several hundred packages per week. Do you want to deal with all that? Of course not.

There are hundreds of companies that will happily do it for you. You simply have your inventory sent to them, you send them shipping instructions, and they take care of the rest, including, if applicable, returns. This is almost always much cheaper than any other method, and much less troublesome than dealing with it yourself.

Branding/Logos/Etc

We've talked a lot about operational kinds of things. But what about higher value stuff like design and branding?

Absolutely! It all depends what you need. American high-quality designers still charge a lot for a logo. A New York, Boston, Chicago or LA firm will get thousands for your new logo, partly because that cost has to offset expensive offices, salaries and other things.

On the other hand there are "logo factories" all over the web that will do good work for a fraction of the cost – we've found logo package under \$200 with pretty good quality.

Will this work be the same as what a major US agency would do? No, of course not, which is why the big agencies aren't worrying about it. But for most small

startups this work is more than adequate and the price savings easily justifies the quality.

This is also true for stationary design and packaging design and all the other design work you online business may need.

Less obvious outsourced business services

Document destruction

You may have a shredder in your office, or you may not even need one. But many businesses produce a lot of printed material that doesn't need to be saved, and would be a problem if it fell into the wrong hands.

As a result, dozens of companies specializing in this have popped up in recent years.

Research

Whether for a major bioscience project or just to find out something about your competitors, the outsourcing of research is increasingly common.

Service levels vary widely and so does quality, but if there is something you need to find out about a subject to make a business decision, outsourcing resources definitely offer compelling economics and also a huge savings in time, particularly for the smaller business owner.

There are dozens of other areas that may make sense for outsourcing, but you get the general idea.

Now that you are interested in working with outsourced service providers, where do you find them?

Finding outsource resources

So you have decided that outsourcing some or most or even almost all of your existing or new company makes a lot of sense.

The next step is to identity some potential resources, screen them and get started.

They are everywhere!

And obviously the Web is a good place to start looking.

As we have previously discussed regarding freelance workers, many outsourcing companies are going for the same project work. In fact, for a small business, the difference between freelancers and outsourcers may be very little or none.

For general business services including technology, we still recommend you start at the two best-known places:

Elance.com and Guru.com

The largest and second largest marketplaces of their kinds, Elance and Guru work similarly. You post projects, vendors – which will include freelance individuals as well as companies of various kinds including true outsource operations – will post responses.

In most situations the posting of the project is free and the fees to the marketplace are paid by the vendors who win work.

Elance – <u>www.elance.com</u> – is by dollar volume the largest site of its kind in the world, but a huge percentage of that dollar volume is large contract strategic sourcing management for very big companies. They still offer several thousand freelance and outsource resources and get a lot of traffic for smaller projects like yours. Elance is based in California.

Elance is really geared more towards mid to large business outsourcing and the smaller marketplace is something of an afterthought, though it is a good option in many situations. Elance has about 150,000 vendors.

Guru – <a href="www.guru.com" – is by subscriber volume the largest site of its kind. It has several advantages over Elance, in our opinion. First, it is a more comprehensive system that takes a much more active role in full project management and in making certain transactions get completed. The feedback system is also more advanced, and privacy is put at a much higher premium than on Elance. Guru is based in Pittsburgh and has more than 500,000 registered vendors.

Guru is much more focused on hooking up individual professionals with small businesses that need outside help.

As of mid 2006 you can find almost EVERY kind of resource – from writers to programmers to project management and lawyers – through one of both of these sites, and the intermediary model provides some degree of security and assurance beyond going out into the wide open marketplace.

With free membership and free services for buyers, they are worth spending some time.

Other specialized marketplaces

There are dozens of smaller marketplaces that may offer a compelling alternative to Guru and Elance.com.

Some are for programming only – by far the most common and traditional small business outsourcing piece – and others are broader based.

Some are geared towards individual freelancers almost exclusively, while others are equally friendly to larger organizations. A few places to browse are:

Rent A Coder - <u>www.rentacoder.com</u> - one of the oldest programming-specific sites, they currently have about 100,000 resources, most, not all, IT specific. Rent-A-Coder is based in Texas.

Get A Freelancer - <u>www.getafreelancer.com</u> – a European site, this is somewhat less "evolved" in its interface but has several excellent features for both buyers and sellers of services including escrow. Based in Sweden, it has about 65,000 vendors.

Sologig - <u>www.sologig.com</u> - just what it sounds like, Sologig is geared towards freelancers, particularly in the creative fields, so this is not a bad place to start if for example you are looking for designers or graphics people.

Google

Try searching on what you are looking for. A recent search we did on "freelance programmer" brought up thousands of results, several of which looked pretty good.

We found legitimate-looking offshore programming companies charging as little as \$12 per hour with guarantees, which is hard to beat even in the most economically depressed parts of the US.

We have a friend who is an SAP programmer – for him \$80 per hour is a low paying project, but if you can get that work done in another country his kind of skills can be had for a quarter of that.

Working with outsource resources

Working with outsourced resources is like working with anyone else. You want to increase the likelihood of getting good work done on time for the price you agreed.

This means doing a little due diligence up front, and keeping your "wits about you" at various points in your interactions with outsourcers, from selecting them to accepting delivery and making payments, to dealing with a situation that goes wrong, as some inevitably will.

You avoid some risks versus traditional hires but not all

Obviously by working with freelancer or outsourcer companies you are avoiding a great many risks and hassles of hiring, but you are not avoiding all of them. To take a quick inventory of what you don't need to worry about and what you do:

You don't need to worry about

- Anything related to hiring including background checks
- Anything related to payroll including withholdings, benefits admin, taxes
- Finding space for the people
- Finding or buying equipment for the people
- Most of the other stuff involved in hiring people on staff

You <u>do</u> need to worry about

- Giving clear and consistent instructions
- Being responsive to requests involving your project
- Making certain there is consistency of resources and or work on your projects
- Making certain you hold up your end of the bargain/contract

You may need to worry about

 Whether your various outsourcing companies can or do work together or at least communicate well together (for example if you have one company designing, one company programming and one company testing, do you want to be the traffic cop for all that or get one of them to do it)

Be practical in your negotiations

We mean this both ways – pay neither more than you want to, nor less than the work is actually worth, especially at the discount you are likely to be getting to start with.

A great many entrepreneurs try to dangle "carrots" by discussing a lot of future work that "might" happen and become frustrated when these comments are largely ignored.

Chances are any freelancer and especially outsourcer, who has probably negotiated a lot more of these deals than you have, will see through that, and even though these resources are inexpensive, they are still people who will react if they think you are not treating them right. If you have a good price, go with it, don't try to shave off even more without an established relationship.

Most outsourced deals will save you 50-80% over premium priced competition to begin with. You can't really ask for more than that, but you do need to avoid getting roped into buying more than you need.

If for example a basic hosting package offers 10 times the bandwidth you need, try to give some back in exchange for some kind of discount. If on the other hand that 10X increase still costs 60% less than the local quote you got for the bandwidth you need, take it and don't worry about it!

"Contracting out" means... contracting

The older term for outsourcing is "contracting out," and one major difference between having employees and doing this is that exactly, the contract. Most employees in the US are employees "at will" and do not have contracts. This is good and bad.

Almost all outsource situations (and most freelance ones) do have contracts, so it is important to recognize both the ups and downs of this.

We also recommend that you have your attorney review any contract that contains terms or clauses you find ambiguous or confusing.

Important contract points

There are several things you want to look out for in any outsourced contract.

- "Service level agreement" or language to that effect. This is basically the guarantee or warranty part of your arrangement and you should understand it fully.
- "Work for hire" language. Almost all outsourced work where there is a deliverable like software, a website, or a document, should be considered as "work for hire" which means once you pay for it, you own it.

- "Resources management" issues can matter. Many projects really need a team to execute well, and some outsourcers will, and some outsourcers won't, guarantee specific resources or specific combinations of resources to work on your stuff. We have a colleague who uses a programming team in the Ukraine made of four guys and two named subs. No one else can be put on his work without his specific approval.
- "Term and termination" make sure you understand what happens if you, or they, decide to cancel the contract.

More information on how to manage outsourced work

If you are dealing with individuals – such as freelancers – things are unlikely to get that complex. Check our ghostwriting report for some specific tips on dealing with individual freelancers.

But if you are working with larger companies on a larger scale, the business community is continually developing best practices to do this more effectively with lower risk.

As of this writing, here are a few places to look:

http://www.acm.org/ubiquity/views/v6i18_babu.html

http://www.computerworld.com/managementtopics/outsourcing/story/0,108 01,107069,00.html?SKC=outsourcing-107069

http://www.smallbusinesscomputing.com/webmaster/article.php/3319531

http://www.blogsource.org/small_business/index.html

A model project from start to finish

In the next couple of pages, we'll walk through how you might develop and <u>fully</u> outsource an ebook marketing project.

This is intended to give you a practical idea of how to use outside resources to do almost everything for your business – except come up with the idea and make the real money.

The idea

The idea you have is for an ebook called "Making Mash Ups Make You Money," because you have noticed that so-called music mash-ups are a big hot trend. You don't actually know very much about either mash-ups or the music business, but you know there is a market for this.

The building blocks

First you can outsource the development and writing of the book, and the layout of the book as a final sellable product. You might go guru.com and post one project about researching mash-ups, one about writing the copy, and one about layout – or you could just as easily make it one project.

Setting up the business

At the same time you want to create a new business entity to sell this ebook. So you find the following:

- A company that does corporate setups in your state. You pick a name and they set up the company for you overnight.
- A logo and identity for your company. You select a logo factory online and get them to design something for you.
- A company that does quick-turnaround websites. You have them register your domain, then put up a quickie site with an ecommerce capability.

Meanwhile you are starting to get bids on your posting on guru.

Marketing the business

After a few days you pick a writer/researcher and an ebook packager from the bids. In a week the writer gets you the basic copy, which you then send to the packager to start laying out into a PDF.

You send the writer some changes, and the packager sends you a model layout, which includes your new logo.

Meanwhile you find a web marketing company and talk to them about driving traffic to your new website, once the ebook is available next week. You come to an agreement on a program with them, to start when the book is ready to be sold.

You have them contact the writer you're using directly to work on some copy for the online ad campaign.

Managing the business

Two weeks later the site is up, the ebook is done, your merchant account is set up, and your marketing campaign is ready to start.

Let's say you don't even want to deal with the one remaining aspect – accepting payments and ending the ebook. You find another outsourcer who will take a small percentage of the selling price to be your customer service provider, and the remainder of each sale gets deposited into your account automatically.

When your next project is ready – everything is already in place.

Making the money

Now you just sit back and let the marketing drive the sales, the fulfillment house deal with the customers, and watch your bank account grow.

You just made a small fortune, in a few weeks, on a subject you knew nothing about – just because you could spot a trend and knew how to outsource the whole kit and caboodle!

Outsourcing your outsourcing?

In the above example, you are still left with the real task of "vendor management" or dealing with the various people you have outsourced to...in today's world, you don't even need to do that.

You can actually hire someone else to run the whole thing for you!

This may be a good alternative to selling the business.

We are confident that your next outsourcing project will go incredibly well – and that you'll reach your business goals faster.

Thank you for taking the time to read this ebook. We'd really like to hear what you think about it. Feel free to email us with your thoughts. We'd really love to hear from you.

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