

Outsourcing for Success

WELL-TESTED FUNDAMENTALS FOR SUCCESSFUL OUTSOURCING

With a few targeted considerations to outsourcing readiness and supplier due diligence, buyers can avoid common outsourcing pitfalls and position the enterprise for outsourcing success

The Outsourcing Experts at Align provide solutions to achieve business results and exceed customer expectations.

AN UNINTENDED PRICE

CIOs are under growing pressure to control or reduce IT spending. With discretionary projects on hold, open positions cut, and workforce reductions underway, organizations are looking to offshore outsourcing or in some cases, remote in-house delivery models, to make their short-term targets, or those handed to them. Unfortunately, the over-emphasis on immediate cost reductions through rapid outsourcing deals is exacting an unintended price, not only within IT, but also within business operations. Gartner estimated in their 2009 predictions that **“through 2012, inflexibility caused by an excessive cost reduction focus results in business disruption in 30% of outsourcing deals, including the inability of the buyer to compete effectively.”**

Additionally, as a possible predecessor to the current recessionary climate, Gartner reported a peak in outsourcing dissatisfaction from their post 9/11 survey results where **69% of organizations in 2004 were willing to renegotiate their outsourcing deal while 49% of European respondents in 2005 were willing to change providers.**

Align believes decision makers have an opportunity to shape the outcome of this transformational decision to their favor. Many buyers have already engaged in some form of IT outsourcing, but few are in a comfortable position to either take their outsourcing maturity to the next level, especially in these transitional times. As it is the exception to

bringing services back in-house, buyers are sourcing more operations than ever. As they do, it will be increasingly important for buyers to get their outsourcing strategy on track. Both to manage current contracts and the complexity of multi-sourcing.

BUYER READINESS AS A FOUNDATION FOR LONG-TERM SUCCESS

Buyers are often under pressure to complete a transaction, gain potential savings, and make budget numbers.

TABLE 1. COMMON SOURCE OF OUTSOURCING FAILURES

SOURCE OF FAILURES	IMPACT TO BUYER
Assuming cost savings is primary benefit	Supplier scope creep and eventual re-bid
Limited organizational exposure to reasons for outsourcing	Undermines working relationships and organizational culture
Handshake deals	Millions left on the table
Overreliance on supplier to be source of innovation (strategic advisor or introducer of leading-edge technology)	Buyer frustration and eventual re-bid
Loss of intellectual capital	Supplier replacement, in time and at cost to buyer
Supplier personnel turnover	Business disruption
Outsourced problem	Contractually outsourced problem or transformation at cost to buyer
Insufficient governance	Reduced value of outsourcing relationship (managed as contractor)
Reciprocal agreement with supplier	Handcuffs: Reduced contract flexibility (e.g., performance, scope, pricing)

Foundational preparation steps can be cut short or overlooked. Understanding the buying organization’s readiness is one of those foundational steps to ensure long-term success. The goal of buyer readiness is to focus on internal organizational alignment before a request for proposal (RFP) is issued or, more importantly, before suppliers are engaged to provide a solution.

Advisors for objectivity and fast-tracking buyer readiness

Advisors can provide an unbiased assessment of the enterprise’s preparedness. For many buyers, an objective external view using resources outside the internal politics and supplier bias can help.

Outside advisors who deal with many suppliers and buyers can efficiently provide a realistic picture of the organization’s status and what is needed to ensure the plans for outsourcing do not unravel.

Advisors can unbiased assess the organizational preparedness. Whether it’s outsourcing maturity (governance structures, participants and processes needed to manage outsourcing relationships), stakeholder support, process maturity, process performance, financial baseline development (not a budget) for the business case, general perspective of outsourcers, market conditions or trends, advisors can reduce risk and have a dramatic impact on the outsourcing transaction.

Prepare for outsourcing with a method for success

As with building anything, buyers can position themselves for success with sufficient preparation (assessing their organization). Taking a methodical and organized approach before submitting an RFP provides a few politically important benefits; the evidence of a controlled process, helpful for internal and board-level buy-in, and the assurance that all reasonable information was analyzed and considered in the results.

1. Avoid decisions in a vacuum. Unless you are the CEO, you will need the support of a few senior functional and business leaders behind any decision. Establish a working group or steering committee to maintain

transparency, oversight, and balance throughout the outsourcing decision-making process.

2. Consult leadership and influencers. Before any potential benefits for outsourcing are solidified in people’s minds, the committee should start an investigation type of process to validate the initial assumptions. The committee should ask the organization some preliminary questions in what is commonly called a Stakeholder Analysis.

Stakeholders – enterprise leaders who could be affected by an outsourcing decision from both within the functional organization and outside of it (e.g., executives, business leaders, other functional leaders, and IT).

Stakeholders must be formerly consulted with feedback compiled and summarized in a clear and objective

TABLE 2: EXAMPLE QUESTIONS FOR STAKEHOLDERS	
•	Are we prepared to manage a multi-supplier environment?
•	Is it compatible with our current or future culture?
•	Can it provide a lower cost to the current workload?
•	Can it provide either reliable scale or flexibility at a better price?
•	Can it enable the kind of transformation needed?
•	Do we need it to influence the discipline of organization?
•	Can it improve the risk profile of the operations under consideration?
•	Is there a strategic need to retain internal services or resources?
•	Is it compatible with future functional and business directions?
•	Is there a need to refocus internal resources and management into other areas?
•	Can a supplier provide an equal or better level of service (performance)?
•	Does it provide us better access to skills or enablers to drive our business?
•	Could we build a similar model to it internally, under a reasonable time line and obtain equal or better benefits?

SOURCE: Align 11.2009

manner to the committee. Because perception tends to influence reality, the questions for stakeholders must address, among other things, perceptions of cost, performance, culture, and strategy.

In the end, unanimity is not required and, outliers aside, there must be adequate support in the results before proceeding any further. Additionally, avoid interpreting the results as a definitive “yes” or “no” go. Use the results to refine or change the initial assumptions for scope, savings, timing, etc.

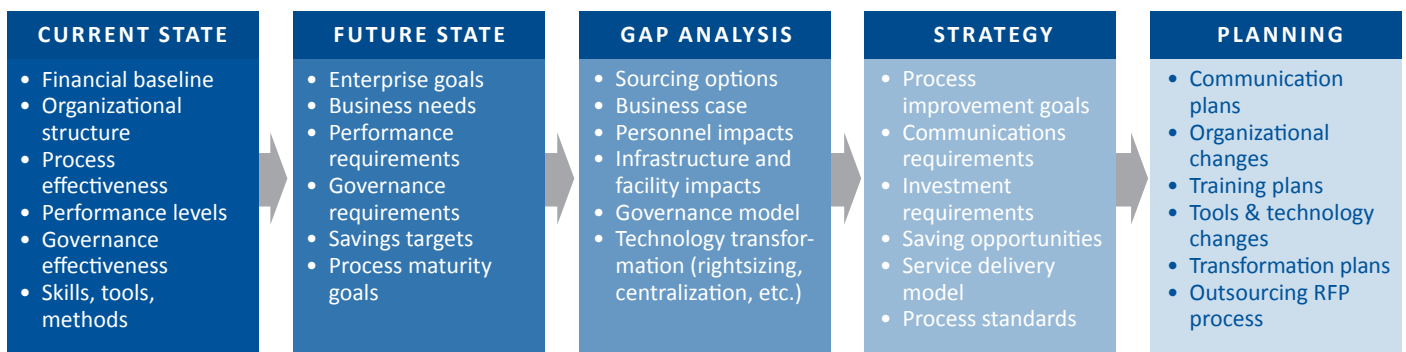
3. Getting to outsourcing strategy. With modified assumptions vetted, the real work begins to understand where you are, where you want to be, and determine how you will get there. Developing this knowledge can be, if not is, the most pivotal factor in your future success. Many buyers have commented that going through this process is the most

meaningful and insightful aspect of outsourcing. It provides a clearer picture for the road ahead and what is expected for a supplier to bring to the table.

The goal is to answer many of the questions you asked of the stakeholders and then use that information to shape the outsourcing strategy and planning. There is no best way to answer all the questions for everyone, but a credible method should be employed which drives tactical results and a clear direction of what is needed to get there.

The result positions the targeted solution to be cleanly structured and scoped for the outsourcing RFP.

TABLE 3. OUTSOURCING BUYER DUE DILIGENCE METHOD



SOURCE: Align 11.2009

SUPPLIER READINESS

In the process of “getting a deal done,” both buyers and suppliers tend to rush the process of evaluating the supplier and their solution. But natural trepidations aside, how confident should the buyer be in the supplier? How many stones must be turned? Is the supplier really ready to migrate, transform, and transition the services?

There is no right answer for every buyer, but if buyers can step back and honestly assess realities of their situation, they will be better prepared to determine the level of due diligence required. Consider the following two drivers for both the amount of time and due diligence required to successfully evaluate potential suppliers.

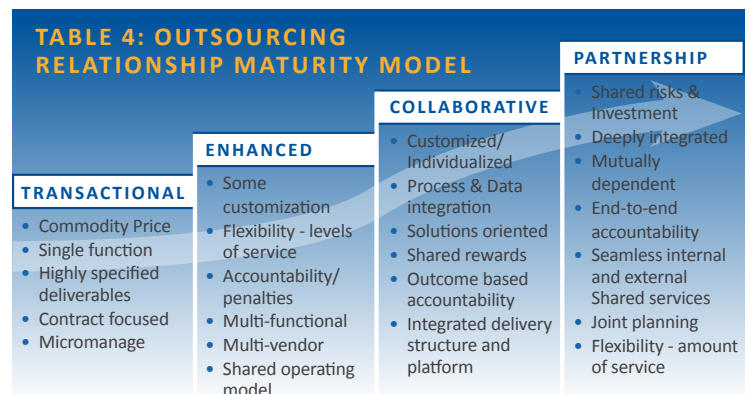
Supplier readiness drivers

1. The buyer organization level of outsourcing maturity.
2. The level of complexity of the outsourcing solution.

Buyer outsourcing maturity equals level of supplier trust

The level of buyer maturity is relational to the level and value achieved in an outsourcing relationship. For example, if a buyer typically treats all suppliers as contractors, the value the buyer will extract from the supplier will be limited

TABLE 4: OUTSOURCING RELATIONSHIP MATURITY MODEL



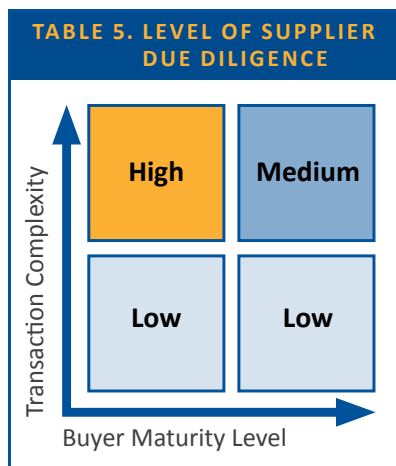
SOURCE: Align 11.2009

and remain at a transactional level. As a buyer implements more mature processes, tools and governance structures, the buyer is enabled to both source and manage outsourcing suppliers with a higher level of trust and expectation from the supplier, moving towards a collaborative or partnership type of relationship.

Granted, not all suppliers are either capable or prepared for a mature relationship out of the box. Many have only known outsourcing as transactional, but all desire to move into a “trusted advisor” role. As buyers gain experience and formalize their outsourcing relationship structures, processes, and talent, their ability to adequately select and vet potential suppliers also increases. They are more targeted in their vendor choices and experienced in partnering with vendors to deliver value, and they are more articulate in what is required from an additional vendor in supporting their long-term strategy.

Outsourcing complexity

The more functions, transformational projects, and geographical changes bundled into an outsourcing



SOURCE: Align 11.2009

transaction the greater the risk of failure. To counter these risks, time and greater care must be taken. The standard outsourcing evaluation template will no longer apply. The buyer must flip more stones which provide either evidence of supplier

capability or specific plans and actions the suppliers will take to address possible shortcomings. Additionally, buyers need to push suppliers to develop solutions which mitigate risk - for example, using piloting or phased plans with contractual “go / no go” milestones.

A case for focused evaluation teams

When buyers assess both their outsourcing maturity level and the complexity of a transaction, they will conclude a

TABLE 6. EXAMPLE EVALUATION TEAMS

FUNCTIONAL - A functional taskforce is required to validate the suppliers capabilities and experience in providing service for the functional scope considered for outsourcing which may include:

- Site visits
- Similar client interviews and possible visits
- Evidence of certifications
- Evidence of process maturity
- Commitments to resource training and development
- Knowledge management, retention, and sharing model
- Service delivery model

GEOGRAPHY - A geographical taskforce needs to evaluate:

- Sites
- Language capabilities
- Access to talent
- Retention rates and practices for reduction
- Security
- Geopolitical risks

TRANSFORMATION PROJECTS - Transformational projects to be considered on their own merit as well with a task force to confirm:

- Business case
- Resource requirements on top of other initiatives including other aspects of the outsourcing transaction
- Phasing of projects
- Project risks
- Stakeholder involvement

TRANSITION AND MIGRATION - As the most critical area of short-term success, a team and criteria must be dedicated to ensure the supplier is experienced, resourced, and prepared to perform the plans for transition, and migration. Before down selecting to a single supplier confirm:

- Management structure and resource names for each plan
- Source of staffing for each plan, ensuring no over-resourcing occurs
- Resource requirements from the buyer organization

SOURCE: Align 11.2009

new framework for the procurement processes is required – one which meets the unique needs of both their organization and the outsourcing transaction.

Buyers should consider each aspect of the transaction and apply a unique evaluation team and criteria to each. By partitioning both criteria and focused teams, buyers will be in the best position to understand and manage risks, maintain control of the supplier evaluation and selection process, and manage transaction results while expediting the process.

No one wants unwarranted scrutiny. But with a mindset of providing assurance to the enterprise and avoiding future pain, buyers must make it clear to suppliers that they will do what it takes to understand where the risks are.

CONCLUSION

Buyers can choose to not become another statistic of outsourcing dissatisfaction. With a rising acceptance among enterprises to outsource common to complex processes, buyers need an outsourcing process and strategy which actually delivers on the expected results. Choosing to outline and implement well known outsourcing best-practices before a contract is signed, and as those outlined, will provide the desired success buyers are looking to achieve. More importantly, it does not necessarily reduce the anticipated cost benefit nor reduce the time to complete a contract.



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