



## **Outsourcing: How to be a Smart Customer**

### **Choice and Complexity**

Outsourcing is an established part of business life – a key option to consider in almost any strategic business review. Companies have always contracted out elements of their operations to others (remember the days of data processing bureaux?). So what's new? Key developments are the rapid growth in the scale, depth and range of outsourcing options available to the potential customer are more significant still.

Scale is important because it means that almost every company outsources something. Previous editions of this magazine have tracked the growth in the outsourcing market and made predictions for the future. Suffice it to say that outsourcing is a big market that is set to grow rapidly for years to come. It seems to be proof against variations in the economic climate; in hard times people outsource for reasons of economy and in good times they do it for strategic advantage.

Depth is important because outsourcing is penetrating previously untouched parts of the corporations that use it; no longer the preserve of technical and back office functions, outsourcing is being extended to improve direct customer service or even to penetrate new markets.

The bewildering array of options available soon becomes of great significance to anyone considering their sourcing strategy. For instance in systems development do you outsource maintenance or development, legacy or new systems, do you switch specific applications to an ASP service or outsource the whole development function? Similar considerations apply with HR and finance. Do you outsource accounts payable and receivable or move the whole process of financial planning, operations and management reporting to a shared service centre? Do you outsource specific HR functions such as pensions or go for a complete solution with a self service approach? The range of possible permutations is seemingly endless, placing a great burden on those making the key choices.

### **The Chink in the Armour**

Not surprisingly, companies making these choices tend to do so with care and foresight. They seek independent professional expertise to help de-risk and secure value from the process. Time and effort is spent on sourcing strategy, supplier selection and contract negotiation. Companies have learned (sometimes the hard way) that they must handle staff transfers with openness and sensitivity and invest in planning, communications and support if they are to get this right. They routinely check suppliers' claims against their track record, look carefully at the small print and set clear performance criteria and review points. As a

result, the worst consequences of unscrupulous or naïve (depending on your viewpoint) contract negotiation have largely died away.

What is perhaps more surprising is that much less time is spent on what happens after the contract is let and operations begin. There is a tendency to assume that if the strategy and service agreement are right then the implementation plan will take its proper path and the flow of benefits will follow.

However, in my work with many companies, I often encounter disappointment with the results of outsourcing. These can vary from rumblings of discontent to outright failure to meet internal business or external customer needs.

*Smart Customers* avoid failure by recognising that outsourcing a part of their business is a business change in its own right. Success therefore depends on being clear about the desired benefits and managing the changes necessary to obtain them. This can apply to the supplier side of the relationship as well as the customer.

### **How to be a Smart Customer**

Being a *Smart Customer* is about making the leap from having an intelligent procurement process to realising the benefits in practice over the long term. It extends the thinking beyond the immediate players in an outsourcing deal to all those who are touched by it. It involves changing practices and behaviour, and like any other corporate change, requires buy in and commitment from informed stakeholders to make it work.

*Smart Customers* are very clear about the answers to these questions and use them to define the business change that is needed and bring it about.

- | <b><i>Smart Customer Questions</i></b>                           |
|--|
| 1. What are we outsourcing and why?                              |
| 2. Who will be affected by this and how?                         |
| 3. How can we affect the flow of benefits – for better or worse? |
| 4. What would be the consequences of inadequate performance?     |
| 5. How will our needs change in future?                          |

### **What and Why?**

Like any other business change, the first step on the road to success is to be very clear what the change is and the compelling reason why you need to do it. These are the constants that you will return to time after time to help resolve conflict and see through the complexity. If

there is no compelling reason, then the chances of success are slim to non-existent. The fact that many others have taken this route is not a compelling reason.

I have found the following model helpful for thinking through the vision and rationale for outsourcing and then going on to define the change that is needed.

Type of Deal	Vision	Rationale	Quantity
Joint Venture <i>E.g. Many PFI contracts, some managed solutions, entering an overseas market</i>	Step Change Create new strategic value, with all parties contributing essential elements, sharing both risks and rewards and gaining something of strategic benefit	“We must do . . . . . and we can’t do it by ourselves”	One at a time
Complete Process or Function <i>E.g. Call centre, logistics, finance, HR, IT, some managed solutions</i>	Redesign Hand over part of the operation (including staff and assets) to another company to free up core resources, at the same time improving services	“We are not in the business of . . . . . we should focus on our core business and let someone else meet our needs”	Single numbers
Specific Service <i>E.g. PC provisioning, IT support, turnkey projects, back office processing</i>	Continual improvement To make a planned series of improvements by using external service suppliers instead of internal staff for specific services	“We can get . . . . . done more efficiently / effectively / responsively by letting the experts handle it”	Often many

Any specific outsourcing proposition should fit into one of the three boxes on the left. In some cases the lines seem at first sight to be blurred – is the recently very public case of the vetting service for school staff a specific service or a complete process for example? Clarifying this is important as it affects the distribution of ownership and responsibility.

Different types of outsourcing arrangement have differing implications for the continuing relationship and how it should be governed. This is important as the word ‘partnership’ is bandied around somewhat freely so that it is often little more than a platitude. In any case partnership (in the true sense) is not always what is needed.

A joint venture involves shared goals, investment, risks and rewards – this is in a true sense a partnership. The stakes are high (possibly make or break on at least one side) and joint venture partners will need and demand real influence over the course of events. Formal governance structures and processes will be needed, with representation from the various stakeholders. Joint ventures only really work if a sense of teamwork develops with its own identity and culture and people from all sides putting the success of the whole venture before their specific agendas.

In contrast, sourcing a specific service is more transactional in nature. Good working relationships will be needed – within a commercial framework of service levels and an agreed degree of customer choice. It is important to develop a relationship style that facilitates an open interchange of information and shared approach to problem solving. This usually requires behavioural change on either or both sides.

## Who and How?

A stakeholder analysis of an outsourcing proposition usually reveals many groups of people within your own organisation with different interests, all of which need to be looked after for the deal to be a success. A three track approach to this can be beneficial:

- Track A: Those with ongoing responsibility for monitoring and managing the service – usually the contract management team
- Track B: The staff currently delivering the service – they may be outsourced, redeployed or no longer required
- Track C: Those who are on the receiving end of the service as direct or indirect users (critically this can include outside customers)

The most successful instances of outsourcing have developed a strong, highly skilled contract management team. The organisation's expertise at being a *Smart Customer* lies with this team. A leading UK leisure company has taken a highly strategic approach to the progressive outsourcing its IT services and other business functions. From the start they appointed bright, knowledgeable people to the outsourcing strategy and encouraged them to experiment, learn and improve the process of sourcing and ongoing management. They now have a small, highly skilled team who are real experts in the field of commercial sourcing and who ensure that the arrangements deliver benefits and keep pace with changing demand.

The staff currently delivering the service are key as your current repository of knowledge rests with them. It is vital to consult them early and often and to ensure their needs are met, in so far as they can be, from the transaction.

The user / customer track stakeholders are just as important and, sadly, much of the dissatisfaction with outsourcing arises because they are sometimes neglected once the initial needs analysis is complete. There can be many such stakeholders with varied needs; for example consider the user stakeholders in outsourcing financial processes. They include the FD, the Board, all budget holders, all staff, customers, suppliers and shareholders, all of whom have different needs, expectations and changes to make.

## Maximising the Benefits (and Avoiding 'Disbenefits')

There is a body of knowledge and best practice on Benefits Realisation in business change programmes; *Smart Customers* adapt this to support Outsourcing. As with any change programme, it is vital to be clear about the benefits you are seeking and what has to change to deliver them.

This often affects the user stakeholders (Track C) more than anyone. Benefits depend on service users adapting the way they do their job, yet without information, support and

guidance they are unable to make these changes. For example the benefits of outsourcing Finance may require you to rationalise planning, budgeting and reporting processes used by managers across the entire organisation. The old familiar budget headings, monthly reports and information services may no longer be there as local variations are removed. Outsourcing IT services usually places an onus on the user community to 'behave well' and help manage demand in return for which they will receive faster service over extended hours. Unless they adapt how they plan and do their work, they end up paying more for a service which feels worse to them.

There can be 'disbenefits' from outsourcing and it is important to be realistic about them from the start. A frequent complaint from service users is that outsourced services are less flexible since they can no longer call in favours from colleagues. There may be good reasons for this, but it is still a disbenefit to such users and needs to be managed as such. *Smart Customers* may decide to minimise such disbenefits by asking their suppliers to build in a certain amount of flexibility provided the cost remains within set limits.

### **Protecting Yourself Against Poor Performance**

What happens if it all goes wrong? *Smart Customers* consider this question very carefully and make careful provision for it. This is partly a matter of building 'insurance policies' into the contract in the form of service agreements, delivery targets and penalty clauses.

But often this is not enough. I vividly remember reviewing a consortium venture where the procurement team had assured everyone that all was well because 'this contract is watertight'. In fact the entire venture depended on delivery of working technology by a certain date; when this was not achieved no amount of penalty payments could put the venture back on track. In this case, the highly contractual approach that was taken had contributed to the failure as people had been more anxious to avoid blame than to cooperate in solving the problem and putting delivery back on track.

### **Building in Flexibility for the Future**

*Smart Customers* recognise that the world is changing all the time and this will affect how their sourcing strategy needs to develop. They do not just keep in close touch with stakeholder satisfaction and current needs but also develop a predictive understanding of how those needs may develop.

### **And finally**

Being a *Smart Customer* is about recognising that outsourcing is a business change that will only be successful if it is managed as such. The good news is there is a growing body of knowledge on managing business change and techniques that can readily be adapted (I have mentioned some above). *Smart Customers* will put this expertise to good use.

To find out more about BeeAgile's approach to managing change to create an effective sourcing partnership contact Judith Wainwright ([judith.wainwright@beeagile.com](mailto:judith.wainwright@beeagile.com), or 07774 782 996) for a no-obligation discussion.

*Judith Wainwright*

*Judith Wainwright, FCMC, is Managing Director of BeeAgile. This article was originally published in Strategic Sourcing magazine in January 2003.*