END USERS

Andrew Cooper reports on the complexities, ramifications and the future of choosing the right outsourcing deal from the end user's perspective.

End users – what is it that they really, really want?

It's easy to assume that an end user knows from the outset, when considering outsourcing one of their services, what it is they're looking for. They may say that 'cost is king', or maybe it's a flexible contact. It might even just be about the right cultural fit.

Outsourcing is not a simple decision. Several obstacles can contribute to why an end user decides not to commit to outsourcing. These can include fear of losing control or decreasing service levels, uncertainty around quality of service providers, lack of benchmarks of internal process performance, employee unrest and cultural opposition to outsourcing.

Although companies have been outsourcing various business processes for many years (with large entities such as the financial services industry and the UK government being early adopters), for some companies outsourcing as a process is still entering into the unknown and because of this, it is essential to be clear from the start what your requirements are for a successful outsourcing experience.

Philip Bond of UBS believes that an end user wants to experience collaboration with added value as well as just basic contract deliverables. "Strong commitment, a mature level of knowledge and understanding, collaborative working, service improvements, value added and return on investment are for me the five key elements to an outsourcing deal".

Negotiating the right price is always going to be the key decider from both the end user and supplier perspective, no matter how attractive the deal may look. End users need to ensure that value for money is being achieved and suppliers have to see a good incentive for delivering excellent service. If the balance tips excessively in one direction then both parties will find that the relationship turns sour and ultimately fails. As Chris Scoggins, CEO of National Rail Enquiries puts it, "If you think short term and just want to deliver to a contract then you probably aren't the partner for us".

"Customers really want two things from an outsourcer – the basics and innovation. The basics, e.g. that the outsourcer patches servers properly and keep things running and it doesn't charge the earth. Innovation – this should be as defined by the customer, NOT the vendor".
Ian McDonald, Head of IT, Symbian

Martyn Hart, Chairman of the National Outsourcing Association, offers an example of the repercussions associated with a blinkered viewpoint. "By focusing solely on reducing costs rather than maximising the potential benefits the supplier can provide, end users are putting additional pressure on suppliers to lower their bid to an unprofitable level in order to secure the business".

Although focusing on the bottom line and slashing costs is usually a decisive factor in the procurement process for most end users, (i.e. viewing the supplier as merely just that – a cost cutting solution), there is a rise of an outsourcing model that means end users want suppliers as strategic partners rather than external cost cutters.

> "We want our suppliers to work with us on flexibility, innovation and speed of change. We are past the supplier/client stage and look for long term relationships where the supplier works towards our success in the knowledge that our success will also be theirs."
> **Chris Scoggins, CEO, National Rail Enquiries**

End users are increasingly identifying exactly what that strategic outcome should be in an outsourcing arrangement. This 'service effect' model is being used by end users in an effort to detach themselves from how a supplier delivers their services, which allows the user to focus on end objectives. The supplier's job is to then meet the outcome using whatever tools are needed. Srikanth Iyengar, Global Head of Business Development for Strategic Global Sourcing at Infosys, summarises thus: "In service effect models, customers focus on an overall outcome which helps us run our operation in a very efficient way."

Chris Scoggins, CEO of National Rail Enquires also looks for partnership in their outsourcing deals: "We want our suppliers to work with us on flexibility, innovation and speed of change. We are past the supplier/client stage and look for long term relationships where the supplier works towards our success in the knowledge that our success will also be theirs.

In the outsourcing world there is a general consensus that a common source of failure of outsourcing agreements is due to a lack of benchmarking. Benchmarking data can be used to manage and improve provider performance not just at the start of a contract but throughout the duration of the collaboration. Chris Smith, Vice President, UK and Ireland Benchmark Analytics, Gartner believes that providers can see benchmarking as a threat but it can help with the overall transparency and understanding of outsourcing charges. Benchmarking clauses are really about contract optimisation not primarily cost savings.

"When applying benchmarking in a deal, it is good practice to jointly agree to a benchmarking process to promote cooperation and openness. Decide on an independent third party, conduct an initial benchmark and routinely schedule benchmarks which can be used to adjust deals as needed."

According to James Lonsdale of Commercial & IP there is an increasing trend towards collaboration for end users and suppliers. With the publication of BS 11000 in 2011 (see side box), customers in large outsourcing projects will be increasingly looking for suppliers to demonstrate accreditation to BS 11000, or at least project that their working practices are aligned with the standard as part of the tender process. "We're hoping that the use of the standard and the tools it provides will help organisations to take a more considered and thorough approach to the outsourcing process, which would in turn help projects become more successful."

So defining what an end user requires from a deal with their suppliers is quite simple: engaging empathetic benchmarked companies who have done their research and wish to be part of the long view and one which is isn't just about contract fulfilment. At present, it's a catch-all ideal which may run the gauntlet of outsourcing deals for a few years, but it's a fair bet that over the next few years, the words 'collaboration', 'partnership' and 'supplier' will again undergo yet further metamorphosis as the end user-supplier relationship shifts on its axis yet again.

BS11000

The publication of the British Standard (BS) 11000 is a landmark for the world of business. It is the world's first standard for collaborative business relationships and rather than representing a one-size solution for all it provides a consistent framework that can be scaled and adapted to meet particular business needs.

Following the publication of BS 11000, in collaboration with the NOA, it was agreed that a Guidance publication would be produced. The BSI committee has been working to develop a publication which it is hoped will help organisations to get below the clauses of the standard and provide some guidance to implementation.
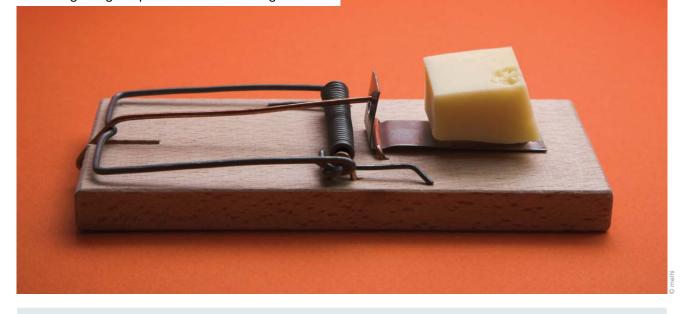
The drafting phase has now been completed and the Part 2 to BS 11000 was released at the end of 2011.

Collaborative business relationships – Part 2: Guide to implementing BS 11000-1

- BS 11000-2 is a voluntary British Standard which provides guidance to organizations on implementing BS 11000-1 Collaborative business relationships – Part 1: A framework specification

- BS 11000 Part 1 is the first industry standard for collaborative business relationships, already well-established and recognised by suppliers, procurement professionals and government

- BS 11000-2 gives guidance for each clause of BS 11000-1 and has been structured to mirror the clauses in Part 1 in a format of Why? What? How?

- BS 11000-2 is applicable to any organization regardless of size, type or activity

- BS 11000-2 should be read in conjunction with BS 11000-1

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Director of Market Strategy for ACS in Europe, **Rebecca Scholl** offers up the common mistakes both the end user and the provider can make when beginning the process of outsourcing.

Common mistakes end users make

Outsourcing without a plan: If you don't know what exactly it is you want then you end up not being able to measure the success rate of the outsourced deal.

Outsourcing a process before measuring internal performance: No baseline measurement may mean it is impossible to measure whether your provider has delivered on their promise.

Outsourcing without top-line approval: If senior stakeholders are not behind the key objectives of your outsourced process, it may be very difficult to ensure a smooth transition.

No exit strategy: If you negotiate a contract that does not allow for adjustment or renegotiation, you may end up being dissatisfied with no mechanism to readjust your contract, leading to further frustration.

Slack governance: Many organisations believe that once they have outsourced a process, they can just forget about it. Monitoring and managing the outsourcing contract once it has been signed is essential to eventual success.

Common mistakes outsourcers make

Cultural mismatch: Some providers rush into an outsourcing contract without carefully evaluating the culture of the end user, which can lead to miscommunication and misalignment of objectives.

Underestimating the amount of transition work required: In Europe, the complexity of multi-lingual, multi-country requirements is easy to underestimate. If the provider has not built in the additional European requirements into their model, they might end up extending the transition time and undermining their own profitability.

General lack of communication: This is a challenge for users and providers, but providers should take the lead in communicating often and clearly with all stakeholders involved to ensure alignment of all parties – particularly during the transition phase.