

PUBLIC SECTOR

Keep the scope broad
and relationships tight

How to get the most out of a major outsourcing deal

Single vendor, long term outsourcing contracts are under close scrutiny. In July, a report, 'Government & IT: A recipe for Rip Offs – Time for a New Approach', accused the government of overreliance on a small 'oligopoly' of suppliers, who routinely overcharge them for ICT. The astronomical sum of £3500 for a desktop PC was widely quoted in the media

Time for a new approach indeed. But although multi-supplier, shorter term contracts are becoming fashionable, single-tower tactical supply deals will never be able to offer the same value as those with long term commitment and wider scope. Whatever your spouse may tell you, size does matter. Clients should never underestimate the leverage that a large contract brings. Larger contracts, with long term commitments engender a desire – on both sides – to constantly focus on bringing value. For 'value' and 'price', are not one and the same, and it should never be assumed that they are.

A high-ranking government procurer stated: "we are duty bound to find the best value and are very happy to do so. This does not though mean the cheapest supplier. To cross that barrier – the sociophysiological predisposition of always choosing whoever is cheapest – is extraordinarily difficult, and on its own constitutes 40% of the effort to secure the right deal."

The right deal is the one with the right outcomes, for the right money, with the appropriate amount of client-side effort

and resource, with the right provider. Or, with increasing commonality, providers.

Multi-sourcing will often reduce price, but can reduce value at the same time. Take the projected savings, add in the extra man-hours that need to be dedicated to honing, dovetailing and optimising the deal and perhaps the value isn't what you originally calculated it would be.

Service intergration management

Robust service integration and management is mission critical. According to one major provider, "ICT scope is complicated enough to manage, with just the one supplier. A landscape with numerous competing suppliers, all looking to satisfy their own commercial interests – all looking to stow risk as far away from their yard as possible – is tough. How do you guarantee service integration? Do you have one contract? Do you have 10 separate ones?"

Speaking from an unbiased, client side perspective, Derek Parlour, Head of Commercial at National Rail Enquiries, and vastly experienced, serial multi-sourcer said: "multi sourcing places a high degree of responsibility and management overhead on the client. Governance is more complex and you need to ensure there aren't gaps between services and needs."

Another way multi-sourcing can impact negatively on a deal's value is its natural predilection towards delays in decision

making. With so many partners at the table, reaching a strategic consensus can prove irksome. Without the strongest of governance, and the smoothest, most eloquent negotiators, multi-sourcing will always delay putting plans into action. Plans which could be saving the taxpayer money, remaining on hold until conflicting outsourcers make their mind up as to the best way forward.

So, if you do choose a big deal, what is the best approach to making it work long term?

Firstly, suppliers must better illustrate the benefits of the proposed transformation. Make it irrefutably clear the advantage – financially and service-wise – to the taxpaying public. How has it worked in other sectors? How will it work for them? Take the time to deeply understand the culture, the department, the business they are in and the challenges they face. Work alongside each other to address these unique challenges, and develop a strategy together that fixes them.

For their part, clients will reap the most benefits out of outsourcing by putting the legwork into understanding the business problem at hand.

Ensure all stakeholder groups are represented

The best way to do this is ensuring all stakeholder groups are represented throughout the negotiations. That's ALL groups who are affected by the deal long term, consulted, engaged and pulling in the same direction. Making positive contributions to the project, rather than the obsessive querying of every line item that pugnacious procurement teams busy themselves with. Such fastidiousness can be commended, but in this case it is badly misdirected. The focus needs to be on outcomes and relationships, not processes and prices.

This is a cultural shift that is required to get to the right contract. A spirit of openness in the beginning, as the best possible means to the end. Informal conversations taking place before the tender stage begins are not illegal, and never have been. Ridiculous over-interpretation of EU law leads to the incorrect perception that it is wrong to consult before the paperwork comes out, and brings about misguided RFPs loaded with unimportant detail. As Francis Maude says "Far too many procurements feature absurdly over-prescriptive requirements. We should be procuring on the basis of the outcomes and outputs we seek, not the detailed inputs. We should be focusing on the "what", not the "how"."

A senior NHS procurer agrees: "Fit for purpose specification is essential but not too prescriptive. The end goal is much more important than how to achieve it – within reason." He goes on to describe another core benefit of speaking frankly before the tender: "The opportunity to provide clarity for prospective suppliers must be made available throughout the process. We always create a specific opportunity and supplement it with live updates and responses to questions seeking clarity (over 80 such questions were received at our last tender round)."

So, having worked hard to get the right contract, with the right supplier, how do you keep things running smoothly?

There is a strong need for more focus on relationship building, keeping the right people involved, all speaking the same language. For one of the major problems long-term

outsourcing contracts endure is key people ceasing to be around the deal. Naturally, people will move on. This is a problem because the level of unity – the ability to dovetail teams, culture and working practices – will ultimately decide whether a deal under or over-performs. To combat underperformance, a feature of many modern outsourcing contracts – at home and abroad – is named individual project leaders being contractually bound to the relationship for a number of years. For them to leave, would mean the provider was in breach.

It is so important, in order to get the most out of outsourcing, to empower the stakeholders at the sharp end. Procurers will come and go, but only the users can effectively handle changes, issues and disputes. It is your end-users who are perfectly placed to review and renegotiate service level agreements throughout the life of the deal.

No-holds-barred

Don't forget to review the deal regularly. Hold regular, informal, 'truth sessions' for no-holds-barred discussions. Other communications tools, such as blue sky strategy sessions, process flows are extremely useful to drive the project forward. Even simple obvious sounding things, like weekly e-mail round-ups, and open door policies are all too rare. Open channels of communication are vital to making a relationship work. Another shrewd move is accountability. Giving someone responsibility for making things happen, such as the role of Value Director, or Innovation Leader (see Innovation article on page 127) can make a huge difference to the odds of the project being a success.

Ensure you give the deal a thorough benchmarking review every few years, to ascertain if the value for money is still in situ. There is a definite requirement for the public sector to improve its capabilities in benchmarking – but to do so, it must develop a culture of fastidious data collection. This will prove a huge challenge, as currently, according to a National Audit Office report in 2011, government spends £275m a year on training (2009/10 figures), but keeps no accurate record of costs, timings or benefits.

What if it isn't working

If the deal isn't performing, utilise break clauses and take it back to market. But if it is working (and it should be, if you've followed this advice) always look for ways to utilise suppliers' full capabilities. You should seek opportunities to tap into the experience and wherewithal of a big supplier. The more scope you can offer them, the more time and money they'll be willing to invest. For true, game-changing, public sector transformation will always cost cash up front, and the private sector will be delighted to pay these costs. If the length and scope of contract are there, so too will be the financial incentive. Major outsourcing players are never short-term minded. Nor should government departments be. Savings may not be apparent instantly, but, with both sides committed to a joint strategy, they will come prodigiously soon enough.

** Some names have been omitted due to some of the initial conversations of the National Outsourcing Association's evidence meetings, prior to the APG proper, taking place under Chatham House Rules.*