

Outsourcing Yearbook 2013



**The definitive guide to
business value in outsourcing**

**CONTAINING
THE OFFICIAL 2013
SUPPLIERS DIRECTORY**



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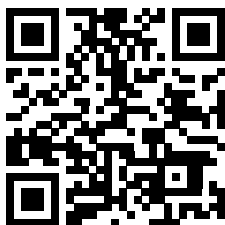


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The portal for the sourcing industry



View from the Chair

Martyn Hart
NOA Chairman

Dear NOA Members and Supporters,

Thank you for your continued backing throughout 2012 – the year of our 25th anniversary.

It was a monumental year for the NOA – but also for our industry. We started the year revealing research that the public significantly disliked us as an industry and closed the year with a strong appetite for investing in the UK as a solid delivery destination – and so much in-between.

Sure we know that outsourcing works when done properly, which is why Outsourcing Works has been our umbrella campaign for 2012 and will continue in 2013. As an industry we decided to stand behind the word outsourcing and improve its image and reputation through promoting best practice and successful case studies, rather than rename, as others were proposing.

As such, we will continue to champion standards, professional development and the benefits of the industry on behalf of our members. We're always looking for more case studies, insights, opinions – so don't be shy in stepping forward with ideas in 2013. We need to address our issues together, as an industry – strength in numbers, the whole being bigger than the parts!

Our work with the public sector will grow further in 2013. Our All Party Parliamentary Group will continue to influence Government on how to be a better consumer of outsourcing services and to further invest in the development of the outsourcing industry in the UK.

Skills development will be central to everything we do and you will see us roll out professional development programmes across the UK and around the globe.

If you are an NOA member I sincerely hope we can continue to count on your support throughout 2013, as we further our quest to grow and improve the reputation of our industry by proving that outsourcing really works. If you're not, and you've read this far, don't you think you should be?

Finally if you have not yet signed up to our Outsourcing Works campaign – please do so and be quick to register to our Outsourcing Works Symposium in early July – which will be a sell-out.

Best wishes for 2013.
Martyn Hart



Message from the Editor

Kerry Hallard
Managing Director
Buffalo Communications

Dear Yearbook Reader,

First and foremost, Happy New Year.

I tend to be a glass is half full type anyway, but I enter 2013 feeling more upbeat and positive than of late. After recent turbulent years I think 2013 will be lucky for some – particularly for those companies who continue to do sterling work in the outsourcing industry.

As you'll read in the review of 2012 (page 34), the industry has had a torrid time, but I believe we, as an industry and certainly at the NOA, are prepped to come through the other side with a flourish.

Sure, not everyone likes outsourcing – as we've witnessed in some recent online debates for the Guardian (didn't know such expletives existed let alone were descriptors for our beloved industry), but few can argue with the Economists view, where they all say outsourcing can work if done properly. We have interviewed six key economists for our lead feature – please read what they have to say on page 13. Our best practice guides on benchmarking, governance and innovation all share advice on doing outsourcing well!

On pages 85 to 93, we share the views of the great and the good of the industry and on pages 79 to 84 we highlight up and coming players that we think we will see more of in 2013!

As ever, we close with our industry suppliers directory – all the contacts you need in one easy place.

Enjoy the read and do feed back.
Best wishes for a prosperous 2013.
Kerry Hallard

Outsourcing Works Supporters



The NOA would like to say a big thank you to all supporters of Outsourcing Works. To get engaged in the campaign, provide a case study or an article, host an event, or stand up and speak, please visit here or contact Kerry Hallard on kerryh@noa.co.uk

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predictions for 2013



2013 is set to be a big year for outsourcing – with no major improvements expected in the economic picture across Europe, outsourcing needs to be at the top of its game, driving maximal efficiencies and enabling users’ growth strategies to blossom.

Outsourcing also has a point to prove this year – after a couple of high profile incidents in 2012, our industry’s reputation has taken a knock. But the NOA is predicting that outsourcing will rise to the challenge. And that’s not all...





PREDICTIONS

Glenn Hickling

Communications Manager, NOA



European Jobs for European Workers

There is an 'unemployment gap' widening right across Europe – the gap between the 'haves' (e.g. Germany with a 5percent unemployment rate) and 'have-nots' such as Spain and Greece (26percent) and Portugal (15.8percent) and Cyprus (12percent). This could lead to a scenario where certain EU member states adopt job protectionism. European jobs for European workers.

If enterprises do not adopt policies to 'employ their own', they may be tarred with a similar wave of public distaste to the tax avoidance scandals currently afoot in the UK.

Negative public sentiment, protectionism, adverse exchange rates and cultural differences will make offshoring (whether as a captive or as part of an outsourcing programme) outside Europe an increasingly unattractive proposition for organisations.

The likely result is that although enterprises will not completely give up their global delivery models, we are likely to see a leaning towards contracts not being renewed offshore, leading to relocation from non-European locations (e.g. BRIC countries) to locations in the lower-cost parts of Europe, or within their domestic locations.

Automation to Curb the Propensity to Offshore

The continued rise in industrialisation (or the automation of low to mid-level procedures by customers on the web, or by staff using internal standardised IT services) will erode much of the economic competitive advantage of offshoring. 2013 will see new models (and possibly new players) to integrate and manage these automated services. As labour and transport costs rise, automation could see much work coming back to the UK. As more sophisticated offerings require greater cultural affinity, the UK and nearshore locations will become much more attractive. There will always be a demand for supply with criteria that will be country specific, but offshore destinations will have to differentiate their offerings more precisely and make strenuous efforts to keep their profiles raised.

Cash Piles to be put to Work: Outsourcing Demand to Increase

Finance Directors sitting on huge cash reserves need to start making that cash work for them, and the good of the UK economy. The second half of 2013 looks like it will be the start of economic recovery in the UK: those that get brave, and make heavy investments – perhaps in new technology, or outsourced R&D or marketing programmes – will see huge benefits that others will be envious of.

Still, we expect most enterprises will be cautious about investing, this will lead to a demand on outsourcing suppliers to help them increase capacity and reduce the risk (of customers investing themselves). Outsource suppliers should make sure they can respond quickly enough and should already be looking at their strategic customers to see if they can suggest expansion areas, perhaps piloting in the first or second quarter of 2013.

Upfront Payments, Guaranteed Savings

2013 will see suppliers actually committing to contract savings, in an old school vendor financing approach. The effect of this will be that those cash rich suppliers will in essence start to buy contracts with cash benefits and then look to make them work whilst stifling competition and driving consolidation. Over supply is becoming an issue and once some of the tier 2 players start to really struggle then acquisitions will happen, with the bigger players accessing key markets and accounts they need to grow.

One provider making their cash pile work for them is Infosys, which has faced an investor backlash and accusations of not being aggressive enough. "When you are looking at \$500 million and billion dollar deals, you see it as a unique opportunity. We are not averse to any opportunity which will give us growth," S.D. Shibulal, Chief Executive Officer of Infosys, said in a recent interview. Expect big suppliers to follow his lead in 2013.

BYOC!

The BYOD trend this year has become a clear indicator of something broader happening in the market – the advent of the personal cloud, where smart mobile devices and their associated apps are becoming more and more part of the enterprise communications space.

The first reaction people have when they have a task is often to ask 'is there an app for that?' Think about your own personal cloud

Public Sector Up-Skilling in Sourcing Procurement is the Route to Sustainable Savings



Accredited by Middlesex University, the **NOA Pathway Public Sector Skills Academy** gives delegates access to the latest private sector tools and techniques.

The programme is designed exclusively for delegates from the public sector, both local and central government, who have a role in the design, implementation or management of outsourcing and shared service relationships.

The Academy has been designed to allow delegates to share knowledge and challenges peer-to-peer, as well as learning cutting edge best practice from vastly experienced instructors.

A range of workshops cover the hottest current topics in sourcing:

- Effective Governance Throughout the Outsourcing Life Cycle
- Managing Relationships and Innovation
- Performance Management

To find out more about these standalone workshops or how they can build into the UK's only university-accredited outsourcing qualifications, see www.noa.co.uk or email pathway@noa.co.uk

Workshops start in February 2013 and will run frequently throughout the year in both London and Birmingham.

on your device of choice – it may include iTunes music storage, DropBox file sharing, WebEx conferencing...the list goes on!

Consumers will increasingly synchronise using cloud-based services, building their own 'Personal Cloud' – BYOC! It is in this way that the personal cloud will continue to provide users with a new level of flexibility for professional and private activities resulting in cloud suppliers being more mindful of cross compatibility in the New Year.

Security Matters

Security costs, but security breaches cost more! What this really means is that CIOs have to really think about their IT policies going into 2013; are they adequate? Have they covered off any potential impact to their services and customers? Are they likely to face litigation and/or scrutiny in the press if they suffer a security breach? It is important that these policies are then factored into the service provided by the cloud supplier and then tested.

How does all this affect CIOs in small and medium enterprises? SMEs need to review both the security offering and capability of the cloud based service they want to buy for their business. The likelihood is that SMEs will want to be focusing most of their investment on their own service delivery rather than adding potentially significant security costs, whereas cloud service providers will have made appropriate investment in securing the IT – after all, it's their business.

Meanwhile, large enterprises have to consider their appetite for risk and given their size and complexity decide on how best to deploy their security policies. Whilst CIOs in larger enterprises may have the money to invest in retaining security in its entirety, the question still needs to be asked whether the cloud service provider can mitigate the risks to the same level more cost efficiently in the New Year.

Grow Up Outsourcing!

2013 will witness a sea change in the maturity of the industry, and the profession. Career development and skills mapping in outsourcing will increase significantly in 2013, as suppliers and buyers alike want the reassurance that they are working with experts. There will be more focus on standards and professional development, as companies collaborate to drive them forward. A more mature outsourcing industry will be a fun, innovative and exciting place to work. This will impact upon outsourcing on this country, as companies choose to invest more in its development and grow the UK's role as a revered outsourcing destination.

Data Centres on the Up

The expansion of data centres can be seen in various projects that have already begun or been planned for 2013. The public sector is also looking to employ outsourced data centre capacity with examples such as: Southwark Council's four year managed services contract with Capita; over €5 million is to be invested over a five year program by the Irish government in the creation of a new centre aimed at cloud development and Birmingham is set to receive a new £60 million centre in March 2013 aimed at local businesses development.

With analyst firms predicting that firms will struggle with the increase of Big Data, data centres are becoming a necessary infrastructure requirement, allowing for the increasing use of

data analytics and desire for scalability in services. As services increasingly require greater data storage and with 2013 marking a year of connectivity and IT infrastructure developments, these centres will become a vital part of the network.

An Innovative Mindset

Shifts in mindset will continue to change outsourcing and the wider services industry. Cost savings will still be critically important but the ability to provide ongoing innovation and link to wider business outcomes will become increasingly vital.

Recently, IBM asked 97 C-suite executives about their aspirations for outsourcing relationships. The results categorised the organisations into three groups:

- Cost-cutters—27 percent outsource their IT infrastructure to reduce operations costs
- Growth-seekers—37 percent outsource IT infrastructure, application management or business processes to achieve operational efficiencies and revenue growth
- Innovators—36 percent outsource multiple parts of the business to enable transformation and innovation

Whilst a number of organisations will continue to outsource purely to reduce cost, this agenda alone is too narrow to accommodate the expanding expectations of business – expect the focus on innovation to increase in 2013.

Big Society Finally Takes Off

The big society promised by the Tories, will start taking shape as more social enterprises and community based organisations start bidding for work; many will be a collaboration of smaller entities. The outsourcing industry as a whole will see much more collaboration; between smaller and the traditional vendors, between private and public and between various geographies.

This will be facilitated by an increased use of business analytics. More efficiency and transparency within the sourcing initiative is demanded by clientele – this will include new forms of measurement and reporting. Needless to say there will be intense focus on better governance and relationship management.

Public Sector to Get Smart

After last year, when a couple of high-profile public procurements caused major embarrassment, the government will take positive steps to up-skill in governance and relationship management. Outsourcing will continue to be the preferred strategic option, as the government presses on with its quest to reduce its public debt.

Cutting out risk, through more effective supervision and control will be a prevailing theme – but holding on too tight will strangle the value out of a deal. So expect relationship managers to get to grips with a tight/loose approach – government procurers will need to learn from each other, and successful private sector end users in order to make best advantage of the creative tension that multi-party problem solving thrives on. Engaging confidently, able to give and take as good as they get –the next generation of government procurers will stand up and be counted in 2013.

THE ECONOMIST'S VIEW

Glenn Hickling

Communications Manager, NOA

From Micro to Macro

How outsourcing makes economies tick

How does the microeconomic concept of outsourcing affect the macroeconomic environment? That's a big question. Outsourcing is influential in all sorts of ways: productivity, profitability, efficiency, employment, taxation...the abstract concept of outsourcing is a cornerstone of the UK economy. It's certainly here to stay, but can it help steer George Osborne away from the triple dipper? Can it boost the economy sustainably? Who better to ask than a group of economists?



Executive Summary

In the eyes of the Great British public, outsourcing has a poor reputation. The National Outsourcing Association's 2012 research project the *Public Perception of Outsourcing* revealed that a staggering **80percent of the general public do not think the sourcing industry is helping UK PLC**. The general public just does not currently believe that outsourcing helps the British economy, with **only 19percent believing that outsourcing can help get the UK out of recession**.

The man in the street might not recognise it, but economists do. Learned men, who study economic affairs professionally, know that a few high profile failures do not mean that outsourcing per se is ripe for demonisation. **The Outsourcing Yearbook 2013 spoke to economists from Henley, Ashridge, Loughborough and Kingston Business Schools, as well as getting a German perspective from an economist at Deutsche Bank**

- All agreed that outsourcing contributes strongly to GDP, and is a valued contributor to tax – without outsourcing's contribution, it was predicted that the UK would be in serious recession, much worse than this period of negative growth we are currently enduring.
- There was a unanimous opinion that the most common motivator for outsourcing is cutting costs, and everyone agreed that it is a sagacious business decision to concentrate on your core activities and particular competitive advantages
- Everyone agreed that outsourcing generates certain transaction costs and these need to be minimised in order to maximise the efficiencies of outsourcing
- All agreed that outsourcing and associated division of labour is a positive thing in the manufacturing industry – and that the production of added value products and growing exports is the way to grow the economy

The unanimity ended there. It's true what they say about economists not agreeing much, which leads to all sorts of interesting caveats and angles on "The Outsourcing Effect."

The Outsourcing Effect: The Economists' View

Giampiero Favaro, Professor of Corporate Finance at Kingston University, immediately referenced recent research conducted by Oxford Economics, which states that the UK outsourcing market is worth £207bn per year – roughly 8percent GDP – and employs roughly 10percent of the nation's workforce.

Professor Favaro said: "If you look at employment as human capital, the major factor of production, then look at the gross value added by the industry; the outsourcing industry is employing 10percent of the entire working capital, and is creating 8percent of the gross value added. So if you look from an economic perspective, outsourcing appears to be destroying value."

Favaro continued: "In contrast, the manufacturing sector employs only 8percent of the human capital, and is able to create 11percent of gross value. It is creating value. But we should ask ourselves if without outsourcing the gross value of manufacturing would be greatly reduced. "

Roger Martin Fagg, a visiting fellow at Henley and Ashridge Business Schools, and former advisor to the Bank of England said: "Outsourcing has a positive effect on the macroeconomic environment if the outsourcing taking place increases both the efficiency and the effectiveness of the business. You have to have the two for it to be a worthwhile activity. If you've only got one, then you haven't got a sustained position.

"Efficiency is reduction in cost, usually achieved by lowering the wages paid in the organisation – this allows for a profit margin for the outsourcer but it doesn't change the net position of the economy, it just moves things around. However, if the outsourcing boosts effectiveness – being where the activity increases the added value per person per hour – then the outsourcing effect is positive.

"If you look at the data for British manufacturing, up until two years ago, it had managed to increase its productivity by about 4percent a year for 10 consecutive years. Which is a massive turnaround that outsourcing must have played a role in, as this is the period it became most fashionable."

COST EFFICIENCY

Outsourcing, done well, will save you money. But you must retain control – through strong governance – to maximise efficiency.

Divide and Conquer = Productivity Booster

Which raises the question; would companies in the service sector benefit from increased use of outsourcing? After all, economists do tend to favour division of labour as a route to improved productivity. As Thomas Meyer, an economist at Deutsche Bank said: "Upstream and downstream companies are becoming



more important in the production chain. Division of labour and specialisation are rightly regarded in economic research as the cornerstones of productivity and prosperity."

Meyer went on to compare outsourcing and vertical integration (where all the companies in the supply chain have a common ownership) declaring that outsourcing seems to create competitive advantage. He said, in his whitepaper 'Division of Labour Gives Competitive Edge': "In keeping with this idea, European firms reduced their degree of vertical integration by about 1.5 percentage points between 2003 and 2007. A vertical integration that was 1 percentage point lower in 2003 is statistically associated with 5-10 percentage points higher earnings growth (cumulative) in the following four years.

"Disintegrated production thus delivers a competitive edge. With outsourcing, it is also a matter of the right degree, striking the right balance between specialisation benefits on the one hand and transaction costs on the other."

EFFECTIVENESS

Make your freed up resources count – reallocate wisely. Launch projects that will create revenue. Hire good people, who will make money.

There's No Such Thing as a Free Cost Reduction

Anthony Mitchell, a Professor in Operations Management at Ashridge Business School said: "The motivations could be multifarious but the usual starting point if we're honest is to reduce costs: often labour and then associated overhead charges. So, particularly when moving activities, what they're doing is restructuring or reorganising their value chain. This raises issues of responsibility and the extent to which the company doing the outsourcing retains some kind of control."

Transaction costs – such as those arising from supplier selection, putting the contract together and policing / enforcement – need to be minimised in order to contribute to efficiency. But commit too little, and it might cost you your desired results. It's a balancing act.

Giampiero Favaro said: "An outsourcing decision generates a level of cost for a company: the cost of negotiating, the cost of monitoring and the cost of supervising external contractors. If these costs are lower than the costs saved by the outsourcing of certain activities the decision should be "go for it." You should free up resources that can be focused on your competitive advantage, which can have two kinds of perspective: if a company is engaging in a very highly competitive market it can reduce prices, to be more competitive that way. In less competitive markets, it can also concentrate its resources on its key competitive advantage, whatever that may be. Both those outcomes should end up with companies being more competitive and more productive."

Your Competitive Advantage is Exactly That: Yours

Which, on the face of it, seems like everyone's a winner. But Favaro offered a caveat: "Do not outsource something that is a competitive advantage, and do not outsource competencies that are not core but very important. It is very difficult to make the decision about that, usually it's trial and error because companies often do not really understand what the customer really values. Sometimes banks believe that a customer stays with a bank because they get something at the end of the year e.g. a free calendar or 0.1 percent more interest. But it could very well be the case the customer stays with the bank because the people on the other end of the phone understand them. This level of competency should not be outsourced. The contact between the bank and the customer, the clarity, the efficiency, the promptness of the customer service, is not a core asset in that it doesn't generate additional income. But the core competency in any business plan will always be to retain the customer. It's about recognising what is core."

Further to his comments about effectiveness, Roger Martin Fagg said: "Companies must be absolutely clear on what I call their value chain, and the value chain is – particularly in a service company – where the moments of truth happen. Take an insurance company, you only know it's a good company when you have to make a claim, and if the procedure that the individual has to go through to make that claim is long and torturous because it's been outsourced to a number of subcontractors, generally speaking that company has lost a customer for life. I've experienced that. There are plenty of examples out there where outsourcing has not increased effectiveness, it's reduced it."

Given that efficiency alone does not aid the economy, it needs its opposite number, effectiveness, to drive genuine value. So what can outsourcing companies do to ensure that efficiency boosts effectiveness: so that by doing things right, you can do the right things (to paraphrase Peter F Drucker)...

TRANSACTION COSTS

Transaction costs are unavoidable but controllable. Do a full audit of these before entering into a deal, to avoid any nasty surprises later on.

Do The Right Thing

Ilan Oshri, Professor of Globalisation and Technology at Loughborough School of Business and Economics, said: "When it comes to the contribution to the UK economy from an efficiency point of view, then the common conception is that outsourcing contributes to efficiency by allowing the corporate to focus on core capabilities or processes, and outsourcing those that are considered to be non-core. By and large this is true, but what we are seeing now is the relationships between core and non-core capabilities is becoming more and more complex, as we see value chain integration increasing. Firms are now highly integrated,

particularly when it comes to the effect of one function on another. There is a belief that the UK economy is still fixated on looking for cost efficiency rather than leveraging on the relationship that they can build with their outsourcers. I think this is a myth in itself because many of the vendors that we have studied were able to actively deliver far more than just cost reduction to their customers."

He went on to detail an example of this – where an outsourcing supplier was keen to help an organisation to add effectiveness in areas of their business other than their contracted service line. "IBM has an approach to teach innovation, it's part of the service contract. And the way that they do that is not necessarily related to the service but it is about innovating for their clients the business side. A good example is a solution that IBM developed for Novartis, a pharma company involved in the area of supply chain management of anti-malaria medicine. The contract with IBM related to IT service infrastructure. But they routinely made enquiries as to whether there were challenges that IBM could engage. It put together a group of graduates to look into proposing solutions, and came up with a novel solution involving mobile devices to communicate inventory levels of malaria medicine in extremely remote locations such as the Sahara desert. That's just one example."

KNOW YOUR CORE

Work to truly understand your core – assess where your competitive advantages are, outsource the rest. Division of labour is a cornerstone of productivity and therefore, prosperity.

Shooting For The Moon: Aim For Higher Value

Letting your outsourcers innovate on your behalf seems contrary to the comments of CK Prahalad – the distinguished Professor of Corporate Strategy at the University of Michigan – who contended that outsourcing did not contribute to innovation, and did not look to create the next generation of products: the inventiveness of its products being a key differentiator for any firm. This seems to fit with Giampiero Favero's opinion that you should not outsource your competitive advantage, and you cannot simply buy in success.

Or can you? Maybe you can outsource some aspects of invention. As Anthony Mitchell says: "What we're seeing with outsourcing, is a move into higher added value research and development, higher added value production, higher added value software development and so on and so forth."

Which, for many companies of course, is core activity, but enhancing capability in these areas is essential if the UK economy is to grow.

Roger Martin Fagg said: "If we take outsourcing as a whole, if it allows British business to increase its efficiency and effectiveness, in essence through time it should grow our share of world exports.

"But it takes time: I would say that the benefits of efficiency and effectiveness, if they're in a growing business, will certainly take five to ten years to be established in a global market. If you compare Britain and Germany, Germany has products with low price elasticity but Britain has services with low price elasticity. We have competitive advantage i.e. price inelastic positions in aerospace, pharmaceuticals, automotive design and in quite a lot of high intellectual content technologies like digital media and computer games. And also, what we can call high end financial services: London law firms who do international trade, legal stuff, plus the City of London that has 40percent of Europe's foreign exchange trading."

Creating products and services with low price elasticity of demand, that is, products which are still in great demand even when prices go up: competing on quality, rather than price should be a priority for the UK. That way we increase the profitability of our exports, which in turn creates tax revenues and, crucially jobs, which naturally stimulates demand for goods and services produced and consumed in the UK.

MORE THAN CASH SAVINGS

The expertise that saves money – can make you money. Or impress your customers, and improve customer retention. Invite your outsourcing partners to suggest innovations.

Job's a Good Un

Another key parameter by which to judge the outsourcing industry is its effect on the jobs market.

Giampiero Favaro said: "In the labour market, we have to view that as a net balance because there are two kinds of outsourcing. In terms of labour it depends if you are an outsourcing company, you contribute to the labour pool by increasing it. If you are a company which outsources offshore you decrease it. But this can generate job losses that can actually improve the value of the corporation. By reducing costs to become more competitive, therefore your productivity will increase, therefore you should sell more and your profitability should go up. Then maybe you might reinvest, hire more people onshore."

Whenever a conversation turns to outsourcing's effect on the jobs market, the conversation inevitably turns to offshoring. But it's worth remembering that outsourcing is the second biggest aggregate employer in the UK, providing work for around 10percent of the UK labour force: every morning over 3 million people get out of bed, brush their teeth and go off delivering services for other brands. Which is a very positive contribution to the economy, not just in terms of increasing the pool of taxpayers, but other factors such as benefit payments not required, reduced strain on NHS budgets as health levels improve, more money to spend on the High Street etc.



Award-winning partnerships

At arvato, we measure our success through the success of our clients and we're pleased this has been recognised through numerous industry awards in 2012.

Our partnership with Microsoft won BPO Project of the Year at the EOA Awards.

At the NOA Awards, our partnership with Sefton Metropolitan Borough Council won the inaugural Outsourcing Works Award for Delivering Business Value in Outsourcing.

We believe our approach to partnership, based on effective engagement, is one of the reasons we continue to win clients and awards.

Get in touch to find out how we can help you succeed www.arvato.co.uk/NOAYB



But it's not all rosy: Roger Martin Fagg claims that average wages are actually lower due to the concept of outsourcing. "Outsourcing historically has been beneficial to the economy, for example, in the case of the UK manufacturing industry, where the outsourcing is of low added value activity. But the effect of that outsourcing has been to depress wage rates for un- and semi-skilled employees, and that therefore it makes the organisation more financially efficient, but from the economy's point of view the benefit is not that great, if any, of an improvement in cost efficiency alone."

PRODUCTS MAKE GROWTH

And growth makes jobs. And jobs make wealth. Investing wealth makes growth. Invent something.

Necessity is always the mother of invention: now invention is a necessity in itself, as invention is the founding father of growth.

Skills, Glorious Skills: The Enemy of Unemployment

Fagg continued: "If the outsourcing is to a business outside the UK and if labour cannot be transferred to a higher added value activity then outsourcing reduces overall what's called nominal GDP growth. However, if the labour can be released to a higher added value activity, it increases it. Now, the next thing we need to look at is outsourcing within the UK. If the outsourcing takes place within the UK and it does allow a greater specialisation for division of labour it will increase added value per person per hour, so it is hugely beneficial if it does that."

But this assumes that people can be moved into higher value positions. And the reality is, more often than not, they can't. Although work is on-going to up-skill the labour force, bringing back technical colleges and apprenticeships.

This skills gap, according to Roger Martin Fagg, is leading to offshoring. "employer surveys are showing that yes there's a lot of people available for work but most of them don't have the right attitude or skillset or both, which of course raises the point that there will be some British businesses that outsource to an overseas country out of desperation."

Offshoring and unemployment go hand in hand. But, as Fagg says, "There is a need to distinguish cyclical unemployment which is due to a lack of demand, and structural unemployment which is due to the wrong mix of skills. At the moment, particularly amongst young people, the unemployment level is, in my opinion, probably 80percent cyclical, 20percent structural and so when credit begins to flow again that cyclical unemployment falls away quickly. A lot of young people are unemployed at the moment, not because of a lack of skills or indeed because of the wrong attitude, they're unemployed because finance directors are sitting on £ 600 billion cash reserves."

Ashridge's Anthony Mitchell says: "I think we've got to improve skills levels, we've got to change our education system. Spain is encouraging vast numbers of young people to go to university and do non-academic subjects – I believe this is foolish. I think it would be better having more technical and craft and other forms of skilled training. We've got to find ways of making it easier for small/medium size enterprises to borrow money and to grow. I think there needs to be lower restrictions. But if you look at the costs of employing people in Britain it's quite high – national insurance costs and so forth. It needs to be easier to have more flexible workforces and in some cases, we've got to start paying more reasonable sums in wages. To attract the right sort of people, at the higher end of IT, engineering, building, construction, design to stop people going abroad. You know, I think it used to be that if you graduated in a technical subject or engineering subject back in the seventies or eighties you saw, kind of, Europe or the US as your future career path. People now increasingly see South-East Asia and so on as perhaps future growth areas. If we want to retain talent back in the UK, wages in those areas need to rise."

Roger Martin Fagg had his own take on addressing the skills deficit: going back to the old fashioned way, hiring somebody because you like the cut of their jib. "It's happening because the companies in question are doing more and more of the skilling in-house. So, what they're saying is we'll employ someone for the right attitude and then we will create the skillsets."

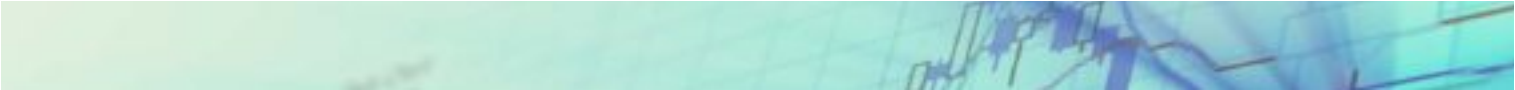
BOARDROOM COURAGE

Banks must lend, FDs must spend. Investing in aggressive growth strategies – particularly in SMEs, the backbone of our economy – is the route to growth. Resumption of normal lending is the ONLY way forward.

Banks. Are. Ruining. Things. For. Everyone

Fagg also commented around the problem of lending, as raised by Anthony Mitchell: "What's holding us up are banks, and the fact that they're destroying money by not lending it out. That is the fundamental problem. It's not normal. Once banks get back to normal which is about five years away at least then we'll begin to motor a bit harder. In the meantime the only way Britain can grow is by selling more to the third world, in the previously discussed areas of competitive advantage."

But German Thomas Meyer was largely impressed with the UK's efforts: "One of the remarkable things in the UK, I find, is the resilience in the labour market. Despite all that's going on unemployment is reasonably okay so far. It's not much higher than in Germany. It's a lot lower than in many other European countries. You have your own independent monetary policy that helps a lot. What you clearly would need to do is to go for higher productivity and that can be done by promoting industry, it can be done by all sorts of traditional things; education, research and development



etc. but of course that's not a short term fix, it's a long term strategy. But I do think the UK is doing quite well, in all these things. You could try and increase the share of industry, because industry tends to have so much higher productivity than lots of the services – but again, that's not something that could be achieved in 5 years' time."

A five year time frame for economic improvements is being suggested all too often. Is anything happening now, to create jobs and growth in the UK. Or is everybody merely waiting, contemplating and pontificating as to when things might get better?

SKILL SHIFT

Effective economies have the right mix of skilled people. The skills are within the companies. Find some people with can-do attitudes and mould them into your corporate image.

Repatriation Strategies: a Coming Trend

The potential for repatriation of BPO and manufacturing work will continue to be a hot topic throughout 2013.

Anthony Mitchell said: "Offshoring has now taken on a political dimension – there is a growing belief that priorities should be given to creating jobs and preserving jobs at home. I think it started in the US. It's been a major thing in the recent presidential elections with Obama criticising the Republicans for a lot of their initiatives in the past. So, governments have actually been giving money to businesses to encourage them to bring work back and set up new plants in America. Now we're seeing 'insourcing' in Britain to some degree. There's been examples in France, like Meccano coming back from China. It's still a trickle really; it's not a definite trend. But there are examples of business being brought back into the UK from Asia, across a whole range of domestic appliances, office equipment, vacuum cleaners, industrial machinery, Yorkshire for electronics and cables, miniature railways, computers to Nottingham, jewellery manufacturing to Birmingham and so on."

Roger Martin Fagg agreed, but went further, advocating insourcing as a definite trend. "You'll know quite a lot of companies are insourcing, they're bringing the activity back into the country. I'm certainly seeing it in manufacturing in a big way, as a number of things are happening, particularly if you look at Asia: on a price quality basis certainly China is losing its competitive position and on a total cost/effectiveness basis companies are saying, "I'm gonna have it made in Birmingham or Leeds or Manchester".

Ilan Oshri confirmed the trend, but warned that companies could be 'back sourcing' for the wrong reasons: "a study that we did we Professor Julia Kotlarsky showed 40percent of the companies surveyed are doing back sourcing and the vast majority of them are doing it because the offshoring hadn't realised the value it was supposed to deliver. Unrealised value is not necessarily the right reason to backsource. First, you have to build the capabilities in house to ensure that you are capable

of back sourcing and you are still running a professional service organisation internally."

The moral of the story appears to be: backshoring can win you friends, but don't rush. Ensure that the plan that replaces the offshore activity is going to compete, in terms of efficiency and effectiveness, and that you are ready to deliver stronger results on home shores.

How Outsourcing Affects Share Prices

Anthony Mitchell said: "They've had a number of studies over the years which suggest that in the very short term if companies announce an outsourcing or offshoring decision their share price will go up. A study commissioned by Logica, now part of CGI – The Outsourcing Effect on Stock Price – suggested that when companies announce an outsourcing or offshoring decision, their share price will go up. Benchmarked against other companies in their sector, the short term benefit is touted to be performing 1.7percent better after an outsourcing announcement.

"Five out of seven sectors studied found that outsourcing benefits their stock price. The large assumption behind this is that there will be a reduction in costs and an improvement in productivity because the business is focusing more on its kind of core activities.

Giampiero Favaro said: "There has been a lot of effort trying to measure the impact of outsourcing in terms of accounting performance, but it's impossible to isolate the value of outsourcing. Looking at the reaction of the market when a company is announcing an outsourcing decision, it is clear that the outsourcing of non-core assets generates increases in the valuation of the company. There is no doubt about that, it has been proven by a number of studies."

Despite Loughborough Business School's work that suggests that 40percent of offshoring deals are not delivering the expected value, the market still appears to favour it. Favaro said: "There are some differences according to what kind of outsourcing is announced. If the company announces that it is outsourcing offshore the market reaction is generally positive. If they're announcing that the company is outsourcing in the same country, the market is neutral and doesn't seem to care.

"Another specificity is related to the duration of the contract. Apparently if a company announces a long term outsourcing the reaction of the market is wary, because they want to wait and see. If the company announces a kind of short term, flexible outsourcing contract, the reaction of the market is positive and this basically tells us that the way that the financial market is looking at outsourcing, it is more looking at flexibility and the ability to change, as required. So the market likes flexibility, and is a little bit sceptical when long contracts are announced.

"So, for example, if I am a company making cars and I announce that from now on my steering wheel is going to be done in China the reaction is positive. If I announce a long term outsourcing contract for engines, for example, the market reacts in a different way because everyone wonders how much of your technology are you giving away?"

Roger Martin Fagg said: I think you have to look at the difference between FTSE 100 companies and the rest of the market. If we take FTSE 100 companies, if outsourcing increases efficiency in the short run that will boost earnings per share which will boost the share price, but that effect may only last for two or three years because after that period a lack of effectiveness will show up in top line revenues – then you get a reversal in the share price. Now, if the outsourcing increases efficiency and effectiveness it will continuously boost the share price. But in so many cases it just increases the efficiency which gives a short run boost but then the company runs out of steam."

SHARE PRICE

Short flexible deals boost share prices. Keep your outsourcing agile to impress the market. Keep your governance strong to ensure they stay impressed.

Does Outsourcing Work for UK PLC?

Anthony Mitchell says: "I think in recent years it's helped us. We've managed to shed activity where we've been fairly inefficient and not productive. We've been able to focus our value chain more clearly around higher value activity. We've seen this huge shift in the UK towards business services; so lots of new work and areas have been created around engineering and outsourcing facilities management, IT sourcing..."

Ilan Oshri added: "Outsourcing Works when it comes to a sophisticated customer that develops a contract that is not necessarily perceived to be transactional, but is seen as relational but with transactional elements. When both sides benefit from outsourcing then clearly I can see that UK PLC benefits from outsourcing."

The Oxford Economics Research states outsourcing employs 10percent of the working population, and generates roughly 8percent of GDP. Which, as previously mentioned, is a value gap. But it's not all bad; as Giampiero Favaro says: "The way I look at that is first of all there is a gross value produced which is very important and outsourcing is performing much better than retail, for example, which employs 15 percent of the human capital of the UK, and creates only 11 percent of value added."

Yet, the manufacturing sector is known to outperform its human capital: employing 8percent of the people to create 11percent of the value. This is because the best way to add value to an economy is to make things, and sell them abroad. Products and intellectual property that can be sold again and again. Your time can only be sold to one user at a time.

Over exposure to the European market has resulted in reduced exports. The answer is to find higher value, price inelastic products to export to growing markets: BRIC countries are the ones with money to spend. The UK needs to get out there, touting its wares.

Where we have competitive advantage, we should make the most of it. Industries where we are at the cutting edge include computer games, aerospace, pharma and many more. Increasing the division of labour in these areas could lead to greater efficiency, and more resource for new product development, which is the answer to sustainable growth, as it creates demand from outside our own economy.

Another area where we are in demand is outsourcing knowledge. UK outsourcing consultants are internationally renowned for their knowledge, experience and wisdom. The government needs to take steps to spread this message abroad, and create more demand from abroad.

We know outsourcers can bring savings. These companies need to impart the skills and knowledge they use to create these savings to help companies be creative with their freed up resources.

Ilan Oshri says: "As well as cost savings, there will be learning and there will be relationships that will allow UK firms to tap into knowledge bases to learn about advanced methodology and to see how the relationship develops as the company progressing in terms of entering new markets, thinking about new products and the like.

GLOBAL STRATEGIC HUB FOR OUTSOURCING

Due to its breadth and depth of experience, the UK has an enviable skills base in outsourcing consultancy. Positioning the UK as the global strategic hub for outsourcing advice should be a key growth strategy for the government.

Making Things Better

Outsourcing companies should take a stand – the only way they can assist the country out of recession is to use the expertise they have to educate customers on the best ways to reallocate resources and develop new products. That way, we, as an economy can have effectiveness born out of efficiency.

Roger Martin Fagg suggested that outsourcing has depressed UK wage levels. But low wages go hand in hand with low inflation, which we will certainly need if we are to create a period of economic stability where insitutions can invest confidently.

The biggest single factor at play is fear. Finance Directors at big companies need to show courage, by get off their £600bn cash pile – create some products, create some jobs and create some demand, at home and abroad. That's effectiveness in action, working for the economy. To create the best possible opportunity to be effective, you need to be efficient. And to maximise your efficiency, you need a strong ethos of division of labour – the most direct route to that, you guessed it: outsourcing.

vertical case studies

Quite simply, outsourcing delivers results. It's a proven tool in improving business performance and transforming customer services across a variety of vertical sectors. In this section, we get under the bonnet of several outsourcing partnerships to see how the collaborative projects ensure success.



VERTICAL CASE STUDIES

Rupert Hodgson,
Editorial and Communications,
sourcingfocus.com

Public Sector Case Study: Department for Work and Pensions

Rupert Hodgson interviewed John Micalkski, Head of Strategic Sourcing and Commercial Directorate, Department for Work and Pensions, and Dave Welch, Commercial Directorate, Department for Work and Pensions, over the Department's ground-breaking welfare-to-work programme.

The impact of the global recession in 2007 has forced governments to reshape services as part of strategies to combat reduced budgets and public sector demand. Throughout the world countries are facing the strain of recession including low employment. The UK government has taken an innovative approach to reducing unemployment and returning people to work.

As a major department the Department of Work and Pensions (DWP) works with large numbers of individuals and resources, handling amounts reaching as much as £160 billion in payments alone. The Department heavily employs outsourcing to carry out numerous non-essential activities while concentrating on providing key functions.

Contracts for outsourced services now account for around 39 percent of running costs for the Department. The DWP outsources assessment services, including its cutting-edge welfare-to-work programme, to a wide variety of companies. From the leasing of all DWP estates and site locations including over 860 Jobcentre Plus locations, to the complete outsourcing of all IT systems and software within, the Department carries out outsourcing widely throughout the organisation.

The DWP's key outsourced welfare-to-work project (titled Work Programme) has been involved in stimulating the economy by reducing the numbers of people requiring benefits. The global recession has placed heavy demand on the Department's role in placing people within jobs, particularly from long term unemployment. The project is the DWP's current major outsourcing contract and was launched in June 2011. It is valued at around £650 million a year, generating estimated savings of around £250 million.

Procurement Approach

The Department of Work and Pensions deals with huge levels of resources and cases, working with over 100,000 people and amounts totalling billions of pounds yearly. The DWP also maintains one of the largest contact centres in Europe with over 15,000 people working for the Department within contact centres, which provide services including job finding support services, benefits and vacancy lists. Because of the huge scales involved, it can be a challenge to find suppliers who are able to deliver services on such capacity levels.

The Department employs a tower approach in the procurement of services, looking to employ suppliers who have already been awarded past contracts and that have established a record of competence. When looking to outsource the boundaries that the DWP imposes on contracts are very fluid, determined on a case by case basis and free from intrusive oversight.

To Make or Buy

In the past the DWP mainly outsourced support services but has made a pioneering move as a public sector organisation to outsource core services in recent years. The move to outsource services is based on a highly innovative make or buy business decision, judged on the analysis of if services are better delivered in-house or from an external supplier. DWP's employment of outsourcing revolves around the promotion of value for money, all decisions regarding which services are to be outsourced are assessed and approved by an executive decision. Decisions are based on a pragmatic, objective and balanced evaluation of all factors relating to delivery of the service. All areas are looked at and separated between department retained core policy and which areas have outsourcing potential.

Choosing Suppliers

DWP supplier selection decisions are influenced by factors based on various sets of conditions determined by the Department, wider government policy through to European law. For each potential outsource service a commercial strategy is created with the best-value options assessed.

During these first stages in the procurement process, the Department decides on what outcomes is desired from the outsourced programme. How the DWP assesses its outsourcing requirements depends on the individual nature of the services. Head of Strategic Sourcing and Commercial Directorate, DWP, John Micalkski described how: "If we're dealing with very vulnerable people, that would look very different to if we're outsourcing our requirement for energy." The DWP is frequently involved in working with vulnerable people in the course of its

core role, such as medical-assessment testing and working with individuals who have left custody, these vulnerable groups effect what areas of DWP's services can be outsourced and who it chooses to outsource services to.

If the correct conditions exist the procurement team will advise on the best option within the market. Due to the sensitive nature of the data routinely handled by the DWP, when services are outsourced that involves sensitive information, "you need to make sure you've got those assurances about data, and personal protection covered", said Dave Welch, Commercial Directorate, DWP. Assurances must be made to retain data control and ensure that in the process of outsourcing, physical remoteness to such valuable data does not raise issues of reduced control which can lead to value leakage.

Departmental Cross-Sharing

The DWP has been at the forefront of government cross-sharing initiatives involving the sharing of services and establishing close ties with other governmental departments. John presented an example of cross-sharing to reduce costs, increase delivery times and increasing quality of service with an example of bereavement, which in the past had required relatives to contact multiple government departments but now require only one phone call.

DWP cross-shares information across government departments, this includes patient records and criminal convictions. Cross-sharing presents a challenge to all public sector departments and has required a new and developed approach in commissioning contracts out to ensure that sharing is effective in developing its services. The DWP is increasingly looking at the size of contracts undertaken. John described the Department's attitude as: "what's increasingly important for us is getting that balance between, do you go for a big national contract, or do you go for something a lot smaller". He added "if you drop down to that local level about people needing help and assistance, quite often there's no point getting in the big Capita, Serco organisations. You need a combination of partnerships where those local niche companies can be mobilised."

The Department has a strong focus on working with small and medium-sized businesses, including more than 300 local and charitable organisations. These groups are well represented in the welfare-to-work programme, due their inherent expertise in local knowledge, employment assistance and being experts in specialist fields.

Creating the Market

The DWP has been involved in developing the market in specific areas in order to create the necessary skills and service levels for certain projects. The Department's role has been unique in creating a new innovative market to provide the requested services. Both the welfare-to-work and medical assessment projects have involved the input of the DWP to develop new markets in areas that had not existed. The scale of contracts awarded and the nature of being a public sector department allows the DWP to come to the market with a problem and develop the market to provide the necessary service. John highlighted the Department's caution in developing new markets, "in order to avoid the creation of monopolies while promoting

a competitive and innovative marketplace." This is particularly important in the welfare-to-work programme where a multi-sourced contract was employed to promote supplier competition.

Welfare-to-work framework

The Department of Work and Pensions Work Programme pioneers a new approach in allowing providers increased freedom to deliver support to individuals and helping them to return to work. The programme is also designed to provide increased cost savings by basing payments on results. welfare-to-work makes payments to suppliers through the fund allocated for benefits rather than from the overall operational budget, calculating supplier payments from savings gained from reduced benefit claims.

The Work Programme is the first time a public sector project of its kind, in terms of scale, scope and payments by results has been created. The six month payment clause was introduced by the DWP to ensure value for money and prevent contractors from finding limited short-term placements. Suppliers are awarded on an outcome delivery basis with payment only given after work placements of six months, with John describing the process as: "if you get a person into work for six months, we will pay you, and we'll pay you for two years, paying you what we would have paid that person in benefits approximately".

The DWP welfare-to-work programme as a multi-sourced supply project is divided between 18 prime providers with several different suppliers competing against one another within each geographical area. The welfare-to-work contract is unique in being one of the first contracts based purely on outcomes, this presents unique challenges in the way that the contract is managed and delivered which is further compounded by the scale of the project and the involvement of vulnerable individuals.

John described how in the past contractors would provide a service such as CV skills to applicants and then proceeded to lose interest after delivery: "It didn't matter to them whether they got a job – they just did an activity". In mobilising the market to one that would provide services on an outcome based solution, the DWP established a highly innovative outsourcing project.

The contract takes a 'black box approach' to examine the varying levels of functionality and understand what the service is delivering without being interested in how the service is delivered. This approach is described by John as giving contractors freedom in meeting targets within a broad remit, saying: "we don't actually mind what you do, you can do CVs, you can do whatever you want, you've got to work out what that person needs. What we'll do is we'll pay you, if you get them into work and they stay there, and they're in work after six months, and continually after that – we'll then pay you monthly."

While the black box approach was designed to promote innovation through freedom of experimentation and allow for low entry requirements for small businesses, the DWP set minimum standards to ensure that contractors would provide services that would benefit all applicants. Minimum standards prevented suppliers from picking and choosing the most viable candidates while ignoring those who were less likely to find long term work. This was reinforced by segmenting individuals into different groups, classified based on their situation such as the long-term

unemployed or recent school leavers. Different groups would be worth different amounts based on the expected time and difficulty in finding placements for six months or greater.

SME Support

The welfare-to-work programme encourages the main suppliers to employ SMEs as sub-contractors or partners. These prime suppliers are harnessed to provide supply chain management and organise the range of smaller sub-contractors sitting beneath them in the supply chain.

Behind the 18 total prime suppliers are around 860 supply chain partners involved in all aspects of the programme, a large percentage of the supply chain partners consist of SMEs. SMEs are integral to the welfare-to-work programme, making up an extensive percentage of all placements and fulfilling the government's aim in supporting SMEs. The project supplier contracts are awarded based on factors including promotion of engagement with local communities including developing local supply chains with primary suppliers offering sub-contracts to local suppliers.

Suppliers who successfully tender for the welfare-to-work contracts have to achieve a Merlin Standard as part of the contract. The standard for prime providers is designed to promote supply-chain commitment encouraging suppliers to employ and maintain relationships with local and small local contractors. Independent individuals are involved in maintaining the Merlin Standard, acting as a midway between supplier links in the chain and involved with any communication issues while mediating in relationship breakdowns and dealing with complaints.

Project Challenges

One of the challenges of the project was the need to stimulate local businesses while retaining the commercial benefits of a large scale project delivered at a national level. Another key challenge of the DWP contract is the challenges of the outcome stipulation. Third-sector organisations including SMEs and charitable organisations can struggle to deliver these outcome based results rapidly, needing steady cash turnover in order to run. Such obstacles created as a result of the multiple small organisations involved, can be mitigated through the support of prime contractors. This can be achieved by the larger prime contractors providing finance to the smaller sub-contractors in order to establish a regular pay flow rather than single outcome payments.

Other risks inherent to the programme include the danger of fraud with thousands of individuals going through the programme. The DWP has faced past criticism regarding effective systems to combat instances of fraud including a focus on supplier A4e. In order to combat potential cases of fraud the DWP employs a detailed IT system to control users within the system including individuals in work placements. The system involves checks against other departments including cross-sharing with HMRC, local authorities and employees, returning records regarding those entering placement for approval by the Department. This includes a team dedicated to fraudulent activities, in certain cases this can involve on-site checks to ensure that workers are situated in the stated placement.



Supplier Strategy

The DWP, in seeking to promote relationship development with strategic suppliers, employs a Strategic Supplier Relationship Management (SSRM) Strategy, entailing:

- Align the objectives of strategic suppliers to DWP's overarching vision for delivering the change programme
- Drive efficiency gains and performance improvements with our strategic suppliers through collaboration, innovation and joint risk management
- Stimulate innovation and collaborative working to deliver improved services to citizens and increase value for money
- Maintain a holistic and coherent view of the Department's strategic suppliers
- Enable DWP to become a "customer of choice" for the supply base

Project Results

While in the short-term the programme will not deliver large cost savings, the welfare-to-work scheme will start to produce efficiencies over a long-term timeframe. The programme in placing people within work provides other benefits apart from reducing the strain of benefit contributions, including social and health advantages that is linked to employment. This in turn reduces the strain on public health services and strengthens the UK workforce.

The Office of National Statistics has reported the biggest quarterly fall since 2001 with unemployment falling by 82,000 between August and October in 2012, while Jobseeker Allowance claimants fell by 3,000 in November in the same year. The reduction of unemployment figures despite the impact of the global recession points towards the success of the DWP's welfare-to-work programme.

In a recent government report detailing preliminary results from the first year of the Work Programme, more than 50 percent of individuals who had entered into the programme had spent time off benefits within the first few months. The report revealed that more than 200,000 jobs have been started by Work Programme participants in 2011/2012. The DWP has also

announced proactive monitoring of supplier performance in order to consistently drive provider targets and develop standards. It has also announced that suppliers who repeatedly fail to meet DWP standards will eventually be removed.

The first figures on the success of the welfare-to-work programme were published at the end of November. These figures while only providing early numbers showed that more than 56 percent of the scheme's earliest participants have come off benefits, from June to September more than 200,000 participants had been found some work.

Mark Hoban, Minister for Employment, said of the figures: "The Work Programme is succeeding in getting people off benefits and into work. It's still early days but already thousands of lives are being transformed, adding, "One in four people have been in work, more than half of the early starters have been off benefit and performance is improving, in the UK's working population."

While the project is already generating predictions of large-cost-savings, with amounts of around £250 million expected, the total benefits of the project are hard to quantify. Cost-savings are just one side of finding work placements for the unemployed, civil benefits from successfully gaining a job include greater health for workers and family units, improved social cohesion, and skill development, all of which can help to provide economic stability and development.

Conclusion

Despite its relative infancy the DWP Work Programme has already generated significant cost savings and strong results in returning people to work within the project's first operational year. It is too soon to really judge the overall success of the project, but early results show strong promise. A project such as the Work Programme provides greater benefits than purely cost savings, through strengthening local communities, helping at an individual level and enhancing economic growth. As a revolutionary outsourced public project in both scale and as a multi-sourced supply approach to procurement, the DWP Work Programme remains one to watch over the coming years as an example for future innovative modern public services.



VERTICAL CASE STUDIES

Glenn Hickling
Communications Manager, NOA

Thames Water and Efficio

No-one understands the outsourcing relationship between Thames Water and Efficio consulting like Ian Bolger – as the former Head of Supply Chain at Thames, he led the outsourcing strategy development and was TUPE'd across to Efficio with his core sourcing staff. This has placed him in the perfect position to discuss the challenges and impact that the deal has had on Thames Water's procurement capability. Here's Ian's story...

Flushing Out Waste-cost Through Smarter Procurement

Thames Water is the UK's largest water and waste provider, serving the capital and over 13 million customers, through a 140,000km underground network and 2000+ plants, processing five billion litres daily. Procurement has a full remit accountable for an annual operational spend of £500m and a £5bn year capital investment programme. As a regulated utility, its revenue and cost base is set every five years by the regulator Ofwat. With no opportunity to grow "top-line" revenue, cost-efficiency is mission-critical.

A 2010 strategic review revealed some crucial weaknesses that needed to be addressed – increasing demand for procurement support; a prevalence of complex projects requiring significant business change; pressure on headcount and budgets; the need to flex resources up and down to meet fluctuating demand; and a potential retention risk in the core senior procurement staff leading circa 70 percent of savings. "Project Turbo" was established, led by procurement with a full cross-functional team sponsored by COO and CFO, with the aim of implementing an accelerated transformation of the procurement function, with the objectives to make an immediate "step-change" of procurement's agility, capability and capacity, creating a sustainable, flexible solution to delight all stakeholders.

The targets were bold:

- 20percent reduction in operating expenditure, with a high dependency on procurement driven savings which comprised 30percent+ of total operational savings
- Significant additional efficiency gains in capital procurement (making a cumulative 30percent+ improvement vs the previous five year regulatory budget period)
- Strategic make/buy reviews required on many departments and activities; strong requirement for complex business process re-design

Efficio Consulting

Thames Water challenged the most innovative outsourcing suppliers to help them create a new delivery model, one which would provide them with complete resource flexibility and ensure the service provider had significant stake in the successful delivery – aligning interests. Efficio Consulting, developed a powerful transformation model, and were awarded a five year contract in February 2011, which involved the transfer of 21 Thames Water sourcing staff on April 1st.

Transferred Thames Water staff work in integrated teams with Efficio consultants – located alongside Thames Water stakeholders in their HQ to maximise business relationships. The contract also includes an explicit requirement to develop people and processes so the transformed function could come back in house after five years, if Thames Water so wished.

Efficio now sources Thames Water spend (£2.5 billion spend over five years), utilising its extensive experience of sourcing complex categories. Efficio offers a supremely flexible service,



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A photograph of a man in a dark suit and light-colored shirt speaking at a podium. The podium is yellow and green and features the 'outsourcing WORKS' logo and tagline. The background is a teal wall with a pattern of blue circles of varying sizes.

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where resources can be turned up or down as it suits the client to exactly match demand – with additional resources funded from a gain share of the savings delivered.

The first twelve months were an outstanding success, exceeding all objectives and providing a very high quality of service to internal customers. The new operating model combines the best of both worlds, wrapping high-quality consulting resources around a core of experienced Thames Water staff – doubling resources within weeks, with unlimited additional consulting resource just a phone call away – financed out of the results they deliver. The Efficio operating model, was then tailored to exactly meet Thames' requirements – which took the traditional procurement service providers to the limits of their appetite for risk. The Thames Water ROI is compelling and business stakeholders have highly praised the service.

First Year Results

The best measure of success is the strong endorsement of the internal customers, who can now access "talent on tap" and have renewed confidence that procurement can help them deliver their business objectives, however challenging. 12 months after go-live the transformation has exceeded all objectives:

- **Savings** – running well above contractual targets which were over four times the original internal TW plan (worth an additional £69 million), achieved by rescheduling projects, applying additional high-skilled consultant resources, enhanced sourcing and analysis processes and tools
- **ROI of 6:1** – comparing incremental costs vs. benefits and 29percent headcount reduction
- **Quality** – excellent client satisfaction average 4.3 of 5 on project scorecards and increased "pull" for procurement services
- **Full flexibility** – all stakeholder requests accommodated – resources doubled within five weeks with 19 consultants deployed meeting all business demands for support
- **Sustainable solution** – instead of reducing the core team, Efficio has invested in hiring seven new high-quality permanent staff. The transferred Thames Water staff have excellent morale with four promotions and significant training delivered

Key Challenges to Surmount: The Tender Trap

A major challenge Efficio faced was to change the traditional perception of procurement as 'the guys who run the tenders.' Its consultants worked hard to educate the business about the wider value they could add by breaking the mould of the commercial strategy being decided, and then brought to procurement to actually go out and buy it.

In any project, the opportunity to add value decreases over time. As it was, by the time procurement got involved, there was much less opportunity to influence the direction of travel. Procurers were often excluded from the initial strategic analysis assumptions – this is a missed opportunity to utilise the full skillset available. If it is expected that procurement merely manages the tender process, the predominant skillset is around running a strong process – rather than working closer with the business to

really analyse the "business need" and apply creative commercial strategies. This skillset is often not suited to work closely with the business teams to challenge and influence the strategy.

The Early Bird Catches the Worm

Part of the rationale for outsourcing to Efficio was to add value by getting engaged much earlier in the process. This meant injecting the higher level, consultancy style skillset into the department, giving it much increased capability in analytics and leveraging Efficio's broad knowledge from its work with blue-chip clients in multiple sectors.

Efficio's ability to take large volumes of business data, manipulate and analyse it quickly, uncovered key insights that challenged existing assumptions about how Thames' spend operates and how the supply market operates – in many cases, identifying new opportunities and unlocking complex spend categories.

This frequently involved cost analysis of material and usage in the process – demonstrating that by altering the business process, changing the material used and reducing the overall cost. It is essential to think in terms of total cost. By examining the process, Efficio found that it was often possible to meet the business need, but pay a lower overall cost. That might even mean paying more for a chemical – the unit price might rise, but if that means buying a higher concentration, less is used. Meaning less logistics, less storage, less process handling to get a better cost overall. Previously, tenders usually sought to buy the same service or product configuration – hopefully a bit cheaper. Efficio changed that.

Changing Perceptions Internally – "Walk a mile in my shoes"

As well as more highly developed analytical capability, Efficio also brought in a wider market understanding garnered from working across a variety of sectors. Having a good wide scan of the same sort of applications and issues being solved in multiple sectors allows for different strategies and models to be presented.

A huge challenge is always winning the confidence of key senior stakeholders, particularly where new executives have joined from a business where procurement had a lower profile. Some were initially quite challenging, but once they understand the value procurement can add, they were supportive. Efficio focused the procurement staff on getting closer to the business users, to ensure they fully understood the business issues and were better placed to suggest alternative approaches and commercial solutions.

One area that the Thames procurement team had found challenging was the IT department. They are technically competent, generally understand the supply market and technologies quite well, and often are quite reluctant to involve procurement. Thames and Efficio worked hard to build relationships with the IT team – placing dedicated resources, re-engineering the procurement processes – all aimed at making procurement "easy to do business with". The philosophy is simple – if you can understand what the client's going through, then you are better placed to understand their behaviours and suggest solutions and improvements.

Getting to Knowing You..... and You and You

When consultants come in, they don't know the business very well. They come in fresh, but armed with a skillset where they can learn very quickly. Thames and Efficio formalised a programme where procurement get out into the business more to understand the real issues. Now category managers are more focused outwards into the business, literally spending more time with the function managers, being on site, attending their monthly meetings, they get chance to understand the hotspots and proactively drive the business plan forward.

Efficio also helped to make management staff more empowered to leverage their business knowledge and focus on their core commercial roles. With Efficio taking full accountability for the whole procurement and supplier management activity, the remaining Thames Water senior procurement staff were freed to spend more time with the business, talking to stakeholders and suppliers – rather than managing large numbers of direct reports and other "tactical" time-heavy tasks.

The Right Tools for the Right Job: Now and For the Future

Efficio created a powerful set of analysis tools and processes to help internal business units at Thames Water to identify their commercial opportunities and define the best route to reaching these goals. The supplier relationship toolkit identifies the key considerations, on a case by case basis, in the crucial areas of quality, potential to innovate and service vs. cost. From there, it helps develop a prioritised programme of what needs to be changed, and what actions must be taken to improve things, driving a cycle of continuous improvement. This was an improvement in itself, bringing a commonality of approach and best practice to replace the various ad hoc informal processes from across the business.

As well as improving the processes, steps were taken to help all staff achieve their full potential: The transferred Thames Water's staff and new hires, receive the same personal development support as Efficio's staff. They attend the Efficio training academy, with access to all the same course and resources. Day-to-day, they operate in buddy teams with experienced consultants, learning new skills and sharing business knowledge. It's a powerful symbiotic relationship: the indigenous Thames Water staff know the business inside-out, so by working shoulder-to-shoulder they learn from each other.

Success Tracking: Hard and Soft

A rigorous savings sign off process gets the budget holder and the finance department involved, right from the beginning of the project, to the point of implementation and beyond. When outsourcing there is a strong desire, particularly on the supplier's part, to demonstrate success, so that everyone understands and appreciates the value being delivered.

A year into each deal, the details are handed over to finance, which track the budget over the following 12 months. After that, finance is in a position to conduct a stringent audit – independent from anyone involved in the deal's management – that measures the validity of the savings (and the calculations!).

A set of softer measures are also monitored, to track the benefits of innovation or extra added value. These are not built into the contract, but often provide opportunities to catalogue benefits that business users really value. This process also generates opportunities that will only deliver benefits when they are actually implemented, and they become cost benefits. So, in this way the soft meets the hard – where the innovation hits the bottom line, that's the true measure of outsourcing success.

Staying Relevant: the Next Challenge

Although the first year results were excellent, there is always room for improvement.

Thames Water had a five year business plan, under-pinned by assumptions of millions of pounds worth of cost savings. This was a resource constrained plan – reflecting the procurement department's resources. By engaging with Efficio to enhance its procurement function, Thames Water was able to increase the total of the proposed five year savings by £69 million. Employing Efficio's best practice – its advanced sourcing tools and processes, and by hiring more people, ultimately doubling the team size, enabled Thames to make enhanced savings by achieving savings earlier –i.e. delivering projects scheduled for year three of the business plan, in year one.

But it's not just about results – the way it's done is critical. The very positive stakeholder feedback and an average score of 4.3 out of 5 across over 60 completed projects shows the business value of the new skills on offer and recognises the very professional approach Efficio brings – as much as the end result.

Creating a "fact-rich" analysis of the business spend has proved critical to unlock value and prompt good honest conversations about what needs to change to achieve better value. Focusing relentlessly on creating value for the customer, and at all times treating them as you would want to be treated is key. That's the secret to staying relevant: working closely with the business users to identify value and then delivering it in the right way – making procurement the "first call" made for all issues on cost, service and supplier performance.





VERTICAL FEATURE

Paul Corral, Editor,
sourcingfocus.com

Renaissance Capital: A Global Transformational Journey with HCL AXON

Founded in 1995, Renaissance Capital is a leading investment bank focused on Russia, the Commonwealth of Independent States, Central and Eastern Europe, Africa, and other high-opportunity emerging markets.

Renaissance Capital partners with clients to meet their strategic objectives and evolving needs, with expertise in metals and mining, oil and gas, agriculture, financial services, telecoms, media and technology. Other key sectors include retail, consumer, real estate, industrials, utilities and infrastructure. The bank continues to build and develop knowledge of the markets, keeping clients one step ahead, with the right information and support to meet their objectives.

The bank has served corporations, governments, and investors in more than 60 countries and offers its clients access to markets through the financial centres of London and New York. The bank's investment banking arm provides expert advice, innovation and execution to clients across mergers and acquisitions, equity and debt, capital markets, and structured derivatives.

David Sharratt, Global Chief Operating Officer for Strategy and Transformation, Renaissance Capital, is at the heart of the bank's transformational partnership with HCL AXON. The Outsourcing Yearbook caught up with him for an exclusive insight into the collaboration along with his views on the finance industry and its relationship with outsourcing.

An Evolving Industry

If investment banks were a manufacturing type of industry, they would have all gone bust a long time ago because the inefficiencies in the processing of the system are huge, but they are consistently offset by the margins that have always been attributed to the trading activities.

As the industry starts to move to a central counterparty clearing type arrangement with more exchange trade activities, margins continue to decline and therefore the costs associated with the backend to support that obviously have to go down in line with an organisation's trading activity.

David elaborates: "It's a combination of regulatory activities which is changing the way that investment banks actually trade and the cost associated with the margin compression is a result of that, plus development in the industry means that you've got to get more efficient. I mean if you take a look, as one example, at the electronic trading businesses, we're now measuring our trade execution latency in sub-microseconds. That means purely exploiting the differential between high frequency type trading activities and you have to be very cost effective in a high frequency trading environment. You are literally trading points of a pip and for that to be sustainable, you've got to have a highly efficient back office.

"Ultimately the industry will continue to look at shrinking its cost base in the back relative to the shrinking margins at the front and as well the diminishing flow that we're seeing as part of the market shift – the only realistic way you can do that is by homogenising your processes in your back office and looking to get as much of that process that's currently sitting onshore, offshore."

Transformation through Procurement

In 2010 Renaissance Capital made the decision to start a global transformational journey as part of its plans to improve its return on equity by transforming its front-to-back office processes and systems.

The bank's tender outlined that they were looking for a true partner and one who could act as an advisor to integrate and streamline the majority of back office systems including processing, accounting and settlements.

David Sharratt, Global Chief Operating Officer for Strategy and Transformation, Renaissance Capital, comments: "I think in 20 years in this industry it's the first time I'd ever come across an institution like our's changing front, middle, back, the whole thing in one process and one of the biggest constituents of that was the back office."

Renaissance Capital took seven competitive bids from the market but ultimately agreed that HCL AXON had the expertise and knowhow as well as previous experience in an advisory capacity to lead the transformation. The 2011 Forrester Research report 'The Forrester Wave™: SAP Services Providers', cited HCL AXON as a leader, ranking five out of five for overall client satisfaction. According to Forrester, "HCL has long had a focus on operational and low-cost services in the SAP space."

Cost was just one of the factors in the whole engagement however it was not the most important one. The ability to get the project over the line through the journey of delivery was critical along with a supplier that could be trusted as an advisor

throughout the process. Renaissance Capital recognised that HCL AXON did not stick to the "rigid confines of the traditional vendor/supplier stereotype" and demonstrated a commitment to working collaboratively in key areas.

Once the supplier was decided, Jamey Whitnall, Head of Banking and Financial Services at HCL AXON recommended SAP's bank analyser product which fitted in naturally with the bank's streamlining of systems and processes.

As an SAP partner for over 18 years, HCL AXON had an unrivalled partnership with the market leader along with extensive product knowledge and deep industry experience. David realised that although vendors could put the time and effort into understanding their business, ultimately they are not investment bankers so their products and product knowledge is obviously not as specific as those with in-depth industry know-how. Looking at the overall package regarding the ability to deliver the product expertise and the knowledge in the product that Renaissance Capital had actually chosen – the bank analyser for the sub-ledger – HCL AXON and SAP ultimately ticked more boxes than the competitors.

David elaborates: "It's not just implementing a system, it's actually implementing a business workflow. I think that was one of the things that became perfectly clear as we went through the whole exercise of engaging with a variety of vendors and service providers. There are a number of people out there that understand outsourcing, a number of people who understand systems, people that can give you consultancy advice around business process or engineering and a number of people that can give you advice about your business – very few can do all the above."

David recalled how Renaissance Capital was impressed with HCL AXON's advisory capacity around the specific products they had along with the technical knowhow. "For me it's all about the three Ds; it's the design, the development, and the delivery and you ultimately need somebody who can fulfil on each of those elements."

The procurement process lasted two years and David came into it a year into the process once it had gone through several bids. David states: "The procurement process is ultimately down to the ability to deliver a product that you need at the right price but also to provide the advice, because I think one of the things that you find with a lot of procurement companies is it's very easy to sell you boxes and cloud computing solutions which are all very nice in theory, but wholly inappropriate for your business."

David concludes: "The prospect of HCL AXON having us as a client was a good entry point into the Russian market for them. This also made them extremely price competitive and that was another good factor when it came down to our overall implementation.

"The other thing as well is with the business side and the economics, when you start looking at specific outsourcing, they were able to speak that language as well, especially through their shared service centre type arrangement. Again, there are people that can implement and people that can implement, advise and then do your outsourcing – having a partner that you can trust and who can also offer product expertise with the ability to back up the delivery is extremely important."

Initial Engagements

Perhaps the most difficult aspect of creating a collaborative approach comes with the negotiation process through the initial meetings. The implications of how negotiation is conducted can be far-reaching, and will set the tone for the future relationship. Most exchanges, if not managed effectively, will revert to traditional 'arm-wrestling'.

Dos and don'ts

- Do identify potential partners for collaboration based on shared goals
- Do build a dialogue around common objectives and outcomes
- Don't let negotiations deteriorate into 'arm-wrestling' or 'poker-playing'
- Do establish what knowledge can be shared and how
- Do set up a joint value-creation process to encourage new ideas
- Don't hang on to value-creation ideas if they are not delivering
- Do define what value means for those involved

David said: "I think the experience of 20 years has taught me that far too many people go into initial engagements with consultants on the basis of here's my problem; it's now your problem, make it happen and you know what? It never works like that especially with negotiation. If you go into design and ask them to put together a particular product and you give very vague instructions – the probability is that it is not going to be developed as you envisaged. I think the advice should be very clear; understand what your problem is and ensure that you're putting the right skillset to fix that problem with all the available information."

Back to Basics – Cultural Integration and Skills

Accessing a vast pool of technical skills is one of the main attractions of working with outsourced project teams. However, when it comes to managing teams originating from a different culture, a host of challenges become apparent and effective communication is often one of the key issues.

Cultural integration is not simply due to language, but less obviously, misinterpretation of instructions or general misunderstandings can be more deeply rooted and influenced heavily by different cultural perspectives. Successful communication across cultures is therefore, not about taking 3000 hours to perfect your language skills.

David comments: "Regarding cultural integration, at its most basic, the question I asked my finance guys at Deutsche was – Are the qualifications we require different in Manila to London? No, obviously they are not. So therefore the people have the same skills. Where it always fails is where staff in the source centres don't necessarily give the appropriate level of detailed workflow and processes to the offshore location, and then the second issue is when you give processes that require thought or interpretation to a centre where either they're not empowered to have that thought or interpretation.

"I would anticipate various suppliers, including HCL, to begin offering specific offshoring in five years' time including qualified accountants sitting at the end of the phone providing

P&L information, for example to Deutsche, JP, etc. in offshore call centres."

The retail sector has found that many consumers prefer support which is not based in an offshore support centre. However David believes that from an investment banking perspective, people have moved beyond preferential accents as they work with a majority of international organisations anyway. What is perhaps emphasised more in banking is the importance of the right skillset. Ensuring that staff at the end of the phone have got the appropriate level of qualification and qualified individuals are equipped to make decisions, but just happen to sit in a low cost location.

Communication and Collaboration

Regarding the HCL AXON partnership, Renaissance Capital managed the initial collaboration between HCL and SAP to provide quality assurance and safeguarding services. The set up was standard, with a governance sponsorship board, effectively an executive committee, meeting monthly. The whole principal behind that was that they are in place to make decisions – not to go through the detail.

Weekly steer and general steer officers held the product knowledge along with a combination of internal and external resources. Beneath that level, various sub-work streams were developed who operate clear daily and weekly meetings between the various subject matter experts.

All of that fed into a very, very strong programme management office which coordinated everything. David elaborates: "As I mentioned earlier, we were actually running front, middle, back, settlement and accounting change all at the same time. It was absolutely critical for us that every work stream front to back, was coming in under me at the time and we had transparency and visibility about who was making changes, where, when and how those would implicate the other work streams."



Transparency and Problem Solving

Transparency in large projects is absolutely vital to avoid misunderstandings and make affirmative decisions. Renaissance Capital ensures that at every weekly chief officer subject matter meeting, or similar, there is a very clear agenda including: what was outstanding, when it was due, what the action points are, any issues that need resolution along with recommendations for the issues and then the board can make a decision immediately as to how to progress.

David comments: "As part of the governance framework there's a very clear standard way of reporting, however from a purely business perspective, all I want to know is where the problems are, what are the options, what's the recommendation and how much it is going to cost. I think that's one of the things

There is no such thing as an instant relationship: trust is earned and relationships built through performance, day by day. An outsourcing relationship which is built on trust offers an important competitive advantage over those that do not.

that we drilled into people very quickly, it worked everywhere except accounting, because accounting is not particularly good at making decisions.

"What we also drilled into our guys is when you come and you bring your problems, don't just bring your problem and expect the guy that's the chief finance officer and the chief officer to make your problem disappear. What is required are the recommendations. What are the three alternatives that you can come up with and what's your executive recommendation about which one we should take? I believe if you haven't thought through the options to the problem, you don't actually understand the problem. That is a discipline that we instil fairly quickly in all of our outsourcing teams."

The Importance of Trust

There is no such thing as an instant relationship: trust is earned and relationships built through performance, day by day. An outsourcing relationship which is built on trust offers an important competitive advantage over those that do not. This involves open and collaborative communications, resolving conflicts constructively, and seeing the arrangement as a co-dependent long-term investment designed to benefit both parties.

David concludes: "Trust in a partnership is absolutely critical. It really is because if I don't have someone that I personally trust who actually delivers for me, then there's always the nagging doubt in your head that do these people actually know what they're talking about."

Provisions for Exit

Just as in other aspects of relationship management the exit phase needs to be carefully planned from the beginning of the relationship and its execution managed, usually by the Relationship Managers. Significant intellectual property rights will often be involved as well as those investments that have been made and used by the partners such as skills, materials and infrastructure.

David said: "Exit is one of the things Renaissance Capital monitors on a continual basis and I think if you look at the way we've pulled together the structure of our contracts, they do follow an annual review process. I can't go into the commercials of our contracts, but I think if you ignore annual break clauses, again all the buzz words that I hate, but look at the specific SLAs around what response times are, uptime, downtime etc. its all about the specifics. For example, a contract that we drew up recently regarding the hosting of a specific sub-ledger was something like 99.9percent uptime which for a trading system – that's actually pretty exceptional.

"It's ultimately the metrics around how you actually keep your system alive, the processes, the inputs and the outputs. If there is a problem which has not been reconciled, you need to know what the escalation process is. Manage your exceptional circumstances well and be very clear and concise – that's how you start looking at exit as well."

Know Your Customer: Financial Forecast

In general, the next five years are absolutely definitive for the investment banking industry as they are going to have to turn what's a hugely inefficient model into an efficient one. David believes the vast majority of change is going to come from the ability to buy services and JP Morgan, Barclays, Deutsche, Morgan Stanley etc. will all have to go through exactly the same Know Your Customer (KYC) process.

David elaborates: "That process has been duplicated 20 times across the industry. The natural progression is for the regulator to sign off on a service provider that will provide KYC information to a bank as a service. My product control function, my finance function, my back office is probably the largest cost base outside of technology that I have in an investment bank. So if I had the ability, particularly as we go to central counterparty clearing and exchange trading, all I need from a finance perspective is a CFO sitting in each region receiving data from a source service provider, that's going to save me a huge amount of cost.

"No-one has made that leap of faith yet in the industry but there will be a huge shift in the business dynamic especially in the way the offshoring processes work. Deutsche Knowledge Services based out of Manila are a great example at what can actually be achieved if you get the right processes and the right people. Realistically there is no competitive advantage from having an in-house product control function over and above the value that comes from the CFO."

In November 2012, Onexim Group, a privately-held investment company with a diverse portfolio of investments in Russia, announced it would acquire 100percent of Renaissance Capital. The transaction is pending consents and approvals.

review of 2012

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There can be no denying that 2012 has been a high profile year for the outsourcing industry. Cost has undoubtedly remained a key driver for outsourcing, however this year has seen innovative sourcing models offering a variety of benefits to SMEs and big corporations alike. Outsourcing has truly developed as a strategy for businesses to transform their operations – delivering greater efficiencies, improving flexibility, increasing quality of services and incorporating innovative solutions.





REVIEW

Paul Corral, Editor,
sourcingfocus.com

This review will look at some of the biggest outsourcing headlines in 2012 including the reputation of the industry, British infrastructure, procurement in the public sector and the impact of the US election.

Counting the Contracts

The outsourcing market remained healthy in 2012 and has responded strongly in the third quarter after a slow start to the year. Globally, outsourcing activity has been boosted by performance in the BPO sector, and also in the Asia Pacific region. ISG, a leading technology insights, market intelligence and advisory services company, believes that annual contract values (ACV) are expected to sustain their upward trajectory in the final quarter, in part thanks to some larger deals ready to go to award.

Giving an overview of the 2012 contract activity, John Keppel, Partner and President, ISG says: "Mega relationships (contracts of €80 million or more) – typically a solid barometer of overall market performance – have surpassed expectations. By the end of the third quarter 2012, 26 mega-relationships had been awarded, exceeding the 24 awarded in the full year 2011."

Discussing EMEA John continues: "Outsourcing levels often match economic conditions and confidence, and that 2012's third quarter in EMEA was the second best on record (in terms of ACV) is a positive sign. Although trading conditions in the region remain difficult, with the volatility of the economic environment set to stay for the foreseeable future, we do detect a renewed appetite for outsourcing."

Half of 2012's mega relationships were awarded in EMEA which, considering the wider European economic climate, this may be surprising. However a large amount of activity had also been occurring in emerging markets – outside of North America, Western Europe and ANZ; a trend that will no doubt continue into 2013."

In contrast to healthy EMEA activity, Market Vista, a global outsourcing and offshoring analyst, reported that global third quarter transactions and ACV fell 8 and 35 percent compared to the second quarter, respectively. Furthermore, according to Market Vista, the market saw 380 outsourcing deals signed in

the third quarter, compared to 472 and 441 during the first and second quarters, respectively. Both transaction volume and ACV dropped for ITO and BPO.

"In years past, the market saw pent up demand accumulate then propel positive third-quarter activity, but that didn't happen this year," said Eric Simonson, managing partner of Research, Market Vista.

ISG's John Keppel concludes with an overview of the USA market: "In the Americas, nearly 80 contracts with a combined value of €1.3 billion were awarded in Q3, a drop on previous quarters. Maturity of the US market as well as election impacts explains why the region saw a decrease in both the number of contracts awarded and ACV in 2012."

By contrast, the Asia Pacific region continued to show the strongest overall growth in 2012, bolstered by activity in China, India and South East Asia.

Read All About It

2012 was a challenging year for the reputation of outsourcing. Negative headlines fuelled the public profile of outsourcing and the US election in particular reinforced negative stereotypes of the industry on a global stage.

Research conducted in the spring of 2012 by Populus for the National Outsourcing Association confirmed that outsourcing has an image problem. It is very much maligned because it is misunderstood. Statistics from the research show that the public do not believe that outsourcing is a major contributor to the UK economy. According to the "Public Perception of Outsourcing Research" a staggering 80percent of the general public do not think the sourcing industry is helping UK PLC. This is in spite of 2011 research stating that outsourcing is the second biggest contributor to UK GDP – weighing in with 8percent, only a nose behind the 8.1percent from the finance sector.

More so than any other story last year, the failure of G4S to deliver on the Olympics security contract placed outsourcing firmly under the spotlight. Negative press coverage simply snowballed and the headlines highlighted the failure of a public contract to a worldwide audience.

Keith Vaz, Chair of the Home Affairs Committee, supported this notion: "G4S admitted to the committee last summer that they had presided over a humiliating shambles at the Olympics. It's important that we look at their record across the board when awarding new contracts."

As the G4S Olympics story unravelled in the summer it seems not only were there critical flaws in the governance plan, change management, and the IT infrastructure, but the partnership between the government and G4S seemed ineffective from the start due to an ineffective communications strategy.

Although lessons need to be learnt from G4S, the public sector has been successfully outsourcing for decades and it is a shame that one, albeit huge, failure seems to have tainted a valued industry.

"One very high profile deal goes awry and outsourcing is squarely back under the microscope," said NOA Chairman Martyn Hart. "Outsourcing only arouses interest when it goes wrong. Of the 100s of outsourcing deals that make up the Olympics, only one gets a mention."

Following G4S the UK government remained committed to classify outsourcers involved in public sector contracts, with those classified as 'high risk' effectively blacklisted from contracts. Writing to colleagues in July, Francis Maude said: "When awarding new contracts to large suppliers, the government has not always taken existing performance into account. Too often this has resulted in suppliers winning new business, even when they were materially under-performing on critical work elsewhere in government."

US Election

Outsourcing is a controversial topic in the United States, and in a political campaign it can be downright poisonous, as it was in the election last year. Bain Capital, the private equity firm that Mitt Romney once led, was criticised throughout the campaign by President Obama for investing in companies that moved jobs overseas, and one of Obama's campaign ads even went as far as nicknaming Mr. Romney the "Outsourcer in Chief" and "Outsourcing Pioneer".

Obama's constant open criticism of offshoring was dominated by the phrase 'offshore outsourcing'. 'Offshoring' and 'outsourcing' are obviously very different practices and in this election especially, the combined term muddled the two, resulting in 'outsourcing' being perceived as 'offshoring' to the masses.

In his victory speech, President Obama outlined his plans to ensure American children grow up in a country that attracts jobs by investing in technology — "a country that lives up to its legacy as the global leader in technology and discovery and innovation, with all the good jobs and new businesses that follow."

Even though President Obama rallied against outsourcing in his campaign, information technology titans and trade groups in

India warmly welcomed his re-election, as they were optimistic that he would cement bilateral ties and improve the United States economy in his second term, which in turn would improve their business. History has also shown that although outsourcing is regularly criticised in US elections, it is rare that a President follows up their sentiments with actual legislation – acknowledging the real benefits of outsourcing on an economy.

Procuring in the Public Sector

Even when memories of G4S were beginning to fade, on-going debates concerning the role of outsourcing in the public sector continued in 2012 due to the privatisation of prisons, a controversial Atos disability contract, and the increased use of outsourcing by the NHS.

In a report published last year by leading global advisory, Ernst and Young, a trend showing a divergence in supplier prices being paid by different hospitals was discovered – with millions of pounds being wasted by the failure of NHS Trusts to effectively communicate and negotiate strong and effective contracts.

The failure of contract negotiation and project governance in the NHS has been seen before in the failure of the Lorenzo digital record contract with CSC. While CSC was guilty of numerous account errors, the NHS failed to employ effective governance, and the inclusion of damaging targets weakened service levels.

Nigel Clifford, CEO at Proserve, a leader in enabling secure transactions online, commented on the report saying: "Ernst and Young's report has highlighted the fragmentation and lack of sharing in NHS procurement, leading to some hospitals in England paying more than they need to for medical supplies. This is bad news when funding pressures are being felt in the health sector."

While the report identified weaknesses in how the NHS carried out procurement, the development of the National Police Procurement Hub (NPPH) was identified as a good example of driving value for money and ensuring that individual forces receive value from one main procurement system driving highly negotiated contracts.

As the NHS moves to outsource greater numbers of services, with one in five NHS patients now treated by private firms, the risk of ineffective handling of contracts becomes more prevalent. The public sector is well placed to drive strong procurement contracts and outsource key services as demonstrated by the work of other departments, but it is clear that best practice has not yet been employed within all areas.

The West Coast main line fiasco was another high profile procurement embarrassment, which further undermined confidence in government procurement. A report conducted by Centrica CEO last year identified failures in transparency and in the process of risk calculation by the Department for Transport (DfT). Despite being aware of failures in following its own guidelines the DfT continued the bidding process.

The report detailed that: "These errors appear to have been caused by factors including inadequate planning and preparation, a complex organisational structure and a weak governance and quality assurance framework." In December, the government announced that Virgin Rail would continue to operate the West Coast line for a further two years overturning a mistake costing £40 million to the tax payer, after previously awarding the contract to First Group.

The government also cancelled three major sector procurement framework projects at the end of 2012 in a bid to increase competition and attract increased numbers of SMEs. The announcement came after a review of all Government Procurement Service (GPS) projects. The GPS has received criticism in the past for being wasteful, with suppliers forced to provide extensive bids in order to be entered into the awards process, which in turn had reduced the overall supplier pool.

Bill Crothers, Government Chief Procurement Officer, commented that: "frameworks which are already operating effectively and delivering significant change such as the Public Services Network and G-Cloud provide a model for success and will continue."

Towards the end of last year, an All Party Parliamentary Group on Outsourcing and Shared Services (APPG) report stated that public sector outsourcing contracts need to be easier and more accessible. The aim of the report was to offer best practice in outsourcing and provide guidance for the government to be a better consumer of outsourcing services. It offered 10 recommendations for the government to consider – three of which were noted in more detail during the report launch at the House of Commons.

The first concerned ensuring that government was better educated in commissioning public sector outsourcing contracts. Secondly, the report recommended that business objectives should be far clearer for both private and public sectors and the third key recommendation concerned the focus on outcome, rather than standardised process.

"The Group felt it was very important for the social value of contracts to be better communicated and this would help to detoxify the image of outsourcing. Special Interest Groups on best practice and governance exist in the private sector, and we wonder whether the formation of such a group for public sector buying might also be of some value." noted Bob Blackman MP, chairman of the APPG.

Building the Foundations for Success

The UK has a long established history in the outsourcing industry with developed capabilities and a strong infrastructure, including: the ability to scale; trusted contract legal frameworks; rapid time to market, and a move to deliver corporate responsibility becoming common practice within the nation.

After a fantastic Olympics, the government seems firmly committed to further improve UK infrastructure. According to the national infrastructure plan published in Osborne's 2012 autumn statement, the government needs £200 billion of investment in transport, power and telecoms projects over the next five years and the majority of the funding will come from the private sector.

Connecting the UK

The government has announced that mobile operators in Britain will be able to roll out 4G services to the vast majority of the country in the first half of this year. The move to bring 4G to the UK six months earlier than previously estimated was announced after Culture Secretary Maria Miller met with providers towards the end of 2012.

EE already owned 1800MHz spectrum licenses, capable of delivering the LTE signal needed for 4G, and successfully petitioned the government last year to allow it to offer the service to consumers in October.

The other big players: O2, Vodafone and Three, will all head through an auction in 2013 to get their hands on the prized spectrum licenses to deliver the same services, so it would seem EE has gained a huge advantage by going first.

The government said: "Delivering 4G services is a key part of the government's commitment to providing the UK with the digital infrastructure businesses need to succeed and grow. The deal, worth up to £3 billion to the UK economy, will give people internet speeds on smartphones and tablets up to 10 times faster than currently available."

Other recent UK infrastructure developments have included a governmental focus on broadband connectivity and speed. David Cameron said last year that superfast broadband is "an essential building block of a growing economy, so we are cutting the red tape." In November the UK government received EU approval to carry forward its big £530 million rural broadband development project with 90 percent of UK homes to receive the new superfast service.

Maria Miller, Secretary of State for Culture, Media and Sport, said: "Getting the green light from Brussels will mean a huge boost for the British economy. Superfast broadband is essential to creating growth, jobs and prosperity and the delay has caused frustration within government. The announcement means that we can crack on with delivering broadband plans, boosting growth and jobs around the country."

The UK government also provided funding for the development of a new broadband development project from the University of Surrey, totalling £35 million. The confirmed funding will promote research in creating 5th generation cellular communications.

The new centre due to open in mid-2014, has been hailed by Professor Rahim Tafazolli of the University of Surrey as "the single biggest opportunity for the UK to regain a world leading position in the development of 5G technologies and for the development of vibrant businesses around the technologies."

To further attract suppliers onshore and showcase the UK's commitment to innovation and technology, BT launched the world's first 10Gb "hyper-broadband" trial at the end of last year in Cornwall. The trial was delivered through a direct link with BT's Turo exchange and provides speeds which current technology cannot keep up with.

Alun Morgan, Technical Director at Arool, a manufacturing company specialising in the production of power resistors, said: "We are still only just discovering the sorts of things we can do with these speeds, such as taking advantage of services like videoconferencing and using a cloud-based ERP system so we can access this information elsewhere, and it has enabled us to be much more efficient and aggressive".

Data Centres

The data centre represents the core of an enterprise's IT capability and its smooth operation is therefore crucial to business performance. The rapid deployment of new or transformed data centre capabilities is essential to support changing business needs.



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Outsourcing works when it's based on **trust**.

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The proliferation of UK data centres is set to continue in 2013 as the UK looks to position itself as the data centre capital of the world. Two of the UK's biggest data centres are set to open in Leeds and Birmingham later this year.

The Birmingham Data City Exchange data centre will open in March and is expected to cost £60 million offering low energy usage and scalability to users.

Mark Barrow, Strategic Director of Development, Birmingham City Council, said: "The new data centre will create significant employment opportunities across the city and help support some of the local businesses in the area."

Leeds City Council recently approved the construction of the DC4 data centre valued at £43 million. The site, which will be the largest data centre outside of London, will be focused on advancing network infrastructure and improving internet connectivity within the region. It will be a carrier-neutral data centre, which means it is independent of a network, software or hardware supplier and that multiple Internet Service Providers will be able to take part in the data centre, providing best value for businesses using the data centre.

Adam Beaumont, Chief Executive, aql, a voice solutions organisation, said: "The new DC4 site will allow expansion room to support the data growth from the IT, media and mobile sectors – including the huge demands which 4G will place on the region's infrastructure. This project will put Leeds, and Yorkshire as a whole, in a very strong position to fulfil their superfast broadband promise."

All this points to the UK seriously positioning itself as a player on the global stage.

Helping the Little Guy

The role of SMEs in outsourcing and the current economic climate should not be understated. There are 4.5m SMEs in the UK, employing 13.8 million people, so six out of ten people in the UK who work in the private sector are employed by a SME. The government has stressed several times throughout 2012 that the key to recovery lies with SMEs and by encouraging SMEs, competition will increase along with innovation and cost improvements in outsourcing.

For SMEs – offshoring isn't quite as attractive as it used to be. It's not just rising travel costs and international political turbulence proving a turn-off, but the total cost of offshoring is on the rise. Local-sourcing and nearshoring are proving to be the SME choice de rigueur.

Throughout 2012, the growth of Tech City has been staggering, with now over 1000 businesses represented in the area. The vast majority of these organisations are SME suppliers and the government has been very responsive in terms of promoting and aiding digital innovation to further encourage set up in the UK.

Furthermore, the government announced a series of measures to support SME growth in the UK including a £20 billion government plan to try to boost bank lending to SMEs and a €16 million investment programme from the European Commission to give SMEs access to supercomputers.

The EU funded project is designed to build a super computing-cloud throughout Europe. As part of the project, SMEs will receive advice from the European Commission on how they can employ

cloud-based supercomputers to improve their business models and overcome obstacles.

Business Secretary Vince Cable also launched a £60 million pot of Regional Growth Fund (RGF) investment and bank finance in October aimed directly at supporting SMEs.

Vince Cable said: "Regional Growth Fund programmes like this one have already awarded SMEs over 500 grants and loans across the country. This is an excellent way to get value for money, but more importantly, it is a good way to focus on local priorities for growth, as most programmes are led by local partners. RGF is leading the way in rebalancing the economy and boosting business and industry."

It is hopeful going into 2013 that with continued government support, SMEs will continue to invigorate the outsourcing industry, not only as users of services, but through the delivery of innovative and flexible sourcing services and models.

Summary

2013 has been a rollercoaster year for the outsourcing industry. Although negative headlines have prevailed there has been some very positive news from the government especially regarding investments and contract activity in general. The outsourcing market has remained steady and an increase in public sector outsourcing resulted in 2012's third quarter in EMEA being the second best on record, pointing to an optimistic 2013.

UK infrastructure developments have included a government focus on telecommunications, with Boris Johnson's promise to give London "the greatest 4G network in the world", alongside a series of high-level investments in superfast broadband.

As the National Outsourcing Association celebrated its 25th birthday by launching the Outsourcing Works campaign – the NOA Awards proved just that with over 60 shortlisted entries demonstrating the value that outsourcing brings to a business. Looking forward the NOA has acknowledged the need to further professionalise the industry and will be running a series of professional development workshops throughout 2013.

As the public sectors looks to re-evaluate its procurement, end users will continue to ask their outsourcing suppliers 'more for less' in 2013 through innovation and flexibility. We will also continue to see a variety of sourcing models and suppliers working together more than ever to offer best of breed services.



GLOBAL BUSINESS SERVICES

This section provides an overview of Global Business Services, according to EOA Advisory of the Year, Proservartner. It offers an update on offshore locations, as contributed by Alsbridge and provides a round-up of what's happening across Europe from several of the chapters of the EOA. Kerry Hallard also shares her insights to China as a sourcing destination – five years on!



Global Business Services: Proservartner Point of View

What GBS is NOT

One of the most overused and misunderstood terms in the current shared services and outsourcing environment is Global Business Services.

To understand what Global Business Services is, one must first understand what it is NOT:

- GBS is not just a number of functions grouped in shared services: A shared service centre that includes a number of functions does not necessarily qualify for a GBS capability. This is better known as "multifunctional shared services"
- GBS is not just a global captive shared service centre or outsourcing arrangement: A global model for captive shared services or outsourcing, moving away from regional solutions is not equivalent to GBS. This is better known as "globalisation"
- GBS is not the combination of shared service and outsourcing. The combination of shared services and outsourcing concepts in a solution is not the same as the development of a GBS capability. This is better known as "hybrid" services

"Global business services is the leverage of the support services capability to enhance the organisation and deliver outcomes more than just cost reduction. It is delivery model agnostic and about breaking down the silo barriers and driving an improvement in long term profitability"



1. STRATEGIC

- Enable new business models
- Achieve process and systems standardisation
- Improved operating margin and/or accelerate revenue growth
- Improved customer services

2. COST

- Lower support service costs
- Higher productivity
- Reduced working capital
- Reduced systems infrastructure costs

3. QUALITY

- Improved information for decision making
- Reduced error rates – quality at source
- Improved control environment
- Ownership of process across regions

4. SPEED AND AGILITY

- Increased flexibility
- Accelerate merger and acquisitions
- Scalable and coordinated centrally
- Reduced cycle times through outcome focused end-to-end process approach: e.g. new joiner process

Why GBS?

The Trends in Global Business Services

There are four common phases of evolution for a Global Business Services model, based on the maturity of the capability.

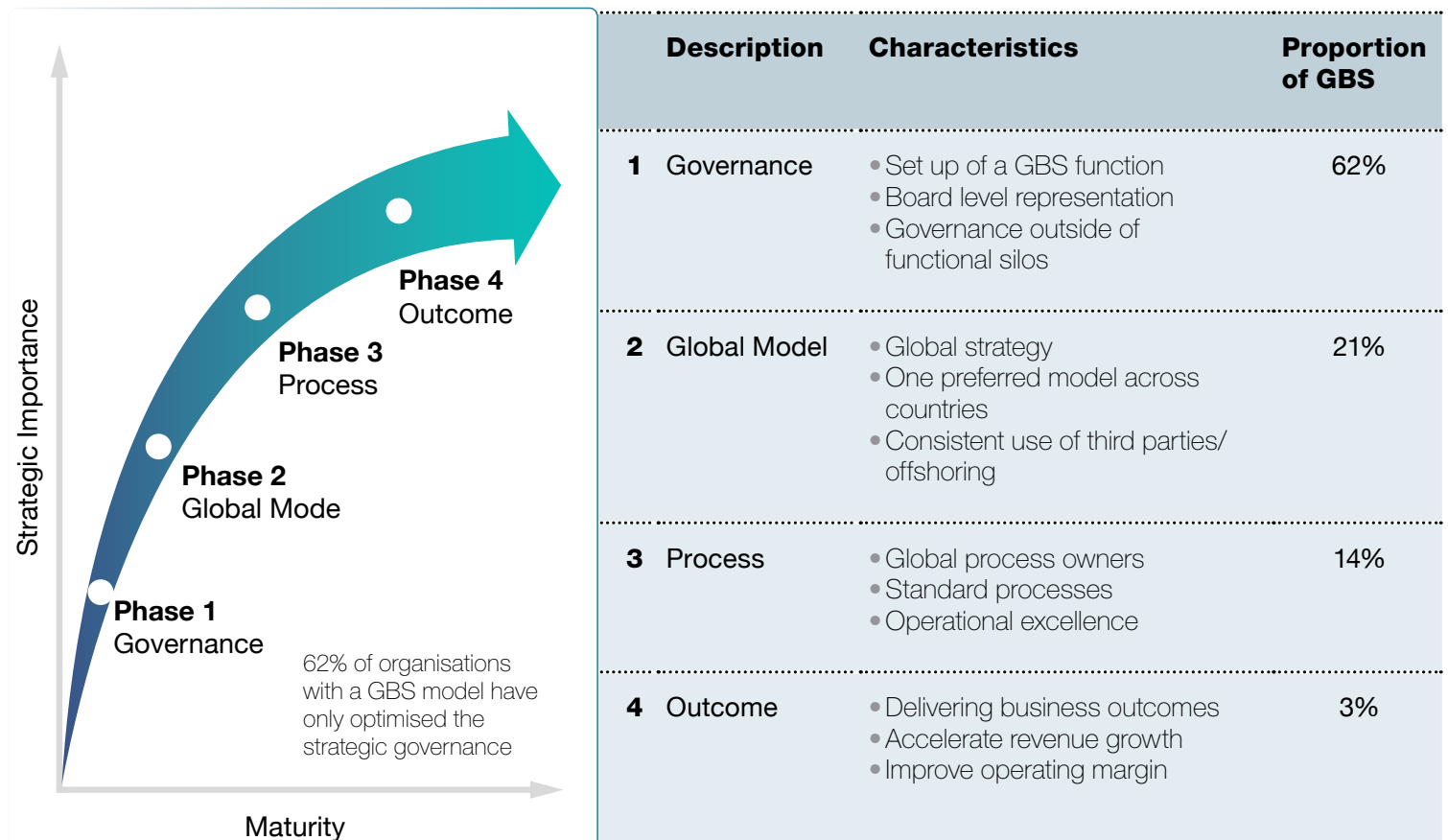
- **Phase 1 – Governance:** More often than not, leading organisations initiate their Global Business Services journey through setting up the appropriate governance structures required. At the first instance this involves the assignment of a lead for GBS.
- **Phase 2 – Global Model:** The next phase of evolution for the GBS journey is the development of a global model for support services. This migrates away from historic models that are based on geographic structures to a consistent global model that operates across all organisational locations.
- **Phase 3 – Process:** The third phase of the GBS journey is progressing to end-to-end processes that are standardised, automated and agile. This includes the assignment of global process owners, and the movement away from the functional silos that limit efficiency and effectiveness.
- **Phase 4 – Outcome:** The nirvana of GBS is the development of a capability that delivers business outcomes linked to the strategic vision of the organisation. This can be linked to delivering optimal customer services, revenue growth, an improvement in operating margin, entering new markets and / or overall profitability.

Proservartner research illustrates that most GBS capabilities that exist in the market have only managed to optimise the first phase of GBS evolution – which is in setting up the appropriate GBS governance structures.

As the table illustrates there are very few examples of phase 4 GBS models that exist in the current market. The current trends include:

- "Head of GBS" role reporting to the board and as a peer of the functional leads such as the CFO
- Scope of services within GBS increasing to include more and more business functions and especially IT services
- GBS models being designed to be both scalable to increase and flexible to changes in market conditions or demand
- Increased use of analytics to drive improved business benefit
- Consideration of talent management strategies to build global people capabilities and future leaders within GBS

By **Rakesh Sangani**,
Advisory Partner at Proservartner



Selecting an Offshore Location: What Really Matters

A company looking for the first time at where to offshore work faces a bewildering array of locations: India, the Philippines, Eastern Europe, South Africa, Mauritius to name just a few. The world, seemingly, is your oyster. But whilst there is no shortage of opportunity, offshore location strategy is not a free for all. In reality the range of offshore options is actually rather simpler than it first appears.

Let's take a quick tour of the major global locations:

- **Eastern Europe** – Poland, Romania, Hungary and Czech Republic continue to be indispensable in most offshore strategies due to their rich mix of technical and language skills. As a result, most outsourcing programmes that require extensive European languages will have an East European hub (for example you will struggle to set up a price-competitive call centre covering Dutch, French, German and Finnish anywhere else in the world). Inflation has eroded the cost differential with West Europe to some degree, but in many locations the business case is still strong.
- **Africa** – Africa may yet provide the big next wave in outsourcing. Certain locations already have proven track records (such as IT support in South Africa; French-language work in NW Africa). Others (such as Egypt) offer a promising mix of scale, language, technical skills and education – ideal ingredients for large scale offshoring activity. However, whilst obviously there is huge variety across the continent, at present Africa is not integral to many global sourcing strategies. Africa provides some options, but not yet the killer mix of scale, price and talent to make it a key offshoring region (and Egypt's global appeal has been clearly hampered by political uncertainty).
- **Latin America** – Despite hosting some of the world's most vibrant and rapidly growing economies, Latam is not a key offshore location for most UK or European organisations. High inflation and regulation have impaired Brazil's attractiveness; security risks have affected other promising locations such as Mexico and Guatemala. Nevertheless Latin America is a major market in its own right which global companies need to serve; it is also the indispensable nearshore option for North America – but as such it is essentially a regional option in the global sourcing market.
- **Philippines** – The Philippines has emerged in the past decade as a major global sourcing hub, bigger in some sectors than India. A large population and availability of skilled English-speaking talent have made the Philippines particularly popular with US companies. Far fewer UK/European organisations offshore work here though, primarily because India provides a closer and cheaper alternative.
- **China** – China is the manufacturing story of the century; but in services terms it is essentially still a regional player. Its biggest offshore markets have been South Korea and Japan. Many new offshore investments play a broader 'APAC' role, but few provide services to UK or European destinations. Historically Chinese outsourcing has been held back by limited English language and middle management skills. This is rapidly changing so China could yet emerge as a major global services location.

- **India** – Despite stressed infrastructure and over a decade of rapid outsourcing growth, India is still the elephant in the global sourcing room. India's tier 1 locations (such as Bangalore and Delhi) continue to attract vast numbers of skilled resources; in addition tier 2 and tier 3 locations are well established. Supply is somehow still managing to keep up with demand, and as a result, the investment case for offshoring to India remains strong. The net result – the clear majority of new global outsourcing deals in ITO and BPO have an Indian hub.

So this very brief tour reveals three types of location. The global hubs (India, Philippines), the regional centres (China, East Europe, Latam), and the challengers (such as Africa). The global hubs cannot do everything – nearshore locations such as those in East Europe or Latin America are required for language skills; onshore locations are required for reasons of culture, interaction and proximity. And there will always be exceptions for specialised and highly skilled niches (think Manila and animation). But for the majority of transactional back office work, the pattern will resemble this global / regional model for which the location options are fairly well defined. There remain a few good reasons to go 'off-piste', but most companies don't have the appetite or expertise to blaze a new trail, or the scale to provide critical mass to a new location.

Ultimately, when it comes to outsourcing, it is important to remember that although you need to maintain oversight and confidence in your supplier's offshore locations, you should also make use of their location expertise. In fact in most outsourcing deals, the question of location is answered in the first instance by the supplier not the buyer (i.e. you select a supplier on the basis of their proposal, which will include a location recommendation). The key question for you is to test the rationale of the location on offer, and to drill into the detail (ultimately you are choosing a city, not a country).

And once the contract is signed the question of location does not disappear. Over time your needs and your supplier's capabilities will evolve – you need to make sure that the location strategy recognises this (for example the rebalancing of work between nearshore and farshore).

Paul Morrison, Partner, Alsbridge



CIO issues on Decisions with custom built software

Are you confident in making quality TIME decisions (Tolerate, Invest, Migrate, Eliminate) on your (custom built) application portfolio?

Are the FACTS about maintainability, complexity, sizes and change behavior, supporting or eroding your confidence?

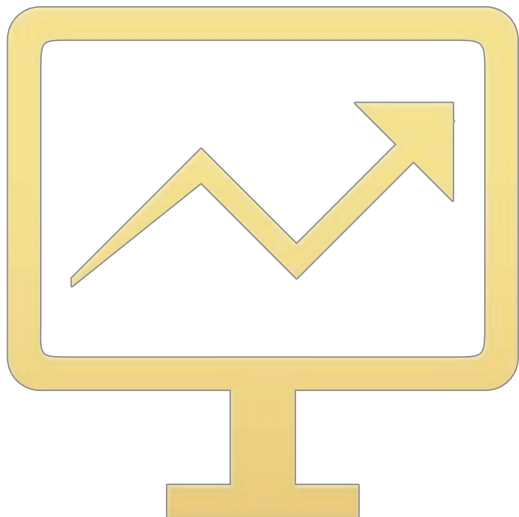
Would it raise your confidence if you had fact based guiding metrics on maintainability, complexity and change behavior on demand?

If so, we offer you the capability to gain the metrics you require anywhere and any time to support your TIME decisions.

TIME = MONEY



CIO issues on Maintaining custom built software



Does the increasing cost of software maintenance keep you awake at night?

Is this caused by inadequate documentation, poor impact analyses and testing support?

Would it help you managing maintenance costs, if you had up-to-date application documentation, facts on every change made, and metrics on quality and complexity in place?

If so, we offer you the capability of documentation (re)generation and automated source code scans to support you in managing your software maintenance costs.

IMPACT ANALYSIS TIME = MONEY



GLOBAL BUSINESS SERVICES
Kerry Hallard, Communications Director, NOA

Can Xi'an Become
the New Silicon Valley?



At the end of October, I was lucky enough to embark on a short, but enthralling trip to the Shaanxi Province in China, where capital City Xi'an, already famous as the home to the Terracotta Army was setting out its stall to rediscover its former glory – as China's service outsourcing capital. Sure, it was yet another bustling Chinese software and sourcing summit, but this time around, it felt somewhat different!

I have been to China a few times before, but not in the last five years. As such, I knew roughly what to expect, but was intrigued to see how much the country had moved on. The turning of an oil tanker is a phrase that springs to mind. Whether it is down to the fact that I was visiting a new and more advanced province, or whether the development is relevant to China as a whole, I don't know, but from my perspective, it seemed the giant had taken some massive strides.

All the signage wherever I went – airports, roads, hotels, shopping districts, foodhalls – was in both English and Mandarin. This certainly was not the case last visit and gave a feeling of calm and certainty this time around. The spoken English seemed significantly improved too. Previous Summits attended (including some held in the UK) had required me to sit through numerous speeches delivered in shouted Mandarin – this time most of the speakers presented in English and those that didn't were supported by an excellent bi-lingual translation infrastructure and team.

Admittedly both the roads and the drivers were chaotic, but the hotels were luxurious, the Underground easy to navigate and advanced technology and lighting was ubiquitous throughout. All this points towards a country that would be pleasurable to do business with, but what's really happening in outsourcing in China? I gleaned the following summary from various conversations and presentations.

A number of market share figures were cited, including China having a 23 percent global share of the software and service outsourcing industry, which marks a six percent growth on the previous year. This makes China's share nearly four times that of India – which has six percent global market share.

It must be noted however, that China is much more domestic market focused than India, which remains more export oriented. India has more large scale enterprises than China.

China certainly has the opportunity to be the next great global delivery destination. Its key assets include:

- Great domestic base to date and room for growth and innovation
- The Chinese Government is a significant buyer
- Great service providers with potential to acquire (VancelInfo and hiSoft merged)
- Great talent and a huge skills pool
- The Chinese Government has already helped in skills and industry growth, and will continue to. New policies are likely to enhance China's delivery capabilities, so its service industry can go global

Service outsourcing may have belonged to India historically. This is changing, but China has a lot of work to still do on overcoming its constraining factors:

- Labour arbitrage is not unique, so China needs real differentiators
- China needs to learn from India's shortcomings and develop its own eco-system – it must innovate in the domestic market and create its own version of Google or Microsoft. Being a service provider is only so good – until the next destination takes trump. When global enterprises leave a location, they tend to take everything with them.
- In its development of software and service outsourcing, China still needs to focus more on security and protection. i.e. IP

There are national policies supporting growth in this area and there is Central Government focus on expanding the service outsourcing industry, however this new generation of IT industry needs more focus on innovation

Although its skills pool is huge and talent high, there is a lack of middle management to support outsourced services. Tackling the skills requirement here is critical

If China successfully addresses these issues it will easily break India's growth rate (India went from 1-19percent of global market share in 10 years). This is a horse I'm backing – anyone know a Mandarin speaking nanny for my kids?



Our drinks in a cafe: proof indeed that China needs to work on IP!

European Chapter Updates



A View From Austria:

It Outsourcing – The “Escape Key” In Uncertain Times?

In uncertain economic times, enterprise ITs come immediately under consideration as potential outsourcing candidates. As the engine of the economy stutters, outsourcing business can take off rapidly.

By outsourcing their IT to external service providers companies aim to eliminate capital costs from their balance sheets with very adaptable service contracts, and better align costs with their business development. In Austria this crisis-conditioned turbo-effect is especially strong at the moment.

Austria clearly sits above the West European performance average, achieving a market growth of five to seven percent. Before now IT outsourcing was rather conservative in Austria compared to much of the rest of Europe. From this rather low base, there is now a high backlog of demand.

Small and medium sized enterprises had proven to be particularly cautious. Relatively few large companies have built their own new IT service companies. This especially applies to the banking sector, where the self-support structures are now beginning to break up massively.

Even government-related businesses are influencing the outsourcing market strongly.

For example, the new online ticket distribution systems of the Austrian Federal Railway (ÖBB) that HP has developed and integrated. Other outsourcing initiatives are planned.

The biggest outsourcing contract of 2011/2012 was worth €180 million between the Austrian Federal Employment Service (AMS) and IBM. The transfer of operations was however overshadowed by breakdowns and budget overruns.

The reasons for the current high outsourcing sales are due to IT skills shortages, and the internationalisation of the core business of many companies.

Outsourcing Market SME (Small & Medium Enterprises)

Outsourcing readiness lately has also risen significantly for the SME. Cloud delivery models are becoming an increasingly hot topic. Suppliers are calling it the “hands-on-cloud”, because customers know exactly where their data is.

Stagnating IT budgets continue the trend towards outsourcing. At the same time, increased investments in innovative, productivity-increasing services – especially those which increase the mobility of employees – boost outsourcing services too.

The turbo-effect in “uncertain times” – 10 trends in 2013:

Cost reduction is the key issue for 2013. New service models are also becoming more and more accepted.

- Crisis effect: when the economy weakens, companies increasingly outsource IT systems in order to reduce costs and increase flexibility
- Backlog demand: the outsourcing market is growing particularly strongly. The reason behind this is a developing and increasing demand for IT outsourcing, despite the traditional high sense of IT ownership
- Financial institutions: financial institutions that were committed to IT self-support using their own IT companies, are now massively outsourcing their computer systems
- Flexibility: the trend towards more flexible service models (e.g. “pay-per-user”) which were created in the crisis of 2008/09 now continue strongly
- Partial outsourcing: large outsourcing deals are becoming rare in Austria. The trend is the “out-tasking” of individual IT departments to more specialised providers (“multi-sourcing”)
- Software: the trend towards outsourcing of application programs and SaaS is still a relatively unsaturated market
- Cloud: the hyped cloud delivery models (infrastructure/platform/software “as a service”) hit the bottom of the market and made high-quality IT solutions affordable for SMEs
- New suppliers: within the cloud trend, software producers like SAP or Microsoft mutate to outsourcing suppliers. Domestic examples are “Update” or “Fabasoft”
- SME market: small and medium businesses are the fastest growing market. Even the big players concentrate more on SMEs, due to the saturated status of the large customer market
- Cost Reduction: cost reduction remains the number one reason for outsourcing, followed by standardisation, focus on core competencies, and increases in quality and flexibility

By Mag. Walter H. Priglinger MBA President of the Austrian Chapter of the European Outsourcing Association and dean of the imc Institute for Management & Communication

A View From France:

Could Outsourcing Alleviate This Time Bomb In The Heart Of Europe?

Outsourcing was at a standstill in France in 2012. The presidential election year saw most indicators remain flat – number of deals, business outlook in general; the number of members of the EOA French chapter also stagnated. The new government has, naturally, a different approach to business that has included threats to nationalise parts of the steel industry. Hardly good news for the outsourcing sector! This context led the weekly journal *The Economist* to lead an issue describing France as a “time bomb” at the heart of Europe. Strong words – that stirred emotions here, indignation even, but also in some corners appreciation for a breath of realism.

Nevertheless, like a submarine, the trend for outsourcing continues to progress. Could it provide some salvation for France's economic woes? The scope for development is of course enormous. The question is “how to do it without anybody noticing?” With a political and journalistic climate hostile to big enterprise, the idea of outsourcing jobs to foreign countries is anathema. Here is a major difficulty – fully in line with those resulting in the Outsourcing Works initiative led by the NOA – image. An amalgam or misunderstanding, that outsourcing equals offshoring, sets up high barriers to managers unwilling to confront supposed industrial/ social implications. The French engineer–manager will prefer installing a machine or robot to improve productivity over a process optimisation scheme involving outsourcing.

Isolated Exceptions

There are isolated exceptions, such as the socialist-run region of Ile de France, which has announced for 2014, the outsourcing to Morocco of a call centre used by the transport management organisation STIF. Morocco is developing a successful nearshore business, and won the 2012 EOA Award for the outsourcing destination of the year. Growing activity there proves that there is a demand from French speaking customers planning to outsource.

Shared Service Centres also offer a more attractive approach. Perhaps increasing pressure on performance optimisation to reduce costs, in a zero-growth economy, will lead to more initiatives in this area. There is even a back door entry for outsourcing service providers here, with skills in setting up captive centres and a hope for an outsourcing transfer in the future.

In the IT sector we have seen purchasing departments investigating the contract workforce approach to optimise costs on sub-contracted services. This technique enables buyers to rationalise what began as unstructured outsourcing, leading to a single source solution from a purely buyer initiative. From an outsourcing point of view this is simply shuffling the cards.

The increasing involvement of the purchasing function in sourcing deals has not gone unnoticed. However the action concentrates on the structure of the deal and negotiation details, rather than on the definition of an outsourcing strategy per se. The maturity of the purchasing function and their capacity to manage the extended enterprise has been surveyed by Logica Business Consulting and Better Buying Concepts (EOA members). We note that the question where companies expected the most significant change concerns the profile of buyers – for whom a more business-oriented attitude is desired. Will buyers be at the origin of a new deal for outsourcing?

Improving Image Through Training

We feel that the French image problem could be addressed by improved training, as provided by Pathway in the UK. A more positive awareness of the potential benefits of outsourcing is surely necessary. Yet no formal outsourcing training scheme exists in France. We have looked at ways of providing this service, in collaboration with a suitable educational institution.

Here at EOA France, we foster as many outsourcing initiatives as possible, and in 2012 developed a partnership with Champagne-Ardennes region. A number of call centres have been set up around the town of Reims; offering a more acceptable onshore outsourcing solution.

We work with the European Board team and constituent members to encourage discussions and develop an unbiased opinion based on European success stories. One of EOA France members, Pierre-Jean Esbelin, has published a book entitled “Outsourcing – une histoire de couple”! It will be published in English in 2013, to enable readers to share case studies coming from the author's 20 years of experience in IT outsourcing, starting with EDS in the US. The book refers to the couple metaphor with humorous citations such as “running your sourcing as a series of one night stands requires an unlimited budget”!

What's in store for 2013? Members of the French government have cited Winston Churchill's wartime speech on “blood, toil, tears and sweat”. If the financial crisis is behind us, a host of economic difficulties lie ahead. EOA Board members in France continue to communicate on the virtues of outsourcing as a means to improve performance.

The French engineer–manager will prefer installing a machine or robot to improve productivity over a process optimisation scheme involving outsourcing.

By **Tony Boccock**, Board Member, and **Armand Angeli**, Co-founder and Vice President, EOA France





European Outsourcing Association Awards 2013

25th April, Amsterdam

Taking place in Amsterdam city centre, the event includes a half day conference that will bring together the world's leading outsourcing suppliers, end users and support organisations. It will include additional networking opportunities and one to one meetings, plus presentations on the latest innovations, trends and developments in the European outsourcing market.

Furthermore, best practice in pan-European outsourcing will be rewarded and celebrated with the EOA Awards held in the evening.

For details on how to register, enter an award category or sponsorship please contact the EOA team on **+44 (0) 207 292 8689** or **admin@noa.co.uk**

A View From Germany:

Outsourcing Status Quo, Trends And Hot Topics



Considered more than ever to be a global phenomenon, outsourcing remains heavily dependent on regional developments, cultural spheres and legal parameters. This article summarises some of the current trends and challenges observed by Joerg Stimmer and Wolfgang Fritzemeyer, both founders and Board Members of the German Chapter of the EOA.

Status Quo

Lack of skilled IT experts

Despite the on-going economic turbulences, and the relatively low, by European standards, unemployment rate, Germany experiences a significant lack of skilled IT labour. According to the president of the major German organisation representing the IT sector, more than 40,000 positions cannot be filled by the required skilled staff. Due to this fact – and in contradiction to the German mentality to keep close control on its labour force and processes – there is a shift to projects being placed outside Germany. This is neither due to a pure cost perspective nor is it labelled off- or nearshoring.

This lack of skilled IT experts becomes even more critical when companies need competent staff to manage their outsourced services. Recent studies show that the biggest lack of expertise in German companies is vendor management. Due to this, the emergence of a high degree of globalisation in IT services and outsourcing and the need for intercultural management, are getting an increased awareness.

Digital natives have arrived at corporate level

Many recent IT conferences and CIO events have demonstrated a great interest in the rise of the "Facebook Generation" in the workforce and their impact on IT organisations and operations. These "digital natives" are totally familiar with, and make full use of, all major online and mobile communications media platforms now available. Privacy and data protection, which is a major concern for their employers due to increasing activities on the part of the legislators and enforcement authorities, does not seem to be such a big issue to them. It is clear that this new generation will expect to use these media platforms and channels to communicate with business colleagues, suppliers and customers. This is a big topic

for CIOs in Germany, especially due to the fact that according to local IT magazines these "digital natives" have already arrived.

Trends and hot topics

Fading out of in-house development for non IT companies

As mentioned above, German companies lack a significant number of IT experts. Since highly qualified graduates from universities typically prefer working for well-known and fancy IT companies, such as Apple, Google, SAP, etc., it appears common sense that German corporates, not recognised as key players in IT, will face even more challenges attracting the required quantity and quality of skills. Thus a large number of managers see the existence of a large scale in-house development as a phase-out model. However, this trend, articulated in many discussions with senior IT managers, seems to be in contradiction to the "Global TPI Index" for Germany, which states that the overall volume of BPO- and IT-Outsourcing is approximately 40percent below the value of 2011. Another note of worth, is that in recent months several large scale insourcing activities have taken place. Customers were often dissatisfied with the services received in terms of quality and pricing compared to their expectations at project start, and have changed the setup accordingly. This has happened in the main in IT operations, and not so much in application development and maintenance (ADM).

Among the hottest topics discussed in the German IT and outsourcing arena are Bring Your Own Device (BYOD) and its impact on the organisation, as well as services in the Cloud. The latter one is gaining momentum and is taken seriously not only by IT Heads and CIOs, but also at CEO and CFO level. Everybody agrees that this phenomenon will have visible effects on the sourcing landscape, although the views differ concerning the level and degree of impact.

Another hot topic the authors experience in their daily interaction with senior IT professionals is the rising awareness of the potential of Crowdsourcing, especially as a unique source of innovation.

Although Big Data is visible in the media, the implementation of related solutions still seems to be lagging.

Challenges on the Legal Front

Whenever outsourcing happens cross-border, and in almost all cases it inevitably does, the regulatory framework of more than one jurisdiction comes into play and needs to be observed. Despite efforts at harmonising, e.g., data protection requirements across Europe, the parties will unfortunately not be able to structure their contractual arrangements by observing and applying the most rigid national standard, but the legal provisions of all relevant, and indeed of all potentially relevant, countries. Accordingly, compliance with data protection, data security, telecommunications law, employment law and other legal areas will continue to create challenges that cannot be handled and circumvented just by seemingly comfortable governing law provisions in the contracts concerned. Only strict abidance by the mandatory law applicable in all jurisdictions concerned will protect the parties against unwelcome consequences imposed by the local authorities, including administrative fines and even criminal sanctions.

By Wolfgang Fritzemeyer, Partner, Baker & McKenzie, and Joerg Stimmer, Managing Director, pliXos

A View From Italy:

Tighter Contract Management And A Move To Offshoring

At the end of 2012, Italy's economy completed its sixth consecutive quarter of recession and the country is expected to remain in recession this year, with growth only emerging in the last quarter of 2013. Projections speak of an overall minus 2.1 percent in the Italian Gross Domestic Product (GDP) in 2012 and a further contraction of 1percent in 2013.

It goes without saying that the difficult economic climate also affected the outsourcing industry. More than ever, the main focus of customers of outsourced services has been on cost savings. Often, companies' technology and purchasing departments had to cope with double-digit cuts in their spending budgets. Suppliers who managed to convince customers that their solutions could provide immediate results in terms of cost reduction and efficiency have been preferred. New investments in innovation, R&D and technology, likely to create benefits only over a longer period of time, have been deferred to future years.

At the same time, the relationship between the parties of outsourcing contracts has become increasingly tense. Customers are frequently requesting to renegotiate on-going contracts in order to increase savings (offering in exchange an extension of the duration and/or an expansion of the scope of the contract). Moreover, clients are tending to more aggressively manage issues in service delivery or default in supplier performance. Service credits are more consistently applied now when suppliers fail to meet agreed service levels, compensation for damages is sought and formal litigation initiated or threatened. Previously, in a better economic climate, such issues would have been solved through simple commercial negotiations.

Notwithstanding the above, there have been a number of positive trends in the outsourcing market in Italy. In the past year outsourcing with cloud computing elements grew considerably.

According to predictions, cloud computing will further increase by 25percent in 2013. Cloud solutions are seen by many Chief Information Officers as a way to acquire innovation and new value added technology services at a lesser price, exploiting economies of scale and the possibility to share the costs of the infrastructure. Services supplied through the cloud are considered much more stable than before and also potential concerns about data protection and security issues are no longer deemed blocking factors in most industries.

Offshore outsourcing is now more widely accepted than before. Even Italian banks and financial institutions, which traditionally were quite conservative in this regard, have started to purchase, or consider to purchase, services supplied out of foreign countries, in particular Eastern European and Asian countries.

Large outsourcing deals are being planned for the next few months. The reform of the Italian labour laws passed in the first half of 2012 have not fully satisfied the high expectations of businesses, but did partially contribute to create a more flexible labour market and thus a better environment for outsourcing. Areas continuing to grow in recent years are HR functions outsourcing (such as payroll and benefits management, recruitment, training and reporting) and logistics outsourcing. Also, all the offerings relating to e-business, telecoms and new media have benefited from the sustained growth of the internet industry, and are expected to expand even more once the long-awaited public and private investments are made to increase the broadband and ultra-broadband networks coverage.

By Italo de Feo, Partner, CMS Adonnino Ascoli Cavasola Scamoni and Chairman EOA Italy



A View From The Netherlands: A Boom Year For Outsourcing In 2013?

The outsourcing market in the Netherlands is becoming increasingly mature. Satisfaction with suppliers is growing and the perception of better value for money among the outsourcers has increased slightly. At the same time, the trend for offshoring continues.

Many companies are still struggling with setting up proper governance for the management of suppliers. More and more organisations pursue a multi-vendor strategy with an offshoring component. Furthermore, the proper set up for sourcing management remains an important topic among outsourcers. This subject has topped the interest list of our members for more than three years. In recent years various aspects of sourcing management have been discussed extensively in various PON working groups, continually highlighting new concepts which contribute to successful management.

In 2011, outsourcing vendors scored an average of seven on customer satisfaction, according to an independent consultancy. That number has not changed this year, despite the pressure on the budgets of many outsourcers and suppliers. The fact that the perception of the quality of the delivered services remained stable, shows a certain level of maturity for the outsourcing market, and demonstrates that it can withstand a financial crisis.

It is striking that there were significantly less deals in the market in 2012. There was a lot of renegotiation within existing contracts, but in general there was little movement, though there is a catching up on optimisation. It is expected that 2013 will show more movement as a larger number of contracts will expire. Currently, most movement is within the financial and public sectors.

Platform Outsourcing Nederland (EOA The Netherlands)

In 2012, the Dutch outsourcing association (for and by outsourcing professionals) was focused on topics like sourcing management and outsourcing contracts. In the first half year Platform Outsourcing Netherlands organised seminars with topics such as: management of agile application development, outsourcing under architecture and financial management of outsourcing contracts.

PON also organised various meetings about BPO, best practices and lessons learned in outsourcing deals. The highlights of 2012 were the Outsourcing Days, with a one day conference for the board room and a one day conference for the outsourcing professionals. Attendance at these seminars and conferences was very good with a strong degree of interactivity, showing a high level of interest from our members. It's not just the outsourcers themselves who have been interested in further improving the management of sourcing relationships - the suppliers also have had an eye on the improvement potential here. Improved sourcing management further helps the transparency and control of outsourced services. Ultimately this will benefit the added value, the quality of the relationship and customer satisfaction.

In 2013 PON will focus on further expanding the community. In the past year the association has shown a great growth in the number of members, especially among the outsourcers. We expect that to continue in the coming year. Currently the association has more than 140 organisations and ten independent

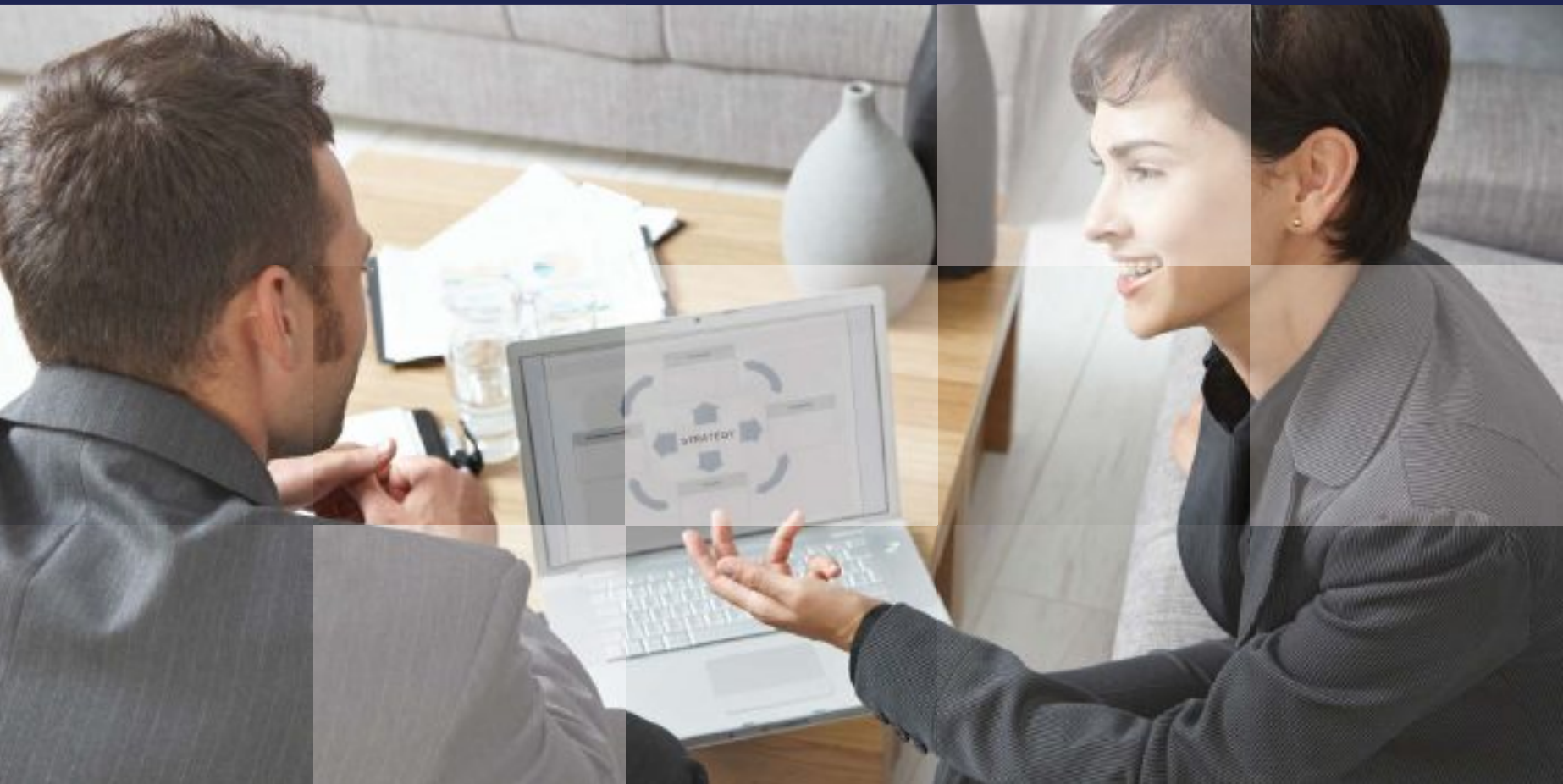
professionals as members. About a quarter of the organisations are outsourcers. The expectation is that most growth will come from the public sector and industry. The participation of more outsourcers will keep the subject of sourcing management prominently on the agenda.

By Eric Wesselman, Chairman of Platform Outsourcing Netherlands (PON), The Netherlands Chapter of the EOA



Outsourcing Turns Pro

Do you have the credentials to compete?



Most outsourcers didn't study outsourcing at university. This has created something of a skills vacuum – deeply experienced, highly-educated outsourcing professionals are hard to come by.

Do you know how to truly optimise a complex multi-sourcing arrangement, extracting maximum advantage from a range of specialist, innovative players, whilst streamlining stakeholder interactions via robust yet flexible governance? We do!

In fact, we know the best ways to add value in every sourcing model there is – offshoring, nearshoring, insourcing, the lot.

To develop your career in sourcing - and the future prospects of your company - then up-skilling through NOA Pathway is the right strategic option for you.

For experienced sourcing professionals, the **NOA Diploma in Strategic Global Outsourcing** is a flexible, post graduate programme, fully accredited by Middlesex University. The course is split into 3 modules, each of which takes around 3 months to complete, with the entire programme being typically completed, alongside a work role, over a 1 year period.

To find out full details of course content and teaching methods, see www.noa.co.uk or email pathway@noa.co.uk

Register by March for the Spring 2013 programme, or by the end of August to begin next Autumn.

European Outsourcing Association Awards Winners



In June 2012, the European outsourcing industry gathered together for the Annual European Outsourcing Association Awards – the premier awards ceremony that celebrates pan-European outsourcing best practice.

The winners were:

BPO Contract of the Year: arvato and Microsoft

This sterling BPO project – spanning 152 countries – saw Microsoft move from seven suppliers to a global shared service model with arvato. Microsoft has entrusted the processing of 90percent of the company's \$60billion revenues to arvato. Two years into a five year, \$200m deal and arvato is already delivering savings of \$55m thanks to its innovative managed service model.

IT Outsourcing Project of the Year: Luxoft and Hotwire Inc

This was a closely contented category, however the Luxoft and Hotwire entry illustrated a lean and agile international case study, whereby the service provider was truly embedded with their customer and its future growth. It clearly demonstrated best practice and was deemed of an exceptional standard.

Outsourcing Service Provider of the Year: BDO

BDO have invested in quality and in-country services so that they could take international customers from diverse multiple suppliers, to one international (but work local) supplier, yet also allow SMEs to operate as if international. The judges felt this was an impressive pan-European solution and the depth is demonstrated not just by the financial results but by the wide range of customers BDO provides these services to. The support provided, particularly to SMEs, is very encouraging in the current economic climate.

Outsourcing Advisory of the Year: Proservartner

Proservartner's entry was of an extremely high quality. The judges commended their social objective to improve the lives of children in poverty along with their business model focusing on effective outcome delivery through risking all fees. Case studies were unique, detailed and show an immediate high ROI. The judges also highly commend the Hogan Lovells entry, this was a very close second.

Offshoring Destination of the Year: Morocco – MEDZ Sourcing

After careful consideration the judges felt there were two leading submissions: South Africa and Morocco. However there can be only one winner and the award went to Morocco by a narrow margin. Morocco's strong points include: a wide range of services, a stable political environment, and leading brand testimonials.

Outsourcing End-user of the Year: Merck

Merck Shared Business Services' submission covers a \$56million agreement running over 5 years and spanning over 50 countries. Merck consolidated its outsourcing agreements from 8 suppliers to one (Genpact) to deliver finance and accounts services and IT and HR helpdesk services. Over 5 years the agreement will deliver \$15m in net savings from the consolidation PLUS 30percent operational expense savings over the term. A benefit sharing agreement is helping keep things on track for both sides.

Award for Innovation in Outsourcing: Genpact – Smart Enterprise Process

The judges felt that Genpact provided an excellent submission in a very strong category. Genpact's Smart Enterprise Process and Smart Decision Services offer a truly innovative business insight and are a great example of targeted analytics.

Award for Corporate Social Responsibility:SPi Global

SPi Global has achieved an ambitious goal of generating 20,300 employee volunteer hours to help youth by holding simultaneous CSR programmes within 24 hours across the company's global locations. They also have an innovative way of contribution by gain share to the benefit of their clients, their staff and the charities they support. With all targets exceeded, the judges selected this submission as the winner due to its excellent objective, implementation and the fact it has clearly helped so many.

Award for Best Multi-sourcing Project of the Year: Centrica – British Gas

The judges felt the Centrica/British Gas submission was extremely detailed and very convincing. It demonstrated a true partnership between four big players in the IT outsourcing arena, plus spanned across several countries.



best practice guides

While reading outsourcing horror stories may be somewhat entertaining, especially if it hasn't happened to you, it's even better to learn from the mistakes of others and share the insights that worked. Throughout this chapter, we speak to a variety of industry experts to summarise their best advice, based on their own experience and their clients' experiences.

BEST PRACTICE

Glenn Hickling

Communications Manager, NOA

The Spirit of Outsourcing

Contract to keep you safe; governance to make you smile

Governance is the hottest of all the hot topics in outsourcing. It is often said that a relationship has failed if you have to wave the contract in your partner's face. Even worse if you have to have your lawyers wave the contract in their face for you. But, whereas the contract is a protective, risk-mitigation measure, there is a crucial flipside. Sound relationship management requires a robust, structured formula that provides the focus, pragmatism and direction to drive value: good governance is that sweet spot where the interactions between the customer and the supplier build into positive and mutually beneficial relationships which can readily survive the challenges which inevitably arise in long-term commercial contracts.

Value Leakage: Killing Value Softly

Research by Information Services Group (ISG) indicates that between 5 and 30 percent of the expected value of outsourcing transactions is lost through ineffective governance. In a typical outsourcing agreement, this equates to lost value of approximately US\$600,000 per year for every US\$10 million in annual contract value under management. In support of this, research by the International Association of Outsourcing Professionals (IAOP) found

that "... 63 percent of companies surveyed believe they lose an average of 25 percent of contract value due to poor governance."

Heading for a Breakdown: The Vital Signs

A key indicator that a partnership is on shaky ground is feelings of contempt. Developing an air of disdain for your outsourcing partner per se is a powerful predictor of a relationship breakdown. According to Dr. Bharat Vagadia, of a strategic governance platform, Governance Director: "Scale and complexity of the interaction means there is little real oversight and even less insight into what is happening on the ground. Misunderstanding and communication breakdowns, through use of inappropriate communication channels or ineffective communicators will lead to a loss of respect – the forerunner of developing contempt for each other. The best way to avoid this is to integrate strategy, action and mindsets to the enduring vision that is provided by those that govern."

The Look of Gov

So what does good governance look like? Who better to ask than outsourcing specialist lawyers?

Peter Dickinson of Mayer Brown said: "When you've got good governance, it enables issues to be dealt with and for

the parties to continue with the contract and, indeed, to have stronger relationships as a consequence of that. Some of these issues would, in other contracts, cause very significant problems and could cause an irreparable breakdown in the relationship. Good governance is well structured: it not only looks good on paper, but when it's operated on a day-to-day basis, it works smoothly and effectively."

Kit Burden of DLA Piper suggests that "good governance is really based upon two key principles: trust and openness. Good governance is where nothing is swept under the carpet, issues are aired and made visible as early and as transparently as possible so that neither side has any surprises. In order to do this effectively – no matter what you've got in a contract – requires trust and openness."

Trust Me, I'm an Outsourcer

Colin Craig, an analyst with Information Services Group (ISG), is adamant that trust takes time: "it's about working with the parties and living up to the promises that are made. It's all about saying 'okay we'll deliver ABC, XYZ by such and such a date. Over time, trust will start to build up. The challenge is that in a lot of sales cycles sometimes the sales people can be somewhat enthusiastic about what can be delivered and when that doesn't come into reality that's a key killer for trust."

Trust tends to build between individuals, which makes it a massive challenge when people move jobs. Bharat Vagadia said: "When new relationship managers come in, they need to rebuild trust from scratch. That's where things can get delicate. New people coming in want to make an impression, do the right things. But because the trust isn't there, there is a tendency to say, let's refer to the contract, and as soon as you say that, you start down a very negative kind of slope."

Trust Us, We're Outsourcers

When asked what it takes to transcend individual relationships to build inter-organisational trust Colin Craig said: "If the culture of an organisation has a focus on a strong customer service which is delivering what it says it is going to deliver when it is going to deliver it, along with being open with clients and actually sharing with customers when they've got problems and they're not going to be able to deliver things. Clients don't tend to be ogres or unrealistic people, if you're open with them and say 'look you've asked us to do this, with the best will in the world it's not going to happen and here's the reasons why, and here's what the mitigation is', they will get over it pretty quickly, they're quite pragmatic people. So I think it's in the culture of organisations and how they approach clients particularly when things aren't going so well."

We Need To Talk. It Says So, Here, Here, and Here.

Quizzed on how to contractualise communication, Kit Burden said: "Good contract structure can encourage openness and transparency. But adopt a less is more approach: Don't demand so much information, or so many reports or so many meetings that they become an industry in and of themselves – you'll end up drowning with information. Too many customers ask for absolutely everything to be reported upon, the meetings at the

nth degree, even when they wouldn't have ever done that with their own internal people providing the services. They end up micro managing, because the more information they get, the more tendency there is for the customer to meddle in the way in which the supplier is providing the service, which is generally a major cause of problems arising when outsourcing transactions."

Peter from Mayer Brown added: "I think it's important both from a customer and a supplier's perspective for there to be a clear record of matters that are raised, how they propose to resolve them and what has been done. It's important from a customer perspective to be able to demonstrate that this has been a recurring problem for a long time. It could, in extreme circumstances, be relevant if they decide that they want to rely on the termination rights, where there have been persistent failures to deliver and, further persistent failures to remedy issues. Speaking exclusively from the supplier side, you also want to be able to demonstrate that you are resolving issues when they're highlighted to you. So I think it's in both parties' interests to always make sure that, through the governance procedure, issues are reported, noted, action plans agreed upon, outcomes recorded."

Kit went on to advocate contractualising a "very streamlined approach to getting communications to people further up the tree in terms of executives. There should be a process of early escalation within the project teams to see if the matters can get resolved, rather than leaving them to fester, on a day-to-day basis and just get worse and worse and worse. Getting people that bit more senior involved helps, as people more emotionally detached from the project can view issues more objectively. As soon as issues can be packaged up and brought up to somebody relatively senior on both sides, you can resolve them, and set out the basis of moving on. "

Really? You Should Have Said!

An all-too-common debate is 'are both parties doing what they should?' Well-advised customers have a provision in the contract which obliges the supplier to take swift action if they believe client-side responsibilities are being neglected. Kit Burden said: "This works on the basis that if they don't tell them for whatever reason, then the supplier loses the right to rely upon that customer failure if they then fail to perform their own obligations any time in the future, and that's obviously quite tricky. Yet if they haven't followed the contract process they might still be held liable under the contract, even if it was the customer's performance that caused the milestone to be missed."

Pain and Pain Relief

Relationships struggle when parties' positions are imbalanced right from the get go. Business models can be fragile through over optimism or terms of costs or delivery times. Customers sometimes are not completely open about their capabilities to support the project. These situations will always cause problems. Sometimes, problems cannot be eradicated privately. It is estimated that half of all end up needing some sort of external 'counselling,' with all well drafted contracts these days containing some sort of provision for private, confidential mediation and arbitration.

Peter said: "In our view, mediation is useful, first because the outcome of the mediation is non-binding, it's confidential, and it also enables you – in front of a third-party expert – to test how strong your arguments are. If the mediator listens to you and says, "You must be joking," then you probably think, "Okay, maybe this isn't the right argument." On the other hand, if the mediator listens and says, "Yeah, no, that all makes sense," and then spends the next three hours or next three days in the room with the other side, then you know what he is doing is he is trying to persuade them that they need to move their position. It's always quite interesting. If mediation doesn't lead to a happy resolution, then the next steps are either going to be arbitration or, assuming the contract provides for arbitration, it could be going to court."

The 100 Million Dollar Sentence

Very few outsourcing deals end up in court – but when they do, the stakes are always high.

Peter said: "It probably isn't in either party's best interest to be seen as to be suing each other; neither party will necessarily come out of it well. That links onto the following fact: litigation is inherently uncertain. Even if you've got the best, strongest case, you may go before a judge who reaches an irrational decision, and then you have a choice: you either accept it, or you appeal, and the costs just start to escalate. In fact, an example, one of the cases that we were involved in that went to court was all around what did a single sentence in the contract mean, and the value attaching to that single sentence was over £100 million."

A hundred million resting on the interpretation of a benchmarking provision – but, even if you were to win the high stakes game of courtroom roulette, you're not guaranteed to get all of the rake. You might not get awarded the full £100 million, and by the time the lawyers have been paid – litigation is expensive in the extreme – you might be as low as £700 million, even if you win.

The moral of the story: do whatever it takes to stay out of the courtroom. "It's all very well having a contract with lots of rights", said Peter "but you don't want to go to the lawyers every time it's not going well."

Summing Up

Smart outsourcers get the governance right from the get-go. Build a schedule that will be fit for purpose in the good times and the bad. People, products and services will all change over the life of a deal. Neglecting to prepare for this fact will leave you at the mercy of your lawyers. And while these men will fight zealously to defend you, it makes sound business sense to do everything in your power to avoid having to trouble them too often.

According to Peter of Mayer Brown, "you can have all kinds of contractual safeguards in terms of notification of issues arising etc. Here, the lawyers can breathe a sigh of relief and say they've done things properly. But if either party doesn't embrace the contract provisions in the right spirit then it is largely doomed to failure."

The terms of the contract may be on the paperwork, but the spirit of those terms: that's the governance.

NATIONAL OUTSOURCING ASSOCIATION GOVERNANCE MUST-DO CHECKLIST

NOA Board Member Dr. Bharat Vagadia advises, that to achieve the desired state of good governance, organisations must:

- Align the interests of the parties and relevant stakeholders through a jointly agreed vision for the deal
- Breed a culture of good governance with empowered participants, appropriate behaviours and attitudes with unfettered visibility across the hierarchy
- Construct a clear decision-making framework, process and system instilled with clear ownership and control
- Strike a balance between many-to-many communications between the parties with the ability to maintain some level of control
- Ensure clear individual and organisational accountability
- Focus on the strategic business objectives without getting lost in the woods
- Governance and relationship management must be seen to be complementary
- The governance framework must seek synergies and complementary competences to deliver innovation, in whatever form agreed
- Design of governance framework needs to be appropriate for the deal size/complexity and maturity of the relationship
- Change must be considered a normal part of the business and not something that is slow, cumbersome and contract driven
- Look for a balance between the conformance aspects of the deal and the performance and value elements of the deal
- Strive for real time visibility of the health of the relationship i.e. the level of attainment of business value and achievement of the intent of the deal
- Demonstrably embed policies and standards into the operations
- Issues should be dealt with where they occur, as quickly as possible, with a consistent dispute resolution process, which seeks to find appropriate solutions quickly without blame attribution
- Install a joint governance system which helps manage and govern the deal

BEST PRACTICE

Chris Halward,
Programmes Director,
NOA Pathway

Relationship Management – Art and Science?

What is the single most common mistake made in outsourcing? The evidence is clear; it is ignoring the critical importance of relationship management.

The key to successful outsourcing arrangements is establishing and maintaining a healthy relationship between client and provider parties. There are few people, if any, who would disagree with this statement, and in a way that is the problem. It reminds me of the poster that you used to see in offices:

- ✓ There was an important job to be done and Everyone was sure that Someone would do it.
- ✓ Anyone could have done it, but No-one did it.
- ✓ Someone got angry about that, because he thought that it was Everyone's job.
- ✓ Everyone thought that Anyone could do it, but No-one realised that Everyone wouldn't do it.
- ✓ It ended up that Everyone was angry with Someone, because No-one did what Anyone could have done!

Either because we think relationships 'just happen naturally' or perhaps we think that making relationships work is too hard, all too often whilst we all agree that good relationships are desirable, they are left for someone else to manage. The default focus in organisations is on numbers, process and platform, and that is to be expected. The challenge is for organisations to also focus on people and in particular their relationships.

The most persuasive argument for focusing on people and relationships is this – if things are going badly, and you have no people and relationship focus the chances are you are dead in the water. If things are going badly, but you have a strong people and relationship focus, your people will pull it around and make it work – often against all of the odds.

We might argue that a focus on people and relationships is a key factor in any organisational situation. However, within the context of outsourcing, which by definition is a relationship between different parties, it must be critical. The more parties involved in the arrangement i.e. multi-sourcing, the more important the management of the relationships between client and providers, and often also between providers.

Sooner or later, poor relationships will result in outsourcing arrangements failing to meet the expectations of some, if not all, of the parties and that's a best case scenario. At worst, they not only fail to meet expectations of all of the parties, but also create huge, expensive problems for them all.

The Science of Relationship Management

Managing the relationships between what can be many teams of people, comprising of perhaps many thousands of people, who might be based all over the globe, needs some science. The NOA Life Cycle provides a basis for the science. It is not designed to be prescriptive but rather to reflect what the NOA has experienced over the years as best practice.

At the heart of successful relationship management is the joint governance model. The level of governance required will

be dependent on the strategic value of the relationship to the organisation. In simple terms the more strategically important the relationship the more investment in governance will be required. This is a key point. For some outsourcing arrangements it will not be necessary to invest significant resources in establishing a strong relationship. The nature of the arrangement may be highly transactional and robust. If it is also peripheral to the business, perhaps easy to switch to alternative suppliers than to be blunt, there is no real return in investing time and resource into the relationship.

Operational, competency and trust development processes

Relationships are easier to manage when there are efficient processes in place to manage and monitor day to day operational matters including: contract changes and amendments, service credits, SLA issues, issues and disputes and customer stakeholder feedback.

Along with operational processes, for a relationship to be successfully built, the parties will benefit from having clear processes in place to develop competencies. The parties will jointly determine the set of competencies that are required to deliver the service successfully. This will include a range of task related skills and will also include competencies that will underpin the culture that the parties agree should be developed. Developing a culture within an outsourced service delivery team is a particular challenge. Where the service delivery team is focused entirely on delivering for one particular organisation, and is somewhat remote from the rest of the service provider, the challenge is an easier one. However, where the service delivery team might be influenced by different cultural norms the challenge is one that can be difficult and it is critical that both parties are clear about, (a) the goals, (b) the measures and (c) the actions to support culture development.

At the heart of successful relationships is trust between the parties. Trust develops over time and can initially be very fragile. One particular approach that will help to nurture trust is to influence the perspectives of both parties by processes encouraging the exploration of both issues and opportunities, rather than issues alone. Applying techniques such as Appreciative Enquiry can have a significant impact on the way in which the parties view the arrangement by highlighting the positive aspects of the relationship.

Analysing business value and impact

It may be the case that performance metrics agreed by the parties do not clearly establish the on-going business value and impact of the outsourced service. To ensure that the arrangement maintains support from stakeholders, and also to identify opportunities to improve the value of the service, it is helpful to consider value and impact.

The critical question is 'How can business value and impact be improved?' This avoids outsourced services becoming 'stuck' at a point in time – typically when the contracting is done – and steadily falling behind the actual requirements the business has in order to maintain its competitiveness.

It is always possible that an arrangement can consistently achieve the targets set in the original contract schedules and yet still be considered a failure.

Managing Stakeholders

Effective stakeholder management can be a complex challenge but is of considerable importance. It is likely that their needs develop over time, as will their perceptions of their own needs and of the service that is being delivered. Clarifying these needs and perceptions on a regular basis will provide important information to the service provider regarding how they can improve the perception of their service. A significant aspect of the relationship management role will be concerned with managing the interface between the client stakeholder group and the service provider. Identifying the points at which the supplier impacts client stakeholders is of considerable value and allows both the supplier and the client's relationship managers to successfully manage these potential 'pinch' points.

The joint governance process will be a key mechanism in ensuring that all stakeholder views and experiences are captured and successfully managed.

Drive measurable Continuous Improvement and Innovation

The most successful relationship is dynamic, outward looking and aligned with the goals of the parties. Relationships that are unsuccessful tend to be static, insular and out of step with what one or more of the parties need to achieve.

For some, continuous improvement (CI) and innovation are 'optional extras' in a relationship. Difficult to define, and even more difficult to deliver. The reality is that CI and innovation should be integral to the relationship. They are a function of a successful relationship where all parties are working collaboratively, looking for win-win and to achieve the stated and often changing goals of the parties. Evidence of CI and innovation reflect the success of the relationship.

The science behind driving CI and innovation is to: (a) define what you consider to be CI and innovation (b) monitor, share and celebrate CI and innovation however it happens (c) provide vehicles and training for people to collaborate to reflect on their current practice and identify ways of developing CI and innovation.

Contract Reviews and Benchmarking

Contracts will usually have provision for key elements to be reviewed on a routine, often annual basis. Pricing is a common example where the contract will allow for the parties to review the pricing according to a certain specified procedure. This may be linked to a benchmarking exercise. Benchmarking is considered by many to be an effective and scientific way of ensuring that the contract terms, e.g. pricing, is in line with similar arrangements in the marketplace. Organisations that collect market data are usually employed to prepare independent reports that the parties are then able to use to inform their discussions. Agreeing an objective process for benchmarking can provide a sound basis for the parties to re-calibrate the arrangement in an equitable manner.

Monitoring the relationship

Given the importance of the relationship to certain outsourcing arrangements it would be surprising if the state of the relationship were not managed. It was Peter Drucker who famously said, "What gets measured, gets managed." Implicit in this statement is of course that what doesn't get measured doesn't get managed – and that is certainly true with regard to relationships.

Some arrangements will focus largely on performance metrics and pay little regard to the state of the relationship itself. The view is that what matters is whether the performance outputs are in line with those that were agreed in the contract. This is in a sense true. However, it ignores the fact that typically both parties will want to see the relationship continue, as changing sourcing strategy or supplier can often prove disruptive and costly. If the relationship is not well managed it makes the likelihood of it being long term less likely – this can sometimes be the case even if the performance outputs are acceptable.

Monitoring the relationship is best achieved by agreeing on key measures and the various data collection and analysis tools that will be required; along with the processes that need to take place to review data and take action.

The Art of Relationship Management

We have described the science of relationship management as being concerned with establishing and managing processes and structures. Putting in place governance procedures, designing

monitoring tools or benchmarking processes, amongst others that have been mentioned previously. However, it is perhaps the art of relationship management that will often have the biggest impact.

The art of relationship management is concerned with all of the people involved in making the relationship work demonstrating the necessary behaviours, consistently. We will often feel confident that we can control the science as described earlier – but we are often much less confident about controlling the 'art'. How can we ensure that everyone 'gets along'? How can we ensure that cultures don't clash horribly? How can we ensure that different personalities don't repel? How can we bridge the barriers between people who live in different national cultures? How do we ensure that creative tension doesn't become just tension?

Often outsourcing arrangements fail through a lack of successful, continuous and consistent leadership. It is leadership that sponsors the art in relationship management. Leaders are critical to relationship management. The leader will set the example through their behaviours. Leaders will provide the required clarity. Leaders will ensure the necessary resources are available for relationships to be successfully managed.

The most successful outsourcing leaders don't ignore the importance of relationship management. They place it front and centre and constantly encourage their teams and their partners to manage the relationship. They ensure that everybody manages relationship management.





BEST PRACTICE

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Secrets to Innovation

Economic pressures and times of austerity have seen an increase in businesses looking for increased productivity and efficiencies through innovation. Innovation within outsourcing is an all-encompassing term, covering multiple services areas. This has led to a tendency for misinterpretation as to what the term actually entails. From relationship management to service development and contract creation as a whole, innovation and outsourcing go hand in hand.

While clients regularly seek innovation from their suppliers in outsourced services, in practice this can often result in ineffective promotion and delivery. This best practice guide will demonstrate how end users can drive innovation when outsourcing with examples of implemented best practice to reveal the secrets to innovation.

Examples of Innovation as shortlisted for the award for innovation in outsourcing at the NOA awards 2012:

- An outsourced solution which takes care of the entire sales process including analysis and reporting. The solution was also implemented through a low risk cost per acquisition basis
- Innovation in customer service outsourcing through the employment of a multi-channel scalable social media contact model. The model has seen uptake in other projects in using web-chat and social media messaging to provide expert assistance to customers
- The creation of a fully integrated bespoke procurement portal providing a cohesive transparent approach and scalability for future expansion. The service was delivered alongside extensive consultations to ensure the portals suitability
- The implementation of detailed analysis and benchmarking to drive a virtual shared services model within the public sector, aimed at promoting the sharing of resources and work
- The creation of an automated flexible debt collection service with analysis capabilities designed to enhance service

2013 is looking to be a year of technological innovation as companies seek to take advantage of recent technological developments including the implementation of national super-fast broadband, BYOD and the uptake of cloud services. Mike Hunter Vice President, Cognizant, predicts: "there will be more and more focus on what is now called cloud which is the centralisation of data. I think when you look at storage capabilities, the increase in data is enormous. There's absolutely got to be innovation promotion around data management", adding that, "as more and more people focus less on the cost side of things and look inevitably at the next side which is revenue growth and market share expansion, then inevitably innovation is going to be key and people will have to reinvent themselves through innovation."

Despite the economic turbulence of recent years reduced budgets have not stalled the innovation drive. Steve Tuppen described how: "the outcome that people have been looking for in those standard operation capabilities have not really changed, year over year. In fact the need for increased savings can enhance innovative practices," adding that economic pressures "can drive even more innovation, because we have to find better, quicker ways to achieve those outcomes."

Ready, Steady, Innovate

When seeking to innovate clients must understand that the process requires two-way participation. Failure in underestimating their own role can be just as fatal to innovative practice as poor suppliers. "The biggest obstacle to innovation is an understanding with clarity of what innovation really is," said Steve Tuppen, Director, ISG.

Even in sourcing models such as a complete managed service model where clients have little direct involvement, communication is still important in promoting innovation, in order to make sure service definitions are clear.

Step 1: What is Innovation Anyway?

A consistent definition should be established with both contractors and clients maintaining the standard. Due to the common misunderstandings surrounding innovation a definition also prevents misunderstandings regarding how and in what areas innovation is expected to be delivered.

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A 2012 Forrester survey revealed that 41 percent of respondents viewed innovation as one of the key challenges in their existing outsourcing relationships. Harry McDermott, CEO, Hudson & Yorke, said: "there is a degree of frustration within the big organisation market in a perceived lack of innovation by some of the technology suppliers. In our experience, that frustration is borne out of a belief that the technology vendors are reluctant to bring new ideas proactively to the table."

Step 2: Avoiding Innovation Limitation

Clients must provide continued feedback as to what they require from the contract. The promotion of communication in facilitating the delivery of innovation can be achieved through methods including innovation workshops, in which collaboration can be achieved in meetings and roundtables with the advice of experts. The employment of regular face-to-face meetings and workshops between the suppliers and end-users keeps both sides up to date with project developments and can facilitate obstacle avoidance. The IT giant Cognizant employs workshops to display to the client how innovation should be prepared for and what areas have potential for future stimulation.

Innovation naturally occurs within businesses and projects, the trick is to promote this while planning for further developments. Clients should be aware of the risk of a tightly regulated and controlled outsourcing project, which can have the effect of limiting the availability for natural opportunities to innovate. Mr Tuppen describes how contracts must be flexible: "allowing for the natural change as people come up with new ideas with new ways of doing things without them being at an incremental cost."

Planning

Innovation focuses vary from sector to sector, with the public sector moving towards increased digital engagement and IT development, including big data, while the banking sector is also turning to embrace IT based services with a focus on customer management and engagement. Innovation is being promoted in three main sections as technological innovation, service model innovation and commercial innovation with cross-over in all three sections. Technological innovation in areas such as IT has been at the heart of pushing new models and commercial innovation and can be divided up into a focus on mobile communications and cloud services.

IT managers within the public sector are looking to increase agility through developed infrastructure provided by communications and IT technologies such as cloud. Innovation aimed at driving agility and move away from restricted models are expected to increase cost savings at a time of strained budgets.

Tony Morgan, Chief Innovation Officer, IBM gives four recommendations in developing innovation within IT functions:

- Adapt your strategic roadmap to address the change agenda – cover impact on legacy systems as well as new capabilities – include a capability and sourcing model so you understand functions you need, no longer need, need to keep in-house and source externally
- Define who is responsible for identifying and delivering innovation opportunities most relevant to the enterprise
- Engage key service providers – integrating them into the change roadmap and selectively partnering with them on innovation – if your service providers deliver much of your IT doesn't it makes sense to engage early and tap into their capabilities?
- Create a communications plan that reaches into the business – highlighting future plans and celebrating success

Here we can see how innovation in the development of new capabilities should be planned for in the early stages of a project, with opportunities for innovation driven only in areas that are heavily relevant to the project and end-user. Tony also identifies how both sides of the relationship should be involved in developing innovation, with suppliers well placed to identify new opportunities during the lifetime of a project.

The variety of service models in outsourcing reflects the diverse areas within projects in which innovation can be applicable. The promotion of innovation within multi-sourced projects for instance is highly prevalent due to the scale and length of these services, with the need for continued evolution over the lifecycle. The relationships between the multiple-suppliers and the end-user in multi-sourcing projects becomes even more important, with contract planning and governance becoming vital in ensuring that suppliers work together in maintaining the delivery of innovative services.

Step 3: Knowing What's Best For You

The first stage during the planning phase is establishing what type of innovation is desired and what the desired effect is. In the planning phase users should identify if innovation is desired, not all projects and collaboration require innovation. This is particularly true if stability, short-term and basic low-level services are required. Innovation should not be undertaken for innovation's sake. "People blindly seem to think about innovation in terms of increasing shareholder value and I think people have also got to look at innovation from a perspective of 'It must not destroy shareholder value'" said Mike Hunter. Gaining short term cost savings from innovation may require a different focus to promoting value from innovation during a long term service contract.

Step 4: Avoiding Pitfalls

The management of innovation within a project is vital, in planning for innovation within contracts care should be taken to avoid placing too rigid a framework within the contract and in management of the services. Innovation has to be flexible in order to allow for the introduction of new technologies and unplanned developments. "Some of the pent-up frustration around the lack of innovation is actually a symptom of some very aggressive contractual negotiation that has taken place on the part of the client, which straitjackets the technology vendor sometimes," said Harry McDermott.

If innovation is decided upon then a structured plan must not be ignored including allowances for future developments and requirements. NOA research has shown that less than a quarter of organisations have a formal innovation methodology to support outsourcing processes. Ankush Mattu, Senior Manager, Kurt Salmon, detailed how innovation failure "can be attributed to undefined productivity and expectations measurement tools, volume creeps, lack of benchmarks and poorly structured contracts," adding "there is also possibility of organisations

contracting with only one master service provider, who will have further sub-contracts with different service delivery providers. This reduces the overhead of managing multiple contracts over different time scales."

Innovation Promotion Within the Public Sector

Innovation is being pushed within the public sector as restricted budgets force departments to innovate in the face of recession, from large outsourcing projects to low level procurement, innovation is being pushed to gain maximum service value. The public sector has begun to take on key lessons in innovation development from within the private sector and has been quick to employ its size to negotiate. Mike Hunter, said: "If ideas are relevant in the private sector one could argue why aren't they relevant for the public sector, I think the public sector's challenging itself and saying, 'that's a very valid statement, we'd better start looking at some of these new ideas', Innovation is one of those key areas".

The Cabinet Office has driven innovation within the public sector through the Government Procurement Service (GPS) framework in setting procurement standards across departments. Steven Tuppen, ISG described how the GPS framework "is in itself innovative. For many years, the lack of consistency and the allowing of the big prime contracts to roll on for many years without significant change and without real drive for value for money, has been allowed to happen. We're now seeing a much firmer drive to deliver the best value and more innovation into the estate."

The GPS framework reflects the government's move towards multi-sourced shared service contracts, in this case innovation in competition control and a shift in approach towards multiple small contracts has increased agility and cost savings. When approaching new services an overall assessment of the service should be carried out to ensure that old methods are not being retained at the expense of optimisation.

The G-cloud is another example of public sector innovation, while a portal for department procurement has allowed for large cost savings from standardisation across the government, innovation has allowed a basic service to be reformatted for increased efficiency. This approach can be applied to many outsourcing opportunities.

Implementation

Step 5: The Carrot and the Stick

Concepts including gain sharing, benchmarking and performance improvements should be formally introduced into outsourcing contracts. Both provider and the client should share in the cost of benchmarking and performance improvements.

Successful innovation should be incentivised and actions that have improved a project, that have not been planned for and have fallen out of scope of the contract should be duly rewarded. The carrot and stick approach, when effectively balanced, allows for innovation providing incentives allows users to effectively drive innovation and such end-user investment aligns both parties to the same goal.

Innovation should be driven at all levels within the contract, the desire to implement cost savings when over focused upon can harm further innovation. Steven Tuppen focuses on maintaining balance: "clients can't expect to drive the price point so low on an

outsourced contract that the technology vendors have little or no scope to be innovative with them, so there's an important balance that needs to be struck here."

Step 6: Effective Analysis

Innovation should be measured and benchmarked for effectively, while the areas where innovation has been planned should be analysed in order to drive change. Employing the correct tools for monitoring the effectiveness of innovation allows for opportunities to further promote innovation. The model, depending on the service such as industry and contractual length, should allow for unplanned innovation. Monitored areas and KPIs will include the key performance targets and should be focused on driving project transparency. "Innovation is being driven by the desire for cost saving, but not just cost saving, but also cost transparency. The ability to save costs is maximised if there's improved transparency around the cost, including what's generating expense, and is it being regulated properly," said Harry McDermott.

"Innovation is being driven by the desire for cost saving, but not just cost saving, but also cost transparency. The ability to save costs is maximised if there's improved transparency around the cost, including what's generating expense, and is it being regulated properly,"

Organisations that procure mature or high numbers of outsourcing contracts can implement automated contract management to further drive continual contract innovation. Automated contract management systems have self-service and mobile functions, like milestone reminders, pricing analysis, performance measurement and reporting in order to stimulate services. The procurement phase is also a time to focus on the scalability of service levels. An example is the increasing use of scalable cloud services including data storage alongside analytical capabilities. End-users should analyse services and decide if innovation in scalable services are preferable to single service solutions.

Conclusion

Developments in technology and the requirements of the private and public sector in reducing costs have enhanced the value of innovative practices. Innovation is not a new concept within outsourcing however its popularity continues to grow. Preparation for innovation must begin within the first phases of outsourcing preparation with robust communications between users and suppliers. The main key to effective innovation promotion is an understanding by both sides in its definition and their overall delivery roles in achieving innovation effectively.

BEST PRACTICE

Glenn Hickling
Communications Manager, NOA



The Ultimate Guv'nor

Time for a new breed of relationship manager: strong yet flexible, smooth communicator and negotiator – every end-user needs a human focal point who knows every play in the book.

Recent research by the International Association of Outsourcing Professionals (IAOP) found that 63 percent of companies surveyed believe they lose an average of 25 percent of contract value due to poor governance.

Deals can be smartly constructed, but if the actual running of them is neglected, they won't deliver the value they should. This is a skills issue – and to protect your investment, it's vital to get as smart as your contracts.

As the industry matures, you need to mature with it. Become one of the next-generation of informed, empowered relationship managers. You see, governance is not merely a piece of paper, it's a mindset. Train your mind and success will follow. You can be the Ultimate Governor.

The One with the Iron Fist

"Business is war without bullets", says CEO of Nike, Phil Knight. Outsourcing, done badly, is more like the Cold War, with parties full of mistrust and jockeying for position, ready (but hoping not) to push the button and go totally nuclear.

So the Ultimate Governor is strong in times of war and aware that things may not always be what they seem. For example: you'll get what you pay for, but you might not be paying for what you expected. Beware 'pursuit teams,' – the sharpest, most able people in the supplier's company: the slickest of sales consultants, chirpsing all the lyrics, his high-tech über-nerdy wingman ready to blind you with the science behind the systems. Buyer beware!

Peter Dickinson, an outsourcing specialist lawyer with Mayer Brown says: "the guys who are tasked with winning the big contracts, they're incredibly bright, able people who can sell very strongly the proposition, which the large global IT company

can offer and provide. Those pursuit teams, once the contract's signed, normally move on to try and win the next contract, and the people who come in to do the day-to-day operation aren't necessarily of the same calibre."

But the Ultimate Governor is wise to this. When it comes to continuity, lay down the law from the get-go: be forthright in discussions about day to day contact points, and key roles. Get people you know and respect responsible for your contract all the way through.

The One with Internal Discipline

Lack of fulfilment of expectation, and its derivative problems is not just a supply side problem. Much-vaunted hyper-innovative transformational outsourcing can fail to deliver. As Peter Dickinson says, "the customer will need to do stuff in relation to its retained environment, to enable transformation to occur. Customers don't necessarily do what they should do. The supplier then can't conclude the transformation. And you then get into a mutual blame game, where the supplier says, "The reason I didn't transform the environment is because you failed to do X, Y and Z," and the customer says, "No, no, no, no, that's not the cause. You never got to the point where what I might have done or not done would ever be relevant."

The Ultimate Governor gets their own house in order, making sure they know exactly what is required their end...with the ability to make things happen to maximise the chances of outsourcing success.

The One with the Velvet Glove

Effective social interaction drives process and pragmatism. To achieve this, you need a little R.E.S.P.E.C.T and it's due if everyone's micro-scale social skills are up to scratch. And if they're not, learn. More and more companies are providing training in soft skills such as conflict resolution, creative problem solving and

strategic thinking. And, in many cases, seemingly elementary stuff such as developing the ability to actually listen properly.

Outsourcing, by definition, is a sociological paradigm. Social interaction between distinct groups is at the heart of it. As is power and control. Seminal sociologist Max Weber coined a theory: the 'tripartite classification of authority.' Leaving aside 'traditional authority' – unless you happen to be royalty, or outsourcing to your offspring, this isn't valid – the other two parts of Weber's triangle represent cornerstones of sourcing deals. Get your 'rational/legal authority' mapped out in the contract, and rely on your 'charismatic authority' to drive home the value.

Think of outsourcing as a cult of personality. The Ultimate Governor exhibits a high level of emotional intelligence, isn't afraid to say what he/she thinks, but has the tact, diplomacy and charisma to ensure the message is received positively, without the need to wield the contract as a weapon. Blessed are the peacemakers. Nowhere more so than in a complex web of multi-sourcing!

The Wise One with The Wisdom of the Past

Outsourcing has been around long time – but humans are traditionally not good at learning from their forefathers. The Romans had a recession bought about by institutions investing recklessly in foreign markets, where distance and over-optimism blinkered them to the risk. Sound familiar?

1720's South Sea Company speculative bubble was very similar in circumstance to the irrational exuberance of the dot.com bubble at the end of the 1990s...and then, investors reprised the same trick with the real estate bubble that followed. Crash, bang, empty wallets. Did we learn nothing?

Point is, outsourcing has a known track record. It often excels. Sometimes it goes spectacularly wrong. Learn from these things. It goes wrong for the same reasons – under-supervision, neglecting the relationship, shockingly intermittent, un-productive communication and inevitable blame-throwing.

To avoid an outsourcing deal that booms then busts, you need to learn from your tribal elders. Sourcing works best when you're experienced, so don't just communicate well with your suppliers, devote time to sharing in the experience of the collective consciousness.

The one who can see the future

Not content with being a trend-spotting, smooth-as-a-mirror networking, news/gossip hound, with their finger bang on the pulse, the Ultimate Governor is future-facing to the point of obsession.

Change is the only constant – the one thing you can be sure of. Products, processes, people will all move on. So get your lawyers to build your contract so that you can enjoy the benefits of advances in technology, without incurring a raft of extra costs. The best way to prepare for change is to become a truly intelligent business and get the whole organisation thinking as one united super-brain. For non-intelligent businesses, too much information is stored 'up top' in various different minds around the company. Sometimes with questionable accuracy, sometimes in disagreement...

The Ultimate Governor truly understands their estate and how it's being run. Keep your outsourcer up to date, allowing them

access to the same knowledge that you have. That way, innovation can flourish and you can build a brighter future together...and with your contract constructed flexibly, same as a skyscraper is built to swing a little as it weathers storm, extra benefits shouldn't incur extra costs. Innovation breeding VFM. Bargain.

The Outsourcing Prophet

As well as being a master orator, and powerful presenter, the Ultimate Governor has all the requisite internal comms ducks in a row.

Whether high- or low-tech, cutting edge or traditional, people need to learn from one another, and in times of transition and change, internal comms is more important than ever. You need to spread the word. Convincingly.

It's vital to know your audience. When services are delivered by a mix of employees and outsourced service providers it can prove a challenge to communicate goals and values to a diverse audience. Communications need to recognise this complexity, and rely less on hierarchical delivery. The best way to do this is make sure all information is honest, accurate and timely, with the facilitation of genuine discourse built in. That's when you end up with credibility. And in comms, credibility is king.

Doctrine and Documents

"A single version of the truth" is the Ultimate Governor's holy grail, according the NOA's Dr Bharat Vagadia. That can be difficult to find, as, according to a Gartner survey, 53percent of organisations don't believe that "they have any experienced outsourcing governance." When nearly half of end-user organisations don't rate themselves as governors, the whole industry has a problem.

When people think governance, they tend to think meetings, and briefings and conference calls. Whilst popular, they are not conducive to a single version of the truth, as recording their output is so hit and miss.

In an age of high-tech solutions to everything, management of efficiency and effectiveness, the backbone of outsourcing is left to Microsoft Office packages like Outlook and Excel. Whilst useful to some extent, capacity for effective decision making is limited by difficulty of data capture, and the potential for misinterpretation, which can waste time and impinge upon value. Especially as the prevalence of multi-sourcing, global delivery and new commercial models make governance ever more complex.

Tools such as the software-as-a-service Governance Director, a unique activity, risk, compliance and communications platform will help drive the benefits to 100percent+ of those cited in the original business case. As well as refocusing management time, it encourages apt decision making by allowing managers to work consultatively with the whole network of employees and partners – every step tracked, traced and fully accountable.

The Enemy of Value Leakage

So there you have it – to be the Ultimate Governor, you have to be a suspicious yet open, trusting yet mean, forthright yet diplomatic, informed yet inquisitive, strong yet flexible, technologically empowered yet old skool people person...with their eye on everything and their finger on the pulse. Is that you? Let's hope so – your company, and your industry is depending on it! Good luck and Godspeed!

BEST PRACTICE

Paul Corral, Editor,
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Choosing the Right Sourcing Model



Total contract value has declined rapidly in recent years with average contract sizes falling below \$100 million USD since 2000. Requirements for adaptable sourcing have given rise to a variety of models other than the single source mega contracts.

A well-constructed sourcing strategy should equip an organisation with the tools and resources to make a decision over the correct sourcing model. Information Services Group, a leading technology insights, market intelligence and advisory services company, believe a comprehensive sourcing strategy should address the following fundamental questions:

- Where are we? How effective and efficient are our current capabilities?
- Where could we be? What are the incremental opportunities?
- How can we get there? What is the roadmap that will allow us to move forward?

A strategic sourcing approach ultimately connects the company's operational base to its business aspirations. It ensures that the outsourcing model chosen is not only aligned with, but can also help to drive forward the critical operational aspects of the business strategy.

2013 Forecast

With outsourcing strategies linked to increasing pressure to maximise profit margins, outsourcing service providers in 2013 will continue to build even more innovative and riskier engagement models, including business-outcome based pricing, revenue-sharing arrangements, and dedicated centres of excellence.

Strategic outsourcing in the mid-market will continue to grow in 2013 along with the surge of major strategic initiatives, in which the business technology outsourcing strategy is directly linked to measureable business outcomes. Expectations are also changing and suppliers will continue to evolve for survival and adapt to the changing market.

Judith Storr, Marketing Manager, Acora, a supplier of IT services for mid-market UK companies, comments: "Forecasts for 2013 show that the trend toward strategic outsourcing is continuing. Two indicators from our recent survey support this notion. Firstly only 15 percent of boardrooms saw IT as a 'support' function whilst 80 percent of respondents regarded IT as a strategic business imperative."

GARETH THOMAS, MANAGING CONSULTANT, HUDSON & YORKE, OFFERS SOME 'STRATEGIC SOURCING' PREDICTIONS FOR 2013

- Throughout 2013 there will be an increased focus by IT executives in taking more of a strategic role
- Cost savings will still be a key element of sourcing strategies, but flexibility will become more important
- Outsourcing contracts will continue to reduce in scale, moving away from early monolithic sourcing models and strategies to smaller flexible service models
- Integrators will become increasingly critical for joining specialised services contracts together and ensuring end-to-end delivery of service levels, with the use of risk reward models to promote integrators

The Human Factor

Any sourcing decision should begin with a consideration of the strategic needs of the organisation from which a blueprint should be developed along with a formal business case for sign off by the organisation's leadership. Key plans and governance should be developed which provide a sound foundation for both the strategy, and to ensure that it remains focused on and driven by the chosen leadership team.

Martyn Hart, NOA Chairman, said: "The establishment of a team that has the clear sponsorship of an organisation's senior management is a critical step in ensuring that whatever sourcing model is adopted – it is well considered and it will have the support necessary for it to be successfully developed and executed."

A senior leadership team should actively lead the sourcing activity. This team's role is to recommend the most appropriate sourcing strategy and if the decision is taken to adopt an outsourcing or shared services strategy, they will lead the strategy over the long term.

Once the senior leadership team has established its view on the strategic opportunities and scope, it will need to appoint key people across a range of specialisms to support its activities. These appointments may include senior specialists in strategy, finance, law, HR, IT, communications and operational areas relevant to scope.

For many organisations some of the key people appointed will be competent in their particular areas but not necessarily experienced in a sourcing context.

Sourcing Models

As the industry has matured, a larger variety of models are on offer, each offering specific benefits and challenges including cost effectiveness, flexibility and collaboration. Selecting a sourcing model depends on the organisation's existing sourcing maturity level and their willingness to improve it. The most common sourcing models can be found below along with three case studies showcasing recent innovative collaborations.

Single-source

Although small deals are becoming increasingly common, the single-source mega deal is still very much in demand due to a variety of reasons, including less administrative effort in dealing with only one supplier. A single-source procurement is also greatly beneficial to a supplier and end users should expect to share in that benefit.

Multi-sourcing

As end users continue to opt for a number of smaller, flexible and short duration deals with a number of suppliers; governance and end-to-end integration will continue to play key roles in achieving the overall business value. A culture of collaboration is also encouraged between large suppliers and SMEs rather than blame.

Gain Share

In today's difficult economic climate, end users are under growing pressure to find new ways to cut supplier costs without adversely affecting business performance. A gain share model is fast becoming the solution for many who are seeking cost-effective ways of purchasing new products or services.

Mutual

The Government's recent 'Rights to Provide' scheme allows entrepreneurial front-line staff to take over and run services as a mutual, co-op or joint venture by partnering with the private and third sector. Whilst no one can downplay the fundamental role capital plays to fund any service – it is these kinds of collaborative strategies that can make a key difference to organisations and the role of outsourcing in delivering services in the Big Society.

Joint Venture

Since outsourcing resembles a partnership or joint venture, many outsourcing contracts have been structured as joint ventures. The rationale for outsourcing joint ventures in these times of austerity is often financial, however partner expertise often results in an increase in innovation, technology and process improvements.

Social Impact Bonds

Social Impact Bonds are growing popularity and provide an innovative way of attracting new investment around outcome-based contracts that benefit individuals and communities. Private investment is used to pay for interventions, which are delivered by

service providers with a proven track record. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment.

Offshore

With more markets beginning to embrace offshoring, multinationals are looking to consolidate vendors and geographic sites into two or three multi-lingual hubs in order to gain economies of scale, gain greater consistency and improve vendor management.

Service Integration

As companies continue to turn to multi-vendor models, there is a growing need to further mesh services together whilst maintaining the discipline that allows for a "plug and play" approach. The introduction of cloud offerings has also added to the demand for flexibility. Service integration is the key to transforming the component service from being disjointed and focused into being business relevant, enabling and seamless

Shared Service

The advantages of shared services are clear. Different ways of delivering services, which have arisen purely as a matter of chance, can be harmonised, helping remove the problem of the "postcode lottery". Best practice can be shared for the benefit of all. Those who only use a service occasionally can call upon a central resource when needed. Plus, staff can be freed up to concentrate on what adds most value. Sharing services does not necessarily mean that fewer staff are required overall – simply that these staff can be freed up to do other things, of greater benefit to the public.

Robotic Automation

The implementation of a 'virtual workforce' can significantly shape the nature of back office service delivery. Robotic automation can have the effect of dramatically reducing costs as opposed to alternative service delivery approaches. Transformation can be delivered rapidly, with the potential to robotise back office services within a period weeks or days compared to other less rapid and agile systems.

Best Practice Case Studies

As the UK continues to battle its way out of recession, end users are increasingly gaining a competitive edge through the use of innovative sourcing models delivering a range of benefits. The following case studies provide good examples of partnerships doing just that.

Greater London Authority and Thames Reach and St Mungo's Social Impact Bonds

The government announced two new social impact bonds last November worth a total of up to £8m to combat homelessness in London and support adolescents at risk of being taken into care in Essex.

The London project, commissioned by the Greater London Authority and funded by the Department for Communities and Local Government, will work with 831 rough sleepers over a three-year period.

The homelessness charities Thames Reach and St Mungo's will deliver the service. They will be paid for meeting various goals, including reducing the number of people sleeping rough, moving certain numbers of people into settled accommodation and reducing the number of visits to A&E by homeless people. The bond will be worth up to £5m.

Essex County Council – Action for Children

The Essex project, funded by Essex County Council, will work with about 100 young people aged 11 to 16 who are at risk of being taken into care. The programme will be carried out by Action for Children.

Success will be measured by the reduction in days spent in care by the adolescents, improved school outcomes, wellbeing and reduced reoffending. The project has raised £3.1m from investors including Bridges Ventures and Big Society Capital.

Peter Martin, leader of Essex County Council, said that he was keen to support the social impact bond model and that he had a list of up to 15 other projects that he would be keen to fund in the same way.

In both cases, the projects will initially be funded by social investors, with government paying only for success in achieving the outcomes they have set. Both projects will be managed by Social Finance, the organisation that originally created the concept of the social impact bond.

Rolls-Royce and Capgemini Service Integration

Rolls-Royce awarded a pioneering three year IT contract to Capgemini earlier this year as it introduced a service integrator role replacing its existing single-partnership with a multi-vendor strategy.

The new contract saw Capgemini working as the service integrator for Rolls Royce – ensuring that the specialised IT outsourcing services, provided by a number of vendors, will operate effectively together to deliver the best possible support to operations in 50 countries worldwide.

The new contract is seen as key to the success of a new IT strategy for Rolls-Royce in which a single main supplier is being replaced by a number of specialised outsourcing vendors enhancing quality, flexibility and responsiveness. Simon Ricketts, Chief Information Officer at Rolls-Royce, said: "It is vital that our world-class products, services and people are supported by equally world-class IT and that is what our new strategy is designed to achieve. Capgemini, as service integrator, will be at the centre of this strategy and we look forward to working in close collaboration with them in the years ahead."

In addition to its role as service integrator, Capgemini will also be responsible under the new contract for supporting a number of key business applications at Rolls-Royce, including the majority of the company's Enterprise Resource Planning (ERP) and supply chain software systems.



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The Co-operative Financial Services and Blue Prism Robotic Automation

The employment of a 'virtual workforce' or virtual robotic FTE can have a significant impact on back office service delivery, including considerable cost reduction in comparison to current approaches. The speed of transformation in robotic automation can also be significant, with the ability to robotise back office functions within days or weeks compared to lengthy transitional phases of other sourcing strategies.

Due to the above benefits, The Co-operative Financial Services committed to an automation project using operational agility software from Blue Prism. Before the completion of the project, a nine-strong team in the bank would have the daily responsibility of manually reviewing around 2,500 or so high risk accounts. The team would then make a decision to either return or process the payments depending on the account profile of each customer.

Joanne Masters, Business Systems Manager, The Co-operative Financial Services, said: "The Bank is committed to proactively supporting customers and the business case for this project was to redeploy staff from manual roles into customer facing account management roles, alleviate the daily time pressure of having to complete all processing by a 3pm deadline and manage all customer accounts with the same degree of accuracy and consistency."

The Blue Prism software enabled non-technical users to integrate and orchestrate systems and processes non-invasively and without change to the bank's core systems. Subsequently the automation of the entire 'review' procedure means that the bank now has a 'virtual team' of 20 people completing the workload by 11am each day instead of a team of employees working to meet a 3pm daily processing deadline.

The Co-operative Financial Services has seen a number of benefits due to its strategic decision to employ a 'virtual workforce' and automate the excess queue procedure:

- Employees previously engaged in manual processing have been released to work on proactive customer account management
- Decisions are made in a consistent manner. The rules-based Blue Prism process ensures that the excess queue procedure is followed in exactly the same way every time, ensuring that the bank is able to meet its FSA obligations
- The process has helped to substantially speed up the queue process, especially on high volume days
- Increase inbound customer service call levels

Joanne concludes: "The excess queue procedure is now managed entirely by Blue Prism, requires little human intervention and the project is well on its way to achieving all of our objectives."

PICKING THE RIGHT MODEL: ISG TOP TEN TIPS

Many executives fall into the trap of thinking of sourcing initiatives as merely tactical or technical projects rather than long-term, significant strategic programmes that fundamentally change the profile of the organisation. The below tips from ISG should reinforce the strategic value of sourcing relationships as the foundation for on-going success, and ultimately aid an organisation choose the right model:

1. **Avoid a piecemeal approach:** leverage sourcing as an integral component of your overall business strategy
2. **Be strategic:** ensure that your service delivery model is not only aligned with, but will also drive forward, the enterprise's ambitions
3. **Take a holistic, enterprise-wide approach:** this will maximise economies of scale, avoid duplication and ensure continuity of standards
4. **Sourcing is not synonymous with outsourcing:** review your present operating model and create a roadmap for future requirements that considers all of your options both internal and external, while balancing value, risk and speed
5. **Sourcing is an on-going process, not an isolated decision:** by deploying flexible services from wherever they are best provided, you can quickly and effectively respond to changing market conditions
6. **View service providers as partners:** by keeping service providers informed of business goals and constraints as they evolve, and by structuring the relationship so that it is beneficial to both sides, your partners can innovate and transform in order to provide long-term value
7. **Ensure buy-in:** executive sponsorship, centralised management and company-wide support are vital for success
8. **Identify the changes necessary to move to the new model:** communicate a compelling vision of the future that conveys the competitive advantage for the company and the opportunities for employees
9. **Service management and governance:** develop a corporate service management and governance function with the skills and systems needed to drive effective sourcing strategy, execution and management
10. **Seek independent advice:** develop an informed perspective on your current operating costs and performance vis-à-vis the market and the future potential of your target operating model

BEST PRACTICE

Rupert Hodgson,
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Benchmarking

Benchmarking is a vital tool, aimed at driving performance and value through creating and developing a comparable standard. Benchmarking, while not a new tool within outsourcing having become uniform within large outsourcing contracts, has become increasingly used to drive tight margins and has been driven by technology innovations and increasing economic necessity. Organisations however are still failing to effectively benchmark and reap the full benefits on offer.

This best practice guide will look at how benchmarking is being employed, how it should be implemented and the dangers of its incorrect usage during outsourcing.

Benchmarking over recent years has been driven by typical drivers including value and increased cost savings. Developments in technology such as Big Data, data centres and cloud analytics have allowed benchmarking to become a major force in driving performance. Technology is becoming key to increasing the value of benchmarking in outsourced projects. Rather than employing benchmarking artificially at quarterly or annually periods, technology is allowing services to be dynamically analysed allowing supplier and end-users to focus on achieving improvement.

Benchmarking, while helping to develop standards and shift services, its use as a tool has yet to reach a breakthrough in thinking where its full potential is correctly utilised. According to a 2010 Gartner IT Key Metrics Data survey, 24 percent of firms still have no benchmarking clauses at all, while increased spending in analytics over the last two years have yet to produce a benchmarking.

Benchmarking for success

Benchmarking is vital in ensuring that outsourcing contracts remain competitive during their lifetime, designed to provide information and establish data normalisation. Establishing benchmarking within the contract can help the longevity of the supplier/user relationship and promote increased stability alongside value.

Benchmarking has been at the centre of the UK Government's drive to increase standardisation. Standardisation has been promoted particularly within IT to increase efficiency and allow the public sector to be placed in a strong position in procurement negotiation. The use of benchmarking allows the government to drive the standardised model from suppliers, while increasing cost-savings and performance. Benchmarking is routinely divided up into the following categories:

- Performance benchmarking: focused on the efficiency of delivery and looking at cost, service quality and driving KPIs
- Strategic benchmarking: aimed at driving standards in long-term strategies including the analysis of core service performance
- Process benchmarking: looking at the performance of critical processes with a focus on short term benefits
- Financial benchmarking: looking at the performance of finances compared with productivity of the service
- Informal benchmarking: on-going comparison with a range of practices through a unplanned process
- Best practice benchmarking: looking at how particular organisations with a proven record of high performance in the desired service areas to benchmark against and establish a strong standard

Initial implementation

Benchmarking entails the measuring of different services, products, vendor agreements and technology implementations against each other, with the goal of pinpointing the most efficient routes to achieving the businesses goals. Benchmarking provides an organisation with a comparative view of their own business processes against the best in class standard, allowing them to manage processes optimisation. This may include cost cutting, compliance or further procurement. By matching up products, costs and goals an organisation can make informed decisions about development and focus. When done well, it

can provide a solid business case for whichever option is taken and give an organisation a much clearer view of how projects are contributing as a whole.

Benchmarking can only be successful if the correct metrics are selected, these should be based on the parameters which truly impact overall business outcomes. Business processes should be analysed from the perspective of these metrics, facilitating the discovery of the right levers to achieve the desired strategic goals.

Service Transparency

In carrying out benchmarking, the contract should set out a transparent overview of what exactly the benchmarking clauses will entail. Both supplier and user need to understand the methodology behind the benchmarking in order to prevent disruption to service and damage to relationships. In its application as a tool benchmarking should consist of multiple metrics. Martyn Hart, NOA Chairman, describes how the toolset should be used: "Benchmarking needs to incorporate a detailed normalisation process, employing a wide range of parameters, to allow for like-for-like comparison against other outsourcing contracts."

Eileen Milner, Executive Director for Business Strategy, Northgate Public Services describes how benchmarking truly comes into its own when it stimulates the: "fundamental and intelligent redesign of services based upon the understanding of what inputs need to be made and what outcomes need to be achieved."

Benchmarking can also allow the employment of a popular tactic in driving cost savings and performance in outsourcing projects in the carrot and stick approach. Contracts have increasingly become viewed with a long term strategy in mind rather than as a short term goal. This has meant that providers have become more willing to sacrifice revenue in the form of the carrot to increase margins.

"Those who have the data are all masterful."

Mike Hunter, VP Cognizant Business Consulting, Cognizant

Planning for benchmarks in contracts should be balanced in order to create fair benchmarked clauses to drive rather than hinder services. A balanced benchmarking clause should push an incumbent vendor to increase services in areas where benchmarks have not been met. Suppliers should be allowed to retain their existing position rather than being heavily penalised, and resulting in detrimental effect to service delivery so that the project can still be delivered.

When benchmarking, Harry McDermott, CEO of Hudson & Yorke says, "it's very important to have a fair benchmarking clause, one that allows the incumbent vendor the best opportunity of retaining their existing position, but also feeling a sense of pressure to remain incumbent." Examples of best practice in getting the most from outsourced services include giving suppliers a control in the stake of the service they've been charged with. In giving the supplier more freedom, clients can stimulate the

promotion of alternative delivery models. This can have the effect of driving positive behaviour and promotes the supplier to increase efficiency. Benchmarking should then be employed to analyse the newly promoted models in order to select those that can be carried forward.

Benchmarking has matured in recent years tied to the development of analytics. It truly becomes invaluable as a tool when trends can be observed. This is achieved through convergence of benchmarking with analytics. In order to increase the effectiveness of benchmarking, analytics should be brought up to the same specification. To meet this requirement more and more organisations are investing in analytics including data centres, software and cloud analytical capabilities.

Mike Hunter, VP Cognizant Business Consulting, Cognizant, said: "I think more and more organisations will be investing in analytics, it's a key area that Cognizant is focused on and making sure that we can use the analytical tools and the benchmarking information we have to differentiate ourselves in the market, but more importantly create value right from the very beginning." When benchmark data is correctly applied through programs and predictive analytical tools, end users when in discussion with a client, can drive home innovative practices supported by solid metrics.

Benchmarking should be implemented based on what clients require rather than being based on varying delivery models. The client's objectives should be at the forefront of any project, to this extent the type and scope of benchmarking should be focused on driving the project.

Northgate Public Services employs benchmarking to gain outcome measures in the work it carries out in the health sector. The data collected provides details on input costs, outcomes achieved and patient feedback on their experience. Eileen Milner of Northgate Public Services: "the NHS is a world leader in gathering information, creating, in effect, the benchmarking practice and nowhere else in the world do you have that working at the scale that we have."

Northgate has carried out positive action from the use of benchmarking. A pattern of implant rejection, particularly hip joints was analysed and acted on through the analysis of benchmarking data. Eileen describes how in: "going through the data that we collected, a benchmark of acceptable, good practice and of failure in the joints were created. So we were able to say there is a failure rate here which is unacceptable which falls beneath the benchmark. This triggered an investigation which led to the withdrawals and changes in practice."

For Northgate Public Services and its work within the health sector, benchmarking needs to provide metrics not only on commonly tested areas including cost and input benefits, but in case specific areas like patient experience and quality of outcome in order to develop new standards.

During the contract planning phase, users should establish when and if benchmarking should be used, benchmarking can both be positive and negative. Benchmarking should be relevant and users should be aware not to include too many parameters.

Drivers of benchmarking should be careful to avoid the risks of focusing too heavily on its employment. Benchmarking can inhibit vital project processes including communication. A failure of

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understanding between users and suppliers can be triggered. A common misunderstanding can revolve around the supplier being unaware of how they are being assessed and what areas they're being benchmarked on.

Users must take care to ensure the quality of their benchmarking criteria. Mike Hunter described how a Cognizant pitch had been hindered by a narrow benchmarking focus in which the users wished to make comparisons against a small range of similar suppliers: "sometimes people are too narrow in what they're benchmarking against." When employing benchmarking there exists a fine line in creating an overly detailed and cumbersome benchmarking toolset to one that is narrow and vague. Employing the correct benchmark avoids time-wasting and the loss of resources while generating cost savings and visible opportunities to develop increased growth.

Opportunities for benchmarking development

The UK public sector has the opportunity to learn from practices carried out in other countries, however a shift in department attitudes is required. Eileen Milner: "lots of other countries come to the UK to look, study, understand and create benchmarks and they're very open minded to learning. We need to have an open mind to actually looking outside of our own confines or otherwise we'll become a little bit self-centred." This attitude is often reflected in many organisations. In promoting best practice, particularly within the public sector, organisations needs to become more open to standards developed in other industries and countries to identify and leverage applicable process best practices.

Many organisations have myopic view, choosing only to use industry specific benchmarks. This is usually an error, as it can prevent them from identifying and leveraging applicable process best practices from outside their sector.

Benchmarking as an obstacle

As a tool benchmarking can help to increase the agility of a project. By driving standards and revealing areas of concern, benchmarking can create a dynamic project that reacts to the data gathered, driving progress in successful areas and signposting areas that require a refocus to improve. Benchmarking can also have the reverse effect of removing agility from a project if poorly employed. There is a danger of complacency when benchmarking is tightly enforced and lacking in flexibility.

The promotion of innovation and the use of benchmarking within a project can potentially clash, with innovation benefiting from an agile approach which can be hindered by benchmarking. "If the vendor is commercially innovative, then the vendor can come forward at any point in time, and put a revised commercial proposition on the table to their client, mid contract life-cycle, which could render a benchmarking clause completely irrelevant and unnecessary," said Harry McDermott.

If the benchmark does not recognise improvements on targets then there is no compulsion for suppliers to deliver above the standard leading to suppliers aiming no higher than the standard.

Other risks include slow delivery caused from vigorous benchmarking in non-essential areas and disruption to the supplier end-user relationship. Disruption in benchmarking between the relationships of both sides can be triggered when clients seek to drive benchmarking but refuse to realise their role in the relationship and the need for two-way compromise. An abundance of the stick and the absence of the carrot can strain the relationship and cause sides to pull back, reducing cooperation and working against the original objectives of benchmarking.

Harry McDermott, describes Hudson & Yorke's approach to benchmarking: "Our philosophy is, if the atmospherics and the culture and the business case around the outsourcing case is positive, then there's far less of a need, and potentially no need whatsoever, to trigger a negative benchmarking lever".

Maintaining the relationship

In many cases users and suppliers start off on the other side of the fence. Users normally look to enforce and increase benchmarking while suppliers usually want reduced benchmarking within a project. Currently tight margins and economic necessities have seen a heavy handed approach to the enforcement of benchmarking.

Harry McDermott described how "benchmarking is never viewed positively by a vendor – ever." Adding that, "it's the default option that gets triggered too often, and in many cases doesn't help."

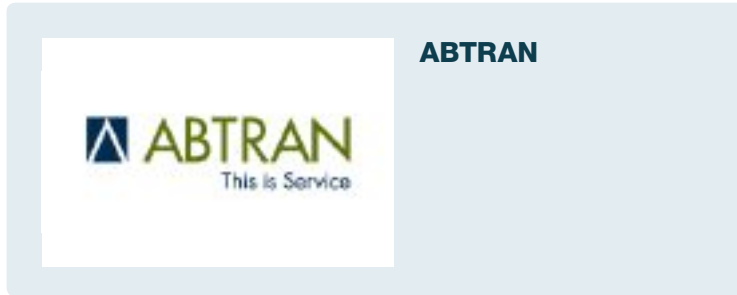
Users should if possible try to avoid imposing unnecessary constraints upon the suppliers when benchmarking. Nigel Hughes, Partner, ISG, described how benchmarking is most effective when, "it's used as a relationship enhancing tool rather than a stick, it can then have significant value for both parties," adding that, "it should be seen as a value enhancing tool to be used over the life of the contract rather than something that you pull because you're not happy at a certain point."

Harry McDermott, described that from his experience benchmarking is used when "the outsourcing contract is struggling" adding that, "it tends to get used as a negative lever, with only one objective in mind, and that sole objective is to reduce the price." Mike Hunter added: "constraints have a price, which might be that you are imposing location constraints, it might be technology constraints, it may be ownership constraints, whatever it happens to be the client will be restricting the supplier's ability to leverage their estate." In some cases the relationship with reliable suppliers requires greater support than the driving of costs savings, particularly when a good relationship has a potential for even greater savings.

Conclusion

At present benchmarking is rarely highly accurate, it can give you a rough overview but it is important that benchmarking is employed alongside other methods. New technologies are increasing the potential of benchmarking however users must take care to ensure that its use as a tool does not hinder progress. Formal benchmarking should be used wisely, sparingly and jointly. An ideal application of benchmarking should be continuous without being obstructive, combined with a service openly responding to findings.

Ones to watch



As one of Ireland's largest indigenous BPO organisations Abtran is one to watch, employing over 1,100 people in 2012, from six people in 1997. Since its creation Abtran has established a proven capability in delivering innovative service solutions. The business' diverse client base includes leading private and public sector organisations including Sky, eFlow, Aviva Health, NTA, Prometric and Electric Ireland. This has resulted in an average interaction with every household in Ireland of four times per year. Abtran has also maintained longstanding commitment to education and innovation and has worked with leading experts in developing data analytic capabilities.

Abtran is one to watch because:

- Abtran was nominated alongside five other companies to participate in the new state supported Healthcare Innovation Hub aimed at driving collaboration between the health system and commercial enterprises leading to the development and commercialisation of new healthcare services
- It has secured a five-year contract extension with Electric Ireland in 2012 after promoting innovation, increased efficiencies and value for money
- At the end of 2012 Abtran had its contract to provide business process outsourcing services to M50 tolling stations extended for a further three years, after delivering significant year-on-year operational cost savings and increased customer satisfaction ratings
- Receivers of partnership of the year award from the CCMA Ireland Awards and the prestigious Taoiseach's Public Service Excellence Awards 2012
- Abtran is a key innovation promoter, including recently developing its own in-house innovation and learning centre
- It achieved key benchmarks with clients, including helping Sky to reach 10 million customers
- Abtran succeeded in providing electronic tolling firm eFlow with a 20 percent call automation rate in 2012



CirclePartnership's mission, as an employee co-owned partnership, is to run hospitals dedicated to patients. The company has shown that it is in the process of turning around failing public sector NHS services, with high expectations that the private sector business model demonstrated by Circle will be fully realised in 2013 and become a template for future contracts.

By putting doctors and nurses in charge of hospitals, and making employees owners, Circle has aimed to empower employees to go the extra mile for patients. Circle hospitals have been designed to combine clinical excellence with a healing environment and five-star hospitality.

CirclePartnership is one to watch because:

- It began a major 10 year contract to run Hinchingbrooke Healthcare NHS Trust in February 2012, with CirclePartnership being the first ever non-state provider to deliver a full range of NHS district general hospital services. Hinchingbrooke has already gone from being one of the 'lowest graded hospitals' (Guardian) to 5th out of 46 hospitals in the Midlands and East rankings, and ranking as number one for target delivery. So far CirclePartnership has identified £1.6m of savings in 2012
- CirclePartnership has undertaken an expansion campaign with the construction of a new state-of-the-art hospital based in Reading which opened in August 2012, in addition to five other national facilities
- The CirclePartnership model of half staff ownership has been recognised within the government and the media and has been put forward as a model for the management of future outsourced services within the NHS

Ones to watch



As an international business process outsourcing (BPO) service provider, Bosch Communication Center offers tailored, innovative solutions. The centre has been operating from its UK site in Liverpool since 2004 and currently works with a range of clients, spanning different sectors, including Burger King, Lufthansa and Hallmark.

With over 5,000 employees worldwide delivering high quality services in more than 30 languages from 22 locations in 13 countries, across Europe, Asia and South America, Bosch Communication Center delivers uniform processes and excellence in each of its communication centres.

Bosch Communication Center is one to watch because:

- Bosch is enjoying continued growth within the BPO sector, with sites already strategically placed in Argentina, Brazil, France, Germany, Netherlands, Philippines and Romania. In 2012 Bosch continued this expansion and opened new sites in China and Russia
- Bosch has an operational delivery model that provides cost flexibility and multilingual capability to cover expanding global markets
- Bosch is represented across a variety of vertical markets with particular expertise in travel and tourism and the automotive sector including clients such as Thomas Cook and Mercedes-Benz
- Bosch is at the forefront of innovative customer solutions and recognises the importance of social media and the explosion in mobile device internet usage. Bosch works with its customers to integrate these customer trends into its customer service propositions. These new innovations complement the services Bosch offers across a wide range of integrated communication platforms
- As part of electronics and engineering giant Bosch Group, Bosch Communication Center boasts a strong financial background that makes investments in future developments possible



Governance Director is Op2i Ltd's new enterprise wide governance platform specialising in organisational integration, processes and decisions. Governance Director also provides an enterprise software solution to develop a cohesive governance strategy in order to drive a culture of conformance and performance.

The Governance Director software solution provides real time insight into the implementation of business strategies to highlight what areas are working, those that are at risk and what is being done to improve performance.

Establishing effective governance has become a key trend of recent years with the importance of governance highlighted by several major public failures in 2012. Governance Director is a new platform, formally established in 2010, and launched in 2012. 2013 is expected to be a year of growth with the development of new platforms beside Governance Director, which are expected to be seized upon by businesses seeking good governance.

Governance Director is one to watch because:

- The creation of Governance Director is expected to attract high level interest in 2013 with the potential to revamp the outsourcing sector at a time when good governance is needed within both the public and private sectors
- Governance Director launched fully in 2012, with 2013 marking a year of expansion and development
- Governance Director provides a service that is accessible to all staff regardless of technical ability, along with a range of workshops and services to develop governance structures

Ones to watch



seen2help is a business services provider of virtual receptionist, accounting and administration services, operating a unique model on a non-for-profit basis.

seen is a unique social enterprise specifically established to employ members of the military community including spouses, dependants, ex-service personnel, civilians living within military communities and wounded, injured or sick service veterans. The business provides training to workers regardless of experience including business programmes and other forms of education.

seen2help has its business hub based within Aldershot, however employees are not restricted to any one physical location. The business model is designed around remote access through cloud services for employees tied to military locations and on deployments.

seen2help is one to watch because:

- The military community often find full time work hard to get. The concept of utilising these otherwise wasted skills is totally unique and will capture the imaginations of communities and local businesses, and as such will undoubtedly prosper
- The company represents a community driven non-for-profit outsourcing service supplier, presenting a positive public image for outsourcing
- With companies increasingly looking to display corporate social responsibility, seen2help can expect to see increasing interest in 2013
- As a non-for-profit seen can provide competitive prices to clients
- seen is looking to expand its business hub, with the creation of further business hubs in Oxfordshire, Portsmouth and Scotland

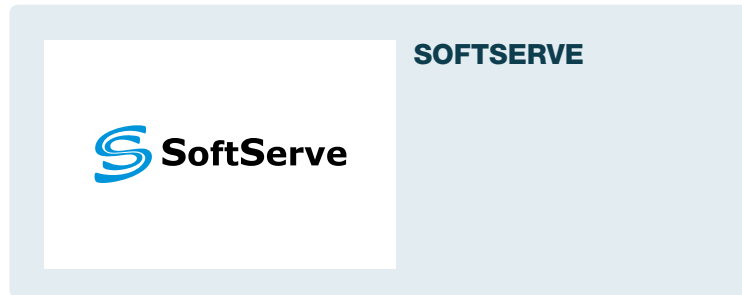


Founded in 2004, Sofica Group has quickly become the largest independent BPO provider in Bulgaria. The organisation currently has 1000 employees split between two locations in Sofia, Bulgaria and Skopje in Macedonia. Sofica has expanded to provide services to leading local and global clients with a broad range of tailored BPO, ITO and HRO services. Sofica Group is the regional outsourcing market leader and the business has stated its aim to enter into the top 5 service providers in Central and Eastern Europe by 2014 in terms of size, stability and quality of services.

Sofica Group is one to watch because:

- Sofica Group is in the process of a large expansion drive as it seeks to become the largest service provider of CEE by 2014
- Winners of a medal for Best Contact Center at the Contact Center World Awards, which saw the company beat far larger organisations at a global level
- Partnered with Interactive Intelligence Solutions which is involved in contact centre development in North America, Sofica Group is well placed to expand into new markets with powerful client contacts
- Expectations for growth are high in 2013 with recorded increased client interest in Bulgaria and revenue growth as high as 35 percent for 2011 coupled with plans to expand to a third location

Ones to watch



SoftServe Inc. is a global provider of software development, testing and consulting services. The company is focused on leveraging advanced software technologies to empower businesses aimed at accelerating growth and strengthening the market position of clients and meeting customer requirements. This is achieved through leveraging sophisticated innovative software development lifecycle services (SDLC).

SoftServe empowers businesses by delivering strategic consulting and software development solutions in today's fast growing technology sectors of mobility and SaaS/cloud solutions. SoftServe is focused on developing and delivering the best technology solutions for specific industries such as healthcare, education and finance.

Softserve is one to watch because:

- Featured on both the 2012 Global Services 100 list of best outsourcing providers in the Emerging Mid-Tier Global ADM Leaders and within the Global Outsourcing 100 list of the IAOP
- KPMG has marked SoftServe's development location in Ukraine as growing rapidly in potential for IT outsourcing with strong European links, low market cost and developed infrastructure
- SoftServe plans to further expand upon rapid gains made in 2012 including reaching over 2,000 employees, with a focus on developing market presence and services that facilitate hybrid implementations
- SoftServe has also moved to break into the business intelligence, healthcare and education industries as part of the company's global strategy



IT services company Pactera was formed in November 2012 from the merger of two leading China-based IT services firms hiSoft and VancelInfo, both previously listed in the United States on the NASDAQ and New York stock exchanges.

Pactera has 20 service delivery centres throughout Greater China including Hong Kong and Taiwan and more than 10 overseas delivery facilities spanning North America, Europe, and Asia Pacific, with more than 24,000 employees located around the world.

Pactera is one to watch because:

- It is a recently formed company bolstered by the capabilities of the two merging companies with readily established roots throughout the world
- Pactera has strong roots in China with global capabilities and increasing overseas development, with over 60 percent of Pactera's business coming from overseas clients
- Pactera's merging partners have seen recent growth before its formation. VancelInfo expanded operations in America from 10 employees in Seattle in 2008 to 120 within a matter of months to current levels of around 500 staff within the city
- Despite increasing labour costs within China the development of key technologies including cloud services and technologies have stimulated the Chinese IT industry, pointing towards 2013 as a year to watch the newly created Pactera

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Ones to watch



Parseq is a business process and technology specialist providing a range of value-add, technology-led services. Complementing this is a core business focus on complex data and payment processing covering a range of front and back-office applications. Parseq's origins go back to being a delivery service centre for the Bank of Ireland. In 2010 the company became an independent entity and started trading under Parseq after a name change from Documetric.

Serving more than 60 individual clients, Parseq provides outsourced on demand finance and document management solutions, processing over 50 million documents per year. More than 100,000 payment transactions are processed daily on behalf of clients, with an annual transaction value in the region of £25 billion. Contact centres handle more than two million customer contacts per year via multi-channel inbound and outbound client campaigns.

Parseq is one to watch because:

- From the creation of Parseq as an independent company in 2010 it has rapidly expanded employing over 700 people
- Parseq has gained a majority share of a niche market in end-to-end integrated payment processing using a multi-channel approach, data capture and BPO, delivered within the UK rather than offshored
- Parseq has carried out a campaign of recent expansion including a three year development project which will lead to the creation of 300 new jobs in Rotherham from UK contact centre expansion
- Parseq is well placed for further expansion and development in 2013, currently handling over 50 million transactions a year and processing payments on behalf of over 100,000 small to medium sized organisations
- The Sunday Times published Buyout Track 100 league table ranked Parseq as 15th in 2012 based on strong profits
- The company has been successful in recent years in winning lucrative contracts, examples include a multimillion pound contract with O2 to launch a mobile wallet service in 2012, which will continue throughout 2013



Procurian helps companies transform indirect procurement to realise measurable savings that can be redeployed to fund innovation and accelerate growth. The company specialises in driving sustainable changes surrounding cost structures on an accelerated basis. Procurian employs its Specialized Procurement Infrastructure to meet customer specific objectives and needs. Procurian currently manages over 4,000 large cost innovation projects, 11,000 contracts and 2 million transactions each year.

Procurian is one to watch because:

- It has carried out an extensive campaign of expansion in 2012 including the acquisition of Media IQ in July, adding measurement and benchmarking capabilities to its service offerings and a complete end-to-end marketing spend solution for clients
- Procurian successfully competed for a global contract from insurance giants Zurich in 2012, to provide cost reduction solutions, IT optimisation and HR
- The success of Procurian in gaining the huge contract has allowed the US based outsourcing giant to actively pursue European markets, marking an expected shift in the company's growth strategy towards the EU in 2013

Views from the top



JOHN MILBURN

General Manager, Bosch
Communication Center



MIKE HESLOP

Founder, Centrex Services

In an age of online retail, travel bookings and banking, contact centre staff are often the first people a customer will engage with when communicating with a brand. Put simply, they have become crucial brand ambassadors.

Today's contact centre staff are highly educated, well trained and experts at turning a bad customer experience into a highly personalised and human piece of brand communication. The most effective contact centre employees are not only experts in complaints management, but have specialist industry sector experience along with exceptional communication skills. This standard is absolutely essential to delivering the highest level of customer service on behalf of a brand.

In addition, every customer issue needs to be approached with sensitivity and understanding. Every case needs to be treated individually and needs to be taken very seriously, because of the potentially damaging impact it could have to a brand. To effectively handle customer issues, it is essential to listen, understand the customer's situation and find a solution as quickly as possible.

The channels by which customers choose to seek support are changing rapidly. Service providers need to be ready to align highly skilled people with well thought out processes and the right technology to support them. Social media and social influence continue to drive real change in how customers choose to interact with brands and the acceleration of internet usage via mobile devices. This mobile convergence provides real challenges and opportunities; not only should service providers' websites be adapted for mobile usage, their support processes should be too.

BPO is an ideal solution for handling consumer affairs and crisis management. It is rapidly scalable and has the ability to quickly react to changing situations. It is also a great way of pre-empting issues by flagging up trends and clusters of complaints.

Over the coming years, contact centre employees will play an increasingly important role in helping to drive long-term loyalty between a brand and their customers.

Over the years businesses in the IT hardware maintenance and support sphere have been working to SLAs which have created an adversarial environment. This has left needless service delivery gaps within the industry, not to mention a disconnect with the client business objectives and expectations. The result is a culture of SLAs being created for failure, rather than success.

As IT maintenance and support industries have expanded rapidly with the burgeoning technology industry, they have developed with integral silos. These silos of service, which are created by the disjointed and complex relationship between hardware maintenance providers and suppliers, have resulted in a prolific on-going blame culture between suppliers. The varying elements of service delivery; diagnostics and scheduling, parts, logistics, field service and repair, are separate cost centres, with different department leaders and conflicting objectives.

As a result, a service delivery rift has emerged. Inefficiencies arise from break fix supply chains wasting costs and reducing productivity in simple areas such as 'no fault' (identified by the engineer at point of service), by as much as 30 percent with retail service delivery in our experience. This is caused by the fragmented supply model employed – where the repairer, part provider, field technician, diagnostics and logistics provider are often five independent sub-contracted suppliers.

Simplification of the IT service supply chain through 'Leansource'; a single touch supply chain solution incorporating call handling, stock management, field services, logistics, repair and close means cost and service advantages can be delivered and opportunities for disconnects and blame eliminated. The benefits can be demonstrable both at the back end of the service supply chain, (customer service representative) and front end (field service engineer) – enabling everyone to have a greater understanding of the job requirement and its outcome.

The intelligence in the service supply chain enables the provider to become an 'ally' to the end user business. Planning for a 100 percent success rate rather than allocating a percentage for failure transforms the view of the service supply chain.

As the service provider or 'ally' is connected directly with the end user site, the field service engineer is equipped with the information to deliver a hardware maintenance solution that invariably solves the customer's problem immediately.

Leansourcing SLAs provides a platform for 100 percent commitment to service delivery, as one service provider for diagnostics, delivery and repair can react with precisely the right response.

Views from the top



IAN MITCHELL

Head of Telecoms,
Direct Response



ERIC SIMONSON

Managing Partner of Research,
Everest Group

2012 has been quite a remarkable year for the telecoms market with the launch of the new iPhone 5, the recent arrival of 4G and greater use of voice recognition software, to name just a few.

The inevitable take up of the fourth generation of wireless communication will see an increase in network speeds that, in turn, may fundamentally change the ways in which we work as mobile devices become able to match the data and speed capabilities of standard computers. With 4G offering the opportunity to get so much more done on the move and reducing the requirement to pop back into the office, will firms become more flexible in allowing employees to utilise their own devices and, indeed, will every employee need to take up valuable office space and landlines going forward?

Next year, we are also set to see Ofcom continue to improve the classification of the different non geographic numbers making it easier for consumers to understand the differences in pricing. This has the potential to be a big asset to organisations as they work to define themselves using appropriate telephone numbers, from freephone numbers for customer complaints right through to premium rates for competition lines. One thing that will be welcomed is the likely introduction of freephone numbers that will be free across all UK networks (including mobile).

The market for operators is also set to change as EU regulation means that international call charges will be coming down across all mobile networks throughout Europe. We also expect to see some major IT companies making further forays into the telecoms market; Facebook is rumoured to be launching a new phone in 2013 to support its video calling capability.

With better mobile speeds and more mobile usage, there will be inevitable concerns regarding data security and connectivity and, indeed, companies will need to budget more for mobile security over the next year. One last thing to consider is how to match all telecoms needs together so that mobile devices, landlines, portable phones and various operating sites can all connect, share data and present a simple front for customers. The companies that crack this will be the ones to crack the telecoms market in 2013.

When projecting the future of a maturing outsourcing market, four themes stick out. First, slowing growth rates of service providers combined with "saturation" effects in many markets will lead to increased competition for renewals. Historically, 70-85 percent of outsourcing agreements are renewed. However, the disruptive nature of cloud solutions and the unknown impact of greater technology in BPO should open the door to greater restructuring than before.

Second, there will continue to be a wide variation in sourcing model strategies. Large global enterprises increasingly feel compelled to retain an internal delivery capability and often in the same geographies as their outsourcing relationships – and many will grow these internal capabilities faster than outsourcing. By contrast, most other firms (and most notable, the later adopters) will seize on outsourcing as the best model to access global services.

Third, the service provider landscape is being reshaped by the separation of tier 1 players from tier 2-3 players. In some cases, tier 1 players will use their heft to make large investments in capabilities that others simply can't match. By contrast, smart tier 2-3 players recognise that there continues to be many pockets of under-developed expertise in the market and they can successfully develop industry or geographic capabilities that are more competitive than the large players.

Although this differentiation is far from being a platform to close the size gap with tier 1s, it can be sufficient to retain an advantaged position in key markets. As a result, although both tier 1 and successful tier 2-3 players should grow, they will grow in different ways and increasingly play different roles in the portfolios of users of outsourcing services.

Finally, concerns about the erosion of offshore labour arbitrage are proving unfounded. The large size of labour pools in low cost destinations, the ability to increase the supply of relevant talent and the slowing growth rate of new demand combine to create a comparatively stable cost model. In fact, the potential for disruption will be exchange rate-led rather than underlying changes in costs due to lack of relevant talent. There will always be some pinch points in certain skills, but it is far from being a fundamental misalignment of supply with demand.

Views from the top



MICHAEL R. KOONTZ

SVP Director of Research,
Horses for Sources Research



HARRY MCDERMOTT

CEO, Hudson and Yorke

The outsourcing industry is working to overcome a singular focus on cost. In a recent study by HfS Research and the Outsourcing Unit at the London School of Economics, 96 percent of current enterprise buyers of outsourcing services view their engagements as effective for lowering costs, with 46 percent citing their cost reduction progress as "very effective."

Increasingly, however, buyers are seeking more collaborative relationships with providers in order to not only reduce costs but to drive business results. Looking at 2013, the industry is expected to place greater emphasis on developing more effective models that support business strategies through higher levels of thought leadership and optimised analytics.

Domestic outsourcing models will become more prevalent. As buyers seek higher levels of effectiveness, they will also be looking to leverage a global footprint and most have little interest in establishing captives. Many have come to the realisation that there is work that makes sense to outsource but not necessarily to offshore. Look for more onshore/offshore hybrids and expect to see more providers investing heavily in domestic locations. This is becoming more prevalent in areas that have both customer contact and mid-office support areas.

More performance and transactional models. As buyers mature, they will expect providers to evolve their pricing models beyond headcount calculations. Providers will be asked to share business risk and collaborate with their clients to drive business results. Buyers are looking to hedge their margins by reducing fixed cost structures, an approach that outsourcing transactional models can support.

Thought leadership comes at a premium. The days of 50-page sales decks are over. Expectations will be higher for sales, account management, and delivery teams to demonstrate business acumen and provide insight into business challenges and solutions.

Real analytics to solve problems. Buyers are beginning to understand the power of data sitting on servers. They will be looking for more ways to unlock the potential of this resource and translate it into improved customer service, increased revenue, and enhanced products in the market.

One of the most common reasons for IT managed services or outsourcing agreements encountering problems is poor governance. While good contract governance can deliver a range of business benefits and promote a strong customer-supplier relationship, substandard controls can result in unsatisfactory service delivery and an unprofitable contract for the supplier. As a guide, 3–7 percent of contract value should be invested in governance. Failure to do this can result in business case leakage of 15–40 percent.

Defining a clear governance structure is critical for successful agreements. This framework should consist of strategic, management and operational levels that ensure effective decision making and provide a clear escalation path for issue resolution. This will also enable tracking and reporting on contractual obligations, to ensure both parties deliver on the commitments in the contract. The quality of service delivered to the customer is essential to the partnership with the supplier, and effective tracking coupled with accurate reporting is paramount to ensuring this quality is never compromised.

The effective management of operational changes and interdependencies between each supplier contract within an IT system can also have substantial implications for the successful delivery of individual contracts. Interdependencies should be clearly understood and subsequently managed by operating level agreements, and robust change management processes need to be in place to identify and resolve issues before they arise.

Above all, communication and regular assessment is key. Throughout any contract term, stakeholders need to be kept informed and original objectives reviewed. In the course of a three or five year contract, it is easy to get caught up in the operational aspects of the contract and not take time to review the original objectives and contract intent against changes in the business environment. It is recommended that regular contract assessments are performed to review whether the agreement is still meeting business requirements and remaining market competitive.

Views from the top



TERRY WALBY

UK Managing Director, IPsoft



JOHN KEPPEL

Partner and President, ISG

Taking a multi-vendor approach to IT solutions is a double-edged sword. It can drive down the cost of operations, but with this comes a host of complex management issues. The cost benefits of sourcing multiple suppliers can easily be accounted for, but IT managers may find it difficult to account for the time and resources lost due to inefficient use of management tools.

The growing use of services provisioned from cloud providers is driving the need to constantly adapt and enhance the way IT is managed, and increasing the need to focus on what is a challenge facing more and more businesses. That is, that operators of datacentre environments, both dedicated and cloud, and those of data networks often utilise a large variety of non-connecting management tools across the services provided.

The net result of this is an inconsistent and disjointed view of service operations, leading to sub-optimal application delivery and challenges in management and the speedy diagnosis and resolution of incidents. Perhaps the biggest problem, however, is that multiple disparate tools hamper the use of end-to-end automation which might be considered the silver bullet to the optimisation of an IT operation, as it does have the ability to reduce the cost, error and inconsistency associated with manual activities.

It can be argued that the current trend to move away from monolithic outsourcing arrangements across network and datacentre operations would exacerbate this situation – adding more suppliers to the mix. In reality though, even those providers offering services across multiple domains are rarely using consistent tools and practices across them. Fundamentally, whether sourced together or separately, the network and datacentre layers are an intrinsic and inter-reliant part of IT service delivery.

By using consistent operational support and business support processes and tools organisations can provide a true service related view. Forward thinking organisations are considering this to be an important part of the service governance role which is increasingly becoming the function of the IT department of the future.

Service delivery is a largely overlooked issue in many businesses. Organisations can't afford to have their productivity levels decline, especially when there are solutions available which easily prevent this occurring. It's a fact that greater efficiencies can be leveraged through the use of managed service providers whose use of shared assets and knowledge will be of benefit to their customers. Businesses should look to those who use automation and shared services to deliver the greatest efficiencies, while focusing on the use of end-to-end management tools across all facets of insourced and outsourced services to consistently govern the delivery of functionality to the business.

Although trading conditions in Europe have remained difficult over recent months amid continued economic volatility, ISG has detected a renewed appetite for outsourcing as this year has progressed. This is reflected in the larger contract sizes we have seen, as well as the volume of mega relationships awarded in 2012 – up sixty percent on last year, according to the latest figures from the TPI Index, our quarterly snapshot of activity in the outsourcing market.

In terms of trends, the industry is experiencing many insourcing deals although cloud is obviously still the word on every service provider and client's lips. Indeed, an analysis of our client engagements conducted in the third quarter of this year shows that the proportion of our advised outsourcing contracts with cloud computing scope has trebled in the past two years, from nine percent in 2010 to a very significant 27 percent in the first three quarters of 2012. Further demonstrating the growth of the cloud, in the ISG quarterly survey of service providers, half of respondents confirmed that cloud computing is now a feature of at least a quarter of their pipeline opportunities. The majority of service providers also predicted that cloud services are set to grow faster than traditional IT outsourcing functions.

However, this appetite and enthusiasm for cloud also comes with some considerations... for both service providers and clients. Cloud services, especially shared platforms, are a completely new territory for many players in the market. For one, they are highly standardised, and can't be easily customised, which is the antithesis of traditional outsourcing that most enterprise buyers are used to.

Clearly, cloud is a disruptive trend in the enterprise. Looking ahead to next year and beyond, we predict that this disruption will not only continue, but accelerate, especially for the traditional IT service providers. From well-known software vendors to more nimble mid-market players and emerging pure-play infrastructure and SaaS providers, traditional IT service providers are set to face significant pressure from nearly every direction. It is now undoubtedly true that those service providers who ignore the power and growth of the cloud do so at their peril.

Views from the top



ROBIN YOUNG

Operations Director,
Mitchells & Butlers

As the new world is becoming ever more demanding, Mitchells & Butlers is now into year two of a 36 month journey to refocus its resources onto delighting guests. The strategic goals now surround empowering highly-trained, local, experts to deliver service-excellence at a business level. The support centre scale and leverage is simply a base from which to work rather than a hard framework in which to operate. Team engagement is high, guest recommendations are improving across every brand, innovation is delivering and Mitchells & Butlers is selling more.

Looking forward, outsourcing will increase in its pace and value generation across our industry. The need to differentiate between the genuine guest touching services and those best left to partners is no longer a choice that can take years. Executive and board teams will be much more willing to embrace service providers without worrying about a perceived loss of control. The really interesting developments will occur as the UK is seen as a first point of call for outsourcing rather than an expensive selection behind some of the more favoured, worldwide locations.

In the short space of one year, IT and their outsourcing partners have become critical, engaged partners with the operators of Mitchells & Butlers. Solutions are prioritised, designed, architected, deployed and trained in a totally inclusive way-of-working. The true measure of the progress is the winning of national awards combined with accolades from hard-nosed, frontline teams.



PHIL CLARK

Marketing and Channel
Development Director,
niu Solutions

We're all too acutely aware of the pace at which end clients are looking to adopt cloud services, and deploy them universally within their estates. As things stand today, with cloud solutions still being in relatively 'early adopter' mode, organisations are seeing the benefits of application led cloud deployment, sourcing individual applications from specialist vendors and providing those applications to their end users in a utility model.

Interestingly though, I already find myself hypothesising a problem that I feel is a bit further down the line, the convergence of two very powerful forces in the market today – device proliferation and 'cloud provider' proliferation.

As all IT professionals will have noticed, more and more end users are demanding their own style of devices to get access to their business applications. This breeds issues with data loss and user security, as well as asset control (if owned by the business) and user/asset administration.

As an isolated trend, this could be very easily managed. However, if you transpose this device hungry drive in the marketplace with the expanding need to manage multiple cloud application providers, and all associated costs/bills, user IDs and accounts, security, SLAs etc., your IT estate becomes an incredibly complex management overhead, that will require very slick processes in order to keep it under control.

Imagine a new starter who has an iPad, a laptop and a smartphone (that's three devices), all of which need to be business application enabled. This same new starter needs Cloud delivered office products, cloud delivered CRM, cloud delivered email, and cloud delivered analytics functions (all from different cloud providers). This is when the new starter process becomes a convoluted implementation and configuration nightmare.

Issuing requests to vendors for new devices and application logons, configured securely and consistently across all devices, with an understanding of the process for wiping business data, and closing those accounts should the same user eventually leave the company. Cloud and device management together is going to be the next big headache for all IT departments.

At niu Solutions we are starting to integrate a range of tools and techniques to overcome these problems, which we'll be productising and launching in 2013.

Views from the top



SIMON SHORTHOSE

Managing Director, ReadSoft



ELEANOR WINN

Director, Source

BPOs and SSCs are discovering automation as a prime tool to unlock new benefits by bringing together all their document intensive processes under one roof – from purchase-to-pay, order-to-cash, HR and payroll, to the digital mailroom. By reducing unnecessary and repeated processes, and supporting the addition of more value added services, these organisations are lowering costs and generating new revenue streams.

While an SSC or BPO may have several sites, and multiple systems, a single centralised platform with a common interface can bring together and automate all elements without taking apart existing systems or rebuilding from the ground up.

Such platforms integrate all input management related applications and processes, including production scheduling and control across multiple clients. Existing technology can then be woven together with these new platforms to advance existing infrastructure. By opting for intelligent capture, automated data entry and classification, ERP matching, workflows and e-invoicing throughout their entire document intensive processes, these organisations are achieving best-in-class performance with their back-office processes.

Others are decreasing the cost of document administration, decreasing cycle times, increasing employee productivity, improving compliance and increasing the volume of documents processed; all without the need to add headcount.

Through uniformity delivered by an automated platform, an SSC or BPO will spend significantly less time handling processes and numbers. This opens new opportunities for developing value add services which can be made both repeatable and scalable.

Automation gives the outsourcing organisation the time and capacity to focus on both customer consultation, as well as contemplating business strategy for advancing its own core offerings. It helps deliver new services and more streamlined processes and is driving the trend for incorporating multiple functions including finance, HR, legal and purchasing.

All these departments have common processes which can be built upon, without replication, which enables the SSC or BPO to move from function to function, centralising them with ease, and unlocking further business benefits which can be offered to eager customers.

Through this optimisation process BPOs and SSCs can enrich revenue whilst reducing costs, use technology to phase out labour arbitrage, make benefits repeatable and scalable, and provide more value added services on-premise, online or offshore.

Organisations are waking up to the fact that the "sourcing 2.0" model of sustainable deals delivering value to both provider and customer organisations do not go far enough and that to create a deal that guarantees success we need another approach. In "sourcing 3.0" all the individuals and groups that affect or are affected by the outsourcing process are considered and a clear positive outcome defined for each.

In this way, the resulting relationship has its own momentum, as people are working towards clear objectives that deliver value to them individually and to the clans and tribes that they are part of. This is not easy, and requires creativity and insight beyond the traditional advisory model – commercial and sourcing skills are no longer enough and a clear focus on people and softer outcomes is also needed.

In the commercial sector, models are continually becoming more dynamic, incorporating an engagement-led approach with document exchange replaced by workshops, information sharing and collaborative solution development. This has many benefits for the customer and providers, as it tends to be faster and allow for a far deeper assessment of intangible, but critical success factors, such as cultural fit, philosophy and ways of working. Identifying the right partner or partners more quickly allows for more time to be spent on the important activities early in the relationship that set the tone for its future success, or otherwise, such as transition, governance set up, and investing time to establish a positive shared culture.

Progress in automation technologies may disrupt the industry in the coming 24 months. Data conversion and extract was transformed in the late 1990s by the introduction of simple, configurable tools, replacing the need for detailed scripting and manual data extract by technical specialists. The same is happening now in other, technical and non-technical processes with companies producing "robot FTEs" that require only simple configuration to "learn" the role of a business process operative. This could transform the nature of the BPO industry and ultimately deliver game-changing benefits to the end customer. Similar technologies for system monitoring and other IT operations tasks may create a similar opportunity for the ITO providers and, ultimately, their customers.



NATIONAL OUTSOURCING ASSOCIATION

THE CENTRE OF EXCELLENCE IN OUTSOURCING

The NOA's vision is to be the pre-eminent organisation in the UK that enables and promotes successful outsourcing for the benefit of end-users, suppliers and supporting intermediary organisations by:

- Creating formal and informal networks to aggregate and share good practice in the outsourcing industry
- Promoting the benefits of outsourcing to organisations who operate in the UK and globally
- Representing the UK outsourcing community's interests and influencing decision makers and business leaders
- Collaborating with other industry bodies within the UK and globally for the benefit of the UK outsourcing community

**To find out more visit www.noa.co.uk
or call our membership department
on +44 (0) 20 7292 8686**



Advice from the top



CHRIS SCOGGINS

Chief Executive,
National Rail Enquiries



JIM REED

Director of Procurement,
Nottingham University

National Rail Enquiries is not alone when facing a multitude of outsourcing challenges including: delivering business focused innovation to meet client and customer needs cost effectively; skills management across a plethora of technologies; and management of a vast array of multi-sourcing architecture.

Mobile use of NRE services is now 40 percent of business and represents an on-going challenge across the industry where change is likely to increase in speed.

NRE's strategy is to keep close to customers with on-going surveys and customer focus events. It is also important to keep close to suppliers on changes in technology and the opportunities these changes can bring. Aligning customer requirements with possible technologies ensures continuing business focused innovation.

An example of this is the move to cloud hosting. With demand that can change in the fall of a snowflake – NRE, like others, needs a hosting arrangement that can ramp up very quickly to meet spikes in demand and ensure that customers can get the information quickly when they most need it. Cloud offers lower cost and better customer service at the same time.

Cloud also impacts on skills management and one approach has been to hire in temporary expertise to get internal staff up to speed and ease the transition. However, long term, NRE will need to ensure it has the skills to manage the new technology and maximise cost effectiveness.

The move to cloud is also a further challenge to multi-sourcing architecture. Taking hosting away from application suppliers further complicates sourcing structure but can give access to better technology, more economies of scale and greater flexibility.

Tackling the greater complexity can be achieved by encouraging suppliers to work together, using internal multi-sourcing experience and expertise and putting greater effort into overall service management.

Overall many organisations, including National Rail Enquiries, will need all the flexibility and expertise that outsourcing offers to meet future challenges.

It is a huge mistake to assume that an organisation can just outsource a service and leave the service provider to get on with it, or to think that this will make life easier. Intelligence and knowledge management are key to a successful outsource and that takes hard work and brainpower.

Before outsourcing, it is imperative the right person in charge knows the content and boundaries of their patch and how complex, how well supported, how well it performs and how up-to-date it is. This will enable a business case to be constructed along with a tender document which will contract a measurable, economic and efficient service. Identification of experienced and knowledgeable people on a team is crucial and leaders should ensure they are looked after.

During the outsourcing, direction should be given to the outsourcer but a company should also maintain their understanding of the estate, applications or service descriptions and how it is performing i.e. is it supporting a business roadmap? Organisations need to understand how much a service should be costing and what others are paying.

At the end of the outsource an organisation must have a credible exit plan (preferably agreed before the contract was signed and rehearsed at least once), extensive knowledge of contracts, and how commercial and "industry standard" services are, along with how well they, the applications and the architecture they are delivered on is documented and who is indispensable to it running smoothly.

Too often this is all taken for granted and organisations need to have a capable, confident and experienced retained team managing the service provider and their own organisation in equal measure. An investment in being an intelligent customer is very worthwhile provided it continues throughout the life of the contract.

Advice from the top



MATTHEW BENNETT

Partner,
Olswang

CLAIRE MORRISSEY

Senior Associate,
Olswang

MARGARET RAWDING

Head of Corporate Finance and ICT, Sefton
Metropolitan Borough Council

Incentivising performance in an IT contract requires a panoply of commercial and contractual incentives and sanctions. Now that most customers have adopted a multi-sourcing approach, even more thought is required to incentivise individual and group performance.

In a multi-sourcing, the "fix first" principle is an essential, practical way to ensure team work among suppliers. No matter who caused the problem all the suppliers must work together to resolve the issue and leave the arguing over blame and responsibility until after resolution.

Some customers use "collective bonuses", which are payable over and above suppliers' standard service charges if all key suppliers meet specified key project metrics (such as timescales or budget), with the potential for an equivalent downside for all suppliers where the collective minimum service performance standards are not met. This encourages suppliers to identify problems across the supply chain early and to raise them with customers in an effort to resolve them quickly. Care needs to be taken when setting the level of the bonus and downside to ensure that performing suppliers are not unduly penalised by the underperforming suppliers.

Positive incentives are most likely to drive the right behaviours in the best way. However, it is also important to ensure that customers have an appropriate range of potential sanctions to incentivise performance. Service credits are just one example of how customer approaches in this area are becoming more sophisticated, with the traditional models being adjusted to fit more specific requirements under the contract, allowing for earn-back and reinvestment of the credits. Customers can also create a dynamic framework to ensure that credits can be reassigned during a project in order to take account of changes in risk and customer objectives. Some customers encourage suppliers by linking contract term extensions (and conversely shortening the term) based on the suppliers' performance against service levels.

If bonus pools and service credits do not incentivise performance, customers may need to resort to the ultimate sanction, or, at least, to the threat of the ultimate sanction. In order to reduce the uncertainty relating to whether or not sufficient grounds exist to terminate, or to threaten to terminate, the contract will need clear, objective termination rights (e.g. if specified service levels are breached over a specified period). Even if a contract includes discrete termination rights, customers will need to ensure that practically they have the ability to exit the arrangement to ensure that termination is not a hypothetical strategy. "Exitability" broadly covers suppliers' obligations to support exit, transition and to provide information during the term that customers require to assess whether termination is viable.

When choosing an outsourcing partner it is important, given the same critical information, that a partner would take the same decision as the end user.

Shortly after starting Sefton Metropolitan Borough Council's 10-year public-private partnership with arvato in 2008, the Government's spending review was announced and the council quickly realised the unprecedented pressures this would put on the new relationship.

The contract as it stood was designed to deliver value for money, but it needed to be more flexible. The council worked with arvato on the best way to achieve what was needed, rather than what was in the contract. This was only possible by evolving from a conventional 'them and us' contractual relationship to a much greater partnership of equals. Sefton and arvato had to make difficult decisions, but they did so with a common purpose; in the interests of doing what's right for the businesses and residents of Sefton. To share best practice – to really improve organisations need to shift their approach so that the focus is on the future, not fretting about the past.

The ability to reach compromises, accept and make changes that are in everyone's best interests is critical. This can only be based on a relationship of mutual trust and understanding, rather than simply what a contractor has promised to deliver under a fixed contract.

It boils down to developing a relationship with the right partner willing to flexibly manage and refocus resources to meet changing priorities. There are still no signs that the financial pressures will ease off, but if more outsourcing engagements were structured in this way, the public sector would be more able to effectively deal with new challenges.

Advice from the top



HUGH WRIGHT

Public Sector Director, Sitel

Is social media a viable channel for government to engage with citizens? The Prime Minister uses 10 different social media channels to communicate with the public and we already see regular tweets from departments such as the Department of Health and the Department for Transport. However, many government-sponsored social media profiles function only in "broadcast" mode, using these platforms as one-way communications streams for users who choose to opt in.

Using social media to broadcast information is a cost effective way to publish information, but there are two ways to gain significantly more value from social networks. The first is social media monitoring, which enables public sector organisations to gather information and insight into what conversations are happening around key issues and gauge citizen opinion. The second is social media engagement, two-way communications between government and citizens using channels such as Facebook, Twitter, forums and YouTube.

Social media monitoring involves monitoring Twitter, blogs, forums and news alerts from services such as Google. This is relatively straightforward and can be done at a very basic level for very little cost. However, to perform social media monitoring effectively you need a combination of filtering tools, with suitably trained and skilled people to provide an intelligent filter to turn the information you generate into useful insights.

Before using social media to communicate with constituents and stakeholders beyond publishing news, it is important to have clearly defined guidelines for content and style, and rules for when to engage and when not to.

One of the key challenges with monitoring and engaging is how to handle the volumes. With over 250 million tweets every day, how do you filter these down to useful, actionable insight? How do you engage in a cost effective and controlled way?

The critical elements are the right tools, the right people (government communications channels require an experienced, mature approach) and close links with your public affairs or public relations representatives. By approaching social media with a focus on customer service and department reputation management, and adapting tried and tested techniques that have proven effective in the private sector, the public sector can proactively respond to the demand for more citizen-centric communications.



directory

The Suppliers Directory promotes NOA supplier members and other supplier companies that aim to promote services or support companies and individuals involved in outsourcing. The directory provides an information source to customers and others interested in the outsourcing sector.

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3gamma			•					•				
60K Ltd		•		•								
99X Technology Ltd								•				
Accounting Consultancy & Solutions (Pvt) Ltd						•						
AccountStaff		•	•			•						•
Active Operations Management International LLP												•
Adetiq Limited		•				•	•		•		•	•
Aegis Limited		•		•		•	•	•				
Alsbridge plc	•	•	•	•		•	•	•	•	•	•	
Applus Automotive		•	•	•								
arvato		•		•		•	•	•				•
Ashurst LLP										•		
Avasant LLC	•	•	•			•		•	•		•	
BDO LLP		•	•			•	•	•				
Bierce & Kenerson, P.C.										•		
Bird & Bird LLP										•		
Blake Newport Associates Ltd			•									
Bleum								•				
Blue Prism Limited												•
Brainware Services Ltd			•		•			•	•			
Bristows										•		
bss				•								
Buffalo Communications		•		•				•	•			•
Burges Salmon LLP	•		•							•		
Burnt Oak Partners	•	•	•			•	•	•			•	•
Capgemini UK		•	•	•		•	•	•	•	•	•	
Capita		•	•	•		•	•	•				
CGI		•	•					•				
Ciklum			•				•	•	•			
CMS Cameron McKenna LLP										•		
Computacenter plc			•					•				
Convergys		•		•								
Crimsonwing	•		•		•			•				

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CSI Ltd			•					•				•
DDC Outsourcing Solutions		•	•	•					•		•	
Deloitte	•	•	•			•	•	•				
DWF LLP										•		
Efficio	•	•	•									
Emerio Globesoft		•	•					•				
eNate Ltd		•				•	•				•	•
ePerformax Contact Centers & BPO		•		•					•			
EQ Partnering			•									
Equiniti	•	•	•	•			•	•				•
Eversheds LLP										•		
ExcelSource Ltd	•	•	•			•	•	•				
Firstsource Solutions		•	•	•								
Gartner	•		•									
GENPACT		•	•			•	•	•	•			
Grant Thornton (Specialist Services) Ltd	•	•	•			•			•		•	
Herbert Smith Freehills LLP	•	•				•		•		•		
HML Ltd		•	•	•								•
Hogan Lovells	•		•							•		
HP Enterprise Services		•	•	•		•	•	•	•			•
Hudson & Yorke Ltd			•									
IBA Group								•				
infinite Group		•					•		•			•
Information Services Group	•	•	•			•	•	•				
INGENIERÍA DE SOFTWARE AVANZADO, S.A. (INSA)								•				
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Jigsaw24			•	•				•				
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KellyOCG		•	•				•					•
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Latham & Watkins										•		
Latvian Investment and Development Agency					•							
Linklaters		•				•	•	•		•		
Logica, now part of CGI		•		•		•	•	•				
LPM Outsourcing		•										
Luxoft								•				
Matheson Ormsby Prentice										•		
Mayer Brown International LLP										•		
MIDAS			•									
Mills & Reeve LLP										•		
Morrison & Foerster (UK) LLP										•		
Murphy Sullivan Associates	•	•	•	•	•							
National Outsourcing Association												•
Nexus Vehicle Management Ltd		•							•			
Novabase		•	•					•				
Oesia		•	•	•	•	•	•	•	•			•
Ofsure	•	•		•		•	•	•				
Olswang LLP										•		
Omnext								•				
OpenContact				•								
P & Q Consulting Ltd	•	•	•			•		•				
PA Consulting Group			•			•	•	•				
Pactera Technology International Ltd	•	•	•	•		•		•	•			
Parseq		•		•		•			•			•
PB Outsource Limited			•				•	•				•
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Premier BPO, Inc		•		•		•	•	•	•		•	
Proxima		•										
Qcom Outsourcing Ltd		•	•	•				•				
Quantum Plus	•	•	•	•		•	•	•	•			
RESPONSE		•	•	•								

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RSM Tenon						•						
Salans LLP										•		
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Sitel		•	•	•					•			•
Slaughter and May										•		
Sofica Group	•	•	•	•			•	•				
SoftServe								•				
Source	•	•	•	•		•	•	•	•		•	
SPi Global		•		•					•			
SQS Software Quality Systems			•					•				
Stefanini								•				
Stephenson Harwood										•		
Swiss Post Solutions		•	•								•	
Sytel Limited				•								
Tata Consultancy Services	•	•	•	•		•	•	•	•		•	
Teleperformance				•								
The OUT Group	•											•
The Team			•									
TLT LLP										•		
Transcom Worldwide UK Limited		•		•		•				•		•
TresVista Financial Services	•					•			•			
Trinity Horne	•	•	•	•								•
Turnstone Services	•	•	•									
Venturia			•	•				•				
Virtrium	•	•	•	•				•				
White & Case LLP										•		
Wipro Technologies		•	•					•				
Xceed		•										
Xchanging		•	•			•	•	•				•

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Deloitte.

Company Type:

Professional Services, Consulting, Outsourcing Advisory.

Area of Expertise:

ITO and BPO advisory, multi vendor operating model, public sector, private sector and financial services procurement.

Description:

Deloitte has established an exceptional reputation in the marketplace for the quality and depth of our Outsourcing Advisory Services capability. As a professional services firm, we offer an integrated approach across all aspects of the outsourcing journey by leveraging our Consulting, Tax, Audit and Corporate Finance teams. We can uniquely combine insight, experience and innovation through our deep understanding of business, industry knowledge and commercial practices to help clients get the best from their outsourced services and outsourcing relationships. From sourcing strategy, to business case modelling expertise, tax advice, risk and regulatory implications and negotiating the deal, Deloitte can help. Crucially, clients respect our understanding of what it takes to establish and maintain successful long term outsourcing relationships and we are equally respected by industry due to our verifiable independence and pragmatism. As a result we are uniquely placed to provide our clients, and their suppliers with thorough and independent support in the outsourcing marketplace.

Client List:

Adecco, Aviva, Astra Zeneca, London Borough of Enfield, Metro Bank, Ministry of Defence, Thomas Cook

Executive Viewpoint:

"Outsourcing plays a role in virtually every area of business – and is here to stay. However the complexity, demands, risks and services offered do change. Service providers offer cost reduction, access to scarce skills, innovation and enhanced service experience – but do they always deliver? Achieving the right benefits can be difficult, as you navigate crowded supply markets, negotiate effective contracts, manage service transition and transformation and establish robust vendor management.

To be successful, all outsourcing arrangements require expert advice to secure the right deal, drive the right behaviours and exceed both parties' expectations. Deloitte can navigate that difficult journey for both clients and suppliers alike."

Dave Parkin, Director, Outsourcing Advisory Services

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Outsourcing strategy development & implementation for Aviva's data centres

Deloitte provided assistance to support Aviva through the outsourcing process for their UK data centres by:

- Guiding the client through the "go/no go" decision for outsourcing
- Working with the client to build a RFP
- Evaluating supplier responses
- Building a complex financial model
- Defining the outsourced service, including service levels and service credit model
- Supporting the client through complex contract definition, negotiation process and commercial negotiations with two down-selected suppliers

20% saving for global telecoms outsourcing contract for a consumer goods conglomerate

Deloitte assisted the client in delivering tangible savings and operational improvements to an existing managed telecoms services contract. The approach followed Deloitte's IT sourcing methodology and incorporated the following critical success factors:

- Executing an effective evaluation process
- Early implementation planning
- Creating a robust financial baseline and benefits tracking
- Structured supplier negotiation framework

With Deloitte's support, run-rate cost savings of more than 20% were made on an annual spend baseline of over €150 million.

Renegotiation of world's largest BPO contracts for a global energy and resources company

As part of its "next generation" thinking, the client sought Deloitte's expertise in consolidating all its Finance & Accounting (F&A) outsourcing activities. This project is expected to result in the largest Finance and Accounting BPO deal in the history of the industry.

This current phase of work includes:

- The full sourcing lifecycle from supplier short-listing through to negotiations
- Support for final supplier selection
- Assistance with transition activities

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Gartner delivers technology related insight so our clients can make the right decisions every day. Outsourcing provides a range of alternative options to reduce costs and improve operational efficiency. Our unrivalled Outsourcing industry experience supported by global research together with our experienced sourcing practitioners provides completeness of vision and actionable advice, rigorous methodologies, critical thinking and deep analytics to solve pressing issues to deliver maximum business value.

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Company Type:

Joint stock company, privately held

Area of Expertise:

Mainframe software, enterprise applications, mobile applications, SAP solutions, business intelligence.

Description:

IBA Group is one of the largest IT service providers in Eastern Europe performing software development, migration, maintenance, support, and IT consulting projects with more than 2,500+ IT and business professionals. Headquartered in Prague, Czech Republic, IBA Group has offices and development centers in Belarus, the Czech Republic, the United States, Germany, Great Britain, Bulgaria, Cyprus, Russia, Ukraine, and Kazakhstan. IBA Group serves clients in 40 countries across diverse industries, including banking, railway, telecommunication, and manufacturing. IBA Group ranks as one of the world's largest software companies in the Software Magazine's Software 500 and in the Global Services 100 in the category Emerging Mid-Tier Global ADM Leaders by Global Services. In 2011 and 2012, IBA Group won IT Europa's European IT Excellence and European Software Excellence awards, respectively. For more information, visit www.ibagroupit.com

Client List:

IBM, Goodyear, Standard Bank of South Africa, Fujitsu Technology Solutions, T-Mobile, ArcelorMittal, National Bank of Belarus.

Executive Viewpoint:

"Our customers need to keep up with the pace of technological change without the high fixed costs of internal IT systems. We give them unsurpassed products and services, plus a depth of engineering talent they would be hard-pressed to find elsewhere. The IT market is dynamic and volatile, and it's hard to predict what new customer needs will arise tomorrow. Only an IT service provider with optimized business processes and a proven history of customer interaction, responsiveness, and ingenuity can get the job done. That's IBA in a nutshell."

Sergei Levteev, IBA Group President

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Why choose IBA Group?

- **Accessibility** – just two hours flight time and a GMT +1 hour time zone, enabling rapid face-to-face meetings with developers when required
- **Flexible resourcing model** – near-shore with option for your project manager to be based at IBA, a combination of near-shore and onsite or fully onsite
- **Proven and low risk** – 20 years sustainable organic growth with loyal clients
- **Investment in staff** – joint laboratories within universities and top employee care to ensure project staff continuity.

Document Indexing System

IBA worked in cooperation with IBM. The solution is the central information management system that registers information coming from scanners, by email or by fax. Afterwards, the information is archived or forwarded to the employees in charge of relevant issues and having the lowest workload at the moment. "Together with IBA we implemented a new SOA-based solution for the dynamic workload allocation and intelligent document management for a major insurance company..."

Internet Banking System

"The Standard Bank of South Africa (SBSA) commenced a project with IBA in 2000. IBA is currently assisting in various projects, a total of 20 projects thus far have been completed. IBA's professionalism, attention to detail, innovation and commitment has ensured many successful project deliveries to SBSA's IT infrastructure."

Marius Bosman
 IT Director Solution Delivery
 Standard Bank of South Africa

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Parseq is a fresh new technology-led BPO company built upon decades of experience and commitment. With a blue chip client base from Barclays and British Gas through to Lloyds, Orange and the RBS Group, Parseq provides a range of value-add, technology-led services. Parseq supports front, middle and back office functions from its major processing centres in South Yorkshire and Glasgow, plus smaller satellite offices in Leeds and York. Inbound and outbound voice services are primarily provided from a purpose built contact centre, whereas electronic fund transfer, payment processing and other document management operations are provided from a dedicated high security location. Parseq processes over 50 million financial transactions per annum with a value of over £25 billion, paying over 8% of the UK workforce. With multiple quality and security accreditations including ISO 9001, ISO27001, PCI-DSS and as an approved BACS bureau, Parseq is a leader in its field.

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Qcom is a leading provider of outsourced technical support and services for specialist technology products. Qcom's technical outsourcing expertise helps original equipment manufacturers (OEMs), distributors, resellers, systems integrators and solution providers enhance their profitability, support business development and expansion across the UK and Europe. We operate across a large range of technologies offering pre-and post-sales support, delivering warranty packages, and technical services, as well as consultancy around issues such as customer care.

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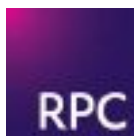
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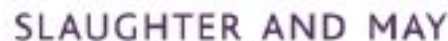
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MEMBER



Company Type:

Outsourced Customer Care Provider, Business Process Outsourcer, Call Centre Outsourcing Provider

Area of Expertise:

Customer Service, Technical Support & Help Desk, Sales & Retention, Collections & Receivables, Back Office

Company Description:

Sitel is redefining outsourcing excellence in the contact centre, by raising the bar on expectations. With over 27 years of industry experience, we are a leading global business process outsourcing provider of customer care and complementary back-office processes. Sitel's 57,000 employees provide clients with predictable and measurable Return on their Customer Investment by building customer loyalty, increasing sales and improving efficiency. Sitel's global award winning services will help you increase the Return on your Customer Investment by:

- Helping you understand your customers better;
- Improving operational effectiveness;
- Creating a strong brand experience;
- Increasing your speed-to-market;
- Maximising your wallet share;
- Enhancing the customer experience.

Sitel's solutions span 120+ domestic, nearshore, and offshore centres in 25 countries across North America, South America, Europe, Africa, and Asia Pacific. Sitel is privately held and majority owned by Canadian diversified company, Onex Corporation. For more information, please visit www.sitel.com

Client List:

Sitel's clients, many of the largest and well-known brands in the world, have selected and continue to partner with Sitel for one reason: Sitel delivers the results they want and expect.

Executive Viewpoint:

Sitel's clients are looking for expertise and insight in to their customer base, and expect consistent and reliable execution. Sitel meet them where they need to be met. Our products are market driven solutions that help our clients resolve their customer service needs. We have a Global Operating Standard (GOS) that acts as our infrastructure in delivering global excellence and consistency. GOS is all about finding new ways to be productive and to ensure that we are consistently performing, and finding ways to develop our leaders so that they can be flexible in the environment in which they operate in.

Bert Quintana, President & Chief Executive Officer

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Sitel Sales Chat

Our clients' main concerns are to increase revenues and improve operational efficiency while maintaining the right level of innovation. In this environment, the Internet is quickly becoming the channel of choice for receiving customer care, technical support and selling products and services. Sitel chat solutions identify, target and engage only those visitors who will benefit from a chat, avoiding visitors who will convert via self-service, as well as those with a low propensity to buy.

Sitel Cloud Monitor

Sitel Cloud Monitor is a value-add solution for social web monitoring, work queue building and real-time response, exclusively available to Sitel customers. Organisations that fail to monitor the millions of conversations unfolding on Twitter, Facebook, YouTube and countless other social networks are missing critical opportunities to connect with consumers, address their concerns and turn criticism into advocacy.

Sitel Sourcing – Global Delivery Network

Sitel Sourcing reflects our flexibility to source the most appropriate talent and skills from across the globe to best service our clients' needs. It allows us to leverage our vast expertise and knowledge from across 120+ centres worldwide for local or multinational clients. Solutions include Offshore Locations, Nearshore Sites, Domestic Facilities, and Work@Home.

SOFICA GROUP



Sofica Group is the Bulgarian BPO market leader. What differentiates us from the rest is that we deliver the right mix. The right mix of tailored solutions, competitive locations, skilled talent pool, standardized processes, infrastructure according to all industry standards. Our goal is to turn our clients into partners and to maximize their ROI.

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Teleperformance is the global leader in customer experience with over 135,000 people in 49 countries. In the UK, Teleperformance has over 7000 people across 17 sites and has been working in partnership with its clients in the UK, representing major brands and Central Government departments, for many years on high profile projects that are often characterised as multi-disciplinary and complex. Clients choose us because they want a level of expertise and service that is exceptional; to protect their reputation and improve their customers' experience. Services are tailored to individual client requirements and include multi-channel customer service (including social media) and CRM, customer acquisition, back office processing, debt collection, multilingual services and technical support.

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TRESVISTA FINANCIAL SERVICES



With offices in Mumbai and London, TresVista is a leading financial services KPO providing high-end research, analytics and other customized financial services ranging from investment screening, valuation analysis, and financial modeling to advisory work and due diligence. Its clients include several of the most recognized financial institutions around the world.

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SoftServe

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Company Type:

Information Technology Outsourcing, Software Development, Technology Consulting

Area of Expertise:

Software Development and Consulting services, Outsourcing, SaaS and Cloud, Mobility, SDLC, Custom Software Solutions, Quality Control, Software Maintenance, Technical Communication Services.

Description:

SoftServe is a leading global provider of high quality software development, testing and technology consulting services. We are committed to bringing the best commercial software to independent software vendors and enterprises. We combine our unmatched experience with best practices delivering SaaS/Cloud, Mobility and SDLC innovative solutions. With an onshore/offshore delivery model, we collaborate with our customers helping them drive their business and differentiate themselves within their markets. SoftServe has successfully completed over 2,500 projects for over 150 global companies and received industry recognition worldwide (Global Services 100, Global Outsourcing 100, Black Book of Outsourcing, Microsoft Partner of the Year, etc.). Founded in 1993, SoftServe is headquartered in Fort Myers, Florida, with a representative office in London, UK, and an award-winning development organization based in Ukraine, with total of over 2,500 professionals.

Client List:

Clariant, Pearson, Bazaarvoice, Allscripts, Coremetrics, ASG, Pinnacle Securities.

Service Line Listing

SoftServe empowers your business through custom Cloud, Mobile, SDLC (Software Development Lifecycle), BI and Healthcare Software Solutions. We also provide technology solutions specific to Finance and Education industries. For Independent Software Vendors (ISVs) and software-enabled businesses we provide following software development services: Software Development, Quality Control and Maintenance, Technical Support and Communication; and consulting services on SaaS, Cloud, Mobility, Technology, Business and Process.

Executive Viewpoint:

"Here at SoftServe we are passionate and committed to delivering the highest quality software, in the fastest time, with the best user experience – and innovation is our key to success."

Taras Vervega, President SoftServe Europe

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MOBILE HOMECARE SOLUTION

Customer: Allscripts

Industry: Healthcare

Together with Allscripts, the leading provider of innovative solutions for the healthcare continuum, SoftServe designed the first Smartphone application providing caregivers incredible mobility and efficiency, Allscripts Mobile Homecare™ that improved the clinical quality of care, financial performance, and operational control. The new, simple and easy-to-install mobile application on the Windows Phone 7 platform enhances home care clinical experience for the users, helping Allscripts maintain a leading position within the home care market.

SAAS EDUCATION SOLUTION

Customer: Pearson

Industry: Education

SoftServe joined Pearson, an international media company with world-leading businesses in education, business information and consumer publishing, to deploy an innovative SaaS product for education industry. SoftServe developed an improved application by migrating it to a SaaS platform and adding new features such as multi-tenancy, scalability, reporting, and integration with School Information Systems. Prevent was delivered on-time, right before the school year and also honored in "Tech & Learning" Magazine's awards of excellence.

COMPANY STATISTICS

- Deep industry knowledge and expertise since 1993
- 2,500+ projects for more than 150 companies worldwide including Fortune 500 and NASDAQ 100 companies
- 2,300+ professionals on staff
- 8 offices worldwide
- 6 development centers
- average annual growth rate of 40%

TRINITY HORNE



Experts in maximising outsource contract profitability and service levels in contact centres, back office and mobile environments. Sector expertise in Finance, Utilities, Government, IT & Telecoms. Outcome driven with an evidence-based, analytical approach.

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XCEED



Xceed is a rising star of quality, multi-lingual (BPO) services. Xceed is managing extensive outsourcing agreements with key government accounts and Fortune Global 500 companies. The core objective is to deliver superior quality and value to its clients throughout the CRM lifecycle. Xceed has two sites operating 24/7 within Egypt and Morocco.

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MAKE AN IMPACT

With over 500 staff and a blue chip client base from Barclays and British Gas through to Lloyds, Orange and the RBS Group, Parseq provides a range of value-add, technology-led services.

Parseq supports front, middle and back office functions from its major processing centres in Rotherham and Glasgow, plus smaller satellite offices in Leeds and York.

Inbound and outbound voice services are primarily provided from a purpose built contact centre, whereas electronic fund transfer, payment processing and other transaction processing operations are provided from a dedicated high security location.

Parseq processes over 50 million financial transactions per annum with a value of over £25 billion, paying over 8% of the UK workforce.

With multiple quality and security accreditations including ISO 9001, ISO27001, PCI-DSS and as an approved BACS bureau, Parseq is a leader in its field.

For further information please contact: **Rob Stephens**
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