sourcingfocus.com

the portal for the sourcing industry

2013

summer supplement

NOA
NATIONAL OUTSOURCING ASSOCIATION

outsourcing works
proving the value of outsourcing

sourcing focus.com
the portal for the sourcing industry

PROCUREMENT

TRANSFORMING

Strategic outsourcing to further your business.

At Xchanging, our customers are provided with innovative solutions that transform their business processing, technology and procurement services.

Xchanging provides solutions that deliver measurable results to improve our customer's bottom line, giving them a competitive advantage.

Our capabilities as a leading procurement provider have been recognised by Everest who awarded us their Star Performer* award.

Connect with us to unlock your opportunities for business growth. For more information, contact: 020 3604 3334

@XchProcurement
linkedin.com/xchangingprocurementservices

Realise more at: xchanging.com/procurement
Business Processing / Technology / Procurement

*In 2012

Xchanging
inspiring innovation

Contents

The Analysts View – an agreeable debate 4

Polling the audience – let's hear it from the people 7

Moving from BPO to ITO 11

The transformation of BPO 14

Think Big. Act Small: Simple central tips for success 16

Buyer beware: outsourcing can be a risky business 18

Contract is a milestone of all 19

Taking the guess out of outsourcing success 20

Feeding innovation in outsourcing 21

Introduction

Welcome to the summer supplement from sourcingfocus.com

Outsourcing Works. We know it does, but we also know it is an uphill battle persuading the public as such, when everyday they read media reports about tax payer's money being wasted, software projects failing to deliver on time, or just failing to deliver fullstop (remember, good news doth not sell papers). As such, we decided to call this year's NOA Summit, the Outsourcing Works Symposium and have decided to dedicate this supplement to the great and the good of the industry who took to the stage to talk about how to make outsourcing work, what are oft the issues when outsourcing does not work (so everyone can avoid them) and real life examples of outsourcing working in practice.

Among other articles in this edition, xchanging and BBC, both share case studies on how outsourcing works, Moneypenny takes us back to grass roots to help us remember what is core to help make outsourcing work to best effect and a great cross-range of industry experts share tips and warn us of the pitfalls to avoid the risk of outsourcing failure.

The Symposium delegates were two-thirds end users, all with an appetite to learn more about how to do outsourcing right. Their views were captured by live polling, with the results written up on page 7. Feedback was incredibly positive, as such, please watch out for the dates of the next Symposium, which promises to be bigger and better than ever before!

Enjoy the read and as ever, let me know your thoughts.

Best regards,
Kerry

Sponsors

AOM INTERNATIONAL

AVASANT

BPeSA
Business Process enabling South Africa

logica
CGI
Logica is now part of CGI.

moneypenny

PARSEQ
simplifying business

Xchanging
Inspiring Innovation

PUBLISHERS
Buffalo Communications Ltd
44 Wardour Street
London W1D 6QZ
+44(0)20 7292 8680

EDITOR-IN-CHIEF
Kerry Hallard
BUSINESS DEVELOPMENT
Natalie Milsom
CREATIVE AND DESIGN
jkharveydesign.co.uk

IMAGES
istockphoto.com with individual
copyright as stated

© Buffalo Communications Ltd

Many thanks to all of our sponsors.

The Analysts' View – an agreeable debate

This summer's analysts' debate pitted the sourcing smarts of John Willmott, founder of NelsonHall and globally renowned BPO guru, and Douglas Hayward, Associate Vice President of IDC, who sits in the pan-European software and services group in London.

If anyone in Europe has a got a handle on the last few months trends, it's these two learned men of outsourcing. Posing the questions was Chair-elect of the NOA, Lauren Tennant, on her first official yanking on the reins of a major NOA event.

Get agile

When asked what are the biggest changes currently afoot in outsourcing, Willmott put forward that the most dramatic change in customer behaviour at the moment is there seems a genuine appetite for 'improved business agility, over cost reduction.' He went on to explain that this meant moving the focus onto pricing mechanisms that are attuned to business volumes: pay as you go, to the layperson.

'Organisations are looking for two components in their 2013 outsourcings', he said. 'Firstly, process excellence, with standardisation across the business, across all geographies. Big players like BP are consolidating on a global level. The other component is a move to transactional prices." According to NelsonHall's findings, gainshare is on the wane.

Show me the money

Douglas Hayward told the audience that there is a definite trend to what he called 'vendor push back' – he explained how in 2013, large vendors are looking for higher margins for more quality 'they don't want to do 3 percent deals anymore.' He estimated that desired margins, were between 10-40 percent, depending on the onshore-offshore delivery model. This goes hand in hand with a widely perceived rise in outsourcing customer satisfaction. 'As quality of service goes up, so does the cost.' Another element of this trend for vendor push back is that vendors are now more regularly the ones to exit when things are not going well. 'Infrastructure as a service is now provided by just a handful of players, ' he said.

John Willmott confirmed that vendors are indeed pulling out of commodity areas like infrastructure-as-a-service, but argued that new players are entering the mix. 'Indian companies are moving fast,' he said 'second tier players like HCL are coming in and offering price competitive services.'

Outsourcing with virtualisation

The debate moved on to the latest happenings with Cloud, catchily tagged by Willmott as 'outsourcing with virtualisation.'

Hayward stated that 'year on year, enterprise-wide cloud is going up, with a focus on transformation of process and technology.' He continued: "IT is going in two directions at once. Back-ends are being consolidated, stripped down and standardised. The external stuff, the customer facing stuff commissioned by Line-Of-Business people – the LOBSTERS, as we call them internally – that stuff is increasingly heavily-customised as companies seek competitive advantage from their IT."

Global business services (enabled by IT)

The discussion took a sharp turn into the coming force that is 'global business services' – as subtly hinted at beforehand, global business services is a concept that involves businesses combining the complementary concepts of shared services and outsourcing into one integrated worldwide framework, where IT departments 'are a service broker, commissioner, integrator – technology is almost incidental, where the focus is on a need for business intelligent IT.' John explained how this is far too complex to be sold as a joined up service, and it takes a 'single global client-side owner to make it work.' One day, he said people won't speak about IT. They'll speak about global business services enabled by IT.'

Show me some initiative

Customer unhappiness reared its head: Douglas Hayward suggested that a prevailing reason to 'can a contract' is a feeling among end-users of apathy towards the supplier. 'End users get dissatisfied,' he said, 'It does exactly what it says on the tin? So what? When magical implied impacts don't materialise, customers get bored and cancel. What the best suppliers do is go through the deal, spotting issues, value-adding and driving change. To quote one of my clients: "I wish suppliers would take the risk of angering me, and challenge me."'

John suggested that it was largely to do with cost: 'Sometimes overall costs do not change as much as users wanted. Ambitious purported costs of ownership do not always come down enough." Douglas added 'Cost reduction through cloud is actually quite low."

Skills required – with depth and breadth

No debate would be complete without a mention of the skills shortage. Hayward said: "Students do their research, and surmise that all IT is going offshore. Well, that isn't strictly true. Organisations are looking for what we call T shaped people: people who have broad knowledge, but deep specialisation, especially at the beginning of their career."

Willmott said: "The rejection rate is pretty high at the moment. There are still a lot of job interviews going on, but suppliers are getting extremely fussy about who they employ; they are looking for people with an intuitive understanding of what end-user experience should be, and they're struggling to find them."

It is all about the money, honey

Towards the end, the debate about profit margins re-emerged, with Hayward stating that 'intelligent customers enquire about profit margins, whilst accepting that they do need to be made,' whereby Lauren Tennant shared her recent experience of doing just that. It seems that, if you were to take one key learning from this year's analyst's debate, being brave enough to ask outright about the size of your supplier's profit margins would be the way to go.

It's about time...

...time for change

Are your clients demanding:

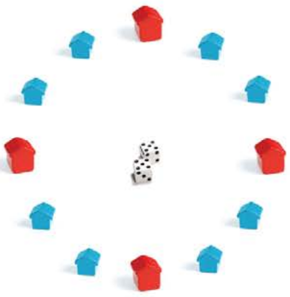
- Tighter service levels?
- Alternative pricing models?
- Agile responses to their needs?

Your operations management approach may not be capable to tackle these demands, but AOM is! AOM provides visibility and control, and enables front-line managers to make the right choices, at any given time, to match the available resource to the work that needs to be completed. This means that requirements for tighter service levels, lower costs and daily strategic decisions can be expertly balanced.

If you achieve this, operational excellence is a real possibility and you will quickly realise competitive advantages

Is it time for change in your organisation?

...time to invest



Your ability to change is often dictated by your clients. Professionally recognised operations management practices will increase your control, enable you to identify and deliver operational efficiencies, and allow you to achieve your full potential.

AOM provides organisations with a structured and consistent operations management capability, supplying timely decision support information to enable managers to make confident daily decisions at the heart of the operation.

Is it time for investment in your organisation?

...time for AOM

Active Operations Management (AOM™) is an innovative approach to operations management that gives managers the skills and the tools to manage that most precious of commodities: time.

What are the benefits?

1 *Increased control over the operation*

- Confident, real-time, in-team decisions
- Supports objective performance management
- Reduced uncertainty within teams

2 *Increased productivity, which releases capacity*

- Productivity improvements in the region of 15–40%
- ROI in excess of 200% within 12 months
- Results within 6–8 weeks

3 *Increased strategic choice*

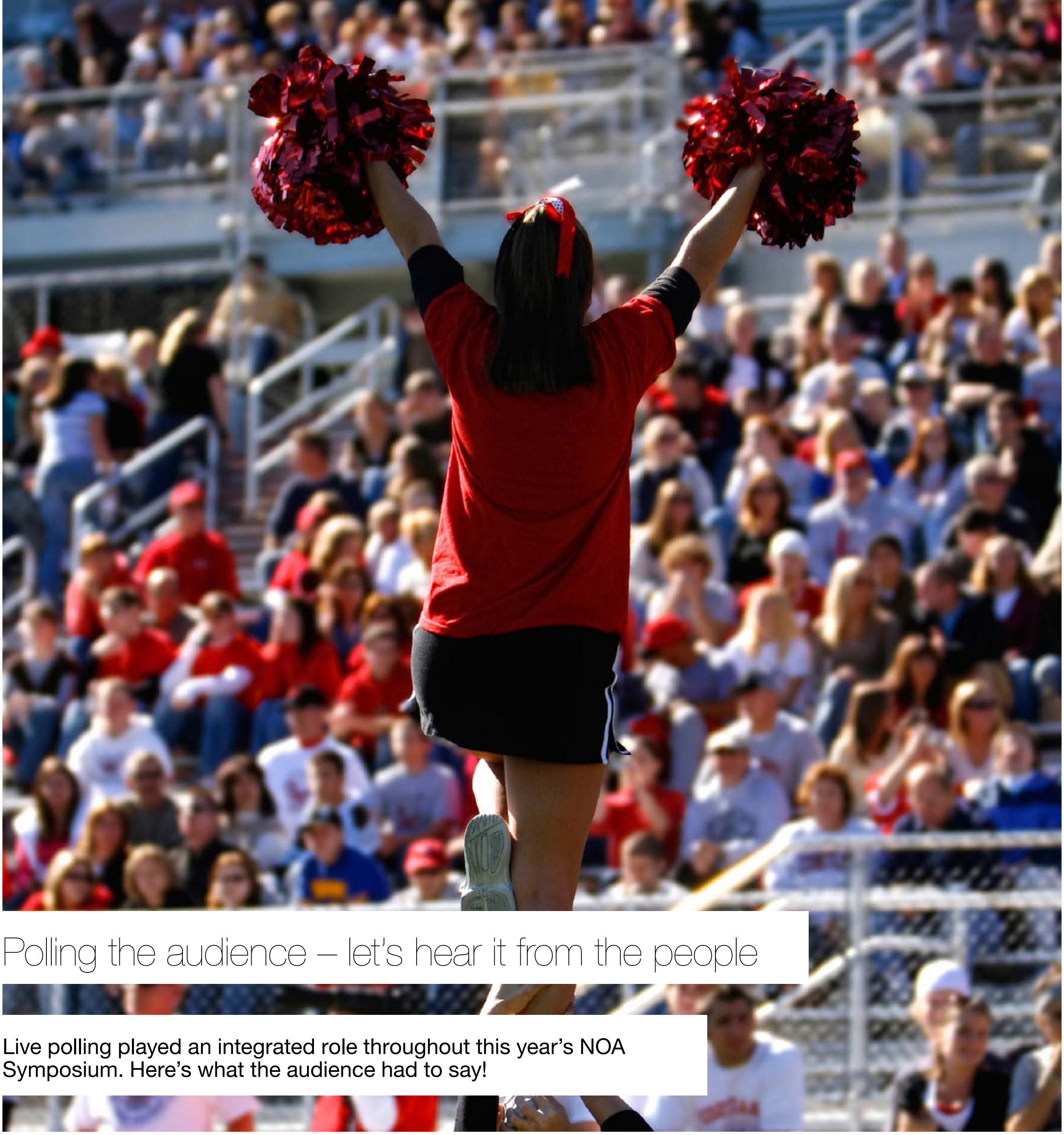
- Supports business transformation
- Catalyst for achieving operational excellence
- Year-on-year benefits

THE QUEEN'S AWARDS FOR ENTERPRISE:
INTERNATIONAL TRADE
2011

Is it time for AOM in your organisation? If it is, talk to AOM International. We can give you the time.

AOM
INTERNATIONAL

e: enquiries@activeops.com t: +44 118 907 5000 www.activeops.com



Polling the audience – let's hear it from the people

Live polling played an integrated role throughout this year's NOA Symposium. Here's what the audience had to say!

Fingers on your buttons please

Outsourcing trivia was used to warm up the audience and get them familiar with their voting handsets.

Reassuringly, the UK outsourcing industry is very aware of its size and importance to the UK economy: The UK outsourcing industry supports 3.3 million jobs (63 percent of the audience were aware that it supported more than 1.2 million jobs) and 74 percent were aware that outsourcing contributed 8 percent of UK output.

There was however confusion over how much outsourcing contributed to the Treasury each year. 26 percent believed it was £8 billion, 27 percent believed it was £15bn and a further 27 percent believed it was more than double that, at more than £30 billion.

The answer was: outsourcing contributes £28.5 billion to the Treasury each year

Confusion reigned over what impact outsourcing had on a company's share price a month after the announcement. 34 percent thought there would have been a negative impact (15 percent opted for a 2.9 percent decrease in share priced and 19 percent believed a 1.2 percent decrease), a further 11 percent thought there would be no impact. More than half however thought the impact would be positive, with 40 percent suggesting

South Africa Outsourcing & Offshoring Summit 2013

20–22 November, Cape Town, South Africa

BPeSA Western Cape. Your BPO investment partner.

Cost savings of at least 50%
Neutral accents together with large pool of English speaking talent
Cultural affinity with UK – we understand your customers
World class infrastructure
Proven capabilities: Retail, telecoms, financial services, travel, legal etc.
Time zone positioning ideal for Europe
Internationally renowned brands operating in SA: Amazon, ASDA, Bloomberg, British Gas, EE, IBM, iiNet, Lufthansa, Shell, Shop Direct, TalkTalk and T-Mobile

Tel +27 21 427 2900
info@bpesawesterncape.co.za
www.bpesawesterncape.co.za
www.facebook.com/BPeSAWesternCape
twitter: @bpesa

BPeSA
Business Process enabling South Africa
westerncape

a 1.7 percent increase in valuation and 15 percent a 3.1 percent increase.

The answer was: the average share price will have increased by 1.7 percent a month after outsourcing is announced

The audience seemed painfully aware how little the industry was rated by the public. 59 percent of all delegates guessed that only 5 percent of the public thought outsourcing was positive for the UK economy. 31 percent of delegates thought only 25 percent of the public thought positively towards outsourcing's impact on the economy.

The answer was: only 20 percent of the UK public believe outsourcing is positive for the UK economy (with a £28.5billion annual infusion – how wrong they are!)

Despite this industry understanding of the public negativity towards it, when asked, only 9 percent of delegates want the industry association to improve its profile. Instead the majority (29 percent) want the NOA to professionalise the profession, 27 percent want us to build case studies showing outsourcing successes, 24 percent want best practice and information on how to do it right, whilst 11 percent want future trends.

Let's hear it for the people

It is clear that the softer elements are the most critical to outsourcing success. The audience was asked: "what is the most important factor contributing to the level of service achieved in outsourcing?"

37 percent responded it was the quality of people working on the account and a further 31 percent cited relationship management. These were significant leaders to the harder elements: governance (1 percent); quality of management teams (7 percent); quality of processes (6 percent); quality of technology/infrastructure and the contract and SLAs (both with 4 percent).

The audience was then asked; "how important are people in making outsourcing projects work?" (on a scale of 1 to 10, where 1 is not at all important and 10 is extremely important). 72 percent rated people as 10 and the mean score overall from the audience was 9.48!

To follow this the audience was asked to rate their agreement with the following statement: "I expect outsourcing service providers to be better than end users at maximising people in their particular area of specialisation?" They were offered a scale of 1 (strongly disagree) to 5 (strongly agree). 47 percent stated they strongly agreed and a further 26 percent agreed. The mean score was 4.07 making it clear that service providers are expected to get more from their employees than end users.

Why do this outsourcing business?

Although the people element was brightly shining through, the drivers to outsource seemed not to have changed much. When asked for their drivers, 33 percent stated it was to reduce operations costs, followed by 18 percent seeking specialized services and 17 percent seeking business process improvements.

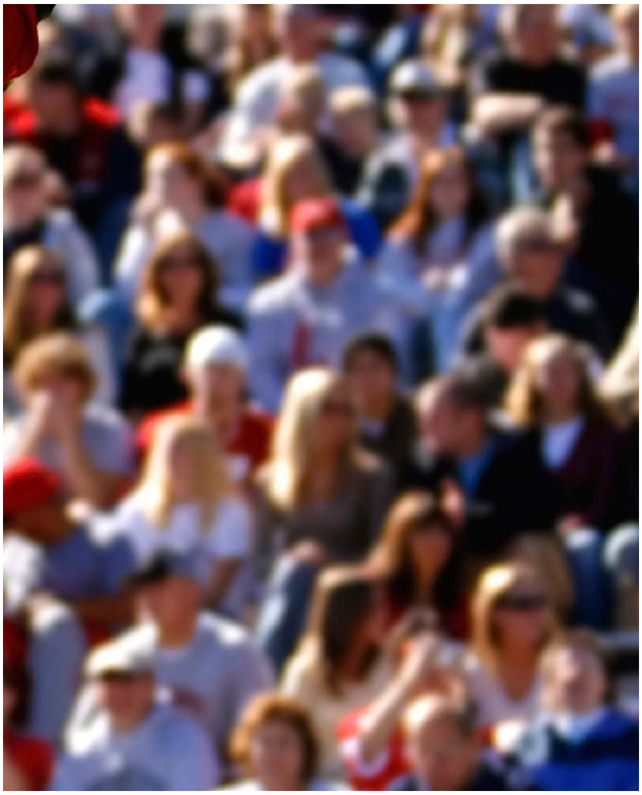
Project experience and track record were cited as the key criteria in selecting an outsource partner, with 45 percent of the delegates highlighting this. This was followed by level of engagement and communication with 19 percent, and operational reliability and financial stability with 18 percent. Infrastructure and technology trailed with only 1 percent selecting on this criteria.

The success of the outsource contracts was however measured predominantly by service performance, according to 35 percent of the audience and secondly by financial benefits by 28 percent of respondents. 14 percent used relationship and perception measures.

When asked whether their outsourcing contracts had delivered successfully against the original business and benefits case, the response was not resounding success. 38 percent stated outsourcing had partially delivered, 34 percent said it had delivered and 11 percent said it had not delivered to the original business case (17 percent were not in a position to judge).

Mirroring the earlier findings, when asked which area was most effective in delivering performance that exceeded the original expectations, 40 percent stated that it was the relationship between client/supplier that had most exceeded delivery expectations, followed by their people (capabilities and resource) with 36 percent. Governance followed with 9 percent and the contract trailed with 4 percent.

Innovation still has much room for improvement in outsourcing. 65 percent of the audience did not believe they were in an innovative marriage with their outsource partner.



MN ZX 2456
MN ZX 2456

AVASANT

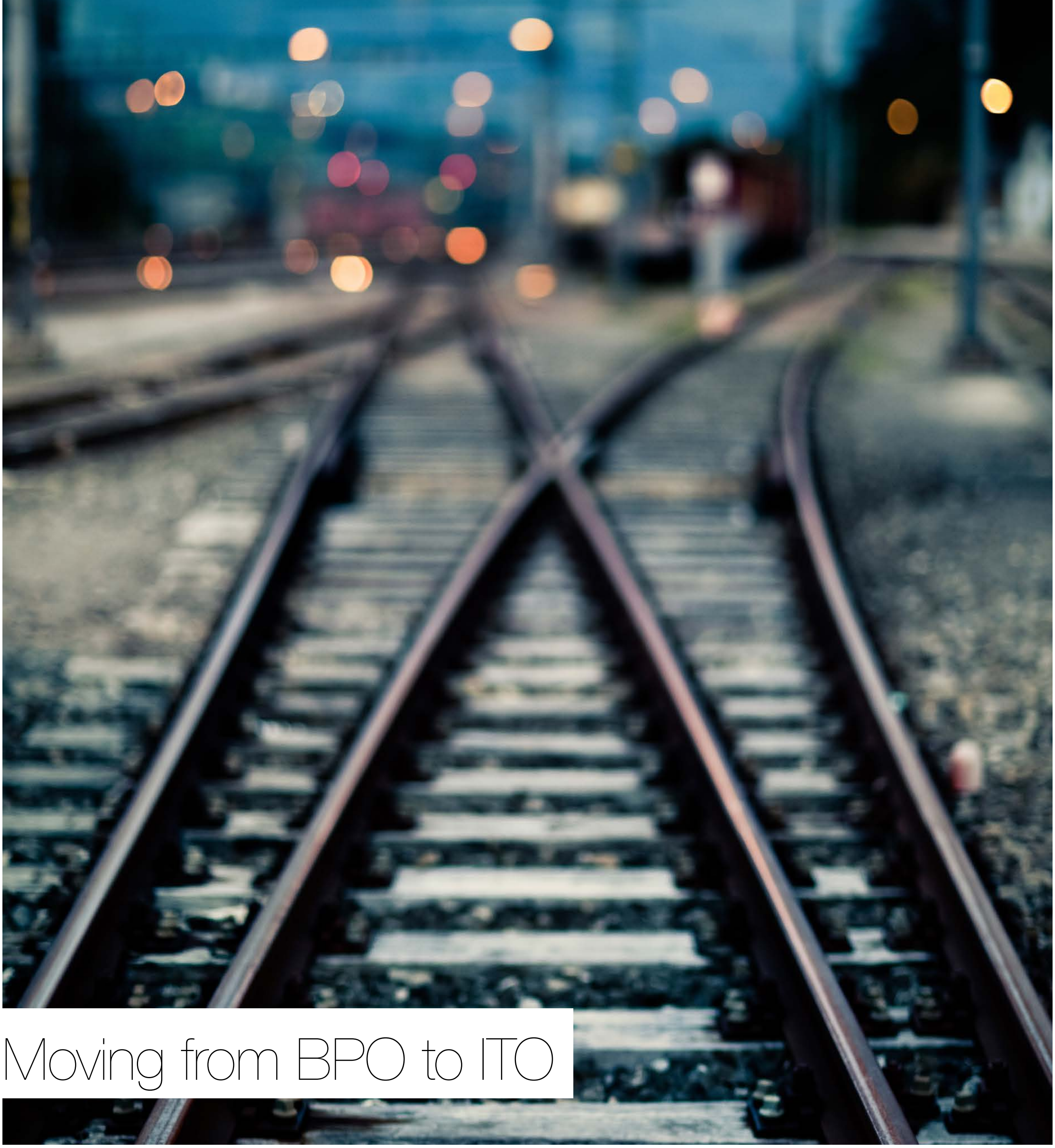
Supercharged for the Global Economy

Are you on the right track for success?
Avasant advises private and public organizations to achieve their strategic sourcing and globalization objectives. With 1000+ engagements across 40 countries, Avasant is 'supercharged for the global economy.'

Strategic Sourcing
IT & Business Transformation
Globalization Advisory

www.avasant.com

Los Angeles . New York . Austin . London . Mumbai . Beijing



Moving from BPO to ITO

Although IT budgets are not getting any bigger, information technology is now under pressure to create more value than ever before.

Most of IT spending used to be on pure maintenance, with just a small proposition on value-adding transformation. As organisations look to utilise outsourcing to actually generate revenue, rather than merely reduce costs, Mark Devonshire, Vice President and Sales Director, Infrastructure Services UK, Capgemini UK and NOA Council Member, highlighted a shift in buyer behaviour that means "an IT outsourcing supplier is now just as likely to liaise with the Head of Marketing as the CIO these days."

According to Devonshire, "digitalisation, eco-systems and orchestration are the buzzwords" now.

So how do you orchestrate a multi-vendor eco-system, while ensuring robust security and mellifluous data compatibility? This is ITO's challenge de jour.

RSP Case Study: From Black-Box to Glass-Box

Nowhere is the need for orchestration more evident than the sprawling, disparate eco-system that makes up the UK's railway. Consider the stats: 1.4 billion passengers a year, buying tickets from 10,000 points of sale to flit variously between 2,500 stations, along track that, if laid out as one continuous line, would reach from London to Adelaide, Australia.

The nation's need for seamless travel across this vast network is shouldered by 25 privately owned operating companies, each deserving a variegated slice of the £7.5bn per annum total revenue. A complicated, high-stakes eco-system, if ever there was one – which put Steve Howes in a tricky situation. After 15 years of outsourcing business processes, he'd lost control.

Lost Control

Steve Howes is Managing Director of Rail Settlement Plan (RSP) Ltd, the company that orchestrates the entire UK rail ticketing process: distributing timetable data to 10,000 points of sale, overseeing ticket issuing and information systems including ticket offices, self-serve machines, online, mobile devices and third party outlets, and disseminating the proceeds accordingly.

Over the last 15 years, RSP employed a traditional outsourcing model – a set of business processes, supported by applications, on 10 year design-build-operate deals, featuring 'black-box' delivery of services – as Howes said: "the suppliers were loath to say how it all works."

> "The major downside of 'black-box' delivery is that the supplier forever has the upper hand. In effect, RSP was spending £2.5million a year on 'undefined services'."
>
> **Steve Howes is Managing Director of Rail Settlement Plan (RSP) Ltd**

As Steve Howes says: "Outsourcing is at the very core of what we do. Suppliers are not only interacting with our customers, but in some instances, the supplier had more knowledge of some aspects of our operation than we did. Our team would be posed questions, and they wouldn't know the answers. They'd have to go and ask the supplier. This put us in an extremely disadvantageous position, where change was slow and expensive, and benchmarking was impossible."

Disruptive Path to Knowledge Recovery

A plan was put in place to rectify this, and at the same time take advantage of IT commoditisation , and the 'disruptive technologies': open source, cloud, public internet for connectivity and web services. Steve Howes said: "Disruptive technologies present huge opportunities. To maximise this, there is a need for an outstanding technical team who understands the estate, even the externals, so that we can be an intelligent customer. When it was decided that three new applications – for Data Distribution and Revenue Allocation – needed to be developed, there was a need to build an outstanding technical team to orchestrate the various suppliers."

The creation of a technical team in-house enabled RSP to move from a 'black-box' BPO approach to a more tech-savvy IT procurement approach. This shift in contractual paradigm made both reshaping and reskilling essential, generating a need to recruit.

Steve Howes said: "We lost people from the operational side, which reduced headcount and costs and gave us the space to hire technical people. Four years ago, the team was three quarters ops people, one quarter developers. Now it is one third ops, two thirds developers – it's these people's jobs to think about the future, rather than just manage existing contracts. We also TUPEd in a number of BPO guys from our supplier organisations. Reshaping is never easy, especially during a recession, but staff that remained recognised that it was a necessary reengineering, and in the main, saw it as a big adventure."

> An 18 month journey of knowledge reclamation ensued. The new guys, along with the TUPEd individuals, set about the mission of finding out every technical nuance of the RSP estate: an approach they dubbed the 'glass-box'.
>
> **Steve Howes is Managing Director of Rail Settlement Plan (RSP) Ltd**

Crystal Clear

The new arrangement allowed improved visibility of individual software components and granular information on costs. For example, all three apps are to be hosted on Amazon web services, with zero mark-up from the suppliers.

Steve Howes said: "Although the 'glass-box' approach is not fully 'open book' in a financial sense, it does provide technical detail that was inaccessible before, all in the context of fixed price development costs. It's an open relationship that is not highly contractual, or transactional, more based on a partnership approach dedicated to understanding each other's technical challenges. Now that we have found suppliers who are willing to work on this basis, there's no going back to black-box. In fact, the one supplier who refused to be more transparent, we terminated the contract."

The Future

All the successful bidders for the development of the three applications are SMEs, Steve Howes said: "Small companies tend to get to grips with disruptive technologies more effectively. We are contracted for 3 years, but will probably keep the apps in operation longer. Changing suppliers and/or hosting is a future possibility, so robust knowledge transfer clauses have been built into the contracts."

The fruits of the labour are due to be launched late in 2013. Although none of the solutions are yet live, due to the decreased need for expensive software licenses, the Capex and the Opex associated with these new developments over five years will certainly prove substantially less than the Operating Expenditure alone of the old apps. Steve proudly announced that by switching to the 'glass-box' ITO approach, his operating costs are 75 percent cheaper than his previous BPO deals.

Experience the commitment®

logica is now CGI

Together we are a new global IT and business services champion.

Consulting, systems integration and outsourcing services.

Over **69,000** professionals in **40** countries.
Local knowledge, global strength.

NOA
NATIONAL OUTSOURCING ASSOCIATION
AWARDS 2012
WINNER

cgi-group.co.uk

The transformation of BPO

TV LICENCE
REGISTRATION FORM
Forename(s)
Tov
B
C

As outsourced service suppliers and end-users become increasingly experienced with contract models and complex outsourced services, users are increasingly demanding contracts which look to long term improvements and future developments as standard. This increased experience with outsourcing comes as users begin to enter into their third and fourth generation contract models. This has led to a new trend of high performance contracts, particularly within BPO, as users look to build on past experiences with outsourced services.

High performance BPO: The next generation

In 2011 outsourced services came rapidly back into fashion within the public sector as economic pressures from recession made the available cost savings highly desirable. However, recently concern has been raised surrounding a lack of capability within the civil service to effectively outsource, due to a lack of past management experience and employment of best practice. Leslie Willcocks, Professor and Director of The Outsourcing Unit, London School of Economics, described how a case study from The Outsourcing Unit gathered revealing feedback from companies on their experiences with outsourcing relationships. 40 percent identified themselves as 'doing ok', 25 percent said that they had a 'good' relationship, while only 20 percent placed themselves in the high performance bracket. Further research from the Aberdeen Group showed that: "Nearly 50 percent of outsourced projects failed outright, or failed to meet expectations." When addressing BPO separately, of all companies surveyed 15 percent identified their outsourcing relations as 'poor'.

From this research Leslie identified that 55 percent of all surveyed companies could be doing far better, highlighting the substantial room for improvement that BPO companies have available to them. He described how these findings showed the "importance of management and maturity in establishing strong and constructive relationships", and showed the need for improved governance.

From the research gathered by The Outsourcing Unit, outsourcing as a whole and BPO particularly still have significant hurdles to overcome. Progress is being achieved as contracts become mature and end users and suppliers come to understand that the small details of outsourced contracts cannot be overlooked if a successful outcome is to be achieved. Leslie described how high performance BPO contracts are now often found to have transformational leadership at the helm. Such leadership helps to drive partnerships and in turn deliver transformational practices.

BBC best practice: a licence to thrill

The potential transformation of BPO services as they reach later generations, as observed by the LSE Outsourcing Unit, was a key requirement for the renewal of the BBC's 4th generation TV Licensing (TVL) payment collections programme, which has become highly recognised for its transformational outsourcing.

The BBC is well placed to build upon the employment of past outsourced service contracts, having relied heavily on such services to drive core activities, such as payment collection. The BBC's move to upgrade the TV Licensing collection programme reflects the increasing confidence that end-users have in looking to the future when employing outsourced services.

In the case of the BBC's renewal of its outsourced TVL collection administration programme, the major broadcaster used the opportunity to move to a contract which looked to the future and built upon past experiences of outsourced services in order to create a truly next generation BPO contract. For the BBC the TVL collection administration programme represented a vital source of income, with the licence fee being essential to the continued operation of the public service broadcaster, with income from the payments representing the majority part of the BBC's total funding.

James Milner, previously Head of Contracts and Programmes for the BBC described the size of the programme, "The ten-year contract which came up for renewal in July 2012 was huge in scale, covering 25 million households with revenue collection totalling as much as £3.8 billion per annum." The process itself involved 12 million phone calls and 47 different payment options, with the collection stage involving 2,000 employees.

Nick Mason, Head of Strategic Sourcing, BBC, detailed the planning involved in creating the next generation TVL payment collection contract. As the ten-year contract came to an end, the BBC undertook a detailed assessment of whether the new TVL collections programme should be in-house or outsourced. Due to past performance, the benefits of separating the service from the public image of the BBC, the potential for service development and the potential for increased overall results, we decided that the new TVL collections project should be outsourced, and the BBC looked at how the contract should be prepared for future requirements.

Transforming for future success

In establishing a new BPO contract, the BBC looked to design a service that was truly next generational, with the aim of being scalable for future demands. The contract was redesigned to retain key skills and knowledge and to ensure that suppliers planned for an achievable exit, while the overall governance structure would be retained in-house.

With a demand for such transformational requirements the BBC began a major procurement exercise a year in advance. This process in itself took more than 600 hours of negotiation with bidders in order to identify suitable suppliers and to take advantage of the many modern technological developments that had occurred over the lifetime of the previous contract.

When the supplier Ember: Public Sector Solutions was selected, the BBC ensured it worked on the development of the Governance structure with the delivery team, rather than the sales team, so they fully understood and agreed to what they were committing to deliver.

Nick detailed how the BBC developed a programme which they called "Trident" which succinctly encapsulated the key success factors of the contract: (1) drive down costs; (2) increase revenues and (3) improve the reputation of TV Licensing. Trident saw Ember receiving payment based on revenues received by the BBC from the TVL collection programme, rather than on the numbers of licences sold. The reputation of TV Licensing was measured (this was separate to the BBC's reputation) and this reputation index ensured that the collections experience for customers was not aggressive and did not focus on routing them to cheaper channels. The BBC also placed a call for full transparency during the call for tender which ensured that management were aware of suppliers' profits, this allowed the BBC to gauge if a decent return was being made. The BBC declared it was supportive of suppliers earning high level margins for high level success.

In creating an outcome based model for delivery the BBC ensured that they had assessed multiple different models and scenarios in order to prepare for any obstacles during the contract's lifetime. This included a plan B which would act as a safety net in addition to the requested exit strategy that suppliers had to provide.

Nick Mason described how the BBC in the end took a results based approach to the contract, with a focus on both reputation and revenue collection, rather than focusing on meaningless data, saying: "I've seen contracts where people have been given bonuses based on the number of phonecalls handled. Sweating the small stuff is the recipe for success".

Predictions for delivery

In setting forward this plan of action, the new contract is expected to deliver over £220 million in savings, with £120 million in increased revenue over the next eight years, while employing measures to avoid reputational damage, with 85-90 percent happy to pay. The employment of a risk reward system helped to drive the contract as shared success fuelled increased collaboration and openness.

A BPO contract such as the one being undertaken for the collection of the TVL by the BBC, demonstrates how an experienced approach to contract planning has allowed the BBC to create a high performance BPO programme. Contracts such as this represent the future of BPO and allow the BBC to be in the position to predict large cost savings over an extended period and remain in a flexible position for future transformation. The best practice employed by the BBC is key to the resolution of issues surrounding outsourcing capability within the public sector, and the inefficiency in outsourcing on display from the research generated by The Outsourcing Unit at LSE.

Think Big. Act Small: Simple central tips for success

Moneypenny is the brainchild of brother and sister team, Ed Reeves and Rachel Clacher. In 2000, Ed and Rachel pooled their convictions about customer service and team work – and so Moneypenny's revolutionary service began.

Moneypenny is not your average outsource service provider. They are far from being a call centre, though they do offer call handling support of every nature for your business. As such, co-founder Rachel Clacher, gave far from your average outsource service provider presentation. Instead Rachel delivered a presentation which resonated with all in the audience- across companies both large and small – which was centred on remembering to focus on a few simple keys things.

Never a wiser word!

- Think Big. Act Small
- Treat others as you would want to be treated yourself
- People buy from people
- Take time to understand your client's perfect world
- Wear your client's shoes

Today, Moneypenny is a UK market leader, with a reputation for consistently high service levels and an innovative approach. It has been ranked by the Sunday Times as one of the Best 100 Places to Work three times.

Some of the UK's biggest and most successful companies use Moneypenny Receptionists to support or replace their switchboards – ensuring their customers get the very best every time

moneypenny

To see what our extraordinary team will do for you, visit moneypenny.co.uk or call 08000 199 944

Overflow support – Full outsource – Disaster recovery – 24 hour cover

Buyer beware: Outsourcing can be a risky business

Outsourcing is an industry where operational risk is magnified, due to the involvement of legions of stakeholders and the need to meld processes or forge new ones. Even if you are only just beginning to think about the potential for outsourcing to create value within your business, risk is already beginning to build.

Contract is a milestone of all the thinking that has gone before

One of the biggest risks is not truly understanding the supplier proposition and what it will mean to your business. Look deeply into the hard savings and beyond them, into soft savings such as lost profit avoidance and reduced time to get new products to market. Weighing up these savings in comparison to the transaction costs of reallocating processes to an external supplier is a good place to begin mitigating risk, and will help you become clear on your motivations. Absolute clarity on sourcing strategy is a crucial step in taming risk.

Find your baseline. Work upwards

A huge amount of work needs to go into understanding your baseline. Knowing where you are at already, not just in terms of financials, but skills and processes is vital. But true intimacy with the existing baseline can be difficult, particularly in huge globalised companies operating in many disparate business cultures. Take your time at this stage: truly knowing your baseline will let you appraise supplier propositions effectively, bringing clarity and certainty to decision-making.

Be aware of tax implications on a global scale

When doing multinational global outsourcing, there will always be winners and losers: standardisation that brings down costs in one territory will most likely push them up in some of the lower-cost markets. But be aware of regulatory risks around tax. Moving money between subsidiaries generates considerable knock on effects: in particular, transfer pricing. As Glenn Quadros of Unilever says: "If £30million a year is moving between the subsidiaries, it creates tax issues. Being aware of such issues, and building this into the business case, and the baseline is vital."

Be aware of the pressure your delivery team is under

Intense demand will be placed on the time, energy and intellect of the people charged with delivering the outsourcing deal. And these people all have day jobs too. Overloading employees will lead to skyrocketing stress levels, which creates staff retention risk. Losing key people midway through the planning of a deal can cause chaos - so be aware that while outsourcing will reduce the pressure on your staff in the mid-term, it will intensify it in the short term. Make sure everyone is well supported, particularly when engaging suppliers who are more experienced than they are.

Do diligence early, do it thorough, do it bilateral

Many people think it is easier to do due diligence, after a contract is signed. And it is, provided you are taking a view that is so short-termist that you refuse to look beyond your next tea break. Do due diligence post-contract and prepare to suffer the consequences. Go beyond the usuals: site visits, client testimonies. Have conversations with former clients, those organisations who've been through exits with your supplier-elect. Desirable behaviour upon exit is a good indicator of the general customer-centricity of a supplier.

To go the extra yard in your preparations, James Simmonds of AstraZeneca recommends: "Encourage suppliers to do due diligence on you. As your business has grown organically, you most likely have missed stuff. You won't always have the answers at your fingertips. Two-way due diligence encourages collaboration from the outset, to find win-wins."

Transitional behaviour sets the tone for the whole deal

End users need to drive change management and help suppliers achieve the business case and standardisation of processes. Staff within the end user organisation must accept that there will be changes to processes, but still must challenge both the suppliers and the internal organisation. Get the balance right and you create an atmosphere of partnership.

Philip Allery of Phoenix Life advises: "Losing expertise at this crucial stage presents a huge risk which can destabilize the whole deal. Always keep a retained organisation of sufficient size and skill. Keep hold of people who know your business, as your retained organisation is your powerhouse: the engine room of outsourcing risk management. Resist any pressures to TUPE transfer your best people into the supplier organisation, and consider retaining the consultants who designed the new processes until they are properly bedded in."

Governance: fraught with risk

The riskiest way to govern an outsourcing deal is have a 'talking shop,' which is operational rather than tactical and nothing ever gets decided. Bev Stone of Xchanging said: "Let governance slip, and you will face a quick demise. It can take two or three years to get your momentum back, which often means a need for re-recruitment or re-establishing relationships and improving processes."

According to Paul O'Hare, of Kemp Little, "Relationship conversations should focus on the health of the operation and where it is going, planning how you will achieve your objectives. Governance is there to oversee direction. The key word here is 'oversee': lack of empowerment is a major factor in unsuccessful outsourcing. Retained organisations often hire an outsourcing supplier, then fail to empower them to make any real difference. Avoid micro-managing. It can be tempting, but only serves to double up on work."

Intelligent, mature outsourcing buyers know that exit is a fact of life

Deciding to leave your supplier, then planning your exit is possibly the biggest single risk associated with outsourcing. Nothing lasts forever, and you should plan your outsourcing deals with this in mind. Always have a plan for what comes next.

Philip Allery highlighted a major risk: lack of information about your own processes. "Whether you are choosing to move on to the next supplier, or taking the work back in-house, you need abundant information on hand. If you lack details about your processes, this can delay exit by months, so keep detailed logs of everything from the very beginning."

Taking the guess out of outsourcing success

Success tracking is a core element of outsourcing that has long been overlooked. But with contracts being shorter than ever before, and the option to renegotiate or exit always looming in the forefront of peoples' minds, knowing whether things are working out is more important than ever. That's actually knowing, not gut-feeling.

Standing up to tell us how to take the guess out of success was Deloitte's Orla Keady.

Orla started by explaining the current state of the market: over 500 contract renewals were expected in 2013. Renegotiation is a fact of life now – there are large amounts of outsourcing deals now in their 2nd, 3rd or 4th generation. Mid-term renegotiation and on-going contract transformation is now the norm.

Outsourcing is changing too. There is "Movement from 'black-box' outsourcing to different models including staff augmentation, managed services and industrialised service offerings," leading to "Client staff moving from executing and doing IT, to managing and controlling commercial constructs."

The relationship is key

This model of vendor management involves "managing against the baseline, not just the budget," and displaying "commercial acumen", with the "ability to use the relationship to create win-win scenarios and protect the client organisation from value leakage."

Different functions of vendor management lend themselves to various forms of success tracking. Some elements get completely missed out by conventional KPIs and dashboard reporting. Keady described a scenario where the dashboards were lit up "green, green, green everywhere, but everyone involved was unhappy."

Success tracking procedures that emphasize the relationship, not just service levels or financial factors, should sit alongside the more traditional, commercial stuff. Regular perception surveys among stakeholders, allow organisations to build an ongoing picture of how the relationship is developing. Are issues taking longer to fix, or are things getting sorted out quicker? Is your opposite number as friendly and effective as he/she was sold in as? 360 degree reporting on perceptions of behaviour and efficiency is an important part of outsourcing governance; it will pinpoint recurring problems that may need deeper attention. Methodologies like root cause analysis will help get to the heart of the matter, allowing you to go beyond treating the symptoms and actually find real, sustainable solutions.

Other, non-SLA success measurements can involve the use of mystery shoppers; an effective tool because it is unwise to just go on what the customer thinks – what the customer's customer thinks is of vital importance, and can be easily overlooked.

These indicators, along with the more standard measurements, will help you get a good barometer of how the deal is going and will help create a "long term relationship mentality and create a relationship based focus across the various levels of vendor interaction."

Partnering your way through the valley of tears

Having that relationship-based focus in place is the only way to navigate you out of what Keady described as the 'valley of tears' – a concept she described as tough times after the contract is signed, when expectations need to be carefully managed.

There can be a stand-off: the customer digs its heels in ""I won't start acting like a partner until you deserve it." The supplier responds in kind: "I can't start acting like a partner until you treat me like one." It can take a while, to get to the level where the customer thinks, "I trust you to fulfil my requirements. You are a partner" so that the supplier believes "You allow me to understand you and invest in our common success."

The first 100 days are crucial. They set the standard for the whole deal. That's why tracking the relationship, not just the commercials, right from the beginning is essential. So when you gaze longingly over the garden fence, at least you have a fully-rounded perception of how green your own grass is.

Feeding innovation in outsourcing

For both users and suppliers of outsourced services 'innovation' is a word that appears time and time again. From the drafting of contracts and press releases, to client meetings, innovation appears frequently in the industry but often occurs too readily, without understanding of what innovation truly is and how it can be implemented and developed. When correctly planned for innovation has the capacity to deliver a truly transformative program, allowing users to take advantage of the full potential of outsourced services, including increased efficiency, flexibility, and both short and long term cost savings.

Both suppliers and end users frequently say that they primarily seek out innovation in order to reduce costs, but is this approach overlooking the long term potential of innovation? A case study surrounding the creation of a multi-sourced educational framework from international business processing, technology and procurement provider Xchanging, demonstrates the required level of planning to create a truly innovative outsourcing contract, and how users are able to enjoy long term benefits as a result.

Case Study: Collaboration through innovation

Xchanging demonstrated in a case study entitled Innovative Collaboration, how they as a supplier sought to develop innovation in the creation of a robust and secure end-to-end solution for an online learning environment. The project itself was the creation of an open-sourced educational portal platform known as Frog Store, which focused on bringing communities of millions of students and teachers together in the developing world, while delivering cost value and increased efficiency.

Xchanging employed technological innovation through a range of solutions and applications to support and promote greater collaboration in a joint venture contract with YTL Communications. Together they developed an innovative service through technology to broaden the capabilities of educational users including 11 million users of the Malaysian Ministry of Education system. Xchanging used its wealth of systems integration experience, international domain knowledge and best practices to put innovative practices in place during the conception of the contract, which increased the functionality and efficiency of the project as a whole.

For Xchanging an innovative approach offered the potential to create a unique project through collaboration, bringing together multiple suppliers within a collaborative project. The design of the Frog Store collaborative portal allowed any user to submit content, this content would then receive anonymous feedback by teachers and lecturers who acted as administrators curating the portal. Individuals were not restricted from posting material, instead a peer review team consisting of teachers and lecturers rated the value of content. Content that was recommended by educational peers would then be made accessible via the portal to students.

In seeking to create a collaborative open source crowd platform, Xchanging was able to bring a diverse range of perspectives and individuals together, with a singular focus on the development of the portal for education, leading to further collaborative innovation from the exchange of different ideas. The educational portal supported multiple different education levels by hosting content provided by many different skill sets and backgrounds. This allowed for different levels of complexity and viewpoints.

The open source nature of the educational portal contributed in increasing the range and scope of educational material available. The framework provided users with the tools to upload and link to material throughout the web, including public records, news articles and video hosting sites, with users being rated based on the relevance of content they upload. This practice increased the reliability of data over the long-term, with repeat contributors who provided quality educational material receiving prominence, while users who submitted irrelevant content or abused the platform, being removed from the programme or educated on correct operational practices.

The educational portal allowed collaboration to occur over a range of different forums, from direct person to person meetings to social networks. This allowed Xchanging to reduce reliance on email by as much as 50 percent by employing social media and real time messaging in its place. Being located on an online based platform also allowed portal users to access and share data from across multiple different time zones with increased mobility, due to the portal's support of mobile device accessibility.

The promotion of innovation can present risks, particularly in creating a balance between freedom to innovate and in retaining effective control. For the creation of the portal platform Xchanging analysed and planned for the expected problems of an open source collaborative platform. While the open nature of the platform itself was essential to promoting innovation, the amount of data and educational resources produced by portal users required high resource levels to be managed effectively.

Despite the obstacles present in an open source portal, the administrators and overall controllers involved in the platform displayed a high level of trust in one another, based on the senior educational positions that many occupied, and past operational history. This trust in fellow users allowed the educational framework program to achieve rapid growth through collaboration while retaining relevant data.

Subramanian Gopalaratnam, Global Head of Innovation at Xchanging, described how the company also employed open source to solve oversubscription issues faced by telecom providers in the U.S. Through the innovative use of wireless hosting migration, Xchanging provided a service that allowed telecom providers to deal with heavy internet traffic during peak times by transferring overflow to open wireless hot spots. Through this interchange service users were able to maintain service connection and avoid downtime. In this case the innovation in the contract was displayed in the way Xchanging delivered an initial service solution to network oversubscription rather than just planning for long term service growth.

Innovation in multi-sourced partnerships

In 2008, UK restaurant and pub giant Mitchells & Butlers, only outsourced a limited amount of services. Their experience of innovation was limited to a focus on sales and software. A case study entitled 'Who has the "I" Factor' looked at how Mitchells & Butlers has since moved to prepare for innovation creation in 2013 and beyond, after recognising the potential value from planned innovation that the business had missed.

Their case study revealed how Mitchells & Butlers in 2008 only employed outsourced technology, with innovation in contracts only being represented by small changes in software packages. Realisation of the potential of innovation for a company that operated in a multi-source environment led to Mitchells & Butlers moving over the next five years to a completely outsourced infrastructure by 2013. Over these five years the business focused on value realisation with the creation of a supply management team, and the completion of the company's first offshore outsourcing contract.

When promoting innovation in an outsourcing contract, Robin Young, COO of Mitchells & Butlers, described how innovative outsource suppliers ensure that the key members of the sales team involved in the creation of a contract, remain on the delivery team throughout the service lifetime. Anita Bains, Senior Partner at Sagacity Solutions which specialise in complex business challenges, described how when looking to build innovation into a contract, end users should always ensure that the supplier delivery team is in the room. This A team is key to promoting innovation through the lifetime of a contract and the exchange of key staff is a practice that is commonly the cause of communications breakdown and contract inefficiency.

Robin added that suppliers which are likely to be innovative tend to focus on these elements during the planning phase, with regular suppliers embracing innovation only when the subject is brought up by the end-user. When looking to promote innovation from a legal perspective Mitchells & Butlers focused on having lawyers pin down potential flexibility in a contract rather than specific details.

Dan Ret, Consultant at Sagacity Solutions, detailed that the planning phase of a contract should focus on removing obstacles to innovation in multi-source environments, by trying to enhance the understanding of a large FTSE customer to understand potential risks.

Contracts where the planners are looking to create innovation should start small, rather than aim at unrealistic future targets, and move to build upon small scale innovation before attempting large complex tasks. In all cases innovation should be demonstrated and tracked at all stages.

Comprehensive understanding by both sides is vital in creating a clear space for ideas and allows both sides to understand the opposite partner's expectations. Time must be available to deal with problems rather than moving to an overtly defensive or aggressive stance when things go wrong. In order to keep innovation alive over the lifetime of a contract, care must be taken to avoid constraining ideas. Both partners should be active in promoting innovation from the perspective of a joint partnership, an approach of leaving all innovation to an outsourced supplier will rarely generate the full potential available.

Looking to the end goal

An interactive session which opened the floor to attendees focused on exploring how innovation is perceived, delivered and received from both the customer and the business partner viewpoint. Many users revealed that they had never signed an outsourcing contract that included plans to promote innovation. Clients sometimes feel that they are being pushed into an uncomfortable position to create innovation. Often this is a case of underlying core problems within the relationship and a sign of the need for change to resolve problems. Edward Hues of West Sussex County Council, said: "sort out what you've been contracted to do first before innovation". For many end-users of outsourcing cost reduction remains the end goal with innovation being side-lined in favour of short term goals."

A forward look to the long term goals of an outsourcing project are essential if innovation is to be planned for and created by all parties involved. Subramanian Gopalaratnam of Xchanging described how when it came to creating innovation Xchanging sought to think outside of the box, saying: "Innovation is often stifled in the beginning phases of outsourcing contracts due to a lack of this long term mentality." Both end users and suppliers are often too focused on short term goals, with the user focused on cost savings and the supplier lacking incentive to plan for innovation creation outside of meeting contract KPIs.

Promotion of innovation depends on what the organisation wants to achieve. There are many different drivers behind innovation, some want cost savings while others may want to improve service quality or reduce time to market for new products. Keeping sight of each parties' overall objectives throughout the process will ensure that any innovation is fit-for-purpose, rather than being change for change's sake. Whatever the motivation for innovation is, a clear innovation strategy needs to be agreed up-front, which sets out clear and achievable expectations. Only in this way the true value of innovation can be unlocked.

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: **Rod Edwards**, Chief Executive
on **01709 448000** or rod.edwards@parseq.com

www.parseq.com

PARSEQ