

Outsourcing – the Dos and Don'ts of Effective Outsourcing

Although practically unheard of twenty years ago, outsourcing is by now a familiar feature of the Irish business landscape. Indeed, the results of a recent survey by PricewaterhouseCoopers in Ireland indicate that 68% of respondents are already outsourcing with almost 50% planning to outsource additional services. Large outsourcing deals have been announced in Ireland in the last 18 months across the financial, media and telco sectors. However, although the benefits of outsourcing can be substantial, the risk of failure is still high due mainly to poorly designed and documented arrangements between buyers and suppliers. While not intending to underestimate its complexities, the following are some of the key dos and don'ts for companies wishing to engage in effective outsourcing.

Do develop a robust business case: If managed properly, outsourcing can reduce operating costs, improve service levels and provide access to world class capabilities yet it is not the right option for every business. Approximately 30% of companies that PricewaterhouseCoopers advise are informed that outsourcing will not deliver the expected benefits. It saves time and needless communication with employees, unions and providers when this early conclusion is reached. Spending adequate time and effort in fully understanding the costs, benefits and strategic fit of outsourcing is a crucial first step and will form the basis for any negotiations with providers should you choose to proceed.

Do seek early buy-in: Outsourcing is not just a cost reduction solution, it is a strategic initiative and to be successful it must be aligned to the business goals. It is therefore absolutely essential to have senior management buy-in from the very beginning. In addition, there are many other audiences who need to be considered. Employees will naturally be concerned with how it affects their employment conditions. Unions will take an active interest and industry regulators too may wish to be kept informed. Recent events indicate that employee disquiet can make any outsourcing project a very public debate. Having a well planned communications framework for engaging with each of these groups will be of paramount importance in handling the project judiciously.

Do prepare before engaging with providers: Having decided that outsourcing is right for your business, you will need to invest significant effort in preparing for discussions with potential providers. It pays to be a pro-active buyer. Knowing the commercial, legal and service management options and being organised to perform due diligence will result in a better deal in a shorter timeframe. If you do not have internal outsourcing expertise, consider engaging with independent experienced advisors who understand the market and can guide you through the process. Outsource providers prefer an educated buyer.

Don't select a provider based solely on cost: While outsourcing to offshore locations and the use of lower cost foreign nationals has featured prominently in the media over recent months, many Irish based companies have in fact outsourced to domestic service providers. Why? Although cost is always a factor in the outsourcing decision, it is not always the dominant one. By outsourcing to domestic providers, Irish companies have secured not only significant cost reductions but also excellent service, good cultural fit and best-in-class IT services. Providers'

backgrounds, capabilities and financial circumstances are critical considerations and selecting the cheapest provider may prove more costly in the long term if service performance is poor. A professional selection process using detailed selection criteria will make the decision easier. Be prepared to brief potential providers on the benefits that you expect and the reasons for your decision to outsource.

Don't push too far in negotiations: As the success of the outsourcing arrangement will depend a great deal on the working relationship between buyer and provider, it is important to strike a commercial deal that fosters trust between the parties. Although naturally buyers will want the deal to be competitively priced, it is not worth pushing the provider to cut costs so far that service levels will inevitably suffer. A win-win agreement, whereby the buyer receives improved service levels at reduced costs and the provider makes a reasonable profit, has the best chance of long term success. Crucially, once the deal has been struck, the legal drafting of the contract must reflect the commercial intent. For example, how does the contract deal with the imposition of penalties on the provider for failure to meet agreed service levels? Is the contract flexible enough to adapt to changes in your business? In addressing such issues, it is worthwhile seeking the advice of legal experts who have specific experience in drafting outsourcing contracts and who can work with your team to deliver the legal framework for putting the deal into practice.

Don't under-estimate the demands of the transition: Both buyer and provider need to work together closely on both the planning and implementation of the transition. A detailed transition plan with clearly delineated roles and responsibilities is critical in achieving a smooth handover of services to the outsource provider. You need to give due consideration at an early stage to how you will manage and resource this period. Contingency planning for potential problems is also crucial, particularly in the case of IT outsourcing projects where this can involve several 'dress-rehearsals'.

Do actively manage the relationship: Your responsibility for service delivery does not end with a successful handover. In fact, how you manage the ongoing relationship with your provider will be critical in determining the extent to which the potential benefits of outsourcing are realised. Where multiple activities have been outsourced to different providers, integrated management of these providers is key to delivering optimum performance. For this reason, you must have a practical communications framework and appropriately skilled staff who will manage interactions with the provider over the lifetime of the contract. A well defined governance plan which includes measures of success which are aligned to your strategic goals is also essential.

These are just some of the factors which need to be considered before embarking on any outsourcing project. The roadmap to a successful deal requires many more decisions in areas such as HR, IT, finance, legal, risk management and public relations. It is by no means an easy solution but for those companies who effectively mitigate the risks, the rewards are plentiful. Outsourcing is here to stay.