

How a healthcare provider renewed a trusted partnership and cut costs through an IT offshoring solution*

Client's challenge

Several years into a multiyear contract with a leading IT outsourcing provider, a national healthcare company recognized an opportunity to renegotiate the agreement. Because the healthcare company had downsized, it needed to adjust the contract to fit a leaner hospital system. The company also wanted to lower operating costs to stay competitive in a cost-driven industry. Another objective was to strengthen the contract's service-level provisions.

Because senior executives were pleased with the service provider's past performance, the company wanted to ensure it met these new objectives without damaging a mutually beneficial, long-standing relationship. Aware of the breadth and depth of PricewaterhouseCoopers' (PwC's) experience in advising on complex, large-scale outsourcing contracts, the healthcare provider turned to PwC for assistance.

PwC Advisory solution

PwC Advisory first helped the organization thoroughly evaluate the existing contract and its performance metrics—particularly in light of the organization's evolving business objectives and leading industry practices. At the same time, PwC worked closely with the healthcare organization's IT managers to determine precisely which of the company's outsourced services required fixed contracts. Then PwC reviewed the service provider's proposal to:

- Provide insight into the delivery model
- Validate assumptions and projections underlying costs and operations
- Determine how proposed changes would affect service levels and performance quality
- The team also proposed new evaluation processes to provide the company with greater negotiating transparency.

At each step of this process, the PwC team uncovered potential cost savings. PwC also identified the risks and corresponding mitigation strategies associated with taking action to implement these savings. Using industry benchmarks, the team also helped ensure that terms, cost and service levels under discussion

remained measurably within the scope of leading industry practices. After completing the process of gathering and assessing pertinent information, PwC helped the company negotiate with the service provider to realize its objectives.

Impact on client's business

Both parties agreed to the terms of the new contract, which incorporated an offshoring solution. Today the offshoring venture is saving the client 15 to 25 percent over the old contract. Restructuring the contract achieved the following result:

- Enhanced the client's negotiating position
- Helped redefine appropriate service-level targets
- Clarified exactly where lower costs would result in higher risks and require the company to adopt a new set of carefully tailored risk-mitigation strategies

Normally these benefits are difficult to capture without resorting to a competitive bid—a more risky and potentially far more expensive approach. Moreover, the company achieved these results without harm to its longstanding relationship with the IT service provider; and both partners profited.

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