

***Why Do Some Companies Leap to
Outsourcing Excellence –
and Others Don't?***

Rick Nathanson Managing Partner

What makes an outsourcing relationship great?

- Planning
- Clear roles and responsibilities
- Motivation
- Measurement
- Flexibility
- Governance

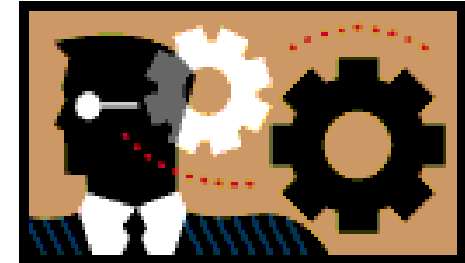


It is these elements that define the difference between success and failure; between getting by and achieving greatness

Planning: Understanding the underlying issues in the operation

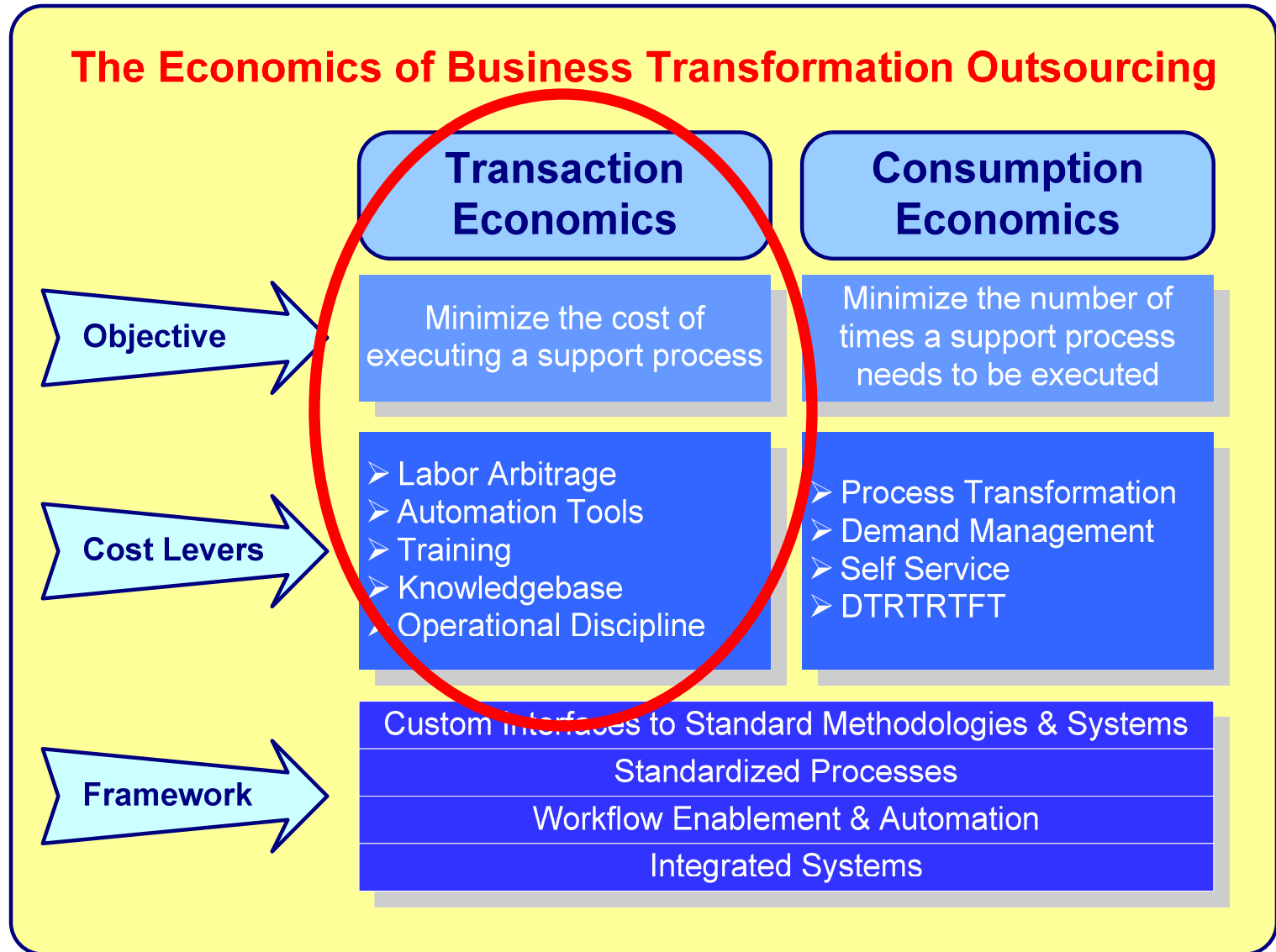
- Why are you outsourcing?
 1. To save money
 2. To improve service
 3. To bring new capabilities to the business

- To create a strong plan, you must understand and address the problems and be realistic about how much of the process you are outsourcing
 - Many outsourcing contracts often only address the fulfillment portion of the process, not the demand portion
 - If your operation is expensive it can be for several reasons
 - High cost of performing a transaction
 - High quantity of transactions
 - High complexity of transactions



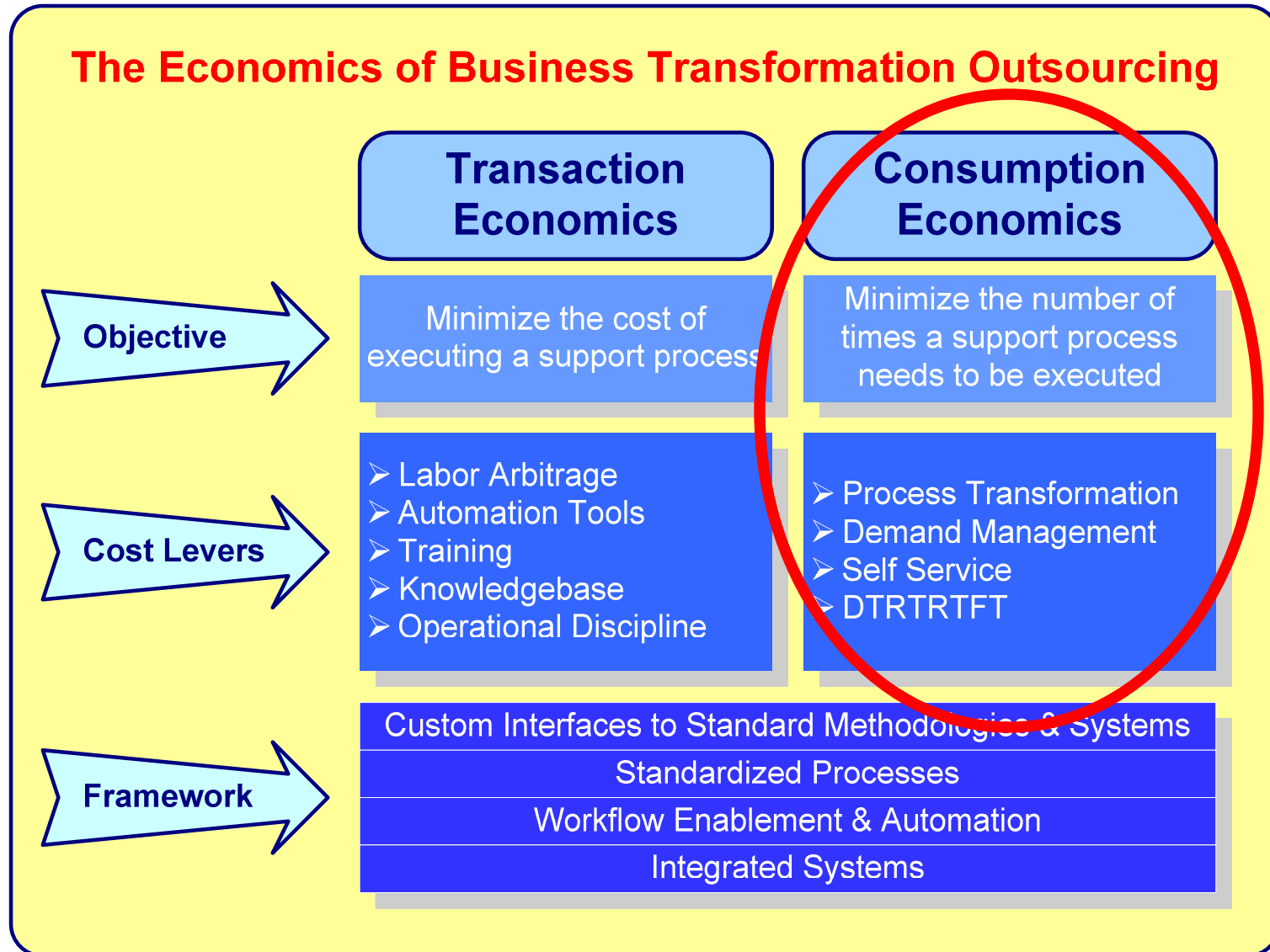
Service Economics – Most deals focus on transaction economics

The Economics of Business Transformation Outsourcing



Service Economics- The real savings and improvement are in consumption

The Economics of Business Transformation Outsourcing



Key elements of a successful plan



- Strong internal due diligence
- Clear definition of issues and objectives
- Willingness to adjust your operation to take advantage of your partners proven strengths
- A selection process that is transparent and drives the **participants to prove they understand your needs and have a definitive plan to meet them**
- A strong transition plan that addresses internal responsibilities as well partner responsibilities must be completed prior to the deal
- A contracting plan that is sufficient to commemorate the entire understanding and give you the tools to make sure your partner delivers
- A clear plan and organization for how you are going to manage the agreement, hold yourself and your partners accountable to fulfill the promises outlined in the agreement

Clear roles and responsibilities

- While you need to prepare your company, the contract is about your partner's obligations
- The root of many problems lays in a lack of clarity in the contract
- It is important to have clear guidelines on the expected results, who bears what costs and what happens when details are not clear
- Issues will begin to surface
 - They must be dealt with quickly and the root cause should be addressed
 - Too often, the teams will shy away from conflict or cut a deal that resolves the issue, but leaves the root cause in place to fester

Motivation - Key measurements for success

■ Client

- Managing the transition without impacting the business or degrading service levels
- Achieving cost objectives
- Achieving service objectives
- Establishing a management system to measure objectives and capabilities and address change management in the environment
- Adding new value/capabilities to the business
- Achieving your goals in future years



■ Outsourcer

- Achieving profit contribution objective
 - Revenue
 - Cost
 - Penalty avoidance
- New Business
- Leverage of existing resources
- Increasing higher margin business such as consulting and BPO
- Increasing entanglement with the client
- Market share
- For manufacturers: selling software and hardware
- Achieving good enough CSAT to meet objectives



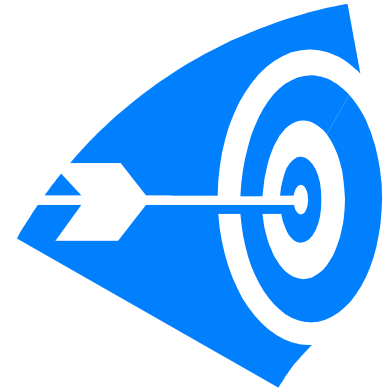
Motivation is key to a great relationship

- Elements of Motivation-Make sure the partner is always competing for your business
 - Rewards
 - SLA Bonuses
 - New Business
 - Gain Sharing
 - References
 - Internal
 - External
 - Punishment
 - Penalties
 - Multiple or persistent failure clauses that lead to termination
 - Benchmarking
 - Audits
 - Loss of share



Measurement

- Measuring the right metrics are key to success
- SLA's (5 to 10) and KPI's (20-40)
 - KPI's can be promoted to SLA's
 - All must be contractual obligations
 - Clear definition is critical
- They must be balanced to get the right mix of cost objectives, quality and CSAT
- The partner must always be held accountable
 - Too many clients erode their influence by forgiving penalties-That's what earn-backs are for
 - Penalties exist for failure to meet a critical promise
- Bonuses exist for performing better than was promised without additional cost or by meeting quality goals while reducing costs AND other service level commitments are met



Balanced SLA Scorecard- Customer Service

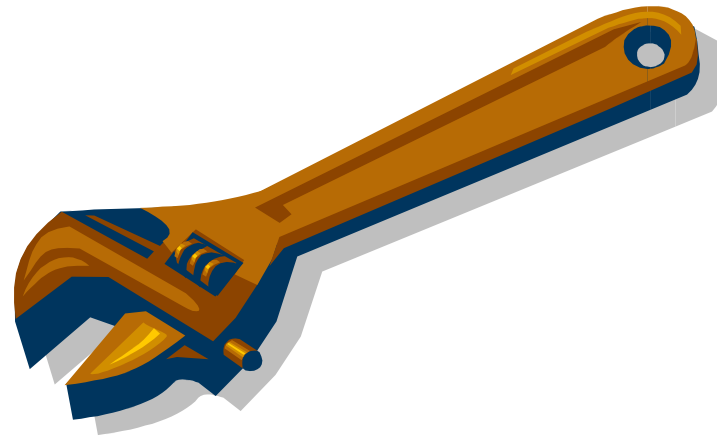
SLA Measurement	Type			Red Zone	Green Zone	Blue Zone
	Gate	Penalty	Bonus			
Customer Satisfaction	Yes	Yes	Yes	<78%	78% - 91%	>91%
AHT	Yes	Yes	Yes	>360s	300s - 360s	<300s
Staffing	Yes	Yes	No	<97%	97% - 99%	>99%
Occupancy	Yes	No	Yes	<81%	81% - 84% >87%	>84% - <87%
Turnover	No	No	Yes	>9%	7% - 9%	<7%

Flexibility

- Things will change – be prepared
 - Minimize your minimum commitments
 - An overall minimum is better than a series of minimums on services
 - Build in a cost basis for change
 - New Services must all be non exclusive
 - New Services costs must have a basis in the contract
 - The cost basis for original services (and corresponding scope) should be well documented and used as basis for change
- Towers should be able to be terminated
 - Up to a certain % with no charge
 - Then a charge on a pre-agreed formula

Flexibility

- Central costs should not be bundled
 - Relationship to tower construct should be detailed
- ARC's and RRC's should be true incremental service costs
- Major and Minor change clauses that allow for equitable readjustment of the contract
- Benchmarking



Keeping it competitive

- The day your partner can take your business for granted is the day he is focused on maximizing profit on his revenue stream without the balance of improving your business
 - Use the flexibility provisions in your contract
 - Benchmarking
 - Audits
 - Bid out new services
 - Bid out services that no longer meet your needs
 -
 - Reward strong performance with new business
 - Punish weak performance by awarding new business to competitors and terminating existing business that is sub par



Keeping it competitive

- Champion/Challenger
 - Two types, internal and multi-vendor
 - Set up two or more operations performing the same service
 - Internal Benchmarking
 - Continuous improvement clauses
 - Vendor marketplace

Governance

- Transparency
 - Openness, honesty and communications are key
 - The client must have visibility to what is happening in their operation
 - Focus on quality
 - Key Metrics and milestones
 - Productivity
 - A strong foundation of clear scope and clear finances creates a realistic base for understanding and resolving problems

- One team

- Accountability

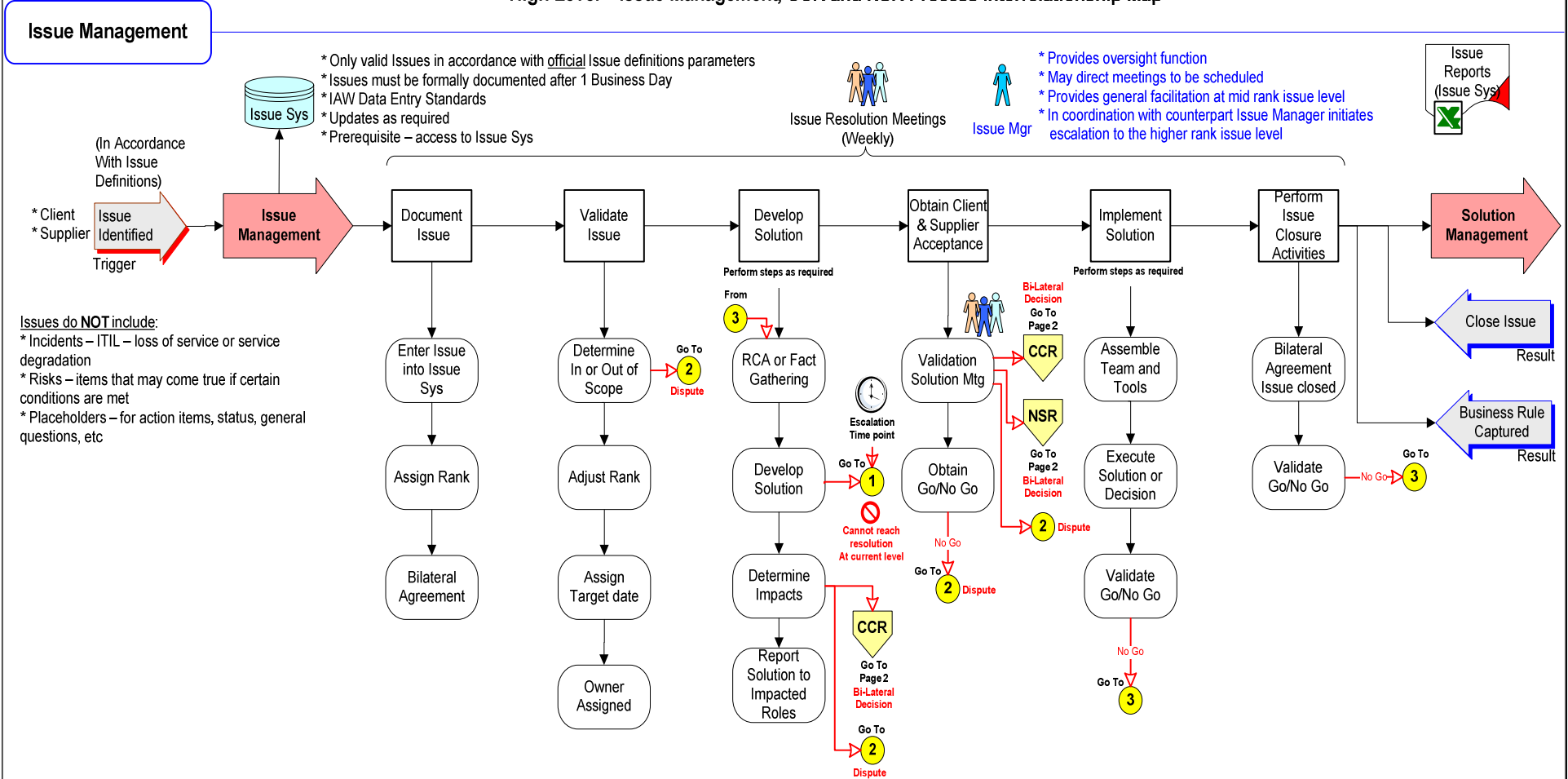
- Work the contract
 - If the contract is not working right, change the contract
 - Side deals are dangerous for clients
 - And mothers milk for vendors

- Establish and maintain control of status reporting

Issue Management

Have a well defined process to identify issues and work them to closure

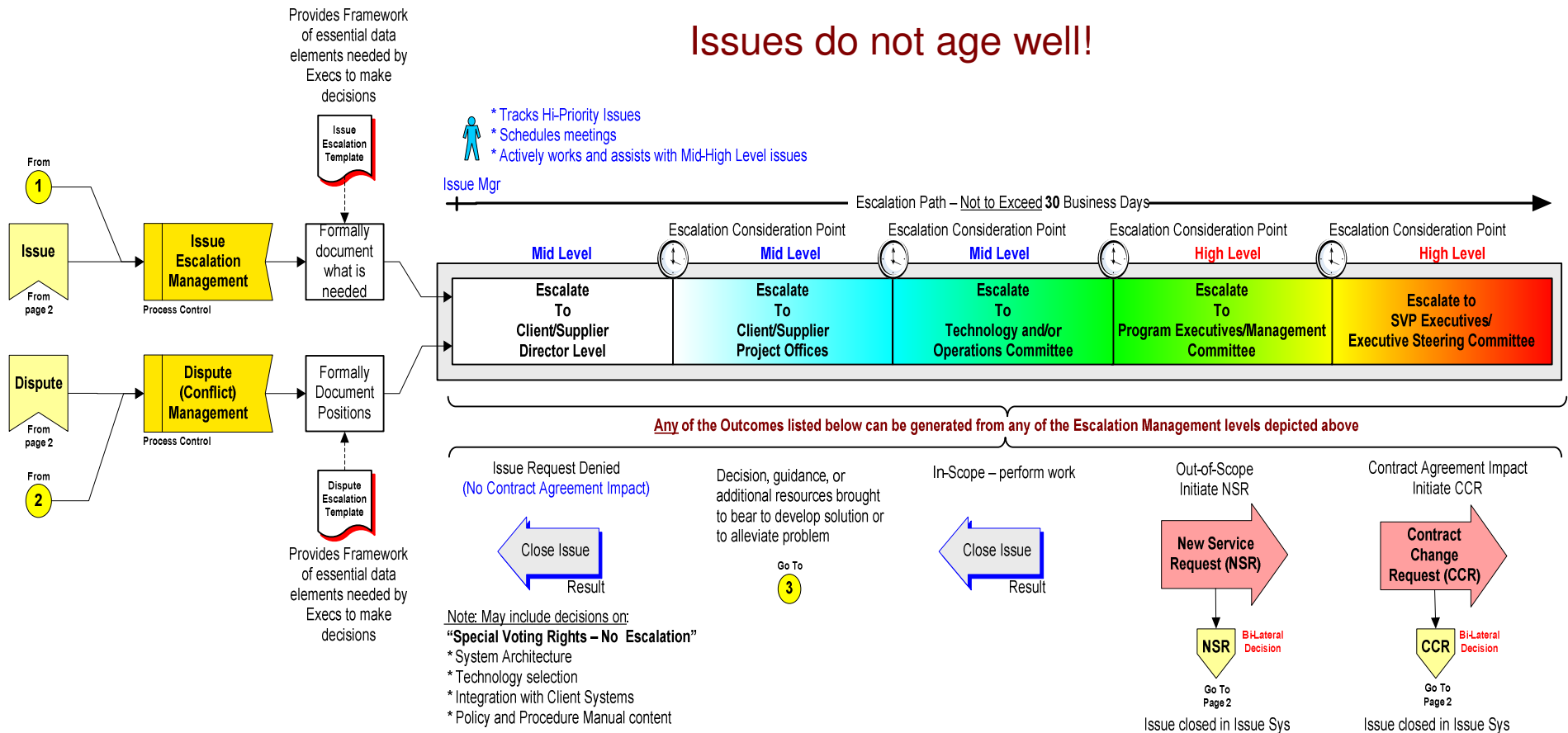
High Level – Issue Management, CCR and NSR Process Interrelationship Map



Issue Management

Have a tight timetable for resolution from inception to final escalation above your account teams

Issues do not age well!



Nobody wants to bring their boss issues

Innovation and Transformation

- There are two ways to approach transformation
 - Pay for results
 - Pay for the project

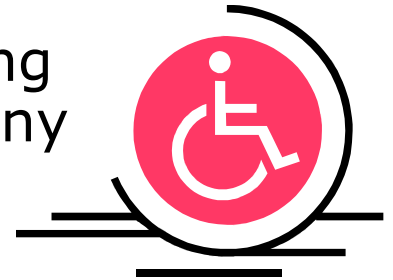
- Results based contracts are preferable but an entire process must be outsourced with a strong baseline and payment for performance

- Most transformation contracts are for a sub-process
 - Realize then, that this is just a large complex project that is tied to your outsourcing agreement and needs all the controls of any large fixed price or T&M contract
 - Critical Milestones for payment, incentives or penalties
 - Well defined plans for your company to execute its portion of the transformation
 - Extremely well defined scopes of work and project plans that are tightly monitored and tight financial controls

 - Pay attention to the entire process and manage the effort as a single program

How to make global contracts work

- First, understand there are no global outsourcing companies, only vendors with operations in many countries
- Second, realize that a deal cut in the US, by US personnel may have significant issues for operations in other countries
 - You must build those relationships and force your Global Project Executive to include their international brethren
 - If a country operation is critical, make sure the revenue and reward systems take them into account
 - Use your local personnel to build relationships
 - Drive your Global Project Executive to have the infrastructure to manage and report as effectively in China and in the US if that is what you need



Assessing your agreement

Is the **structure** of my outsourcing agreement **unsuitable** for current and future business conditions?

Is my outsourcing relationship **failing to achieve** expected operational and financial **goals**?

Has my outsourcing agreement **changed** in ways that were **not initially contemplated** resulting in **additional charges, inefficiency or poor quality**?

Do I believe that our **pricing** is no longer **competitive**?

Am I considering **benchmarking** to validate that our prices are still competitive?

Is my **transformation failing** to meet its objectives?

Have we **acquired or merged** a business unit?

should I **considering** bringing services **back in house**?

Is my outsourcing vendor **failing to deliver** on its original **promises**?

Is **innovation** and improvement **stagnant** with our outsourcing vendor?

Is our **agreement nearing** the **end** of the term?

Has our **business changed** significantly **since signing** our outsourcing agreement?



How does my relationship stack up?

- Do we have all the elements in place to be great
 - Clear roles and responsibilities
 - Motivation
 - Measurement
 - Flexibility
 - Governance

- Do we walk the walk and make the contract work?

- If not, define the gaps

- Put a plan in place to fill each one and be relentless about enacting it