

Transformational Outsourcing

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Agenda

- What is transformational outsourcing?
- Real World Case Studies
 - Transformation within traditional outsourcing
 - Hook, line and sinker, the big bang approach
 - Taking a selective outsourcing approach to Transformation
- Practical difficulties in bridging the gap between services delivery and innovation
- Emerging types of sourcing solutions being built by companies into their enterprise strategies

What Is Transformational Outsourcing?

- Transformational outsourcing is the hiring of a vendor to transform your business processes and take responsibility for the outcome of the project by guaranteeing the results in an outsourcing contract
- It is a natural marriage/evolution of transformational consulting, which typically holds only the risk of fee discounts for failure and outsourcing
- The desired result is lower, predictable costs and higher service levels when contracted for and executed properly

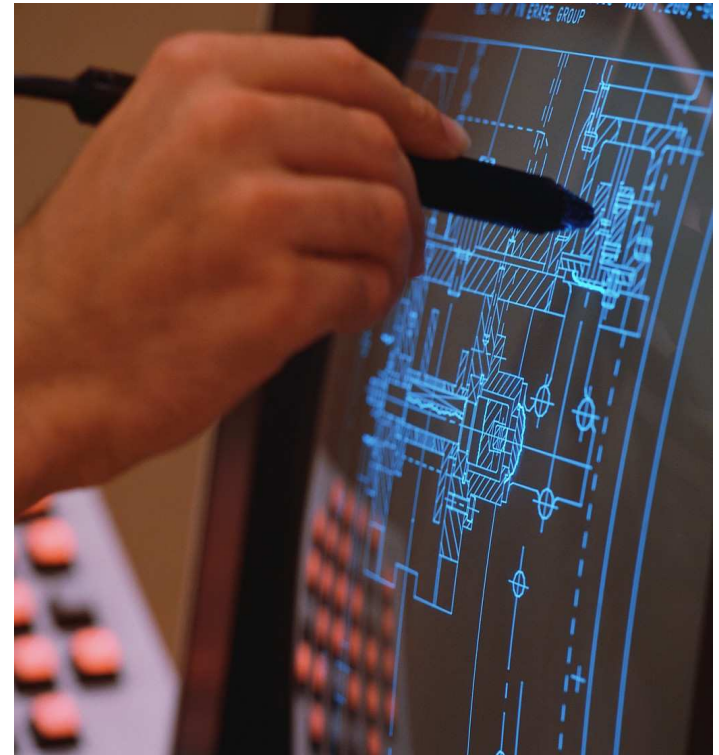
Transformation Within Traditional Outsourcing

- In this model, which can be used for any type of service, traditional outsourcing contract structure is overlaid with the expectation and ability for the client to transform their business
- The outsourcer is compensated for the work actually completed
 - If the client does not transform the business, the outsourcer receives the compensation contemplated at signing
 - If the client does transform the business, the outsourcers compensation is defined by a series of ARC's, RRC's and wind down expenses that are predefined
 - The challenge is in devising the terms to accommodate changes in economies of scale in either direction



Case Study 1: The Client

- The client is a large, foreign based conglomerate with a one billion dollar technology manufacturing division.
- They were acquiring a three billion dollar division from a large technology concern that had both manufacturing and managed services divisions, as did our client.



Case Study 1: The Challenge

- Since both companies would be buying and selling from each other, they had agreed to market-based pricing for goods and services. Our client was to buy outsourcing services from the seller
- The seller believed that 33% above internal costs was market price. That was more than 100% over what our client could afford to pay and turn the business into a profitable one
- Our client needed flexibility to lower costs without penalties, the freedom to use whatever processes and procedures the outsourcer employed through its internal and commercial businesses and needed to establish market competitive service levels at the same time

Case Study 1: The Solution

- We shared the client's ultimate cost goals and built the ability to reach them into the contract
- We persuaded the outsourcer to share all intellectual property rights to meet the clients needs
- We built a portfolio management technique into the contract that allowed the client to transform its business within confines the outsourcer could live with and when we crossed those borders pay only wind down expenses
- We reverse engineered the cost structure to identify inefficiencies in the existing operation and billing structure as a tool to lower costs during the negotiation

Case Study 1: Contractual Highlights

- The relationship works
- Cost at contract signing was lower than “internal cost” and over 5 years was guaranteed to improve efficiency dramatically
- Using the flexibility clauses and structure, the client was able to transform its operation to run at 55% of the pre-outsourcing cost and 40% of the initial targeted cost
- Commercial service level agreements are in place with a normal penalty/incentive structure



Hook, Line and Sinker, the Big Bang Approach

- Business Transformation Outsourcing, as defined by vendors like Accenture and IBM, has the client hiring the vendor to architect and implement the transformation
 - While guaranteeing the results by stepping up to lower costs and increased customer satisfaction
- This greatly reduces the risk of large scale transformational consulting engagements that do not yield results
 - But greatly increases the dependency on a single partner
- Significant financial guarantees, coupled with incentives are used to provide alignment of interests

Case Study 2: The Client

- Our client was large telecommunications company with Customer service operations headquartered in the US and operations around the globe



Case Study 2: The Challenge

- The client was ranked last in its industry in Customer service
- Costs per subscriber were substantially higher than the industry average
- Core systems were old and out of date
- The systems did not yield sufficient information to maximize either sales or Customer satisfaction



Case Study 2: The Process

- Transformational Outsourcing
 - Rapid Vendor selection process
 - There were only two viable candidates with the scope and industry knowledge who knew the client well enough to move quickly
 - Intense due diligence and proposal process
 - Two external proposals and one internal plan
 - Decision to outsource
 - Best and final
 - Solution first
 - Pricing second
 - Executive committee presentations and selection



Case Study 2: The Solution

- End to end process redesign
 - From demand management to call resolution
 - From call handling to sales to administration
- Complete systems redesign and replacement to support the process implementation
- Outsourcing of 12,000 agents around the world
 - Substantial increase in near and off shore mix
- Detailed targets, plans and milestones for improvement in productivity, average handle time, first call resolution, call deflections, customer satisfaction and other key operating metrics

Case Study 2: Contractual Highlights

- Fixed price with a guaranteed ROI
- Risk/reward scenario for every major improvement
- Contractual structure and guarantees allowed a much more dramatic investment in capital than could have been justified internally
- Continuous improvement built in
- Speed of change backed by financial guarantees and balanced by Customer satisfaction and quality guarantees

Taking a Selective Outsourcing Approach to Transformation: The GC Model

- In this model, the client takes on the role of general contractor
 - Although they typically hire expertise to perform this function for them, the GC's are not the outsourcers
- The client then develops a solution architecture
 - And hires outsourcers with expertise in each functional area
- Each outsourcer is held accountable for their performance
- The client is responsible for the overall coordination and success
 - Even though the hired GC firm may have its fees at risk, that is not enough to match the guarantee offered in the big bang solution



Case Study 3: The Client

- A large consumer media company experiencing extremely rapid growth in a fast changing market



Case Study 3: The Challenge

- Scale customer service from a mostly unmanaged single-sourced environment to a controlled, highly automated, multi-vendor operation
- Provide adequate service levels at a cost that is better than traditional industry peers to match the lower revenue base of the service
- Maintain the maximum amount of flexibility to accommodate expected industry convergence
- Build the internal organization to manage the functions at the same time

Case Study 3: The Solution

- The GC Model
 - Hire a GC
 - Develop solutions architecture
 - Selectively outsource centralized technology platforms
 - Best of breed vendors for each solution marching to a coordinated spec and integrated data architecture
 - Choose which central functions to build
 - And hire transformational consultants to assist
 - Choose which to outsource along with the technology platform that supports them
 - Outsource actual call centers based on the common strategy, technology and process platform
 - Keeping market competitiveness and performance as the determination of how business volumes are distributed
 - Run an RFP process to select the vendors

Bridging the Gap Between Services Delivery and Innovation

- This is a new field that is being driven by leading vendors such as Accenture and IBM
 - The traditional consultants want to extend their reach by taking over operations and address client concerns about a lack of accountability and success
 - The traditional outsourcers have bought major consulting firms to expand their marketplace
 - Both presume they will add size and profit margin to their operations through this trailblazing effort
 - Which is fine, if they add the value
- Neither type of organization has a rich history of integrating these efforts, but both types are making progress
- Early efforts have been difficult for clients and less profitable for providers, but success has occurred and the providers are maturing

Bridging the Gap Between Services Delivery and Innovation

- One of the key issues is pricing and contracting
 - A lack of experience does not allow for the deployment of accurate predictive models
- The consultants have had to hire operators and the operators have had to buy consultants
 - Both situations have growing pains
- A key provision of the agreement is governance
 - The client needs to control reporting
 - The client needs to control the meeting agendas
 - The client needs to control executive communication
 - Issues need to be identified, documented, and actively managed to resolution
- It is critical to train the team to escalate early and in writing and drive the process to conclusion
 - Festering issues can quickly bring a deal to its knees
 - Once an escalated issue is agreed to, the principle that ruled should be written down and distributed as part of the process
 - The next time a similar issue comes up, the teams will agree rather than repeat the delay

Bridging the Gap Between Services Delivery and Innovation

- You will not get it all right on the first try
 - Identify your problems early
 - Insist on a written get well plan
 - Track the milestones
 - Make sure the vendor has the right team in place
- If progress is not being made, the client needs to optimize the process across both organizations
 - If subcontractors are involved, they will need to be included as well
- The clients managers need to be held accountable for the vendors performance
 - If the vendor is failing they are failing
 - Your company must play by the rules or you must change the rules

Emerging Types of Sourcing Solutions Being Built By Companies Into Their Enterprise Strategies

- Hire the General Contractor first
- Be an intelligent consumer
 - Build a strategy
 - Examine all three solutions
 - Solicit input from potential partners
- Develop models for each scenario
 - Financial models
 - Operational models
 - Risk models
- Pick the model that solves the problem
 - Transformation within traditional outsourcing
 - The Big Bang approach
 - The GC model