

# EXECUTIVE BRIEFING

## Outsourcing: Back to the Basics

Organizations have been outsourcing for several decades covering a wide spectrum of roles and functions. With all of the years of experience gained by companies and vendors, it is important not to forget the basics.

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## Outsourcing: Back to the Basics

Organizations have been outsourcing for several decades covering a wide spectrum of roles and functions. With all of the years of experience gained by companies and vendors, it is important not to forget the basics.

- Ensure proper **GOVERNANCE** is in place
- Understand the **MATURITY** of the organization
- Include actual **ROLES** versus FTEs in a business case
- Retain strong **NEGOTIATION EXPERTISE**
- Expand focus **BEYOND COMMERCIALS**
- Develop a solid **PMO** and engage strong **TRANSITION MANAGERS**
- Implement a robust **CHANGE MANAGEMENT** stream
- Understand what a “**STRATEGIC**” **VENDOR** means to the organization

### 1. Ensure proper governance is in place

Outsourcing is a tough journey requiring senior management support. All escalations and roadblocks need to funnel up to a person that has the ability to resolve all conflicts. If you are being considered as the project manager of such a transition, ask yourself the following questions:

- Will my sponsor move aside blockers in the organization or terminate contracts?
- Can my sponsor deliver tough messages to the organization?
- Does my sponsor have ultimate decision making authority for the scope of work being considered?

If you find yourself answering “no” to any of these questions, you should seriously consider if you are willing to set yourself up for failure.

***Failure is not an option with outsourcing engagements***

### 2. Understand the maturity of the organization

Do not underestimate the complexities of outsourcing. Everything looks manageable in PowerPoint, vendors are very convincing and budget pressure creates increased risk appetites.

If you have limited outsourcing experience, ask yourself the following questions:

- Are there individuals in the organization that have strong outsourcing experience?
- Are there adequate budgets available for external support?
- Are the timeframes realistic or are they driven based on financial targets for a given year?

Based on the maturity of your organization, create a comprehensive list of potential risks including skill gaps. If you are not comfortable performing this assessment, seek external advice. Investing upfront will help prepare a solid foundation for your outsourcing journey.

***Do not underestimate the complexities of outsourcing***

### **3. Include actual roles versus FTEs in the business case**

You are given a target to save 100 million. Open up Microsoft Excel, enter the numbers and magic – no problem!! You conduct your RfP, negotiate with the vendors, update Excel, sign the deal and bingo, you have saved 100 million. If you are smiling, you have seen this before. If you are not smiling – do not laugh. In order for an outsourcing engagement to be successful, an entire section or team within a process must be in scope. Outsourcing one person from one team, another person from a different team and so on will not achieve the results you are targeting.

Here are some red flags in discussions around the business case:

- Only contractors are included in the scope
- We have calculated based on a percentage of headcount

If the owner of the spreadsheet cannot name names or specific teams that will be outsourced – think twice about signing-off on the case.

***Microsoft Excel is a tool – not a solution***

### **4. Retain strong negotiation experience**

As we see trends to merge operations and IT functions into outsourcing deals, increased appetites for managed service contracts (output based pricing) and heightened complexities in the scope of work, ensure that you have the skills necessary to successfully scope and negotiate the deal.

Ask yourself:

Have we ever negotiated such a deal?

Does our procurement organization have experience with such negotiations?

How clever are the vendors in scope?

Start by getting your procurement organization to the table before you start discussing your thoughts with the vendors. Have an open discussion and understand where there are skill gaps in your team. If necessary, retain external support.

***Remember, this is not the vendor's first negotiation...***

## 5. Expand focus beyond the commercials

Often, when I speak with executives about why they are considering outsourcing, I get the response “we need to save X amount of money”. Money is a result or an outcome of the exercise however; it is not the “Why”.

Here are some answers to look for when asking why:

- If we do not outsource, we will not be able to provide enough funding to the organization to stay in business
- We need extra delivery capabilities for the same amount of budget or less in order to keep up with our competition
- By outsourcing, we will be able to provide more services to our clients resulting in more sales

People are not motivated by year-after-year cost cutting targets. Spend some time clearly defining “why” you are outsourcing and communicate this. Having a genuine vision will be respected within the organization and will help you get through the challenging transition ahead.

***Cost saving is not a strategy***

## 6. Develop a solid project management office and engage strong transition managers

Having a strong team in place with a robust transition plan will reap many benefits. Often, little thought is put into the actual transition as everyone is focused on the deal. As soon as the deal is signed, the original team moves on to the next deal and this is when the challenges begin.

Going back to governance, ensure that the PMO has direct access to the sponsor. Middle management, in an attempt to avoid conflicts with the sponsor, often covers up red flags identified by the PMO. If you are the sponsor and you are not meeting with the PMO, get something into your calendar ASAP. Make clear that a failure to report red flags is absolutely inexcusable.

Likewise, acquire transition managers who have actually run outsourcing engagements. Too many organizations pull people from the bench to avoid spending extra money on experience. These are critical roles and if they are not qualified, they can often be a weak link in the transition.

***Signing the deal is the “easy” part***

## 7. Implement a robust change management stream

During my past 20 years of consulting, change management has always been a topic that is recognized as critical, yet is often the first to strike off the list. Reactive change management is expensive and often comes too late. Attrition of key resources due to lack of attention will certainly create disruptions in the future.

Here are some tips to remember:

- Create a stakeholder matrix and assess who is supportive of the outsourcing engagement, who is neutral and who will block
- Develop a plan based on this matrix and ensure that the “blockers” are neutralized
- Invest in coaching managers that are required to communicate tough messages – cancelling a person’s employment contract is emotionally difficult, especially if this is the first time
- Get on message and ensure all stakeholders are aligned – this is why we are doing this, I support this and this is why we will be better when we complete this initiative
- Identify “points-of-contacts” for any questions that cannot be answered – do not try to stumble through the discussion (especially when the press calls...)

Leadership by fear is not change management. Bullies should not be tolerated in schools and certainly not in organizations. If change management is not being addressed – consider changing roles yourself.

***Invest in change management or be prepared to pay the price***

## 8. Understand what “strategic vendor” means to the organization

Often “strategic vendor” means renegotiating commercials year after year. Whether you use the term strategic, preferred, partner and so forth, cost is only one component of the relationship. Organizations tend to not realize how much value vendors can provide even outside the scope of work, if treated with respect.

Here are some opportunities to develop with your vendors

- In many cases, they know your organization better than you do – ask them for their innovative ideas
- Develop a vendor strategy that shows them opportunities for growth
- Avoid unnecessary competition among the vendors – this creates cost that can be invested in more meaningful activities
- Invite the vendors into your organization to share market trends, best practices, case studies from their other clients
- If an engagement is not working – be objective. Bring in an intermediary to help understand the root causes

By working together with vendors and communicating their role in helping you achieve your overall strategy, there is plenty of room for vendors to invest. Expecting that they can run to their board asking for investment without any view into the future is wishful thinking.

***“Strategic” is not about best price***

## **Conclusion**

No outsourcing engagement is easy. With proper planning and governance, you will get through the journey. Likewise, if you are feeling uneasy about the initiative and you have accountability – either take action or prepare yourself for failure. Outsourcing can deliver significant benefits to organizations and with proper change management, you can keep operations stable throughout the transition. To those leaders who use fear as motivation – I am a true believer in the expression “what goes around, comes around.”

## About Ralph Schonenbach

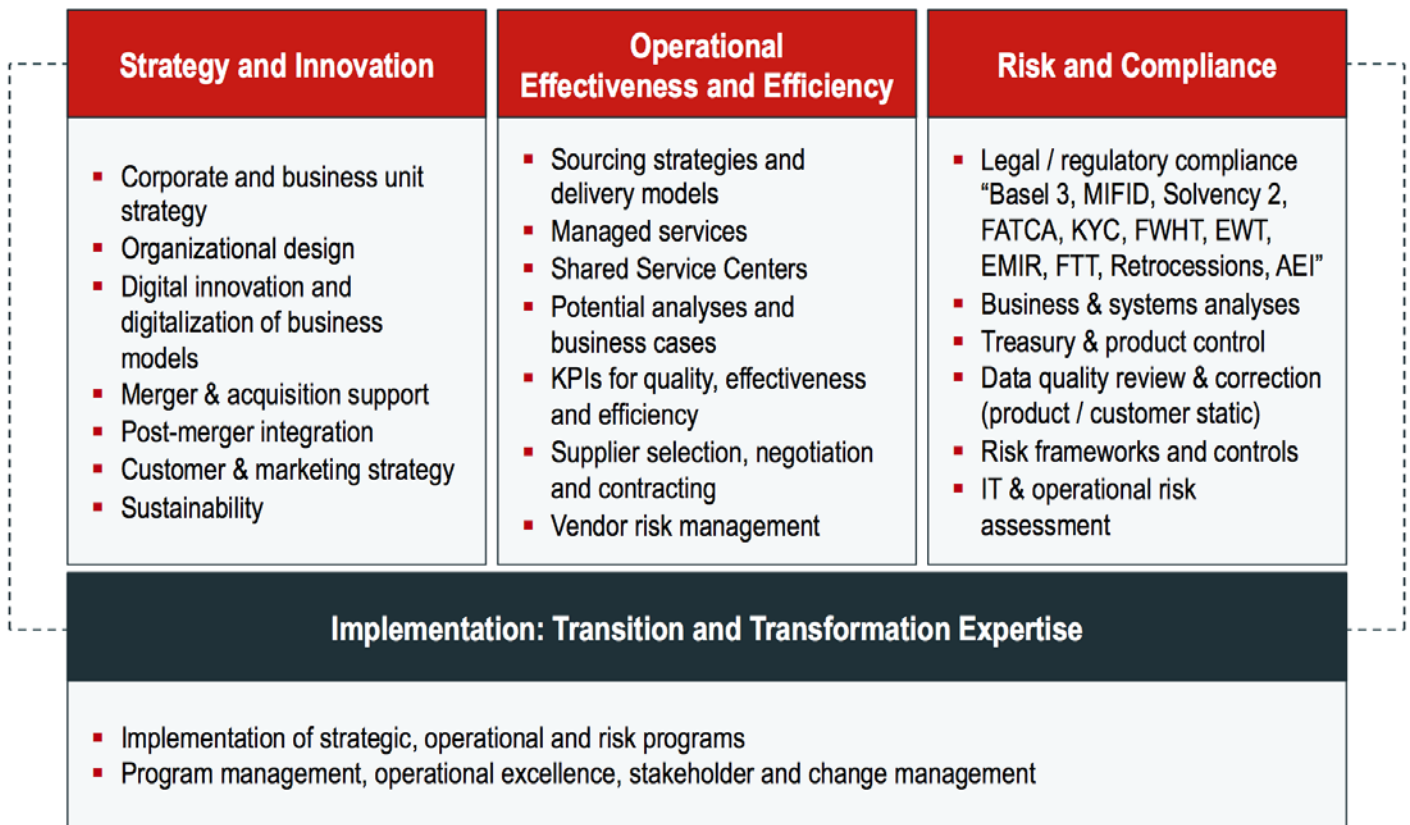
Ralph Schonenbach is the CEO of Trestle Group and on the Board of Trestle Group Foundation. He has held senior positions with the firms Andersen and Ernst & Young. Over the span of his career, he has established several successful consulting practices with a primary focus in the financial services industry and has advised high-level executives around the world on how to transform the way they manage and deliver services, as well as how to tackle the pressures brought about by resource constraints. Through Trestle Group Foundation, he is passionately involved with providing support to both women and emerging entrepreneurs in developing countries. Ralph frequently speaks at conferences and has authored a variety of publications. Ralph earned a degree in Business Management from Goucher College.



# TRESTLE GROUP

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Trestle Group is an international advisory firm focused on helping companies design and implement strategies that maximize their potential. Our areas of support include:



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