

Accelerated Outsourcing – An Expert’s Perspective

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The demand for cost saving and improved business performance have led to the large-scale adoption of shared services, outsourcing and offshoring across the globe. Such business transformation strategies have ceased to be seen as ‘nice to have’ and have now evolved into essential business tools. However, the time and resources consumed in negotiating sourcing solutions is significant. Without tight control this issue can reduce the benefits of undertaking such a strategy. Yet, as the industry has matured and providers, clients and advisors have become more experienced, the ability to shorten the time it takes to finalise sourcing arrangements is improving, enabling organisations to bring forward the point at which they begin reaping anticipated benefits.

This article explores why deeper collaboration and interaction in areas of solution, relationship and commercial contract construction are key to shortening the sourcing selection process; why it should be broadly adopted, not viewed as an exception, and what issues need to be considered when choosing to speed up a sourcing project(s).

Outsourcing is no longer seen as a necessary evil (stand-alone, costly and lengthy to negotiate), and there is increasing pressure from Chief Financial Officers (CFOs) and Procurement Directors to speed up and simplify the selection process in order to reduce preparation costs and gain benefits earlier. Typically, an outsourcing project will

take between nine and 18 months from strategy to starting transition/transformation, a period that many find daunting and unnecessary. In short, there is a growing ‘desire for speed’ in sourcing transactions.

It is important to stress, however, that speeding up the process of scoping and negotiating a sourcing transaction does not mean cutting corners. In reality, it means a more concentrated procurement approach, removing unproductive guess work on both the buy and sell sides of the activity through constructive and detailed dialogue.

Accelerating the sourcing process does not introduce risks to achieving the best deal and contract available, if the acceleration is properly managed. Given an appropriately robust and prepared fast-track process and inclusion of market data and best practices, it is a solution which creates earlier and greater understanding of the business needs of both buyer and seller and create a solution to match. In this way the procurement timescales up to transition/transformation can be cut considerably, typically from the usual nine to 18 months to a far more appealing three to nine months.

So, how does a business balance a desire for shorter deadlines and earlier benefit realisation, against ensuring the overall processes are rigorous and that the end result is fit for purpose? The answer is deeper levels of collaboration and interaction in the areas of solution, relationship and commercial contract construction within certain agreed processes.

The essence of Accelerated Competitive Dialogue (ACD – the terms we use to describe a shortened sourcing process) is to use interactive and professionally facilitated workshops to develop the strategy with relevant decision makers. Then use a collaborative and highly interactive workshop-based approach through to selection. This methodology replaces the traditional lengthy and ‘serial’ RfI and RfP selection processes which have an average duration of nine to 18

months, during which the suppliers are kept at arms length. The ACD approach embraces the ability to create a solution jointly with providers. It also shapes an agreement that is based upon the company's needs.

The collaborative interaction is streamed into related subject towers to concentrate on the development of a solution in all its components. For example:

- cultural alignment and common understanding;
- technical – potentially divided into sub-streams for complex or multi service-tower scope requirements and all issues of service delivery;
- commercial to concentrate on terms, conditions and pricing;
- relationship, governance and management including the skills and resources required in the retained organisation;
- HR for all people pay and condition-related issues;
- futures and innovation; and
- transition and transformation planning.

Each stream has its own set of preparation and work-shopping phases to fine tune the potential options to collectively reach the required solution.

This approach is clearly dependent upon a number of factors including:

- getting the number of potential suppliers to a manageable level (e.g. two) as quickly as possible whilst being confident both chosen final suppliers have similar appetites for the deal;
- gaining the appropriate resources from the organisation to firstly define the strategic elements of the project and then to attend workshops and contribute to the collaborative solution creation;
- having the ability to understand what constitutes a 'good deal' without the necessity to engage the wider market in the traditional manner; and
- potential service providers granting access to the appropriately skilled and empowered staff members, management and executives.

The diagram below illustrates the key differences in process for the traditional RfI/RfP process and that of ACD:

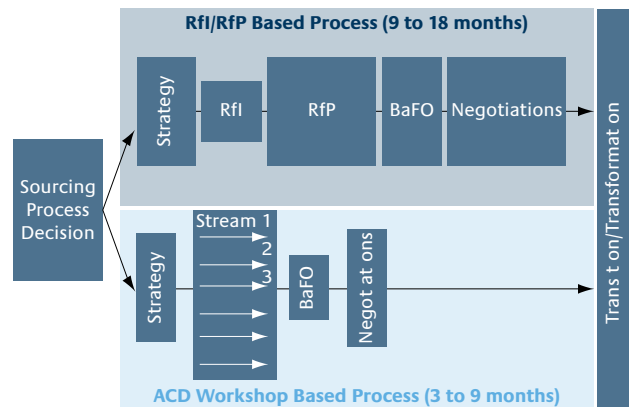


Figure 1: Traditional RfI/RfP process and that of ACD

The removal of the traditional remote solution creation process by prospective suppliers results in a greater understanding of the project requirements and more rigorous thinking around the solution. This, not only helps speed up the overall sourcing process, but also massively reduces the risk of misunderstanding between parties at a later stage.

Suppliers benefit from earlier involvement as they are mentally engaged in the project more quickly (avoiding a steep learning curve at the very moment a client will want them to hit the ground running), and have a greater understanding of the business context in which they are working. The outcome is a healthier relationship with the supplier and earlier benefits for the business.

The advantages of collaboration through this process are irrespective of the involvement of multiple or a single supplier or whether outsourcing for the first time or re-letting the scope at the end of an existing contract. In the circumstances of a sole source deal (only one potential supplier) a rigorous approach is still required including detailed preparation of requirements, final contract, etc. The ACD process outlined above is ideal in this circumstance, with the addition of further market data points to ensure the eventual deal is competitive in all respects.

Without this structured process, a sole source initiative can be just as lengthy as a traditional approach to the market.

There are always situations in which shortening the sourcing process is impossible. Public Sector and highly regulated industries have rigorous procurement procedures which limit the flexibility they have in selecting providers. However,

these industries are now using an ‘invitation to negotiate’ method to help create a more collaborative approach with potential providers.

While it is important to remember ACD is not a ‘one size fits all’ solution, we believe the interactive and collaborative approach is a way of working that will only increase in popularity over the coming years. However, for an organisation to embrace this approach, a number of factors need to be present including:

- agreement on the goals and objectives of an outsourcing agreement;
- commitment to and willing participation in the chosen approach;
- an understanding that the decision process is more streamlined and must be results-focused;
- the resources necessary to manage and contribute to the initiative must be made available to the process (e.g., internal HR and legal counsel and external sourcing);
- the resources to implement the process, i.e., accelerating the sourcing process can mean the steps that would normally be approached in a linear fashion need to be addressed in parallel;

- access to market data and best practices to ensure the agreement is in line with market pricing and quality levels; and
- a mature market and supplier set, e.g., when an industry or suppliers serving that industry or a less mature services segment are still on a learning curve, it can be advantageous to reach a wider set of providers, with a more standardised approach to responses.

It is clear that accelerating the sourcing process via an interactive and collaborative approach is not only desired, but also appropriate for many organisations today.

For the buyer, it often means earlier benefits realisation, utilisation of supplier resources to build a detailed solution, a change in focus from the how to the why and what and access to innovation and greater honesty and transparency during workshops. Suppliers also benefit from a reduced cost of sales, shorter qualification periods and the possibility to utilise their full capabilities through interaction and joint solution creation.

Once you have accelerated the strategy and selection phases, the key focus is to understand how you collect realised benefits, and use them wisely!

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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