

# The Value of Using External Advisors in Outsourcing Transactions

How can a sourcing advisor specifically help you along your outsourcing journey?

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A myriad of factors can impact the near- and long-term success of an outsourcing agreement. Organizations often assume an advisor is unnecessary and that they can successfully go it alone. In reality, a third-party advisor will help ensure an optimal, value-sustaining deal. These specialized consultancies assist in shaping and fine-tuning the right solution with an eye toward the desired future state. And by doing so, many help clients realize significant savings—as much as 27 to 54 percent of the total contract value.

## Choosing Between Internal or External Expertise

There are many sources of outsourcing advice ranging from the general consultancies to specialist outsourcing advisors, outsourcing service providers and internal procurement teams. It is critical that you, as a buyer of any outsourcing advice, establish the experience and credentials of the individual consultant (internal or external) tasked with this assignment. Most consultants will have either some exposure to outsourcing, but limited in-depth experience, or take a broad view of the market.

For organizations that have outsourced their information technology (IT) or business processes in the past, we often find that the knowledge gained as recently as two years ago has become outdated due to market dynamics in areas such as:

- Advancements in outsourcing contracts, such as how to achieve flexibility, controls and governance, and address country-specific employment regulations and (re-) transfer issues
- Incorporation of new innovations, business impact measures and rewards
- Evolution of pricing structures, including unit pricing, greater transparency in pricing and removal of ‘bundled’ services
- Understanding whether or not the service level agreements (SLAs) represent true ‘best practice’ and value for money (VFM), both now and in the future
- The potential to transfer additional work to the service provider (or the inverse, bring the work back in house) and the impact on pricing, governance and reporting, risk profiles, and service

Without this specialist and current industry knowledge, you may fail to achieve optimum business value and are in danger of accepting an agreement that does not account for the latest in internal service delivery options, technology and outsourcing.

Whether you pursue outsourcing on your own or use an advisor, your outsourcing transaction should meet these four requirements:

1. Meet or exceed best practices for services, performance, price and terms
2. Strike the right balance between the financial, commercial and service imperatives of both parties
3. Properly allocate risk and contain all the mechanisms needed to manage the consequences of identified risk
4. Construct and negotiate a contract built for change, flexibility and demonstrable value both initially and over the lifetime of the contract

## Assessing the Risk of Going It Alone

The procurement of outsourced services is not a straightforward purchasing exercise. There are many pitfalls that can disrupt the process and increase timescales and cost (managerial and actual). Worse, they can lock the client into a contract without commercial transparency and service flexibility, and create a relationship based solely around contractual obligations.

Often the justification for using an internal sourcing team is based purely on the additional costs involved; however, this will likely prove to be a false economy. For example, the procurement timeframes are typically longer and the actual involvement / strain on internal resources is far greater than anticipated. A lack of discipline and process in and around project scope can result in competitive bids that are not easily comparable and issues arising over employment legislation, asset handling and valuation, VFM, measurement and SLA norms, and more.

The financial implications of lost opportunities in outsourcing transactions can be significant. Specialist practitioners will have first-hand experience with all the problems related to this complicated and rapidly changing area. They have developed strategies and solutions to ensure risks are mitigated, major problems are avoided and timeframes are met.

## Top 10 Attributes of a Specialist Outsourcing Consultancy

There are a plethora of consultancies from which to choose. To facilitate selection, here are 10 key requirements to take into account when engaged in any sourcing-related activity:

1. **Assess Current Operations** – An advisor can provide early-stage insight that helps you understand how your organization is performing against your peers and the marketplace so you have clarity into your improvement alternatives. They can also help you gain better visibility into the sourcing and internal service delivery options. You can more quickly define your IT and business process strategies, and secure the internal alignment required to support a successful sourcing process.

### Circuit City: EquaTerra Enables Circuit City to Shave Off 16 Percent of its IT Costs

Circuit City needed to quickly modernize its IT infrastructure, improve its IT processes, and reduce costs. To do this, the company hired EquaTerra to conduct an assessment of its existing provider relationship and see how it could achieve these goals with its current provider. Circuit City knew that EquaTerra's advisors would provide the high-level expertise and advice it needed to best structure its outsourcing solution and provider relationship – and within an expedited timeframe. EquaTerra's assessment enabled Circuit City to confidently enter into a seven-year, \$775 million IT infrastructure services contract with its service provider. And thanks to EquaTerra's knowledge and recommendations in this company's sourcing process, Circuit City estimates it will experience a cost savings of more than 16 percent over the term of the contract.

2. **Reduce Time and Cost-to-Contract** – Until the moment your contract is signed and the deal is rolled out, you are incurring expenses and managing risk. Time has a tendency to kill contract negotiations. An advisor will help protect you by utilizing optimized planning tools and methodologies. Additionally, your advisor will:
  - Remove the steep learning curve for internal resources
  - Provide an extensive library of intellectual property, electronic tools and templates of sample contracts, governance models, evaluation criteria, SLA and measurement processes, etc.
  - Transfer skills and knowledge to the retained organization and governance teams
3. **Access Market Knowledge and Expertise** – Using an advisor ensures that the latest market knowledge and best practices are fully available to you. Many service providers offer a “market assessment,” but use it with caution as providers will not have access to competitor information and do not have a 360-degree view of the market. Additionally, your advisor will:
  - Provide access to specialist sourcing practitioners experienced in service delivery and contracting for sophisticated service provisioning and negotiation

- Provide hands-on expertise from both the customer and service provider perspectives
  - Demonstrate practical knowledge of industry best practices
4. **Ensure “Equal Ground” - Impartial Advice and Fair Play** – An advisory firm protects you from any efforts by your provider to gain an off-market advantage and, therefore, can help reassure your board of directors that an appropriate and competitive deal has been struck. An advisory firm also protects your provider from potential delay, misdirection or miscalculation. Additionally, your advisor will give advice that is demonstrably impartial to providers, internal delivery options and organizational politics.
  5. **Protect Risk** – An advisor can ensure your ability to safely walk away from the deal at any time during the negotiation process. Your advisor fully understands the risk of leaving you unprotected should the negotiations fail and will put safeguards in place to mitigate that risk.
  6. **Maximize Value** – A sustainable outsourcing contract is based upon trust and relationship quality. An advisor will work with you and your service provider to establish principles and practices that will ensure the long-term success of the deal.
  7. **Attract Service Providers** – Service providers appreciate when a good sourcing advisor is involved in the process. It not only demonstrates that you are serious and are moving forward with appropriate pace and intent, but also that you are committed to a mutually advantageous deal.
  8. **Enable Constructive Behaviour** – An expert third-party advisor will drive convergent, collaborative behaviours between you and your service provider from the very start. These should continue throughout the lifetime of your contract even if challenges arise and corrective actions need to be taken.
  9. **Ensure a Fair Price for All** – A good advisor will help drive the most favourable price, value and contract terms for all concerned.

10. **Be Accountable** – It is unusual to find an advisor willing to accept accountability and help implement the solution. If you find an advisor to step into an implementation role, it is reasonable for your advisor to provide:
  - Services during the peak risk period of transition when people, assets and services transfer to the new supplier
  - The establishment of the governance, processes and controls to validate the contribution of the service provider
  - Guidance and training to the retained organization and governance and/or client contract management team
  - Financial re-engineering concepts that may underpin the deal

Most management consultancies will fall short on these requirements due to issues of ownership and alliances or a lack of up-to-date pricing information on recently negotiated outsourcing contracts. They often lack specialized negotiators, financial architects and governance experts in any critical mass.

## Choosing the Advisor That is Right for You

When selecting an advisor, there are key questions you should ask. Most will look and sound the same, and it may take a bit of effort to find the right fit for you and your firm’s needs. Below are some of the critical issues and questions you need to consider to make an informed decision:

- Verify that the market knowledge the advisor claims is real. How many contracts were managed to completion?
- Determine whether you will have access to specialist advisors that focus deeply on specific functional and technical sourcing areas. Or will the advisors be simply generalists?
- If you are unsure whether outsourcing is right for you, make sure the advisor has experience in other delivery options and can guide you toward a shared services or an internal transformation path if that is best.
- Investigate if their clients “look like you” in terms of geography and scope of services.
- Check the advisor’s incentive for helping you move at the right pace. Are they proposing unnecessary steps?

- Listen carefully to see if they can clearly articulate how each step of their methodology flows into the next. How does the work in one phase (say the assessment) support future decision making and analysis? What is their track record at previous clients?
- Ask outsourcing service providers which advisor they would recommend.
- Expect the advisors to have a deep awareness of sourcing management issues. Do they have methodologies and advisors specializing in governance? Do they have best practices? References?
- Is the firm strong across the improvement or sourcing lifecycle – strategy to assessment, solution or transaction, transition and governance? Change management?
- Ask to see the tools and templates used by the advisory firm.
- How will the advisory firm address risk situations of its clients and advise on risk management / avoidance?
- How will the advisor help you ensure your project stays healthy and on the right track after implementation?

## Conclusion

A prepared and discriminating client can gain significant advantage and value from the use of an external advisor at every stage in the sourcing or process improvement lifecycle. Some of this value is from the “off-balance-sheet” benefits of avoiding risk and the cost implications of getting it wrong.

Large outsourcing deals are among the most visible and comprehensive change initiatives that any organization can undertake. The use of external support can supplement existing capabilities and complement internal skills, protect the interests of the outsourcing buyer, and help to ensure a more transparent, accountable and beneficial outcome to the project.

Clients should opt, where possible, to undertake the bulk of the process work themselves in order to acquire the skills and make decisions in an informed way. These teams should carefully evaluate how a sourcing advisor could improve the results delivered to the organization. Most will find that using an advisor results in additional return on investment for the outsourcing buyer.

## 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, Middle East, Africa 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.

[www.equaterra.com](http://www.equaterra.com)

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