

# Drive Value with Outsourcing Management Tools

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Much is discussed in the marketplace about outsourcing management and governance (OM/G). Many organizations mistakenly assume they understand the science of effective OM/G, yet often that is not the case. OM/G is a critical discipline that enables companies to achieve the intent of their outsourcing deal. Without it, value leakage of 15 percent or greater typically results. For further details on effective OM/G, please see EquaTerra's whitepaper titled, *"Why and How Outsourcing Management and Governance is Critical to Outsourcing Success."*

## Critical Components of Outsourcing Management and Governance

OM/G helps companies strike the fundamental balance between risk and return when managing their outsourcing relationships. The critical components of OM/G are:

1. Service Quality Management – Ensures all aspects of service quality are met, problems are resolved, and business stakeholders are satisfied with service performance and quality.
2. Issue Management – Ensures issues impacting the service or relationship (regardless of cause) are effectively and expediently resolved.
3. Change Management – Facilitates anticipated business change with the service provider, including new services and transformational programs.
4. Commercial Management – Ensures the agreement is managed and the financial benefits are both tracked and realized.
5. Compliance – Ensures all applicable compliance requirements are met, internally and externally.
6. Relationship and Communication Management – Focuses on managing key stakeholders involved or impacted by the

relationship, including the service provider and other affected parties.

Managing the balance between risk and return is a challenge when one outsourcing relationship is involved. As more companies outsource to multiple providers in multiple processes and geographies, they face increased challenges in managing dispersed teams while leveraging internal OM/G skills and tools. These rising challenges provide a more compelling reason for institutionalizing common governance practices and streamlining the teams and tools managing these relationships. In response, many companies have begun to manage portions of their outsourcing relationships with holistic or portfolio views and turn to tools as a critical enabler for their dispersed teams.

It is helpful to evaluate OM/G as four interwoven layers of structure – the organization itself, the process, the resulting job performer or employee, and the tools that a person utilizes to manage the job. The OM/G discipline helps organizations define roles, responsibilities and decision rights, as well as customize the 29 OM/G processes to their unique environments. Once the team is mobilized, the right tools enable the people to perform the processes, accomplish their objectives and ensure alignment across the organization. OM/G is the enabling glue that pulls together the people, processes, tools and best practices needed to manage outsourcing relationships. It enables:

- The make-up and structure of the OM/G group, its authority and accountabilities
- The roles within the OM/G group and how they interface with other parts of the business (retained operations and business users)
- The roles and responsibilities of members of these groups relative to the service provider

When developing an OM/G tool strategy, it is important for organizations to understand the true intent of the deal and the type of outsourcing relationship they seek. The type of relationship will drive the OM/G commitment and toolset

required to achieve the desired outcome. More sophisticated and complex relationships will require increased skills and tool investments in order to be successful. As noted in a recent EquaTerra study (see Figure 1), the investment in OM/G (people, tools and third-party spend) increases with the complexity of the relationship. The study also found satisfaction was strongest for companies that spent between 4-7 percent of the annual contract value on OM/G.

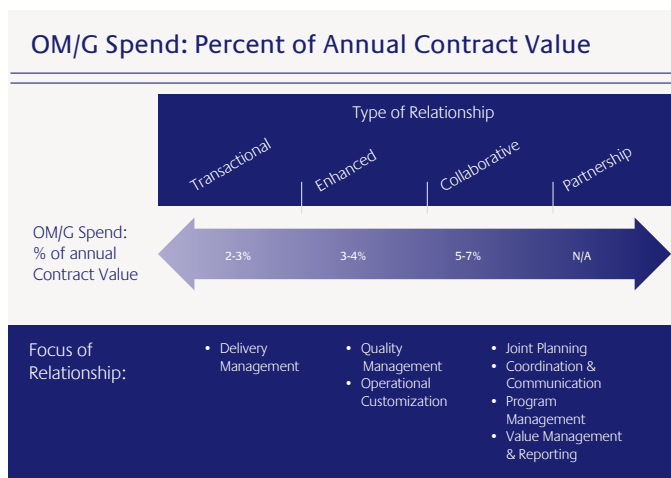


Figure 1

## Role of Software Tools in Supporting OM/G

Many of the OM/G tools used in the marketplace today do not provide comprehensive information across the enterprise. In a recent EquaTerra study on best practices in outsourcing management tools, 50 percent of the respondents utilized in-house solutions (typically Excel based), 30 percent relied on solutions offered by their service provider, and 20 percent used point solutions from small providers — all having limited success to date. As demonstrated in Figure 2, the study highlights how organizations access tools to manage their outsourcing relationships now and in the future.

Organizations use these tools to capture data, measure performance and streamline processes. But the data is often from a variety of sources that must be further validated against usage and contract pricing. Organizations are faced with volumes of data and data sources, but rarely OM/G business intelligence and efficiency.

## OM/G Tool Providers

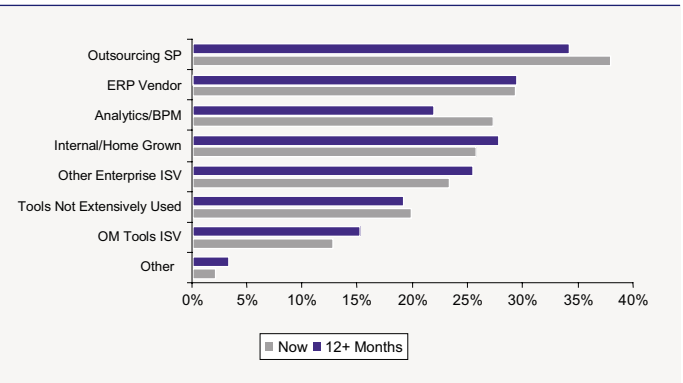


Figure 2

What specifically are organizations seeking from their outsourcing management tools? Our recent study highlights key functional and technical attributes sought in outsourcing management tools. As depicted in Figure 3, critical functional priorities include timely relevant data, enabling faster decisions and performance-cost benchmarking.

## Key Functional OM/G Tool Attributes

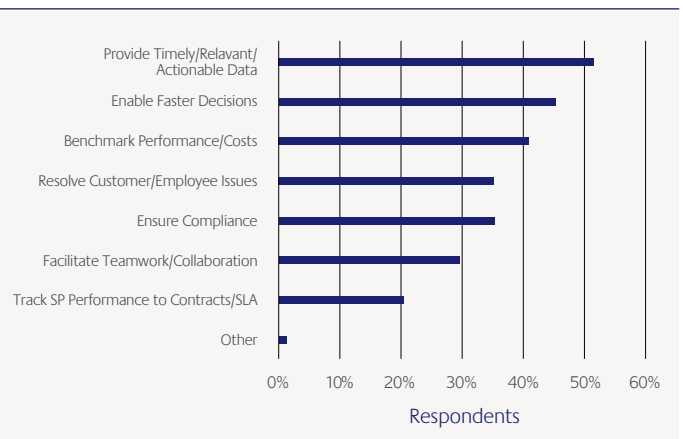


Figure 3

As noted in Figure 4, key technical requirements include striking the right balance between cost and value, ease of use and integration with other applications. Clearly, these tools need to provide easy access to business intelligence and won't disrupt existing technical environments.

## Key Technical OM/G Tool Attributes

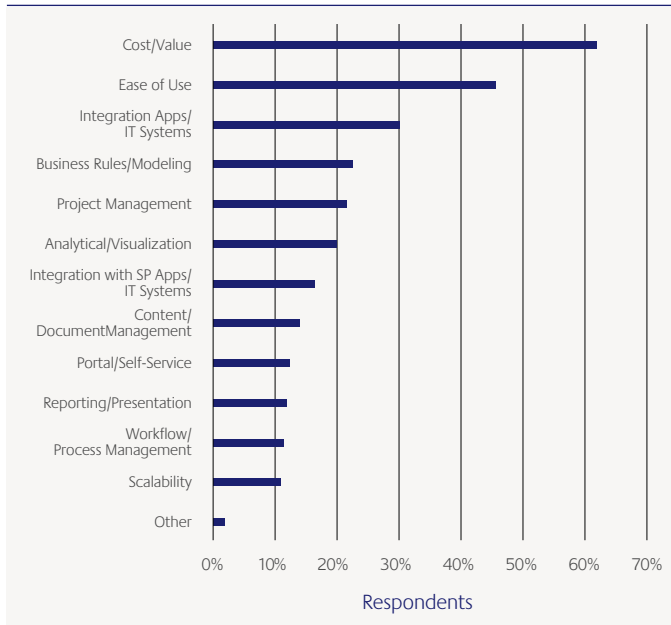


Figure 4

## How OM/G Tools Can Help

### Increase Efficiency

As tools mature and can more readily support a greater range of OM/G activities in a cost-effective manner, they will bring greater value to the outsourcing effort. EquaTerra estimates that effective outsourcing management tools will save organizations one percent of the annual contract value each year. These savings are a result of several factors, primarily the automation of routine or transaction-based processes.

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Figure 5 shows all the business processes critical to effective OM/G. Each process contains a set of sub-processes, many of which can be automated or enabled by a technology solution. The more routine and transaction-based processes are most likely streamlined through automation.

## The Outsourcing Management Framework

Service Quality Management	Issue Management	Change Management	Commercial Management	Compliance Management	Communication Management
Service Performance Management	Escalated Operations Management	Strategic Change Management	Contract Change Management	Regulatory Compliance	Customer Relationship Management
Stakeholder Satisfaction Management	Critical Issues Management	Project Approval and Initiation	Invoice Verification and Payments Management	Internal and External Audit	Management Reporting
Service Knowledge Sharing	Emergency Management	Program Management /Transition	Service Cost Allocation Management	Safety and Security	Business Requirements Identification and Liaison
Root Cause Analysis		Demand and Consumption Management	Financial Benefits Realization Tracking and Lockdown	Data Privacy	Corporate Communications Management
			Financial Performance Reporting	Other (Client) Policies and Procedures	Relationship Alignment Review
			Benchmarking	Business Continuity	Third-party Supplier Communications
			Asset Management		

Figure 5

As we look at the work done overall in these 29 sub-processes, we can categorize the different types of activities into those that are routine or transactional; tasks that require consultation with the provider, retained organization or business units; or strategic activities. Figure 6 demonstrates the transaction-oriented activities in the lower-left quadrant of the matrix. It also demonstrates standardized, consultative and strategic activities. Transaction-oriented tasks can be automated with technology and typically are managed in desktop applications such as Excel or Microsoft Project.

## OM/G Activity Categorization

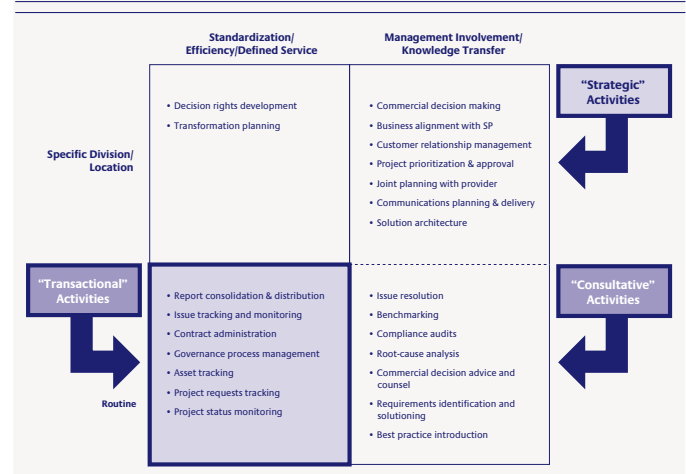


Figure 6

A tool solution can add benefits beyond automation including improved business intelligence and decision making, stronger communication and collaboration within

the organization and with service providers, and ultimately, more time to focus on strategic activities.

To demonstrate how OM/G tools can automate a particular process, we drill down into one specific process — invoice verification — a sub-process within commercial management. In the invoice verification process shown in Figure 7, we have highlighted (in light purple) the steps and decisions that an OM/G tool should address either through automation or improved decision making. This process flow is indicative of how tools can better enable OM/G teams across the enterprise.

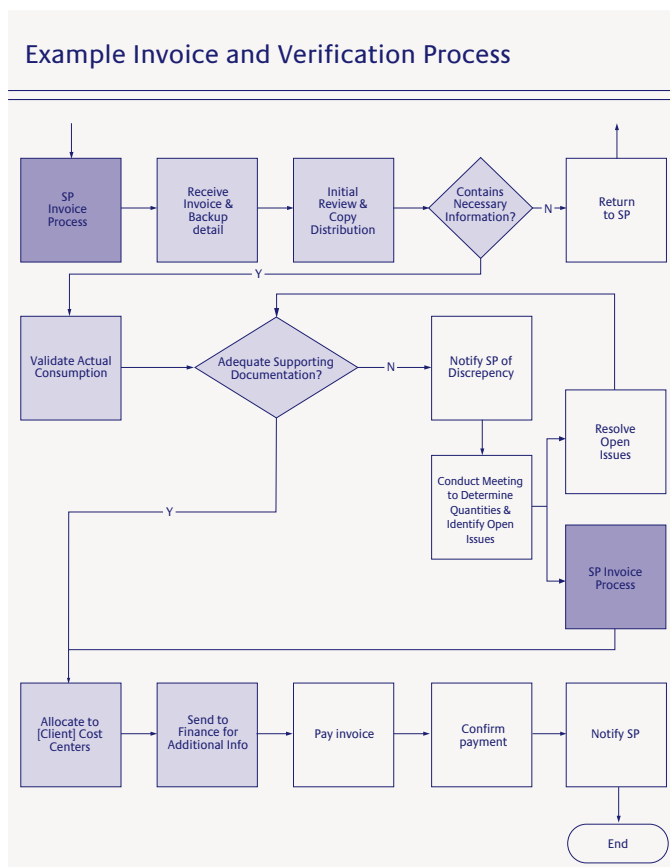


Figure 7

During invoice verification, OM/G teams spend significant cycles on spreadsheet calculations and verifications, as well as consolidating and distributing reports. Typically someone receives the invoice and is tasked with verifying consumption levels, reviewing the pricing schedule, validating reports from the provider, and testing the algorithms and math. A tool could compile the consumption data, map that to a pre-loaded pricing schedule, verify the math and confirm the amounts owed to the provider. The tool should have the flexibility to receive

direct or manual data feeds from the provider to further automate the review process.

The resulting analysis scorecard might look similar to Figure 8 below, which demonstrates consumption and fees for service compared to what is furnished by the service provider. This validation of performance versus fees eliminates the opportunity for human error. By pointing to source data, an organization is able to independently verify performance and cost rather than rely on provider information and reports that may include an element of judgment. A tool quickly validates the data and eliminates subjectivity.

Financial Management Scorecard							
Filter:	Desktop - NA	SP:	Dell	Customer	SP	Δ	Status
Financial Management Services							●
Invoice Verification							●
Contract Service Charge	\$21,000	\$21,000	\$0				●
Calculated ARC or (RRC)	(\$225)	(\$225)	\$0				●
Calculated Service Charge	\$0	\$0	\$0				●
Potential SL Credit Amount	\$0	\$0	\$0				●
Subtotal – Service Credit	\$20,775	\$20,775	\$0				●
<b>Total SP Related Charges</b>	<b>\$20,775</b>	<b>\$20,775</b>	<b>\$0</b>				●
Consumption Tracking (Volumes)							●
Chargeback Allocation							●
Plan vs Actual Spend							●
Credit & Earn back Tracking							●

Figure 8

While the tool automates transaction-based verification tasks, the required analysis is not transaction oriented. For example, if there is a variance, the executive must determine how to evaluate the variance, whether to invoke service credits or charges, to pay or not pay, etc. A technology solution should put the financial information in context, allowing the reviewer access to all usage information (by business unit), service levels and project requests.

Ideally, the data and analysis will be stored in one place. OM/G executives also should expect a technology solution to have a full document repository. This offers dual benefits: ease of access to the contract, its amendments and schedules in addition to all the modifications and justification for those changes. How many times have team members wasted cycles searching for the latest version of a specific amendment or schedule?

Organizations just launching an outsourcing initiative have even greater opportunities to achieve savings with a technology-enabled process due to the reduced time needed to prepare for managing the business process transition. Companies often become overwhelmed with developing

reporting structures and combining spreadsheets and data management tools, while executives rarely have time to focus on the strategic decisions that arise during the transition.

The transition phase is a time for decision making, not setting up and learning new tools. Before an outsourcing relationship goes live, an organization should evaluate its management and governance tools. An effective tool will help enable the work that runs parallel with the transition to set up the outsourcing governance team. Ideally, a tool should be in place before the agreement goes live. After all, your service provider counterparts are experienced and have their own systems already in place. Don't wait to start your tool strategy until after the contract is signed or the transition will overtake you.

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**Key Lesson:** Don't wait to start your tool strategy until after the contract is signed or the transition will overtake you.

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After the contract is signed, EquaTerra often witnesses organizations spending six months learning how to manage, track and report on the new relationship. Much of that time is spent setting up the reporting infrastructure while determining which factors to track. An effective tool set will help you figure out what you need to manage and can be configured to support your objectives in significantly less time. For example, we've seen new agreements create over 200 issues in less than two months after going live. Without an effective issue management process and systems, it takes an additional several months to get the situation under control.

### ***Improve OM/G Business Intelligence***

How does your organization manage the complex data set and analytics resulting from outsourced and shared services relationships? How does it manage and measure financial performance? Does it use a balanced scorecard approach?

Even if this approach is not utilized formally, your organization likely has some sort of reporting or scorecard mechanism to manage its operation. If it does not, outsourcing management and governance is an ideal function with which to institute a scorecard approach, and an OM/G tool is an ideal foundation for storing the critical data.

An organization's enterprise-wide data repository can store all the information associated with an outsourcing relationship. This includes contract terms, suggested changes to those terms, details around the pricing model, drivers behind negotiated positions, etc. There are many critical data points that become lost as teams transition to new roles and as multiple parties get involved in the OM/G process. Technology can enable organizations to capture this critical business intelligence and transfer the what/how deal management knowledge to subsequent teams.

Much of the strategic work in OM/G requires a broad and detailed view of data and activities. It takes a significant amount of time to identify relevant information, define acceptable parameters, and classify immediate versus latent reporting needs. Additionally, once an OM/G executive identifies these factors, often there is high turnover in and out of OM/G roles. An effective tool will provide deal continuity and close the learning gap for the next person who takes the role. A tool will capture and institutionalize the knowledge of how to manage the transaction so the company does not lose ground with the provider.

### ***Strengthen Communication and Collaboration – Internally and Externally***

An OM/G tool should facilitate improved communication and collaboration among all parties through its business intelligence capabilities. This includes internally between corporate and the business units and with the service provider. The right toolset enables stronger communication and coordination that supports facilitation, collaboration, and project/program management among all parties.

To highlight an example where communication can break down without effective tools, we observed a common occurrence recently at a Fortune 1000 manufacturing company. Several IT segments had been outsourced, and as is typical in any outsourcing agreement, there was no statement of work for collaboration or communication. The company struggled from lack of effective communication and operated in an environment of "what have you done for me lately?." If communication was not explicit, the first assumption was that nothing had been done, which created a lack of trust internally and with the provider.

The lack of internal trust pushed the business unit to seek services directly from the provider. In one case, a server was requested directly by the business unit. The provider, in turn, circled back to the corporate IT group, scoping the server, hosting and back-ups, and presented the cost to the business unit without the detail or requirement that the server was part of a larger service package. The business unit only saw a server that was two to three times the anticipated price. Corporate IT understood the value, but the business unit was in the dark. Examples like this continued until the outsourced work was shifted to another provider and some elements were insourced or brought back inhouse.

The basic issue here is one of communication, but if this scenario would have occurred with a tool enabling the exchange, the company could have avoided the ensuing lack of trust because the business requirements would have been clearly documented in the repository. All parties would be able to view, analyze and approve the item before making a decision. Ideally, all the critical facts would be embedded within a toolset, eliminating incorrect assumptions that ultimately break down a relationship.

The tool should provide support for change management, containing all the information about performance, chargebacks, success stories, trending and planning. In addition, the tool should enable communication among the OM/G team, business units and the retained organization, service providers and business executives.

### ***Make Better Decisions and Improve Focus on Strategic Issues***

How often have OM/G and business executives asked for more detailed analytics? Do OM/G resources have access to independent, fact-based data or is there an over-reliance on service provider data? How do you answer the tough question, “should we continue outsourcing?” Due to the complexity of many outsourcing relationships and the vast amount of administrative tasks, very little time is left for strategic and value-add work.

Many requests for data take significant time and resources to complete and accurately analyze because the data resides in different places and requires human intervention to compile and verify. An OM/G tool should be designed to compile data from multiple sources and present the information in a clear, concise way.

For example, OM/G executives often are tasked with tracking the ongoing value of outsourcing against the intended savings or business case. This is a complex undertaking relying on data from multiple sources and frequently requires validation once data has been received. As shown in Figure 9, it is possible to collect the data from a variety of sources and evaluate the continued outsourcing relationship against the base case. This scorecard tracks the ongoing performance and identifies trends for improved planning opportunities.

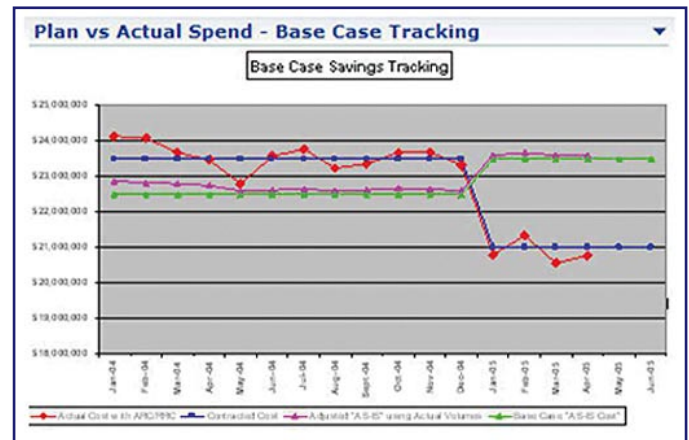


Figure 9

Once an outsourcing contract is signed, unanticipated work often arises from a variety of sources – the service provider, the business unit, the retained portion of the outsourced business function, or from the OM/G team. Often a separate business case is needed for each identified project so executive teams can prioritize which projects are most critical to the business. A tool could serve as a repository for all the identified projects so the ROI of each can be evaluated, ensuring they map to strategic business objectives.

OM/G executives may find themselves forced to make decisions on contract or financial issues without the right context. A tool should provide a holistic view of the relationship – contract requirements, financial components, issue management and a view of the relationship itself. This gives a broad perspective so contract managers see the big picture, i.e., when invoking a service level credit, the issues are in context versus just viewing the service level missed, which helps the organization deal more effectively with the provider and the business units.

Executives should have access to better data to support more effective decision making on a variety of critical issues. This allows organizations to apply resources where they can add the most value and free up senior resources for more strategic issues.

## A New Solution - EquaTerra Governance Workplace

### What It Is/What It Does

EquaTerra executives have spent much of their careers managing outsourcing and shared services relationships, and reviewing technologies that support the management process. Responding to the need observed within OM/G organizations for one tool to help manage their businesses, EquaTerra developed the Governance Workplace.

This tool enables organizations to manage ongoing relationships with outsourcing service providers and proactively address the associated governance requirements of the relationship, the value it delivers and its continued alignment with company strategies.

It also supports shared services teams that have developed operating “contracts” with internal “clients.” This solution combines the expertise of EquaTerra and Microsoft: EquaTerra, with its outsourcing management and shared services knowledge, processes, methods, tools, templates and data developed over years of client experiences and research; and Microsoft, with its proven collaboration and business intelligence software serving as the underlying technology, including Business Scorecard Manager, SharePoint and SQL Server – all tools that most organizations are using and already have licensed. Together, these assets create the first comprehensive enterprise governance and performance management tool of its kind.

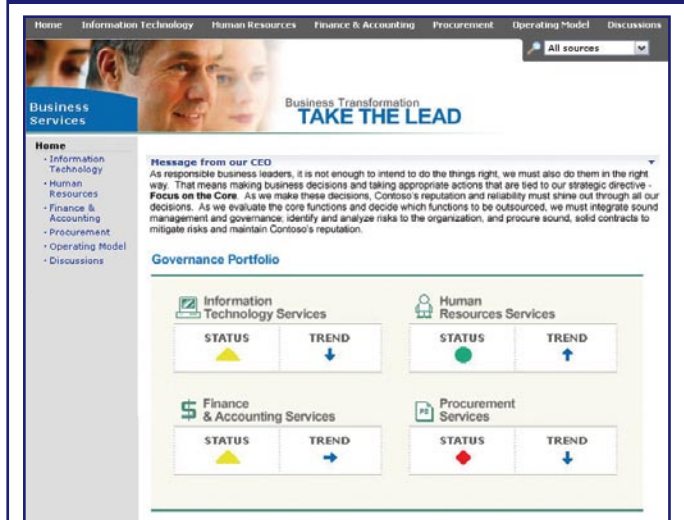
“Finally...an all-encompassing governance tool that leverages and automates outsourcing management best practices and decisions. And the best part is we already have existing licenses for the solution’s underlying technologies. This is exactly what we’ve been looking for.”

- EquaTerra Fortune 1000 client

Change management is a constant within outsourcing, yet companies often don’t ensure the proper frameworks to manage change. Ideally, contract change management will become a standardized process that outlines the protocols for elements, such as who, what, where, when and how, of potential contract changes. The OM/G organization will establish how an amendment and/or agreement will be incorporated into the master agreement and will ensure the

master agreement is consistent with the services being delivered. An organization should have a clear process map of the contract change lifecycle – with each suggested change documented and stored for ongoing reference.

## Governance Workplace – Governance Portfolio



The tool provides quick insight into the health and performance of each service area, compiled from detailed data on the processes and sub-processes within each service area, in a collaborative, user-friendly environment, with a single sign in.

### Benefits of EquaTerra’s Governance Workplace

1. Provides a comprehensive view of all the components needed to manage outsourcing and shared services relationships
2. Leverages existing technologies versus a proprietary system:
  - Built on a Microsoft platform already active and licensed in most organizations
  - No heavy training is needed for users since it is a set of web-based tools and the data manipulation often occurs in Excel
  - Limited involvement for IT and IT application development
3. Interfaces with other data sources and applications
4. Offers a scalable solution – organizations can easily grow and expand without limitation and the underlying data is in a cube structure enabling analysis
5. Utilizes Microsoft applications as a platform with the obvious benefits of Microsoft’s financial strength and its leadership position in the enterprise software market

Other available tools address only components of the governance functionality required. EquaTerra's Governance Workplace is the first that addresses all of the required functionality in a scalable, robust platform. The solution fills the gaps found in existing tools and offers:

- Multi-view scorecards, sorted by business unit, contract name, region or tower
- Drill-down analysis
- Performance-based metrics and charts (KPIs)
- Real-time status and trend indicators
- Project tracking and creation
- Integrated collaboration environment
- Role-based permissions and views
- Relationship diagnostic and customer satisfaction surveys
- Visibility into all internal service environments enterprise-wide
- Governance automation and decision-making support
- Storage and organization for outsourcing agreement documents and information
- Knowledge capture over the life of the contract, including issue management and contract administration
- Management of individual or portfolio relationships across the organization

EquaTerra's Governance Workplace leverages proven methodologies and best practices, dramatically reducing the start-up costs and set-up times of managing an outsourcing relationship, which allows companies to jumpstart their capabilities and, in turn, immediately realize the promise and benefits of outsourcing. Those with existing relationships quickly infuse best practices, improve decision making and build a needed repository.

The Governance Workplace focuses on the six key functional areas within enterprise services management and governance. Four of those are actual scorecards within the Governance Workplace and the remaining two (see below - Contract and Compliance) are document repositories within the solution. For the scorecards, appropriate best practices and automated decisions are built into each. The Governance Workplace supports an organization in the following ways:

1. Financial: Facilitates invoice verification, payment, financial tracking and reporting.
2. Issues: Enables the collection, resolution, tracking, management and reporting of multiple issue types,

including an easily searchable repository of issue resolutions.

3. Contract: Provides a repository for all contractual documentation to enable effective and proactive management of agreements.
4. Performance: Streamlines effective service level information consolidation, decision making, tracking and reporting, while facilitating proximate-cause analysis.
5. Compliance: Provides a repository and links to compliance-related documentation, enabling effective planning, auditing, monitoring and reporting for all internal and external compliance-related areas associated with the providers.
6. Relationship: Facilitates the assessment, (re)alignment and action planning relating to the priorities and satisfaction between the client and its providers. This also fosters effective two-way communication with business users about requirements, successes, value, performance reporting, chargebacks, demand forecasts, and issues relating to the respective service providers.

## Conclusion

For companies to achieve maximum value from outsourcing and shared services relationships, technology clearly serves as a critical enabling tool. The complexity of the process should not be underestimated, which is why utilizing technology as validation and support has so much appeal.

As organizations outsource more business processes and set up global shared services centers, management and governance teams likely are more dispersed and fragmented. These dynamics drive an even greater need for an effective toolset.

## About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their business processes. With an average of more than 20 years of experience in over 600 global transformation and outsourcing projects, our advisors offer unmatched industry expertise. EquaTerra has in-depth functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes with advisors throughout North America, Europe and Asia Pacific. Our people are passionate about providing objective, conflict-free advice to our clients, which has fueled our exponential growth over the past three years. We help clients achieve significant cost savings and process improvements with outsourcing, internal transformation and shared services solutions. **It is all we do.**

To learn more about how an outsourcing management tool can drive further value in your organization, please contact Mike Beals at 404 915 4022 or [mike.beals@equaterra.com](mailto:mike.beals@equaterra.com).

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