

Getting to the CORE of outsourcing success

Outsourcing can provide many benefits, but understanding industry best practices is crucial. The Centre for Outsourcing Research and Education is driving industry knowledge of outsourcing best practices.



Globalization delivers many benefits, but it also brings challenges. One of the biggest is that it increases competition. Now more than ever for Canadian companies, world-class efficiency is a prerequisite for business success, not just overseas, but at home. Outsourcing some business functions can help companies to maximize internal efficiency and provide better customer service. But outsourcing is a complex, mid- to long-

term undertaking. Companies must learn to evaluate the relevance of outsourcing to their own operations, and must understand the processes involved.

John Chang, leader of the Outsourcing Advisory practice at PricewaterhouseCoopers (PwC), explained that the CIO role only appeared in the early '80s when CEOs realized IT was becoming more important to the business. It became important enough

to create a senior executive role, and now companies are realizing the same thing about outsourcing.

"Recently, in the last couple of years, big organizations have started creating positions such as vice-president of outsourcing," he explained. "This indicates a major trend. Large organizations are realizing that outsourcing is a big deal."

Refining best practices

PwC is a founding member of the Centre for Outsourcing Research and Education (CORE). CORE is an organization focusing on best practices in outsourcing, helping to educate companies about the advantages of the outsourcing approach while also providing crucial advice on developing successful outsourcing strategies. The organization, working with partners such as the Rotman School of Management at the University of Toronto and the Sauder School of Business at the University of British Columbia, also developed independent research and benchmarking studies to help drive forward industry knowledge on the outsourcing process.

Going forward, CORE will develop a framework of best practices, designed primarily to appeal to potential outsourcing customers who are trying to understand how best to approach outsourcing strategically and operationally.

"There are a lot of complex issues around making outsourcing work effectively, and it depends on what your objectives are," said John Simke, president of CORE. "A key decision you must make initially is what you want out of the outsourcing project."

According to Matt Alexander, director of IT solutions at CORE member TELUS, one of the biggest benefits of outsourcing is the chance to concentrate internal efforts on strategic decision making, rather than operational procedure. "Very few organizations have the scale today to do what they need. The smart guys these days figure out what they're good at, and they outsource the pieces that they're not so good at."

In IT, for example, CIOs usually come from either an operational stream or a strategic, business-focused stream, said Alexander, adding that you will not often find a CIO who is good at both. As business managers increasingly rely on IT for competitive advantage, it becomes important for CIOs to deliver strategically, increasing their role in helping to support and drive business decisions. Outsourcing the operational side of IT enables them to concentrate on that.



The same is true in other areas of outsourcing. Mark Reid is service group leader at another CORE member, Hewitt Associates, which provides human resources outsourcing services to 2,500 clients globally. "Outsourcing allows

your HR team to focus more strategically, rather than transactionally. So it changes the face of HR, making your spend much more value-added," Reid said. "You're using your internal executives to build on strategy, leaving your



outsourcing partner to concentrate on the transactional work.”

Because HR is Hewitt Associates’ core competency, clients can be sure of a focused, highly functional service—perhaps more so than if they kept it inside a company for which HR was not a specialty. This is another benefit of outsourcing: by leaving the business function to a company that specializes in it, you should be able to run your business more smoothly.

Evaluating outsourcing’s potential

However, this does not mean that every project is right for outsourcing.

PwC provides advice on the whole life cycle of an outsourcing contract as part of its outsourcing effectiveness assessment methodology. “The process or function must already be well-run,” said PwC’s Chang. “You don’t want to use outsourcing as a way of relocating a problem area externally, because then you are simply taking the problem outside.”

Before a company considers outsourcing a business function, executives should ask themselves whether they understand the current cost of that function and have mapped out its processes. Having a service catalogue that describes the function that is to be out-

sourced is essential if you are to explain your requirements effectively to a provider, Chang said.

But once some basic internal capabilities are met, the options for an outsourcing project can extend beyond simply handing off an operational function, said CORE’s Simke. If processes are understood but poorly executed inside a company, the customer can work with an outsourcing provider to transform that function, introducing new service levels and efficiencies as part of the project. This type of relationship is more of a partnership between the two companies than a purely transactional arrangement.

Depending on the maturity of the customer and provider, such partnerships can extend into innovative and exciting areas. “Do you get a price for the project that’s determined in advance, per-transaction, or per-time period? Or do you have more of a benefit-sharing model where the outsourcing provider makes its money by guaranteeing certain service levels or cost reductions?” Simke asked. “It becomes a question of where you want to sit along that risk-sharing continuum”.

Companies developing an outsourcing strategy can evaluate potential projects in other ways. For example, offshore outsourcing to cost-beneficial regions such as India is one option, although Simke pointed out most customers will do this via a trusted partner in the west that will manage offshore contracts. Another option is a nearshore contract, using labour in lower-cost areas within the same geographic region. For example, outsourcing a function to the Maritimes or the prairies can create cost savings while

Managing transition

Due diligence and relationship management can be daunting enough, but even the transition of work to an outsourcing provider carries its challenges. “This is where you really have to think about change management, the communication plan, and how to deal with your people,” said IBM’s Greg Gulyas.

Part of an outsourcing project involves moving your people and assets over to the provider. The ownership options will have already been laid out in the contract. In some cases it will make more sense for the customer to retain ownership of some assets that the outsourcing provider then operates, but in other cases the provider may simply acquire ownership of the asset. Criteria in such decisions include the risk of obsolescence and the location of the assets.

One asset that must be closely scrutinized is people. Helping to manage their mindset is important. They may sit at the same desk after the transition occurs, but they will move from being employees of the company to employees of the service provider. And yet, they may still sit alongside existing employees. Guiding them through this time is a crucial part of any outsourcing management team’s remit.

“This is a period of high risk, because you’re changing the delivery model from yourself to your service provider,” Gulyas said. “You have to make sure everything goes well or you put your business at risk.”

retaining reassuring cultural and linguistic ties.

Understanding options such as these will already put potential outsourcing customers ahead of the game, but they must fold them into a cohesive outsourcing strategy. Building such a strategy requires companies to take a holistic look at the business, warned Greg Gulyas, vice-president of business development outsourcing sales at CORE founding member IBM.

Gulyas advised potential outsourcing customers not to consider outsourcing projects in a vacuum. They must understand their overriding business goals, and then think about how they can be linked to operational strategy. They should then examine sourcing opportunities in the marketplace while thinking about how those options could help them achieve their goals.

“This is the time to think about some high-level considerations: who might your potential partners be? And who are the internal stakeholders in your organization?” Gulyas said. Stakeholders could include business managers using the business service that is to be outsourced, along with unions that must be



engaged during the project. Stakeholder issues will be different for companies with multiple business units as opposed to just one, he added.

Once you have a strategy in place, it is time to begin building a business case for outsourcing, Gulyas said. Companies should produce a small number of key objectives for the outsourcing project. These may include saving money, increasing innovation, or bringing skills into the organization that they don't have.

“This is also the time to start building what we call a base case, where you work out how much it will cost you to run the service if you don't outsource it,” Gulyas said. The base case serves as a benchmark against which the company can evaluate proposals from potential service providers.

“In that base case, you also need the key metrics—the service levels that you want to measure,” he said. Also, think about human resources. At this stage, the company should be planning how to manage the people who are to be outsourced as part of the project.

The legal view

No customer should ignore the legal issues inherent within an outsourcing project.

Outsourcing a service does not mean outsourcing accountability. In fact, the reporting pressures placed on many companies will create additional auditing requirements on their outsourcing management teams.

Richard Corley of Blake, Cassels and Graydon warns customers to consider protection of their assets in the outsourcing contract. Intellectual property and confidential information should be protected through appropriate confidentiality measures, along with personnel screening tests. “You also want to pay close attention to the laws of the jurisdiction within which you're operating, and the availability there of legal remedies,” Corley said.

Also, consider the danger of insolvency on the part of the outsourcing provider. “You will want to ensure that even if that organization ceases to exist in its present form, you are able to continue your business,” he said. Ensuring ownership of intellectual property developed under an outsourcing project, or at least the ongoing usage rights, is a crucial part of business continuity planning.

Defining requirements

Having a clearer idea of the business case for outsourcing, along with your business objectives, will make it easier when it comes to building a request for proposal (RFP). “The RFP that clients put together has become much more focused on outsourcing the service, rather than concentrating on cost,” said Hewitt's Reid. “Much more diligence is now being put into RFPs, and that's partly due to the work of outsourcing advisors.”

When it comes to deciding on an outsourcing provider, there are some basic rules to follow. For example, Allstream, the enterprise solutions division of Manitoba Telecom Services, advised potential outsourcing customers to take time to determine if their consultant is solution-neutral, or is trying to sell a vendor-specific technology. “You may prefer to look for organizations that are

unlikely to have particular technology leanings. That way you can rest assured that the solution they recommend is the right one to meet your unique needs," said Kim Beauregard Boeh, senior manager, product management for the company.

Due diligence can be a difficult task for many companies, especially those who have not been involved in the long-term partnerships that underpin the typical outsourcing contract. Rob Cooke, a founding partner at services performance and efficiency consultancy Focis Consulting, outlined various approaches.

Some companies will carry out due diligence on two or three providers. "Part of that is having the providers in to do presentations and then doing the due diligence on the providers before the customer narrows it down." An alternative is to produce a joint solution RFP, he said, where companies choose two potential providers and then work with each of them for some months exploring potential solutions that will form the basis for the outsourcing contract. "That's a very different approach," he said.

Realistic expectations

Eventually, the company will get down to signing the contract with the service provider. At this point, metrics such as service level agreements and escalation procedures will be firmed up, and written down, but TELUS's Alexander warned companies should be flexible and realistic in their expectations. The contract is the basis for a long-term partnership, not an attempt to squeeze as much out of your outsourcing provider as possible.

"Quite often the client will put constraints on the outsourcer, such as taking its people, its buildings and its software—buying all of its assets at book value," Alexander said.

"Then in the future, they wonder why the outsourcer isn't being flexible. That's because they're written up an outsourcing agreement along with a finance agreement, and people aren't flexible on finance agreements."

Jim Eckler, president of CORE founding member Progistix Solutions, a logistics outsourcing provider that numbers companies like Canada Post and Bell Canada among its customers, agreed. "There are firms out

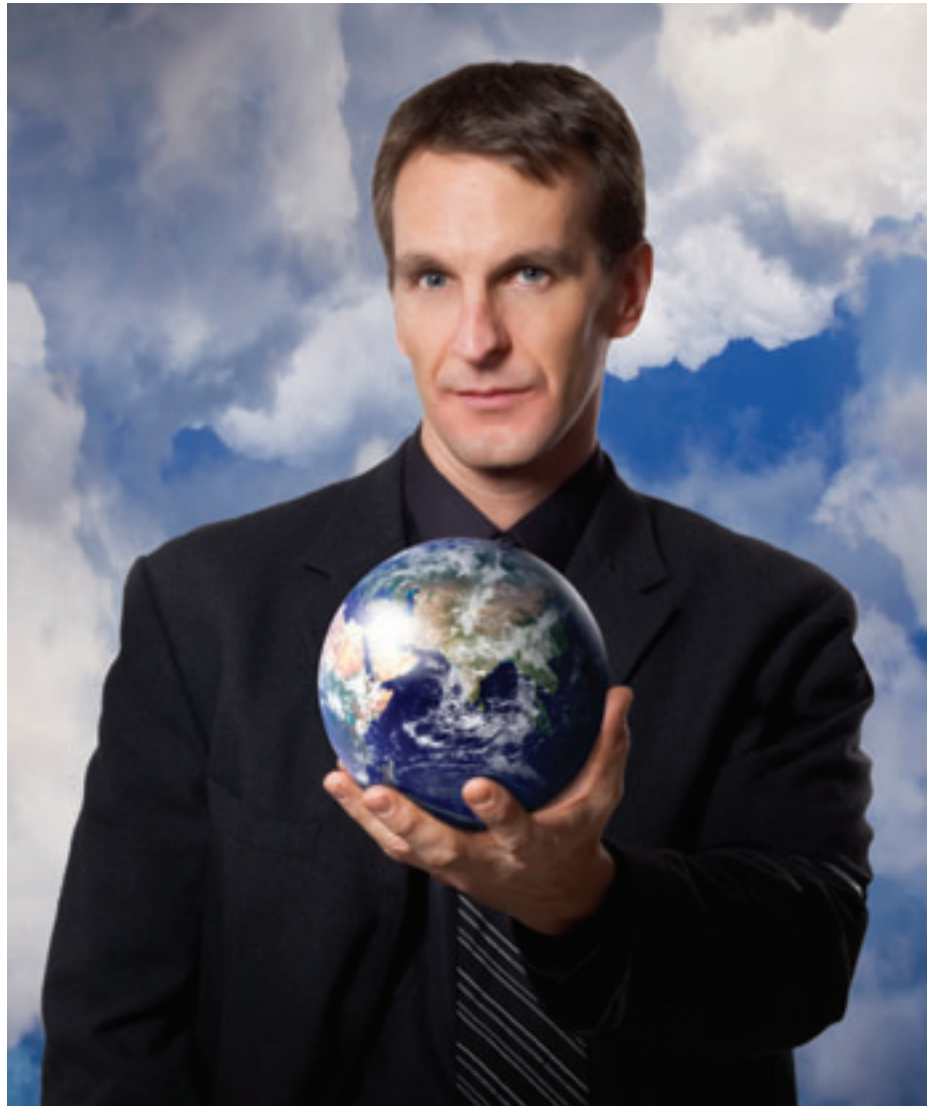
there that emphasize labour arbitrage and find ways to trash and burn costs, but that is not a long-term relationship."

And although a legally binding contract is vital for any outsourcing arrangement, the partnership should not begin and end with this document. An underlying spirit of trust and understanding must underpin any outsourcing relationship if it is to succeed. Indeed, said Richard Corley, co-head of the national IT practice and head of the outsourcing practice at legal adviser and CORE founding member Blake, Cassels and Graydon, contracts can sometimes be used to paper over, rather than solve, underlying problems in the relationship.

"Sometimes, the parties have very

carefully drafted language which conceals the fact that they have no true agreement between them," he warned. "But, they have managed to agree on language sufficiently ambiguous that each takes comfort that their interpretation is not clearly the wrong one."

In many ways, an outsourcing arrangement is like a marriage. Companies are embarking on a long-term relationship, and as with all such relationships, flexibility and realism are two keys to success. Understanding at all times what you hope to get out of the relationship and how it supports your long-term goal will help to make it as productive and enjoyable as possible.



Outsourcing after the honeymoon

Like the partners in a marriage, companies should not make the mistake of thinking that once the ceremony is over, the work stops. It is important for provider and customer to work closely after the outsourcing contract is signed. Business conditions change, requirements shift, and internal operations will also alter as people and cultures evolve. Rob Cooke of Focis Consulting advocates a two-pronged approach to managing this problem, incorporating contract governance and relationship management.

A different set of skills

Contract governance involves setting up processes to monitor vendor performance, checking performance metrics against what was outlined in the out-

sourcing agreement. This requires an analytical skill set, often with hardheaded financial analysis.

“Fundamentally we know how to manage the contract, but the flipside is the relationship management,” Cooke said. The skills required here are different, softer, and more focused on communication.

“What we encourage at the outset is the creation of the formal relationship plan, that will address the governance issues and decision-making protocols, along with the communications initiatives and dispute resolution,” said Progistix Solutions’ Jim Eckler.

“There are decisions about the business that need to be made on an

ongoing basis because no business is static,” Eckler said, adding that transparency is also a legal necessity thanks to the increasing reporting pressures put on companies by regulations such as Sarbanes-Oxley.

Only a long-term view on both sides will enable companies to cope with changes in business conditions and potential disputes, warned IBM’s Greg Gulyas, who added that because it is possible for drastic changes to occur within an industry sector at any time, the lines of communication must always be open. “Whether it’s a 9/11 kind of event that changes the face of the industry, or the financial condition of your customers, the test of an out-

sourcing governance model is how well you respond to surprises.”

Keeping communication fluid and ensuring that the customer and provider are in touch with each other regularly also serves another purpose.

It gives the companies a chance to continually feed new discoveries back into the relationship, as the industry’s understanding of best practices in outsourcing contract continues to grow.

A pivotal point

And while the term of the agreement may vary according to the customer’s appetite for risk (shorter-term contracts mean lower risk), the relationship will eventually reach a turning point at the end of the current contract. The vast majority of contracts get renewed, but that renewal period gives both parties a time to look at new business requirements.

At that point, much of the original outsourcing cycle starts up all over again, Gulyas said. Customers may



choose to change providers, or perhaps even take a service back in house. “It really becomes a different phase in the relationship,” he said.

But the costs of managing this relationship are tangible, and it is important that customers realize that their investment will not stop once the contract is

signed. The ‘stayback team’ working at the customer site, assigned to monitor the outsourcing relationship, will carry an impact on the profit and loss sheet. As CORE president John Simke said, “people are starting to realize that the cost of administering a complex outsourcing relationship can be more than they expected.”

How outsourced communications can revolutionize your business

Allstream's converged IP network guarantees service levels and helps you refine business processes

Outsourcing projects can save businesses money, and when handled correctly can also drive revenue and improve customer satisfaction. Customers are finding outsourcing data communications and telephony services particularly beneficial. Allstream, the enterprise solutions arm of Manitoba Telecom Services, offers a wide suite of services that allow companies to realize these advantages through the use of Internet Protocol (IP) technology.

Allstream's Business IP service combines voice, data and video services over the same IP network, creating new opportunities to enhance company performance. The network uses multiprotocol label switching (MPLS), a mechanism that involves labeling packets of data to give them certain priorities when traveling

hanced collaboration tools and further strengthen customer relationships.

Traditionally, even with an IP infrastructure in place, external IP telephony calls have needed to connect to the Public Switched Telephone Network (PSTN) using complex and expensive legacy technology. Allstream's IP Trunking service has changed all this by making a seamless connection between the Business IP and the PSTN possible. This allows businesses to maximize the benefits of a converged IP network.

Convergence for increased responsiveness

What are those benefits? Aside from the cost savings inherent in using a data network to carry long-distance voice traffic, it can be a powerful tool in increasing customer satisfaction. IP telephony brings you benefits such as computer telephony integration, for example, making it possible to have a customer's account history ready when customer service agents answer the phone. IP networks also enable companies to offer cost-effective managed routing services, enabling them to better manage incoming traffic and reduce waiting times for customers.

Just as increased responsiveness can drive customer satisfaction, so the converged video, voice and data capabilities of Allstream's Business IP Service provides a foundation for enhanced services, which can in turn drive revenue growth. Managed contact centre services offer the chance to integrate automatic outbound calling with customer relationship management applications, for example, so that operatives are better placed to cross-sell or upsell services when their software applications use the converged IP network to place a low-cost call to a customer.

But the increased customer satisfaction, lower operating costs and

revenue generating opportunities that a converged IP network offer are only as good as its performance. Allstream's converged IP network has the facilities for performance reporting built into the service proposition. The company supplies a comprehensive set of network performance measurement tools to help give staff a bird's eye view of the infrastructure's operation.

Effective performance reporting not only enables a customer to ensure that the network meets the service levels defined in the contract, but also empowers executives to make intelligent decisions about cost-effective network configuration and expansion, based on a detailed understanding of performance metrics.

Just as customers benefit from having reliability and performance built directly into the service, they also have the peace of mind that comes with an integrated security solution. Customers outsourcing their communications onto Allstream's converged IP network can take advantage of its inherent virtual private network capabilities, which secures data as if it is travelling across their own private local area network. This is particularly important in an outsourcing context where customers are required to show compliance with industry regulations dictating security controls.

The next-generation capabilities of Allstream's converged IP network can therefore deliver extra value back into the company. The ability to use an outsourcing project as the foundation for refining best practice and enhancing business process is the sign of a truly mature partnership.

The Enterprise Solutions division of MTS Allstream provides national business customers with a world-class portfolio of IP-based connectivity, managed network services, and professional services. For more information, please visit: www.mtsallstream.com.



across the network. This can be used to ensure the performance of critical applications and to prioritise traffic between certain sites, meaning that the ability to maintain the service levels necessary for any outsourcing contract are built into the very heart of the network.

The voice telephony capabilities of the Allstream Business IP Service can dramatically cut telecommunications costs and increase productivity through various tools including unified messaging, presence, file sharing, collaboration and audio/video conferencing. As a result, companies are better positioned to enable workforce mobility, offer en-