MANAGING THE SELECTION PROCESS

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- Outsourcing and risk
- Selection basics and criteria
- Compatibility and culture
- Capability, competence and monitoring
- Commercial soundness and stability
- Costs
- Selection process
- Request for Proposal

What is outsourcing?

Contracting out of business functions to a third party which *exercises direct and day-to-day control* over the function. (BBA survey, June 2001)

BPO is the *delegation* of one or more IT-intensive business processes to an external provider which, in turn, *owns, administrates and manages* the selected process(es) *based upon defined and measurable performance metrics.* (Gartner, 2002)

As for our definition of outsourcing itself, we do not want to narrow this down any further. We believe that our policy is flexible enough to be applied to *all situations where there are third party dependencies*. (FSA, March 2003)

What is included?

- Transparent operation of business by a 3rd party.
- Transfer of service (white labelling) to a 3rd party.
- Transfer of business, including legal responsibility, to another – but how will this be reflected in capital allocation or mitigation, I.e. where does the buck really stop?
- May be by way of joint ventures or partnerships.
- Any third party dependency? – see FSA
- Any agency arrangement, including binding or delegated authorities. Franchising?
- Core/non-core. Does core = strategic? But what is truly strategic? Is any activity or product strategic or is the brand/reputation the only strategic item? Perhaps management of the outsourcing becomes the core business?

Outsourcing and risk

- In all outsourcing, you “hand them your pen”. You delegate, not abrogate responsibility.
- Outsourcing *transforms* risk.
- It is your reputation which is at risk.
- Selecting who holds your pen and how is therefore a risk assessment.

Selection basics

- Risk assessment – you will have assessed all the risks involved when you made the decision to outsource. The aim is therefore to ensure that the selected partner is able to reflect that risk assessment.
- The strategic assessment to outsource will point to your outsourcing needs.
- That assessment therefore forms the basis of your selection criteria.

Selection criteria

- Compatibility and culture
- Capability and competence
- Commercial soundness and stability
- Costs

Compatibility and culture

- Shared values and willingness to buy in to your vision and beliefs.
- Commitment to you? How important are you to them? Are they willing to understand your needs?
- Are they focussed on continuous improvement and willing to share with you the rewards?
- Internal make-up – decision processes; management structures.
- Site visits – can you work with their team? Are they cordial, sincere and positive?
- Credible references, tested at all levels, especially by managers who will interface with the supplier daily.

Compatibility and culture in action

- Clarify points of interaction between firms – points of contact; frequency of formal interactions; process for escalating performance or problem issues. NB location.

- Managing the transition and the future after transition. Transition should be explicit in the selection process. Does the partner use a similar project methodology? A smooth transition produces no benefit; a troubled transition will cause immediate pain and cost.

- Overall this is an intuitive, rather than analytical process, suited to a scorecard approach, in which factors are listed and weighted.

Operational capability and competence

- Service level requirements - volumes, patterns, spikes plus.
- IT – power, reliability, scalability, back-up/live support, outages, adaptability to future developments.
- Training – of them as well as of you.
- Change and development management, including change control process.
- Security and control of: premises, facilities, IT systems, business processes.
- Reliance on sub-contractors.
- Contingencies for failure – from response to service disruption to disaster recovery.

NB we can do that . . . we do that for X . . . this is how we do that for X.

Monitoring operational capability (1)

- Performance measures give past performance and may point to future threats to performance. They may also be able to provide better performance MI, which will enhance your own business plans.
- Trends in (key) risk indicators (e.g. staff quality/time; key personnel) point to future performance and risk assessment.
- Service level benchmarks and *penalties* for non-compliance, not off-sets. Penalties must be material. Keeping score only matters if it changes behaviour.

Monitoring operational capability (2)

- 3^{rd} party service and performance assessments.
- Audit – internal and external.
- How often are you able to re-evaluate performance measures?
- Gain of enhanced performance through outsourcing will lead to loss of in-house expertise. Will it also lead to loss of your ability to assess performance?

Commercial soundness and stability

- Outsourcing is often driven by an investment funding or cost need.
- Partner must therefore have the strength of sustainable cash-flow to offer required performance over time and the ability to provide required investment to meet present and future needs.
- What are the competing resources needs? How might they handle future resource needs, if they are successful?

Costs

- Beware of the temptation to try and correct the sins of the past (at no cost and in record time!). If you are looking to correct previous under-investment, expect to pay for it.
- Is there absolute clarity about fixed, upgrade and on-going costs and their basis?
- Items frequently overlooked in the evaluation: start-up costs; price escalators or volume-up costs which may be differently based from the norm; annual fees; training; minimums; reporting costs; pass-through items.
- Stretch your analysis based on various activity scenarios.
- What added-value will you be sharing with the market?

Selection process

- Identifying shortlist – web, trade press, customers, references, expert advice.
- Evaluation scorecard.

"Features and functionality are given a priority out of all proportion to their importance. In the end, most serious vendors can support the truly critical process; it's the differences in future capability which distinguishes one from another." (Leland E. Modesitt, First Annapolis Consulting)

Request for proposal

- Establishes expectations and further qualifies suppliers on the shortlist. Clarity is therefore vital.
- Will reflect the items mentioned earlier:
  - Management capability
  - Relationship management
  - Reporting and quality monitoring
  - Procedural compliance
  - Service levels – ensure common terminology
  - Training requirements
  - Technology requirements – and future scalability
  - Pricing – no targets, but lines for all cost items
  - Transition timetable and resources

Final thoughts

- The selection process can only be an assessment not an exact science. It involves human judgement – of humans.
- It depends, though, on assumptions and expectations. Ensure that any mis-matches or gaps of understanding are reduced to a minimum.

- In the end, though, they have your pen. You have to trust them. If you can't, don't outsource.

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