

Sink or Swim: Planning an Outsource Transition

Introduction

Outsourcing programmes tend to focus on delivering the commercial process, culminating in supplier selection, as opposed to seriously thinking through the transition phase. “Transition” is a buzzword that tends to be used but it is rarely more than a thought until it is time to execute.

There are numerous reasons for procrastinating transition planning, however even a minor upfront investment of time can significantly improve transition once the deal is done. The key challenge is to look beyond the immediate time pressures and to set aside time for the relevant subject matter experts (SMEs) to properly think through the requirements, the enduring organisation, and its ongoing role.

Many companies stumble (or sink) through the transition phase, often relying heavily on their chosen outsource provider (supplier), but at what additional cost? Would it not be better to plan ahead and swim, obstacle-free through transition?

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Reasons for lack of early transition planning

Outsourcing can take many forms – e.g. ITO, BPO, Shared Services Outsourcing, and Call Centre Outsourcing – but a lack of early transition planning is a very common scenario. There can be several reasons for this:

- Overlooking the importance of early planning
- Immediate focus on getting the commercial job done
- Over-reliance on the supplier
- Resource constraint
- Budget constraints
- Lack of stakeholder engagement
- Not driven from the top
- Wider political implications

Overlooking the importance of early planning is one of the most common reasons for the reactive rather than proactive approach. This might be because those involved are in “self-denial” and cannot face dealing with the situation; in their eyes it may be too big a challenge. Or, they may truly believe that the problem will simply go away given enough time. Or it may be a case of genuine lack of experience and so, while an organisation may recognise the need to plan upfront, they simply do not know how to go about it, who internally / externally to ask for support, how to engage supplier input, or they do not have the budget to bring in the required experience.

Those driving the commercial process are under so much pressure to deliver within tight programme timescales that they tend to adopt a narrow focus which excludes transition. They assume that putting aside any time will undermine their short term goals. However, small, dispersed planning sessions can have a significant impact on preparing for transition without any negative impact on short term delivery; it does not take a huge effort to plan which SMEs to involve and to brainstorm key considerations for transition, such as desired enduring organisation structure, which can be progressed later.

The commercial team may very well be trying to plan for transition, however if they have not engaged the appropriate stakeholders at the outset of the programme then this can often lead to a reluctance to get involved at later stages. Similarly, if there is a lack of endorsement from the top then it can be problematic trying to push the urgency of early transition planning within the business.

Benefits of early planning

Clearly, there are benefits to early transition planning. A detailed plan ensures timescales are realistic and any additional external resources required can be identified well in advance.

Some key benefits are as follows:

- **Service boundaries clearly defined upfront**
Organisations and their outsource providers must be clear on what their respective service responsibilities are during transition and within the transformed organisation. Any ambiguity causes disputes and potential costs spiralling well beyond the agreed business case. A relatively simple, upfront schematic delineating the boundaries between the two parties can go a long way to minimising the ambiguity. It can also be used to frame the scope of the tender and provide a focus during the negotiations. It is also necessary to define the expected roles and responsibilities within each of these service areas, regardless of who is accountable. Using a relatively granular RACI (responsible, accountable, consulted, informed) matrix as a means to clearly document expectations will greatly assist.
- **SRM and vendor management structure in place**
A dedicated Supplier Relationship Manager (SRM), sitting within either the business or Procurement, is the point of contact with the supplier and maximises the value of the relationship; this person is responsible for establishing an account plan (including commercial strategy). It can sometimes be difficult to justify the cost of an SRM role to an organisation. However, in order to have the necessary control of a strategic supplier who could have a major impact on operations, an organisation needs to dedicate a full time resource(s) to the role.

A vendor management (“VM”) team sits below the SRM and comprises of Commercial and Contract Managers who support the SRM. Ideally, a VM structure and approach should be put in place within 3 months of signing the contract although agreement to do so should be discussed and agreed well before contract signature. The VM approach ensures both parties are being managed to the implementation plan.

- **KPIs, governance, and reporting structure agreed upfront**
Agreeing key performance indicators (KPIs) with the service providers upfront avoids ambiguity, gives suppliers time to digest and adapt to the KPIs, and enables both parties to hit the ground running once the contract is signed. It also enables more informed discussions to take place during the negotiations as the expectations are made prior to entering into the negotiations. Similarly, mutually agreed and well communicated governance and reporting structure provides an equivalent benefit; the VM structure is a subset of the governance.

- **Informed business case**
Organisations often find themselves in a position where there are too many unknowns to be able to establish a credible business case. Early transition planning can eliminate some of these unknowns as it gives an organisation (typically its Finance department) a more informed view of the likely FTE count within the intended enduring organisation.
- **Reduction of over-reliance on the supplier**
More often than not, allowing a supplier to lead and control the transition planning results in outcomes that are not necessarily to the benefit of the organisation. When this happens there is typically a change control process that is undertaken by the client organisation which can cost the client up to 10% of the contract value. If the client takes an early lead this unnecessary cost can be avoided or at least minimised.

In all cases above the ability to validate and work with the suppliers is key as it enables the development of transition activities that are realistic and fit for purpose. It also minimises potential disputes as the supplier has less room to claim ambiguity or that it cannot agree to something when it has not been involved from the outset. Similarly, it reduces the risk to a supplier that its client will demand unreasonable extensions to the agreed scope of transition; these extensions would have been discussed and agreed before the contract is signed.

Conclusion

It is necessary to build transition into an organisation's outsourcing programme plan, not as an afterthought but at the outset, noting it is an integral part of the mix and the negotiations. Transition should be planned in parallel to the commercial process. The most appropriate time to initiate the planning is once an informed outsourcing strategy has been developed. It is at this stage that the requirements are known and the boundaries between an enduring organisation and an outsource provider can be defined. Planning is just half the challenge. The other half is to ensure appropriate subject matter experts are involved at all stages of the planning. These are likely to include representatives from Procurement (vendor management), the business function being outsourced (operational management), HR (staff transfer), IT (continuity of systems), and others befitting the situation.

As a final consideration, a poorly transitioned outsource can reflect negatively on other projects within a client organisation, especially if the reason for poor transition is largely down to the organisation as opposed to the supplier. A bad outsourcing experience can, in more extreme situations, stifle other corporate strategies and an organisation will invariably pay the additional costs of stumbling (or sinking) through a transition to an outsource provider.