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Issue 29 Autumn 2012

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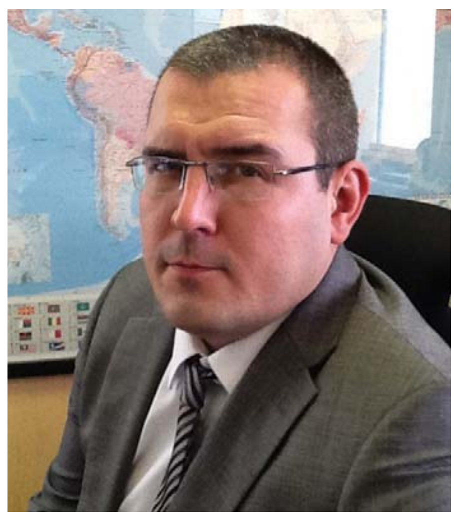
EDITOR'S LETTER CALL CENTRE CHALLENGES; PROCUREMENT OUTSOURCING; LEGAL TRANSFORMATION; CUSTOMER ENGAGEMENT; OUTSOURCEXPLORES; VESTED OUTSOURCING; HEAD-TO-HEAD; LEGAL VIEW AND MUCH MORE

These are interesting times indeed for the customer contact arena; before the confluence of new technology, changing customer behaviours and challenging macroeconomic and sociopolitical conditions, are the business models, infrastructure, skill sets and operating philosophies upon which the industry has been founded and flourished increasingly irrelevant? We investigate some of the biggest challenges facing the space in our lead feature, starting on page 12.

Challenges also lie ahead for the broader BPO space – along with plenty of opportunities, too, as Gartner's Cathy Tornbohm points out in her glimpse of the future (page 34).On the subject of opportunities: we check out the blossoming procurement outsourcing space in an extended feature beginning on page 42.

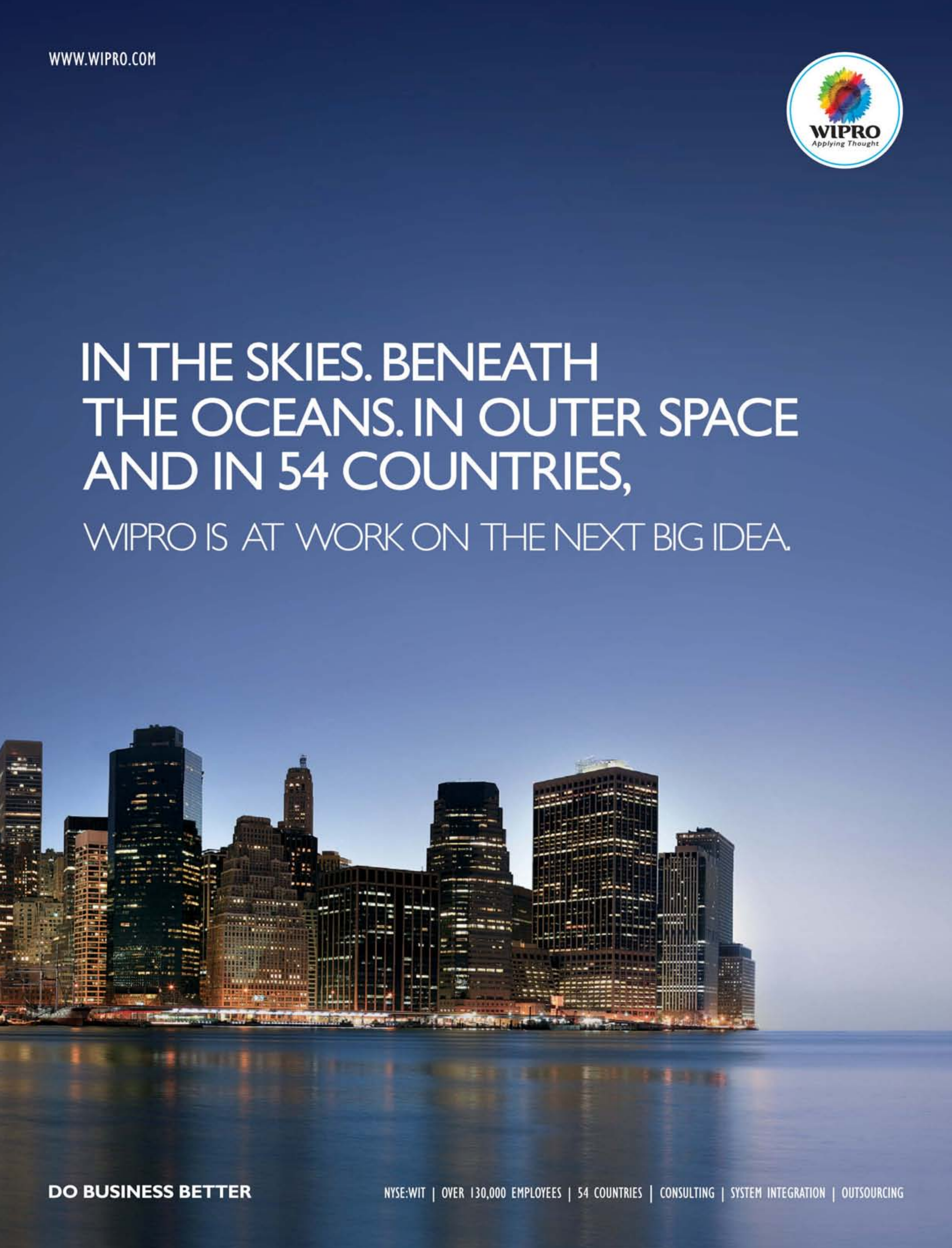
Elsewhere this issue we look at optimising a supplier portfolio (p20); what law departments can and should learn from outsourcing (p70); and, in our Legal View, how to terminate for convenience (p94). We also present a great Head-to-Head on the state of the cloud industry (p90); our first report from research giants NelsonHall (p100); two fantastic new entries into our *OutsourceXplores* series featuring Luxoft and Logica (from p82); your chance to get your hands on Kate Vitasek's latest book for free (p74); and of course our regular input from our partners at the NOA (p56).

If all that's not enough, we're launching a very special survey on the state of outsourcing with DLA Piper: read the introductory article from p78 or go straight to the survey at http://www.outsourcemagazine.co.uk/outsourcedlasurvey



Enjoy!

JAMIE LIDDELL
EDITOR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App outsourcing:

Why PSS Ltd chose Omnext

WHEN Margaret Baker, Director of Research & Development of Public Sector Software Ltd, decided to outsource the key applications maintenance and development of her market-leading asset management system, PSSLive, she thought that she was making the right strategic decision.

By outsourcing she believed she would be getting access to a wide skill base of developers supported by industry best practice, providing increased productivity and agility to change and, more importantly, deliver the innovation and modernisation she was committed to deliver to their customers.

For over 20 years, PSS has strived to harness information technology to the best of its abilities and deliver high quality software products and services to government and local authorities.

Some of the key areas and positive sell were improved productivity; more developers; less time to deliver; lower cost; cross-fertilisation of knowledge; and idea transfer between other projects being managed by the supplier.

However, reality and daily life were completely different, as Margaret explains.

"Productivity declined with the supplier stipulating that, in fact, more resources were required to deliver the functionality we required and, as a result, costs increased. Our executive team ended up conducting macro management with even the simplest of concepts taking days to explain.

"Management of software development went from just an hour per day with the previous in-house team to FULL TIME with several simultaneous Skype chats running continuously from 07:30 to 22:30 every day.

"Dealing with people that say 'yes' when they should be saying 'no' was frustrating and soul destroying. Lower quality followed, with far too many bugs being coded within the core application and too much missing functionality. There were no suggestions regarding software components and functionality. Not a single idea was put forward. This is the opposite of in-house developers in the UK where everyone is keen to make suggestions and wants to see their ideas put into practice."

Things got so bad, said Margaret, that she decided to bring the app(lication) maintenance back in-house, which then brought about its own challenges. Transition back to the team did not provide a sound basis for the further development of the code. The new team did not have full system documentation; version change activities not logged; complex areas were not defined; and maintaining redundant code and clones was too time-consuming, meaning that key new business functionality was not being delivered quickly enough. Even more important was the morale of the in-house developers, who didn't want to be bogged down repairing legacy code. Although Margaret was happy for her developers to start with a clean sheet for the Windows Phone 7 and Windows 8 versions of PSSLive, she was reluctant to throw away 20 man-years' development of the desktop version, especially in the current economic climate.

Find out what Margaret did next and how Omnext solved the problem @ www.outsourcemagazine.co.uk/omnextapps or via QR code

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Find out how to reduce IT expenditure from a real insider with a 360° view

In a constant quest to reduce IT expenditure companies are searching for new options in outsourcing software. Andy loved what Omnext are doing so much he jumped at the chance to leave National Grid as a Senior IT Project Manager and join Omnext to head up their UK operation. Oh, Andy is also Operations Director for the NOA, so he knows what he's talking about.

Discuss the risks and potential for your business with Andy on andy.rogers@omnext.net or +44 (0) 7770-444383

OMNEXT
Software Analysis as Service

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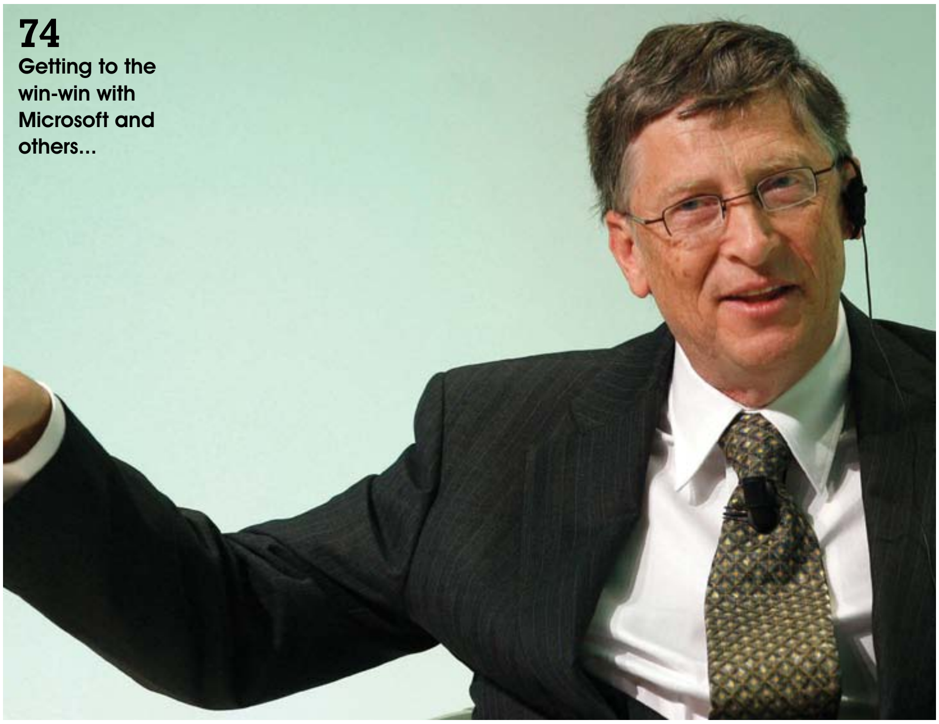

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CALL ME MAYBE?

We shine the Outsource spotlight on the customer contact space, looking at some of the biggest challenges facing the industry now and going forward.

In many ways these are great times for the customer contact business, with new technology providing hitherto-unthinkable opportunities for smarter and more effective contact; new delivery locations emerging almost day by day; and expertise and best practice deepening with every interaction. Nevertheless, there are clouds on the horizon; with every opportunity comes a new challenge, some significant – even existential – ones for individual providers and the industry as we know it today alike…

TECHNOLOGY

As any professional even half-familiar with the customer contact space will be well aware, technology is driving change at an incredible rate in this industry – and in a great many different ways. Most obviously, there is the increased use and capability of technology within traditional call centre operations: more efficient call handling and smarter IVRs, cost-efficient VOIP, the increasing deployment of artificial intelligence. But there is also the deeper transformation being wrought by technology in the form of the move from a call centre to a contact centre philosophy, with more and more customer interactions taking place via purely electronic means as smartphones proliferate (a recent Rapide survey revealed that 86 per cent of businesses believe mobile communications will be indispensable to future customer experience systems), the use of social media explodes (see below) and consumers become more and more happy interacting with non-human touchpoints. There is also the cloud factor – the development of the cloud model is impacting upon customer contact as much as, if not more than, it is anywhere else in business – and the contribution customer contact makes to an organisation's big data mountain.

These of course represent wonderful opportunities for those responsible for customer contact, either in-house or outsourced. But there are also huge challenges being thrown up here. One of course is cost: as businesses are required to cater for an ever-greater array of formats, platforms and types of interactions, so to do their costs rise in areas such as infrastructure, development and training. The complexity of today's multi-platform content environment is much greater than that at play at the start of the call centre business and this has its attendant price – and risk. Furthermore, there is uncertainty about the long-term viability of any given platform; huge investment might go into adopting certain technologies only to find that they are obsolete within a comparatively short time (the speed of technological advancement here colliding with an increasingly fickle consumer base).

The move from call to contact centre is specifically challenging because it calls into question the economics of the whole industry: if the human factor is to be removed as much as possible from customer contact, the traditional pricing models become obsolete – along with things like established career development paths and sought-after skill sets (especially at managerial level). The balance of power in the provider space shifts significantly too, from the suppliers of people – who have access to high-quality affordable talent – to the suppliers of technology.

While it's unlikely even in the long term that the human factor will be removed

"The mobile channel is emerging as the consumer's primary choice for all possible service activity with service providers" – Michael Moaz

@ValaAfshar: The future of customer service contact is mobile video across social networks via tablets – no question. #custserv


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"THE UNPARALLELED COMPLEXITY OF TECHNOLOGICAL OPTIONS NOW AVAILABLE CONTINUE TO PROVOKE SERIOUS HEAD-SCRATCHING EVEN AS IT OFFERS ACCESS TO BRAVE NEW WORLDS OF EFFICIENCY AND NEXT-LEVEL SERVICE DELIVERY"

altogether from customer contact, the incentives to downsize headcounts are obvious and, increasingly, the technology exists to facilitate this – at a cost, of course, and with the risks described above. But this isn't necessarily going to be a smooth journey – many organisations have struggled along the way even now to find the right balance between human and non-human touchpoints, as any customer can testify who has taken their custom elsewhere after one lengthy queue too many – and the unparalleled complexity of technological options now available continue to provoke serious head-scratching even as it offers access to brave new worlds of efficiency and next-level service delivery.

SOCIAL MEDIA

Alongside engagement with new technologies, social media has been at the heart of changing customer behaviour in recent years and customer contact professionals now have to factor in Twitter, Facebook and other platforms into their portfolios. Individuals are increasingly comfortable tweeting brands to demonstrate satisfaction or otherwise – and the "social" element of the media means that a refusal to engage with an unhappy customer, or a failure in that engagement, is likely to be visible well beyond the traditional "confession booth" confines of the customer/brand relationship. In other words, customer contact is now not just about contact with a customer but, via that one customer, with a host of other customers, with a raft of prospects, and with one's competitors who can of course witness these interactions in the raw.

As social media remains a relatively nascent field, there is a great degree of learning on the hoof going on – what proportion of spend is to be allocated to social media responses now and going forwards; what specific language and tone is most effective; what are the benefits of "success" and the costs of "failure"? And this of course creates uncertainty. What is most definitely certain is that social media are an increasingly important channel for the consumer: a recent study by Echo Research and Fishburn Hedges showed that the proportion of UK consumers contacting brands directly through social media nearly doubled from 19 per cent to 36 per cent in only eight months to April this year. Crucially, 65 per cent of respondents to that survey believed that social media were a better way to communicate with companies than call centres (highlighting both the advantages of social media and the poor standing of call centres in the public eye).

As with the myriad new technologies available in the space, there are a huge number of social media platforms for call centre providers to take into account – while concentrating on the highest-profile platforms is a no-brainer, failing to cater for more niche platforms which may be

"Social media has previously been regarded as largely a channel for marketing, but more and more companies are seeing this as an opportunity for customer care, and the lines between the two are blurring." – Melissa O'Brien

popular amongst your organisation's target market could prove costly. Therefore, again, there are costs and risk associated with uncertainty over which platforms are viable over the long-term and how much resource needs to be devoted to any given platform.

The biggest challenge of course is the lack of control companies (or their suppliers) now have over brands. Because of the aforementioned high visibility of engagement via social media one superficially small error can have significant repercussions once exposed to the social ecosystem (as several high-profile cock-ups in recent months evince). How customer engagement executives understand this and build that understanding into their operations going forward is one of the key challenges facing the space today.

TALENT ACQUISITION & MANAGEMENT

Ask any senior professional in the outsourcing and business transformation space to enumerate his or her biggest challenges and sourcing and retaining key talent is almost certain to figure highly – and this situation is no different in the customer contact arena. On the one hand, a gloomy economic outlook (see below) and relatively high levels of unemployment in the west should be creating for onshore providers and captives a bigger, higher-skilled talent pool in which to fish (and certainly many providers are happy to talk up the talents of those employees they've already engaged). However, there remains a talent deficit above a certain level of expertise in many verticals and ensuring a steady flow of the right people into the right positions remains a key challenge for providers – especially as the macroeconomic picture (hopefully) improves.

Offshore, in the voice BPO heartlands of India and the Philippines especially, attrition remains a huge problem (though less than it was perhaps two years ago). Talented, capable individuals abound; the problem is keeping them. Training (especially cultural familiarisation) costs are spiralling and

‘OFFSHORE, IN THE VOICE BPO HEARTLANDS OF INDIA AND THE PHILIPPINES ESPECIALLY, ATTRITION REMAINS A HUGE PROBLEM (THOUGH LESS THAN IT WAS PERHAPS TWO YEARS AGO)’

yet increasing wages to keep key talent is reducing the labour arbitrage value which remains the single most important factor in decisions around offshoring. How providers nurture and keep their talent while maintaining margins is an ongoing difficulty and one that will only be exacerbated by rising inflation in many offshore hot spots.

REPUTATION

Rightly or wrongly, call centres hold a less-than-special place in the heart of the average consumer. Despite the fact that individual interactions with centres tend to be resulting in ever-greater levels of customer satisfaction, the overall perception of call centres and consumers' interaction with them remains generally negative – in other words, customers tend to hold onto their prejudices despite improving service levels. This should come as no surprise; it's established fact that we remember – and talk about – a negative experience much more than we do a positive one, and half an hour on hold to one contact centre is almost certainly going to outweigh – at least when it comes to a consumer's overall perception of the industry – speedy resolution via a handful of others.

The problem here is the old adage that one bad apple spoils the barrel – in other words, poor performance by one centre ruins it for everyone else that consumer interacts with. To an extent this is true, of course – and while it doesn't mean that everyone should just give up on good customer service (the primary responsibility, of course, being to the brand, not to the contact centre space) it does reinforce the fact that improvements need to come across the board and as universally as possible for the reputation of the industry to improve.

It may well be asked: why does the public standing of call centres generally matter at all as long as the service of the centre being contacted at any one time is exemplary? The issue here is that unless a customer has already had a positive experience with that specific centre, he or she is likely already

O @AmandaHosburgh: Rarely do you want to offshore your verbal customer contact. Some functions can work fine, some generate angry customers. #outsourcing

to be in a negative mindset when making the first contact, doing so reluctantly and with a sense of foreboding generated by his or her anti-call centre prejudices (and at any rate coming, most probably, from a starting point of having a problem requiring resolution). This then makes the task of interacting with that customer successfully all the harder, requiring more of the agent/s handling the customer and increasing the risk associated with sub-optimal performance.

Cynically, one might well ask why this matters at all, as consumers are presented with little choice as to whether or not to engage contact centres per se; but for the industry to attract and retain top talent, for example it would certainly help to be viewed as more of an employer of choice than an employer of last resort.

Unfortunately for the industry as a whole, the only way to tackle the reputational challenge is by a wholesale improvement of service quality (which is of course pretty much what has been going on already, according to the Bright contact centre benchmarking index which saw negative scores drop from over nine per cent of customer respondents in Spring '09 to around four per cent in Autumn 2010) – and even then it may well be that old prejudices simply refuse to die (hardly unknown in society at large, of course).

ECONOMIC UNCERTAINTY

It should come as little surprise that the ongoing economic gloom afflicting much of the world is having an impact upon the call centre and customer contact space. This impact manifests itself in various ways. Firstly, there is the impact in terms of activity volume – and here the picture isn't a wholly gloomy one, as many organisations are actually driving more activity through their captive contact centres (it's important to remember that not every business is doing especially badly from the slump) or choosing to outsource to providers eager to snap up the work. However, under the familiar mantra of "more from less", buyers are negotiating – and renegotiating – harder and margins are squeezed.

Perhaps more pernicious still, however, is the ongoing uncertainty which continues to colour the macroeconomic outlook. Buyer organisations remain, in the main, less willing – or able – than previously to make long-term commitments and this is of course having a markedly negative impact upon suppliers whose own strategic planning depends on the ability to forecast future volumes and types of work. For providers whose operations span multiple geographies the issue is further complicated by the increased currency volatility which has developed as a consequence of the downturn.

Moreover, the huge budgetary hits taken by local and national public sector organisations, particularly in the UK and mainland Europe, are themselves creating a lack of clarity: while an upsurge in outsourcing is being witnessed, with less money to go round the amount of work available is decreasing as some services are slashed or abandoned altogether. Many organisations previously heavily reliant on the public purse are now seeking new territory (with consequent further downward pressure on margins). The radical restructuring of some very large bodies with huge customer contact requirements – for example, the UK's NHS – creates yet more uncertainty as the future viability of existing services comes under the microscope.

The solution for call centre providers may well be similar to that mandated for most other organisations throughout this protracted period of sluggishness – agility, flexibility, streamlining, a tight focus on cost, an ability to think ever further outside the box – but it is difficult to shake the feeling that the call centre space more than most sectors is at the mercy of its buyers' fortunes, and perhaps the challenges posed by the economic climate will prove particularly intractable in this space – despite (or perhaps because of) its value to organisations of all kinds seeking to secure their own survival.

THE ANTI-OUTSOURCING/ OFFSHORING BACKLASH

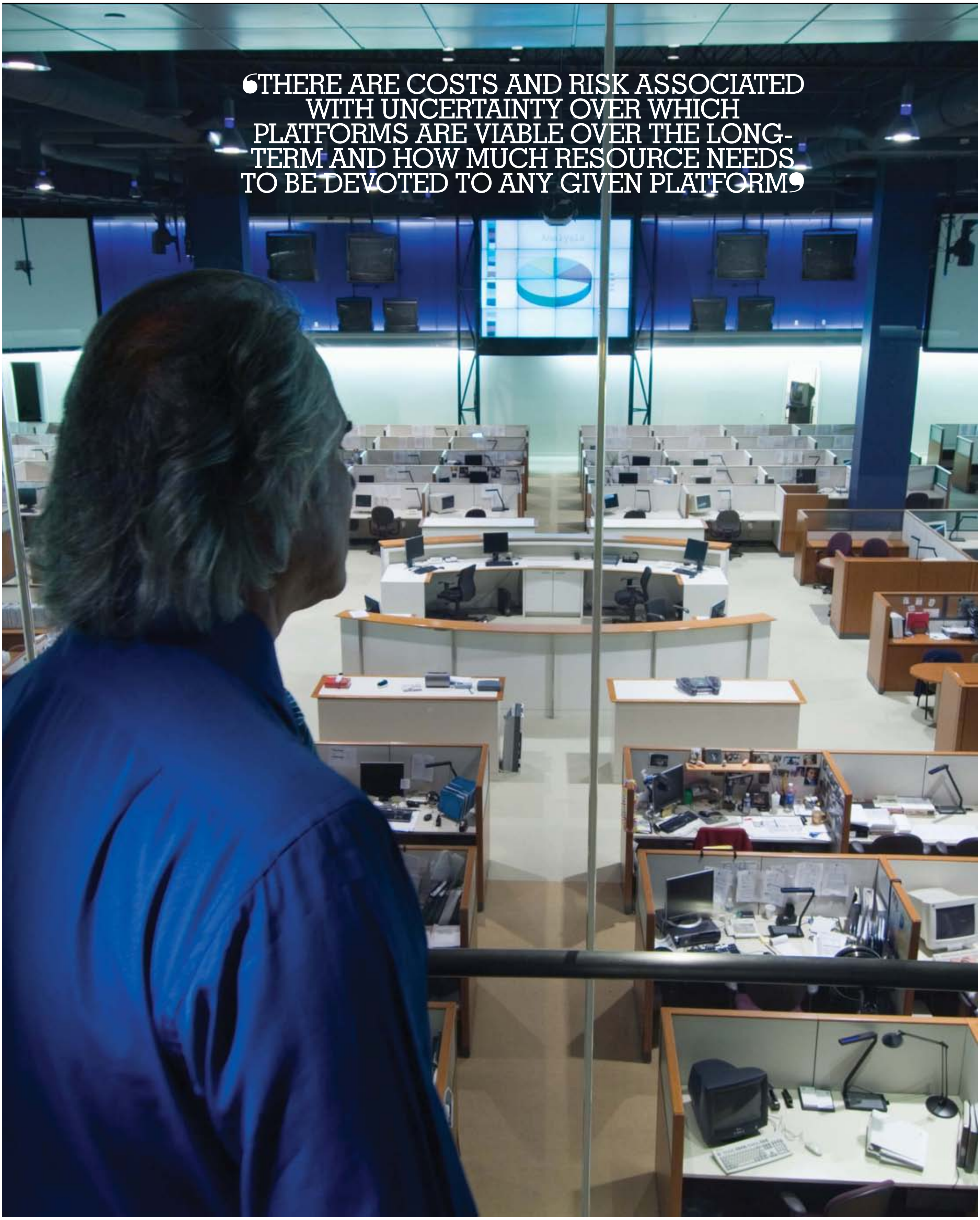
The ongoing US election campaign has seen a significant focus upon the "o" word – but for "outsourcing" in the jibes of Messrs Romney and Obama read "offshoring", for it is the flight of American jobs overseas which has created so much animosity amongst the electorate. Even the most cursory glance at the mainstream news channels (and much more so Twitter) will demonstrate the depth of the anti-offshoring feeling in the US; and the same picture is mirrored in economies as far afield as the UK, Canada and Australia.

For many consumers however the most immediate contact with offshoring comes via a call centre; the foreign accent at the other end of the phone is for many all the proof that is needed that work continues to flood overseas, and as a result customer contact has become for many the archetypal offshored process – and as such draws a great deal of flak at a consumer level. So much, in fact, that the last couple of years have seen a significant trend towards backshoring or returning customer contact to an onshore operation. Major organisations such as Santander have made huge PR play in recent times about returning their previously offshored call centres to onshore locations – yet this of course comes at a cost, since labour arbitrage, while diminishing, has by no means gone for good.

Despite calls for action, it seems unlikely that either Presidential candidate will – or could – take any extreme steps to reverse the offshoring trend; however, tighter legislation may well have an impact upon call centre operations, and even without the ungentle touch of the long arm of the law the anti-offshoring mood cannot be ignored. Working out how to gain all the advantages of offshore components without incurring the wrath of increasingly nationalistic populaces (and hence consumers) in the west will be an ongoing challenge for the space and one to which there may well be no simple answers.

@martinwalden: @BTCare can we cancell the appointment and also who do i contact to make a complaint about ur phone customer service?

‘THERE ARE COSTS AND RISK ASSOCIATED WITH UNCERTAINTY OVER WHICH PLATFORMS ARE VIABLE OVER THE LONG-TERM AND HOW MUCH RESOURCE NEEDS TO BE DEVOTED TO ANY GIVEN PLATFORM’



Only 14 per cent of adults in Great Britain think companies live up to the customer service promised by businesses in their marketing campaigns. (Source: YouGov)

OPTIMISING YOUR SUPPLIER PORTFOLIO

Multisourcing might be the best option for your organisation – but the attendant risks need to be considered very carefully. Getting the right strategy in place is absolutely crucial…

Natalia Levina, NYU

Natalia Levina is Associate Professor at the Stern School of Business, New York University. She teaches courses on Global Sourcing and Open Innovation as well as Information Systems and Organizations Doctoral Seminar.

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In today's global services outsourcing arena, increasing numbers of companies adopt "multisourcing"; that is, they select and combine information technology (IT) and business services from multiple providers. The decrease in deal size, well-documented by the Global TPI Index, is one indicator that buyers are dividing their business among multiple providers. Gartner – which has promoted this term since the publication of the 2006 book *Multisourcing: Moving Beyond Outsourcing to Achieve Growth and Agility* by its consultants Cohen and Young – has been continuously emphasising multisourcing as one of the top trends in the sourcing of IT and BPO services.

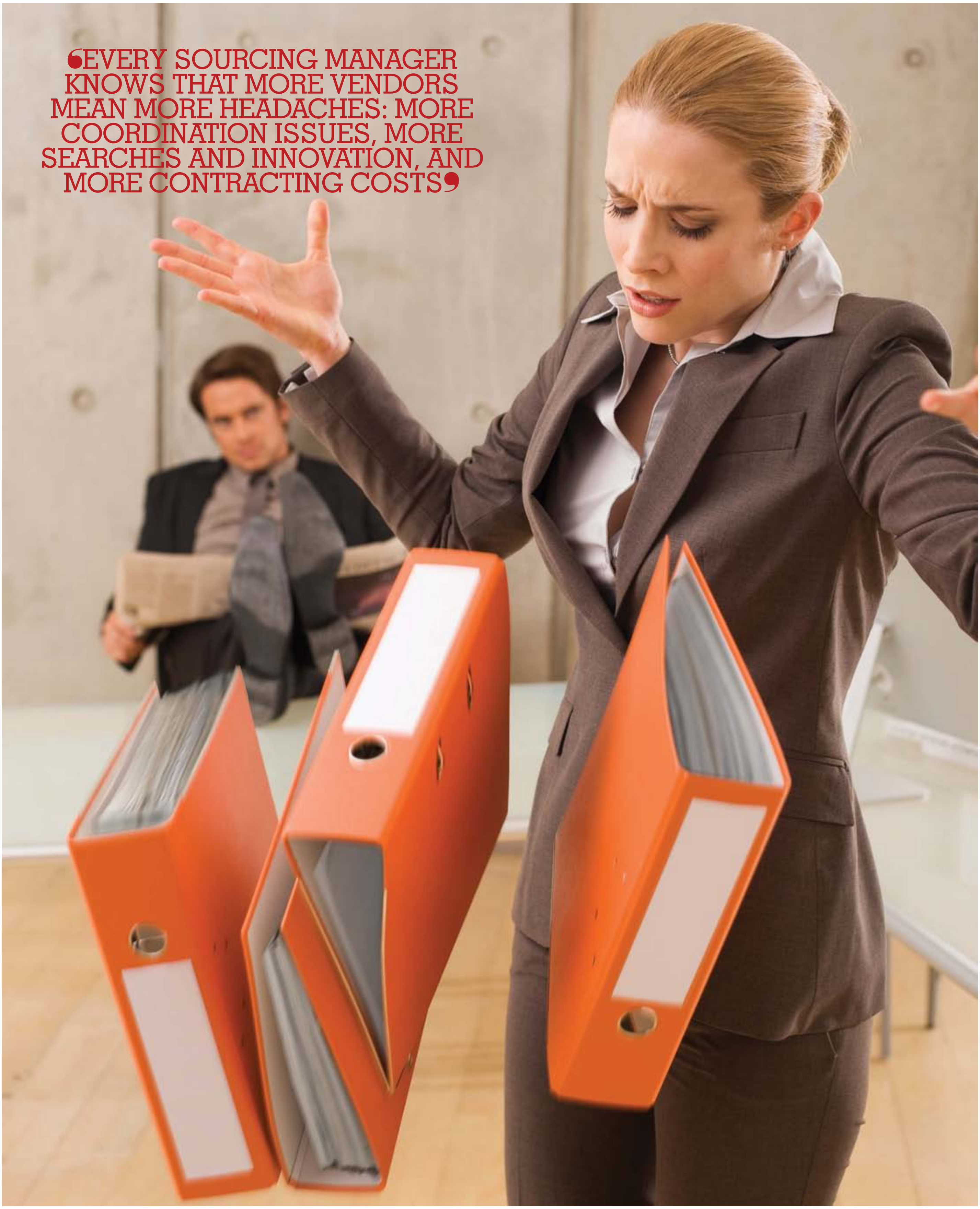
There are, however, well-known risks involved in increasing the number of providers. Every sourcing manager knows that more vendors mean more headaches: more coordination issues, more searches and innovation, and more contracting costs. Yet these are only surface costs; a much more serious problem with increasing the number of suppliers within a single function – a practice commonly engaged by today's buyers – is that the buyer may lose economies of scale within this function, thereby increasing production costs. These increased costs can be reflected immediately in higher bidding rates or creep in over time as vendors are unable to optimise the function they were charged with. For example, a large global bank outsourced its account reconciliation business to three different vendors getting what seemed to be a low charge rate from each due to competitive pressures. None of the vendors, however, had the right incentives to invest in a new information system necessary to optimise the function. Had the three contracts been combined, the investment in the system would've paid off within the lifetime of the contract.

Single sourcing, however, may not be the answer either as the trend to multisource has arisen in response to problems associated with lock-in, an inability to tap into best-of-breed capabilities, and increased operational risks. A common wisdom for resolving the tension between too few and too many providers is to focus on a handful of strategic partners so as to address these risks while avoiding full lock-in. This rule of thumb may not be sufficient for generating the greatest benefits from today's complex sourcing opportunities. In some situations a single vendor may be the

O

"You have to be fast on your feet and adaptive or else a strategy is useless." – Charles de Gaulle

‘EVERY SOURCING MANAGER KNOWS THAT MORE VENDORS MEAN MORE HEADACHES: MORE COORDINATION ISSUES, MORE SEARCHES AND INNOVATION, AND MORE CONTRACTING COSTS’

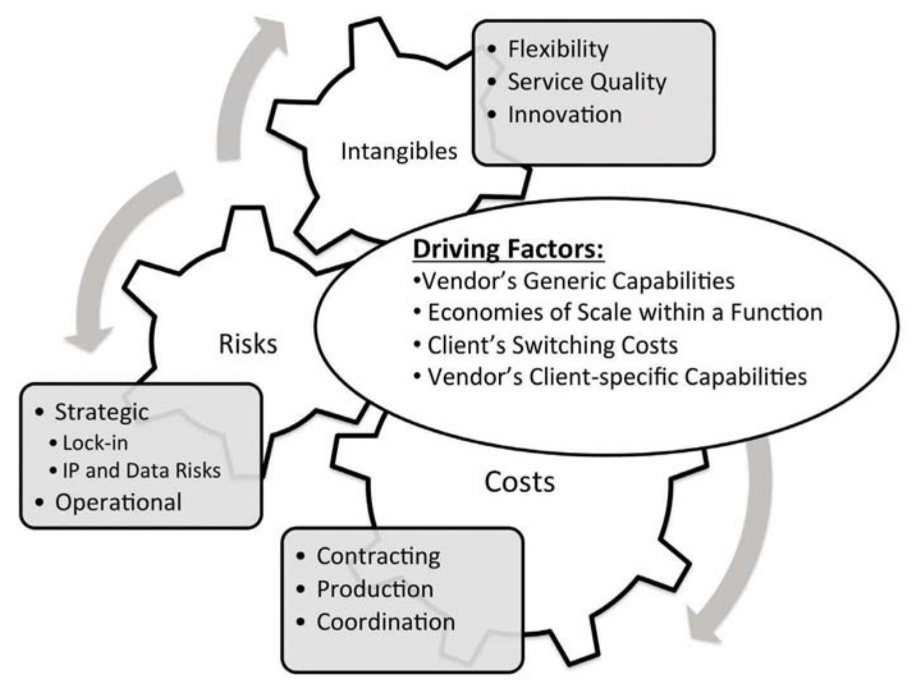


best solution whereas in others, numerous vendors may deliver the best results. Moreover, associating more vendors directly with lower lock-in is a bit naïve. In some cases, increasing the number of vendors may reduce lock-in when such vendors are easily substitutable for each other. In other cases, however, vendors may have diverse capabilities and each vendor may have invested in learning specific clients' needs making them less-than-ideal substitutes. For example, multisourcing is very common in IT application development. This knowledge work, however, is often done at the level of teams who invest in learning specific business needs and technological constraints of the client organisation. Having multiple vendors involved in this work hardly reduces lock-in.

Our multi-year research project focussed on understanding the multisourcing practices of diverse clients and their impact on providers and business outcomes; we find it useful to think about vendor portfolios, which include not only the breadth (how many vendors), but also the depth (how co-invested the parties are) of vendor relationships. This view allows us to discuss situations in which multiple vendors can substitute for each other (relationships are of low depth) versus not (each relationship is quite deep). The main thing to recognise is that large breadth does not automatically equal small depth in sourcing relationships (*see Figure 1*). Sourcing relationships should and do allow for polygamy (many deep relationships) as well as for uncommitted monogamy (one shallow relationship). By recognising that depth and breadth are two different dimensions of a multisourcing strategy, clients can start analysing which portfolio structure they want for each function. To do so, they need to consider how varying the breadth and depth of their vendor portfolio will result in different performance outcomes.

First, let us consider critical drivers of outsourcing success. As illustrated in Figure 1, every sourcing relationship can be judged based on how well it reduces

FIGURE 1



the costs and risks involved in performing a given function, while increasing the output (service quality, speed, flexibility, and innovation). One can assume that whatever aspects of outputs can be measured, they were put in a contract and thus have specific associated costs and risks involved. Thus, what we care about in a sourcing strategy beyond known costs and risks is how to get the vendors to produce things that are not in the contract (we refer to them as "intangibles").

What drives these costs, risks, and intangibles? For any given function, we would argue that a combination of basic production factors (vendor's generic capability, vendor's client-specific capability, and economies of scale within a function) as well as the client's ability to reduce strategic and operational risks by reducing vendor dependency (switching costs) shape the outcomes of the relationship.

Now, consider how the choice of the number of vendors and the depth of each relationship impact these drivers. For a given outsourced function, developing and maintaining a broad vendor portfolio allows the client firm to access a diverse set of capabilities, both generic and specific to the client. These superior capabilities may bring cost advantages to the client as vendors are able to deliver at lower costs. Thus for example, in the famous ABN-AMRO case of multisourcing to IBM, Accenture, TCS, Infosys, and Patni in 2005, each vendor brought capabilities to the table that allowed it to lower production costs. While this case is easy to make for multisourcing across function (e.g. IBM handling infrastructure vs. TCS handling application maintenance), even within the function of each provider (e.g. application development), each one of the five preferred suppliers can have some prior experience that would allow it to be more efficient on a given contract. Beyond direct cost-savings, a broad supply base may also result in better intangibles as the client can leverage and combine work

O The Leonard N. Stern School of Business dates back to 1900 and the founding of the NYU School of Commerce, Accounts and Finance.

delivered by a set of best-of-breed vendors potentially allowing the client to tap into each vendor's innovation capabilities.

From a risk perspective, a broad vendor base also has its advantages. Having multiple suppliers may lower a client's strategic risk by reducing lock-in. As we have argued, this is not an automatic benefit of increasing the number of vendors, as the client must also ensure that vendors are interchangeable in order to lower switching costs and associated lock-in. In our data, many sourcing managers believed that having multiple vendors with similar capabilities (e.g. several large Indian firms) involved in a given function helps each vendor become familiar with the client's business and technological environment and hence reduces the strategic risk of being locked in. In addition, a broad vendor portfolio helps improve flexibility and reduce operational risks and one vendor's operational failure (e.g. bankruptcy or natural disaster) will have a smaller impact on the client if switching costs are low and another vendor can take the work on. This is best seen in the cases of infrastructure work or BPO contracts with identical transitions (e.g. customer service call centres).

We have already discussed the downsides of a broad vendor portfolio, which include increased coordination and contracting costs as well as reduced economies of scale within each engagement resulting in higher production costs. It is important to note that not all functions have significant economies of scale, hence dividing work into multiple chunks may have fewer consequences. This is often the case in many types of knowledge work where economies of scale are limited to relatively small teams or groups involved in solving problems or developing new products. In any case, when the client decides to grow its vendor portfolio in order to achieve the benefits such strategy offers, it should also invest in vendor management capabilities (such as the vendor management office) to reduce ongoing coordination and contracting costs.

As we have argued, large breadth does not equal small depth. The depth is reflected in the client's and the vendor's mutual commitment and investment. A relationship can reach significant depth if the vendor is willing to invest time and resources in customising its knowledge and capabilities based on the client's specific business practices and technological environment. Once the vendor acquires such strong client-specific capabilities, both the vendor's production cost and coordination cost between the client and the vendor can be reduced. Meanwhile, intangible benefits such as innovation, operation flexibility, and quality improvement, can also be achieved. These intangible benefits are much talked about as the hallmarks of good partnership where the client gets more than what they paid for, while the vendor gets to build its capabilities by learning from and with the client.

While there are multiple benefits of close relationships with suppliers, they also have a "dark side." This was first noted by supply chain management researchers studying the automotive industry, where close relationships developed by Japanese auto manufacturers were seen as an important part of their competitive advantage. Yet, these relationships can also result in a client being taken advantage of by vendors who feel that the relationship is so strong that the client's switching costs are too high. Vendors would then proceed to increase prices, reduce management commitment, make poor staffing choices, etc. In response, while cultivating a deep relationship with existing vendors, the client firm should also control the cost of switching to a new vendor and consider what it would take to exit current partnerships.

‘A COMMON WISDOM FOR RESOLVING THE TENSION BETWEEN TOO FEW AND TOO MANY PROVIDERS IS TO FOCUS ON A HANDFUL OF STRATEGIC PARTNERS SO AS TO ADDRESS THESE RISKS WHILE AVOIDING FULL LOCK-IN’

Given this newly acquired understanding of how the nature of a vendor portfolio impacts outsourcing outcomes, we can see that each client can choose to use different portfolios for each function it sources. It should be noted that while there is a best-fitting multisourcing model in a certain period of time, the choice of model is not static and has to evolve. Even ABN-AMRO, which as stated took a bold step of involving five strategic vendors in IT hardware and software in 2005, has renewed its contracts in 2010 to include only three vendors. Multisourcing strategy is a process of continuous learning and adaptation. In this process, the client firm needs to keep experimenting with different configurations in search of an optimal portfolio as the business priorities of both the client and the vendors shift over time.

To conclude: differentiating between outsourcing depth and breadth and considering how each impacts drivers of outsourcing outcomes will help firms develop a strategy that results in "rightsourcing" for them.

EVEN MORE

For more on multisourcing see Sanjay Chadha's article 'Navigating through the complex world of multisourcing' online now at http://bit.ly/u589Q1

The Richard Ivey School of Business, in London, Ontario, was the first North American business school to set up a campus in Hong Kong. It also has facilities in Toronto.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APPLICATION DEVELOPMENT OUTSOURCING

Application development lies at the heart of the ITO space, a multi-billion-dollar business open to organisations from the world's largest corporations to one-person start-ups. In the first article of a two-part series, four of our experts give their thoughts on specific aspects of this vast, complex and dynamic space…

WHAT ARE THE KEY TRENDS IN THE APPLICATION DEVELOPMENT OUTSOURCING SPACE TODAY?

by Stuart Mills, Director of Applications Management UK, Logica

There has been lots of talk about how much cloud computing will change the IT industry.

You don't have to be far-sighted to realise the impact that cloud computing will have, and the considerable step-change the industry is about to undergo. In terms of application developer outsourcing, cloud also has a significant role to play in changing the industry.

The principal reason for this is the simplicity of cloud application services. New cloud-based apps are far easier to develop and install than traditional applications. On the face of it, this doesn't pose too many problems and to a large extent increased flexibility and efficiency is to be welcomed. But, it also disrupts the traditional software lifecycle: requirement; design; implementation; verification; maintenance. The relative ease of development, and consequent movement away from traditional processes could lead to a proliferation of applications that have not been subject to this rigorous lifecycle and the testing that applied throughought. This could result in overly complicated, unmanageable application portfolios that are difficult to service and maintain.

Users and customers themselves will also be more used and expect to be able to "pick and choose" apps from apps stores and easily add them to their portfolio which may extend the problem of apps proliferation. These apps can themselves be easily extended outside traditional application development processes.

I see the problem being one of quality control and providing the support required to sustain and service this fast-moving environment. The role of the outsourcer will have to adapt to this change. The application developer outsourcer will need to be proficient in terms of technology, but also in understanding business processes to avoid falling into the trap of development for development's sake. An appreciation of the wider business environment will enable developers to provide solutions not just applications.

In terms of technology, application developer outsourcers will need to bridge the gap between the old and the new. Much has been made of the current skills gap in cloud services and this is a string that will need adding to the bow. However, familiarity with more established technologies, and understanding how best to bring the two generations together harmoniously, will be crucial.

"Software is like sex: it's better when it's free." – Linus Torvalds

@thecitysecret: Deutsche's call to share IT is a good starting point for a discussion. Is software expensive as it is badly commissioned or is IT at fault?

WHAT DO CUSTOMERS EXPECT OF THEIR OUTSOURCED APPLICATIONS DEVELOPMENT AND ARE THEIR EXPECTATIONS REALISTIC?

by Eleanor Winn, Director, Source

Organisations outsource applications development for many reasons.

In our work, we have come across the good – cost reduction; the bad – a last-ditch attempt to achieve unrealistic timescales; and the ugly – an attempt to get rid of a dysfunctional team instead of addressing the problem directly. But which are the most common outcomes that customers are working towards, and how realistic are they?

In a game of Outsourcing Family Fortunes, the top answer would probably be "cost savings", and this remains a ubiquitous request from the companies that we work with. It is true that working with an outsourcing provider can be significantly cheaper than the alternative – based on cost per day alone, the business case is a clear winner. In addition a provider has greater access to specialist skills for short periods, and is likely to have more mature processes, giving greater consistency and productivity. However, for developments that require in-depth knowledge of an organisation's business, the time required to get up to speed, clarify questions and rectify the inevitable mistakes, can wipe away the expected savings unless managed very closely indeed.

Our second most common requirement is to access a larger, more flexible resource pool for development work, particularly where there are peaks of demand. The provider sales pitch, with its promises of 40,000 skilled resources, is very seductive, but the customer should be aware that the vast majority of those resources will be deployed on other accounts, so the "instant skills access" nirvana is unlikely. In addition, the scarcer skills can be difficult to find. A service provider will only invest in the skills for which there is demand, and a customised version of a legacy application running on a mainframe might not be top of their pops.

For these and the many other outcomes that organisations are seeking through outsourcing, the main factor affecting the odds of achieving what they expect is the information gulf that exists between customer and provider. The ability to bridge that gap and create a clearly articulated, quantified (where possible), comprehensive and realistic set of expected outcomes at the beginning of an engagement. This requires a mindset-shift for most customers – particularly among the procurement community – from "why should we tell them that?" to "let's share everything unless there is a good reason why not". Nothing increases the probability of somebody hitting a target like showing them exactly where it is.

WHAT ARE THE CHALLENGES – AND PITFALLS – OF MODERNISING YOUR LEGACY APPLICATIONS PORTFOLIO?

by Andy Rogers, Business Development Manager UK, Omnext

The internet-enabled world means that we will become more and more dependent on the internet and ICT.

It is an understatement to say that application software will only play a steadily stronger role in society. The call for quality in that software – which is controlling more and more of our basic infrastructure – will only increase. The demand for transparency about how, by whom and if and how the correct procedures have been adhered to in software development will also increase. This demand will not be limited to new applications but will push back into existing systems and will require retroactive compliance with standards and guidelines.

In the ICT marketplace billions are spent on software development. A major proportion of that expenditure goes on maintaining and enhancing the immense volume of existing legacy systems coupled with the need to integrate with new platforms and new applications. Legacy systems were developed when the awareness about transparency and the impact on society was minimal.

Against this background we see one of the principal challenges in working with legacy systems is to be able to identify the shortcomings and items for improvement on a cost-effective basis.

"It's hardware that makes a machine fast. It's software that makes a fast machine slow." – Craig Bruce

The process is typically both time-consuming and resource-demanding*, resulting in conflicts with the need to respond rapidly to changing business needs and to meet the needs of transparency.

This challenge can be met by having the capability to identify compliance with industry and corporate standards and collating the resultant improvement requirements with the impact analysis of any business change request. Transparency, quality and application integrity are then handled more efficiently and lead directly to a sustainable reduction in technical debt. This capability must be automated and matched to the volatility of the specific application.

Governance and management control can then be established as part of on-going activities meeting both society's needs and corporate expenditure goals.

*(Industry research shows that some 50 per cent of development and maintenance time is spent on initial impact analysis of a change requirement and that 50 per cent of the impact analysis is spent on analysing unidentified dead or redundant code and is further hampered by undocumented complexity and code clones. Identifying these shortcomings and monitoring the ensuing solution activities is a key driver in improving source code quality.)

WHAT DO ORGANISATIONS TYPICALLY GET WRONG WHEN APPROACHING APPLICATION DEVELOPMENT OUTSOURCING?

by Harry McDermott, CEO, Hudson & Yorke

I am answering this question from the perspective of the core competence of my company which specialises in communications technology strategy and sourcing.

What has this got to do with Application Development Outsourcing (ADO)? Well, a lot actually, because the performance of enterprise applications is entirely dependent on the network strategy of the company and, by extension, the network infrastructure deployed to carry the application traffic. What we see too often is ADO decision-making which fails to properly consider mission-critical aspects of communications technology. In many cases, the network is an after-thought. This is wrong... and a recipe for trouble.

Broadly speaking I would advise anyone to ensure their ADO strategy is underpinned by a robust communications technology strategy. In particular, I would recommend that three key areas are considered:

1 Network Architecture

The network architecture must be compatible with the information architecture and application architecture of the company. The decision to centralise, regionalise or localise the development (and/or hosting) of applications must be accompanied by a compatible network strategy. Quite simply the network architecture will change depending on how the applications are to be developed, where they are to be hosted and from where they will accessed. And if applications are to be available on mobile devices then the mobile communications strategy of the company has to be integrated with the application development strategy.

2 ADO Programme Logistics

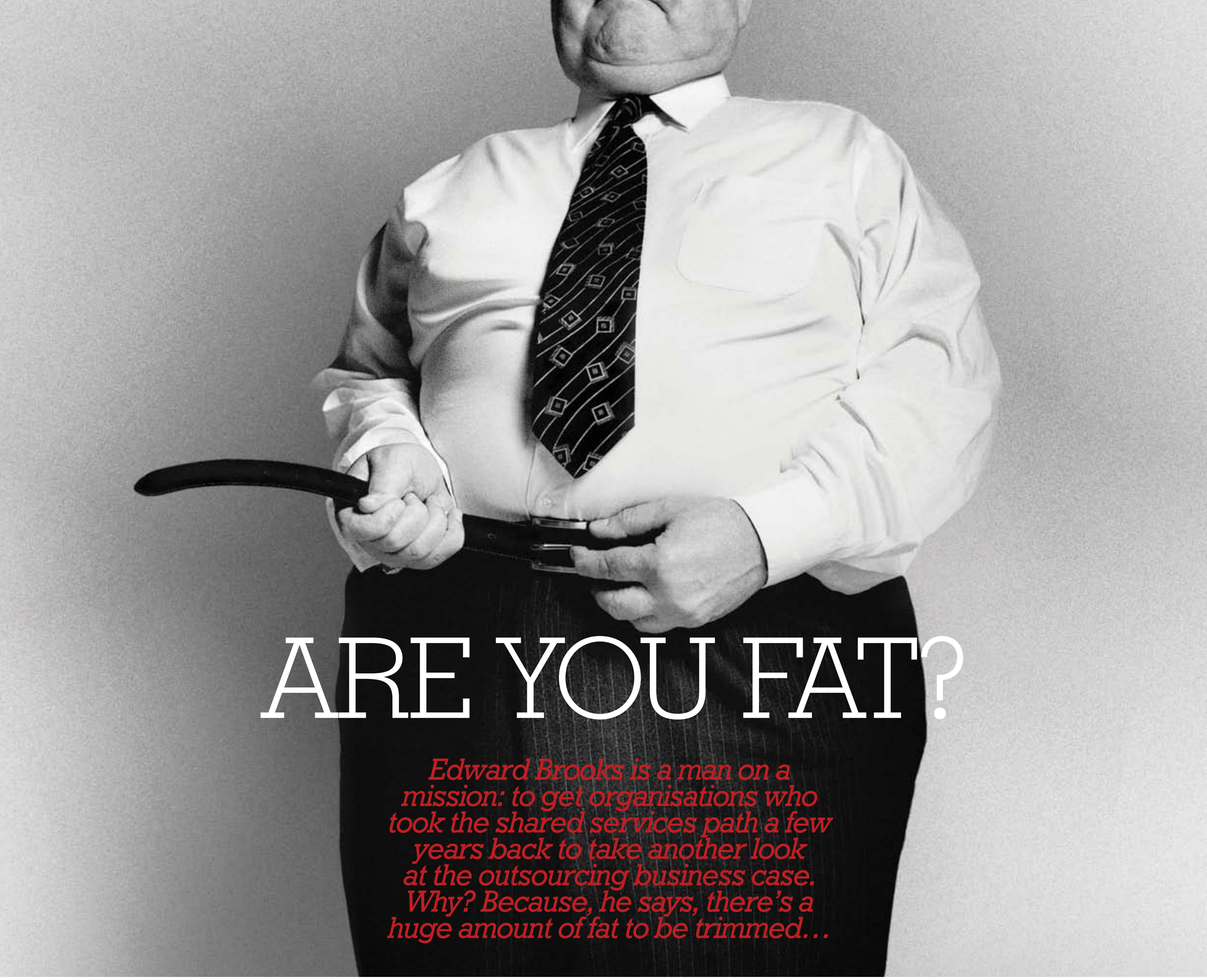
Networks do not just appear magically from the ether. They have to be designed and built. Even cloud services have to be bespoked for large organisations. The overall ADO programme plan must carefully consider the lead time for the network build, especially if data centres and/or company offices are located in developing economies. What might appear trivial (e.g the ordering of access circuits to a data centre) has the potential to derail an entire ADO programme. Believe me, we've seen it happen.

3 Governance of the ICT Operating Model

The third area that requires careful consideration is the governance of the ICT operating model. It should be obvious from above that the inter-dependency between applications and networks is unbreakable. Therefore, if network services and application development are outsourced to different third-party organisations (which is the norm in a world of 'best-of-breed' sourcing) there is a strong governance responsibility on the part of the client to ensure that the inter-vendor communication and collaboration is strong. Otherwise there is potential for misalignment of objectives, disappointment with the outcomes, and confusion regarding the root causes of particular problems.

Get these three things right, and the chances of a successful ADO programme will be greatly enhanced.

@will_j: Hey, open source software peeps. If you release an API breaking feature in a minor release just to keep the version low I will hunt you down



ARE YOU FAT?

Edward Brooks is a man on a mission: to get organisations who took the shared services path a few years back to take another look at the outsourcing business case. Why? Because, he says, there's a huge amount of fat to be trimmed…

Edward Brooks, TheFAOprogram.com

Edward Brooks is a consultant with over 12 years of outsourcing experience, leading on over $5bn-worth of deals across F&A, HR, Recruitment, IT, Customer Services, Clinical Research, Facilities Management, and more.

It is worth dusting off those old shared service centre business plans. When organisations set up SSCs in the 1990s and early 2000s, most paid lip service to outsourcing. It was usually mentioned as a likely future option, but that they would be able to deliver most of the savings internally, by themselves, via shared services.

Fast forward to 2012 and I can honestly say that every client I've had in the last two years has been shocked at the strength of their business case for finance outsourcing, even after years of operating an SSC environment.

In the "new normal" world of zero or low economic growth, and with little investment available for back-office services, Finance departments are now taking a fresh and more sophisticated look at what outsourcing can deliver.

THE COST PLAY

Do your staff cost you an average of $34,000/£22,000 per person, fully loaded,

@shaynarae: Note to self: bring a jacket to Finance. It's COLD.

fully trained, including all overheads and leadership costs? From any shared service centre I've seen in the US, UK and Europe, those are pretty much entry-level salaries, regardless of all the additional employment taxes, operating costs, and management costs attached to every position.

In 2010 I came back to advising on Finance outsourcing, after a few years consulting on other areas of BPO. With my first client we wasted two days reviewing a business case that we assumed to be flawed because it showed savings of 47 per cent. Needless to say, the model was right and I had to bluff that I was not actually too surprised.

I was similarly cautious with my second client, despite the model showing 43 per cent savings, advising them that the figure was 25+ per cent. It was not until well into the project that we shared the true extent of the opportunity.

The key point is that these "entry point" numbers make it almost criminal for any CFO to not even take a quick look at the 2012 case for outsourcing. They would not let other departments away with maintaining similar ignorance of the facts – even more so in this business climate.

Many things have happened in the last few years to reinforce the pure financial business case. SSCs have experienced wage creep, and added one or two extra job levels in the hierarchy, despite making headway in productivity. Competing against that, the suppliers have established commercial models that can clearly state the number of FTEs required to carry out a specific volume of activities. Further, they can put a clear price (fully loaded for all costs, investment, risk, and profits) against each job level of the FTEs they would deploy, making the final business case very easy to calculate.

THE VALUE PLAY

Leveraging a supplier's investment in the core activity that drives their revenues – delivering finance operations – is almost never recognised as a Day 1 benefit.

> 'LEVERAGING A SUPPLIER'S INVESTMENT IN THE CORE ACTIVITY THAT DRIVES THEIR REVENUES – DELIVERING FINANCE OPERATIONS – IS ALMOST NEVER RECOGNISED AS A DAY 1 BENEFIT'

Address the following questions:

- How much will you invest in improving your finance operations in the next 12 months?
- What process automation will you be delivering this year?
- What percentage of your staff are Lean- or Six-Sigma-certified?
- What is your Lean/Six Sigma training budget for 2012?
- Are the results of any process improvement project guaranteed to deliver results?

The market in the delivery of outsourced transactional finance services is very mature. In three of the last four deals that I've led, ranking of the suppliers' bids has been so close that we've had to force rank the bids in order to get to a shortlist. All the suppliers recognise this, and that is making for a much more creative, value-driven offering. In doing so, they are addressing the perennial complaint about outsourcing that transformation is neglected.

Even at an entry level, your outsourced delivery team will be near to 100 per cent Lean- or Six-Sigma-trained. One of the revelations of site visits to the outsourcers is the sheer passion that the delivery teams bring to every client. The prospective clients who take floor walks of existing operations always comment on the drive, engagement, and hard, proven business improvement case studies that are discussed on the tours.

Process improvement is just a way of life at suppliers, from the ground up. And staff are incentivised to do it, even though it could eventually lower the supplier's revenues. Recognising this difference in operating mentality starts to explain why deep specialisation delivers hugely different productivity rates compared to any finance operation within an organisation where finance is a support activity, not a revenue-driving activity.

When evaluating suppliers' bids there can be a lot of words and loads of diagrams, only some of which make sense. It is easier, when trying to make comparisons and rankings, to dwell on the "toys" that are being promised within the deal. The good news is that this is a clear demonstration of how much the suppliers have invested in their core business. The less-good news is that, until the suppliers have really engaged with your operations and IT teams, there is no way to know if they are really applicable to your business, no matter how attractive they sound.

However, these "toys" do have a measureable financial benefit. A recent client had been looking to invest $0.5m in a reconciliation automation tool. The supplier they chose brought this to the table, priced as part of the deal. Aside from the financial saving benefit, the tool would reduce the closing period by two further days.

Other examples of tools and services that can be embedded in deals include:

- Collections and cashflow management
- Period end closing trackers
- Optical character recognition
- Document/mailroom management
- Duplicate payment auditing

While any value-add service is never actually free, and there will be implementation costs at your end, the cost will be transactional and the risk and outcomes will be underwritten as part of the original or amended outsourcing deal.

The main caveat here is just to be careful when procuring services. Shiny toys can suck you into a supplier but you need to work out at an early stage the practicality of implementing them, bearing in mind that you will be going through a complex enough change programme. If they are

"Many people are in the dark when it comes to money, and I'm going to turn on the lights." – Suze Orman going to have an impact on the supplier's productivity you had better profile their arrival at the right time in the business case. That is highly unlikely to be Day 1, and may not even be in Year 1 of the deal.

THE RISK PLAY

Cost and value are easier to address in financial terms than risk, but it doesn't make it easy to ignore these questions:

- Does all the finance delivery risk sit within your organisation?
- Do you have a clear set of commercially viable and commercially comparable service levels that underpin your daily performance?
- Do you provide your internal clients with full guarantees, backed up with cash penalties, payable monthly, to underpin the quality of the services you deliver?

The risk play emphasises that suppliers take delivery risk from your organisation and commit to delivering services at a similar or better-quality level than you currently provide. This is always framed around a set of "no BS" measurements that are quantifiable, trackable, and relevant to both you and the supplier.

In reality, for the first six months at least, service levels will probably be set very similar to your current performance. However, at contract signing, the supplier will sign up to year-on-year improvements for up to five years, that always have to be backed up by service credits against your monthly invoice.

THE STRATEGY PLAY

So far, the common theme across the cost, risk, and value plays can almost be condensed into three words: "more for less". The strategy play applies almost a supply chain approach to meeting your future delivery needs, whatever scenarios play out. The questions to ask are:

- How much will it cost to reduce delivery capacity?
- What fixed costs will you be left with, even after reducing headcount?
- What will the cost be of increasing capacity, whether to deal with an acquisition or just increased volumes?
- How quickly can you get the headcount sign off to increase volumes?
- What are the onboarding costs (e.g. recruitment, training etc) of adding new staff?
- What is the time between recognising the need for increased volumes and having the resources in place to deliver them?

In the modern employment world, temporary resources can give much upside flexibility. Employed for longer, they can also provide the downside flexibility. Until then, they come at a premium that will blow the $34,000/£22,000 fully loaded cost comparison out of the water.

From a 2012-2017 planning perspective I always challenge clients to map out the widest possible range of events that could impact their business. We then carry out an exercise to ensure that their delivery operations – whether insourced or outsourced – are able to address those scenarios at a cost and speed that is proximate to the event.

> ‘PROCESS IMPROVEMENT IS JUST A WAY OF LIFE AT SUPPLIERS, FROM THE GROUND UP’

This is all based on a lot of tough learnings from the last four years. One client, who I recently advised on renegotiating their arrangement, had only factored in upward growth in their contracted volumes. The concept of their business shrinking had seemed alien when negotiating their first arrangement in 2007. Their new contract takes as its starting point the need for a delivery model that adapts operationally and commercially to all future volume scenarios.

Within the certainty of zero or low economic growth, it is the strategic attraction of outsourcing that should provide confidence. Suppliers should be able to react to upturns in your volumes within a matter of weeks. Most events causing this can be foreseen and planned via the normal service management procedures.

Planned reductions in volumes can occur on a timeline determined by the client. Unplanned reductions may take eight or more weeks to filter through to the monthly invoice. Suppliers take differing views on how they recoup their investment in deals, so scenario-planning should be taken early on with the down-selected suppliers.

MAKING IT WORK – ADDRESSING THE EMOTIONS

At this stage in the market's evolution, the data is available to carry out a detailed analysis of your options. With clients it usually only takes a couple of weeks to get to that point. As an advisor, the really interesting development to see is the emotional life cycle that the key influencers (usually process leads) go through.

They usually start the deal cycle convinced that "we are just different". During the following months they realise that their services are not very different. By the time you have carried out reference calls and site visits to see live, outsourced operations, key influencers recognise that most of what their finance operations perform is actually transactional, relatively low value-add, and very similar to most other organisations' finance operations.

LOOKING OUTWARDS

Any organisation that is running an onshore shared service operation, established between 1995 and 2008, should run the 2012 outsourcing business case. Whatever benchmarking you have carried out in the past cannot replicate comparing your delivery costs, value, risk and strategy with what is available in the commercial market. Other departments would require very good excuses if they were happy paying 20+ per cent more for a less robust product or service.

EVEN MORE

For more from Edward Brooks check out his article 'Back To The Future', online at http://bit.ly/PFBAn0

O @PDA82: People from India that are at my office are so nice. I wonder if its cause they know they are taking our jobs. #outsourcing

THE FUTURE OF BPO

Is the future made of automation and analytics – and Extreme BPO?

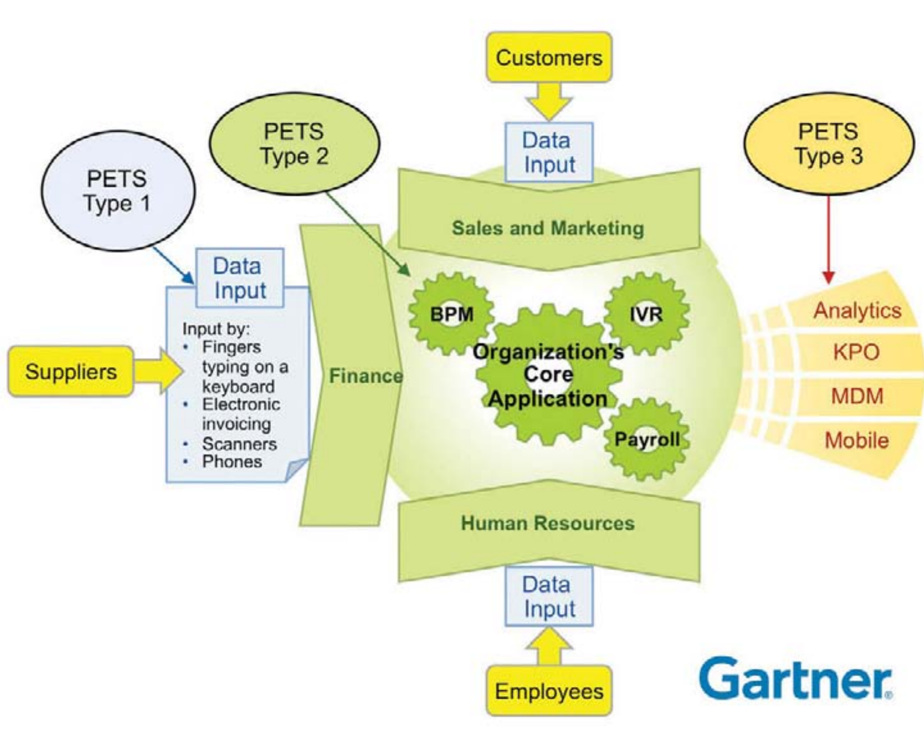
Cathy Tornbohm, *Gartner*

Cathy Tornbohm is Vice President BPO Research for Gartner, researching and advising on sourcing strategies for BPO in general and F&A BPO in particular.

In the 19th century, "…most large households had a still room for distilling spirits and here were brewed an exhaustive repertoire of items: inks, weedkillers, soap, toothpaste, candles, waxes, vinegars and pickles, cold creams and cosmetics, rat poisons, flea powders, shampoos and medicines, as well as solutions for removing stains from marble, for taking the shine off trousers, for stiffening collars and even for removing freckles."

Bill Bryson, in his recent book *At Home*, goes on to talk about sending your laundry home from the city on the train to be washed by your trusted servants! In his study of the history of homes it really struck me how much similarity there is between what has happened with how much organisations now outsource and the changes in what a stately home used to make for itself which it now sources externally because it can. This issue of evaluating whether the external world has a service worth buying will be a constant part of many an organisation's evolution for the next ten years – so you'd better get good at it!

FIGURE 1



"What does the future, that half of time, matter to the man who is infatuated with eternity?" – Emile M. Cioran

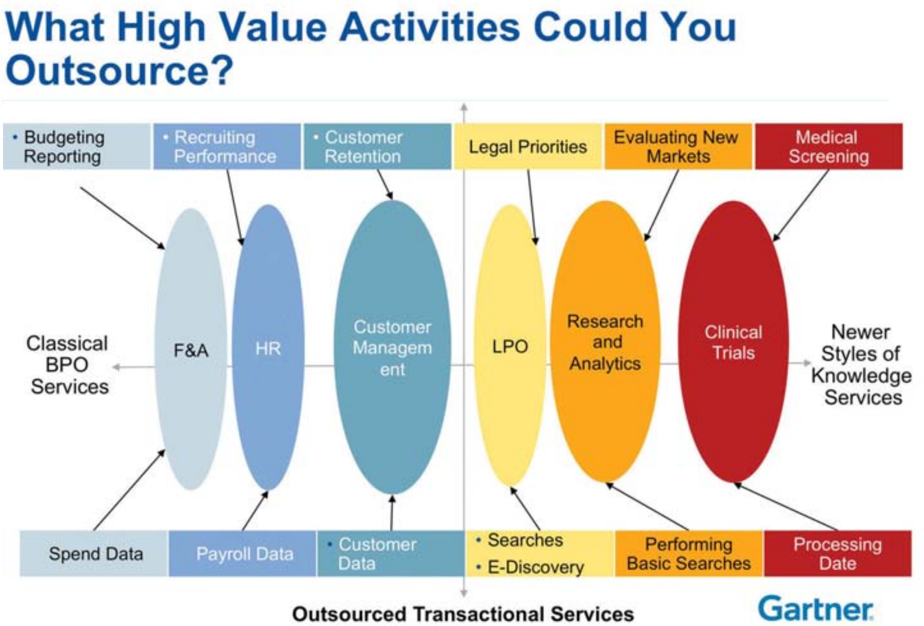
It is remarkable how far BPO has progressed in the last ten years to become a $135bn global market in 2012. It has moved from a service that initially supported mostly data entry, payroll and call centres to now supporting financial report and account preparation at year end for many large corporations, and complex analytical insight. The adoption has latterly seen much more sophistication added to automatic data entry and clever intelligent voice recognition systems added to customer management centres. All of which allow BPO to deliver greater business benefits than in the past.

BPO providers in the main have spent the last decade realising that for transactional services only providing lower-cost labour is not a sustainable long-term plan for most types of BPO. Economically, this approach means that revenue can only grow as they add staff – and providers don't really want such a linear relationship. They would like to be able to provide business process services that are mostly independent of how many staff are involved.

This last decade of BPO adoption has proved that processes can be conducted cheaper in remote locations and that if you can put a rules-based procedure around the process, then you can likely outsource it.

The next decade of BPO will be about increasingly automating business processes which might not have been looked at for a decade, and creating multi-user services – for example micro-payment systems or online recruitment services – and seeing where cloud-enablement can take over BPO. This automation of processes Gartner terms PETS (Process Enhancement Technologies and Services), which is simply a big collective noun for all the tools that service providers are investing in that can ultimately service multiple clients. Examples of process enhancement technologies include the use of even clever IVR that can line up the grumpiest of callers with your most professional agent. Or well-designed business process management suites that sit on top of clients' existing infrastructure and beautifully complement even the worst

FIGURE 2



ERP landscape an organisation could be living with. Note that for services these are bought in typically via the BPO provider to support processes: for example, an electronic invoice provider or a maternity specialist. Most BPO providers are making significant investments in these PETS tools to either automate data entry or improve processing, or allow high-end analytics. PETS will be the new crucial way of evaluating a BPO provider. Questions to ask when reviewing providers will be: do they have PETS that fit your industry? Are they complementary to your existing needs? Are the PETS going to help reduce the cost of processing and increase the quality of the processing? Trust me, these will be much better questions than asking for transformation and innovation, as it is PETS that are a critical component of providing improved processing capabilities.

The future of BPO will also be about exploring what other high-end processes can be outsourced. That is, those business activities which need highly educated folk who are highly knowledgeable about industries, can be outsourced.

Essentially, we are pretty much still at the start of understanding what can be outsourced to a service provider. This is especially true in the area of analytics outsourcing for which we are in reality at the very early days of understanding what service providers can do to help organisations penetrate and investigate the mountains of big data the internet is currently producing and likely to produce (and that's before we move in to the "internet of things" when objects such as house robots, your domestic appliances and utility meters will all be wired up to the internet to pump out even more wonderful data to be interrogated).

Interestingly, several organisations have heavily embraced BPO, including BT, P&G, Unilever, many closed-book insurance companies and the BBC. This clever weaving of internal and external processes will be the norm for many companies as the next decade of BPO adoption moves towards more automation, and might find a new era of extreme BPO emerging!

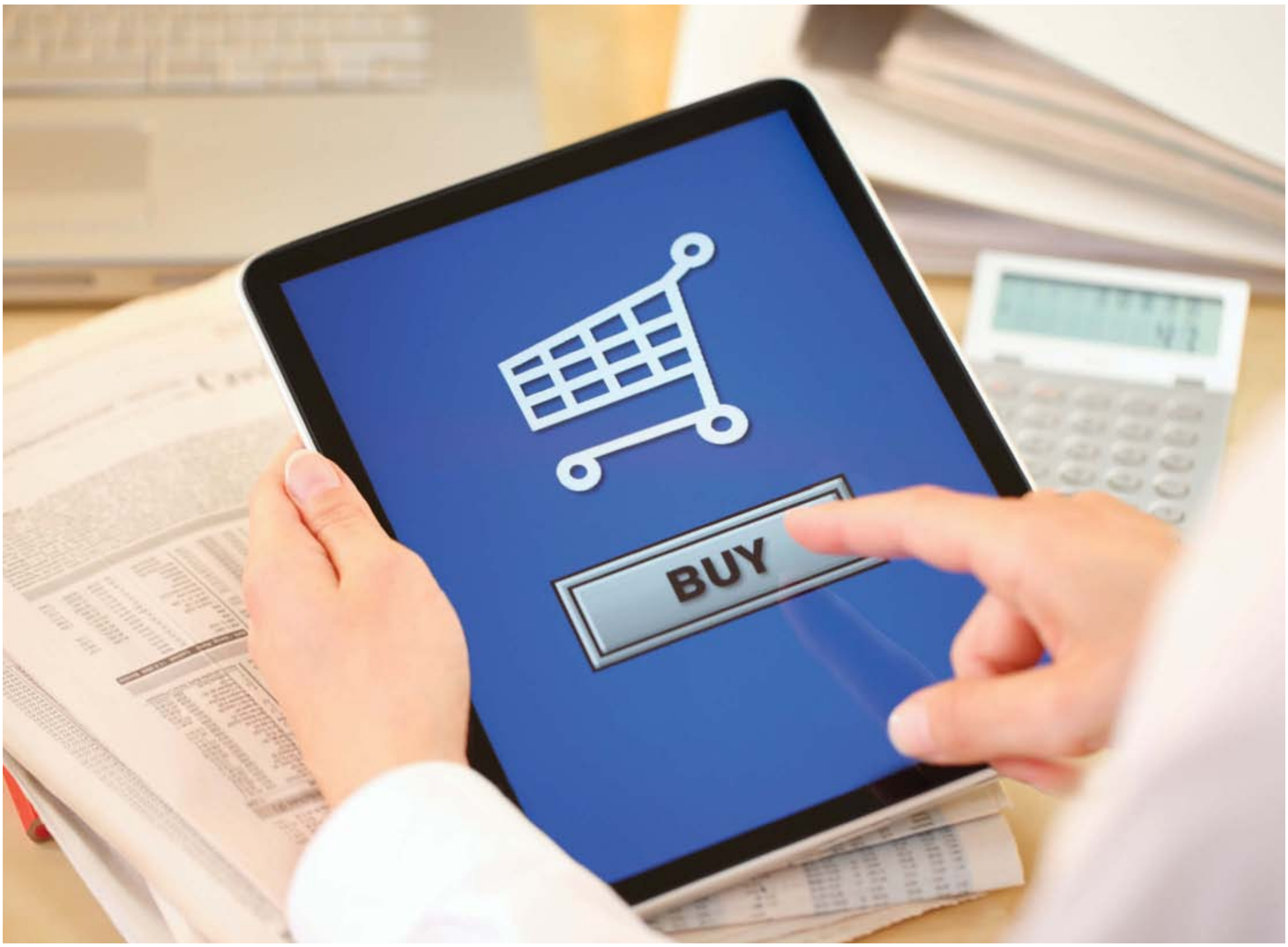
"This is the first age that's ever paid much attention to the future, which is a little ironic since we may not have one." – Arthur C. Clarke

DIGITAL BY DEFAULT

Ninety per cent of organisations believe the ability to provide a joined-up, multi-channel experience is vital to success. So why do 70 per cent confess they don't do it?

Mike Havard, Ember Services

Mike Havard is Director of Ember Services, a customer management consultancy offering forensic benchmarking and strategic and operational support. He has over 25 years' experience of customer management strategy and operational delivery.



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"The golden rule for every business man is this: 'Put yourself in your customer's place.'" – Orison Swett Marden

The drive towards multi-channel, increasingly non-voice customer contact is inexorable for two reasons. First, because consumers demand it. Second, because the economics are so attractive. Online transactions are carried out at a fraction of the cost of a phone call. However, if all of this is true, why have many organisations found it so hard to wean customers off the phone and onto other channels – especially for service interactions? Most often, it is because multi-channel delivery falls woefully short of customer expectation. Slow response times, unclear information and non-intuitive online navigation leave consumers frustrated and reaching for the phone.

So, if consumers want to use low-cost channels, and businesses want to encourage them to do so in the interests of business efficiency, what needs to change to make it happen?

Our exhaustive study of organisations recognised as pioneers in multi-channel delivery has convinced us that the route to success starts with a comprehensive re-evaluation of an organisation's contact strategy. Instead of looking at emerging channels and seeing how they can be shoe-horned into the existing contact centre status quo, organisations need to rethink end-to-end customer contact management with the assumption that they will offer digital channels unless there is a compelling reason not to. In essence, they must become "digital by default".

DIGITAL BY DEFAULT

Reconfiguring customer contact strategy around the principle that digital channels will be the default choice for consumers depends upon one significant and obvious factor. Namely, consumers have to believe that, in the overwhelming majority of cases, digital channels will offer them better service and faster resolution than the phone. In short, digital channel delivery must be exceptional.

The first step in mapping a digital by

> ‘THE ROUTE TO SUCCESS STARTS WITH A COMPREHENSIVE RE-EVALUATION OF AN ORGANISATION'S CONTACT STRATEGY’

default strategy is to analyse and categorise the reasons for customer contact and then to identify which channels will improve the speed, ease of use or value of the organisation's response. For example:

- Customers seeking to validate information – package delivery details, flight or train times – will be happy to do so online, providing the information is accurate and up to date.
- Customers experiencing service issues – poor broadband performance or mobile coverage for example – are likely to review their peers' experience via social forums, or to contact the provider direct via web chat or instant messaging. They will opt for public channels because their query is 'non-personal'.
- Customers wanting to resolve a personal query – check a bill or progress an application – won't choose public channels, but will opt instead for a phone call or swift email response.

Making a clear distinction between one-on-one personal channels and one-on-many public channels is important since the latter are, as a rule of thumb, considerably cheaper to deliver. Bowing to the consumer preference for speedy online access in these cases, makes absolute economic sense. Carphone Warehouse, for example, has used video on demand to deliver top-quality service at low cost. Eye Openers, a YouTube channel, provides short video clips, made by contact centre staff, that offer help and information about different phones and their features. Since its launch in November 2009, Eye Openers has received more than six million hits – each of which may otherwise have become an expensive technical support desk call or visit to a store.

REMOVE THE BARRIERS

Carphone Warehouse is an excellent example of a company that has not only introduced lower-cost channels but optimised and promoted them to maximise usage. Too often, companies introduce new channels and then, when usage is low, write them off as failures. There are often very simple barriers that, once removed, will lead to success.

Bill payment is a good example. More and more organisations now allow online bill payment – cheaper for the organisation to operate and easier for the customer to use. But, take up has been slow. Concerns about online security may be part of the problem, but experience tells us that the lack of human confirmation is a contributory factor that a simple confirmation email or SMS could overcome. Overcoming consumer uncertainty about transactions is an important point. Surrey County Council recently moved its school applications process online. However, parents' natural anxiety over so important an issue prompted them to call to make sure their online application had been received or to check on progress. Contrary to the Council's intention, calls to the contact centre actually went up! They are now looking at ways to use SMS, email and other channels, not just to acknowledge receipt, but to provide proactive updates on the application's progress.

The key is to think through the entire interaction process, rather than just identify a cheaper means to do a single part of it.

@unfortunatalie: TMOBILE UPDTE! Yesterday, I posted a blog on my terrible experience with @tmobileuk (http://t.co/WgYKdEms). Last night, they cut me off.

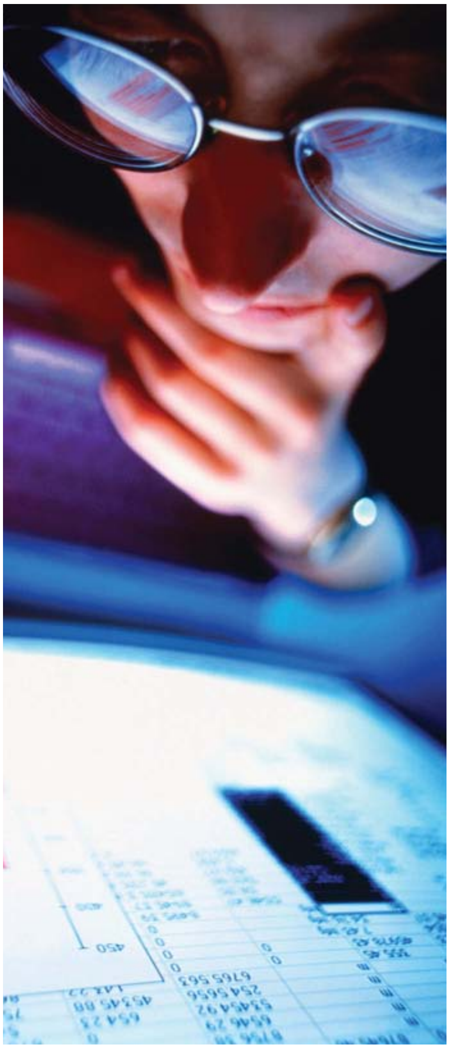
Our research has revealed a clear divide between organisations that have looked at their contact strategy in an integrated way, identified where digital channels can improve the customer experience and invested accordingly, and those that are simply looking at online channels as a cheap alternative to high-cost interactions. The former are succeeding, not only in terms of enhancing customer service, but saving money too. They are also achieving wider organisational goals, such as loyalty, engagement and advocacy. The latter are not even achieving their cost-reduction targets, because the digital options they deliver are not effective enough to encourage customers to use them.

TRANSFORM THE CONTACT CENTRE

Even in successfully "digital by default" organisations, the contact centre continues to play a pivotal role. There are times when a one-on-one non-public conversation is the only thing that will work. Companies that have tried to operate without a contact centre have discovered this to their cost. We are aware of several online retailers who have opted for this route only to find that their disgruntled customers, unable to resolve problems or vent their frustration, took to the web, publishing damning remarks on public forums. The simple lesson is this: if you don't allow customers to resolve their issues with you privately, they will castigate you publicly.

In the digital by default environment, calls to the contact centre will decrease, but their importance will increase proportionally. Customers will opt to call because their query is particularly urgent, complex or significant, or because attempts to resolve their issues by other means have failed. Either way, it is important to respond quickly and well. Traditional contact centre metrics will have to evolve to stay relevant.

For example, if every call is a complex one, call handle time becomes less relevant than resolution. The economic priority isn't throughput, but call outcomes. Or, if customers are calling because other channels have already failed, speed to answer must be a priority. Businesses may have tolerated a five or ten per cent abandonment rate in the past, but will find that this is no longer acceptable.



> ‘THE FIRST STEP IN MAPPING A DIGITAL BY DEFAULT STRATEGY IS TO ANALYSE AND CATEGORISE THE REASONS FOR CUSTOMER CONTACT AND THEN TO IDENTIFY WHICH CHANNELS WILL IMPROVE THE SPEED, EASE OF USE OR VALUE OF THE ORGANISATION'S RESPONSE’

Many traditional customer management metrics can effectively be replaced by the "customer effort score". This is a method of rating how easily customers can undertake various interactions via various channels. It is based on the understanding that the easier something is, the more likely people are to do it. BT analysed customers' online behaviour and identified moments when customers appeared to struggle with the process. They now intervene and offer a web chat to help them over the hurdle. Though this is necessary in less than two per cent of online visits, these visits account for about 20 per cent of BT's consumer online sales, proving that proactive intervention can save the day. Customer satisfaction with the service is an impressive 86 per cent but, equally importantly, almost all say they would have contacted BT by another (more expensive) channel, had they not been offered web chat.

THE BUSINESS CASE

The business case for becoming digital by default is compelling: lower cost plus higher customer satisfaction and sales. However, no one said it is easy. It demands a willingness to challenge the status quo, develop new skills, embrace innovation and, of course, to invest in new technology and processes. The penalties for not doing so, however, will be considerable. Organisations will find themselves landlocked into increasingly expensive contact channels with progressively lower levels of customer approval and advocacy. The evolution of customer contact is inexorable and – potentially – hugely beneficial. Embrace it.

EVEN MORE

For more on the customer experience see our case study featuring Zynga and TELUS International online now at http://bit.ly/Oo90tZ

Ember's research paper, 'Becoming Digital by Default: New thinking for multi-channel effectiveness' can be downloaded free of charge from www.emberservices.com.

THE FACE OF FINANCE

How do you – and should you – deal with your internal customers?

Ralph Geertsema

Ralph Geertsema is an independent advisor on finance transformation working with clients looking at how to implement ERPs, drive SSC build and stay compliant in one effort.

Hugo Aaldering

Hugo Aaldering has gained significant experience in large ERP implementations and business process re-engineering within various multinationals. Currently, he is working with Canon Europe with a main focus on (re-) structuring a €2,000m rental and lease portfolio.

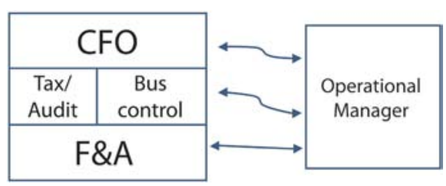
In the transformation of the transactional finance function from back office to a service function we need to consider how we define customers, what service levels we offer to different customers of the finance function and who will eventually manage the customers of the finance function.

Traditionally finance has been a back-office support function which tended to have multiple interfaces with their colleagues in the business. In most internal support functions the main customer is usually the boss, so finance was mostly looking internally and up, with the Chief Finance Officer as the most important customer.

HAS SSC CREATION BEEN ABLE TO SAVE THE FACE OF FINANCE?

Our operational colleagues weren't very impressed with the finance function as they were interfacing with multiple departments: AP and procurement for the ordering of services and equipment; AR, collections and sometimes billing for all the customer-related activity. Finally all the commercial (bids) and non-transactional finance (operational reviews, budgeting, planning) was dealt with by the business controllers. (*See Figure 1*).

FIGURE 1



The first generation of shared service centres (SSCs) were designed to offer maximum output of transaction against a lower cost base. SSCs were by nature rule-driven and very controlled environments with a strong compliance focus. Not only are the controls fully documented, most SSCs also document the adherence to them and do regular internal testing to ensure and be able to prove the quality of service delivered.

"I don't care a damn for your loyal service when you think I am right; when I really want it most is when you think I am wrong." – John Monash

An operational manager nowadays could be suffering more as most functions in finance can and do have a retained function, a nearshore local language helpdesk and an offshore delivery centre.

It is is not unlikely that this model is replicated for procurement, AP, AR, billing, collections and management reporting – sometimes with different vendors and different support systems. It is not uncommon that an internal customer trying to complete a basic procure-to-pay cycle will have to engage with at least ten different internal units in order to complete a basic transaction.

Innovation in complex multinationals is next to impossible to execute as employees need to overcome system architects, design councils, security compliance, vendor negotiations, new vendor creation – and then overcome hurdles of basic support functions like application support or IT security. It is not uncommon that these processes take more than nine months to complete – or even stop innovation projects completely.

Order-to-cash cycles are even more notorious as endless negotiations between internal stakeholders renowned for the disconnect between the bid-to-order process and the order-to-cash process.

First-generation SSCs created very robust transactional centres; however they do not have a defined interface model with the operational customers and are sometimes even considered a "hidden finance function".

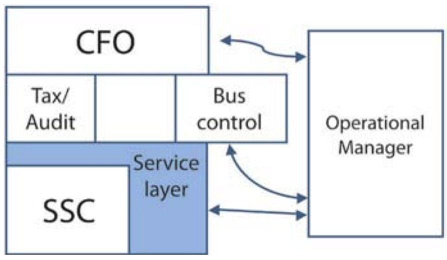
SO WHAT IS NEEDED TO MAKE THIS MODEL WORK?

First of all, identify and define your customers of the finance function, who they are and how to create a proper segmentation between them.

Secondly, understand what the service or value is that is offered to your customer and how they are dealt with.

This is not rocket science: as, for instance, all employees are customers of finance for employee expense

FIGURE 2



reimbursement. Understanding the service level and support offered to the internal customer is important here. Common policies nowadays are that employee expenses are paid weekly, status information can only be obtained through a self-service portal and there is a sample audit of claims to reduce internal cost. It is important to ensure that all stakeholders involved are fully aware that this is a no-frills service, with minimal support effort.

It is equally important to understand that the quality control question is not whether processes were executed in a compliant manner, but if the correct business objectives were achieved. There are many examples where SSCs have clearly followed all documented processes and controls (and completed audits with all accolades) and still do not make the business successful in achieving their objectives. Famous outsourcing cases include war stories of significant breakdowns in service – like disconnecting a customer, not accepting service requests or causing supply chain delays. (*See Figure 2*).

Thirdly it is critical to create a service infrastructure that manages the customers; this includes service processes, service/helpdesk teams and also systems to support this (like trouble ticketing systems in IT). It is important to understand that customers need to be followed and serviced throughout the entire process. Especially in outsourced relationships the outsourcers tend to bring a service support system for their part of the process only (so an AP helpdesk only rather than a procure-to-pay support). Most of the customers are looking for end-to-end support to ensure they get support for their business need – i.e. "we need to ensure we get paid on time for this service" and not "we can't start collections because the billing team has missed the bill run".

THE ROLE OF THE BUSINESS CONTROLLER IN THE SECOND-GENERATION SSC

The business controller will be an important element in the service provision to the operational manager. Second-generation SSCs can manage most of the day-to-day queries and the standard reporting requirements through their service layer. However, non-standard reporting requirements and in-depth business analysis need to be performed or managed by the business controllers.

Once the service mentality and capability has been established the big global corporates have been pushing to set up multifunctional centres containing finance, procurement, HR, service delivery, customer service and sometimes even more complex functions like legal and tax compliance. The logic behind this is that once service support infrastructure and culture is built this can then be exploited for multiple internal functions.

The evolution of the finance function from a back-office operation into a fully fledged service operation is not an easy transformational journey. Building up a service layer in the SSC organisation that is transparent, uniform and easy to deal with, is not an easy assignment. This journey starts, in the way Covey describes it: "Start with the end in mind", with a clear customer and service goal for each process to ensure expectations and delivery are in sync. The last step is to exploit this service mentality across multiple internal functions.

EVEN MORE

For more from Ralph Geertsema check out his article 'In The Know', online now at http://bit.ly/O1bSPy

"I'm a big advocate of financial intelligence." – Daymond John

PROCURING EXCELLENCE

It's boom time for procurement outsourcing – but what's it all about? We put some of the most pressing questions in the space to our team of experts…

"A budget tells us what we can't afford, but it doesn't keep us from buying it." – William Feather

If the hoary old adage is correct that one should keep in-house what one does best, and outsource the rest, it may seem par for the course that an organisation should consider outsourcing its procurement function: after all, procurement isn't core in the same way as, for example, building aeroplanes is for Boeing or Airbus. However, for many organisations procurement remains as core as non-core possibly gets: buying goods and services as efficiently and as cheaply as possible has such a huge impact on P&L that many companies simply won't consider loosening their grip on what they consider to be a business-critical function.

Nevertheless, procurement outsourcing is on the rise. As familiarity with and expertise in the broader outsourcing model deepens and permeates business, and as the capability of providers increases to deliver efficiencies safely and in a manner which doesn't interfere unduly with the organisation's core activities, more and more buyers are choosing the outsourcing route for part or all of their procurement functions. If it is still perhaps the case that procurement outsourcing has yet to hit the real outsourcing mainstream – as an AT Kearney report from early last year has it, "procurement continues to trail other functions in outsourcing. Why is that the case? Because it's not that easy to do" – we are certainly seeing more than enough examples of this being carried out effectively within organisations large and small to suggest that the tipping point has been reached and passed.

Over the next few pages we hear from a number of experts from very different corners of the space, offering their responses to a range of distinct questions in an attempt to build up a snapshot of at least part of the procurement outsourcing space as it is today. Of course, as always we'd love to hear your own thoughts and experiences, so if you're involved in procurement outsourcing and have some stories to share, feel free to write to the editor at **jamie.liddell@outsourcemagazine.co.uk**

IS PROCUREMENT OUTSOURCING ABOUT FINALLY TO TAKE OFF?

By Peter Smith, Editor, Spend Matters UK/Europe

In the best spirit of opinionated, decisive market analysts, I would confidently predict that – well, maybe...

Actually, the problem is not so much the "is it about to take off?" aspect of the question. It's more the definition of "procurement outsourcing". Because if we look at what was the historical lift-and-shift business process outsource, probably involving some offshoring of lower-value work, then no, it is not about to take off. Indeed, some of the highest-profile deals of that nature weren't a success (no names mentioned) and that has perhaps influenced the market away from the end-to-end model of procurement outsourcing.

But if we widen our perspective somewhat, then the evidence is that we're already seeing pretty strong growth. The wider view looks at all elements of the procurement function and process, and sees opportunities for outsourcing service providers to take on vertical or horizontal slices across that picture. So a horizontal slice means outsourcing on a category spend basis, either to a specialist procurement provider or indirectly, as when an organisation outsources IT or HR, and a chunk of associated procurement spend and activity goes with it.

A vertical slice might mean outsourcing a process step across multiple categories; perhaps market and supplier research; or supplier registration and verification; or running complex sourcing events. Or a third way of cutting it is geographic: outsourcing procurement in countries where the organisation has yet to build a strong base, for instance.

We're seeing growth in these areas; firms such as Procurian and Proxima who focus on category expertise rather than process cost reduction are doing well, as are players like Achilles, who handle a vertical slice; running industry-wide supplier qualification, risk and information processes for their customers.

So, I don't see a boom coming in massive, headline, transfer-everything deals; but I do see steady growth (or maybe even a "take-off") in providers running aspects of the overall procurement picture. Indeed, and increasingly, a key element of the procurement leader's role is therefore to blend internal and external provision of services, in the most effective manner, to deliver the function's overall objectives.

"Buying is a profound pleasure." – Simone de Beauvoir

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WHAT ARE THE KEY TRENDS IN PUBLIC SECTOR PROCUREMENT OUTSOURCING?

By Chris Graves, Head of Procurement – Services, YBO

The overriding trend within the public sector since the Comprehensive Spending Review in 2010 has been the requirement to deliver cost savings on a scale never seen before.

This issue has become a triple threat as many Local Authorities have had to make large-scale redundancies to meet the reduced settlements and little or no funding has been made available for national or regional agencies to support better procurement.

Whilst there appears to be a growing trend for more public sector bodies to outsource parts of statutory delivery requirements such as waste collection and back-office services such as IT, the trends regarding procurement outsourcing are mixed. We have seen some look to leverage private sector expertise with either partial or full outsourcing of their procurement operations whilst others have recently exited long-standing arrangements with the private sector to bring the service back "in-house". This is in some way due to the fact that by outsourcing procurement there is still a requirement to comply with – amongst other things – the OJEU public contracting regulations, the Remedies Directive and the recent Public Services (Social Value) Act. The opportunity to create more agile procurement systems is significantly reduced as the outsourcing partner is in essence acting as an agent of the contracting authority. Equally as other elements are outsourced, a strong procurement function is needed to ensure effective contract management of the outsourced service is maintained.

Shared services have evolved beyond the traditional landscape of HR and financial services into procurement with a number of public sector bodies looking to share resource across a wider base which may enable more category or commodity expertise to be applied in high-spend or risky areas. Equally though, I am aware that some public sector bodies who were early adopters in this trend are looking to re-establish their own identities for procurement again after only a few years of a shared service function.

The public sector buying consortia are working better together than ever, with some collaborative arrangements in place on areas like multi-functional devices and IT hardware really improving the terms under which the public sector can procure these products. There is more to come in this area though as pure service-type contracts are reviewed, such as consultancy, insurance and business travel.

Ultimately each public sector body needs to balance the demands of reduced budgets alongside the political and coercive pressures under which they operate, which, in part, explains why different approaches to procurement outsourcing are being taken across the sector.

> "PUBLIC SECTOR BODIES WHO WERE EARLY ADOPTERS IN THIS TREND ARE LOOKING TO RE-ESTABLISH THEIR OWN IDENTITIES FOR PROCUREMENT AGAIN AFTER ONLY A FEW YEARS OF A SHARED SERVICE FUNCTION"

WHAT ARE THE KEY SKILLS REQUIRED IN THE RETAINED TEAM FOLLOWING A PROCUREMENT OUTSOURCING?

By Brian Nolf, Partner & Global SCM Practice Head, Wipro Consulting Services

The retained and the outsourced organisations are essentially two sides of the same coin.

The combined team comprising the outsourcer and the retained team should enable the procurement function to work as a 21st-century organisation – offering an industrialised, high-quality, virtual, global source-to-pay process at an optimal cost to serve. The retained organisation in particular plays a pivotal role in the development of a strong relationship between the business functions (engineering, production, finance, sales and marketing) and the outsourced organisation in delivering seamless services.

In order to allow the procurement function to deliver as a 21st-century organisation, the retained organisation >

has to perform three main roles:

A) *Partner with the rest of the business and the network of suppliers.* In order to partner with business, the retained organisation should possess skills to liaise, interface and partner with other service functions. The key skills required to support this include: strategic planning, overall supply planning and demand alignment, value engineering and cost-accounting, hedging and risk-management, negotiation and contracting and change management.

B) *Govern the relationship with the outsourced organisation using "sense and respond".* As a governance arm, the retained organisation should invest in roles and skills that act as nodes for "sense and respond" to ensure integrated service delivery, integrated vendor management and to map and manage interdependencies. The "sense and respond" mechanisms allow the retained organisation to effectively monitor the performance of the processes, reacting only to performance anomalies. As a governance arm, the retained organisation should also have a good understanding of the outsourcing model and strengths of the outsourcing partner to deliver business returns or savings through the combined team.

C) *Act as a Centre of Excellence hub and a change agent.* The retained organisation should continue to invest in skills for expertise in company specific knowledge such as creating a "Sourcing COE" for commodity management and market knowledge, tax planning, and best practice adoption. In addition, the retained organisation should serve as the change agents to cascade the case-for-change, impact-of-change and education-for-change adoption through the business and supplier community.

In essence, the retained organisation should assume the role of a facilitator and an evangelist to assure and communicate the value that has been created as a result of the outsourcing initiative today and into the future.

WHAT ARE THE MOST COMMON CAUSES OF FAILURE IN PROCUREMENT OUTSOURCING RELATIONSHIPS?

By John Gorrell, Principal Consultant, Orbys

The procurement outsourcing benefits case has a number of components. These include:

- improved buying power through aggregating demand;
- improved cash flow through better framework terms;
- reduced procurement cost through shared transactions/negotiations; and
- a slimmed-down retained organisation.

Each has the potential to deliver gains, but each also holds a risk of disappointment.

We have seen three key shortfalls in supplier commitment that hurt the client/supplier relationship.

The first is supplier unwillingness to "copper-bottom" savings, refusing to take on the risk in contracts and pricing. This "jam tomorrow" offer may reflect a lack of confidence in their benefits delivery, but may equally have something to do with modern internal governance regimes that do not like the uncertainty of cost management outside the organisation's immediate control.

The second niggle that can fester is the supplier's failure to remove the client from the buying cycle. The reasons may be outside their control (e.g. third parties unwilling to operate through an intermediary), but the result is clients feeling they are paying for services that they still transact. In the worst cases this can lead to a steady reconstruction of the procurement department to man-mark the supplier.

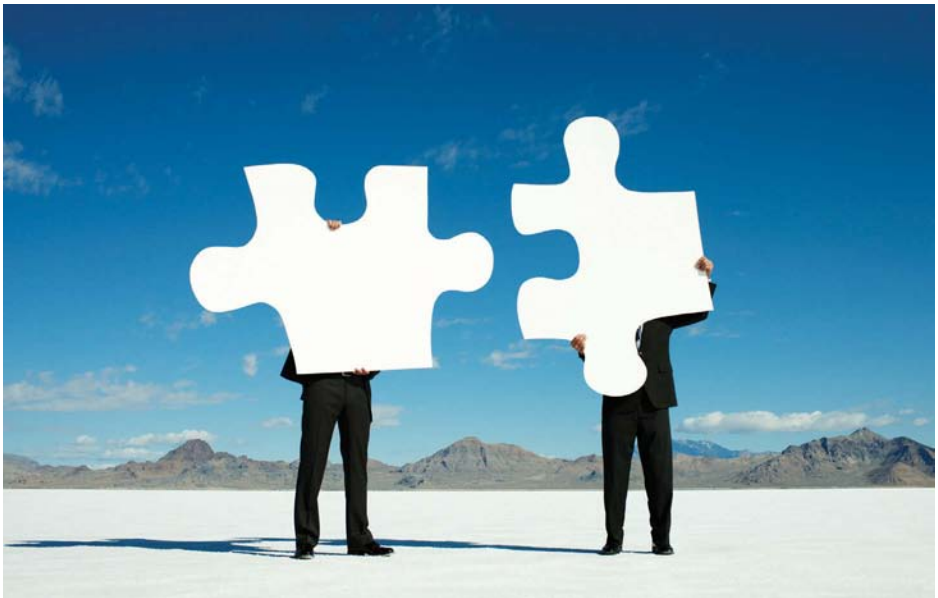
Finally, suppliers can be guilty of a one-size-fits-all approach and don't react responsively to changing market dynamics. For example software licensing costs are inextricably linked to the hardware configuration. The optimal licensing package and upgrade cycle for a particular client may be out of synch with the supplier's framework creating a perception of ineptitude or worse.

To reduce these risks or, at least, expose them amid the sales hype, it is essential that a contract-by-contract commitment (i.e. for different types or levels of procurement) is tabled during the tender process, ensuring expectations are shared and understood from the outset.

"Paying is part of the game of life: it is the joy of buying that we crave." – Gilbert Parker

WHEN IS – AND ISN'T – PROCUREMENT OUTSOURCING RIGHT FOR YOUR ORGANISATION?

By Tom Lawrence, Chief Communications Officer, Proxima



First things first: there is not one type of procurement outsourcing (PO).

In this article we refer to PO as the complete transfer of responsibility for managing a proportion, or all, of the cost base to a third-party provider (not just the management of processes associated with P2P or AP). Activities included within PO include:

- Business partnering (often right up to and including the CPO role)
- Implementation and change management
- Sourcing
- Spend analysis
- Supplier and contract management
- Supplier on-boarding/help desks
- The provision of all the associated technology

So having cleared that up, let's now look at the characteristics of an organisation that should consider outsourcing their procurement:

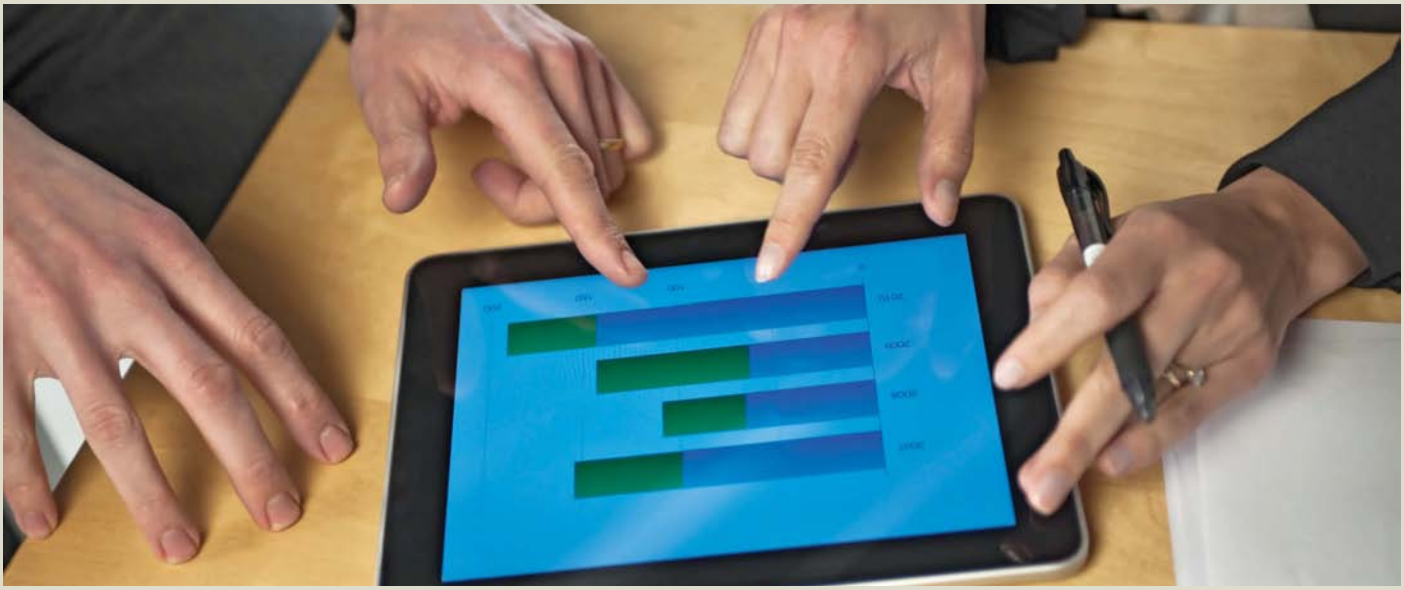
- Generally, to make the business model stack up, for both the buyer and the service provider, PO services are typically consumed by large (>£500m annual revenue) and complex businesses.
- A business that is culturally more willing to be challenged, has clear objectives for what it wants to achieve (not a step-by step plan on how it's going to be achieved) and is more willing to embrace change will be more likely to maximise the true benefits of procurement outsourcing.
- As with any change programme, there must always be a burning platform sitting behind the decision to outsource. In procurement, this might be a need to improve profitability, transform the capability of the as-is or change the overall cost management culture of the business.
- It's worth noting that PO can work at any stage of an organisation's procurement maturity journey. It's not just for those with advanced capability looking for where to go next – an organisation with no procurement function can leapfrog the maturity journey by several years through outsourcing.

In reality, however, procurement is all about building relationships and trust with the stakeholders it hopes to serve, and then positively influencing their behaviours. Therefore, to define the characteristics of the perfect procurement outsource organisation, it's equally important to consider the human side, and look at the business leader that is buying the service. Some of the characteristics we would expect to see in this individual are as follows:

- An interesting reality of most procurement projects is that they are cross-functional. So PO should appeal to business leaders with a change agenda, a progressive view of the world, a willingness to embrace ideas, a desire for innovation and someone who is open to having his/her business positively challenged and put under the microscope.
- A business leader that has strong links to Finance and has the power and capability to make things happen. PO will deliver a significant return on investment, which can materially impact profitability if, and only if, the mechanisms are in place to capture the benefits.
- A business leader that understands that the long-term value proposition of procurement is not to achieve savings, but to deliver value for money over the long term. Procurement outsourcing will not only transform the management of the cost base, but it will also ensure it is optimised on an on-going basis.

Procurement outsourcing has something to offer every large business, benefits that go way beyond just achieving a large return on investment. And because it's not simply about outsourcing a process, educating yourself about how it can work, and understanding how it can improve your existing capability is paramount to enabling you to make an informed decision.

@BotaKarim: Procurement makes me crazy!!!



WHAT ARE THE BIG DATA IMPLICATIONS OF THE RISE OF PROCUREMENT OUTSOURCING?

By Tom Cave, Account Director, sparesFinder

Here at sparesFinder, we help large, asset-intensive companies reduce working capital by improving their master data, with every one of our applications being web-based since 1998.

So it is, perhaps, a surprise to hear a somewhat heretical view of big data from an insider: namely that it is in danger of becoming just the latest marketing ruse to keep software sales moving through difficult times.

I've always thought big data is attracting Y2K-scale hype with CIOs asking "why aren't we doing big data yet?", but for many it simply isn't necessary. For example, the largest data source for an oil and gas company is likely to be reservoir data, where the total volume may well be over 250Tb. But to assume this needs a big data platform would be wrong. These records are not the same as, say, the million-plus transactions an hour that retailers like Wal-Mart may be recording and analysing in real-time. It's important to understand this isn't just about size, but also speed and the variance of the information.

We deal in smaller, slower-changing sets of data, the kind needed to create accurate and informative purchase orders for raw materials, spares and services. But, when poorly controlled, these records – called item and service masters – create issues of their own. Hard-to-find and poorly described masters cause confusion and delay throughout the supply chain, from purchase requisition to payment. All too often it is just easier to turn a blind eye to off-book purchasing and allow individuals to manage their own procurement.

> **'AT THE END OF THE DAY, THE OUTSOURCING OF PROCUREMENT MAY PROVE TO "SEPARATE THE MEN FROM THE BOYS" IN BIG DATA'**
> **TOM CAVE**

However, by reducing the master data-set to a minimum and harmonising their description across all parts of the company, it becomes much easier to find what is needed, establish whether or not it already exists (preventing duplicates being created), aggregate orders for better discounts, and make it easier for suppliers to understand and process orders. In other words: remove excuses for rogue purchasing; stop large corporations from buying equipment they already own, and get better deals from their key suppliers.

At the end of the day, the outsourcing of procurement may prove to "separate the men from the boys" in big data, holding companies and their suppliers accountable and making rogue operations obsolete through specialisations in this area of MDM.

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NEW AGE OF MOBILE ENTERPRISE

The integration of mobile technology is transforming organisations' IT infrastructures; find out how...

The use of mobile devices, including smartphones or tablets in the corporate sector is a new sustainable trend. End users like mobile devices because they are always at hand, and are compact and efficient. Mobile devices have already reached the level of maturity at which they can become the main tool for working with business information.

The volume of information that companies need to digest is growing exponentially. Fast and accurate reactions to important events and grounded decision-making are vital. These are new serious challenges for IT infrastructure and they cannot be addressed by augmentation of computing resources. The ability of businesses to survive largely depends on the flexibility of their IT infrastructure and on how susceptible it is to innovations.

Going mobile

A vivid example of a new generation of innovations in corporate IT is mobile technologies.

Evidently, a mobile application is not limited to a simple transfer of information from a notebook screen to a smartphone screen. It is primarily an extension of the company's IT infrastructure with the use of native capabilities of mobile devices, including work with geo-location systems and use of an in-built photo camera, sound recording, voice processing, and handwritten notes, as well as offline work with data.

The following are the business cases that show how a company's IT infrastructure was augmented using mobile applications.

1 Mobile clients for corporate information and workflow systems

The issue of processing and approving large-volume documents in modern business is becoming more and more acute. The expansion of information systems through the use of mobile applications is very instrumental in such situations.

A mobile client is integrated and synchronised with a corporate information system that is, for instance, based on IBM FileNet or IBM Lotus Domino. The user can download to his or her mobile all documents that require reaction and work with them anywhere. It is possible to view the attached files or give comments, record audio or insert graphic comments, and add handwritten notes. In addition, a mobile client provides quick search across documents that are kept on the mobile device or server, allowing users to mark documents as favourites, and providing quick access to them. The use of a mobile client jointly with the basic system accelerates and simplifies the process of group workflow and improves the efficiency and accuracy of management decisions.

2 Mobile clients for Enterprise Asset Management

Enterprise Asset Management (EAM) is specifically relevant for asset-intensive industries with a network infrastructure that includes pipelines, tunnels, roads, railroads, and electric grids.

The key feature of such solutions is close integration with map services. Using a mobile client, end users identify their current location and the location of the incoming requests. For requests, descriptive information is provided, a list of required tasks, and a list of attached assets. Additionally, a request can contain related graphic marks on a map. For example, an air conditioner goes out of order at a big plant: a map will show to a service person the plant entrance, the route through the plant territory, the required actions, and the air conditioner's location. It is possible to update the marks using a mobile client and the changes will be synchronically reflected in the

basic system. Using the application, one can also take a photo before and after the repair, and the application automatically links it to GPS coordinates. The employees that are assigned the role of master or head of the repair group can see on the mobile the location of repair crews and make efficient decisions in case of emergency. The application also displays statistics and diagrams.

3 Improving client management

Mobile applications come first when customer relations should be flexible and efficient. IBA Group developed a solution for a major bank that set an ambitious goal to expand its customer base dramatically. As part of the program, a mobile application that was closely integrated with the bank's back end was developed. It allows bank employees to sign up a customer when they are out of the office, to take a photo of a customer, and to recognise the barcode on his or her ID. The newly created form is sent to the bank's server for subsequent processing and registration.

4 Mobile payments and retail

If your application is installed on a smartphone of your customer, then news, offerings, and other data go directly to the end-user's pocket. Isn't it what any retailer or service provider has dreamed of? Also, mobile payments through mobile internet banking are growing in popularity. A customer can make mobile payments and be updated on tariffs and services. A map is seamlessly integrated in the mobile client. The user can filter objects by distance and find the nearest ATMs or bank offices. Choosing an object, the user can view information about it, including street address, working hours, and the list of its services, as well as make a route from the current location to the selected object.

Undoubtedly, mobile devices not only grant indisputable benefits, but also bring about new challenges. In terms of security, integrated solutions are needed that ensure protected data transport, reliable data encryption, special mechanisms to control vulnerable data, and management of mobile devices based on centralised practices. The task is solvable, all the more that the mobile revolution in the business sector is inevitable and is already underway.

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THE IMPORTANCE OF BEING SECURE

Service providers aren't just responsible for their own information security; they have responsibilities to their clients too. But are too many suppliers approaching the infosec question from the wrong direction?

O To read the blog (and huge number of comments) at www.comparethecloud.net which prompted this article see http://bit.ly/N1Jxr5

James Rees, Razor Thorn Security

James Rees is the MD of Razor Thorn Security Ltd; he spends his time helping companies frustrated with their security or looking to protect their critical assets from both technological and business risks.

Companies are speeding up their outsourcing of key internal functions, especially now that cloud computing models have become so popular; this will only increase, and there are new outsourceable services being devised all the time. However, as much as outsourcing has risen, so too have compliance requirements. In the last ten years or so there have been a lot of data breaches, service failures and malicious theft (especially in the credit card industry). With the popularity of buying services and products online increasing, so too do the opportunities for large-scale crime, the effects of which have quickly meant that it has become the largest growth industry in the world.

Outsourcing providers are increasingly finding that compliance requirements are coming up in negotiations time and time again; PCI DSS, ISO27001, etc are becoming must-have items on clients' lists. As crime rises companies and governments try to protect themselves and the consumer against threats through legislation; cybercrime is no different and we will continue to see compliance requirements that will demand a good level of information security practises.

Customers, for outsourcing companies, are a little ahead in awareness because in many cases they are driving the security requirements due to their being responsible for security breaches.

Outsourcing companies now have to take information security and cybersecurity seriously if they want to continue to be profitable; that's not a guess, this is a fact. It is already happening.

Recently on a popular blog at www.comparethecloud.net – that we contribute to regularly – I was outlining a regular response to discussions that we have with outsourcing companies, with regards to their need to become digitally secure. Many of these companies have only recently started to be asked if they are secure; many don't understand the requirements, and don't want to undertake them at all due to their perceived cost and time-consuming elements.

> ‘IF YOU JUST LOOK AT THE IT SECURITY ASPECTS OF YOUR OPERATION YOU ARE ONLY LOOKING AT HALF OF THE PICTURE. LOOK AT THE BUSINESS AS A WHOLE’

When we get in front of outsourcing service providers and talk to them about information security and compliance requirements we hear a lot of statements like:

- "We want to do the minimum…" After a bit of discussion this statement normally turns into:
- "What is the minimum that we have to do?" After even more discussion this finally turns into:
- "What is the minimum that we have to do and what can happen if we don't?"

This is where we get to the root of the matter. What will happen if we do not maintain a good level of security? Well, looking at the recent few years with regards to published security issues (there are far more that occur than are reported in the media) it is evident that if you don't provide adequate security, and get caught out then, you will be on the receiving end of any number of threats.

But in all honesty, I truly believe that, rather than asking the previous questions, you should as a service provider, and a business in your own right, be asking: "What are our security responsibilities?" This is a much better question, with a much better and more positive output than any of the other questions; it should be a question that EVERY organisation should ask itself.

Let's analyse this question and the general responses that will commonly come out. There are sometimes variations (every company is unique and often will have a unique list) but here is a common list of responses we tend to find with most companies:

- our customers
- our stakeholders
- our partnerships
- our staff
- our legal/contractual compliance requirements
- our customers' legal/contractual compliance requirements

Ultimately organisations are responsible for their own security. They are also responsible for their clients' security (especially if they are an outsourcing company). Far too many companies in today's world do not take their security seriously – and end up paying for it.

Damage for a security event can be extensive and can cause some serious issues; too many companies fall foul of this and either do not survive or have to pay extensively for their lack of due diligence. Here are some common issues from an information or cybersecurity event:

- loss of brand reputation
- extensive fines
- mass-client exodus
- bad press coverage
- staff morale
- stakeholder migration
- share devaluation
- legal issues

Any one of those outcomes listed above is bad news for an organisation and these can be easily prevented by some simple awareness of risks and vulnerabilities to your organisation and its critical assets. Understand your security responsibilities and handle them; do not do what far too many organisations do and ignore them.

'DAMAGE FOR A SECURITY EVENT CAN BE EXTENSIVE AND CAN CAUSE SOME SERIOUS ISSUES; TOO MANY COMPANIES FALL FOUL OF THIS AND EITHER DO NOT SURVIVE OR HAVE TO PAY EXTENSIVELY FOR THEIR LACK OF DUE DILIGENCE'

The final thing to note – a *very* important thing – is that information security and cybersecurity is not just about IT. Yes, that is a large part of security these days with most of our assets having some form of IT-related component attached – but there are a lot of information security items that are more business-related than anything else. If you just look at the IT security aspects of your operation you are only looking at half of the picture. Look at the business as a whole, and remember the question to ask is:

"What are our security responsibilities both to ourselves as a business and our customers?"

7 TOP SECURITY TIPS FOR SERVICE PROVIDERS

1 KNOW YOUR BUSINESS-CRITICAL ASSETS
Identify and list them, review them regularly and ask yourselves: "Are we doing enough to protect ourselves as an organisation and those that rely on us?"

2 KNOW YOUR RISKS AND VULNERABILITIES
Make sure you understand what issues and risks you have to your operation and your business-critical assets. After all it's better to be aware of them and able to handle them properly than to ignore them and be surprised. Ninety per cent of organisations that have a security event do not survive the following year.

3 PLAN, PLAN, PLAN
For any vulnerabilities you cannot do anything about, plan a response for them: don't just leave them. Do something to plan for the eventuality the risk will occur.

4 CREATE AN INFORMATION SECURITY FUNCTION
Create an information security role in your organisation: if you want to be ISO27001- or PCI-DSS-accredited then you will need one anyway. Don't make it an IT person: you are only dealing with a small part of the issue. Make the role an independent advisor to the central stakeholders. They don't need to be a board member, just an *advisor*. Too many organisations make it IT's responsibility, and more often than not this will hamper an information security function. Don't do it; make it independent, as many CIOs may not communicate the risks to the stakeholders for fear that they will be in trouble.

5 DON'T CHEAP OUT ON RECRUITMENT
Do not, whatever you do, get an inexperienced information security person to check a tick box: get someone qualified to do the role, or if you want someone to fulfil the role, get them trained by a professional. Having an inexperienced person in the role can be, and often is, more of a hindrance than a help. Don't forget if needs be you can outsource the role to an experienced information security consultancy to reduce costs and provide on-the-job training.

6 REGULAR REVIEWS FROM A THIRD PARTY
Reviews from a third party are invaluable: they show whether or not your information security function is being effective and can often give valuable insight into providing a more secure service for your stakeholders and your clients. Use an independent third-party information security company that has the experience to undertake a review at least once a year. Be warned: use an information security company, not an IT support company; they will very likely not be looking at the whole picture!

7 DON'T GET TAKEN IN BY VENDORS
Too many technology vendors' salespeople will try to get you to buy their products stating inaccurately that these will "end all your security worries" or will "remove the need for you to become PCI DSS compliant". These are inaccurate and it's worth engaging an independent information security consultant, if you do not have one employed internally to take a look at the vendor's proposed solution. They will be able to give you the truth of the matter.

EVEN MORE

For more on information security and outsourcing see 'Optimising Information Security in an Outsourced Environment', online now at http://bit.ly/PRIbPr

@richardarnatt: If you work in InfoSec, your whole life is basically geared around making other people's life less easy.

THIS ISSUE: THE PUBLIC SECTOR; OUTSOURCING WORKS; NOA AWARDS SHORTLIST; PROCUREMENT

OUTSOURCERS ARE ALWAYS ACCOUNTABLE

Greater transparency in public sector outsourcing contracts could greatly improve the industry's reputation, says NOA Chairman Martyn Hart.

To find out more about the NOA visit www.noa.co.uk

Sourcing has never been so high profile – thanks to G4S' Olympic debacle and Richard Branson's war of words with First Group, everybody is talking about outsourcing. It's been a summer of discontent, as far as the media is concerned, with certain journalists queuing up to take pot shots at the very concept of outsourcing, and instigating an ideological debate as to whether it is politically and socially acceptable to outsource.

Now, as almost all economists will agree, the private sector tends to be more efficient than the state. Which means many of them believe the role of the state should be supervisory, rather than focussed on the actual delivery of services. Some quarters brand this as privatisation, and argue that outsourced delivery of services presents a huge moral hazard.

Outsourcing is not privatisation or a hazard. Not guilty your honour! On either count. For starters, outsourcing and privatisation are very different. Floating British Gas on the stock market, that was privatisation. The Soviet Union's natural resources being divided up among the men who would become known as the oligarchs – that was privatisation. Ownership – and therefore accountability – was transferred to a group of individuals, and the state gave up its proprietary rights to companies it used to own / manage, and therefore was no longer part of the decision-making.

Accountability is the key difference between outsourcing and privatisation (defined on Forbes' Investopedia as "the transfer of ownership of property or businesses from a government to a privately owned entity"). Once the ownership is transferred, so is the accountability. On privatisation British Gas was at once only accountable to its shareholders; oligarchs accountable only to themselves.

So if G4S providing Olympic security guards was – as some commentators insist – an example of privatisation, then Nick Buckles wouldn't have appeared before a Parliamentary Select Committee: he would have spoken at an EGM.

As we know, G4S will pick up the tab for the additional police and army personnel, and has donated an extra £2.5 million to the Ministry of Defence. All of this proves that the supplier is highly accountable to the government. In many ways, private companies are more accountable than public bodies, who do not face such direct consequences of poor performance. You only have to read about NHS or MoD debacles to see this point; in some cases we have been waiting years for them to even acknowledge there was problem.

Not to mention the reputational damage, and associated financial drawbacks. As well as losing over £50m on the contract, G4S saw its share price drop sharply and wipe millions off the face of the company. And still some commentators argue that outsourcing presents a moral hazard. Not true: the supplier had plenty of skin in the game, and was very much affected when things went wrong. It wasn't taking undue risks with other people's consequences: it had its own to worry about, both in terms of the financial penalty clauses built into the contract, and a sullied reputation in the minds of a generation of outsourcing decision-makers. People will think twice and thrice before commissioning G4S now, and its tenders will come under more scrutiny than ever before.

It is worth noting that in cases like this, when a deal doesn't deliver, it is often not the singular fault of the supplier: the contract will include certain obligations of the client too. Where obligations are not being delivered, on either side, the public should know the whys and the wherefores, which would greatly improve the transparency of the outsourcing industry.

I agree with Andrew Haldenby, Director of the independent think tank Reform, when he writes in *The Telegraph*: "The private sector can look secretive because the details of their contracts are typically hidden from the view of the public. But this is as much to protect the government as the company involved. It can be embarrassing for the government to admit that a private company is running a public service much better and at much lower cost than the rest of the public sector. Private companies provide complete data to government on their performance. My advice to the private sector, for what it is worth, is to make public their contracts and performance data, to avoid any hint of secrecy and to show what they can do."

Transparency of public sector contracts is something to be applauded and encouraged. Although, if exact price breakdowns were available for individual services it might cause more problems than it solved: price-fixing could become an issue. If suppliers could see the market rate for each service, each would naturally gravitate towards the most expensive.

Disclosing the overall contract value, and the services it covers would be a better idea. Better still, details of how the deal is performing, the value it is or isn't bringing. Rather than being released years after the fact, OGC-type Gateway reviews should be available in real-time. As taxpayers, the public has the right to know the status of a contract: is it green, amber or the dreaded red? If it is status red, what is being done about it?

If these details were made public, then people would know more about what outsourcing is and what it isn't, where responsibilities lie and risks exist. Increased understanding of our industry will increase trust. This means defining who we are, what we do and highlighting how well we do it. Outsourcing Works. Together we'll prove it.

PUBLIC ANNOUNCEMENT: OUTSOURCING WORKS

A new campaign could see 'Best of British' outsourcing become a permanent fixture in the global sourcing space.

Educating the man in the street about the value of outsourcing is important. These people may not be making decisions about outsourcing now, but they could influence the sourcing decisions of the future. For example, a father may be a true outsourcophobic. He may ramble on, as Dads do, imbedding his staunchly anti-outsourcing stance into the impressionable, young mind of his adolescent son.

Ten years later, that son is running his own company. Or, running the country, who knows? If he has it culturally ingrained that outsourcing is a bad thing, that doesn't work, and wastes money, then every procurement decision he makes will be influenced by that, and he will seek to influence the mindset of others…

There is a chance, if anti-outsourcing fervour builds up, that one day it becomes an electoral campaigning topic, just as it has in the US presidential race. Barack Obama is demonising 'Outsourcing' – this presents a major challenge to our industry. You can read any number of articles at the moment about Romney and Obama – "he's an OUTSOURCER, no you're a dirty OUTSOURCER". However, compared to the USA, British people are not nearly as inherently and vehemently opposed to outsourcing. But they still want evidence.

Earlier this year, the NOA commissioned a research project entitled "The Public Perception of Outsourcing" which discovered that to appreciate the value that outsourcing brings to the UK economy, the public wants to see evidence of the macro-economic advantages that outsourcing brings, such as its track record of job creation and its positive contribution to UK PLC. Well, let's give it to them – this information is out there. Outsourcing is the second-biggest aggregate employer in the UK. Every day, over three million people get out of bed, brush their teeth and go off delivering services for other brands. How can that not be creating jobs and economic benefit?

Here at the NOA, we know that Outsourcing Works. We are also acutely aware that news of failure travels much faster than success. Of the hundreds of outsourcing deals that made up the Olympics, only one gets talked about. And that is so wrong. To combat this depredation of our industry, we must unite and champion success, and correct some misconceptions along the way. The National Outsourcing Association is calling upon the entire outsourcing industry to demonstrate to the media, the business community and the man in the street that Outsourcing Works.

Although the NOA is aggrieved at the recent lambasting of our industry, we understand the need for outsourcing to prove its worth. We need to maintain the political status quo: this lack of political bias against outsourcing per se had led to a culture of end-user openness. This has allowed suppliers to mature faster, gaining a wealth of experience of governance and relationships, negotiations and renewals that other nations simply do not have. As a nation, we have the potential to become the global strategic hub for outsourcing. Many UK contracts are now third-generation; the UK is further along the outsourcing learning curve than any other nation. We are the battle-hardened veterans. That is why a plethora of nations come here seeking advice on how to maximise the value.

But to press home the advantage, and bring more and more work to our shores, ensuring that outsourcing knowledge is a major export, bolstering and reinvigorating the UK economy, our industry must join forces. Just like the Champagne region managed to position its wares as the *de facto*-number-one celebratory drink, we must champion the best of British outsourcing success – the end goal being that all across the globe, no outsourcing deal feels complete without British involvement. Cementing the UK as the undisputed global strategic hub for outsourcing could make sourcing a campaigning topic in the UK. But in an economy-boosting, positive way!

Following a pilot to a selection of the NOA membership base, 80 organisations have pledged their support to Outsourcing Works, the campaign to both celebrate success and share best practice. Work is on-going to collate case studies and numerical evidence to support this argument – give us a call at the NOA if you believe you can add weight to the campaign by providing details of a success story, or even better, a success-from-the-brink-of-failure story.

To find out more about the NOA visit www.noa.co.uk

THE NOA AWARDS SHORTLIST

Showcasing the best in the outsourcing industry...

The shortlist for this year's National Outsourcing Association Awards is now out – and, once again, some of the biggest names in the space are competing to triumph on one of the biggest nights of the European outsourcing calendar.

This year, a record number of entries are scrapping it out over the 19 categories up for grabs at the gala event (taking place Thursday 25th October 2012 at the Park Plaza Riverbank in London) and the shortlist (opposite) represents only a fraction of the companies throwing their hats into the ring.

NOA Chairman Martyn Hart said, upon the release of the shortlist: "Not only is this a record-breaking year for quantity, all of the award submissions are of outstanding quality. We always look forward to this time of year, as it brings a unique opportunity to compare best practice and reward the companies who are pushing the industry forward. The effort and detail that has gone in to the submissions makes me proud to be a part of our rapidly maturing industry, and also proud that so many companies see the value of competing to win a NOAA Shortlisting has been difficult – choosing a winner will be even harder."

The shortlist for the National Outsourcing Association Awards 2012 is as follows:

BPO Contract of the Year
- Infosys BPO Ltd – Everything Everywhere
- iQor – BBC
- Logica, now part of CGI, and ELEXON
- Source – The Solicitors Regulation Authority (SRA)
- Sykes Global Services – Link Network

IT Outsourcing Project of the Year
- Capgemini – Smith Group plc
- CSC
- HM Revenue & Customs
- RR Donnelley – Barclays
- Wipro Technologies – BT

Financial Services Outsourcing Project of the Year
- Accounting Consultancy & Solutions (Pvt) Ltd – Sri Lanka
- ELIX-IRR – Standard Bank
- Friends Life – Diligenta
- Sykes Global Services – Link Network
- TLT – Exigent

Public Sector Outsourcing Project of the Year
- arvato – Sefton Metropolitan Borough Council
- BBC
- HM Revenue & Customs
- iQor – BBC
- Xceed

Telecommunications, Utilities and High-Tech Outsourcing Project of the Year
- CSC
- Firstsource Solutions – O2
- Firstsource Solutions – Sky
- Infosys BPO Ltd – Everything Everywhere

In-house Outsourcing Professional of the Year
- Amanda Wright – Standard Life Plc
- Jim Hemmington – BBC
- Stephen Dyke – CSC

Rising Star of the Year
- Amanda Wright - Standard Life Plc
- Jodi Singfield – BBC
- Nik Mellor – Source
- Paul Thomas – CSC
- Przemek Berendt - Luxoft

Offshoring Project of the Year
- Aegis
- Centrica
- Intetics – eFinancialCareers
- Wipro Technologies - BT Lean Engagement: MBN Dwell Time Reduction
- Wipro Technologies – BT Lean Engagement: Task Closure Rate Improvement

Outsourcing Service Provider of the Year
- 60k – Thomas Cook
- Aegis
- arvato
- HCL Technologies
- Luxoft

Outsourcing Contact Centre Provider of the Year
- 60k – Thomas Cook
- Aegis
- arvato
- Firstsource Solutions
- OpenContact – Go Ape

Outsourcing Advisory of the Year
- DLA Piper
- ELIX-IRR
- Herbert Smith
- Olswang
- Source

Outsourcing Works: Award for Delivering Business Value in Outsourcing
- arvato – Sefton Metropolitan Borough Council
- de Poel – Care UK
- HM Revenue & Customs
- Mahindra IT & Business Services
- RESPONSE – Hiscox

Offshoring Destination of the Year
- South Africa
- Spain
- Sri Lanka

Outsourcing End-User of the Year
- BBC
- HM Revenue & Customs
- National Rail Enquiries

Award for Innovation in Outsourcing
- Aquira – Vodafone
- bss digital – 3SC
- Firstsource Solutions - giffgaff
- Liberata – CapacityGRID
- Liberata – Focused Liability Order Workflow (FLOW)

Award for Academic Achievement
- Dr Albert Plugge – Delft University of Technology
- John Strachan – Baker Hughes
- Kevin Willans – The Co-operative Banking Group
- Lorna Baker – Land Registry
- Richard Smith – HML

Award for Corporate Social Responsibility
- Avasant – The Rockefeller Foundation
- Centrica
- SPi Global

Skills Development Programme of the Year
- IBM
- Infosys BPO Ltd
- ITIDA
- Luxoft
- SQS Group Limited

Shared Service Centre of the Year
- Logica, now part of CGI
- Plan-Net
- Specsavers
- Teleperformance and Response – Student Loans Company
- UBS Poland

BILL CROTHERS, COME ON DOWN!

NOA Chairman Martyn Hart welcomes a new government Chief Procurement Officer, but warns there is more to procurement contracts than price.

As part of the newly amalgamated commercial relationships and procurement directorate in the Cabinet Office, the government has a new Chief Procurement Officer. Take a bow, Bill Crothers. Mr Crothers is a chartered accountant who has been working in Whitehall for six years. Prior to that, he had a long spell with Accenture. He knows his way around an outsourcing deal and he's hungry for savings.

In a recent interview, he was forthright about the size of the challenge he faces. "To me procurement covers everything including pre-procurement, managing a pipeline of what we might be requiring in the future, then buying, the pre-contract stage. The next stage – contract management – is critically important. And then there's an overlay of supplier relationships, which is different to contract management," he told *Public Service* magazine. "There's a huge range of skills and being a procurement professional in government is really challenging. There's a common thread of skills required for all of those activities, and a set of skills unique to each of them."

The National Outsourcing Association is keen to help. The All Party Parliamentary Group on Outsourcing and Shared Services is preparing a report to the Treasury that will offer practical advice to those high-ranking civil servants that a recent *Telegraph* article described as "struggling to adapt" to the evolving landscape of public service delivery. Up-skilling to create outsourcing savvy, intelligent procurement teams – with protocols that don't cost suppliers the earth to bid – should be one of the government's key initiatives in eradicating wastefulness.

> 'GOOD PROCUREMENT INVOLVES KNOWING THE MARKET, INCLUDING HAVING A ROUGH IDEA OF THE COSTS INVOLVED. INTRODUCING BENCHMARKING INTO PROCEDURES IS WORTHWHILE'

Currently, public sector procurement is seen as a combative sport. Done properly, outsourcing is a combined effort to secure maximum value over the life of the deal – not a race to the cheapest offer recorded on a piece of paper. Government needs to get smart and begin taking a holistic approach to costs. Being realistic and considering the financial impact over the full term of these tantalisingly low-priced contracts would be a good start.

At the moment, the public sector does not even account for the total cost of ownership – i.e. the unwritten costs, such as the man-hours of client-side effort to build up the relationship between supplier and customer. It is often never taken into account, for example, when shifting suppliers, it will incur costs, and these could outweigh the benefits of the new "lowest bid". But at the moment, the government doesn't seem to care about that – so long as those gladiatorial public procurers have negotiated "a most economically advantageous tender" – code for cheapest – we have a good deal. There is not enough involvement of the "ultimate end user". This is grassroots stuff, considering the wishes and challenges of the actual collaborators, the ones who really understand what it takes to make a deal work. That is the launch pad to genuine long-term value. Government would do well to remember this: a contract is for the lifespan, not just for inking.

A mature, savvy client doesn't make the decision purely on price, but on track record, references, and the informed opinion of previous/existing customers. With all of these things in place, you can find the right company to deliver the right service at the right price. Which is not necessarily the cheapest. Outsourcing decisions must never be made purely on price. Good procurement involves knowing the market, including having a rough idea of the costs involved. Introducing benchmarking into procedures is worthwhile; it will save more than it costs. Procurement teams should be deeply suspicious of any bid that's dramatically lower than the rest. If it looks too good to be true, it probably is. Beware the cheapest bid. It is a naïve consumer who thinks that the cheapest is the best bargain.

But given his background, Mr Crothers is well positioned to be an intelligent mover in the outsourcing market. The National Outsourcing Association will support him every step of the way: after the publication of the All Party Parliamentary Group report, we'll be looking to sit down with him and help him drive forward the changes needed to make the public sector an intelligent consumer of outsourcing.

To find out more about the NOA visit www.noa.co.uk

EVENTS PREVIEW & CALENDAR

EVENT	TYPE	TITLE	LOCATION	AM/PM
SEP 12				
26th	NOA Members Seminar	Knowledge Knowhow in Outsourcing	Mills & Reeve, Birmingham	1pm – 5pm
27th	NOA Steering Committee	All Party Group – Can Outsourcing Reduce Youth Unemployment?	Logica, London	4pm – 7pm
OCT 12				
11th	NOA Steering Committee	End User Only Steering Committee	Herbert Smith, London	9.30am – 11am
25th	Awards Ceremony	NOA Awards	Park Plaza Riverbank, London	6.30pm – 1am
NOV 12				
13th	NOA Topical Event	Developing the UK as the Global Strategic Hub of Outsourcing – How is the UK leading the way?	Eversheds, London	9am – 5pm
22nd	NOA Members Seminar	Outsourcing Works – Moving a partnership from problem to success.	TLT, Bristol	1pm – 5.30pm
28th	NOA Premier Members Event	Networking Drinks	London	5.30pm – 7.30pm
DEC 12				
6th	NOA Members Seminar	Outsourcing Works in LPO	London	9am – 11am
JAN 13				
17th	NOA Steering Committee	Outsourcing Works in HRO	TLT, London	9am – 11am
TBC	NOA Topical Event	TBC	London	TBC
FEB 13				
12th	NOA Steering Committee	Outsourcing Works in BFSI	London	TBC
27th	NOA Members Seminar	Outsourcing Works in the Public Sector	RPC, London	9am – 1pm
MAR 13				
13th	NOA Members Seminar	Developing the UK as the Global Strategic Hub of Outsourcing	Manchester	1pm – 5.30pm
21st	NOA Steering Committee	Outsourcing Works for Pharmaceuticals	London	4pm – 5.30pm
APR 13				
24th	NOA Steering Committee	Outsourcing Works in Retail	London	9am – 11am
TBC	Awards Ceremony	EOA Awards	Europe	7pm – 12am
TBC	NOA Topical Event	TBC	London	TBC
MAY 13				
15th	NOA Members Seminar	TBC	Edinburgh	1pm – 5.30pm
JUN 13				
TBC	Conference & Exhibition	Outsourcing Works Symposium Two Day Seminar and Exhibition	London	8.30am – 5pm

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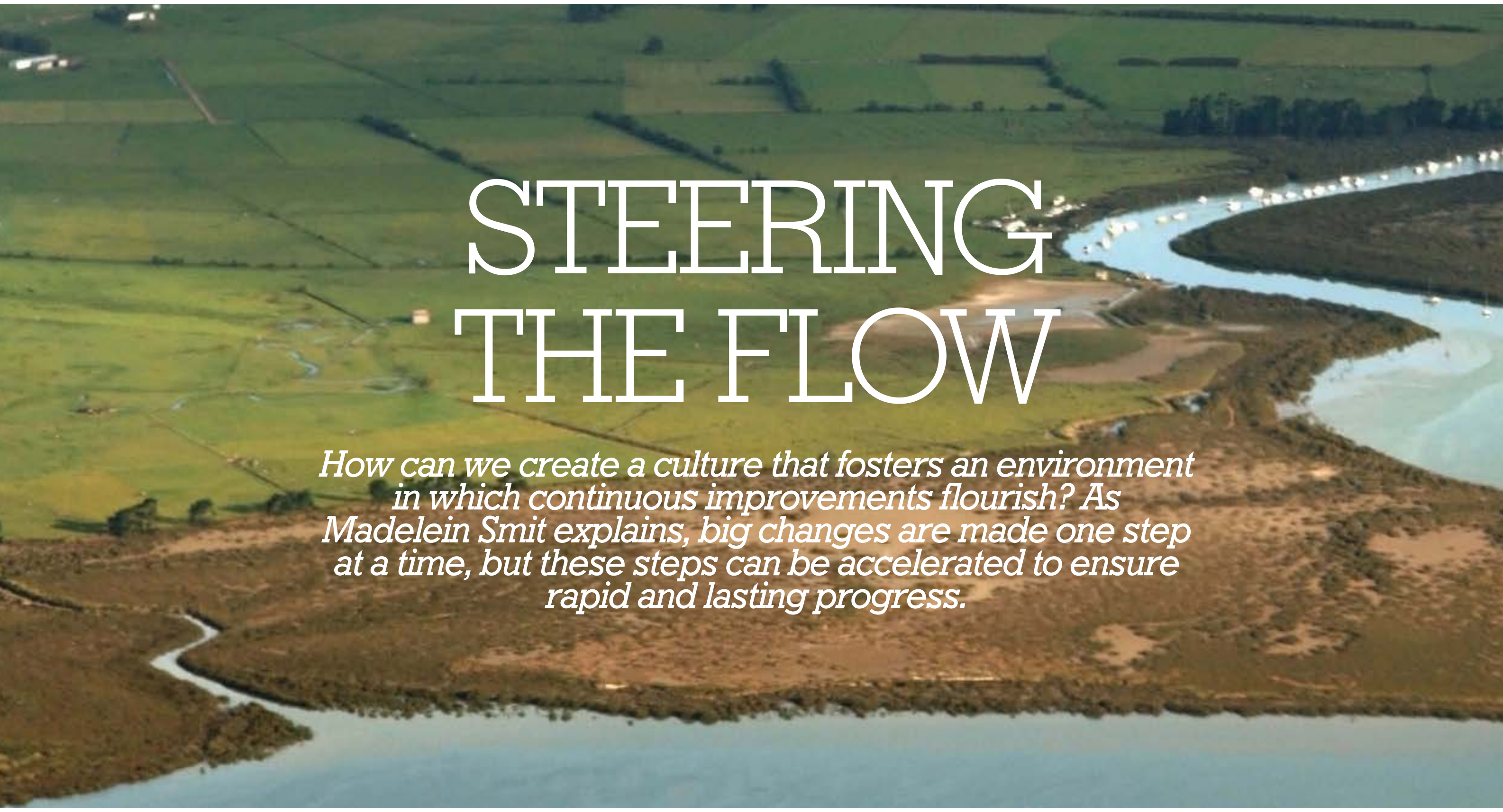


STEERING THE FLOW

How can we create a culture that fosters an environment in which continuous improvements flourish? As Madelein Smit explains, big changes are made one step at a time, but these steps can be accelerated to ensure rapid and lasting progress.

Madelein Smit, ***CEVA Logistics***

Madelein Smit is VP Global Finance & Accounting at CEVA Logistics, one of the world's leading non-asset based supply chain management companies.

Since prehistoric times, the tributaries to the Amazon delta have undergone numerous changes to their main course: large and small movements, as well as additions, deletions and other changes constantly change the landscape around it. A natural process, known as avulsion, shifts the courses of rivers because the deposits of silt and sediment begin to clog the river's channel, thereby raising the level of the water in the river and causing it to eventually finding a more efficient (steeper, more direct) route to the ocean. Over long periods of time, this process builds a pattern that is characteristic of a river delta.

The expression "everything flows, nothing stands still" (as quoted by Plato) probably can be equally applied to the way processes are established in companies over time. Much like rivers, a new process is designed to be efficient at first, but over time the tributary gets clogged up with additional checks and balances imposed – or simply the deposition of the sediment resulting from incremental changes in IT systems, mergers, staff changes and the like.

An example of how these things happen slowly over time was relayed to me recently. During a project to look at better working capital management – i.e. making payments on time – the central team found that the Colombian team always made all payments as soon as possible – i.e. very early – despite numerous requests to adhere to global pay terms. The response from the local team was that the Colombian peso was "always devaluating against the dollar" and that it was therefore cheaper to pay early, which is true in times of devaluation. A quick review of exchange rates clearly show that the peso goes up and down against the dollar, but this measure was instigated at a time of severe currency distress and somehow got stuck as the new process, even thought it was not necessary anymore.

In the same way, different departments, with different upstream interests, may reflect the meeting of the sandy coloured Rio Solimoes, that confluence the darkly coloured waters of the Rio Negro, and for several miles these waters run side by side in the Amazon without mixing.

These conditions can often be found when the business development team's interests meet those of the Finance team downstream. Any business has the need to understand how their revenue develops

"The happiness of the drop is to die in the river." – Al-Ghazali

from prior periods. Finance teams conduct analysis to understand whether the increases are solely because of new contracts, or also due to organic growth, and how much of the increase was offset by contracts that may have recently been lost. At the same time the business development teams need the same information to steer the pipeline. Surprisingly, the financial reporting systems quite often run in parallel to the sales IT systems without feeding their information to each other. This lack of integration results in in-depth analysis not being leveraged in either department – and so the headwaters are lost downstream.

Making matters worse, the speed of change required from companies in response to external demands has reached a level never experienced before in history. The rate of adoption of new technologies, customers demanding more and more personalised services and products, combined with the scarcity of resources and growth of emerging markets make for a heady leadership challenge. Leaders in companies have to create a mindset for improvement and innovation. It is no longer a safe option to accept that the present way of doing things is necessarily the best. If the management team chooses to put their heads in the sand, the competitors will eat their breakfast.

> ‘IF THE GOALS OF INDIVIDUALS ARE ALIGNED WITH THE SMALL CHANGES NEEDED TO BE MADE TO CHANGE THE END-TO-END PROCESS FOR THE BETTER, THIS CAN ADD UP TO A LARGE POSITIVE CHANGE OVER TIME’

If continuous changes are inevitable, how does one create a culture that fosters an environment in which continuous improvements flourish? What does it take to change a habit?

"*The fish only knows that it lives in the water, after it is already on the river bank. Without our awareness of another world out there, it would never occur to us to change.*" – Anonymous

After WWII the Japanese created a philosophy known as Kaizen ("change for the better"), made famous by their car assembly lines. Kaizen refers to activities that continually improve all functions. When applied correctly, it involves all employees in an end-to-end process – from the CEO to the work floor – thereby empowering personnel, crossing organisational boundaries and delivering better returns to shareholders.

It does not matter what change method is used. Six Sigma, LEAN, Agile, 5S and TRIZ / TIPS all have good track records. The value lies in the creation of a common language, across all organisational

"If you're going to live by the river, make friends with the crocodile" – Indian Proverb

functions and geographies, to approach problem-solving and deliver measurable and lasting change. For instance, at CEVA, a global supply chain management company, we have embraced the LEAN methodology, which pushes us towards impeccable operational execution. Coupled with Kaizen it creates a relentless drive to eliminate waste. Having one vocabulary in which Finance people can relate to business development staff to discuss an end-to-end rating and billing issue for a particular customer, encourages our teams to focus on the root cause and measurable outcomes, rather than on their individual issues with the matter.

In an outsourced situation, a root-cause analysis discussion has high potential to turn into a blame game, resulting in retained teams and offshored teams deflecting responsibility and hiding behind SLAs. Once teams start down this spiral it gets harder to pull them out of their emotional state and back into objective problem-solving.

Continuous improvement and gain share clauses now feature in most large outsourcing contracts, and yet there is little consideration given at the outset as to how an environment will be created in which teams can openly discuss process challenges and make suggestions to change processes that "we have done here like this for the last twenty years." The skill set for initiating lasting changes across borders, or within a matrix organisation with regional and functional executives, requires consideration alongside the decision to outsource. Those retained in the IT, Finance or HR function following an outsourcing decision might require up-skilling in order to step up to what is required from them in the new operating model and conditions.

In addition, there may be unrealistic expectations from what can be achieved in a certain time frame by the outsourcing service provider, leading to disillusionment at sponsorship level which might result in a knee-jerk change in provider. Rather, the management team has to have the courage to take a long, hard look at the processes of their own team – and how that fits in end to end with the outsourcing partner. There can be no sacred cows, where some teams or geographies are somehow absolved from their responsibilities to buy into the change process. All perspectives are required to fully understand the root causes and also for each team to have the context of how their own actions contribute to the root cause – or why changes in said actions are a key requirement to enable the improvement that is needed.

In centrally driven offshoring initiatives, local management may feel bypassed. These are the same people who are then expected to create a culture in which it is safe to challenge existing processes. Using familiar references (such as Kaizen) that are embedded in the language and culture of a company can offer a shared frame of reference to enable disparate teams to work towards the same goals of efficiency or cost savings. Creating awareness of the context of the change required, both at grass roots and sponsorship level, is key to ensuring that all levels of the organisation understand the value being striven for and that all those impacted by the change hear a consistent message from all layers of management or department heads about the purpose of the changes.

Aligning the goals of individuals (ideally linked to their personal scorecards and remuneration) towards the ultimate goal you expect from the team, such as efficiency or cost savings, can be very effective when the goal is congruent for all parties – i.e. the outsourcing provider is incentivised to do the same. Ideally a combined force should be created, with representatives from headquarters, the local teams and the outsourcing partner.

If the goals of individuals are aligned with the small changes needed to be made to change the end-to-end process for the better, this can add up to a large positive change over time. Consider the volume of vendor invoices that are processed in your organisation. Now think about whether it would be possible to save one minute per invoice in the entry, handling or payment process. If calculated back to the man-hours and mundane effort saved, such seemingly small individual actions can add up to a large positive impact.

In the same way that a man standing in a river like the Amazon would get washed away by the brute force of the current, someone trying to stand up to the flow and deliver radical change at once in a large established company will most likely fail. However, the flows of small streams can be forever altered by laying rocks in them, and all these tributaries make the mighty river. It is easier to make big changes by changing one small thing at a time in various departments and locations, guiding the efforts thereby ensuring that they meet up at the right place to deliver maximum impact.

CONTINUOUS IMPROVEMENT PRINCIPLES

CHECKLIST

- ✔ Leadership to create a mindset in which improvement can flourish. This means accepting and encouraging constructive dissatisfaction and creating a vocabulary in which it can be safely expressed.
- ✔ Really understand the problem. Make sure you have the real root cause. Think and think again. Ask "why?" five times to determine the true issue.
- ✔ Don't give up if you don't succeed at first. Try again and move towards your goal in small incremental improvements, learning from mistakes as you progress.
- ✔ Work in cross-functional teams. Use the perspectives from a number of people to brainstorm new ideas.
- ✔ Make looking for improvements a habit. Recognising that improvement knows no limits creates an environment in which everyone feels valued for bringing their ideas to the table.

EVEN MORE

For more from Madelein Smit check out her entry in our series 'The Professionals', online now at http://bit.ly/KzVTWJ

"You can never step into the same river; for new waters are always flowing on to you." – Heraclitus

CHANGING SHAPE

As buying organisations' needs and behaviours change, so too must providers' own strategies and offerings…

Kavitha Nair

Kavitha Nair is a business journalist specialising in information technology and processes. She is a graduate of the University of Mumbai.

The economic crisis may not have fundamentally changed the buying behaviour for large sourcing projects in Europe, but trends indicate that organisations want service providers to take on bigger risk in terms of service deliverables. Research firm Ovum believes that a longer sales cycle, tight budgets and the pressure on margins all indicate that the quality of service delivery will emerge to be the key battleground for the next 18 months. Vendors have taken note of this and are accordingly shaping up to meet the demands of the markets.

There is a crisis of confidence in European outsourcing markets, which have witnessed reduction in the number of megadeals.

"This combined with the implosion of demand for outsourcing in the UK public sector has led to the falling levels of total contract value," says Tom Reuner, Principal Analyst with Ovum.

Duncan Aitchison, Partner, EMEA, Information Services Group (ISG) also points to Europe's sluggish start to the year following a record-breaking second half of 2011. ISG's 2Q12 TPI Index measured total contract value (TCV) of €6.7 billion, a drop of 21 per cent from the second quarter of 2011 and 11 per cent from the first quarter of 2012. The 65 contracts the region awarded during the quarter represented a decline of 29 per cent year-over-year and 26 per cent sequentially.

Aitchison says: "Going forward, we anticipate a soft third quarter, which faces an especially tough comparison with 2011."

Meanwhile, the macroeconomic uncertainty has had an influence on buyers' behaviour. Both Harsh Muthal – CEO and Managing Partner for the strategic advisory firm for global outsourcing and investments Tholons – and Roop Singh, Vice President & North America/Europe/JAPAC Head, WCS, Wipro Technologies, touch upon the active involvement of various business functions in outsourcing decisions. These business functions now demand quicker return on investments.

> 'WE ANTICIPATE A SOFT THIRD QUARTER, WHICH FACES AN ESPECIALLY TOUGH COMPARISON WITH 2011' DUNCAN AITCHISON

"Consequently," says Muthal, "vendors need to brush up on their negotiating skills and also develop contracts that offer creative solutions and added-value propositions".

Wipro, for instance, leverages its consulting practice to bring in an understanding of the respective clients' business drivers. "The consulting practice, which we have been building over the past four years, allows us to engage in conversations that go beyond cost optimisation to offer new value propositions," added Singh.

Competencies are the other factor that influences a buyer's behaviour today. In the past, a service provider would offer services based on the specifics the customer had, on successful completion of which, the vendor would be awarded a long-term contract. Today the buyer expects the vendor to anticipate the trend and build competencies accordingly. The demand for industry expertise is more important now than ever.

As Liz Benison, President CSC UK, observes: "The industry has thus far spoken about bringing domain-expertise best practice from industry into clients. I don't think the industry has completely delivered on that." CSC recognises this and has put renewed rigour and focus into taking the best practice within a specific vertical to a customer as opposed to just bringing their technology play to it.

"Without change there is no innovation, creativity, or incentive for improvement. Those who initiate change will have a better opportunity to manage the change that is inevitable." – William Pollard

There is a clear pressure on vendors to up the delivery to keep the deals running, as the cost optimisation drive gets into high gear. Industry players point to a trend of "consolidate and outsource" amongst European buyers as they start to prioritise efficiency improvement projects. This is a top priority for CIOs today, believes Tridip Saha, General Manager & Head – UK (IT Services), MindTree.

"Based on an organisation's structure, IT – be it in infrastructure support or application support – is fragmented across different divisions and different countries. Consolidating the fragmented environment helps companies bring about much-needed efficiencies," says Saha.

The consolidated approach to outsourcing is characteristic of second- or third-generation outsourcers who have a strategic view of outsourcing. Clients who are first-generation outsourcers are by comparison relatively immature. It might take them a couple of years to switch to a consolidated mode of outsourcing. It, therefore, could be argued that the approach to "consolidate and outsource" is but part of the maturation of the outsourcing lifecycle.

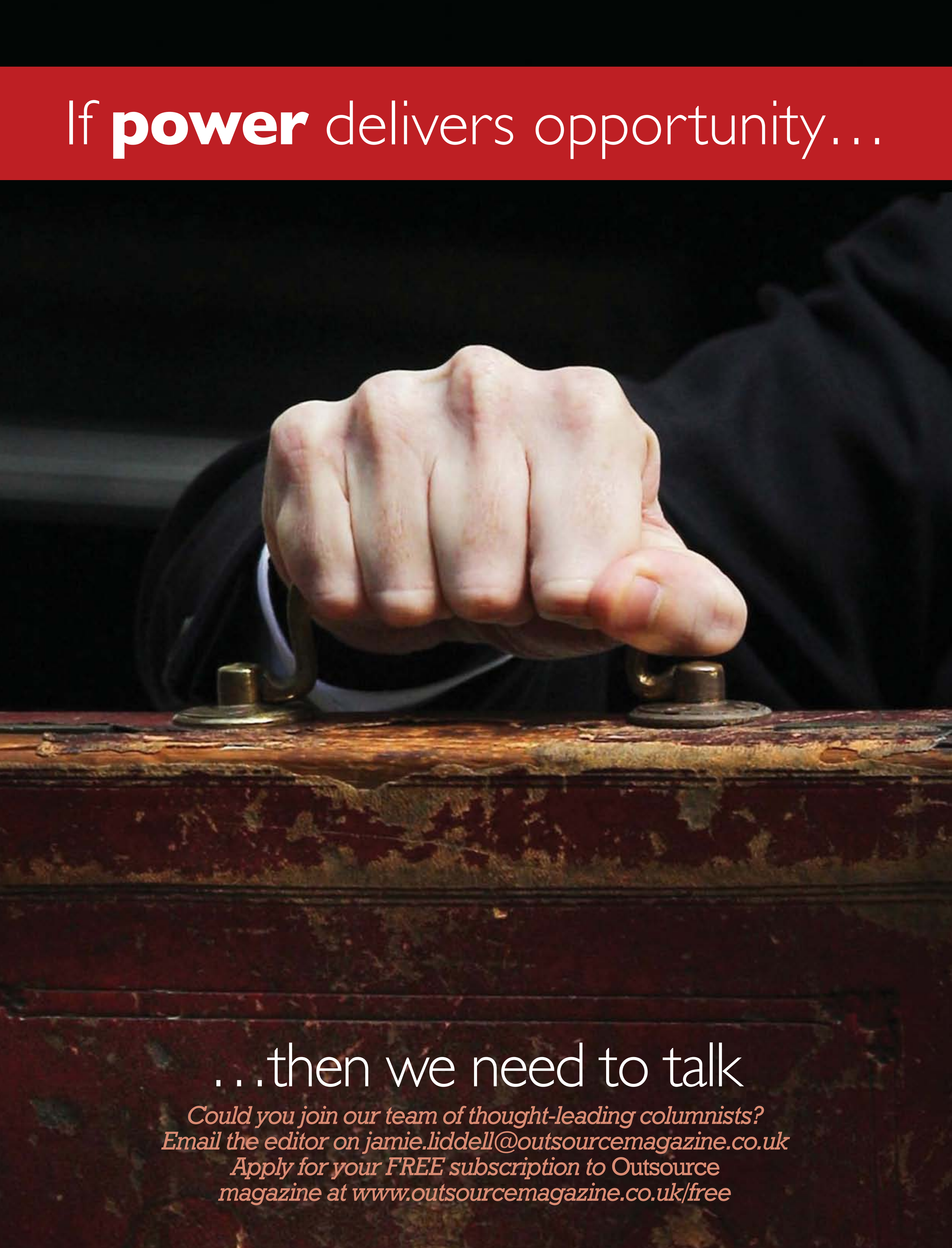
However, says B G Srinivas, Member of the Board, Head of Europe & Global Head of Financial Services & Insurance for Infosys, once a client has achieved a level of optimisation, and there is a requirement to further reduce the spend, organisations are forced to look to the next level and consolidate with the vendor base.

"The uncertain environment does add to the pressure on the IT spend and consequently reinforces this consolidated approach," Srinivas added.

This uncertain environment also paves the way for a "reverse innovation model". As per this model, innovations in IT solutions developed in places like Brazil, China, and India are exported to Europe. Wipro, for instance, has been actively bringing its learnings and innovative solutions from emerging countries to the European and North American markets for the past

There is a crisis of confidence in European outsourcing markets, which have witnessed reduction in the number of megadeals.

@ProtectHCCan: New & developing markets are intensifying global competition for the capital necessary for innovation. #CETA #cdnpoli #next25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six or seven months in the financial and manufacturing sector.

Singh explains: "A case in point is our experience with a client who wanted to introduce a white goods product." Given the market condition Wipro had to ensure the product was comfortably priced. The company worked with the client on the R&D and on different cost criteria, and delivered a product based on their learnings from an emerging market. Singh adds that they have started to see a lot of traction in this approach.

A confluence of the existing environment with technology advances is a factor Benison believes could strongly influence the reverse innovation trend. She points to an increase in instances where customers have either trialled new products or services, or plan to do so, in the emerging markets and post successful implementation bring back the learnings to their mainstream global business.

Buyers have also started to look for commercial flexibility in their contracts. iGATE for instance has seen acceptance of its outcome-based model enabled by iTOPS (integrated technology and operations). As per this framework, iGATE makes the upfront investment in building a technology and process platform. The client then pays only for the agreed outcomes achieved through the platform. This helps the company deliver a variable cost structure to manage the client's business.

"The interest in this framework is increasing across all sectors," says Derek Kemp, Executive Vice-President and Head of Sales for EMEA, Asia & Australia, iGATE.

Kemp adds that customers today are also embarking on a simplification agenda, be it in terms of rationalising their applications/portfolio or vendors or both, and cites an opportunity in the midst of the uncertainty. He believes that in such a scenario the iTOPS approach could be an attractive proposition to a client. The company has already seen traction in this business model and expects more clients to opt for this model through the second half of the year.

Liz Benison

'THE INDUSTRY HAS THUS FAR SPOKEN ABOUT BRINGING DOMAIN EXPERTISE, BEST PRACTICE FROM INDUSTRY INTO CLIENTS. I DON'T THINK THE INDUSTRY HAS COMPLETELY DELIVERED ON THAT' LIZ BENISON

In order to succeed in this scenario, a service provider will need to become lean and efficient, rationalise the installed base and the way they can deliver, craft and sell services.

"As easy and mundane as it sounds this is critical. An industrialised approach to commodity services delivery and services offerings will help bring in economies of scale," feels Gianluca Tramacere, Research VP, Gartner.

Nonetheless, despite the macroeconomic uncertainty, vendors all remain cautiously optimistic.

Hexaware for instance has been posting a 40 per cent growth year-on-year. "Our approach of primarily concentrating on Germany [and the] UK and spending time with existing clients is yielding good results. This has helped in repeat business and to drive growth," says P R Chandrasekar, CEO, Hexaware Technologies.

The volatility in exchange rates does have an impact on software exports companies like Hexaware for whom majority of the revenues are in dollars or euros. Hexaware for instance has hedges worth Euro 13 million at an average rate of 70Rs. This has increased since the same time last year.

"The increase in number is but an indication of the increase in our business," added Chandrasekar.

HCL too has seen an upsurge in demand. Ashish Gupta, EMEA VP, HCL Technologies rationalises that in a market where clients look to reduce the cost of delivery and make IT more efficient, players like HCL offer an attractive proposition.

"Last year we did almost two and a half times the booking which we traditionally do and this year too we seem to be walking on the same path" says Gupta.

According to a report on zdnet.com, HCL's CEO Vineet Nayar was quoted stating that the company had stopped hunting clients from April and that the company would move from being a hunter to a farmer, grabbing low-hanging fruit. Gupta explains that the company will pursue a similar strategy in Europe as this would help drive more value with existing customers. Gupta clarifies that the company has not stopped looking for new clients and that though the focus is currently inclined towards the farming approach, it could change as the market situation evolves.

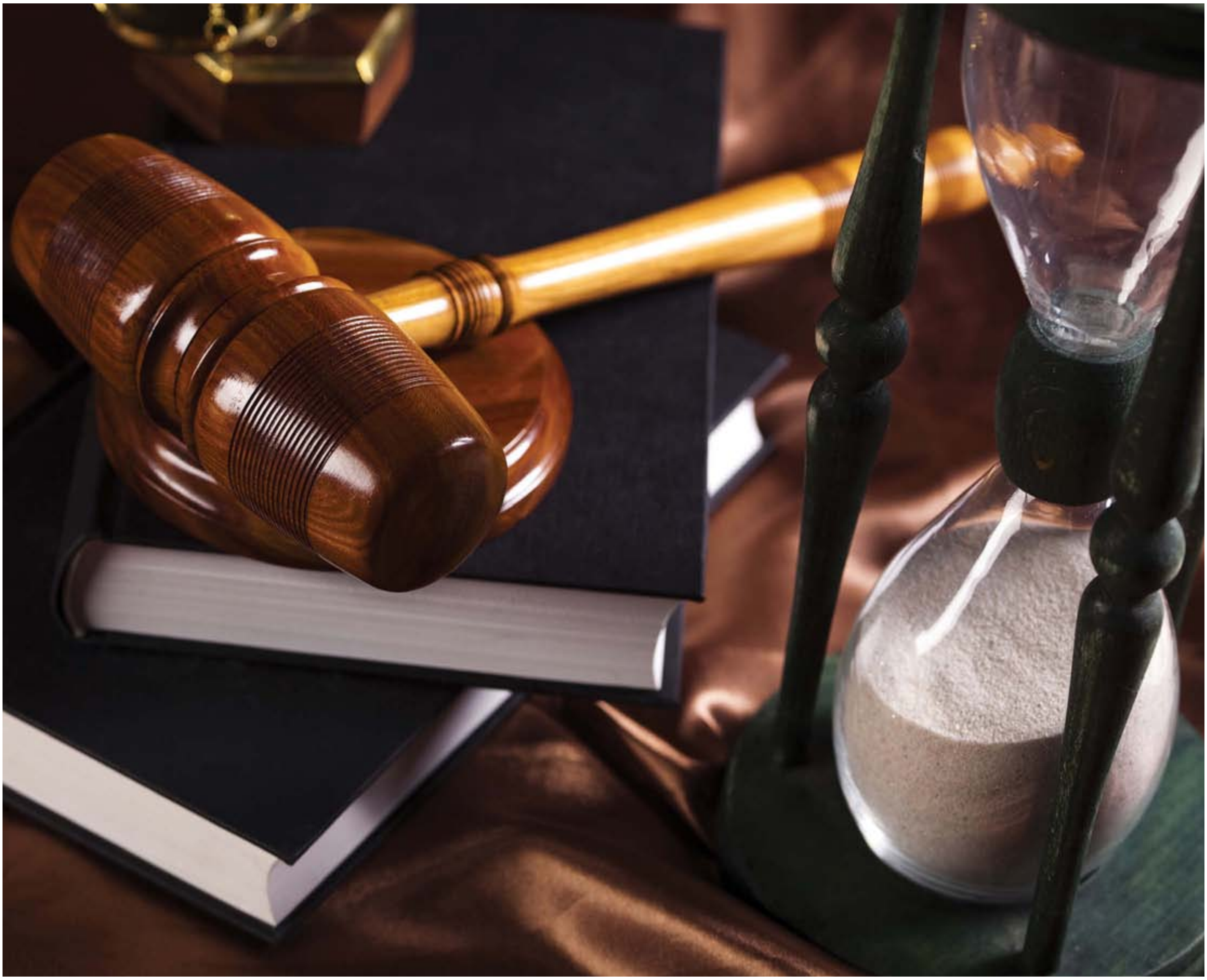
BG Srinivas adds that the Infosys view in the current macroeconomic climate is not to panic. The company continues to invest in its people and platforms. But at the same time it is also monitoring its people investments on a quarterly basis, so as to ensure it is in line with the business visibility and can also avoid creating an onsite bench.

EVEN MORE

For more from Kavitha Nair, see her article 'Size Matters' from the last Outsource*, online now at http://bit.ly/OuEJX1*

LEGAL TRANSFORMATION

What can law departments learn from their peer functions about outsourcing and vendor management?



Danny Ertel, Vantage Partners

Danny Ertel is Founder and Partner at Vantage Partners LLC, a Boston-based global management consultancy specialising in relationship optimisation; and chairman of software provider Janeeva. He is also a member of the Sourcing Interests Group Advisory Board, and a columnist for Outsource *online.*

"Study is vain and counsel useless that is not put to virtuous effect when the time calls." – Rabelais

After years of resisting change and the adoption of practices that IT, Finance, HR, and other corporate functions have successfully put to use, corporate law departments are embarking on a major transformation. Making better use of technology, globalisation, and process reengineering, some General Counsels and their teams have been able to get their costs under control, free up resources to work more closely and strategically with their internal clients, and play a larger role in managing their companies' ever-growing compliance risks. The challenge many are facing, however, is that the techniques that worked for IT or Finance transformation, and the sourcing tools that have helped reduce other kinds of indirect spend, need to be adjusted and adapted to what is indeed different about the practice of law. Outsourcing means something different to a corporate function that already sends out a majority of its work to law firms. Spend management means something different to a department that sits between internal clients and outside advisors with whom they must have a relationship of trust and candour.

PROCUREMENT 101 AND THE LAW DEPARTMENT

Basic procurement principles encourage buyers of goods and services to gain leverage by consolidating their spend with a smaller number of suppliers. DuPont's highly regarded Convergence Model provided an early proof point (in 1992) for corporate law departments, as they reduced the number of law firms the company used from 350 to 34. Since then, many corporate law departments have gotten on that bandwagon, recognising that the hundreds of law firms they used were too many to afford them much clout with each. But consolidation is not a panacea, nor does the added clout guarantee real savings.

The reality is that even when they use many law firms, most companies already concentrate a significant portion of their outside legal spend. ALM's Law Department Benchmarking Survey last year found that on average, the top two firms used by any given company get about 50 per cent of the company's spend, even as that company makes occasional use of a hundred or more firms. Actually trying to move more spend toward a few firms is also no easy feat. In many cases, law departments act primarily as intermediaries or internal project managers, with the business unit clients selecting the outside firm they are most comfortable with; and even when in-house counsel drive the selection process, relationships, relevant experience, and conflicts are typically more important criteria than any spend-related sourcing strategies.

> ‘THE REALITY IS THAT EVEN WHEN THEY USE MANY LAW FIRMS, MOST COMPANIES ALREADY CONCENTRATE A SIGNIFICANT PORTION OF THEIR OUTSIDE LEGAL SPEND’

Companies that have tried to bring their outside counsel spend under tighter control have found that change management, rather than spend analysis, is their biggest challenge. Moreover, giving a particular firm a lot of your work is not, by itself, a guarantee that they will give you their best rate or the best value available in the market. The 2012 Real Rate Report from TyMetrix actually suggests otherwise: the more work one firm handles for a client – and the longer the client relationship extends – the higher the average rate the firm charges.

While convergence was an important element of their model, DuPont did a lot more than consolidate their spend with fewer law firms: they also pushed those law firms to standardise and share documents; they significantly increased the use of paralegals; they introduced innovative techniques for case management and early case assessment; and they were early adopters of technology to support collaboration with outside counsel. These were possible not just because they spent more with each primary firm, but because DuPont made significant investments in very active management of the relationship with those law firms.

THE NEXT WAVE: UNBUNDLING

The combination of improved technology, globalisation, and the recession did finally create enough pressure that legal process outsourcing (LPO) has become a reality. Although adoption is still thin, corporate legal departments have begun to pick the low-hanging fruit in terms of lower-value, repetitive tasks that could be separated from the handling of the overall matter and outsourced to a different provider. The most common example, accounting for the greatest volume of the work at LPO providers, is the initial review of documents that may need to be produced to the other side as part of pre-trial discovery. As law firms and their clients gain experience and become more comfortable with mapping legal processes and identifying those pieces that can be done at the requisite levels of quality for a much lower cost, other activities such as contract management, patent reviews, and some aspects of due diligence have started to follow suit.

Of course, what is unbundled must eventually be reintegrated. Outsourcing some tasks means managing more, rather than fewer providers, and unlike simply adding another law firm to a panel, integrating an LPO provider's services requires effective communication and collaboration not only between client and provider, but also with the law firms and technology providers who are part of the equation. Law departments have not traditionally majored in vendor

“Discourage litigation. Persuade your neighbours to compromise whenever you can. As a peacemaker the lawyer has superior opportunity of being a good man. There will still be business enough.” – Abraham Lincoln

management or operational excellence. But to act like the service integrators they are becoming, they must also develop new capabilities. Some law departments, like those at Prudential, NetApp, and Credit Suisse, to name a few, have created new roles for Legal Operations, and reached out to colleagues in IT, Procurement, Finance, and other functions, to build the necessary connections that are required for a smoothly-running, multi-vendor environment. (See *All the King's Horses … Putting Value Back into Legal* (ACC Docket, Jan/Feb 2012) available at http://bit.ly/P6eVFh)

NO MORE BILLABLE HOURS

The other big push many in-house counsel are making is away from the traditional "time and materials" billing models and toward alternative fee arrangements (AFAs). Clients want predictability and meaningful budgets for their legal services, not just discounts on an hourly rate with no control over the amount of time that gets billed at that rate. Many corporate law departments are experimenting with paying for work on a fixed-fee basis, or under some risk-sharing models, but progress is slow. For most companies, the use of pricing models based on something other than the billable hour is limited to a small portion of their work. Notable exceptions include pharmaceutical giant Pfizer, which has moved nearly 75 per cent of its outside legal work to a panel of law firms whose work is primarily contracted for under a flat-fee model. In the oil and gas world, FMC Technologies, another innovator, has moved much of its outside legal spend into a structure under which a portion of every invoice is held back, and then 0-200 per cent of that holdback is paid at the end based on the firm's performance. But AFAs are no more a panacea than consolidation, nor any easier to implement well than unbundling.

To be effective, Pfizer and FMC have had to make significant changes in how services are consumed, not just in how they are paid

> MUCH MORE IMPORTANT THAN THE SIZE OF THE DISCOUNT IS WHETHER THE CLIENT IS GETTING VALUE FROM THE RELATIONSHIP

for. Flat fees are not sustainable unless the buyer of those services limits the scope of the demands it makes on outside counsel. Making final payments hinge on law firm performance and client satisfaction doesn't work without clear expectations and easily understood evaluation criteria. To move away from buying services by the hour, lawyer and client both must communicate and collaborate much more effectively, and not just about the content of the work, but also about how the work will be carried out ("Should we look under every rock? Which ones should we leave unturned?").

What doesn't generally work for controlling legal costs, is to approach the lawyer-client relationship as if it were a pure commodity purchase. As we've learned with outsourcing other corporate functions, when buying complex services, the relationship matters. (All available evidence from IT and Business Process Outsourcing arrangements suggests that the difference between a well-managed provider relationship and a poorly managed one is worth as much as 30 per cent of annual contract value – see, e.g., *Managing Outsourcing Relationships to Maximize Value* (Vantage Partners, 2010) available at http://bit.ly/RAS0CP.) In law, where the nature of the services rendered requires that the client trust the provider, it makes no sense to engage in the posturing and gamesmanship typical of commodity purchase negotiations. "Best" offers, "Final" offers, "Best and Final," and similar variations on the "start high and make concessions grudgingly" dance serve only to teach both client and counsel not to believe the first thing the other has to say. And when corporate sourcing groups and legal departments obsess about making sure no one is paying the law firms they use a lower hourly rate, one has to wonder why their strategy is to become a firm's "least desirable client"?

Much more important than the size of the discount is whether the client is getting value from the relationship. Value is about the results the firm obtains, the responsiveness with which it addresses the client's needs, and the efficiency with which it deploys resources. Value comes from the insight counsel bring to solve a problem, the knowledge they apply to execute a transaction, and the care with which they advise clients about the risks they face. To get the greatest value for their money from outside counsel law departments must create sustainable relationships, much like the best long-term outsourcing relationships and strategic partnerships.

STANDING ON THE SHOULDERS OF GIANTS

Legal education, at least in the US, has

"Go not to the elves for counsel, for they will say both yes and no." – JRR Tolkien long been based on the case method, drawing lessons from the mistakes (and successes) of others. The management of legal practice, both in-house and at law firms, could stand to learn from what peer functions have been doing to become more efficient and more responsive to the needs of the business. In particular, in-house counsel should apply key lessons learned about what it takes to manage a network of preferred providers.

● **To be sustainable, pricing model change must come hand-in-hand with delivery model change.** Clients want to move away from pricing based entirely on effort without regard to the efficiency, quality, or success of those efforts. Fair enough. But to stop relying primarily on the billable hour, law firms and law departments will have to get better together at specifying the terms of their engagements and at paying attention to the fitness for purpose of the resources assigned to achieve those requirements. Outsourcing providers have learned that delivering complex services, some which are basic and repetitive and others which entail the exercise of significant judgment and expertise, requires an ability to price not just on the basis of time, but also outputs, transactions, functions delivered, scope of responsibilities, and service levels attained. To price based on outputs, value, satisfaction, etc., however, law firms must first understand what it costs them to do what, and then reengineer their services so they can deliver those outputs or convey that value consistently, while making a profit.

● **To make legal matters subject to budgeting and project management, and to enable delivery of more elements of the work by junior / less expert resources, standardisation and knowledge management are a must.** Outsourcing providers know that the key to enabling delegation, as well as to improving processes and making them more efficient, comes in large part through standardisation. Although as lawyers we like to feel that we are always working on

> "TO BUILD A NETWORK OF PREFERRED PROVIDERS WHO CAN HELP A COMPANY REDUCE LEGAL COSTS AND INNOVATE IN HOW THEY SUPPORT THE BUSINESS, LAW DEPARTMENTS WILL HAVE TO ADOPT PARTNER MANAGEMENT BEST PRACTICE"

bespoke solutions to clients' unique and non-recurring needs, the reality is that many things we do can be done equally well and more efficiently by reusing precedent; and we can eliminate a fair amount of time spent by both sides reviewing and revising basic documents by adopting forms that meet market standards. (There is certainly evidence in the London finance market, for example, that the sophistication of the legal practice has been elevated, not downgraded, for having adopted standard forms for basic agreements.) For that to happen, however, clients must accelerate the adoption of standard form contracts and other documents, and insist their lawyers focus their time where it really matters.

● **To get better value for money law departments must create real partnerships with their preferred firms, and that means solving some of their problems too.** Companies that have unilaterally imposed major rate discounts on their panel firms have learned the hard way that by doing so they make it harder for their relationship partner at the law firm to pull together the right team for each assignment and to be especially accommodating when the client needs access to special expertise or is in a bet-the-company situation. If law firms are to change how they bill, invest in knowledge management, and send to LPO providers tasks that used to be performed by their own junior associates, they will be creating huge (and unsustainable) problems for themselves in terms of recruiting, training, and profitability. Unless clients treat those as shared problems, they will not be able to achieve the improvements they seek. To build a network of preferred providers who can help a company reduce legal costs and innovate in how they support the business, law departments will have to adopt partner management best practice.

● **To make any significant changes to the models under which corporate law departments engage outside counsel, clients will need to be build strategic supplier management capabilities.** As other corporate functions have reduced the number of suppliers they use, they have had to learn to manage the fewer (and now more strategic) ones differently. Doing so effectively requires new skills and tools, and a mindset geared toward joint problem-solving. It also requires putting in place protocols for communication and decision-making, a shared approach to budgeting and planning, and a process for solving the business challenges both client and counsel will face.

The transformation of the business and practice of law is under way. The pressures from the business to be more responsive to their needs, help them deal with the growing risks of operating in an increasingly regulated and highly globalised market, and do so with much greater budget discipline are not going to go away. The good news is that law departments can leverage what other corporate functions have learned in dealing with similar challenges. The road to better pricing structures, more efficient delivery models, and strong relationships with trusted advisors who are also real business partners, lies through how law departments create and manage their preferred provider panels.

EVEN MORE

For even more from Danny Ertel, check out his top ten tips for repairing troubled relationships, online now at http://bit.ly/kcMS52

"I try and live to the letter of the law, but right on the edge of it." – Mark Roberts

GETTING TO THE REAL-LIFE WIN-WIN

Kate Vitasek and the Vested Outsourcing model have been making big waves in outsourcing for the past couple of years – but just what is the model all about, and which companies, if any, have embraced it? Time to find out…

Kate Vitasek,
University of Tennessee

Kate Vitasek is a faculty member of the University of Tennessee's Centre for Executive Education and an internationally recognised innovator in the practice of supply chain management and outsourcing.

After two years of blogging for *Outsource* I hope readers have at least heard of Vested Outsourcing and maybe even read one of our three books. But perhaps you have some doubts and concerns, so you are still waiting on the sidelines. All too often we hear, "I like the theory of Vested, but does it really work in the real world? Are companies (especially ones people have heard of!) adopting the Vested approach?"

Short and simple: the answer is a resounding YES! And we are featuring our favourite cases studies in our latest book *Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships*, by myself and Karl Manrodt with Jeanne Kling. *Vested* is a behind-the-scenes look at the separate and often inspirational journeys that big and small organisations have taken to "vest for success" following the five rules of the Vested approach for developing highly collaborative relationships.

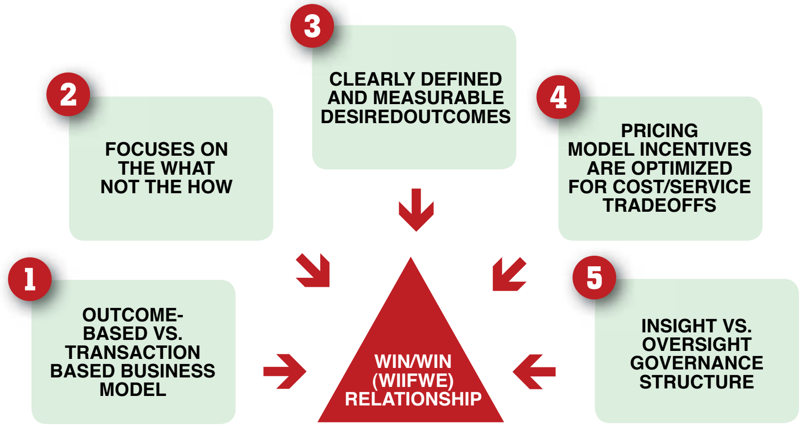
SO JUST WHAT IS VESTED?

The original research leading to the Vested business model was a collaboration among the University of Tennessee (UT), the

Twenty-two separate P&G brands each have total global sales of over $1bn.

Microsoft Corp. chairman and philanthropist Bill Gates

FIGURE 1



United States Air Force, and the Defense Acquisition University. We studied some of the world's most successful outsourcing relationships with a simple goal in mind: find a better way to outsource services.

The result is Vested: a hybrid outcome-based business model based on shared-value and relational economics principles. Under the Vested hybrid business model organisations work together to build a solid, trusting and cooperative foundation for sharing value and achieving desired outcomes. Vested is best employed when organisations want to achieve transformational results versus simply

Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships is published by Palgrave Macmillan and is available at http://amzn.to/MnLj6l entering into a transaction-based agreement. Organisations that adopt a Vested approach follow five "rules" to develop and build their business relationships (*see Figure 1*).

For those seeking the elusive "win-win" by creating agreements that are designed to drive innovation and create shared value, look no further. Here's a brief look at some of the case studies we feature in the book – they portray the thinking and processes that companies use in implementing the Vested model.

P&G

When AG Lafley became the CEO of P&G in 2000 he brought with him a vision to transform the consumer packaged goods giant's entire approach to innovation and outsourcing. Innovation was a major priority under Lafley's stewardship, but he questioned the sustainability of the "in-house-invent-it-ourselves" model, betting that looking beyond P&G's walls could produce more highly profitable innovations that would drive value for both P&G and the parties bringing innovation to P&G. This thinking required the rejection of a "not-invented-here" mindset within P&G to enthusiasm for those ideas "proudly found elsewhere."

But at P&G innovation does not stop at product development. It clearly extends into its outsourcing operations as well. P&G believed that, by working with world-class outsourcing service providers it could drive costs lower and ensure that service offerings remained on the leading edge of best practice. In 2003 the company entered a groundbreaking contract with Jones Lang LaSalle that turned the conventional approach to outsourcing on its head: P&G created a business model based on contracting for transformation instead of contracting for day-to-day transactions.

P&G embraced a Vested approach when it inked a pioneering outsourcing contract with JLL spanning 60 countries that included facility management, project management and strategic occupancy services. The scope and complexity of the deal was a first for both companies, as well as the approach of the commercial contract.

The two companies created a commercial agreement that was highly Vested in nature, collaborative in approach and transformational in thinking. Under this groundbreaking agreement, P&G created an outsourcing relationship that challenged JLL to not just take care of its buildings, but to take charge of its buildings.

The results? P&G says its Global Business Services unit has reduced cost as a percentage of sales by 33 per cent for its outsourced operations. These savings were not achieved at the expense of customer satisfaction. P&G's "customers" – the employees that use the facilities – are the real customers of JLL. JLL has exceeded satisfaction targets for six consecutive years.

> ‘AN OUTSOURCING MODEL BASED ON INSIGHT AND PERFORMANCE RATHER THAN BEAN-COUNTING AND COST-CUTTING REQUIRED AN UNCONVENTIONAL APPROACH’

MCDONALD'S

Most of us know that McDonald's has a secret sauce that makes its Big Mac so tasty. But the company's real secret sauce is the "System" that founder Ray Kroc perfected to build long-term transparent relationships designed to give McDonald's a sustainable competitive advantage in the marketplace. The System is based on the belief that everyone in the McDonald's System comprises a three-legged stool – employees, owner/operators and suppliers – and that as such they all can and should win together.

Kroc insisted that winning only happened when all parties were successful. The stool is only as strong as its three legs; for one leg to prosper, each leg must prosper. Simply put, McDonald's, its owner/operators, and suppliers have a vested interest in helping each other succeed.

Kroc's System is based on trust, loyalty, and fairness. This motivates suppliers to invest in McDonald's business – creating a marketplace advantage in key business drivers such as cleanliness, quality, value, assured supply, safety, and being better, not just bigger. Kroc engaged suppliers who were entrepreneurs and would not hesitate to innovate and invest in the McDonald's System. He worked with suppliers to develop products and processes that served the owner/operators and, at the same time, produced profit and growth to the supplier.

To this day McDonald's lives by the philosophy that, as Kroc famously said some 50 years ago, "None of us is as good as all of us." Together, McDonald's and its owner/operators and suppliers work together to create a competitive advantage for McDonald's and those in the System. The results are stunning. In 2011, *Fortune* Magazine named McDonald's the number-ten Most Admired Company in the World. Fortune ranked McDonald's number-one among all companies for "Management Quality", "Global Competitiveness," "Use of Corporate Assets," and second among all companies for "Best Long-Term Investment." Forbes placed McDonald's first on its 2010 list of Most Admired Companies. Barron's ranked the company fifth on its 2011 list of Most Respected Companies. Business Week included them in its top 20 Best Companies For Leadership, and also noted that McDonald's was one of 2010's Greenest Companies in the World. McDonald's has earned dozens more awards in vital areas of workplace, diversity, and sustainability.

O **According to company estimates, one in every eight American workers has been employed at one time or another by McDonald's.**

MICROSOFT

Six years ago Microsoft came to the uncomfortable conclusion that it needed to completely restructure its major global finance processes and operations.

Its worldwide system was a patchwork of inefficient and disjointed processes: the software giant was using 77,000 active procurement vendors and its finance operations used up to 370,000 hours annually simply producing reports.

A better system was needed; the company's senior management determined that outsourcing would help improve quality and cost structures. But Microsoft wanted to go beyond the conventional notion of outsourcing, or simply shifting the "mess for less." Microsoft's vision was to shift the focus from transactional accounting to a more strategic approach that would leverage "business insight". It also wanted to achieve consistency and standardisation worldwide. This project became the OneFinance initiative.

An outsourcing model based on insight and performance rather than bean-counting and cost-cutting required an unconventional approach – one that was not simply about outsourcing the work, but about outsourcing a transformation of the work, achieving desired outcomes and changing the definition of winning to create a mutually beneficial win-win mentality.

The company needed a partner it would share that new vision with over the long haul, one with a vested interest in achieving that win-win mindset. Enter Accenture.

The result was a Vested model – a performance and outcome-based relationship that focusses on results, not transactions. The OneFinance initiative embraces defined and measurable outcomes; it focusses on the what, not the how; it optimises pricing incentives and has a governance structure based on insight, not oversight. It's no accident that those features are real-life iterations of Vested's Five Rules.

The OneFinance initiative outsourced back office finance transactions in 95

> ‘AT P&G INNOVATION DOES NOT STOP AT PRODUCT DEVELOPMENT. IT CLEARLY EXTENDS INTO ITS OUTSOURCING OPERATIONS AS WELL’

countries to Accenture. Both parties operate the agreement with incentives designed to improve performance and deliver increased value year-over-year. They share in the risks and rewards of doing so. This innovative outsourcing relationship vests Microsoft and Accenture in each other's success: they are most successful when they both succeed.

The OneFinance success story is the very definition of win-win. In February 2007, Microsoft signed the outsourcing agreement with Accenture, with an original contract term of seven years at a value of $185 million. The contract spanned Microsoft's entire back office finance processes, including: AP – Expense reports & invoices, requisition to Purchase Order process and general accounting.

Within 28 months Microsoft and Accenture had extended the agreement to 2018 and expanded its scope, increasing the total the contract value to $330 million. OneFinance has won multiple awards from the heavyweights in the outsourcing industry, including the Outsourcing Center, the Shared Services Outsourcing Network, and the International Association for Outsourcing Professionals.

GOING BEHIND THE SCENES

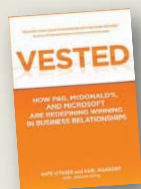
Behind-the-scenes details and exclusive interviews with the players who made their collaborative, win-win visions reality are detailed in *Vested*. One surprise you might not expect: the book reveals the Vested model works not only with buyer-supplier relationships, but also with organisations such as Water for People, a non-profit that is changing the paradigm of a traditional "charity" by creating sustainable and transformational change through vested relationships with NGOs and local communities to solve water poverty issues in some of the most remote parts of the world.

Vested also shares a case study of a small business that has won big by deploying the Vested model with their customers and employees.

The theme that emerges from these case histories is that organisations – big and small corporations, state and local governments, and even non-profit organisations – all have several things in common: everyone involved in the enterprise is innovating through highly collaborative Vested relationships that not only talk about the elusive win-win: they achieve it.

The bottom line is the bottom line, as the success stories in *Vested* demonstrate. There really is a better way to outsource. It's not just a nice theory; it really works. And, by the way, there's no need to wait.

WIN A COPY OF THE LATEST BOOK FROM THE VESTED TEAM



We have five copies – signed by Kate Vitasek – of *Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships* to give away to *Outsource* readers. Simply write to the *Outsource* editor at jamie.liddell@outsourcemagazine.co.uk with "Vested book offer" in the subject line by October 31st and we'll draw five lucky winners from our electronic bag… Winners will be notified by email and will be required to submit a postal address upon notification. What are you waiting for?

EVEN MORE

For more from Kate Vitasek see her series of columns on the Outsource *site, indexed at http://bit.ly/GG9mFb*

Microsoft is one of the world's largest corporate collectors of contemporary art with over 5,000 pieces in its collection.

WHAT'S THE POINT OF OUTSOURCING?

DLA Piper in association with Outsource is running a survey looking at some of the biggest questions in outsourcing. To launch the survey – which you can take at www.outsourcemagazine.co.uk/outsourcedlasurvey – Duncan Pithouse presents a "state of the nation" perspective on outsourcing...

Duncan Pithouse, DLA Piper

Duncan Pithouse is a Partner with DLA Piper (www.dlapiperoutsourcing.com), specialising in non-contentious technology and sourcing matters, and focussing on complex international outsourcing contracts. He advises on a wide range of outsourcing transactions and all aspects of a client's sourcing requirements.

So, what is outsourcing? And has it always been the same? How does it change? Why does it change? What is the point of outsourcing?

No doubt you have very clear views on the answers to all these questions, garnered and developed over a number of years of working within the sourcing sphere whether as a user, buyer or advisor or a combination of all of these roles. What we hope to do over the course of this article, and our survey (which you can complete at **www.outsourcemagazine.co.uk/outsourcedlasurvey**), is to understand on a broader scale the current state of the outsourcing market, the challenges facing it now and how it is likely to develop over the near future. We hope this will enable us to develop one of the first cross-sector and cross-participant analyses of the state of the outsourcing market so that we can be better prepared to engage in outsourcing now and in the future.

Outsourcing, offshoring, nearshoring, strategic sourcing – whatever name is applied to it – is a variation on broadly the same theme – it is of course getting someone else to do for you what you could have done yourself, and continue to need to have delivered to you or for you. As early as 1982, US management consultant Tom Peters recommended to US businesses that they should "do what you do best, and outsource the rest" as the primary salvation of US business profitability, and numerous companies have followed that advice in the following thirty years.

What is being outsourced becomes more complex and specialised with every month. As customers look increasingly to outsource functions and services that are closer than ever to their core business (and even to what they do best), they do so creating new issues. Yet, whatever the nature of the outsourcing, the same four core issues continue to recur and challenge organisations looking to outsource services and functions.

RECURRING THEMES

Letting the service provider do what it needs to do vs. retaining control

At the heart of any outsourcing is the fact that the customer is handing over delivery responsibility to the service provider, and is doing so in such a way that it wants the service provider to bring to bear its existing processes, ideas, policies, structures to deliver efficiency improvements and cost reduction. But at the same time, the customer invariably has clear ideas of what it wants and even how it wants it, especially in regulated businesses such as financial services.

This apparent inherent tension is arguably the single most important philosophical issue in outsourcing, since failing to properly appreciate the risk associated with getting the balance wrong will inevitably drive up the price, and not result in appropriate transfer of responsibility to the service provider – so damaging the delivery of the required business case and business benefits.

One potential answer is the increased prevalence of "co-sourcing", using a closer operational relationship between the customer and the service provider, with joint teams, jointly produced deliverables and continuous prescribed skills transfer. This though throws up a further set of issues particularly around "finger-pointing", apportionment of liability, service levels and reverse service levels, and IP ownership

To take the survey, go to http://www.outsourcemagazine.co.uk/outsourcedlasurvey

"GRADUALLY – BUT CERTAINLY MORE CONSISTENTLY – DEALS ARE MOVING TO AN OUTCOMES-BASED APPROACH WITH THE OUTCOMES LINKED TO THE CUSTOMER'S ACTUAL NEEDS"

"Everyone takes surveys. Whoever makes a statement about human behaviour has engaged in a survey of some sort." – Andrew Greeley

"CUSTOMERS SEEM TO BE MORE MATURE IN THEIR APPROACHES TO OUTSOURCING, LOOKING TOWARDS OUTCOME-BASED MODELS"

that need to be properly thought through and catered for in the outsourcing agreement.

Alignment of business objectives to service provider incentives

Everyone knows that it's all about "risk vs. return", and that this is usually interpreted to mean that the service provider's liability cap needs to have some bearing on (a proportion of) its revenue under the contract. But this in itself leads to an adversarial approach to putting the outsourcing arrangement together, resulting in inputs and outputs rather than a deal that is tied to the customer's business.

Gradually – but certainly more consistently – deals are moving to an outcomes-based approach with the outcomes linked to the customer's actual needs (for example, regulatory compliance or increased profitability), together with a more open-minded approach to sharing the upside more obviously with the service provider, via bonuses tied to the delivery of business benefit.

The path of no return – avoiding losing know-how and IP lock-in

When you outsource, you invariably align yourself (to a greater or lesser degree depending on how you approach the philosophical point raised above) to the service provider's processes and are likely to make staff redundant, whilst relying on a retained layer to manage rather than absorb the service provider's delivery.

Before long, the customer has lost the in-house skills to provide the services, but then begins to lose the skills to re-build the function should it want to. Likewise, unless the contract is appropriately drafted, the services become modelled on a proprietary methodology of the service provider and is so reliant on the service provider's IP that continuing use of these at the end of the term becomes impossible. So the customer is left with a choice: renew, or choose another service provider knowing that they will need to align the services to a new service delivery model, essentially "reinventing the wheel" at the customer's cost. Desirable as it might be, insourcing is no longer a practical option because it would be prohibitively expensive to rebuild an internal function.

So, achieving appropriate protection for the service provider's proprietary IP as against strategic flexibility for the customer should remain a core sensitivity for all customers.

"Total cost of ownership" certainty vs. long-term flexibility

Most people identify "cost reduction" in one form or another as the single-most important reason for outsourcing. Cost reduction is inherently tied to a business case, which of course needs to factor in not just the service provider's charges, but also the cost of delivering the customer obligations, the continued management of the service provider and – although often missed – the cost of effecting organisational change to align the customer organisation to the outsourced service delivery.

When putting the deal together, then, the parties both need to be clear about what is being bought at what price, and what is and is not covered within the charges. This is all very obvious, of course, and it's not just about getting the scope and the pricing schedules right. It is also making sure that robust change-control procedures are in place, predictable pricing models are set out, responsibility for costs of compliance with polices and changes in law and costs associated with exit – such as TUPE and wind-down costs – are properly catered for.

AN EVER-CHANGING CONSTANT?

Calling something an ever-changing constant is undoubtedly oxymoronic, but it does seem to us to neatly describe approaches to outsourcing. Conceptually, outsourcing has not changed – it is still getting someone to do something you would otherwise do yourself – and the same core issues continue to recur, whatever the deal, as we hope we highlighted earlier in this article.

But now, more than ever, we operate in an exciting environment (even if it is not without its challenges!). Customers seem to be more mature in their approaches to outsourcing, looking towards outcome-based models and different sourcing approaches, such as co-sourcing.

Functions that are "higher up the value chain" are being outsourced, causing a re-examination and re-consideration of key issues across the entire contract from what the service descriptions should say, all the way to how responsibility, risk, and liability should be apportioned.

Service providers seem to want to develop new offerings to set themselves apart in respect of these new outsourcings.

All the time, these play out against a weak economic environment, and an increasing raft of regulatory compliance requirements.

We have consciously said that these seem to be the trends because these are our perceptions. We really want you to complete our survey to help to develop an analysis of the current outsourcing market. Over the next months we will report back on our survey findings, and provide an insight to the real state of the outsourcing market now and its likely future shape.

Go to **www.outsourcemagazine.co.uk/outsourcedlasurvey** to complete the survey. It takes approximately 10 minutes to complete.

This survey and accompanying reports are being carried out by Outsource *and DLA Piper as part of a commercial relationship. For more information contact the editor at jamie.liddell@outsourcemagazine.co.uk*

EVEN MORE

For more from Duncan Pithouse check out his article 'Invested Outsourcing', online now at http://bit.ly/QdHNai

"A telephone survey says that 51 percent of college students drink until they pass out at least once a month. The other 49 percent didn't answer the phone." – Craig Kilborn

THE VALUE OF HR OUTSOURCING

Our series OutsourceXplores Getting Out of the HR Jungle begins with an exclusive, eye-opening roundtable debate bringing in representatives from all corners of the HRO space…

Andrew Fox, HSBC

Andrew Fox is Head of HR UK Bank, Head of HR RBWM Europe for HSBC. He is passionate about enabling business performance and people development.

Nick Harvey, Logica, now part of CGI

Nick Harvey is Head of HRO Proposition, Business Process Services at Logica, now part of CGI. He works across all levels of the Logica/CGI and client organisations to craft innovate, winning and deliverable HR BPS solutions.

Linda Merritt, NelsonHall

Linda Merritt is Research Director HRO for leading analyst firm NelsonHall. Her specialities include multiprocess HRO, payroll, benefits, RPO, learning BPO, mobility services, and talent management.

Sola Osinoiki, PWC

Sola Osinoiki is Manager Human Resource Services at PricewaterhouseCoopers. He has over 11 years of technology experience and six years' global HR systems implementation and consulting experience.

X

For more superb content from our series OutsourceXplores Getting Out of the HR Jungle with Logica, see the series index at www.outsourcemagazine.co.uk/logicaxplores

Last month, to launch our series OutsourceXplores Getting out of the HR Jungle, *Outsource* and Logica – now part of CGI – convened a roundtable looking at some of the key trends, developments, challenges and opportunities at play within the HRO space. During a wide-ranging, free-flowing discussion, a team of thought leaders representing the buyer, vendor, advisory and analyst communities tackled some of the very biggest issues facing HRO today. The full transcript of this roundtable is available on the *Outsource* website via the QR code at the end of the article; here we present some of the highlights and primary talking points to arise from this compelling encounter…

The debate began with some input from PwC's Sola Osinoiki, who was asked how HR outsourcing is currently driving business transformation.

"Over the past couple of years we are seeing more and more of the HR function aligning with the overall business outcomes – so this drives around 'What is the business outcome that we are trying to drive to and deliver to?'" he said. "Because you understand the business outcome, you begin to align HR to that – and (with the concept of cost reduction in mind) you are looking at the best way of delivering those solutions."

When asked how important cost remains as a driver for change, Osinoiki's response was unambiguous: "For the organisations we are working with across the board, cost is still one of the key drivers… Every single implementation that I've been involved with has got a big monetary return investment at the end of it."

Both provider and buyer representatives concurred: Andrew Fox of HSBC said that "when we look to outsource, cost is a major driver ([although] you can dress it up any way you want to: say efficiency, say core capability, say variable costs, you could say lower unit costs...)" while Logica's Nick Harvey agreed that "cost is a significant element".

However, Harvey added, "in many cases – especially where people have outsourced once already – they've often achieved some of that cost reduction, maybe by moving things to a lower-wage environment that's helped drive costs down. Increasingly organisations are looking to go up the value chain to understand how they can drive greater business performance and achieve value that way as well as maintaining a tight cost environment."

On the question of whether cost reduction through labour arbitrage is still a key factor in terms of location selection, Harvey posited "a very mixed picture".

"I think that where people can use wage arbitrage to manage back-office aspects of the service in terms of non-customer-facing work, you still get a lot of that. Once you get to the point of actually putting customer contact work out into those environments, you do get a much more mixed picture. I think it also depends on what other experiences organisations have had with moving work offshore in any other environment; that is a key factor in conversations we have. Those typically that have had a good experience moving a function or parts of a function offshore are much more receptive. Those that don't have any offshore capability (however it's provided) are much more reluctant. There's a maturity piece there that comes into it."

‘INCREASINGLY ORGANISATIONS ARE LOOKING TO GO UP THE VALUE CHAIN TO UNDERSTAND HOW THEY CAN DRIVE GREATER BUSINESS PERFORMANCE’
NICK HARVEY

Linda Merritt of NelsonHall picked up on this point, ending the discussion on cost with a look at that "maturity piece": "Cost is always a top concern and expected benefit of HRO, but it does vary by the maturity of the client. Clients new to HRO tend to look for the lower HRO admin costs. Then second-generation clients start to look at the overall cost of the programme and want to manage the large costs beyond the vendor fees. Finally, the most progressive clients are looking at creating improved business performance at the optimum cost."

The panel then turned to the topic of driving transformation through outsourcing. Nick Harvey began by getting back to first principles: "I think you've got to go back and look at the reasons for HR transformation – because outsourcing effectively is just an enabler: why are organisations looking to transform HR, how they are going to go about it, are they clear in terms of the outcome they expect from it and how they are going to achieve those outcomes? Then obviously there's a piece around how they bring all of that together. If you think about a typical HR transformation journey there's a foundational element and then you look to build on that, and then you look hopefully to optimise. I think what we are seeing is that HR outsourcing can play a part in each of those steps on the transformation journey… Ultimately it's all about aligning HR with the broader business strategy."

NelsonHall's Merritt pointed out that "it's important to think about that business strategy early on, even if you're first-generation outsourcing".

"Where is it you want to end up?", she asked. "If you want to end up with HR transformation, then picking a vendor who can help you through your early stages when you are more focussed on operations – getting the services up and running, almost catching up with others so far as technology and processes are concerned – and you're also very concerned about cost, you may pick a partner who isn't the best partner for you as you move forward as you mature... I think it behoves everybody to think about what they want from day one, but also what they want over a period of time as they phase and grow into the complexity that HR transformation really is, so they have the right partner."

For more from Logica, now part of CGI, see www.logica.com

"Certainly in my experience," said Fox, "outsourcing doesn't drive the transformation. Sometimes transformation drives the function to look at, amongst other things, outsourcing – so outsourcing may enable HR transformation... You don't start with one pot and end with that same pot on a journey. As you mature your pot matures with you – or then you renew with a different provider."

Fox continued: "I also have had this pet theory that says 'whatever you outsource today, you'll in-source tomorrow' – and then what you in-source tomorrow, you'll outsource again the day after. I think there is not always, but often, a cycle of nature and I think that's driven by nothing other than the way we report financially, and the way financials work. A lot of the behaviour is driven by financial statements and the way we report, not by what might or might not be best for all concerned when it comes to in- out-, in- outsourcing."

At this point the panel looked in some detail at the HSBC experience specifically. Fox was asked if his organisation had "set out with a kind of deeper transformation agenda in mind – or was it focussed on the costs first and foremost?"

"It was absolutely a lot more than cost," he replied. "It was truly transformational in terms of platforms, systems, processes and capability. It was fairly holistic in terms of what we tackled. Cost was just a part of it. In effect, what we said was, we would reduce our costs by some 25 per cent but at the same time we would uplift our service and capability significantly too."

Sola Osinoiki wished to take this further – "if you then look at another aspect of this, you are basically building for two items ultimately from an HR point of view. One is the data that goes into the system and then there is the output that comes out the other side" – which thought was picked up by Nick Harvey: "And it also provides an insight into the organisation. Once you have the foundation in terms of good quality data and consistency in terms of your process, you can then start to build up that warehouse – and the warehouse gives you the insight into what's going on within the organisation."

Linda Merritt then expanded upon the data question: "When we are talking about the idea of data, I think one of the real values of having an excellent outsourcing partner is they can really help you plan to get to the end stage where you have the data you need, but the outsourcing partner sometimes has to help especially newer clients who may not articulate their need. They may say, 'I need global payroll' and we've seen a lot of global payroll deals, but underneath it is not necessarily a big concern of who cuts what cheque; it is the payroll data they want to be able to understand what's happening with the labour costs and the labour force around every area they have, whether it's different business inputs or different countries or whatever it may be."

> **"COST IS ALWAYS A TOP CONCERN AND EXPECTED BENEFIT OF HRO, BUT IT DOES VARY BY THE MATURITY OF THE CLIENT"**
> **LINDA MERRITT**

She continued: "I think that many people in fact don't have [a long-term understanding], but if they're short-term thinking too much then that's where you start to see the problems of having to change systems and vendors and rip and replace, after you've sold some additional ideas of where you need to go. Too short-term thinking isn't good. A general long-term plan is very possible."

Drawing this section of the discussion to a close, Nick Harvey looked at what again seems a mixed picture.

"I think we can see varying views," he stated. "We see some where HR functions are still very much in reactive mode. I think there are some where they've recognised that they have to take a more transformative view, because just trying to continue and improve is no longer an option. I think we see also those where there is clarity around how HR strategy aligns with business strategy. I think roadmaps are always an interesting option because short-term pressures, and continual changes in business content, do present a lot of challenges with being able to maintain a path on that roadmap. Ultimately, that's the role for providers such as Logica, now part of CGI, to help organisations to do that. There's no magic answer. There's no single solution. It's about understanding your business content and how you can drive value out of changing an HR function and align it with broader business goals."

The debate then moved on to the topic of multisourcing, with Andrew Fox having opined that in the case of HSBC specifically it wouldn't at any rate be possible simply to engage with a sole provider globally – "at the moment we are considering outsourcing our recruitment globally and I know there wasn't a single provider that could provide that service globally for us in a standardised way."

Fox pointed out that "what happens is that managing multiple suppliers becomes a new competence that you have to acquire; you shouldn't assume just because you've been able to manage one outsource partner in the past, that you can now (for the same transaction globally), manage multiple ones. I think it's a different capability set – and I'm not sure that this exists widely at the moment in the profession… At the moment [vendor management is] a core competency of the provider not the customer. I think that business in general, and HR typically, have got a lot to learn in terms of optimum management of external parties, providers, suppliers etc."

Harvey responded that "I think there should be more to come in terms of commercial innovation around outsourcer HR services and I think you will see those top-tier clients who are best in class, certainly have those commercial skills very quickly and I think you'll also see more and

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more providers moving to the supply chain enrichment piece as well."

"What we are beginning to hear," interjected Osinoiki, "is about 'best of breed'. So if you're going to go for multiple vendors, but not be tied into one particular solution, all of a sudden you might find yourself with a payroll provider, resourcing provider, benefits provider and an HCM provider. All of a sudden, like Andrew said, you need to develop a new skill – or get somebody alongside you to manage multiple vendors to deliver a complex solution. What happens is that all of a sudden your choice of vendor begins to be impacted by who you take as your lynch-pin provider."

Linda Merritt was in full agreement: "I think people are trying to come up to speed to match companies like our banking partner here, so they can meet the needs with one vendor who can assure them that – whether it's through partnerships or whatever – it's well-integrated and well-managed."

Logica's Harvey saw "two aspects to this" from the perspective of his organisation: "First of all we recognise what our core capability is; we are not trying to be broader or to span the entire breadth of what you might consider HRO. For example, we do have partnerships, interestingly, in the RPO space. We would typically go to market with another organisation. I think certainly an element around what we've termed ecosystem management, in the sense of looking at the end-to-end ecosystem, is something that we see as a key component of any HR solution in its broadest sense.

"That's something that organisations can obviously choose to take on themselves or something they can use an outsourcing provider to do. It is recognising that no one provider is ever going to meet every single need; it's about making sure that you've got integration at all the right points – so you've got the integration from a service perspective, you have it at the process perspective, and also at the technology level there's integration required. Ultimately it's how you architect the solution in the fullest sense that counts."

Merritt liked "the concept about the lynch-pin provider, for larger organisations going on transformation. That's the idea that perhaps there is a lead provider that is working in partnership with the client to help this occur, because what is developing is some strong regional players for different parts of the globe and for some companies, rather than trying to find one vendor who can do everything."

Andrew Fox also liked the lynch-pin concept, saying that he thought it "will drive the trend of in-sourcing what you outsourced previously. You'll have to go down that route because of the complexity… That's going to drive costs up because every person in that value chain has to have a margin. In terms of innovation, I think I might take a more cynical view and say that it might be stifling innovation because the energy is going in to making the processes work and to outsourcing them and to managing the service level agreements and the relationships and the complexity – and offshoring, when that's accompanied with outsourcing. I'm not so sure that it isn't a detractor from innovation."

At this point the conversation turned to address innovation, with Linda Merritt opining that "something that is innovative one day starts to become standard on the next day – but I still think innovation is relative to your current capabilities…"

"I think another way," she added, "where I see innovation in HRO – more at the small end, but it is definitely both transformative and a disruptive force – is Software-as-a-Service that you can just pay for as you go instead of having to have a licence etc – this is duly transforming a lot of offerings. We've mentioned you have to have a margin and so our current economy, which has put a really ruthless perspective on cost, I think has made many vendors not able to move forward on innovation-type things, especially if they can't be easily monetised as we've seen in the past."

Nick Harvey then asked: "On the idea of access any time, anywhere from any device: the success of that will be around the concept of bring-your-own-device. Where's the maturity of that?"

"Well, I think security is one of the top things," Merritt replied. "Certain organisations are not going to let things go out of house. But we have so much mobile access in our private lives that the pressure is building to bring them into the workplace. We have to face the challenges and manage them. Pretty much most of the suppliers that I work with have at least basic access now – they're starting to put fairly simple decisions and functions that are actually transactional online."

"This is where you really need to depend on the IT infrastructure of the organisation as a whole, and HR then becomes something that is piggy-backing on something that already exists," said Sola Osinoiki, adding that "as we tie in the ability to develop apps and then develop portals, all of a sudden the concept of innovation almost comes upon you by force because your customer is beginning to ask you for that innovation."

Andrew Fox summed up the innovation section, and the roundtable as a whole: "I think this is a very important debate which is going to occupy more and more time in the future. I think organisationally, our approach so far has been quite a traditional one in that you can't use your personal device because of security reasons, but increasingly our external customers want access to their data and to be able to transact via mobile devices. So we are developing it there, and I think HR should be able to piggy-back on those sorts of developments."

READ THE TRANSCRIPT

To read the full transcript of this compelling roundtable, simply scan this QR code…

AN INTRODUCTION TO BIG DATA

Our series on 'The Impact of Big Data' kicks off with a top-down look at the topic: what is it, and why does it matter to your business?

Jamie Liddell

Jamie Liddell is the Editor of Outsource *and www.outsourcemagazine.co.uk*

It is easy, when considering the big data phenomenon, to get carried away by the numbers. But the most important aspect of "big data" as a concept which is changing business today isn't the size of the data (though with well over 2.5 quintillion bytes being created every day, there is clearly a lot of information doing the rounds) but what that size signifies: how and why organisations can and must use such vast repositories of information to survive and thrive. Grappling with big data isn't simply a matter of ensuring your organisation or its provider has sufficient storage space (though that in itself can't be ignored); it's about capturing and analysing the data in intelligent, strategically relevant and tactically adept ways in order to gain potentially game-changing competitive advantage.

Why game-changing? Because big data doesn't just involve doing the same things better, faster, cheaper, more accurately; it means the ability to do entirely new things, and potentially to create entirely new lines of revenue. The reason is simple: the kind of data sets that come under the big data

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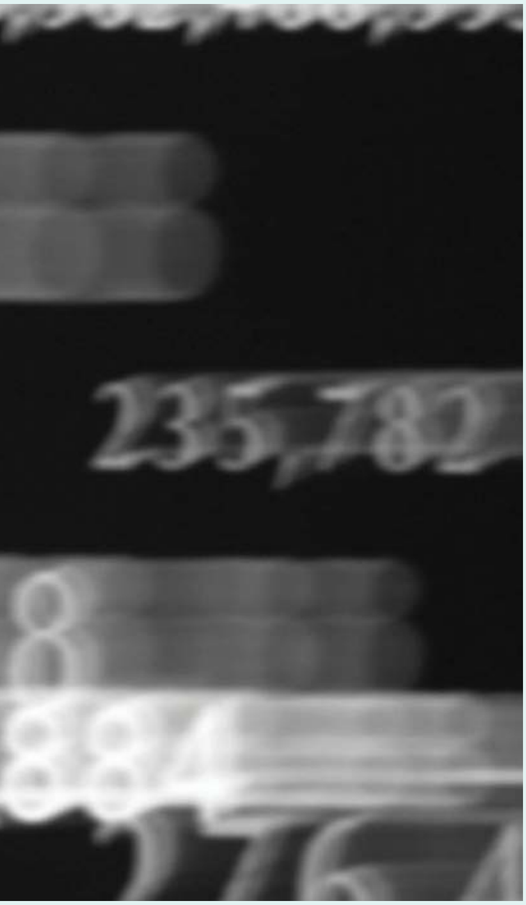

‘BIG DATA DOESN’T JUST INVOLVE DOING THE SAME THINGS BETTER, FASTER, CHEAPER, MORE ACCURATELY; IT MEANS THE ABILITY TO DO ENTIRELY NEW THINGS, AND POTENTIALLY TO CREATE ENTIRELY NEW LINES OF REVENUE’

umbrella are so huge and so complex that without the right technology and mindset in place any meaningful analysis would be functionally impossible, yet *with* the right kit and thinking whole new areas of analysis can open up which previously might never have been considered in the first place – and of course it can be the case that many, many different analyses with radically different ramifications can be carried out on the same data set.

For example, a global bank processing millions of transactions a year has an awful lot of data on its hands. But that data can be used for a huge number of purposes depending on the type of analysis conducted on it: from monitoring and capitalising upon spending habits to preventing fraud and money laundering; from studying its own processes to increase internal efficiency to building up increasingly accurate macroeconomic forecasts; from identifying likely delinquencies early to maximising the effectiveness of the bank's various product marketing drives. If knowledge is power, then the potential tied up in such data sets is powerful indeed. And, of course, the bigger the data, the greater the potential – assuming, always, that the capability is there to use the data correctly. Big data without the ability to leverage it to your own advantage is nothing more than a drain on precious resources (and meanwhile your competitors are busy rolling out the analyses which will see them eating your lunch tomorrow).

One big issue when it comes to getting maximal advantage from your huge data is of course the old chestnut of “in-house or outsourced”. As is so often the case this may well come down to what an organisation sees as core and non-core activities; the hypothetical global bank in the above example might hold data analysis close to its strategic heart, and wish to keep its big data-focussed activities in-house – in which case the problems facing it include getting the right technology in place (and paying for it), and attracting suitable big data-savvy talent (likewise). Alternatively it may feel like outsourcing at least a part of its big data work – and then the usual challenges around outsourcing rear their heads, including governance issues and the question of IP. It really is – to coin a phrase – horses for courses.

However, whereas the same could be said for pretty much any outsourcing question, when it comes to big data the “courses” are changing so rapidly that, increasingly, only the richest organisations are able to keep their entire big data activity portfolios in-house: the investment in equipment and talent is proving too great for many firms who are taking the outsourcing route almost by default. And of course the provider market has been keen to offer a helping hand: many suppliers see big data and the higher-value work it entails as being key revenue lines going forward. As a result huge investments have gone into crafting big data solutions and the space comprises one of the most important growth areas within the outsourcing supplier arena. One forecast, from IDC, puts the value of big data-facing products and services by the end of 2015 at just shy of $17bn – a hefty pie indeed, but a pittance compared with the potential gains to be found in the intelligent use of the data itself.

One aspect of the rise of big data which continues to cause uncertainty and has serious ramifications for organisations regardless of whether or not they keep their data in-house is the increased compliance burden being shouldered by anyone using and moving data. Within the US and EU especially, data protection regulation is increasingly mordant and poses significant challenges, both in terms of the legislation itself and the compliance requirements emerging therefrom, and as a result of uncertainty over further regulation and its potential impact on existing relationships. This is a key factor in any outsourcing decision in this space, as it is now legally clear in many jurisdictions that both provider and buyer have at-times-onerous legal obligations regarding the data they use and that the buyer may well be liable for data breaches even if they are the responsibility of the provider. On the flip side, organisations may wish to outsource analysis specifically on that basis as their provider must act in accordance with all relevant current legislation and this expertise simply may not exist within the end-user organisation itself.

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HOW TO TACKLE THE BIG DATA CHALLENGE

Want to grasp the big data nettle? Our series looking at 'The Impact of Big Data' continues with some practical tips to help you get it right.

Przemyslaw Berendt, ***Luxoft***

Przemyslaw Berendt is VP, Global Marketing and Managing Director Poland for Luxoft, a leading Central & Eastern European application development service provider.

Big data is quickly becoming the most hyped-up notion in the IT industry these days, gaining dominance over cloud and mobile. As markets push businesses to provide innovative products and services, companies have to figure out a way to leverage the volume, velocity, and variety of data they have access to. However, tackling the big data challenge is not easy, and will require a different approach to implementing IT initiatives.

According to Gartner, "through 2015, more than 85 per cent of Fortune 500 organisations will fail to exploit big data for competitive advantage". Forrester also warns that "big data with little or no business involvement will ultimately fail". So how can decision-makers and buyers prepare to face the big data challenge?

First, companies must identify if a use case for implementing big data solution really exists. The majority of enterprises already have well-established strategies for structured data management. Yet in times where consumers constantly and immediately share information on social networks, blogs, and by text messages the use of unstructured data becomes a source of competitive advantage.

Google goes as far as stating that the way consumers make decisions was transformed in recent years. Historically, purchase decisions were triggered when a consumer was exposed to advertising, followed by the "First Moment of Truth" when a consumer saw a product on the shelf. The process ended when a consumer used a product. Today, a new step has emerged in that decision-making process: called ZMOT ("Zero Moment of Truth") where an end-user, prior to picking up the product from the shelf, researches it online. It happens in real time; it's based on other consumers' feedback; it's benchmarked against other offers.

The sources of information for the consumer are endless, and to gain competitive advantage companies have to be able to retrieve and combine them with the structured data they possess. Analysing such variety of data will help drive customer engagement. A good way to analyse if your industry can be transformed using big data is taking a look at the volume, velocity, and variety of data used. In some industries such as banking, media, telecommunications or retail – where all three of them get a high rating – big data technologies can be employed.

The second success factor is gaining the right support for big data initiatives. Unlike in typical IT initiatives, it's not the CIO who is the ultimate stakeholder of the project. It's the business leaders who should sponsor and drive the use of big data. IT departments should act as enablers of extracting value from the large pools of historical data and live data streams available. Only a deep understanding of the business case, combined with expertise in identifying, transforming,

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and analysing the right information can guarantee success. Technology departments only provide the plumbing to be able to process massive amounts of data in real time. It's the business that needs to derive insights, and take action based on the data points combined.

Since big data requires a unique mix of understanding the business drivers and knowledge of IT processes to enhance those, the next challenge leaders should manage is bringing the right talent together. Creating cross-functional teams consisting of software engineers, business users and data analytics experts seems to be the right strategy. Not all of the required skill set may be immediately available in the organisation, and that's where outsourcing part of the problem comes in handy. High-end software development service providers have been investing for some time in building the right know-how, and experience in big data technologies.

Experienced vendors will be able to recommend a proper technology stack for the particular case the team is trying to address. Yet, expert knowledge of technology like Hadoop may not be enough. Make sure you select a vendor who has a track record of solving problems in your domain. This will assure technical teams can speak the same language with business users and data architects. If outsourcing is not part of the strategy, the alternative is to build the skill set in-house. However, grooming big data technical excellence is time-consuming; team members representing business have to be carefully selected. On top of being experts in the domain, they need to be able to verbalise the issue in a way that data architects and software engineers can understand it.

Lastly, make sure your roll-out plan assumes incremental delivery scattered over multiple milestones. In order to stay focussed on the selected use case, it's recommended to start small, avoiding silos, and leveraging existing infrastructure. Software developers have to remember to build reusable components that can be used in resolving other use cases in the backlog. Agile methodology is a perfect fit for such complex initiatives. Delivering shippable components of the final product, and frequent reviews with stakeholders will ensure the team is focussed on solving the case in hand.

Even if big data is only reaching the "peak of inflated expectations" according to Gartner's 'Hype Cycle for IT Infrastructure and Outsourcing Services', sourcing professionals, IT managers, and business stakeholders should not undermine its importance. The technology that enables taking advantage of it already exists. Vendors introduce services to come across future demand. The firm that combines it together stands high chances of leapfrogging the competition. And it's a matter of a couple of years at most until the wider market adopts big data.

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HEAD-TO-HEAD

IAN MOYSE & DANIEL THOMAS

If one word above all others has dominated the outsourcing space over the last year, it's been "cloud". But even though the cloud has now firmly embedded itself in both professional and private life, there's still a great deal of misunderstanding over what it really is – and, according to this issue's Head-to-Head participants, a lot of bad practice to boot. Ian Moyse, Sales Director at cloud CRM provider Workbooks, and Daniel Thomas, Founder, CompareTheCloud.Net – over to you…

"You plan a tower that will pierce the clouds? Lay first the foundation of humility." – Saint Augustine

Ian Moyse: Daniel, what do you see as being hot in the cloud space right now?

Daniel Thomas: At the moment it's definitely heating up in the IaaS – Infrastructure-as-a-Service – space. From a provider perspective, what I am noticing is a lot of people trying to re-engineer their back ends, and come away from traditional technologies such as storage area networks, moving on to commoditised hardware and really getting aggressive on pricing. That space is, in my opinion, the one that's on fire at the moment.

IM: What I'm finding is the majority of business out there is skewed towards small business, and there is still a massive lack of understanding of cloud, because it's so hyped: there's a load of nice terminology and techie stuff that's been thrown into it, but a lot of people aren't getting the benefits because they can't get past all of that front-end stuff. They read the articles and their number-one worry is still security. What I've spoken about a lot recently: if you don't understand something you tend to shy away from it.

DT: At the moment the biggest problem is something called cloudwash. By that I mean that every vendor is positioning their cloud to be better than the next cloud and is actually not explaining at all what the cloud is and what the business offerings are. Propositions are all geared towards high-end users – the larger enterprise space. Within the SMB space there's still a lack of clarity, or understanding, and with the models that are being put into place at the moment, a lot of the larger providers are basically trying to bypass the channel, whereas the channel has always been the trusted adviser to the SMB space. By bypassing the channel and going with these direct models, what they're doing is what I call the supermarket effect: the cloud providers are mostly coming in like the large supermarkets, whereas the little boutique shops you used to get like the butcher, the baker, these little guys are being put out of business by lower margins and providers going direct – but there's a complete lack of customer service attached to it. It's a trade-off between price and service, in my opinion.

> ‘IT'S GOING TO BE AN INTERESTING TWO OR THREE YEARS AHEAD AS SOME OF THE PRE-CONCEPTIONS CUSTOMERS HAVE AROUND SECURITY AND DATA DISAPPEAR, AND THEY BECOME MORE COMFORTABLE WITH THE MODEL’
> IAN MOYSE

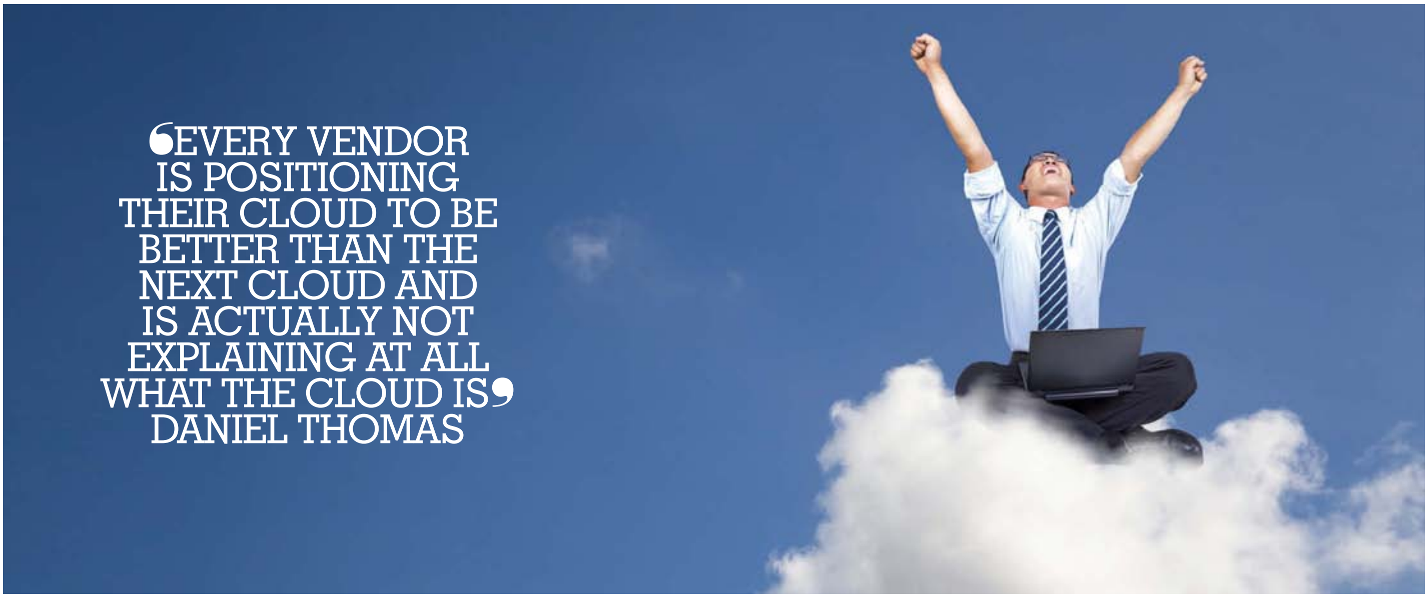
IM: I agree. I speak at a lot of events, I listen to vendors speaking – whether it be closed workshops or public ones – and what tends to happen is that the way it's all phrased is around the enterprise part of the market, but 98-99 per cent of UK businesses are sub-250 employees. That's just the way the world is. There's a dichotomy appearing in that the businesses that can get the most benefit and levelling from the cloud are smaller businesses – because if you go back to the old technologies on network, you needed a hefty database, their software, this hardware, this infrastructure. Before you even started it was cost-prohibitive for the smaller business to choose that vendor. So certain technologies and big brand names that we know had products which would only fit when you got over a certain number of seats because they only actually became anywhere near affordable at that point.

Now, with cloud, you can take virtually any cloud platform and it's affordable to anyone based on the number of users you've got and your usage. You can now use the same technology as the larger firm. So there's potentially levelling going on – but what I think is happening is that vendors aren't being educated about the channel and their customers. You are right: the smaller guys don't understand cloud. I present at a lot of channel events and I hear the feedback and it surprises me often; I expect the audience to have really complex questions for me and I think this is going to be really in-depth and high-level stuff but what I actually get is still people coming up saying "Do you know what? I'm starting to understand what the Cloud is now." They're just trying to figure out the basics – because as an industry, I think we've done ourselves a disservice. We've moved from the TLA to an AFLA – which means we moved from three-letter acronyms to "another four-letter acronym". When talking about cloud, we've got IaaS, PaaS, SaaS, CaaS: there's another one every day. Then we've got private and public cloud, we've got hybrid clouds; we've got all these wondrous terms and, you're right, we've got vendors cloudwashing who are taking what aren't really multi-tenancy products designed for the cloud, but are giving them a web front end, for example, and saying "this is now cloud"! So customers can't quite figure out exactly what cloud is.

DT: Exactly! Veering off slightly, maybe, but one of my real annoyances is that the vendors all assume that end-users have got access to very, very good connectivity that enables them to buy their services. None of them really publish any figures or minimum broadband speeds or provide any detailed data that allows customers to make a choice of whether the cloud is right for them in the first place. There's no point in having cloud if you can't connect to it...

IM: And do you know what? Two things we still get asked a lot as a business, in our experience with customers, are "how much do I need to use because I'm worried about the speeds I've got?" and around "I'm still nervous about where the data is and who has it..." – and we still go through explaining that it's just internet-based applications, but how it differs. We

@Nishiths: Current growth in cloud services is of businesses evaluating and moving existing applications and internally supported services to the cloud



still have those basic conversations that have been going on now for perhaps six, seven, eight years. The danger now is, there is also more information out there, more articles, people have read some of what is out there (and of course as we've said, there's cloudwashing), and it's the luck of the draw as to what they've read – and do they truly understand it or have they got a misconception?

The other danger is, they haven't read anything because they've seen so much of it. It's everywhere. When you pick up a magazine on an airline, there's articles about cloud in there. So what they've done is, they've switched off to it because they don't know what to read: there's just too much volume and vendor pitch. What's frustrated me is when I've been to cloud events and written some cloud papers, and I've looked at what others have done, I've thought "someone's probably beaten me to this, it's already been covered" – but what tends to happen is it's all vendor pitch. The responsibility to educate the customer has gone; it seems to be "just let me push this down, cloud's right for you – because I've got cloud to sell, so I'd better push it really hard on you, I'm not worried about whether you understand it yet or not". I think we need to step back because vendors are running at 400mph and a lot of customers are still learning to walk in terms of this technology. They are just getting over-awed with it, but everyone is saying "everything should be cloud: you're going to need a cloud for everything and you need to do it now". That's not going to happen. This is a balancing of the industry. All cloud gives customers is an option.

DT: One problem as well is that a lot of cloud providers are saying "we're going to go into the SMBs and mini-channel and we're really targeting that": I've been to events and been witness to certain concerns and considerations, whereas a small user has gone through a cloud provider and because they're not 1,000 or 500 seats or even 250 seats, the vendor just tosses them away like a rag doll and doesn't bother educating them.

IM: If you think about it though, cloud is where you can have the most success as a vendor and a channel, because the bigger customers are going to push you on price, are going to be more educated, are going to be able to build it themselves; for the channel, the smaller business is such a huge opportunity, the customers are willing to pay a higher-than-average seat price because they'll typically need some help and advice around it, which is where the channel has helped vendors in the past and they've got the most to gain.

A corporate customer understands about having a hot standby, backing up off-site, multi-locations, resilience and all those things; they can afford it, and they know how to do it because they've got the expertise in-house. The average small business – let's pick a 20-user or 50-user business – do they really have a hot stand-by for critical applications? Probably not. So when it goes wrong they have a panic, they have outages in the business... They tend to do the right things but they are cost-prohibitive. Whereas cloud is going to say, well, actually all of that stuff can be done a lot easier – often included by the vendor – so you can get all the things you should have had in the past, such as resilience and protection, but you can afford it now and it will be done properly.

DT: What I would say is, there are providers out there that are trying to embrace the channel and what they want to do is provide the hardware, so to replace the hardware

"There are no rules of architecture for a castle in the clouds." – GK Chesterton supplier with a cloud offering. Sorry to do a plug here, but Cloud Sigma are a great example of this: they are trying to get hold of the UK channel and work with them and just replace the model; they go on-site and put in a server for the customer, and match that off-site for the customer and provide all the access and details. Now, some companies are trying out there to actually embrace the channel and continue the old models, whereas the channel providers as such were the actual conduit into technology. This is being disintegrated on a daily basis.

IM: I think there's a whole education starting to happen. We have watched other industries be decimated: look at the video industry. Do you think of going and hiring a video tape now? You've got Netflix and LoveFilm, you can stream something. That's becoming commonplace. That, you could argue, was a cloud replacement for the hard-form factor of a video tape and renting from the stores we all remember.

DT: I've got a really good analogy as you are talking about video tapes. One thing customers have to realise is when they are backing up on to media tape – ie DDS or DAT tapes or whatever on their local server – they're actually using technology from the 1970s to put all their critical data on. This is one of the reasons why cloud storage is so important...

IM: It's going to be a progressive thing, not overnight; some vendors seem to think we are going to see in one year the whole industry change – it isn't. It's a progressive, year-on-year thing where we will see new vendors, new technologies delivered. Like we've seen in those other industries, some of the legacy big-name vendors in IT are going to have some shocks coming and...

DT: I cannot wait for that because I think they all need waking up anyway – and I think a lot of them need a reboot on customer service. Not a shadow of doubt in my mind. To be perfectly frank, I like the fact now that vendors really have to do their work to get the customers. I also like the fact that the vendors are now getting a rude awakening: it's not just about collecting revenue on a piece of software written that's been replicated millions of times – they've actually got to provide something meaningful out of the box for the customer, rather than 10 million lines of configuration which has always been the case.

I think, just going back to the cloudwash, we could come up with some easy explanations to help people understand cloud a bit better. People talk about IaaS, PaaS etc. My definition is: IaaS is the auditing and the engineering – so literally the raw processing on the actual server. PaaS – Platform-as-a-Service – is where you've got an operating system on top of the hardware – so Windows of Linux or anything like that.

IM: And you can just switch it on and put what you want on it.

DT: Exactly. And with SaaS: as soon as you put an application on it, which you're delivering to the end-user, in my opinion that's Software-as-a-Service. Above that, realistically, it's all variations of SaaS. The reason I say that is people can talk about Communications-as-a-Service and Desktops-as-a-Service, but in my opinion it all runs off a Software-as-a-Service layer. To make it simple for people, those would be my definition of the main acronyms – and then my definition of the Cloud is "any software service or server accessed over the internet".

> ‘IT'S GOING TO BE A PROGRESSIVE THING, NOT OVERNIGHT; SOME VENDORS SEEM TO THINK WE ARE GOING TO SEE IN ONE YEAR THE WHOLE INDUSTRY CHANGE – IT ISN'T’ IAN MOYSE

IM: Very good. I agree. Very succinct. There are always nuances outside that, but that's a great high-level piece. What I think is the most digestible format we are seeing at the moment is SaaS, because it's easiest to switch on and get an application. But across everything it's going to be an interesting two or three years ahead as some of the pre-conceptions customers have around security and data disappear, and they become more comfortable with the model. What I've found is once the customer is using one cloud service they're incredibly receptive to the next. The Cloud Industry Forum did a survey of satisfaction of customers who've used a cloud service and around 98 per cent of customers reported in that survey were very satisfied with what they'd had.

Now in any industry you're not going to get 100 per cent, but what this means is that people say "I had a good experience with this" – so when the word "cloud" comes up again, or one of these other terms, they're more cloud-committed: they're more receptive to it. It's the first time that's difficult – there's that fear of "ooooh I'm a bit nervous, I don't know what to expect, but there's all this stuff over here I know and understand so of course I feel more comfortable with it".

A lot of that, again, is education, not by vendors on their solution technology but the generic stuff of making customers understand cloud and feel more comfortable with it: what is this stuff? How does it work? I've had conversations with people who say full-stop "no, I wouldn't use cloud" and I've just taken them through a very basic conversation. Twenty or 30 minutes in, they're saying "Do you know what? I never really understood it that way, but I can start to see where the benefits of this are". It's not a complex, technical conversation, but it's a conversation not being had with people. I think what's happening is that the industry is assuming customers are all self-educating themselves and they will know about it, and they're just going to buy it. And they're not.

@mathiasassante: IDC expects maturing cloud services to generate $100 billion in revenue in 2016

TERMINATION FOR CONVENIENCE

Nobody likes to talk about breaking up when they're just getting together – but planning for termination should be part and parcel of any outsourcing negotiation. Nevertheless, there could be a way out even when the requisite preparations haven't been made…

Lou Oliver, Stephenson Harwood

Lou Oliver is an associate in the commercial, outsourcing and technology group at international law firm Stephenson Harwood LLP. She regularly advises on ITOs/BPOs and a wide variety of commercial arrangements.

Termination is often the last thing on the parties' minds at the outset of a new project or business relationship. Motivated by a need and excitement to just get started, the parties (and consequently the contract) may be focussed on the services to be supplied, on SLAs, on price and payment – essentially the core elements of performance. But what if you haven't planned quite so elaborately for the end?

"This is the end, Beautiful friend, […] the end, Of our elaborate plans." ('The End' – The Doors)

In this article, I consider how a party might terminate a contract in which the end has not been provided for. In particular, in circumstances where:

- the contract is of no specific duration;
- there is no serious breach or risk of breach by the other party; and
- there is no termination for convenience mechanism.

First, however, let's look at what a termination-for-convenience mechanism is and why it can be useful.

It is sometimes easy for the parties to forget at the outset that they may not want to continue providing (or receiving) the services indefinitely, even in situations where there is *no* significant breach or threat of breach by the other party.

Consider, for example, the following situations (particularly relevant to the current economic climate):

- market pressures and changes have impacted costs such that the contract is no longer as commercially viable or profitable as it was at the outset (and the parties cannot agree changes to the contract to account for this); *or*
- there has been a company restructuring and the services are either no longer needed by the customer or are no longer a

"Law is nothing unless close behind it stands a warm living public opinion." – Wendell Phillips

core part of the supplier's business; *or*

- there has been some breakdown in the relationship but nothing so serious as to give rise to any termination rights for material breach.

A termination-for-convenience mechanism (otherwise known as a "no-fault" termination right) does what it says on the tin and allows a party to terminate the contract unilaterally, simply because it suits it to do so (with certain limitations which I will touch on later).

"No-fault" termination can be an attractive option where grounds for termination are uncertain or insubstantial. The terminating party is not faced with making the argument that a material or fundamental breach giving rise to termination rights has occurred or with the concurrent risks of getting such an assessment wrong (the danger of the latter being that the terminating party might, in turn, face a claim for damages by the other party for "wrongful termination" of contract) – they simply need to give notice.

Depending on such factors as the complexity and value of the contract, the implementation costs and the bargaining strength of the parties, a contractual termination-for-convenience mechanism might be as simple as a statement that a party (or either party) may terminate the contract by written notice, of a specific duration, to the other.

Contracts normally provide for such termination to be effective only after an agreed initial period has passed. The initial period provides some security to the supplier: allowing it to get on with its job without the fear or uncertainty of termination-for-convenience hanging over it. The no-fault termination right should also allow the supplier to recover implementation costs. The clause itself could be mutual or only give one party rights. It could also place limitations on the circumstances in which the right may be used.

In larger outsourcing contracts, the termination-for-convenience mechanism is likely to be a much more sophisticated affair and to provide for payment by the customer to the supplier of "early-termination" or "break-option" compensation payments to allow the supplier to recover unamortised costs and even loss of profits.

"IT IS SOMETIMES EASY FOR PARTIES TO FORGET AT THE OUTSET THAT THEY MAY NOT WANT TO CONTINUE PROVIDING (OR RECEIVING) THE SERVICES INDEFINITELY, EVEN IN SITUATIONS WHERE THERE IS NO SIGNIFICANT BREACH OR THREAT OF BREACH BY THE OTHER PARTY"

Voluntary "no-cause" termination rights are more common in long-term contracts and those of unspecified duration. However, what is less commonly known is that termination-for-convenience may also be available in certain situations to a party where it is not expressly written in to the contract.

In such circumstances, first heed the warning that any such implied termination right should be used cautiously. It is a principle of contract law that the contract confers on a contractor not only a duty to carry out the work but a right to do so. There is also a general rule that a party is still liable to perform a contract even where it has become considerably more difficult or expensive for it to do so. A right to terminate for convenience is more likely to be implied or justifiable where an informal contract, or a formal contract that does not properly address termination, has been rolling on for a long time (perhaps several years).

Where the contract is silent on termination, and balancing implied rights to terminate against duties to perform the contract, the rule is that the contract is terminable on "reasonable notice". So what constitutes "reasonable notice"?

Clearly this can be a sensitive issue for a party on the receiving end of an unwelcome or unexpected termination notice. Getting the notice period right (and communicating it to the other party effectively) requires careful forethought in order to mitigate upset, avoid a dispute or to ensure defensibility if disputed. The terminating party should consider the following factors when deciding what should constitute "reasonable notice":

- the length of the existing relationship between the parties (the longer the relationship, the longer the notice period should be);
- the importance of the contract to the

"It can become difficult to see the wood for the trees and determine on a strategic level what exactly a vendor has been contracted to perform." – John Buyers business of the non-terminating party (e.g. percentage turnover/core supplier);

- the extent of early investment by the non-terminating party (sunk costs);
- the terminating party's own notice requirements (if any), in related contracts under which *it* can be terminated for convenience;
- the degree of formality to the contract – the more formal the contract, the more that termination of it should be governed by the rights set out in the contract;
- how long it would (reasonably) take the non-terminating party to replace the contract in an orderly way (i.e. either to procure another supplier or to replace the business lost);
- connected to the point above, what the comparable notice periods in the relevant industry are (i.e. what is deemed standard in the industry as a handover period or is common as a notice period in contracts of a similar kind within the industry); and
- any other considerations that may be relevant in the circumstances (for example: have new employees or business premises been taken on, at least in part, to service the contract; are there any other factors that could impact the reasonableness of the notice period?).

As illustrated by this list of considerations, what is a "reasonable notice period" in the circumstances will always be dependent on the facts relevant to the particular contract and the parties. It might be helpful to note, however, that the English Courts have been reluctant to enforce notice periods of less than six (and in some cases nine) months when terminating a long-term contract, for convenience.

These considerations apply equally to notice periods for express rights of termination for convenience in formal contracts, and parties should be aware that a very short notice period may be open to dispute, and ultimately unenforceable, if it is not "reasonable". It should certainly be longer than any notice periods necessitating more immediate termination (such as for insolvency or irremediable material breach) and should take into account all of the same factors described above.

‘DON'T FORGET THAT WHERE ALL PARTIES TO A CONTRACT ARE GENERALLY IN AGREEMENT THAT THE CONTRACT SHOULD END, THE CLEANEST EXIT WOULD BE A NEGOTIATED ONE AGREED BY THE PARTIES IN WRITING’

Be aware too that whilst the factors described would apply to most contracts for goods and services, additional factors may apply to other types of contracts. For example, certain statutory minimums apply to termination notice periods in employment contracts.

So, the time has come to let your supplier or customer know that you wish to part ways. How should you do it? Technically, written notice is unnecessary provided that communication of the notice is clear and provided also that there is no requirement in the contract that notice be in writing. However, it is obviously an advantage for evidential purposes (and for the parties' own reference) if notice is in writing or, if made verbally, then immediately followed up in writing.

Be clear that it is a notice of termination and state the exact date from which termination will be effective (i.e. the length of the notice you are giving). It may also help to refer in the notice to the basis on which you have made your assessment for the notice period. Aside from showing the other party that you have given serious thought to what is reasonable in the circumstances; it may act as a useful self-reference checkpoint to ensure that you have done so.

Lastly, don't forget that where all parties to a contract are generally in agreement that the contract should end, the cleanest exit would be a negotiated one agreed by the parties in writing. The fact that the original contract was made informally does not preclude the parties from agreeing variations to it, or terminating it, by mutual agreement. The end might not have been planned at the outset but it does not need to be apocalyptic.

EVEN MORE

For more from Stephenson Harwood, check out the write-up of our roundtable on extraterritorial regulation, online now at http://bit.ly/NeBve7

"If you desire information on some point of law, you are not likely to ponder over the ponderous tomes of legal writers in order to obtain the knowledge you seek, by your own unaided efforts." – Felix Adler

TOP TEN

RELATIONSHIP MANAGEMENT

This issue, our Top Ten series visits a topic at the heart of outsourcing: relationship management and good governance…

Frank D'Andrea, Hydro One

Frank D'Andrea is Director, Outsourcing Services at Hydro One Inc. in Toronto, accountable for the company's outsourcing agreements, and providing advice and direction to company Lines of Business that receive services from outsourcers.

In the world of outsourcing and relationship management, nomenclature is a peculiar obsession. As buyers of services, we struggle with whether we consider our provider a "partner" or a "vendor." Behavioural theory would then suggest how we manage the relationship should be accordingly different: it's either black or white.

No doubt some alliances clearly lend themselves to one particular view or the other – pure transactional relationships can be treated as being vendor-like, whereas others, where there's equal skin in the game, can be viewed as a partnership. Either way, outsourcing doesn't absolve your accountabilities for the desired objectives and outcomes.

The reality with outsourcing arrangements is that there are many shades of grey when it comes to how the contract, and even more so how the provider, should be "managed". Nomenclature is somewhat moot. To achieve good governance and effective relationship management, it is important to keep in mind some key fundamentals to success.

1 Don't disregard the obvious: objectives are different

Clients seek reduced costs and better service, while providers are profit-oriented. Therein lies the tension, but be cognisant of it. Issues will arise where limits will be reached before resolution can take place. For example, how far is the client willing to forego its customer experience? Are the provider's margins fair in the current marketplace? Think of these situations as a business transaction. Good governance

"When you're in a relationship and its good, even if nothing else in your life is right, you feel like your whole world is complete." – Keith Sweat

recognises there are differing objectives, and somewhere in between, a solution lies.

2 Whose strategy is it anyway?

The client enters into an outsourcing arrangement as part of its overall corporate strategy. Early buy-in from the provider as to the entity's strategy is paramount as it drives consistent and common behaviours. The provider needs to know (and sometimes needs to be reminded of) what's important to the client. This also lends itself to the success of the provider in delivering its services, which is exactly what the client should want (though we don't always think that way!). This is organisational alignment at a macro-level.

3 Goals and objectives drive outcomes

Just as it's important to consider overall strategy for the corporation, specific goals and objectives by tower will drive the right behaviours if properly communicated. Individual towers may also have a shift in goals and objectives, and thus, that focus should be refreshed. Clients need to realise too that not all towers are equally profitable to the vendor. As entities move to multi-vendor environments, this becomes even more critical as service integration needs to gel across towers. This is organisational alignment at a more complex micro-level.

4 Clarify who does what

Accountabilities are often blurred between lines of business, and contract management, both for the client and the provider. Those responsible for operations through projects and change requests often end up slipping into contractual "scope creep," meaning contractual terms being introduced into standard outsourcing documents. Leave the contractual terms and conditions to the governance leads. If roles and responsibilities are well defined, there is less chance of a performance "expectations gap" at all levels.

5 Communication fosters collaboration

Be open and honest, and that works both ways. Too often issues hit an impasse because of hidden agendas kept under masque because of information which is not forthright. Solutions are better achieved when both parties have a common vision, and when information is complete. Work with me, not against me. In the end, if the relationship is unhealthy and parties are not communicating, the result is business disruption. Communication is a powerful means of driving commitment.

6 Create value, avoid leakage

Outsourcing contracts to some extent all factor in continuous improvement and innovation as a means to creating value. In some cases, this is a clear deliverable. Providers should embrace continuous improvement and innovation as a means to demonstrate their expertise in extracting value, coping with change and achieving joint successes as often the provider will benefit too. Providers can be leveraged as an extension of the management team, and thus should be able to drive value or avoid its leakage.

7 Establish checks and balances

Checks and balances drive to the heart of performance measurement. True enough that service levels need to be met; but step back and take a holistic view of your contract and the relationship. Discuss what works and what doesn't, and once a year revisit the strategy. Is it still current? Are your needs being met? Remember the provider's success is integral to the client's execution of its overall corporate strategy. Regularly schedule time for meaningful and constructive dialogue on the health of the relationship.

8 Change is endemic

Let's face it: however well-written your contract is, it certainly can't envision all potential future changes, so be ready for that. Beyond having a robust change management process, think about what is a "material change" and when that might be invoked. Fairness is certainly one element, as is the amount of dollars involved. But it should be clear to both parties when it's time to go back to the "negotiating table". The contract needs resilience, but should also have some flexibility over time as operational requirements will change.

9 Don't be afraid: it's okay to escalate

Too often issues percolate at the working-level until they reach breaking point. Governance leads are meant to deal with those issues where resolution is not forthcoming at an operational level (as opposed to disputes which are more legal in nature). The decision-making protocol should be clear. That's not to say escalate all issues – but at the same time, escalation can be effective in bringing quick and reasonable solutions to issues.

10 Strive for transparency, trust… and don't forget to celebrate

Your outsourcing relationship – like any relationship – requires nurturing. If there is distrust, the relationship will certainly deteriorate. The contract needs to be socialised, and transparency will lead to trust. When the contract is used merely as a legal vehicle, it is easy to grumble and express disappointment. Positive reinforcement is necessary for the relationship to survive. Don't forget to remember all the good that's happened along the way, and the successes you have achieved together.

Your outsourcing contract is a legal vehicle to achieving compliance. How that contract gets executed rests on how you manage and govern the relationship, regardless whether you refer to your provider as a partner or vendor. When it comes to governance of human beings, it's best to remember our personal relationships often impact and even facilitate compliance.

"I have a very bad relationship with mice." – Casey Affleck

NelsonHall

NEWS OF HR BPO'S DEATH HAS BEEN EXAGGERATED

It's one of the most diverse areas of the outsourcing space – but has HRO had its time? Not a chance, says NelsonHall's Rachael Stormonth, who in her first article for* Outsource *looks back across a chequered history – and discusses how vendors are adapting to meet evolving market demands…

The story of multi-process HR BPO to date is well known to HR outsourcing watchers. It can be categorised as a story spanning four generations, during which time some actors in the story have left the stage, often mortally wounded (Exult, ExcellerateHRO, Convergys) with others more recently joining the cast (e.g. Logica, TCS). (*See Figure 1)*

GEN	ATTRIBUTE	OUTCOME
Gen 1	All-encompassing scope but 50% sub-contracted	Financial failure
Gen 2	All-encompassing scope; attempt at process standarisation rebuffed by clients	Too ambitious too soon
Gen 3	Back to transactional processes; safe and steady	What about talent management?
Gen 4	Rebuild across processes	Jury still out!

Figure 1

The Generation 1 deals like BT/ Accenture and those conducted by Exult were all-encompassing in terms of process scope and were often JVs. However the delivery was still largely onshore and at least 50 per cent of the cost base was not addressable since aspects like payroll and benefits were subcontracted, usually remaining with the same third parties as before. With the client expecting a 20 per cent cost reduction and the vendor a profit, this led to massive financial failure.

Generation 2 wasn't much better. It was predicated again on an all-encompassing process scope but this time on the assumption that standard processes could be built which would be shared across clients. An early utility model, except the standardisation couldn't be achieved and vendors were far too early to gain client acceptance – and the costs of trying to achieve standardisation were far too great.

Generation 3: multi-process HRO then went back a few steps and typically ditched the talent management processes. Deals focussed on standardising the "safe" transactional processes such as payroll and HR record-keeping.

So that leaves us today, at **Generation 4**. Once again suppliers are building on transactional processes, adding in elements of talent management to offer clients a set of integrated HR processes, which increasingly include SaaS-based offerings in some areas. IBM's acquisition of Kenexa is an interesting development, with RPO one of the areas where SaaS-led HRO activity is resonant.

So major multi-process HRO suppliers are rebuilding their approaches – but is the market interested?

Major HR priorities today: cost, talent, and information

NelsonHall recently interviewed 220 organisations to find out about their HR priorities and also their attitudes to outsourcing. The vast majority identified six HR issues as highly important for them:

- Reduce the cost
  - Need to reduce cost of staff healthcare and benefits
  - Corporate requirement for reductions in costs of HR administration
- Retain the right people

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- – Need to improve identification of high performers and succession management
- – Need to improve retention of key personnel
- Find out what is happening
  - – Difficulties in obtaining consistent single view of the employee
  - – Need for improved HR analytics and intelligence

The cost of people continues to be a major issue for many organisations, with some challenged by rising labour costs in an environment of flat topline growth. This is leading organisations to look at the cost of their employee benefits and see if they can be creative in bringing these down. At the same time, there is continuing pressure from the CFO to reduce G&A costs and to make HR administration more efficient.

When organisations are looking to restructure or reduce headcount it is critical for them to focus their limited resources and career development opportunities on high performers. But in these situations it is often the most able who choose to leave while low performers tend to be less mobile: the challenge for employers is to identify and subsequently retain their top talent.

This all ties in to a need to understand and deploy personnel more effectively and efficiently which requires a single integrated view of the employee and a need for improved HR analytics.

‘MULTI-PROCESS HRO IS FAR FROM DEAD, THOUGH THE EXISTENCE OF MULTI-PROCESS UTILITIES IS LIKELY TO REMAIN A DREAM RATHER THAN A REALITY OVER THE NEXT FEW YEARS’

TOP 5 BENEFITS SOUGHT FROM HRO

1) Improved access to HR information

2) Improved automation of HR processes

3) Integration of HR processes

4) Improved support for emerging markets

5) Standardisation of services across geographies

Figure 2

What is causing these difficulties?

Two-thirds of the organisations NelsonHall spoke to express high concerns with poor consistency of HR processes across their business. As well as creating avoidable process costs, this makes consistent tracking and comparison of employee performance – let alone the impact of associated inputs like training and recruitment policies – all but impossible.

In addition, organisations are seeking more flexible deployment of their employees – to achieve this they need detailed and comparable information on individual employees' career history, competences, and performance.

How are these issues impacting organisations' requirement from HR outsourcing? Figure 2 (above) shows the top-five benefits sought from HRO from the same NelsonHall study.

At the top of the list, organisations are looking for better access to HR information to enable their HR departments and managers to identify and focus their limited resources on their top performers.

Secondly, they are seeking improved automation of HR processes. HR has traditionally been last in the queue for automation but it is becoming increasingly important, both to drive down HR process costs and for data collection to provide HR information. Automation also helps drive standardisation, both to facilitate the integration of HR processes to give that single view of the employee and of the truth, and to support standardisation of services across geographies.

Finally, organisations are looking for improved HR support, especially in areas like recruiting and employer branding, particularly in emerging markets that are becoming key to their future success.

So what's happening in the HR outsourcing market?

Well despite the rebuild in multi-process HRO, the HR outsourcing market continues to be dominated by single process deals. In particular, two areas in the current single-process HR outsourcing market where market demand is increasing are:

1 **Recruitment:** those organisations that are hiring want quality personnel, the best talent for the job, and they want flexibility, to be able to scale up fast when they need, perhaps in new geographies. Getting recruitment and onboarding right should help with employee retention. And some RPO specialists are increasingly being asked by clients to help with employer branding. Thus at its best, RPO can support a number of HR priorities.

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2 **Benefits Administration:**
In the US, there is increased demand for services such as dependent and on-going eligibility audits that have quickly become a popular service for managing the rising cost of healthcare. Audits and verification services are appealing because they drive cost reductions in benefits spend while providing a quick ROI: organisations typically remove four to eight per cent of ineligible dependents. Another area of growth is benefits communications such as Summary of Benefits & Coverage (SBC) and Summary Plan Description (SPD) to employees in digital and hard-copy formats. This is behind the partnership announced recently between HighRoads and Pitney Bowes Management Services.

There is also a recent trend to multi-country benefits, reflecting increasing globalisation and the need for organisations to go beyond portals for payroll and employee records and collect and benchmark benefits information across countries

In addition, benefits administration is becoming increasingly important for all organisations in the UK with increasing activity in advance of automatic enrolment.

In contrast, many learning services deals have stalled. During a slow recovery, organisations continue to keep the purse-strings tight when it comes to training and development spend and are having to be creative in areas such as leadership development activities.

So where is demand for multi-process HR outsourcing? While it is not one of our "hot" areas of demand, contracts continue to be signed, both renewals and new engagements, and the area continues to rebuild if somewhat cautiously.

What's Happening to Multi-Process HRO?

Figure 3 quantifies NelsonHall's segmentation of the multi-process HR outsourcing market as it stands today.

2012 MPHRO MARKET SPLIT BY SEGMENT

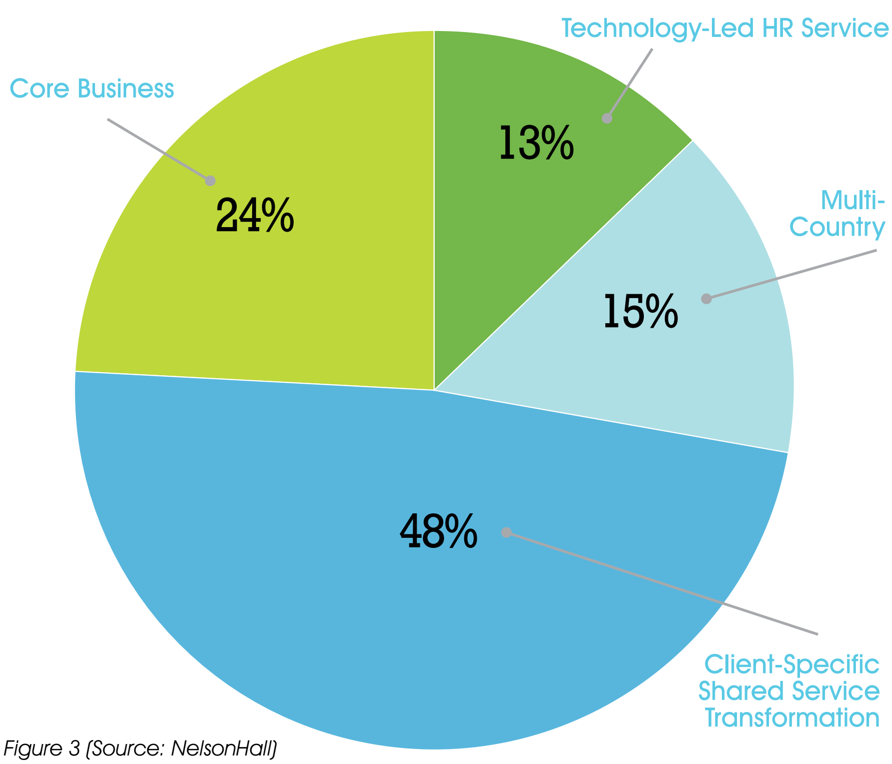

Figure 3 (Source: NelsonHall)

The biggest segment by value is client-specific shared services transformation. Clients are typically very large organisations, with 50,000+ employees. These clients want an all-encompassing outsourced HR service that is standardised, but just for them. Their key requirement is "take my shared services to the next level". This segment is typically serviced by the likes of IBM and Accenture. This will remain the most significant segment by value over the next few years.

A second obvious segment is organisations such as start-ups who want to focus on their core business and don't want to be bothered with HR, while organisations need to fix their HR technology and use outsourcing to complement the new technology roll-out.

Finally many organisations use HR outsourcing to standardise their HR processes across a region such as Europe, typically focussing initially on a narrow core of HR activities such as payroll and employee administration. NorthgateArinso supporting AstraZeneca is a classic example. This is currently the fastest growing segment of multi-process HRO activity.

How are service providers addressing the multi-process HRO market?

So how are suppliers addressing these requirements? The following examples illustrate different strategies being adopted by vendors:

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Logica: HR system transformation in partnership with Oracle

In Europe, the big surprise recently has been Logica. Logica has found a major gap in the market for Oracle HR transformations. The supplier is interested in deals with new system implementations and where there is a major transformation up-front. Some of the keys to Logica's success are:

- To insist on a common HR process taxonomy to be used across all HR processes, both those delivered by Logica and those retained by the client to ensure clear communication and to integrate all HR processes with a common Logica-supplied workflow.
- Imposing standard Logica processes for those processes they deliver; if the client wants a non-standard process then they are free to deliver this themselves within the overall HR framework.
- Ensuring that change management begins at an early stage by acclimatising the client personnel to Logica processes prior to service adoption through use of service simulations. This clearly has the advantages of blocking calls for process change in the early stages of adoption.

Overall this model addresses the vendor need for process standardisation in a pragmatic manner by providing a framework within which the client can do non-standard processes without threatening the whole edifice.

ADP: making steady progress by acquisition

ADP has always been the most pragmatic of the HRO service providers, offering a level of process efficiency in payroll that is widely regarded as unbeatable for sheer factory delivery. ADP has been very conservative in rolling out multi-process HR outsourcing, largely sticking to a highly disciplined form of payroll plus employee administration at a time when some other

‘LARGE ORGANISATIONS CONTINUE TO SEEK HELP IN PROCESS STANDARDISATION, IN GETTING BETTER INFORMATION ON THEIR EMPLOYEES, FOR SMARTER RECRUITMENT’

vendors were coming unstuck with more ambitious offerings.

Accordingly ADP is something of a global bellwether for what can safely be achieved in MPHRO and its acquisition strategy largely maps their progression across additional HRO processes. In 2010 ADP strengthened its US benefits administration capability with the acquisition of Workscape and recently strengthened this further in health and welfare, which is a key issue in the US.

In addition, ADP has moved into RPO with the acquisition last year of The RightThing – and RPO is one of the key services required to support multi-nationals in beginning to address their HR requirements in opening up in emerging markets, particularly in Asia and Latin America. ADP has also started to address the basic requirements once organisations are in an emerging market by purchasing Randstad's payroll business in India.

NorthgateArinso: this pace setter has seen recent activity in the mid-market

NorthgateArinso was certainly, a couple of years ago, the pacesetter in terms of establishing HR process standardisation across base processes Europe-wide with clients such as AstraZeneca. The key to this was their euHReka portal which "socialised" SAP and brought the user interface and number of keystrokes under control: this was very attractive to AstraZeneca.

NorthgateArinso also started to become more creative in use of delivery locations, being one of the early adopters of Manila for HRO delivery.

However, their level of SAP-based MPHRO contracts seems to have slowed in the past two years and much of NorthgateArinso's recent activity seems to be more mid-market and based on ResourceLink.

Conclusions

Multi-process HRO is far from dead, though the existence of multi-process utilities is likely to remain a dream rather than a reality over the next few years.

However, large organisations continue to seek help in process standardisation, in getting better information on their employees, for smarter recruitment, and for geographic expansion. Talent spotting and retention remain key to the delivery of an added-value service.

And suppliers are responding, once again expanding their services into talent management functions. For example, major vendors such as ADP and IBM have recently acquired RPO specialists with the promise that RPO will increasingly start to become part of the key MPHRO service.

Elsewhere, the internationalisation of benefits administration is an on-going trend and the use of benefits portals and benchmarking continues to develop. Indeed, portals and benchmarking continue to be important in ensuring a high standard of service to employees at an optimised cost to the organisation.

SaaS and BPaaS services will increasingly be used to address individual HR edge processes, and across the full range of HR processes to support start-ups and organisations for which HR is a hygiene factor rather than a key priority.

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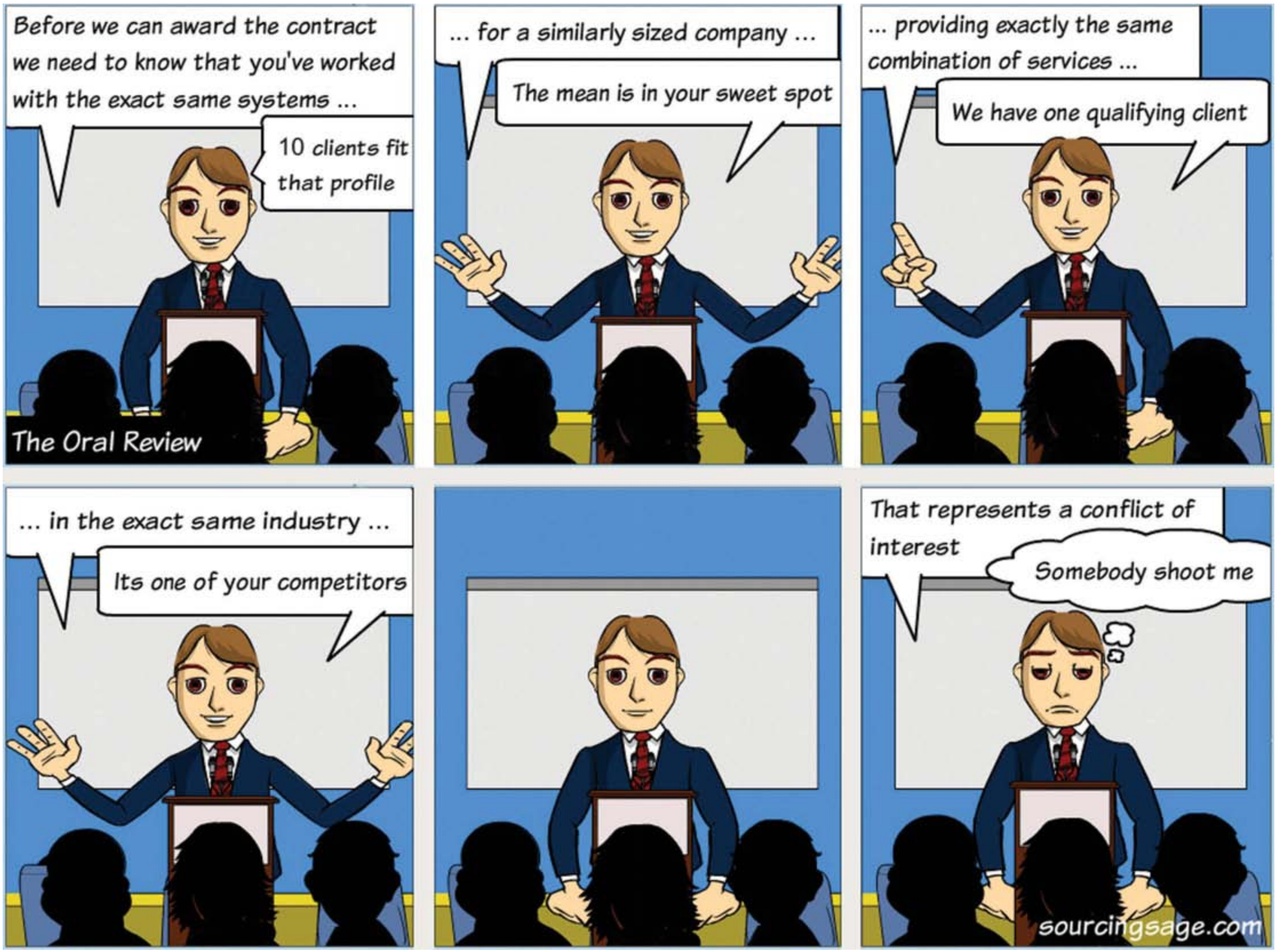
THE BACK END

The Oral Review

Ever get that feeling when you want the ground to open up and swallow everybody else?



Matt Heffron

By day, Matt Heffron is Director, Global Integrated Solutions for Sutherland Global Services – but when the sun goes down his alter ego emerges: the Sourcing Sage (www.sourcingsage.com), offering mordant satire in graphic form.

"Life imitates art far more than art imitates Life." – Oscar Wilde

Online Round-Up

Each quarter the Outsource *website features a huge range of articles from both regular columnists and occasional contributors – and each issue we showcase some of the best efforts from the latter community here in the magazine. Remember: if you're reading this in our digital format you can click on the URLs to go straight through to the article proper. If you're holding the print mag, well, you'll just have to type them in…*

Q&A: Kellie Goldstein, Thomson Reuters

Kellie Goldstein is CFO, Emerging Markets for Thomson Reuters. We caught up with Kellie following her presentation at the CFO Exchange in London, to get some insights into her role and some of the structural innovations taken by her organisation to ensure an extremely robust focus on some of the world's most dynamic regions...

http://bit.ly/OMOnlineSep1202

Implementing and managing collaborative relationships

by Dr Andrew Humphries and Linda McComie

Outsourcing is where organisations work together using their specialised resources innovatively to achieve aims and objectives that could not be realised on their own. Successful outsourcing can thus only be achieved through collaboration. This is dependent on good management of relationships...

http://bit.ly/OMOnlineSep1203

Security outsourcing: anything to learn from the G4S experience?

by Mike Gillespie

Recent events with G4S and LOCOG/the government's procurement of security for the Olympics will clearly not be leaving the headlines any time soon. Indeed you could be forgiven for thinking this was a security event, not a sporting one. Is there anything to be learnt from the Olympic security outsourcing? A good place to start would be to understand how organisations source physical security.

http://bit.ly/OMOnlineSep1206

"The internet is the first thing that humanity has built that humanity doesn't understand, the largest experiment in anarchy that we have ever had." – Eric Schmidt

Outsource or captive?

by Marcel Horst

There is no question about it – the current operating environment across the UK, Europe and indeed the world is still an incredibly difficult one. This is not least in part due to the fact that it's nearly impossible to predict what will happen from one week to the next – let alone being able to prepare for years in advance. These ups and downs in the global economy inevitably affect every business and its outsourcing decisions – whether the organisation is large or small, domestic or multinational.

http://bit.ly/OMOnlineSep1201

Q&A: Graham Barnes, MyCSP

The holy grail of organisational design is being able to change when the world that you live in changes. But actually effecting change in public sector organisations has been a challenge for politicians down the ages. Financial Controller Graham Barnes explains to Ian Herbert and Ruth King of the Accounting and Financial Management Group in the School of Business and Economics at Loughborough University how the administration of pensions for the civil service is presently undergoing both revolutionary and evolutionary change.

http://bit.ly/OMOnlineSep1204

Legal considerations when outsourcing to India

by Manishi Pathak

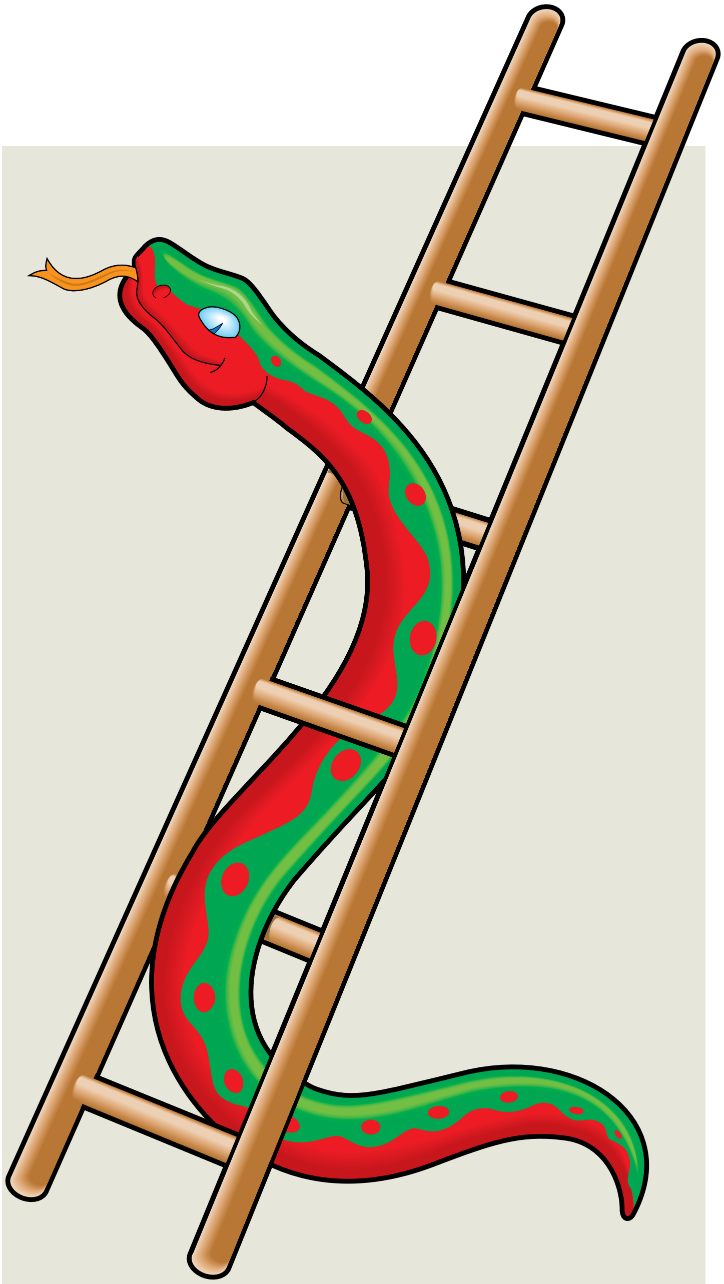
Over the last 20 years India has created a place for itself as a global technology services hub and is now one of the preferred outsourcing locations. Initially, the draw was a source of cheap but educated labour; however, India has now grown to prove itself as a true hi-tech knowledge hub. A major part of this success story for the Indian economy is the booming technology outsourcing industry which – while many would associate this with Business Processing Outsourcing - has recently grown to include Financial & Accounting, Information Technology, Medical Transcription, Education & Training Services which increasingly form part of the outsourcing market.

http://bit.ly/OMOnlineSep1209

OPINION: Outsourcing needs to purge its toxicity

by George Davies

The G4S crisis is shining a spotlight on the consequences of when things go wrong through outsourcing. It demonstrates that whether client or supplier, any outsourced contract or large programme needs careful risk management. You can outsource the delivery but not the responsibility. The



Outsourcing: effective management or business risk? (Parts 1 & 2)

by Nicola White

In an effort to standardise and centralise processes, as well as minimise costs, many companies turn to outsourcing some or all of their IT processes. However, this introduces new and challenging risks to the business environment that, if not planned for and managed correctly, can end up costing the enterprise more money than it saves…

http://bit.ly/OMOnlineSep1205 & http://bit.ly/OMOnlineSep1207

"If a writer knows enough about what he is writing about, he may omit things that he knows. The dignity of movement of an iceberg is due to only one ninth of it being above water." – Ernest Hemingway

government has had to step in to plug the hole, demonstrating that when something goes wrong – particularly with politically sensitive or high-profile projects – why the failure occurred is a secondary matter to the impact on performance…
http://bit.ly/OMOnlineSep1208

Case Study: Zynga and TELUS International

When social game provider Zynga – the San Francisco-based developer of CityVille and FarmVille, among others – was looking for an organisation to handle its interactions with its nearly 300 million customers globally, it wasn't just looking for "customer service": it wanted "customer delight"...
http://bit.ly/OMOnlineSep1210

OPINION: Why was G4S ever expected to deliver on such a high-volume recruitment contract?

by Mark Mitchell

The Herculean scandal precipitated by the admission from G4S that it was unable to honour its contract to provide more than 10,000 security staff for the London Olympics seemed to come with all the speed of a Bolt from the blue. Many defence and security commentators were taken aback by the revelation that G4S, a specialist in outsourced security contracts, could not provide the required contingent staff headcount to secure key Olympic events…
http://bit.ly/OMOnlineSep1211

Q&A: Nick Araco, CFO Alliance

Nick Araco is the President and CEO of the CFO Alliance, a "community that brings together the experience, knowledge, and collective wisdom of peers, subject matter experts, and academic authorities to enable senior financial leaders and decision makers to be more effective and act with greater confidence throughout their careers". Prior to Nick's appearance chairing IQPC's forthcoming CFO Exchange in Switzerland, November 11-13, we spoke with Nick about his organisation, his views on the economic landscape and trends within Finance, and what keeps the members of his rapidly expanding organisation awake at night...
http://bit.ly/OMOnlineSep1212

O @blyth33s: At least the internet has 0 calories or trans fat

Achieving high-performance BPO by recognising the importance of an end-to-end approach

by Anoop Sagoo

In high-performing business process outsourcing (BPO) relationships, client and provider collaborate effectively to deliver business services. They manage end-to-end performance, resolving service issues first before worrying about the commercial implications. They improve services continually and seek new opportunities to execute corporate strategy and impact business results.

http://bit.ly/OMOnlineSep1220

SME Information Risk: 48 per cent suffered reputational damage already from lost data

by Mike Gillespie

According to a recent survey by Iron Mountain and PricewaterhouseCoopers LLP (PwC), in Europe, mid-sized businesses are placing themselves at unnecessary information security risk. The average index score for information risk maturity in this group was only 40.6 (a score out of 100), which sharply highlights the gap between what business is currently doing and what it is supposed to be doing in the area of information risk.

http://bit.ly/OMOnlineSep1214

Community innovation: crowdsourcing in software testing (Parts 1 & 2)

by Mithun Sridharan

In today's rapidly growing and truly global software industry, success is now more than ever dependent on the quality of the software. A good quality product or service leads to satisfied and loyal customers – the main ambition of every company. A business that compromises on quality loses loyal customers in the long run. The challenge that most IT managers and executives have is common: how to effectively test software applications on time and within budget while balancing resources?

http://bit.ly/OMOnlineSep1213 & http://bit.ly/OMOnlineSep1215

All sides are winners as IT outsourcing deals get shorter and less costly

by Nigel S Chisnall

In the mega-deal era for IT outsourcing contracts, companies often entered into decade-long deals for hundreds of millions of pounds. Those days it appears are over, according to the quarterly Global TPI Index, which tracks IT contracts valued at the $25-million-plus mark. In the first quarter of 2012, total contract value across functions was $18.7 billion, a decline of 22 per cent from the same quarter a year ago and 35 per cent from the previous quarter…

http://bit.ly/OMOnlineSep1216

Q&A: Marco Stefanini, Stefanini

Since he formed the company that bears his name in 1987, Marco Stefanini has seen it grow into one of Brazil's largest tech companies and an increasingly prominent player on the global stage. We spoke with the Stefanini CEO and President, about that remarkable journey, got his thoughts on developments in the outsourcing space – both domestic and international – over the next few quarters – and asked him what he'd do differently if he had his time over again...

http://bit.ly/OMOnlineSep1217

Q&A: Krystian Bestry, ABSL

Krystian Bestry is the European Delivery Head at Infosys BPO – and a Vice President of Poland's Association of Business Services Leaders (ABSL). Ahead of ABSL's 3rd Annual Conference (which took place September 10-11 in the Baltic resort of Sopot) we got together with Krystian to find out more about his organisation, its membership, and its role in helping bring Poland further out into the international sourcing limelight...

http://bit.ly/OMOnlineSep1222

"The internet is the Viagra of big business." – Jack Welch

THE BACK END ONLINE ROUND-UP

What's next for outsourcing?

by Ash Bisaria

The global crisis and subsequent economic downturn caused significant operational and financial challenges for most US firms, and now we see a similar play-out in Europe. The next round of outsourcing is being driven out of compulsion to cut cost aggressively just to stay in business and protect margins. Years back, Harvard Business Review declared outsourcing as one of the most important management practices of the last 75 years. The current downturn is accelerating it; earlier outsourcing was merely focussed on basic functions like customer care (call centre), AP, IT help desk etc., but now it encompasses the entire organisation.

http://bit.ly/OMOnlineSep1219

Q&A: Jonathan Jorgensen, Access UK

Jonathan Jorgensen is Group Business Development Director at Access UK Ltd, which has just been shortlisted in the 'Business Enabler of the Year' category at the UK's National Business Awards, being presented this year on November 13 at London's Grosvenor House Hotel. We spoke with Jonathan about why his business has caught the judges' attention – and about some of the challenges his organisation's clients are facing in what remains for many an extremely tough operating environment...

http://bit.ly/OMOnlineSep1218

Q&A: Adrian Bettridge, Baringa Partners

Adrian Bettridge is Senior Partner at Baringa Partners, a consultancy focussed on the wholesale and retail energy markets, the utilities sector and the financial services industry which has been shortlisted in three categories at the UK's National Business Awards, being presented this year on November 13 at London's Grosvenor House Hotel. We spoke with Adrian about his organisation (and why the judges have taken a shine to it); how his clients are negotiating the various challenges facing them during an ongoing slump; key trends in enterprise IT; why smart meters will prove transformative for the utility sector; and how to turn regulation into a competitive advantage...

http://bit.ly/OMOnlineSep1221

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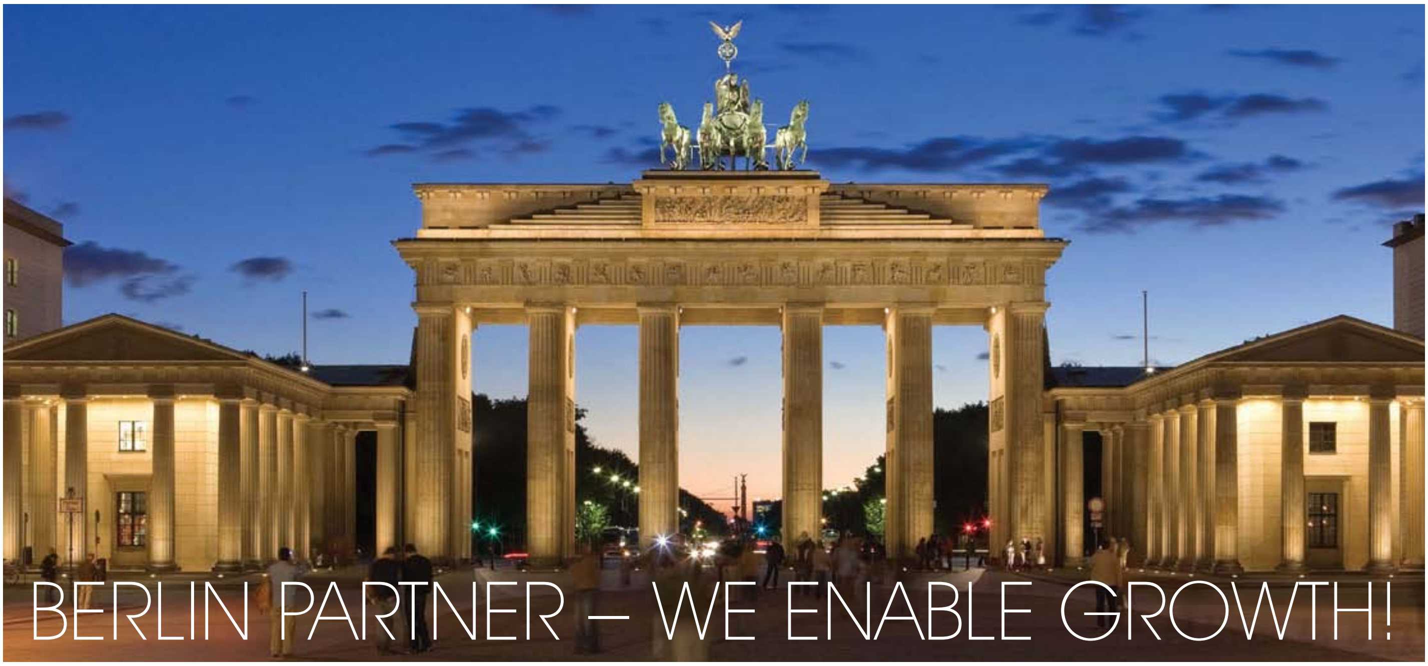
"There is creative reading as well as creative writing." – Ralph Waldo Emerson



BERLIN PARTNER – WE ENABLE GROWTH!

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Berlin has established itself as an important European hub for the services sector. More and more companies with global operations are opening service centres in Berlin and providing business services in the German capital.

Berlin offers strategically important advantages, such as a highly qualified workforce, low labour costs, attractive real estate, a state-of-the-art telecommunications infrastructure and optimal regional and national transportation connections – all at the heart of Europe.

Foreign language proficiency of prospective employees is another very important reason for shared service centres to choose Berlin. The capital region is home to many different languages: people from over 180 countries live here, making it a natural place for services that require qualified and multilingual staff. Eighty-seven per cent of Berlin's population speaks English, a third speaks French and 23 per cent have language skills in Russian. Almost 70 per cent of the Berlin population speaks one or two foreign languages, and a quarter of the population speaks three or even more!

As the official economic development corporation for the state of Berlin, Berlin Partner competently supports companies and removes the obstacles in their paths to achieve better business results, which in turn stimulate growth. Berlin Partner smoothes the way for investors by providing advice about how to access new markets and enhances Berlin's image as an attractive place to live and work. Our motto, "we enable growth" sums up what we do best!

Reichstagskuppel in Berlin

Berlin Partner consistently contributes to the positive development of Berlin's service sector by offering its customers tailor-made, individual service packages like the Business Recruiting Package, which is designed specifically for job advertisement, selection and training of qualified personnel.

Another impressive aspect of service is the Business Location Center (BLC) which provides investors with the most important and current economic information from one convenient source. Investors and entrepreneurs have quick and easy access to sector-specific data, property offers, geographic data, and information on incentive programmes and the labour market. The BLC also offers a real estate web portal that allows prospective investors to tour available commercial properties via a 3D virtual model of the city.

In addition, with its recurring survey covering key structural industry data, Berlin Partner contributes significantly to the showcasing and growth of shared service centres and business process outsourcing in the capital region.

Where to find us

Berlin Partner will participate in the 7th Shared Services & Outsourcing Week for the German-speaking countries, DACH Region, (Estrel Hotel, November 20-23, 2012) and in the CCW 2013, the leading event for call centre business in Europe (Estrel Hotel, November 25-28, 2013)

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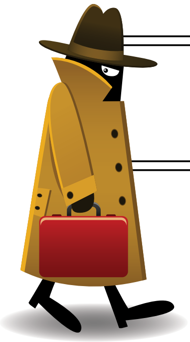


THE BACK END INSIDE SOURCE

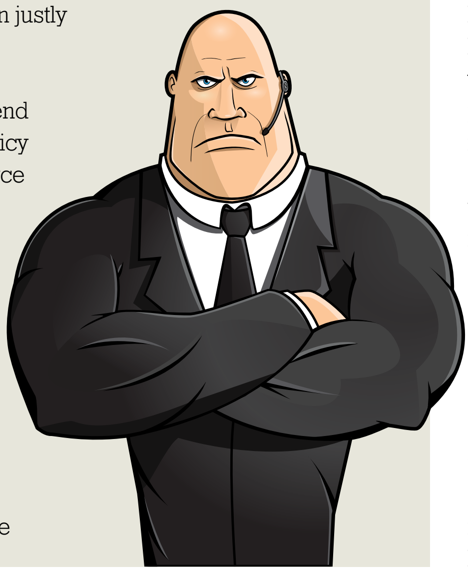
Peering under the blankets of the outsourcing space…

The blame game

Having watched the escalation earlier this summer of what it's now apparently mandatory to term "the G4S debacle" with growing disbelief and anger, I thought I would share a few thoughts on the issue with a former colleague of mine who happens to know some of the principals in the whole sorry affair. My perspective was that while nobody comes out of the situation with any dignity – other of course than the soldiers drafted in to get the government out of its hole – the spotlight had been unfairly trained on G4S to the benefit of the government's procurement "professionals" who should simply have done an immeasurably better job. Not to excuse G4S its failings; but the blame hasn't been justly apportioned.

"But that, my dear, is exactly the point," my friend condescended. "The policy is increasingly to outsource the blame. Look at Atos: getting paid a fortune to take the flack for implementing an unpopular government policy. And somehow it's working: the hatred of the mob is all for the suppliers rather than the paymasters."

A day or so later I came across a couple of opinion pieces in the national press making very similar points. And I have to say, I'm inclined to agree. So much of the negative press around outsourcing this summer has revolved around activities which would have been similarly controversial had they been carried out by the government of the day – but the state has dodged bullets extremely successfully by sending them out to the private sector. If this is in fact a primary driver of policy I think it's disgusting. The government should be outsourcing because it makes sense from a strategic economic perspective, not to sidestep the train of public opinion at a cost to the taxpayer. This is "stupid sourcing" at its very, very worst.



A fondled farewell…

'Leaving drinks' are often a recipe for exactly the kind of scandal that gets Inside Source all flushed and hot under the collar; emotions run high, blood alcohol levels run higher and behaviours get warped by opportunities for people to say goodbye in ever more (less?) meaningful ways. Such was the case, according to one of my confidential informants, at the departure from his role of a well-known and well-loved member of the business media back in the Spring.

My source has it that the strong spirits had been flowing freely for several hours when our gallant anti-hero made his rather unsteady way to perform his ablutions. Watching him go was an admirer of long standing who decided to pick her even-less-steady self up, pursue him and, er, make him an offer he couldn't refuse. As he emerged from the littlest room he was met by this imposing presence who pushed him into a dark nook – and her tongue into his mouth.

Apparently his resistance was less than fervent – which was unfortunate for him as at that point a gentleman made his own way to the bathroom, and spying the two would-be lovers flew into a rage and launched himself savagely at our Romeo. The reason? He just happened to be the husband of our errant Juliet, coincidentally stopping into the bar along with another party… And much fun was had by all…

"An espionage organisation is a collector: it collects raw information. That gets processed by a machinery that is supposed to resolve its reliability, and to present a finished product." – Aldrich Ames

OPINION

I'm Not Buying It!

Last week I flew out to the Philippines for my quarterly round of back-slapping, troop-motivating, trouble-shooting and glass-raising – it's a tough job but somebody has to do it – at our Manila delivery centre.

We're a couple of (good) years into what is certainly one of the best deals I've worked on in a frighteningly long career. Pretty much everything is where it should be, the teething problems have been resolved long ago, all's groovy.

So why did I fly back with a nasty taste in my mouth?

It's because while I was there I was treated – for the first time by this provider I must add – to what a few of my colleagues have already suffered: the dreaded up-sell. Hard, intrusive, uncomfortable – like the dentist's drill in *Marathon Man*.

We are already a huge contributor to this organisation's bottom line. But that's irrelevant to the issue. What is relevant is that our outsourcing strategy is the result of years of experimentation, debate, failure, heartbreak and eventual success, and the countless person-hours – person-years really – that have gone into, and come out of that. We're doing what we're doing, when we're doing it, because it's right for us – and we've thought loooooooooooong and hard about it.

So for our provider to begin pushing new services on us with all the subtlety and sensitivity of an overgrown toddler is worse than irritating: it's actually really damn rude. Do these people really think that just because they have a really compelling new proposition for recruitment, or procurement, or facilities management, or order-to-cash, we're going to fall over ourselves as an organisation to come on board? No: we're going to do what's right for us at the right time, and if in any of those areas we decide, down the line, on an outsourcing we will approach you. Not the other way round.

I know from my peers that this is a common problem at present. Providers are suffering from squeezed margins and increasing competition (so higher cost-per-bid). So they're looking to pillage – sorry, "upsell" their existing customers. But we're partners, not cash cows. Don't get me wrong: I don't mind the occasional pitch – but to be corralled again and again, as I was last week, with eager sales execs looking to get me on their respective hooks smacks of the kind of desperation which puts relationships in jeopardy. I'm not even the right person to be pitching half the time.

Behaving like that won't win our provider a single extra penny of business and has cast a cloud in my mind over our relationship. Bluntly it's pissed me off. And I know I'm not alone.

Mr Target

Would you like to contribute an interesting, provocative – and, if you wish, anonymous – piece to The Last Word? Or would you like to respond to this particular column? Why not drop a line to the editor at **jamie.liddell@outsourcemagazine.co.uk** to discuss your thoughts?

"Buy what thou hast no need of and ere long thou shalt sell thy necessities." – Benjamin Franklin