Building an Outsourcing Model
An outsourcing strategy by the Credit Research Foundation
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Outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract.

The Process:

1) Map the entire process step by step.
2) Evaluate each step and assess your effectiveness
3) Benchmark the process against others within your industry
4) Identify weaknesses within the process
5) Assign a weight to each of the factors that represents a weakness, weighing the importance of the factor to the overall process.
6) Segregate the factors by the amount of weight assigned to each and then by whether the solution to remedy the weakness requires a short or long term fix.
7) Look at those factors that carry a fair amount of weight and require a long-term fix and determine if they fall into the core competencies of the organization.
8) Drop the factors into four categories:
    a. Critical to the process: of high business value and well executed internally.
    b. Critical to the process: of high business value, not well executed internally
    c. Non-critical to the process and low business value, but well executed.
    d. Non-critical to the process and poorly executed.
9) If the factor requires a long-term fix and falls into the non-critical and poorly executed category, then it is a no brainer to consider it for outsourcing.
10) If the factor falls into the critical to the process but not well-executed category or non-critical to the process but well executed category, then more thought and consideration has to be given to the potential for outsourcing.
11) Production of a detailed business case is the final part of the preparation stage and will provide a clear idea of what services or processes could - or could not - be outsourced.

In selecting a provider you need to give careful consideration to the internal practices, culture, business objectives and strategy of their organization.

You should focus on determining company strategy and setting realizable objectives, not just for the immediate needs but also for at least two to three years ahead.

Care should also be given to the selection process itself.

During negotiations, the client should focus on specific objectives and on the building of a mutually acceptable relationship with the supplier.

The supplier is unlikely to provide tangible business value and continuous improvement for the price if appropriate profit margins are not in place.

An 'as is' service is not acceptable - the outsourcing arrangement must be flexible.

It is important not to micro-manage the supplier but to design simple governance arrangements that allow control and accountability.

You must accept and encourage the building of a 'hybrid' culture and management interface. This is essential if the expected benefits are to be achieved and the relationship is to last.

The best outsourcing agreements are those in which a 'win-win' formula has been agreed from the start, and where continuous dialogue and revisiting of company and supplier objectives takes place throughout the life of the contract.

As the outsourcing relationship nears the end of its original contract period, the client company should revisit the business case to understand how the current situation reflects the goals and aims of the initial reasons for outsourcing - ideally this would have happened annually throughout the life of the contract.

The customer can choose to renegotiate with the existing supplier, preferably with an element of benchmarking to measure business and financial value, or to re-tender the contract on the open market.

An alternative solution would be to 'in-source' the services, if this is in line with the business climate and the company's future plans.

It is essential to ensure that the relationship with the supplier is maintained throughout this time - it is important that changes do not affect service delivery and business performance.

Preparing to outsource

- Is outsourcing compatible with your organization’s strategic objectives?
- Will outsourcing assist in achieving business objectives and aims?
- Are there appropriate management and governance structures and financial processes in place to cope with an outsourcing project?
- Are you truly qualified to challenge the service provider(s) to deliver better-quality service at a contained or reduced cost?
- Has the business case accurately summarized and clarified the state of the organization, and does it cover all assets, including staff skills?
- Are you committed to running this 'new' relationship to leverage the advantages of the suppliers' capabilities?

Suppliers and contracts

- Do we have the skills, commitment and sponsorship from senior management to proceed with the process of selecting a supplier?
- Which suppliers would offer me the flexibility to achieve the company's strategic and long-term business goals?
- Should I consider external assistance?
- How do I factor in the change my business is likely to experience in the next few years?
- Can we produce a win-win relationship or am I dooming it to failure by imposing overly stringent financial or service constraints on the supplier?

Managing the relationship

- Is there sponsorship and a governance structure for the retained team?
- Are retained staff skilled in managing complex supplier relationships?
- Are there processes in place to encourage dialogue and the exchange of information, rather than a culture of blame?
- Is the supplier being challenged to produce constant business improvement?
- Are the measurement tools related back to company business objectives?

- Is the relationship being reviewed on a regular basis, to keep the supplier up-to-date with your organization's changing business needs and requirements?

End of contract

- Is the contract aligned with current business goals?
- Is the supplier still offering value for money - what is the market standard?
- Are the original goals that led to outsourcing still valid?
- Is pure benchmarking required or is a more holistic approach needed for value recognition?
- Does the company intend to retain the supplier or to revert to a full tendering process? Do you have sufficient information on service delivery levels to go to tender?
- What financial and business benefits will retention or tendering bring to the company?

Outsourcing is a delegation, not an abdication of management responsibility for the performance of key business functions.

Outsourcing is a complex and critical enterprise for any organization to undertake. However, a timely focus on key areas, the correct structure, management and input can give the project the best chance of success.

There are three phases to a basic outsourcing project, all of which present their own practical issues:

- Establishing the relationship: the period from birth of the concept through the identification of objectives and benefits to contract signature. Avoid supplier attempts to fix contractual terms early, without finalizing price, scope or service levels
- Managing the relationship: when the contract is performed and where price and payment should be linked to performance. Issues concerning adjustments to vendor charges, levels of service, consequences of failure to meet such levels, and customer control over ongoing management and technology decisions, need to be addressed
- Unwinding the relationship: this period can be as complex because the initial formation and detailed exit-management and transfer provisions must be in place.

For certain jobs offshoring could well be a good solution. But when offshoring is used to save money and at the same time degrades critical business attributes such as quality, reliability, integrity and security, then it is not just a bad solution, it can easily become a financial and PR disaster.

As with an outsourcing deal, offshoring should be used as a solution to appropriate problems. When you apply offshoring to the wrong problems, offshoring can easily become a major liability.

*** Outsourcing** and **offshoring** are often incorrectly used interchangeably despite important technical differences. Outsourcing involves contracting with a supplier, which may or may not involve some degree of offshoring. Offshoring is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation