

# Outsourcing & OFFSHORING

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precise processes | passionate people



# Thinking of outsourcing? THINK AHEAD

» Outsourcing within large organisations is undergoing fundamental change. The market has moved on massively since the days of 'your mess for less' where the key driver was invariably cost-reduction. This recent progression is due to a number of key factors: the increased sophistication and variety of provider offerings, the range of service models and locations afforded by globalisation and the emergence of the second generation buyer demanding more in terms of innovation, flexibility and strategic context. It is being increasingly recognised that real organisational transformation or lasting shareholder value can only be achieved where the sourcing programme forms part of a strategic process aimed directly at delivering desired business outcomes.

Outsourcing, as we know it, only began in the early 80's where economies of scale facilitated a mutually beneficial transfer of IT functions. A decade later, Business Process Outsourcing became an established practice after arrangements such as BP's transfer of its North Sea Finance and Accounting operations proved the concept and transformed the service landscape.

Since that time many new commercial models and service offerings have emerged and the number of service providers and worldwide locations in all disciplines has increased dramatically. Until recently however, sourcing programmes have typically been seen as an

end in themselves and are seldom conducted as part of a broader strategic initiative. Examples can be found in Local Government, for instance Pendle Borough Council whose prime objective was to effect a 'step change in regeneration' for the area.

**Deriving the maximum benefit from outsourcing requires you to think ahead, and then ahead again**

Although it will never fully replace tactical drivers, the market trend is moving relentlessly towards strategic value being the major criterion for measuring success. But how do you make this level of transition successfully and what is different about it?

Outsourcing expert Nick Andrews, from EightyTwenty Insight Ltd, believes that the secret to obtaining lasting strategic value from outsourcing requires a different mindset and approach. He suggests that there are four key tenets to success:


**1. Measure Twice. Cut Once:** It is important to develop a clear understanding at the outset

of your desired business outcome. Resist the temptation to 'get on with it'. Instead ensure that you fully understand the strategic context for the sourcing program, as well as the tactical drivers (what do you want to buy and what do you expect to pay).

**2. Legislate for Success®:** Throughout the engagement phase and, especially during contract negotiation, it is vital to prioritise the activities that will maximise the chances of success from the outsourcing relationship. Traditionally the focus has been disproportionately biased towards mechanisms for managing failure and transferring risk such as penalties, liabilities and warranties. These are essential, but do not provide value in themselves. By Legislating for Success® you ensure that there is clarity of objectives and responsibilities on both sides. Mechanisms in the contract and governance arrangements need to ensure that you continue to benefit from advances in technology; allow for changes in working practices and provide adequate incentives for the provider(s) to deliver value through innovation. Finally, remember that the most critical success factor is in establishing and maintaining a strong, flexible working relationship.

**3. Engage in early dialogue:** Develop a robust sourcing strategy before engaging the provider community in any formal competitive process, but invite them at an early stage to share their insights and knowledge informally. The ultimate choice of partner is frequently determined by the relationships built during these formative discussions. Note – it may not be necessary to enter into a full competitive tender. Comparative or sole-source provider engagements are increasing in popularity as buyers become more confident and prices converge.

**4. Leave room for change.** Studies show that the major factors in the failure of outsourcing arrangements are the breakdown in the relationship between the buyer and provider, the failure to meet expectations and commercial inflexibility. It is crucial to understand that today's solution will not be fit for purpose in five years time. As such, due diligence and selection should focus on the providers' track record in equitably accommodating their clients' changing needs, working in partnership and delivering innovation as technology and working models evolve.

Deriving the maximum benefit from outsourcing requires you to think ahead, and then ahead again. To deliver lasting value the outsourcing program must have a long-term strategic context. This means you have to consider how the outsourced service, as well as your relationship with the supplier, will fit with the future of your organisation and flex to accommodate the accelerating pace of change in working models, technology and globalisation. 

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**MEASURE TWICE. CUT ONCE.**



**There's nothing quite like getting the right fit.**

Using our team of experienced professionals, EightyTwenty Insight provides public and private sector clients with tailored and pragmatic strategic sourcing advice. We believe that if you spend more time developing a sound sourcing strategy, the desired service improvements and value will follow. Contact us to find out more about the refreshing way we work.

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