

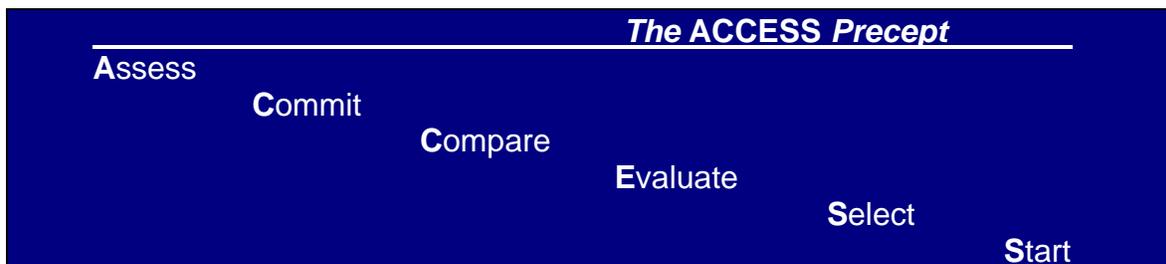
## The ACCESS Precept – Roadmap to Outsourcing Success

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***Outsourcing can be a company's best friend or its worst enemy!*** While there are tactical considerations, the decision to outsource is ALWAYS strategic, and must make sense in and of itself. That being said, if it is unable to stand on its own merits, outsourcing can and will be a destructive force. However, if properly applied outsourcing can be a stimulant for strategic company growth and long term health.

Like any other strategic initiative, outsourcing must be carefully weighed both in terms of financial return and capability to implement. This requires sound assessment at the front end based in deep understanding of existing company business process and functions, as well as resulting benefits and costs. The assessment phase of an outsourcing decision demands an open view, disciplined by fact.

While outsourcing itself is not social, the social aspects of outsourcing need to be considered and implemented with care and diligence. *Outsourcing is never casual.* It brings fundamental change to the things people do and how they relate. Managers of outsourced functions will find themselves managing contracts, vendor relations, and vendor deliverables, rather than the employees they managed in the past. Employees will likely feel threatened by the need for re-training, relocation, or even change of employment. The social aspects of the outsourcing decision influence each phase of the outsource model, from concept through implementation.



The decision to outsource a function or business process should be made in a structured manner, following a roadmap of activity designed to enable success. One such method is the ACCESS Precept. The six governing steps of the ACCESS Precept are Assess, Commit, Compare, Evaluate, Select and Start. Use of the ACCESS Precept insures the company's best opportunity to access the wealth of benefit which can be derived from strategic outsourcing of non-strategic functions.

Note that the "Commit" step comes early in the process, even prior to comparison of specific outsource vendor candidates. Achievement of early corporate commitment to improve the process or function by potential

outsourcing is considered a critical step to successful outsourcing. Likewise, early and controlled communication to the affected employee body is also considered essential. Employee and management “buy-in” to the concept can only be achieved through deployment of early and well thought out communications. Specifics of the Communications Plan will be discussed later in this document.

## **The ACCESS Precept – Step 1**

### **Assess**

This first step in the process is one of the most challenging, and also one of the most important. To Assess the feasibility of function or process outsourcing, one must understand existing work processes and resources required to perform them. The Assess step is intended to test the *economic* feasibility of outsourcing a particular function or process. The step is performed internally, and only evaluates internal human and financial resource requirements to perform the candidate function/process. This is done firstly, assessing existing internal requirements and secondly, assessing similar internal requirements in an outsourced scenario.

The Assessment phase is carried out as follows:

- Define the specific candidate function or business process to be considered for outsourcing. The definition needs to be succinct and no broader than the function or process candidate itself. As an example, if a company were considering the outsourcing of the process of managing retiree benefits, the candidate process might be defined as “administration, management and delivery of all company approved existing and future retired employee benefits, excluding 401K administration.” Too broad of a definition such as “managing retiree benefits” creates room for confusion and “over-reaching” beyond the intended outsourcing target. Tight definition of the candidate outsource function will yield benefits throughout the outsourcing process.
- Determine existing internal resource consumption to perform the candidate function or business process. It is at this step that there is the greatest opportunity for error by omission. All internal human, facility and financial resources required to deliver the function/process must be identified. The user must take care to identify primary (direct) and secondary (peripheral) resources which are consumed in the normal course of performing the function or process. In the case of the retiree benefits example, primary resources might include HR managers and staff engaged in either full-time or part-time support of the function. Likewise, secondary resources might include mail room resources required for retiree mass mailings, newsletters, etc. Administrative staff in Legal, Graphics, or

Finance may also be involved. The key to successful assessment here is to analyze the defined candidate function/process in detail to insure the capture of all costs required to continue internal delivery. Costs should be defined for a period of one year.

- Determine internal resources required to outsource the candidate function or business process. This step defines the internal human, facility and financial resources required to effectively manage the outsourced function/process. In this step care should be taken to identify both residual and new resource requirements to manage the outsource contract, the vendor relationship, the vendor deliverables and performance measurement. These functions and associated resource requirements need to be researched and defined as clearly as the existing “stay as you are” requirements were defined above. All internal costs associated with management of the outsourced function/process are captured here. Costs should be defined for a period of one year.
- Compute the Cost Delta. The Cost Delta between the above two activities reflects the maximum annual vendor outsourcing budget allowable to achieve a “Break Even” outsourcing program.

$$\frac{\text{internal Costs “stay as you are”} - \text{internal Costs “to outsource”}}{\text{“break even” maximum vendor cost}}$$

At this juncture in the process, sufficient data has been gathered to reach a high level “go/no-go” decision to proceed with the investigation to outsource. Generally speaking, a small delta relative to the total identified “stay as you are” cost indicates minimal (if any) savings will be achieved by outsourcing. While there is no magical percentage for success, a small delta expressed as a % of total may also indicate reflection of an organization’s unwillingness to change to the outsource model. (resulting in understatement of “stay as you are” costs and overstatement of residual and new costs to manage the outsource vendor). These costs need to be examined carefully to insure accuracy of data. It is also possible that the calculation may be reflective of good assessment with resulting indication that outsourcing of the particular function/process will result in increased costs.

The exercise in Step 1 of the ACCESS Precept provides data points for strategic discussion and relative understanding of what might be anticipated in an outsourcing scenario. It is at this juncture that corporate commitment to a serious investigation of outsourcing candidates should be accomplished. Strategic benefits of the outsourcing initiative should also be identified at this time. Additionally, a plan for human resource re-allocation, retraining, and/or re-

employment should be developed. These actions, along with other work performed in Step 1 provide the basis for formal packaging of a high-level view of the outsourcing initiative. The package should be complete with function/process definition, cost and strategic benefit analysis, and definition of steps required to move forward. This effort is recommended to achieve senior level approval and commitment to proceed.

## **The ACCESS Precept – Step 2**

### **Commit**

This is the stage of the process which takes the outsourcing consideration public within the company. The ACCESS Precept recommends that steps be taken here to organize budgetary requirements, establish an “Outsource” Investigation Team and establish an internal Communication Plan surrounding the outsource initiative. To achieve a successful outsourcing initiative, the ACCESS Precept assumes management and employee awareness of the investigative process. As the next step in the process puts RFIs “on the street”, it is considered important for management to inform its employee team of the potential for outsourcing. This step needs to be carefully architected under the umbrella of the company corporate culture. Controlled and timely internal employee notification is recommended in advance of issuance of RFIs/RFPs to the marketplace.

The Commit Step of the ACCESS Precept is carried out as follows:

- Define the Outsourcing Team
  - Outsourcing Manager (Team Leader)
  - Steering Committee (President/Department Heads)
  - Senior Management Champion (CFO)
  - Evaluator & Implementer Team Members
  
- Define Outsourcing Team Roles & Responsibilities and Budget. Establish:
  - Approval Authorities
  - Time Lines
  - ACCESS Step Check Points
  - Assign Budget
  
- Outsourcing Communications Plan
  - Define the Plan
  - Communicate the Plan

It is considered critical at this juncture that commitment to proceed be achieved at the most senior levels of the organization. Corporate commitment is facilitated through use of the Steering Committee, which provides executive leadership and engagement at each step of the process. Once achieved, it is equally important to commit resources and communicate the plan to the internal employee body.

As RFIs are released to the market, employees will learn of the activity. The ACCESS Precept recommends open and honest discourse across the employee body and considers this to be a critical element of a successful outsourcing plan. Employees exercising their views, providing input to the process, and being engaged in the market by virtue of their normal work, can make or break the best planned outsourcing initiative.

A successful outsourcing program requires expressed executive level commitment throughout the process. Once that commitment is achieved, the marketplace can be investigated for vendor skill and price availability.

### ***The ACCESS Precept – Step 3***

#### **Compare**

Step 3 consists of three phases: the Request For Information (RFI), the Interview and the Request For Proposal (RFP). Each is discussed briefly below.

#### **RFI**

This stage of the process begins testing of the market for vendor resources which have the skills, interest, capability and equally as important, the corporate culture and flexibility to become the company's outsourcing partner. This stage anticipates the preparation and issuance of an RFI to the specific market sector. The RFI should be prepared both to assess the skills of the particular vendors as well as to test vendor compatibility with the company management philosophy. Frequently, candidate vendors are already known by the company through past or existing supplier/vendor relationships. Care should be taken during this Step to test the management philosophy of the vendor with regard to customer care and protection, degree of service level commitment, and overall business philosophy. Other areas for investigation include historical performance as measured by client reference, vendor outsourcing market share & experience, and overall approach to be a partner in the outsourcing program. The RFI provides the outsourcing vendor the opportunity to describe his skills, to show his wares and to reveal his philosophical viewpoints on the conduct of business.

***....The Outsourcing Vendor's approach to market, customer viewpoints and business ethics must all align to that of the company served.....***

Skilled subjective questioning will reveal the vendors approach to market, customer viewpoints and business ethics. The RFI should also make clear the company's intention to question and even interview the vendor's references. Completion of the RFI process creates a "paper" comparison of potential vendors and facilitates and frames the interview process.

### Interview

All candidate vendors should be interviewed by the Outsourcing Team. The interview permits the creation of a short list of vendors capable of proceeding to the next step. It is important to note that the short list of acceptable outsourcing vendors is established prior to requesting pricing. The ACCESS Precept places significant importance on the matching of corporate philosophies between the company and outsource vendors. Interviews should be conducted to achieve comfort with the vendor's business philosophy, skills and management approach.

### RFP

Once a short list of acceptable vendors is achieved, the competitive bid (RFP) should be prepared and issued to short listed vendors. A critical element of the RFP is to clearly define the Scope of Work to be performed and to clearly assign responsibilities for performance of specific tasks. All contenders should have a clear and equal understanding of their scope.

The price comparison becomes the final data point of the Compare step of the ACCESS Precept. With qualifications ascertained, philosophies verified and comparative pricing in hand, the Evaluation Step can begin.

## **The ACCESS Precept –Step 4**

### Evaluate

The process of evaluation has now been simplified by prior steps of scope definition, internal cost identification, vendor comparison in terms of skill, price and compatibility. Care should now be taken to formulate the data in a comparative manner so as to maximize the evaluation process. Higher weighting should be given to those areas which are most important to the company than to areas of less strategic importance. Simple excel spreadsheets or similar tools may be used for such weighted comparison.

The evaluation process should include focused assessment of each vendor's ability to seamlessly remove the work without adversely affecting the function or process. If the initiative anticipates transfer of employees to the outsource vendor, specific comparisons should be made with regard to anticipated employee impact from one vendor to the other.

In addition to social impacts, the evaluation should assess pricing impact, one vendor to the other. Pricing should also be compared to vendor maximum pricing budget which was established in Step 1. Through aggregated efficiency alone, it is anticipated that this should be easily accomplished.

The ACCESS Precept anticipates detailed evaluation of data gathered in Steps 1 through 3 in advance of final selection. One vendor should be recommended for

selection, with a back-up vendor also identified, in the event that contract agreement cannot be reached.

### ***The ACCESS Precept – Step 5***

#### **Select**

The selection step provides for final and formal selection based upon recommendations above and in light of final contractual agreement. At this juncture, reaching contractual agreement should be simplified by RFI, interview and RFP processes.

Negotiation of final Terms and Conditions of the Outsourcing Agreement will reveal any misunderstandings which may have occurred between the company and the selected vendor. It is critically important that such misunderstandings or gaps be identified and reconciled during this phase. Well negotiated Term & Conditions provide clear understanding of expectations between the parties and remedies for failure of either party.

An important element of the contract is understanding of and commitment to specific Service Level Agreements (SLAs), reflecting the most critical level of expectations between the parties.

Contract negotiations provide a final and often telling opportunity to understand the character of the vendor to whom the outsourced work will be granted. The pressure of contract negotiations reveals a “real time” window into the vendor’s ability to collaborate with the company. Individual demeanor and corporate response provide final judgment opportunity. Cordial and willing (not forced) agreement between the company and the outsource vendor is considered a minimum requirement for success of the outsourcing program. Once contractual agreement is reached and formally approved by both parties, the final step in the Outsourcing Program may begin.

### ***The ACCESS Precept – Step 6***

#### **Start**

Start of the Outsourcing Program should be a well orchestrated and coordinated event, preceded by sound transition planning. The Communication Plan, which was established in Step 2, has kept the employee body informed of progress across the ACCESS Precept. However, it should be recognized that program initiation can be an emotional event and should be anticipated to be so. Effective transition planning and execution directed by social requirements and human resource issues are paramount to outsourcing success.

The HR Plan established in Step 1 of the ACCESS Precept should be deployed with care and diligence. Successful accomplishment of initial outsourcing initiatives will greatly enhance employee perception and hence success of subsequent outsourcing initiatives.

Once begun, the transition to the outsourced model should be completed quickly and efficiently. The Outsource Team, which was established in Step 2, is now completely familiar with, and has participated in every step of the ACCESS Precept. The Outsourcing Team Roles & Responsibilities had been defined and the Team is well prepared to begin.

The Outsource Team manages the Outsourcing Program through exercise of the following principles:

- Understand mutual expectations
- Measure performance against those expectations (SLAs)
- Monitor cost savings (Plan vs. Actual)
- Manage vendor deliverables
- Manage Outsourcing
- Vendor relationship
- Adjust as required

Organized, planned and carefully executed, *The ACCESS Precept* provides a Roadmap to Strategic Outsourcing Success.

..... The choice to walk the road is yours.