

Approaching the Challenges of Managing Outsourcing Relationships

Effective Practices for Buyers and Providers

As outsourcing has matured, a few things have become increasingly clear: over time, the footprint and capabilities of the top providers becomes more and more similar; it's hard to make a big mistake in choosing one of them. Similarly, as these providers compete with each other in one RFP contest after another, their pricing tends to converge. While there are differences, they are often small relative to the stakes.

Value of Effective Relationship Management

What does remain as an important differentiator and driver of value and satisfaction during implementation of the deal is the ability of buyer and provider to work together to solve problems, to manage change, and to continue to evolve the deal as circumstances change. The research supports what many of us have learned through experience—the relationship, and how you manage it, matters more to value realization than just about anything else:

- A 2005 study published by LogicaCMG and Warwick Business School found that well managed outsourcing arrangements based on mutual trust can create 20-40% difference in value over poorly managed relationships¹
- A 2004 study by the Corporate Executive Board concluded that ineffective relationship management can reduce returns in comprehensive HR outsourcing arrangements by as much as 75%²
- Research in 2005 by Vantage Partners, with the help of the Cutter Consortium and Equaterra found that, for both buyers and providers, approximately 30% of annual contract value is at stake when it comes to effective relationship management³

How to Achieve Effective Relationship Management

It's not enough to recognize that "the relationship matters." To benefit from the potential gains available from effective relationship management, one has to understand more specifically how the benefits manifest, and what it takes to achieve them. A good relationship with a provider does not entitle a buyer to a discount, any more than a good relationship with a customer entitles a provider to a premium. Relationships

that work effectively, do however deliver savings and value to the parties compared to those that don't.

Poor Relationship Management: Destroyed Value	Good Relationship Management: Added Value
<ul style="list-style-type: none"> ■ Resource waste due to inability to trust/delegate ■ Greater need to monitor/audit ■ Frequent conflict escalation ■ Low internal customer satisfaction ■ Ineffective execution and follow-through ■ Decisions made based on limited information 	<ul style="list-style-type: none"> ■ Customer satisfaction ■ Delivery of value-added projects on time and on budget ■ Quick response time to requests ■ Innovation and thought leadership ■ Resources freed internally to do other work

What does it take to end up on the right side of the chart? What can buyers and providers do, from the start of the relationship, through transition, and on through the life of the deal, to work together effectively?

RFP and Selection Phase

Buyers

Many buyers, in an attempt to get decisions made quickly and quietly, leave critical stakeholders out of the decision-making process. This often leads to ineffective implementation. Buyers should build internal alignment to ensure smooth and effective implementation by:

- Putting in place a well-defined process for making a decision around what to outsource and the objectives of outsourcing
- Identifying all relevant stakeholders and agreeing with them on their level of involvement in the process
- Once a decision has been made, communicating it out to the entire organization

Additionally, buyers need to consider the provider's relationship management capability in selection. They can effectively do so by:

¹ L.P. Willcocks and S. Cullen *The Outsourcing Enterprise: The power of relationships*, LogicaCMG, UK (2005).

² Corporate Executive Board, *Maximizing Return on HR Outsourcing Investment* (2004).

³ D. Ertel, S. Enlow, and K. Barr *Managing Outsourcing Relationships: Essential Practices for Buyers and Providers*, Vantage Partners LLC (2006).

- Asking potential providers for detailed descriptions of their governance and relationship management processes, for concrete examples of investments they've made in their relationship management capability, and for references of customers who can speak to those issues as well as service delivery
- Being clear with the providers on what their objectives for outsourcing are and asking them what the provider will need from them, to be successful in achieving those

Providers

Because buyers are beginning to ask more detailed questions of potential providers regarding the steps they take to ensure effective management of relationships, providers should ensure they are:

- Describing a well-thought-out governance and relationship management structure in RFP responses, citing specific examples of when the structure has been implemented
- Sharing which formal skills training programs are in place for provider relationship managers

Negotiation Phase

Buyers

Instead of just signing a contract and expecting implementation will follow as described in the contract, buyers can work to ensure the deal is set up for success by:

- Ensuring business unit leads and other key stakeholders are involved in initial discussions and kept in the loop as negotiations proceed and trade-offs need to be made
- Working with the provider to create SLAs that matter, not just ones that are easy to measure
- Discussing with the provider in detail how transition will work

Providers

Without involving implementers early in the negotiations, there is a risk that what appears to be a good deal on paper is, in fact, difficult to operationalize. Providers can avoid this dilemma by:

- Creating negotiation teams that include some individuals who will actually implement the deal
- Ensuring that the buyer is aware of what it takes for you as the provider to be successful—especially in terms of what is expected of the customer to enable provider success

Transition Phase

Buyers

During the chaotic transition phase, change management often does not get the attention it needs, which can result in organizational confusion and resistance. To avoid this, buyers should develop an effective change management program which utilizes the key levers of:

- *Skills training and coaching*: Providing the necessary training for stakeholders to round out their repertoires in joint-problem solving, facilitation and alignment, and managing difficult conversations
- *Communications Planning*: Ensuring individuals are aware of the upcoming changes, what is expected of them, and why
- *Incentive Systems*: Ensuring disincentives surrounding desired behaviors are removed
- *Metrics*: Creating a set of metrics that include measuring more than just operational performance of the relationship

Providers

As relationships move into the implementation phase, scope management issues often pop up and regularly pit buyer versus provider. In order to avoid this dynamic and damage to the relationship, providers should be:

- Managing scope early—the earlier providers begin to discuss expectations and processes for future scope with buyers, the more likely they are to have successful conversations and maintain strong client relationships
- Viewing scope and demand management as a linked set of challenges to be managed together with customers

Buyers and Providers

In addition to the advice noted above, both buyers and providers should conduct a joint relationship launch to get their relationships off on the right foot and ensure “speed to governance.” Effective launch activities include:

- *Team briefing and relationship planning*: The team briefing is a formal meeting with negotiators and implementers where the deal is reviewed, as well as any outstanding issues; in addition to contract reviews, both sides should conduct joint relationship planning activities to mitigate problems arising out of goal misalignment
- *Joint Risk Management and Applied Governance*: In this launch segment, the provider delivery team and the buyer governance team, as well as appropriate business unit and functional representatives, review potential pitfalls, develop a risk-management plan, and articulate decision-making roles and processes, as well as processes for managing conflict
- *Communication and Change Management*: In this launch segment, governance and delivery teams work together to identify change required and develop plans for driving desired behaviors

Ongoing Management Phase

Buyers

Many outsourcing deals go sour because they become disconnected from true business needs and requirements. Buyers can work to ensure that deals stay relevant and avoid relationships going sour by:

- Putting in place a process for joint planning with providers early in the relationship
- Avoiding pointing fingers when a problem pops up and insisting on starting with a look at root cause and at how different stakeholders may have contributed to the problem

Providers

Many providers leave relationship management activities up to each individual delivery executive and don't put in place mechanisms for capturing lessons learned. To avoid starting each relationship from a blank slate, providers should be:

- Making good governance a repeatable process—take advantage of experience and expertise to help determine how relationships should be managed
- Bringing a template set of processes and mechanisms to the relationship that can be appropriately modified to the circumstances of the deal

Buyers and Providers

Additionally, both buyers and providers should regularly monitor the health of their relationship and probe whether additional value can be had through conducting:

- *Relationship Health Checks*: Health Checks assess the health of the relationship through reviewing strengths, weaknesses, and opportunities and developing recommendations for improving the overall relationship
- *Value Discovery Sessions*: These sessions bring buyers and providers together to discuss and tap the value potential that often gets – through the complexity of the contract, resistance to change, limited information exchange between parties, and more – buried in outsourcing relationships

Upcoming Survey

In the coming weeks, Vantage will be launching a new study to update and refresh the data of our earlier study on the value of relationship management, and to assess how the industry's approaches have evolved over the last few years. If you are an experienced buyer or provider of outsourcing, we hope you will share your lessons learned with us.

About Vantage Partners

Vantage Partners leads the field of relationship management, building on more than 20 years of research and consulting experience with the world's leading companies. A spin-off of the Harvard negotiation project, Vantage Partners helps buyers and providers enter into, manage, and (when necessary) remediate working relationships. Vantage works with clients on specific transactions as well as on enhancing their institutional capabilities, to make effective negotiation and relationship management a repeatable process. For more information, please visit www.vantagepartners.com.

