



CORPORATE PERFORMANCE IMPROVEMENT

# Outsourcing Advisory: Helping Clients Deliver Business Outcomes

## Market Background

Outsourcing, whether IT or BPS (Business Process Services), offshore, nearshore, or onshore, is a fact of life for many of our clients. However, **optimizing the use, integration, and governance of outsourced services remains a challenge for many firms.** The market for outsourced services is dynamic: new entrants and M&A activity constantly reshape the landscape. Moreover, the trend towards normalization of remote work, accelerated by the COVID-19 pandemic, has helped many organizations overcome a common objection to outsourced services and pave the way for even greater adoption.

## Outsourcing Advisory: What is it and Who Needs it?

Selecting providers and contracting for outsourcing services (IT, BPS) can seem similar to standard selection and contracting activities traditionally driven out of an organization's procurement team. However, outsourcing deals are expensive, complex, and full of specialized terms and structures. Understanding the specific nuances and best practices associated with outsourcing arrangements can improve the likelihood that business needs will be met, without added risk.

Most often, we encounter clients who have existing, underperforming outsourcing relationships and who require help with remediation or optimization, rather than selection of totally new providers. A&M brings deep experience across the full range of outsourcing models and a range of "lenses" that help our clients understand and attack their issues, including:

- Balancing best of breed and generalist providers
- Managing and optimizing Capital and Operating expenses and leveraging "as a Service" options
- Balancing risks associated with global delivery and blended models
- Achieving the necessary transparency to manage risk and regulatory oversight (if applicable)

## Know Your Starting Place. Know Your Value Levers.

Businesses looking for outsourcing services generally fall into two categories: those who are at the outset of an outsourcing journey and those looking to fix an existing arrangement. In our experience, the approach and levers for success will depend greatly on which of the two categories your organization falls into.




### Considering outsourcing for the first time:

**Rationale/strategy** – Outsourcing is most effective when the client is "buying" some aspect of the supplier's operations that cannot be replicated internally.




**Q:** *What are the reasons behind the desire to outsource? Is it an attempt to shift internal issues?*

**Q:** *What capabilities does a supplier offer that will be better to "rent" than to acquire via other means?*



**Scope definition** – Clearly defining what is in scope is crucial for an effective solicitation and establishing a financial baseline.

-  *What will be outsourced and is all the related work well defined and documented today?*
-  *What resources perform that work today and is the total current cost documented?*
-  *Who are the “customers” internally for the work that might be impacted?*




**Outcomes definition** – Leveraging outsourcing means less emphasis on “how” a function is performed and an increased focus on what is to be accomplished by the work. Clearly defining business outcomes in an enforceable manner is critical for outsourcing to be successful.

-  *What are the business outcomes for the in-scope function(s)?*
-  *How is effectiveness for the function measured today?*
-  *Is there enough risk tolerance to embrace third parties owning “how” processes are performed?*

**Transition planning** – Transitioning to an outsourcing provider can be complex, time consuming, and risky. Planning the transition process is key to driving success and needs to be done prior to contract execution.





-  *What is the success rate of complex projects with aggressive timelines?*
-  *Is there a history of working with third-party implementation partners?*

**Governance design** – Once the transition to an outsourcing provider is accomplished, clients need to be prepared to manage the relationship on an ongoing basis with effective governance processes and resources.




-  *Does a robust supplier management program exist<sup>1</sup>?*
-  *What metrics are used to manage services?*
-  *How has the investment in governance capability to support this deal been accounted for?*

#### **“Fixing” existing outsourcing arrangements:**

**Performance review** – Getting to the truth behind a perception of poor performance is the first step in remediation and the facts can point to both supplier and client contributions.

-  *What is the current perception of the supplier’s performance?*
-  *Are there documented requirements and data to evaluate actual performance?*
-  *Has something changed in the supplier’s delivery or in the client’s requirements that is driving dissatisfaction?*
-  *Is there a “customer satisfaction” feedback process, with consequences, for poor ratings?*

**Contract review** – There is often a mismatch between how services were conceived at the time of contracting versus how they are actually consumed in practice. Amending the contract is a key step to resetting a problematic relationship.

-  *Does the current contract identify bilateral “owners” who are accountable for ensuring compliance with the terms of the agreement?*
-  *How long since the underlying agreement was negotiated or modified?*
-  *Are key risk areas accounted for through documentation?*


<sup>1</sup> Learn more about [A&M’s Supplier Management and Third-Party Risk](#).

**Governance review** – Rarely are issues with existing outsourcing relationships attributable solely to suppliers. More often, a mutual failure in governance causes subpar performance.

 *How do service issues surface? Are they resolved or escalated appropriately?*

 *Does the supplier actively partner in the governance of the service or treat it more as a “check the box” exercise?*

**Supplier consolidation/diversification** – Contracting for complex, interdependent services often exists on a spectrum: from a single, multi-line supplier to an array of best of breed “point solutions” in a blended model. Changing how work is allocated and managed is a key component to remediating problematic relationships.

 *In a multi-supplier environment, is there a dedicated “service integration” role tasked with coordinating among inter-dependent suppliers?*

 *Is there mature transition management that would support a supplier rationalization/diversification effort?*

 *Are there particular business drivers that are prompting the focus on consolidation/diversification?*

## Conclusion

Whether new to outsourcing or further down the road and looking for a course correction, A&M has the experience, the relationships and the tools to help. Effective use of outsourcing is a complex undertaking, requiring specialized industry expertise and ongoing management attention. The approach and value drivers will vary significantly depending on where an organization is in its outsourcing journey.

Contact us today to learn how to effectively leverage outsourcing to deliver your business outcomes.

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## ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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