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A Guide to Value-Based Outsourcing: The Value Health Check

By Joan Conway

Value-based outsourcing programs start with a clear definition of what value means to the customer's business. Understanding what the business wants to achieve from the outsourcing relationship, along with the customer's priorities, will establish the baseline for the services. To ensure that desired business results are achieved and that targets are adjusted as business needs change, we recommend that customers conduct regular "value health checks" on their outsourcing program. This allows the outsourcer, the customer and interested stakeholders to continually monitor the pulse and vitality of the relationship — and to make adjustments to ensure alignment and continued focus on business value.

The following are four questions that managers should consider as part of their outsourcer-relationship review process.

1 Are we focusing on the right things?

To understand if you are focusing on the right things, you need to begin by considering the degree of alignment between your IT organization and your overall business objectives, and those of the outsourcer. The degree of divergence is an important indicator of the health of your relationship. The clearer and more cohesive your short- and long-term perspectives are, the stronger the bond between the two organizations. One fundamental factor

supporting a long-term outsourcing relationship is the sharing of responsibility for joint success. Focusing on this factor helps to ensure that the relationship is dedicated to win-win objectives and delivering what is needed for the success of the customer's business.

Moreover, the decisions and directions taken through an outsourcing program should correspond to the values and impacts on the business. Understanding the portfolio linkages between decisions and impacts, and how the outsourcing program and business priorities change over time, helps to guide necessary changes in both the contracts and the broader outsourcing relationship. Plus, a strong linkage between these elements can significantly increase the contribution of the outsourcing program to the bottom line.

2 Are we managing the outsourcing program?

When looking at an outsourcing program, consider the following: Does the service provider have a comprehensive approach and proven methodology for portfolio management that takes into account the ongoing day-to-day operations required to support my business as well as the tactical and strategic aspects of my IT-business initiatives? The more integrated the vendor's approach, the more consistent and higher quality the results will be.

Managing an outsourcing program requires discipline, risk management skills and the ability to align the program with your organization's culture. A successful program also relies on established means for communicating business and system changes consistently throughout the life of the outsourcing relationship.

3 Are we getting the desired benefits?

You get what you measure, so it is critical to measure the right things. For example, if the outsourcing-program measurements focus only on cost reduction, that is what will be reported and delivered. Other business benefits — internal and external customer satisfaction, improving time-to-market rates for new applications — may be missed if they are not measured, and this can lead to dissatisfaction with the outsourcing program.

Focusing on short-term results may compromise longer-term business objectives by minimizing the current business cycle and ignoring what the next cycle is likely to be. Are you reacting to current pressures (e.g., reduce costs by 30 percent this year), or are you trying to get ahead of the game to create business value and competitive advantage for the organization?

Getting the desired benefits also requires having a governance process in place to “harvest” the benefits. Governance plays a crucial role in a long-term relationship because it impacts the desired outcome, particularly as service levels are reviewed and changed in response to evolving business priorities. The value of governance must be understood, acknowledged and communicated to the stakeholders as part of managing their expectations and satisfaction with the outsourcing program.

4 Are we continuously improving?

In addition to a well-run, cost-effective and up-to-date IT operation that delivers sustainable business value, you will want to tap into the outsourcer's expertise and ability to bring IT innovation and industry best practices into ongoing operations and program management. A collaborative relationship offers more than just cost efficiency or a better way of doing things; it can have transformational benefits. While these benefits can be hard to measure, looking at how continuous improvement is incorporated into existing services will put you on the right track. Do service-level agreements and contract terms encourage the vendor to bring forward value-added services? Ask yourself if the pressure to demonstrate immediate and significant savings jeopardizes additional investments.

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