



Outsourcing Transactions – Strategies, Tactics and Gotchas – Part 1

When it comes to business process outsourcing, should you move it now or fix it first?

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When faced with a dysfunctional business process, organizations need to address the “fix or ship” question: fix the issues before sending it out to a vendor, or ship it out and have the vendor fix them? There is no universal right answer but looking at the general pros and cons of each approach will help organizations come to the right conclusion for their specific situation.

Benefits of Fixing First, then Moving to a Vendor. The benefits of fixing a function before moving to outsource include (1) early realization of the perks from the change implementation/reengineering; (2) reducing the transition risk; and (3) better capability to estimate the effort/scope of outsourcing required, as well as the potential for improved service levels. Another possible benefit is that you may learn you can get a better result by only outsourcing certain components, rather than the entire department, thus getting a better return on investment.

I can tell you from personal experience that an organization definitely has more leverage in contract negotiations if it has good data on its current service levels. You do not want to be in the position of asking for a particular (high) service level in your contract, having the vendor respond by asking for the current level (as a reference point), only to hear your client say they have not been measuring that and really don't know the level of current performance.

Benefits of Moving First, then Fixing.

The benefits of outsourcing the dysfunctional process from the start include (1) an earlier start; (2) the possibility of having low-cost resources available for the fix; (3) the ability to utilize the vendor's expertise; and (4) applying the savings from outsourcing to finance improvement programs. Another benefit of outsourcing at the outset is that the organization can avoid expending time and money to reengineer the in-house system.

Probably the most significant potential benefit of shipping first is that the organization may not be able to self-correct the problem. Outsourcing vendors are not necessarily better managers than in-house managers, but they are agents of change, and sometimes that is exactly what is needed.

Factors to Consider

The following factors should be evaluated in arriving at a decision:

- organizational impact
- urgency and criticality
- change complexity
- potential impact on scope/service levels
- cost and effort for implementation
- outsourcing feasibility with status quo
- provider delivery capabilities
- disruption to ongoing programs

In particular, there are several questions you should consider when contemplating whether to fix or outsource first:

- How does the price of fixing the dysfunctional process in-house compare to outsourcing it in its unstable state?
- Is your culture likely to produce an in-house fix?
- Is there sufficient knowledge of the process to even know what to ask and expect from a supplier?

Some Practical Contract Considerations

If you do decide to ship a process that is presently dysfunctional, there will still be significant pressure on the supplier to do the job correctly — either immediately upon transition or shortly thereafter. Therefore, while the contract must be tightly drawn to serve the organization's needs and mitigate its risks; it is possible to go too far in placing unrealistic demands on the vendor. This can backfire on the customer — vendors that realize they are in a bad deal (for them) will do what they can to reduce their costs in ways a customer may not like.

I will be addressing more contract strategies and some easily avoided outsourcing transaction mistakes in upcoming columns.

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