From strategy to execution
An Outsourcing Advisory Services compendium

Issue 2
Welcome to Deloitte’s second Outsourcing Advisory Services quarterly compendium. This compendium reflects our belief in execution-based strategy and strategy-based execution. It is designed for the triad of clients that Deloitte Outsourcing Advisory serves: Corporate, Mergers and Acquisitions (M&A)/Private Equity (PE) and the Outsourcing Vendor Community.

This compendium offers insights for those ranging from CEOs to front-line managers. Articles have been selected based on recent developments in the world of outsourcing, insourcing and offshoring and offer insights on trends, approaches and specific challenges faced by clients as they embark on their respective journeys.

In this document we present a number of useful ideas on risk mitigation approaches, as well as advise on common mistakes our advisors see across multiple engagements. The case studies included also help to identify practical insights and ideas that can be applied to the four phases of outsourcing: strategic assessments, negotiations, transition and vendor management.

The world of outsourcing and offshoring continues to evolve on several dimensions. Key insights from recent engagements include:

- Clients continue to execute outsourcing transactions believing they have a full understanding of risks based on prior experiences. A lifecycle approach to evaluating risks and challenges at each stage of the outsourcing lifecycle has proven to be more beneficial.
- Clients are looking for opportunities to leverage captive centers into partnerships with third party outsourced vendors for increased efficiencies, adopt leading practices and to potentially evaluate the monetizing of the asset.
- Multi-vendor outsourcing continues to be the common approach adopted, however clients struggle to execute integrating services across multiple providers (and in some cases internal captive centers) and therefore seamless delivery of services continues to be an issue.
- The regulatory environment continues to request additional requirements and provisions from clients. With the addition of headcount and cost reduction initiatives, and the move to shared service centers, is outsourcing of compliance and reporting functions an attractive alternative?
- Transitioning services between providers or from the client to a third party continues to be challenging. The duration for a transition is dependent on a number of factors.
- Cloud computing services continue to provide challenges. Standardization and transformation continue to be increasingly important in IT outsourcing. Clients find themselves caught in a dilemma of trading off customization and control for lower cost, greater efficiencies, and built-in product evolution.
- Outsourcing of traditional contact channels is now well established; however, many organizations continue to be apprehensive for handing over their key asset — the customer.

The seven articles in this compendium build upon the above themes. Each of these articles can be read as a self-contained piece or can be reviewed in concert as they describe a number of activities and challenges in the end-to-end outsourcing journey.

1. The Negotiations article focuses on the importance of contract terms and ensuring terms and conditions support the objectives of the outsourcing initiative. As companies implement innovative new service delivery solutions, the associated risks need to be identified, quantified and mitigation strategies deployed.

   The paper explores a case study on Cloud based services, and how introducing appropriate contract provisions could mitigate unnecessary risks.

2. The Strategy article focuses on a pragmatic approach to restructuring your sourcing deal. It outlines the framework and approach, how to define and prioritize decision criteria and establish guiding principles.
Why is a restructure necessary? Misaligned expectations and changes in business requirements and regulations may lead to vendors struggling to deliver expected service levels. Expansion into new businesses may require new skills and services in new geographies which the current model may be unable to support. The paper explores how adopting a structured and data driven approach for restructuring can enable an organization to cut through the complexity of the operating environment, while a solid base of supporting data can enable buy-in among decision makers.

3. The Transition article focuses on answering the question; how long should a transition take? Our experience indicates duration is impacted by multiple factors including number of impacted resources and vendors, regions in scope, business and operational risk and readiness for organizational change.

Effectively executed transitions require a program which accounts for impacts to both ongoing business operations and critical in-flight projects. If changes to underlying business processes or technology are also required that will extend the transition duration. In addition, organizational resistance to change by moving to a different operating model and degree of appetite for risk to business and operations, both require an integrated risk plan and approach including risk mitigation strategies which may require extended transition activities and additional project costs.

4. The Vendor Management article focuses on the growing importance of service integration. Too often clients have outsourced to multiple third parties and assumed these providers will integrate services seamlessly and proactively work together to resolve outages and delivery issues.

The paper outlines the functions, key benefits and challenges of implementing a service integration organization. Typical challenges faced when developing and implementing a service integration function, include; selecting the appropriate operating model, setting up the right operating frameworks to drive standardization across vendors e.g., common KPIs and OLAs, establishing effective governance and managing organization wide change.

5. The spotlight article this quarter focuses on the importance of undertaking a risk identification and management plan early in the outsourcing lifecycle to identify and prioritize risks and implement mitigation strategies.

Although organizations have improved their outsourcing planning and management capabilities, increasingly complex outsourcing options, value expectations, and service integration and regulatory issues present new risks and challenges. The paper examines key risks at each stage of the outsourcing lifecycle and as well as strategies to help make each phase a success.

6. Our two international articles focus on the growing trends and challenges for outsourcing contact channels and outsourcing compliance and reporting activities.

Customer focused outsourcing is more complex than standard ITO or BPO outsourcing. The paper examines the focused 6 step approach to optimize the value for all parties.

Increasingly challenging and changing areas of regulatory and legislative requirements are placing an additional focus on how clients manage tax and statutory compliance responsibilities. The paper outlines a broad approach for the preparation, assessment and transformation phases of a program.

Whether you are looking to embark on an outsourcing journey, assessing your current operations, bringing operations back in house or renegotiating, we hope you find these articles of value. As the world’s largest outsourcing advisor by revenue and FTEs and ranked #1 as the 2013 World’s Best Outsourcing Advisory Services organization, we hope you find this and the continued installments of the compendium accretive to your business.

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1 IAOP World’s Best Outsourcing Advisors Ranking — Source: May 20, 2013, FORTUNE®
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Cloud versus control
Avoiding an all-or-nothing proposition

Introduction
As IT vendors accelerate their conversion from software, hardware, and service products to plug-in cloud offerings, many clients find themselves caught in a dilemma of trading off customization and control for lower cost, greater efficiencies, and built-in product evolution.

Clients may like the idea of being a passenger in a vendor’s cloud environment but, as passengers, they must sacrifice the flexibility to choose their own servers, operating system platforms, application versions, facilities, and support models for the convenience of signing on to a cloud vendor’s platform where the client will be just one of many others riding on that vendor’s solution. By signing up, the client is agreeing to go along for the “full ride,” not only as the solution exists at the time of purchase, but also as the service evolves and changes through the service term. Clients thus face the risk that changes the vendor makes to its platform during the course of the engagement may unwind some of the benefits that the client counted on when services were initiated; even worse, these changes can be made unilaterally by the vendor with little or no notice — let alone approval — and in such a way that application interfaces into the platform may be broken, requiring expensive and lengthy remediation by the client.

Specific application to data center services
Rarely is this risk more apparent than in the space of traditional data center services, often referred to as outsourced “infrastructure” services. Many clients have historically outsourced data center services to achieve one or more diverse objectives, including cost savings, improved service delivery, the ability to focus on more strategic areas of their core business, and standardization. Standardization has traditionally been accomplished through process improvements, organizational transformation, and by retraining personnel in the vendor’s methodologies and processes. Lately, however, given the advent of new virtual and cloud technologies, some clients are turning towards technology standardization and transformation.

While technology standardization is hardly a new trend in outsourcing, vendors historically focused on leveraging people resources, purchasing power (e.g., software and equipment), and utility procurement (e.g., network, electricity) to achieve economies of scale. Client servers, operating system software, and data still generally resided in a separate cage, with a distinct architecture that could be customized based on the client’s requirements. New cloud models create leveraged environments for this “last mile,” leveraging standards and architecture.

The coupling of traditional outsourcing scope with cloud-based offerings has both advanced and complicated the latest, cutting-edge data center deals. Both are required components to encompass the end-to-end scope of services. Historically, this has been achieved through traditional outsourcing alone, but we are seeing increased pockets of cloud products embedded in data center scope, with the vendor’s solution providing economies of scale by leveraging virtualized servers on standardized architectures, technologies, and interfaces. The result is a lower infrastructure cost to the client (along with decreased applications costs when standardized development methods are applied) and, potentially, the flexibility and convenience to clients of ceasing to run their own data centers.
However, when the vendor modifies its leveraged, multi-client cloud environment, there is the real, material risk that an individual client’s business will be impaired, deteriorating the deal’s expected cost savings. The vendor may wish to change its cloud environment for numerous reasons, with no malicious intent on its part to harm or inconvenience the client, in order to:

- Solve a problem experienced by another client;
- Seek to scale its solution;
- React to a change in marketplace dynamics (e.g., a Microsoft-driven platform change);
- Create efficiencies to drive down its own costs to increase profit margin;
- Implement a more robust architecture to drive higher service levels or greater scalability; or
- Keep pace with technology changes to entice new clients into the environment.

Regardless of the vendor’s intent, the client may be adversely affected by such changes, either due to service interruptions, diminished value of the solution, or rising costs from new software or fixes that the changes trigger.

Increasingly, many vendors seek to codify their position of control through operational processes and contract terms that require the client to agree that such changes are within the vendor’s prerogative to make. And, there is a kernel of truth and technological reality to the vendor’s position: while clients may like the immediate and long-term savings (often dramatic) provided by the vendor over more traditional non-leveraged offerings, they also want to “be on board” with the solution as it improves over time. For clients, surrendering the freedom of choice and control over changes is the flip side of what makes cloud offerings such a powerful proposition. (In fact, some CIOs keep their internal business counterparts in line by using these standardized solutions to improve enterprise governance.)

Vendors are hardly wrong to lean on these realities during negotiations, but often their contractual solution is too black-and-white. Large corporate enterprises that wish to join the cloud revolution (the very companies the vendors want to land) cannot merely accept, without some negotiation and middle-ground compromise, what the vendor may describe as a “reasonable change.”

It is necessary, and certainly possible, for the client and vendor to strike a reasonable balance to mitigate this client risk during the negotiation phase; however, it is far more difficult to address this issue once a binding contract has been signed and the engagement is underway. By using a mechanism from traditional outsourcing, which we refer to here as the “Do No Harm” clause, and modifying it to fit the new data center outsourcing landscape, we can find an appropriate middle ground balance between client control and vendor cloud standardization.

**Background**

Recently, we finished working with a client whose data center environment was becoming less standardized over time due to acquisitions and other inorganic growth. This lack of standardization increased costs through duplicative and separate technology stacks (i.e., hardware, middleware, operating system, database), requiring a complex and inefficient support structure. To reduce those costs, the client wanted to engage a third party vendor to evolve it to a rigorous, secure architecture, using a predictable pricing structure to enable long-term strategic planning, and the flexibility to grow or decrease volumes as its market changed or M&A activity dictated.

This is hardly a rare marrying of need between client and vendor; in fact, it is precisely the driving force behind the outsourcing industry over the past 20 years. What made this deal unique was the significant portion of the scope that was to be placed in the vendor’s standardized cloud environment, and the transformation investment required to enable it.
Details on the deal
For this particular deal, our client planned to transfer the majority of its data center environment (labor, hardware and some software) from its own facilities to facilities owned and operated by the vendor. Our client was concerned with achieving the following critical deal elements:

- **Transition of Services**: The need for the vendor to perform an effective knowledge transfer to run and maintain the environment, including the development of policy and procedure manuals, development of a Configuration Management Database, mapping the environment, and understanding the different business units, while transitioning services from the legacy resources to a mixture of onsite, onshore, and offshore resources.

- **Data Center Migration**: The need for a seamless physical and logical migration of data to the vendor environment, maintaining business continuity.

- **Migration to the vendor equipment**: The need for an effective migration to the vendor cloud environment (server and storage) represented the biggest concern; some applications were moving to different releases and versions of operating system software. The vendor’s existing cloud environment also had multiple tenants operating within it, with the expectation that more would join.

- **Transformation**: Transformation of the environment was a significant client objective and included:
  - Virtualization of Windows and Linux environments
  - Migration to an auto-tiering storage solution
  - Migration from a higher-cost UNIX solution to a Linux solution
  - Retirement of the mainframe and migration of applications to a midrange platform

For the client to link into the vendor’s platform, the client would need to change the interface layer of its existing applications. The project to make these changes would be performed by the vendor, who could expect a significant revenue stream as a result. Indeed, one of the driving factors in the selection process was finding a vendor capable of performing both the infrastructure delivery and the application re-platforming. Awarding both functions to a single vendor would incent them to drive both infrastructure and application costs lower simultaneously.

Chasing the moving mountain
During the course of negotiations, it became clear that the vendor was quietly insisting on the right to fully control its cloud environment, including the process, standards, and architectures that would host the client’s systems. The vendor raised this position as a set of seemingly innocuous changes to the contract language, suggesting that they needed to reserve the right to make changes to its own cloud architecture from time to time. For our client to grant this right unconditionally could undermine the entire economic case for the deal, as described above.

As contemplated by our technical solution, as each server’s workload was transitioned to the vendor’s standardized environment, the vendor would re-platform the application to its architecture along with the other transformation items identified earlier (i.e., virtualization, auto-tiering storage solution, migration from Unix to Linux, and migration off of the mainframe). This significant initial investment would enable the considerable cost savings to follow. And, not only was the client willing to accept the standardization the vendor’s environment required in order to achieve the cost savings, the CIO was the driving force behind this initiative, believing that standardization would have benefits beyond cost savings alone, including:

- Instilling discipline into his developer community, causing them to build new applications to standards set in concert with the vendor, making their work more consistent and repeatable, and ultimately allowing the organization to be streamlined.

- Reducing the number of hardware platforms supported, leveraging software licenses, and simplifying the organization with respect to skills and hiring.

- Improving product transparency and support across the organization.

- Enabling the retained team to focus on more high-value projects that were core to the business.
During the bidding process, vendors often agree to bear the risk that historic productivity improvements and trends in the IT industry will continue in the future. To accept this risk, they need to evolve their delivery models, so long as (presumably) they do so without harming the client in the process. In the past, vendors traditionally delivered savings benefits to their clients through people (offshore labor arbitrage or reduced headcount through process improvements) and asset leverage. These changes required little client approval, were built into the vendor’s cost case and, by extension, into its pricing. In theory, this approach promotes the most economically efficient model between the two parties, taking into account the vendor’s costs (which the vendor continually seeks to reduce, either to meet its pricing obligations or to increase profit margins), while also safeguarding the client’s costs and business operations. The theory has generally held that whatever changes the vendor makes to its environment will not put the client in a lesser position than the contract implied (particularly when up-front investments to standardize the environment have been made). In other words, the vendor should make no change that would abridge the principle to “Do No Harm.”

The “do no harm” clause

The traditional outsourcing industry has evolved an elegant solution to address this natural tension between client control and vendor flexibility. For those deals, the parties commonly agree to a balanced approach, whereby the vendor has freedom to make changes, so long as those changes do not result in any negative effect on the client. The clause prohibits the vendor from making changes, absent approval by the client, that could increase the client’s cost of receiving its services, or which could otherwise reduce functionality, interoperability, performance, or speed. In the outsourcing industry, this clause is sometimes referred to as the “Do No Harm” clause.

The “Do No Harm” clause is not intended to prevent the vendor from making changes to its environment; indeed, it presupposes that the vendor will do so. However, the clause does ensure that whatever changes the vendor elects to make, such changes will not harm its client. Furthermore, to the extent the vendor does do harm, it is liable to remediate the specific harm done, either by paying for the changes the client must make to bring its applications back into form with the environment, or by providing a different benefit of equivalent value to the client.

Preventing harm — a specific application of principle

In our particular transaction, the vendor had an existing virtualized cloud platform in place, from which they provided services to a number of other clients, and hoped to add our client to that platform. From time to time, the vendor would make updates and improvements to the platform; these changes occurred for a variety of reasons, as noted above.

So long as the vendor’s changes were neutral or positive to our client’s environment, then such changes would present no issues for the deal we were constructing. However, there existed the real possibility that the vendor’s change would cause “harm” to our client in the form of higher retained costs, inoperability of applications, or reduced performance. Without a contract clause to directly prohibit such an action, our client would have been held hostage to any changes the vendor deemed appropriate to itself or its other clients, with our client bearing the risk of higher retained costs and/or business disruption resulting from those vendor changes. These risks were not hypothetical or imaginary, and could have resulted in the following negative consequences:

- Applications that no longer worked properly and required time to modify and retest.
- Degraded application performance.
- The vendor deciding to stop supporting a software version critical to our client’s business.

Furthermore, these consequences could crystalize well after our client had made the initial investment with the vendor to re-platform and transition its applications into the vendor’s environment, a process for which our client would have already paid handsomely. By requesting a seemingly innocuous right of control, the provider was creating a situation whereby our client would “move to the mountain,” only to find that the vendor had moved the mountain in the night to a different range.
Of course, no client should be put in the position of being dependent merely on a good faith relationship with a vendor, nor put itself solely in the hands of a vendor who may make decisions regarding software versioning, hardware upgrades, and security to meet its own objectives. Had our client unconditionally accepted the vendor’s proposal, our client would have ceded authority to the vendor to make decisions that could undermine the economics of the deal; this would cause a downward drag on the value of leveraging the vendor’s cloud offering, creating what we will refer to as “Cloud Drag,” which is illustrated below:

Coupling data center outsourcing and technology standardization can yield significant infrastructure and application support savings unless impeded by “Cloud Drag”

Illustrative view of annual IT spend after each initiative

The chart illustrates that “Cloud Drag” — diminishing and potentially eliminating expected deal benefits — may result when changes to the standardized environment are made. In sequence, the chart illustrates:

1. The annual IT budget, which serves as the “baseline”; this is the starting point.
2. The infrastructure environment is outsourced to achieve immediate and long-term savings.
3. The technology platforms are standardized and simplified. A one-time re-platforming project cost leads to ongoing infrastructure and application cost reductions, with the expectation that NPV is positive.
4. The Expected Run Rate that results from the outsourcing and re-platforming initiatives, coupled with the potential negative effects that platform changes can cause through “Cloud Drag” risk.
Variations on a theme — updating “do no harm” for the cloud

It is impractical to apply the pure “Do No Harm” concept directly to standardized architecture offerings, including cloud-based solutions, since this would eliminate the cloud vendor’s flexibility that gives rise to benefits of the cloud offering and negates many of the aforementioned benefits to standardization. However, the concept can provide guidance to clients in achieving the balance between moving to standardization while protecting against unknown future costs resulting from unilateral changes by vendors. This balance will vary for every contract scenario between vendor and client. Some business-reasonable trade-off options may include:

• If the vendor makes a negative change, they will agree to supply application developers to close the gaps created by the change.
• If the vendor intends to make a material change that renders its service no longer fit-for-purpose for the client, the client must be given time to adjust, with a right for the client to terminate at no additional cost if an adjustment is not commercially feasible.

Many clients are increasingly willing to bear certain quantified risks in order to reap the many advantages of moving to the cloud. However, these risks need to be identified and quantified, and mitigation and resolution strategies need to be developed, so that clients are not faced with surprise costs or business damage (i.e., “Cloud Drag”) that may offset the benefits of leveraging the cloud solution.

Technology standardization and transformation are becoming increasingly important in IT outsourcing arrangements. Both parties (vendor and client) must work together to help each other be successful and effective. Without the proper contract terms in place (such as an appropriate “Do No Harm” clause), outsourcing objectives may become unfulfilled promises, adding unnecessary risk, and potentially undermining the premise of the deal. In any outsourcing initiative, it is critical to consider the principles by which the agreement was crafted, and to ensure that the terms and conditions in the contract support those objectives. When done properly, outsourcing can be a remarkably effective tool for organizations to use to improve the services they deliver to the business, to reduce their costs, and to bring market innovations that they are unable to deliver to themselves.
Rebaseline and restructure
A pragmatic approach to restructuring your sourcing deal

Introduction
Outsourcing of your business operations can be a source of competitive advantage in today’s business environment. However, outsourcing is not a “one and done” transaction. In our experience, careful monitoring and a proactive evaluation of the objectives and performance of the outsourcing strategy is necessary to maximize results. Contracts today are designed to allow a certain amount of flexibility to meet changing business demands. However, certain types of events may cause you to consider a more significant re-evaluation and adjustment of the model:

- **Overall Quality of Service**: Despite thorough due diligence and transition planning and management, vendors will sometimes struggle to deliver the expected level of service. Further, changes in the business or mis-aligned expectations may lead to high business dissatisfaction even when agreed-to service levels are met.

- **New Business and Growth**: Expansion into new businesses or the growth of existing business lines may require new skills, service in new geographies, or new volumes which the current model may not be able to provide. Growth by acquisition may create a more complex environment when the acquired organization has its own outsourcing agreements.

- **External Changes**: Changes in regulations or even in the political climate of the home country may demand greater sensitivity to outsourcing, and especially offshoring. Service provider consolidations or bankruptcies can also trigger certain contract rights that will require assessment and, potentially, action.

Today, many organizations are struggling with one or more of these situations. In a recent survey¹, Deloitte identified that approximately one-quarter of clients were dissatisfied with their most recent outsourcing transaction.

Once the decision to act is taken, organizations must follow a structured and data-driven approach for devising and evaluating a potential restructuring. A structured approach can enable an organization to cut through the complexity of the operating environment, while a solid base of supporting data can enable buy-in among decision makers.

Deloitte’s 2012 Global Outsourcing and Insourcing Survey
24% of company respondents were either neutral or dissatisfied when asked how satisfied they are with their company’s most recent outsourcing initiative.

71% of the companies interviewed cited “Overall quality of service” as the most important factor in their decision to terminate contracts early. 33% did so for a lack of subject matter expertise at their current provider.

Rebaseline and restructure
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Planning the evaluation
Getting Started
Approaching something as complex as a service restructuring or transition can be overwhelming given the myriad of options and permutations. Before embarking on the analysis it’s critical to understand the core objectives, define and prioritize the decision criteria, and establish guiding principles such that your effort is focused on business goals.

Guiding Principles
Guiding principles provide the basis for subsequent decision making, and must be consistent with the overall strategic goals of the organization and the initiative. Some organizations may value service quality over all else, while others need to minimize investment cost. Below is a sample of guiding principles that are commonly seen in organizations that need to make decisions in a highly complex environment.

Don’t fix everything at once. Set up a logical and deductive method for analysis.

Focus on the ‘high priority, high impact’ problems. Isolate the root of the problem and do not force-fit areas that do not need to change.

Consider the realities of implementation. Focusing on a realistic end result, and the effort and energy required to transition successfully, will lead to pragmatic decision-making.

Minimize transitions to minimize disruption. Performing the fewest, and most essential transitions, between service providers and the client organization can limit business disruption.

Live with poor performance in low impact areas. Do not get bogged down with the problematic but small areas that have a low impact on business outcomes.

Fix internal problems, not just vendor problems. Aligning vendor governance and internal processes to support the new service delivery infrastructure is critical to its success.

The realities of each client situation will differ and as a result the guiding principles that are applied will differ. Once set, the principles are used to establish decision-making criteria, and should be periodically revisited such that the subsequent analysis does not deviate from the strategic objectives.
Executing the evaluation
Once the principles have been established, and the decision is made to restructure the relationship, we recommend a four step filtering process to identify and evaluate the new operating model.

Inputs to this process are the objectives and decision-making criteria, as influenced by the guiding principles, and a set of baseline data, which may consist of service level performance reports and deal financials, and any additional quantitative data that can be collected.

The four filters can be described by the headings: Where Focus; What to Do; What’s In/Out; Which Model and Vendor. The graphic below illustrates this approach.
Filter 1: Where to Focus
Focusing your efforts only on those areas where you need to take action is critical to mitigating risk. Break down your service model into logical segments that you will then be able to measure: geography, business unit, service type, etc. Use service level and financial data, along with future needs and business objectives, to prioritize and identify target segments.

The illustration below shows a hypothetical analysis of an IT service delivery infrastructure. The units of analysis are defined by geography and service. However, the units of analysis will differ according to the circumstances. For example an evaluation of customer operations may use call types or customer tiers as the segments.

Filter 2: What to do
Once the units of analysis are defined, and areas of focus are identified, there are six macro-level options that organizations can pursue when revisiting an outsourced service delivery model.

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<th>Macro-Option</th>
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<td>1</td>
<td>Stay the Course</td>
<td>Continue the ongoing process of utilizing existing contractual and commercial “levers” to influence vendor behaviors</td>
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<td>2</td>
<td>Invest in Vendor Management and Governance</td>
<td>Enhance the Vendor Management organization by implementing a robust Vendor Management Program Office (VMPO), and encourage or enforce like changes on the vendor side</td>
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<tr>
<td>3</td>
<td>Restructure in full</td>
<td>Restructure the contract to bring it up to date with current realities; scope, pricing, service levels and timelines may change</td>
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<td>4</td>
<td>Terminate in part, and transition</td>
<td>Terminate certain elements of the contract (&quot;partial early termination&quot;); some vendor services move to a new vendor, or in-house, on a case by case basis</td>
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<tr>
<td>5</td>
<td>Terminate in full, and transition in full</td>
<td>Terminate the contract; all vendor services move to a single new vendor, or in-house</td>
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<tr>
<td>6</td>
<td>Terminate in full, and transition piecemeal</td>
<td>Terminate the contract; all vendor services move to a new vendor (or in-house) on a case by case basis</td>
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The macro-options can be evaluated against key decision making criteria such as Cost Effectiveness; Speed to Implement; Disruption; Impact on Service, etc. Weighting the key decision-making criteria will yield a weighted average score for each model, which can support communication of the recommendation to key decision makers.

The remaining filters focus on options 3 through 6, where a restructuring is appropriate. If the decision is made to Stay the Course, or Invest in Vendor Management and Governance, the process does not pass through the filter, and the relevant programs can be initiated. For a detailed discussion of the option #2, see Deloitte’s 2011 publication: “The Outsourcing Vendor Management Program Office (VMPO): Art, science, and the power of perseverance”

Filter 3: What’s In/What’s Out?
For those segments or services that pass through filter 2, there are two main options: transition to another provider or bring services back in-house. Services that should be prime candidates for insourcing are ones that offer differentiation or competitive advantage for your business (either now or in the future), directly drive customer satisfaction, or require domain expertise that only exists within your organization.

66% of companies surveyed in the 2012 Global Outsourcing and Insourcing Survey chose to transition services to another third party after an early termination; 34% moved the function back in-house.
Rebaseline and restructure
A pragmatic approach to restructuring your sourcing deal

The graphic below illustrates a simplified view of the structure and content of the In/Out analysis. The precise services or processes, criteria and weighting must be customized to fit the circumstances.

Filter 4: Which Model and Vendor
Having identified what’s in and what’s out, an organization will need to determine the appropriate new model for service delivery.

Internal Service Delivery — “Insourcing”
Internal service delivery can be accomplished via a number of models.

A Shared Service model is one in which services are delivered internally by a function operating as an internal customer service business. Shared services functions typically charge business units for services provided, and use service level agreements to specify the cost, time and quality performance measures.

A shared service model can be set up as an Offshore Captive, where services are delivered, in whole or in part, from a location outside of the parent companies home country. Typically captives are built from scratch and take time and investment before they produce the expected savings. Provided sufficient scale is achieved and the organization is committed to the captive in the long term, this option can maximize value, as all benefits accrue to the parent organization and do not have to be shared with a third party. However, in the event of failure, this is a costly option in terms of risk and investment.

External Service Delivery — “Re-sourcing”
External service delivery is typically delivered via one or more of the models below.

A Staff Augmentation model is appropriate when a particular skill or capability is temporarily needed or demand is highly variable over time. Staff augmentation resources are often treated like full time employees and can be redeployed toward the most urgent need without notice.

A Managed Service model is more appropriate when looking for a consistent and repeatable level of performance that can be defined and measured. The ability to forecast required volumes and predict the level of service necessary is a requisite for managed service sourcing.

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For a full analysis of drivers and considerations related to IT insourcing, see Deloitte’s 2013 publication “From Bangalore to Boston; The trend of bringing IT back in-house.”
A Third Party model is a managed service model in which the client organization contracts with a service provider to deliver the transitioned services. This model may be easier than insourcing for clients that do not have the access to skills required to deliver internally, and do not need to retain tight control over the services.

In situations where a client does not have the capabilities to deliver services internally, but believes in the long-run that internal service delivery the right option, the client may consider a “Build-Operate-Transfer” (BOT) model. Under a BOT model, a third party sets up the operation and transfers ownership to the client at the end of a specified period, or upon the satisfaction of certain conditions. The BOT model is essentially a third party model with an embedded call option to purchase the service center. This is most suitable when services are delivered from offshore and the client has limited local experience and market presence in the offshore destination. Return is more limited than the captive option as the value captured during the “build” and “operate” stages have to be shared with the BOT partner. However, risks and investment are also shared.

Selecting the vendor
At this stage, an organization has identified areas of focus, identified the services that need to move, and determined that an outsourced model is the most appropriate. The final consideration in the filtering process is vendor selection.

Organizations should incorporate the lessons learned from the original outsourcing process when selecting a vendor. In developing an RFP and vendor scoring criteria, consider why the original deal did not deliver expected benefits, why the service provider could not deliver the expected value, internal capabilities to manage the outsourced services, and any changes to the business environment.

Several factors should be considered to create the list of vendors include in the selection process, among them:

• Which vendors have demonstrated the capability to deliver the services at the necessary scale?
• Which vendors have experience working in the particular market and industry of the client?
• What is the client organization’s history of success with the various vendors under consideration?

Finally, consider the appropriate balance in relative size between the provider and the client to encourage the right level of responsiveness. While large providers may often meet or exceed the selection criteria, for smaller clients the level of responsiveness may not be acceptable.

At this point, an RFP can be issues to the market, and a full evaluation of potential new service providers can take place. But the effort does not end here. Clients must remember to develop the total-cost-of-ownership business case and an implementation plan, to enable benefits realization and a smooth transfer of services.

Outcome and conclusion
Completing the four-filter approach outlined above will help lead to a clearly defined, documented and data-driven evaluation of the potential future service delivery model. The approach removes emotion from the decision-making process, and enables decision-makers to make objective decisions about what is important and what trade-offs are acceptable.

In the event that the recommended future service delivery model does not meet the expectations of key decision makers, the data collected and the analysis conducted at each step of the filtering process will enable the organization to re-evaluate the specific input that was led to the “wrong” answer. Ask: what assumption was wrong, what criteria were less important or incorrectly weighted, which guiding principle needs to be revisited?

There are many different types of events that can trigger the need for a re-evaluation of your service delivery model. Clearly articulate the objectives and define a core set of guiding principles before undertaking any detailed analysis. Follow a methodical approach to determine where to act and what actions to take. Once a target model has been defined you should analyse and understand the trade-offs and financial implications of the decision, and develop a clear roadmap for implementation that your organization can execute. Although normally disruptive, a methodical approach to restructuring your service delivery model can improve the performance of your organization while minimizing risk to the business.
Predicting the future
How long should an outsourcing transition take?

Introduction
An on-time transition project has the potential to unlock the value of an outsourcing engagement in terms of cost benefits, service delivery improvement, and process enhancement, and can enable multiple transformation initiatives. Client urgency to drive to an efficient steady state operation is clear, but the question “How long should the transition take?” remains open.

The answer is dependent on multiple factors, and this paper outlines some of the factors and recommendations for estimating the duration of transition projects.

Factors impacting transition duration
In our experience leading and advising on numerous outsourcing transitions, we encounter five common factors impacting the duration of transitions:

1. Number and type of impacted resources
2. Geographical regions in scope
3. Number of incumbent and new vendors involved
4. Business and operational risk
5. Acceptance of and readiness for organizational change

Transitions span the project continuum from single service transition or “simple” to large and multifunctional or “complex.”

The main attribute of simple transitions is that the underlying business processes and technology remains unchanged. Simple transitions typically occur where the objective of the transition is largely a workforce migration where service delivery resources are moved or transferred to a new vendor. The primary benefits of this type of recontracting exercise center on improved commercial terms, service levels, and/or changes in scope. Such transitions can typically be completed in less than 90 days*, because many of the personnel continue to perform in a similar job role/family and often utilize the same technology and underlying business processes. Business risk is reduced as the operational change is limited to the management and process layers of the vendor organization.

Conversely, complex transitions often involve a series of factors that compound risk and elevate a transition from a project to a program and elongate the time frame to nine or more months to execute. Factors include:

- Large impacted workforce
- Multiple regions, business units, or stakeholders
- Varying service delivery models, including multiple vendors, hybrids, cloud, and moving work back in-house
- Contractual changes, including pricing mechanisms (e.g., time and material contracts to output-based managed services models), terms, and service levels
- Critical dependencies on long lead time items, such as establishing a dedicated network (e.g., high speed MPLS (Multiprotocol Label Switching) connections or other information technology setup can take more than 90 days) facilities setup, data center readiness, government regulations, and software licensing
- Human resource compliance, including hiring, severance, retention bonuses, and communications

In addition to the criteria described above, there are two other dimensions that should be considered when estimating the target duration of a transition:

- The organization’s appetite for risk to business and operations can influence how long a transition a client is willing to undertake. The program should account for impacts to both ongoing business operations and critical in-flight projects. A detailed and integrated risk plan and approach should be created at the beginning of the project, and the organization may choose to mitigate risks by elongating the timeline. This decision may add additional project costs and impact the overall speed to value of the sourcing arrangement.

*Deloitte’s 2012 Global Outsourcing and Insourcing Survey Results, Page 33
The degree of organizational resistance to change resulting from moving to a different operating model can also impact the transition timeline. The time required to carry out the change programs in conjunction with the transition activities may increase the duration of the timeline. This dimension can determine how soon an organization can be ready to focus on transition activities, business risks, and mitigations. For example, an organization which is adopting a global managed services model for the first time that requires change in processes and vendor management training throughout the organization may require a longer transition timeline.

The diagram below depicts how the five parameters can affect the duration of the transition.
How do you decide how long the transition should take?

Based on experience with managing large global transition programs, we suggest a measured approach that integrates a combination of top-down and bottoms-up estimates to establish the duration of a transition.

The top-down estimate can be developed based on the five factors outlined in the prior section. The organization may use SMAs (Subject Matter Advisors) within the organization to develop the bottoms-up estimate in conjunction with leveraging the transition plan provided by the new service provider. It is critical to provide input into the plan and properly vet the vendor’s tasks, timelines, and resources.

The transition duration estimate may be refined through detailed planning sessions working with the incoming or outgoing vendor to develop the Master Transition Plan (MTP). The MTP will include details of the transition tasks, duration, resources (including the organization resources), and dependencies. The transition duration depicted by the MTP may be compared to the high-level estimates to understand the drivers for the gap between the estimates.

Taking both estimates into consideration, the organization can establish the transition duration with greater confidence.

Summary

Estimating the duration of a transition can provide the outsourcing buyer with the data to thoughtfully evaluate and compare the critical planning assumptions that vendors are making as part of the deal. It can also inform the strategy and approach for moving services to a new vendor and establish stakeholder expectations on duration and risk to business operations.

The leading factors that influence the duration of a transition are the scope of services to be transitioned, the number of resources impacted, the number of regions and business units, and the number of vendors involved. In addition, the organizational acceptance of change and the ability to mitigate the risk of the transition should be factors used to create the estimate. A high-level estimate of the duration of outsourcing transition can be used:

• As the first step in transition planning
• To estimate impacts of the timing on the business case
• Prior to performing a detailed bottoms-up planning, exercise with a detailed MTP

Transitions can range from simple to complex and gaining an early understanding of the estimated duration of the transition can provide:

• An early view of the time frame within which the targeted cost-saving objectives can be met
• Clients with information that can be used to develop the initial outsourcing strategy and business case
• Information to negotiate transition duration and costs during the contracting process

Predicting the future as it pertains to estimating the duration of outsourcing transitions is still more art than science, but leveraging these established guidelines will create a credible projection and can inform the program on multiple fronts. It enables an organization to think through the duration of the transition based on their organizational constraints, allows it to conduct negotiations with the vendor from a market viewpoint, contributes to its ability to refine the business case for the outsourcing program early in the process, and creates a baseline for expectations that prepares the organization for change.
Service integration
Challenges of integrating managed services in a multi-vendor environment

Executive summary
Outsourcing has evolved significantly during the last decade and clients have accumulated significant experience and expertise in establishing global outsourcing engagements. Service providers have also gained experience, developing deep capabilities in niche areas, and investing to grow their capabilities to become known in the marketplace for differentiated capabilities.

Outsourcing clients have learned that, although service providers sell the idea that they can seamlessly deliver cross-functional IT outsourcing services globally, that is frequently not the case. We have observed, based on our experience with numerous global clients, that service providers often struggle to integrate capabilities and to deliver services at a competitive cost across geographies.

This phenomenon has driven service providers to steer away from monolithic outsourcing engagements (putting all their eggs in one basket) towards multi-vendor models; these models are meant to procure services from service providers with best-in-class capabilities across the globe, and align with the unique needs of the organization at a regional or Business Unit (BU) level.

Many organizations underestimate the complexity of the multi-vendor operating model and the skills required to manage the ecosystem, as well as the organizational change management issues and new operational processes that need to be designed, deployed, and institutionalized to ensure that projected benefits are realized. Clients frequently underestimate the level of integration required across service providers (including insourced and 3rd party vendors), the interdependencies between those providers and the internal stakeholders, and the level of governance that is required.

Service integration, though not a silver bullet, is a critical enabler in operationalizing the multi-vendor operating model. While Service integration is not a new concept, identifying talent, advisors, and service providers who understand SI is challenging, and building a Service integration capability from scratch can be daunting. The question, then, is how an effective operating model can be operationalized to effectively cultivate a Service integration capability to manage the multi-vendor ecosystem.

In this paper, we will discuss the specific challenges of the multi-vendor operating model, and describe the role that Service integration plays in operationalizing it.

The emergence of third-generation outsourcing
The first of its kind data center outsourcing deal was signed in 1989, and was marked by the transfer of assets to the service provider. Since that first generation outsourcing deal, the industry has evolved significantly. The 1990s saw the emergence of second-generation outsourcing initiatives combining asset and staff transfers to optimize business competencies within large, multi-year deals, with services typically outsourced to a single third-party service provider. As the size and complexity of these relationships increased, and service levels became more sophisticated and complex, these agreements began to wear down for a number of reasons, including a lack of competition within the environment that made costs difficult to contain and innovation harder to achieve; this eventually led to increasing dissatisfaction, particularly as clients perceived their service provider’s focus shift from delighting them to simply meeting their delivery and contractual obligations, while diverting their most talented staff to new clients and pursuits.

The graphic below shows the evolution of IT outsourcing and the growth in maturity of buyers and service providers and depicts the attributes of the service delivery models associated with the IT outsourcing generation. For example, Internal Delivery and Asset Transfer and Management are attributes of 1st Generation outsourcing, Prime Contractor and Multi-sourcing are attributes of 3rd Generation outsourcing and so on.
Service integration
Challenges of integrating managed services in a multi-vendor environment

Exhibit 1: Progression of outsourcing maturity over time

The limitations of single-vendor environments became more and more evident, reflected in uneven capabilities and economics across towers and geographies. These issues acted as the catalyst for clients to conceptualize the multi-vendor operating model.

In the 2000s, outsourcing continued its evolution through a third-generation characterized by a focus on business value without the bias towards a particular type of delivery model, though frequently using a “selective” sourcing approach in which elements of the environment were outsourced to different service providers owning a particular niche or capability. Progressively, clients have been moving towards these multi-vendor models with the aim of building a competency-based eco-system, bringing together the best skills and capabilities from multiple service providers to meet the client’s strategic objectives. Of course, no model is flawless, and multi-vendor outsourcing programs, in the absence of the appropriate infrastructure, typically result in the formation of “silos” within the operating environment which often negatively affect end-to-end service delivery to the business, especially where there are transformational programs with interdependencies across multiple service providers.

The emergence of third-generation outsourcing is reflected in sophisticated service delivery models defined principally in terms of business value. Clients are taking an end-to-end process/platform view to drive optimization across applications, infrastructure, and supporting services. This entails a shift away from focusing on individual service towers towards building an ecosystem comprising service delivery capabilities of best-in-class vendors for each tower, integrated seamlessly to deliver end-to-end services to the business. This transition from a single to a multi-vendor environment is complicated and requires careful planning, management, and execution.
Anatomy of the multi-vendor ecosystem

Outsourcing engagement models within large, global companies are typically characterized by multi-sourced environments, including multiple external service providers, in addition to entire towers or certain retained portions of outsourced towers which are delivered by the internal organization. Each company has multiple service towers (e.g., infrastructure (server and storage hosting, mainframes, networks); end-user computing; and application development and maintenance) and each tower generally has dependencies on adjacent towers. In a typical multi-vendor ecosystem, a service provider may support one or more service towers, requiring integration across providers to ensure services operate seamlessly across the enterprise. Further complicating factors include different organizational units adopting different sourcing models; for example, service providers may differ across business units and geographies.

As illustrated in Exhibit 2, the approaches and models adopted by organizations vary significantly. These examples show multiple touch-points between the service providers and the client organization. Implementing a successful outsourcing engagement with multiple vendors requires establishing rigorous governance and reporting processes across the client and service provider organizations. Critical hand-off points should be integrated across the service provider landscape to develop an end-to-end enterprise view.

Exhibit 2: Multi-sourced environments for three companies

<table>
<thead>
<tr>
<th>Company snapshot</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global financial services company with operations in 50+ countries</td>
<td>Global natural resources company with operations in 30+ countries</td>
<td>Global bank with operations in 20+ countries</td>
<td></td>
</tr>
<tr>
<td>Outsourcing overview</td>
<td>Provision of Global IT services to 50+ countries for Investment and Retail banking and Private client operations.</td>
<td>Provision of Global IT services to 7 major locations in 5 continents.</td>
<td>North American Voice over IP (VoIP) transformation roll-out.</td>
</tr>
<tr>
<td>Number of service providers</td>
<td>13</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
| Services scope | • Applications Development & Maintenance  
• IT Infrastructure  
• Networks | • Applications Development & Maintenance  
• IT Infrastructure | • VoIP  
• IT Infrastructure |
Service integration
Challenges of integrating managed services in a multi-vendor environment

Functional and operating model view of the Service Integrator

Exhibit 3: The functional “house” operating model view of the Service Integrator

The Service Integrator (SI) enables end-to-end execution of IT operations through the performance of governance and oversight functions across the complete IT lifecycle: Strategy, Development, Maintenance, and Operations. The operating model design shown in Exhibit 5 depicts the Service integration “ecosystem” as it resides within the IT organization, spanned by the multi-vendor IT outsourcing service providers and the business customer.

Key sub-functions of the SI are depicted in Exhibit 3 are defined below.

- **Governance** — Multi-vendor environments typically require broad governance models, the complexity of which increases exponentially as the number of service providers grows. Complexity also depends on how the service provider contract scope is disaggregated across the service lifecycle (for example, multiple vendors responsible for a portion of a common value chain like server and storage hosting).

An end-to-end governance framework, with a common set of Operating Level Agreements (OLAs), Service Level Agreements (SLAs), metrics, and reporting, as well as common operating policies and procedures across all IT domains and the service provider landscape, is critical for the success of the service delivery organization.
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• **Strategy and architecture** — The definition and administration of an enterprise architecture framework is critical to ensuring that solutions are engineered to a common set of architecture standards across the multi-vendor ecosystem.

In the IT operating environment, each service provider supporting an IT domain (e.g., server and storage hosting, network management, etc.) is responsible for solution design and engineering. Unless solution design and engineering processes are administered using standard architecture frameworks across the IT domains, solution designs can become increasingly siloed and incompatible.

The SI is necessary to administer and manage the enterprise architecture framework and standards across the multi-vendor landscape. The scope includes the IT domains like infrastructure, applications, data, and security; and IT operations standards like capacity, availability, and disaster recovery.

• **Process development and monitoring** — Service delivery processes are often implemented inconsistently across organizations since each business unit may have its own interpretation of the process framework. Process implementation differences between adjacent processes have the potential to cause breaches in end-to-end service delivery, and lead to inefficiencies.

These inefficiencies highlight the importance of establishing a common process framework, and establishing processes and procedures to enable adoption and compliance of policies across the organization. This can be especially significant for organizations transitioning to a multi-vendor operating model since, unless the new vendors are contracted to adopt a standard process framework, they likely will adopt or create new processes on their own to execute their assigned scope of work.

The SI is responsible for creating, maintaining, and instituting the end-to-end process framework for service delivery management. It also drives the development of cross-service provider integration procedures, policies, and interaction maps, conducts compliance spot checks, and captures and implements leading practices and process improvements.

• **Portfolio management** — Managing the execution of the IT project portfolio is increasingly challenging in a multi-vendor environment since the responsibility for execution of the portfolio spans multiple vendors and internal stakeholder groups with cross-dependencies.

The SI should be leveraged to facilitate the prioritization and finalization of the annual IT project portfolio, based on the overarching IT strategy. SI responsibilities include tracking change management centrally and reporting progress against plan for projects in the IT portfolio to the Steering Committee.

The portfolio management function works with the Program Management Office (PMO) to track the execution of IT projects and programs across the multi-vendor landscape, focusing on the schedule and financial status.

The SI provides a single point of management contact for the overall IT portfolio, managing the complexities of the multi-vendor operating environment, and performing standard reporting on the status of the portfolio to the IT Steering Committee on a regular cadence.

Finally, the SI facilitates the management of change to the portfolio during the year as new requirements come up for approval by the IT Steering Committee, and as inflight programs are deferred or accelerated due to technical issues or business drivers.
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- **Security and risk management** — The multi-vendor environment requires definition of a standard security and risk management framework and related policies and procedures. Each service provider responsible for service delivery needs to be contractually responsible for supporting their scope of work in adherence with the enterprise's security policies and standards. Vendors should work collaboratively to develop integrated solutions that adhere to the organization’s security standards and policies.

The SI provides the single point of control to administer security and risk policies and standards for the multi-vendor landscape within the outsourcing agreement. It assesses risks and develops mitigation plans pertaining to interdependencies between vendors and the IT project portfolio, and helps to guide root cause analysis and corrective and preventive actions.

The SI plans, designs, implements and maintains service delivery security compliance. The function develops and communicates security and risk audit plans to the service providers, and regularly coordinates audits on them and on service delivery programs.

- **Service delivery management** — End-to-end Service Delivery Management across the IT and service provider landscape includes defining the service value chain interdependencies between vendors, key internal stakeholder groups, business units, and service portfolios.

The SI provides the platform to act as the single point of coordination for service delivery management across the multi-vendor landscape and provides oversight, monitoring and reporting, management, and governance of service delivery. It serves as the single point of escalation for critical incidents and outages that impact the enterprise, and deploys a cross-functional SWAT team that includes key internal stakeholders and vendors to respond to incidents that affect business continuity at the enterprise level.

- **Performance management** — Measurement, tracking, reporting, and management of service delivery performance according to the Operating Level Agreements (OLAs) and Service Level Agreements (SLAs) across the client and service providers must be performed centrally.

The natural tendency of vendors within the multi-vendor operating model is to only execute to the service levels within their silo; however, this can often lead to OLA/SLA failures in meeting service delivery requirements at the silo interfaces between service providers.

The SI provides the single point of accountability for delivery of services in alignment with the contractually established SLAs and OLAs. While contractual administration of OLAs and SLAs is the responsibility of Vendor Management, SI proactively reviews service delivery performance reports to identify hotspots and performance issues; it then develops action plans by working with the vendors to address specific issues with operational performance, and drives remediation of integration and process issues to improve service performance, contractually adjusting the agreed service levels if required.

- **Transition and transformation management** — Transition and transformation enable the new vendors to take responsibility for service delivery and for building out the new operating model to support multi-vendor operations. Once stabilized, rigor should be maintained to ensure that service transition and transformation initiatives continue to be managed effectively and seamlessly across the multi-vendor environment.

The SI provides overall planning and management for transition and transformation initiatives across the enterprise. The function conducts operational readiness checkpoints on transition programs, assesses service provider readiness to perform service delivery, and provides transition program monitoring and reporting functions.
Challenges of integrating managed services in a multi-vendor environment

- **Quality and compliance (Q&C) management**
  - Implementing consistent Q&C Management frameworks within organizations with a multi-vendor operating model can be time consuming and expensive. Q&C processes should be deployed to all vendors via standard contract terms to drive adoption of consistent processes across the organization. The Q&C audit process should be designed to ensure that it meets its objectives through spot checks, sampling, and offline approaches. The goal is to limit service provider involvement to exceptions, and to minimize the overall cost and effort.
  
  The SI is uniquely qualified to perform Q&C Management centrally to optimize quality and compliance across the service provider landscape.

- **Innovation and Continuous Improvement** — Like other cross-functional initiatives described earlier, innovation and continuous improvement programs are difficult to administer and implement within the multi-vendor engagement model. While these programs often work effectively within silos, service providers across silos are not naturally incented to collaborate; they therefore require a level of formalization to make them effective across the organization.

  Many successful organizations establish cross-domain service provider forums which meet regularly, guiding the provider community to establish a structured approach to identify and implement innovation and continuous improvement programs. One important benefit of these forums is that they establish enterprise level knowledge communities to boost idea sharing, and inaugurate a clear charter to drive operational efficiencies and cost benefits. Each service provider needs to be contractually obligated and measured on its contributions to these forums.

  Horizontal functions such as program management, tools and technologies, and communications provide critical cross-functional services that cut across the SI functions; these are key for enabling consistent delivery of SI services.

**What is/is not the role of the Service Integrator?**

The role of the SI is generally misunderstood within IT organizations. This is mostly due to organizations being new to multi-vendor sourcing or, having outsourced to a single incumbent service provider, they no longer have service integration skills in-house. This causes challenges for the SI including the pressure to “demonstrate its value” by engaging in day to day operational activities. Visible sponsorship from IT leadership is a critical ingredient for the SI to play an effective role within the organization.

While organizations transitioning to a multi-vendor operating model may embark on the journey to build out the SI function, they typically lack the skills, knowledge, and experience within the organization to establish a SI function tuned to their specific needs.

The success of the SI lies in its ability to establish a collaborative environment across the IT organization and the vendors in the multi-vendor landscape, and to employ knowledge of the critical integration points across the value chain to support successful end-to-end operations.

The SI is not an operational organization and should not be employed to act as an extension of the service delivery organization to support day-to-day operational issues (see Exhibit 4 below). Similarly, while accountability for compliance, risk mitigation, and business continuity planning resides with the retained IT organization, the SI — given its deep knowledge of the operating model — should be engaged to contribute to the design, oversight, administration, and institutionalization of these functions.

Exhibit 4 describes key activities within and outside the SI’s scope.
Exhibit 4: What a Service integration function is and what it is not

<table>
<thead>
<tr>
<th>SI Core Competencies</th>
<th>Competencies Outside the Scope of SI</th>
</tr>
</thead>
<tbody>
<tr>
<td>• SI is an extension of the outsourcing client’s management and control function</td>
<td>• SI does not act as an extension of the service delivery function and is not a labor pool to “pull from” for service delivery activities</td>
</tr>
<tr>
<td>• Acts as integrator across the service management domains and across the service provider landscape</td>
<td>• Undertaking a support arm function for the service providers, although it may facilitate successful execution of an initiative</td>
</tr>
<tr>
<td>• Demonstrates a broad view of the outsourcing landscape and the operating environment • Represents the outsourcing client’s interests in discussions</td>
<td>• Participating in contract/legal negotiations although it may support the client by providing an objection viewpoint</td>
</tr>
<tr>
<td>• Represents the integrator’s viewpoint on execution strategy and tracks, monitors, and reports across the IT domain through the use of enabling tools</td>
<td>• Involvement in day to day operational issues such as responding to problems and incidents etc.</td>
</tr>
<tr>
<td>• Is an objective, impartial entity and looks at problems from a unique vantage point based on its detailed knowledge of the multi-vendor operating model</td>
<td>• SI is not responsible for tracking and monitoring the IT vendors’ performance against contractual SLAs and penalties</td>
</tr>
<tr>
<td>• SI brings the external/industry viewpoint to process, planning, framework implementation and problem solving discussions</td>
<td>• Implementation of industry best practices</td>
</tr>
<tr>
<td>• SI is the enabler for compliance, risk mitigation and business continuity for cross functional service delivery issues across the IT landscape</td>
<td>• The client’s retained IT organization (not the SI organization) owns accountability for compliance, risk mitigation and business continuity for the organization</td>
</tr>
</tbody>
</table>

Typical challenges and key benefits of Service integration

Organizations implementing Service integration face four common challenges:

• Selecting the appropriate operating model (insourced, outsourced, hybrid), for the SI requires an honest and objective assessment of the organization’s skill gaps, and identifying which skills and capabilities are valuable to build and retain. The scale, operating sophistication, geographic spread, and service provider complexity are key determinants that influence which model is most likely to be successful.

• Setting up the right operating frameworks to drive consistency and standardization across vendors. Establishing common KPIs (Key Process Indicators) and OLAs across towers (infrastructure and applications) helps to ensure that all the vendors within the operating model are executing against common governance standards, processes, and metrics. Ensuring that vendors collaborate and agree on OLAs can be a time-consuming and complex process.

• Establishing effective governance for the SI requires that the organization implements tracking, measuring, and reporting of the appropriate set of metrics and measures to reflect the value added to the business value (for example, improving the efficiency of platforms that the SI supports). In addition, periodic governance reviews must include leaders of key business units, service provider managers, and IT executives to assure that the SI has adequate leadership support so that it is empowered to exercise authority across the IT organization and with the vendors operating in the ecosystem to drive successful integration.
Managing organization-wide change to progress towards the end-state IT operating model and to align the organization to that goal. Companies that have outsourced often find that they lack the resident skills to accurately and comprehensively capture processes and to define the end-state operating model; this occurs because the manner in which they operate changes following an outsourcing initiative, and they have not prepared for this new way of working. In addition, employees need to transition from a “service performance” to a “service management” mindset (i.e., shifting from managing the input or effort to managing the efficiency and effectiveness). This change can be difficult for many and requires strong leadership, ongoing training, and continuous feedback for the adjustment to be made efficiently and to stick. Sometimes, the infusion of new talent with experience operating in a service management structure is necessary, as well. Infusing this change in mindset is a critical success factor in ensuring that the SI captures the best of the capabilities that each service provider has to offer.

The SI provides at least five critical business benefits:

- **Efficiency and effectiveness**, by integrating service delivery management across functions, services, and service providers to allow the client to view the integrated end-to-end service delivery platform. For example, building an integrated view across a transaction-processing system allows the client to identify actions required to improve performance holistically, rather than focusing myopically on applications or infrastructure separately.

- **Cost transparency** into the key processes and platforms. The SI provides the unique ability to look at the true cost of building a program/product via several vendors, and this enables a commercial viability assessment of the program/product in context of its business value. Without a SI, developing this view is much more difficult given the fragmentation of service providers and service provider managers across silos.

- **Alignment between IT and business strategy** by providing the ability to adjust service delivery to emerging business requirements. Introduction of new products, enhancements to existing products, and entry into new markets can be supported by customizing requirements across functions and services. Understanding the cost drivers and components of each platform makes it easier to evaluate and make decisions on amending, decommissioning, or expanding platforms to align with business strategy.

- **Opportunity to drive innovation and continuous improvement** by developing a holistic and comprehensive view of services across towers, and of the vendors supporting these services and towers. This enables more rapid and effective identification of improvement opportunities from a current-state and forward-looking perspective.

- **Provides a single point of accountability for the IT organization** through the establishment of an operating model that motivates and/or contractually binds the vendors to collaborate with each other. By working together as a single team to resolve issues and eliminate finger-pointing, vendors responsible for different parts of the IT value chain can improve operations overall.
Service integration
Challenges of integrating managed services in a multi-vendor environment

Case Studies

<table>
<thead>
<tr>
<th>Leading North American financial institution</th>
<th>Leading global financial institution</th>
<th>Leading global natural resources company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background</strong></td>
<td>The company was embarking on a North American VoIP transformation with five different vendors who needed to collaborate for the program to succeed.</td>
<td>The company’s IT outsourcing program supported 55+ countries for investment, retail Banking, and private client operations, comprising 13 vendors and ~$2B in annual spend.</td>
</tr>
</tbody>
</table>

| **Service integration approach**             | The company had implicitly relied upon the vendors to work together, and had not established a formal SI function or program. | The infrastructure service provider was engaged as the primary service integrator. Some critical governance and vendor management activities were retained in-house. |

<table>
<thead>
<tr>
<th><strong>Challenges</strong></th>
<th>• Lack of formal mechanisms to drive collaboration led to gaps in communication between vendors.</th>
<th>• Execution of OLAs across 13 global providers. This was a complex effort that required a significant investment by the client to ensure OLAs were appropriately structured and executed.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• The shared services organization and business unit were both responsible for major implementation efforts but there was little and ineffective communication between the two groups.</td>
<td>• Setting up of robust governance and change management programs with active tracking and reporting of interdependencies across providers, and effective processes to manage demand and capacity.</td>
</tr>
<tr>
<td></td>
<td>• Vendors were not incented in any manner to bring their best staff to the project; this limited their effectiveness and efficiency in completing key activities that defined success for the effort.</td>
<td>• Turnover of key vendor resources with knowledge and experience in SI led to a lack of continuity and skillsets.</td>
</tr>
<tr>
<td></td>
<td>• Vendors were reluctant to share full details in multi-vendor governance forums, due to competitive concerns.</td>
<td>• Vendors were reluctant to share full details in multi-vendor governance forums, due to competitive concerns.</td>
</tr>
<tr>
<td></td>
<td>• The infrastructure vendor’s formal SI group lacked a clear mandate; it wavered between being a process governor, a policer, and a data consolidator.</td>
<td></td>
</tr>
</tbody>
</table>
Leading North American financial institution

Lessons learned
- Set up a program organization design and reporting structure and define clear communications protocols between client and providers
- Establish escalation paths to execute or include in service provider contracts/SOWs

Leading global financial institution

- In retrospect, the company’s leadership believed that retaining the SI function in-house would have been more effective.
- Natural competition between the service integrator and other providers inhibited transparent communication and collaboration, a critical requirement for a service integrator to be successful.

Leading global natural resources company

- Leadership from the top is critical. Lack of executive presence at service provider forums hindered performance.
- Clarify the mandate of the role of the SI and ensure buy-in from all vendors, before signing the deal.
- Define in detail the interaction between vendors, and create mechanisms (e.g., OLAs) to hold vendors accountable.
- When identifying a “single point of management accountability,” ensure the individual or group has appropriate authority within the service provider organization.

Conclusion

As IT executives reflect upon their experiences with service integration and reconsider their approaches to successfully building a SI function, they should reflect upon the following key questions:
- Do we have a true SI function or does it operate as a service delivery organization?
- Have we performed an honest assessment of skills available within the organization? Is our Service integration operating model consistent with the skills we have and want to retain?
- How should we align the role of the Service Integrator (i.e., to Sourcing/Procurement or to the CIO’s office)? Which approach is likely to drive more value to the business?
- Have we truly empowered the Service integration team to drive effectiveness across the entire enterprise?

The Service Integrator plays a critical role in enabling the success of the multi-vendor operating model through the integration of the internal (the IT organization) and external (vendors) service delivery functions responsible for delivery of the individual components across the IT value chain. The SI organization identifies the integration needs of the multi-vendor estate and acts as the “glue” at the integration points to enable end to end delivery of services across the IT lifecycle.

IT executives should recognize the integration needs of the multi-vendor IT operating model and provide the sponsorship and vision for the Service integration function.
Key actions a CIO should take:

- Establish the charter, functional scope and roles and responsibilities of the SI function
- Assess impact to the current operating model and establish the blueprint of the new operating model including the SI function
- Assess impact of the SI function to the current ITO vendor contracts and changes required to deploy the new operating model
- Establish the qualitative and quantitative KPI’s and metrics required to measure the effectiveness of the SI function within the organization
- Define the business case and establish the funding mechanisms for the SI function
- Execute a robust communication plan to establish a shared vision of the role of the SI function across the IT, business and vendor communities

No single approach can be used to successfully implement the role of a SI within an IT organization. Adopting a "cook book" tactic to building a SI organization — perhaps by employing a traditional RFP process to establish a multi-year fixed price contract with SLAs, penalties, etc. — typically fails to yield the expected benefits that clients seek from a Service Integrator.

To establish a Service integration capability that can perform the role of integrator, an independent assessment should be performed to understand the gaps in skills and capabilities within the retained organization, the timing and scope of transformation projects, the demands and volatility from BUs for services, and the level of interdependencies between the providers who deliver these services.

Based on the magnitude of the gaps identified, the organization may choose to source the transactional functions externally (i.e., from a 3rd party provider), while retaining the strategic, knowledge based roles. It is common for clients to contract with a service provider to establish operations for the SI function, and then perform knowledge transfer to effectively take over performance of day-to-day functions, typically over a 6-9 month period.

Clients should not underestimate the level of governance required to manage across vendors, the effort required to structure the operating model, nor the level of investment required to execute OLAs between providers.

As multi-vendor sourcing strategies continue to be leveraged by clients, a key factor determining the ability for such strategies to deliver expected benefits will be the competency and experience of the Service Integrator in driving end-to-end service delivery. A capable SI will serve as the strategic foundation for the operation of any successful, multi-vendor operating model, and as the single point of coordination and management for IT executive leadership.
Preface
This publication presents Deloitte’s perspectives on designing, implementing, and managing outsourcing initiatives in ways that recognize and address the many risks involved in outsourcing while securing the anticipated benefits. The approach presented here builds upon experiences from more than 1,200 global engagements of Deloitte Outsourcing Advisory Services (OAS) and Finance & Operations Risk Transformation Services practices and on the findings of two Deloitte OAS Surveys: “Deloitte Global Outsourcing and Insourcing Survey” and “Outsourcing Vendor Management Program Office (VMPO): Art, science, and the power of perseverance.” This paper also incorporates insights gained from Enterprise Risk Services and Governance, Risk and Compliance practices, which focuses on assisting organizations in managing the risks associated with third-party relationships.

Please refer to the additional reference section of this document for recommended readings in other Deloitte outsourcing and risk management publications.

Open communication is one key to the success of any major enterprise initiative, including outsourcing. We therefore encourage you to share this paper with board members and senior executives in your organization who oversee, manage, or participate in outsourcing decisions and initiatives. The resulting discussion can promote awareness of the risks and success factors associated with your organization’s new or ongoing outsourcing efforts and help you chart a path to successful initiatives.

Executive summary
Outsourcing has become a standard worldwide business practice and management imperative, as indicated by the majority of the respondents in Deloitte’s Outsourcing Advisory Services (OAS) Survey. However, new risks and challenges continually arise from the growing complexity of service providers, geographies, technologies, and engagement models, as well as from escalating expectations, integration issues, governance requirements, and external oversight. If the risks and challenges are not clearly understood and systematically addressed, organizations may face unnecessary exposures, fail to realize outsourcing objectives, and loss of substantial investments of time and money.

This paper discusses risks and challenges at each key phase of the outsourcing lifecycle. A lifecycle approach to outsourcing enables organizations to significantly improve their prospects of achieving outsourcing goals. With this approach and a thorough understanding of service requirements and constraints and of the risk/benefit trade-offs of sourcing options, organizations can make well-informed outsourcing decisions and better manage ongoing relationships.

Based on Deloitte’s engagement experience, most outsourcing failures stem from inadequate risk identification and mitigation early in the lifecycle. Organizations should consider testing their risk awareness early in the process to enhance decision making and proactively address gaps that may hinder implementation and value realization of the outsourcing initiative.
Outsourcing trends and risk implications

Outsourcing has become an integral component of many Global 1000 companies’ operating models. However, while these organizations have gained experience with outsourcing, they also face the following key issues:

- **Increasing complexity and higher demands:** A broad range of emerging service providers, engagement models, technologies, and delivery locations are presenting new and significant trade-offs and interdependencies. At the same time, organizations are extending outsourcing to a broader set of business processes (beyond IT services and back-office functions) and stakeholders are demanding higher value (beyond labor-cost arbitrage).

- **Global delivery models:** More organizations are adopting a global delivery model for their outsourced services. Deloitte’s OAS Survey found that more than half of the respondents plan to offshore or nearshore the majority of their outsourced functions, such as finance, human resources (HR), information technology (IT), procurement, and operations (see Figure 1). This trend is driven by demands for integrated global delivery solutions that fit specific requirements for regulatory compliance, talent, cost, proximity, language proficiency, tax efficiency, sustainability, and business continuity. While the benefits of “rightshoring” can be substantial, if not properly designed and managed, a global delivery footprint can lead to significant geopolitical, foreign exchange, inflation, and reputational risk.

- **Governance, alignment, and control issues:** Many organizations are using a portfolio of vendors and a hybrid operating model that combines internal shared services, outsourcing, and cloud-based solutions. This trend compounds the challenges associated with vendor governance and service integration. In addition, many organizations aim to foster healthy competition among internal and outsourced service providers, leading to processes with elements delivered by multiple parties. Such environments may lack a single point of control and accountability. A fragmented multivendor environment and the absence of an effective service integrator can undermine alignment, generate inefficiencies, erode cost savings, create control issues, and hinder innovation.

- **Increasing regulatory and compliance risks:** Regulatory developments are increasing the liability exposure that organizations may face in outsourcing. Senior management and the board may be held accountable for noncompliance associated with thirdparty operations. For example, the U.S. Office of the Comptroller of the Currency (OCC) has emphasized controls used by financial services organizations to manage risks associated with outsourcing, and the Consumer Financial Protection Bureau (CFPB) has investigated inappropriate marketing tactics of

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**Figure 1: Target location model for planned outsourcing initiatives**

<table>
<thead>
<tr>
<th>Service</th>
<th>Within country</th>
<th>Near shore</th>
<th>Off-shore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>35%</td>
<td>18%</td>
<td>47%</td>
</tr>
<tr>
<td>Human resources</td>
<td>47%</td>
<td>22%</td>
<td>31%</td>
</tr>
<tr>
<td>Information technology</td>
<td>15%</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td>15%</td>
<td>76%</td>
<td>17%</td>
</tr>
<tr>
<td>Real estate/Facilities</td>
<td>76%</td>
<td>19%</td>
<td>5%</td>
</tr>
<tr>
<td>Sales/Marketing support</td>
<td>52%</td>
<td>19%</td>
<td>29%</td>
</tr>
<tr>
<td>Procurement</td>
<td>42%</td>
<td>24%</td>
<td>34%</td>
</tr>
<tr>
<td>Operations</td>
<td>47%</td>
<td>9%</td>
<td>44%</td>
</tr>
</tbody>
</table>

From strategy to execution 30
organizations and outsourcing partners. Australia introduced regulatory requirements under Prudential Standard CPS 231 for banks and the insurance sector. Similar requirements have been issued in Belgium by that nation’s Banking, Finance and Insurance Commission (CBFA) and in France under Regulation 97-02, and in many other countries worldwide. Regulatory agencies in other countries and regions also extend their purview to service providers.

- Unsatisfactory service and failed initiatives: Apart from complexities and risks, improperly planned and managed initiatives typically fail to deliver the anticipated benefits. In Deloitte’s OAS Survey, 48 percent of respondents had terminated an outsourcing contract in the past, primarily due to concerns with service quality (see Figure 2). Additionally, a total of 24 percent indicated a less than satisfactory rating for their most recent outsourcing initiative (see Figure 3), and many respondents reported lower-than-expected cost savings (see Figure 4).

- Addressing these issues calls for an approach to outsourcing that recognizes and manages risk at the global enterprise level. This approach should — also at a global level — help align business objectives and internal and external resources, implement sound governance and controls, and address all relevant regulatory and compliance matters. This approach to outsourcing characterizes the Risk Intelligent Enterprise™, which exemplifies Deloitte’s crossfunctional, enterprise-wide approach to risk. Consistent with this approach, a critical first step to consider in any outsourcing initiative is to identify key risks at each phase of the outsourcing lifecycle. The next step is to measure, track, and manage all risks associated with specific outsourcing strategies and across the organization’s outsourcing activities.

Figure 2: Ability to meet cost reduction

Q. Have you ever terminated an outsourcing contract for cause or convenience?

52% Yes
48% No

Figure 3: Outsourcing contract

Q. How satisfied are you with the outcome of your most recent outsourcing initiative?

7% Extremely satisfied
69% Satisfied
16% Neutral
8% Dissatisfied

Figure 4: Ability to meet cost reduction

<table>
<thead>
<tr>
<th>Costs actually increased</th>
<th>Anticipated</th>
<th>Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% to 10%</td>
<td>29%</td>
<td>37%</td>
</tr>
<tr>
<td>11% to 20%</td>
<td>33%</td>
<td>25%</td>
</tr>
<tr>
<td>21% to 30%</td>
<td>17%</td>
<td>19%</td>
</tr>
<tr>
<td>31% to 40%</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>Greater than 40%</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>
Risks at each phase of the outsourcing lifecycle

Deloitte’s OAS methodology defines five phases of the outsourcing lifecycle (see Figure 5), which move an organization through the design, execution, and management of an outsourcing initiative. Each phase addresses unique challenges and risks while fulfilling business objectives and risk management needs.

Figure 5

As noted, outsourcing initiatives often fail to meet expectations due to inadequate risk identification and mitigation early in the lifecycle. Many organizations, therefore, maximize the value of these initiatives by developing a risk management plan in the first phase to identify, evaluate, and prioritize risks and mitigation strategies, and then implementing those strategies. In the following pages, we examine key risks at each phase of the lifecycle and as well as strategies to help make each phase a success.

Phase 1: Define strategy and operating model

In this phase, the organization develops and prioritizes outsourcing objectives, defines the target operating model, and formulates a roadmap for the initiative. In the process, the organization develops outsourcing strategies and operating models and identifies and addresses risks.

It’s essential to address risks before a strategy has been selected, and to identify risks for all viable service delivery options when defining the outsourcing strategy. For example, a major natural resources organization committed significant resources upfront to develop risk mitigation strategies to manage service delivery and transition issues before engaging vendors and internal stakeholders in the sourcing process. This enabled the company to effectively complete a complex global transition program that impacted more than 1,200 functional roles in 14 months.

An organization can build risk identification, evaluation, and response planning directly into the strategy and the operating model in Phase 1. Doing so can help ensure that risks associated with key strategy and design issues as well as mitigation strategies (see Figure 6) are considered upfront for each sourcing scenario — a far more cost effective approach than trying to retrofit risk strategies after a sourcing option is undertaken.
## Risk considerations and mitigation strategies

### Results of this first phase may include the following:

- Clear, prioritized outsourcing objectives
- Cohesive, enterprise-level operating model
- Specific scope, requirements, and constraints for the overall solution
- Business case analyses that include costs and impacts of risk mitigation plans
- Change management program that addresses the risks and requirements associated with organizational changes around the outsourcing initiative
- Iterative process to revalidate the strategy and operating model in light of changing needs

This first phase produces an overall plan that identifies the steps required to implement an outsourcing strategy and the investments required to achieve the goals of the initiative.

<table>
<thead>
<tr>
<th>Risk considerations</th>
<th>Related mitigation strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are the outsourcing objectives aligned with the overall business strategy and the target operating model?</td>
<td>Clear alignment between outsourcing objectives and the overall business strategy ensures development of a viable target operating model. Misalignment or gaps may lead to poor business performance when the operating model proves inadequate to support the business strategy or becomes unresponsive to changing needs.</td>
</tr>
<tr>
<td>Are scope, requirements, and constraints fully understood?</td>
<td>A holistic scope assessment assists organizations to achieve economies of scale. These are particularly important when outsourcing encompasses multiple business units, processes, and geographies. An integrated service delivery model should be both comprehensive in scope and flexible enough to support current and future service delivery needs.</td>
</tr>
<tr>
<td>What are business case drivers?</td>
<td>A solid business case starts with a current state assessment of financial, operational, and organizational needs to provide a baseline for evaluating sourcing scenarios. This provides valuable insight into the total cost of each sourcing scenario and the trade-offs of any scenario as compared with the baseline.</td>
</tr>
<tr>
<td>How much change will the new operating model entail? Does the organization have the plans, tools, systems, processes, and resources to cost effectively manage the changes without disrupting operations?</td>
<td>Underestimating the changes involved in outsourcing may impact service delivery and delay full realization of the benefits of outsourcing. Change management programs identify and mitigate capability and communication gaps and include planning and implementation activities that determine the pace and success of an outsourcing initiative.</td>
</tr>
<tr>
<td>What are the technology risks and the options to reduce them?</td>
<td>The outsourcing value proposition rests on the notion that outsourcers optimize their processes and use of technology. Organizations can therefore properly view outsourcing as an opportunity that goes beyond a simple “lift and shift” of existing operations and processes. Outsourcing can and should be transformational, generating upstream and downstream improvements through process enhancements, re-engineering, and application of advanced technologies.</td>
</tr>
<tr>
<td>What are the regulatory reporting and monitoring requirements, and how will they be addressed?</td>
<td>While some industries are more regulated than others, most organizations face some internal or external oversight requirements. Regulatory requirements can preclude participation in certain business activities, and failure to meet requirements can carry significant financial penalties. An organization must understand all relevant regulatory requirements and work with service providers to ensure that compliance is integrated into outsourced processes and operations at each phase of the lifecycle.</td>
</tr>
</tbody>
</table>
### Outsourcing lifecycle

<table>
<thead>
<tr>
<th>Phase 1: Define strategy and operating model</th>
<th>Phase 2: Develop solution and request for proposal</th>
<th>Phase 3: Evaluate deal and manage transaction</th>
<th>Phase 4: Execute transition and transformation</th>
<th>Phase 5: Manage ongoing operations</th>
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</table>

#### Phase 2: Develop solution and request for proposal

During this phase, outsourcing goals are translated into a solution or set of solution scenarios, and a request for proposals (RFP) process is developed for potential vendors. This phase focuses on developing solution requirements, vendor evaluation criteria, and RFP details in order to communicate the outsourcing objectives, scope, requirements, and constraints to potential vendors.

The RFP presents an opportunity to mitigate risk by reducing uncertainty about operating environments and clarifying mutual expectations. Toward that end, the RFP should document expectations, including which services an outsourcer is to provide and how they will be provided, including vendor personnel qualifications, security processes, and performance metrics, and which related services will remain in-house.

RFP development and response evaluation should include stakeholders and representatives from the relevant functions across the organization. These individuals must be given clearly defined roles and responsibilities, and possess the experience and expertise required to evaluate the vendors. Failure to engage the right resources in this phase can result in an unclear or incomplete RFP and faulty vendor proposals or unrealistic pricing.

To mitigate the risks associated with RFP development, organizations should develop a comprehensive RFP template that has been vetted by relevant stakeholders, including legal and procurement professionals. At a minimum, the RFP template should include:

- Background information that articulates the objective and scope of the outsourcing initiative, including in-scope and out-of-scope business units, functions, processes, and activities
- Operating environment information that fully describes the “as is” situation with respect to systems and activity volume
- Instructions on completing the RFP, including organization of responses, pricing template, vendor qualifications template, and stated evaluation criteria, in order to draw forth consistent, comparable information from each respondent
- Constraints such as regulatory requirements and existing contracts with other third parties
- Service Level Agreement Framework, including performance metrics, target service level, service level reporting, incentives for performance, and penalties for nonperformance
- Other requirements such as change management, disaster recovery, protection of intellectual property, rights regarding audits and site visits, asset ownership and management, and termination rights

This phase calls for an understanding of the linkage between outsourcing objectives and performance indicators. This includes defining Service Level Agreement (SLA) provisions as well as Key Performance Indicators (KPIs) to be documented in vendor contracts, along with incentives and penalties to motivate vendor performance. Articulating the required services and performance expectations during RFP development will position an organization to assess, build, and enhance the vendor management framework and processes.

Risk factors to consider in this phase may include:

- Location risks, including risks of service concentration, as well as resourcing, country risk, and geopolitical considerations
- Staff recruitment, retention, performance improvement, and termination processes
- Governance processes and risk-reporting and risk-escalation capabilities, as well as risk response and business continuity and recovery planning
- Processes to monitor and report contract performance, including service levels and KPIs
Outsourcing amid complexity

Phase 1: Define strategy and operating model

Phase 2: Develop solution and request for proposal

Phase 3: Evaluate deal and manage transaction

Phase 4: Execute transition and transformation

Phase 5: Manage ongoing operations

- Potential for increased service costs, operational bottlenecks, and lost business due to inappropriate performance metrics or the absence of a vendor management framework
- Ability to scale and support new services based on market conditions and organizational needs
- Ability to manage regulatory compliance and reporting requirements
- Ability to evaluate, adopt, and implement new enabling technologies

This phase presents the opportunity to begin building a rigorous RFP evaluation process, which includes predefined evaluation criteria assessed by subject matter experts and key stakeholders. The evaluation process needs to extend beyond a “checklist” and allow for vendors who propose innovative alternative approaches.

Evaluations also need to extend beyond vendor capabilities under normal conditions to consider potential performance under stress or in crisis situations. For example, what are the vendors’ capabilities for monitoring and managing risks proactively to prevent downtime, service deterioration, security breaches, and financial, reputational, and other losses, and to recover from natural or man-made disaster? Broad assessment of the vendors’ capabilities under such conditions against those of your organization will give you a clear picture of their preparedness and resilience.

Phase 3: Evaluate deal and manage transaction

In this phase, the organization engages stakeholder groups to evaluate vendor proposals and choose a vendor based on predetermined criteria and weighting factors. This phase also focuses on transition planning and vendor governance model development — important factors in evaluating vendors.

Following solution development and proposal evaluation, the organization will narrow the field of potential vendors, complete negotiations, and generate a final, signed contract that clearly articulates expectations, pricing, terms, conditions, incentives, and penalties, and supports a successful service transition. This process often becomes complex as vendor proposals typically respond not only to stated requirements but often include alternative solutions which play to the vendor’s strengths.

As the field narrows to the finalist, the chief risk is that of selecting a suboptimal solution. Therefore, as tempting as it may be to fast-track the selection process, the urge should be resisted. Creative solutions may be overlooked. Also, be aware that stakeholders may skew the decision process, resulting in a delivery model that falls short of meeting all outsourcing goals, or that puts the entire business at risk.

An organization can help to mitigate the risks of this phase by employing an RFP evaluation process which includes predefined criteria and weighting factors identified by all stakeholders as essential to success. By aligning evaluation criteria with prioritized outsourcing objectives, the organization can recognize and manage the risks and craft a deal that meets all stakeholders’ reasonable expectations. It is also essential to consider the full range of risks presented by vendors at this stage (see Figure 7).

In addition, it is sometimes prudent to conduct onsite, pre-contract visits to the service locations once finalists have been selected. These visits are often part of due diligence in vendor selection (as distinct from inspections undertaken to check progress on remediating activities required as a result of service breaches). Organizations often utilize third parties to conduct due diligence visits (and inspections) and factor the results into their risk mitigation plans. Those results can impact contract negotiations when visits identify risks that may require mitigation activities that generate additional costs.

In addition, reference checks to validate the vendor’s track record, capabilities, values, reputation, and financial stability are essential to risk mitigation at this point. These checks are conducted among the vendors’ clients to verify...
vendor qualifications claims and assess clients’ experiences with the vendor.

This phase should also include preparation of a negotiating strategy that plays to the organization’s strengths and precludes a long and costly process. As you develop your negotiating position, you can benefit by:

- Assembling an experienced team with clearly defined roles responsibilities, and communication protocols
- Identifying key issues that may bog down the process, and ways to address those issues
- Creating a competitive atmosphere by communicating,

if true, that the organization is negotiating with two service providers.

It is equally important in this phase to identify and understand the risks associated with the transition to the new service delivery model, as well as the organization’s readiness for the transition. Transition requirements and options for addressing constraints are critical to establishing realistic timelines, cost estimates, and resource allocations. Proper planning and management will control transition risks and costs, and set the foundation for a productive post-transition relationship.

### Outsource Lifecycle

| Phase 1: Define strategy and operating model | Phase 2: Develop solution and request for proposal | Phase 3: Evaluate deal and manage transaction | Phase 4: Execute transition and transformation | Phase 5: Manage ongoing operations |

### Phase 4: Execute transition and transformation

In this phase, the organization designs and executes a transition plan that ensures orderly migration of service delivery to the vendor, while maintaining performance of the processes that the organization retains.
The plan should detail all steps, handoffs, responsibilities, and accountabilities required to migrate designated operational and reporting responsibilities from the current “as is” service delivery model to the target model. Lack of a formal transition plan undermines knowledge transfer, change management, and problem resolution — all critical to an orderly transition. The effectiveness of the migration is directly related to the scope, detail, realism, and practicality of the transition plan. A useful plan integrates the organization’s and the vendor’s workstreams, activities, resource allocations, milestones, and deliverables.

To coordinate the transition, an effective plan will:

- Focus on the “steady state” agreed upon in the vendor contract
- Address both the organization’s and the vendor’s transition activities, schedule, and resources through a single project management methodology and project management office
- Provide stakeholders with visibility into and responsibility and accountability for specific tasks
- Facilitate the necessary integration of functional teams within both organizations

Transition planning extends beyond assigning individuals to specific tasks. It includes identifying the required support throughout the process and establishing a robust Transition Management Office (TMO) to lead and govern the transition to steady state. As part of the overall Vendor Management Program Office (discussed in Phase 5), the TMO works closely with the vendor’s transition management team to jointly coordinate all activities and resources (see Figure 8), and provide guidance regarding:

- Quality criteria for deliverables
- Knowledge transfer
- Issues and risk escalation and management
- Joint problem-resolution teams
- Transition communications
- Transition cost management
- Readiness criteria for “go-live”

During this phase, the organization and vendor should jointly plan and conduct Post Contract Verification (PCV) to validate and refresh the critical solution assumptions. The PCV scope should cover the following areas:

- **Functional** — Process and work instruction documentation, full time equivalent (FTE) breakdown, locations, transaction volume, performance metrics, training needs, role and shift requirements, service delivery costs, business continuity requirements, and third-party contracts
- **Human Resource (HR)** — Applicable HR policies and regulations, change management and communication requirements, and talent acquisition and retention expectations
- **Technology and connectivity** — In-scope IT infrastructure, systems, applications, licenses, tools, and ownership as well as connectivity and user-access requirements
- **Security and compliance** — Data security and privacy policies and regulations, infrastructure and personnel security standards, and internal and external compliance and audit requirements
- **Governance** — Governance model and VMPO structure, and key governance processes and controls

A rigorous PVC effort in this phase helps set the right expectations and tone for management of the relationship going forward.

**Figure 8: Transition management office responsibilities**
Outsourcing amid complexity

Phase 5: Manage ongoing operations

The “steady state” following the transition is not the final end state. Managing the ongoing operations and risks requires focusing not only on current business objectives but also on continually transforming processes to take advantage of new opportunities and innovations. Toward those ends, in this phase the organization institutionalizes a structured, responsive joint governance model and a robust VMPO to align priorities, resolve issues, track, manage, and report risks, improve performance, and drive value creation beyond service delivery (see Figure 9). A strong VMPO constitutes a structured, formalized, highly skilled team whose purpose is to bring process discipline to strategic outsourcing programs.

A VMPO with appropriate resources, tools, and funding — and a governance model that identifies and manages risks — represents a sound investment. In this context, effective governance is based on a structure that integrates management of multiple service providers and implements controls for changes, approvals, and reporting mechanisms for issue escalation and resolution. (For more information on the VMPO, visit Deloitte.com and access the document, “The Vendor Management Program Office (VMPO): Five Deadly Sins of Vendor Management.”)

In general, an effective governance model applicable to vendors in outsourcing relationships will:

- Define governance processes for ongoing service improvement, issue identification and resolution, and ongoing value creation
- Identify participants in governance and their respective roles and responsibilities throughout the organization and appropriate counterparts from all service providers
- Provide a tiered platform focusing on strategic, management, and operational issues

The VMPO should also focus on cost reduction, resource optimization, vendor performance and productivity improvement, and onsite inspections to verify SLA compliance, competence, and risk reduction. VMPO functions require adequate support and funding. Deloitte estimates that an organization can expect to spend between 1 percent and 7 percent of total outsource contract value to implement and operate a VMPO, with highly commoditized outsourced functions typically requiring funding at the lower end of that range.

Throughout this phase, consider the motto “Trust, but verify,” and take steps to document and ascertain actual vendor performance and compliance in light of contract terms. Many organizations increasingly use independent external partners to assess the effectiveness of their vendor contract risk and compliance (CRC) programs, and to test adherence to contract terms by individual vendors. Such external partners can provide expertise, experience, methods, access, and objectivity unavailable within the organization itself. These assessments occur within a formal program of setting objectives and measures of success, monitoring performance and risk, and establishing ownership and accountability for both the organization and the vendor.

**Figure 9: Core functions of Vendor Management Program Office (VMPO)**

<table>
<thead>
<tr>
<th>Contract management</th>
<th>Multiservice provider integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue and dispute management</td>
<td>Transition and transformation PMO and oversight</td>
</tr>
<tr>
<td>Service performance management</td>
<td>Document management</td>
</tr>
<tr>
<td>Governance</td>
<td>Service request management</td>
</tr>
<tr>
<td>Financial and commercial management</td>
<td>Risk management and third-party compliance</td>
</tr>
</tbody>
</table>
Other goals and functions of an assessment program include:

- Clarifying ongoing business objectives, risks, controls, and benefits for each business partner
- Creating a common understanding of compliance and noncompliance with contracts
- Validating the accuracy of information provided by business partners, especially in the areas of service level reporting and invoicing
- Performing risk assessments and control reviews of business partners, which are required for regulatory compliance in certain industries

While specific activities and work performed in reviews by external parties will vary, the intent is to fully realize the value of outsourcing arrangements while managing the risks and maintaining regulatory compliance.

In sum, it would be useful to review the points in the accompanying outsourcing checklist (see Figure 10) to identify potential risk management gaps and other needs within the outsourcing lifecycle before continuing a planned or ongoing outsourcing initiative.

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**Figure 10: Outsourcing checklist**

| Phase 1: Define strategy and operating model | 1. Articulate and prioritize outsourcing objectives, and align them to overall business strategy and target operating model  
2. Understand the scope, requirements, and constraints early in the process to support the outsourcing strategy and key design decisions  
3. Build a solid business case to provide a baseline for evaluating potential sourcing scenarios |
| Phase 2: Develop solution and request for proposal | 1. Invest sufficient time and resources to build a comprehensive RFP document and process  
2. Engage stakeholders with deep subject matter expertise and process knowledge to develop and review the RFP document  
3. Build a rigorous RFP evaluation process which includes predefined evaluation criteria |
| Phase 3: Evaluate deal and manage transaction | 1. Engage a well-qualified stakeholder group to objectively evaluate the vendor proposals based on agreed-upon criteria and weighting  
2. Conduct reference checks to validate each finalist’s track-record, service delivery capabilities, values, and reputation  
3. Assess risks through onsite due diligence visits to the service locations once finalists have been selected  
4. Mobilize an experienced negotiation team with clearly defined roles, authorities, communication protocols, and escalation mechanisms |
| Phase 4: Execute transition and transformation | 1. Develop a detailed transition plan to migrate the service operations to the target operating model  
2. Establish a robust TMO as a part of the overall VMPO to lead and govern the transition to steady state  
3. Work jointly with the vendor to conduct PCV to validate and refresh the critical solution assumptions |
| Phase 5: Manage ongoing operations | 1. Develop and institutionalize a structured, responsive governance model to continuously align interests and jointly manage risks, enhance performance, and maximize value creation beyond service delivery  
2. Create a strong VMPO that brings process disciplines to strategic outsourcing programs to reduce cost, improve productivity and overall performance, preserve savings, and manage risks  
3. Create assessment programs for setting measures of success, and monitoring performance and risk  
4. Conduct audits and onsite inspections to verify performance and compliance with contract provisions |
Final thoughts
While many organizations have improved their outsourcing planning and management capabilities, increasingly complex outsourcing options, value expectations, and service integration and regulatory issues present new risks and challenges. Moreover, an intensified emphasis on internal controls and on data security and privacy are increasing liability exposure associated with third-party noncompliance. These risks, if not managed effectively, can lead to value leakage and adversely impact an organization’s financial performance, operating model integrity, and reputation.

Therefore, we encourage you to thoroughly assess your organization’s outsourcing governance model, operational policies and procedures, and transition, and vendor management capabilities as the first step in planning your organization’s next outsourcing initiative or improving current relationships. An approach similar to the one presented in this paper can assist your organization in reducing its exposure to risk in each phase of the outsourcing lifecycle and in fully realizing the value of outsourcing programs.
Outsourcing amid complexity

Additional reference

• Outsourcing Today and Tomorrow: Insights from Deloitte’s Global Outsourcing and Insourcing Survey
• The Outsourcing Vendor Management Program Office (VMPO): Art, Science, and the Power of Perseverance
• The Vendor Management Program Office (VMPO): Five Deadly Sins of Vendor Management
• The New Reality for Managing Supplier Risk — It’s Harder Than You Think
• Beyond the Contract: Driving Value from the Renegotiation Process
• Avoiding the Ditch: Making an Effective Transition to Outsourcing
• Risk Intelligent Enterprise Management: Running the Risk Intelligent Enterprise
• Shaping a Risk Intelligent Strategy: Confronting Assumptions to Find Risk and Opportunity

You can request access to these publications by contacting any of the Deloitte representatives on the previous page.

1 Throughout this paper, the word “outsourcing” refers specifically to business process and information technology (IT) services outsourcing, and excludes manufacturing operations outsourcing. Please refer to the Appendix for additional definitions.

2 The Deloitte Consulting LP’s 2012 Global Outsourcing and Insourcing Survey (2012 OAS Survey) had 111 respondents with median revenue between $1 billion and $5 billion. The respondents represent 22 primary industries located in 23 different countries across every major geographic region.

3 Deloitte Consulting LP’s survey, Outsourcing Vendor Management Program Office (VMPO): Art, science, and the power of perseverance (April 2011), included 27 senior executives respondents from various mid-size and large companies in eight primary industries headquartered in eight counties across the Americas, Asia, and Europe. The average value of the outsourcing programs being managed was approximately U.S. $400 million, with a total contract term of 6.8 years.
Appendix: Basic definitions

Outsourcing: The term “outsourcing” refers to the process of entering into a contract with an external service provider (or “vendor”) to perform specific functions or processes, usually on an ongoing basis for the life of the contract. Typically, the vendors perform back-office or infrastructure functions related to:

- **Information Technology Outsourcing (ITO)** — cloud computing, data center, IT infrastructure, application development, maintenance, and testing, production support, etc.

- **Business Process Outsourcing (BPO)** — call centers, human resources, finance and accounting, procurement and supply chain, mortgage processing services, etc.

Relative to ordinary suppliers, service providers act more as business partners, often providing essential services within or on behalf of your organization, such as data management or customer service. They are, in effect, an extension of your company, an arrangement sometimes referred to as the “extended enterprise.”

Outsourcing services can be performed onshore (within country), nearshore, or offshore. Most outsourcing service providers use a hybrid model which includes onshore, nearshore, and offshore resources to drive deep client relationships as well as significant savings through labor arbitrage.

Onshore (within country): Service is generally performed in the same country as the service is received or in a country where labor rates are generally consistent with those where the service is received (e.g., U.S.-to-U.S., U.S.-to-UK, Sweden-to-UK, etc.).

Nearshore: Service is generally performed in another country near where the service is received (usually within or close to the same time zone) and where labor rates are generally lower than those where the service is received (e.g., Mexico-to-U.S., Eastern Europe-to-UK, etc.)

Offshore: Service is generally performed in another country where labor rates are typically significantly lower than those where the service is received and there may be a significant difference in time zone (e.g., India-to-U.S., Philippines-to-UK, etc.)
Background
Outsourcing of traditional contact channels and back office servicing is now a well established proposition that many organisations are comfortable with. However, making the decision to outsource is more often than not a difficult one, and organisations are understandably still apprehensive about handing over responsibility for managing the organisation’s most valuable asset — their customers.

Whilst deciding what services to outsource is an important decision so too, is selecting an appropriate outsourcer. Building a successful relationship and developing and managing a partnership with a supplier are all key issues that must be addressed. In today’s consumer focused world, customer service outsourcing is far more complex than standard ITO or BPO outsourcing and requires a more focused approach.

Approach
1. Assess: Prior to embarking on the outsource process, carefully consider your priorities, be clear about what you expect to gain and what outsourcable model might be acceptable. A good outsourcer will seek this out at the early stages. We have found that while most organisations are comfortable outsourcing traditional contact channels and simple processes, few are prepared to hand over high profile contact, and fewer still are considering outsourcing social media contact.

For some clients, increased flexibility/scalability is the key outsource driver, for others it may be cost reduction. There are many drivers and clients may also consider outsourcing more complex and high value contact. What is clear is that one size does not fit all, and the aim is to determine the parameters that are unique to your business objectives.

2. Prepare: Well documented requirements and optimised processes make for easier transition. For example, the public perception of foreign contact centres is still a forethought for many clients considering outsourcing. Whilst the reputational risk is high, you shouldn’t lose sight of the potential damage that could be done if an outsourced back office customer process goes wrong.

3. Evaluate: Data security is understandably a large part of the decision process when selecting an outsourcer, as is sector experience, yet some of our clients see experience in the contact centre/customer management field as more important. Don’t just look for someone with functional experience; to add value find someone who understands your business.

4. Commit: Traditional hour and unit pricing is still a popular commercial arrangement. Moving towards more innovative customer focused models built around metrics such as customer satisfaction involves a trade of risk and trust — outsourcers need to bare the risk of losing out financially if customers call more often than predicted, while clients need to trust that outsourcers
Points to remember

- Establish clear objectives upfront, know what you will outsource and what you won’t.
- Transitioning bad customer service and customer management processes to a new supplier will not improve them.
- Clients and suppliers who make the effort understand each others’ businesses are likely to succeed.

5. Transition: Transitioning customer services and processes to an outsourcer is difficult and the effort required should not be underestimated. Some clients have said that it took over six months for outsourcing to achieve satisfactory service levels and to add value to the customer service function. The only way to get to a satisfactory service more quickly is for both client and outsourcer to invest time is getting the processes, people and technology right before transitioning.

6. Optimise: Contractual enforcement clauses and clear service descriptions are typical methods of managing any type of outsource relationship, but moving towards a collaborative partnership can deliver a number of benefits for outsourcers, clients and their customers. For example we see analytics in the customer data that the outsourcer looks after as a key opportunity to add value by identifying problems and opportunities outside of standard SLAs and develop a focus on continuous improvement. This requires a move away from standard SLA management towards a partnership approach based on collaborative contract management.

Methods and Toolkits

Customer Outsource Advisory

Approach
1. Assess: Determine scope and feasibility
2. Prepare: Develop requirements and going to the market
3. Evaluate: Choose the customer service outsource supplier
4. Commit: Negotiate the contract
5. Transition: Manage the transition through process/transition planning and management
6. Optimise: Get the best from your supplier

Example Toolkits

Process Maturity Assessment

Identify processes for transition

Process Scope Assessment
Background
For a number of years, multi-national organisations have been considering how they should manage their tax and statutory compliance responsibilities across the globe, in particular those countries where they have no internal resource to meet what are increasingly challenging areas of regulation and law. Many have resorted to contracting with a range of different providers in each country while others have looked for a single provider able to orchestrate the delivery of their compliance in all their locations in a way that is cost effective, manages risk and delivers real value back to the organisation.

An increasing pressure to reduce head count and costs, coupled with a greater move towards Shared Service Centres, is now making this type of outsourcing an ever more attractive option. In addition, the scale and breadth of services offered to companies is growing and increasingly extends to include VAT, company secretarial and statutory accounts preparation. Outsourcing of compliance and reporting services in this fashion can be complex, often entrenched as part of a wider finance transformation programme, with increasing levels of sophistication demanded from a growing group of prospective suppliers.

Approach
Prepare
The uncertainty in taking the first steps toward compliance outsourcing, coupled with the greater internal demands for a robust business case, has highlighted the importance of planning fully for the road ahead. At Deloitte, our Tax and Consulting practices have drawn on their experiences by developing an aligned methodology — our modular Assess Programme for Global Compliance and Reporting — which can be as detailed/tactical or as high level estratégico as each client requires.

The Programme is designed to determine whether or not the outsourcing of global compliance and reporting is viable and to shape the ‘look and feel’ of the outsourced arrangement. This process begins with a baseline Outsourcing Readiness Assessment, that benchmarks the client organisation against market-wide best practice and assesses the internal challenges a client is likely to face.
The outcome of this approach may be that there is a better way to manage global compliance and reporting activities using a combination of internal (perhaps centralised) resource with greater automation of processes. Otherwise this assessment provides a robust foundation from which to create a detailed Scope and Vision for an outsourced arrangement together with a clear articulation of the expected business model changes and outsourcing objectives for a formal Business Case and an RFP document to be used in the supplier selection process.

Approach to the Assess Programme

<table>
<thead>
<tr>
<th>Supplier Selection (RFP)</th>
<th>Selection criteria &amp; final scope</th>
<th>Draft RFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Case Development</td>
<td>Create spend baseline</td>
<td>Develop initial business case</td>
</tr>
<tr>
<td><strong>Scope &amp; Vision</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Process, Scope &amp; Vision</td>
<td>Determine scope of outsource</td>
<td>Agree future vision</td>
</tr>
<tr>
<td>2. Vendor Management</td>
<td>Assess sourcing options</td>
<td>Create sourcing strategy</td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td>Identify risks</td>
<td>Create risk management strategy</td>
</tr>
<tr>
<td>1. Risk Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Organisation</td>
<td>Assess organisational operating model</td>
<td>Leverage existing governance structures</td>
</tr>
<tr>
<td>3. People Resources</td>
<td>Identify stakeholder groups</td>
<td>Source key project skills</td>
</tr>
<tr>
<td>4. Change Management</td>
<td>Understand change management structure &amp; culture</td>
<td>Create outline change management strategy &amp; plan</td>
</tr>
<tr>
<td>5. Security &amp; General</td>
<td>Assess organisational impact</td>
<td>Extend to security of data &amp; compliance deliverables</td>
</tr>
<tr>
<td>6. Information Technology</td>
<td>Assess technology infrastructure &amp; data quality</td>
<td>Agree remediation plan &amp; outsourcing readiness</td>
</tr>
<tr>
<td>7. Location Management</td>
<td>Understand location strategy</td>
<td>Relate location strategy to outsourcing readiness</td>
</tr>
</tbody>
</table>

Benefits of the Programme

- A better understanding of the estimated financial benefits, together with the identification and quantification of real value.
- The investment required in order to deliver these benefits and create value from the arrangement.
- The risks which must be mitigated in order to support a successful outcome.
- The overall size and shape of the outsource, enabling alignment with business requirements.
- The degree of change required in business, finance and IT functions.
- An opportunity to say ‘No’ to outsourcing to focus on an internal or hybrid solution.
Deliver
The need for a ready to go solution that delivers quality, control and process efficiency should be matched with the unique circumstances of each client. We have a clear, collaborative methodology that blends together the established components of our solution in a way that is then flexed for each client — an approach that is ‘out of the box and tailored’.

There are three delivery methods for managing global compliance — decentralised, co-ordinated or centralised — allowing for alignment to a client’s own organisational model, adapting or flexing this platform as that model changes.

Each method makes use of experienced central/regional teams, near-shore and far-shore compliance centres and local office teams across over 140 countries, allied to a robust central governance model conducted in a spirit of partnership with our clients. More specifically:

1. Near-shore and off-shore compliance
   centres In Europe, we have a near-shore compliance centre in Belgium, which has successfully been used as a template for our centres covering Asia Pacific and Latin America. We also have a well established far-shore global centre in Hyderabad, India to support our compliance delivery.

   Our centres have the capability not only to co-ordinate our global compliance activities worldwide, but to also prepare and deliver the underlying returns as part of our centralised delivery method shown here.

2. State of the art tax technologies
   We are able to offer a highly integrated and automated end-to-end compliance and reporting solution. To support this solution, we have deployed:

   • Indirect tax return applications, statutory accounting software, provisioning systems and data management technologies, together with;
   • A management system that allows you to create real-time status reports, develop project workflows, store documents etc., delivering central ‘command and control’ over your global compliance responsibilities.
3. Standardised global compliance and reporting processes
We have standardised our global processes to deliver compliance and reporting services. Each process can be adapted to take account of local country filing requirements. Experience shows that this emphasis on standardisation helps us to deliver a higher quality and more consistent service worldwide and helps our people focus on identifying value-led opportunities for their clients.

Transform
The completion of our compliance and reporting deliverables is not the end of the process. The need to transform and evolve our initial delivery model, and to add insight from compliance deliverables, is a key part of our approach.

In transforming our delivery model we identify ‘quick wins’ such as opportunities for tighter integration and alignment between processes — particularly between statutory accounts and tax compliance activities where there can be similar source data requirements. More strategically, we might focus on ‘right-sizing’ — an approach whereby deliverables are reviewed against the materiality of each entity to reduce the complexity and level of work performed. Or we might consider implementing a centralised data collection and management model to enhance efficiencies further.

Outsourcing compliance and reporting

Our Transformation is not just about “faster, slicker or more efficient”. It is also about directing the focus of our activities toward the generation of insight to our clients — our “value-led compliance” philosophy. At the back end of our global compliance and reporting process, we have accumulated a library of compliance data covering several years, multiplied across many entities and then again across a range of jurisdictions. Applying our analytics tools to this data, it is possible to draw valuable preliminary insights about the worldwide tax and financial position of an organisation — for example, entity by entity ETR analysis, indirect tax data analysis, country by country tax sensitive expenditure trends etc.

Points to remember
- Quality and control remain key drivers for clients considering compliance outsourcing but there is an increasing focus on efficient and automated methods of compliance delivery.
- The need to manage changes in tax laws and to secure quality and value also remain critical for the future.
- Clients vary from those organisations with a traditional, decentralised model, using multiple suppliers, to those demanding highly centralised return production, who want to extract real value from the process.
- Our approach covers both the pre-outsourcing Assess programme — with its focus on understanding the readiness to outsource and on preparing a vision and business case for the model — through to delivery, using a mixture of centralised and local country resources, underpinned by global processes and tools, and onto transformation with a focus on generating ever-greater efficiency and value.