



**Key Components of an
Outsourcing Deal**





William Metz



- ❖ Current role:
 - ❖ Global Business Services External Business Development Manager
- ❖ Previous experience:
 - ❖ PMO Section Manager
 - ❖ Project Manager Application Development & Maintenance outsourcing effort
 - ❖ IT Strategic Sourcing Section Manager
 - ❖ Technology Solutions Consulting Section Manager
 - ❖ Application & Data Technologies Architect
 - ❖ Founder of P&G's Jedi competency development program

- ❖ Certified Outsourcing Professional

P&G

At a Glance



- Founded 1837
- HQ in Cincinnati
- \$83.5 billion annual sales
- 138,000 employees
- More than 300 brands sold in 180 countries
- Operations in more than 80 countries
- Gillette Expansion: October 2005

P&G's 24 Billion Dollar Brands



P&G

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Topics Covered

- **Statement of Work**
- **Base Case Financial Model**
- **Service Levels**
- **Resource Units**

Statement of Work

Defines the products and services a Supplier is responsible for delivering.

Identifies specific requirements related to providing the products and services

Guidelines for developing a SOW

Lean forward, include as much in scope as you can, you can always pull the boundary back later if you are uncomfortable with the Supplier's ability to do certain work

Ask yourself “Do I gain competitive advantage or mitigate unacceptable risk by having an employee do this work?”

Define scope so that supplier can take end-end responsibility for tasks wherever possible

When multiple parties are involved, make sure end-end responsibility is clear and group work to avoid seams

Guidelines for developing a SOW

Describe in detail the scope of the products and services to be delivered by the supplier

“The Supplier’s responsibilities include:

- * Write the Safety section of the Final Study Report*
- * Construct the core label of the product and author the safety section of the label*
- * Author and submit the annual Investigational New Drug Report*
- * License, host, and support the data collection system used to capture clinical study data”*

Focus on What vs. How

Focus more on “what” the Supplier will be responsible for delivering and less on “how” they should deliver it

“the Supplier will collect and maintain an inventory of assets”

Specific Deliverables

Identify Specific Deliverables

“The Supplier will:

- * Write the **Safety section of the Final Study Report***
- * Construct the core label of the product and author the **safety section of the label***
- * Author and submit the annual **Investigational New Drug Report***

Frequency of Work

Identify how frequently the Supplier is expected to perform the work

*“Author and submit the **annual** Investigational New Drug Report”*

*“Facilitate meetings with regulatory authorities **as requested**”*

*“... as part of the **monthly** technology planning meeting”*

Inclusive Vs. Exhaustive

Use inclusive lists vs. exhaustive lists of responsibilities

“The Suppliers responsibilities include, but are not limited to the following:

* XXXXXXXXXXXXXXXXXXXX

* XXXXXXXXXXXXXXXXXXXX

* XXXXXXXXXXXXXXXXXXXX”

Constraints

Identify any constraints (i.e. requirements the Supplier must comply with)

“... in accordance with company written policies for quality, security, and privacy”

“... using SAP HR”

“... ensure the system satisfies the FDA’s current Good Manufacturing Practices”

Touch Points / Seams

Identify touch points between your company and the Supplier, and between the Supplier and other third parties

“The Supplier will inform P&G of any relevant tax law changes”

“...plans must be reviewed and approved by P&G”

“The Supplier must consult with P&G’s Facilities Management provider prior to installing equipment”

Delivery Locations

Identify where the products and services need to be delivered

This is normally accomplished by referencing an exhibit with a list of locations

“... to all P&G NA Plant Locations (see Exhibit x)”

Ambiguous Terms

Try to avoid ambiguous terms

“ *the Supplier will assist...* ”

“ *the Supplier will help ...* ”

“ *the Supplier will participate ...* ”

Subjective Modifiers

Try to avoid subjective modifiers

“ *the Supplier will use best effort to...* ”

“ *the Supplier will make a commercially reasonable effort to ...* ”

Transition Plan

Transition work and associated deliverables are captured in the Transition Plan

The SOW may reference the Transition Plan, but does not cover any transition details

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Base Case Financial Model Overview

BCFM is a detailed projection of future costs if work remains in house. (Can model various scenarios.)

- *Starts with current costs today*
- *If internally re-engineered what would future costs be?*

Based on the same scope as the SOW

Provided to bidders as part of the RFP

Why a BCFM is Important

Ensures you have a strong understanding of all processes, baseline costs and multi-year forecasts prior to outsourcing

Primary yardstick used to measure outsourcing savings and to evaluate supplier bids.

Relied on heavily by suppliers to understand your processes and to provide bid. Deal structure is tied directly to BCFM

BCFM and assumptions are key components to ensure Suppliers are bidding on “apples-to-apples” basis

BCFM is key source of data that all parties will engage on, negotiate against and refer back to during contract preparation

Details included in BCFM

Consumption volumes and cost forecasts over the anticipated length of contract

Detailed and well documented assumptions

Segmentation of costs between company retained and supplier assumed

Assumes productivity savings year over year (be realistic)

Should include project spend and outside professional services spend

Must account for the impact of the sale of assets, capital spending, depreciation, cost of living increases, and tax implications

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Service Level Agreement

Documents the level of service and specific deliverables the Supplier is expected to provide

Provides mechanism for assessing penalties when expectations are not met

Service Level Categories

Critical Service Levels

A relatively small number of critical service delivery targets that the Supplier must hit
Tied to At Risk \$

Key Service Levels

A list of important service delivery targets that the Supplier is also accountable for hitting
Not tied to At Risk \$, but can be promoted to Critical with appropriate notice

Critical Deliverables

A list of specific deliverables the Supplier is accountable for delivering
Delivery tied to specific penalty amounts

Performance Categories

Logical groupings of specific Performance Measures

Examples include, but are not limited to:

Quality

Efficiency

Productivity

Availability

Throughput

Response Time

Relationship

Management

Organizational

Development

Key Process Milestones

Capacity

Competency

Performance Measures

A specific measure of the Supplier's performance

You must be able to describe it, and indicate how it will be calculated

You should indicate frequency and how / where it should be reported

You should also provide historic data or industry benchmarks as a baseline if available

Average time to complete specific types of deliverables

Number of defects

Number of audit findings

Percentage of work done in low cost location

Project SPI & CPI

Customer satisfaction

System availability

Retention rate of Supplier resources

Supplier investment in resource training

Evolution of Expectations

An expectation of continuous improvement should be built into the performance expectations you set

Year 1 - 90%, Year 2 – 93%, Year 3 – 95%, etc...

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Resource Units

Basic unit used to measure consumption of products and services

Where possible should be tied to actual deliverables / outcomes

For example electronic number of Case Report Form (eCRF) processed

FTE as a Resource Unit

Using Full Time Equivalent (FTE) as a resource unit presents special challenges, but sometimes it is the only alternative

If you can't measure output, you can measure the effort expended to create the output, but how productive the resources are is always a question

If you can not measure productivity directly try to measure things that would suggest higher productivity including: years of experience, time on account, level of training investment, achievement of applicable certifications, etc.

Questions



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