



High performance. Delivered.

Outsourcing

IAOP: Creating Sustainable value in Outsourcing

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A few words on Accenture

- 20 years experience in outsourcing across ITO and BPO
- Large investments in proprietary enabling solutions, innovation, patents and skills
- 650+ outsourcing clients
- 85,000 focused on outsourcing
- The global scale and scope to respond around the clock
- 50+ centers worldwide
- More than 83,000 people working in the Delivery Centers globally
- A focus on Operational Excellence

5 examples of ensuring value creation in outsourcing

- Seven (+1) "rules"
- Keep strategic objectives in mind, throughout the journey
- Bundling of services
- Application Outsourcing example
- Finance & Accounting example

Seven (plus 1) Rules to Outsourcing Success

- Accenture research has defined seven key success factors in outsourcing relationships:-
 - Build in Broad Business Outcomes Early and Often
 - Hire a Partner, Not Just a Provider
 - It's More Than a Contract, it's a Business Relationship
 - Leverage Gain-Sharing
 - Use Active Governance
 - Assign a Dedicated Executive
 - Focus Relentlessly on Primary Objectives
 - Innovation

Ensure the KPI's and commercial model reflect the overall objectives

To ensure that incentives are linked to strategic objectives, we recommend structuring outsourcing deals around outcomes.

Strategic Objectives



Business Objectives



Business Requirements



Service Definition



Key Performance Indicators



Incentive Program



Link Rewards Directly to Business Outcomes

- Drive Right Behaviors
- Ensure Common Goals
- Build Flexibility
- Ensure Responsiveness

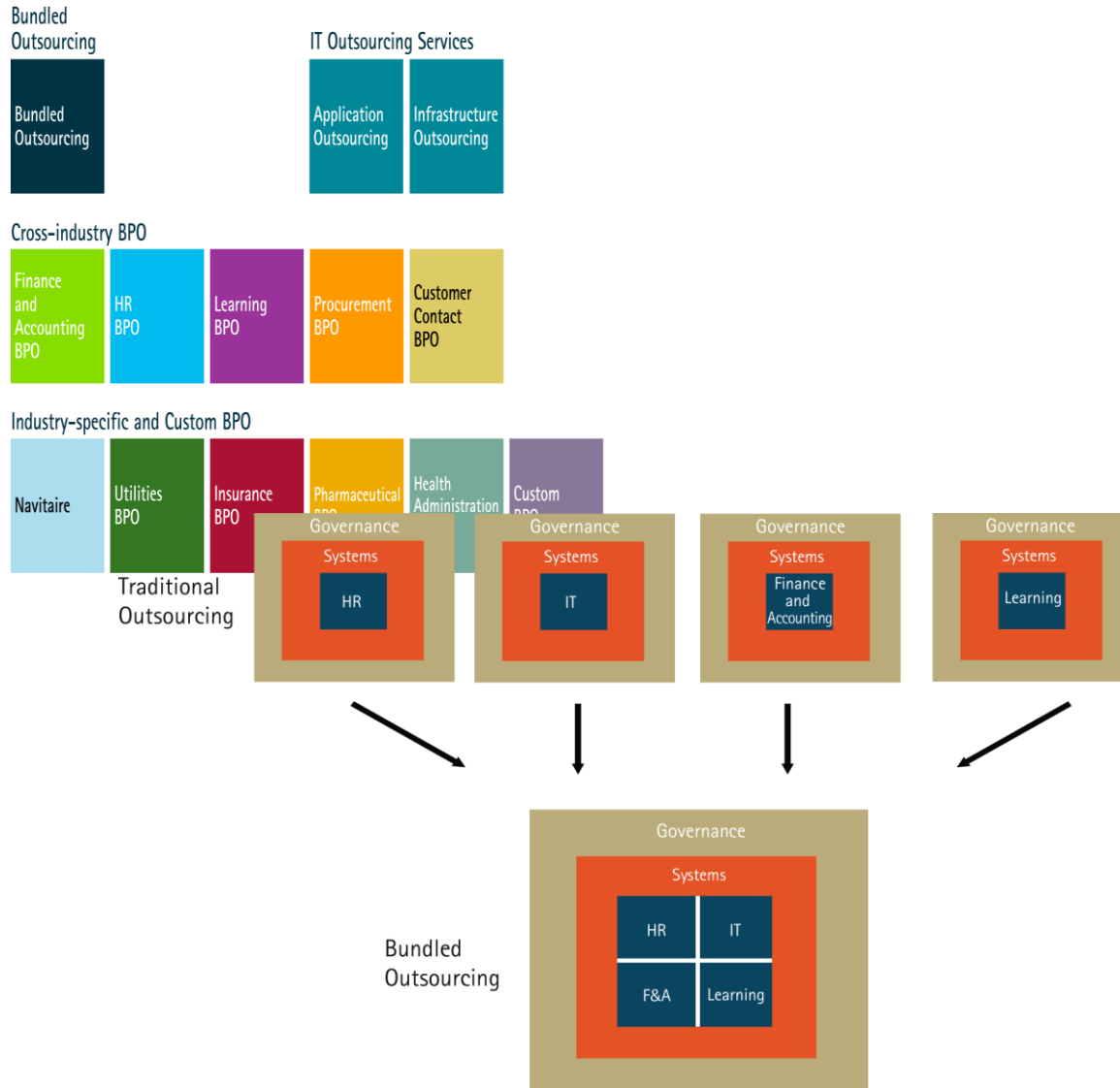
Examples of KPI's:

- Cost savings
- Reduced time to market
- Productivity
- *Indirect Procurement example*
- *Innovation example*

Outcome focused deals facilitate value drivers being linked to business objectives

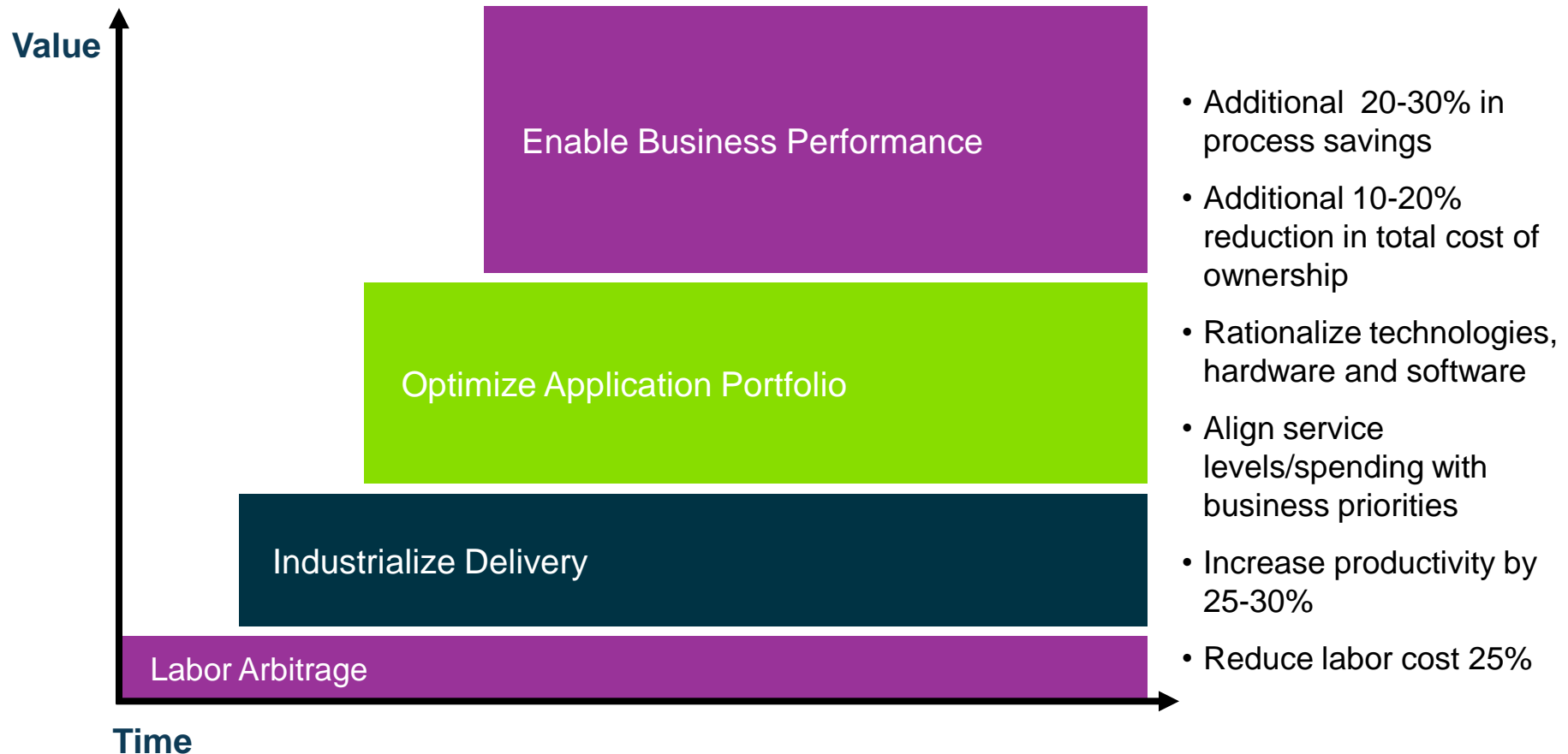
Value Drivers	Business Objectives	Potential Metrics
Productivity/ Efficiency Improvements	Increase Direct Project Hours Reduce idle time and time spent on unapproved efforts	<ul style="list-style-type: none"> Hours spent resolving trouble tickets or rework Hours spent on maintenance activities Hours spent on approved projects % of projects with on-time/on-budget % downtime waiting for work prioritization, approved design specs, business requirements
	Increase Task Efficiency Reduced effort per unit of output	<ul style="list-style-type: none"> Average time and duration to close trouble tickets Time spent by SDLC phase per work type (trouble ticket, ad-hoc change, enhancement, large project)
	Reduce Non-Value Efforts Reduce hours wasted on cancelled, delayed, or starting and stopping projects	<ul style="list-style-type: none"> % time spent on re-prioritized, delayed, or canceled projects Percent of development time spent on projects aligned with top three business objectives Percent of design docs, functional requirements, and tech requirements signed-off on time
Offshore Cost Leverage	Lower Cost per FTE Reduce development costs by effectively using a leveraged team	<ul style="list-style-type: none"> Managed resource turnover percentage Percent of organization sourced by workforce type Organizational leadership / span of control
Easier to Maintain Arch/ Application Optimization	Easier to Maintain Applications	<ul style="list-style-type: none"> Application development costs Application management costs Application testing costs Percent functional redundancy across applications Number of interfaces / dependencies

Bundling BPO and ITO drives additional benefits



- **Reduce redundancies and costs:** Operating multiple processes from a single platform and single provider drives greater efficiency.
- **Simplify the governance process:** Investing in a relationship with a single service provider simplifies management of the outsourcing arrangement.
- **Reduce operating risk:** Bundling with a single provider greatly reduces these potential points of failure. Less risk of things falling between chairs and “fingerpointing”
- **Mitigate delivery risk:** Lower risk and increase comfort with one point of contact for bundled outsourcing services.
- **Standardize and simplify operations:** Clients benefit from the consistent approach to business processes, methods and terminology that bundled outsourcing provides.

Example: A value-driven approach to Application Outsourcing



Gain Share example

- agree relevant focus areas
- agree relevant, few, manageable KPI's
- agree performance and payment model*

*Part of fees related to the model

Productivity (20 points)

KPI 1
KPI 2

Quality & service (40 points)

KPI 1
KPI 2

Client satisfaction (15 points)

KPI 1
KPI 2

Innovation (25 points)

KPI 1
KPI 2

Performance	Accenture score	% change to target fee
Above target	>95 points	+X%
	>85 points	+Y%
Target	75 points	0
Below target	>65 points	-Q%
	>55 points	-Z%

Finance & Accounting BPO Example

Key drivers

Reducing Costs

- Consolidation benefits
 - Economies of scale: labour, management, infrastructure & technology
 - Rightsizing, organization and management de-layering
- Scale benefits from service provider's ongoing investments in infrastructure, technology, organization and best practices shared across a portfolio of clients
- Efficiency improvement through standardization, re-engineering, automation
- Lower cost locations: Reduced labour and infrastructure costs

Improving Service Quality & Customer Service

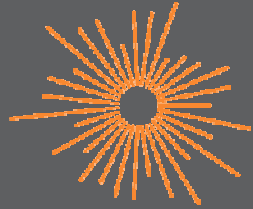
- Clearly defined service expectations (service level agreements)
- Granular performance and cost visibility (KPIs and performance reporting)
- Development of powerful service culture & systematic customer relationship mgmt

Improving Controls

- Move from fragmented operations to a consolidated set-up enables implementation of a consistent, standardised controls environment
- Focus on process documentation and controls

Better Supporting / Enabling Business Strategy

- Change at speed, through established infrastructure and change capability
- Focus retained finance on decision support / high value-added activities
- Enable transformation to a standard process/system business architecture
- Enable transformation from country based to regional or product business model
- Move from fixed cost structure to variable cost structure
- Improved consistency & transparency of management information
- Establishment of partnership with access to wider expertise and further services



Creating Sustainable Value in Complex Outsourcing

IAOP Nordic Chapter
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Fashion changes but outsourcing is like running a business

- Successful outsourcing depends upon many different skills and levers:
 - Governance, customer skills and contract management
 - Partnership
 - Service requirements and service levels
 - The right contract
 - The right sourcing model for the job, such as multisourcing
 - Maintaining competition
- The reality is that requirements and dependencies change from time to time and that no universal advice or model applies to complex outsourcing

What is sustainable value?

- The customer perception that value for money is delivered by the supplier
- That underlying customer business reasons for outsourcing are supported
- That underlying customer business interests are supported throughout the duration of the outsourcing relationship

Why value for money is not delivered

- Contracts set detailed requirements as to how and what is delivered
- Contracts do not address whether the deliverables fulfill the intended reasons for outsourcing or customer business interests
- Contracts primarily address short term goals such as immediate savings and balance sheet adjustments
- Most often customers have no idea what will create value on a long term basis

Contracting for sustainable value requires a deliberate approach

- Customer and supplier interests need to be aligned – that requires:
 - Transparent pricing model
 - Pricing units with a direct relation to supplier cost drivers
 - Utility based pricing and not capacity based pricing
- Identification of the key customer value drivers
- Identification of value drivers in the contractual framework and detailed drafting on which contractual levers will support the achievement of the chosen value drivers

Key value drivers

- Effective RFS process
- Real ability to conduct demand management
- Decreasing operational costs in line with decreasing technology costs and efficiency savings obtained over time
- Proactive approach to risk and incident resolution
- No fuss approach to incident and problem management
- Commercial reasonability

Competition
It Works!

Contracting Capability

Speed
Quality
Integrity

Contract Mechanisms

Proactive Remedies

Practical Benchmarking

VAL

Contract Mechanisms

(planned)

E-auctions

Resource Specification

Lead Times

Contact Information

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