



The 2003 Outsourcing World Summit

Conference & Exposition

The Outsourcing Process: Implementation Beginning the Long-Term Relationship Dance

Monday, February 24, 2003

Round Two – 4:10 – 5:00 PM

Session H

CHAired BY ED JOWDY

Industry Consultant

VICE PRESIDENT, LEE HECHT HARRISON

JOSEPH E. IZZO

Co-Founder and Managing Partner

TRANSITION PARTNERS CO.

Learn: How to identify, engage, qualify and select the right services provider, and establish a successful – and flexible – contract.

Joe Izzo, whose firm has structured more than 30 information technology deals valued at more than \$5 billion, provides proven tips and techniques for identifying, engaging, qualifying and selecting the right services provider, and for establishing a successful – and flexible – contract. The session covers outsourcing relationships with a critical view to the balance of the strategic and financial frameworks of your particular enterprise.

The goal is to utilize outsourcing only where it enables your business to operate more effectively and competitively. Outsourcing, in general, and specific providers, in particular, only make sense if they help deliver services more cost efficiently than available in-house solutions.

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Key topics include:

- The beginning of the long-term relationship dance
- The process for identifying and engaging qualified services providers
- The customers' view of evaluation... the services providers' response to RFIs
- The formal outsourcing process versus the informal relationship process... how they do and do not work together
- Final selection and negotiation of services providers and when do negotiations really start... testing relationship reality



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EDMOND J. JOWDY, JR.

Industry Consultant

Vice President

LEE HECHT HARRISON

Ed has been and continues to demonstrate the power of outsourcing as a management tool for organizational change, for competitive advantage, and for shareholder value. He is a featured speaker at conferences and other educational events. He also provides consultation to Senior Executives as they think through the changing world of work, process re-engineering and other ways to add value in the marketplace and make money.

Ed is a former:

- Aetna, Inc. Executive, where he functioned in a variety of roles including CIO, VP Shared Services and COO of a subsidiary group providing Document Management Services.
- Moore Corporation Executive where he functioned as VP and General Manager Enterprise Outsourcing.

Currently, Ed is VP of Lee Hecht Harrison, a global career management company, where he consults with corporations on workforce issues, teaches and provides individual coaching services. Additionally, Ed provides independent consulting services to corporations. His subject is outsourcing, process re-engineering and restructuring. He represents the voice of the customer.

At Aetna, Ed was responsible for turning multiple shared services groups from cost centers to profit center businesses. He consolidated multiple electronic and commercial document production groups spread out across the enterprise into an \$80 million business, selling document management services to Aetna and on the outside. He then led the effort to sell the business to the Moore Corporation.

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EDMOND J. JOWDY, JR.

At Moore, Ed led, designed, developed and implemented a Business Communication Architecture which helped Senior Executives at Fortune 500 companies think through and act upon multiple service functions in business terms (Revenue, Cash Flow and Expense Control). The model was used to conduct audits, identify gaps and enter into outsourcing arrangements as appropriate.

At Lee Hecht Harrison, Ed led an initiative to consult with Senior Executives at Aetna, Inc. which demonstrated the value associated with outsourcing Career Management Services (Administrative and Delivery). This multi-year deal resulted in a significant reduction in overhead expense for Aetna and provided them access to world-class resources not previously available. Value and customer satisfaction increased while costs decreased.

Later as an independent consultant, Ed developed a model called the "Stages of Growth" for helping corporations move from High Cost-Low Value to Low Cost-High Value. The model provided a foundation upon which corporations can take what is and push it to the limits of something new from Outsourcing and Bestsourcing.

Ed is a guest at numerous trade shows and conferences. He helps clients think through restructuring and outsourcing decisions. His client list includes Xerox, Moore, Kinko's, Kodak, Ikon and others. He represents the voice of the customer to service providers and their clients. In 1999, Ed was runner-up for the Outsourcing World Achievement Award.

Currently, Ed helps corporations think through workforce issues results from outsourcing and other restructuring decisions. He also helps service providers understand how to move up the value chain and market to large national accounts.



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JOSEPH E. IZZO
Co-Founder and Managing Partner
TRANSITION PARTNERS CO.

Joseph E. Izzo, Co-Founder and Managing Director of Transition Partners, is one of the leading consultants in the field of Information Technology, with a major emphasis on delivering business results through the use of technology. He's worked with more than 150 companies — encompassing more than 30 years — in the development of IT Strategies; Business Process Reengineering; Organizational Effectiveness; Systems Architectures; Outsourcing; establishment of IT Executive Steering Committees; and centralized, decentralized and dispersed computing strategies. He's well known for activities in the turnaround management of IT organizations. He and his staff were directly responsible of the management and turnaround of more than 25 IT organizations.

Clients include Collins Foods International, Continental Bank, E. & J. Gallo, Franklin Covey, Kellogg, Mattel Toys, Merrill Lynch, Molson Companies, New York Life, Northrop, Philip Morris, Shure Brothers, Star Tribune, TRW, TWA, Weyerhaeuser and Wickes Companies. Mr. Izzo served as Vice President of A.T. Kearney's Information Technology Practice; President of JIA Management Group, Inc.; Vice President of Computer Sciences Corporation's Commercial Division; and Director of Information Systems for Rocketdyne Division.

Mr. Izzo is author of the book, "The Embattled Fortress, Strategies for Restoring Information Systems Productivity." He's a former member of the Society for Information Management's "Partners in Leadership Award" Selection Committee and The Conference Board; and past Chairman of SIM's Southern California Chapter.

Mr. Izzo's firm, Transition Partners (<http://www.transitionpartnersco.com>), is a national management consultancy recognized by senior executives as trusted advisors to rapidly solve strategic, management and operational problems in the areas of

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JOSEPH E. IZZO

Information Technology and Business Processes. It helps clients achieve Outsourcing success by focusing on the pursuit of long-term value to the business. This includes best practices, processes and methodologies in the areas of Sourcing Strategy Development, Vendor Selection and Negotiation, Outsource Vendor Management Process, “In-Flight” Contract Reviews, and In-source Program Management. Transition Partners has helped clients structure more than 30 IT outsourcing deals valued at more than \$5 billion.

Successful Sourcing Procurement

Beginning the Long-Term Relationship Dance

**Joseph E. Izzo
Managing Partner**

*The 2003 Outsourcing World Summit
Palm Desert, California
February 24 – 26, 2003*

Objective

*How to identify, select and engage
the right Service Provider to establish
a flexible and successful relationship*

Prevailing Attitudes

Attitudes in Developing a Sourcing Relationship

Collaborative

- Openness
- Honesty
- Trust

Combative

- Close to the chest
- Secret agenda
- Gain advantage

*The end state will be a
reflection of the beginning state*

Relationship Attitude Entanglement

Customer

You are a Vendor:

- I have transferred responsibility to you
- I am no longer responsible
- I am paying you
- I expect perfection
- Deliver if you expect to be paid

Sourcing Provider

You are my Customer:

- I have made commitments – *read the contract*
- Trust me – *I am your partner*
- What we agreed to has changed – *need to remain profitable*
- Need your help and support in delivering commitment

Impact of Relationship Failures

Who are the losers? ☹️

The Sourcing Providers and the Customers

Who are the winners? 😊

The Lawyers and Consultants

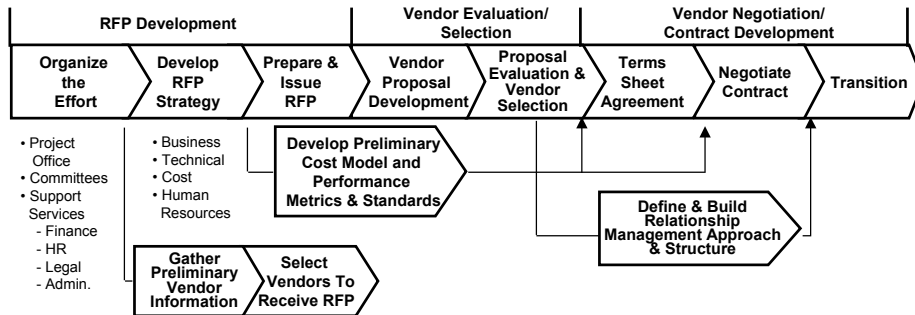
The Process

Critical Components in Developing a Lasting Sourcing Relationship

The Formal Process – Agreement Development
Structure and Completeness

The Collaborative Process – Vendor Selection
Working with the Sourcing Providers

The Formal Process



- Clear high-level documentation related to objectives and scope
- RFP – Descriptive, not prescriptive
- Complete financial (budgetary) information

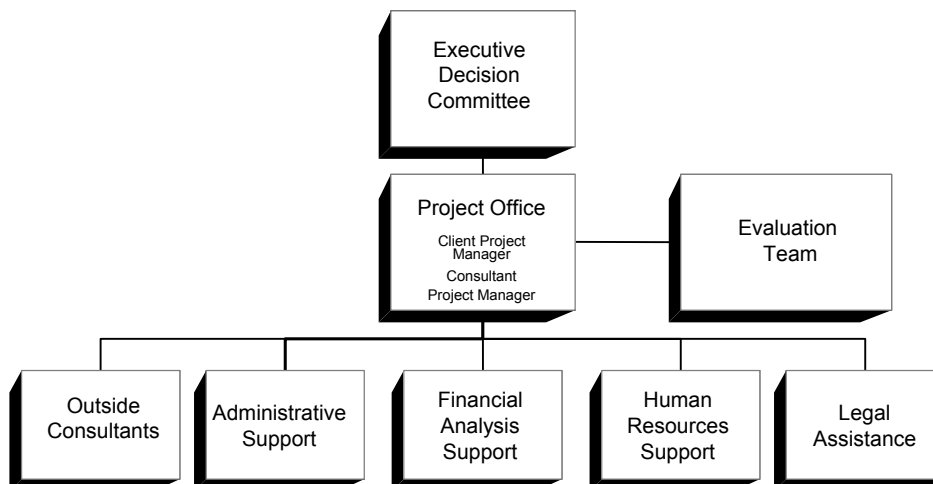
The Collaborative Process

Identification and Selection of Providers

Establish a Multi-Disciplinary Team

- Executive sponsors
- Subject matter knowledge leaders
- Key affected users of services
- Financial analysts
- Human Resources
- Legal
- Outside advisors (sourcing specialists)

Typical Sourcing Procurement Structure



Define Provider Selection Criteria Guidelines

- Critical capability requirements
- Cultural fit
- Innovative qualities
- Pricing and contract flexibility
- Financial stability
- Human Resource practices
- Ability to work together – both structured and unstructured

Gain agreement on criteria

The Collaborative Process

Remember the critical words:

Openness

Honesty

Integrity

The Collaborative Process – Provider Identification and Selection

1. Who are possible providers? (7 to 10)
2. Down select to potential providers (5 to 6)
3. Down select to providers who will receive RFP (3 to 4)
4. Final selection of sourcing provider (1)
5. Contract negotiation

The Collaborative Process – Possible Providers (7-10)

- The Customer is responsible to do the research in identifying possible providers
- *Determine the appropriate provider executive – call and briefly discuss opportunity*
- Follow-up with formal RFI letter describing opportunity scope and objectives and request information related to their capability and financials (not needed in all cases)
- Review material and down select to potential providers (5 to 6)
- *Call eliminated providers and thank them for their efforts*

The Collaborative Process – Potential Providers (5-6)

- **Call potential providers followed by letter requesting:**
 - A detailed presentation of their capabilities related to scope
 - Their view of the objectives to be achieved and their thoughts related to achieving them
 - Differentiating capabilities related to other firms
 - Answer any questions they may have related to presentation

- **Providers presentation:**
 - Allot 2 to 3 hours, including open discussion
 - Be receptive in answering their questions
 - Challenge their capability and approach for clarity and understanding

The Collaborative Process – Potential Providers (5-6)

- **At the conclusion of presentation, document pros, cons and concerns – on rare occasions a follow-up call may be required**

- **Down select to provides who will receive RFP (3-4)**

- ***Call eliminated providers and thank them for their efforts***

The Collaborative Process – Providers to Receive RFP (3-4)

- Notify providers who will receive RFP and advance notice of date
- *Have vendor executive meet with appropriate top level executive(s) of the firm – structure meeting*
- *Have meetings with individual providers to answer their questions and, if they desire, to discuss innovative alternatives*
- *Work collaboratively with the vendor whenever possible – the goal is to have world-class proposals submitted*
- Visit provider sites, contact provider clients, develop deeper relationship and knowledge of the providers
- No dinners or entertainment – strictly business

*The Process needs to be managed – no ad-hoc meetings
(Rules of Engagement)*

The Collaborative Process – Selection of Sourcing Provider (1)

- Evaluate proposals
- *Have providers present their proposals to selection team and executive management*
- *Communicate with provider on areas that are not satisfactory, are ambiguous or have discontinuity*
- *Challenge, where appropriate, pricing and pricing concept*
- *Allow room for proposal modification and adjustments*
- Formally competitively evaluate and select provider
- Develop term sheet (agreement in principal) with selected provider
- Call e

*The goal is a World-Class solution
that will deliver value to your company*

rters

The Collaborative Process – Contract Negotiations

It's important, it's difficult and at times challenging

- There needs to be 2 winners
- *Respect and understand the other party's viewpoint*
 - Try to identify workable solutions – thinking outside the box may be required
- The process is real – work together – enjoy the process

The contract is important, it's the baseline of agreement, the parameters of the engagement relationship. Don't underestimate its importance!

Remember – The Guiding Principals of Selection

During the selection process, constantly reference to two key documents:

Sourcing Objectives and Scope

Selection Criteria Guidelines

Don't get lost in the process

For the Sourcing Provider

- Openness, honesty and integrity are paramount
- Don't "sell" what you cannot deliver
- Utilize good judgment when requesting meetings and posing questions
- Respect the customers' time availability – they are dealing with multiple providers
- Trust the fairness of the customer judgment
- Respect the selection committee's decision responsibility – it is difficult and sometimes gut-wrenching

*Sorry!
There can only be one selected provider!*

The Dance is Over – Now is the Beginning of the Real Relationship

- The Customer continues to be a responsible party in the success or failure of the sourcing decision
- The Customer will still be required to maintain a small staff of leaders and guides to oversee, guide and monitor performance, financial and contract matters
- There is a requirement for a Customer Relationship Manager
- The Customer Relationship Manager's primary goal is the success of the transaction
 - This requires a collaborative working relationship with the provider
- The selection of the right persons who are willing to work collabora

*Remember: If one side fails,
both sides of the sourcing transaction lose*

Thank You!

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