



In many of today's outsourcing relationships, customers are dissatisfied with the lack of ongoing improvements in quality and service. Similarly, as technology costs decline and outsourcing relationships stagnate, retained organizations struggle to demonstrate the value that's being created.

Whatever else may have driven a company's decision to outsource, invariably, management also expected, demanded, and obtained some near term cost savings. In many cases, those savings were made immediately available to the customer in the form of an invoice from the provider for less than what the company used to pay to deliver the services internally. But the provider, on the hook for these savings, now has to deliver the same services for less, cover their own sales and marketing costs, and still earn a margin. Even with better technology and lower labor costs, this can be a daunting challenge.

What can your organization do to breathe new life into outsourcing deals mid-stream? How do you continue to find savings and additional value, even after initial transition and transformation?

Helping Companies Negotiate and Manage Critical Relationships

Vantage helps by facilitating Value Discovery on a transactional basis and helping organizations build the capability to conduct such efforts on their own

CHALLENGE: Continuing to deliver value beyond transition

As soon as transition begins, most provider delivery teams try to move as much of the work as they can into more standardized ways of doing things, where they can achieve economies of scale. They must do also maintain contractual service levels, minimize disruption and dissatisfaction among end users, and generally stabilize the account. It is only with the comforting (and lower cost) routine of post-transition stability that providers can reliably earn a margin.

Staying in that “safe,” stable state, however, does not serve customers well. After a couple of years in such a relationship, senior executives — conditioned by 40 years or more of ever improving price-performance ratios for technology — start asking “what have you done for me lately?” Retained organizations challenge their partners to deliver more, noting that “had we not outsourced, we would have continued to improve internally.” That’s a reasonable demand, but not one the provider can meet on its own. Customers must do something to help providers get beyond simply delivering contractual service levels at the least cost. For example, customers must:

- Share information about their business objectives, challenges, and strategic direction
- Engage improvement efforts with an open-mind, recognizing that for a provider to actually deliver “best practice” and innovation, the customer must be willing to adopt processes and technologies that were “not invented here”
- Reconsider the metrics they use to ensure they are not creating adverse incentives
- Address relationship deficiencies in areas such as scope management, problem-solving, decision-making, communication, and commitment management

The bottom line is that post-signing improvements do not just happen. Customers who want more value must step up and help co-create it.

SOLUTION: Putting in place a Value Discovery process

Vantage Partners works with both customers and providers to help them put in place a well executed Value Discovery process that increases the amount of value they will realize in their relationships. Vantage helps organizations that want more out of a single relationship, as well as those who want to develop the capabilities to structure and facilitate value discovery initiatives across a broad set of relationships.

There is significant untapped value potential in most outsourcing relationships, buried in the complexity of the contract, in resistance to change, in the limited information exchanged between the parties, and more. There are often ways the parties can work together to decrease the overall costs of delivering the services, to increase the business or top line value of the relationship, or to lower the transaction costs involved in working together.

CASE STUDY Financial Services Company

A global financial services company had outsourced many functions over a period of many years as they saw opportunities to shed non-core functions, generate cost savings, and access different kinds of expertise through service provider relationships. This required a fundamental change in how they ran their business. Because of the way they had rapidly added to their portfolio of provider relationships, they had not developed a standardized approach to outsourcing relationship management and, as a result, many of their relationships were believed to be underachieving their potential.

To help the company realize the potential benefits of their extended enterprise strategy, Vantage worked with senior functional and business leaders, Procurement and Supply Chain Operations, and representatives from its suppliers to understand how relationships were currently being managed. Together, Vantage and the client then identified a handful of the most critical outsourcing relationships and implemented a Value Discovery process. Each relationship that went through the process reported that the sessions put their relationship back on track. Suppliers especially welcomed the opportunity to work more closely with their customer and understand how to overcome stakeholder resistance to change so they could deliver additional value.

For each of the relationships, several ways to access unrealized value were discovered. During a value discovery session with an insurance products provider, for example, both sides identified regulatory scenarios they needed to prepare for, discussed changing the current sales process to better meet minimum product cover standards, and brainstormed new insurance products to be market tested as a way to mitigate lost profit. During a session with a print provider, both sides discussed areas where the provider could take on additional creative generation, ways to develop a better, more efficient workflow management system, and ways to get better stakeholder buy-in, such as developing a virtual tour to better explain the provider’s capabilities to the business units.

Bottom Line Savings

- Elimination of redundant assets and processes
- Joint (re-)design of processes for more efficient service delivery
- Reduction in capital expenditures by shifting them to, or sharing them with, providers

Top Line Value

- Faster development cycles; faster time to market
- Access to new insights about customers and marketplace
- Increased market share and margin through quality improvement

Operating Efficiencies

- Improved quality and speed of decision-making
- Reduced time and effort in scope management
- Enhanced service quality, responsiveness, and flexibility

Vantage starts with **diagnostic interviews** and document reviews to help identify fruitful areas for further exploration, and to understand the likely obstacles to realizing the potential value. Through the diagnostic process, Vantage has come to uncover several common obstacles to value:

- **Stakeholder Resistance to Change:** Stakeholders on the buyer's side show apprehension about changing the way things are done
- **Relationship/Trust Challenges:** The buyer and provider are unable or unwilling to trust one another, thereby making it difficult to create a productive, value-realizing relationship
- **Lack of Consensus Around a Solution:** Too many stakeholders are involved and/or organizational structures are unclear, making it difficult for the group, as a whole, to reach solutions
- **Not Invented Here:** The buyer is slow to support solutions or approaches viewed as coming from outside its organization
- **Zero-Sum Framing of Problem:** The buyer or provider (or both) view the other side's gains as coming at their expense
- **Just Haven't Done It:** Key players simply haven't had discussions focused on collaborating to maximize value

Joint planning of the agendas for partial or full-day working sessions, based on the diagnostic findings, permits adequate consultation, information gathering, and advance preparation by participants, ensuring effective use of the time they spend together.

Careful **facilitation** of the sessions by Vantage then enables participants to:

- Focus on producing measurable business value for one or both organizations
- Develop a balanced portfolio of significant medium- or long-term opportunities and quick wins that can be realized rapidly to build momentum and buy-in from key

CASE STUDY Major Oil Company

A major international oil company outsourced its communications and IT infrastructure services to three different providers in an effort to reduce costs and benefit from providers' market proven solutions. As with many deals, a backlog of poorly understood legacy issues and the usual transition challenges quickly created a gap between business unit expectations of "business as usual" and what was being delivered. As customer and providers struggled to "get the basics right," transformation and innovation became sidelined, even though an ambitious business case called for significant incremental savings.

Vantage worked with the retained organization to implement a process to address the underlying issues affecting the relationships and to jumpstart the effort to deliver the transformations necessary to meet the business case. A series of diagnostic interviews helped unearth the unique issues affecting each relationship, as well as the common themes among them.

The oil company developed a set of behavioral protocols with each of its three providers to which they would hold each other to in order to address some of the systemic issues. Roles and responsibilities were clarified so that providers could be more agile in responding to business unit needs, without jeopardizing the savings expected from key choices in architecture made at the corporate level. Customer and providers put in place action plans to go beyond "business as usual" and realize the new innovations that they all expected. They also concluded that value discovery could not be a "one-time event" but should become a part of how they did business together.

stakeholders

- Agree on appropriate resourcing to support implementation

When such a capability is desired, Vantage can help develop documentation and train internal staff, such as Center of Excellence personnel, to be able to conduct and facilitate effective Value Discovery sessions on their own.



About Vantage Partners

Vantage Partners, a spin-off of the Harvard Negotiation Project, is a management consulting firm that specializes in helping companies achieve breakthrough business results by transforming the way they manage their most important relationships. Vantage works with outsourcing buyers and providers to launch, manage, and (when necessary) remediate their relationships. To learn more about Vantage Partners or to access our online library of research and white papers, please visit www.vantagepartners.com.

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