

## Why use an Advisor in the Outsourcing Process and why would the 'right' Advisor make such a big difference?

*Most clients who have embarked upon a 'sourcing' journey with the services of a well qualified advisor would not have to ask these questions. It is also true to say that some of the more established suppliers will no longer engage with a client unless they have secured the services of an advisor. This paper seeks to clarify why this is the case and further, why it is just as important to secure the services of the 'right' advisor as it is to ultimately contract with the 'right' supplier.*

### **Asking the Right Questions**

No matter what the function or activity, the decision to outsource is a fundamental one that involves cultural change, process change, staff redundancy, substantial investment of time and money, revised focus on the organisation's control environment and a shift away from managing staff to managing third party suppliers. With large outsourcing decisions, each of these issues in isolation normally requires Board consideration, in which case it is absolutely critical that any decision to outsource on a large scale MUST be mandated and sponsored at the Board level. Smaller outsourcing decisions must still have senior (not necessarily Board) sponsorship to ensure success and thereby drive through the changes in operations, mindset and focus that comes hand-in-hand with any outsourcing decision.

In order for a Board member or senior stakeholder to mandate or sponsor an outsourcing initiative, the standard questions of budget and business case must be addressed which will consequently provoke the fundamental question of 'why are we outsourcing' in the first place. The 'right' advisor will push the client very hard for answers to these questions because they will know that the whole initiative is set for failure and substantial cost write-off without these foundations in place. Fortunately for most clients it is never too late to answer these questions, but they do need to be answered. The 'wrong' advisor will overlook the fact that the client has not addressed these issues because time is money, the client may be inexperienced in outsourcing, and the client will generally only find out about the significance of these issues once it is too late and the advisor has already been substantially paid.

The next question that needs to be asked at the outset is: have the services of a specialist legal firm been secured and have their requirements been factored into the search for a supplier? A great deal of time and money can be saved by involving lawyers at the earliest stages because it is possible to start shaping the final contract at the tendering stage. Additionally it is highly beneficial to have advisors who can work alongside the legal team to ensure that there is no re-work required as the time for contract signing approaches. The 'wrong' advisor will not mind the fact that rework is required to meet contractual requirements because they will get paid more in fees and the client would probably accept it as a normal part of the process.

### **The Role of the Advisor**

In our considered opinion the principle role of the advisor is to align the interests of the client and the supplier. The ultimate aim for any advisory engagement is to achieve a 'win-win' for both parties. The most successful and long term outsourcing arrangements will achieve this and it is principally for this reason that savvy suppliers will insist

on the presence of a well qualified advisor in the client's camp. Moreover, it shows that a client is serious about outsourcing if they are spending money on an advisor to help shape the process. A little known fact in this regard is that the internal approval processes of many suppliers for larger outsourcing opportunities is actually dependent on the presence of an advisor on the client's side of the table.

Understandably most suppliers are sales driven and will consequently take advantage of naïve clients in order to maximise revenues and commission. If the supplier is successful in this quest, 'buyer's remorse' will inevitably ensue on the client side and the relationship between client and supplier will deteriorate and give further weight to the statistic that most outsourcing contracts are renegotiated within two years of signing. For this reason it is imperative that the advisor has insight into the mindset of suppliers and be able to translate the commercial terms presented by the supplier to the client. Further to this, the advisor should be able to negotiate on behalf of the client to ensure that the client's original business case is respected. In this regard it should be noted that the end game is not to unreasonably squeeze the supplier's profitability as this will result in the supplier cutting corners and ultimately becoming de-motivated. Less profitable deals will also often end up with the supplier's 'B-team' being assigned. The key in these negotiations is to optimise the commercial terms for both parties and to spread risk evenly across the relationship.

In addition to optimising the commercial relationship with the supplier, the advisor has a large part to play in selecting the 'right' supplier. There are some who would say that the whole process of tendering (RFP) is not actually necessary and in our opinion there is a lot of merit in this argument. The whole RFP process is costly and time consuming in itself and in some instances this cost could be better spent on working with an established supplier to engineer the optimal solution. Whichever supplier selection process is used, it is vital that the client's advisor has experience across the different facets of an outsourcing engagement i.e. buying, selling, advising and understanding the legal implications. This will ensure that the 'right' supplier is chosen to deliver the most optimal solution against the client's business case.

## **Contracting**

The process of contracting in an outsourcing relationship is an extremely detailed and prescriptive process. Aside from the fact that it is imperative that clients remove ambiguities from their Statements of Work it is also necessary to 'prepare for divorce before the marriage'. These contracts can be incredibly onerous to enter into and consequently are even more onerous to exit. It is a sad fact in the outsourcing world that, for whatever reason, a large number of agreements are dissolved before reaching their conclusion. The suppliers are aware of this as they have to live with it as part of the ordinary course of business and will consequently seek to weight exit terms in their favour. The 'right' advisor will ensure that, if the supplier is not delivering as promised, the client will be able to exit the contract without being unduly financially penalised.

As previously mentioned, outsourcing does not result in the client ceasing to manage but rather that the emphasis of management shifts from managing internal staff to managing the performance of suppliers. In order to manage this relationship Service Level Agreements (SLAs) are contractually agreed to. The key point in this regard is that the advisor must ensure that the client has meaningful SLAs that (a) are capable of being measured, (b) actually measure relevant performance, and (c) the assessment of achievement or failure to achieve is unambiguous. A good example of this would be the outsourcing of the Accounts Payable function and more specifically the outsourcing of creditor reconciliations. In this regard the temptation maybe to measure the number of reconciliations done and to set a target level of reconciling 95 out of 100 every month. From an accounting perspective this service level would be meaningless because all supplier accounts have to be reconciled regardless although there maybe reconciling items that have not been cleared. The relevant SLA would be to determine what the monetary value of all items that remain unreconciled at the end of an agreed period are and to set the SLA accordingly.

As an overall pointer it is preferable to have fewer SLAs that are mission critical rather than a multitude of unimportant SLAs that simply result in additional work for the client with very little value being derived, and end up diverting focus away from key deliverables.

### **Contract Completion**

Unfortunately it is only once the contract has been signed and the lawyers and advisors have finished their work that it is possible for the client to truly assess the quality of their advisor's work. This is due to the fact that the true value of their labour only becomes apparent once the contract is operational, which is generally after an advisor has left the engagement.

The 'right' advisor will ensure that the client has mechanisms in place and that the client's personnel are appropriately instructed in monitoring the contractual SLAs. The 'wrong' advisor will simply 'up sticks' and move on to the next project, leaving the client to fend for itself and manage a complex contractual arrangement. This is especially risky for a client who has little or no prior outsourcing experience, as they will not know how an outsourcing relationship with a supplier should work. In this regard the client should seek upfront clarity from the advisor as to what tools and procedures they have in place to monitor the ongoing success of the relationship they have advised upon.

### **Conclusion**

Whilst there is unquestionably a significant volume of work that needs to be done by advisors in successfully being able to conclude an outsourcing relationship, this is not where the bulk of the value lies for the client. The true value of the advisor's work lies in their ability to:

- a) Ask the right questions.
- b) Assist the client to deliver against the business case
- c) Select the most suitable supplier for the client's requirements.
- d) Derive value where there is value to be had from the supplier.
- e) Ensure that risk is appropriately spread between the parties.
- f) Ensure that performance against contract is relevantly measurable.
- g) Ensure that the client is equipped to monitor performance against the contract post signing.

Each of the above can have a significant monetary effect upon the client, which gives weight to the conclusion that selecting the 'right' advisor is almost as important as selecting the 'right' supplier.



#### **About the Author**

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