

Outsourcing: We can help*



*connectedthinking

Outsourcing

Outsourcing may be a powerful competitive weapon for organisations but it is certainly a double-edged sword. When used strategically, it has the potential to make a material impact on the performance of an organisation; when it goes wrong it can drag the organisation backwards and leave it scarred. This isn't scaring organisations off however, with market research showing no deceleration in the rate of transition to shared service centres, outsourcing and offshoring arrangements across all industries – and for a number of very good reasons.

- Opportunities presented by new sourcing options
- Pressures on corporate profitability and public spending
- Cost reduction and capital efficiency - releasing funds to finance growth and pursue fresh opportunities
- Exploiting external expertise to provide a world class service
- Freeing management focus for core activities
- Sharing risk while achieving better consistency and reliability
- Transparent and improved service standards
- Improving career paths
- Re-engineering financial structures.

Increasingly it is recognised that the rationale for outsourcing extends beyond simple cost reduction – it can be the catalyst for change within an organisation that allows fresh thinking, new expertise and the opportunity for a step change in performance. Yet market research also shows that shared services, outsourcing and offshoring projects often go wrong.

And that is because the implementation of these programmes is comparable to a major corporate transaction. Merger and acquisition activity will always garner a lot of attention and accountability at board level, yet outsourcing and offshoring arrangements often will not get the same level of attention from senior members of the organisation.

Painful experience has shown that, to deliver maximum benefit, the outsourcing process takes time and serious management commitment. In fact, a successful programme needs as much management time and attention as a major M&A transaction – or more.

The difference is that a major deal involves one transaction; an outsourcing arrangement is much more than a transaction, it is an ongoing relationship with an external, independent entity. Processes might be stripped out of the organisation, but the regulatory and reputational risks remain within it – and that means committing to active management for the life of the agreement.

Companies need to understand clearly where their strategic goals lie. Only then can they assess the minimum skills and capabilities they need internally, and how these should be combined with external service providers. The right retained team is critical for successful outsourcing – and the right internal/external combination is crucial to drive innovation in the business, deliver change to the business and supply and support the business infrastructure. This is not just another procurement programme to be executed by a purchasing department – the CEO or the CFO must drive these projects, or they will fail.

It's a lifecycle, with different issues at different stages...



Getting it right means looking at the bigger picture – the full term of the deal. At PricewaterhouseCoopers we have developed an Outsourcing lifecycle that provides insight on every stage of the process, and the issues to address and skills required to reap the benefits of this business change.

If they are to deliver value over three to five-year lifespans, these contracts have to be flexible, closely managed and robustly governed. At every stage there are issues to consider. Forgetting basics such as tax, legal, regulation, pensions and accounting issues is a recipe for disaster – but organisations also need to consider how they are going to put into place the service management, contract management, risk management and governance that are critical to success.

Our experience is that those organisations getting the benefits of outsourcing do so by following the six steps of the lifecycle, starting from the initial strategic decision through the scoping and definition of requirements, selection of a service provider, transformation of the business and eventual termination or re-negotiation of the contract.

No outsourcing agreement should be seen as a single handshake, and no procurer should be responsible for addressing these issues. It's no surprise that even service providers are calling for advisors to provide support to organisations in the negotiation and management of a very important business relationship. Getting this right needs more than technical skills – it requires business and behavioural competencies that differ at different stages of the lifecycle.

From theory to practice – how our clients are approaching outsourcing across industries

Financial Services (FS)

In the insurance industry, profit margins are under pressure as high cost bases couple with inefficient back offices. Insurers are looking to achieve the benefits of scale and process efficiencies that will allow them to achieve better customer service at lower cost. We can help them reach the right solutions and make these changes.

In the banking and capital markets, increasing globalisation is driving organisations to consolidate infrastructure and move processes out to lower cost locations and providers. We can help organisations to identify appropriate locations and providers as well as negotiating the right framework agreements.

To discuss this further, please contact:

Mark Stephen

+44 (0) 20 7804 3098

Government and Public Sector (G&PS)

The efficiency agenda and pressure on budgets as well as the forthcoming Comprehensive Spending Review are forcing G&PS organisations to look at their services and identify core versus non-core activities. IT outsourcing is common in G&PS but increasingly organisations are

looking to outsource middle office and bulk transactional processes to the private sector where they can be done more cheaply and effectively.

To discuss this further, please contact:

Roger De Montfort

+44 (0) 20 7213 2522

Technology, InfoComms, Entertainment and Media (TICE)

The pace of change in the TICE industry, driven by perpetual innovation in product design means that supply chain and complex sourcing approaches are the norm. Our clients see complex alliance and partnering arrangements as vital to innovation, competitiveness and cost base management. Getting these arrangements right and ensuring the right geographical coverage is critical if rapid speed-to-market is to be achieved. We help organisations get the right mix of options to ensure effective supply of goods.

To discuss this further, please contact:

Mike Gibson

+44 (0) 207 212 6681

Consumer and Industrial Products (CIPS)

Following a long period of consolidation in the CIPS markets and downward pressure on prices, CIPS clients are using outsourcing to help them regain control of businesses that have become increasingly complex and costly. Pharmaceuticals companies experiencing slower drugs pipelines are driving cost out by cutting out non-core activities; manufacturers seeking to take advantage of low cost labour markets are offshoring; retail and consumer companies are using outsourcing as a tool to simplify and standardise activities to achieve economies of scale. Service businesses are being the most innovative of all, using outsource providers to enhance their service offering to their clients. We can help organisations get the right outsourcing model on their terms.

To discuss this further, please contact:

Pat McArdle

+44 (0) 20 7804 2024

Graham Pascoe

+44 (0) 20 7804 0992

For a large text version of this document please contact Gabrielle Farran on 020 7212 2751.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.