



Certified Outsourcing Professional (COP) Standards Workshop

The International Association of Outsourcing Professionals (IAOP)

**Global
Standard-Setting Association and
Advocate for the Outsourcing
Professionals and the organizations
they support.**



Mauricio Velasquez, COP-BD
IAOP Authorized Trainer

Enterprise Business Consultant with wide experience on Information and Outsourcing Services. Has various titles such as Business Development VP for Teledatos S.A.S. and Teledatos Zona Franca S.A.S. companies located in Colombia that belong to TELEPERFORMANCE Group; Managed Services Principal for HP Latin America; Telecommunications LOB Director for Unisys in Puerto Rico; Outsourcing Project Manager for IBM Colombia among others.

Systems Engineer of EAFIT University, Diploma in Management from UPB Universidad Pontificia Bolivariana and Managerial Development from INALDE University; all of them in Colombia.

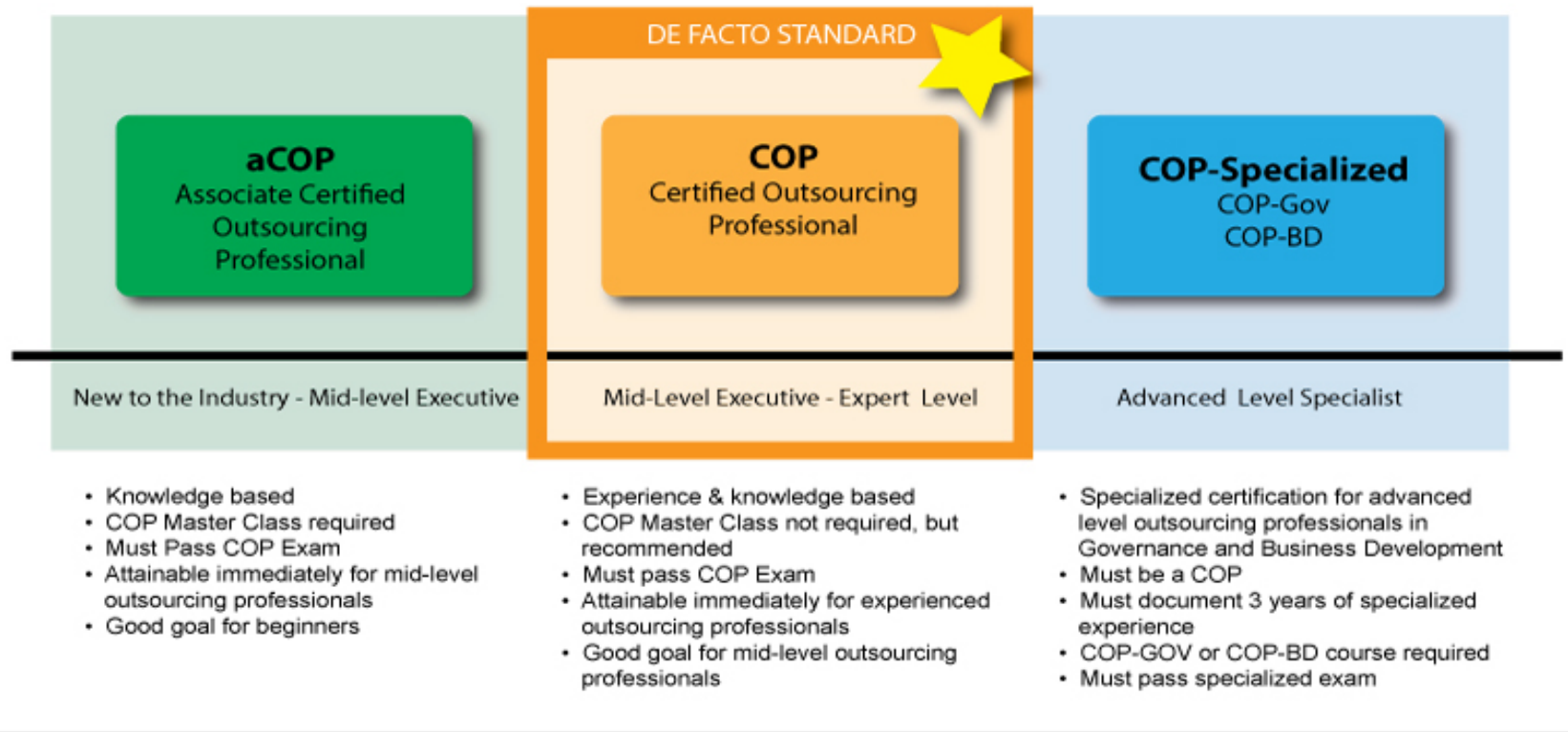
Certified Outsourcing Professional (COP) and member of the Training and Certification Committee of the International Association of Outsourcing Professionals – IAOP, USA.

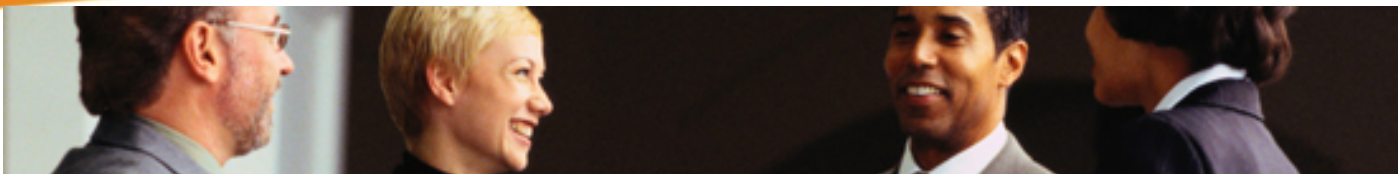
University Professor and Counselor, Key Note Speaker of National and International Conferences on topics such as Project Management and Outsourcing.

Program Objectives:

- Establish a common, globally-recognized standard for the experience and knowledge outsourcing professionals should possess.
- Define the process for professionals to demonstrate they possess the requisite capabilities.
- Create a highly-coveted professional designation distinguishing the field's leading practitioners.

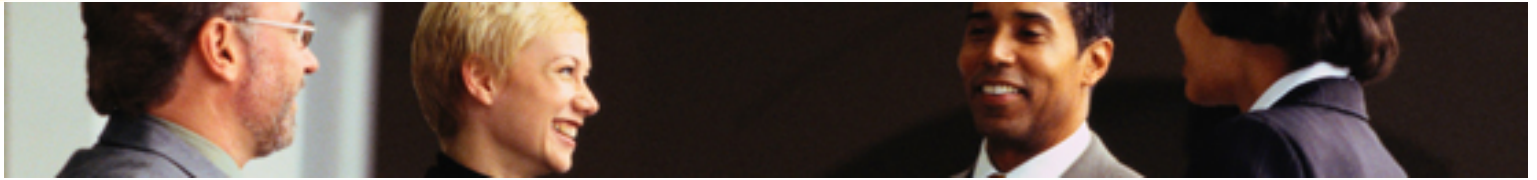
Certified Outsourcing Professional® (COP) Family of Certifications





10 Standards Categories

1. Defining and Communicating Outsourcing as a Management Practice
2. Developing and Managing an Organization's End-to-End Process for Outsourcing
3. Integrating Outsourcing into an Organization's Business Strategy and Operations
4. Creating, Leading, and Sustaining High-Performance Outsourcing Project Teams
5. Developing and Communicating Outsourcing Business Requirements



10 Standards Categories

6. Selecting Outsourcing Service Providers
7. Developing the Financial Outsourcing Case and Pricing
8. Negotiating and Contracting for an Outsourcing
9. Managing the transition to an Outsourced Environment
10. Outsourcing Governance

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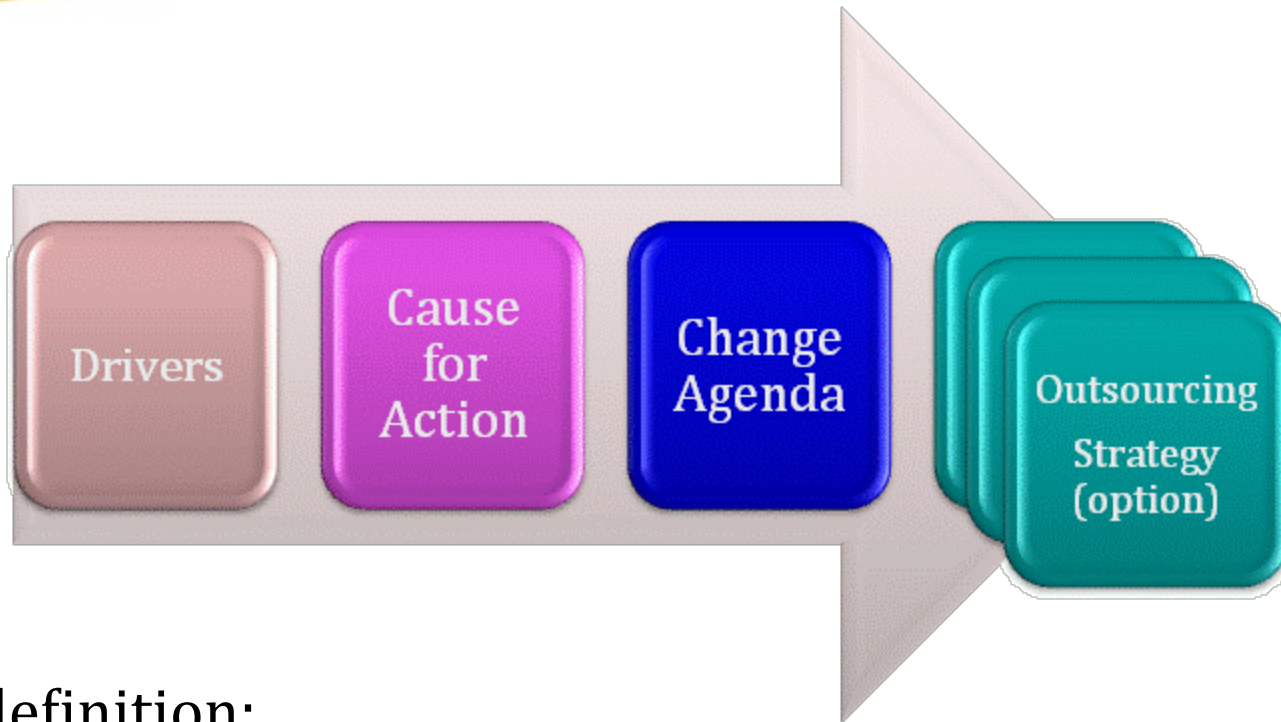
Module 1

*Defining and Communicating
Outsourcing as a Management
Practice*



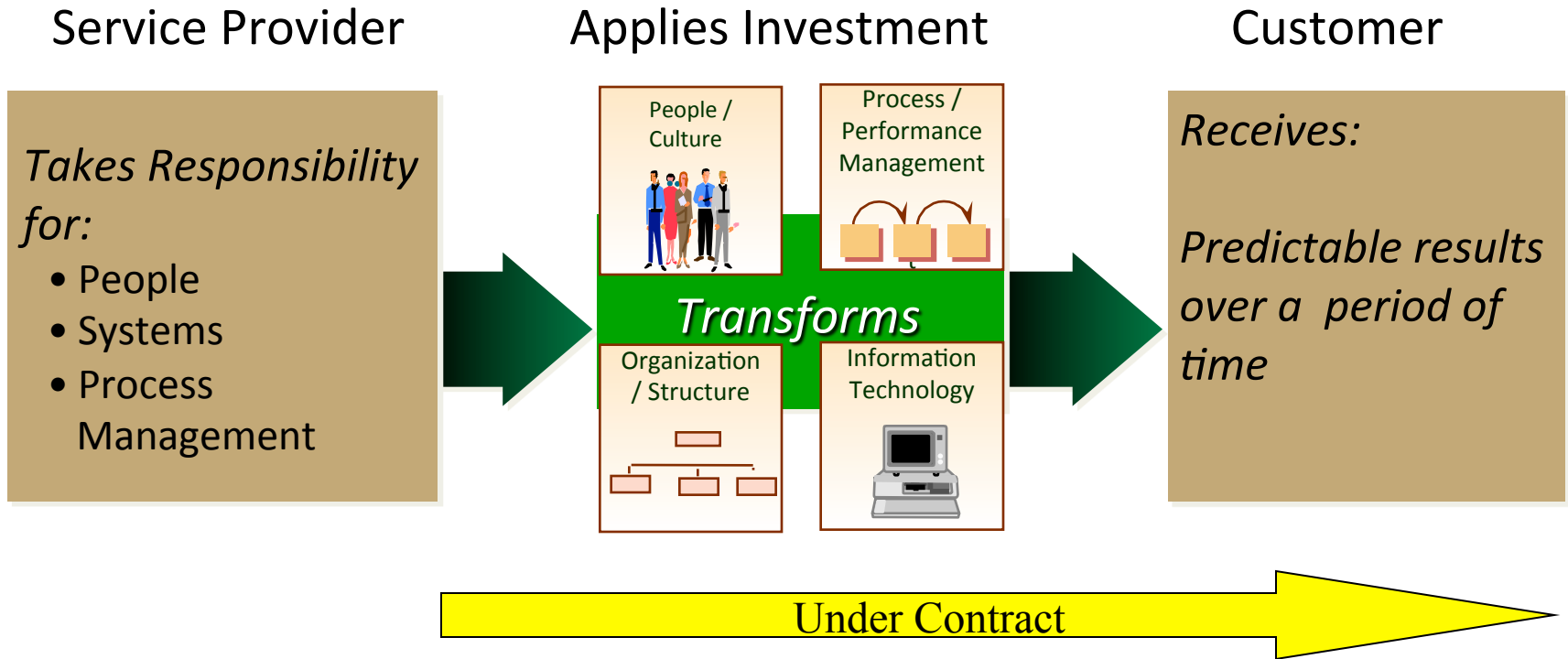
- Globalization of businesses
 - New markets
 - New supplier sources
- Economic pressures (countries, companies)
 - Employment
- Risk assessment
 - Alternatives for risk mitigation
- Technology
 - Facilitator
 - Disintermediator

GREAT OPPORTUNITY – LOTS OF COMPETITION

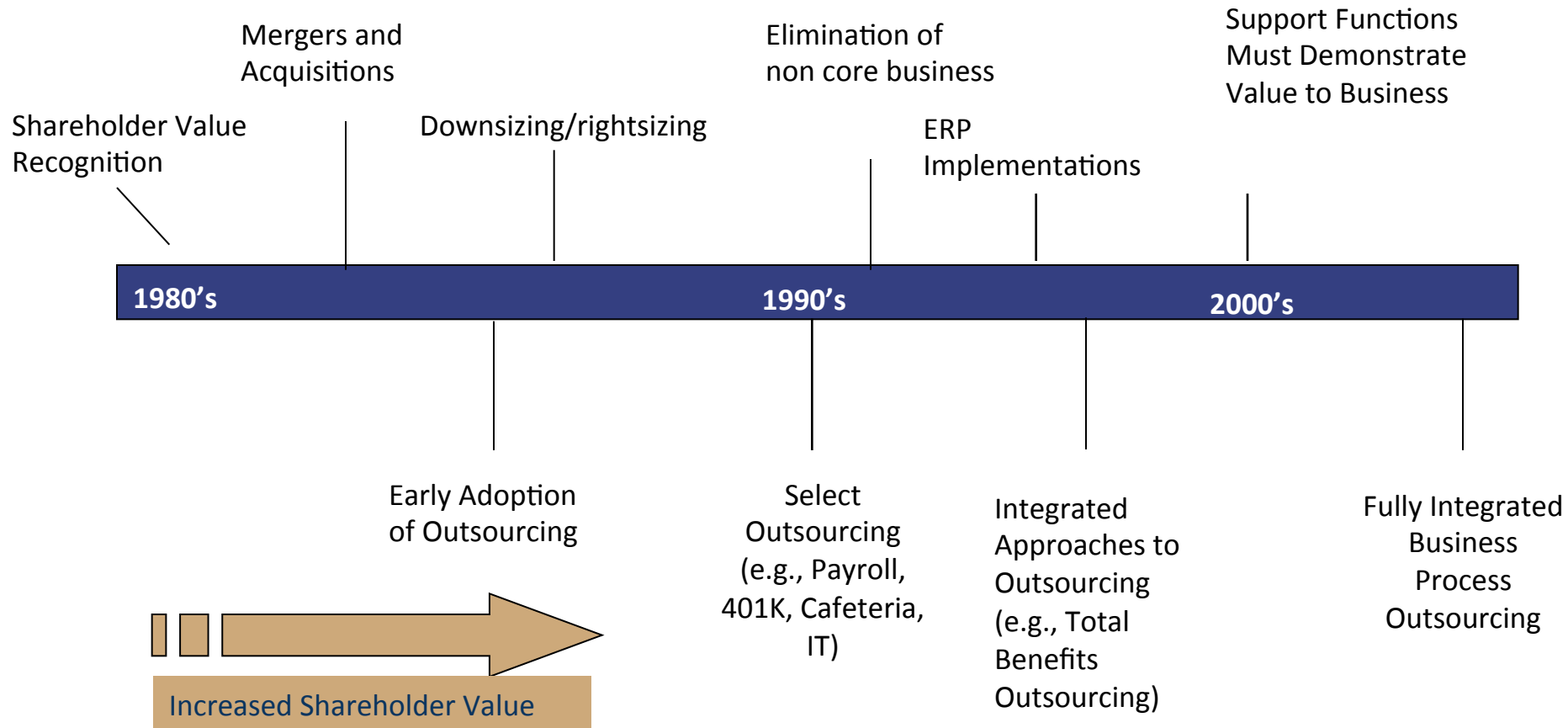


IAOP definition:

Outsourcing is a long-term, **results-oriented** business relationship with a specialized 3rd party services provider.



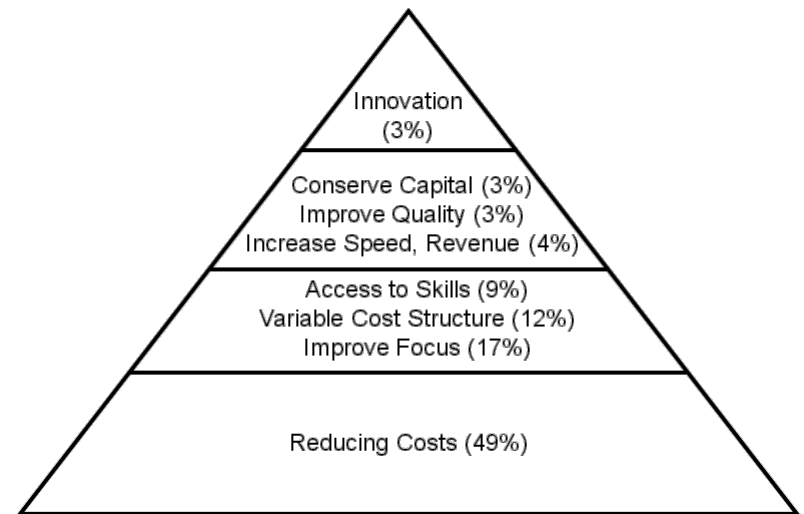
Source: JDalal Associates LLC



- Changing the shape of business
- Creating a network of capabilities
- Reducing “mass” while creating “capabilities”
- Focusing on what matters most
- Balancing risks and rewards

In Other Words:

- Cost savings
- Access to skills
- Conservation of capital
- Innovation



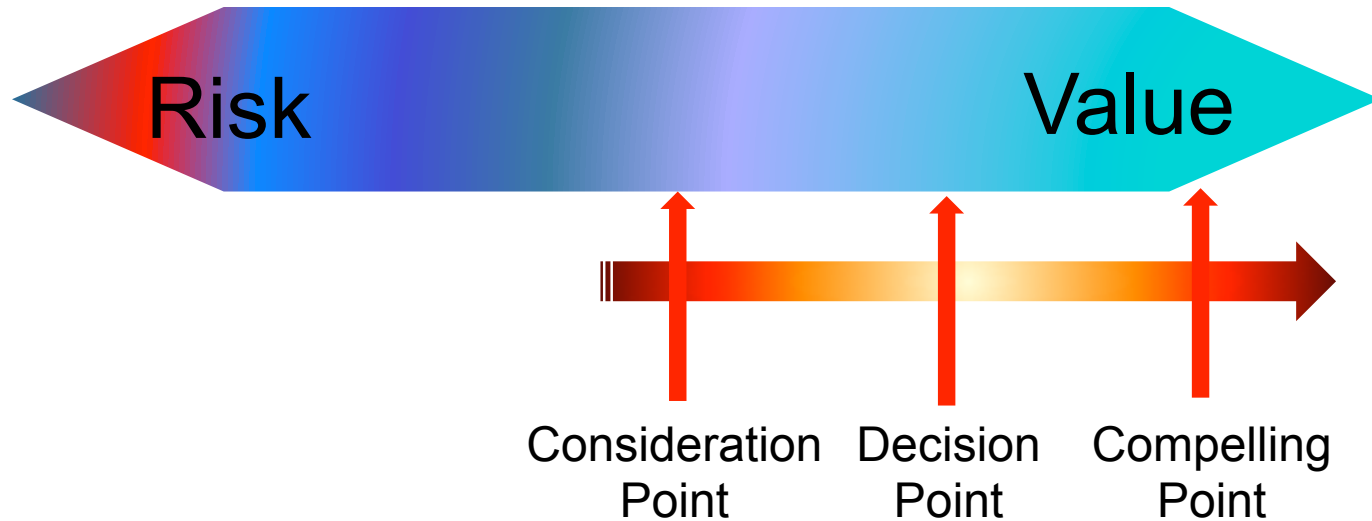
Top Reason for Outsourcing

Source: IAOP - 433 participants, 2004
Outsourcing World Summit.

2012 Note - (A more recent survey had similar profile)

- Strategic Risks
 - Economic: Missed Financial Targets
 - Reputation: Perceived Negativity
 - Exit Strategy: Lost Intellectual Capital
 - Selecting “wrong” provider
- Performance Risks
 - Delivery: Missed Service Levels
 - Compliance: Security/Data Protection
 - Change: Stagnation and/or Inflexibility
 - Provider Performance: Missed Targets

These risks will end up framing the governance process and priorities



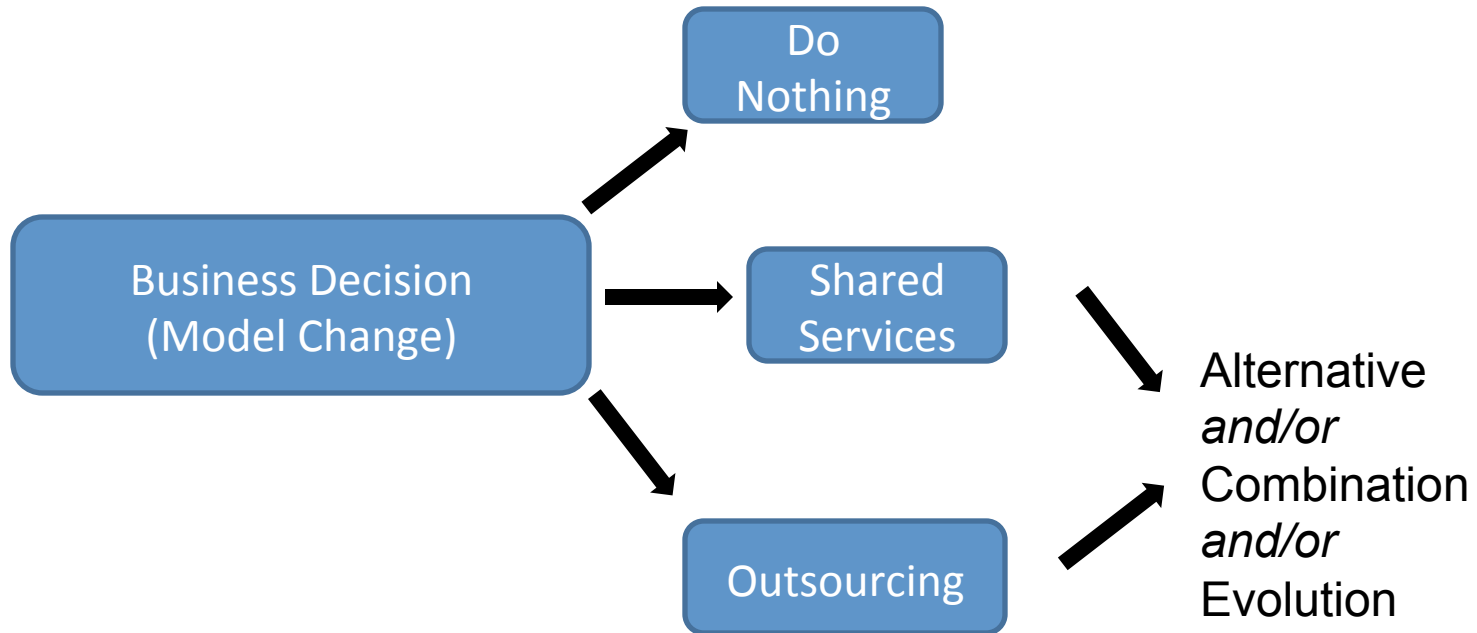
Key Drivers:

- Focusing on what creates greatest stakeholder value (“core” functions)
- Elements and appetite for managing risks over a defined horizon
- Alternatives available for managing change

“When a business believes that managing a function in house is ‘riskier’ than asking someone to run it for you (*who is experienced in that field*), the business will consider outsourcing.”

Risk considerations:

- Productivity (cost basis)
- Resource (skills, availability)
- Investment capacity
- Political / Social acceptance



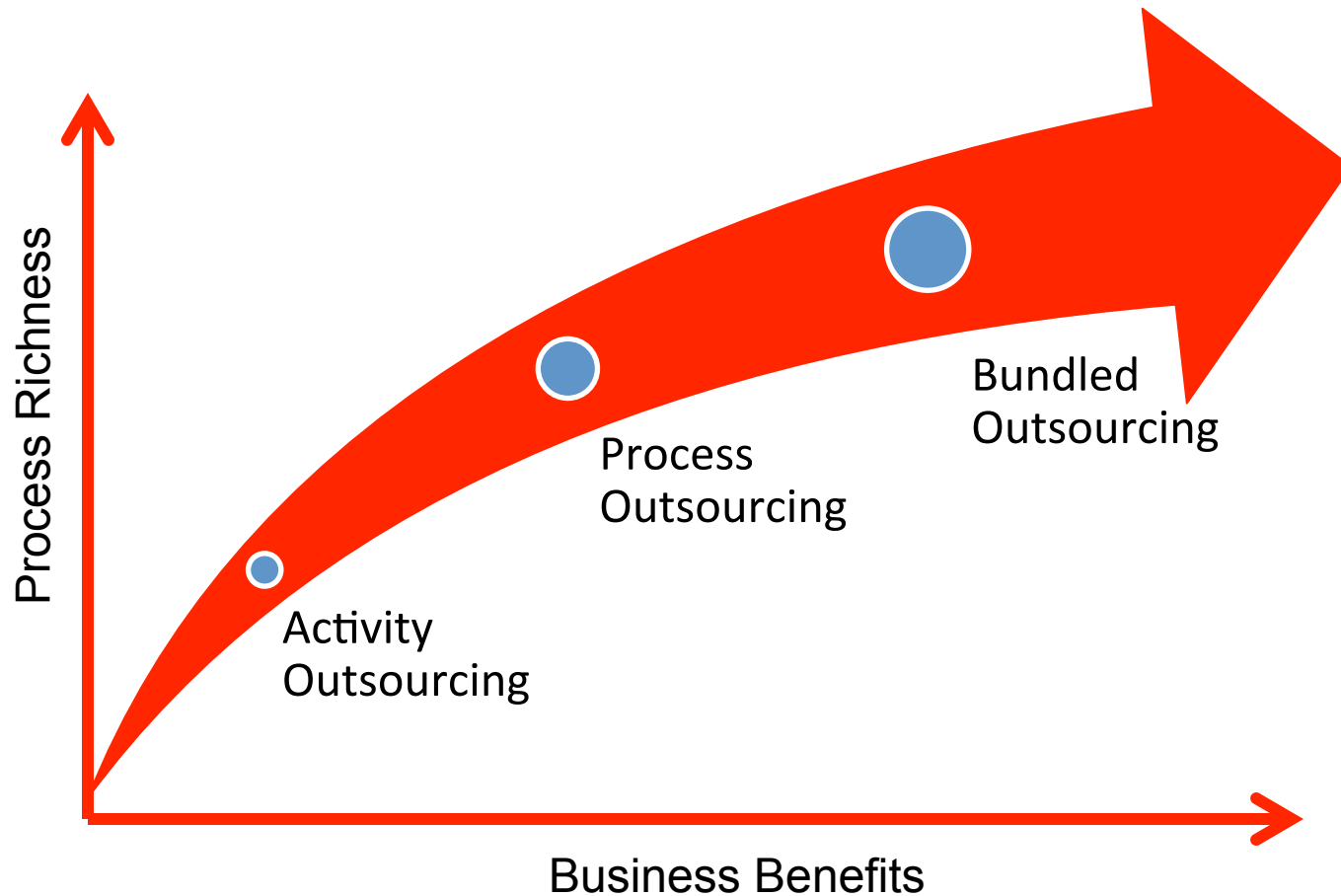
Drivers

- Reduced operational expenses
- Reduced/avoided capital expenditure
- Improved balance sheet
- Shortened time to improvement (innovation)
- Higher level of quality
- Access to skills
- Higher potential for performance compliance

Barriers

(real / perceived)

- Loss of Control
- Too Critical to Outsource
- Loss of Flexibility
- Negative Customer Reaction
- Employee Resistance
- Poor Outsourcing Process Management
- Poor Outsourcing Performance Management



Levels of Outsourcing Market Maturity



- Customer facing
- Regulatory restricted
- Business Proprietary (differentiator)
- High rate of change

- Near standard processes
- High administrative burden
- High technology driven

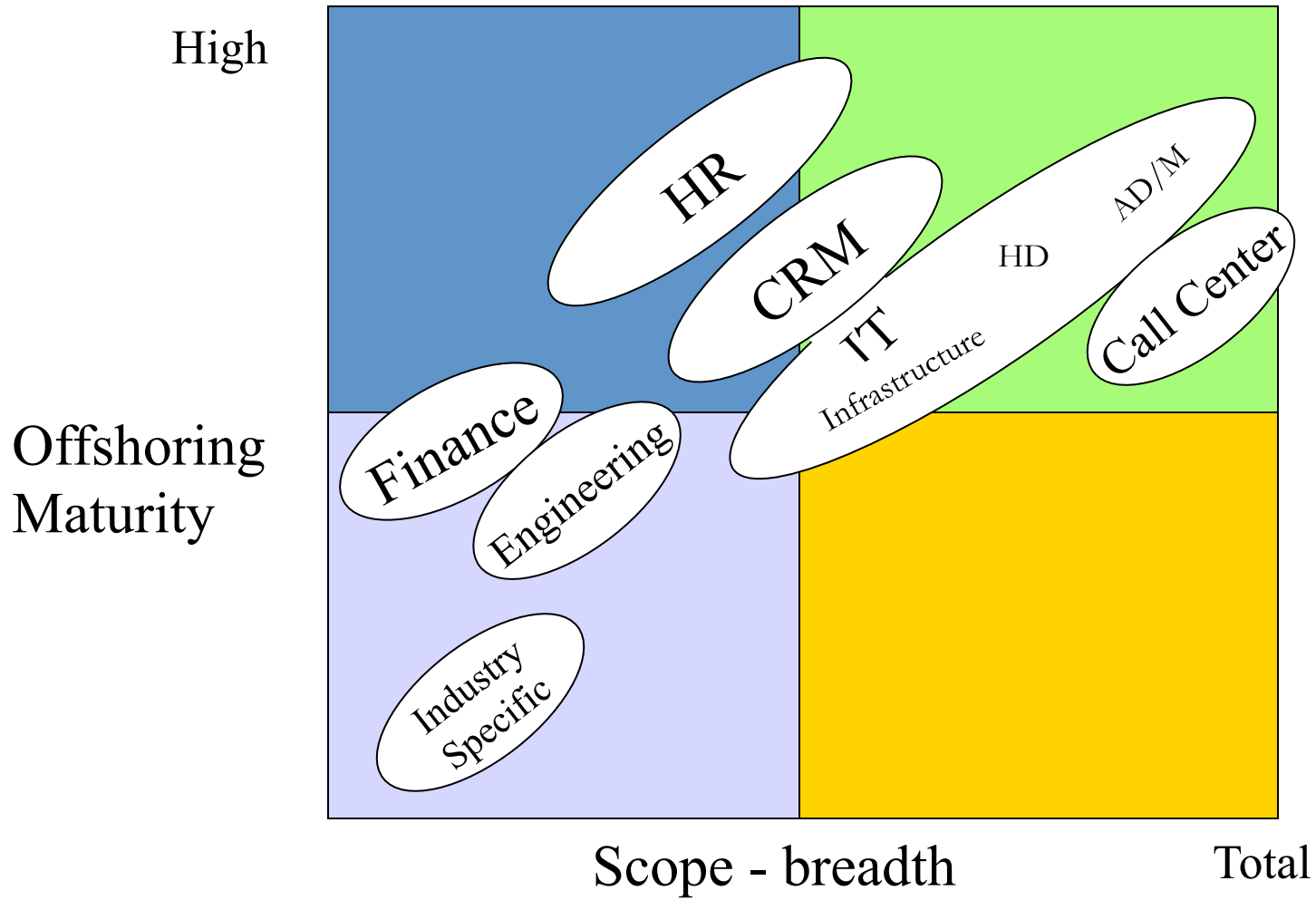
- Facility related
- Infrastructure (IT and other)
- High volume
- Low-no rate of change

Performing or sourcing any part of an organization's activities at or from a location outside the company's home country. Often, the term "near shore" is used to acknowledge short distance away from the home country.

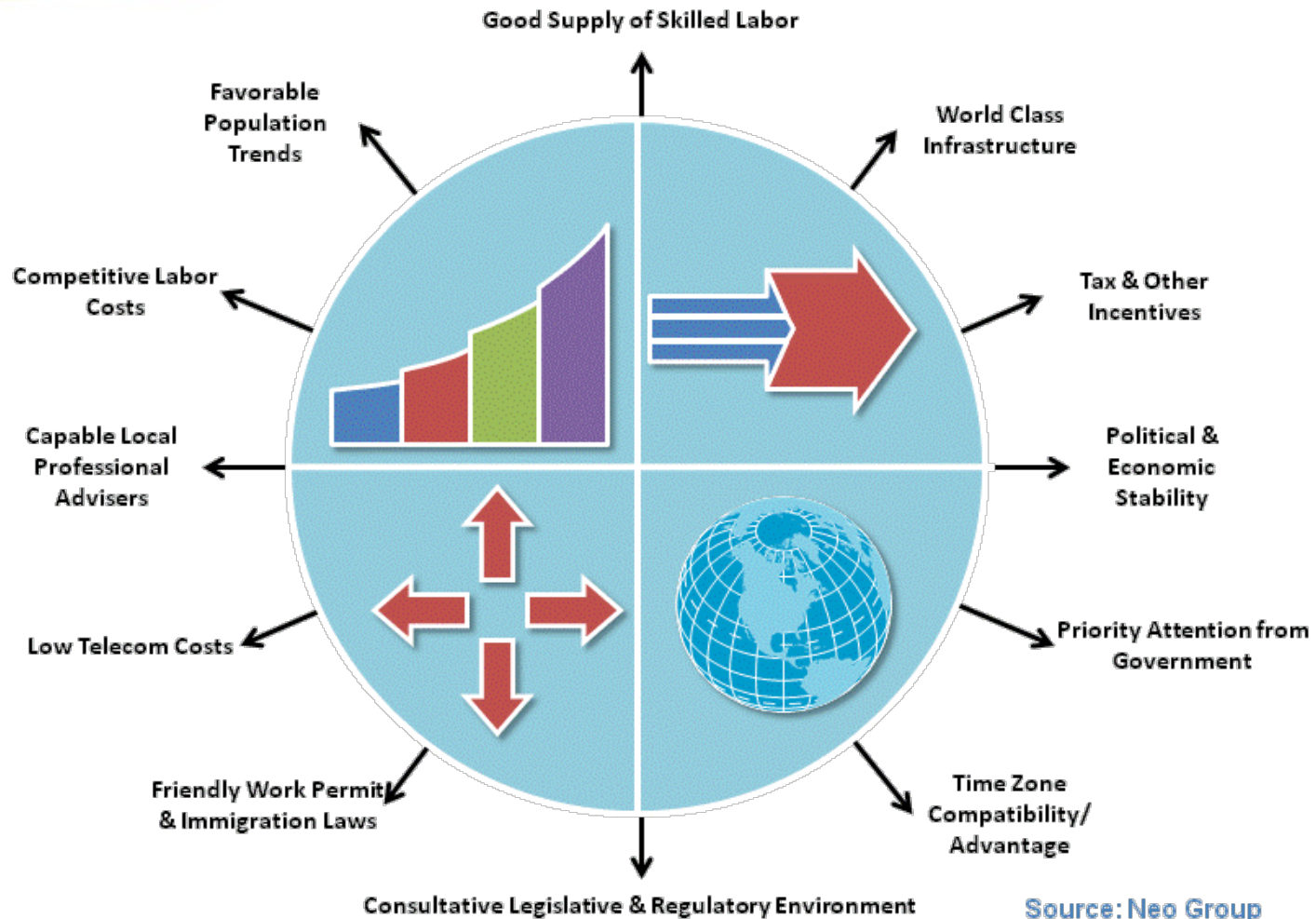
Offshoring activities can be:

- Near shore (such as Costa Rica for USA)
- Far shore (such as India or China or Brazil)
- Using resources "on shore" – as in supplemental staffing
- Using resources "off shore" – also as in supplemental staffing
- An operating unit established there (captive)
- Outsourced to a third party
- Using third party to establish before taking over (BOT – Build, Operate, Transfer)

- Maturity of business to manage a remote location (regardless of distance)
- Maturity of business to manage a location in a different country/culture
- Stability of the process, including documentation, performance measures and reporting requirements
- Ability to achieve knowledge transfer with remote workers
- Regulatory and legal constraints surrounding process (such as certification requirements)
- Dependence and availability of technology infrastructure
- Market availability of skills – at offshore locations
- Management views and concerns with societal impact of offshoring (including dealing with communication with stakeholders)



Attributes of attractive location



- CMMi (IT maturity certification)
- eSCM (Service provider/customer maturity certification)
- PMP (Project Management certification)
- ITIL (IT infrastructure standards)
- HDI (Help desk certification)
- PCI (Payment card industry certification)
- FISAP (Financial Services controls standards)
- ISO standards on quality management
- ISO and certification standards on security, Social Responsibility
- Industry and region specific standards (e.g. Basel II, data protection, securities transaction)

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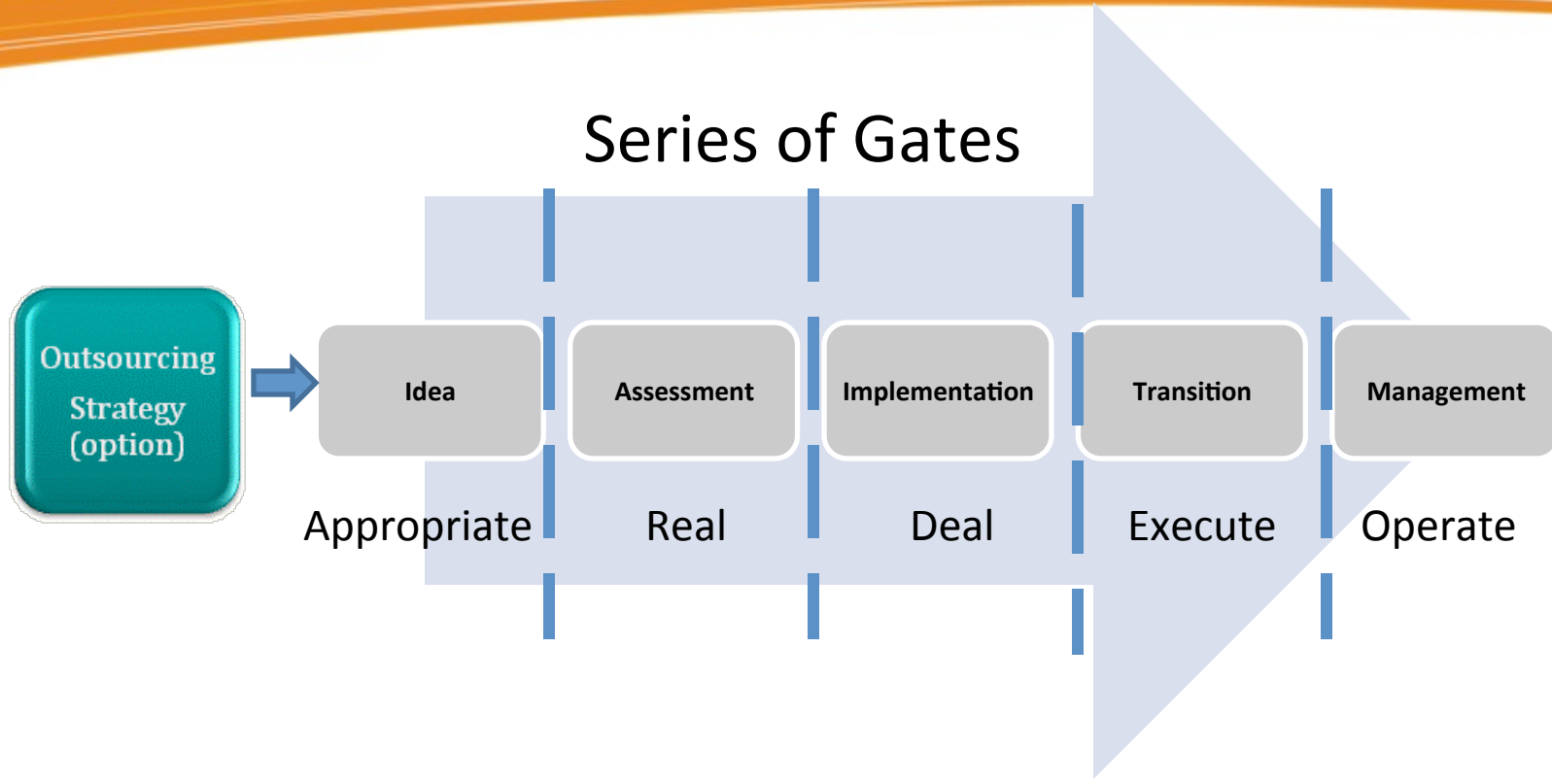
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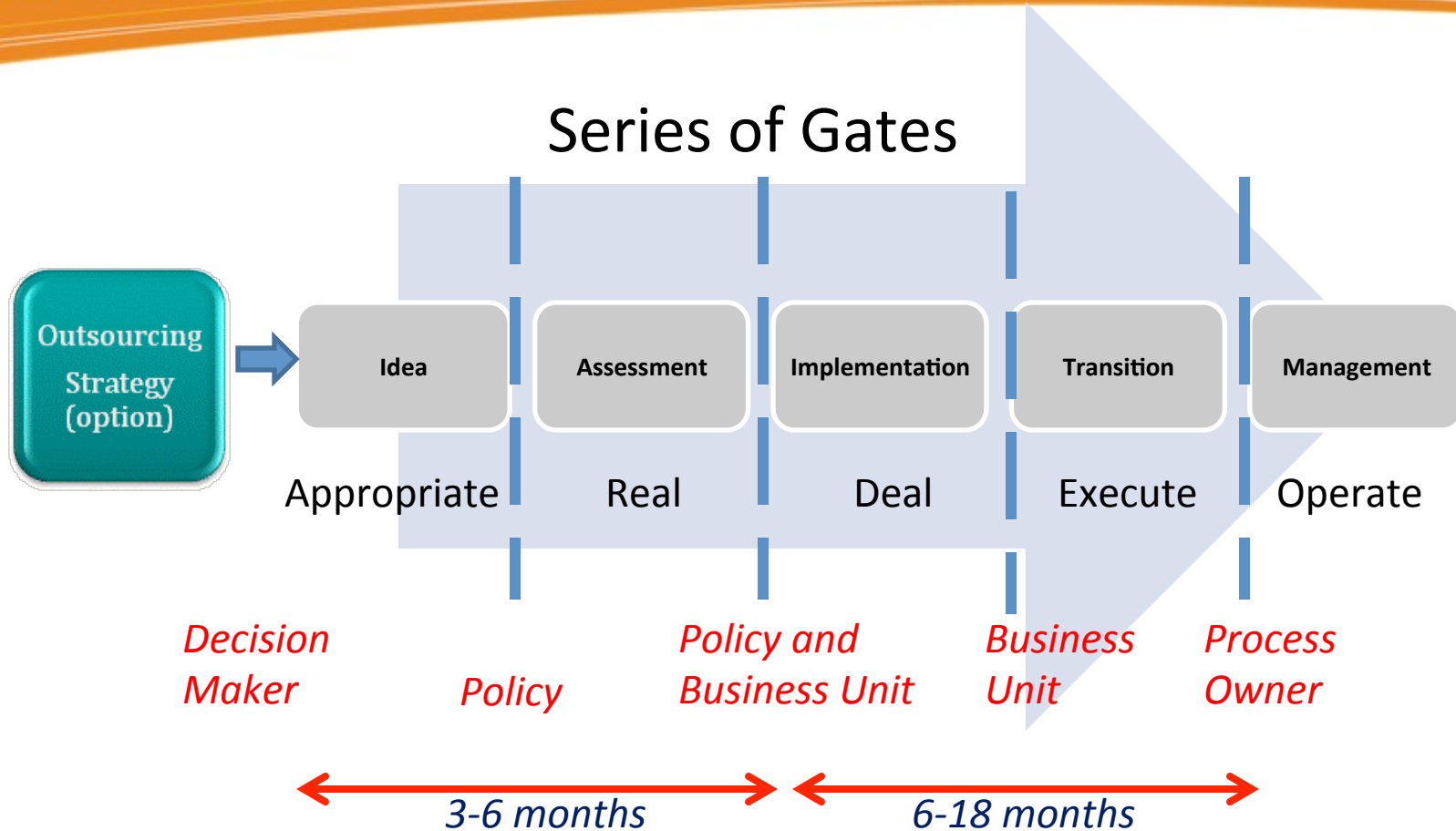
Module 2

*Developing and Managing an
Organization's End-to-End Process
for Outsourcing*

- Sourcing models
 - Single Sourced
 - Best-of-Breed
 - Hybrid Solutions
- Factors for consideration
 - Uniqueness of process and maturity of process involved
 - Size of the activity / process being outsourced
 - Complexity of the organization (geography, divisions) being serviced
 - Business capacity to manage multiple sourcing models
 - Availability and applicability of Internet tools and Cloud Computing environments



The overall outsourcing process has five stages and the end of each stage has a gate (go/no go decision point) that the project must successfully pass through before entering the next stage.



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1.0 Idea Stage

- Which outsourcing opportunities are appropriate in support of the organization's business strategy?

2.0 Assessment Stage

- With development of the business case and of the provider marketplace, are the anticipated benefits, indeed, real?

3.0 Implementation Stage

- Can we reach agreement on a deal with one of the providers?

4.0 Transition Stage

- Can we execute successfully?

5.0 Management Stage

- With the transition complete, are we ready to operate under the new agreement? Are the benefits being realized?

1. Document the strategic analysis leading to the outsourcing decision.
2. Document how outsourcing upon the contemplated terms is an attractive opportunity.
3. Clearly define the future mode of operations by providing a “blueprint” of how it will be achieved.
4. Provide an ongoing joint planning base for use with the chosen service provider(s) once operational.

Key Components

- Executive Summary
- Strategy
- Risks and Risk Mitigation
- Operations
- Human Resources
- Financials
- Communications

- Outsourcing competency
- Strategic coalition
- Customer impact
- Sourcing capability
- Process expertise
- Governance style
- Relationship management

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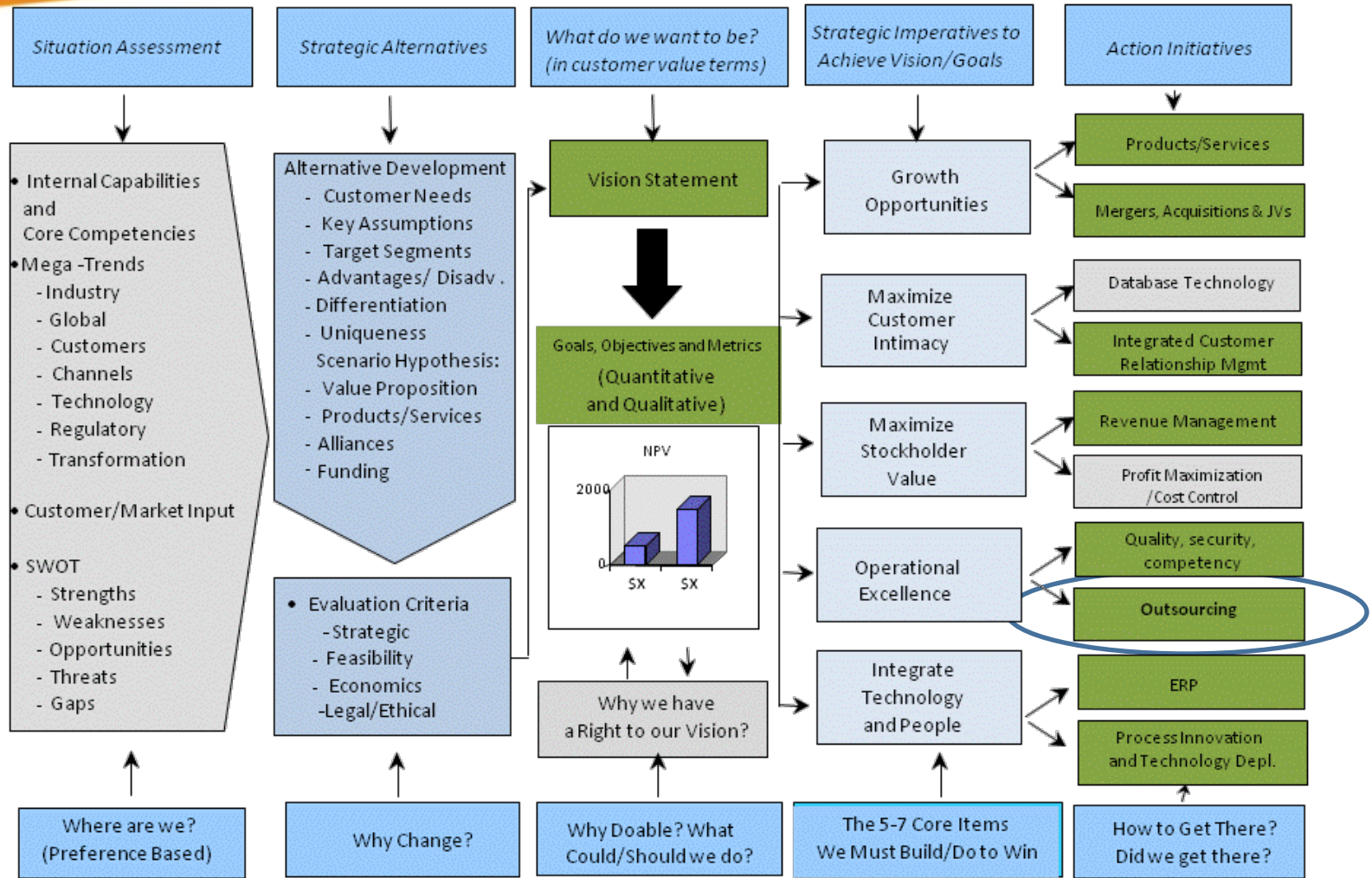


Module 3
*Integrating Outsourcing into an
Organization's
Business Strategy*



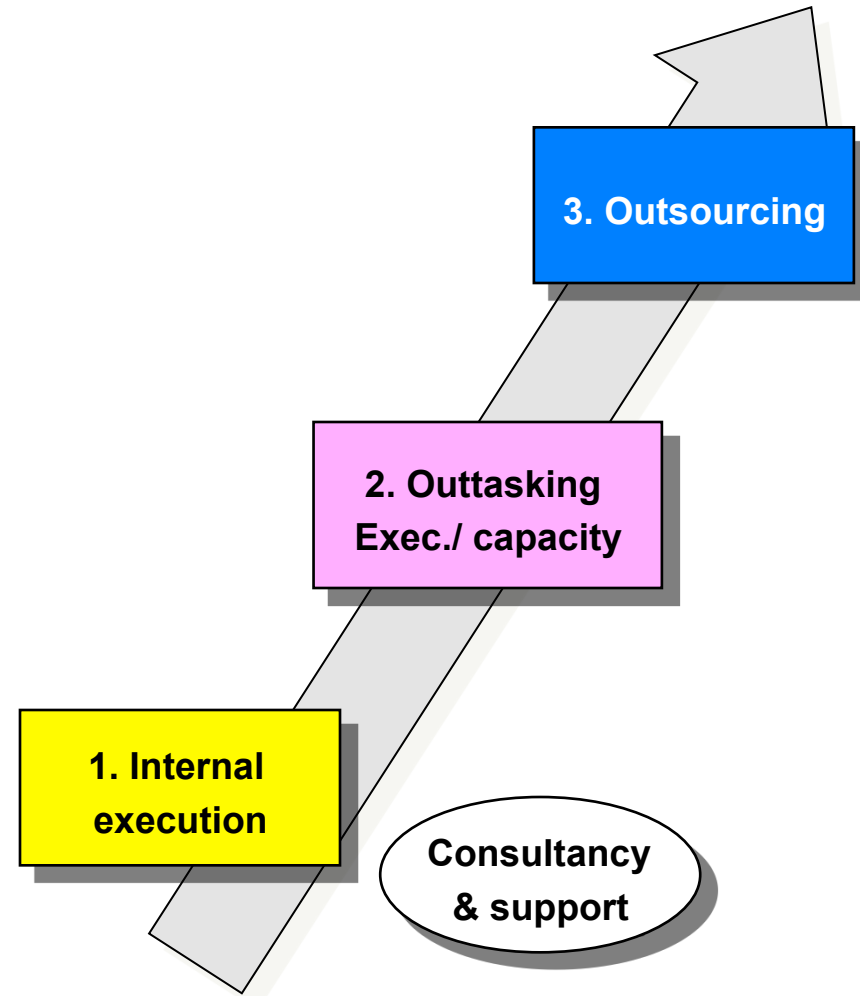
Integrating outsourcing into overall business strategy falls into **two** overall approaches:

- 1. Top-Down** – integral part of business strategy
- 2. Bottom-Up** – systematic review of each aspect of the operation for outsourcing potential

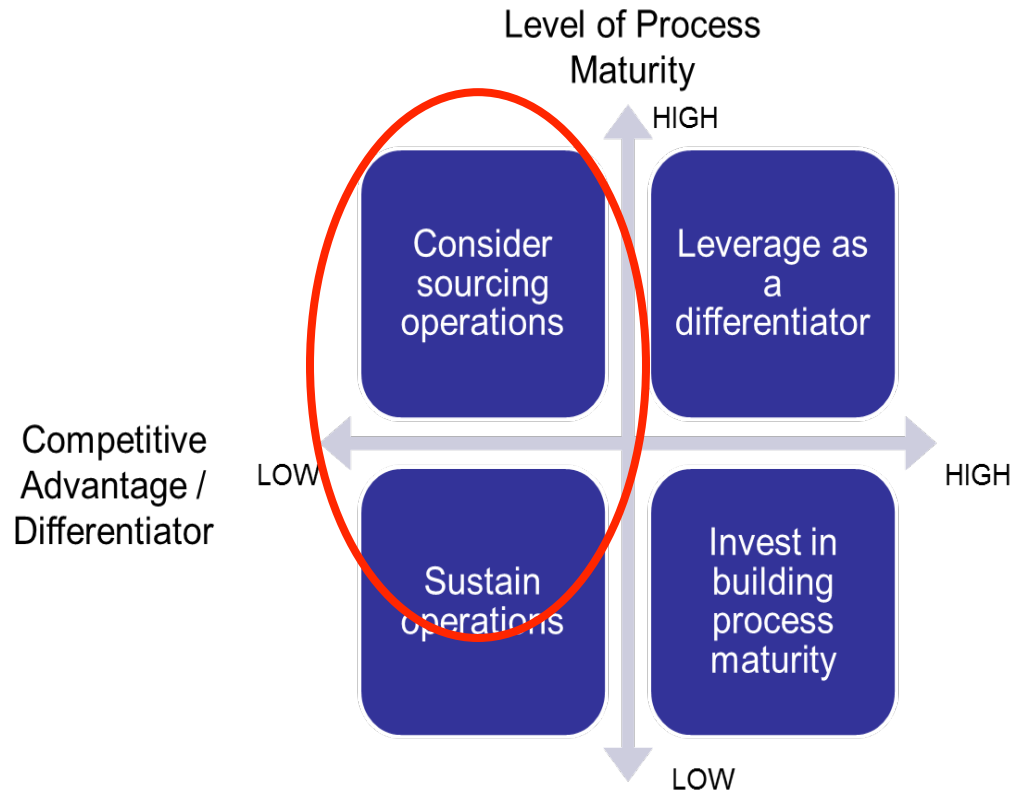


- Key questions
 - Core competence?
 - Business critical?
 - Integrated with other processes?
 - Supplier market?
 - Ease of demarcation?

- Considerations
 - Market maturity
 - Number of suppliers
 - Size
 - Technology status
 - Impact on sourcing goals
 - Transparency
 - Control
 - Risks
 - Continuity
 - Critical knowledge



Meaningful discussion and objective debate leads to consensus on where to focus the organization's resources – **and what processes to outsource**



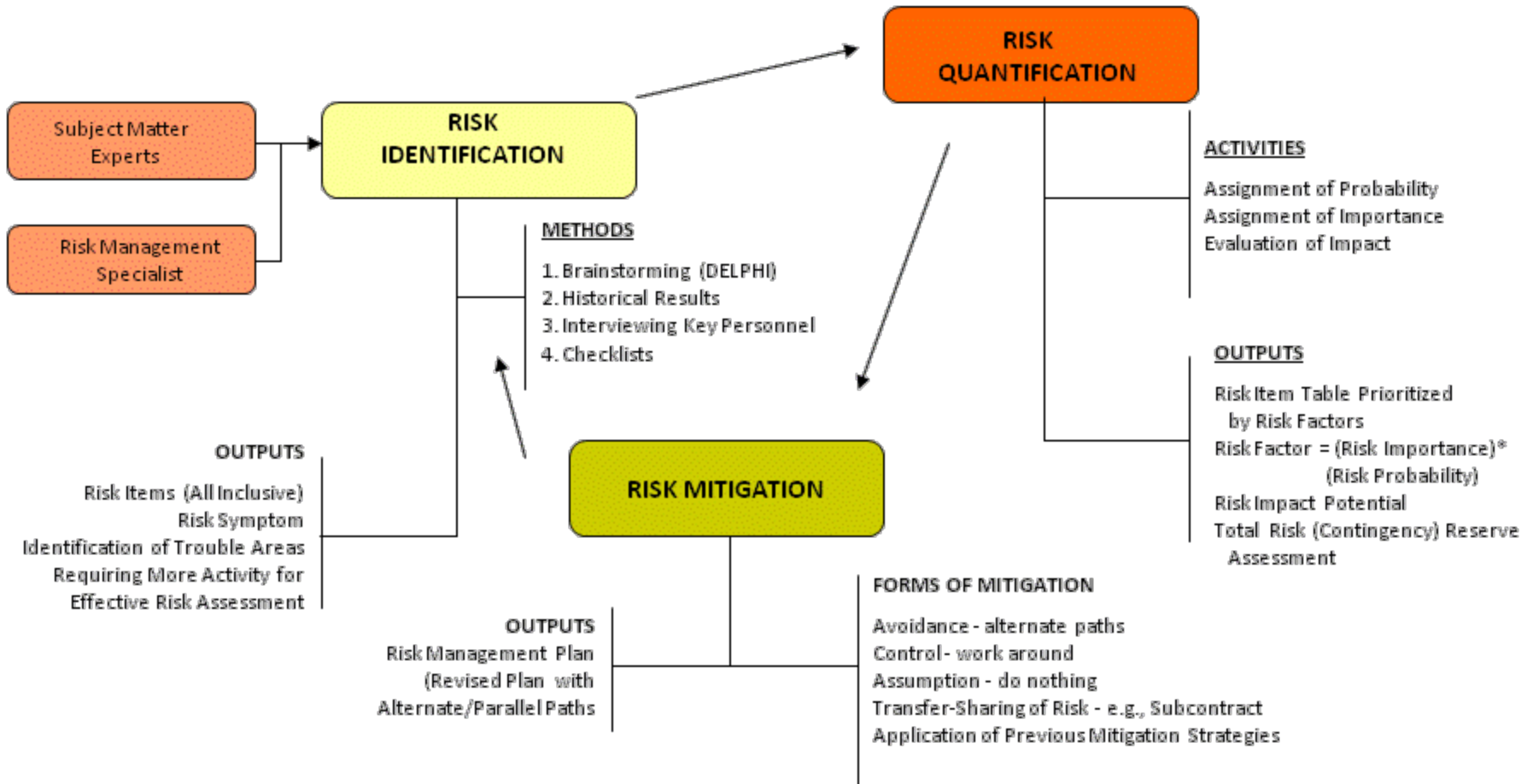
Major Classes of Risks to Evaluate

- Strategic Risks
- Operational Risks
- Result Risks
- Transactional Risks
- Financial Risks
- Other Unique Risks

Assessing these risks and how well prepared the organization is to manage them is an inseparable part of any comprehensive outsourcing evaluation.

- Government Support
- Labor Pool
- Infrastructure
- Educational System
- Cost Advantage – Direct/Indirect
- Quality
- Cultural Compatibility
- Time/Distance Advantage
- Language Proficiency
- Geopolitical Environment
- Process Maturity/Competitiveness
- Supportive People Factors
- Supportive Economic Scenario

Outlines the Flow of the Risk Management and Mitigation Process



Source: JDalal Associates LLC

- Countries & Governing Agencies
 - Client Based
 - Provider Based
- Applicable Regulations
 - Most public business
 - Selected industries
- Rating the Impact – High / Medium / Low
 - Timelines and cost
 - Intellectual property ownership
 - Work Practices and training
 - Licensing
 - Taxes
 - Reporting

* - Not a comprehensive list

U.S. Federal Regulations

- Privacy Act of 1974 (5 U.S.C. § 552a)
- Gramm-Leach-Bliley Act for financial institution
- Federal Trade Commission (FTC) Act dealing with disposal of information and records and liability associated with disclosure
- O.C. C. regulations for banks impacting subcontracting of work including offshoring
- Federal Trade Commission (FTC) Act dealing with disposal of information and records and liability associated with disclosure
- Health Insurance Portability and Accountability Act (HIPAA) of 1996
- Telecommunications Act of 1996 – Section 222 dealing with Customer Proprietary Network Information (CPNI)
- U.S. Patriot’s Act of 2001 dealing with approving (and identifying) people with whom business is conducted or employment offered

European Regulations

- Acquired Rights Directive dealing with transfer of people between companies (similar law in U.K. is known as TUPE)
- “Safe Harbor Act’ dealing with security and protection of personal information
- Trans-border data flow regulations of various countries dealing with restrictions on personal information transfer

Factors in Gauging the Opportunity

- Size of the Financial Opportunity
- Marketplace of Suppliers
- Benefits Realization
- Ease of Execution
- Degree of Risk

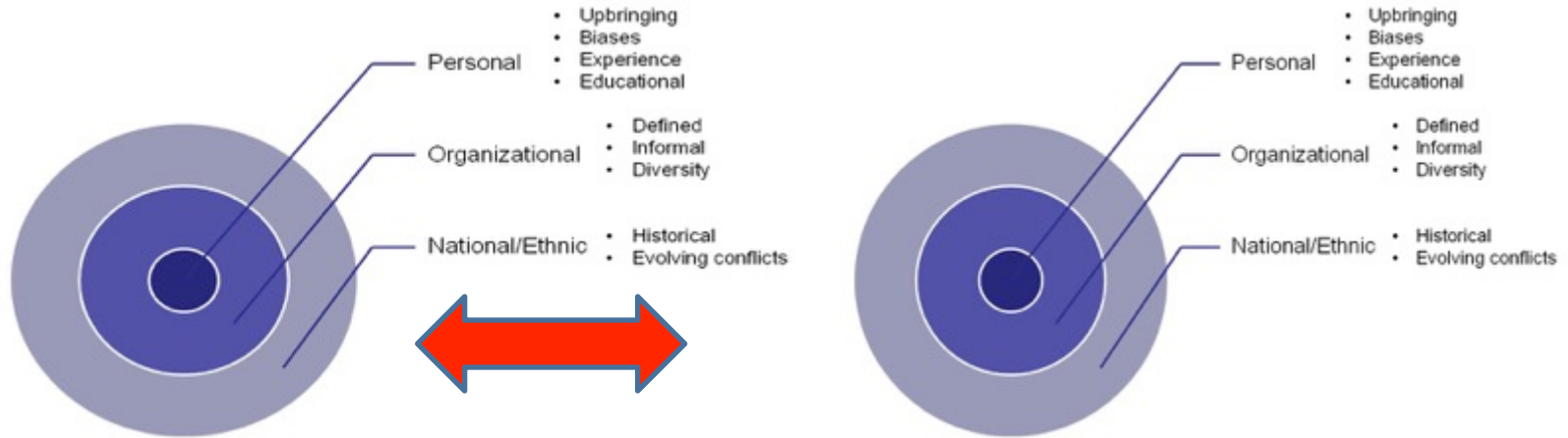
Selected service delivery models

| Model Type | Captive | Joint-Venture | Build-Operate-Transfer | Fee-for-Service |
|--------------------------------|---------------------------------------|--|--|---|
| Description | The customer builds owns and operates | The customer and supplier share ownership in operations and both contribute selected resources | The provider owns, builds, staffs and operates on behalf of the customer; ownership, assets and staff transfer to the customer upon completion | The customer signs a contract for services in exchange for paying a fee to the provider |
| Set-up Cost | Highest | High | Medium to High | Low |
| Financial Risk | Low | Medium | Low | Low |
| Operational Risk | Low | Medium | Low | Medium |
| Security, privacy and IP risks | Low | Medium | Low | Varies |
| Ability to control | Highest | Depends on amount of ownership | Medium | Low |

Source: IMPLEMENTING Strategic Sourcing: A Manager's Guide to World Class Best Practices, Bullen, LeFave, Selig

Affected groups that require a pre-planned change management program

- Directly affected employees (whose work is being outsourced and are transitioning to the provider)
- Directly affected employees (whose work is being outsourced and may not have a position with either)
- Directly affected employees (whose work is being outsourced and they are being retained)
- Customers of outsourced process (both internal and external)
- Other functions that are not impacted by outsourcing
- (in some cases) community and/or government entities (e.g. loss of jobs in the community)



Customer

Provider

Questions are:

1. When do we address cultural impact in outsourcing
2. At what level do we address cultural impact in outsourcing
3. Do we rationalize / integrate / evolve

- Communicate early and frequently; use all communication channels and focus also on the “what’s in it for me”
- Get people involved in an early stage
- Senior management commitment is essential
- Be open and consider the impact of the breach of the psychological contract
- Don’t underestimate the survivor syndrome – it leads to a lack of loyalty
- Give people the feeling that they are still in control of their destiny/career; design clear career paths
- Provide training - also to the retained staff
- Integrate the cultures, beat the “them and us attitude”

Definition:

Stakeholders represent all people that have a vested interest in a business or organization (economically mostly).

- Affected employees (outsourced as well as those who work with the outsourcing provider)
- Unaffected employees
- Shareholders
- Industry influencers (watchers, market makers)
- Customers
- Suppliers
- Partners
- Community (where business is located)

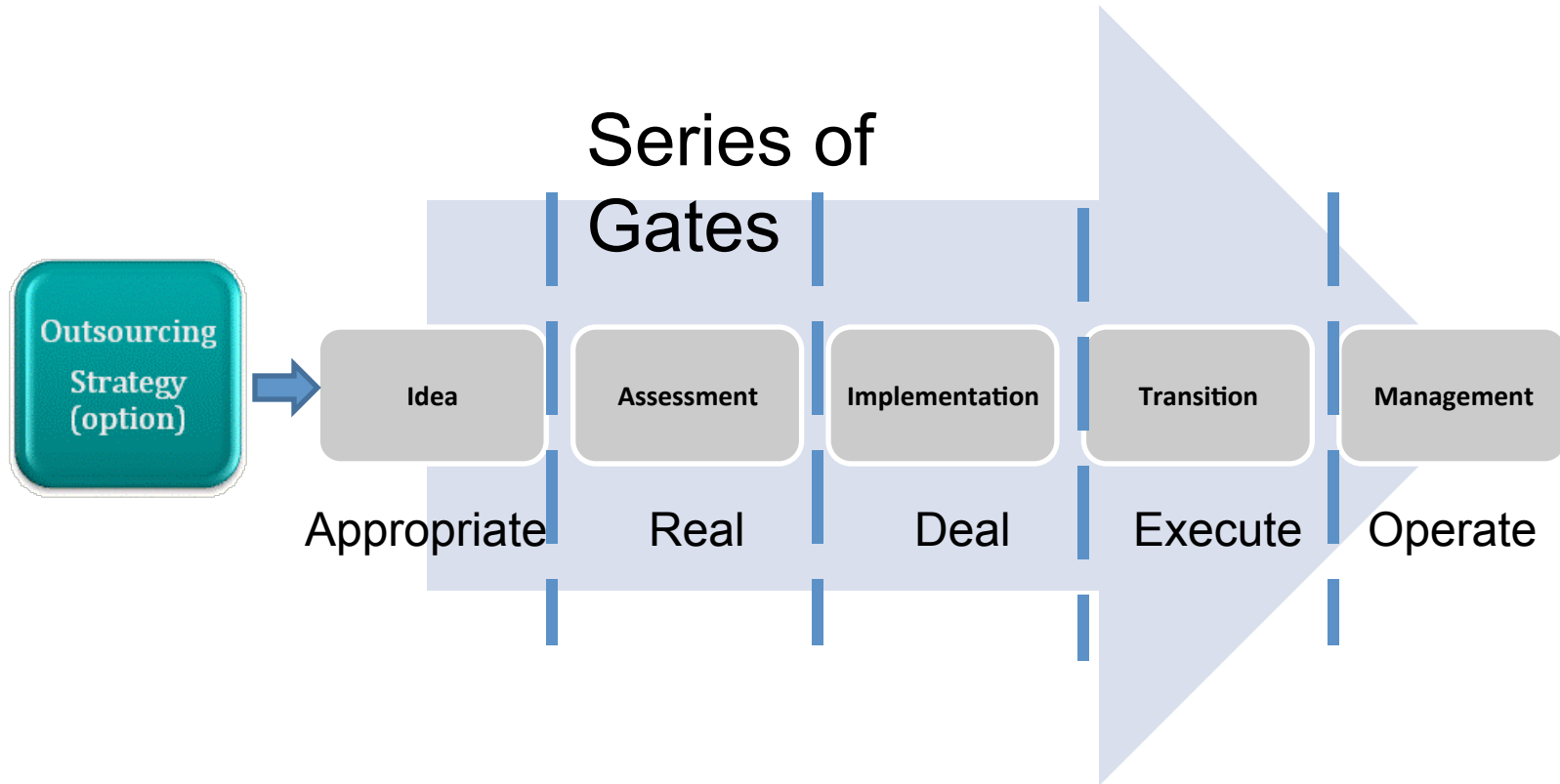
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Module 4

*Creating & Leading Outsourcing
Project Teams*



Project teams, often made up of different individuals with different skills, are formed at various stages across the outsourcing process.

Skills required for all teams *(being a COP would be an asset) :*

- Subject matter knowledge (not expertise) in the specialized field they represent (as it relates to outsourcing)
- Fundamentals of outsourcing
- Business acumen
- Project management
- Communication
- Relationship building and management
- Team orientation

Specialized skills required for specific teams:

- Process specific subject matter knowledge
- Finance (accounting, tax, treasury, planning)
- HR (change management, communication, organizational development)
- Legal (contract law, IP law, foreign law – if applicable)
- Measurement and process quality management

Essential Characteristics of Outsourcing Project Leaders:

- Ability to embrace & champion change
- Earned credibility across the organization
- A desire to manage, not do
- Ability to build trust
- Communication skills
- Negotiation skills
- Strategic planning skills
- Project & team management skills
- Marketing skills
- Process expertise

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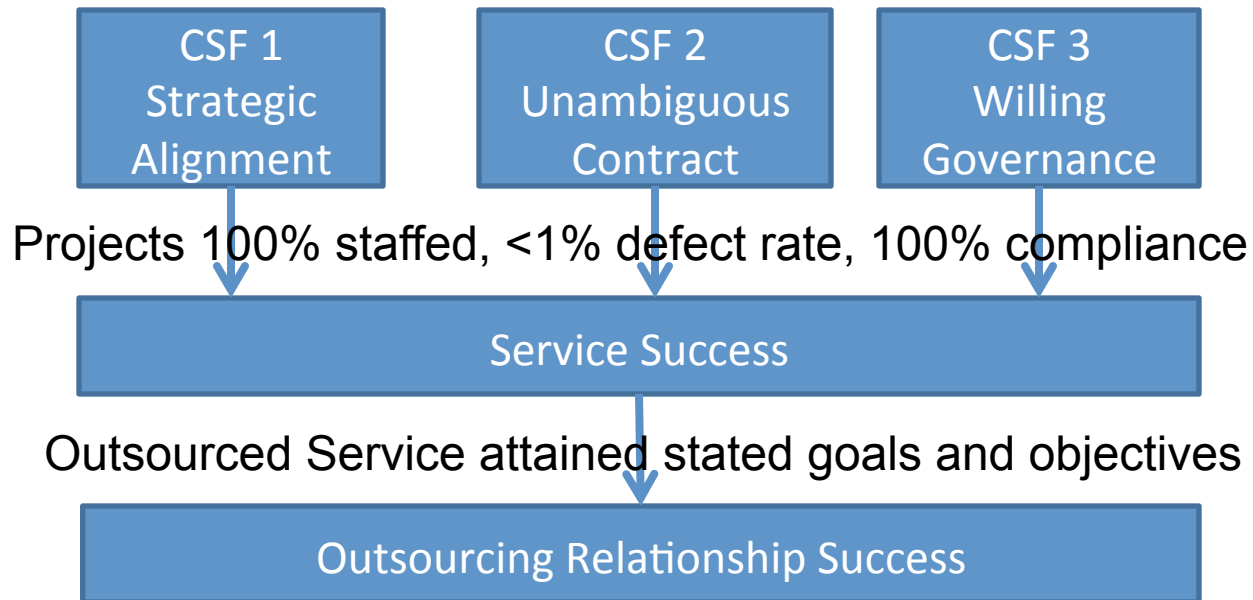
Module 5

*Developing & Communicating
Outsourcing Business Requirements*

- The team developing the requirements document should have representation from functional management, process experts, customers/users, procurement, finance, human resources, and legal.
- The current process should be diagrammed, including clear distinction and rationale for in-scope and out-of-scope activities.
- Critical Success Factors and Key Performance Indicators for the current process's quality, customer satisfaction, timeliness, financial performance, conformance to requirements, speed, flexibility, and innovation should be measured and documented.
- Future process requirements, based on reasonable potential scenarios, should be identified and documented.

- Baseline current costs
 - **Activities** – define scope
 - **Costs** – sum of the actual costs for each activity, including people, supplies, equipment, overheads, and capital costs.
- Match to the current process outcomes (i.e. performance levels)
- Gap analysis between these and best-in-class levels

- What must we do to be successful – CSF
- What indicates that we are being successful - KPIs



The CSFs and KPIs are best determined by the current environment, objectives and strategies of an organization. They must be measurable, comparable & reportable.

Critical Success Factor (CSFs)

Categories:

- Financial
- Customer
- Employee
- Process & Product Innovation
- Service Level Innovation

Key Performance

Indicators (KPIs):

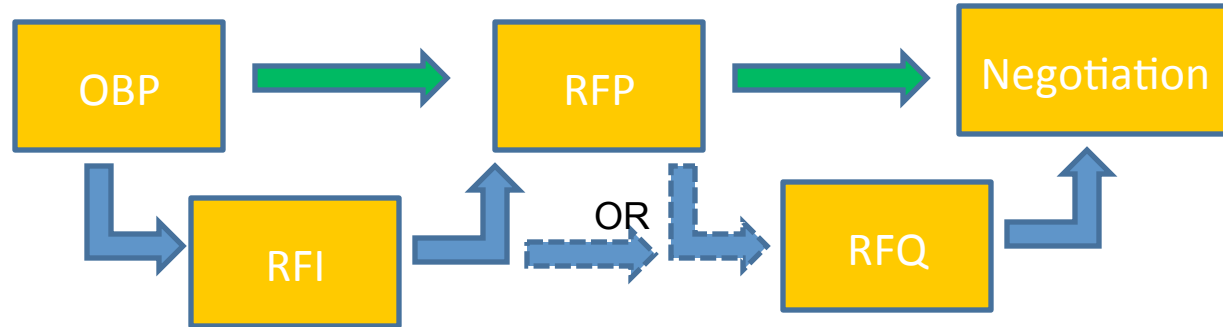
- Cost, Profitability
- Customer Satisfaction
- Skills, Competencies, Training
- Performance – SLAs
- Program/Project Mgt.
- Service/facility scalability, readiness & redundancy

Attributes:

- Performance (Historic)
 - ✓ Time
 - ✓ Cost – Reduction, Containment & Avoidance
 - ✓ Profitability – Direct or Indirect
 - ✓ Responsiveness
 - ✓ Quality
 - ✓ Availability
 - ✓ Capacity
 - ✓ Reliability
- Predictive (Future)
 - ✓ Maturity Level
 - ✓ Capability/Skills
 - ✓ Alignment
 - ✓ Key Issues
 - ✓ Major Risks
 - ✓ Certification

Reality Check – Do the CSFs and KPIs...

- Translate into specific actions?
- Provide strategic or tactical benefits?
- Provide leverage to institute change?
- Manage end-to-end results across the enterprise?
- Drive performance and process improvements?
- Allow for benchmarking to compare best practice performance?
- Enhance your ability to compete in the future?
- Drive learning and innovation?
- Predictors of Future Performance?



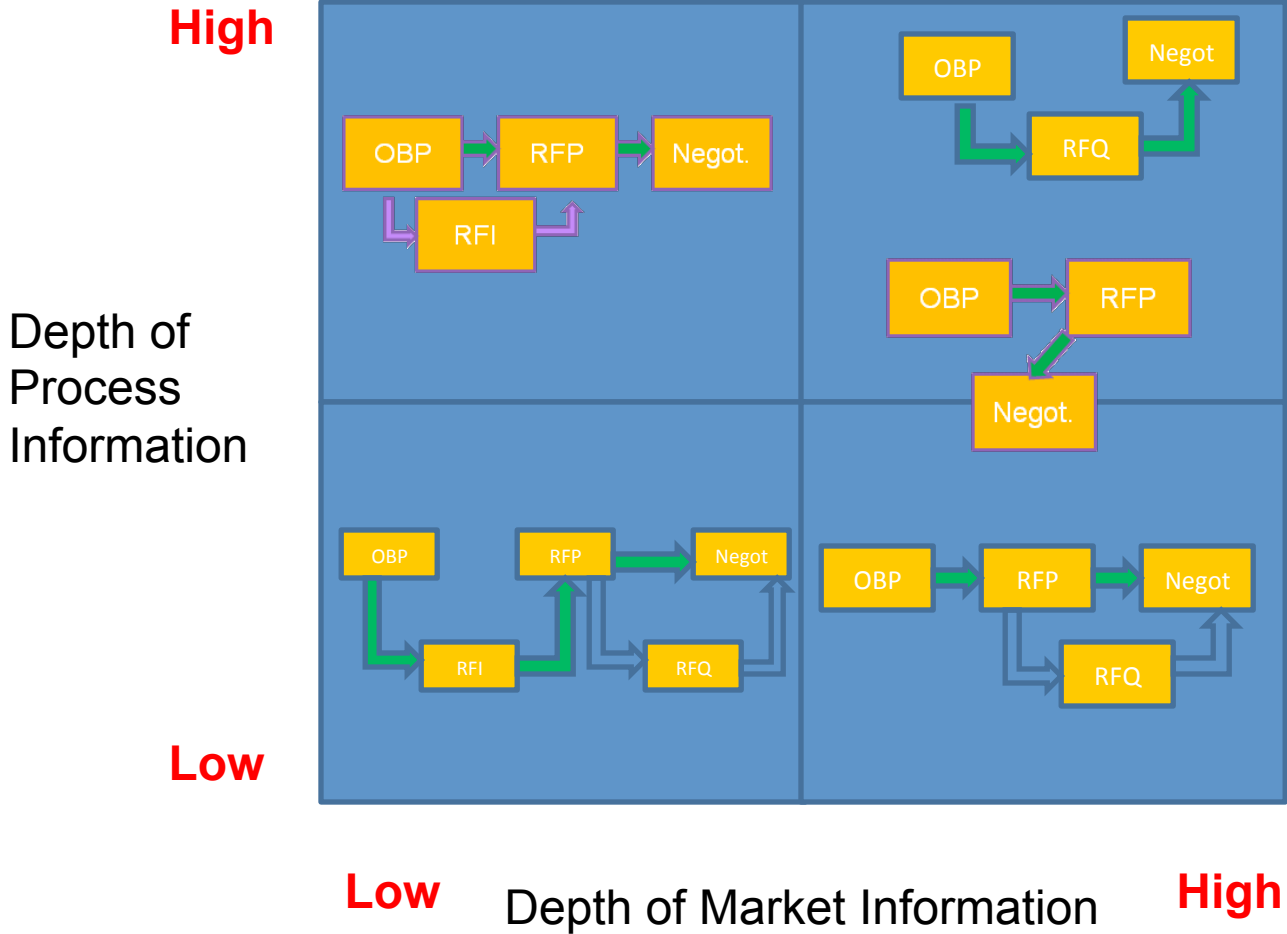
Typical Communication Documents:

- Requests for Information (RFI)
- Request for Quotation (RFQ)
- Requests for Proposal (RFP)

Alternative Approach:

Harvard Business Case-style Document (Collaborative approach – RFS)

- RFI (Request for Information): Used to collect information (business, financial, product, service, etc.) about companies and market conditions as well as more common contractual arrangements.
- RFQ (Request for Quote): Used to solicit pricing and/or cost information from potential providers.
- RFP (Request for Proposal): Used to define the buyer's requirements (scope, objectives, services, deliverables, commercial terms, etc.) in order for the Provider to provide a proposal for evaluation by the buyer.
- RFS (Request for Solution): Used to define the collaborative approach to creating solution and proposal



➡ Generally followed "short" path

- Objectives, Scope and Key Dates
- Background
- Provider Relationship Model
- Services Requested
- Transition/Migration Services
- Performance Requirements
- Requirements for Proposals
- General Terms and Conditions for Proposal Response
- Proposal Evaluation – Process and Timetable
- Pricing
- Draft contract or termsheet
- Attachments

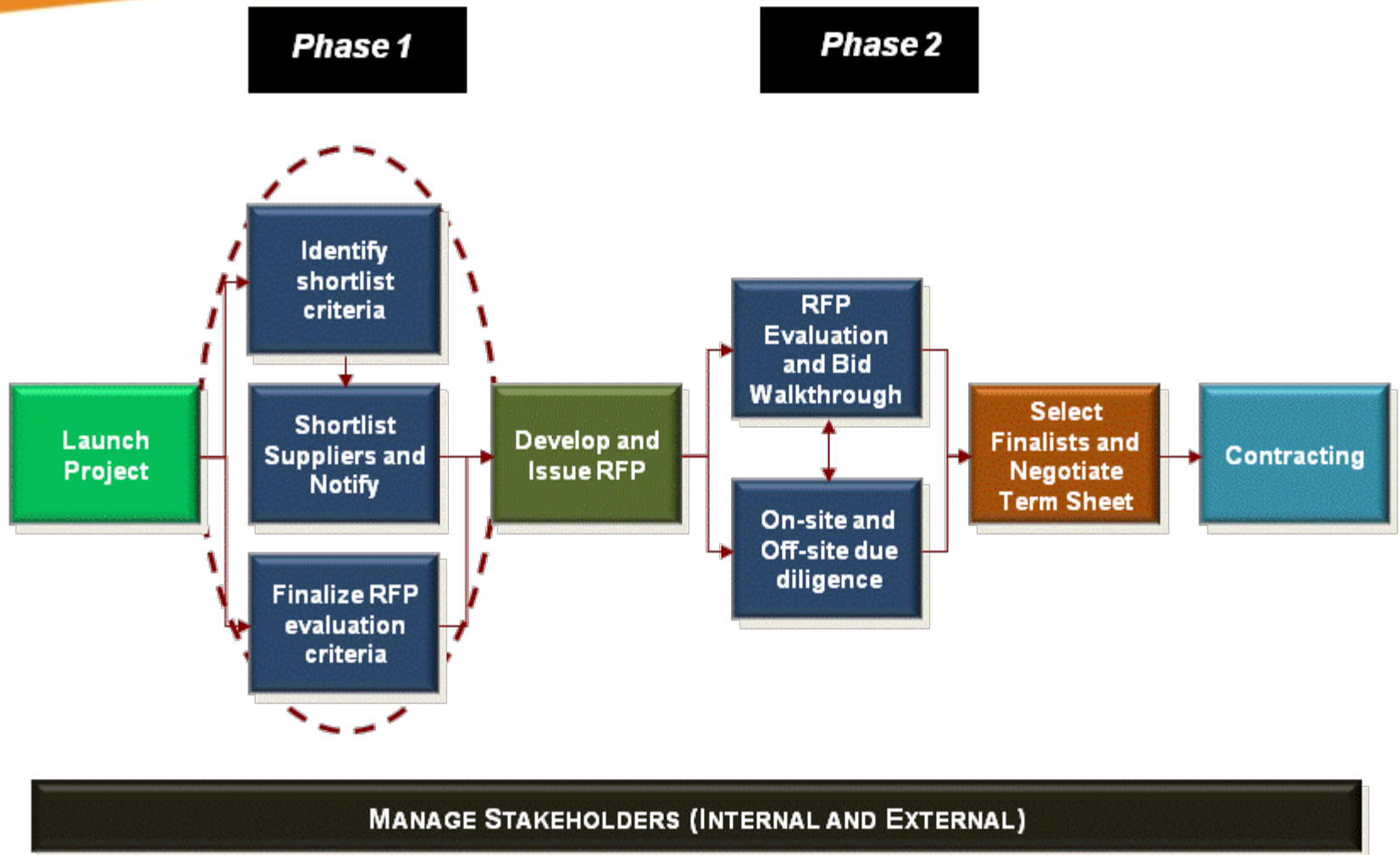
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Module 6

Selecting Outsourcing Service Providers



Customers:

- Validate service provider's ability to perform the work and meet the commitment stated in the response to the customer requirements (RFP)
- Validate the service provider's pricing basis and their ability to deliver benefits stated in their response
- Assure that the service provider can be responsive to the customer's business requirements (e.g. security, auditability)
- Understand cultural fit between the companies and if necessary, develop/adjust orientation and change management programs

Providers:

- Validate information provided in the RFP and discussions so as to confirm understanding of scope and deliverables
- Validate and evaluate personnel information so that the transition can be successful
- Assess the level of knowledge acquisition effort required as part of transition and if necessary, adjust response

Demonstrated Competencies

- People (Bench strength, Recruitment, Training, Experience)
- Processes (Benchmarking, Certification, Continuous Improvement)
- Technologies (Level of Investment, Leading Edge)
- Experience (Functional, Industry)
- Proven Performance; Certifications
- Track Record of Innovation

Total Capabilities

- Financial Strength & Stability
- Infrastructure and Resources (Bench Strength, Weaknesses/Points of Failure)
- Management Systems
- Complete Suite of Services (Type and Scope, Ability to Scale, Backup, Redundancy, Security)
- Market Reputation

Achievement (esp. existing relationship)

- Evaluate Performance - Assess Value Achieved - Continuous Improvement

Competitiveness of Solution

- Solution itself (Fit to Requirements, Innovative)
- Service Delivery (Quality of Processes/Tools/Resources, Performance, Management Depth and Capabilities)
- Risks and Risk Sharing
- Financial Proposal (Pricing, Volume Considerations, Structure, Switching Costs)
- Terms and Conditions (Commercial, Change, Dispute, Adjudication)
- Human Resources Requirements (Employee Transition, Career Opportunities)

Relationship Dynamics

- Culture
- Mission and Strategy
- Relationship Management (Flexibility, Partnership, Trust, Executive Presence, Governance and Reporting)
- Relative Importance (Size, as a Client)

- ***Exogenous Factors***
 - Government support
 - Educational System
 - Geopolitical Environment
 - Infrastructure
- ***Catalyst Factors***
 - Physical & time zone displacement
 - Cultural compatibility
 - Labor pool
 - Language proficiency
- ***Business Environment***
 - Cost advantage – direct labor & indirect process
 - Process maturity/competitiveness of Providers
 - Supportive people factors
 - Security, IP protection

Source: The Offshore Nation, Atul Vashistha & Avinash Vashistha

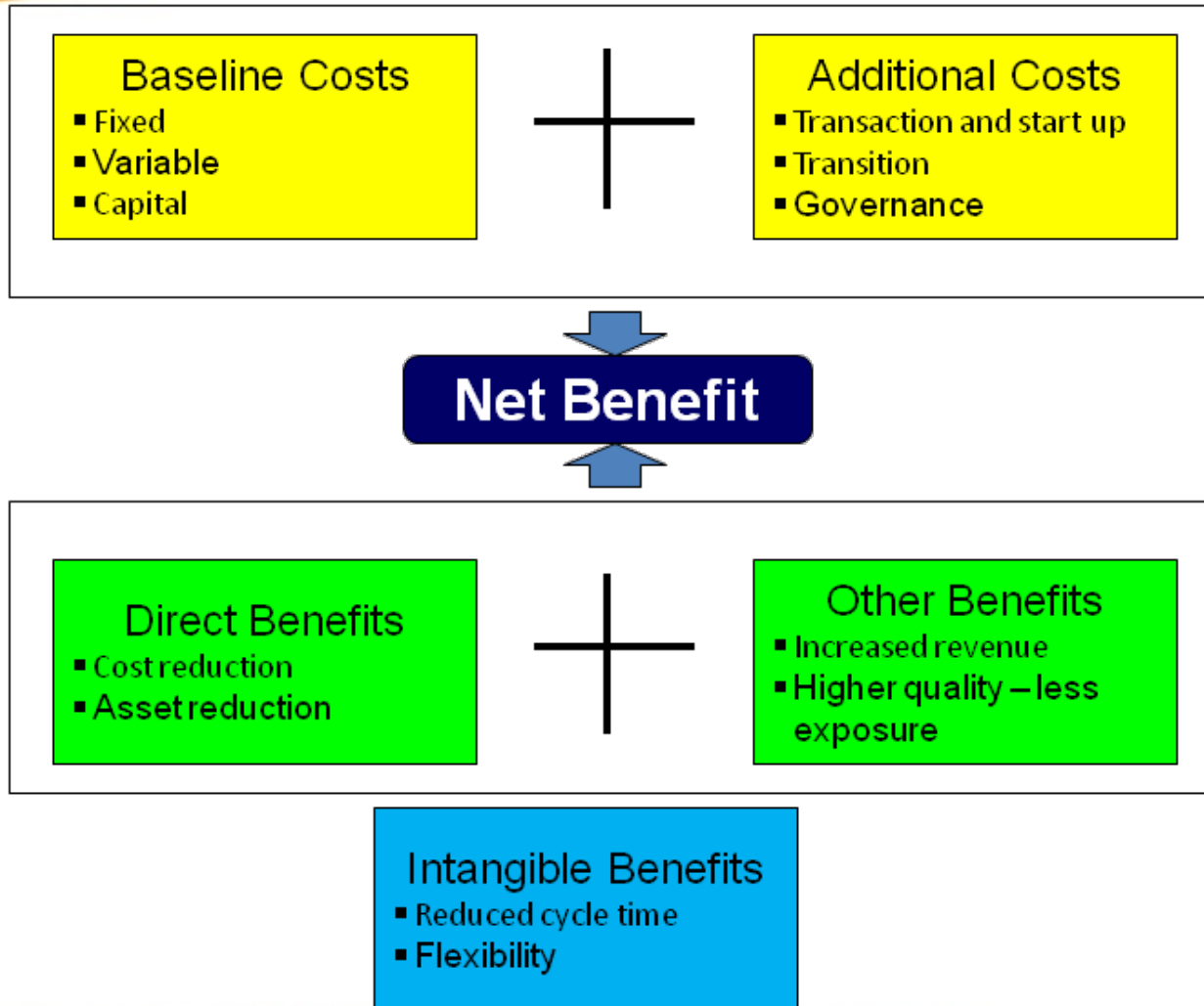
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Module 7

*Developing the Financial Analysis
and Pricing an Outsourcing
Opportunity*

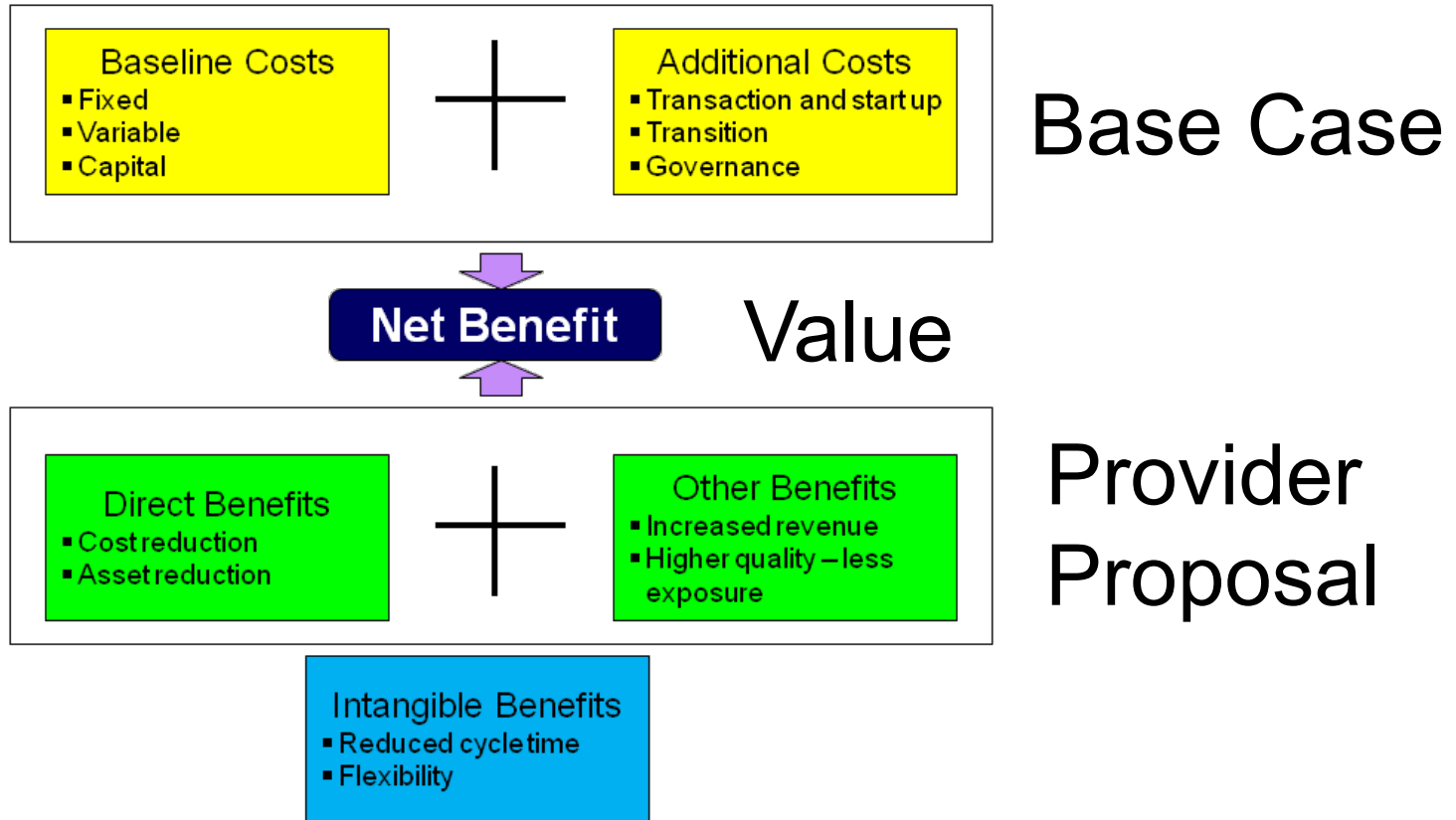




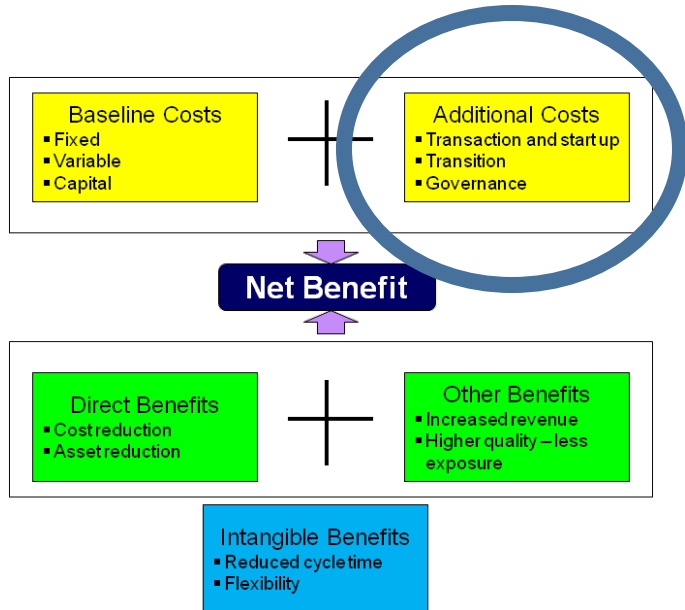
- Scope (Services)
 - The who, what, when and how
- Performance
 - The what level and quality
- Price
 - The how much

LINKED

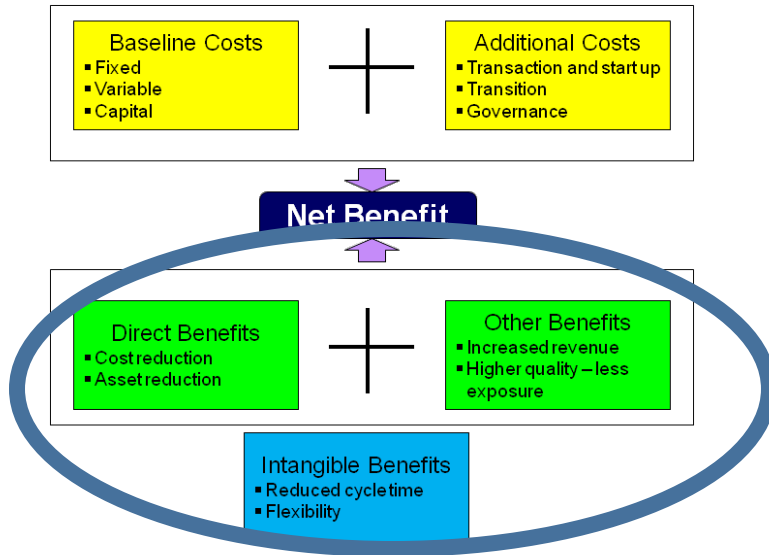
- All pricing basis are pre-defined and value established (and communicated to providers):
 - Two legs of stool (volume, performance)
 - Inflation rate (basis, pre-defined value)
 - Interest rate (definition, expected values)
 - Foreign exchange rates (definition, expected values)
 - Payment terms (for “working capital” calculation)
- Need and clarification for any assumptions to be considered (e.g. additional resource calculation basis)
- Adjustments based on variability/due diligence (if required)



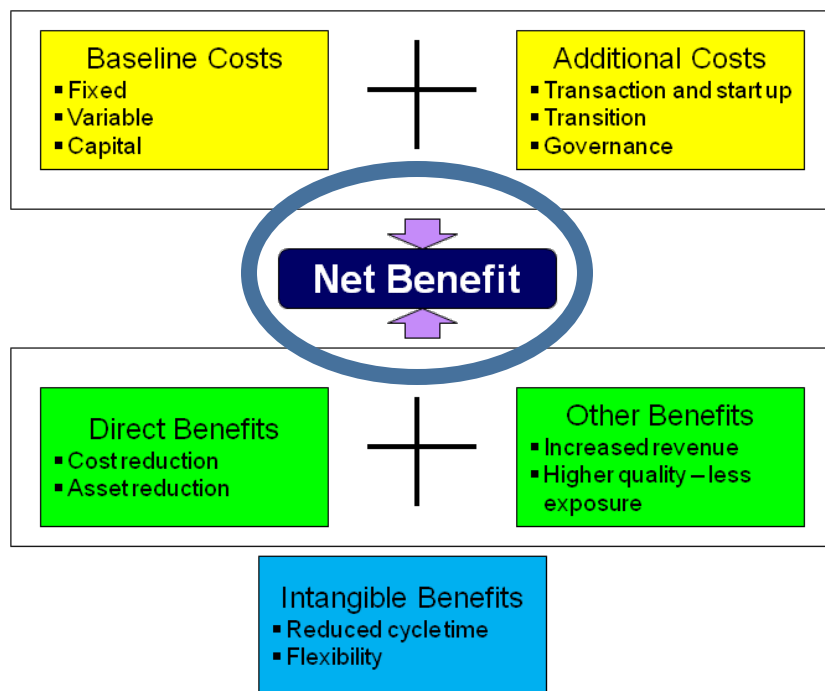
- Not all cost information may be easily available (and therefore, not included in the “budget”), for example:
 - Working capital
- Allocated cost basis may not be consistent with the selection of process being outsourced
- Volume sensitivity may not be known and may not have historical trend to validate costs per volume and establish a relationship curve
- Currency basis and cost of money for the activities may not be recognized as a separate cost element (*outsourcing as a “stand alone” business rather than a part of ongoing business*)
- Secondary impact of costs for outsourced processes may not have valid assumptions (e.g. empty space may not result in savings if the space cannot be returned/reduced)



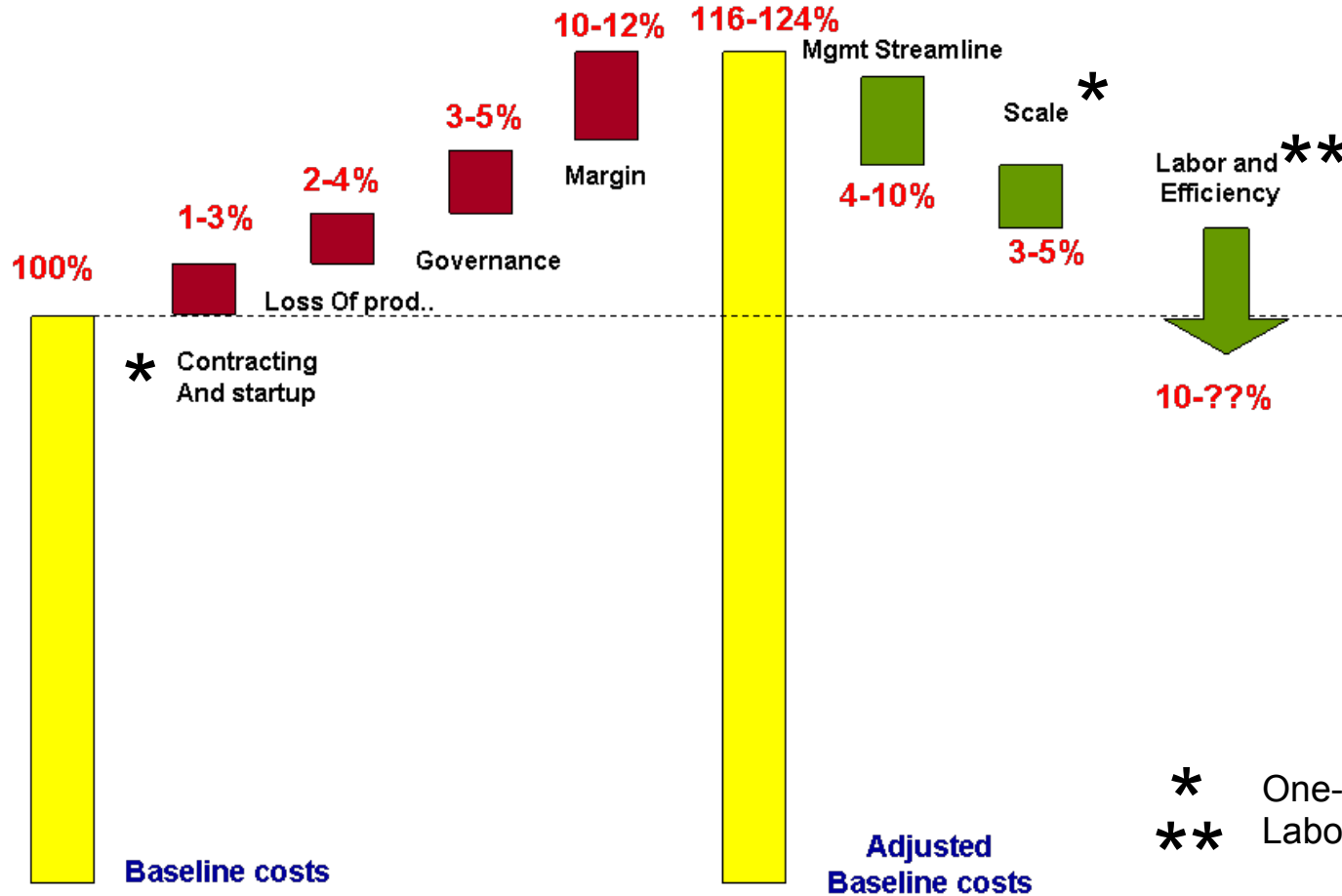
- **Planning** Costs: Staff, travel, professional services
- **Change management** costs: Pre-post outsourcing as well as transformation
- **Transition** Costs: Staff (planning and testing), travel, professional services, transfer fees, termination penalties, relocation costs, stay bonuses, taxes, severance packages
- **Termination** Costs: Transition of work back or to another third party as a result of termination (normal or for cause-convenience); including SME usage
- **Oversight** Costs: Staff, travel, professional services
- **Additional** Costs & Risks: Goodwill, operational disruptions, personnel turnover, exchange rates, risks and risk mitigation



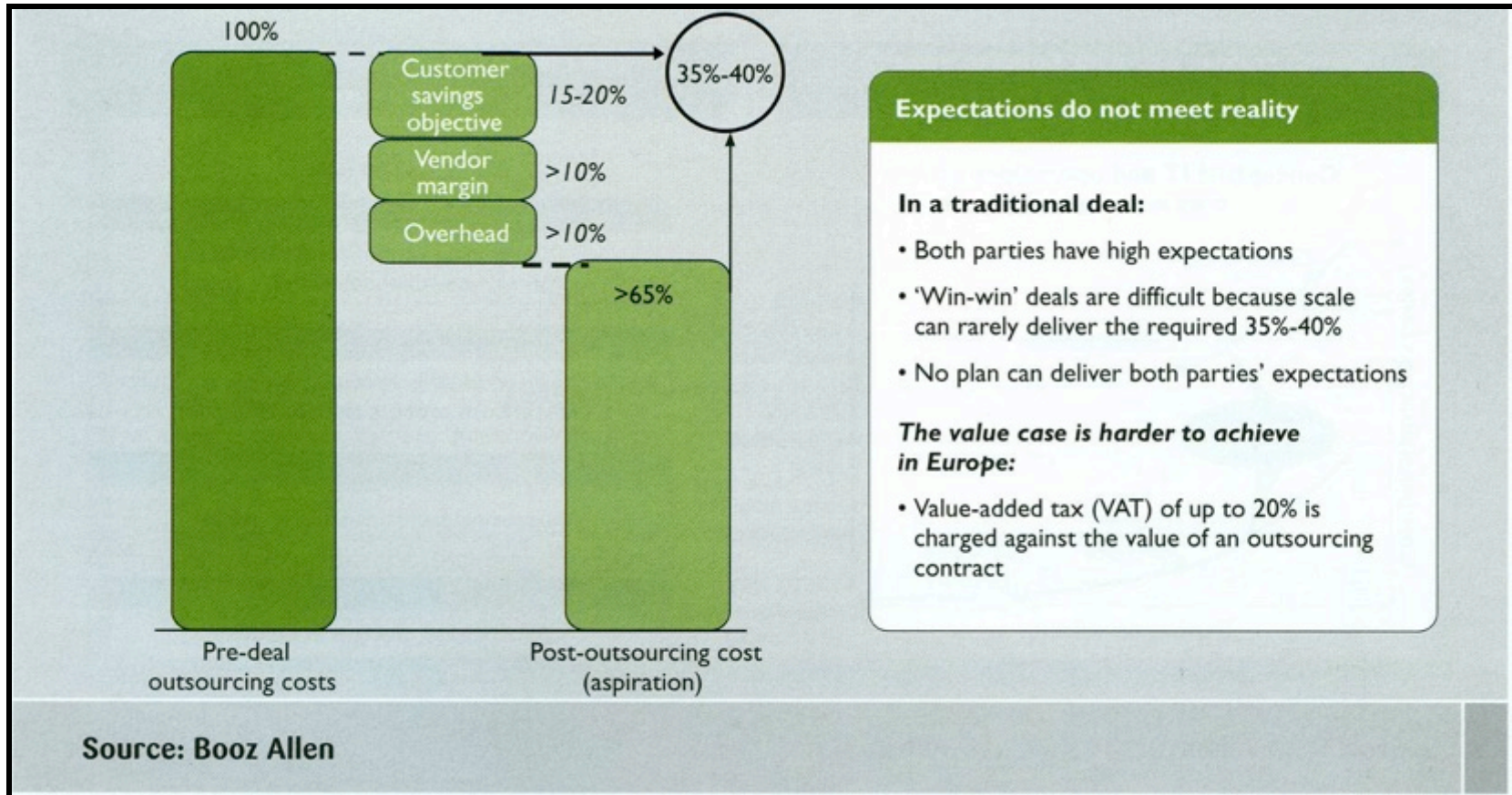
- **Quality & Capacity:** Reduced defects, increased yield, improved services, increased throughput, additional services, market growth
- **Focus:** Reduced competition for capital, cash infusion, reduced cost of capital, resource redeployment, management focus
- **New Revenue Opportunities**
- **Additional Benefits & Rewards:** Speed, flexibility, innovation, organizational change, employee morale, unexpected synergies



- Rate of return (IRR)
 - Current value (NPV)
- Cash Flow
- Balance sheet impact



Source: JDalal Associates LLC



Expectations do not meet reality

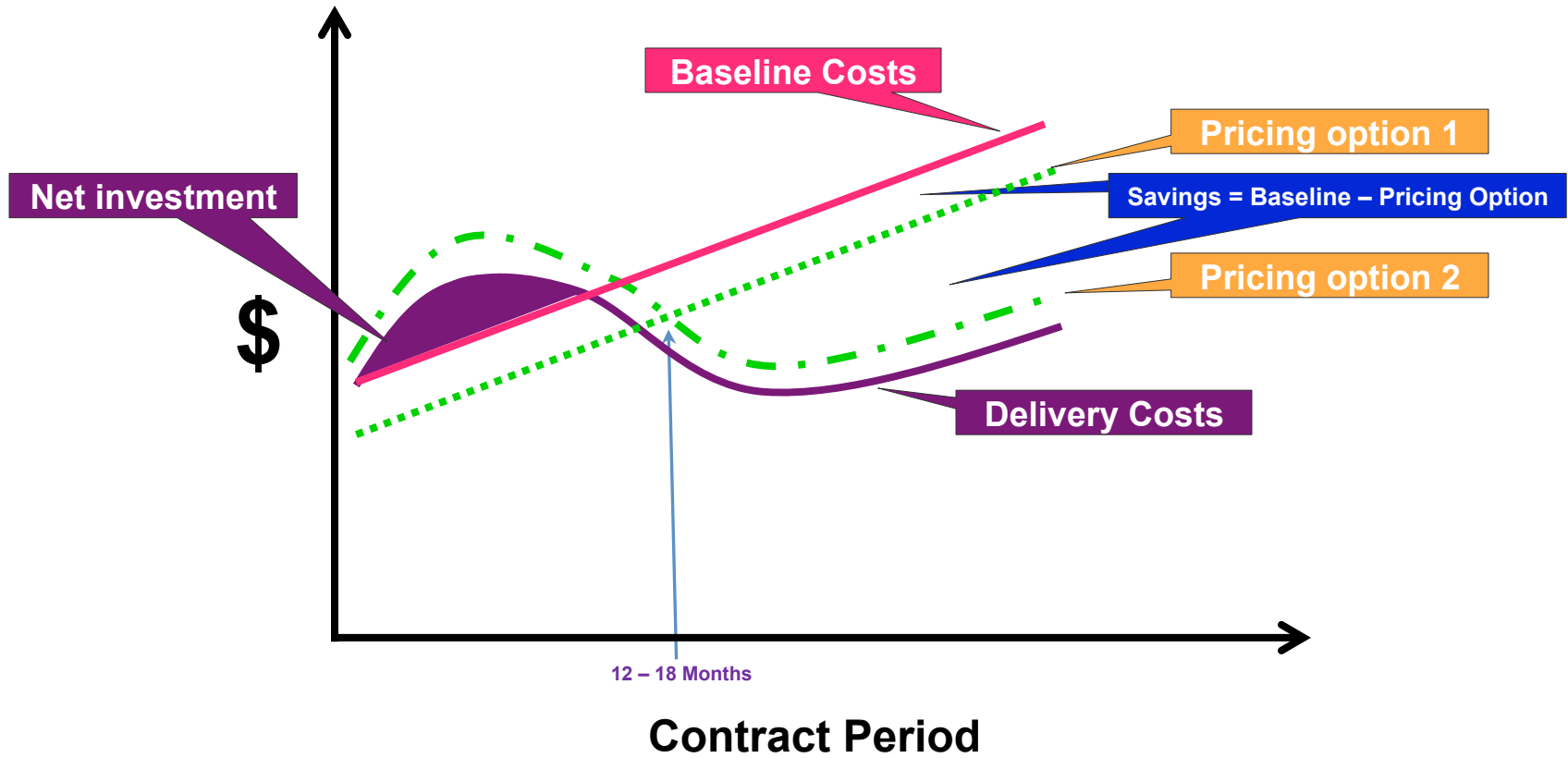
In a traditional deal:

- Both parties have high expectations
- 'Win-win' deals are difficult because scale can rarely deliver the required 35%-40%
- No plan can deliver both parties' expectations

The value case is harder to achieve in Europe:

- Value-added tax (VAT) of up to 20% is charged against the value of an outsourcing contract

Source: Booz Allen



| | Cost Plus | Unit Pricing | Fixed Price | Incentive-based Price | Gain Sharing |
|------------------------------|-----------|--------------|-------------|-----------------------|--------------|
| IT (Infrastructure) | | ● | ● | | |
| IT (Application Maintenance) | ◐ | | ● | ◐ | |
| IT (Application Development) | ● | | | ◐ | |
| BPO (Activity-centric) | | ● | ● | | |
| BPO (Complex processes) | ● | | | ◐ | ◐ |
| BPO (Knowledge-based) | ● | | | ◐ | ◐ |

● Most Often

◐ Often

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Module 8

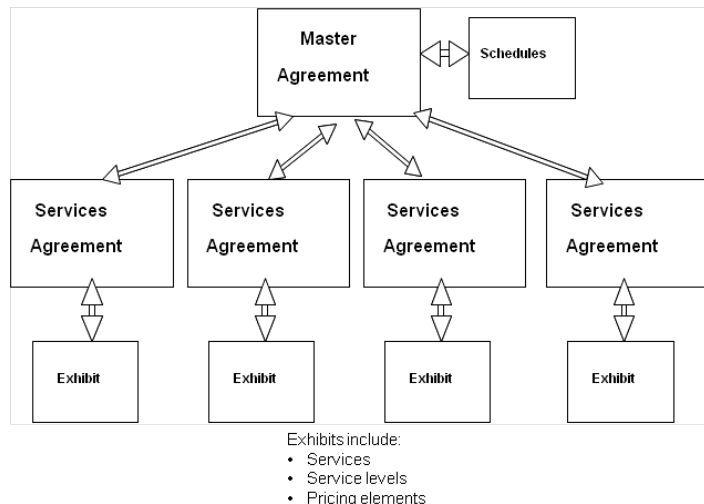
*Developing and Negotiating the
Contract for an Outsourcing
Agreement*

**IAOP thanks Kirkland & Ellis LLP for the use of
several slides and content in this module.**

What should contract do?

- Serve as a blueprint for answering questions that will arise
- Reflect a meeting of the minds regarding all issues as it is the only deliverable from the outsourcing negotiating process
- But, can't cover every situation – needs to be some trust
- Be flexible and useful
- Establish clear expectations for the performance of the services and the respective responsibilities of the parties
- Ensure that accountability and measurement features are included and clearly stated
- Reach a fair balance of risk and reward between the parties
- Define the “what” not the “how”
- Cover the “three legs” of scope, performance and price
- Be understandable by a third party

- Master agreement has terms and conditions that cover all aspects of relationships regardless of services – agreed upon or future
- Master agreement schedules define variables for clauses in the master agreement
- Services agreement contains definition of scope, service levels and pricing and associated terms and conditions
- Service agreement exhibits define variables for clauses in the services agreement



- Definition of Relationship
- Assignment
- Confidentiality
- Customer Data
- Exclusivity
- Intellectual Property
- Multi-Provider Considerations
- Term of the Agreement
- Termination
- Customer Obligations
- Equipment and Facilities
- Third-Party Services
- Personnel
- Projects at Time of Transfer
- Management of the Relationship
- Additions & Changes
- Audit
- Dispute Resolution
- Personnel
- Sharing of Resources
- Change of Character
- Compliance with Laws
- Force Majeure, Indemnity, Liability
- Damages, Warranties
- Insurance
- Most Favored Customer
- Restrictions on Hiring Personnel
- Taxes

- ***Intellectual property ownership and protection:***
 - Different laws
 - Different enforcement reliability
- ***Job terminations and transfers:***
 - WARN Act issues in the US
 - Acquired Rights Directive issues in Europe
- ***Privacy and Data Security:***
 - Restrictions on export of personally identifiable information from Europe
 - Reasonable security obligations in the US / Canada
 - Restrictions on government classified data



- Scope (Services)
 - The who, what, when and how
- Performance
 - The what level and quality
- Price
 - The how much

- Defining the “In and Out”
- Responsibilities of Customer and Third Parties
- Dependencies
- Assumptions
- The Parties
- Three time periods
 - Transition in
 - Steady state
 - Transition out



- Description of Services (SOW) Should be Detailed
 - Description should not be “vague”, “open ended” or not a basis for performance measurement
 - Indicate whether the list is exclusive or not (“including but not limited to...”) (“all services previously provided including...”)
 - Are all services needed to accomplish goals included or specified as “new services”? If necessary, include “what is not included in the scope” as an exhibit to further clarify
 - Are “linked” services clearly defined when multiple providers are engaged?
 - The goal: understand when a change order (service, service level and price change) is necessary

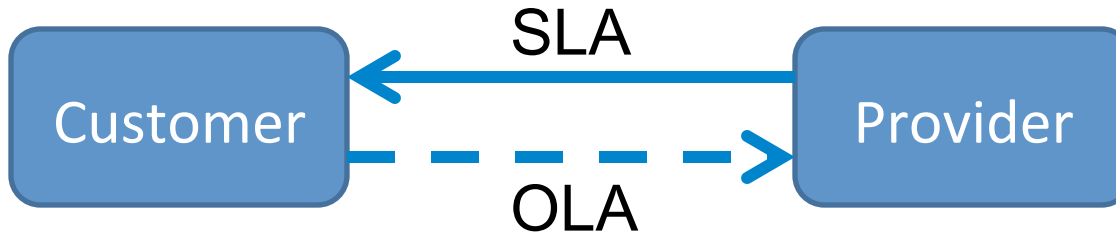


- Process for defining future scope or changes in scope (which would initiate a change order)
- Customer's Responsibilities (will form the basis for OLA)
- Staffing – key personnel, required level of work commitment
- Transition support during transition in and out



- Focus on a manageable number of levels that are basis for the outsourcing agreement
 - Objective and tied to business needs and measurements
 - Measurable
 - Verifiable
- SLA may have levels for the purpose of incentive or service credits (penalty)
- SLA are the basis for performance reporting required under governance





- SLA defines provider's responsibility for delivering a level of performance
- When the performance of SLA is dependent on the Customer (or a third party that customer has engaged in a multi-vendor situation), Provider is "excused" from performing to SLA if the dependent performance is not met

Often contracts (or pre negotiation term sheet) include desire to “benchmark” pricing on a periodic basis. Intent is to establish “fair” pricing for services. However there are challenges:

- Most (if not all) contracts preclude anyone from disclosing their exact pricing – terms and value
- It is difficult to establish exact parity between two sets of engagements for comparison purposes (size, complexity, service terms etc)

Instead companies engage third-parties to “blindly” compare pricing through some normalization process and provide feedback



Change management is initiated when:

- The “three legged stool” is not balanced as initially defined
 - Example: services or service levels are different
- Core principles or terms of agreement are changed (on purpose or not)
 - Example; acquisition/divestiture, payment options
- Approved change orders become part of the original agreement and become basis for future changes



A fully defined change order process is part of the agreement and a basis for future governance

- Objective of successful negotiation is to assure that it is not conflict driven (and therefore starts new relationship on a wrong note)
- Negotiation and agreement on contract is generally easy for 80+% of terms. Items requiring most discussions are (*in order of difficulty*):
 - Agreement on “three legs”
 - Non-performance (penalties)
 - Liability
 - Termination fees and disposition
 - Intellectual property rights (especially upon termination)

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Module 9

Managing the Transition to an Outsourced Environment, including Outsourcing Impact on Employees and Communities

Outsourcing Transition Management
...is the management of change to deliver everything that the provider promised to deliver during the bid process and formalized in the contract.

It is important to make a distinction between two sets of activities:

1 **Transition** is the transfer of people, assets, contracts and services into the provider and the establishment of business controls.

2 **Transformation** is the management of all discrete projects necessary to move the client's services from Present Mode of Operation to the agreed Future Mode of Operation to deliver the agreed business benefits of the contract to both the client business and the Provider.

Description

The smooth transfer of services from one service provider organization to another

- Involves either **transferring resources** from the current service delivery organization to a vendor, **replacing portions of the legacy organization, or bringing services back in-house**
- Represents a **discovery period** where the legacy organization provides detailed descriptions of its operational processes and the **new Service Provider designs and implements the replacement** of the legacy service delivery organization
- Is defined by a **clearly defined beginning and end**
- Presents competing goals (Vendor vs. Client).
 - The **manager** of the transition project wants to complete it as soon as possible (to get to ongoing service delivery and revenue generation)
 - The **client** wants to complete the transition with the lowest risk (to avoid impact to business operations)

Impacts

Vendors don't get a second chance to make a good first impression. The efficient execution of a transition and the mitigation of business risk by vendors is an indicator of the effectiveness of the ongoing outsourcing relationship. Listed below are some of the longer-term impacts of transition:

Credibility

- Vendor credibility is often based upon meeting initial client expectations and contractual commitments
- How the vendor manages the transition can be an indicator of the vendor's capability in steady state operations
- Client organizational motivation can be energized during transition, or commitment can be lost if the process does not go well

Organization and Motivation

- Outsourcing is often controversial, executive engagement is critical to setting tone and direction
- Organizational support is established or lost, based to a large extent on how the transition goes

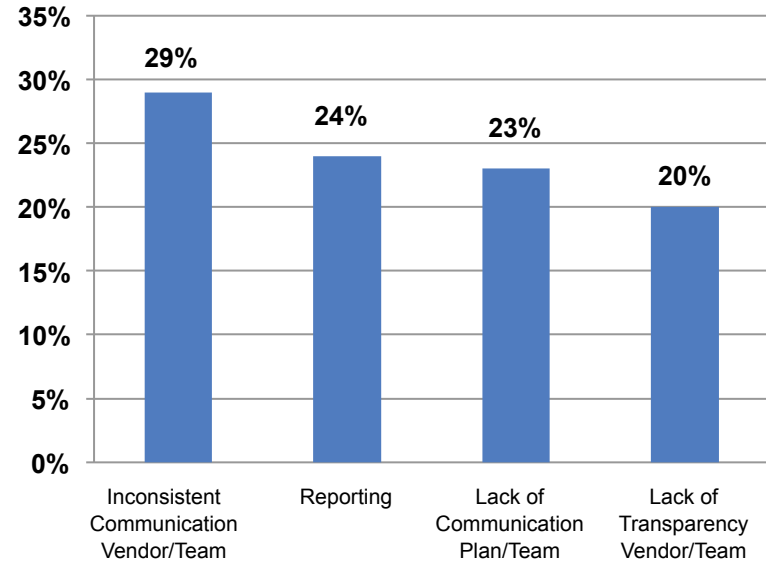
Executive Support

Source: Deloitte Development LLC.

Transition Issues

- **Organizational readiness for the transition** of a process to a vendor is important. However, in a survey, 75% of vendors said that clients are not operationally well prepared for an outsourcing initiative
- **Communications and relationship management** are some of the commonly cited challenges that are noted by senior management
- **Managing the vendor relationship** and monitoring performance often a full-time commitment and is not always a matter of simply reviewing periodic reports. Companies should invest in the vendor management function and factor those costs into their plans. The cost of the relationship management organization can range up to 7% or more of the annual contract cost¹
- Underlying drivers of quality and cost should be understood to smooth the hand-off of operations
- Special reporting during the transition is often needed to allow both the company and vendor to understand the performance and progress towards business objectives
- A clear plan, for the retained organization, should be developed to obtain the contracted financial benefits

Problems with Communication and Vendor Management



Source: Deloitte Development LLC .

- Signed Contract
- Transition Leads and Teams - Customer and Provider
- Transition Documentation
- Pilot Test Plan
- Transition Training
- Transition Schedule and Timetable
- List of Assets to be Transferred
- List of people and other facilities to be transferred
- Transition Communications Plan
- Contingency and Risk Mitigation Plan
- Organize Transition Preparation Meetings
- Integration Plan
- Change Management Plan
- Knowledge Management Plan

- People
 - Skills “re” acquisition
- Process
 - Knowledge acquisition (repository) and access to process documentation, including training
- Technology
 - Access (and rights) to tools necessary to perform work
- Environment
 - Any special requirements to provide appropriate service levels

All of these items (and other) are handled through contract provision of termination and post termination support

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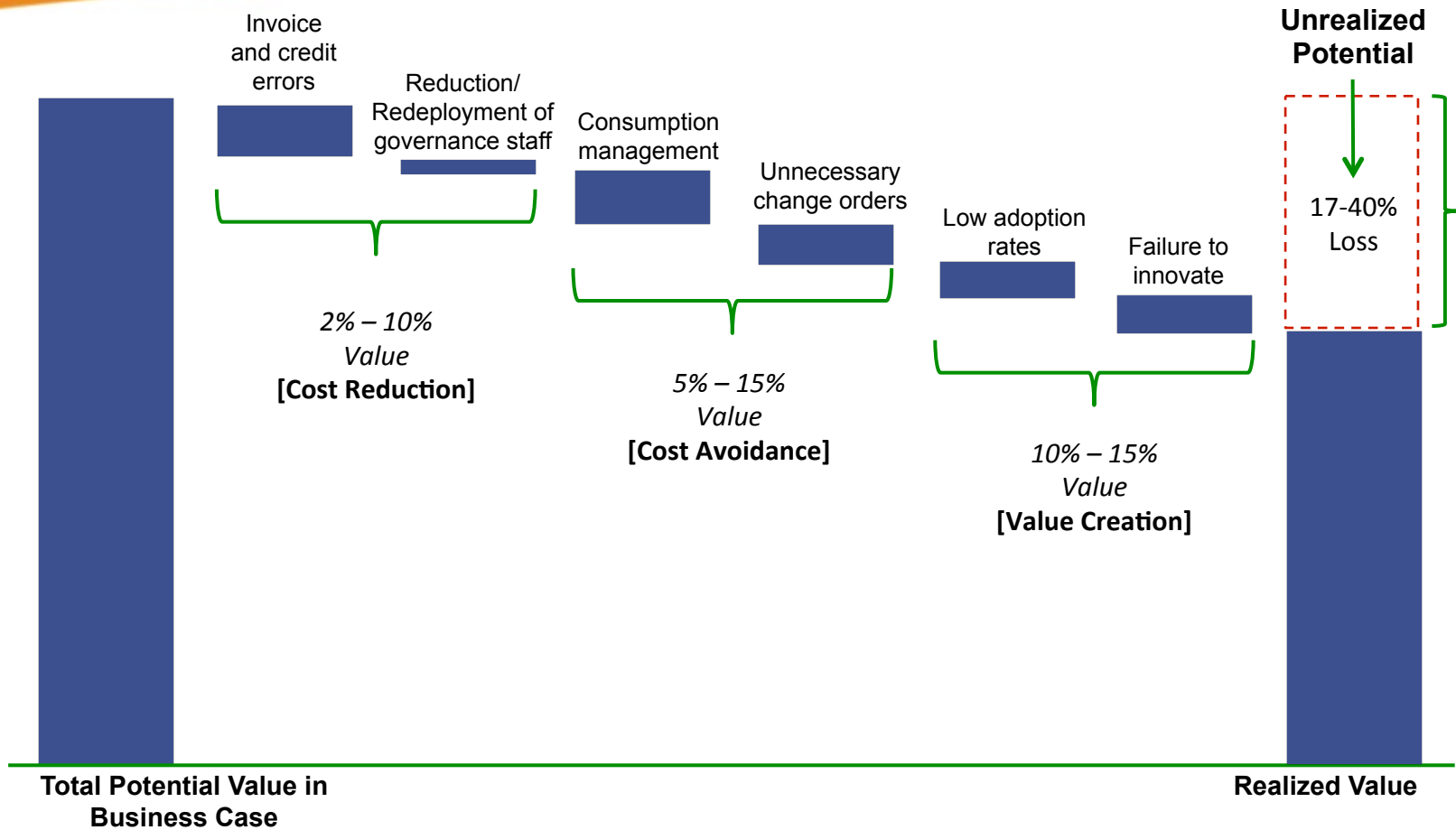
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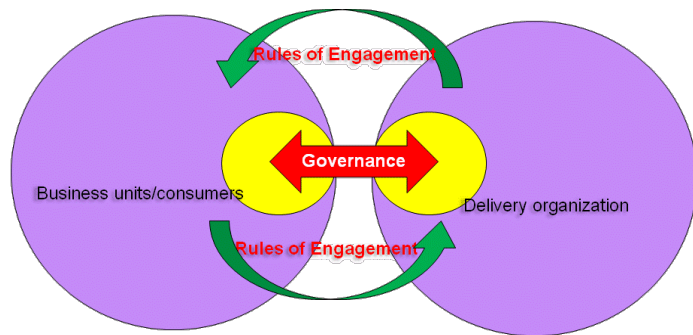
Module 10

Outsourcing Governance

- No historic performance data, makes setting KPI and SLA targets difficult
- Retained organization resists adoption of the rigor required to work in an outsourced environment
- Perception that things are slower and harder than before, value of outsourcing not recognized
- Actual value erodes due to lack of productivity measures
- Governance gets stuck in the middle vs. simply facilitating a direct relationship between Customers and Provider
- Provider slow to react to changing needs (i.e. capacity issues)
- Coordinating work across multiple Providers
- Lack of cross-organizational governance experience
- Maintaining enough competence to be a capable buyer



Bill Metz, Alliances Program Manager, The Procter & Gamble Company, Mark Voytek, MGS Serviceline Leader, KPMG, “How Governance Models are Evolving as Outsourcing Matures”

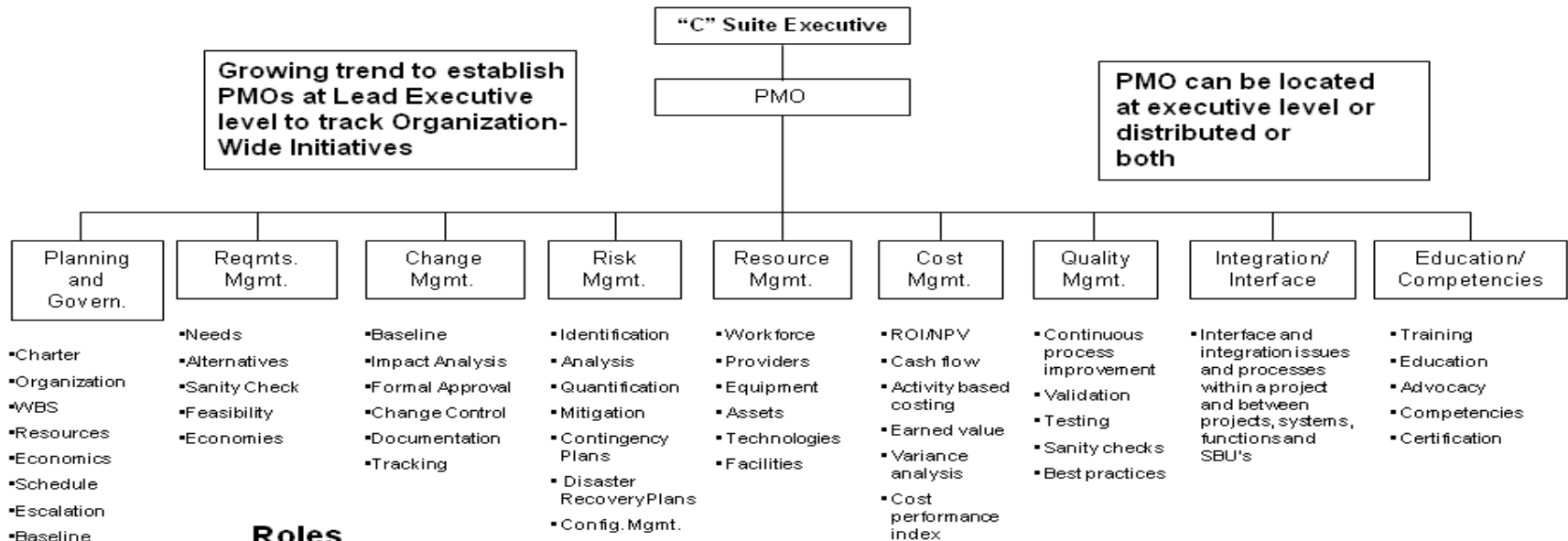


Rules of Engagement

- Interaction between using organizations, outsourcing management office and the outsourcer
- Generally not defined in the contract
- Changes as business conditions change
- Changes as outsourcing experience (and engagement) matures

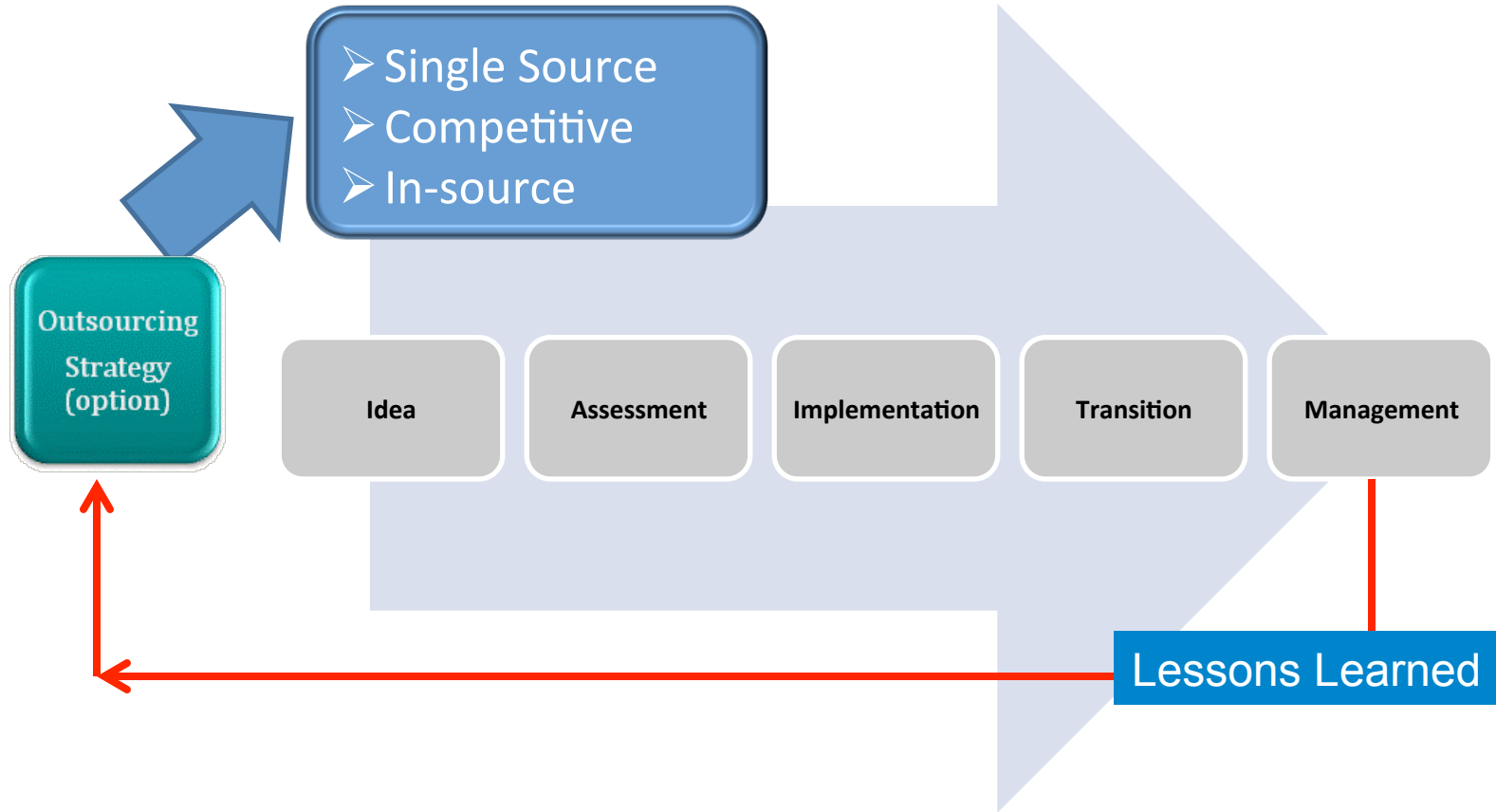
Governance

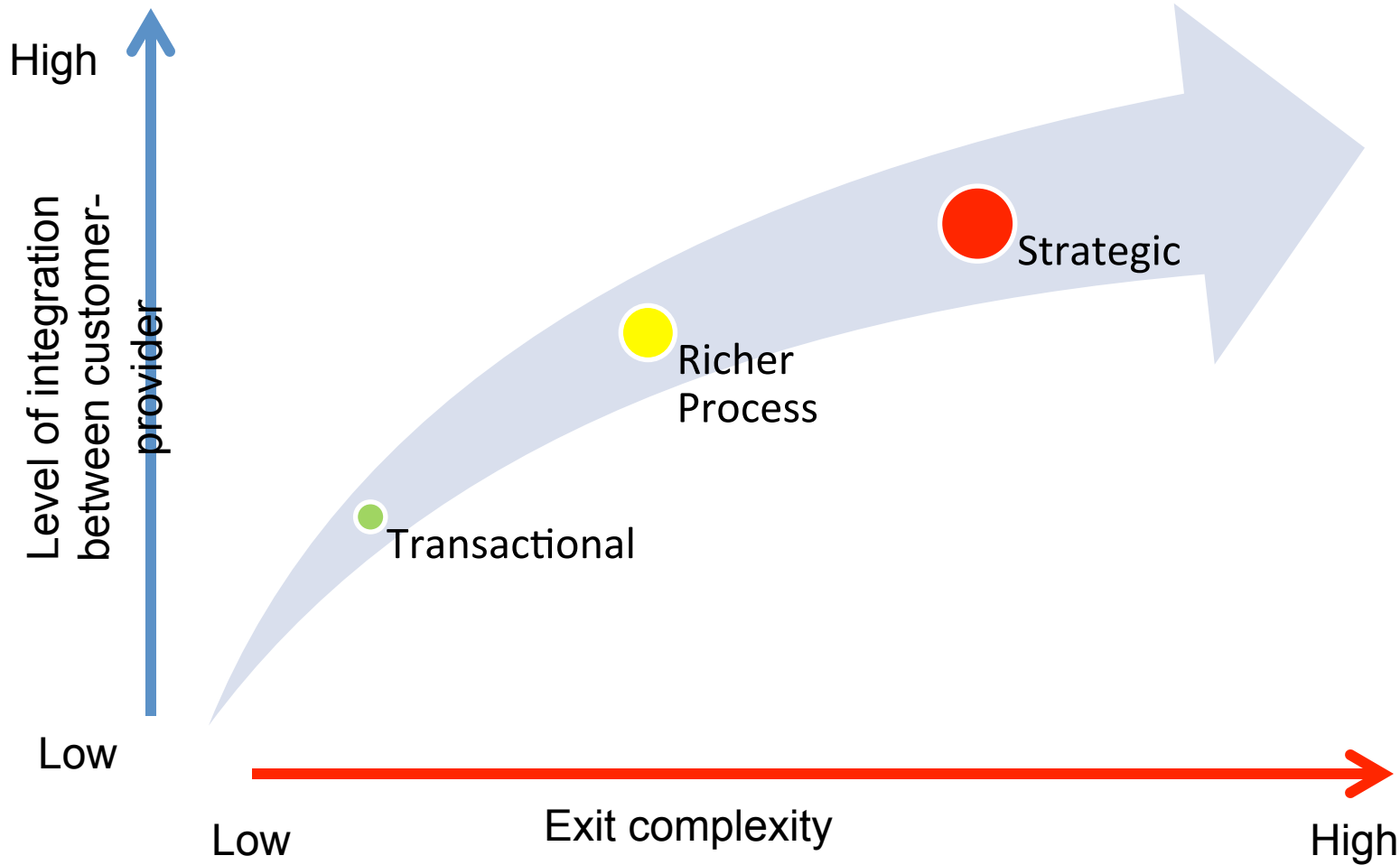
- Management of outsourcing engagement and the Provider(s)
- Exercising controls mechanism previously defined, established and included in the contract



Roles

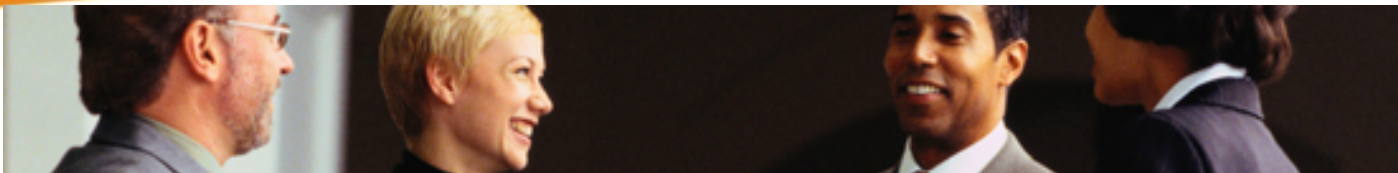
- ◆ Focal point for project planning, control and coordination processes
- ◆ Coordinate, control and report time, costs, resources and performance reporting
- ◆ Establish/Maintain/Administer all project processes, tools, templates & software
- ◆ Center of Excellence – Subject Matter Experts (for staff augmentation or to manage troubled projects)
- ◆ Help Desk/Web Site





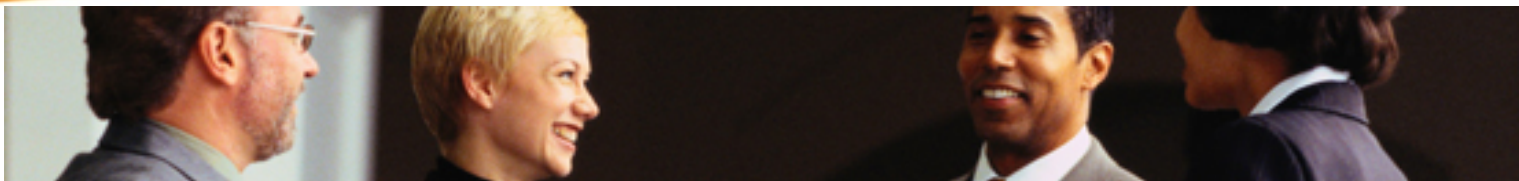
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10 Standards Categories

1. Defining and Communicating Outsourcing as a Management Practice
2. Developing and Managing an Organization's End-to-End Process for Outsourcing
3. Integrating Outsourcing into an Organization's Business Strategy and Operations
4. Creating, Leading, and Sustaining High-Performance Outsourcing Project Teams
5. Developing and Communicating Outsourcing Business Requirements

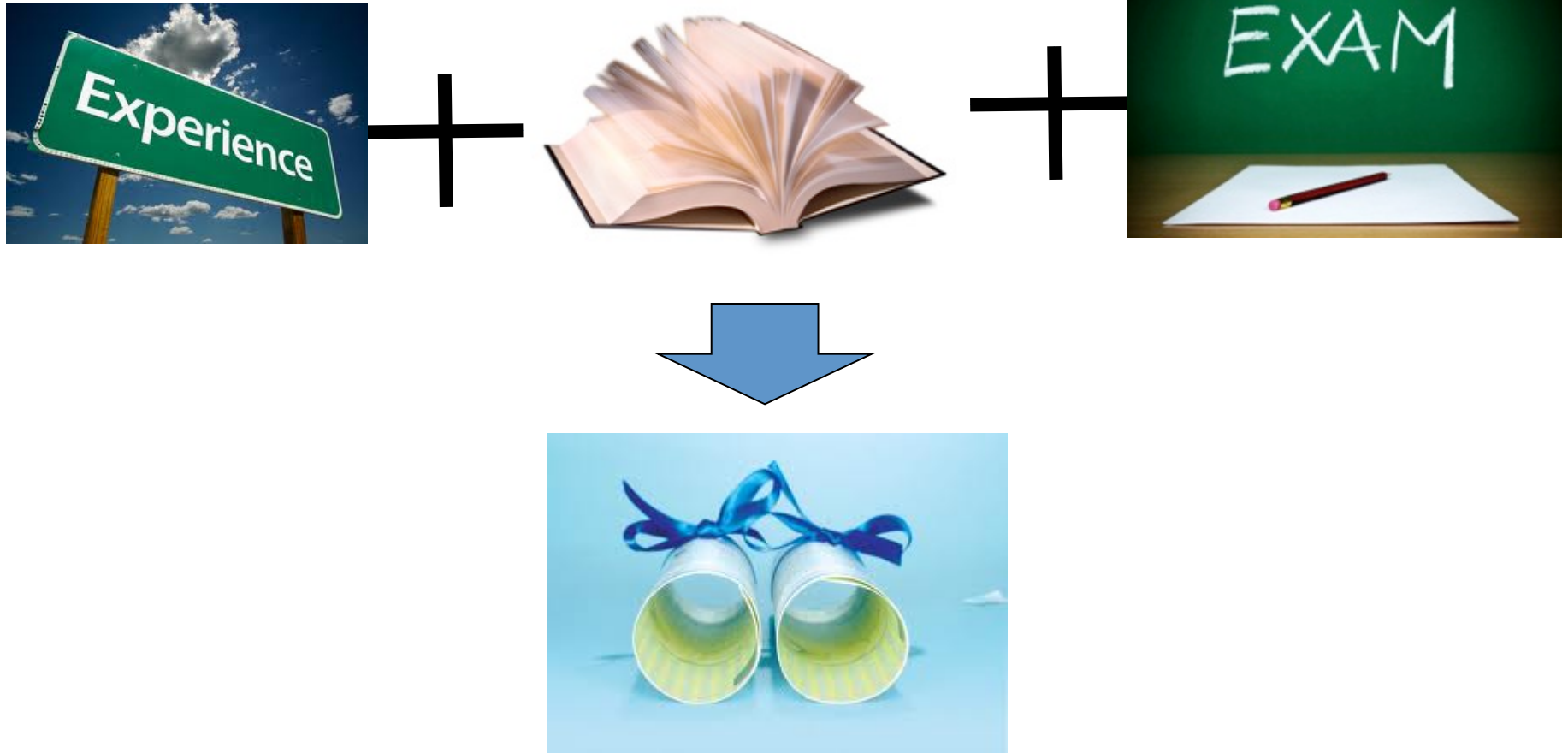


10 Standards Categories

6. Selecting Outsourcing Service Providers
7. Developing the Financial Outsourcing Case and Pricing
8. Negotiating and Contracting for an Outsourcing
9. Managing the transition to an Outsourced Environment
10. Outsourcing Governance

What do they have in common?





To become a Certified Outsourcing Professional (COP) an individual must be able to demonstrate both the experience and knowledge needed to design, implement, and manage outsourcing initiatives with a high probability of achieving the organization's intended outcomes

