

Are we getting the message?

Outsourcing has grown into a \$100 billion global market, but companies are still making costly mistakes. Paul Snell discovers that communication is the first step

A recent study into outsourcing has revealed that repeated errors put expensive and complex IT deals at risk. It rightly asks: Why do these problems persist in an industry that is becoming increasingly mature?

The report, *Understanding Misunderstanding*, concludes that the majority of problems occur when purchasers and suppliers don't communicate properly, particularly at the outset of a deal. But is that the whole story? Do the completed deals get the attention they deserve and do the contracts themselves always suit both parties? Or could procurement departments themselves be the problem?

Ron Jarman, head of global sourcing at news agency Reuters, says this is worrying for the outsourcing industry. "IT outsourcing has been around the longest and is supposed to be a mature market and better than the rest."

High-profile IT outsourcing blunders make the news all too often: cement manufacturer RMC UK brought its outsourced IT system back in-house in 2004 after disagreements over what was expected from its outsourcing supplier; several government departments' IT projects have been plagued by problems; and Sainsbury's and Accenture are still grappling over the supermarket's £3 billion supply chain system problems.

Only 21 per cent of suppliers quizzed in the survey felt that clients communicated their objectives well. With a figure this low, it is no wonder that their expectations are failing to be met.

In addition, all of the 29 outsourcing suppliers surveyed believed the prime motivation for clients to outsource is to cut costs. But only 76 per cent of clients said this was the reason for their decision. Meanwhile, 44 per cent of clients surveyed underestimated the effort involved in managing a supplier.

Howard Spode, principal consultant at outsourcing advisory firm Alsbridge, says even the simple aspects of outsourcing become confused by the way clients and suppliers interact. Last year, Alsbridge ran a think-tank into why business procurement outsourcing (BPO) was going wrong. It concluded that traditional procurement processes hinder relationships when applied to outsourcing.

Spode explains: "There is no meaningful engagement between suppliers and clients. It's all about 1,000-page requests with 2,000-page responses. The only people winning are the people advising on the deals."

He adds that suppliers can also be unwilling to change their business model to suit clients' objectives. This means features such as cost-cutting are being oversold by advisers, instead of focusing on issues the firm is really interested in, including access to IT skills.

Helen Merriott, partner in Accenture's UK retail practice, says success depends on both parties clearly defining what the needs are.

"It sounds basic, but unless you understand what they want to achieve, whether its cost savings or innovation, it won't work," she says.

And once the deal is signed, communication is vital, she adds. The firm's new 10-year, £23 million IT outsourcing contract with retailer New Look is a success story, she says. The deal was built on an eight-year relationship and to ensure smooth running, the team meets with New Look daily to review the previous day and plan for the next 24 hours.

But Peter Nowotny, chairman of outsourcing advisory firm Orbys, says the problems are more fundamental than communication breakdown.

"It was the case that clients were naïve, and struck inappropriate deals, but not so much anymore. Deals now are reasonable but ongoing management is too simplistic. And the structure and scope of outsourcing contracts are getting increasingly complicated" he says.

So what is the secret to successful outsourcing? Hilary Robertson, BPO strategy director at outsourcing firm Xansa, says success lies in a tailored deal that is flexible to meet changing business models over the life of the contract.

"The key is to engage with the spirit of the deal, include soft and hard goals, rather than just to the letter of the contract," she says.

But the right attitude will only get you so far. Nowotny says success depends on investing more money in active management of performance, service and relationship and measuring them against the market performance.

Without effective management it is a downward curve, he warns.

Taken from Supply Management magazine, archived article, News, April 27 2006