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Separating the Wheat

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With the distinction of being the world's most recognized source for advice on the evaluation, negotiation, implementation and management of successful outsourcing strategies, TPI's insights are frequently sought by Service Providers who believe we can help sway their prospects for lucrative services agreements. While a business advisor, such as TPI, certainly enjoys the honor of guiding a client through the complex and arduous process of selecting a business partner for a long-term business process relationship, there are certain truisms that every aspiring contender should hold in mind.

1. **Consultants do not select the successful service providers.** Our role is to guide our clients through the structuring of an objective evaluation. We help to frame the issues and factors that are inherent within the client's business strategy, and use those to design a relationship model between the client and its prospective service providers. Clients engage with sourcing advisors for the benefit of a structured process, expert advice on business terms, and proven outcomes – always measured by the achievement of client business objectives. For TPI engagements, our objectives are to ensure that all competing providers are able to demonstrate their best face –allowing the clients to make an informed selection of the most appropriate dance partner.
2. **Getting invited is the most difficult challenge.** Most clients cannot effectively support a sourcing evaluation that comprises more than four or five competing service providers. As such, they employ a pre-solicitation process to qualify those providers who will be invited further into the evaluation. It is essential that aspiring service providers, especially those that are relatively new entrants to the global outsourcing marketplace, convey a focused and compelling case. We advise our clients to select a blend of established and rising candidates in order that they might best understand the current landscape. Few clients seek to serve as the proving ground for nascent services, so it is essential that relatively young providers demonstrate the staying power that a client demands of its providers.
3. **Every game has its rules.** Regardless whether there is a business advisor such as TPI involved in the sourcing evaluation, it will behave the ambitious service provider to invest in understanding the rules of the game – and play by them. There is no more certain path to disfavour than to violate the ground rules set forth by the project team empowered to direct the evaluation process. One of the more egregious acts of disrespect is to bypass the client's project team with the intent of seeking favour with senior management. These tactics are almost never successful. Often, such end-runs are prompted by concerns of competitive disadvantages – the belief that the competition is enjoying unfettered access to senior client decision-makers. A legitimate concern – and one that should be addressed by the rules of the engagement, and tested frequently through dialogue with the project team.
4. **Profitability is not a forbidden topic.** We encourage our clients to talk openly with its candidate service providers about profitability. The health of an outsourcing relationship can be measured in many ways, but one of the more telling is the achievement of the service provider profitability objectives. We have found that there exists a strong correlation between the achievement of the client's business objectives regarding an outsourcing relationship and the behaviours exhibited by a service provider that is



effectively implementing plans to derive a fair profit margin. We discourage judgment on what a “fair margin” might be – leaving that to the competitive market, but we believe that our clients need to weigh the feasibility of the candidate providers abilities to take the actions and implement the plans necessary to reduce operating costs without introducing undue risks or disruptions. Providers should be comfortable discussing their confidence in the delivery of contracted services at an acceptable level of profit.

5. **Winning is not a computed event.** In the case of TPI competitive solicitations, we encourage a high degree of subjectivity in the selection of a winning service provider. After all, the client is forming a relationship, not merely buying a commodity. When the dust of the competitive evaluation has settled, there is much work to be done and this depends greatly on the bonds formed through the evaluation process. A wise contender will keep this in mind, and invest time in the relationship rather than in the individual criteria relating to proposal evaluations. Of most importance here is the active involvement of the intended service delivery team in the sales process. Let the personalities of the people who will lead the day-to-day operations be evident.
6. **People buy from people.** Believe it or not, the lowest priced proposal rarely wins in the evaluation of long-term outsourcing relationships. Yes, the price does matter – and must be in the range of acceptable, always yielding savings from the base case. One of the reasons that TPI insists on sharing the client’s base case is to avoid any uncertainty around the cost hurdle that the outsourcing proposition must reach. It may not be stated explicitly, but other factors usually carry the decision once the costs of varying proposals are considered. These factors include confidence in the management team of the candidate service providers to deliver an innovative or creative solution, recognition of the market leadership and vision of the provider, feasibility and structure of the transition and transformation programme, and appreciation of the relevance of the core business terms to the client’s long-term interests. An experienced advisor will assist in the formation of an alignment in business interests and expectations during this process.
7. **Client references are the most important selling tool.** Listen carefully next time a client executive introduces a newly-selected service provider to the corporation. Invariably, the characterisation begins with a recitation of the provider’s industry credentials, including the roster of other clients served. As is the case with sourcing advisors, the company your organisation keep speaks volumes for its character and worthiness. There is a fine balance here. You don’t want to convey a message that you’re overly occupied with other commitments and, thus, unlikely to adequately service a new client. Nor should you convey casual appreciation for the privilege of servicing leading clients. There is an art to the presentation of industry credentials, and you should expect that prospective clients will want to speak with several of your current clients.
8. **It’s the WHAT that matters most.** All too often, a service provider will believe that the technology solution is the answer being sought by a client. The global outsourcing market has matured to the point where capabilities are almost irrelevant in the selection process. Clients are selecting service providers



based on solutions – articulated in defined manners and committed with defined prices. The emphasis in the evaluation process is placed on what those solutions entail; only a small portion of the effort is devoting to understanding how those solutions are delivered. In that sense, the exploration is generally one aimed at confirming the feasibility and prior application of the intended services. Do not become enamoured with your technology environment – clients are seeking solutions that align with their own business direction.

9. **Follow the money.** It has been a long-held industry truth that clients who engage outside sourcing advisors such as TPI are essentially “pre-qualified” with respect to their intent to follow through to a services agreement. But we also encourage you to ask about how the sourcing advisor is to be remunerated. Are incentives in place to achieve certain cost reduction targets? Are there “success fees” involved? Like most things in our world, money motivates certain behaviours. Indeed, literally all clients are motivated to consider outsourcing for the purpose of reducing operating costs. Is that the sole objective? By what proportion is the expectation established? Understand the economic ecosystem of the sourcing evaluation, especially before you invest your own time and money in a pursuit.

10. **Consumers seek education.** Those of us who call outsourcing our livelihood, in one manner or another, might be surprised by this, but the fact is, most clients are on a diligent search for knowledge. This is true for the relatively mature IT Outsourcing market, as well as for the fast-growing Business Process Outsourcing market. Client executives at all levels are searching for best practices, critical success factors, feasibility indicators, proven operating models, relationship tips, and the like. Our industry needs to continue to provide transparency for those corporations seeking to make highly strategic decisions regarding their services supply chain. The more we do to provide fact-based insight into how to effectively leverage outsourcing, the better enduring are the results and thus, the longevity of our entire industry.

The heat of a competitive evaluation of outsourcing service providers is hardly the ideal time to begin studying these tips. We’ve found through our 16 years and 700 outsourcing transactions that the service providers and clients who are best prepared to undertake a relationship-oriented journey for alignment are the ones who will reap the mutual rewards of a win-win relationship.

ABOUT TPI: TPI is the founder and innovator for the sourcing advisory industry, and the largest sourcing advisory firm in the world. We are expert at a broad range of business support functions and related research methodologies. Utilizing deep functional domain expertise of accomplished industry experts who possess extensive practical experience, TPI collaboratively works with organizations to help them optimize their business operations through the best combination of insourcing, offshoring, shared services and outsourcing. For additional information, visit www.tpi.net.

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