



Deployment of Sourcing Strategy: What Comes First – Fix or Move?

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A TPI FRAMEWORK FOR DECISION MAKING

Corporations and organizations deciding on a sourcing strategy are commonly faced with the question of whether to first “fix” their existing operations, meaning improve efficiency and effectiveness, or move (outsource) in an effort to achieve significant benefits, including cost savings and performance gains. The answer, expectedly, is not straightforward and is essentially dependent on the circumstances of each situation.

TPI has assisted clients in dealing with such situations by individually analyzing the circumstances of the client, prior to recommending the path forward. This paper reviews the relevant factors that need to be considered when faced with the question.

TYPES OF CHANGE

Typically, the “fix” can refer to a wide range of initiatives — from minor process or functional design changes to the implementation of a completely new technology platform or a major upgrade of core business applications.

A key question is if the client should implement the required changes, re-engineer the processes, re-estimate the scope and service-level impact or just move the current state of affairs to the service provider and secure the provider’s commitment to deliver those changes or improvements.

The types of changes may fall into one of the following categories:

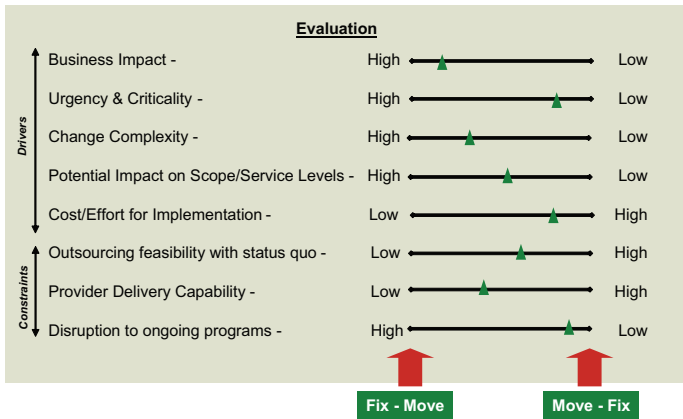
- **Technology implementations:** This may include platform migrations, business applications upgrades, systems integration efforts, automation of some manual work or activity. They can be further classified into major projects or minor ones.
- **Re-engineering programs:** In cases of ongoing re-engineering initiatives within the client organization, the question is whether or not they should be completed, prior to outsourcing.
- **Essential for outsourcing:** The current state of a function or process may not be amenable to outsourcing; however, in spite of this, the decision to outsource may have been made. Hence, the current environment will need to be realigned in terms of hand-offs, tweaks to processes and changes to make outsourcing viable.
- **Poorly defined processes:** The process or function itself may not be good in terms of its definition, structure or performance. The client needs to decide if it should settle for the “same mess for less” — by transferring the process to the service provider and hoping for subsequent improvements.
- **Processes with significant improvement potential:** A given process may have significant



potential for improvement that, when achieved, will impact the scope and level of effort as well as the service levels that can be set around it. In such a case, the client needs to decide if the improvements are to be made before transferring the process to the service provider.

There are no straight answers to the questions arising from the different types of changes outlined above. Any decision will depend not only on the changes called for but also on their assessment against the business drivers and constraints.

From our experience, we believe that the following framework (key drivers and constraints) is helpful in arriving at such a decision:



These factors can form the principal levers to determine the right approach in any specific situation.

Consider, for instance, a situation where a process is not well defined or structured and the client wishes to outsource that process. If evaluated against these drivers and constraints, as illustrated below, the client is in a better position to make a decision on the “fix versus move” question:

Factor	Assessment
Business Impact	Low
Urgency & Criticality	Med
Change Complexity	Low
Potential Impact on Scope/Service Levels	Med
Cost/Effort for Implementation	Low
Outsourcing feasibility with status quo	High
Provider Delivery Capability	High
Disruption to ongoing programs	Low
Suggested Approach	Move, Fix

The above illustration reflects a situation in which the service provider (or the marketplace, if there is no identified service provider) has demonstrated capability to deliver the goods and it is feasible to outsource the process as “status quo” (with other factors also working favorably). It will make perfect commercial sense to move and then have the service provider fix the process with specific SLA targets and benefits commitments.

Since the assessment of each of the factors will, obviously, differ in each situation, the exercise warrants a custom assessment each time.

Choosing to “move first” or “fix first” will each have its set of associated benefits – it is key to ensure the right approach is followed each time the decision is made. Conversely, adopting the wrong approach may not only lead to delays and problems but also an “opportunity loss” in terms of the benefits that could have been realized with the right approach.

KEY BENEFITS OF EACH APPROACH

If the transition to the service provider is followed by change implementation (move, then fix), the potential benefits include:

- Early commencement of outsourcing (or offshoring) benefits



- Ability to leverage relatively low-cost resources (rate card) of service provider for the “fix” (change implementation)
- Ability to leverage the “expert resource pool” of the service provider. In some cases, based on the past relationship between the client and the service provider, the latter may have resources who are experts in the client’s bespoke environment
- Utilization of the financial gains from outsourcing to fund improvement programs
- Opportunity to build a true “transformation partnership” with the service provider by relying or blending in capabilities of each

If the change implementation is undertaken first prior to transition to service (fix, then move), the benefits realized will include:

- Reduced risk in transition to the service provider
- Ability to re-estimate the effort and scope of outsourcing required, as well as the improved service levels that may be expected
- Early realization of the business benefits from change implementation/reengineering
- Service provider resources may still be leveraged (though at higher cost due to skewed client-service provider staff mix).

TRANSFORMATION OFFERINGS IN THE MARKET

There is a discernible trend, during the last 18 months, of service providers aggressively pitching their “transformation offerings” to clients. The service providers’ intent is to be able to provide clients with the transformation impact (read as higher quantum or an end-to-end impact) together with the responsibility to deliver end-to-end processes or a wider spectrum of services.

We believe that service providers are making an attempt to differentiate themselves with innovative and bundled offerings (across IT and business process outsourcing (BPO)/knowledge process outsourcing); however, the anticipated benefits of such offerings are yet to be realized in experience by clients.

Going forward, the ability of service providers to deliver true transformation benefits will determine, whether clients start buying into transformation or bundled offerings as a trend.

CONCLUSION

Regardless of the nature and scale of change planned or anticipated, the organization has to take a decision on “fix or move first” in an outsourcing situation. There are no easy answers since a variety of factors and constraints need to be considered to determine the right approach. In the absence of a formal assessment to determine the right approach, the organization will be at risk for a potential sub-optimal situation – delayed and/or lower realization of business benefits.

Of late, transformation offerings from service providers are orienting the clients towards “move, then fix” type approach; however, the proposed benefits of such offerings are yet to be realized by clients to reduce their level of skepticism.

In summary, a formal evaluation is prudent each time the client is faced with the decision of “moving” first versus “fixing,” to ensure the organization derives the benefits of adopting the right approach.



ABOUT THE AUTHOR: Dinesh Goel advises TPI's clients on aspects of their global service delivery strategy with specialization in the finance and accounting domain. Dinesh brings extensive experience having worked directly with a leading BPO service provider, coupled with a strong management consulting background advising clients on their business strategy, operational re-engineering for efficiency improvements and IT implementations. He derives his sourcing knowledge from practical experience negotiating BPO contracts, leading contract transitions and implementations, managing outsourcing contracts and relationships, and developing BPO methodology and tools.

Prior to joining TPI, Dinesh worked in a variety of senior management positions leading large transition programs, conducting operational assessments and negotiating BPO contracts.

He is a qualified Chartered Accountant and a Cost and Management Accountant. He holds a Bachelor of Commerce from the Shri Ram College of Commerce, University of Delhi (Gold Medalist – Ranked First at Delhi University).

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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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