

Taking your vows

Top tips for successful IT outsourcing

You've done the research, defined your sourcing strategy, reviewed the market to identify the right partner, and you've made the decision to outsource.

And why not? Amongst its many other advantages, it also makes good financial sense. When correctly established and managed well, IT outsourcing agreements can save you money, increase operational control, leverage best practice and free up your business to focus on core activities.

Successful outsourcing is all about relationships, and an IT outsource is a long term commitment which must be beneficial to both parties — like a marriage. So before you exchange your outsource vows, here are some considerations based on our experience to make sure you start on the right footing and create an arrangement that is mutually beneficial and built to last.

Retain control of what's important to you

By outsourcing, you are not avoiding risk, you are creating risk. Most people don't get married and then forget about their spouse, so treat this partnership the same way. Outsourcing should not be about handing over a service and then forgetting about it. We've often seen IT outsourcing lead to a loss of internal capability in key roles such as strategy and design, which can leave you in a precarious position in the future. Yes, your provider is responsible for delivering a smooth operational service, but you can't outsource accountability. You need to make sure knowledge and the ability to manage risk stay within your organisation, because if you don't, who will?

Think you're getting a good deal? If it looks too good to be true, it usually is. Be warned that a very price-focused IT outsourcing arrangement can limit your capacity to nurture and deliver innovation, especially where internal capability has been lost as part of the business case for going ahead.

Don't marry just for money- build in flexibility for a long term relationship

You are buying a capability for your business and the reduced cost at which you are doing so will come at a price. Once the contract is signed and the service is live, the provider will be keen to recover the revenue they sacrificed to secure your business. They will be forced to reduce service quality, or look to recoup losses on other parts of their relationship with you. Philanthropist, John Ruskin, summed this up: 'When you pay too much, you lose a little money — that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do.'

Avoid this situation by being up front and making sure their pricing is transparent from the very start - both you and your provider should be clear on the levers that impact profitability, allowing you to work together to improve services and drive down costs.

Protect each other — prices should change appropriately if you change the scale, pace or direction of your business or the services you are outsourcing. To achieve this, pricing must be aligned with your provider's cost of delivery, and flex accordingly.

Also, recognise that, as in any marriage, the practicalities of working together day-to-day will change over time. Make provisions in the contract to manage change, and consider contracting for behaviour as well as outcome on both sides. Promise to “have and hold, love and cherish”, rather than to document who will empty the dishwasher. While the scope and detail of the outsourcing arrangement will change, you will still value behaviours such as innovation, honesty, challenge and continuous improvement, regardless of the changes to the day-to-day.

Fully commit to the relationship

This relationship will fail if you don't integrate your partner into your existing business and supplier landscape. Whilst it is easy to get distracted by the structure and complexity of the IT services involved, don't neglect the required internal investment in integration — this is often underestimated.

Many IT outsourcing arrangements are split into horizontal streams (e.g. application and infrastructure) or by vertical business function, and typically you will have agreements with multiple parties. This creates challenges to ensure clear end to end responsibility for the service that IT provides to the business. Ultimately you, as the buyer, need to be the glue between multiple vendors and systems.

Make sure your in-house team has the right skills and governance in place to ensure that it continues to operate effectively throughout the lifecycle of the deal. You're going to need robust operating agreements with your suppliers, and between suppliers, so that everyone is working together to ensure that the overall service levels committed to the business can be met by IT.

Know where you're heading

A mature outsourcing agreement recognises that the relationship will end so jointly agree your exit plan for all services upfront — don't leave this as an activity to be delivered after you have signed your contract. Think of it as your 'pre-nup', and invest time to understand how services will be transitioned back to you, or to a new partner, at the conclusion of the agreement — or earlier if required. Also, recognise that the approach and timing will differ across the different services in the agreement.

Be possessive. Make sure your organisation retains the intellectual property rights to any designs or processes that may be moved to another provider at the end of the contract. And, because you've been thinking ahead, your mid-to-long term plans and budgets need to include costs and timescales for procuring and moving to other providers.

This is not just important when you sign your agreement, it should be reviewed and updated on a regular basis. Don't let a friendly relationship be a replacement for a solid commercial arrangement, and be thorough when it comes to the paper work - remove ambiguities by documenting contractual failures on both sides. Any grey areas will only serve to muddy the water further down the track. You and your outsource provider need to know where you stand, so the process for invoking contractual breach is clearly understood by both parties.

Finally, once you've exchanged vows, look for the signs of a healthy relationship

A healthy relationship means you are holding up your end of the bargain and meeting the businesses obligations in the agreement, while the provider is not leveraging 'holes' in the contract to justify failed delivery. You're operating in a world of mutual respect and, consequently, are starting to see real business benefits. Not only should you be getting positive internal feedback on the services delivered by your supplier; your account should have an excellent reputation within the provider's organisation and be attracting their best people.

There should also be a strong relationship between your internal team and the provider's organisation; so much so that they are seen as an extension of your business. Your capabilities should complement each other, and you should be working together to shape the strategic direction of your IT services, which are aligned with and support the business' overall vision.

Once you've reached this level of familiarity, the outsourcing relationship comes into its own. Your provider will be actively improving quality and starting to save you money whilst driving down their costs, with changes to the services becoming increasingly seamless. Key performance indicators (KPIs) should be openly and periodically benchmarked, holding up favourably against the wider industry. If none of these sound familiar to you, it may be that your relationship needs more work...



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