

PRACTICAL OUTSOURCING

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IMPORTANCE OF OUTSOURCING

- ❑ GROWING FAST
- ❑ GROWING FASTEST IN GOVERNMENT AND SERVICE INDUSTRIES
- ❑ STILL LESS THAN 5% OF GDP

MUCH POTENTIAL?

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FEATURES OF OUTSOURCING

- ❑ HIGH PROPORTION FAIL TO MEET EXPECTATIONS
- ❑ SIGNIFICANT PROPORTION MAKE THINGS WORSE
- ❑ SOME ARE DISASTROUS

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WHY?

- ❑ EXPECTATIONS UNREALISTIC
- ❑ LACK OF DUE DILIGENCE
- ❑ OUTSOURCING DECISION INCORRECT
- ❑ EXECUTION POOR
 - NOT PROPERLY PLANNED
 - RESEARCH INADEQUATE
 - LACK OF UNDERSTANDING OF BUSINESS
 - BEING OUTSOURCED
 - LACK OF UNDERSTANDING OF OUTSOURCING
 - FAILURE TO INVOLVE PROCUREMENT AT THE RIGHT TIME
 - FAILURE TO PLAN AHEAD - CONTRACTS MANAGEMENT, EXIT AND RE-TENDERING
- ❑ FAILURE TO LEARN FROM PAST MISTAKES

WE HAD PLENTY OF TIME TO LEARN !

1. POTTERY

**2. MOST DISASTROUS / SUCCESSFUL
OUTSOURCING EVER!**

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LESSONS

- ❑ **HAVING A DEVELOPED SUPPLY MARKET INCREASES THE CHANCE OF SUCCESS**
- ❑ **THE VALUE OF A THOROUGH RISK ANALYSIS**

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PRACTICAL DEFINATION

**THE TRANSFER OF PART OR WHOLE
OF AN EXISTING IN-HOUSE ACTIVITY
TO A THIRD PARTY.**

**THIS MAY INCLUDE THE RELATED
HUMAN RESOURCES AND/OR ASSETS**

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WHY OUTSOURCE?

STRATEGIC

ORGANISATIONAL

FASHION / EMOTION

FINANCIAL / SURVIVAL

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STRATEGIC

- ❑ FOCUS ON CORE STRATEGIC ACTIVITIES
- ❑ GAIN COMPETITIVE ADVANTAGE
- ❑ INCREASE FLEXIBILITY
- ❑ DEVELOP STRATEGIC PARTNERSHIP
- ❑ ACCESS TO EXPERTISE
- ❑ ACQUIRE INNOVATIVE IDEAS
- ❑ ENABLE MAJOR ORGANISATIONAL CHANGES
- ❑ INSURANCE

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ORGANISATIONAL

- ❑ ADDRESS SHORTAGE OF TECHNICAL RESOURCES
- ❑ IMPROVE QUALITY AND EFFICIENCY
- ❑ IMPROVE MANAGEMENT AND CONTROL
- ❑ OUTPUTS CLEARLY DEFINED
- ❑ CLEAR VIEW OF COSTS
- ❑ SOLVE INTERNAL PROBLEMS

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FASHION / EMOTION

- ❑ CORE/COMPETENCY ANALYSIS
- ❑ CANNOT KEEP UP WITH THE SPECIALIST
- ❑ MAJOR BENCHMARKING STUDY
- ❑ CEO INITIATIVE
- ❑ HIGH LEVEL SUPPLIER LOBBYING
- ❑ IT IS A MESS –

GET SOMEONE ELSE TO DO IT!

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FINANCIAL DRIVERS

REDUCE INVESTMENTS

REDUCE COSTS

COMMERCIALY EXPLOIT EXISTING
SKILLS

DESPERATION!

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WHY OUTSOURCE?

BURY THE PAST

MATCH THE PRESENT

ACCESS THE FUTURE

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WHAT CAN BE OUTSOURCED?

NON-CORE BUSINESS

BUT

**DEFINITION OF NON-CORE IS
CHANGING RAPIDLY**

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WHAT CAN BE OUTSOURCED?

- EVERYTHING!

- SOFTWARE SERVICES
- MANUFACTURING
- WAREHOUSING
- DISTRIBUTION
- CALL CENTRES
- ACCOUNTANCY
- HEALTHCARE
- DEFENCE
- BUILDINGS' SERVICES
- HUMAN RESOURCES
- DEBT COLLECTION
- PROCUREMENT
- TRAINING
- TRACK MAINTENANCE

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WHETHER TO OUTSOURCE?

- **A STRUCTURED WAY TO MAKE THE RIGHT DECISION**

- 1. CONSISTENT WITH BUSINESS STRATEGY**

- 2. FINANCIAL APPRAISAL:**

- **CLEAR VIEW OF EXISTING COSTS**
- **NEEDS UNDERSTANDING OF SUPPLY COSTS**

- 3. OPTION APPRAISAL**

- **RISK ANALYSIS**
- **BENEFITS**

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DEVELOP STRATEGIC PLAN

VISION

MISSION

STRATEGY

INITIATIVES

ENABLERS / INFRASTRUCTURES / RESOURCES

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STRATEGY



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INVESTMENT APPRAISAL - COSTS

1. MUST KNOW EXISTING COSTS

2. TO DELIVER A BETTER COST BASE TO THE CUSTOMER, THE OUTSOURCER'S COST BASE MUST BE ONLY 75%

3. SWITCHING COST 5%

4. MANAGEMENT COST 5%

5. GROSS PROFIT 15%

NEW COST BASE 75%

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OPTION APPRAISAL

EXAMPLES OF RISKS

- SECURITY OF SUPPLY
- LENGTH OF SUPPLY CHAIN
- QUALITY ASSURANCE
- ALL EGGS IN ONE BASKET
- SELECTING WRONG SUPPLIER
- LONG TERM CONTRACT
- CHANGING BUSINESS ENVIRONMENT
- LOSS OF FLEXIBILITY
- LABOUR RELATIONS
- CONTRACTS MANAGEMENT
- POOR MANAGEMENT OF OUTSOURCING PROCESS
- CUSTOMER PERCEPTION/REACTION
- RE-TENDERING AT END OF CONTRACT

OVERSEAS OUTSOURCING

- SPECIFIC RISKS

QUALITY

LENGTH OF SUPPLY CHAIN

CURRENCY FLUCTUATIONS

SECURITY OF SUPPLY

SECURITY OF INFORMATION

GREATER DIFFICULTY OF MANAGEMENT

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OPTION APPRAISAL/RISK EVALUATION

RISK (EG QUALITY – OUTSOURCING UK)

LIKELIHOOD 

			12	

IMPACT 

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OPTION APPRAISAL/RISK EVALUATION

	OUTSOURCING ABROAD	OUTSOURCING UK	KEEP IN- HOUSE	COMBINATION
SECURITY				
SUPPLY CHAIN LENGTH		12		
QUALITY				
CURRENCY				
ETC				
TOTAL				

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KEY SUCCESS FACTORS (1)

- ❑ CONSISTENT SUPPORT FROM THE TOP
- ❑ COMPETENT OPTION APPRAISAL
- ❑ NEED CLEAR OBJECTIVES – AGREED TO THE OUTSET
- ❑ REALISM
- ❑ UNDERSTAND BUSINESS TO BE OUTSOURCED
- ❑ CLEAR PROJECT EXECUTION PLAN
 - MILESTONES
 - ‘GATEWAY’
- ❑ EXCELLENT PROJECT MANAGEMENT SKILLS
- ❑ AWARENESS OF FULL COSTS
- ❑ ACCOUNTABILITY
- ❑ SENSIBLE TIMESCALE

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SUCCESS FACTORS (2)

- ❑ OUTCOME (PUT) SPECIFICATIONS**
- ❑ MONITOR ONLY KEY OUTPUTS**
- ❑ SUPPLIER MANAGEMENT PLAN**
- ❑ PLAN FOR END OF CONTRACT/RE-TENDERING STRATEGY**
- ❑ EXIT STRATEGY**
- ❑ RETAIN SUFFICIENT IN-HOUSE EXPERTISE**
- ❑ FUTURE PROOF THE DEAL – CHANGING BUSINESS ENVIRONMENT**

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SUCCESS FACTORS (3)

- ❑ BUSINESS SHOULD BE PACKAGED TO BE ATTRACTIVE TO SUPPLIERS
- ❑ OBTAIN THE RIGHT DEAL STRUCTURE
- ❑ KEEP UP THE COMPETITIVE ENVIRONMENT
- ❑ EXPLOIT MARKET AND SUPPLIER CAPABILITY
- ❑ EFFECTIVE TRANSITION TO 'BUSINESS AS USUAL'
- ❑ MAINTAIN PRICE

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SUCCESS FACTORS (4)

- ❑ PROCUREMENT INVOLVED AT EARLY STAGE
- ❑ STRONG CONTRACTING SKILLS
- ❑ STRONG CONTRACTS MANAGEMENT SKILLS
- ❑ CONTRACTS MANAGEMENT PLAN
- ❑ KEEP CONTRACTING TEAM TOGETHER – TO MANAGE CONTRACT
- ❑ DEVELOPED SUPPLIER BASE (OR A PLAN TO DEVELOP ONE)
- ❑ INVOLVEMENT OF SUPPLIERS

FAILURE FACTORS

- ❑ ABSENCE OF KEY SUCCESS FACTORS
- ❑ UNCLEAR/CONFLICTING OBJECTIVES
- ❑ RETENTION OF EXISTING POOR MANAGEMENT
- ❑ CONTRACTS MANAGERS FROM ORIGINAL SERVICE TEAM
- ❑ INADEQUATE BUSINESS ANALYSIS
- ❑ INADEQUATE UNDERSTANDING OF SUPPLY MARKET
- ❑ INADEQUATE PLANS FOR CONTRACTS MANAGEMENT
- ❑ INADEQUATE MANAGEMENT OF CONTRACTING OUT PROCESS

REDUCE RISK (1)

APPLY 'GATEWAY' APPROACH

- STRATEGIC ASSESSMENT
- BUSINESS JUSTIFICATION
- PROCUREMENT STRATEGY
- INVESTMENT DECISION
- READINESS FOR SERVICE
- BENEFITS EVALUATION

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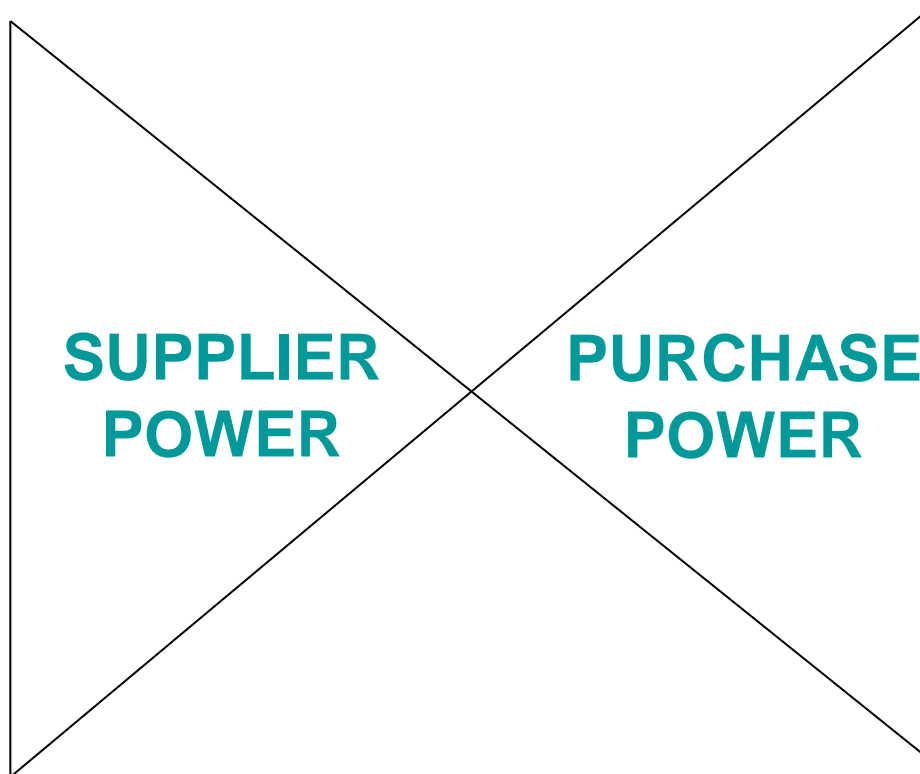
REDUCE RISK (2)

BEWARE!

- ❑ **LOW SKILLED SERVICES – BENEFITS MOSTLY FROM LOWER WAGES**
- ❑ **COMPANIES CANT TAKE YOU OVER**
- ❑ **POLITICAL EXPENDIENCY**
- ❑ **OVER-CONFIDENT SUPPLIERS**
- ❑ **OVER-AMBITION**

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REDUCE RISK (3)



**SIZE OF SUPPLIER
COMPETITION**

AMOUNT OF SPEND

**EXPERTISE
SUPPLIER/CUSTOMER**

**DIFFICULTY/
COMPLEXITY**

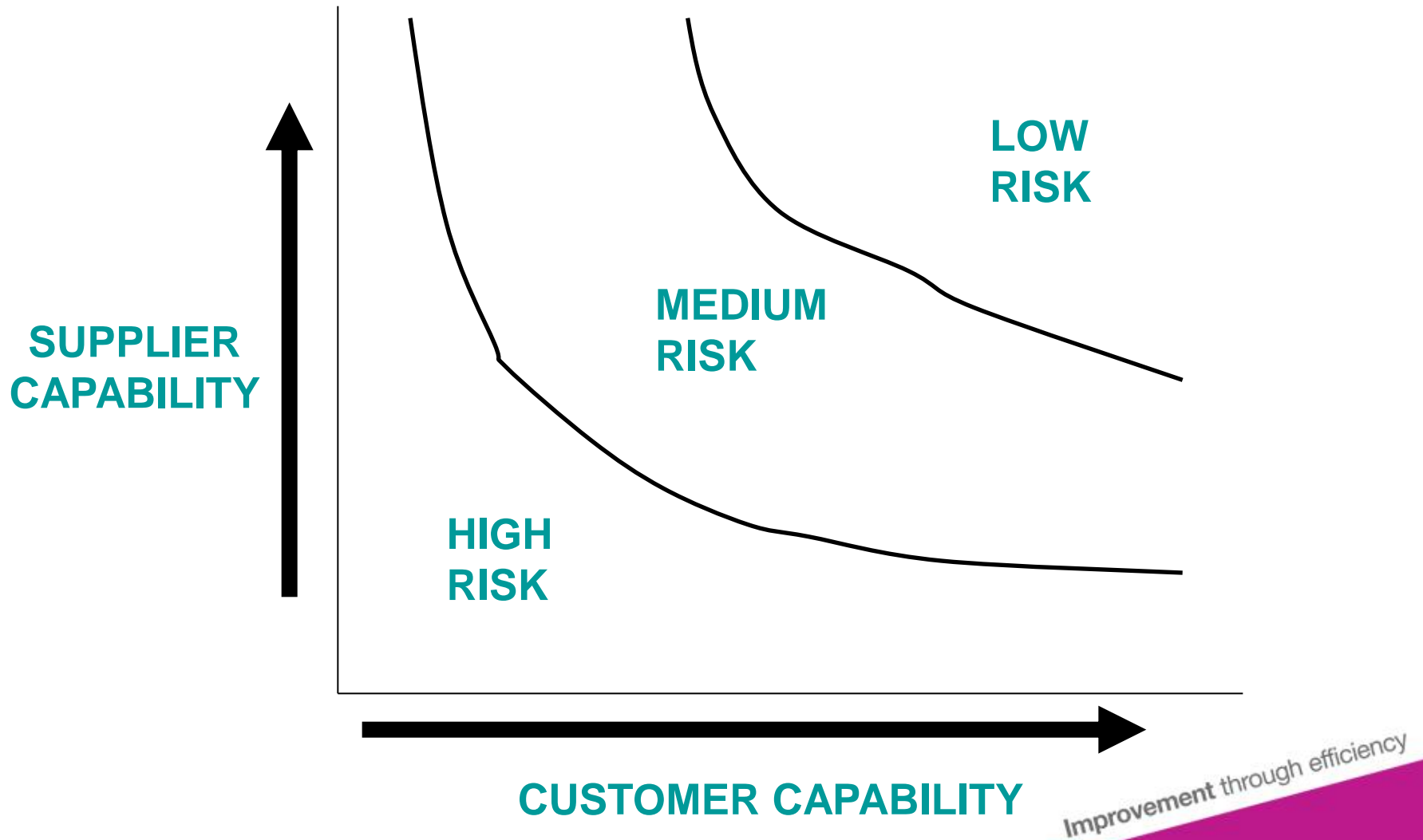
UNIQUENESS

DEPENDENCE

MULTI-NATIONAL

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REDUCE RISK (4)



Thank you

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