Outsourcing Four Projects and a Process
Marion Fogell, IBM South Africa

In recent years many companies have realised the strategic advantages of focusing on their core business processes and outsourcing non-core business operations to specialist organisations.

Non-core processes often do not meet customer requirements, do not meet control requirements and/or are perceived to be inefficient and expensive. As these operations are not the customer organisation’s speciality and have these intrinsic problems, the supplier organisations (who are, of course, experts in their field) often dominate the outsourcing negotiations and transition activities. This may leave the customer at a disadvantage, feeling that they have lost control, and that the operation is now “done to” rather than “done by” themselves!

It is important for the customer organisation to maintain control of the operation throughout; after all, he does best know his business objectives, his customers and their needs, and his company’s goals and strategies. An excellent technique for keeping control of the outsourcing process is for the customer organisation to apply firm project and process management methodologies to the outsourcing project and the resulting outsourced operation.

This presentation is entitled “Outsourcing - Four Projects and a Process”. It combines the standard elements of project and process management and describes an integrated methodology, highlighting the risks, critical success factors and deliverables of each phase. It is based on the author’s experience with infrastructure operations but is completely general and can apply just as effectively to I.T. and other technical outsourcing projects.

- The standard CONTRACT MANAGEMENT PROCESS has four phases: Initiate, Establish, Manage and Terminate.
- The BUSINESS PROJECT has the standard phases of Initiate, Define, Manage and End. It starts with a business process or group of processes which are problematical and has the goal “to identify and implement a better way of doing it without diverting resources from the core operation”.
- The Project Initiation phase of the Business Project is prior to the Contract Management Process. It has the goal “to select and approve a target solution to the business problem”. This is a PROJECT to develop a FEASIBILITY STUDY.

There are four broad options available: incremental process improvement, major re-organisation or re-engineering, use suppliers / outsource part of the operation, or outsource the whole operation (including management). Assuming that outsourcing to some degree is the selected target solution, the process continues:

- The Project Definition phase of the Business Project has the goal of selecting the supplier and committing a transition action plan. This is the Initiation phase of the Contract Management Process, and also the PROPOSAL PROJECT. The scope of this project includes development of the scope of work and request for proposal, the evaluation of the proposals, selection of the supplier, and ends with the signed contract.
- The Project Management phase of the Business Project has the goal “to transfer responsibility for the processes to the supplier with minimum disruption to the business operation”. This is the Establishment phase of the Contract Management Process and the START-UP PROJECT. The scope of this project includes confirmation of the solution, establishment and training of the new operational team, and development of reporting and measurement processes. The actual operational handover date is during this phase.
- The Project End phase of the Business Project confirms handover of the operation, and marks the start of the Manage phase of the Contract Management Process.
- The objectives of the Termination phase of the Contract Management Process are described briefly, and identified as yet another project!
Outsourcing - Four Projects and a Process

Marion Fogell
IBM South Africa
(011) 302 8492

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Four Projects and a Process

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Business Project

Contract Management Process
The Business Project

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The Business Project

Starts with an area of business that is (usually):

- not a “core” or “line” operation
- not meeting user requirements
- not meeting control requirements
- perceived to be inefficient and expensive

Business Requirement

- to identify and implement a better way of doing it, without diverting resources from the core operation
The Business Project

**Project Initiation**

- Business goal, target solution, business case and justification, key people, risks and constraints

- **Deliverable = Feasibility study for target solution**

**Project Definition**

- Scope and high-level design of solution, planning, recruitment of team

- **Deliverable = Selected supplier, committed action plan**
The Business Project

Solution Build

- Manage activities, develop, test and implement solution, refine and tune, manage changes, problems and risks

- **Deliverable = Working solution**

Project Completion

- Confirm handover of deliverables, release resources, assess project success

- **Deliverable = Confirmation of achievement of Business Goal**
# The Feasibility Study

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The Feasibility Study

Goal

✵ To select and approve a target solution to the business problem

Objectives

✵ Define the scope of the “problem operation”

✵ Identify alternative solutions. For each, identify

✵ costs and benefits

✵ risks and constraints

✵ extent to which it meets the business’ requirements

✵ recommend and justify the best solution
The Feasibility Study

Critical Success Factors

 ✨ Know your operation (process analysis, benchmarking)
 ✨ Know your customers’ long term needs and priorities (quality vs. cost by process)
 ✨ Know your company’s goals and strategies (Executive sponsorship)
 ✨ Know the industry (of your target operation)
 ✨ Keep an open mind

Tip: Use consultants (internal or external) to add knowledge, and to maintain objectivity
The Feasibility Study

Options Available

- Incremental process improvement
- Major re-organisation or re-engineering
- Use suppliers / outsource parts of the operation
- Outsource the whole operation (including management)
The Contract Management Process

- Initiate
- Establish
- Manage
- Terminate
## The Contract Management Process

### Initiate the Contract
- Agree the work to be done and the business requirements, select the supplier, plan the handover
- Includes signing the contract

### Establish the Contract
- Build relationships, agree roles, refine measurements, set expectations, focus on performance
- Includes transfer of responsibility
The Contract Management Process

**Manage the Contract**

- manage performance and quality, communicate, implement price changes and incentives, contract renewal
- Includes management of evolutionary changes

**Terminate the Contract**

- transfer responsibilities, remove accesses, recover assets, finalise payments, agree warranties
Initiate the Contract

- Initiate
  - Define
  - Proposal
- Establish
- Manage
  - Business Project
- Terminate
Proposal Project (Initiate the Contract)

Goal

Select supplier, commit action plan
Proposal Project (Initiate the Contract)

Objectives

- Define the operational requirements (Scope of Work)
- Define the business requirements (T’s and C’s, pricing)
- Select qualified suppliers
- Define supplier evaluation criteria
- Send out Requests for Proposal
- Receive proposals, evaluate and select supplier(s)
- Review the risks involved
- Re-confirm that solution meets all requirements
- Sign contract
Proposal Project (Initiate the Contract)

Scope of Work

- Operational responsibilities
- Service level requirements
- Quality requirements
- Products, volumes and distribution
- Human Resources and Real Estate implications
- Operational relationships and communications
- Proposed Management System
- Transitional requirements
Proposal Project (Initiate the Contract)

Business Requirements

- Terms and Conditions
- Apportioning of risk
- Obligations and liabilities
- Pricing methodology
- Quality / Productivity incentives
- Measurement system
- Management of changes
- Termination provisions
Proposal Project (Initiate the Contract)

Critical Success Factors

יצה Create a shared vision
izza Do not economise on skilled resources
izza Do not rush
izza Leave scope for innovation
izza Executive concurrence
izza Identify and assess all the risks
## Establish the Contract

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Start-up Project (Establish the Contract)

Goal

Transfer responsibility for the processes to the supplier with minimum disruption to the business operation
Start-up Project (Establish the Contract)

Objectives

✱ Confirm understanding of the solution
✱ Confirm roles, build relationships
✱ Establish measurement processes
✱ Build and test reporting systems
✱ Refine and tune the solution
✱ Manage changes (justify, control, measure)
✱ Re-assess and manage the risks
Start-up Project (Establish the Contract)

Critical Success Factors

✦ Maintain the shared vision
✦ Keep those skilled resources!
✦ Get buy-in from all stakeholders
✦ Encourage and reward innovation
✦ The customer must stay in control
✦ Communicate, Communicate, Communicate!
### End the Business Project

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**Contract Management Process**

- Feasibility Study
  - Proposal
  - Start-up
  - Business Project
End the Business Project

Objectives

❖ Confirm handover of deliverables
❖ Release resources
❖ Confirm achievement of business goal

“To identify and implement a better way of doing it without diverting resources from the core operation”

❖ Reward and communicate success!
Manage the Contract

Initiate
- Define
- Feasibility Study
- Proposal

Establish
- Manage
- Start-up

Manage
- End
- Business Project

Terminate

Contract Management Process
Manage the Contract

Objectives

✶ Manage quality and performance
✶ Manage budgets and pricing
✶ Manage evolutionary changes

Critical Success Factors

✶ Keep the shared vision (revise it where appropriate)
✶ Don’t get complacent
   ✶ measure, meet, communicate
✶ Keep the Executive informed
Terminate the Contract

Contract Management Process

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Business Project
Terminate the Contract

Objectives

❖ Identify business goal and target solution
❖ Agree and define solution
❖ Plan close out / transfer activities
  ❖ timing, roles and responsibilities, activities
❖ Perform close-out / transfer activities
  ❖ transfer operational responsibilities
  ❖ remove access (physical and system)
  ❖ recover / transfer assets
❖ Finalise payments, warranties and contractual obligations
Which is Another Project!

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