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Thought Leadership

A Brief Conversation with Lauren van Heerden, Engagement Manager

Lauren van Heerden has led numerous, large-scale programs internationally as both a consultant and a banker. Her specialties include outsourcing, product development, and IT cost control..

“HAS OUTSOURCING INDIGESTION GOT YOU DOWN?”

Q: What is “outsourcing indigestion”?

A: Simply put, outsourcing indigestion is the discomfort associated with the sudden realization that, to be successful, even the best long-term outsourcing arrangements still require your active involvement.

On the other hand, it's comforting to know that outsourcing arrangements, if set up and managed effectively, will have a fundamentally profound impact on your company's profitability. What some organizations underestimate though, is the significant amount of internal attention and efforts required to tap into the benefits bonanza outsourcing can yield.

Yes, outsourcing does involve “handing-off” some of your responsibilities, but it also requires a sustained effort – on your part – to operate in a new business model. And chances are your company is not entirely ready to operate within a rigorously efficient Capability Maturity Model (CMM) environment (a.k.a. CMM 4 or CMM 5). To achieve your projected benefits, your company will need to remain focused on your long-term stamina and place significant attention on improving your internal processes and outsource relationships. Otherwise, you will continually ask yourself whether the real headaches you're experiencing are worth the savings you hope to achieve.

Q: How do you get outsourcing indigestion?

A: Outsourcing decisions are like entrepreneurial opportunities; the excitement of reward drives us to get things done as quickly as possible. Unfortunately, this excitement often results in overlooked issues and the misplaced belief that a variety of ‘soft issues’ can be fixed after the transition to outsourcer has been completed.

Here is the typical cycle:

- 1) **Bewilderment.** You've seen the business case and rechecked the numbers. You have found the answer to all of your expense problems. You can't believe how good of an opportunity this is for your business.
- 2) **Awe.** You've found your vendor and they are going to make this very easy. They've done this many times before and know the answers to all of your questions. Not only will this cost less, but it's also going to improve quality and make your current business problems disappear! You ask yourself, “Why didn't I think of this sooner?”
- 3) **Frustration.** After a lot of hard work, the contracts are in place and the general principles are all defined. Now it's time to actually transition the existing business/technical function over to the outsourcer. You understand the amount of effort required from the outsourcer, but underestimated how much effort is needed from your side. The project takes a lot more effort and money than you anticipated.



- 4) Fatigue and Monday Morning Quarterbacking. The honeymoon is over; you thought you could save how much money? Now reality sets in: you have a business to run and clients to support. Clients don't care about your business case, your CMM level or your change control process. Getting things done takes longer than you ever thought it would and your staff doesn't seem to understand how to work effectively with your vendor. Do they understand our business? Have we made the right decision? Is this going to be worth the effort?

Indigestion has firmly set. You now realize that it's not just about the transition to the outsourcer, but the effective integration of the two companies.

Q: Ok, I have outsourcing indigestion, what can I do about it?

A: First, you may find comfort in the fact that you're not alone. Nearly 80% of all outsourcing agreements are modified in the first two years due to mismatched expectations.

The best thing to do is immediately address the company integration issues. Also, realize that business benefits can only be achieved if the relationship between your company and your outsourcer is continually nurtured.

Your action plan should include items such as:

- 1) Improving your internal processes so they work more effectively with the outsourcer. Things like change control, standard methodology, and project management are normally areas that require additional attention. If you know your CMM level, strive to improve it. If you don't know your CMM level, get it assessed by an external party.
- 2) Making sure the outsourcer really understands your business. Don't treat them as an outsider. Include their lead person within your hands-on management team.
- 3) Determining the critical success factors necessary to make this business work – cost is just one of the factors. What about time to market? Improved throughput? Client satisfaction? Cost per item handled? Whatever gets measured gets managed. Focus on obtaining incremental improvements by empowering a project team to deliver against the measures and then be sure to monitor the environment for results. A Six Sigma project could help you.

Q: What can I do to avoid outsourcing indigestion altogether?

A: Outsourcing is not a simple task, so don't expect an entirely smooth road. I believe it's all about expectations management. Treat outsourcing the same way you would launch a new business line, acquisition, or product. In reality, the work really begins when the project is completed. You're in it for the long haul and need to mentally prepare how to run your outsourcing relationship like a business.

Having said this though, there are certainly ways to position yourself better, including the following:

- 1) Making sure a large portion of the outsourcing project focuses on the operational issues and people issues. Many times this is under-emphasized. Think of it this way – when you build a call center, the focus should be as much on helping people through the workflow and business processes as it is on enabling hard-core technology.
- 2) Identifying and empowering the person clearly responsible for running the relationship. This person is normally a business unit operational manager type who, in a measurable way, can achieve the smooth operation necessary to meet overall business needs.

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- 3) Focusing on the skills required to integrate your company with the outsourcing company. This should go beyond the management team to extend out to the grass-roots level. The best way to get total "buy-in" is to let your team contribute to the development of the roles and responsibilities they will live by.
- 4) Understanding the outsourcer's development process and change management process and really figuring out how to work with it. When you make the decision to go with the outsourcer, their CMM level will usually be a contributing factor.
- 5) Identifying and improving your internal processes and CMM level. If your outsourcer is CMM 5 and you are CMM 1, you will continue to have integration problems until you fix your fundamentals.

Q: What can ADS do to help?

A: In addition to our depth in banking and technology, ADS has lived through many outsourcing projects. We have also learned through our strategic partnership with Cognizant how to effectively integrate the culture of banks to the culture of outsourcing companies.

Our knowledge and experience paired with our subject matter expertise, enables us to effectively assist banks in steering and/or managing projects of this nature. We can help you to navigate the issues and achieve the successes you are looking for.

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