



Outsourcing Relationships

Unlocking value from outsourcing

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A new approach to outsourcing relationship management

The number of companies partnering with business process outsourcing (BPO) providers has risen considerably over the last decade. Our recent research into the ASX 50 showed that more than 65 per cent of companies had offshore operations, with the majority outsourcing to BPO providers.

We believe that the uptake has as much to do with gaining access to BPO providers' technology capabilities as it is about lowering the cost base. The major BPO players have invested heavily in areas such as artificial intelligence (AI), machine learning (ML) and robotic process automation (RPA), as well as in enhancing their data and analytics offerings.

While the BPO model is well established, we come across many companies that are struggling to get value from their providers. In some cases, companies are limiting scope or keeping work onshore due to a lack of confidence in their partners' abilities. This means they are missing significant opportunities to transform their business and access new technologies.

So, what do you need to do to get more value from your provider?

Setting up a relationship management function

While there is a trend to shorter-term relationships as the market matures, outsourcing relationships are still typically long-term arrangements, often for five to 10 years. Your outsourcing strategy therefore needs to be designed so that each relationship, and the overall portfolio of relationships, have specific roles and the flexibility to change as your strategy shifts over time.

A significant challenge to this design is that many organisations have established their outsourcing arrangements to meet functional needs; for example, information technology (IT) supports the chief information officer (CIO) or chief technical officer (CTO); finance supports the chief financial officer (CFO); and customer service supports the chief operations officer (COO).

Almost by default, a best-in-class strategy is in place and each relationship operates under its own governance and management regime. This can lead to duplicated effort and limited flexibility to share management roles across relationships with providers.

At the same time, organisations and their outsourcing requirements are becoming more complex, not least due to the increasing dependency on technology for business solutions. As a result, outsourcing arrangements in different functional areas have increasingly common skill requirements, such as process automation and robotics, AI deployment and continuous improvement.

In addition, managing these arrangements requires key activities and roles that are not functionally specific. These include commercial and contract management, performance management, change management and relationship governance. While functional leaders such as CFOs and CIOs form a key part of this governance, there is a clear rationale for creating a new team with these capabilities: an RMO.

The key components of relationship management are shown in the diagram (on the following page). Operational service delivery and day-to-day performance management are still best managed by the functional teams, but other roles can be brought into the RMO for the portfolio of providers.

It starts with setting up a single team – a relationship management office (RMO) – with responsibility for:



Overseeing delivery of services to the business, in close co-operation with functional leaders and business users of the services



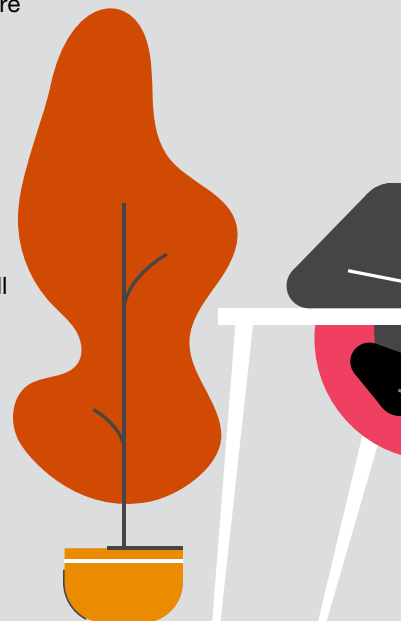
Making the best use of the array of services and deep expertise in solutions, such as automation and AI, offered by partner organisations



Determining which skills and capabilities are required to unlock the potential in these relationships



Putting in place the right governance structure to achieve your strategic objectives



Integrate ongoing evaluation into outsourcing arrangements

Establishing an RMO team will also help you to make an important structural change: integration of ongoing assessments of outsourcing relationships into the governance process.

In today's business environment, it's essential to regularly review the performance of outsourcing arrangements, and understand available options and opportunities. On the next page, we have detailed what would typically be covered in an assessment for outsourcing. You will need to use a range of techniques in such an assessment. They include conducting interviews and workshops with providers and recipients of the services. They also include contract reviews and performance comparisons, using leading metrics and practices.

Your key stakeholders' experiences with providers will strongly inform the changes required to the way the relationships operate, and the underlying contractual and commercial arrangements.

These arrangements will be the subject of negotiations with existing and potential future providers, and need careful and detailed preparation, planning and execution. Negotiating is a key capability of providers, and they are skilled at understanding the implications for them and their clients. By comparison, many businesses only negotiate these relationships once or twice every few years. To assess provider relationships, you will need to focus on the four key aspects listed on the following page. Initially, these evaluations will be projects, but in the future, one of the RMO's roles will be to enable continuous and rapid evaluations.

These evaluations should become embedded in relationships, along with the regular service and performance reviews, based on business metrics. The aim should be to drive behaviours in providers and the business to naturally improve and develop outsourcing performance.

Key components of relationship management



Determine the RMO's skill sets

The RMO's role is to establish and facilitate processes and interactions between the business and its providers. This should ensure that all aspects of the relationship receive the necessary attention and that your company continuously gets the best value from providers' capabilities. The RMO team therefore needs skills in structuring these processes and interactions, as well as maintaining other aspects of relationship management. Deep functional knowledge is required for service delivery management, so this responsibility will likely remain outside the RMO.

The RMO team needs skills in **commercial management** (including analytics, costing, pricing and negotiation); **performance management** for identifying metrics, setting targets and processes for monitoring performance (although the day-to-day monitoring of performance remains with the relevant functional team); and **contract management** (with appropriate legal advice) to amend arrangements appropriately. These skills apply across all functional areas and therefore sit best in this team.

Transitioning to an outsourcing operating model, and introducing changes co-developed with providers, also requires specialised **change management** skills. Therefore, it is good practice to have this capability within the RMO and available for all relationships, as needed.



Rapid evaluation should focus on four aspects:



Scope

- Should you extend the scope of your relationship with the provider? How and when should you transition these new services to the provider?
- Are you receiving the expected value from your providers' technology and expertise? How can you leverage their technology to maximise benefits for your organisation?
- Could you benefit from engaging multiple providers, or will this option give you leverage in negotiations with your existing provider?
- What changes do you need to make to your outsourcing arrangement to increase its scope?
- Can your provider transform its services as your business grows?



Quality

- Are your provider's service levels clearly defined, measured and aligned with your business value drivers?
- How do you experience and measure your provider's culture of innovation and continuous improvement?
- Is its service delivery constantly improving and how do you share good practices?
- Is your provider proactive in preventing and resolving issues?



Value

- Are you realising some or all of the business benefits outlined in your original business case?
- Are your provider's proposals competitive or below market rates?
- Where is your provider adding value to your business?
- Is your pricing model flexible, scalable and transparent – and is it right for your changing needs?



Relationships

- Does your provider's culture still align with your organisation's culture?
- Does your provider communicate effectively, seek common ground, take on board difficult points of view and compromise where appropriate?
- Can you strengthen your partnership with your provider? Do you have a termination and exit procedure in place?

Conclusion

Realising value from outsourcing relationships requires specific management focus and clear targeting of benefits and value. Centralising this focus into a single team will drive a consistent approach to provider management, increase the ability to scale services from existing providers and clarify expectations for new providers.

This also makes it much easier to manage a portfolio of multiple providers, driving decisions on which partners provide which services, and enabling better economies of scale by consolidating providers.

By regularly and consistently evaluating providers across a balanced set of criteria – not just on the cost and quality of your existing services – you also increase your focus on value and preparation for the future. You can best achieve this by having an experienced group working across providers.

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Further reading

[Shared Services – Digitalise Your Services: PwC Global Shared services and Outsourcing survey 2019](#)

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