Heigh Ho, Heigh Ho, It's Off to Work We Go
Advice for Starting an Outsourcing Relationship
By Kathleen Goolsby, Senior Writer

The devil's in the details is not just a popular cliché. When it comes to structuring an outsourcing relationship, the details make the difference between blue chip deals and fiascos. Outsourcing is not an off-the-shelf solution. Because approaches correlate to outcomes, the manner you undertake the behind-the-scenes work before an outsourcing relationship begins is crucial.

At Outsourcing Center, we regularly take a look at outsourcing relationships from all sides to discern what steps buyers must take to protect against unpleasant surprises when the work starts. This final article in a series of three about starting outsourcing relationships highlights tips from top-level executives in several successful outsourcing arrangements.

Choosing a Service Provider

Conducting due diligence - site visits, looking at capabilities, speaking with a provider's other clients - is one of the most important facets of provider evaluation. Lisa Charney, executive director of Enterprise Customer Management at General Motors, advises that a key component is to "understand your expectations around your company and the provider." She believes that is best handled by the company's business people (CIO, CFO, etc.). "The technical people are the emotional side," Charney explains, "because they have to answer to the customers."

Among the attributes considered necessary in a service provider is flexibility. Gung-Ho Company, a fulfillment vendor, outsources the hosting and maintenance of its hardware and software to an application service provider (ASP), Managed Ops.com. John Wade, president, CEO and founder of Gung-Ho, recalls what happened six months into their relationship. "We decided we wanted to Web-enable our information," he says. "But in order to do that, we would be going outside the box, as ManagedOps.com had no other customers that were Web-enabling their hosted data at the time."

Knowing Web-enablement was the way of the future, the flexible ASP customized a solution for Gung-Ho. The provider took the time to analyze the best way to configure the solution, organizing the hardware and software for maximum security. Wade says the ASP's solution has turned out to be one of Gung-Ho's biggest competitive differentiators.

A provider's willingness to invest in infrastructure and processes for its clients is also an important characteristic. Lisa Donohoe, staff vice president of Benefits, Compensation and International HR for Continental Airlines, advises companies considering outsourcing to "make sure you choose a provider that has deep pockets for investments."

Transitioning the Work

A key lesson Dow Chemical learned when it outsourced its application development function concerned providing support for projects started before the outsourcing initiative, which will be ongoing during the transition phase. Dow had a significant amount of project work already going on at the time it transitioned its application development work. Pressure impacted the company at all levels of the organization where processes were not in place to support both aspects of the work.

Dave Kepler, Dow's corporate vice president of eBusiness and CIO, says his company learned the best practice is to put all existing projects on hold during a transition phase. This includes transition phases of a merger or acquisition, he advises. After completion of transition, the company can look at which projects to start back up. "You don't get behind that way, and you can focus your key management attention on the transition," explains Kepler.

Change Management

Inevitably, when a buyer organization does not put an effective change management plan in place, start-up problems will occur when the service provider takes over. End users must learn about the changes they'll face and how outsourcing will impact their work and business processes.

Pinnacle Health System faced this challenge when it outsourced some of its IT processes and infrastructure. Richard Bagby, Pinnacle's vice president for Informatics and CIO, recalls the problems that occurred when they combined two merged hospitals' processes into one system.

"We turned the key and went -- and we had some real problems," he states. One of the organizations, for instance, counted patients when they left, and the other organization counted patients when they arrived. Pinnacle had to get to the bottom of that, define the issues and start doing the same procedure in both organizations. These problems were Pinnacle procedural issues and not the fault of the provider.

As a solution to prevent such problems in the future, Pinnacle's director of clinical informatics and director of financial informatics now report directly to Bagby. Essentially their role is to make sure that the end users and end-user processes are ready when an IT change gets rolled out. They train end users to understand how the business will work, and they ensure interdepartmental procedures are in place.

"I call them my functional management engineers," explains Bagby. "Their job, when we move information from one system to another or from one department to another, is to make sure that we have proper coordination between departments and information gets passed appropriately."

Moving in the Right Direction

Compaq Computer Coporation (now known as HP), an outsourcer and a user of outsourced services, understands crucial components of successful outsourcing arrangements. A buyer first must be very clear on how the service provider is going to deliver services and meet the buyer's requirements. Elaine Beddome, director, Compaq Benefits, says "you have to peel the onion to understand what's behind the provider's promise." Buyers should understand their business requirements and goals, as well as the resources the provider will leverage to meet those needs.

Most important of all, Bedomme says a buyer must understand how it will measure satisfaction and success.

Lessons from the Outsourcing Journal:

- Choose a service provider that is willing to invest in infrastructure and processes for its clients, and is flexible for designing and implementing solutions for future, unanticipated business requirements.

- To avoid a lack of support for new and existing projects, put them on hold during a transition phase so that management attention can be focused on the work being transitioned.

- Put a change management plan in place so that end users and end-user processes will be ready when changes are rolled out.

- Buyers must clearly understand how a provider will meet the buyer's business requirements, as well as how success will be measured.