A Horses for Sources Research Report

Straight from the Horse's Mouth:

Surviving the Aftermath of a Lift and Shift Transition

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Executive Summary

Well, now you've done it. Instead of fixing things first, you outsourced your processes almost completely intact. The result? Your junky processes are now in the (hopefully) capable hands of your lower cost vendor and, not surprisingly, the outcomes are the same. While it is quite possible that you took the time to image and digitally distribute your previously paper-based processes, there's nothing remarkable about a digitized bandage hiding a poorly performing, wounded process. Worse yet, there are few things more restrictive than your IT organization's standard prioritization process – and one of those "things" happens to be your 300-page multi-year outsourcing contract. What can you do you?

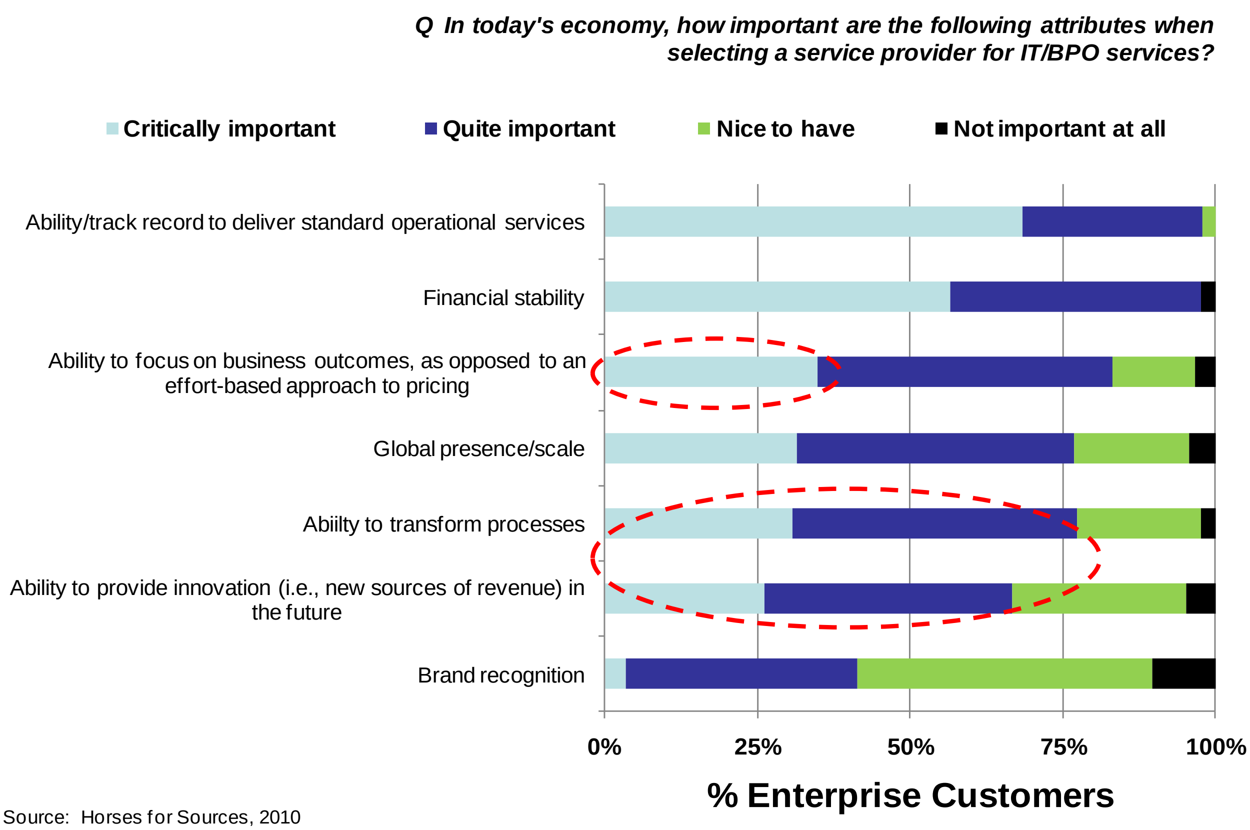
You Are Not Alone – Misery Loves Company

The "Lift and Shift" outsourcing paradigm is a choice of many companies for several reasons. It speeds transition, so labor arbitrage savings can be quickly delivered. Conversely, vendors frequently recommend it because revenue can be quickly generated and the implementation risks are minimal (Remember the multi-phase pitch they gave you?). Some clients believe that their vendors are more capable of turning things around than internal resources. Lastly, a thoughtful, very small minority of companies reinvests the initial labor arbitrage savings into innovation.

For these reasons, and many others, you are not the only person facing the task of transforming a recently outsourced function. In fact, the overwhelming majority of companies need to tinker with recently outsourced processes to some degree. Unfortunately, few have come to grips with the situation.

When Horses for Sources recently spoke to outsourcing customers in our *Seeking a New Normal in Outsourcing Delivery* survey, we drilled into the criteria behind vendor selection decisions, and it's clear most of today's outsourcing customers are looking for greater capabilities than simply the table-stakes of delivering the basic operational work (see Figure 1).

Figure 1: When evaluating vendors, standard operational capability and global presence are the table stakes; business transformation capabilities are now the differentiators



Source: Horses for Sources, 2010
Sample: 209 Enterprises
Survey conducted in conjunction with Global Services Media and SSON, January 2010

Simply-put, there are several outsourcing vendors today pushing services within a similar price range and offering a sufficient track record of successful delivery. Furthermore, most large enterprises have already experienced offshoring and outsourcing in varying degrees in their operations for several years now, and are smart enough to realize outsourcing provides an opportunity to deliver more than simply cost savings through a “lift and shift”. Consequently, the ability to provide outcome-based pricing, transform processes and provide innovative solutions are now critical components among a third of customers, and an important consideration for most of the rest.

Your Likely Situation: Cheaper, Better Reporting, but No Performance Improvement

Picking up your as-is operation and dropping it into a lower cost labor pool probably means you are facing:

- Easy-to-achieve financial objectives, as they were built on labor arbitrage, severance costs, and easy to forecast telecommunications costs.
- No performance operational improvement, except due to increased staffing levels now available due to the lower cost of labor. And, if you didn’t utilize higher initial vendor staffing levels to overcome initial learning curve productivity issues, you might even be experiencing lower than desired performance.
- A large retained organization hawkishly managing your vendor’s operational performance through enhanced reporting provided by your vendor, but you have no personnel focused on strategic change management. Consequently, there are a variety of small to moderately sized changes occurring with limited oversight and no “glue” to keep them focused. You may even be *paying* for these changes, but, unfortunately, chances are that your retained organization isn’t factoring those costs into your business case.
- A focus on managing handoffs between the vendor and other process organizations, instead of a focus on eliminating the handoffs or questioning the reason for the work to be done in the first place.
- Vendor account management resembles a classic middle management focus on stabilizing operations – all the strategic vendor personnel and high-level relationship resources you met during the sales process are absent.
- A wide variety of initial assumptions have not been partially or entirely born true. Systems may have greater latency than expected, cultural differences between the vendor and your customers and stakeholders may not have been an easy to overcome, training curriculums may not be as complete as desired, and the expected efficiencies from staff with supposedly better skills may not be realized.
- Promised performance improvements have not been realized. While the vendor’s human capital may be better educated and motivated, most process performance improvements are driven by process design, policies, and technology. Even if the sales people say otherwise. Since none of this changes in a lift and shift transition, you’re probably facing a high stress situation.

You Are Just Beginning to Understand the Consequences

The challenge of righting the ship after a lift and shift transition is much more complex than you might imagine. You are going to face a cold, hard reality that includes:

Managing change is difficult, but managing change 12,000 miles away is more difficult. Be prepared for more diligent planning, more comprehensive communications, and more SNAFUs during implementation. Every element of managing change after a lift and shift will require more time, money, and resources. One large company failed to budget the travel expenses needed for domestic quality and training experts to work through post-transition issues. In a classic "penny-wise, pound-foolish" move, the team decided simply use conference calls. The team never corrected for the budget issue and continued its routine use of conference calls for several more years, never visiting the vendor's site after the initial visit. Three years later, the company's internal audit team made a surprise visit at the vendor's location , only to find that the vendor had subcontracted the work to over five other sub-vendors without notifying the client. Managing from a distance takes commitment.

You chose your dance partner for its low cost and operational expertise, not for its reengineering capabilities. Chances are, your vendor has limited experience in reengineering, especially given their history of lift and shift. Moreover, research has shown that, "Contrary to expectations, the level of consultant's interventions had little influence over the success of the BPR projects in both the outcomes and the implementation decisions."[1] You're left to rely on the small retained organization for reengineering, which is likely overtaxed with stabilizing and managing your vendor's day-to-day operation.

There is never a perfect time to repair an outsourced operation. Post-transition stabilization of operational performance will take considerable time. Just when things begin to run smoothly, unplanned attrition creates performance issues, internal customers require the same quantity of changes that caused issues in the past, and you're beginning to transition the next round of processes.

Obtaining funding to reengineer outsourced functions is a shell game. Unless you built the costs into your business plan or contract, obtaining funding to improve operations is likely to invoke questions like, "Didn't we outsource this function because it's non-core?" or "Why shouldn't the vendor do it at no cost?" Obtaining funding changes for vendor-run operations requires a substantial business case – and the business case is often at odds with the vendor's business objectives.

Even the best contract lacks sufficient motivation to manage change. Like it or not, vendors are not simply going to improve operations without some sort of motivation. Given the fact that almost all vendors focus on avoiding any sort of performance issues instead of implementing process improvement and reengineering (they want to win the next phase of your company's outsourcing efforts), you are probably facing a contract written that articulates process performance specifications and some high-level change order management process, but without any gain-sharing opportunities for the vendor. And, if you did manage to negotiate gain-sharing into your contract, once you recognize the value that process transformation can deliver, you are probably going to be left scratching your head about the need to share the benefits with an outsourcing vendor. In fact, disproportional gain-sharing language can undermine business cases more than the language driving cost-sharing for innovation. After all, would you have hired McKinsey, Deloitte, or PWC to transform your processes for their fees *plus a large share of the benefits*? No, you would not have done this, but your outsourcing contract probably rewards your vendor richly.

Depending on the quality of your transition, internal clients are either aggressively chomping at the bit for change or they are extremely tentative after touching the fire once too many time. Either way, managing internal clients through additional change after a recent transition is fraught with challenges. In the best case scenario, they are expecting this to be easy. In the worst case scenario, your internal clients are asking to slow things down. Meanwhile, the C-suite is impatiently sold on the original business case that described the benefits of change.

[1] "The effect of Outside Consultants Involvement over the Success of BPR Projects", Shabana, Ahmed A. Business Process Management Journal, 1999, Volume 5, Issue 1.

Get Your Bearings - Focus on Where You Are Going

The first step you need to take is orienting yourself – you have to have a clear understanding of where you are going. A successful outsourcing leader will be focus on a few clear principles:

Stabilize operational performance, but know when to fold. You will not be able to rally support if performance is erratic or poor. Your springboard for changing your situation is your ability to create consistent, improved performance. With that said, recognize your limitations: this was a lift and shift, and certain processes may lack basic critical design elements to perform at contracted service levels.

Start with the end in mind. The first step in managing post-transition operational improvement is to not get lost in the vast quantity of minor process improvements that will be evident. Instead, understand the true business objectives of the intended transition and use the transformation as an opportunity to innovate instead of nibbling at the edges of operational improvements.

Think big. If your underwriting processes used to take ten days before approval, build a process that can exceed expectations by giving approval by the end of the next business day. If reviews of customer correspondence used to take two weeks, why not do it in two days? If processing accuracy used to be 95%, ask yourself why errors in one out of every 20 twenty transactions is customer friendly. The message: focus on big changes, not incremental changes.

Leverage your vendors' relationships and knowledge. Ask your vendors to bring together its clients to help you identify possibilities. Ask them to bring their best practices to you. If they have tools or processes you have not leveraged, ask them to share these with you. Build relationships with the vendors' most senior leadership, the people who are focused on the ongoing success of their business.

Sacred cows make great burgers. Revisit all your assumptions before going further and begin with a blank slate. What was untouchable prior to transition may very well be your best opportunity. In one example, a quality team established enormously costly test sample populations requiring a team twenty-three times larger than necessary. While the requirement was put into place due to calm stakeholders' initial fears regarding vendor quality, following transition and operational stabilization, this level of work was no longer necessary. In another case, a function was incorrectly placed in scope to be outsourced, and the function needed to be returned to the client.

A Formula for Success: 8 Actions You Should Take

So, what's next? The following steps are a good place to get started.

1. **Stakeholder your internal clients.** Even if the decision to lift and shift is often due to management's desire to consolidate operational leadership, do not refrain from building strong relationships with key constituencies who may still not support the decision to outsource. As the changes you may implement can require wide-support from affected or dependent processes owners, ensure you have secured their support. One large healthcare company's vice president of governance assembled a monthly meeting of senior company executives and used this meeting to validate opportunities, build consensus, and drive consistent decision-making. So, schedule discussions with your internal stakeholders and determine what value the business needs.

2. **Improve internal clients' understanding of vendors' operations.** Too often, the last trip vendor management executives and their senior internal stakeholder make is during the vendor selection process. It is important that stakeholders visit vendor-managed operations in order to eliminate any stereotypes or misrepresentations. So, schedule a trip and invite key stakeholders to attend. Build vendor agendas that do not just focus on your operations, but also provide the vendors opportunities to demonstrate their other capabilities. Use these visits as an opportunity

to ask the vendor to identify transformation and process improvement opportunities, as well as to demonstrate their technology and management prowess by showing the travel team real life examples. One outsourcing governance organization proactively scheduled two trips per year which senior sales, marketing, HR, finance, and operations executives were invited to attend. These were scheduled to coincide with other governance and vendor management activities to reduce costs. The overwhelming majority of attendees had large scale, positive changes of opinion about how outsourcing vendors performed services. Frequently, additional functions were identified for outsourcing by previously stalwart detractors turned supporters of outsourcing.

3. **Change the culture of the retained organization.** Invest in the right leadership and training that changes your vendor management operation from a focus on day-to-day approach to a strategic, balanced approach to vendor management. Metrics are important, but relationships and innovation is arguably more important. Leverage all three. Chances are that your retained organization is too operational in nature because a lift and shift vendor management team is generally a remnant of the pre-transition operations organization. Look for opportunities to upgrade leadership or invest in improved vendor management processes. Companies like Microsoft, Sprint, and General Motors have invested heavily in training their vendor management organizations.

4. **Connect with your vendor's leadership team.** Build relationships and plan regular meetings with senior vendor executives - your CIO and COO should meet with their vendor counterparts at least twice a year. You may also need to make changes to the vendor's account management structure to improve strategic oversight and a more balanced approach to operations management. However, start with one initial meeting in which you openly discuss the need to move beyond your current operations, technology, and performance characteristics. One large company's CIO met with a vendor who was starting to transition a core business function of its desktop management infrastructure. The frank conversation with the vendor's president of North American operations resulted in a wholesale change in the vendors' account management structure, including changes in personnel, management oversight, and reestablishing account objectives.

5. **Ground your vendor on the objectives and your expectations.** Change is not a revenue generation opportunity. Neither is it a revenue protection concern. If the operation is going to get leaner, and less costly, help your vendor understand the business objectives and their vital role as the current operator to developing objectives and implementing change. Meet with your vendor and help them understand the broad objectives If the vendor is showing resistance, or seeing the change as a goldmine, you have not sufficiently built a relationship focused on the benefit to your business – which is the prime reason for the vendor relationship from the very beginning.

6. **Identify opportunities to leverage the vendor cloud.** Where possible, strongly consider leveraging vendor investments in technology to improve your cost structure. Call center operations team should consider leverage vendor call handling technology, even in multi-vendor models. Back office processing can leverage workflow and imaging technologies vendors make available to other clients. The vendor may not have a cloud yet, but it is possible they are considering the investment – which may be your ticket to low cost improvements. One Fortune 100 company was able to advert further capital investment into its call handling infrastructure by routing inbound customer service calls directly to the vendor's IVR and switches. A simple $20,000 investment in interfacing the client's CRM system with the vendor's IVR to generate screen pops was the only investment. The result was millions of dollars in capital avoidance and, after the positions were transitioned overseas, the client was able to allocate unused technology licenses to other growing business units.

7. **Dust-off the contract.** Consult with your attorneys and review the contract from beginning to end. Focus on the following language: performance expectations, performance improvement goals, change management, benchmarking, and gain-sharing. What improvement guarantees and flexibility did the contract negotiation team leave you? How does pricing alter as improvements are made – does that create incentives for change? One large backoffice outsourcing contract contained "gain-sharing" language so one-sided that it *disincented* the client from improving operations because the vendor received a disproportionate portion of the benefits.

8. **Validate the scope of outsourced services.** In the rush to transition services in a lift and shift scenario, clients often include functions that are unlikely candidates for outsourcing. The result is that performance degrades and the internal stakeholders lose faith in the vendor, the governance team, or both. In addition, the quickly defined scope often excludes functions that could be outsourced, leading to unnecessary handoffs – also a cause of performance deterioration. By adding more functions and removing some functions from the scope of outsourcing you will improve performance. In one large customer's business-to-business call center, the outsourcing of written correspondence imaging and response without outsourcing the voice response team created a new handoff – previously, the client's call center agents had handled written correspondence. By outsourcing the entire customer service team, handoffs were eliminated and resources were better utilized.

Change, Change, Change. How Much Is Too Much?

Managing change and implementing improvements following a lift and shift transition requires patience as the environment underwent a massive change and vendor and internal teams need an opportunity to stabilize operations. A client can successfully improve performance by leveraging these approaches:

Derive changes from your strategy. Too often, governance teams will make changes for reasons that do not optimize performance. All changes you make following a lift-and-shift transition should be rooted in strategic objectives. For example, if you want to improve call center quality, focus on changes that drive improvements, such as training, root cause analysis, and additional coaching. Track progress and see how changes improve results.

Change at a measured, predetermined pace. Hindsight has 20/20 vision, and clients will realize opportunities to change a variety of things following transition. Resist the temptation to make high volume changes that could limit the vendor's performance. For example, in the immediate three months following a lift and shift transition of a large scale mailroom, imaging, and data entry operation processing 40,000 mail pieces each day, the client made 150 changes to vendor operations. Overwhelmed by changes, the vendor's performance plummeted and the vendor hired an additional 500 agents (with their own learning curve) to handle productivity backlogs. The client incorrectly diagnosed the process as being the cause and, believe it not, they issued another 50 change orders. After racking up five times the budgeted amount of initial implementation expenses, the client was left with an underperforming vendor and an unachieved savings objective – all the result of unfettered change orders. It took them two years to recover and there was an unquantified impact on customers and regulators.

Beta test changes – it doesn't cost much. Leverage low cost offshore resources to test the effectiveness of changes on a small scale prior to rolling-out changes across the entire engagement. These experiments build the skills of your vendor to perform the changes, give you an opportunity to measure their effectiveness, and give you an opportunity to leverage lessons learned from implementing the change. Containing changes to small groups allows you to drive consistent process performance while testing.

Update your business case and track the benefits. All too often governance teams lose sight of the initial value proposition when making changes. It is not surprising that internal resistance to outsourcing can grow after a challenging lift and shift transition and the detractors are now being asked to make changes to their process. Good governance teams keep the business case up-front and center in all executive reporting, When meaningful changes occur, these teams differentiate the initial value of savings from the incremental savings derived from these changes. The net result is that focus remains on the initial value proposition and each significant change is measured in a way that allows a client to understand if the change can stand on its own or if it dilutes the savings objectives.

About the Author

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Anthony Calabrese has contributed as a "mystery vendor management expert" to the Horses for Sources blog, and we've chosen to keep his identity hidden for now, so you can enjoy his unabated views, opinion and analysis of sourcing dynamics within the healthcare industry. For obvious reasons, Anthony can be far more edgy if he keeps his true identity secret. Plus, we always wanted to have the first ever anonymous analyst in our stable.

Anthony created and led the multi-vendor outsourcing governance organization for a Fortune 100 healthcare organization, managing thousands of BPO, and ITO resources located in North America, South America, Europe, and Asia in route to saving hundreds of millions of dollars.

Anthony has deep experience in developing and stakeholdering transformational and cost reduction outsourcing strategies to support corporate objectives, building governance and vendor management organizational competencies, collaborative sourcing and selection of suppliers, contract negotiations, and day-to-day vendor management.

Anthony is also founder of the number one Google ranked vendor management blog, 360° Vendor Management, the leading online resource for buy-side sourcing industry professionals looking to improve outcomes by bringing discipline to governance and vendor management organizations.

Anthony's previous experience includes over 10 years of management consulting experience in North America and Asia for many Fortune 100 firms in the telecommunications, airline, Internet, entertainment, and retail industries, for which he led outsourcing, corporate governance, process re-engineering, vendor management, strategic sourcing, and technology projects.

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About Horses for Sources

Horses for Sources is the foremost social networking community and advisory analyst firm, focused on helping enterprises make complex decisions with their global outsourcing strategies.

Horses provides the most impactful and frequently-visited collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing dynamics. The organization is unique in the fact that it integrates personable social networking with market research and advisory services.

Horses' mission is to provide a unique environment for collective research, opinion, experience and knowledge across the global outsourcing industry to help enterprises explore new performance thresholds. Led by industry expert Phil Fersht, the Horses for Sources team is a multi-disciplinary group of analysts and experts with deep domain knowledge in Business Process Outsourcing, Industry Specific Process Outsourcing and Cloud Computing.

Launched in 2007, the Horses for Sources blog has more than 80,000 regular visitors across the global outsourcing industry, and is widely recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The Horses LinkedIn community is thriving with 9,000 industry professionals sharing views and information daily.

. The company can be followed on Twitter at twitter.com/horses4sources and LinkedIn by joining "The BPO and Offshoring Best Practices Forum group."

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