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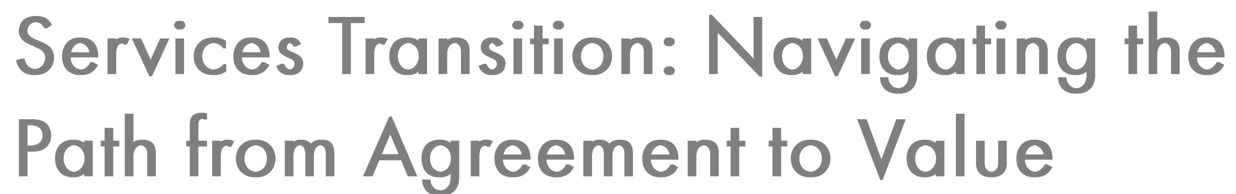

Services Transition: Navigating the Path from Agreement to Value

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Agreement: The End of a Beginning….

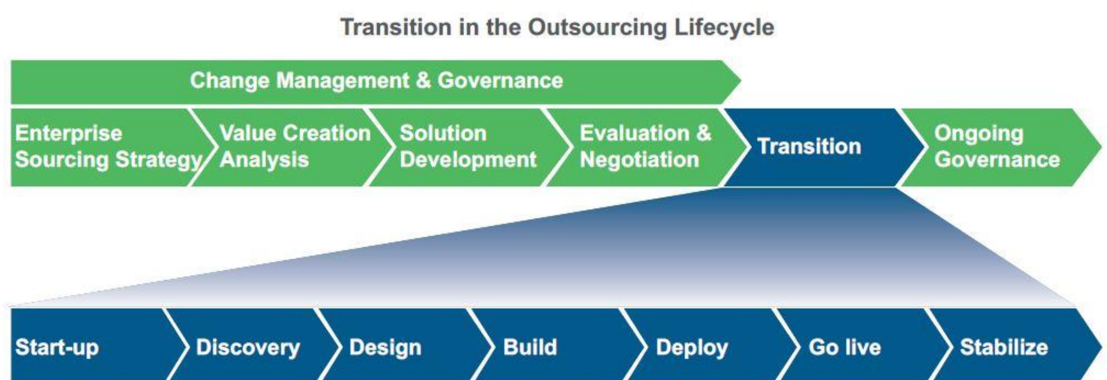
"Now is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." Winston Churchill, commenting on Britain's victory in Egypt over Germany's vaunted Afrika Korps, November 1942

The deal is struck. After many long, challenging months, it is finally over. The search for value generating opportunities to change to how you execute your organization's back-office services or processes . . . joint development of an air-tight business case . . . design of a solution that meets the needs of your organization and internal customers . . . and conclusion of an agreement with a third party that provides confidence for real value creation. If ever there were a time to celebrate–this is NOT it.

Agreements establish the promise of value. Execution creates it. And the first step of execution is transition.

To be sure, concluding a service agreement is an important milestone. Agreements establish the promise of value. That promise is defined by agreement scope, service levels, fees, and terms and conditions. Promised value takes many forms. For buyers, these include gains from technology or process innovation; access to deeper talent pools; and improved efficiency or lower costs, for example. In addition to revenue and earnings growth, providers gain new relationships; opportunities to gain deeper insight into client challenges–and to develop differentiated solutions that address them.

But promises of value are not value. Nor its guarantee. It is execution–the implementation of the many arrangements, processes, technologies, and activities the agreement calls forth–that drives value creation. And the first of execution is services transition–whether by a single bound, successive leaps, or steady migration–from "how things are" to "how things will be" as envisioned by those party to the agreement.[1]



1 "As envisioned by those party to the agreement," rather than simply "agreement" because, in the midst of transition, parties sometimes discover they have different visions borne of different agreement interpretations

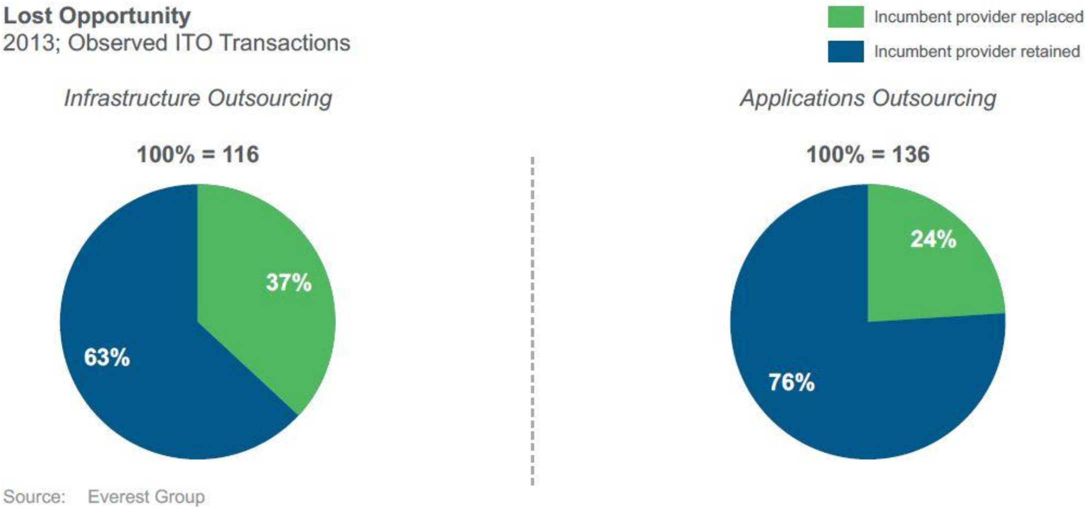
What's more, the implications of transition transcend the future state it is intended to create. Why? Transition involves establishing relationships, roles, and processes that constitute the service relationship. And the service relationship endures–and, more than any other factor, determines prospects for future growth of the relationship and value.

- Superior transitions create solid relationship foundations. These include strong governance, open communication, predictability, and dependability–precursors of trust.[2] Growth of trust, in turn, is the path to partnership. And in working with our clients–both buyers and providers–we observe it is true partnership that offers each party the most fertile ground for relationship growth and the discovery of additional sources of mutual value.

- Troubled transitions also are foundations–built on quicksand. They can foment irreparable misunderstanding and discord, both between and within buyers and providers. Trust becomes a casualty, and the consequence is loss–probably of value promised by the agreement, almost certainly to future prospects for growth of the relationship and mutual gain.

> Transition involves creation of the service relationship. And the service relationship determines prospects for future growth of the relationship, value, and mutual gain.

We see evidence of this loss in our research, which points to the prominence of provider replacement among buyers. For example, buyers, searching for increased agility and flexibility, replaced incumbents in 37 percent of 116 IT infrastructure outsourcing deals we observed in 2013. Similarly, buyer dissatisfaction was reflected in incumbent replacement in 24 percent of 136 application outsourcing engagements.[3] Seventy-six severed relationships. Seventy-six value growth opportunities lost. To be sure, factors accounting for incumbent replacements vary. Some are unavoidable. But failure to achieve partnership and capacity to build value going forward–rather than mere commercial arrangements–is all too common.



2 For additional perspective on governance, see "The New Global Services Governance: Tapping Fresh Sources of Enterprise Value," an Everest Group Executive Point of View, 2014.

3 For more information, see Infrastructure Outsourcing – Annual Report 2014: "The Future is Software," June 2014 and Application Outsourcing–Annual Report 2014: "Rationalization Goes Hyper," May 2014 by Everest Group.

Transition Fundamentals

Success is rooted in the basics: clear objectives, planning, execution—and relationships.

With so much at stake, how do buyers and providers enhance prospects for transition success? In working with our clients, we find success is rooted in basics: clear objectives, detailed planning, relentless execution, and strong relationships.

Clear objectives–those with measurable attributes–specify the transition destination. Effectively drawn, they serve as guides for both planning and plan adjustments throughout execution. As important, they serve to define transition workstreams, such as governance; asset, staff and knowledge transfer; communication and change management; and service management and delivery.

Structured and detailed planning of what must be done–both jointly and unilaterally by the parties–as well as the manner in which it will be accomplished, serves as the transition flight plan. Milestones are way stations that indicate progress and signal when plans and workstreams require adjustment or synchronization.

Relentless execution calls for intense focus. Strong leadership and robust transition governance–including rapid issue identification, escalation, and resolution; frequent progress assessment and adjustment; and rich, continuous communication within and between parties–all matter. Parallelism–simultaneous management and execution of multiple, interdependent workstreams–is essential to rapid execution.

Strong Relationships are the lubricants of transition. Good ones facilitate communication, a prerequisite to effective planning and execution. Perhaps more important, strong relationships enable collaborative management of surprises–and sometimes unintended consequences–that attend implementation. These benefits of good relationships also address friction that can result from changes in organizational interests and players triggered, perhaps ironically, by the agreement.

- Pre-agreement, organizational objectives coincide–"make the deal"–and drive behaviors that align, including willingness to compromise. What's more, the process is led by dealmakers–especially on the provider side– who are practiced in establishing and developing relationships, identifying work-a-rounds, and "getting to yes." However, these aspects of pre-agreement dynamics can elevate transition risks. For example, they can encourage dealmakers to short shrift potential obstacles: differences in interpretations of agreement nuances and implicit meanings; implementation complexities and associated demands they will impose on transition teams; and the readiness of both transition teams and their larger organizations to drive–and embrace–change.

- Post-agreement, organizations continue to share an imperative—speed to value. But different value drivers for each party can spell differing implications. Buyers, on one hand, find value in cost reduction (as measured total cost of operations) and improvement in service quality or speed. In combination, these can breed impatience. Providers, on the other hand, seek to rapidly build operating margin and recover front-end investments in relationship development and delivery capabilities. Their agenda can take the form of slowed investments in service improvement or proposal of high-margin change orders. These manifested differences in value orientation can contribute to divergence and misunderstanding, and spark conflict. Long-term interest quickly gives way to adversarial dynamics.

Managing transitioned challenges

ILLUSTRATIVE

Area	Challenges	Approach
Accountability	Management falling short on delivery against objectives • Scope—headcount and savings • Transformation vision	Provide more granular targets • Onshore/offshore headcount mix • Savings targets • Time to value
Buy-in	Management disengaged from objectives of adopting best practices and achieving savings through offshoring and adoption of new delivery model	• Develop and communicate a compelling vision • Demonstrate early successes • Organize and align to drive change
Organizational readiness	• Business units fail to understand “to be” service model • Current organizations lack processes to operate in best practice model	• Build deeper understanding of best practice model • Equip with processes and tools to support adoption of target model • Support change management with incentives
Scope	• Current scope of participation too narrow; fails to achieve savings goals, transformation vision	• Mandate business unit accountability for savings and transformation • Inject objective problem-solving support to accelerate progress

Preparing for Success

"War is too important to be left to the generals," said Georges Clemenceau, the French Prime Minister during World War I. Similarly, we believe "transition is too important to be left to the providers": buyers must bring leadership focus and sustained effort. How?

Start early. Begin transition planning during solution design. Moreover, providers' proposed transition approach should be a graded event and an important consideration in provider selection. Key factors to weigh in evaluating transition approach include proposed transition objectives; approach to governance; transition plan completeness and depth; experience and demonstrated capabilities of transition lead and team members; team structure; and approach to risk identification and mitigation.

Some buyers see transition as something done for them. this is managerial malpractice.

Own it. Because transition is often formally recognized as a provider responsibility, some buyers see transition as something done for them. This is managerial malpractice. For starters, successful enterprises strive to control, at a minimum influence, important outcomes—services transitions included. More to the point, there are important aspects of transition—such as managing its impacts on legacy internal providers as well as current and future consumers of services—that can only be effectively managed by buyers. Ownership is especially important for enterprises that, having a portfolio of businesses, must "drive in" organizational scope to capture full value.

Field the right team. Professionals assigned to drive transitions must be more than afterthoughts—especially for buyers with little transition experience. Experience, technical expertise, organization, focus and persistence, and diplomacy are but some of the skills and attributes required of transition leads. Leading a transition requires more than project management skills—it requires resources that can re-solution. The first few weeks of transition will reveal incorrect assumptions—transaction volume, network capacity, and operating hours, for example.

- When new discoveries are realized, the transition team will need to have the operational awareness to bring in the right SMEs to jointly change the solution with the service provider. So, get the team involved early. In our experience, its early involvement—before provider selection—enables the team to gain tacit understanding of not only the terms of the agreement but also its intent. This understanding can help to resolve transition's inevitable hiccups. Finally, ensure alignment and availability of extended team members, such as professionals from Human Resources, Finance, Internal Communications, and Legal.

Finally, dedicate—fully—your transition leaders to their designated roles. Continuing transition leaders in their "day jobs" while they are attempting to plan and manage execution of transition's rapid, inter-related sequence of events is a formula for dysfunction, delay, and potentially failure.

Thinking beyond Transition: Implementing the Retained Organization

While successful transition provides a solid relationship foundation, long-term success entails institutionalizing productive communication channels, seamless process integration, and collaborative problem solving approaches among organizations. In all of these respects, the buyer's approach and success regarding organization and staffing of its retained organization (RO) is crucial. In our work with buyers, three factors have emerged as critical to RO success:

- Unwavering executive sponsorship, including clear descriptions of the intentions, objectives, and projected benefits of the managed services relationship—and the roles of the RO in their realization.
- Early—in transition—stand up of an RO positioned to drive relationship success by virtue of its purpose, processes, structure, roles, and talent. Retaining top talent that is well-qualified for new roles, and attracting talent to fill skills gaps, must be high on the RO "to do" list.
- RO focus on service recipient needs and provider outcomes, representing a shift away from emphasis on service delivery process management that is characteristic of internal service provider teams.

Make it matter. Too often buyer executives treat transition as a thankless task. Causes are many, including fatigue from selection and negotiation; an assumption that providers, given their transition responsibility, will ensure success; and aversion to dealing with a frequent, if unpleasant, aspect of change—protracted internal resistance. We advise our clients to follow a different approach. One that involves making it matter as much as—more than—getting to agreement. How?

- With your providers, communicate early the importance of their approach to transition as an evaluated selection criterion. Evaluate their proposed transition plans, leader and team members as part of your provider selection process. Review the resumes. Interview key players. Assess the depth of their experience, skills, and cultural fit with your organization. Consider building into the agreement financial incentives for "better than plan" transition performance Finally, do more than show up for transition governance— drive the process.

- Take equal interest in the composition and leadership of your own transition leader and team. Ensure they have the experience, skills, and relationships across the enterprise necessary for success. Understand how transition facilitators are aligned to support and participate. Know how you will measure transition performance—and how you will recognize and reward superior achievement. Finally, identify what support resources and tools your transition team requires. Provide them.

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- With your extended organization, develop and communicate a vivid, compelling vision of your "will be" end state. Explain the linkage to broader organizational strategy. And describe the path forward. All in terms relevant to your audiences. For participating business units, assign clear transition goals and establish measurable progress indicators. Invite dialog regarding transition challenges—and be prepared to provide resources and tools to tackle them. Finally, leverage personal relationships across the organization for reality checks on how the organization perceives, and is responding to, transition.

Align interests. Ensure that buyer and service provider transition teams are working toward the same purpose—conclusion of a successful transition. Do more than talk. Just as the steady-state operations group's variable compensation is tied to customer satisfaction, the transition team must have similar incentives to deliver a transition that creates the foundation for sustainable value creation.

Manage expectations. However effective the transition, there will be bumps in the road. Sustaining organizational resilience in the face of unexpected challenges is key to maintaining momentum and driving adoption—key yardsticks of transition progress and success. And resilience, in turn, is rooted in effective change management and communications. This is especially so in transitions, which are characterized by the simultaneous challenges of implementing new processes, driven by new roles, executed by new people. As part of expectations management, ensure you have planned a period of service stabilization following transition—and ensure your organization understands the purpose of stabilization is to enable both buyer and provider to achieve agreed service levels by fine-tuning service arrangements, processes and tools.

Stay involved. "Eighty percent of success is showing up," said Woody Allen. Similarly, sustained leadership involvement and support is more than half the battle to secure transition success. It communicates importance. Reinforces accountability. Accelerates issue resolution. And keeps all eyes on the prize.

About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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