Reducing the Amount of Time Necessary to Plan and Negotiate an Outsourcing Deal

Most deals can be structured faster than current practice suggests, plus the arrangements can be more attuned to buyers' needs and ensuring value.

By Marvin Newell, Principal

Why does it take so long to put an outsourcing deal together? Contrary to what companies might think, it's not solely a matter of complexities in the issues, nor is it due primarily to the nature of the risks involved. Responding to clamor from buyers and suppliers around the months or years it takes to plan and negotiate an outsourcing deal – and the cost of a lengthy deal-structure process – we explored the issues impacting the process.

Our analysis of the deal-planning and negotiation process reveals critical insights including:

1. Many elements of the process that add time and expense deliver value that is often only transient at best.
2. "Speed bumps" that derail the process occur in four key areas.
3. Many outsourcing deals that sour have at their root cause a series of flawed assumptions about risks around which the buyer and supplier adapted their approach to their deal.

Overview of issues negatively impacting time and expense of deal cycle

The following overview of some findings in our analysis clearly indicates the deal planning and negotiation process often runs amok and leads to pre-signing activities that do not result in contracts that address the most important issues for buyers or suppliers.

1. **Delivering only transient value.** The deal planning and negotiation process is the time when the parties can begin to forge their partnering approach to achieving the deal objectives and a mutually beneficial relationship. However, our analysis reveals that the outcomes of this process often result, instead, in the following scenarios:
   - The tension surrounding the negotiation process damages the relationship at the outset
   - The level of innovation the supplier later delivers is not what the buyer expected as a result of the negotiation process
   - Because of the buyer's constraints later, the supplier cannot deliver the transformation discussed when putting the deal together
   - The deal ends up being not flexible enough to deliver on the promised vision

As a result of these outcomes, the parties often end up revising the deal within the first 24 months – another costly process.

2. **Key areas where deal planning gets derailed.** Four key areas of deal-cycle activities present significant challenges that often cause the process to derail. These include:
    - Defining scope and establishing a solid business case
    - Validating supplier selection
    - Assuring a competitive price
    - Getting to market-based contractual terms and conditions

Examples of challenges in these four areas include a business case that lacks important information about the buyer's environment, resulting in a solution that will likely miss the mark; scope definitions that have little resemblance to the buyer organization's current services, thereby creating an expectations gap that affects the relationship; and lack of information on suppliers' assumptions and interpretations of their solutions, which then necessitates increasing the time and cost for analyzing competing offers.

Or consider the impact on the relationship's partnering aspects, and the inflexibility later in ability to achieve outcomes if the attorneys for both parties begin at opposite ends of the spectrum and then engage in a marathon of arguing the fine points of every contractual term.

The costs and months of time involved in dealing with such "speed bumps" in the process of structuring the deal can quickly accelerate yet not result in ensuring value in the deal.

3. **Structuring deals on flawed assumptions around risks.** This activity leads to fundamental problems that plague the relationship. The parties will later make decisions and behave from a flawed approach, contrary to what the relationship and objectives actually require. This then results in escalated problem resolution procedures that can poison the deal.

Everest recommendation: Streamlined deal cycle model

Each of these above areas presents distinctive challenges for buyers and suppliers. Yet, they also represent opportunities to produce more effective agreements and faster realization of return on investment. As Everest continues to innovate in how best to serve our clients' interests, we continue to streamline the deal-cycle process of planning and negotiation activities to minimize delays and improve a deal's effectiveness.

An example of one aspect of our streamlined model eliminates the speed bumps in developing the business case. A robust business case is the most important element to unlock acceleration potential. Leveraging Everest's proven tools, templates, and market references can reduce cycle time by weeks while ensuring that the business case addresses all important issue areas.

Moreover, leveraging templates also positions the buyer's team to examine scenarios and options with confidence as the cycle advances.

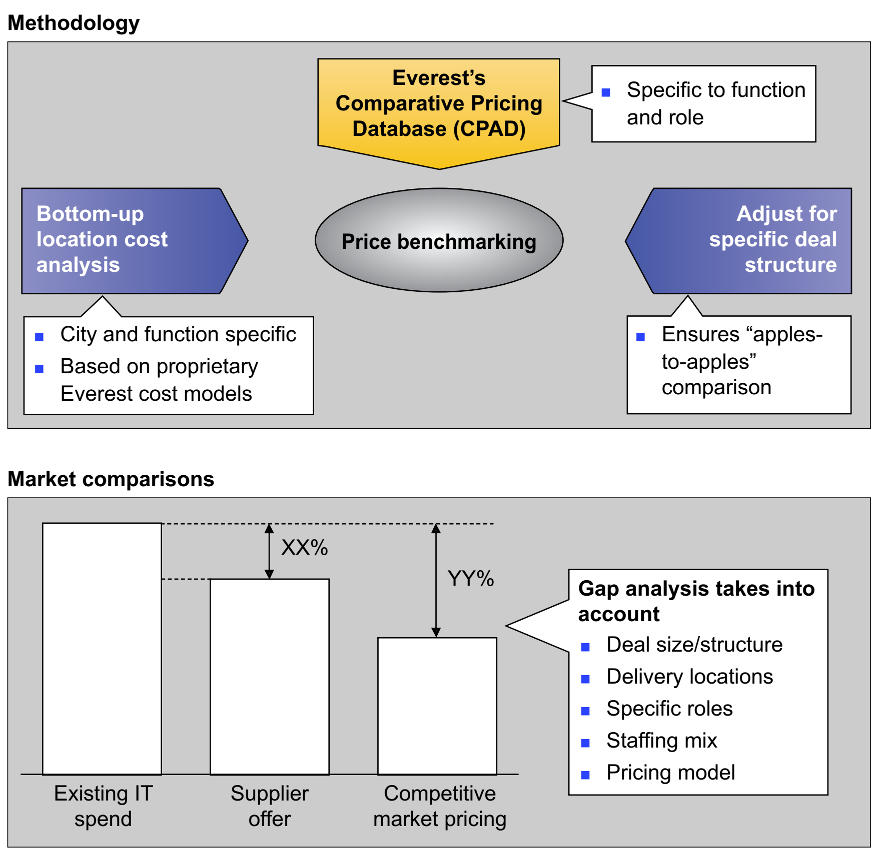
Another aspect of our streamlined model applies the 80-20 rule to defining scope and service level agreements. Going beyond the 80 percent level usually has diminishing returns due to the number of required assumptions. Delaying locking in the last 20 percent until finishing the deal negotiation can save months and can establish a rigorous approach for adjustments post signing when the facts exist to make high-quality decisions.

Discussions surrounding pricing can greatly extend deal planning and negotiation. Our analysis finds that efforts to extend price negotiations to extract the final one percent of savings from each and every line item seldom add value in the end.

Instead, we find that streamlining the process to ensure that pricing is within top performance ranges for the market enables the buyer to accelerate the time to benefit – a metric more important to ROI and a successful relationship over time. Exhibit 1 displays an example of the kind of marketing pricing information in Everest's database; using these tools significantly reduces the time involved in pricing negotiation.

EXHIBIT 1

Example of information in Everest's Comprehensive Pricing Database (CPAD)



Everest's streamlined model also helps buyers and suppliers drive quickly to legal terms that reflect importance to both parties and focus on issues where the gain is largest. This model also facilitates moving quickly into the services integration / transition phase and also ensures the governance structure does not hinder identifying opportunities and capturing benefits.

Our streamlined model using Everest's proven tools, templates, and market database reduces not only time but also substantial costs for buyers (which can be millions in internal resources and consulting services) as well as the multimillions suppliers spend in sales and solutioning costs.

For more information on our tools, templates, and market data that will reduce your costs, streamline your deal planning and negotiation, accelerate your time to ROI and ensure value in your outsourcing deal, feel free to call us at +1-214-451-3000 or e-mail us at info@everestgrp.com.

About Everest Group

Everest Group (www.everestgrp.com) is a global consulting firm that assists corporations in developing and implementing leading-edge sourcing strategies including captive, outsourced, and shared services approaches. Everest helps companies create strategies and sourcing relationships that deliver total value – improving performance and results while managing the risks in such initiatives.

Since 1991, we have completed 300+ engagements, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 1000 clients in banking, insurance, retail, healthcare, telecom, media & entertainment, and hospitality sectors, among others.

Our breadth and depth of experience enables us to deliver expert analysis and strategic results. Our flexible, collaborative approach analyzes the specifics of each sourcing challenge. Throughout the process, we encourage collaboration between buyers and service providers to spark creativity and lay the groundwork for long-term outsourcing success. The result is a solution that recognizes the strengths, weaknesses, and strategic objectives of both parties.

Everest Group is headquartered in Dallas, Texas and has offices in Toronto, New York, London, Amsterdam, New Delhi, Melbourne, and Sydney.

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