



## How to Drive Your Outsourcing Initiative to Achieve a Higher Degree of Enterprise Value

**Buyers unknowingly tend to change the plans for making a function better, faster, cheaper, thus making the outsourced function actually be less efficient. A services integration analysis is the remedy. Here's how it works.**

*By Steve Haas, Principal, Everest Group*

Eighty percent of outsourcing deals tend to stop at services transition, and their value creation focuses on merely having a direct impact on the process rather than moving up the value chain toward transformation and enterprise value. Why do so many outsourcing initiatives fail to capture a higher level of value?

The reason is that, during or after transition, the buyer tends to change the process from the way it was originally transitioned, with good intentions, to make it better, faster and cheaper. For example, the buyer may decide later to put additional metrics or decision points in place or remove an activity from scope. Often, the activities added or changed from the original plan for improving the outsourced function cause it to become convoluted, create duplicated processes, and add steps that not only do not add value but may, in fact, make the function be less efficient.

The remedy for this situation is undertaking a services integration analysis to determine where and how to achieve end-to-end process optimization and stronger alignment with the buyer's business goals.

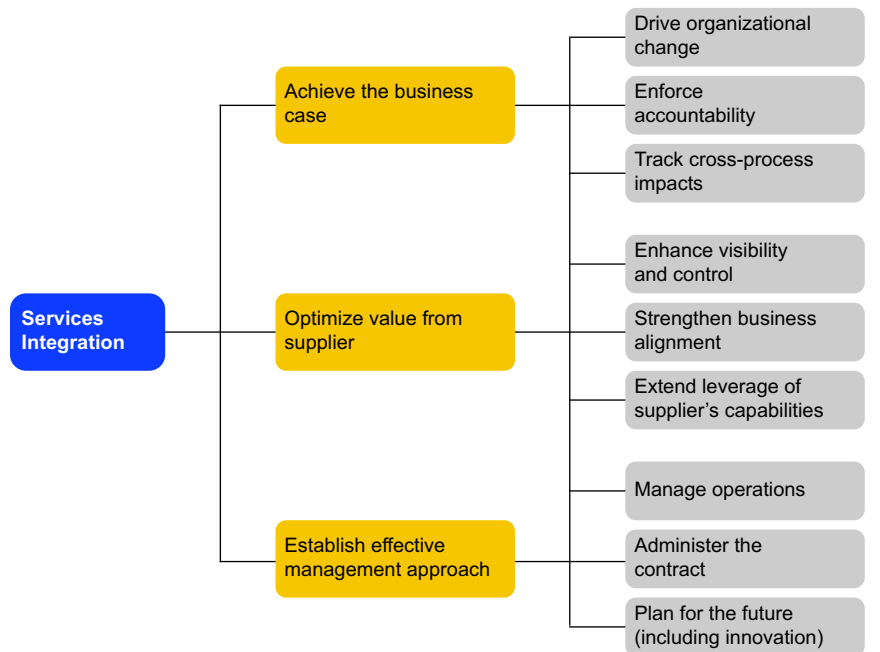
### How Does Services Integration Work?

A services integration analysis uses tools and techniques to look at each step along the process in the outsourced function and determine such factors as the degree to which the process step adds value, whether it increases the quality of the output or constrains the quality, whether it becomes an element of efficiency or of bureaucracy and even whether there are processes that could be included in the scope that could create additional value-capture opportunities for the buyer.

As **Exhibit 1** shows, a buyer would have three objectives in services integration: achieving the business case, optimizing the value from the supplier, and establishing an effective management approach.

**EXHIBIT 1**

Integrating the services processes between buyers and suppliers is key to harvesting maximum value from the outsourced relationship



Outsourcing relationships that do not undertake services integration tend to sub-optimize the outsourced function and erode anticipated value capture. Examples include the following:

- By not driving organizational change on both the buyer and supplier side, the parties create hand-offs that sub-optimize the process.
- By not analyzing how a change impacts all other processes and what adjustments will be required, implementing new changes can erode cost efficiencies and increase service risk, thus not resulting in creating value.
- By not improving visibility into the process, shadow organizations and redundant activities occur; this adds resources and therefore increases costs.
- By not strengthening business alignment and leveraging the supplier’s full capabilities, the parties often continue to operate on the original contracted scope assumptions; thus they lack flexibility to adjust the scope to align with the buyer’s evolving business needs.

**Challenges in Undertaking Services Integration**

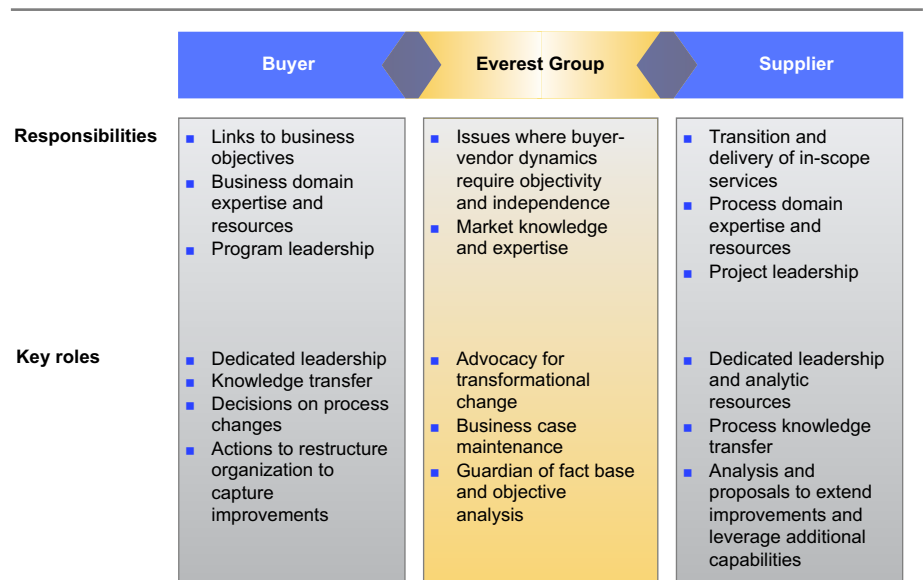
**Where’s the Innovation?** In outsourcing, the buyer’s and supplier’s conflicting interests often create issues that hinder getting to a solution. For example, if a supplier continually brings a stream of process improvement ideas to the table, many buyers perceive that the supplier is trying to drive services revenue up without regard to its impact on the buyer’s business case. Similarly, if a buyer advocates changes to how the supplier performs a function, many suppliers view this as an over-controlling buyer. Yet both of these activities are critical elements for the innovation that helps advance the buyer’s business goals.

**How to Achieve Objectivity to Bridge the Issues.** Services integration resolves this challenge in that it creates a structure that fosters innovation. Services integration requires a collaborative approach between the buyer and supplier, albeit difficult to achieve within the dynamics of separate interests and organizational issues. Buyers say that their supplier doesn't bring innovation after the transition. Suppliers say that they come forward with ideas that the buyer immediately shoots down. So it becomes difficult for either party to be the advocate for ideas that drive transformation and greater value.

We have found that an objective third party, such as Everest Group, can provide the objectivity necessary for advocating break-through improvements for transformation efforts. **Exhibit 2** illustrates how an objective third party can bridge the issues that arise between the responsibilities and roles of the buyer and supplier.

**EXHIBIT 2**

Services integration is a collaborative approach among buyers and suppliers, with Everest focusing on issues complicated by the buyer/supplier relationship



**Results of Services Integration**

The net result of services integration is a stronger relationship that delivers mutually beneficial value for both the buyer and supplier. Among the many benefits the buyer gains are the following:

- Enables better alignment of services with business objectives
- Captures the advantage of the supplier's full capabilities
- Reduces service risk and avoids tensions that tend to arise between buyers and suppliers
- Creates a structure that fosters collaboration and ongoing innovation
- Enables addressing cross-process impacts
- Assures that decisions are supported by rigorous, fact-based analysis
- Facilitates opportunities for identifying and exploiting process optimization

### Conclusion and Recommendation

Both parties should jointly assess periodically the value the deal is creating. Are there metrics or a business case that are not being achieved or that can be improved? Or if being improved, are they then being stretched into other areas, higher targets and performance? If not, consider undertaking a services integration activity to ensure the outsourcing relationship harvests maximum value.

Everest Group has deep experience in services integration and providing the necessary objectivity to help buyers and suppliers with issues that tend to arise and inhibit the effort. If you would like to further explore services integration, feel free to contact us. We can help you move your relationship into a structure and environment for delivering collaboration, innovation, and greater value.

## About Everest Group

**Everest Group** is a global consulting and research firm that comprehensively serves the outsourcing and offshoring market. An industry leader since creating the sourcing consultancy practice in 1991, Everest has earned a worldwide reputation for ongoing innovation by helping clients capture optimum value through the development and implementation of leading-edge sourcing strategies, including captive, outsourced, and shared-services approaches. We help companies create strategies and sourcing relationships that deliver total value – improving performance and results while effectively managing risks.

Since its inception, Everest has forged over 600 major outsourcing relationships, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 500 clients in banking, insurance, retail, energy & utilities, healthcare, manufacturing, telecom, media & entertainment, and hospitality sectors, among others.

The Everest Research Institute serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, suppliers, technology providers, and investors in the global outsourcing and offshoring marketplace. Our research analysts address both business process and information technology sourcing topics, providing the global outsourcing and offshoring community with information that empowers highly productive, sustainable sourcing strategies and relationships.

Through a uniquely integrated consulting and research delivery model, Everest offers its clients the flexibility and scalability to support a broad scope of business situations, client needs, and project requirements. Service offerings range from comprehensive support for critical initiatives to modular support for ad hoc inquiries.

Everest is headquartered in Dallas, Texas, and has offices in New York, Toronto, London, Amsterdam, New Delhi, Melbourne, and Sydney. For more information, please visit [www.everestgrp.com](http://www.everestgrp.com) and [www.everestresearchinstitute.com](http://www.everestresearchinstitute.com).

**For more information about Everest Group, please contact:**

Everest Group

Phone: +1-214-451-3000

E-mail: [info@everestgrp.com](mailto:info@everestgrp.com)

**For more information about this topic please contact the author:**

Steve Haas, Principal

[shaas@everestgrp.com](mailto:shaas@everestgrp.com)