

THE OUTSOURCING CONUNDRUM: RECOMPETE, RESTRUCTURE OR RENEGOTIATE

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IT outsourcing is commonplace today, and we mostly hear about the success stories at the conferences and in vendor presentations. We rarely hear about failures. It's even rarer that we hear about the challenges that enterprises have to overcome in the initial years of a contract to make it work.

Several things can fall through the cracks in the initial months after signing a multi-year outsourcing contract. This is especially true when contracts are signed in a hurry, which is all too often the case in sectors like healthcare that are relatively new to outsourcing, and under pressure to meet short-term financial commitments around costs savings.

Either way, Almost every contract needs to undergo some restructuring within the first 18-24 months due to a variety of reasons, and CIO's need to anticipate and prepare for the same .

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WHY DO CIO'S FACE CHALLENGES WITH OUTSOURCING CONTRACTS IN THE FIRST PLACE?

Here's a sample of some things that lead to challenges in the initial period of a contract :

- **You select the provider with the lowest price:** This is not necessarily a bad thing, however when cost is the primary driver, you tend to overlook certain important aspects, such as industry domain knowledge, which can limit the ability of a service provider to appreciate the business context in which the services are being provided. An example of this is the inability of many IT service providers to appreciate the criticality of system availability in hospital environments and patient safety.
- **You take your eye off the ball:** Many first time outsourcers will assume that the outsourced work is simply “thrown over the wall” and the service provider will somehow manage it all with little or no supervision.

In addition, they pare back the retained organization to a level that is inadequate to oversee the operations. The reality is that you need a strong vendor management framework to make sure everything works as planned.

- **You sign service-level agreements (SLA) without a proper baselining of current operations:** It is standard practice to write an SLA as part of an outsourcing contract, however it provides an illusion of dramatically improved performance from outsourcing of IT operations. This is a myth.

RECOMPETE, RESTRUCTURE OR RENEGOTIATE?

CIO's are constantly struggling to balance the needs of the business with the financial and budgetary constraints under which they need to operate. When things start to get difficult, the temptation to hold the service provider accountable and seek to make big changes can be appealing. However, this path can lead to a lot of pain and cost, with no guarantees for improved outcomes. Here are some things that CIO's can do to bring contracts back on track:

- **Appoint an outsourcing Czar:** It is very common for enterprises with large IT outsourcing contracts to have a VP-level position dedicated to managing the outsourcing and shared services programs. This is critical in ensuring the right level of focus and attention, especially in the early days of the contract. Many enterprises hire an experienced executive as a consultant for a period of time to manage the contract and drive governance.
- **Understand the root causes for performance issues:** It's easy to succumb to the temptation to blame the service provider. However the first question to ask is whether you have met your own obligations to ensure the contract is set up for success[Call out box]. Then make sure you sit down with the service provider's account teams to identify and isolate issues for corrective action.
- **Restructure the contract:** It is quite normal to discover after 12-18 months that the contract does not adequately cover the business needs of the environment, be it service level and service quality focus, changes in scope since the time of contracting, or the breakdown of responsibilities between the parties. A simple contract amendment can help reset expectations all around and put the relationship back on track.

- Recompeting the work is the last thing that should be on a CIO's agenda. Unless there are extremely intractable issues in the relationship and the benefits are well below the original expectations, it is usually not worth the pain and cost of recompeting an existing contract.

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- Ultimately, large multi-year IT outsourcing relationships are meant to be long-term commitments. Treat them that way, and the benefits over time will far exceed the short-term costs.

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ABOUT DAMO CONSULTING

Damo Consulting is a Chicago-based management consulting firm that works exclusively in healthcare. Our clients include healthcare enterprises and technology firms. We provide growth strategy consulting, market intelligence and digital marketing solutions.

USA

One Lincoln Center, 18W140 Butterfield Road
Oakbrook Terrace Suite 1500
Oak Brook, Illinois, 60181

Phone: (630) 613-7200

INDIA

Mariam Center, 7M - 302,
2nd Floor, HRBR Layout,
Bangalore - 560 043

Phone: +91 8064051999

Email: info@damoconsulting.net | Website: www.damoconsulting.net

