

# Moving Beyond Ad-hoc Outsourcing to Service Level Based Engagements

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*IT organizations can significantly expand the value of their outsourcing efforts by shifting their focus from short-term, one-off outsourcing projects to long-term relationships guided by Service Level Agreements.*

- Adversarial buyer/supplier relationships breed discontent, result in short-term relationships, add significant overhead to the negotiation process, and limit outsourcing engagements to ad-hoc projects with constrained benefits and cost savings.
- Establishing mutually beneficial, long-term relationships, gives providers incentive to build company-specific skills, eases knowledge transfer between both sides, increases the odds that deliverables will meet expectations and lets the parties exploit growing synergies.
- For long-term arrangements, Service Level Agreements supported by automated tools are an ideal way to objectively manage performance, resolve issues proactively and continuously improve performance.

Initial approaches to outsourcing are typically project-focused. When a need arises, an IT organization sends an individual project to a chosen service provider for completion. Although this approach offers value, it does not take full advantage of partner capabilities, leverage the experience gained from previous projects, or foster the creation of a pool of company-knowledgeable external resources to tackle future work assignments. Forging a longer, mutually beneficial partnership between buyer and outsourcer allows the parties to develop a deeper understanding of each other's needs and capabilities, capitalize on the synergies that develop between them, and extract greater efficiencies than are possible in the ad-hoc model.

## Moving From Adversarial Relationships to Business Partnerships

In the business world, it is fairly common for buyers, especially large ones, to act adversarial in their relationships with suppliers, using their size and financial wherewithal to browbeat suppliers into acceding to their terms. This "us versus them" mentality creates a hostile environment from the outset, one in which outsourcers are treated as fungible components to be hammered on price and replaced at will if they fail to satisfy the buyer's every demand. Rapidly rifling through suppliers in pursuit of the best possible deal, buyers are limited to outsourcing discrete projects. From the service provider's perspective, after devoting substantial time, money and resources to winning the deal and executing the project, there is no incentive to invest in building company-specific skills without assurances of obtaining some follow-on work. This type of adversarial relationship discourages optimal performance and results in short-sighted savings.

By switching from adversarial to business partner mode, and developing close relationships with one or several service providers, a company can reap much greater, durable benefits. Long-term relationships offer security and opportunities for future business to motivate providers to build and retain company-specific expertise. As these skills strengthen, knowledge transfer between buyer and provider becomes more efficient and effective, increasing the odds that the provider's deliverables will map to the buyer's needs with little handholding. Enduring relationships also foster communication and information sharing. Knowledge of the buyer's strategic objectives and expected development needs permits the service provider to plan, create and staff services proactively to meet those needs. Insight into the service provider's capabilities allows the company to apply those strengths in unforeseen and creative ways. Lastly, by eliminating the adversarial aspect of negotiating and executing contracts, the parties can greatly reduce their respective overhead. Writing and reviewing RFPs is a costly proposition for a buyer, and responding to RFPs is an even more expensive undertaking for suppliers. Much of the sales costs and commissions associated with short-term, ad hoc projects can be avoided in longer term engagements. In sum, all of these benefits provide sustainable savings and efficiencies that far outweigh the short-term cost savings gained from more traditional approaches.

### **The Role of the Service Level Agreement**

If a long-term relationship is the way to go, the most popular tool for managing performance is the Service Level Agreement (SLA). An SLA specifies service expectations and commitments, identifies the metrics that will measure performance to those commitments, and sets incentives and penalties for exceeding or failing to reach commitments. The foremost advantage of a well-written SLA is its ability to identify objective, mutually ascertainable performance standards. Using SLA metrics to monitor performance allows quick, proactive resolution of problems, and generates data to drive continuous improvement programs – an effort which the parties are more inclined to undertake within the context of a long-term relationship. SLAs are dynamic documents, and modifications are inevitable to accommodate changes in the buyer's needs or the provider's delivery capabilities.

Drafting strong SLAs is a thoughtful and time-consuming process. Effectively using them to manage performance is daunting without tools to automate the otherwise manual metric data collection, analysis and reporting. Implementing tools may be financially prohibitive for short-term projects that lack economies of scale, but a smart investment for long-term relationships where costs are more apt to be recouped and expected benefits much higher. The efficiencies that SLAs enable, combined with their superior ability to objectively evaluate performance, generate substantial benefits over the life of a long-term relationship.

**Action Items**

- To expand the scope and benefits of outsourcing arrangements, view suppliers as potential business partners rather than adversaries and move beyond price as the exclusive focus of every arrangement.
- Strike mutually beneficial deals that encourage service providers to invest for the future by acquiring company-specific knowledge and developing synergistic services and capabilities.
- For outsourcing agreement with terms exceeding two years, use SLAs to define expectations and commitments, and proactively manage supplier performance over the life of the engagement. Support the SLA with automated tools to assist in collecting, analyzing and reporting on metric data.

***About Clarity Consulting, Inc.***

*Clarity Consulting, Inc. is a management consulting firm specializing in Information Technology strategies and emerging trends in areas such as outsourcing, process redesign, efficiency enhancement, productivity and service level metrics, service offering development, and IT product and service positioning..*

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