

Deloitte.

Outsourcing Advisory
Services from Deloitte
Tough Love



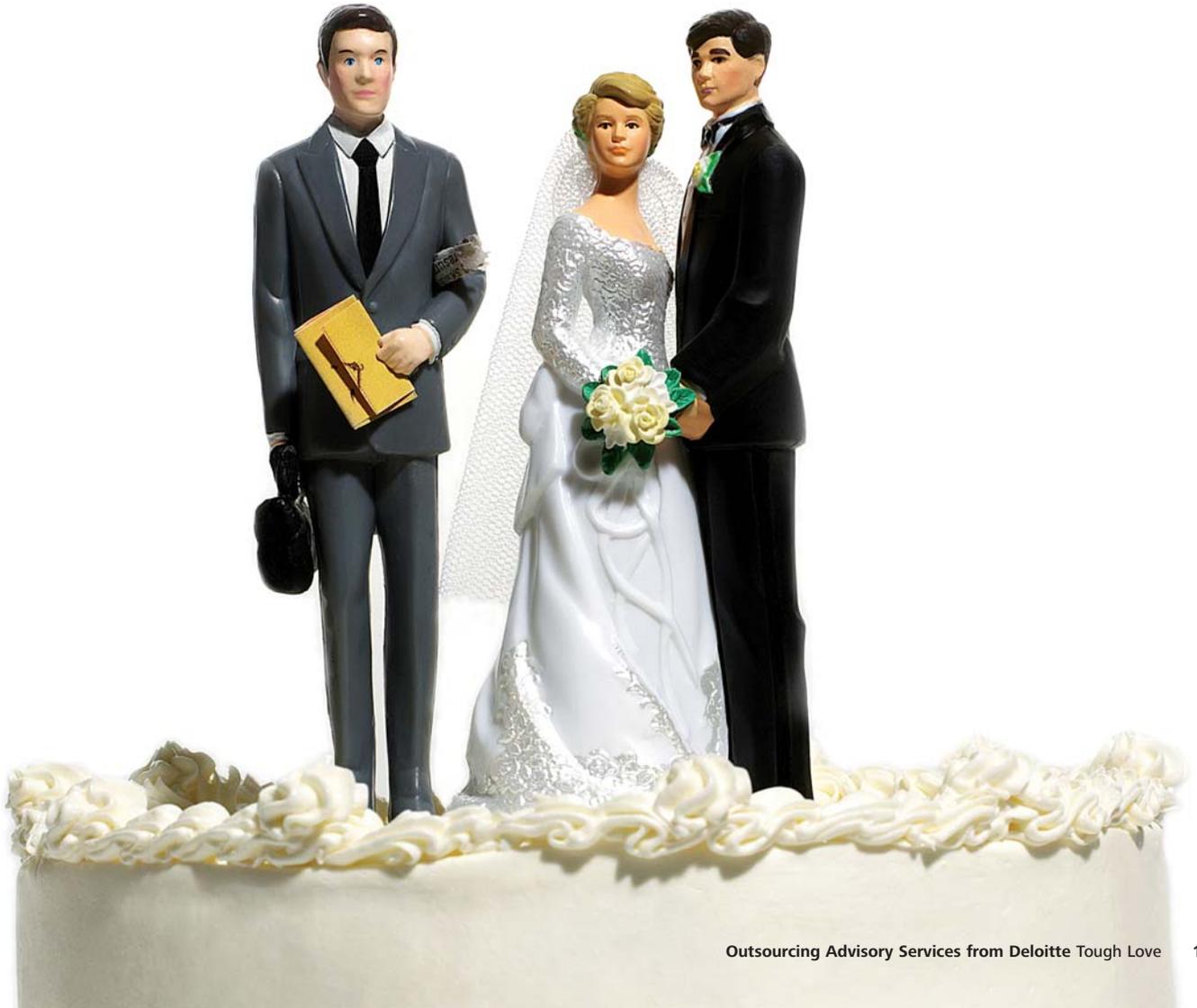
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1. Outsourcing and Outsourcing Advisory Services

A shared future together

All successful business relationships ultimately rest upon a degree of trust. But in the rapidly changing and complex field of outsourcing, where businesses surrender key processes to third party suppliers, trust is simply not enough. True understanding of the motivations of both parties, and the recognition that sometimes every good relationship needs “tough love” is vital. So, before you cement your relationships and hand over the keys to parts of your business, you need a second opinion. This is where we come in.



At Deloitte, we offer the full range of advisory services related to outsourcing, from strategy and business case development to negotiations and tax support. Crucially, we understand what it takes for a successful long term relationship and operate with an impartial eye to ensure that your relationship will not end up in an ugly divorce.

Outsourcing: defining the term

In simplest terms, outsourcing is the contracting out of a business function to an external supplier. This often involves the transfer of process, people and assets to the supplier. Outsourcing can also involve off shoring as well as significant transformation, for instance where an IT function is outsourced and the supplier migrates services to the own, lower cost infrastructure.

Outsourcing is most mature in the Information Technology (IT) sector is increasingly developing to include a wide range of business processes such as HR, Finance, Procurement, Customer Service and other back office and operations functions. Hence two main strands of outsourcing have now emerged: IT Outsourcing (ITO) and Business Process Outsourcing (BPO).

Drivers and evolution

Traditionally, the key driver for all this activity is cost reduction – the supplier can ‘do my mess for less’.

Cost is still a key factor, and here at Deloitte we have yet to see anyone adopt outsourcing when it is more expensive than in-house delivery. Nevertheless, there are other drivers that are important:

- Following a start-up or carve-out, a new business entity can use outsourcing to put in place key functions much more quickly – and cheaply – than developing an in-house capability from scratch.
- Outsourcing can provide the flexible capacity that a rapidly growing – or declining – business may need to keep pace with changing demand.
- In specialist areas such as IT, attracting, developing and retaining skilled staff can be a real challenge; outsourced providers can often offer access to these scarce skills.
- Off-shoring can be a sensitive topic; outsourcing to a provider that can then draw on its own near-shore or off-shore capability can be a politically acceptable way of achieving the same end.



Outsourcing: a dynamic market

Outsourcing has become a major market activity; precise data is hard to pin down, but as an example, in 2007 one commentator estimated that the global outsourcing market was worth \$297 billion, and predicted the market would be worth \$450 billion in 2010.

The market is growing in complexity too. In recent years, offshore providers have entered the European market, providing increasingly sophisticated alternatives to the established US and European providers. Outsourcing can also bring regulatory and financial complexity; with legislation around services frequently changing, and the tax implications of shifting approaches to sales taxes bringing considerable complexity. Throw in issues such as risk and rapid, game-changing technological advances such as 'Cloud Computing', and you have a market of increasing sophistication and significance.

A challenging relationship?

Given the scale, the investment and the sheer potential for risk involved in embarking upon outsourcing projects, a second opinion is not just a 'nice-to-have', it's a must. The potential to achieve significant savings through outsourcing is well known. However, there are number of times where companies hit obstacles, get entangled in complexities or simply get it wrong. Without adequate advice, planning and management, outsourcing projects can and do fail. "Outsourcing failure stories" is its own Google keyword, and the consequences of a messy public divorce can be disastrous.

With so many opportunities for failure, this is why we adopt a 'tough love' approach to outsourcing advisory services, to ensure our clients are getting the very best service from their suppliers.

In our experience, organisations will almost certainly fail to realise the benefits of outsourcing unless they stick rigorously to the following steps:

1. Adequately plan and manage the outsourcing process.
2. Establish an effective governance process.
3. Manage the potential commercial and legal risks.
4. Obtain sufficient experience and insight in outsourcing.
5. Maintain control and tightly align all activities to the programme objectives.

Outsourcing Advisory Services (OAS) from Deloitte

At Deloitte, our Outsourcing Advisory Services offering covers both IT and Business Process Outsourcing. Our comprehensive approach means we can support you at each step of the way; from strategy development, operating model design, business case development, service provider selection, contract negotiation, transition management and programme governance.

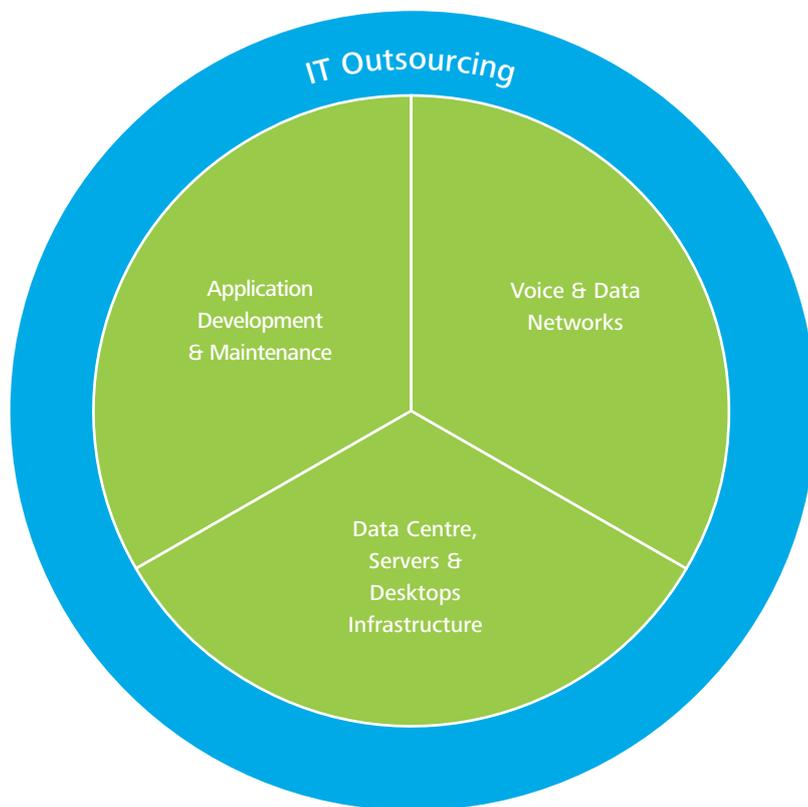
In addition to covering all steps in the process, our team includes deep subject matter expertise in all outsourcing services:

- Information Technology;
- Finance & Accounting;
- Human Resources;
- Procurement;
- Supply chain;
- Customer services/contact centre; and
- Industry specific processes (e.g. insurance, claim processing).

2. The basic components of outsourcing: BPO and ITO

Two types of partnership

The outsourcing market encompasses a considerable variety of services across two broad categories – Business Process Outsourcing (BPO) and Information Technology Outsourcing (ITO).



IT Outsourcing (ITO)

ITO is a well established form of outsourcing. Since its emergence in recent decades, ITO has evolved into a sophisticated global market. Most companies – no matter how traditional their business model – have outsourced the infrastructure layer of their IT function, including data centres, voice and data networks. Over time, companies have expanded their outsourcing strategy to include the customer facing elements of IT, such as the IT help desk, and those that support a company's change agenda, including application development.

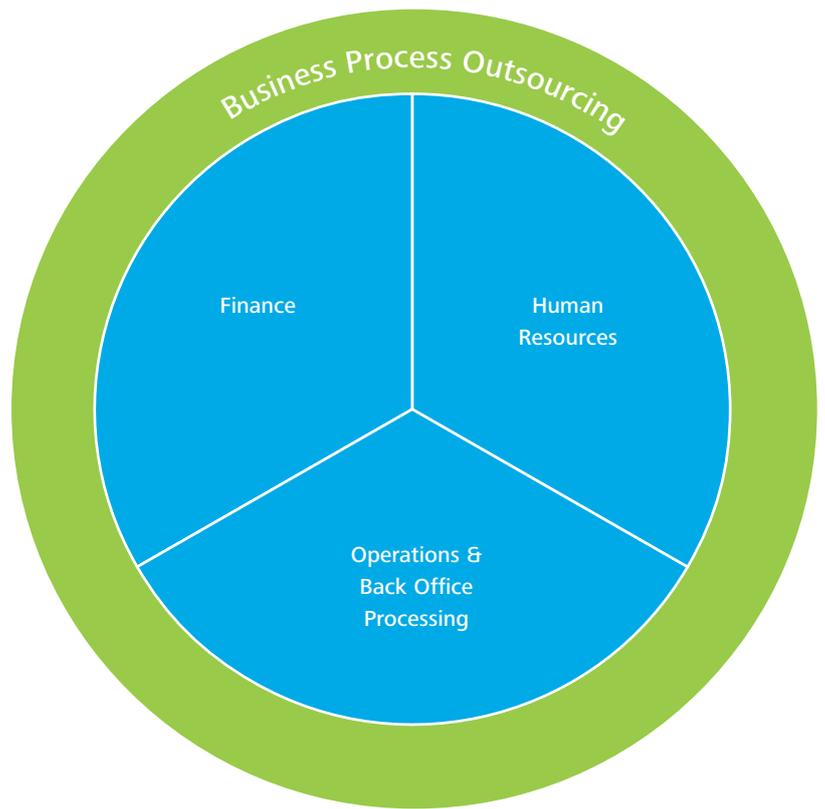
Outsourcing IT has always been a complex exercise, due to the inherent nature of IT which combines hardware, software, people and processes, and thus can involve everything from transferring staff to novating contracts and assessing the financial impact of selling physical assets. Of late, transferring all or part of an IT function to a third party has become increasingly intricate due to the popularity of on-demand ("cloud") IT offerings, the evolution of off-shore centres, and higher expectations for the CIO to support – and in some cases, lead – cost reduction and business transformation programmes. At the same time, ITO deals are becoming shorter (5 to 7 years) to align to more rapid technology refresh cycles, and companies are seeking commercial arrangements with suppliers that include measurable service level agreements that tie directly to quantifiable business outputs.

Business Process Outsourcing (BPO)

The outsourcing of selected back-office business processes that are typically performed in-house began in the early 1990s, and since then has grown dramatically with the drive for reducing costs and improving performance. There are two broad sub-categories of BPO:

- **Horizontal BPO**, which focuses on the delivery of classic, back-office business support functions such as Finance and Accounting (F&A) and Human Resources; and
- **Industry Specific BPO**, a rapidly emerging sector which includes services such as claims processing in the insurance industry, and mortgage processing for banks.

Sometimes perceived as a simpler proposition given its focus on transactional processes when compared to ITO, BPO faces its own unique challenges. These are primarily driven by the relative immaturity of BPO, particularly in the industry-specific arena, and the consequential risks of first generation outsourcing for both the supplier and customer.



3. Outsourcing: Realising the benefits, navigating the risks

Don't get trapped in an unhappy marriage

Companies seek to outsource for three main reasons – to reduce cost, to increase flexibility, and to improve quality of service. While the BPO and ITO markets are ones of increasing reach, depth and sophistication, nonetheless the risks of outsourcing are significant enough to undermine the business case for outsourcing and should always be considered alongside the more obvious benefits.



		Benefits	Risks
Flexibility	Transfer risk to the provider	<ul style="list-style-type: none"> Transfer residual risk – e.g. operating costs, technology expertise, staff knowledge, research and development (R&D) programmes – from enterprise to supplier. 	<ul style="list-style-type: none"> Potential loss of control over the information technology (IT) environment. Limit the ability to bring the service back in house.
	React to market pressures	<ul style="list-style-type: none"> Gaining competitive advantage. Become more responsive to client/market shifts. 	<ul style="list-style-type: none"> Flexibility required from supplier(s) may result in increased costs. Potential tie-in to supplier-specific technologies, leading to inflexibility or increased costs.
Cost	Capture, guarantee & accelerate savings	<ul style="list-style-type: none"> Cost advantages in some areas due to scale/capabilities. Contracts can be structured to eliminate uncertainty and volatility of savings. Enable access to lower cost off-shore resource. 	<ul style="list-style-type: none"> Supplier's inability to transform leading to limited savings. True total cost of ownership (TCO) not taken into account in the business case. Efficiency loss negates savings in unit costs.
	Transfer to variable cost structure	<ul style="list-style-type: none"> Transfer fixed costs carried by the organisation to supplier. Gain greater predictability of costs through established pricing. 	<ul style="list-style-type: none"> Lack of organisational maturity in realising the benefit of a variable cost structure.
Service	Gain access to 'Best of Breed'	<ul style="list-style-type: none"> Access to proven ideas and solutions. Sharpens balance between 'tech refresh' and cost efficiency. 	<ul style="list-style-type: none"> Focus on standardisation will drive up costs for non-standard requirements. Inability to realise the benefits of best of breed due to business and application constraints.
	Upgrade & refocus skills	<ul style="list-style-type: none"> Enhance management capability and resource pool. Enable management to increase focus on core business functions. 	<ul style="list-style-type: none"> Critical skills transferred to outsourcer. Transfer of skills limits ability to bring the service back in house.
	Fix operational service problems	<ul style="list-style-type: none"> Improve services, speed to market and client satisfaction through access to advanced capabilities. Requires commercial disciplines around end-to-end service delivery versus internal delivery. 	<ul style="list-style-type: none"> Additional complexity in resolving service issues due to integration of multiple suppliers. Potential service degradation due to excessive cost reduction.

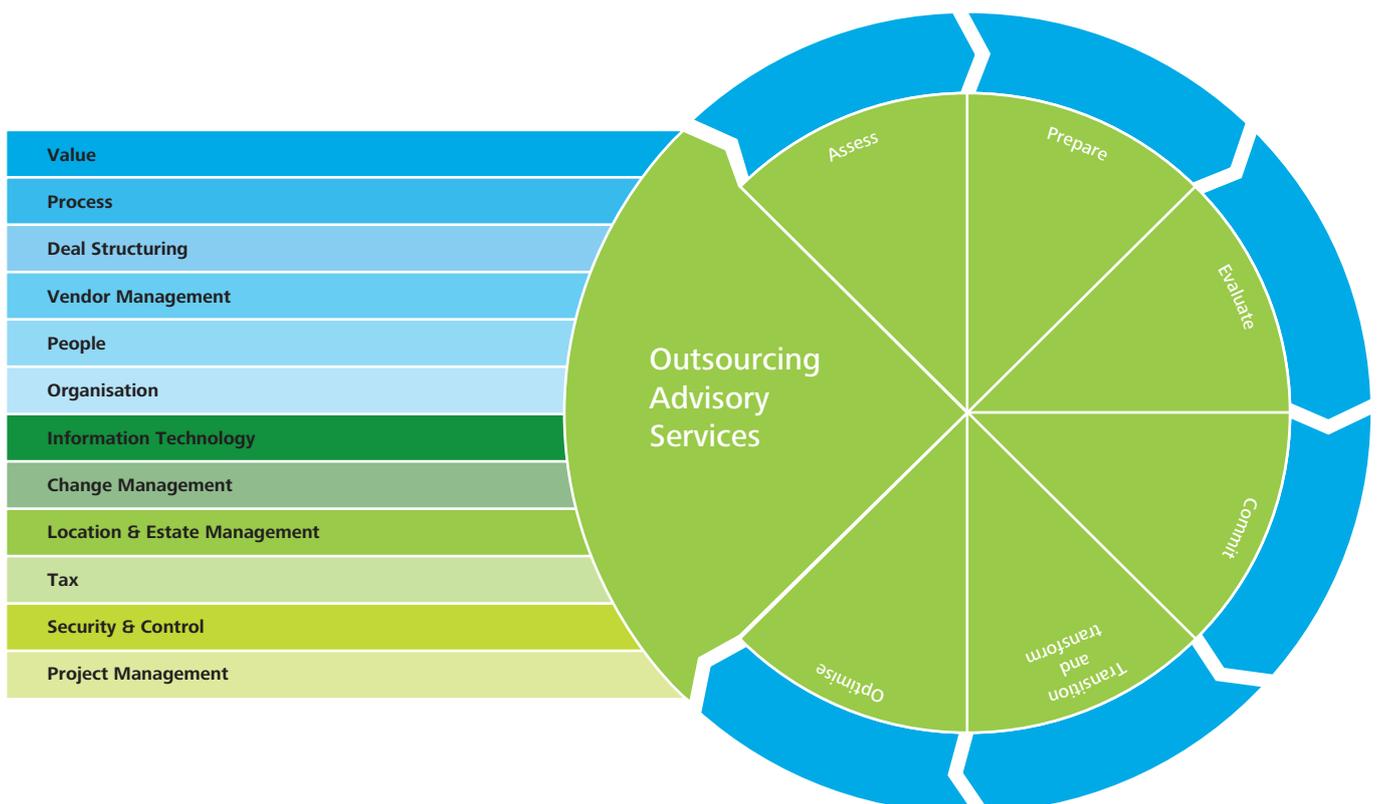
Organisations should spend time identifying and mitigating these risks throughout the outsourcing lifecycle, to ensure they realise – and sustain – the substantial benefits that outsourcing can bring.

4. Outsourcing Advisory Services: Our unique offering Finding Mr. Right



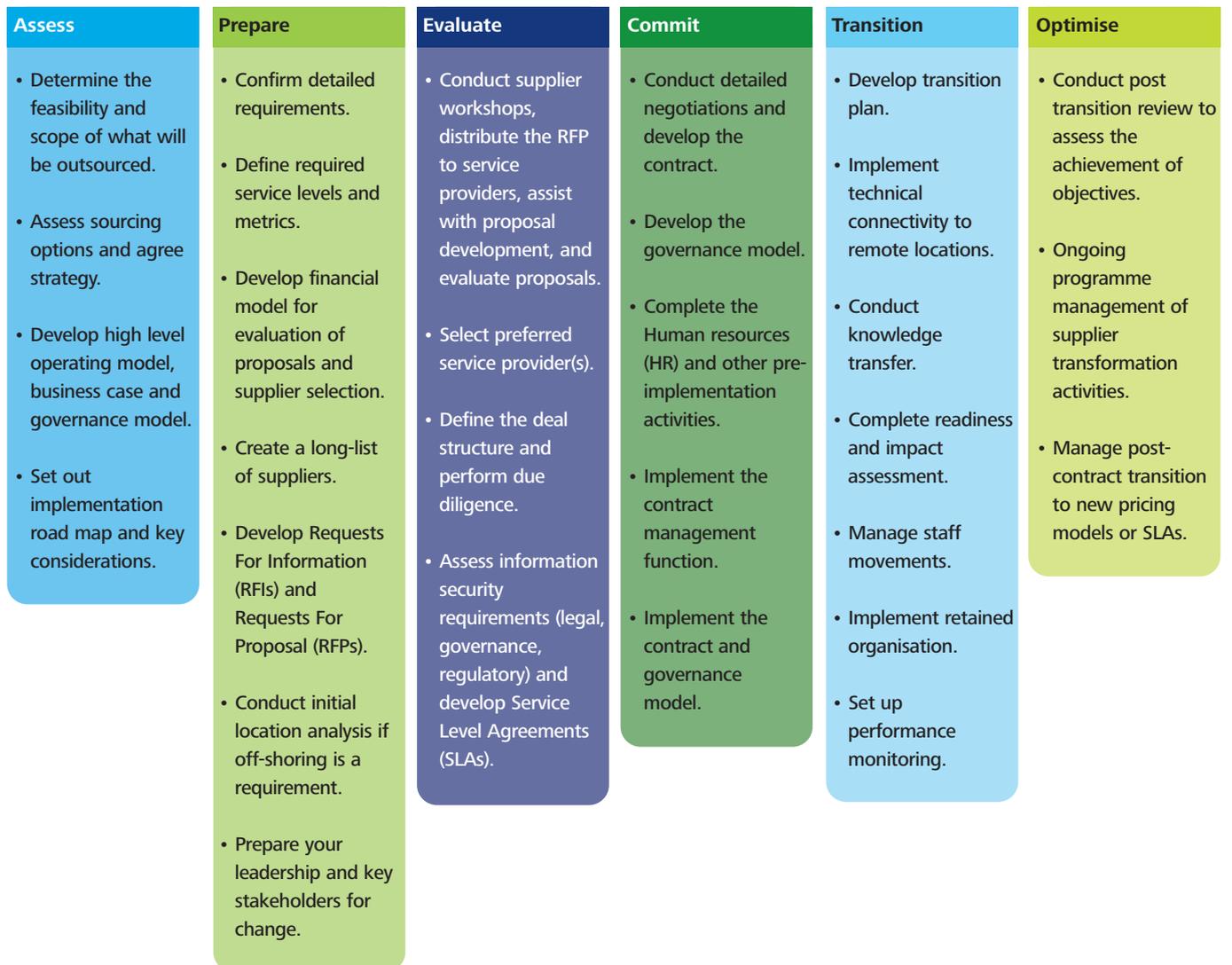
In today's pressured and complicated markets, companies are actively seeking more comprehensive advice in respect to outsourcing: one which covers the full life cycle of outsourcing from strategy development to optimising or transferring existing arrangements, and which marries knowledge of the BPO and ITO supplier market with technical and industry expertise, all from a position of independence.

Calling upon an exceptional breadth of skills, Deloitte's OAS solution is delivered through an integrated approach across our Consulting, Tax, Audit and Corporate Finance teams. This joined up approach to delivery enables us to provide the full gamut of services – from business case modelling expertise to advising on the tax, risk and regulatory implications of the sourcing options available to our clients.



Our task is to help you make the right decisions about when and what to outsource and then to help you execute these decisions effectively; assessing and selecting the right supplier, and making the most of commercial and operational benefits whilst minimising risks and timescales.

Our OAS Methodology consists of six structured steps to succeeding in outsourcing service efficiency. Our proven model allows us to deliver outsourcing services contracts successfully and consistently.



5. Outsourcing Advisory Services: Proven Capability

Hundreds of happy couples ... and counting

Relationship advice

When working with our clients' **Finance** departments, we help to assess and manage initiatives for transactional through to higher-end processes; we help ensure the right fit for a number of key business critical processes, including Accounts Payable, Accounts Receivable, General Accounting and Fixed Assets, and Management Information and Reporting.

Client snapshot

Deloitte supported a major multinational mobile telephone company, acting as the intermediary with the BPO Service Providers. Specifically, our role included:

- Production of a feasibility study and completing a business case investigating shared services vs. BPO sourcing option.
- Identification of finance process scope suitable for outsourcing.
- BPO market assessment and identification of suitable Service Providers to proceed to RFP.
- Development of a detailed RFP.
- Managing the RFP evaluation process (including site visit, RFP response and pitch presentation), and interaction with the Service Providers to identify a suitable BPO partner.

Human Resources

The **HR** outsourcing team helps clients to comprehensively assess and manage BPO contracts for a variety of services, including Information Management, Performance Management, Regulatory and Compliance, and Payroll.

Client snapshot

We led a high profile Global Bank through the key phases of design and into implementation, helping with:

- Programme management.
- Business advisory around HR outsourcing competitive landscape, RFP management of eight HR BPO suppliers.
- Business case development for captive shared services.
- Global re-design of the HR function.
- Global process design and technical architecture strategy.
- Change management, leadership alignment and stakeholder engagement.
- Set up of service centres and transfer of operations to the new HR model.



Operations & Back office processing

Our **Operations & Back Office Processing** team focuses on industry-specific processes, and conducts customer analytics for a number of industries, such as healthcare and financial services.

Client snapshot

Deloitte was engaged by one the UK's big four supermarkets to support the development of an outsourcing strategy for all back office functions. Our activities included:

- Mapping the core finance processes across the client's Shared Services Centre, and completing a risk and controls evaluation of key processes.
- Analysing and mapping the back office stores' processes to identify those suitable for outsourcing.
- Working with service providers to evaluate capabilities and develop an effective delivery model across the estate.
- Drafting an RFP document for offshore outsource providers, and assessing the responses.

Application Development & Maintenance (ADAM)

The **ADAM** team focus on the sourcing of application support, enhancements and development services, which includes operating model transformation, such as designing, implementing and exploiting off-shore delivery models.

Client snapshot

This project entailed the consolidation of a large number of suppliers down to just two, and implementing an operating model transformation. Our services included:

- Definition of the sourcing strategy and determining how the services for the 1200+ applications should be grouped.
- Development of the Target Operating Model and transition plan.
- Management of the RFP process.
- Schedule drafting and negotiation support.
- Assessment of HR implications of the transformation.
- Creation of the business case.
- Over three years, a 15% return on investment is predicted; with a projected run rate saving of 30%.

Data Centre, Servers & Desktop Infrastructure

The **Infrastructure Outsourcing** team deals with everything from outsourcing the management of desktops and servers, to end-to-end “desktop to data” centres with suppliers taking ownership of assets, sometimes including the data centre building itself. Deloitte’s capabilities in this area include the services of the Drivers Jonas Deloitte property advisory team.

Client snapshot

Deloitte was engaged as advisors on the largest IT outsource deal of 2010 for a major insurance house. Our work included:

- Guiding the client through the “go/no go” decision for outsourcing.
- Working with the client to build a RFP.
- Evaluating supplier responses.
- Building a complex financial model.
- Defined outsourced service, including service levels and service credit model.
- Supporting the client through a complex contract definition and negotiation process and the commercial negotiations with two down-selected suppliers.

Voice & Data Networks

This service niche focuses on utilising outsourcing to solve business issues such as increasing network capacity, consolidating and transforming fragmented solutions, and commoditising network services. The team draws upon expertise from a group of highly experienced networks with telecoms specialists.

Client snapshot

Unilever needed to save cost and make operational improvements to their managed telecoms services. Deloitte reviewed their telecoms services and as a result Unilever initiated a programme to renegotiate with the incumbent supplier and to procure the World’s largest global mobile services contract. With Deloitte managing these programmes, Unilever achieved run-rate cost savings of greater than 20% on an annual spend baseline of over €150 million. and interaction with the Service Providers to identify a suitable BPO partner.

6. OAS Tools and Methodologies

Unlocking the value of your relationship

At Deloitte, we have developed a number of proprietary tools that help accelerate project delivery, reduce risk and add significant value to the outsourcing process.



Market knowledge and insight

We maintain a **Market Intelligence Database** that provides an accessible pool of outsourcing deals across all industries, giving us a unique insight into the marketplace. It includes key contract details such as value, contract term, supplier, client and scope.



Our **Supplier Database** contains research into individual BPO and ITO suppliers, boosted by our own experience of their capabilities, strengths and weaknesses. This provides us with an up to date view of the industry landscape, and can be used to help draw up a long list of potential suppliers.



The **IT Sourcing Health-check Diagnostic Tool** identifies the strengths and weaknesses of a sourcing project by scoring it on a number of criteria. The tool generates feedback on how weak areas might be improved and provides insight from past Deloitte engagements to defend against future risks. In addition to written commentary and feedback, the tool also produces a radar chart and a 'heat map' to focus attention to specific development areas.

We maintain an **eRoom and intranet site** to provide an easily accessible collaboration platform and anthology of OAS materials, including project qualifications, proposals, sample deliverables, methods, tools, research articles, points of view and other information.



Process and functional expertise

We have a library of example **Requests for Proposals (RFPs) and data gathering templates** for various services (HR, Finance, IT Infrastructure, Networks, and Application Development & Maintenance). We have also developed our own **RFP and RFI templates** with sample content and detailed guidance notes.

The **Deloitte IT Capability Model** covers the key operating dimensions including governance, processes, and organisation of an IT function. The model helps identify 'good' and 'bad' practices, and assess the level of maturity of each IT process.



The **Finance Function Activities and Enablers Model** includes all activities and capabilities for a Finance function across six activity areas: Transaction Processing; Close, Consolidate & Report; Performance & Decisions; Risk, Controls & Capital; Regulation & Governance; Strategy & Execution.

The **Deloitte Industry Prints** are industry-specific, enterprise-wide business process models incorporating best practices and process flows for core and back-office processes.



The **HR Service Delivery Model** provides a blueprint and structure for the services provided by a Human Resources organisation to the company from an end-to-end perspective.



Enablers and accelerators

The **Sourcing Strategy Template** provides a logical, structured framework for assessing sourcing options (e.g. suitability for outsourcing, single vs. multi-sourcing, global vs. regional, governance models) to help identify the most suitable strategy.

The **Value Print Business Case tool** is developed for creating Business Cases and to enable tracking of benefits and reconciling these against the estimated value. It is supported by structured Business Case and benefit capture templates.



eValueate, our proprietary **RFI/RFP Evaluation Tool** supports supplier selection processes by enabling clients to set up, administer and participate in supplier evaluations, whilst offering a method of centralising and managing evaluation data in a controlled environment. It can produce reports on the current status and leader boards.

The **Transition Assurance Toolkit** provides a framework and detailed checklists for undertaking Quality Assurance on the transition phase of a sourcing engagement, together with an automated reporting dashboard. Support is provided for different modes of transition (client-supplier; supplier-supplier), and the toolkit covers the full scope of transition activity in application and infrastructure outsourcing.

7. Reasons to engage

When should you commit?

Timing is everything. Consider engaging our team of experts if your organisation is considering outsourcing in any of the following scenarios.

1. **Cost** – A financially driven decision is made, reflecting a need for cost reduction, covering such issues as labour arbitrage, transfer pricing or lack of capital to invest in IT.
2. **New deal** – A decision is made to embark on a major outsource or offshore initiative.
3. **Contract lifecycle** – A third party contract is not meeting expectations and you need help on any aspect of the contract: from service performance, to relationship management and assistance with issue resolution.
4. **Renegotiation** – Rather than needlessly starting the complex process of transitioning to a new services provider, you are investigating the option of negotiating improved conditions with your existing supplier.
5. **Deal-end: new supplier** – The time has come to change supplier and you need to ensure an effective transition between service providers, including services, staff and assets.
6. **Divestiture** – Whenever one part of an organisation breaks away from its parent entity, it needs to establish its own back-office functions.
7. **M&A** – Once the deal is done and the merger begins, both parties often find themselves with outsourced services arrangements, creating a pressing need to define a sourcing consolidation strategy and seek effective implementation.
8. **Rapid growth** – If your organisation is expanding quickly, this can bring its own challenges; you may need to act fast in order to source services to align the capability of your back-office functions with the business.
9. **Legal and regulatory change** – When legislation in one or more jurisdictions affects your organisation's sourcing strategy or current sourcing model, you need to reconfigure your existing supplier arrangements.



8. Why Deloitte?

Made for you

We apply deep hands-on experience to deliver on every aspect of outsourcing contracts from start to finish, drawing on an exceptional range of experience and expertise which we have gained from hundreds of private and public sector engagements. Choose Deloitte as your Outsourcing Advisory Services partner if your organisation needs:

- 1. Breadth of capability** – Deloitte has the breadth of capability, tools and methods needed to support complex outsourcing programmes. As well as deep technical skills, we can draw on expertise in areas as diverse as TUPE, asset valuation, deal financing, business case development, retained organisation design, commercial negotiation and SLA development.
- 2. Independence** – Deloitte is independent. We provide our clients with access to a thorough and impartial view of the supplier marketplace. We are also impartial. If outsourcing or off-shoring is the wrong strategy for you, we will say so.
- 3. Global presence** – Deloitte's genuine global presence allows us to mobilise the local knowledge needed to effectively serve multi-national organisations.
- 4. Full lifecycle view** – Deloitte has an outstanding track record, advising organisations at all stages of sourcing deals ranging in value from a few £million to £billions. As the world's largest professional services firm, with over 12,000 UK staff and approximately 200,000 people worldwide, we can draw on an unmatched level of experience and expertise.
- 5. Market knowledge** – Deloitte has a wider view of the supplier market and can leverage deeper discounts than individual companies would be able to achieve in isolation.
- 6. Industry presence** – Deloitte has a reputation as a trusted and experienced adviser on outsourcing and future trends, with one of our senior practitioners representing Professional Services on the board of the National Outsourcing Association (NOA).
- 7. Tough Love** – Our all round expertise, impartial eye, and critical yet positive approach to outsourcing advisory is all aimed at ensuring your experience of outsourcing relationships is a fundamentally positive one for your organisation.



Contact us

If you would like to discuss any aspect of our comprehensive, interconnected Outsourcing Advisory Services, please contact:

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