

# **Relationship Management in Information Technology and Business Process Outsourcing**

## **A W Group White Paper**

### **Introduction**

One of the most important, yet most often overlooked (or minimized), aspects of an outsourcing relationship is the relationship management model. In general, relationship management refers to the organization and processes used to manage a working relationship with a single, or multiple, service provider(s). It uses the terms of the contract as a basis and links the management processes and organizations of the two parties. The objective of the relationship management model is to ensure the anticipated benefits of an outsourcing relationship are realized in the most efficient manner.

### **The Problem**

A core set of three problems are often encountered when evaluating relationship management models.

First, the cost of relationship management is usually estimated at 5-10% of the total contract value. These estimates are often influenced by the service provider, and possibly the project sponsor, and may be intentionally under-estimated in order to: 1.) Help cost justify the outsourcing deal; and/or, 2.) Set the clients expectation that the service provider requires very little oversight and will act as a partner in the relationship. The fact that the importance and the complexity of a relationship management model is often under-estimated results in failure to fully realize the benefits of the relationship and, ultimately, in higher than anticipated management costs. The W Group's experience has shown that proper relationship management more often runs in the 10-15% range of total contract value. This percentage can be reduced as management resources are leveraged across multiple contracts.

Next, the design and implementation of the relationship management model does not begin until the transition phase of a relationship. At this point in time the parties are often reacting to the pressures of the situation and not working in a proactive mode. It is believed that the relationship management model implementation process should begin much earlier in the overall project so that effective control can be established prior to the start of transition.

Finally, terms and conditions of in-scope contracts are often inconsistent requiring more management attention to coordinate. While it is important to consider the service providers needs in the contract it should not be at the expense of consistency. It is imperative that oversight-related contractual terms across multiple agreements being managed are relatively consistent in order for the management model to operate efficiently.

## Key Considerations for Successful Relationship Management

The components of the relationship management model consist of the management organization (people), the processes and procedures, management reporting processes and communications plans. The relationship management organization uses the relationship parameters such as contract terms and conditions, scope of services, service level agreements, pricing, etc. as a foundation to guide its actions.

Consideration of the following factors will lead to a more realistic assessment of cost and effort required to manage multiple relationships and will exemplify the need for consistency across contractual relationships:

- Enterprise management structure – *What is the relationship between the Corporate CxO and Business Unit CxO's? Do the Business Unit CxO's report to their respective CFO's or CEO's? Is the management reporting structure regional in nature e.g. the Americas, Europe, Asia?*
- Management scope – *What contractual agreements will be controlled and managed within the model? How will the relationship with operations management be defined?*
- Business decision-making processes – *What is the schedule of authority? What is the role and influence of various committees? How much latitude does the business unit have vs. Corporate?*
- Geographical spread – *Are the business units or locations receiving the services in the US? North America? Globally?*
- Performance reporting structure – *Will individual service levels be tracked at the location, business unit or enterprise level? Where will performance credits be assessed?*
- Scope of services being provided – *Can all the services be provided from a central location or will some be delivered on-site? What interfaces with internal support groups will be required? Will service agreements between those groups be developed?*
- Service delivery model – *Are services delivered from a central location or locally as well? Are centralized service centers located domestically, near-shore or off-shore or a combination?*
- Volume of transactions – *What is the anticipated volume of transactions? Are there breakpoints for discounts or service level adjustments?*
- Financial controls – *What is the process for reviewing and approving incremental expenditures? Is a mechanism in place to facilitate leveraging multiple vendors? Are financial processes linked to corporate budgeting and forecasting processes?*
- Risk management and controls – *Have the pertinent risks associated with the in-scope services been identified? Has a control structure been designed and implemented that meets the internal controls requirements of the business?*
- Contractual terms and conditions – *What organizational requirements does the contract call for? Relationship Manager? Management Committee? Process Advisory Committee? How will performance audits be performed and by whom?*

*What are the reporting and communications requirements? How will contract changes be managed?*

- *People – What are the key positions? How will the key positions be filled? Will they be drawn from the ranks of the affected employees or will a supplier management skill set be required?*

Although this is not an exhaustive list, it gives indication that the relationship management model is more than designating a single point of contact for contract problems and determining who gets what performance reports. The client must decide, in light of the factors listed, and others that may be pertinent to the business, what kind of organization will provide the oversight required to meet the terms of the relationship and ensure the benefits are realized. They must further ensure that internal management processes interface to the appropriate management processes of the service provider, business units, etc. Communications, within the business and with the service providers, must also be emphasized as a way of managing expectations, uncovering problems and celebrating successes. Finally, the management model should be flexible in order to adapt to changing business and market conditions as well as to evolving relationships.

### **Timing**

Often, very little attention is paid to relationship management during the sourcing strategy development process and the RFP process. It isn't until negotiations are nearing completion that the client realizes they must have the resources in place to manage the service provider. This realization is generally driven by the need for someone to manage the transition as well as contractual terms related to service level performance reporting, management committee requirements and audit provisions. Waiting until this late in the process hinders the ability to drive contract terms that are conducive to efficient and effective management.

If the relationship management model is developed in conjunction with the sourcing strategy development process, and further refined during the RFP/negotiation process, it will more closely reflect the requirements of the business and will ensure relative consistency across multiple contracts. Beginning the model development process earlier also allows more time to solicit input from the business, identify candidates for key positions and establish the organizational framework for full model implementation.

### **The W Group's Recommendations**

Based on The W Group's experience in managing outsourcing relationships and guiding clients in the development and implementation of sourcing strategies we recommend the following:

1. Begin the relationship management model establishment process early – during the sourcing strategy discussions, if possible.
2. Interact with the various business units to understand what they will require to manage the relationship and feel comfortable they are realizing the proposed

- benefits. Use this as input to the development of the statement of work and contract terms and conditions.
3. Consider the desired skill set in those selected to manage the relationship. Managing a long-term service relationship with a service provider requires a different skill set than managing a technical operation. The focus needs to shift to the results delivered.
  4. Include the individuals who will manage the relationship as part of the deal development and negotiating team so they learn the nuances of each party's positions. Do not put them in a lead negotiating role and potentially expose them to intense argument with the service provider negotiating team. This will enable them to establish a better working relationship during transition.
  5. In the financial base case, budget 10-15% of the annual contract value for each years cost of relationship management. Leverage resources across multiple relationships in order to realize economies of scale and control overall cost.
  6. Place extra emphasis on the development and consistent execution of a communications plan. The plan should provide for input from the business units and the service provider as well as the relationship management team.
  7. Tie management committee meeting agendas to the business planning cycle.

## **Summary**

The relationship management model developed and implemented to support a sourcing strategy is the single most important factor in the realization of success in an outsourcing relationship. It is imperative that the model be consistent with the management processes of the client organization and interacts well with those of the service provider. The cost and effort associated with implementing and operating the model should not be underestimated. Adequate funding and careful selection of key relationship managers are critical to success.