A Transformative Experience

When outsourcing, buyers have to calculate the costs and benefits of changing first versus handing off the "mess."

By Paul Davies

At buyer strategy sessions for HRO, the debate still rages regarding whether it is better to transform internally before outsourcing, or whether it is better to outsource first and then have the provider sort out the "mess." Unfortunately, it's difficult to get an unbiased view from the market because in the provider world a degree of self-interest still colors the arguments.

Those whose origins are from the world of consultancy often benefit from advocacy of a transform-first strategy and consequently promote it. Those advising that it is better to sort out the "mess" first, are often the companies pitching to do the self-same transformation work. This way, whatever happens, the company gets its bucks upfront. Moreover, it earns the bucks in the low-risk environment of change and process transformation consultancy—not in the hardcore, high-risk arena of service implementations. At the end of the day, the buyer retains responsibility for making the "transformed" process work.

IT providers are a bit more ambivalent but on balance probably also favor transforming internally, either because they're pitching for an IT-led process transformation effort, or because they are seeking to sell a platform directly rather than through a service provider.

As with consultancies, the IT provider invoices for the process transformation work, and gets the money without guaranteeing the service that the buyer is expecting. Unlike the consultancy, it may, at least, provide a process that is system-enabled and must therefore by definition be operational. However, depending on the pricing structure, the IT provider might not promote simple, low-cost processes, since non-standard, complex development work usually boosts revenue.

Service providers that are operationally biased tend to promote outsourcing work first, regardless of its current state. They bet that they can conduct the transformation themselves and achieve greater efficiency than if it were left to the buyer, thereby achieving their margin through designing the best process with more cost-efficient systems. Service providers of this ilk fix the price based on the service that the buyer wants and then guarantee in one way or another to do whatever it takes to deliver the service itself.

Certainly, on face value, the offer appears to beat that described by the transition-first advocates. The problem arises when distinguishing the offer from the reality.

Outsourcing first and transitioning afterwards can be devilishly difficult and consequently risky. Providers of this style of BPO argue that since the provider assumes the risk of both meeting the service and guaranteeing the price, the risk should not even matter to the buyer. In reality, of course, when service levels are affected—or an implementation runs into difficulty—the buyer is the one who takes the pain regardless.

Therefore, while service providers generally point out the benefits of outsourcing first, they tend to be optimistic regarding the substantial risks. On the other hand, consultancy type providers tend to exaggerate the risks because that supports their knowledge-led agenda.

So where do buyers stand?

Most buyers naturally incline toward the transform-first approach. Why? Principally, they do so because it offers lower risk, but also because it retains control for them internally for as long as possible. There is also the argument that the low hanging fruit falls to the buyer instead of the provider and that exactly the right fine-tuned process ends up being outsourced.

This takes one to the core of the argument: What is the cost of buying one's own new IT and paying for an army of analysts and process experts to advise on the transformation? And how does that compare with buying the service from a service provider to begin with? On the one hand, the buyer pockets proceeds from the low hanging fruit by transforming first. But, on the other hand, a service provider might pass on such gains in the price anyway.

Luckily, no one has to decide on the principle, up front. A buyer can go to market with an open mind, see the prices associated with the different approaches, assess the risks, and make a choice. That's what a sourcing strategy is for. HRO

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