

## Contract discussions with an Outsourcer, have you done your prep work?

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Contracts and SLA's, the holy grail of outsourcing. This is where the terms and conditions of the services being provided by the Outsourcer are defined and priced at a lower fee than your current IT budget. The Outsourcer is only obligated to provide exactly what is in the contract and his performance is only measured and governed by the Service Level Agreements you both agree to as part of the contract. When you sit down to negotiate an Outsourcing agreement the Outsourcer will have a team of experts on the other side of the table. You may only see the sales people you have been dealing with, however, somewhere nearby they will have senior delivery managers for all the necessary disciplines;

- Application Services
- Application Development
- Infrastructure Services
- Customer Care / Service Desk
- 7/24 Monitoring Services
- Telecom Services
- Security Services

They will also have their deal guru's and a team of full time legal help. Every sentence in the contract will be scrutinized by this team prior to signing. This is where you are responsible for creating a mutually beneficial business relationship or one destined to fail. Claymore Solutions specializes in helping companies achieve successful outsourcing agreements. The following is a brief outline of what you need, to be prepared for success.

### Have your "A" team

You can't do this alone. To be successful, form a team of your own experts. Too many failed relationships happen because the outsource agreement was left to the IT Manager to look after. A strategy that works well is to appoint a senior executive on your team to lead the negotiations. By doing so you immediately let the Outsourcer know that you take them seriously.

The IT Manager is not left out, he knows the details of the services required, he is either at your side or close by with the rest of the team. You then need a team of your senior IT people and specialized help. From your own IT department you will need someone who is intimate with each service that is being outsourced. They not only need to know everything about the service, whether it be service desk, data center services or application development, they also need to be a first hand expert with the cost structure of that service. If you don't know that a call to the help desk is \$17 don't talk to an outsourcer (Yet). The first specialist you need is an outsourcing specialist who knows the ins and outs of an outsourcing contract. This specialist will put you in the driver seat by helping you prepare a detailed service catalog and cost structure prior to the contract negotiations. He will also help you avoid the pitfalls of service contracts, such as failure

to include volumes with services, allowable growth within the contract “dead band” and appropriate service level metrics in order to measure performance. The last members of the team are lawyers. While you may have an in house legal team, their are lawyers who specialize in this area that can be worth the extra cost.

### **Know your services**

Before you talk to an outsourcer you need to know specifically what services you want them to provide. You need to detail exactly what each of these services are and define the metrics to measure performance. The Outsourcer already has a detailed service catalog of what they provide and they know the cost of these services down to the penny. You need to be armed with the same knowledge.

If you don't already have a defined services catalog you need to put one together before you start. For each service that you want to outsource, you need a clear description of what the service entails, all associated volumes and the metrics to measure performance. Ideally you already have these metrics and have been keeping a history of past performance, if not you need to put this in place prior to talking to the Outsourcer.

### **Know your growth projections**

Your own business plan is another tool you need to negotiate a good deal. You know where your business wants to be in future, so you need to plan for that growth (positive and negative) in your contract with the Outsourcer. This is why volumes are important. In the contract you will need to **work in** a mechanism for any additions or reductions in services. The Outsourcer may readily allow for a growth percentage with an appropriate yearly increase in fees, the more difficult terms are service reductions. This is one of the levers the Outsourcer wants to keep to himself. When they sit down to talk to you they already have a list of optimization projects to be executed after signing to lower their cost. Many of these involve lowering your volumes, application stacking, server virtualization, self help tools for the service desk etc.. The outsourcer needs to execute these projects in order to meet the deal price and you want those savings. You will need to work with the outsourcer to separate business driven reduced volumes from their efforts to gain efficiency.

### **Know your hardware and software portfolio**

A large part of your IT budget is software and hardware licenses and maintenance. The Outsourcer may offer to include this in the deal. In many cases they can renegotiate your licenses and get renewals at a lower rate. Also they will scrutinize the portfolio to see if all of the licenses are being used. Those that are not being used are cancelled, instant cost savings. You need to do this yourself before you outsource. Claymore Solutions can perform this review for you and make sure your company realizes the savings.

### **Term and Exit Criteria**

The outsourcer is banking on having you as a long term client. In a good outsourcing relationship this is good for both parties and can yield the highest savings for you as the client, however, if the relationship does not go well you need a way out. Start by knowing your business plan, how far into the future can you see with confidence? Use your business plan as a guide to determine a suitable length for your contract. The outsourcer will place large penalties on an early exit. You can counter this with a shorter term and no penalty on exit at the end of the term. Another approach is to have a

longer term contract but set check points in your contract at which time the terms can be updated and an opportunity for exit is afforded. In this manner the outsourcer is incented to make sure you are happy and will continue with the agreement.

## **Project Work**

Outsourcing contracts are very clear on ongoing daily operations type of services. Additional work such as projects is difficult to foresee and build into the contract. The Outsourcer will want to have provisions for this work as this is where their profit margin is highest. Never include this work in your contract. Treat project work like any other capital program, run a formal RFP and select the vendors that are best qualified to deliver successful results. Your outsourcer may win many of these RFP's since they will become intimately knowledgeable about your business. By keeping the process formal and not sole sourced you will ensure you get the best skills at the best price.

## **Service Level Agreements (SLA)**

This is a topic in itself but in setting SLA's you need to know four things;

- a) What is the behavior you want to drive in the Outsourcer,
- b) The definition of each service you want to outsource (Service Catalog)
- c) The performance metrics for each Service you have outsourced including their historical results and,
- d) The value of each service to your business as \$/hr for lost business or productivity if the service is not available.

Service Level Agreements (SLA) are all about driving behavior. If you set an SLA stating that response to a help desk ticket (time to respond) must be less than 30 min (95% of the time) the outsourcer will automate an email response or have the help desk call back immediately to ensure compliance. If the behavior you really want to drive is timely resolution of problems then you need to measure that. In this case, a more appropriate SLA would be the ticket being accepted by the resolving team within 30 min. You now have an SLA to prove that someone is actually working on your problem rather than acknowledging that the issue has been logged.

As we discussed earlier your service catalog will have metrics to measure each service, these metrics are now the basis of your SLA's. By knowing the historical trend on these performance metrics you can assign reasonable performance expectations on the Outsourcer.

Beware of SLA penalty clauses, they must be meaningful and focused on what really counts. If your business grinds to a halt when your ERP system is down then you want to make sure that all efforts are made to ensure this does not happen. Again this comes to driving behavior if there is no penalty or even a very minor one then the ERP is no different than any other system in your portfolio. You need to motivate the Outsourcer to pay close attention to this critical system. Penalties are not the only way to drive this behavior, incentives for exceeding the performance requirements can often be even more effective. With a penalty alone the Outsourcer will meet the service expectation, in order to exceed an SLA will be an additional cost (effort) to them. The use of penalties and incentives should be balanced to achieve your goal of top level service.

Hopefully this has highlighted the need for significant preparatory work required to achieve a successful outsourcing agreement. Companies that invest this effort fare well in their relationships with Outsourcers.

In the coming weeks I will explore the question of “What to Outsource”, many companies don’t spend enough effort answering this question. *These companies end up* dissatisfied outsourcing clients only find out too late that certain critical services, that provide a business advantage, should have been retained.

Claymore Solutions Inc. can provide the guidance and expertise to guide your company through the process of outsourcing. We offer consulting services that take the guess work out of a good agreement with your Outsourcer. For more information please visit our website at [www.claymoresolutions.com](http://www.claymoresolutions.com).