



NorthPoint's Outsourcing Value Analysis (OVA) Rebid Avoidance Process Results

Case Study Specifics

The enterprise is in the software business and outsourced Accounts Receivables to a well-known outsourcer. The arrangement was for multiple years with the contract approximately 35% complete. A number of issues and irritants had arisen that caused the customer to contemplate cancelling the contract and rebidding the work. The OVA software and process were identified and used to address the irritants and issues with the outsourcer.

There were 8 key issues between the enterprise and their outsourcing partner:

1. The error rate of invoicing to the customer was 7.6%
2. The price list was under constant updates and the SLA had not covered the resources and programming to accommodate order configuration and support
3. The signature process for pricing and order changes were not followed and constant outsourcer personnel changes complicated the relationship with the customer
4. The return to supplier cash management process was in error, which was uncovered by the auditors and was estimated to have an 8% negative impact on quarter end cash
5. The management level reports were incomplete and often in error and presentation to the board on quarter ending cash were typically off on average 6%-8.5%
6. The internal software application was not kept up to date and synchronized as requested, which caused difficulty in reconciling to the general ledger
7. Business model changes that required entering into a new international market was cost prohibitive due to the infrastructure
8. Requested changes to the SLA were too difficult to accomplish and too costly

The OVA process included participants from: Finance, IT and the business leadership.

During the scoring of the statements issues on a variety of subject areas began to come out. Some of the issues were performance related and others were simply irritants. Overall, there was a significant issue with a lack of communications of substance with the intent to solve the enterprise's issues.

The OVA scoring by the customer of the outsourcing arrangement and the outsourcer view of the outsourcing arrangement were as follows:

Assessment Area	Assessment Scores
Customer View of Outsourcing Arrangement	44.6%
Outsourcers View of Outsourcing Arrangement	68.2%
Outsourcer Performance to the SLA	87.7%

The senior management of the outsourcing organization, when presented the results, was taken back as to the gaps and especially how the customer scored the outsourcer's performance as compared to

the outsourcer's view. The outsourcer knew they had issues, but were not as concerned as they should have been given the seriousness of the issues. The end result was a change in the outsourcer's program leadership and a renewed interest in changing the relationship with the customer.

Step 1 - OVA Assessment

There was a facilitated session where both sides reviewed their scoring and the rationale behind it. The barriers began to drop as each accepted new levels of responsibility as to issue, risk identification and resolution. A new shared mindset was developed to improve the performance of the teams so the organization could show improved performance on the 8 issues.

Step 2 - OVA Assessment Results Management

Teams were formed that included the outsourcer and the customer with subject matter experts from both organizations. The teams were assigned to propose solutions to the issues raised. New resources were brought in from the outsourcer and immediately improved the synergy and openness of possible solutions and new processes.

Step 3 - Second OVA Assessment

The outsourcer was engaged to implement a new process from order receipt to cash received and the client managed that for 90 days, after that point the process was added to the outsourcing contract. The outsourcer was engaged to provide business process assessment and financial software management to ensure accurate general ledger management. After the results of the second OVA session showed improvement in each organization's view of the arrangement the parties knew the OVA process was effective in changing the relationship as well as improving the business process performance.

Results 90 days from the initial assessment:

Assessment Area	Assessment Scores
Customer View of Outsourcing Arrangement	56.6%
Outsourcers View of Outsourcing Arrangement	62.2%
Outsourcer Performance to the updated SLA	72.2%

Step 4 - Third OVA Assessment

The results from the third OVA session showed improvement in the updated SLA scores (the score had gone down as the focus shifted to business results) and both organizations had scored the relationship and performance essentially the same.

Results 180 days from the initial assessment:

Assessment Scoring	Assessment Scores
Customer View of Outsourcing Arrangement	73.2%
Outsourcers View of Outsourcing Arrangement	72.2%
Outsourcer Performance to the updated SLA	84.2%

The outsourcing contract was not rebid, but actually enlarged by 31% at about the same margin after 180 days. After the issues were corrected a new contract was developed and approved.

The positive turnaround was a result of a “new beginning” which included a new outsourcing program manager, a number of subject matter experts as well as a new customer manager. In addition, the client and the outsourcer realized they had a new and better process to capture irritants before they became issues, identify tangential process issues that impacted the outsourced areas and the ability to uncover unmet and unidentified needs that would enhance the business and provide the organization with the opportunity to identify and implement innovative processes.