Case Study: NorthPoint's Outsourcing Value Analysis Software

Situation

The customer is an international electronics hardware and software company with locations in three (3) separate countries. They went public in later part of 1999 with a successful IPO. They now plan to have ~ $1Billion in revenue with 12.2% EBITDA. Revenue growth is between 13% - 19% annually. They are viewed as an industry leader in their target market

Their research and development (R&D) investment ranges from 15% to 18% of revenue annually. They have a real focus on their employees and as such have abnormally low turnover as compared to their counterparts in the industry.

Their plan is to grow their business systemically as well as to acquire companies to gain access to new technologies deemed critical to the company's continued growth.

This company had outsourced IT (application management, network, storage & recovery and help desk) and HR (full function, including transfer of personnel) to two different outsourcing service providers. They were entering year 4 of 5-year deals

Service Level Agreement (SLA) performance ranged from 89% to 92%, but senior management was getting streams of general complaints about the outsourcing service providers (OSP's). Functional management (IT and HR) were not pleased with the OSP relationships, and business leadership was not pleased with cost levels and performance. In addition, OSP's were not open to contract changes so management viewed the outsourcing agreements as impediments to the company's strategic decisions. The HR deal was viewed as the more significant problem of the two deals. Finance forecasted that the impact of both outsourcing agreements would be a 3-5 percentage-point reduction in EBITDA.

NorthPoint Outsourcing Value Analysis (OVA) Engagement

Despite 90+% SLA scores for both OSP's, the company initiated an OVA assessment because there were too many complaints from company employees and the restrictions the outsourcing agreement had on the company's strategic decisions. Some of the company's better talent was complaining and some left the company, which was negatively impacting overall morale.

OVA results

The OSP teams each scored their overall performance as 90% on OVA. However, enterprise management team scored the OSP performance at 65% identifying 8 minor irritants and 4 major issues

1. Barriers to mission changes at two enterprises
2. Barriers to a new acquisition were holding up the final proposal to the board

Management had determined to in-source, change OSP or rebid as soon as possible.

Joint teams were formed

1. Three (3) of the (4) important barriers and value opportunities were identified by the enterprise management team as the highest priority
2. Seven (7) of the irritants were also taken on with two small teams
3. The two SO providers had personnel on all of the teams except for one irritant team

The results of the team

Within the first 60 days teams were reporting on their progress

1. The IT OSP
    a. Was to be asked to rebid within the next 7 months, but came up with a superior solution that the company team really liked
    b. To implement the solution required about 120 days. The IT OSP received a consulting agreement for 3 people to prepare for implementation
    c. The OSP required a change in their SLA, which was approved in 65 days. The new scope added 12% to the OSP's monthly billing and the agreement was extended for 2 years
    d. As a result, the rebid was rescheduled
    e. The other two teams reported their results
        i. Both had opportunities to improve their business opportunities and business process
        ii. The SO agreed to change their locations for processing and with the additional acquisition their deal increased in billing by 14.7% and their margin – which has not been disclosed
        iii. Second was a new agreement due to an acquisition and that was completed by the SO provider in 95 days
2. The HR OSP was asked to rebid, but did not get the business
    a. Their team members for the OVA projects were not experienced and although they did get a small consulting agreement their value

was in dispute as a business partner as contrasted to an SO provider

3. Five (5) irritants were summarily dismissed, with the exception of one, as they were solved in the process and involved changes in staff members of the SO team and the enterprise. They used the process as a quarterly SO management for improvement meeting
4. The SO team members became employees dedicated to the success of the enterprise vs executing the SLA agreement outside the enterprise management team
5. Summary

    a. There were serious issues here on both sides and in the enterprise management team there were serious disagreements on what the real problems were vs what was being reported
    b. Both the remaining irritant issues are in the process of being addressed and making progress as the SO provider continues to bring in new technologies to make new fundamental improvements
    c. The new SO providers have now been introduced into the process and it is too early to report results
    d. The issues – resolved
        1. The management can make the decisions and are no longer feel restricted
        2. The SO is now part of the enterprise strategy
6. Financial Impact
    a. Year 3 is an estimate

Impact	Year 1	Year 2	Year 3
Enterprise incremental EBITDA	2%	4%	5%
OSP incremental revenue	12%	15%	17%

EBITDA is cum for total impact
New SO firm .. netted a decrease in cost to the enterprise of 22%
Deal is for two years