

Is Your Outsourcing Agreement Going Through A Mid-Life Crisis?

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You are two or more years into your outsourcing agreement and you have concerns about whether it is performing as expected. You have a few questions:

- How do I know the agreement is still a good deal?
- How can I match the agreement to my changing business needs?
- Is it possible to re-negotiate the agreement before the end date?

Read on, to learn more about how to help your agreement make it through a mid-life crisis and relieve your concerns.



The Nature of Outsourcing

As much as we would like them to, outsourcing agreements often times just don't age well. They start out great, the relationship is good and the service may be outstanding, but after a few years the relationship goes stale and the value starts to erode. They go from being agreements with a clearly defined value proposition to something we may no longer completely understand.

This is not something unusual with your outsourcing agreement; it is an experience shared by many of your peers and is part of what we call the Nature of Outsourcing.

Whenever we think of the problems and issues faced by companies struggling with their outsourcing agreements, we are reminded of the quote by the great Major League catcher and manager Yogi Berra. Yogi had a knack for restating the obvious and did so in one of our favorite quotes when he said, "It's tough to make predictions, especially about the future."

Each time a company puts together an outsourcing agreement they attempt to predict the future, and as Yogi said, "that's tough". People usually base the agreement on what they know today and on their past experiences. This often seems like it is the best thing to do, but the nature of an outsourcing agreement is focused on the future not the past.

This is why many outsourcing agreements become stale or ineffective after a few years. They don't go out and buy a shiny red sports car, but they do show other signs of a mid-life crisis. They no longer look the same as they did early in their life, they become less relevant and require a lot more attention than before.

So what happened? How did the agreement you worked so hard to craft suddenly become something different than what you need? Part of the answer can again be found in the wisdom of Yogi Berra, "The future ain't what it used to be." So let's take a look at some of the tell-tale signs that your outsourcing agreement is not what is used to be.

Signs of a Mid-Life Crisis

In most cases, you already know you are in a mid-life crisis with your outsourcing agreement; however, there are definitely signs that the agreement may be in trouble.

Missing Persons

If the people who originally negotiated the agreement are no longer part of the team, there is a high likelihood the agreement is in a mid-life crisis. Outsourcing agreements need to be actively managed and if there is little or no continuity with the people managing the agreement it can become stale and misdirected.

Value Erosion

Outsourcing agreements should provide a high degree of value to the organization, and when they are in a mid-life crisis it is difficult to determine the value proposition. The agreements may be providing good value, but the communications have broken down to the point that your business partners no longer see the agreement as a benefit.

Cost Overruns

One sure sign of mid-life crisis is constant cost overruns. When the agreement was first created, the services to be performed were clearly defined. As an outsourcing agreement ages, those services can become less well defined and cost overruns can occur.

Pricing Questions

Even if cost overruns are not happening, the agreement is still not aging well if the business partners are asking a lot of questions about pricing. Questions related to unit pricing are another sign that the overall value of the agreement is no longer clear.

Alignment Discrepancies

Over time, the business changes and unless the outsourcing agreement has been constructed to accommodate those business changes, it may no longer be providing the appropriate services to your organization. When the services being offered by your outsourcer are no longer aligned with business needs, your agreement is not aging well.

So you suspect your outsourcing agreement is going through a mid-life crisis. Is there anything that can be done? In most cases, the agreement is not near the termination date, so does that mean you just have to put up with it?

Absolutely not; NET(net), Inc. has found many ways in which outsourcing agreements can be re-negotiated. If you are unhappy with your current outsourcing agreement, there is a good possibility that your outsourcer is also unhappy with the situation. Many outsourcing agreements have auditing clauses that allow you to bring in an independent third-party firm to checkpoint the value and overall health of your agreement. Even if your agreement doesn't have an audit clause, there are still ways in which the agreement may be amended or restructured so that it provides the same or better level of value than when it was first created.

Let's take a closer look at some useful ways we have found for approaching outsourcing agreements. These approaches can be used when creating a new outsourcing agreement, and can also be used to revitalize an existing agreement so it is no longer in a mid-life crisis.

How to Approach Aging Outsourcing Agreements

As we stated earlier, the fundamental nature of an outsourcing agreement is focused on the future, toward something that we know will not behave like the past, toward something that we do not yet fully understand because it has not happened. At NET(net), we have negotiated many successful, outsourcing agreements and have re-negotiated ones that were going through their own mid-life crisis. Does this mean we have learned

to predict the future? Of course not, but we have found some approaches to outsourcing agreements which will keep them from turning into something that no longer provides the same level of value it did when they were created.

The first thing to remember in establishing an outsourcing agreement is to focus on business outcomes. Often we have seen service level agreements (SLAs) that specify a particular technology or focus on technical components of the service. These SLAs need to be adjusted more frequently than ones that specify business outcomes. Response time SLAs for specific incidents are a necessity in any agreement; however, identifying end-to-end customer service scenarios in the SLAs can ensure the outsourcer will focus their efforts on resolution of the overall situation rather than individual service items.

Another benefit of focusing on business outcomes is this approach establishes the appropriate priority and whenever the business outcomes change the agreement can be triggered for review and adjustment.

Our experience with outsourcing agreements has shown that the most successful agreements are ones that have built-in interim checkpoints for overall performance. Most outsourcing agreements have SLAs for specific services; however, often times the agreements do not specify an overall level of satisfaction. Too often, organizations are focused on day-to-day activities, which are always important - however, it is just as important to take stock of the overall satisfaction level and performance. This is where an annual audit can be a great tool to help you understand where your agreement is not up to par with best practices in outsourcing and/or with the current market in terms of price and service levels.

A great way to ensure your outsourcing agreement will continue to perform well is to establish a series of communications channels at various levels within your organization. Almost everyone has daily or monthly status meetings with their outsourcer, but all too often there are no semi-annual or annual meetings at higher levels within the two organizations. Sometimes these meetings do occur, but often they are focused on specific problems rather than the overall health and well being of the agreement.

We have found those organizations that establish a specific governance model for their outsourcing agreements have much more continued successes than organizations which have not executed a governance program.

These programs do not have to be elaborate or cumbersome, and in fact the simplest governance models often work the best.

Lessons Learned Through Experience

Outsourcing agreements are often difficult to create and equally difficult to maintain properly. In most cases they are complicated agreements which provide a wide range of services and are often not well understood. By following some of the leading practices outlined in this document, you can determine if your outsourcing agreement is showing signs of a mid-life crisis.

The five signs discussed are:

- Missing Persons
- Value Erosion



- Cost Overruns
- Pricing Questions
- Alignment Discrepancies

While some of these signs may be present in a well functioning agreement, if you see multiple signs it is time to take a look at your agreement.

When you do re-negotiate your agreement, keep in mind these four approaches which can help ensure your agreement will not be going through another mid-life crisis:

- Build in interim check points
- Refresh the contract to reflect updated business conditions
- Create open communication channels at multiple levels
- Focus on governance model

If you would like more information on how NET(net) can help you determine if your outsourcing agreement is going through a mid-life crisis and how to bring it back to where it is once again providing a high level of value, please contact us by phone at 866-2-NET-net, by email at info@netnetweb.com or visit us online at www.netnetweb.com.



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