

Non-Financial Services Outsourcing



Outsourcing of functions within organisations is an activity which has grown in recent years with more firms outsourcing, to various degrees, segments of their operational value chain. This can range from parts of the manufacturing process, distribution and call centres through to technology, HR and accounting. In many cases it has been a great learning curve for both the organisation doing the outsourcing and the service provider and the most successful relationships have been between those organisations that have treated these relationships as longer term partnerships rather than pure buyer/seller relationships. The



overriding principle that the client company can outsource some of its activities but remains responsible to its clients and regulators for their delivery is paramount.

It is our view that the day to day operational relationship must remain between the client company employees and their counterparts in the service provider. However there is an important, and increasing, level of governance around outsourced relationships which must be in place and be clearly demonstrated as good business practice and in many cases for regulatory reasons.

We are able to offer a compelling proposition covering a wide range of outsourcing activities from the initial decision making process, through selection and implementation to ongoing management, governance and controls using our highly experienced team of industry practitioners.

Advice and assistance on the negotiation of commercial aspects of new and renewing outsourcing transactions.

Utilising our knowledge and expertise of various industry sectors, latest information from the marketplace and using benchmarking and

effectiveness reviews, we are able to provide relevant advice and assistance to organisations either negotiating a new contract or going through the renewal process for their existing contract.

For those organisations outsourcing for the first time we can assist in the establishment of the required organisational structures before the transition, sometimes referred to as the decoupled environment, and the structures and governance required by all parties post transition to ensure a successful long term relationship.

Advice to clients outsourcing for the first time.

With our detailed knowledge of various industry sectors and their suppliers we can add value at supplier presentations by asking the right questions, assist in the establishment of an effective programme management and change control process for the transition period, and identify problem areas, e.g. charging structures, communication methods, cultural nuances, which can cause delays if not handled swiftly. We can also assist in those areas which cause the most problems immediately post

transition such as the business change process and client service.

In addition we can advise on the structures that should remain in-house, the benefits of one structure versus another i.e. one stop shop versus best of breed suppliers for different functions and likely resource requirements on both sides to ensure a smooth transition.

Independent assistance to clients transferring business between third party suppliers.

The market in outsourcing services in many areas is mature but in recent years a wider variety of services have been offered. In addition with more services and more providers there are an increasing number of contracts coming up for renewal or review. As a result there will be more transactions taking place where a client company decides that it wishes to change provider for all or some of the services it receives. This poses certain issues where we as independent advisors can add value to all parties in the transaction. For example, certain service providers will have areas where they are not prepared to, or may even be prohibited from, sharing information. Acting independently we can ensure that the transaction itself and transfer of information works smoothly and efficiently for the client company and service providers, managing any disputes or issues that may arise. In addition many client companies may not have the skills in-house, or enough of them, to manage the conversion and keep the business as usual running efficiently particularly in a climate where staffing levels are

being reduced or expertise may be transferred to the supplier company. Our expert practitioners can take that strain away from the client company employees but we will ensure that we pass on our experience to the client company during the process. We are also able to offer an interim management capability to assist with the conversion or the management of the business as usual functions should that be required.

Performance of contract compliance reviews to identify/verify financial recoveries and conflict resolution.

In all contracts there are certain issues that must be complied with be it a regulatory, CSR or good business practice requirement. We can assist both clients and service providers to ensure that they review and maintain their contractual arrangements accurately and in a timely manner.

On occasion there will be issues which bring the two parties into conflict; this may be as a result of a trading, or client service issue or where services may not have been fully documented as regards responsibilities. Acting as an independent we can analyse the issue, documentation, telephone records etc and give an unbiased assessment of where the issue arose, who is responsible and the recommended course of action both in respect to compensation, if required, as well as changes to systems or processes to prevent any recurrence in the case of a systematic error.

Training on supplier management techniques to client management and service providers.

Utilising our experienced consultants we are able to work with both the client or service provider to develop specific training for their staff in the various aspects of the outsourcing relationship. We are able to utilise traditional training methods as well as individual coaching and mentoring and computer based training techniques.

Manage the operational oversight and control of outsourced services for clients.

For client companies there needs to be a clear process in place to manage the outsourced relationships which is often more rigorous and extensive than for non-outsourced relationships. This may mean regular monthly or quarterly review meetings between the relevant staff of the client company and the service provider, appropriate revision/review of contracts, updating of service levels, measurement of performance against KPIs, analysis of management information, preparation of minutes for meetings etc.

We can help establish and manage the governance processes required to ensure that the client company maintains sufficient management control over the supplier, on an outsourced basis, to meet its regulatory obligations and enable the client to focus its resources on the day to day running of the third party relationship.

Assessment of third party supplier's readiness for a business continuity incident.

It is one of the prerequisites of any outsourcing arrangement to be able to satisfy oneself that the service provider will be able to continue to provide a full service for critical functions in the event of a business continuity incident. This is vital in order to protect the reputation of the client company, the service it



provides and the information that it holds on behalf of clients. Using the proven expertise of our business protection specialists we can provide an audit and assessment for client companies of the readiness of their service providers to be able to cope with a business continuity incident and assist in running tests on that environment to establish the robustness of any continuity plans. In addition we can, on behalf of our clients, monitor changes that have been made as a result of any recommendations we make, through to completion. We can also, if required, involve our information risk management expertise to test for any breaches in the supplier's technology environments which may affect the well being of data belonging to the client company or its clients and ensure that they comply with any data protection and information security regulations.

Identification, analysis and resolution of operating issues within existing relationships.

Often in supplier/provider relationships where there is a dispute the result is deadlock. This is very unhelpful to all parties and uses up a disproportionate amount of valuable management time and effort. Using our experienced team we can assist in identifying and analysing the issues, document them if necessary and help both sides move forward towards a swift resolution before the relationship breaks down. This can save management time, utilise previous experiences of our team and leave behind a template for solving or avoiding similar issues in the future.

Using an independent and objective third party ensures that the right solution is delivered, ultimately for the end client's benefit, without the political stresses and strains that can occur and ensures no lasting damage to the client/supplier relationship which can result from a major dispute.

Often it is useful for the client and the service provider to use independent advisors to assist on a day to day issue or in the transaction itself. This helps to maintain or build up the working relationship between the two whilst enabling resolutions to be found to complex or potentially sensitive issues. Having independence enables solutions to be resolved quickly providing both sides agree and removes the problems associated with one party "winning" or "losing" the dispute and avoid the potentially high cost of resorting to a legal process.

Assessment of Third Party Provider's Capabilities.

When dealing with the providers of services it is important to understand that often the people on the sales side arranging the transition may not have a full understanding, in detail, of the services available and how they apply to the unique requirements of the buyer.

Utilising our experienced resources and industry contacts we are able to advise on the realities of the provider's operating model and suitability to the buying company's operation and the degree to which the buyer's future needs will be met. i.e. is it really fully integrated, is it

global/24 hour, etc. We will also be able to give insight into what other deals the provider might be involved in and its impact on their existing and transitioning clients, how good is the provider at bringing new products and services to market and generally how forward thinking they are in their planning and future development.

Reviewing existing outsourced relationships to identify improvement opportunities.

We are able to advise, recommend and implement management structures for organisations which will ensure an effective operating environment between the two parties which will be specific to that particular relationship. We can also advise on the post-organisational structure of the remaining, non-outsourced, organisation, an area from our experience, that is mostly overlooked and its impact underestimated from both a management and an organisational perspective.

In many existing and complex outsourced relationships, the original transaction may have changed significantly over time, through a change in the buying company's business requirements, the supplier's operating model or a combination of both. The management oversight structure may warrant change as a result in order to maximise the potential benefits from the arrangements, and we are uniquely placed to advise buying companies in this regard.

About Kingston Smith Consulting LLP

Kingston Smith Consulting is the specialist consulting practice associated with the top 20 accountancy firm Kingston Smith LLP.

Kingston Smith was originally formed in 1923 and the firm has grown to its current position through organic growth and mergers. Kingston Smith is a member of KS International which is an association of independent accounting firms in over 50 countries around the world.

Kingston Smith Consulting LLP

Devonshire House, 60 Goswell Road, London EC1M 7AD, UK Telephone +44 (0)20 7566 4000 Fax +44 (0)20 7566 4010
info@kscllp.co.uk www.kscllp.co.uk

A list of partners is available for inspection at the above address.

Registered in England and Wales as a Limited Liability Partnership: No OC341786 Registered office: Devonshire House, 60 Goswell Road, London EC1M 7AD