

Outsourcing Comes of Age Partnership is New Path to Effective Outsourcing

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Outsourcing is a key element in today's corporate strategic mix. Increasingly, its success depends on changes to the traditional customer and supplier relationship model. This model is being supplanted by collaborative and transparent interactions to create sustainable value for both parties. In-house counsel need to be aware of this trend so they are fully prepared to deal with any legal issues that may arise.

A new global outsourcing survey by PricewaterhouseCoopers (PwC) looks at the outsourcing industry from the point of view of both outsourcing customers and service providers. Titled *Outsourcing Comes of Age: The Rise of Collaborative Partnering*, the report garnered insights from vendor and customer organizations in 19 countries across several continents.

Outsourcing is a key business strategy

The survey confirmed outsourcing is indeed an important element of organizational strategy and found that majority (57%) of clients outsource some business function today. These functions range from Information Technology Services to Logistics & Distribution to Production/Delivery of Core Products/Services.

Moreover, a large majority of customers (87%) say today's outsourcing delivers the benefits projected in the original business plan. In fact, outsourcing is perceived as so essential that 91% of customers said they will outsource again—whether they're completely happy or not. A large proportion of clients (55%) expect their use of external suppliers for Information Technology Services to increase over next five years.

As well, customers in the medium-sized, mature markets of Canada, Australia and New Zealand are more likely to outsource strategic functions. Seventy-one percent outsource core products/services as compared to 53% globally. Forty-eight percent outsource sales and marketing versus 33% globally.

These mid-markets cite cost savings (52%) and access to talent (45%) as most important drivers in using external suppliers. This heavy reliance on outsourcing is likely due to the fact that growing firms based in these countries have small domestic markets. This creates the need to look externally for strategic capabilities that facilitate growth.

The rules are changing

The survey found that the majority of clients (73%) and vendors (60%) favour trust-based supplier management over the traditional aggressive approach. Furthermore, 88% of clients and 70% of vendors say their organization is planning to adopt more open, collaborative sourcing approaches in the future.

Although both clients and vendors expect to engage in more collaborative relationships in the future, a minority of vendor (36%) and clients (29%) believe that their current supplier relationships are truly collaborative.

So how can organizations succeed in this new environment—and deal with all the legal considerations it creates? They can do this through more transparency, better communication, greater trust and genuine reciprocity.

In a nutshell, success in the new outsourcing environment will hinge on shifting the customer-service provider relationship from adversarial to collaborative. It needs to move from one based on procurement to one grounded in partnership.

While the fundamentals of outsourcing are still very much the same, the evolution of the industry to more collaborative and transparent relationships will impact how the contracts are negotiated and managed.

For example, 58% of the clients and 43% of the vendors surveyed prefer to have flexible business terms versus detailed and highly specific contract terms.

The payoff to collaboration

PwC's *Outsourcing Comes of Age* shows that there is a clear payoff to collaboration. Globally, companies identified as "expert outsourcers" measured their service providers as better collaborators than "learners," stating that they have more honest and transparent dealings with them.

Customers defined as "high collaborators" also experienced the most mutual engagement with their outsourcing providers. High collaborators also had:

- A greater likelihood of being open-minded, enabling them to better manage around barriers to outsourcing.
- A tendency to support the use of multisourcing (many suppliers/providers) over limited sourcing (few suppliers/providers) far more than other respondents.
- A tendency to support shared risk and reward over traditional commercial terms.

Delivering results

The survey results indicate that collaborative model is on the rise and their use will result in sustainable positive results for both clients and vendors.

Managing new outsourcing relationships will be a growing challenge for organizations and their legal counsel as they become a bigger and bigger part of the strategic mix. But it's one that companies can profit from as outsourcing comes of age.

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