



# Update

## Profiling: Minimizing Your Outsourcing Risks

by Sara Cullen

Many problems with outsourcing deals stem from the supplier taking over activities that were not well understood by the client organization prior to engaging the supplier. Very early in the outsourcing life-cycle, the activities that are candidates for outsourcing are identified by the organization. But it is not enough to just target the services; a detailed understanding of the targeted services is essential or the organization faces the risks of providing inaccurate information to its suppliers.

This inaccurate information could lead to a variety of risks, including misunderstandings between different stakeholders, which could increase communication costs. Inaccurate information could also lead to the preparation of invalid business cases and requests for proposals, thus predicated false expectations.

This *Executive Update* addresses profiling exercises that can help organizations understand the services they target. As one CIO put it, profiling makes you “understand what you are doing in some depth — and continue to know it.”

### HOW PROFILING HELPS

Profiling exercises yield the following benefits:

- They provide an understanding of the services so the organization can approach the market knowledgeably. Suppliers, in particular, need accurate and current state information to prepare their offers and to conduct a discovery process.
- They provide a solid basis in which future discussions, debates, and strategies between stakeholders in the organization can be facilitated.
- They provides a history so pre- and post-outsourcing baselines can be compared. These baselines help show “how it was before” and “what did we think we needed?”
- They minimize surprises later, which often increase costs.

If an organization is currently performing a service, the time to find out what it is actually doing, what it owns, its obligations, and so on, is not after a supplier takes it over. Therefore, perform a close analysis during a baseline period of all present services and how they are delivered, the costs and standards of delivery, and what benchmarks are being used. This is invaluable information not only for one’s peace of mind, but also for dealing with the supplier’s pitch on service delivery. Being fact-based is vital; this enables you to sit down and

calculate, rather than have to negotiate in an ill-informed way with the supplier.

Some organizations make the mistake of assuming a service is standard or is well known to the point of being a commodity and therefore is easy to put to the market without performing the necessary investigations to verify the current state. This fatal flaw has resulted in significant cost increases when the actual scope of work is discovered, then redefined, by the successful supplier when there is no pressure to have competitive pricing.

For example, a recent case occurred where the client organization put a single centralized help desk tender to market (management had already set up one centralized help desk and naturally assumed it was the only one). But after the supplier took over the service, it discovered that numerous “unauthorized” help desks existed within the business units because the inhouse help desk service was so poor. This had the effect of substantially changing the volume of calls (and the nature of those calls) as compared to the requirements put to market, and the supplier was able to dictate the revised scope of work and prices.

## SEVEN TYPES OF PROFILING

Profiling involves gaining an accurate understanding of seven aspects of the current state of the target services, as well as the desired or forecasted future state:

1. **Services profile** — the nature and extent of the services
2. **Cost profile** — the current and forecasted cost of delivering the services
3. **Balance sheet profile** — the current and forecasted assets and liabilities

4. **Staff profile** — the current and future staffing

5. **Stakeholder profile** — the individuals and groups that care about the services and what they care about

6. **Commercial relationships profile** — the existing contracts and agreements, as well as future desired relationships with parties other than the chosen service provider

7. **Governance profile** — how service oversight currently occurs and how it will be done in the future

These profiling types are explained in further detail below.

### Services Profile

The services profile defines the nature and extent of the services or functions targeted for outsourcing. The tasks are:

- Nominating a point in time to snapshot the services; typically, this is at least 12 months, and it is important that this period include extremes of peaks and troughs as well as enough data to determine what “normal” or “average” volumes and service levels exists
- Establishing and confirming current services performed; this can be derived from information such as job descriptions, business plans, and interviews
- Identifying gaps and problems with current services
- Defining and validating the future service requirements, with particular emphasis on what needs to, or is desired to, change from the current state
- Identifying, validating, and forecasting volume, peak and trough trends, and load data (number of users, transactions, desktops, help desk calls, etc.)

- Identifying, validating, and defining current and future performance metrics and measurement methods

- Identifying and confirming past customer satisfaction indices and defining future targets

### Cost Profile

The cost profile defines the current and forecasts the future direct and indirect costs regarding the targeted services. The tasks are:

- Identifying and validating the costs at current service levels and loads
- Estimating the costs at required or future service levels and loads
- Forecasting future capital investment and whether the organization or the client is expected to make each investment

### Balance Sheet Profile

The balance sheet profile defines significant assets and liabilities that may be affected by the outsourcing of the targeted services. The tasks are to identify and document the following:

- Assets (including intellectual property) — type, description, age, quantity, location
- Liabilities — financial liabilities, asset leases, and licensing agreements (if applicable)

### Staff Profile

The staff profile defines the current staff structure and respective staff that may be affected by the proposed outsourcing arrangement, in addition to the future staff structure. The tasks are:

- Identifying and confirming the current and future organization structure

- Identifying and updating all job descriptions
- Identifying and confirming the staff numbers and full-time equivalents
- Identifying and confirming staff remuneration as well as accrued and contingent liabilities (this is particularly important for any staff that may be transferred to the service provider)

### **Stakeholder Profile**

The stakeholder profile defines both the internal and external stakeholders of the targeted services and what they care about. The tasks are:

- Identifying the internal stakeholders (e.g., users, management, and back office departments such as human resources, accounting, and marketing) and what they care most about
- Identifying external stakeholders (e.g., end customers, other suppliers, and media) and what they care most about

### **Commercial Relationships Profile**

This profile defines all existing commercial relationships that are in the scope of the targeted services. Examples of such commercial relationships include current supplier and consultant contracts, licenses, maintenance agreements, and warranties. The tasks are:

- Identifying all existing commercial relationships; separating those that the organization wishes to continue in some manner from those that it does not
- Defining the scope of each relationship
- Defining the value of each relationship
- Confirming the end date of each relationship (if there is an explicit end date)

- Defining the assignment and early termination options and restrictions of each relationship
- Obtaining copies of all agreements

### **Governance Profile**

The governance profile defines the current oversight and high-level management regime over the targeted services. The tasks are to define the following for the present and future:

- Management structure, requirements, and processes
- Administration requirements and processes
- Communication channels, requirements, and processes
- Control processes
- Reporting functions, structures, and processes
- Risk identification and mitigation systems

## **THE PROFILE REPORT**

Once the profiling work is complete, the information is consolidated into a single profile report document. The following outline has been provided as a template for the structure of the report:

### **1.1. Introduction**

- 1.1.1. Organizational structure and overview
- 1.1.2. Strategic plans
- 1.1.3. Vision, mission, key result areas
- 1.1.4. Service environment

### **1.2. Service profile**

- 1.2.1. Current service requirements
- 1.2.2. Future service requirements

1.2.3. Volume, trend and load data (number of users, transactions, desktops, help desk calls, etc.)

1.2.4. Performance criteria, service levels, measurement methods

1.2.5. Customer satisfaction indices

### **1.3. Cost profile**

1.3.1. Costs at current service levels

1.3.2. Estimated costs at required or future service levels

1.3.3. Future capital expenditure program

### **1.4. Financial Profile**

1.4.1. Assets (including intellectual property) — type, age, quantity, location

1.4.2. Liabilities

### **1.5. Staff Profile**

1.5.1. Organization chart(s)

1.5.2. Job descriptions

1.5.3. Staff numbers and full-time equivalents

1.5.4. Remuneration and accrued liabilities

### **1.6. Stakeholder profile**

1.6.1. Internal (users, departments)

1.6.2. External (customers, suppliers, media)

### **1.7. Commercial relationships (contracts, licenses, leases, etc.)**

1.7.1. Scope

1.7.2. Value

1.7.3. End date

1.7.4. Assignment and termination options and restrictions

## 1.8. Governance Profile

- 1.8.1. Management
- 1.8.2. Administration
- 1.8.3. Control
- 1.8.4. Reporting
- 1.8.5. Systems

deals where the baselines were to improve under the supplier. Lastly, other organizations had to rely on the supplier to tell them what services would be provided rather than having the ability to tell the supplier what services are needed.

## CONCLUSION

Profiling is most valuable in the outsourcing lifecycle when it is performed early. Organizations that prepared detailed profiles at an early stage realized many benefits: accurate knowledge that they were able to impart to potential bidders; use of the baselines in setting up the bid evaluation criteria; the ability to prepare a concrete business case based on value for money; the ability to design and effectively retain organization; and most importantly, fewer issues and disputes with the service provider.

Those that did not profile the services experienced numerous problems. In some cases, the client organization realized after signing the contract that it should have prepared the profiles before it went to market, as service providers were able to obtain variations due to their discoveries of issues not notified to them by the client when asked to quote. Other clients lacked data to be able to verify any cost savings or service improvements. Some parties experienced disputes over what the baselines actually were, in particular those

## ABOUT THE AUTHOR

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