

# Update

## Outsourcing Evolution: SWOT Assessments

by Sara Cullen

A SWOT analysis is a tool used for many purposes in business. The acronym stands for strengths, weaknesses, opportunities, and threats. As shown in Figure 1, strengths and weaknesses represent internal factors; opportunities and threats represent external factors. Strengths and opportunities are to be built or maintained; weaknesses and threats are to be eliminated or mitigated.

SWOT began as primarily a marketing tool to assess an organization relative to its competitors; today, it has a wider application. For example, SWOTs have been applied in analyzing potential acquisitions, assessing potential markets, auditing an organization, team assessment and development, and even for career planning — in effect, in any situation in which there is a need to understand and make decisions. It is also a necessary part of the evaluation and decision-making process that occurs at the end of an outsourcing contract.

### END-OF-CONTRACT OPTIONS

Typical end-of-contract options, for any or all scope of work, include renewal, renegotiation, retender, and/or back-sourcing (i.e., bringing services back inhouse), as shown in Table 1.

In practice, all options take place. Some services are back-sourced, many continue with the incumbent supplier, and some are provided by a new supplier. To what extent this occurs varies widely. As stated in my previous *Executive Update* (Vol. 6, No. 16), an Australian-based survey [1] revealed that while a prevailing number of services are retained with the incumbent, 75% of respondents gave at least some services to an alternative supplier, while 41% brought at least some services back inhouse (see Figure 2).

Many organizations go to market or remain with the incumbent supplier with substantially the same



Figure 1 — SWOT dimensions.

deal as they previously had without capturing the benefit of hindsight and experience. This is where SWOT comes in.

**SWOT ANALYSIS**

SWOT analysis is conducted during the current-generation deal in preparation for next-generation sourcing decisions. This involves assessing the evolution of the current deal,

what worked and did not work, and lessons learned from the earlier generation.

This analysis is designed to determine the following:

- **Strengths** — to be retained or built
- **Weaknesses** — to be corrected
- **Opportunities** — to be taken
- **Threats** — to be eliminated or mitigated

SWOT assesses all aspects of the past arrangement including the contract/service-level agreement (SLA), supplier, scope, the contract management function, and the retained organization — anything of potential relevance to the next generation. Example questions are provided in Table 2.

**Table 1 — End-of-Contract Options**

Option	Consider when:
<b>Retain incumbent</b>	<ul style="list-style-type: none"> <li>• There is little change to scope.</li> <li>• The supplier provides services at or below market prices.</li> <li>• The supplier has delivered KPIs at or above market.</li> <li>• Both parties will save time and effort by not retendering, and both parties wish to continue the relationship.</li> </ul>
<b>Retender</b>	<ul style="list-style-type: none"> <li>• You wish to demonstrate that the most competitive price is obtained.</li> <li>• The scope has changed and other suppliers may have greater expertise.</li> <li>• The incumbent will not accept the desired deal.</li> <li>• The client does not wish to retain the incumbent.</li> <li>• Probity rules dictate a retender.</li> </ul>
<b>Backsource</b>	<ul style="list-style-type: none"> <li>• There is a need to rebuild organizational competence.</li> <li>• Services are more effectively or efficiently provided internally.</li> </ul>

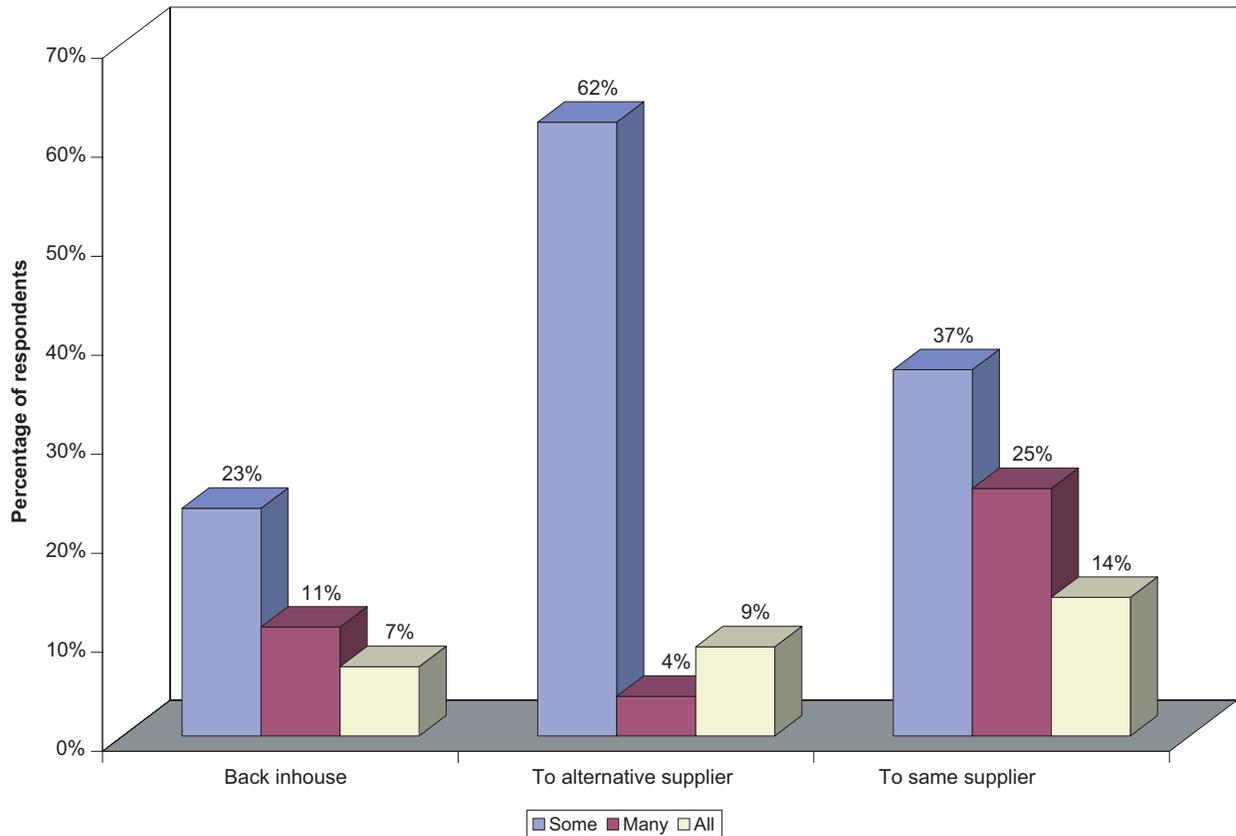


Figure 2 — End-of-contract decisions [1].

**A STORY OF TWO CASES**

A federal government department went to retender and selected a supplier that was priced well below the incumbent bid. The incumbent had been quite flexible in its approach: allowing the client to exceed capacity restrictions without extra charges, allowing scope creep in certain areas, maintaining fixed price, and so forth. The new supplier was well known in the market as a vigorous “out of scope” hunter — typically bidding low, then aggressively making profits from minimalist interpretations of scope and charging for additional work. A SWOT assessment and redesign were not even considered in the regenerate phase as it was assumed that all suppliers behave the same. The client behaved as it did previously with the incumbent and quickly learned the new game was different: it was all about managing scope and cost escalation.

Contrast this to a utility company that had conducted a detailed SWOT of the incumbent contract relationships. It believed this was particularly necessary, as it had

amalgamated three geographic regions comprising five contracts into two regions. It was planning on conducting a tender for one region and back-sourcing the other region to a wholly owned subsidiary to regain the operational competence it had lost from nearly 15 years of outsourcing (this was the third generation). The contract management function was concerned that having a related entity as a supplier would throw out the very successful governance and relationship management processes that had evolved.

Based on SWOT, the key areas of strength were a comprehensive and reader-friendly contract, diligent contract management, monthly detailed performance reviews, retaining inhouse management of core operational systems, and benchmarking between the parties. Weaknesses include a fixed-price contract when the client needed to be able to chop and change services (changed to a fixed price for a minimum fixed volume, with unit pricing with volume discounts above that fixed volume). The company signed

substantially the same agreement with the subsidiary as it did with the independent supplier and put in the same governance. After some initial politicking, the subsidiary, according to the client “fell into line” as an arm’s-length provider and was soon delivering the market equivalent standard of service.

**WHEN TO CONDUCT SWOT IN THE OUTSOURCING LIFECYCLE**

The end of a contract is the last stage of the outsourcing lifecycle (see Figure 3). The last phase — regenerate — is when you assess next-generation options and the lifecycle begins anew.

An organization must give itself plenty of time to conduct the regenerate phase — at least one year before the contract is due to end in most cases, since a tendering process usually requires at least six months. However, in more complex deals, the phase can occur years prior to end of contract. For example, the UK’s Inland Revenue (now known as HM

**Table 2 — Example SWOT Questions**

<b>Strengths</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>• What advantages do you have?</li> <li>• What did you do well that you believe should be incorporated in future generations?</li> <li>• Were there particular resources or skills that provided demonstrated benefits to your organization?</li> <li>• What does the incumbent supplier view as your strengths?</li> </ul>	<ul style="list-style-type: none"> <li>• How can you get better value for money?</li> <li>• Can you use the supplier(s) to help generate revenue?</li> <li>• Have there been changes to the market, regulation, taxation, sourcing practices, etc., that may give you an advantage?</li> <li>• What changes have occurred in technology that could benefit you?</li> </ul>
<b>Weaknesses</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• What did not work well?</li> <li>• What past mistakes should you avoid in the future?</li> <li>• Were there resource or skills gaps?</li> <li>• What internal obstacles did you face?</li> <li>• What did you do poorly and could improve upon?</li> <li>• What does the incumbent supplier view as your weaknesses?</li> </ul>	<ul style="list-style-type: none"> <li>• What risks were realized in the current deal?</li> <li>• Have there been changes to the market that may disadvantage you?</li> <li>• What external obstacles did you face?</li> <li>• What are your competitors doing?</li> </ul>

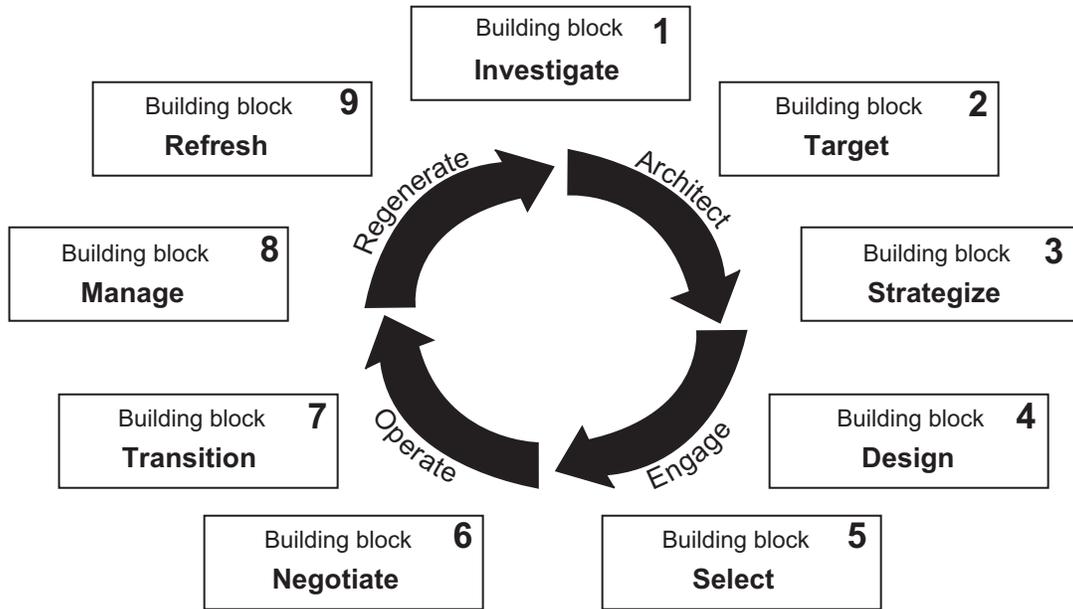


Figure 3 — Outsourcing lifecycle.

Revenue & Customs) gave itself nearly two and a half years to contemplate the end of its 10-year deal with EDS.

The goal is to have the next arrangement(s) in place before the initial term expires and the handover date of the new arrangement(s) either on or before the termination date of the previous arrangement.

### USING SWOT FOR THE CONTRACT PORTFOLIO

Of course, you do not need to wait until the end of a contract to perform a SWOT analysis. Diligent contract management should be part of the regular process of review and continuous improvement. Thus, when entering the final phase, the organization is better prepared and can act quicker.

Some organizations have used SWOT to assess the entire contract portfolio — which can be hundreds of contracts. In this manner, systematic weakness can be identified and mitigation strategies can be put in place; good practice via the identified individual strengths can be cross-pollinated to other deals; opportunities can be generated across contracts (i.e., aggregating demand); and threats can be addressed across the organization as opposed to only in individual instances.

### REFERENCE

1. Cullen, S., P.B. Seddon, and L.P. Willcocks. *IT Outsourcing Practices in Australia*. Deloitte Touche Tohmatsu, 2001.

### ABOUT THE AUTHOR

*Sara Cullen is the Managing Director of the Cullen Group, specializing in ensuring sustainable results from commercial agreements, and a former national partner at Deloitte Touche Tohmatsu. She is one of the most experienced outsourcing experts in the Asia Pacific region and is regularly requested for speaking engagements and media commentary. In the last decade alone, she has consulted to 87 organizations, both client and suppliers in the private and public sectors, in 115 projects spanning 51 countries with contract values up to \$1.5 billion per year. She holds a BSc in accounting, a master's degree in management (technology), and has recently completed her Ph.D. in outsourcing. She can be reached at [scullen@cullengroup.com.au](mailto:scullen@cullengroup.com.au).*