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STRATEGIC CONTRACTING // A Look at BPO

Strategic Contracting denotes a business philosophy designed to facilitate success.

A strategy to:

- Concentrate organizational resources on those functions directly associated with the delivery, on time, of quality products or services
- Benefit from the latest in technologies and best business practices
- Reduce or avoid costs
- Reduce overall processing times
- Improve operations.

Commonly referred to as Business Process Outsourcing (BPO) it has grown significantly over the last three years and includes such functions as: human resources, indirect procurement, sales and marketing, finance, and administration.

Even though strategic contracting may appear to be an ideal alternative, there are numerous precautions and challenges that must be considered to assess whether outsourcing is appropriate. It is important to keep in mind the level of potential financial and compliance risk involved, the existing controls that may become ineffective due to time, distance and cultural differences, and the additional compliance monitoring and corporate governance required.

Statistics dictate that nearly a quarter of all outsourcing relationships fail in any given two-year period and nearly half fail within five years. While these statistics may hinder a firm's decision when considering outsourcing, taking the appropriate precautions can prevent this from occurring. A firm can formulate a strategy that is adequate, appropriate, and realistically feasible for implementation purposes.

The strategic contracting process involves three steps – preparation, selection and negotiations, and implementation and transition.

- Preparation
 - Develop a business case for the outsourcing change
 - Define the scope of the services to be outsourced – expectations from the process
 - Determine what service providers are available
 - Prepare and distribute a formal request for proposal
- Selection and Negotiation
 - Review the various proposals received
 - Conduct due diligence of the responding service providers
 - Perform an in-depth review of the down selected service providers – who can you work with?
 - Negotiate contract pricing and terms and conditions

- Implementation and Transition
 - Define the groundrules for the implementation – timing, responsibilities
 - Establish the implementation/transition team – experienced personnel, process owners, consultants
 - Create a strong line of communication both internally and with the vendor
 - Establish the required compliance controls
 - Continually monitor the outsourced services for compliance and performance

The concept of cost saving and flexibility are the main drivers leading an organization to pursue outsourcing, however, outsourcing involving government contracting may lead to a great deal of unexpected control complexity and hidden costs. Unforeseeable costs, regulatory compliance, and internal and external friction may allow the ultimate advantages (cheaper, better, and faster services) of outsourcing to remain unachieved. In addition to addressing these issues, increased supervision from senior management may be required since outsourcing can lead to compromising quality and reduced cost savings if not closely monitored.

If implemented strategically and correctly, strategic contracting can produce enormous rewards. Once established, outsourcing can help an organization: achieve cost reductions, focus on core practice or line of business, improve service quality, gain an edge over competitors, increase shareholder value, continue process improvement, and achieve world-class standards.



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