OUTSOURCING

- project methodology -

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Outsourcing – project methodology - introduction

… so, coming back to «Outsourcing - the framework» lectures' notes, the below reminded project patterns come from several authors. That said, is there any significant difference with project management tools? One woull say «no». Indeed, and besides speific project management tools (like WBS, which anyway could be applied) and roughly schematizing project management phases as:

- conception + selection → setting of the project's expectations.

- operations → planning and and carrying out of typical project's activities.

- delivery → implementation of the project's outputs.

one could state the following correspondance:

- **preparation ↔ conception + selection**

- **vendor ↔ conception + selection**

- **transition ↔ delivery**

then «managing relationship» and «reconsideration» can be associated to «continuos improvement» (or simply to maintenance).
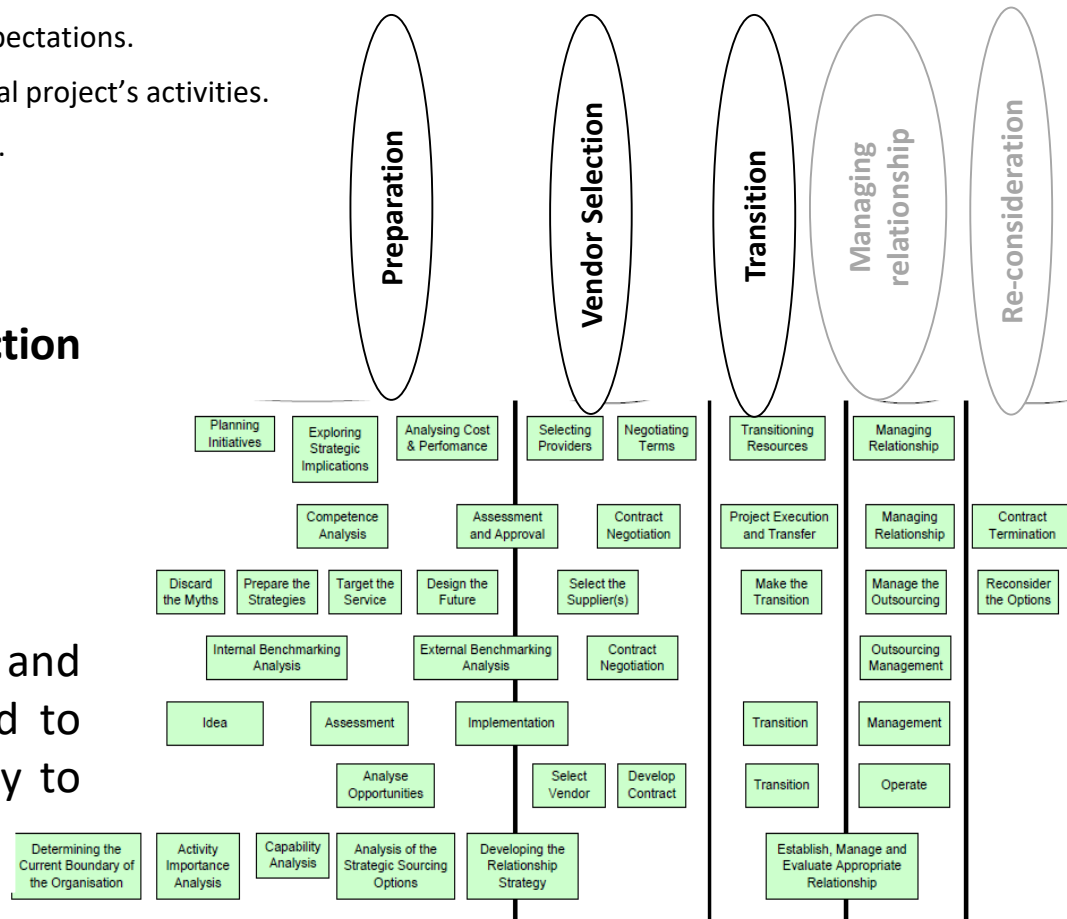

Figure 1 - Overview of the outsourcing process frameworks

Outsourcing – project methodology - introduction

Now, these lectures' notes are based on Greaver pattern (**M. F. Greaver II, Strategic Outsourcing**), whose phases are showed in the following and some other coniderations related to them will be exposed as well.

The above phases are:

- **planning initiatives**

- **exploring strategic implications**

- **analyzing costs/performance**

- **selecting providers**

- **negotiating terms**

- **transitional resources**
.
- **managing relationship**
.
[M.F. Greaver II - Strategic Outsourcing]

Outsourcing – project methodology - introduction

Of course the implementation can't be strictly sequential. As in any project (where lead time and efficiency are mandatory, as it's right!), **concurrent engineering** criteria have to be applied.

Exhibit 2.2   Staggered Start/Finish for the Methodology Phases

Methodology Phases	Start	Outsourcing Initiative Cycle Time	Finish
Planning outsourcing initiatives			
Exploring strategic implications			
Analyzing costs/ performance			
Selecting vendors			
Negotiating terms			
Transitioning resources			
Managing relationships			
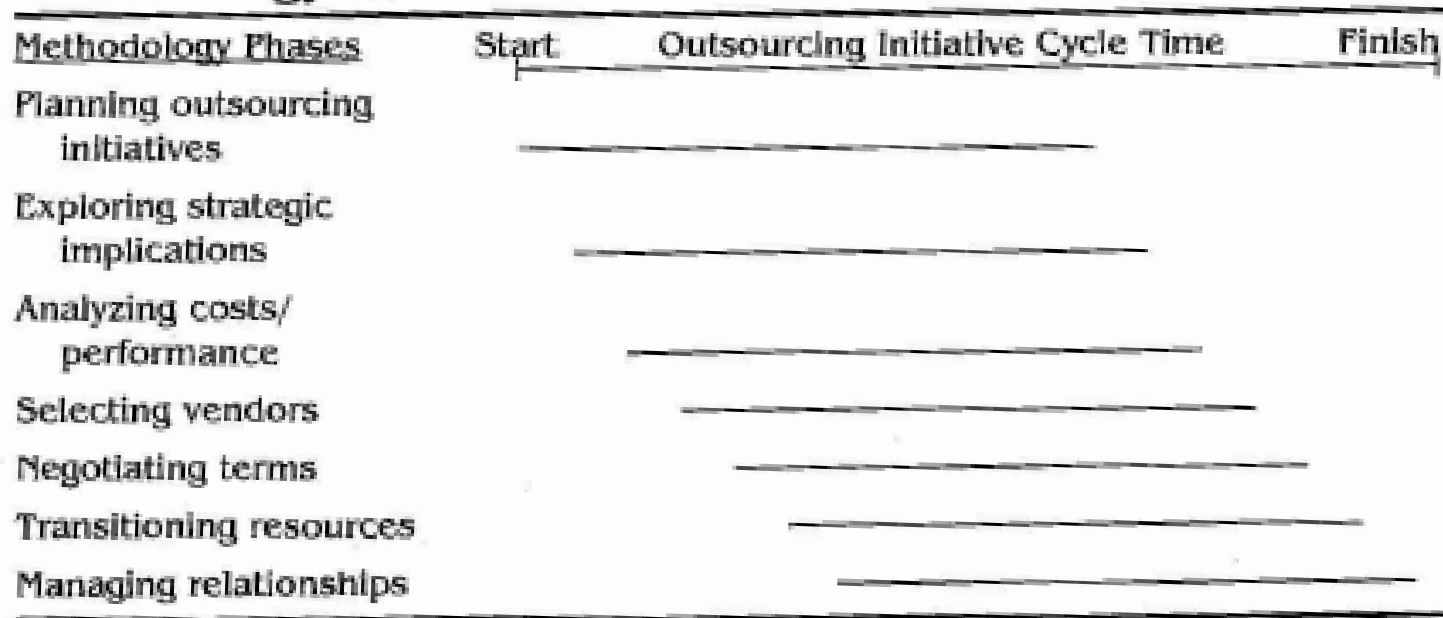
[M.F. Greaver II - Strategic Outsourcing]

And now let's pass to the single phases.

Outsourcing – project methodology - planning

Planning

Planning is defined «the act or process of making plans». So, what would you do as first? Of course taking that subject is outsourcing, first of all the planning phase will be devoted to:

- **definition of outsourcing targets**

Then of course as in any project one needs resource, so planning is about them as well.

- **investigation on necessary resources**

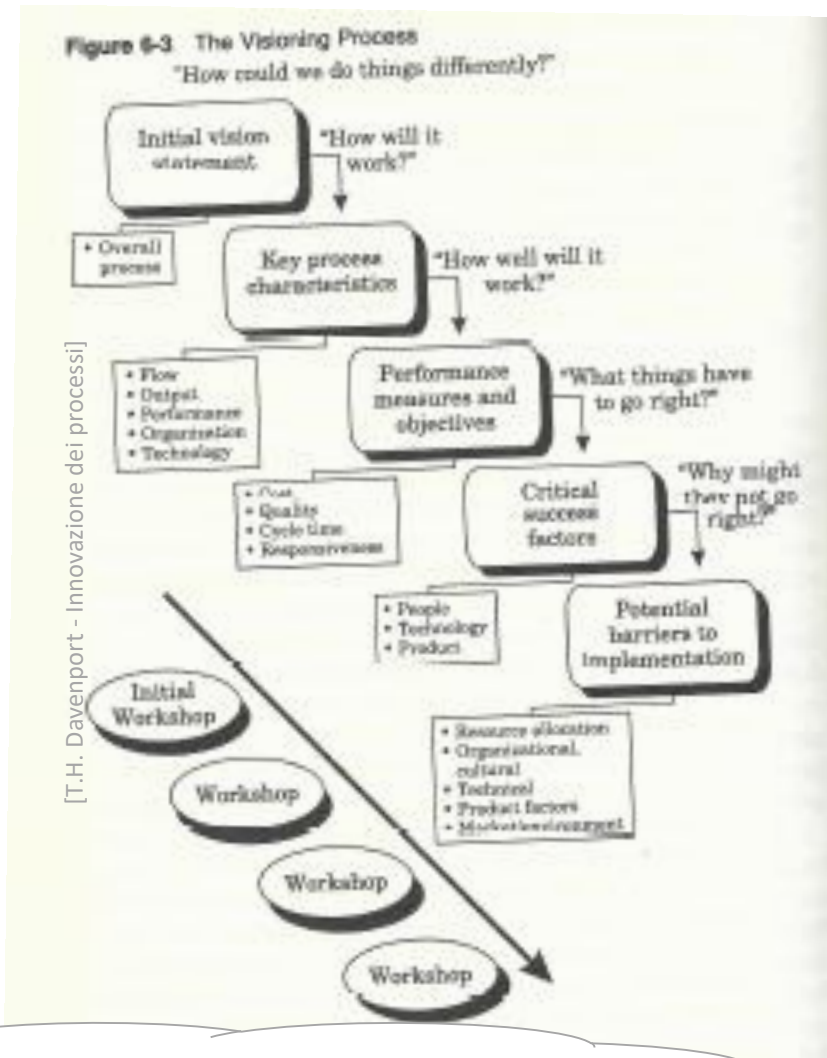… and as last a typcal thing of outsourcing project, that's

- **communication**

Outsourcing – project methodology - planning
definition of outsourcing targets

The most important thing to say is that **targets come from an analysis process, not as simple definition,** and, in order to get them, the application of visioning process criteria could be useful. Let's focus the several steps, that's with relation to outsourcing could be named:

1. initial vision statement → **preliminary outsourcing expectations**.

2. key processes characteristics → **main factors of the outsourcing process** (it's like «outsourcing core»).

3. Performance measures and objectives → **how to control main factors?**

4. critical success factors → **which resources would we need for control?**

5. potential barriers to implementation → **would we be able to face possible resistance to change? control?**

[T.H. Davenport - Innovazione dei processi]

Figure 6-3 The Visioning Process
"How could we do things differently?"

- Vision: an aspirational description of what an organization would like to achieve or accomplish the mid-term or long-term future. It is intended to serve as a clear guide for choosing current and future courses of action. [www.business dictionary.com]

Furthemore it's important to take into account what on «decision process» characteristic, about which the nonprogrammed things would be quite prevailing. Indeed (besides possible re-consideration) an outsourcing project on some specific items can't be repetitive. So, it's likely that **consensus** must be got both on the definition of the targets and on the single steps of the outsourcing process.

Ideal path

real path

Outsourcing – project methodology - planning

investigation on necessary resources

Resources must be meant in a wide meaning:
- material,
- equipment,
- money,
- time,
- people,
- information,
- activity,
- methods,
- processes,
- results

Resource Management

- Material. What supplies, software, etc. are needed?
- Equipment. What computers, furniture, etc. are needed?
- Money. What budget is necessary for expenses, adviser fees, etc.?
- Time. What are the deadlines and time investments to meet them?
- People. Who will support the team (employees, advisers)?
- Information. What information is necessary?
- Activity. What activities must be performed and by whom?
- Methods. Are there unique ways of performing these activities?
- Processes. Are there overall processes for such a project?
- Results. What are the deliverables? What will they look like?

[M.F. Greaver II - Strategic Outsourcing]

Anyway, a special care must be on people. That's not only because «people are important, **but for a particularity of outsourcing:**

- **indeed outsourcing can be a common concern for many employees, so it's to be sure about the objectivity of some employess potentially involved for analysis.**

- such consideration let us to introduce communication.

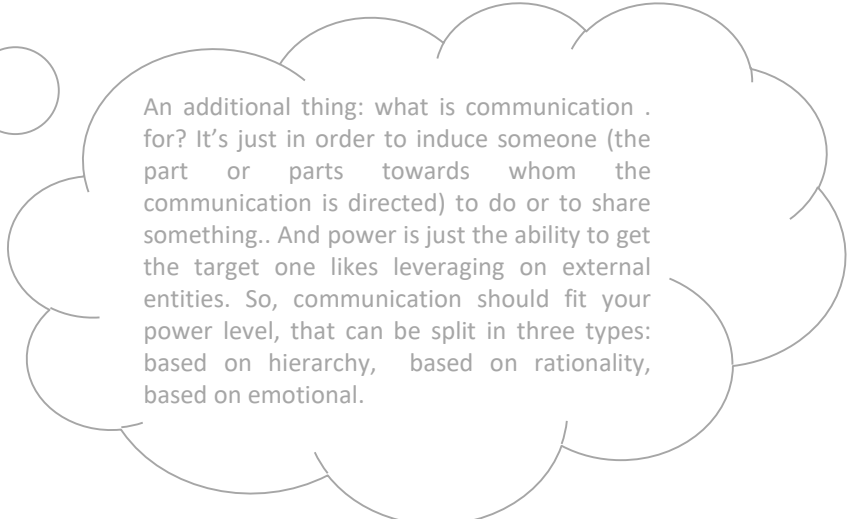# Outsourcing – project methodology - planning
"communication"

Communication:

- **is a key management leverage based on sharing company's targets and troubles and finalized both to get more and more involved people and to increase the awareness of management itself.**

- **can be both internal**, that's towards company's people, **and external**, that's towards clients and other external entities (suppliers, authorities, banks etc.)

That said, a **basic question about is «how to communicate»,** that's
- **why** one should communicate?
- **what** would be shared?
- **when** communication must be done?
- **how**?
- **towards whom,**
- **by whom,**

An additional thing: what is communication . for? It's just in order to induce someone (the part or parts towards whom the communication is directed) to do or to share something.. And power is just the ability to get the target one likes leveraging on external entities. So, communication should fit your power level, that can be split in three types: based on hierarchy, based on rationality, based on emotional.

Next page sentence can help

Outsourcing – project methodology - planning
"communication"

Anyway,, communication just starts during planning and it'll be extended to the whole project.

although it may be morally correct for an organization to inform its employees of major lifestyle changes as soon as it is aware of them, this ought to be balanced against the uncertainty and dissatisfaction that a long period of waiting will create in the mind of the average employee.

[J.B. Heywood - The outsourcing dilemma]

So, there isn't any defined rule. The only one is «**to care the context in order to avoid any useless arising of unnecessary troubles**».

Same must be done for external communication. Just looking at clients, usually communication (client's involvement) is quite **mandatory in case of B2B context**.

Firts, let's assume a definition of **strategy as master plan finalized both to exploit the opportunities and to lower the threats showed by the context**.

«Then, look at the additional definitions you can find on the right. What do they implicitely tell us?»

«Not easy? So they mean one important thing, that's the contents of a strategy depends by the culture (implicit behaviour) of the person or the company who or which formulates it. This should be quite clear if one considers that there must be a subject at the base pf each of the showed meaning of strategy».

Indeed to outwit an opponent etc. subtends that someone or something must get that someone or something else is or isn't an opponent. That said, the actions quoted by "pattern" and "plan" subtend a subject. "Position" and "perspective" are just related to an individual way to look at things etc.

Mintzberg[1] points out that 'the word strategy has long been used implicitly in different ways even if it has traditionally been defined in only one'. He therefore offers five definitions of strategy as ploy, pattern, position and perspective and plan:

- As a *ploy*, strategy can be 'a specific "manoeuvre" intended to outwit an opponent or competitor'.
- As a *pattern*, strategy is a 'stream of actions (demonstrating) consistency in behaviour whether or not intended'.
- As a *position*, strategy is a 'means of locating an organisation in an "*environment*"'. By this definition strategy becomes the mediating force between the organisation and all the external forces – competitive, cooperative, economic, ethical, legal, political – with which it interacts.

As a *perspective*, strategy is a concept or 'ingrained way of perceiving the world'. As Mintzberg observes: 'It is important to remember that no one has ever seen a strategy or touched one; Every strategy is an invention, a figment of someone's imagination, whether conceived of as intentions to regulate behaviour before it takes place or inferred as patterns to describe behaviour that has already occurred'.

- As a *plan*, an intended course of action.

[K. Lysons, M. Gillingham – Purchasing and supply chain management]

So, **first step of exploring strategic implications is the focus on the cultural background,** which, in other words, will mean to get suitable information by the organization analysis, mostly on institutional set-up.

… that's on the behavioral imprint related to a company or to whom can decide. .

Outsourcing – project methodology - exploring strategic implications

meaning of strategy

… now, what are the things a company would like to protect and what the opportunities? Coming back to the main outsourcing target, that's focusing the core:

- the exploring of strategic implications logically must suitably **focus the core**, indeed the related skills' and experiences' issues must be both protected and reinforced.

… and linking up the other ones («supply chain as competitive advantage, virtual organization etc.) the opportunities come just from them, that's

- how providers (or suppliers and, generally speaking, external resources) can help and **what relationship we want to establish with them**?

… so, summing up: «exploring strategic implications» leads to the three main items:

- **check on the company's culture.**

- **focus of the core**

- **level of the relationship with the provider/s**

… but, how?

Outsourcing – project methodology - exploring strategic implications
check of the company culture

... first, let'a analyze thoroughly the meaning of culture, that's:

• culture as «way of life»: the customs and belief, art, way of life and social organization of a particular country or group.

• culture as «beliefs/attitudes»: the beliefs and attitudes about something that people in a particular group or organization share.

[Oxford Dictionary]

... that said, **how to analyze company's culture**?

• so, any organizational analysis's pattern provides specific tool. Taking what we talked during previous lectures one could look at :

 - the **institutional set-up / company's cultural fingerprint**, that's for instance if the intimate company's thought is wary ot trustful towards external entities, if it's market oriented or viceversa etc.

 - the **individual variables**, about the presence of suitable skills for outsourcing management and on partnership criteria.

 - the **social variables,** mostly about the need of consensus achievement.

 - ... and of course the **strategic variables**, which the outsourcing project must comply with.
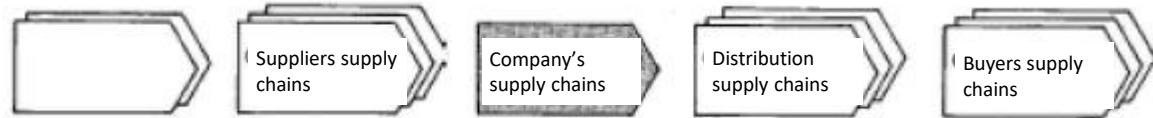
Outsourcing – project methodology - exploring strategic implications
core focusing

… As rough introduction, it's useful to look at M. E. Porter theory on competitve advantage (M. E. Porter, Competitive Advantage, 1985):

… value, that's what makes the attraction of a good, comes as amount of «contrbutes» which start from the (very far) suppliers till the (very far) buyers/end users.
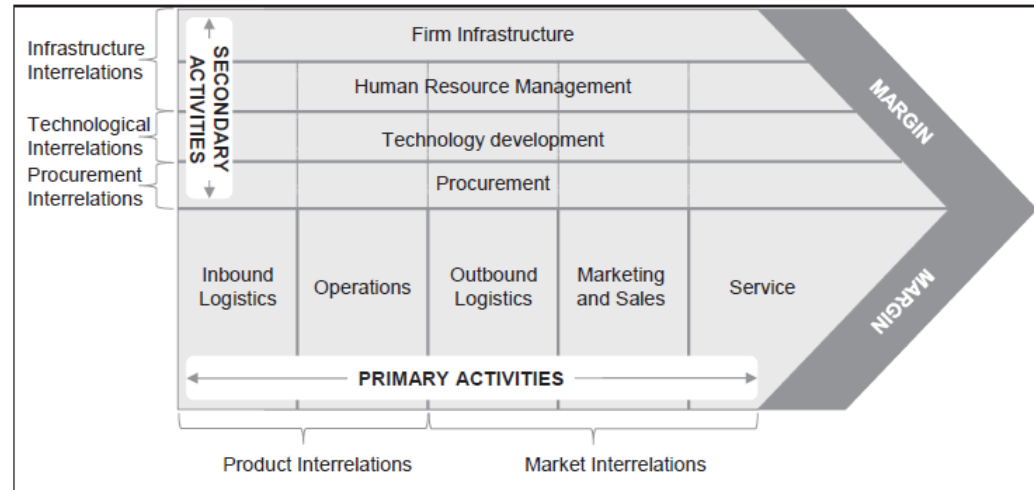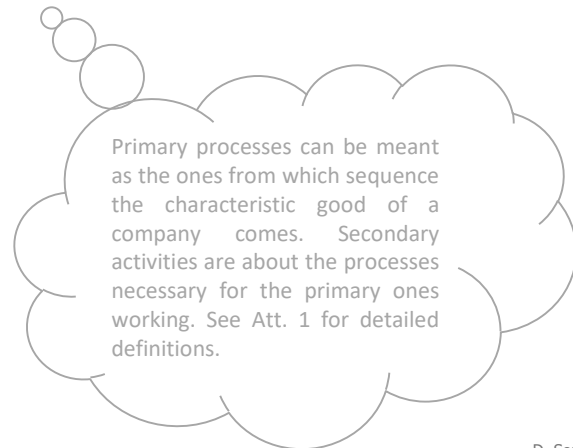
The contribution of the manufacturer of the specific good is in the middle.

… and, in order to consider what really is worth,

… the company must **investigate its-own processes**, firstly sharing them betweem secondary (or support) and primary.

Primary processes can be meant as the ones from which sequence the characteristic good of a company comes. Secondary activities are about the processes necessary for the primary ones working. See Att. 1 for detailed definitions.

	Suppliers supply chains	Company's supply chains	Distribution supply chains	Buyers supply chains

Firm Infrastructure

Human Resource Management

Technology development

Procurement

Infrastructure Interrelations

Technological Interrelations

Procurement Interrelations

SECONDARY ACTIVITIES

| Inbound Logistics | Operations | Outbound Logistics | Marketing and Sales | Service |

PRIMARY ACTIVITIES

MARGIN

Product Interrelations   Market Interrelations

[www.researchgate.net]

Outsourcing – project methodology - exploring strategic implications

core focusing

Exhibit 6.5   Core Process Focus

Narrow to core processes.

Concentrate investment for world-class goals.
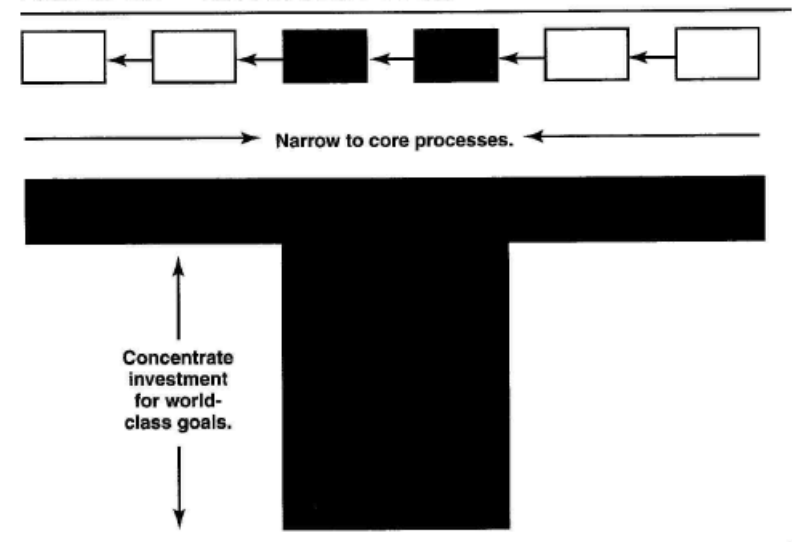
Source: James R. Emshoff, Ph.D., Strategic Outsourcing Seminar (New York: American Management Association, 1994).

[M.F. Greaver II - Strategic Outsourcing]

… that said, same criteria must be implemented on the single processes in order to focus the process phase or the activities which really bring value for the end users.

… one could say «I see, but how could I do it?» …

# Outsourcing – project methodology - exploring strategic implications

core focusing

… one could say «I see, but how could I do it?»

«You're right». So:

- … frankly, in most cases the link between the clients' expectations and the company's processes comes from the **subjective feeling of some experts** … and they hit in not few cases.

- … anyway, for a more objective analysis one can apply tools like **QFD**, which really starts from the customers needs and, through tke typical house of quality reaches the operations processes.

- The customer information portion
- The technical information portion

Figure 4.1 – The two main aspects of QFD matrix.
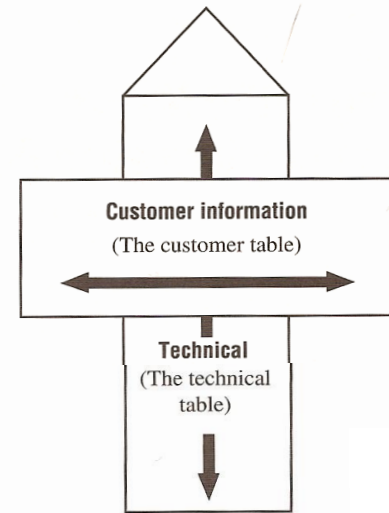
[R.G. Day – Quality Function Deployment]

> QFD's application is not so easy. Anyway, in order to be effective, it's important to keep in mind that the application must be rigorous.
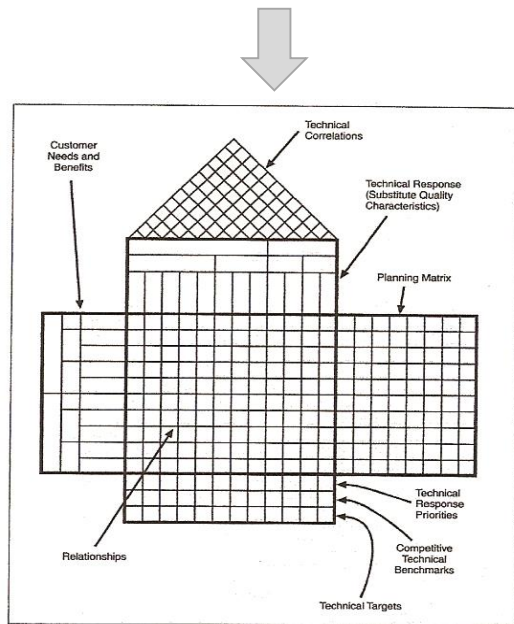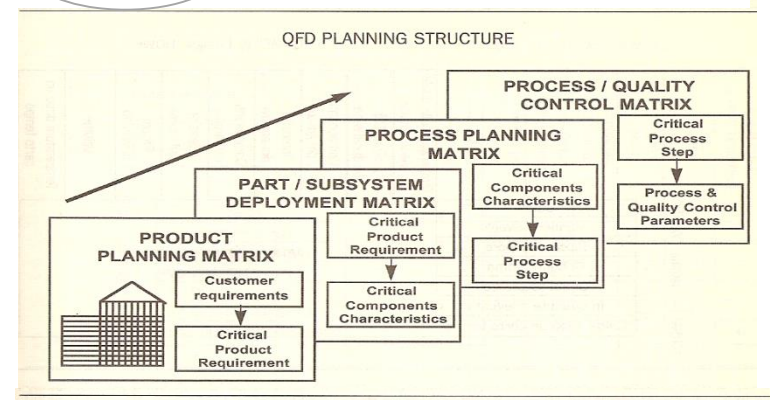

Diagram 4-1. The QFD House of Quality

[L. Cohen – Quality Function Deployment]

[F. Franceschini – Quality Function Deployment]

Outsourcing – project methodology - exploring strategic implications

Partnership contents

First, let's remind a definition of partnership

> See Att. 2 for a more exhaustive explanation of partnership.

A commitment to both customers and suppliers, regardless of size, to a long-term relationship based on clear, mutually agreed objectives to strive for world class capability.

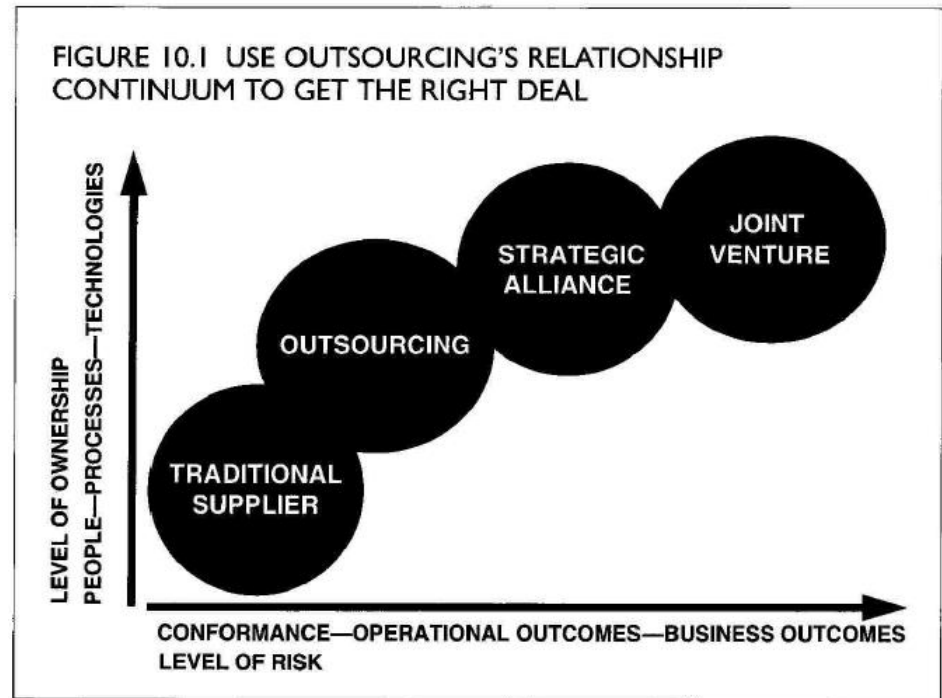[Partnership sourcing Ltd – Making partnership sourcing happens]

… and taking into account that mutual agreed objectives can stand only if there's trust between the client and the outsourcing provider, it's to remind the company culture as well.

Anyway, how to carry out partnership?

- the sketch roughly shows the intensity of the partneship level compared with other relationships with external entities.

- … but **the most important question is on what topics partnership could be based on**. Such possible topics could be summed up in the **decision-making autonomy of the provider** (and conversely the client's one as well).

That said, another questions arises: **autonomy on what?**

FIGURE 10.1 USE OUTSOURCING'S RELATIONSHIP CONTINUUM TO GET THE RIGHT DEAL

LEVEL OF OWNERSHIP PEOPLE—PROCESSES—TECHNOLOGIES

JOINT VENTURE

STRATEGIC ALLIANCE

OUTSOURCING

TRADITIONAL SUPPLIER

CONFORMANCE—OPERATIONAL OUTCOMES—BUSINESS OUTCOMES LEVEL OF RISK

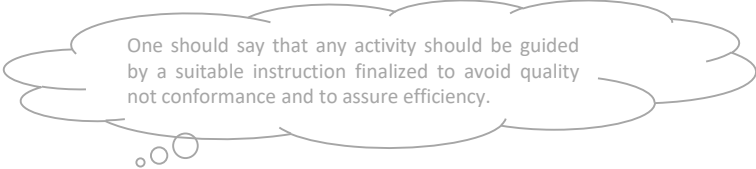[M.F. Corbett – The outsourcing revfolution]

Outsourcing – project methodology - exploring strategic implications

Partnership contents

So, the subjects of decision-making autonomy usually are:

- **Factors of production** (*)

  Factors of production mainly are both about human resources and on equipments and technologies, including possible third parties.

  > One should say that any activity should be guided by a suitable instruction finalized to avoid quality not conformance and to assure efficiency.

- **Operating processes** (*)

  ... that's the output of the related processes and how to work in and control any process's phase.
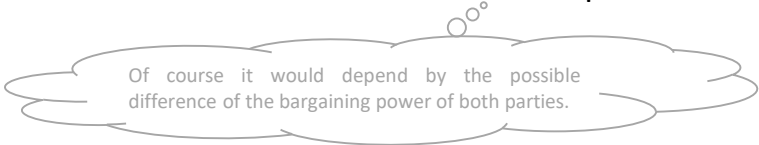
- **Management** (*)

  Management is about decisions not involving factors of production or operating processes. For instance possible modifications of the facilities or of the location etc.

- **Strategy** (*)

  It's firstly related to the possible long-term of the outsourced area and could be about the provider's company as well.

  (*) *abstract from* M.F. Greaver II - Strategic Outsourcing

  > Of course it would depend by the possible difference of the bargaining power of both parties.

Anyway, how much detailed and important would the agreement on decisions right be?

Outsourcing – project methodology - exploring strategic implications

Partnership contents

… how much detailed and important would the agreement on decisions right be?

Of course the detail of the agreement on decisions rights will depnds both by the outsourcing typology and by the distance form the core of the outsourced items.
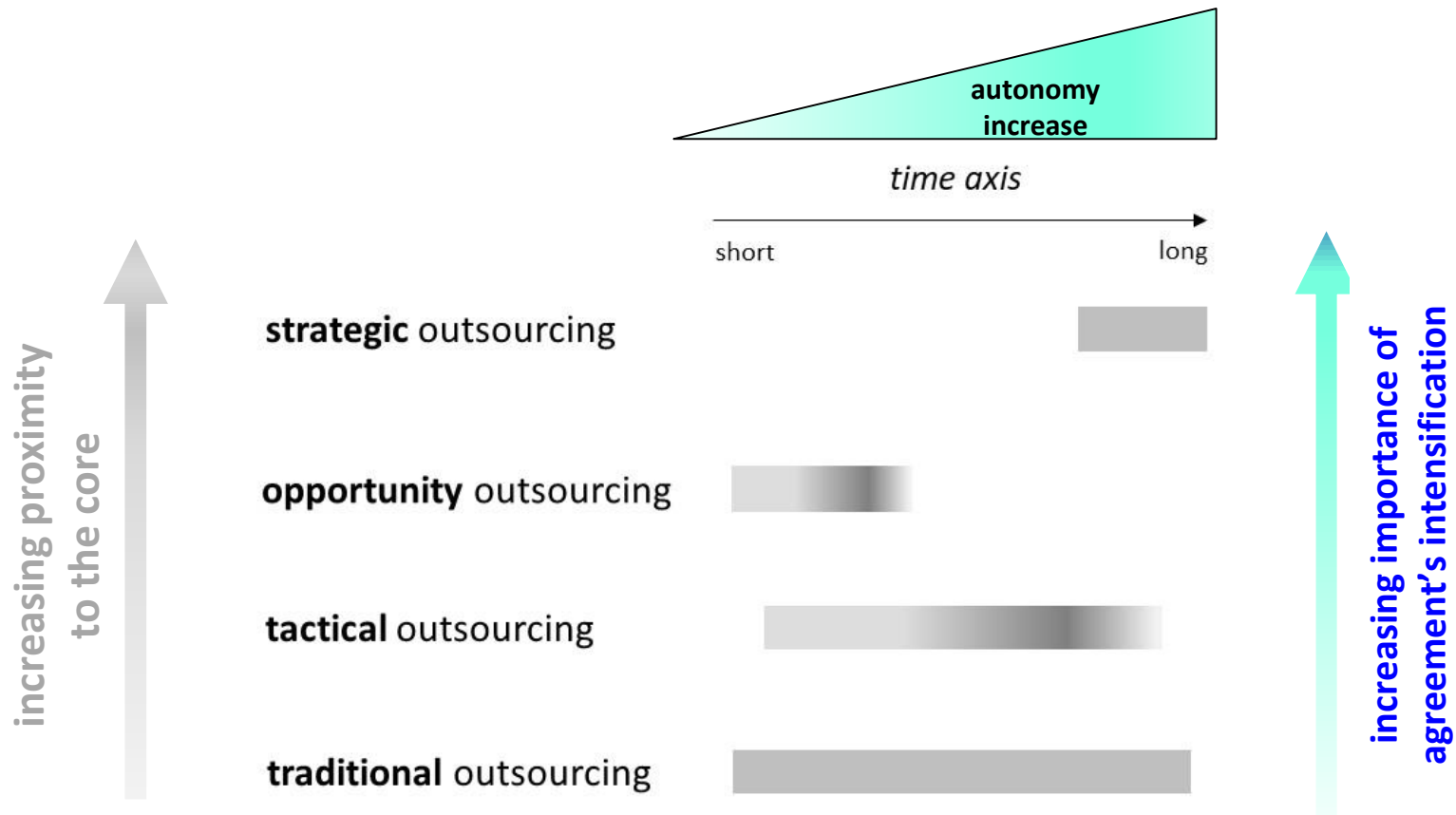
Outsourcing – project methodology - analyzing cost / performances

Introduction

Keeping in mind that :

- one outsources processes, not products,

- most of the outsourcing failure follows unsatisfaction of the client (outsourcer), that's not good quality, which is usually caused by lack on the expectations

… it's plain to perceive that

… **before going on the outsourceable process must be properly investigated (mapped) both on its costs and its performances.** Indeed, taking the meaning of **performances as effectiveness and efficiency levels** (that's, in other words, quality and costs levels)**, it's mandatory to obtain them in order both to tell the provider on the expectations and to properly bargain for the price.**

So, let's share them in performances and costs, and start by performances.

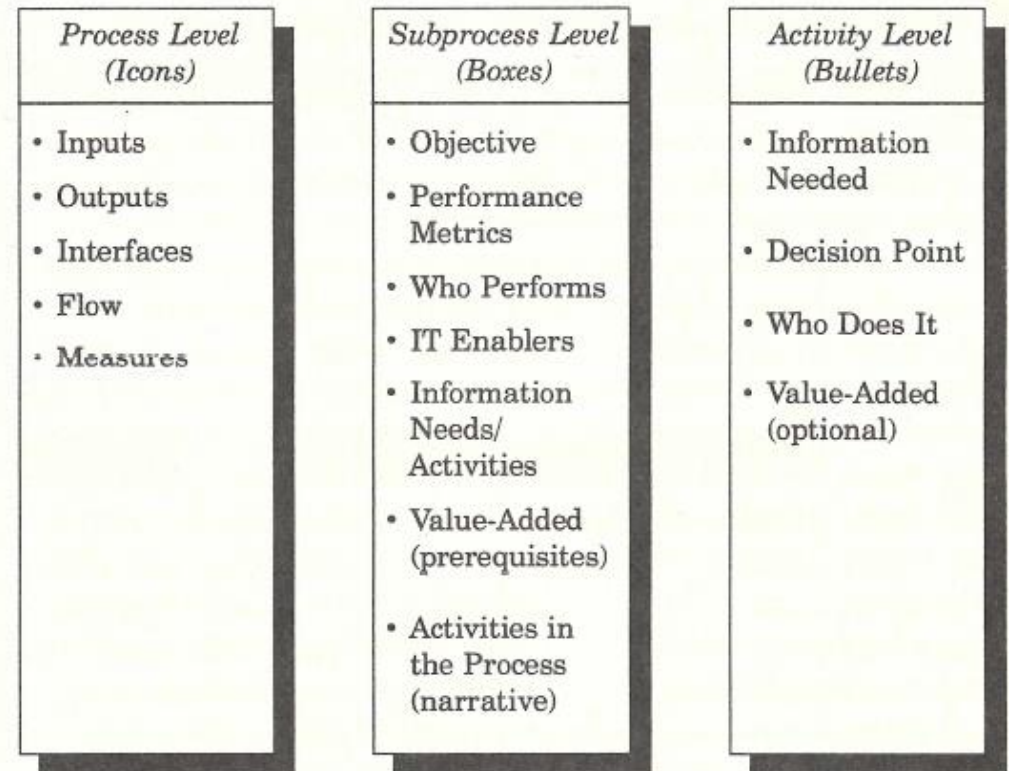# Outsourcing – project methodology - analyzing cost / performances

Process performances

So, about detection of process performances the right side table gives very good references. More in detail: the first box (Process Level) is just a first deployment of a process' analysis, then **it's mandatory that one must look at operating details**, (as showed in Subprocess Level and Activity Level boxes). So, **one must «soil his hand» by having a direct evidence of the process working.**

Two further notes about:

- one can use several tools for mapping (customized flow charts, IDEF Identification Definition for Function Modelling, AWA Action Worflow Analysis etc.), at any rate it isn't a key topic.

- … instead it's more important is to consider that mapping is an opportunity for re-engineering, so, looking at **«Trasnsformational Outsourcing»** criteria, mapping is an opportunity for improvement.

Figure 8-2 Levels of Process Design

Process Level (Icons)	Subprocess Level (Boxes)	Activity Level (Bullets)
• Inputs	• Objective	• Information Needed
• Outputs	• Performance Metrics	• Decision Point
• Interfaces	• Who Performs	• Who Does It
• Flow	• IT Enablers	• Value-Added (optional)
• Measures	• Information Needs/ Activities	
	• Value-Added (prerequisites)	
	• Activities in the Process (narrative)	

[T. H. Davenport – Process Innovation

Outsourcing – project methodology - analyzing cost / performances

Process performances

Now, going in depth on process analysis, the first right side table showed some items whose quantification is very imporant (indeed, look at the repetititvty of the word «measuring»).

> By the way, we talked about partnership agreement, the related shared targets etc. How could a target be defined without a previous analysis on its context, anyway without a previous measurement of the current situation?

Of course, the surveying of performances should be specialized for specific process. The table you can find on the left shows an example about a manufacturing process (CNC milling), by which it's important to look at the four typical factors of manufacturing, that's quality, cost, lead-lead time, flexibility.

Productivity:	Measuring inputs ÷ outputs
Quality:	Measuring waste, errors, and rework
Timeliness:	Measuring the meeting of deadlines
Cycle time:	Measuring elapsed time from start to stop in minutes, hours, days, etc.
Utilization:	Measuring time invested in a specific activity ÷ total time available (for example, 2,080 hours is a typical work year, based on 40 hours × 52 weeks)
Creativity:	Measuring artistic achievement (such as design) or new ideas, discoveries, products, etc.
Outputs:	Measuring the results of activities
Financial:	Measuring certain financial objectives (such as bud-gets, net income, earnings per share, and economic value added)

[M.F. Greaver II - Strategic Outsourcing]

Table 4.5 Derivation of competitiveness score for CNC milling

KSF	Measure	Best practice	Firm level	Weighting (0-1)	Score (0-5)	Total
Quality (wtg 0.2)	scrap	10 ppm	1%	0.1	1	0.1
	surface finish	no further treatment	finishing processes	0.1	3	0.3
Cost (wtg 0.4)	cost/ person hr	£35.00	£56.00	0.4	3	1.2
Delivery (wtg 0.3)	lead time	1 day	2 days	0.1	3	0.3
	schedule adherence	95%	80%	0.2	2	0.4
Flexibility (wtg 0.1)	multiskilled workforce	fully flexible	high flexibility	0.1	4	0.4
						2.7

Technology: CNC milling

[D. Probert – Developing a Make or Buy strategy for manufacturing business]

Outsourcing – project methodology - analyzing cost / performances

Costs

Stating that the subject costs are related to the ousourceable processes, one should share between **direct and indirect costs**, that's

"The essential difference between direct costs and indirect costs is that only direct costs can be traced to specific cost objects. A cost object is something for which a cost is compiled, such as a product, service, customer, project, or activity. These costs are usually only classified as direct or indirect costs if they are for production activities, not for administrative activities (which are considered period costs).
The concept is critical when determining the cost of a specific product or activity, since direct costs are always used to compile the cost of something, while indirect costs may not be assigned to such a cost analysis. It can be too difficult to derive a cost-effective methodology for the assignment of indirect costs; the result is that many of these costs are considered part of corporate or production overhead, which will exist even if a specific product is not created or an activity does not occur.
Examples of direct costs are direct labor, direct materials, commissions, piece rate wages, and manufacturing supplies. Examples of indirect costs are production supervision salaries, quality control costs, insurance, and depreciation.
Direct costs tend to be variable costs, while indirect costs are more likely to be either fixed costs or period costs."

[https://www.accountingtools.com]

So, while direct costs should be more easily got, indirect ones need to be properly allocated to the outsourceable process. This can be done by the implementation of ABC **Activity Based Cost** methodology, which can give the portion of an indirect resource (to which the cost is associated) used by the investigated process

Outsourcing – project methodology - analyzing cost / performances

## Costs

… ABC Activity Based Cost methodology, which can give the portion of an indirect resource (to which the cost is associated) used by the investigated process. In order to assign such portions ABC is based on **cost drivers**, that's indexes related to the specific indirect resource.

"Cost drivers are the structural determinants of the cost of an activity, reflecting any linkages or interrelationships that affect it".

[M. E: Porter – Competitive advantage]

Some examples of indirect costs and their drivers are: indirect costs for maintenance, with the possible driver of this cost being the number of machine hours; or, the indirect cost of handling raw-material cost, which may be driven by the number of orders received; or, inspection costs that are driven by the number of inspections or the hours of inspection or production runs. In marketing, cost drivers are Number of advertisements, Number of sales personnel etc. In Customer service, cost drivers are Number of service calls attended, number of staff in service department, number of warranties handled, Hours spent on servicing etc..

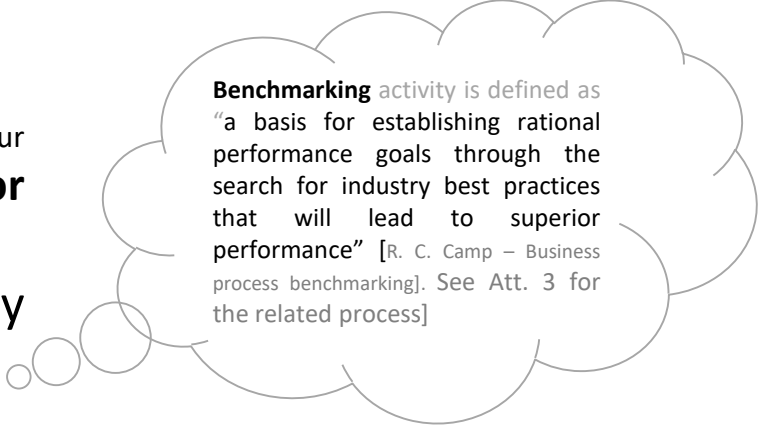[https://en.wikipedia.org/wiki/Cost_driver]
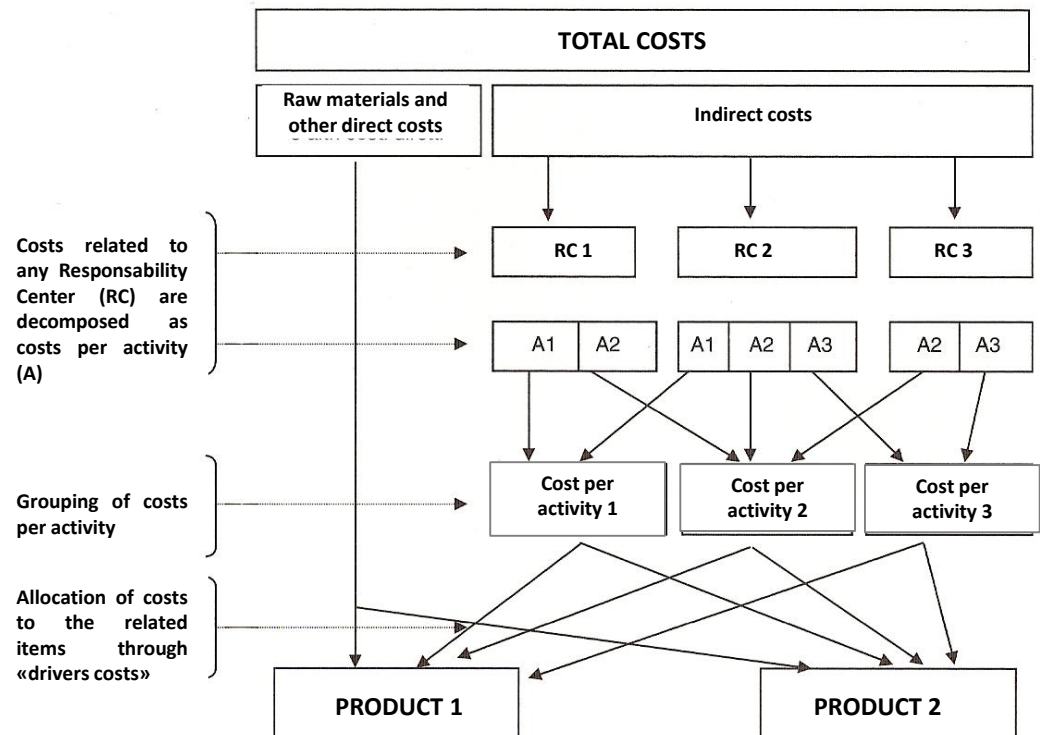
Fonte: Lebas, 1991.

[*abstract from* A. Bubbio – Calcolo dei costo per attività: Activity Based Costing]

Outsourcing – project methodology - analyzing cost / performances
Conclusion and Benchmarking

«Now, after a careful analysis you fixed the performances and costs of your process, right? So, **how could you say that they're good or not**?»

«I would say that there isn't any definite answer. Indeed it may depend by …»

> **Benchmarking** activity is defined as "a basis for establishing rational performance goals through the search for industry best practices that will lead to superior performance" [R. C. Camp – Business process benchmarking]. See Att. 3 for the related process]

- **the comparison with other similar processes**
  … which means to carry on a benchmarking activity

- **the improvement possibility you can approach looking at external providers**
  … of course the intensity of investigation that a company can carry out about external opportunities / resources depends by the subject of the investigation itself (that's by the whole business), by the resources that the company can dedicate, by the interest or expectations of the providers as well (that's by the supply market).

- **the company's expectations**
  … in other words, besides the above comparison, if the process' performances and costs are good for you, they are good for everyone … and viceversa! A company doesn't have to prove anything with anyone, they're are fully free to take any decision, and of course fully responsable for the decision itself.

Outsourcing – project methodology - analyzing cost / performances

Conclusion and Benchmarking

- **the comparison with other similar processes**
  ... which means to carry on a benchmarking activity

- the improvement possibility you can approach looking at external providers
  ... of course the intensity of investigation that a company can carry out about external opportunities / resources depends by the subject of the investigation itself (that's by the whole business), by the resources that the company can dedicate, by the interest of the whole of the providers as well (that's by the supply market)
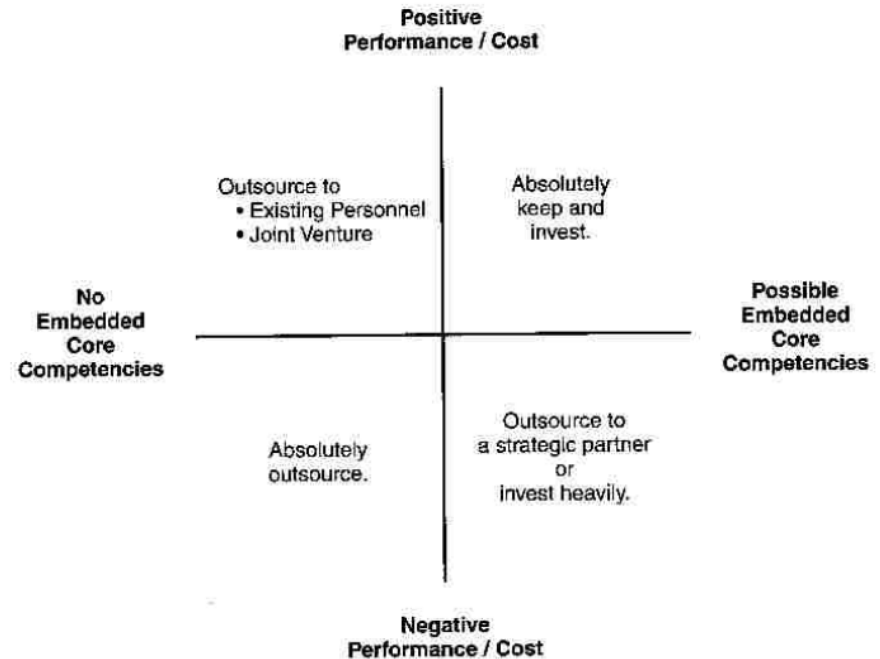
- **the company's expectations**
  ... in other words, besides the above comparison, if the process' performances and costs are good for you, they are good for everyone ... and viceversa! A company doesn't have to prove anything with anyone, they0re are fully free to take any decision, and of course fully responable for the decision itself.

Ok, so after the comparison with similar processes' performances and the definition of your targets (that's the updating of the ones you set during planning phase) **you can go and take your decision, that's if the outsourceable item is not embedded with your core you should go on with your deepening on the outsourcing opportunities, that of course will start by «selecting vendors» phase.**

Exhibit 11.1   Plotting Internal Units to Determine Sourcing

Positive Performance / Cost

Outsource to
- Existing Personnel
- Joint Venture

Absolutely keep and invest.

No Embedded Core Competencies

Possible Embedded Core Competencies

Absolutely outsource.

Outsource to a strategic partner or invest heavily.

Negative Performance / Cost

[M.F. Greaver II - Strategic Outsourcing]

The showed matrix considers the case of positive performance of the outsourceable process and rightly takes into account to outsource it to the existing personnel (spin-off solution). Now, apart from what in the vendors' selection phase, the whole process will be the same of the one related to external providers.

Outsourcing – project methodology - selecting providers

Introduction

The vendors (providers) selection process includes the following steps:

- **collection of provider names** (providers data base)

- **first selection**

- **Request For Quotation** (RFQ or RFP Request For Proposal)

- **quotation analysis**

- **final selection**

Outsourcing – project methodology - selecting providers

collection of provider names (providers data base)

The building of a data base of providers names is the first step of purchasing marketing activity.

As purchasing marketing activity one can consider a research which is carried out in supplies markets and finalized to satisfy current and future expectations.
[*abstract from* R. Perrotin, F. Calì – Il marketing di acquisto: strategie e tattiche]

- **Operating aspects**

The operating aspects are substantially related to the:
- **data sources**, which can be directories, Internet itself, some names can come just from possible "professional or business networks".
- **profiles of the possible suppliers**: the profile would come from the previous project steps, that's the research should be leaded by the proximity to the core of the outsourceable items, by the related business, by the time horizon and the outsourcing typology (tactical, traditional, strategic, .. of opportunity), so by the partnership level as well etc.

- **Risks**

The risks are related to a too much "poor" activity, that's to collect just few names. There isn't any defined rule, but less than ten-fifteen names could be insufficient in order to suitably profile the providers market.

By the way, it's to remember that one of the lack of effectiveness is «inertia», that's the trend to work with already known companys and people.

Outsourcing – project methodology - selecting providers

First selection

First selection is just meant as the output of the first phase (collection of providers names or "purchasing/providers marketing").

- **Operating aspects**
  - of course in order to carry out a suitable selection one must "state once and all" the company expectations and about this it would be useful to **carry out a preliminary sanity check** both on the output of previous phases and on:
    - the company' ability and preparation to manage the whole outsourcing project and the subsequent implementation and management.
    - the expected time duration of the outsourcing, about which it's to verify the compatibility with possible company changes (and with the changes of its environment as well).
  - anyway, may be **that some providers will be deleted following the company expectations, the remaining must be marked accordingly to a suitable check-list.** Just about and taking into account that reasonably you can't carry on the activity on all the providers of your data base (indeed next step will be the Request for Proposals), **likely there will be two phases in the first selection**: the first one related to some items ("wishes") independent by the expectations on the outsourceable process, that's items like distance of the providers' location, its dimension, some unofficial information you got etc. For the second (and effective) phase see next page.
  - anyway the first selection usually involves preliminary contacts with the possible providers. **Such contacts must be done very carefully, that's applying the (external) "communication references"** mentioned during planning ("why", "what", "when", "how", "towards whom", "by whom").

> Just coming to the uselessness and/or impossibility to carry on activity on all the listed providers: one should define on how many it's able to go on, anyway, besides it, the remaining ones could roughly be the fifity-seventy percent of the initail ones.

- **Risks**

  The risks are both **to select unsuitable providers** (anyway to neglect better ones) and, **by a wrong communication, to compromise the possible future partnership**

Outsourcing – project methodology - selecting providers

First selection

An effective check-list could split the items in "hard" and "soft", where: "hard" includes the ones which could be measured, while "soft" is about topics which mostly show the attitudes of the provider.

For instance, about "hard"
- "demonstrated ability to deliver today" could be checked just looking at the lead-time between the client's order and the shipment.
- "commitment to continuous improvement" on the base of number of collected suggestions and implemented improvements.
- ….

… about "soft"
- "flexibility to change" will be evaluated following the provider's telling about.
- "trust/security/confidentiality" from the provider's procedures and from the sensibility one can check from the interviewed people. with the met personnel. could be checked just looking at the lead-time between the client's order and the shipment.
- …

> The distinction among provider, process, personnel is related to the applicability of each item.

Hard Qualifications	Provider	Process	Personnel
Demonstrated ability to deliver today	x	x	x
Experience to deliver	x		x
Provider strengths	x	x	
Superior performance	x	x	x
Deserved positive reputation	x	x	x
Proven customer satisfaction	x		x
Strong capitalization/financial stability	x		
Proven management capabilities	x		x
Shared approach to problem solving	x		x
Commitment to continuous improvement	x		x
Strong transition experience	x		x
Commitment of specific resources	x		x

Soft Qualifications	Provider	Process	Personnel
Trust/Security/Confidentiality			x
Positive attitude			x
Good chemistry			x
Good cultural fit	x		x
Flexibility to change	x	x	x
Cost conscious	x		x
Willingness to share cutting-edge knowledge		x	x
Clear vision of their market	x		

[M.F. Greaver II - Strategic Outsourcing]

… anyway there are other two important attention points (see next page).

Outsourcing – project methodology - selecting providers

First selection

… anyway there are other two important attention points

First one: as additional information to the previous page table, the right one shows some characteristics usually considered during suppliers' evaluations. Anyway, it's important to take into account any issue can consider several items. See Att. 4 about, by which, for instance, you can see that "quality" is related to thirteen items, "financial conditions" to three, "ordering" to three as well etc. Of course, by the operating point of view any company will focus its-own interest items.

Second: a further and more in-depth step of investigation (audit) can be done just on the company which will be the best or on the two better companies (see "final selection" step).

CATEGORIES OF SUPPLIER CHARACTERISTICS INCLUDED ON EVALUATION INSTRUMENTS BY NUMBER AND PERCENTAGE OF EVALUATIVE ITEM RESPONSES

Category of Evaluation	Number of Evaluative Items by Category	Percentage of Evaluative Items to Total Items (n=2,278)
Quality and Process Control	566	24.9
Continous Improvement	210	9.2
Facility Environment	188	8.3
Customer Relationship	187	8.2
Delivery	185	8.1
Inventory and Warehousing	158	6.9
Ordering	132	5.8
Financial Condition	126	5.5
Certifications	81	3.6
Price	81	3.6
Staff/Customer Service	81	3.6
Leadership/Management	70	3.1
Technology	63	2.8
Education/Training	46	2.1
Invoicing	38	1.7
Packaging	30	1.3
Employees	24	1.1
Warranty	8	0.4
Location	4	0.2

[P. M. Simpson, J.A. Sigaw, S.C. White - Measuring the performances of suppliers – The journal of supplier chain, Febr. 2002]

Outsourcing – project methodology - selecting providers

First selection

"So, and what are you going to do with the collected information on the possible supplies?"

"Simply you collect them in order to classify which are the most suitable for your company, and in order to do that … **it'll be useful to collect data in a matrix** like the showed one, which will guarantee both objectivity and traceability.

… and there's a key point about: indeed one axis of the matrix is named "Reasons to Outsource", that, after the previous phases (on strategic implications, processes analysis etc.) one should be able to focus … and this introduces to the Request for Quotations' issue as well.

Exhibit 13.1   Identifying and Weighting the Qualifications

Reasons to Outsource

Provider Qualifications — Total Weighting

Total — 100%
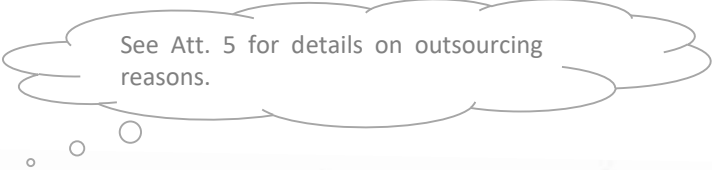
Identify the related qualifications for each reason to outsource. Then assign weights to each appropriate box (matching reason and qualification), so that the total numbers in all of the boxes add across and down to 100 percent (shaded areas).

Outsourcing – project methodology - selecting providers

Request for Quotations (RFQ)

The first question that one should ask herself/himself is: "how much should I detail my RFQ?". The answer is easy: "a priori" **the more detailed the RFQ is the better is**.

Then one could have a second question: what should I include in the RFQ? Again: "a priori" **RFQ will have to include the whole of your expectations,** both about the outsourcing reasons and scope and on, roughly speaking, partnership issues.

See Att. 5 for details on outsourcing reasons.

- *Reasons to outsource.* Be clear on which reasons best apply to the situation
- *Scope.* Be clear on what services the provider is being asked to deliver.
- *Provider qualifications.* Be clear on which qualifications are important.
- *Performance standards/measures.* Be clear on the level of anticipated performance and how this performance will be measured.
- *Pricing.* Be clear on the desired model (for example, fixed price, cost plus), if one is preferred, and how the estimated price for such services should be presented.[1]
- *What decision makers are accessible.* Be clear on who they can talk to and when access can occur.
- *Questions.* Be clear on how any questions resulting from their review of the RFP will be answered.
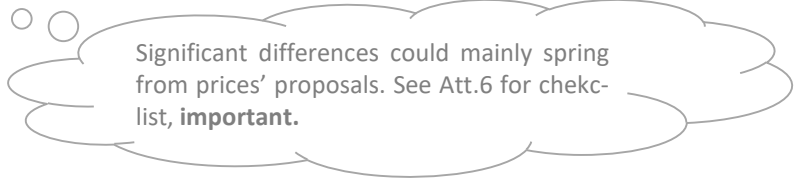
[M.F. Greaver II - Strategic Outsourcing]

… and now one should ask: why in above sentences the "a priori" condition is showed? in this case also the answer is easy, indeed **there isn't any definite rule good for every company. In particular way: to make the outsourcing reasons and scope clear will depend by company's culture, expected bargaining level etc.**

Outsourcing – project methodology - selecting providers

Final Selection

The final selection should be not difficult. Indeed, again **by a suitable matrix, which will possibly assign a weight to any of your expectations, you should input a mark for any related proposal of the providers**.

Significant differences could mainly spring from prices' proposals. See Att.6 for chekc-list, **important.**

Anyway, **three further questions** arise:

- first: how could one evaluate one of the requested item on which the providers' proposals are very far? One should investigate with the providers themselves and this is linked to the second question …

- … could I be fully self-confident about the providers proposals? So, you should be, indeed you already screened them two times; anyway it's **important to carry on a suitable audit at the provider's location**.

- Third one: what should I do in case of two providers which got the same score? Said that it'll be mandatory to carry out an audit, one will analyze thoroughly soft characteristics, may be focusing "chemistry".

See Att. 7 for chemistry items.

Outsourcing – project methodology - selecting providers

Final Selection

Coming back to the second question: **audit is an important step both in order to get an higher confidence about the provider performances and, first of all, because is a milestone from which improvement actions could be trigged.**

«audit» can be named «due dilingenze» or, with reference to the below mentioned ISO standard «evidence of stgh».

but … how to carry on audit? So, two things:

- **one doesn't audit in order to find significant failures such to delete the provider, but just in order to get the partnership under way / to initiate**.

- in order to achieve what in the previous item, the order must be suitably planned. audit must be performed. An ISO standard, **that's ISO 19011 Guidelines for auditing management systems) can be very useful**. Some main points about:
  - audit plan (content, date, audit steps, auditors team, required provider team etc.) must be communicated in time to the audited provider.
  - possible lacks (not conformities) must be promptly communicated, improvement actions (corrective, preventive actions etc.) must be asked and agreed.
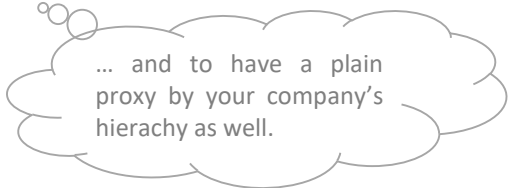
See Att. 8 for ISO 19011 index

Outsourcing – project methodology - negotiating terms

Negotiation

Just in a concise way:

- In order to negotiate **you must be fully sure on:**
  - **what you could allow,** that's for instance a little increase of price or a small loosening of quality or service conditions.
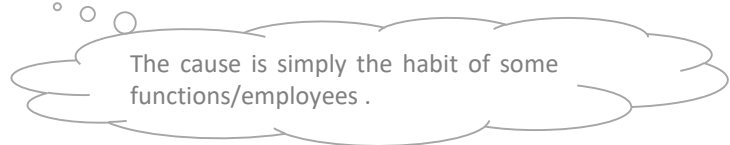 - **what you must be inflexible,**

  but about it you must know in details your processes and needs.

  … and to have a plain proxy by your company's hierachy as well.

That said:

Taking a definition of quality as "what and only what is strictly necessary in order to satisfy company's needs and expectations", it isn't rare that some quality requests go beyond what it's strictly necessary, so **sometimes some quality loosening could be allowed in order to get a price's decrease**.
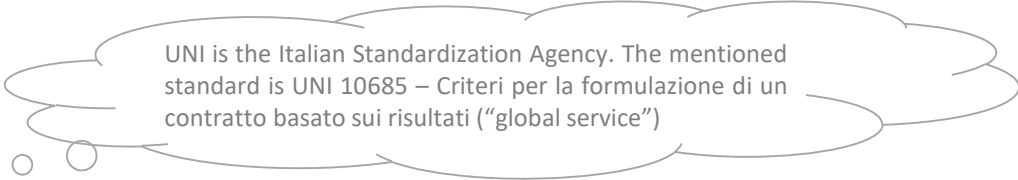
The cause is simply the habit of some functions/employees .

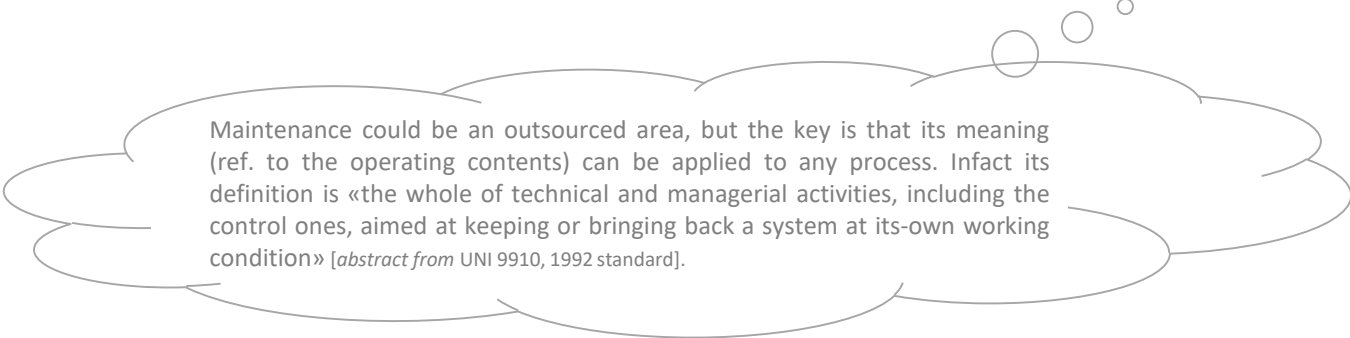# Outsourcing – project methodology - negotiating terms

Contract

Contracts' content are mostly juridical clauses, anyway this lecture note just want to underline what about **global service** and the related **floating pricing**, that's a price related to the provider's outcomes.

> UNI is the Italian Standardization Agency. The mentioned standard is UNI 10685 – Criteri per la formulazione di un contratto basato sui risultati ("global service")

Global service concept comes from an UNI standard named "Criteria for the formulation of a contract based on the results" about maintenance and it's defined as "contract whose subject is a plurality of services which substitute the standard maintenance activities and characterized by full responsability of the provider on the outputs». Its importance comes from:

- It's a **good reference for Business Process Outsourcing BPO**. **Indeed the above «plurality of services» means the whole of the processes related to maintenance.**

> Maintenance could be an outsourced area, but the key is that its meaning (ref. to the operating contents) can be applied to any process. Infact its definition is «the whole of technical and managerial activities, including the control ones, aimed at keeping or bringing back a system at its-own working condition» [*abstract from* UNI 9910, 1992 standard].

- Furtherly it's **a good reference for partnership**. **Pricing which floats depending by the providers outcomes is a tangible sharing of targets.**

Outsourcing – project methodology - negotiating terms

Contract

So, Att. 9 shows the index of the upmentioned standard for global service. Let's see some key points.

❖ **4. Criteria for the request for proposal/quotation** (by the client)
…
- ✓ … issued with reference to the whole of the clauses showed by items 8, 12, 13, 14 etc. (ref to the UNI 10145 standard index – See Att. 9)
- ✓ … the time validity of the expected quotation must be showed.
- ✓ … delivered only to the suppliers selected accordingly to standard …
- ✓ … technical specifications must be enclosed.
- ✓ … the potential supplier must be asked about a «global service» proposal.

❖ **Criteria for the proposal/quotation formulation** (by the provider)
…
- ✓ … criteria related to item 5 must be applied (ref. to the UNI 10145 standard index – See Att. 9).
- ✓ … the proposal/quotation must include and detail the project of «global service»
- ✓ … the proposal/quotation must evidence both the full acceptance of the client's technical specifications and, if applicable, possible proposals of modifications.

-

That's how the provider will organize itself in order to match global service request. This means to show resources, systems etc. It's a **key point** which works as «first step for cooperation/partnership».

❖ **Criteria for the proposal/quotation** (by the client)
…
- ✓ … carefully check that the technical specifications has been fully accepted. In case of modification's proposals analyze them and reply the provider.
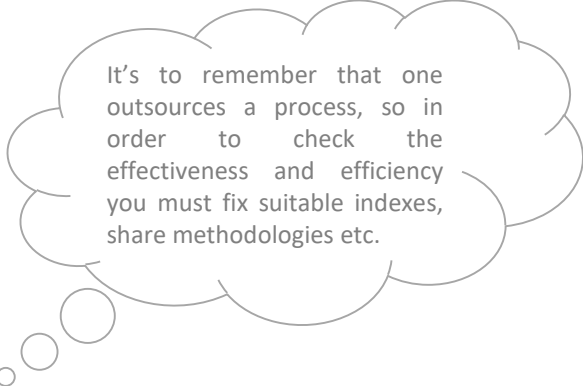- ✓ … check the correspondence between the global service project and the technical details.

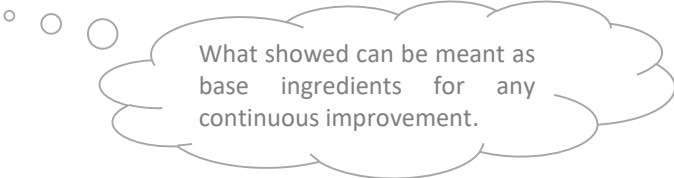# Outsourcing – project methodology - negotiating terms

Contract

❖ Technical specifications

…

✓ … it must be undersigned by both parties.

✓ … any paragraph of the technical specifications must include

- o inventory of the systems related to the global service condition
- o the expected performances
- o evaluation criteria and methodologies, parameters, key indexes and time schedule for checks
- o expected maintenance state
- o rules about
  - • data analysis and conclusion's presentation
  - • ref. to possible improvements proposed by the provider
    - financing/investment sharing
    - criteria for the split of benefits or detriments
  - • variations of the expeceted quantity (flexibility)
  - • …

…

> It's to remember that one outsources a process, so in order to check the effectiveness and efficiency you must fix suitable indexes, share methodologies etc.

> What showed can be meant as base ingredients for any continuous improvement.

Outsourcing – project methodology - transitional resources

Communication and Phase-in

Transition's key issues are **communication** and **phase-in**.

• Communication

Communication should've been an action started since the planning step and extended to the whole project. Now, transition is the moment in which "things happen" (that's the outsourcing implementation starts), so:

o **Internal communication** should exploit its effectiveness. About it one should remind that communication is an important factor of outsourcing project because such projects mean **modifications in the style-life of employees involved in the outsourced processes**. Generally speaking there are **four possibilities about:**

  • **transfer to other functions of the outsourcer**

  • **transfer to the provider**

  • **incentives for dismissal**

  • **firing**

  It's to say that usually all four possibilities are practiced.

  Incentivation is usually done for each of the showed possibilties (of course the incentive's amount will vary accordingly to any case).

o **External communication:** if the whole communication process has been properly carried out, no matter should arise with B2B client.

  Just to remind: power can be meant as someone's ability to get another one to do what it wants.

Anyway, bot for internal and external, communication style and intensity depend by the power of the interfacing parties.

• Phase-in

Outsourcing phase-in is obviously due to the appraisal time which the provider will need. Anyway, phase-in means a phase-out of the client, so the whole is related to a **detailed scheduled about time and necessary resourses.**

Usually extra-resources are necessary during phase-in and, of course, care must be done in order to suitably grade suppliers' autonomy..

# Outsourcing – project methodology - managing relationship

Two important issues about managing relationship: **continuous improvement** and **purchasing market / continuous benchmarking**.

• Continuous improvement

It's evident that managing relationship means continuous improvement, which, both for the client and for the provider, is the way to get better and better company's outputs. So the tool is just the "well-know, obvious" and anyway important PDCA. That said, there are some important comments about:

- **PDCA can be implemented if you already planned for it**, that's if you did a sound contract/ agreement (don't forget global service meaning and content!).
- **the behaviour between client and provider must be proactive and assertive**

> Again: don't forget that behaviour is a way of communication much more effective than «words».

P = plan
D = do
C = check
A = act

Plan   Do

Act   Check
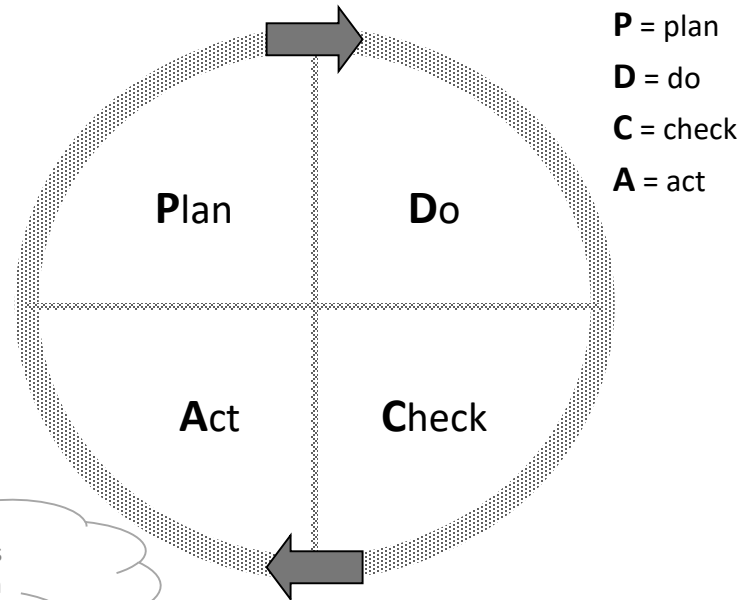
• Purchasing market / continuous benchmarking

Significant improvements can spring if one looks at the best practices, so at what possible alternative providers are doing. Without that a company could fall in an inertial style.

> «make-or-buy decisions taken at one moment in time are often not reconsidered at a later date. Inertia, a reluctance to add additional executive tasks and avoiding possible short-term problems militate against taking appropriate reviews. Once made, make-or-buy decisions often remain unchallenged».
> [T. Hill - Operations Management]

Outsourcing – project methodology - Att. 1
explanations on secondary and primary activities

Primary Activities

Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. They consist of the following:

Inbound logistics – These are all the processes related to receiving, storing, and distributing inputs internally. Your supplier relationships are a key factor in creating value here.

Operations – These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.

Outbound logistics – These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.

Marketing and sales – These are the processes you use to persuade clients to purchase from you instead of your competitors. The benefits you offer, and how well you communicate them, are sources of value here.

Service – These are the activities related to maintaining the value of your product or service to your customers, once it's been purchased.

Support Activities

These activities support the primary functions above. In our diagram, the dotted lines show that each support, or secondary, activity can play a role in each primary activity. For example, procurement supports operations with certain activities, but it also supports marketing and sales with other activities.

Procurement (purchasing) – This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.

Human resource management – This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices.

Technological development – These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.

Infrastructure – These are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage. [www.mindtools.com]

Comparison between partnership and traditional purchasing

Table 9.6 Comparison of traditional and partnering supplier relationships

Traditional	Partnership
Emphasises competitiveness and self-interest on the part of both purchaser and supplier	Emphasises cooperation and a community of interest between purchaser and supplier
Emphasis on 'unit price' with lowest price usually the most important buyer consideration	Emphasis on total acquisition costs (TAC) including indirect and hidden costs, e.g. production hold-ups and loss of customer goodwill through late delivery of material and components. Lowest price is never the sole buyer consideration
Emphasis is on short-term business relationships	Emphasis on long-term business relationships with involvement of supplier at the earliest possible stage to discuss how buyer requirements can be met
Emphasis on quality checks with inspection of incoming supplies	Emphasis on quality assurance based on TQM and zero defects
Emphasis on multiple sourcing	Emphasis on single sourcing although it is not, of necessity, confined to single sourcing. It will, however, reduce the supplier base
Emphasis on uncertainty regarding supplier performance and integrity	Emphasis on mutual trust between purchaser and supplier

[K. Lysons, M. Gillingham – Purchaisng and Supply Management]

Outsourcing – project methodology - Att. 3

Benchmarking process
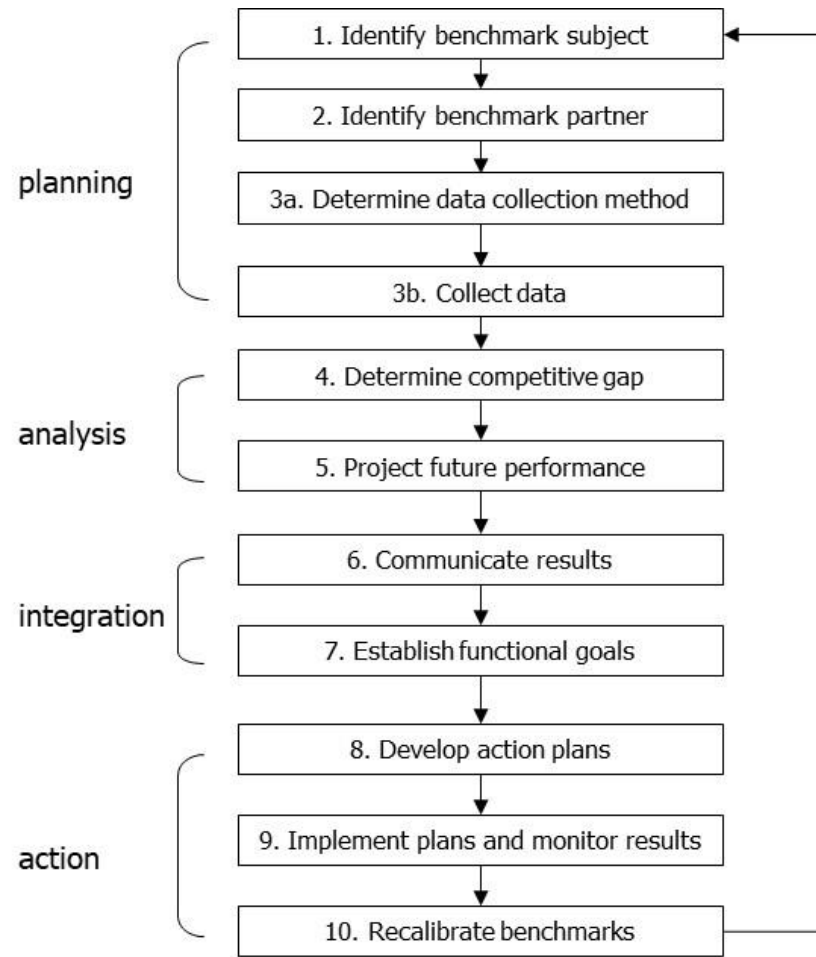
[R. C. Camp – Business process benchmarking]

Outsourcing – project methodology - Att. 4

**Split of suppliers' characteristics** (items for suppliers' selection)

LISTING OF ALL EVALUATIVE ITEMS BY NUMBER OF FORMS LISTING THE EVALUATIVE ITEM

Evaluation Item	Category	Number of Forms Containing the Item	Percentage of All Forms Containing the Item
Customer/PO Requirements Met	Quality	66	78.6
Delivery Timeliness	Delivery	52	61.9
Corrective/Preventative Measures	Quality	46	54.8
Quality Management	Quality	46	54.8
In-Processing Quality	Quality	41	48.8
Outgoing Quality	Quality	41	48.8
Quality Documentation	Quality	41	48.8
Quality Planning	Quality	40	47.6
Segregation of Nonconforming Products	Quality	39	46.4
Incoming Quality	Quality	38	45.2
Timely Communication of Problems/Changes	Customer Relationship	38	45.2
Quality Records	Quality	37	44.1
Cause Defect Analysis	Quality	36	42.9
Adequate Capacity	Facility/Environment	32	38.1
Industry Standards	Certification	32	38.1
Statistical Process	Quality	32	38.1
Employee Training	Education/Training	32	38.1
Management Quality Commitment	Leadership/Management	31	36.9
Adequate Equipment	Facility/Environment	30	35.7
Inventory Mgmt System	Inventory	30	35.7
Inventory Tracking	Inventory	30	35.7
ISO	Certification	29	34.5
Complaint Handling Process	Customer Relationship	28	33.3
Customer Focus	Customer Relationship	28	33.3
Size of Organization	Financial Condition	28	33.3
Accurate Delivery	Delivery	27	32.1
Share Information	Customer Relationship	27	32.1
Technical Assistance	Technology	27	32.1
Cost Reduction Acts	Price	26	31.0
CI Design Review Procedures	Continuous Improvement	25	29.8
Open, Receptive, Responsive	Customer Relationship	25	29.8
Performance/Financial Measures	Financial Condition	25	29.8
Policies/Procedures	Leadership/Management	25	29.8
Preventative Maintenance Plan	Facility/Environment	25	29.8
Ordering Review Procedures	Ordering	25	29.8
CI Quality	Continuous Improvement	24	28.6
Prompt Ordering Process	Ordering	24	28.6
Commitment to Improvement	Continuous Improvement	23	27.4
Inspection Prior to Ship	Ordering	23	27.4
Quality Adequate Equipment	Quality	23	27.4
CI Manufacturing Process/Equipment	Continuous Improvement	22	26.2
Environmental Mgmt Plan	Facility/Environment	22	26.2
Financial—Other	Financial Condition	22	26.2

[P. M. Simpson, J.A. Sigaw, S.C. White - Measuring the performances of suppliers – The Journal of Supply Chain, Febr. 2002]

Outsourcing – project methodology - Att. 5

Reason to outsource
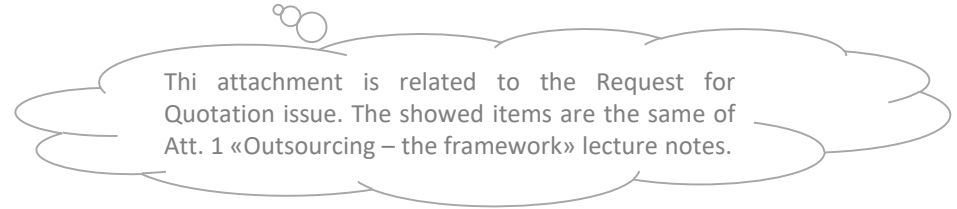
- **Organizationally driven reasons**
  - enhance effectiveness by focusing on what you do best
  - increase flexibility to meet changing business conditions, demand for products and services, and technologies
  - transform the organization
  - increase product and service value, customer satisfaction, and share-holder value.
- **Improvement driven reasons**
  - improve operating performance
  - obtain expertise, skills, and technologies that would not otherwise be available
  - improve management and control
  - improve risk management
  - acquire innovative ideas
  - improve credibility and image by associating with superior providers.
- **Financially driven reasons**
  - reduce investments in assets and free up these resources for other purposes
  - generate cash by transferring assets to the provider.
- **Revenue driven reasons**
  - gain market access and business opportunities through the provider's network
  - accelerate expansions by tapping into the provider's developed capacity process, and systems
  - expand sales and production capacity during periods when such expansion could not be financed
  - commercially exploit the existing skills.
- **Cost driven reasons**
  - reduce costs through superior provider performance and the provider's lower cost structure
  - turn fixed costs into variable costs.
- **Employee driven reasons**
  - give employees a stronger career path
  - increase commitment and energy in not core areas.

[M.F. Greaver II - Strategic Outsourcing]

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Check-list for differences of prices

- They have different cost structures (operational and capital).
- They have different unused capacity levels, and thus different needs for new business.
- They have different risks, short-term and long-term.
- They have different profit motivations and requirements.
- They have different understandings of the problems and the scope, or both.
- They have different assumptions about solving the problems and accomplishing the scope.
- They have different perceptions about the market's existing pricing environment.

- They are at different points on the experience (learning) curve.
- They have different scale of operations (for example, size).
- They have different processes of operation.
- They have different performance levels.
- They have different quality of management.
- They have different factors of production at different costs.
- They have different value chains and levels of controls over them.
- They have different costs of capital.
- They have different overall economic forces (for example, inflation and currency fluctuation).
- They have different institutional forces (for example, government regulations and unions).

[*abstract from* M.F. Greaver II - Strategic Outsourcing]

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Check-list for "chemistry" evaluation

- What are some of the issues our industry is facing now?
- What happens if we want our lawyer to draft the contract?
- What happens if we want you to employ most of the people in our internal unit?
- What percent of our contract's services will your company deliver directly, and what percent, if any, will you subcontract to others?
- What are some of the challenges we will face in transferring our factors of production to you?
- How can we make this transition seamless?
- When problems arise, how do we solve them?
- What happens if a number of our people complain about the services performed by one of your key people?
- What happens if we double in size, through growth or merger, during the contract period?
- How can our staffs interact seamlessly, including the internal customers, in such a way that cutting-edge knowledge can be shared both ways to encourage innovation?
- How can we ensure that contract change orders are not really for services that we are paying for in the base charge?
- How do you expect each of the different elements of your costs to
- Could you describe the most challenging client situation you've been involved with and how it was resolved?
- Approximately what percent of your outsourcing revenues would our contract consist of?
- What elements in this contract do you think will be profitable?
- What happens if you determine that our contract is not profitable?
- How do we build this relationship in positive ways?
- How should we maintain sufficient independence so we are not locked in to your services at the contract termination?
- How would you describe your company's culture?
- What is your company's vision for its future?
- What functions or processes do you outsource, and to whom?

[M.F. Greaver II - Strategic Outsourcing]

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Index of ISO 19011:2011 Guidelines for management systems audit

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Index of UNI 10685 – Criteri per la formulazione di un contratto basato sui risultati ("global service")

Criteria for the issuing of a contract based on the outcomes («global service»)

Just as remind: in this lecture notes the word «maintenance» is taken in its meaning of «the whole of technical and managerial activities, including the control ones, aimed at keeping or bringing back a system at its-own working condition [*abstract from UNI 9910, 1992 standard*].

1. Standard purpose
2. References
3. Definitions
4. Criteria for the request of proposal issuing (by the buyer/client)
5. Criteri for the proposal issuing (by the provider)
6. Criteria for the proposal's analysis (by the buyer/client)
7. Criteria for the contract's drafting
8. Main contents of the contract
9. Duties specifications
10. Technical specifications
11. Design of maintenance «global service»
12. Maintenance plans
13. Materials
14. Client's assets loaned to the provider

15. Contract phase-in
16. Contract duration
17. Fees
18. Fees for actions whose consideration isn't included in the global service specification.
19. Invoicing
20. Payment terms
21. Other contractual clauses
21.1 Subject and target
21.2 Provider's responsability
21.3 Information systems of the client
21.4 Use of the provider's application software di "software" di proprietà dell'assuntore
21.5 Privacy
21.6 Documentation
21.7 …