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Outsourcing Journal

December 2001 Issue

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Getting Hitched

By Kathleen Goolsby, Senior Writer



Often likened to a marriage, the parties to an outsourcing agreement are usually strange bedfellows. They're not compatible in many areas. How do you know whether you're getting hitched to the one who's right for you?

It Takes Two to Tango

While there is no cut-and-dried formula for selecting an outsourcing supplier, numerous studies indicate the top organizational traits that foster successful relationships. If the outsourcer you're evaluating doesn't demonstrate these traits, you'll be embarking on a hazardous venture by entering into an agreement.

No matter the term length of a contractual agreement, volatile changes in technology and your marketplace inevitably will find you and your outsourcer up against some serious roadblocks. Unless your outsourcer possesses key traits that demonstrate the organization will work with you in removing those roadblocks, your pathway to meeting your business objectives will be impeded. The reality is, you must look beyond the "tall talk" -- the supplier's ability to convince you of its expertise, vast resources and leading-edge technology.


Key traits for success in so-called "win-win relationships" are relationship-centric. These are the foundations upon which you and your alliance partner will need to build your relationship and also the behaviors you'll need to exercise on a day-to-basis so that they will be automatic responses when you encounter pressure or roadblocks.

1. **Proactive Approach.** A natural expectation with outsourcing is that the supplier will bring its clients new ideas and best practices. A subtle difference that can make a relationship successful is the supplier taking proactive steps -- suggesting ideas even though its client may not have requested it at the time. Allies work together to find the best strategy for the future. The likelihood of a satisfactory, long-term relationship with a supplier that always performs in a reactive mode -- or one that won't

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- push back on a client's inappropriate ideas -- is slim, at best.
2. **Flexibility.** A cardinal consideration is to choose the supplier you feel confident will provide necessary resources and help you scramble when unexpected events occur. This is especially important during the transition period -- the first year or two from the outset of the relationship. Make sure your outsourcer not only will be responsive to all issues that come up but that the response will happen when issues are still little blips on the radar screen instead of major problems.
 3. **Mutual Trust.** Talk with the parties involved in any highly successful relationship, and they'll all tell you the same thing: at the heart of their relationship is a foundation of mutual trust. Both must commit to respect each other, be open to feedback and collaboration, and strive to work together seamlessly. This is the element that provides stability and success in the long run.

While outsourcing is a highly effective strategic business tool, it can end as a disastrous experiment if you select the wrong supplier. A buyer should watch for evidence of the three key relationship traits during the request for proposal (RFP) process, the supplier evaluation and due diligence. How the potential outsourcers negotiate and respond to the buyer's needs and concerns will be evident throughout this germination process -- before a contract is signed.

But what if the best candidate is a new company with no clients to give you important referral information? How do you know you can trust that new organization?

Wild Card

That's the situation Bank of America and BP encountered when they were interested in outsourcing their human resources (HR) processes to [Exult](#). Neither of these buyer organizations is a greenhorn when it comes to making highly strategic business maneuvers; their decisions are based on sound reasoning. Their strategies with Exult are now deemed to be models for determining success in supplier selection.

A major component in their supplier evaluation methodology was risk analysis. "We ran assessments on each potential supplier as to what represented the least risk and greatest potential of success for us," says Peter Whalley, relationship manager for BP's Exult relationship. "Exult didn't even exist until [November 1998](#), and we contracted with them in 1999. There were only 25 people in the organization, and they were still basically a concept organization at that stage. We were their very first client, so we were making a major selection of a supplier with no track record of delivery."

When Bank of America considered outsourcing to Exult the following year, Mary Lou Cagle, senior vice president, says they were "major concerned" about Exult being a start-up company. "We knew we were taking a big risk. But, just as when we lend money, our job is to take appropriate risks."

Whalley explains that BP conducted a number of risk workshops to determine what exposure they had in using a company that had no track record but had a good model of what it wanted to do and also had substantial funding behind it.

"One of the things that came out of the risk assessment arena was actually a very powerful thing about Exult: the people already at Exult and the people they would be recruiting for delivery of our services would be wholly focused on us and would not be distracted by anything not in line with our objectives and needs. And the energy levels that were coming out of Exult at that time -- and continue today -- have borne that out. From Day One we listened to each other's concerns. And it was evident that we would both be flexible and were prepared to change if something was not working in a particular area."

Bank of America also recognized Exult's sound business model, solid venture

capital backing for long-term investment, and "proven people" in their efforts before joining Exult. The bank, however, took three steps to mitigate its risk. They transitioned to Exult the 700 employees who had been performing the payroll functions for the Bank before outsourcing the process.

"We were very concerned about the difference in size of our two companies," says the bank's vice president. "We had the ability to run over a smaller company like Exult. We have an excellent history of doing mergers and acquisitions. But not partnerships."

So, to level the playing field and build a framework for their alliance, they hired Stephen Dent, author of "Partnering Intelligence," as their coach.

Any wild card has a dramatic impact on a game and, in the case of [Exult](#) and Bank of America, the hiring of Dent has created a uniquely successful alliance. "This is not a client-vendor relationship, and that's not the easiest thing in the world to accomplish," Cagle advises. Based on Dent's guidance, they are learning to build trust; give and take feedback to understand what each needs from the alliance; treat each other as equal partners; and treat their alliance as a new piece of business for both of them. "As a new business, it will have its own culture, principles and strategies," she adds.

"The relationship is the key thing," says Cagle. "We knew Exult would be able to get the tasks done. But, in the long run, it's trust and the relationship that will cause us to be successful."

Lessons from the Outsourcing Journal:

- Mutual trust is the most important building block for a successful relationship.
- Don't expect the supplier to develop flexibility, collaboration and proactive strategies after the contract is signed. Watch for evidence of these characteristics as the supplier's modus operandi as you go through the bid/proposal and negotiation stages.
- Conduct a risk analysis as well as an analysis for success before choosing the supplier; then determine ways to mitigate the risks.

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Two Galleria Tower, 13455 Noel Road, Suite 2100, Dallas, TX 75240

PH: 214-451-3000 FAX: 214-451-3001

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