

# **Five Key Elements to Include in a Compelling Outsourcing Business Case**

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*What makes a “good” outsourcing business case “great.”*

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## **High-Level Knowledge for Assessing Outsourcing Decisions**

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Jim Collins', *Good to Great*, teaches how companies can transition from the ranks of a "Good" business to the heralded status of a "Great" company. Similar to these principles, it is imperative for IT managers and executives to know what separates a good outsourcing business case from a great outsourcing business case. While there are many factors that contribute to the validity and acceptance of an outsourcing business case, there are only a few key elements that will speak directly to C-level decision makers. Knowing these elements is critical for justifying a particular solution or initiative, says Ruben Melendez, CEO of Glomark-Governan. Melendez offers the following key elements that any great outsourcing business case should include:

### **A Scenario Analysis Must Be Conducted**

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When working to build a Great Outsourcing Business Case (i.e. one that is respected, objective, and compelling), research must be conducted and some reasonable, educated assumptions must be defined in order to clearly present the anticipated benefits associated with the outsourcing project or initiative your case is meant to evaluate. While factual, real data may be known (number of employees, quantities manufactured, production costs per item, shipping costs, etc.), allowances must be made for potential variation. Sensitivity to these possible variances can enable you to more thoroughly analyze the possible results of the outsourcing project or initiative. This awareness of not only the "most likely" results, but the "best-case" and "worst-case" scenarios as well, is a crucial element in creating a Great Outsourcing Business Case. With this information, CEOs can more easily determine whether the entire solution (or even a single component) is worth the full investment; even if all worst-case scenarios are realized. Not accounting for the worst-case scenarios can leave companies with substantial losses, and questioning how an outsourcing project with a great projected ROI (return-on-investment) failed to meet expectations.

### **Establish a Clear Link between each Benefit "Cause" and "Effect"**

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Failure to clearly link and explain how each feature or characteristic of an outsourcing project contributes to a specific operational effect can potentially sabotage what otherwise could have been a Great Outsourcing Business Case.

Within the context of a Great Outsourcing Business Case, the term "Benefit," and all that it represents must be defined. The resultant impact of any solution, project, or initiative is termed a benefit when that impact is generally recognized as being positive for the company's business operations; and ultimately the organization's bottom-line. A Great Outsourcing Business Case will include details supporting each benefit (factual data, educated and reasonable assumptions, Operational Performance Indicators, timeframes, etc.), and will relate each of these elements within an algebraic formula to arrive at the anticipated financial impact (typically dollars per year).

If a CEO questions the purpose or inclusion of a particular outsourcing benefit, the business case builder must be able to quickly justify its impact on the company's bottom line. Without a clear explanation of each cause-and-effect relationship, key benefits of outsourcing can often be discarded, greatly affecting the outcome of the proposed solution.

## **Identify the Operational Performance Indicator (OPI) for each Benefit**

The Operational Performance Indicator, or OPI, is that factor in any given Benefit whose delta ultimately demonstrates the resultant impact of any potential solution, project, or initiative. There are several key factors that are used to construct a specific benefit formula; and without detail and clear definition, the OPI can quickly become lost in the assumptions used in the formula of any one outsourcing benefit. Identifying which factor measures the success of a particular benefit is crucial to the understanding and acceptance of a business case.

For example, outsourcing the manufacturing of certain goods can drastically reduce the staff needed to maintain your current manufacturing infrastructure. But what is the OPI? The OPI could be the number of hours manufacturing staff spent maintaining production levels annually. Without clearly identified OPIs, CEOs will not have the ability to determine the validity of a specific outsourcing benefit, or measure the progress of an implemented initiative.

Glomark-Governan benchmarking research indicates that while some of the new outsourcing initiatives, such as services outsourcing, and IT operations, do provide benefits that reduce overall company costs, such as operations costs, the major advantages of these initiatives are strategic benefits, such as production enhancements and revenue-generating benefits for the business areas.

Executives must be mindful though, as any outsourcing initiative requires an upfront investment. Even with initiatives which have costs spread over time, such as in outsourcing, there is always an investment in time and training, which can be significant.

In the case of outsourcing, one must understand that the benefits of moving an existing process or service to another party, versus continuing the existing activity internally, provide different types of benefits. The cost savings of outsourcing a process or service can be tremendous because a company is able to eliminate many internally costs, such as business unit staff salaries and facilities costs. Conversely, the internal, upfront costs of outsourcing a process or service may not provide significant cost savings over the short-term; it may however, depending on the process or service, provide other business area benefits such as increased throughput, which comes as a result of the economies of scale gained from outsourcing to a larger, third party company.

## **Risk of No Investment**

Often overlooked, but just as critical in developing a Great Outsourcing Business Case, is the “Risk of No Investment” outcome. If the investment is not made, what could happen to the company’s bottom line? Could the company lose customers? Or market share? Could some future costs be avoided if the investment is made today?

To clearly explain all the potential risks associated with any given outsourcing solution, project, or initiative, a Great Outsourcing Business Case must not only include the possible risks of moving forward, but also the economic risks of not investing. These risks can include a lost opportunity to gain a competitive advantage over your nearest competitor, resultant fines from a failure to comply with new regulations, and increased operational and manufacturing costs.

## **Align the Business Case with the Company's Strategic Goals**

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A good business case provides a simple justification of a particular initiative or solution, often resulting in a positive return-on-investment. However, if the proposed solution does not align with the company's strategic goals, the ROI becomes irrelevant. In order for a potential outsourcing solution, project or initiative to be deemed "viable" by a CEO, it must be aligned with the company's strategic goals, as well as their strategic business unit goals. For example, a proposed solution may considerably improve your manufacturing operations, but at the same time, could confuse and derail current company operations.

A Great Outsourcing Business Cases goes beyond ROI—it clearly explains how an outsourcing solution is aligned with both the Technology Strategies and the Business Strategies of a business unit or internal organization. Demonstrating and ensuring this alignment will further the entire company's ability to attain short and long-term business goals.

## **Final Remarks**

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Developing a business case for an outsourcing solution or initiative can identify cost savings and revenue-enabling benefits that alleviate both short-term and long-term financial burdens. However, C-level executives must understand the "best," "most likely," and "worst" case scenarios to assess the economic benefits (including cost reductions and revenue enablers), fully understand the long-term internal and external costs, and evaluate the risks of investing or not investing in an outsourcing initiative. Just as with any other investment initiative, outsourcing initiatives must not only assess how technology and operational costs can be reduced in the short-term, but how business areas and functions will be impacted (positively and negatively) in the long-term.