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White Paper

Steps to select the right Outsourcing Vendor

INTRODUCTION

The process of selecting an outsourcing vendor implies a complex multistage process to evaluate not only what the provider can do, but also the way it's done.

If your project ends up in the wrong hands, it could endanger all your great plans for business growth. In return, with a well-selected provider, you will see savings, enhanced product value and greater speed to market, thus giving your business a competitive edge.

TABLE OF CONTENTS

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First of all it's important know that this process can and should take some time. Sometimes, this means months. A well-organized vendor selection usually takes between 6 and 12 months and can ramp up the total cost of the project with approx. 1-10%. (For further information on this, read the "Real cost of Outsourcing" white paper). Costs associated with this phase include analysis and documentation of requirements; creation, distribution and evaluation of RFPs (Request for Proposals); negotiations of contracts; development of SLAs (service level agreements); pay of external players: consultants, lawyers etc.

Therefore, the selection of vendor is not a process to be rushed. Companies should follow a well-established methodology that defines each step of the trip. After all, the final goal is to end up with the best service provider for delivering the desired outcome.

Step 1: Define your objectives and goals

This is a basic step for all future outsourcing activities. You have to describe the process, service or product that you want outsourced clearly. You should also indicate what your goals are through outsourcing.

Another one of the first things you should do is gather a core team to evaluate vendors and participate in negotiations. The team should consist of individuals from various parts of the company, such as executives from affected business departments, legal staff and human resources responsible.

Make sure you include the answer to the following questions in formulating your objectives:

- ✓ What do you want to outsource?
- ✓ What type of an outsourcing agreement are you looking for?
- ✓ What are the offshore outsourcing locations that you are interested in?
- ✓ What are your goals in outsourcing?
- ✓ What services do you expect a vendor to provide?
- ✓ How much do you plan to spend?

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- ✓ What are the risks associated with such an outsourcing agreement?

The team's first task should be to **define the high-level requirements** of the outsourcing engagement. For instance, if the goal for outsourcing is to reduce costs, the organization should state it openly and leverage this process to explore ways to achieve that goal. The next step is to benchmark the current process against others in the industry. Drawing "before" and "after" process maps is a great exercise that helps companies explain where they are today and show where they want the outsourcer to take them.

Next, it's critical that the core team determines **the right type of services** to be outsourced. There are many different kinds of work outsourced. However all of these outsourcing services fall in two broad categories, **technology services outsourcing** and **business process outsourcing**.

Technology Services Outsourcing

The fast emerging business world of today requires companies to use sophisticated and fast computer systems and software. These technologies and systems also need to be scalable and highly adaptive. Therefore it is imperative to choose the right associate for developing these technologies. Here are some of the different categories that come under technology services.

- ✓ ecommerce
- ✓ Network/ Infrastructure
- ✓ Software/ Applications development
- ✓ Telecom
- ✓ Web Development and Hosting

Business Process Outsourcing (BPO)

The new global scenario requires that each company finds its own niche field that can add value to the world economy. Thus companies now try to focus their resources on areas that give maximum yield. As a spin off of this trend, service providers who focus on narrow business providers these enterprises need also emerged. Thus the term Business Process Outsourcing (BPO) came into being around 1995. The proliferation of the Internet and its emergence as a business tool helped to make BPO highly popular.
Below are the sub categories of services that come under BPO.

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- ✓ Customer Relations/ Customer Contact Management
- ✓ Finance/ Accounting Processes
- ✓ Logistics
- ✓ Equipment Management
- ✓ Security
- ✓ Supply Chain/ Procurement Management

Step 2: Find out all you need to know about the vendor – Plan the RFI

The Request for Information (RFI) provides material for the first rounds of vendor evaluations. Organizations generally use the RFI to validate vendor interest and to evaluate the business climate in the organization's industry. As opposed to a highly specific, formal Request for Proposal (RFP), the RFI encourages vendors to respond freely. It also spells out the business requirements defined by the core team, so the vendor understands what the company is trying to accomplish.

- ✓ A **request for information** is just that – requesting information
- ✓ It is usually issued to acquire information on what is available, from whom and what approximate cost before writing an RFP that is based on real information rather than wishful thinking.
- ✓ Typically, vendors will not respond to an RFI unless the effort to do so is not excessive and there is an expectation that an order or at least an RFP will follow.

Contents of RFI

- The type of information usually sought by RFI's includes things such as:
  - The availability of equipment or needed services.
  - The approximate one time and recurring costs.

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- The differentiating factors between the goods or services proposed and similar offerings from other vendors.

- The latter is very useful in providing information to help determine mandatory and desirable characteristics to be included in an RFP.

After vendors return the questionnaire, the issuing company matches the vendors' responses to the company's requirements and weights the criteria based on importance. Providers that don't meet stated needs or haven't responded to the specific questions are eliminated.

Eventually, the RFI process helps companies make the "go or no go" decision—that is, the choice to proceed with or walk away from a project. The data solicited identifies the availability and viability of outsourcing, cost estimate ranges, and risks. It also provides detail useful for developing project requirements.

Step 3: Prepare the RFP

The third step is to develop the RFP; send it to at least three short-listed suppliers; evaluate them; and, of course, select the best ones.

The RFI and RFP are complementary. Information collected during the RFI process can prepare the solution-requirements section of the related RFP. You should have by now a better understanding of project scope and requirements, as well as a list of qualified suppliers. Leveraging the information-gathering focus of the RFI will lead to a concise RFP that articulates the business needs.

The RFP outlines the engagement's requirements—relevant skill sets, language skills, intellectual property protection, infrastructure, and quality certifications—and gives prospective vendors the information necessary to prepare a bid. The responsibility of developing the RFP rests with the project's sourcing leader, but various aspects of the document will require input from other domain experts.

A good RFP includes one section that states what the company seeks (business requirements) and four sections that ask about the vendor and what it will be able to provide:

- **Business requirements.** In brief, this section details the company's project goal, deliverables, performance and fulfillment requirements, and liquidity damages.
- **Vendor profile.** External service providers differ greatly in performance, style, and experience. This part of the RFP details the vendor's stability, services, and reputation.

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- **Vendor employee information.** This section addresses the resources assigned at the project management, middle management, team leader, and task levels, along with the quality of people, their skills, training, compensation, and retention. If your company ranks technical skills highest should look at technical expertise before examining costs.
- **Vendor methodology.** The methodology segment details project management, quality, regulatory compliance and security.
- **Infrastructure.** This part outlines the vendor's infrastructure stability and disaster-recovery abilities.

Step 4: Due Diligence

After vendors have sent their RFP responses, you begin the evaluation.

Usually, vendors propose different strategies when they respond to an RFP. They may suggest a sole provider, co sourcing, or multisourcing scenario, in which one, two, or several vendors, respectively, deliver the service to the company. Regardless of the structure, if the proposal meets the stated requirements, each vendor must then undergo a *due diligence review*.

Due diligence supports or invalidates the information the vendor supplied on processes, financials, experience and performance. It helps you determine what the provider can do right now, as opposed to what it might do if given the business. Due diligence should confirm the information supplied in the RFP and address the following data:

- Company profile, strategy, mission and reputation
- Financial status - reviews of audited financial statements
- Customer references - preferably from similar outsourced processes
- Management qualifications, including criminal background checks
- Process expertise, methodology and effectiveness
- Quality initiatives and certifications
- Technology, infrastructure stability and applications
- Security and audit controls
- Legal and regulatory compliance, including any outstanding complaints or litigation
- Use of subcontractors
- Insurance
- Disaster recovery, security and business continuity policies

Pay attention also to employee policies, attrition, service attitudes and management values; the company and the vendor need to fit together culturally.

You should evaluate the vendor's project management competency, the level of success achieved, the quality and standards of work delivered, adherence to contract terms, and the communication process. Reliable, ongoing communications, especially in offshore outsourcing is very important; potential pitfalls can result from infrequent or vague communications. For instance, if the onshore company doesn't clearly communicate deliverables and timelines, offshore resources might not be allocated correctly and may endanger completing the project on time.

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Sometimes you must perform due diligence on more than one of the vendors that respond. The length and formality of the due diligence process varies according to companies' experience with outsourcing, the timeline for implementing outsourcing, the risk, and familiarity with the vendor.

Step 5 (Optional): Test Project

Some companies can even conduct test projects to ensure a good fit between the company and the vendor. These tests allow companies to review the vendor's project management process for efficiency and effectiveness. Specifically, they look at whether project execution is completed within guidelines, whether deliverables are timely and whether the vendor has adhered to defined quality standards. Tests serve as a good method for companies to check and review the facts before making a final vendor decision.

Test projects also let companies experience the benefits of outsourcing before jumping into a long-term relationship. Often, companies will conduct a "proof of concept" (POC) with a couple of vendors to compare results and, after evaluation, choose the best one. A good method to select the best vendor is by taking the top two vendors from the RFP process and having them complete the same test project. This will demonstrate their project management capabilities, communication style, and ability to meet deadlines for deliverables. Many companies are using POCs as test beds before offshoring larger projects.

Step 6: Choose the Vendor

Eventually, the biggest step in the process of selection is picking a service provider to manage business processes and applications. Making the final decision means signing a contract that clearly defines the performance measures, team size, team members, pricing policies, business continuity plans and overall quality of work standards.

Conclusion

Last, but not least, remember that outsourcing is a long-term relationship, and choosing the right vendor is crucial to meeting your technology, business and financial objectives. If you base your decision on following the steps above, you will eliminate the risks of engaging in a wrongly-selected affiliation that can not only fail to improve your business, but even do harm.

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