BUILDING A STRONG NETWORK

OUTSOURCING HAS PLAYED A BIG PART IN THE SUCCESS OF BP DOWNSTREAM. IN THIS ARTICLE, CFO **ALAN EILLES** SHARES SOME TIPS ON HOW TO FIND THE BEST OUTSOURCING PARTNER.

Having joined BP Downstream in 1998, the year before the merger with Amoco and the subsequent acquisitions of Arco and Burmah Castrol, much of my time as CFO has been spent on integration issues, particularly those associated with the business infrastructure. This in turn has led to my involvement in the negotiation of certain outsourcing transactions and the development of some associated relationship management processes.

BP'S OUTSOURCING JOURNEY. My involvement in outsourcing began in 1991 working on BP's first accounting outsourcing arrangement for the Exploration & Production (E&P) business in the UK North Sea. As a matter of fact, it was the first accounting services outsourcing deal done in the UK by any major company. This was followed a year later by a global IT outsourcing deal – once again for the E&P business – that encompassed hardware, networks, telecomms, applications and desktop support. In the mid-1990s, I moved to the US and worked on a couple of accounting and IT arrangements that brought together all of BP's businesses in the US and South America, and most recently have been restructuring and renegotiating some of these arrangements to accommodate the Amoco/Arco integrations. Currently, I am engaged in providing strategic governance for our financial services relationships and also sponsor a global network of BP's supplier relationship managers with representatives from each key functional discipline.

We manage about $1bn a year of spend on outsourcing services such as facilities and services, applications development and support, desktop services, telecomms, refining technology, human resources, tax, engineering and financial services across the world.

In December 2000, we formalised a global network of outsourcing supplier relationship managers who together create and share best practice, conduct peer reviews of deals, offer challenge to negotiating strategies, find solutions for common issues and facilitate knowledge management across the globe. This small group (14 core members representing the top 10 deals across our Downstream business) meets each quarter to progress and share relationship management best practices with one another. These practices, lessons learned (for example, transitioning from one supplier to another) and other tools (such as considerations when creating an exit strategy) are made available to others in the outsourcing community through personal contacts and updates to an internal website. A future step might be to create an external network of relationship managers from a small group of large buyers of outsourcing services to accelerate value capture through shared lessons across organisations.

SELECTING THE RIGHT PARTNER. One lesson from BP's experience of selecting outsourcing partners is not to assume that a 'global' supplier can provide a consistent global solution. While it is intuitively attractive to believe that a global supplier can effectively

THE BASIC PRINCIPLES OF A SUCCESSFUL RELATIONSHIP

Careful selection of the service provider including:

- good cultural fit;
- shared values;
- ability to team with other suppliers;
- alignment of business strategies;
- world class processes, expertise, advanced technology and innovation; and
- commitment to collaboration and continuous improvement.

Clear expectations and accountability of both parties.

Clear but flexible contract with a view to mutual benefit of both parties with the right incentives to drive the right behaviours.

Performance and cost transparency (that is, metrics monitored and clearly visible to business units).

Relationship management.

deliver quality and cost-effective services at the local level it may be that a regional or start-up approach might be preferable. My bias is to partner with a provider having 'global reach', meaning that they have the reach and capability of teaming with others to ensure quality and cost-effective services are delivered at the local level.

The relationships that thrive are those where both the buyer and provider of services are aligned around business strategies, communicate naturally, have a good cultural fit, recognise the need for flexibility and, most importantly, are performance driven. In addition, it is important to ensure that the scope of the deal includes the people, process and technology required to deliver the service, as we have found that having only two out of three of these elements does not work as well. Also, despite recent outsourcing surveys indicating that cost is at the top of the buyer's agenda, I believe it is important, but not the most critical, factor in evaluating an outsourcing decision.

MANAGING THE RELATIONSHIP. Flexibility and strategic leadership attention is also important to the success of outsourcing relationships. Our more successful arrangements have governance boards that meet between two and four times each year. These boards have one to three leadership representatives from the functional discipline and one or two non-functional business leaders, together with two to three executive counterparts from the service provider. Having non-discipline business leaders on the board provides for a rich and diverse perspective on our business direction and how these services can help enable our businesses execute their strategies.

In addition to a governance board, we generally provide for a full-time relationship manager for our key outsourcing arrangements. The relationship manager's role is to provide regular communication and feedback sessions on service levels, costs and performance, as well as collaborating on change orders and the planning and implementation of innovative solutions and continuous improvement. The roles of both the buyer and service provider relationship managers are critical to the success of the arrangement.

CORE COMPETENCES. You often hear the distinction being made between core, near-core and non-core services, but regardless of how you describe these outsourced services, most remain critical enablers of our business success. It is not just the fact we spend $1bn a year on delivering these services but that our businesses rely on effective service delivery.

BP has well over 100,000 suppliers providing goods and services and several hundred joint venture relationships across the globe. Supplier relationship management is a required core competency and we strive to make sure we have the right people in place to work with our key relationships. Our commitment includes providing relationship managers with effective and efficient tools to help them manage these arrangements. For example, we recently developed a set of web-enabled tools around governance, performance dashboards, survey wizard, relationship and stakeholder maps, and other common tools and processes. A study a few years ago found that buyers of outsourcing services typically invest between 1% and 3% of the contract annual spend on managing a relationship[1].

Having an effective relationship process in place that ensures that the little day-to-day things are taken care of at the working level will mitigate the risk of those 'little' things becoming bigger problems later and destroying value. That is not to say that the buyer should micro-manage the process, but that the relationship is such that we work closely together to quickly identify and resolve minor issues before they turn into big ones. With these key elements in place you can then create an environment that encourages innovative solutions and mutual growth and benefit and risk sharing.

Every relationship will be subjected to some unforeseen shocks or tensions, but having this solid relationship foundation will carry you through these tough times. In addition, a good contract is important to both parties but if the parties pull out the contract at every turn, you have no relationship.

COMMON MISCONCEPTIONS. Despite its growing profile, outsourcing is still prone to a number of misconceptions. The most common one I have seen is the notion that once you have outsourced, these services will be delivered seamlessly and that you have taken care of any problems you once had when the services were performed in-house. Signing of a contract is only the first step in creating value for both organisations and a long-term relationship based on a series of short-term contracts. Effective transition management, work on improved processes and managing service level change orders are essential. This needs to be emphasised as poor transition management immediately creates a 'bad reputation' for the deal and the supplier in the eyes of the business units. For some, this is all the ammunition they need to undermine an otherwise good deal with a quality service provider. Even if things are sorted quickly, it can take a long time and a lot of effort to recapture that loss of reputation.

Probably another area of concern might be underestimating the effort required to deal with the potential organisational resistance to outsourcing services that were previously provided in-house. Communications planning and execution is critical to ensure business unit users are kept informed of service choices, contacts, performance and costs.

Finally, a common misconception with outsourcing is the perceived 'loss of control.' In many respects, this is largely a state of mind issue, since what you are doing is trading one form of control, where there were direct in-house reporting relationships, for another, where results are achieved through governance and performance delivery processes.

THE FUTURE OF OUTSOURCING. While all companies will have different views on the options ahead of them, I see a number of opportunities to expand the scope of collaborative partnerships in the coming years, as follows:

- Build scale globally or regionally through providers serving an increased number of clients at their existing service centres, consolidating facilities or creating industry solution centres. This option incrementally reduces overheads, spreads the cost of initiatives over multiple buyers, captures benefits from improved or standardised processes and might offer buyers increased variabilisation of services and costs. A buyer can also build global internal scale by outsourcing certain processes to one supplier with global reach as BP has done with human resources (HR) services

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(Exult). However, careful consideration must be given to the benefits, risks and expected commercial terms of a single supplier strategy.

- Increase productivity through technology and/or process redesign, for example, digitisation of processes such as purchase to pay, tax compliance, order entry and the like, and more focus on end-to-end process simplification across conventional functional boundaries.
- 'Offshoring' activities, particularly those of a transactional or commodity nature. Offshore outsourcing of software development and maintenance has been around for several years, but more recently we have seen growth in offshore outsourcing of certain back office transactional activities and customer services. There are advantages (for example, lower labour and facilities costs) and minuses (such as geopolitical risk, time zone, language and culture) that need to be evaluated, but offshore outsourcing of services can achieve additional cost savings.
- Service providers begin to offer a broader suite of services, for instance accounting, desktop, applications and HR support. Today, we have a fragmented outsourcing industry and buyers of services end up with a best of breed patchwork quilt of interdependent supplier relationships. As a result, buyers are living with a sub-optimised, complex web of suppliers that creates inherent friction costs due to the competitive dynamics and conflicting commercial drivers.

BP'S CHALLENGE: OPTIMISING OUTSOURCING. BP has more than doubled in size since 1998 through mergers and acquisitions so our focus has been one of leveraging economies and transitioning of services. We have been quite successful with our individual relationships, but may not have fully captured the value of having our suppliers work optimised solutions across the multi-channel service lines. So the question is: how do we optimise the value of the end-to-end processes across a diverse set of interdependent service providers?

A marketplace solution could be the formation of new business alliances, or mergers or acquisitions between service providers with vertically integrated and complementary services. This approach may also give the provider broader geographic coverage than it otherwise would have. Another approach could be to formalise a prime/sub-contractor relationship with providers. However, this will probably run into difficulty, with some suppliers unwilling to accept a subordinate role from a cultural or business model perspective. A variation of this theme would be to hire an 'integrator' responsible for optimising the end-to-end processes of the collective group of service providers. But, again, the friction and overhead costs may be too high. Finally, buyers can choose to manage these arrangements as a portfolio of relationships through a memorandum of understanding between the contracting parties. However, buyers will likely meet resistance to an open sharing of information, particularly between the competitors.

Given that we have yet to see a market solution, the question remains as to how best to develop a self-optimising network of interdependent service providers that requires little buyer intervention to deliver sustainable service chain savings and continuous improvement?

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[1] *Michael F. Corbett & Associates,* Best Practices In Managing The Outsourcing Relationship *©1998.*

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