

Six steps to successful outsourcing during the credit crunch

The credit crunch is forcing charities to take a hard look at their overheads and operational efficiencies including the productivity of their personnel. Many analysts see a growth in outsourcing as organisations look to reduce costs, streamline their processes and acquire a competitive advantage through partnering with a specialist outsourcing provider. This was certainly the experience of the Blake Laphorn Outsourcing team in previous downturns (1990-1994 and 2001-2003).

In addition charities should review their existing outsourcing contracts to ensure they reflect the current business environment and where possible to take the opportunity to renegotiate and review pricing and service commitments with their suppliers, if necessary by re-tendering. Contracts entered into several years ago may no longer reflect the volume of services required, for example.

In the charities sector typical outsourcings involve activities like IT, HR, finance and accounting, payroll, recruitment, and fundraising.

The credit crunch should be seen as an opportunity, not a threat, as far as outsourcing is concerned. To get the most out of outsourcing deals in the current climate and to minimise risk charities need to pay careful attention to the following issues when structuring and negotiating new or updated outsourcing arrangements.

1. Build in flexibility

It is highly desirable that the supplier knows about your future business plans so that both you and the supplier are best placed to build the necessary flexibility into the contract and service schedules. In addition close attention should be paid to the following:

- ensuring the "change control" and other provisions in outsourcing contracts which allow a customer to vary the services required where demand changes are adequate
- drafting the service description - is it a binding commitment on the customer to procure and pay for certain services, or does it give the customer the option of what services to acquire depending on demand?
- building in termination rights backed up by detailed exit management provisions (see below). In particular, depending on what is being procured, it may make sense to "test the waters" with a supplier by having an initial trial period before committing to a longer term arrangement
- unbundling the service provision from one dominant supplier where this makes commercial sense and exploring the possibility of multi-sourcing rather than single sourcing. If however one supplier is chosen then ensuring the contract allows flexibility to unbundle in the future

2. Benchmarking

Those charities seeking to renegotiate or revisit the pricing of existing deals will need to carefully review the benchmarking clauses in their contracts which allow the supplier's services and pricing to be compared against other suppliers or even the supplier's most favoured customer, and hope they are robust enough. For new deals it is now common to include both an annual review/survey as well as a benchmarking requirement.

3. Exit management

These provisions are frequently not properly documented as they often get left to be finalised after the contract is signed. In the current economic climate the ability to re-tender or bring services back in-house may be essential and well-drafted exit management provisions will help ensure this can be done successfully. The exit management provisions will need to address a number of issues, such as:

- the customer's right to secure continuity of services during a hand-over period
- the supplier's cooperation during the exit process with both the customer and any new supplier
- any warranties and indemnities which will be given to the customer and new supplier on exit
- access to, and the transfer of systems, technology and assets (including personnel)
- the customer's right to revoke any licences and regain possession of its assets (or transfer them to a third party)
- provisions relating to employees to reflect the new TUPE Regulations 2006 and any requirements under collective bargaining or works council arrangements

4. Service levels and metrics

The opportunity should be taken to review existing service levels and metrics and/or construct new ones that reflect current best practice. This includes ensuring that service quality is effectively monitored, for example through end user surveys, and the construction where possible of metrics that are business orientated and address the customer's business objectives rather than just reflecting those metrics which the supplier finds easy to generate and manage.

5. Continuous improvement

Service improvement mechanisms are a key component in any outsourcing contract. Customers need to ensure that detailed provisions are included to ensure that they continue to receive a high quality, cost effective service for the duration of the contract that builds in, for instance, technology refresh and service improvements.

6. Price

What opportunities are there to reduce or fix the price, or adjust payment terms to assist your cash flow? Service credits should also be revisited. What about restructuring the outsourcing to maximise VAT efficiency for charities which cannot recover VAT?

Contact

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