



BEST PRACTICE

Rupert Hodgson,
Editorial and communications,
sourcingfocus.com

Secrets to Innovation

Economic pressures and times of austerity have seen an increase in businesses looking for increased productivity and efficiencies through innovation. Innovation within outsourcing is an all-encompassing term, covering multiple services areas. This has led to a tendency for misinterpretation as to what the term actually entails. From relationship management to service development and contract creation as a whole, innovation and outsourcing go hand in hand.

While clients regularly seek innovation from their suppliers in outsourced services, in practice this can often result in ineffective promotion and delivery. This best practice guide will demonstrate how end users can drive innovation when outsourcing with examples of implemented best practice to reveal the secrets to innovation.

Examples of Innovation as shortlisted for the award for innovation in outsourcing at the NOA awards 2012:

- An outsourced solution which takes care of the entire sales process including analysis and reporting. The solution was also implemented through a low risk cost per acquisition basis
- Innovation in customer service outsourcing through the employment of a multi-channel scalable social media contact model. The model has seen uptake in other projects in using web-chat and social media messaging to provide expert assistance to customers
- The creation of a fully integrated bespoke procurement portal providing a cohesive transparent approach and scalability for future expansion. The service was delivered alongside extensive consultations to ensure the portals suitability
- The implementation of detailed analysis and benchmarking to drive a virtual shared services model within the public sector, aimed at promoting the sharing of resources and work
- The creation of an automated flexible debt collection service with analysis capabilities designed to enhance service

2013 is looking to be a year of technological innovation as companies seek to take advantage of recent technological developments including the implementation of national super-fast broadband, BYOD and the uptake of cloud services. Mike Hunter Vice President, Cognizant, predicts: "there will be more and more focus on what is now called cloud which is the centralisation of data. I think when you look at storage capabilities, the increase in data is enormous. There's absolutely got to be innovation promotion around data management", adding that, "as more and more people focus less on the cost side of things and look inevitably at the next side which is revenue growth and market share expansion, then inevitably innovation is going to be key and people will have to reinvent themselves through innovation."

Despite the economic turbulence of recent years reduced budgets have not stalled the innovation drive. Steve Tuppen described how: "the outcome that people have been looking for in those standard operation capabilities have not really changed, year over year. In fact the need for increased savings can enhance innovative practices," adding that economic pressures "can drive even more innovation, because we have to find better, quicker ways to achieve those outcomes."

Ready, Steady, Innovate

When seeking to innovate clients must understand that the process requires two-way participation. Failure in underestimating their own role can be just as fatal to innovative practice as poor suppliers. "The biggest obstacle to innovation is an understanding with clarity of what innovation really is," said Steve Tuppen, Director, ISG.

Even in sourcing models such as a complete managed service model where clients have little direct involvement, communication is still important in promoting innovation, in order to make sure service definitions are clear.

Step 1: What is Innovation Anyway?

A consistent definition should be established with both contractors and clients maintaining the standard. Due to the common misunderstandings surrounding innovation a definition also prevents misunderstandings regarding how and in what areas innovation is expected to be delivered.

A 2012 Forrester survey revealed that 41 percent of respondents viewed innovation as one of the key challenges in their existing outsourcing relationships. Harry McDermott, CEO, Hudson & Yorke, said: "there is a degree of frustration within the big organisation market in a perceived lack of innovation by some of the technology suppliers. In our experience, that frustration is borne out of a belief that the technology vendors are reluctant to bring new ideas proactively to the table."

Step 2: Avoiding Innovation Limitation

Clients must provide continued feedback as to what they require from the contract. The promotion of communication in facilitating the delivery of innovation can be achieved through methods including innovation workshops, in which collaboration can be achieved in meetings and roundtables with the advice of experts. The employment of regular face-to-face meetings and workshops between the suppliers and end-users keeps both sides up to date with project developments and can facilitate obstacle avoidance. The IT giant Cognizant employs workshops to display to the client how innovation should be prepared for and what areas have potential for future stimulation.

Innovation naturally occurs within businesses and projects, the trick is to promote this while planning for further developments. Clients should be aware of the risk of a tightly regulated and controlled outsourcing project, which can have the effect of limiting the availability for natural opportunities to innovate. Mr Tuppen describes how contracts must be flexible: "allowing for the natural change as people come up with new ideas with new ways of doing things without them being at an incremental cost."

Planning

Innovation focuses vary from sector to sector, with the public sector moving towards increased digital engagement and IT development, including big data, while the banking sector is also turning to embrace IT based services with a focus on customer management and engagement. Innovation is being promoted in three main sections as technological innovation, service model innovation and commercial innovation with cross-over in all three sections. Technological innovation in areas such as IT has been at the heart of pushing new models and commercial innovation and can be divided up into a focus on mobile communications and cloud services.

IT managers within the public sector are looking to increase agility through developed infrastructure provided by communications and IT technologies such as cloud. Innovation aimed at driving agility and move away from restricted models are expected to increase cost savings at a time of strained budgets.

Tony Morgan, Chief Innovation Officer, IBM gives four recommendations in developing innovation within IT functions:

- Adapt your strategic roadmap to address the change agenda – cover impact on legacy systems as well as new capabilities – include a capability and sourcing model so you understand functions you need, no longer need, need to keep in-house and source externally
- Define who is responsible for identifying and delivering innovation opportunities most relevant to the enterprise
- Engage key service providers – integrating them into the change roadmap and selectively partnering with them on innovation – if your service providers deliver much of your IT doesn't it makes sense to engage early and tap into their capabilities?
- Create a communications plan that reaches into the business – highlighting future plans and celebrating success

Here we can see how innovation in the development of new capabilities should be planned for in the early stages of a project, with opportunities for innovation driven only in areas that are heavily relevant to the project and end-user. Tony also identifies how both sides of the relationship should be involved in developing innovation, with suppliers well placed to identify new opportunities during the lifetime of a project.

The variety of service models in outsourcing reflects the diverse areas within projects in which innovation can be applicable. The promotion of innovation within multi-sourced projects for instance is highly prevalent due to the scale and length of these services, with the need for continued evolution over the lifecycle. The relationships between the multiple-suppliers and the end-user in multi-sourcing projects becomes even more important, with contract planning and governance becoming vital in ensuring that suppliers work together in maintaining the delivery of innovative services.

Step 3: Knowing What's Best For You

The first stage during the planning phase is establishing what type of innovation is desired and what the desired effect is. In the planning phase users should identify if innovation is desired, not all projects and collaboration require innovation. This is particularly true if stability, short-term and basic low-level services are required. Innovation should not be undertaken for innovation's sake. "People blindly seem to think about innovation in terms of increasing shareholder value and I think people have also got to look at innovation from a perspective of 'It must not destroy shareholder value'" said Mike Hunter. Gaining short term cost savings from innovation may require a different focus to promoting value from innovation during a long term service contract.

Step 4: Avoiding Pitfalls

The management of innovation within a project is vital, in planning for innovation within contracts care should be taken to avoid placing too rigid a framework within the contract and in management of the services. Innovation has to be flexible in order to allow for the introduction of new technologies and unplanned developments. "Some of the pent-up frustration around the lack of innovation is actually a symptom of some very aggressive contractual negotiation that has taken place on the part of the client, which straitjackets the technology vendor sometimes," said Harry McDermott.

If innovation is decided upon then a structured plan must not be ignored including allowances for future developments and requirements. NOA research has shown that less than a quarter of organisations have a formal innovation methodology to support outsourcing processes. Ankush Maitu, Senior Manager, Kurt Salmon, detailed how innovation failure "can be attributed to undefined productivity and expectations measurement tools, volume creeps, lack of benchmarks and poorly structured contracts," adding "there is also possibility of organisations

contracting with only one master service provider, who will have further sub-contracts with different service delivery providers. This reduces the overhead of managing multiple contracts over different time scales."

Innovation Promotion Within the Public Sector

Innovation is being pushed within the public sector as restricted budgets force departments to innovate in the face of recession, from large outsourcing projects to low level procurement, innovation is being pushed to gain maximum service value. The public sector has begun to take on key lessons in innovation development from within the private sector and has been quick to employ its size to negotiate. Mike Hunter, said: "If ideas are relevant in the private sector one could argue why aren't they relevant for the public sector, I think the public sector's challenging itself and saying, 'that's a very valid statement, we'd better start looking at some of these new ideas', Innovation is one of those key areas".

The Cabinet Office has driven innovation within the public sector through the Government Procurement Service (GPS) framework in setting procurement standards across departments. Steven Tuppen, ISG described how the GPS framework "is in itself innovative. For many years, the lack of consistency and the allowing of the big prime contracts to roll on for many years without significant change and without real drive for value for money, has been allowed to happen. We're now seeing a much firmer drive to deliver the best value and more innovation into the estate."

The GPS framework reflects the government's move towards multi-sourced shared service contracts, in this case innovation in competition control and a shift in approach towards multiple small contracts has increased agility and cost savings. When approaching new services an overall assessment of the service should be carried out to ensure that old methods are not being retained at the expense of optimisation.

The G-cloud is another example of public sector innovation, while a portal for department procurement has allowed for large cost savings from standardisation across the government, innovation has allowed a basic service to be reformatted for increased efficiency. This approach can be applied to many outsourcing opportunities.

Implementation

Step 5: The Carrot and the Stick

Concepts including gain sharing, benchmarking and performance improvements should be formally introduced into outsourcing contracts. Both provider and the client should share in the cost of benchmarking and performance improvements.

Successful innovation should be incentivised and actions that have improved a project, that have not been planned for and have fallen out of scope of the contract should be duly rewarded. The carrot and stick approach, when effectively balanced, allows for innovation providing incentives allows users to effectively drive innovation and such end-user investment aligns both parties to the same goal.

Innovation should be driven at all levels within the contract, the desire to implement cost savings when over focused upon can harm further innovation. Steven Tuppen focuses on maintaining balance: "clients can't expect to drive the price point so low on an

outsourced contract that the technology vendors have little or no scope to be innovative with them, so there's an important balance that needs to be struck here."

Step 6: Effective Analysis

Innovation should be measured and benchmarked for effectively, while the areas where innovation has been planned should be analysed in order to drive change. Employing the correct tools for monitoring the effectiveness of innovation allows for opportunities to further promote innovation. The model, depending on the service such as industry and contractual length, should allow for unplanned innovation. Monitored areas and KPIs will include the key performance targets and should be focused on driving project transparency. "Innovation is being driven by the desire for cost saving, but not just cost saving, but also cost transparency. The ability to save costs is maximised if there's improved transparency around the cost, including what's generating expense, and is it being regulated properly," said Harry McDermott.

"Innovation is being driven by the desire for cost saving, but not just cost saving, but also cost transparency. The ability to save costs is maximised if there's improved transparency around the cost, including what's generating expense, and is it being regulated properly,"

Organisations that procure mature or high numbers of outsourcing contracts can implement automated contract management to further drive continual contract innovation. Automated contract management systems have self-service and mobile functions, like milestone reminders, pricing analysis, performance measurement and reporting in order to stimulate services. The procurement phase is also a time to focus on the scalability of service levels. An example is the increasing use of scalable cloud services including data storage alongside analytical capabilities. End-users should analyse services and decide if innovation in scalable services are preferable to single service solutions.

Conclusion

Developments in technology and the requirements of the private and public sector in reducing costs have enhanced the value of innovative practices. Innovation is not a new concept within outsourcing however its popularity continues to grow. Preparation for innovation must begin within the first phases of outsourcing preparation with robust communications between users and suppliers. The main key to effective innovation promotion is an understanding by both sides in its definition and their overall delivery roles in achieving innovation effectively.