

END USERS

Exit management

Essential to any outsourcing relationship is understanding the process of exit management.

Exit management is an issue that is vital to both parties in an outsourcing relationship. Heather Rodgers and Paul O'Hare of the National Outsourcing Association discuss a user-friendly summary of issues to be considered in order to properly manage an exit.

The NOA has produced a guide which considers exit at all steps of the outsourcing lifecycle, with the aim of minimising the impact on the end-user's business and operations. It has been designed for use in relation to first generation outsourcings, as well as subsequent generation outsourcings, where the services are to be transitioned from one supplier to another (or back in-house), and has been written in such a way that it can be used as a checklist for those preparing to exit an outsourcing relationship.

The guide captures lessons learned from end users who have had 'real' experience of exiting an outsourcing relationship, and captures the output from those organisations that attended and participated in the meetings of the NOA end user steering group. The guide covers the five key phases:

- Pre-contract phase
- Contract negotiation phase
- Contract management phase
- Before notice to exit phase
- Following notice to exit phase

Consider and prepare for planned and unplanned exits – a 'one-size-fits-all' approach will not work.

Pre-contract phase

Assess Level of Risk

- Assess whether the services are critical to the whole or part of your business
- Consider and prepare for planned and unplanned exits – a 'one-size-fits-all' approach will not work
- If you are already in an outsourcing relationship consider your leverage in the marketplace – how easy will it be to create a competitive tender process?

Don't underestimate resources required for transition

- Consider splitting your resources between those required to manage exiting incumbent supplier and those required to manage transition to replacement supplier
- Identify the different skillsets required within your exit and transition teams
- Identify your "A" team(s) and ensure they have requisite capacity to perform exit and transition roles
- Consider the emotions of your team involved in the process – some may transfer to the replacement supplier, and will therefore want to impress potential suppliers

RFP

- Request bidder references, including former clients who have been through an exit with those bidders
- Align exit strategy with all stakeholders in the organisation
- Carry out a financial analysis and risk review of each of the bidders

Exit Strategy

Develop a template to cover, for example:

- Consider implications for business and how to manage over period of time and impact on end customer
- Consider and address potential causes of termination
- Ensure continuity of service

- Consider difference between first and second level generation exit (level of transparency and understanding of information)
- Consider scenario planning
- Start exit or transition plan – outline plan and agreed timetable and process for moving to detailed plan
- Ensure ability to terminate in part as this may help maintain relationship with exiting group, especially if performance is good in certain areas

Contract negotiation phase

Issues to be addressed at contract drafting and negotiation phase:

- Circumstances in which exit can be triggered
 - Termination for major breach, repeated service level failures (even if remedied), financial difficulties, changes in ownership, force majeure
 - Termination for cause can be difficult to prove – agree termination for convenience charges up front, and make sure you understand what those charges cover e.g. sunken/stranded costs vs. lost revenue
- Ensure ability to terminate in part as this may help maintain relationship with exiting group, especially if performance is good in certain areas
- Treatment of assets on termination – hardware, software, documentation, processes, people, contracts
- Ensure the contract allows you to have access to all information needed to provide a level playing field for other bidders in any re-tendering exercise
- Build in ability to extend exit period (to deal with any delays in retendering and transitioning to replacement supplier)
- Commitment to test exit plan regularly throughout the contract term
- Ensure you have access to supplier premises, and consider what you will do if access is denied
- Ensure ability to track supplier's ongoing financial position
- Ensure ability to track supplier's other successful bids and retain the right to act as a reference
- Address payment terms relating to exit services – agree what costs are included in the base price, and include a cap on total exit costs. Track impact that contract changes will have on exit costs, and ensure these are considered and updated as part of the change control process
- Document any assumptions clearly and how they change over contract term
- Include milestone-based payments for exit, including for successful completion of knowledge transfer
- Access to supplier personnel post-termination – to ensure successful knowledge transfer
- Implement a 'change freeze' following notice of termination – this should include a restriction on personnel changes, including their terms of employment

Contract management phase

Exit strategy reviews

Regular reviews of exit strategy and plan – example things to consider in review

- Identify and track assets and asset categories – what is owned or leased on either side? Which assets are dedicated and which are shared?
- Implement process for tracking changes in assets Implement effective software tracking
- Capture management information (MI) so the baseline is understood. Is any supplier proprietary software used for MI? Check regularly to identify any gaps in MI
- Regularly review escrow requirements (are source code deposits up to date) and download data regularly
- If service delivery is dependent on supplier proprietary software, ensure there are appropriate contingency arrangements on exit
- Ensure you have right to monitor (and veto) any new subcontractors – if key subcontractors are being introduced, address how that subcontract will be treated on termination
- Regularly review and update change and risk logs
- Include key personnel provisions in the contract – and regularly review people assigned to the services to ensure key personnel provisions are being adhered to
- Consider and keep track of information required for any potential future Request for Proposal (RFP), to ensure fast and easy access e.g. process manuals
- Model potential impact of exit for supplier's revenue and for cashflow
- Track the supplier's other successful bids and losses and your percentage contribution to supplier portfolio
- Understand and comply with company obligations to ensure a breach does not occur, e.g. payments. This will ensure your position is protected if considering exit
- As part of impact assessment for any key changes to the services, consider whether any changes are required to the detailed exit plan
- Where necessary, retest exit plan following major change

Before notice to exit phase

- Consider how long is needed to prepare for the exit
- Consider leverage in relationship, including impact of exit
- Initiate business plan and assess the options available (remain with existing supplier, re-tender, take services back in-house)
- Ensure key stakeholders are aware of exit strategy
- Start the detailed planning – identify key risks
 - define phases of exit and transition (including initiation, due diligence, knowledge transfer, and service closure)
 - define workstreams involved (including operations, finance, procurement, HR and legal)

- Implement Request for Proposal (RFP) process
- Agree exit managers – (particular skillset required)
- Distinguish between business as usual (BAU) services and exit services – ensure staff are not stretched across both aspects – continuity of service is key
- Identify the team substantially and wholly dedicated to work and profile and ensure that the switching of people into a dedicated group does not occur
- Agree communication statements, internal and external for both businesses, as well as a PR 'hold' statement if the exit is leaked and one for Trade Unions as well
- Consider how subcontractors may react to change and where they fit into long term strategy if novated
- Think about 'in flight' projects and agree how they will be handled and consider what to do for new projects between the period when notice is given and the final date
- Consider if any 'events' are likely to occur during this period which may be impacted by the exit and how to mitigate them
- During this period try to keep the relationship with the existing supplier(s) open and ensure it does not become acrimonious
- Offer to be reference site re: how to manage exit to assist in collaboration

Following notice to exit phase

- Exit period needs to be as short as possible (but still possible!)
- Have separate teams if possible to ensure service delivery, exit and transition happen in tandem
- Manage exit and transition in accordance with the exit plan - implement and follow a robust change management process
- Consider any additional costs not already budgeted for e.g. if parallel running of services is required
- Agree payments and payment profile, including timings - ensure milestone-based payments to incentivise the supplier
- Ensure all company documentation is returned or destroyed
- Ensure people transferred and new team members are able to be trained to provide service from day one
- Share company strategy and culture and business principles
- Consider administration implications regarding exit, e.g. the return of security passes
- Consider any insurance implications
- Maintain collaborative relationship - there may be opportunities to do business again in the future and a positive exit experience means the customer is more likely to act as a reference on future bids