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HOW WE SEE IT

OPINION

Sealed-bid process could help clean up offshoring issues

Deloitte's 2008 report on innovative or transformative global outsourcing, "Why Settle for Less?" has garnered a large response ranging from the Wall Street Journal to blogs, though probably not the response Deloitte intended. In sum, the report's survey shows that 83% of global IT outsourcing deals achieve 25% savings. For two thirds of outsourcing deals, price is the key driver.

When price is the only deciding factor, and there are multiple providers interested in the work, by law Government agencies must contract for services through "sealed bidding."

The important point here is not the bit about sealed envelopes, but rather how sealed bidding works and why. Sealed bidding requires the Government to determine all of its work requirements up front and to put them in an invitation for bid

HOW I SEE IT



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James River Consulting LLC is a Medway, MA, consulting firm specializing in IT contracts of all kinds, and non-IT services contracts in multiple practice areas. James River's expertise and experience covers the entire contracts life cycle, from development to negotiation to performance management to dispute resolution and close out. The company's clients include both providers and customers. For more information contact Eric Esperne, President, at 703-850-7061 or eesperne@jamesriverllc.com.

But instead of delving into these figures, the report focuses on a one third response that off shore outsourcing relationships are not

(IFB). In response, providers quote a fixed price.

These are not arbitrary rules; sealed bidding represents a well-rationalized commercial trade off. Providers are relieved from having to figure out what to propose in order to win the bid; they only need to meet the requirements and do some basic pricing. If the provider can't meet some bid requirements, it only need team with others who can. There is no special relationship management or innovation involved. In return, the Government doesn't risk cost overruns and avoids costs of contracting and ongoing management.

In commercial off shore outsourcing, transaction costs are

huge. Sealed bidding's streamlined transaction model alone would be a boon. The trick is capturing and documenting requirements. But in the Deloitte survey, three fourths of respondents felt their outsourcing deals suffered from poor vendor selection and lack of service levels, meaning that a better way of contracting needs to be found anyway. Two variations on sealed bidding can help capture requirements: 1) two step bidding in which providers complete requirements and, if selected, then quote price; and 2) "multi-sourcing" the requirements phase to independent provider.

Survey data from the Deloitte report on dissatisfaction — scope

creep, cost overruns, poor communication, lack of

transparency —

further argues for taking a sealed bid-like approach. By accepting off shore

outsourcing for what it is — a less expensive way of doing work the customer would otherwise do

itself —

customers avoid the problems that plague any business

“marriage.”

The final requirement in

sealed bidding is that bidders affirmatively show they are “responsible.” Here, too, a streamlined transaction model like sealed bidding fits outsourcing like a glove. The showing of responsibility displaces continuous management of outsourcing by the customer. According to Government regulations, responsibility means showing the following: financial resources; facilities, management and personnel sufficient to perform the work specified (instead of complying with across-the-board certifications and standards); compliance with local laws; and integrity as shown by past business dealings. Sounds like a text book approach to vetting Double O's.

Here are some guiding principles to follow when putting together a streamlined, price-based off shore outsourcing strategy:

- Develop a basic transaction model for all outsourcing deals
- Look at outsourcing as delivery of an end product that is subject to acceptance testing
- Solicit and evaluate multiple bids, be prepared for vendor push back
- Be prepared to transition projects when things go wrong
- Establish that feedback and change orders are in scope as long as they don't change requirements
- Outsource smaller, self contained projects of limited duration as much as possible

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