

SIMPLE, SECURE AND SUCCESSFUL OUTSOURCING FOR SMB's

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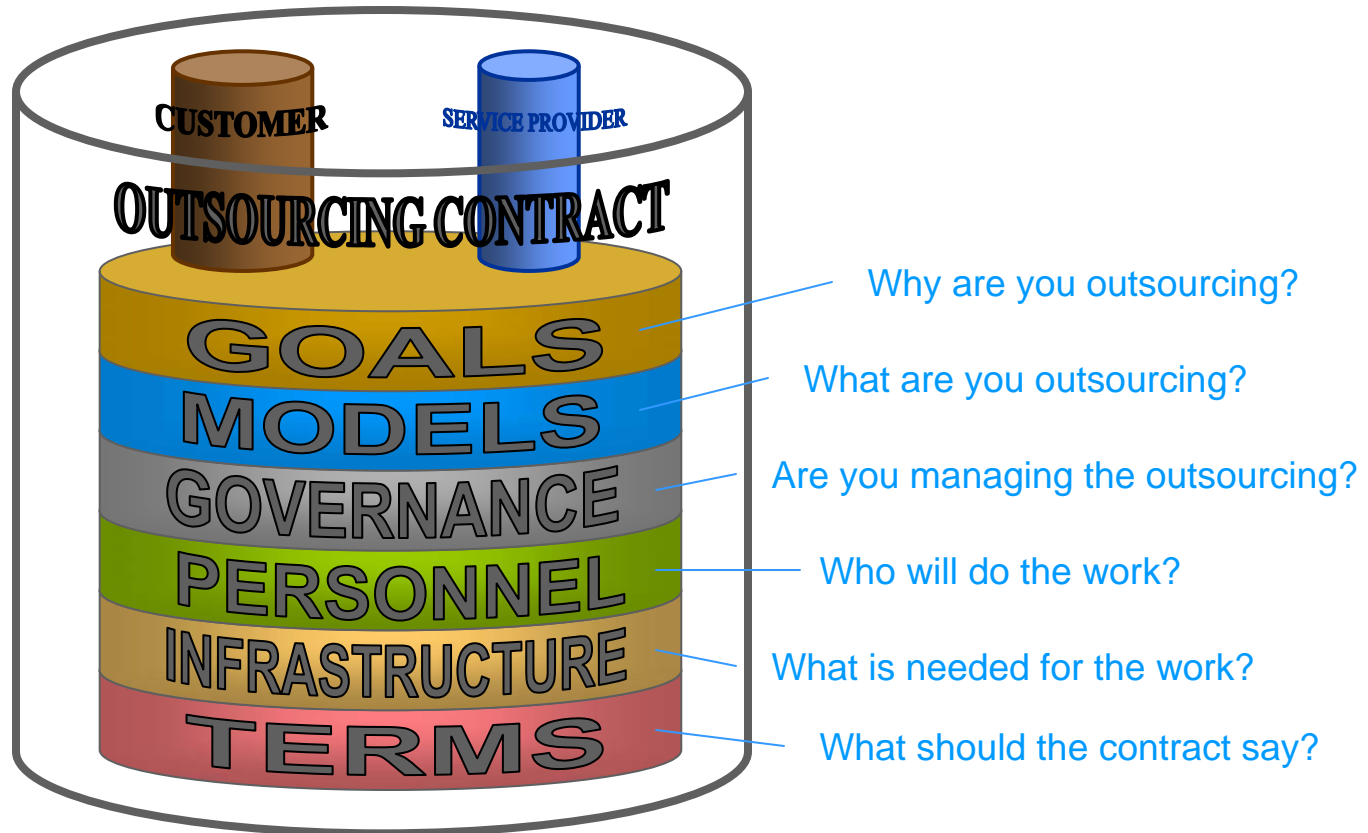
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Introduction

- SMB Outsourcing Market
 - Outsourcing market 100-499 size co.'s to grow from 7.8% of \$50.5 billion to more than 8% of \$78.8 billion by 2009, according to Gartner (\$3.93 bil. → \$5.99 bil.)
 - Popular SMB Outsourcing according to July, 2007, AMI Partners research:
 - Software support: 46% small, 79% midsize
 - Payroll: 25% small, 31% midsize
 - HR: 4% small, 11% midsize
 - Hesitant to outsource more strategic functions
- Webinar Theme
 - 35,000 ft. view of SMB outsourcing
 - Slice outsourcing into 6 layer taxonomy and identify contract issues
 - Layer leads to next layer down, but true methodology separate

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JRC Outsourcing Contract Layers Analysis



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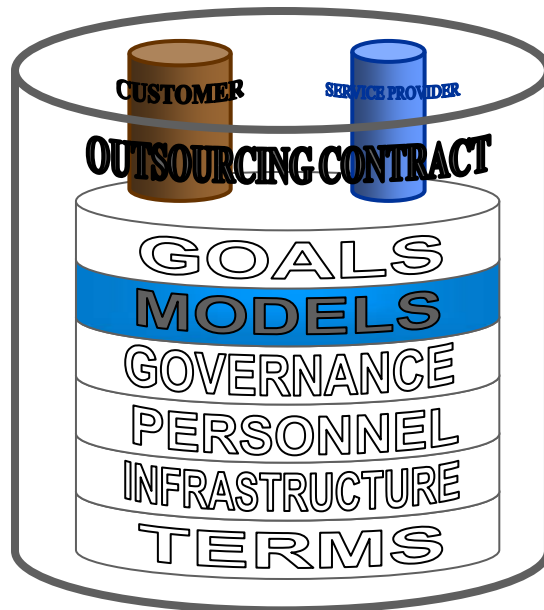
Why Are You Outsourcing?



- Cost Savings] Biggest Reason
- Non-Core Operations
 - G Hamel and CK Prahalad, *The Core Competence of the Corporation* (1990)] Accompanying mgmt. theory
- Scalability & Agility] Uncertain growth, bus. plan, acquisition
- Competitive Advantage
- All outsourcing decisions should flow from stated business goals *

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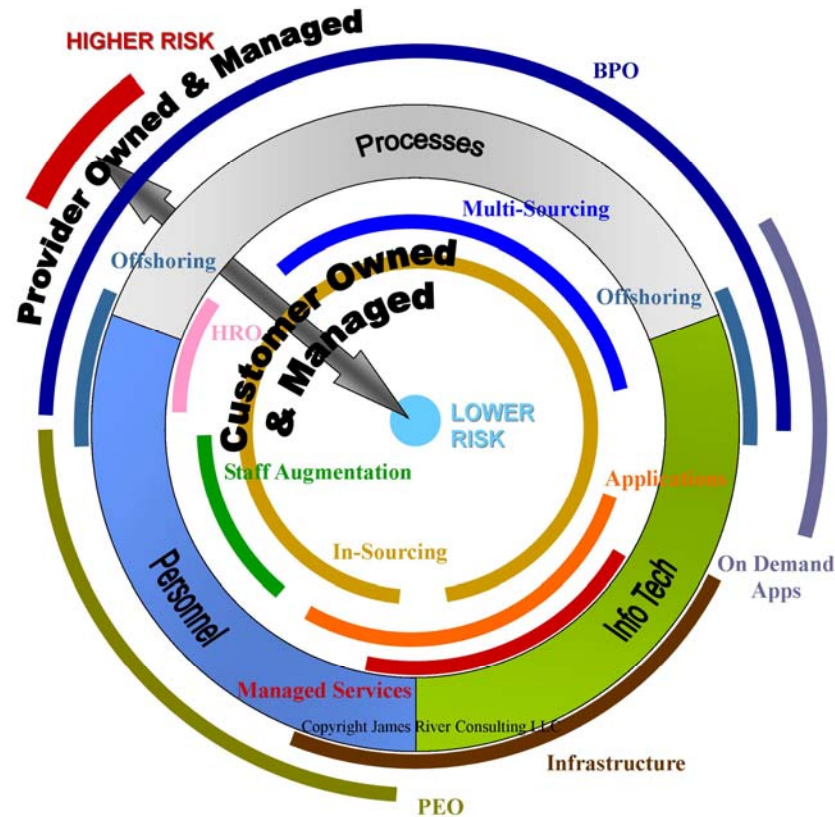
What Are You Outsourcing?



- IT
 - Infrastructure } Large ops., cash infusion, capex to opex
 - Application } Offshore outsourcing
 - Managed Services } RMIS, Hosting
 - On Demand } SaaS, Amazon Web Services
- Personnel
 - Contract staffing
 - HRO
 - PEO } Co-employment, problematic
- Process
 - Multi-sourcing & Strategic Sourcing
 - BPO, KPO } *
 - Insourcing, Captive Offshoring

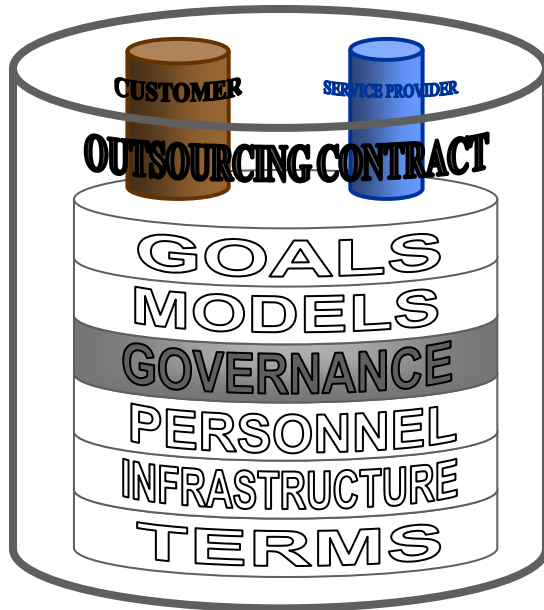
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What Are You Outsourcing?



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Are You Managing the Outsourcing?



- Levels
 - Contract Management } Arms length, work to req.'s
 - Services Management } Scope, delivery, quality
 - Relationship Management } Changes, results
 - Financial and Equity Management }
 - Organization
 - Integrated
 - Dedicated Entity, Advisors
 - Reporting Systems
 - Performance Measurement
 - SLAs } Credits, Cure, Cover
 - KPIs } Progress made towards strategic goals, e.g., Balanced Scorecard
- Joint Venture

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Are You Managing the Outsourcing?

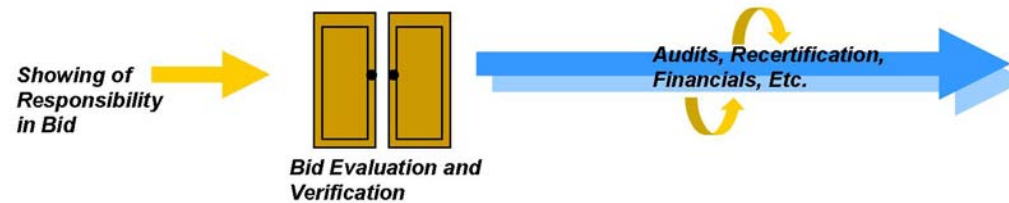
Ongoing Service Level Management

- Iterative
- Interactive



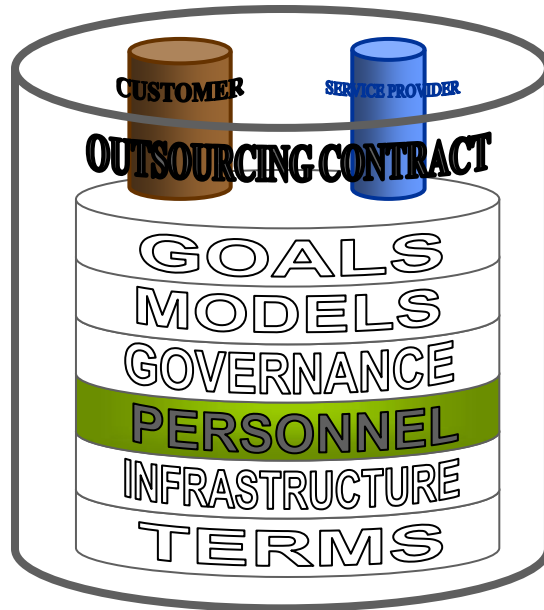
Threshold Qualification Determination

- Linear
- Continuous



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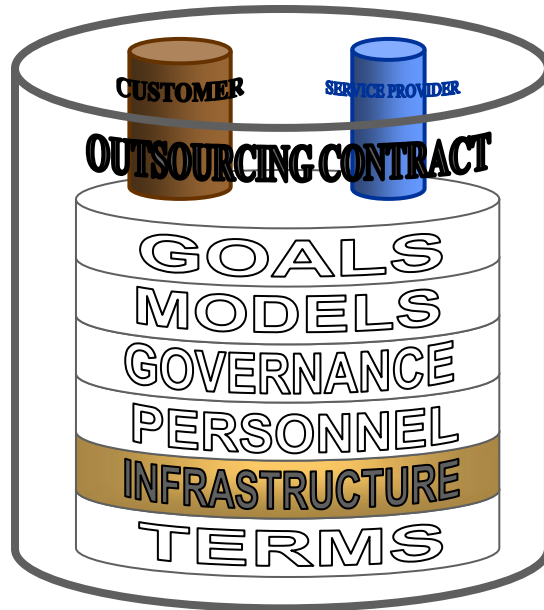
Who Will Do the Work?



- Personnel
 - Employer] Co-employ, 1099, contractor
 - Policies and Benefits
 - Hiring and Evaluation
 - Position Titles, Descriptions, Reporting Lines
- Processes
 - Mapping] Infrastruc. & Co-employ, but also can be terms of service
 - Reengineering]

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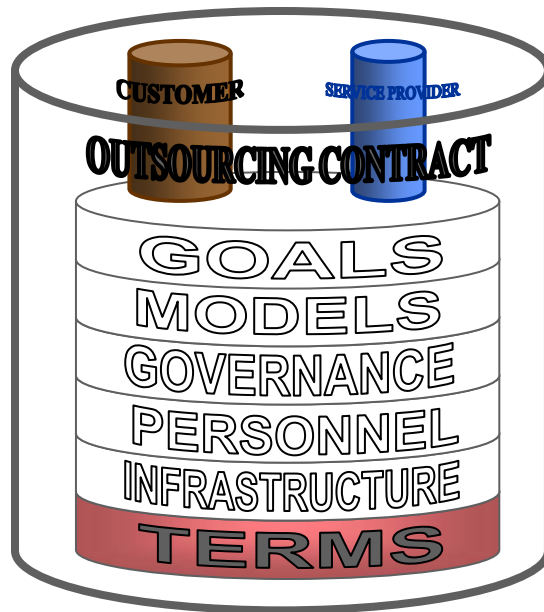
What Is Needed for the Work?



- Assets] Customer or Provider
Furnished
 - IT
 - Real Estate
 - IP
- Transfer
 - Sale or Lease] Direct, 3rd party fin. Intermed.
 - Assignment of Supplier and
Customer Contracts] Overlooked
 - Asset Management, Auditing

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What Should the Contract Say?



- Checklist] Oversimplified
 - Scope
 - Responsibilities of the Parties
 - Assets and Transfers
 - Pricing] Often left an open term
 - Risk Sharing and Liabilities]
 - Changes] Often not squarely addressed
 - Termination Rights] Often omitted
- Other Forms
 - Commercial Term Sheet
 - Framework Agreement

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Conclusion

- Despite smaller size of deals, SMB outsourcing can be as complex and risky as the larger deals
- Takeaways:
 - Don't outsource unless you can justify the transaction costs
 - Maintain the upper hand in negotiation and management
 - Have a way to measure value and to act on the data
 - Be able to quickly and seamlessly terminate the services and transition or backsource