Some executives still use outsourcing as a blunt instrument to offload unimportant activities and wring the costs out of non-core activities. But many have moved to a much more sophisticated approach. They engage in collaborative relationships with outsource business partners to create high-performance support operations that keep pace with industry best practice. A few bold CEOs, however, have taken the concept one step further. They are partnering not just to re-engineer support processes, but to drive enterprise transformation.
Imagine you are CEO of a multi-national financial services company. Over the past three years your firm has steadily slipped from a dominant market position to middle of the pack, and nimble new entrants are circling to take their share of the company’s hide. You were brought in to lead a turnaround, and your board has given you three years to pull it off. You have a broad vision about how it should happen, but lack the culture, IT capabilities, and management bench-strength to make it so.

Now roll forward three years. Operating margins have increased from $151MM to $370MM, market share has grown from 19.1 percent to 28.1 percent, assets under management are up 64 percent and share price has doubled in two years.

Sound impossible? Well, it’s not. This is the true story of a firm we’ll refer to as Archer Financial Group. And a small, but growing number of companies are proving they can achieve high-speed, breakthrough results like this with a bold new approach we call business transformation outsourcing.

This report addresses three principal questions:

1. What is business transformation outsourcing?
2. How does business transformation outsourcing work?
3. When should you use it?

**What Is Business Transformation Outsourcing?**

Business transformation outsourcing (BTO) is:

A program to transform the way a business works, enabled by outsourcing, to achieve a rapid, sustainable, step-change improvement in enterprise-level performance.

Business transformation is not a new concept; companies have been transforming and reinventing their businesses for a long time and will continue to do so. What is new and different about business transformation outsourcing is that it offers executives a way of achieving transformational outcomes at speed. CEOs who use this approach start with a bold strategic agenda. They share risks and gains with an outsource business partner as they collaborate to transform roadblock business processes into competitive weapons in an accelerated time frame. And they measure the resulting performance improvement in dramatic gains in share price, market position, and return on capital.
For example, J. Sainsbury, the second largest grocery retailer in the United Kingdom, found its premier position slipping as operating issues chipped away at its performance. Costs were rising faster than revenues, and profits had moved substantially out of line with industry leaders. Over the previous three years, profits had fallen by 40 percent, and share price and market capitalization had consequently declined significantly. Hastening the slide were major new competitive threats from other grocery retailers such as Asda and Safeway.

Calling for aggressive action, the board hired Sir Peter Davis as the new CEO and gave him a mandate for radical change. Within months, Sir Peter had entered into a partnership with a large consulting firm to serve as the company’s prime adviser to design and help implement a strategic repositioning and comprehensive transformation management program to help J. Sainsbury regain its market leadership.

This ground-breaking partnership includes innovative financial structuring that makes future cost savings available up front to fund strategic investments. It also includes transformation of critical IT capabilities: Sainsbury has transferred 800 employees to the partner firm which now runs all the company’s IT systems and networks.
1. **C-level leadership.** Enterprise-level change requires enterprise-level sponsorship. In each of the business transformation outsourcing cases we studied, the CEO was the force behind the program. This doesn’t mean just an inspiring kick-off meeting and a regular quarterly review. These CEOs took hands-on roles in overcoming obstacles, dealing with resistance, redirecting resources, and mastering new skills while they made sure the ongoing business didn’t falter. For example, one of Les Dietzman’s motivations for taking the top spot at Family Christian Stores was to join an organization with a higher mission. When he arrived he saw an unexpectedly compelling opportunity for transformation. He developed an overall vision for company growth, then personally oversaw the effort to triple the company’s revenues and profits. On the other hand, when a new CEO took over at a large financial services organization and delegated the governance processes to a lower level in the organization, the outsourced business processes continued to operate, but the transformation stopped.

SIDEBAR 2: BENEFITS OF BUSINESS TRANSFORMATION OUTSOURCING

- Step-change improvement in enterprise-level performance
- Reduced time-to-market
- Shared risk
- Increased innovation through access to world-class skills, resources, and industry knowledge
- Enhanced core capabilities
- Strengthened competitive positioning

2. **Bold strategic agenda.** BTO means big change fast. Without a radical new agenda, executives have little hope of achieving the seismic results they’re after. They need to break out of their industry’s strategic ruts to tap new sources of value. What’s more, BTO is specifically designed to implement strategy at an accelerated pace. Whether on their own or with their business partner,
executives develop a compelling set of strategic imperatives for the company, then use BTO to implement it rapidly. For example, Sir Peter Davis took over as Chief Executive of J. Sainsbury in March 2000. By November of that year, he had developed a reinvigoration strategy and entered into a partnership to begin implementation.

Setting a bold agenda doesn’t mean carving the CEO’s vision in stone. Business transformation outsourcing partners are constantly scanning the horizon to keep the edge on their agenda.

3. Innovative deal structure. A transformational deal’s financial structure must serve two masters. First, it must fund the necessary investment at the best possible cost of capital. Second, it must motivate the business partners’ commitment by aligning goals, distributing risks, and promising rewards. Business transformation outsourcing deals require that both partners have skin in the game.

Innovative financing arrangements can take a wide variety of shapes. Some companies use joint ventures. The firm and the outsourcer jointly create a separate venture to house the people who will transform the critical processes. The outsourcer may also buy assets from the firm and lease them back over time. This removes assets from the firm’s balance sheet and produces a quick-win improvement in ROA.

Companies can also use debt markets to “borrow against results.” Especially if the outsourcer has an established reputation for delivering on promises, a company can attract financing for the transformation based on the expected outcomes. For example, a premier capital firm funded Family Christian Stores’ IT transformation. Working with a recognized outsourcer helped the small retailer bring this firm into the deal, secure attractively priced financing, and pay off the cost of its transformation with incremental profits.

4. Collaborative outsourcing to transform critical processes. Most firms try to distinguish between core and non-core processes to decide what’s appropriate to outsource. In a dynamic business environment, that’s not necessarily the important distinction. Transforming a business quickly means handing off the critical processes to a specialist company that can bring them up to competitive snuff. Outsourcing makes all the difference because a skilled and highly motivated business partner can drive change even more aggressively than the firm itself. Otherwise these broken processes roadblock the strategic agenda. For example, Archer’s CEO recognized that he had to transform distribution channels, call centers, branch operations, and back office processes to reverse his company’s performance slide. In his mind, information technology was central to all of these activities, and he recognized that his internal staff couldn’t manage the transformation required. He partnered with a large consulting and outsourcing firm to put discipline and cost controls into existing systems operations and to invest the savings in critical new applications.

In our research, we saw many cases where executives used collaborative outsourcing to transform a support function or process. But the radical change stopped there. BTO holds a higher standard. It’s a comprehensive approach to both create new capabilities and to use them to achieve a clear strategic objective (see Exhibit 2).

5. Focus on enterprise outcomes. Business transformation outsourcing raises the stakes in the game. While collaborative outsourcing seeks respectable improvements in costs, service levels, and support capabilities, BTO aims squarely at outcomes shareholders—and competitors—can see. Along the way, other issues like call center response rates and speed of management decision-making will certainly be addressed. But companies that want sweeping change set goals like doubling profits or achieving market dominance.

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Making BTO Work: End-To-End Execution

A European bank had a business strategy for expanding market share but lacked the experience, skills, and resources to make it happen. A US-based retailer had a vision of how to expand its retail market, but similarly lacked the IT capabilities and deep retail knowledge to make it happen. Both companies partnered to "make it so." The "make it so" quality of business transformation outsourcing is what fundamentally distinguishes it from strategy consulting. It is a high-stakes game, and execution makes all the difference. Successful firms pay close attention to key issues as the program evolves through four stages: crafting the deal, managing the transition, transforming the critical processes, and leveraging new capabilities.

Crafting The Deal

Business transformation outsourcing is not an off-the-rack solution. It should be tailored to the specific circumstances the firm faces. Effective deals often incorporate creative arrangements like third party financing, new legal entities, or equity plays to maximize benefits and distribute risk. Executives start with an entrepreneurial attitude, then:

• Look for a strategic ally, not a conventional outsourcing vendor. In effective deals, executives place a priority on business partners who listen instead of selling, give before they get, and strive to tell the unvarnished truth. The ideal business partner will have holistic skills: robust strategy, implementation, and operating capabilities as well as expertise in your industry. Firms with a tight network of alliances can also bring the right sub-contractors into the deal fast. However, you will want your business partner to manage the other vendors in the constellation so it can be accountable for results.

• Leverage your business partner’s brand. You’ll want its solid reputation behind the program to manage the operating risk. Its good name can also add market credibility to the initiative and help bring financial services firms to the bargaining table to fund the transformation.

• Align incentives around enterprise outcomes. Most outsourcing contracts include bonuses and penalties that depend on achieving pre-agreed service levels. BTO, on the other hand, targets enterprise-level outcomes like market share and ROE. Create a "win/win" deal so that both you and your business partner benefit when the needles on these gauges hit the green zone. The business partner’s compensation in one European bank deal was pegged to the bank’s total assets. As the bank’s business grew, the business partner’s share grew as well.

• Make your agreements flexible, not airtight. You may need to abandon some of the micro-level checks and balances that would be normal in a conventional outsourcing deal in order to get an arrangement that is flexible enough to adjust to business conditions. For example, most BTO programs go through a careful partner selection process, but not the yearlong, formal contract negotiation that is typical in outsourcing.

Managing The Transition

After the deal is crafted and signed, you’ll want to begin transitioning people and processes to your business partner (or the joint venture that you’ve established). Executing the transition effectively is critical to start the BTO program off on the right track. If the transition is marred by service outages, time delays, customer complaints, and operating problems, the damage may be irreparable.

• Clearly assign leadership and control. Transitioning employees to a new organization is more like an acquisition than a merger: you have already made the decision that your business partner will be in charge of specific processes, and your employees need to hear this. Clear control is what enables your business partner to be accountable for its part of the agenda. Commenting on this need for visible authority and control, one executive noted, "You won’t achieve a real transformation unless the outsourcer takes control of the process. It’s essential that they have the authority to implement new operating practices quickly, or you’ll never free up the funds you need to invest in the future."

• Communicate, communicate, communicate. The firms that do this best spend lots of time with their people. They communicate to large groups. They communicate to departments. And the new managers communicate personally with each individual who will be affected. Some companies use a buddy system to connect transitioning employees to a peer who has survived the experience. Savvy management of this process can help turn initial resistance into energy and enthusiasm.
Leveraging New Capabilities

Transforming critical processes converts them from roadblocks to enablers. The real value lies in leveraging these new capabilities to implement the strategic agenda. In most industries today, that means aiming at a moving target. You will want to work with your business partner to jointly explore new ways to create value from the retooled processes, technologies, and people.

- **Jamming in the wings.** Just because the bandleader knows the score doesn’t mean that everyone else does as well. Great bandleaders help their musicians go beyond the notes on the page and create an environment where they can improvise together. Executives must help operating managers get in tune so they can understand the vision and drive implementation. All too often this is the missing link in the value-delivery chain.

- **Take advantage of your business partner’s partners.** You’ll want comprehensive solutions that work, not components that your people have to stitch together. Tap your business partner for its network of best of breed suppliers and knowledge about how to apply these products to solve your problems. For example, Accenture brought its relationships with firms like Blue Martini, Siebel, and Retek to its partnership with a major retailer.

- **Demand continuing innovation.** Sustaining value is a continuous process that calls for constant renewal. In all the transformational cases we studied, executives asked their business partner to fuel innovation by bringing provocative opinions about industry trends and new ideas to the relationship. One partner firm executive explains, “We hold regular ‘Innovation Workshops’ for the board. We present our firm’s latest research on everything from biotech to business models to stimulate their thinking.”

Managing The Relationship

When we asked executives for the secret to effective outsourcing, they all said the same thing: trust. A trusting, open relationship is what enables executives to share control with their business partners. But most executives, even collaborative outsourcing veterans, built trusting relationships intuitively—with varying levels of success. Business transformation outsourcing leaves no room for error in this critical activity. To achieve the level of flexible, intense guidance that BTO demands, you’ll want to manage relationships deliberately.
with four levers: contract negotiations, a track record of performance, strategic governance, and personal relationships (see Exhibit 3).

**Exhibit 3: Four Levers for Relationship Management**

- **Contract Negotiations**
  - Formal commitments
  - Dialogue about expectations

- **Strategic Governance**
  - Formal planning
  - Reporting relationships
  - Dispute resolution

- **Track Record of Performance**
  - Measured results
  - Commitment visibility

- **Personal Relationship**
  - Informal systems
  - Personal chemistry

• **Contract negotiations.** In BTO, executives use contract negotiations to make sure they have the right conversations. At the beginning of the deal—and every time they revisit the contract—they discuss key objectives and measures of success, how to make sure both partners have skin in the game, and how they’ll deal with the big transitions. The process couldn’t be further away from the kind of dickering over contract compliance that conventional outsourcing frequently inspires. Instead, these frank discussions set the tone for an open and honest dialogue going forward. As one executive remarked, “The relationship started when we agreed up front that our business partner deserved to make a fair margin.” And delegating the process to an overly aggressive legal team may get you a better price, but it may also lead to a poorer relationship.

• **Track record of performance.** Business partners establish credibility through performance by regularly assessing progress against a few key, enterprise-level outcome measures—like customer retention and time to market. And then they advertise it. They publicly announce both their aspirations and their achievements, using visibility to underscore their commitments and put their own reputations at stake. It’s not just the fact that they have set and met promises, but the way they use this information that makes demonstrated performance a lever for relationship management. As one executive remarked, “We periodically remind each other that what we have accomplished has been both difficult and significant. It helps motivate us to press on together.”

• **Strategic governance.** Governing a BTO relationship isn’t about coloring within the lines; it’s about jointly charting the business’ strategic course as the transformation plays out. J. Sainsbury’s CEO and its business partner lead have offices on the same floor so they can meet frequently. They jointly report to the board of directors every second week to keep the high-stakes agenda on track. At Family Christian Stores, the BTO lead functioned as the CIO and participated as a full member of the CEO’s direct staff.

• **Personal relationships.** “We’re not talking about hot tubs and champagne,” remarks one senior vice president, “but the personal side of these business partnerships makes all the difference.” Executives from both sides spend social time together, but the real bonds develop as they work shoulder-to-shoulder to transform the company. At its best, this personal chemistry builds at all levels of the business partnership—from the leadership to the individuals on the front lines of radically changing business processes. Relationships aren’t linear. “Things move in cycles,” stated an outsourcing firm executive involved with a transformation in the financial services sector. “You go through long phases where things are very positive, and then a serious incident or key player departure will throw things into a downward spiral.” By using all four levers deliberately, managers give themselves options when bad things happen. And every executive we talked to described incidents as opportunities. By working together to resolve a problem, they actually improved and deepened their relationship.

**Is BTO Right For You?**

Given an option, most executives will avoid the disruption of seismic change in their organizations in favor of sustained and aggressive incremental change. But in today’s volatile business environment, executives are called on to change their operating models much more frequently than ever before. More often than not, this means that they don’t have all the skills and capabilities they need to succeed at the new game. Companies that have slipped out of the winner’s circle as a result should consider using business transformation outsourcing to regain their lead.

Is your company in this situation? Take the self-test in Exhibit 4. If you can answer “yes” to most of these questions, BTO might work for you. Even if you’re not quite ready to sign up for a business transformation outsourcing deal, you can take advantage of the trend in that direction:
Challenge your staff to identify breakthrough opportunities that are blocked by poor processes. Rank-order the opportunities and then ask your staff to consider how sourcing with an outside firm could deliver results that make you all famous.

Make a list of services and resources that would "delight" you if your current outsourcing provider offered them to you. You may not be stretching your outsourcer enough. Rather than asking them to tell you what is available, push them to come up with solutions and services that would make a step-change difference in your performance.

Learn the collaborative outsourcing ropes by turning a conventional deal into a business partnership. If you want to see what a collaborative business partnership is like, try it out. The next time an outsourcing agreement comes up for renewal, invite your partner "under the tent," and craft a deal where both of you share accountability for results.

For companies with an appetite for radical change, business transformation outsourcing is a powerful tool. One of the pioneering executives we interviewed put it best:

"This is like using one of those new, high-tech golf clubs. They definitely give you an advantage. But the golf community hesitates to embrace them because they are unconventional. As far as I'm concerned, while they sit around debating, I'll move forward. I can use the edge."
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The Accenture Institute for Strategic Change is a "think and act" tank dedicated to keeping Accenture among the world leaders in breakthrough management thinking. In today's ultra-competitive, knowledge-based economy, such thinking is what enables businesses to establish and redefine markets.

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- Global mCommerce
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- mMe
- Next Generation Leaders
- Supply Chain Effectiveness
- CRM/Marketing Strategy
- Capturing Value in Financial Services

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