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Outsourcing: Ways to Cut Costs in Troubled Times

Areas of Interest

Business & Technology Sourcing

Global

In these troubled economic times, many of you have identified an urgent need to find opportunities to reduce your costs. This Client Alert offers recommendations on ways to save money in your existing sourcing arrangements and by entering into new sourcing arrangements.

Ways to Save Money on Existing Outsourcing Contracts

Companies that have already entered into outsourcing contracts have these opportunities to reduce the costs to be incurred under such contracts:

- Work with the provider to identify ways to reduce the cost of service delivery and pass through the resulting savings to the customer. For example, most Mayer Brown contracts contain provisions requiring providers to work with customers to accomplish cost reduction.
- Relax or eliminate contractual requirements that increase the provider's costs without delivering commensurate value. Look at the contract and ask, "knowing what I know now, is it worth the cost to restrict the provider in this way?"
- Permit the provider to move additional services to offshore facilities in order to leverage labor arbitrage to achieve immediate savings (including tier 1 and tier 2 offshore locations).
- Reduce or eliminate the provider's risk in exchange for price reductions. The added risk in pricing terms, such as COLA and currency fluctuation, are easy to trade. Also look for protections that seem less valuable now that you know the provider.
- Initiate the renegotiation of some or all of the contract, especially if it has been some time since the last re-negotiation, or if provider defaults have created bargaining leverage.
- Verify that the provider is delivering all of the promised services at no greater than the promised prices. Many providers are responding to economic pressure by reducing headcount, underperforming, and/or taking strained contractual positions.
- Implement gainsharing opportunities to incent the provider to deliver desired cost savings.
- Expand the scope of the contract to include more functions where savings are possible.
- Implement other cost cutting measures, such as application rationalization, that reduce the service volumes under the existing contracts.
- Negotiate gold, silver and bronze service offerings to allow business units to select the value/cost to support their business.
- Exercise audit rights to find overcharges and identify cost reduction opportunities.
- Renegotiate the timing of charges to defer payment.
- Use benchmarking, or the possibility of benchmarking, as a lever to negotiate lower pricing.
- Use the right to in-source or use third parties to perform in-scope services as a means to obtain the

same services from a lower cost provider, or as a lever to negotiate lower prices with the incumbent provider.

- Address problem contracts and providers quickly as the costs of a troubled arrangement tend to grow.
- Extend the term of the existing agreement either in return for cost reductions or as a means to facilitate financial re-engineering.
- Selectively terminate services or contracts that are no longer required or considered critical.

Ways to Save Money on New Outsourcing Arrangements

In addition to optimizing existing outsourcing arrangements, companies should consider outsourcing additional functional areas to new or existing providers as a means to:

- Reduce headcount, leverage labor arbitrage and convert fixed operating costs into variable pricing through the outsourcing of non-core information technology and business process functions, especially through the use of offshoring and best-of-breed providers.
- Reduce third-party expenditures, achieve greater operating efficiencies, increase corporate sales and collections and/or obtain other strategic and tactical advantages through the outsourcing of facilities management, procurement, supply chain, collections, knowledge management, recruiting, customer relationship management, business intelligence and other critical business functions.
- Monetize non-core assets by selling corporate capabilities, such as call centers, captive information technology centers, product distribution systems, manufacturing facilities and other such capabilities, and then entering into long-term outsourcing contracts with the purchaser.
- Implement a multi-supplier sourcing strategy to use competitive leverage to reduce costs, reduce the time to contract and cost of future contracting, achieve supplier redundancy and risk mitigation, and obtain access to a broad and deep pool of onshore and offshore resources.

Obviously this is a brief and general list. Your business has unique opportunities and no doubt will profit from careful analysis to find the best of those opportunities.

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