

Solving Budgeting Issues with your Outsourcer

Expert Advice from AMC

The budgeting dilemma

Are you in a position where you have outsourced and cannot get the outsourcer to act like other internal organizations regarding budgeting - i.e. submit accurate budgets, manage to them, and meet them?

You may not be alone. Getting internal groups to stick to budgets and forecasts can be a challenge. Additionally, it may seem as though you have more leverage to influence internal groups than you do over your service providers. It is likely that if you are like most organizations, you will use the following principles for success in your budgeting process:

- Accuracy - accurate budgets require accurate information
- Oversight - budgets must be closely monitored
- Escalation - anticipating and assessing changes are expected, escalate for approval
- Accountability - management needs to be accountable to meet its budget
- Reciprocation - management is rewarded for budget improvements

A Practical Response

Interestingly enough, forces that cause budget targets to be missed are frequently the same between an internal organization and an outsourcer, and can be remedied with a similar and practical framework.

Share Information

Lack of accurate information, oversight, accountability, and planning are the factors that most frequently cause outsourcing service providers (and internal organizations) to miss budget targets. In the budget development phase, your company must give the outsourcer as much information as possible about the next fiscal year. This can potentially include sensitive information, such as reorganization plans, new products, new services, new markets, a predicted change in the customer base, and perhaps acquisitions or divestitures. Any of these can have a significant impact on your service provider's budget, and even though the information may be sensitive, the information is essential for accurate forecasting.

Once you have given the outsourcer all relevant information, it then becomes the outsourcer's job to submit a budget based on processing volumes, applications supported, services provided, and expected service levels. Discuss the proposed budget with your outsourcer. Make sure the outsourcer agrees, up front, that the budget is realistic and that targets can be met. Get the agreement in writing. And then closely monitor the outsourcer's budget versus actual performance.

Governance

Hold budget performance reviews monthly. If targets begin to slip, determine the cause; it could be that your organization's own behavior is driving cost overruns. If this is the case, you need to take action and do some house tidying or may need to alter the service request process. But, if the outsourcer is raising expenses in areas that fall within the previously agreed upon budget, or if the outsourcer failed to accurately forecast processing and service levels, then hold them responsible for failing to forecast accurately. Refer to the formal budget agreement and have them develop a plan to resolve any systemic issues within their control.

Your outsourcer has many ways, if motivated, to influence the budget. They can bring in more experienced personnel, make better use of technology, and through various techniques, can reduce expenses by improved management of resources. Monitor your outsourcer's activities in these areas and establish rewards and penalties that are directly and appropriately related to your outsourcer's budget management performance, just as you would for an internal organization.

Stepping through stalemate

In the event that your outsourcer is continually over budget, and the over-run is not caused by your organization, you likely have the wrong people running the account. Consider the following steps to penalize the outsourcer:

1. Escalate to the highest level within the provider organization for correction. Senior management should be involved and is the best influencer for change.
2. Withhold new revenue opportunities
3. Bring in another service provider to perform tasks that are above and beyond the scope of work outlined in the contract with the outsourcer. Your company has leverage; competition. We suggest that you use it.

Reciprocate

If your outsourcer meets or exceeds financial targets, then reward them, just like you would an internal organization. Rewards may include a sharing of cost savings. Or, more effectively, rewards may include the opportunity to expand revenues or extend the contract. Make it clear to your outsourcer - if the outsourcer performs well and exceeds expectations, then the outsourcer will be appropriately rewarded.