categories of spend such as energy, IT, telecom, or print—some of which have many millions of dollars of spend in-scope. The market sizing also does not include buying consortia activity, the very specialized market of managed procurement and logistics services in the defense sector, or industrial distributors providing integrated supply chain services around Maintenance Repair and Operations (MRO).

Procurement BPO is the fastest growing back-office area of BPO and will be a billion-dollar market by 2010, with the number of sizable new deal signings accelerating from 2008. That said, there was a lag in contract signings in 2005, but there have been some interesting new awards in 2006, with more groundbreaking deals in the pipeline.

For instance, the transfer (involving 1,700 personnel) of the U.K.'s National Health Service (NHS) logistics arm and most of the NHS purchasing and supply agency to DHL and its sub-contractor Novation in a 10-year deal to manage the procurement and supply of $38 billion of goods and services, covering both direct and indirect spend, will be the largest signing to date.

Contracts are being awarded in North America, continental Europe, the U.K., and Asia Pacific, with deals typically regional in nature. Certain industry verticals, for example, CPG, are leading the way: early adopters include both major organizations that are early adopters of FAO or HRO and also some mid-market organizations.

Attracted by this predicted rate of growth, a number of services providers, with no established offering, are beginning to sit up and pay attention. There are still opportunities for vendors to enter the marketplace, in particular services providers who have substantial transaction processing capabilities around procure-to-pay or significant sourcing services capabilities, or, like DHL Logistics, come from a background in logistics services.

Future articles in this series will include considerations of what is being outsourced (process and spend category), who are the major services providers, who is adopting procurement BPO and why, and the potential benefits and challenges involved. FAO

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Preparing to Outsource: Second in a Two-Part Series

By Bob Cecil

Here's a list of things NOT to do when outsourcing. Following this advice will help you save time and money in your contract.

In our last column, we focused on the "DOs" you should consider when preparing to outsource multiple processes. This time, we're covering the "DON'Ts."

■ **Don't Fix Your Processes First.** As mentioned last time, if you have fundamental structural defects such as lack of process control, you should fix these before outsourcing. However, the majority of problems many companies believe should be fixed before outsourcing are less potentially catastrophic and likely exist due to a lack of attention, expertise, incentive, or investment.

Each of these deficiencies can be fixed through outsourcing, if it's done right and with the right partner. A non-standard process is the symptom, not the root cause. If you correct fundamental deficiencies through a clear service delivery model (SDM) and strong governance and sourcing strategies, the root cause will be addressed. Further, because providers bring capacity and expertise to fix processes, they expedite savings capture. When examined objectively, the economics of moving quickly to outsource virtually always beat the returns of pausing to "fix it first."

Many clients think their service provider will unduly share in the benefits of transformation if they aren't handed streamlined processes. They either believe the transition fees will be higher, or they won't accrue productivity savings. But a well-articulated SDM, solid business case, informed negotiations, and well-constructed contract will mitigate this risk and protect client savings.

■ **Don't Create Detailed Designs.** Providers who truly qualify as transformational outsourcers are building "one-to-many" delivery models. These providers realize that the real leverage outsourcing delivers is the ability to invest in a global operating platform, built around best practices and supported with enabling technologies capable of serving many customers. Investment by customers in detailed process design before engaging a service provider implies a need for a unique or highly customized process. There's an obvious disconnect, resulting in wasted investment, when customers who want to maximize transformational opportunity start by designing their own unique offering.

However, even solutions tailored around a customer's specific requirements should be designed by the provider. There's a fundamental philosophy most providers advocate: "Tell us what you need and what service levels you require, but don't tell us how to provide those services." This argument is based on the fact that providers are presumably experts in their functional domains, which is an argument hard to refute. But if your provider turns out to be less than expert, you may need to find another provider.

■ **Don't Invest in Enabling Technology.** The argument against investing in enabling technology is highly compelling. Transformational outsourcers already have their own enabling tools (e.g., imaging, workflow, employee self-service, web-enabled processing, etc.) Since they leverage these tools across multiple clients, their investment can be reduced accordingly. In many cases, providers are willing to spread the cost of tools over the term of the contract to lower the customer's up-front investment and also bear risks associated with implementation. Finally, using a provider's solutions will reduce training time for both customer and provider staff. As for implementing an enterprise-wide platform, should you do that on your own first or contract with a provider for implementation (and possibly hosting) services, coupled with functional services? This is a much more difficult question that requires a depth of analysis beyond the scope of this column. There are many factors to consider involving scope, impact on timing, ability to mitigate risk and manage change, ability to derive additional savings from bundled services, imperative for change, etc.

■ **Don't Wait until all Stakeholders are Ready.** Few large-scale change efforts are undertaken without resistance; in fact, it's extremely rare to have everybody on-board at the outset of an outsourcing initiative. However, the process of performing an outsourcing assessment, selecting a partner, and jointly developing the right solution is one of exploration. The amount of learning that goes into each step along the way can not be underestimated. As projects move from phase to phase, clients often remark on how much they've gained. For many individuals, this learning experience is critical to being ready to commit when the contract execution milestone is reached. If all or many stakeholders are resisting outsourcing at the outset, this would constitute a "governance defect" and should be addressed before moving too far. However, if resistance is coming from a minority of stakeholders, invite their active participation and educate them along the way.

The practical guidelines presented in this and our previous column are general; there are no set rules. While all situations are different, the core concepts are universal.

- Set your own functional strategy and SDM. While some upfront conversations with providers may be useful in broadening your perspectives, a strong point of view, supported by economic and qualitative analysis, will protect your interests and help create the appropriate environment for change.
- Fix the "show-stoppers," but don't waste time or money addressing lesser deficiencies just to hand your process to someone else to transform. More importantly, recognize the difference and quickly address resistance disguised as "readiness arguments."
- Ensure you have a guiding coalition—governance and executive sponsorship—to be successful, but don't wait for everyone to agree. Start moving and gaining consensus as you build momentum. FAO

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The Pending F&A Labor Shortage Drives Outsourcing

By Lisa Ross

Labor shortage likely to worsen according to ACIPA.

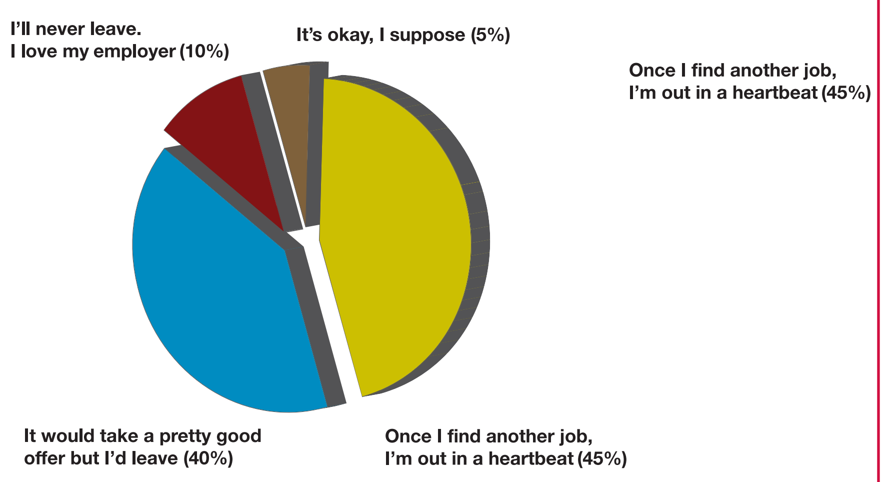
FAO Research has observed a growing labor shortage in the finance and accounting (F&A) arena worldwide, and given our unique perspective into this market, we predict that this situation is far from improving. The market statistics and projections are grim.

According to the AICPA (American Institute of Certified Public Accountants) in June 2006, "The battle for scarce accounting and finance talent is reaching unheard of proportions … Finance departments are paralyzed." Similarly, the U.S. Department of Labor forecasts a competitive hiring scenario for F&A positions, recently stating that "regardless of one's qualifications … competition will remain keen for the most prestigious jobs in major accounting and business firms."

According to a July 2006 survey from our FAO JobSearch service (www.faojobsearch.com), many employees in the F&A sector would leave their jobs "in a heartbeat" if they found different positions. Another large portion would leave given a better offer. All told, 17 of the 20 participants in this ad hoc poll are poised to explore alternate job opportunities at present. (See Fig. 1.)

These seemingly negative trends, however, are creating significant opportunities for outsourcing—an area that thrives on shortages in available talent. We present below, in collaboration with Global Recruiters of Atlanta North (GRN) as an initiative of FAO JobSearch, the market opportunities being created with the pending shortage of qualified F&A professionals. We lastly offer recommendations for

Figure 1: FAO Job Search Poll



Source: FAO Research, 2006