Best Practice Group plc

making service provider partnerships work

problematic outsourcing relationship?

8 steps to improve performance, rebuild trust and maximise value

contents

introduction

Strategic vendor relationships (which include outsourcing, managed or commissioned services, large software development or integration projects) are notorious for running over time and budget or failing completely. This means that if your relationship with your vendor has gone off track, you are not alone.

We have been asked to evaluate hundreds of problematic strategic vendor relationships, to help our clients rebuild trust and improve performance. The early stages of our reviews often show that our clients are experiencing typical symptoms and have typical questions about them. These include:

- The outsourcing service we commissioned isn't achieving the expected benefits. How do we identify the key issues?
- We've identified the key issues with the service. How do we go about improving the performance?
- We've tried to improve the performance and the vendor relationship. Both seemed to improve for a while, but now they've dropped off again. How can we maintain the higher standards we want?
- Integrating our Oracle and SAP systems is not achieving the benefits we expected. It's costing significantly more than agreed and is running substantially over the agreed time frame. How do we determine who is responsible and who pays for the rectification?
- Our vendor has insisted we pay for a large change variation in the service deliverables because it insists our requirements have changed. Our requirements have not changed. The vendor just understands more about our expectations now, so they have just been clarified. Do we need to pay it?
- We believe we've tried everything to get the relationship and performance back on track. We're still not getting the benefits we anticipated and we can't see a way forward. Can we get out of this relationship safely?
- The outsourcing service we commissioned has failed to achieve its objectives. We believe we're partly responsible because we didn't manage the relationship appropriately, but our vendor has caused most of the problems by providing a very poor service. We want to pursue a formal claim against them. Is this a good idea? What can we do about it?

This list is by no means exhaustive. Some clients contact us because they want to exit a poor performing relationship. However, in most cases, our clients simply want to (a) rebuild the trust in their vendor relationship and (b) improve the performance, so the client achieves the benefits it originally outlined in its business case and the vendor achieves reasonable margins and cash flow for delivering the services.

> Business process outsourcing and large software integration projects are notorious for running over time and budget or failing completely

There are a number of practical steps you can take to rebuild the relationship and to deliver maximum value from it over its lifetime. At the heart of this is building commercial trust – both within your organisation and between your organisation and the vendor. Commercial trust encourages the right behaviours and is an essential component of relationships that deliver innovation and that successfully adapt to your changing business requirements.

This paper outlines the eight key steps you need to go through to rebuild your vendor relationship and establish commercial trust. It complements our other guides on strategic vendor relationships, in particular our paper on 'Strategic Vendor Responsibilities' and our paper entitled 'Failed outsourcing relationship? 10 steps to getting out safely and quickly', which outlines the steps you need to take if your relationship cannot be repaired.

Poor delivery of outsourced services can cripple your organisation.

executive summary

If your strategic vendor relationship is failing to deliver your expected business outcomes, then you can take some comfort from the fact that you are not alone. According to research by numerous organisations, and BPG's experience of hundreds of such arrangements, most outsourcing relationships are not correctly aligned – by either the vendor or the client – to drive best value.

To rebuild the trust in your relationship and improve your vendor's performance, you need to understand what has gone wrong and why. What performance issues has your vendor caused? Is it all their fault or has your own team contributed to the challenges and prevented the vendor from improving performance? Independent and sanity checked evidence removes the emotion from the situation and allows you and your vendor to have a focused and objective discussion, to get matters back on track.

Rebuilding trust in the relationship is fundamental to driving innovation and maximising value. This can be a difficult step for battle-hardened project and contract managers, who may have understandably become cynical as they witness the manipulative behaviour of a poorly performing vendor. The answer is to take a step back and understand the evidence that changing attitudes towards vendor trust drives excellent value, if implemented correctly. Organisations that successfully implement commercial trust with their partners can achieve significantly better financial outcomes, as well as being more exciting, dynamic and pleasurable places to work.

Building a trusting relationship is critical, but it also needs to be balanced with appropriate contract management and measurement of the vendor's performance. Effective prioritising will help you and your vendor to focus on the big business outcomes that you want the partnership to deliver. If you concentrate on what's important, there won't be time for petty squabbles to destabilise the relationship.

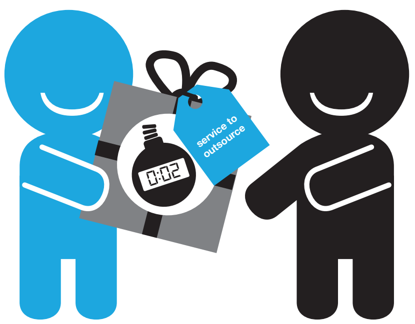
step 1: understand why you are, where you are

Strategic vendor relationships are tough to manage. If divorce rates in some parts of the UK exceed 50%, is it any surprise that strategic vendor relationships involving hundreds or even thousands of people break down? These failures are often caused by the vendor and client misunderstanding each others expectations of the business outcomes, and by misaligned cultural drivers.

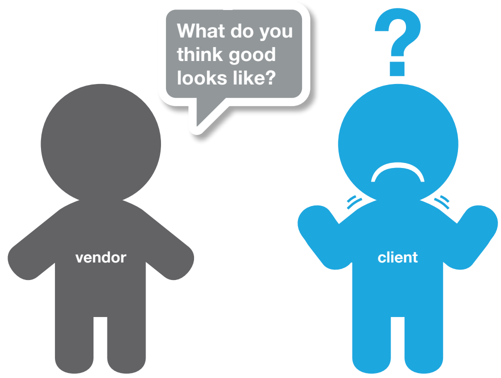
In our work to improve performance and rebuild these relationships, we often find that the vendor has 'expert responsibilities' (see Step 2), which if discharged correctly would avoid many of these issues. However, the client's behaviour often inadvertently hinders the vendor's performance, which merely heightens each party's frustrations.

First generation outsourcing clients often don't realise that when they outsource, they outsource a problem – services the client itself doesn't understand or that in-house teams can't deliver effectively. We also find that clients often haven't quantified what 'good' looks like, in terms of the outcomes they expect from their strategic partner, or that the client's service heads and other executives haven't fully agreed with (or understood) these outcomes. This leads to disappointment for both client and vendor.

The low-risk option is for clients to outsource business activities that they understand well, and for which they can write a detailed contract, specifications and operational processes and policies. Coupled with clearly quantified business outcomes, this means the client becomes 'mature' far more quickly and can then move to partnership working for more innovative and risky initiatives.



Organisations that outsource for the first time often don't realise they are outsourcing a problem.



Client organisations often struggle to quantify their business outcomes from outsourcing.

It's important to note that the majority of the outsourcing relationships we see are based on contracts in which the client pays the vendor for specific transactional services. For straightforward services with clearly defined business outcomes, this can work well. However, where more is required, such as strong collaboration or innovation to re-shape services, a 'fee-for-service' based agreement will often drive the wrong client and vendor behaviours. The client is often motivated to 'squeeze the pips' and get more from the vendor, without paying for it. The vendor is motivated to wring out as much profit as possible through variations, manipulating contract interpretations, suggesting out-of-scope services, scope creep, delivering to basic service levels and so on.

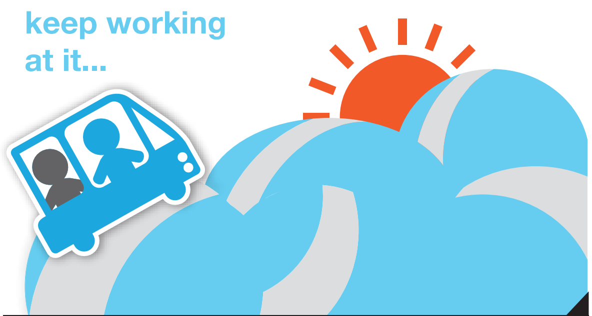
A 'fee-for-service' based agreement will often drive the wrong client and vendor behaviours

The client therefore has to ensure that the relationship management teams and senior relationship stakeholders put in place strong trust-based behaviours, aligned to contract terms that help drive innovation, maximum value for the client and a fair profit for the vendor, so the vendor is motivated to come up with transformational ideas. In turn, this will drive greater efficiencies and value for both sides.

Relationships also fail when something called 'adaptive' or 'transformational' change is required, but the outcomes are difficult to specify. This type of challenge can be recognised when individuals' hearts and minds have to change, when technical fixes aren't enough, when conflict and one-upmanship persist despite trying to rebuild relationships, and when crises keep arising.

> Relationships also fail when something called 'adaptive' or 'transformational' change is required, but the outcomes are difficult to specify

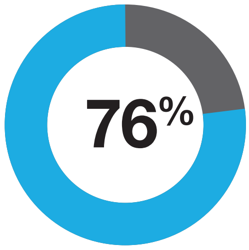
So why don't clients and vendors just work in partnership? Because it's easier said than done. Is it a true partnership if the vendor takes advantage of unclear contract wording? Or if the client doesn't put in the agreed level of skilled resource, which ultimately prevents the vendor from achieving the outcomes it promised? No, it is not. However, the day-to-day 'bump-and-grind' of keeping the whole agreement on the rails, maintaining service levels and innovating new service delivery all takes its toll on the personal relationships between client and vendor. More about how to overcome these hurdles is detailed in Step 5: Rebuild trust to maximise performance and value.



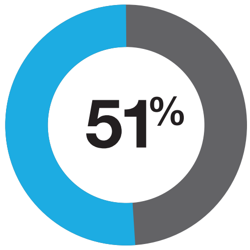
The daily 'bump and grind' in managing strategic vendor relationships is hard. You have to keep at it.

How common are relationship challenges with strategic vendors?

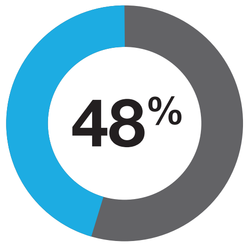
Numerous researchers have analysed the successes and failures of larger vendor partnerships. This work shows that many strategic vendor agreements fail to meet the client's expectations. Research from the Aberdeen Group shows that:



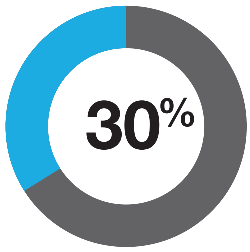
76% of companies said that the vendor management effort and costs were much higher than expected.



51% reported that the outsourcer was not performing to expectations.



Nearly 48% of outsourced projects fail outright, or fail to meet expectations.

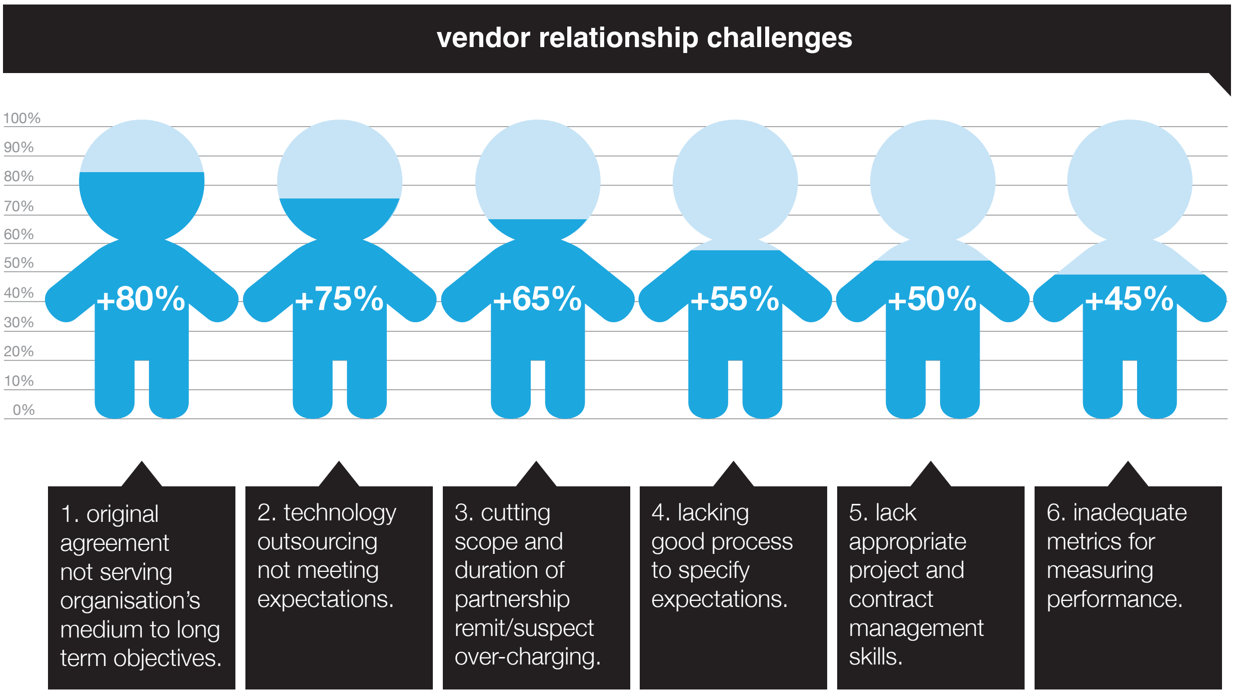


30% reported ongoing issues with outsourcer management processes, such as inadequate governance and conflict resolution procedures.

> In fact, most of the research indicated that the vendor's service and value for money was worse than when the service was operated in-house

step 1: understand why you are, where you are

Also of interest are two further pieces of research on the challenges organisations have experienced in relationship building and working in partnership with their strategic vendors. The graph below indicates some of the common challenges clients have in trying to achieve their expected business outcomes:



Technocrati and Gartner provided the research. Looking at the research above, it indicates that, in order:

1. More than 80% of respondents said that the vendor was not meeting their organisation's medium to long term objectives.

> More than 80% of respondents said that the vendor was not meeting their organisation's medium to long term objectives

2. Nearly 80% of respondents that had engaged in a technology partnership said it was not meeting their organisation's expectations.
3. Nearly 70% of respondents felt forced to cut the scope and remit of the agreement, because they suspected their vendor was overcharging them for base services.

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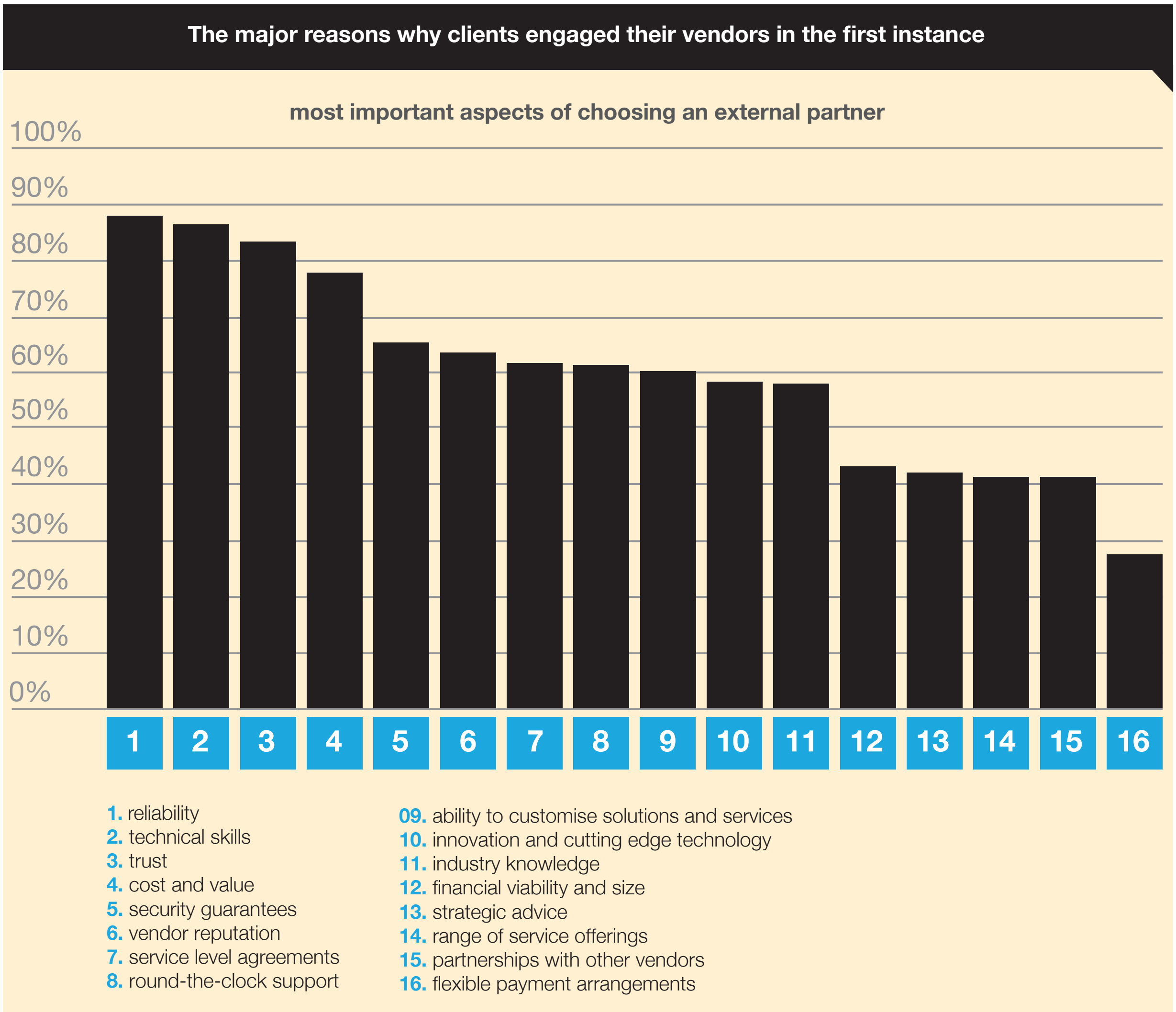
4. Nearly 60% of respondents believed that the vendor relationship wasn't working for them because the client was unable to clarify or quantify its expectations from the vendor. This is interesting because the client perceived itself to be at fault, rather than the vendor.
5. More than 50% of the clients felt that they had inadequate skills to project and contract manage the vendor, to ensure the service provided the anticipated business benefits.
6. Nearly 50% of respondents felt they had inadequate metrics to determine whether the vendor was delivering material value or not.

step 1: understand why you are, where you are



Of particular note are the first four items in the graph illustrated above. These show that more than 80% of the respondents chose their strategic partners because of:

1. **Reliability.** This was the key expectation. Clients expected the vendor to provide reliable advice and services.
2. **Technical skills.** The client perceived that the vendor had far greater and more up-to-date technical skills for delivering the relevant services.
3. **Trust.** The client expected to have a strong bond of trust with the vendor, given the client's dependency on the vendor to advise it holistically on service delivery.
4. **Cost and value.** Clients expected that a vendor, with extensive experience of delivering outsourced services, would be (a) far more effective and cost efficient, and (b) deliver higher quality services than the client was able to achieve in-house.

The research therefore shows that the four key reasons why clients engaged with their vendors were precisely the four key areas the clients did not get what they wanted. In other words, it is common for strategic vendor partnerships to go off-track and not achieve the benefits that either party expected.

step 2: understand your responsibilities to each other

There is a critical aspect that is often overlooked when creating a strategic vendor relationship, both at the outset and during the re-alignment process: the vendor's expert responsibilities.

The law implies certain obligations and responsibilities upon those vendors

When strategic vendors represent themselves as a specialist in the services you would like to outsource to them, the law implies certain obligations and responsibilities upon those vendors, even if those responsibilities aren't documented in any written contract terms or schedules attached to the contract.

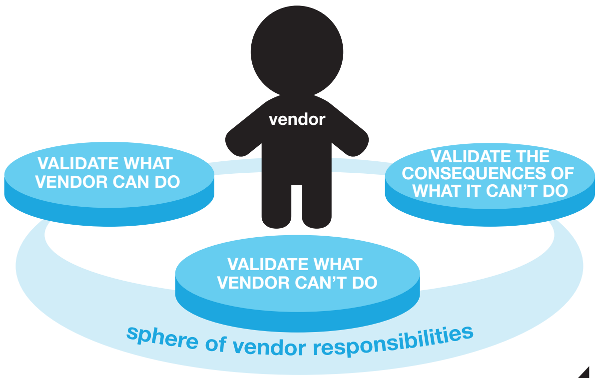
It is likely a court would take a very dim view of those exclusions and would probably not allow the vendor to rely on them

Most importantly, if the vendor acts as a specialist and it tries to exclude its expert responsibilities in the written contract terms, then it is likely a court would take a very dim view of those exclusions and would probably not allow the vendor to rely on them.

Strategic vendor responsibilities

When you're considering asking your vendor to re-scope its services, you must bear in mind the following points:

- Your vendor is responsible for ensuring that its service is fit for your intended purpose *before* they deliver the services for you. E.G. they must identify any material challenges prior to contracting with you for the services.
- Your vendor must validate your requirements prior to contracting with you at the outset. This same obligation rests with them for the re-scoping of services going forward. If challenges arise during service delivery, your vendor cannot state at a later date that your pre-contractual requirements were ambiguous.
- Your vendor cannot expect you to validate whether its service is appropriate for your requirements. The vendor must make clear what process it will go through itself to validate whether its services are suitable to meet your expectations (or not).
- Your vendor cannot "contract out of" being responsible for its advice as an expert vendor.



Your vendor has key 'expert responsibilities' that it cannot contract out of.

The adjacent list of key points relating to strategic vendor responsibilities are known as "implied" terms under the Sales of Goods Act 1979, Supply of Goods and Services Act 1982 and the Sale and Supply of Goods Act 1994. Implied terms are usually legally binding, regardless of whether they are actually contained within the contract wording. If a provider insists on contract terms that run contrary to one or more of the implied terms, then you should wonder how serious they are about rebuilding your relationship with them.

Your responsibilities to your strategic vendor

While your vendor has specific expert responsibilities to you, you should also remember that the onus is on both parties to maintain a working relationship. The case of Anglo Group Plc v Winther Browne & Co Limited [2000] 72 Con LR 118, established some clear responsibilities on the client side.

Your responsibilities are to:

1. Clearly communicate any special needs to the strategic vendor. If you become aware of issues that the vendor might have missed during their scoping, you are obliged to raise this with them.
2. Take reasonable steps to ensure that the strategic partner understands those needs.
3. Devote reasonable time and patience to understanding how to work with your strategic partner.
4. Reasonably work with your partner to resolve the challenges that will almost certainly occur.

step 2: understand your responsibilities to each other

Your organisation also has responsibilties to work closely with your vendor.

Inadvertently removing your strategic partner's expert responsibilities

Another critical, but often unappreciated factor, is that your own behaviour can affect whether the vendor has to abide by its contractual responsibilities.

> Your own behaviour can affect whether the vendor has to abide by its contractual responsibilities

Your client side team and Intelligent Client Function will often operate project management frameworks (such as PRINCE2) and contract management processes to support and measure the relationship's performance. However, vanilla project management frameworks usually only take account of the project's operational aspects, not the delineation of expert responsibilities implied in law. This can result in the majority of your contractual protection becoming unavailable.

In practical terms, the problem arises because the project managers do the 'right thing' from a project management perspective and take control of the errant relationship, eroding the vendor's expert responsibilities from a contractual point of view. Worse still, the project manager and the client organisation usually end up becoming the 'expert' themselves. This means that you can no longer rely on the vendor's expertise and the vendor can attempt to charge you for every change to their service, irrespective of whether the vendor was the cause of the problem.

For more details on this issue, please see the white paper on Strategic Vendor Responsibilities on our website.

step 2: understand your responsibilities to each other

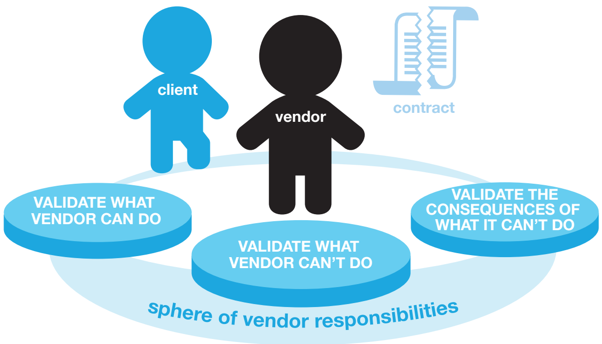
More effective transparency in responsibilities during service re-scoping

By being clear about the business outcomes you expect from the relationship, you can significantly accelerate the process of service improvement and rebuilding trust with your strategic partner. This often comes from the vendor undertaking a re-scoping (due diligence) exercise, so the vendor has a fair chance of evaluating your business expectations and you can contractually rely on the advice the vendor provides, in line with its expert responsibilities.

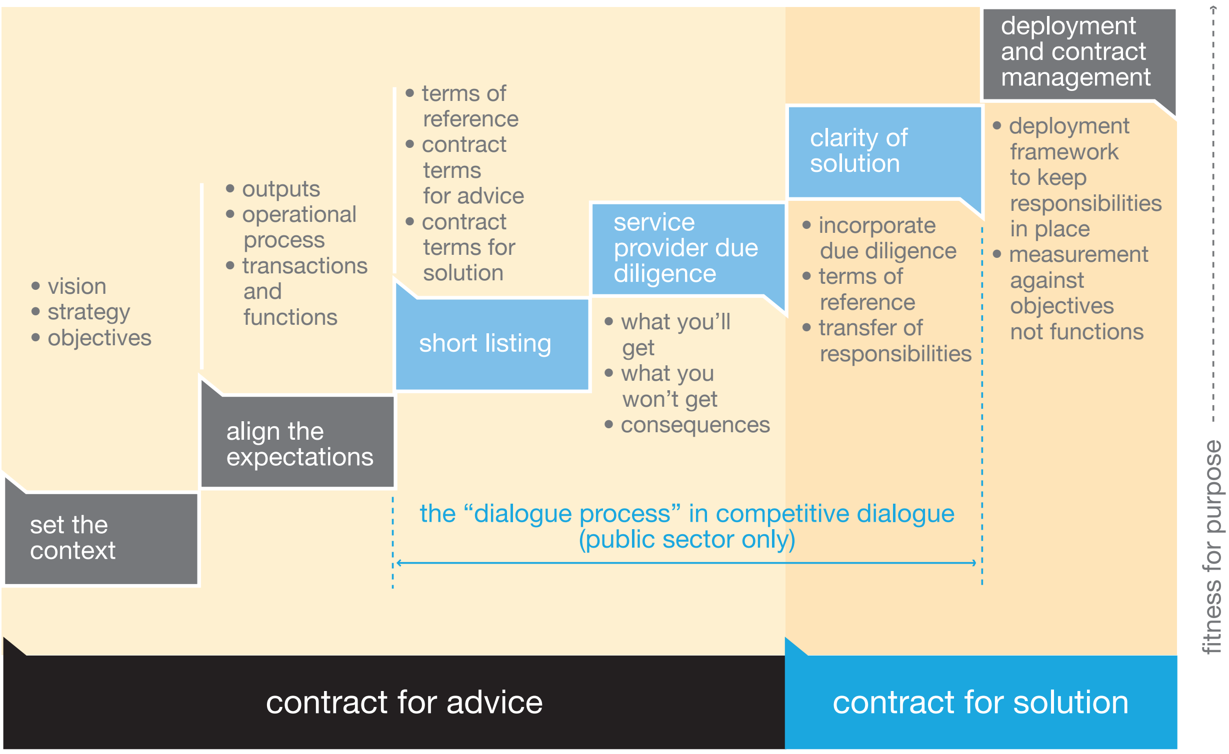
It is important that during the re-scoping phase, you contract for the advice you are relying on from the provider separately to the solution they are going to deliver to you

In this respect, it is important that during the re-scoping phase, you contract for the advice you are relying on from the provider *separately* to the solution they are going to deliver to you.

In this way, you avoid the inevitable issues when further misunderstandings arise in 6 or 12 months' time and you perceive that the vendor is failing to deliver to your expectations, and the vendor claims that you held back information or miscommunicated an important deliverable.



If the client project manager 'steps in' to fix things, you can inadvertently remove the vendor's 'expert' contractual responsibilities.



The diagram above identifies the key steps that should be undertaken during any re-scoping phase to ensure that the vendor has appropriate visibility of your expectations. For those individuals reviewing this paper who experience challenges in the public sector, the reference to Competitive Dialogue reflects the stage of the process during any re-tendering procedure.

step 3: identify the performance hurdles

The key issue in fixing poor performance is identifying the actual cause. In fact, there will often be several causes, some of which will result from your own team's actions and some from the vendor's actions.

Are you sure your own team has not prevented the vendor from achieving your business outcomes?

Set out below are eight actions that explain the process for establishing the root causes of poor performance. These steps should also assist you in reviewing where behaviours on both sides need to improve.

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The evidence you document as a result of your investigations will assist you in future discussions with your vendor and help you to work with them to significantly improve performance, rebuild trust in the relationship and achieve your business outcomes.

Identifying service performance impacts to discuss with your strategic partner

Action 1: Evidence the expectations you had at the outset of the agreement

Were your business outcomes clear at the beginning of the agreement?

The starting point for working out what has gone wrong is to remind yourself what you were expecting from the relationship in the first place:

- Check your original business case to determine the business benefits you expected from the relationship.
- Have they changed/moved on since?
- What were the operational improvements you expected and that you believed the vendor said it would deliver?

Next, compile a schedule of all of the material challenges you believe you are experiencing with your partner's service delivery, and that do not align with the business outcomes you originally expected. Do you have details of how long those challenges have been outstanding?

Action 2 : Understand which business outcomes or expectations are actually scheduled in the written contract terms

Once you have reminded yourself of your original expectations for the relationship, you will be in a position to check how these are reflected in the written contract terms.

Are all of the schedules (i.e. your requirements, expectations, implementation plan and so forth) specifically referenced in the written contract or are you assuming they are implied into it?

How the written contract was developed is also important here. If the contract was:

1. **Negotiated from scratch,** then the contract terms are unlikely to help you to rebuild trust if they can be interpreted too widely.
2. **The vendor's standards terms without modification,** then it will be easier to deal with the ramifications of terms that might not work in your favour, when rebuilding trust
3. **The vendor's standard terms with some modification,** then dealing with the ramifications can involve more detailed work, but the contract can still be aligned with rebuilding trust.

As a double check, is the contract actually signed by both you and the vendor? We occasionally see contract terms that have been agreed but not signed, or that schedules haven't been attached to. This can cause misunderstandings that undermine trust going forward.

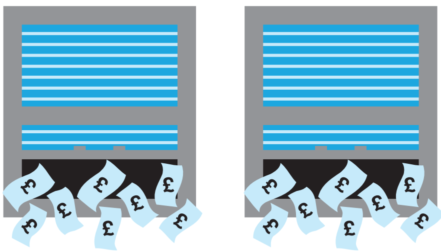
This can cause misunderstandings that undermine trust going forward

step 3: identify the performance hurdles

Action 3 : Quantify the unexpected costs you have incurred through perceived poor performance

The third action is to quantify the financial costs you have incurred, as a result of your vendor's inability to achieve your objectives. These could include:

- The time you have spent working with the vendor to address performance issues
- The costs of external advisors you have had to engage
- The costs of existing service delivery lines you have had to continue operating
- Any legacy system, maintenance and development costs you have had to continue incurring
- The costs of interim or temporary staff you have had to employ, to keep performance at a reasonable level.



Quantify the costs you are losing as a result of poor performance.

Action 4 : Understand the obligations and responsibilities between you and your strategic partner

A vital step in understanding the cause of poor performance is to ascertain who was contractually responsible for key aspects of the relationship.

- First, who was responsible for project management in the written contract terms?
- What was the vendor's role in managing the project, and how did your own people participate in managing the written contract?
- Was it a term of the written contract that there would be a true 'partnership' approach to managing the relationship?

Next, determine the extent to which you relied on your vendor's advice. This has a key bearing on the vendor's expert responsibilities:

- Did you rely on the vendor's advice as to the benefits the relationship would bring to your organisation?
- If so, are there any documents to evidence that you had this reliance?
- Alternatively, were you happy that you undertook enough due diligence on the vendor that you did not need to rely on its advice?

Action 5: Work out your objectives in rebuilding trust with your strategic vendor

Clear business outcomes, understanding the vendor's 'expert responsibilities' and actioning agreed tasks will help re-build the relationship.

To rebuild trust with your vendor, it's important to have clear objectives in mind. What do you believe is an appropriate outcome from bringing this matter to a head? Is it to:

- Get the vendor to resolve the issues you're experiencing, and prevent further issues arising?
- Resolve the problems and get compensation or reduced fees for a suitable period?
- Buy you time to put a contingency vendor in place for aspects of the service that are not performing? You would normally want to retain the existing vendor for the services they deliver well.

Work with your vendor to find out what is wrong and build a roadmap for improvement together.

Your chances of rebuilding the relationship and improving performance are enhanced if you also consider the vendor's position in your planning. What do you think the vendor would consider an appropriate solution to the current dilemma?

What do you think the vendor would consider an appropriate solution to the current dilemma?

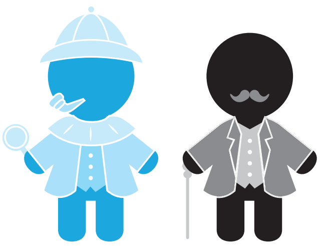
In summary, what would it take to satisfy you and what do you think would be a fair and equitable solution?

Action 6: Ensure you cover all the other pertinent factors

In addition to the actions we've listed above, there are a number of general points that you need to take account of.

First, it helps to have an outside view of your situation, to ensure your perception of events stacks up.

- Have you had your expectations, contract terms, requirements, schedules and perceived performance issues externally validated?
- If so, did this suggest where you and your vendor need to change behaviours, in order to rebuild trust in your relationship?
- Overall, do you believe that the evidence you have of your vendor's lack of performance would stand up to independent scrutiny?



Investigate your evidence holistically to make sure you don't miss anything material to your symptoms.

Next, consider why the vendor has failed to deliver your expected business outcomes.

- Could there be more than one cause of the symptoms you're experiencing?
- Were your expectations not quantified or sufficiently transparent for your vendor to be able to understand them? Note that this does not let the vendor 'off the hook' if it has misunderstood your expectations. Its expert responsibilities required it to identify any of your requirements that were unclear. If this was the case, your vendor should have warned you about this pre-contractually, so you could make an informed decision about how it was approaching its due diligence. If your vendor didn't warn you, it is up to the vendor to remedy the position and meet your business outcomes, bearing any additional cost itself.

If your vendor didn't warn you, it is up to the vendor to remedy the position and meet your business outcomes, bearing any additional cost itself

- Could it be that the problems are due to your vendor's lack of operational competence?
- Was time of the essence in achieving the business outcomes from the relationship and was it an express part of the contract?

It's possible that at least some of the problems are on your side

It's possible that at least some of the problems are on your side. For example, your own team's actions could have contributed to the problems you are experiencing by preventing the vendor from performing appropriately. In the original contract, there will also have been resources you agreed to provide to allow the vendor to achieve your outcomes. Did you do so, and in a timely manner?

The problems may stem from your vendor's due diligence – or lack of it before they signed the contract.

- Do you think the vendor should have asked more questions about your expectations, to ensure your business outcomes could be fulfilled?
  - If so in which areas?
- Could the vendor have undertaken more appropriate due diligence on the business outcomes you were trying to achieve?
  - If so, have you had any conversations with your vendor where it was inferred they could have provided better advice to you of the compromises you would have to face, before accepting the agreement or providing you with their services?

It's also possible that you might, in some way, have hindered the due diligence process. When the vendor was originally investigating how it might achieve your business outcomes, were all of your responses to its questions factually correct?

When the vendor was originally investigating how it might achieve your business outcomes, were all of your responses to its questions factually correct?

step 3: identify the performance hurdles

Communication with your vendor about the issues you're experiencing is another key point.

- You should have been communicating the problems to the vendor on a regular basis, in writing (email or hard copy).
- Have you escalated those issues in line with the procedure in your written contract terms?
- Do you have a formal issues log, with vendor acknowledgements, of the problems being experienced?

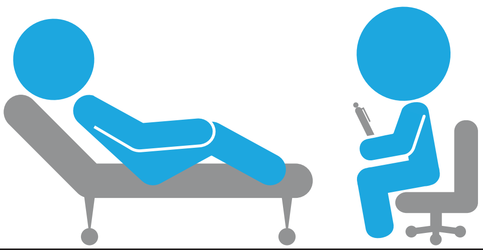
Finally, consider the current state of your relationship with your vendor.

- How strong is the relationship?
- Have you withheld payment for invoices that you dispute due to the level of performance provided?
  - If so, for what specifically?

Action 7: Sanity check your evidence

Once you have gathered your evidence, the next step is to ensure that it reflects the situation as you thought it would, and that you have a clear understanding of:

- Where you have fulfilled your obligations to the vendor and where you have not.
- Where you believe the vendor has provided good business outcomes and where it has not.



It can be much safer having an independent check on the symptoms you are experiencing.

At the end of the sanity checking stage, you should know whether the evidence you have collated is a fair reflection of both your performance and your vendor's performance in the relationship. Evidence is often imperfect. All you are looking for is whether, on balance, the vendor has delivered to your expected business outcomes or not, and whether your own team has materially hampered the vendor in any way.

Evidence is often imperfect. All you are looking for is whether, on balance, the vendor has delivered to your expected business outcomes or not

You should also have a much clearer idea of whether your vendor has discharged its 'expert' obligations, including its duty to warn you of issues that, in its experience, may have a material impact on its ability, to achieve your business outcomes.

Action 8: Compile a schedule of points to discuss with your vendor

Following the first seven actions will give you a clear idea of what you need to communicate to your vendor, so you can start to rebuild the relationship.

Start by creating a basic chronology of events from the inception of the relationship. This will include the background to why you selected the vendor and felt comfortable with its expertise. Explain what you perceive to have gone wrong, your evidence that supports these perceptions and the work you've done to review the evidence.

Compile clear schedules of what business outcomes you expected, why you selected the vendor, what has gone wrong and how you would like to re-build the relationship.

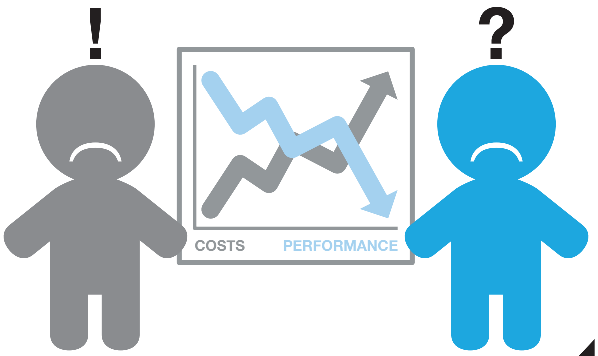
Next, state your objective in raising these issues. Explain the business outcomes you would like to achieve by rebuilding the relationship and why you want this relationship to work. Detail the behaviours you think need to change, by both you and the vendor. Set out the time-frames by which you would like to start rebuilding trust with your provider, and say that you would like to work with them to determine how to measure the success of that rebuilding.

Finally, give dates when your senior officers will be available to meet the vendor, to agree how to move the relationship forward.

Explain the business outcomes you would like to achieve by rebuilding the relationship and why you want this relationship to work

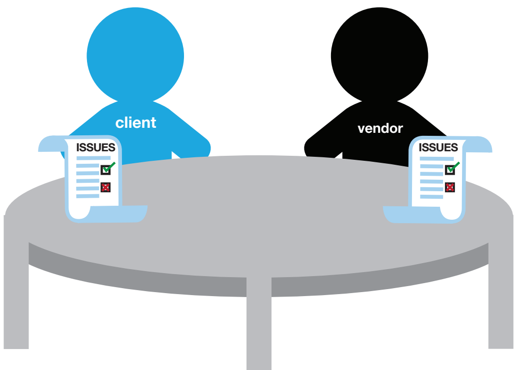
step 4: communicate your expectations of performance improvement

If you believe your vendor is not delivering the business outcomes you expected, then there are bound to be issues with the relationship. As well as your dissatisfaction, it's likely that the vendor feels it is making an inadequate financial return and that it is providing services that it hadn't intended within the original agreement.



Poor performance usually means both you and the vendor will be frustrated.

If you are to have any chance of improving service performance and rebuilding the relationship, both you and your vendor need to be clear about your expectations. The key issues to focus on are a re-scoping of the business outcomes you expect and a clear plan from the vendor for achieving those outcomes.



Work with your vendor to quantify outcomes that benefit both of you.

Some of the key steps you need to follow are:

1. **Agree your expected business outcomes with your vendor.** Be mindful that both you and your vendor must keep your focus and actions aligned to achieving these outcomes and not let short-term misalignments distract you.
2. **Check your requirements are clear, unambiguous and aligned to both your operational processes and business outcomes.** Keep them that way through the life of the relationship. Understand that both business outcomes and your requirements will change during any long-term relationship.

> Check your requirements are clear, unambiguous and aligned to both your operational processes and business outcomes

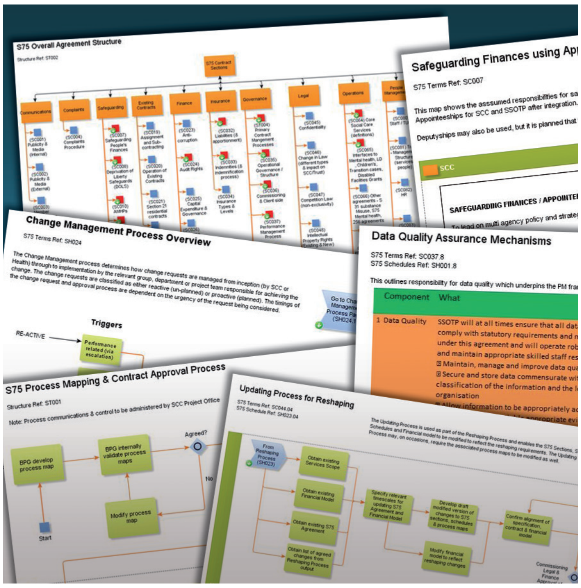
3. **Make sure you clearly document your requirements and operational processes and that they overlap in the right way** so that you and your vendor can iron out any kinks in your respective expectations as the relationship progresses. No surprises means a constructive relationship, lower costs and faster benefits realisation.
4. **Ensure that your requirements have clearly quantified outcomes,** rather than simply being an input or output based specification. This allows your vendor to provide you with much more holistic advice and to have mature conversations about the direction of travel for your organisation, how the relationship can drive better value and how it can be put back on track quickly and with minimum pain.

> Ensure that your requirements have clearly quantified outcomes

5. **Work out the governance changes**. You and the vendor should identify the individuals on both your own and the vendor's team who have high moral values and can help drive the trust necessary to maximise value for both parties. You should also restructure the governance board and committees to drive the right behaviours, so you achieve the joint outcomes you want. Ensure as part of your governance process that you have a suitable innovations board that helps to capture and sanity check ideas, pilots them effectively and puts them into primary service production at the earliest opportunity.

step 4: communicate your expectations of performance improvement

6. **Update the contractual documentation.** If you've been experiencing performance issues from your vendor, then it's likely that the current contractual arrangements and schedules do not reflect the current business outcomes you need. Ensure these are updated and aligned, so there aren't any material impediments in the contract that drive the wrong behaviours from either party. The contract terms should follow how the service is actually being delivered on the ground to achieve your business outcomes.



As part of this process, you should diagram the key operating aspects of the contract terms, so that:

(a) the diagrams reflect how the service is actually being delivered on the ground

(b) the contract terms make direct reference to the diagrams for operating and escalation procedures, and

(c) it is very easy for non-lawyers (i.e. both your operational people and the vendor's) to understand.

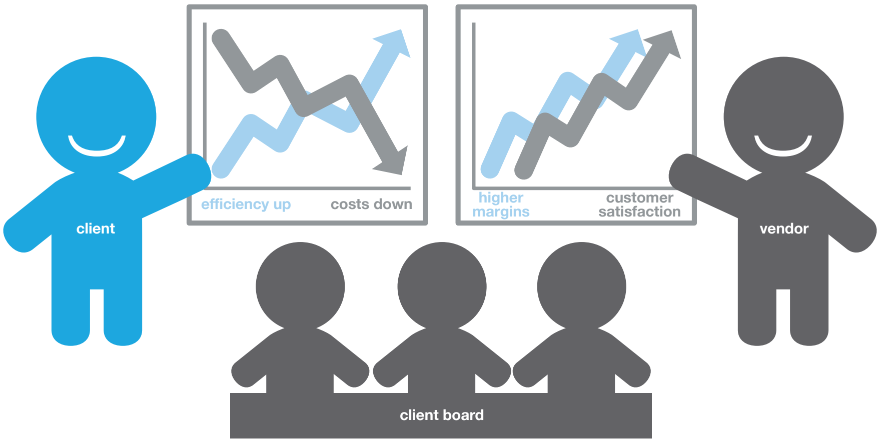
> As part of this process, you should diagram the key operating aspects of the contract terms

In this way, the key aspects of the contract are fully transparent, so neither party inadvertently breaches the contract by trying to do 'the right thing' – and then gets penalised for it.

Finally, put in a process that reshapes the contract every six months. The process should capture service innovation improvements from the service delivery coal face, and update the contract terms, contract diagrams and service specifications. This minimises the risk of the contract terms not aligning to current service delivery methods, thus reducing the potential for misunderstandings over contract interpretation in the future, when stakeholders in the relationship change.

Regularly reshaping the contract also reduces the risk in the exit process, when the relationship comes to its natural end or you decide to exit from the relationship early. Your ability to bring the services back in-house or to change to another vendor is significantly improved, because your service specifications and contract terms reflect current practice.

step 5: rebuild trust to maximise performance and value



High levels of trust between client and vendor helps to drive the innovation needed to enable maximum value to be achieved for everyone involved.

Your peers and other high level executives, who are not on the front line of managing a complex outsourcing relationship, need to understand that it's tough to drive maximum value from such an arrangement while keeping a strong relationship with your vendor.

> It's tough to drive maximum value from such an arrangement while keeping a strong relationship with your vendor

Trying to envision all of the specifics up-front in a five, ten or twenty year relationship is a real challenge.

The economics of the outside world are constantly changing, making it hard to pin down the outcomes your organisation is trying to achieve. It's also increasingly difficult to envision and capture up front all of the specifics that need to be addressed in a long-term relationship, especially one that includes at its core new and disruptive technologies and innovation to drive better service delivery.

Clients involved in a strategic vendor relationship often assume that the vendor will attempt to class misunderstandings over their expectations as 'chargeable scope creep'. Conversely, vendors often experience clients trying to class legitimately different requirements as 'in scope', to prevent further charges being levied. This can promote distrust between the parties, creating the wrong environment and preventing the partnership from developing positively.

> This can promote distrust between the parties, creating the wrong environment and preventing the partnership from developing positively

step 5: rebuild trust to maximise performance and value

This page provides an insight into the concerns and frustrations people on the front line experience in vendor relationships that lack real commercial trust.

The quotes below, from our work helping clients and vendors to rebuild trust, are representative of relationships where commercial trust is low:

"'Doing more with less' seems to bring out the worst in people I work with. Tensions are higher than ever. How can we build trust in our organisation when we are under such pressure to perform?"

"Our vendor feels aggrieved at the way they have been treated by us."

"Our vendor doesn't seem to care about us."

"We no longer trust our vendor as a 'partner'."

"We don't care about our vendor but we shouldn't have to; we're paying them for a service."

"When push comes to shove, we just get told by the client what to do. Collaboration and innovation seems way off the agenda."

"The value in the strategic relationship with our vendor was high at the beginning, but it's now diminishing the longer it goes on."

"My boss tells me he trusts me, but the way he micromanages and hovers over me shows just the opposite. Why can't he see that?"

"We are an outsourcer. We should stop dancing around the fact and understand the relationship we have."

"You can't buy partnership and what we have is a contract and a supplier relationship."

"I know the majority of our department needs to collaborate with other departments, but how can I collaborate with people I don't trust?"

"How can I dare risk trusting people when the costs of being wrong are so great?"

"What else is there, other than contract and commercials?"

"How do I know who I can trust and why?"

step 5: rebuild trust to maximise performance and value

If you suspect your own organisation is operating with low trust towards its strategic partner, and that the partner is reciprocating with equally low trust, then undertake a short survey to get a feel (and some basic evidence) for where the relationship currently stands. The example quotes on the previous page have been gleaned from such exercises in past assignments. More of the types of questions you can ask in the survey are detailed later in this section.

An internal survey of the relationship that your service users perceive between you and the vendor might provide some useful insights.

Our experience of more than 500 strategic vendor relationships informs us that building commercial trust is critical to their success. It enables people to address shifting realities in mutually beneficial ways, and in the process produce significantly better results than power-based relationships, which rely on rigidly enforcing service level contracts.

> Our experience of more than 500 strategic vendor relationships informs us that building commercial trust is critical to their success

What is commercial trust?

Commercial trust is about on-the-ground behaviours on both sides. It exists when someone does what they say they are going to do, when they say they are going to do it.

> For the ‘battle-scarred’ and experienced contract managers amongst you, who have been on the wrong side of a relationship with a manipulative vendor, the concept of ‘trust’ will be hard to accept

For the ‘battle-scarred’ and experienced contract managers amongst you, who have been on the wrong side of a relationship with a manipulative vendor, the concept of ‘trust’ will be hard to accept. Based on some of the vendor relationships that we’ve been involved with, we would agree with you.

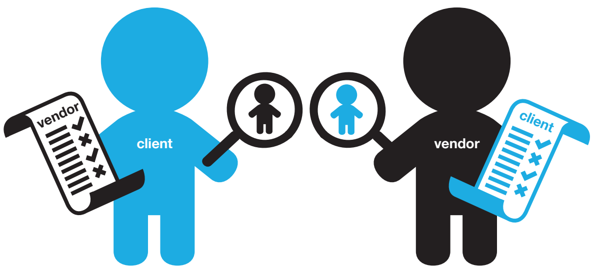
There are times when you have to wonder what is in the mind of a vendor, when it’s clear it is manipulating the relationship to its own ends. Often, vendors would say the same about their clients. What is clear is that manipulative behaviour won’t help them or you to drive innovation and get to the real business outcomes you need to achieve, or to maximise value from the relationship.

This means that you really need to force yourself to take a step back, particularly if you are more experienced in dealing with vendor relationships. Building trust works, if it’s done correctly. The business case for trust is clearly set out later in this section, with examples of organisations that have successfully implemented trust-based initiatives and relationships, aligned with an appropriate balance of power based contract management.

> This means that you really need to force yourself to take a step back

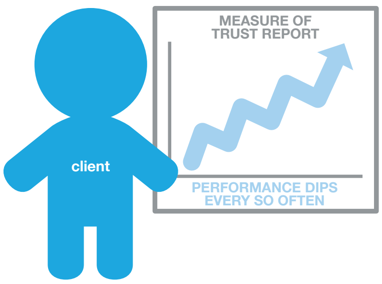
There are three key aspects to developing commercial trust with your strategic vendor:

1. As difficult as this may be, you need to start from an assumption that most people are basically good and therefore trustworthy. Taking this step will open up a world of possibilities in your vendor relationships.
2. Starting with a propensity to trust *doesn’t* mean you should trust everyone. After you’ve done your commercial trust analysis (see point 3), you may conclude that someone should not be trusted. But if you lead with distrust, you won’t even see the possibilities.



Don’t be surprised if the vendor is also keeping track of how much their teams trust you, as well as you determining how much you trust them.

3. Commercial trust is about your own personal judgement. It's based on what your instincts and evidence tell you about someone's motives. Commercial trust is therefore a competency and a process that enables you to operate with high trust in potentially low trust environments. It helps you to minimise risk and maximises possibilities.



Note that when you try to re-build trust, both the vendor's and your own teams will drop the ball on occasions. Don't let the odd 'blip' de-rail the trust building process.

It's important to note, however, that commercial trust is not a substitute for high expertise in contract management. The two go hand in hand. Commercial trust encourages the right behaviours, so you achieve the maximum from a well-managed contract.

It's important to note, however, that commercial trust is not a substitute for high expertise in contract management

Commercial trust analysis

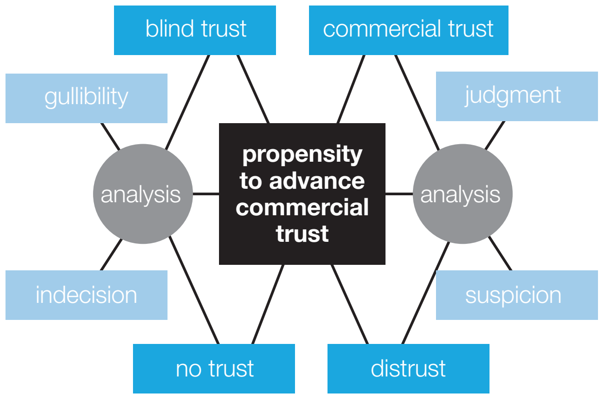
Commercial trust is not 'blind trust'. You need to carry out a reasonable amount of due diligence to ensure your trust is well placed.

Your commercial trust analysis should cover three areas:

1. **Opportunity.** What are you trusting someone with? Is it for them to come up with a key strategy? Resolve critical problems? Manage a critical project? Assessing an opportunity is simply a matter of identifying what it is that you're taking on trust.

Life is full of risk and there's no way we can avoid it. To trust is to take a risk, but so is to distrust

2. **Risk.** Life is full of risk and there's no way we can avoid it. To trust is to take a risk, but so is to distrust. The objective of commercial trust is to manage risk wisely and to extend that trust in a way that will maximise value in the relationship. To manage this, we need to evaluate the degree of risk involved. This requires us to know the possible outcomes, their likelihood, and their importance and visibility.

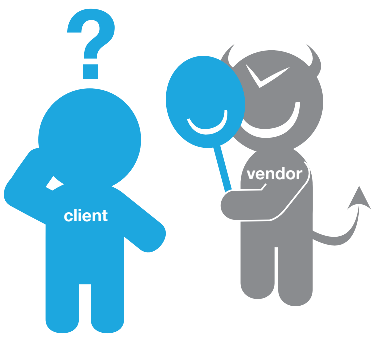


If their credibility is low and the risk of extending trust is high, you may decide that it's smarter not to extend trust

3. **Credibility.** This comes down to the character and competence of the people involved. Extending trust is sometimes a leap of faith. In making that leap, it nevertheless pays to exercise due diligence in ascertaining the credibility of the people or organisation involved. If their credibility is low and the risk of extending trust is high, you may decide that it's smarter not to extend trust. Or you may choose to extend trust cautiously, believing that this will help the person or organisation to increase in trustworthiness, step by step.

step 5: rebuild trust to maximise performance and value

Overall, commercial trust is mainly about the individuals in both organisations, who have the necessary values and a sense of higher purpose – in other words, high moral values. If you can't identify those individuals within *both* organisations, or your early experimentation with trust-based initiatives doesn't work, then you'll need to stick to a power-based relationship, where contract interpretation and drafting are key. You will, however, miss the many powerful benefits of commercial trust, which are described below. It's also worth noting that outsourcing contracts are typically poorly constructed, based on faulty cost and benefit assumptions, have ambiguous drafting and incomplete terms. This makes them a necessary but insufficient governance tool for outsourcing.



Are both you and the vendor operating to high moral values?

"The chief lesson I have learned in a long life is that the only way to make a man trustworthy is to trust him; and the surest way to make him untrustworthy is to distrust him and show your distrust"

Henry L Stimson, a former US Secretary of State

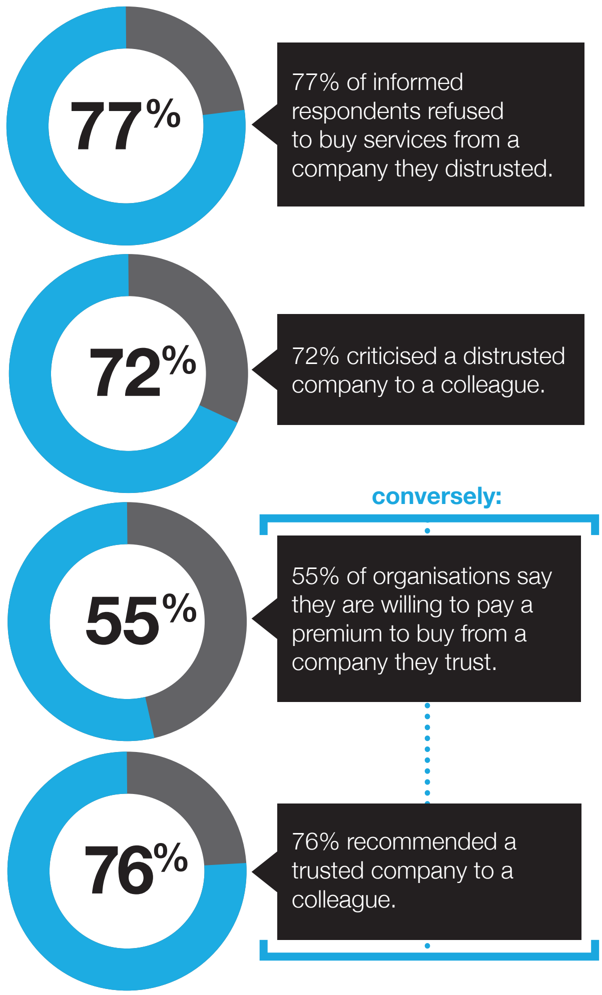
Why does commercial trust matter so much in strategic vendor relationships?

In our experience, commercial trust powerfully affects an organisation's reputation, its ability to partner and collaborate with others, its capacity to innovate, its ability to attract, retain and engage great people, and the speed at which it can execute all these aspects of success, plus many more.

Thought leaders who deal with strategic vendor relationships now understand that implementing and practising commercial trust is a major 'currency' in its own right. It is fast becoming a fundamental basis upon which people start, or continue, strategic relationships.

Thought leaders who deal with strategic vendor relationships now understand that implementing and practising commercial trust is a major 'currency' in its own right

For example, the Edelman Trust Barometer showed that:



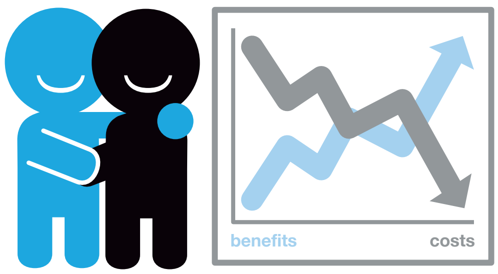
As a comment from Zinc Research stated: "One day a company might be better off asking not what its margins are, but what its trust factor is."

"One day a company might be better off asking not what its margins are, but what its trust factor is"

step 5: rebuild trust to maximise performance and value

Strong commercial trust between the client and vendor drives the risk-taking that leads to innovation and progress in strategic vendor relationships. When trust rises, the speed of achieving benefits goes up and costs go down. People are able to communicate faster, collaborate better, innovate more and do business more quickly and efficiently. The Covey Leadership Center calls this the 'high-trust dividend'.

Strong commercial trust between the client and vendor drives the risk-taking that leads to innovation and progress in strategic vendor relationships

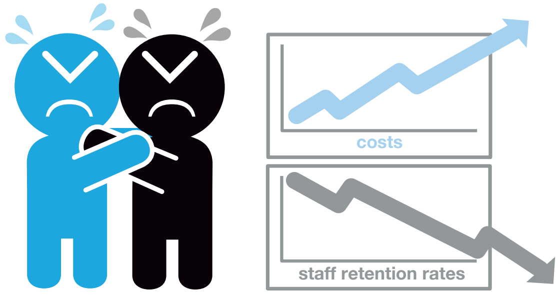


Strong commercial trust helps to generate an environment of innovation that drives maximum value.

Benefits of operating commercial trust

The financial and operational benefits of driving commercial trust across both organisations can be significant and provide compelling evidence for investing significant effort and resource. For example:

- A survey in association with the London School of Economics showed that clients in vendor relationships with strong commercial trust incurred up to 40% less cost to reach significantly higher organisational outcomes.
- Gartner Research showed that in major enterprise software partnerships that lacked trust, the client was likely to invest up to double its anticipated spend in the end-to-end costs of operating the service. Despite this additional investment, clients were also likely to fail to achieve their *original* business outcomes within two years.



Strong contract management is essential, but if commercial trust is lacking, innovative performance will also suffer.

- The stress of being a service user in a dysfunctional strategic vendor relationship means that staff turnover in departments that use the outsourced service is likely to be 55% higher than in organisations that have strong trust. While staff turnover might not form part of your personal KPIs, the cost to your organisation is likely to run into many millions of pounds.

"It is better to trust and be disappointed occasionally than to mistrust and be miserable all of the time"

John Wooden from UCLA

Research from the Covey Leadership Center indicates that organisations that operate with 'positive intent' (i.e. commercial trust) towards their strategic partners, have significantly lower costs and higher margins and revenues than their sector peers.

The following page outlines organisations that operate the key principles of commercial trust analysis involving the assessment of opportunity, risk and credibility.

Organisations which have benefited from lower costs and higher margins by operating a 'commercial trust' policy.

PEPSICO
72% ↑
100% ↑

PepsiCo: since Indra Nooyi (a staunch believer in the principles of commercial trust) became CEO, PepsiCo has become the world's second largest food and beverage firm, increasing its revenues by 72% and net profit by 100%

FOUR SEASONS Hotels and Resorts
25% ↑

Four Seasons Hotels and Resorts: 25% better financial returns than industry average

FritoLay
17% ↓

Frito-Lay (part of PepsiCo): 17% lower costs than industry average

AVON
23% ↑

Avon: 23% more margin than industry average

BERKSHIRE HATHAWAY INC.
46% ↑

Berkshire Hathaway: 46% better financial returns than industry average

ebay
75% ↑

eBay: 75% better financial return than industry average

sas
14% ↑

SAS Institute: 14% better financial returns than industry average

GRAMEEN™
98% +
23% ↑

Grameen Bank: 98% debt recovery with no signed loan agreements; 23% better than industry average *with* signed loan agreements

WIPRO
27% ↑

Wipro: 27% better financial returns than industry average

GORE Creative Technologies Worldwide
21% ↓

WL Gore & Associates: 21% lower costs than industry average

Zappos.com
46% ↑

Zappos: 46% better financial returns than industry average

AMERICAN EXPRESS
16% ↓

American Express: 16% lower costs than industry average

Ucla BRUINS
27% ↑

UCLA: 27% higher revenues than industry average

Google
76% ↑

Google: 76% higher revenues than industry average

step 5: rebuild trust to maximise performance and value

Trust based partnering

Research also shows that organisations that adopt a trust-based, partnering approach have much more positive relationships with their vendors than those that choose a power-based approach. Researchers for the London School of Economics identified the key features of both types of relationship, which are shown in the table below. This also reflects our experience in helping both clients and strategic vendors understand why they are not achieving their intended business outcomes.

partnering-based relationship	
ORIENTATION	
COMMUNICATIONS	collaborative and open
CONFLICT	sharing and learning
RELATIONSHIP	long-term investment
STRATEGIC	quality, service, fairness
VALUES	inter-dependence, mutual benefit
PERFORMANCE	innovation

power-based relationship	
ORIENTATION	
COMMUNICATIONS	coercive and secretive
CONFLICT	blaming and manipulating
RELATIONSHIP	short-term gain
STRATEGIC	getting more for less
VALUES	independence, self-interest
PERFORMANCE	cost

Source: Cullen and Wilcocks, London School of Economics

It's also not surprising that organisations that value commercial trust are more invigorating, dynamic and productive places to work

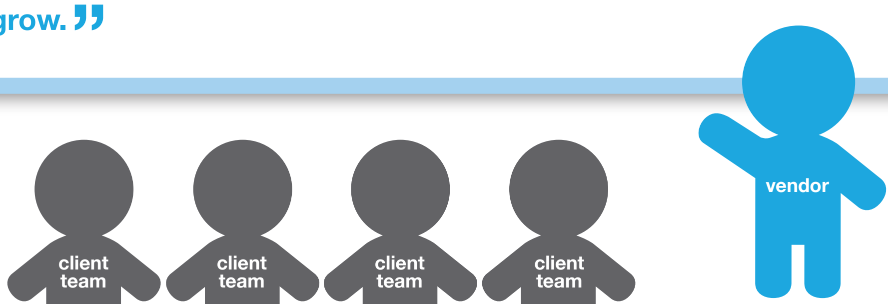
Our experience shows that not being able to trust commercial and strategic partners significantly demotivates the people who manage the agreement day to day

The illustrations below provide some insight into the mindsets of individuals involved at the coal face, when asked which words they associated with strategic vendor relationships. Small wonder that staff turnover can be so much higher where there is poor commercial trust, as we noted earlier.

step 5: rebuild trust to maximise performance and value

Finally, as far back as 1948, William McKnight, then the CEO of 3M Corporation, made the following observation about the importance of trust in allowing initiative to flourish:

> **“As our business grows, it becomes increasingly necessary to delegate responsibility and to encourage everyone to exercise their initiative. This requires considerable tolerance. Those men and women, to whom we delegate authority and responsibility, if they are good people, are going to want to do their jobs in their own way.**
>
> **Mistakes will be made. But if a person is essentially right, the mistakes they make are not as serious in the long run as the mistakes management will make if it undertakes to tell those in authority exactly how they must do their jobs.**
>
> **Management that is destructively critical when mistakes are made kills initiative. And it’s essential that we have many people with initiative if we are to continue to grow.”**



Giving autonomy to both the vendor and your own teams in managing the outcomes from the relationship is vital.

How can you build commercial trust?

Behaviours that build trust aren’t complicated, but they are challenging to implement consistently, every day. This is because a whole host of interruptions and competing priorities encroach on your time.

Greg Link, an author, leadership coach and entrepreneur, has articulated very well the five steps that rebuild commercial trust in strategic vendor relationships as shown on the adjacent diagram.

Behaviours that build trust aren’t complicated, but they are challenging to implement consistently, every day

Practical implementation of commercial trust

Working with your strategic vendor to prioritise your business outcomes is an important first step in realigning your relationship. This very act shows you are taking their input seriously.

Working with your strategic vendor to prioritise your business outcomes is an important first step in realigning your relationship

Internally, showing commercial trust towards your team will go a long way towards permeating trust in your organisation. You should expect resistance to trust for quite a while, until people see consistent traits in your own personal behaviour. The more consistent you are in demonstrating trusting behaviours towards your own team, the more you will help your team to extend trust to your strategic partner, even if it is cautious trust at first.

You should expect resistance to trust for quite a while, until people see consistent traits in your own personal behaviour

5 STEPS TO RE-BUILD TRUST QUICKLY

1

You must choose to believe that people have the best intentions and that they are working in your interest, not just their own. All other trust-building behaviours flow from this.

2

Start with your own behaviour. We tend to judge *ourselves* by our *intentions* but we judge *others* by their *behaviour*. This means that the people around you judge you by what you do, not what you know you intended. So do what you say you're going to do, when you say you're going to do it. If you trust yourself to deliver, you can start to trust other people to deliver too. Micromanaging is often a sign that you don't trust yourself to deliver, which is why you hover over your team. This promotes distrust, undermines your people and discourages them from taking the initiative.

3

Declare your intent and assume positive intent in your strategic partner. This clearly signals your goals and intended actions in advance and generally assumes that others also have good intent and want to be worthy of trust.

4

By following your lead, your strategic vendor will start to do what it says it's going to do, when it says it is going to do it, carrying out its declared intent.

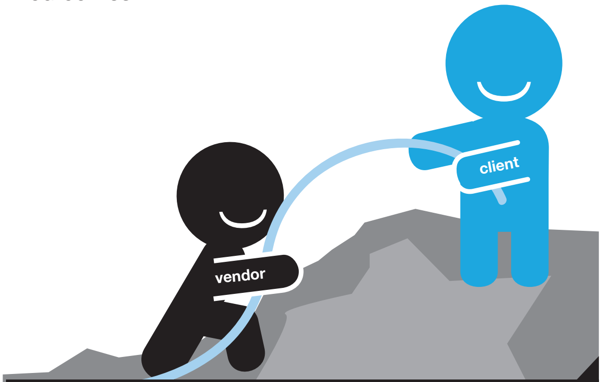
5

The individuals you extend trust to will, in time, also start to extend trust to others. This creates a virtuous cycle that leads to a much more profitable partnership and an innovative and inspiring working environment.

Governance

Another practical point to be aware of is that CEOs and senior executives have a propensity to dip in and out to resolve issues when the on-the-ground teams are not seeing eye-to-eye. If this happens, be mindful that you need to cover four things and confirm them with the vendor at your own level:

1. Find out precisely what issues were discussed between your executives and the vendor's
2. Be clear on what they have agreed
3. Ensure you see any letters or memorandum of understanding that have been sent between them
4. Ensure that, as a matter of governance, the outcomes and actions from these are reflected in the schedules/ contract terms, so everyone is clear as to the expected outcomes.



Work in partnership to support your vendor, but don't do their job for them.

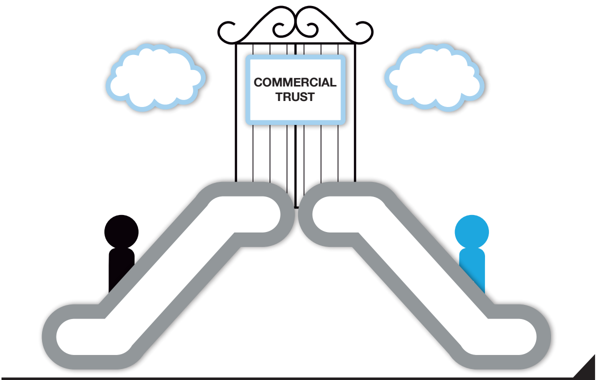
> Detailed design of how the 'relationship' aspects of the contract will operate are critical

Does implementing commercial trust mean strong relationships flow naturally?

Not quite. Successful relationships don't just happen. Detailed design of how the 'relationship' aspects of the contract will operate are critical. This design will ultimately be what drives on-the-ground behaviours and whether power-based or trust-based relationships emerge as victors. In addition to normal project and contract management measures, KPIs should include relationship values charters, objectives for relationship health checks and balanced scorecards for the contract management aspects.

> The only relationships that drive real innovation, cost savings, effectiveness and vendor profitability are those with an appropriate balance of power and trust

It's also important to remember that the day-to-day rebuilding of commercial trust with a strategic vendor is hard work, particularly in the early stages. Relationship challenges often far outweigh any technical delivery challenges in the agreement. In your client management (ICF) team, you need high performers with distinctive skills, capabilities and good orientation. You have to dedicate specific resources to managing the relationship with your strategic vendor if you are to drive real collaboration, cost savings and innovation.



Your objectives may be different but this doesn't prevent building trust.

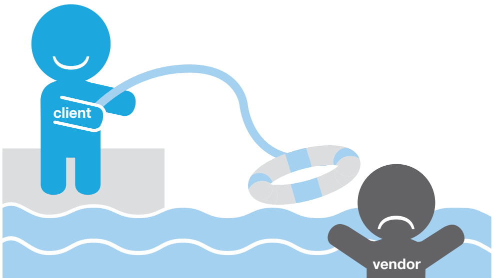
In addition, people often confuse building commercial trust with relaxing terms and KPIs in the written contract. However, the only relationships that drive real innovation, cost savings, effectiveness and vendor profitability are those with an appropriate balance of power and trust. Because of the points made in Step 2 of this guide around expert responsibilities, you need to be sure that you implement commercial trust in line with the contract terms, roles and responsibilities, and contractual escalation procedures. More often than not, your contract terms and schedules will need updating on an on-going basis to reflect the changing 'trust' nature of your relationship, service specifications and business outcomes.

Building trust also requires some informal escalation processes, for less critical issues that arise in the performance of the agreement. Informal discussions over a coffee are fine, as long as they don't undermine the contractual terms, and should mainly be used to fine tune performance. You'll usually find more is achieved, far more quickly, than in formal escalation. Just remember that if discussions and processes being adopted on the ground are really effective, then update your contract terms to reflect the 'spirit' of the agreement to clarify the expert's responsibilities so that everyone is clear.

Ultimately, a key factor in building trust is the client and vendor spending time together. You need to have capacity within the organisation (within the senior stakeholders and the ICF team) to build competence and business understanding. You can't just outsource 'a problem' and then abdicate responsibility. You need to invest time in the relationship.

step 6: what to do when the trust 'wobbles' (and it will)

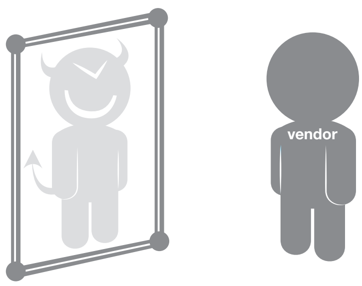
Life isn't always simple. The people you trust will usually achieve what they promise but there will be occasions when they drop the ball. Our advice is to let it go – there's probably a good reason why they fell short this time. You can find out why but don't make a song and dance about it. The time to worry is if it keeps repeating itself, which could indicate an underlying cause and an individual who needs more support.



If your vendor is usually trustworthy, but on the odd occasion drops the ball, don't make a song and dance about it.

You also have to accept that you can't trust some people who just pay lip service to commercial trust. They believe in the expediency of treating people with suspicion or doing whatever it takes to get ahead. They use commercial trust as a technique, rather than as a core belief, and fake an outward belief in it to manipulate others.

> You also have to accept that you can't trust some people who just pay lip service to commercial trust



Sometimes, you just have to accept that some people cannot be trusted.

> A trusted person lets us down or we see other people getting away with untruths and manipulative behaviour

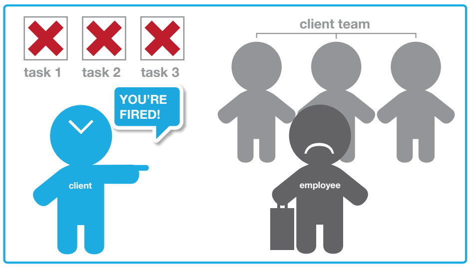
We've all had experiences that shake our belief in our core values. A trusted person lets us down or we see other people getting away with untruths and manipulative behaviour. This can make it appear that 'everybody's doing it' and that such behaviour is a more expedient and efficient way of getting things done.

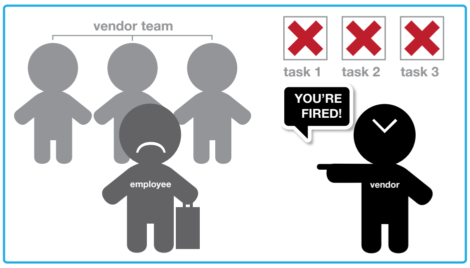
However, commercial trust only becomes productive when:

- You genuinely believe that you personally are worthy of trust.
- You believe that most people can be trusted.
- You believe that extending trust is a better way to lead.

So what do you do if you suspect poor behaviour from either your own team or your strategic vendor's?

Start by assuming positive intent but use the 'rule of three'. Work with them to foster trust as you would normally, but if they let you down three times consecutively without good reason, remove them from the relationship (or insist the vendor does, if they are on the vendor's side).





If your own team or the vendor's team let you down three times without good reason, fire them from the relationship.

If you don't remove them, you will be sending a clear message to everyone else: it is acceptable to not do what you say you are going to do, when you say you are going to do it. This will destroy your hard work in rebuilding trust with your own team and your strategic partner.

Self-check when the trust wobbles

When the trust wobbles, it's important that you ask yourself why. The following questions will help you to ascertain the problem areas, and to check your progress in developing commercial trust.

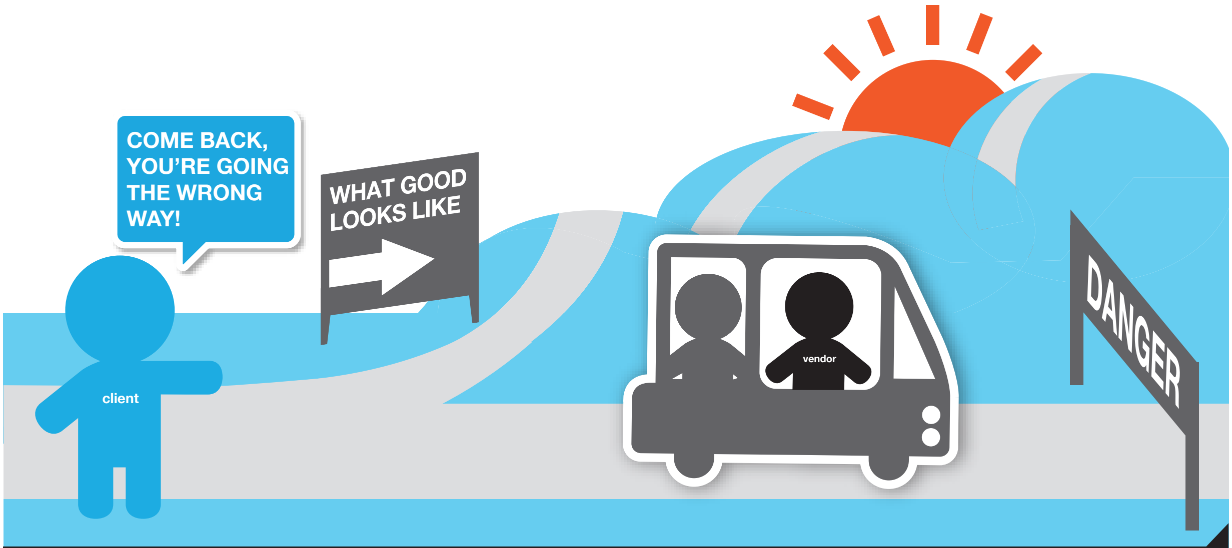
preliminary checklist for diagnosing problems with commercial trust

area of vendor relationship	self-check issues to consider
approach and attitude	Are there protagonists that do not get on well together?
	Do both parties actively collaborate? Is there still a blame culture and 'finger pointing'?
	Is there any 'bad mouthing' going on?
	When something goes well, do both parties recognise this and publically compliment the behaviour?
	Are both parties trying to behave ethically towards one-another?
	Is there a 'them and us' dialogue?
perceptions	Are each party's drivers and motivations clear to the other?
	Do both parties do what they say they are going to do, when they say they are going to do it?
	Are promises made that are not fulfilled?
	Do they respect each other's views?
	Do they appreciate the challenges each party has in fulfilling their obligations under the agreement?
	Do they both know 'what good looks like' and act upon it?
	Do they believe they can trust one another?
relationship management	Do they both perceive that they are putting equal effort into maintaining the relationship?
	Are the relationships strong at the executive level?
	Are they as strong at the operational level?
	Do both parties have the key executive stakeholder support they need to mobilise solutions to challenges?
	Does the service user frequently recommend the service to internal and external organisations?
visibility	Is there constructive feedback on improvements to the relationship?
	Do both parties warn each other of things that might go off the rails? Is there an 'early warning' system?
	Are there both formal and informal communication channels that operate regularly?
process and escalation	Do both parties continually seek to innovate and improve the services?
	Are both 'carrots and sticks' (i.e. incentives and penalties) for strong/weak performance being consistently applied?
	Are penalties being applied regularly? If so, why?
	Is the satisfaction of both parties being measured openly and honestly?

Keep working at it

In summary, it's inevitable that there will be bumps in the road and you will need to work at overcoming them. Remember that commercial trust is about behaviour.

The way you react to and resolve these issues is crucial to maintaining a trusting relationship.



Help your vendor understand at an early stage if you think they are heading in the wrong direction.

In summary, it's inevitable that there will be bumps in the road and you will need to work at overcoming them. Remember that commercial trust is about behaviour

The way you react to and resolve these issues is crucial to maintaining a trusting relationship

step 7: bringing it all together: improving performance, rebuilding trust and maximising value

So far in this paper we have looked at your vendor's expert responsibilities, the potential causes of the performance issues you're experiencing and the importance of commercial trust. Adding the items below to an already strong governance process will help you to maximise the value of your strategic vendor relationship over its lifetime.

This is not the be-all-and-end-all of every process you need to adopt. However, it does focus on some key elements we often see are missing in vendor relationships that aren't achieving the client's business outcomes.

Action 1:

Determine your overall objectives

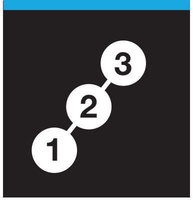
Reappraise the organisational, financial and operational objectives you want to achieve. Since successful delivery of these outcomes is the whole purpose of your outsourcing arrangement, they are the starting point for everything that follows. Your objectives need to be absolutely clear and quantifiable, so you can measure progress against them.

Action 2:

Develop your innovation governance

Set out a terms of reference for an overall governance structure that is aligned to much closer partnership working and driving maximum value from the relationship. Within the governance structure, ensure there is a dedicated Innovation Board that drives a constant flow of new ideas and a mechanism that rewards validation, testing, piloting and implementing ideas that align to your financial and operational objectives. As part of the Innovation Board, ensure there are clear objectives for everyone involved to operate in the spirit of commercial trust.

Action 3:



Prioritise your goals

Work with your strategic vendor to identify the 'big goals' you need to achieve over a rolling 12 month period. Together with your vendor, complete a SWOT analysis and business case for those goals, so you can prioritise the organisational outcomes you want to achieve and by when.

Action 4:

Arrange for your vendor to re-scope your priorities and business outcomes

Set out a terms of reference with your strategic partner for each of the priorities and business outcomes you would like your partner to deliver. Your partner will need to undertake appropriate due diligence on the scope of the business outcomes. The output of these exercises will be for the partner to confirm the cost and timescales of what it will do to achieve your business outcomes, as well as informing you of any compromises you will have to accept and the impact of those compromises on your business outcomes.

Action 5:

Work out the delivery process

Once the vendor has re-scoped your priorities and business outcomes (from Action 4), you'll have a much clearer idea of which outcomes will need to be worked on first and by when. Identifying the people in both organisations who can build or maintain commercial trust is the key. This is when the rubber hits the road and you can drive real innovation and partnership working, providing the right individuals with the right values are in place with both organisations. Once they are, work with your partner to identify the best methods of service delivery to achieve the big goals prioritised in your business case(s).

Action 6:

Begin implementation

Your strategic vendor should now be ready to start service delivery, so that it is aligned with the scoping exercises and your expected business outcomes.

During implementation, you should:

- **Focus on the next big goal.** This points everyone in the right direction and helps to prevent petty squabbles derailing your progress towards your objectives.
- **Reward honest behaviour.** Individuals who try hard and admit to (and learn from) their mistakes are worth their weight in gold, both on your team and the vendor's. They will 'jump through fire' to improve service delivery, lead on commercial trust behaviours and make the partnership work.
- **Re-align the written contract terms.** Every six months, you should re-align the contract terms, KPIs, documented operational processes and schedules to reflect the 'spirit' of the agreement. If the parties in the relationship change, then they will have something they can benchmark against, to start their own commercial trust building process. If you have to exit the contract, then you'll be working with the latest information, significantly reducing the risks of either in-sourcing or transitioning to a replacement vendor.
- **Make commercial trust inherent.** Bear in mind that at some point, the individuals operating the agreement from your organisation and the vendor will change. Staff will leave, or there will be re-structures, or one or both of your organisations may be taken over or merged with another. If you don't have commercial trust, then the goodwill between your organisation and the vendor will be damaged. If commercial trust is widespread, then the impact will be minimal.
- **Continue pre-implementation scoping.** Over time, the services will develop and your desired business outcomes will change. As this happens, you should continue to operate the pre-implementation scoping process with your vendor. This will provide your vendor with much greater clarity of your expected outcomes and will allow them to provide you with much clearer and holistic advice. You need them to identify what they can deliver, what they cannot and the compromises you'll need to live with. From a contractual perspective, this allows you to reinforce the trust you are building, and you can both rely contractually on the advice you have sought from your vendor *separately to the solution* they are providing.
- **Update your performance management as necessary.** Ensure your KPIs, service levels, contract terms and schedules are continually updated throughout the life of the agreement. This will keep them aligned to your evolving business outcomes and drive the right behaviour to maximise value and maintain the core values of commercial trust.

step 8: what to do if performance refuses to improve and trust can't be re-built

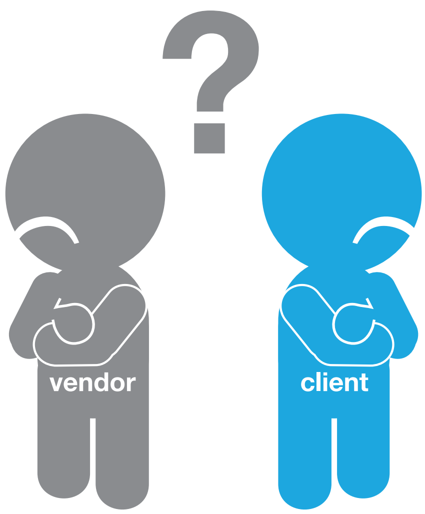
If matters have come to a head and no matter what you've tried your strategic vendor is simply unable to achieve the business outcomes you expected, then you may have no other option but to terminate the agreement between you. Under normal circumstances, you should never consider terminating an outsourcing relationship early. There are usually mechanisms to rebuild both performance and trust. Sometimes, it might need an independent pair of eyes to find the underlying cause of the non-performance and to help you work out how these might get addressed, without the need to terminate.

Where you believe there is genuinely no hope of rebuilding a strategic vendor relationship, our white paper called 'Failed outsourcing relationship? 10 steps to getting out safely and quickly' goes into more detail about the steps you need to go through to safely secure an early exit.

A brief summary of these steps is set out below:

Step 1: Are you sure you need to terminate?

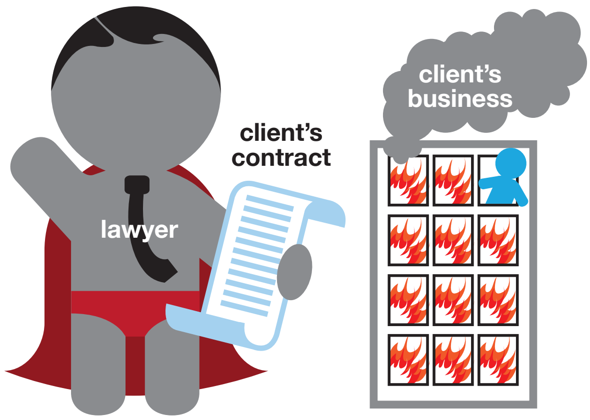
Terminating and exiting a strategic vendor agreement is a major undertaking with significant risks, both financially and operationally. It's not something to undertake lightly or because emotions are running high. You need to be sure that you have done everything you reasonably can to fix the relationship before you terminate. In fact, if matters come to court, you are likely to be penalised on costs if you haven't made reasonable efforts. Renegotiating the relationship could also be an effective – and less risky – course of action.



Why has the relationship failed?

Step 2: Making the case for termination – benefits versus risks

Terminating the contract must be treated as a significant project in its own right, which means it requires a business case before you go ahead. Your business case must assess the strengths, weaknesses, opportunities and threats of terminating. Only if this analysis stacks up should you proceed.



Your lawyer may be a contractual superman, but if outsourcing is killing your business - what do you do?

Step 3: Work out what will replace the services you're terminating

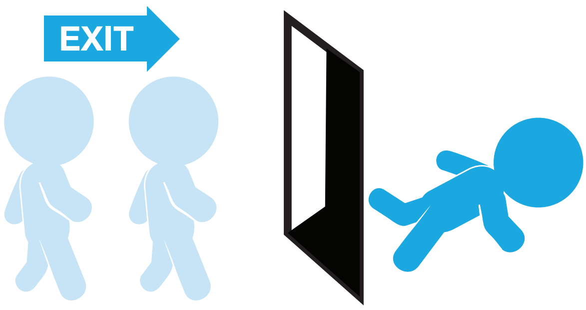
When an outsourcing agreement goes wrong, the stress and emotional strain can dominate your thoughts. However, unless you find a new way of getting the service delivered (whether in-house, via an alternative strategic partner or a combination of both) and undertake appropriate due diligence on it, then there is no guarantee that you will be better off once you've exited the relationship. One of the best uses of your time ahead of termination is therefore to consider what you want to do once you've terminated, whether that's bringing the services in-house or transitioning to another vendor. In either case, you need to begin preparation and have completed your due diligence before you terminate, to smooth the handover process and minimise the risk.

step 8: what to do if performance refuses to improve

Planning what 'good' looks like.

Step 4: Plan your exit

Getting out of a relationship is as much of a project as is getting in, but with potentially more operational and financial risks. A well-considered exit plan allows you to identify what you will need to make a successful transition. There are many issues that often get missed during the exit process, so a proper plan will ensure you cover these off too, minimising the potential for disruption. You can use the business case for termination detailed in step 2 of our 'Failed outsourcing relationship? 10 steps to getting out safely and quickly' white paper (download from our website) to measure the progress of your exit and ensure everything is proceeding as intended.



Failing to plan your exit properly, means more risk, costs and longer time scales.

Step 5: Prepare your evidence

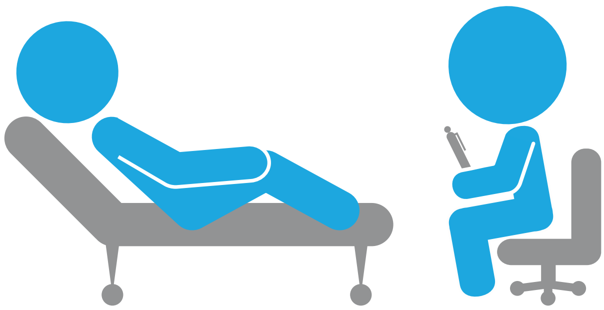
To make the termination process as smooth as possible, you will need evidence that your vendor has failed to achieve the business outcomes you expected. In preparing this evidence, it's vital that you focus on the right elements. A key part of this is your vendor's 'expert' responsibilities (see earlier in this document or our 'Strategic Vendor Responsibilities' guide for a more comprehensive view). The main point to note is that if, during procurement, you relied on your vendor's expert advice as to how they could improve service delivery and/or reduce service costs, then the vendor has clear contractual obligations towards you as part of its 'expert responsibilities', even if these are not expressly detailed within the contract terms. You might consider engaging an external specialist to assess the evidence from an independent and 'critical friend' perspective, to ensure you are adopting the most effective approach.

Gathering evidence is hard. Where do you focus?

Step 6: Sanity check your evidence

Once you've gathered your evidence, the next step is to evaluate whether it shows what you thought it would and that it's strong enough to proceed. Evidence is often imperfect. At the end of this stage you should know whether or not it shows, on balance, that the vendor delivered to your expected business outcomes (not necessarily just to their contractual KPIs, which may not align with your outcomes). You will also be clear whether you have interpreted vital elements of your evidence correctly, such as your vendor's expert responsibilities and how they should be benchmarked against what is reasonable.

The safest and most cost-effective way to check your evidence is to have someone independent undertake a 'critical friend' challenge, so they can advise you of what works, what doesn't and where your focus of evidence should be, according to the business outcomes you are trying to achieve.



Is your evidence focused in the right direction?

Step 7: Choosing the right forum for your termination

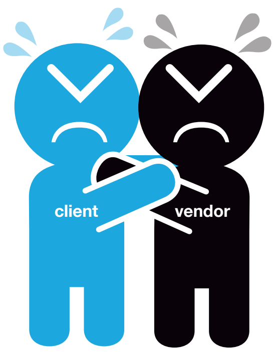
When you decide to terminate your agreement, there are a number of different forums you can use for doing so – negotiations, mediation, expert determination, arbitration or litigation. Each has advantages and disadvantages, depending on what you are trying to achieve. Selecting the right forum can significantly reduce your costs and speed up the process. There is little point proceeding directly to litigation if a less formal and lower cost process can achieve your goals.

In any formal dispute you must attempt mediation before litigation.

Step 8: Negotiating the termination and exit with your vendor

Negotiating a termination and exit is challenging and emotions often run high on both sides. However, there are steps you can follow which will smooth the process and increase your chances of a successful outcome. In particular, if your vendor has breached both its express contractual KPIs and its expert responsibilities, and you have had the evidence independently validated, then the negotiation process will be much swifter.

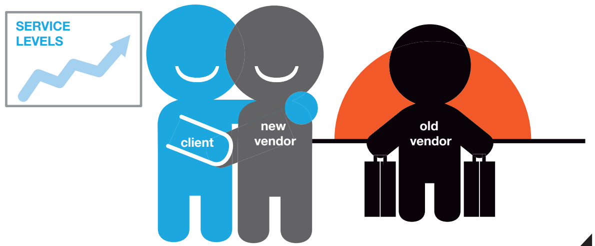
Setting out your arguments clearly, with solid and independently validated evidence, will help your vendor to understand that it will cost them more to resist the termination and exit than it will to comply, agree and support the process. Always be sure to align your termination and exit negotiation strategy with the written contract terms, and always seek independent and qualified advice in respect of formal termination. Damages for adopting the wrong termination and exit procedure can be penal.



Negotiating a termination can be very emotional.

Step 9: Managing the exit process

Once you have formally terminated the relationship, you need to treat the exit process as a key project in its own right. As with any project, it must have resources allocated to it, external and internal support, key milestones, objectives, payment profiles and performance targets to be met. You must also make sure that you manage the exit process in the right way, so your actions don't inadvertently remove your vendor's expert responsibilities. Governance and performance management are critical to success. Make sure you give it the time and attention it needs.



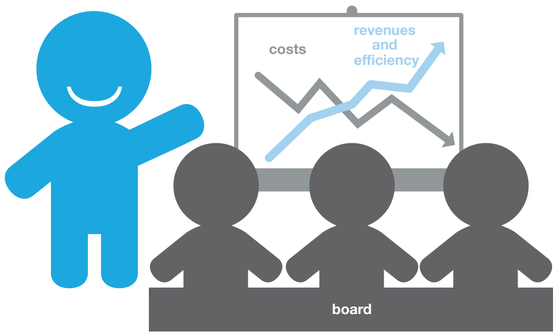
A rapid transition is usually achieved by focusing on evidence, planning and outcomes.

Step 10: Hiring lawyers and technical experts (why you should, and why you shouldn't)

Many clients need independent support when terminating a contract, to avoid the potential financial damages that a vendor can claim if the contract is terminated incorrectly. It is therefore vital to choose the right lawyer and technical expert, instruct them properly and to manage their output, so you get the outcomes you want and achieve value for money.

The right lawyer or technical expert can add considerable value by keeping the focus of your evidence right, speeding up the process and minimising all costs (including their own). They will help you to avoid mistakes that will undermine your position and give you the support and independent perspective you need to successfully pursue your case.

For a detailed explanation of how to terminate and exit an outsourcing contract, see our guide 'Failed outsourcing relationship? 10 steps to getting out safely and quickly', which is available from our website.



Remember; the outcome is to put your business into a better place.

example of vendor performance improvement; case study 1 - public sector

Large local authority - Avoiding termination and maximising performance and value of a strategic vendor relationship

The issues

- The Council had engaged a strategic partner to provide outsourced and commissioned services. This covered 64 different activities, ranging from the contact centre to parking, and HR to ICT.
- Five years later, the Council had significant concerns about its partner's service delivery. Customer satisfaction averaged around 28%, despite the Council putting in significant extra financing and resources, and Council staff often had to fix issues themselves. Poor IT services also made many primary services ineffective, driving up costs and destabilising the service. Including all the end-to-end costs, the IT services cost nearly double what they should have done.
- Over the years, the Council had paid large fees to blue-chip advisors and magic circle law firms to persuade or contractually force the vendor to achieve the Council's expectations. Unfortunately, poor service soon resumed.
- The Council considered early termination of the relationship. Realising that this was a significant risk, it instead instructed BPG to review the relationship and inform the Council about its options.

BPG activity

- The Council asked BPG to review key service areas, particularly those having the most adverse operational and financial impact. BPG benchmarked the services' operational performance and their total cost, and assessed the express contractual obligations of the vendor and the Council. BPG also reviewed the vendors 'expert responsibilities' and whether it had appropriately discharged them.
- BPG then considered the 'commercial trust' between the Council and the vendor. This included whether appropriate procedures for building and maintaining trust were in place, and the impact of those trust behaviours on the parties' ability to innovate and transform service delivery.
- As well as some minor breaches of the vendor's express contractual obligations, BPG's root-cause analysis identified serious breaches of the vendor's undocumented 'expert obligations'. With the best of intentions, the Council had requested service changes to help the vendor achieve the Council's business outcomes. The vendor had failed to warn the Council that this would cause material operational impacts.
- Further analysis identified that the commercial trust in the relationship had reached an all-time low. Innovation had stagnated, governance meetings had degenerated into confrontation and there was no progress with improving or reshaping the services. Conversely, the Council was unable to quantify 'what good looked like' for its services and was not providing some of the resources it had promised.
- Through workshops, BPG helped the Council identify 'what good looks like' for its business outcomes, governance, innovation, operational management and performance reporting. BPG then developed a service improvement plan and a process for re-building trust, which was implemented and measured. To re-build the relationship, some individuals from both the vendor and Council had to be replaced with 'likeminded' people, with strong motivations and high moral values.
- BPG used its knowledge of 'expert responsibilities' to help the Council's legal advisors and the vendor clarify the contractual terms and schedules. This created a common understanding of expectations in the terms, promoting innovation and trust-building behaviours. BPG also put key operational aspects of the contractual terms into diagrams and flow-charts. This improved transparency and helped everyone understand how the contract operated, and the roles, responsibilities and constraints all parties worked within. An on-going re-shaping process was also implemented, to ensure the contract terms, governance, business objectives and requirements remain aligned through the agreement's life.

Outcomes

- Contributed £2.5m in direct cashable savings to the Council and the vendor improved its margins.
- Customer satisfaction increased from 28% to more than 70% within 4 months, and is now at 93%.
- The trust between the two parties is very high and the vendor has won many pieces of new work from the Council.
- Both sides' reputations are not only intact, but much stronger.
- Benefits achieved within 120 days, on an end-to-end basis.

example of vendor performance improvement; case study 2 - private sector

Large medical insurance company - Turning around a badly performing business transformation initiative and systems integration project

The issues

- The Insurance company had regulatory issues because its IT systems and claims procedures lacked appropriate compliance. The company therefore outsourced its business analysis and core IT systems development to a specialist partner, with a track record in medical insurance and supporting IT claims management systems. This arrangement covered operational and transactional services on which the company had built its reputation.
- A three-stage re-evaluation of the company's operational processes led to a five-stage business transformation and systems integration plan. Full operational compliance and benefits realisation was expected to take 18 months and cost £2m.
- Four years later, the business transformation was only partially implemented and just the first integration stage was operational, with the second 75% complete. The company's unresolved compliance problems were threatening its ability to write new business and the programme's costs had reached £4.5m. Forecast completion was a further five years and £9m away, taking the programme to ten years and £13.5m investment. The Insurer had engaged several blue-chip advisory firms to drive project completion, without success.

BPG activity

- The Insurer asked BPG to undertake a technical and contractual review of the programme, assess the vendors advisory capability and stakeholder management, and identify whether it could complete the programme within a reasonable timeframe and cost.
- BPG reviewed the Insurer's original business plan, along with the vendor's bid response and the representations it had made about its expertise in transforming similar businesses. Next, BPG investigated the express contractual obligations of both parties. The vendor's 'expert responsibilities' were key in determining the expertise it represented it had, and the expertise the client would be reasonably expected to understand. This helped to identify whether the vendor had appropriately discharged its 'expert responsibilities'. BPG then considered whether the Insurer trusted the vendor to complete the programme and whether procedures for building and maintaining trust were in place.
- BPG's investigation revealed material failures by both sides. The client did not take operating governance seriously and had not provided the promised skilled resources to the vendor. The vendor, meanwhile, viewed the client as a 'cash cow'. It had not discharged a number of its key 'expert responsibilities', to warn the client of the adverse consequences of the client's approach to the programme. The vendor raised 'light' concerns at the (occasional) governance meetings but did not operate strong programme direction or push the client to fulfil its responsibilities. The vendor was not discharging its 'duty to warn' the client, so the programme slipped significantly.
- BPG's workshops helped the Insurer identify and quantify its business outcomes, governance process, programme/project management and performance reporting. A service improvement plan and a process for re-building trust in the relationship was implemented and measured. The Insurer's management put its full weight behind the initiative and the vendor replaced its programme management team. Significant progress was made within weeks.
- BPG used its contractual knowledge of 'expert responsibilities' to help the company's legal advisors clarify the contractual terms and schedules, so that clear expectations were documented and re-contracted for. BPG also put operational aspects of the contractual terms into diagrams and flow-charts. This helped the operational teams from both sides understand how the contract operated, and the roles, responsibilities and constraints all parties had to work within.

Outcomes

- Improvements in the client's ability to resource, govern and manage the vendor relationship to a successful conclusion.
- A clear roadmap for prioritising and finalising the business transformation, systems integration, development and process changes. Costs and timescales reduced by two thirds and three quarters respectively.
- Much clearer focus on innovation in customer-facing systems and improved operational processes, allowing the client to increase its 'win rate' for new business.
- The client and vendor strengthened their relationship and have worked together on new initiatives.
- Cash savings of £6.5m and timescales to completion reduced to 18 months. The end-to-end process was completed within 145 days.

about best practice group

Best Practice Group is an independent advisor that helps you reduce the cost of working with major outsourcing, technology and shared service partners, whilst ensuring you gain maximum benefit from the solutions they provide to you in a much shorter time frame. We make vendor partnerships work…

A proven track record

The reputation we have achieved for delivering strong working partnerships between client organisations and the strategic vendors, whilst producing direct cashable savings, is based upon a proven track record of working in close collaboration with you. With over 500 previous vendor partnership successes, all of our clients are directly fully referenceable http://www.bestpracticegroup.com/testimonials

We help clients in 3 ways:

- Creating new vendor relationships
- Improving existing vendor relationships
- Vendor transition and exit management

Our specialist advisors are unusual in that they have overlapping technical and contractual expertise; they take a proactive, hands-on approach helping your teams get mutual benefit from complex and strategic vendor relationships. Ultimately, Best Practice Group can help you:

- **Cut operating costs by 15%-35%**
- **Achieve business outcomes twice as fast**
- **Turn your vendor into the true partner you always wanted them to be.**

introducing the specialists who can help support your teams

With experience in over 500 service provider partnerships, our specialists have proven track records. Please contact any of the individuals below for an informal chat.

Allan Watton
Director
awatton@bestpracticegroup.com

Allan specialises in the innovation side of re-thinking how organisations contract for innovative partnerships with strategic vendors. He works to ensure that the maximum possible value is attained from your service partner.

Richard Kerr
Director
rkerr@bestpracticegroup.com

Richard specialises in helping providers understand how they can offer maximum value to an organisation's desired business outcomes. He works to translate providers' promises into firm contractual terms to ensure true innovation, partnership working, and strong relationship management.

Chris Browne
Director
cbrowne@bestpracticegroup.com

Chris specialises in ensuring that your business cases are clearly quantified and aligned with your business outcomes. Furthermore, he works to identify service providers that can support your culture and innovate your service delivery.

Peter Carter
Associate Director
pcarter@bestpracticegroup.com

Peter ensures that working relationships between client organisations and their strategic vendors are governed correctly. He has a keen focus on ensuring that the relationship between an organisation and its vendor aligns with the contractual terms and that they are interpreted and actioned appropriately. He ensures that vendors are suitably motivated by your internal teams to reduce costs and improve service delivery outcomes on an ongoing basis.

Jayne Bacon
Senior Advisor
jbacon@bestpracticegroup.com

Jayne specialises in the programme management of complex strategic vendor partnerships. She enables the outcomes from these relationships to be realised in an accelerated timeframe, thus significantly reducing the cost of service delivery whilst increasing service delivery outcomes.

Stephen James
Advisor
sjames@bestpracticegroup.com

A specialist in the technology field, Stephen has a strong background in software systems that drive service provider performance. He is adept at managing programmes to ensure your business objectives are met.

example clients of best practice group (BPG): private, public and third sector

example client references

Blackburn with Darwen Borough Council
Lisa Bibby, BSF Strategic Programme Director

"BPG is very flexible. We started out with a health check, but this was soon extended, as BPG was very willing to adapt its standard health check to meet our needs. We had been experiencing a number of performance issues with one of our outsourced managed service providers, and needed to assess our options. BPG did a documentation review, held interviews and ran a workshop with the council personnel, which provided reassurance that we had correctly understood the situation we were in, and confirmed that we needed to renegotiate the contract. 'The outcome also prompted us to consider other aspects of procurement, and work with BPG to identify ways of improving the future performance of providers of outsourced managed services. The people at BPG impressed with their knowledge and the breadth of their understanding in this area, and the flexibility and adaptability of their approach were big positives too. Because of the way they work, they fitted in really well as part of the wider team. I can certainly recommend BPG for this sort of work, and would be happy to work with them again in the future."

States of Jersey
Caroline Hastings, Director of Strategic Procurement

"Services were excellent – Delivered a holistic service that took account of all aspects of the procurement including overall programme governance, tactical approach, negotiating position, risk position, business benefits. All information and tasks were delivered on time and to a high standard. Access to other legal and technical support has also been invaluable."

Colchester Institute for Higher Education
Jayne Bacon, e-Learning Manager

"When I first moved to the Colchester Institute, I was put in charge of a set of contracts I didn't feel were delivering. In a single, one-day workshop, BPG fixed the problem. They opened up a lot of possibilities to make older contracts deliver. BPG now helps with every tender, quote and legal issue that comes across my desk. They're invaluable whether or not you have in-house procurement-contract experts. When I first started working with BPG, I was well out of my comfort zone with contracts. But now my organisation and I are very confident negotiators."

Westminster City Council
Tony Glew, Chief Information Officer

"When the council started to review its provider's 1500 page service contract we discovered that numerous uncontrolled changes and additions had been made over the years, some of which had been implemented and some which hadn't. The problem was that because no single person had oversight of the relationship, the service deliverables were never properly monitored. In order to understand where we stood, we brought in BPG to analyse the contract from the standpoint of governance, service quality, financial transparency and risk exposure. Having helped us to understand the contract and the issues that needed to be addressed, BPG then undertook direct talks with the supplier, negotiating a 120 day period in which they had to prove their ability to fulfill the council's expectations. In clarifying the provider's contractual obligations and by instituting a firm deadline for delivery, BPG has put the council in a position of strength to decide whether or not to stay with the incumbent or to seek a new provider."

Ashfield District Council
Gareth Bott, Head of Finance & IT

"We engaged Best Practice Group PLC to help with a corporate procurement that had no natural lead area within our organisation – a major project crossing many different service groups. BPG were great at keeping that process moving, and they also provided the support needed to reduce risk. BPG are clearly experts and they identified a lot of less obvious pitfalls using the Catalyst and the OJEU procurement processes. Some organisations may not see the value of using a company like BPG to provide a framework to use themselves and/or manage the entire procurement process – but organisations who want a mature, professional relationship with suppliers will find it well worth the investment. BPG helps get all the issues out from the start so that everyone's clear who's responsible for what, which suppliers really appreciate too. It means no surprises for them or for us."

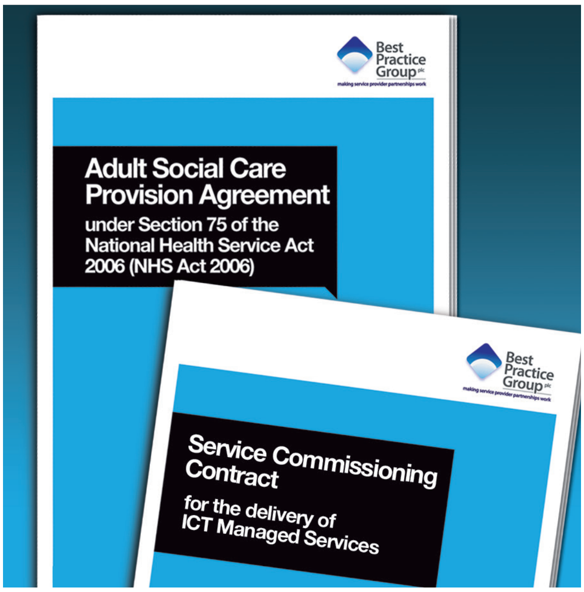
how to reduce costs and improve service outcomes

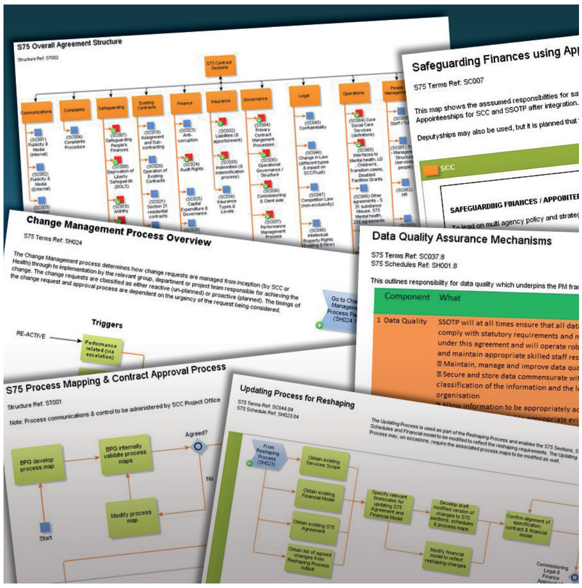
If you're considering commissioning a service or a managed service relationship with a strategic vendor, talk to Best Practice Group. We have the framework, skills and all the templates you need to help support your team to set up and run either internal or vendor based commissioned services, or both. This includes:

- A proven process for setting specifications to improve performance quickly; as well as a template library of service specifications which can be aligned to your circumstances, thus accelerating construction of specifications
- Template Section 75 agreements when a public sector to public sector relationship is required, as well as agreements for private sector contracts. These agreements ensure accountability, encourage collaboration to innovate, reduce costs and improve services, and which can be aligned to your specific services and circumstances
- A process for performance measurement and management, and for managing service changes throughout the contract
- A reshaping process that drives innovation, collaboration and true partnership working to achieve better outcomes at lower cost.

Our framework can considerably accelerate the timescales to achieve beneficial outcomes, and reduce the risks of service commissioning, and ultimately lead to significant reductions in your service delivery costs. We have a deep understanding of both the operational and contractual aspects of service provision, so we are ideally placed to help you achieve your desired outcomes.

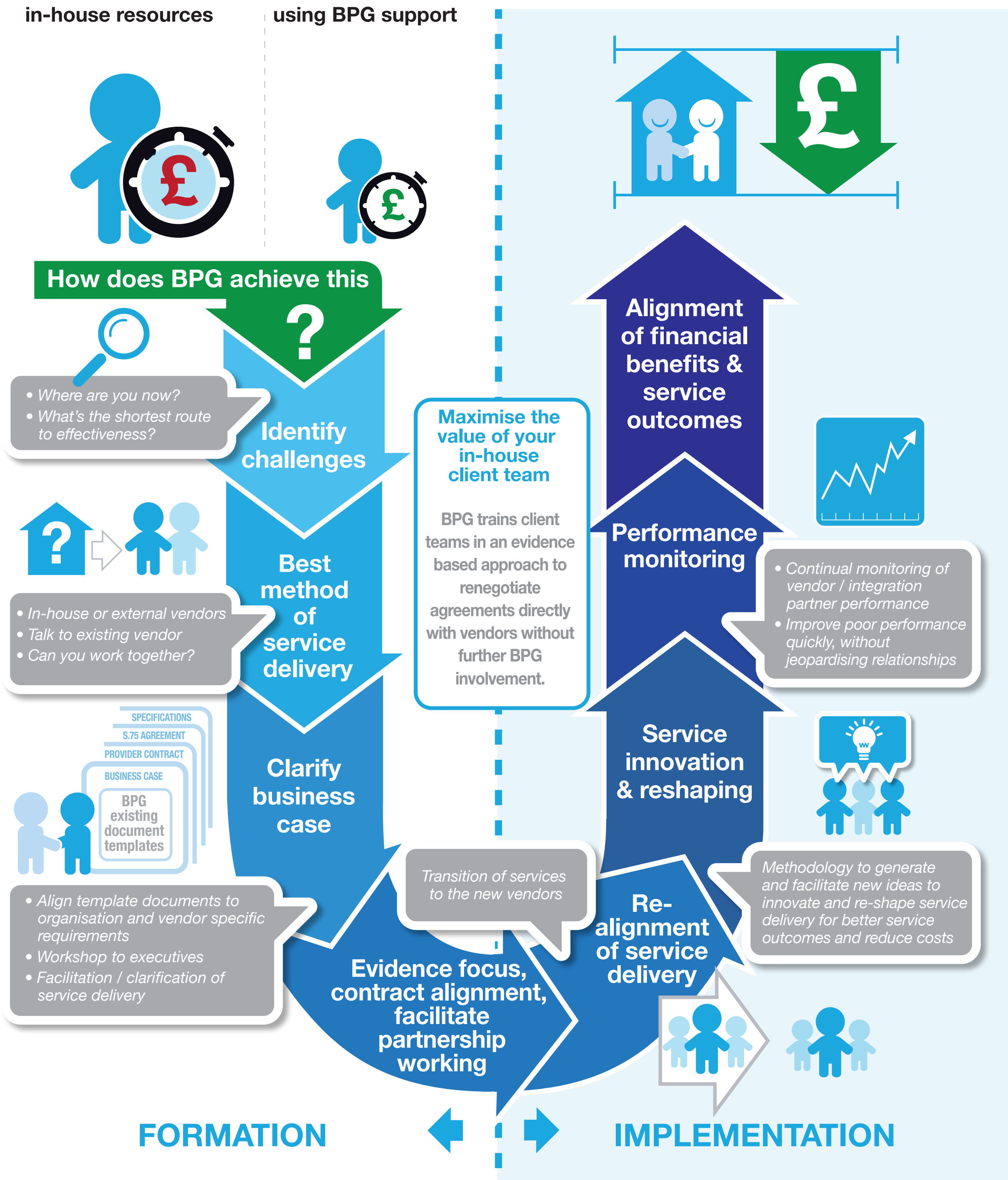
Best Practice Group has already worked on over 500 relationships in service commissioning, service integration and managed services. To date we have helped organisations re-align their intelligent client functions to reduce commissioned / integration / managed service costs by 15% to 35% per annum. For more information on how Best Practice Group's approach has helped these organisations make savings and improve services visit www.bestpracticegroup.com or if you would like an informal chat in confidence about the issues your organisation faces, please get in touch. Our contact details are provided on the back of this guide.





accelerating the performance improvement process

You can accelerate your organisation's approach to reducing costs and improving service outcomes by outsourcing services by adopting Best Practice Group's (BPG) framework.



important notice:

The information provided in this document is generic. It is based on a practical approach to determining how best to approach the process of improving vendor performance and business outcomes from the agreement. However, each organisation is likely to have a different interpretation and specific issues that it has to address in reaching a conclusion about how to drive maximum value and re-build trust in their vendor relationship.

When considering how to improve the relationship with your vendor, you will have specific circumstances, evidence and behaviours that are unique to your situation. Some of these items will help facilitate driving maximum value and to re-build trust between you all. Others will significantly detract from your ability to do so. For these reasons, it would be unwise to rely solely on this document as definitive advice and BPG accepts no liability whatsoever for any losses, claims, proceedings, expenses or liability arising from any actions you or your organisation undertakes from the information in this document. You should contact BPG to discuss any specific issues, as the information in this guide may not be appropriate for your particular circumstances.

If you're considering maximising the value you achieve from your strategic vendors, talk to Best Practice Group.

Best Practice Group plc
making service provider partnerships work

Northern Office
Atria, Spa Road, Bolton BL1 4AG

Southern Office
70 St Mary Axe, London EC3A 8BD

T: 0845 345 0130 **F:** 0845 345 0131
E: advice@bestpracticegroup.com

www.bestpracticegroup.com