

# Happy to outsource

At first glance, outsourcing has had a bad few years, with major retailers like Boots and Sainsbury's bringing outsourced parts of their IT infrastructures back in-house, and lots of negative press coverage of outsourcing horror stories in the government and finance sectors. Yet outsourcing is booming, as David Adams discovers

**M**ore and more retailers are happy to offload some of the risk and strain associated with running parts of the IT function like helpdesks, infrastructure management and monitoring, and application support and maintenance. In fact, the demise of some big outsourcing deals is linked to changes in technology and retail that have forced retailers to make processes faster and more flexible.

"You may not have so many billion dollar contracts, but companies are now going for modular sourcing arrangements instead, with three to five year deals for specific functions," says Mark Swain, retail client partner at the outsourcer Cognizant. "That market is thriving. With more new entrants in the market, outsourcers being more flexible and some coming off an offshore cost base, there's been a collapse in prices. Sainsbury's bought a lot back in-house but they have multi-sourcing arrangements now with offshore providers."

Nor do these changes necessarily mean an end to long-term partnerships between retailers and outsourcers. Retail Assist has worked with adams kids (formerly Adams Childrenswear) since 1999, supporting the retailer through major changes, including the launch of the Mini Mode clothing range now sold at Boots, and the development of its internet business. The company now provides services to the retailer including application level support in merchandising, warehousing and finance, helpdesk services, support for EPoS, PC and

networks, and facilities management.

For the last three years, Harvey Nichols has used Retail Assist to manage IBM i-series technology running stock management and supply chain functions; and the outsourcer also now provides an out of hours helpdesk to cover late night store opening and the retailer's two restaurants. Development projects on which the outsourcer has been engaged include the re-engineering of the store's JDA Arthur planning solution.

Martin Schofield, IT and logistics director at Harvey Nichols, explains why the company is happy to outsource. "We were implementing a merchandising product that needed to be a 24 hour-watched operation," he says. "Economies of scale meant that going to a third party with experience of doing that was a safe option, and we wanted someone who understands retail and could give us a competitive price. It's been a very reliable service. Whenever there's

been an issue it's been handled the way I wanted it handled. We once had an instance when the disaster recovery plan was invoked, but that happened at night, and it was all dealt with, pretty much, by the time I woke up."

**Increasingly popular**

Another form of outsourcing becoming more popular is software as a service (SaaS). This makes software a revenue investment instead of a capital investment, and means smaller retailers can use technologies that might otherwise be unaffordable. One SaaS provider, First B2B, offers services for automated electronic data integration, so retailers can avoid much of the complex yet mundane task of data transfer between incompatible electronic trading systems. Instead, retailers, wholesalers and suppliers can send information in whichever format is most convenient for them, with the system unscrambling it and transferring it in the recipient's preferred format.

Customers include toy retailer Great Gizmos, which has been using the solution to manage trading with the John Lewis Partnership for the last year. "It's customer-driven, we're not obtaining too many direct benefits," explains Peter Appleton, financial director at Great Gizmos. "But although it wasn't a requirement of working with this customer, we do turn into a preferred supplier by having EDI." The company has identified other customers that could use the system, and will now also be able to trade with retailers that do insist suppliers use EDI, without incurring the cost and complexity of working with multiple systems.

One consequence of the multi-sourcing approach is that outsourcers now frequently find themselves working closely with each other. "Sometimes we might do application development, someone else does the support and someone else does the management," says Cognizant's Swain. "What's important in that situation is to define ownership of those problems. You mustn't end up in a situation where there are delays as the (outsourcers) argue over whose problem it is."

The best way to avoid that is to make sure governance is settled in the contracts signed with each outsourcing supplier. Ian Sampson, a partner in the technology and outsourcing group at law firm Addleshaw

Goddard, believes the best contracts and outsourcing arrangements are based on clear strategic goals, and buy-in at a senior level.

Without this, many outsourcing deals are prone to some seemingly simple, but potentially crippling problems. The most fundamental is "a misalignment between what the supplier is expecting to deliver and what the retailer is expecting". "It's astonishing that even when you've had a full tender process you can often get a long way down the contract discussions and it becomes apparent that people still don't know what they're getting," says Sampson. "If you clearly understand your strategy the chances are you will be able to hone in on the important parts of the contract."

"If there's one thing you can't do with outsourcing, it's put the contract in a drawer," he continues. "It's a living document. It's important that the people responsible for managing the implementation have it to hand, and are aware of governance procedures."

In his view, practical issues like these are much more likely to cause problems than a contract's legal terms. Another example is the need to define what happens at contract termination. "(That) is often overlooked, and the result is that the agreement sort of falls off a cliff at the end," he warns. "You can't get the information from the supplier that you need for a re-tender; or you can't force the supplier to keep providing the service if you've not found anyone else. The retailer can find himself tied fairly tightly over a barrel if they haven't got those things resolved."

Get those things right, and there's no reason why retailers of all types and sizes shouldn't benefit, in cost and operational terms, from outsourcing. Get them wrong, and you could end up creating embarrassing headlines while your competitors prosper.