

IS NOW THE TIME TO OUTSOURCE?

Outsourcing can deliver commercial advantage, improved output, strategic flexibility and business continuity, particularly in times of adverse market conditions such as COVID-19.

Clifford Chance has supported many clients across industry sectors as they embrace the benefits and minimise the risk of outsourcing.

Now, more than ever, outsourcing is providing opportunities to stabilize spend and to react to changing operational needs.

WHY OUTSOURCE:

Transformation:

- Emerging and innovative technologies and practices allow businesses to keep - or get - ahead of their peers in exploiting a competitive advantage by replacing outdated technology.
- Legacy technology is expensive to maintain; diminishing amounts of qualified support is available in the market. In some cases, years of underinvestment and short term solutions has created infrastructure that is no longer fit for purpose.

Resilience:

- Technology is becoming increasingly critical to businesses. This is putting significant strain on an existing and ageing legacy back-end technology, which were not designed to support this enlarged technology footprint.
- Businesses across all sectors have had material technology failures which have resulted in significant business disruption, customer outages, decrease in share price, adverse media coverage, reputational damage and regulatory investigation.
- Legacy systems can leave gaps that expose the business to significant cyber vulnerabilities which cyber criminals can exploit, especially given the acceleration of remote working due to COVID-19.
- Outsourcing will enable organisations to benefit from service providers' market-leading and comprehensive business continuity and disaster recovery plans.

Quality of Delivery:

- Stakeholders and customers have increasing expectations of the technology that is being delivered to them including user-friendly interfaces, applications on their devices and seamless integration with third

Key issues to consider before outsourcing

If you would like more information on the key issues that your business will need to consider, read our article on Clifford Chance Talking Tech:

[Managing your outsourcing transaction: A ten point checklist for success.](#)

party applications. Legacy infrastructure often cannot effectively support this; outdated systems that do not deliver an effective user journey may impact the user experience and discourage uptake by customers and stakeholders.

- Mechanisms such as service monitoring, service levels and service credits can increase quality and reliability of outputs, providing the opportunity to receive and on-provide a better service.

Focus on Core Activities and take Advantage of Market Leading Expertise:

- By outsourcing to an expert supplier businesses can access market leading subject matter expertise which they may not otherwise be able to procure through BAU in-house teams. They can capitalise on the supplier's cutting edge solutions and problem solving, taking advantage of the knowhow that they have developed when working with other clients.
- Outsourcing allows businesses to focus time, resource and capital in their core areas of business where they provide the most value and can therefore benefit from subject matter experts adding greater value in non-core.

WHY NOW:

Fixed Cost to Variable Cost:

Existing technology spend is likely to be largely fixed. Outsourcing can provide a variable cost model where a business only pays for what it consumes, avoiding outlay or sunk costs in respect of redundant resources. In times of adverse market conditions such as COVID-19, a volume based model means that the technology cost base can reflect activity and business need.

Flexible Resource Deployment and Supply Chain Risk:

Suppliers have scale and capacity which they can deploy and re-deploy between customers. This means that they can efficiently and quickly step up and scale resources to suit business need. In the COVID-19 context this may mean deployment of additional resource in order to respond to the increased demand for working from home solutions or taking advantage of suppliers' internationally diversified supply chain to react quickly to individual jurisdictional lock-downs.

Competitive Pricing:

Suppliers are facing revenue pressure as global demand and organisational technology spend reduces. Many suppliers are now offering competitive pricing in order to retain, manage and grow their enterprise customer base.

Supplier Diligence:

Choosing the right outsourcing partner is key. Outsourcings are long term arrangements with significant reliance on the performance of a third party. The levels of complexities and interdependencies mean that changing outsourcing partners may not be a straightforward undertaking. Therefore, it is crucial to take the time to carry out appropriate diligence and to understand and compare the technical, legal and commercial risks before selecting a provider.

Currently, particular key considerations include the robustness of suppliers' finances, flexibility to deploy resource remotely, business continuity arrangements and jurisdictional coverage.

Employees:

Outsourcing can often lead to the redeployment of employees as the supplier takes over functions which are currently performed in-house.

In usual circumstances this provides challenges from an administrative, communications and management perspective. These challenges are magnified when attempting to engage effectively with employees, unions and works councils in the context of a remote workforce.

Pricing and Payment Mechanics:

As these are long term arrangements, time needs to be taken to fully understand and model the short term and long term cost implications as a whole, based on future business projections (both expected and unexpected).

Contractual protections may include service credit regimes and incentive based/conditional payment structures (e.g. payment on achievement of milestones or upon deliverables), benchmarking, obtaining rights for financial audits (and associated rebates).

Businesses should ensure that their obligations to make payments are consistent with their projected and contingency cash flows.

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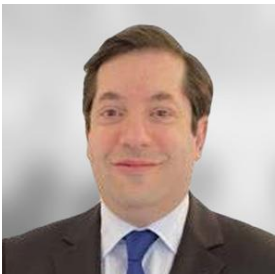
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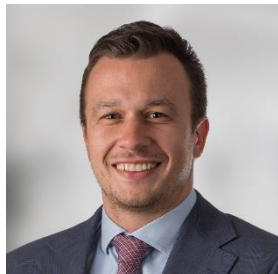
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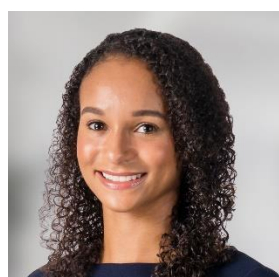
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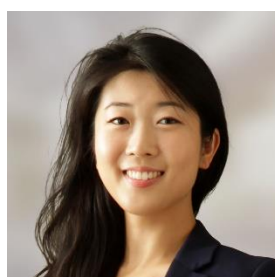
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