NOA Outsourcing Glossary

Acquired Rights Directive (ARD)

European Union legislation that determines employee rights in relation to outsourcings, that sets the precedent for individual countries' interpretation; in the UK this is TUPE (See TUPE).

Application Service Provider

A company that offers individuals or organisations access over a computer network to applications and related services that would otherwise have to be held on their own computers.

Balanced Score Card

To establish the business benefits of a supplied service customers may use a balanced score card approach to "scoring" the service that a supplier provides. This would be in addition to the assessment of financial measures, it considers three other perspectives of the Customer's business: Learning and Growth; Internal Business Processes; and Customer satisfaction (with end users being chosen to represent the major stakeholders in the Customer's business).

These four measures are scored relative to the supplier's services and corresponding rewards or penalties.

Benchmarking

Activity (often specified to occur every two years) in outsourcing contracts, which requires price comparisons of like processes with the existing contract price, and for specific actions to be taken in the event that the contract price is higher (or lower) than the comparators by pre-specified tolerance band. Can be used to compare offered prices where there is only one bidder.

Best of Breed (BoB)

The best product or service of its type. When the term is used for an outsourcer it is normally one that specialises, (and may be generally considered a leading expert in) in one particular area, normally a Business Process Area such as billing, HR, maintenance.

Bestsourcing

Sourcing services that best suit the needs of the organization whether that is to outsource, or insource or indeed to multisource. (see Bestshoring, or Right Sourcing)

Bestshoring

Sourcing services in the location that best suits the needs of the organization whether that is to onshore, offshore, nearshore or multishore. (see Bestsourcing)

Best value

A term used in the public sector to describe the process that aims to continuously improve local government performance through a programme of reviews and inspections. Councils are required under 'Best Value' to examine their services according to four guiding principles. They must challenge how, why and by whom a service is provided; compare its performance with that of other authorities; consult service users; and use competition to get the best service available (see Compulsory Competitive Tendering).

Business Orientated Metrics (BOMs)

Metrics favoured by the NOA that directly relate outsourced service success to the customer's business success. Hard to implement but the very process of doing so usually ensures that outsourcing programmes stay on track and are likely to be successful. Pronounced bombs.

Business Process Outsourcing (BPO)

The provision of a bundle of business processes by a third party service provider. Typically such processes may be denoted, front/middle/back office. Front office BPO normally involves contact centre processes – i.e. customer management, customer recruitment, and customer retention. Middle office BPO normally involves 'industry specific' processes such as 'insurance claims management', 'investment custody', 'mortgage administration' etc. Finally, Back office BPO involves the normal administrative processes required by any business, that is the processes and sub-processes involved in Finance and Accounting, Human Resources, Procurement, Legal, Marketing, Security, Facilities etc.

Captive

A captive is the offshore service delivery unit for a company, where the offshore unit remains a part of the company group and the employees in both offshore and onshore locations work for the same company, or same corporate group.

Captive facility

The facilities used by a captive service provider.

Competitive Tender

A commercial situation in which a specified number of service providers are asked by RFP/ITT (See below) for a written priced proposal, which will form the basis of a decision to select one or more suppliers to enter a more detailed process of due diligence (see below).

Compulsory Competitive Tendering (CCT)

CCT required councils and NHS authorities to allow private sector companies bid to provide a range of local government services and non-clinical health services. Initially it extended only to six blue-collar service areas, including cleaning staff and school meals. It was later extended to take in a wider range of services, including some white-collar jobs. Superseded in 2000 for local government by best value. (See Best Value)

Contracting out

A term often used in the public sector to describe an outsourcing arrangement. For example, local authority social services departments may "contract out" meals-on-wheels services to charities and commercial organizations

Contractor (or contracting)

Staff supplied to the organisation to work as if they are the organisation's own staff. Often they are self employed singletons or provided from a consultancy or outsourcing company. This type of supply is sometimes called body shopping.

Core competence

Capabilities that a business believes are critical to that business achieving competitive advantage. Note: even in the same industry organisations may espouse different core competencies.

Co-sourcing

Where a business function is performed both by internal staff and external resources, such as consultants or outsourcing vendors who have specialist knowledge of the business function in question.

Cost-plus

The most basic method for pricing a service by calculating the cost of delivery and then adding a margin to ensure a profit.

Dashboard

A system used for reviewing project/service status at a glance; most managers will use a dashboard to analyse a lot of information quickly, so only the urgent issues can be given attention, in much the same way as a car dashboard conveys a great deal of information in a summarized form.

Due diligence

The process of discovery or detailed analysis when engaging a partner company in a service relationship. Due diligence is the process of cross-checking the claims they made during the sales process, to ensure that all the facts are on the table and visible. The potential suppliers may well carry out due diligence on the customer organisation to verify the service and assets that they are proposing.

End user

The organisation that receives services from a third party. (see Service Provider)

End-to-end process

In simply terms it refers to a complete business process that progresses a required result from start to finish. In practice it can often be difficult to define a complete process as they can be highly complex and interdependent and ultimately a judgement has to be made regarding what is considered to be a complete end-to-end process in a given context.

End-user driven

Ability of the actual user of a technology platform or outsourced service to define how it works and what services can be offered, rather than to just accept what is on offer.

Facilities management

This term is used by some people specifically to define the management of buildings and associated services, e.g. cleaning, waste management, security, maintenance etc.. It may also extend to technical facilities in the buildings, including the IT infrastructure.

The term can also be used to refer only to IT facilities management.

In both instances the end user organisation typically retains ownership of the facilities under management and the arrangement is based on a fixed term agreement.

Farshoring

The transfer of business functions to a different country but one that is neither adjacent or relatively close to the organization's home country.

Fixed-cost model

Where a service provider will quote a fixed price for a service, regardless of the time and effort involved, which may change as the work progresses – in much the same way as a decorator may charge a fixed price to paint a house, regardless of any snags or problems that may be encountered during the work.

Gainsharing

The concept of working together with another organization and creating measurable cash benefits from the partnership that can be used as payment to the service provider, rather than charging in the more usual way for time and materials. In outsourcing costs to the customer are often planned to decrease year on year, gainshare would allow the supplier company, if savings could be increased, to split these additional savings between themselves and the customer. Often a proportion of these savings (normally the customer's proportion) are used by the supplier to develop new services to further benefit the customer's business.

Global Delivery Network

A specifically selected set of globally separated service delivery locations offering distinct skills sets (such as: languages, processes, quality and cost profiles) that are interlinked through governance and by resilient communications networks (in order to facilitate continuity of service) to service consuming locations.

Governance

Governance is a contractually specified approach to managing the interface between the outsourcer and the customer. Normally there is a specification of who should meet, how often they should meet, and of what the normal agenda would consist. Governance structures can be set up to manage the service, the transition, the relationship, and multiple service contracts where these might exist.

Information Technology Process Outsourcing (ITO)

The provision of a bundle of IT business processes by a third party service provider – software development, applications management, IT Helpdesk, Problem Management, Change Management etc.

In-sourcing

Where a function is performed without the involvement of a third party (see Shared Service). This term is sometimes used to describe bringing previously outsourced processes back in-house.

Invitation to Tender (ITT)

A formal document inviting a select supplier list to competitively tender for the provision of an outsourced service delivering a bundle of processes to the customer.

Joint Venture (JV)

A business venture in which two or more organisations join forces as partners to create a shared third-party organisation with goals to meet the needs of both partners. Both parties have risks and rewards associated with the JV.

Knowledge economy

As many service-based jobs have been created requiring no more than the knowledge inside a person's head, the term knowledge economy has grown in usage to describe the jobs these people perform and their value to the wider economy.

Knowledge management

A systematic approach to capturing, organising, sharing, and analysing both tacit and explicit knowledge held within an organisation.

Key Performance Indicators (KPIs)

Individual metrics by which the performance of a service provider will be measured. These will normally be listed in the Service Level Agreement, and may also figure in the Remedy or Service Credit Schedule that will detail discounts the service provider will make in service charges on failure to achieve the specified KPIs.

Knowledge Process Outsourcing (KPO)

The provision of a bundle of knowledge processes by a third party service provider. These are typically higher value, thought-based intellectual tasks that often need the underwriting of success in academic achievement or professional examinations. Examples include R&D, product design, market research, investment recommendations, actuarial processes, and medical diagnoses.

Legacy systems

Old, generally proprietary systems that cannot be upgraded or improved without replacement. Often used to refer to the existing system that an outsourcer may take over.

Managed services

An arrangement in which a third party assumed responsibility for the management of a service, the "hardware" of which continues to be owned by the service user.

Moore's Law

The theory proposed by Gordon Moore of Intel that the data density achievable on an integrated chip doubles approximately every 18 months. This law has held good for nearly thirty years and explains the ubiquity of pcs mobiles, networks, and inter-alia outsourcing.

Multishoring

The transfer of business functions to different countries both close by and distant from the organisation's home country.

Multisourcing

The use of several service partners within a single contract, to extract value or to ensure each can offer their key strengths. In multi-sourcing the provision of products or services from within the organisation that is outsourcing is considered as one (or more) of the sources.

Nearshoring

The transfer of business functions to a different country but one that is either adjacent or relatively close to the organization's home country.

Novation

The process of legally transferring ownership of existing contracts from their current owner (customer or previous outsource service provider) to the new outsource service provider. Typically this process deals with licenses or service contracts and requires the formal consent and signature of all three parties involved.

One-stop shop

The term has been used in many situations for many years and means providing a comprehensive offering to customers in order that they will not need to use multiple suppliers.

Offshoring

The process of working with an offshore partner for service delivery, usually where the partner is a third party, but this term also applies to offshore services delivered from within the same company (a captive unit – see previous definition of 'captive'). It does not automatically mean outsourcing.

Outsourcing

The provision by a third party organisation of services or a bundle of business processes that either were historically or could have been performed in-house by the service receiving customer.

Request for Information (RFI)

A pre-tender requesting statements of interest and initial proposals in a standard format from a long-list of potential suppliers.

Request for Proposal (RFP)

Effectively the same as an ITT (See above). RFP is favoured as an acronym in the private sector, and ITT by the public sector.

Risk and Reward Based Pricing

See Gainshare

Risk Management

Ongoing identification of risk at all stages of the life cycle – whether in project or operational mode – and the adoption and completion of associated action assignments that are either designed to avoid or mitigate the risk.

Run-rate reduction

Reducing the amount of actual outgoing operating costs.

Schedules

Contracts favoured for outsourcing deals typically have a core set of terms and conditions (See Ts&Cs) which invoke a series of key schedules. Typical schedules will include Scope, Pricing, SLAs, Invoicing & Billing, Service Credits, Volumetrics, Remedies, Change Control, and Exit.

Service Credits

An encouragement for a supplier to meet the SLAs (and/or other targets); where if they do not meet them a percentage of the services price is withheld by the customer. Normally not considered as a penalty. Service Credits are calculated and agreed from the number of services that miss their SLA monthly, quarterly or annually at Service Review Meetings.

Service provider

An organisation that delivers a service to the service end user.

Service Level Agreement

A contract, or part of a contract that defines the type, value and conditions of services to be provided. The SLA is a key element to an outsourcing contract and provides the basis for measuring the performance of all parties to the contract.

Shared service

Consolidation of a service provision point by one part of an organisation or group where that service had previously been found (and provided) in more than one part of the organisation or group. Coming together of similar services between one or more organisations that are normally non-competitors in the same area (eg local government) and by sharing they can gain economies of scale

Single Line Tender

A situation in which only one service provider is chosen to bid for a specified bundle of business processes. This may occur because of domain knowledge, relationship, or as the result of a policy which operationally limits the number of third party relationships a customer is prepared to manage at any one time.

Sole Source

See Single Line Tender.

Terms and Conditions (Ts&Cs)

Terms and conditions are a series of legal clauses under which provide the agreed basis on which parties to the contractual agreement will interact and from which the detailed schedules are invoked (See Schedules).

Typically issues such as contract term, methods of termination pre-term, liability, warrantees, indemnities, and protection of intellectual property will be covered

Time and materials

T&M is the most basic method of charging for a service contract; basically it is nothing more than a unit cost for time (amount per day usually) plus expenses.

Transition

The project which moves operations from the customer or his currently incumbent supplier to the new service provider.

Transformation

The project which deploys new technology to enhance and make more efficient the delivery of a bundle of business processes to the customer. Often occurs after transition (and a stable running period) then transformation leads to the more efficient and new services.

TUPE – Transfer of Undertakings (Protection of Employment)

The TUPE Regulations protect the pay, terms and conditions of employees who are transferred from one organization to another typically as part of an outsourcing arrangement, preventing these entitlements being changed without agreement. The Regulations also protect their accrued pension rights, provide some protection against unfair dismissal and state that trade union recognition and collective agreements in force at the time of the transfer, be maintained.

Utility computing

The concept of making computing power available and charging for it in the same way as other utilities, such as electricity or gas. Compared to present models of building immense infrastructure, the idea of paying only for what you need is quite innovative.

Value chain

The chain of services that connect together everything your company does from one department or process to the next, and how they add value to whatever it is that you do.

Value-add

The measurement of where value is added to a process or service.

Value-minus pricing

Pricing a service by quantifying the value it will create and using this figure to place a price on the service; the agreed price for the service will be this total value created figure minus a figure agreed by the two parties. For instance, if a new scheduling system might be projected to save a company £5 million per year, they might offer an IT group £3 million to produce the system, but with payment based on the projected savings being achieved – rather than time and materials payment of £1 million.