in business today, one fact has become clear: The ability to forge, manage, and sustain strategic outsourcing relationships is increasingly critical to competitive success.

Such relationships, however, are often handled in an ad hoc, trial-and-error manner. Pharmaceutical companies can, and must, take a more planned approach. Outsourcing providers can benefit from encouraging their potential and current clients to adopt an alliance process, and clients should have an organizational understanding about why an alliance will benefit their organization. Implementing a structure within the client’s organization that assumes responsibility for the success of the alliance will improve the alliance’s chances for success. Most important, providers will find new revenue opportunities if their client has a formal process with which to evaluate the overall benefits of the relationship.

The Warren Company has drawn on its research and experience to develop a strategic outsourcing architecture — a systematic set of practices and frameworks for creating strategic outsourcing arrangements. This architecture, or process, is designed to help companies forge relationships. These relationships will not only cut costs, but they also will allow pharmaceutical companies to join forces with strategic outsourcing partners to find broader, breakthrough benefits in terms of revenue growth, market share gains, and customer service improvements — in short, to become more powerful competitors.

This article draws upon a Warren Company manual that is designed to help the company’s senior executives understand and implement strategic outsourcing arrangements within their organizations. The architecture comprises six phases: strategy, analytics and selection, cocreation, operational planning, structuring, and management.

**Action steps**

The strategy phase involves identifying outsourcing opportunities and determining the type of outsourcing relationship that best fits those opportunities. This phase begins once senior management has authorized an executive, or a strategic outsourcing practitioner, to conduct a full evaluation of strategic outsourcing opportunities in a given function or process.

An outsourcing strategy should be an outgrowth of your company’s overall strategic plan and should be directly aligned with the company’s directions and goals. It is important that the managers who are responsible for implementing the outsourcing plan have a clear understanding of that overall strategy and outsourcing’s place in it. Just as important,
those managers should play an integral role in shaping the implementation plan for outsourcing.

The action steps of the strategy phase are
- identify the process(es) to be considered for outsourcing
- tentatively determine which type of outsourcing relationship is appropriate
- assess organizational readiness
- develop and document a preliminary outsourcing mission, strategy, and goals (OMSAG) statement.

Identify the process(es) to be considered for outsourcing. Traditionally, outsourcing decisions have focused on questions of core versus noncore processes, the latter meaning candidates for outsourcing. But that model is simplistic. Taking a broad view of which processes might be outsourced is recommended. Many companies have successfully outsourced activities vital to the operation of their core functions.

For example, a bank outsourced its credit card processing to a credit services organization. Credit cards are a high-growth business for this bank and one in which the bank’s distribution channels and marketing savvy are strong. But state-of-the-art technology and competitive prices are also critical, and the bank now has access to those capabilities through the outsourcing alliance. Similarly, a telecommunications company outsourced a major portion of its international telemarketing. Both companies recognize the importance of this function to the telecommunications company’s revenue growth and customer satisfaction and, as a result, they have established closely aligned operations.

In addition to the more traditional core and noncore distinctions, pharma companies should consider two emerging types of relationships:
- sharing core, in which a company conducts activities that are vital to the operation of its core processes in a highly integrated relationship with an outsourcing partner
- expanded core, which involves the creation of new competencies and capabilities through a partnership or joint venture.

These relationships almost always require tightly integrated operations and a truly strategic, long-term partnership between the companies involved. Often, pharma companies have concerns about protecting and maintaining their core competencies in such arrangements, which is an important issue, but a number of legal protections are available to minimize such vulnerability, including patents, copyrights, and nondisclosure and noncompete agreements. However, such formal documents are only part of the solution. Fears about loss of control are overcome most effectively by developing an outsourcing relationship based on trust, mutual benefit, and clear alignment of interests.
Tentatively determine which type of outsourcing relationship is appropriate. In this step, executives determine how closely integrated the operations of the two companies should be — that is, the type of relationship they want to develop in terms of the strategic outsourcing spectrum shown in Figure 1.

There is no standard right or wrong relationship in this spectrum. The type of relationship that a company decides to pursue depends on its goals. For example, if executives are looking only for ways to cut costs or fix an immediate problem in a non-core area, a traditional vendor relationship is probably most appropriate. However, if they are targeting a new market or reengineering customer service, a more strategic, integrated relationship is in order.

Outsourcing relationships can vary widely. The type that is right for your company depends on your motives for outsourcing. Table I shows how various motives relate to the types of relationships described in the strategic outsourcing spectrum.

Although this article focuses on strategic outsourcing relationships, there’s no doubt that traditional vendor-style outsourcing arrangements are here to stay. The costs in terms of analytical effort and relationship building simply will not be justified for certain low-value-added processes. A company should make sure that it does not automatically move to a traditional arrangement and thereby miss opportunities or underestimate the potential of the more collaborative types of relationships.

Regardless of the type of relationship selected, it is important to see each arrangement as part of a portfolio of relationships that contribute to the develop-

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### Table 1: Kinds of outsourcing relationships

<table>
<thead>
<tr>
<th>Motive for outsourcing</th>
<th>Provider selection</th>
<th>Measures</th>
<th>Pricing framework</th>
<th>Strategic planning</th>
<th>Formal control</th>
<th>Integration level</th>
<th>Trust</th>
<th>Major-Stage Differentiators</th>
<th>Relationship-Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fix immediate problem</td>
<td>Vendor procurement-based</td>
<td>Better Cheaper Faster</td>
<td>Low bidder</td>
<td>Little or none</td>
<td>High</td>
<td>Very little or none</td>
<td>Low</td>
<td>Transaction-Based</td>
<td>Major-Stage Differentiators</td>
</tr>
<tr>
<td>Leverage resources, technology</td>
<td>Negotiated partner selection</td>
<td>Productivity leverage Best-in-class, value-added projects</td>
<td>Cost-cognizant but not dominant; sometimes shared risk and reward</td>
<td>Significant resources for decision</td>
<td>Low-level collaborative mechanisms</td>
<td>Based on shared outcomes and objectives</td>
<td>Medium to low control exercised through collaboration</td>
<td>Very little or none</td>
<td>Stage 1: Transaction-Oriented Outsourcing</td>
</tr>
<tr>
<td>Positioning vehicle for the future</td>
<td>Strategic alliance architecture-based</td>
<td>Strategic return on investment/ balanced measures System integration Trust measures</td>
<td>Win–win; shared risk and reward</td>
<td>Extensive planning and due diligence</td>
<td>Based on shared outcomes and objectives</td>
<td>Control exercised through collaboration</td>
<td>Very high</td>
<td>Stage 2: Cosourcing Partner Relationships</td>
<td></td>
</tr>
<tr>
<td>Cocreating future value, focus on asset influence/pooling</td>
<td>Strategic alliance architecture-based</td>
<td>Strategic return on investment/ balanced measures System integration Trust measures</td>
<td>Win–win; shared risk and reward</td>
<td>Intimately linked to corporate vision</td>
<td>Control exercised through collaboration</td>
<td>Very high</td>
<td>Stage 3: Strategic Outsourcing Relationships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capture of specific breakthrough bypass business opportunity</td>
<td>Strategic alliance architecture-based</td>
<td>Strategic return on investment/ balanced measures System integration Trust measures</td>
<td>Win–win; shared risk and reward</td>
<td>Driven from distinct new venture plan</td>
<td>Control exercised through collaboration</td>
<td>Very high</td>
<td>Stage 4: Value-Chain, Shared-Asset Relationships</td>
<td>Stage 5: Entrepreneurial Venturing, Hybrid Spin-Off Relationships</td>
<td></td>
</tr>
</tbody>
</table>
It is important for a company to understand its suitability as a partner.

When creating a value proposition, a company should

- Consider how specific target customers (internal or external) are affected — how the relationship’s product or service makes the customer more successful, profitable, competitive, efficient, effective, productive, or satisfied
- Seek validation from target customers
- Describe explicit, quantified benefits
- Fix the date when measurable success is expected
- Assess the feasibility of reaching goals
- Consider the advantage of an alliance versus other approaches
- Strive for simplicity and elegance. For example, a value proposition might state, “By fiscal 2003, the sourcing alliance will reduce the cost of our travel by 35%, increase the productivity of our personnel on travel assignments by 15%, and establish a performance metrics system that allows us to measure both these goals.”

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Another trend is to divide a process so that each vendor is assigned the portion of the process that is the most appropriate for its skills. For example, one member of an alliance might provide the company with application-development expertise, and another member might be responsible for ongoing systems support. This emphasis on tightly aligned, complementary services allows the company to use the core competencies of two or more specialized organizations, and it creates a situation in which the two vendor organizations cooperate yet implicitly keep an eye on each other. In general, these kinds of arrangements require more effort in terms of ensuring that the various partners’ goals are aligned and that the overall arrangement is consistently managed well.

Assess organizational readiness. Although a lot of attention is typically given to a potential outsourcing partner’s capabilities, it is important for a company to understand its suitability as a partner. Organizational readiness has several components, including the ability to build relationships, management support, and a plan for overcoming roadblocks.

The ability to build relationships. An organization must have a process for building successful relationships. A company also must have the organizational ability to use this process; in other words, the managers responsible for implementing a new outsourcing relationship must understand the key factors for a successful alliance. Managers should look for people who have experience in managing outsourcing relationships, especially those who understand the spectrum of relationships that is possible and the best practices for implementing a strong strategic outsourcing relationship.

Management support. Top-rank support for an expansive investigation of outsourcing potential is crucial. Senior managers must set a clear strategic direction, but they also must provide a supportive atmosphere that encourages innovation and allays fears about trying new approaches. An outsourcing evaluation shouldn’t begin without support from the top.

A plan for overcoming roadblocks. An effort to outsource often will run into cynics, skeptics, and protectors of turf. It is critical to identify and understand such internal political and cultural resistance early in the process and to quickly design plans for overcoming it.

Develop and document a preliminary OMSAG statement. An OMSAG statement summarizes the organization’s outsourcing intentions and the strategic rationale for outsourcing. The OMSAG statement should describe the

- Processes to be outsourced and the broad objectives for outsourcing
- Relationship of outsourcing to the overall corporate strategy
- Links between the outsourced process and a company’s core competencies
- Strategic forces that are driving an organization into a relationship
- Expected positioning of the relationship on the strategic outsourcing spectrum
- Scope of coverage (international, across business lines, etc.)
- Critical risks involved
- Expected duration of the relationship.

The OMSAG statement should include a value proposition (see sidebar “The value proposition”) that focuses on the expected value the outsourcing arrangement will bring to the customers of the process, both internal and external. This proposition is at the heart of the OMSAG statement because it helps executives understand why they want to outsource the process in question and it helps ensure that the outsourcer will remain focused on giving the organization what it needs.