Your Exit Strategy - When to stop outsourcing?

INTRODUCTION

Corporates generally spend more time on planning the things getting in their way than to get over the things when they want to. This leaves the company into a locked trap when the relationship goes sour and series of rift actually force you to lay off the contract.

Planning on how to exit your business is as important as how to start it. The time required to complete the exit procedure depends on the complexity of your business process which you have outsourced and the circumstances related to your decision. Comprehension and Forecasting are imperative and timings of events and tasks must be tailored to the kind of process which has been outsourced. Every case is different and reasons for their dissolution is different, the difficulties that occur are unique to the circumstance.

So what do you actually need to walk away, to see your relation coming to an end?

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A well thought exit plan helps to identify what is needed for a successful exit.

When your vendor stops giving enough consideration in the outsourcing relationship (though most of them face the pressure to handle the contracts to be as complete as possible to perform the business relation in a best way possible), its an alarm for escape hatch.

When your outsourcing partner oversell their capabilities and promise unrealistic goals during initial stage and exceeds the time frame to bring an operation to the desired level, its the time to go for an early exit or termination. A relationship which cant be carried on, executed or performed resulting in damaging the business should be stopped right away.

a) The first thing to be done is to take ample of time in making decision and clear about the terms on which you and your vendor need to work.

b) Make the efforts to establish a good call for constant communication and flexibility while exiting the relation.

c) Make the details as to how the outsourced functions should be brought back in – house.

d) Clarification in terms of owning the assets.

e) Specifications as to how much compensation is due and when its is due.

Adopting and implementing the protective measures like putting exit clauses in the contract can actually prove useful if relationship doesn't work out as planned.

Exit strategies can be brought into action for various reasons during normal course of business like performance issues, change in strategy for either party or Merger& Acquisition. In general, a normal exit strategy should include provisions for the following:

1) On-going Service Requirements - An effective exit strategy should set forth, all the on going requirements during the period in which the parties are transitioning out of the relationship.

Obligation need to be met by the vendor for performing the services at the same level of quality and efficiency continuously for the conversion period. Vendor also need to comply with all the obligations in the contract.

Conditions for the provision of parallel services with the clause to extend the term as necessary to resolve issues before the final cut over.

There should be a clause depicting the confidentiality issues on any communications regarding the termination of the contract.

2) Data Security and Privacy - These are the two critical components which should be considered while formulating an exit strategy. There should be an appropriate method of transferring the data that belongs to the outsourcer on an immediate basis including customer information, system, operations, business and company's proprietary information.

Appropriate methods should be identified for avoiding the leakage of the sensitive information to the media, competitors and other individuals.

Responsibility for compliance with all the regulations and issues related to intellectual property rights should be determined.

3) Compensation arrangements and Costs - The key aspects of an exit strategy are Transition, Timing and Termination. A strategy should not penalize for an early exit specially when termination is occurring because of inadequacy in performance by a service provider.

Compensation arrangement for the transition period including how much should be paid for any continuous base service and transition activities.

4) Personnel issues - An exit strategy team should be defined along with its roles and situations that should be rehearsed should be identified.

All encompassing laws should be included to address unforeseeable issues.