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Specialists in Strategic and Project Risk Management

ACTIVITIES IN MARKET TESTING AND OUTSOURCING

Market testing occurs when an organisation evaluates the competitive provision of goods and services. The purpose may be to lower costs through competitive tender processes, or to raise internal efficiency through benchmarking against potential external providers. Outsourcing occurs when the organisation decides that a service or activity previously provided by internal resources should be sourced from an external provider.

Having made a decision to outsource a function or activity, it is good practice to apply robust business management to ensure the initiative is successful. This usually includes integrating risk management into the outsourcing process, marketing the initiative effectively, and planning and managing the changes that inevitably follow.

Broadleaf has significant expertise and experience in successfully managing and advising on high-risk outsourcing proposals, some of which have been well publicised and subject to public scrutiny. There are a number of critical stages in the outsourcing process for which Broadleaf possesses particular expertise. These include:

- Requirements definition,
- Activity-based costing and the development of comparative before-and-after measures of success,
- Risk management,
- Contracting strategy,
- Development of tender documentation and specification of performance-monitoring criteria,
- Tender evaluation,
- Contract negotiations; and
- Post-signature contract management.

Broadleaf has worked closely with clients in planning and marketing outsourcing proposals and initiatives and facilitating client organizations through the change management process.

Broadleaf regularly undertakes qualitative and quantitative risk assessments and associated cost/benefit analyses of outsourcing initiatives for its clients. Quantitative and qualitative risk assessments are important at every stage of outsourcing, to assist management in identifying and analysing risks and opportunities and implementing appropriate risk treatment strategies. Cost/benefit analyses are important in the strategic planning stage, to understand and balance the costs and benefits and make informed decisions on whether to proceed or not with an initiative. Together, risk assessments and cost/benefit analyses guide the risk allocation process inherent in the contracting strategy and the allocation of resources for outsourcing implementation.

Much of our risk management work has involved the application of processes compatible with the Australian/New Zealand Standard on Risk Management, AS/NZS 4360, adapted to suit the context of

a particular stage in the outsourcing process. A selection of practical techniques readily adaptable to outsourcing is described in one of our publications:

COOPER, D.F. (1997) Applying Risk Management Techniques to Complex Procurement. Purchasing Australia, Australian Government Publishing Service, Canberra. ISBN 0 642 26803 7.

Broadleaf also led the way in the development of the recently-published Standards Australia/New Zealand outsourcing handbook, with major contributions from Dennis Goodwin and Dr Dale Cooper:

GOODWIN, D.L., D.F. COOPER, J. CROSS, K.W. KNIGHT and T. WALKER (2000) HB240:2000 Guidelines for managing risk in outsourcing utilizing the AS/NZS 4360 process. Standards Australia International, Sydney, NSW, November. ISBN 0 7337 3541 X.

These Guidelines provide a balanced view on the advantages and disadvantages of outsourcing, demonstrate how risk management can be integrated effectively into the outsourcing process and identify issues that need to be addressed when proceeding with an outsourcing initiative.

Some specific examples of outsourcing activities we have supported include:

- Outsourcing of activities such as cleaning, guarding, and warehouse support for a defence headquarters group
- Defence Commercial Support Program, outsourcing of warehouse support services and other initiatives
- Defence Child Care Project outsourcing
- Risk management planning in support of an in-house bid for the provision of defence garrison support services
- Risk management planning associated with the outsourcing of defence explosive ordnance supply and associated logistics services
- Risk assessments in support of market testing activities in 501 Wing engines business unit and 503 Wing avionics business unit
- Qualitative and quantitative risk assessments and the development of risk management plans for external and in-house bidders for railway track and signal maintenance
- Risk assessments for the provision of retail property management services, to support prioritisation of functions and the development of key performance indicators and contract specifications
- Risk assessments for the provision of services to a property fund manager

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