

WHITE PAPER

Intelligent Automation Outcome Based Contracting

- ▶ What is it and what is it not
- ▶ How it significantly reduces business risk and guarantees your Return on Investment



ABSTRACT

Traditional 'time and materials' models link payments to service provider efforts. Yet this model has become outdated in a digitally transformed world. The digital world has matured in a short time. And different times call for different ways of working together.

Traditional Intelligent Automation and Robotic Process Automation (RPA) service-based contracts are based on extensive Service Level Agreements (SLAs) that specify what service providers deliver using technical or operational KPIs.

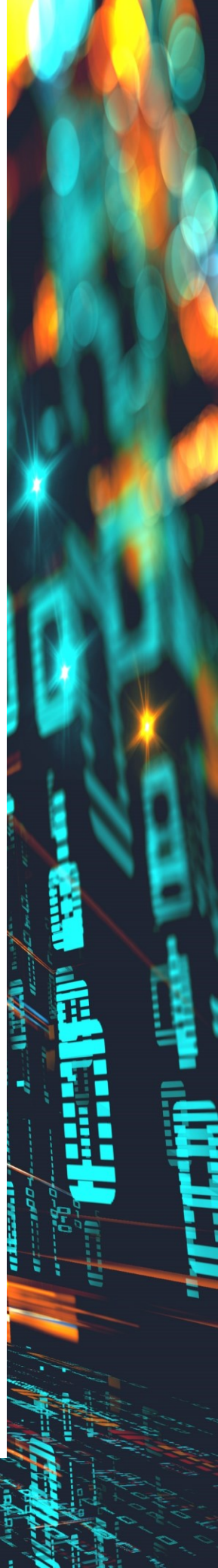
A contract is fulfilled, and a supplier paid, when a particular service or product or service is delivered. Often, service providers operate under time 'time and material' models. This means that service providers get paid, regardless of whether they delivered business outcomes or not.

The digital era requires that service providers work under contracts that involve payments only when they deliver tangible business outcomes using Intelligent Automation and Robotic Process Automation (RPA). This is 'outcome-based contracting'.

An 'outcome-based contracting' approach shifts the emphasis from 'what time do you spend with us' to 'what tangible business outcome do you deliver for us'.

The certainty of outcome-based contracting enables CIOs and CxOs to work with IT service providers on broader business objectives knowing they will only pay money when they deliver tangible business outcomes.

If correctly implemented, they receive higher-quality results that focus specifically on what they want to achieve from the relationship. This allows them to focus on their core strategic activities instead of the mechanics of optimising service delivery.



HOW DO IT SERVICE PROVIDERS DELIVER VALUE TODAY?

Contracting IT services usually follow one of the 3 well-trodden paths:

01 Fixed price project: Under a fixed price contract, a hiring company is responsible for ensuring that the agreed Intelligent Automation and Robotic Process Automation (RPA) technical project scope will solve their business challenges. Companies may need to hire consultancies, or employ technical and business analysts of their own, to do just that.

With the first option, companies can lose a lot in translation during those 'analysis/diagnostics' sessions. The second option can be expensive, especially for small and medium companies.

02 Time & material engagements: Companies purchase a block of consulting or development hours and then decide what to do with that contracted time. Yet companies have no guarantee that Intelligent Automation and Robotic Process Automation (RPA) service provider staff will deliver the business results they want during those hours

03 Outsourcing contracts, also known as managed service contracts: Companies buy/augment their full-time staff with additional contracted employees from another company who may bring some additional value. For example, some training or cross-project knowledge sharing.

None of these models tie business value realisation, to IT project delivery. **Why is this?**

WHAT IS WRONG WITH THESE MODELS?

As a customer, you don't really want to buy a FIXED technical scope, hours, or headcount. What you want is to achieve a set of specific business goals using Intelligent Automation and Robotic Process Automation (RPA).

This benefit should be measurable. As it is IT, it should be measurable using numbers or data-based.

WHAT IS THE ALTERNATIVE?

Outcome-based contracts are results based, focusing on business output(s), quality, or outcomes:

3 common attributes of outcome-based contracts are:

1. A focus on business outcomes, not tasks or activities, time or technologies.
2. Use of simple and tangible measurable performance indicators tied to business outcomes.
3. A pricing model that includes rewards for meeting outcomes and shares the risk of not meeting them.

Companies should consider outcome-based contracting when implementing Intelligent Automation and Robotic Process Automation (RPA), if only to challenge the status quo. Today there exists limited trust between customers and their IT service providers. This needs to change if companies are to digitally transform.



WHAT ARE THE BENEFITS OF OUTCOME-BASED CONTRACTING?



Figure 1: Traditional versus Outcome-Based Contracting

The purpose of an Intelligent Automation and Robotic Process Automation (RPA) outcome-based contract is for a company to get better value, improved performance, and lower costs from their IT investment.

Traditional deal-making involves information asymmetry. Whilst a client and vendor want a business deal to work, the client and the technology provider often know something the other does not. This often provides an incentive for one party to try to gain an advantage over other parties.

Outcome-based contracts link payments to business outcomes and encourage win-win relationships. The client and the vendor are both incentivised to make a relationship work. As a result, they are both more willing to share information with each one and other.

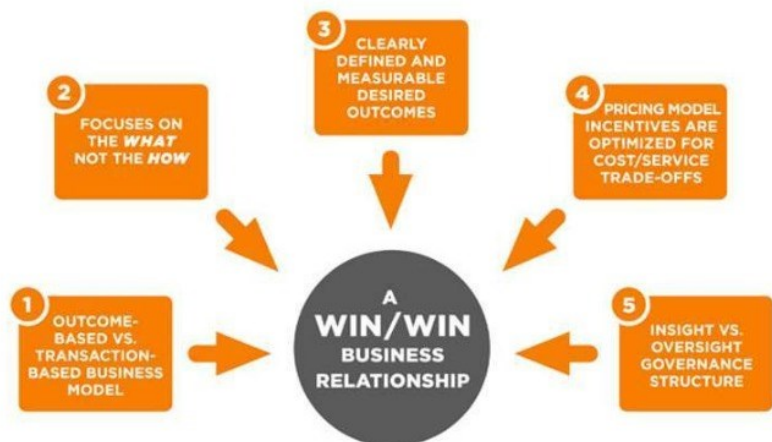


Figure 2: A Win-Win Business Relationship



INCENTIVISING DESIRED BEHAVIOUR

Outcomes-based contracts align the interests of contracting parties around a common focus i.e., business outcomes. And as such, both parties are incentivised to behave in a more positive manner. With suppliers utilising their own resources and best practices, they have an opportunity to bring much-needed fresh thinking to the client, reduce the ongoing costs of service delivery to their client base and achieve greater margins which incentivises them to innovate more to drive much better outcomes. For example.

Cost savings – Suppliers are better compensated the higher the quality, speed, and impact of the services they deliver. Procurement teams, contract a service supplier safe in the knowledge that they won't need to pay a provider if they don't deliver a business outcome. In addition, a supplier is incentivised, to leverage existing client Intelligent Automation and Robotic Process Automation (RPA) technology investments to reduce service costs.

No financial risk – A service provider only gets paid when business outcomes are achieved. As such, the financial risk of a service failure is transferred to a service provider.

Higher-quality output – Service providers are incentivised to deliver the best possible quality outcomes and tailor their services to their customers.

Improved time to value – Service providers are incentivised to deliver value as quickly as possible. The sooner they deliver business value, the sooner they get paid. This is the direct opposite of a time and materials-based contract.

Improved and healthy collaboration – Flexible and transparent payment mechanisms encourage collaboration.

Increased effectiveness – Deals are more effective when there is a focus on evidence-based contract delivery.

Increased motivation – exists for a service provider to achieve the best business outcome so that it can maximise its financial gain. This reduces the need for costly contract oversight.

Reduced contract administration costs for business and service provider – Contracting companies are incentivised to focus on setting and measuring outcomes, rather than micromanaging providers' activities.

Fostering innovation – Providers are incentivised to identify 'what works' to deliver business outcomes. As a result, they are more likely to innovate and experiment with different approaches to fulfill a contract.

WHAT ARE THE 4 KEY RISKS TO OUTCOME-BASED CONTRACTING?

There are risks to every contract type and Outcome Based Contracting is no different. Not every organisation, or every strategic relationship that an organisation undertakes, is suited to this type of business model. If you do not have the expertise, the time, or the resources to quantify the outcomes and benefits you wish to achieve in enough detail, then you may need to remain with input and transactional-based models for now.

01 Inadequate or incorrect baselining

Sound performance measures are critical to ensuring a successful outcome-based procurement arrangement. At its simplest, the contracted “outcomes” should be objective, measurable, clear, and realistic.

Both the level of required ‘outcome’ and the related key metrics need to be considered and clearly set out. This is fundamental during outcome-based contracting. If you can't measure a required ‘outcome’, then you can't manage performance. Nor can you remunerate based on an agreed performance if none exists.

A lack of relevant metrics is often cited as one of the primary pitfalls of implementing a successful outcome-based contract. If you do not have the expertise, the time or the resources to quantify the outcomes and benefits you wish to achieve in enough detail, then you may need to remain with input and transactional-based models for now.



WHAT ARE THE 4 KEY RISKS TO OUTCOME-BASED CONTRACTING?

02 A material change happens to the business during the contract term (e.g., an M&A during the deal)

In the event of a company-wide change, CIOs must ensure that a contract provides an opportunity for interim adjustments to be made to contract objectives. For example, it's wise to schedule go/no-go moments. This keeps a finger on the pulse and ensures goals can be recalibrated where necessary. While a framework agreement can be signed for up to five years, short-term goals can also be set for certain project deliverables or timescales.

03 Delivering an outcome using Intelligent Automation and Robotic Process Automation (RPA) no matter what

A service provider might meet a client's needs via different means and methods than you had envisaged. This may result in potential compliance / legal / risks to a company. Understanding the business model and strategy of a customer, is key to building a solution that supports both parties' business objectives.

04 Internal procurement or operational team resistance

Outcome-based contracts can represent a significant shift in mindset for many of those involved in a procurement process. This can be particularly true where the natural tendency can be to default to a prescriptive approach and rely on detailed process specifications to reduce risk.



THE OUTCOME-BASED CONTRACTING MECHANISM

Traditionally, contracting Intelligent Automation and Robotic Process Automation (RPA) services is linked to inputs or activities. This means that the provision of services is negotiated based on financial needs, staffing, the number of activities developed, or the number of people participating.

By linking contracting and/or funding to Intelligent Automation and Robotic Process Automation (RPA) outcomes, the incentives are redesigned. Thus, the focus becomes the achievement of a certain outcome, in the most efficient way. Outcome based contract payments are only made when pre-determined goals are met.

In an outcomes-based contract, the pursuit of business outcomes forms the basis of the contractual incentive system with payment wholly or partly dependent on those outcomes being achieved.

DEFINE THE OUTCOME

But before planning an Intelligent Automation and Robotic Process Automation (RPA) project, be very clear about its desired outcome. Ensure it is scoped and has a robust rationale for proceeding.

This is a foundational step to an outcome-based contract.

State the outcome in terms that are sufficiently broad, so as not to restrict the range of potential solutions, but not so broad that it may be open to endless interpretation.

This step must involve a structured and detailed Data analytical process that helps define business outcomes and guide the development of innovative solutions to deliver them.

THE 5 STAGES TO DEVELOPING AN INTELLIGENT AUTOMATION AND ROBOTIC PROCESS AUTOMATION (RPA) OUTCOME-BASED CONTRACT

01 Agree on the service area, potential providers, desired business outcomes, and the contract parameters. Companies should set out an initial statement for discussion with providers. This should include a description of what limitations or boundaries exist within a service area, baseline data and the indicators used to measure the desired business outcome, and the methods for monitoring. Data must be collected to understand the impact of the outcome-based contract approach.

02 The provider prepares a statement of how it intends to design its services to meet the outcomes and articulates a clear business case to highlight how many outcomes will be delivered (typically a range). This needs to be evidence that the service provider has sufficient knowledge needed to meet the company objectives. Contracting companies must give service providers sufficient time to prepare their responses.

Has evidence been provided that the method of work the provider is proposing appropriate and can be substantiated? Is the expected outcome and action plan achievable? At what points would the contract need to be re-considered, i.e., not only time span but when may it be reasonable to draw a conclusion that the desired outcomes could not be reached?

03 A service provider is selected, and contract terms are then discussed – the provider may suggest better and/or larger outcomes than you first considered which may need to be contracted for. A contract must contain clear KPIs and milestones that evidence delivery of outcomes agreed - is the potential indicator of a meaningful measure of outcome.

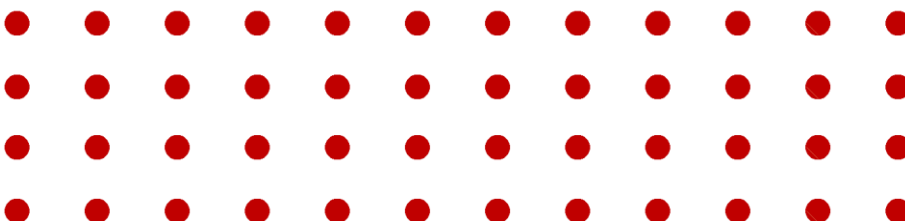
THE 5 STAGES TO DEVELOPING AN INTELLIGENT AUTOMATION AND ROBOTIC PROCESS AUTOMATION (RPA) OUTCOME-BASED CONTRACT

Written contracts should contain (and be updated on at least a 6 monthly basis):

- a. The quantified outcomes and benefits a business expects from a service provider.
- b. The terms of reference for the due diligence report a service provider will need to undertake to validate the business's expectations.
- c. The due diligence report itself – what the service provider can and cannot do for the business.
- d. An implementation plan that's been agreed to realise these benefits and outcomes against the pricing model.
- e. The sources and skills (not named individuals) that the provider and the business as the client say you will both put in and that are aligned to the outcomes of the service delivery.

04 Once contracted, a supplier must develop a plan of action, timeline, milestones, and defined contract outcomes. The implementation and milestone plan must be clear and detailed, identifying the benefits and outcomes to be achieved, how they will be measured and performance managed, and when payments to the vendor will be made. The client needs to supply the resources and skills that they said they would supply when they said they would do so, or the provider cannot achieve the outcomes it is trying to achieve for the business.

05 The outcome-based contract work is actioned, milestones reviewed, and contract outcomes delivered.



CRITICAL FACTORS TO CONSIDER WHEN DESIGNING AN IA AND RPA OUTCOME-BASED CONTRACT



Clearly determine the scope of work and what performance measures will be used.



Define your baseline and what level of performance is expected.



Include provisions for flexibility and incentives and make sure you can afford the incentives.



Craft a performance-based statement of work and begin contractor selection Include mechanisms for measurement, reporting, monitoring, and contractor feedback.



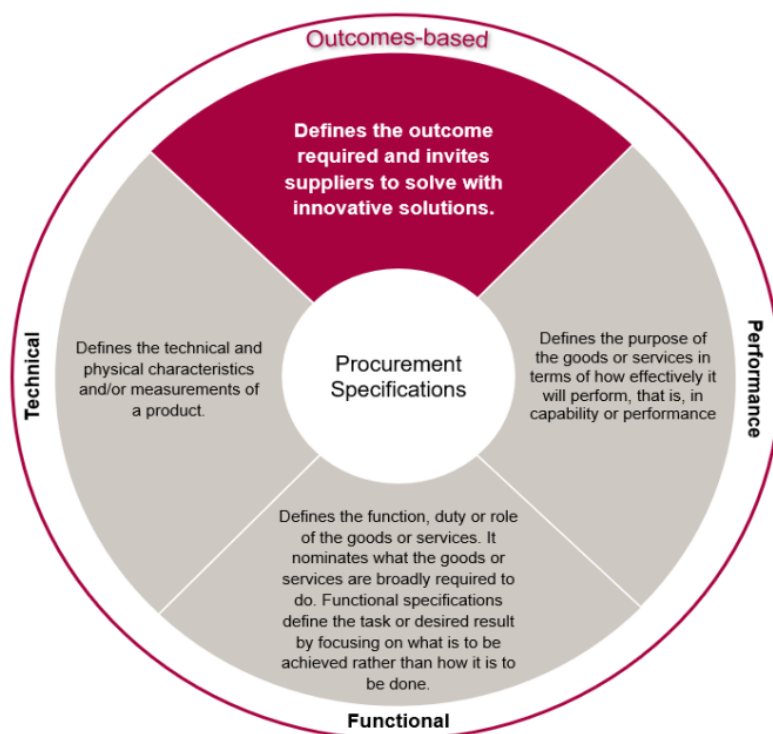
A client must do what it says it is going to do when it says it is going to do it, in order not to impede a service provider from delivering the outcomes expected from them.

SUPPLIER REQUIREMENTS

- ❖ A willingness to fund an outcome-based need. Supplier financial viability (as an investment will be required for months before seeing the outcome).
- ❖ A willingness to operate in good faith and in an open and transparent manner is vital.
- ❖ Work with company procurement professionals to help them understand lessons learned from others who adopted this approach. Show a willingness to help the business procurement team develop its evaluation approach.
- ❖ Ability to achieve the outcome against mandatory, desirable, and/or optional requirements.
- ❖ Demonstrated ability to work with a customer to mitigate external project risks.
- ❖ Experience relating to the proposed solution.
- ❖ Experience delivering outcome-based projects

CRITICAL FACTORS TO CONSIDER WHEN DESIGNING AN IA AND RPA OUTCOME-BASED CONTRACT

Figure 1 – Procurement specifications



KEY CONSIDERATIONS

- ▶ Ensure appropriate business objectives are defined within a contract. Service providers are under increased pressure to measure and provide evidence of their output. Both parties will need to agree on how this is done.
- ▶ Don't overcomplicate things unnecessarily. An outcome-based contracting model requires a major cultural shift for procurement teams who are required to hand over a great deal of control to service suppliers. Outcomes are required to agree on priorities with stakeholders and for outcome-based contracting to be successful, contracting companies need to be able to confirm that outcomes have been achieved, and can be directly linked to the services delivered by the provider.

KEY CONSIDERATIONS

- ▶ Strong governance is critical in most (if not all) sourcing relationships. Governance structures should be developed early in the relationship and be robust with the ability to flex over time in line with the relationship needs and both customer's and service provider's company.
- ▶ Ultimately both parties need 'buy-in' from senior stakeholders and commitment from every level of the company before a strong working relationship can be established. All levels of the customer company must want to work with an Outcome focused service provider as a strategic partner and see the benefit in the service provider, helping them achieve their company's goals.

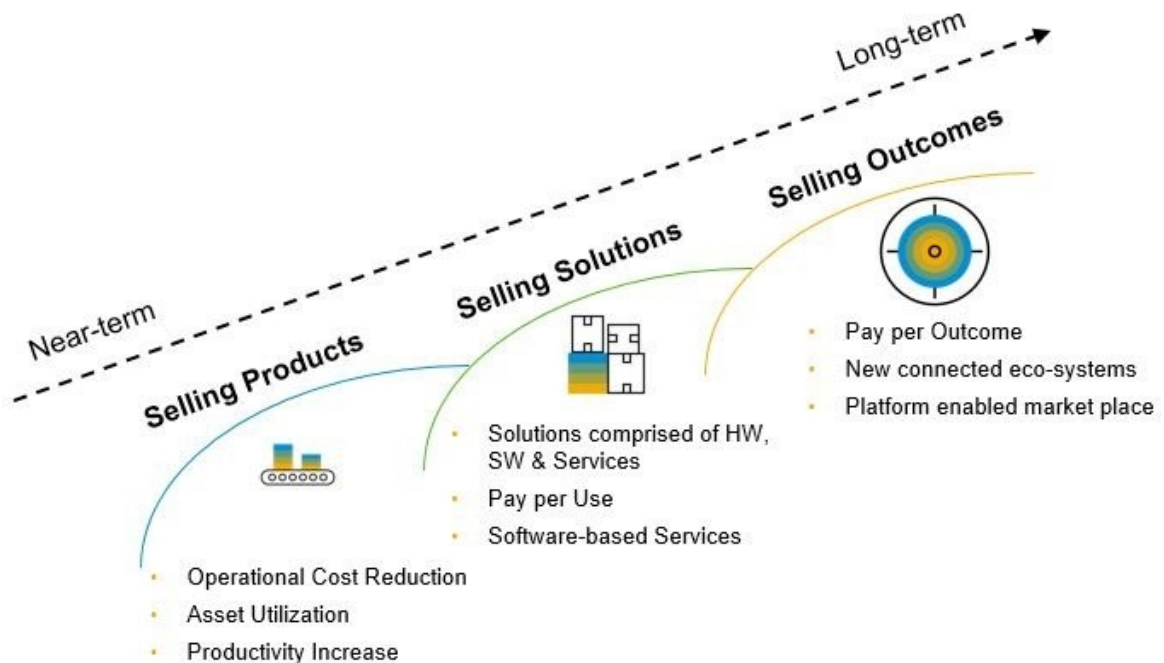


Figure 3: From Selling Products to Selling Outcomes

CONCLUSION

Different digital times call for new ways of working. It is now time for companies to introduce future-proof contract forms that fit their unique Intelligent Automation and Robotic Process Automation (RPA) business objectives.

Companies are now increasingly moving from 'time and materials' SLA-driven contracts to payment by results.

The best business deals are formed based on fair and equitable foundations. Those types of deals are the ones that encourage clients to return time and time again. As such, they have one thing in common – they offer a win-win deal for both vendors and their clients.

Outcome-based contracting (OBC) is one way of achieving this. Payments to service providers, are linked to the achievement of predefined business outcomes using Intelligent Automation and Robotic Process Automation (RPA).

Outcome-based contracts ensure a business has the best opportunity of receiving the most appropriate advice from a service provider to achieve business outcomes.

With this type of results-based contract, it is only a matter of time until all companies employ outcome-based contracting instead of the more unwieldy, and often more expensive, traditional time and materials-based model.



Intelligent Automation Outcome Based Contracting

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