Outsourcing
From AEP’s Perspective
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AEP is one of the largest electric utilities in the U.S., delivering electricity and custom energy solutions to 5.4 million customers in 11 states. It owns 26,000 megawatts of generating capacity in the U.S. AEP also owns the nation’s largest electricity transmission system, a 40,000-mile network that includes 765-kilovolt ultra-high voltage transmission lines, more than all other U.S. transmission systems combined. AEP’s Accounting is headquartered in Columbus, OH with satellite offices in Canton, OH and Tulsa, OK. Website: https://www.aep.com/
Outsourcing – Why?

Why Outsource?  

BENEFITS of Outsourcing:

- Cost Savings
- High Volume Delivery Model
- Accelerated Automation and Innovation
- Acquired Automation (Buy vs Build)
- Economies of Scale
- Process Standardization
- Process Transformation
- Productivity and Efficiency Gains
- Leverage Providers Collective Knowledge Base
- Swift Reaction to Company Growth/Decline
- Value Added Services
- Long-term Strategic Partnership

There are those who look at things the way they are, and ask why. I dream of things that never were, and ask why not. – Robert Kennedy
Outsourcing – Why?

Why Outsource?

CHALLENGES of Outsourcing:

- Impacts to Employee Culture and Trust
- Loss of Institutional Knowledge and Expertise
- Quality, Reliability and Responsiveness Concerns
- Service Provider Turnover
- Unwanted Loss of Company Talent
- Time Zone Differences
- Overcoming Language Barrier
- Bridging Cultural Differences
- Dependency on Service Provider
- Additional Layer of Financial Risk
- Takes Jobs Away From Jurisdictions
- Loss of Control
- Fear of the Unknown

Never let the fear of striking out get in your way – Babe Ruth
Outsourcing – Why AEP Outsourced

Why did AEP Outsource?

This initiative is AEP’s next step towards achieving standardization, driving innovation, and positioning the Accounting & Tax function to:

- Establish scalable and efficient processes utilizing a low-cost, high volume delivery model
- Refocus efforts on strategic innovative solutions that add business value
- Provide operational savings to be redeployed in other parts of the business
- Standardize routine processes and improve transaction handling times
- Leverage technology to drive automation of transaction-based activities (Buy vs Build)
- Enhance the SOX controls environment by decreasing reliance on human performance of transaction-level controls
- Allow Company’s accounting team to focus on higher value analysis and business support
Outsourcing – What Should be Included?

What Should be In-Scope?

Each process should be evaluated using the following factors:

- Transaction volumes
- Handling times
- Scalability
- Consistency
- Dependencies
- Level of specialization
- Level of professional judgment
- Risk/Reward assessment
- Degree of local business interaction
- Level of strategic importance
- Regulatory requirements

Assessing **COMPANY READINESS** is the first step in the outsourcing journey.
Overview of a Business Process Outsourcing (BPO) Transition Plan

Key milestones in a BPO Transition Plan

The transition plan is a sequence of tightly coupled phases. Establishing the right scope, the right pace, the right expectations and the right culture are critical to starting the partnership off in the RIGHT direction.

Key Milestones in a BPO Transition Plan

§ Planning and Preparation (2 to 4 months)
§ Vendor Selection and Contract Negotiation (3 to 4 months)
§ Due Diligence and Knowledge Transfer (2 to 3 months)
§ Service Rehearsal Training (1 to 3 months)
§ Stabilization (2 to 3 months)
§ Steady State (THE GOAL)
Planning and Preparation

- Engage Third Party Consultants and Legal Counsel
- Appoint Project Lead(s) and Business Sponsors
- Assess Current Processes, Cost, Handling Time, and Volumes
- Identify In-Scope Activities, Deliverables and FTEs Impact
- Update Desktop Procedures (DTP) and Task Lists
- Prepare Detailed Project Plan, contemplating resource constraints
- Develop Change Management Plan
- Develop Business Case for Go/No Go Decision
- Develop Request for Proposal (RFP)
- Review RFP with Company Stakeholders
- Issue RFP to Targeted Vendors (Tiers 1, 2 or 3)
Outsourcing Roadmap – BPO Transition Plan

Overview of BPO Life Cycle

Planning and Preparation → Vendor Selection and Contract Negotiation → Due Diligence and Knowledge Transfer → Service Rehearsal Testing → Stabilization and Steady State

Service Provider (SP) Selection

- Select Evaluation Committee
- Develop Service Provider Evaluation Metrics
- Evaluate Service Provider Proposals
- Down Select Preferred Service Providers for Oral Proposals
- Conduct Oral Proposals and Interviews
- Notify Down-Selected Service Providers
- Conduct Site Visits to Service Providers Delivery Location
- Request Best and Final Offer
- Select Service Provider
Vendor Selection

We evaluated four service providers based on their:

- Understanding of Company’s outsourcing requirements
- Experience and expertise of in-scope activities
- Strength of proposed transition schedule
- Scope of proposed automation and commitment to innovation
- Breadth of knowledge and education of their people
- Oral presentations and interviews
- Site visit, including facility and cyber security
- Experience and cultural fit of key Provider personnel

The **RIGHT BUSINESS PARTNER** is the first of many key decisions

*I am not a product of my circumstances; I am a product of my decisions* – Stephen Covey
Outsourcing Roadmap – BPO Transition Plan

Overview of BPO Life Cycle

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Contract Negotiation

MSA is the overarching document that governs the entire contract and includes supporting schedules, and attachments.

Master Services Agreement

Schedule 1: Definitions

Schedule 2: Services

Schedule 3: Performance Management

Schedule 4: Charges and Invoicing

Schedule 5: Transition

Schedule 6: Governance

Schedule 7: Exit Management

SOW Responsibility Matrix

Service Level Agreements (SLAs)

Pricing details

High Level Transition Plan

Experienced Third Party Consultants and Legal Counsel are Imperative to a Successful Contract Negotiation.

You can disagree without being disagreeable – Ruth Bader Ginsburg
Due Diligence

§ SP and Company Subject Matter Experts (SME) conduct a 3 to 4-week detailed process mapping and documentation of all in-scope tasks
  q Quality of existing process mapping and detailed procedure documents are paramount to the success of this phase
  q Project audience may need to be expanded to ensure the right SMEs are available

§ Process will be used to validate FTEs, Statement of Work (SOWs), Software Application Access, Security and Risk Points
  q Provides foundation for the final contract pricing and scope
  q Utilized to develop a detailed Knowledge Transfer Plan
Outsourcing Roadmap – BPO Transition Plan

Knowledge Transfer (KT)

§ Recommend utilizing a “Hybrid” Train the Trainer approach consisting of three Gates:
  q *Gate 1*: SP travels to Company locations to conduct detailed KT Training (2 to 3 weeks)
  q *Gate 2*: SP returns to SP location to train full team (2 weeks)
  q *Gate 3*: Company SMEs travels to SP location to complete KT Training (2 to 3 weeks)

§ Assessment tests are administered throughout the process to assess training approach, retention and proficiency

§ Utilization of remote interface technology (Skype, Smart Boards) heighten the training effectiveness
Service Rehearsal Testing (SRT)

- Primary focus is task accuracy followed by increasing volumes
- Volumes are ramped to 90% to 100% in a test (or live) environment
- Accuracy and timeliness testing is performed throughout this phase
- Includes hands on instructions, query resolution, process refresher training, daily quality monitoring and decisions on volume ramping
- Phase is utilized to certify that the services models are ready for sign-off prior to Go-Live (90/90 Rule)

- Go-Live: Contractual term that denotes that the SP is operating the assigned tasks at acceptable accuracy and volume levels but additional testing is required to enter Steady State.

PRACTICE, PRACTICE, PRACTICE
Stabilization

- Go-Live delineates the project’s entrance into Stabilization
- Stabilization process focuses mainly on supporting the SP in the form of answering ad-hoc queries, providing additional coaching, and providing an increased level of quality checks and performance feedback.
- To exit Stabilization, the Customer must document that:
  - SP can independently prepare and review assigned tasks
  - Applicable controls are operating effectively
  - Customer has review procedures in place to monitor accuracy, efficiencies and turn around times
Steady State

- Stabilization exit criteria has been achieved
- SP is operating transitioned tasks and controls as designed
- Customer’s targeted FTE reduction has been achieved
- Project begins a more concentrated focus on process automation, process standardization, and efficiency gains.
- Customer continues to investigate front-end process improvements.
Outsourcing – Communication Plan

So Many Questions

Communication Plan should address:

§ Why we are outsourcing?
§ Who is directly or indirectly impacted?
§ When will individuals know if they are impacted?
§ How long is the transition period?
§ When will I be notified of my last day?
§ Where will the delivery service be performed?
§ Will there be severance or retention?

Other Considerations:

§ When should the initial announcement occur?
§ Who should receive communication?
§ Who should deliver the message?
§ How much detail is provided?
§ Who is the Service Provider?

A comprehensive Change Management Plan is key to a successful transition
Outsourcing – Risk Environment

Balancing Risk

Areas of Risk

- Service Provider staff attrition
- Early departure of Company staff during transition
- Loss of institutional knowledge and expertise
- Utilization of contractors during transition
- Poor attention to key control handoffs
- Lack of focus on change management plan
- Exposure to political upheaval, natural disasters, major illnesses and security breaches
- Transitioned tasks create additional financial risk
- Inadequate Service Provider staffing levels
- Projects and resource constraints on the horizon

Risk comes from not knowing what you’re doing – Warren Buffett
One Team Approach

- Company and Service Provider are part of ONE Team with ONE Goal
- Don’t use the terms “Us” or “Them”
- Refer to SP as the “Chennai Team”
- Include all parties in the solution
- Allow the SP to work with you, not for you
- Approach issues with an open mind, looking for the solution not the blame
- Use candor and honesty in all interactions
- Provide Company logo items to SP staff
- Encourage and share success stories

A ONE TEAM approach is a cornerstone to a successful BPO relationship

Alone we can do so little; together we can do so much – Helen Keller
Building Blocks for Success

- Assess Company Readiness
- Handle employee decisions with candor and compassion
- Establish a governance structure to provide guidance, leadership and issue resolution
- Institute project management rigor and guiding principles to ensure successful and timely transition of all identified processes
- Understand, monitor and remedy the impact and risk associated with changes to people, process, and technology
- Ensure application access requirements are defined and provisioned early in the process
- Engage internal stakeholders in the transition effort through timely and concise communication,
- Promote a “One Team” culture that unites our Local and Extended Teams
- Prepare for staffing changes
Outsourcing – How Do We Define Success?

Success!!

How will we define success?

Success will be defined by the post-transition quality of our accounting and tax services. A successful transition will include:

§ Smooth transition of services with minimal interruption or disruption to the business
§ Controlled handoff from current to future state
§ Accelerated automation through robotics implementation
§ Deliver defined service level targets
§ Increased flexibility to respond to changing business demands
§ Verifiable reductions in the cost of delivery

Transition SUCCESS sets the tone for the overall success of the Project

Success is the sum of small efforts, repeated day in and day out – Robert Collier
Outsourcing – What Did We Learn?

Lessons Learned

- Assess Company readiness prior to engagement
- Document in-scope tasks prior to due diligence phase
- Pre-test software functionality and share drive accesses
- Utilize remote training through Smart Boards and Skype
- Leveraged contractors and retirees to fill early departures
- Finalize detailed training schedules and assessment tests prior to arrival at the SP delivery center
- Maintain status and assessment testing trackers
- Centrally coordinate travel (passports, visa, immunization)
- Conduct daily huddles (Q&A sessions)
- Build trusting relationships through collaboration
- Stay focused on core job responsibilities
- Raise issues and risks in real time
- Practice, Practice, Practice
- One Team, One Goal

The BPO Relationship is a continuous learning process that constantly evolves

If everyone is thinking alike, then no one is thinking – Ben Franklin
The wise man doesn’t give the right answers; he poses the right questions – Claude Levi-Strauss