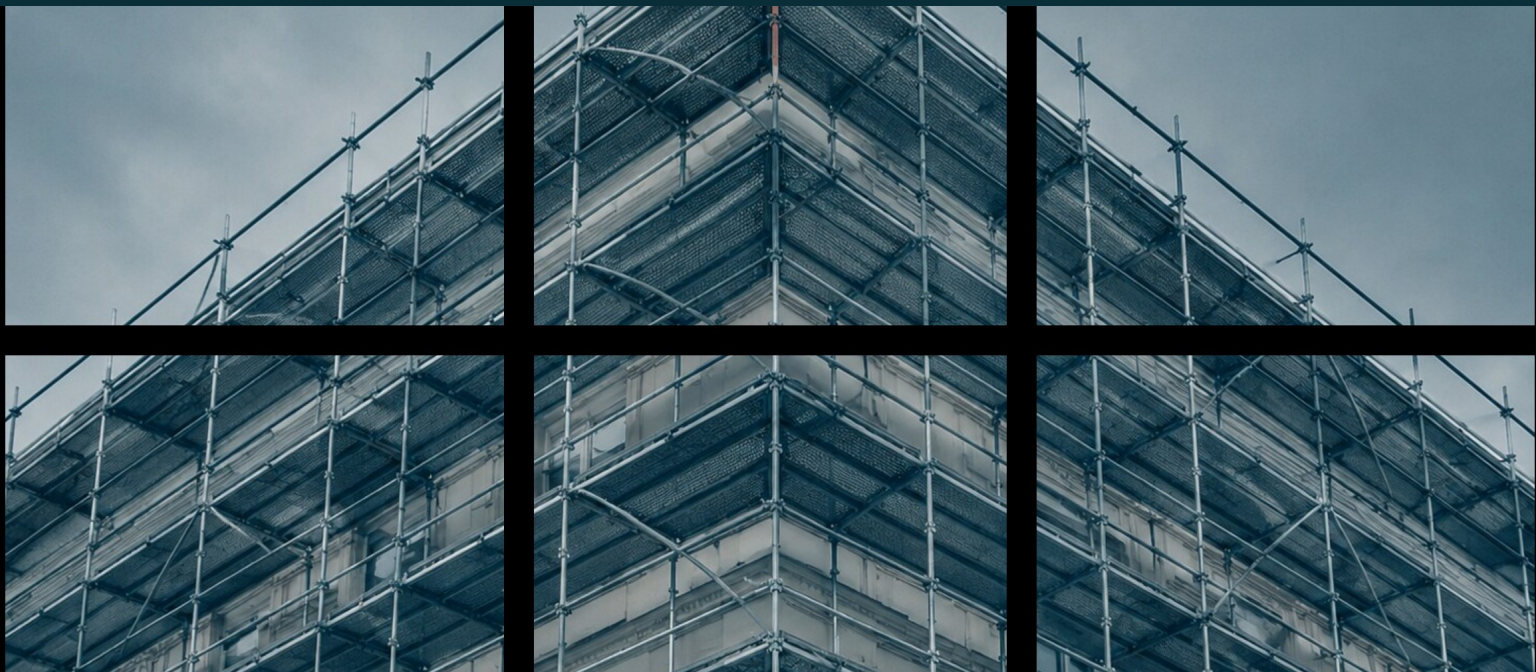


BEYOND UNIT PRICE

The Cheapest Outsourcing Price Is Usually a Bill Deferred to Delivery

Why quality, exceptions and retained effort belong inside the cost comparison, not outside the contract



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“The commercial rate can therefore fall while the cost of completion rises.”

1. The saving that appeared before the service began

The winning bid was 22 per cent below the nearest rival.

On the procurement scorecard, the decision looked disciplined. The unit rates were lower, the transition fee had been reduced and the supplier had accepted demanding service levels. Twelve months later, the same organisation was paying for a retained team twice the planned size, approving repeated changes to the scope and explaining to operational managers why a green contract report coincided with slower service.

Nothing mysterious had happened. The saving had been calculated at the supplier boundary. The cost had emerged in delivery.

This is the false trade-off that the current wave of outsourcing is exposing. Organisations are asked to choose between cost and quality as if they were separate features on a bid. In practice, quality is one of the mechanisms that determines cost. Remove it from the price too early and it returns as rework, supervision, exceptions, delay and loss of confidence.

The cheapest proposal is not necessarily poor. The most expensive is certainly not necessarily good. But a price that depends on quality assumptions nobody has tested is not a saving. It is a bill deferred to operations.

2. Why price is easier to buy than quality

Price arrives in a form that governance can compare. A rate card gives numbers by role or transaction. A transition plan gives dates. A service schedule gives percentages. Suppliers can be ranked, negotiations can be recorded and the business case can show a clear reduction against the present cost.

Quality is harder. It sits partly in outcomes that have not yet occurred and partly in knowledge that the organisation has never measured.

A finance operation may know how many invoices it processes but not how many require a buyer to explain an unusual commitment. An application support team may know incident volumes but not how often an experienced analyst prevents an interruption by recognising a familiar pattern before a ticket is raised. A customer-service operation may know average handling time but not the cost of a second call caused by an incomplete first answer.

When quality is poorly understood, it is often translated into service levels that are easier to contract:

- Percentage of calls answered within a time.
- Percentage of incidents closed within a target.
- Percentage of transactions processed by a deadline.
- Number of defects permitted at acceptance.

These measures are useful, but they describe selected outputs. They do not necessarily describe a usable result. A call answered quickly can still fail to resolve the customer's question. An incident can be closed and reopened. An invoice can be processed into an exception queue. A defect can be classified as minor while it disrupts a common business procedure.

The supplier prices the measures it has been given. The organisation later discovers that the measures omitted much of what it meant by quality.

Poor quality is rarely free. It is merely charged to a different account, at a later date, by a different part of the organisation.

3. The mechanism: where a low price finds its margin

A supplier cannot deliver indefinitely below its economic cost. If the price is materially lower, one or more assumptions must make that possible.

The supplier may have a genuine advantage: greater scale, stronger procedures, better utilisation, reusable facilities or access to a broader labour market. These are the legitimate engines of outsourcing value.

But the margin may also depend on a narrower interpretation of the work:

- More activity treated as an exception or change.
- Less experienced staff assigned after transition.
- Higher spans of control and less supervision.
- Shorter knowledge transfer.
- Greater reliance on the buyer for decisions.
- Service levels met through queue management rather than resolution.
- Capacity planned to average demand with little allowance for peaks.

None of these choices is automatically improper. Each may be entirely consistent with the contract. The problem is that the buyer often discovers the operating consequence only after the commercial competition has ended.

That is why the delivery side sees a different economics from the sourcing side. Procurement sees the contracted resource or transaction. Delivery sees the work required to make that transaction complete.

The gap has four common forms.

3.1 Rework

A task completed incorrectly creates another task. If the contract counts completed transactions, both effort and apparent productivity may rise while the end-to-end cost worsens.

3.2 Retained supervision

The buyer keeps people to explain context, chase exceptions, check output and protect relationships with operational users. These people are often dispersed across departments, so their cost does not return to the outsourcing business case.

3.3 Scope expansion

Activities described loosely during competition are clarified during transition. The supplier reasonably prices the additional work. The original price remains visible; the accumulation of changes is treated as implementation detail.

3.4 Delay

Poor output arrives at the next stage and prevents useful work from starting. The supplier may correct within its service level, but the programme or operation loses time that the contract does not value.

The commercial rate can therefore fall while the cost of completion rises.

4. A delivery account of one “cheap” transaction

Consider a composite accounts-payable service handling 40,000 invoices each month.

The incumbent operation costs £3.20 per invoice. A supplier offers £2.35, implying an annual saving of £408,000 before transition costs. The price assumes that 92 per cent of invoices will match a purchase order and receipt without intervention.

During transition, a sample of one month's work shows that only 78 per cent matches cleanly. The remaining invoices include urgent maintenance ordered by telephone, consolidated supplier bills, price differences and missing receipts. Experienced internal staff have been resolving many of these cases informally, so the exceptions were not visible as a separate activity.

The supplier does what a rational supplier must. It proposes an exception service at £6.50 per item and requires the buyer to provide decisions within two working days.

The arithmetic changes:

- 31,200 clean invoices at £2.35 cost £73,320 each month.
- 8,800 exceptions at £6.50 cost £57,200.
- The transaction charge becomes £130,520, or £3.26 per invoice.
- A retained resolution team of eight people adds approximately £28,000 each month.
- Late clarification increases supplier queries and threatens prompt-payment discounts.

The supposedly cheaper service now costs more before counting delay or management time.

The lesson is not that the supplier concealed the truth. The supplier priced the process described. The buyer purchased a standard transaction while operating a judgement-rich process.

A quality question would have exposed the difference before price comparison: what proportion of invoices can be completed correctly without local interpretation, and what

does it cost to resolve the rest?

5. The strongest argument for price pressure

It is important not to romanticise quality.

Internal functions frequently use the language of quality to defend custom practice, excessive staffing and poor discipline. Long-serving specialists can mistake personal knowledge for indispensable complexity. Suppliers with scale can standardise work, invest in training and expose variations that the organisation should have removed years ago. Competitive price pressure forces both sides to confront waste.

There is also no reliable connection between a high bid and a good service. A supplier can charge more and still mobilise weakly. Elaborate transition plans can create expensive ceremony. Generous staffing can conceal poor process design.

So the answer is not to pay a premium in the hope that quality follows. Nor is it to weaken competition. The answer is to make quality economically explicit before competition concludes.

Price pressure is healthy when all bidders are pricing the same outcome, the same exception burden, the same control requirement and the same transition risk. It becomes destructive when the lowest price wins because it contains the narrowest version of the work.

The serious procurement question is not “Which supplier will do this activity for least?” It is “Which delivery design completes this outcome at the lowest sustainable total cost?”

6. Buy the cost of completion

Organisations can improve the decision by shifting attention from unit price to completion economics.

Before bids are compared, test four things.

1. Define the finished result
 - a. State what must be correct, usable and accepted, not merely processed.
 - b. Include the next stage that consumes the output.
2. Measure the abnormal path
 - a. Sample real work for exceptions, peaks and judgement.
 - b. Price resolution as well as routine execution.
3. Expose retained effort
 - a. Name every buyer role required for decisions, checking and escalation.
 - b. Include its cost in each option.
4. Test the operating assumptions
 - a. Ask what staffing, experience, supervision and capacity support the price.
 - b. Model what happens when the assumptions are wrong.

A useful comparison should look beyond the rate card.

Question	Weak comparison	Delivery comparison
Work	Transactions received	Outcomes completed and accepted
Volume	Monthly average	Average, peak and exception mix
Quality	Contract service levels	First-time correctness and downstream usability
Buyer effort	Contract-management team	All retained decision, checking and recovery effort
Change	Excluded from headline price	Likely clarifications and known uncertainty
Risk	Supplier liability	Cost and time to restore the outcome

This approach does not remove judgement. Some quality will remain difficult to quantify, and some supplier advantages will appear only in operation. But it makes the uncertainty visible where it belongs: in the decision, not after it.

7. Value is quality made economic

The old debate asks whether we can afford higher quality. The more useful question is which qualities prevent cost from multiplying elsewhere.

Not every process needs the same standard. A low-consequence administrative transaction can tolerate more correction than a payment control, a production interruption or a customer commitment. Quality should be proportionate to the consequence of failure. But proportionate is not the same as minimal.

From the delivery side, the pattern is consistent. When price is separated from the conditions needed to complete the work, the programme spends its first year rediscovering those conditions through disputes and changes. When quality is defined as part of completion, suppliers can compete on a more honest basis: scale, method, capability and sustainable cost.

“The rate is what we pay for activity. Value is what we pay to avoid buying the same outcome twice.”

The choice is not quality or cost. It is visible cost now or dispersed cost later.

Good outsourcing should lower both cost and friction. It does so when a supplier's advantage removes work, standardises it or performs it better at scale. It fails when the business case counts only the labour that moved and ignores the work needed to make the result usable.

The cheapest bid may still be the best bid. But it earns that conclusion only after the organisation has priced quality, exceptions, retained effort and recovery. Until then, “lowest cost” is not a finding. It is an assumption wearing a currency symbol.