

The Learning Habit Limited



Work Package No 3 Business Case Exercise

Instructions

Complete Work Package 1 – this will ensure you have a clear understanding of the Business Case Theme.

Read the Product Description for the Business Case (Appendix A.2) of the PRINCE2 manual
Read the Project Scenario for the Outsourcing Project (attached to this work package - page 2
Read the Attachment A (attached to this work package – page 3)

Write an 'Outline Business Case' for the outsourcing project capturing as much information as you can from the scenario and the additional information (Attachment A), Base the structure of the business case on the suggested composition in the PRINCE2 manual (excluding the Executive Summary and Investment Appraisal sections)

Please bring copies of this exercise information plus and your answer with you to the course as you will need it for an exercise during the course



PRINCE2® is a Registered Trade Mark of the Office of Government Commerce in the United Kingdom and other countries.
The Swirl logo™ is a Trade Mark of the Office of Government Commerce.

Project Scenario EX03 The Outsourcing Project

Note: *Outsourcing is the contracting-out of business functions to a third party (the service provider). A business may contract out to one service provider or several service providers. The service provider takes control of the business functions and is responsible for their success. It is common for staff in the business functions being outsourced to be transferred to and employed by the service provider. Simple examples of outsourcing are office cleaning services and gardening services. Knowledge of outsourcing is not required for this examination paper.*

A central government department, the Ministry of Food Hygiene (MFH), faces increasing pressure to cut costs, better manage suppliers' performance and reduce the confusion caused by inadequate internal controls, outdated standards and outdated technology. External consultants were employed to conduct a feasibility study to identify options to address the problems, and the likely costs and benefits. The following options were considered:

- Do nothing.
- Re-engineer selected business functions.
- Outsource selected business functions.

The feasibility study concluded that there was a case for outsourcing the MFH Information Technology Division and the Facilities Division (maintenance of buildings and grounds). The recommendations were:

- One service provider should be contracted to provide the services currently provided by the Information Technology Division and the Facilities Division.
- A 10-year service contract should be agreed with the selected service provider.

The feasibility study developed high-level designs of the current organization, processes, systems and operating models, plus an outline Business Case for the required project. The external consultants also made the following recommendations for the management of the project:

- Use PRINCE2.
- Set up the project with 4 management stages:

Stage 1. Standard PRINCE2 initiation activities.

Stage 2. Create detailed designs (future organization, processes, systems and operating models) and the service level agreement between MFH and the future service provider.

Stage 3. Request and evaluate proposals, select service provider and agree contract.

Stage 4. Transfer equipment and staff, transfer responsibility for service provision and run trial period.

Initial estimates indicated that the project would cost £2.5m and take two years to complete. MFH senior management agreed that there was a case for outsourcing, and accepted the recommendations as a basis for the project. There is an expected saving of £20m over 10 years.

The Outsourcing project has completed the Starting up a Project process and is now in the initiation stage. Because of the strategic importance of the project, the MFH Chief Executive Officer has taken the role of Executive. A PRINCE2-experienced Project Manager has been appointed from within MFH. Staff within the business functions being outsourced will work with the external consultants who conducted the feasibility study to define the detailed designs.

Attachment A
Memo from Senior User to the Project Manager

I had a briefing session from the external consultants who conducted the feasibility study today and was very interested to learn a little more about their views on the importance of this project to MFH and why in their view it should go ahead as quickly as possible.

Initially I questioned their assertion that a single supplier should be used for both the Information Technology Division and the Facilities Division as I believed that the two disciplines are quite diverse and I did not think a single supplier could be found (this might still be the case in fact especially in current market conditions). I accepted their argument that a single supplier would be more cost effective in the long run and that maintaining a relationship with one supplier is easier than with multiple suppliers.

The £20m saving over 10 years is interesting to me seeing as I will be responsible for realising a big chunk of this. We should also be able to stabilise costs at the agreed levels and take out a huge element of variability that we see today. Recruitment of competent IT professionals has been a problem for us of late and the recruitment costs are significant, it will be good for someone else to have this problem. We will of course lose direct control over the outsourced business functions and I told the consultants I am still not altogether comfortable with that position.

What we should not lose sight of however is the negative impact this project will have upon staff morale. This could continue after the project especially if staffs in other business functions see themselves as 'being next'. I can also see the possibility that as a result of employment contract changes (from MFH to the service provider), staff may resist outsourcing which would make it difficult to transfer staff to the selected service provider.

If we do this right, the expected benefits should start to be realised as soon as the outsourced services become operational. Therefore, any Benefits Review Plan that you pull together needs to reflect this and we should aim to review the achievement of expected benefits initially six months after the project has closed.

The cost of this is the bit that frightens me most (£2.5m just for the project). Before we give the project the final go ahead I would expect to see an analysis of all costs both for the project and the cost we will incur over the 10 years of the contract with the service provider. I suggest you get the help of the Payroll Manager to help with this as we need to ensure we understand the full effect of the investment we are making and the return we expect.

Anyway, bottom line is that so far I am in favour of what we are doing so good luck with this and you know my door is always open if you need to talk with me further.