Cellulus
Delivering Operational Innovation

When the Due Diligence is Due

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What is Due Diligence?

Due diligence is an important legal and operational step before the vendor presents a final proposal. While a client may have selected a vendor on their ability to meet certain pre-determined criteria, it is logical that the vendor will require certain data with a commercial impact that is not contained in a Request For Proposal (RFP). Establishing this information is the reason for the vendor's due diligence. To the vendor, the due diligence exercise will offer the ability to adjust their final proposal and provide a more accurate and stable price.

Due diligence is a process whereby the Client provides a lot more detailed information about the environment that they wish to outsource than was previously included in the RFP. This information can be gathered prior to the bid process, or as a result of the vendor asking a set of questions about the in-scope environment, or both.

The Due diligence information having been provided by the Client as a true reflection of the situation of the in-scope environment, forms the basis for the outsourced service, so if it is later found that the information was materially inaccurate then the vendor may have recourse to alter their offer.

The Due diligence should also operate in a reciprocal sense, whereby the client company needs to vet the vendor's capabilities through the due diligence process. Once the company has tested the final proposal from the vendor against its initial requests, the outsourced project itself can begin and the contract can be finalized.

When will Due Diligence happen?

This phase of an outsourcing project will take place after the submission and review of responses to an RFP. There are some important reasons for adopting this approach:

- ★ The vendors have put together a proposal containing a number of risks and assumptions that they need to validate.
- ★ The Client can evaluate the aptness of all RFPs before selecting the best partner(s) for Due Diligence.
- ★ By asking the vendors to supply a set of questions, the Client can further evaluate their approach.

Who is Due Diligence carried out by?

The operation of a Due Diligence phase, and the preparation of information are large overhead efforts for the Client. Once the information is prepared, the administration and control of the phase will require a good deal of effort to ensure that the process runs well and that the questions from the vendors are answered in the best way. Therefore it is in the interests of the Client to restrict the number of vendors as much as possible.

If there is a clear favourite amongst the vendors, who is able to fulfil the requirements set out in the RFP, at the right price, then it may be possible to proceed to Due Diligence with a single vendor. However, this approach may reduce the competition within the vendors prior to submission of their Best And Final Offer (BAFO) so it is usual to proceed with two vendors to the DD phase, or hold one as a "warm standby".

Information to be reviewed

The information to be reviewed will vary from case to case, but will always centre on the assumptions that have been made by the party carrying out the Due Diligence. There is a good deal of general information about a company that is held in public records in most countries, so it should be considered that this has already been made available. Examples of such information might be the number of subscribers to a mobile network and their monthly rate of change, or previous year's turnover and profit etc.

A vendor will be aiming to achieve the following:

- ★ Determine that the performance levels set by the buyer are realistic and achievable.
- ★ Perform an asset audit in cases where client assets are to be transferred to the service provider. This could include a statement of the condition of each asset and its location, developing an asset disposal strategy if required
- ★ Determine the historical and planned cost-base for the in-scope services.
- ★ Confirm the credentials and identifying the that the staff, tools, assets, and 3rd-party agreements that will be transferred are all that is required to perform the in-scope services.
- ★ Review all contracts that are to be managed by the vendor in support of the in-scope service once outsourced.
- ★ Clarify arrangements for operational interaction between the service provider and the buyer at a variety of levels, and with clients and other stakeholders as appropriate.

As mentioned in the first section of this document, it is important that the Client carries out a form of Due Diligence investigation to satisfy themselves that their desired outcomes from the outsourcing can be achieved by the vendor. This may take the form of a formal Due Diligence phase, or it may be a part of the negotiation phase. In many cases this will involve visits to vendor facilities, and customer reference visits.

The format of Due Diligence

Over many cases, it has been seen that there are many ways to carry out a Due Diligence exercise, and all have their merits and disadvantages. The main thing for any Client to decide is what form of Due Diligence will best suit their needs. The influencing factors are:

- ★ Number of vendors that will remain in play during the exercise.
- ★ How much effort the Client wishes to be even-handed with multiple vendors.
- ★ The structure and availability of information that will need to be supplied.
- ★ Relationships with existing suppliers, if there are 3rd-party contracts to be transferred.
- ★ Level of secrecy internally and outside the company.

There are 3 main methods of performing Due diligence and these may be combined as necessary to ensure that the exercise is effective and seen as diligent:

- ★ Compilation of information relating to the in-scope environment, into a physical dataroom.
- ★ Compilation of information relating to the in-scope environment, into a data storage device that is provided to the vendors.
- ★ Interviews with a number of selected employees from each of the Due diligence streams, and subsequent provision of documentation or the ability to view the documents.

The timeframe for Due diligence will usually be set as a restricted period during which the vendor must complete their investigation.

Client Due Diligence

The concept of Due Diligence carried out by the Client on the selected Service Provider is not understood or used to the extent that it should be. Having selected a single Service

Provider to proceed to Due Diligence and further negotiations with, the Client may ask for proof of the Service Provider's responses to the RFP. This may take various forms, and some examples are detailed below:

- ★ Site visit to review a facility that the Service Provider intends to use for the provision of service.
- ★ Review of Process documentation referred to in the proposal.
- ★ Customer reference visit.

In most cases the Service Provider will be prepared to show their operation and to disclose information, provided that does not conflict with their duty of confidentiality to another Client.

How can Cellulus help?

At Cellulus we specialise in Operational Efficiency and Outsourcing, working with companies to identify the best way of delivering benefits through process improvements, tool introduction and enhancement, and the optimisation of the Human capital of the company.

We have gained a great deal of experience working for both Suppliers of services and their customers in both sides of the Outsourcing contract and through involvement at all levels and in all phases of the process. This provides us with a unique insight to this complex environment.

Cellulus can perform in a number of roles, from Advisor and Mentor during all phases of Efficiency and Outsourcing projects, to directly managing some or all phases, and contributing to the others.

Our aim is to provide the best possible outcome from any project and to deliver value far above our fees to the Client organisation.

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