By Lowell Williams/Outsourcing Columnist

The Unchanging Change Orders

A tendency we have seen recently, in response to the economic downturn, is a "work-to-rule" movement in which every modification or change put into the service-delivery rubric is treated as a change order, justifying additional fees.

The over-reliance on contract terms and a constant barrage of change orders is one approach some providers have used to implicitly "upsell" the services contract. This has been going on for some time, but the practice has become more prevalent in the last year than in 2007 or 2008.

"Upselling" is to add additional services or services lines to the service contract. In this setting, a company with an employee-data-management contract may agree to add a portal product as a means of access for its employees and managers. Few would say the provider is not entitled to additional service fees for doing this.

Change orders are both a means of upselling—that is, adding additional revenue to the contract from the provider side—and also a means of reducing the implicit and explicit service load required of the provider in the existing contract. If a company asks for assistance with its communications for annual open enrollment, and the provider tenders an "in the money" change order, then the provider is stating that it believes the additional services are not included in the base fees in the service agreement. "In the money" change orders carry price tags as opposed to agreed-upon process changes. Often, the company believes that the additional processing or modification is in the base price, and the change-order response may be the first indication that the provider does not agree with that view.

The volume of change orders in any year is a good indication of the overall health of the relationship, or at least how comprehensive the service agreement terms are. A high volume of change orders suggests that the service agreement needs to be renegotiated. A sharp increase may indicate that the provider is tightening up its approach.

High-volume change orders so modify the service agreement that governance becomes extremely difficult, and services levels are continually subject to modification and partial performance problems. Clients should establish and continually check the service-order volumes by using a stability ratio that charts, from year to year, the number and additional costs of change orders.

That ratio will give the company a good snapshot of this problem. A high ratio is not necessarily indicative of smart practices by a provider. The client's technology platform may need to be renewed, and there can be a host of reasons for a high ratio.

The ratio is nevertheless a good barometer of whether closer inspection of the entire structure is needed. If the only constant in life is change, we can get used to that, but we should not get used to constant change orders.

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