

Positioning For Innovation

Options for increased outsourcing flexibility

The Outsourcing Experts at Align provide solutions to achieve business results and exceed customer expectations.

TECHNOLOGY AND CHOICES

Technology choices, delivery models, and uses are shifting and evolving from year to year. Unification and integration of technology is making headway not only through consumer markets, but also into business. Executing business in today's environment has become increasingly complex and challenging. Think of how customer portals and raw data seamlessly flow between businesses. For example, Walmart requires some of their vendors to manage and maintain over 95% inventory availability on Walmart store's shelves, independent of the vendors own inventory management requirements.

CIOs have more options as well. Supplier delivery models for application development and remote infrastructure support are accessible from every continent. Powerful and cost compelling Cloud Computing is making it's way onto the scene, not from traditional Tier 1 outsourcers, but consumer players like Google, Amazon, and Microsoft. The demand from the business is progressing and technology choices are more abundant. Where does it leave those who have outsourced? How does an enterprise gain a flexible outsourcing relationship enabling technology for business innovation?

OUTSOURCED CUSTOMERS FEEL HANDCUFFED

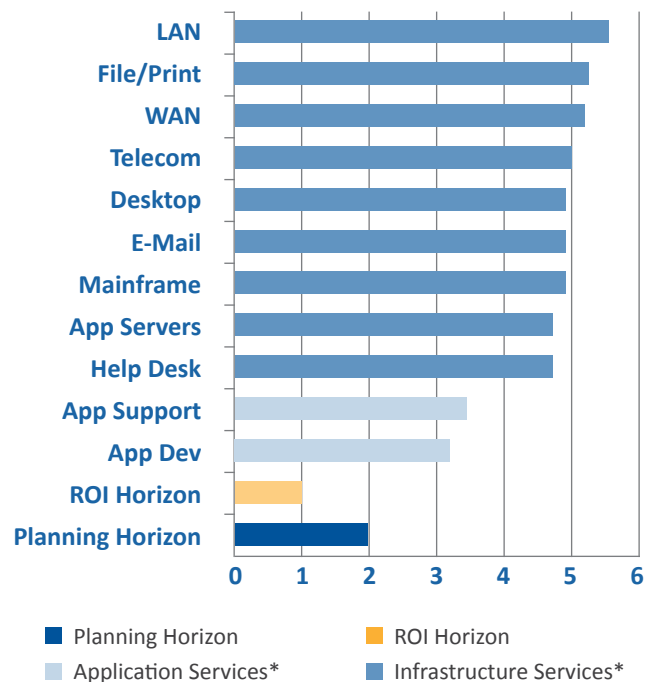
Buyers of outsourcing services are feeling pinned down and limited. Between their legacy technologies and multi-year outsourcing contracts, they are limited in leveraging market options. Outsourced customers in this camp have company.

Forrester Research polled over 700 enterprise IT decision makers in 2009 and reported that 38% thought their IT vendors lacked IT innovation or continuous service level improvements.

Gartner stated in 2008 that flexibility is a top priority of nearly 85% of outsourcing organizations and that current outsourcing contracts lack flexibility.

It should be no wonder there is increasing pressure to evaluate outsourcing options. Organizations are reorganizing and adjusting to the changing economic and business climate as quickly as ever.

TABLE 1.
CONTRACT DURATIONS EXCEED BUYERS PLANS



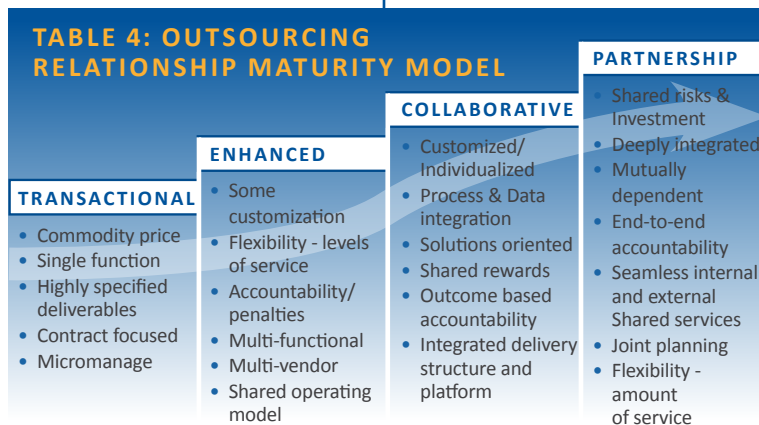
*SOURCE: Gartner IT Key Metrics 2009

- Enterprises are limiting themselves to 12-month payback periods and 12 to 24 month planning horizons
- They struggle with a supplier and an outsourcing contract which cannot keep up
- The average IT infrastructure outsourcing contract runs almost four (4) years and application development and support just over three (3) years

Enterprises looking to increase flexibility in current and especially new outsourcing agreements will benefit from the following practical strategies. These strategies come from Align’s historical experience in representing clients on both existing and new outsourcing transactions and they aim to drive a value-driven relationship with suppliers.

Existing agreements - engage current supplier to solve problems

Probably one of the most difficult obstacles for buyers to overcome is how to trust and engage suppliers to help solve real, business-critical issues. The process of engaging an existing supplier will not only help extract more value from them, but move the outsourcing relationship maturity to a partner level.



SOURCE: Align 11.2009

Example issues to solve could include enabling the business to deliver new services using technology (e.g., web portals, Twitter, PDA apps, etc.) or to reduce expense (IT or business process).

Some may say, “my supplier should already know my issues!” Yes they are a part of the environment, know quite a bit, and may be contractually required to provide improvement ideas, but suppliers are typically relegated to providing a utility. As a result, the supplier becomes just an order taker.

What’s missing is Inclusion - inclusion into your issues, inclusion to see things from your perspective. If the supplier sits on an opportunity to help or provides un-impressive ideas, do not hesitate to escalate up their management chain. Where your assigned account manager is focused on operations, his boss or a relationship manager will see the

opportunity for what it is. A chance to maintain a long-term relationship, provide strategic value, and grow their business. Everything they said or desired when they sold the deal.

NEW AGREEMENTS – SIX OPPORTUNITIES FOR INCREASING FLEXIBILITY

With unprecedented technology choices and sourcing options, buyers must avoid sourcing methods and deal structures from the past. Here are some forward-thinking ideas which can provide additional outsourcing flexibility.

1. Consider non-traditional towers of service from your supplier

Traditional silos in infrastructure deals have the benefit of obtaining similar price and performance benchmarking. Buyers who believe they will take advantage of new and

evolving technological changes may find it more desirable to create a unique service tower.

For example, with the migration and integration of VoIP telecom services with other messaging platforms, some buyers may decide to bundle several of these technologies into a single logical End User Computing service, removing the traditional per PBX, port, voice mailbox, and email box charge. The value and pricing is potentially better than the risk of not having comparable benchmarks in the short term.

2. Elevate exit strategy as selection criteria

The time to negotiate termination or “exit” provisions are not when the attorneys are called in. An exit strategy is a contractually described service the supplier will perform to transition the outsourced services; either back to the buyer or to another provider. Buyers who are serious about flexibility will not only put “Exit Strategy” in their initial supplier evaluation criteria for suppliers to solution to, but will weigh the criteria high enough to make it clear they are serious.

3. Expect changes and increase carve-out options in the contract

What if you are considering a user move from an Exchange environment to Google email, but are working on a deal now? What if you bundled telecom rates and services into your deal, then the rates or the technology dramatically changes?

Keep carve-out options in mind when both determining the unique towers of service to price and when developing the language for Contract Minimums. Buyers must maintain the ability to selectively wind-down one or more towers of service, or transfer them to other suppliers.

It is unlikely a buyer will receive both the benefit of pricing discounts for bundling several towers and complete carve-out flexibility, but buyers must target an option to remove up to three towers after a minimal contract period.

To counter, as the supplier increases their financing of expense & capital for transition, migration or transformation projects in a deal, the flexibility for this provision reduces.

4. Grant your supplier a seat at the planning table

As mentioned above for currently outsourced customers, new buyers should consider the same thoughts from the beginning of a deal. Make sure your outsourcing relationship has the right players and forum to engage thought leadership from your supplier on a regular basis

(ideally when major projects are reviewed and prioritized). Though initially it may be difficult to differentiate the discussion from transition and migration issues with your supplier, buyers need to take the initiative to:

- schedule a regular session;
- ensure the right players are there to share and hear issues to solve, and;
- escalate within the supplier’s organization until a reasonable response or solution is provided.

4. Data center ownership

Arguably one of the most restrictive outsourcing decisions buyers can make is to bundle a data center migration into the hands of the supplier. Granted, many cases require the migration from existing facilities, whether due to a business divestiture, an aged or restricted sized facility, or other critical change events. Whatever the reason, the long-term implications reduce flexibility for the buyer management team.

Consider the hard costs. Buyers pay millions to the supplier and supporting IT consultants to migrate a data center. Consider the soft costs in business disruption and risk. Buyers pay for their application teams’ time away from other value-add projects and introduce potential business disruption. Maintaining the data center, or even migration to another third-party hosting facility provides management considerable flexibility to either switch vendors or in-source over moving the hardware to an outsourcer.

6. IT operational IP ownership

At a time when many customers are struggling to manage and streamline IT operations with one or more suppliers, controlling the IT knowledge to support their infrastructure, applications and customers will be crucial. While most outsourcing contracts lean toward granting the buyer ownership or rights to all the customer-specific knowledge (like the run books, network topographies, help desk knowledge database, etc.), the reality is that customers who have outsourced

their operations find it very difficult to access, leverage or transfer the information without considerable resistance from their supplier.

A practical way to gain the benefits of outsourcing without losing flexibility to add or trade suppliers is to keep ownership of the systems which store their IT knowledge. As an example, if a buyer keeps control of the help desk system, they also keep control of the knowledge database required to support their customers and suppliers.

Additionally, with the advent of integrated service management tools, they can build on the help desk system to support and automate other service management processes including instance, problem, asset, configuration, change, and release management among others. It would suffice to say as IT support systems integrate and automate into decision support hubs for IT management processes, the greater the value the information is for the enterprise and greater the need to keep it in house.

SUMMARY

Current and new IT outsourcing buyers often face the difficult challenge of keeping up with technology changes while being saddled with a restrictive outsourcing contract. They must find creative ways to either get the most from their existing supplier or ensure any new relationship produces economic benefits and the flexibility to innovate when unforeseen circumstances impact the enterprise.

The good news is that buyers have tactical options to increase their flexibility with outsourcing suppliers and improve their outsourcing experience. Currently outsourced customers can elevate the expectations from their supplier by engaging them in the issues and requiring tangible ideas in return.

Buyers of new agreements can benefit from evaluating past mistakes and building flexibility into their outsourcing relationship before a new agreement is struck. They can maintain ownership of critical service delivery assets like the data center or knowledge systems, and structure more flexible contract terms to support evolving towers of service, reduce towers, or reduce exit restrictions and associated costs.



Jim Dries

OUTSOURCING SOLUTIONS, ALIGN
+1 (312) 226-2700 | jdries@align.com
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