



Successful Outsourcing - getting the process right

Elizabeth Sparrow
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and *A Guide to Global Sourcing*

going further together

- **Learning from failures and successes**
- Getting the strategy right
- Choosing the right supplier for your company
- Building successful outsourcing relationships
- Getting value from outsourcing
- The internal team
- Outsourcing governance



Outsourcing is difficult to get right



A year-long study of more than 20 organizations in Europe

- 50% of outsourcing deals in Europe fall short of expectations
- Internal team frequently overworked and undervalued
- Excessive focus on selection of supplier and negotiating deal
- Organizations with predominantly technical team had little success

Source: www.gartner.com



A study of 25 world-class organizations

- 70% have had significant negative experiences
- 44% did not see cost savings from outsourcing
- Nearly half identified hidden costs as most common problem
- 83% had renegotiated deals
- 26% had reduced outsourcing activities

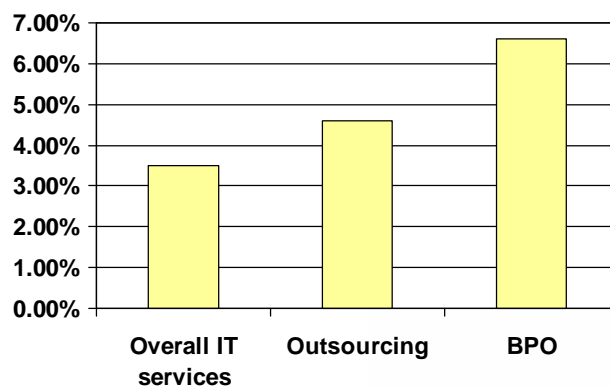
Source: www.deloitte.com

Recent insourcing moves:

- Sainsbury's termination of £2 billion IT transformation outsourcing deal with Accenture
- Cable & Wireless termination of an outsourcing contract with IBM
- JP Morgan Chase cancellation of £2.7 billion deal with IBM
- Prudential's decision to terminate data centre outsourcing deal with Capgemini

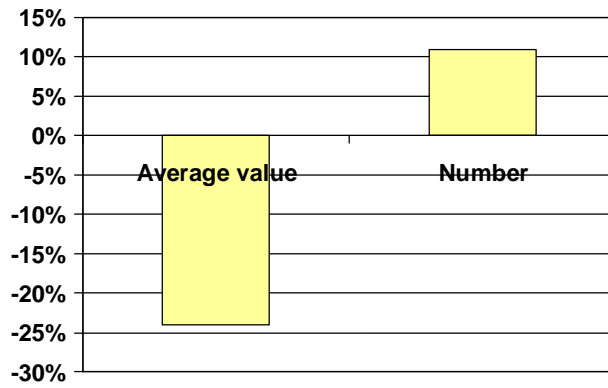
Nevertheless, outsourcing continues to grow.....

..... just a little more slowly



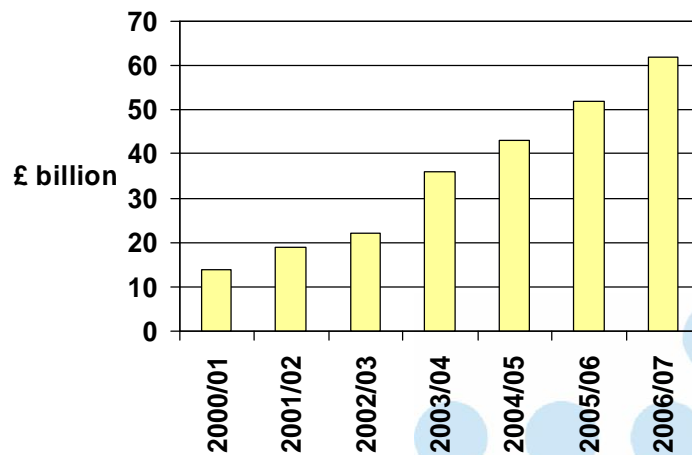
Forecast growth in Western European IT services market, 2005

Source: www.gartner.com



Contract value down, numbers up worldwide, 2005

Source: www.tpi.net



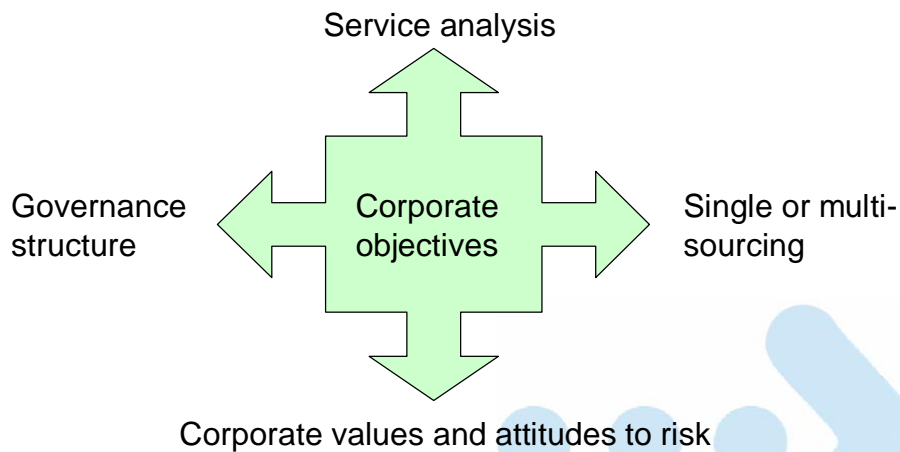
Source: Kable

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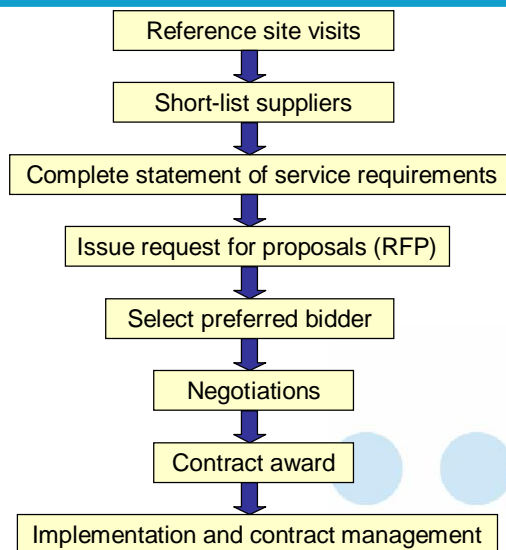
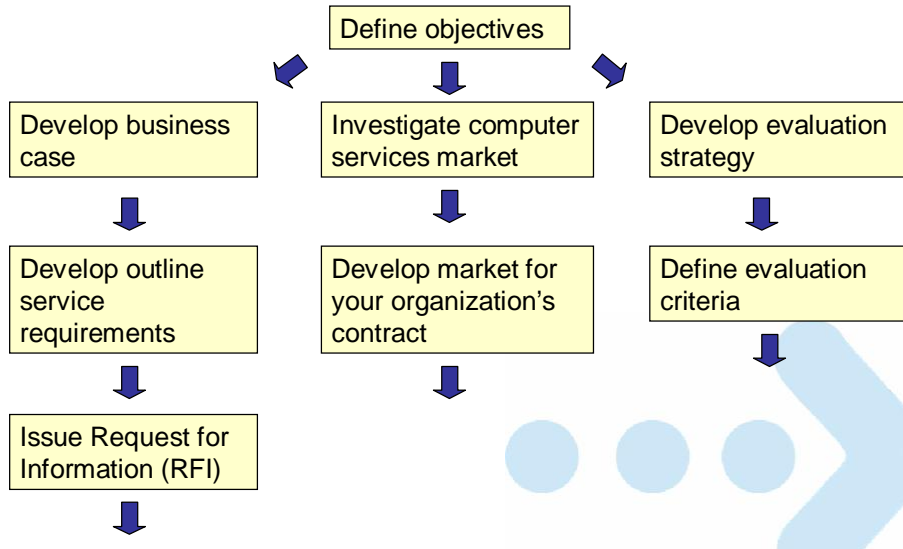



Service Responsibility	Delivery Model
Retained in-house	<ul style="list-style-type: none"> → IT departments → Acquisitions → Organic growth
Shared	<ul style="list-style-type: none"> → Shared services → Joint ventures → Alliances
Transferred to external service provider	<ul style="list-style-type: none"> → Outsourcing service suppliers






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- A complex process requiring good programme management
 - Expert advisors should not take the lead
 - You will need to sell your organization too
 - Don't forget hidden costs
 - Involve IT professionals
 - The outsourcing relationship begins here
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- Build trust
- Look for win-win solutions
- Share successes and failures
- Criticize, if you must, openly
- Resolve personality conflicts without delay
- Foster realistic expectations



Customer's senior managers	Business benefits. Added value
Customer's senior IT managers	Contractual commitments. Live within budget
Customer's IT staff	Performance of service provider. Impact on jobs
Service users	More and better services
Supplier's senior management	Maximize profits. Keep customer happy
Supplier's contract manager	Service and profitability targets
Supplier's IT staff	Technical focus



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- It's not just about the money
 - Service credits vs. penalties
 - Look for ways to encourage excellent performance
 - Encourage your supplier to put forward proposals
 - Share the benefits of service improvements
 - Reward high ratings in user satisfaction surveys
 - Act as a reference site
 - Think carefully about the consequences of incentives and disincentives
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What do we mean by 'added value'?

- More services for the same cost?
- Access to new technological skills?
- Innovation and new ideas?
- Reduced operating costs?



How do you get 'added value'?

- Aim for a culture of continuous improvement
- Use benchmarking to measure your organization against the best
- Exploit the full range of technical skills available from your supplier
- Coordinate and streamline processes
- Regularly review key performance indicators



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Companies should invest 3% to 4% of the total IS budget in the critical skills and know-how required to build high performance relationships.

Roger Cox, Gartner

Outsourcing can still deliver value to companies that enter into outsourcing for the right reasons using a right modeland have superb talent in-house to manage these deals from inception to execution

Ken Landis, Deloitte



- Be prepared before you sign the contract
- Recognize the skills you need and retain them
- Provide training
- Identify the functions you need
 - Contract management
 - Service management and control
 - Informed customer
 - Contract administration



Architecture:

- Technical standards
- Architecture planning



Sourcing:

- Contract management
- Supplier relationships
- Sourcing strategy

Leadership:

- Vision
- Strategy alignment
- Best sourcing
- Change agent

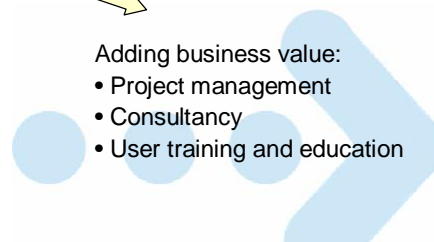


Service delivery:

- Service level management
- Performance measurement
- Service level agreements

Adding business value:

- Project management
- Consultancy
- User training and education

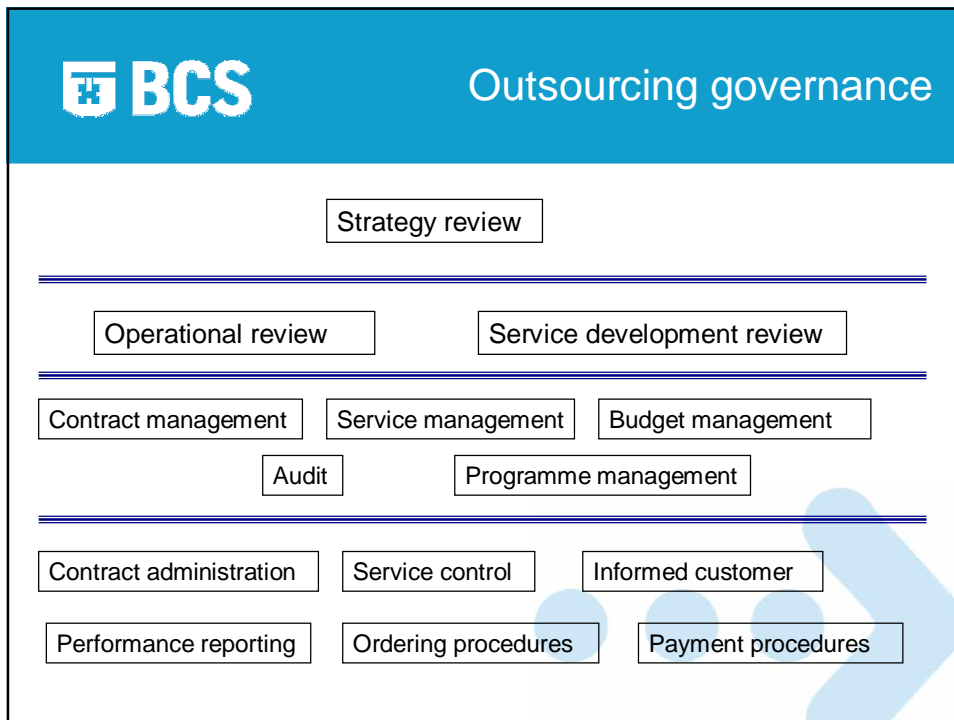


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- Control and risk mitigation
- The process of negotiating contracts can help clarify expectations and develop true understanding between organizations
- Negotiate contract termination and dispute at the outset
- Do not over-use, but have to hand in case of difficulties





Ethical tests to apply to any sourcing decision

- Transparency
 - Do I mind others knowing what I have decided?
- Effect
 - Who does my decision affect or hurt?
- Fairness
 - Would my decision be considered fair by those affected?

- Outsourcing is here to stay
- Growth continues, but at a slower pace
- It's not easy
- Good processes play a key role
- People make or break outsourcing relationships

