

# **Increasing the Value and Success of Your Outsourcing Efforts**

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# Agenda

- Outsourcing: Current State
- Barriers to Success
- Moving to the Next Level
  - Aligning projects to objectives
  - Establishing effective governance
  - Integrating processes
  - Moving to SLA-based Agreements
  - Automating Sourcing Management
- Conclusion

# Outsourcing: Current State

## *Passing fad or permanent change?*

- Getting beyond the hype
- A fundamental change in IT
  - Global economy
  - Advances in communications
  - Advances in technology
  - From internal coding to managers of external services
- Where is outsourcing today?
  - Almost 73% of companies outsource at least one IT function
  - Over 25% of companies outsource one or more significant business functions
  - Offshore is a small, but rapidly growing portion of these services

# Polling Question 1

How do you view outsourcing?

- Passing management fad
- Short-term response to the economy
- Reasonable alternative for certain projects
- Strategic opportunity to improve IT performance
- Competitive necessity

# Outsourcing: Current State

*Tactical rather than strategic*

- Current implementations – Mostly tactical
  - **Drivers** - lower costs, access to special skills
  - **Inhibitors** – management control of remote resources, security/intellectual property concerns
  - Typical project is small and internally managed
- Typical offshore engagements
  - IT - Development projects, application maintenance and support, package maintenance, testing & QA
  - BPO – call centers, customer support, claims processing, HR services

# Outsourcing: Current State

*Less than overwhelming results*

- Current experience
  - Harder than expected
  - *Ex: “80 per cent of businesses have suffered time and cost overruns and non-adherence to specifications” – Meta Group Study 6/04*
  - Less savings than expected
  - *Ex: “43% expect savings of less than 20%” – Meta Group Study 6/04*
  - **But most organizations want to expand their efforts**
- Biggest Impacts
  - Onshore contractor reductions
  - Lower rates for local/onshore consultants

# Barriers to Success

## *Four common wrongs*

- Wrong objectives
  - Drive for immediate cost reduction
  - “Rate card” mindset in choosing vendors
- Wrong projects
  - Poor match to objectives
  - Too small to overcome overhead
  - Low, short-term business results
- Wrong vendor
- Wrong approach

# Barriers to Success

## *Approach mistakes*

- Poor initial setup
  - Poor communications
  - Insufficient executive support
  - No cultural training
- Relying on familiar “supplemental staffing” processes
  - Poor partitioning of work efforts
  - No team building or vendor partnering
  - Short-term, not integrated
  - “One off” projects don’t build organizational expertise
  - No measurements

# Moving to the Next Level

## *Making outsourcing an integral part of IT strategy*

- Switching from Tactical to Strategic
  - **Drivers** – Better quality, higher performance, improved processes, faster time-to-market, **focus on core competence**
  - **Inhibitors** – Low outsourcing maturity, lack of integration, outdated processes and mindsets
- Challenges
  - Aligning outsourcing projects with corporate objectives
  - Establishing effective governance structures, tools and processes
  - Integrating outsourcing with internal processes and strategies
  - Switching from short-term ad-hoc projects to long-term service level-based relationships
  - Supporting work in a distributed environment

# Aligning Projects to Objectives

**Virtually any type of project can be outsourced**

***Provided:***

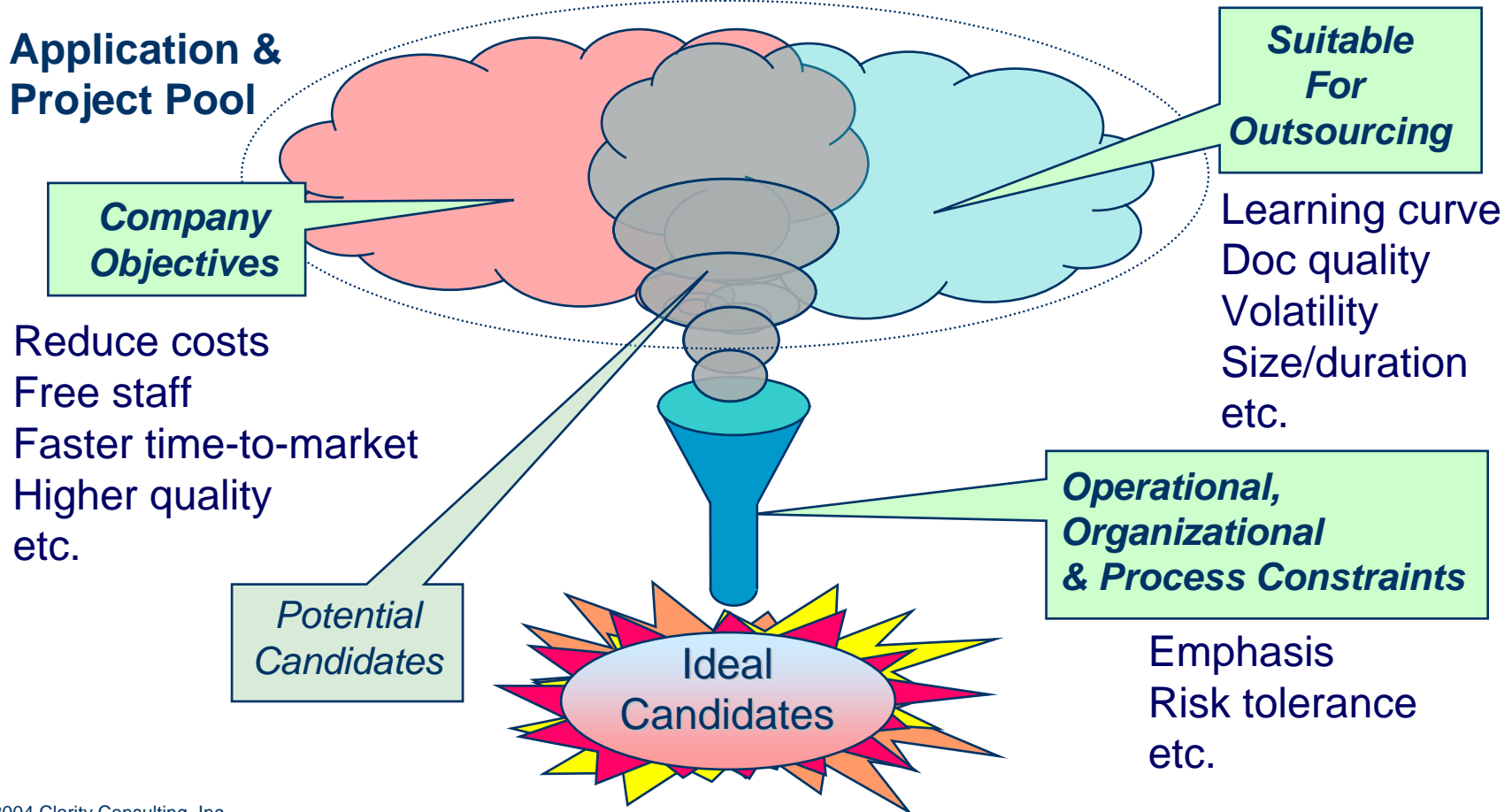
- The right firm is selected for the project
- The right processes, tools and support structures are in place
- Your company is committed to making the project successful

**However:**

- Outsourcing is not necessarily cheaper or more advantageous in all cases due to:
  - Outsourcing Objectives (Strategy Considerations)
  - Constraints/Maturity
  - Application/Project Characteristics

# Aligning Projects to Objectives

## *Balancing conflicting criteria*



# Aligning Projects to Objectives

## *Organizational Maturity*

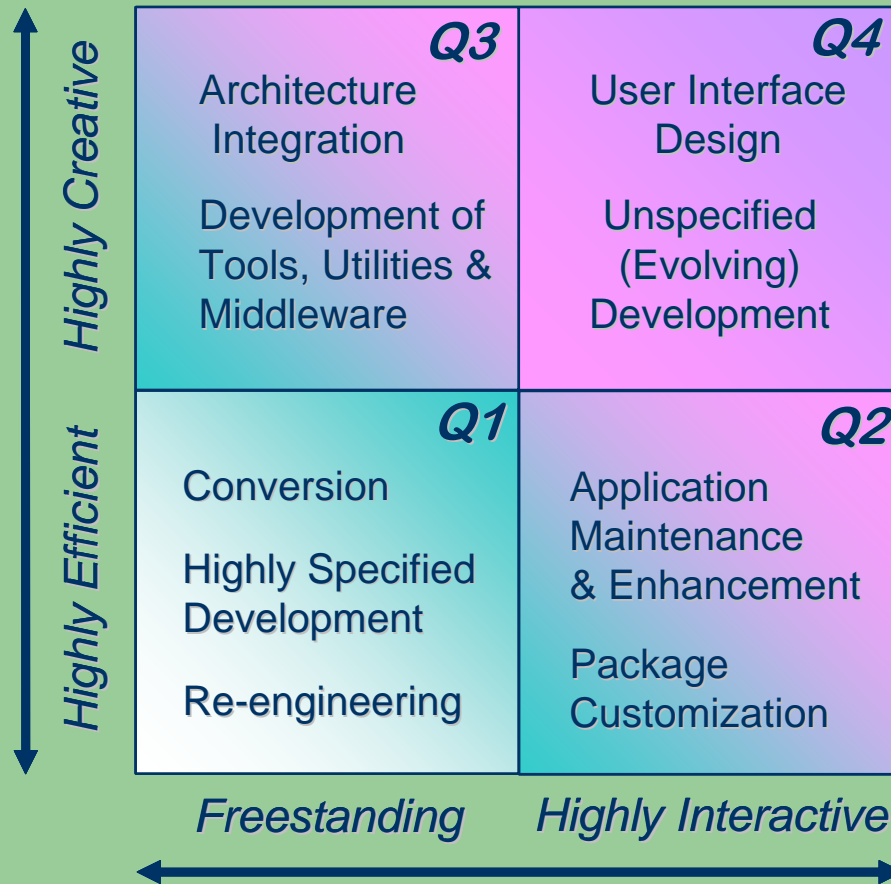
<b>Maturity</b>	Early Stage	Middle Stage	Later Stage
<b>Opportunities</b>	Freestanding Projects	Delineated Responsibilities	Joint Development
<b>Interaction</b>	Low, Specs	Ongoing, e-Mail	Fully Collaborative
<b>Examples</b>	Conversions, Simple Development	Maintenance Releases Package Upgrades Testing	Application Support Complex Development

## Polling Question 2

How would you rate your organization's outsourcing maturity?

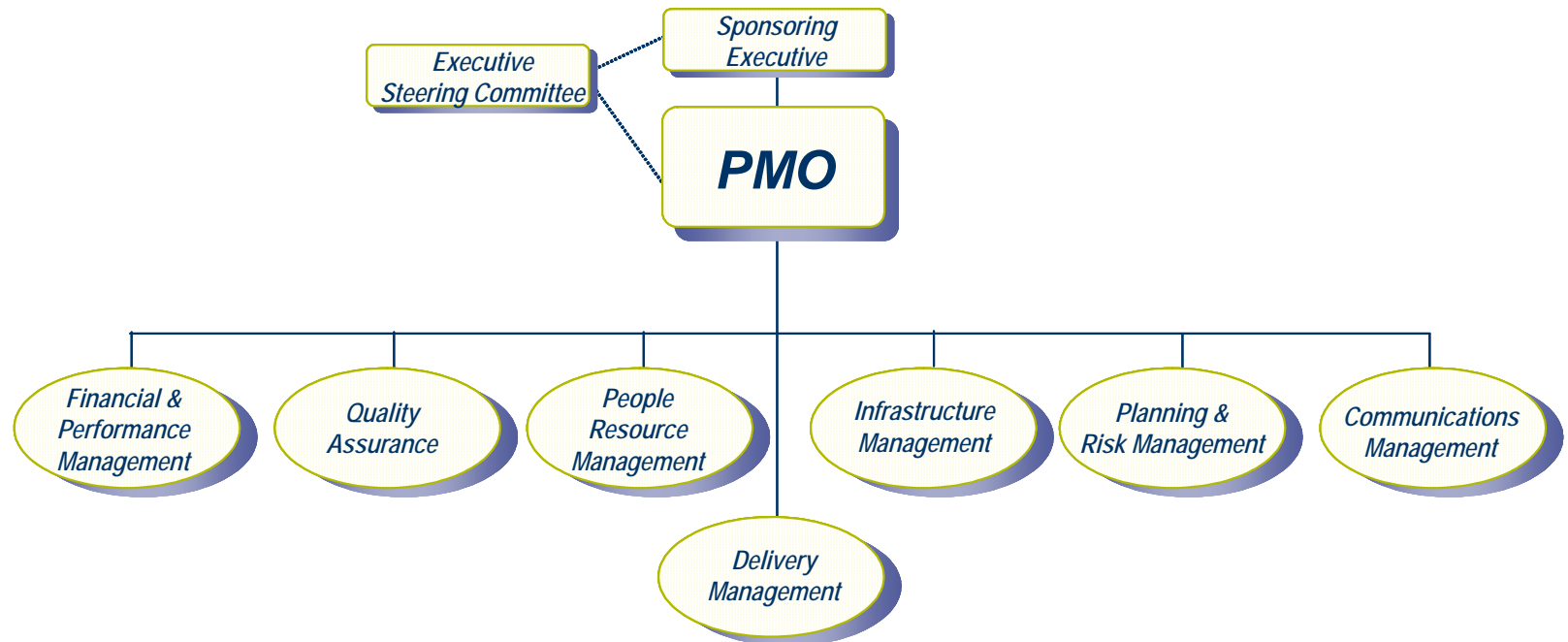
- No experience yet
- Early stage – pilot or few ad-hoc projects
- Middle stage – multiple engagements
- Later stage – complex projects, fully integrated into IT strategy

# Aligning Projects to Objectives



# Establishing Effective Governance

## *The Role of a Program Management Office (PMO)*



# Integrating Processes

- Partner or outsider?
  - Can bring value-adding ideas and capabilities
  - Source of best practices
  - Proactively position for future needs
- Value of long-term relationships
  - Gain company-specific business knowledge
  - Build organizational relationships (break down us vs. them)
  - Learn the process and technical “ropes”
- Risks
  - High degree of mutual dependency
  - Greater exposure to performance issues
  - More difficult to disengage

# Integrating Processes

- Your processes or theirs?
- Rethinking tasks, workflows and organizational structures
  - BPR for IT
  - Hand-offs, information flows and deliverables
- Functional (role) partitioning
  - Obvious examples - Level 2 support, testing
  - “Keep it going” vs. “Get ahead”
- Integrating for the long haul

## Polling Question 3

Does your organization currently use service level agreements to manage its outsourcing engagements?

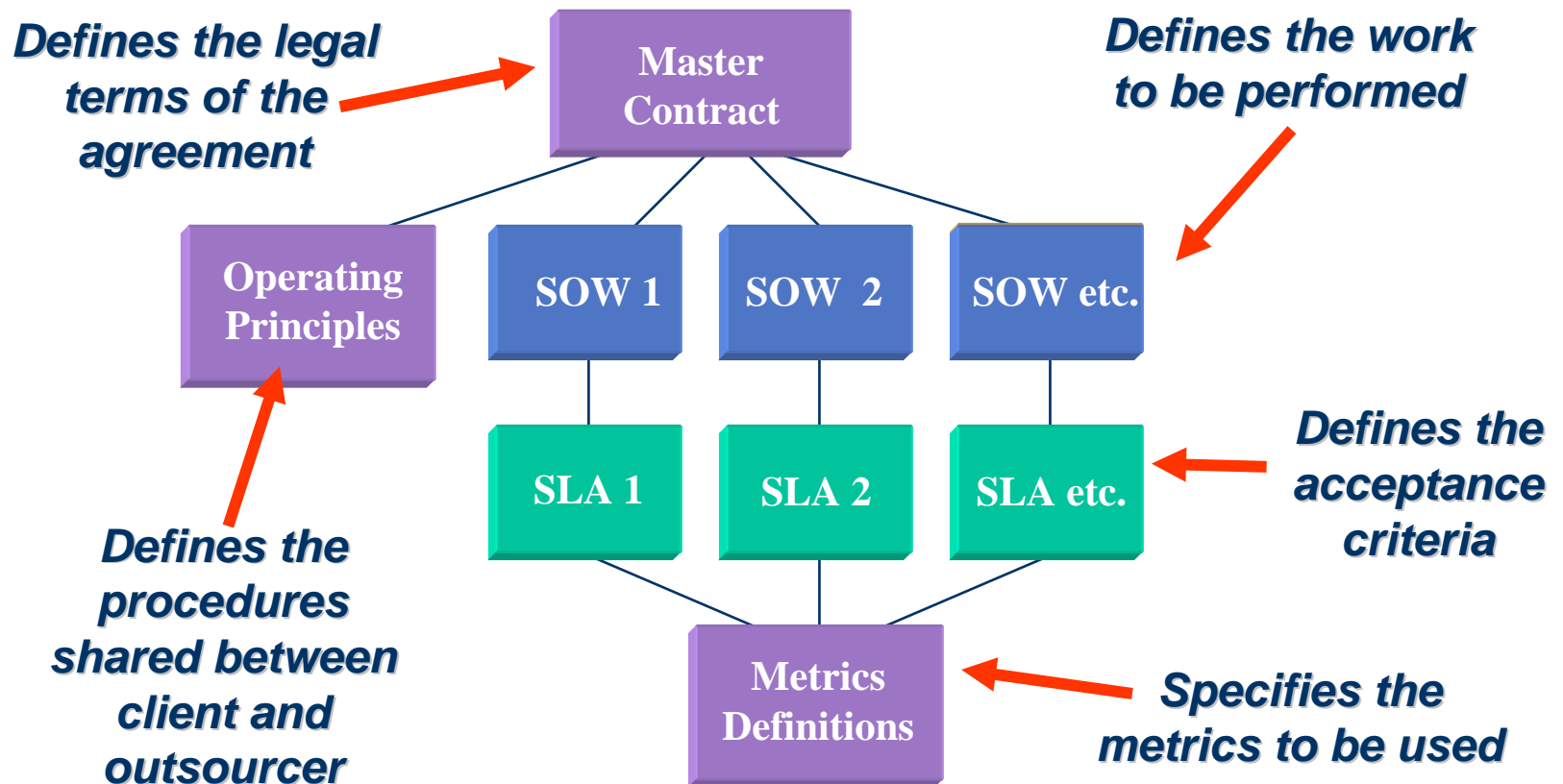
- No
- No, but want to implement them
- Yes, but they are not sufficient
- Yes

# Moving to SLA-based Agreements

- Benefits of SLAs
  - Clear expectations
  - Objective measure of performance against expectations
  - Proactively manage performance
  - Basis for continuous improvement efforts
  - Foundation for a long-term relationship
- Challenges
  - Getting the right measures
  - Setting initial targets
  - Follow through

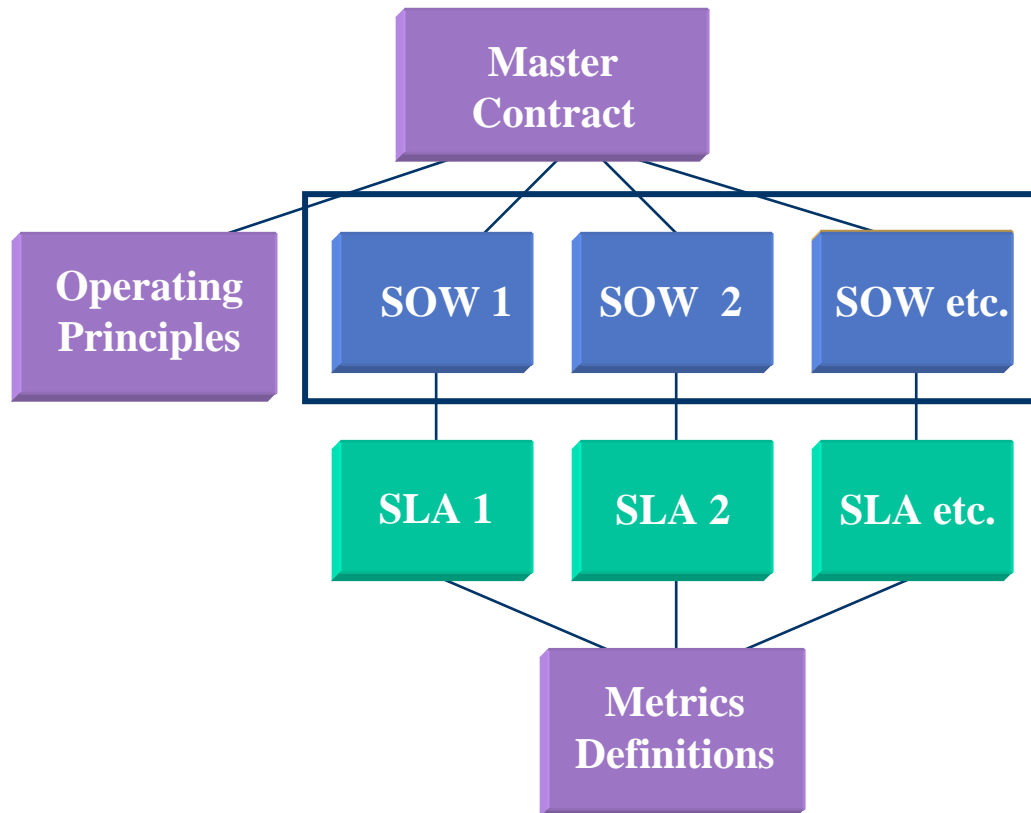
# Moving to SLA-based Agreements

## *Structure of a SLA-based Agreement*



# Moving to SLA-based Agreements

## *The Statement of Work*



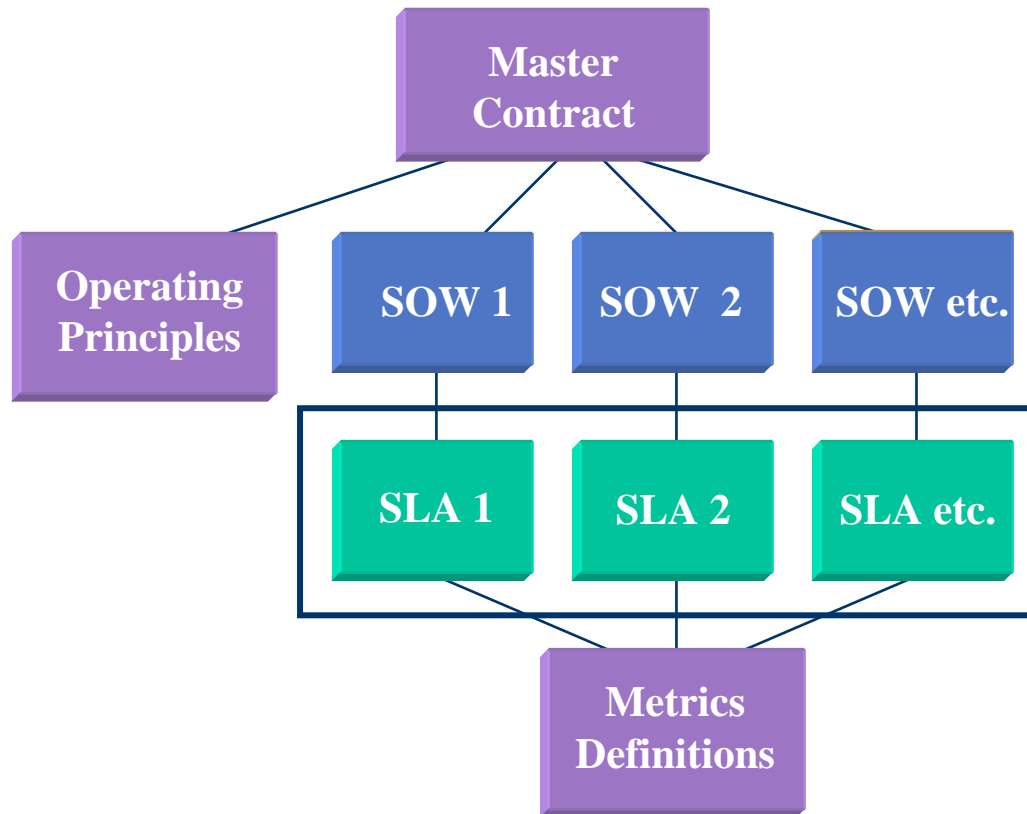
# Moving to SLA-based Agreements

## *Example SOW*

- **Area Supported:** Consumer Service
- **Application(s):** CSS
- **Services/Deliverables Provided by Vendor to Client**
  - Two yearly enhancement releases consisting of program changes, testing, production implementation and documentation updates
- **Services/Deliverables Provided by Client to Vendor**
  - Telephone support for business questions (clarification of requests, explanation of business processes, etc.)
- **Client Expectations and Assumptions**
  - Any issues/concerns related to vendor's ability to meet its commitments will be reported immediately upon identification.
- **Vendor Expectations and Assumptions**
  - Consumer Service will provide the support needed to enable the vendor to meet its SOW and SLA commitments. This support includes: (etc.)
- **Tools and Assets Provided**
  - CSS application source code

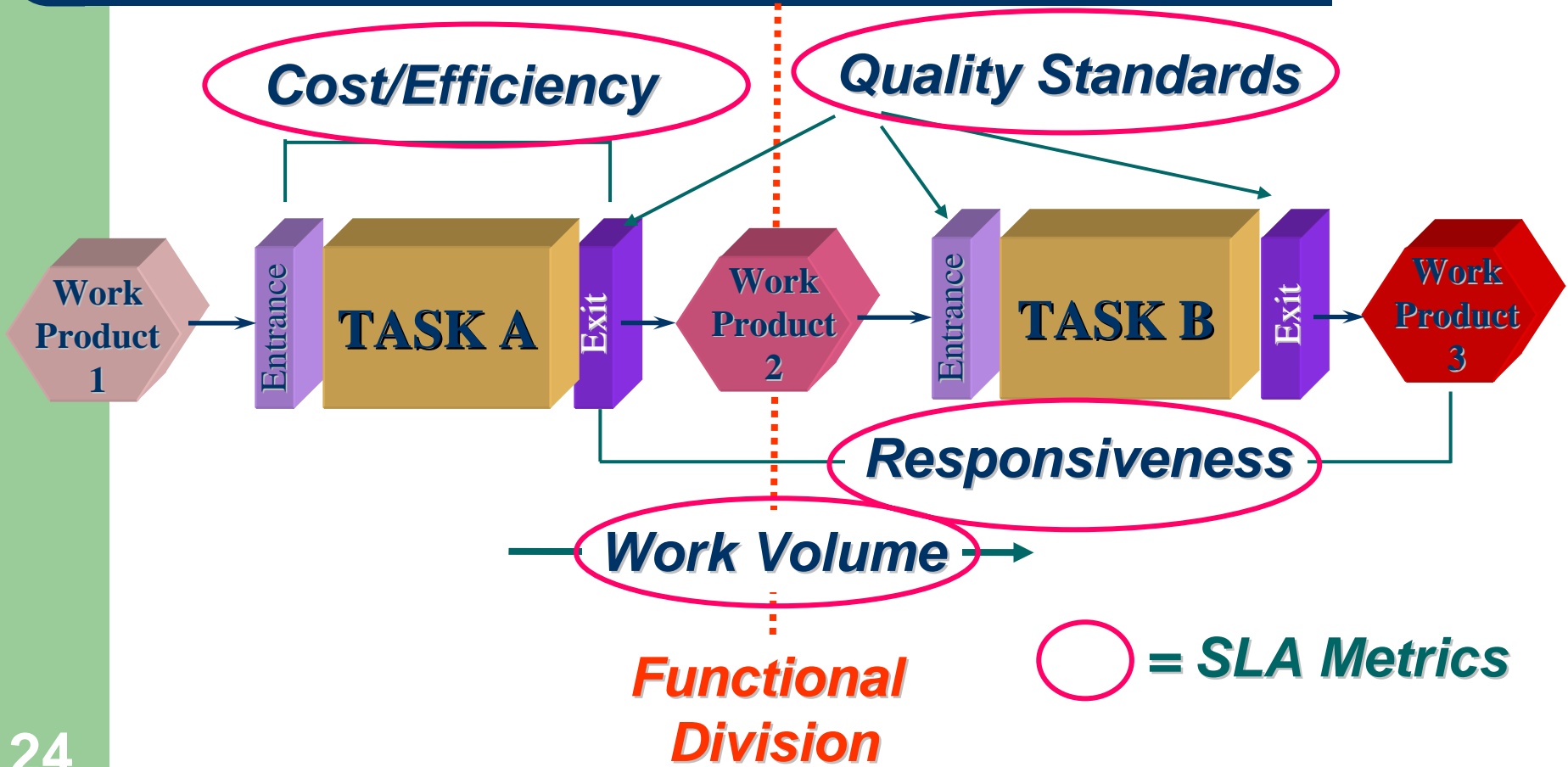
# Moving to SLA-based Agreements

## *The Service Level Agreement*



# Moving to SLA-based Agreements

## Four Critical Metrics Categories



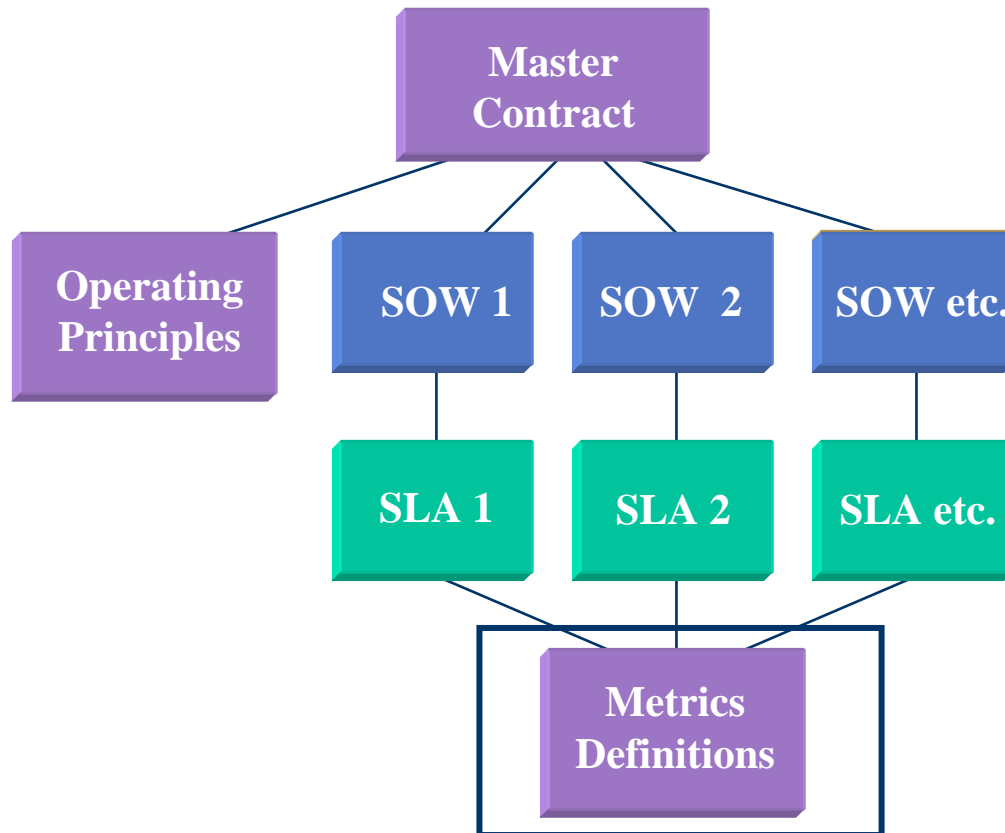
# Moving to SLA-based Agreements

## *Example SLA*

- **Area Supported:** Consumer Service
- **Application(s):** CSS
- **Service Level Commitments**
  - **Volume of Effort**
    - Production support - 250 fixes, approximately 1,200 person-hours
    - Enhancements - 2 annual releases, approximately 1,500 person-hours each
  - **Responsiveness**
    - Outages in service will be resolved within 30 minutes 85% of the time, 2 hours 98% of the time
  - **Quality**
    - Customer Satisfaction Surveys score at least 85 points
    - Number of unique reported defects due to development: less than 25 in 2004, target 18 in 2005 and 12 in 2006
  - **Efficiency**
    - Through efficiency improvements the total cost of CSS support will decline by 5% over the 2003 baseline in 2004, by 15% in 2005, ...

# Moving to SLA-based Agreements

## *Metrics Definition*



# Moving to SLA-based Agreements

## *Example Metrics Definition*

- **Metric:** *Customer satisfaction rating*
- **Objective:** *Ensure customer is satisfied with the level and quality of service provided*
- **Measurement Method:** *Quarterly surveys conducted by independent organization. It is a weighted average of responses to ten survey questions*
- **Instantiation:** *Current average 3.96, target 4.0+ at least 3 out of 4 surveys, corrective action below 3.8, penalties below 3.5, incentives above 4.3*
- **Responsibility:** *Client, review by both management teams*
- **Actions:** *etc, etc.*

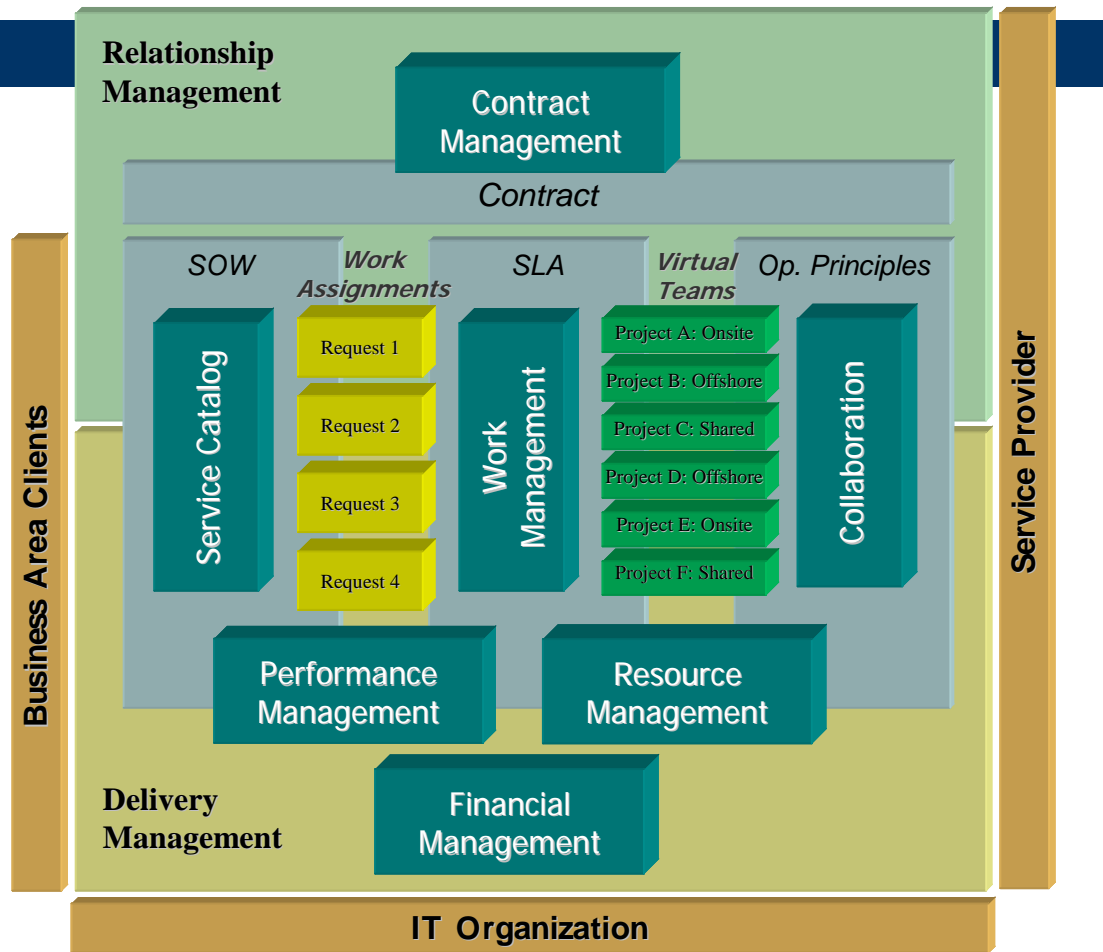
# Automating Sourcing Management

## *Why Explore Tools?*

- **Reduce the cost** and overhead of managing sourcing relationships
- **Improve quality** of performance
- **Maintain alignment** with corporate goals
- **Identify issues** for quick resolution
- **Improve overall returns** on outsourcing investments
- **Enhance productivity**

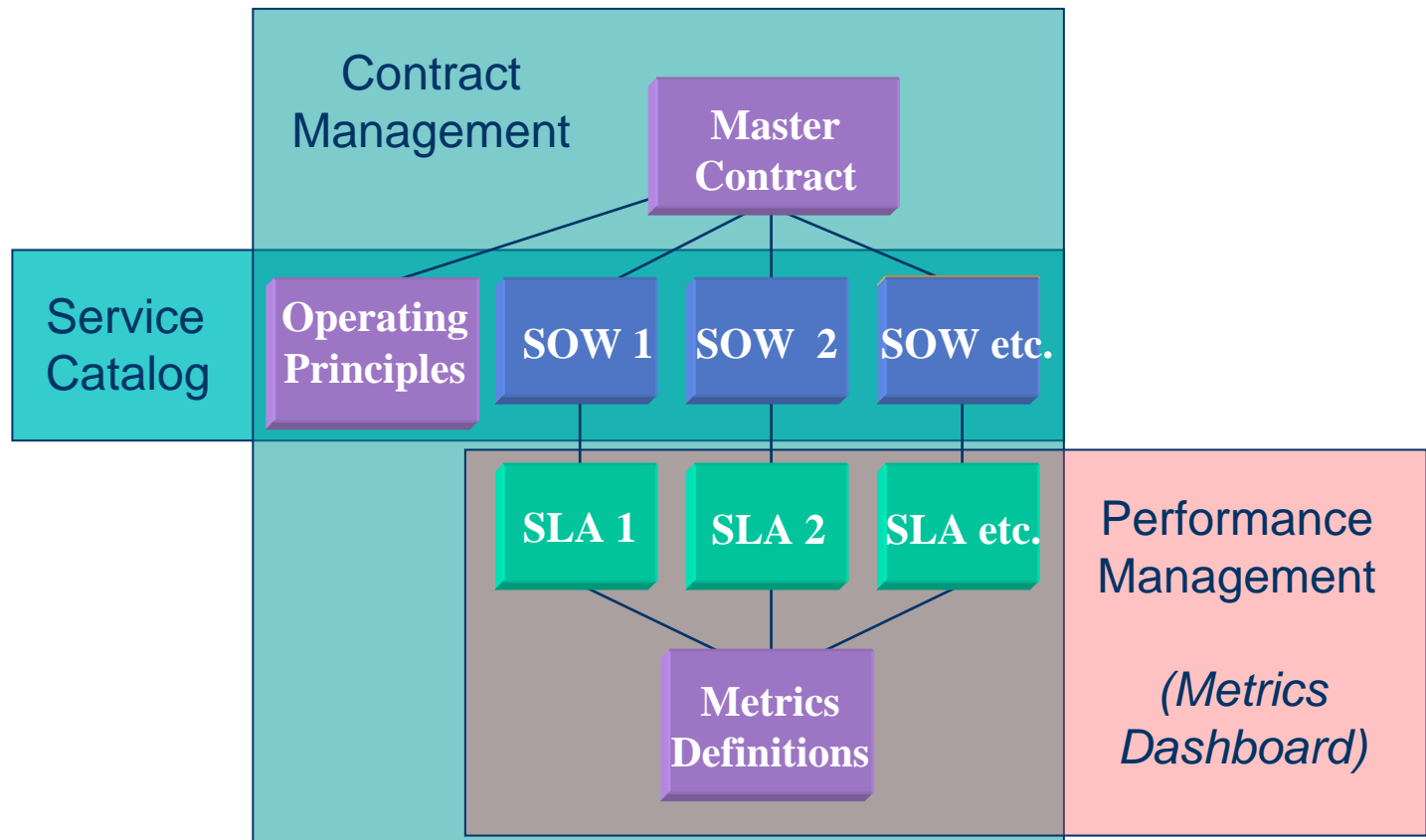
# Automating Sourcing Management

## A Framework for Selecting Sourcing Tools

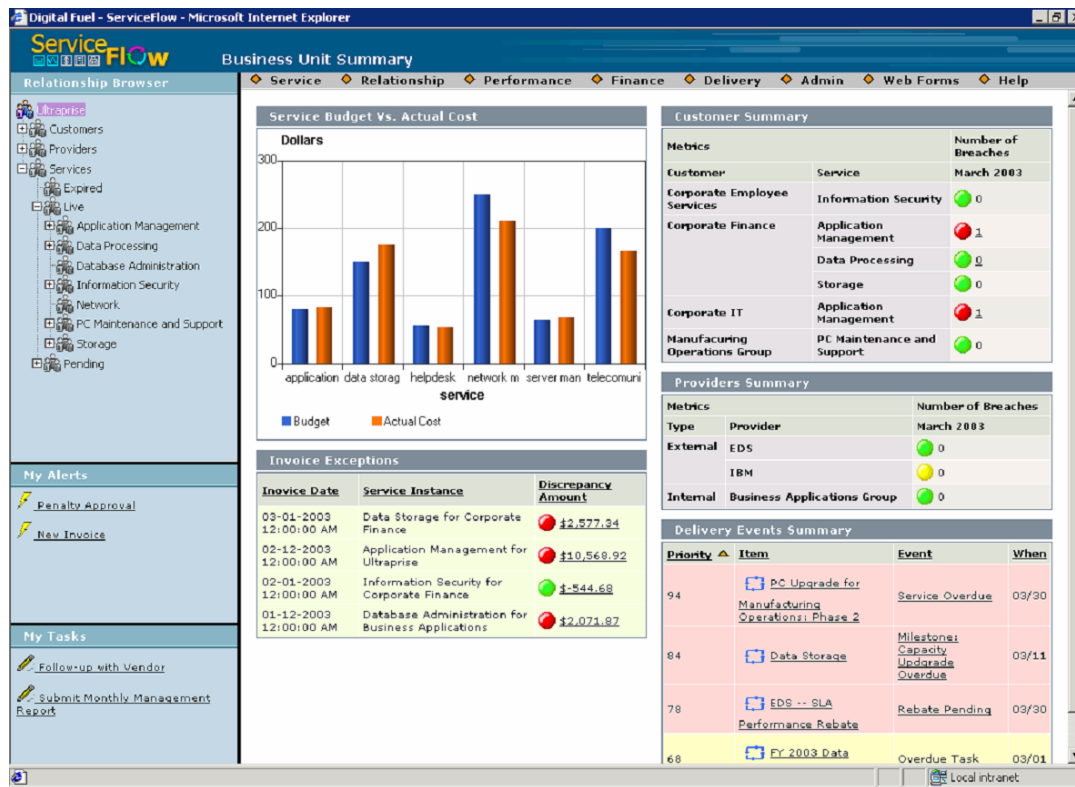


# Automating Sourcing Management

## Relating Contract Components to Tools



# Automating Sourcing Management Dashboard Example



# Conclusion

- Outsourcing is a permanent part of the IT landscape
- In the long-term, the winners will be the IT organizations most adept at deploying outsourcing effectively
- Effective deployment is:
  - Clear objectives with executive support
  - Strong governance structures
  - Integration into IT strategy and processes
  - Long-term service-level based relationships
  - Automation

# Thank You!

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