9 STEPS TO SUCCESSFUL STRATEGIC IT SOURCING

THE SOURCING OF IT SYSTEMS AND SERVICES IS A TIME CONSUMING AND COMPLICATED PROCESS WHICH TYPICALLY COMMENCES UP TO 18 MONTHS BEFORE THE END OF EXISTING CONTRACT ARRANGEMENTS. WHILE ORGANISATIONS ARE TYPICALLY LOOKING TO REDUCE COSTS ON NEW CONTRACTS THERE IS A BALANCE NEEDED BETWEEN COST REDUCTION AND TECHNOLOGY TRANSFORMATION TO DELIVER NEXT GENERATION INFRASTRUCTURE.

Ultimately the most successful IT contracts are those where the expectations are clear between customer and supplier and both parties have agreed a contract which addresses the customer needs and enables the supplier to deliver the services at a profit. Getting to that point requires the following nine steps to be executed well.

INSIGHTS

1. STRATEGY – BUILDING THE FOUNDATION FOR SOURCING

To realise the true value of IT sourcing a robust strategy should be in place to enable consistent and structured decision-making. Decisions should be made on a proactive basis driven by the strategy and not on a reactionary basis, driven by immediate organisational pressures. An IT sourcing programme, based on a clearly defined strategy and vision, can deliver significant business benefits to an organisation, including total cost of ownership (TCO) savings, service level enhancement, technology transformation, best-practice governance and business agility.

To be a true success an outsource or managed service agreement has to improve the competitive advantage of the organisation as a whole; however this can only be achieved if the strategic business objectives of the organisation are identified and understood prior to initiating the sourcing process.

The IT sourcing strategy should consider:

Technologies: How should different technologies be sourced? For example, should data network, voice and mobile services be bundled into a single deal or treated separately?

Operating model: What operating model(s) should you put in place? In-house, managed service or outsource? This needs to be linked to decisions around service demarcation which defines what the internal organisation is responsible for and what the supplier(s) are responsible for.

Suppliers: Should a single supplier or a multi-supplier IT sourcing strategy be pursued? If multi-supplier should there be a service integrator?

Geographies: How should different countries and regions be treated? Should services be considered globally, regionally or locally?

Commercial: What are the commercial objectives of the new deal?

Execution approach: Should the IT sourcing strategy be implemented in a phased manner or a big bang approach? How should contract transfer be handled? How should exit from existing suppliers be managed?

The strategy should be based on a detailed analysis of the organisation's existing environment, objectives, maturity and management capabilities. Has the organisation got the ability to implement and manage the strategic option that has been selected? The external market should also be considered – what are the market trends, what are the organisation's peers doing? What are the suppliers' capabilities and appetite to deliver against the IT sourcing strategy?

Although this process requires an up-front investment in time, money and effort, the downstream benefits will be significant in terms of the alignment of the stakeholders, the quality of the transition and transformation programmes, the robustness of the business case and the potential for success throughout the lifecycle of the contract.

2. DEVELOPING A PROJECT TEAM

Running a successful sourcing process is time consuming, resource intensive and intellectually demanding. The following challenges are often experienced:

- Achieving the timescales
- Avoiding increased or unexpected programme costs
- Achieving confidence in the business case
- Managing changing requirements or the conflict between requirements
- Negotiating a mutually advantageous contract
- Performing an objective assessment of potential suppliers' suitability
- Managing stakeholders and ensuring active, executive sponsorship.

It would be foolhardy to embark on a major sourcing programme without a suitable project team that is empowered to act on behalf of the organisation as a whole. A fit-for-purpose project team structure, with the prerequisite level of central empowerment, needs to be put in place. The critical roles required for the sourcing process include:

- Programme Manager
- Legal & Contractual Team Lead
  - ➢ Legal and Contractual Expert(s)
  - ➢ Human Resources Expert(s)
  - ➢ Compliance/ Risk/ Audit Specialist(s)
- Commercial Team Lead
  - ➢ Sourcing/ Procurement Specialist(s)
  - ➢ Commercial/ Business Case Analyst(s)
  - ➢ Finance Expert(s)
  - ➢ Tax Expert(s)
- Technical/ Service Delivery Team Lead
  - ➢ Technical Subject Matter Expert(s)
  - ➢ Service Delivery Subject Matter Expert(s)
  - ➢ Security Subject Matter Expert(s)
- Due Diligence Lead.

Depending on the type and scale of the services being sourced additional team members may be required. The amount and type of resource required will also vary significantly during the sourcing process. For example, more legal and contract negotiation expertise will be required in the later stages of the process.

3. PRE-CONTRACT DUE DILIGENCE

Pre-contract due diligence is the single most important preparatory activity that the organisation needs to undertake for any sourcing programme. The more information that can be collected, the more comprehensive will be the requirements definition and internal business case. If suppliers are being asked to manage and transform an IT environment, they need to know the detail of that environment.

The following types of due diligence data should be collected:

- Site list with some form of site categorisation
- Services delivered at each site, including volumes (e.g. bandwidth, port counts etc.)
- Asset database, including make/ model, age and net book value
- Service management processes and operating manuals
- Service level reports – performance against existing service levels
- Current incident volumes
- Traffic profiles
- All existing third party contracts that cover the in-scope services
- Total cost of ownership (TCO) model including all internal and external costs
- Details of all current and planned projects
- Project, change and IMAC volumes
- Employee transfer numbers and details.

When presented with uncertainty of scope or detail regarding any proposed deal, suppliers will naturally build in a level of risk premium. Presenting the supplier(s) with a complete and accurate view of the customer's environment will minimise the risk premium applied by the supplier(s) and result in a more stable commercial proposal, less likely to be subject to 'true-up' variation.

4. SHORTLISTING SUPPLIERS FOR AN RFP PROCESS

The traditional precursor to the RFP process, the Request for Information (RFI), is used to create a shortlist of recipients for the RFP and to provide the customer with strategic options for sourcing and network architecture. However, following the methodology advocated in this paper means that the sourcing strategy and IT architecture requirements are already defined and therefore the additional time and expense of an RFI process may not be required. All that remains is to agree the potential suppliers who will go through the RFP process.

The process of identifying potential suppliers is straightforward but must be based on a mixture of industry analysis and first-hand experience of doing business with the candidates. Various sources of readily available industry analysis exist in the marketplace today. The relevance of any first-hand experience will vary depending on whether the customer has outsourced or procured a managed service before but all previous experience with a potential supplier is relevant. Example criteria that should be used to select potential suppliers for an RFP process are shown below:

- Ability of suppliers to execute
- Recent supplier successes in the market
- Geographic alignment between the footprints of the customer and supplier
- Existing relationships between the customer and the supplier
- Strategic focus of the suppliers on the delivery of managed and/or outsourced IT services.

5. REQUIREMENT DEFINITION AND RFP DOCUMENT PRODUCTION

The objective of the Request for Proposal (RFP) process is to evaluate potential suppliers and enable a down-select decision to be made. As a general (and simple) rule, the more proactive and prescriptive the end-user organisation can be in articulating their requirements and objectives, the better the contract that will result. The customer should be clear as to what is required from a managed service or outsource contract, but should stop short of describing how it should be delivered. The 'what' is the realm of the customer, but the 'how' is the realm of the supplier.

Requirements should be defined across the following areas in the RFP document:

- Service demarcation and service scope
- Technical architecture, vision and strategic objectives
- Service delivery model, service management processes
- Service level agreement
- Governance model and forums
- Commercial objectives, cost treatment and allocation, pricing model, asset treatment
- Legal terms
- Employee transfer
- Risk and compliance.

The RFP document and the supporting documentation should be issued as a single pack to all suppliers simultaneously. When issued with the RFP document, the suppliers should receive clear instructions as to the expectations upon them, including timeline for responses and key contact details.

It is important to allow the suppliers sufficient time to respond to the RFP document and to understand the requirements and due diligence information contained in the RFP.

6. RFP RESPONSES AND SUPPLIER EVALUATION

Upon receipt of the suppliers' RFP responses an appropriate methodology should be used to compare the proposals and identify the most compelling commercial offer with the highest level of capability to meet the service and technology requirements.

Prior to receipt of responses the evaluation team should agree the weightings applied to each section of the RFP and each requirement within the individual sections should be classified as to its relative importance.

A detailed supplier evaluation should focus on innovation,

commercials, service delivery, technical quality, assurance of supply and risk.
It is not enough for suppliers to simply offer an attractive total cost of ownership (TCO) savings profile; it is equally important that the suppliers are sufficiently capable of delivering against the customer's business requirements. This should ideally result in a down-selection to two preferred suppliers to maintain competitive tension and to secure an optimal deal.

The supplier evaluation should include:

- Quantitative evaluation (scoring)
- Qualitative evaluation (strengths, weaknesses and risks)
- Commercial analysis
- Reference feedback from existing customers
- External market views.

7. CONTRACT NEGOTIATION

After down-selecting preferred suppliers in response to RFP submission, the customer should prepare a draft contract with a full set of schedules. This should be designed according to the customer's requirements, rather than being based on suppliers' terms and conditions. Prior to releasing the draft contract to the supplier(s) it should be thoroughly reviewed and finalised through consultation with key stakeholders.

The preferred suppliers should be instructed to review the draft contract and to supply a marked-up version highlighting any proposed changes. Upon receipt of the marked-up drafts, the customer should compare the submissions in detail and develop a clear contract negotiation strategy for each supplier.

There is significant benefit to be had by adopting a 'time-box' approach to the contract negotiation process whereby firm deadlines are set for completion of the negotiation process. Not only does this force all the parties to reach a conclusion at a known time, but it also allows the parties to communicate a clear timetable to achieve the necessary internal approvals for the final deal.

In order to maintain competitive tension throughout the sourcing process it is important to negotiate in parallel with the down-selected suppliers. This phase of the process requires a significant change in the structure of the customer project team in terms of the number of people required and the experience they have of contract negotiation. To achieve the 'time-box' deadlines the negotiation of the contract must take place in parallel workstreams and the project teams of both the supplier and customer need adequate resources to achieve this. Depending on the TCV (Total Contract Value), it is not unusual for teams of up to twenty on both sides to be involved in this process. Ideally each team member needs experience of this type of activity.

Throughout the process the appropriate stakeholders must be kept fully informed on progress of the contract negotiations and the suppliers' performance against the key success criteria of the sourcing phase. This is particularly relevant in the case of the commercial offers of the suppliers.

8. PLANNING FOR TRANSITION AND TRANSFORMATION

It is never too soon to start planning for transition and transformation. Preparation for the transition phase should begin as early as possible and shouldn't wait until the service commencement date of the contract; it needs to begin during the sourcing process. Following contract signature, it is vital that the contract is mobilised according to the spirit of the negotiation process and as outlined in the terms of the contract.

The supplier(s) should provide detailed transition and transformation plans during the sourcing process and this should be reviewed and agreed during the contract negotiations. The customer should ensure that plans are aligned with business requirements and constraints, and that the plans are achievable and can be supported. The customer should also make sure that their transition responsibilities are clearly understood.

If there are existing contracts in place then exit planning should also be addressed during the sourcing process and a detailed exit plan should be agreed with the incumbent. The way of working between the incumbent supplier(s) and the future supplier(s) should be discussed.

In order to develop a successful plan, the transition and exit team structure should be agreed prior to contract signature. Transition is a joint activity involving stakeholders from the customer and supplier organisations. Whereas the customer should always be responsible for managing the transition process, it is normal for the supplier to perform the majority of the tasks required and to bring a far greater level of experience to the process. There must be continuity of resource and knowledge from the sourcing phase to the transition phase. This is best achieved by making the number of people allocated to the transition programme a contractual commitment for both the supplier and the customer. This commitment must extend to retaining certain key individuals from the sourcing process through the transition phase.

9. DEVELOPING AN EFFECTIVE IT GOVERNANCE FRAMEWORK

Governance is one of the main reasons why IT managed service or outsource contracts succeed or fail. Good contract governance is about the delivery of business benefits, well managed services, and a strong customer-supplier relationship. Poor contract governance, on the other hand, often results in poor service delivery to the customer and/or an unprofitable contract to the supplier.

The IT governance framework highlights the 'who' and 'how' elements of the operating model. It defines the principles, rules and processes that enable effective decision-making. It provides the framework to address how decisions are made, who has the authority to make decisions and how decisions are communicated. The IT governance framework must be fit-for-purpose and flexible such that it can readily adapt to the customer's changing business requirements.

The IT governance framework should be multi-tiered, ideally across three levels: executive, commercial and operational. This not only ensures effective decision-making but also provides a clear escalation path for dispute resolution. The IT governance framework also needs to define the performance measures and reporting requirements – standardising management information across all the different parties in the operating model will enable effective evaluation of the success of the operating model.

As a general rule, good governance maximises the potential for successful contract implementation whereas poor governance is often the reason why contracts fail to meet expectations. We believe there are 10 steps to good contract governance:

1. Define and implement a clear and unambiguous governance structure
2. Track and report on contractual obligations
3. Actively monitor and review service delivery performance
4. Consider the IT ecosystem interdependencies
5. Proactively manage operational changes
6. Implement effective commercial governance
7. Create and manage a contract risk register
8. Create, populate and act upon a supplier scorecard
9. Implement a clear communications strategy
10. Perform regular contract assessments.

You can read in further detail about these 10 steps to good contract governance in a separate insight.

CONCLUSION

The sourcing of IT systems and services is a major undertaking with enormous implications for the entire organisation. The wrong decisions during the sourcing process can lay the foundations for a contract burdened by service delivery issues and cost escalation. Our experienced team have enabled our clients to adopt a more strategic approach to sourcing, avoiding common pitfalls and delivering a fit-for-purpose contract that is a success for the client and supplier alike.

ABOUT US

Wavestone is an international consultancy that provides connected thinking, insight and capability to industry leading organisations. We work collaboratively with our clients to plan strategic business transformation and seamlessly turn strategy into action.

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If you'd like to find out more, please contact us by calling at +44 20 7947 4176, or via email at enquiries@wavestone-advisors.com or visit our website at **www.wavestone-advisors.com**

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