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CONSPECTUS SUMMIT

THE IT REPORT FOR DIRECTORS AND DECISION MAKERS



ON OUTSOURCING

*'ACHIEVING THE
RIGHT RESULTS'*

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CONSPECTUS SUMMIT UPDATE

Comment

The recent Conspectus Summit conference on Outsourcing featured speakers among both buyers and suppliers of outsourcing services, as well as external consultants. But whatever their perspective, the speakers emphasised time and again the importance of relationship building in outsourcing success.

This newswire sums up opinion from the conference in a series of easy-access articles. The theme of 'achieving the right results' from outsourcing partnerships is timely, coming against a background of growing complexity in the market – as outsourcing spreads beyond IT to finance, HR and back-office processing, and contracts extend from those based on simple service level agreements to those built around shared risk and reward.

However, no business can walk away from the task of dealing with outsourcing's growing complexity. Figures from Gartner suggest that by 2007, 56% of IT services will be outsourced. It's a fad that's here to stay.

Outsourcing

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Getting closer

Cliff Mills reports on new research which shows a trend in outsourcing towards complex contracts and close relationships.



Cliff Mills: organisations are very comfortable with outsourcing and use it as a key business strategy

Outsourcing is a growing market, driven by business pressures to cut costs, improve service levels and become more competitive. It has also been fuelled by a growing disillusionment within organisations with their internal IT. There has also been some disillusion about IT infrastructure, and questions have been raised about whether it is really delivering results and value for money to the business.

On the supply side, nearly every major IT company has an outsourcing arm and this growth means plenty of alternatives for potential customers. Given this

range of choice, many organisations are very comfortable with outsourcing, not just for IT but in many areas of their operations and use it as a key business strategy. While outsourcing isn't necessarily the panacea for every organisation, it is an option that has to be considered at some stage by every business.

Looking at growth from the supply side – and basing our view on an annual consulting industry report that PMP produces in conjunction with the Management Consultancies Association (MCA) – consultants and systems integrators have seen phenomenal growth in the work they do in

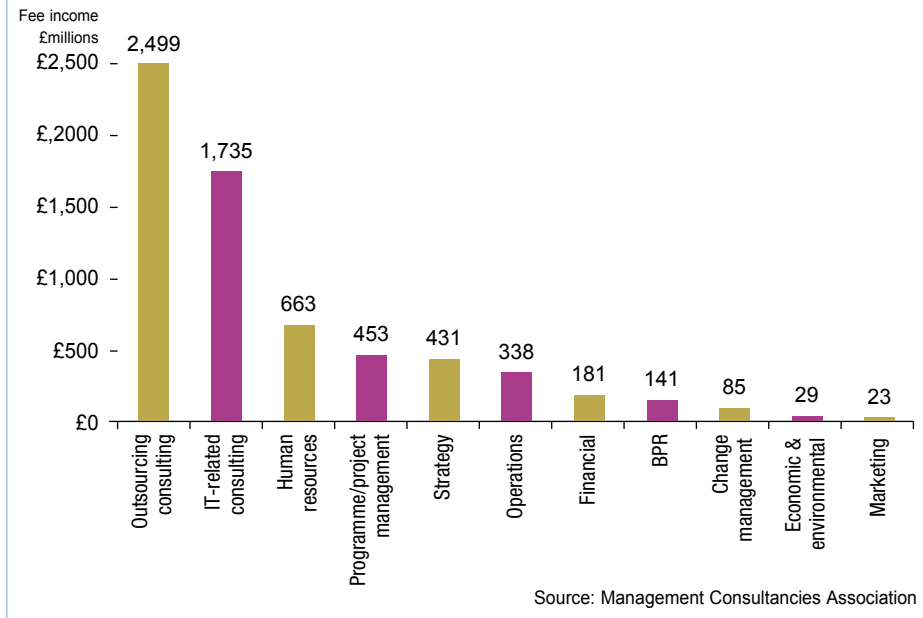
the outsourcing market and, if it wasn't for outsourcing, a lot of them would be feeling a cold blow across their profits. Approximately 38% of total fee income across the MCA's membership comes from outsourcing consultancy or outsourcing delivery (see Figure 1).

If we look at some of the figures coming from major analysts, Gartner says 56% of IT services will be outsourced by 2007. In the European market, Ovum sees growth in outsourcing, but also predicts a slowdown in the rapid growth seen over the past few years to a growth of 5-7%.

The key area of growth is on the business process outsourcing (BPO) side. Ovum predicts double-digit growth, with the two areas of IT outsourcing and BPO being roughly equal within the next few years.

For our study, PMP Research asked 100 large organisations how they felt outsourcing was going in their organisations. Generally, they said outsourcing is an important element of IT and business processing platforms. It is not the only option, with some companies deciding not to

Figure 1: Scale of outsourcing services market



outsource because they see IT as a core element of business strategy.

For those that do outsource, the market has become complex and the options are extensive, generating a need to understand the type of outsourcing you want to do – perhaps a one-off tactical deal or a more strategic arrangement including business transformation.

The survey shows BPO is growing fast in the areas of finance and accounting, human resources and back-office processing. We are also seeing a trend towards shared service environments, which centralise functions to deliver better and more efficient services into an organisation.

Complexity is also seen in deal structures. Rather than payment for services delivered, benefit-based risk and reward contracts are being signed, making the supplier take some of the risk, but potentially offering greater rewards.

Our research also highlights different methods of outsourcing, from managed services that outsource a single function, to traditional areas of

IT such as the data centre, and on to a mixture of elements such as business processing and utility computing.

Growth

If outsourcing is no longer a simple function, it remains a large and growing part of the budget. Any study of companies' reasons for outsourcing always reveals the same driver – the need to reduce costs. That is the starting point, but it is much more complex than it first appears and cost reduction is not the end of the story, as shown in Figure 2.

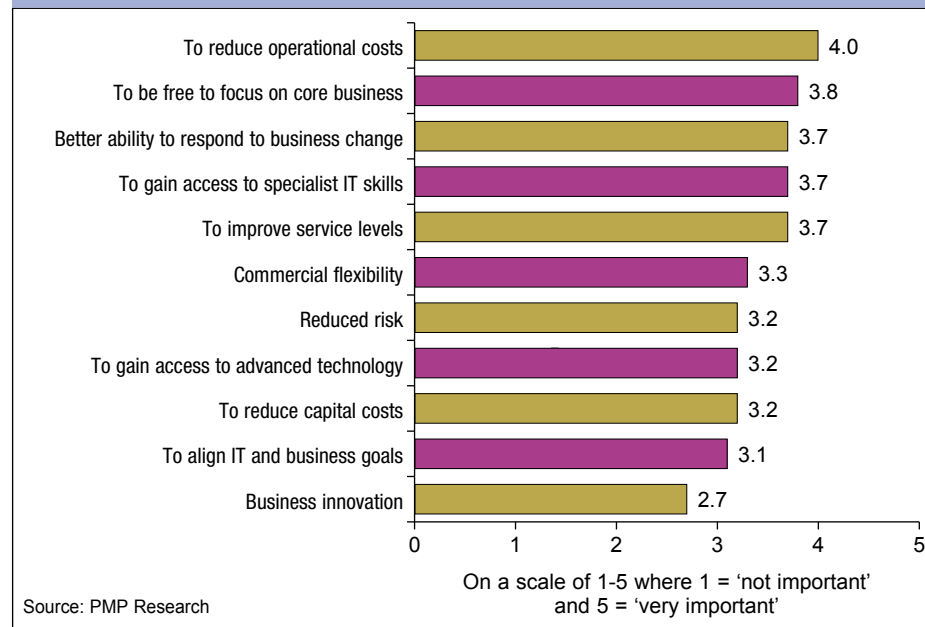
The need is for a close client-supplier relationship and the ability to question how the contract is working and whether it is delivering improved services. Demand for business innovation is also moving up the client-side agenda, with service level agreements (SLAs) becoming more qualitative and giving rewards for innovation rather than being based on measurements of speed of response and uptime.

Other options include multi-sourcing, where clients use a number of preferred suppliers to meet their needs, and the consortium approach, which creates a lead supplier and subcontractors.

The 'people' issues of outsourcing are key, with changes in the workforce as staff transfer to an outsourcer and move the emphasis of the organisation towards managing external suppliers and contracts. PMP's research shows that some companies have successfully made this change, but many have not, leading to dissatisfaction with outsourcing contracts.

The last issue is what to do if it all goes wrong or you want to terminate a contract. The question is: how can an organisation manage transition at the end of a contract, particularly when more SLAs are based on business-related benefits and the potential for change rather than technical measurements? Again, the answer is a clear and early understanding of your outsourcing purpose, the benefits you seek, and your relationship with the supplier.

Figure 2: Key reasons why your company uses outsourcing



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Driving innovation

Phil Morris of Morgan Chambers puts innovation high on the list of key elements for successful outsourcing.

There is no single solution for outsourcing and there is no single thing called outsourcing. Instead it is a complex idea and a relationship in which people buy from people, people keep the operation going, and people fail.

So, what do vendors do well and what really matters? These days, vendors are brilliant at doing ordinary stuff really well. The perception in the market that there is no premium for good-quality solid service delivery is true. Vendors meet service level agreements (SLAs), however complicated they are.

But at the other end of the spectrum, vendors fail to identify innovation. According to research we did among 160 organisations, this was their worst trait – with measurements against SLAs continuing to come above identifying innovation. This is despite the fact that most of the people we talked to, who have vendors in their buildings on a daily basis, do believe that the vendors understand their business, their challenges and their goals.

There are, of course, cynics who don't believe this to be the case, but the majority suggest their suppliers understand their business.

Moving on to what really matters, people say suppliers are meeting SLAs: the motorway is there, it works, there are no potholes and people take it for granted.

It is complicated to operate a factory service on a daily basis and make it 2% or 5% better every year, but because the suppliers are professional people, this is expected of them and there are no premiums. So, at the end of the day, the basic operation doesn't really matter because it is a fundamental expectation.

What does matter is taking the business forward. The ordinary stuff is



Phil Morris: the perception in the market that there is no premium for good-quality solid service delivery is true

taken care of – the no-premium services are in place – and identifying innovation becomes critical.

Market perception and the feedback we get at the level of client engagement with suppliers suggests that, by and large, the relationship is working and delivering. It is not problematic and for the vast majority, the relationship is positive and ordinary.

But how do you get into a relationship cycle of avoiding the pitfalls and recognising what you are doing, right and wrong? Cultural capacity is

essential in a successful relationship and, through working around the world, it is an aspect of the relationship that Morgan Chambers understands clearly.

Cultural fit is critical and the quickest way to understand it is to go and ask all of a vendor's other customers, be they happy or unhappy, about their relationships. You will then understand the culture of delivery, the culture of account management, the culture of the board and what kind of reception you are going to get when you complain about something or somebody.

This information is vital because you are engaging with people – not a brand, not a corporation, but people.

Innovation is driven by people, and by some of the most unusual people in your business

Among other issues to consider is the financial stability of the vendor, but like other selection criteria you must understand what can influence the variables within the criteria. You need to get under the skin of how those selection criteria are actually influencing your decision and their true importance.

Returning to the key theme of innovation, it is something that is impossible to measure and impossible to build into a contract sufficiently that you feel you are going to get it, and will be able to measure it and the advantage it will give you.

You can encourage innovation, you can leave room for it and you can invest in it – yet very few people do, even though it is key and critical to the life of your contract.

Innovation is driven by people, and by some of the most unusual people in your business. If you expect innovation to come just from the vendor, you are going to be unhappy. The need is to recognise that

innovation comes from within your organisation and from your organisation's interaction with the vendor.

Unlike 'business as usual', innovation needs a different kind of soil in which to sow ideas. You need a fundamentally different relationship between the organisations to generate innovation. The relationship isn't a single cycle; any outsourcing deal needs at least two in the relationship.

Boring people

Let me tell you about vendors. Vendor companies are for people that are incentivised to do the same thing year on year, but 3% cheaper. That is not going to drive innovation into your organisation. It is going to drive process innovation into the vendor's organisation and you are going to benefit from that as the vendor will be able to meet its commitments. But, essentially, you have got boring people doing boring stuff better every year.

Then, you are asking them to be innovative. It isn't going to work. You must recognise this and find a way of accessing the innovative people in the vendor's organisation.

There are also innovative people littered through your business. Very few of them are in day-to-day operations because they are imaginative and entrepreneurial, but they are the people that need to be included in the relationship. And you need to promote and invest in innovation.

Amalgamating these issues, you need to be very careful how you select a vendor and you need to take a long-term view.

PMP's research (see previous article) shows that there is growth in outsourcing. But unless outsourcing was actually designed to level the playing field so that everybody is vanilla and boring, we have got to do something different in the way organisations use the tool. The need is to recognise innovation, invest in a retained function, and invest in the processes and the people that will drive innovation and communication. It is vital that we do this or we will turn the world grey.

■ **Phil Morris is a Director with Morgan Chambers. Tel: 020 7309 7500. Email: Phil.Morris@Morgan-Chambers.com.**

Computacenter

www.computacenter.com

Computacenter is a leading independent European provider of IT infrastructure services. It offers services at every stage of infrastructure investment to help organisations optimise the value of IT to their business.

Computacenter's services capability enables it to offer an end-to-end approach, from advising on IT strategy through to implementing appropriate technology solutions and managing elements of the IT infrastructure on the client's behalf.

Computacenter recognises that managing and supporting the IT infrastructure day-to-day, while critical to the smooth running of the business, is highly demanding on the IT department's resources.

Its managed services are designed to help ease that burden – giving IT staff the opportunity to free up their time by outsourcing specific areas of infrastructure management to Computacenter.

By taking on this responsibility, Computacenter commits to improving service levels and reducing the customer's ongoing

operational costs – giving them access to additional specialist skills that can be scaled up or down according to their changing business requirements.

Computacenter's range of managed services include:

- Maintenance services.
- Managed service desk – on and offsite.
- Installations, moves and changes (IMAC).
- Managed availability.
- Disaster recovery.

COMPANY

Turnover (UK)	£1.43bn
Turnover (W)	£2.46bn
Profit Before Tax (UK)	£64.4m
Profit Before Tax (W)	£67.3m
Number of Employees (UK)	4,679
Number of Employees (W)	9,716
Software Marketed (UK)	N/A
End User Support by	AOR
End User Training by	AOR

Key: **D** Direct, **I** Indirect, **N/A** Not available/not applicable, **N/P** Not provided, **AOR** Available on request

SERVICES

Service offering	Computacenter managed services range – outsourcing of specific areas of infrastructure management
First client implementation	N/A
Hardware platform(s) supported	All platforms from client access devices, high-end and low-end servers to networking storage
Operating system(s) supported	All
Main differentiator in outsourcing market	ITIL methodologies/reporting, flexibility of contracts, TUPE experience, service management expertise
<i>Outsourcing services offered</i>	
Business process outsourcing	No
Application management/ASP	Yes
Managed services	Yes
Desktop & network management	Yes
Hosted & co-location services	Yes
Security services	Yes
Offshore outsourcing	No
Payroll/HR outsourcing	No
Web hosting services	Yes
Complete facilities management services	No
Other	Managed service desk, infrastructure integration, technology sourcing, disaster recovery, maintenance

- Remote monitoring and management.
- Portfolio management.

More information on Computacenter and its range of managed services is available via the links below. Resources on the website include articles and white papers such as *The reality checks for successful services* and *Removing the barriers to success*.

www.computacenter.com

www.computacenter.com/managedservices

Relationship building

Rounding up the views from the latest Conspectus Summit on outsourcing.

This summer's Conspectus Summit on *Outsourcing – Achieving the Right Results* featured presentations from a range of consultants, clients and purveyors of outsourcing services.

They included **Bob Baxter** of telecoms company Thus – both an outsourcing client and a provider of managed services to telecoms companies – who described some of the issues his company considered in making outsourcing arrangements.

Baxter believes it is crucial to successfully manage the transition period from inhouse IT to third-party operation by covering issues such as communications, dealing with staff, reviewing strategy and establishing a vision for the outsourcing deal – as well as maintaining business as usual.

After the initial transition, comes the need for a service delivery team – a joint client and supplier team with a strong relationship between the parties that can share risk and responsibilities and look for best practices. This relationship needs to endure throughout the contract if it is to go forward successfully, accommodating change and reaching renewal.

Cost is obviously a key factor in any outsourcing arrangement and Baxter pointed to the need to tackle cost upfront, creating a business case and a cost model that will deliver necessary services and help to measure their metrics. Outsourcing experts such as Morgan Chambers can help here, as well as later when it is time to review the service and decide whether an existing contract can continue to work for the business.

Within the contract itself, service level agreements (SLAs) need to be made, but Baxter warned these should be only one measure of the services provided and others, perhaps key performance indicators for

specific factors, should be included.

Amanda Lewis, a partner at Berwin Leighton Paisner, looked at the legal aspects of outsourcing, first defining the process and then setting out some rules for success.

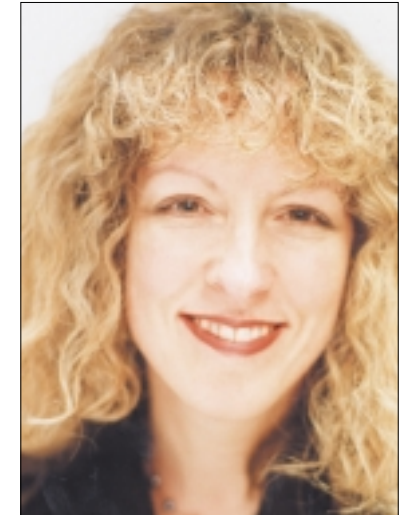
While there are many definitions of a successful outsourcing deal, she believes a successful deal must satisfy the original business objective and must embrace change from beginning to end, because outsourcing is essentially about change.

In terms of setting up a successful contract, Lewis suggested there are many different ways to get what you want from a deal, but she highlighted the need for due diligence and considerations such as risk and charges. Terms such as service descriptions, service levels and service credits must also be agreed before procurement goes ahead, with Lewis suggesting that a project plan will ensure fast, efficient negotiation and procurement.

Beyond these initial elements, a successful outsourcing deal needs to be based on a flexible agreement that can handle change. Change needs to be anticipated as much as possible and there has to be a management procedure for any change that cannot be anticipated. A dispute resolution procedure is also important to resolve issues that cannot be agreed between customer and supplier.

The final element of success is ensuring a smooth termination. Lewis said that this is the most difficult aspect of outsourcing but one that cannot be avoided as all contracts eventually end whether or not they are successful.

Termination must be formulated before the agreement is signed, taking into account important issues such as TUPE, the transfer of employees and employee liabilities to the outsourcer, and intellectual property rights.



Amanda Lewis: flexible agreements that can handle change

Simon Walsh, managing director of services for Computacenter, gave a supplier's view on relationship building.

"First and foremost you need to work out what the result is you are trying to achieve," he said. "Write yourself a short contract, be very clear about what it is you are trying to achieve and be very explicit about what Nirvana looks and feels like. You need to be able to describe it because there will be times when people question 'what were you doing, what were you aiming for?' and you can say 'well these are the statistics we were driving at, these were the cost reductions we wanted to achieve'."

Walsh said companies also need to think about who is going to be affected by outsourcing in their organisation and invite them to join the evaluation team – somebody who has gravitas, who works from the business and can articulate what the upsides are that you are striving to achieve.

He added: "Then you have got to be rather honest with yourselves and decide if you have any skills gaps in terms of relationship, contract management and commercial management. Mix the skills that you are putting into your evaluation team. You want some incredibly commercial people because, trust me, third parties have got some incredibly commercial people."

Walsh also advised: "Decide how much influence and access you are going to give a third party, because the moment you appoint them they will 'land and expand' – they will be round the corridors of power inside your organisation desperately trying to grow their involvement, and actually you are trying to keep them back so they get on with the job you have just appointed.

"So what control mechanisms do you put in place without looking like you are wielding a big stick every week? These are all things that you should think about in terms of how you operate the business."

John Yard, managing director of John Yard Associates, described how to deliver results – based on his experience as a manager of the Inland Revenue outsourcing contract.

Before considering a contract, Yard pointed to the need to distinguish between image and substance in the market. After that, he believes the

key question is: why do you want to outsource? In situations where IT has become the business, the business can't operate without IT so great care must be taken when outsourcing. Moreover, if IT is considered to be a problem, outsourcing will not solve the problem.

The hope that outsourcing IT will deliver the skills that you need may also be dashed as suppliers do not have enough good resources either. The result of that is, whichever supplier you choose, you will be in competition with other clients to get the best skills. This requires tough questioning upfront to make sure you will get what you want.

It also raises questions about how you should behave as a client. A bad client that kicks the supplier every time there is a problem won't get the best resources, but the better client will.

Once bid evaluations are underway, it is important to talk to the delivery team that will take on your IT crown jewels and manage them, Yard said. The tone of negotiations is important and a good relationship is essential, particularly as you go forward and start to hit problems.

In the first year, the difficulties are that the work is always much harder than the supplier envisaged and that the client wants to make changes. Expectations must be managed, including those of the board, as most people expect outsourcing to improve everything from day one. Typically this does not happen.

When it comes to management, you need somebody competent doing the deal, but somebody even better running it – somebody who can get to the board and instigate debate when there are difficult decisions to make. The board thinks it solved the problem when it signed the contract, Yard said. The board thought that was the end – but it's only the beginning.



John Yard: in competition with other clients to get the best skills

CONSPECTUS SUMMIT UPDATE

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Transforming IT service delivery

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