

CONSPECTUS SUMMIT

THE IT REPORT FOR DIRECTORS AND DECISION MAKERS



ON OUTSOURCING

“RETAINING CONTROL”

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CONSPECTUS SUMMIT UPDATE

Comment

The mood among corporate IT buyers is as sunny as it's been for years: the economy has steadied, the IT market has recovered and many organisations are investing in technology for competitive advantage.

But one thing everyone agrees on is that we will never return to the free-spending 1990s: corporate IT purchasers are a bit older and wiser - and outsourcing typifies that hard-won experience. Outsourcing is the one area of IT that guarantees cost savings, and that's why it's been the one IT boom area in recent years.

But now companies are learning to demand more of their outsource service suppliers: not only cost savings and guaranteed service levels, but innovation and service improvements.

A recent Conspectus Summit, sponsored by Computacenter, discussed these latest trends - and this report captures some of the key presentations from the event. We hope it will be a useful addition to your IT knowledge bank.

Outsourcing Summit

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More than the money

Innovation is joining cost saving as a driver for outsourcing. Cliff Mills reports on the latest market research.

Outsourcing is the largest part of the software and IT services market - and the only area that has been growing strongly over the last few years.

As companies look increasingly at utilising this service, PMP Research wanted to gain some insight into how organisations are handling and looking at outsourcing. We surveyed about 100 organisations, split between 25% within the public sector and 75% from various elements of the private sector.

Not surprisingly, cost is the number one reason that people give for outsourcing: companies are looking to reduce the operational costs of running their IT, and to a certain level their capital costs within that. Beyond that, organisations are seeking improved service levels. They are looking for processes to be more innovative, and for a more competitive IT infrastructure that they can use and adapt more readily.

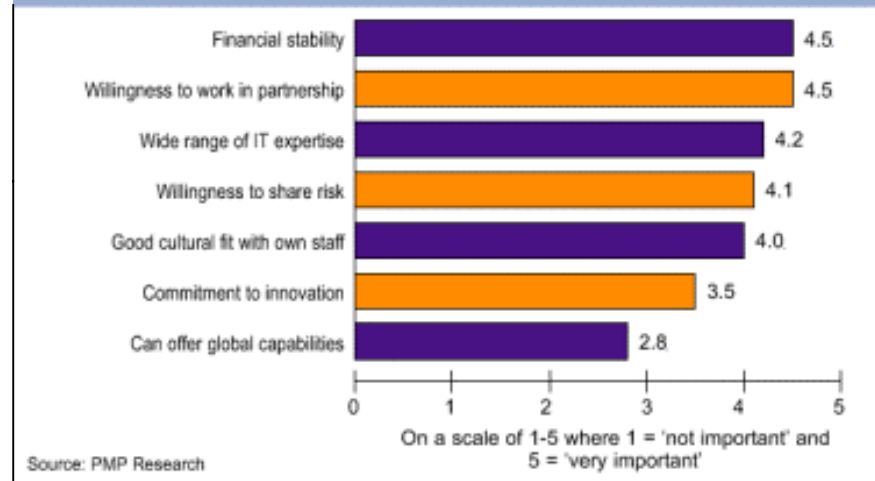
The survey finds that, for companies who have been outsourcing for a number of years, there has to be something more than just cost savings to make the whole thing worthwhile.

The word 'innovation' crops up time and again in the study. A lot of companies are beginning to make some of their service level agreement (SLA) measurements based on innovation - not just meeting a certain target or response times.

SLAs are becoming much more qualitative rather than just pure quantitative engines, so that involves the building and innovation enhancement of systems.

The survey went on to examine what organisations look for in an

Figure 1: Key requirements of an outsourcing Supplier



outsourcing supplier. As might be expected, the key element is financial stability (see Figure 1). In a lot of agreements, the financial strength of the supplier is a key measure - and if the supplier falls below a certain level, it can trigger exit strategies from that supplier.

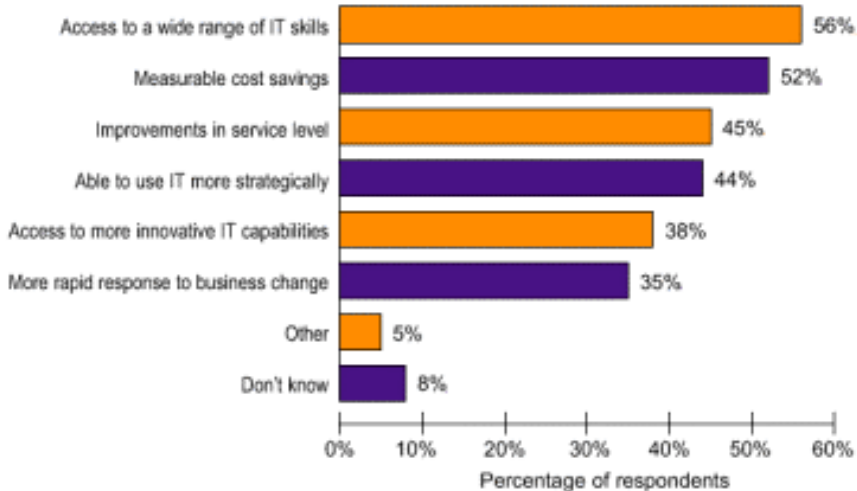
But companies are also addressing the broader working partnership; they are actively looking at ways of forming close working relationships with their outsourcer, so they can generate and innovate their business.

A lot of this has to do with making the outsourcer responsible for providing the customer with more innovative and effective solutions.

There is also greater sophistication around the area of risk sharing and payments for the outsourcer. In a number of contracts, the supplier will be paid according to how much money the customer is saving, or indeed how much more innovative or competitive outsourcing makes the business.



Figure 2: Main benefits your organisation has received from outsourcing



Source: PMP Research

Note: respondents could choose all that apply

The survey further asked respondents about their preferred area of improvement: whether they were focused on IT infrastructure improvement or business processing outsourcing.

By and large, organisations are looking more at IT infrastructure transformation, although both areas are going to be important in the future.

However, it is not just on the customer side: the outsourcing supplier too must demonstrate that it can manage relationships effectively. It's a two-way process.

Another key problem identified in the survey is the complexity of managing service level agreements (SLAs).

Early SLAs were, and probably some still are, horrendously complex and little understood - quite often by the customer and the outsourcer. In the more experienced outsourcers, we have seen a

lot of simplification in SLA agreements. The measurement structure is simpler, as are the pricing levels and cost levels.

The respondents identify a number of clear benefits from the outsourcing relationship - as shown in Figure 2.

Comparing these with the reasons for outsourcing - reducing operational costs, improved service levels, access to IT skills, etc - many of them have been achieved by organisations who have access to a wide range of IT skills: the outsourcer has many different skills and the customer can utilise those.

Overall, the survey finds a reasonable degree of success with the whole outsourcing process.

We also asked about the main factors influencing the choice of an outsourcing partner. Again, the top criteria are financial stability and reputation. Next comes the specialist and industry knowledge of the supplier, as well as their overall staff quality and professionalism, technical expertise, etc.

Finally, offshore outsourcing is a topic which is beginning to bubble up. By and large the companies surveyed did not really feel that offshoring was important to their organisation, but that may well change over the coming few years.

In summary, companies initially look at outsourcing as a means of cutting costs but this has moved on to generating more innovation and more value for the business.

Organisations are increasingly seeking collaborative relationships, where risk and reward is shared between the parties.

Business process outsourcing is a growing market and it will continue to grow rapidly over the next few years. Offshoring too is an option that people can look at both for IT services and business processing as part of their outsourcing strategy.

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Creative control

Robert Morgan of consultancy Morgan Chambers describes the preparations buyers need to make to stay ahead of their outsource suppliers.

Strategic outsourcing is about transforming your business and demanding and achieving better returns on your core competencies. But to successfully take this strategic approach, achieve control and cost containment, you need to understand how to:

- Prepare properly.
- Assess what risk mitigation opportunities you have.
- Measure short, mid and long-term success.
- Manage and motivate supplier relationships.

Poor cultural fit with your supplier(s) is the key ingredient in failing outsourcing contracts. You can certainly have differing objectives - the supplier being focused on maximising profit whilst you're focused on reducing and containing cost. However remember that at the same time you're looking for 'business enablement', so there are some natural comparators that you will need to look at.

To have a successful relationship, you need very clear and simple business objectives, not just at the beginning but for the duration of this 'life-changing' decision that you are making.

You need a carefully planned and well-managed relationship. You need to understand exactly how to achieve what you want, and to anticipate and plan for how the relationship will change - from the initial consummation of the marriage through to the potential of a divorce.

To carry on the analogy, you should expect to give birth to a hybrid culture between that of your company and your supplier's. This is to

be encouraged, not avoided. It is vital to encourage teamwork, set common objectives and install simple but effective governance and reporting. Regular and consistent communications are critical and must take place at every level of the organisation.

You should especially be talking to your supplier's executive and your supplier's executive should be talking to yours. And this should not be on a first-come, first-served basis. It should be planned and it should cascade all the way down the organisation.

Fundamentally, your company needs to ask itself why it wants to outsource. When we go into a client for the first time, cost is always their number one priority. We would normally seek to put in 10 objectives, to facilitate the thinking with the client. And by the time that analysis has been undertaken, cost consistently goes down to number eight or nine. More important is access to new skills, utilising the supplier's assets (IP, investments, knowledge, etc), offsetting capital expenditure, quality of service, speed to market, etc.

So what else is there? One missing element is financial re-engineering. Outsourcing is not just about 'the deal', in many cases it is about restructuring the whole balance sheet.

Flexibility, both commercial and technical, is also important. So too is expanding into new markets and new geographies. Most organisations think if they sign up with X because they are a global



Robert Morgan: creating a hybrid company culture



player, they are going to get access to elements of their market. Most outsourcers have consultancy arms, and clients expect this business knowledge to come across as part of the deal.

Consider also that between 5% and 7% of the revenue of an outsourcing agreement goes on physically running and managing the contract. So if you are outsourcing and only achieve a service 10% cheaper, that saving will be gobbled up with your internal management overhead.

The key people who undertook the procurement process must be responsible for driving and managing the contractual relationship into the future. It is vital to keep and motivate these people - and this must come from high-level sponsorship. The board must support this strategy, in the knowledge of where the services were before the outsourcing, what the company set out to achieve, and the progress that it is now making to realise these benefits.

Other important elements include:

- **Communications.** If you get this wrong, staff will become highly emotional and demotivated, and who can blame them? You can't go too early and you can't go too late. There are minimum requirements laid down by law for your staff to be made aware of any outsourcing decision. There are minimum requirements for your staff to be consulted as well.

You have to be extremely well-organised and it isn't just to make the 'dreaded' announcement, it's to keep consistency and continuity as you progress through each stage - and by reporting the success and 'upside' as well.

- **Negotiation.** Companies need to be realistic. You do not need to squeeze the blood out of your supplier, but you do have to know what kind of margins they should be making in order to deliver your objectives and still allow a market rate to be achieved.

If you squeeze and squeeze suppliers, you run the risk of only achieving at best the contracted levels of service.

- **Contracts.** All suppliers will present you with their standard contract. It would be wrong to blindly accept this.

- **Governance and reporting.** You will be bombarded by data. You really need a one-page traffic light report every month on progress; a single page that goes before the board so they absolutely understand what is going on in that contract. Keep your management clear, in the picture and make it nice and simple.

- **Benefit realisation.** Benefits are seldom achieved in the purest sense. Things change. Clients fail to understand how to track the impact of their decisions or changes in emphasis, and thereby let the supplier off their 'contractual hook'. It is of course possible to maintain a course that achieves and tracks the impact of decisions and what the benefits profile will now be. Building trust, and jointly agreeing with the supplier how this will work, cements understanding and the relationship.

Conclusion

In summary, to achieve successful outsourcing requires preparation, preparation, preparation.

It demands a realistic understanding of what you expect to achieve against the business objectives that have been set by your board; it requires top-level sponsorship which can't evaporate once the deal is done. Above all, it requires cultural compatibility with the supplier.

You must expect and encourage the development of a hybrid culture which is neither yours nor the supplier's, and that culture has to be realistically built on very sound foundations. Outsourcing is like a puppy at Christmas-time. It's not for Christmas, it's forever.

- **Robert Morgan is a director of City-based specialist outsourcing consultancy Morgan Chambers. Tel: 020 7309 7500. Website: www.morgan-chambers.com.**



Outsourcing

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)	£1.46bn
Turnover (W)	£2.48bn
Profit Before Tax (UK)	£61.8m
Profit Before Tax (W)	£65.2m
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



Managing the risks

Summing up the views from our recent Conspectus Summit on Outsourcing.

This summer's Conspectus Summit on *Outsourcing - Retaining Control* featured presentations from consultants, customers and practitioners of outsourcing.

On the customer side, **Nigel Cowton, head of global workforce services at Mercer HR Consulting**, discussed how adopting selective outsourcing had helped Mercer move to a services culture.

Mercer has over 13,000 staff worldwide. In the UK, the company has around 4,000 clients and generates about £300 million worth of revenue a year.

The company outsourced its telephony to Siemens and its desktop support and service desk to Computacenter. But the contracts did not get off to a good start.

"It was a mess because we outsourced very quickly just to save costs. There was a lack of clarity around the deliverables," Cowton said.

Mercer addressed the problem by outlining what it felt were the success metrics for areas such as a request, major incidents and problems, and first-time fixes of the service desk.

It then surveyed its staff and found about 30% satisfaction levels. The company shared the results with Computacenter and Siemens and put in place a full service improvement programme. Over a period of six months, it drove up the service and satisfaction ratings from 30% to 98-99%.

Mercer emerged from this with a number of 'learning points'. As Cowton summarised: "Partnership is key both with the business



and with the vendor. Make sure you have a common language, both with the business and with the vendors. Make sure that you all understand what the business drivers are.

"Don't underestimate how much time it's going to take for you to manage the contract, whether it's the renegotiation stage or on the ongoing basis. I have a team of three people constantly managing the Computacenter relationship."

"The key last line: it's review, review, review. Review what your business needs are and how they're changing. Review how the current service matches what you need and review how the innovations and the future services that you've agreed with the suppliers you're going to be delivering are going to meet the future business needs."

Simon Walsh, director of client services at Computacenter, gave the view from the other side of the customer-supplier divide.

He said: "To get the best out of a commercial model, you should expect your service provider to price everything on an open-book cost basis and disclose everything."

He also felt outsourcing should be carried out to achieve 'innovation' as well as cost saving, and explained how Abbey had outsourced all its infrastructure systems with the objective of focusing on new product generation.

"There are a number of strategic reasons for looking at outsourcing," he said.





Kit Burden: huge amounts of inherent risk

In writing the business case for outsourcing, companies should involve all the user communities that are recipients of the service. They should adopt a phased approach, Walsh said: "You should be able to transition in components of your organisation at a speed that suits your company."

He felt that "retention of the team is absolutely critical", and added: "I think there's a massive lack of demand by the buying customer on suppliers. Ask to meet the people. Ask to meet the service manager who's going to run the contract for you. Be very

demanding on experience and be unbelievably demanding on service levels. Expect high degrees of flexibility all the time."

Finally Walsh advised: "Expect transparent teamwork. Include the service provider in your team. When you have a management meeting, they should be part of your team and not some third-party provider."

David Cuthbertson, managing director of Stalcada Ltd and former director of the National Outsourcing Association, spoke about how to ensure an outsourcer can effectively manage a company's IT systems.

He said the key is management. "If you want to have an end-to-end service level to users that they trust, it doesn't just happen by chance. You have got to change the way that people work - you have got to get people communicating."

Cuthbertson pointed out that as they become more mature, businesses demand more of their IT services.

The impact of this increasing trend on outsourcing is that companies have to ensure their outsourced IT service has the capability to match any changes within the business or external corporate governance requirements. To do that, Cuthbertson said: "You need to adopt a service culture."

He recommended the BS15000 service management standard, which can help organisations ensure there is service improvement.

Also at the summit, **Kit Burden of law firm Barlow, Lyde & Gilbert**

looked at controlling risk in outsourcing contracts.

He explained that if an outsource contract is drafted correctly, there is rarely a massive uplift in the cost the supplier charges.

But outsourcing projects have huge amounts of inherent risk within them. They are highly complex, they tend to be high value and they tend to be long-term, all significant factors in inherent risk.

At the personal level, Burden told delegates: "Do not be under any illusions as to what it will mean to you if you have been involved in an outsourcing transaction that has gone wrong. Do not believe that your organisation will be incredibly supportive for you as an individual if you have been involved in a project, which has fallen over."

He outlined the key points to consider when drawing up a contract. It is essential to properly document your requirements. "I can't underestimate how much effort this will involve you in."

But inevitably, you will not be able to determine every single issue that arises during the negotiation process. You therefore need to make sure that when appropriate, you have a means of getting escalation up to the more senior management.

When it comes to selecting the supplier, the key factors are not just price but also brand, capability, quality and cultural fit with your organisation, Burden concluded.



CONSPECTUS SUMMIT UPDATE

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Transforming IT service delivery

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