Next Generation IT Outsourcing and the Global Enterprise Model (GEM)

When Outsourcing Can Create Value through Fundamentally Changing the Way You do Business

Introduction
This is an unparalleled time of transformation. Disruptive technologies such as cloud computing and the "as-a-service" model for software, infrastructure and platforms have led to fundamental changes in how IT services are organized, managed and delivered—whether they are outsourced, insourced or a combination. The reality that IT services can be delivered to anywhere on the globe via the "Cloud" has accelerated the commoditization of IT. Ubiquitous access to IT services has lessened business units' dependency on internal IT and shifted the IT organization's prime role from process excellence to technology and service innovation.

In WGroup’s Global Enterprise Model (GEM)(see figure 2), outsourcing plays a key role in the lifecycle. The strategic partnerships developed and maintained are critical to exploiting global trends. Key partners are recruited because of their core competencies in delivering optimized services that, in turn, enable the business to realize cost-effective results. Further, this enables IT to focus on its new role as service integrator, business strategist and driver of innovation for the business.

Outsourcing Today: Increasing Pace of Change
Trends in technology and IT service delivery have impacted the outsourcing market to a great degree. While outsourcing has matured as a delivery model many outsourcing service providers are still challenged to provide services promised during the sales cycle. Causes include optimistic evaluations of data supplied by clients to size the opportunity and internal struggles with meeting profitability targets in business plans. The increasing pace of change only serves to exacerbate the problem. To address this issue, clients are changing the scale of relationships and how they are managed.

Outsourcing relationships are smaller, more focused and of shorter duration allowing the business to capitalize on more discrete vendor strengths while providing more flexibility in starting and ending relationships. More importantly, as line of business heads assume responsibility for outsourcing relationships, IT

“Internal IT must shift its role to one of service integrator, business strategist and driver of innovation.”

Denis Desjardins
Principal Consultant, WGroup
Multi-sourcing strategies leveraging best-in-class providers matched to strengths are now the norm. This means IT acts as a “broker” in advising the business, developing relationships and managing relationships. All performed consistently with a predefined (and periodically updated) sourcing strategy.

Multi-sourcing strategies leveraging best-in-class providers matched to strengths are now the norm. With these multi-sourced environments, the interaction among vendors emerges as a new source of management focus driving the development of operating-level agreements to govern interaction. Finally, relationships have greater built-in flexibility to address changes in platforms, architecture, services and performance requirements.

Clients are becoming more proactive and focused on requiring business value from service providers and are no longer satisfied with just meeting service levels and operational metrics. Vendor management organizations go beyond the vendor’s on-site staff to uncover sources of value within the service provider enterprise. Vendor management is widely considered a core competency of the IT organization and clients are taking a more hands-on approach to managing providers via structured processes. Unfortunately, the function has some way to go before it is staffed appropriately in most organizations. See WGroup’s Strategy Brief on “Best In Class Vendor Management Office” available on WGroup’s website: http://thinkwgroup.com.

### Summary of Outsourcing Trends

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<thead>
<tr>
<th>Client Focus on Value</th>
<th>Outsourcing arrangements are undergoing more scrutiny than ever before. Greater emphasis is being placed on measuring performance and ensuring that value is delivered to the organization. Assessing SLAs has become common practice, and metrics are now tied directly to the business outcomes required.</th>
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<tbody>
<tr>
<td>Multi-Sourcing Strategies</td>
<td>The significant influx in service providers has led toward a preference to multi-sourcing. Few new or renewal deals are sole-sourced to one provider. Instead, clients are selecting the best-of-breed providers and building heterogeneous relationships.</td>
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<td>Smaller and Focused Deals:</td>
<td>Contract length and scope of new deals is shrinking, allowing for more client flexibility with starting and ending relationships, and to accommodate evolving business needs.</td>
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<td>Shift in Sourcing Geography</td>
<td>India was once the go-to region for low cost services, but due to wage inflation, rising turnover, access to language skills and alternative time zones, many clients are now looking to delivery centers in South America, the Philippines, and Eastern Europe. Clients are also looking more towards near-shore and on-shore options to meet specific business requirements.</td>
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<td>Line of Business Ownership</td>
<td>The role of managing outsourcing relationships is moving from IT to the lines of business and the line between process and technology is becoming more blurred. This introduces new challenges as IT becomes a center of excellence in outsourcing relationship development.</td>
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<td>Contract Flexibility</td>
<td>New contracts have a greater flexibility built in to address changes in platforms, architecture, services, and performance requirements.</td>
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<td>Transformation Requirement</td>
<td>Managing infrastructure or a business process is no longer enough. In the push for value is driving many contracts to include transformation. Clients are often requiring transformation as part of their contract.</td>
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<td>New Delivery Models</td>
<td>Cloud, as-a-service, remote delivery and virtualization have created new delivery models in how IT services are delivered. Every first-time or renewing outsourcing deal must address new models and alternatives to the traditional delivery approach.</td>
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Among service delivery models, Outsourcing is unique in that it is a mature model but still has the same old problems. The table above details the key trends that mandate a new approach to outsourcing.

**Key Trend: Increased Emphasis on Value Realization**

One of the most impactful areas of change in the next generation of outsourcing is the value to the organization. Greater effort is being placed on measuring service provider performance at the point of value realization (e.g., end-user experience) as opposed to measuring discrete points of the delivery chain. Metrics are tied to the service catalog and reflect the needs of the business. Additionally, greater diligence is being placed in annual updates to performance metrics. One of the leading causes of issues with customer satisfaction has traditionally been outdated service levels. Most contracts allow for the periodic (usually annual) reassessment of SLAs however it is rarely done. With a renewed emphasis on vendor management there is greater emphasis being applied to updating SLAs.

In an effort to uncover additional opportunities for value, clients are providing service partners with more visibility into their business operations and expecting innovative ideas from their partners. Service providers also understand the importance of proving value, and are placing more emphasis on managing their client's perception of value attainment.

**Key Trend: Evolving Delivery Models**

In some situations, IT services delivered by outsourcing service providers need to conform to the delivery model inherent in the client organization. In other situations, the client uses the model of the outsourcing service provider to update their delivery model—usually to an IT Service Management (ITSM)-based model. In either scenario, ITIL conformance is an essential requirement and the service catalog is the basis for outsourced services.

For a time, clients were interested in transferring ownership of assets to vendors in an effort to provide balance sheet relief. This, however, limited flexibility in terms of changing vendors at the end of a contract term or, in the case of breach, during the term. With asset ownership, the client can control refresh rates and time frames as well as financial treatment of the asset. Off-setting this desire to retain asset ownership is the emergence of cloud-based or X-as-a-Service delivery models. Here the client must place emphasis on a standards-based architecture as a way to manage expectations in the case of a vendor change requirement.

Geographical considerations for delivery of services are also changing. Where India was once the go-to region for low cost services, a more broad-stroke brush is being applied to geography. Because of wage inflation and rising turnover in India, clients (and vendors) are establishing delivery centers in regions such as South America, the Philippines, and Eastern Europe. Additionally, clients are increasingly looking at near-shore and on-shore options in low-cost locales. Clients seeking to expand in or support existing global markets require language, culture, proximity and time-zone needs that alternatives to India can provide.
Clients are exerting more influence over the service provider, and are requiring more transparency and visibility into their staffing and delivery models.

Key Trend: Importance of Client Controls
The two biggest areas of change around how clients control outsourcing relationships are in cost management and people management. Greater predictability and control over incremental transaction costs is a requirement. In first generation outsourcing deficiencies in historical tracking of transaction volumes resulted in incremental charges that were often not expected. With experience in tracking transactions, there is now a focus on controlling demand and managing unit rates based on increasing transaction volumes. Additionally, pricing is expressed in greater granularity. Fixed fees associated with individual towers are more often built into the unit rates, where services maintained as a fixed fee are limited to covering the costs of managing the services within the tower. Conversely, this allows the client to spread them across the unit prices when evaluating pricing on a unit basis.

Clients are exerting more influence over vendor staff delivering the services. Clients are requiring more transparency and visibility into staffing models to ensure services are adequately staffed for the workload. Additionally, there is a greater interest in controlling the flow of work off-shore by requiring a gradual transition preceded by proof the service levels will be maintained.

Next Generation Outsourcing
The next generation of outsourcing relationships is clearly characterized by greater flexibility and control on the part of clients. Whether in contract terms, influence over the delivery model employed or interfaces to the business, IT is assuming a more direct leadership position and is acting from a position of strength and experience.

WGroup Outsourcing Recommendations
• Align outsourcing objectives “top down” with overall strategic business objectives.

• Prior to developing a new outsourcing relationship or renewing an existing one, spend time developing a comprehensive sourcing strategy that reflects the needs of the business and service availability within the IT market. The strategy should consider internally vs. externally sourced resources, hardware and software procurement and ownership, facilities (data center) location and ownership as well as the service catalog IT is delivering to the business.

• Engage the vendor management organization as well as representatives of the business in the strategy development process as well as the implementation.

• Structure agreements for flexibility to handle changes in requirements and volumes.
• Holistically manage complex relationships through structured governance, vendor management and service management disciplines.

• Complete a thorough cost analysis and financial deal model.

• Perform exhaustive due diligence on staffing models and the proposed transition plan and ensure they are thorough and consistent with the culture of the business.

• Maintain a hands-on management posture throughout transition.

As discussed, disruptive technologies are changing how IT services are organized, managed and delivered—whether they be outsourced, insourced or a combination. Responsibility for IT is moving more and more to the business units and dependency on internal IT has shifted. WGroup’s Global Enterprise Model (GEM) provides an updated view on the Extended Enterprise and is a useful tool for companies to discuss and articulate their challenges, strategies and tactics around their business model and the role of the IT organization and the CIO in this new world. Contact WGroup to learn more about the terms, methodologies and approach behind the GEM.

“Successful companies will continuously ‘extend’ to meet new business requirements and drive value. Outsourcing will continue to be a key approach. Business functions are no longer self-contained workflows and confined to the fours walls of the business.”

Denis Desjardins
Principal Consultant, WGroup.

Figure 2: WGroup Global Enterprise Model (GEM)

Source: WGroup
WGroup’s Unique Approach to Sourcing Advisory

WGroup aligns outsourced services to value creation. The firm helps clients move away from a price-focused procurement approach to a more sophisticated one that requires IT services be linked to value creation.

Refer to a summarized view of WGroup’s Sourcing model below. WGroup consultants bring experience in both sourcing and IT to help clients manage all facets of sourcing engagements—from aligning the right strategy and approach, to ensuring that the tactical execution and transition hit every milestone.

Contact WGroup to learn more about our outsourcing advisory services and client success stories.

"Sourcing holds the promise of driving value for the organization. Leading organizations recognize that sourcing strategies built with the wrong approach do not create value and often destroy it, leading to years of recovery."

Harry Wallaes
President and CEO, WGroup

About WGroup

Founded in 1995, WGroup is a boutique management consulting firm that provides Strategy, Management and Execution Services to optimize business performance, minimize cost and create value. Our consultants have years of experience, both as industry executives and trusted advisors, to help clients think through complicated and pressing challenges to drive their business forward.

For more information on WGroup, visit http://thinkwgroup.com

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