# Next-Generation IT Sourcing Primer for 2017 & 2018

## New strategies to transform service delivery

WGROUP

# Introduction

*"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 Wallaesa, WGroup founder and chairman*

Back in 2014, market research firm IDC asserted that CIOs needed to drop their old roles as technology overlords and step into new ones as leaders of digital business transformation. But many IT leaders still struggle to understand how to implement new technologies to improve service delivery and enhance business outcomes.

This is hardly a surprise. Only a tiny fraction of IT spending is allocated to IT innovation. Year-over-year IT spending is on the decline, and satisfaction with IT's speed of delivering new applications and services remains low.

At the heart of many organizations' struggles to optimize IT is how they have used sourcing in their business models. Too many organizations are bogged down by an antiquated and inefficient vision of outsourcing as a strategy designed solely to shave off labor costs. Some organizations still sign multi-year outsourcing contracts centered around moving labor-based activities to offshore locales, which has the unfortunate consequence of incentivizing outsourcing suppliers to maintain the status quo, deliver less innovation, and minimize services. None of these factors align IT outsourcing activities with business growth.

In fact, outsourcing can create value and fundamentally change the way companies do business. Innovative and truly successful organizations use outsourcing as a way to enhance service delivery, accelerate time-to-market, implement new technologies, foster innovation, and make smarter decisions.

# Game Changers: Six New Sourcing Trends

To understand the mandate for a new approach to sourcing, it's important to reflect on the factors that have altered the role and very nature of IT itself. The industry is experiencing an unparalleled time of disruption and transformation. Methods of organizing, delivering, and managing IT services have been forever changed by technologies such as cloud computing and "as-a-service" models for software, infrastructure, and platforms.

## Game Changers: Six New Sourcing Trends

Consider these new sourcing trends and how they have changed the market:

### 1. Increased focus on value

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. Metrics are tied directly to required business outcomes, and more effort is being placed on measuring service-provider performance at the point of end-user experience (as opposed to measuring discrete points of the delivery chain). Additionally, greater importance is being placed on annual updates of performance metrics.

Traditionally, outdated service levels were one of the major factors contributing to rarely took advantage of contracts that allowed for the periodic reassessment of service-level agreements (SLA). Now, however, more companies are updating SLAs, and clients are providing service partners with more visibility into their business operations—and expecting innovative ideas from them in return, beyond just meeting service levels and operational metrics. As a result, service providers have a deeper understanding of the importance of proving business value, and are better managing their clients' perception of value attainment.

### 2. Preference for multi-sourcing strategies

A significant influx of service providers has led to a preference for multi-sourcing. Few new or renewal deals are inked solely with one provider. Instead, companies are using multi-sourcing strategies that leverage best-in-class providers, matching their needs to vendor strengths.

With these multi-sourced environments, the interaction among vendors has emerged as a new management focus, driving the development of operating-level agreements to govern vendor interaction. These vendor management organizations go beyond the vendor's on-site staff to uncover sources of value within the service-provider enterprise, and vendor management is now widely considered a core competency of an IT organization, with companies taking a more hands-on approach to managing providers via structured processes.

## 3. Smaller and more focused deals

While outsourcing has matured as a delivery model, many vendors are still challenged to provide the services promised during the sales cycle. To address this issue, companies are changing the scale of relationships and how they are managed. Contract length and scope of new deals are shrinking, making it easier to accommodate ever-evolving business needs.

Outsourcing relationships that are smaller, more focused, and of shorter duration allow the business to capitalize on more discrete vendor strengths, while at the same time providing more flexibility in starting and ending relationships. New contracts have greater built-in flexibility to address changes in platforms, architecture, services, and performance requirements.

## 4. Shifts in sourcing geography

India was once the go-to region for outsourcing 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. Companies seeking to expand or support existing global markets are now looking for alternatives that better match language, culture, and proximity requirements. They are also looking more to near-shore and on-shore options in low-cost locales to meet business requirements.

## 5. More client controls

The two biggest areas of change around how companies control outsourcing relationships are in cost management and people management. Before, deficiencies in the tracking of transaction volumes resulted in unexpected, incremental charges; now, there is a focus on controlling demand and managing rates based on increasing transaction volumes, with pricing expressed in greater granularity.

Clients also are exerting more influence over the vendors, requiring more transparency and visibility to ensure services are adequately staffed for the workload. Moreover, there is a greater interest in controlling the flow of off-shore work by requiring a gradual transition once the vendor has established proof that service levels will be maintained.

## 6. Evolving delivery models

Cloud, XaaS, remote delivery, and virtualization have created new delivery models for IT. Every first-time or renewed outsourcing deal must now address new models and alternatives to the traditional delivery approach.

For example, there was a time when companies were interested in transferring ownership of assets to vendors 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. Out of this desire to retain asset ownership came cloud-based and XaaS delivery models, which emphasized standards-based architecture as a way to manage expectations in the case of a vendor change requirement.

# Summary: The Rise of Next-Generation Sourcing

In sum, the speedier, more efficient, and more agile delivery of services has become a driving force of transformation, and this is having a huge impact on the way IT professionals and business leaders see the role of outsourcing in helping their organizations become digital businesses.

The reality is that IT services can be delivered to anywhere in the world, and thanks to cloud computing, the commoditization of IT has accelerated. Ubiquitous access to IT services has lessened business units' dependency on internal IT, shifting the IT organization's primary role from process excellence to technology and service innovation. With the rise of next-generation sourcing, IT organizations must serve as an advisor to the business, as well as develop and manage outsourcing relationships.

# Next-Generation Sourcing Relationships

The next generation of sourcing relationships is characterized by greater flexibility and control for companies. Whether in contract terms or influence over the employed delivery model, IT is assuming a more direct leadership position. This has changed the relationship with service providers in a number of ways.

First and foremost, outsourcing relationships must be strategic partnerships. Managing infrastructure or a business process is no longer enough, and the push for value is driving many companies to include transformation that advances business goals as part of their contracts. Accelerating this is the democratization of technology, which has empowered end-users to become well-informed, highly motivated consumers and shapers of IT services. More than ever, IT organizations must work closely with outsourcing partners to come up with new technology frameworks that result in innovation, improved service delivery, faster time-to-market, and achievement of mutually agreed-upon business goals.

Key partners are recruited because of their core competencies in delivering optimized services that enable the business to realize cost-effective results. Consequently, IT can focus on its new role as a service integrator, business strategist, and the driver of business innovation.

# What to Look for in a Sourcing Partner

Not every outsourcing vendor has the skills—or even the inclination—to become a true partner in business transformation. That puts big pressure on CIOs, IT leaders, and business executives to do their due diligence with a thoughtful and thorough evaluation of partners and their skills.

Look for an outsourcing partner who leads with a solution that is laser-aligned to your business strategy and transformation objectives. If your preliminary research of their capabilities, or your initial conversation with their team doesn't speak to how they have helped organizations morph into sleek, agile, and visionary players that compete in new ways—walk away.

For those who make the first cut, keep your eyes open for real-world success stories that are relevant to your industry, business model, and market challenges. Find out where their consultants cut their teeth and achieved business breakthroughs for their clients. You don't want to be anyone's guinea pig.

And when negotiating the contract, IT departments must insist that their outsourcing partners do all the above without locking the organization into tangible or intangible penalties should the need for change arise. That means the ability to switch technology platforms, expand cyber security defenses, change application delivery methodologies, or quickly adopt new tools for transformative workloads such as analytics and automation.

Remember: you want to do more than simply embrace change for your organization—you want to accelerate it. Be sure to do business with an outsourcing partner willing and able to do the same.

# Conclusion: Develop a Next-Generation Sourcing Strategy

Think of sourcing as a business strategy, not a procurement exercise.

Business executives obviously want to see financial improvements, and expect their CIOs and IT partners to make that a reality. But now those financial improvements must embrace far more expansive and strategic issues designed to drive higher revenues, as well as keep costs under control. As an example, the delivery of automation capabilities has become less about reducing headcount to manage transactional tasks, and more about improving the customer experience.

# Conclusion: Develop a Next-Generation Sourcing Strategy

Your next outsourcing engagement needs to focus on strategies for improved service delivery and architecture reengineering as part of a broader business transformation strategy. As such, it's an executive-level and technology engagement, not a job for the purchasing department to tackle alone. Put aside old models like long-term, fixed-rate contracts based on cost reduction in favor of business-oriented metrics that encourage service development and delivery.

At the heart of this approach is an understanding that IT, and the delivery and consumption of IT-based services, is no longer the sole domain of the IT department. IT is now owned by the business. Outsourcing must be a deeply collaborative process among IT, business stakeholders, and the outsourcing partner. This puts the IT executive in the critical role of service broker and business-unit confidant, not a manager of programmers and tech support staff.

That's why the most successful executives at the most forward-thinking organizations see outsourcing not as a cost-reduction strategy (frankly, that ship has sailed), but as a vehicle and catalyst to transform the organization into a digital business.

In today's business environment, the emphasis has shifted from cost to speed—speed to market, speed to value, speed to ROI. That's because labor-centric outsourcing and other initiatives have done their jobs at wringing cost out of business operations, but those cost-savings initiatives have largely plateaued.

Instead, organizations have shifted into a mode that places far more value on agility and flexibility, not wanting to be locked into old business models, lengthy contract terms, vendor relationships, or other restrictions that limit their ability to move as fast as new technology allows them to go.

## Conclusion: Develop a Next-Generation Sourcing Strategy

Today's market is a buyers' market. Contracts are more flexible than they have ever been and termination costs are only a fraction of what they once were, if they exist at all. Multi-supplier models further mitigate risk in a sourcing delivery model. If providers don't live up to business-impacting service levels, they can and should be replaced by a better supplier—ideally, one with a partnership mentality and a shared vision for how to measure mutual success, at no cost to the client.

When the business focus shifts from cost savings to creating shareholder value, the nature of relationships between organizations and their service providers moves away from contract terms and SLAs to one where everyone collaborates on how to define and deliver higher levels of business value. It repositions the outsourcing provider from transactional vendor to strategic partner. Only by taking on a transformational mindset will IT organizations and sourcing partners be able to deliver true business value.

# Summary: The Next-Gen Sourcing Checklist

- [ ] Align outsourcing objectives with overall strategic business objectives.
- [ ] With a new outsourcing relationship (or renewal), develop a comprehensive sourcing strategy that reflects the needs of the business and service availability within the IT market. Consider internal vs. external sourcing options, hardware and software procurement and ownership, facilities location and ownership, as well as the service catalog being delivered to the business.
- [ ] Evaluate the market from various vendor tiers. For example, compare global vendors of comprehensive services with focused niche providers; on-shore and offshore vendors; and service-only with service and product vendors.
- [ ] Engage the vendor management organization in both strategy development and process 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 to ensure they are thorough and consistent with the culture of your business.
- [ ] Maintain a hands-on management posture throughout the transition. Disruptive technologies are changing how IT services are organized, managed, and delivered; and dependency on internal IT has shifted to more self-sufficient business units.

## About WGroup

Founded in 2004, WGroup is a management consulting firm with a peer-to-peer approach to IT optimization and service delivery transformation. The team is composed of consultants with over two decades' experience as former C-suite executives and IT leaders. WGroup boasts a clientele that includes many Fortune 1000 companies across a wide range of industries, and is known for an outcome-driven, service provider-agnostic approach that optimizes IT operations and minimizes costs.

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