

## IT SOURCING

Ties that stand the test of time ...

### Call for Action

In modern times, no company can escape the question of an external sourcing of IT services. Regardless of industry and size, companies try to set their focus on the core business while reducing IT costs sustainably. In addition, they try to keep their IT at the cutting edge of technology while not having to maintain their own IT resources but rely on external IT expertise.

So far so good – but unfortunately the reality of many outsourcing projects fall short of this and expectations and objectives are not achieved at all or only in part.

But why does this happen? Some of the reasons are of an elementary nature and can be traced back to a very early stage of project initiation. Some examples: incomplete sourcing strategy, wrong scope, contracts with imprecise or unfavorable regulations including their semi-professional negotiation but also insufficient own capabilities to effectively and efficiently manage the provider in the later routine operation. In the end, frustration often dominates the daily operation between the outsourcing company and the external provider.

The sourcing of IT services is a long-term and strategic decision with a significant risk potential for the outsourcing company – this applies in particular if business-critical systems are managed by external providers. Re-insourcing a previously outsourced IT service is a difficult and painful task.

As a result, handling outsourcing in the right manner is of utmost importance. For this to happen, two essential areas of responsibility must be mastered in full: the sourcing strategy and the contract management.

### Sourcing Strategy

The first and basic step is to outline a strategy about which IT services should be provided by the company's own IT and which could be outsourced to external providers. In order to make a sound decision, exact knowledge of the current and future demand for IT services in the enterprise needs to be obtained.

Subsequently, for each IT service a “make or buy” decision needs to be taken based on a defined set of criteria. Beside a thorough and in-depth cost analysis (unit cost, transition cost), which often dominates the decision-making process, a couple of additional questions must be answered prior to a decision:

- How sensitive is the IT service for the commercial success of the company?
- What is the business risk associated with any under-performance of the IT service?
- Are all legal and regulatory requirements met?
- What is the maturity level of the IT service and which technical dependencies exist to other IT services?
- How uncomplicated will the subsequent collaboration with the external provider be?
- How competitive is the own IT compared with the market in terms of service quality?
- Can the service quality be improved by the external provider?
- What happens if there is a significant change in volume of demand?

- What would be the cost of re-insourcing the services and is it at all feasible?
- Can the continuous innovation / improvement of the IT service be guaranteed?

Closely linked to the decision on what service to outsource is the question of which external provider to select. Beside exact knowledge of the market, an impartial and realistic assessment of information provided by the potential candidates is required. “Control is better than trust” should be the guiding principle in this process, as often the promises made by the market are lacking substance.

### Contract Management

The scope of contract management covers the actual negotiation with the preferred provider, the conclusion of a contract, a frictionless transfer of the internal service provision to the external provider (which may take several months until running smoothly) as well as the continuous monitoring of the external provider.

The basis for successful contract management is the effective monitoring of the service provider. This basis, however, is laid already during the contract negotiation. But also other parameters such as measurability, flexibility, continuous service improvement and the design of an incentive system need to be considered in the contract:

- The scope of the IT service is described understandably, precisely and in keeping with the market
- Service delivery can be measured objectively, easily, automatically and precisely (incl. potential deviations from agreed service levels)
- A bonus / malus model with mutual benefit is included
- The service costs are according to market standards and ...
- ... take into account future cost effects through innovation (e.g. annually decreasing network costs, virtualization of servers)
- A potential growth in demand of the service is reflected
- The contract is modular in order to be able to respond quickly to future requirements (e.g. higher availability, greater number of users)
- Regular service optimization is obligatory for both parties and is managed operatively
- A potential roll-back of the contract and re-insourcing of the service is regulated (including transfer of know how)

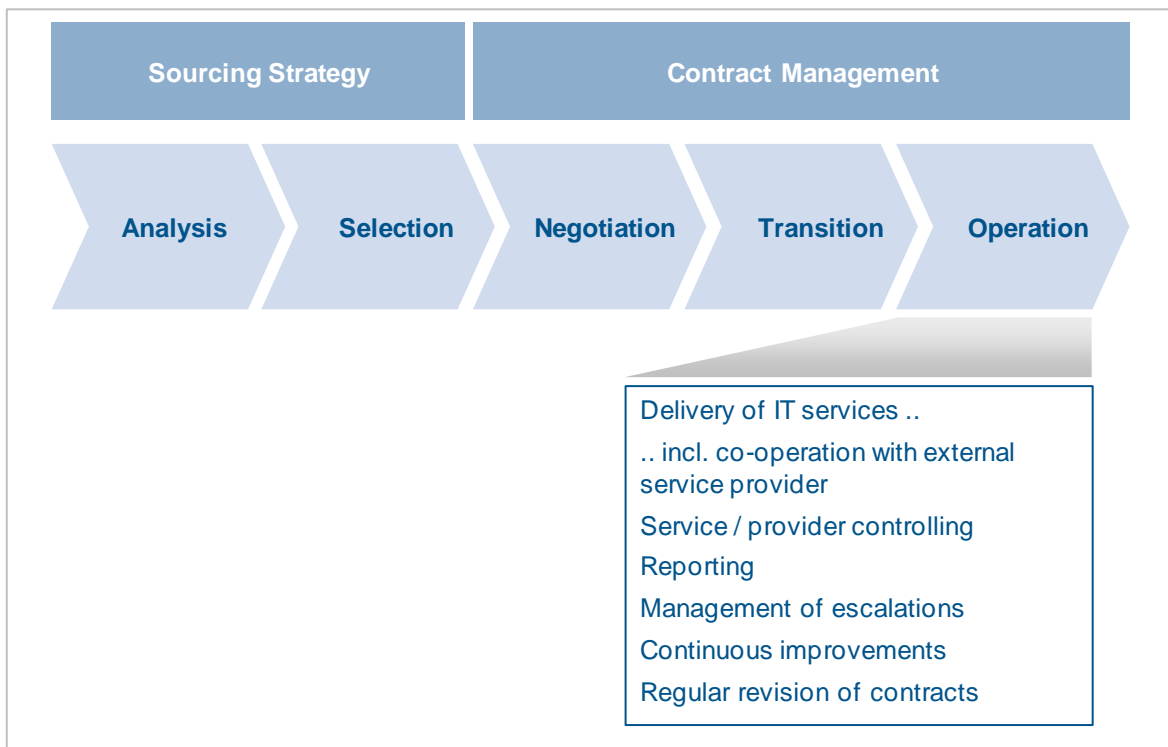
Having signed the contract however is not the end of the story, as during operation, the quality of the delivered service needs to be ensured. To guarantee this, the service needs to be monitored continuously based on certain criteria that have been defined in the contract, the customer satisfaction of the end users of a service should be recorded periodically and the performance of the service provider needs to be reported to the management. Incidents and service blackouts need to be analyzed, fed into a continuous improvement process and – if needed – escalated.

In addition, a regular comparison of the service delivery with current market standards is needed to assess the provider performance properly and to adapt the defined service level and charging of the service accordingly.

To be able to perform the described tasks and to act as a “competent client”, the outsourcing company must keep sufficient (service-specific) expertise and capacity in their own company even after having outsourced a service.

### JSC Services

Benefit from our independence, our knowledge of the market and our longstanding experience in the professional management of IT outsourcing projects and outsourcing providers. We have developed a holistic view of the relevant processes:



#### SOURCING STRATEGY

We support your analysis of the IT service your company needs and your search for the right service provider:

- In depth analysis of your requirements (IT services and processes as well as expected service levels and bundling of services) incl. a business case calculation
- Comprehensive and neutral market analysis
- Support during the decision-making process of outsourcing an IT service
- Evaluation and selection of a service provider based on pre-defined criteria

#### CONTRACT MANAGEMENT

We provide support in the design of new service contracts as well as the optimization of existing contracts:

- Execution or support of the entire formal initiation process (RFI, RFQ / RFP / RFT)
- Drafting of the outsourcing contract according to best practice principles
- Support during the service transition phase
- Evaluation of existing contracts and derivation of proposals to
  - fill gaps in terms of technical setup and processes
  - re-negotiate agreed prices and conditions (e.g. purchase guarantees and contract terms)
- Simplification (modularization and standardization) of the contracts
- Setup of an effective and efficient contract management process incl. selection of supporting tools

#### MATURITY ASSESSMENT

We conduct a “Maturity Assessment” of your current processes for selecting and especially for monitoring and managing your outsourcing partners, and determine where and how your skills can be sustainably improved:

- Joint definition of the field of assessment (e.g. a sub-process, an IT service)
- Assessment based on a comprehensive set of criteria that have been compiled during several assessments we have already conducted (efficacy, completeness, appropriateness, measurability, future-orientation)
- Accompanying analyses of individual business cases and – optionally – setup of a user survey
- Benchmarking with best practice concepts established in the industry
- Derivation and prioritization of action areas and quick wins to improve the service controlling process (sequence of workshops)
- Development of a detailed implementation plan and monitoring of the actual implementation (optional)

### JSC Contact

Get in touch with our experts. They will be happy to answer all your questions regarding our IT services and JSC AG in general:

Mark Donnermeyer, Senior Consultant

Phone +49 172 53 44 508

E-mail [mdo@jsc.de](mailto:mdo@jsc.de)

Norbert Skubch, Director

Phone +49 6123 701 144

E-mail [nsk@jsc.de](mailto:nsk@jsc.de)

### JSC Management- und Technologieberatung AG

Im Pfarracker 24

65346 Eltville am Rhein

Phone +49 6123 701 0

Fax +49 6123 701 170

E-mail [info@jsc.de](mailto:info@jsc.de)

Web [www.jsc.de](http://www.jsc.de)