

 **the marlo group**

Discussion Paper

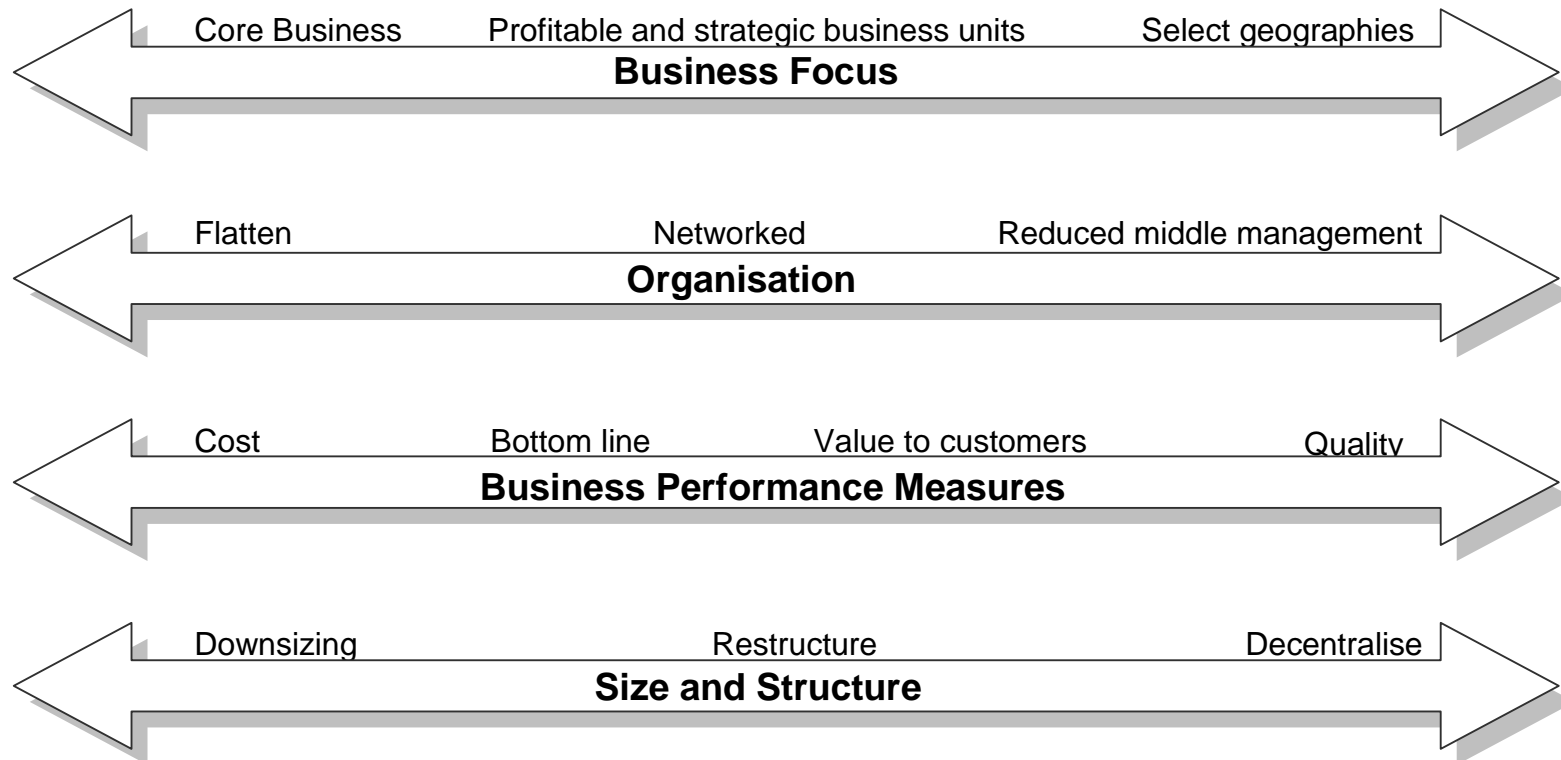
“IT Services Sourcing Assessment”



Enterprise Integration Specialists

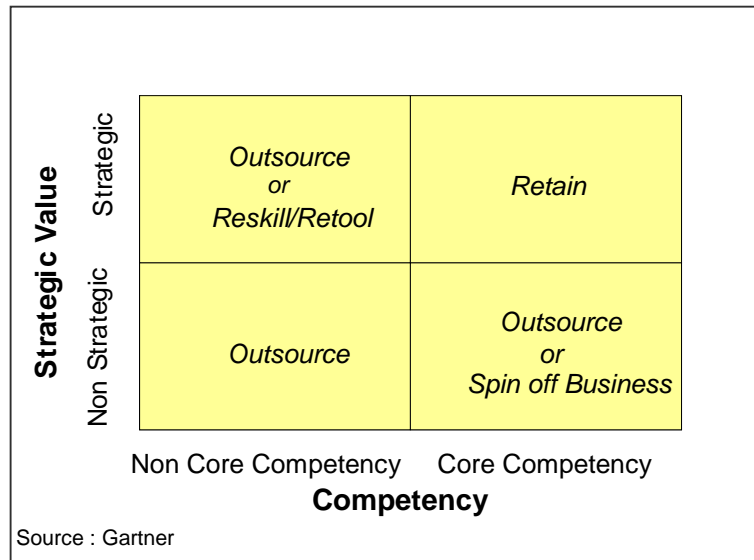
Why source service externally?

Sourcing IT services from external service providers is a strategic consideration to the business planning process.

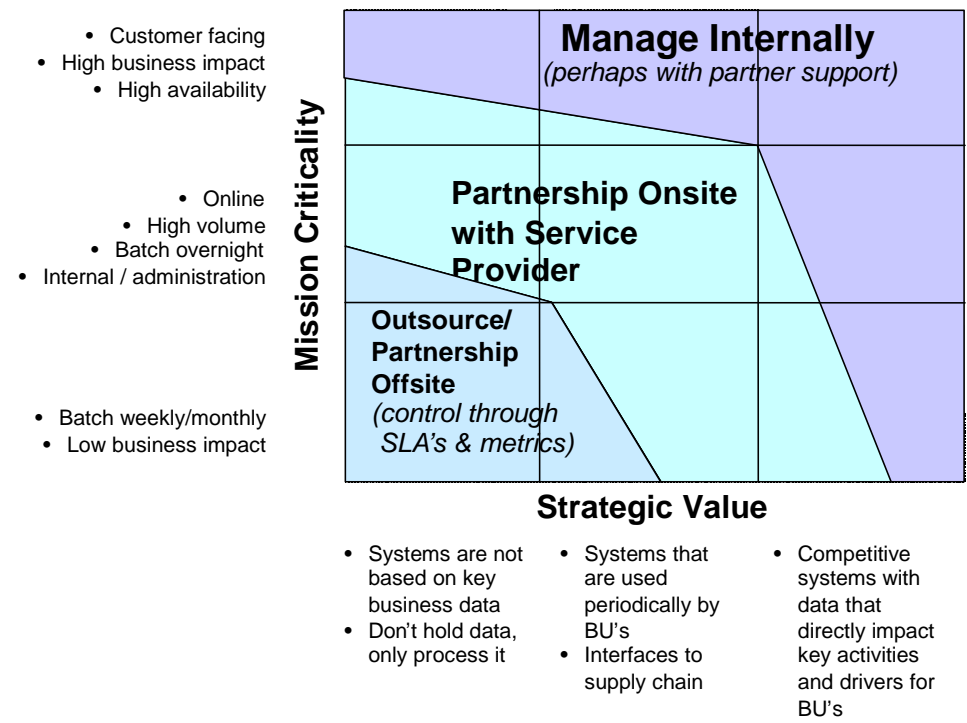


What IT services do you source externally?

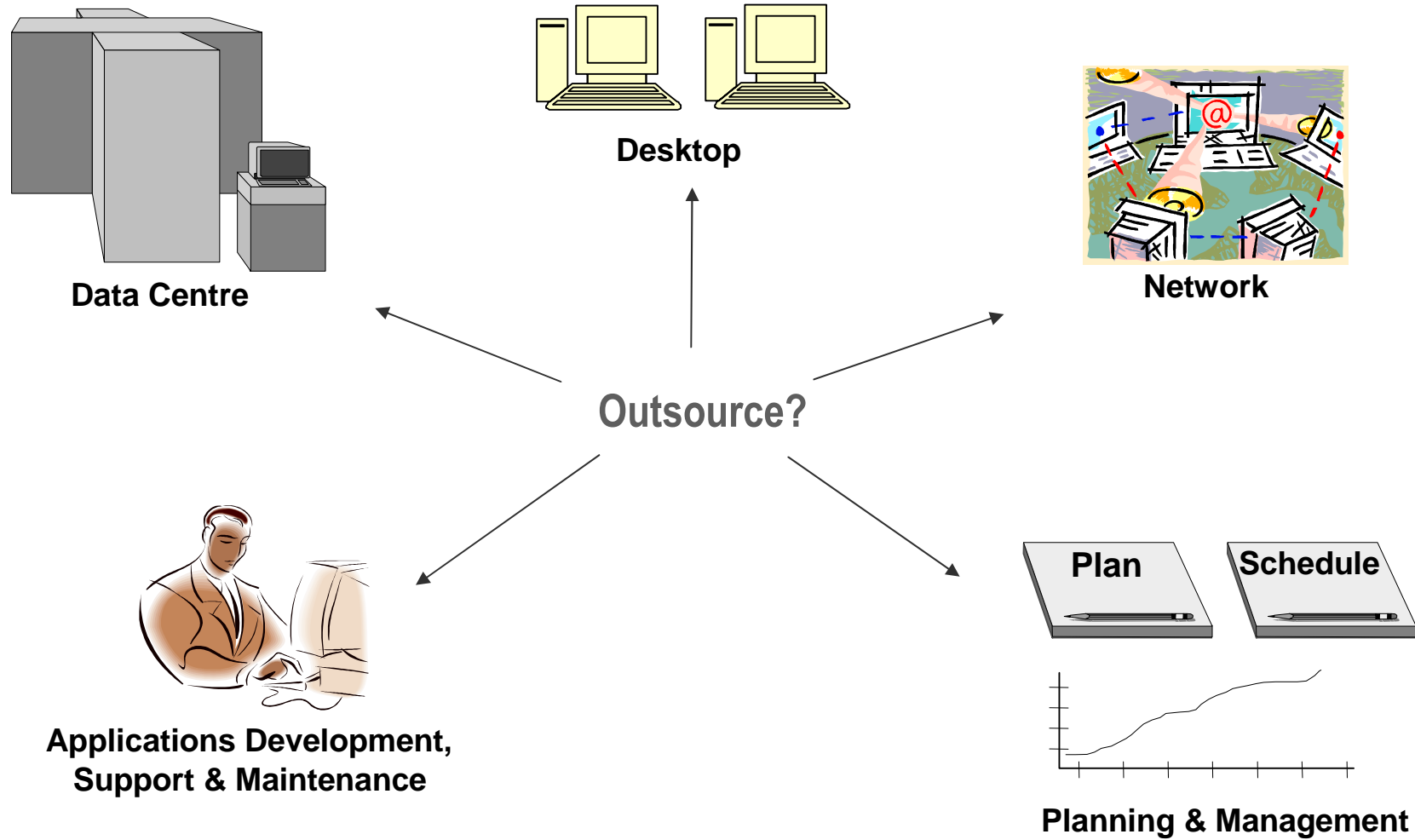
Gartner provides some high level guidance as to the selection and assessment approach for a selective outsourcing. As indicated in the diagram below, Gartner suggest an evaluation of services against a framework of “Strategic value” and “Core Competency”.



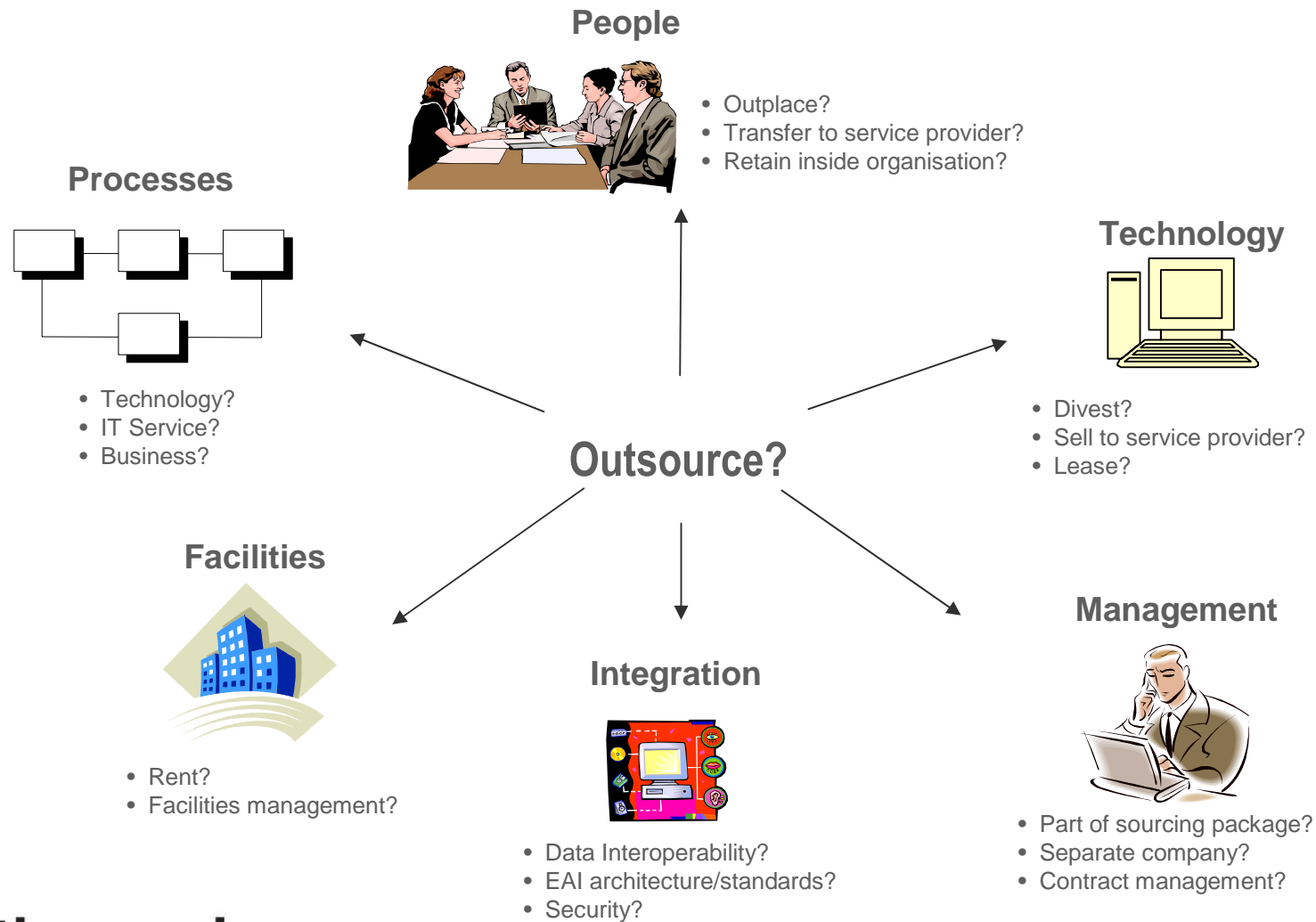
This thinking can be extended by developing a selection process to focus on an assessment of the current IT Portfolio in terms of their Strategic Value and Business Criticality. This is described in the following diagram and provides a “graded view” of what could be considered as high potential for selective outsourcing.



IT outsourcing is no longer limited to the Data Centre

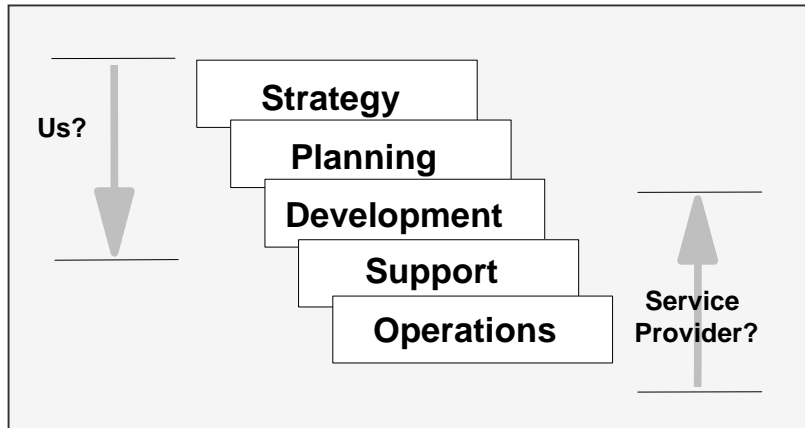


Sourcing choices need to consider a broad set of issues



The outsourcing decision requires thoughtful consideration to many important issues

What will be the relationship and roles?



Are we losing core competencies or compromising intellectual capital?

- Keep those functions that are strategic to the business

Who has what decision making authority?

- Standards
- Architecture
- Hardware
- Software

What will be the governance structure?



Steering Committee?

How will we measure and manage the deliverables?

- Service
- Flexibility

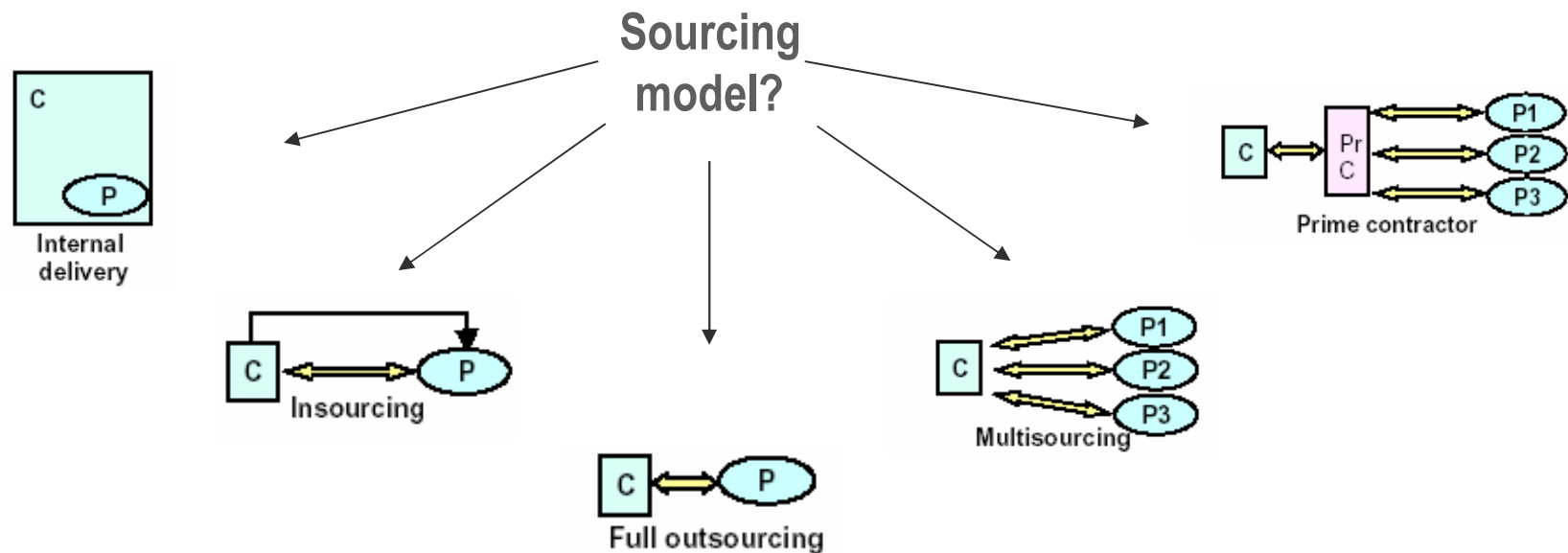
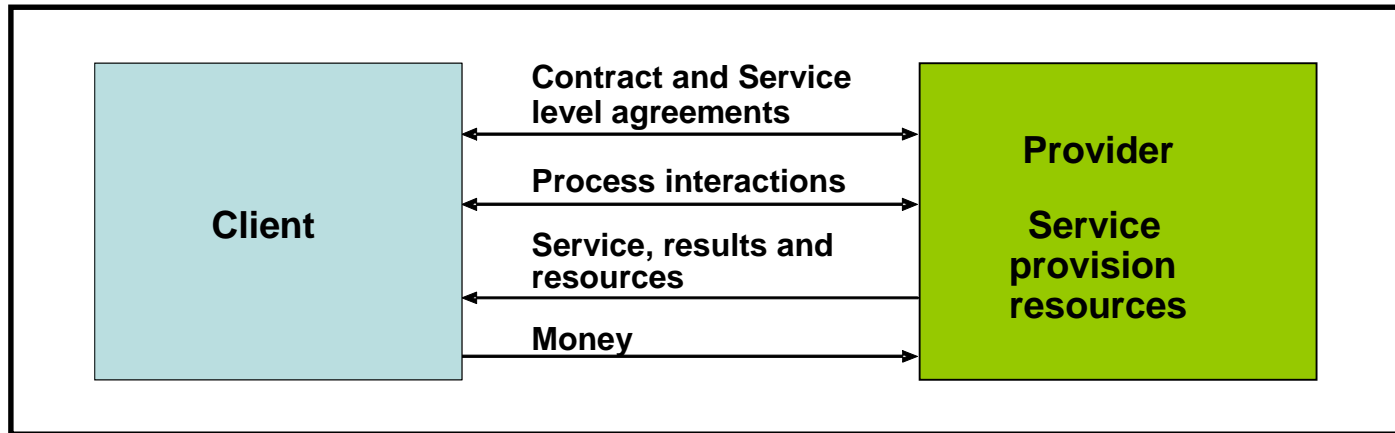
How will the infrastructure change?

- Remote locations
- On-site
- Consolidated with other clients of Service Provider



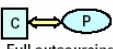

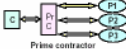
What will our relationship be with selected Service Provider?

- Contractual agreement
- Other arrangements

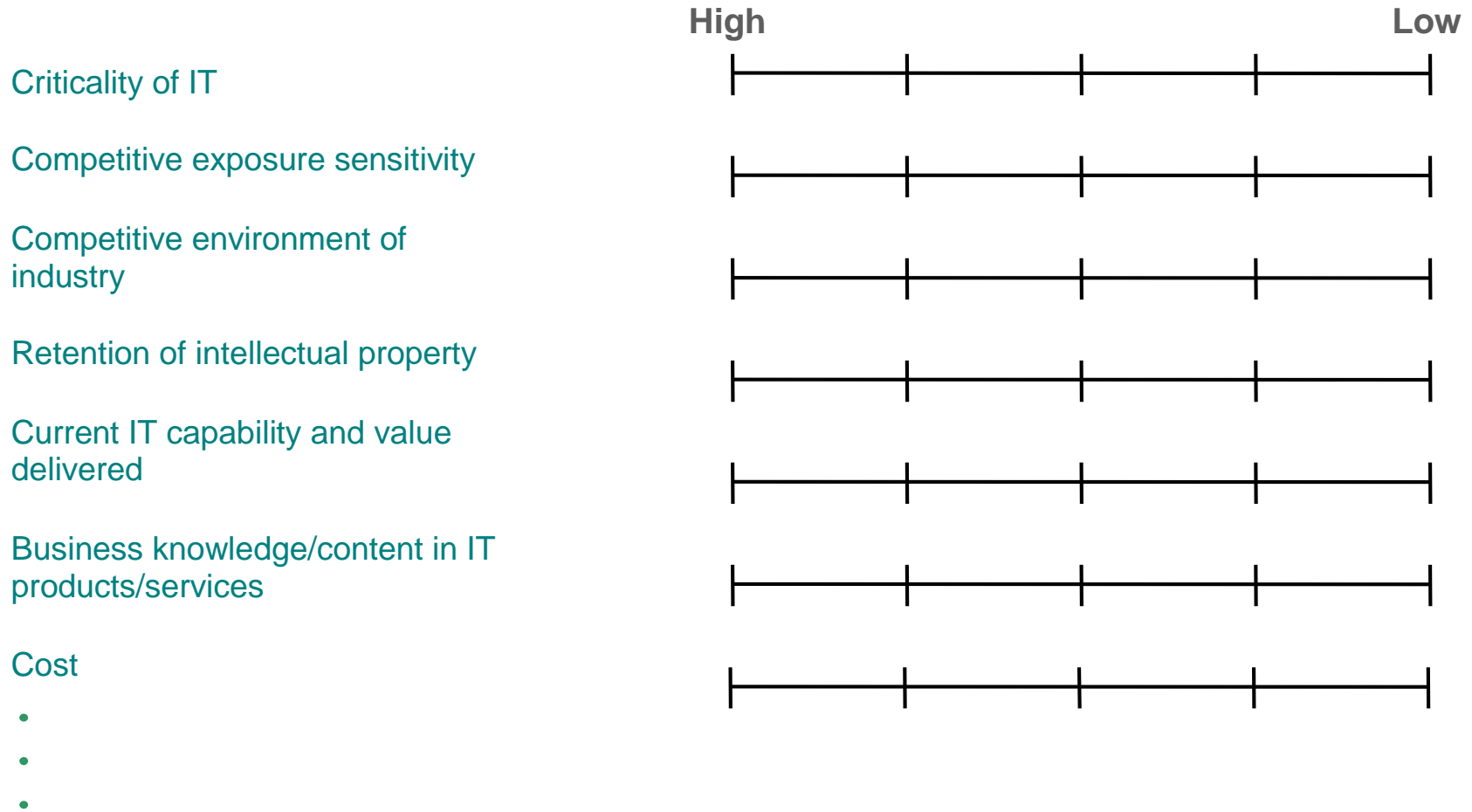
Any future sourcing relationship model will be based on the generic model of a basic client-provider sourcing relationship



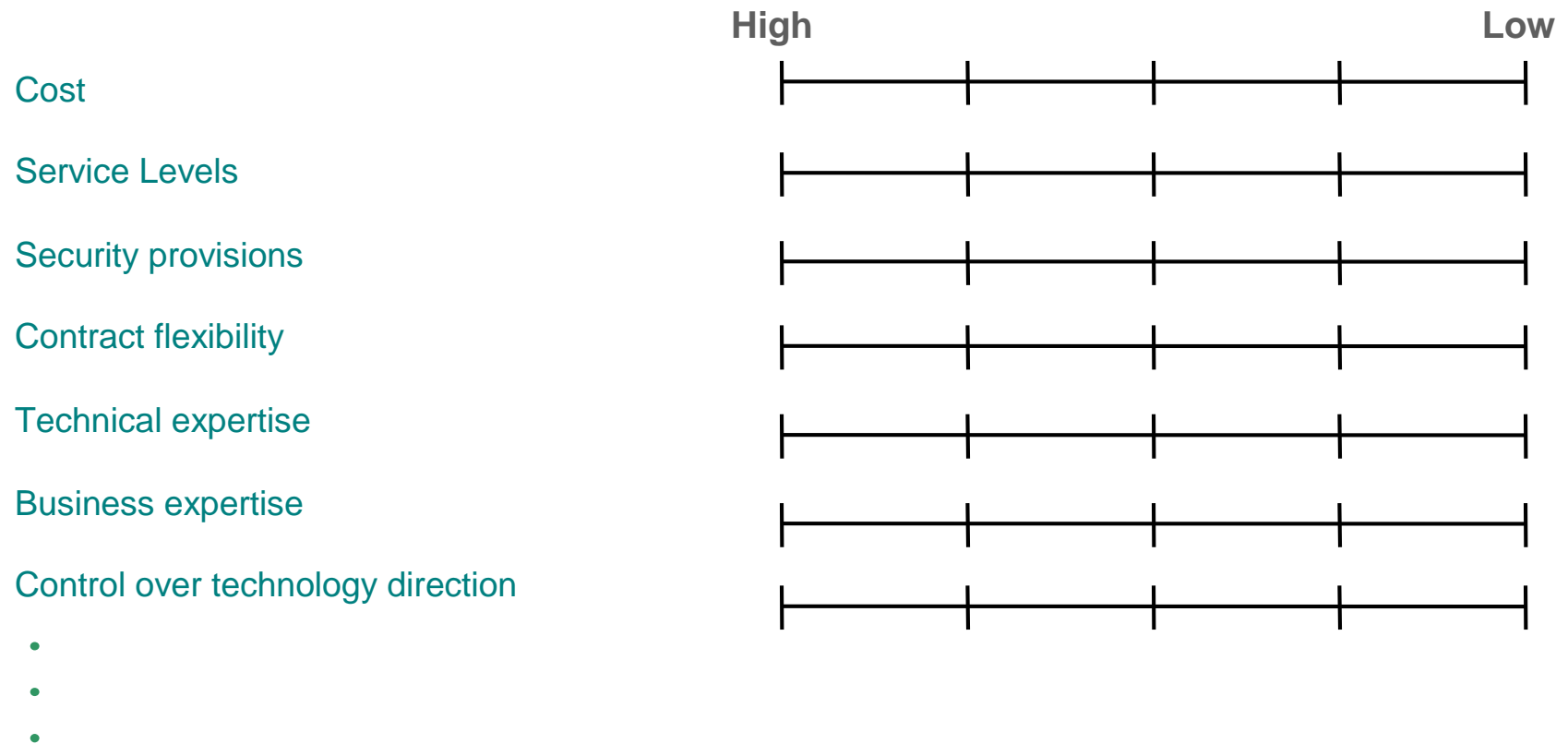
The pro's and con's of alternative sourcing models need to be considered

Sourcing Model	Description	Advantages	Disadvantages	Implications
Internal Delivery  Internal delivery	Internal organisation provides services, implements new services and architectures, manage through the direct relationship	<ul style="list-style-type: none"> • May change the rules and processes • Direct Control • Familiar to processes and equipment • Company specific knowledge 	<ul style="list-style-type: none"> • Staff augmentation technically oriented • Continual justification of the business value of IT • Risk of staff skills stagnation • Limited access to current best practices 	<ul style="list-style-type: none"> • Large IT capability required to cope with business change • Large management effort for increasing complexities of projects • Require a better ability and price than that on the market • Requires operational excellence, efficiency and effectiveness • Requires IS leadership
Insource  Insource	<ul style="list-style-type: none"> • Separate IS division measured by P&L • Shared service 	<ul style="list-style-type: none"> • Scope to sell IT services to the market • Freedom of choice • Direct control • Familiar to processes and equipment • Company specific knowledge • Consolidation 	<ul style="list-style-type: none"> • Scale limitations • Cost and time to market for services readily available on the market • Dependent on internal skills and competencies • Budget based • Control vs. innovation • Potentially unstable • Make services on request 	<ul style="list-style-type: none"> • Requires semi-formal contract management • Requires SLA's • Requires service cost agreements
Outsource  Full outsourcing	Single provider	<ul style="list-style-type: none"> • Economies of scale • Purchased expertise • Support for transient needs • Low cost of procurement • Reduced management overhead • Familiarity with client needs • Clarity of accountability • Easier to manage than other options 	<ul style="list-style-type: none"> • Reduced level of customization • Reduced direct control on the process • Increase role of internal risk • No innovation (free) • No competition • Exit barriers • Solvency risk of suppliers • Unknown skills and competencies 	<ul style="list-style-type: none"> • Scale limitations • Long term • Requires top-management strategic partnership • Project and organization changes required, mostly oriented toward application integration, training and organizational readiness • Transfer of risk and management workload (90%*) • Business process integration challenges • Sourcing governance
Multi-sourcing/ Selective Outsourcing  Multisourcing	Separate outsourcing contract established for selected IT functions or Business Processes	<ul style="list-style-type: none"> • Best of breed approach • Competitive deals • Choice of what to outsource • Flexibility & agility • Saleability • Best capabilities in competitive environment 	<ul style="list-style-type: none"> • Variability • Cost efficiency • Reduced direct control on the process • Increase role of internal risk • Exit barriers • Solvency risk • Difficult to master especially at the point of integration • The greater the number the higher the risk and management required 	<ul style="list-style-type: none"> • Increased management effort • Management skills more predominant in the areas of relationship management, contract management and risk management
Prime Contractor  Prime contractor	Managing multiple providers	<ul style="list-style-type: none"> • Single solution for client • Direct Control 	<ul style="list-style-type: none"> • Integration • Roles and costs not well defined 	<ul style="list-style-type: none"> • Requires increased management and contract management • Ability to manage and integrate multiple providers

An evaluation of sourcing models would look beyond cost alone



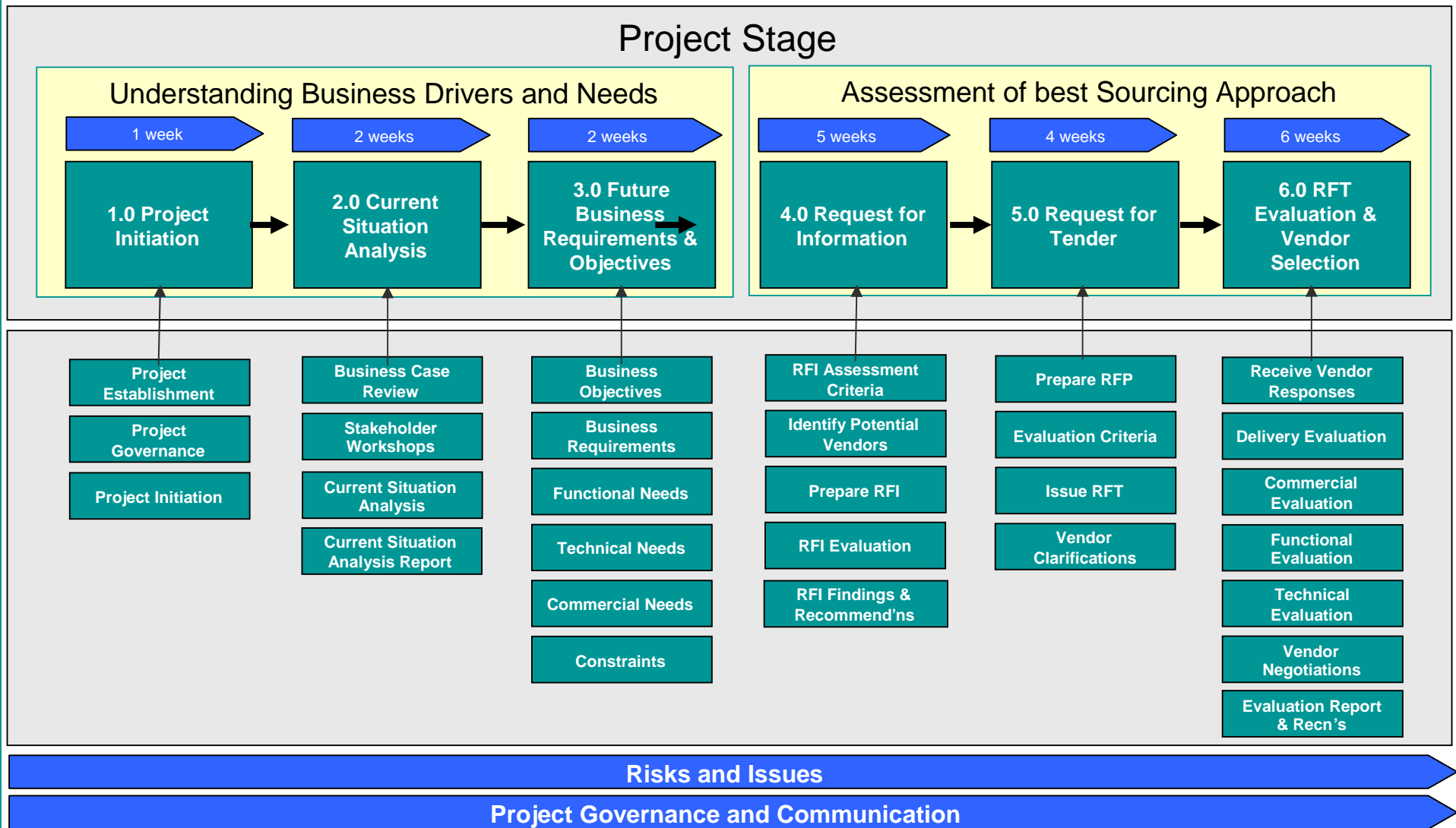
The selection of a service supplier(s) would also need to look beyond cost



The objectives of an IT sourcing assessment project would be to:

- Develop a set of selection criteria which can be used to evaluate the business viability of various sourcing options
- Establish the potential benefits and risks of sourcing options, and establish scope and components to be sourced from external providers
- Develop a 'Request for Proposal' for outsourcing vendors, and establish a set of evaluation criteria to determine the most advantageous proposal
- Evaluate and establish the vendor(s) to whom the sourcing contract(s) should be awarded

Indicative project staging and estimated timing



Project Outcomes

- Establish clear business driven solution outcomes
- Identify short-listed solution candidates
- Define solution parameters and success criteria
- Solicit solution / vendor response in a format that will support an efficient and comprehensive assessment
- Determine comparative solution cost / benefit estimates
- Arrive at an objective and clear recommendation that is well supported by an independent robust process
- Satisfy audit and accountability guidelines