

# The Next Wave of Outsourcing is Well & Truly Here!



In our seminars in May this year we identified some of the emerging trends that we were seeing and/or expected to see in the next wave of outsourcing deals. Since those seminars we have been involved in a number of outsourcing deals and we thought we would share with you the reality of those predictions based upon recent experience.

## **Term**

We said that the deals would get shorter and they are. One recent deal is only for 2 years with a one year option! The longest we have seen is 4 years with 2 one year options.

## **Transition**

We said that we expected to see transition success a condition for continuing with the contract. One deal just recently contained a contractual clause allowing the customer to terminate the contract at the end of transition. This was a direct result of a length and messy transition period the last time they outsourced.

## **Transition Period**

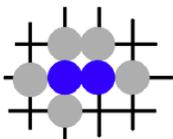
We said that this would be compressed – especially if the customer is transitioning from one supplier to another. We have seen transition periods shortened to a maximum of 3 months with a customer preference for even shorter terms. In addition, in the instances of planned transition from one supplier to another, the incoming supplier is expected to perform the majority of transition activities externally – to the

point where the customer expects a quick “flick-over” lasting maybe a couple of weeks.

## **No staff or knowledge transfer**

We said that we expected this to become a normal feature of outsourcing deals where the customer is transitioning from one supplier to another. That is now happening and yes, it poses interesting problems for both incoming and outgoing suppliers. The customers' position seems to be that it is the incoming suppliers' problem to resolve. We predict that this phenomenon will cause changes to the way in which suppliers manage human resources – if you haven't got the existing people on payroll then you have to find a way to get them up to speed – FAST if you want to successfully transition in a short period of time.

At the same time there may be an expectation by the organisation that the old and new suppliers will work out the staff arrangements between them i.e. that the staff currently employed by the previous supplier transfer to the new



# The Next Wave of Outsourcing (cont.)

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supplier. This can add all sorts of complications to the outsourcing, not the least of which is that the new supplier will typically not be able to discuss any potential employment with the old supplier's staff while trying to bid for the new outsourcing agreement.

## Termination

We are seeing Termination for Convenience clauses in all new contracts. In addition, many of the new contracts are structured in such a way as to allow partial termination.

## Contractual Issues

We said that we expected to see more customers demanding to know a supplier's position on standard contract provisions (such as liability and warranties) prior to selection. The recent RFT's we have seen have all included the customer's contract with an RFT response obligation for the supplier to state their position on each contractual clause. We also said that we expected to see fairer contracts – one supplier we worked with demanded that the right to terminate for convenience be made mutual – now there's an interesting idea!

## Services

We said that we expected to see more emphasis on the administrative and management services. The recent tenders all contained requirements for asset management, licence monitoring and tracking, virus protection, change management etc. We also said that we expected to see clauses inserted into agreements that allow customers to add / change / delete services in much the same way that they currently add / change / delete technology. Not only have these clauses been present but we have also seen clauses inserted to the effect that services may change but as long as the suppliers costs didn't change then the price must remain the same.

## Selective Sourcing

We said that future outsourcing deals would be done on a selective sourcing basis i.e. services would be grouped into related sets and the organisation would then offer each group to the supplier that could best provide that group. Several recent RFTs have specified exactly that, with the organisation reserving the right to award each group to a different IT supplier. This will of course require more management on the part of the organisation, however it also provides potentially higher quality services and certainly more control by the organisation.

Another phenomenon of selective sourcing is that, when the outsourcing agreement comes up for renewal, some services are being brought back in-house to recover some of the control that was lost when the organisation outsourced its IT previously. These re-insourced services are typically strategic in

nature, and organisations have realized that they can be used to assist their management either to gain competitive advantage, or at least to keep their IT costs under better control.

## Relationship

We said that we expected to see much more emphasis on relationship management skills and we are seeing this spelt out in contractual clauses. Customers want to have a say in who the suppliers appoint as the relationship manager (sometimes called client or account manager) for their account. As we have said many times before – customers are not looking for a “partnership” – but they are looking for a good relationship with their suppliers. Partnership infers some level of joint input into the running of IT and the deals that we have seen just recently have all been very firm in pointing out that business decision making, strategy making and IT planning are very much out of scope.

## Price and Pricing Models

We said that the “one size fits all” approach would not be satisfactory for the next wave and we are being proved correct. Yes, the customers want fixed prices but they also want a much more granular approach to pricing. They want to know exactly what they are paying for and what each additional feature will cost. They want to be able to add some features and take others away as they feel their business needs this.

## Reporting

We said that the way information is reported back to the customer must change. We are seeing requirements for real-time web-based reporting. Customers are losing patience with great wads of unanalysed paper at the end of each month and are now starting to spell out exactly what they want – and its not what the industry has been giving them for the past few years!

## Service Definitions

Fortunately most customers and suppliers have realised that without concise and comprehensive service definitions a Service Level Agreement is an expensive waste of paper. Unfortunately some of the service definitions we have seen are still not adequately defined. As a real twist to this issue, however, we have been told of one supplier that has refused to accept the notion that they should deliver services to any defined standard. Their approach has been that they will deliver the services but don't want to be measured as to how well they are delivering them. Their standard answer to the customer's requests has been “no – we don't do that!” The contract's not signed and the customer is starting to have serious doubts about their choice of supplier – is it any wonder?

We said in our seminars that organisations should allow an average of 8 hours per service to properly define services. This is because, as you define the ser-

# The Next Wave of Outsourcing (cont.)

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vices, you start to analyse what is important, how the services should be accessed by users, what you want to pay for them, what response and resolution times are appropriate for you (as opposed to “best practice” which you may not need), what information is important to get back in reports etc. Thus the time is not just for writing down words – its time to reflect upon and determine what it is you really need. And a recent exercise showed that it still takes an average of 8 hours – even when we help with generic descriptions.

## Vendor Churn

Although research has indicated that most organisations will continue to outsource their IT when their contracts expire, many organisations are disappointed with their present outsourcing supplier. As such when their outsourcing agreements are due for renewal, many organisations are going out to the marketplace

and forcing their existing supplier to bid for the next round of outsourcing against the rest of the market. We have already seen several organisations change their primary outsourcing supplier in the last few months, and we expect to see many more in the next twelve to eighteen months.

## ITIL

These standard practices are causing some very strange approaches to service definition. ITIL is a library of standard practices for delivering IT services – they do not describe the services themselves and customers should resist the temptation to try and complicate services by adding an ITIL dimension to every class of technology.

Stay tuned – we will post a paper on our web site in the near future as to how to integrate the ITIL standards into service definitions and service level agreements.

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## Key Factor Analysis

### What is Key Factor Analysis?

A wealth of research has shown that organisations which align their IT with their goals & objectives perform financially better than those who don't. But how does an organisation know when its IT is aligned?

Since the mid 1990s Farrell & Associates have been researching this area, and have identified that there are twenty-one key factors that organisations must have present for IT alignment to succeed. To see how well these key factors are used in an organisation we developed a methodology called Key Factor Analysis, which identifies and ranks each of the key factors against a proven set of characteristics.

The outcome from Key Factor Analysis is an indication of how well the organisation's IT is aligned, along with a set of recommendations to improve that alignment where it is not high.

For more information, we have published a white paper, which is available on our web site at [www.farrell-associates.com.au/WP.html](http://www.farrell-associates.com.au/WP.html). If you want any further information, please don't hesitate to contact us.

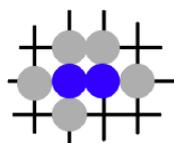
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## Comments / Feedback

Following the overwhelming response to our seminars in May and June, we felt it would be worthwhile to keep you informed of the on-going trends in the marketplace, particularly with respect to IT outsourcing and Services Management. We would appreciate your comments and / or feedback as to whether this newsletter is of interest, and whether you would like to be kept informed about future developments and trends in IT. Send your email to:

[information@farrell-associates.com.au](mailto:information@farrell-associates.com.au)

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