



IT Directors Strategy Meeting 2010

Operating effectively with outsourcing business partners for a multi-national business

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Turin, Italy
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Agenda

- ▶ Comprehensive analysis of the business needs; adapting the outsourcing strategy to the needs of the business
- ▶ Designing an effective framework to enable successful management of business partners
- ▶ Identifying and promoting strategic management skills in IT staff
- ▶ Building flexibility into the strategy to enable implementation across multiple business partners
- ▶ Case Study
- ▶ Questions and Answers

Streamlining and improving the effectiveness of IT infrastructure

1

Is outsourcing / offshoring for us? What benefits can we truly expect to capture?

- ▶ What are the true cost reduction opportunities?
- ▶ What are the potential benefits from service improvement and process standardization, optimization, etc. ?
- ▶ Why do companies fail in outsourcing / offshoring?

2

What should we outsource, and at what pace?

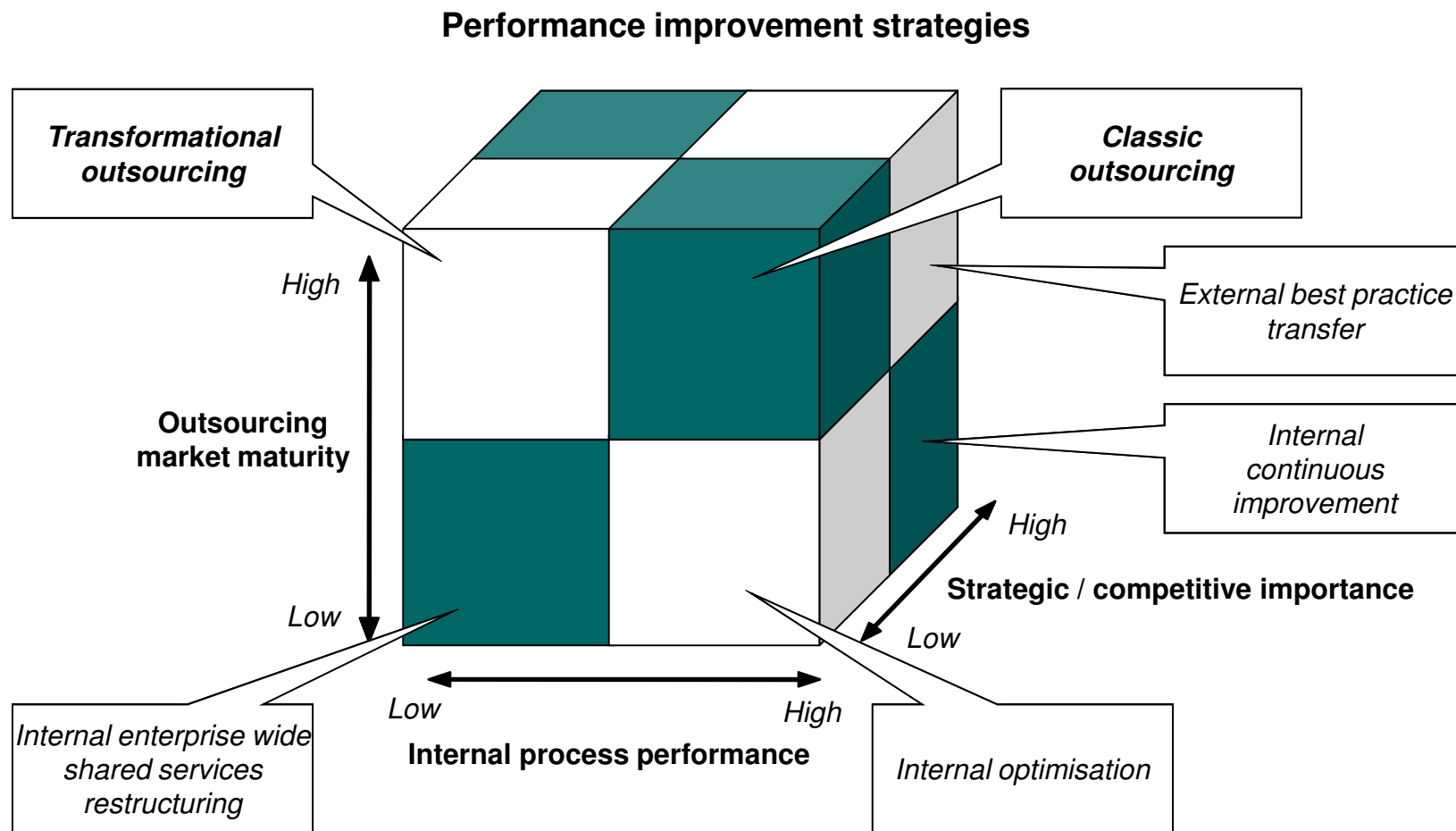
- ▶ When should we offshore? What pace is right for us, and what does the competitive environment require us to do?
- ▶ Which processes can go offshore, and how should we prioritize, sequence, and bundle them?

3

How do we design our outsource strategy?

- ▶ Which countries should we go to?
- ▶ What business model should we adopt?
- ▶ What types of firms should we partner with
- ▶ How should we bundle everything we want to take offshore?
- ▶ What are the risks and change management issues?

To define scope, understanding of the outsourcing market, as well as own performance and strategic objectives is required



But outsourcing is not for everyone – some companies have experienced failures by implementing off-shoring poorly

| Company | Country offshored to? | FTEs / Contract value | Activity | Reason Offshore Activity Brought Back |
|------------------|-----------------------|-----------------------|--|--|
| Dell - US | India | 200 FTEs | <ul style="list-style-type: none"> Enterprise support for two product lines | <ul style="list-style-type: none"> Unsatisfied with the quality of support received for its corporate customers Some pressure from protectionist groups |
| Lehman Brothers | India | \$ 70 – 100 MM | <ul style="list-style-type: none"> IT Helpdesk | <ul style="list-style-type: none"> Failed to realize the need for real-time service for its IT help-desk staff. Failed to enforce the service levels required |
| Conseco | India | Captive | <ul style="list-style-type: none"> Back office functions | <ul style="list-style-type: none"> Ignored the financial ramifications involved in acquiring an offshore vendor Delay in receiving tangible savings exacerbated cash flow problems |
| American Express | India | Captive | <ul style="list-style-type: none"> Complex call center functions | <ul style="list-style-type: none"> Failed to identify the type of call center calls that can be offshored - vendor had good capabilities for simple enquiries but lacked the skills for complex calls |

General characteristics of activities that could potentially be outsourced need to be defined

Services potentially outsourced

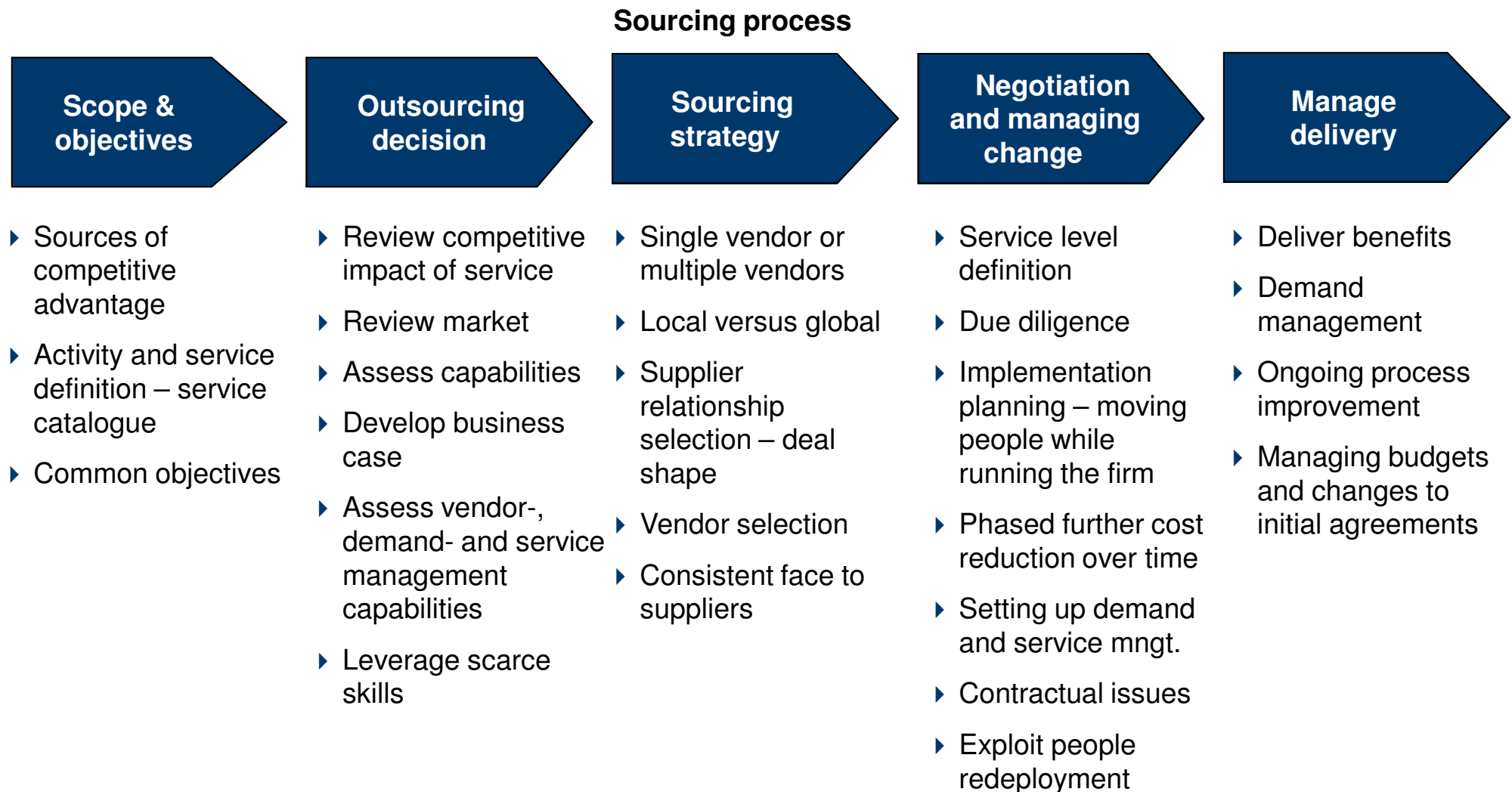
- Services that do not provide key competitive advantage
- Services requiring know-how and capabilities not available internally
- Services that would provide significant benefits if they are outsourced
 - ▶ Cost advantage
 - ▶ Process efficiency
 - ▶ Higher quality
 - ▶ Free up key personnel
 - ▶ Mitigate risk



Cross-BU sourcing considerations

- Does [client] want to set a group wide policy defining services that provide key competitive advantage – and are not to be outsourced?
- Since service definitions may differ per BU, would a common service catalogue with common definitions be required to ensure interoperability and potential supplier switching?
- Does [client] want to set group wide objectives that should be achieved by outsourcing – ensuring comparability of costs and performance?

During each sourcing process steps a number of key principles are reviewed



In selecting a vendor a number of intangible criteria are also reviewed

Core RFP Criteria

- Generic requirements
 - ▶ Subcontractors and Agents
 - ▶ Confidentiality
 - ▶ Security
 - ▶ Due Diligence
 - ▶ Insurance and Risk of Loss
- Selection Criteria
 - ▶ Total cost of the contract
 - ▶ Ability to meet or exceed pre-agreed service levels
 - ▶ Quality of the services being offered
 - ▶ Experience at managing transition programmes
 - ▶ Flexibility
 - ▶ Innovation
 - ▶ Reporting and Service Management
 - ▶ Adherence to standard agreements
 - ▶ Work plan
- Key requirements
 - ▶ Key functions and activities
 - ▶ Management Reporting
 - ▶ Staffing with CVs
 - ▶ Business continuity
 - ▶ Security management
 - ▶ Transition plan

Relationship management

- Trust ... outsourcing starts and ends with relationships
- Communication ... lowering the cost of communication
- Skills ... the right skills in every geography
- Continuous Improvement... perfection is not a realized state but an important goal
- Culture ... align outsourcing to your culture rather than culture to outsourcing
- One Team embrace the relationship; work as one team
- Complete understanding of their cost models
- Determine the vendor's profit margin with the client



In summary a number of key success factors need to be observed in decision and execution

| Success Factors | Explanation |
|--|---|
| 1 Strategic selection of the activity / optimisation of own processes | <ul style="list-style-type: none">■ Identification of the "core" (sub)activities based on strategic review■ No limit to the "obvious cases" – no "sacred cows"■ Optimisation of own processes and interfaces before hand-over to the service provider in order to benefit more from savings potential |
| 2 Business case analysis, and transparency of own costs | <ul style="list-style-type: none">■ Detailed business case analysis including migration cost and cost of managing outsourcing service provider as well as necessary timeframe■ Analysis of own costs and required Service Levels in order to negotiate comparability and tailor-made SLAs |
| 3 "Balanced sourcing" in the supplier relationship | <ul style="list-style-type: none">■ Balanced relationship based on partnership without "blind trust"■ Partnership arrangement based on collaboration for the mutual improvement of customer and service provider■ Depending on the particular situation, weighing pros and cons of using one supplier (full responsibility, though with a certain dependency) versus several suppliers (interchangeability, market prices versus "finger pointing") |
| 4 Detailed Service Level Agreements (SLAs) | <ul style="list-style-type: none">■ Direct anchoring of essential KPIs in the SLAs<ul style="list-style-type: none">▶ Cost reduction / overall costs▶ Quality ratios (e.g. availability)■ Building in contract penalties based on parameters that can easily be measured |
| 5 Service, demand and supplier management | <ul style="list-style-type: none">■ Excellent service and demand management■ Regular benchmarking with market prices■ Independent controls■ Regular/appropriate adjustment of the Service Level■ Professional management of suppliers by the business unit |

Sapient Case Study : Outsourcing and off-shoring development team

Situation

- The Upgrade programme was intended to bring us in line with latest mainstream Commodities trading application release.
- The ultimate aim will be to provide a much stronger foundation which will scale with business and enable us to build better functionality. Key highlights of the programme delivery include:
 - ▶ Support to over 800 users globally across Front Office, Technology, Finance, Operations, Risk
 - ▶ Upgrade the database
 - ▶ Deployment of Citrix was across Commodities as the sole means for accessing OpenLink
 - ▶ A complete hardware upgrade has taken place to increase system performance, capacity and stability
 - ▶ Modifications were made to 70+ downstream and upstream systems

Outsourcing and vendor approach

- Adopted a multi-vendor approach, using consultant's from the application provider, 2 third party consultants and Sapient
- Sapient provided approximately 35 FTEs off-shore and 3 on-shore to provide the majority of the development and regression testing
- Provided a partnership that allowed us to leverage a team of Sapient people that is adjusted on an ongoing basis at our request
- Programme was completed on time and on budget

Lessons Learned

- Work orders need to be managed according to specific deliveries and timelines
- Adopted a "follow the sun model" in which standardized hand-over notes were sent at the region close of business day
- Retained a vendor on-shore presence in the UK, using a ration of 1 on-shore to 10 off-shore
- Found difficulty in off-shoring certain tasks, including functional testing, management of business related defects, etc
 - ▶ The team needed to be able to package certain tasks
- Consultants in the UK needed to have a strong business understanding, senior in the team and must have strong communications skills