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Sourcing focus

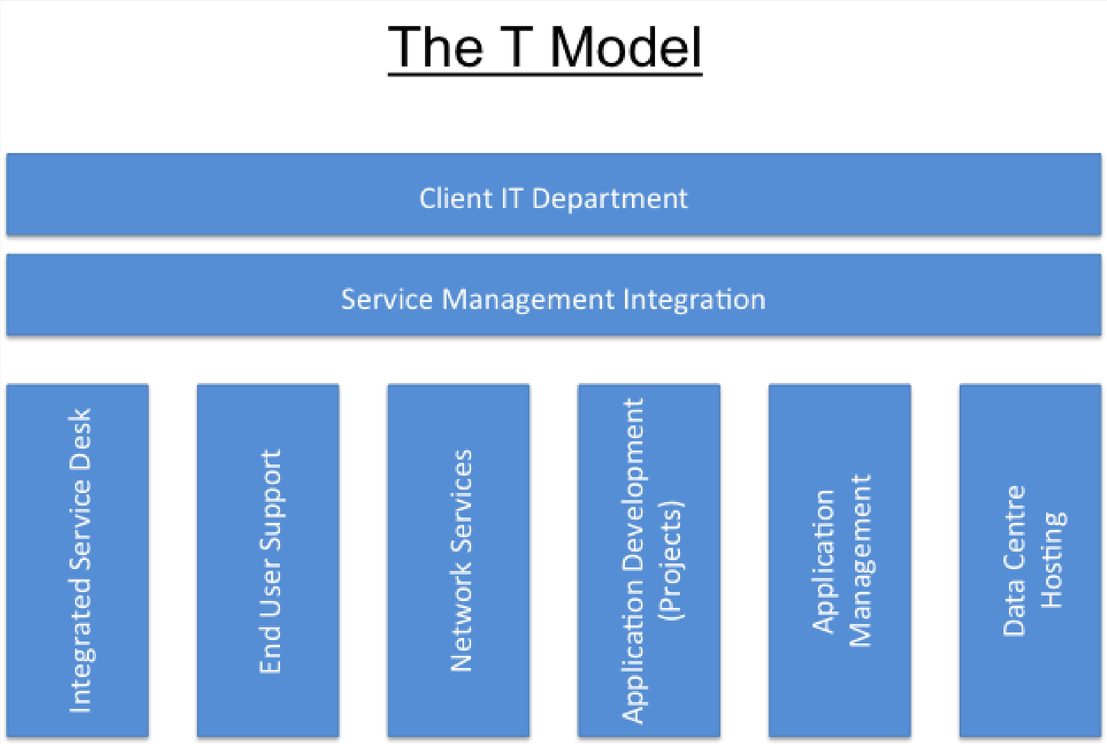
IT Outsourcing – Scope of the Outsource

In the last two articles we looked at the Strategy and Drivers for outsourcing, in this article we look at defining the scope of the outsource. There are no right or wrong answers to this, but it is essential to understand what is being outsourced, why and how the interface will work between those services provided in-house and those outsourced.

Clearly this is such an important part of the process and worth investing a lot of time to get it right. I have known organisations get this wrong, basing their business case on incorrect scope definition. This meant in one particular case, that once the error was spotted, post RFP (Request for Price), the short-listed supplier had the client at their mercy and the increased price severely dented the business case. A hugely embarrassing moment for the CIO in front of the board as the promised savings do not materialise, which of course can be career limiting.

So how do you ensure you get the right scope definition? The answer is to make sure you pull together a team that really understands the business, how the overall delivery model works today. They should have ‘skin in the game’, that is they have to make the outcome work, once awarded. This team needs to be the ‘A team’, not a group of individuals who just happen to be available. They need to be focused on ‘the why’ and the drivers for outsourcing.

When looking at the scope I think it is best to look first at the 'T model' so that everyone can get a clear understanding, at a high level, of what is in and out of scope for this particular outsourcing deal.



The 'T model' helps prompt the team to ask the right questions for defining the scope. For example, which of the vertical towers are to be outsourced? Also, crucially - is the Service Management Integration (SMI) layer an in-house activity or is it to be outsourced? If outsourced, should the supplier be a part of the eco-system of other suppliers in the remaining towers? There is no right answer to the latter question, but the answer will determine how you approach the outsource event. Typically, you would appoint the SMI layer first, so that supplier can help you shape the future operating model. Also, there are no set combinations as to what the sourcing arrangements should be, but when you look at the 'T model' there are obvious areas that can easily be combined and ones that can be distinct e.g. Application Development and Application Maintenance.

I know of organisations that have outsourced all their service towers (except Application Development and Maintenance) to one service provider, including service management integration. The upside to this is you only have one relationship to maintain and one butt to kick, but the downside is that you are reliant on one supplier and therefore vulnerable if the supplier is not performing. The key to making this option work is to make sure that strong and robust governance is in place to manage the supplier and the in-house team are skilled at managing well-informed and commercially savvy suppliers. The downside of this approach is that some suppliers do not take well to being managed by another supplier in the same competitive eco-system, due to technical and commercial confidentiality.

Today we are increasingly seeing the towers being serviced by 'best of breed' suppliers, which tend to be experts in their area and by definition smaller than the global service providers, which invariably leads to better customer focus.

However, one firm piece of advice − I do believe it is beneficial to have a competitive eco-system for the Application Development and Maintenance towers, as not only do you benefit from competitive commercial tension, you will also receive a variety of technical solutions, which is good for technical progression and innovation. Also remember, in most cases the Application Development tower is the 'holy grail' that most service providers wish to win as it is the most lucrative in terms of new revenues. This is because it is hard to quantify at a point in time and tends to be additional revenue to a supplier.

I cannot emphasise enough; make sure you get the scope and the operational 'hand-offs' fully understood, before the bidding process begins.

Our next article covers Outsourcing Models.

This article is taken from the short book **IT Outsourcing** – **11 Short Steps to Success** by Richard Cribb – available on Amazon. To view and purchase - CLICK HERE

Book reviews:

"A welcome source of knowledge, insight and experience – jam packed with valuable advice"

Chris Halward – former Development Director – Global Sourcing Association

"Excellent summary of the critical success factors for IT Outsourcing .... A must read .."

Tim Laverick – former Head of Vendor Management – Home Retail Group

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