
Sourcing Management: What's the Problem?



A CHERUB White Paper by Mark Probyn and John Liburti

This is an extract only. For a copy of the complete whitepaper (12 pages)
send an email to CHERUB via the Contact Page of our website

<http://www.cherubconsulting.com.au/contact-us>

www.cherubconsulting.com.au

CONTENTS

Introduction.....	3
What do we mean by 'Sourcing Management'?	5
Who's to be Managed?	9
Critical Success Factors.....	10
Conclusion	10

PREFACE

This paper is the first in a series of three CHERUB white papers on the subject of Sourcing Management.

The two papers to follow will be published at cherubconsulting.com.au during the course of calendar 2008 and are titled:

- *Sourcing Management: Prepare for excellence*
- *Sourcing Management: Beyond Outsourcing*

The series presents insights into CHERUB thinking on the subject matter and précis our approach to helping our clients establish the mechanisms and disciplines necessary for effective management of sourced services.

JUNE, 2008

© 2010 Cherub Consulting Group Pty. Ltd. All Rights Reserved. Reproduction and distribution of this publication in any form without prior written permission is forbidden. The information contained herein has been obtained from sources believed to be reliable. CHERUB disclaims all warranties as to the accuracy, completeness or adequacy of such information. Although CHERUB may discuss legal issues related to business, CHERUB does not provide legal advice or services and its research, reports, advice or presentations should not be construed or used as such. CHERUB shall have no liability for errors, omissions or inadequacies in the information contained herein or for interpretations thereof. The opinions expressed herein are subject to change without notice.

Introduction

The Australian market for outsourced IT services has grown significantly and matured since outsourcing gained wide-spread acceptance as an operational business tactic in the 1990's. The pre-eminent IT industry research and advisory firm Gartner has forecast growth to continue in calendar 2008 with the Australian outsourcing market expected to grow by 4.7% to a total value of A\$10.9 billion.

Outsourcing is also gaining increased acceptance in Australia for business functions beyond IT with Business Process Outsourcing forecast to expand significantly in the coming years.

In Australia, as in other countries, first generation IT outsourcing deals were mostly monolithic in nature. The contracts focussed on codifying what to do and how to do it. Typically the deals were high dollar value, single vendor contracts for a range of bundled IT services over a long-term (5 years or more) contract period.

Dissatisfaction

These first generation deals often ran into problems over the life of the deal with the contracted work proving too inflexible to respond to changing business needs. The monolithic nature of the contract also made it difficult for individual service lines to be renegotiated or removed from the whole.

Those and other problems initially resulted in very high levels of dissatisfaction and disappointment with the outcomes of outsourcing.

In response to the problems and lessons learnt, a second generation of deals evolved.

Second Generation Sourcing Deals

These deals were outcomes focussed and began to move away from the constraints of the monolithic contract. Second generation deals no longer attempted to dictate what to do and how to do it to the provider. Instead, they focussed on specifying what was required in terms of service levels and performance outcomes, leaving it to the provider to determine how best to deliver to those requirements.

Enterprises also began to unbundle the service portfolio into discrete domains of service such as desktop services, service desk, applications development services, etc.; creating the option of awarding each to (potentially) different service providers. In addition, the contract period has in many cases been shortened to five years or less.

Unbundling the service portfolio allowed smaller, specialist service providers to bid for contracts; increasing price competition and providing an avenue for more tailored services to be sourced.

The multi-vendor approach has removed much of the inflexibility of the first generation deals. Shorter term contracts for individual service domains can be more readily renegotiated in response to changing business needs than can monolithic long-term deals.

Too often however, enterprises found that second generation deals fell short of expectations. Providers often lacked incentive to innovate in ways that could grow the efficiency and effectiveness payback to the recipient enterprise if they could deliver the contracted levels of service without doing so.

In many instances problems emerged or were exacerbated as a result of service level requirements having been specified from an IT-centric perspective. For example, service performance targets in relation to requirements for overall application server availability or first-call resolution of incidents by the service desk could be met but the business impacted adversely through an individual application server incurring excessive downtime or the root cause of incidents remaining unaddressed.

Third Generation Sourcing Deals

These and other lessons learnt have given rise to the current, third generation of deals.

Third generation deals remain outcomes focussed but provide mechanisms for the enterprise IS organisation to influence the way in which providers deliver services.

Outcomes are often expressed as a balance between the business and IT perspectives. Business-centric service levels are supported by the more traditional IT-centric requirements.

Third generation deals are a hybrid of the preceding generations of deals and continue the unbundling of service portfolios and embracing multi-vendor scenarios that commenced with the second generation.

As a consequence of the second and third generation approaches, plus more mature and realistic expectations and objectives on the part of enterprises, satisfaction with service performance and deal outcomes has lifted. Another contributor to this lift has been improved service delivery and client management processes on the part of service providers.

Despite this lift however, enterprises often believe they could achieve better results than they have to date, and we at CHERUB agree.

One contributing factor we see is that in a multi-vendor environment there is greater complexity in managing the relationship between the various external providers as well as between the

providers and the internal service customers.

Service management is more complex and difficult by several orders of magnitude.

According to a study completed in 2006 by US-based consultancy Vantage Partners working in conjunction with Cutter Consortium, BT's Vital Vision Program and EquaTerra, almost all of the nearly 200 study participants comprising outsourcing buyers, providers and influencers agreed that at least 15% of the total outsourcing contract value is at risk if the deal is not well managed. The majority of participants – 80% of buyers and 60% of providers believed that 80% or more of the contract value is at risk.

END OF EXTRACT



CHERUB is a specialist advisory and consulting firm that brings together a rich heritage of experience and expertise in business and ICT sourcing and vendor management. Our clients rely on us to deliver solutions that address their complex and challenging sourcing and vendor management issues.

We are about practical solutions – combining specialist skills in governance, strategy, performance management, with our know-how in IT sourcing, vendor and contract management and program assessment and benefits realisation to provide our clients with a comprehensive and powerful business advisory asset.

We provide the thought leadership, guidance, proven methodologies, templates and tools to help our clients navigate through complex sourcing initiatives, and actively work with them to mentor and coach their procurement leaders and key staff to maximise the benefit from established vendor and supplier relationships.

Our core services include:

- Strategic Planning services
- Sourcing and Selection services
- Vendor and Service Management services
- Benchmarking services
- Program and Portfolio Management services

Contact details

Mark Probyn

mark.probyn@cherubconsulting.com.au

+61 419 376 411

John Liburti

john.liburti@cherubconsulting.com.au

+61 403 484 948

enquiry@cherubconsulting.com.au

www.cherubconsulting.com.au
