

Moving to Shared Services Out-Sourcing

The recession has focused senior management attention on rapid, short term cost reduction giving rapid returns on investment. There is a lot of cost in IT departments but it is often difficult to identify and release it because it is tied to existing system commitments and the maintenance of legacy systems.

As IT solutions become more complex, in-house IT departments become in effect a cottage industry where no job is too small and economies of scale (in providing skills and in operating services) become more valuable.

Traditional outsourcing has delivered great benefits to many organisations that have sought a way out of their IT bind. Often the outsourcing organisation offers a better career path to IT staff who often seek a technology rather than a business career path. Outsourcers provide this to staff and thus can offer organisations access to wider experience and deeper skills.

The popularity of outsourcing indicates the value of these benefits. But these benefits have a price and one that may increase over the years.

- The organisations knowledge and IT capability may erode to the level that it cannot plan IT's contribution to business strategy nor how to manage the outsourcing contract effectively.
- The cost savings based on financial sleight of hand rather than better productivity and value may become elusive as extra charges emerge in the course of the contract.
- Insourcing of the contract or transfer to another outsourcer is expensive and risky leading to poor commercial leverage with the supplier.

- The organisation does not share in the value that it creates in developing new business systems. Systems that may be offered to other parties and even competitors.

What is needed is:

- More choice in contract terms and supplier while retaining the discipline of commercial negotiations to identify true costs, demand robust business cases, and share risks between the users and the outsourcer.
- More control over a selective approach to outsourcing to suppliers that retains the high ground for the company in IT strategy and supplier relationships.
- Active management of the IT agenda by a high performance IT department able to concentrate on key strategic decisions, business change, and core business system expertise.
- Effective market competition that continually tests best value.
- Rapid achievement of initial savings and establishment of a continuous cycle of improvement through continual evaluation, selective outsourcing, service improvement, and cost saving.

Shared Services Out-Sourcing (SSO) delivers these requirements in an approach that bridges the options of internal transformation and full outsourcing.

The characteristics of SSO are:

- Classification of the company's portfolio of internal systems into a portfolio of services (business support processes) and service components that are available on an external market.
- Selective procurement and integration of services and components; balancing external and internal resources and optimising volume and re-use.

- Adoption of volume-based service pricing to communicate value up and down the IT supply chain and to provide users with predictable, volume driven, costs.
- Procurement and delivery of networked services based on providing new competition, access to supplier's economies of scale, and full internal/external integration.

Organisations need four key elements to establish successful selective outsourcing. These are:

- Map their IT systems on to a portfolio of services and their supporting components.
- Create a procurement process and business function that can select suppliers and agree contracts that align to the organisations objectives.
- Develop price as a key metric of value to manage risks and rewards and benchmark efficiency.
- Migrate services and components to network delivery to create seamless, efficient, and easily delivered services.

A portfolio of services

This describes a list of the customer services provided by the IT department. It is a two dimensional structure of services and components that is linked to the IT architecture and profiles of each user type in the organisation.

A service would provide a recognisable business service to IT customers – for example provision of a data warehouse service, or a billing service. A service would be made up of one or more components.

		Components				
		Security	Server	WAN	WEB application	Comp #5
Services	WEB service	✓				
	Billing service	✓	✓	✓	✓	✓
	Data warehouse service	✓		✓	✓	
	Service # D	✓	✓		✓	
	Service # E			✓		✓

A component is a lower level function provided by IT. It is usually self contained and could be outsourced on its own e.g. Desktop support services and is also capable of being benchmarked. The aim in developing the component/service structure is to maximise sharing of components

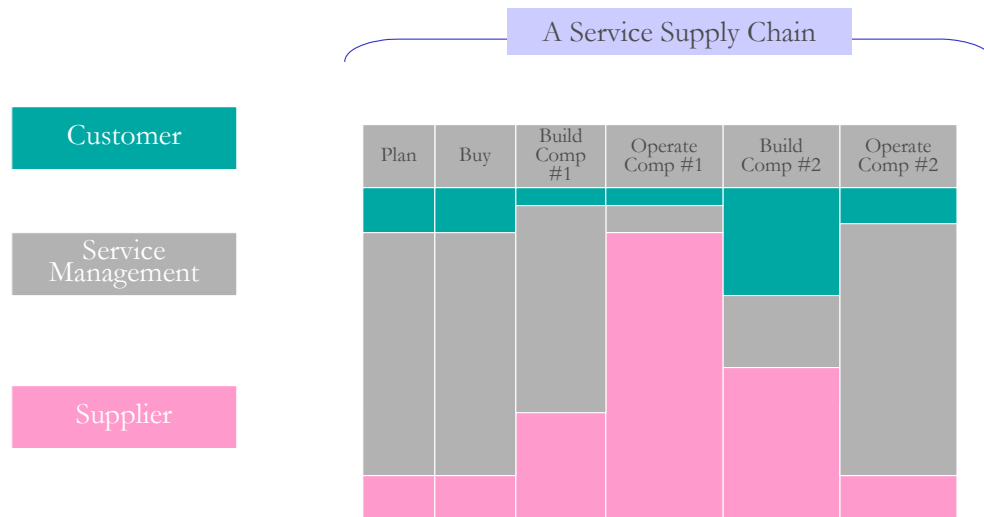
A service framework is the key to benchmarking, procuring, and pricing the services. It provides a shopping list that encourages customer conformance. It is the basis for rationalising services in a framework for layered, shared, and reused services and components

Selective procurement

Selective procurement selects suppliers based on their competitive offer for a single or related group of services or components. This ensures competitiveness in every service. In each case a strategic choice is made to in-house and out house each service or component. The company may encourage and facilitate the creation of outsourcing consortia to reduce the number of contracts to be managed.

Companies may chose to outsource some components of a service while retaining key capabilities in house. The diagram below shows the responsibility for

providing a service may be flexibly allocated between the end user, the IT services department, and the supplier(s). This flexibility provides maximum scope for optimisations and cost reduction.



Service unit pricing

Service unit pricing ensures that the cost of services prices is linked to value. Volume based prices provide manageable and variable charges that foster efficiency and communicate company value to all parties. Prices promote sharing and economies of scale with users and deter non-standard systems and specials. Prices also allow for commercial comparison by ensuring that internal and external benchmark services are fully and realistically costed.

Steps to selective outsourcing

Organisations move to selective outsourcing in the following stages:

- Classify existing IT activities as services and components in a services framework.
- Develop costs and benchmark competitiveness of existing services.
- Gain early savings by tackling “quick hits” within the services framework.

- Shape a service portfolio (“as is” and “to be”) to exploit in house IT strengths and build maximum business value.
- Base outsource strategy on costs and benchmarks (retain winners outsource losers).
- Migrate users to shared standard services.
- Develop synergy amongst supplier partnerships.

Two issues are critical in achieving success:

- Procurement process and skills – this is a new challenge for many predominantly inward facing IT organisations. IT needs to act as procurement experts for the users – ensuring that value for money is obtained through in-depth knowledge of the industry and technology. Contractual negotiations are critical to ensure a successful outcome.
- HR support development and retention. Selective outsourcing organisations will need to retain highly skilled staff to oversee contracts and develop strategies. The move to selective outsourcing should provide a more demanding and rewarding environment where key staff can leverage their skills in an environment that is more akin to IT services. I.e. project and strategy based, and that spends less time on humdrum management and operational tasks. This environment will be attractive to high flyers if they are given adequate responsibility and rewards. Systems Houses, consultancies and IT suppliers will be a fruitful source of recruits for this new regime.

The benefits or selective outsourcing

- The organisation retains control of strategic IT avoiding lock in and costly contract renegotiation

- There is a continuous flow of competitive benchmark information that maintains the competitiveness of internal and external services
- IT users gain a clear insight into market realities
- There is less risk than a “big bang” outsource with additionally an early and continuing flow of cost savings
- Each service solution is optimised to organisation’s needs and market capability
- The IT organisation spends more resources on business issues rather than IT issues.