BETTER OUTCOMES FOR IT OUTSOURCING

Building partnerships fit for the digital era.
IT outsourcing is broken

Traditional IT outsourcing can’t keep up with the pace of digital transformation. It’s time for a better way.

The digital transformation that we’re all seeing around us is reshaping industries, transforming customer expectations, and opening up new, previously unimaginable, opportunities. This is fundamentally changing what organizations need from their IT function — and consequently how organizations contract with and interact with third-party providers.

The so-called IT outsourcing (ITO) mega deal — a multi-year, multi-billion dollar contract awarded to a single supplier — has long been in decline. In 2014, the average global deal price fell, and there were fewer $1 billion-plus deals signed, reports IDC. That’s because it’s increasingly out of step with what businesses need.

Outsourcing has become a familiar part of the IT landscape for most large organizations — nine out of ten Fortune 500 companies outsource some component of their IT function. But the allure of being freed from the expense and inconvenience of operating non-core functions has waned. Cost savings have often been disappointing, and in many cases the loss of control of IT functions — or even business processes — has impeded organizational agility and responsiveness. Many companies have found to their cost that imprecision in their tenders has locked them into multi-year contracts that were incompatible with their needs. Today’s digital organizations need a new model.

DIGITAL TRANSFORMATION: A BREAKING POINT

ITO has evolved over the years. Most early ITO deals were driven by cost-cutting — “your mess for less!” But over time providers recognized that companies wanted more innovation and to seize the opportunities that new technologies offered. And it worked, for a while.

Companies that lead in digital transformation are more likely to achieve higher revenue growth and bigger profit margins.

Growing customer expectations and the constant threat of disruptive new entrants is forcing even the most established companies operating in the most risk-averse markets to innovate. The convergence of cloud, social, mobile, and analytics is making possible products and services, and even business models, that were inconceivable just a few years ago.

The pace of technology-driven change continues to accelerate, but this is not about the technology, it’s about the transformation that it enables. The big decisions that need to be made are about strategy and involve the whole business, not just IT. Digital transformation can help you to find better ways to serve your customers, improve business performance, deliver growth and manage risk.
ESCAPING THE ITO STRAITJACKET

MEASURING SUCCESS

Better by design

FLEXIBLE COMPUTING

Hitting the limits of on-demand

SMARTER PARTNERSHIPS

Removing the SIAM roadblock

The integrated tower model

DO YOUR PROVIDERS FIT THE BILL?

DELIVERY OR INNOVATION?

THE TIME TO ACT IS NOW

REFERENCES
Escaping the ITO straitjacket

Old IT delivery models can be a barrier to improving customer service and increasing engagement.

To understand why digital transformation has such a profound impact on IT sourcing, it’s necessary to examine how it changes business priorities. Organizations are looking for ways to engage more effectively with their customers, at every point in the customer journey. Digital transformation leverages the Internet of Things, social media, big data analytics and cloud computing, enabling organizations to re-engage with their customers, develop a deeper understanding of their behaviors and desires, and to deliver a more connected customer experience. The reasons are clear. Companies that believe strongly in the benefits of adopting new technologies and that pursue first-mover advantage are more likely to lead in both revenue growth and market position.

In order to realize the benefits of transformation, digital businesses can’t be tied into inflexible service delivery models.

But in renewing the focus on customer experiences, companies are also seeing the need to tackle process inefficiency, and to free the organization from legacy IT infrastructure — where money is spent on keeping the lights on, instead of innovation.

Transformation priorities (Figure 1) are focused on making the organization agile enough to adapt to the pace of digital business. This is driven by business leaders seeing the opportunity to build better relationships with their customers. By understanding their customers more fully, organizations can anticipate and fulfill their needs better. And that’s where future growth and profits lie.

The most important digital transformation initiatives

- Improving processes that expedite changes to digital properties i.e. website updates and new mobile or social platforms.
- Updating our website and e-commerce programs for a mobile world.
- Integrating all social, mobile, web, e-commerce, service efforts and investments to deliver an integrated and frictionless customer experience.

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In order to realize the benefits of transformation, digital businesses can’t be tied into inflexible service delivery models. They need to understand how the risks they are facing are evolving, and how business transformation and partnering affects those risks. Flexibility, agility, and adaptability are the watchwords of digital business; but they’re concepts at odds with traditional outsourcing, which thrives on rigid scopes, siloed operations and KPIs, and cumbersome multi-year contracts.

Figure 1: The 2014 State of Digital Transformation Report, Altimeter Group

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The drive toward digital transformation is having three pronounced impacts on IT sourcing decisions.

MEASURING SUCCESS

Digital organizations thrive on their ability to make sense of prevailing trends and organizational performance by analyzing huge volumes of data. But how many apply those principles to their IT operations, and their digital partnerships? Nearly a third of business leaders today say they would consider further outsourcing if they had greater confidence in their provider’s ability to deliver.

Today’s businesses aren’t just more attuned to analyzing the performance of their contracts, we’ve also seen a notable shift in what they’re measuring. Outcome-based outsourcing provides buyers with a mechanism to specify goals that directly map to business priorities — and can even reward suppliers that deliver innovation, rather than simply maintaining the status quo for a cheaper price. For instance, a back office contract might reward a supplier for reducing days of sales outstanding.

We’re also seeing companies take a more nuanced approach to measuring and managing risk in their sourcing relationships — where partners look to ensure risks are not loaded onto one party, and costs associated with those risks are factored into the contract price.

FLEXIBLE COMPUTING

Digital transformation cannot be achieved if you’re locked into inflexible service delivery models. Companies want to be able to dial-up IT services on demand, and only pay for the resources they consume. On-demand and as-a-service delivery models are revolutionizing how organizations think about digital partnerships. Companies have become accustomed to migrating workloads to the cloud, but as software-as-a-service (SaaS), infrastructure-as-a-service (IaaS), and platform-as-a-service (PaaS) have all matured, it’s become reasonable to ask: is there any part of the IT function that shouldn’t be delivered as a service?

SMART PARTNERSHIPS

Instead of seeing ITO as a means to offload a problem to an external provider, today’s digital businesses are looking for partners that can help them outcompete their rivals. That’s not always about cost-cutting — although efficiency gains are always welcome.

But while multisourcing has proven popular, we have started to see cracks in the façade, not least in the service integration and management (SIAM) layer, where issues of risk and liability can threaten the working relationship between providers. As digital businesses strive to be customer-focused and responsive to change, they need to be able to convey business requirements directly to the partner providing them — and cannot afford to have a middleman slowing them down.

34% of all contact center contracts signed in the last two to three years used a form of hybrid pricing. Of these, 69% included some kind of outcome-based component.

In many cases, traditional outsourcing models created an adversarial relationship, as providers were rewarded for sacrificing quality in favor of savings. Newer models recognize that more sophisticated measures of success are essential.
Measuring success

The ability to analyze performance is key to success, and the importance of metrics and responsiveness is growing.

Early outsourcing deals were devised and implemented on a “your mess for less” basis — where both suppliers and purchasers were focused on cost savings. We’ve already seen how that model has become outdated: it left organizations unable to adapt to change, transformation and innovation were often overlooked, and in many cases created an adversarial relationship, as providers were rewarded for sacrificing quality in favor of savings.

The shift toward outcome-based partnerships redefines performance measurement, offering important benefits:

- Performance is measured on business metrics, not technical ones.
- Delivery measurements (SLAs) are focused on outcomes not obscure technical stats.
- Partners are encouraged to invest in innovation, rethinking processes not just shaving off pennies.

But an outcome-based approach to IT services requires fundamental changes in philosophy: it’s no use just outsourcing your contact center, you need to be looking at ways to deliver — and improve — customer service. You don’t want to measure success on phone system uptime or the number of calls handled per minute, but perhaps by number of problems resolved on the first call.

IT outsourcing revolution in retail

One major multinational retailer is getting closer to its partners, suppliers, and customers through the delivery of secure connectivity, which enables it to improve access to business-critical information. Underpinning this connectivity is its Global WAN project. This has seen the retailer migrate to a single global network infrastructure, which is the foundation of its application, security and infrastructure centralization program.

The first phase of the project saw more than 20 network migrations across eight countries in EMEA and APAC carried off without a glitch. This required rigorous focus on detail, transparency, and collaboration.

By analyzing potential points of failure with its network partner, the company was able to build resilience into the network. So when an undersea cable was cut off the coast of Thailand, the failover to backup circuits was seamless.

47%+

The three most important contributions IT can make over the next three years: drive business innovation through IT (48% of respondents); manage security and risk (47%); and establish architectures to support digital strategies (47%).
Approaches to outcome-based sourcing can vary widely. We’ve seen examples of travel companies that pay their partners on the basis of tickets sold. Elsewhere, we’ve seen online retailers reward their partners for delivering 100% uptime during Black Friday. The outcomes chosen, and the associated remuneration model can vary widely.

As an example, at Verizon, we’ve seen great interest in outcome-based contracts when it comes to security. This is a function that is often regarded as mission critical: digital businesses are predicated on their ability to leverage data, so the security and the integrity of that data are paramount. Reputations are on the line. And yet security is increasingly being outsourced.

This is because the scale of the threat and the pace with which attackers are adapting their tactics is simply too much for many firms. Specialized security service providers can offer global visibility across the internet to identify new attacks and develop effective countermeasures.

What’s more, it’s a function that lends itself to measuring outcomes, whether that’s time taken to patch zero-day vulnerabilities or helping the client achieve compliance with the Payment Card Industry Data Security Standard (PCI DSS).

Security also lends itself to innovation. Typically, this starts with service providers defining which aspects of security provision are covered and benchmarking the maturity of their clients’ security programs. Continuous monitoring of performance can then demonstrate how and where improvements have been achieved.

A roadmap for continuous improvement

1. Define processes or services to be included
2. Measure the maturity of each process
3. Produce a dashboard
4. Run improvement projects to raise maturity level

The difficulty in keeping up to date with the latest threats and recruiting and retaining the right expertise make outsourcing security services very appealing to many companies.
Flexible computing

On-demand computing has revolutionized IT delivery — what are the limits?

Cloud and as-a-service type offerings allow companies to move their IT provision to an opex-based spending model, where what you pay is tied to what you use. For digital businesses, this offers the enticing prospect of being able to rapidly scale capacity, and costs, up and down as requirements fluctuate. It also allows companies to capitalize on sales prospects faster, with smaller, tactical investments. Being able to streamline operations, improve effectiveness, and increase access to important business resources helps you take advantage of such opportunities.

These utility-based models also free companies from having to future-proof investments — so instead of having to build a data center that might have to last 20 years, they can just call on compute power as and when it’s needed. If they need extra capacity they can just transition workloads to the cloud.

By simplifying business processes, using technology that responds to change, companies can improve their performance and drive growth.

The emergence of on-demand as a business-capable platform is seeing organizations inch toward standardization of infrastructure, applications and even processes. And there can be significant cost benefits associated with this. By simplifying business processes, using technology that responds to change, companies can improve their performance, and drive growth.

IT outsourcing revolution in logistics

The transformation program at one of the world’s leading delivery companies has seen it refocus around customer engagement.

IT modernization has been a pivotal component of the transformation program. For instance, the company’s new cloud-based unified communications platform — which encompasses video, audio, and net conferencing — has improved its ability to respond to customers, as well as increasing productivity.

The company’s internal IT team has also improved its own effectiveness by concentrating on the firm’s strategic goals, while handing responsibility for all network management and operational needs to a trusted partner.

72% say they expect to put more than half of their workloads in the cloud (including SaaS) by 2017. That’s up from 58% today. 
HITTING THE LIMITS OF ON-DEMAND

Clearly, the digital business revolution — driven by cloud, social, analytics, mobility and IoT — will guide what types of IT function organizations are looking to outsource.

But it’s also challenging how companies think about processes. Research from HfS Research (shown in Figure 3 below) shows there are some areas where many companies have no interest in full-blown “business-process-as-a-service” (BPaaS) — and perhaps even business process outsourcing (BPO) at all. As the data from HfS shows, legal, supply chain and sales are the types of areas where companies feel there is an advantage to retaining capability in-house. But even in these areas many companies are seeing the advantage of outsourcing specific processes. For example, while it’s understandable that many companies would want to retain in-house counsel, even some of the biggest law firms are outsourcing functions like eDiscovery.

On-demand services can deliver compelling cost savings, reduce the risk associated with launching new products and services, and enable companies to get to customers that would otherwise be economically out of reach. But it’s not a panacea, digital businesses must embrace on-demand where it adds value and avoid it where doing so could affect their ability to innovate, or differentiate themselves from the competition.

To what extent is traditional outsourcing being replaced by as-a-service options?

<table>
<thead>
<tr>
<th>Service Area</th>
<th>At least one cloud-based service in place</th>
<th>Starting to evaluate/test solutions</th>
<th>Interested, but yet to find anything suitable</th>
<th>Nothing in place/see no value</th>
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</thead>
<tbody>
<tr>
<td>Human resources</td>
<td>22%</td>
<td>8%</td>
<td>39%</td>
<td>31%</td>
</tr>
<tr>
<td>Industry-specific operations</td>
<td>20%</td>
<td>8%</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>Finance and accounting</td>
<td>15%</td>
<td>17%</td>
<td>37%</td>
<td>31%</td>
</tr>
<tr>
<td>Customer service/support</td>
<td>14%</td>
<td>12%</td>
<td>37%</td>
<td>37%</td>
</tr>
<tr>
<td>Procurement</td>
<td>11%</td>
<td>19%</td>
<td>28%</td>
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</tr>
<tr>
<td>Sales</td>
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<td>9%</td>
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</tr>
<tr>
<td>Supply chain and logistics</td>
<td>6%</td>
<td>6%</td>
<td>29%</td>
<td>58%</td>
</tr>
<tr>
<td>Legal</td>
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<td>13%</td>
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</tr>
<tr>
<td>Marketing</td>
<td>16%</td>
<td>37%</td>
<td>45%</td>
<td>2%</td>
</tr>
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</table>

On-demand is not a panacea. Digital businesses must embrace it where it adds value and avoid it where it impacts their ability to innovate, or differentiate themselves from their competition.

Figure 3. The State of Services and Outsourcing in 2014, HfS Research, Sept 2014
Instead of simply looking at which non-core operations can be offshored, today many organizations are taking a more holistic view of IT provision.

As organizations evaluate their IT sourcing options there are a number of variables they should consider. Will it be delivered by people or entirely automated? Will it be delivered in-house or externally? Does offshore, near-shore or onshore offer the biggest advantage?

Offshoring has been a feature of the ITO market for more than two decades. But the imperative to move services to low-cost locations has changed as price differentials have narrowed and companies look to get more value from their ITO, going beyond pure labor arbitrage.

In some cases, this has revived interest in captive capabilities — a wholly owned subsidiary that can leverage the cost benefits of offshoring, while maintaining complete control over processes and delivery. This is particularly true either where functions, such as IT, have become core activities, or where the regulatory environment means that data integrity and custody are key risk management concerns.

Having a separate service integration and management layer, provided by an independent supplier, can make communication and balancing risk more difficult.

There has also been much talk about the impact of automation on offshore outsourcing, as the ultimate labor arbitrage play — the so-called ‘no location’ model, where software is used to automate IT management tasks and drive costs down even further.

Instead of simply looking at which non-core operations can be offshored, today many organizations are taking a more holistic view of IT provision. For instance, if software development is considered a non-core activity, but project management core, what is the impact of separating them?

A business benefits-led approach can identify interdependencies between activities, enabling firms to identify bundles of activities that can be sourced consistently. This way a whole spectrum of services at different stages of maturity can be assigned to both internal and external teams.

Evidence for this can be seen in the changing relationships between businesses and their IT services partners — see page 11.

REMOVING THE SERVICE INTEGRATION AND MANAGEMENT (SIAM) ROADBLOCK

For the partnership model to work, the business has to be able to convey its requirements effectively to its tower providers. But having a separate SIAM layer, overseen by an independent supplier, can make communication and balancing risk more difficult.

Today, almost all tier-1 service providers use industry standard best practice, such as the IT service management standard IT Infrastructure Library (ITIL), to align services with business requirements. You don’t need a separate provider to do this.

And having that SIAM layer delivered externally can increase partner conflict. Again, taking security as an example, this is a function that cuts across all IT activity, so — whether it’s managed in-house or via an external supplier — all parts of the digital partnership must function effectively together. Security has to be incorporated into network services, as does software development, or cloud application delivery. If organizations keep the SIAM layer in-house they are able to maintain security consistently across all towers.
The integrated tower model

Most organizations already have some form of IT outsourcing arrangement in place. But even though it may not be possible to start with a clean slate, you can start to build a truly effective partnership model today, bringing other parts online over time.

In the days of the “mega deal” buyers went through an often grueling selection process to pick a single partner, typically supported by a number of subcontractors, to provide all their services — see stage 1 in Figure 5 on the right. Sometimes several vendors would form a consortium to bid, but the result was the same. Later, buyers sought to increase their control by outsourcing functions separately, but this often proved to be more costly and difficult to manage — see stage 2 in Figure 5.

Today, the most popular — though not always successful — model is the functional tower model, where best-in-class providers are allocated specific areas, with a service integration and management (SIAM) layer provided by a separate supplier — see Figure 4 below and stage 3 in Figure 5.

A big advantage of this model is that it enables businesses to bring in specialist knowledge to augment in-house capabilities. It can also provide a route to as-a-service models, for instance in commodity workloads/applications such as email.

DEFINING THE RIGHT TOWERS FOR YOUR ORGANIZATION

To ensure you’re ready for successful, smart digital partnerships, you first need to identify coherent towers of competency that work for your organization. Start by asking yourself:

- What towers do you already have?
- Which business processes are critical to achieving a competitive edge?
- Who will be responsible for innovation?
- What areas of your IT needs are differentiated (for example, high-performance computing) and non-differentiated (for example, desktop)?
- Which workloads do you have that can be moved to the cloud or delivered as a service?
Do your existing providers fit the bill?

How confident are you that your existing portfolio of suppliers can deliver the expertise and service excellence that you need to realize your ambitions for digital transformation?

Digital businesses need to convey requirements directly to their partners — they cannot afford to have a middleman slowing them down.

Ask yourself the following questions:

• Do you have a dashboard that lets you instantly check on performance?
• Are your providers committed to continual improvements in their service delivery?
• What expertise can partners supply that you don’t have in-house?
• Is security a component of every tower or is one partner responsible?
• How do your partners co-operate?
• Do you need a middleman to manage the service integration and management layer for you?
• Do you have the skills to do that in-house?
• What are you doing to help your partners contribute to the innovation process?

Once these are established, look at which partners are best suited to provide specific elements. These partners should already have well-established ITIL practices, eliminating the need for a SIAM layer that is provided by an external supplier. This will give you greater control over how business requirements are communicated to your partners, but also means you need supplier relationship management skills in-house.

You need smart digital partners that can...

• Show an understanding of how to use technology to spot potential market opportunities.
• Work effectively alongside other partners — and do not want to own the whole system.
• Demonstrate that they have the people, processes, tools and platforms to integrate and deliver against TCO models.
• Manage the transition and transformation stages effectively, providing clear milestones that allow you to identify when savings can be realized.
• Define their approaches to continuous service improvements that deliver value throughout the contract life cycle.
• Scale to meet global requirements, providing a services-mix that incorporates onshore, near-shore or offshore.
• Share their technology vision, giving you the reassurance that your company will continue to innovate.
Delivery or innovation? You shouldn’t have to choose

Digital is changing the way we work, communicate and sell. Technologies such as data analytics, mobile, cloud and social are enabling companies to gain greater insight and create a competitive edge. To succeed at digital transformation, you and your partners must combine vision with the ability to execute.

Innovation is an exciting topic. Examples of companies disrupting markets litter the pages of the business, IT, and even mainstream press. From Airbnb to Zipcar, the variety is enormous. But behind all the successful examples is a focus on delivery.

Simply, innovation is nothing without delivery. You need to think how you’ll take an idea that’s in its infancy, develop it, and turn it into something that you can deliver reliably and profitably. Would Uber be a $10 billion company today if users couldn’t rely on it? Behind the great idea are hundreds of pieces that must work to deliver a customer experience that keeps passengers coming back.

Innovation in delivery and the ability to turn innovative ideas into reality are both critically important.

But equally, delivery is nothing without innovation. The competition is tough, and staying ahead requires you to be constantly looking at every aspect of your business — even the most established and seemingly unremarkable, and thinking how it might be reimagined for competitive advantage.

Our Global Integrated Solutions team provides IT infrastructure integration services for a significant number of large enterprises worldwide and has been doing so for over 10 years.

The team consists of professional dedicated resources in deal and technology architecture along with service, program and commercial design. This integrates into our Global Services Operations teams who support our largest, most complex global customers with strength and depth.

We create purpose-built solutions combining Verizon and third-party services that enable us to transition, transform and automate our clients’ IT operations. We do this in alignment with the end business objectives, with the purpose of producing measurable results that improve customer experience, drive business performance and manage risk.

Verizon Enterprise Solutions partnering capabilities
The time to act is now

Digital transformation offers huge opportunities, but there’s no time to waste.

You can be lean, consistent, even excellent — and still fail, when the market changes and competitors rewrite the rules of the game around you.

Digital transformation offers huge opportunities for your business to get ahead, but other organizations can see them too. Are you ready to seize the first-mover advantage?

There’s no time to waste. All kinds of industries are being disrupted by digital transformation. Whether it’s new entrants taking advantage of lower barriers to entry, existing players extending their reach, or current competitors finding new ways to differentiate, digital transformation is changing the competitive landscape.

You simply can’t afford to wait for existing contracts to run down. Tomorrow’s winners are being decided today.

The digital business cannot hope to flourish using outdated models of IT outsourcing. Competition for technology talent is intense, the need to be responsive to customers is paramount, and the marketplace is unforgiving. Digital transformation is too large, too complex and too urgent for any one organization to tackle on its own. The quality of your partnerships will be the decisive factor.

To download additional resources on the future of IT sourcing and find out more about our outsourced IT and communications solutions, visit verizonenterprise.com/it-outsourcing
References

1. IDC, IDC Reveals That India-based Outsourcers Captured 23% of Worldwide Total Contract Value for Top 100 Outsourcing Deals in 2014, May 2015