

OUTSOURCING: Motivations, Market, Models, Governance implications

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Enzo Carboni
Project Executive
IBM - Global Technology Services

Agenda

1 **Base Concepts**
Business Strategy, Capabilities, Component Business Model

2 **Outsourcing**
Motivations, Market, Models

3 **Success Factors, Competencies, Professions**
Business Development, Sales, Governance

4 **Questions ?**

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1 **Base Concepts**
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2 **Outsourcing**
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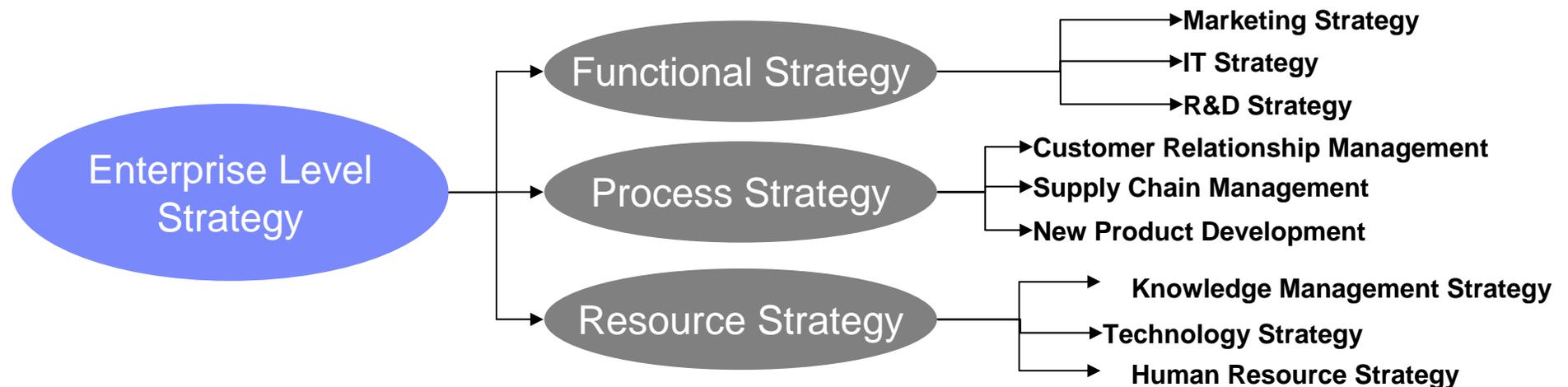
3 **Success Factors, Competencies, Professions**
Business Development, Sales, Governance

4 **Questions ?**

Strategy is:

The formulation and execution of an integrated set of choices

- ❑ Based on customer needs *Customer selection*
- ❑ Identifies the essential positioning, competitive advantages, and configuration of activities ... *Positioning*
- ❑ ... necessary to create and sustain value superior to the competition ... *Value Capture*
- ❑ ... required to generate superior financial returns in a dynamic environment *Strategic Control*

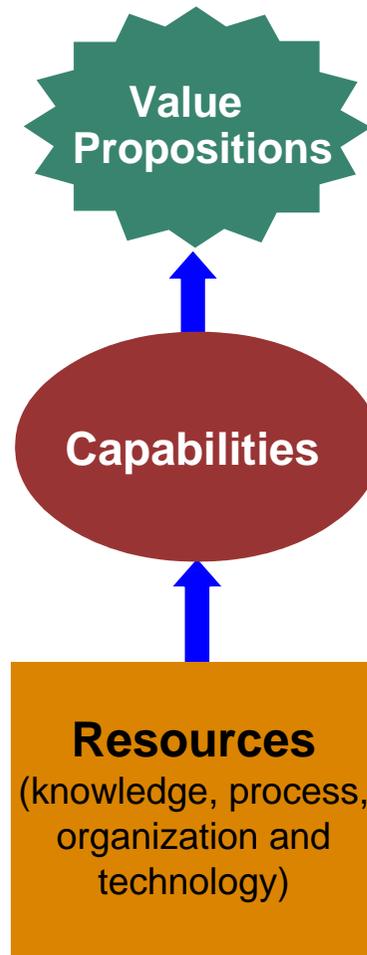


Value propositions, capabilities and resources can be considered the building blocks of a business model

Statements of **benefits**, both tangible and intangible, that are delivered to internal or external recipients expressed from an **external view**

Ability to perform a certain business function described in terms of **what must be done**, not how it is done. Provide an **internal view**.

What a company **needs to have** in order to perform the capabilities. **Tangible and intangible assets of the company.**



STRATEGY

How should the enterprise create, capture, and sustain value?

VALUE

How do we determine the value of initiatives? How do we measure and manage the value captured?

DESIGN

What should be built so the enterprise delivers the desired value?

ORGANIZATION

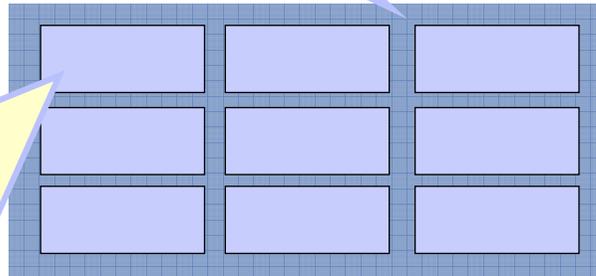
What kind of organization do we need ?
How do we get there?

Component Business Modeling (CBM) is a technique for modeling an enterprise as non-overlapping components in order to identify needs for innovation and/or improvement

In the CBM view, an enterprise is simply a collection of business components that are 'networked' together.

A **Business Component Map** is a logical representation of a business that reveals its essential building blocks.

A business component is a collection of activities, resources, people, technology and know-how necessary to perform a function and deliver some value.



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What a company **needs to have** in order to perform the capabilities. Tangible and intangible assets of the company.

Component Business Model (CBM)

Working with the Component Map

A Business Component Map is an 'enterprise on a page'

A Business Component is a part of an enterprise that has the potential to operate independently, in the extreme as a separate company, or as part of another company.

Columns are **Business Competencies**, defined as large business areas with characteristic skills and capabilities, for example, product development or supply chain.

An **Accountability Level** characterizes the scope and intent of activity and decision-making. The three levels used in CBM are Directing, Controlling and Executing.

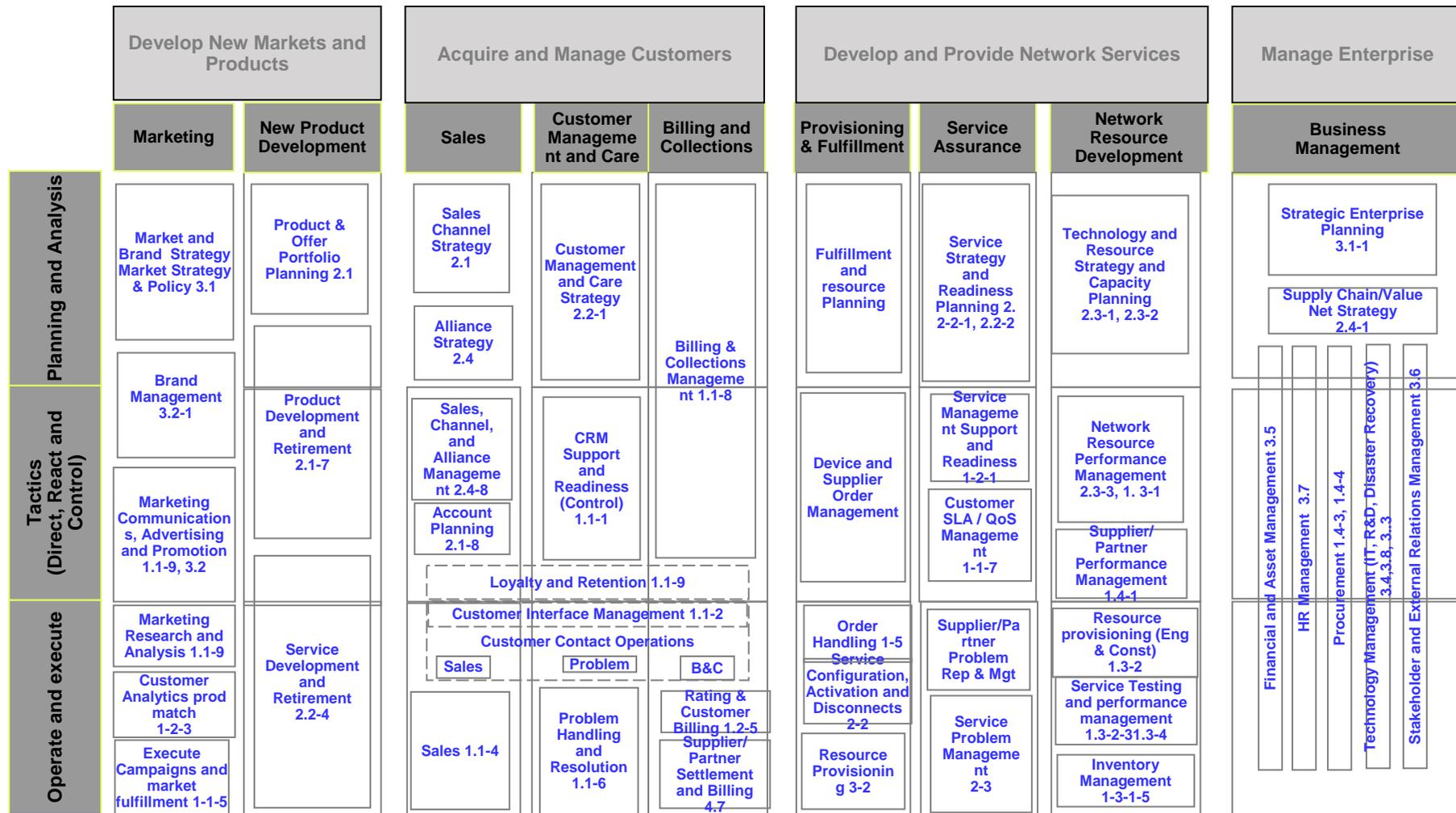
Directing is about strategy, overall direction and policy.

Controlling is about monitoring, managing exceptions and tactical decision making

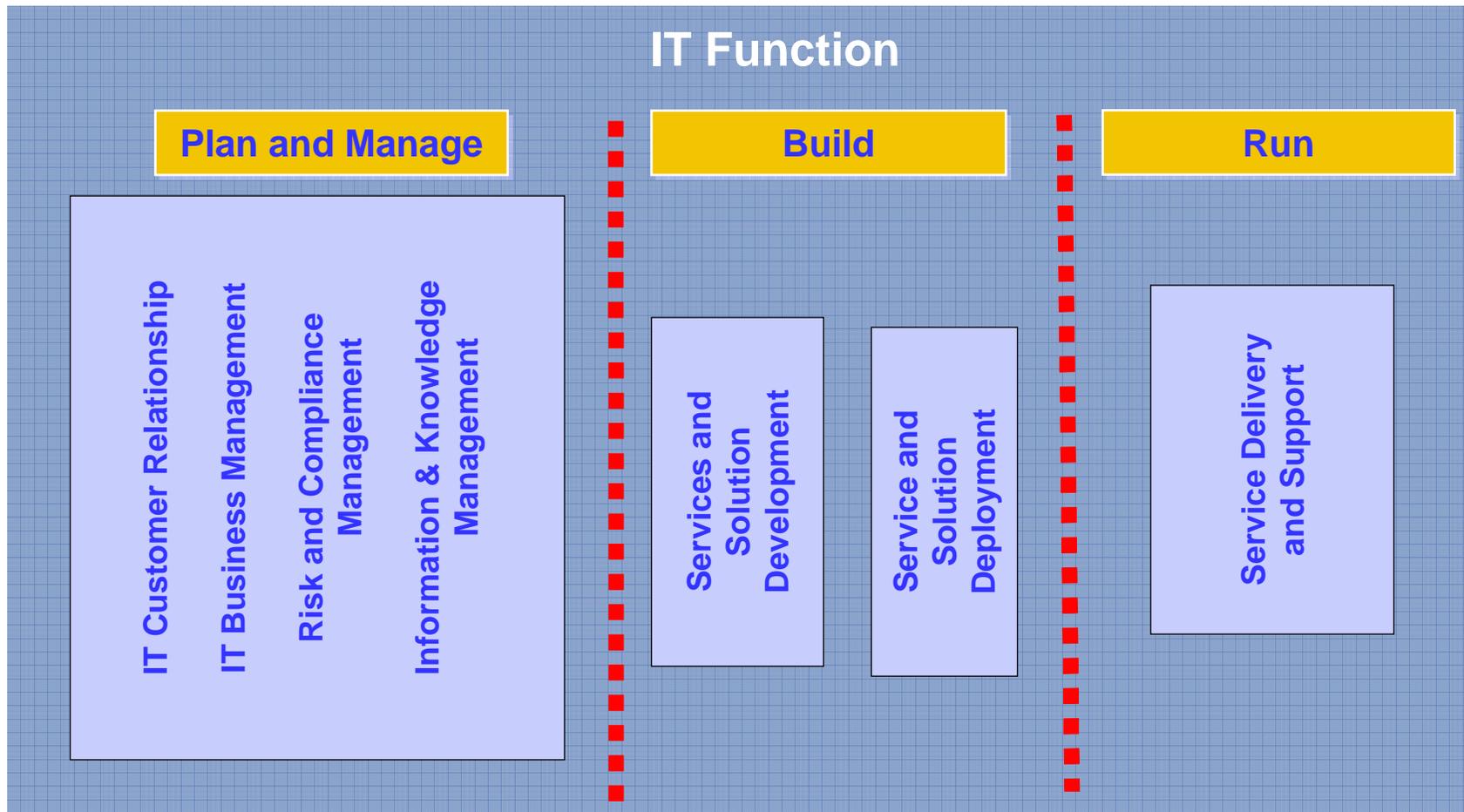
Executing is about doing the work

	Business Administration	New Business Development	Relationship Management	Servicing & Sales	Product Fulfillment	Financial Control and Accounting
directing	Business Planning	Sector Planning	Account Planning	Sales Planning	Fulfillment Planning	Portfolio Planning
controlling	Business Unit Tracking	Sector Management	Relationship Management	Sales Management	Fulfillment Planning	Compliance
	Staff Appraisals	Product Management	Credit Assessment			Reconciliation
executing	Staff Administration	Product Directory	Credit Administration	Sales	Product Fulfillment	Customer Accounts
	Production Administration	Marketing Campaigns		Customer Dialogue	Document Management	General Ledger
			Contact Routing			

Generic Telco Component Business Model



Also the IT organization can be described as an autonomous Business by applying the CBM concepts. The CBM-BoIT consists of three basic types of activities (columns), that articulate in 7 different “**competencies**”



The components of the seven competencies are organized along three layers of accountability: Directing, Controlling and Executing



IT Capability View - ILLUSTRATIVE

- Advanced
- Optimized
- Managed
- Controlled
- Basic

	IT Customer Relationship Management	IT Business Management	Business Resilience	Information and Knowledge Management	Service and Solution Development	Service and Solution Deployment	Service Delivery and Support
Directing	Business Enablement Service & Solution Strategy	Business Technology Strategy	Business Resilience Strategy	Information Management Strategy	Development Strategy	Deployment Strategy	Services Delivery Strategy
		Enterprise Architecture	Regulatory Compliance Strategy				IT Support Strategy
		Portfolio Management	Integrated Risk Strategy	Knowledge Management Strategy			
		Technology Innovation					
Controlling	Business Performance Planning	Financial Management	Continuous Business Operations	Information Architecture	Services and Solutions Lifecycle Planning	Change Planning	Operations Planning
	Demand Management	Business Technology Performance & Value	Regulatory Compliance	Information Resource Management			Infrastructure Resource Planning
	Communications Planning	Human Resources Management	Integrated Risk Management	Knowledge Resource Management	Services and Solutions Architecture	Release Planning	Support Services Planning
			Security, Privacy & Data Protection				
Executing	Business Performance Management	IT Financial Management	Business Resilience	Data and Content Management	Service and Solution Creation	Change Implementation	Support Services Management
		Staff Administration & Development					Infrastructure Resource Management
	IT Services and Solution Marketing	Supplier and Contract Administration	Regulatory Compliance Remediation	Knowledge Capture And Availability	Service and Solution Maintenance	Release Implementation	Infrastructure Operations

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1

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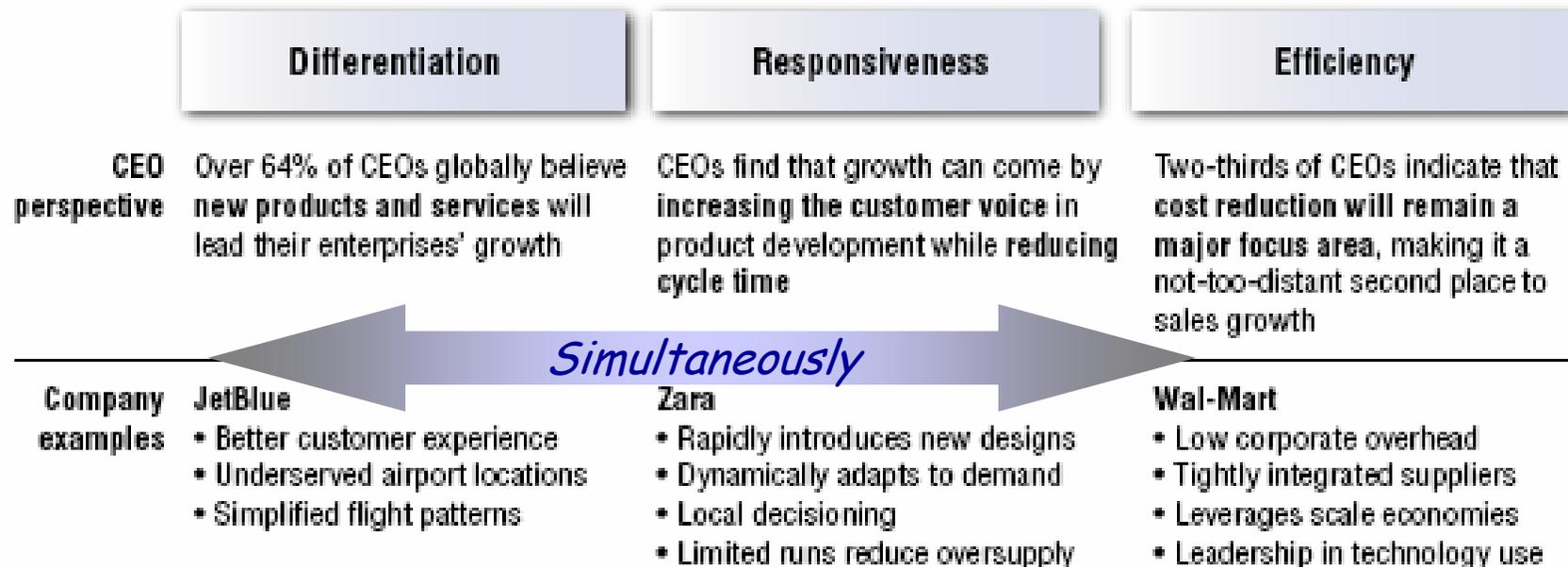
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4

Questions ?

Globalization, more demanding financial markets, technology proliferation; how they translate in challenges for the business ?

- ❑ In a recent global study, more than 450 CEOs responded about their most critical imperatives to achieve success in today's economy. Their top responses:
 - strong, differentiated value propositions are critical for growth and profitability;
 - organizations must be able to sense and respond rapidly to customer and marketplace changes;
 - cost structures and business processes must be adapted in a flexible manner to maintain productivity and reduce risk



Source: "Your Turn: The Global CEO Study 2004" IBM Business Consulting Services, 2004; IBM Institute for Business Value.

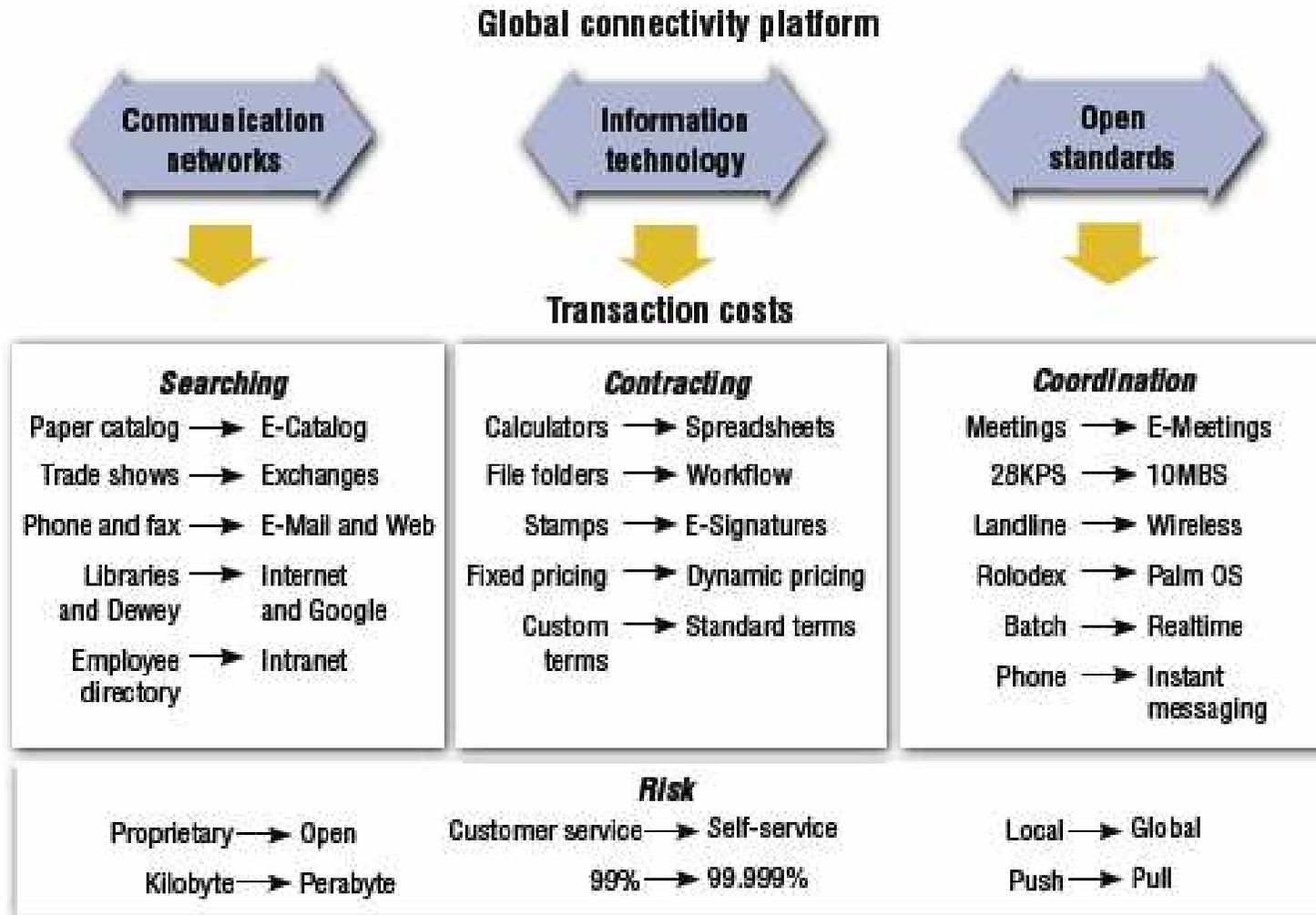
Today's enterprises can increasingly "program" the business by selecting from a variety of established modules or disparate components

- ❑ Over the last 5-7 years, a number of diverse business and technology architectures have matured and converged to form a **global connectivity platform** that supports **widespread collaboration**.
- ❑ By slashing the cost of coordination both within the firm and externally, with partners, this new platform represents a **de facto weakening of traditional business structures and boundaries**.



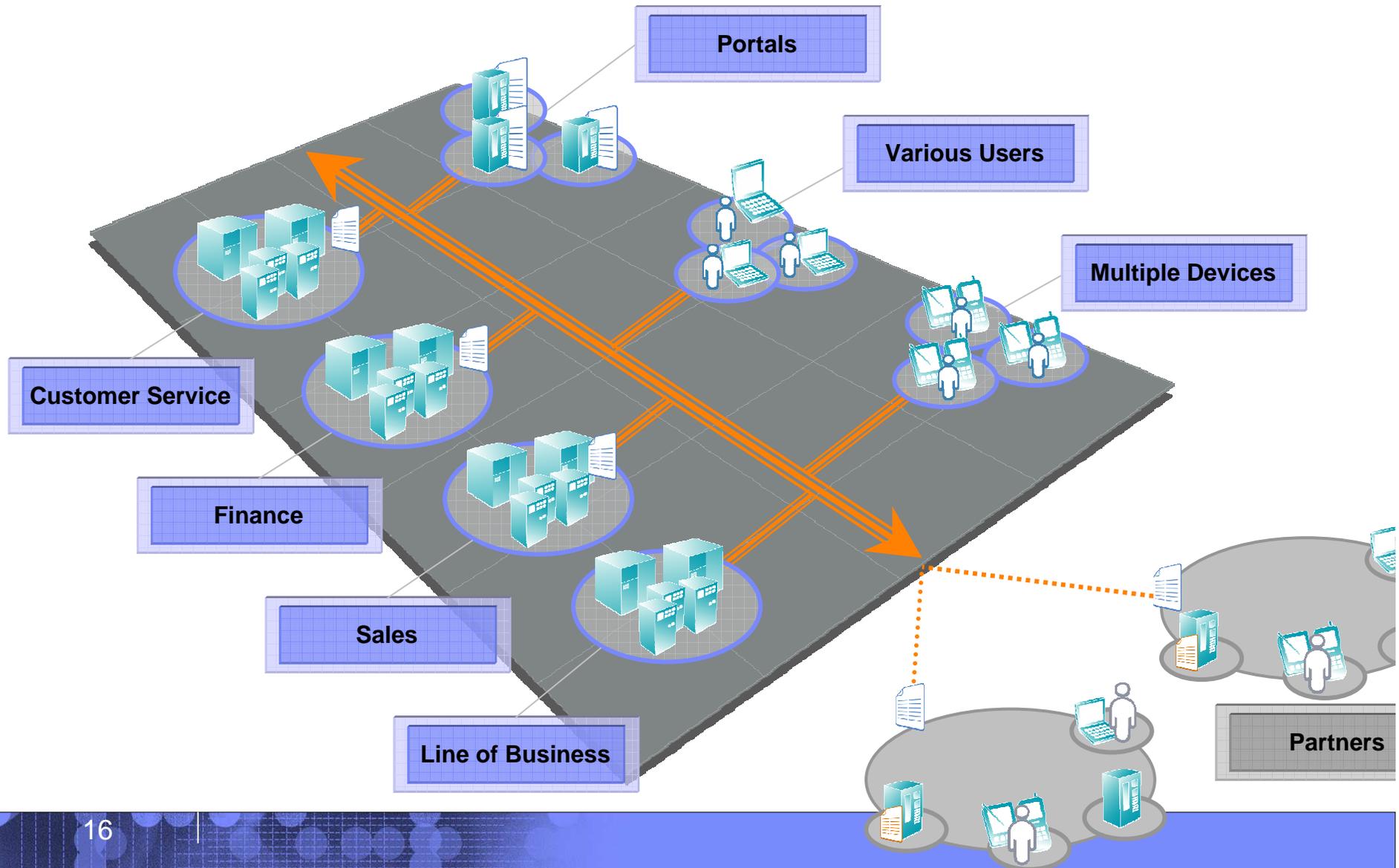
1. **Communication networks**, specifically broadband and wireless technologies, have made digital connectivity faster and more affordable.
2. With the consolidation of the enterprise software market and the proliferation of business integration software, companies evolve toward a **common IT platform** upon which broader and better functionality can be built.
3. **Open standards** – both technology and business – are optimizing interoperability and creating the potential for truly modularized infrastructures.
 - On the technology side, XML has been adopted by 25 percent of companies and is currently being rolled out in another 33 percent.
 - On the business side, the increasing ability of enterprises to define common processes and activities is simplifying day-to-day commerce and improving work flow.

The rapid decline of transaction costs is having an especially profound and lasting effect on ownership decisions



Source: IBM Institute for Business Value.

Web Services is a standards-based approach to “componentising” applications and allowing those components to be inter-connected. Service Oriented Architecture is the emerging IT model

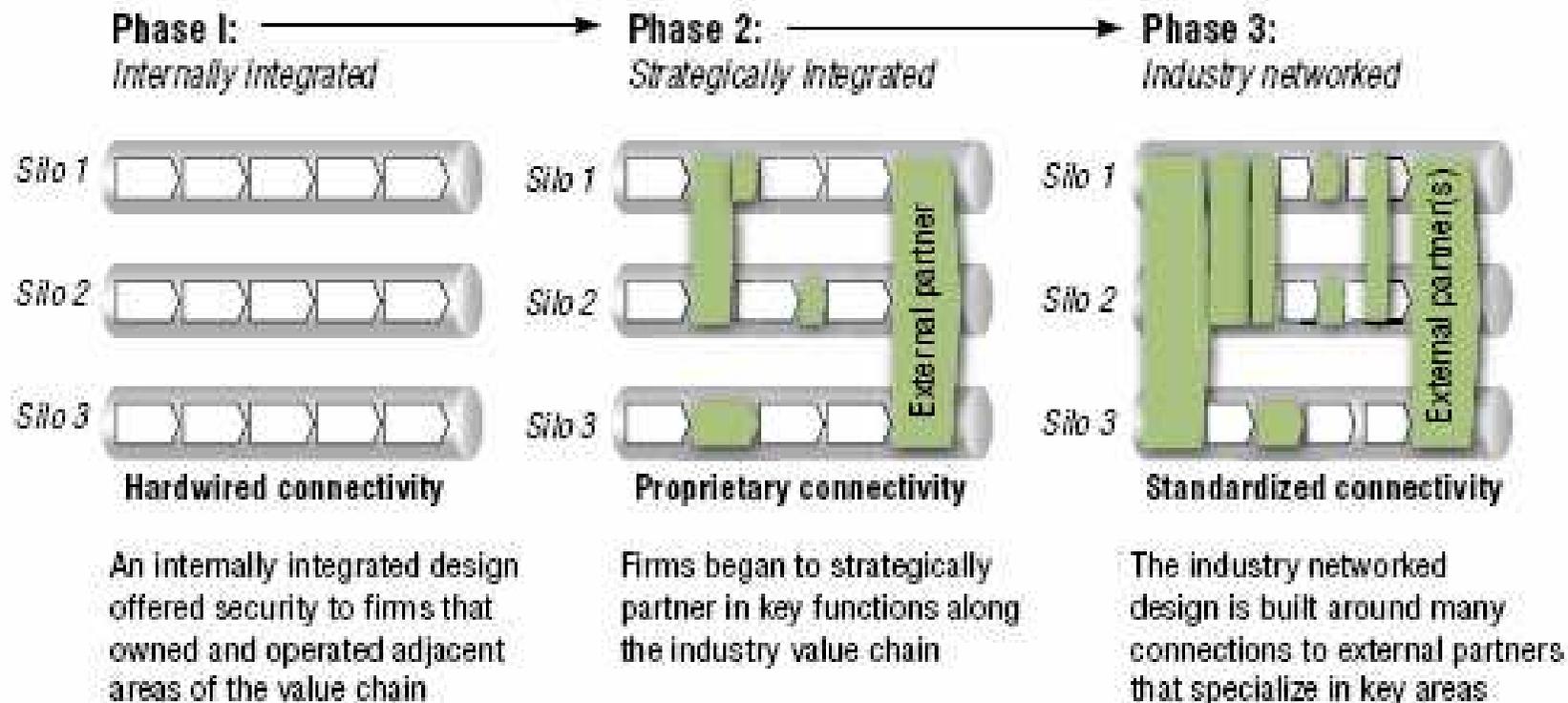




Changes in interaction costs are causing entire industries to reorganize rapidly and dramatically.

- ❑ As business interactions move on to electronic networks such as the Internet, basic assumptions about corporate organization will be overturned
- ❑ Activities that companies have always believed to be central to their businesses will suddenly be offered by new, specialized competitors that can do those activities better, faster, and more efficiently. Executives will be forced to ask the most basic and discom-fiting question about their companies: what business are we really in?
- ❑ Developing or keeping a capability in-house confers no differentiation if an outside specialist can provide the same more effectively or efficiently

As standards-driven internal specialization matures, firms gain the ability to leverage the benefits of lower transaction costs by engaging with partners through collaborative industry networks.



Source: IBM Institute for Business Value.

- ❑ The reduction of the transaction costs changes the rule of the business.
- ❑ The entire Value Net must be analysed and re-designed to exploit the emerging opportunities

By outsourcing its IT (or a part of it) an organization changes its relationship with the information system moving from a role of owner of a technological infrastructure to customer of a “well-defined ever-evolving” service

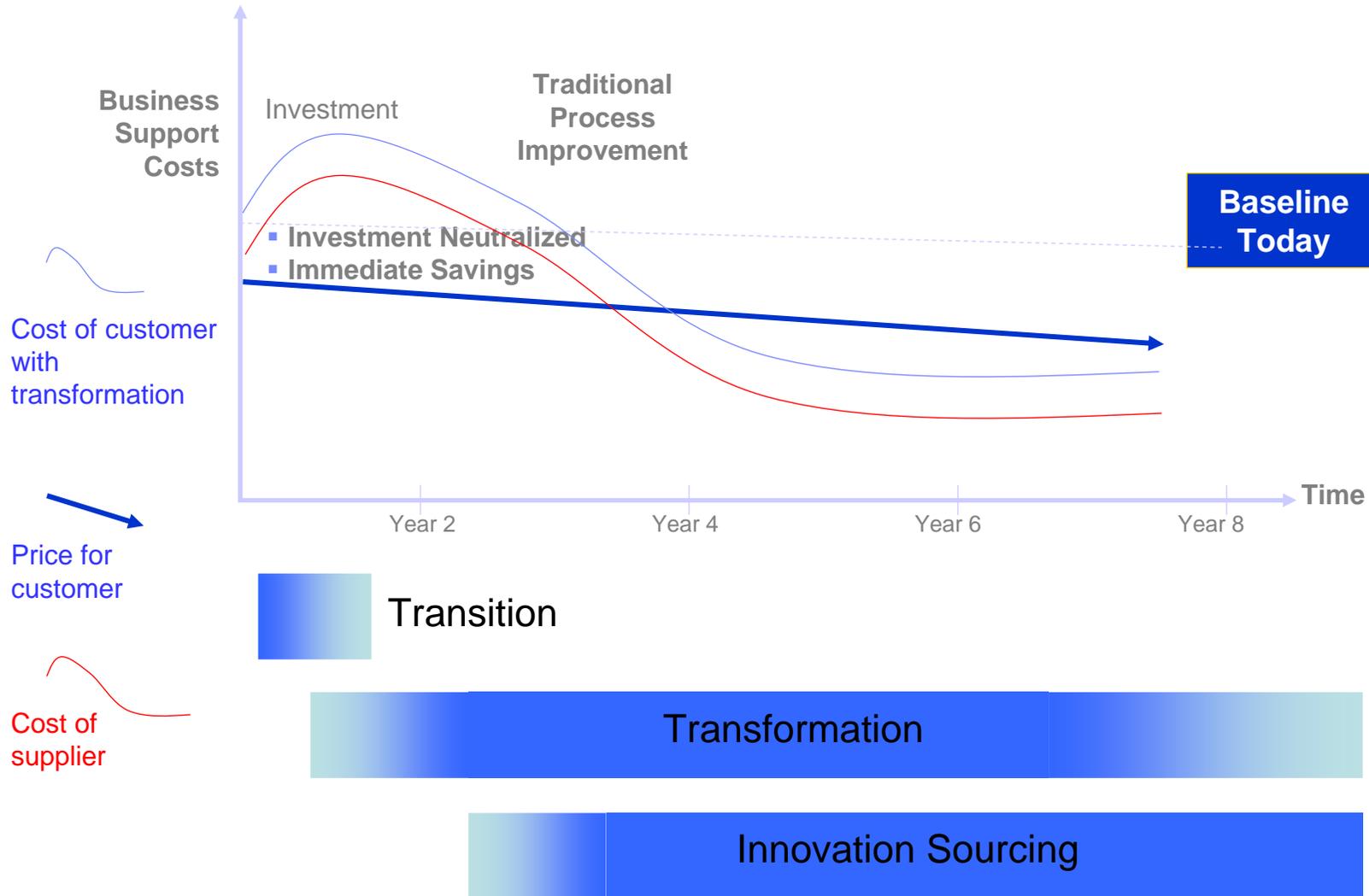
- ❑ This is a major change if compared with Facility Management where the provider is just a manager of the technological infrastructure without any involvement in its evolution

- ❑ The drivers for the outsourcing decision are:
 - ➔ Relevant and immediate reduction of costs (30% or more)
 - Consolidation and Transformation of the Infrastructure
 - Process Improvement & Standardization
 - Offshoring

 - ➔ Improved flexibility by reducing the fixed costs of the operations
 - Shared risks / Shared rewards
 - People & Asset transfer
 - Way-out

 - ➔ Innovation
 - Reconfiguration of the business
 - Exploiting IT evolutionary opportunities
 - Moving Commitments from SLAs to KPIs

Relevant and Immediate reduction of costs



Innovation is required on all key dimensions of a large deal

Characteristics of classic SO

- People transfer to partner
- Partner responsible for HR restructuring
- Partner fully responsible for service and transformation
- Relationship between partners managed by contract
- Aggressive cost cutting

Innovation required on all key dimensions of a large deal

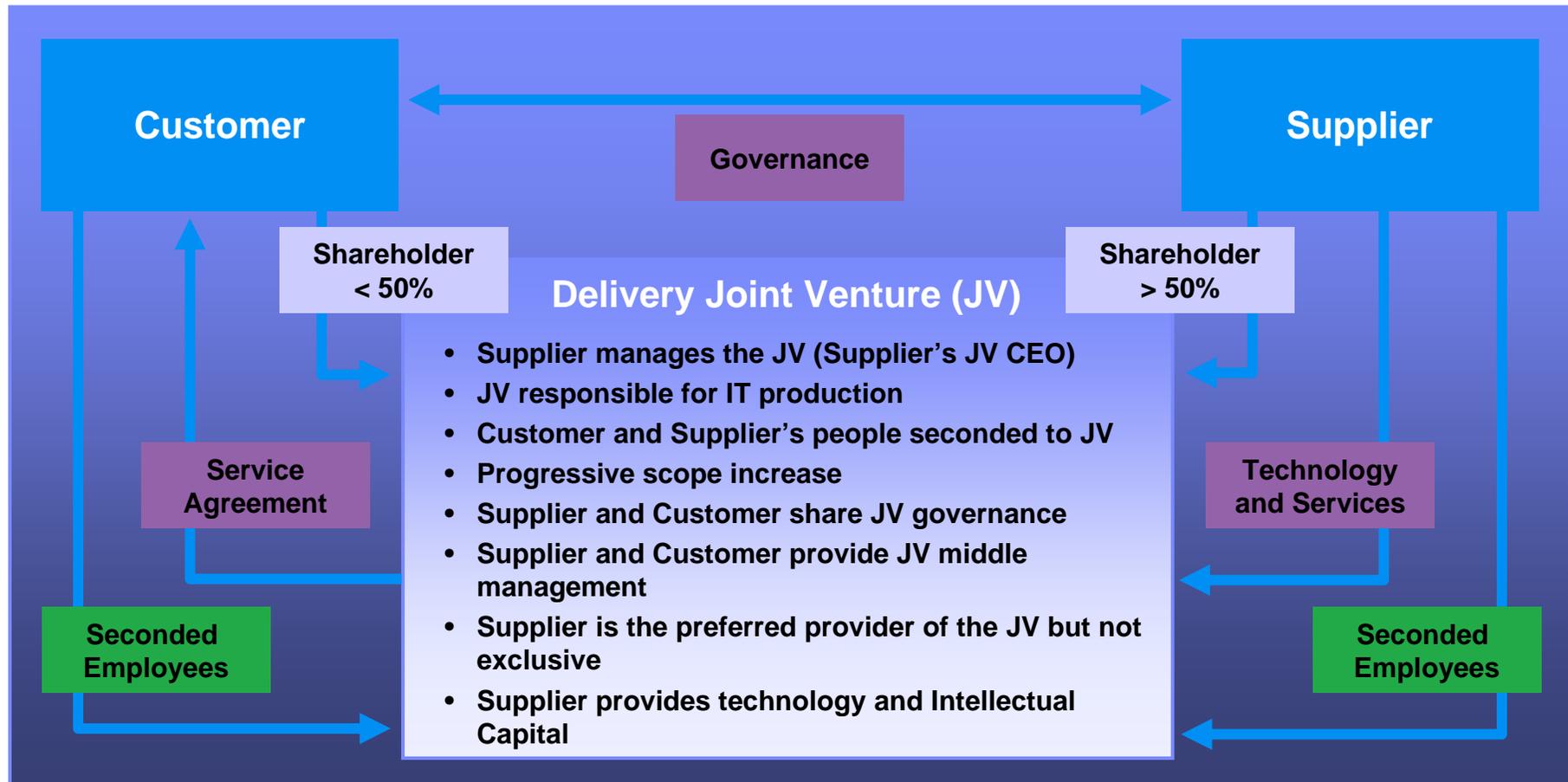
**Organization
& Structure**

**Financial
Solution**

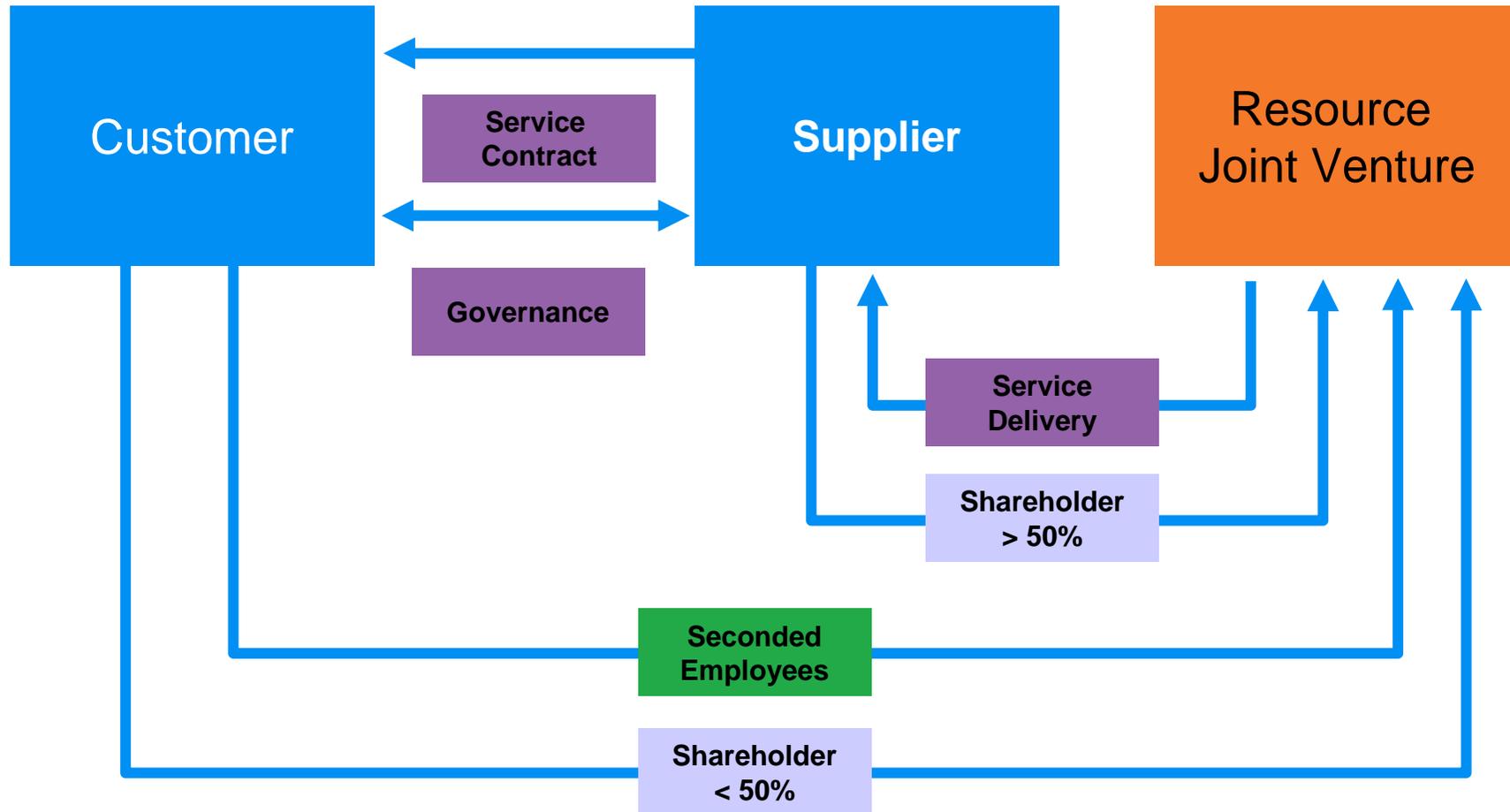
**Human
Resource**

**Transformation
& Innovation**

Usually a sound governance model can address the risk of “loosing control” perceived by customers. Some times a more complex arrangement is needed including a Joint Venture to satisfy customer requirements for image or HR purposes



A Resource Joint Venture is a less complex means to meet customer transition requirements than the Delivery JV



OFFSHORING: “Work that requires judgment and inference is not likely to be off-shored easily”

Ravi Aron’s, Professor at Wharton Business School

- ❑ Work that involves making decisions based on a repository of knowledge, which can be meaningfully monitored in real time and where the quality of execution can be precisely measured, can--and will be--offshored
- ❑ Work that requires judgment and inference in ambiguous contexts, or where communication and grasp of linguistic nuances are important, is not likely to be offshored easily.

- ❑ It is the nature of the work--and not the industry--that determines what can or cannot be moved offshore

- ❑ Expertise that is required for diagnosing a problem and formulating its solution will require analytical abilities and the ability to deal with ambiguity and uncertainty.
 - The premium placed on dealing with complex ideas--which means applying abstract frameworks to real-life problems and reducing complex, poorly understood business problems to combinations of well-understood and solvable problems--is not about to go away any time soon.

OFFSHORING: “Far from being a zero-sum game, off-shoring is a story of mutual economic gain”

Diana Farrell Director, McKinsey Global Institute

- ❑ For every dollar of corporate spending the United States outsources to India, our domestic economy captures more than three-fourths of the benefit and gains as much as \$1.14 in return
 - But this global wealth creation comes with a price: continuous change for the economy and higher turnover for workers

- ❑ The reality is that offshoring is another form of trade, and trade brings both opportunities and challenges. Benefits have always exceeded costs, however, and our great imperative is to maximize the former while minimizing the latter. Specifically, we must do the following:
 - Open more markets to American goods and services.
 - Enforce current and future trade agreements.
 - Enable global flows of goods, services, capital and people.
 - Improve effectiveness of retraining offered by government and employers.
 - Promote lifelong learning environments, efforts and skills.
 - Identify ways to encourage saving and to maintain health coverage during work force transitions, but ways that don't restrain future hiring.
 - Promote innovation and innovative capacity.
 - Ensure our business climate encourages entrepreneurship (access to capital, employer flexibility, and more rational regulations and torts).
 - Improve our infrastructure to maximize companies' and workers' productivity.
 - Introduce measurement and accountability into elementary and secondary schools.
 - Ensure adequate resources for educational innovations that work.
 - Improve math and science achievement by U.S. students.

Agenda

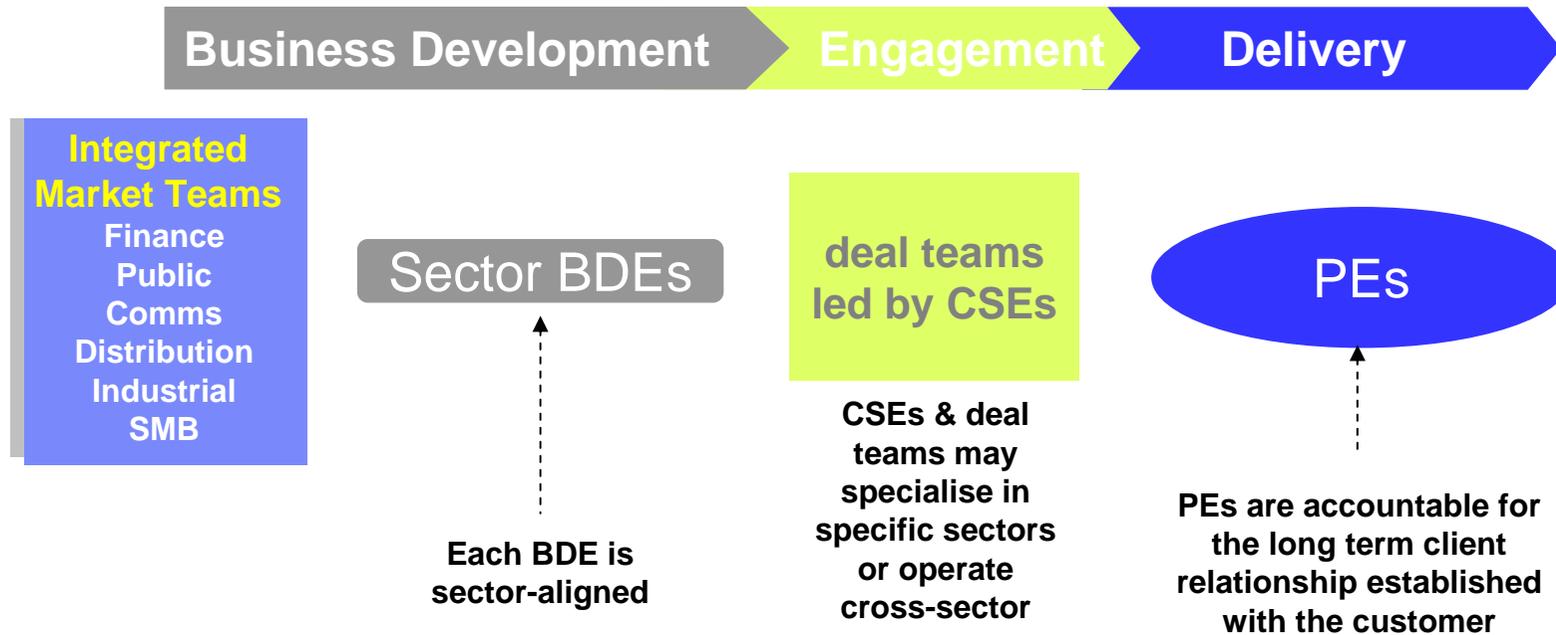
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Outsourcing Sales Process



- ❑ **Business development executive (BDE)**
 - ➔ cultivates deal opportunities in their early stages, promotes IBM's capability, secures agreement with client to engage with IBM

- ❑ **Client Services Executive (CSE)**
 - ➔ runs sales and negotiation process with client to signature of contract

- ❑ **Project Executive**
 - ➔ Manages the contract and the relationship with the customer for mutual satisfaction and constant alignment with changing customer's situation and expectations

Business Development Executive

- ❑ Employees in this role are responsible for the ongoing identification, development, and assessment of services business opportunities with key accounts, selected based on proactive market screening, targeting, and business analysis.
- ❑ They develop extensive executive and senior management relationships in client organizations. They identify and develop the most attractive opportunities for potential engagement.
- ❑ They work collaboratively with other teams across IBM and with other partners and outside consultants as appropriate. They are responsible for the ongoing qualification of these opportunities and recommend whether to engage, disqualify, or refer opportunities to other IBM groups.
- ❑ They own the opportunity until formal sales engagement, facilitate the transition to an engagement team, and remain involved during the engagement phase, as appropriate.

Client Solution Executive

- ❑ Strategic outsourcing engagements
 - are characterized by a complex combination of technical, business, financial, and human resources issues related to the strategic and tactical direction of customers. Change (such as economic conditions, financial performance, global competition, business strategy, mergers, acquisitions, and growth) tends to be the driving factor in these engagements.
 - are normally large, complex and highly competitive sales situations that are often global in scope and engagement negotiations are conducted at the highest levels.
- ❑ This role has the responsibility for successfully selling and negotiating one-of-a-kind complex business relationships
- ❑ They lead sales engagements, selling solutions to complex IT and business requirements.
 - Once an opportunity is qualified, they are responsible for assembling the IBM sales engagement team, managing the team (which can involve dozens of people) and economically managing the substantial engagement budget.
 - They must also manage the customer relationship, participate in complex solutioning, establish beneficial pricing that is highly competitive and close the opportunity. In so doing, they must demonstrate a clear understanding of the customers business, organization, culture and the compelling reasons to act and manage the third party consultant relationship (if applicable).
- ❑ This role must be
 - an extraordinary team leader, an astute business person, exhibit exceptional business insight, show executive/boardroom presence and outstanding judgment.
 - creative enough to devise and articulate a unique and compelling value proposition (which typically leverages IBM and creates value), so that customer decision-makers clearly grasp the short and long-term business and financial value of a relationship with IBM.

Project Executive

- ❑ This role constructs partnerships between clients, team IBM, vendors, and subcontractor organizations and manages the implementation of these partnerships to address business opportunities for the IBM Corporation
- ❑ They have equally balanced skills in five key general management areas of client relationship management, consultative selling, financial / business management, portfolio / program management and team / people management.
- ❑ Be the primary focal point and owner for all activities on a large complex contract.
 - Accountable for meeting revenue, profit, and growth objectives and for improving overall customer satisfaction targets.
 - Responsible to build and maintain strong client relationships at all levels with the objective of being a trusted business partner.
 - Proactively work with client to identify their business objectives, priorities and directions, critical success factors and applies this knowledge to establish and implement an Account Strategy.
 - They translate customer requirements into formal agreements, establishing specific solutions, and leading the efforts that culminate in client acceptance of the results.
 - They have overall responsibility for their contractual cost, schedule, and contractual deliverables.
 - They manage IBM resources and coordinates client resources to deliver services and solutions to support the client organization.
- ❑ They are recognized for business acumen by the customer set they support.

PEs have equally balanced skills in five key general management areas

□ Program Management

- Overall responsibility for managing schedule, contractual deliverables and programs that will support a client's business strategies and objectives
- Responsible for overseeing the implementation and use of formal program management methods and processes
- Responsible for managing resources from multiple IBM organizations to tailor the solution to the client's business needs.
- Knowledge of project management methodologies and PM disciplines at the program level.
- The PE must make sure that defining, planning, executing/controlling, and reporting mechanisms are implemented.

□ Client Relationship Management

- Primary point of contact for all client needs, requirements and expectations
 - helping the client define them
 - translating them into formal agreements,
 - establishing and deploying specific solutions, up to client's acceptance and satisfaction.
- Focus on retaining customers and grow wallet-share by providing increased value.

□ Consultative Selling

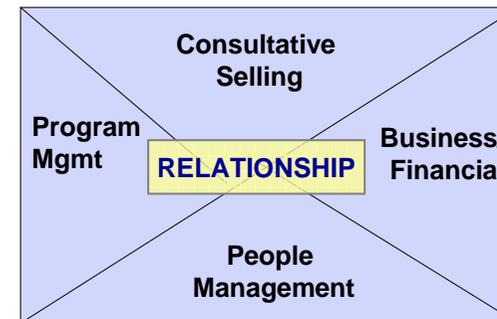
- To proactively enable growth and to counter any loss
- Understanding of IBM selling techniques to build relationships, identify opportunities, demonstrate IBM unique value and closing deals against the client's buying cycle and perception of value.

□ Financial and Business Management

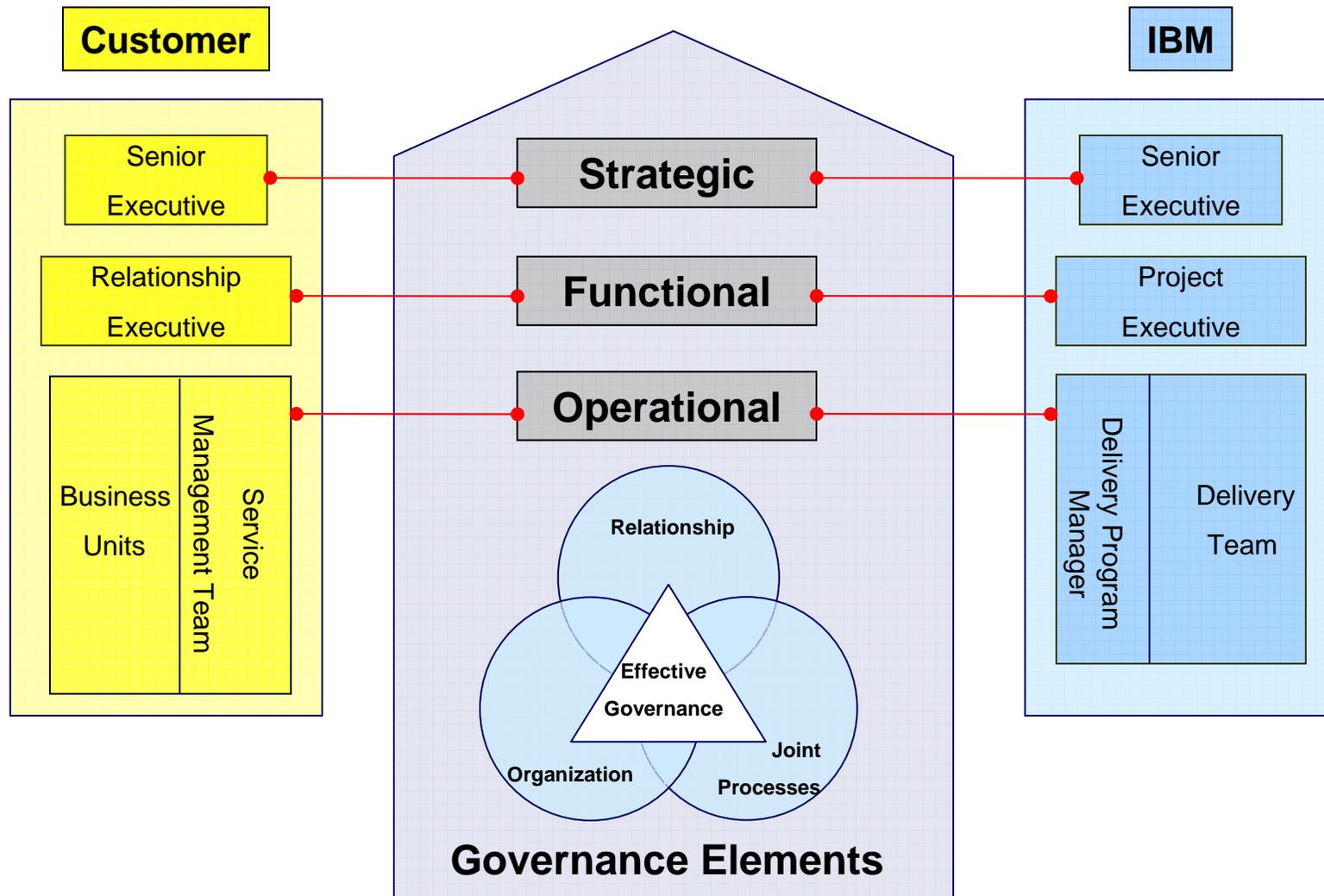
- Overall responsibility for managing a significant P&L or contractual budget be it partial, full, local or global.
- Financial basics such as income statements, balance sheets, and cash flow are all critical topics
- Knowledge about contract types, how to manage subcontractors, interfacing with IBM's financial management systems
- Deployment of financial management tool for analyzing, controlling and directing resources and assets
- Manages IBM resources and coordinates client resources to deliver services and solutions to support the agreements with the client

□ Team and People Management

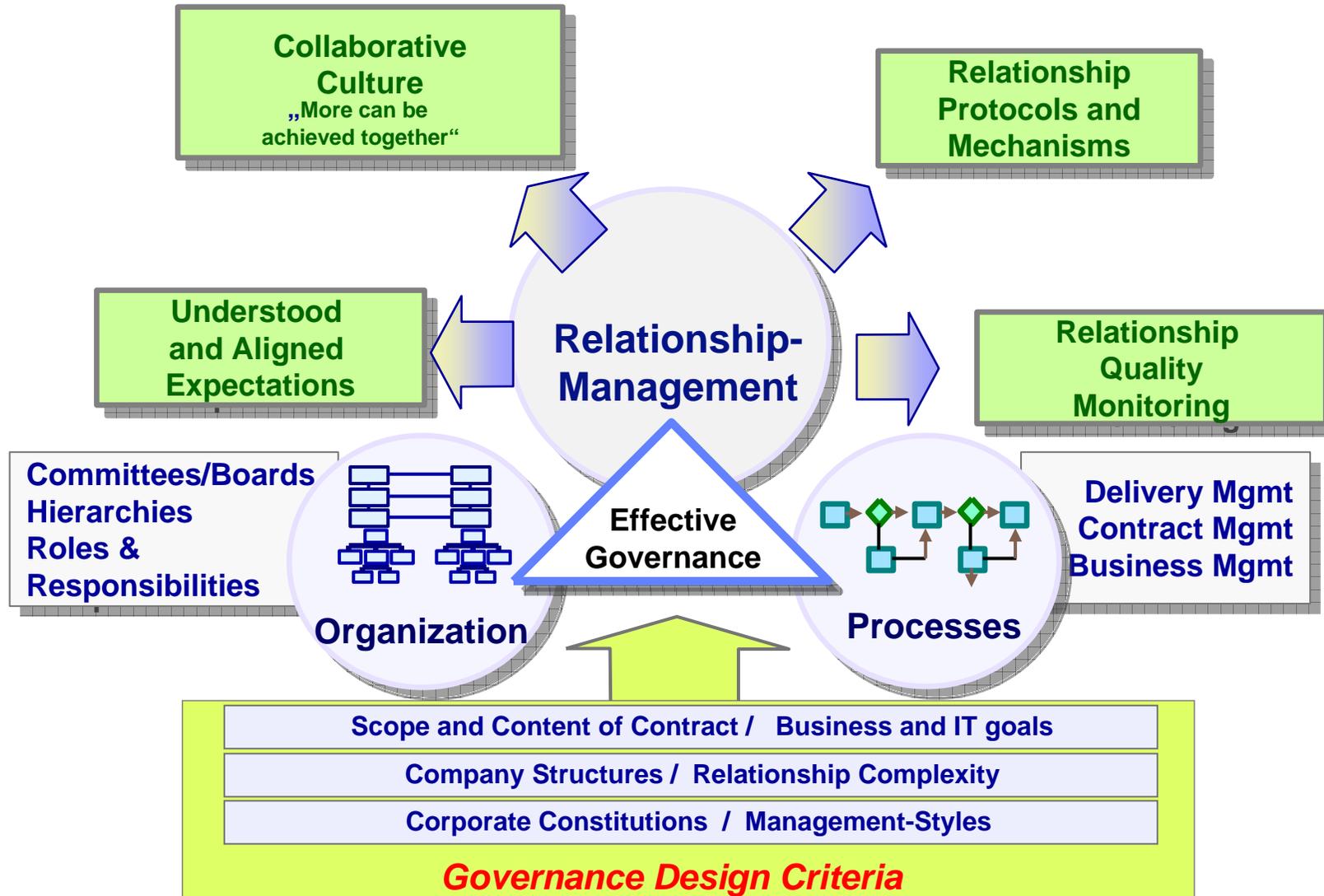
- The PE needs to lead teams of people to execute existing contract terms and conditions and drive contract growth.
- Enabling breakthrough thinking, resolving conflict, effective communications, understanding and managing cultural differences
- Working knowledge of basic people management techniques / disciplines in order to lead and motivate the team



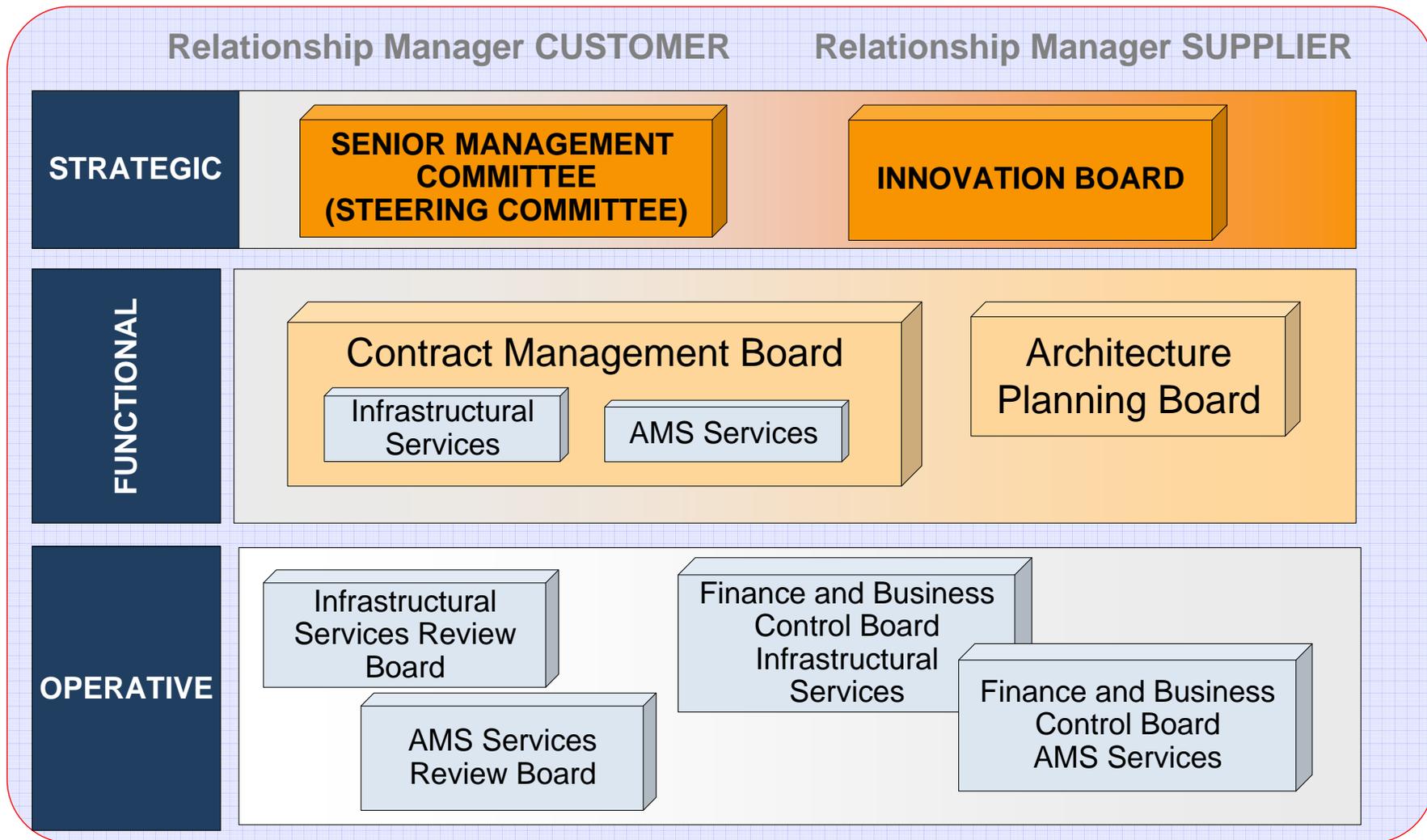
PEs are the key actors of the governance of the contract



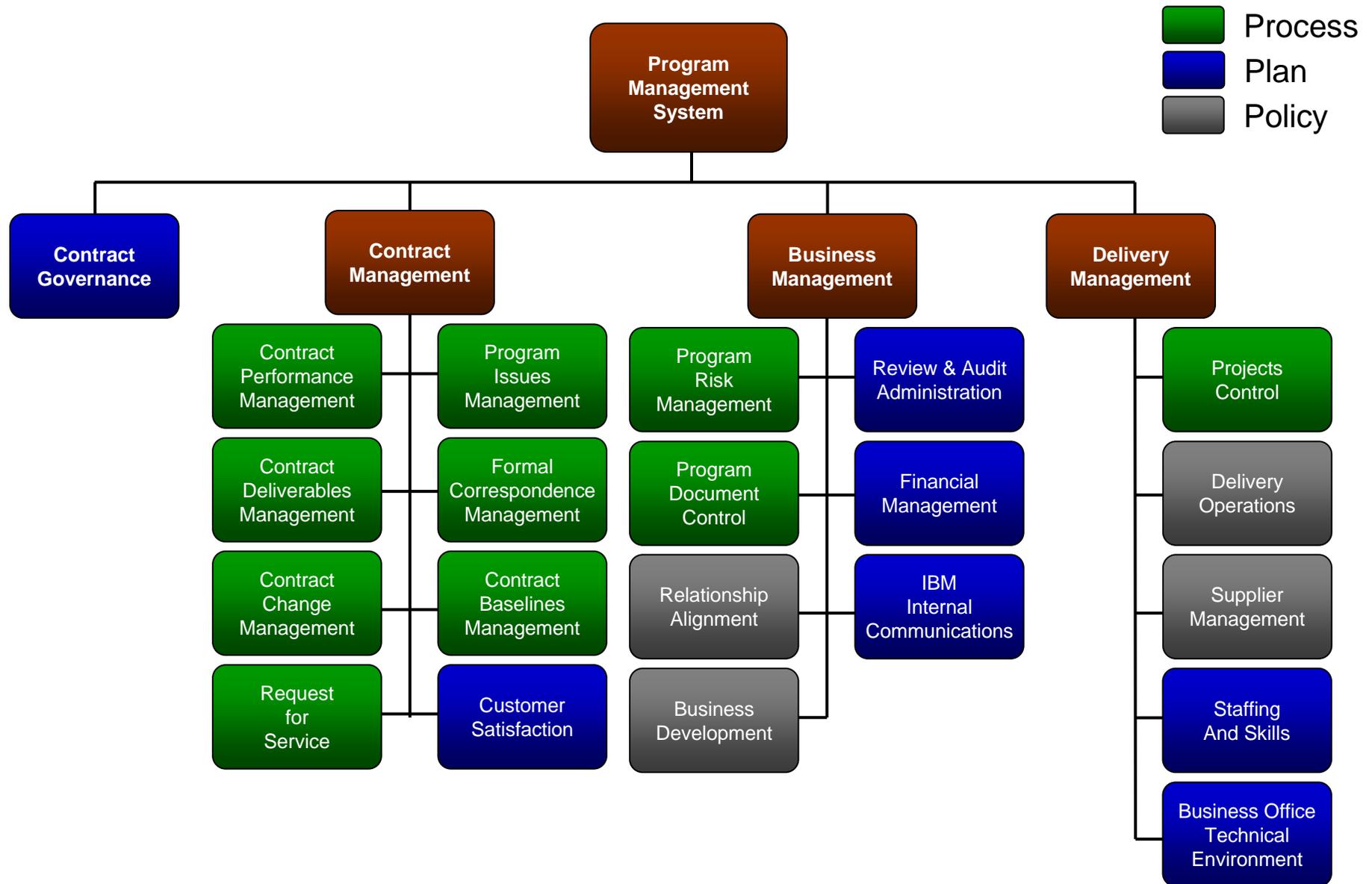
The 3 elements of good Outsourcing Governance



Usually the implementation of a governance organization requires a transformation project also in the customer retained organization

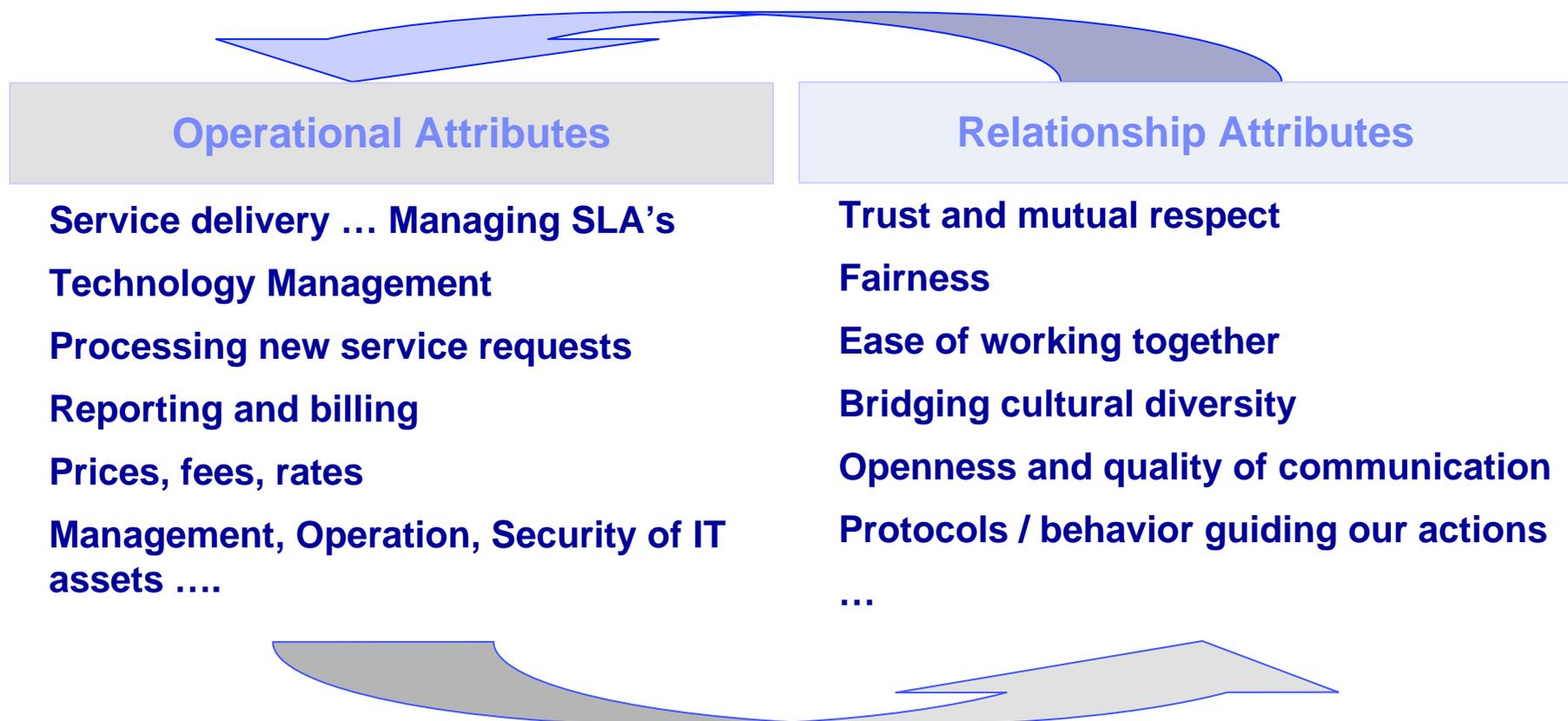


Processes: Program Management System



Relationship Management: relationship attributes have a huge impact on operational performance, but they are often under-estimated

Relationship Quality Impacts Operational Performance



Operational Performance Impacts Relationship Characteristics

Collaborative Culture: how do we work together



Adversarial Relationship Typical Mindset and Behavior

- When things go wrong focus on assigning blame and on applying contractual penalties
- This is about getting „Them“ to meet our needs
- Customer decides, vendor executes
- Each party is often surprised and learns of decisions after they are made

Collaborative Relationship Typical Mindset and Behavior

- When things go wrong focus on understanding joint contributions and how to avoid repetition
- This is about meeting both our needs in a sustainable way
- Wise decisions need joint input
- Parties work as a team to maintain alignment and coordination
- **Parties agree on a code of conduct**

Questions ?