



Gartner Outsourcing & IT Services Summit 2009

15 – 16 June 2009 | London, UK

The annual Gartner Outsourcing & IT Services Summit was held on 15 – 16 June 2009, at the Royal Lancaster Hotel in London. Now in its 10th year, the Summit drew more than 600 attendees from across Europe, bringing together business and IT professionals from a cross-section of organizations and industries.

What are the right outsourcing actions to take in this economic climate where many organizations are under pressure to outsource more — and to do it more quickly? That urgent question was to the fore at this year's summit. "The focus on cost reduction is driving a high usage of outsourcing and global delivery in Europe in 2009 and 2010. Under the current economic and technological conditions prices are going to decrease, creating a market full of opportunities and challenges for both end-users and external service providers," said Claudio Da Rold, co-chair of the summit. "Some inexperienced organizations that are driven into outsourcing to achieve rapid cost reduction may create another wave of unsatisfactory outsourcing contracts, a situation that happened in the 2001-2002 economic downturn. This must be avoided in such an uncertain business

climate as the inflexibility of bad outsourcing relationships can seriously harm business viability."

At the summit, attendees from over 40 countries discovered practical approaches to getting their sourcing strategies right without compromising the performance of their organizations. Whether their focus was ITO, BPO or finding the best offshore location their concern was a shared one: "how can we ensure that the deals we create today will continue to meet our needs when the inevitable recovery comes?" Across 4 tracks and more than 50 sessions, delegates gained what they need to ensure sourcing success — actionable, practical solutions and strategies to meet the challenge of cost optimization whilst creating sustainable value for the future.

Summit Highlights

KEYNOTES

Gartner Keynote: The European Outsourcing and IT Services Scenario: Insight for a Turbulent Market

Claudio Da Rold, VP and Ian Marriott, Research VP, Gartner

Today, the key question for everyone is the economy, and while many are asking when recovery will occur, Gartner believes that the key question is how — how will you be prepared to address near-term and long-term challenges? Key take-aways from this session included:

- Analyze your risk exposure and plan for contingency: Gartner expects to see some service providers being negatively impacted, either as low performers on Wall Street or as acquisition targets.
- Reduce costs but don't sell off flexibility: Organizations should be focused on their mid-term and long-term IT decisions to uncover when, where and how investment, and even innovation, can be applied to better position the organization when the rebound occurs.
- Growth and recovery will be uneven — leverage on it: Even in a downturn, consider opportunities to introduce industrialized services and cloud computing options.
- There will be collateral damage — be prepared. There will be further market consolidation and some providers will go out of business. By 2012, inflexibility caused by an excessive cost reduction focus will result in business disruption in 30% of outsourcing deals.

Gartner Keynote: Multisourcing Today: Techniques for Optimizing Cost Containment and Performance Management

Linda Cohen, VP and Distinguished Analyst, and Chris Ambrose, Research VP, Gartner

This keynote provided a timely examination of how to make the right sourcing decisions in a business environment shaped by the urgency of cost-savings. Cohen and Ambrose presented viable techniques to contain costs in new and existing deals without sacrificing vendor performance or business outcomes. Key advice focused on negotiating for cost efficiencies, exploiting alternative delivery models, refreshing deals regularly, taking advantage of the flexible pricing currently available, assessing vendor risk regularly, developing a formal vendor management program, and monitoring services' contribution to business performance.

Guest Keynote: Does the IT Department Have a Future?

Ade McCormack, Advisor, Author and Financial Times Columnist, Auridian

In the opening guest keynote, Ade McCormack explored a number of scenarios in respect of the IT department's future, detailing what can be done to ensure that both IT departments and IT service providers remain strategically relevant. CIOs should:

SNAPSHOT OF ATTENDEES

On the morning of 15 June, more than 600 attendees walked through the doors of the Royal Lancaster. The seniority of this year's delegates demonstrated the ever-higher priority given to Outsourcing within organizations. The industry breakdown showed the core of the audience coming from financial services, public sector, manufacturing and energy. Delegates from some 46 countries attended, giving the event a truly global flavour.

- Talk the language of business to the business — don't mention "cloud", "virtualization" and other technical terms. Instead, talk about share price, market share etc.
- Transform the IT function from being a technology provider to a process consultancy. No one knows business processes better than IT.
- Be multi-disciplined — become the Chief Change Officer, Chief Process Officer, Chief Transformation Officer, Chief Knowledge Officer.

Meanwhile, vendors need to raise their game for genuine partnership - there needs to be a greater sense of shared destiny, working together to influence the board. Adding value means going beyond the products. Vendors have a lot of wisdom that needs to be shared. They should ensure that they know what personal issues are driving their customers' actions.



Panel Discussion: Service Industrialization, Partnerships and Other Market Trends

Jos Schoemaker, COO, Getronics, Sam Kingston, CEO, T-Systems, Paul Klaver, IT Executive: Production, Ops & Service Delivery, OMSTA Technology, Old Mutual Group and Stefan Kuiper, Manager Cluster Outsourcing, Dutch Ministry of VROM

This panel session examined the thoughts of some of the leading providers and their customers on a wide variety of topics. When asked about how they were addressing the pricing and restructuring challenges that they are facing due to the economic downturn, the providers spoke about the importance of standardizing processes and delivery models, technologies such as virtualization and automation, continual innovation and helping their clients to save money. When asked about how they gain visibility into their providers' business models and evaluate the risks involved in doing business with the providers, the customer panelists spoke of the importance of having regular communication with the providers, a good relationship with their account manager, quarterly executive reviews and regular innovation workshops. They also spoke about joining contact groups with other customers so they should share ideas, information and best practices.

The panelists were also asked about new emerging offshore locations that delegates should be aware of. Where the key drivers are outsourcing and education, the panelists mentioned Asian countries

including Malaysia, The Philippines, and Vietnam, with China just starting to emerge as an option. South Africa and Brazil were also discussed.

Alternative delivery models and industrialized services were also discussed, with the providers identifying dynamic services and infrastructure utilities as being areas that they are investing in. From a provider's perspective, they have to look at the precise needs of their clients. If they don't meet these needs, through new alternative delivery models, they will lose ground.

Guest Keynote: Creating a Self-Funded Project to Transform IT

Phil Pavitt, CIO, Transport for London

The closing guest keynote was delivered by Phil Pavitt, CIO for Transport for London. Phil spoke about the problems he inherited when he commenced his role, with little process or system commonality, negative views of centralized services, no strategic direction, and no intelligent buying. Phil's goal was to transform IT into an intelligent partner to the business to deliver customer centric, integrated IT services consistently within a cost effective framework. One of the keys to achieving this was to embrace a multisourcing model. The approach taken was to consolidate the number of contracts and re-source some key areas. These key areas were then "cleansed", leaving the intelligence, intellectual property, skills and management, and then they were re-outsourced, where appropriate. Working with key providers over a 24 month period,

Transport for London's Vendor Management Team have become "intelligent buyers" and are now treated by the providers as valued and respected equals. Transport for London's supplier costs are now down by 41%, headcount costs by 21% and desktop costs by 61%.

Gartner Keynote: Outsourcing Initiatives: Balancing Excellence, Innovation and Cost

Will your outsourcing initiatives live up to expectations? Gartner Research VP, Helen Huntley showed how it can be done in an in-depth discussion that focused on specific actions to take to ensure that your outsourcing deals can achieve higher levels of quality, savings and speed of delivery. Recommendations included:

- Understand what you have and what you need
- Understand your sourcing barriers
- Understand vendor management principles
- Continuously improve your vendor contracts
- Be diligent about asset management
- Optimize your application portfolio
- Govern your architecture, integrate silos, improve processes, control demand
- Understand the risks to "chasing cheap rates"
- Build your business case for innovation
- Institute multisourcing disciplines

SELECTED TAKEAWAYS AND ADVICE

Don't Just Cut Sourcing Costs — Manage Them

Many enterprises are embarking on blind cost-cutting crusades - often with negative impacts on the business. "It is not always possible to cut costs in sourcing initiatives without severe business impact" said Cassio Dreyfuss, research VP, Gartner. "Only a comparison of the business value of sourcing initiatives will indicate what cost optimization alternatives to pursue". Best practices for cost management initiatives include:

- **Aim business results:** Let the business drive your choices. Explain why and make the right choices.
- **Preserve knowledge and competitiveness:** Consider the strategic importance of human capital that is inextricably bundled in the services you acquire. The knowledge and skills they bring to your enterprise have different strategic importance to your business objectives.
- **Think about continuity:** Some cuts may enable you to extend the enterprise's survival for a while, but will it be able to recover from that when the crisis is over? Prepare for the rebound.
- **Invite collaboration:** Your provider is going through the same crisis as you are. Work with them. They are willing to listen.

Global Sourcing: State of the Market and Future Trends

The last 12 months have seen an accelerated focus on global delivery, together with the

emergence of some major challenges. This presentation encouraged delegates to:

- **Seek value beyond cost savings** and create a flexible contract structure to support future needs for change, agility and innovation.
- **Ensure that a comprehensive country and vendor evaluation approach is used** to identify the best fit for your objectives.
- **Plan a services roadmap** that relies on an underpinning global delivery network, but also focuses increasingly on alternative delivery models.

Renegotiation Strategies for Success

Heading into renegotiations without fully understanding the strengths and weakness of both contractual parties can leave you at a unique disadvantage. "Renegotiation should be a standard activity in the life of an outsourcing deal", said Helen Huntley, Research VP. "It can result in a win-win opportunity for both parties and is almost a necessity given the long-term (three years or more) aspect of most outsourcing relationships". When preparing to renegotiate your outsourcing contracts, you should:

- **Understand what changes you are seeking** in the contract and their impact on delivery, customers, cost and the service provider.
- **Create an action plan for the renegotiation** — complete with formal timelines.
- **Do not wait for your provider to bring you an offer.** Approach renegotiations with a clear plan.

- **Heading into renegotiations, understand the leverages** you have as well as those of your service provider.

Developing a Vendor Management Program

The goal of a centralized vendor management program is to optimally manage those vendors that have a material impact to the organization, and by more effectively managing them, lead to extracting more value from the same, or lower, overall costs. Effective vendor management is a result of ensuring each member of the team, and the respective recipients of the service, are working toward the same goal. Key takeaways from this presentation included:

- **Get started:** Pick one strategic relationship and then recruit and empower a vendor manager capable of transforming that relationship.
- **Don't confuse supplier management and vendor management,** or believe that a contract, however good, will effectively manage a relationship.
- **Structure and position vendor management as a long-term program,** not as a "quick fix."
- **Avoid typical "angry" customer tactics.**
- **Align vendor management metrics with vendor category.**
- **Recognize and leverage cross-organizational skills and knowledge.**

Your 10 Point Action Plan for Outsourcing Success

- 1** Be proactive from the very start. Be sure you properly benchmark or baseline your environment before entering into an outsourcing arrangement so you can determine if the vendor has made the efficiency, productivity and cost improvements that were contracted for when the deal was first signed. Without this, issues and disputes may arise that lead to a breakdown in the client/vendor relationship.
- 2** Negotiate for cost efficiencies but plan for service enhancements. Cost savings may be the name of the game in today's economy, but you also need to plan for scalability, flexibility, responsiveness and innovation. Keep the deal focused on your business objectives.
- 3** Explore and exploit alternative delivery models. It can be tempting to play it safe with traditional models. But as comfortable as they may seem, they may limit your opportunity for cost improvements, economies of scale, efficiency and innovation.
- 4** Don't sign 10-year deals. A decade is eternity in business. So it's critical to refresh your deals periodically and to apply term limits that make sense for your deal objectives (Utilities: 1 to 3 years; Managed services 3 to 5 years).
- 5** Take advantage of flexible pricing. There's a considerable range of pricing models to choose from. Each delivers a different set of benefits, appropriate to the sourcing engagement. Get familiar with what's out there — from fixed price models to incentive-based ones, and negotiate hard — now!
- 6** Establish a governance and demand management discipline. Success comes down to these essentials: Defining the governance structure and business requirements, align supply with demand, and holding the business accountable for consumption. A demand management discipline, which essentially defines how the work will be submitted and prioritized, is crucial because it prevents the very thing that can upend your vendor relationship — ill-defined direction.
- 7** Develop a formal vendor management program because your best interest is not necessarily the vendor's priority. Be careful of the kind of wishful thinking that allows the contract terms and SLAs to manage the vendor. It doesn't happen that way. You must decide who will be doing what and how it will get done. As a rule of thumb, invest 3 to 7% of your annual deal costs to manage the deal.
- 8** Operational performance isn't the only thing to monitor and report. What also counts is business performance. Consider correlating SLAs to KPIs and developing a multilevel performance dashboard - executive, business, management and operations.
- 9** Start cherry picking offshore services now. As service providers establish comprehensive and geographically dispersed global delivery networks, it will become essential to have an appropriate mix of on-site, on-shore, 'nearshore' and offshore resources in place to optimize this delivery model.
- 10** Assess vendor risk regularly. Don't assume that because your vendor is healthy the day you sign the deal that all will stay well. Start assessing vendor risk on a regular basis by identifying vulnerability factors, collecting and analyzing vendor market financial data and spotting early warning signs that could prove fatal.

POST EVENT WEBINAR

In early September, Gartner will host a post-event webinar to summarise some of the key findings of the event, reveal the results of the poll taken during the last presentation, highlight some of the most commonly asked questions at the summit, recommend further reading, and reflect on the latest trends in the marketplace.

Details of this webinar will be emailed to you shortly.

See You Next Year!

The Gartner Outsourcing & IT Services Summit 2010 will be held on May 24 and 25, in the Royal Lancaster Hotel, London. We hope to see you again!

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