

Tech Update

The road to outsourcing success

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META Trend: During 2002/03, IT vendor management teams will work to align service levels with business objectives. Through 2004/05, tactical contract management will evolve to more strategic approaches, blending transaction management (e.g., financial, service, technical) and regulation. Through 2006, multisourced environments will drive vendor relationship staffing and organizational models, while triggering clarity in service provider interface definitions.

Our research indicates that many ITOs are struggling to construct successful outsourcing arrangements. This is due to poor expectation management, unpredicted cost increases, and doubtful service quality improvement. In turn, this will force ITOs to change vendors frequently, undermine outsourcing's potential, and limit IT organizations' value-added capabilities.

To respond to this challenge, ITOs should adopt an Outsourcing Management Maturity Model ([see page 2](#)) to establish effective vendor management structure, create measurable and enforceable service-level agreements (SLAs), implement formal processes, and drive vendors to improve service quality. This will enable outsourcing to be managed as an investment portfolio whereby cost is reduced, risks are mitigated, IT organization credibility is established, and outsourcing benefits are materialized in a timely manner.

Throughout 2002, 20 percent of outsourced ITOs will establish SLAs for all outsourced services and implement SLA tracking processes to detect and address target deviations. By 2004, 50 percent of these organizations will meet SLA targets. The remaining sites will consider "change vendor" alternatives.

By 2003, 40 percent of outsourced ITOs will formulate benchmarking strategies to assess outsourcing competitiveness by balancing service levels with cost. New outsourcing contracts will be constructed to enable benchmarking whenever requested by ITOs. Fifty percent of outsourcing contracts not meeting benchmarking requirements will be renegotiated or terminated. By 2004, 40 percent of outsourced ITOs will shift from "win/lose" to "win/win" scenarios by establishing a credit/debit scheme with outsourcing vendors. The rationale will be to build healthy and flexible vendor relationships to improve service quality and responsiveness while enabling vendors to meet profit targets. By 2005, 25 percent of outsourced ITOs will build

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trust with outsourcing vendors as a result of vendors leveraging technology to enable business strategies, establishing operations excellence best practices, and automating and integrating operational processes.

To mature the outsourcing relationship from one level to another, ITOs should improve outsourcing effectiveness in accordance with the following qualifiers:

- **Relationship fundamentals:** To ensure the relationship management structure is established, success stories are created, and outsourcing goals are accomplished
- **SLAs/metrics:** To ensure SLAs exist for all outsourced services, reporting arrangements are enforced, and SLA targets are met or exceeded
- **Formal processes:** To adopt a process maturity model to constantly optimize, integrate, and automate outsourcing management processes, where applicable
- **Benchmarks:** To continuously assess outsourced services' competitiveness, quality, and responsiveness
- **Credit/debit scheme:** To provide an incentive to outsourcing vendors to improve service quality
- **Trust:** To build trust between ITOs and outsourcing vendors by leveraging new technology, providing new competencies, increasing security effectiveness, and addressing service single points of failure
- **Business value:** To ensure outsourcing arrangements contribute to the business's bottom line

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