



## **Why Outsourcing and Managed Services Deals Fail**

Practical tactics for getting troubled outsourcing relationships back on track

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## Introduction

Technology-driven efficiency improvements are vital to business success and today IT service delivery is a core and essential organisational capability. Unfortunately, many companies source and manage IT services poorly, basing decisions on unfounded assumptions that pay no heed to changes and challenges in the market. Smart executives need to use IT services ... and the providers thereof... not merely to manage technology 'plumbing' but also to profoundly affect business performance.

In this white paper we consider some of the key stumbling blocks encountered by companies and their service providers in the process of negotiating and executing managed services deals, and, more importantly, discuss tactics to mitigate or avoid them. Read on to avoid costly missteps....



## Don't skimp on upfront due diligence

Let's start by identifying why managed services and outsourcing deals are the cause of so much discontent. According to Franck Siegel, Dimension Data's managed services portfolio group director, in the managed IT services space, it's not uncommon for the contract renegotiation process to be fraught with disagreement and lengthy debate around cost. Typically, clients expect some sort of discount when renewing contracts, their argument being that as the managed service is set up and operational, with no start-up costs, the outlay for the vendor to deliver the service must be less.

The problem here, Siegel explains, often relates to legacy opportunities not being properly scoped – decisions were taken in the dark. Often, the level of due diligence undertaken at the start of the relationship is insufficient – this can have major implications months and years down the road.

According to Siegel, successful outsourcing and managed services deals are underpinned by three key concepts: trust, value creation and a win-win mindset. "By trust, I mean that both parties need to establish a level of comfort in the other's commitment to the partnership. Fundamental to laying a foundation of trust are visibility and transparency, which can be realised through a series of fact-finding consulting engagements at the start of the relationship in order to establish the 'as-is' situation, and to avoid disagreements cropping up during the lifecycle of the contract."

Specifically, the areas that are often not thoroughly scrutinised ahead of contract signing include IT Service Management (ITSM) benchmarks and technology lifecycle management of the installed base, for example: How many devices are nearing end-of-life or end-of-support? What is the current volume of calls to the service desk? What are the existing and predicted change management requirements?

“At Dimension Data, experience has taught us that technology consulting services such as Technology Lifecycle Management (TLM) Assessments, Security Assessments and ITSM Optimisation Services are excellent places to start before implementing any major change or new investment. They can uncover a wealth of information regarding hidden risks and vulnerabilities and equip you to make informed decisions with all the relevant information at your fingertips.”

When it comes to due diligence – or lack thereof – the Service Level Agreement (SLA) is common offender, often being incorrectly set at the start of the relationship. Siegel points out that “it’s not always necessary or desirable to have ‘fine-nines’ uptime for every aspect of your network. Companies need to work with their providers upfront to identify which areas of their IT estate are business-critical. Only once you have undertaken the correct level of analysis can you assign price and value.” When it comes to value creation, Siegel stresses that providers need to be mindful that every client is different and has its own specific needs. “Depending on their unique business challenges, clients’ needs may span from basic maintenance services (i.e. the provision of spares and a capability to fix a problem when it occurs), to support services (which includes access to technology expertise and operational capabilities) or fully managed services where the client hands over the end-to-end management and operation of parts of or even its entire IT estate, to the provider.”

“Ultimately, a ‘win-win’ situation is the logical conclusion of achieving equilibrium between trust, value creation and price. In our experience, if you go through a rigorous due diligence process upfront, and if you are truly transparent in terms of what you can and can’t deliver, the ‘price versus value’ dynamic becomes easier to navigate,” Siegel adds.

### Consider alternative managed services delivery models

Technological advances and the modes of delivering IT services continue to evolve at a rampant pace. Maintenance and managed services delivery is no exception. Today, there is a discernible trend towards ‘bundling’ these services. In fact, according to Siegel, this approach is emerging as a functional alternative to traditional outsourcing. “Our experience is that clients are showing increased interest in managed services as an extension of a maintenance contract, as opposed to an add-on. Specifically, staff augmentation, remote monitoring and management and operational support are more and more being ‘packaged’.”

“Concerns that this approach in any way dilutes the value of the services being delivered are largely unfounded, in my view. Bundling of services does not necessarily imply erosion of the value or loss of visibility of the managed service piece, if it’s done correctly. Packaging managed services offerings correctly is important, however: Many providers are merely renaming their maintenance or outsourcing capabilities rather than offering genuine managed services. Others are creating complicated managed service portfolios that confuse potential clients,” he adds.

Given the move to bundling of maintenance and managed services, Siegel sees the onus being on the provider to educate clients about what they are buying and what the various options are, so that they can ‘compare apples with apples’. “A common challenge is positioning these services properly. If the client does not understand the value / price balance then the arrangement is not going to prove satisfactory for either party.”

“An easy-to-understand, portfolio approach is in our view the way forward, and is an approach Dimension Data has itself adopted,” explains Siegel. “We’ve developed a managed services portfolio spanning across reactive and proactive services. Each offering within the portfolio presents a clear description of all deliverables as well as the associated SLAs, which ensures that whether the services are bundled or not, the offering is clear to the client. This helps avoid what I call the ‘black-box syndrome’ where the client doesn’t quite know what to expect (and therefore expects everything) and the service provider over-promises on its capabilities to deliver. We see this happening a lot in the market. This typically leads to mutual dissatisfaction and frustration.”

## Ongoing financial controls and reviews – never too much

Communication breakdowns and lack of attention to the financial aspects of contracts represent common stumbling blocks in managed services deals. So where are we going wrong?

According to Siegel, the right approach to pricing is critical. Rather than providing a simple fee schedule for their managed services, many providers have created complex pricing algorithms that frustrate prospective clients. Keeping pricing structures simple and transparent is essential.

“As a client, it’s equally important that you sit down with your provider on a regular basis and review what you’re actually asking it to deliver and whether this is aligned to the contract in place – if it’s not, then you need to ‘true up’ the contract. Gone are the days when contracts are left to gather dust in the bottom draw after the initial signing. Regularly review the contract and add and reduce resources accordingly. For example, if you find yourself in a situation where you’ve used up your entire change management budget in the first three months of an engagement, something’s definitely amiss! You are heading for a situation where what was supposed to be a cost savings initiative is going to end up hitting you in the pocket. Again, ideally, you should perform the requisite due diligence upfront, as I mentioned earlier, so that you budget accurately from the start and avoid costly oversights such as this altogether.”



## Say no to poor account and programme management

According to industry analysts, the key factors that sour sourcing relationships is lackluster account and programme management – rather than SLA breaches – which in turn impacts negatively on service delivery.

The issue here, it seems, is not that the provider can’t deliver the services, but that the contract structure makes it impossible for the provider to deliver the services agreed to. Clients end up feeling that they are locked into a contract that is not delivering what they negotiated.

Siegel concurs: “In most cases, conflicts or frustrations in a client / provider relationship do not come from the delivery engine but rather from the communication around what’s expected versus what’s being delivered. This is why effective Account Management, Contract Management and Programme Management are critical for a relationship to be successful. At Dimension Data, we have invested in focused Account and Contract Management teams to ensure constant visibility and clarity of the service and a seamless contract renewal process.”

## Gauge your provider’s level of regional and cultural capability and sensitivity

Whether it’s to access new markets, leverage a lower cost base, or be closer to skilled talent, most organisations today run operations across a number of locations. Many of them are so widely spread one might better label them as ‘dispersed’ organisations. Along with this widening footprint has come an important role and challenge for IT. Technology can enable businesses to operate across locations. However, managing IT that is spread across a region or the world can be daunting. Specifically, an absence of regional and cultural sensitivity and capability in multinational managed services and outsourcing deals can bring a client / provider engagement to its knees ...and irreparably damage the relationship.

“Leading industry analysts tell us that the number one point of dissatisfaction amongst clients when it comes to managed services deals is ‘ease of business’ across multiple geographies,” explains Siegel. “Many providers don’t have operations partners on a global scale or the ability to bill in local currency.”

“One often hears of situations where large multinational deals are crafted and run by IT staff in the US or Western Europe with little or no due diligence being undertaken with respect to what the company’s service catalogue is globally. Certain SLAs might be realistic and achievable in the US or the western European parts of the organisation but less so in Nigeria or Vietnam! SLAs and price are one thing, but ease of doing business with your vendor is extremely important – remember you are going to be living with the contract for many years!”

Organisations should be mindful that if they are expecting their service providers to deliver to a consistent global standard, the service is likely going to be more expensive in some geographies. Focus on what is realistic and acceptable in less developed regions of the world. And if you need a certain level of global consistency, carefully scrutinise your pool of potential providers – there are very few that can actually deliver at this level.

According to Siegel, this aspect of IT services represents Dimension Data’s ‘sweet spot’. “Our ability to execute and ‘get things done’ anywhere in the world that our clients do business, sets us apart from our competition. Given our geographic footprint (a direct presence in 49 countries and the ability to provide services in an additional 120 countries, thanks to our network of Preferred Partners), it’s hardly surprising that our competitors often look to us to augment lapses in their own delivery capabilities in parts of the world.”

### Eliminate price as the sole influencing factor in your buying decision

It’s unlikely these days to find a CIO who is unfamiliar with pressure from the business to cut costs. Forward-thinking leaders need to be creative about finding ways to improve efficiencies to ‘do more with less’. Strange as it sounds, it is possible to spend money in order to save money... a case in point: Despite the downturn even though growth of overall IT budgets contracted, many companies invested money in projects that could help reduce spend and increase IT efficiency, specifically managed services. According to Siegel, “during the slowdown, IT services share of overall spend increased with firms’ attempts to improve technology while attacking costs. We saw an uptick in requests for information from companies who were looking for guidance on how best to maximise efficiencies through managed services and outsourcing solutions related to the corporate network. Our approach is to be flexible and seek out win/win outcomes for clients who are under pressure to reduce their IT spend”.

#### **Siegel suggests that organisations under pressure to cut costs apply the following three basic rules of thumb:**

- ▲ Identify where it makes sense to cut back and where cutting back would actually cost more in the long run. For example, if you skimp on your maintenance coverage, you will face a real threat of network downtime. How much does a company lose if its e-commerce site is down for 15 minutes? How much does it cost the state if a tollbooth isn’t working? If an aircraft doesn’t take off on schedule? All these scenarios manifest themselves in a diminished ability to compete. Reducing the time it takes to resolve these incidents from 15 to 20 minutes to just seconds can be monumental from a business perspective.
- ▲ Where appropriate, consider alternative delivery models. While this may involve an initial capital outlay, it may also have the potential to save costs in the medium to long term. Following the downturn, many disruptive technologies that wouldn’t necessarily see such aggressive adoption have come more to the forefront – virtualisation, open source, software-as-a-service (SaaS) and cloud computing. While all these technologies were already on the radar in many firms, in the new economy, these are increasingly being recognised as essential components of the architecture which is going to allow everyone to do more with less and will become the new model of business computing going forward.
- ▲ It goes without saying that one should avoid chopping and changing vendors based on price – rather invest time and energy in nurturing the relationship.

“Our ability to execute and ‘get things done’ anywhere in the world that our clients do business, sets us apart from our competition.”

Franck Siegel, Dimension Data Managed Services Portfolio Group Director

## Partner wisely

If you’re looking to put your outsourcing relationship on the road to success, first and foremost, it’s essential to ensure you get a ‘fit for purpose’ partnership. Finding the right provider to entrust with the management of your infrastructure is a critical choice that can have a lasting impact upon your business.

“There are a number of competencies and skills to take into consideration when evaluating a potential services partner,” explains Siegel. “Many of our clients see value in consulting industry analysts who are excellent sources of information and advice for CIOs grappling with vendor selection issues. For example, Gartner Magic Quadrants can help companies to map vendor strengths against their current and future needs and make informed choices – safe in the knowledge that the reports provide an independent assessment of various vendors’ capabilities.”

Dimension Data’s global capabilities in the IT services marketplace were recently recognised with our positioning in the Challengers Quadrant in Gartner’s Magic Quadrant for Communications Outsourcing and Professional Services, Worldwide<sup>1</sup>. Commenting on Dimension Data’s positioning, Siegel says: “We are delighted to be evaluated by Gartner. We view our placement in the Challengers Quadrant as an independent verification of our ability to deliver high-quality, cost-effective communications and professional services that enable our clients’ businesses. Specifically, we believe that our positioning is testament to the ongoing and focused investments we have – and will continue to make – in our multi-vendor support, programme management and service delivery capabilities.”

## Steering for the future

IT outsourcing sounds good on paper – but often fails in execution. Without clarity and consistency in goal setting, communication and measurement, the outsourcing relationship may produce more headaches than results, and the risks of the engagement may outweigh the rewards.

Despite the complexity of the problem, there are practical solutions which will improve the value you extract from your outsourced relationships. And with the right approach, getting the sourcing partnership you want is within your reach. There are many paths to success, and clients and service providers alike have a role to play in avoiding the common mistakes that put outsourcing relationships under pressure and hinder service delivery and profitability. Not all of the lessons discussed in this paper may be new. But they are taking on new importance as companies strive not only to survive, but to thrive.

<sup>1</sup> Gartner “Magic Quadrant for Communications Outsourcing and Professional Services Magic Quadrant, Worldwide” by Eric Goodness. 3 March 2010

## About the Magic Quadrant

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To read Gartner’s Magic Quadrant for Communications Outsourcing and Professional Services, Worldwide, visit: [www.dimensiondata.com/gartnermagicquadrant](http://www.dimensiondata.com/gartnermagicquadrant)



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