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Contract Management In An Outsourcing Deal

Project Case Study: Managing Obligations With Digital Fuel ServiceFlow

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EXECUTIVE SUMMARY

You've just spent a year (or more) to get an outsourcing contract signed, and ink is on the stack of paper — sometimes more than 1,000 pages deep. But now reality has set in: How are we going to manage this? In many outsourcing deals, the measurement of service levels and key performance indicators (KPIs) usually takes most of the management focus prior to contract signature; but managing outsourced services is about much more than service-level agreements (SLAs) and KPIs. Both vendors and customers need to select and implement processes and tools to ensure that obligations and expectations for all deliverables and services can be met. Digital Fuel's ServiceFlow is a software application designed specifically to aggregate *deal-specific data* from multiple sources, including SLAs, finance, project deliverables, etc. Forrester investigated how Siemens Business Services (SBS) uses Digital Fuel to help manage an outsourcing contract with a large UK firm.

RESEARCH CATALYST

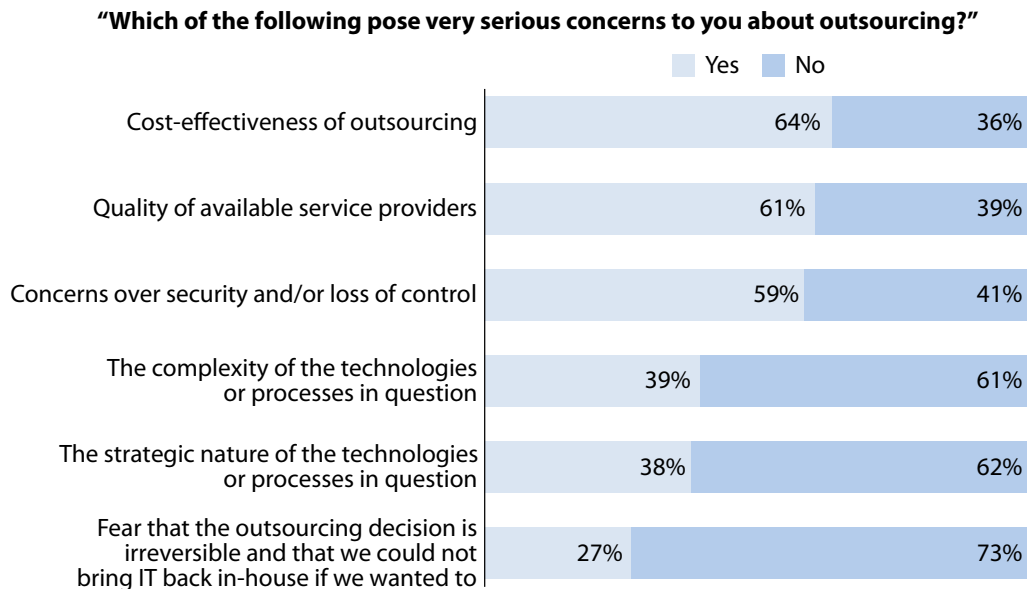
Clients selected this topic for Client Choice research.

BIG SURPRISE! COST AND SERVICE DELIVERY DRIVE OUTSOURCING

There is no shortage of talk in the outsourcing industry about technical miracles and grand plans for driving business transformation. But when the projector dims and the consultants go home with their PowerPoint slides, outsourcing customers are most concerned about the basics: delivery cost, service quality, and maintaining operational control of the environment (see Figure 1).

Because of the complexities of service delivery, tracking and reporting on a deal will require data from multiple sources (for example, enterprise systems like SAP, project management tools, incident management systems such as Remedy or HP OpenView, and financial tracking tools). The business problem for account management teams — including both vendor and customer representatives jointly responsible for the deal — is how to aggregate so much data from multiple sources to get a time-based picture of performance *against a contract or set of obligations*. Clients want their providers to tell them how the provider will manage the contract so that *both* firms see what's happening — and what's coming — related to work cost, quality, and control.

Figure 1 What Concerns Outsourcing Customers?



Base: 922 technology decision-makers at North American enterprises

Source: Business Technographics® August 2005 United States Enterprise Governance Survey

Source: Forrester Research, Inc.

With the maturation of the industry, there are some new technologies that can help address these client concerns. One of these tools is Digital Fuel ServiceFlow, which pulls deal-specific data from multiple sources and compares current versus contracted or internal obligations.¹ Outsourcers such as SBS are now more frequently implementing Web-enabled service-level management/business service management (SLM/BSM) systems, and Forrester looked at the SBS implementation of Digital Fuel ServiceFlow in a large UK-based outsourcing deal to see how well the system works.²

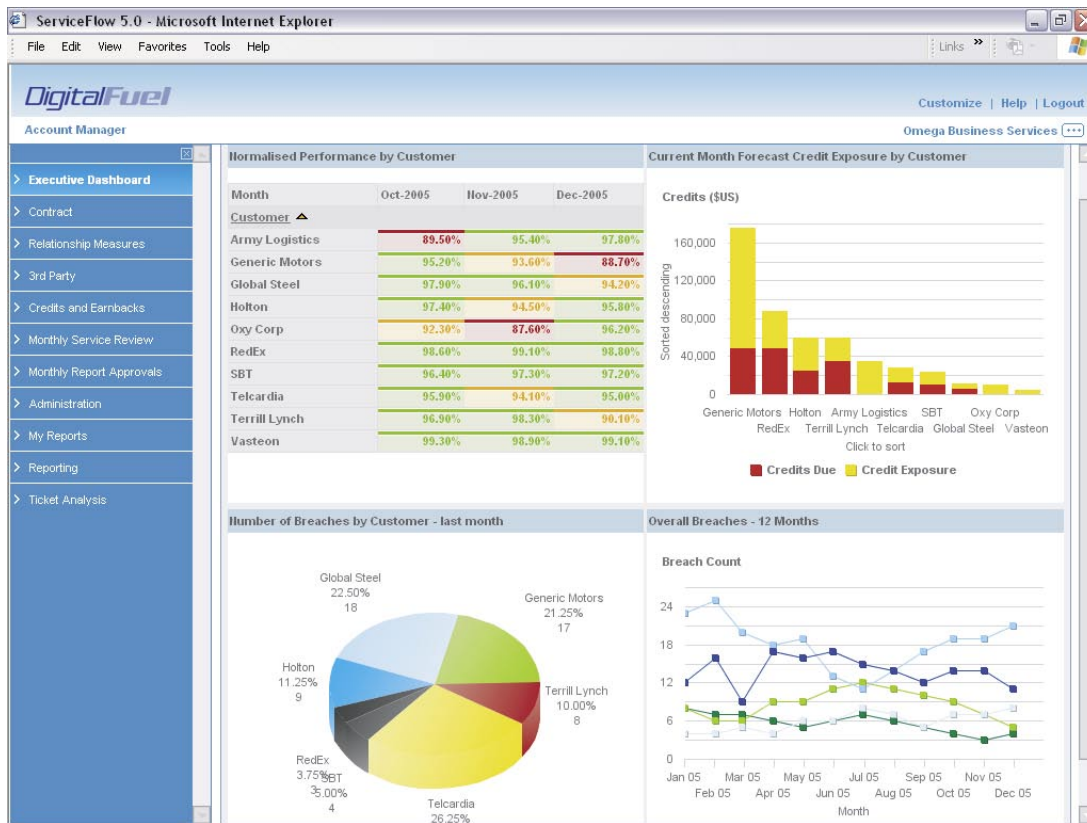
SERVICEFLOW DEPLOYMENT BY SBS

SBS entered into a multiyear comprehensive IT services outsourcing deal in the UK that included a large staff transfer from the customer (total contract value more than €1 billion). The customer challenged SBS to demonstrate how to manage all of the outsourcer’s obligations in the complex multitower contract.³ SBS responded by:

- **Making the decision to connect the contract to the delivery environment.** SBS decided to implement Digital Fuel ServiceFlow to provide a single portal view into more than 450 separate service measures of IT, communications, applications, and compliance.

- **Translating contract language into service delivery requirements.** During this period, SBS and the customer governance team converted the contract language into more precise delivery specifications and came to concurrence on the service obligations. They developed templates to capture all required information, including metrics, required service-level performance, data sources, reporting frequency, and financial impact for each contractual commitment.
- **Documenting concurrence on measures and standards.** SBS documented all shared assumptions, and both firms then *signed off* the final interpretation of each measure. In the SBS case, SBS also conducted legal review to ensure that delivery agreements were in line with the overall scope and intent of the contract.
- **Implementing the system.** SBS installed the hardware and software and used the agreed-on service delivery specifications to configure the ServiceFlow software for each metric as part of initial implementation. It entered all contracted service levels, deliverables, thresholds for penalties or bonuses, audit requirements, etc. into the ServiceFlow system.
- **Moving the system to production.** SBS put ServiceFlow into production in about 90 days for the customer's 30 most important business performance indicators. The transition project team spent a total of six months implementing ServiceFlow for the entire contract. (This may seem long, but it was done by much of the same team managing service delivery.)
- **Using the system for reporting and control.** SBS regularly pulls data into the application (automatically via XML, CSV files, or manually entered) from multiple systems (including a CRM tool, the telephony system, specialized data from the production environment, a change management tool, financial and HR applications, and project management tools). Then the logic engine compares the current performance to the contracted obligations so that ServiceFlow can generate Web-enabled business, SLM, and financial dashboards and reports on performance and compliance with obligations (see Figure 2).

Figure 2 Sample Digital Fuel Contract Dashboard (Simulated Data)



Source: Forrester Research, Inc.

SLM PROVIDES BUSINESS AND RELATIONSHIP BENEFITS

In this deal, SBS maintains that the use of an SLM system provided benefits in three key areas:

- Financial predictability and deal profitability.** Using ServiceFlow helped SBS win this deal and then helped cut costs from a number of areas, including the program management office reporting function. Although there was additional cost during the transition phase, the run-rate is lower because less reporting labor is required. ServiceFlow also provides SBS with an early-warning system for misses that would result in financial penalties. Further, it extrapolates the likely liability (or bonuses for over-achievement), so the ability to remediate delivers cost avoidance to SBS and improves financial predictability.
- Deeper, stronger relationships with clients.** SBS has positive customer governance interactions, and it attributes part of this to its ability to better manage business processes and report on all contractual obligations. The collaborative implementation process forced concurrence on all

critical metrics among delivery and business owners of the contract. Reporting responsibilities are clear, and there is a trusted single source of valid performance data entered and validated via an agreed-on process; this helps avoid conflicts around measures, metrics, and data validity. The entire governance team receives Web access to the system, and there are specific predefined views for customers and different functions. (Users must be authenticated by Windows username and password, and linking to Active Directory is also an option.) The system also helps the customer governance team make a clear linkage between the sourcing agreement and the benefits provided back to the business.⁴

- **Higher service delivery quality.** The SBS account team is confident that the kind of functionality provided by the Digital Fuel system improves overall service delivery. Almost every major service management system can report on SLAs, and SBS can configure these systems to send alerts. The difference is that ServiceFlow can aggregate data from multiple sources, including service monitoring systems, and report on the business and financial impact. This linkage between service delivery and the business is an important component of auditing and compliance activities, and SBS uses ServiceFlow to help perform and report according to standards such as ISO 7799 for security, BS15000 for ITIL service management, ISO 9001 for process quality, and Sarbanes-Oxley requirements for finance and accounting.⁵

RECOMMENDATIONS

LEVERAGE TECHNOLOGY TO MANAGE SERVICE CONTRACTS AND OBLIGATIONS

Forrester is strongly in favor of using technology to more efficiently manage IT and BPO service delivery obligations (either an outsourcing contract or internal agreements). Here are some other points to consider when making tool and process decisions:

- **Plan for service management in an outsourcing environment.** Companies are demanding clearer connections between internal spend and value delivered to customers, and the market is not static. Even so, managers who haven't yet experienced a large outsourcing deal often won't immediately see the value of having a system like this. Most ServiceFlow customers are IT and BPO service providers because they are on the front lines of helping business owners clearly see delivery value.
- **Consider the full life-cycle ROI.** More is . . . well, more. Deploying another application like ServiceFlow adds another system that has to be fit into how service is managed, and the time required for implementation can range from several weeks to several months depending on complexity and scope. Implementation costs for licenses, process engineering, training, project management for deployment, hardware, and configuration are all in addition to the ongoing costs for maintaining the production environment. And the full-time equivalent (FTE) requirement for reporting is reduced but not eliminated. SBS states that ServiceFlow decreased costs in this case; so, there was a positive ROI, but it's still not free.

- **Resist the temptation to ignore process.** The promise of the best tool can be undone without underlying process discipline. It's human nature to often neglect the process diligence required to ensure valid outputs. This is not a product weakness — this is true with or without a technology solution. But without quality control on the inputs to the system, the value proposition of service management tools is seriously eroded. Particularly during the implementation phase, customers are advised to programmatically focus on processes and owners responsible for feeding data into the system.
- **Prepare for an adjustment period.** Otto von Bismarck said, "The less people know about how sausages . . . are made, the better they'll sleep at night." The same can be said for service delivery. ServiceFlow offers a high degree of visibility into a delivery environment and how well services meet a set of obligations. But the gory delivery details — even in well-run shops — are not always something everyone wants shared. Greater visibility can lead to a bit of discomfort and can often go against existing cultural norms. If you intend to implement ServiceFlow or a similar tool, remember that it will take time to grow accustomed to greater transparency, and plan for organizational change management as a part of the implementation process.⁶

WHAT IT MEANS

SOA WILL CHANGE THE LANDSCAPE (BUT PROBABLY NOT TOMORROW)

ServiceFlow sits amid multiple data sources to aggregate input and presents a view of the environment from the perspective of a set of requirements (either a contract or internal agreements). As the market moves toward more standard service-oriented architecture (SOA), more flexible interoperability will come straight out of the box, simplifying the environment for service management.

Forrester anticipates that savvy vendors will eventually join forces to advance less viscous service management using the SOA paradigm. But unless you're in a mature SOA environment already, for the time being you'll need to find ways to connect SLM/BSM applications at a lower level to manage service obligations without a major overhaul. No single application is a magic bullet, particularly for something as complicated as managing IT or BPO services. In addition to Digital Fuel, there are other vendors that may be well worth a look that offer service management (such as Proxima and Oblicore), service catalog (such as newScale), and contract management functionality (such as diCarta and Upside Software).

ENDNOTES

¹ There are other tools that report on service levels, project status, incidents, or financials, but in an outsourcing deal, all the data needs to be consolidated and viewed through the "lens" of a contract. This business-focused functionality is considerably different from managing the actual contract document or

monitoring system or service performance — functions that are done better by other dedicated tools or system components.

- ² Infrastructure managers are making the move to SLM/BSM technologies to gain visibility and control. See the March 10, 2005, Best Practices “[Top Five Challenges For Enterprise IT Infrastructure Managers — And How To Resolve Them](#)” and the November 9, 2004, Market Overview “[Market Update: SLM/BSM Technologies](#).”
- ³ “Obligations” in the SBS case study are contractually required, but obligations can also mean internal SLAs, targets, etc.
- ⁴ Many CIOs want to run IT like a business, but some take missteps in making the cost/benefit connection for the businesses they enable. One way to ensure that business owners recognize IT or business process outsourcing (BPO) service value is to put delivery outputs in business management terms. See the August 23, 2005, Best Practices “[The Marketing Of IT](#).”
- ⁵ Firms are now establishing more mature risk and compliance architectures, and some are moving toward automated (or nearly automated) internal control and compliance monitoring systems. See the December 13, 2005, Trends “[Trends 2006: Enterprise Risk And Compliance](#)” and the August 29, 2005, Quick Take “[Controls Monitoring Solutions Gaining Momentum](#).”
- ⁶ Addressing the human element of technical and business transformation is vital to the overall success of an outsourcing deal, so organizations should implement a programmatic approach to organizational change management. See the November 2, 2005, Quick Take “[Manage Organizational Change In IT Outsourcing Deals](#).”