Paradigm Change in IT-Sourcing - The CFO’s Perspective

- Fachtagung „Controllinglösungen für die Praxis“ am 04. und 05. Dezember 2013 in Nürnberg -

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Navisco AG - Sourcing Professionals
www.navisco.com
Paradigm Change in IT-Sourcing - The CFO’s Perspective

1. Introduction
2. Trends in IT & BPO
3. Sourcing Best Practices
4. Recommendations & Questions

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Key Points which will be addressed

1. Introduction of Sourcing as a key and on-going management discipline with significant financial impact and therefore a competitive advantage

2. Understanding the different Sourcing Areas & Trends in the market of BPO & Information Technology (IT)

3. Assess financial impact and risks from recent outsourcing projects

4. Get practical guidelines for your company how to evaluate Sourcing

Source:
We deliver quality, efficiency and market proven sourcing solutions for any IT infrastructure, application or business process service.

- We are specialist in sourcing strategy, operations and transformation for more than 10 years.
- We have intimate knowledge of the global sourcing market, vendors and terms & conditions.
- We are vendor independent and neutral for any evaluation.
- We do not reinvent the wheel but provide best practice for processes, contracts and service agreements.
- We know and guarantee practical solutions from the very beginning.

Navisco Sourcing Advisory Services
Almost 15 years as an independent Sourcing Advisor gives us a cross-industry and intimate understanding of Customer requirements in DACH and the Nordics
Outsourcing is more than a service strategy, it has always an organizational, a social as well as a political and personal dimension...

http://www.youtube.com/watch?v=rYaZ57Bn4pQ
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Due to growth, mergers and acquisitions many IT landscapes are not well structured - standardization is needed to become efficient.
CFOs increasingly focus on IT optimization which is one reason for companies’ IT efficiency improvements in the past 10 years.

- Current main drivers in the IT service industry -

- Financial and economic crisis have changed management perspective and CFO’s agenda to be more flexible on IT costs.
- Shift in internal skill development from technical to process & governance.
- New technologies (virtualization, automation, cloud) and global delivery (near- & offshoring) have driven IT industrialization forward.
- Common acceptance of best practices for all non competitive services with much lower costs and scalability by outsourcing.
In almost all large international companies the split between demand and supply in IT and Business Process Services has been successfully implemented.

Source: David Mark and Diogo P. Rau, Splitting Demand from Supply in IT, McKinsey on IT Fall 2006
We use a market-conform and industrialized Service Structure and differentiate into three different Sourcing Areas with different Strategies.

**SERVICE MANAGEMENT** (ITIL based processes)

<table>
<thead>
<tr>
<th><strong>1. BUSINESS PROCESS OPERATION</strong> (PAYROLL, FINANCIAL ACCOUNTING, ...)</th>
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<tr>
<td>▪ Business Process and Technology Consulting</td>
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<th><strong>2. APPLICATION MANAGEMENT SERVICES</strong></th>
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<th><strong>3. USER HELP DESK &amp; COORDINATION</strong></th>
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<td>▪ DC Infrastructure &amp; Backbone</td>
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<td>▪ Disaster Recovery Services</td>
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<td>▪ Mainframe/ Server Operations</td>
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<td>▪ DNS &amp; Directory Services</td>
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<td>▪ Messaging Services</td>
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<td>▪ Terminal Services</td>
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**COMMUNICATION** (DATA & VOICE)

| ▪ WAN Services |
| ▪ VPN Services |
| ▪ LAN Services |
| ▪ Voice Services |
| ▪ Security |

**ELECTRONIC WORKPLACE**

| ▪ PC’s |
| ▪ Notebooks |
| ▪ Thin Clients |
| ▪ Mobile Devices (Smartphone) |
| ▪ Phone and VoIP devices |
| ▪ Printing Services |
| ▪ SW packages & distribution |
| ▪ IMAC Services |
BPO Service contracts are growing > 10 % p.a., dominated by Financial/Banking services (40%) - Most companies choose a hybrid approach adopting a combination of internal and third-party based models

- Operating model alternatives for implementing Shared Service Centers (SSC) -

Source: Everest Group, 2011
Our recent research study on “Strategies for Application Management Services” showed as one result a strong move to SLA based Outsourcing

- Companies are moving towards advanced sourcing models -

Research study 2012 with University of St. Gallen with:

- Focus on Application Development, Deployment and Maintenance & Support Services and Sourcing Strategies
- Almost 40 international German and Swiss based companies with revenues ranging from EUR1bn to more than EUR100bn
- Cross-Industries: banking & insurance, manufacturing, information and communication, transportation & logistics, pharmaceutics & chemicals, retail, utilities
- Comprehensive approach with survey, individual interviews and workshops with all participants on CIO, application managers

Source: www.navisco.com/research_studies
Cloud Computing can provide faster time-to-market times including elastic IT services and can achieve lower IT expenditures

- Optimizing the use of resources
- Standardizing services
- Reducing expenses in the areas of infrastructure investments and management costs
- Reducing maintenance and service costs due to higher volumes
- Reducing ‘Total Cost of Ownership’ due to the utilization of common infrastructure
- Low degree of the customer’s IT capacity utilization
Currently all IT Service Providers are offering Cloud Services with a very restrictive Service Offering based on a ‘pay-per-use’ model.

- Collection of various web services
- Different server classes
- Amazon Elastic Compute Cloud (EC2)
- Windows and Linux operating system possible

- Smaller offer than Amazon
- Different server classes
- Google Compute Engine
- Only Linux system possible
- The system is currently in the starting phase

- Several Cloud offers
- Configurable server size
- Dynamic Services for Infrastructure
- Windows and Linux operating system possible

- Designed for companies
- Focus is on reliability, scalability, control and data security
- Smart Cloud Enterprise
- Windows and Linux operating system possible

- Various server offers
- Jiffy Box
- Only Linux system possible
- Also pay-as-you-use, but with a maximum amount
- Traffic Flatrate

- Fujitsu
- ICT Systems
- 1&1
- Host Europe
- Filoo GmbH
- Dunkel
- Nionex

- GoGrid
- RackspaceCloud
- CloudSigma
- Swiss Cloud
- City Network Hosting
- Hewlett-Packard (HP)
- Centron GmbH
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The shift to IT Infrastructure Outsourcing has not only a major financial impact but also changes the way of working with the business.

- Transition of all IT assets to the provider
- Improved Cash Flow
- Avoidance of Investments
- Flexibilization of IT costs
- Potential transition of employees
- ‘Financial Engineering’ of savings as of the contract’s beginning

Results in the first 12 months of the outsourcing contract:
- Improved EBIT view
- Reduction of the balance
- Measurable savings
- New mode of IT operations
Navisco’s Benchmark Approach and Methodology are based on our Reference Model and our Market Price Database

Analysis of services (documentation, quality, cost, complexity)

Selection of peer groups from Navisco database and normalization

Mapping to Navisco Reference Model

Benchmark
The sourcing portfolio analysis combines company specific and market driven criteria to indicate strategic sourcing options for the different IT services/apps.
Our market-proven Outsourcing Reference Model is based on flexible and market-conform IT services combined with a solid commercial model.
We see an Impact of the current Sourcing Paradigm Shift on many ongoing Sourcing Engagements

A. IT Outsourcing comprehensive sourcing approach (technology driven)

- Large scale HR and asset transfers
- Take over of as-is operations by provider
- Large scale transformation to future mode by provider
- Single vs. multi vendor strategy
- 5 to 8 years

B. IT Outsourcing selective sourcing approach (multi-vendor)

- Take over of individual services according to provider standard
- Transformation responsibility remains with customer
- Multi vendor strategy with possible cherry-picking
- No asset and only selective HR transfer possible
- 3 years
Customer Skills & Capabilities for a successful & effective outsourcing management are very often the critical success factor

Navisco Framework & Evaluation Scheme:

++ strong capabilities
+ satisfactory capabilities
o little or no evidence
- problems being experienced
-- serious problems/ escalation

Source: Feeny, Willcocks
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Sourcing is one of the key management disciplines with high two digit saving potentials and forming a more flexible service organization.

- Key recommendations for Sourcing Initiatives -

**COMMODITY IT**

**Benchmarking & possible Sourcing of Commodity IT Services** is a global trend with saving potentials of 10 - 25%!

**ADM SOURCING**

Application Development & Maintenance Re-sourcing Strategies are the new level of saving potentials!

For international companies a ‘Shared Service Center’ Strategy for core processes will be the new ‘game changing’ strategy with mid-term high saving potentials!

Any Sourcing initiatives should benefit from market experiences, tools, contracts and models to build up necessary internal capabilities for successful provider management!

**SHARED SERVICE CENTERS**

**EXTERNAL VIEW**
We stand for ... implementing high quality and market proven sourcing solutions for any IT infrastructure, application or business process service

- Any Questions or Points of Interests? -

**Methodology**
We have a strong methodological approach (NORM) with proven tools, templates and excellent contract documents

**Sourcing**
Sourcing is our core business. We have experience from over 100 sourcing engagements in more than 10 years

**Advisory Services**
We are experienced, action-oriented and strong in implementation with excellent negotiation skills

**Relevant Market Knowledge**
We know the outsourcing market from both sides, in particular the relevant providers and their business models, contract terms & market prices and delivery capabilities

**Trust**
We enjoy a high degree of trust on the market due to our proven integrity, independence and subject matter expertise
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