

HOW TO MAKE OUTSOURCING RELATIONSHIPS WORK

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Table of Contents

Preface	3
From Novel Business Strategy to Business as Usual	3
Managing the Outsourcing Relationship for Maximum Business Value	4
Be clear about goals and expectations.....	4
Look for a partner, not a provider.....	4
Scope the solution clearly from the get-go.....	5
Make communications a top priority.....	5
Evangelize collaboratively.....	5
Modify processes once a steady state is achieved.....	5
Summary	6
Learn More	6

Preface

In our previous feature, “*Selective Sourcing (Smart Sourcing): An Intelligent Alternative to Outsourcing*,” we explored new alternatives to the traditional all-or-nothing outsourcing model. This article takes a closer look at the next big trend in outsourcing: managing the outsourcing relationship for maximum business value.

From Novel Business Strategy to Business as Usual

Outsourcing is quickly making the transition from novel business strategy to business as usual. Most Fortune 1000 enterprises have experimented with outsourcing—more than half have already moved from outsourcing application development to outsourcing key IT projects. And mid-size enterprises are quickly seeing the value of selective outsourcing to help augment their IT staff and focus on core business issues rather than technology operations.

While outsourcing is being embraced by the mainstream, many companies are realizing that the success of the outsourcing project may depend, like so many other things in business, on the successful management of the outsourcing relationship. Without clarity and consistency in goal setting, communications, and measurement, the outsourcing relationship may produce more heartburn than results—and the risks of the outsourcing model may outweigh the rewards.

As some enterprises have learned the hard way, outsourcing creates a multitude of new challenges, including:

- **New skills:** Managing the outsourcing relationship requires additional skills and processes beyond what is required for internal projects. Defining performance metrics, escalation procedures, and change management processes can be difficult, particularly in the face of language barriers, cultural differences, time zone differences, and communication issues.
- **Garbage in, garbage out:** Outsourcing an issue in hopes that the outsourcer can fix it often results in worse problems for the outsourcer, who may face higher costs, longer delays, and lower quality for the IT project.
- **Tracking service level performance:** To keep projects on time and on budget, the outsourcer must meet critical service level agreements (SLAs). However, determining responsibility for defining and measuring SLAs can be difficult.
- **Immature offerings:** Many outsourcing service providers who are new to the market may be relatively untested and unproven. The outsourcer should research whether the provider's capabilities truly match their requirements.

Managing the Outsourcing Relationship for Maximum Business Value

Based on lessons learned by Sun Managed Services professionals, the following suggestions can help you maximize the business value of the outsourcing relationship.

Be clear about goals and expectations

Make sure you and your team understand what is motivating the move to outsourcing. Are you simply interested in cutting operations costs or do you expect the outsourcer to play a more strategic role in your IT operations? What exactly is the business problem you are trying to solve, and what role will the outsourcer play?

Your answers to these questions will impact the relationship fundamentally, helping determine the amount of control you want to cede to the outsourcer, the nature of your communications, and the skill sets required. In addition, you will need to address and come to agreement about a host of specific issues up front, such as:

- Who will own responsibility for quality—your company or the outsourcer?
- How will you ensure that your outsourced IT initiatives are tested and deployed to meet the same quality standards as in-house projects?
- How will you govern a mixed portfolio of in-house and outsourced IT projects while keeping them in alignment with your business goals?
- How will you avoid inconsistencies and redundancies in processes?
- Who determines SLAs and how are they measured?

Look for a partner, not a provider

Traditional models of outsourcing often lead to 'throw-it-over-the-fence' syndrome, where the client's team and the outsourcer's team are focused only on their assigned tasks and responsibilities. You want a true partnership that is focused on the business process and requirements rather than just skill sets and tools. We suggest you consider the following when selecting your outsourcing partner:

- **Experience:** Examine the outsourcer's overall business experience as well as core capabilities and skill sets. Send a Request for Information (RFI) that asks how the outsourcer will solve key business problems rather than inquiring about specific activities, such as monitoring incident response. Get five to eight RFI responses and narrow your list to two to three companies. Then visit those prospective partners so you can see their operations centers, meet the people who will perform the daily functions, and make sure there is a cultural fit.
- **References:** The outsourcer should be able to demonstrate a track record of success with your specific type of project. Ask for references and call them. Also, ask for specifics about which personnel would be working with you and examine their work experience carefully.
- **Certifications:** Check whether the outsourcer is certified on the products they will be using. Also, look for and expect compliance with specific quality initiatives that may be important to your business, such as Six Sigma, SunSM Sigma (Sun's adaptation of Six Sigma), or SunToneSM certification. These quality initiatives provide structured methods for the continuous evaluation and improvement of services that deliver real business value, incorporating principles from multiple industry standards, including the IT Infrastructure Library (ITIL), CobiT, ISO, and CMM.

- **Innovation:** You may benefit greatly by working with a partner known for technological innovation. In addition to gaining access to leading-edge expertise, you can take advantage of state-of-the-art tools, such as remote management and monitoring.
- **Partners:** In cases where a single outsourcing provider cannot provide every service required, you may turn to multi-sourcing, which involves multiple service providers. Investigate the connections of your outsourcing candidate to make sure you will have access to the full spectrum of services and providers you need.

Scope the solution clearly from the get-go

Clarity in initially defining the scope of the solution, and the associated expectations, is likely the *most* important component of a successful relationship. Make sure you consider all of the following:

- **Functional ownership:** What are the roles and responsibilities for all involved parties?
- **Reporting structure:** Define cross-team, cross-organization, and inter-organization reporting roles.
- **Expected communications:** Determine how often and to whom you will be communicating. You should set expectations by specifying topics, format, and level of detail.
- **Measurements for success:** Realistically, what defines success for the project and how will it be measured?

Make communications a top priority

At kick-off, get consensus around making communications a top priority. All too often, failures in outsourcing relationships are the direct result of miscommunication — or no communication. At the kickoff of your outsourcing engagement, clearly establish the specifics of how and how often you will communicate. We suggest that you meet weekly or more if possible, trade responsibility for leading the meetings, encourage all participants to speak through an open dialog about issues, and require executives to attend early meetings to show commitment and support. Early in the engagement, you should agree upon and frequently measure performance metrics, such as MTTN, MTTR, and availability levels, so you can identify and address low performance immediately.

Evangelize collaboratively

It is important to identify and publicize early wins and successes, and to do so as a team. Tie an internal resource to the success of the project along with added incentives and/or compensation if possible, and highlight successes throughout both organizations to breed enthusiasm.

Modify processes once a steady state is achieved

Once processes are refined, tuned, and comfortable for all parties, the required focus and intensity levels should adapt accordingly. Communications levels and reporting structures can be modified, and your company can potentially begin looking for additional opportunities for outsourcing outside of the scope of the existing engagement.

Summary

The potential benefits of outsourcing are well documented: reduce IT operations costs, improve application service levels, get access to specialized expertise, delay new hardware purchases, and increase the strategic value of the internal IT organization. But the importance of managing the outsourcing relationship is often underestimated. By insisting on a partnership approach with your outsourcing provider and committing to clear, consistent, and constant communication, you can move from the promise and potential of outsourcing to real-world, positive results.

Learn More

To learn more about Sun Managed Services and how Sun's selective outsourcing model follows these steps in helping you manage and maximize your outsourcing relationship, please visit www.sun.com/managedservices/