

## 6 Steps to Successful Outsourcing

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Like the Grim Reaper and the IRS, IT professionals need to be prepared to deal with outsourcing. Based on the trends I'm seeing in the industry I think we can add outsourcing to death and taxes as an inevitability of life. If you can't beat 'em -- manage 'em as the saying goes...

Outsourced IT services are assuming a critical role in the delivery of IT Services to the enterprise. In December 2006, Gartner concluded that IT will transform into a business-focused, process-oriented organization, delivering the agility and innovation that enterprises need to maintain their competitive advantage in the marketplace.

The convergence of factors such as widespread adoption of IT Service Management frameworks, technological advances in realization of Service Oriented Architectures (SOA), Real Time Infrastructure and the emergence of well-managed and highly reliable providers of technology-based services compel IT organizations to adopt outsourcing management strategies as part of their overall IT governance.

To be able to support the needs of the business, Gartner further predicts that the IT profession itself will split into four domains: technology, information, process and relationships.

Gartner is not alone in thinking that IT has to change in order to deliver services as required, and they are not alone in thinking that outsourcing will continue to play a critical role in service delivery. Previously, the Managed Service Providers Association (MSP Association) created the Service Management Quality Initiative Council (SMQIC) with the mission of creating evaluation criteria for outsourced managed services. As part of its work, the SMQIC identified several critical management issues that an IT organization must address in order to be successful in managing the delivery and support of Business Technology Services in a multi-sourced environment.

In the whitepaper, *Open ITSM Solutions; Enabling Business & IT Transformation* we pulled all these themes together and described how to succeed IT must shift from internal delivery of technology to brokering services in a multi-source environment. Based on my experience, here are the six steps to successful outsourcing that I feel are most important for you to master (if you want to succeed at outsourcing.)

### Vendor Relationship

No matter how detailed the underpinning contract is, successful outsourcing is all about managing the relationship with the vendor. All too often, we've seen or read about outsourcing relationships that failed. They failed because the responsibility of managing those relationships defaulted to the technical teams instead of the senior IT leadership who negotiated the deliverable for the outsourcing contract in the first place.

As part of overall IT governance, senior IT leadership must be involved until the outsourcing vendor has implemented all of the IT Service Lifecycle Management processes associated with the service in transition. This enables the management team to deal with problems before they get they get out of hand.

### Change Management

Change Management is difficult to deal with on its own, but the added complexity of understanding the impact of changes to internal IT infrastructure and its impact on externally provided services becomes mind boggling. However, that doesn't mean that you don't have to do it. In fact, before an organization can successfully utilize outsourced services, it must have its own Change Management act together. This means that all changes follow the same process, and that the impact analysis performed by the Change Advisory Board (CAB) extends to outsourced services.

A successful multi-source Change Management environment requires that the vendor become a stakeholder in the Change Management process, including holding a seat on the CAB. This can be done as part of a well-crafted services contract. This may cost the enterprise a few more dollars to implement, but this approach will be well worth the money as it will create consistency across all underpinning contracts (UC), operating level agreements (OLA) and service level agreements (SLA), regardless of how the service is sourced.

## **Performance Management**

It's important to monitor the outsourced vendor's service delivery performance (different from how the vendor performs on the contract). IT organizations must monitor and evaluate the performance of the outsourced service and not rely on vendor-provided reports. Identify all goals, objectives, Critical Success Factors and Key Performance Indicators up front and include them in the contract with the outsourcing firm. These metrics establish the performance thresholds that will enable organizations to deal with performance issues before they get out of hand.

While the preceding issues are critical, they are "nuts & bolts" management issues. The next three are just as critical but deal with the actual administration of the vendor's contract and the value being delivered for the services under contract.

## **Financial Management**

Similar to Vendor Relationship management, Financial Management of the outsourcing relationship requires senior IT management participation as well. In the past, reducing the costs of IT services to the business provided the sole basis for making many outsourcing decisions. While seeking lower costs, businesses often failed to understand the impact outsourcing would have on their ability to respond quickly to a rapidly changing business environment. This has led to significant cost overruns and failed outsourcing relationships. You can avoid these kinds of issues by developing a multi-source outsourcing program that is aligned with the financial and business needs of the enterprise.

Tracking the financial performance of the vendor contract is just as critical as tracking the performance of the services being provided.

## **Contract Management**

While Financial Management tracks delivery of contracted services to cost, Contract Management tracks the vendor's adherence to the terms and conditions of the contract. Things like tracking the accuracy of invoices, delivery of reports, and prompt responses to inquiries may seem a bit mundane and bureaucratic, but they are actually critical to maintaining a good working relationship with the outsourcer.

Managing the terms and conditions of the contract is just as critical as managing its financial performance because it ensures that the outsourcer is meeting its delivery commitment for the non-IT items that are critical to the success of the outsourcing program.

## **Service Value**

As with any outsourcing relationship, IT is on the hook to clearly demonstrate the value the outsourced service brings to the business customer. Similar to Performance and Financial Management, it's imperative to identify the Critical Success Factors and Key Performance Indicators that will be used to evaluate the outsourcer's ability to deliver this value in an ongoing manner.

Managing Service Value enables IT organizations to prove to the business that the outsourcer is delivering IT services optimized for cost, quality and compliance with federal and local mandates.

## **Summary**

Based on the trends I'm seeing in the industry I think we can add outsourcing to death and taxes as something inevitable in the life of an IT organization. Outsourcing doesn't have to be painful if it's managed correctly. Similar to everything else we do in life, if you plan up front and pay attention to the detail on the back-end, everything should work out just fine.

With the upcoming release of ITIL V3 and Carnegie-Mellon's [ITsqc](#) (IT Services Qualification Center), IT should have everything it needs to plan and manage a successful outsourcing relationship.

