THE EVOLUTION
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The business-outcome focus of today's CIOs creates new sourcing options and savings.

WHAT'S DRIVING THE CHANGE IN BUSINESS — AND SOURCING

The role of IT has grown remarkably over the last few decades, wholly reinventing what businesses do, and how they do it. That transformation continues today at an accelerated rate, thanks to technologies such as cloud computing, big data, social media and mobility and the trends they enable, including BYOD and as-a-service models.

Those changes have had a clear follow-on effect on all parts of the organization. The IT department, which once focused on the nuts and bolts of a company's infrastructure, now has primary responsibility for turning company strategy into reality.

What's more, the CIO, who once kept tabs on stats such as system uptime and recovery plans, is expected to play a more strategic role in the company. Raj Ramaswamy, global applications product manager at CSC, says that's because CIOs are now focused on business outcomes.

"The job is shifting. They're no longer just responsible for infrastructure or developing apps. They're expected to support the business plan, whether that's processing a certain number of transactions per month in an online store or shipping a certain number of cases of product."

Despite this evolution, IT is still responsible for the company's infrastructure and applications. And demand for both has never been greater. Narayan Viswanathan, vice president and general manager at CSC, says that IT departments face an interesting challenge — keeping legacy systems running while building solutions tied to the company's future.

"When you look at the IT investments of most companies, the largest share of the budget is being spent on keeping the lights on. They spend money on systems that sustain business operations. Very little investment is made on new innovations. Budgets are flat or getting smaller, and hot technologies such as mobile and social media put CIOs under pressure to invest in those areas," Viswanathan says.

Outsourcing has played a prominent role in IT for decades, helping departments supplement their skills to meet the company's needs while containing costs and improving results. But it too has felt the influence of technology. In fact, the model has changed enough that we now refer to it simply as "sourcing."

This paper examines the evolutionary path sourcing has followed as it reacts to changes in business needs and available technologies. It considers the new business models and options available in sourcing today and how these features can support the new business-outcome focus of today's IT function.

MEETING THE CIO'S CHALLENGE

IT has always had to contend with the fast pace of change throughout the IT stack. Hardware has taken on more advanced and complex management options. Software architectures and products spring onto the scene, mature and fade — to be replaced by the next wave. Every aspect of IT continues to change in rapid cycles, a fact of life that frequently leads to a gap between an IT department's in-house skill set and the resources it needs.

Supplementing staff with external resources was the first answer to the challenge: Sourcing 1.0. Viswanathan says the original sourcing model was simple: "Twenty years ago, the concept was, 'Your mess for less.' We used to take over a company's application systems in their entirety and try to do them at a cheaper cost."

John Martoglio, global applications, cross-sell and transformation lead, says it's a model that caught on quickly because it addressed a specific and clear need. "It's a very tactical model. Let's find the right set of skills at the right cost point and bring them on board at some rate per hour, per month. Some contracts were established on a consumption basis, but more often you had a set amount of capacity and you'd either use it or lose it," he says.

Sourcing 1.0 is still frequently used by companies, but Martoglio says it does have some drawbacks: "In a Sourcing 1.0 model, all of the risk is on the customer, meeting development deadlines or keeping systems and applications running. The sourcing supplier is just providing resources, and if you budget 1,000 hours to complete a project and use 1,500, the customer picks up the tab."

One of the most visible elements of sourcing's first wave was the use of offshore resources. "That aspect of sourcing resulted in significant savings," Viswanathan says. "We moved work to India and other low-wage countries and passed on the cost savings through labor arbitrage to the clients. This resulted in savings of as much as 40 percent."

Sourcing 2.0 introduced a new level of commitment from providers — and new savings as well. This model also saw the introduction of more shared risk between customer and provider, a feature that addressed the key weakness of Sourcing 1.0. "The next phase of sourcing was more outcome-oriented and typically of a longer duration, because vendors needed more time to acquire the skills they needed," Ramaswamy says. "They also felt they could assume more of the burden because they had gained experience from similar engagements with other clients, and brought some standard tools or processes to the assignment and applied them in a client-unique way."

Martoglio says that sharing more of the risk also meant sharing the gain: "In a Sourcing 2.0 model, a provider such as CSC commits to a program on a fixed-price basis, and we guarantee improvements over time. We enter into risk-sharing, gain-sharing arrangements. If we are willing to be penalized, we also feel it is appropriate to share in the gain if we achieve agreed-upon objectives."

Today, sourcing is changing again in response to the same trends and technologies that are affecting the wider business front. With IT at the core of every important business strategy, the company's view of IT has changed. That, in turn, has changed IT's view of sourcing.

"CIOs want more innovation, more efficiency from their sourcing providers [and] savings that go beyond labor arbitrage," Viswanathan says. "They want sourcing that helps them achieve specific business outcomes, not just providing X resources or meeting the deadline for a project."

Sourcing 3.0 delivery and pricing models differ from earlier arrangements. Consumption-oriented pricing under the new model offers a client the ability to tune the business dimensions of a sourcing arrangement to meet its specific need, with the additional flexibility to adjust those parameters on a regular basis.

"Let's say your business is seasonal and you have applications that vary in the amount of resources they consume and the support required," Martoglio says. In retail, a CIO might adjust the hours of support or add resources to ensure the responsiveness of a transaction-oriented system

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during high-traffic times of the year, then dial back those parameters for cost savings during slower times of the year. "A CIO can adjust parameters such as availability, quality, responsiveness and hours of support for an application according to [the company's] needs," he says.

Delivery of services in a Sourcing 3.0 model is handled by a global delivery network (GDN) that is standardized and able to be leveraged, an important distinction between this and earlier models. A GDN provides global resources that use industry-leading tools and processes to deliver services at cost points far better than what any individual client could provide. High-performing teams of skilled application engineers access automated dashboards that control the flow of work and ensure timely completion in accordance with ITIL quality control processes.

MAKING THE SHIFT TO SOURCING 3.0

To shift to Sourcing 3.0, an IT organization must understand its current applications portfolio, its volumes, its expected pace of change and the desired outcomes. "Systems of record," as defined by Gartner's pace methodology, are often well suited for a consumption-based approach. Financial systems, manufacturing systems, HR systems and others that have high transaction rates, a low rate of change and long life cycles are good candidates for conversion.

Martoglio says that any provider a company considers for this type of sourcing should go through an extensive checklist of questions to determine the right applications to migrate, as well as the business outcomes both sides expect to achieve.

"What's the complexity of the application? The technology? What type of interface and connectivity are used? What performance levels are needed? Going through that list helps us evaluate a customer's portfolio to determine which sourcing model is right for each application," Martoglio says.

Ramaswamy says the shift to an outcome-focused model featured in Sourcing 3.0 raises new questions about control and change management.

"This model presents CIOs with the opportunity they need to make that shift to an outcome-focused department, but it also means they are giving up some control of resources and systems they may have managed for 20 years or more," he says. "That requires a higher level of trust that the provider chosen by the company will deliver the capabilities and solutions it promises."

Companies should consider a series of evaluation points to determine which provider offers the most reliable and flexible sourcing solution in the new 3.0 model, according to Viswanathan and Martoglio. CSC's experience shows that those points should include:

An Evaluation of Cost Savings

Compared to the cost of running existing systems internally, CSC's managed services environment has been proven to reduce costs by up to 40 percent. Even on mature engagements, an additional savings of up to 25 percent can be realized on systems that require basic services to continue functioning effectively.

Ensuring the Security of Intellectual Property

Protecting the security of intellectual property (IP) is a concern in a managed services environment. However, few companies realize that older sourcing arrangements create more IP exposure than agreements governed by the type of contractual framework offered in a Sourcing 3.0 agreement.

A Demonstration of Continuous Improvement

The employment of shared resources that is typical of a Sourcing 3.0 arrangement also means that companies benefit from the continuous improvement of services that don't happen in isolated sourcing arrangements. Each Sourcing 3.0 engagement results in lessons learned, which CSC then applies across all engagements.

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An SLA Based on Business Outcomes

Standard sourcing contracts are managed by service level agreements (SLAs) that govern elements such as turnaround time for resolving issues or dates for completion. Sourcing 3.0 engagements introduce the concept of SLAs based on business outcomes, a commitment from the provider that specific business achievements will be used to evaluate the provider's performance. In the case of auto manufacturing, success might be measured in the number of cars produced per hour. A distributor might focus on outcomes such as the number of deliveries that are completed on the same day an order is received.

Flexibility in Sourcing Models

Providers should recognize that every company and application portfolio will require a range of sourcing models. A one-size-fits-all approach doesn't work. CSC offers sourcing on a continuum: There are no hard-and-fast rules or lines that force companies to adopt specific sourcing models. Agreements also give companies the flexibility to float between different types of sourcing throughout the duration of an agreement. CSC's consumption-based, as-a-service model, a key feature of Sourcing 3.0, remains unique in the market.

Support in All Aspects of the Business

Sourcing doesn't operate in a vacuum within an IT department, and neither should the vendor who supports a sophisticated sourcing function. CSC's consulting, modernization, big data, cloud and other capabilities supplement and support our role as a Sourcing 3.0 provider. Our ability to provide one source for multiple needs creates greater opportunity for cost savings and the ability to respond faster to changing needs, with less need for coordination from the customer than would be necessary if services were spread across multiple vendors.

THE OPENING MOVE TO A BROADER TRANSFORMATION

Tuning every part of the business to focus on outcomes is a significant shift in mind-set that has many companies evaluating every department, function and process. Partners and vendors have to recognize that shift and respond with services and solutions that support the business in exactly the same way.

As a trusted provider of sourcing solutions to companies around the globe, CSC recognized that need, responding with a new model for sourcing built on the technologies that are responsible for so many other trends in today's business environment.

Martoglio says Sourcing 3.0 represents a level of business-outcome focused services that will help the IT department accomplish the shift required to play the strategic role the company expects it to perform. This model transfers the complexity of managing IT to CSC, enabling IT to focus on business relevance.

"The opportunity to migrate core systems, legacy applications and other long-term systems into a secure, utility-based environment is exactly the kind of catalyst companies are seeking. This is one of the first moves that makes the rest of the IT transformation possible."

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