

A STRUCTURED APPROACH TO IT outsourcing contract renegotiations

OVER US\$76 BILLION

worth of **ITS** and **BPS** contracts are up for renewal in the **24 month period** starting April 1, 2015. *

The amount of **IT outsourcing business** up for grabs, coupled with an eruption of emerging technologies and delivery models, has made 2015 a **buyers' market for IT services.** **

CONTRACT COMING UP FOR RENEWAL ?

Renegotiate

- Scope
- Terms
- SLA

Recompete

- Market opportunities
- Vendor limitations
- Culture fit

Repatriate

- Business alignment
- Flexibility & agility
- Going captive

CONDUCT A SITUATION ASSESSMENT

Environment assessment

- ◆ Has your technology environment changed significantly ?
- ◆ What do you hear from your peers in the industry ?

Contract assessment

- ◆ Has your vendor met performance expectations ?
- ◆ Have you met your financial goals ?

Relationship assessment

- ◆ Is there mutual trust and respect ?
- ◆ Is there a long term strategic fit ?

Sourcing options

- ◆ Are you looking for innovation and automation ?
- ◆ Have you explored all options with your vendor ?

Risk assessment

- ◆ Are you over-dependent on a single vendor ?
- ◆ What is the financial risk in switching or diversifying ?

REVIEWING YOUR OPTIONS

INCUMBENT FIRST

- ◆ **Is there a service quality issue ?**
Restructure the SLA
- ◆ **Is there a pricing issue ?**
Renegotiate the price
- ◆ **Is there a relationship issue ?**
Resolve the issue

ARE THERE INTERNAL ISSUES ?

- ◆ Contract governance
- ◆ Retained org
- ◆ Ageing infrastructure
- ◆ Broken processes

DON'T BLAME THE VENDOR!

REMEMBER:

- 1 Restructuring SLA's may increase costs
- 2 Renegotiating price may affect quality of service
- 3 Recompeting takes a lot of time and effort AND increases costs and risks
- 4 Repatriation is the last option – don't do it unless there is a strong business case, beware of the risks

FOLLOW A STRUCTURED PROCESS

DEFINE OBJECTIVE

- ◆ Is it about costs ?
- ◆ Is it about performance ?
- ◆ Is it about culture fit ?

GAIN SPONSORSHIP

- ◆ Senior executive who is close to the operations
- ◆ Risk analysis and sign-off

ASSIGN TEAM

- ◆ Internal task force
- ◆ External advisor

SET MILESTONES

- ◆ Notify vendor early
- ◆ Provide baseline data and expectations
- ◆ Publish calendar of events

EXECUTE

- ◆ Identify project leader
- ◆ Provide support resources
- ◆ Keep negotiations on committed path

Be careful about what you ask for ! There's a cost for everything

Critical to have leadership buy-in

Do you have an outsourcing Czar ? If not, hire an advisor

Provide enough lead time for everyone so that the discussions are productive

Stick to your timelines ! Go for win-win outcomes

CASE STUDY : A LARGE HEALTH SYSTEM

- ◆ The client is one of the largest health systems in the U.S, and has a broad national footprint that serves more than four million people each year through operations and facilities that span the continuum of care

Background

Business Case

- ◆ The client had entered into a very large IT outsourcing contract in 2012 with a large global services provider.
- ◆ The vendor was not meeting service quality expectations and the client was unable to reach the financial goals projected originally in the business case.
- ◆ The client needed expert advice to restructure the contract and drive operational and service quality improvements, while adjusting contract pricing to reflect industry benchmarks

Approach and Results

- ◆ Working closely with IT and business leadership, we developed an entirely new framework for restructuring the contract and driving joint accountability for the future state goals and objectives .
- ◆ Simultaneously, through an independent benchmarking of the cost of services, we were able to identify nearly 20 million dollars in savings potential through targeted pricing adjustments.

ABOUT US

- ◆ We are a management consulting, research and advisory services firm focused on IT Strategy, Global Sourcing, and Analytics.
- ◆ Our firm works with large enterprises and global service providers in the healthcare sector.

- ◆ We have over 2 decades of experience in corporate strategy, outsourcing, healthcare IT operations and analytics. We have collectively participated in over 1 Bn in outsourcing transactions.
- ◆ Our Principals have held P & L responsibilities for large lines of business (\$150 M annual revenues), and managed global operations teams.
- ◆ We have delivered hundreds of millions of dollars in cost savings to our clients.

- ◆ We have launched successful new businesses in analytics, cloud-based platforms and services.
- ◆ Our team comprises thought leaders who have published extensively in industry journals and have spoken at leading industry conferences.



*EVEREST GROUP RESEARCH, APRIL 2015

**CIO MAGAZINE, APRIL 2015

www.damoconsulting.net

✉ info@damoconsulting.net

