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N E T W O R K



Commercial Negotiations: In-house vs Outsourced

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1. Introduction

The in-house vs outsource debate is not a new one to many executives, whether that is looking just at IT or other services organisations use. However there has been some significant changes in the market space within IT which makes this debate more interesting, more strategic and more complicated than before. A hybrid approach is the norm for majority of enterprises nowadays, as found in the cloud industry forum, which shifts significantly the type of resource and capabilities an IT team needs.

2. Framework:

Before a CIO starts venturing into commercial negotiations they need a robust framework to start with. The questions that need to be asked internally are:

- What are you trying to achieve?
- Why are you looking at going into negotiations?
- What capabilities do you have in-house?
- What are the resource priorities?
- Where is the market place? How do we compare?
- Are the capabilities we have in house appropriate now for the company/market place?
- Do we need to be doing it all ourselves?
- Who are the vendors out there?
- How do you plan to approach and negotiate with them?

The landscape of the vendors has changed dramatically and nowadays CIOs need to understand far more about the vendors to choose the right one. CIOs have to know what vendors' business models and business practices are, what capabilities they have internally, where their priorities are, their commercial abilities, who else they do business with and what their approach is to new technologies as all these can affect how aligned vendors are with your business, and in turn the type of relationship that is achievable.

Propositions 1: External Landscape

IT vendor landscape is shifting and there is a layering of three broad types of business offerings out there:

a. Underlying Infrastructure capability platforms:

This is key to the question as to whether in-house vs outsource will be the approach for you. This is the point your technical standards become an important decision.

Assurance delivery, how do you gain confidence in security, data protection etc... Platforms enable you have that assurance.

Vendors in this area are manufacturing businesses and their focus and success is on manufacturing; Amazon is a prime example. CIOs have to be aware that as a business becomes very strong and driving

to succeed in one key area (manufacturing), then their capabilities and focus on other areas can often fail to be as high a standard.

Therefore if you are going to a vendor because they have a good reputation, it might not be the case that they can deliver to the standard you were expecting, if what they are delivering to you isn't core business to them.

A big commercial point here with these platforms is ensuring the price you may have been offered now, is still competitive in the future, and what terms of contract is appropriate to you. It is vital to ensure during the negotiation stage that you have an exit strategy for both parties and the opportunity to re-negotiate the pricing structure if it is deemed uncompetitive in the future.

b. Standardise:

Increased offering of front and back office services, most routine services. Wholly cloud supported systems are being created which are faster on their feet, more agile and easier to bespoke. The big plays such as SAP are struggling slightly with legacy process.

The area of risk is looking at a new cloud based system which has no history vs non cloud based with a lot of experience and capabilities to deliver a front and back office service.

As these are more alms length systems it is more common now to have an initial 6 month contract moving into a rolling monthly contract which gives CIOs opportunity if needs be to procure a more appropriate system in the future in their needs change.

c. Specialised:

These are the smaller younger proprietary specialists that have entered the market offering bespoke services and their USP is that they get to know you and your business inside out. What type of business you are, (property, healthcare, etc..) what makes you work, what needs you have, what strengths and weaknesses you have.

This is where you can create strategic partnerships, as they are keeping themselves competitive to keep you competitive which is a win-win. This is also where negotiations on contract tend to be longer because you want to get in a tight partnership with them, to ensure you are still at the front of the market.

Proposition 2: Internal landscape

This comes from the idea that CIOs are working within 3 key context, linked to the originally framework questions:

a. Business Goals:

Knowing your business strategically, what it is trying to achieve, where and why you are heading there have you thought through your operational and performance objectives.

b. Behavioural and culture factors:

How these work together, what are the drivers behind these factors? If you are an international business, how to do you get different departments, countries and silos working together more

productively. If you are a BYOD type of business, how do you ensure data privacy and security, how does that fit in the culture of your business?

c. Assurance:

How do you deliver assurance in the wider sense, security and cyber security, compliance etc., how do that work all together and deliver on your strategic objectives. If this is increasingly out in the virtual how do you continue to deliver, especially if you have a chain of vendors working on behalf of your main provider, how do you ensure disaster recovery is going to work?

Proposition 3: Contractual

Old approaches	vs	New Approaches:
Finance		Separate source of financing
Provider		Separate consultant not tied to anyone
Implementation		Implementation – aligned to you

Experience and Observations from the US:

The speed and scale of innovation has been expediential over the last 10 years and isn't likely to stop, the market definitely doesn't expect it to reduce or decline but only get bigger. This has been supported by two main areas, investment risk capital and impact of millennials coming into industry.

The rest of the world has not had the opportunity and investment to keep up to speed with the market in US. It is difficult to appreciate how much resource and capital is being invested over there and how big an impact this is going have over in the UK.

Over the last 5 years 30bn dollars has been invested into redesigning approaches, laying down data centres, infrastructure, managing and changing their scope and risk management demands. Some for example have built their own data centres in the dessert, which are powered by their own fracking machines, taking them off the grid and making them completely independent. This assists them in two further strategic objectives – the green agenda and their need to protect their reputation and reduce the risk of client service failure.

Legal and commercial precedents are still being set, with Europe falling slightly behind the times. The pace in which the markets are changing is massive, especially over in the US. A number of European organisations have set up camp in Silicon Valley to learn from the other plays in the market. There has also been a shift in the number of international lawyer firms who are setting up shop there.

CIOs in Silicon Valley are very reluctant to work with traditionalists. Old traditional mind-sets and management competencies, they view, are going to be the death of many businesses. If a business is 1. Unable to accept and incorporate millennials in to the workforce and 2. Unable to change and adapt, it won't be able to compete in the market place and therefore is highly likely to crumble.

Investment in millennials is a must for many CIOs, corporations such as Ebay advocate the mind-sets of millennials such as intolerance of constraints, legacy or history, the programmatic approach to try something new and if it doesn't success try again but learn from mistakes.

The buyers' market is different in the US. Suppliers and vendors aren't all out there to service a demand, they are there to make money. If they can sell out they will. Therefore supplier consolidation is inevitable.

3. Implications for today's CIO:

CIOs in the UK can take advantage of the investment already pumped into the market, by utilising connections and companies that have already adopted best practice over in the US they are able to take advantage of other peoples mistakes. Especially using a legal firm that has experience of operating in Silicon Valley, as this is still a learning stage for all, it is better to have a firm based out there experiencing it than having it third hand over here.

The concern for many organisations is how the boards are equipping themselves with the skills and knowledge they need to understand and take advantages of the changes in the market place and the innovative solutions available to them. This is major issue for all CIOs from across the world, how they can ensure their boards are up to date to enable them to understand the opportunities and threats effecting their organisation.

CIOs need to shake off any old traditional mind-set and open themselves to insights and benefits of working with millennials using them to mentor senior managers who are no longer on top of things. The new motto would be: be prepared to change, if you stick with what you have always done you will fail.

With suppliers being very interested in No1, rather than in their customers, future contracts and architectures need to reflect the need to change service provider if an incumbent fails to deliver. Suppliers are respondent to the need of the organisation and companies will quickly move from a supplier to another if they will not deliver. It means that you have to have a structure that allows you to do so if you don't want to become obsolete.

Going forward vendors and in-house capabilities have to be understood thoroughly and contracts will become more bespoke and flexible.

4. Case study

First experience of venturing to cloud based outsource services has included creating a contract with Mimecast, having originally used their services for antivirus and anti-spam protection, we have increased the service they offer to include a DR provision and email archive services. They assured reasonable contract negotiations around the services they provided but closing the contract is not easy.

Marketing, including our website are fundamental business areas for our organisations therefore high quality, reliable and agile services are key. These were not capabilities we were able to support internally on our own.

Other cloud based outsource service we procured were via our marketing team, for printed brochure production through Future. The initial contract drawn up by the provider and marketing needed to be reviewed by IT being the marketing function not knowledgeable enough about technology. There were some areas the IT team was unable to impact, however one area they were able to impact were the platform which they were offering that wasn't going to be cost effective, fulfilling the needs of the team or fit with our procurement expectations. We managed to alter the contract so that we could dip in and out of the service as and when it was needed. IT made sure that the vendor service was efficient in terms of time scale, infrastructure and reliability.

Further marketing services have been consumed which we use for email marketing and website content delivery. Both of these are easily switchable if we find a more commercial offering or service delivery. We are able to take all past communications with us, keeping our CRM up to date.

As an international business, improving communication internationally and between different departments has been on the agenda for the executive and board. Gamma has enabled employees to communicate in a more effective manner than before. Although it is more of a gossip community rather than corporate, it is still doing the job and increasing collaboration across the business and enabling us to take advantage of more business opportunities.

In looking at further collaborations internationally with partners to enhance our business we are looking at where we are with Office 365. Re-evaluating our contracts and looking to take advantage of the full capacity of service it can offer us. The board are all bought in to the IT strategy, and are interested by what advantages technology can provide the company, they realise it isn't always feasible to change what is being consumed by the business but are interested to change and look at how it is consumed.

In looking at Opex vs Capex and Office 365, we have identified that we can use the exchange business approach for our business in Asia which saves us significantly in investing in infrastructure over there when we have it already through this offering.

With regards to Office 36, we are looking to sign up for an extended price protection over the next 3-7 years, although this is risky as it is a long term contract, it has been deemed the right route to take for us at the moment.

This process has enabled the IT team to come more integrated within the rest of the business as it was vital through the review process for the IT team to involve all areas of business, to understand their expectations and requirements with regards to technology. This also empowered all departments to consider what is important to them and what improvements can be made and how they want to work best with the IT department. This has also lead for the business to scope future opportunities, especially around customer mapping.

The next challenge we will face moving forward will be how to differentiate ourselves and if it is something we will look to undertake with internal capabilities or use a hybrid approach, all we know at present is that it has to be sustainable and agile to adapt depending on where the market moves.

Other lessons learned from this experience so far are:

The important of due-diligence with regards to suppliers, there are many different solutions around the world to do the same thing, it is worth the research to evaluate a provider that can deliver a service line solution, not just software.

Cloud offerings are generic at the moment, we are still on a learning curve to understand where and how it can be used to full benefit and what can actually be delivered from a generic platform.

We have created a strong partnership culture across the whole business and recognise the benefits it can create, and understand we don't have to deliver everything internally.

IT function has to be involved by other functions before signing contracts. It is not only more knowledgeable but is also evolving into a more risk management and long term viewing function.

5. Q&A:

How engaged have the team been to go on the journey with you?

Very engaged, the IT team is looking forward to utilise the new approaches we are taking.

Have you got any shadow IT directors in the business?

Although marketing has become far more digital going from printing into online, the website is owned by IT. The Head of Digital sits in their own team and their role is trying to bridge the gap between the two different perspectives. IT is undertaking the risk management and strategic control of any cloud ventures, making the IT director the cloud director to reduce the risk of shadow IT decision makers.

It is very important to engage the Board to help them understand what is changing and help the company to have an up to date and long term view. Our governance structure has an Executive Board, and Advisory Panel and a Strategy Board. The Strategy Board has 5 subcommittees (digital systems, back office, finance, IT infrastructure, and intranet) that look at how the company could fit the new IT trends. This way we maximise the Board engagement and should have any future issue covered by one of the subcommittees.

Links:

[IT Governance Models](#)

[The Right Governance Framework for Managing an Offshore IT Outsourcing Relationship](#)