Outsourcing Infrastructure Services

Ing. Vladimír Vágner

About the lecturer

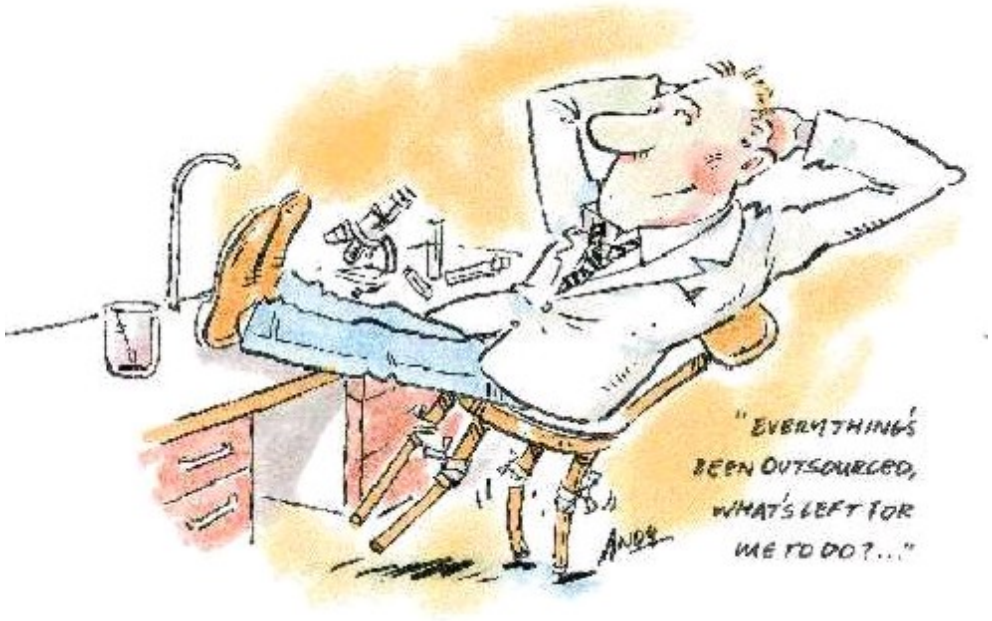
- Ing. Vladimír Vágner, M.B.A.
- Graduated – Vysoká Škola Báňská, Ostrava 1987
- Career
    - Production Operations manager
    - AT&T Complex Solutions mngr
    - HP European Configuration center mngr
    - IBM IT Service management Manager

Agenda

- Outsourcing business
- IT Outsourcing
- Delivery models
- Service Level Agreement

Outsourcing business

The outsourcing is the process of engaging the services of a provider to manage essential tasks that would otherwise be managed by in-house personnel.



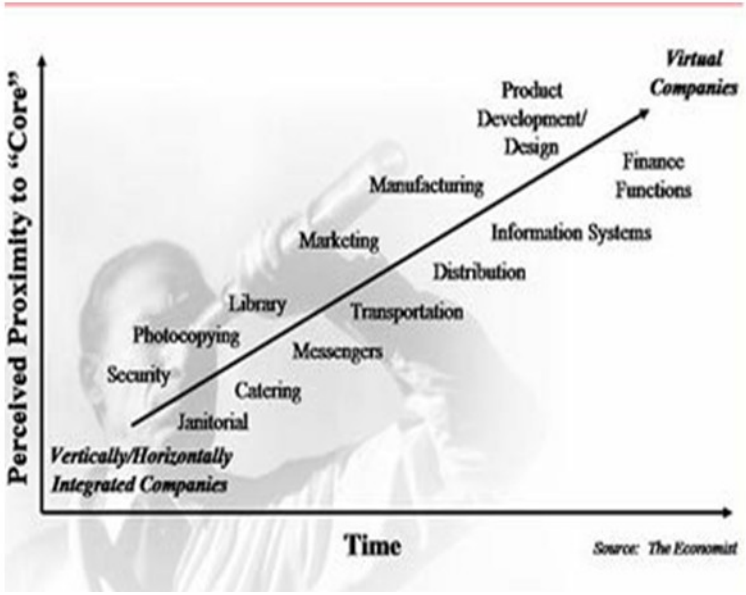
Reason for outsourcing

- Cost saving
- Focus on Core Business
- Access to Skills
- Access to Technology
- Flexibility
- Accountability

Outsourcing decision criteria

Decision criteria	For traditional outsourcing
Primary driver	Cost reduction driven by economies of scale
Measures of success	Performance results, predictablity, service level agreements (SLAs)
Client-provider relationship	Technology-based relationship
Risk/reward model	Risks predominantly borne by client; rewards shared by client and provider
Service delivery model	Local resources and partners
Outsourced processes	Non-core, back-office and customer support functions
Skill access	Access to a broad array of skills and services from a single or few providers
Contract	Long duration; rigid terms
Pricing	Fixed cost structures tied to IT performance

Evolution of outsourcing

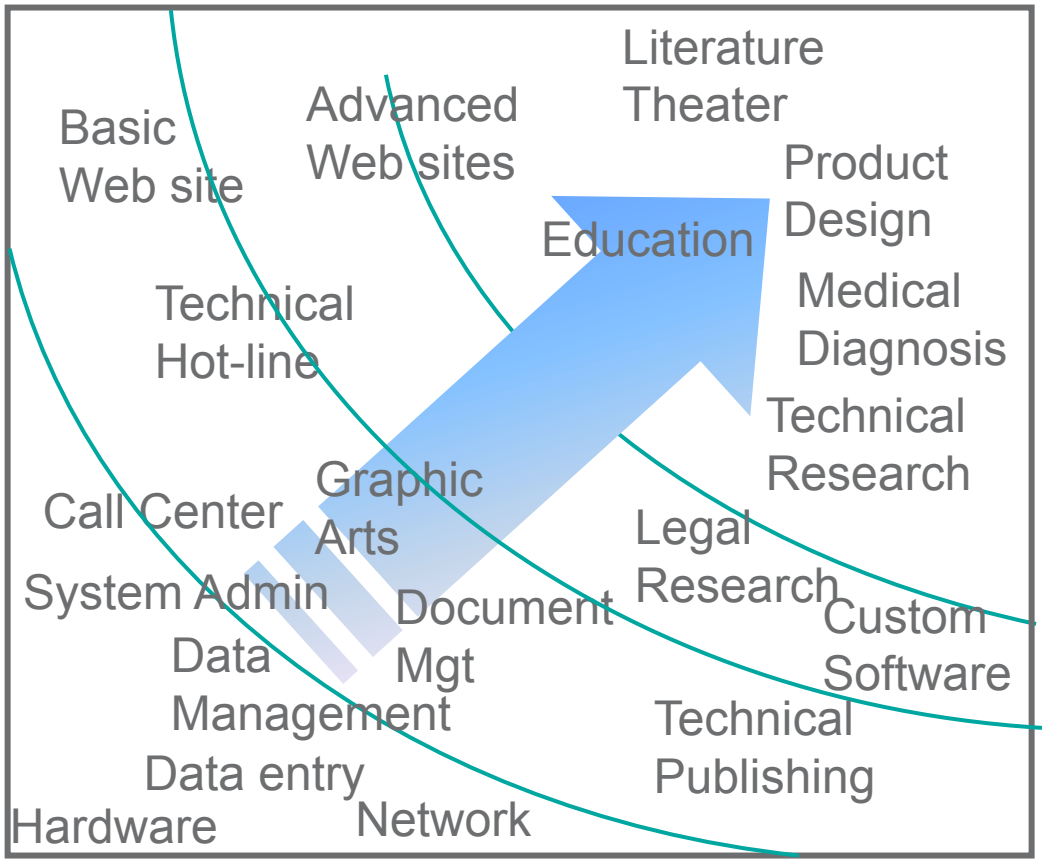


Outsourcing IT

- The concept "outsourcing" came from American Glossary 'outside resourcing' and it dates back to at least 1981.
- The term itself is an artificial construction composed of the words “outside”, “resource” and “using”
- IT/IS Outsourcing is the ITC operations, management and development delegation
- IT/IS Outsourcing is the basic requirement for the services industrialization/standardization

Outsourcing map

Client
Special
Interactive
Cultural



Comodity
Standards
Technology
Off-line

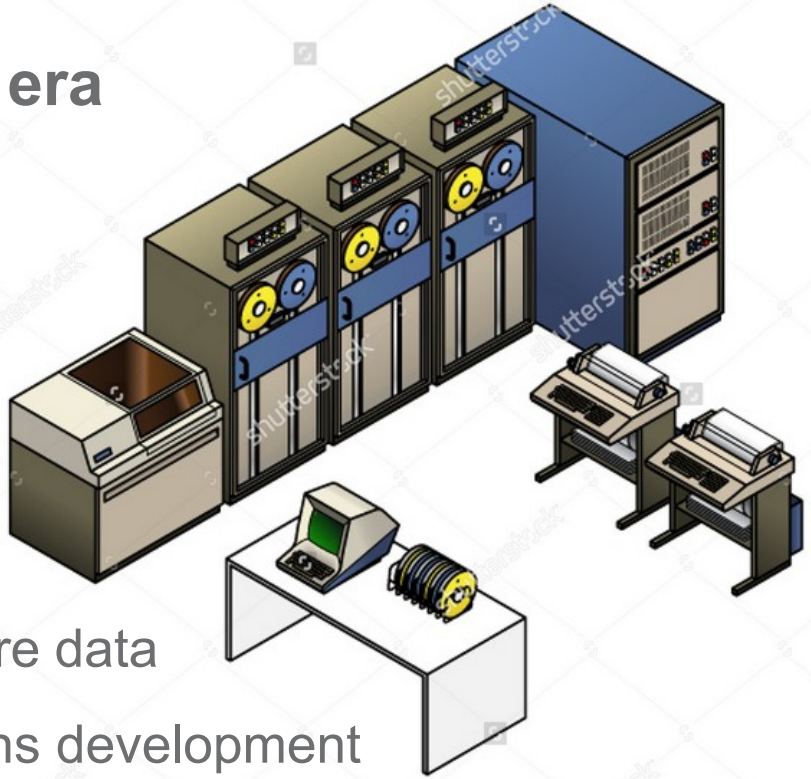
Simple **Complex**

A bit of history …

- Old model – IT Organization centralized, locally outsourced – EDS early 60s (*Frito-Lay, Blue Cross & Blue Shield).*
- IBM – step into in late 80s – ISSC division => 1989 Eastman Kodak deal = IBM "invented" Strategic Outsourcing.
- 80s and 90s – many new big deals – industry prospers with globalization of the world economy
- In 2005, the IT services outsourcing market was beginning to show signs of maturing: growth was flattening and margins were narrowing as new low-cost competitors from India were proving themselves both nimble and aggressive. At the same time, clients looked to traditional vendors like IBM to offer top value, but at competitive prices.
- IBM, Accenture, EDS, HP as traditional vendors faces new global competition – e.g. TCS, Wipro, Infosys and HCL.

- 0 – 1982 The proprietary solutions era
- 1982 – 1999 The standard solutions era
- 1999 – The outsourcing solutions era

0 – 1982 The proprietary solutions era



Characteristics

- Mainframes and terminals
- Data centers to input, collect and store data
- Batch processing, internal applications development

“The Era of Fixed Costs”

- High costs of the application development and maintenance
- High dependence on qualified and deficient labor force
- High availability costs

1982 – 1999 The standard solutions era

Characteristics

- PC and PC Servers
- Standard interactive aplications
- Data entered by single users

“The Era of Internal and external cost (variable and fixed costs)”

- High investment to HW a SW
- Low return on investment (ROI)
- High availability and security costs

1999 – The outsourcing solutions era

Characteristics

- HW independence (shared data centers)
- Standard services introduction
- Distributed infrastructure

“The External costs (variable costs) era”

- Variable costs only – pay for “delivery”
- Independence on qualified and deficient labor force
- High availability and security

Market dynamics are changing and we continue to adapt our business model to execute on our strategy

1999 - 2005	Market Dynamics	2006 - (current)
Customized offerings	Industry/technical expertise and innovation are **replacing cost as primary differentiators**	Standardized offerings
Labor-based models	Clients are moving to a **multiple location delivery model**	Intellectual Property-based models
Full-scope outsourcing	Emerging economies are growing fast with **expanded requirements for language and culture**	Selective out-tasking
Local labor sources	Service Providers are **growing a global presence** and expanding their offering portfolio	Global delivery

Innovation and insight as key differentiators

Provider profile for the globally integrated enterprise
✓ Global maturity, expertise and resources aligned to clients' aspirations
✓ Global governance structure to help ensure consistent quality of service worldwide and the ability to work within local laws, regulations and politics
✓ Global delivery model capable of adapting to local differences, changing business conditions and market dynamics
✓ Shared technologies and business standards to facilitate worldwide communication and collaboration
✓ Proven ability to help clients manage the complexity of the global world


GLOBAL DELIVERY
MODELS

Outsourcing business models

1. **Staff augmentation** - This model provides specialized resources, cost flexibility and satisfies short-term time-to-market demands.

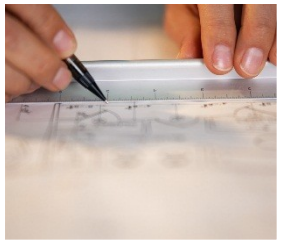
2. **Out-tasking** - This model is suitable for short-term business needs, to fill skill gaps. However the integration of different out-tasked outcomes may not be a seamless one.

3. **Project-based outsourcing** - Vendors and clients share risks and rewards through this collaborative model. This model has high client benefits as it holds the vendor accountable for an entire project, and allows the application of industry best practices in the outsourcing process. On the other hand, working from project-to-project is *a piecemeal approach to outsourcing*. A more consolidated view of the outsourcing initiative is required, within a unified governance framework. This is provided by the multi-year managed services model.

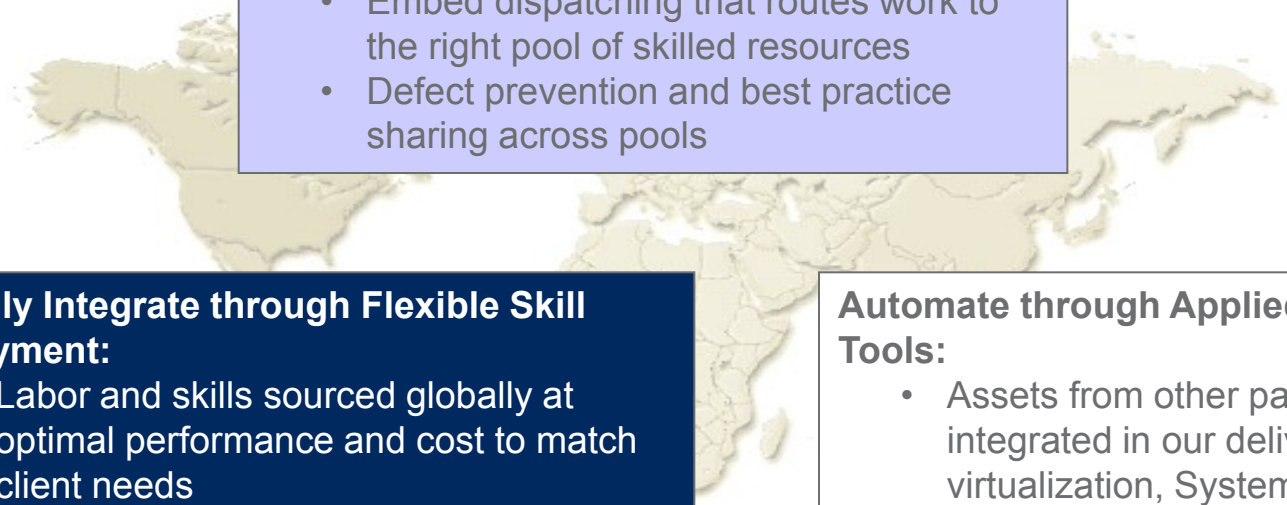
4. **Managed services model** - This model fosters the development of long-term, multi-year, SLA-based relationships to provide integrated solutions across the enterprise. The service provider takes responsibility and accountability for agreed- upon strategic business outcomes. Projects typically have a large scope and scale and the knowledge gained by the vendor is invested back into the system so that the client's benefits increase year on year. These partnerships allow the sharing of risks and rewards, encourage innovation, embrace business change and contribute significantly to the strategic goals of both partners.

Basic steps of the managed services model

Outsourcing is not just the delivery

Opportunity Mgmt (Pre-Engagement)	Solution Design & Proposal Development	Close Sale	Transition & Transformation	Steady State Operations
				
What services do we sell? What are typical client wants and needs? How is the solution designed? What are the cost drivers? What is the transition & transformation plan?			**Who delivers the services?** **From where will they be delivered?** **How do we build and use the solution?** **What processes and service flows do we follow?**	**How do we fulfill our contracted services?** **How do we add or improve existing services?**

We differentiate on the basis of HOW we deliver services and apply IBM assets, data, and insights to client's challenges



Standardize through Process and Work Design:

- ITIL consistent processes componentized and described in a services catalog
- Embed dispatching that routes work to the right pool of skilled resources
- Defect prevention and best practice sharing across pools

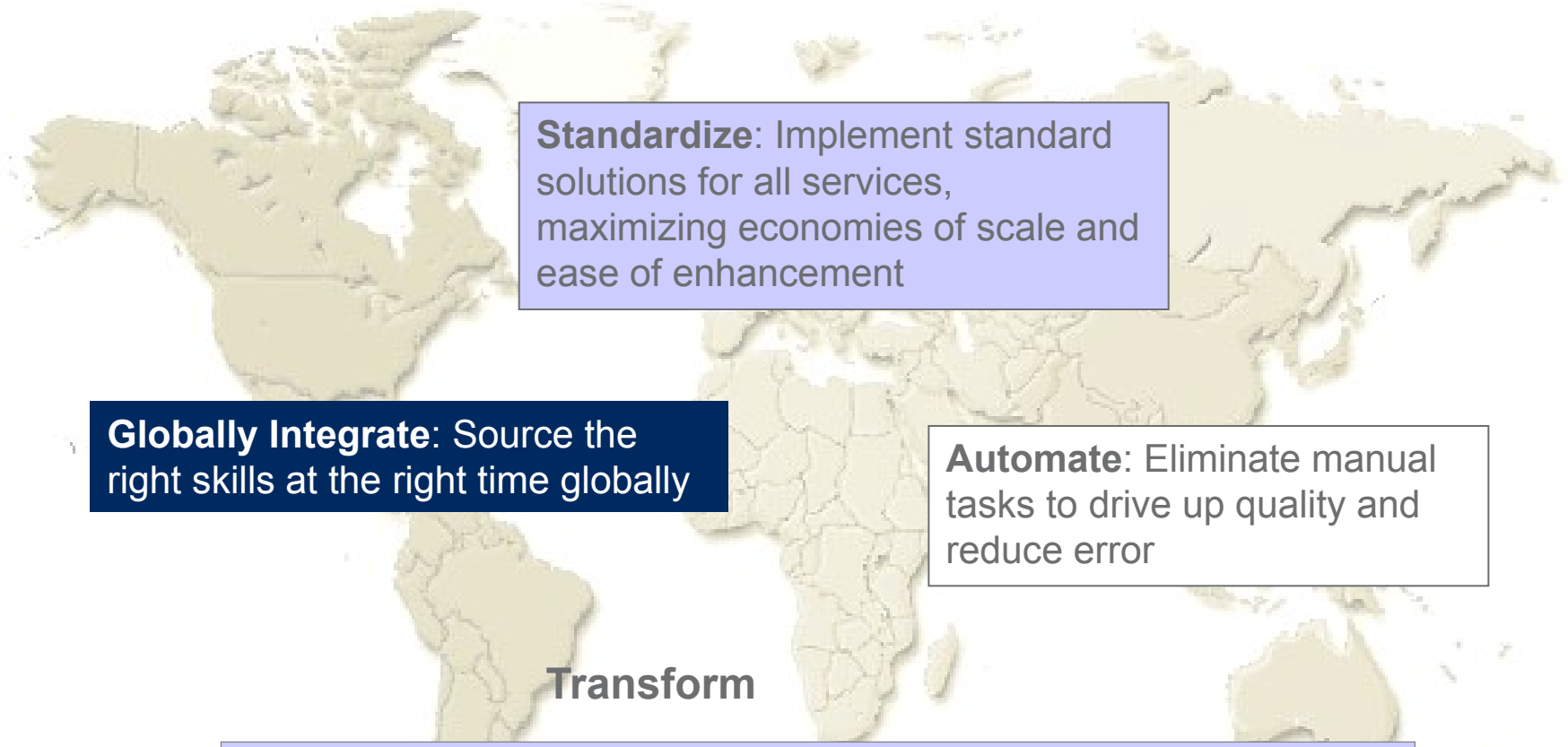
Globally Integrate through Flexible Skill Deployment:

- Labor and skills sourced globally at optimal performance and cost to match client needs
- Scalable pools to meet demand changes
- Strong management systems in place to drive continuous improvement

Automate through Applied Assets and Tools:

- Assets from other parts of GTS and IBM integrated in our delivery (SPL offerings, virtualization, Systems Technology Group, Software Group)
- Incorporate our Research capabilities
- Invest in world-class data center capabilities

The **3 key levers** to drive **quality** and **productivity**



Standardize: Implement standard solutions for all services, maximizing economies of scale and ease of enhancement

Globally Integrate: Source the right skills at the right time globally

Automate: Eliminate manual tasks to drive up quality and reduce error

Transform

We are continually investing in key innovations and intellectual property to differentiate our services through exceptional quality outcomes

In Delivery, we execute on our strategy by investing in innovative technologies, processes and skill portfolios

We have the broadest and deepest talent in the business working together to fulfill our client delivery commitments

Onsite

- Service that requires a physical presence at the client location
- Consulting
- Front-end analysis

Local

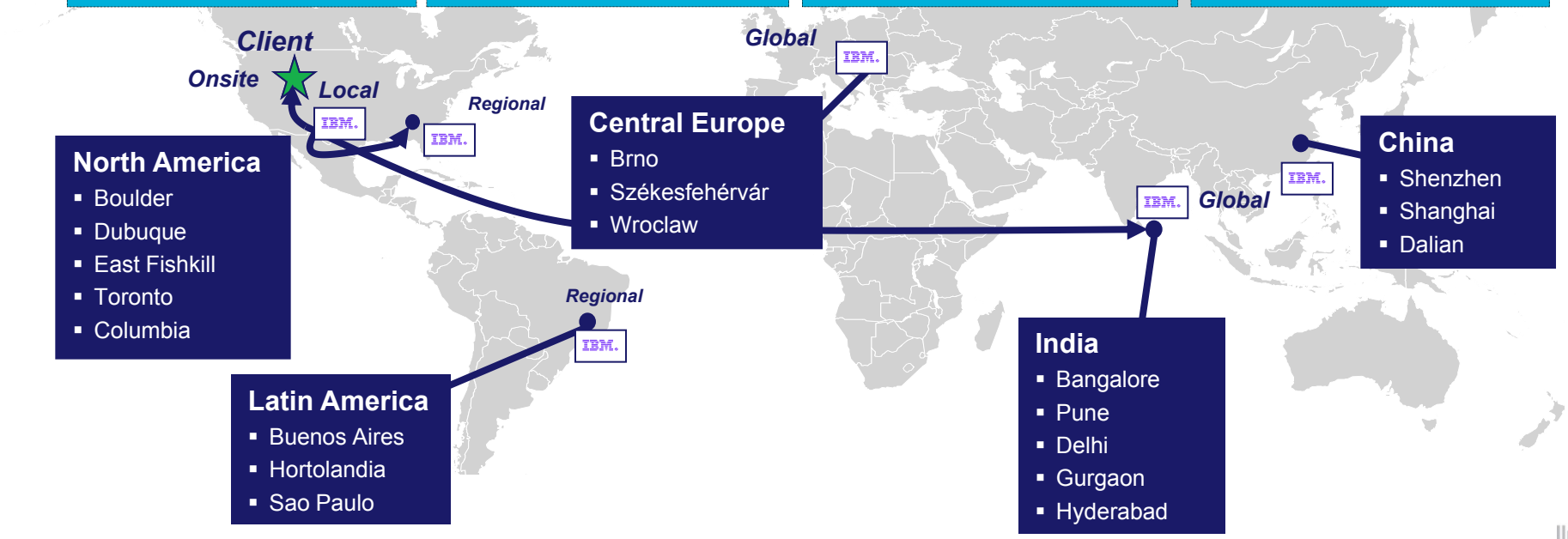
- Service that needs to be delivered from the same country
- Processing of sensitive data
- Legal restrictions

Regional

- Service that needs to be delivered from the same continent
- Similar time zone
- Similar culture

Global

- Service that can be standardized to achieve maximum savings
- Ongoing operations
- Monitoring
- Development

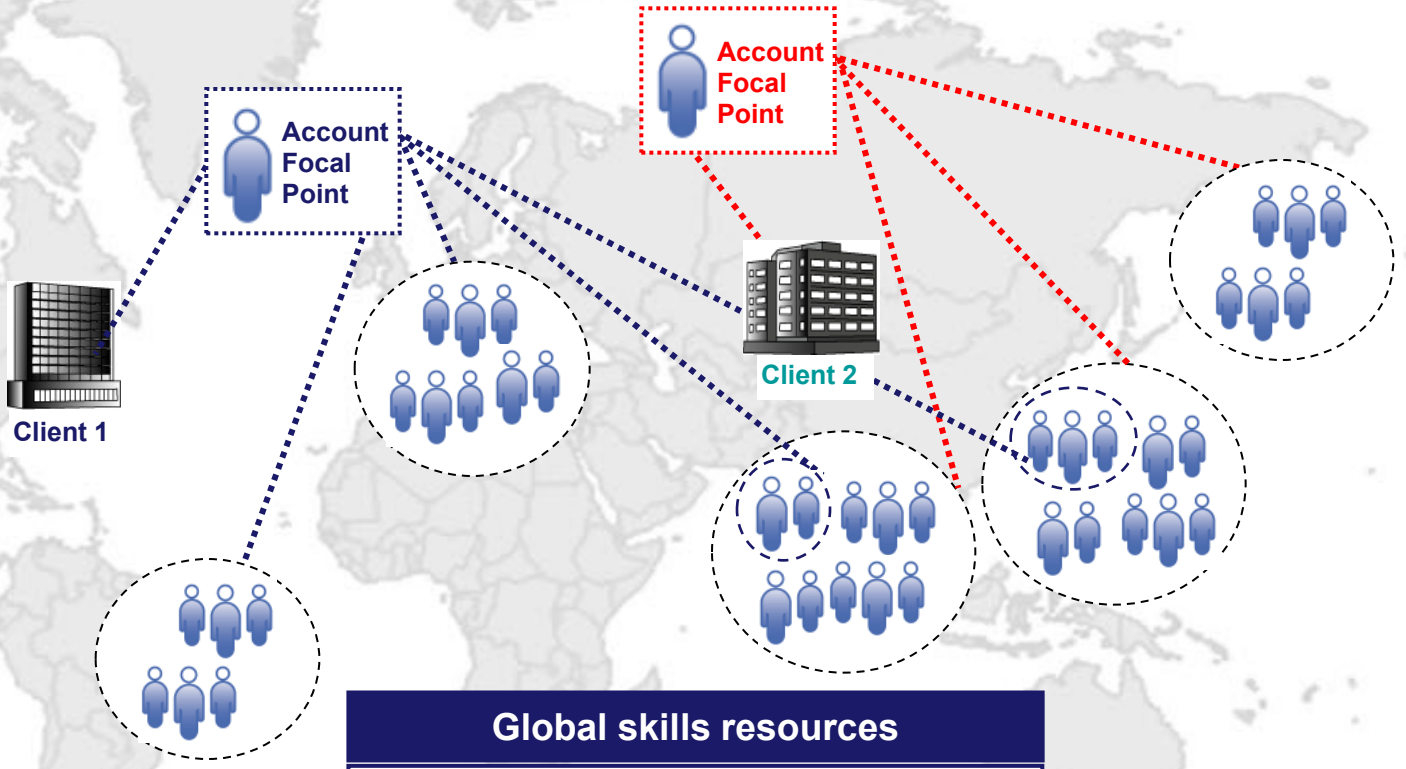


All follow uniform, best-practice service management processes

We can dynamically create work groups/pools across the globe to best meet clients' business needs

Pool creation considerations

- Technology
- Workload/FTE
- Skill set
- Location
- Regulations
- SLAs
- Tools
- Problem tickets
- Other

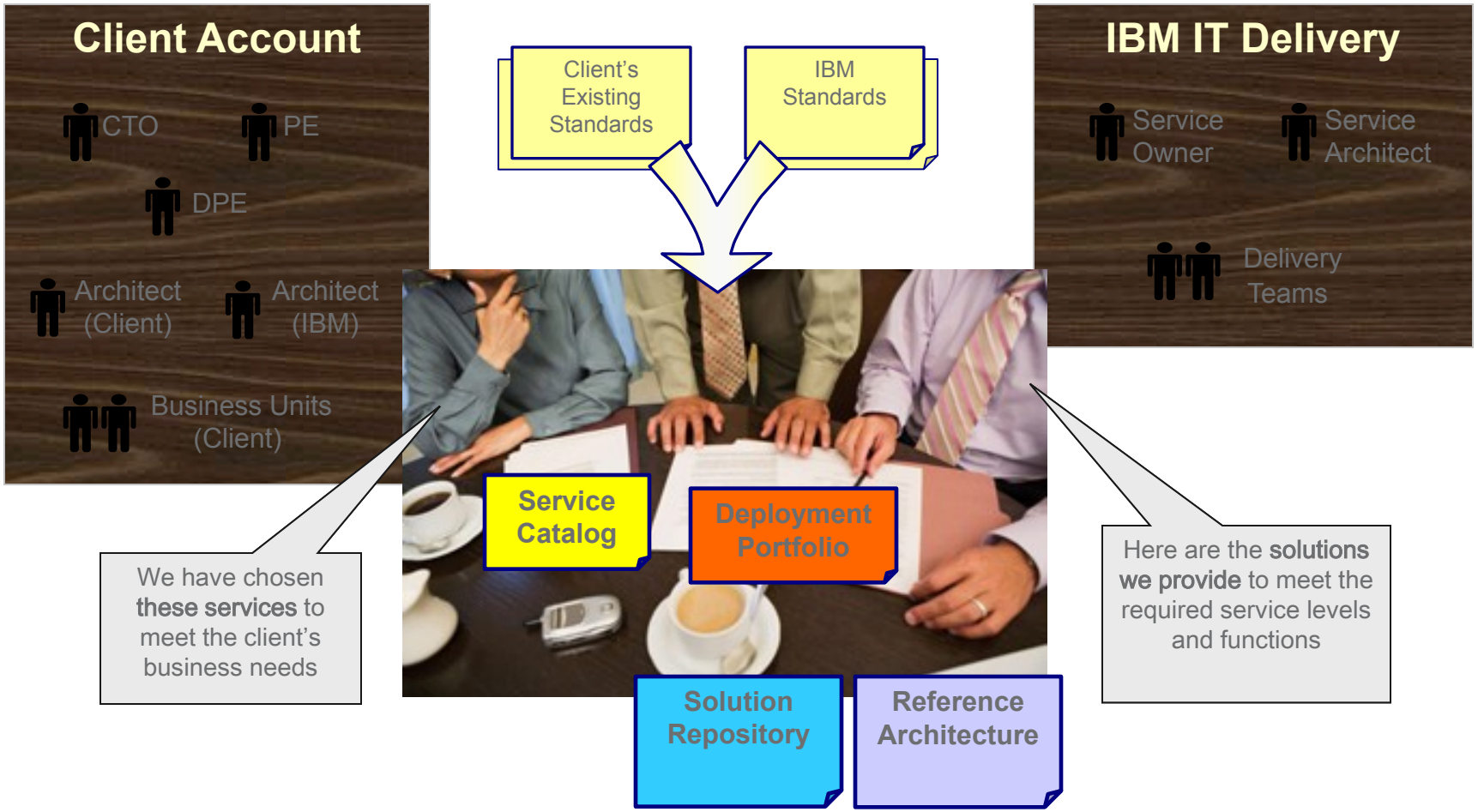


Global skills resources

- 750+ pools
- ~ 50 types of pools by competency (e.g., service line, component)
- Specialized pools: HIPAA, FDA, ITAR, MDI

The outsourcing relationships

Accounts and delivery providers benefit most from an IT transformation based on shared, reusable assets. The message here is how important our standardization strategy is in our outsourcing relationships.



Clear and specific roles, processes and proven solutions are essential to the success of these relationships.

What is the Service Level Agreement (SLA)

An SLA is a negotiated agreement between two or more parties designed to create a common understanding about the service

It is :

- A communications tool
- A conflict resolution tool
- A living document
- A method for gauging service efectivness

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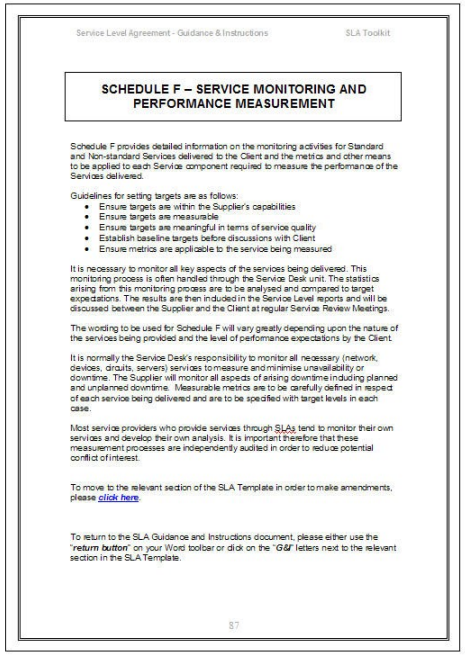

Service Level Agreement - Guidance & Instructions SLA Toolkit

SCHEDULE F – SERVICE MONITORING AND PERFORMANCE MEASUREMENT

Schedule F provides detailed information on the monitoring activities for Standard and Non-standard Services delivered to the Client and the metrics and other means to be applied to each Service component required to measure the performance of the Services delivered.

Guidelines for setting targets are as follows:

- Ensure targets are within the Supplier's capabilities
- Ensure targets are measurable
- Ensure targets are meaningful in terms of service quality
- Establish baseline targets before discussions with Client
- Ensure metrics are applicable to the service being measured

It is necessary to monitor all key aspects of the services being delivered. This monitoring process is often handled through the Service Desk unit. The statistics arising from this monitoring process are to be analysed and compared to target expectations. The results are then included in the Service Level reports and will be discussed between the Supplier and the Client at regular Service Review Meetings.

The wording to be used for Schedule F will vary greatly depending upon the nature of the services being provided and the level of performance expectations by the Client.

It is normally the Service Desk's responsibility to monitor all necessary (network, devices, circuits, servers) services to measure and minimise unavailability or downtime. The Supplier will monitor all aspects of arising downtime including planned and unplanned downtime. Measurable metrics are to be carefully defined in respect of each service being delivered and are to be specified with target levels in each case.

Most service providers who provide services through SLAs tend to monitor their own services and develop their own analysis. It is important therefore that these measurement processes are independently audited in order to reduce potential conflict of interest.

To move to the relevant section of the SLA Template in order to make amendments, please *click here*.

To return to the SLA Guidance and Instructions document, please either use the "*return button*" on your Word toolbar or click on the "*G&I*" letters next to the relevant section in the SLA Template.

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Service Elements and Management Elements

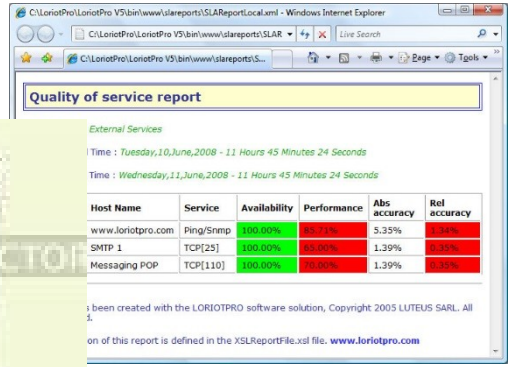
Service Elements cover the „**WHATs**“

Management Elements cover the „**HOWs**“

Service Elements

Service

- ✓ W
- ✓ W ability
- ✓ W
- ✓ W rties



Management Elements

M

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will be resolved

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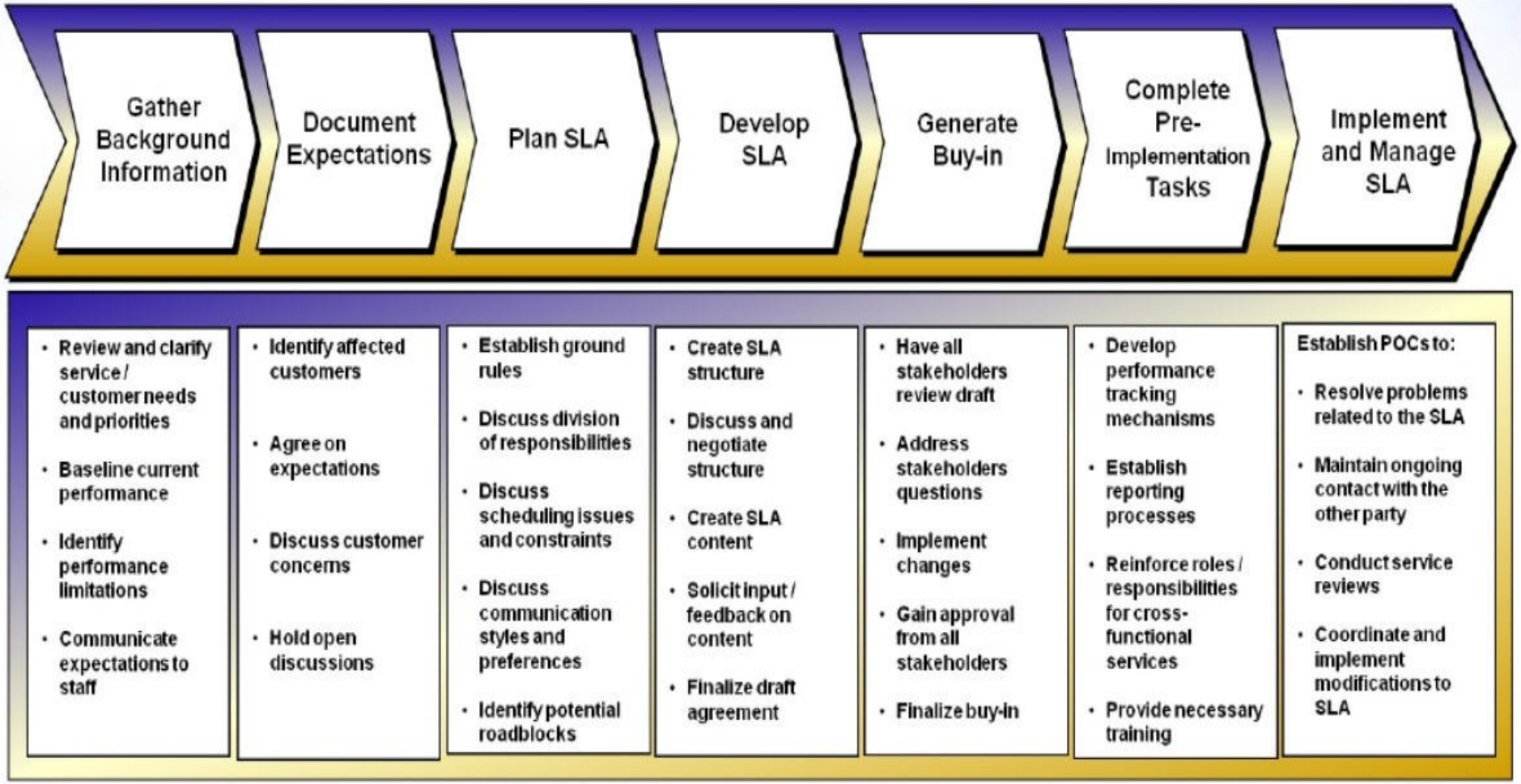
Seven Key Steps to Establishing a Service Level Agreement



Factors that Affects The Timeline of SLA Implementation

- The service environment
- The proximity of the parties
- The span of impact of the SLA
- The relationship between the parties
- The availability of a model
- Prior SLA experience

The SLA should address the following …

- A brief service description
- Validity period and/or SLA change control mechanism
- Authorisation details
- A brief description of communications, including reporting
- Contact details of people authorized to act in emergencies, to participate in incidents and problem correction, recovery and workaround
- Business or service hours (e.g. 08:00 to 17:00), date exceptions (e.g. weekends, public holidays), critical business definitions, ..
- Scheduled and agreed service interuptions, including notice to be given and number per period
- Customer responsibilities (e.g. security)

The SLA should address the following …

- Service provider liability and obligations (e.g. security)
- Impact and priority guidelines
- Escalation and notification process
- Complaints procedure
- Service targets
- Workload limits (upper and lower), e.g. the ability of the service to support the agreed number of users/volume of work, system throughput
- High level financial management details, e.g. charge codes etc.
- Actions to be taken in the event of service interruption
- Housekeeping procedures
- Glossary of terms
- Supporting and related services
- Any exceptions to the terms given in the SLA

SLA Objectives example

Service Level	Objective	Common Metric
Web Availability	Measures the availability of the Web-hosted application. This provides the organization with the percentage of time that the applications were available for use in a specific month.	99.96% availability.
Disaster Recovery (DR) Systems	In the event of severing of business services due to a man-made or natural disaster event, the time to restoration of normal business activity.	4 hours.
Storage Area Network (SAN) Availability	The percentage of time the SAN will be available for normal business operations. The goal is often 99.99% uptime.	99.90%
Call Time to Answer	90% of calls will be answered less than 30 seconds by a person after call is front-end-directed by automatic call distribution (ACD).	85% of calls are answered within 30 seconds.
Customer Satisfaction	80% "very satisfied" or "satisfied" for ticket surveys and total user group surveys (customer satisfaction process will not start until six months after contract initiation and project/activity initiation).	80% (4.0 on a scale of 5.0).
Messaging Availability	The percentage of time that messaging infrastructure is available for normal business operations.	99.00% availability.
Application Availability	The percentage of time that the application is available for normal business operations.	99.50% availability.
Variance to Application Budget	Total cost to complete program requirements will come in at the budgeted cost.	Total cost or workload estimates will +/-10% of budget for projects.
Data Network Availability	The percentage of time that the data network is available for normal business operations.	99.5% availability.
Internet Availability	The availability of the Internet to the customer. The percentage of time that the Internet is available for normal business operations.	99.80% availability.
Response Time – Network	Time required for a packet to go between an end-user demarcation point and the host site front-end processor (FEP) or similar device.	0.5 seconds.
WAN Availability	The percentage of time that the WAN is available for normal business operations.	99.90% availability.
LAN Availability	The percentage of time that the LAN is available for normal business operations.	99.90% availability.

Source: Adapted, in part, from Gartner's "Negotiating Effective SLAs for IT Infrastructure, Applications, IaaS and Business" Feb, 2014.

Example : IT Help Desk SLA

Your Company, Inc. IT Help Desk

Service Level Agreement

Provider of Service
XXX IT Help Desk staff

Type of Service
IT Help Desk primary first level support

Service Period
January 1, 20.. through December 31, 20..

Performance

In order to provide optimal first level support service to all departments, all problem and repair calls must be received by the Help Desk.

The company XXX IT HELP DESK will provide (Customer Name/Department Name) with the following support:

First level problem determination where

1. All problems will be recorded.
2. Problems will be resolved or assigned to the appropriate specialist.
3. Problems will be monitored.
4. Users will be notified of commitment times and any problems that occur in meeting the established commitment.
5. Problem resolution will be documented and available in report status.
6. Monthly reports will be provided.

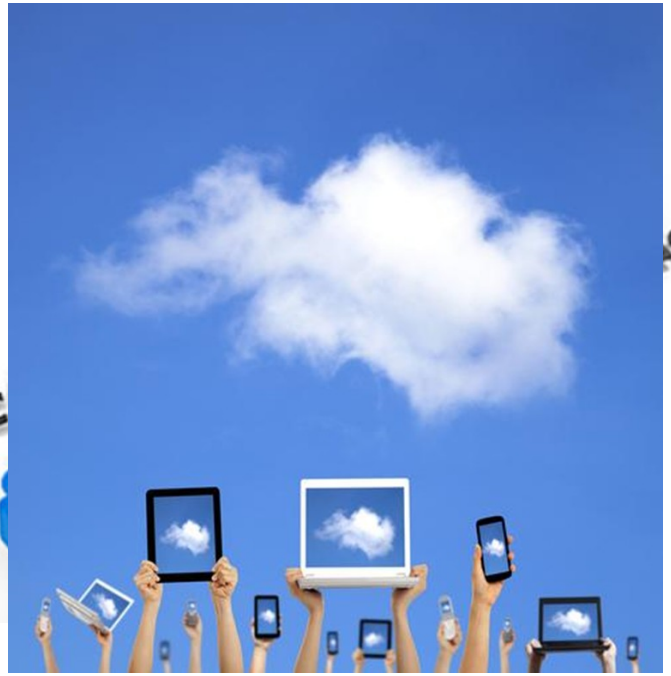
A single point of contact with the XXX department for

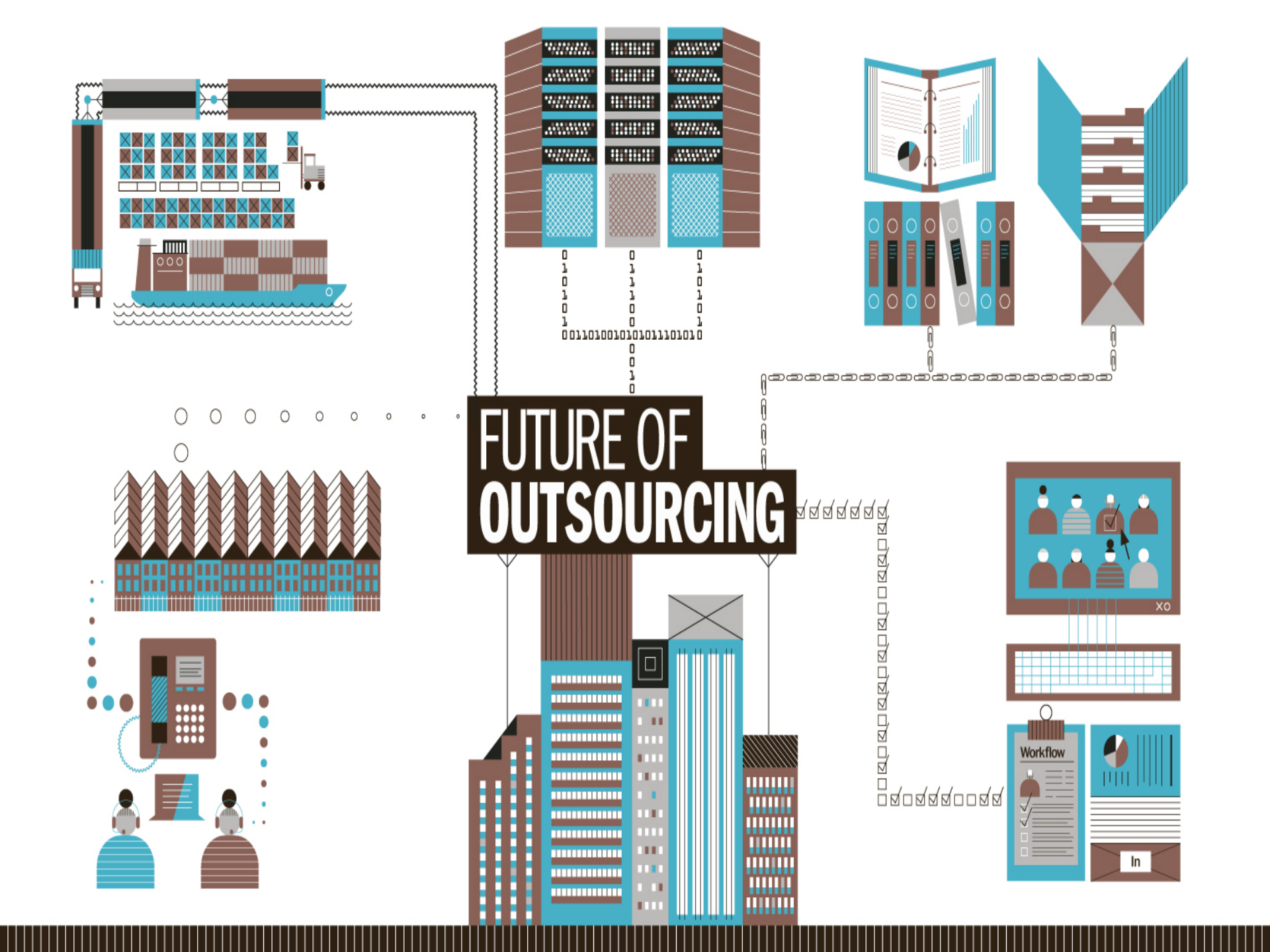
1. Orders for new equipment.
2. Equipment moves, adds, and changes (Equipment includes personal computers, printers, and telephones).
3. Services such as data entry, building access authorizations, new computer user IDs and passwords, voice mail, Centrex lines, mainframe connections, file server connections, reports, and application program problems and requests.

Will IT Outsourcing Continue to Grow in the Years to Come?

Outsourcing will definitely survive in the future.

To know more come next week again.




FUTURE OF
OUTSOURCING
Workflow
In

Thank you.


I don't think you may outsource your porridge to Toby...
Igor Aleshin
DATAART
Enjoy IT

IBM's strategy to deliver this value is through differentiation with innovation and insight – for GTS this means delivery of the highest quality services to clients.

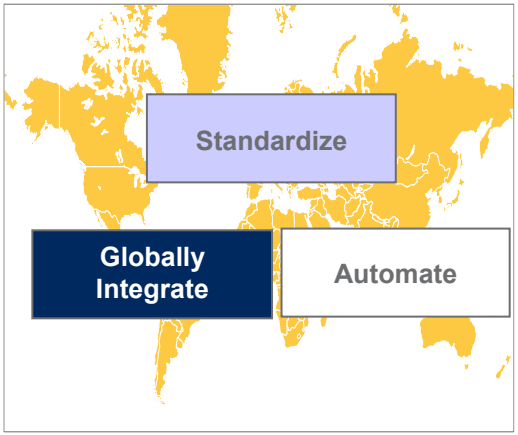
IBM's Strategy

- Focus on open technologies and high-value solutions
- Deliver integration and innovation to clients
- Become the premier Globally Integrated Enterprise

GTS Strategy

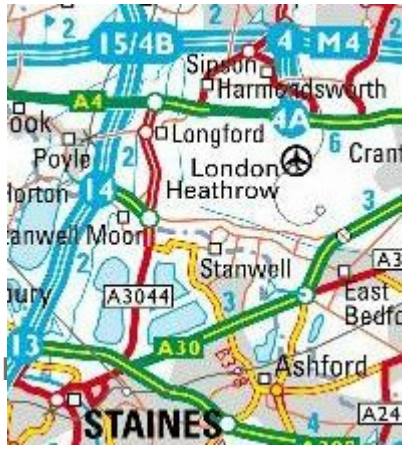
Sustain the position of the world's premier IT services provider by delivering the highest quality solutions at the most competitive prices. We'll differentiate IBM with our integrated, IP-based solutions.

Delivery Strategy



Drive increased value to customer through high quality delivery

MOTIVATIONS:
Why… a process model?

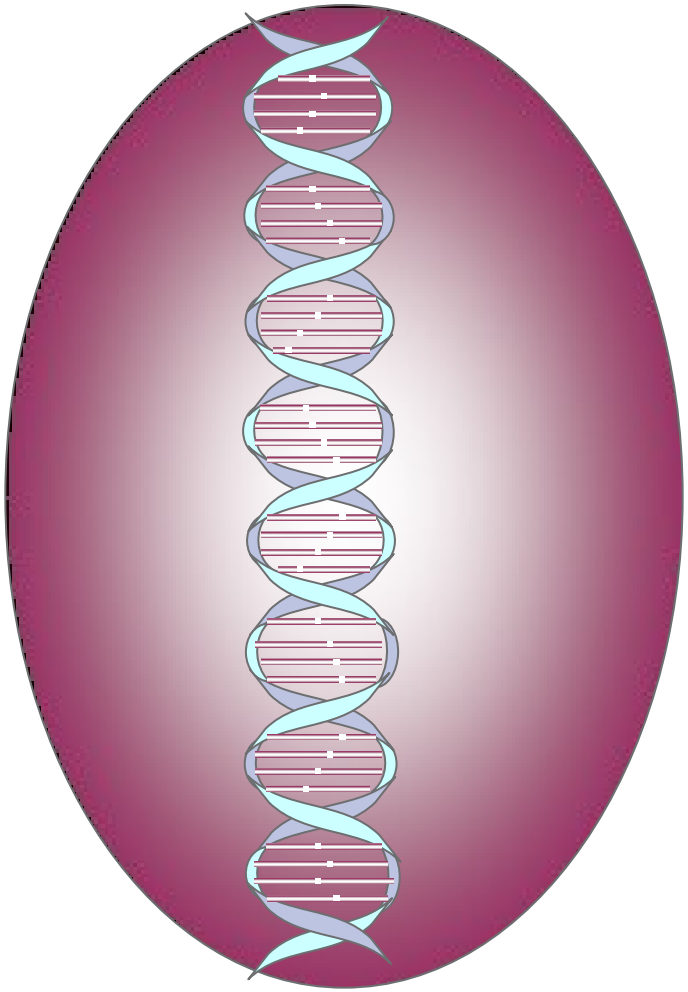


- Think of a process model as being like a map of your country.
  - The places
    - In a process model, processes and activities
  - The connections between them – roads, paths, railways, rivers, ca
    - Representing the inputs and outputs between activities
- Without a map, you can still establish – by trial and error, or from a set of directions – a reasonably efficient journey routing between point A and point B
  … and then between point B and point C
- What happens if you now need to travel between point A and point C?
- You **can not** build the map from a collection of journey directions
  BUT you **can** build the directions for many journeys from a map.
- Remember, though, that every map is limited by its scale. What is your purpose?

MOTIVATIONS (2005): Why… this process model?

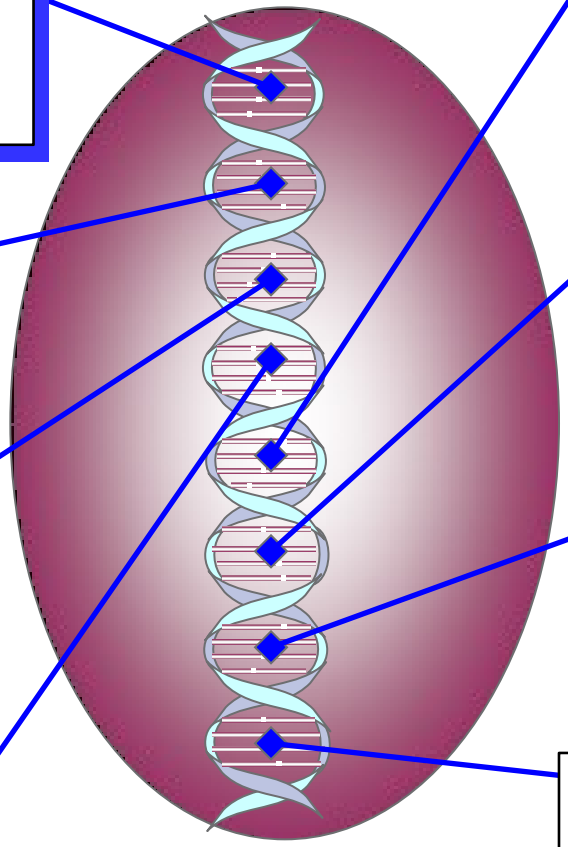
- Market
  - There are a number of industry-based developments in IT Management topics, which have achieved (or are close to) the status of *de facto* "standard"
    - ITIL® has significant following in the area of service management
    - Control Objectives for Information and related Technology (COBIT) and Capability Maturity Model Integration (CMMI) can be seen as complementary, covering related aspects
- Content
  - Previous IT Process Model (ITPM) was created early in the distributed computing era
  - The reach and range of "IT" activities has grown
  - "On demand" IT introduces new activities and changes the emphasis and priorities of existing ones
- Capability
  - The direction is towards "model-driven architecture and design"
  - The goal is choreographed workflows which directly link processes with technology, using a "packaged application" approach

IBM Process Reference Model for IT (PRM-IT) : Sequencing the DNA of IT management



- Purpose
  - Provide an integrated collection of the processes involved in using IT to help businesses carry out many or all of their fundamental purposes
  - Be the basis for process assessment, design and implementation
    - But is not itself directly implementable
- Viewpoint
  - Consider the processes for all IT activities – so equivalent to the CIO's vantage point:
    - Control over IT's activities
    - Represent IT to the owning business(es) and to other stakeholders
- Packaging
  - A rigorously engineered IDEF0 process model IDEF0 = Integration Definition for Function Modeling

THE PRM-IT MODEL: Categories – high-level groupings of related processes, covering everything within the CIO's scope



Governance and Management System
- How IT ensures it is able to function effectively – its control mechanisms

Customer Relationships
- Representing IT to its customers and meeting their needs

Direction
- Strategic decision-making of IT in support of the business

Realization
- Design, development and maintenance of all classes of IT solutions

Transition
- Control, deployment and reporting of all changes and technology resources

Operations
- Fulfillment and support for IT services and users

Resilience
- Continued readiness and integrity of the IT services

Administration
- Underpinning back-office management of the IT function

THE PRM-IT MODEL: The CIO and IT function do not operate in isolation; there are interactions with "external agents."

Business

IT Customers

IT Suppliers

Direction

Customer Relationships

Realization

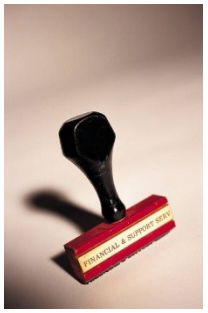
Transition

Resilience

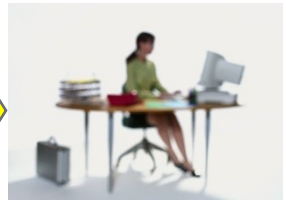
Operations

Administration

Governance &Management System

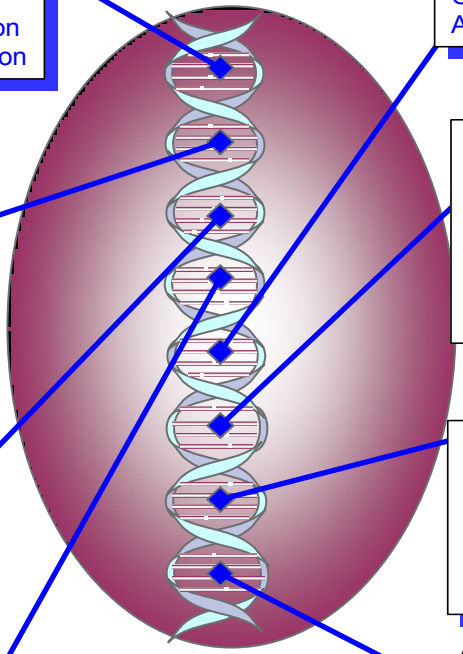


Regulation



IT Users

THE PRM-IT MODEL:
Processes – 46 processes across eight categories



Governance and Management System

- IT Governance and Management System Framework
- IT Governance and Management System Capabilities
- IT Governance and Management System Operation
- IT Governance and Management System Evaluation

Customer Relationships

- Stakeholder Requirements Management
- Service Marketing and Sales
- Service Catalog Management
- Service Level Management
- Demand Management
- IT Customer Transformation Management
- Customer Satisfaction Management

Direction

- IT Strategy
- IT Research and Innovation
- Architecture Management
- Risk Management
- Product Management
- Portfolio Management
- Program and Project Management

Realization

- Solution Requirements
- Solution Analysis and Design
- Solution Development and Integration
- Solution Test
- Solution Acceptance

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Transition

- Change Management
- Release Management
- Deployment Management
- Configuration Management
- Asset Management

Operations

- Request Fulfillment
- Service Execution
- Data Management
- Event Management
- Incident Management
- Problem Management
- Identity and Access Management

Resilience

- Compliance Management
- Security Management
- Availability Management
- Capacity Management
- Facilities Management
- IT Service Continuity Management

Administration

- Financial Management
- Supplier Management
- Service Pricing and Contract Administration
- Workforce Management
- Knowledge Management