



## CSC FEATURE

# Strategic Outsourcing Partnerships: Going Outside

### Real Value, Real Savings

As part of the Continuous Improvement Framework (CIF), CSC and Corporate IT had a joint commitment to identify opportunities in the BAE Systems business community. The idea was to realise a £50m profit improvement by the end of 2004. Lem Lasher, vice-president and managing director of the BAE Systems Global Account, explains how CSC did it.

“CSC consultants delivered cost reduction through programmes that reduced waste and fully utilised existing resources,” he says. “Cost metrics were set up to accurately measure the impact of cost reduction on a project. With the sustainable business process management improvements, compounded cost reductions were achieved realising significant value during and beyond the full programme lifecycle.”

By enabling various BAE Systems ERP systems to connect to its online trading exchange, CSC helped to reduce the cost of sending orders to more than 2,500 suppliers. Cycle times were shortened and the quality of the data was also improved.

“The results of the project are estimated to realise a significant return on investment in the first three years,” Lasher says, “and culminate in savings estimated at \$30m on procurement by 2010.”

According to Chris Coupland, director IT & e-Business at BAE Systems, “Together, BAE Systems and CSC turned IT consulting theory into automated processes and real cash savings. That is a partnership with real currency.”

The market for outsourcing is booming and strategic partnerships for the outsourcing of non-core activities are now an accepted option in many companies' strategic portfolios. Ten years ago this was not the case, but most CEOs and board executives now see the benefits and the shift has been dramatic. This is due to several reasons, the main one being that companies have realised real benefits through outsourcing. Whereas all of this was considered hype and marketing a few years ago, it's very much accepted practice today and all manner of non-core activities are contracted out to specialists allowing companies to concentrate on what they know best.

Virtually any aspect of a business can be outsourced, from a design capability to public relations. But IT, given its significant spend and value potential within an organisation, has proven to be a popular option for many companies. The logic is straightforward enough: if your business is transport or logistics, it isn't an IT business. If your business is retail, it isn't IT either. So outsourcing to an IT-focused business and allowing them to concentrate on getting your IT right makes sense, saves money and lets your business concentrate on value-adding core activities.

### STRATEGIC THINKING

All that said, it's not simply a case of getting rid of the bits you don't understand and hoping someone else does a better job of it than you. Although some companies see outsourcing in this way, they're missing the true potential it offers. What those companies need to do is understand and appreciate the fundamental management and economic issues underlying the strategy. It is something that is at the core of a new project set up by CSC, called the CSC Office of Innovation, more on which later.

“Companies must understand the challenges,” explains Lasher. “Businesses often outsource because they do not understand how to get the full business impact from IT. But that can mean that they do not understand how to get business impact from outsourcing IT either.” One problem is that buyers say they want to see business impact and innovation, but they're unwilling to pay for it. Also, providers want to deliver specific business impact but few are committed to delivering specific business results. It's a lose-lose situation, but it doesn't have to be. “Shifting assets to the outsourcer has short-term appeal but can constrain long-term business operational benefit,” Lasher says. “Long-term deals are financially attractive to both parties, but, unless skilfully managed, the resulting customer lock-in can impact relationships.” As a short-term measure, the figures look good, the asset is moved off the balance sheet and the financial officer is happy (albeit temporarily). But longer-term issues are often ignored and these are the areas that will come back to haunt a company in the future if the process is not properly understood.

For all the talk of partnerships, for instance, many customers start to regard outsourcers as suppliers to be squeezed. This is not the road to go down and will only result in negative consequences. A strained relationship can mean innovative or profit-making opportunities are missed.



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**Lem Lasher, President  
of CSC's Office of Innovation**

“Companies cannot be interested in averages in delivery service level agreements. If your head is in the oven and your feet are in the freezer, the average temperature may be 96°F, but it won't feel like it. The experience of the user is essential.”

One important element of the process is the employees who either formerly worked in the IT department or who are now charged with maintaining the relationship with the outsourcer. This is probably something they're not used to doing and it may result in a requirement for an investment in new and different skill sets.

Both parties in any outsourcing agreement need to ensure that this part of the deal is not overlooked. Maintaining the day-to-day relationship is down to these people and all of a company's strategic plans and modelling will benefit if it's right from the start.

To many, outsourcing IT remains a way to get rid of problems that stem from internal management and decisionmaking processes. But just because the management doesn't understand the issues, outsourcing it won't change that. Neither will real benefits be achieved if IT is considered completely peripheral to the main business of the organisation. What management needs to understand is that IT can be a profit centre and real results can be derived from it. Getting an outsource partner to enhance that potential is what it's all about.

Another challenge from the outset and one often overlooked by companies according to Lasher, is contract rigidity: “The desire for control offered by detailed contracts inhibits innovation and the flexibility needed to handle changes in requirements or capabilities. What's more, the customer might feel it has the advantage before the contract is signed and likewise the supplier might feel it has the upper hand after it is signed. Neither is healthy.”

### KEEPING TRACK

If all this is true, what does it mean and what can be done about it? Is it a technology problem, a control problem or an issue of execution? All three according to Lasher, and it boils down to a need for strong governance: “In a worst case scenario, poor governance could drive a wedge between client and provider. With the outsourcer left on the outside, communication is poor. Collaboration is poor and IT becomes isolated from the business. The framework for resolving this situation requires strategic alignment of conduct, risks and rewards. Once this is done, innovation can begin to flow from the arrangement and then, in our experience, the real benefits can be reaped.”

In order to organise the business for innovation, managers must first determine whether the innovation question is autonomous (ie, it can be pursued independently) or systemic (ie, it needs complementary innovations).

They must also assess whether the capabilities needed to produce the innovation can be easily obtained or must be created.

Lasher calls this the Continuous Improvement Framework (CIF), a policy which has been successfully adopted between CSC and some of its leading clients. It enables both parties to respond and adapt to business change, and provides a dynamic mechanism for alignment of objectives. The key elements of the Framework include a clear articulation of expectations, identification of key areas to be addressed, clear governance structures, targets, reporting, current state assessment and alignment of incentives with objectives. Business objectives lead this agenda. Each objective has a domain of focus – from customer satisfaction to strategic business development. Each domain of focus has a clearly defined ownership, annual objectives, key milestones and measurement and reporting mechanisms.

Useful principles to keep at the forefront of both parties' minds are statements such as: “We will measure whatever is necessary to improve service delivery performance, regardless of the contractual arrangements.” Another is: “We will meet or exceed the contractual commitments we have made. Where the contract encourages the wrong behaviours, we will change the contract.” And so on.



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Once both parties are clear, ensuring alignment of operational objectives is crucial and this is done through business groups, regular meetings and constant referral to the agreed objectives. “Companies cannot be interested in averages in delivery service level agreements,” Lasher points out. “If your head, your average body temperature may be 98,6 degrees, but it won’t feel like it. It is the experience of the user that is important, not the technical measure.”

Critical in the process is the client intimacy that account teams – the service delivery managers – strive to achieve.

In a nutshell, for the relationship to work for both parties, it is important to align objectives, goals and incentives. This will help to mitigate the human element that inevitably distorts the agreed plan.

What is also important is strategic clarity from both sides. The scope of the partnership needs to be understood, as does the level of integration. Both sides need to know what the other means by innovation. Another crucial element is collective governance. Partners must be included at all stages – the way to make it clear that you have all parties’ goals in mind is to demonstrate commitment through the right behaviours.

### INNOVATIVE THINKING

So finally, what of the CSC Office of Innovation and how will it help all parties to maximise the potential of outsourcing? Its goals are to raise the profile of CSC Innovation Leadership, bring CSC Innovative Solutions and Value Added Services to the market, harvest and leverage innovation from CSC and marketplace experience worldwide, and instil innovation in CSC people and culture. Fundamentally, it’s about ideas, innovation and commercialisation.

As a leading-edge forum, it’s about identifying technologies and marketplace ideas, providing a CSC point of view on emerging technologies and stimulating innovation in CSC and client cultures. It will cover the former CSC’s Research & Advisory Services as well, which provides research into emerging business/IT needs and trends, taking in clients, academics and CSC thought leaders.

It will also establish standards and processes for capturing and sharing information across the entire enterprise plus establish strong partnerships with leading business and technology companies globally.

The Office of Innovation will seek to be there for any outsourcing or innovation requirements and should help to focus all companies on the opportunities and potential of such relationships. Armed with this sort of support, all companies should be able to reap the benefits of dynamic outsourcing.

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