



# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## Enabling Business Transformation with IT Outsourcing

3:30 – 4:20 pm

Monday, February 23, 2004

**Mick Jennings**  
*Vice President and Chief Technology Officer*  
Campbell Soup Company

**Charles P. Carpenter**  
*Senior Project Executive*  
IBM Corporation



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Mick Jennings  
Vice President and  
Chief Technology Officer  
Campbell Soup Company

Mick Jennings began his career in information technology in the United Kingdom at Texaco and holds a Bachelor of Science degree from Lancaster University. Mick was the Director of information Systems and Global IS Security at Rhone-Poulenc Rorer, Inc. in the United Kingdom. Mick has also held position of Vice President and Chief Technology Officer Global Service Delivery at Aventis Pharmaceuticals, Inc. for three years prior to joining Campbell Soup Company where he is now Vice President and Chief Technology Officer.

Mick has extensive experience in global outsourcing, from communicating the strategic principles involved at the Board level to leading the negotiations for large contract negotiations, and then holding responsibility for managing the resulting outsourced relationships.



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Charles P. Carpenter  
Senior Project Executive  
IBM Corporation

Charlie Carpenter is a Senior Project Executive with IBM Global Services - Distribution Sector. He has over twenty-eight years of experience on large-scale Information Technology (IT) projects covering the areas of program management, systems integration, software development, and managed operation services with both commercial and US Government customers. His focus over the past nine years includes managing the delivery of a broad range of IT services for commercial customers in the Wholesale Distribution and Consumer Packaged Goods (CPG) industries.

He is currently managing a major strategic outsourcing contract with Campbell Soup Company, with operations in North America, Europe, and Asia Pacific. Charlie is primarily responsible for overall ownership and management of a complex contract that delivers Managed Operations, Help Desk, Network, Application Support, and Web Hosting services. He recently led the re-negotiation effort for the new 10-year outsourcing agreement with this client.



## 2004 Outsourcing World Summit

**Mick Jennings**

Enabling Business  
Transformation  
with IT Outsourcing

### Discussion Agenda

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- About the Campbell Soup Company
- Consumer Product Business Environment in 2001
- The Need for IT Transformation
- The Outsourcing Decision
- Selecting the Right Partner
- How Do You Make it Work?
- Results and Lessons Learned





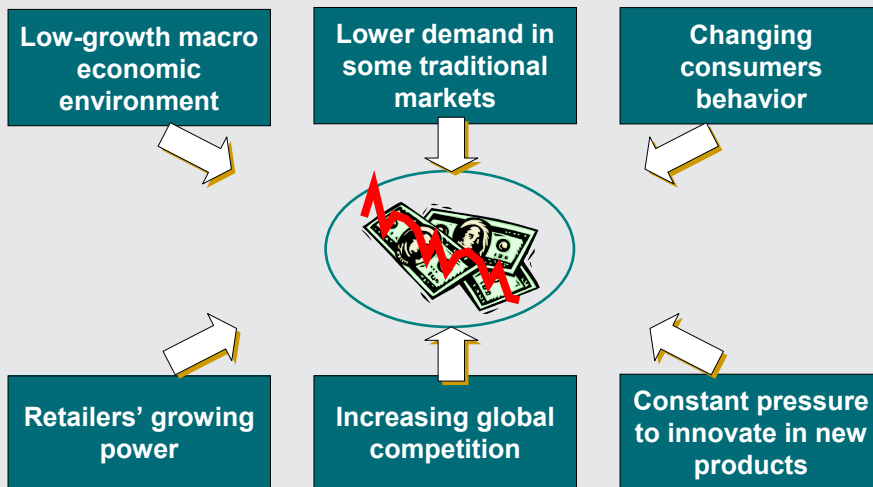


## Campbell Soup Profile

- Global Consumer Product Manufacturer and Marketer
  - Iconic brands
  - Nearly 70% market share in soup business
- \$6+ Billion in Sales
  - 38% in North American soup
  - 27% in biscuits and confectionery
  - 19% in North American sauces and beverages
  - 16% in International soups and sauces
- Operations in More Than 22 Countries
- 25,000 Employees

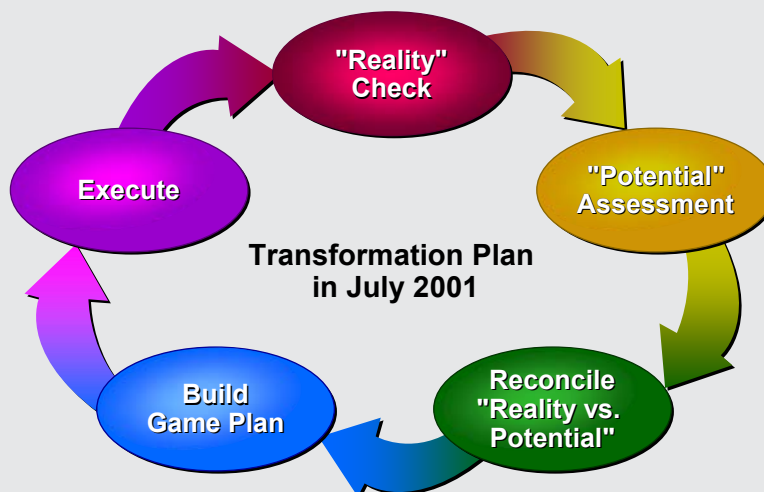


## Compelling Industry Trends



5

## Campbell Transformation Process



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## Five Point Transformation Plan

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1. Revitalize U.S. Soup
2. Strengthen the Broader Portfolio for Predictable Sales and Earnings Growth
3. Build New Growth Avenues
4. Drive Quality and Productivity
5. Build Organization Vitality



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## The Challenge for IT

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- To enable the business transformation, IT had to:
  - Add new business functionality quickly
  - Scale up or down quickly (acquisitions, outsourcing non-core activities)
  - Improve decision making, business intelligence and employee productivity
  - Optimize the Supply Chain, internally and with customers and suppliers
  - Increase interoperability and reuse of processes and systems



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## Need for IT Change

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- We don't want to be viewed and judged as a supplier; we need to act like a business partner and add value
- We need to understand what is being asked of us
- We need to negotiate and manage expectations
- We need to deliver results at an accelerating pace



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## The Starting Point – Organization

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- Separate, fragmented delivery units
- Weak regional affiliations
- Non-existent global affiliations
- Weak business alignment
- Low strategic value to Company
- Viewed as low-moderate value overhead
- Significant capability gaps



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## The Starting Point - Technology

- Loosely enforced technical governance at the local level
- Disparate computing platforms, network protocols, etc.
- Maverick purchasing
- Poor control environment
- Under-investment in the basics (e.g., back-up and recovery)
- Inflexible, costly support requirements
- 1400+ business applications



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## The IT Transformation Process



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## Key Transformation Questions

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- How to build a global IT community and establish a global strategic partnership with the Business Units
- How to increase the effectiveness of the IT organization (structure, competencies, staff retention and culture)
- How to enable business transformation and competitive breakthroughs by leveraging information technology
- How to increase financial controls and measure and improve the value of IT investments
- How to strengthen availability, security, backup and disaster recovery capabilities
- How to optimize an outsourcing relationship and establish a strategic framework for managing existing and future third party arrangements



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## Transformation Goals/Principles

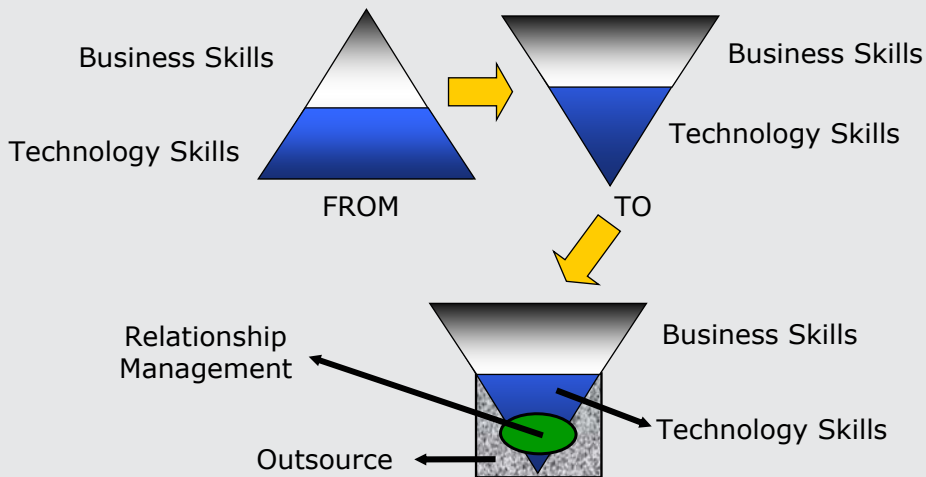
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- Enable Campbell IT to be business focused, not technology focused:
  - Cannot deliver everything the business requires internally and culture changes are required
  - Identify opportunities for outsourcing
- Establish a new IT operating framework, and link all IT decisions to the business strategy
- Determine what an outsourcing relationship would look like over the next 5 years:
  - Simplify Agreements, and build in flexibility
  - Strengthen SLRs to reinforce expected behaviors
  - Create a WIN/WIN outcome



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## What Will IT Look Like



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## Selecting an IT Outsourcing Partner

- Partner needs to understand our consumer product business
- Partner needs to invest in industry-based solutions
- Partner needs to be a leader in technology and innovation
- Partner must have a proven track record of delivering services
- Partner must have global reach and be able to execute seamlessly across geographies



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## Core Competency Review

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- Review list of IT competencies
- Define appropriate decision-making criteria
- Review competency by competency:
  - Define scope and boundaries of each competency
  - Discuss how performed today, strengths and weaknesses, by geography
  - Evaluate against decision-making criteria
  - Global, geographic and/or business unit recommendation
- Synthesize to a consistent model



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## Outsourcing Decision-making Criteria

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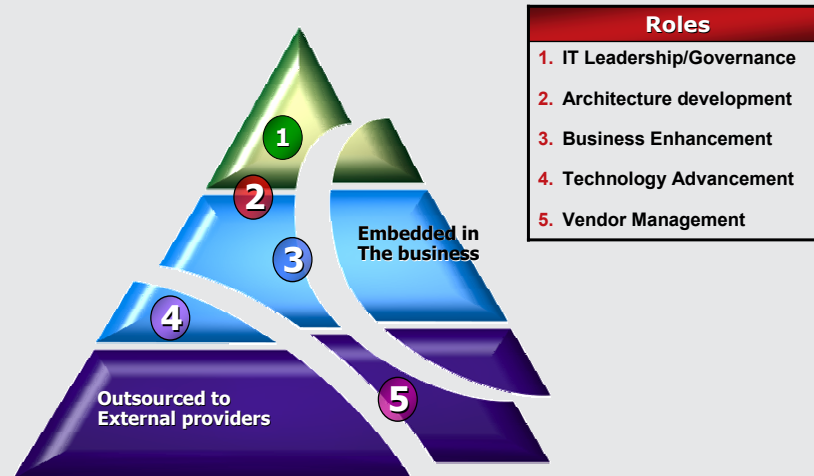
- Does competency drive a competitive advantage?
- Is the competency core / strategic to business?
- Is the competency core / strategic to business of IT?
- Are we willing to invest in people, skills, careers, etc.?
- Are we willing to invest in technology?
- Are there economies of scale?
- Are there geographic implications (OK to be different)?
- Is there a cultural / organizational impact?



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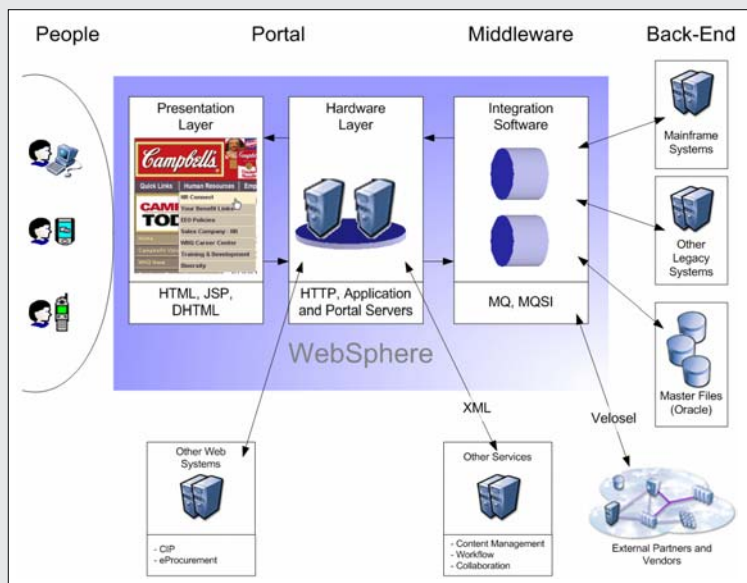


# Transformation – Organization



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# Transformation - Architecture



## Services Outsourced to IBM

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### Mainframe, SP, AS/400 Systems

- Production Operations
- Production Control
- Maintenance & Upgrades
- System Management Control Disciplines
- Capacity Planning
- Disaster Recovery Planning/Services

### Data Network (WAN)

- Monitoring, Measuring, Reporting, Tuning
- Capacity Planning
- Maintenance
- Level 3 Problem Resolution
- Disaster Recovery consistent with existing practice

### Voice Network

- Contracting with Providers for Inbound Long Distance
- Ordering Phone Lines & Long Distance

### Web Hosting Services

- B2C

### Help Desk

- 24x7 Coverage
- Password Resets
- Level 1 Support
- End-to-End Ticket Management

### Application Services

- MQ, Tivoli, Websphere

### NWS – LAN/Server

- Monitoring, Measuring, Reporting, Tuning
- Capacity Planning
- Maintenance & Upgrades
- Software Installation, Distribution & Testing
- Level 3 Problem Resolution

### NWS – Deskside

- Hardware Maintenance
- Failed Parts Replacement



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## New Contract Highlights

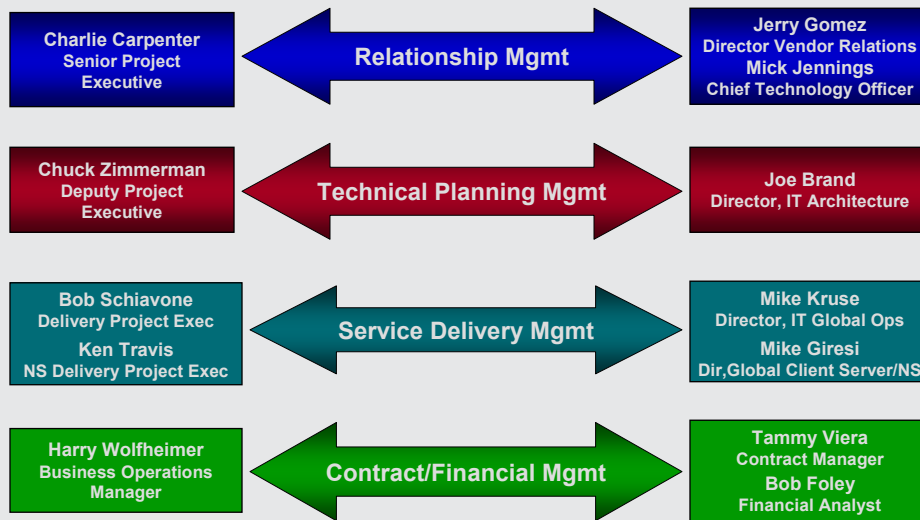
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- Significant enhancement to services were added
- Base framework for on-demand services in several service areas
- Expanded Service Level Requirements to more effectively drive service performance
  - “Raised the bar” on service level requirements
  - Key measurements on proactive behaviors
  - More aggressive fee reductions for missed service levels
- Agreement has been updated to provide clarity, simplify understanding, and promote flexibility
- Key provisions for Relationship Management, Innovation, Gain Sharing
- Extends Campbell/IBM relationship through 2013



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## High Level Governance Model



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## The Result - Organization

- Global Leadership Team
- Strong Regional Structure
- Strong Business Alignment
- Viewed as Strategic, Value-added
- Capabilities Strengthened
- 50% of Staff are New
- Employee Engagement Improving



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## The Result - Technology

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- Well defined technical standards
- High degree of standardization around infrastructure
- Applications interoperability
- Beginning to share/reuse applications solutions
- Agreement on target Core Transaction Systems
- Active project work in virtually every component of the Applications Blueprint



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## Thank You!

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**QUESTIONS  
and  
ANSWERS**



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## A Difference of Opinions: Comparing Buyer and Provider Views on Global IT Outsourcing

4:30 – 5:20 pm

Monday, February 23, 2004

Charles Gavin

*Principal*

DiamondCluster International

Chris Boncimino

*Principal*

DiamondCluster International



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Christopher Boncimino  
Principal  
DiamondCluster International

Christopher Boncimino is a principal with DiamondCluster International, a management consultancy based in Chicago. His expertise is found in coaching senior managers through the complex issues associated with the delivery of large-scale technology and strategy execution projects.

Christopher has led client engagements in a variety of industries including financial services, telecommunications, and automotive.

As an outsourcing practitioner, Christopher has counseled management teams on sourcing strategy. His research on global outsourcing has shaped client approaches to outsourcing, as well as DiamondCluster's own sourcing practice.

Christopher earned his master of business administration degree from the University of Michigan Business School in Ann Arbor, Michigan. His educational concentrations are in the areas of corporate strategy and marketing.



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Charles Gavin  
Principal  
DiamondCluster International

Charlie Gavin is a principal with DiamondCluster International, a management consultancy based in Chicago. His 11+ years of experience includes development of sourcing strategies, organizational design, and the planning and execution of complex operational and technology driven programs from concept through implementation. Charlie's industry focus is financial services, specifically in the areas of capital markets and credit card processing.

As an outsourcing practitioner, Charlie has counseled management teams on IT sourcing strategies and has focused on the organizational implications of those strategies. His research on global outsourcing has helped shape client approaches to outsourcing, as well as DiamondCluster's own sourcing practice.

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*A Difference of Opinions: Comparing  
Buyer and Provider Views On Global  
IT Outsourcing*

*Presented by  
Charlie Gavin  
Christopher Boncimino*



## Objective

***Help outsourcing buyers and providers  
better understand each other's  
perspectives to increase the likelihood of  
successful outsourcing relationships***





## Agenda

**Introduction**

**Trends and Observations**

**Impact on the Outsourcing Lifecycle**

**Conclusion**

## Corporate Background

- **Speakers**
  - Charles Gavin
  - Christopher Boncimino
- **DiamondCluster International – Helping Clients to**
  - **Develop and execute** GROWTH – from strategy through execution
  - **Maximize the value of current and future** TECHNOLOGY investments
  - **Implement** OPERATIONAL IMPROVEMENTS that activate the power within their organization

## 2004 IT Outsourcing Study

- **Background**

- 2<sup>nd</sup> annual study
- Surveyed and interviewed senior executives across industries

- **Study Objectives**

- Understand IT outsourcing evolution
- Understand how to best use as management tool
- Understand relationships between buyers and providers

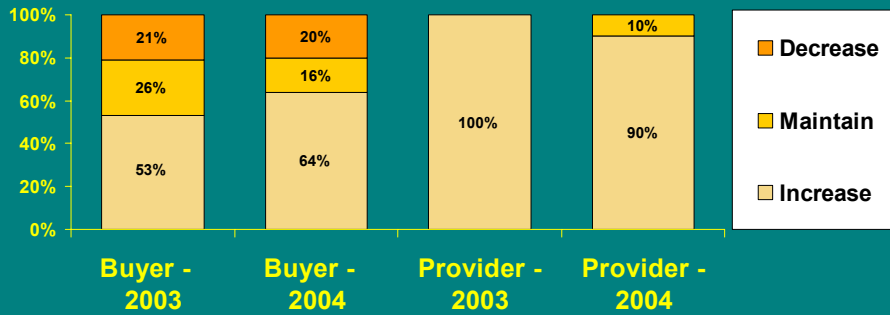
- **Focus Areas**

- IT Outsourcing Trends
- IT Outsourcing Lifecycle

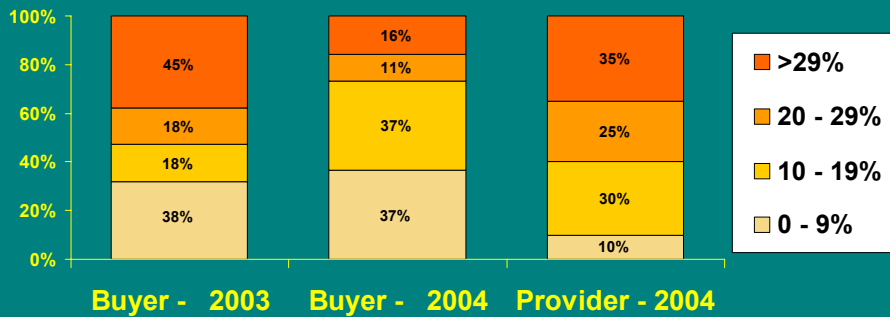
## Observation

***The IT Outsourcing industry is  
rapidly reaching a state of  
maturity***

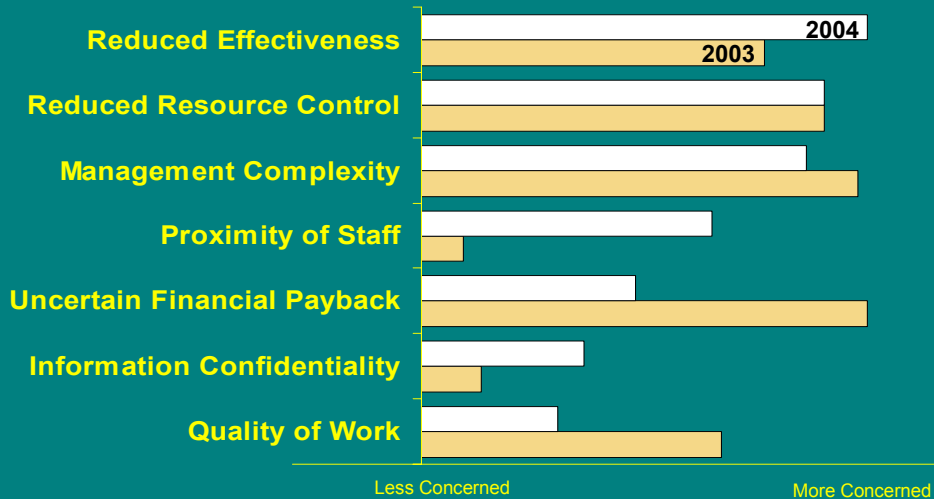
## IT Outsourcing Adoption



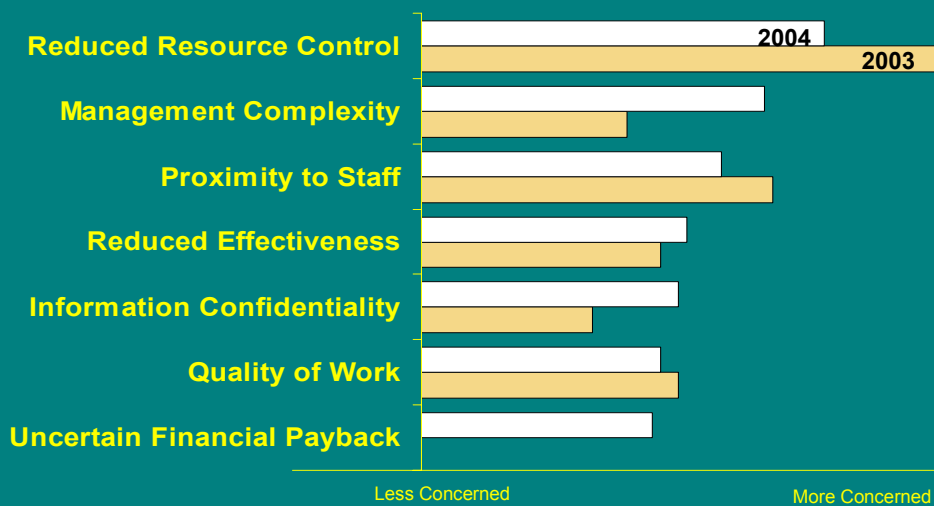
## IT Outsourcing Budget Allocation



## Risk Factors - Buyers



## Risk Factors - Providers



## Backlash is Real

### Outsourcing Backlash Brewing

SAN JOSE, Calif., Jan. 19, 2004

 **CBSNEWS.com** HOME



September 1 Issue of CIO Magazine

### US readies for outsourcing backlash

CNET News.com

January 08, 2004

### Outsourcing backlash gets abusive, ugly

Bangalore, December 20

Hindustan Times

### Outsourcing backlash to haunt Indian IT sector in '04

IANIS MONDAY, DECEMBER 22, 2003 01:19:05 PM ]

The India Times

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## Managing Backlash



85% Buyers - 81% Providers



84% Buyers - 82% Providers



62% Buyers - 72% Providers

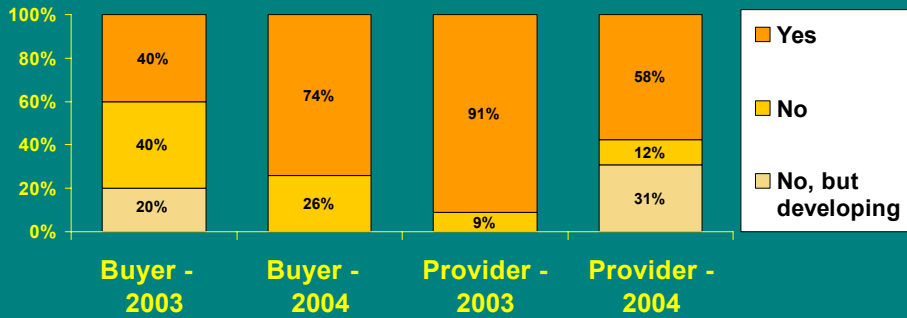


79% Buyers - 69% Providers

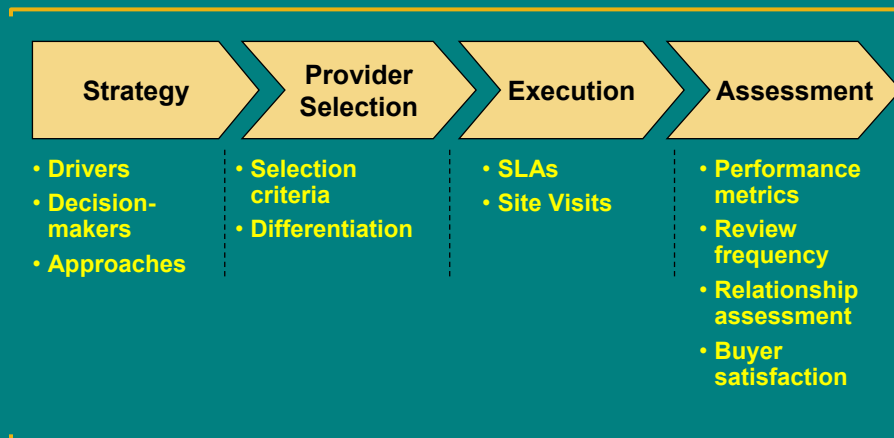
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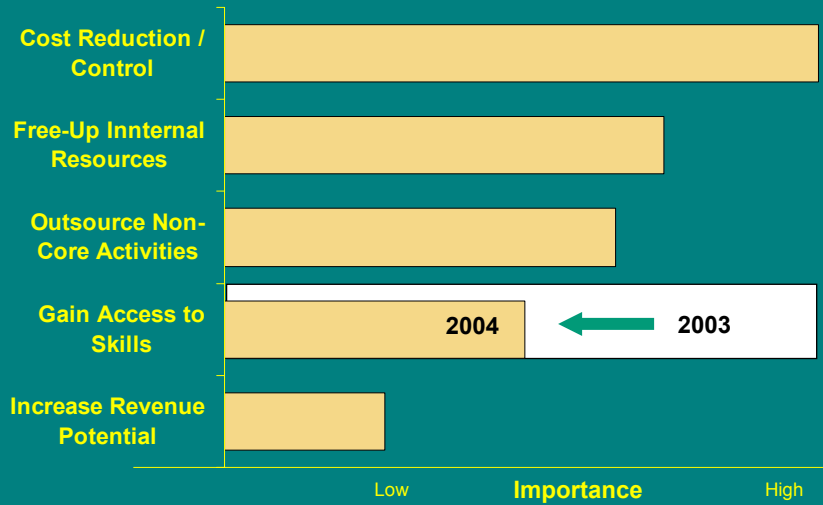
## Contingency Plans In Place



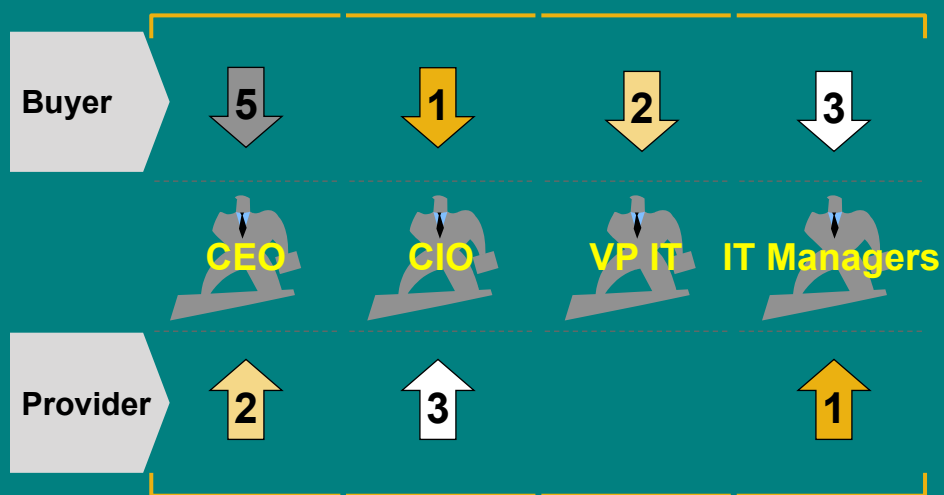
## Outsourcing Lifecycle



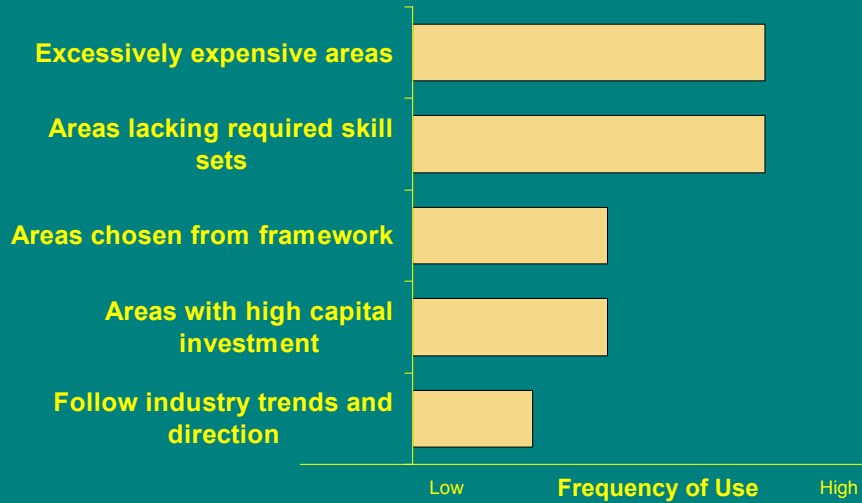
## Why Outsource



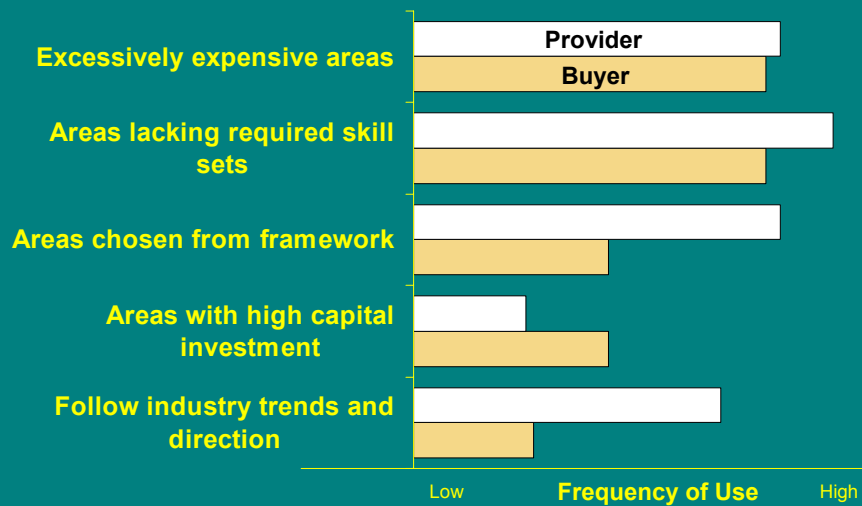
## Who is the Decision Maker?



## Deciding What to Outsource

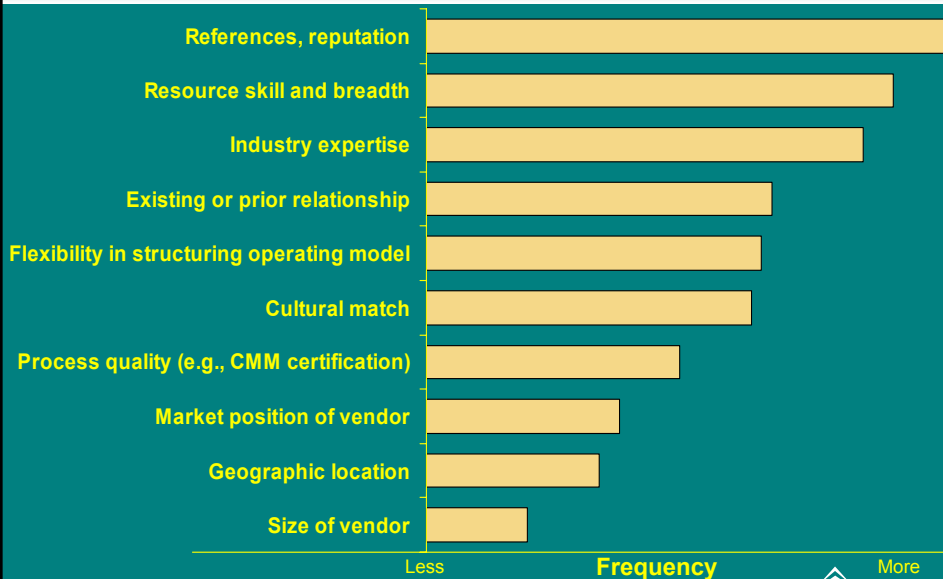


## Deciding What to Outsource





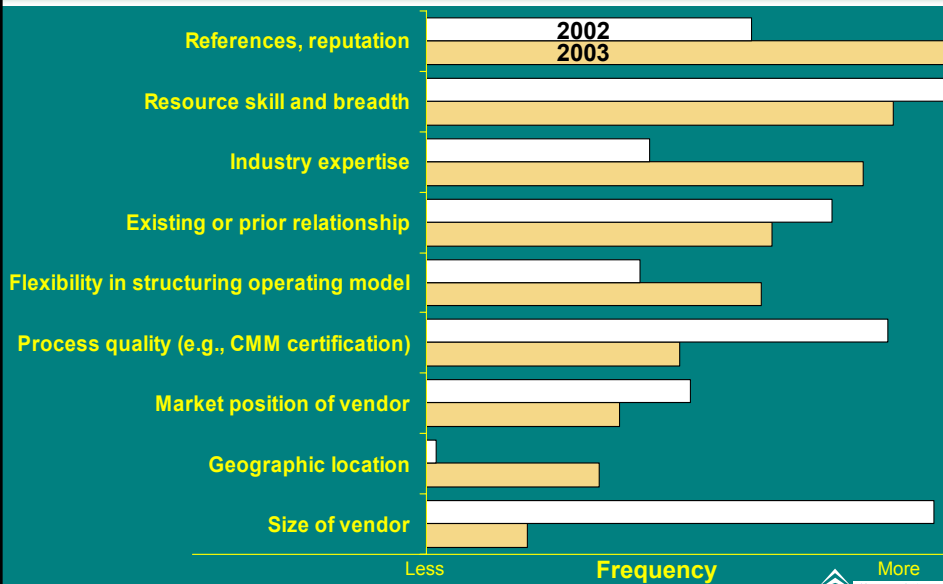
## Top Provider Selection Criteria 2004



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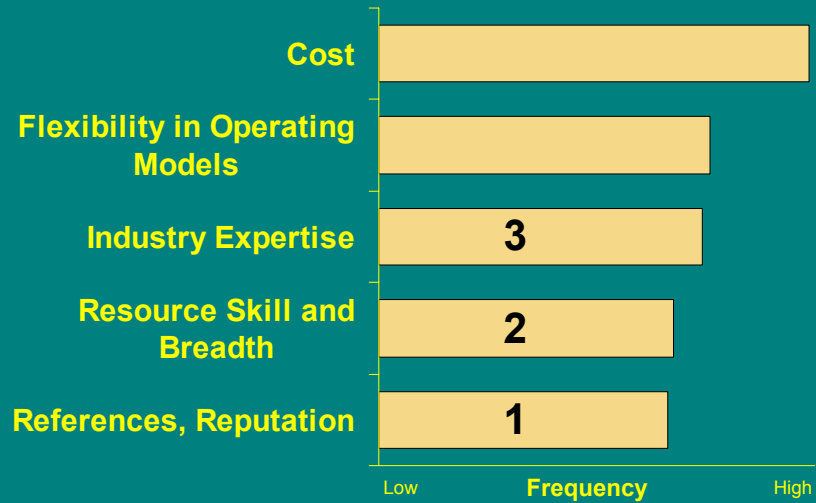
## Top Provider Selection Criteria 2003



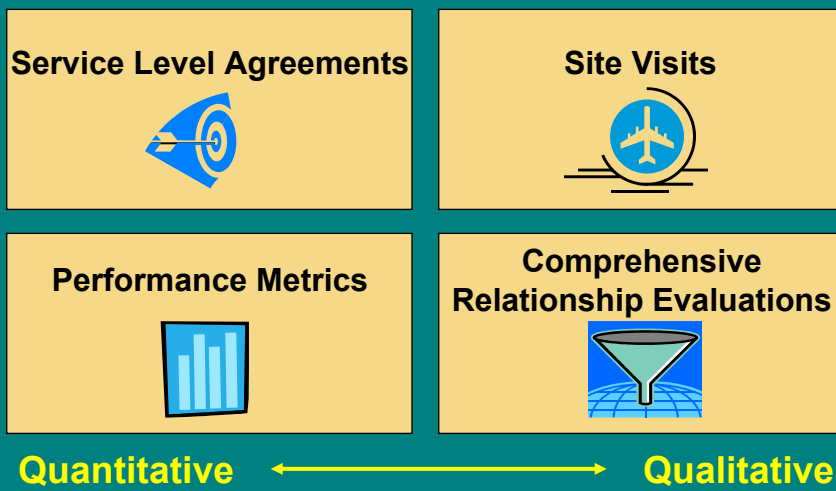
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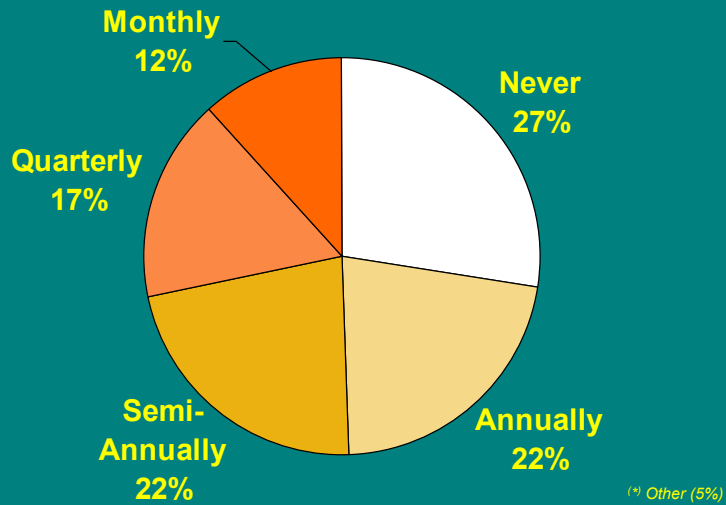
## Selection – Provider Differentiators



## Outsourcing Management Tools

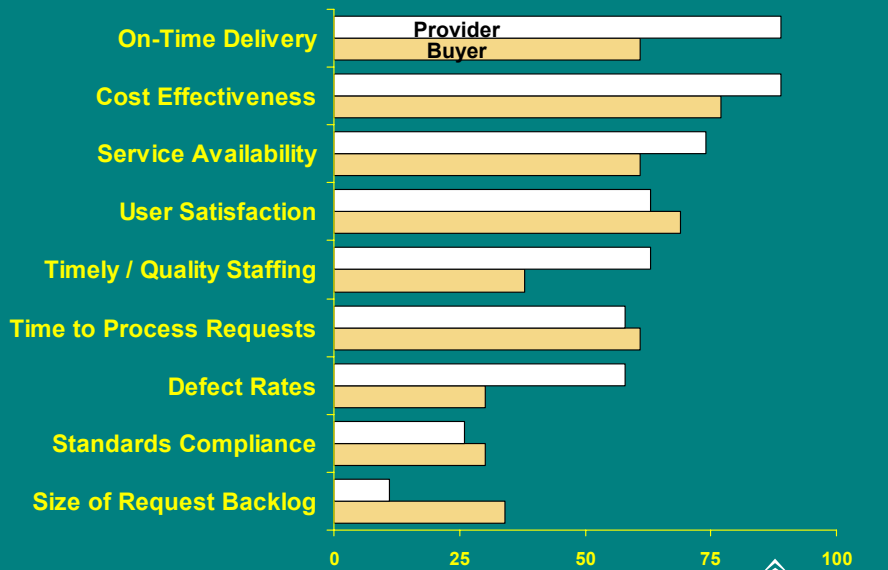


## Frequency of Site Visits



(\*) Other (5%)

## Performance Metrics



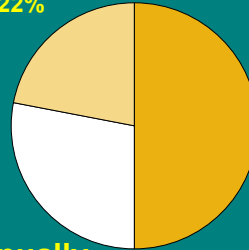
## Relationship Assessment

- Timeliness and quality of deliverables
- Track to the business case
- User satisfaction

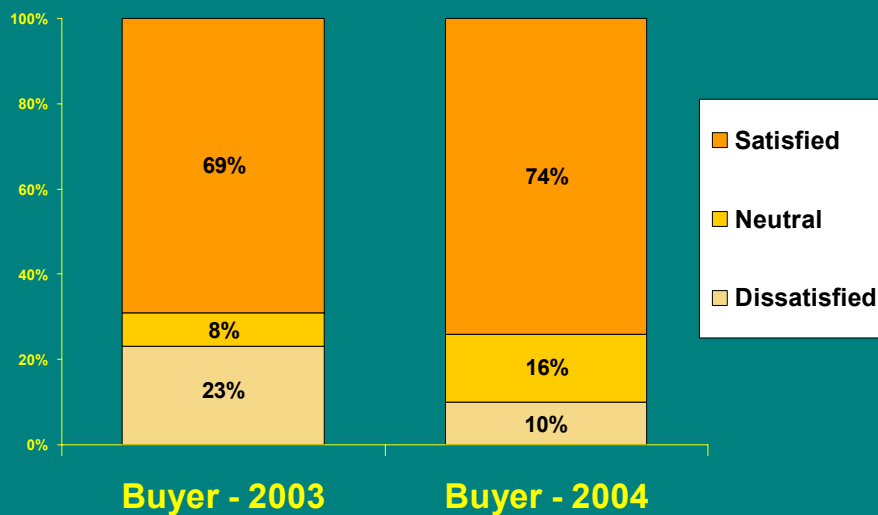
Semi-Annually  
22%

Annually  
28%

Quarterly  
50%



## Buyer Satisfaction



## Project Termination

	Buyer	Provider
Termination	<ul style="list-style-type: none"><li>• 21%</li></ul>	<ul style="list-style-type: none"><li>• 7%</li></ul>
Common Reasons	<ul style="list-style-type: none"><li>• Provider had financial difficulty</li><li>• Provider failed to deliver commitments</li><li>• Buyer consolidated providers</li></ul>	<ul style="list-style-type: none"><li>• Buyer ran out of funding</li><li>• Buyer not honoring outstanding invoices</li><li>• Buyer went out of business or was purchased by larger organization</li></ul>

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## Conclusions

- Industry is maturing and alignment increasing, but gaps remain
- Outsourcing will continue to grow with buyers taking a more disciplined approach to adoption and management
- Backlash is real...and the industry needs to take notice and address, especially in the area of contingency planning
- Buyers are increasingly starting small and scaling
- Differentiation becoming increasingly difficult, especially among offshore firms
- Buyers getting better at managing provider relationships, resulting in higher satisfaction

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## Back Office Transformation Model and Capabilities

11:00 – 11:50 am

Tuesday, February 24, 2004

Mary Lacity  
*Associate Professor*  
University of Missouri



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**Mary Lacity**  
Associate Professor  
University of Missouri

Mary Cecelia Lacity is an Associate Professor of MIS at the University of Missouri-St. Louis and a Research Affiliate at Templeton College, Oxford University. Her research interests focus on IT management practices in the areas of sourcing, IT privatization, benchmarking, IT metrics, and client/server development. She has conducted case studies in over 75 organizations and has surveyed both US and European IT managers on their management practices. She has given executive seminars world-wide and has served as an expert witness for the US Congress. She has written four books on IT sourcing: *Global Information Technology Outsourcing: In Search of Business Advantage* (with L. Willcocks, forthcoming by Wiley), *Strategic Sourcing of Information Systems* (with L. Willcocks, Wiley, 1997), *Beyond the Information Systems Outsourcing Bandwagon: The Insourcing Response* (with R. Hirschheim, Wiley, 1995), and *Information Systems Outsourcing: Myths, Metaphors, and Realities* (with R. Hirschheim, Wiley, 1993). Her articles have appeared in the *Harvard Business Review*, *Sloan Management Review*, *MIS Quarterly*, *Journal of Management Information Systems*, *Journal of Strategic Information Systems*, *Information Systems Journal*, *European Journal of Information Systems* and many others. She is US Editor of the *Journal of Information Technology*. She has previously worked as a consultant and systems analyst.

# Back Office Transformation Models and Capabilities

By:

Mary C. Lacity



David Feeny



Leslie Willcocks



1



## 14 Years of Sourcing Research:

*90+ case studies, 130 decisions in US, Europe, and Australia, over 500 interviews*

### **Outsourcing: n= 98 decisions**

British Aerospace   DuPont   Inland Revenue   Enron   GM  
IRS   Rigg's Bank   South Australia   Swiss Bank

### **Insourcing/Backsourcing: n= 18 decisions**

Continental Baking   Brown Group   Westchester County  
Occidental Petroleum   Ralston Purina   Vista Chemicals   MEMC

### **Application Service Provision: n=10 decisions**

Corio   EDS   Host Analytics   mySAP   Zland

### **Business Process Outsourcing: n = 4 decisions**

BAE SYSTEMS   Lloyd's of London

2



## **Many sourcing decisions are prompted by a desire to clean up a back office “mess”, frequently caused by...**

growth through M&A leading to decentralization & redundancies

lack of investment,

lack of leadership,

lack of employee motivation,

lack of customer-focused service,

bureaucratic and inefficient processes,

outdated and non-integrated technology.

3

## **What Customers Want From Back Office Transformation**

Back Offices:

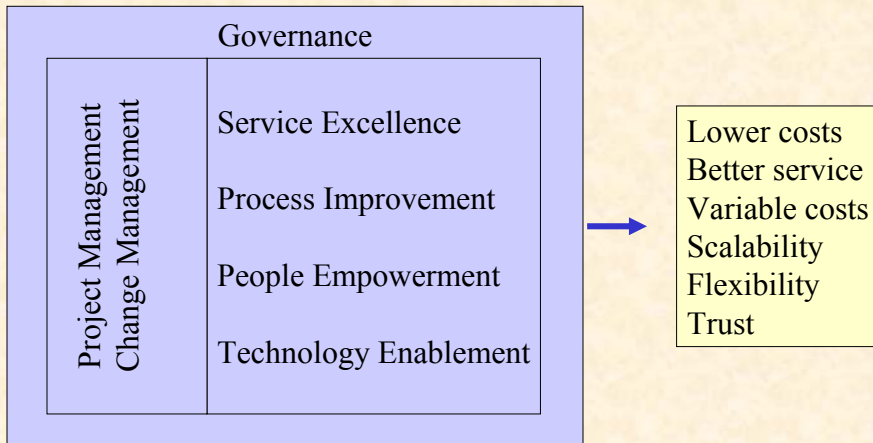
- Human Resource Management
- Information Technology
- Procurement
- Finance
- Accounting
- Etc...



Lower costs  
Better service  
Variable costs  
Scalability  
Flexibility  
Trust

4

# Capabilities Needed For Back Office Transformation



5

# Sourcing Options for Back Office Transformation

-  1. Do It Yourself (Insourcing)
-  2. Management Consultancy (Time & Materials)
-  3. Business Process outsourcing (Fee-for-service)
-  4. Equity Swap
-  5. Joint Ventures
-  6. Enterprise Partnership

6

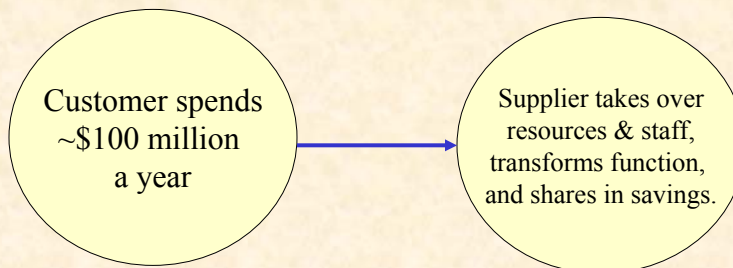
## Enterprise Partnerships

- New business model
- Most of our research is based on 34 interviews with one supplier And its customers.
- Customers will be very interested in this model

*“An enterprise partnership is a business model that creates A 50%-50% enterprise between the customer and supplier whose primary mission is to share the cost savings generated from the supplier’s transformation of the customer’s back office operations. A secondary mission is to generate and share revenues from external sales to other customers after the transformation is complete.”*

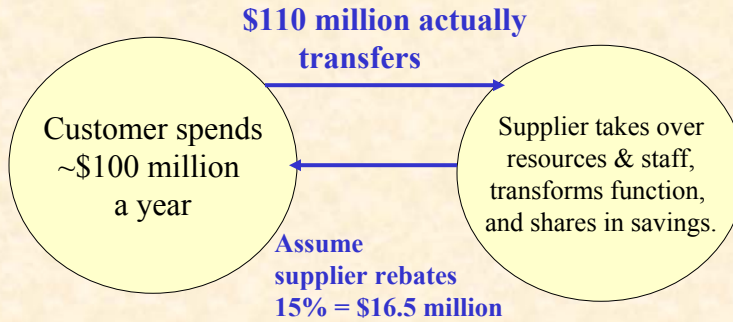
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## Enterprise Partnerships



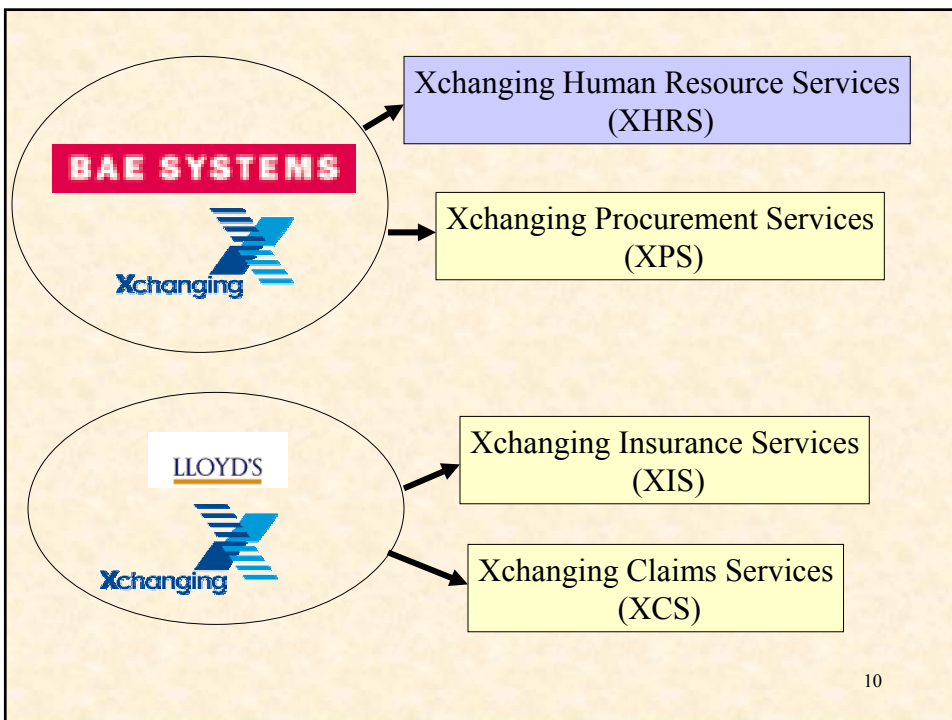
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# Enterprise Partnerships




Any extra savings are the supplier's revenues. Thus if the supplier can deliver the baseline services for **\$80 million**, they would earn **\$13.5 million**.

9



10



**Xchanging Human Resource Services (XHRS)**

*10 year, £250million deal*

**Benefits to BAE after 20 months:**

- Promised cost savings on baseline services delivered
- 400 HR services levels have stay same or improved
- Web-enabled HR system rolled out to 40,000 BAE users
- 462 HR staff transferred to XHRS have been re-oriented
- New HR facility built and occupied
- Remaining HR staff focus on strategic HR activities

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**BAE SYSTEMS**

## About BAE SYSTEMS

**Prime contractor and systems integrator in the air, land, sea, space, and command and control market sectors.**

**Defense, commercial, civil markets**

**World-class capabilities in naval platforms, military aircraft, electronics, systems integration and other technologies.**

**Eurofighter**



**Astute**



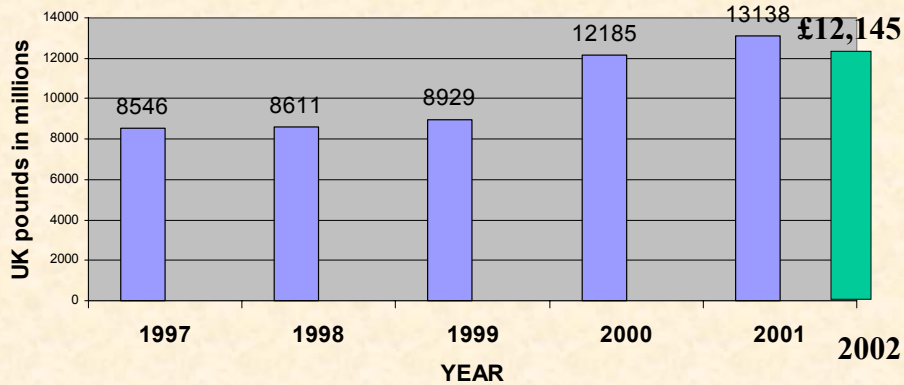
**Destroyer**



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# About BAE SYSTEMS

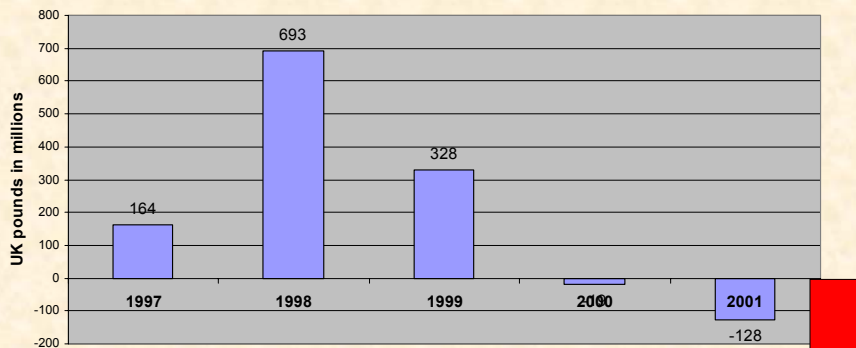
**BAE SYSTEMS SALES**



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# About BAE SYSTEMS

**After Tax Profits/ Losses**



Two large contracts signed at fixed price in 1990s with Ministry of Defense for Astute attack submarine and Nimrod aircraft caused this loss, £750 million.

**Lost £686 in 2002**

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## Proposed Merger

**January 1999, British Aerospace announced merger with Marconi to create BAE SYSTEMS**

**Investors promised £275 million in annual cost savings within 3 years**

*"The proposed merger with Marconi Electronic Systems is an important step in the consolidation of the industry in Europe and creates a strong and highly capable business with significant cost benefits." -- Sir Richard Evans, Chairman of the Board, BAE SYSTEMS*

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## BAE SYSTEMS' HR

**In 1999, Terry Morgan, Group HR Director charged with delivering 15% to 40% cost savings on annual HR spend of £25 million**

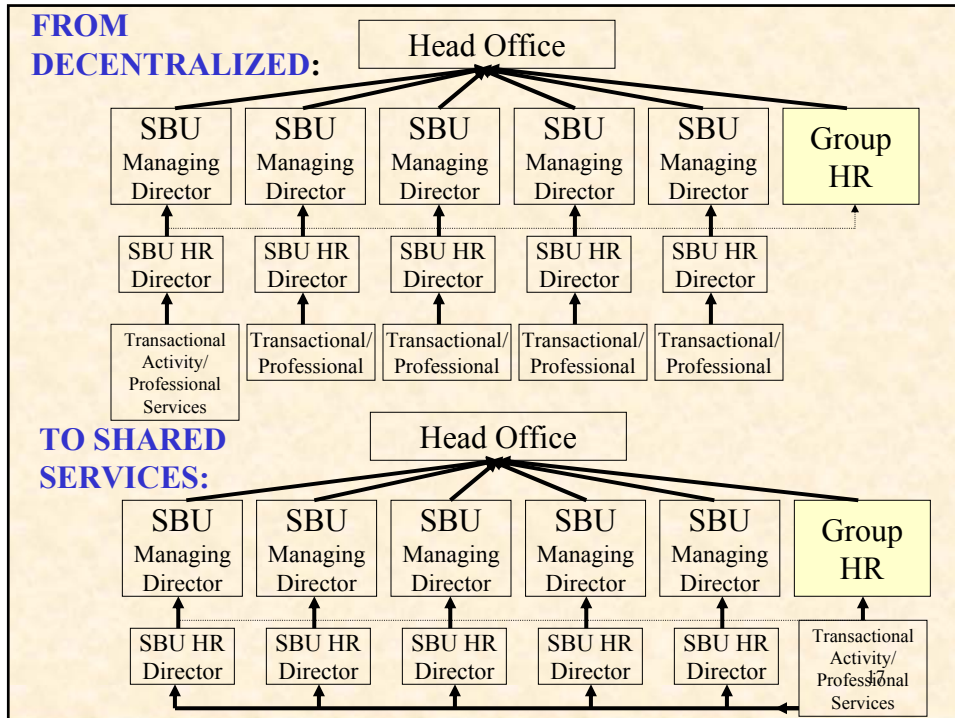
**Group HR was small, focusing on senior pay & benefits, senior level development, organizational design**

**700 HR professionals in SBUs at 70 sites doing transactional activities such as payroll, benefits, recruiting, training, HR procurement**

*Shared Services as solution to cost reduction...*

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## BAE/Xchanging Timeline

**January 2000:** David Andrews proposes enterprise partnership

**Spring 2000:** Invitation to bid

**June 2000:** Letter of Intent signed with Xchanging

**June 2000 to February 2001** Contract Negotiations

**May 1, 2001** Go Live







## BAE/Xchanging Contract

### 50%/50% Joint Ownership:

50%/50% split in cost savings, estimated baseline £25m/year  
50%/50% split on new revenue generation from external sales

### Services:

As-is measured within 6 months  
By year 5, improvement to upper quartile

### Joint Governance:

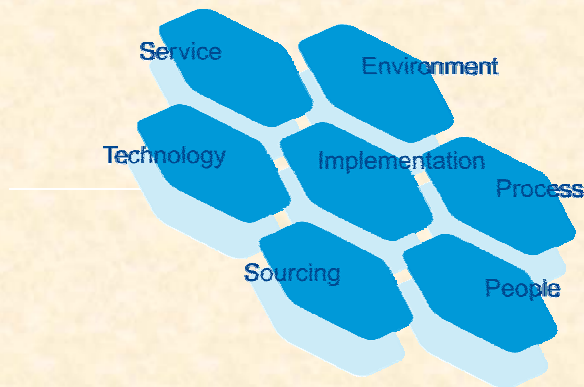
*Board of Directors:* Protect the rights of shareholders

*Service Review Board:* Service performance monitoring

*Technology Review Board:* Joint board to ensure £20 million investment

19

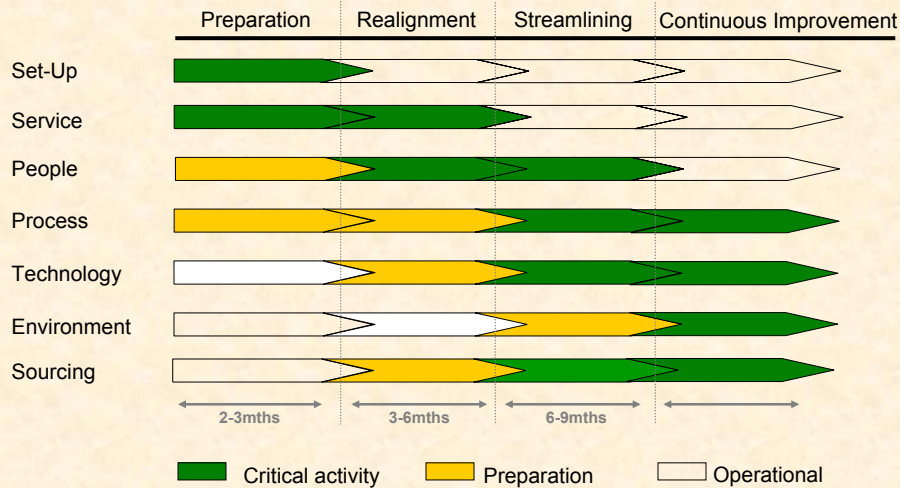
## How Did Xchanging Complete the Transformation?



Xchanging's management believes that the capabilities required to transform a back office to a front office requires **7 generic business competencies** rather than domain specific knowledge...

20

## Transformation is Implemented in Four Phases



21

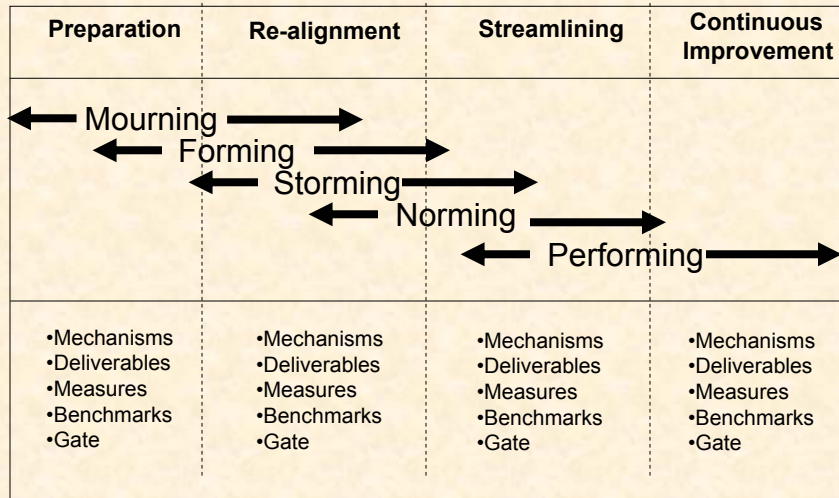
## People Competency

**People Competency builds champion teams from transferred employees by unlocking their talent and energy, primarily through extensive training programs and direct contact with Xchanging's senior management:**

- Induction Programs to 430 transfers within 6 weeks
- Management training
- New job descriptions
- New Customer-focused culture

22

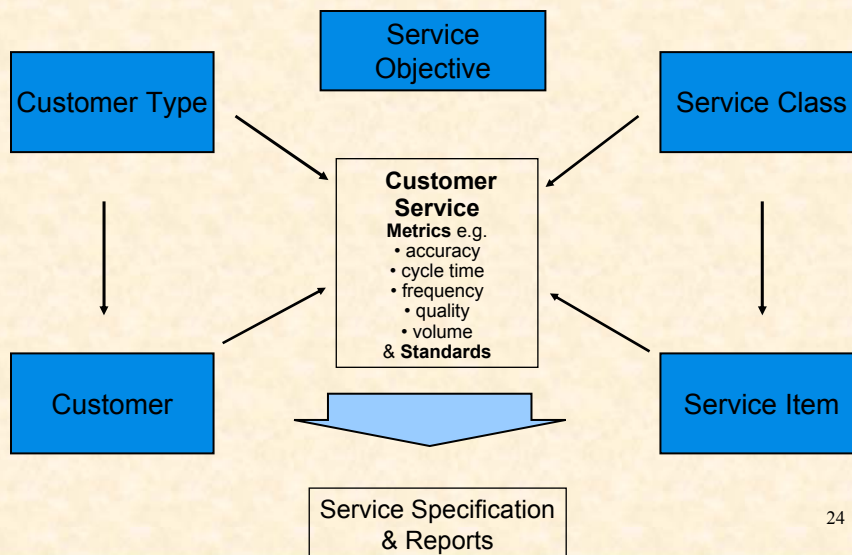
## People Competency



23

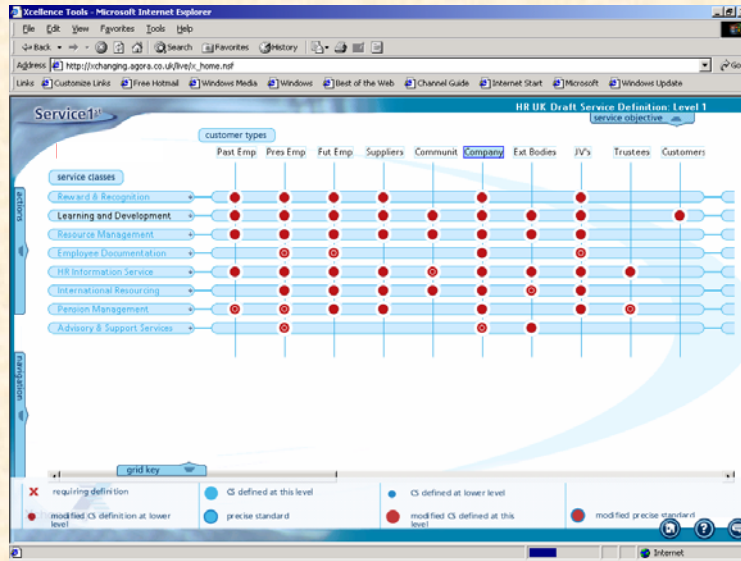
## Service Competency

The goal is to provide the same levels of service during transition then move to customer-negotiated service levels based on individual customer needs.



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# Service Competency



25

# Service Competency

**XCS Service Team:**

**As-Is Service:**

400 service levels drafted

Service Review Board approved in October 2001

*But an extra £80 million a year in indirect procurement spend  
Was uncovered for fleet, contract labor, recruiting, stationary,  
And travel! HR was buying services from over 200 suppliers,  
All in decentralized budgets.*

26



## Sourcing Competency

**£80 million**

- Car Fleets**
- Non-technical contract labor**
- Learning & Development**
- Health Care**
- Recruitment**
- Remuneration & Benefits**
- Stationary**
- Travel**
- Printing**
- Office Furniture**
- Computer Consumables,**
- Mobile Phones**

o On average, 12% savings delivered on categories transferred

o Margins range from 5% to 45% depending on category

28

# Environment Competency

**Goal: create modern and well-branded physical spaces to build a visible front office for customers.**

Physical spaces also foster a front office mentality

Xchanging built, bought furniture, and decorated new facility  
By February 2002

Occupancy held up by IT contract with CSC

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# Environment Competency

## Preston





# Environment Competency

**Preston Ready!**



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# Environment Competency

**Preston Ready!**



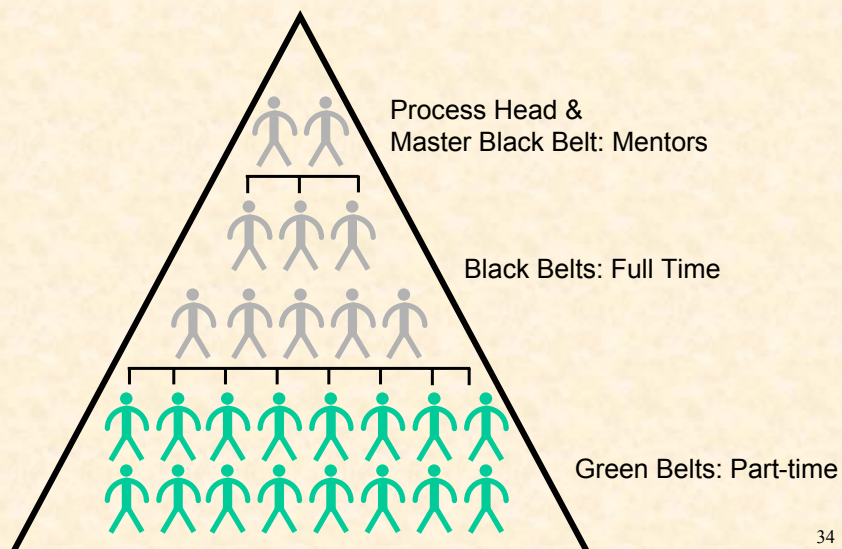
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## Process Competency

Goal is to redesign business processes to reduce costs and to improve quality through Six Sigma quality improvement discipline.

$\sigma$	DPMO	%
Process Capability	Defects Per Million Opportunities	Yield
6	3.4	99.99966%
5	233	99.9770%
4	6,210	99.37%
3	66,807	93.3%
2	308,000	69.2%

## Process Competency





## Process Competency

### **Redesigning Processes such as Senior Leader Peer Review**

**Old process:** 640 senior leaders did paper-based peer reviews, assisted face-to-face by HR personnel

**New process:** e-hr online peer review

*"What would have happened before, thirty people would have happily expanded a task to fill three months and as it is now, eight people have been busy for a month--bang! Done." -- Mike Margetts, Head of Implementation, Xchanging HR Services*

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## Technology Competency

**Goal: Build and implement enabling technology on component driven architecture.**

Goal: Build and implement e-HR within 6 months

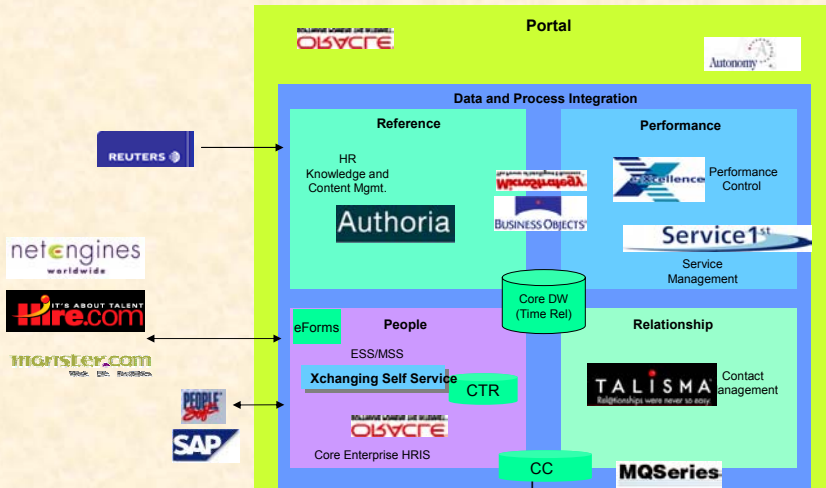
Went on a recruiting rampage on May 1, 2001

Hired 19 full time technology managers, architects & specialists

PeoplePortal went live on October 4, 2001

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## e-HR Application Framework



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## Technology Competency

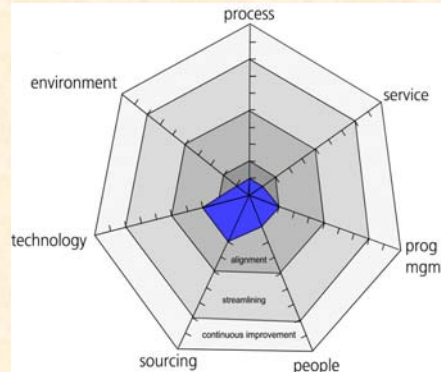
*"I think they were absolutely astonished that we delivered on that, I don't think they expected it for one minute." -- Richard Houghton, CEO, Xchanging HR Services*

*"I think the peopleportal has been the first sign from within the business that something has changed, something has actually happened... We had a lot of very good feedback, it was very good, the technology was great, it was web based, we've had some very good feedback but we've also had people who just can't get the hang of using the technology." -- Kim Reid, HR Director, BAE SYSTEMS*

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# Implementation Competency

**Goal: to orchestrate the timing and resources required for the Other six competencies.**

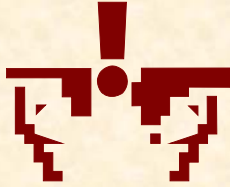


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# Implementation Competency

Preparation	Realignment	Streamlining	Continuous Improvement
June 2000 to May 2001	May 2001 to October 2001	November 2001 to December 2002	December 2002 To May 2011
<p>Data collected on BAE finances &amp; people</p> <p>Service objective &amp; preliminary service definition</p> <p>Structure &amp; people plans</p> <p>Cost modeling</p> <p>Financial reporting &amp; control plans</p> <p>Technology architecture designed</p> <p>Constant communication with targeted transfers</p>	<p>430 BAE staff are transferred &amp; re-oriented, &amp; retrained</p> <p>Detailed "as is" service specification defined &amp; approved</p> <p>Black belts trained and working on first set process improvements; recruiting process redesigned &amp; implemented</p> <p>PeoplePortal launched</p>	<p>New Organizational design</p> <p>Shared Services established</p> <p>Preston Service Regional Teams established</p> <p>Downsized staff</p> <p>3 more versions of Peopleportal</p> <p>Process Improvements to more HR services</p>	<p><b>Future challenges:</b></p> <p>Attract external customers to increase revenues</p> <p>Sustain cost cuts and service improvements</p> <p>Upper quartile performance in all HR service areas</p>

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**Finding 1:** The Enterprise Partnership model creates a clash of cultures, but cultural incompatibility may be just what you need.

*"What was obvious to me, the Xchanging people were part of a small company desperate to succeed, and that desire to succeed just didn't exist in the BAE SYSTEMS HR culture." -- David Bauernfeind, CFO*

*"If you left work at half past six, you were having a late night at BAE. I mean, that is the BAE culture. I was in at ten to seven this morning and I'll be here at nine o'clock tonight and that is the Xchanging culture."*

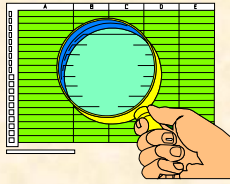
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**Finding 2:** When employing Fee-for-Service Outsourcing or an Enterprise Partnership model, be sure to manage user demand.

*"We are seeing some evidence of increased demand with Xchanging HR Services. It's the early days yet, but demand for service before XHRS was always restricted because as an HR Director, you only have the number of people that you could get your MD to agree to, so that effectively capped it. Of course, we have taken that away now and people can demand ever more and more." -- Steve Hodgson, Head of Resources, XHRS.*

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**Finding 3: Both Fee-for-Service Outsourcing and The Enterprise Partnership Model uncover spend previously hidden in decentralized budgets.**

*"The cost has increased quite substantially. We're just having a review on that at the moment. At the moment that communication isn't clear and it does look as if costs are going up. But in reality, we're doing a review of it and we're doing some investigation on it, in reality it probably isn't going up because of Xchanging. It just means that we need to probably transfer budget over that hasn't traditionally sat within the HR team, so that it's all as one and recharged against that, that total mass, rather than part left within the business. But it is a concern." -- Kim Reid, HR Director, BAE SYSTEMS*

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**Finding 4: The Enterprise Partnership model delays due diligence until after the contract is in effect, which speeds the negotiation process and more fairly distributes the burden of newly discovered costs.**

*"The quality of the data about the HR function in terms of not just what salaries people were on but just who was there, how many to within 10%. Really, really surprising and if anything that experience, if I ever needed drilling home about why BAE needed to do the deal, that did it. If you can't tell how many people are in your own function within 10% to 20% what chance have you got of providing value added HR for a business? It was just shocking." -- David Bauernfeind, CFO, XHRS*

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**Finding 5: The Enterprise Partnership model aligns incentives better than fee-for-service outsourcing.**

*"So if it was a traditional customer/supplier relationship, I think it would be very much customer/supplier which perhaps may not be totally joined up in the middle. You would get the instance that the customer would blame the supplier for not delivering a service. For me, the partnership means that the accountability for delivering the service into the business is mine. I have to make sure that it delivers a seamless service so that myself and my other HR directors in this business will not say 'the reason this went wrong was because Xchanging did this'. If something goes wrong it's because we did it. It's very much a partner type relationship." -- Kim Reid, HR Director, BAE SYSTEMS*

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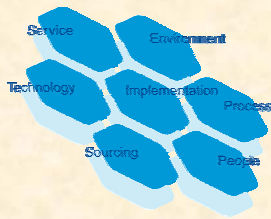


**Finding 6: The Enterprise Partnership model does not perfectly align incentives.**

In the past, the joint governance between customers and suppliers we studied led to a **managerial schizophrenia**. Because the enterprise's primary customer is also an owner, the customer has two competing goals: to maximize cost-efficient service delivery from the enterprise and to maximize the revenue of the enterprise. How can the customer do both? Furthermore, if the same executives sit on the Board of Directors of the customer company and the enterprise company, which hat should they wear? Should they be pushing for more services at a reduced cost, thereby squeezing as much as they can from the enterprise? Or should they push for generating more revenues, which distract the enterprise from their needs?

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**Finding 7: The Enterprise Partnership model benefits from generic business competencies rather than domain-specific knowledge.**

*"I always say the best HR people are people who haven't been in the HR function all their lives. You need a different view. So the Xchanging team, although they are not HR professionals, it works probably better that they are not because if they go in understanding all the pitfalls that there may be, then they'll never make any changes, so sometimes it is better." -- Kim Reid, HR Director, BAE SYSTEMS*

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## Further Information:

Lacity, M., Feeny, D., and Willcocks, L., "Commercializing the Back Office at Lloyd's of London: Outsourcing and Strategic Partnerships Revisited," forthcoming in the *European Management Journal*, Vol. 22, April, 2004.

Lacity, M., Feeny, D., and Willcocks, L., "Transforming a back-office function: Lessons from BAE Systems' Experience With an Enterprise Partnership," *MIS Quarterly Executive*, 2003, pp. 86-103. (can be downloaded from [www.misq.org](http://www.misq.org))

Feeny, D., Willcocks, L., and Lacity, M., *Business Process Outsourcing: The Promise of the Enterprise Partnership Model*, Templeton Executive Briefing, Templeton College, Oxford University, ISBN 1 873955162, 2003, 44 pages.

Willcocks, L., Hindle, J., Feeny, D., and Lacity, M., "Knowledge in outsourcing - the missed business opportunity," *Knowledge Management*, Vol. 7, 2, November/December 2003.

Hindle, J., Willcocks, L., Feeny, D., and Lacity, M., "Value-Added Outsourcing at Lloyd's and BAE Systems," *Knowledge Management*, Vol. 6, 4, September/October 2003, pp. 28-31.

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# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## Outsourcing as a Partnership for Speed, Efficiency and Growth

1:40 – 2:30 pm

Tuesday, February 24, 2004

Carlos M. Recalde  
*Executive Director, Americas Region*  
KPMG

Nancy Maluso  
*Director, Business Management*  
Avaya





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**Carlos M. Recalde**  
Executive Director  
Americas Region  
KPMG

Carlos Recalde, Executive Director of Technology, Americas Region, KPMG, LLP at KPMG, Carlos Recalde has started two different new technology groups, and is currently working on his third. In 1996 he created the Architecture & Integration group as part of the US IS organization. This group's focus was the transition of the US organization from a bi-weekly batch-based mainframe operation to a state-of-the-art distributed computing leader. This included the creation of an integration process and a technology architecture process, as well as the foundation of an information security group. In that role, he also was instrumental in helping to define the current International Architecture and Information Security groups. In 1999 he was asked to help create the Assurance Technology Integration group, whose focus is global line-of-business applications intended to help improve KPMG's revenues and competitive stance in the market. New audit and risk management methodologies were enabled with the deployment of work-flow and collaborative applications, that make extensive use of a 'non-connected application framework' and synchronization tools, to this highly mobile knowledge worker population. Today, he spends his time managing and changing the technology infrastructure for KPMG's Americas practices. This supports over 40,000 highly mobile professionals and over 200 sites in dozens of countries. Prior to joining KPMG, Mr. Recalde founded and divested four different professional services businesses, including Internet Resources Corporation, whose focus was architectural consulting to larger enterprises. In this capacity Mr. Recalde was highly instrumental in the foundation of IP infrastructure for many name-brand organizations such as Pepsi-Cola, Lehman Brothers, Viacom, Texaco, Chase Bank, Verizon, US-West, AT&T, and others. He eventually started a one-man consulting firm, Internet Marketing Group, and helped lead the development of Lucent's strategic marketing plan in 1995, pointing them toward IP telephony. Mr. Recalde lives in Chappaqua, NY with his wife and two children.



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Nancy Maluso  
Director  
Business Management  
Avaya

Nancy Maluso is a seasoned professional currently responsible for Revenue and Customer Lifecycle management for Avaya's Strategic Outsourcing Division. Prior to Avaya, Nancy launched and managed a business providing ASP and outsourcing services to e-businesses. Nancy has over fifteen years of experience in the service, sales and marketing of computer systems, networks and telecommunications equipment. She has worked on re-engineering call centers and developing solution strategies for products and manufacturers alike. She is a strong customer advocate and is focused on improving customers businesses through the use of Avaya solutions.



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## EDUCATION TRACK SESSION

*Outsourcing and Risk Mitigation*



## Reducing Business Risk – *Outsourcing as a Partnership for Speed, Efficiency and Growth*

**Carlos Recalde**  
Executive Director of Technology

February 24, 2004



**2004 Outsourcing World Summit**



## **KPMG Americas**

### ***At a Glance***

- **Core Business:** Accounting and Tax Professional Services
- **2003 Revenues:** \$3.42B
- **143 Professional Services Branch Offices**
- **17,000 Partners and Associates**

#### **Our Mission**

*Helping clients successfully respond to changing opportunities  
by providing highly flexible and responsive professional services,  
wherever and whenever they're needed.*



**2004 Outsourcing World Summit**



## **The Sourcing Decision**

### ***Fundamental to Managing the Bottom Line***

- **A Tight Focus on Doing What You Do Best**  
*Critical To Sustained Business Success*
- **The Lowest Cost Solution is Not Necessarily the Best Decision**  
*Expertise, Flexibility, Scalability, Consistency, Predictability*
- **Building Risk Management Into Every Solution**  
*Anticipating Changes In Market Opportunity, Competition, Technology*

#### **The Sourcing Mandate For Enterprise Decision Makers**

*It's all about finding high performance,  
cost-effective business solutions*



**2004 Outsourcing World Summit**



## **Managing a Critical Technology** *A Mini-Case Study*

### **Business Environment**

- A Period of Rapid Business Growth
- Heavy M&A
- Tight Timeframes for Integrating New Assets / Standardizing Processes
- Reduce Client Apprehension

### **Operational Impacts**

- Variability in Voice Technology Platforms and Features
- Multiple Approaches to Managing Technology Performance
- Inconsistent Branch-to-Branch Service Experience
- Lack of TCO Predictability



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## **The Sourcing Challenge**

### **High-Visibility / High Stakes**

- Communications Capability Mission-Critical to Core Business
- Walking the Talk on “Power of One” Associate Empowerment
- Chairman’s Mandate on Simultaneous Knowledge Sharing
- Need to Manage With Expense Dollars – *Not CAPEX*

### **Grappling With a Sizable Infrastructure**

- 110 Local Voice Messaging Systems / 39,000 Employee Mailboxes
- Major Platform Upgrade Requirements

### **Evaluation and Principal Options**

- Leverage Internal IT Team vs. Engage Expert Partner
- If Outsourced, Manage on “T&M” Basis or Blanket Contract



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## The **AVAYA** Managed Services Solution

- Experience and Expertise Beyond Internal Capabilities
- Full Turnkey Voice Messaging Support
  - Platform Standardization
  - Upgrades / Implementation / Project Management
  - Performance Optimization
  - Ongoing Maintenance / Moves-Adds-Changes
- Single Point of Accountability
- Guaranteed Service Levels
- Multi-Year Fixed Cost Contract
- Avaya Holds and Manages All Capital Assets



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## The Business Impact

- Common End-User Technology Capabilities and Interface
- Fully Integrated National Technology Platform
- Consistent Branch-to-Branch Service Experience
- Full Budget Predictability
- Total Partner Accountability = High Efficiency, Short Cycle Times
- Lower Cost vs. Internal Sourcing
- CAPEX Avoidance – *Fully Expensed*
- Maintain KPMG Business Focus – *Accounting, not Technology*
- Built-In Risk Management – *Fully Protected Against Change*



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## **Shared Learning / Discussion** *The Enterprise Perspective*

- Don't Rest on Your Laurels
- You Want Your Partner to Be Profitable
- Partnership is a Two-Way Street
- Leverage the Experience of Your Peers



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## **Shared Learning / Discussion** *The Provider Perspective*

- The Key to Quick Engagement –  
*Have a Crisp View of Your Requirements and Desired End State*
- Fast Track “The Price Discussion” –  
*Know Your Internal Cost to Replicate the Provider’s Solution*
- Optimal Risk Management Requires a Broad View
- Don't Hesitate to Fully Exploit Your Partner's Talents



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**Thank You For Participating in This Session**







# The 2004 Outsourcing World Summit

## *Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## PMO as a Governance Tool

Tuesday, February 24, 2004

2:40 – 3:30 PM

**William Metz**

*Section Manager Global Business Services Next Generation – PMO*

Procter & Gamble



# The 2004 Outsourcing World Summit

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**William Metz**  
Section Manager Global Business  
Services  
Next Generation - PMO  
Procter & Gamble

Mr. Metz has spent the last eighteen years delivering IT solutions for some of the world's largest companies including Procter & Gamble, General Electric, AT&T, American Electric Power and Marathon Oil. He also started and later sold a successful .com. Mr. Metz has delivered IT solutions in a wide variety of areas including product design and development, telecommunications network management, desktop software deployment and management, data warehousing and information delivery, and finance and accounting. His specialty areas include architecture consulting, application development & support, IT competency development, and IT sourcing.

Mr. Metz has been on the forefront of the trend to adopt a global approach to sourcing IT work. Currently IT Strategic Sourcing Section Manager at Procter and Gamble, his work to move P&G's IT organization toward a global sourcing model has delivered significant savings and flexibility.



## PMO as a Governance Tool

*getting the right projects done right*



**Outsourcing World Summit**  
February 23 & 24, 2004 Orlando, Florida



## Procter & Gamble



- ❖ \$44 billion consumer goods corporation
- ❖ Nearly 100,000 employees worldwide
- ❖ 23 on the Fortune 500 list
- ❖ Markets more than 300 brands to more than 5 billion consumers in over 160 countries
- ❖ Made up of Global Business Units (product categories), Market Development Organizations (geographical units), and Global Business Services (a shared services organization)



Procter & Gamble





## William P. Metz

- ❖ Current role:
  - ❖ Section Manager Global Business Services - PMO
- ❖ Previous experience:
  - ❖ Project Manager for recent Application Development & Maintenance outsourcing effort
  - ❖ Section Manager IT Strategic Sourcing and Technology Solutions Consulting
  - ❖ Application & Data Technologies Architect with responsibility for application development technologies
  - ❖ Founder of P&G's Jedi competency development program

**Contact Information:** [metz.wp@pg.com](mailto:metz.wp@pg.com)

*Procter&Gamble*



## What We'll Cover

- ❖ P&G's Sourcing Story
- ❖ Why a PMO is important in an outsourced environment
- ❖ PMO Mission
- ❖ PMO Value Creation
- ❖ PMO Organization
- ❖ PMO Processes & Tools



*Procter&Gamble*



## P&G's Sourcing Story

### 1999 Created Global Business Services (GBS) organization

- ❖ Central shared services provider, 8500 employees, more than 40 products and services.
- ❖ Organized in service bundles which include: Central IT, Workplace Services, IT Business Solutions (Supply Chain), Accounting & Financial Reporting, Employee Services, Purchasing Services and Business Information Services.
- ❖ Established global data centers in Cincinnati, Brussels, and Singapore and shared service centers in Manila, Costa Rica, and Newcastle.
- ❖ Globalized, consolidated, integrated hundreds of work processes, systems, and technologies in more than 70 countries.
- ❖ Delivered \$500 million in savings in 3 years.



*Procter&Gamble*



## P&G's Sourcing Story

- 1999 Established low cost ADM centers in Warsaw and Toronto and began setting up low cost offshore IT services with third party suppliers (e.g. ABAP Factory, Notes Factory, etc...).
- 2001 Established IT Strategic Sourcing organization and continued to build business with low cost offshore third party suppliers (e.g. Infrastructure Supply Line, Web Application Supply Line, eLearning Supply). Also eliminated large numbers of local staff augmentation contractors.

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## P&G's Sourcing Story

**2001**      **Launched Business Process Strategic Sourcing effort to take us to the next level, pursued mega BPO deal.**

- ❖ Lead the market with largest ever outsourcing deal
- ❖ More scale
- ❖ Greater innovation
- ❖ More savings
- ❖ Variable consumption based pricing
- ❖ Move employees from P&G's "back office" to the supplier's "front office"

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## P&G's Sourcing Story

**2002**      **The marketplace changed and we shifted strategies to a "Best of Breed" model to deliver GBS Next Generation**

- ❖ Economic slowdown
- ❖ BPO market slowdown
- ❖ Market concern with large deals and corporate accountability
- ❖ Shifted strategies to a more conservative approach
- ❖ Learn as we go, distribute risk
- ❖ Incubate new services
- ❖ Captured learnings for future use

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## P&G's Sourcing Story

**2003      Signed a number of outsourcing deals, others in progress**

- ❖ IT Infrastructure, Desktops, Application Development & Maintenance (HP)
- ❖ Facilities Management (Jones Lang LaSalle)
- ❖ HR / Employee Services (IBM)
- ❖ Consumer Relations (Sykes)
- ❖ Transactional Accounts Payable (TBD)

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## Current Challenges

- ❖ Managing performance end-to-end across multiple suppliers and in-sourced service teams.
- ❖ Operational seams between suppliers and the retained organization.



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## Key Governance Processes

- ❖ Relationship Management
- ❖ Performance Management
- ❖ Change Management
- ❖ Issue and Escalation Management
- ❖ New Service Request
- ❖ Invoice/Payment Verification
- ❖ Contract Management
- ❖ **Program / Project Management (PMO)**



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## Why is a PMO important in an Outsourced Environment?

- ❖ More rigor is required, particularly in the areas of project definition, estimation, measurement
- ❖ Project spend often gets out of control
- ❖ Coordination of project work across suppliers

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## PMO Mission

*Make sure we do the Right projects Right*

What does that mean?

- ❖ Right Projects
  - ❖ Projects support business priorities
  - ❖ Projects that will deliver the most value
  - ❖ Project interdependencies are identified and leveraged
  - ❖ Don't exceed desired total project spend
- ❖ Done Right
  - ❖ Projects deliver expected results and value, on time within budget
  - ❖ Projects leverage adopted methods, processes, and tools to maximize velocity and quality

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## How Does PMO Deliver On It's Mission?

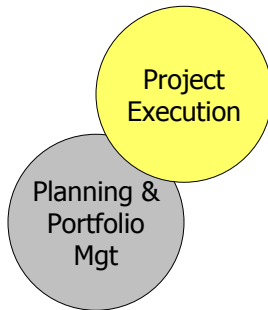
Planning &  
Portfolio  
Mgt

- Link Project Planning with Business and Budget Planning
- Facilitate Identification of and Legitimize potential projects
- Drive project Data Collection and Classification
- Facilitate project Prioritization
- Enable cross project Awareness & Coordination
- Support Supplier Demand Planning

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## How Does PMO Deliver On It's Mission?



- Standard Project Definition (Objectives & Requirements, SOW)
- Project Work Flow with Gates and SLAs
- Sourcing Principles
- "Should Cost" Methodology
- Processes for Change Management, Risk Management, and Major Issue Resolution
- Standard Measures
- Project Checkpoint Reviews
- Supplier Interaction / Relationship Management
- Audit for Adherence to Standards and Process

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## How Does PMO Deliver On It's Mission?

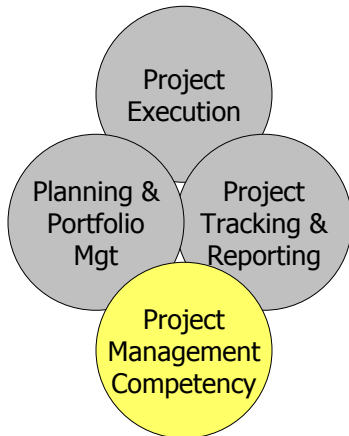


- Portfolio/Program/Project Dashboard
- Standard Measures Reporting (e.g. SPI, CPI, Customer Satisfaction)
- Project Spend Tracking
- Collect and Report Against Industry PM Benchmarks
- Provide Project Data and Artifact Repository

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## How Does PMO Deliver On It's Mission?



- Assist in the development of Standard Methodology, Processes, Templates, and Tools
- Provide a Center Of Expertise for Project Management Professionals
- Promote Training and Certification
- Project Management Consulting

*Procter&Gamble*



## PMO Value Contribution

- Projects that deliver maximum value (consistently meet objectives, on time, on budget)
- Identify and Eliminate redundant, overlapping, and off strategy projects
- Bubble up the projects with the greatest return
- Control spend, don't over pay or double pay

*Procter&Gamble*



## Assembling the Right PMO Team

Successful PMOs leverage resources with a variety of skills these include:

- ❖ Client Services Reps
- ❖ Portfolio Managers
- ❖ Process Design Specialists
- ❖ Finance
- ❖ Purchases
- ❖ Legal
- ❖ IT
- ❖ Project Management Experts



*Procter&Gamble*



## Key PMO Process Areas

- ❖ Portfolio Planning & Management
- ❖ Project Sourcing
- ❖ Supplier Engagement
- ❖ Project Cost Estimating
- ❖ Project Tracking
- ❖ Project Issue and Change Management
- ❖ Project Invoice Verification
- ❖ Project Closure



*Procter&Gamble*



## Key PMO Tools

- ❖ Portfolio Management
- ❖ Project Management
- ❖ Performance Management



*Procter&Gamble*



## Questions



*Procter&Gamble*



# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## Utility Computing: What Are the Legal Risks

Tuesday, February 24, 2004

3:50 – 4:40 PM

Peter Brudenall

*Senior Lawyer*

Simmons & Simmons



# The 2004 Outsourcing World Summit

## *Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida



**Peter Brudenall**  
**Senior Lawyer**  
**Simmons & Simmons**

Peter Brudenall is a senior solicitor in the IT & Telecoms group at Simmons & Simmons in London. Peter joined the firm in June 2001 and was previously an associate in the Information Technology and Communications group of Baker & McKenzie's Sydney office. Peter graduated with Honours in Law from the Australian National University in 1994, and obtained a Masters in Law from the University of New South Wales in 1997, specialising in Media, Communications and Information Technology. He has been widely published in legal journals in the UK and Australia.

Peter advises on all areas of Information Technology Law including IT and Business Process outsourcing, systems integration, security issues, intellectual property issues, software development projects, data protection, Internet and e-commerce issues.

Since joining the firm he has advised on some of the UK Government's most significant outsourcing deals of recent years. This has included advising the Home Office on the National Probation Service's outsourcing of its information systems, and the Immigration and Nationality Directorate with respect to its outsourcing of IT support and development services. Peter also advised the Medicines Control Agency on its information strategy including its significant IT systems support development agreement with Accenture.

Peter has also advised Barclays Bank, Goldman Sachs and the BBC with respect to various e-commerce and e-procurement issues.

# The 2004 Outsourcing World Summit

February 23-25, 2004

Lake Buena Vista, Florida

Simmons & Simmons

Utility  
Computing:  
What are the  
legal risks?

Peter Brudenall, Senior  
Associate

Simmons & Simmons

Simmons & Simmons



## Outline

- The new outsourcing environment
- Utility Computing: what, why, how and who?
- Areas of risk
- Legal & contractual issues in Utility Computing
- Getting it right!

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## The changing legal environment

- New forms of outsourcing
- New legal issues

Who takes  
responsibility in an  
outsourced  
environment

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## How does it differ?

- Transparent
- Business flexibility
- Licensing arrangements
- Employment considerations

Traditional  
Outsourcings  
v  
Utility  
Computing

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What,  
why, how,  
who?

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## What is it?

- Business Week, quoting Forrester Research 18 August 2003

“We think this is the third major computing revolution - after mainframes and the Internet”

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## What's in a name?

- Agile (lenige) enterprise (HP)
- Utility Data Centre (HP)
- e-Business On Demand (IBM)
- adaptive computing (IDC)
- Organische IT (Forrester)
- Fabric-Based Computing (Forrester)
- N1 (Sun)
- Just-in-time computing (Sun)
- Networked Virtual Organisation (Cisco)
- Software-as-service (salesforce.com)
- e-sourcing (Chief Executive)
- Grid computing

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## What is it?

- Integration of IT functionality
- Outsourcing possibility
- Paid for per use

## Why?

- Simplified IT (reducing or masking complexity)
- IT is turned from a fixed to a variable cost
- Cuts operating expenses

## How?

- Integration
- Management of IT resources
- Autonomic
- Metered



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## How?

- Integration
- Management of IT resources
- Autonomic
- Metered

Virtualisation

Prioritisation

Provisioning

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## How?

- Integration
- Management of IT resources
- Autonomic
- Metered

Self-healing

Self-configuring

Self-protecting

Self-optimising

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## How?

- Integration
- Management of IT resources
- Autonomic
- Metered

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## Who?

- HP
- IBM
- Oracle
- Sun Microsystems

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## Who?

- Accenture
- BCG
- CGEY
- Cisco
- CA
- EDS
- Ejacent
- EMC
- Infosys
- salesforce.com
- SAP
- Unisys
- Veritas
- Wipro Technologies

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# Risks

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## Security

- Movement of critical data
- Security of data when resources reused

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## Pricing

- Awareness of costs
- Appropriateness for different types of business
- Ability to turn-off the technology

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## Competition

- Long-term commitment to a single supplier
- Liability
- Competitive procurement at risk

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## Contractual management

- Effective management of internal workforce
- Planning for integration

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## Immaturity of technology

- Development of technology in its infancy
- Challenge of moving towards grid computing
- Hybrid utility computing solutions used today

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## In action

- Incorporates IBM's on demand solution
- Virtual pool of resources to be created
- Creation of central data processing facilities

J P Morgan  
Chase  
  
Deutsche Bank

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Legal &  
contractual  
issues

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## Legal & contractual issues

- Deal dynamics
- Supply dynamics
- Where deals go wrong

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## Where deals go wrong

- Resources
- Expectations
- Change management
- Due diligence
- Flexibility
- SLAs
- Risk reward structure

Scope creep - who  
pays for changes

Reward for success  
v sanctions for  
failure

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# Getting it right

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## Getting it right

- Defining objectives and requirements
- Be open to options
- Allow time and resources
- Pricing transparency
- Proper remedies
- Win:Win

Engage in the process

A tailored contract

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Peter Brudenall,  
Senior Associate

Simmons &  
Simmons

Simmons & Simmons



# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## A Day in the Life of the Agile Enterprise

Wednesday, February 25, 2004

11:10 – 12:00 PM

Jeff Wacker  
*Fellow*  
EDS



# The 2004 Outsourcing World Summit

## *Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida



Jeff Wacker  
EDS Fellow, Vice President & Chief  
Technology Officer  
EDS Global Industry Group

As an EDS Fellow, Wacker helps develop enterprise wide initiatives that shape the future of EDS. The title EDS Fellow is awarded to the corporation's most innovative thought leaders in recognition of their exceptional achievements. Wacker has more than 27 years of business experience, most of which have been in applying advanced information technology (IT) capabilities for maximum business impact. Wacker is also an IT-focused futurist for EDS.



**This presentation has been designed to be executed under PowerPoint XP or PowerPoint 2003.**

**RFID1-15b.avi plays on slide 31 and must be in the same directory as this presentation.**

**The presentation runs 45 minutes (+/- 5 minutes).**

**Questions should be directed to Jeff Wacker at 972-605-5091 or [jeff.wacker@eds.com](mailto:jeff.wacker@eds.com)**



## **The Agile Enterprise**

**A Day in the Life of an Agile Enterprise**

**2004 Outsourcing World Summit**

**Jeff Wacker  
EDS Fellow**

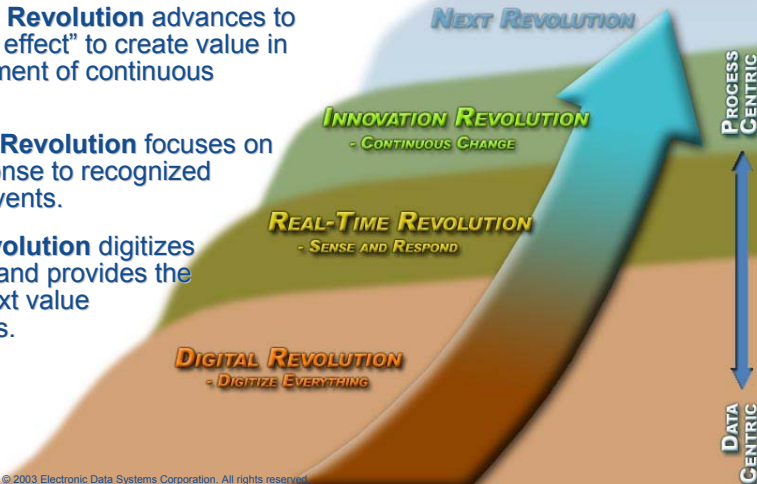
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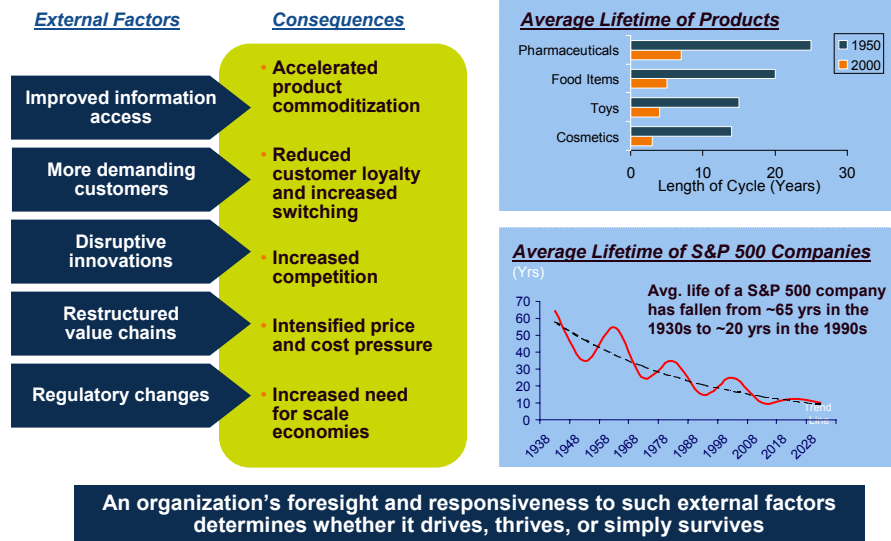
## ❖❖ From Digital to Real-time to Innovation

### Additive Revolutions: Waves of Focus

- **Innovation Revolution** advances to “cause and effect” to create value in an environment of continuous change.
- **Real-Time Revolution** focuses on quick response to recognized business events.
- **Digital Revolution** digitizes everything and provides the base for next value propositions.



## ❖❖ Why Agility is Important



## Why Agility is Important

Market dynamics...

Economics *rigid to variable*

and enterprise-level pressures...

Outlook *oversight to insight to foresight*

Automation *high to higher*

Governance *command and control to command and empowerment*

compel pervasive enterprise change

Change *periodic to continual*

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## Agility...the Ability to Anticipate, Adapt and Accelerate



**Adapt** to those dynamics



**Anticipate** changing market dynamics

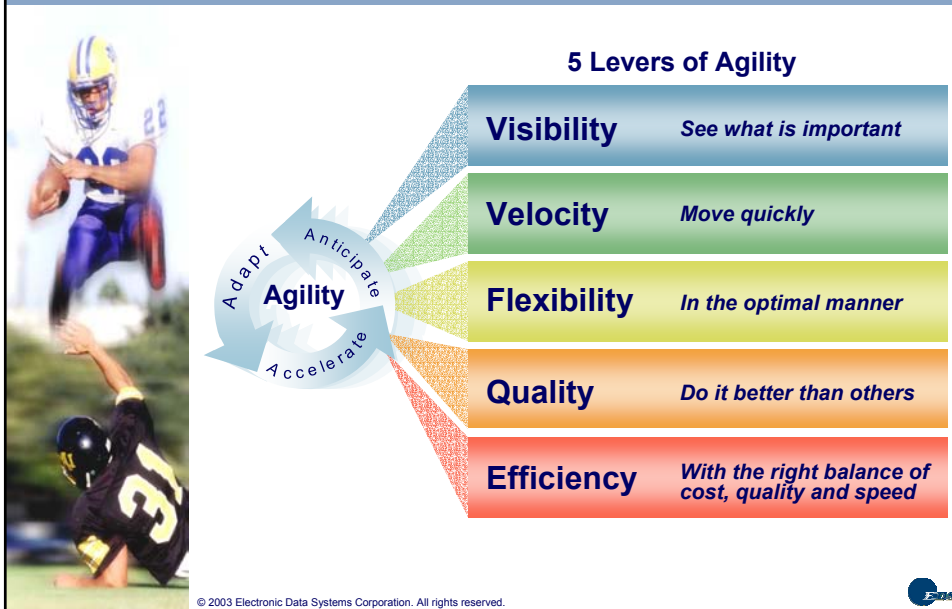
**Accelerate** enterprise change faster than the rate of change in the market...

...to **create economic value**

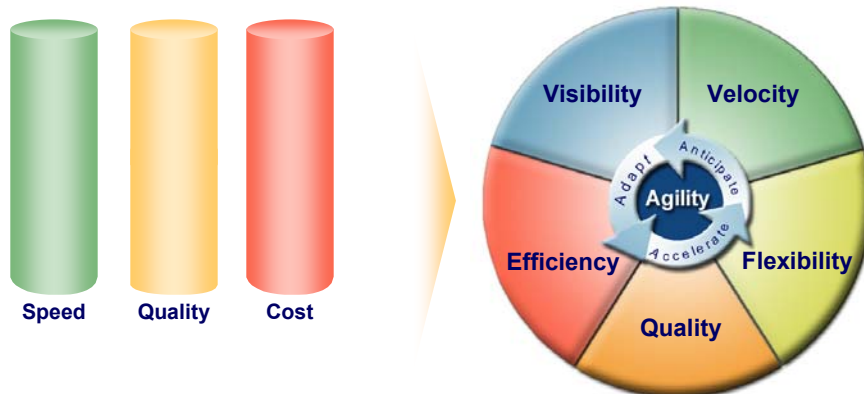
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## ❖❖ Agility...the Ability to Anticipate, Adapt and Accelerate

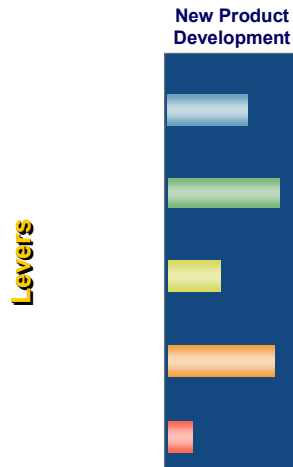


## ❖❖ Agility Levers — Traditional vs. Optimal



## Creating a Distinct “Agility Signature”

### Industry Specific Process

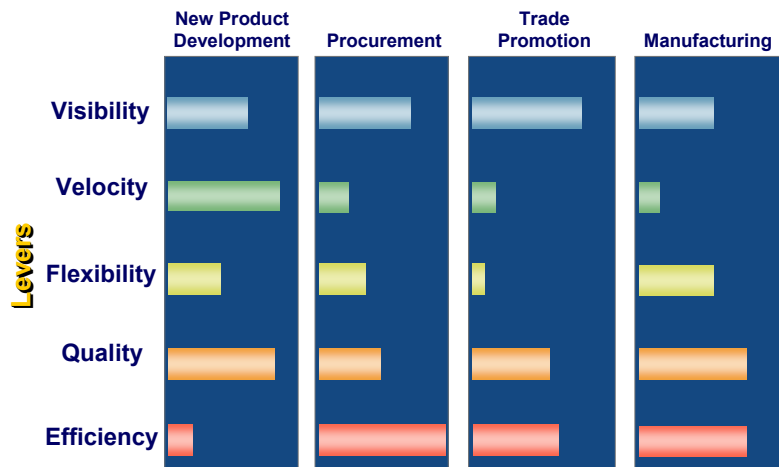


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## Creating a Distinct “Agility Signature”

### Industry Specific Process

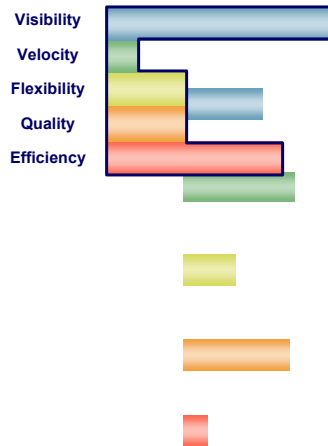


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## EDS Agility Composite<sup>SM</sup>

### Current Agility Signature

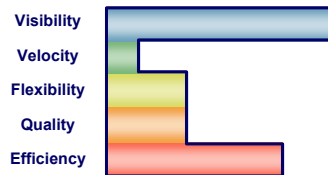


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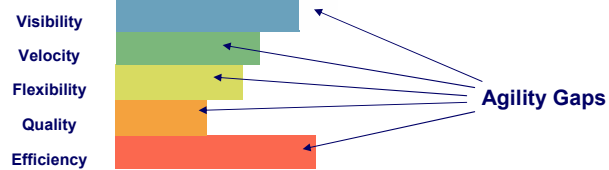
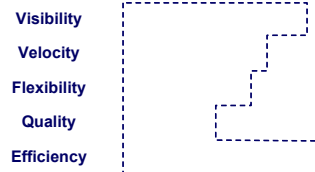


## EDS Agility Composite<sup>SM</sup>

### Current Agility Signature



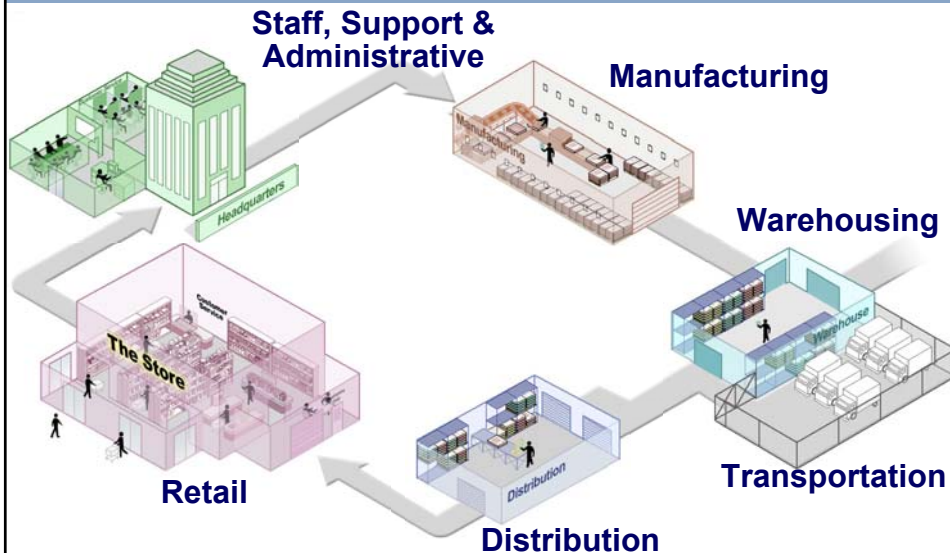
### Target Signature



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## ❖❖ Retail & Consumer Goods Agility Examples



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## ❖❖ Store Manager's Mobile Workstation

### Business Impact

- Specific, relevant information at manager's fingertips
- Ability to bring information to the work environment, rather than the work to the information environment

### Agility Signature



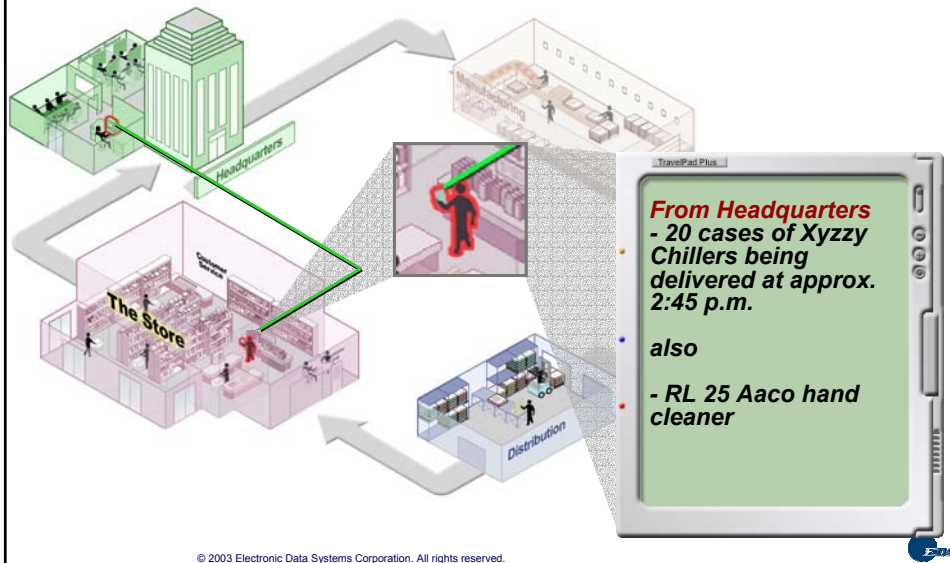
### Technology Drivers

- Mobile devices
- Wireless communications
- Enterprise Application Integration (EAI)
- Knowledge worker tools
- Dashboards/ portals
- Business Activity Management (BAM)

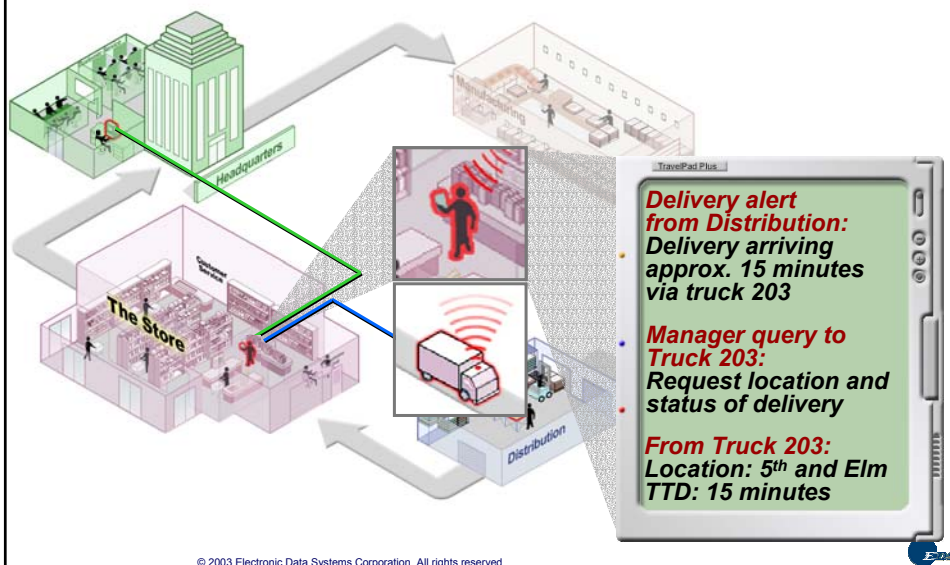
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## ❖❖ Store Inventory/Logistics

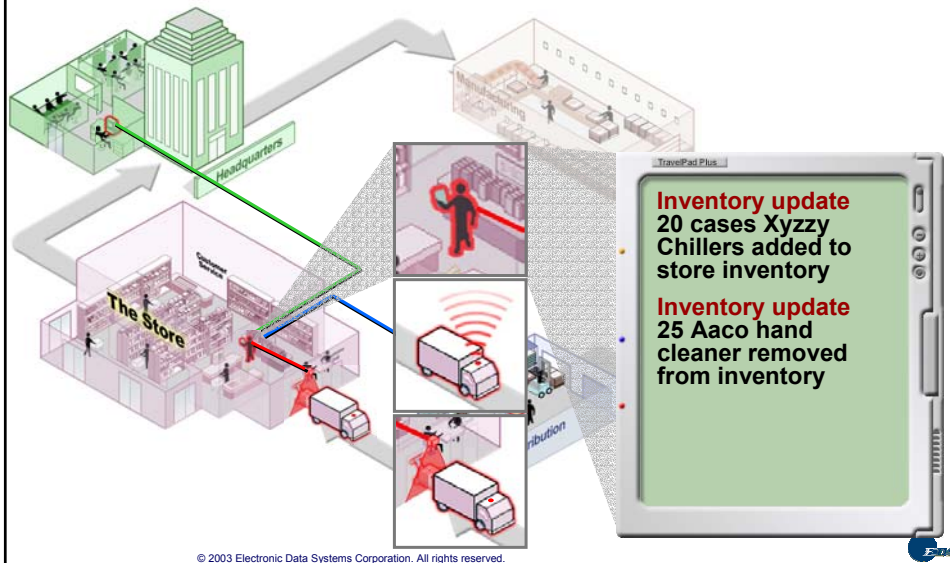


## ❖❖ Store Inventory/Logistics





## ❖❖ Store Inventory/Logistics



## ❖❖ Store Inventory/Logistics

### Business Impact

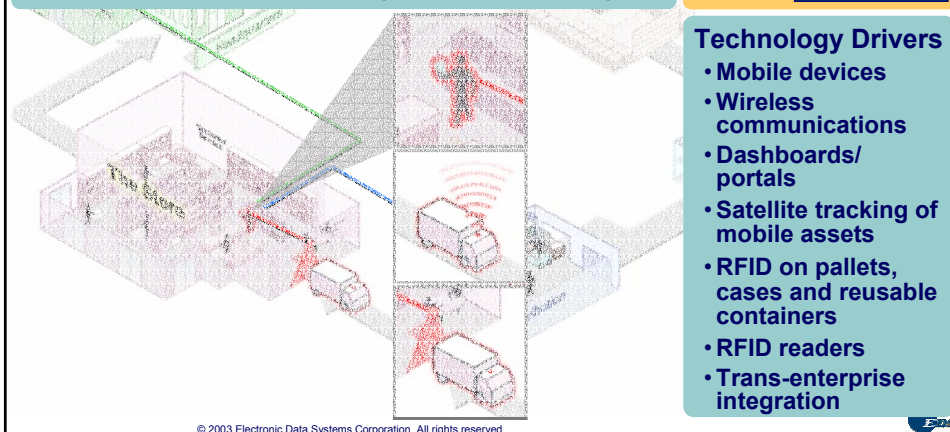
- Complete communication promotes efficiency
- High-visibility logistics reduces uncertainty
- Effective inventory control reduces obsolescence
- Paperless, perpetual inventory improves accuracy

### Agility Signature

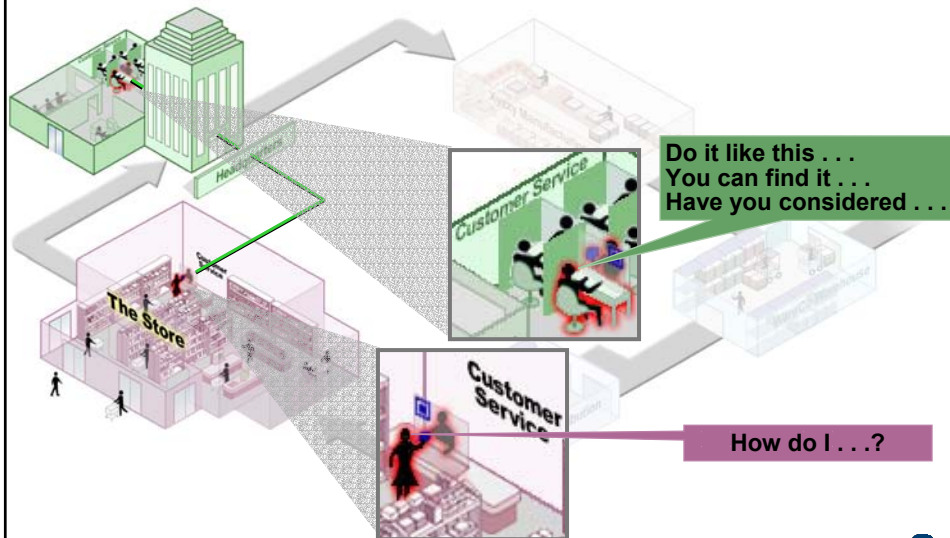


### Technology Drivers

- Mobile devices
- Wireless communications
- Dashboards/portals
- Satellite tracking of mobile assets
- RFID on pallets, cases and reusable containers
- RFID readers
- Trans-enterprise integration



## ❖❖❖ Customer Service



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## ❖❖❖ Customer Service

### Business Impact

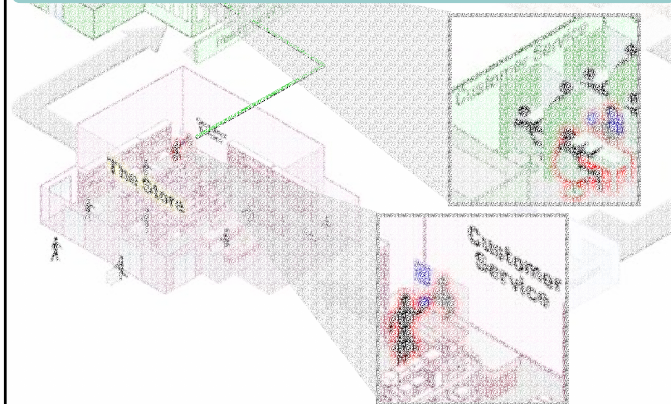
- Higher customer satisfaction
- Add-on selling opportunities
- Leveraged subject matter experts
- Increased customer loyalty

### Agility Signature



### Technology Drivers

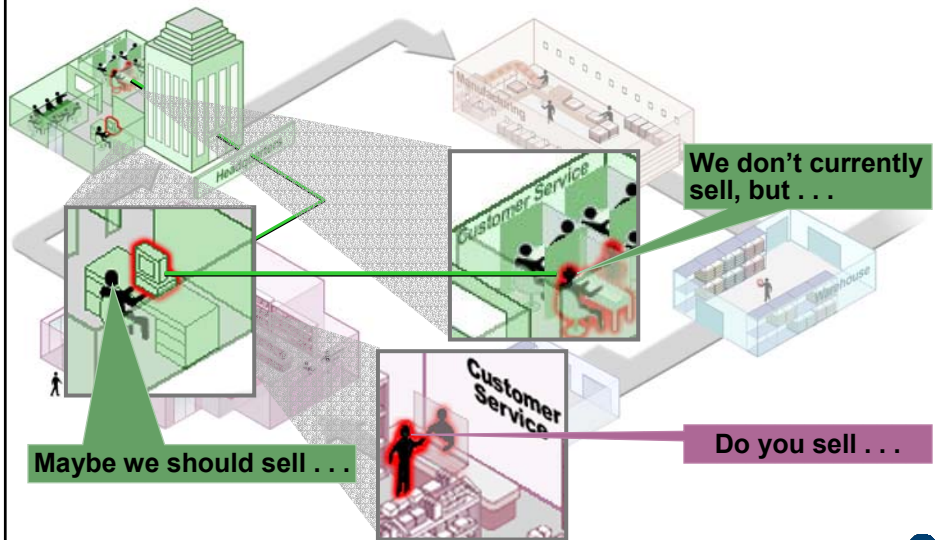
- Teleportec® video technology
- Internet bandwidth via Intelligent Network Foundation
- Help desk functionality
- Call center functionality



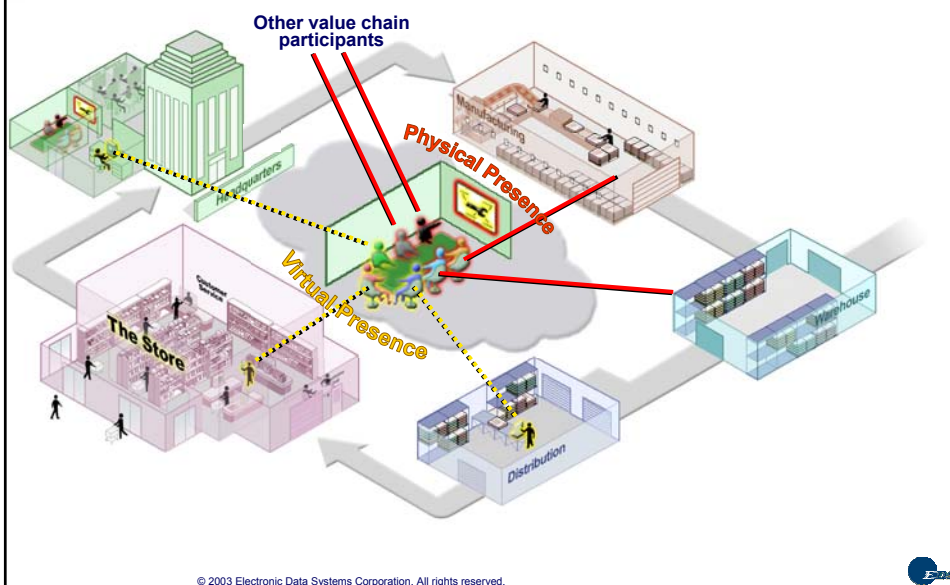
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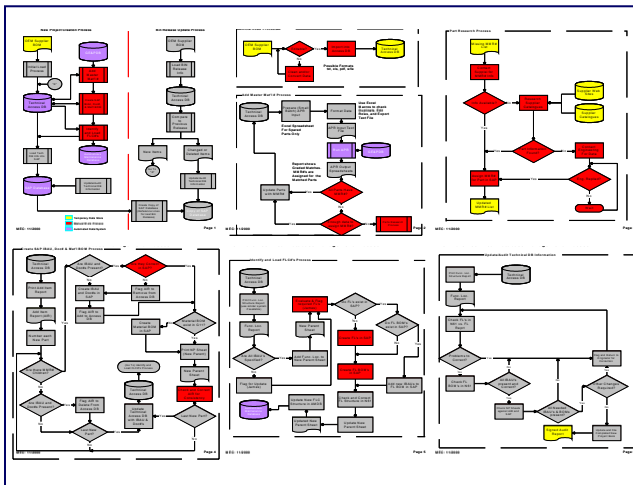
## ❖❖ New Product Introduction



## ❖❖ New Product Introduction



## ❖❖ New Product Introduction - Supplier Optimization



■ = Manual Step    ■ = Manual Step Removed

### Non-Agile

- 67 manual steps
- 6 months
- \$1.2M annual cost
- Dedicated staff

### Agile

- 21 manual steps
- < 1 month (80% reduction)
- \$300K annual cost (-75% reduction)
- Virtual team

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## ❖❖ New Product Introduction

### Business Impact

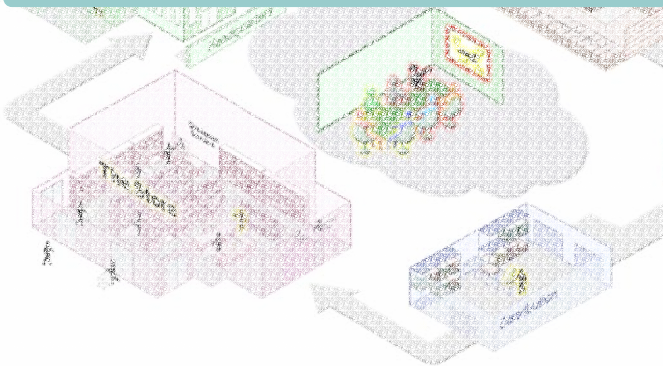
- Quicker time to market
- Increased flow of new product and service ideas
- Compressed effort eliminates mistakes and reduces effort

### Agility Signature



### Technology Drivers

- Collaboration technology
- Product lifecycle management tools
- Digital workflow
- Data warehousing/ data mining
- Knowledge management tools
- Agile infrastructure
- Supplier optimization

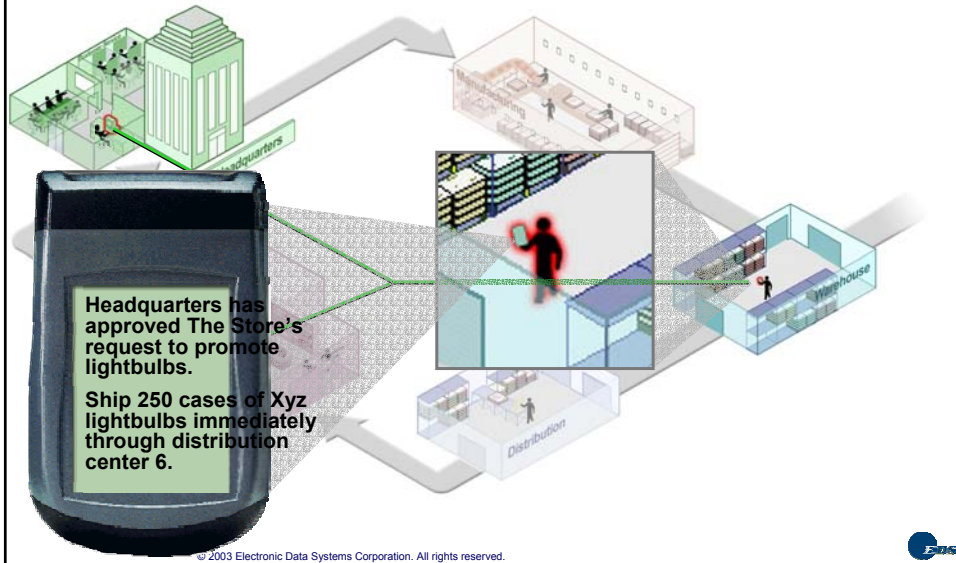


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## ❖❖ Supply Chain Operations - Warehouse



## ❖❖ Supply Chain Operations - Warehouse

### Agility Signature

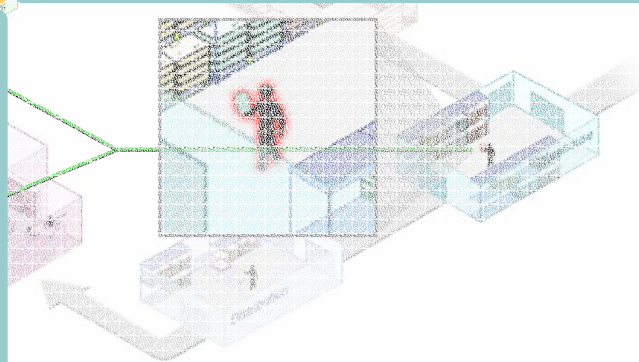


### Business Impact

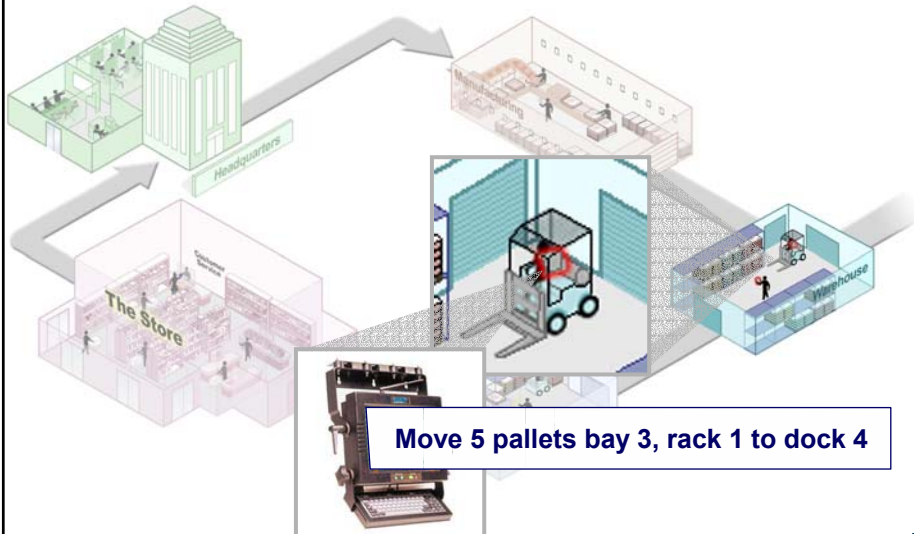
- Enterprise knowledge of operational information speeds decisions and creates transparency
- Immediate communication to the mobile worker enables immediate event management

### Technology Drivers

- Mobile devices
- Wireless communications
- Integrated inventory system
- Integrated sales system
- Supply chain management



## ❖❖ Supply Chain Operations - Warehouse



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## ❖❖ Supply Chain Operations - Warehouse

### Agility Signature

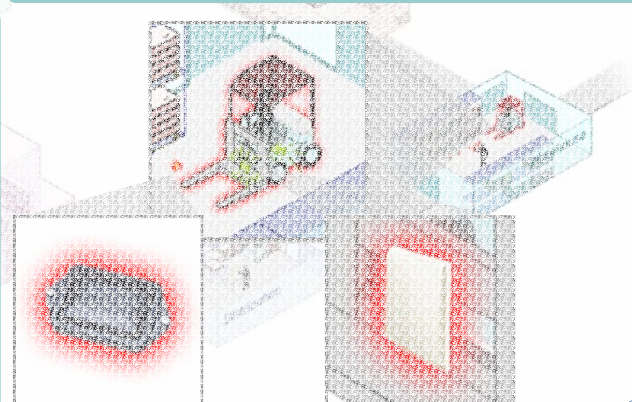


### Business Impact

- Increased velocity of information improves decisions
- Optimized scheduling and routing of equipment improves productivity and workplace safety
- Improved accuracy of inventory

### Technology Drivers

- Mobile computing
- Wireless communications
- Scheduling and routing system
- RFID readers and RFID tags
- Integrated inventory system



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## ❖❖ Supply Chain Operations - Warehouse

### Agility Signature

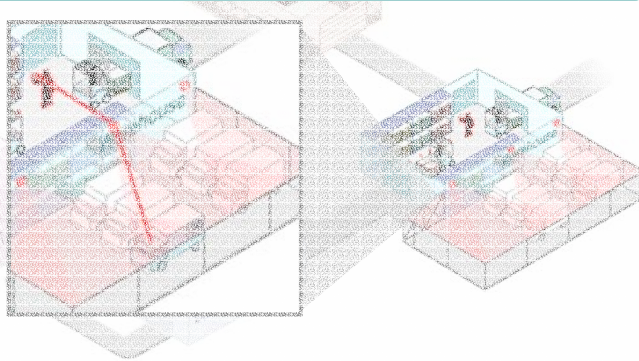


### Business Impact

- Immediate location of physical assets
- Effective management of 3<sup>rd</sup> party transporters
- Security monitoring of assets against theft, vandalism and tampering

### Technology Drivers

- WhereNet™ locator system
- Active transponders on all major pieces of equipment
- Embedded sensor technology



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## ❖❖ Supply Chain Operations - Warehouse

### Agility Signature

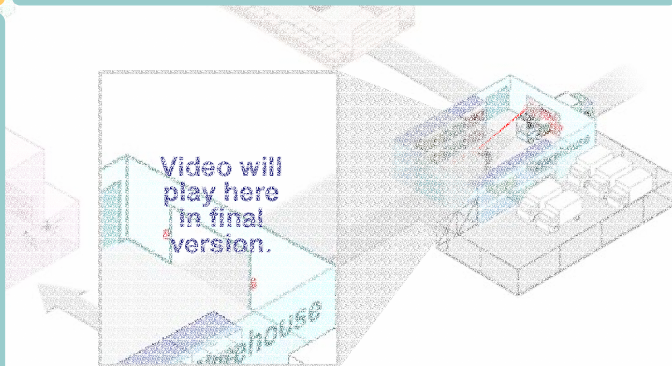


### Business Impact

- Accurate, perpetual, paperless warehouse inventory increases confidence and reduces “surprises”
- RFID creates automated point-of-integration with 3<sup>rd</sup> party logistics companies

### Technology Drivers

- RFID readers at all entry and exit points
- RFID readers on forklift
- RFID tags on pallets, totes and containers
- Mobile devices
- Wireless communications
- Integrated inventory & logistics systems



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## Summary

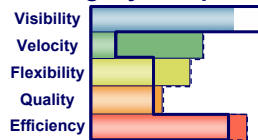


**Anticipate** changing market dynamics,  
**Adapt** to those dynamics,  
**Accelerate** enterprise change faster  
 than the rate of change in the market  
 to **create economic value**

### 5 Levers of Agility



### Agility Composite<sup>SM</sup>



- Comprehensive analytical process
- Industry-specific measures
- Identifies gaps between current/optimal operational performance
- Recommends best current and emerging solutions to close gaps

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## Q&A





Jeff Wacker  
jeff.wacker@eds.com

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# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## Changing the Fundamental Way in Which Mission-Critical Solutions Are Built

Wednesday, February 25, 2004

1:10 – 2:00 PM

Joe Cipolla  
*Vice President, MIS*  
Circuit City Stores

Jim Moran  
*Chief Operating Officer*  
Virtusa



# The 2004 Outsourcing World Summit

## *Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida



Joe Cipolla  
Vice President, MIS  
Circuit City Stores

Joe Cipolla is the Vice President of corporate applications in management information systems for Circuit City Stores, Inc. located in Richmond, Virginia. He was appointed to the post in 1999.

Cipolla had been Assistant Vice President of corporate applications since joining Circuit City Stores, Inc. in 1997. Before joining Circuit City Stores, Inc., he was the Vice President and Director of information services for Time Life Customer Service, Inc., a wholly owned subsidiary of Time Life Inc., located in Richmond, Virginia.

He was born September 11, 1952 in Chicago. He graduated from the College of the Holy Cross in 1974 and received a Master's in Computer Science in 1983 from DePaul University. Cipolla resides in Richmond, Va., with his wife, the former Sally A. Johnston, their two sons, Joe and Matt, and daughter, Mairin.

Association and is former Chairman of the Committee on Foreign and Comparative Law, Association of the Bar of the City of New York, which has over 20,000 members.



# The 2004 Outsourcing World Summit

## *Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida



**Jim Moran**  
Chief Operating Officer  
Virtusa

Jim Moran is responsible for overseeing Virtusa's day to day operations which include the worldwide sales, marketing and delivery organizations. Prior to Virtusa, Jim Co-Founded edocs and has been EVP of Sales & Marketing at edocs since the company's inception. edocs was recently ranked the fastest growing private software company in the United States as ranked by Deloitte & Touche's Fast 500. Jim has been a featured speaker at numerous events hosted by Harvard Business School, H&Q Planet Wall Street, Internet World, Gartner, Jupiter, and America Banker and he has had several articles published in numerous industry publications regarding electronic billing & payment, electronic banking, and customer self-service.

Prior to co-founding edocs, Jim served as a Senior Vice President of Sales & GM in CheckFree's Electronic Commerce Division. His successful Sales and distribution strategy helped position CheckFree for a successful IPO, several acquisitions and revenue growth from \$25M to \$250M in four years. Prior to CheckFree, Jim held senior sales positions with Infinium Software, Storage Technology and EMC Corporation. He has also served as an outside Director of Unizan Financial Corp. (Nasdaq:Uniz) and is currently serving as a Strategic Advisor & outside Director to edocs and is a member of the Board of Directors of Virtusa. He is a graduate of Northeastern University with a BA in Communications 1987.

## **Changing The Way Enterprise Software Is Built**

### **Lessons In IT Outsourcing From Circuit City**

Outsourcing World Summit  
February 2004  
Joe Cipolla, VP of MIS, Circuit City  
Jim Moran, COO, Virtusa

## **Agenda**

---

- Welcome & Introduction to Virtusa
- Circuit City Overview
- Circuit City's IT Landscape, Vision, & Initiatives
- Business Challenge
- Virtusa Approach
- Project ROI
- Lessons Learned
- Q&A





## Who Are We: A Financially Strong, Rapidly Growing Global IT Outsourcing Company

Global provider of software development and related IT services



### vir.tu.s

: noun, Latin

: inherent capacity, quality or power

: worthy of merit and excellence

### Focus

Deliver measurable delta in

Productivity

Profitability

Shareholder value to our clients

### Locations

Headquartered in MA

Locations throughout US, Europe, Asia, Australia

Technology Centers in US, India, Sri Lanka

### Growth

1800 world-class professionals

7 Years of Sequential Growth

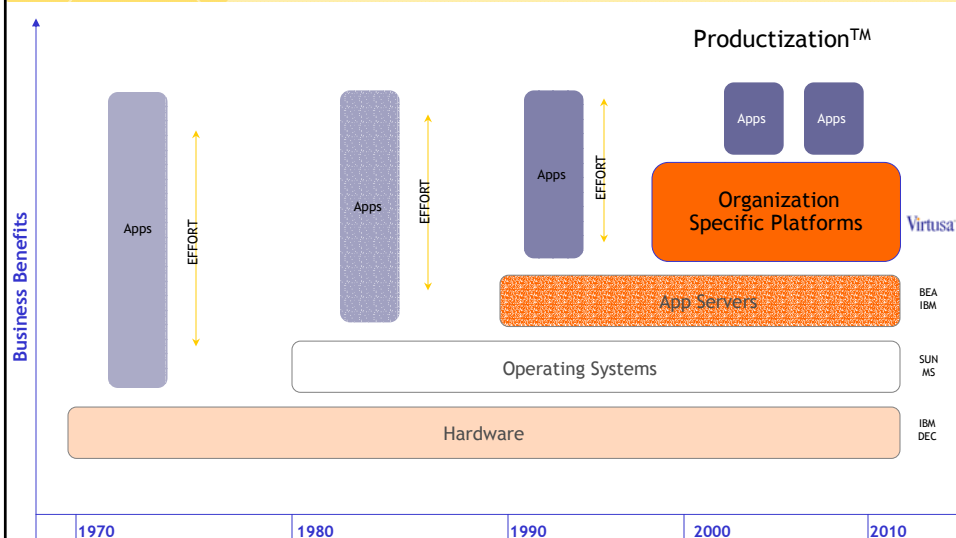
90% growth in LTM



3



## What We Do: Productization™





## Why Are We Relevant: World's Best Known Companies Rely On Us

Software Products	Retail	Financial Services
              	      	      
Telecommunications	Manufacturing/Logistics	
   	   	

5



## Circuit City Overview

Second largest electronics retailer

600 Circuit City Superstores across the US

Fortune 200 company, with approximately \$10B in revenues

Approximately 40,000 employees

Top-rated shopping experience

Brand-name consumer electronics



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## Circuit City IT Landscape

Heterogeneous environment typical of large retailers

A mix of several systems and platforms

PeopleSoft Financials

Manugistics for some Supply Chain areas

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## Circuit City IT Key Initiatives

### Increase Productivity and Profitability

- Increase efficiency
- Reduce operational cost
- Consolidate redundant, overlapping systems

### Core IT Objectives

Increase enterprise agility,  
flexibility, and leverage

Enable systems to enhance  
corporate compliance

### Improve customer service

- New POP and POS system
- New service processes

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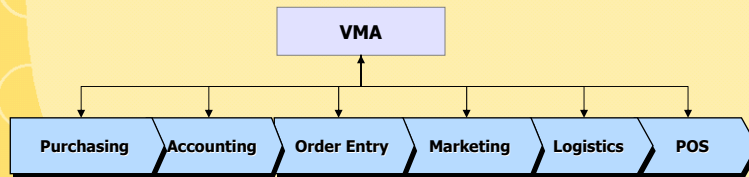




## One Key 2003 Initiative: Improve Vendor Management

Vendor Management & Accounting (VMA) key to Circuit City's supply chain and merchandising effectiveness

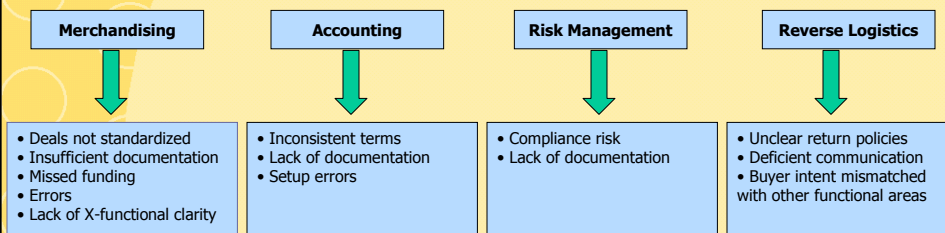
- Approximately \$10 billion of order flow per year
- Scores of buyers across several categories
- Cross-Functional collaboration required



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## Business Challenge: 2003 Situation



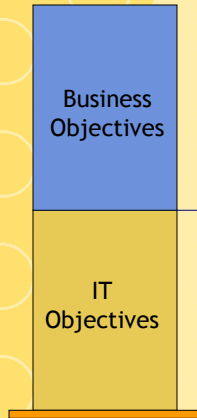
- Increased costs due to deal errors, missed funding
- Increased risks in accounting and compliance.
- No historic data on vendor relationship and performance.
- Often cross functional groups did not understand the buyer's intent

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## Vendor Management Project: Business and IT Objectives



- Standardize, streamline, and integrate the cross-functional processes
- Enforce Standard Operating Procedures and rules across multiple functions
- Achieve over a million dollars in savings as projected from Six Sigma and Accounting

- Get user buy-in from every function impacted by the system change
- Ensure existing or new assets can be leveraged in the future
- Flexible and change-ready app to respond to future policy changes
- Interoperable and scalable architecture

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## Build Versus Buy Decision

### Build versus Buy

- No packaged software could meet the specific needs
- Customizing established packages cost prohibitive
- Need for integration with other legacy or new systems

### Internal Development versus Outsource

- Skill-set bottlenecks: lack of resources with the required expertise to develop a Next-Gen enterprise solution
- Need for vendors who could build collaboratively and with an integrated team approach

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## Why Virtusa?

### We evaluated

- Traditional Offshore leaders, local consulting firms, Individual consultants, US strategy firms

### Circuit City chose Virtusa because of their

- Exacting **rigor and quality** in software engineering
- **Productization** methodology
  - Build once, reuse forever
  - Leverage existing and new assets enterprise-wide
- Deep domain expertise in retail and Deal Management
- **US-based** executive, technology, and domain leadership
- Highly **collaborative** model that worked *with* us and not *on* us
- **Risk mitigation** through Incremental and iterative approach



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## Virtusa Approach: Collaboration & Process Rigor

### Virtusa brought their process framework and spent time understanding our needs

- An integrated team of 9 from Circuit City and 12 from Virtusa
- Interviews with 20 groups and over 100 Circuit City employees
- 3-day workshops with combined teams to define and refine scope

### Software Development Process Rigor

- Peer and third party code reviews, architecture reviews, cutting edge QA
- Context Diagrams, Technical Architecture Diagrams, Screen Flow, Prototypes
- Scope Matrix, Work Break Downs, Resource Plans, Project Plans, Milestones

### Accelerated Time-To-Benefit

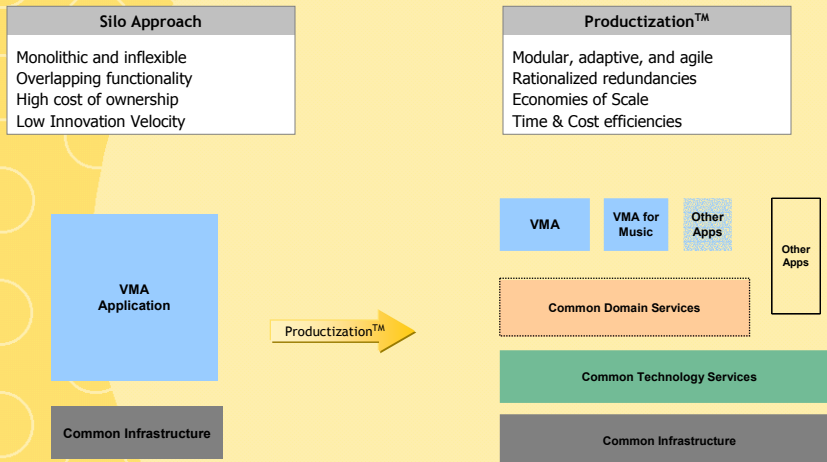
- Leveraged deep retail domain expertise
- Reused existing assets
- Built new assets with reuse in mind
- Executed on a global model to fuel further acceleration at a lower cost



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## Circuit City's Vision: New VMA Platform



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## Virtusa Partnership Benefits So Far

Phase I of VMA went live on December 26<sup>th</sup>, 2003

### Short Term Benefits

- About a million on going per year savings
- Standardization and enforcement of process
- Reduced response time and compliance risks
- Money recovered from bill-backs and charge-backs

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## Virtusa Partnership Benefits So Far

### Long Term Benefits

- Economies of scale, Leverage, and Speed
  - Almost 70% of assets are reusable in a similar system such as VMA for Music
  - Utilized third-party, COTS, and open-source assets to accelerate development
- Flexible and adaptable architecture
  - Configurable SW rapidly respond to changes
  - Developed an open VMA core platform that can be leveraged across the enterprise
  - Produced long-term reusable assets for Circuit City

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## Lessons Learned

This was first major global development effort

### Pick the right outsourcing vendor for the right job

- We spent some cycles to understand what specific capabilities we were looking for in our partner
- We did a lot of due diligence to understand each vendor's capabilities

### Look for more than the commodity time/cost savings

- Lowest bidder can prove the most expensive in the long run
- We looked for thought leadership and long-term partnership potential
- Virtusa brought Productization methodology, domain and technology expertise

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## Lessons Learned

### Take time to do your due diligence

- We did not hesitate to kick the tires
- Circuit City visited Virtusa's facilities, interviewed their delivery leadership

### Establish executive level relationships

- We Spent a lot of time speaking with partner's executives
- We wanted to ensure their vision and commitment coincides with ours

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## Lessons Learned

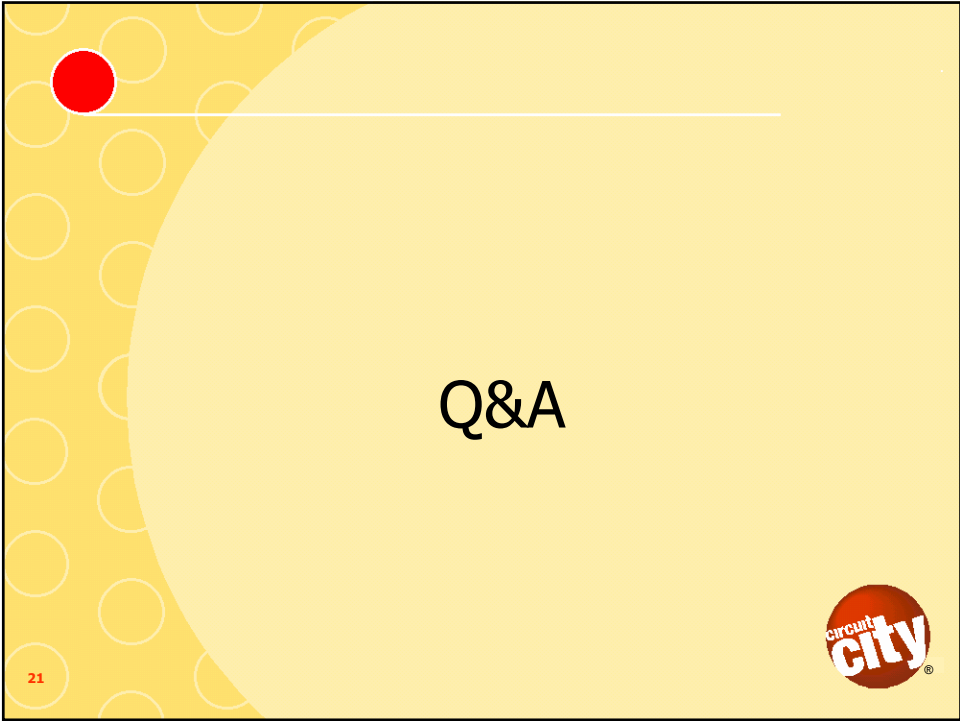
### New relationships take work

#### Communicate clearly, honestly and as often as possible

- We had done BPO before but not built highly visible, strategic solutions with an outside firm
- Problems are inevitable. We stumbled a few times as both teams tried to hit the ground running
- But both teams were committed to developing chemistry and trust through collaboration and regular communications
- We leveraged our partner's skills. We let Virtusa drive the Inception workshops to extract cross-functional requirements
- Transparency was critical. We stayed engaged to understand each other's culture and drivers

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# The 2004 Outsourcing World Summit

*Conference & Exposition*

February 23–25, 2004 • Disney's Yacht & Beach Club Resorts • Lake Buena Vista, Florida

## Risk Mitigation Surrounding Application Transition

Wednesday, February 25, 2004

2:10 – 3:00 PM

Cynthia Burke

*Senior Vice President and Division Manager*

*Enterprise Technology Development, Key Technology Services*

KeyCorp





# The 2004 Outsourcing World Summit

## *Conference & Exposition*

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Cynthia Sue Burke  
Senior Vice President and  
Division Manager  
Enterprise Technology Development  
Key Technology Services  
KeyCorp

Cyndee Burke is Senior Vice President, Finance Division Manager and Development Outsourcing Program Manager in Key Technology Services. She is responsible for all software development and package integration for the Finance Organization, including: Oracle Financials, Ariba, General Ledger; Earnings Analysis, Fixed Assets and Asset Management. She is also Program Manager for all of Development's Outsourcing relationships (onshore and offshore). Applications that fall under that banner include Retail, Small Business and Mortgage Origination and Underwriting, Collections, Safe Deposit, Mail Systems, IRS and Retirement Reporting Services.

In January 1996, Cyndee joined KeyCorp and after spending 13 years in the Financial Services Division at Progressive Insurance Company. Her roles there included Sales and Service Consultant, System Architect and Programming Manager.

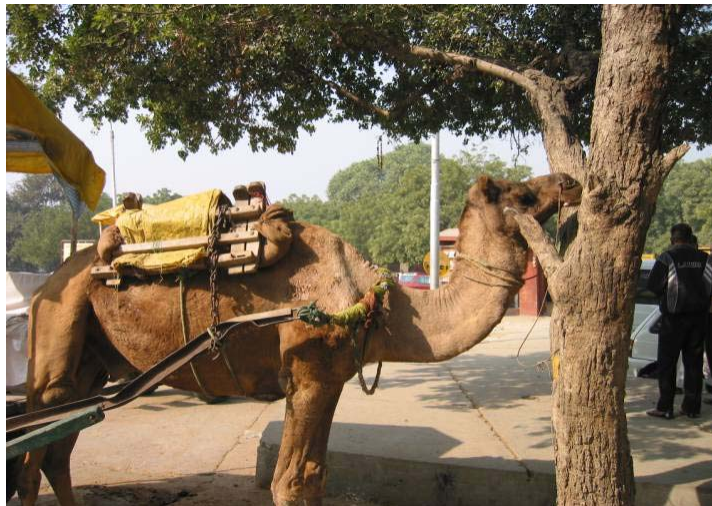
She earned a Bachelor of Fine Arts Degree in Theatre, Associate Degree in Computer Technology and MBA from Case Western Reserve University.



## Risk Mitigation Surrounding Application Transition

Cyndee Burke  
KeyCorp

Wednesday, February 25, 2004



What do you mean his visa was not extended?



## Common Transition Concerns

- Cultural and communication differences
- Competing priorities
- Access control constraints
- Knowledge transfer delays
  - ◆ Subject Matter Expertise flight
  - ◆ Lack of Vendor Business Expertise
  - ◆ Underestimated transition timeline
  - ◆ No work associated with application for technical shadowing
  - ◆ Unclear success criteria
    - How do you know they got it?
  - ◆ Vendor flight
    - Visa Constraints
    - Personnel Issues (illness, family)
- Application off-shoreability
- Unclear roles and responsibilities



## Risk Mitigation Strategies

- Before submitting an RFI/RFP have all internal parties engaged so you know what is feasible to off-shore from a process or technical perspective; DO NOT ASSUME everything can be off-shored
- Place all critical components in the contract that could effect pricing if delays occur
  - ◆ Visa criteria
  - ◆ Transition success criteria
  - ◆ Roles and Responsibilities
  - ◆ Vendor Expertise
  - ◆ Vendor Flight
- Set clear expectations surrounding communication
  - ◆ Follow-up with meeting minutes
  - ◆ Document phone conversations
  - ◆ Rules of engagement for client interactions
  - ◆ Vendor Expertise
- Offer retention bonuses to existing Subject Matter Experts
- Provide technical training from the application vendors
- Shorten the transition process – take as is and work through the issues as they arise

*Now is not the time for vendor or client to be cheap!*  
*Do the right thing!*