

Next generation outsourcing: IT that serves the business

Many outsourcing contracts are already in their second or third renewals, and the IT processes and costs have long been optimized in many companies. Increasingly, the emphasis is shifting to supporting the business processes with IT that offers a lot of potential for improvement, which is what the next generation of outsourcing aims to do. By restricting their focus to cost reduction, customers often ignore the performance-enhancing features of outsourcing. For example, the expertise of external IT service providers may help them to significantly improve both their competitiveness and the quality of their products and services.

According to industry association Bitkom, next generation outsourcing already accounts for one-quarter of all new deals. The reasons are twofold. On the one hand, classic IT outsourcing has been accepted for quite some time, and the days of double-digit growth rates are over. For this reason, the continuing development of the traditional approach is eminently logical. On the other hand, the increasing pressure of international markets requires a judicious division of labor, which usually goes hand in hand with new processes. While the first generation of outsourcing deals focused on optimizing the IT and its costs, today's outsourcing activities are more innovation- and business-oriented. As a result, IT products and services are for the first time being evaluated based not only on technical considerations, but also on how they contribute to the success of the entire business.

What can the IT do for the business?

This experience is shared by services providers, as Christian Oecking, who is responsible for global outsourcing business at Siemens IT Solutions and Services, explains: "Many companies have outsourcing experience from turning over their infrastructure and some applications to someone else – cost and performance optimization is taken for granted. Based on this experience, however, they find out that there are even more efficiencies to be realized from turning over the corresponding processes to a service provider as well." This may affect entire procurement, shipping or billing processes, for example. The goal is to adapt and optimize the related business processes by outsourcing the IT. In addition to pure IT knowledge, this requires closer ties between the service provider and the customer's industry, i.e. business and process Know-how in addition to IT expertise.

It is therefore typical for such advanced outsourcing projects that a service provider functions as a general contractor who farms certain jobs out to other companies, ranging from management consultants to software makers. After all, comprehensive process changes require comprehensive approaches. The management consultants and industry experts identify financial and operational improvement options, while the IT service provider plans the technical processes and the software company translates these into concrete solutions. Oecking adds: "To minimize the coordination requirements, it's a good idea to pick a service provider with lots of industry and process



experience who has access to a broad base of in-house resources such as software development and industry solutions.”

BBC: Digital thanks to outsourcing

Using external service providers, the British Broadcasting Corporation, Britain’s largest television network, is converting to digital production technology worldwide. Since 2004, Siemens IT Solutions and Services has accompanied the network on its way to the world of digital media. The service provider not only handles all IT and technology processes, but upgrades entire media production processes in cooperation with other Siemens Groups and outside partners. As the BBC’s technology partner and system integrator, Siemens develops, implements, tests and operates the digitization program, for example. The main purpose of the partnership, which is set to run for ten years, is the digital production and provision of all media content. In addition, the BBC wants to benefit from flexible asset management and from flexible and fast technologies on all levels.

Until recently, the BBC used videotape to produce its programming. Cameramen mailed the tapes from the shooting site to the broadcast center. The archives were filled to the rafters with piles of manually labeled videocassettes. These processes had to be rethought from the ground up, with IT playing a central role. The digitization initiative comprised the following components: a high-performance network and server structure that would be able to handle huge amounts of data; a work-in-progress solution for documenting the content production; a portal architecture that controls who may access what; and “playout” systems for coordinating programming with commercials down to the second.

Siemens’ “Coding and Multiplexing” solution, for example, consolidates the many elements of a TV signal into a standardized format that is suitable both for terrestrial broadcasting and for a satellite signal that can be received via digital set-top boxes. The IT service provider is simplifying the BBC’s existing technical infrastructure while expanding its digital transmission capacities. As a result, the British broadcaster is able to offer more channels at the same level of quality and with interactive services. By 2012, the BBC is looking to supply digital terrestrial television to 98.5 percent of the population in the United Kingdom.

The most important accomplishment of the project is the development of a corporate solution for digital production. Today, the production staff uploads digital video to PCs in a matter of seconds, edits it with digital editing systems and e-mails it to the broadcast center. That saves not only time, but labor and money. In the future, the BBC’s huge amount of material will be stored in a digital library that functions as its archive and as a central work platform for editors. The solution also enables the BBC to offer its broadcasts for viewing on mobile devices via an interactive media player or as on-demand TV that can be easily downloaded. These new options make the BBC much more competitive than before.

Partners instead of customers and service providers

The BBC example shows that the transformation of traditional IT outsourcing to business-oriented next generation outsourcing also changes the relationship between

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customer and service provider. As strategic partners, both must work together very closely in order to critically analyze strategic business processes and enhance or renew them. This is one of the reasons why the contact persons and responsibilities within the client companies are increasingly shifting from the IT departments to the operating departments. However, the close cooperation also means that the service provider cannot carry all the risk by itself, as was common with first-generation outsourcing deals. To improve business over the long run, both parties must contribute their fair share.

As a result, the so-called public-private partnership (PPP) model, i.e. joint ventures of public and private companies, has become quite popular in the public sector. To streamline its administrative processes, for example, the city of Wiesbaden joined forces with Siemens IT Solutions and Services to set up a company called Wivertis. The project was so successful that Wiesbaden and Wivertis were honored in November 2007 with the "European Public Sector Award" for their accomplishments. Herkules, Europe's largest ever outsourcing project, is another example of this type of organization. A company called BWI Informationstechnik was formed by Germany's Armed Forces (Bundeswehr), Siemens and IBM to upgrade the Bundeswehr's entire civil IT and communication structure.

In private business, on the other hand, such joint ventures are rare, because different companies tend to manage their long-term next-generation outsourcing with IT service providers in different ways. Since the end of 2007, for example, Siemens has operated the majority of Evonik's IT and telecommunication infrastructure in the U.S. as part of a global agreement. Evonik, the former Degussa, is a major industrial conglomerate. The goal of the outsourcing partnership, which will initially run for four years, is to provide high-quality services at lower costs.

The data centers of Danish utility Dong are also being operated and maintained as part of a next generation outsourcing deal set to run through 2010. With an innovative software library, the introduction of a help desk and additional activities, Siemens is changing entire work processes for this company as well.

Contract design challenges

Contract design plays a critical role in these new business models. "It is still not clear whether or not next generation outsourcing will lead to longer contract terms," says Oecking. "On the one hand, the extensive strategic tasks require more time than a plain IT optimization. On the other hand, the long contract terms of up to ten years which we have seen in the past have often resulted in service providers becoming inactive and less innovative. Most likely we will see average contract terms of five years."

Another novelty is that the new contract terms focus not only on the IT's efficiency, but primarily on business targets or the operation of business processes. For example, they may specify sales increases on the customer's part through process transformations along with profit participation on the part of the service provider. That's the theory, at least, but Oecking has some reservations: "Since such arrangements always need two parties to achieve the objectives, coming up with a clear definition of the service levels at this level is still very difficult in actual practice."

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However, this may change as business processes become ever more industrialized, because what applied to the outsourcing of IT systems and services in the past will soon apply to the optimization of business processes as well: “Customers benefit from the industrialization of operating processes, for example via Six Sigma methodologies. The more standardized the individual service and the more you can disengage it from the actual customer problem, the easier it becomes to optimize each single cost at this level is still very difficult in actual practice.”

Sidebar:

Criteria for next generation outsourcing (NGO):

- NGO is geared towards business processes that preferably should be standardized.
- IT is used to support these processes without regard for a particular solution.
- Instead of turning to the IT department, operating departments are increasingly handling the IT sourcing and determining the IT products with respect to their processes themselves.
- IT products are flexibly procured and accounted for within the processes, not on the basis of projects.
- SLAs no longer focus exclusively on cost considerations, but on business objectives such as competitiveness, service improvements and sales increases.
- Service providers and customers work even more closely together within the framework of NGO partnerships.

Future concepts

Next generation outsourcing offers lots of potential not only for individual companies, but for entire industries. For example, it enables financial service providers to outsource the entire operation of self-service processes and ATMs. Another example: Since early 2008, Siemens has provided the entire ATM infrastructure for the NoteMachine company in Germany and has handled all related IT operations, asset management and the service desk, as well as monitoring and maintenance. What makes this deal special is the fact that all components are standardized and can be easily replaced for any customer with no extra effort. An external partner is responsible for special banking processes such as card and cash management. The customers don't have to operate a hotline or perform any maintenance, and are therefore free to concentrate on their core business and their customers.

The healthcare sector also has lots of potential for improving business processes. The rising cost pressure in hospitals and the increasing digitization of patient files require a complete reorganization of the IT in this field. Important information such as prescribed medications must be made available to all relevant parties in standardized databases. At the same time, protecting the privacy of patient data against unauthorized access

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and meeting new compliance guidelines are playing increasingly important roles. What is needed is an IT that meets all these requirements.

Since most hospitals and clinics don't have the financial and technical resources to operate these complex structures in-house, they are very interested in outsourcing models. Two modes may be possible. With the first option, a service provider takes over and operates the entire IT environment. This generally produces savings in the 30-percent range, and process improvements can be realized within about three months. The second option involves a PPP model in which both parties are responsible for the infrastructure and the processes together. The latter option enables the organization to save costs by, for example, digitizing its data with no investment by itself or by the health insurance fund.