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State of Louisiana
Office of Information Technology

Provider Management Plan

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Executive Summary

Executive Summary

The Provider Management Plan analyzes market trends in IT service delivery and evaluates the current state of Louisiana's IT functions on suitability for out-tasking or further investment in in-house capabilities.

Provider Management Overview	▪ The marketplace for service delivery has evolved from centralization of authority to shared services to a portfolio approach (i.e., balancing shared services with out-tasked services) ▪ Out-tasking should not be understood as the absolution of involvement with systems or tools, rather the State must be prepared to aggressively manage contracts and vendors ▪ The State could use a spectrum of delivery models in the selection of alternative providers
Market Trends	▪ According to Deloitte's 2012 Global Outsourcing and Insourcing survey across 10 industry sectors, IT continues to be the most out-tasked business function ▪ Out-tasked IT is also the business function most likely to be considered for insourcing, primarily due to lack of service quality against expectations ▪ State IT organizations typically take a range of approaches to IT provider sourcing—from single domain out-tasking to wholesale out-tasking of the entire organization ▪ States have seen mixed results from their IT out-tasking and there is a lack of evidence of long term return on investment from these types of arrangements
Opportunities for Louisiana	▪ Build up in-house capabilities in financial, contract, vendor, and project management to support alternative delivery models in the future ▪ Evaluate existing service costs and staff capabilities of the consolidated IT organization to inform sourcing strategy ▪ Build holistic sourcing strategy and evaluate initial opportunities identified including: Level 1 helpdesk, data center facilities, hosted IP telephony, web and select application development and maintenance
Next Steps	▪ Determine the future state goals and objectives for each out-tasking opportunity areas ▪ Conduct a detailed inventory of current IT environment, assets, personnel capabilities, and change management readiness to define scope and timeline for each opportunity ▪ Develop detailed business cases to determine ROI, risks, and business impacts ▪ Make decision on whether or not to bring the out-tasking opportunity to market

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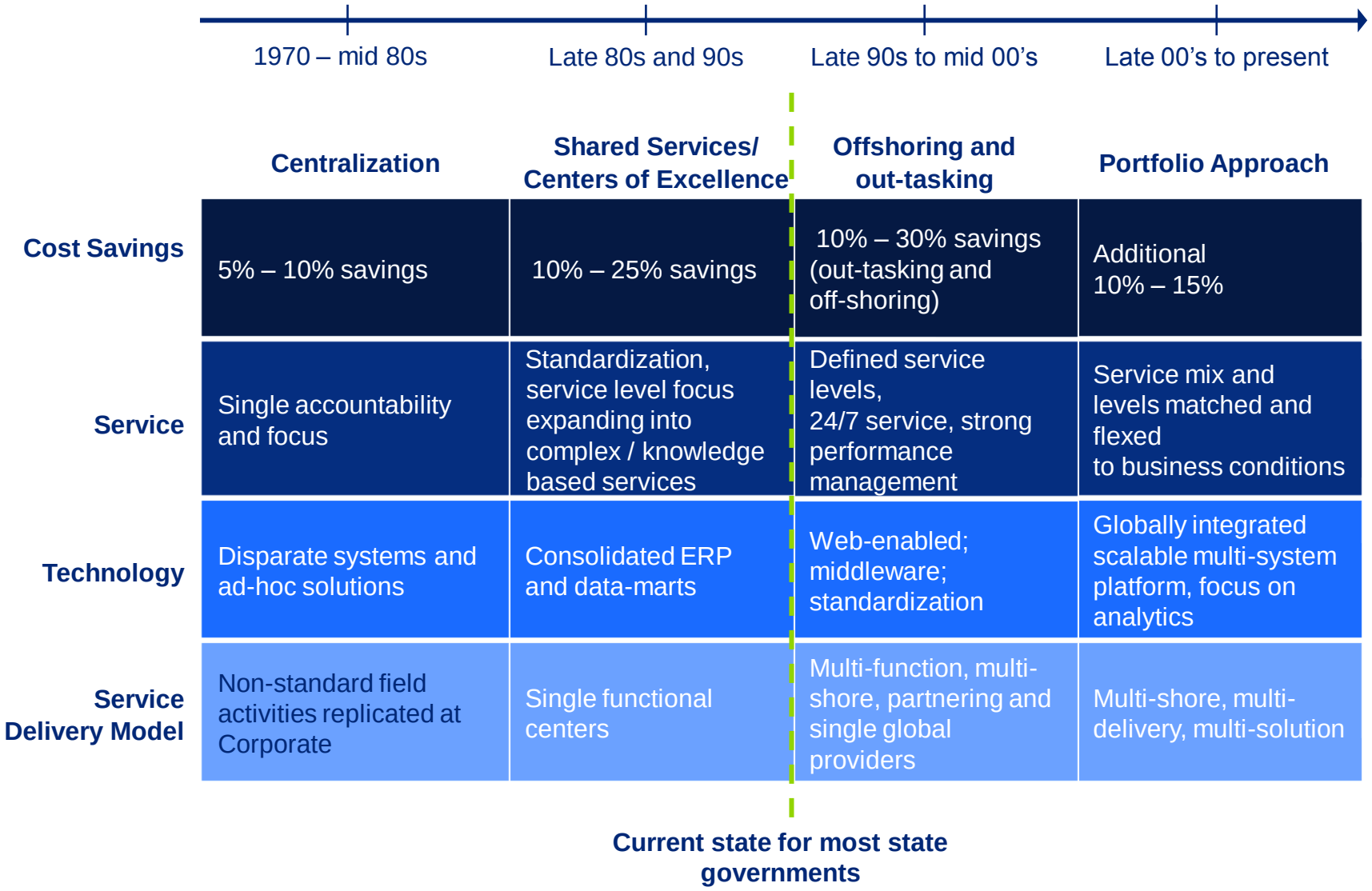
Provider Management Overview

Evolution of provider and service delivery approaches

Service delivery has evolved across various industries to a “portfolio approach”, which is defined by balancing shared services operations with out-tasked services.



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Internally managed labor models

The State can use various labor models to support internal provisioning of services.

Labor Model	Scope	Strengths	Weaknesses	Factors for Selection
Traditional – Hire and Manage Staff Locally	▪ Senior leadership, strategic skills, and any other worker level as appropriate	▪ Loyalty ▪ Retention of critical skills and knowledge ▪ Stability ▪ Control	▪ Fixed costs and inflexibility ▪ Cost of recruiting, benefits, retention, and staff training	▪ High control over output
Staff Augmentation	▪ Project assignments ▪ Fill interim roles ▪ Contract to hire ▪ Technical / clerical	▪ Flexibility – easy to adjust staff levels and costs ▪ Access to technical skills ▪ Minimal risk in cases of performance failure	▪ Little to no continuity of company knowledge ▪ Contractor motivation / loyalty	▪ Insufficient in-house resources due to attrition or labor market conditions
Shared Services Center	▪ Technical or clerical tasks that can be performed remotely	▪ Reduced costs through scale economies ▪ Process optimization	▪ Loss of control by agency ▪ Start-up costs and challenges ▪ More generalist staff	▪ Increased cost due to decentralization

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Vendor managed labor models

The State can use various vendor labor models to support alternative service provision.

Labor Model	Scope	Strengths	Weaknesses	Factors for Selection
Consultants and Systems Integrators	▪ Project work	▪ Rapid access to skills and added staff ▪ Risks limited to project ▪ Highly qualified and capable vendors	▪ Higher cost than state resources ▪ Loss of information during knowledge transfer to state resources ▪ Quality control	▪ Technology new to existing state resources ▪ High control required
Tactical Out-tasking	▪ Specific applications suites ▪ Technology platforms ▪ Certain functions	▪ Access to skills and a stable service model ▪ Offload non-strategic work ▪ Rapid adoption of new technology ▪ Cost reduction	▪ Less direct control ▪ Can lead to multi-sourcing and governance challenges	▪ Mature vendor offerings exist ▪ Very short deadline for deployment
Strategic Out-tasking	▪ Applications and/or Infrastructure for an agency or group of agencies	▪ Reduced costs ▪ Vendor process maturity ▪ Rapid scaling of resources	▪ Vendor performance ▪ Transition risk ▪ Cost and performance management	▪ Technology new to existing state resources ▪ Allow redeployment of internal resources

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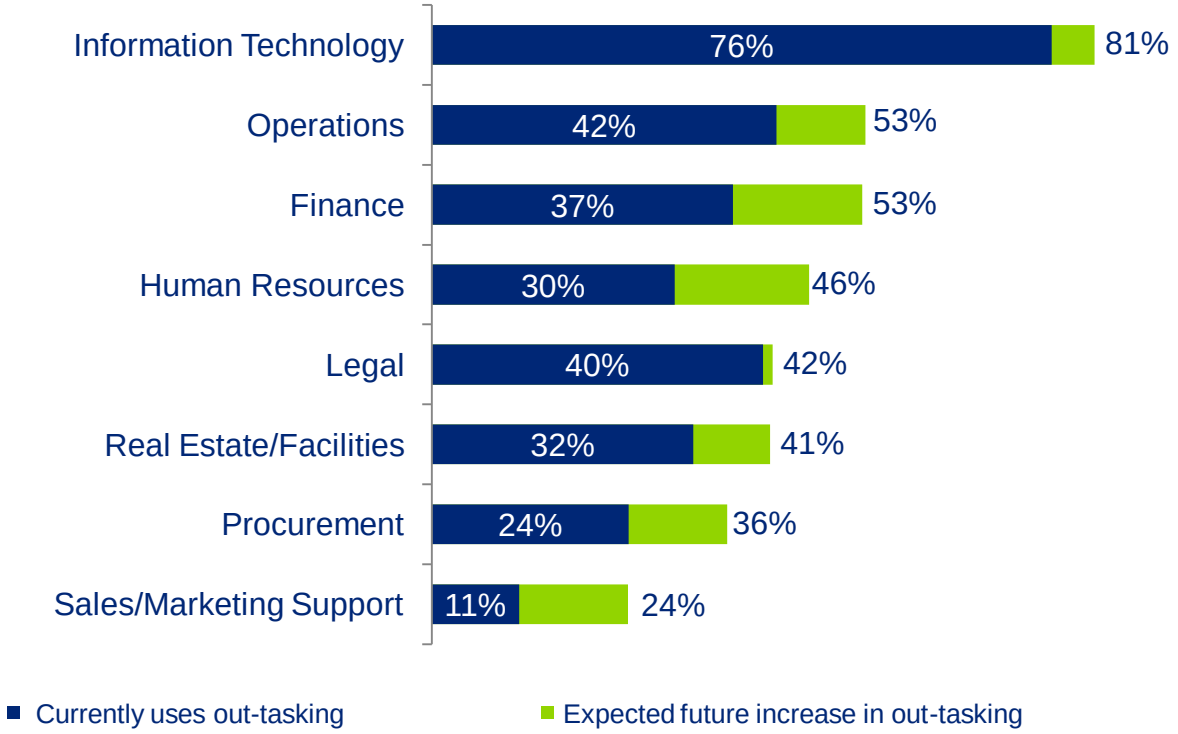
Market Trends

IT out-tasking has become commonplace across industries

Deloitte conducts an annual global survey of IT leaders from 10 industry sectors on out-tasking and insourcing trends.

Business Function Out-tasking



- Information Technology led all functional categories with a combined 76% percent of respondents partially out-tasking the function
- Out-tasked IT was also the function most contemplated for insourcing, primarily due to lack of overall service quality
- The expected future state of all business functions show an increase in out-tasking. Finance and human resources are expecting the largest percentage increase in out-tasking activity

Source: Deloitte 2012 Global Outsourcing and Insourcing Survey.

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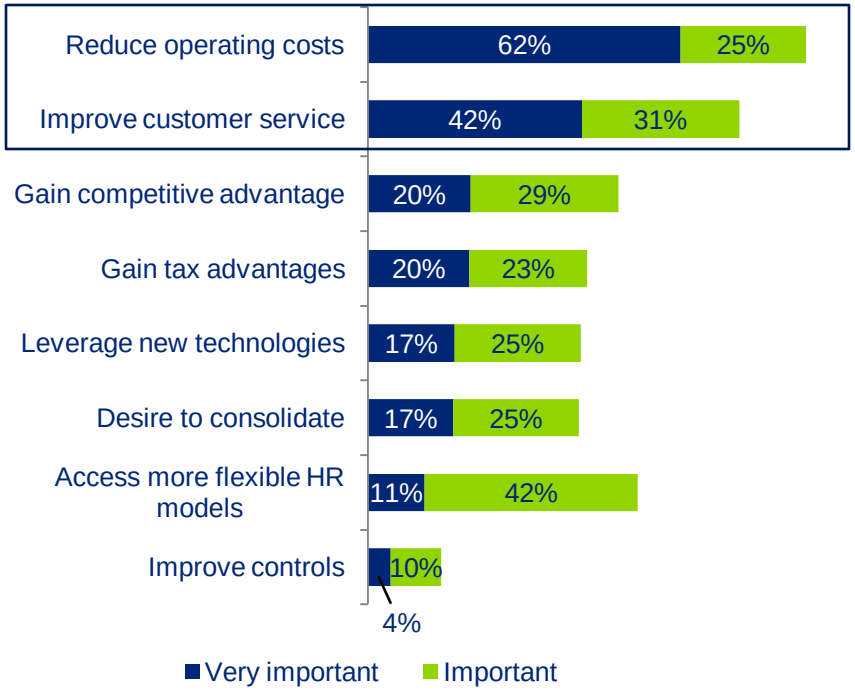
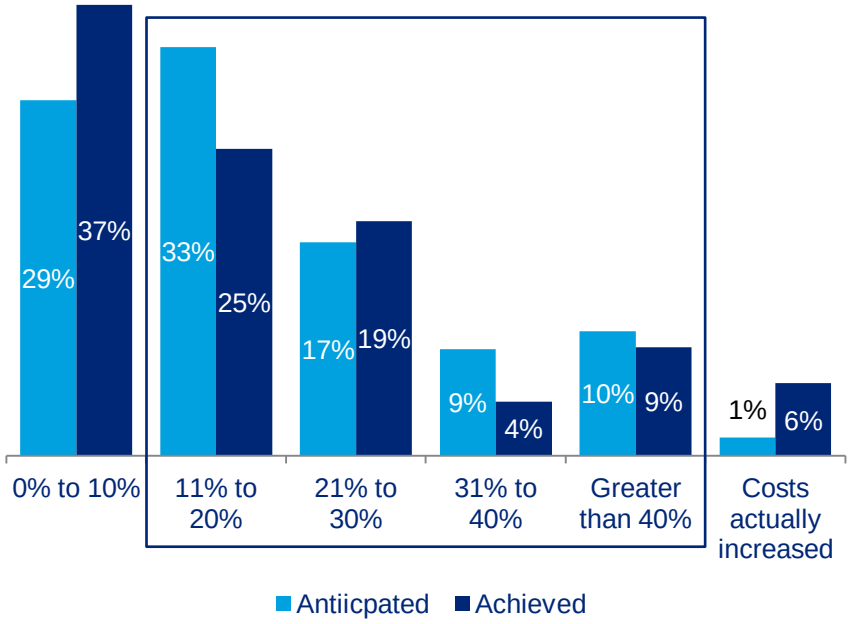
Though out-tasking is growing, the desired results are not always achieved

Organizations value improved customer service closely behind reduce operation costs as the most prominent drivers for out-tasking. Our survey results indicate that these objectives are not always met. 69% of respondents *anticipated* savings greater than 10%, while only 57% actually *experienced* cost reductions greater than 10%.

Importance of Out-tasking Objectives



Cost Reduction Results from Out-tasking Experience



Source: Deloitte 2012 Global Outsourcing and Insourcing Survey.

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Four themes provide insight as to why objectives have not been met

Four common themes emerged for organizations that felt dissatisfied with their out-tasking arrangements.

Theme	Description
Hidden Costs / Transparency	▪ Pricing concerns influenced 1/3 of contract terminations ▪ The top contributor to cost overruns is the service provider underestimating the scope and effort of projects, especially in the public sector ▪ The changing mix of fixed (e.g., application support) and variable priced services (e.g., enhancements) leads to higher overall costs than original estimates
Relationship Management	▪ Inconsistent communication between service providers and clients (29% of respondents) leads to client frustration ▪ The lack of a formal vendor management plan will result in many unresolved conflicts and may potentially turn into early contract termination ▪ Inadequate transparency and poor or unreliable reporting were also frequent dissatisfactions
Vendor Support & Resources	▪ 3 of 10 organizations experience issues with vendor-provided resources, including lack of knowledge of the client organization's business ▪ Lack of service level quality was cited as the primary reason for early contract termination ▪ Sub-par vendor performance (38%), sub-par vendor resources (29%), and attrition of key resources (24%) also contributed as top factors of dissatisfaction with recent out-tasking initiatives
Inability To Transform	▪ Lack of readiness of organization to make change impacts the success of out-tasked arrangements ▪ Limited use of upfront technology investments to position the organization to meet necessary business requirements in a consolidated out-tasked model can influence performance ▪ Inability of the service provider to drive efficiencies in the inherited IT infrastructure ▪ Limited standardization or consolidation leading to reduction in anticipated cost savings or higher operating costs

Source: Deloitte Global Outsourcing and Insourcing Survey, 2012.

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Out-tasking critical success factors

Organizations that have had success with their alternative provider arrangements had certain elements in place prior to going out to bid.

Strong Governance	▪ Alignment between IT mission and overall State strategy ▪ Protocols to initiate, approve, manage, and communicate change to the stakeholders (end users, service providers etc.) ▪ Escalation and issue resolution paths to route major problems up and resolve them ▪ Regular meeting schedules, formal processes for review, and assessment of the provider performance
Clarity on Retained Functions	▪ Determination of which service functions are critical to retaining control, agility, cost effectiveness, and service flexibility and will remain in house ▪ Roles and responsibilities of retained versus out-tasked functions
Effective Vendor Management Function	▪ Activities and tools from an operational, managerial, and strategic perspective ▪ Contract and scope management, active monitoring, and management of risks, cost, and quality ▪ Enforcement of penalties for non-performance and SLAs ▪ Ability to extract value over and above the contractual vehicle from the arrangement
Effective Contract Provisions	▪ Pricing leverage from longer time horizons ▪ Effective carve out and bundling of services to achieve economies of scale
Clarity on Service Integration	▪ Coordination of the interaction of all internal and external service providers with the responsibility of delivery for IT services ▪ Clarity on hand-offs and service transitions
Streamlined Infrastructure	▪ Standardized technologies, integrated infrastructure and enterprise architecture ▪ Clarity on what assets are owned and their locations and conditions ▪ Limited in house capabilities or limited existing services or infrastructure

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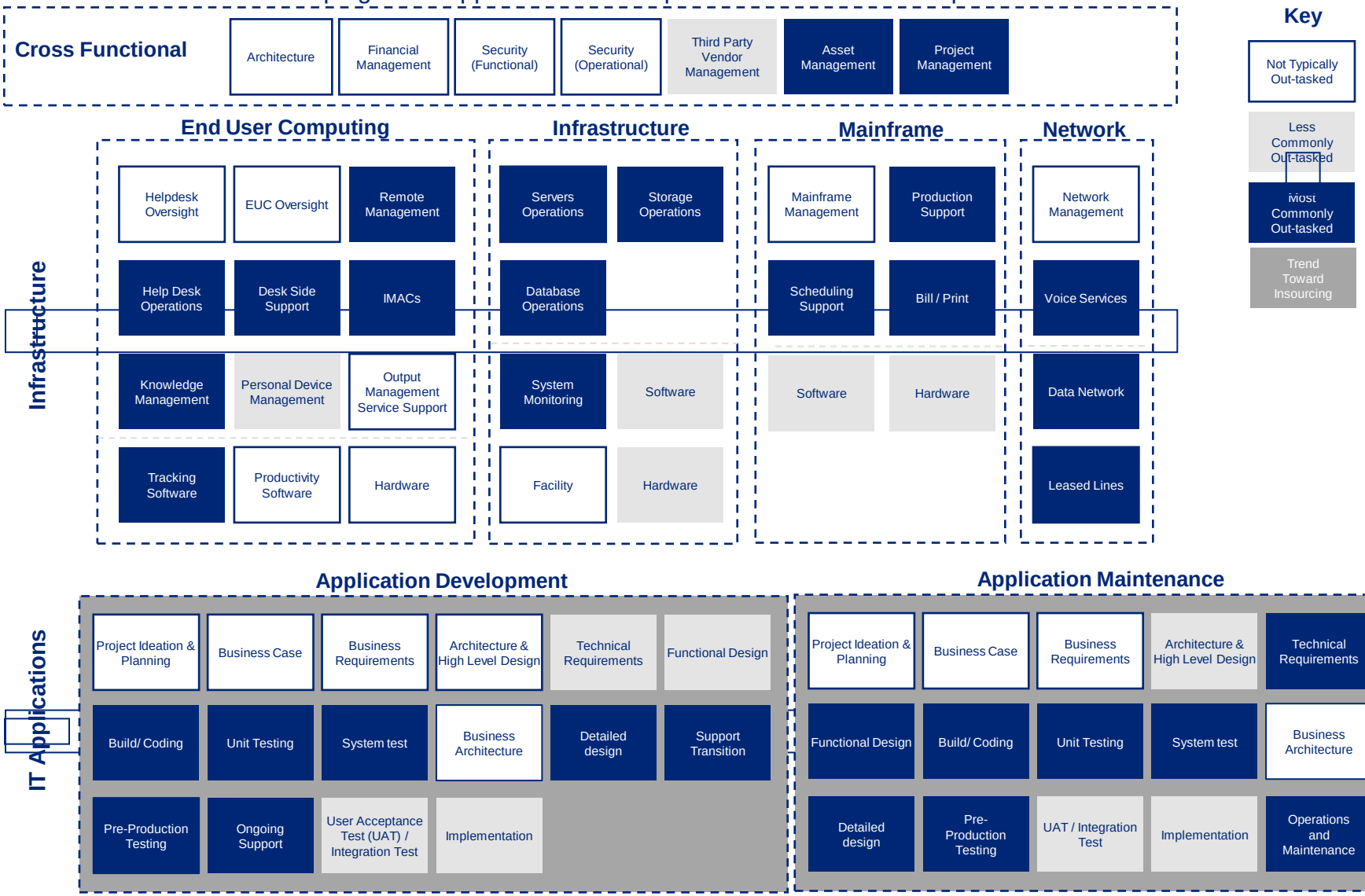
Suitability Assessment

IT domain out-tasking landscape

Within IT domain areas, certain functions are more commonly out-tasked than others. A trend toward bringing out-tasked work back in-house is developing in the Applications Development and Maintenance space.



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End-user computing drivers

Considerations

Benefits

- Increased availability of support (24/7/365)
- Vendors can provide latest support options, such as self-help portals, preventative monitoring, and issue analysis
- Potentially lower costs and higher utilization compared to internal FTEs
- Able to more easily scale up and down to demand

Limitations

- Turnover of vendor helpdesk staff and lack of control in training can lead to varying levels of service for inquiries
- Variable cost structure could eventually make out-tasking more expensive than maintaining service in house (e.g., higher quality of service leads to more usage and higher costs)

Service Evolution

Single Environment Service Desk

- One of the most out-tasked IT capabilities
- Single focus on specific areas such as desktop, laptop, printer, mobile device support, etc.
- Pricing typically on a volume based model since the primary role is to act as the first line of issue resolution for end-user questions

Multidiscipline Service Desk

- Focus is addressing problem, incident, and service requests that require specialized responses in multiple environments (e.g., front line support, networks, multiple application environments)
- Goal is to achieve higher first-call resolution rates to support end-to-end service levels and use as a means of improving efficiency and customer satisfaction
- Pricing on a per user or device basis to encourage end-to-end support and proactive deployment of self-service solutions to reduce the number of calls reaching the service desk

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Infrastructure drivers

Considerations

Benefits

- Potentially lower costs than maintaining infrastructure internally
- Vendors can provide additional services such as security and integration to complement infrastructure hosting and services
- Spend shifts from CapEx to OpEx
- Opportunity to enable scalability of IT applications and increase speed-to-production

Limitations

- Security concerns due to third-party management of sensitive data
- Service availability dependent on the provider's maintenance schedule; minimal control in the case of unplanned outages
- Existing consolidation efforts of data center operations and network environments can reduce efficiencies of out-tasking

Service Evolution

Usage Based Services

- Data centers with assets co-located in physical locations, but controlled by 3rd party service provider
- Pricing typically on a per-use (e.g., per instance / image) model, with a fixed baseline of about 80% to 90% of the total contract value

Managed Services

- Managed services delivery models embed cloud services, such as Infrastructure as a Service (IaaS) or Platform as a Service (PaaS) and support application environments
- Focus on "green IT", driven by the cost savings of adopting energy-efficient assets
- Pricing evolving to per-user or per-month billing model to allow host organizations more flexibility in volume variability
- Average fixed baseline about 60% to 65% of total contract value

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Mainframe drivers

Considerations

Benefits

- Mainframe space in data centers are freed up, which can be used for alternative expansion
- Vendors provide specific mainframe operations skillsets that may not be prevalent within internal resources
- Staff can concentrate on new systems instead of managing and running mainframe operations
- Vendors can provide higher quality of service with more advanced technology offerings

Limitations

- Increasing consumption of MIPS or overuse charges could reduce original savings estimates
- Potential for higher investment of time and people in testing and troubleshooting due to poor quality or performance
- Level of knowledge transfer and staff turnover at vendor may impact service quality

Service Evolution

On-Premise Services

- Mainframe remains in client facility with the vendor managing all operations and technical support
- Cost of services reflective of mainframe usage and maintenance requirements of client's equipment

Managed Services

- The vendor provides hosting facility for equipment and all operations and technical support
- The majority of mainframe support is done remotely or using remote services, allowing clients to share technical resources and achieve savings through economies of scale

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Network drivers

Considerations

Benefits

- Potentially lowers costs for equipment, lines, manpower, and maintenance
- Transfers spend from CapEx to OpEx
- Additional flexibility of resources to respond to shift in demand
- Flexibility for major changes quickly if technology becomes outdated
- Increased mobility and access to media services through IP telephony and unified communications (UC)

Limitations

- Subject to the support of the vendor and their responsiveness to resolving issues
- May need extra redundancy in the architecture
- Support and enhancements require design and architecture discussions with vendors which can delay project implementations
- Ability to secure a vendor to provide services across a diverse State geography that typically does not have diversity from a telecom carrier perspective

Service Evolution

On-Premise Services

- Vendors specializing in data and voice services provide on-premise managed network services in a siloed manner. Responsibility for the end-to-end network integration from an end user perspective falls on the customer
- Telecom carriers provided cost effective Ethernet offerings, regionally or metro, to help clients increase their bandwidth to be able to support latest UC offerings

Managed Network Services

- Major communications service providers (e.g., AT&T, Verizon), systems integrators (e.g., HP, Xerox) and technology vendors (e.g., Google, Microsoft) are now capable of providing a global cloud UC infrastructure to support large organizations
- Vendors offer SIP trunks to extend IP hosted telephony beyond an organization's firewall without the need for an IP-PSTN gateway
- Vendors can now deploy cross-vendor interoperable solutions (e.g., Cisco Hosted Collaboration System with Google)

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Application development drivers

Considerations

Benefits

- Gain greater flexibility and access to a wider talent pool, especially for emerging technologies
- Provides access to the industry-specific expertise
- Allows organizations to capitalize, with minimal financial risk or capital outlay, on rapidly evolving technology areas such as mobile applications and cloud computing

Limitations

- Potential for increased costs through added enhancements
- Reduced control over service quality
- Custom-built and restricted applications will add complexity or may not be out-tasked at all
- With speed of technology disruption, single vendor out-tasking risks limiting adoption of emerging technologies

Service Evolution

Cost Reduction Focus

- Primary focus for application development out-tasking was cost reduction with adoption of 17% between 2009 and 2010, 7% between 2010 and 2011 and 3% between 2011 and 2012
- Out-tasking results indicated 46% of organizations saw an increase in cost and 22% experienced a decrease in service level relative to when the function was performed in-house

Talent Focus

- About 90% of current host organizations plan to maintain or increase their level of out-tasking for the flexibility in labor and access to expertise in developing technology areas
- Current out-tasking organizations out-task a median of 25% of application development work
- About 10% plan to reduce their application development out-tasking through reduced project work and bringing the function back in-house due to unsatisfactory cost savings and service levels

Source: Computer Economics "Application Development Outsourcing Trends." 2013.

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Application maintenance drivers

Considerations

Benefits

- Vendors provide access to tool-specific knowledge to support an array of applications, from legacy to emerging
- Number of in-house staff needed to patch and maintain codes can be reduced
- Access to expertise in emerging application technology (e.g., mobile, social)

Limitations

- Potential for increased costs if applications are not rationalized before contracting
- Custom-built applications cannot be competitively bid and requires the application developer to perform maintenance
- Multiple vendors required to service an environment hosting a diverse array of applications
- Reduced control over service quality

Service Evolution

Corrective Maintenance

- Software providers and resellers provide 24/7 on-call support to respond to requests as they arise
- Key SLAs include system availability and average time to repair
- Maintenance costs typically remain static and predictable
- Public sector leads (64% of respondents) in the likelihood to engage in application maintenance out-tasking, 9% above average of all other industries
- At least 28 states use vendors to support the development and maintenance of web portals

Performance Management

- Vendors provide analysis on enhancements, automation and upgrade opportunities to improve usefulness of application to the organization
- Current out-tasking organizations out-task a median of 28% of application maintenance work
- Vendors can provide detailed reporting and diagnostics, including performance statistics and analysis on problems and needs

Source: Computer Economics "Application Maintenance Outsourcing Trends." 2013.

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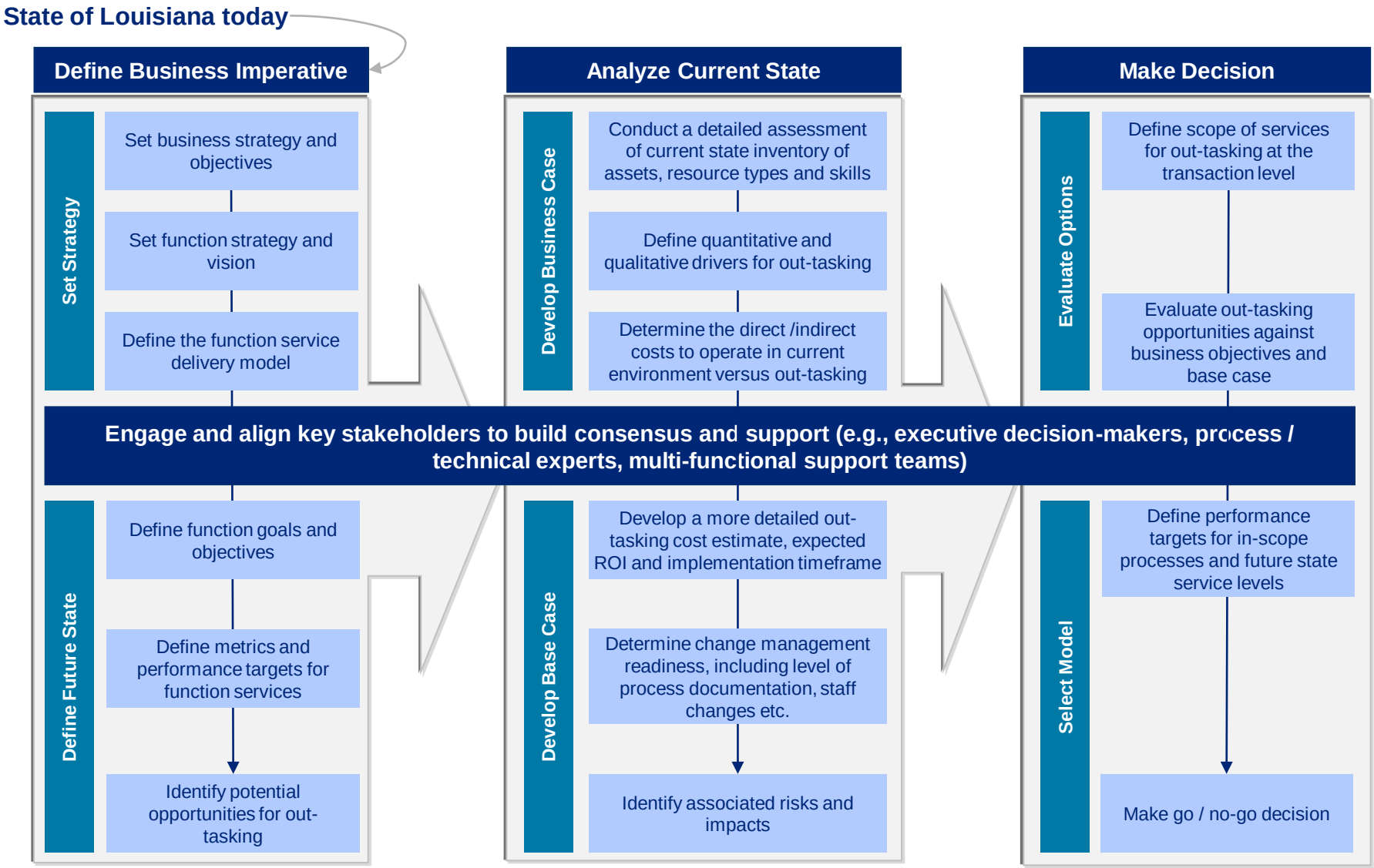
Next Steps

Next steps for evaluation

Louisiana should conduct further analysis to understand current assets and resource capabilities and develop business cases before making any out-tasking decisions on the list of initial opportunities.



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Appendix

Define Business Imperative: Setting a strategy

Clearly articulating objectives, defining and prioritizing the decision criteria, and establishing guiding principles will focus the effort on the business goals and ensure data driven decision making.

Sample Objectives

- Improve the quality of service, stabilize operations…
- Develop new capabilities and skill sets to enable growth
- Adhere to new regulatory guidelines

Understand the Baseline

- Current IT skills, capabilities, and technologies
- Existing internal delivery structure and external vendor providers and delivery terms
- Business requirements, current service, and performance levels

Potential Decision Criteria

- Improved performance
- Costs of transition versus costs of on going operations
- Speed to market
- Disruption to the business
- Organizational acceptance
- Customer satisfaction
- Sustainability of the new model

Guiding Principles

- **Do not start with everything at once**. Set up a logical and deductive method for analysis
- **Focus on the 'high priority, high impact' problems**. Isolate the root of the problem and do not take into account areas that do not need change
- **Consider the realities of implementation**. Focusing on the realistic end result will allow you to make more clear and effective decisions throughout the process
- **Minimize transitions to minimize disruption**. Performing only essential transitions and minimizing them will yield minimal amount of business disruption
- **You may have to live with poor performance in low impact areas**. Do not get bogged down with the small items that have a low impact on the business
- **Fix internal problems as you change the vendor**. Aligning internal processes to best complement the new service delivery infrastructure is critical to its success
- **Be objective.** Objectively consider your own capabilities as you compare internal delivery to external providers

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Define Business Imperative: Defining the Future State

Focusing on four key decisions that will help define the future model.

Four-Step Filtering Process

Guiding Principles

Inputs

- **Objective**
- **Baseline**
- **Prioritized Decision Criteria**

Where to Focus?

- Segment the business (e.g., departments, capabilities)
- Assess segments based on need

What to Do?

- What actions can we take for target segments:
  - Invest
  - Restructure
  - Transition

What's In/ What's Out?

- Where do we transition the target segments?
  - Enhance internally
  - Out-task to vendor

Which Model and Vendor?

- Who are the other vendors we source to and what models do we use:
  - Managed service
  - Staff augmentation

Outcome

- **Future State Model**
- **Implementation Plan**
- **Business Case**
- **Execution Roadmap**

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