

TAKING CONTROL OF YOUR IT LABOR

A GUIDE TO OPTIMIZING YOUR **IT LABOR** COSTS AND RESOURCES



**Category
Insights**

FROM INSIGHT SOURCING GROUP

INTRODUCTION

As organizations return to work, many IT departments will be asked to “do more with less” budget. For several companies who scaled back external (non-employee) IT Labor in the immediacy of their COVID responses, the return to work may present a unique opportunity to rethink IT Labor strategy and investments. As your company ramps back up, you should be mindful of some key considerations to ensure a thoughtful and measured approach that helps you optimize your budget and improve ROI.

As a starting point, you may need to overcome some hurdles relative to the way that your company currently manages IT Labor. More than likely, you may see one or more issues in your environment today:

- You don't know what you are spending or how individuals are paid
- You are paying for services without clarity on deliverables or performance measures
- You have been funding “temporary” labor for multiple years without a clear end date
- You see a long list of providers, each of whom has been deemed unique or necessary
- You are overutilizing or underutilizing temporary labor and have not mastered insource versus outsource decisions
- You aren't strategically deploying offshore or low-cost delivery center models

Do any of these problems sound familiar? Managing and optimizing your IT Labor spend typically becomes more challenging as the need for technical skillsets and expertise intensifies and proliferates across all teams within your organization.

In this guide, we'll introduce the basic models for procuring IT Labor, steps for evaluating and optimizing your IT Labor spend, and a few recent examples of companies that were able to drive impactful, bottom-line results from IT Labor optimization efforts.

OVERVIEW OF LABOR DELIVERY MODELS

For organizations who are seeking to substantially improve and transform management of IT Labor, a helpful first step involves defining and cataloging company-wide IT Labor spend. We recommend structuring the spend with a lens that considers best practices for both procuring IT Labor and managing IT Labor on an ongoing basis.

For simplification, IT services that are not performed by in-house employees can be cataloged into three key delivery models:

STAFF AUGMENTATION	<ul style="list-style-type: none">• Procuring resources with specific skillsets, ideally for a set price and period of time• Pricing based on a rate and hours worked• Minimal to no service delivery commitments relative to outputs• Labor generally provided by independent contractors, general staffing firms, or IT-specific staffing companies• Resources typically managed by company
CONSULTING	<ul style="list-style-type: none">• Procuring external resources for specific skillsets or fixed-duration projects• Pricing based on project milestones and deliverables/work products• Labor generally provided by a professional services company or independent contractor• Resources typically managed by provider
MANAGED SERVICES	<ul style="list-style-type: none">• Procuring external resources for a scope of work to be delivered as a service with defined delivery commitments and service level agreements (SLA)• Committed scope and term, typically 3-5 years in length• Pricing tied to service levels and volumes• Labor generally provided by a professional services company that assumes risk of operations and focuses on outcomes• Resources typically managed by provider, with company overseeing contract and ensuring outcomes

The “right” labor solution for your organization may be a blend of these models, or it may shift from one model to another as needs change over time. Unfortunately, companies often find that they haven’t clearly defined the parameters of external IT Labor support or selected a model that best fits their current needs and constraints.

The managed service model in particular is gaining traction as organizations explore the benefits of a solution that, when properly executed, establishes clear delivery commitments and SLAs to which partners can be held accountable. Simultaneously, suppliers are pushing to improve margins by delivering more and more technology solutions “as a service”—think Desktop as a Service, Application Managed Services, Master Data Management Managed Services, Collaboration and Unified Communications as a Service, and several others.

LABOR OPTIMIZATION PROCESS OVERVIEW

So how do you gain control over and begin to optimize your external IT Labor spend? We recommend a structured process that includes a few critical elements.

1. Build Your Baseline. Mine your data to compile a picture of current-state suppliers, contractors, spend, pricing and delivery models, scopes of work, duration/time commitments, deliverables, and SLAs.

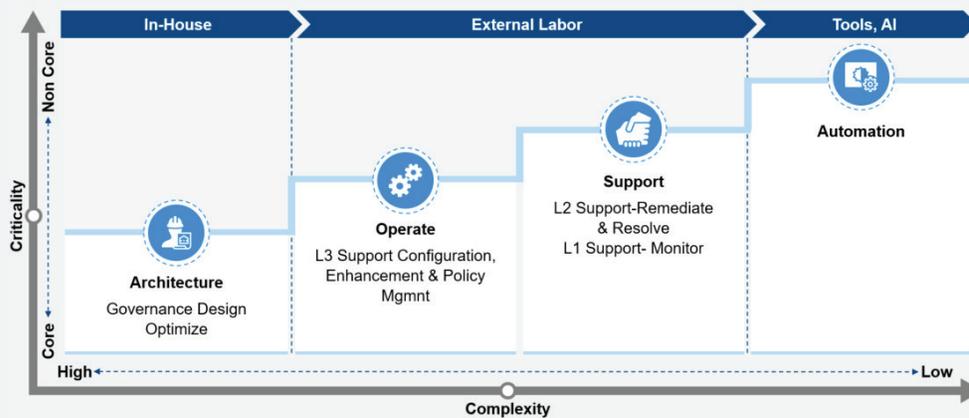
2. Cast Your Vision. Leverage your organization’s IT roadmap, and clearly define goals for your IT group related to skills enhancement, cost containment, and project productivity (i.e., measures that impact resourcing and the demand for external resource support).

3. Evaluate Your Options. Assess capabilities, delivery model options, and associated pricing proposals from qualified providers, including current incumbents and new players when possible.

4. Optimize Key Control Variables.

a. Right staff

Critically review work performed externally and identify trade-offs and cost benefits to shifting work internally or vice-versa. When thinking about whether a particular function should be performed internally or externally, it is helpful to look at its criticality to the business and the complexity of the need.



Functions that are most core and critical to the business, such as solution and domain architecture, should be retained in-house. External partners can support less complex and critical functions, such as monitoring, incident resolution, and development support for old applications. Ensure that external providers are furnishing the right mix of resources and seniority relative to needs.

b. Right model / right price:

Select the labor model that best aligns with the requirements, duration, and objectives of your IT scope of work, such as time & materials staff augmentation for efforts of short duration, projects requiring unique nonrecurring skillsets, and exploratory designs/analysis efforts; fixed-price consulting engagements for longer-duration, deliverable-based projects; and managed services for definable and measurable outcome-based projects, particularly efforts that are longer term and require consistent ongoing support.

c. Right shore:

Offshore appropriate roles, with a blend of onshore management when needed. Leverage offshore for best-fit functions such as noncritical application maintenance. Layer in lower-cost “delivery centers” for savings in instances for which labor from traditional offshore geographies may not be a fit.

d. Right task:

Assign resources to the highest-value needs to ensure compelling ROI. Leverage automation and knowledgebase capture to address repetitive and/or lower-value tasks.

5. Implement the Solution. After optimizing controllable variables and negotiating with providers, select the best-fit partners and develop a plan for transition and organizational change management. To avoid repeating any previous labor management pitfalls, you will need to establish contracts that clearly outline pricing, commitment terms, and deliverables and service commitments when applicable. Don't forget to measure results and revisit over time as your company's needs change.

Governance and disciplined ongoing management are critical. In particular, your company should be thinking about establishing:

- A framework for accountability that details the responsibilities and work assigned to external providers versus responsibilities retained in-house.
- A policy that centralizes requests for new IT Labor so that new demand is channeled through the key decision points (in-source v. outsource; staffing, consulting, or managed service model), assigned to preferred partners, and optimized (right staff, right model/right price, right shore, right task).
- A robust approach to collecting and managing supplier reporting and internal data, establishing visibility to inform ongoing program management and governance.
- A series of performance management criteria to measure outcomes and ensure partner accountability. Establishing penalties or service credits for non-performance is a further best practice that effectively forces providers to elevate.
- An analytics capability to ingest data from providers for the purpose of ongoing compliance management, rate audits, SLAs and milestone completion tracking, and performance management audits.

REAL IMPACT OF LABOR OPTIMIZATION EFFORTS

Let's examine a couple of examples of companies that have benefited from transforming their approaches to IT Labor spend.

EXAMPLE CASE STUDY 1

Multibillion-Dollar Apparel Manufacturer and Retailer

As part of a multiyear business transformation plan, the client needed to shift its IT strategy to reduce internal headcount and free up internal resources to focus on core, business-critical functions. The client had started to explore managed services models but struggled with managing a highly fragmented vendor base and expanding the managed services model to appropriately scale across multiple functions.

The client worked with Insight Sourcing Group to build a comprehensive go-to-market package addressing over \$20M in annual IT managed services spend potential across a diverse suite of services, including enterprise application management, infrastructure and operations management (e.g., global service desk, site support, network, compute, and storage), and retail operations and applications support (e.g. POS, on-prem support of servers, switches, and displays). Insight Sourcing Group helped the client identify the best-fit partner and establish an optimized service model that included sound SLAs and performance management controls. The client projects \$20M in savings over a five-year horizon coupled with substantial improvements to operations and scalability of internal resources.

EXAMPLE CASE STUDY 2

Fortune 50 Mortgage Loan Corporation

After decades of steady growth, the client struggled to manage \$240M+ in annual IT Labor spend composed primarily of development and testing services that supported its custom applications. With limited internal capacity and growing business demand, the client became heavily dependent on external vendors' development resources. Vendors expanded scope throughout the organization and established hundreds of time- and materials-based project workstreams over which the client had limited visibility and controls.

Insight Sourcing Group partnered with the client to identify and diagnose the key issues and help the client restructure its labor support model. By shifting from a pure time and materials model to a unit-based outcome compensation model, the client realized immediate savings and established a performance-based environment conducive to sustainable ongoing optimization and management.

Additionally, the team deployed a number of pricing and demand optimization levers to augment savings and improve operations: the client was able to successfully shift the physical location of workers, cap overtime hours, transition resources away from a dedicated model, and convert long-term contractors to permanent employees with improved conversion terms. Finally, Insight Sourcing Group established the necessary reporting and data management structure to ensure a sound foundation for ongoing program governance.

CONCLUSION

IT Labor optimization is an ideal fit for companies seeking to rein in management of labor, streamline outcomes, and realize bottom-line savings.

If the process of deeply assessing your spend, analyzing your contract terms, defining your requirements, evaluating your options, negotiating, and ultimately implementing your optimized solution seems complicated or intimidating, that is not unusual. This can be a time-intensive effort involving a lot of information, options, and decision points. Ultimately, organizations who are willing to invest in this effort will see substantial long-term return.

If you are interested in learning more or looking for a partner with the capability and expertise to support you in this effort, please contact us at info@insightsourcing.com.

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ABOUT INSIGHT SOURCING GROUP

Insight Sourcing Group is the leading consulting firm in North America focused exclusively on strategic sourcing and procurement-related services. Founded in 2002, the firm works with senior executives and procurement leaders to accelerate strategic sourcing savings, increase spend visibility, provide ongoing category analytics for savings tracking, and implement procurement best practices. Insight Sourcing Group has worked with hundreds of corporate clients of all sizes and over 50 private equity firms.

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