Sourcing of IT

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Sourcing IT: this presentation ....

• Context

• What we buy:
  – Intellectual Property
  – Equipment
  – Labour
  – Services
  – People Resources

Sourcing IT: Context?

• Segue from other course topics

• IT as a Business infrastructure
  – information organisation
  – processes
  – technology & media
  – Culture

• Provides Strategic advantage
  – position
  – Capability

• Requires Investment levels
  – Initial & Ongoing

• Spending wisely can be worth 50% of the investment
  – (100% if the project otherwise fails)
The Components of IT

IT: What do we (businesses) buy?

- Generally – only 4 components:
  - Licences
  - Hardware & communications
  - IT Services
  - Other Services

- The Ballpark $$$
  - New IT Investment (about half TCO)
    - Licences 20-40%
    - Hardware 10-30%
    - IT Services 50-70%
  - Ongoing costs (about half TCO)
    - Maintenance 10-30% of initial spend
      - support
        - upgrades
        - technology currency
    - Operations & Facilities Management: 40-60% of ongoing IT $$$

Licences & Intellectual Property (IP)

- IT embodies IP
  - 3 Basic types
    - Business/Customer pre-existing
    - Supplier(s) pre-existing
    - New IP created from each implementation of IT
      - Issue: Who owns what rights?

- You’ll need Licence Agreements
  - Grant of permission to use the IP
    - First
    - Licence
    - kennel
    - Licence
    - Responsibility
      - Licence
      - Remedies available
      - Issue: Who’s carrying what risk?

- Pricing of Licences
  - Opportunistic based on Customer preparedness to pay
Issues: Purchase of Software Packages

- Involved parties (2 distinct roles)
  - The Software package owner
    - Specialist R&D developers & Marketers of the package: IP
    - Examples: Oracle, SAP, Microsoft Potentials
    - Provide Services tied to the package
  - The Systems Integrator
    - Carries project risk
    - Provides: Project management
    - IT delivery Services
      - Interfacing, Configuration, Customization
      - Needs strong financial base to cover contingency
  - Client has Lock-in Risks
    - Tie to IP development: by the Package owner
    - Failure of IP developer
    - Lock-in to the Delivery SI

The Equipment

- Most IT equipment is a commodity
  - Hardware: PCs, Unix/NT boxes, Mainframes, Storage
  - Communications: (purchase capability (bandwidth, services)
- Generally take the lowest price
  - Lock-in: performance-based service
    - maintenance, response times
- Moore’s Law
  - Gordon E. Moore in 1965 predicted processing power per $ will double every 18 months. So far, he’s been right!
- Purchasing issues
  - New model cycles
    - Should we wait to make the purchase?
  - What term for a supply contract?
  - Regular market price tests
  - Guaranteed price/performance reductions

IT Services (Labour)

- IT Services is a labour industry
- Most (all) IT service companies operate as body hire businesses
  - Smart bodies
  - Expensive bodies
  - Supply & demand rules
    - Time, place, technology dependent
- Price is loosely based on categories:
  - International Expert
  - Senior manager/consultant (> 10 yrs)
  - Experienced technologist/designer/programmer (>3 yrs)
  - Base technologist/designer/programmer (<3 yrs)
  - New entrant/graduate
- ISSUE: What’s the best way to purchase:
  - Employee? Contractor? Service based contract?
  - Outsource provider?
Outcome-based IT Services

- **System Integration**
  - Usually involves assembling resources to deliver a particular IT project
  - Project RISK is a commercial issue
    - Prime contractor
    - Subcontractors

- **System Operations**
  - Usually involves:
    - Day-to-day monitoring & control
    - Capacity/growth planning
    - Optimizing performance
    - Back-up & Disaster recovery
  - SERVICE LEVELS are a commercial issue

- **Maintenance**
  - Includes:
    - Technology Currency
    - Upgrades
  - SERVICE LEVELS are a commercial issue

- **Facilities Management**
  - Includes:
    - Power, space, air conditioning

IT Project People

- The Client Business has to provide key people.
- Not all IT resource is the most expensive kind
  - Teams are mostly general labour.

A Question

- Should the IP Licencor be used for the Systems Implementation role?
- Exercise:
  - Review the company reports for some prominent software companies:
    - ClickSoftware, Portal Inc.,
    - SAP, Oracle, Microsoft
    - etc.
  - Note:
    - Company structures & resources
    - Company revenues & expenses
    - Cash burn rates
      - Cost of revenue
      - Cost of R&D
  - Do any of these companies have the structure and resources to undertake customer implementations?
A Question...

- A consulting firm is engaged to do a business analysis and to prepare the business case for a new initiative:
  - Do you need a contract?
  - If so, whose?
  - Should they be allowed to tender for the project?

And another....

- A tenderer is chosen for an IT system.
  During the Discovery & design phase a doubling of the cost is revealed. Do you:
  - Hold them to the fixed price?
  - Re-tender?
  - Get the supplier to help redraft the business case?
  - Start work anyway
  - De-scope to reduce the cost

Any (more) Questions?