Sourcing of IT

Bob Jacobs
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Sourcing IT: this presentation ....

• Context
  • What we buy:
    – Intellectual Property
    – Equipment
    – Labour
    – Services
    – Who does what?

Sourcing IT: Context?

• 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 save 50% of the investment
  – (100% if the project otherwise fails)
• This session is about spending wisely

The Components of IT

IT: What do we (businesses) buy?

• Generally—only 4 components:
  – Licences
  – Hardware & communications
  – IT Services: Labour
  – Outcome Based Services

Where are the Costs?

• Total Cost of Ownership: Ballpark $$$
  – Initial 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
      » bug fixes
      » 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
  – Value: Who owns what rights?

• You’ll need Licence Agreements
  • Grant of permission to use the IP
    • Fees
    • Licence
    • Scope of use
    • Warranty
    • Liability
    • Who’s available
    • Issue: Who’s carrying what risk?

• Pricing of Licences
  • Opportunities based on Customer preparedness to pay
Issues: Purchase of Software Packages

• How to Negotiate Price
  – There are many possible licencing models
  – Ideally cost should match business usage/revenue

• Covering the Delivery Risk
  – There are 2 involved parties (2 distinct roles)
    1. The Software package owner
       – Specialist R&Developers & Marketers of the package IP
       – Examples: Oracle, SAP, Microsoft, Portal Inc.
       – Provide Services tied to the package
    2. The Systems Integrator
       – Carries project risk
       – Provides
         » Project management
         » IT delivery Services: Interfacing, Configuration, Customisation
  – There are 2 involved parties (2 distinct roles)

• Client Lock-in Risks
  – Tie to IP development by the Package owner
  – Failure of IP developer is a risk
  – Lock-in to the Delivery SI

Issues: Purchasing Hardware

• New model cycles
  – Should we wait to make the purchase?

• Managing Supplier Lock-in from SOE Decisions
  – What term for a supply contract?
  – Regular market price tests
  – Guaranteed price/performance reductions

• Trend: Hardware vendors to bundle software
  – Includes: Equipment O/S, Drivers, Operating System add-ins
  – Issues:
    – Additional Licencing Costs and
    – Lock-in for Customers

Hardware

• Most IT equipment is a commodity
  – Hardware: PCs, Unix/NT boxes, Mainframes, Storage
  – Communications: purchase capability (bandwidth, services)

• Generally take the lowest price
  – But Lock-in performance-based service
  – maintenance, upgrade licences

• Moore’s Law
  – Gordon E. Moore in 1965 predicted processing power per$ will double every 18 months.
  – So far, he’s been right!

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IT Services (Labour)

• IT Services is a labour industry
• Most (all?) IT service companies operate as body hire businesses

• 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

• Issues: 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 Risks are the commercial issue
  – Prime contractor
  – Subcontractors

• System Operations
  – Break-Fix
  – Day-to-day monitoring & control
  – Capacity/peak planning
  – Optimising performance
  – Back-up & Disaster recovery
  – SERVICE LEVELS are the commercial issue

• Maintenance
  – Service Levels
  – Technology currency
  – Upgrades
  – SERVICE LEVELS are the commercial issue

• Facilities Management
  – Facilities
  – IT space, power, air conditioning

IT Projects – What Labour does what?

• The Client Business has to provide key people
• Not all IT resource is the most expensive kind

Business

IT Professional

IT General labour

Feasibility

Detailed Design

Integrate & Deploy

Support & Maintain

Concept

Analysis

Build & Test

Author: Bob Jacobs   April 2005
A Question

- Should the IP Licencor be used for the Systems Implementation role?

- Exercise:
  - Review the company reports for some prominent software companies:
    - ClickSoftware, PortalInc.,
    - SAP, Oracle, Microsoft
    - etc
  - Note
    - Company structures & resources
    - Company revenues & expenses
    - Cash burn rates
      - Cost of sales
      - 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?