



PRACTICAL GUIDE FOR IT OUTSOURCING

A JANCO HANDIGUIDE[®]

WWW.E-JANCO.COM

JANCO ASSOCIATES, INC.

Version 2.0

February 2005

© Copyright 2005 M. Victor Janulaitis
© Copyright 2005 Janco Associates, Inc.
ALL RIGHTS RESERVED

All Rights reserved. No part of this book may be reproduced by any means without the prior written permission of the publisher. No reproduction or derivation of this book shall be re-sold or given away without royalties being paid to the authors. All other publisher's rights under the copyright laws will be strictly enforced.

Published by: **Janco Associates, Inc.**
 11 Eagle Landing Court
 Park City, UT 84060
 435 940-9300 FAX 435 615-9302

Internet e-mail – information@e-janco.com

<http://www.e-janco.com/>

Publisher cannot in any way guarantee the procedures and approaches presented in this book are being used for the purposes intended and therefore assumes no responsibility for their proper and correct use.

Printed in the United States of America
ISBN 1-881218-40-6

HandiGuide is a registered trademark of M. Victor Janulaitis.

Table of Contents

Table of Contents.....	3
Practical Guide for IT Outsourcing.....	6
License for This Document	6
Limitations	8
Outsourcing Management Standard.....	9
Overview	9
Standard	9
Service Level Agreements (SLA)	9
Problem Responsibility	9
Outsourcing Policy Standard.....	10
Policy Statement.....	10
Goal.....	10
Outsourcing Approval Standard.....	11
Overview	11
Standard	12
Base Case.....	12
Categorization	12
Planning	13
Retained Costs	13
Unit Cost.....	14
Contract Negotiation	14
Responsibilities	16
Management.....	16
Legal	16
Functional IT Heads.....	16
Manager of Outsourcing - Integration Group (IG).....	16
Service Level Agreements and Metrics.....	17
Formal SLA.....	18
Metric Categories	18
Finding and Selecting an Outsource Vendor.....	19
Identifying Potential Outsource Vendors	20
Criteria for Ranking Potential Outsource Vendor	21
Creating the Short List of Potential Outsource Vendors.....	24
Outline for RFP and Negotiation of Contract Terms	25
Overview	25
Services to be provided	26
Service Level Requirements.....	28
Term of the Agreement	29
Enterprise Facilities.....	31
Use of Enterprise's Facilities	31
Enterprise Owned Equipment.....	31
Enterprise Leased/Rented Equipment.....	32
Information Technology Services	33
Enterprise Owned Intellectual Property	33
Non-Enterprise Owned Intellectual Property	33
Vendor Owned Intellectual Property	34
Communication	34
Third Party Services.....	34

Enterprise Projects Ongoing at Execution	35
Management of Projects and Other Services	35
Enterprise Responsibilities	36
Confidentiality Obligations, Security and Business Recovery	37
New Services and Procedures to Change the Scope of Services	38
Conversion Plan and Services	38
Training	39
Arbitration and legal disputes	39
Liability issues	39
Sharing of computer resources	40
Assignment	40
Audit	40
Other	41
Termination	42
Fee Structure	44

Appendix 46

Mutual Non-Disclosure Agreement.....	46
Computer Outsourcing Data	48

Base Case Development.....	50
Growth Factors That Will Impact the Outsource Vendor	50
Cost Factors That Will Impact the Outsource Vendor	50
Others Factors	50

Job Description - Manager of Outsourcing	52
Position Purpose	52
Problems and Challenges	52
Essential Position Functions	52
Principal Accountabilities	52
Authority	53
Contacts	54
Position Requirements	55
Career Ladder	55

Sample Service Level Agreement	56
SERVICE LEVEL AGREEMENT	57
Services to be provided	59
Appendix A - Services	60
Data Center processing	60
Support Services	62
Telecommunications Services	64
Web Support Services	65
Business Process Support	66
Enterprise Application Support	67
Other Support Services	68
Appendix B - Points of Contact	70
Appendix C - Additional CUSTOMER Project List	71
Appendix D: Supported hardware and software	72
Supported hardware	72
Hardware services	72
Hardware costs	74
Unsupported hardware	74
Supported software	74
Software services	74
Software costs	74
Unsupported software	75

Sample Metrics for Service Level Agreements.....	76
Financial.....	77
Staffing.....	79
Internet - Electronic Infrastructure	80
Competitive/Comparative	81
Productivity.....	82
System Development	83
Reengineering - Office Automation	84
Quality Assurance	85
Help Desk	86
Computer Operations	88
Communications	89
Other - Technology	90
Enterprise/Industry Specific	91
Business and IT Impact Analysis Questionnaire.....	95
Facility / Business Function / Application	97
Sarbanes-Oxley Compliance	98
System of Internal Controls	99
User Environment	100
Processing Information	102
Historical Information.....	103
Operating Environment	104
Criticality of Application	106
Database / File Names.....	108
Documentation	109
Security	109
Application Support and Maintenance	109
Resource Usage.....	110
Equipment Requirements by Department	110
Backups.....	111

Practical Guide for IT Outsourcing

License for This Document

The “Practical Guide for IT Outsourcing” has been developed over several years by the consultants and principals at Janco Associates, Inc. It is intended for use by senior business managers and Information Technology professionals who are evaluating outsourcing for their own enterprises.

The contents of this document are the property of Janco Associates, Inc. and M. Victor Janulaitis. The possession of this book in no way gives any individual or firm the right to duplicate, extract or copy any of this material without the expressed written permission of Janco Associates, Inc. and M. Victor Janulaitis. A reward of \$5,000 will be provided to any individual or firm that provides information that leads to the conviction of any individual or firm who violates the copyright of this book.

UNDER NO CIRCUMSTANCES IS THIS BOOK OR A DERIVATIVE OF IT TO BE MARKETED OR RE-SOLD.

The purchase of this book in either paper or electronic format provides the user with the right to use the contents of this book for one (1) enterprise in one (1) location (i.e. data center). In the case of a multi-location or multi-division enterprise, one (1) license must be purchased for each division and location.

The ownership of this material remains with Janco Associates, Inc. and M. V. Janulaitis.

Individual enterprises that purchase this document from Janco Associates, Inc. or one its approved agents are granted a license for the INTERNAL use of this document by the single enterprise that has acquired that license. This document can be re-printed, edited and distributed only if it includes an attribution to Janco’s copyright. In no case is any part of this document to be disclosed to other parties via the internet or without a signed release form by the other party (typically an outsourcing vendor that the enterprise is working with) stating this document remains the property of Janco Associates, Inc.

The use of this document by consultants who are using this document in any way for enterprises other their own or for their clients is prohibited except by those who have obtained a re-seller’s license from Janco Associates, Inc.

ENTERPRISE logo here

For more information on how to obtain such a license please contact Janco Associates, Inc. at 435 940-9300 or information@e-janco.com.

Outsourcing Management Standard

Overview

Outsourcing does not remove the enterprise's requirement to manage the process. A comprehensive outsourcing arrangement requires Service Level Agreement (SLA) monitoring and redefinition, as well as strategic management and other retained functions. (see outsourcing approval standard under retained costs – Page 13 for a listing of frequently retained functions).

Standard

Service Level Agreements (SLA)

The Service Level Agreement (SLA) is the central instrument for managing an outsourced function (See page 57 for sample SLA). The Manager of Outsourcing (see page 52) will track SLA (See Service Level Agreement Report Package section – page 17) fulfillment and enforce the contract terms if an SLA is not met. The Manager of Outsourcing must also take an active role in defining and redefining SLAs in order to take into account changes in the operating environment.¹

Problem Responsibility

The efficient assignment of end-user complaints to the appropriate entity is critical to maintaining high service-levels. IT will ensure that the all staff are trained in order to identify whether a problem lies with IT or a particular vendor². In a multi-vendor environment this task becomes even more critical, if one is to avoid a constant reassignment of problems.

The Manger Outsourcing or a role similar to that should perform this function.

¹ Additional information and examples can be found at <http://www.e-janco.com/> in the Internet and Information Technology Metrics HandiGuide®.

² Each vendor must sign a non-disclosure agreement see page 46 for a sample agreement

Outsourcing Approval Standard

Overview

The decision to outsource a segment of the IT function is a complex and ongoing process that requires a good deal of expertise in its own right. Approval of an outsourcing agreement requires the implementation of Service Level Agreements, an initial analysis of outsourcing scope, base case analysis, vendor identification, request for price quote, vendor bid appraisal, and contract negotiation. Each of these steps must be performed successfully in order to achieve a positive outsourcing decision.

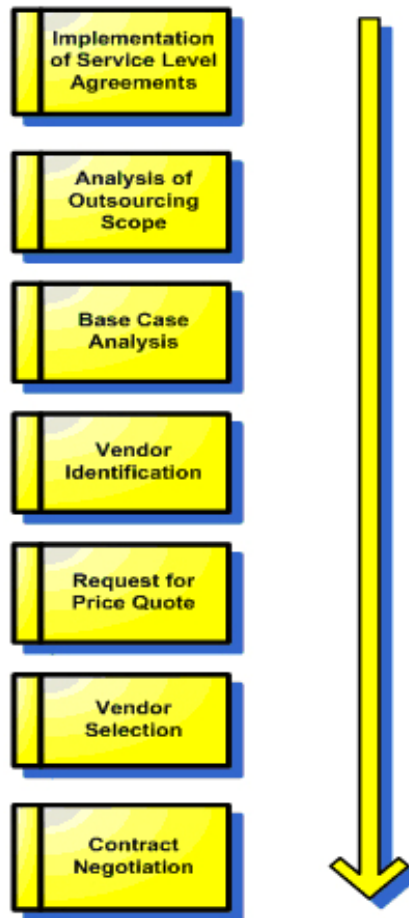


Figure 1 Outsourcing Process Chart

SERVICE LEVEL AGREEMENT

1. Service Level Agreement

This service level agreement is between the IT Department, (the PROVIDER), and the Enterprise _____ Department, (the CUSTOMER).

- 1.a. This service level agreement is effective as of the date of the signatures below. The CUSTOMER and PROVIDER shall review at least semi-annually to determine if any modifications or amendments are needed to reflect the CUSTOMER's support requirements and PROVIDER's services provided.
- 1.b. The purpose of this service level agreement is to document the services that the PROVIDER shall furnish the CUSTOMER. The PROVIDER shall deliver the services set forth in this document. The CUSTOMER shall pay for the services covered by this Agreement in accordance with billing and payment terms incorporated in the referenced Basic Agreement.
- 1.c. Both parties understand that the PROVIDER retains sole discretion regarding the operation and allocation of the aggregate Information Processing capacity at its disposal, including the capacity covered by this Agreement. The PROVIDER agrees to allocate sufficient capacity to meet the processing requirements of the CUSTOMER.

2. Applicable Documents, Terms and Conditions

The Basic Agreement (BA) will contain the policy, procedures, terms, and conditions related to implementation, execution, and administration of this service level agreement, as well other aspects of the relationship between the PROVIDER and the CUSTOMER.

Appendix A - Services

Data Center processing

1. Applications to be processed:
 - 1.a. Critical Applications to include:
 - 1.a.1. LIST OF APPLICATIONS
 - 1.a.2. Etc.
 - 1.a.3. Etc
 - 1.b. Other CUSTOMER Applications

2. Measurement and reporting

PROVIDER will provide the CUSTOMER with the following reports in the intervals indicated (monthly, quarterly, semi-annually, and annually):

Report name	Reporting interval	Delivery method
<i>List reports here; for example, system uptime, system downtime, number of CUSTOMER incidents reported, resolved, unresolved, etc.</i>		

3. Hours of Availability.
 - 3.a. Interactive: Monday-Friday¹⁸ 07:00-17:00*
 - 3.b. Saturday, Sunday, & Holidays Not Applicable
 - 3.c. Batch: Not applicable
 - 3.d. Maintenance: Monthly, 3rd Weekend of every month
4. Standard Processing/Service Requirements. All of the systems/applications listed in first paragraph above are required to be operational 98% of the total time listed paragraph above. The PROVIDER will support a method for the CUSTOMER to monitor operational percentages.
5. Processing of data will be limited to the functionality/processing that was being conducted at the time of assimilation into the PROVIDER.

¹⁸ _____ Application will be a web-based 24 x 7x 365 system with the exception of the scheduled maintenance periods

Sample Metrics for Service Level Agreements

Metrics that have been used in Service Level Agreements are defined in the tables that follow. They are categorized in the following 13 areas and can be used to create specific service level agreements:

- Financial
- Staffing
- Internet – Electronic Infrastructure
- Competitive/Comparative
- Productivity
- System Development
- Reengineering – Office Automation
- Quality Assurance
- Help Desk
- Computer Operations
- Communications
- Other Technology
- Enterprise/Industry Specific

Financial

Report	Metrics
<p>Key Measures</p>	<p><u>All data is captured for a rolling 13 months</u> Expenses - Period Actual (Dollars) Expenses - Period Plan (Dollars) Staffing - Period Actual (FTEs¹⁹) Staffing - Period Plan (FTEs) On-line Availability²⁰ - Plan (%) On-line Availability - Actual (%) Billing Performance - Plan (Dollars) Billing Performance - Actual (Dollars)</p>
<p>Expense Performance Summary</p>	<p><u>All data is captured for a rolling 13 months</u> Current Period - Actual (Dollars) Current Period - Plan (Dollars) Year to Date - Actual (Dollars) Year to Date - Plan (Dollars) YTD Variance from Plan - Period (Dollars) YTD Variance from Plan - YTD (Dollars)</p>
<p>Expense Variance by Category</p>	<p><u>All data is captured for current fiscal year by budget category</u> Current Period - Plan (Dollars) Current Period - Actual (Dollars) Current Period - Actual (Variance Analysis) Cumulative YTD - Plan (Dollars) Cumulative YTD- Actual (Dollars) Cumulative YTD - Actual (Variance Analysis)</p>
<p>Expense Variance by Cost Center</p>	<p><u>All data is captured for current fiscal year by Cost Center</u> Current Period - Plan (Dollars) Current Period - Actual (Dollars) Current Period - Actual (Variance Analysis) Cumulative YTD - Plan (Dollars) Cumulative YTD- Actual (Dollars) Cumulative YTD - Actual (Variance Analysis)</p>

Financial Metrics - Part 1 of 2

¹⁹ FTE is Full Time Equivalents)

²⁰ Some users prefer man hours or revenue lost due to failure of system availability. This is a negative measure and we have opted to show only positive metrics in this set of metrics.

Competitive/Comparative

Report	Metrics
<p>Revenue & Capital</p>	<p><u>All data is captured for a rolling 13 months</u> Expense as Percent of Revenue - Plan (Ratio) Expense as Percent of Revenue - Actual (Ratio) Expense per Customer - Plan (Dollars)²³ Expense per Customer - Actual (Dollars) Capital as Percent of Revenue Plan (Percent) Capital as Percent of Revenue Actual (Percent)</p>
<p>Expenses & Staffing</p>	<p><u>All data is captured for a rolling 13 months</u> IT vs. Company Expense 3 Month Trend Plan (Percent) Actual (Percent) IT vs. Company Staffing 3 Month Trend Plan (Percent) Actual (Percent) IT Cost per Company Employee 3 Month Trend Plan (Dollars) Actual (Dollars)</p>
<p>Competitive Application Matrix</p>	<p><u>All data is captured for at a point in time</u> Key Industry Applications Enterprise Status and Staffing Competitor Status and Staffing Technologies Used Enterprise Competitors IT Metrics Enterprise Focus Competitors Focus</p>
<p>Technology Penetration Trends</p>	<p><u>All data is captured for last 5 quarters</u> Devices vs. Employees (Number)</p>

Competitive/Comparative Metrics

²³ In the case of a company that has 30,000 customers, cost would be Expense per Customer. Some enterprises will use a measure associated with the service provided. In the airline industry a measure used is cost per Revenue Passenger Mile.

<i>Business and IT Impact Analysis Questionnaire</i>

This questionnaire is the basis for documentation necessary to understand the business impact and risks associated with each physical location, business function, and IT application.

A “BEST PRACTICE” is to complete this questionnaire for each physical location, application, business function, department and organizational entity annually. In addition as conditions change (i.e. event like 9/11) to alter the operating environment, at least the risk component should be reviewed and actions taken to mitigate unacceptable levels of risk.

Impact - Risk

Once these forms are completed, a summary of the major functions with the Impact to ENTERPRISE should be prepared³³.

Function Application	Metric	Key User(s)	Risk Score
Sales Status	Units and Dollar Volumes	Executive Management	1
		Sales	1
Inventory	On Hand Balances	Distribution	2
		Sales	2
		Customer Service	2
Corporate Offices	Head Count	CEO	2
Manufacturing Plant	% of Finished Good Produced	VP Manufacturing	1
Customer Data	A/R Balances	Credit Sales	3
Liquid Assets	Treasury Balances	CFO	2
Supplier	A/P Balances	CFO	3

Scoring

1. **Catastrophic** – as a result ENTERPRISE could cease to exist and/or would be placed in material legal and/or financial jeopardy.
2. **Very High** - as a result ENTERPRISE would not be able to meet its material contractual and/or service obligations. Or do material

³³ Impact is defined as the risk the ENTERPRISE if that function or application became unavailable.

ENTERPRISE logo here

The purpose of this questionnaire is to determine the criticality of the applications used at ENTERPRISE. The information provided will be used to develop a Application Inventory that can be used in the Disaster Recovery Plan that minimizes the impact of the loss of this application in the event of a disaster. **(PLEASE USE ADDITIONAL BLANK PAPER OR ATTACHMENTS WHEREVER NECESSARY)**

Facility / Business Function / Application

Name: _____

Provide a brief description/purpose – mission: _____

What are the main functions? _____

Was this developed in-house or purchased from a vendor? If purchased from a vendor, do you hold the plans, source code etc.: _____

If the application is a purchased package, are there extensive modifications to this application (briefly describe modifications): _____

What programming language was used to create the application? _____

How old is this application (maturity): _____

Who is the owner of this application (i.e. Joe Smith of Accounting): _____
