

# Case Study: EquaTerra Helps the City of Minneapolis Undergo Successful Second Generation Outsourcing Initiative

## Governance Takes Center Stage as City Renegotiates Robust Contract with Current Provider

### At a Glance

#### Company Profile

The Business Information Services (BIS) Department of the City of Minneapolis ensures that the City leverages technology to help make Minneapolis government more efficient, accountable and accessible.

#### Services Featured

- Sourcing Strategy
- Opportunity Analysis
- Business Case
- Contract Review
- Renegotiation Support
- Negotiation and Contracting
- Change and Transition Management
- Governance

#### Business Processes Involved

- Information Technology

### Executive Summary

The City of Minneapolis retained EquaTerra to help it determine if it should renegotiate its current IT outsourcing deal or put the deal out for recompet. After a comprehensive assessment, EquaTerra recommended that the City enter into pre-negotiations with its current provider. In the end, the provider was able to come back with stronger service levels, better pricing structures and robust governance features, thus leading the City to enter into a second generation contract with the company.

### Business Challenge

The BIS Department of the City of Minneapolis entered into an initial IT outsourcing deal with a service provider in January 2003. Several years into the agreement, the City needed to determine if it should renegotiate its current contract or search for a new provider.

To help the City make a strategic decision, it hired EquaTerra to:

1. Conduct a performance review assessment to determine whether the City had achieved its initial outsourcing goals of infrastructure transformation, cost reduction, increased services and improved service quality;
2. Evaluate whether or not outsourcing enabled the City to achieve its indirect goal of implementing new services; and
3. Assess how the City could improve its agreement to meet outsourcing best practices when compared to other public and private sector organizations.

### How We Helped

EquaTerra worked with the City to determine the best course of action: renegotiate or recompet. To enable this decision, EquaTerra first conducted a comprehensive performance review of the City's current IT service provider and found while IT services had improved with its first generation outsourcing initiative, there were still significant areas that could be further improved, including governance.

When evaluating the decision to renegotiate or recompet, EquaTerra considered several factors:

- Objective Measures – What is the current cost of services and how would costs change if the agreement was simply extended without changes?

- Normalized Competitive Analysis – What does a normalized market competitive analysis show, and if there is a gap, can you close it with the current provider or will you be better served transitioning to another provider?
- Transition Costs – What are the costs of transition (real and opportunity) if you were to change service providers?
- Competitive Bid Costs – What are the costs associated with conducting a competitive outsourcing transaction?
- Organization's Capacity for Change – What is the IT organization's capacity for a change of this magnitude and to smoothly manage the transition?
- End-User Tolerance – What is the level of end-user tolerance to handle a service provider change at this moment in time?

After carefully evaluating all these factors, EquaTerra didn't recommend the City renegotiate or recompetete. Instead, it advocated that the City engage in pre-negotiations with its current provider.

Lynn Willenbring, the CIO for the City, admitted she was surprised she didn't get the "black and white" recompetete or renegotiate answer she thought she'd get. However, in hindsight, Willenbring realized EquaTerra's recommendation provided her with leverage in moving forward with the City's current provider. She said, "It established some credibility that we weren't wedded to our current provider and we were willing to look at other options."

### The City Moves into Pre-Negotiations with Current Provider

The City had three objectives in mind as it entered into contract pre-negotiations with its current provider. It wanted to:

1. Extend the value of its current arrangement so it could continue to capitalize on the value of outsourcing and the relationship built with the current provider;
2. Improve clarity and governance structure to reduce the ambiguity of roles and responsibilities that existed in the current agreement;
3. Increase accountability and improve the strategic leadership focus from the provider, and ensure industry best practice contracting mechanisms were employed.

To achieve these objectives, EquaTerra developed a list of detailed project responsibilities to ensure all parties – the City, its provider and its external counsel – knew their respective roles and responsibilities.

EquaTerra was pivotal in helping the City identify tactical areas of contract modification, including ensuring the new contract included improved statements of work, better service level agreements (SLAs), stronger pricing levels and more robust governance features. Other key improvements included the implementation of service credits (including those for transition milestones), improved inflationary clause(s) to position the City for potential cost reductions, a formal vendor oversight structure, and "more favored customer" pricing. For example, while the original contract contained a fixed-pricing structure that was unfavorable for the City, the second generation contract would significantly reduce costs per market competitive comparisons.

### Governance Takes Center Stage in Negotiations

Governance was a major focus during contract negotiations, as the City wanted to prevent value leakage and better manage its provider relationship.

EquaTerra has since been working with the City on a series of governance-focused projects and initiatives including workshops, skills-training courses, committee reviews and implementation of governance tools.

### Results

After successful pre-negotiations, EquaTerra recommended the City move forward with extending its agreement with its current provider – albeit with stronger service level agreements, improved governance features and better pricing schemas.

Willenbring said outsourcing has facilitated a change in the City's IT staff focus. Before outsourcing, they concentrated on "break-fix" items and were unable to take a look at where the City needed to go. Now, the staff thinks about how IT can help lead the City in strategic initiatives.

Willenbring is also confident the second generation outsourcing deal will continue to enable the City to focus on more strategic initiatives going forward. In fact, City officials

affirm outsourcing has helped them – and will continue to – focus on outcomes (meeting business needs) rather than on the mechanism (technology).

## Advisor Insights

EquaTerra and the City of Minneapolis executives offer the following insights and lessons learned from this second generation outsourcing initiative:

### **Recognize the Importance of Internal Stakeholders:**

There were two internal stakeholder groups instrumental in making or breaking the second generation outsourcing contract: procurement people and elected officials. EquaTerra found the procurement group was invaluable to the process as it made sure all of the purchases complied with stringent public sector regulatory requirements.

The elected officials were even more instrumental. They had the mind-set that the City would always get a better deal if it underwent a competitive bid process. However, what they didn't realize was the current provider was an integral part of the City's IT organization, as members of the provider team were sitting in City Hall handling desktop support. They also didn't realize the magnitude of the transition costs involved in moving to a new provider. EquaTerra had to effectively communicate to elected officials that its IT department would experience 12 months of stagnation in order to focus on such a transition, which would translate to 12 months of failing to bring new strategic value to the City.

Willenbring added that, in hindsight, there were many positives to having elected official oversight, as they are "vendor neutral" and could ask difficult questions, which is an excellent way for a CIO to take a step back and evaluate his or her own potential biases. Also, because elected officials are not subject matter experts, they can evaluate issues in a different, less complex way, which forces CIOs to address issues outside of their typical comfort zone.

### **Truly Understand an Individual's Skill Set Before Assigning Roles and Responsibilities:**

EquaTerra and Willenbring also advise organizations to look at an individual's skill sets before assigning governance roles. Said Willenbring, "New and different skills are required for governing an outsourcing agreement that go beyond pure subject matter expertise in an IT tower." For example, she noted it's important to distinguish that running a data center is a very different skill-set than managing a service provider.

### **Don't Leave Provider Relationships to Chance:**

Willenbring admits that when the City entered into its first generation outsourcing deal, she was lucky she hired a trustworthy provider partner because, "The provider you end up with during the first generation is someone you'll be with for a long time." EquaTerra strongly recommends organizations obtain professional guidance before entering into an outsourcing deal because if it's not done right the first time, it can be costly and exhausting to an organization.

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### About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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