

Case Study: Leading Insurance Company's IT Transformation Brings Huge Pay Off

EquaTerra Helps Organization Reduce IT Support Costs by \$250 Million

At A Glance

Company Profile

The company is a leading insurance provider with a large employee base and locations in more than 100 countries.

Services Featured

- IT Assessment
- Service Delivery and Sourcing Strategy
- Opportunity Analysis
- Business Case Development
- Solution Design
- Service Provider Selection

Processes Involved

- Information Technology
 - Data Center
 - Field Support
 - Messaging
 - Service Desk
 - Telecommunications – Voice and Data
 - Internet Services
 - Cross-Functional Infrastructure Services

Executive Summary

Because of an aggressive acquisition strategy, a rapidly growing global insurance company's share price was dropping and company executives began to question the cost-effectiveness of the organization's North American IT infrastructure. EquaTerra helped the company assess its current situation and make strategic changes that would reduce the company's ongoing infrastructure support costs by more than \$52 million annually for the next five years.

Business Challenge

This major insurance company had grown rapidly through numerous acquisitions, each of which continued to operate as independent and autonomous businesses. As a result, the company's cost structure became relatively high and its margins were falling significantly below those of its competitors. Many of the company's leaders perceived the North American IT infrastructure to be excessively costly, and believed an IT overhaul would reduce the company's cost structure and boost margins and share price.

How We Helped

The company's global CIO engaged EquaTerra to conduct an assessment of the North American IT infrastructure. The two key objectives of this assessment included:

- Provide the insurance company with insights regarding the cost of service relative to peers and industry best practices
- Provide recommendations on how to improve service quality, effectiveness and cost

EquaTerra found the organization was operating like a holding company comprised of various acquired organizations. Each individual business group was performing similar IT functions, and none of the business units had the scale to be cost-effective. The high degree of autonomy of each business unit increased the technological complexity and cost of service delivery. In some business units there was little to no centralization of support functions, for example, there were multiple help-desks supporting different business units, and little evidence of a centralized IT system.

Most importantly, EquaTerra realized the company had the potential to achieve an annual savings of \$50 million or more. This figure added up to a significant percentage of the company's infrastructure budget in North America. The potential for such substantial savings got the immediate attention of the company's CFO, and prompted the entire organization to quickly take action.

EquaTerra recommended the company undertake a blended sourcing approach, which called for selective sourcing and internal optimization and consolidation in order to rapidly transform the IT organization. The objectives of the undertaking included:

- Maximize short- and long-term savings
- Avoid extensive investment in new technology and data center upgrades
- Improve financial control over IT expenditures
- Coordinate efforts with the establishment of U.S. shared services
- Achieve benefits quickly and responsibly

A Non-Traditional Approach to Sourcing

The company realized it needed to find an IT-oriented service provider partner with significant expertise to enable effective and efficient transformation of its IT function. Company leaders wanted a vendor that would focus on accomplishing its business objectives and desired future state rather than one that would be more prescriptive in nature. The company was urgent to fix its IT infrastructure, rather than face the potential loss of millions of dollars. This called for a non-traditional sourcing approach.

Because the typical RFP process can take six months or more to select a service provider, the insurance company chose to move forward with a collaborative approach focused on achievement of objectives. This involved conversations with only two pre-selected and pre-qualified providers. With no formalized RFP to work from and EquaTerra acting as the facilitator, the providers and the company participated in collaborative discussions which covered desired business outcomes versus a list of prescribed services and solutions. This process enabled the company to achieve a quicker go-to-market time and enabled both providers to discuss possible creative sourcing approaches directly with company officials.

Based on the meetings, the company selected the provider with more extensive experience in transactions of this size and nature, solid insurance industry experience, and overall, a better global reach, which was an appealing trait to this international company. While the technical offerings were almost identical between the two providers, the choice came down to price, perceived capability, market alignment and experience.

Together, the service provider and the insurance company determined the IT outsourcing scope would include the following:

- Data Center – Midrange (Wintel servers, Unix servers, AS/400, DBA operational support)
- Field Support (desktop/laptop/PDA), services, networks and printers/copiers
- Messaging
- Service Desk
- Telecommunications – Voice (cell, local and long distance, calling card, conference calling and video conferencing)
- Telecommunications – Data
- Internet Services
- Cross-Functional Infrastructure Services (asset management, security, procurement, change management, service management, contract management, disaster recovery, project management services, capacity management and configuration management).

Results

With EquaTerra's assessment that offered an objective view of its current cost of service, as well as suggested strategies to reduce its cost structure, the insurance company was able to reduce its ongoing infrastructure support costs by more than \$52 million annually.

This comparative sourcing process, as compared to the traditional RFP process, significantly reduced the time and expenses associated with the company making its final sourcing decision. Company executives estimated it would have experienced a potential loss of \$4 million per month during a traditional RFP process, which would have taken three to nine months longer to complete. This non-traditional sourcing process took a mere six weeks to complete.

Advisor Insights

It is always critically important to identify, prior to the engagement, the decision makers in the organization and determine the objective criteria upon which service provider selection will be based. Given the non-traditional transactional approach to this particular engagement, the company could have made even faster decisions and potentially could have achieved a greater level of cost-savings, had these factors been sorted in advance.

Additionally, EquaTerra advisors learned from this engagement – and others that have come before it – that an early discussion about governance is crucial. Many companies become so focused on the transactional nature of a sourcing deal that they overlook the importance of governance early in the process, leading to confusion about each individual's role in the newly transitioned organization. In this engagement, EquaTerra found that the company was so focused on completing the transaction that it burned up much of its resources before proper governance was achieved. For future engagements, EquaTerra recommends that a governance structure be determined early in the process in order to ensure an effective and cohesive transitioned organization.

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, Middle East, Africa 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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