

Case Study: Transition to a New IT Service Provider – Big Issues for Mid-sized Company EquaTerra Helps Ease the Way

At a Glance

Company Profile

Industry: A U.S.-based multi-million-dollar global manufacturer of medical products

Services Featured

- Service Provider Selection
- Negotiation and Contracting
- Business Case Evaluation
- Transition Planning and Management
- Governance

Business Processes Involved

- Information Technology

Executive Summary

A mid-size medical products manufacturer had outsourced its IT function to a service provider that did not have the capabilities to handle the company's global growth. With the assistance of EquaTerra, the manufacturer was able to source and contract with a multi-national service provider that could meet its needs. In addition, EquaTerra was tasked with overseeing the company's challenging transition to the new service provider, which was complicated by the fact that it involved several parties – the client company, a sister company, the outgoing service provider and the incoming service provider.

Business Challenge

A U.S.-based multi-million-dollar global manufacturer of medical products decided to try its hand at outsourcing its IT function. At that time it contracted with an IT service provider. Over the next three years, the company's global expansion and a difficult SAP rollout strained its service provider's capabilities. In order to support its business strategy, it quickly became clear that a new provider was required, one with a global footprint and a deeper pool of skilled resources.

However, because this manufacturer is mid-sized, it was limited in terms of the number of internal resources available to identify, evaluate and seamlessly bring on-board a new service provider. It was obvious that the company needed more arms and legs. Amid a global expansion and with a strained technology system in desperate need of help, the company engaged EquaTerra to help it quickly bring on-board a new global service provider.

How We Helped

EquaTerra immediately began assisting this organization in identifying potential service providers. The new service provider needed to have full technical infrastructure capabilities, mature processes, procedures and methodologies, and breadth and depth of technical expertise globally. After a full-on search, EquaTerra helped bring on-board a multi-national company as the new service provider – one that encompassed the global breadth and mature processes required by this organization.

Because the initial engagement with EquaTerra proved to be successful, the medical products manufacturer further engaged EquaTerra to support the organization through the transition from the incumbent service provider to the new provider. EquaTerra established effective governance over the transition, including oversight of all the parties. This tripartite scenario proved to be a difficult transition for the organization and for both service providers involved (see below for more details on how the companies navigated the tripartite situation).

EquaTerra provided support to the organization's business units in planning its business continuance during the IT transition. EquaTerra also helped the organization establish effective governance for the ongoing relationship and provided support during the change in alignment between the organization's business units and its IT partners.

In May 2006, the organization completed the transition phase, which included EquaTerra advisors' involvement in the following work streams:

- Contracting and Negotiations Support
- Financial Modeling and Business Case Evaluation
- Transition Planning and Management
- Business and IT Partner Alignment
- Governance Design
- Business Readiness Planning

Results

This particular transition involved several parties – the client company, a sister company, the outgoing service provider and the incoming service provider – each having specific needs and criteria to meet and each providing its own level of intensity and complexity to the transition process.

Because the strategic goals of this mid-sized company are tightly enabled by IT, a successful transition to a new service provider from an incumbent service provider was crucial. With a new multi-national service provider, this organization now has full IT processes in place to support its continued focus on sales growth and to protect its core franchises. The organization moved forward with establishing a standard footprint for global growth and is now able to support the implementation of global compliant quality and regulatory processes and technologies, which are enabling the company to become more efficient and to increase its gross margins.

This medical products manufacturer has told EquaTerra on numerous occasions that it couldn't have made this transition without the advice and structure provided by EquaTerra's advisors. The ultimate compliment came when the organization, long after the initial transition, contacted EquaTerra to help renegotiate some of the contract terms with its service provider – as the business needs had evolved and the company wanted the contract terms to evolve as well. A healthy partnership between EquaTerra and this organization may have proved to be the key prescription that made this often complex engagement healthy and successful.

Advisor Insights

In evaluation of the process, EquaTerra has documented some key lessons and takeaways from this particular engagement:

Prepare for the complexities that come along with a tripartite transition. There are specific governance and often complicated relationship issues that need to be dealt with early and often through the transition process. The process requires the client organization to fully understand the reason for the service provider change, as it can impact the working relations between all parties. In the case of tripartite transitions, which are increasingly becoming more commonplace as outsourcing moves through several generations (i.e., as companies move from single-service providers to multi-sourced environments, etc.), it's important to monitor and address service providers that may deploy tactics that mask their outsourcing deficiencies. Not only that, but also it's important to recognize the varying financial goals each party holds. There are also cultural and communication styles of various parties that need to be properly facilitated to deter roadblocks or delays. What can work well in transitions like this is a document outlining the rules of engagement between the incoming and outgoing service providers. It's also important to negotiate, at the beginning of the transition, what resources and exit obligations will be required by the outgoing service provider to support the transition.

Anticipate transition issues. While it's easy to focus on the issues surrounding concerns of a tripartite transition, it's just as important to not let general transition issues slip through the cracks. Companies should consider upfront the interim operational / governance processes that need to be put in place as a priority. Most businesses don't have the luxury of putting a complete change freeze in place and this should

be recognized early on when planning for potential transition issues. Also, in order to align all parties' efforts, a common work breakdown structure is needed to facilitate building, tracking and monitoring of the transition. Clear detail about everyone's role in the transition, and perhaps even some relief provided to the outgoing service provider once the new service provider is given access to the system, are all necessary components of a successful transition.

It's also important to involve the client organization in identifying the stakeholders and their roles and responsibilities in acceptance of the transition plans, as well as getting the outgoing service provider and client organization to identify the list of other parties who are recipients of service, e.g., sister companies, suppliers, etc. As with most transitions of this nature, there needs to be a formal knowledge sharing process to tackle day-to-day management and intellectual property ownership, as well as any other related issues.

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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