

IT Sourcing: Increasing IT added value.

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IT Sourcing?

IT has become one of the major competitive factors for businesses. As a result, it has become the focus for management strategies that deliver high service quality, cost transparency and operational agility. Such strategies have sought to answer the following questions:

- How can cost reduction and transparency be achieved?
- How can services be offered in a more flexible way?
- How can service and support processes be improved?
- What added value does IT generate?

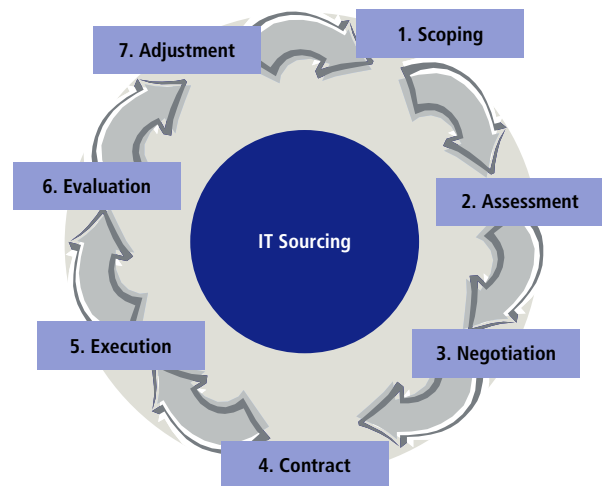
Behind the answers to these questions lie key considerations about IT Sourcing. IT Sourcing is concerned with creating the right mix of internal and external services to meet business need. To achieve the best possible mix several models can be used:

Sourcing models		
Function-related	Scope-related	Operating model-related
<ul style="list-style-type: none"> ■ IT infrastructure ■ IT processes ■ Support processes ■ Business processes ■ Products 	<ul style="list-style-type: none"> ■ Selective ■ Comprehensive ■ Single provider ■ Multi provider 	<ul style="list-style-type: none"> ■ Contract management ■ Cost centre ■ Shared service centre ■ External service provider

The design of the right sourcing mix must be arrived at through a structured decision-making process. The range of potential sourcing mix strategies is broad. What may be the right approach for infrastructure may be different for back-office business applications. Business-critical business services will need to be addressed differently to low-value-added operations.

The sourcing decision-making process

Key to sourcing mix decisions is the alignment to the desired business benefits, and this needs to be evaluated in a practical assessment process. Steria Mummert Consulting has developed a model to assist clients in this activity:



The efficiency of new sourcing mixes can be determined by financial ratios, for example:

$$EVA = NOPAT - WACC \times NOA^*$$

If the sourcing mix includes selling the IT operating assets to a service provider the liquidity is increased. At the same time, costs will be transformed from fixed costs to variable cost. If the sourcing mix includes asset-sourcing development costs for IT, operating assets can be dropped in the future. So, in this case, the benefits of the future sourcing mix are directly measurable.

* EVA = Economic Value Added; NOPAT = Net Operating Profit After Tax; WACC = Weighted Average Cost of Capital; NOA = Net Operating Assets

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Procedure for making sourcing decisions

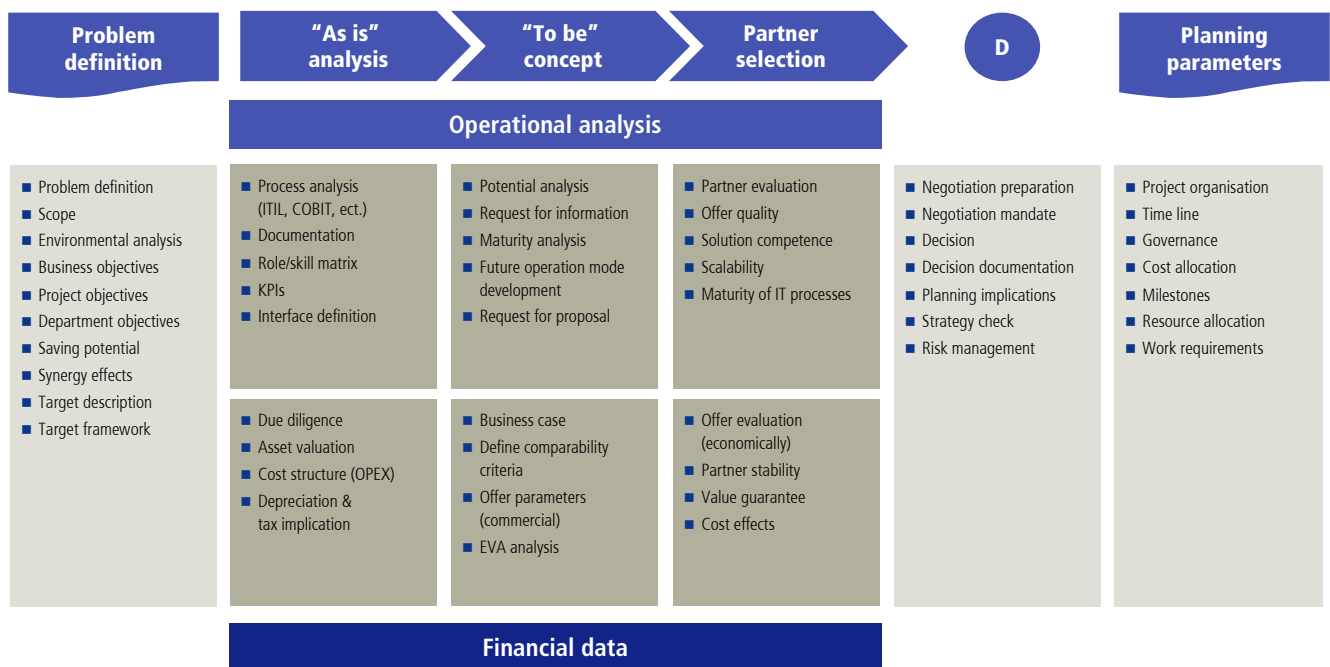
Sourcing projects change the existing IT structures dramatically. In many cases, the changes also affect customers and users of the IT services. As a consequence, a holistic and project-orientated procedure model is required. Steria applies such methodology – an approach founded on extensive experience.

Steria Mummert Consulting’s approach is underpinned by a comprehensive tool set which can be configured for use across a range

of sourcing projects. The modular tool set includes all tools that are necessary to guarantee a successful project, such as checklists, assessment tools and pre-printed templates.

The Steria Mummert Consulting sourcing mix model offers you a flexible, transparent and comprehensive solution, enabling you to make decisions at specific milestones along the journey.

Steria Mummert Consulting’s consultants will accompany you during the whole project, from defining objectives and assessing potential to implementing the sourcing mix.



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