

WAVESTONE

EVOLVING YOUR IT SOURCING MODEL

10 Key Strategies for
Transformative Change

2024 Playbook

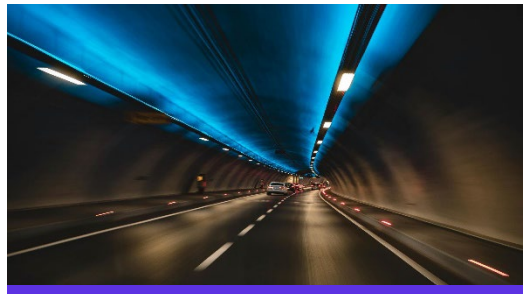


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Introduction

Outdated IT sourcing strategies leave organizations exposed to the cost of mounting disruption while missing out on the benefits of technology and service innovation.

IT is both a key enabler and potential constraint in efforts to address the cost of business disruption. Boards urgently need to elevate their IT Sourcing Strategy alongside Business and IT Strategy to ensure it can deliver on organizational goals.

This Playbook sets out 10 priority areas where your IT sourcing model needs ongoing attention to take the business forward and counter industry or wider economic threats.

Our award-winning sourcing experts explain what the causes are, why it's happening and advise their recommended approach.



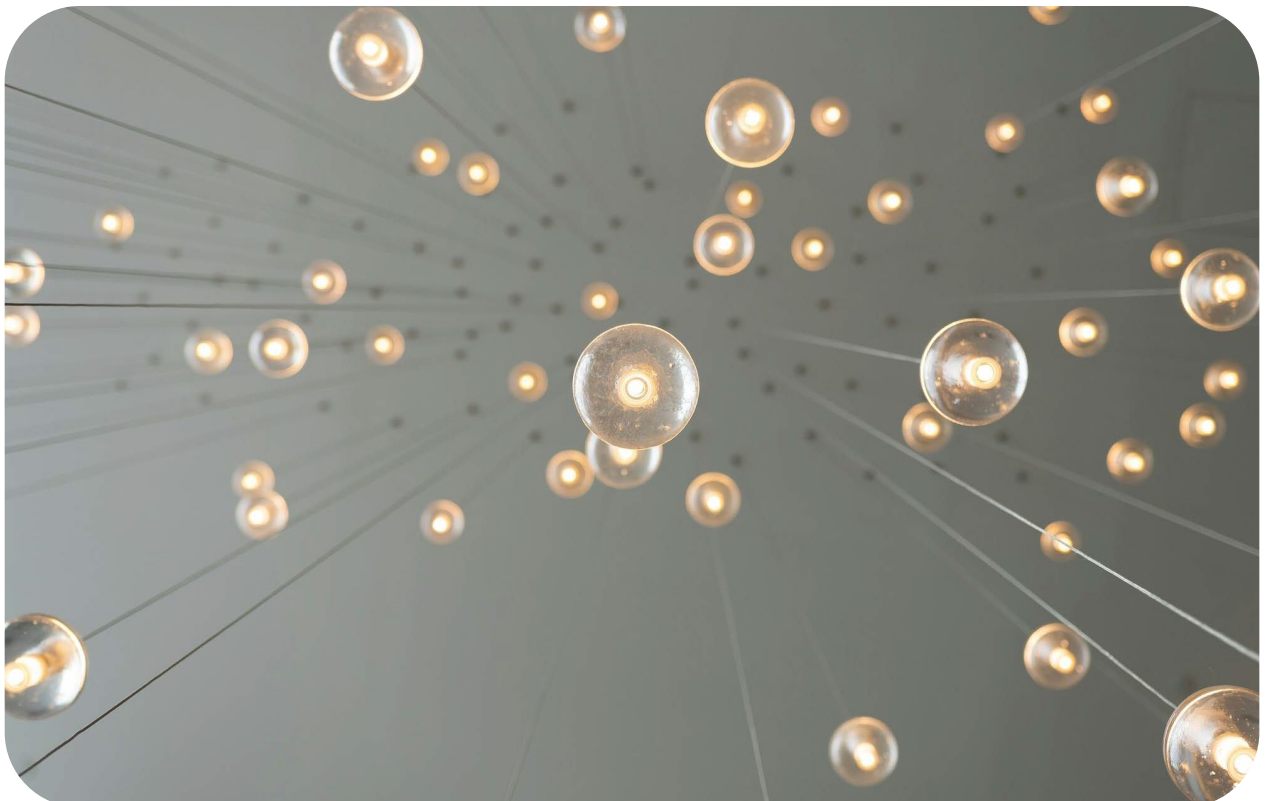
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The Opportunity

Industry pressures and broader economic disruptions don't have to lead to compromising IT delivery with drastic cost-cutting measures.

Investment in digital solutions and accessing better value digitized services can enhance service within a necessarily tighter budget. It does require fresh thinking though...even a square one approach to your **sourcing strategy**.

For organizations seeking to accelerate their digital transformation, enhance agility in responding to changes, reduce costs, continually improve customer experience, and meet regulatory requirements, there is good news. Refreshing your sourcing strategy can unlock savings in the 15-30% range, optimize performance and build

flexibility with collaborative innovation into contracts.

The question is: do you understand whether your IT supply chain is helping or hindering your cost goals and digital transformation journey? And, going back to sourcing basics, do you know if you have the right blend of internal and outsourced IT capabilities to achieve this?



10 Warning Signs
to Watch for While
Driving Your
Business Forward
& Countering
Economic
Threats



1.

Escalating costs and external disruptions hit your IT supply chain



Key Cause

The IT supply chain is vulnerable to a broad range of disruptions such as cost increases, talent availability, supplier failure and geopolitical instability with consequent impact on business operations. Meanwhile the necessary drive for sustainability exposes some historic decisions and service models as out of step with corporate responsibility agendas.



Why is it happening?

There has been an explosion in demand for IT resources as organizations realize they must invest to survive. A whole generation of highly customized legacy systems are becoming increasingly expensive to support while newer cloud based (often shared) services move into the mainstream. The backlog of renewal demand has created a shortage of talent in the market.

Overlay geopolitical instability and suddenly some of those arbitrage savings move out of reach.



Recommended Approach

Ensure you have a clear understanding of your current position and begin optimizing costs based on what you already have. Unless your business model is particularly straightforward and limited in scale, your IT supply chain is likely to be complex, with hidden areas where clarity on what services are provided, who truly delivers them, and why they are necessary may be lacking.

This applies equally to your in-house team as it does to third-party vendors and their subcontractors. To complete this baselining, it's important to also look beyond the IT function. The rise of SaaS means IT services may be quietly scattered throughout the business, and IT-enabled BPO services are part of the picture as well. Once you gain a deeper understanding of this landscape, you can begin to assess and mitigate the associated risks. While it will require time and resources, the process can be accelerated with the help of specialized skills and knowledge. Additionally, ensure your business is aligned with where you are. Achieving corporate goals may require investment or sacrificing savings from now outdated service models.

Your leadership and stakeholders need to be aligned, or at the very least, kept informed about dependencies that could affect business operations. Make a compelling case for change and necessary investment. While tactical decisions may sometimes be unavoidable, it's important to incorporate flexibility to ensure adjustments can fit into a more holistic sourcing strategy. The good news is that a well-executed cost optimization program can deliver double-digit net savings while strengthening business resilience.

2. IT is failing to deliver change at the pace required by the business



Key Cause

The primary causes we observe include unstructured business engagement that fails to recognize rapidly evolving capability needs, compounded by weaknesses in demand management and poor prioritization of both internal and external resources.



Why is it happening?

For a long time, IT has second-guessed business needs, deciding what to prioritize in the project pipeline. In the digital era, business functions are increasingly impatient to digitize their processes. End-user-friendly solutions and the rise of shadow IT, coupled with the ease of adopting SaaS, often leave IT departments on the back foot, struggling to manage pent-up demand and a new wave of technical diversity.



Recommended Approach

IT needs to take a proactive approach with a Sourcing Strategy that is directly aligned with business capability needs and informed by current market solutions. This involves fostering strong business engagement alongside appropriate IT governance. IT often possesses a deep understanding of business processes, and by being an integral participant in business strategy development, it can drive significant improvements in capability while avoiding costly tactical errors in the digital landscape.

3.

You're falling behind in leveraging emerging solutions faster than your competitors



Key Cause

Contractual lock-in forces organizations to sustain uncompetitive legacy applications and services. Reluctance to write off capitalized hardware and software investments can hinder the shift to 'as a service' offerings. Adhering to principles like 'One Throat To Choke' or resisting challenges to established processes can create inertia, preserving the status quo.



Why is it happening?

It can be frustrating for organizations that have heavily invested in their systems and effectively managed suppliers to deliver stable, high-quality services when new entrants challenge their market dominance with seemingly minimal investment. These competitors are unburdened by the challenges of executing large-scale changes without risking reputational damage if things go wrong. Unless a system provides a measurable competitive edge, the cost benefits of leveraging shared solutions are clear. The potential downsides of standard contract terms, generic service levels, and limited customization to fit business processes are increasingly weak arguments. Sourcing strategies must embrace this reality, focusing on managing the emerging and evolving ecosystems of supply.



Recommended Approach

Sourcing strategies need to become more granular. Simply re-tendering the same bundle of services and systems in hopes of a discount is no longer sufficient. Each element of the IT landscape should be evaluated based on its lifecycle, current market options, and future direction. Arguments for functional or process uniqueness that hinder 'as a service' solutions should be scrutinized to determine if they genuinely differentiate the business. Future sourcing arrangements must be adaptable to the unexpected, with flexibility given greater weight in evaluations, even if it comes with a price premium. Where existing contracts hinder change, a strategic dialogue with suppliers should begin, acknowledging the inevitable and addressing short-term pain for long-term gains. Business involvement in this planning is crucial, with potential best practice gains offsetting the impact of necessary process changes or the write-down of past investments.



4. Your Agile/DevOps programs fail to accelerate business value



Key Cause

The nature of Agile, creates a perfect storm of highly profitable, unbounded income streams for suppliers without traditional forms of accountability. However, on the business side, the absence of high-level sponsorship and alignment with business strategy means that many Agile programs are tactical and fail to direct resources to the most valuable areas. In the interim, the ways organizations work with their ecosystem of Agile suppliers are not effectively exploiting and sharing innovative thinking from an early stage.



Why is it happening?

At Wavestone, we are strong advocates of Agile and DevOps, both as focused productive ways of working, but also as a catalyst for bringing IT and the business much closer together. We also see a role for the supply market to inject innovation and broader industry insight into projects. However, even highly advanced proponents can struggle to maximize value and demonstrate return on investment. While some of this will be growing pains, suppliers can also be guilty of behaving in traditional ways. Unbounded scope of work delivered largely on a time and materials basis adds up to an attractive risk-free engagement for suppliers. Proving that programs are delivering value for money is a challenge. There may also be additional forgone benefits where clients fail to leverage the broader experience and insight of suppliers preferring to contain the design thinking activities to finite in-house teams.



Recommended Approach

In the past, some organizations maintained a panel of development partners. In the best examples, this approach fostered competition on a program-by-program basis. However, in other cases, overt or subliminal favoritism towards particular suppliers undermined this competition. In the Agile and DevOps world, it makes sense to access the broadest talent pool in a competitive market.

Step 1: Establish an effective ecosystem of suppliers. This requires partners to commit to new ways of working with each other and with the client.

Step 2: Rethink the contract. It should be lean in execution to avoid being an administrative burden, while also reintroducing accountability and allowing work to move seamlessly between partners. A new set of service metrics is needed to track performance.

Step 3: Engage earlier with your chosen partners. Getting their input early is valuable and can also facilitate gainshare models with accountability for the business outcomes they help target.

Step 4: Establish a clear flow between business strategy, product owners, and the funding funnel into the delivery team, ensuring that the right initiatives are prioritized and the linkage to business value is clear from the outset.



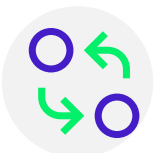
5. Why your strategic partners fail to deliver



Key Cause

Customer: Organizations often fail to implement effective vendor management processes for their strategic suppliers, allowing commitments to add value to be overshadowed by routine operational concerns.

Supplier: Suppliers fall short of promises by not aligning with business outcomes and failing to deliver customized approaches for their strategic accounts.



Why is it happening?

An influential factor in selecting a strategic partner is often the value they promise while pitching for the business. Both parties recognize the value in collaborating to develop services and work together on a broader strategic plane. The initial steps in this enriched relationship should be outlined in the contract, along with firm governance commitments to keep everyone on track. For a time, things generally proceed as planned. However, over time, client focus can easily shift from strategic goals to day-to-day concerns. Strategic forums may take on an operational flavor, leaving little room to look ahead. Without proactive engagement, suppliers may also become distracted by new business, squeezing account profitability and responding to more demanding clients. The strategic agenda can quickly devolve into a conveyor belt of recycled projects with minimal relevance or value.



Recommended Approach

A good place to start when revitalizing a strategic relationship is the contract. A good contract shouldn't just live in a drawer—it's the guidebook that leads you to planned benefits and beyond. It should outline initial improvement commitments, but it's also worth revisiting supplier proposals to ensure all value-add promises were captured. Take stock of what's been delivered (or over-delivered) and investigate any shortfalls.

A solid contract includes a process for refreshing improvement plans and governance to ensure accountability. If these elements are missing, build them in. If they exist, assess their execution. Also, consider the strategic goals of key suppliers. Are there opportunities to align rather than forcing square pegs into round holes? Should suppliers have more skin in the game, such as risk/reward mechanisms?

Strategic supplier management is an investment with a tangible ROI. Be realistic about how many strategic partners you can manage and take a tiered approach, ensuring the "gray tail" of less critical suppliers still has consistent controls. If you don't have one, consider a balanced scorecard to frame strategic conversations—and have those conversations regularly, not just when there's a problem.

6. IT services aren't seen as adding value to your business or your customers



Key Cause

All too often, sourcing strategies are driven by blunt cost-cutting measures, without reassessing the complete sourcing landscape. As a result, organizations miss opportunities to deliver more for less through an optimized, holistic approach that recognizes changes in business capability needs and supply chain options. While this may yield short-term savings, it ultimately damages the perception of IT as a business enabler.



Why is it happening?

The perceived effort involved in decomposing large outsourcing deals can lead to quiet complacency, resulting in a tendency to roll everything forward without much deep thought. While each contract renewal may deliver a notional (even double-digit) run-rate saving, the underlying trend may show deal drift due to the impact of change orders and divergence from downward market price trends. Meanwhile, the business may be underwhelmed by lackluster performance and the slow adoption of new solutions.



Recommended Approach

Sourcing strategies need to be strategic and prepared to reevaluate all services (internal or external) as if approaching a first-generation outsourcing decision. They should also challenge the business by questioning which elements of service truly need to be bespoke and which processes can conform to lower-cost standard/shared solutions. It's crucial to make these assessments with the business to fully understand both opportunities and constraints. This approach will greatly enhance buy-in.

7. Your compute costs are unclear or excessive compared to cloud providers



Key Cause

Your existing contracts may be hampering your ability to enjoy the benefits of AWS, Azure and other cloud providers. Attachment to legacy applications and constrained approaches to data management and security may also be inhibitors.



Why is it happening?

For once in IT, the hype has been matched by reality, as the giants of cloud computing have completely disrupted the hosting market. For traditional service providers, including some very big names, this has been hard to cope with. Large investments in their own 'private cloud' data centers may seem misjudged in retrospect. Cloud provider pricing models are refreshingly transparent, even if you need an economic wizard to decipher the array of options. This contrasts with a decade of increasing opacity from traditional vendors, who offered a wide variety of pricing models and service wrap bundling. Often, organizations will struggle to identify the comparative cost of compute to gauge the benefits of increased cloud adoption. Even if they do, they may find themselves stymied by workloads or other constraints that stand in the way of a wholesale transfer.



Recommended Approach

Unlike cloud services, most traditional contracts will include an implicit minimum fee or volume band range that protects the service provider from declining demand. The exponential growth of AWS, Azure, and other cloud providers means that these traditional players have already suffered from a loss of economies of scale. This leaves little room for suppliers to relax their interpretation of contract commitments. Traditional service providers urgently need to rationalize their capacity and focus on niche requirements, but this will take time, and there is a risk that existing clients may end up funding the transition.

Against this backdrop, it is crucial for organizations to get on the front foot. The first step should be achieving cost transparency in their compute expenses. It may be possible to dissect the details from the contract or synthesize the supplier's cost and margin. A review of the contract is also necessary to assess short-term flexibility and inform a longer-term sourcing strategy. Additionally, a technical stream should evaluate compute workloads and challenge which ones are truly not cloud-ready.

8. Your insourcing-outsourcing balance might not keep up with business needs

Key Cause



Failing to revisit your sourcing strategy in a holistic way allows sourcing landscapes to be renewed on a tactical basis without checking their alignment to business capability needs, market solutions and value for money. In a fast-moving tech environment with Agile, increasing levels of DevOps and cost-effective SaaS solutions maturing at pace, your sourcing strategy needs to be comprehensive and regularly reassessed.

Why is it happening?



There is a reason why 'outsourcing' has evolved into 'sourcing.' It began as a question of which in-house activities could be better executed by third-party specialists, with work generally leaving the client organization and requiring some retained organizational reorientation to manage the new setup. Nowadays, organizations need to think more broadly about sourcing services both within and outside the organization. Agile and DevOps are transforming project delivery in a more business-integrated manner. The financial benefits of offshore labor arbitrage can be diluted as the need for closer collaborative (same time zone) working increases. Organizations are also questioning whether key system knowledge should reside in-house. This needs to be balanced against the resources, niche skills, and innovation available from service providers. Changes in technology and its improved reliability can prompt a reassessment of what should be done in-house. Additionally, if an excessive amount of time is spent on micromanagement or plugging gaps with suppliers, something is amiss. New solutions, particularly SaaS, simplify the technology roadmap and involve handing over responsibility for elements of architecture and design authority. However, the broadening of the supplier base can create its own challenges with integration and end-to-end accountability.

Recommended Approach



In many organizations, the balance of insourced and outsourced services has evolved in a piecemeal fashion. Some areas, like security, may have received close attention by necessity, while others may not have been revisited in years. Where services are outsourced, considerable opacity around the underlying resources often muddies the waters. To be most effective, sourcing strategies should be developed in conjunction with a review of the broader operating model and how it is expected to evolve over time. We recommend a structured and reasonably granular approach to examine all internal and external delivery. Working with IT leadership, we assess service maturity, criticality to the business, optimum sourcing model, and priority for change. The outputs highlight opportunities to eliminate waste and achieve the optimal insource/outsource balance. By-products of this approach include the identification of capability gaps, improved governance, and closer integration with the business.

9.

Your sourcing strategy overlooks user and customer experience



Key Cause



Key causes include weakly defined contracts that enable misleading 'watermelon' reporting, and performance measures that do not keep pace with changes in technology and delivery. This is compounded by a tendency in outsourced services to report contractually accountable service compliance rather than end-to-end performance before assigning blame. As a result, user experience may fall short of reported performance. This mismatch can also delay or reduce the urgency of remediation, and collective focus on continual service improvement may be missed.

Why is it happening?



From the client's perspective, the CIO knows their job is on the line if there is a major service outage and no leverage to accelerate resolution. From the supplier's viewpoint, they are aware that their services depend on other actors, including the client's own team and investment decisions. The contract will have penalties for failure and potentially onerous remediation obligations. What ensues is a meticulous contractual articulation of how to assign blame when things go wrong. This construct is necessary to achieve an appropriate balance of risk and cost liability. The casualty in all this deep thought is the end user. They really couldn't care less who is at fault, but the reporting of services focuses on blame rather than outcome. A faultless supplier (or one with a "get out of jail free" card in their contract) will report services as within SLA. Meanwhile, the user experience can be dramatically different, and without a breach of the contractual service level, remediation can be a long time coming.

Recommended Approach



While the contractual arm-wrestle partly explains the under-reporting of service failures, unequivocal service levels and remedies remain essential. It is surprising how often this first line of defense is ill-defined, drowning users' issues in a sea of green. Therefore, **step 1** is to look beyond headline metrics to understand their definitions and exceptions. Given rapid changes in technology and services, metrics and targets may need revision or even a fresh start.

The next challenge is how performance is recorded. Lack of clarity about when and who can stop the clock can turn into a game of hot potato, with avoiding an SLA breach becoming the primary goal. It's no wonder many organizations seek their own service management tools for trust and interrogation. So, **step 2** is to check and ideally own the data on which reporting is based.

Step 3 might seem obvious but is rarely practiced. Accountability remains crucial but should not obscure the true performance outcome. Surrogate measures like Net Promoter Score are a step in this direction, though they rely more on perception than performance. Suppliers argue that reporting end-to-end outcomes will unfairly impact their perception. In reality, those perceptions are already reflected in the disappointed faces of users who would prefer a transparent and complete picture of what went wrong.

10.

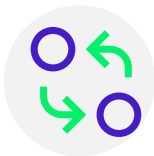
Your sourcing strategy lacks credibility and currency, isn't aligned to business strategy, or doesn't exist

Key Cause



Disruptive sourcing in all its forms is pushing sourcing strategy back onto the boardroom agenda. However, it must be executed in a truly strategic and holistic manner to deliver maximum value. Often, sourcing strategies are driven by tactical motivations—such as a major contract ending, a cost-down challenge, or the need to update the IT strategy. Constraints in funding or resources, or a disconnect between sourcing responsibilities and business implications, can also be limiting factors. To align with business strategy, your sourcing approach needs to be elevated to a strategic level as well.

Why is it happening?



Most sizable organizations have a documented IT strategy. Within this strategy, there's usually a section on sourcing, but often it's more of a checkbox than a genuine strategy. The language tends to be broad, following industry trends like best-of-breed, cloud-first, and so on—a top-down, helicopter view, though better than nothing. Service requirements and market offerings didn't change dramatically year over year, and costs generally declined. Then, the digital revolution hit, bringing demands for Cloud First, Mobile First, Agile First, SaaS First, and DevOps First—immediately. From this new vantage point, the sourcing landscape may seem like a tangled mess of past tactical decisions, lacking the transparency that was crucial at the start.

Recommended Approach



First-generation outsourcing caused significant concern in boardrooms as organizations took the bold step of transferring often fragile IT services to third-party providers. The cost difference between legacy bespoke services and true shared services is stark. Without the resources and flexibility to drive a digitized future, you risk frustrating your business and increasingly fickle customers. It's time to revisit your operating model comprehensively. Stop making tactical decisions without considering the bigger picture.

We assist clients by analyzing our domain model, which includes all activities in any IT supply chain (approximately 280 in total). This helps identify who is performing each task (or not) and who is merely observing. By assessing the criticality and performance of each element, past sourcing decisions can be re-evaluated in the current context. By revisiting foundational questions from first-generation sourcing—such as scope boundaries, accountability, and the choice between single source, best of breed, or shared service—a new sourcing blueprint can be created. This blueprint should align with current business requirements and anticipate future needs.

The final step is implementation. This should be treated as a program, not just a procurement exercise, ideally with board-level attention and investment. If that's not feasible, strong executive sponsorship and transparency are crucial.

Case Study

The Client Challenge

One of the world's **largest energy companies** needed to embrace the disruption currently spreading throughout its industry – and offer customers new channels, smarter services and simpler experiences. However, their traditional approach to digital skills procurement was holding it back. Isolated in nature, and limited to a single supplier, it was preventing the company from:

- **Sourcing the right skills at the best price**
- **Identifying the most cutting-edge solutions**
- **Encouraging partner outcomes**

The Approach

Wavestone worked closely with the client to completely redesign its strategy for sourcing digital skills, applying Agile and Lean principles, driving lower costs, greater productivity and closer partnerships.

This meant capitalizing on Wavestone's status as independent consultants to liaise with multiple suppliers and run joint workshops, collaborating to create the RFI and RFP. It also meant working with sensitive procurement information to build a reusable commercial model for scoring vendor proposals. This model is helping the client:

- **Accurately assess the value offered by different suppliers**
- **Reach transparent, objective sourcing decisions**
- **Achieve stakeholder consensus at all levels**

Wavestone also helped the client create a new, flexible, modular contract framework. This framework lets the company engage few suppliers, and provision new skills, with a minimum of renegotiation – boosting procurement productivity, and accelerating the development of new digital services.



The Outcome

The new framework is also designed to encourage the supplier collaboration that's so essential to the successful delivery of digital initiatives. To this end, it directly links supplier rewards to project outcomes, and mandates the sharing of information between project partners, as well as joint on-site working. The client's new sourcing strategy draws on innovative methodologies to help the company embrace emerging technologies time and time again – and ultimately, stay one step ahead of the competition, even in this era of rapid change. Even better, it's delivering huge commercial value for the company, through increased sourcing speed and flexibility, and significantly reduced costs:

- **A 33% reduction in supplier rates**
- **\$20m+ opportunity based on projected work**
- **3x faster supplier response rates**
- **A rapid micro-tendering process reducing supplier response times for new work from one month to ten days**

Experienced and proven program delivery capabilities saw the **successful transition of services to new suppliers** within the **allotted timescale of 9 months** and **on-budget** – all against the backdrop of zero unplanned downtime to the business.



About Us

Wavestone is a consulting powerhouse, dedicated to supporting strategic transformations of businesses and organizations in a world that is undergoing unprecedented change.

Wavestone empowers leaders to deliver more. We do this by standing alongside our clients to create, execute or manage tailored and strategic change.

How Can Wavestone Help?

Wavestone delivers expert support at all stages in the sourcing lifecycle. At the sourcing strategy stage, we test the effectiveness of, and value derived from, the existing supply chain and contrast this with the likely benefits from alternative sources and create a roadmap for change including outline business cases.

During implementation, we deploy skilled resources, tools and collateral to ensure selection of the optimal supplier landscape that underpins the realization of business strategy and delivers added value to the enterprise including enhanced service levels.

Wavestone helps clients develop and implement best in class contracts focused on realizing benefits and support our clients through negotiation and due diligence into live operation to secure the expected business case returns.

Once the deal is done, we like to stay close so that the client and supplier are both set up to focus on and deliver benefits in a transparent and self-sustaining way. When things go wrong our approaches to mediation and remedial action avoid costly service failings, disputes or unnecessary re-tendering.

Our Experts



Todd Hintze
Partner



John Westfield
Partner



John Gorrell
Associate Partner

Our Awards



Wavestone Listed
among the World's Best
Consulting Firms in 2023



Wavestone Named One
of Management
Consulted's 2023 Top 25
Consulting Firms



Wavestone ranked in the
2024 Global Outsourcing
100 Awards



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