



Contract Management in Outsourcing Transactions

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Lessons learned in 2008/09

1. "Behind the screen" services are not performed: change management, RFS, asset management, security management, currency management, capacity management (15-30% of total services not performed)
2. Ineffective and inflexible service level regimes
3. Fundamental reasons for outsourcing such as savings potential and technology innovation are not fulfilled
4. The large scale contracts are un-manageable
5. Most customers are highly dissatisfied (in the Nordic market place) across both ADM and infrastructure contracts

Dissatisfaction Mapping



Source: McKinsey sample of IT outsourcing deals

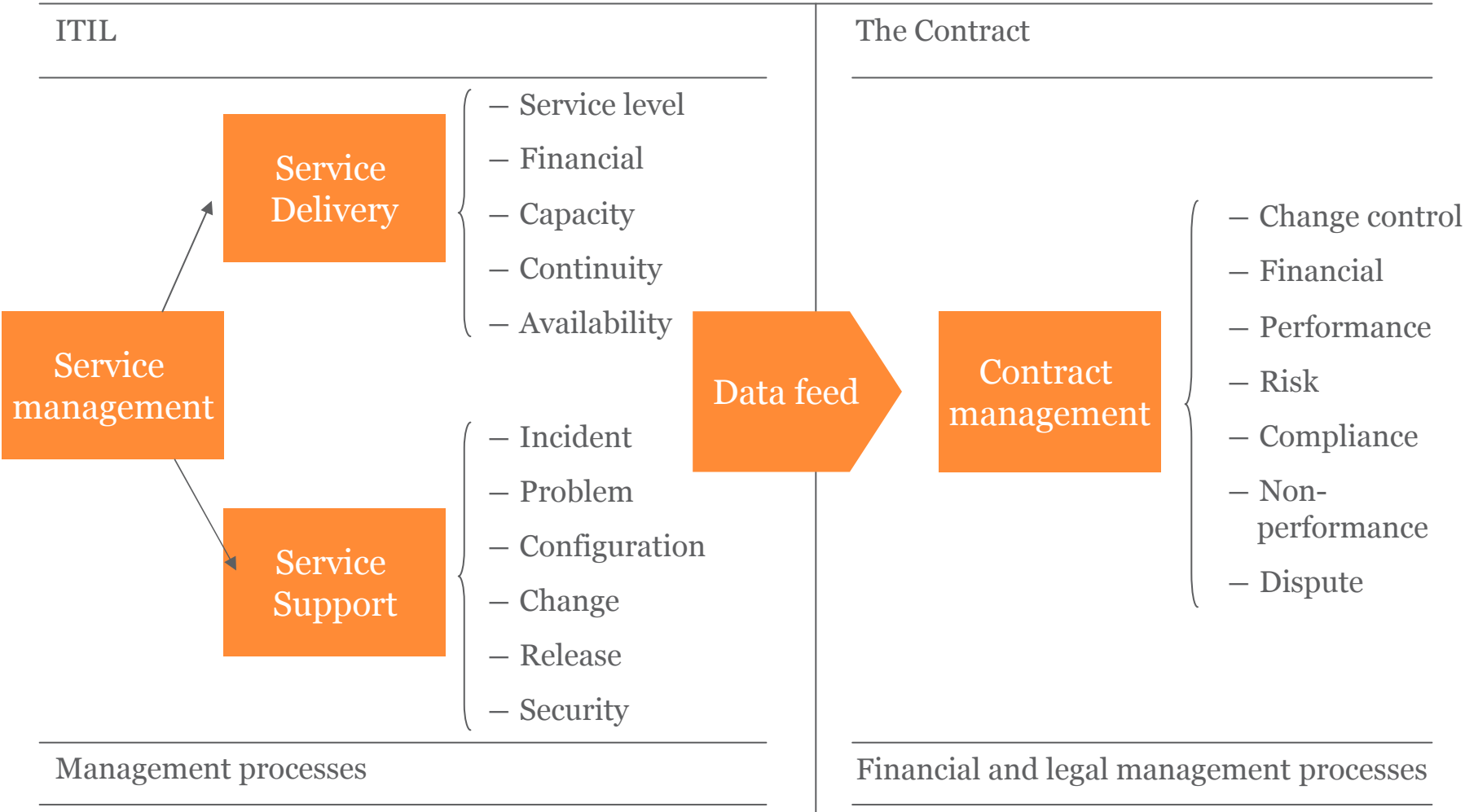
Why things are not working

- Service provider issues:
 - Under-allocation of resources
 - Lack of resources
 - Wrong incentives
- Customer issues:
 - Ineffective contracts:
 - Service – price - SLAs
 - Lack of investment in contract management:
 - Strategy
 - Common methodology
 - Resources
 - Training
 - Ability to combine skill sets
 - Overly complex contracts

However,

- not lack of technology or skills

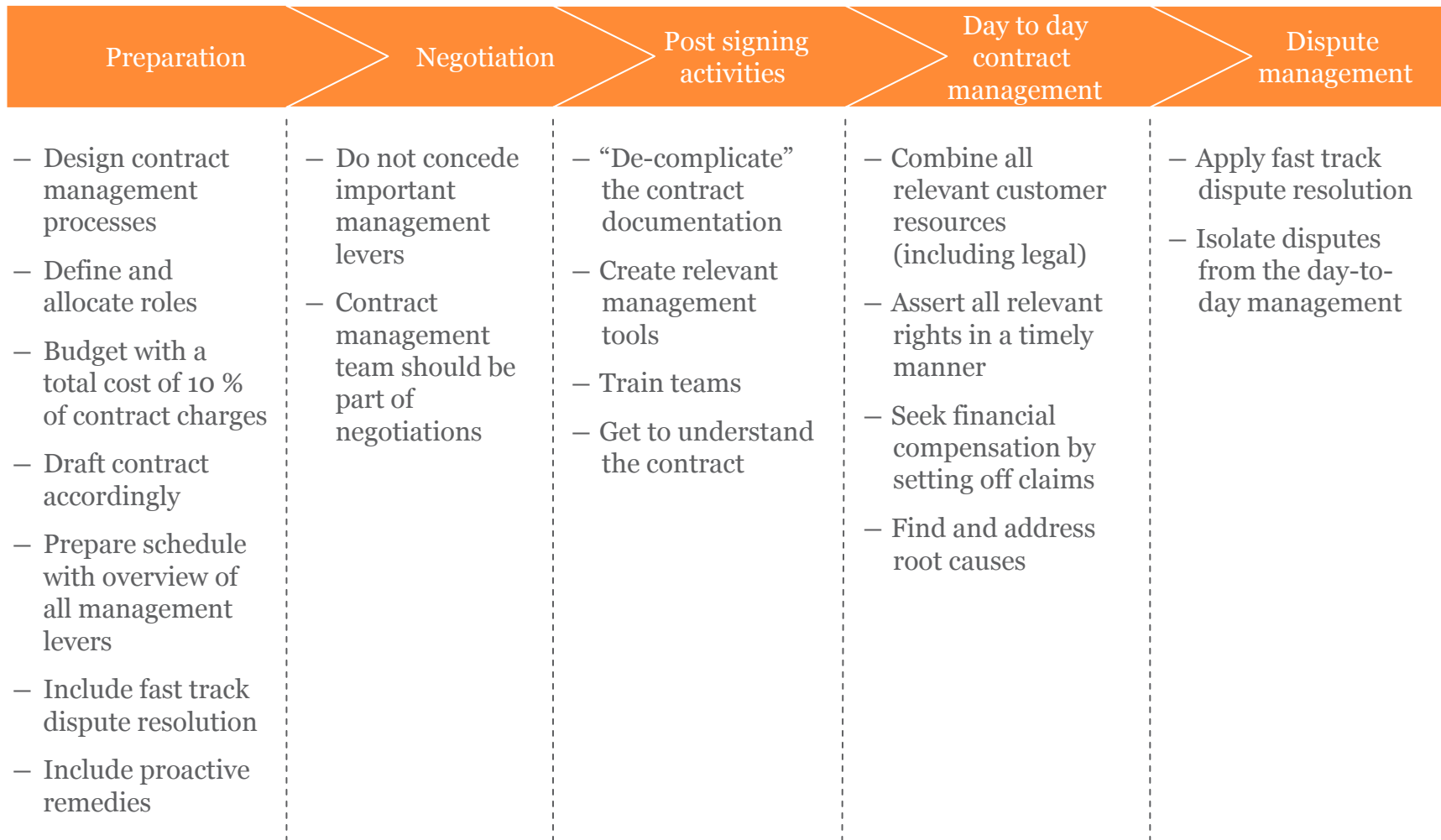
Contract Management is Service Management in a Legal and Financial Context



The Precondition: Fundamental Contract Management Levers Must Be in Place

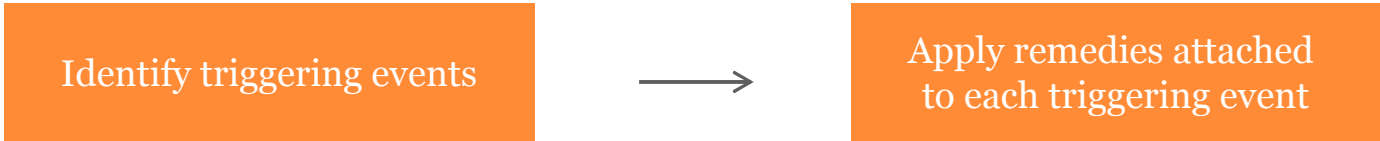
Governance: Escalation and interaction Points	Reporting practices
Oversight Rights	Right to require changes to services and the charges
Non-performance rights	Dispute principles

Effective Contract Management Requires Resources and Continuous Efforts



Proactive remedies

The short story:



The full story:



- Anything representing risks:
- Not performance of specific elements
- performance of service levels
- Employee turn-over rate
- Change of project management
- Material re-organisations
- Adverse financial information
 - credit ratings
 - investigations/irregularities

Each

- trigger event or
- duration of a trigger event or
- severity of a trigger event

is allocated a risk level (1-3) depending on severity.

- Each risk level will allow the customer to exercise different remedies
 - A low risk level has soft remedies attached to it
 - The highest risk level allows for termination
- Remedies can include
- loss of exclusivity
 - loss of minimum commitment
 - third party recommendations
 - third party step-in right
 - financial back-up
 - hold back rights