

Case Study:

Integrus Applied Guides State of Texas with Transformation Strategy Utilizing MSI Deal Structure

- Client Profile:** State of Texas Department of Information Resources (DIR) acting on behalf of 29 state agencies to contract and govern IT infrastructure services
- Industry:** Public Sector
- SAS Services:** Strategic Options Assessment, Planning and Design, Sourcing Transactions, Transformation, Transition Support, Organizational Design, and Governance

June 2012

Executive Summary

Seeking change for a large infrastructure technology outsourcing (ITO) contract relationship, DIR engaged Integrus Applied (IA) to identify and assess strategic options. Representing stakeholders across 29 agencies, and its enterprise mandate, DIR needed to consider the impacts across a broad community of interest, taking into account operational, legal, and financial constraints. IA was able to define viable options and design a roadmap to address the service delivery and financial issues, including contingency plans at key decision points, to ensure success under all circumstances. With support from IA, the state re-procured infrastructure services with three new service providers utilizing a multisourcing service integration (MSI) structure.

This engagement transformed every aspect of the state's data center services (DCS) program, including contract structure, service delivery, organization, and governance. Despite the overall complexity of the challenge, IA advised the state in development and deployment of a strategy to achieve each of the following objectives:

- Deliver IT services that meet or exceed agency requirements
- Keep overall program costs the same as compared to existing contract costs
- Strengthen the IT infrastructure environment to deliver secure, reliable services to state agencies
- Consolidate legacy servers to state data centers to reduce costs and increase efficiency and security

Business Challenge

The State of Texas DCS program was created to improve efficiency and reduce cost of agency information technology infrastructure. Late in 2006, DIR signed a large outsourcing contract with a single service provider to migrate IT infrastructure operations for 29 state agencies into two consolidated data centers and provide ongoing operations, maintenance, and disaster recovery services. The original 2006 outsourcing agreement established the basis to provide enterprise services. In 2009, with support from the participating agencies, DIR initiated an effort to realign the existing contract to meet evolving state business and technology objectives.

To accomplish these new objectives, the state had to account for a complex range of operational, financial, and political risks and tradeoffs:

- Areas of service delivery that needed to be transformed to meet the DCS program objectives,
- General economic conditions, including state budget reductions over time,
- Requirement that any change to the existing contract remain cost-neutral due to the state's two-year fixed budget dynamic, and
- Participating agency requirements for tailored solutions to address short and medium-term business and budget needs.

IA was engaged in early 2010 to provide an assessment of the options available to DIR and, for each recommended option, a tactical plan to execute.

Strategy Applied

Strategy

The initial IA Strategic Options Assessment (SOA) provided DIR with a set of practical options and planning advice to address both the immediate and the long-term objectives of the DCS program. The plan and decision points were framed by a capabilities assessment, a financial analysis of competing alternatives, and the current status of service delivery under the DCS contract. The plan included a series of initiatives to be tested in a sequenced program:

- Leverage incumbent subcontractor capabilities, experience, and expertise for certain functional service towers through assignment or re-procurement
- Re-procure remaining functional service towers in a competitive market transaction
- Explore the use of DIR or a third-party to provide multi-vendor service integration functions to align and improve processes
- Redesign DIR and agency governance to align with the new service delivery model

As a part of this recommendation, IA identified the following as critical success factors to achieve the desired outcomes and strategic goals:

- Active agency engagement in the review of requirements, evaluation of options, and decision making related to the development of potential solutions
- Development of a discrete multisourcing service integrator function to manage change and ensure service continuity

- Communicating a detailed plan and engagement model for all stakeholders that clearly identify evaluation and decision-making criteria, with the goal of timely execution
- Align the planning and preparation for service transition to new service providers with termination assistance required from the incumbent
- Manage the expectations of potential service providers to minimize the addition of a risk premium in the pricing of proposed alternative service solutions
- Structured approach to support the state's need to fund necessary short-term changes within the current budget while continuing investment in long-term goals

Execution

In 2010, DIR introduced a new level of stakeholder engagement in the management of the DCS program through creation of a multi-agency Business Executive Leadership Committee (BELC). The BELC approved DIR recommendations arising from analysis provided by IA. The recommendations included replacing a single service provider with multiple service providers using a multi-vendor model developed by IA.

DIR and customer agencies participated in the procurement of these replacement services. The process involved detailed solution and integration testing sessions to ensure the integrated solutions would meet enterprise and individual agency needs. The BELC was the final body of review for all procurement decisions.

To help the state through the multi-contract procurement process, IA assisted with the following:

- 1. Construction of Request for Proposals (RFPs):**
 - Develop framework and structure of RFP templates and draft documents
 - Initiate data collection in parallel with RFP document development
 - Lead workshops with agency participants to draft requirements
- 2. Launch Due Diligence**
 - Manage the service provider Q&A process
 - Recommend and review documentation for data room, a repository of information relevant to the transaction made available to the service providers in a structured environment
 - Provide guidance for structure of site visits and interviews
- 3. Conduct Clarification Sessions**
 - Provide structure for sessions, which were designed for client evaluation teams to better understand proposals and provide input for bidding service providers' amended response
 - Train and prepare business, solution, and financial teams for sessions
 - Lead or facilitate sessions with service providers
- 4. Facilitate Evaluation Sessions**
 - Provide training to evaluation teams
 - Prepare materials for evaluation teams' review
 - Facilitate sessions and manage scoring computation
- 5. Facilitate Integration Sessions**
 - Provide structure for client-led sessions designed for providers of discrete service towers to discuss their respective solutions with each other (three-party sessions with client, MSI, and service component provider)

- Sessions progressed in three phases:
 - Phase 1 – Discovery: Share solution elements and identify gaps and overlaps
 - Phase 2 – Refinement: Tools and timing of deployment; address remaining gaps and overlaps
 - Phase 3 – Alignment: Process and Operating Level Agreement (OLA) definition; transition milestone alignment

6. Facilitate Final Negotiations

- Provide structure for client-led meetings with service providers to determine final positions on solution, price, and terms
- Provide training for business, solution, and finance teams
- Facilitate three parallel streams of negotiations with Business/Core Team controlling agenda and serving as primary decision maker

DIR signed three new contracts for data center services that met the state's objectives:

- Service integration:
 - Capgemini. Projected contract value of \$127 million (6 years).
- Server, mainframe, data center, and network services:
 - ACS. Projected contract value of \$1.1 billion (8 years).
- Bulk print and mail:
 - Xerox. Projected contract value of \$54 million (6 years).

Operations

Transition for these contracts began in January 2012 with a service commencement date of July 1, 2012. IA provided the state with operational support in all phases, including transition and transformation support services. In addition, IA has provided organizational and governance design support.

Our advisors have provided both guidance and support on key initiatives to mitigate the inherent risks in multiple provider services transition. These initiatives include:

- Develop recommended set of strategies and tactics to establish a solid transition governance, communication, risk management, and project management office framework to run through services commencement
- Provide process, guidance, deliverable analysis, and solution adjustment recommendations on the implementation of provider solutions during transition
- Deliver financial content, training, impact analysis, and rollout processes for chargeback and agency financial rollout packages
- Provide recommendations for an integrated exit strategy based upon negotiation outcomes with incumbent service provider
- Develop ITIL-based governance organizational structure and document position-level job description roles and responsibilities

Benefits

IA's end-to-end support on this engagement began with the initial Strategic Options Assessment that led to a re-procurement of services and concluded in governance with key support roles in solution transition, finance, and organizational design and implementation. With support from IA, the state was able to execute a strategy to achieve each of the objectives sought in the change initiative.

The new service delivery solution and contract structure provide the following benefits to the participating state agencies:

- Increases the number of service provider staff, including dedicated staff for daily operations, server and storage project consolidation teams, and stabilization activities
- Immediately stabilizes the current environment through initiatives including:
 - Replace aged servers to reduce risks of outages
 - Add new backup capability to ensure data is protected
 - Provide seed equipment to dramatically reduce the time to implement and expand applications
- Increases visibility to cost drivers, allowing agencies to make better financial decisions related to technology choices
- Positions agencies to tailor services to their business needs and take advantage of technology innovations
- Drives agencies to industry standard technology and best practices

In addition, the MSI deal structure provides the state a framework designed to accommodate change in an efficient manner. The structure provides contractual flexibility and operational visibility that will benefit the state throughout the term. The key advantages that the MSI structure provides are:

- Creates a unified view of services
- Allows effective accountability and control
- Removes inefficiencies and overlaps, reducing cost
- Improves reliability and quality of service to end users
- Provides compelling risk-mitigation strategy
- Ensures flexibility for change with modular contract documents and processes

About Integris Applied

Integris Applied is an experienced advisory firm dedicated to facilitating complex service relationships where each of the parties' competing and collaborative business objectives are identified, honored, and achieved – both in the short-term and long-term. We expand on traditional sourcing advisory services frameworks as we work with both buyers and sellers by providing mediation support, coaching, and mentoring of executive and operational leaders as well as assisting in the development of sustainable healthy relationship governance competencies.

We provide expertise in information technology and business process sourcing, including shared services, outsourcing, insourcing, and offshoring. Our foundation is advisor experience in sourcing strategy, organizational transformation, contract structure, negotiations, financial analysis, and governance. We identify improved service delivery and financial performance opportunities and ensure our clients' success by building executable strategies and supporting implementation and governance initiatives.

Our advisors have successfully delivered key services to commercial and public-sector clients, including operational and financial assessments as well as the development and execution of transformative service delivery strategies. We have been active in assessing, designing, and establishing service management and governance organizations for managing multisourcing environments. We have conducted assessments of internal organizations, shared service delivery models, and external service provider proposals.

Our engagements cover the spectrum from strategic assessments, to deep data gathering and analysis with subject matter experts, to executive presentations for the CIO, CEO, or Governor. We have the technical experience and credibility to work directly with operational staff, and the sourcing strategy expertise and communication skills to present to executive-level leadership.

Related Documents:

“Multisourcing Service Integration: New Roles, New Rules, New Results”

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Document Revision 2013-10-21: Update to company name and contact info.

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For more information or to schedule a consultation with our experienced facilitators, please contact:

Les Druitt

Founding Principal

+1 281 705 4895

les.druitt@integrisapplied.com

Facilitating Healthy Service Relationships 