

# **‘Are some services too important to outsource?’**

**Service Integration & Management (SIAM)**

Summer 2014





## Introduction

The awareness and presence of Service Integration and Management (SIAM) has grown in recent years, with many large UK companies, global organisations and government departments all implementing dedicated functions to manage multiple vendors in a multi-sourced environment.

In a further development many organisations have packaged up SIAM as an additional 'tower' to facilitate outsourcing it to a third party. However, the outsourcing of SIAM is fraught with challenges and few organisations have yet to make it work.

In fact, many are already bringing it back in-house.

## Background

The 'first' generation of outsource contracts were sole-source monolithic deals, where a single vendor provided all of the services. A lack of flexibility, poor performance by vendors, downward pressure on IT budgets, and the need for specialist services have led to 'second' generation outsourcing, which is based on a multi-sourced model.

A multisource operating model has its own challenges due to the need to govern, manage and coordinate activities across multiple internal and external functions. It can lead to gaps and overlaps between the functions, and these can increase, not decrease, timescales and costs of the end services.

This creates the need to manage and integrate multiple functions and suppliers across the service environment.

Many 'second' generation outsourcing contracts did not even consider the need for the SIAM function and, as a result, caused friction between organisations and suppliers through the mismatch of expectations. Ultimately many organisations found they had higher costs than expected or sub-optimal services.

In a further development, a lack of control, the need for innovation and speed to market, and poor customer service provided by some outsourcing deals has led to 'third' generation outsourcing, whereby organisations are bringing selected services back in-house.

For instance, in 2012, General Motors announced its aim to insource up to 90% of its IT capability, and this trend is on the increase with several government departments in the UK currently looking at in-sourcing scenarios.

What is SIAM?

SIAM is the coordination of people, processes, tools and technology across multiple towers, internal or external, to ensure the effective and efficient operation of the end-to-end service delivery to the business.

The SIAM function drives a common operating model and ensures seamless end-to-end service delivery across all towers. The role of SIAM should include:

Governance

- Providing independent coordination and management to ensure all service towers meet service requirements and business demand
- Monitoring the performance of the service towers against agreed KPIs and metrics, e.g. Service Level Agreements (SLAs)
- Providing reporting against the metrics to both the IT organisation and the business, highlighting the performance of both internal and external towers

Process

- Driving process standardisation and deploying industry best practice (such as ITIL processes that are clearly defined and implemented consistently across all service towers)

- Ensuring roles, responsibilities, interdependencies, and interfaces are clearly defined between the service towers and the SIAM team as part of a single operating model

Tools

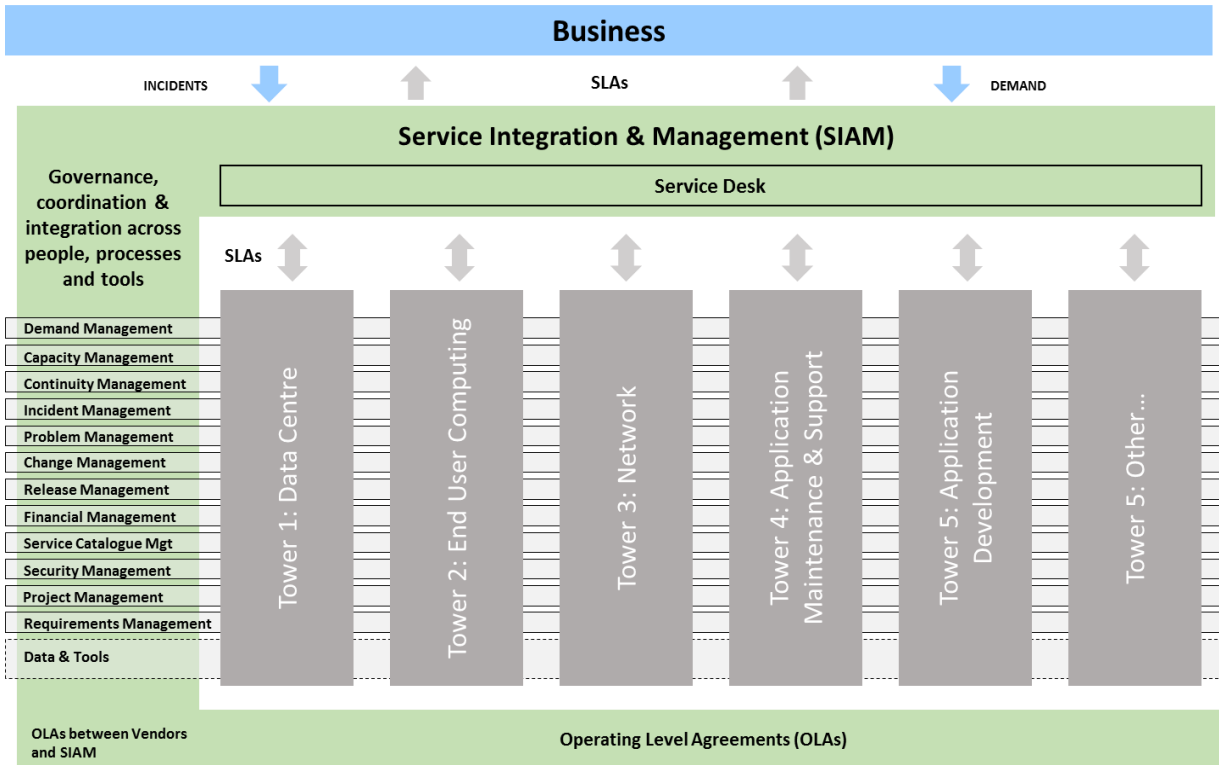
- Driving tool standardisation across all service towers, implementing and interfacing a single tool across all providers, internal and external, and ensuring consistency of use and data

Service Availability and Reliability

- Driving higher availability and improving service reliability through:
- Ensuring issues are fixed before they become incidents through effective monitoring and alerting
  - Fixing issues that have become incidents through successfully managing the incident process, particularly where cross-tower coordination is required
  - Ensuring incidents do not reoccur through effective problem management processes, again particularly where cross-tower coordination is required.

In summary, the SIAM function coordinates all of the different contracts, SLAs, processes, people, tools and towers on behalf of the IT organisation to reduce the management overhead involved in the day-to-day running of a multi-vendor environment.

Figure 1: SIAM Operating Model



## The trend towards SIAM outsourcing

Given the complexities of managing a multi-source environment, many organisations have chosen to package-up the SIAM function and outsource it.

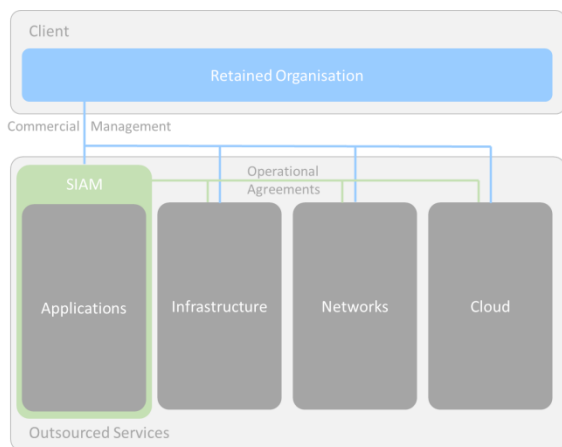
Whilst there are any number of permutations to the way an organisation can outsource the SIAM functions, Coeus considers there to be three key outsourcing models:

- Lead vendor management of SIAM
- SIAM through a third party specialist
- Prime contractor approach

### Lead Vendor Management of SIAM

- This model uses one of the multi-sourcing partners, typically the largest one, to take on the responsibility of the SIAM function
- Typically this would be limited to operational management, with commercial and contractual management of the other suppliers being retained by the client
- This provides a number of benefits, such as economies of scale for the supplier and commonality between the largest component and the SIAM team

**Figure 2: SIAM is Provided by Lead Tower**

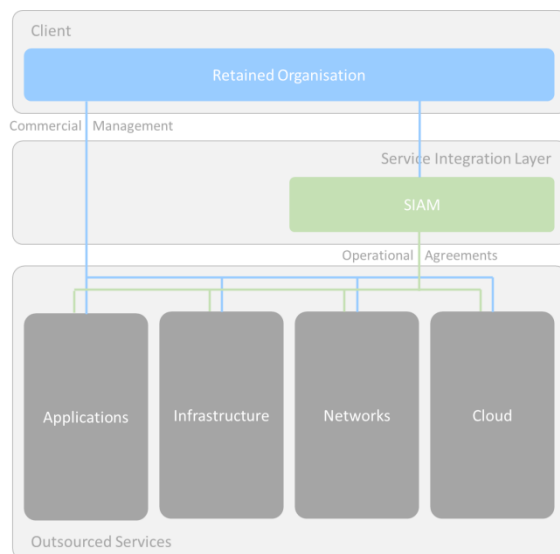


### SIAM Through a Third Party Specialist

- This model utilises an independent third party to provide the SIAM function, bringing in their expertise in processes, governance and tools. They would not be able to complete / provide other services, which keeps the level of 'friction' to a minimum

- Having a truly independent third part providing the SIAM function can overcome many of the challenges highlighted in the 'SIAM through the lead vendor' as the organisation is typically set up as non-threatening entity and cannot compete for the services provided by the other suppliers

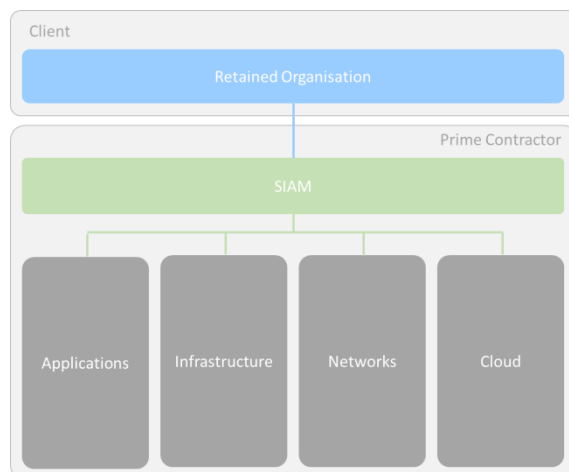
**Figure 3: SIAM is Provided by a 3<sup>rd</sup> Party Specialist**



### Prime Contractor

- This model relies upon a single organisation being responsible for both the operational and commercial governance of sub-contractors. There are many parallels between this model and many 'first' generation, monolithic, outsourcing contracts

**Figure 4: Complete Outsource (Provider is in effect SIAM Provider)**



## Common outsourcing challenges with SIAM:

Whilst outsourcing SIAM may appear to solve the problem in the short term, the risks and issues are considerable and very few organisations have made it work successfully. This is because:

1. A business will always want its IT organisation to remain ultimately accountable for service delivery. However, if SIAM is outsourced then one of their main levers to drive performance is out of the organisation's direct control.
2. External organisations rarely understand the real impact of an outage on the business and will never 'feel the pain' an internal staff member would. A SIAM partner requires a 'sense of urgency' during a major outage, which external organisations often lack.
3. The outsourcing providers, who typically provide SIAM services, have established service management practices and tool sets. However, these processes and systems are structured around providing their services to the client and not managing a client and their vendors.

Coeus believes it is vital for an organisation to own its own tool set and data and to ensure all of the vendors integrate into it. This avoids adding considerable complexity to the incident, problem, change and release processes.

4. Due to the additional complexity of an outsourced SIAM function, it can add significant process delays. In a recent client example, the change process increased from 2 to 12 weeks for new hardware requests.
5. Ultimately the business becomes frustrated and, in the ensuing chaos, forges direct relationships with the vendors. As a result, the IT organisation has limited knowledge of requests or services being provided.

## Specific challenges with SIAM outsourcing models:

### Lead Vendor

- External organisations typically struggle to manage other 3rd party vendors on behalf of the client as they are not seen as having the authority to coordinate and manage.

- External SIAM functions typically fail to have sufficient authority for budgeting and financial management processes. This leads to the client's finance function being overwhelmed with incomprehensible invoices and an inaccurate and delayed budgeting process.
- What most client organisations would see as operational issues often become clouded by commercial issues, with the client ending up getting drawn into operational issues and becoming the de-facto SIAM function.
- The lead tower can be seen as threatening, especially if they offer the same services as some of the other suppliers. This may lead to friction between suppliers, with the SIAM provider being perceived as being the favoured supplier or getting an unfair advantage when the next tender comes around.

### SIAM Through a Third Party Specialist

- As with using the lead vendor to provide the SIAM function, many operational issues become clouded with commercial issues and the client ends up interjecting far more than expected.
- Given the need for independence of the SIAM function in this model, the SIAM provider is not allowed to bid for one of the delivery towers.

This often deters some suppliers from bidding, as SIAM on its own is not commercially attractive enough. For instance, the UK government has had problems for a number of years as vendors do not wish to bid for the SIAM tower as it is not as commercially viable. Where vendors are allowed to also bid for one of the delivery towers, putting in place Chinese walls, Coeus has witnessed considerable mistrust between partners leading to a breakdown in communication.

### Prime Contractor

- Whilst the prime contractor model resolves almost all of the commercial issues that have been mentioned above, it does raise one major question: What is the difference between this model and many 'first' generation monolithic outsourcing deals?
- This could be addressed through a number of innovative contractual arrangements, where the client can have the ability to select and / or change sub-contractors. However, this isn't without its challenges and can cause friction between the client, the prime contractor and the sub-contractors.





## Profile: Global Pharmaceutical in transformation

Due to the poor performance and lack of flexibility of the 'first generation', single source IT outsource provider, the organisation decided to move to a new multi-source environment.

As part of the sourcing strategy, the decision was taken to insource key components to bring the control and management back in house, which included the service integration and management (SIAM) function.

### Approach

Using its past experience, Coeus was asked to support the SIAM design and implementation activity to ensure a successful transition, including:

- SIAM operating model and organisation structure design, including FTE numbers, processes, governance and implementation plan
- Design of new service management processes (e.g. incident, problem & change management) to effectively coordinate activities across the towers in a multi source environment
- Detailed transition planning, role mapping, recruitment activity and a sharp focus on risk mitigation

- Significant business change activity to support the transition and to secure the new ways of working and culture

### Deliverables

Working with the client, Coeus developed the following deliverables:

- SIAM operating model and organisational structure
- Service management processes defined and implemented
- Transition and risk mitigation plans

### Outcomes

Critically Coeus ensured:

- The new operating model and successful execution of the plans supported the transition of SIAM from the vendor back in house
- 110 people transitioned from the vendor back, or were new recruits into, the client organisation
- 23 staff transferred and 29 new staff members recruited and embedded into the new organisation
- 15 service management process defined, implemented and the ways of working operationalised
- A new service-focused culture was established

## Benefits to outsourcing SIAM

There are some benefits of outsourcing SIAM, particularly if your existing service management function is immature.

There are three key reasons why it might be beneficial to outsource SIAM, which are probably familiar to many organisations, as they were similar reasons for outsourcing services in the first place:

1. If an organisation does not have appropriate service management processes and tools then it may make sense to leverage those of a service provider. Additionally, the associated risk and investment required to design and implement a service management tool and processes is significant.

2. In a world of improved economies, many organisations still have downward pressure on headcount. Many organisations will not want to go through the effort of designing and implementing a new IT organisation, particularly one that is going to significantly increase headcount.
3. Whilst most organisations have experience of outsourcing and managing vendors many do not have the skills to manage multiple vendors and coordinate activities across multiple providers and towers.

In conclusion, in determining the right approach for your organisations, many factors need to be considered and the chosen route is not always straightforward or the same for every organisation.



## Summary

Building a SIAM function is a successful way to manage and coordinate activities, people, process and data across multiple internal and external service towers.

Whilst there are some reasons to outsource the SIAM function, many organisations struggle to make this work and Coeus has seen limited evidence of success so far.

As 'second' generation outsourcing has taken over, with multisource environments here to stay, organisations have to find a way to make SIAM work.

Bringing SIAM back in house might be the right option.

#### About the Authors

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#### About Coeus

Coeus is an independent IT advisory and consultancy, specialising in strategy, technology, sourcing, transformation and operations.

Supporting some of the largest corporates, financial institutions and most recognised brands in the world we pride ourselves in providing our clients with the very best advice possible.

Our consultants have the right blend of knowledge and experience to help our clients cut through complex technology issues.



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