Outsourcing Management Software Tools

Executive Point of View - December 2006

This Executive Point of View will help organizations assess the state of Outsourcing Management (OM) tools, looking primarily at third-party vendors. Who are they? What do they offer? Where and how do they work? What will be the cost in terms of time and money? Our goal is to provide executives with enough information to determine if and how such tools might benefit them.

Executive Summary

Large-scale, complex outsourcing deals have produced equally complex management issues. The leading cause of missed expectations in outsourcing is poor governance after the deal is signed. "Outsourcing Management" (OM) is the business discipline by which organizations actively engage in the care and feeding of their outsourcing relationships (post-signature), from tracking the tactical issues associated with service level agreements (SLAs) to ensuring major business outputs such as total cost savings.

Many organizations use some form of specialized software as a critical component of a successful OM practice. According to our latest research among over 200 buyer executives, conducted in 2Q of 2006, there is no clear consensus on the best source for OM tools. By default, nearly 40 percent of respondents rely on their outsourcing service providers, while less than 15 percent of respondents say they source their tools primarily from independent software vendors (ISVs). In fact, organizations acquire these OM tools from a combination of sources, including service providers, in-house developers, and third-party OM tool vendors.

Such tools support the various governance activities outlined in EquaTerra's "Outsourcing Management Framework" (see Figure A), including service quality management, issue resolution, change management, commercial management, compliance and communications. Regarding specific functionality, OM tools work well in some areas such as monitoring SLAs and auditing contract terms, while capabilities are limited in other areas — charging individual business units for outsourced services, workflow management and effectively integrating multiple systems, processes and providers, for example.

These software programs have steadily migrated from simply monitoring and managing IT systems to enabling users to oversee a broader scope of business processes. Yesterday, a systems tool might point to a problem related to some technology metric, but today, that tool can take corrective action as well, functioning beyond the systems level. For example, if an errant remittance process mistakenly debits a customer's account, the software tool can detect and correct the problem before the customer even knows about it.

While the functionality of OM tools varies widely in type and depth, the overall benefits of using OM software, particularly from third-party specialists, are many. OM tools help drive and reflect operational and management discipline, provide greater accuracy and independence from outsourcing service providers, and serve as catalysts for change to help enterprises codify OM best practices. They also can play a key role in helping organizations comply with government and industry regulations, like Sarbanes-Oxley.

At the same time, OM tools are not a panacea, as users' current adoption rate of third-party OM tools reflects. Due to a lack of functionality in some areas, OM tools sometimes struggle to move the right information between the right managers or enable all systems, processes and people to work in sequence toward a common business objective. Even when tools do their job, they may fail to help drive the big picture, sifting data that users cannot transfer into actions that impact the business. For example, a report that shows whether a service provider is meeting performance thresholds is meaningless if those metrics are not tied to the contract or measured for their ability to lead to specific outcomes like cost savings.

Compared to the status quo, OM tools, particularly third-party OM tools, cost time and money. As a result, buyers typically developed their own OM tools or turned to their outsourcing service providers, who struggle to provide them as well. As would-be buyers look beyond their internal resources and outsourcing partners for external OM tools, some are suffering from severe sticker shock. Third-party OM tools can range from $50,000 for “a few modules” to well over $500,000 for a complete solution. All this comes after the buyer has just signed an outsourcing contract with a service provider.

The implementation period for OM tools varies widely as well. Some OM tools are functional in a few weeks or months, while a comprehensive, robust installation can last from several months to well over a year. Implementation time depends on the buyer environment, the OM tool vendor’s competency, and the cooperation of the outsourcing supplier and other constituents (e.g., sourcing advisor).

The third-party OM tools market encompasses hundreds of vendors offering traditional systems and contract-management tools (e.g., IBM’s Tivoli™, HP’s Openview™) as well as emerging technologies that link service level needs with total business and relationship outcomes (e.g., Digital Fuel’s ServiceFlow™, Oblicore’s Guarantee™ and others).

In asking current and prospective buyers of OM tools what they want, we have found that buyers have relatively straightforward needs and desires when it comes to OM software tools: “value, ease of use, and the ability to provide timely, relevant and actionable data to enable faster decision making” were the key needs cited. Vendors servicing this space would do well to provide these capabilities within their products, rather than loading up on expensive technical “bells and whistles.”

At the end of the day, buyers must determine the return on investment (ROI) for third-party OM tools based on multiple and often interdependent considerations (e.g., critical needs versus tool functionality, functionality versus cost and time, etc.). This paper is designed to guide executives through some of those considerations. The following are key points to keep in mind as buyers evaluate third-party OM tools:

1. Start early

As one successful Global 1000 financial services company comments, “We began planning for how we would manage our outsourcing deal about a year and a half before we actually started.” This included a dedicated team of four to six people and an annual OM budget that equaled four to five percent of the company’s total yearly outsourcing expenditure.

2. Start slowly to move quickly

To combat both sticker shock and implementation delays, many vendors of OM tools are beginning to modularize their solutions, allowing buyers to test drive the software in a specific area of their business. Costs for this technology can start in the tens of thousands, with two to three service level agreements and corresponding reports that can be functioning in a matter of weeks with measurable results.

3. First determine what you want, then create your vendor candidate list

OM tools frequently offer a hodgepodge of functionality, the result of projects pieced together by vendors striving to meet the unique needs of single-client engagements. However, the footprint of a specific vendor inevitably will fall most heavily in one area - e.g., service catalogs from organizations like newScale and Centrata, dashboard reporting from organizations like CXO Systems, and contract management from vendors like Emptoris (merged with diCarta) and iMany. Until a comprehensive solution is available, your most effective strategy will include knowing exactly what you want, then targeting the best vendors for the required functionality. Appendix A offers a breakdown of third-party OM tool vendors by specialty.

4. Use people to solve problems; use software to help people

Successful OM first requires the support of talented people, then technology. Executives comment that people are their number-one asset (and cost) in OM, representing anywhere from 60 to 90 percent of the overall cost of governance. Not surprisingly, most failures in governance seem to be due to human issues, not technology.

5. Turn data and information into actionable intelligence

Tools provide data, but as one EquaTerra advisor comments, they often "crank data but do not transfer information or apply results (easily) to impact the business." Before choosing a tool, it is important to ask, "How does an OM tool conceptually approach the business process and the activity of outsourcing?" For example, one vendor, Blue Canopy, applies tactics from traditional manufacturing supply chain management practices as part of its underlying approach to OM functionality (e.g., treating governance activities and information as part of a virtual pipeline to manage delivery). Another vendor, Nimbus Partners, works from the individual user's point of view (manager, IT technician, etc.). Buyers should strive to understand a vendor's operating philosophy and, from there, their intended future state.

6. Make sure everyone knows their lane

Outsourcing and using external OM tool may involve multiple parties: the end-user organization, the service provider, the sourcing advisor, the OM tool vendor, etc. Organizations need a clearly defined governance model for their outsourcing management team and for the team that is involved in selecting and implementing OM tools. Specifically, the organization needs to have clarity around decision rights, leadership and operating models.

7. Look under the hood, then drive the car

Ask your OM tool vendor whether a particular capability is "standard" or "custom" - i.e., whether the capability has been performed multiple times in the past. What parts of an OM solution are "partner provided?" Clicking through the PowerPoint or the WebEx does not equate to existing functionality. There is a lot of hype in any fast-evolving market, and OM tools are no exception. Be wary of overselling by vendors, and check references and functionality for your environment.

8. Get your "data house" in order

During the initial phase of software implementation, someone must make sure that tools collect and report the right information to support the business process. This requires that the buyer, service provider and/or OM tool vendor configure data sources, set up data adapters and "turn on" the program. Make sure to decide who will do this and how. Many of the delays and added costs of OM installations occur when no party is specifically responsible for driving this process, which is a key capability required of any OM tool that claims to help manage some aspect of the outsourced operation.

9. Be prepared for change at all levels of the organization

As with outsourcing itself, buyers should realize that successful OM implementations are as much about change management and disciplined process oversight as they are about software. That said, some OM tool vendors cannot or do not offer the requisite staff to help educate and push the individual and organizational change required to enable proper delivery (and outputs) of a new OM tool.

10. Maintain accountability inside your OM tool

Whether you get your tool from an internal or external provider, ensure that you are able to audit the operation of the tool and the accuracy of the data feeds both into and out of the system. This capability constitutes an important audit function for contracting parties, especially if a company wishes to switch tools or outsourcing vendors.

I. Introduction

Is this You?

Your organization has outsourced a large-scale, complex IT or business process. Suddenly, you need not only monitor and manage in-house performance, but also to track all the issues associated with an external service provider: contract issues, financial metrics, compliance, etc.

Your organization traditionally has used various systems tracking tools and homegrown applications to develop a picture of how the business is operating; but now, those same tools cannot function in an environment with shared systems, multiple processes and multiple providers distributed across different parts of the world. Things that never concerned you before, like ensuring individual business units pay for internal services, are now more important.

How will you monitor service quality? How will you communicate changes to systems and people throughout the organization? How will you reconcile costs to value? How will you know if you are being innovative or just keeping up? How will you compare the performance of your retained organization and processes with those that you have outsourced to make sure the business case for outsourcing holds up? Add to this the financial, legal and regulatory requirements that did not go away just because your organization outsourced, and the situation becomes complicated.

To navigate in this environment, executives require not just data and information but real-time knowledge and actionable strategic insight about operations, costs and the relationship with their outsourcing service provider. Usually, the same old management processes and tools struggle to keep up.

If your organization is outsourcing, this is not a "what if" scenario, but really just a matter of "when and how"?

Outsourcing management is the process by which the buyer and seller manage the entire relationship. This includes service levels, contract terms, financial performance, and the overall business relationship through a combination of people, processes and tools provided by the buyer, the supplier and/or third parties.

EquaTerra regularly collects information on OM tools through a variety of primary and secondary sources: buyer-executive interviews, market research across clients, sourcing advisors in the field, OM tool vendors, analyst reports, Web sites, etc. Based upon our developing list of "who's who" among OM tool vendors, EquaTerra offers this snapshot of the current marketplace to capture the state of the market and to provide a practical guide for any enterprise evaluating third-party OM tools.

Specifically, this paper addresses:

- How organizations deal with outsourcing management today – people, processes, IT
- Where organizations acquire OM technology and tools today and in the future
- What third-party tools are available (types and examples)
- What functionality third-party OM tools offer
- Analysis of the pros and cons of third-party OM tools
- How organizations can assess OM tools for their own use

The Real Challenge of Outsourcing Begins Just When You Think You Are Done!

Too often, organizations are overly focused on "doing the deal" rather than on developing and managing the outsourcing relationship. The reality is that OM is often what makes or breaks the deal. According to the META Group (now part of Gartner Group), "End-user organizations have typically under-invested in resources (e.g., people, process, tools) to outsource, procure and manage services. Failure to deploy an effective vendor-governance team is the number-one reason for outsourcing failures."

II. Successful Outsourcing Requires Effective Management

Managing outsourcing performance and relationships is a complex collection of tasks. The cost of poor management can show up in a host of business problems, such as lost savings or revenues, risk and regulatory exposure, low employee performance and morale, and poor customer satisfaction. Therefore, planning OM tool requirements is a worthwhile effort that should start at the beginning of the outsourcing process, not as an afterthought. In most cases, however, OM planning starts much later and is often underestimated and under-funded. To be effective, organizations should treat OM as a formal (and very necessary) business discipline, yet many organizations struggle to:

- Link service provider performance to contract terms
- Respond to service issues for employers or customers
- Manage workflow among disparate systems, employees and business processes
- Adjust service or contract terms for changing business needs
- Closely monitor the critical elements that ultimately drive success or failure
- Measure the cost of outsourcing versus the value delivered by providers
- Ensure compliance with government or industry regulations
- Integrate internal and external systems and processes
- Achieve process transparency to get the right data at the right time

All these tasks fall into "The Outsourcing Management Framework" (Figure A) that outlines the high-level activities organizations undertake in order to oversee their outsourcing relationships. Each management tower includes a number of strategic and tactical activities that, when combined, enable organizations to manage more effectively.

The Outsourcing Management Framework

Service Quality Management	Issue Management	Change Management	Commercial Management	Compliance Management	Communication Management
Service Performance Management	Escalated Operational Management	Strategic Change Management	Contract Change Management	Regulatory Compliance	Customer Relationship Management
Stakeholder Satisfaction Management	Critical Issues Management	Project Approval and Initiation	Invoice Verification and Payments Management	Internal and External Audit	Management Reporting
Service Knowledge Sharing	Emergency Management	Program Management/ Transition	Service Cost Allocation Management	Safety and Security	Business Requirements Identification & Liaison
Root Cause Analysis		Demand & Consumption Management	Financial Benefits Realization Tracking and Lockdown	Data Privacy	Corporate Communications Management
			Financial Performance Reporting	Other [Client] Policies and Procedures	Relationship Alignment Review
			Benchmarking	Business Continuity	3d Party Supplier Communications
			Asset Management		

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Figure A

Organizations use a combination of people, methodologies and technology to drive the processes in the OM Framework. A recent EquaTerra survey (Q2, 2006) of more than 200 buyer executives shows that most organizations (47 percent of respondents) spend between 1-4 percent of their total contract value on governance, while roughly a quarter of respondents spend 4-7 percent on governance. Oddly, those who spend the most on governance – 15 percent or more of the total contract value – are the least satisfied, though it is unclear if they are spending so much because their outsourcing experience is faring poorly in the first place or if their spend is misdirected (e.g., too many staff with the wrong skills, over-investment in tools at the expense of good processes).

There are no hard and fast ratios prescribing how much of a company's governance budget goes to people versus technology. The survey above shows that typical OM spend divides into three areas: personnel (41 percent of spend), software tools (32 percent), and external services and support (29 percent), but the numbers vary widely by company. One large enterprise that has outsourced for several years notes that "there is no substitute for people in the form of a full-time governance team (and) people represent anywhere from 60 to 90 percent of total OM costs." Such a governance team can vary from one person, for very small outsourcing relationships, to several dozen for large, geographically dispersed relationships. Another Fortune 500 company estimates its total cost of OM tools alone at 1-2 percent of total annual expenditures for its outsourcing deal. Also, many organizations may classify software expenses in the OM category when the tools being considered (enterprise software, analytic and collaborative applications, etc.) were acquired long before outsourcing efforts commenced and are used for a variety of other purposes.

It is also important to note that typical ITO and BPO deal sizes range in duration and dollars, but buyer executive respondents for this report represent larger deals, usually lasting more than five years with a typical total contract value in excess of $50 million. This means that both OM and OM tool costs can be significant. One thing is certain, however: a lot of the tool costs are hidden (more likely with internal tools than external tools) in the form of personnel time spent on development, configuration, change management, etc.

III. Current Software Tools For Outsourcing Management

The OM tools that exist today, either in-house or external, have grown up around organizations' most immediate needs to track service level performance (e.g., measuring "key performance indicators" like uptime, accuracy or throughput). Specific tool-driven functionality in IT outsourcing might include monitoring and managing CPU usage, asset utilization, storage capacity or help desk customer satisfaction. Or, for a business process such as accounts receivable, clients may use tools to manage the metrics for the issuance of bills, collections, cash applied, and other functions that, in turn, contribute to more strategic outcomes that drive the bottom line.

Organizations Typically Develop Their Own Tools or Get Them from Service Providers

Today, most enterprises either develop their own tools or utilize the tools of their outsourcing providers. Among the deals that EquaTerra has reviewed and based on the results of EquaTerra outsourcing management market studies conducted in 2Q06, buyers are using OM tools from a variety of sources (See Figure B).

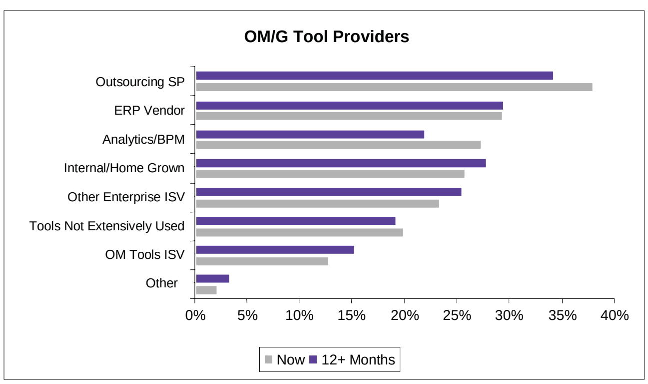

Figure B

The data shows that, rather than buy third-party OM tools, many organizations develop tools internally (which usually means re-purposing existing software) or rely on the tools provided by their outsourcing service providers. Reasons for this are that (1) they want to avoid the additional, hard cost, particularly after the initial cost of outsourcing and (2) they often believe that only internal resources can properly map and manage internal processes (e.g., "No one does it like we do.").

Unfortunately, using a hammer when you need a nail gun makes for a slow and arduous process. Homegrown solutions, for example, often cannot match the scale and complexity required by the outsourcing arrangement. As one sourcing manager at a global telecommunications company comments, "We were adapting old tools to a new (outsourced) service... to give us extended functionality." Examples include tracking and reporting tools developed in Excel spreadsheets and Access databases to input and manage specific service level objectives, costs and other performance metrics. Often, several persons will enter data manually and "run the numbers" in various daily, monthly and weekly reports that show up in the form of PowerPoint or Visio charts.

On the provider side, tools from outsourcing service providers often lack the depth of functionality buyers need to truly manage their outsourcing relationship and are not usable across multiple outsourcing engagements with different service providers. Other enterprise applications (e.g., ERP, business performance management) can address segments of OM, but do not provide a full solution and typically cannot access service provider management data and information.

Outsourcing actually has accelerated the need for more robust tools. Buyers actively are looking for more functionality and automation to help them manage IT and business process performance, particularly in those areas they claim are most challenging: workflow management, business unit chargebacks, tracking operational performance to deal terms, etc.

The Emergence of Third-Party OM Tool Vendors

While buyers lament the relative lack of supporting technologies (in-house or otherwise) and eagerly seek the one-stop fix for their OM needs (they have been disappointed), they are discovering the emerging market of third-party OM tools.

Today, buyers have access to different types of external tools in varying stages of development. Traditionally, management tools, which help organizations monitor, manage and resolve systems and operational issues, include proven and commonplace products such as IBM's "Tivoli," HP's "OpenView," and others.

Similarly, commercial and contract management capabilities grew out of the document management space, supported by ISVs like Emptoris (merged with diCarta). These types of tools represent very specific point solutions that generally support metrics around operational efficiency and tracking massive volumes of contract-related data.

Even very well known technology vendors are making an OM play. For example, Microsoft is developing a long-term default platform for the BPO and ITO markets in order to help buyers manage providers and to help them standardize templates and processes for outsourcing delivery.

At the other end of the spectrum, many of the newer tools that purport to take users beyond traditional capabilities are only a few years old and rarely have moved beyond version 3.0. Already, some ISVs have disappeared (e.g., Real Clear Technologies, Empact) or have been acquired (e.g., Mercury by HP, Vantage Technologies by Janeeva).

Specifically, third-party OM tools help clients to:

- Increase accuracy and provide independent data and analytics from outsourcing suppliers
- Help drive (and reflect) operational and management discipline
- Serve as catalysts for change, helping enterprises codify best practices
- Help users comply with government and industry regulations
- Offer deep functionality in specific areas (see below)

So there is a solidifying yet still growing set of providers for next-generation OM tools, some of whom are profiled in the next section.

IV. A Preview of Third-Party OM Tools Today

While not exhaustive, this paper offers a preview of several leading and emerging OM tool vendors across various categories. As a testament to the fluidity of the market, there was further M&A activity in this space during the few months it took to update this report! Most third-party OM tool vendors started out in performance management for IT services, but this is changing as they seek to help end users monitor and manage multiple business processes and outsourcing providers across the enterprise. Figure C (next page) offers a comparative matrix containing specific attributes of various OM tool vendors. Readers will find a general list of OM tool vendors in Appendix A.

The Cost of Third-Party OM Tools

Despite the occasional lack of functionality discussed earlier, the delay in adoption of third-party tools seems to be primarily due to the total cost of ownership. Buyers tend to be more accepting when the cost of an OM tool is embedded in the contract, either as an internal (soft) expense or rolled up in fees from the outsourcing service provider. The price tag for many of these tools can exceed $500,000 (see Figure C), plus the cost of annual maintenance, which ranges from 18 to 22 percent. There also can be hidden implementation costs in prolonged consulting engagements and other hardware and software requirements (e.g., DASD disk space alone for one tool was $50,000). Proponents of OM tools can claim that buyers are typically under-invested in this capability, but this does not mitigate the pain.

Before comparing OM tool vendors, however, it is critical for buyers to ensure that they are making an apples-to-apples comparison. The numbers in this whitepaper are intended as a guide only. Furthermore, some buyers may care not only about absolute price, but also about the way in which various vendors price their OM solutions.

For example, Enlighta's pricing is a combination of annual module and tiered user licensing, including product upgrades, support and maintenance. The company's base module which includes contract and compliance management, SLA monitoring, and performance reporting, starts at $40,000 (seemingly a relative bargain). For a company with 100 employees using the base governance and issue management modules, the annual license is about $60,000. For a company with 1,000 users, the annual license for the same package plus the demand management module is about $116,000. Another OM tool vendor, Oblicore, offers a cost-effective way for buyers to test drive its software in the form of a three-week trial program, which gives clients OM tools for a relatively low entry price as well.

It is somewhat ironic that buyers are so price sensitive to external OM tool purchases, because the cost of internal options can be high as well. While it is difficult to document the cost of home-grown tools, personnel time alone can easily exceed $150,000. Many EquaTerra client advisors comment that companies' spend on internal tools hovers somewhere near one percent of total contract value, which for most substantial outsourcing deals, yields at least several hundred thousand dollars in spend for

Company Attributes

OM Tool Vendors

	Revenue (estimated if private)	Staff	Product	Focus	Average Cost	Time to Implement	Regional Focus	Number of Clients
Blue Canopy	< $15M	< 50	4pi	IT governance	$150K-$500K	4-6 Wks	North America	< 10
Business Engine	< $20M	n/a	Business Engine Network	IT governance	n/a	n/a	North America, EU	20+
Centrata	< $15M	100 +	Outsource Management Accelerator	IT governance	$500K	< 90 days	North America	n/a
Digital Fuel	> $20M	< 150	ServiceFlow	IT and business process governance	$500K	"Weeks to months" (depends)	North & South America, EU, Middle East	<50
Janeeva	< S15M	< 100	Assurance	business process governance	$500K	6-8 Wks	North America	20+
Mercury	$700 M+	2000 +	IT Governance	IT governance	$150K +	6-8 Wks	Global	100's
Nimbus Partners	< $15M	< 50	Control-ES	business process governance	$100K +	n/a	EU	< 20
Oblicore	< $15M	150 +	Guarantee	IT and business process governance	$500K	12+ wks (offers 3-week trial)	Middle East, EU, North America	50+
Vantage Technologies	< $20M	< 100	Partnersmith	IT and business process governance	200	8-12 Wks	North America	< 20

Figure C

OM tools (despite what actual budgets say). The implied point is that if your company is going to spend the money anyway, it is best to be clear and deliberate about it, so your tools (and internal or external tool providers) are held accountable.

The Time Required to Implement Third-Party OM Tools

As with pricing, implementation times can exceed buyers' expectations (and also some OM tool vendors' promises). Often, there is shared accountability for longer implementation times as both buyers and sellers have realized that their "implementation readiness" assumptions were not entirely accurate. For example, setting up the data sources and data adapters alone can take months if the buyer is not at least somewhat "compliant," and/or if the vendor is not aggressive about taking ownership of the process.

Many buyers and buyer consultants expect the tool rollout process to last two to three months, when, in fact, it can be as long as 12-18 months. The range depends on the buyer environment, OM tool vendor competency, cooperation of the outsourcing supplier, etc. Again, before comparing OM tool vendors, it is critical for buyers to ensure they are making an apples-to-apples comparison.

Leading and Emerging OM Tool Vendors

Following are several vendor snapshots, and while there are certainly other market players (See Appendix A), we believe these OM tool vendors warrant buyers' attention and consideration today. The focus for each of these snapshots is on what each OM tool vendor is selling, to whom, and why. In particular, EquaTerra is searching for tools that enable "multi" capabilities in outsourcing – e.g., multiple vendors, multiple processes, multiple applications (integratable), etc. We are also in search of those OM tool vendors who can deliver quantifiable, measurable benefits to the client.

DIGITAL FUEL

Digital Fuel offers software solutions (ServiceFlow™ Suite) to manage all aspects of service level agreements (SLAs), providing visibility and financial control around any contractual or business obligations. These tools perform critical tasks to help clients:

- Map services to customers' business attributes for demand and quality management
- Create and monitor SLAs without additional programming
- Change, track and audit IT and business service level obligations
- Manage earn-backs and credits, as well as internal billing
- Manage service contracts for multiple processes and vendors

Digital Fuel serves a number of large organizations that use its products for complex outsourcing deals (over 350 SLAs in one case). Service providers, such as Siemens Business Services, use Digital Fuel's ServiceFlow™ tool embedded within its service offering. For example, Siemens offers clients the ability to measure and manage not only operational performance, but also strategic business outcomes, such as "value-for-money" and overall end-user satisfaction.

Digital Fuel touts its ability to deploy its software quickly, securely and to scale. For example, it claims that clients can deploy its SLA management model in less than 30 days, leading to end benefits such as reduced service costs (by 4.5-7.5 percent) for enterprises and increased revenues (5-10 percent) for outsourcing service providers who use its software. Among the OM tools' pure plays, Digital Fuel seems to offer some of the broadest range of IT and business process coverage, with almost 20 different solutions – call center, HR, finance, etc.

Over the last six months, Digital Fuel has become more sophisticated, more industry and process focused, more cost management focused, and increasingly aggressive and targeted in their marketing (a good thing for clients and the company).

ENLIGHTA

Enlighta offers outsourcing vendor management and delivery applications focused on outsourcing (both the buy and sell side), based upon its mantra that "effective governance of global services, especially outsourced services, is a critical capability you have to get right." Enlighta's two primary products are DELIVER™ and GOVERN™, which enable clients to manage diverse outsourced services across multiple service providers, offering a platform to support both BPO and IT services management.

The Enlighta DELIVER™ product offers service delivery governance (regardless of source), providing elements of performance, financial (e.g. chargebacks) and contract management. As Enlighta states, the "solution wires the complete IT services value chain, supporting business users and globally distributed teams, including offshore, outsourced stakeholders."

The Enlighta GOVERN™ product offers outsourcing vendor management capability in the form of SLA monitoring and compliance, service audits, exceptions tracking, and dispute resolution across multiple outsourced services and providers.

Specific features and functionality of Enlighta products include:

- Globally accessible role-based portals
- Automated measurement of metrics (SLA tracking)
- Document management
- Ad-hoc reporting
- Integration with MS Excel, CSV, JDBC and other data sources
- Service billing and chargebacks

The company claims that its products can be configured and deployed in a matter of weeks at a lower total cost of ownership than competitors – e.g., "70 percent less than equivalent solutions from BMC, Mercury, and others." One of Enlighta's product features is the built-in rules engine that allows clients to set up calculations using a set of pre-written functions or through a navigational language that is understandable by the typical business analyst (after a small amount of training). Enlighta also integrates others' products into it own solution – e.g. dashboard technology from CXO Systems.

The company appears to be developing rapidly in this space (particularly BPO) – three out of five client case studies on its Web site are BPO examples, and several former Mercury executives have joined Enlighta's Outsourcing Governance Council. As a pure-play OM tool provider, the company has established itself from the outset in this space.

JANEEVA

Janeeva's Assurance™ software and services "enable companies with transaction intensive Business Process Outsourced (BPO) operations to maximize the effectiveness and quality of their BPO investment by monitoring, managing, analyzing and assuring supplier performance based on business goals." The Janeeva Assurance family of products aims to provide a one-stop shop for governance activities of outsourced operations.

Janeeva's original market niche was delivering OM tools to companies who offshore call-center driven BPO. Today, its products offer primarily performance, relationship and capacity management. Specific features and functionality include:

- Focused executive management level reporting – "no more than 6-10 pieces of information"
- Software as "managed service," runs in hosted environment
- Web browser-based tools where both clients and providers have access
- Customizable self-service reporting across a spectrum of user types
- Focus across key governance areas including:
  - Performance and Financial Management
  - SLA and Compliance Management
  - Change Control Management
  - Issue Management
  - Analysis and Reporting

Janeeva claims that its products are differentiated by its ability to provide business-owner oversight of BPO relationships, as well as the ability to manage multiple vendors simultaneously. Furthermore, the solution is "non-intrusive," deploys easily for either in-sourced or outsourced services, and offers a pay-as-you-go subscription-based pricing model.

The company's tools seem to be well focused on measurable results – time, cost, etc. – in case studies across industries: "able to reduce overhead personnel time by 50-90 percent," "save overbilling by up to 10 percent with accurate invoices," "achieve savings of 0.5-5.0 percent of total outsourcing spend, etc." Janeeva acquired Vantage Technologies, a subsidiary of Vantage Partners, in fall 2006, which will enable the company to enhance the relationship and communications management capabilities in its tools.

MERCURY

Mercury's Business Technology Optimization (BTO) solutions "help companies create long-term value through optimizing technology and business performance" in the form of the Mercury BTO Enterprise™ solution. The company's IT Governance™ product suite offers performance, contract and financial management capabilities, with greatest maturity in the areas of change management and demand management. Mercury claims that 95 percent of the Fortune 100 companies use its products and at one time claimed the "industry's only hosted IT governance offering," managing 40,000 transactions per day for more than 500 active customers. This has changed in the last two quarters, however, as others are moving toward this type of platform – e.g., Janeeva and Nimbus Partners for BPO.

Leading service providers utilize Mercury's IT Governance™ products as well. Accenture, for example, deploys the software with more than 30,000 of its consultants. Such consultants use the tools to help manage complex professional services contracts, including outsourcing. In July 2006, Hewlett-Packard announced it was acquiring Mercury, but the deal is still pending. Longer term, the integration of Mercury's products with HP's OpenView™ product suite could create a more robust offering that supports the ITIL (Information Technology Infrastructure Library) framework for IT operations management.

The company emphasizes a fast return on investment for both end-user and service provider clients, whom it claims have saved or re-deployed millions of IT dollars and resources within six to nine months of implementing Mercury IT governance software. According to one client, "In the first eight months of using Mercury IT Governance Center, we saved $10 million in repurposed capital investment, saved $3.7 by avoiding investments in non-viable projects, and increased the number of healthy IT projects by 70 percent by using Mercury to facilitate business and IT working together."

Among the company's new capabilities is Mercury Portfolio Management 6.0, which offers enhanced project scorecards, "out-of-the-box" best practices, more powerful user-interface configuration options, and enhanced executive dashboards. At present, the company's products seem more geared to Systems Integration projects and IT outsourcing (in that order) than to BPO deals.

OBLICORE

Oblicore offers Guarantee™ software and services "to reduce the cost of service delivery, maintain compliance, increase customer retention and acquisition, and keep critical business processes operating at required performance." This is primarily a service level management tool with links to compliance and financials. Specific features and functionality include:

- Automatic and continuous tracking for service compliance (real time)
- Service catalog and SLA repository
- Data aggregation/correlation (60+ adapters) for quick configuration and data sourcing
- Reporting and analysis, on-demand and role-based
- Root-cause analysis and dashboard
- Financial and legal management (root cause)

Approximately two-thirds of Oblicore's customers are service providers, including a global ERP provider that uses the product to monitor SLA compliance for its hosted ERP solutions. Among the company's evolving differentiators is Oblicore's Contract Center (Version 3.5), which offers a "complete service catalog and contract management solution" with over 50 pre-bundled service metric types and a rapid deployment cycle (less than five days).

One of the company's more appealing capabilities is its ability and willingness to offer a "Three-Week Proof of Concept," which "gives you a low-cost, zero-risk opportunity to see for yourself." Oblicore asserts that, "In most cases, the vast majority of the work performed during the Proof of Concept can be readily applied to the full deployment."

Oblicore's customers fall into four buyer industries: telecommunications, financial services, energy and government. Many of the vendor's clientele appear to be more EU-focused than North America although that may be changing – e.g., Cable & Wireless, Lufthansa Systems, TDS, Telindus, gedas, Informática El Corte Inglés, Ness Technologies, BT Consulting & Systems Integration, a Top 3 Global Software Provider, a Top Nordic IT Services Company, etc.

Regarding Oblicore's apparent fast growth and further development, the company has signed 10 new customers during the third quarter of 2006 and updated its flagship product to include Oblicore Contract Center™ .

VANTAGE TECHNOLOGIES (acquired by Janeeva in October 2006)

Vantage Technologies creates enterprise software that leverages the consulting tools and expertise of its original parent company, Vantage Partners, which, in turn, leverages experience from the Harvard Negotiation Project and the team that wrote 'Getting to Yes.' The product, Partnersmith®, is "a Strategic Relationship Management (SRM) platform designed to help organizations maximize the value of their outsourcing relationships." Such tools strive to offer a unique focus on managing complex organizational relationships (versus individual) and aspire to codify subjective people processes into software products that provide:

- Data integration to make more informed decisions about outsourcing partnerships
- Analysis to manage negotiations, joint planning, and resolving problems or disputes
- Job aides for tools, checklists and templates for relationship management
- Collaboration for virtual workspaces, structured planning and problem solving
- Executive information systems to assess the health of relationships

Vantage Technologies has served numerous F1000 clients with its consulting services, and the company's product has been deployed as a Beta version with HP and LL Bean. Though the product has been evolving over the last three to four years, outsourcing service providers generally have not taken such software in their tool kits, though this may be changing with Janeeva's acquisition.

Strategic Relationship Management makes sense across all verticals, particularly for any company that treats its outsourcing relationship as more of a business partnership than a customer-vendor pairing (the trend in ITO and BPO deals). In fact, these types of solutions may represent the "next generation" in OM tool functionality.

V. The Evolution of the OM Tools Market

OM Tools from the Outsourcing Provider

As a group, outsourcing service providers are beginning to provide more formalized OM tools to their clients. For example, IBM is developing its own OM tool, Rational Portfolio Manager, to replace past practices of using different tools with different clients. HP is in the process of acquiring Mercury, ostensibly to provide itself and clients with improved governance in IT services, outsourcing among them.

Like internal technologies, service provider tools focus first on the basics: service quality management, demand management (consumption data) and requests for service portfolio management. For the most part, service providers have tended to under-invest in tool development, reacting on a client-by-client basis, instead of developing standardized tools across accounts. Specifically, service provider tools seem to:

- Lack executive-level management and reporting capabilities
- Lack robust commercial or financial management functionality
- Fail to integrate or scale with other OM tools, in-house or third-party (lack data adapters)
- Work only inside a single specific buyer-seller relationship (versus managing many providers)
- Work off their own service level algorithms (versus those of an independent third party)

Also, buyers often feel that service providers who use their own tools have the upper hand in contract renegotiations because they have created and own the data (and the client does not), meaning there may be some inherent bias (perceived or real). This can occur when service providers use their own tools to monitor and manage their own services. In such instances, the tools may be using the wrong service level algorithms or formulas (unintentionally), which will lead to faulty reporting and improper management of the outsourced process.

The inherent doubt in these relationships may affect the viability of any long-term OM functionality among the outsourcing suppliers. At the same time, service provider OM tools are currently "free" to buyers as compared to building or buying such tools from third-party vendors.

Where Third-Party OM Tools Lag Today

As Figure D shows, no third-party OM tool vendors can currently "bring it all together" in a single solution. At a high level, prospective buyers of third-party OM tools should pay particular attention to a number of strategic issues that may be more difficult for OM tools to support.

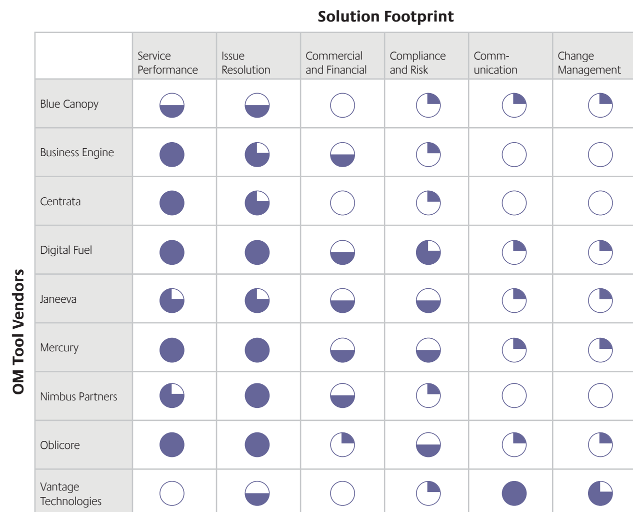

Figure D

Based upon our knowledge to date of third-party tool vendors, many of whom we have interviewed using the "OM Tools Functionality Worksheet" (See Appendix B) or assessed through the input of EquaTerra's advisors, EquaTerra has identified a number of areas where tools appear to lack standard functionality, including:

Contract and Compliance Management

- Version control for contract documentation (e.g., "check in/check out")
- Compliance tracking for local, state and federal regulations

Workflow Management

- Productivity assessment
- Resource allocation
- Resource optimization
- Resource forecasting

Relationship Management

- Measuring relationship productivity
- Ensuring continuous improvement

Project Management

- Work initiation and authorization management
- Work/resource scheduling
- Resource tracking
- Milestone management

Commercial and/or Financial Management *

- Ongoing cost and risk
- Budget versus actual analysis for usage
- Financial forecasting
- Tracking SLAs to costs
- Track defaults, service credits, waivers and penalties
- Assess service credits as a percentage of fees
- Audit service back to service provider invoices
- Manage chargebacks to business units
- Integrate and work with ERP financials
- Project payment/receipt tracking

For all the bells and whistles of potential OM tool functionality, executives asked to identify key desired technical attributes in an OM tool named “Cost/value for the money” as the leading attribute. This was cited by more than 60 percent of respondents. Coming in second at just under 50 percent was “ease of use,” whereas more specific technical capabilities like modeling, project management, reporting, and workflow all scored much lower.

If EquaTerra client advisors had to point to a single shortcoming among third-party OM tools today, it would be the lack of “an integrated view of performance” across the enterprise and across contracts. Surveyed opinions of functionality gaps vary and are always going to be in the eyes of the beholder, but most agree that OM tools today fail to provide a fully integrated model that connects service level management with all other key elements of outsourcing delivery – e.g., financials, contracting, customer satisfaction, etc.

Note Commercial (more specifically, financial) management is one area where the perspectives and experiences of EquaTerra advisors differ vastly from the prospective tool capabilities stated by third-party OM tool vendors. While advisors claim there is a general lack of financial management capability in tools, many vendors indicate that they offer either standardized, or at least customized, solutions in the above areas.

The Future of Third-Party OM Tools

The third-party OM tools market is in flux. Many vendors are still balancing their product-service mix due to the relative immaturity of outsourcing management software and the complexity involved. Only the most mature vendors exhibit a “normal” 80/20 product-to-service revenue mix. Additionally, OM tool vendors are still honing their go-to-market approach. Given their small size (compared with their larger target clients), many are forced, or prefer, to sell through larger consulting and outsourcing service provider channels rather than sell directly to the client.

Over the next 18 to 24 months, the combination of market education and the performance of actual OM tools will determine whether this type of software becomes the “ERP” of outsourcing management or whether enterprises should opt for other solutions, such as the internal resource approach. Market adoption has been slower than expected, but demand has remained fairly steady for the past three years. As with other standards-driven software, it also remains to be seen whether buyers will use OM tool software to configure their OM process or vice-versa. As one EquaTerra client advisor notes, “My overall experience with tools is that they should support the processes you put in place, not the other way around. We need to ensure that the tool is easily adapted to our clients’ processes.”

Still, OM tools play a critical part in helping organizations adapt to the sheer scale and complexity of a large outsourcing arrangement. These tools are filling an important role today by helping organizations manage not only service and cost, but also other factors such as demand and consumption, multi-site data access, etc. As such tools become more powerful, they also can help buyers perform valuable tasks beyond these activities, such as “what if analysis,” assessing end-customer satisfaction (e.g., how happy your employees are with the HR process) and really using OM tool output to manage the outsourcing relationship most effectively.

As an example of one emerging option for the next generation of OM capabilities, Microsoft is moving deeper into the enterprise, continuing to take desktop functionality beyond IT and office functions to encompass more complex business processes, like outsourcing management. As part of this effort, Microsoft offers various and proven business intelligence technologies, including Microsoft Office Business Scorecard Manager™, Microsoft Office SharePoint™ Portal Server and Microsoft SQL Server™ - that help users solve one of the major headaches of OM: integration.

These products, often part of the enterprise technology base already, can utilize given OM models and processes to operate in conjunction with other systems and technologies by creating a common, re-usable platform to help manage key areas like SLAs, service credits, chargebacks, and other vital metrics. Outsourcing buyers can actually use the Microsoft suite of products to maintain control over service providers, OM processes, and even other OM technologies.

According to Microsoft's Geoff Cairns, director of US Outsourcing Sales and Partners, "With the right governance methodology and processes, customers and partners can actually use their existing Microsoft technology (Office, SharePoint, SQL, etc.) to create very powerful automated OM capabilities. Such a solution gives executives and users the ability to obtain rich sourcing insights and a cross-enterprise view in order to reduce time, effort, and the cost of their OM initiatives."

VI. How to Assess the ROI on OM Tools

It is a fact that OM tools help collect, store, measure, compare, link and report on data and information inside and outside the enterprise. As one executive stated, "Given the complexity and scale of our operation, our task would be impossible without some level of automation and application-driven intelligence." Buyers must balance their functional needs versus vendor capabilities as they evaluate OM tools.

With respect to OM tools, the "make versus buy" debate involves the same considerations as any other product or service: cost versus value, flexibility and customization, speed to ROI, other resources required to deploy (labor), etc. However, the specific issues associated with OM technology create additional unique deliberations.

Outsourcing management tools appear to be most useful for large scale, complex, distributed processes. While our current research shows that OM spend ranges, broadly speaking, from 2-7 percent of annual contract value (people, processes, and tools), some organizations spend up to 2 percent on OM tools alone.

At this time, there is no set of broadly researched statistics to validate whether this level of investment is justified or not. However, there are multiple cases where business process owners have determined that the advantages of such tools make them a critical part of a sound governance practice. Given the overt cost of external OM tools as well as potential implementation times, some OM tool vendors do offer pilot programs to help enterprises determine the ROI for their particular situation.

Perhaps the next phase in assessing the return on OM tool purchases will be showing how the savings generated from the use of OM tools can actually pay for the solution over a relatively short period of time (after all, OM tool investments should be subject to the same rules of logic that apply to other investments and ventures). In assessing the ROI of any OM tool, there are a number of key questions buyers should ask in addition to traditional "make versus buy" criteria (See Figure E):

- How and where does a specific tool address the OM Framework?
- How is the tool configured to support operational SLAs versus end-business objectives?
- What are the specific features and benefits of the tool?
- How does the user train on the tool, and what support is needed?
- How is the tool delivered (license, managed service, etc.)?
- What regulations and compliance requirements does the tool support (e.g., Sarbanes-Oxley)?
- What does the business-user interface look like?
- How does the tool pull data and assure data integrity, accuracy and transparency?
- Is the tool easy to implement/use?
- How does the tool/solution account for any required change management?
- How well does the tool integrate with other applications?
- How well does the tool apply data and intelligence back to the business process?
- Is the tool a piece of technology or a solution to a business problem? How?

Typical Make versus Buy Criteria: Will OM Tools Work For You?

- Total cost of ownership: consulting, product, required hardware and software
- Standardization versus customization (flexibility)
- Speed-to-value/ROI
- Labor resources (type, cost, etc.)
- Business impact

Figure E

EquaTerra also has developed an "OM Tools Functionality Worksheet" (See Appendix B) to enable buyers and users of OM tools to assess the relative scope of functionality for various internal and external OM tool options. The worksheet serves as an index to help organizations evaluate evolving OM technologies. Using the worksheet as a guide, buyers can plot a vendor's footprint across the OM framework and also get very detailed feedback from specific vendors about where their solutions operate. Enterprises would do well to develop a tools strategy as part of their OM design effort, as such tools are an important part of an overall OM capability.

Appendix A – OM Tool Providers by Function

Performance Management

1. AperServe (acquired by Response Networks, 2002)
2. Blue Canopy
3. Centrata (service catalogs)
4. Chimes (centralized vendor management)
5. ClariTeam
6. Cria Technology (no longer in business)
7. CXO Systems (executive dashboard)
8. Digital Fuel
9. Euclid (service catalogs)
10. Evident
11. iCanSP (acquired by Computer Associates)
12. InfoVista
13. Janeeva (BPO focus)
14. Mercury
15. MetraTech
16. newScale (service catalogs)
17. Nimbus Partners
18. Oblicore
19. Proxima Technologies
20. ResponseTek
21. SAP
22. Senable
23. Solution 6

Project Management Tools (Sub-category of Performance Management)

1. Artemis
2. Business Engine
3. CA Clarity (formerly Niku)
4. Changepoint (a Compuware product)
5. Lawson
6. Microsoft
7. newScale
8. Niku
9. PlainView
10. PowerSteering
11. PrimaVera Systems
12. ProSite
13. Remedy
14. Vite

Relationship Management

1. Cria Tech
2. iMany
3. Vantage Technologies

Financial Management

1. Business Engine
2. ChangePoint (a Compuware product)
3. Chimes (spend management)
4. Digital Fuel
5. Euclid
6. iMany
7. Nextance
8. Oblicore

Contract Administration

1. AperServe (acquired by Response Networks, 2002)
2. Brix Networks
3. ClariTeamarITeam
4. CMSI – contract management solutions
5. CommerceQuest
6. Covigna
7. CXO Systems
8. diCarta (now Emptoris)
9. Digital Fuel
10. Empact
11. Enate (specifically for BPO and shared services)

12. icanSP, acquired by CA
13. Igraphics
14. IntraWare
15. Mercury
16. MetraTech
17. newScale
18. Nextance
19. Oracle
20. PeopleSoft
21. ProForma Corp.
22. ResponseTek
23. Sabion
24. SAP
25. TBI
26. Transition Partners
27. Upside Software

Appendix B – OM Tools Functionality Worksheet

Produced under separate cover, this worksheet enables buyers to identify where specific OM tools operate. Buyers can use the worksheet to track whether an OM tool vendor offers a specific functionality as part of its standard offering or if a capability is available through customization. To receive a copy of the "OM Tools Functionality Worksheet," please e-mail Mike Beals at mike.beals@equaterra.com.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their business processes. With an average of more than 20 years of experience in over 600 global transformation and outsourcing projects, our advisors offer unmatched industry expertise. EquaTerra has in-depth functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes with advisors throughout North America, Europe and Asia Pacific. Our people are passionate about providing objective, conflict-free advice to our clients, which has fueled our exponential growth over the past three years. We help clients achieve significant cost savings and process improvements with outsourcing, internal transformation and shared services solutions. It is all we do.

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