

IT Outsourcing's 15% Problem:

The Need for Outsourcing Governance

ABSTRACT:

IT outsourcing involves complex IT infrastructures that make it extremely difficult to get an accurate inventory of the IT assets under management. Data collected by Blazent over the course of a large number of client engagements has shown significant errors in the typical controls used for IT outsourcing governance – on average 15%. The result is expensive manual processes and inaccuracies that lead to significant waste. This white paper explores the data found by Blazent and examines a case study on how one progressive organization is addressing the need for governance in IT outsourcing.

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The Need for IT Outsourcing Governance

The key to any outsourcing relationship is governance — defined expectations and the ability to verify performance. However, even the most advanced enterprises and IT service providers struggle with the ability to deliver an accurate, timely inventory of assets under management. Many organizations continue to use manual governance processes that result in time-consuming reconciliation exercises, yield inaccurate data, and are very expensive. Without a trusted baseline, disputes are inevitable and there is no solid foundation for their resolution.

Good governance requires transparency and detailed visibility into the IT asset inventory. Both IT service provider and the client need to be confident about details such as:

- Is there an accurate baseline of assets under management?
- How many assets exist?
- Who is using the assets?
- Are assets and services being properly billed?
- Are the configurations secure?
- How are the assets managed?

Without this level of transparency, costly and inaccurate manual processes have become the norm.

Methodology

Blazent has been addressing the needs of global IT service providers for years, helping them to increase profitability, enhance customer credibility and become proactive partners with their clients. During these years of working with service providers, the company has collected an important body of operational data about IT outsourcing projects. This data provides objective industry benchmarks that measure the effectiveness of IT management practices in use within some of the largest outsourcing contracts.

The findings in this paper are based on an analysis of more than 60 IT outsourcing engagements using Blazent solutions. The data covers:

- Contracts worth more than \$32B under management
- More than 1,400,000 desktop computers
- More than 115,000 servers

Key Finding: The 15% Problem

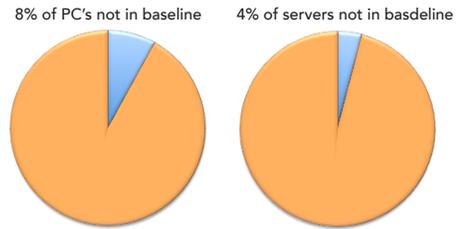
Analysis of this data shows a severe problem with IT outsourcing. Across all information captured, governance control metrics were amiss by an average of 15% prior to using the Blazent product. This is a staggering number that represents significant portions of IT

outsourcing that are not providing value to customers. This paper reviews in detail exactly where these controls are out of alignment, and what Blazent can do to help.

Baselines

IT outsourcing is falling short on the most basic measurement — tracking the number of assets under management. Contracts are set based on the number of assets in the baseline, and when these numbers are off, the relationship suffers.

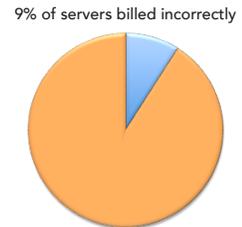
Our analysis shows that on average, 8% of desktop computers and 4% of server are not included in the baseline. The impact on corporate IT is billing “surprises” when the missing assets are eventually discovered and added to the baseline.



With Blazent, accurate baselines can be set at the beginning of the relationship using electronic wall-to-wall inventories that are significantly less expensive than manual methods.

Billing Inaccuracies

Tracking the status of assets is of crucial importance, as billing rates are determined by the status of an asset. Our analysis shows that on average, 9% of servers under management are billed incorrectly.



These inaccuracies come in a wide range of flavors. One example recently uncovered by Blazent was erroneous billing for 200 servers that had been scheduled for decommission. Because the new status had not been communicated to the service provider, the servers continued to be maintained and billed – adding value to no one.

With Blazent, bills are automatically reconciled against actual services delivered to help ensure accuracy.

Audit Exposure

Many IT Outsourcing contracts require book-to-floor audits. The service provider is required to take a sample of the assets from the books – typically the CMDB or primary asset management system – and physically go touch each machine on the floor. Individuals will walk to each desktop computer or server and verify the accuracy of the data fields such as asset name, serial number, asset tag, CPU speed, number of CPUs, make, model, patch level, and more. The process of running a book-to-floor audit is expensive, and if the audit does not pass there are typically penalties.

In our analysis, on average there is a 14% difference between the “book” and “floor” data, creating significant audit exposure.

With Blazent, every asset is audited every night. We automatically take data from the “book” (i.e. CMDB or Asset Management System) and compare it to one or more floor systems (existing agents running on the physical machines). We can identify audit exposure using this Electronic Cycle Count approach. And even better, help the provider fix inconsistencies.

14% book-to-floor audit exposure



Antivirus Agent Penetration

Although most enterprises and service providers claim to have very high antivirus penetration, the reality is far different. The data shows that on average, antivirus penetration is approximately 84%, leaving 16% of assets exposed and unprotected. For customers with compliance requirements such as PCI, this creates the potential for penalties or even loss of certification. This does not happen because someone is not doing his or her job. The problem is that if assets are not discovered appropriately, the anti-virus agents will not be installed.

16% of assets without antivirus protection



With Blazent, specific devices without appropriate anti-virus agents are identified so that they can have agents deployed, thus increasing coverage. Our customers are typically able to achieve anti-virus coverage of well over 99%.

Operational Agent Penetration

Although most IT outsourcing contracts require a very high penetration of operational agents, our benchmarks show a very different situation. In fact, the data shows that 8% of servers are missing a patching agent. We have also found that 20% of servers and 10% of desktops are missing a discovery agent.

8% of servers missing patching agent



20% of servers missing discovery agent



10% of PC's missing discovery agent



Blazent is able to identify assets that do not have these agents so they can have them deployed and increase coverage to required levels.

Does size matter? Not in IT Outsourcing.

Interestingly, our analysis did not find any correlation between the size of an account (measured by the number of assets under management), and quality (measured by the level of agent penetration and the accuracy of inventory count). However, there is a direct correlation between the individual measures of quality. Not surprisingly, accounts that have high accuracy in their inventory baselines tend to also have high operational coverage like anti-virus penetration and discovery agent penetration, since both of these depend on excellent data quality.

The Real-Life Impact of the 15% Problem

Shortcomings in governance of these IT outsourcing contracts can have a profound impact on the relationship between the service provider and its client. Without accurate data about the asset baseline and the status of each asset, disputes can arise and trust is lost. Both the lack of visibility and the manual processes for dealing with these issues are extremely costly.

Some important items of governance that can have a big impact on the relationship between a service provider and their clients include:

- **Assets under management:** Contracts are generally based on the number of assets under management. Lack of visibility thus translates into either overcharging or undercharging for services.
- **Misclassified assets:** Inaccuracies in asset status result in an average billing error of \$662,432 annually per account. The errors can go either way. Service providers are either under-billing on premium services for assets that should get standard services or overbilling by delivering services for assets that are ostensibly retired (often called "rogue" or "zombie" assets).
- **Risk Mitigation:** Most contracts put in place security and vulnerability-related SLA's. An aspect of these SLA's is a measure of the level of anti-virus agent penetration and the patch level of those agents. On the service provider side, penalties for compliance failure can be high, sometimes reaching hundreds of thousands of dollars. On the enterprise IT side, lack of compliance can have significant costs if audits are failed.
- **Operational performance:** Service providers and enterprise IT organizations often invest millions of dollars in technologies intended to streamline operational performance. Investments may include deploying agents such as performance monitoring and distribution systems. The ROI of these systems is predicated on the level of penetration the agents have across the enterprise. If the average penetration rate falls as low as 85%, the ROI and business case for tool acquisition usually fall apart.

Clearly, a business case exists for investment in IT outsourcing governance, both from the perspective of the IT service provider and the enterprise IT organization. In an outsourcing situation, the service provider wants to protect their revenue and make sure they are compensated properly for the work performed. Their client wants to avoid overpaying for services and to ensure that the service provider is accurately representing compliance metrics such as agent penetration.

Perhaps of greatest importance is the idea that a service provider and the client want to elevate their relationship to a place they can focus on productive initiatives rather than fire fighting and dispute management. Increased visibility and good governance can free IT staff to work on their strategic priorities and it can free up the service provider to work on the things that have the greatest impact on operational quality and efficiency.

Case Study – Major Financial Services Company

This case study represents a common scenario in which a large-scale outsourcing contract has turned into a very difficult situation due to a lack of accurate and detailed information. This particular situation was turned into a positive one for both the service provider and its client after implementing a solution from Blazent.

There is always a dynamic relationship between the service provider and the client. This case was no exception. The challenges faced by the service provider and its client included:

- **Accurate asset count:** The client had one view of the assets under management, but the service provider believed the client's figure unrepresented the reality. Without good data, the service provider had to simply accept the client's figures.
- **Asset data accuracy:** The contract SLA called for 98% accuracy at the field level for the 30 fields used to make up the RU count. Failure to comply could have serious financial impact for the service provider.
- **Charge back accuracy:** Due to several years of inattention and circumvention of IMAC processes, more than 20,000 assets were no longer allocated to the correct cost and profit centers within the client organization. The number of assets under management made it difficult for anyone to sort out the situation.
- **Endless disputes:** The service provider and client found themselves in a seemingly endless cycle of disputes. Due to the expensive, time-consuming manual nature of dealing with those disputes, the level of service was beginning to suffer and the service provider was beginning to lose credibility with the client.

Challenge

- Strict service level agreements on field-level accuracy of asset inventory (auditable with possible financial penalties)
- Accuracy of internal charge backs
- Compliance with internal standards
- Expensive, time-consuming manual methods for dealing with disputes

Solution

- Blazent was selected to aggregate and cleanse data sources to deliver an accurate and complete IT asset data warehouse
- Powerful analytics to drive actionable information from the chaotic data

Results

- Identified more than 20,000 charge-back misallocations
- Validated supported assets in question, resulting in accurate pay to the service provider for assets under management
- Improved service provider and client relationship due to the ability to utilize trusted data
- Accurate representation of systems that had a dated OS as well as agreement on higher charges for managing outdated systems

Solution

First, it was clear that both parties needed and wanted a consolidated and accurate view of the IT assets under management. Secondly, the service provider needed flexible analytics and reporting that could leverage that data to present field-level visibility into the client's assets. And lastly, the service provider needed to deliver these capabilities in a short time while also reducing costs. After extensively evaluating offerings on the market, including their own internal technologies, and evaluating a build versus buy scenario, this service provider turned to Blazent.

Results Using Blazent

Using Blazent, the team was able to aggregate, cleanse, and normalize asset data from more than 12 disparate data sources, creating an accurate and consolidated inventory of IT assets. The impact was almost immediate. Some of the benefits have included:

- The service provider was able to help address field-level accuracy by identifying data conflicts using automated variance reports. This allowed the service provider to put in place a process to begin correcting the issues in a systematic fashion. Thus the client gained the field-level visibility they so desperately needed.

- With the consolidated view of assets provided by Blazent, the service provider and the IT team were able to leverage the integrated analytics to deliver detailed reporting on assets that could tie assets to specific applications and cost centers. With chargeback discrepancies easily visible, they were being cleaned up at a rate of 1,000 per month through a client portal “self serve” format.
- Disputes could now be addressed with hard data. For example, the service provider was able to justify all billing claims with data that the client trusted.

The relationship between the service provider team and client got back on track. Armed with the accurate information that Blazent delivers, the service provider and the client are now able to better focus on building value in the relationship.

Conclusion

Service providers and enterprise IT organizations must adopt more intelligent ways to achieve good governance for outsourcing contracts. By using automation to collect and aggregate data, transparency of operational and financial metrics can be achieved, resulting in the following benefits:

- Increased accuracy of inventories
- Trusted information that mitigates the need for dispute resolution
- Reduced operational compliance risk by proactively identifying and resolving gaps in operations
- Ability for both parties to focus on strategic initiatives
- More accurate chargeback accounting
- Improved relations between service providers and their clients

About Blazent

Blazent provides outsourcing governance to help both service providers and enterprise IT organizations achieve greater visibility and control in their IT outsourcing programs. With Blazent, the right metrics are put in place to deliver automated operational and financial transparency. Blazent’s offerings can help organizations reduce costs, gain accurate and trusted information, and alleviate operational and compliance risk. For more information visit www.blazent.com.