

# The Orchestrate Group

Composing and directing IT services

## Is orchestrating IT delivery functions a core capability of IT departments in organizations?

By Bas Kleinveld, February 2015

*IT departments are facing dynamic demand from (internal) customers. CIO's are challenged to reduce overall costs and to increase the value of IT. This has impact on strategies for sourcing IT services. Different organizations are outsourcing some functions in order to free up own resources to focus on business value. Social media, cloud services, mobile and big data will further drive change in IT services requirements. Many IT organizations don't have the level of maturity required to deliver seamless and cohesive IT services. This raises the question if orchestrating delivery related IT functions is a core capability of IT organizations today and in the future.*

### **Change in the market**

Organizations need to manage their IT sourcing strategies aligned to the dynamic market and business requirements. This requires increasing agility and flexibility. Companies don't want more labor but they want more cost-effective ways of getting work done. Gartner predicts that the outsourcing market is undergoing significant changes. Organizations can choose from an increasing number of

alternatives, such as utility and cloud services. This requires managers to rethink their sourcing strategies and management frameworks. Running efficient IT operations depends on a high level of transparency, clear accountability and responsibilities to prioritize and control it, especially with an increase in as-a-service solutions. Managers need to improve their governance to effectively optimize the performance of their IT service supply chains. They need to show value of IT aligned to business metrics and manage their IT suppliers against business outcomes. Outcome will matter more than ever. Today, only a limited number of organizations base their outsourced relationships on business outcome related metrics. Many IT departments and their (strategic) IT partners dare to change the traditional business model because it requires fundamental changes in the organization to achieve this. Royal Philips is a good example where IT services have been outsourced to a set of strategic suppliers, based on an output based delivery model.

## Challenges

Organizations seem to have difficulties in deciding which specific roles and capabilities must be retained in the organization in order to mitigate risk, manage IT suppliers and manage the business demand appropriately. A study by Mehta back in 2010 already shows that customers and vendors face challenges, which relate to 4 areas: human resource management, leadership & team management, frequently changing customer policies & requirements, costs and information security. The quality of IT services is dependent on human capital. Issues related to leadership and team management were most prominent among middle managers. In the absence of appropriate training to lead and manage teams, they adopted improper approaches to motivate their team members. Upper-level managers have the same challenges. Budget restrictions and cost reductions on IT further increase this gap in capabilities, while attracting the required skills is a major challenge.

## Retained organizations

According to The Boston Consulting Group there is always a part of the IT function that remains in house, the retained organization. To ensure that customers can execute this vital role with regards to IT outsourcing, retained IT organizations must essentially do two things. They must manage their various responsibilities, capabilities and personnel in a highly coordinated manner. It can be compared to an orchestra conductor. The retained IT organization must ensure a coordinated performance from the entire orchestra, meaning both vendors and internal delivery groups. It must execute the repertoire at a caliber that satisfies the audience. Secondly retained IT organizations must confirm that they have the necessary capabilities in five principal areas: Strategy & governance, Demand management, Supplier management, Talent management and Delivery management.

## Business value

The Orchestrate Group, a start-up company in delivering IT orchestration services believes that by 2020 IT in organizations must be organized around delivering business value and no longer on managing IT operations. The Orchestrate Group argues that many retained organizations lack the required capabilities in their retained organizations, and have identified a gap in the IT industry by both vendors as customers. Over the next three to five years, organizations will change their sourcing mix. They will adopt standardized delivery models using cloud services like Infrastructure as a Service, Platform as a Service, and Software as a Service or Business Process as a Service more aggressively. This adds new challenges to retained organizations as they strive to ensure end-to-end IT services quality and multi-sourcing service integration. The challenge lies in managing the opportunities and risk associated with delivering efficient and cost effective IT services. The challenge is in a hybrid blend of traditional and nontraditional service delivery models.

In addition retained organizations are considering techniques to ensure competitive pricing over the life of their agreements, like predefined unit price declines, mandated benchmarks on a regular basis and price adjustments. Understanding the pricing models of IT vendor is an even bigger challenge. The Orchestrate Group adds 4 more capabilities to the capabilities indicated by The Boston Consulting Group, which are required by retained IT organizations: Contract management, financial management, Communications management and Architecture. In addition, IT suppliers and retained organizations will need to act more on collective shared goals and The Orchestrate Group argues that a retained organization should be organized in a way an symphony orchestra is organized. The focus should be on the collective rather than individual IT services.

## Relationships

Many organizations have benchmarked their IT services, and they are confident that pricing for infrastructure services is competitive for year one and year two of an agreement. Pricing adjustments over the life of a contract do not keep pace with the competitiveness of the market. As part of supplier and contract management, understanding of the market and the supplier's business model is becoming an important capability, where the interests of both suppliers and customers will need to be managed based on a set of shared goals. It is important for outsourcing-driven and outsourcing-centric customers to invest in the relationship with IT suppliers and discuss these shared goals. Contracts can never be complete and unforeseen uncertainties legitimize the role of the so-called "soft side" of contracts.

Research by Plugge & Bouwman (2013) shows that better personal relationships in a partnership can benefit all parties. This involves collaborating with IT suppliers across various areas and at multiple levels, as IT suppliers do not share the same profit motives as their customers. Companies lose between 5 and 30 percent of the expected value of their outsourcing relationship through ineffective governance. The IT industry includes many disputed contracts as a result of unsuccessful customer and IT supplier relationships.

According to KPMG, sourcing consultants may have to rethink their role. For many clients, it will be too expensive to build and improve their capability for orchestration or for keeping track of a larger and dynamic ecosystem of vendors. This might be an area where value can be added, by having this capability as a sort of "Orchestration-as-a-Service". It is therefore no wonder that Managed Governance and orchestration Services is a growing business.

Overall it can be concluded that deciding what, how much and how to outsource is a challenge and increasingly organizations have difficulties to decide which roles and capabilities need to be retained to manage IT services. IT suppliers do not share the same interests as their customers. Sourcing strategies are changing rapidly. Traditional outsourcing will not go away in the near future but soon the sourcing mix will include more industrialized delivery models like cloud services. Ensuring end-to-end quality and integration of the multi-sourced IT services while at the same time delivering new requirements to the business poses great challenges to retained organizations.

Exactly here is where The Orchestrate Group sees an important role in the near future, and believes that orchestrating delivery related IT functions is no longer a core capability a retained organization needs to build itself, but can be outsourced or contracted as a service (BPO) to specialized companies. IT organizations should focus more on strategy and managing business needs and demand.

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*About The Orchestrate Group: The Orchestrate Group is an independent IT consultancy and services firm, creating value to customers realizing care free and efficient IT delivery functions.*