BRIDGE STRATEGY GROUP LLC

Case Study

IT Organization Design and Outsourcing Analysis

Industry & Client Situation

Our client was a consumer finance company that had recently become public. It had historically been a good performer, in part because of a commitment to cost cutting and continuous improvement in core operations.

Over time, the company had become convinced its information technology function was a drag on profitability and that some or all of it should be outsourced. Bridge was engaged to validate this decision and to manage the vendor selection and negotiation process expected to follow.

Approach

We designed the project to have two distinct phases: an analysis phase to validate the decision to outsource and an implementation phase to execute on our recommendation. Though our client was predisposed to outsource, we made a point of approaching the analysis with no bias of our own.

Our analysis consisted of the following:

- Evaluation of the company's core competencies, both existing and aspirational, to determine the amount of executive attention that IT should merit
- Benchmarking quantitative measures of the company's IT performance against the performance of a set of its peers
- A more qualitative analysis of performance based on conversations with people both inside and outside the IT organization
- Evaluation of the company's competence as a vendor manager
- Assessment of the potential for improved IT performance through outsourcing against the risks associated with such a direction

Results

Our analysis did not present a compelling case for immediate outsourcing. Existing IT professionals were generally knowledgeable and responsive to the needs of internal and external customers. Service levels were high, and compensation costs were quite competitive, owing to the location of IT operations in tier 2-3 cities.

Our recommendation was to defer the outsourcing decision and to invest the coming months in exploiting specific cost reduction opportunities we had identified during the course of the outsourcing analysis. Aside from the obvious, this would have the benefit of improving the company's negotiating position with providers in any subsequent outsourcing effort.

Levers for improvement included third party ("sourceable") expenses, where costs were substantially higher than our data and experience indicated were achievable, and tuning of mainframe and Windows servers, where known best practices had yet to be fully exploited.

Reductions in these areas did indeed prove to be substantial, with third-party expenses alone reduced by between 15 and 20 percent, and the company is currently in the process of revisiting the outsourcing decision from a position of strength.