Can We Talk?

IT Services in 2009 – A Time to Re-evaluate & Re-Negotiate!

Current events may present some compelling opportunities for your IT organization. A down economy, excess capacity, the Satyam crisis, etc. are just some of the reasons your organization needs to re-assess its services procurement strategy and its services contracts.

Immediate Economic Opportunity

We believe there may be significant opportunities for your firm to negotiate more favorable deals with systems integrators, outsourcers and management consultants. Many of these firms have lost key business with major clients, especially those with significant exposure to Wall Street banks. These service firms have excess capacity and will be more competitive than ever to do deals.

How do we know this is a good time to negotiate great deals? Service firms live or die by utilization – the rate with which they can keep their expensive personnel chargeable. There are significant signs which point to systemic weakness in utilization in service firms. Specifically, we hear of several service firms:

- losing business due to general economic pressures
- deferring new hire start dates
- seeing pronounced drop off of new business in specific verticals (e.g., automotive and financial services)
- experiencing a marked reduction in voluntary job attrition and a marked increase in involuntary attrition

To take advantage of this market opportunity, you need access to current service market knowledge, solid negotiating expertise and skill in negotiating service contracts and the service level agreements that accompany many of these deals. Don't expect these savings to be had easily. Service providers, like technology firms, remember the lessons of the Tech Bubble collapse and are a more hardened lot. Nonetheless, their firms will need to deal to get work and you owe it to your firm and your shareholders to get a solid deal.

Opportunity to Re-Negotiate Existing Arrangements

Even if you are not looking to cut new contracts, we believe it would be imprudent to blindly renew pre-existing contracts. Whether your firm and its business have changed little over the last few years, your service provider may have been acquired, experienced material growth/attrition, benefited from changing foreign exchange rates, etc.

Because businesses are fluid and dynamic entities, the relationships between your firm and an outsourcer/integrator may need to change as well. Here are just some of the situations that can affect your relationship and the contracts you have with service providers.

- *A number of service firms have been recently acquired (e.g., EDS and HP) and your firm may be experiencing service level falloffs while these companies sort out their new post-merger life together. Are your customers or users suffering because of someone else's inorganic growth?*
- *If your service provider delivers its work from a different country are they benefiting from a foreign currency exchange rate that has changed lately? Should your firm share in some of these savings?*
- *Is the level of attrition within your service provider growing? Is this impacting the quality of deliverables you receive from them?*

If you haven't performed an in-depth review of your IT service contracts in the last 18-24 months, you may be leaving money on the table or allowing sub-optimal service delivery to continue. Can your firm afford higher than necessary rates/charges? Can it afford sub-standard service or deliverables?

The Dangerous State of Service Firms Today

The recent events at Satyam underscore the need to perform heightened due diligence of your service providers. Even if your firm is satisfied with the level of service and the service costs of your integrator or outsourcer, what will you do if that service provider:

- experiences significant layoffs
- has a material contraction in its business
- can no longer afford to service your contract
- fails as an on-going entity
- undergoes a material change of ownership
- has much of its management team replaced

In recent months, we have seen some of these events play out. Worse, we believe at least three major service firms are in significant financial jeopardy and may fail soon. You owe it to your firm to perform an in-depth assessment of your key IT service providers. You also need to have detailed contingency plans in place in case one or more providers cease to provide the levels of service your firm needs and demands.

Going Forward

We recommend our clients:

- re-assess the business conditions of their key IT service suppliers
- confirm the long-term viability of their IT service suppliers
- confirm each suppliers' performance to contracts and service level agreements
- craft alternatives to current suppliers either as a backup plan or as a very necessary business requirement

We would welcome the opportunity to discuss these issues, the current services environment and potential strategies going forward with you. Please give us a call and we would be glad to speak with you at your convenience.

We want all of our clients to emerge from the current economic situation stronger and more competitive. Incorrect service arrangements can become quite expensive and disruptive. Let us help guide you during these interesting times and make the very best services decisions possible.

Please call (1-630-8779-0671) or email (Colleen@VitalAnalysis.com) to schedule a briefing today.

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