Is the mega deal dead?

by Tom Cole, Claymore Solutions Inc.

This year will be an interesting one for the outsourcing business and IT leaders alike. Most large corporations have outsourced at least some of their work to one of the major service providers, many of them did so 10 years ago during the Mega Deal boom right after Y2K. What makes this year interesting is that 11 of the 24 mega deals signed in 2000 along with 7 others signed since then, will expire this year. CIO's are now faced with the decision of what to do next.

At the height of the mega deal boom, service providers were preaching the value of economy of scale "If you give me everything we can provide a better deal". This "take it all and run for less" worked for a time, however, in many cases outsourcers were over promising and under delivering. As time progressed the aggressive cost savings projections did not always bear fruit. This is due to a number of factors, the most important two being "Change" and "Control". The original cost projections of the deal were based on technologies and volumes as they were at the beginning of the deal. Over a long time span, such as these 10 year deals, technologies have changed, volumes have increased for some services but also decreased for others. In addition new services have been added, on-line stores and cyber security were not even being thought of in most companies 10 years ago, not to mention identity management, vitalization, cloud computing, agile development and the list goes on. Each time a new service is added new pricing mechanisms are used to amend the original deal . These contracts all have a *Change Management* provision, however, as more and more services are added or changed the original deal dynamics become complicated and it is increasingly difficult to realize the original expected savings.

The second major factor is *Control*. In a mega deal the economy of scale payback is dependent on the outsourcer having the control required to deliver a service to an agreed upon service level. How the outsourcer provides the service must be within the outsourcers span of control. They need to have the ability to optimize how the service is being delivered, this may mean off shoring some of the work, consolidating assets or leveraging staff and assets with other clients. If the customer exerts control over how the services are delivered for example wanting dedicated staff or retaining ownership and control of assets, they are limiting what the outsourcer can do to reduce cost while still maintaining the service level. Due primarily to these two factors many companies have never achieved the savings they expected. TPI has found that, on average, companies only achieved 72% of the value they had anticipated. TPI also found "Dynamic business conditions often force renegotiation of larger contracts in as little as 18 to 24 months after initial award"

Some providers have performed better at managing their service delivery than others. Proctor and Gamble renewed their deal with HP and Dupont renewed with CSC, however this seems to be the exception not the rule. Trends are indicating that these deals are not being renewed, the single source mega deal is becoming scarce. CIO's are now looking at strategically selecting multiple suppliers to fulfill specific requirements with a shorter deal term. This provides several benefits, the most important being the fostering of competition between multiple providers, minimum spend clauses are no longer used, instead a tender process is implemented to have competing providers bid on new work. This provides competition, between the service providers, which drives both price and service standards usually in excess of what could be achieved through SLA's alone. Multi sourcing also provides the ability to rapidly acquire new skill sets as technologies change, tactical agreements with specialist providers are useful to quickly implement a new technology.

The monopoly of the mega deal is giving way to the open market of competing strategic service providers. IT leaders need to carefully choose who they want to deal with in their portfolio of service providers and put the correct governance structure in place to monitor, measure and manage multiple companies, services agreements and SLA's. Even with the extra overhead of this governance layer companies that have ended their mega deal relationships are seeing increased savings and service satisfaction using this multivendor approach.