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BENCHMARKS EVOLVE

Effective Analyses Deliver Real-Time Validation and Transparency

By Kathy Rudy, Partner

ISG WHITE PAPER

INTRODUCTION

In recent years, ISG Research shows, outsourcing contracts have consistently gotten smaller in value and shorter in duration. In this environment, are traditional benchmarks still relevant? Specifically, should enterprises invest the resources to undertake a detailed, rigorous analysis of pricing and service levels halfway through a contract, if the contract value is relatively small and the term is relatively short? Moreover, with an increasingly higher volume of contracts in the mix, don't CIOs risk getting bogged down by conducting too many benchmarks?

While market conditions are changing dramatically, benchmarks have similarly evolved and continue to deliver significant value when properly managed. Both clients and providers have matured in their approaches to benchmarking, specifically in terms of viewing the exercise as a collaborative and mutually beneficial process. Automation, moreover, is having a dramatic impact on benchmarking capabilities by enabling real-time data collection and continual assessments of performance.

This ISG white paper examines the changing role of benchmarking in the context of recent market trends and increasingly dynamic business requirements.

Benchmarks are becoming essential to service integration strategies and governance structures.

A TWO-WAY STREET

Traditionally, benchmarks have often been used as a stick wielded by the client to force a price reduction in a services contract. Today, this narrow approach is giving way to a broader perspective, whereby benchmarks are employed to validate that pricing aligns with market standards, to address challenges that exist with the relationship, to improve service delivery between retained teams and other providers, or to change the service mix based on revisions in business strategy. In this context, benchmarks are becoming essential to the service integration strategies and governance structures that enterprises deploy to manage their evolving environments on an ongoing basis.

Collaboration and shared responsibility are emerging as defining characteristics of today's benchmarks. In the past, the service provider bore the onus of addressing any performance issues identified by a benchmark analysis – put simply, it was up to the provider to fix problems, regardless of what the problem was. Today, clients are acknowledging that their custom-tailored "we've always done it that way" requirements often contribute to inefficiencies, and are demonstrating a willingness to adjust their processes to conform to the service provider's standard delivery model if it will deliver value to the business in reduction or costs or improved efficiency.

This move to standardization eliminates cost-driving operational constraints and allows the provider to leverage economies of scale across multiple clients. As a result, the dynamic of the client/provider relationship changes from a micro-managing focus on the "how" of service delivery to a broader view of "what" is delivered and how business needs are addressed.

Transparency enables dialogue between the business and IT.

AUTOMATION: A GAME-CHANGER

Another sea change in the market is the introduction of new software tools that automate the process of collecting the operational data used in a benchmark analysis. Properly configured, these tools provide continual data feeds and real-time access to information that provides unprecedented transparency into operational performance, demand, cost drivers and the impact of process changes. This transparency, in turn, enables effective dialogue between the business and IT and fact-based decision-making around how IT resources are consumed.

Maturing management perspectives and innovative technology have combined to enable a shift from a historical or point-in-time perspective to one where benchmarks are applied to set a baseline for future and continuous improvement.

Traditional benchmarks, moreover, employ a static, point-in-time assessment that requires a labor-intensive analytical process to identify performance gaps and define corrective actions. While certainly useful, this by necessity is an exercise that uses recent past performance to drive improvement.

The benchmark becomes a pathway to the future.

Increasingly, we see client and service provider organizations use real-time data to identify trends in service delivery and business demand for IT, and leverage those analytics for planning and scenario modeling on an ongoing basis. As such, the benchmark becomes a pathway to the future with built-in course corrections.

EXAMPLES

The collaborative, strategic and dynamic benchmark methodology described here is being applied to address a wide range of operational challenges. Following are brief examples of how ISG has observed benchmarks being used to manage change and drive significant improvement.

A healthcare insurer seeks to develop an outcome-based delivery model. Healthcare reform is driving a transformation from traditional fee-for-services to outcome-based delivery models, whereby the savings derived from reduced demand for health services are shared among buyers and suppliers. Innovative service providers willing to share the expense and risk of developing and implementing scalable models pose a competitive threat to entrenched incumbents. Benchmarks are helping both insurers and service providers baseline performance targets and chart a path toward a future target operating model.

A large global bank verifies market pricing alignment through annual benchmarking. Using benchmarking as an annual lever to negotiate with IT service providers, the bank demonstrates to business partners that pricing and service delivery are aligned with market-best standards. While this is a fairly traditional application for benchmarking, what's changing is the increasing ease with which the refresh exercise is conducted.

A regulated utility seeks to standardize its highly inefficient processes. Utility enterprises are known for having highly customized and unique service delivery and reporting requirements. As regulatory oversight increasingly mandates that utilities demonstrate market-competitive operations, benchmarks are used to assess existing environments and establish a baseline against the "what-if" scenario of a standardized solution. By quantifying the size of the prize, identifying constraints and gauging their impact on performance, CIOs can articulate the business benefits of process improvement in hard dollars that creates the impetus for transformation.

A mutual insurance firm seeks to transition from legacy applications. Maintaining existing legacy applications is becoming increasingly cost-prohibitive. For cautious insurers, however, biting the bullet and investing in a transition to a new platform can be deemed too risky and expensive. Benchmarking the current state and leveraging data to build the future target operating model, combined with a detailed business case that clearly defines the investment requirement and the benefits of a transformational change initiative, provides the factual groundwork for transformational change.

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Published April 15, 2014

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Kathy works with enterprises across ISG's client base to address unique business challenges leveraging our Data & Analytics methodologies and tools. Whether she is developing and deploying delivery methodologies or serving as the go-between for global teams to ensure end-to-end service delivery, she earns rave reviews from her clients. Throughout her more than 20-year career in information technology management and business operations, Kathy has linked IT to business value and assessed the performance of internal operations and outsourcing relationships. Her industry expertise includes oil and gas, aerospace and defense, retail, finance and local government.

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