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THE FEAR OF MISSING OUT:

How to Get the Most Out of Inter- and Intra-Organization Automation

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ISG WHITE PAPER

In the span of this decade alone, we have witnessed an acceleration of the pace of technology change unprecedented in both the business-to-consumer market and the business-to-business market. Social, mobile, analytics, cloud, Internet of Things (IoT), robotics and cognitive computing have come together to pervade our lives and the products we use. Prognostications about what this rapid technology growth means to the human workforce can be heard from every direction. In attempts to foretell the future, a plethora of books and articles have been written with perspectives ranging from "there is nothing to see here" all the way to "the sky is falling. We are doomed!" The one thing we know to be certain is that the future is uncertain.

How do leading organizations "future proof" managed service agreements? How do they prepare long-term agreements that will protect them from the yet-unknown effects of digital?

Leaders charged with ensuring deployment of leading-yet-responsible tools, technologies and best practices cannot afford to be left behind. How do you know which choices will expose or restrict your organization? And how do you know which will catapult it into the future? Ten years ago, organizations were building infrastructure and risk-and-control measures to address the "bring your own device" practice driven by the penetration of Blackberry devices. Today, such thinking would be considered grossly outdated.

So how can forward-thinking organizations prepare for a future of automation and uncertainty? How do leading organizations "future proof" managed service agreements? How do they prepare long-term agreements that will protect them from the yet-unknown effects of digital?

The managed services market continues to evolve. What began as a search for the simple benefits of labor arbitrage became a desire for process excellence and lean efficiencies and has continued to evolve with the help of technology to drastically improve end-to-end process outcomes as found in many business process-as-a-service (BPaaS) solutions today. And, now, digital capabilities, analytics and automation are ushering in another phase. As this new era dawns, many business leaders are asking "What am I missing?"

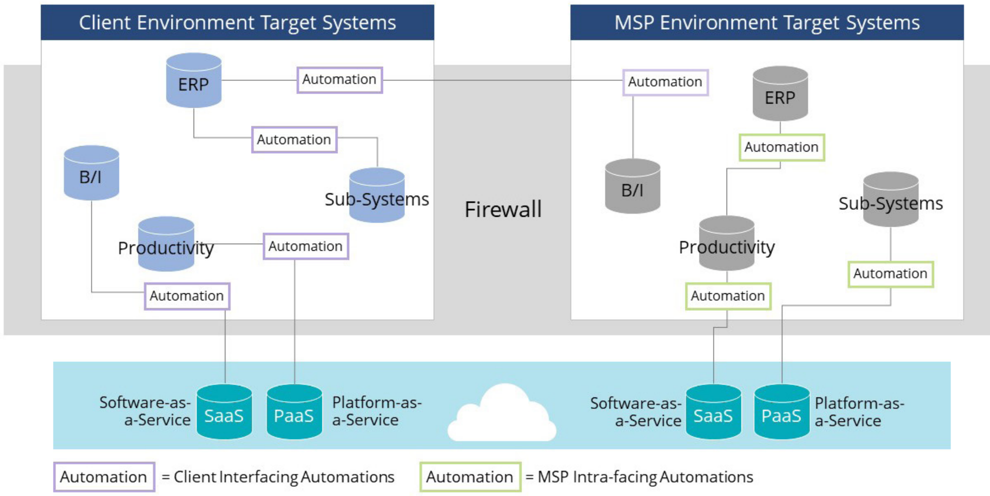
Let's explore a few guiding principles as we consider how automation will impact managed services going forward.

Defining Automation

The term automation is both ubiquitous and ambiguous. It covers a range of products that includes robotic process automation (RPA) and other rules-based scripts all the way to more cognitive-based scripts and platforms (e.g. deep learning). For our purposes, we will look at automation as it relates to business-to-business managed service relationships. These automations are defined in one of two ways: intra-facing and inter-facing.

A managed service provider intra-facing automation is a script or code that interfaces only with target systems inside the provider's environment. These automations are generally presumed to be fully under the management, ownership and unencumbered rights of the managed service provider, as seen in the graphic below.

Client environment-interfacing automation is a script or other form of enabling code that interfaces with one or more target systems in the client environment. This kind of automation generally must cross a firewall from the provider environment or other third party (e.g. a cloud-based system) as seen in the graphic below.



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Intra-facing Automations

When enterprises consider existing or potential managed service agreements, the topic of greatest interest is attaining the most out of available automations and the most common fear is missing out on potential benefits. The usual answer to this is found within the contractual terms or conditions that impact the managed service provider environment or intra-facing automation. Unfortunately, these terms are frequently an afterthought at best.

Many managed service buyers are tempted to ask, "Why should I care about what the provider does in its own environment?" But it is worth investigating the following contract terms to ensure they are not missing out on potential benefits of the relationship:

- **Express Obligations** – When an enterprise negotiates a managed service agreement, it is quite likely to perform painstaking diligence on terms and clauses such as Service Obligations, Maintenance Requirements, IP vs. Tools, Limits of Liability and Information Security. However, depending on how long ago it was negotiated, the agreement may not include clauses that expressly address certain forms of automation that have become commonplace in the business marketplace. Today, these warrant explicit reference.

Term or Clause	Caution
Service Obligations	Avoid the implication that tasks, functions or processes that were once manual and are now being automated carry a lower standard of obligation from the managed service provider or that obligations otherwise shift.
Maintenance Requirements	Avoid the implication that costs related to maintenance, not explicitly defined, are part and parcel to the service fees. This could result in the effective transfer of fees from one line item to another rather than the outright reduction of fees (i.e., cannibalization).
IP vs. Tools	Avoid the unfounded classification of specific automations as provider tools when in practice the automation should be classified as client or as new intellectual property. Misclassification as provider tools will generally bear a more restrictive right of use for the managed service client.
Limits of Liability	"Future proof" the Limits of Liability clause and the associated carve-outs. As discovered in recent use cases, exposure may now be of greater consequence.

- **Data rights and information security** – The dawn of the digital economy has arrived with new regulations and governance with respect to data rights and usage. Not only have standards changed, but the consequences of noncompliance are more consequential to organizations. Unfortunately, not all business leaders are aware of, or acknowledge, the potential exposure.

  A recent quote in Entrepreneur Magazine by Glynna Christian, Partner Co-Head Global Technology Transactions, Orrick, Herrington & Sutcliffe LLP, demonstrates this. "We have companies pulling content off the web indiscriminately. They're scraping websites, they're downloading data from Wikipedia, they're using information their customers provide when using their service, and they're not really paying any attention to whether or not they actually have the right to grab the data or use it."

Inter-facing Automations

The very nature of interfacing automations means they pass through a firewall. Managed services clients know this, but it's possible they are missing some important benefits when negotiating managed service agreements.

The same guiding principles that are applicable to intra-facing automations in managed service provider environments are applicable here, along with a few additional key principles:

- **Lifecycle management** – Ensuring the integrity of a client's infrastructure and environment is not only dependent on its own lifecycle management standards and rules. Managed service providers have their own lifecycle management requirements, which often are even more rigorous than a client organization's. Furthermore, the managed service buyer should avoid appointing the accountability for lifecycle management to a managed service provider, whether by word or deed. This could easily result in a "shadow IT organization."

Managed services clients should focus less on the level of productivity improvement required or guaranteed, and more on scaling and continuously advancing productivity improvements.

- **Portability** – Of utmost importance to a managed services client's business continuity during and after the term of a managed service arrangement is the ownership and usage rights associated with third-party licenses that house the automation, the enabling code that drives the automation and the underpinning tasks or activities. Dependencies of the automation may also impact overall portability. The managed services buyer should retain the right to sever the relationship, if necessary, with as little disruption of business continuity as possible.
- **Productivity gains** – Most arrangements between managed service providers and clients include some expectations of productivity gains that are derived from continuous process improvement and, to at least some extent, automation. Measuring productivity gains due to automation has proven to be challenging because of less definitive terms for "market norm percentages." Managed services clients should focus less on the level of productivity improvement required or guaranteed, and more on scaling and continuously advancing productivity improvements. A managed service client also should avoid a situation in which its margin gains are swallowed up by the managed service provider. Instead, financially incentivize the provider to take advantage of advancements in the marketplace to drive down costs.
- **Veto rights** – At first glance, veto rights seem to contradict the concept of productivity gains, but a managed services client must protect them with the appropriate governance. Just as no one can precisely predict the innovation and digitization that will come to market over the next two to five years, no one can predict the regulations, laws or even political or cultural norms that will influence businesses in that same time span. Therefore, while businesses certainly want to cultivate an environment that facilitates and promotes the use of automation, prudence requires they retain the right to refuse or remove any automations, whether it be for purposes of compliance with government regulations, political correctness, community acceptance or any other reasonable determination.

Conclusion

While enterprises today must prepare themselves for a full range of implications brought about by automations delivered as a package by a managed service provider, the principles discussed here cover areas that leading organizations recognize as most impactful. Enterprises that invest in managed services agreements should retain responsibility and accountability for any and every interacting automation, including the related lifecycle management and information security, without weakening service obligations of the provider or creating valueless requirements. Both parties involved in a managed services agreement – the enterprise client and the managed service provider – should operate in a manner that promotes continuous and significant productivity improvement.

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For organizations that are in the process of sourcing a managed services engagement or renewing their managed services agreements, the application of these principles can be timely and beneficial. However, for those organizations that are engaged in a managed services arrangement that is not on the verge of renegotiation, the options to reopen dialogue on these matters are less obvious. Benchmarking and audit rights may be a great starting point. These clauses can provide an avenue for organizations to look under the hood of the provider operations and mutually – or unilaterally if need be – agree to readdress the use, governance, management and commercial terms of automations.

ABOUT THE AUTHOR

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Michael Fullwood is an ISG Partner with extensive financial planning and analysis experience. His areas of expertise include sourcing assessment and RFP management, contract negotiations and transitions. He has guided major multinational companies in the Americas and Europe through multi-functional outsourcing projects and shared services transformation. Michael has more than 20 years of experience advising clients on strategy and implementation and is an accomplished leader who articulates a compelling point of view for ROI optimization and speed to value. His work enables companies to optimize support services operations, contract for and implement digital/automation, and formalize processes, metrics, governance and reporting.

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