

# SCC VOICE

Thoughts and ideas from The Systems Consulting Consortium

## Clearing the Fog: Current Economic Conditions Impact on Enterprise Services Environment

### An Overview

The global economy has slowed down significantly in the last several years as demand for products, services, and capital investment have been sharply reduced. Companies are changing their strategy to focus more on core business capabilities to develop and sustain key competitive advantage. As a result, there is a growing trend in the use of outsourcing services for IT and Business Processes to reduce spending on non-core capabilities, to improve margin, and to increase productivity. This trend brings with it the challenge of ensuring that these services meet performance and cost objectives.

### Growth of Outsourcing Services

In today's even more challenging business climate, launching an outsourcing or formal services delivery management initiative is perceived as a business necessity. Moreover, according to James Brian Quinn, author and resident, Dartmouth College business visionary, this trend is "One of the greatest organizational and industry structure shifts of the century."

With an annual growth rate of 16 percent, global outsourcing spending will increase from US\$3.78 trillion dollars in 2001 to US\$5.1 trillion by the end of 2003. The fastest growing areas are IT infrastructure maintenance, application development, human resources, administrative services, finance, and accounting. Although most outsourcing spending today is in larger companies, its growth rate in smaller and mid-size firms is accelerating as well.

### Emerging Challenges

Customers look to outsourcing service providers for their ability to deliver results in relatively short period of time (months rather than years), but how do providers create, maintain, and demonstrate operational excellence that constantly re-justifies the outsourcing decision? Just as importantly, how do customers achieve excellence across the blended

internal and external operations that now make up their enterprise?

This growing complexity of services environment presents new management challenges such as:

- Poor Visibility – Few know where the service money is spent and how it aligns with business objectives.
- Lack of Control & Accountability – Poor visibility results in lack of control and accountability over the usage of services and service resources, causing increased service spending.
- Operational Risk – Since organizations rely on mission critical services to deliver core business, services and their quality present a Financial Operational Risk.
- Impossible Planning – A complex and consistently changing service environment makes it impossible to plan, driving unnecessary service costs.
- Increased Overhead – Managing a service environment with fragmented manual processes increases overhead and drives unnecessary service costs.

### Achieving New Competitive Equilibrium

The current market conditions of uncertainty within the global economy and slow growth impact companies' strategy. They strive to focus on core business, they cut costs, and use outsourcing services to access expertise and skills that are non-core to their business capabilities. Hence, there is a growing need to improve SLA management, increase visibility of the extended-enterprise's services environment, and to align services performance with financial aspects to reduce the overall risk and to sustain key competitive advantage. Managing this environment will be a major challenge for years to come.

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