

Commentary

IT Services Contracts — Planning for Innovation

Because IT changes rapidly, and new hardware and software are constantly being upgraded and improved, a sourcing deal must be flexible and allow for the introduction of planned and new innovations.

As enterprises follow natural cycles of creation, growth, maturity and decline, management needs to intervene with explicit renewal and transformation initiatives. This can be accomplished by incorporating innovation plans directly into sourcing agreements. Basically, the innovation plan should contain practical mechanisms to enable enterprises and service providers to jointly identify opportunities and turn ideas into action. To assist enterprises, we describe the content for an innovation plan.

Purpose

The innovation plan describes the methods and procedures by which the service recipient (SR) and service provider (SP) introduce innovation into the sourcing arrangement. The plan identifies the structure and process for introducing new innovations, the deliverables and any reward or incentive plans. These innovations should support and provide benefits to both parties.

Importance

Lack of innovation is one of the biggest enterprise complaints in outsourcing deals. Often, an enterprise asks for a static environment, and that is what the vendor agrees to deliver. In reality, innovations are an important part of IT services and must be incorporated into the plan. These innovation plans should:

- Bring together business, IT and service provider executives
- Enable executive teams to clarify and articulate the shared capabilities that are necessary for strategic initiatives
- Provide a collegial environment to explore and specify linkages among business strategies, IT capabilities and SP capabilities
- Result in a detailed and actionable deliverable based on specifying the SR and SP capabilities

Innovation is not static. To have a successful sourcing deal, the SR and SP must constantly review and reevaluate the services. Continuous business and technology monitoring should be a regular event (e.g., quarterly) that features content experts providing short presentations of current technology and business

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events. Included is innovation development, where the parties establish a structured process (energized by content experts) to engage enterprise and key SP executives in exploring the range of possible consequences and responses to business and technology changes. With this continuous improvement process, enterprises should use the multidimensional information that is readily accessible by the SR and SP to provide data for process improvement and continued innovation. This process requires that SRs and SPs give a 100 percent effort to the continuous improvement process to reap the benefits.

Structure

Within the contract, there are several items that should be included within the innovation plan and linked to the strategic objectives:

- Process for innovation, including implementation and prioritization (as it relates to the sourcing agreement/environment)
- Process for technology advancements (scope improvement and technology refreshes/upgrades)
- Business-measured innovation (business process improvement)
- Innovation reward programs
- Structure for innovation business cases

Example

In Gartner's most-recent full-service outsourcing study, all of the SRs referenced cited innovation as the missing element of their deals (see "Full-Service Outsourcing Magic Quadrant: The Largest ESPs," M-12-6784). Not one SP was perceived by its customers as being proactive at introducing or implementing innovation, unless the innovations were charted in the original agreements.

When approached by enterprises, SPs were generally responsive to suggestions; however, enterprises feel that SPs should be responsible for spearheading innovation into the deal. The fault for this lack of innovation lies equally with the SR, as well as the SP. The ability to explore opportunities and develop new and unanticipated alternatives is at the heart of business success. In this technology-driven Internet economy, a failure to innovate is a major business risk. SRs must plan for, and include, processes for innovation if these sourcing deals are to be successful.

Bottom Line: As enterprises become more dependent on SPs, the ability to work with key suppliers to develop and implement new business initiatives will become increasingly important. To meet these business initiatives and technology changes, innovation plans must be established and included in all sourcing agreements.