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Commentary

IT Services Contracts — The Relationship Change Plan

Relationship change plans are essential for maintaining long-term relationships with external IT service providers. Failure to anticipate and manage change can lead to failure of the entire deal.

Inadequate change management can make or break a long-term IT services deal. Here we identify the potential pitfalls and outline how to design an effective relationship change plan when deploying a mixture of internal and external IT services resources.

Purpose

The relationship change plan defines the structure and processes for identifying and managing “change” in a long-term relationship between a service recipient (SR) and an IT service provider (SP). The plan must be owned by the SR, and maintained by both the SR and SP. The SR is responsible for ensuring that relevant technology, business and industry change drivers are identified, change imperatives agreed and goals set. The relationship change plan operates in addition to, and at a level above, day-to-day IT delivery change controls.

Importance

When a long-term IT services deal is signed, both the SP and the SR believe they have established a long-term solution. In today’s changing business environment, this is seldom the case, and provisions for change (e.g., additional charges or reductions for changes in the MIPS or, for the desktop, the “seats” used) can become rapidly out-of-date. The perception that a long-term solution has been established leads not only to inadequate change provisions in the contract, but often to inadequate change management resources and decision-making processes in the SR and SP. There is a feeling that the “deal has been done,” and the decision-making capability and resources that were needed to put the deal in place are largely disbanded. The result is a deal that business units will come to perceive as inflexible at best and, at worst, an inhibitor to their business.

As enterprises become increasingly dependent on long-term relationships with external IT service providers, the ability to establish effective change management becomes business-critical. A good relationship change plan ensures that the right processes, people and tools are in place to enable the SR and SP to stay on top of change and ensure effective decision-making.

Structure

A relationship change plan should include the following:

- Name of the relationship change plan owner(s)
- Clear definitions of the key categories of change — Gartner defines five levels of change from predetermined (e.g., charges for volume changes) to exiting the deal.
- Roles, responsibilities and decision-making procedures for the SR and SP for each category of change
- Top drivers for change (three-, six- and nine-month outlook) — reviewed monthly
- Potential implications of the top change drivers, and the associated key stakeholders in the SR and SP
- Current objectives of the top-three change initiatives in each change category (three-month outlook at a minimum), the associated stakeholders and the key risks

A Typical IT Outsourcing Deal

A large international company signed a seven-year IT infrastructure outsourcing deal — data center, network and desktop — on the basis of immediate cost reduction, the purchase of existing assets by the service provider and transfer of IT staff. After 10 months of supplier selection and negotiation, everybody was glad to get started and expectations were high.

Eighteen months afterward, service levels were being met but changes to the business units were overwhelming the client's skeleton staff that was left to manage the deal. The contract was already way out-of-date. The business units now saw the deal as an "inhibitor" and wanted to get rid of the SP.

This is a situation we see all too often. To find out what was going wrong, we take a closer look at how the contract attempted to deal with change.

How did the change provisions work?

The deal was constructed on the basis of achieving a "steady state" condition after an initial 12 months of transition and transformation. The contract included mechanisms for coping with changes in "usage volumes" (e.g., additional charges or reductions for changes in the MIPS and, for the desktop, the "seats" used). It also included a certain amount of "technology refresh" (e.g., replacing 33 percent of the PCs each year). The reality was that much of the change was for new requirements that were not accommodated by usage changes or technology refresh (e.g., integrating a new business acquisition or moving from an 18x5 to a 24x7 operation). There was an overall contract provision to deal with such requests, but it was slow, bureaucratic and lacked the decision-making capability, resources and skills to function properly.

The requests were dealt with by asking the SP to submit proposals for the new work. The SP had no resources built into the deal to cope with this, so the request was passed to its internal bid management function. The requests were often small compared to other bids being worked on, and consequently did not get top priority or the best solution designers. In turn, the customer had little ability to evaluate the proposals it received, and consequently had great difficulty getting agreement and "sign-off" from budget holders.

The process more often led to conflict than action. It is no wonder that the business units lost confidence in the deal.

Bottom Line: While the typical long-term outsourcing deal is still being structured on the basis of “one year of frantic transformation followed by six years of steady state,” the reality is often “one year of frantic transformation followed by six years of frantic transformation.” Before signing a deal that could already be out-of-date, take a look at the change provisions. If they don’t meet the requirements of the relationship change plan outlined above, don’t sign.