

Commentary

IT Services Contracts — Measurement Charter

Sourcing relationships must be continually measured during the life of a contract to determine if the original deal is still what is needed for the SR and SP. A measurement charter can be used to determine the changes.

Many large-scale sourcing deals (particularly outsourcing deals) span three to five years or longer. During this time, enterprise business requirements change, often substantially. In addition, service provider (SP) capabilities — including methodologies, processes and tools — change, mostly improving the SP's capability to perform. To understand how well a sourcing deal is performing, a comprehensive independent measurement of the deal can determine whether the relationship between a service recipient (SR) and its SP is failing, acceptable or excellent. By identifying areas of strength and weakness, the outcome of a detailed measurement program facilitates a dialogue between the SP and SR. This ensures that the strategic goals of the SP and SR are known by both and remain achievable during the course of the deal.

Purpose

The measurement of a relationship will describe how, when and by whom the relationship between the SR and SP will be measured. A measurement charter contains tactical measures of service performance, as well as success metrics derived from the SR's strategic plan. The results of the measurement will be used by the SR and SP as a foundation to improve the relationship in the near term and during the relationship.

Importance

SRs that do not regularly review and make changes to their sourcing deals based on their performance to date, business requirements and what the sourcing industry is doing often find themselves behind the performance, business requirements and capability curve. Gartner recommends that SRs continuously modify their sourcing agreement to keep up with their business requirements and continuously measure their current agreements. Measurement should be accomplished by incorporating a measurement requirement clause into each sourcing agreement that requires changes to the deal based on the measurement results. Including a measurement charter also ensures that both parties will allocate the resources necessary to conduct measurement activities.

Gartner

Often, the wrong things are measured, which leads to SR organizations that find themselves tremendously dissatisfied with the services delivered by SPs, even when all the operational metrics show that delivery is a success. Building a balanced measurement charter that considers pricing and service levels, customer satisfaction, contract and relationship strength, and alignment and vision is critical to the continuing success of a deal.

Structure

- Statement of measurement methodology
- Definition of what is to be measured
- Definition of processes to periodically measure the defined categories
- Interfaces with the communication plan, which describe how results are to be analyzed, disseminated and used
- Statement of how changes will be implemented based on measurement results

Example

In 1994, a deal was signed for mainframe outsourcing at \$45,000 per MIPS when the market cost was \$55,000. Today, the SR is still paying \$45,000; however, the market is at \$20,000 per MIPS. The reason is because the contract was signed without a benchmarking clause. If the contract included a measurement charter that required periodic benchmarking and a contract clause that tied ongoing price revisions to the benchmarking average, this deal would have been fair to the SR and SP, and would most likely have continued without controversy.

Bottom Line: Enterprises must master the management of client-supplier relationships for survival in the business world. Enterprises also need to recognize that simply adding a benchmarking clause will often not meet requirements. Best-in-class deals are specifically built to use measurement as a mechanism for keeping the client-supplier relationship on track.