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Team Foundation and Outsourcing Preparedness

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Submitted to the Program of Organizational Dynamics in the Graduate Division of the School of Arts and Sciences in Partial Fulfillment of the Requirements for the Degree of Masters of Science in Organizational Dynamics at the University of Pennsylvania.

Advisor: Eric van Merkensteijn

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Abstract
This thesis describes CDR International's first board sponsored and senior executive approved and organized effort to leverage the labor arbitrage and service and performance opportunities existing in the global marketplace. I describe the initial phases of the formation of the outsourcing team, the challenges and political obstacles overcome and the decision making phase of this important organizational project. I argue that key factors for success of this initiative included a solid foundation of research, best practices, lessons-learned from comparable organizations, and most important, the formation of standard tools and methods for identifying and evaluating opportune functions for consideration. The development of these toolsets and methodologies has and continues to directly impact the decision making process. In correlation with the development and implementation of these standards and methods, and consistent with almost any organizational role, the importance of leveraging the organizational dynamics across the association was also vital. Accordingly, factors to success emanated from proper expectation setting, solid written and verbal communication skills, political and business savvy, and thoughtful and constructive organizational alliances. Although useful across a wide range of organizational roles, the mere importance and sensitivity of the outsourcing charter and its implications to bottom-line savings, top-line growth and the net effect to our career-minded employees, heighten the significance of those aforementioned traits.

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TEAM FOUNDATION AND OUTSOURCING PREPAREDNESS

by

Robert N. Milliken

Submitted to the Program of Organizational Dynamics in the Graduate Division of the School of Arts and Sciences in Partial Fulfillment of the Requirements for the Degree of Masters of Science in Organizational Dynamics at the University of Pennsylvania

Philadelphia, Pennsylvania
2007

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Approved By:

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Program Director

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Thesis Advisor

ABSTRACT

This thesis describes CDR International's first board sponsored and senior executive approved and organized effort to leverage the labor arbitrage and service and performance opportunities existing in the global marketplace. I describe the initial phases of the formation of the outsourcing team, the challenges and political obstacles overcome and the decision making phase of this important organizational project. I argue that key factors for success of this initiative included a solid foundation of research, best practices, lessons-learned from comparable organizations, and most important, the formation of standard tools and methods for identifying and evaluating opportune functions for consideration. The development of these toolsets and methodologies has and continues to directly impact the decision making process. In correlation with the development and implementation of these standards and methods, and consistent with almost any organizational role, the importance of leveraging the organizational dynamics across the association was also vital. Accordingly, factors to success emanated from proper expectation setting, solid written and verbal communication skills, political and business savvy, and thoughtful and constructive organizational alliances. Although useful across a wide range of organizational roles, the mere importance and sensitivity of the outsourcing charter and its implications to bottom-line savings, top-line growth and the net effect to our career-minded employees, heighten the significance of those aforementioned traits.

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INTRODUCTION

History of CDR International

CDR International (CDR) has over 155 years of operational experience. The corporation established its roots selling panning equipment and supplies to the first wave of gold-rush miners headed west in the mid-1800s. Since then, the name, but not the philosophy has changed. The market and product line has grown, new services have been offered and varying focuses have been driven. Offering just a few initial products 150 years ago to almost 2,000,000 today, CDR has experienced tremendous growth and market reach.

Today, CDR employs approximately 6,000 full-time personnel operating from 57 locations and acquires products from more than 5,000 suppliers. Through marketing to a large, but focused customer base concentrating mainly on pharmaceuticals, laboratory, education, and biotechnology markets, CDR achieved $3.5B in global annual revenue in 2005.

CDR's strategy and core competencies are presented within both the corporate mission and vision. The mission is based on a very simple concept; "We deliver excellence in the distribution of scientific supplies." CDR's vision is equally unambiguous; "We will be the most successful supplier for people engaged in science." CDR International operates in an extremely tight market with one major competitor and numerous smaller firms exercising a similar mission.

In an effort to ensure continued growth, CDR International constantly evaluates the potential to merge and/or acquire firms of similar or strategic value, and also looks in varying geographic markets for new customer bases and the potential for smarter sourcing opportunities of products and human resources.

<u>The Focused Sourcing Initiative</u>

CDR was acquired from Merck in April 2004 by a well-respected financial institution, Morgan, Hamilton & Chase (MH&C). CDR was one of a handful of firms in which MH&C targeted their investment dollars.

With a self-proclaimed “passion for building businesses”, MH&C has made many senior level managerial changes, set strategies and targeted objectives, and implemented numerous cost-saving programs since their acquisition. With fiscal windfalls expected in return for their financial, talent and knowledge investments in CDR International, MH&C incorporates and shares best-practice procedures across their portfolio of companies. One of their latest charters, imposed across their range of businesses, was a challenge to add focus and to think strategically in order to leverage the global marketplace to benefit from labor arbitrage opportunities where it makes sound business sense.

This thesis describes the initial phases of the outsourcing objective, from the formation of the focused team, to a key decision making event. Documentation has been assembled to guide the reader through the events and procedures, highlighting dozens of opportunities where organizational dynamics practices and theories were employed, and communicating and demonstrating the use of hundreds of best-practice guidelines and methods, as well as the creation of standard toolsets.

Included throughout are examples of team building and small group processes, using internal politics to influence organizational change, use of consulting techniques, strategy implementation, organizing for new markets and services and many other topics found in the “Organizational Dynamics” curriculum and relevant to the outsourcing objective. My hope is that presenting the methods, processes, toolkits and best practices will help others who plan to use their own appropriate mix of methods and organizational dynamics when undertaking outsourcing initiatives.

CHAPTER 2

JULY AND AUGUST EVENTS

Tuesday, July 18, 2006

Linda Lang, CDR International's Chief Information Officer, called this afternoon's meeting to review current and 2007 budget activities. The group of eight direct reports to the CIO assembled in our largest corporate conference room to status and brainstorm regarding planning for the $50,000,000 in expense and capital expenditures that the team will manage in 2007.

One person missing from the meeting is a peer colleague Kumar Sameer, North American Director of Infrastructure. Kumar has recently resigned from CDR International and has taken on a position at a very large, global pharmaceutical company leaving the Infrastructure Director position, and it's dedicated $15,000,000 budget vacant.

As a member of the senior management team of the Information Services (I.S.) organization, I have been actively involved in discussions regarding how we should fill the open position. I, as well as my handful of peers, have collectively agreed that the position would be best served by hiring an external candidate with a solid technical background.

Although not officially announced, it has been rumored that the CIO is taking the opportunity to expand the scope of the open role by giving it global responsibilities. This change will supposedly increase the responsibilities to our European operations and make it the only vice president role within the I.S. organization. Currently, the top-down structure is CIO, directors, managers, then a variety of technical, system administration, project management and business analyst roles.

In telephone conversations with Kumar after his departure, I understand that in an exit interview, he had suggested my name as a replacement for him in the position. Kumar was unaware that the scope of the position was being changed after he had departed, but I believe that would play to my benefit. Coupling the news of Kumar's recommendation, with personal career advice that I had gathered from business and technical peers, the opportunity to operate globally, coupled with my interest in tackling the challenge of the many people issues that exist within the infrastructure group, has peeked my interest.

The current infrastructure team consists of about 55 people in the U.S. and about a dozen in Europe. I had decided about two weeks ago that, although the collective team of direct reports to the CIO, myself included, had recommended we search for an external candidate, given my interest and the opportunity to brush-up on my interviewing skills, I decided I would throw my hat into the ring.

Throughout the past few weeks I had been spending some time preparing and interviewing for the global vice president of infrastructure position. I had been interviewed three times, but never with Linda. She and I corresponded via email and only had one very brief conversation regarding the open position.

As Linda's direct reports assemble, minus the Infrastructure Director, she initiates the meeting with an apparent housekeeping note, that an external candidate with years of experience had accepted an offer to fill the role. Given the situation, I would have expected a communication on this event outside of the announcement to her direct reports. Within 30 seconds, Linda glanced over at me and obviously recognized the error. She asks to excuse herself from the meeting that she was facilitating, motions towards the door, and motions for me to meet her outside in the hallway.

Upon meeting her in the corridor a few feet outside of the conference room, Linda apologizes, and with an excited look comments to me, “we have something even better lined up for you.” She then proceeds to inform me that the Board of Directors have asked that we take a serious look at the potential and opportunities regarding outsourcing. She is very much aware of my experience with the DYNM 644 “Strategic Outsourcing” class that I had taken while pursing my Master’s degree at the University of Pennsylvania and comments that she echoed recommendations at a board meeting that I be considered as a candidate for the job. She then states that she has very little detail, but that Hal Tillman, the Senior Vice President of Strategy and Corporate Development, will be contacting me shortly about the position within his team.

Within two minutes, I had lost an opportunity for one job, and was given the opportunity for another. Given the vague details, and lack of clarity of the job within the small and highly regarded Strategy and Corporate Development organization, I was a bit skeptical of any positive developments that would hold any personal significance. Was the CIO just trying to cover for the erred communication? Was she overstating the potential opportunity that lies ahead?

<u>Wednesday, July 26, 2006</u>

I scheduled a follow-up conversation with Linda so she could elaborate more on what she knows about the initiative. At this point, our only conversation was the informal one that occurred on July 18th in the office hallway. In this brief follow-up meeting, she communicates the little information that she has received regarding the potential opportunity.

According to Linda, the outsourcing topic has been discussed repeatedly at senior management and board of director meetings. Evidently, my name has been offered as a viable candidate for a position within Strategy and Corporate Development throughout the process. Linda interjects her personal feeling that given my knowledge, skills and abilities, and my career development goals, that this would be a fantastic opportunity for me to move to a business function in a role complimentary to my goals.

She also mentions something that both surprises me, and given and my study of best practices in outsourcing, slightly disappoints me. She continues on to relate that there is a loose objective in 2007 to outsource 100 jobs across the organization and save $2.5M. I have learned that a best practice in outsourcing is not to start with a pre-determined outcome.

Although I'm happy that there's an objective target set, I'm cautiously skeptical given that it has been done without any up-front analysis and feasibility study. After all, there are significant costs associated with outsourcing, which will likely make a $2.5M return within one year very difficult. According to Francis Nixon of Garnter, for example, the first year of outsourcing will normally be spent with increased costs for transition, dual employment during the transition, resources for negotiating service level agreements, negotiating the various terms and conditions of contracts, establishing network connections and resolving firewall issues, creating and discussing process and procedure documentation and the many other tasks it takes to get a successful outsourcing arrangement initiated smoothly.[1]

Thursday, August 3, 2006

Upon leaving my meeting with Linda, I arrive at my desk to find the red light illuminated on my office telephone alerting me of a voicemail. I quickly checked my email and then listen to the voicemail message. It was Hal, leaving a vague message simply asking to speak to me. I wrap up a few items in progress and immediately turn to review my many notes on the outsourcing topic, as I am not sure where the conversation will be going, but I certainly wish to speak intelligently on the topic assuming that it will be central to the discussion. I rifle through a few articles that I have readily accessible, and quickly review some of my notes from my Strategic Outsourcing class, which I keep at my desk.

About 15 minutes later, at approximately 4:45 PM, I contact Hal on the cell phone number that he recorded on the voicemail. We get through the customary small talk quickly and he continues to brief me on a recent “Best Practice Sharing Session” hosted by our parent company, MH&C in New York City. The strategy focused meeting involved senior leaders in some of MH&C’s most substantial holdings. Among the organizations with representatives were the parent company, Morgan, Hamilton & Chase, Rexel, Culligan and CDR International.

A brief biography of Rexel, Culligan and CDR International is found on MH&C's websit at www.mhandc-inc.com. In describing the companies it states:

> "Rexel is the world's leading distributor of electrical equipment and supplies, with a network of 1,700 sales outlets in 29 countries and 21,000 employees. Rexel has annual revenues of €6.8 billion and over half of the company's sales are generated in Europe and the remainder in North America and the rest of the world."
>
> An overview of Culligan is also provided, stating:
>
> "Culligan is a leading global provider of water treatment products and services for household and commercial applications. The Culligan brand is the most recognized in the industry, with a reputation based on service, quality and water expertise that the company has cultivated over its nearly 70 years of industry leadership. Culligan has an installed network base of over 3 million accounts and an unparallel network of nearly 900 company-owned and franchised dealerships in North America and Western Europe."

MH&C goes on to describe their $1.68B acquisition of CDR International. As a testament to MH&C's leadership the information on the website no longer accurately reflects the company's fundamentals, but does show the impact that they have made between April of 2004 and 2006. As stated on the website:

> "CDR International is a global leader in the distribution of scientific supplies, with worldwide sales of more than $2.7 billion. CDR International's business is highly diversified across a spectrum of products and services, customer groups and geography. The company offers more than 750,000 products, from more than 5,000 manufacturers, to over 250,000 customers throughout North America and Europe. CDR International's primary customers work in the pharmaceutical, life science, chemical, technology, food processing and consumer product industries. Other important customers include universities and research institutes; governmental agencies; environmental testing organizations; and primary and secondary schools. CDR International affiliates operate in 18 countries and employ nearly 6,000 people. The company's mission is to deliver excellence in the distribution of scientific supplies. The CDR International Group is headquartered in West Chester, Pennsylvania."

According to Hal, one of the primary actions out of this meeting was for each of the organizations represented to identify and leverage global labor market economies. Hal is now taking action to establish a “commando team” of three individuals to work with, and report to him, on this initiative. He communicates the objectives as looking across our entire organization to identify and analyze internal labor rates versus potential rates in lower cost labor markets, mentioning “Asia-Pac” specifically.

He reveals in strict confidence that there are three potential “commandos” in play and he is seeking my background and expertise to focus on the European and North American Information Services organizations. In addition to myself, he mentions George Watkins and Joseph White. Both have respected reputations and are highly regarded within CDR International. Like Hal, Joseph is rumored to be one of MH&C’s appointments into CDR International. Hal’s goal is to get the team of three assembled, with “no hierarchy” and “hit the road hard” in September identifying functions and head-count type data as a first order of business. I mention my interest in such an opportunity and we end the call agreeing to set-up a face-to-face meeting on the 21st to continue the conversation. I reflect throughout the evening and send an email to Hal later that evening (see Table 1).

Table 1. Email to Hal Tillman, 08/03/06

To: Hal Tillman
From: Rob Milliken
Subject: Path Forward
08/03/2006 11:37 PM

Hal,

Thank you again for taking the time to speak with me today. I look forward to further discussing the opportunity for us to leverage and inject x-sourcing strategies into our daily operations and corporate culture. As you know, this isn't a matter of something that we should do to remain competitive, but something that we must do. Ironically, since our conversation, I heard through my own network that Fisher is outsourcing their Call Center fax work (8 FTEs) to Cognizant.

I have many questions regarding your vision and execution of objectives. I look forward to speaking with you on the 21st.

Thanks again for the time,
Rob

Monday, August 21, 2006

Since we have two separate headquarters buildings located in West Chester, on Monday, August 21, I walk to my car at about 11:45 AM to meet Hal for our scheduled noon meeting. I walk into Hal's executive office. He greets me, motions towards his conference table and moves from behind his desk to sit across from me at the table.

Given the amount of research that I've done over the past few weeks, combined with my review of my DYNM 644 "Strategic Outsourcing" course notes, I feel very well prepared for this meeting. I enter this conference with two basic, but seemingly certain expectations. I expect to be in a position of an interviewee, and I also expect to act as interviewer. As much as the opportunity may be a good one, I very much wish to make sure that I won't be swimming upstream, and working against some of the most general rules of outsourcing: don’t set headcount or financial objectives without first understanding the feasibility, don’t outsource core competencies, don’t outsource functions with broken or immature processes, don’t outsource just for cost-savings, and ensure that service levels will increase as well.

In addition to having more pointed questions regarding the outsourcing objective specifically, I have some more organizational and personal development questions to address. In an effort to demonstrate my preparedness and ensure that the questions are spoken to, I had sent Hal an email the previous week regarding the upcoming discussion. In this meeting, I was unaware if he had received the communication, as I had never received a response, but I did have two printed copies with me. That communication is presented in Table 2.

Table 2. Email to Hal Tillman, 08/20/06

To: Hal Tillman
From: Rob Milliken
Subject: Path Forward
08/20/2006 10:54 PM

Hal,
I trust that you've had a pleasant vacation. It's been a very hectic few weeks back in West Chester.

In an effort to make our time tomorrow as productive as possible, I thought I'd send you a short list of questions that I've derived regarding the potential new role in advance of our meeting. I would like to discuss the items below when we meet live. I look forward to speaking with you tomorrow about the exciting opportunities ahead.

Strategic:
- What should we expect to have accomplished by this time next year?
- Has the business set any specific targets?
- After implementation, who will manage the outsource vendor relationships?

Tactical:
- Do we have any specific methodology that we'll be following?
- Do we have a budget for our activities? What is it? Who will manage it?
- What is the level of execution for the role?
- Will we contract with external partners? What budget would these activities impact?
- How will our initiative/objectives be communicated?

Personal:
- What would constitute exceptional performance during the first 90 days?
- What areas should I emphasize when determining upcoming training and development activities?
- How much travel do you expect?
- What are the long-term prospects for this job (Growth and Advancement)?
- What title and grade level is being assigned to this responsibility?
- Assuming we move forward as planned, will I see an offer/assignment letter?

Best Regards,
Rob

I chose the strategic, tactical and especially the personal categories as they represented the most value to me personally, and ask the pertinent questions that will help to determine the role's goals and objectives, and therefore, the level of my interest. Additionally, and acting more as the interviewer, I had a few specific questions that I wish to have answered before I walk out of the meeting. One question was, is there a pre-determined outcome? Although having objectives is a very good thing, those objectives can and should be closer to factual data gathering, analysis, outsourcing feasibility and strategy formulation, as opposed to specific job or financial numbers. (Brown and Wilson, 2005) Also, good outsourcing practice guides one not to just outsource for cost, but to also couple value-added service. Is this initiative solely being conducted for cost savings? Another common mistake that I'm hoping to avoid is the outsourcing of problem functions. Some organizations wish to outsource functions or processes that are broken or disorganized. These organizations often fail quickly when attempting to outsource a broken role. This inherently will compound the problem, as the more efficient process and technologies possessed by the new firm performing the function will quickly exacerbate the problem. I wanted to know, therefore, are we going to attempt to outsource departments that we know have process issues?

As our conversation starts, Hal pulls out a printed copy of my email. I, in turn, pull out one of the two copies that I had prepared. He nonchalantly addresses the first point, while also speaking of the initiative in generalities. Within a span of a minute or two, it becomes apparent that he is speaking to what I had perceived as a “potential” role in his organization as if it was a “done deal.” Our interaction seems to be an interview for him to determine if I’m the right fit, and for me to understand the goals and objectives and then to decide if it’s something that I would really like to pursue.

Given the indirect nature of this exchange, I decide to take our conversation off of the bullet-point list, and to bring this apparent difference in perceptions to the forefront of the conversation. After I note our disparity of views, Hal says, “Put all formalities aside, this is a done deal.” Immediately back to task, Hal casually answers some, but not all, the questions on the list as we continue our conversation. Before the conversation ends, I have a new position with an unofficial start date of Friday, September 1, 2006.

Reflecting on our conversation, I am very excited about my opportunity to move from the Information Services group to work in our Strategy and Corporate Development organization. I do have many challenges however, but none that I am not willing to directly confront at this time. The biggest challenge, and the one that is giving me the most angst, is what I interpret as a predetermined outcome. Without any upfront analysis, the 2007 objectives include \$2.5M. As well, during our conversation I had asked if there would be an offer or assignment letter presented making the new role and responsibilities official. It was very apparent by his response that Hal saw this as red tape and an unnecessary step in our process. Indeed, there was no transition exit, acceptance or official welcoming to the position. Rather, just a conversation left with many questions answered, a few not, and our objectives and unofficial start-date set. This was seemingly more of an appointment then an offer, but without a word of acceptance spoken, I accepted.

As we leave, Hal walks me to the desk of his executive assistant, where he tells her to have new business cards ordered for me. “What’s the title?” she asks. Hal pondered for a few seconds, then voiced, “Director, Corporate Initiatives.” She acknowledged the response and informed me that she’ll be sending me an email to confirm the contact details for the cards.

Given my role as I.S. Director and Business Partner, I have been spending a great deal of time working on the plethora of strategic projects that my business constituency is asking to be included in the 2007 operating plan. Knowing that the business requests about 75 strategic projects per year, and the organization can successfully absorb only about 12, there is a formal and lengthy process for queuing up all of the projects, assigning cost and human resource estimates to them, and presenting them to the senior executives of the corporation. To make traction in 2007 with the outsourcing plans, it quickly becomes apparent that I should audit the list of the 75 projects to see if any of those directly or indirectly relate to the success or failure of the outsourcing mission.

Upon review, I found one project that could impact our success. It is a Remedy system upgrade. This project is one of the few that have a business sponsor of an I.S. executive, Dan Nolan. Dan is the acting Director of Infrastructure, brought in to fill the role until a replacement was found as well as run infrastructure related projects. Given my find, I reach out to Dan and confirm the scope of the project and verify why it's needed. I believe it would benefit our sourcing initiative because Remedy is a Help Desk ticketing system. As we establish working relationships with vendors, we could use the enhanced functionality in Remedy to track and manage response times to issues, as well as problem resolution. This will be very valuable with enforcing any outsourcing vendor's service level agreements with CDR. Given my concerns, I send an email communication to both Hal and Linda (Table 3):

Table 3. Email to Hal Tillman and Linda Lang, 08/21/06

To: Hal Tillman To: Linda Lang From: Rob Milliken 08/21/2006 10:01 PM Hal and Linda, I contacted Dan Nolan regarding potential tasks for 2007 that we should be planning on to make any alternative sourcing plans feasible and/or efficient to implement. Dave responded with some very good feedback. One point that stands out to me is the Remedy upgrade under "Process" used to track and monitor vendor SLAs. It stood out as conversations thus far have led me to believe that this project will not survive the scrutiny of the prioritization process that is currently underway. I would appreciate your thoughts on this and the other items mentioned below. Regards, Rob Rob Milliken IS Director & Business Partner ph: 610-429-2805 cell: 484-467-1633 email: rob_milliken@CDR.com

CHAPTER 3

SEPTEMBER EVENTS

September 1, 2006

Although my start date was estimated to be on September 1, 2006, my most important tasks as I.S. Director and Business Partner have not subsided and I do not have a named replacement. Much like the type of documentation we'll eventually need for vendors to take on some of CDR International's functions, I have a transition plan documented, but no one to receive the document or to discuss the points that it addresses.

Given the fact that Linda, the CIO, has not filled the position, my start date in the Strategy and Corporate Development team is pushed to Monday, September 18, 2006. As the two people slated to be my potential peers are navigating through a great deal of red tape and bureaucracy, the push of my start date does not present an issue to Mr. Tillman. The issues presented are mainly due to the relocation package as one potential peer is currently located in the U.S. and will be moving to Germany for this assignment, and the other is currently working in Belgium and will be moving to United States.

During slow periods of my workload for the Information Services department, I do a great deal of research on the outsourcing topic and come up to speed on a few small outsourcing tasks currently underway in the I.S. organization. My research is collected mostly from searching Gartner's website, (www.gartner.com). Gartner, formerly the Gartner Group, has thousands of articles and a plethora of research available on the outsourcing topic.

As I rifle through the numerous articles available, and try to evaluate potential vendors, I use the research gained to make an immediate impact on the outsourcing project already underway in the I.S. organization. Becky Faulk, the Application Development Director in the I.S. organization, is leading this effort. Her team's goal is to outsource system maintenance, support and development of the Oracle Financials application that CDR International employs today. She has five vendors in play, who are in the midst of delivering presentations to CDR International on their services. They consist of Computer Associates Incorporated (CAI), TATA Consultancy Services (TCS), Capgemini, Wipro, and Business and Decision. All of the vendors have received a request for proposal (RFP) written and distributed by Ms. Faulk, and most have delivered their response.

Given my background, research and motivation to present myself as competent in my new role, I jump into the process immediately to hopefully add-value to the undertaking. As I quickly interject myself into the process and add counsel where and when appropriate, I am also added to email distributions that Becky sends as part of the ongoing vendor evaluations. Additionally, I set up weekly meetings with Ms. Faulk to ensure that I am kept abreast of any and all related activities, and that I have an opportunity to add value. From conversations with Becky, and through observations in my first few vendor meetings, it is readily apparent that cross-functional CDR International attendance and input is lacking. The I.S. department is already notoriously lean and overburdened with "keep the lights on" tasks as well as strategic projects.

From the communications and meeting invitations that I am privy too, I do see that Becky is attempting to engage all of those I.S. executives whose departments will be affected by the potential new relationship. She has invited the manager of the Application Services group, Rob Traxler, the manager of the Application Development team that supports the Oracle Financials application, Elissa Nurthern, the CIO, the Director of the Project Management Office, Mike Reddy, and the new Vice President of Infrastructure, John Bosworth. With attendance consistently weak, and feedback not being obtained from these key individuals, Ms. Faulk sends a message to the CIO, who has been absent from many of the sessions herself. The email is sent on September 6th to voice her concerns on the initiative. See Table 4.

Table 4. Email from Becky Faulk, 09/06/06

From: Becky Faulk
Sent: 09/06/2006 09:43 PM
To: Linda Lang
Cc: Rob Milliken
Subject: OF Outsourcing

Linda,

I'm really concerned with our progress on Oracle Financials outsourcing. We really need to solidify our thoughts and strategy ASAP. These vendors are expecting notice on who will be presenting next week. We need to widdle this list of 5 vendors to 2. The problem/challenge is that everyone is very busy and little progress has been made on reading, evaluating and comparing these RFP's. Everyone is very busy, including myself, and unable to focus on this. I have not received any feedback from anyone as of yet. Can we discuss expectations and pathforward?

Becky Faulk
Director, Applications Development & Enterprise Architecture

As I'm new to the process and working through tasks for my I.S. role, I too have not returned feedback to Becky on the initiative. She and I have spoken however, and commit to stay very well connected throughout this process. Ms. Faulk's email to the CIO elicits a same day reply (Table 5).

Table 5. Email from Linda Lang, 09/06/06

From: Linda Lang
Sent: 09/06/2006 09:43 PM
To: Becky Faulk
Cc: Rob Milliken
Subject: OF Outsourcing

I have read four of the five. I would recommend that we have orals from Wipro. Tata and Capgemini. We know BD already and CAI does not seem to have the expertise. So far I am impressed with Capgemini which is a surprise to me.
Feel free to call me tonight till 10 15 pm
Linda L Lang
From Blackberry.

Given my own observations and interactions with Becky, I am somewhat surprised by the communication back to her on the challenge. Although weighing-in on one of the problems communicated to her, the one that I find more substantial, the lack of the I.S. team's participation is wholly ignored. As Linda and I have weekly one-on-one meeting each Wednesday at 5:00 PM, I decide to make a note to mention this issue next week.

Thursday, September 7, 2006

Per a communication from Hal, I have a scheduled an appointment with Penn Travel Medicine in Radnor to receive inoculations needed for China and India, as those are likely places for CDR International to outsource work. Given the labor rates of those markets, and the number of foreign and domestic companies offering offshore resources in those areas, it's highly likely that travel to those facilities will be taking place.

Not long after I arrive at the travel medicine office, I am informed of the dangers of each market and recommended vaccinations for each. The nurse practitioner and I had a great deal of dialog as the activities I participate in drove the number and types of recommended treatments.

I was "stuck" with vaccinations for tetanus, pertussis, diphtheria, pneumococcus, polio, hepatitis A, and hepatitis B. In addition, I was handed an oral vaccine for typhoid fever, a prescription for malaria to be taken when I'm in a "malaria zone", a prescription for traveler's diarrhea, and a bottle of Ben's Deet bug spray to be applied to my skin and clothing when I travel throughout China and India. A final item that I departed the office with was a follow-up appointment for November 9th for two more hepatitis shots. All and all, I received over $700 worth of vaccinations, and coupling this experience with the true organizational dynamics issues at the office, am wondering if I've made the right choice of careers.

Tuesday, September 19, 2006

It's Tuesday, September 19, 2006, and TATA Consultancy Services is in our conference room delivering a presentation as a supplement to the Oracle Financials proposal. In addition to the presentation, they also came in well represented with an account executive, the vice president for the region, and the project manager that would be used as a permanent, on-location resource at CDR International. TCS's global delivery model, much like the other vendor's that we're evaluating, include an on-site resource to work with the local CDR International team and act as a liaison to their offshore associates.

This meeting is my first with a vendor, and I am able to ask some pointed and valuable questions fresh from my research. I ask, what is the attrition rate of their resources? How do they measure attrition rate? Partha Ivengar, a well-respected analyst at Gartner has provided incite on the importance of attrition as turnover will affect a vendor's ability to serve, and attrition rates are notoriously high with many vendors. (Iyengar, 2005)

Through research, it has been reported that one must be very cautious when obtaining attrition rate statistics from vendors. For business continuity sake, CDR International must know the "client" attrition rate. When asked, many service providers tend to quote the corporate attrition rate. Indeed, CDR follows this practice when asked for ours.

The client attrition rate and corporate attrition can and will often vary greatly. In many cases, a vendor's technical resource, which may leave a particular client because they are promoted or assigned to work on other client engagements, is often not counted as part of attrition. As an organization seeking outsourcing service, this would be as if they left the service provider firm altogether because they could be unavailable to service the engagement. As a client, we would be concerned if key personnel left the account, whether across the aisle or across the ocean.

According to Jim Longwood of Gartner, one should also inquire about the techniques that the management team employs and ask about the remedies offered to clients to protect against or reduce the impact of attrition. (Longwood, 2006) Through my work experience I have found to use “shadowing” techniques so contracted resources have substitute workers knowledgeable of the client’s systems and processes in the event one of their employees resigns. I also asked about “stay” bonuses and other benefits offered to their employees to ensure that their attrition stays to a manageable level and to protect CDR.

Another question was to not only ask for a client reference, but to ask to speak to a client who either terminated a contract early, or who did not renew a contract with the vendor. Although standard client references were requested in our initial proposal, and the vendors all provided clients that we could reference, we did not ask for, nor receive client references that fit the aforementioned description. In my opinion, information about customers who separated from a vendor could be the most beneficial to understand how conflicts might develop or could shed light on practices that were “deal breakers.”

The group from TCS fielded all questions, and promised to get back to us on some others, including the client reference that cancelled or did not renew. Overall, I feel good about my input into this meeting, and I feel that the CDR International team noticed immediate value in my presence.

<u>Wednesday, September 20, 2006:</u>

As my official start date in my new role within the Corporate Initiatives team has recently passed, I have quite a task that lies ahead. This start date has been on the record for weeks now. Due to delays in backfilling my open position as I.S. Director and Business Partner, which is leading to a small reorganization effort within I.S., I am performing double-duty. I am still handling a lot of the tasks from my previous role.

I was well prepared for my transition (I had a documented transition plan), and I have now reviewed this plan with the CIO and the internal resource poised to take on my responsibilities. However, there are quite a number of items still in the works that require my attention. I expect to be offloading many of these as the new resource comes up to speed.

I begin my new assignment by continuing to collect and read massive amounts of research on outsourcing. I review materials that I have in my possession from previous work at CDR, as well as information obtained from my DYNM 644 “Strategic Outsourcing” class.

Additionally, I’ve been quickly indoctrinated into the Oracle Financials outsourcing project already underway. This is a very small project in the overall outsourcing realm, estimated at approximately five FTE’s (Full-Time Equivalents). Ms. Faulk is now at the point of setting up reference calls from the client lists provided in the proposals from her selected vendors.

Upon reviewing my research on some of the best practices in outsourcing, I am reminded that “Selective Bundling” was a concept referenced in an article entitled “Getting Outsourcing Right” from Chief Executive magazine. This was one of dozens of assigned articles from classroom study in strategic outsourcing. (Albright, 2003) If my goal is to help the I.S. organization as a whole do things better, cheaper and faster, would we not be served to hold this small initiative and bundle it with other opportunities sure to arise out of my upcoming efforts?

Becky and I discuss this point and as I do not wish to inhibit progress, agree to have the vendor selection process move forward. With backing from Mr. Tillman, I do, however, strongly recommend short-term contracts that we could easily terminate or amend in the event that an opportunity to bundle is realized in the short-term.

Thursday, September 21, 2006:

Despite my continuing literature review, I'm not exactly sure of the current landscape and work performed by our existing Oracle Financials team. I take the opportunity to gain a more in-depth understanding of the current state support model in today's weekly meeting with Becky. In addition to team structure and tasks, I am also made aware of the locally based, third party resources that we employ as staff augmentation to ensure that the maintenance and support work for the Oracle Financials system is performed. The local, third party firm is on a time and materials contract, with a "not to exceed" clause of $45,000 per month.

At the meeting, I confidentially reference some of the broader based initiatives that I have in mind so she can better understand how this piece could fit into a bigger initiative, better understand why I would push for things like shorter, more flexible contracts, and eventually get feedback and advice from her on some of my other focus areas. (Maurer and Stone, 2006) I also look to better understand the operations and dynamics within her team.

Friday, September 22, 2006:

Becky has sent out a meeting invite to try to elicit feedback from the critical stakeholders within the I.S. organization. She checked everyone's calendars and scheduled the meeting at 4:00 PM so everyone could attend. The meeting invitation is presented in Table 6.

Table 6. Becky's Meeting Invitation

Meeting Invitation: All, My apologies for scheduling at 4 PM on a Friday, it's nearly impossible to get everyone together. Mike/Veronica, I know you are out of the office. Feel free to give me feedback before the meeting. Goal: I've received very little feedback (none exactly) from the 1st round of RFP responses. I'm looking for feedback from RFP presentations from Wipro, Cap Gemini, and TCS.... thoughts, issues, concerns, requests for updates, etc. - Becky

The sarcasm worked, as everyone on the invitation, minus the CIO, was in attendance. Unfortunately, it remained apparent that very few people had read the documentation returned from the vendors, but good dialogue and discussion was had.

During my tenure in the Organizational Dynamics Program, Dr. Elsa Ramsden counseled me in my DYNM 691 "Small Group Processes" class on a related note. When discussing a similar situation, I recall her advising me not to assume that people coming to a meeting having read pre-distributed documentation before hand.[3] Given Becky's struggles, I passed this advice onto her and encouraged her to provide a brief overview and stage points of contention or discussion.

<u>Tuesday, September 26, 2006:</u>

Although officially out of the I.S. organization, Linda Lang, the CIO, keeps me invited (via email list) to weekly meetings with her direct reports. As I still have some I.S. items in play that have not been transitioned, I decide to attend this week's meeting. Given Linda's approval, I plan to continue to attend these meetings until all of my I.S. responsibilities are fully transitioned to the new person. Doing so allows me to ensure that my business constituents are taken care of during the period of absent coverage and allows me to stay connected with I.S. morale and human resource issues that are often discussed in these sessions. Given the nature of outsourcing, I feel that it is imperative to keep up to speed on these types of issues as the severity may dictate our outsourcing actions moving forward.

Many topics were discussed during the two-hour meeting, but only a few brief mentions of activities specific to the outsourcing initiative. Linda has communicated, albeit vaguely, my role and the role of my Corporate Initiatives team, to her direct reports. On this occasion, she communicated very specific and confidential information that I didn't feel appropriate to be sharing. Given my conversations with Hal, I was already concerned by the predetermined targets of $2.5 M in savings and/or 100 jobs in 2007. Also, another opportunity to emphasize higher service levels, in conjunction with the cost savings, was missed.

During the conversation regarding the I.S. expense budget for 2007, projected to be more than $30 million, she mentioned that the I.S. organization would have a holding account for outsourcing associated project costs. I believe that if we can effectively execute an outsourcing strategy in 2007, we can expect increased costs due to system access, network links between our vendors and our data center and transition costs. We know from our process underway with the Oracle Financials outsourcing that transition costs can become costly as Eric Farber from CapGemini anticipates a 1-2 month period where their resources will be shadowing existing employees as work is performed and transitioned.[4]

During this staff meeting, I grow uncomfortable with Linda sharing the senior management targets for the Corporate Initiatives team. I was uncomfortable with the predetermined outcome, but communicating it outward, albeit with the caveat “not to leave the room”, increases my concern. I have concern for several reasons. One is that I feel this information should remain confidential until formal discussion, particularly based on better data about what was likely, could be used to present more “reasonable” objectives. My counterparts and superior would certainly assume that the leak was due to my actions and operations as opposed to Linda’s communication of confidential information. Second, if the objectives were widely known but were not met, it could be a career-limiting move for me. Failure of a known expectation would likely spread through the organization and cause concern.

<u>Wednesday, September 27, 2006:</u>

On Wednesday morning, I proceed to Hal’s office for a 9:00 AM, one-on-one meeting with him. Our conversation starts off surrounding the status of the “Corporate Initiatives” team’s formation. He informs me that Fredrick Mercer, the current Vice President of Marketing in the U.S. and Paul Vance, the Vice

President of Marketing in Europe are officially accepting their positions within the team. Unfortunately, formal announcements regarding the new team, and our objectives cannot yet be made, as both gentlemen are still working out contractual and relocation issues.

In this meeting, Hal reiterates the target of moving 100 jobs offshore in 2007 and the objective to save the organization $2.5 M. He does, however, state that even though it's a cost-based project, if it makes the best business sense to bring in or leave the function in house, we will do so. He also mentions that I can start to leverage Mike Stramara. Although Mike is not part of our "commando" team, he will be reporting to Hal as the General Manager of all Asia-Pacific operations. Mike has a great deal of familiarity with the market in India and the political connections to navigate that market smoothly.

Additionally, Hal starts to give me more specific objectives. He wants a list of all Information Services opportunities. He desires to know where the bodies are within the organization, what it is that they're doing, and their cost base. He recommends using Deana Kaley, a senior member of the Finance team to determine the actual headcount cost base, and to use the operating plan projected for 2007. He also asks me to benchmark the I.S. organization and to figure out what the technology budgets are, as a percentage of gross-margin, in other companies within our industry.

Hal referenced his relationship with Gary Reiner, the highly regarded CIO at General Electric. Mr. Reiner has been praised in trade publications for his success with outsourcing. We expect to have some paperwork with some best practices from Gary within the next few days. Lastly, Hal asked me to start a sourcing "contact" database, so that we know the players in the outsourcing space, and have names, numbers and general corporate information available when we're ready to invite the vendors to CDR International.

Before leaving, I also referenced the Asia Service Center concept I had pitched that only received a lukewarm reception. It still seemed to make sense to me to eliminate the profit taking from the middleman and establish our own delivery center in a low-cost market. Hal seemed more interested, but not overly excited about the concept.

<u>Wednesday, September 27, 2006</u>

Today, I had my weekly scheduled 5:00 PM meeting with the CIO. In this informal meeting, Linda and I were able to address many different topics. We collectively brainstormed on functions that could serve as potential targets to outsource, and discussed opportunities to right-source specific people. A more sensitive term than "outsource", "right-source" implies careful thought and procedures for evaluating and determining the most organizationally attractive course for sourcing one's labor. What is the "right" way to source this skill set or function? For example, right-sourcing would evaluate the scenario of non-repeatable, high skill, CDR specific, intellectual property driven work being performed by outside contractors from other companies, and most likely bring that task in-house.

On the top of our list on the applications to outsource were: System ESS, EDI, Cross Plus, QSS, Progistics, SAP Business One, Oracle Financials, the

Synergy Cockpit, and the entire SAP Business Warehouse application suite and associated infrastructure.

We also discussed specific partners and resources. There are many contractors as part of the internal I.S. staff, some of them have been with CDR International since 1999 and are charging rates over $200,000 per year. Linda and I agree that, if possible, we could gain some quick-wins here by taking some of our most costly resources and replacing them with a least-costly offshore alternative. Of specific mention was a web administrator, the folks from B&D, one of our data loaders, a system architect, the EDI team, the Service Desk and the Quality Assurance team. Obviously, more work will have to be performed to determine the proper mix and identify true opportunities.

Also discussed was our EDI contract with e-Finity for our EDI development. Linda mentioned that she believes that we are under contract with e-Finity until November of 2007 with rates of $75 per hour for two FTE's.

Before coming to CDR International, Ms. Lang was a well-established Vice President in the Information Technology department at Cardinal Health. She had previously mentioned a contact there that took the lead on an outsourcing initiative quite successfully. To further my efforts, I asked Linda to reach out to this contact at Cardinal Health for any templates, or process advice on performing an application inventory analysis with the goal of outsourcing. She had mentioned, Sharon Bender as the appropriate resource, and agreed to contact her for counsel.

CHAPTER 4

OCTOBER EVENTS

Tuesday, October 3, 2006

I proceed to the office of my newest leader, Hal Tillman, for a 9:00 AM team meeting. I arrive to find one of my peers, Fredrick Mercer already there, and after an exchange of pleasantries, we get Paul Vance on the phone from Belgium.

Hal gives a brief status update of our team officially coming together. At the moment, I'm the only player on the sourcing team truly able to be working for the department as contractual issues for both Fredrick's move to Europe and Paul's move to the U.S. are causing headache and delay. Fredrick's issue moving back to Europe has centered on his relocation, and Paul's issues deal more directly with business events in Europe. Hal lets Fredrick and Paul know that I am "squared away". Also, my expense budget will stay with the I.S. organization until January 1, 2007, so we have one less item of concern. Hal also comments on my recently completed Human Resource paperwork making my transition to the Strategy and Corporate Development team and any wage adjustments official. He then comments that he obviously cannot issue an organizational announcement regarding our team and its charter until all of those issues have been addressed.

As we move into the crux of the meeting, Hal lays some pretty clear objectives for the team: start building the fact bas; find out more information on the idea of opening our own Service Center in India, and build a table of potential service providers that we could leverage, and develop short, medium and long-term sourcing plans for our respective organizational assignments. I am responsible for our Global Information Services Department, Fredrick for the European business functions, and Paul for the North American business functions.

As I am still performing tasks in my former I.S. role, I am very aware of a potential 2007 project that is being pitched to the I.S. Steering Committee for approval. It involves Optical Character Reader (OCR) technology. This project has been researched and proposed as part of the on-going call center productivity improvements. An optical character reader is a technology that can learn to read and transform computer generated and sometimes handwritten documents into a more useful format. The OCR project for the call center expects to achieve its return on investment by greatly reducing the headcount for people required to process our 3000 inbound fax orders per day. The OCR tool would be taught to read various fax formats, and automatically feed them into our ERP (Enterprise Resource Planning) system, much like an EDI (Electronic Data Interchange) transaction. This relatively inexpensive tool would all but eliminate the manual process of printing out the thousands of faxes and re-keying them into our order entry system.

Given the in-depth knowledge of this system and our new focus on right-sourcing certain organizational functions, we now have two different ways that we could solve this issue. Highly repetitive, standard process work, such as re-keying fax orders into our system, is very low-hanging fruit for our Corporate

Initiatives team. We could quickly achieve a quick-win by having this work performed offshore and eliminating the capital investment in the OCR tool project. This investment is estimated at $400,000 up front, and about $100,000 recurring expense dollars each year for maintenance, support and licensing.

Given this knowledge, I voice the sourcing alternative over the $400,000 capital expenditure in our meeting. Hal asks that I contact the COO, Robert Styker, to put a hold on the project. This immediately causes me some concern, as my first outward action within my new role is not only across the organization to another department, but substantially up the chain of command as well.

I also voiced the fact that there are smaller, one-off sourcing arrangements already taking place in the I.S. organization, and asked if he had any specific advice for how to facilitate, or discourage, those efforts. His only advice was to ensure that none of our assigned organizations get involved in any long-term contracts that would lock us in and were inflexible. This makes sense as an outsource service provider‘s work in one small area may be collectively bundled within the next 12-18 months into a larger, more cost-effective contract. Ideally, Hal wants any new contract to be less than 24 months.

Before adjourning, we all agree to reconvene at the end of October, or early November and to expect a meeting invitation from our executive assistant.

<u>Wednesday, October 4, 2006:</u>

Today, I had my weekly Wednesday, 3:00 PM meeting with the Application Development Director, Becky Faulk, to give and receive updates on key organizational events. I used this time to have a discussion about her

Oracle Financials outsourcing process already underway. Although up to speed on documentation sent to and received from vendors, I have not internalized the current picture of her team that is supporting the application today.

We have 3 internal FTE's performing the Oracle Financials work currently, and given the backlog of work, and future project proposals, her team feels that the right number should be five. She is mainly looking to outsource the maintenance and support work, and leave some of the more fulfilling and motivating project work to our employees.

I am slightly concerned with the outcome of the conversation, as we will actually be increasing headcount, which is in direct conflict with the objective of reducing employment by 100 people. As I'm already weary of starting with a financial objective of $2.5 M cost saving, I'm concerned that this decision and my compliance could take the cost numbers in the wrong direction.

Thursday, October 5, 2006

Given the feedback from Tuesday's meeting, I find myself busy researching and assembling methodologies to support the vision and the more immediate objectives that we had discussed in our meeting. My first order of business was to assemble a "Sourcing Contact Database" with key elements as stated by Mr. Tillman. Those elements include: the company name, annual revenue, number of employees, any specific sourcing specializations, key accounts, contact information, and one column for any related notes.

Once I quickly fill up the template, I rifle through my list of business cards obtained from various vendors offering outsourcing services, and start to populate the spreadsheet. In addition, I utilize the Internet to research the companies further and fill in the remaining columns, mentioned above, on each service provider. Table 7 represents a view of the spreadsheet used to capture the necessary contact information.

Table 7. Sourcing Contact Database

Supplier Partnerships for Customer Solutions

Sourcing Contact Database

Company	Size	# of Employees	Specialization	Key Accounts	Contact Info	Notes
TATA	$21.9B	202,712	IT/BPO	McGraw-Hill Education, Sun Life Assurance (Insurance), VSNL International (Telecom), Pearl Group (Biggest BPO deal in UK), Toyota Financial Services	Siraram Tadepalli, Head of Operations, Office: 732-590-2688, Cell: 973-216-4564, email: t.sirvaram@usa-tcs.com	Operations in 54 countries serving 120 nations. Preferred vendor (thus far) by VWR IT team for Oracle Financials offering. Established "Leader" on Gartner's Magic Quadrant.
TATA	$21.9B	202,712	IP/BPO	McGraw-Hill Education, Sun Life Assurance (Insurance), VSNL International (Telecom), Pearl Group (Biggest BPO deal in UK), Toyota Financial Services	Greg Karabin, Business Development Manager, Office: 732-491-0020, Cell: 732-306-3035, email:g.karabin@usa-tcs.com	Operations in 54 countries serving 120 nations. Preferred vendor (thus far) by VWR IT team for Oracle Financials offering. Established "Leader" on Gartner's Magic Quadrant.
TATA	$21.9B	202,712	IT/BPO	McGraw-Hill Education, Sun Life Assurance (Insurance), VSNL International (Telecom), Pearl Group (Biggest BPO deal in UK), Toyota Financial Services	Santanu Aich, Business Development Manager, Office: 732-590-2709, Cell: 732-599-0460, email:s.aich@usa-tcs.com	Operations in 54 countries serving 120 nations. Preferred vendor (thus far) by VWR IT team for Oracle Financials offering. Established "Leader" on Gartner's Magic Quadrant.
TATA	$21.9B	202,712	IT/BPO	McGraw-Hill Education, Sun Life Assurance (Insurance), VSNL International (Telecom), Pearl Group (Biggest BPO deal in UK), Toyota Financial Services	Kannan Sankaranarayanan, Project Lead, Office: 91-22-25556494,Cell: 91-9820968577, email: kannanpvs@yahoo.com	Operations in 54 countries serving 120 nations. Preferred vendor (thus far) by VWR IT team for Oracle Financials offering. Established "Leader" on Gartner's Magic Quadrant.
TATA	$21.9B	202,712	IT/BPO	McGraw-Hill Education, Sun Life Assurance (Insurance), VSNL International (Telecom), Pearl Group (Biggest BPO deal in UK), Toyota Financial Services	Bimal Satpathy, On-site Project Manager, Cell: 732-331-4761, email: b.satpathy@usa-tcs.com	Operations in 54 countries serving 120 nations. Preferred vendor (thus far) by VWR IT team for Oracle Financials offering. Established "Leader" on Gartner's Magic Quadrant.
Wipro			IT	Honeywell, Emerson Motors, Cisco, Nokia, NCR, Toshiba, Sanyo, Nortel	Rajiv Pant, Vice President Enterprise Solutions, Office: 732-509-1525, Cell: 732-939-6526, email: rajiv.pant@wipro.com	"Leader" on Gartner's Magic Quandrant.
Wipro			IT	Honeywell, Emerson Motors, Cisco, Nokia, NCR, Toshiba, Sanyo, Nortel	Shabbir Mejevdiwala, Business Development Manager, Office: 732-509-1544, Cell: 571-236-0588, email: shabbir.mejevdiwala@wipro.com	"Leader" on Gartner's Magic Quandrant.
Wipro			IT	Honeywell, Emerson Motors, Cisco, Nokia, NCR, Toshiba, Sanyo, Nortel	Arnab Bag, General Manager Enterprise Applications, Office: 317-250-4290, Cell: NA, email: arnab.bag@wipro.com	"Leader" on Gartner's Magic Quandrant.
Ciber, Inc				USDA Risk Management Agency, Gate Gourmet, U.S. CDC, Pennsylvania Turnpike Commission ($58m),	Geoff Gruce, Account Executive, Office: NA, Cell: 610-248-6122, email: Ggruce@ciber.com	
Patni	Revenue: $550m	13,500	Banking, Finance, Insurance, Healthcare, Retail & Distribution, Manufacturing, Transportation and Logistics, and Media	General Electric, Comcast, Xerox, Yahoo, Lockheed Martin, Oracle, EMC, Sony, Hitachi, Toshiba, Yamaha	Newt Parks, Office: NA, Cell: NA, email: Newton.Parkes@patni.com	ISO 9000 certification, SEI CMM level 5 assessment, PCMM Level 3, Six Sigma, 24 Offices worldwide, 10 Delivery Centers, Been in business for 26 years. "Challenger" on Gartner's Magic Quadrant.
Patni	Revenue: $550m	13,500	Banking, Finance, Insurance, Healthcare, Retail & Distribution, Manufacturing, Transportation and Logistics, and Media	General Electric, Comcast, Xerox, Yahoo, Lockheed Martin, Oracle, EMC, Sony, Hitachi, Toshiba, Yamaha	Prasanna Mainkar, [Point of Contact],Office: 617-914 8227, Cell: 781-608 1163, email: prasanna.mainkar@patni.com	ISO 9000 certification, SEI CMM level 5 assessment, PCMM Level 3, Six Sigma, 24 Offices worldwide, 10 Delivery Centers, Been in business for 26 years. "Challenger" on Gartner's Magic Quadrant.
CapGemini					Rick Freedman, Vice President, Office: 212-314-8278, Cell: 610-608-2708, email: rick.freedman@capgemini.com	"Challenger" on Gartner's Magic Quadrant.
Softtek	Revenue: $135m	4000	Nearshore specilization. Application dev, maintenance and management, ERP integration. Expanding into BPO.	GE	Michael S. Medaglia, Business Relationship Manager, Office: 978-556-1591, Cell: 617-548-6426, email: michael.medaglia@softtek.com	Per Gartner: Softtek, Monterrey, Mexico, Privately held smaller service provider. Growth rates as high as 40%. Unique combination of a formidable offshore service provider and the only non-Indian vendor to pose serious competition. Recently won a significant portion of a notable offshore "megadeal". Has a solid global delivery model that few, if any, of the midtier vendors of this size in the U.S. possess. Market "mind share" is low compared to the largest traditional providers, which often results ina lack of consideration. ** Their total cost of ownership model can generate savings equivalent to what Indian vendors provide (substantiated by many client testimonials). For emotional and logical reasons, some U.S. companies see this as closer to home and, thus, a lower-risk contractual arrangement. 7 SAP Awards for Excellence, Oracle Partner.

organization. I am not able to find much, but do realize that I will need to assemble an inventory spreadsheet for each individual human resource in the Information Services department and an inventory spreadsheet for all of the applications run and maintained by the organization. I start to assemble these documents, with very preliminary columns. I also plan to sit down with key technology managers as the document matures, to get their buy-in and sign-off that I'm truly capturing the right information, and the information is attainable.

Sunday, October 8, 2006

I awaken leisurely and pack my bags for my trip to Orlando, Florida. Gartner, a large firm providing leading practice research in the various fields of information technology, is having their annual "Symposium and IT Expo" in Orlando. It's an enormous event with over ten thousand in attendance.

Linda has approved my travel and the cost of the conference given my new role, as Gartner has a specific meeting/conference track for those information technology professionals involved in sourcing activities. During my registration, almost all of the meetings that I chose to schedule were part of Gartner's "Sourcing" track.

I arrive in Orlando and immediately meet with my two previous I.S. peers who are attending the conference with me. Mitch Riordan, Director of our Project Management Office, and Becky Faulk are participating in the "Project Management" and "Application Development" tracks respectively. We meet very informally to discuss what we expect to get out of the following week in Orlando.

In addition to gaining a great deal of momentum and background for our specific areas, we are eager to hear the presentations by Microsoft's CEO, Steve Ballmer, and Cisco's CEO, John Chambers. Not only was Cisco's use of outsourcing, and John Chambers leadership throughout the outsourcing initiative studied in my Spring 2006 DYNM 644 "Strategic Outsourcing" class, but ironically, it's the case that I became the most familiar with and consequently facilitated an entire evening's class.

The busy schedule in Florida netted many key findings, and was of great value in my information technology outsourcing efforts. I was able to gather a great deal of information from the sessions that I attended. I outlined many key points important for review and understanding by designating a "KP" before writing the notes in my document. At this juncture, these key points represent the most substantial and abbreviated pieces of outsourcing knowledge from all of my research and scholarly study. (see Appendix A)The notes and more importantly key points to outsourcing are found in Appendix A.

<u>Wednesday, October 11, 2006</u>

In addition to attendance in the Gartner "Sourcing" sessions, I used the time to converse and network with other professionals also engaged in outsourcing and undergoing similar types of processes. Perhaps the most valuable and interesting feedback that I had obtained today was while dining at the famous Fulton's Steamboat restaurant in Downtown Disney. As I was alone, and the wait for the table was over an hour, I decided to sit at the bar to have dinner. After reviewing the menu and ordering, I started to go through the day's email messages displayed on my Blackberry handheld. Within a few minutes a gentlemen sat next to me performing essentially the same routine. As the Gartner Symposium was a huge event, I figured that there was a good chance he was in town attending the affair as well. Upon asking, I quickly confirmed that he was. We exchanged pleasantries and discussed what we hoped to get out of the sessions. John McLeary was in town attending the “Project Management” track, and I related that I was focusing on the “Sourcing” track of the event. John retorted that he has a great deal of experience in the sourcing area from his employment at JPMorgan Chase. Given that I am extremely versed on the subject by this point, I asked him for his single best piece of advice.

His comments centered on the use and enforcement of SLAs (Service Level Agreements) with vendors. Specifically, he mentioned that when drafting the SLAs in the contract, to weigh the SLAs, and allow all of the weighting to apply to any specific area at my own discretion.[5] For example, we would draft a contract with an application vendor with the following four SLAs: up-time of application, error-free application code deliveries, 30-minute response time to critical issues, and 24-hour time to resolution, with penalty clauses to take effect at various performance rates. On a monthly basis, if the vendor meets the four aforementioned criteria 100% of the time for that month, there would be no penalty. The penalty would normally be an escalating percentage off of the monthly billing, i.e. performance under a 90% hit-rate.

Normally, a score of 90% or higher for the month across the four different performance metrics would not yield a penalty, and therefore, would not induce or provide the vendor any incentive or motivation to address any issues. Using the example in the same scenario above, I could weight and channel the performance metrics as I choose. For example, that same net score of 90%, 90%, 90% and 90%, a grand total of 360 percentage points out of a possible 400, could be re-set at my discretion to be 100%, 100%, 100% and 60%. I could assign that 60% to any of the SLA metrics to provide an incentive to any focused area of my choosing. This informal conversation at the bar, perhaps netted the biggest information gain and creative practice of the entire week.

<u>Monday, October 16, 2006</u>

I'm back in my West Chester office, reflecting on the Gartner experience and typing up the notes referenced earlier from my notebook into my PC. Overall the trip was extremely eventful. I intend to discuss the key outcomes and findings with the CIO to reinforce that her decision to send me to the conference was appreciated, and a wise choice.

At 9:00 AM, I dial my peer, Fredrick Mercer, in Germany for a scheduled conference call. Fredrick and I set up calls on a random basis to ensure that we stay connected on each other's activities. The call lasts about 20 minutes. Fredrick notes that he is having some difficulty getting out of the gate. He is not employing any types of standard methods to his endeavors. He has chose to undertake more of a fact finding mission and investigate the political situation to our charter. Fredrick's information gathering is difficult as our European operations were grown out of a large number of acquisitions. Given this fact, there is no single organizational roll-up or information system that he can reference to see the organizational and employee reporting structure.

Before we end the call, I volunteer to have our U.S. based organizational structure roll-up pulled and sent to him. That structure contains organizational unit and department numbers, employee ID assignments, and will also show the reporting structure and cross-departmental relationships. He could use this as a starting point or skeleton to fill in as he gathers business information around the various European countries.

At 1:00 PM, I meet with Mike Hussey and Ernie Dianastasis from CAI with Linda in her office. CAI is a well-established vendor of ours having provided third-party resources to our I.S. organization for years. CAI's capacity in CDR International has been largely as a provider of staff-augmentation services, as opposed to true outsourcing. Although at one point CAI staffed the entire Help Desk, their arrangements have been and continue to be differentiated as staff-augmentation and not true outsourcing as the service level and management is still owned and directed by CDR International. As I came to understand the nuances in Orlando, outsourcing arrangements are generally differentiated by the control, service levels and day-to-day management responsibilities obtained by the third-party provider.[6]

Mike and Ernie are meeting with Ms. Lang and me to provide a high-level overview of their outsourcing competencies, worldwide service locations or "global delivery centers" as is the standard jargon used in the outsourcing world, and remind us of their solid on-going relationship with CDR International.

Aside from the usual facts of their organization, e.g. $200 million in annual revenue, 2,300 employees and a few client references, I am able to glean a few pieces of interesting information. I asked two pointed questions regarding their operations. In the responses I learn that their lowest cost base is found in their delivery center in Shanghai, and that critical mass on their outsourcing arrangements is not generally obtained in their clients cost/benefit calculations until 10 FTE's are outsourced.[7]

Thursday, October 19, 2006

After reviewing Wipro's proposal documentation, I prepare for a meeting with them today by documenting a few questions of my own. In the event that we "over buy" services or there is a lag time in productivity of the contracted resources due to project cycles or waiting for the weekly change management process for implementing new code, will CDR International be able to leverage these or other resources for other technology related tasks?

Second, I ask, "how often do Wipro account executives participate in an audit of the contract and relationship?" This would ensure proper control and procedures for the relationship and keep the work demand and the human resources in balance. Also, it would provide a forum to guarantee that that innovation is being injected, which was a "key point" made by Helen Huntley during one of her Gartner presentations in Orlando.[8]

Given my recent education concerning the issue, I also document a few questions on attrition. I ask, what is their attrition rate among offshore resources? More importantly, what is the average length of service for each individual on an account and within a particular job function? Simply asking the attrition rate question does not do nearly enough to identify the true attrition. A resource could move to another account, or take another technical or management role within the same offshore organization, and that may not necessarily be defined as attrition. I also prepare to ask about the procedures that they have in place to help curb attrition and/or reduce the client's risk to the attrition. Typical answers here are associate bonuses, superior benefits and other management-driven perks. (Iyengar, 2006)

Lastly, I posed my most provocative request. Documentation received from all of the vendors thus far, per the direct request in the RFP, was for each vendor to provide a brief case study and contact information of client references. In addition to those questions, I intend to ask each for names of a few clients that either terminated their contract early or went the full-term with the client but the client chose not to renew the engagement.

Our meeting with Wipro had gone well. They came in well represented with a few functional and technical resources, and they were well prepared to discuss the finer points of the proposal. In the process of doing so, they delivered a supplemental presentation to abbreviate the full proposal. I interjected with my questions above where appropriate, and saved the remainder until the end.

Wipro took the time to respond to the specific questions, answering some better than others. Most important, they agreed to try to find clients that have terminated their arrangements for us to speak with, as well as approved me taking their RFP and sharing it with Gartner for their review and feedback.

Wednesday, October 18, 2006:

It's Wednesday at 5:00 PM, and the CIO and I have our weekly scheduled one-on-one meeting. The first order of business was to check on the status of Linda's contact at Cardinal Health who had performed the same type of offshoring initiative. Linda had a conversation with Sharon, which netted some great results for my efforts. I was looking for the specific kinds of data points that the Cardinal Health team collected for their own efforts. They used the information noted in Table 8 to set a baseline for their application inventory and outsourcing plans.

Table 8. Cardinal Health Baseline Data

Application Name	Vendor	Platform
Hardware	Operating System	Lifecycle
Mission Criticality	Number of Users	Business Function
Packaged or custom	Internal support cost	External support cost
FTE's to support	Interfaces In	Interfaces Out
Business avail. reqs	Number of instances	Middleware type
Middleware cost	Application locations	User locations
Languages supported	License Fees	-

Linda and I also discussed the total cost base for the U.S. information technology team. After working through some very preliminary calculations derived from the 2007 internal operating plan including salaries, wages and benefits, the cost per information technology associate averages out to around $104,000. We agree to work those numbers into greater detail as the 2007 budget is finalized in order to have a more up-to-date number of open positions and current employed headcount.

Before departing the meeting, I also asked Linda to spend time with Thomas Kearns, her direct report in charge of process. I would like to interview him regarding formally injecting an outsourcing decision-making node into his process-flow documentation when it comes to discussing post-implementation support for new projects.

Friday, October 20, 2006

I attend a 10:00 AM meeting initiated by Jeanne Vance to discuss the kickoff of the “Call Center Stabilization” project. Besides Jeanne and myself, in attendance is Joe Metzker, our Network Manager, John Harnish, Jim Flowers, network engineers, and Jack Bosworth, the new Vice President of Infrastructure. Jeanne is a consultant for CDR International I.S. acting as the Project Manager for this initiative. The goal of this project is to upgrade certain infrastructure components that the team believes will improve response time in our remote call centers as well as increase productivity and minimize security, application and infrastructure related issues.

One of the critical components of this project includes a “Remedy” upgrade. “Remedy” is the application used by our Help Desk staff to enter, track and route any technology related trouble tickets. This is of particular importance to me, as this upgrade will also allow us to better manage and measure any outsourcing partners on their service level agreements. Outsourcing technology contract SLAs are normally based on response time and time to close, two items that would be tracked and monitored closely with the Remedy application.

Also mentioned in the meeting was the fact that an upgrade to our current Remedy system would allow us to sunset, or retire a few of our other applications as the expanded functionality of a new Remedy system would be used. It is imperative that I understand what applications could be retired, as those applications should be done so in parallel with the outsourcing initiative and not considered part of scope for a vendor to maintain. Additionally, one piece of advice offered by Gartner Analyst Audrey Apfel during the Symposium was a ”best practice” to retire 10% of the application portfolio per year.[9]

Thursday, October 26, 2006

Missing our normally scheduled Wednesday meeting with Linda due to a schedule conflict on her calendar, we reconvene at the same time on Thursday. In this meeting, the Chief Information Officer and I discussed our contracts with e-Finity, SAP, who provides and maintains our portal, Corsemax, and two individual contract employees. Additionally, we ran through the total North American I.S. budget numbers from the revised 2007 Information Services budget.

The e-Finity contract represents what could be a tremendous opportunity for a quick-win for offshoring. This contract is for two EDI (Electronic Data Interchange) developers to perform mapping and development work for our electronic data exchanges. Ms. Lang is under the impression that the resources are highly paid, and that it is a role that could easily be performed offshore. She also believes that the current contract between CDR International and e-Finity will expire in 2007. I make a note to review the services contractually provided by the vendor including the termination date and any early termination fees that may exist.

CDR International has numerous types of agreements with the well-known business software giant SAP. One of our most notable contracts is associated with the hosting and support of our North American SAP Business Warehouse suite. The SAP Business Warehouse (BW) applications serve our business by providing intranet access to hundreds of dynamic, business critical reports used to monitor and manage our business operations. Our current annual fee, paid to SAP, for the hosting and maintenance of the portal is estimated to be $1.4M.

Our Corsemax vendor is also discussed at length. Corsemax possess a niche skill in the "Trim" programming language. CDR International's Enterprise Resource Planning system, the core system that runs the business, is written in this language. The niche skill is business critical to CDR International, and is becoming more difficult to find in the marketplace. The lack of this skill in-house coupled with no contingency plan, in my opinion represents a very substantial risk to the company. Chad, our main development resource at Corsemax has been dedicated to the CDR International account for more than 5 years, and is not only technically valuable, but also possesses a tremendous knowledge of CDR International's business practices and supply chain. He works with a small team of other Corsemax employees to maintain and provide enhancements to our core ERP system. Linda and I had a conversation about trying to make him a CDR International employee. CDR International's forward-looking strategy is to migrate from our current ERP platform to an SAP-based platform starting in 2008. Chad's business and technology knowledge would be invaluable to this effort, and he has expressed interest in becoming a CDR International employee.

The "Bob's" were also discussed. We have two contracted consultants, very well respected in the business and the technology teams that have been with CDR International for over five years. Bob N. performs business critical, although somewhat menial work of running data loads into our production systems. Bob L. is a CDR International systems data guru, who holds an in-depth knowledge of our systems, their data elements, and their interdependencies. He gets face-time with our business customers and always impresses them. Although not an actual employee, he is one of the most highly respected members of the I.S. team. Only the most well-connected business users know that he is not an employee. The "Bob's" were brought into discussion given their high cost-base, and their unwillingness in the past to convert to actual employees. The "Bobs'" run-rates average about $150,000 each per year.

The North American I.S. budget was discussed again, but in greater detail. We worked together with an objective to establish an estimated cost-base for our internal staff using the 2007 IOP (internal operating plan). Annual salaries are loaded in the plan at $11,852,000 with benefits adding $2,949,000 and other employee rated expenses of $1,139,000. This nets out to a cost of approximately $50 an hour per employee minus expenses, and $53 per hour per employee with expenses included.

Although precise data are difficult to attain, this was the most productive meeting with Linda to date. We were able to brainstorm about opportunities, and plot some strategies together. Once again I reiterated that my success is significantly related to her success, and I believe it's imperative that I use her influence to get information from her reports in order to effect high order decision-making and success in the outsourcing initiative.

Friday, October 27, 2006

Thomas Kearns and I had a brief meeting this morning to discuss two topics. The first is the e-Finity contract for our EDI development work and the process that is followed to get work to that off-site team. The second is to get his thoughts and advice for changing some of our official process documentation to include a decision point to support new projects internally or through a third-party provider.

Thomas Kearns was able to provide insight into the e-Finity contract. Before the meeting, I was able to obtain a copy of the contract and quickly determined that the contract term was longer than was suspected and included substantial penalty clauses. The Chief Information Officer thought that about a year prior she had signed a contract extension for e-Finity's services out to November 2007. Upon review, that contract is in effect until December 31, 2008.

Also, there is a 3 month notice requirement and subsequent 3-months of service penalty structure amounting to $149,000 to terminate early.

Thomas Kearns was able to shed some light on the subject. As the former owner of the e-Commerce group, he was transitioning key tasks when this contract came up for renewal in 2005. During that transition, the entire North American I.S. department was being re-structured under the new Chief Information Officer. He told me he had strongly advised against signing the deal at the terms provided and passed along that message accordingly. Evidently that message either did not reach the new owner or CIO, or the contract was simply deemed appropriate by the new management. At that point, I make a note to contact our legal department to set up a meeting to review the validity of the contract, and what, if anything, we can do to get out of it.

Thomas Kearns and I continued our conversation regarding his thoughts on making the necessary process changes to our documented and formalized binder used by the department. He mentioned that the information contained within can certainly be changed, and it would not be a problem to do so when I am ready to execute those steps. He also advises me to speak with Mike Reddy, who leads the department's Project Management Office (PMO) regarding the eventual change.

This meeting went extremely well. Thomas is one of the CIO's direct reports who is generally aware of my new role and seems to ascertain what it encompasses. The conversation surrounding the e-Finity contract was noteworthy, as Thomas made it very clear that he advised against signing the contract.

I contemplate whether or not Thomas feels partially responsible for locking us into such an inflexible agreement. I also find it somewhat disturbing that so many aspects of the contract and the services provided by e-Finity are so little understood. I attribute the lack of understanding in the relationship to the new organizational structure that is in place. Thomas Kearns is now in a new role and has no responsibility for the engagement. Linda Lang is also reasonably new to both the CIO position and to CDR International. Immediately following the meeting, I leave a voice mail for Tom Giordano, our Legal Counsel, requesting 30 minutes of time to discuss the contract that I have in my possession.

<u>Monday, October 30, 2006</u>

After researching various outsourcing vendors, I stumble across Teletech, a vendor who I had met with a few months prior in my former role regarding the potential to outsource Voice Over IP project and maintenance work, as well as some inbound fax orders handled manually in the call centers. Within that documentation, I notice “Sales Management” as a service that they offer. This strikes me as important because for the last three to four years, our top line growth has not met expectations. Furthermore senior management executed a strategy in 2004 that added over 100 new sales reps to our 400 sales rep base. Yet, those extra “feet on the street” did little to move the dial, and that strategy was abandoned in short time through attrition and managerial changes. I contemplate a small pilot program of an outsourced sales management program with one sales manager and a handful of sales representatives to compete against a CDR International employed sales region manager and his team. In my former capacity as I.S. Director and Business Partner representing the sales business function, I have personally made pitches to senior management for enhanced contact management and sales force automation tools to help drive productivity and effectiveness within the sales team. The larger investments in this area have not been made a top priority, perhaps because an outsourced partner focusing on this particular business function often has these types of investments already completed. Having the right tools at their disposal could easily provide the needed boost in sales rep productivity, regardless of the partner.

At this point, I decided to reach out to my contact at Teletech and arrange a conversation to discuss the concept. With well over a million different stock keeping units, the sales representative role at CDR International may be considered more of an account executive or project manger role. As it would be hard to peddle and have expertise about millions of products, some chemical, most technical and all related to science, the sales rep also acts as a project manager and customer service rep. Many of the more successful reps also have a better understanding of, or even possess a working background in the sciences.

Shortly after, I contemplate whether the sales function within CDR International would be considered a “core competency”. Although touted as a “pure-play”, “vendor agnostic” distributor of scientific supplies, CDR International has historically held the sales force in very high regard. Many of the senior leaders and decision-makers, and even CEO's have worked their way up from the sales organization. Outsourcing a function determined as a core-competency is rarely a wise choice, and an insightful article entitled "What to Outsource: How to Tell Core, Noncore, and Strategic Activities Apart" from the Harvard Management Update guides the reader through the identification and classification of such functions. (Craumer, 2002) My own opinion is that a core-competency is a function critical to your business, with which you hold intellectual, process and/or execution expertise to such a high degree that another organization would look to you to perform the function for them.

Starting my Internet research on the identification of core-competencies, I find several definitions. One states is that it's a competence, which is central to the business's operations and is exceptional and acts as a differentiator in the marketplace. The research goes on to state that core-competencies are very difficult for competitors to imitate.[10] This seemingly makes much sense, as exceptional processes acting as a true differentiator and easily mimicked wouldn't remain a differentiator for long. Lastly, the definition goes on state that a core-competency "makes a significant contribution to the perceived customer benefits of the end product."[11]

At this point, I internalize the definitions and take note to attempt to broach the topic with respected members of the business community in casual conversation. I also included the concept in a calendar entry and recorded the thought to mention more officially with my superior, Hal Tillman, in our next conversation.

Tuesday, October 31, 2006

The CIO and I have another one-on-one meeting to ensure that we stay connected on events. In this meeting, we discussed one of our key vendors, Business & Decision (B&D), my work performed on creating a vendor scorecard, and the business team involvement in the Oracle Financials outsourcing project.

B&D is currently providing third-party support and enhancement work of our Oracle Financials application. The small team is well liked by our technical and business staff and has performed very well for CDR International, but this high performance comes at a high price. The handful of resources is on a “time and materials” contract with CDR at a rate of $140 per hour, with an agreement not to exceed $45,000 per month. Given these high rates and the fact that we cannot realistically execute on our Oracle Financials outsourcing in the very near term with the time it takes to effectively perform vendor evaluations, reference calls, contract negotiations, legal reviews and our pre-determined six-week transition period, Linda and I decide that we should meet with B&D to discuss current, short-term hourly rates.

Considering B&D’s track record, and the fact that it may get them to be more aggressive with lowering their rates, I recommend presenting them with two similar, but different opportunities. The first opportunity would simply be to submit a proposal to reduce their rates through the end of the first quarter next year. The second opportunity, that may make them more competitive on the first, is a proposal for the extended Oracle Financials support. This will allow B&D to keep the interim support agreement in play and to also bid on the multi-year support contract we expect to have out with offshore providers. This will afford CDR International with a baseline against those providers for a local third-party provider. Linda Lang agrees and I take an action item to schedule the meeting. I received the contact information for Joe Griffith, the Business & Decision Account Executive and offered to arrange the meeting.

Also discussed in our meeting was the status of the vendor selection scorecard that I have been creating through research. The template will provide CDR International the ability to assign and measure the different aspects to the vendors that CDR International deems most valuable, taking as much subjectivity out of the vendor selection process as possible. I comment that analysts from Gartner will be reviewing my draft vendor evaluation tomorrow, November 1. After that, the scorecard should be ready when/if any recommended changes are given in the feedback.

We discussed incorporating our business constituencies into the vendor evaluation and selection process. At this point, the internal Information Services team is still very much undecided on the vendors in play. Linda would like the group of vendors whittled down to two or three before injecting the business into the decision-making process.

By the end of this meeting I feel that we are making good progress, and that Linda and I are working well together. I did sense some slight hesitation in bringing the business into play, as evident from her feedback regarding the business involvement. Given the lack of knowledge to the “big picture” sourcing initiative, I remain very cautious and am sensitive to how this meeting will take place. It is imperative that the business views this particular initiative for exactly what it is to me: a small technical outsourcing project for one small piece of technology.

CHAPTER 5

NOVEMBER EVENTS

Wednesday, November 1, 2006

Having had a few weeks to reflect on my research and information gathered from Gartner’s Information Technology Symposium, I set up a call at 9:30 AM today with a Gartner analyst to discuss some key concerns. In order to best utilize my limited time with one of the analysts, I sent an email shown in table 9 that documented the specific areas where I would appreciate guidance and best practices from other organizations.

Table 9: Email to Gartner Analyst: 10/26/06

Gartner Analyst,

I'm a former IT associate new within our Strategy and Corporate Development team at CDR International. My charter is to work with two others in my new organization to analyze and assess opportunities to leverage global labor arbitrage where possible. Given my past seven years in IT, the initial focus of my objectives are to analyze our IT organization for Outsourcing/Offshoring/Smart Sourcing opportunities, while keeping the holistic, enterprise view of the organization in mind. For example, if it makes more sense to throw some BPO work along with some IT work in order to reach economies of scale, we'll do so.

To that end, I have a few challenges and pointed questions:

1.) The first piece of offshoring IT work was already underway as I started this roll, and is a small effort looking to support our Oracle Financials application maintenance, support and enhancement work; approximately 5 FTEs. I managed to jump into the new roll during the second of three rounds with vendors (Wipro, TATA, Cap Gemini and CAI). The first question would be, should we hold off on moving forward with detailed scorecards and consecutive meetings with these vendors in order to wait for a bigger, more encompassing selection of bundled services? With a few months of effort, we could probably include additional IT services and/or a few quick-win BPO efforts.

2.) Regarding the Oracle Financials outsourcing proposition, is there any rule of thumb for when critical mass is obtained?

3.) The Oracle Financials proposals we've received thus far all quote a full-time, on-site Project Manager/Business Analyst at $80 to $90 dollars an hour. Seems extremely high. (?) This is bundled with 3 to 5 offshore development resources at $23-35 per hour.

4.) Our 2007 IOP shows our average, fully loaded cost per internal FTE is $50.35 per hour. How does this compare to others in "like" businesses? Given our smaller scope deals, and what I perceive as a low cost per employee, do you have any specific advice?

5.) Level Setting: CDR International is a global, $3.5b "pure-play" distributor, meaning that we do not manufacture anything, and our margins are very slim. Senior Management does not subscribe to the traditional metric displaying IT spend as a percentage of revenue given our tight margins. They have asked for IT budget as a percentage of gross profit and/or other percentages of gross profit or revenue from similar firms. Do you have any such metrics?

6.) Senior Management is weary of us outsourcing to large firms (Tata, Wipro, etc.). Is this a valid concern? I believe reluctance is driven primarily from the "small fish in a big pond" scenario.

7.) If we were to focus on the mid-tier outsourcing players, who would they be? I tend to find mostly large and small. Can you provide a list or recommended, mid-tier firms?

8.) Do you have any pre-formed templates (Excel perhaps) that help to determine the best opportunities for outsourcing a particular function?

Thank you for your thoughts.
Regards,
Rob

After understanding the objective of the Oracle Financials outsourcing initiative and also hearing my bigger objectives, Francis commented that the Oracle Financials piece represents more of a staff augmentation model then true outsourcing. The key differences between the two being the very limited size and scope of the effort and that the entire function from development to project management and reporting is not being "sourced." The analyst continues on to address the bigger question as well, should we temporarily put this small outsourcing project on hold in an effort to bundle it with other activities to be identified in the short-term? The analyst recommends moving forward with the sourcing initiative that is underway. In doing so, I believe we should ensure that the contract is short-term and flexible as it could be better, more strategically resourced once we assemble the bigger-picture plan.

In a discussion around the identification of I.S. processes or functions to outsource, Francis advises me to keep a few key factors in mind. One is the lifecycle of the application that is being supported. If it is approaching the end of its life and is being retired, it would be a good candidate for third-party support. She also recommended consideration of the knowledge transfer index. The knowledge transfer index relates to the level of maturity of the process, documentation, and intellectual capital surrounding the process, function, or application in question.[12] An area representing a prime opportunity for outsourcing would be a mature process, with ample documentation, few peaks and valleys in workload forecasts, and one that does not necessitate a high degree of technical intellectual capital or specialized business knowledge.

Francis agrees to provide me with more information on Gartner's representation of the knowledge transfer index, and also mentions documentation that she could forward in regards to performing an application portfolio analysis and a one-slide PowerPoint presentation on applications insourced verses outsourced. Within this portion of the dialog, Francis adds that she has seen good experiences in organizations using TATA and Cognizant to perform their application portfolio analysis to help them identify prime areas for outsourcing.

Francis also spoke broadly of outsourcing, and mentioned that a 70% to 30% split of in-sourced activities versus outsourced activities were very common and also cited specific examples on the extreme ends of the equation.[13] According to this analyst, Walmart does very little outsourcing of their information technology functions; less than ten percent. Francis also cited British Petroleum as an example of a highly outsourced technology organization, with more than eighty percent of their technology functions outsourced.[14] A caveat was added here however, that BP is currently performing an assessment to determine if too much has been outsourced in their organization.

Our conversation also addressed the concept that I ran past my new superior in our first real meeting in my new role: the CDR International owned center, performing work currently being completed in higher cost labor market areas. Gartner has a black and white approach to this “captive center” concept. Their advice is to stay away from the captive center model due to cultural, business, and economies of scale issues. They maintain that any company attempting to eliminate the profit taking of the major outsourcing providers in lower cost markets will face the same labor market and corresponding attrition issues, and will most likely be much less successful in dealing with them effectively. I know from my time at the Gartner Symposium in Orlando that a significant investment in human resource functions, a staff of 250-500 offshore employees with consistent work throughput is needed before economies of scale are reached so it makes good business sense to open your own overseas captive center.[15]

We then discussed the "small fish in a big pond scenario" that gives our senior leadership some reservations in using big outsourcing providers to handle our relatively small contract. Francis agreed that this is, indeed, a valid concern and offered advice. She said that Infosys publishes their list of active clients and breaks each out by revenue. We also discussed how some of the largest Indian outsourcing partners concentrate and market to a specific niche. For example, two different Indian outsourced firms, earning their revenue from performing business or technical functions for organizations centered in higher cost areas could have the same annual revenues, perform the exact same functions, but be very different in their method of strategy and execution. Company A may focus on 100 contracts of $1 M each and earn $100 M per year. Company B may be structured to deliver services to many clients on a smaller scale, perhaps 1000 contracts at $100,000 each and realize the same revenue. Francis noted that TATA, although a huge player in the space, could be well suited to our environment, as they strategically drive towards a large portfolio of small clients.

Despite her opinion, I don't see the use of TATA and Cognizant to perform our application portfolio analysis as being too much of an option, because I feel that the work we would pay TATA and Cognizant to perform is what is expected of me. I also think that I should find a way to estimate how much this upfront work would cost in order to define the quantitative value that I am personally adding to the business in this effort. I also decided that I would contact these vendors to see what actions they specifically perform and will then use this as a guide to drive my own efforts.

Regarding the captive center, CDR International's model is slightly different. We'd look to place a smaller number of resources into offices that are either already opened in these markets or will be opened to satisfy other business functions, such as global product sourcing and sales opportunities. I also make a note to ask the vendors to breakout their deals/contracts by size to determine if CDR International would be a "big fish in a small pond" with each provider as well as to attempt to decipher their customer acquisition and maintenance strategy.

Thursday, November 2, 2006

I receive an email from Veronica Groves, the I.S. Director and Business Partner supporting the Finance organization. Although five other people are on the distribution list, I am blind copied because Veronica, my former peer, is aware of my new role and objectives, and views the subject matter at hand of special interest to me and my newly formed team looking at outsourcing opportunities. Here again, this activity could be "saved" as an opportunity to implement a leading practice by the use of "selective bundling" with other services. (Albright, 2003)

I am now into yet another, one-off outsourcing arrangement. After a one-on-one conversation with Veronica, I received more detail of the project in play.

This one is being driven from the Treasury Director, Vincent Balley. Vincent is looking to have the Minneapolis based company, International Credit Auditors (ICA), perform collection activities on some of CDR International's smaller accounts. It came to Veronica's attention because she would be needed to coordinate activities to establish ICA's connectivity to CDR International's financial systems. This particular communication also referenced a "lack of a Non-Disclosure Agreement (NDA)," a document vital for any communications with third parties and certainly critical to an outsourced partner. An outsourcing partner will have access to sensitive business knowledge, and in this case, databases and technical and financial information on all of our customers. As intellectual property protection is a vital aspect of a successful outsourcing arrangement, I commended Veronica on her handling of the situation and awareness of the need to sign the NDA before moving forward.

Given yesterday's feedback from the Gartner Analyst, information obtained for leveraging Linda's contact at Cardinal Health, and my research and work into forming our own Application Inventory and I.S. Functional Role templates, I finally have the two documents, perhaps the most important items in the entire initiative, in a publishable format. Tables 10 and 11 conjoin to present the Application Inventory template, and when completed, will be used to identify areas most susceptible for outsourced support.

Table 10: Application Inventory Template, Columns A-O, Line 1-10 of 199

Application View - IS Inventory															
Feedback	CRO	CRO	CRO	APP DEV	INFRA	INFRA	CRO	APP DEV	CRO	APP DEV	CRO	APP DEV	APP DEV	APP DEV
Tool Name	Application Description	Business Cost of One Hour of Downtime	Planned Invstmnt $'s 12 months	Tool Vendor Name	Hardware	Operating System	Application Lifecycle	Process Maturity	Mission Critical	Number of Users	Business Functions Supported	Custom or Packaged	Dollars-Internal Support	Dollars-External Support
Description					Model	Version	1-Infancy 2 - Prime, 3 - Late Stage	1-Low 2 - Medium, 3 - High	Y or N				Annual	Annual
Admin Control Center	Collection of utilities to manage Domino admin			N/A							IS			
Affinity	A Lotus Notes based contact management tool			N/A							Marketing/Sourcing			
Bug & Issues Tracker	Lotus Notes Bug Tracker			OSS							IS			
CEAR	A lotus notes app used for workflow and approval of Capital Expenditure Authorization			N/A							Finance			
Change Mgt System	IS Change Management System			N/A							IS			
Cognito-Knowledgebase	Lotus Notes Knowledge Base			OSS							IS			

Table 11: Application Inventory Template, Columns O-AC, Lines 1-10 of 199

APP DEV	APP DEV	APP DEV	APP DEV	CRO	INFRA	APP DEV	CRO	INFRA	INFRA	APP DEV	INFRA	INFRA	APP DEV
Internal FTEs	External FTEs	Number of Interfaces In	Number of Interfaces Out	Availability Requrements	# of Instances	Middleware	Application Co-Dependencies	# of Trouble Tickets per Year	% of tickets closed same day (80% is threshold)	Middleware Cost	Locations of App	Locations of users	Languages Supported
						Name							

In addition to the Application Inventory template, I have also completed table 12 that will house our current human resource inventory, entitled the I.S. Functional Role template. Designed to capture our resource spend on each individual employee and their work assignments and allocation, this was initially set-up with “Resource Name” as the first, format-driving column. After vetting the format with another director-level associate, I chose to switch columns A and B, to make the template driven from the “Functional Role”. Additionally, as this template will be distributed, I purposely leave off the last two columns; “Salary” and “Salary and Benefits”. After I have the completed templates, I will meet with our Finance director and populate those last columns to determine our cost base. Table 12 represents the associate view of the Functional Role Inventory template for the North American operation.

Table 12. Information Services Functional Role Inventory

SAMPLES

Functional Role	Resource Name	Associate	Manager	Director/VP	Primary Support Area(s)	Business Accumen Required	Skill Sets Required For Function	Hours per week Production Support	Hours per week Enhancements
Choose from: Developer, Technician, Manager, Business Analyst, Help Desk Analyst, System Administrator , Database Administrator	Name of resource. All I.S. employees, contractors and open positions should be accounted for.	Y or N	Role's Manager	Role's Director or VP	Business Function, Application or Hardware Area. Multiple lines allowed.	Accumen required for Primary Support Area NOT individual: 1- Low, 2-Medium, 3-High	Hard skills and soft skills; specific programming languages, facilitation, communications, etc.	Keep lights on	Strategic and Projects
Developer	Joe Developer	Y	Jane Manger	Jim Director	Lotus Notes	1	LN , Java	10	5
					Intranet	2	Java	10	5
					System Ess	3	Trim, C	5	5
Business Analyst	Ron Analyst	Y	Grover Cleveland	Donna Director	Call Center	3	Facilitation, Written/Verbal Communication	10	5
					Logistics	3	Facilitation, Written/Verbal Communication	5	5
					Warehouse	3	Facilitation, Written/Verbal Communication	5	10
Technician	Ralph Technician	N	Sally Smith	John Director	Workstation Support	1	Microsoft OS	30	10
START	-	-	-	-	-	-	-	-	-

Today at 3:00 PM, I had another call with a Gartner resource, Audrey Apfel, Gartner Fellow and Distinguished Analyst. I was somewhat impressed to be speaking with her as I’ve read many of her reports and attended her presentation to thousands of people last month in Orlando.

This call was framed around my development of a scorecard to evaluate various vendors on the proposal responses and costs. I had emailed the templates on which I had been working ahead of time, and Audrey had reviewed them. Given that not all the research to complete the scorecard was available in one location with Gartner, Audrey was very impressed with the categories that I used and the format of scorecard that I created (see table 13).

Table 13. Vendor Evaluation Scorecard

Vendor Evaluation Scorecard					
	Service Providers/Scoring				
Evaluation Criteria	Business & Decision	TCS	Wipro	Cap Gemini	CAI
Weights: 0, 10, 20 or 30	1 = Does Not Meet 3 = Meets 5 = Exceeds	1 = Does Not Meet 3 = Meets 5 = Exceeds	1 = Does Not Meet 3 = Meets 5 = Exceeds	1 = Does Not Meet 3 = Meets 5 = Exceeds	1 = Does Not Meet 3 = Meets 5 = Exceeds
Contract Flexibility (Terms)					
Weighting	30	30	30	30	30
Contract Flexibility (Services)					
Weighting	30	30	30	30	30
Dedicated Individuals					
Weighting	20	20	20	20	20
Cultural Alignment					
Weighting	10	10	10	10	10
Market Share					
Weighting	10	10	10	10	10
Geographic Scope					
Weighting	20	20	20	20	20
Human Resource Capability					
Weighting	30	30	30	30	30
Similar Engagements					
Weighting	20	20	20	20	20
Similar Industry					
Weighting	10	10	10	10	10
Additional Capabilities Adjunct to Required Services					
Weighting	20	20	20	20	20
Additional Capabilities Not Related To Required Services					
Weighting	20	20	20	20	20
Reference Check Results					
Weighting	20	20	20	20	20
Suitability					
Weighting	20	20	20	20	20
Integrated vs Non-Intergrated (Toolsets/Processes)					
Weighting	10	10	10	10	10
Capacity (personnel, transaction volumes)					
Weighting	20	20	20	20	20
Standards					
Weighting	20	20	20	20	20
Innovation					
Weighting	20	20	20	20	20
Benchmark Process					
Weighting	20	20	20	20	20
Pricing Struture					
Weighting	20	20	20	20	20
Change Capability					
Weighting	30	30	30	30	30
Penalty/Reward Structure					
Weighting	30	30	30	30	30
Termination Charges					
Weighting	30	30	30	30	30
Transition Charges					
Weighting	30	30	30	30	30
Price Reduction Strategy					
Weighting	20	20	20	20	20
Total Score:	**0**	**0**	**0**	**0**	**0**

My project will be used to rank, file, and score each vendor in areas critical for CDR International's success. Used effectively, I will facilitate a session with the team that will first determine the importance of each category. In doing, we will assign a weight for that item. Once all weights are assigned and entered into the spreadsheet accordingly, we will go through the scorecard again and rank each vendor on a scale of 1, 3 and 5. At the end of the exercise the vendors will rank and file with scores automatically tallying via calculations imbedded within the template. Determining what is most important to our internal team while leveraging external research provided by my DYNM 644 "Strategic Outsourcing" curriculum at Penn largely created the categories. (Greaver, 1999)

From all of my research, I was very aware that when evaluating vendors for cost reasons, one must take effectiveness and communication factors very highly into account. It was at this point that I asked my Gartner Account Executive to set up a meeting between Audrey and me. If anyone could help me translate the levels of effectiveness and communication into actual dollars, it would be Ms. Apfel. Not surprisingly, Audrey delivered. Through research performed over the past few years, Gartner has been able to come up with actual dollar-multiples that one can use to translate the varying differences in onshore versus offshore effectiveness and communication levels into actual monetary figures.

Their analysts have broken the factors into percentage levels, which can then be multiplied against actual cost. The research has guided them to derive the factors for near-shore, internal and external human resources shown in table 14 for varying levels of effectiveness and communication.

Table 14. Gartner Effectiveness and Communication Factors

Effectiveness	
Gartner Effectiveness Factor; Internal	0.46
Gartner Effectiveness Factor; Near-shore	0.74
Gartner Effectiveness Factor; Offshore	0.7
Communication	
Gartner Effectiveness Factor; Internal	0.95
Gartner Effectiveness Factor; Near-shore	0.87
Gartner Effectiveness Factor; Offshore	0.78

I initially found it very peculiar that the effectiveness of the internal resource was not only lower, but significantly lower than the near-shore and offshore alternatives. As Ms. Apfel and I discussed this topic, it became more and more clear. It's not uncommon for an internal resource to get pulled into many different projects, meetings, tasks and general administrative functions, while external resources often have more focus, more training and bring a broader background of experience to the equation.[16]

Obtaining these factors was a tremendous gain, as it will help drive the best possible decisions financially and will complete the Vendor Evaluation Scorecard templates accordingly. As we assemble the actual cost base from each vendor, I will incorporate these metrics into the calculations.

Friday, November 3, 2006

I find myself at my office preparing for an 8:30 AM call with Hal. As the moment strikes, I dial Hal's extension to initiate our conversation. As he's done previously, he initiates our conversation with some general housekeeping issues. He mentions that Fredrick is all squared away with his move from the U.S. and is now situated in Germany. Additionally, he comments that there are still some contractual issues being worked out with Paul. Hal continues on, reiterating that my official Human Resource paper has been taken care of as well. He also communicates that organizational announcements on the changes will be made very shortly, maybe even as soon as today.

He comments on how appreciative he is to Fredrick and me for being able to operate so independently, as he has been very much out-of-pocket and difficult to correspond with effectively. Our conversation continues, and Hal mentions that our team will be working very closely with Mike Stramara and that Mike will be reporting to Hal in a similar, but a much broader capacity. Mike, who has been heading up our global sourcing activities in India for our marketing organization, is now expanding his business and geographic horizons to be the General Manager of all of our Asia Pac operations.

In this conversation, I mention to Hal my research regarding how to assess cities in India to determine the best region to locate a facility. I take an action item to forward that information on to him for his review. I also follow-up on an email that I had sent to him previously regarding one of our sister companies outsourcing with Convansys. I was hoping that Hal knew of the overall feelings from that engagement or that he could point me to someone in their organization who could reflect on their outsourcing experiences.

I had heard that Covansys also became a holding of our parent company, and I was curious if true, how that would influence our decision-making when it came to evaluating vendors. Hal agreed to forward my email on to one of his contacts at Sirva, or our parent company, Morgan, Hamilton & Chase.

In this conversation, I also broach the subject of our struggle with growing our top-line sales figures. I mention that I have spoken to a vendor that offers sales management expertise for firms like ours and that it may be worthwhile to establish a pilot program to have them prove their value. Hal acknowledges the struggle that we've had growing the sales line organically, but says that outsourcing sales functions would be on the bottom of his list of the many things he thinks that we need to do with the sales organization in an effort to increase our growth.

Overall I am very pleased with this interaction. I especially appreciated the compliment early on regarding how appreciative he is that we are able to operate independently. I feel slightly disheartened by the "swing and miss" scenario on the sales outsourcing idea, but hope that he welcomes the out-of-box, holistic and creative perspective that I bring to the table.

Monday, November 6, 2006

At 10:30 am, I proceed to Linda's executive office for a meeting with the representatives from B&D. Aside from Linda and me, in attendance is Bob Dawes, the on-site Oracle Financials guru who has been working at our facility for months, his manager and our account executive, Joe Griffith, and the CEO of B&D, Mr. Robin Beckworth.

Linda initiates the meeting with the normal pleasantries before Business & Decision provides their overview of who they are, and what it is that they do. Being that our internal teams have been impressed with Bob's work, albeit at an expensive, $140 per hour rate, I compliment Bob's work in front of the Account Executive and CEO before turning the meeting over to them.

Their overview consists of a very short presentation complimented by a healthy discussion on their offerings and past and current successes with CDR International. Their overview highlights that they are 2000 people strong with revenues around $200M. These 2000 resources are based solely out of the United States and Europe. Additionally, they remind us of the partner status with Oracle, which, in theory, gives them unique access to Oracle support personnel, and bug-fix and patch information that may not be otherwise available. Of the five vendors at play, only CAI does not possess the Oracle certified partner status.

As they conclude their portion of the presentation, I give a brief overview of the initiative that is underway and layout what we expect from them moving forward. I relate that CDR International recognizes their lack of trained and available resources in-house to support the Oracle Financials application and business community, hence Bob's work over the past 12 months at CDR International. Additionally, I comment that we are looking across the organization and across the global market, in an attempt to employ the highest level of support for this piece of technology at the lowest possible cost.

As expected, the gentlemen from B&D become visibly uneasy, and state that their on-shore model will not be able to compete with offshore models on a cost basis. They do offer that they believe they can provide us better service, and attempt to convince us accordingly. Before the conversation commences too far, I interject with the two specific deliverables that we expect from them. To ease the immediate pain, we are looking for some relief on the $45,000 monthly expense that we're currently paying. To that end, I ask them to return a proposal by the end of the week that demonstrates a good-faith effort to reduce costs. Additionally, and perhaps most importantly, I offer them the opportunity to bid for the bigger piece of business against other service providers that are offering a global delivery model in play. The conversation continues as we discuss the format of the proposal that we expect which quickly turns to ending pleasantries.

Reflecting on the conversation, B&D seems appreciative of the account with CDR International, and as a small vendor, must certainly take kindly to the $45,000 per month that they are obtaining. Although skeptical of their rates against those vendors offering a global delivery model, B&D stated that they were confident that they could deliver a compelling case for both the short-term relief/support and longer-term contract proposal. I fully expect them to be able to reduce the current rates, and expect that offering the longer-term deal will influence how far they do so. Additionally, we all agree that Bob has been a terrific resource, I was happy to be able to commend him in front of both the Account Executive and CEO.

Later that day I decide to follow-up on the status of a key deliverable necessary for our initiative, the contract inventory. Donna Fiorentino is Linda's Executive Assistant responsible for many day-to-day tasks of the organization. Among her responsibilities is the task of keeping all contracts straight, and having a copy of them on file. As part of the templates that I'm setting up for the organization to identify the quick-win outsourcing opportunities, I have a template that shows a view of the contracts that CDR International is actively engaged (see Table 15). We could identify an opportunity to offshore a particular function, but if we are contractually obligated with another vendor, that opportunity will probably not be worth the effort. To that end, I engage in a conversation asking her to "catalog" all of the active contracts into one view. She is warm to the idea, because she says that she's extremely busy. Hopefully this effort will bear fruit.

Table 15. Global I.S. Contracts Template

Contract View - IS Inventory								
Contract With:	Service Provided (Description)	Start Date	Termination Date	Termination Notice Lead Time (days)	Termination Penalty	# FTE's Provided (if applicable)	Cost Per Month	Special Clauses (if applicable)

Wednesday, November 8, 2006

I have a 10:00 AM meeting with another potential outsourcing vendor. Rico Parker, from GSS America calls on our scheduled date and time. I get the high-level overview of GSS America and their offerings; they seem to be a potential fit for CDR International.

Founded in Chicago in 1999 and focusing on software and professional services, they break their information technology service offerings into two main areas: software services and infrastructure managed services. An onsite model supports the software service, while the offshore support is a complimentary mix of onsite and offshore.

GSS America has 200 full-time employees in India and 400 based out of the United States. As if to anticipate my canned questions to all of the vendors regarding the staffs' level of expertise, tenure and attrition rates, Mr. Parker states that the average employee of GSS America has over five years of experience, and that those in management positions average over ten. Mr. Parker also mentions their partnership status with IBM, SAP, PeopleSoft and Oracle. Although their Business Process Outsourcing (BPO) is currently lacking, Rico mentions that as an area in which they are strategically building their base.

I ask about their client portfolio. Rico is able to name many reputable firms with ease: TDS, Union Pacific, Canon, Quantico Philips, Pero Systems, Pfizer, Novartis and Lockheed Martin. From this group of clients, and others, GSS America's annual revenue is projected to close the 2006 calendar/fiscal year around $100M, up from $90M in 2005.

Overall I am reasonably pleased with GSS America's service offerings and will certainly keep them in mind as our strategy matures and our opportunities are identified. As it's good practice, and much more economically sound to have a shorter list of vendors providing service then a longer one, I also ask about GSS's experience in the Business Process Outsourcing arena. Following best practice in outsourcing, we would aim to selectively bundle groups of activities and have a vendor support a variety of functions. This allows us to reduce cost through economies of scale and vendor managerial efficiencies. Also, the greater our expenses are with a single supplier of services, the more control and influence we would have with that vendor. As a former CIO so commonly phrased it, “give me one throat to choke.”

<u>Wednesday, November 8, 2006</u>

As Becky Faulk, the Application Development Director, is extremely busy running day-to-day tasks of her 50-person team, I often volunteer to take on tasks related to the Oracle Financials outsourcing effort. Today, at 1:00 PM, we have a conference call scheduled with one of Wipro’s references, Getty, listed in their proposal.

As I’ve performed this task with various technology vendors in the past, I referenced some old notes and used much the same template and format for this reference call. The call is scheduled for 30 minutes, with those on the attendee list scheduled to join me in my office for the event. At 1:00 PM, I am the only one in attendance, so I initiate the call by dialing Jon Peara at Getty. Shortly after, at about 1:15 PM, Rob Traxler, the Manager of the Application Services team, joins me in my office. We proceed through the 30-minute interview, I type up and distribute notes to the team. Appendix B contains the notes captured from the exchange with Jon.

This first reference call was very interesting and informative. We were able to obtain a great deal of insight on what to look for when working with Wipro. I also grew a little concerned, and slightly agitated that I was the only one from CDR International on the call for the first 15 minutes, and at that point, only one other resource joined. Given that I work in our Strategy and Corporate Development operation, I will not have any ownership of this contract once it’s executed. I am simply facilitating the process and assisting where necessary; the vendor management functions after any contract is enforced will be left to the appropriate I.S. manager.

Thursday, November 9, 2006

This morning, I return to Penn Travel Medicine in Radnor, Pennsylvania. I check in at the front desk and wait for my appointment. After 15 minutes, the physician appears and walks me back to her office. This follow-up appointment is much shorter, and consists of only two injections, my second hepatitis A, and my second hepatitis B. This was an easy, stress free visit as compared to the first one.

Upon my return to my office, I make a purposeful effort to speak to the CIO. Without any prompting, she asks how Wipro's reference call had gone. I give her an overview, and tell her that I will be distributing the notes. In addition, I make it a point to inform her that that participation was a bit weak, and that I would strongly recommend that in the future the eventual owners of any such outsourcing arrangement make their best effort to attend theses reference calls.

Friday, November 10, 2006

Today, we performed our second client reference check. Attendance was a little better for this call. Both the CIO and the Director of Application Development attended this call. The notes taken during the exchange with Baxter are presented in Appendix C.

Immediately following the Capgemini call with Baxter, we facilitated the call with TATA's client reference VSNL, Inc. The attendance grew, as joining

Becky, Linda and me, was Veronica Groves, the I.S. Director and Business Partner for the Finance department, and Rob Traxler, Manager of Application Services. Appendix D presents the notes taken, and outcome of the call.

We all remain in Becky's office following the two reference calls to reflect and compare notes. In supporting her constituency, Veronica mentioned having a meeting with the Finance organization. Linda recommended that an invitation be extended to me to attend. I pulled Linda aside to request to be excluded referencing my biggest concern in my role is divulging my responsibilities to the organization before it can be announced correctly. Linda agreed to update me after the meeting is concluded.

I meet with Veronica after the meeting. The business is very much on-board with offshore of their technical support and will work with I.S. and the vendor as needed. The expectation was made that during the transition phase, that I.S. would need a business resource for 20 hours per week for a six-week timeframe.

<u>Wednesday, November 15, 2006</u>

After what we perceived as a blunder by TATA in providing a client reference of a company that is owned and operated by TATA, they were quick to provide another client reference. In doing so, this evening we facilitated a call with McGraw-Hill, TATA's second reference provided to us. We had good attendance again, with Becky, Rob Traxler, Veronica and myself participating on the call. Appendix E references the notes taken, and outcome of the call.

As customary, the four of us in attendance all stayed a few minutes after the call with Mark to reflect on the conversation. We were all extremely impressed with Mark's comments, and the nine service level agreement items he had included in his contract. I comment that we will probably use his items as a baseline for defining our own service level commitments with the vendor that we choose.

Sunday, November 26, 2006

Upon reflecting on the complicated situation with the e-Finity contract and the two third-party FTE's performing our EDI work, I consider the human dynamics side of the situation. In my upcoming conversation with John McNeil, the owner of the company providing these services, I should initiate the conversation by complimenting his work and that of his resources. According to Thomas Kayser, author of a book used in Penn's "Small Group Process" course, initiating the discussion in a matter that makes the members more comfortable will net greater productivity and effectiveness. (Kayser, 1996) I will note how the integration of those people into our process has facilitated many positive interactions with our internal technical team and our customer and vendors looking to establish EDI connections with them.

I should then, as vaguely as possible, outline my objectives, and employ the Socratic method and ask him for options and ideas of how we could best achieve those objectives together. I discovered the Socratic method while performing research for Penn's DYNM 691 "Small Group Process" course and have been able to apply it frequently with the desired results. (Robbins, 2004)

I would ideally like to have the work performed by his resources done offshore, and have his resources work on higher valued items. As opposed to pushing ideas and concepts to him, and possibly attempting to break the contract, I will look to him to come up with ideas that present a win-win to us both.

Monday, November 27, 2006

In a 10:00 AM conversation with Becky Faulk, I address the "small fish in a big pond" scenario that worries our senior management team. I educate her on the importance of figuring out where CDR International would rank in our Oracle Financials outsourcing initiative amongst other clients of the vendors that we currently have in play. I communicate some of the pointed feedback from Gartner on the subject and she agrees to discuss the topic in a meeting that I arranged for Tuesday, November 28 from 3:00 PM to 5:00 PM.

In this conversation, I was able to use specific facts and figures, citing TATA as an example of a firm with a focus on a large number of clients with smaller sized accounts. I do believe that some of the equal sized players that we have in the running have the opposite approach to customer acquisition and retention, and it's important for CDR International to know where we stand amongst the others receiving support services. I had entered this meeting with the idea to simply send a follow-up communication to the vendors in which I would ask them to segment their accounts in revenue buckets. I purposely didn't voice that concept specifically as I employed the Socratic method and drove the conversation accordingly leaving Becky to present the idea herself.

Monday, November 27, 2006

At noon eastern standard time, I telephone Fredrick in Germany. Fredrick was initially handling all European aspects of our initiative. Per our last team meeting Hal reemphasized the objective for me to handle all technology departments, including Europe. As I possess technology expertise that Fredrick does not, it was decided that he would handle all European business operations. Fredrick was already underway with discussions, and had a conference call set up with two senior European I.S. leaders, Hans van Crassier, who heads up Europe's technology department, and his direct report Daniel Walters. This conference call took place Friday, November 24th but I did not participate due to the U.S. Thanksgiving holiday.

Complicating matters, it is a very recent event that Hans's organization reports to Manuel Brocke-Benz, the General Manager of all European operations. Although no announcement has been made, the European I.S. organization, headed by Hans, no longer reports to the CIO, Linda Lang. As head of Europe, Manuel wields a great deal of power, and it is assumed that the European operations EBITDA numbers have improved considerably over the last few years because he has taken control.

The purpose of this follow-up call with Fredrick was to bring me up to speed on the discussion with the two technology leaders. According to Fredrick, they did not take kindly to our objectives of control. From Fredrick's feedback, it was apparent that both Hans and Daniel had met beforehand, and even had information prepared. They had a detailed list of people and functions and attempted to explain and justify each and every resource under the European technology organization. Fredrick made an immediate attempt to level-set the conversation and explain the fact that our roles should not be to immediately outsource and control the function, but simply to present a methodical approach and offer the facilitation of getting things done cheaper and faster within their organization. This evidently removed some tension on the call, but Fredrick commented that both were somewhat quiet after the full explanation was given. Fredrick emphasized and reemphasized our role as simply resources with a dedicated focus to help them accomplish that mission.

Fredrick was also able to get some additional information from Hans that may help us realize progress with our objectives. According to the feedback, there are between 30 and 35 European I.S. resources on-site for support across many European countries. Hans added that Germany has already managed to outsource a few of theirs.

I commended Fredrick on his word choice and explanations, as it sounded as though he issued a very well delivered communication to such a sensitive subject. I also considered aloud his lack of involvement with Manuel prior to Friday's conference call with Hans and Daniel. When asked specifically, Fredrick did mention speaking to Manuel in generalities a few months back, and stated that Manuel knows what our objectives are in the Corporate Initiatives team.

In a secondary topic of conversation, Fredrick mentioned a conversation he had with Hal regarding our Captive Center concept. They had discussed a very small pilot program regarding some master data maintenance, currently a marketing function within our organization. As an outcome of my communication to Hal regarding the assessment of cities in India, Hal turned to Mike Stramara to look into opening a facility in an area outside of Bangalore, where our current office resides. Evidently, Mike had reduced the list to a few, and ultimately had chosen Chennai, a city located on India's eastern coast. Given Hal's approval, Fredrick is now attempting to place one or two master data management functions from Europe into the office to be opened in Chennai.

In summarizing our conversation, I comment to Fredrick that I'll be setting up a conference call with Hans to assist him in his efforts and obtain a better understanding of his organization and their specific functions. Fredrick offered to attend the meeting to help ease the transition, especially given the tone of Friday's call as well as Fredrick's better understanding of the European culture and work issues like the worker's council, governmental regulations and general business practices.

Although there are some challenges and things to watch for when opening a captive center, I do feel good that the idea is reaching an execution stage. To alleviate the challenge, I think that it's important to determine whether or not the Chennai center is only a facility to place lower priced labor, or it feeds into our other global product sourcing and sales and marketing strategies. If the center were to open under other strategic pretexts it could make the captive center a less risky proposition. I'll be sure to send a follow-up communication to that degree.

Also, I consider the feedback obtained from Fredrick regarding Hans. Hans, and his direct report Daniel, was obviously threatened by our initiative. I realize that my upcoming conversation will have to be presented and worded very thoughtfully to ensure we can keep these resources on board with the concept. Given the sensitivity of the topic and the feedback obtained from the initial meeting, I consider the idea of contacting Hans's new superior, Manuel Brocke-Benz in an effort to use him as political and focused leverage with Hans. This is directly against Fredrick's advice, which was to let our manager Hal, deal with Manuel on that level. However, the last thing I wish to happen is that Hans overreacts to any concerns he may have and voice them to Manuel. However Fredrick assures me that Manuel is in the loop, and anything more should be handled at the most senior levels.

<u>Monday, November 27, 2006</u>

I sent out a meeting invitation to the internal CDR International staff critical to making the final decision for the Oracle Financials support. The meeting will be held tomorrow from 3:00 PM to 5:00 PM. In doing so, I also included the Microsoft Excel template that I have spent considerable time and effort assembling (see table 16). My goal is to provide a subjective baseline on which to score vendors that are competing for our business. This is the first showing of the scorecard; I hope it will be used quite effectively moving forward. The "Vendor Evaluation Costs" scorecard is now ready with a second tab that identifies the costs and incorporates the effectiveness and communication factors.

One challenge that Becky has faced with the Oracle Financials effort is the lack of participation in her meetings necessary to elicit the feedback essential to make a representative/informed decision. Becky mentioned that I should just invite her and reserve a room, as no one else has been attending. In an effort to curb the negative effects, and as Becky was in my office speaking of this meeting, I volunteered to send out the meeting invitation to the requested associates. I only sent the actual meeting invitation “to” Becky and copied the rest of the critical players and the CIO. This was my attempt to highlight to Linda that the collective team is shrinking and to have her exert influence over her resources.

Both Becky and her direct report, Rob Traxler, are in attendance, and we work through the various criteria in order to assign them weights, and then rate the different vendors in each area. By the completion of this hour-long exercise we have the vendors evaluated in the weighted scorecard, with Capgemini coming out very clearly on top.

The next hour is spent focusing our efforts on the cost template. This template took me an extremely long time to research, set-up and configure, but may be the most valuable of all in the toolkit that is being assembled. In addition to assembling all costs, multipliers for the effectiveness and communication factors are built in to reflect the actual cost to the business (see Table 16).

Table 16. Vendor Evaluation Costs

Vendor Evaluation - Costs					
	Service Providers/Scoring				
Cost Criteria	Business & Decision	TCS	Wipro	Cap Gemini	CAI
Transition Cost					
1-Time Connectivity Cost					
Monthly Connectivity Cost					
FTE 1 (Cost Per Hour)	$40	$40	$40	$40	$40
x number of hours/month	160	160	160	160	160
Onshore, Offshore or Internal	Internal	Near-shore	OffShore	OnShore	OnShore
FTE 1 (UnAdjusted)	$6,400	$6,400	$6,400	$6,400	$6,400
FTE 1 (Adjusted Cost/Month)	$14,645	$9,941	$11,722	$14,645	$14,645
FTE 1 (Cost Per Hour)	$40	$40	$40	$40	$40
x number of hours/month	160	160	160	160	160
Onshore, Offshore or Internal	OffShore	Near-shore	Internal	OnShore	OnShore
FTE 1 (UnAdjusted)	$6,400	$6,400	$6,400	$6,400	$6,400
FTE 1 (Adjusted Cost/Month)	$11,722	$9,941	$14,645	$14,645	$14,645
FTE 1 (Cost Per Hour)	$40	$40	$40	$40	$40
x number of hours/month	160	160	160	160	160
Onshore, Offshore or Internal	OffShore	Near-shore	Internal	OnShore	OnShore
FTE 1 (UnAdjusted)	$6,400	$6,400	$6,400	$6,400	$6,400
FTE 1 (Adjusted Cost/Month)	$11,722	$9,941	$14,645	$14,645	$14,645
FTE 1 (Cost Per Hour)	$40	$40	$40	$40	$40
x number of hours/month	160	160	160	160	160
Onshore, Offshore or Internal	OffShore	Near-shore	Internal	OnShore	OnShore
FTE 1 (UnAdjusted)	$6,400	$6,400	$6,400	$6,400	$6,400
FTE 1 (Adjusted Cost/Month)	$11,722	$9,941	$14,645	$14,645	$14,645
FTE 1 (Cost Per Hour)	$40	$40	$40	$40	$40
x number of hours/month	160	160	160	160	160
Onshore, Offshore or Internal	OffShore	Near-shore	Internal	OnShore	OnShore
FTE 1 (UnAdjusted)	$6,400	$6,400	$6,400	$6,400	$6,400
FTE 1 (Adjusted Cost/Month)	$11,722	$9,941	$14,645	$14,645	$14,645
Cost Per Hour Adjustment (Comm)	FALSE	$160	$160	$160	$160
FTE 5 (Adjusted Cost/Month)					
Total One Time	**$0**	**$0**	**$0**	**$0**	**$0**
Total Per Month					

Of note is the drop-down menu that allows the user to choose if the resource is an internal, near-shore, or external resource. As those values are chosen, the factors are called upon and automatically calculate the monetary adjustments. We worked through the cost scorecard and complete the evaluation exercise.

<u>Tuesday, November 28, 2006</u>

At 9:18 AM, I reach out to John McNeil of e-Finity, my first communication to him. Although he and his small team have worked as an outsourced partner for CDR International for years, and he has been on-site, I have never met or

spoken to him. I send an email to initiate contact, and attempt to schedule a brainstorming conversation with him (see Table 17).

Table 17. Email to John McNeil, 11/28/06

From: Rob Milliken Sent: 11/28/2006 09:18 AM To: John McNeil Subject: Roles with e-Finity John, My name is Rob Milliken, I have worked in CDR International 's I.S. organization since '99, spending most of my time in various roles as a direct report to George Gunther, and most recently Linda Lang. As of September, I moved over to the business side to work in Strategy, Corporate Development and Emerging Markets. It is in this capacity that I wish converse with you. I've heard great things about you and your team's work performed for CDR International, and I'd like to brainstorm with you how we can further leverage, better utilize or possibly expand Effinity's participation in our operations. Using my contact information below, please give me call when you get a moment, I look forward to speaking with you. Thanks and Best Regards, Rob   Rob Milliken Director, Corporate Initiatives ph: 610-429-2805 cell: 484-467-1633 email: rob_milliken@CDR.com

As an outcome of yesterday's follow-up call, Fredrick informed me of his issues and concerns and of our European operations. At 9:33 AM I send my first communication to Hans, the European I.S. leader regarding our objectives. Given the feedback and sensitivity of the subject, I choose my words carefully (see Table 18).

Table 18. Email to Hans van Crassier, 11/28/06

From: Rob Milliken
Sent: 11/28/2006 09:33 AM
To: Hans van Crassier
Subject: Touching Base

Hi Hans,

I trust that all is well with you. I was able to catch up with Fredrick yesterday and I received a quick briefing from Friday's conference call. From our conversation, I'm sure that he related our role in facilitating the overall corporate objectives of getting things done even better, cheaper and faster. I have been providing Linda with assistance and guidance in the very same mission and look forward to helping you identify any opportunities that may exist.

I'd like to set-up a conference call to share with you our methodology in place and the progress that we've made on this initiative. Also, it will provide me an opportunity to further understand your operations, processes and procedures, so I can tailor my feedback most specifically to you. At your convenience, could you send me a few one-hour time slots that you're available? I'll then be happy to arrange the meeting.

Best Regards,
Rob

Rob Milliken
Director, Corporate Initiatives
ph: 610-429-2805
cell: 484-467-1633
email: rob_milliken@CDR.com

<u>Wednesday, November 29, 2006</u>

At 1:43 PM, I telephone John McNeil of e-Finity. We quickly reiterated our objectives for the call and proceeded. I was expecting John to deliver an overview of the services that e-Finity is performing for CDR International, a general overview of the e-Finity and what additional services that they offer, and how CDR International could leverage those services.

John was very easy to converse with, and as planned, I framed our conversation as more of a brainstorming session. I communicated public information distributed in press releases and corporate communications regarding expansion into other geographic markets and made the tie as to how that affects him and e-Finity. With offices opening in Bangalore, Singapore and Shanghai, CDR International now has a much less expensive pool of resources to leverage that could perform various business and technology functions. I suggest we could find EDI development skills at much less than the $150,000 per year we're currently paying for now.

John seemed very receptive to the problems and conflicts and appreciative of me asking about what other services that e-Finity has to offer. He went through the items as planned, reiterating that our current contract is for two FTEs performing EDI development, mapping, project management and business analyst type tasks. John said it basically breaks out to 1 FTE of technical skills, and 1 FTE of business and soft skills.

I was then given a basic overview of e-Finity. Established in the late 1980's, e-Finity has adopted a corporate model popular among small consulting and contracting companies. John has a staff of 12 e-Finity employees, and a larger network of subcontracted individuals. This limits the financial risk of paying full-time staff for down time between engagements and it reduces almost all administrative costs associated with full-time employees; mainly HR and benefits. John elaborated that his company focuses on three types of work:

strategic consulting, project management, and technical work with business-to-business e-commerce transactions.

We then begin our dialogue on the market dynamics and opportunities presenting themselves to CDR International. I mention that I would ideally like to set a global market rate for positions that his firm is providing. We discuss that $150,000 per year for an EDI developer is not in CDR International's best interest. At this point, I reference his firms' ability to provide professional services outside of the EDI development, and ask his feedback given his own working knowledge and experience in working with CDR International. As anticipated, he did indeed mention substituting the e-Finity provided EDI development role with roles more indicative of a $150,000 per year employee. I am pleased with the progress.

We're not making great leaps forward, however, as we then discuss John's experiences with outsourced EDI labor. John mentions that from his past dealings with offshore resources, he finds the service levels to be much lower then he is currently provided. He cites the example of EDI coding delivered on a Monday would not be returned until Friday; e-Finity normally turns such requests around within 24 hours. I question, to myself, what our actual service level requirements are. Do we really need 24-hour turn around with these requests? Could we be paying an inordinate amount for an unwarranted level of service? As a follow-up to our conversation, I sent John this email (see Table 19).

Table 19. Email to John McNeil, 11/29/06

From: Rob Milliken
Sent: 11/29/2006 02:57 PM
To: John McNeil
Subject: e-Finity

John,

Thanks for taking the time to communicate your thoughts and e-Finity's capabilities to me today. My expectation from our conversation is that you will be providing a deck, delivered next week, on the following key points:

- Work break-out, tasks and responsibilities of current contracted FTEs (2)
- How we can best utilize Effinity resources under the guise of the current contract ($300k per year), while still getting EDI work done successfully, with required service levels, at globally competitive market rates.
- Given Effinity's partnership status and CDR International specific business and technical knowledge, how we could expand your services into other areas, while still leveraging our spend at globally competitive rates.

If there's anything else that you wish to add that makes sense, whether it be additional opportunities or challenges in actually executing the plans behind the bullets above, feel free to include. Given your knowledge and experience, your thoughts are very much appreciated.

Thanks and Best Regards,
Rob

Rob Milliken
Director, Corporate Initiatives
ph: 610-429-2805
cell: 484-467-1633
email: rob_milliken@CDR.com

Continuing with my day, I meet with the CIO in our regularly scheduled 5:00 PM timeslot used by both of us to stay abreast of events. Topics that I had planned to discuss include my correspondence with John McNeil of e-Finity, the Application Portfolio and I.S. Functional Role template sheets that I sent to her for distribution, and the active contract inventory that her administrative assistance was working to complete.

Linda was very much on-board with my actions taken with John McNeil. After my email, and follow-up combination with John, I sent Linda an email as well outlining John's next steps. As the CIO had mainly dictated John's relationship and actions for CDR International, he had also sent a note to me asking if it were okay if he contacted Linda to let her know what he was assembling. Obviously I had no problem with this and already had Linda briefed on my actions via email.

Within the context of our EDI conversation, we had spoken at length regarding the disorganization of our EDI team and process. In short, CDR International employs EDI resources dedicated to business analyst; project management and EDI mapping work with vendors, and set of associates dealing with customers. Both of those teams funnel work to e-Finity, which performs one FTE of actual EDI development and coding, and one FTE of business analyst and project management work. The e-Finity resources do more business analyst and project management work with the supplier transactions. To make matters even more complicated, those internal CDR International resources involved in the process, although all in I.S., report to different managers and directors. Our discussion on this particular topic ends in an agreement that a small reorganization is most likely in order, and that we'll wait to see the outcome of e-Finity's proposal.

Second, after our very brief conversation Tuesday evening, November 21 at about 4:30 pm, Linda committed to sending out the Application Portfolio template to the necessary resources, as well as I.S. Functional Role spreadsheet. I was copied on her distribution of the functional role inventory, but I did not see any communications regarding the application inventory. I questioned if that was distributed, and she apologized that she didn't get that out, and it was simply an oversight. I have no issue with this, as she still committed to having her directors return the information by the originally proposed December 16 date.

Our next topic of conversation was in regard to the contract inventory. As part of my approach to identify areas to outsource, I also created a spreadsheet template that would outline a few key points to contracts in which we're actively engaged. We could identify a great opportunity to outsource, but if we locked into a contract with a vendor, that may limit us in finding more globally competitive rates for the work. The spreadsheet asks for basic information, such as vendor name, a description of services to be performed, the termination date and any related penalties for early termination. The difficult task is rifling through each of the dozens of contracts and pulling out the necessary pieces of information. When asked about the status, unfortunately, there has been no progress. Linda's administrative assistant was attempting to get that task, but just last week went out on maternity leave. Her few weeks leading up to the leave were focused on transitioning tasks to her temporary replacement, now inundated with high priority responsibilities. We brainstorm on some options, and

I recommend bringing in a temp or utilizing other resources. As it's secondarily important to our application portfolio analysis and functional role inventory, we leave the conversation agreeing that her existing resources could begin on this work more towards the end of December.

Linda also provided update that an employment package has been assembled for Chad Owens of Corsemax a third-party vendor that receives almost all of CDR International's System ESS ERP system work. Our ERP system is our most business critical system, and this work has been trusted to a very small, niche, third-party services provided. The offer letter has not yet been distributed, as working to "steal" this resource is a delicate proposition. Linda would like to speak with our Human Resources department and with the owner of Corsemax before moving forward.

Our dialogue continued into the sensitive topic of the European I.S. organization. As the European operations were very recently removed from under her control, she becomes visibly agitated, but very forthcoming with information. I inform her that I have arranged a meeting with Hans for December 7, and that my initial indications are that Hans is very defensive regarding the outsourcing topic. Linda elaborates on what she believes led to the removal of the European operations from her control.

The relationship between Hans and Linda had always been precarious. Linda's style often finds her acting quickly to comments or events without all the relevant facts or information, and often that includes overreaction and assigning blame to others. Her direct reports in the U.S. have witnessed and acknowledged this, and have even discussed amongst themselves the importance of not immediately reacting to those behaviors. The team, myself within my former role included, have discussed in the past the significance of keeping those behaviors privy only to the direct report team, and to ensure that those events are not communicated to the next lower level of management or staff.

It is those kinds of interactions that were happening between Linda and Hans. I believe that because those interactions were by telephone (no body language feedback), and our team's lack of a solid, every-day relationship to our European peer, led to the current conflict. Linda identified one specific and recent interaction between her and Hans that she believes led to the removal of the European operation that Hans was able to orchestrate.

According to Linda' account, Daniel Walters, one of Hans's senior leaders, has become very protective of his turf and evidently, has a "my way or the highway" approach to performing work. That alleged attitude came to a head in a recent conversation that she had with Hans, where she communicated, "either you get control over Daniel, or I will find someone who can." Purportedly, Hans did not take kindly to those words. He has a long-established and very close relationship with Manuel Brock-Benz, the highly touted and well-respected General Manager for all of CDR International's European business operations. Hans evidently communicated his frustration and threat-level to Manuel, who was then able to orchestrate the removal of the European I.S. team from under the CIO's control.

Given the information, and Han's apparent sensitivity (revealed here and in the conference call with Fredrick), I certainly need to make my next move wisely. Linda recommends that she, Hal and I meet before I meet with Hans to discuss how or how not to preempt Hans's reaction to my topic with a meeting with Manuel. At this point, I see no good that Linda can add to the conversation with Hal, and manage to talk her out of the 3-way conference. I mention that I'm waiting to here back from Hal on a status email that I had sent earlier, and whether he addresses that or not should drive our next steps.

Thursday, November 30, 2006

At 9:20 am, I see Becky walking past my office, and knowing that I need to speak with her about resources in her department, I pull her in for a brief conversation. Simultaneously, my telephone rings with the caller ID displaying the CIO's name. I would normally not take a call with someone in my office, but do so in this instance given the rank.

Linda communicates that she has received pushback from John Bosworth, the Global Vice President of Enterprise Infrastructure, on his department's tasks related to the Application Portfolio Analysis. She asked that I have a conversation with him and help him through the process in any way possible. She also attempted to narrow the scope to just the "tier 1" applications. Although "tier 1" applications sounds like a viable negotiation, delivering the portfolio analysis of those may yield a zero sum gain if we determine that that are not short-term candidates for outsourcing. As core-competency and risk should be considered in the decision, and of course, "tier 1" applications will inherently be the most risky and be related to processes core to the business. (Craumer, 2002) I agree to try to speak to John to hopefully figure out a path forward. Linda also asks me to use today's 10:00 AM "All I.S. Managers" meeting as a platform for our initiative. In this meeting she will be communicating that different managers across the organization may be asked for information in an effort to further define, establish and track the organization's metrics.

CHAPTER 6

DECEMBER EVENTS

Friday, December 1, 2006

I arrive in my office at approximately 8:15 AM and notice that I have a voicemail waiting for me. It's a message from John Bosworth, who is in need of a SQL Server Database Administrator. Instead of filling this position with a full-time employee, John is looking to have this function performed offshore, and is looking for my thoughts and expertise. Within minutes, John passes by my office and we speak briefly about his needs. As he is on his way to another meeting, I agree to send him an email documenting a few questions that I suspect a vendor will need to have answered before quoting such a resource. The email is shown in Table 20.

Table 20. Email to John Bosworth, 12/01/06

To: John Bosworth
From: Rob Milliken
Subject: CAI Resource
12/01/2006 9:37 AM

Hi John,
Glad I can help out here. I'm trying to anticipate CAI's information that they'd need to quote this. Maybe you could help me out here:

- Approximately how many weeks/months? (I'm assuming 40 hours per week?)
- Type of work, enhancement or support.
- Scope of responsibilities (performance tuning, ERD documentation, querying, back-up and recovery, etc.)
- Number of systems (databases) supported, dev, qa or prod.
- Transition period/transition tasks (Do we have an individual dedicated to on-boarding and transitioning? Do we have a named individual responsible for managing the tasks of this resource?)
- Do we have any process documentation?

Is there anything else pertinent that you can think would help adequately set and eventually exceed your expectations? Thanks, Rob   Rob Milliken Director, Corporate Initiatives ph: 610-429-2805 cell: 484-467-1633 email: rob_milliken@CDR.com

Tuesday, December 5, 2006

I've heard directly and indirectly that a few of the resource managers are balking at their efforts in completing the I.S. Functional Role and Application Inventory spreadsheets. I decide to act proactively and send a note to the CIO. As a former direct report, I know that she has two-hour staff meetings each Tuesday to go over the statuses of various initiatives. Given this knowledge, I send the communication in Table 21 to ensure items stay on track.

Table 21. Email to Linda Lang, 12/05/06

To: Linda Lang From: Rob Milliken Subject: Favor/Reminder 12/05/2006 9:13 AM Linda, I know it's still a few weeks away, but if you're having your staff meeting today, you may wish to remind/reiterate the Dec 16 date for the functional role and application portfolio spreadsheets. Hans and I will be discussing Europe performing the same task on Thursday, although a few weeks behind, I'll be pushing them for the 16th as well. Thanks and Best Regards, Rob

At 1:00 PM today, Becky and I met in my office in an attempt to review the various vendor proposals and fill out the second tab of the Vendor Evaluation Scorecard template (Table 16). The second tab allows for inputs of the various cost components of each vendor's submission and performs calculations accordingly. Becky and I make some progress, but we do not complete the task in the time allotted. As Ms. Faulk is on her way to another meeting, I take the initiative to continue through the process alone.

Wednesday, December 6, 2006

I have an appointment with the Account Executive team from Capgemini at noon. At 11:55 AM, the receptionist rings my extension to inform me that my main contact, Eric Farber, and his team are waiting in the lobby. After assembling some of my information, and grabbing my leather portfolio and notebook, I proceed to the lobby to greet them.

I have a few specific objectives that I'd like to achieve during this lunch appointment. I aim to hear more about their "Rightshore Suitability Assessment" and to find out if they've made any progress on the non-renewing client reference that I had requested.

Our conversation continues over lunch and they present a hardcopy version of a presentation on their suitability assessment. Essentially, it's a 60-90 day customer engagement where their team would come in and perform the type of assessment, (to identify opportunities for offshoring,) that I'm undertaking for the organization. Although very reluctant to give cost estimates, I am able to determine that CDR International should expect to spend $100,000 to $150,000 for that particular endeavor.

Coming out of that meeting, having obtained the presentation, which substantiates and corroborates the specific tasks that I have chosen to drive at CDR International, and getting some preliminary cost estimates, I feel very good about the value that I'm providing to CDR International.

Thursday, December 7, 2006

Today, I have my first live conversation with Hans van Crassier from Belgium. Hans, while aware of our corporate initiative, has communicated some hesitancy in assisting in the effort. Fredrick has had previous conversations with Hans that did not bear much fruit. According to Fredrick, Hans prepared very well for his first interaction with him, and the conversation quickly turned to the workload of the European I.S. department. Hans started addressing the individual responsibilities of some of the key associates. In an effort to avoid a similar conversation, I prepare for the meeting with talking points and have the I.S. Functional Role and Application Inventory templates handy.

After exchanging pleasantries, I speak to Hans in broad terms about our initiative, and to support a positive relationship, look for common ground between us. In discussing the initiative in broad, corporate strategy terms, I also emphasize my new reporting structure and how I no longer report to the CIO, Linda Lang. Hans is in a similar situation, as he recently was able to break his ties with the CIO by changing his own chain of command to report directly to the general manager of the entire European operation. The reporting structure change was driven partly by a personality conflict and partly by the inability of Hans to adapt to some of the U.S. based principles and practices that were being imposed upon him to ensure process consistency and standardization.

In continuing the conversation, I refer to the Excel-based templates that I sent to him via email. If any opportunities existed they should be uncovered and presented with data available collectively and with his direct input. This did little to quell Hans's reluctance as he once again made an effort to justify each one of his resources.

I was able to redirect Hans's attention back to the templates, and again emphasize the methodological and fact-based process that we would use to move forward. He seemed to agree with the approach so the conversation was able to productively move forward. We walked through the templates together and Hans was quick to point out that he would not be able to answer many of the questions by himself; he would need to include his 14 country managers throughout Europe in the process. He then insisted that we arrange a second call with the wider audience to discuss the completion of the templates and the objectives to completing them.

Although the move to involve 14 country managers into the process may be a sign of resistance, and could expose the objective of my tasks, I agree to address the European I.S. management team. I do this as Hans is in a senior leadership position, and does not work at a level of detail necessary to provide the data elements that are needed. As the action item moving forward, Hans sends out a meeting invitation for December 18, 2006 to the 14 managers and me to convene on a conference call with him. The purpose of the meeting is for me to give an overview of the templates and state my objectives in having them completed.

Given the sensitivity of the topic, I decide to start preparing early for the December 18th meeting. Also, to get in front of any rumor and concern, I send Hal an email communication highlighting the conversation between Hans and I, relating the path forward, and also incorporate a draft of another carefully worded email communication that I intend to send to the country managers. The draft that I send to Hal for review is in Table 22.

Table 22. Email Draft to Hal Tillman for Review, 12/07/06

To: Hal Tillman From: Rob Milliken Subject: Strategy and Corporate Development 12/07/2006 11:13 AM European I.S. Leaders, For those of you that I have not had the opportunity to work with, my name is Rob Milliken and I've recently taken on a new role within our Strategy and Corporate Development organization. My experience thus far at CDR International has probably been very similar to yours. I have a business consulting background, and since December of 1999, have been working in various roles in our Information Services department. Our on-going activities within the Strategy and Corporate Development organization are constantly furthering our global reach for new products, services and markets. Each new market inherently represents new opportunities for CDR International to further our collective mission. As we look into new geographies in which to invest, some of them come with their unique specialization with which we should leverage; manufacturing in China, infrastructure in the U.S., low cost labor across Asia and so on. Operating our entire organization efficiently and effectively, and leveraging global market conditions will allow each of us to succeed and perform at the highest levels possible. The purpose of our meeting, set-up this morning by Hans for the 18th of December, will be to go over documents that will serve as our baseline to understand what it is we do, and what assets that we possess to leverage

between the U.S. and European I.S. operations, as well as any operations where we strategically choose to conduct business. Knowing this information is critical to helping both of our teams realize the potential benefits to increase productivity, reduce costs, share knowledge and provide increased coverage to our critical business operations.

If you have any questions in the meantime, please do not hesitate to contact me. I look forward to speaking to you on the 18th.

Best Regards,
Rob

Ted is not one for roadblocks or for people playing politics, and I suspect that he will certainly view the meeting on December 18th as an unnecessary step initiated by Hans. In reply to my status update and draft communication, Hal sent a very succinct return email saying to me, "Total nonsense. Let me know if you have any...any...issues here and I will get involved quickly. Thanks Rob."

I interpret the brief reply to indicate that it's "total nonsense" that I'm jumping through the hoops in order to get the necessary tasks accomplished. Additionally, it was very comforting to see that Hal has me well covered and will pounce at a moments' notice, if needed.

<u>Monday, December 11, 2006</u>

Surprisingly, I receive my first delivery of the I.S. Functional Role template completed by Becky Faulk's development team. Breaking the task out to her individual managers, without divulging the purpose other than "best practice," she was able to turn the task around rather quickly. Upon reviewing the information, everything appears to be in good order. I am pleased and will tell her.

In an attempt to give Hans a greater sense of control, I also send him the communication that I intend to distribute to his European I.S. team. I send him the draft and ask if he has any questions, concerns or general feedback to add. I eagerly anticipate his reply.

Events and information are really starting to come together. Today, I also received a follow-up email from Mark Fletcher, our client reference contact at McGraw-Hill. Given his negotiated SLA's were so well-written and protective, and given the fact that none of us were able to document them in detail during our initial 30-minute reference call, I sent him a follow-up email on December 6th asking him to reiterate his metrics. He outlined them for us in email response (see Table 23).

Table 23. Sample SLA's

<u>Incident Response Time*</u> - Time taken by TCS team to respond as soon as the help desk communicates the incident either manually or automatically to TCS team. <u>Bug Fix Resolution Speed*</u> - Time difference between an issue is analyzed & categorized as a Bug and the resolution is ready for assembly testing. <u>Backlog Management</u> - Closed Problems / (Closed Problems + Open Problems) <u>Enhancement Impact Response Time</u> - Percent of requests that are impact analyzed / estimated inside the response times <u>Services Quality (Enhancement) Improvements</u> - ((Actual Days – Estimated Days) / Estimated Days) * 100 <u>Quality Yields on Testing</u> - Number of test scripts passed at first run (%) Number of test scripts passed at second run (%). <u>Post Implementation Quality</u> - (No. of tickets having issues after implementation / Total No. of tickets resolved) * 100 This includes tickets of type both bug-fix and enhancement <u>Uptime of supported applications*</u> - This SLA is a measure of the application system availability vs. the required uptime excludes the downtime due to planned

outages, infrastructure issues, and impact from applications and / or business functions not supported by TCS. It is calculated as
Uptime % = (Ta – Sm – SD) – Dt / (Ta - Sm – Sd) *100
Ta = Total Available Min
Sm = Scheduled Maintenance Min
Sd = Scheduled Downtime
Dt = Unscheduled Downtime

Runbook Performance - This SLA is a performance measure of runbook monitoring services provided by TCS. This index excludes runbook issues due to infrastructure and impact from applications not supported by TCS.

Note; (* = Penalty Clauses Utilized)

The I.S. team and I were very happy to have these metrics in our possession. As recommended by a representative from Gartner, identifying and negotiating key service level metrics can often be the most challenging and time-consuming effort in the sourcing initiative.[17] Having Mark's information in our possession will serve as a great starting point when we discuss our needed metrics internally with the business and technical teams, and externally with the chosen vendor.

Tuesday, December 12, 2006

I receive an email from Hans at 2:35 AM, with a simple "okay for me" reply. This note was in regard to my draft communication to be sent to the European I.S. management team regarding my initiative and request for information. The communication has seen some revisions throughout its passing, and the final version is distributed (see Table 24).

Table 24. Email to the European I.S. Leaders, 12/12/06

European I.S. Leaders,

For those of you that I have not had the opportunity to work with, my name is Rob Milliken and I've recently taken on a new role within our Strategy and Corporate Development organization. My experience thus far at CDR International has probably been very similar to yours. I have a business consulting background, and since December of 1999, have been working in various roles in our Information Services department.

The purpose of our meeting, set-up by Hans for the 18th of December, will be to go over documents that will serve as our baseline to understand what it is we do, and what assets that we possess to leverage between the U.S. and European I.S. operations, as well as any operations where our Strategy and Corporate Development team strategically choose to conduct business. Knowing this information is critical to helping both of our teams realize the potential benefits to increase productivity, reduce costs, share knowledge and provide increased coverage to our critical business operations.

If you have any questions in the meantime, please do not hesitate to contact me. I look forward to speaking to you on the 18th.

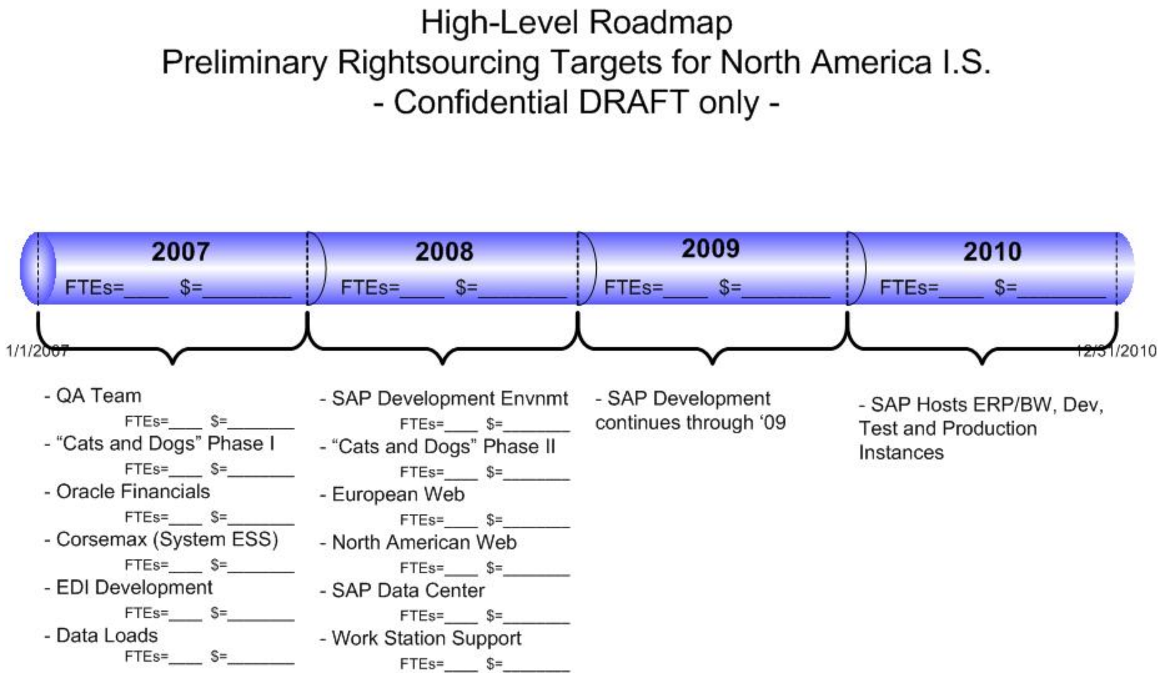
Best Regards,
Rob

<u>Wednesday, December 13, 2006</u>

Our small team working on the sourcing initiative has a two-hour staff meeting in Hal's office at 8:30 AM. Aside from Hal, Paul and myself, Fredrick is joining via telephone from Germany, and Randy Dudley, Hal's financial guru is with us in West Chester. Randy will be assisting in quantifying and providing adequate metrics to the cost savings and expense to our proposed actions.

Aside from the general housekeeping issues, I present the tool kit of items that I have been using in my data collection activities. In addition, although I provide a strong caveat that the data should determine our plans, I present a long-term, high-level view of areas of focus. This is presented in Figure 1.

Figure 1. Preliminary Rightsourcing Targets for N.A.



I created this document with the feedback and assistance of the CIO who is indeed on-board with the information contained therein. Obviously, in addition to the caveat, I will need to work with the CIO and appropriate I.S. managers and directors to complete the active document. Hal and the team very much liked the format and the view.

<u>Friday, December 15, 2006</u>

This morning, I had a meeting with Prassana Mankar at Patni systems. He, and a few others joined me on a conference call to go through much the same exercise that I facilitated with Capgemini. At my lunch appointment on December 6 with Capgemini, we discussed their "Rightshore Suitability Assessment." This meeting with Patni was to talk about their similar offer, titled "Application Portfolio Diagnostics."

Patni's presentation went into great detail, taking almost two hours to complete. They covered everything from the benefits to offshoring, to identifying key functions to outsource, concerns to look for, through managing the engagement and vendor relationships. I was most interested to know how to identify key functions to outsource. Once again, my current methods and actions were substantiated. In addition, my "value" was consistent with Capgemini's feedback; they noted it would cost $100,000 to $150,000 to have the assessment performed.

Monday, December 18, 2006:

I presented the I.S. Functional Role and Application Inventory templates to the Hans and his 14 country managers across Europe. With last minute notice, Fredrick Mercer, was able to join the call as well. Having first-hand knowledge of my research and the templates, I believe that he joined mostly out of curiosity and to give me support.

As I researched and created the templates, I was very comfortable with the format and content, and felt very good about taking the team through them. However, I was a bit nervous about presenting the objectives and reasons for the actions. Hans had repeatedly emphasized that I should communicate the reasons that we're undertaking the effort. Taking the call very seriously, I prepared some talking points well before the meeting that I would use to ensure that I stayed on track, and didn't divulge too much information.

Aside from a brief overview of my background, my notes kept me to specific words and phrases. I had written that our objective was to "identify the strengths throughout the organization and where we can best leverage them." This is valid since in my opinion, outsourcing often leads internal staff with the proper skill-set or potential to greater levels of responsibility. I had two sub-bullets in my notes to elaborate this point. First, we could use the information to best identify and leverage the two disparate I.S. teams (North America and Europe) to leverage skills and resource loads across the two organizations before looking outward to vendors. Second, as the Strategy and Corporate Development team is also responsible for mergers and acquisitions, we could use the information gathered to determine the technology fit between potential acquisition targets, and how our existing I.S. team can leverage the technology resources that the potential acquisition may hold.

Given the number of people on the conference call, there was very little dialogue for the first 20 minutes. It consisted mainly of me elaborating on the objectives and walking through the templates. The call went very smoothly until we encountered one major hitch. One of the country managers was insistent that he run the template past his "Worker's Council" since it dealt with employee information.

I had remembered that one piece of information garnered from one of our client references was not to underestimate the effort needed to deal with work council issues. Remembering that piece of advice, I had changed my template containing the employee information from an employee-driven database, to a database of functional roles. At that time, I had simply switched the first column from "employee name" to "functional role" and consequently renamed the spreadsheet. This extremely small change was significant. With the backing of Fredrick and Hans, we were able to convince the manager that the approval of the counsel was an unnecessary step. The data were already employee-centric; only an inventory of the functional roles was needed.

No other concerns were voiced and I received agreement from Hans and others on a path to move forward to complete the templates by January 19, 2007. I also agreed to hold my calendar free the week of January 15^{th} in the event that any individual needs further assistance in completing the assignment.

December 20, 2006

My tasks thus far have gone pretty much as planned and I have only encountered a few organizational obstacles. I've established a sound working relationship with my former manager and CIO, Linda Lang. Linda and I worked very well together to establish objectives and to assign tasks. Given the lack of a formal announcement regarding my role, and not having sufficient organizational power, budget or decision-making authority to execute any outsourcing vision, I am essentially serving as a puppet master in my endeavors. I set the strategy and use the CIO's "real" power derived inherently from her position, legitimately from her expertise, and her assigned authority to tender both rewards and punishment. Aside from the leading practice research on methods and process, the development of standards and templates, and using organizational dynamics theory and design to leverage interpersonal relationships and build rapport, I consider the partnership between myself as the strategist, and the CIO as the executioner, as a real key to success.

After an organizational change about 18 months ago, Linda Lang, the CIO was moved from reporting directly to the Chief Executive Officer (CEO) to report to the Chief Financial Officer (CFO). This is a devastating blow to any CIO as the information technology function is often viewed as a “cost” as opposed to a true “asset” when placed under such control.

In an unforeseen turn of events that may greatly inhibit my effectiveness, December 20, 2006 held a shocking and progress impacting organizational announcement. An email was sent from the office of Jack Terrance, CDR’s Chief Financial Officer (see Table 25).

Table 25. Email to all CDR Associates from Jack Terrance, CFO, 12/20/06

CDR Associates,

Effective immediately, Linda Lang, Senior VP and CIO, will now be working on special projects. As a result of Linda’s new responsibilities, the following realignments will take place within the Corporate IS Group:

Mike Reddy has been promoted to Vice President, Project Management and Client Relationships, reporting directly to me. With this increased responsibility, the Client Relationship Group will now report directly to Mike.

The Client Relationship Group is made up of Ken Quesenberry, Director of Client Relationships, Rosemary Fulton, Director of Client Relationships, Veronica Groves, Director of Client Relationships, Joan Thompson, Director of Client Relationships and Tom DeGrave, Director of Sci-Ed Information Services.

The Project Management Organization will continue to report to Mike. The Project Management Organization is composed of Cindy Harris, Delivery Management Manager, Anthony Close, Quality Assurance Manager, Tim Quesenberry, B2B Integrations Manager.

Alison Morris has resigned from CDR International to pursue other opportunities and we wish her well.

In addition, Becky Faulk, Director of Applications Development and Enterprise Architecture and Thomas Kearns, Director of IS Security, Compliance, and Governance, will also report directly to me.

John Bosworth, VP of Global Infrastructure will now report to Robert Styker, Senior VP of Operations, as they strive to achieve operational efficiencies across the company.

Hans van Crassier, VP IS Europe, will continue to report directly to Manuel Brocke-Benz, Senior VP and Managing Director of Europe.

Thanks for your support as we transition to a new IT structure.

Best Regards,

Jack Terrance, CFO

I have selectively leveraged Linda's position to provide influence over the associates needed the most to execute the vision. At this start of this initiative, Becky Faulk, Mike Reddy, Thomas Kearns, John Bosworth and Hans van Crassier, all critical to the success of the outsourcing initiative were all direct reports of Linda Lang, Senior Vice President and CIO. Given the break-up of the organization into various organizations, to find the needed leverage over those resources, I'll now need to establish relationships, analogous to the one established with the CIO, with Robert Stryker, Manuel Brocke-Benz, and Jack Terrance. These gentlemen are all Senior Vice President level resources, with no I.S. or outsourcing background, and little availability.

CHAPTER 7

CONCLUSION

I described, during the second half of 2006, some of the forces that conflicted the maturity of people, processes and methods used in the formation of the Corporate Initiatives team. I described the path of outsourcing preparedness within CDR International's I.S. organization in pursuit of 2 objectives, the assembly of the "commando" team and the necessary steps to take to perform a successful and methodological outsourcing initiative. By December 20th, I had experienced an exhilarating journey in an effort to navigate the sensitive and politically driven environment found when performing an outsourcing function within an organization.

Throughout this journey, the reader was subjected to hundreds of key points and recommended procedures in the practice of outsourcing that, between the $75,000 Gartner membership, the travel to the conference, the interviews with industry experts, the design and creation of templates and the hundreds of hours of research, would cost hundreds of thousands of dollars emulate. My thesis presents real examples and offers lessons derived from numerous client references from companies like Getty, McGraw-Hill, Baxter Healthcare and other peers undergoing similar initiatives. Reflections from those interactions regarding events that they would have done differently provide invaluable feedback for the process and overall endeavor.

Use of best practices, toolkits, standards and templates are not enough to accomplish our outsourcing objectives. Accomplishing the mission takes proper execution, which involves the cooperation among many players. Organizational dynamics such as interpersonal dealings, presentations, telephone and carefully constructed email communications were shown throughout the manuscript as well as challenges and potential remedies for many organizational matters. The use of these practices derived from methods and procedures obtained and applied from experience and Organizational Dynamics study from classes. Although all of my study in organization dynamics was applicable, the most impact on this initiative was derived from the study in DYNM 654 “Business Growth Strategy and Successful Implementation”, DYNM 691 “Small Group Processes”, DYNM 655 “Using the Political Process to Effect Organizational Change”, DYNM 629 “Organizational Consulting: Proseminar in Organizational Development” and undoubtedly DYNM 644 “Strategic Outsourcing”. The concepts and lessons in those most influential courses allowed the execution of the objective to commence successfully. It’s my sincere hope that the information contained herein is highly utilized and leveraged within the Organizational Dynamics curriculum, as well as leveraged specifically for anyone undertaking their own outsourcing efforts.

NOTES

[1] Francis Nixon, interview by author, 26 July 2006.

[2] Nixon, 26 July 2006.

[3] Elsa Ramsden, Organizational Dynamics Lecture, Philadelphia, PA, May 2002.

[4] Eric Farber, email to the author, 18 September 2006.

[5] John McLeary, interview by author, Orlando, FL, 11 October 2006.

[6] Helen Huntley, interview by author, Orlando, FL, 12 October 2006.

[7] Mike Hussey, interview by author, West Chester, PA, 16 October 2006.

[8] Helen Huntley, Contract Negotiation Lecture, Orlando, FL, 12 October 2006.

[9] Audrey Apfel, "Seize the Day" Lecture, 9 October 2006.

[10] tutor2u, http://www.tutor2u.net.

[11] tutor2u, http://www.tutor2u.net.

[12] Francis Nixon, interview by author, 1 November 2006.

[13] Nixon, 1 November 2006.

[14] Nixon, 1 November 2006

[15] Helen Huntley, interview by author, 12 October 2006.

[16] Audrey Apfel, interview by author, West Chester, PA, 2 November 2006.

[17] William Maurer, interview by author, Orlando, FL, 10 October 2006.

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APPPENDIX A

Gartner Symposium IT/Expo

October 8-13th

I. Monday 8AM Keynote Address:

- CIO's looking for more business acumen amongst IT personnel.
- CIO's leaving office because they are not helping to drive growth.
- 70% of CIOs consider information strategic.
- 40% of CIOs think that they are giving the best data available to the business.

- Consumerization impacting Information Technology.
    - Shift of technology ownership to the consumer of IT
    - Business processes will be run on consumer platforms
    - 2012, expect that consumer technology to be integrated into all settings.
    - Consumer-to-Business model will replace the traditional Business-to-Consumer model
    - Digital natives (kids today) versus Digital Immigrants (us)
    - 2009, you will see corporate computing, integrated with home computing.
    - 2011, web services for personal configuration

II. Gartner Analyst:

- You'll be in an upgrade loop for the rest of your life…get over it! 8 out of every 10 dollars spent in IT are dead, "keep the lights on" dollars. Too much spending does not contribute to growth
- Placement of resources is more critical now then ever.
- You spend more time justifying your spend then actually spending it.
- You'll be locked into a technology upgrade

III. Analyst, Audrey

"Seize the Day" Presentation

- Intelligent reinvestment. Think of information technology like a business, self fund projects, don't give it all back, just as the CEO of your own company, you wouldn't give all your profits to your bank account, you'd invest in the business.
- Clean up your applications portfolio – Retire 10% of you application each year. Don't support those applications that support one process for 3 people. Have those tough conversations.
- Use VOIP to detriment telecommunications spend. Get on with it.

- Own the enterprise-wide PMO, not just IT.
- Process changes to have support smart-sources (inject outsourcing decision block into SDLC flow/PMO process)

IV. Analyst, Richard Hunter

Key points: Growth, Profits, Innovation

1. Manage IT assets well
2. Help business profit off of IT over-site
3. Manage human assets and change
4. Get the business off of the Titanic (ESS)
5. You must outsource more low-level stuff.

Governance (defined): “Who gets their say and who gets their way.”

KP: What does one hour of unplanned downtime cost the business? (Rob) Do this exercise by application to determine risk for outsourcing.

V. Monday 9:45 Session: The Future Direction of IT.

- Across all businesses, we find decreasing IT costs as a percentage of revenue.
- Business executives don’t believe that IT enables growth.
- Increase in spending on IT outside of the IT budget.
- 4.8% increase on IT spending from 2005 to 2006.
- Create a Business Problem Center of Excellence.
- Retire at least 10% of your application portfolio by 2008
- Establish a process to do this every year
- Use a zero based budgetary model.

“The future isn’t what it used to be.” – Yogi Bera

VI. IT Sourcing: The New Critical Competence - Linda Cohen

- Avoid ad-hoc compulsive outsourcing.
- Move to disciplined multi-sourcing
- Demand management is critical discipline to successfully multi-source, as it helps to reach economies of scale.
- Don’t have too many vendors. Characterize vendors by function and value.
- Include business SLAs in spreadsheet database.
- Consider the business value/detriment in switching costs. (four quadrant slide – market, strategic, transactional, risk, X axis is the switching cost, Y axis is the business value. Plot vendors in this quadrant.)

VII. Program and Portfolio Management - Audrey Apfel

- Outsource it or retire it.
- For application spreadsheet (columns): application-benefit-in-house cost-near shore cost-offshore cost-Productivity Lost if Retired
- Risk index: Sum of weighted vulnerabilities x probability/number of occurrences

VIII. Tuesday – 8AM – Bill Maurer
Developing End-to-End Service Levels – Workshop

- Define service levels jointly with the business
- Engage business early and all the way through. (quote Bill)
- CxOs complain today that there is no linkage between SLAs and businesss performance.
- Good example: Airline industry and on-line departures.
- Utilize a timeline for service level development process
  - Expect it to take 6 to 7 months. This statistic was corroborated by 2 other clients in the room.
  - Long time BUT in the airline example, they went from 8th to 1st in on-time departures. Leading to increased revenue, profits, customer satisfaction, stock value, internal employee value/morale.
  - Do this for each sub-system and/or department/function.
- KP- Should be able to take your SLAs to the CEO; i.e. they should be business focused.

IX. Tuesday 9:30 AM – Outsourcing Today: IT, BPO and Offshore, Trends Shaping Your Future - Linda Cohen

- KP: Don't go for cheaper, go for better services faster.
- KP: Market dynamics: Infrastructure: $155B (9.3% CAGR), applications 36.1B 7.1% CAGR), BPO 114B (6.9% CAGR) by 2009.
- KP: At the 2 to 3 year mark, deals tend to lose luster – Make more flexible deals!
- Most of outsourcing done today is compulsive outsourcing.
- Ask key questions: why outsource?
- How likely is it that it will be more productive and/or cheaper?
- Near shore opportunities are good.
- Ask about their global delivery model, what is being done and where?
- Create SLA metrics for performance improvement and cost improvement
- (Get the document, Contracting for Flexibility – 14 key points by Bill Maurer.)
- KP: Does the contract allow you to address the problem/opportunity of the minute that crops up 8 months from now?
- Exit strategy: yes, must have a detailed exit strategy that includes who pays for what when the deal is exited. (i.e. documentation transfer)
- Make sure that the service provider walks lock step with you, i.e. ITIL at CDR International, but not at vendor?

- Synch the level of the maturity of your own processes with the level of maturity of the vendor's.
- Ensure "like methodologies"

X. Tuesday 3:15 PM - Strategic Vendor Management-Chris Ambrose

- Obtain vendor management best practice slide.
- Know the vendor as they would know you. Look at their financials, press releases, customer contracts. Do this consistently to take advantage of new services and opportunities (back to previous point of contract flexibility and solving the problem of the minute.)
- KP: Define partnership attributes. What does a partner mean to you? Build this into contract and on-going working relationship/process.
- Share risks with the service provider.
- Vendor Management Office
    - Key responsibilities: communication, problem escalation, trust, SLAs tracking, enforcement and reporting, market position, visits and reviews and feedback.
    - KP: Depending on maturity, estimate spending 3-11% of the deals value on the vendor management budget. Realize that ROI will be hard to prove.
    - Who foots the bill for the VMO? Usually the organization getting the value.
    - KP: How do you measure vendor management performance?
        - Alignment with business goals, vision and customer satisfaction

XI. Wednesday, 11:00 AM – John Chambers (CEO Cisco)

Interviewed by David Willis

- Intelligence will be throughout the network
- Integration of ISP and business/home computing
- Entertainment in the home to business process
- Philosophy of Chambers is that Cisco will adapt to work with all major standards
- Network management and security must go hand-in-hand
- More self-management being built into Cisco's products
- Learning how to sell and support software – Cisco will be aggressive in this space.
- Of all IP phones sold today, 60% are Cisco
- Of all phones sold today, 23% are Cisco IP phones.
- Moving the head of customer advocacy and support to India – pretext to "business anywhere"
- $100,000,000 per year spent on business travel, employees travel 1b miles per year.

- A thin layer of service is critical for Cisco, but margins are low. Service margins will stay at the 15-20% of revenue level. Measure service success by customer satisfaction first, then revenue second.

XII. Session: Contract Negotiations – Helen Huntley

- 85% of deals are renegotiated with the same service provider (10% are revised, 5% dropped)
- 46.9% of the renegotiated deals are triggered by the timing; end of term
- 49% initiated by the client
- 4.1% initiated by the service provider
- Renegotiation is not a sign a failure, but shows commitment to flexibility and changing business conditions.
- Document what every senior executive would want in the first paragraph of the MSA.
- Baseline benchmark, then benchmark service provider. Do this in business terms; i.e.time to market.
- Build country level/country level SLAs.
- Global MSA first, then negotiate amendments where necessary.
- KP – Do not bonus on SLAs
- KP – Make penalties substantial enough to incent the vendor to take action.
- Make escalating severity SLAs.
- KP – Never agree to “best effort” verbiage in contracts
- KP – Plan to renegotiate forever.
- KP – Plan for contract termination
- KP – Never share your negotiation timeline with the service provider.
- KP: Establish timeline for the process (but don’t share with the provider), and manage the negotiation process.
- KP – “No deal is better than a bad deal.”
- KP – In association with SLA penalties, offer the opportunity for “buy backs”. If the vendor is susceptible to an SLA penalty, don’t necessary enforce it, but allow it to be made up with a 110% or higher performance level the following month.
- KP – Don’t give bonuses, but do use gain-sharing.
- KP – Attempt to define what “innovation” means to CDR International in a paragraph and include it into the contract.
- KP – Hold quarterly innovation forums with the vendor.
- KP – Ensure that the contract is written so that the vendor can help solve business problems as they occur.

XIII. Thursday, 8:00 AM, Sourcing Strategy – Helen Huntley

- Your sourcing strategy should answer the five basic questions: why, what (outcomes), who, how (delivery model) and where (where delivered).

- Trends Seen By Gartner:
    - Gartner sees a lack of consensus about why deals are created and the value expected from them.
    - 80% of deals are cost focused
    - Must have a governance plan and a transition plan. (create a checklist, guide for signing a deal.)
    - Structure SLAs as points, so instead of 90%, 90%, 90%, 90% across four SLA categories, for business sake, you can choose to ignore 3 of the 4, and “award” and give the vendor a pass on those categories (i.e. 100%) and give them a 60% score on one of the four, which would encourage them to focus their efforts.
    - Identify business outcomes of the arrangement
    - Clients save about 20-40% per year on labor arbitrage
    - Develop an effective sourcing strategy for each business unit.

Captive Center: will fail on the small scale as it is generally dependent on economies of scale. If you do this, ensure brand recognition, i.e. be a place that people in the local market will like to work or establish a career. You will most likely suffer from the same HR/attrition problems facing vendors in the marketplace.

APPENDIX B

Wipro Reference Call with Getty

Wipro Oracle Financials Reference
Reference Call Notes: Jon Peara from Getty
November 8, 2006

Attendees:

Rob Milliken (1pm to 1:30p)
Rob Traxler (1:15pm to 1:30pm)

I. Overview:

Jon functions as a Project Manager and essentially inherited this Wipro/Getty arrangement. The agreement was entered into due to capacity issues with the existing staff and the potential for cost savings with a 3rd party provider.

The 3-year contract was invoked in May/June of 2005 and was crafted to include a 6-week transition phase and a delivery/staffing model change at year one. Wipro's work, consisting of production support and some enhancement work, was structured to have a 3/3 agreement in the first year with 3 onsite resources and 3 offsite. Starting year two, per the contract, it shifted to a 2/4 model and is now moving to a 1/3 arrangement. (All offshore personnel are located in India)

The assumption of the arrangement was that Wipro would be able to fix existing issues, and therefore reduce costs moving forward. That has happened to a small degree, but has not met expectations.

There was initially a vendor manager in charge of the Wipro arrangement. That manager had departed from Getty, and until Jon had inherited it, the relationship went without oversight for a short period of time.

*Jon was not involved in the decision-making or vendor selection process. Does not seem overly impressed with the Wipro arrangement in general or how it was communicated at Getty.

II. Level Setting:

- Did you evaluate any other vendors? Infosys and Wipro were the final two vendors in play. Wipro beat out Infosys on a price basis.

- When did your agreement go into place? May/June 2005

- How long is your contract? 3 years.

- Has the contract been renegotiated? No.

- What is the scope of the support services that you are being provided? Mainly Oracle Financials with some other applications in play.

  - [Regarding Scope] Is there any complimentary services not included in your contract that would have made sense? Tighter definition of SLAs, however Getty has no ticketing system and cannot track or enforce the SLAs that were written into the contract. Jon suggests writing more objective measures into the contract to judge their success as well as verbiage pertaining to root cause analysis.

  - Which roles were outsourced? DBA, technical and functional roles.

  - How mature were your processes and level of documentation? Some applications were very mature with appropriate levels of documentation and some had no documentation whatsoever.

V. Transition:

- How long was the transition? 6 weeks

- The same 3 resources were used for the transition as were used ongoing. The transition went well, but they continually relied on Getty resources for knowledge and information.

- Would you have changed anything relating to the transition? Define objectives.

IV. Performance:

- Has Wipro adequately provided the necessary service/expertise to resolve issues? Yes, however they should be more proactive and their root cause analysis is lacking.

- Are issues escalated quickly ensuring quick resolve? Getty has never had to escalate any issues.

- How would you rank Wipro’s performance during the year-end close? Getty’s year-end /fiscal end is based on the calendar year, and they had no issues.

- Have you established a service level agreement? What is your service level agreement metric(s)? What is the penalty for non-performance? Getty has very basic service levels in the contract, however due to their vagueness and the inability to track them, they are essentially non-existent. SLA's are theoretically reviewed quarterly.

- Does Wipro have any problems with attrition? Yes, the offshore resources only seem to last about 6 months. The onsite resources work very diligently (work until issues are resolved and have taken no vacation) and have had zero turnover.

- Do they employ mirroring techniques to reduce risk of turnover? Yes.

Notes:

- Management didn't like many of Wipro's ideas.
- Trouble tickets had doubled due to offshore DBA.
- Felt that Wipro was not properly staffed for the arrangement.
- Initially had weekly review meetings, but they didn't really address any of the high level issues, just tactical, ticket review type sessions.
- Mentioned that technically the Wipro team is very competent, but is lacking depth of the bench.
- Onsite does good work and writes great specs.

R.Milliken's Overall Impressions:

Poor showing for Wipro. Getty is not overly impressed and I would question Wipro's choice for a reference. Also, we had to ask Shabbir to leave the call. He assumed that he would stay on mute. Jon was very open but came across as extremely negative. He or his team may have been negatively impacted with the arrangement, and his inheritance of the contract as opposed to his input on the decision-making may also explain his negativity. We certainly would have gotten to more questions, however Jon had end the call.

APPENDIX C

CapGemini Oracle Financials Reference
Reference Call Notes: David from Baxter

November 10, 2006

Attendees:

9-9:40 AM
Rob Milliken, Strategy and Corporate Development
Becky Faulk, Application Development Director
Linda Lang, Chief Information Officer

I. Overview:

David owns and managers this European engagement for Baxter Global Healthcare. This particular Oracle Financials arrangement was Baxter's first venture with Information Technology outsourcing, and was initiated for cost and capacity reasons. Their European operations ran on common systems and the Oracle Financials team was split into two, with a run team and a build team. They spent a total of 15 months performing research, vendor evaluations and transition activities until the contract was signed.

Approximate Timeline:
Inception: January 2003
Transition Start: March 2004
Employee Severance: April 2004
Go-Live: May 2004.

II. Level Setting:

- Did you evaluate any other vendors? Cap Gemini and IBM were the last two vendors in play. Costs were very similar between the two vendors, but Baxter preferred Cap Gemini's delivery model better than IBM's proposal. Also of note, is that IBM did and still maintains an outsourcing relationship managing Baxter's data center operations. Additionally, David pointed out that they have not outsourced any ERP work.

- When did your agreement go into place? May 2004

- How long is your contract? 10 years.

- Has the contract been renegotiated? No.

- What is the scope of the support services that you are being provided? Oracle Financials and other non-ERP applications. There is a team of 33-34 people performing our IT functions and it is mainly the on-going system or “run” activities. The in-house resources still maintain the design and/or “build” activities. The offshored work is performed in Mumbai. The onsite outsourced work consists of a team lead dedicated to each functional area.

  - [Regarding Scope] Is there any complimentary services not included in your contract that would have made sense?

  - Which roles were outsourced?

  - How mature were your processes and level of documentation?

VI. Transition:

- How long was the transition? 3 months

- Were any Baxter employees re-badged? Yes, five employees.

- How many Cap Gemini resources were on-site for the transition? Eight.

IV. Performance:

- Has Cap Gemini adequately provided the necessary service/expertise to resolve issues?

- Are issues escalated quickly ensuring quick resolve?

- How would you rank Cap Gemini’s performance during the year-end close?

- Have you established a service level agreement? What is your service level agreement metric(s)? What is the penalty for non-performance?

- Does Cap Gemini have any problems with attrition? On-site resources have not turned over and have been impressive. Offsite resources have experienced high turnover but it has not negatively impacted the service levels or relationship. (29 people doing back-office work).

- Do they employ mirroring techniques to reduce risk of turnover?

Notes:

- Work council and contract issues took longer than anticipated.
- Employees departed at the end of April of 2004

- Documentation was reasonably good before the transition work had commenced due to recently completed project work. David emphasized the need for strong, thorough documentation.
- Baxter has been giving Cap Gemini more work.
- Agreement was established with 500 credit days for minor enhancements.
- Baxter has gone from 100 change requests per year to about 50.
- SLA's with Cap Gemini have been better than with the internal staff.
- SLAs based on time to close tickets.
- SLA penalties built into contracts but they have never been enforced.
- Issues have been escalated, and the escalation process easily resolved the problem.
- Day-to-day vendor management has been split up by functional area, with David overseeing the entire engagement. Front-office leads work with the business and back office resources. Those leads also manage metrics and issues.
- Emphasized the need to build trust in the user community and involve them in the process.
- Network connectivity done via Citrix, routing through a local Cap Gemini office which then connects the Mumbai facility.
- ROI was targeted for 6 months and achieved in 3.

R.Milliken's Overall Impressions:
David was very knowledgeable about the operation and the engagement. Provided a very good recommendation for Cap Gemini. Considering the timeline factors and ROI achievement, there was a very well organized approach to the arrangement.

APPENDIX D

TCS (TATA) Oracle Financials Reference
Reference Call Notes: Celine from VSNL, Inc.
November 10, 2006

Attendees:

Scheduled 10 AM to 10:30 AM
(CDR International terminated the call at 10:10 AM due to “integrity’” issue)

Rob Milliken, Director, Strategy and Corporate Development
Becky Faulk, Application Development Director
Linda Lang, Chief Information Officer
Rob Traxler, Application Services Manager
Veronica Groves, I.S. Director and Business Partner

I. Overview:

Reference call was held with Celine Labrils, Director of Financial Systems, with VSNL, Inc.. Celine, having 10 years of experience, now manages with the vendor relationship with TCS. VSNL has been working with TCS since February of 2006 with a very small Oracle Financials engagement. The engagement is currently comprised of two onshore and one offshore TCS employees. The onshore resources perform the functional work, set-ups and handle Oracles TARS while the offshore resource performs the development work. This team is complimented by a VSNL team of four internal employees.

*Celine referenced that TCS owns VSNL and the call was politely, but quickly terminated.

Notes:

R.Milliken’s Overall Impressions:
Somewhat of an integrity issue with TCS.

APPENDIX E

TCS Reference
Reference Call Notes: Mark Fletcher, VP Client Services
McGraw-Hill
November 15, 2006, 5:30 PM

Attendees:

Schedule: 5:30PM to 6:00 PM

Rob Milliken, Director, Corporate Initiatives
Becky Faulk, Application Development Director
Rob Traxler, Application Services Manager
Veronica Groves, I.S. Director and Business Partner

I. Overview:

Mark started his relationship with TCS 3.5 years ago for outsourced work with Oracle's ERP. The relationship consisted mainly of offshore development work, and TCS was used in all phases of the project, including project management and business requirements gathers.

Phase One of the project went live 2004. Phase Two went live in October of 2004. Approximately $23B in revenue flows through the ERP system per year.

Notes:

- What is the contract term? 5 years, fixed rate.
- Who else was evaluated? Mark sent bids out to Wipro, Satyma, and TCS.
- What is the ratio of on/offshore? 40/60
- Have you expanded the contract at all? Yes, no issues.
- Human resource effect? 55 resources displaced, none rebadged.
- Was enhancement work included with the deal? Yes, 12 enhancements per month. They weren't being used, so they asked to refocus those efforts. It was no problem on the TCS side to do so. Packages and severance were paid out.
- The business users gave great compliments in the effort in that it was seamless.

- Any comments on attrition? Have not seen any for TCS, but they did get written into the contract that “no” changes could be made on key, identified positions for a certain period of time.
- Where there any quality issues? No, TCS has delivered very good quality.
- Any experience in having to escalate an issue? Yes, there was a poor decision made by a DBA. The issue was resolved easily.
- What were your SLAs? McGraw Hill had 9 contractual SLAs

1. Response time: 15 minutes for resolution on highest priority event. Has associated penalty, 10% off of monthly billing.
2. Bug Fix Response time: 95% resolved within 4 hours. Has a penalty, miss the 4 hour window 1 to 2 times, take 5% off of monthly billing. Miss 4 hour window 3 or 4 times, 10% off of monthly billing.
3. Closed versus open cases. (Backlog index)
4. Impact Analysis on Enhancement Requests, forecast to actual.
5. Quality Yield on QA. 90%/100% passing clean.
6. Post Implementation Quality: Number of tickets introduced. 5% or less.
7. Uptime of Application. 99.7% uptime target, if down 30 minutes to 3 hours per week, 20% off weekly cost. 3 hours to 8 hours per week, 50% off of weekly cost. 8+ hours down per week, 100% off of weekly cost.
8. Run Book Batch completed by 7am
9. [Missing]

- How well would you rate TCS’s RCA work? TCS does a good job with RCA (root cause analysis), and consistently does a good job with fixing issues.
- Looking back, how would you change the contract? We’d pull enhancement work out and handle it as a separate SOW.
- How are contract changes addressed? 30 day lead-time.
- Mark mentioned the time-zone difference leveraged as an advantage.
- Network connectivity took 90 days to establish. 2 T1’s.

R.Milliken’s Overall Impressions:

Mark Fletcher of McGraw-Hill served as an excellent reference for TCS. Was very open to sharing thoughts, ideas and best practices. I would like to see if we can obtain the actual wording of their SLAs and penalties as defined in their contract.