

**booz&co.**

---

Buying Right  
the First Time  
*IT Sourcing Simplified*



---

---

**Contact Information**

**Beirut**

**Ramez Shehadi**

Partner

+961-1-985-655

ramez.shehadi@booz.com

**Dr. Walid Tohme**

Principal

+961-1-985-655

walid.tohme@booz.com

**Jad Bitar**

Principal

+961-1-985-655

jad.bitar@booz.com

**Mumbai**

**Chandrasekar Ramamoorthy**

Associate

+91-22-6128-1111

chandrasekar.ramamoorthy@

booz.com

---

## EXECUTIVE SUMMARY

*In an effort to reduce costs and improve operations, chief information officers (CIOs) often seek expertise and partners to implement large, complex IT projects effectively. Additionally, boards are increasingly pressuring CIOs to derive maximum value from IT projects. As a result, many CIOs are relying on partners to maximize the value of their IT investments as they often find it difficult to access the internal resources necessary to deliver their IT projects.*

Many large organizations have been forging such partnerships for years. Others are traveling down this road for the first time. For those organizations just venturing into IT sourcing, the process is challenging—especially when it comes to selecting the right partner. CIOs of these organizations need to adopt a project-by-project sourcing approach. As organizations place more accountability and risk on the vendors through mechanisms such as fixed-price contracts, selecting the right partner is critical to success. To create successful partnerships, a project sourcing strategy should answer three critical questions: *What* is the desired target or result for the project? *Who* should the organization

partner with to deliver results? *How* should a partner be selected?

The success or failure of these projects hinges on defining clear objectives at the project's inception. It is also crucial that organizations do not underestimate the importance of determining who to partner with and how to select one or more partners. There are countless examples of projects that do not accomplish their defined objectives due to a strained relationship between the client organization and its partners. CIOs that invest the time up front to define their sourcing strategy and undergo a thorough selection process will increase the chances of reaping the benefits of a successful IT implementation.

## KEY HIGHLIGHTS

- CIOs need to define a comprehensive sourcing strategy that answers three key questions: *what* are the project's objectives, *who* should deliver the project, and *how* should it be sourced?
- Defining an appropriate sourcing strategy at the onset of a complex IT project is essential in that it can mitigate most of the inherent risks in a project.
- In determining who should deliver a project, organizations can consider in-house implementation or partnerships with external vendors.
- In determining how to choose a partner, organizations can consider sole sourcing or competitive sourcing.

## THE IMPORTANCE OF A PROJECT SOURCING STRATEGY

Over the years, IT has emerged as an increasingly important lever that companies use to lower costs and boost revenues. IT has evolved far beyond the automation of specific tasks and today encompasses complex enterprise business models. For example, large organizations deploy enterprise solutions such as sales force automation or the use of electronic medical records to optimize their businesses.

CIOs have a number of options in how to approach the implementation of such enterprise IT projects. They can upgrade or transform their IT systems by tapping into internal resources. This option, however, can significantly strain a company's IT team in terms of expertise or time, diverting employees from their daily activities. CIOs also can elect to partner with external vendors. This is

not a risk-free option, either: If CIOs source projects externally, they face a different set of challenges in selecting partners and structuring relationships to ensure delivery is on time and within budget. Finally, CIOs can also opt for a combination of the two, creating a project team that comprises internal and external resources.

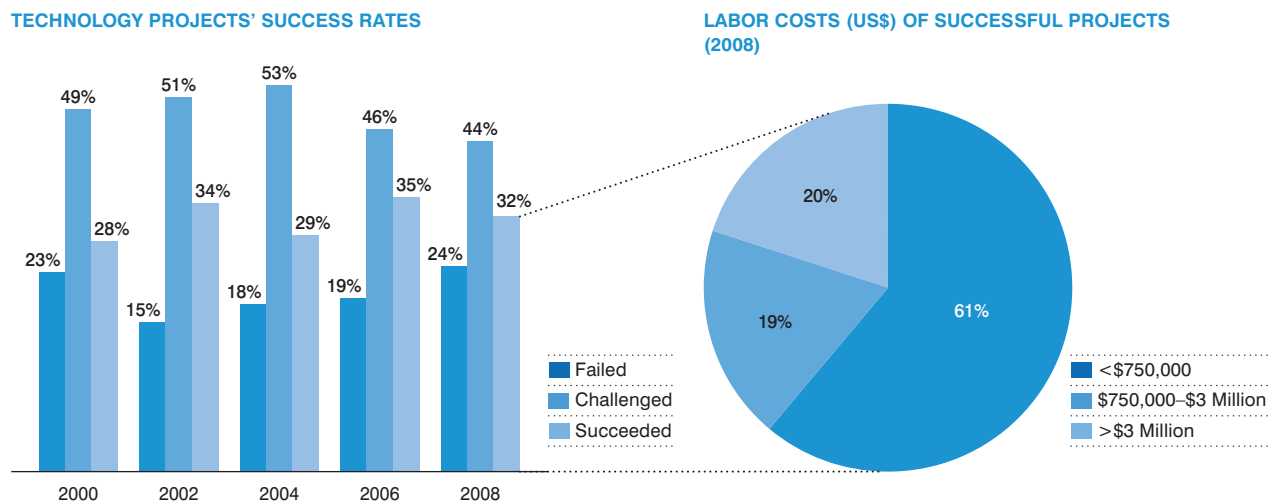
Because of the increased complexity of IT projects, many organizations now engage one or more external vendors. In choosing this route, companies need to be very selective and focused on partnering with the right vendors. Otherwise, projects' chances of success are limited; they can stall, go over budget, extend past deadline, or fail to deliver what was expected. Indeed, more than two-thirds of large IT projects fall short of initial goals (*see Exhibit 1*). In 2008, only 32 percent of complex projects were found to be "successful," according to a 2009 survey by the Standish Group,<sup>1</sup> a U.S.-based IT planning and research firm. Of the remainder, 44 percent were classified as "challenged" and 24 percent were deemed to have "failed." About 60 percent of the successful projects were relatively small and had budgets of less than US\$750,000. In sum, larger and more complex projects mandate that CIOs be especially vigilant and mitigate risks appropriately.

What triggers most problems? In our experience, CIOs cite the sourcing process as one of the most common reasons for project challenges. There are three key phases in an effective sourcing process: project scope definition and sourcing, contracting and negotiations, and project management and governance. The first phase—defining the project’s scope and sourcing strategy—often receives less attention than the other

two, but it is critical for several reasons. First, it allows an organization to plan and control its costs. Second, a project sourcing strategy provides the platform for an organization to articulate its problems clearly and identify potential solutions. Third, such a strategy allows the organization to document its specific project requirements and identify benchmarks by which it can measure progress and success.

An optimal project sourcing strategy builds on an organization’s capabilities and mitigates its constraints. The sourcing strategy helps companies select the right partner and then establish a relationship, allowing them to control costs, operate more effectively, and put the proper skill sets in place to achieve the objectives defined initially.

**Exhibit 1**  
*More Than Two-thirds of IT Projects Fail to Meet Their Goals*



Notes: A total of 214 projects were surveyed, of which 58% were U.S.-based, 24% were Europe-based, and the remaining 18% were from the rest of the world. Of the projects surveyed, 51% were from Fortune 1000 companies, 32% from midrange companies, and the rest from the small category. Projects surveyed were from various industries, including government, financial services, healthcare, and manufacturing.  
 Source: "CHAOS Summary 2009," The Standish Group; Booz & Company analysis

# KEY FACTORS THAT SHAPE A PROJECT SOURCING STRATEGY

Before defining the *who* and *how* of sourcing, organizations need to assess eight key factors (see Exhibit 2). Some of these factors can help organizations determine the type of structure they need to deliver the project—whether it is sourced internally, externally, or a combination of the two. Other factors address the issue of how to select a partner. Some factors address both topics.

An organization's *execution capability*, for example, is critical in determining which sourcing scenario is likely

to work best. An organization might recognize during the assessment phase that it can deliver the project faster and at a lower cost than an external vendor can and that it has sufficient *internal capabilities*. In this scenario, delivering the project internally might be the ideal option. However, if an assessment reveals that an organization lacks the resources or expertise to staff the project internally, then the organization must explore the option of sourcing the project to an external vendor. Once the organization has made the decision that it cannot approach the issue internally, it needs to determine the necessary number of partners—a decision that is subject to the organization's *project management capability*, the *maturity of the markets* in which it operates, and the *project's complexity*.

In order to address the selection of one or more partners, an organization needs to assess its access to pertinent *legal support*, as well as its available *time* and *financial constraints*. As organizations move toward fixed-price

contracts, access to legal expertise is necessary to design contracts with sufficient incentives (e.g., payments on the completion of agreed-upon milestones) and penalties (e.g., liquidated damages). Organizations with tight financial constraints have to design a selection process that maximizes competition among bidders to ensure a lower price.

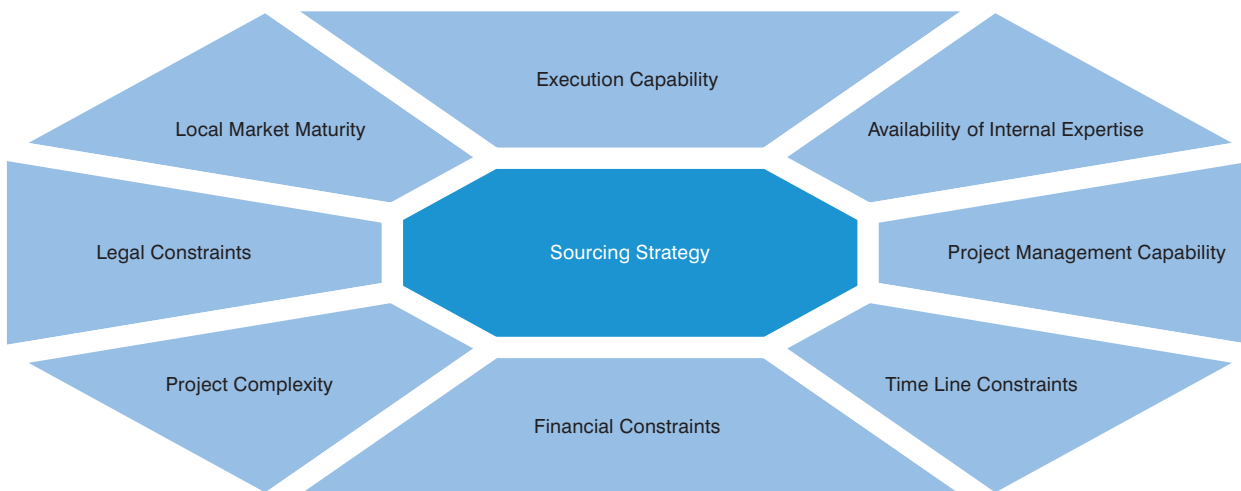
## Who Should Do the Work?

Once an organization has made its assessment and shaped its strategy, it can determine who will deliver the project, whether an internal IT team or an external team. With complex technology projects, both of these options mitigate certain constraints while requiring specific capabilities from organizations.

## In-house Implementation:

Organizations that have significant execution capability, access to internal expertise, and a solid track record of delivering key projects internally in a cost-effective and timely manner

Exhibit 2  
Eight Key Factors Shape the Sourcing Strategy



Source: Booz & Company

might opt not to partner with external vendors. Additionally, organizations with very specific requirements—such as financial-services firms with highly sophisticated financial engineering applications or healthcare providers with specific quality and performance management needs—might not find external partners with the right expertise to support their efforts. In such situations, bolstering the organization's internal capabilities to deliver these projects might be the best approach.

*Project Sourcing:* When an organization finds that it lacks the requisite capabilities and internal expertise, it must consider partnering with external vendors. Organizations can partner with a single vendor that offers all the required expertise or with multiple vendors. The single-vendor option is often the best choice when the organization has low internal execution capabilities and limited legal expertise; often, organizations select this route because they have limited governance capabilities and are better off dealing with only one vendor in charge of project implementation.

However, the maturity of the local market is a key consideration when

sourcing complex projects from a single vendor; in some cases, it may not be possible to find a single local vendor with the requisite capabilities and expertise for a large transformation project. In these cases, organizations can consider multiple vendors, which presents them with two options: partner with a “prime vendor” that will manage other vendors, or partner directly with multiple vendors.

Organizations with limited project management capabilities typically should adopt the prime vendor option, in which a lead company acts as the organization's main interface with other vendors. The other vendors are the responsibility of, and managed by, the prime vendor.

Some organizations may be reluctant to relinquish complete control of project implementation to a prime vendor. In that case, organizations may choose to divide the project into smaller sub-projects and source from multiple vendors. Organizations that adopt this approach need to have significant project management capabilities and access to internal or external legal expertise to handle project monitoring and manage contracts throughout the project's life cycle.

### **Managing Partnerships: The Role of a Strategic Implementation Office**

In order to guarantee a project's success, organizations might consider using a strategic implementation office (SIO)—an external partner that is not a vendor on the project—to establish a strong governance structure with program monitoring capabilities.

Organizations using external vendors need to set clear expectations and incentives with their partners. One way to do so is to select an SIO to govern the partners delivering the IT project. The SIO plays several roles. It ensures the clarity and transparency of information throughout the sourcing process. It assists the organization in holding all vendors accountable. It also provides an independent assessment of the organization's expectations. It helps the organization stay one step ahead of its partners in terms of monitoring execution and anticipating future needs. In addition, the SIO resolves key issues between the organization, partners, and other stakeholders.

---

## How Should Organizations Select Their Partners?

Once an organization has made the decision to partner with an external vendor, its next step in defining the sourcing strategy is to identify the vendors that can best complement the organization. There are two typical solutions: source directly from a preferred vendor or initiate a selection process with a comprehensive request-for-proposal (RFP) process.

*Sole Sourcing:* When an organization has significant time constraints, few financial constraints, limited legal capabilities, or an IT project with a relatively low level of complexity, it is dealing with a project of limited scope and low risk. In these instances, organizations may source the project directly, using either a single vendor, a prime vendor that oversees other vendors, or multiple vendors. The ideal vendor could be one with whom the organization has an existing relationship, thus avoiding the need

to negotiate a detailed contract. However, adopting this approach for large projects with significant financial constraints can lead to inflated prices because of the lack of a competitive process.

*Competitive Sourcing:* Organizations not constrained by time can adopt an indirect sourcing approach involving competitive negotiations. This will ensure a cost-effective selection process. With this approach, organizations have two options: negotiate directly with multiple vendors without a preliminary selection process, or adopt a multistage RFP process with an initial selection process followed by negotiations with selected vendors.

If a project's complexity is relatively low and the requirements are well defined, the organization can negotiate contracts with several vendors simultaneously in order to get the best deal. However, it needs sufficient legal capabilities to handle parallel

contract negotiations. If a project is very complex and its requirements are not well defined, this approach likely will not work because there is a high probability that technical proposals from multiple vendors will be significantly different. In such cases, organizations would need to go through a technical selection process to be able to compare responses from the different vendors. Often in this process, the organization benefits from the ideas that bidders propose based on their experiences with other organizations. Following this technical selection process, the organization needs to conduct negotiations with one or more vendors that are selected through the technical evaluation.

Undertaking an RFP selection process could take up to six months and requires the organization to have access to substantial internal and external expertise and legal capabilities to drive the process.

*If a project's complexity is relatively low and the requirements are well defined, the organization can negotiate contracts with several vendors simultaneously.*

### Case Study: Vendor Selection for a Large Hospital

A client needed to deploy multiple IT systems to handle the operations of a 400-bed women and children research and teaching facility being set up from scratch. The hospital's IT needs included major enterprise systems such as an enterprise hospital information system (HIS), which encompassed a clinical IS, radiology IS, and laboratory IS, as well as ERP and other smaller departmental systems including cardiology and facility management systems. The hospital engaged Booz & Company to support this complex project and advise the organization in procuring a full suite of IT systems.

The first task was to define the hospital's needs clearly and in detail, assessing its full IT needs by encompassing all requirements from the different user groups (including clinical, research, finance, and support services). The next step was to create a high-level conceptual architecture of all the required systems. Because the hospital was being built from scratch and there was scant in-house expertise and a lack of internal governance capabilities, Booz & Company determined that the full IT suite had to be sourced externally.

The team analyzed the eight key factors that shape the sourcing strategy (illustrated in Exhibit 2), as well as the risks presented by sourcing the full IT suite from a single vendor, and concluded that negotiating with a prime vendor was not the best approach. The next step involved carving out the procurement of some specific IT systems based on client preferences—sourcing the enterprise HIS and other clinical systems from a clinical systems vendor, and the ERP from a local ERP systems integrator. Given the complexity of the full IT suite needed for this client, the team determined it was ideal to engage the services of a prime systems integrator to deliver and ensure that all systems were integrated properly.

The Booz & Company team next turned its focus on selecting partners and began this phase of the engagement by assessing its client's internal and external expertise. The client's team although small consisted of small and medium-sized enterprises covering key operational areas and it had access to robust legal capabilities for contract negotiations. Although the overall time line was tight, the project time line accounted for a six-month procurement process, leading Booz & Company to recommend the adoption of a comprehensive RFP process.

During the procurement process, the Booz & Company team realized the importance of defining an operating model to govern the different activities of the vendors and establish a team to act as the strategic implementation office. This team was responsible for coordinating the activities of the various vendors, the client's teams, and other stakeholders to ensure a successful, on-time, and within-budget implementation of the solution portfolio.

---

## CONCLUSION

CIOs looking to source partners for large technology projects need to develop a comprehensive sourcing strategy. For years, many large organizations have successfully developed such strategies and avoided the traps that often plague complex technology projects. The likelihood of success increases when organizations address at the onset of the project several critical questions. The first question, What are the objectives and the desired outcomes of the project? sets the base for measuring the success of the project. The next two questions are essential to ensure successful delivery: Who will deliver the project? How are external vendors identified and managed?

There is no universal solution; no single sourcing strategy can be applied

across all situations with success. Companies have different capabilities and challenges. Therefore, they must first assess eight key factors—including internal capabilities and budgetary constraints—before they can tackle the two main challenges: whether the IT project should be delivered internally or externally and, if externally sourced, how to choose the right partner or partners.

Once these issues are addressed, organizations can focus on the execution and structured process to effectively implement the strategy. Implementing a SIO is especially important when multiple stakeholders are involved so the organization can ensure its project meets expectations and is delivered on time and on budget.

## Endnotes

<sup>1</sup> "CHAOS Summary 2009," The Standish Group. "Successful" indicates projects were delivered on time and on budget and met business requirements. "Challenged" indicates projects were either over budget, over time, or did not meet the required features. "Failed" indicates projects were either cancelled or were not used post-implementation.

---

### *About the Authors*

**Ramez Shehadi** is a partner with Booz & Company in Beirut. He leads the information technology practice in the Middle East. He specializes in e-government, e-business, and IT-enabled transformation, helping corporations and government organizations maximize leverage of IT, achieve operational efficiencies, and improve governance of IT services.

**Dr. Walid Tohme** is a principal with Booz & Company in Beirut. He specializes in helping healthcare organizations in the management and strategic use of technology to enable transformation via IT as well as e-health strategies, organizational restructuring, outsourcing solutions, and operational improvements.

**Jad Bitar** is a principal with Booz & Company in Beirut. He focuses on healthcare providers and public health organizations, specializing in strategic planning, transformation, operational excellence, and e-health.

**Chandrasekar Ramamoorthy** is an associate with Booz & Company in Mumbai. He focuses on helping healthcare providers and regulators in technology-enabled transformation, IT sourcing, and e-health strategies.

The most recent list of our offices and affiliates, with addresses and telephone numbers, can be found on our website, [booz.com](http://booz.com).

#### Worldwide Offices

##### Asia

Beijing  
Delhi  
Hong Kong  
Mumbai  
Seoul  
Shanghai  
Taipei  
Tokyo

##### Australia, New Zealand & Southeast Asia

Auckland  
Bangkok

Brisbane  
Canberra  
Jakarta  
Kuala Lumpur  
Melbourne  
Sydney

##### Europe

Amsterdam  
Berlin  
Copenhagen  
Dublin  
Düsseldorf  
Frankfurt

Helsinki  
Istanbul  
London  
Madrid  
Milan  
Moscow  
Munich  
Paris  
Rome  
Stockholm  
Stuttgart  
Vienna  
Warsaw  
Zurich

##### Middle East

Abu Dhabi  
Beirut  
Cairo  
Doha  
Dubai  
Riyadh

##### North America

Atlanta  
Boston  
Chicago  
Cleveland  
Dallas  
DC

Detroit  
Florham Park  
Houston  
Los Angeles  
Mexico City  
New York City  
Parsippany  
San Francisco

##### South America

Buenos Aires  
Rio de Janeiro  
Santiago  
São Paulo

---

Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and organizations. Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914.

Today, with more than 3,300 people in 60 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage. The independent White Space report ranked Booz & Company #1 among consulting firms for "the best thought leadership" in 2010.

For our management magazine *strategy+business*, visit [strategy-business.com](http://strategy-business.com).

Visit [booz.com](http://booz.com) to learn more about Booz & Company.

---