

# Case Study: EquaTerra's Expertise Guides Large Company Throughout its Search for IT and ADM Outsourcing Partners

## At A Glance

### Company Profile

The company is a large electric delivery company.

### Services Featured

- Service Delivery & Sourcing Strategy
- Outsourcing
- Selection
- Negotiation & Contracting
- Sourcing Governance
- Project Management

### Business Processes Involved

- Information Technology (IT)
- Application Development and Maintenance (ADM)

## Executive Summary

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After a large outsourcing agreement was terminated, EquaTerra was engaged to help the electric delivery company re-evaluate its information technology (IT) and application development and maintenance (ADM) outsourcing arrangements. With a short timeline and a variety of obstacles, EquaTerra was able to help the company secure a new long-term relationship with two proven service providers. The company is now poised for a successful long-term outsourcing journey.

## Business Challenge

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The company had an existing, broad outsourcing relationship with a service provider under contracts that supported both the company and un-regulated affiliates. A change of control at the parent company triggered termination for convenience options for the parties. Facing significant new systems implementations and technology investments, the company was interested in accelerating the process to select and transition services to a new service provider.

## How We Helped

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The company engaged EquaTerra to help it manage its outsourcing contracting process for both its IT and ADM components on an aggressive timeframe.

Achieving the desired timeline was complicated by two issues. One, due to regulatory concerns, the company and the unregulated affiliates had to separately conduct the sourcing process and due diligence while coordinating key process milestones in order to make a decision in the best interest of all parties.

Two, the company wanted to cast a wide net and decided to issue RFPs to a large number of service providers (nine vs. the usual four or five). This large number of companies participating in the sourcing initiative made the task more challenging and required a calculated, multi-step process so it could be completed in the aggressive timeframe.

To help the company come to a decision about which provider to work with, EquaTerra assisted with the following:

1. **Lay the Groundwork:** The EquaTerra team completed extensive bid documents and discussed the capabilities of potential bidders, some who had capabilities across all of the service areas and some with expertise in a specific service line.
2. **Receive Bids:** After completing extensive due diligence with each of the nine service providers, EquaTerra worked with the entity to review all nine bids.
3. **Narrow the Field:** EquaTerra helped the entity down select to four providers, which included a mix of specialty and comprehensive providers.
4. **Negotiate & Collaborate:** With a more manageable number of providers still in the running, EquaTerra facilitated in-person technical meetings and negotiations.
5. **Assess “Fit”:** EquaTerra ensured that executives from the entity were directly interacting with the providers. This helped determine which provider would not only offer innovative solutions, but also which would be the right partner for the long haul.
6. **Decision:** After receiving final offers, EquaTerra helped the entity come to an official decision to engage multiple providers – one for IT infrastructure and one for ADM. The IT infrastructure decision was made in parallel with the unregulated affiliates.
7. **Plan for Governance:** During the process, EquaTerra conducted a governance workshop which counseled the entity on appropriate approaches to managing the ongoing relationship.
8. **Training:** Before official negotiations began, EquaTerra conducted a Contracts and Negotiation Workshop with company executives to help position the teams for success.
9. **Negotiations:** Because EquaTerra began pre-negotiations during the review process, the entity got the benefit of negotiating while the process was still competitive. This led to getting a signed contract with its selected providers after only two weeks of final negotiations.

“One of the unique challenges presented in this project was the need to coordinate the selection and contracting process for two separate entities – one regulated and one unregulated – while maintaining independence and confidentiality,” says Jerry Klawitter, the project director who led one of the EquaTerra teams involved in the process. “The interesting part is that both entities came to the same decision on which provider to work with independent of one another. Amazing, yet understandable, given they used the EquaTerra method to lead them to the best possible outcome.”

## Results

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Using EquaTerra's thorough-yet-efficient timed-tested process, the company came to a decision to work with two providers: one for infrastructure and one for ADM. At the time of publishing, the transition process was complete and things were running ahead of schedule.

The COO of the regulated entity said that the new sourcing arrangement enabled him to "move our technology vision forward." He also said that thanks to EquaTerra's balance and expertise, his team was able to meet its aggressive timeline and budget.

"EquaTerra positioned us for success by helping us secure a good, fair, safe and sustainable deal structure," he said.

## Advisor Insights

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Klawitter offers some insights and lessons learned from this engagement. He says:

**Limit the number of bidders.** The high number of initial bidders for this project – nine – made the project cumbersome and less flexible than it might have otherwise been. Klawitter says that a general rule of thumb is to engage four or five companies in a competitive RFP process. "There are diminishing returns after the first five bidders and engaging, doing due diligence and scheduling oral presentations for more than five makes the process more complex than is necessary," he says.

**Don't rush the contract.** The company was in a hurry to complete the original contract and begin work with the new service provider; however Klawitter asserts that coordinating, negotiating and finalizing a massive contract in one month is not a recipe for success, even if you are desperate for savings, and that is one of the reasons why the company had to reassess its outsourcing deal. "It takes time to get the terms right and rushing through it could compromise all the good work that went into the sourcing process," he says.

**Invest in Governance.** "Don't dismiss the importance of long-term governance in a contract with a new service provider," says Klawitter. He adds that many companies cut back on governance when things are going well and then when the relationship changes, it's too late to make up for it. In this case, the company wasn't taking advantage of many of the rights they were entitled to in its initial contract because the governance structure was not there. "The contract and relationship was challenged from the start because of the under investment in governance," adds Klawitter.

He also says that governance doesn't have to be expensive; in fact EquaTerra suggests that it only needs to be about 5 percent of the value of the deal. Governance will help to preserve the expected savings identified in the business case, and more likely than not will save a company additional money in the long run.

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### ***For More on Contract Negotiations and Renewals***

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#### **About EquaTerra**

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported more than 2,000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement, Real Estate and Facilities Management and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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#### **Contact Us**

If you would like to know more about EquaTerra please contact us.

Europe/Asia Pacific  
+44 (0) 845 838 7500  
[infoeuapac@equaterra.com](mailto:infoeuapac@equaterra.com)

Americas  
+1 713 470 9812  
[infoamericas@equaterra.com](mailto:infoamericas@equaterra.com)

For details of all our locations visit [www.equaterra.com/locations](http://www.equaterra.com/locations)