

10 BEST PRACTICES IN IT OUTSOURCING TODAY

The scale, scope and complexity of retail information technology means retailers must rely on outside service providers to operate effectively. IT outsourcing of one kind or another is practiced by virtually every retailer, and outsourcing's ability to establish stable costs for IT services and to handle a range of processes has made it a valuable tool during this time of economic turmoil. Many retailers are realizing that outsourcers can offer benefits beyond these basic roles, such as objective assessments of IT systems and new ways of meeting both IT and business challenges. Outsourcers can also help retailers explore new functionalities and business opportunities in ways that leverage both parties' expertise while minimizing risk all around. Ideally, outsourcers can become more than simply a low-cost option or a temporary staff augmentation—they can be trusted partners who provide the expertise, skill sets and value-adds that retailers will need to position themselves for the economic rebound.

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WHAT'S AT STAKE FOR RETAILERS

To a greater or lesser degree, some form of information technology outsourcing is used by virtually every retailer operating today. The very nature of retail IT—its complexity, scope and scale—means retailers must rely on outside service providers if they are to operate effectively.

“Retailers possess arguably the most complex IT environments in any industry,” says Joe Skorupa, Group Editor in Chief, *RIS News*. “When most large national companies talk about customers they are referring to hundreds or possibly a few thousand at most. When national retail chains and large regionals refer to customers they are referring to millions of them. When retailers refer to employees they are talking about tens of thousands at a minimum, often reaching hundreds of thousands.”

But it's not simply their different scale of operations that puts retailers in a unique category when it comes to IT, adds Skorupa: “Retailers run two fundamentally different IT systems simultaneously. One is directed at headquarters for centrally managed processes; the other is directed at stores for distributed operations. When you compare this to other industries, it is complexity squared.”

Given these conditions, there's little surprise that retailers rely on IT services providers to help them accomplish a wide range of tasks, such as break/fix, maintenance, application development, networking, project deployment, project management, ecommerce, consulting, staff augmentation and strategic planning.

[TAKEAWAY]

› **DOLLARS AND CENTS: THE GLOBAL RECESSION HAS MANY RETAILERS LOOKING AT WAYS TO CONSERVE CASH, CONTROL COSTS AND DO MORE WITH LESS. OUTSOURCING'S ABILITY TO PROVIDE FIXED, STABLE COSTS MAKES IT AN ATTRACTIVE OPTION.**

OUTSOURCING AND THE ECONOMY

What makes outsourcing issues particularly urgent is the same thing that has affected every aspect of retailing during the past 18 months: the global economic recession. “Retailers are examining long-standing assumptions and searching for ways to conserve cash, control costs, stretch resources, and most importantly, to become more efficient,” notes Skorupa. “By establishing fixed, stable costs for a wide range of IT services, outsourcing is uniquely qualified to help retailers achieve these goals.”

Retail industry analysts are projecting growth in several outsourcing areas in 2010. Mike Griswold of AMR Research recently listed “Business process outsourcing” as one of the areas where he expects significant RFP (Request for Proposal) activity in spring 2010. Griswold writes: “More than just staff augmentation, retailers need focused cost containment strategies. The most popular focus areas will be human resources, finance, IT support, and development. I also expect retailers to reach out to business process outsourcers for ongoing project support in such areas as SKU rationalization, inventory optimization, strategic network design, and customer analytics.” (“Retail 2010 IT Budgets: Mount Everest, Death Valley, or Somewhere in Between?” AMR Research, Nov. 2009.)

Some other key outsourcing trends are revealed in the 2009 RIS/Gartner Retail Technology Study. More retailers are looking for outsourcers' assistance with packaged applications versus custom applications. The largest bloc of retail IT executives planning an increase in IT outsourcing, 29%, plan to do it in the area of packaged application implementation/integration.

Another outsourcing growth area is telecommunications/networking, with 26% of retailer respondents planning an increase in their IT outsourcing budget in this area. “This is an area of technology that is well served by IT service providers and CIOs have clearly come to the conclusion they have the right solutions to their needs,” writes Skorupa.

MAKING OUTSOURCING WORK FOR YOUR BUSINESS

Retailers realize that outsourcing can help them weather the storm, and can even improve their position for the economic rebound. However, as with any other important IT or business process, retailers need to make their outsourcing engagements as efficient, effective and productive as possible. The difference between success and failure in an IT services engagement often lies in retailers taking several well-defined steps at the project's onset. These steps include:

- Developing a careful business plan around the outsourcing engagement
- Conducting a thorough competitive analysis of potential outsourcing providers
- Getting—and maintaining—buy-in from the retailer's upper-level management
- Getting—and maintaining—buy-in from the internal IT department
- Instituting effective governance before, during, and after the outsourcing project

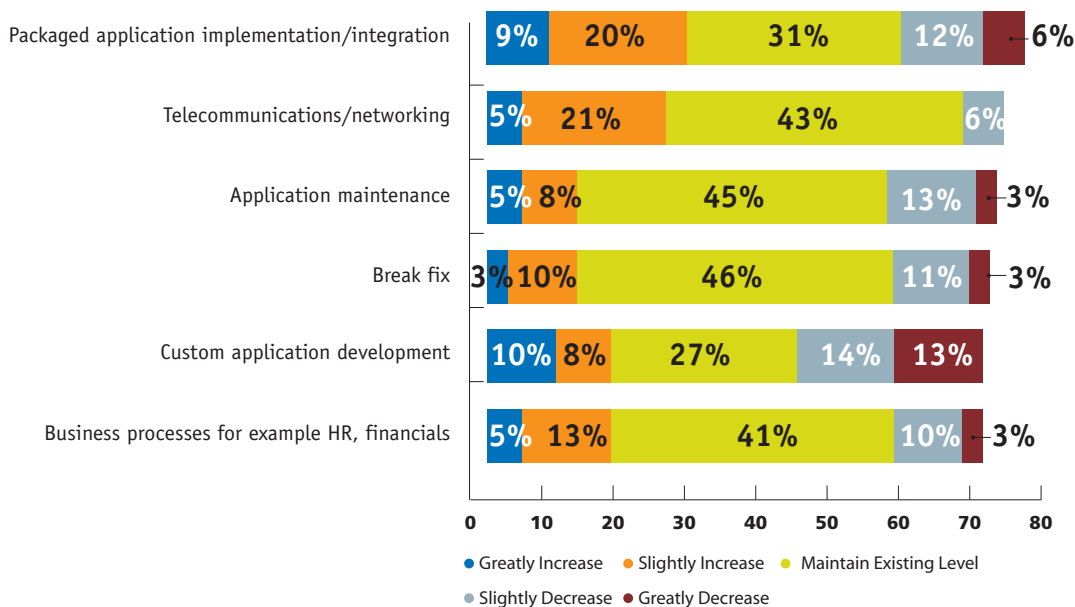
In addition to these general principles, *RIS News* has identified 10 best practices for retail IT outsourcing. Obviously not all of these practices will be applicable to every outsourcing engagement, and different IT outsourcing providers will be able to provide different levels of service to meet retailers' varied requirements.

[TAKEAWAY]

➤ **OUTSOURCERS' EXPANDING PORTFOLIO: WHILE MANY RETAILERS OUTSOURCE PRIMARILY NON-RETAIL SPECIFIC FUNCTIONS SUCH AS HR OR FINANCIALS, OUTSOURCERS' INCREASINGLY SHARP FOCUS ON THE INDUSTRY HAS RETAILERS SEEKING THEIR SUPPORT IN SUCH RETAIL-SPECIFIC AREAS AS SKU RATIONALIZATION, INVENTORY OPTIMIZATION AND CUSTOMER ANALYTICS.**

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IT OUTSOURCING BUDGET TRENDS FOR 2009



SOURCE: RIS/GARTNER 2009 RETAIL TECHNOLOGY STUDY

[INDUSTRY INSIGHT]

VALUE-ADDING OUTSOURCERS CAN HELP RETAILERS NAVIGATE TOUGH TIMES

By Srinivasan Veeragavachary, Vice President, Cognizant Retail Practice

Q: WHAT ASPECTS OF RETAILERS' IT NEEDS MAKE OUTSOURCING A GOOD BUSINESS STRATEGY?

SRINIVASAN VEERAGAVACHARY: There are several, beginning with the prevalence of legacy technology. Many leading retailers have been using IT for the last 20 years and have grown into big mainframe shops. There are also a lot of data and transactions in retail. The skills needed to manage these types of IT systems are available offshore, and it's the type of IT portfolio that is well-suited for outsourcing.

Another issue is retailers' high spending on IT maintenance. In part because retailers are slow to adopt new technologies, many spend over 50% of their IT budgets just to 'keep the lights on'—which includes traditional application maintenance and support, application enhancements and infrastructure support. Outsourcers have developed significant capabilities in this space over the last 10 years and are often best suited to take up complete responsibility for these activities.

Retailers also require agile, always available systems to manage their store operations, ecommerce and real-time supply chains. These servers and networks need to be watched with eagle eyes, because even a small outage could result in millions of dollars lost. Offshore IT providers have invested in building capabilities to effectively manage this kind of infrastructure with specialized tools and processes. And for processes such as financials, HR, data management and other non-core transactional systems, retailers can standardize the IT systems managing these functions, leveraging best practices from other industries and letting the outsourcer manage them. This gives retailers valuable time to focus on their core business—and their bottom line. In a fiercely competitive environment, outsourcing can provide that much-needed edge, which is one reason it's a good business strategy.

Q: WHAT ARE SOME QUESTIONS RETAILERS DON'T ASK—BUT SHOULD—DURING THE VARIOUS PHASES OF IT OUTSOURCING?

VEERAGAVACHARY: Retailers will want to ask how an outsourcing vendor can help them retain their skilled specialists—the experts in their core competencies—while still using outsourcing. The retailer should also look at investments by both parties into retail-specific technology and business innovations, so that both have 'skin in the game.' Retailers should also ensure that the outsourcer appreciates and understands their business, and also that the outsourcer is able to work with both business and IT—and can drive alignment between them if it's needed.

A key question to ask is how the parties will measure success in IT outsourcing. Both parties have to establish baselines against which retailers will measure outsourcing activities to determine whether they are saving money, increasing customer satisfaction, globalizing the business, or whatever business goal they hope to achieve.

Q: WHAT ARE SOME WAYS OUTSOURCING CAN HELP RETAILERS PREPARE FOR THE ECONOMIC REBOUND?

VEERAGAVACHARY: Cost reductions and efficiency are table stakes for outsourcing, but a good outsourcer should also provide added value by helping you determine how you can become more effective. They can do this by helping retailers take the processes they are outsourcing, then improve functionalities or even replace them with technology that can boost the retailer's effectiveness or create new revenue streams. Some examples include incorporating cross-sell functionalities into store systems, or enabling a seamless multi-channel customer experience to enhance sales. ■

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10 BEST PRACTICES IN IT OUTSOURCING

1. STRIVE FOR CLARITY IN WRITING SLAS

Service Level Agreements, or SLAs, serve as the basis of outsourcing and other vendor/client relationships. Particularly for a major engagement, retailers should use the SLA-writing process as a means to establish what they expect from the outsourcer, and vice versa. Use simple, relevant terms and performance-based language, and make the performance parameters as specific as possible. Identify milestones to be achieved along the way as well as timelines for achieving those milestones. Determine—and put in writing—not just what will be accomplished but who will do the work. And if issues do arise, as they inevitably will, spell out exactly how the outsourcing company is organized to deal with, and resolve, those issues.

2. ESTABLISH, AND USE, PERFORMANCE METRICS

The old adage “You can’t measure what you don’t manage” is particularly true when it comes to outsourcing engagements. Both the retailer and the outsourcer need to agree on—and again, put in writing—what measures they will use to gauge the progress and success of the project they are embarking on. Wherever possible, attach specific numbers to such metrics, e.g. “Improve internal query response time by 10%,” “Bring new ecommerce platform live by Nov. 15, 2010,” “Decrease out-of-stocks by two percentage points chainwide,” etc.

3. GET OUTSOURCERS TO SHARE THE RISKS...

Even when performance metrics have been agreed upon and put into writing in SLAs, that doesn’t mean they will necessarily be achieved. Strong SLAs need to build in penalties if tasks are not accomplished on time or are performed inadequately. If the outsourcer understands that there is a real price to be paid for failure to live up to the SLA, their management will be motivated to keep a sharp eye on the project’s progress, and will devote the resources that are needed to see that goals are met.

4. ...BUT BE WILLING TO SHARE THE REWARDS

Retailers will want to use a carrot as well as a stick to motivate the outsourcer, its management and its employees. If the outsourcer exceeds the expectations spelled out in the SLA, leading to measurable improvements in performance for the retailer—for example, achieving a faster-than-expected ROI or a larger sales increase than had been projected—both parties should build in mechanisms for sharing the benefits.

5. GET THE RIGHT PEOPLE FOR THE JOB

One of the main reasons retailers rely on outsourcers is to get the benefit of their employees’ expertise and skill sets. Retailers need to make it part of their “homework” to ensure that the people assigned to the outsourcing engagement, whether they are located offshore or on-site with the retailer, have the appropriate levels of training, IT and industry knowledge to do the jobs the retailer requires. Retailers should not pay for A-level talent that is performed by B- or C-level people.

[TAKEAWAY]

› **DEMAND RETAIL KNOWLEDGE: BEFORE THE OUTSOURCING ENGAGEMENT EVEN BEGINS, ENSURE THAT THE COMPANY YOU’RE WORKING WITH HAS NOT JUST IT AND DOMAIN EXPERTISE BUT A STRONG UNDERSTANDING OF THE RETAIL INDUSTRY, INCLUDING ISSUES SUCH AS SEASONALITY, HIGH EMPLOYEE TURNOVER AND RAPIDLY CHANGING CONSUMER DEMAND.**

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[INDUSTRY INSIGHT]

OUTSOURCING OFFERS PREDICTABLE COSTS PLUS STATE-OF-THE-ART SKILLS TO LEAN IT DEPARTMENTS

By Bruce Ash, Vice President, Strategic Consulting, RPE-Retail Process Engineering

Q: MANY RETAIL ORGANIZATIONS ARE GOING THROUGH SIGNIFICANT CHANGES IN EVERYTHING FROM THEIR PRICING MODELS TO THEIR ACTUAL CORPORATE STRUCTURES. ARE THERE POSITIVE ROLES FOR IT OUTSOURCING TO PLAY IN THIS TYPE OF CHANGING ENVIRONMENT?

BRUCE ASH: Outsourcing can provide the expertise needed to transform key business components while maintaining system consistency. Outsourcing can be a source of stability during periods with rapid changes in business process and organizational requirements. Even when there's a merger or acquisition, if you have an outsourcing partner who is there running your systems, that resource is in place and not distracted, helping you move forward with your business. The outsourcer can also function as an arbiter or monitor of IT, providing an objective analysis of the current state of a company's systems. For example if a retailer were looking to acquire another company, the outsourcer could help them evaluate the state of IT at that company to then understand what they might be buying.

Q: WHAT CHANGES HAVE YOU SEEN IN RETAILERS' ATTITUDES ABOUT OUTSOURCING?

ASH: Historically, there was a feeling that critical business systems could not be entrusted to an outsourcer or moved out of the corporate data center. But the truth is that there are many business-critical functions that lend themselves to outsourcing—financial applications, HR, ERP and business intelligence can all be outsourced very effectively.

As outsourcing gains more traction and generates more success stories, I believe some of that historical thinking will change, and we have already seen that happen. If a retailer is using an outsourced data center, they're getting a facility that has best practices in compliance as well as all the appropriate security and networking—there's no reason not to entrust your business-critical applications in such an environment.

This is all assuming that you do your homework up front—that you know who your outsourcing partner is, their track record, that they have the operational expertise you need, and perhaps most important that they understand the retail industry. For instance, the outsourcer has to understand the industry's seasonality—that any IT disruption between Black Friday and Christmas can have a substantially negative effect on profitability.

Q: ARE THERE WAYS THAT IT OUTSOURCING CAN HELP RETAILERS PREPARE FOR THE ECONOMIC REBOUND WHEN TIMES IMPROVE?

ASH: I think the value proposition of outsourcing is consistent in all economic times, because it sets predictable costs for IT services. By establishing a cost for IT that you can stabilize going forward, retailers can take advantage of the upswing in the economy. They can come out of the downturn with the ability to enhance their profitability, along with controllable fixed expenses for their IT operations.

There's also the opportunity for knowledge transfer. Many retail IT staffs have been shrunk—they were lean before and they have been reduced even more. In addition, at any time, a lot of IT expertise lies in outsourcers, as well as consulting companies and hardware and software suppliers. When a retailer forms a business partnership with an outsourcer, the knowledge transfer and training helps internal IT teams move their programs forward more quickly than they ever could do on their own. We've seen it time and time again—IT people gain skill sets that better position them to support their systems for the future. ■

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6. ONCE YOU HAVE THE RIGHT PEOPLE, HOLD ON TO THEM

Retailers are resigned to dealing with the disruptive effects of employee turnover within their own ranks. But losing key personnel from an outsourcing company during the course of an engagement can be even more disruptive. Retailers will not want to spend undue amounts of time familiarizing and re-familiarizing new people with the project's parameters or the specifics of the retailer's business. Depending on the retailer's clout and the size of the outsourcing engagement, they should take steps to ensure that they have a say in who stays "on assignment" throughout the outsourcing engagement.

7. USE THE OUTSOURCER STRATEGICALLY AS WELL AS TACTICALLY

Many retailers view outsourcing simply as a means to cut costs or to achieve goals without adding to their in-house staff. While these are both valid reasons to outsource, many outsource vendors offer value-adds and higher-level services that retailers can take advantage of. For example, many outsourcing companies have developed considerable expertise in the retail field, through their own research and their experience in providing outsourcing services for a number of different companies. These outsourcers can help retailers benchmark their own IT operations against those of others in the industry, and outsourcers can teach retailers best practices they may not be aware of. Outsourcing companies can also be an objective source of information and judgment, both about a retailer's own IT systems as well as those of competitors or companies being considered for acquisition.

8. EXPLORE NEW OPPORTUNITIES

Retail is a fast-changing, rapidly globalizing industry. While many companies have moved into survival mode during the economic slowdown, the industry's leaders are looking at new ways to achieve their business goals—whether it's expanding geographically, moving into mobile commerce channels or determining new ways to get closer to customers. Some retailers will choose to use outsourcers simply to maintain their current systems while they focus on new opportunities. But it's also possible to use the outsourcing company as a "lab partner," experimenting with new functionalities in ways that leverage both the retailer's and the outsourcer's expertise while minimizing the risks for both parties.

9. USE ALL OF THE OUTSOURCER'S RESOURCES

Many outsourcing companies have developed not just IT, domain and industry expertise but other functionalities as well. Leading outsourcers that prize innovation, for example, have developed in-house tools that both encourage innovative thinking among their own employees and manage the processes by which these ideas are turned into practical, tangible business benefits. Outsourcers who are willing to share these types of solutions can help retailers address a wider range of their business challenges.

10. BUILD KNOWLEDGE TRANSFER INTO THE OUTSOURCING ENGAGEMENT

In many cases, retailers use outsourcers for very specific skill sets and expertise that they bring to the table. Retailers shouldn't lose that expertise after the outsourcing engagement ends. Build in specific times and methods for knowledge transfer, ensuring that the retailer's own people understand the ins and outs of the solution that the outsourcer has deployed. And remember that knowledge transfer is a two-way street: during an engagement, a retailer's in-house people may have gained insights that will be helpful to the outsourcing company. While retailers and outsourcers will need to establish clear guidelines about what information is proprietary to each party, the opportunity for both companies to learn from each other can bring substantial benefits to both parties. ■

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