

Vendor Management & Outsourcing 2002

Sydney, Australia · November 4-5



Global Access Partners Pty Ltd
www.globalaccesspartners.org
53 Balfour St Chippendale
NSW 2008 Australia
P 61 2 8303 2419
F 61 2 9319 5754

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Executive

Summary

Over two days in Sydney on 4 and 5 November 2002, government and business leaders met to discuss the practise of vendor management and outsourcing with **Paul Strassmann**, current Chief Information Officer of NASA (USA).

The event brought together **80 participants** from **37 organisations** of both the public and private sectors.

Participants hoped to gain a better understanding of current issues in vendor management practice through the exchange of knowledge and experience. By finding solutions to issues participants had voiced, the event aimed to create lasting change in vendor management practices.

! **Australia can play a part in the emerging global information economy** if we develop a competitive edge and greater understanding of world's best practice in vendor management. The Forum aimed to explore this in detail and to devise ways to develop our knowledge and capabilities with the support and assistance of government.

The event gave participants knowledge and skills to enable them to better manage the vendor/client relationship in their organisation and to improve their business practices.

Issues that some had not given consideration to previously such as **the importance of network control**, saw new ways of thinking emerge for those involved.

Managing **the relationship between vendor and client** is fundamental and was an area where experiences were shared for greater understanding.

Participants gained value in discussions outside of their own organisations on issues that arise in signing an outsourcing contract. This requires **strategic planning**, but should be kept flexible, because one can only look back and see that something was wrong.

Establishing what are **the threats** are to any organisation, both internal and external, is essential before strategic planning on outsourcing can begin. Participants discussed the importance of retaining control over these not only in terms of technology, but for all areas of ones' business.

Participants shared their thoughts and experiences amongst those present. Government and business leaders were able to learn from each other and to take ideas and lessons back to their organisation.

- ! Discussions will not end with this Forum. **The Steering Committee** established to give the event direction will now continue its work through the National Office for the Information Economy (NOIE).
- ! An **Institute of Vendor Management** will be established because all participants saw a need for continuity of these discussions.
- ! A **University Chair in Vendor Management** will be established to give this discipline more emphasis amongst business students and because of its significant place in business practice.

In the 1990s many activities not considered core to a business were outsourced, in particular information technology services. Towards the end of the nineties, many companies reviewed their outsourcing policies and activities to ensure appropriate responses of management to the changing environment.

Australia has followed the worldwide trend to outsource. According to the Dun & Bradstreet (D&B) 2002 Barometer of Outsourcing, the continued dramatic growth of Australian outsourcing topped **15%** in the past twelve months among **major businesses**. Putting this in perspective, the North American outsourcing market is growing at 12%. For 2002-2003 D&B forecasts further outsourcing expenditure growth by at least 12-15%.

The activities outsourced by Australian companies range from **product manufacturing** to **service supply**, with information technology and business process (BPO) most frequently outsourced, followed by logistics, facility management and operations, business support (property, personnel and accounting), administration, finance, customer services, sales and marketing.

For **small businesses**, the most significant functions outsourced are bookkeeping and accounting (17%) and employee training (7%). Larger companies with monthly sales of \$200,000 or more also tend to outsource database management. (*D&B Small Business Survey Australia 2002*)

Over 75% of all companies with turnover exceeding \$400 million outsource some part of their finance department activities. Expenditures on **financial outsourcing** in 2002 overtook \$2 billion per year for the first time, and the rapid rate of increase will continue, with nearly \$2.5 billion of expenditures expected annually. **IT** and **e-business outsourcing** is on schedule to average 35% of an organisation's IT budget. (D&B)

Many Australian businesses have recently acknowledged that they have not achieved the objectives they had hoped to by outsourcing. A survey undertaken in 2002 by IDC Australia has revealed that only 56% of the companies outsourcing their IT functions are satisfied with the service enough to continue the current contract, meanwhile 31% are going to re-negotiate their contract terms, 13% will terminate their contract and find another outsourcer and less than 5% would be bringing the IT back in-house.

Participants from government and business indicated that previous misjudgements had caused them to reassess their outsourcing practices. There are some successful Australian examples, but there was agreement that those that failed usually did so for one or more of the following common reasons:

- ▶ whole projects were outsourced without enough consideration of the consequences
- ▶ price was the only major factor considered when decisions were made
- ▶ there was not enough control of the vendor through a secure contract.

There is now a realisation that strategy is needed before outsourcing is embarked upon. Strategic decisions about value and pricing are key to developing a successful vendor management process.

Global Access Partners Pty Ltd (GAP), coordinator of *Vendor Management & Outsourcing 2002*, accesses its network of prominent leaders in their field to initiate high level national and international conferences and missions that are relevant to the needs of participants.

The issue of vendor management and outsourcing is critical for Australia. GAP brought together a small group of leaders in business and government to develop an agenda for discussions that would bring about real and lasting improvement.

The impact of outsourcing is felt not only by organisations, but also has significant consequences for national economies. The need for improved practices was confirmed following consultations with key businesses and government policy decision makers.

Outsourcing occurs in most industries and across disciplines. *Vendor Management & Outsourcing 2002* focused most of the discussions around information technology. The nature of information technology, with constant changes through new technology and the high costs involved has created an environment where organisations often feel they have no choice but to outsource this area which is not considered core business.

To gain a deeper understanding of trends and issues, a world renowned expert on the issue, **Paul Strassmann**, was invited to Australia to speak and to share his knowledge and expertise. Paul is the current Chief Information Officer at NASA and is one of the twelve most influential people in IT of the last decade (*CIO Magazine*; see App. 1).

The Forum was conducted in a way that allowed all participants to share their experience and to gain an understanding of the outcomes of other organisations. Discussion were focused around:

- ▶ The advantages and disadvantages of entering into an outsourcing agreement
- ▶ If conditions of a contract are fulfilled by suppliers
- ▶ Are there cost reductions in practise?
- ▶ Are there strategic advantages gained by outsourcing?

Supporters

The Steering Committee

To host a Forum of this size, financial support was needed from government and business. Our thanks for their contribution and foresight go to :

The National Office for the Information Economy

UXC Limited

The Defence Housing Authority

Deloitte Touche Tohmatsu

The Commonwealth Department of Veterans' Affairs

The NSW Department of State and Regional Development

Qantas

A Steering Committee was established and managed by GAP to bring together the best possible content, speakers, supporters and participants for the event.

For their time, dedication and enthusiasm we thank :

Patrick Callioni	Chief General Manager, Information Economy National Office for the Information Economy
Peter Fritz	Group Managing Director TCG Group
John Grant	Chief General Manager Government Services and Information Environment National Office for the Information Economy
Chris Liell-Cock	Head of Technology and Programmes Institutional Banking, Commonwealth Bank
Ben Livson	Principal Consolidated Advisory
Neville Stevens	Australian Infrastructure Services

Key Objectives

The objectives of the Forum were discussed with the Steering Committee and input was also sought from various organisations and supporters. Key objectives of the Forum were:

- ▶ To gain the participation of those running their organisation because often they are not aware of the issues and problems involved with the management of vendors in their own companies. Through roundtable discussions, it was hoped this would **encourage the sharing of problems** and the joint development of solutions.
- ▶ Focus discussions on **cost budgeting** and factors to be taken into consideration before an outsourcing contract is entered into.
- ▶ Gain a better understanding of the effects **on service delivery** through the experience of others.
- ▶ To question if there are improvements in **profitability** and how these are measured.
- ▶ To discuss and try to find agreement on best practices in terms of strategy, innovation, staff management, and boundaries and maintenance of the **vendor/client relationship**.
- ▶ To further promote Australia's position in the global information economy and to **increase Australia's participation in outsourcing** and management of outsourced IT & T services and business processes.
- ▶ To find a way forward for the discipline of vendor management by developing a strategy to **continue discussions** beyond the event to ensure that Australia is at the forefront of vendor management practice and development.

(For a full list of questions from participants submitted to Paul Strassmann prior to the Forum, please see App. 2)

Participants



Organisations involved in Vendor Management 2002:

- ADR Solutions
- ANZ Bank
- The Australian Customs Service
- The Australian Telecommunications Users Group
- BAL Consulting
- BONSIP International
- Casprel Advisory Services
- Colonial First State Investments Limited
- Commonwealth Bank
- The Commonwealth Department of Communications, Information Technology and the Arts
- The Commonwealth Department of Defence
- The Commonwealth Department of Education, Science and Training
- The Commonwealth Department of Transport and Regional Services
- The Commonwealth Department of Veterans' Affairs
- Consolidated Solutions Group
- Consolidated Advisory
- Corporate Network Solutions
- The Defence Housing Authority
- Deloitte Touche Tohmatsu
- FormTrap
- The Macquarie Graduate School of Management
- Management Frontiers
- MPW Communications
- The National Office of Information Economy (NOIE)
- The NSW Department of Information Technology and Management
- The NSW Department of State and Regional Development
- The NSW Office of Information Technology
- Opticon Australia
- Powertel
- Qantas
- QSP Asia Pacific
- The SA Department for Administrative and Information Services
- TCG Group
- TechComm Simulation
- Transfield Holdings
- UXC Limited
- The VIC Department of Innovation, Industry and Regional Development

Vendor Management 2002

The Forum was held at the New South Wales Trade & Investment Centre in Grosvenor Place, Sydney, over two days on 4 and 5 November.

Three separate sessions were held under 'Chatham House Rules' to encourage participants to speak freely and to share experiences (*for a full list of attendees please see App. 3*).

Paul Strassmann presented at each session, which was followed by discussions between participants and question and answer time.

Each session was chaired by a Commonwealth or State Government Minister. Those who attended were:

The Hon. Tony Abbott, MP

Commonwealth Minister for Employment and Workplace Relations

Senator The Hon. Richard Alston

Commonwealth Minister for Communications, Information Technology and the Arts

The Hon. Sandra Nori, MP

NSW Minister for Small Business

The Hon. Kim Yeadon, MP

NSW Minister for Information Technology

The first day brought together policy and decision makers, those at the top of their organisations to discuss the problems and challenges facing organisations who outsource. The second day, an all-day session, was for a wider audience of those who implement these policies. This included a panel discussion at the conclusion of the day with the participation of:

Patrick Callioni Chief General Manager, Information Economy
The National Office for the Information Economy

Chris Liell-Cock Head of Technology and Programmes
Institutional Banking, Commonwealth Bank

Ben Livson Principal
Consolidated Advisory

To explain investment in information, Paul Strassmann presented three view points:

- ▶ **IT from the viewpoint of a microscope**
- ▶ **IT with a plain eye view**
- ▶ **IT from a telescopic view**

Microscopic View

This is defined by the IT budget, which should be around 3% of revenue. Typically, they range from 2% to an organisation like NASA, which spends 15%.

There is no such thing as right level of investment. It is defined by where you are and what you're doing.

You must own your own **“mission control”**. A network cannot be outsourced if you want to continue what is the essence of your enterprise.

NASA has perfected Mission Control: they can look at the platform and fix problems across different areas. There is a person there who can understand each device NASA has.

This example shows that you have to remain in control of your enterprise. The notion of network control and mission control, where the network is the computer and the computer is the network.

A framework cannot be delegated to an outsider. That will not work for your company. Intranets are rising in use but a company must have control of its own intranet and network.

Networks matter. Labour can be removed to lower the costs, but it has to be adaptable to allow the organisation to survive.

Plain Eye View

The real cost of IT is a **human cost**, and this cost has grown to well over 20% of revenue.

The structure of the global economy has changed and now the proportion of revenue related to purchases has increased. The proper way to look at it is from the view point of value added, that is revenue minus purchases.

Look at ratio of transaction costs to direct costs. Direct costs have been lowered, so you should not just look at this statement in isolation. The price of raw materials has increased, but what has also gone up dramatically is the **costs of management**. Taxes are part of transaction cost.

There is a vulnerability in developed countries because they have accumulated layers and layers of people who are nothing by information holders. 57% of total workforce in the US is information, and they get paid much better than the rest of the workforce.

This is increasingly being exploited by globalisation.

The next challenge for Australia is **transaction costs**. Decentralising power will drive transaction costs down and value can be derived from people by empowering them.

Telescopic View

This is about how do you deal with threats and rules that are changing.

Knowledge capital involves issue of values. There is a surplus in excess of **capital costs**.

Accountants don't understand knowledge capital because it has a perverse property. The problem in the information age is that the marginal cost and marginal return do not intersect. There are enormous returns of scale and knowledge capital costs return zero.

In any given domain the concentration of economic power for information is a serious consideration. A few dominant players will make it impossible for others to compete.

Perverse economics are such that positions are hard to get but once obtained you can stay there. The premium goes to the innovator.

Economic power is enhanced by the ability of organisations to master their fate. This involves dealing with information technology to acquire knowledge capital which you can re-sell.

Globally all countries are competing against those countries with cheap **labour costs**. The new 'Information Age' will take more than a century, so Governments need to take a precautionary view of the speed at which this change will be made.

Countries that are basically threatened by the transformation are ones that did not make it into capitalist society.

The key is to safeguard knowledge capital as security.

Part of the conflict deals with the subject of **security**. The Australian government has to look at securing information.

History is changing at a rate that is swifter than before. You can't just "plan" because you don't know what will happen. We have to safeguard against the unexpected.

The Future

How important are these views against each other?

Research has been done on the sources of economic power through studies of success and failures of companies. From long-term patterns it is clear that efficiency is an important 15% of profits. You can run a very efficient company over the cliff.

What explains the ability of corporations to survive? Market position and strategic moves.

Always look at vendors as suppliers.

As organisations are moving to knowledge capital, they have to acquire knowledge capital so that it can re-develop the strategic objectives of your enterprise.

We should be able to buy all of the information technology capital, such that no company should have specific software.

The Internet

The Internet is a public highway, but it is running out of space and security validation. Its successor will be a protocol that has more security, and it will go to multi media but all of this will take 15 – 20 years.

For security reasons organisations have to build contingency portfolios.

Currently, the US Government's E-Gov project is being developed. This is giving direct access of citizens to the government services available.

Cyber Terrorism

There are 13 root servers, that run the entire world's Internet.

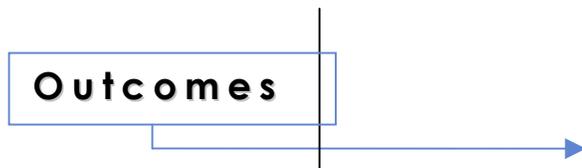
On Monday, 28 October 2002, the switches were flooded intentionally and these root servers were unable to deal with the traffic. Eight of the thirteen went down - in Japan, Sweden, the US and various other countries. The root server at NASA stood up.

Governments cannot find out where the cyber terrorism is coming from because the Internet in its current form provides anonymity, and there is a prediction that information based warfare will escalate.

Discussion Topics

Over all three sessions the following topics and issues were discussed by participants during question and answer time:

- ▶ Should power and decision making be centralised or decentralised?
- ▶ The importance of establishing the threats to an organisation
- ▶ What is Australia's place in the new economic world order?
- ▶ Consultants cannot solve problems that are internal in an organisation
- ▶ The implications of technology for small business
- ▶ Operating systems
- ▶ Profitability, production and innovation
- ▶ The Microsoft model
- ▶ The idea of 'Mission Control' for each organisation
- ▶ Architecture and network
- ▶ Network control for organisations
- ▶ What should not be outsourced in an organisation
- ▶ Planning and keeping plans flexible
- ▶ Dealing with management in your organisation
- ▶ How the Chief Information Officer should report on the value of their work and should prepare budgets, and to how to propose further IT Investments



1. The Importance of Network Control

Paul Strassmann stressed to participants the activities that an organisation must be retain control over. They are:

- ▶ **Records**
- ▶ **Network control**
- ▶ **Security access**

Paul Strassmann also stressed the idea that the network is the computer. Retaining network control is an important part of the client/vendor relationship. An organisation has nothing if they have outsourced their network because to give away network control is to give away power.

2. Priorities for Spending

It is important for any organisation to determine priorities for spending in outsourcing. Paul Strassmann stressed that this can be done by establishing what the threats are to one's organisation and to **retain these activities if possible**.

Organisations have to discuss and decide what are priorities for the business. These priorities should be retained and other activities can be outsourced. In terms of information technology, technological risks should be managed while obsolesces can be outsourced to vendors.

3. Planning and Contracts with Vendors

The drawing up of long term contracts for outsourcing was revealed to be an issue for participants . Paul Strassmann stressed that it is not possible to plan too far ahead and that is it important to have flexibility in the client/vendor relationship. An organisations cannot predict with complete accuracy the long term changes in business.

4. Budgets and Spending

Methods different to those currently being used are needed for the justification and measuring of the effectiveness of information and resources. Information management needs to be productive and should be measurable.

In organisations often there is not enough information about technology and measurability on the impacts of spending passed from Chief Information Officer to Chief Financial Officer (CFO). Paul Strassmann told participants that in order to achieve this they should speak their language and use knowledge capital to value activities.

A CFO is demanding that his/her style of accounting is used for the value of information assets and information investments with the kind of comparable integrity that is applied to the valuation of financial assets.

5. A View of the Future

There has been a shift in information technology from it being about the sale of products to the sale of a services.

The internet is changing and developing and through the demands of users there is a need for greater security and for the authentication of individuals.

Australia needs to give consideration to finding a competitive advantage and to concentrating resources on that activity.

6. The Use of the Knowledge Capital® Concept in Australia

Paul Strassmann has developed software that can value the knowledge of a business, i.e. the value of the knowledge of employees to that business. Through Knowledge Capital® Assessment organisations can use techniques to analyse intangibles. These are critical not only in private industry to fully value companies but equally for the public sector to justify expenditure.

NOIE is exploring the potential use of the concept of knowledge capital to guide investment decisions in the public sector and to measure the value created by the public sector. Included in this exploration is consideration of the methods and thinking tools developed by Paul Strassmann. The process of exploration is likely to involve pilot studies in one or more selected Commonwealth agencies.

7. Institute of Vendor Management

It was agreed that to progress the outcomes of the Forum, participants would be approached and consulted on the establishment of the Vendor Management Institute.

The focal point of the Institute will be discussion of common issues and learning, with the aim being to advance the state of knowledge. It will provide a formal place for those who work in this field to share their experiences and to learn.

The Institute will hold events like Vendor Management 2002 for Members on a more regular basis. It will become self sustaining over time through Membership fees.

8. Establishment of a Chair in Vendor Management

Through discussions it became clear that there is a great need for education and training in the field of vendor management in Australia.

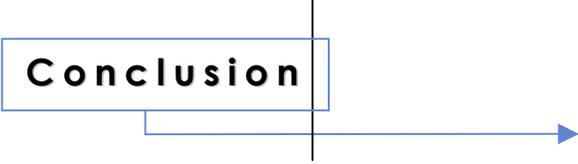
Discussions have been held on forming a Chair in Vendor Management that could possibly work through two institutions and across different disciplines of study. Interest has already been expressed on this from the Macquarie Graduate School of Management and UTS.

9. Ongoing Involvement of the Steering Committee

It was agreed that to continue this work and to action the initiatives started at [Vendor Management & Outsourcing 2002](#), the Steering Committee formed to bring the event together will continue its work through NOIE.

The progression of the Committee will see discussions continue on the knowledge capital project, the Institute and Chair of Vendor Management to ensure that outcomes are not lost vendor management practices in Australia are improved.

Conclusion



[Vendor Management & Outsourcing 2002](#) was an outstanding success ensuring that it will become a regular event. Planning is underway for [Vendor Management 2004](#).

Feedback from attendees confirmed that the event achieved its objectives on a number of levels and above their expectations. Paul Strassmann gave an insight into the future and through his presentation participants were given exposure to new ways of thinking and solutions to current issues.

Discussions encouraged the sharing of ideas and experiences and provided acknowledgment of common issues and problems and the need to continue this process of discussion and learning.

The variety of attendees from so many organisations gave participants a perspective outside of their own and an insight into the vendor management practices of others. The Ministers involved expressed their desire to be associated with the continuing discussions and process.

Appendix 1. – Paul Strassmann's CV



PAUL A. STRASSMANN's career includes service as an information systems executive (1956-1978; 1990-to date), Vice-President of strategic planning for office automation (1978-1985), and information systems advisor (1986-1990), Director IT US Defence (1999-2000) and CIO NASA (2002-current.)

Mr. Strassmann is CIO NASA and President of The Information Economics Press. He is Senior Advisor to the Science Applications International Corporation, Associate of the Butler Group, a U.K. consultancy and on the Board of Visitors, School of Information Studies at the Syracuse University. He also sits on the Board of Directors of Meta Software, Alinean and Trio Security corporations. His monthly articles have appeared in "Computerworld"

magazine since 1994 and have been syndicated for worldwide distribution. Strassmann holds Registered U.S. Trademarks for Return-on-Management®, R-O-M®; Information Productivity® and Knowledge Capital®. Further information can be found on www.strassmann.com.

Since 1990, after serving as an advisor to the Deputy Secretary of Defence, Strassmann was appointed to a newly created position of Director of Defence. He was responsible for organising and managing the corporate information management (CIM) program across the Department of Defence that included a major cost reduction and business re-engineering program of the defence information infrastructure. Strassmann had policy oversight for Defence Department's information technology expenditures. He is 1993 recipient of the Defence Medal for Distinguished Public Service, the Department's highest civilian recognition.

In 1969 Strassmann joined Xerox as Director of Administration and Information Systems with worldwide responsibility for all internal Xerox computer activities. From 1972 to 1976 he served as founder and general manager of its Information Services Division (which included corporate computer operations, telecommunication, administrative services, software development and management consulting services) and introduced major innovations in global telecommunication management. From 1976 to 1978, as corporate director responsible for worldwide computer, telecommunications and administrative functions, he was the key contributor to shaping Xerox business strategy for office automation, and developed new methods for evaluating the productivity of computer investments.

Until his retirement from Xerox, Strassmann served as Vice-President of Strategic Planning for the Information Products Group, with responsibility for strategic investments, acquisitions and product plans involving the corporation's worldwide electronic businesses. After his retirement he became author, lecturer and consultant to firms such as AT&T, Citicorp, Digital Equipment, General Electric, General Motors, IBM, Shell Oil, Sun Microsystems and Texas Instruments, as well as Adjunct Professor at the U.S. Military Academy at West Point, Visiting Professor at the University of Connecticut and the Imperial College in London, England. His

public involvement includes presentations to the Senate, the House of Representatives, the Board of Governors of the Federal Reserve, the British House of Commons and the USSR Council of Ministers.

Prior to joining Xerox, Strassmann held the job of Corporate Information Officer for the General Foods Corporation and afterwards as the Chief Information Systems executive for the Kraft Corporation from 1960 through 1969. He started working with computers in 1954 when he designed a method for scheduling toll collection personnel on the basis of punch card toll receipts. He earned an engineering degree from the Cooper Union, New York, and a master's degree in industrial management from the Massachusetts Institute of Technology, Cambridge.

Paul Strassmann is author of over 250 articles on information management and information worker productivity. His 1985 book *Information Payoff – The Transformation of Work in the Electronic Age* has attracted worldwide attention and was translated into a number of languages. His 1990 book, *The Business Value of Computers*, now translated into Japanese, covers research on the relation between information technology and profitability of firms. His 1993 book, *The Politics of Information Management*, offers guidelines on organisation of the information function for greatest effectiveness. A companion volume, *The Irreverent Dictionary of Information Politics* reflects on the inconsistencies in information management practices. His 1997 book, *The Squandered Computer*, offers specific recommendations on how to obtain better value from investments in information technologies and was Amazon.com No.1 best selling book on information management in 1998. His latest book, *Information Productivity - Assessing the Information Management Costs of U.S. Industrial Corporations*, includes an information productivity ranking over 1,500 US firms. Strassmann is now converting his publishing to web-based distribution of research studies. The first seven studies are now appearing on <http://www.strassmann.com/iep/digital/>.

Strassmann was Chairman of the Committee on Information Workers for the White House conference on productivity and served on the Department of Defence Federal Advisory Board for Information Management and the Army Science Board. He is life member of the Data Processing Management Association, fellow of the British Computer Society, and senior member of the Institute of Electrical and Electronic Engineers. He authored the code of conduct for data processing professionals; was recipient of the 1992 Award for Achievement by the Association for Federal Information Resource Management; the 1992 International Industry Award for advancing the adoption of Open Systems and the 1996 Excellence Award for Business Engineering. In 1997 he was named as one of the twelve most influential Chief Information Officers of the last decade by CIO magazine. In 2000 he was cited by the Asst. Secretary of Defence of Command, Control and Intelligence for his pioneering work as one of the executives responsible for advancing the cause of U.S. information capabilities.

Strassmann was engaged in WWII combat as member of a Czechoslovak guerilla commando unit from 1944 to 1945.

Appendix 2. – Questions from participants submitted prior to Vendor Management & Outsourcing 2002

Management of outsourcing

- ▶ How to transition from where firms are now and where they ought to be ten years hence?
- ▶ What preparation is required to be in a position to determine if a Managed Services proposition is of value to an organisation?
- ▶ What management controls are essential in a Managed Services arrangement that will protect your Intellectual Property, Security and Privacy to meet an organisation's corporate governance responsibility?

Critical issues in cost budgeting: what can go wrong

- ▶ Cost reduction as a main reason driving companies to outsourcing: pros and cons
- ▶ Benchmarking – focus on benchmarking in contract management and renewal
- ▶ Review the changing economics of IT from computer-centric to network-centric architectures
- ▶ Causes of prevailing inefficiencies in the current approaches to budgeting IT costs
- ▶ Roles of outsourcing in the redeployment of IT investments
- ▶ An organisation is not a machine, so what happens when a part of the organisation is cut off, disposed of?
- ▶ How should we deal with transaction costs (considerable expenses in the administration, management of contracts), hidden / additional costs, opportunity costs?
- ▶ What criteria should be used when making investment decisions, particularly when the systems need to be changed because they are no longer supported by the manufacturer?

Outsourcing and profitability

- ▶ Why opt for outsourcing: business values
- ▶ What to expect from outsourcing and what to beware of?
- ▶ How to improve profitability (or reduce costs in public enterprises) through redirection of how IT expenses are allocated

Implementing best practices

a. Strategy

- ▶ How can Australian companies implement the lessons learnt by USA?
- ▶ What are strategies to drive company growth through outsourcing?
- ▶ How to gain new capabilities?
- ▶ How to gain competitive advantage through outsourcing?
- ▶ Is it more important to keep a process focus rather than a strategic focus?
- ▶ How to increase Australian participation in outsourcing and management of outsourced IT&T services and business processes?
- ▶ How can we collaborate to the advantage of all?

b. Innovation

- ▶ How can we use outsourcing as an engine of innovation?
- ▶ Software innovation and outsourcing of this
- ▶ How to deal with the rapidly changing nature of technology, and, as a consequence, the vagueness and ambiguity of the outsourcing contract in view to cope with that unstable and changing matter?
- ▶ How to free up resources that can be used to drive innovation
- ▶ Service improvement through access to technology

c. Vendor/client relationship

- ▶ Once you decide to outsource an activity, how do you manage that relationship so it is a long lasting and fruitful one for all parties involved?
- ▶ What is the best way to manage the ongoing relationship between the client and the vendor?
- ▶ How do you deal with the loss of control, privacy and confidentiality that often is a result of outsourcing?
- ▶ Who owns the Intellectual property that comes out of an outsourced relationship and how do you control this information getting to the competition?

d. Staff management

- ▶ How to manage staff and maximise staff resources in an outsourced environment?

Appendix 3. – List of attendees for Vendor Management & Outsourcing 2002

4 November: Breakfast session

Luca Belgiorno-Nettis
Associate Managing Director
Transfield Holdings

Patrick Callioni
Chief General Manager
Information Economy, NOIE

Peter Fritz
Managing Director
TCG Group

Patrick Gallagher
Managing Director
Casprel Advisory Services

Amos Gileadi
Managing Director
BONSIP International

The Hon. John Hannaford
ADR Solutions

Kelly Livingston
Senior Policy Advisor, IT
Office of the Minister for Information
Technology

Ben Livson
Principal, Consolidated Advisory

Dr. Brian Scott
Chairman
Management Frontiers

Terry Shipman
Partner, Management Solutions
Deloitte Touche Tohmatsu

Geoff Spring
Executive Consultant
Department of Education, Science
and Training

Neville Stevens
Australian Infrastructure Services

Warwick Watkins
Chief Executive Officer
NSW Department of Information
Technology and Management

David Whan
Managing Director
TechComm Simulation

The Hon. Kim Yeadon, MP
Minister for Information Technology

4 November: Lunch session

Senator the Hon. Richard Alston
Minister for Communications,
Information Technology and the Arts

Perce Butterworth
Executive Director, Policy and Resources
NSW Department of State and
Regional Development

Patrick Callioni
Chief General Manager
Information Economy, NOIE

Peter Fritz
Managing Director, TCG Group

John Grant
Chief General Manager
Government Services and Information
Environment, NOIE

Michael Grillo
Executive Director, Government ICS
SA Department for Administrative
and Information Services

Patrick Hannan
Chief Information Officer
Department of Defence

Andrew Jackson
Advisor, Information Industry
Office of the Minister for Communications,
Information Technology and the Arts

Chris Liell-Cock
Head of Technology and Programmes,
Institutional Banking, CBA

Ben Livson
Principal, Consolidated Advisory

Keith Lyon
Managing Director
Defence Housing Authority

David Marshall
Director General
Materiel, Information Management, Policy
and Planning, Department of Defence

Ken Matthews
Secretary
Department of Transport and
Regional Services

Jane Niall
Executive Director
Science, Technology and Innovation Division
VIC Department of Innovation, Industry
and Regional Development

John O'Grady
Board Member
Defence Housing Authority

Ralph Pickering
Managing Director
Mergers, Acquisitions and IP Ventures
UXC Limited

John Rimmer
Chief Executive Officer, NOIE

John Sheridan
Assistant Secretary
Information Management Governance
Department of Defence

Terry Shipman
Partner, Management Solutions
Deloitte Touche Tohmatsu

Neville Stevens
Australian Infrastructure Services

Helen Williams, AO
Secretary, NSW Department of
Communications, Information Technology
and the Arts

5 November: All-day session

Tony Ablong
Manager
Information Management Unit
Department of Veterans' Affairs

Steve Alford
General Manager, NOIE

Rod Badger
Deputy Chief Executive Officer
NOIE

Mike Barraclough
Managing Director
Consolidated Solutions Group

Patrick Callioni
Chief General Manager
Information Economy, NOIE

Doug Coates
Head of IT Management Services
Colonial First State Investments Limited

Prof. Richard Dunford
The Macquarie Graduate School
of Management

Miriam D'Souza
The Macquarie Graduate School
of Management

Berni Dymet
Principal Consultant
Opticon Australia

Prof. Greg Elliot
The Macquarie Graduate School
of Management

Marc Fenton
Deloitte Touche Tohmatsu

Robyn Fleming
General Manager, NOIE

Julien Francia
Director, QSP Asia Pacific

Peter Fritz
Managing Director, TCG Group

Amos Gileadi
Managing Director
BONSIP International

Pascal Grant
The Macquarie Graduate School
of Management

Stephen Haisman
IT Operations Manager
Defence Housing Authority

Murray Harrison
Chief Information Officer
Australian Customs Service

Beverly Hart
Chief General Manager
Department of Communications, Information
Technology and the Arts

Bob Hay
Branch Head, Strategic Support Branch
Department of Veterans' Affairs

Prof. Ernie Jordan
The Macquarie Graduate School
of Management

Bricet Kloren
Manager, NOIE

John Lalor
Manager, NOIE

David Leaney
General Manager
Corporate Network Solutions

Chris Liell-Cock
Head of Technology and Programmes
Institutional Banking, CBA

Geoffrey Lindner
Chief Information Officer
Powertel

Ben Livson
Principal
Consolidated Advisory

Bruce Lockyer
Chief Information Officer
Defence Housing Authority

Jamie Macgregor
Chief Information Officer
Department of Education, Science
and Training

Bill Marlow
Managing Director
MPW Communications

Graham Millet
Adjunct Lecturer
The Macquarie Graduate School
of Management

Ken Patterson
Government ICS
The SA Department for Administrative
and Information Services

Nikki Penny
Sales and Marketing Manager
FormTrap

Ralph Pickering
Managing director
Mergers, Acquisitions and Investments
UXC Limited

Peter Ryan
Deloitte Touche Tohmatsu

Prof. Willem Selen
Chair of Operations Management
The Macquarie Graduate School
of Management

Jo Schumann
Branch Head, Health e-Business
Department of Veterans' Affairs

Ian Schumann
Manager, Information Management Unit
Department of Veterans' Affairs

Rosemary Sinclair
Managing Director

Brian Stonebridge
Manager, NOIE

Phil Turnbull
Readers' Digest

Appendix 4. – Vendor Management & Outsourcing 2002 Photo Gallery



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- 1 Paul Strassmann, the Hon. Kim Yeadon, MP Minister
- 2 Paul Strassmann, the Hon. Senator Richard Alston, Minister
- 3 Peter Friz, the Hon. Sandra Nori, MP Minister
- 4-5 Paul Strassmann
- 6-7 Panel discussion (left to right): Patrick Callioni, Chris Liell-Cock, Ben Livson, Paul Strassmann



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Appendix 5. – Letters of thanks and congratulations

The Hon. Tony Abbott, MP

Commonwealth Minister for Employment
and Workplace Relations
Leader of the House of Representatives
Minister Assisting the Prime Minister
for the Public Service

“Dear Peter,

Thanks very much indeed for organising the dinner with Paul Strassmann. [...] It was a diverse and highly knowledgeable group of people you gathered together and I hope I was able to do justice to the occasion. I've asked my Department to talk to John Rimmer [Chief Executive Officer, NOIE] about whether my own portfolio is adequately making use of information technology and sufficiently contributing to best practice in government generally. I will do my best to identify the Australian businesses which are at the forefront of “wealth-capturing” and draw on their insights and counsel. [...]”

Dr. Brian Scott, AO

Chairman, Management Frontiers

“My congratulations on a really outstanding morning with Paul Strassmann. I sensed that everyone present found the session absorbing and thought provoking. Paul [...] has tilled the soil for you to follow up and plough effectively.”

Prof. Willem Selen, Ph.D

Chair of Operations Management
Macquarie Graduate School of
Management

“Thank you again for your kind invitation. [...] I found the day stimulating and it offered interesting networking possibilities. I did enjoy the day and took home some basic ideas from an industry perspective.”