STRONGBOW
CONSULTING GROUP

Strongbow Newsletter: Spring 2022

A Note From our CEO - Cathy Horst Forsyth

Cathy Horst Forsyth

2022 is off to a fast start and while it's definitely a new year, many of the challenges we faced in 2021 are very much still with us. We've already well covered our clients' challenges in filling growing numbers of open job requisites, but this year we're seeing a significant amount of job turnover, a new trend that is really taxing teams who are already understaffed.

Many would think it's only natural to turn to third party MSPs and outsourcers during times like this, but as I recently discussed in my latest posting (link here), we see more and more clients becoming dissatisfied with third party outsourcing arrangements for any number of reasons: poor service levels, lack of innovation, and lack of transparency / flexibility, to name just a few.

Indeed, the very reasons large scale outsourcing deals once made sense – economies of scale and labor / location strategy efficiencies – are less relevant in today's world where SaaS and PaaS/IaaS are quickly displacing traditional on-prem DC operations. But that doesn't mean the days of large outsourcing agreements are behind us. There are lots of challenges that MSPs can help with, and labor efficiencies are just one aspect of the equation. Our clients are often challenged with executing large scale change programs, and they would welcome transferring some of that execution risk to capable third parties who are willing to be creative with deal structures. Build-Operate-Transfer is just one example of what I mean. The bottom line comes down to one thing: flexibility.

This month's newsletter details some of the creative contract strategies we've developed for our clients who are working to transition from legacy infrastructure to modernized solutions. Some examples you will hear about include:

- Bridge agreements that allow for significant ramp down in licenses over the term, without exit penalties or price increases – think of a graceful, flexible ramp down allowing for best, worst and most-likely case scenarios
- At the opposite end of the spectrum, for those who continuously buy at scale, but don't want to overcommit, we have created scalable agreements that provide forward pricing and volume discounts at the front end, allowing for scale back without penalty as needed
- For large, multi-tower outsource deals, we are helping clients build realistic, multi-year transition plans that allow for accelerated ramp down in some towers, with longer term support and pricing stability in other towers

Underpinning all of these commercial strategies is a very detailed, dynamic financial model that:

1. Quantifies the current TCO allowing for meaningful comparisons to sourcing alternatives
2. Forecasts demand for future services, allowing for multiple scenarios and contingencies
3. Creates a customized, flexible commercial structure to accommodate each client's unique needs, pinpointing both the commercial flexibility and the partner incentives required to make successful third party agreements

If you're curious about how these market trends and commercial strategies impact your business, please give us a call!

Team Spotlight - Peggy Tierney

Peggy Tierney is a well-tenured team member at Strongbow who contributes to our spirit of excellence both in and out of the office. Having earned a bachelor's degree and MBA from UC Berkeley and USF respectively, Peggy first applied her business acumen at both IBM and AT&T in the early years of her career. Since then, she has worked inside large enterprise, running Enterprise Collaboration and Mobility for Johnson & Johnson, also consulting into some the largest IT organizations in the world, across many different industries during her time at Strongbow. As Managing Consultant, Peggy is responsible for advising clients on optimal commercial strategies for large-scale infrastructure modernization programs. Outside of work, Peggy enjoys working on her home garden, raising butterflies, and growing some of the hottest peppers you have ever tasted!

Commercial Strategies Supporting Transformation - *Hank King*

At Strongbow we never want our customers trapped in agreements that might hinder innovation or efficiency. As commercial and renewal discussions are launched, suppliers often have the advantage in making the first offer. That initial offer often comes with many hooks, commitments, and points of inflexibility; essentially "buy all or nothing". This of course is not true, and customers spend considerable time negotiating the optimal commercial agreement, often after many rounds and many months of back-and-forth.

One of Strongbow's key commercial strategies is to proactively approach the supplier with detailed requirements for both pricing and commercial flexibility to clearly define target end-states – and negotiations can start from there. Our approach requires creativity, but we are also data-driven in every deal. Let's review some recent cases where our detailed approach has yielded exceptional cost savings and commercial flexibility.

Bridge Strategy

Our customer's agreement for UCC and Contact Center Services was up for renewal at the same time they were launching an accelerated migration to cloud-based services, requiring a significantly lower volume of services. Eager to renew the agreement and record revenue in their current fiscal period, the incumbent supplier confidently proposed a three-year agreement which clearly limited our client's ability to transform as planned. While their exact target end state was not yet defined, it was critical to put in a place a contract extension as any lapse in support was unacceptable.

In short, the client needed reduced volumes (post Covid) at a reasonable price, as well as their planned change in technology. On the other hand, the incumbent supplier knew a contract extension was needed, and sensing they had nothing to lose, sought to lock in the current volumes for 3 years. Any potential reduction in volume or term for licenses was associated with egregious rate increases and claw-back penalties.

To help close the gap, a detailed financial forecast helped clarify and quantify the client's needs. After consolidating requirements across multiple stakeholders for both enterprise voice and contact center teams, Strongbow constructed a detailed baseline of current volumes, related charges and future expected volumes. With the forecast set, we could present comprehensive requirements for ramp down, creating negotiating leverage through the various financial scenarios that could impact the supplier even more negatively. The end result was a right-sized agreement with increased flexibility, a considerable reduction in term length and $6.3M (22%) in TCO savings over 3 years.

Buying at Scale Without Over Committing

Economies of scale are no secret. However, making a large, multi-year spend commitment in the face of many technological, economical, and business unknowns is risky. Many companies play it safe and leave money on the table through unrealized discounts. Strongbow helps our clients create flexible buying agreements that account for anticipated changes in buying patterns over time. Our client needed to refresh end of life infrastructure in the data center. New technology would now enable increased server to virtual host densification, lending some complexity to the demand forecast.

In addition, it was somewhat unclear how quickly on-prem applications would migrate to IaaS/SaaS. And while the end state was in flux, it was clear that 25% YOY growth could be expected for some time.

To quantify both risk and opportunity, Strongbow built a detailed model that aligned the supplier's and client's view of demand under multiple scenarios. This detailed model helped crystallize key requirements for discount tiers. Critical "what if" scenarios considered purchase minimums, deployment timelines, forecasted growth, densification ratios, and potential reductions in spend due to planned cloud migrations. Overall, this allowed us to confirm the optimal discount structure, and to secure considerable concessions from the bidding supplier.

The end result was $100M+ in savings through a multi-year purchasing agreement, allowing for market-leading discounts across all products and services. While the customer initially committed to buying server and compute resources, Strongbow introduced an innovation clause designed to increase utilization efficiencies, allowing the customer to purchase less over time. Additionally, the customer was protected from a 'take or pay' situation, where discounts would be forfeited if planned purchases changed due to cloud migrations or other unplanned changes. The deal was a perfect balance for the customer, allowing them to reduce purchases without penalty, while capturing additional savings if they did buy more in the future.

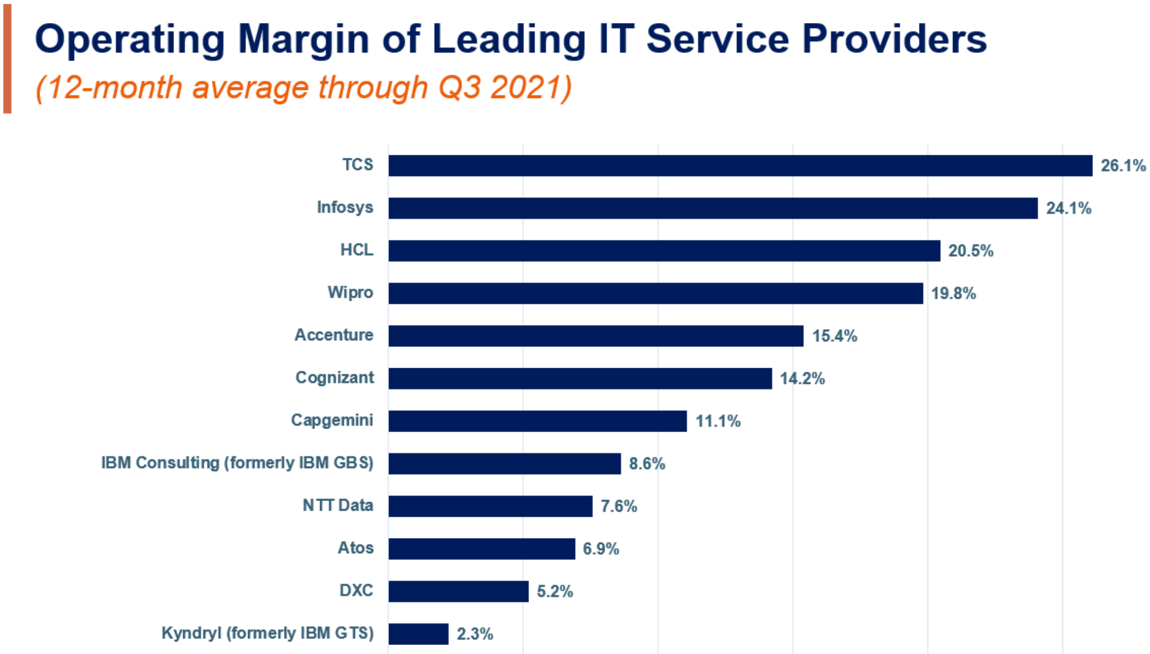
MSP Exit Strategy

We don't see many new multi-tower outsourcing deals these days, but we do see a lot of deals being restructured. This trend has been evident for several years now, usually starting off with one tower and then expanding from there. Strongbow helps customers develop commercial strategies for both scenarios: unwinding just one tower or for the complete exit of a multi-year ITO contract.

Many times, the challenges of unwinding a complex deal begin with understanding current service requirements. Inventories often lack detail and are bundled into opaque line items. Given their inherent reliance on the outsourcing provider, clients struggle for a definition of existing requirements and volumes, both of which are required to evaluate competitive alternatives, including insourcing some or all services. That said, service providers are usually obligated to provide the required information to support a potential service transition, so knowing what to ask for truly helps jump-start this process.

Recently, our client was spending $150M+/year for managed services across a broad set of their infrastructure, including a significant amount of project labor needed for various implementation and refresh efforts. To help identify their optimal sourcing approach, we prepared a bottoms-up analysis; confirming the current inventory of services provided, and mapping to market cost from alternative suppliers as well as insourcing (without taking to bid due to our own proprietary IP depth). The analysis showed a flexible labor sourcing model would be optimal: insource a certain level of employees to secure savings, while retaining a third-party to fulfill "burstable" demand over time, and as needed when project work increased. This plan would increase performance levels, reduce supplier risk and drive 14% savings over the existing sourcing model ($10M+/annum cost reductions). More importantly, once the optimal solution was identified, it facilitated supplier negotiations, as we could confidently define the client's requirements and target terms.

"Kyndryl Is My New MSP, Now What?" – *Alex Petrov*



*Source: HFS Research

Many of our enterprise clients were recently impacted by IBM's decision to spin out its managed infrastructure business unit, now known as Kyndryl. On Day One of operations, Kyndryl is the largest managed services provider for infrastructure with revenues of $19.1 billion, 90,000 employees and 4,000 customers. And yet despite that scale, Kyndryl will be under great pressure to reverse three consecutive years of revenue declines, including a net loss of $2 billion just last year.

Kyndryl will have six global managed services practices: cloud, digital workplace, security and resiliency, network and edge, core enterprise and cloud and applications, data and artificial intelligence. Additionally, Kyndryl will have an advisory group that overlays these six practice areas to help customers on their digital transformation journey. On the surface, this sounds highly valuable, especially since Kyndryl can leverage its partnerships with Microsoft (Azure), Amazon (AWS) and others in addition to leveraging IBM's service portfolio. If Kyndryl can deliver a truly differentiated approach which transitions from managing legacy infrastructure to driving digital and business transformation, they would be creating value for the enterprise community, as well as Kyndryl stockholders.

But that will be no small task. Although most IBM customers permitted the assignment of their service agreements to Kyndryl, this is not to be taken as a long-term commitment to continue doing business with Kyndryl. Our clients are closely watching performance levels and service support while looking for any signs of value-add from the new organization. So far, it's rather mixed response regarding performance and support, and perhaps it is too soon to tell regarding the promise of innovation. To that end, the next 12 months will be fairly telling: will Kyndryl find a successful path to operate independently, or will revenues continue to decline, leading to a potential transaction with HCL, Cognizant or another global MSP?

We recommend that Kyndryl customers act now to evaluate their current agreements in detail, aligning current commitments with their future needs. It usually takes well over a year to orchestrate a thoughtful exit from a large outsourcing deal, and sometimes longer than that. Depending on the complexity, it could be a multi-year ramp down that requires innovative commercial strategies to support a graceful exit. In any case, it's never too soon to conduct a thorough review of your current agreement, noting both opportunity and risk, and aligning your commercial terms with the IT organization's planned changes for IT infrastructure.

If you're interested in learning more about how Strongbow can help with this effort, please give us a call!

About Strongbow

Leveraging our deep technical and commercial expertise from the Data Center to the Desktop, Strongbow helps Fortune 500 companies plan, build and implement infrastructure modernization plans for improved resiliency and speed to market in today's fast paced digital economy. Our experienced bench of consultants understand next-generation technologies and legacy technologies, including bespoke configurations and outdated systems. Bridging the gap between old and new is critically important when delivering successful change programs with strong, positive financial returns.

In Our Next NewsLetter

No matter how well thought-out or how well negotiated a commercial agreement might be, things will go wrong at some point, as the world of IT infrastructure is neither stable, nor static. In our next newsletter, we will walk through several of the strategies we're deploying for our customers to help engineer and design for high-performance infrastructure solutions. (including Circuit Diversity Review, avoiding vendor lock in with Cloud / SaaS providers and rethinking traditional Business Continuity plans).