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The background features a blue-toned digital landscape. In the foreground, several server racks are visible, with their front panels showing a grid of small lights or indicators. Below the server racks, a portion of a globe is visible, showing the continents of North and South America. The overall aesthetic is futuristic and data-oriented, with a blue color palette and some faint, vertical text elements in the background.

## **Injecting life back into SIAM:** Lessons learnt and a new model for success

A Perspective by Fieldfisher



## 1. Introduction

The private and public sectors have been quick to embrace the service integration and management model (SIAM) with its worthy aim of providing much needed integration to any multi-sourced environment. But SIAM has had a difficult start with many commentators publicly declaring that it is dead in the water. This paper presents the lessons from earlier SIAM implementations and challenges best practice thinking to launch a new, improved version of SIAM: SIAM 2.0.

An increase in the size of a business is usually accompanied by an increase in complexity. Computer networks, desktops, call centres and telecoms systems all require careful and expert management. There is a risk that being preoccupied with these things can cause a business to lose sight of its core purpose. So in the late 1980s and early 1990s, it became commonplace for organisations to hire a team of experts to run such systems for them - to *outsource*, in other words.


Unsurprisingly, businesses initially concluded that it would be simpler and cheaper to sign a long-term contract with a single prime contractor. The contractor would design and implement service delivery solutions that transformed legacy operations and delivered an end-to-end managed service.

This model led to the rise of the 'systems integrators' and the promise of 'one throat to choke' in the event of any service failure. For a time, the model was attractive to public and private businesses alike, across all sectors.

It was not, however, fool-proof. There were hidden costs, such as managing the relationship, dealing with problems, supplier lock-in, change management and exit and transition. Results were mixed, with some projects not being delivered on time, on budget or at all. And outsourcing functions ceased to offer a competitive advantage once everyone was doing it.

Nevertheless, it was still apparent that outsourcing had its merits. It was possible to measure and benchmark performance. Organisations were able to focus on core business. The number and nature of services that were outsourced grew.

This is when the concept of *multi-sourcing* came into its own. Increasingly comfortable with outsourcing in principle but eager to spread risk, many companies moved to a multi-sourcing model where they hired and managed several 'best of breed' suppliers. No longer would they trust one supplier to look after all their non-core functions.

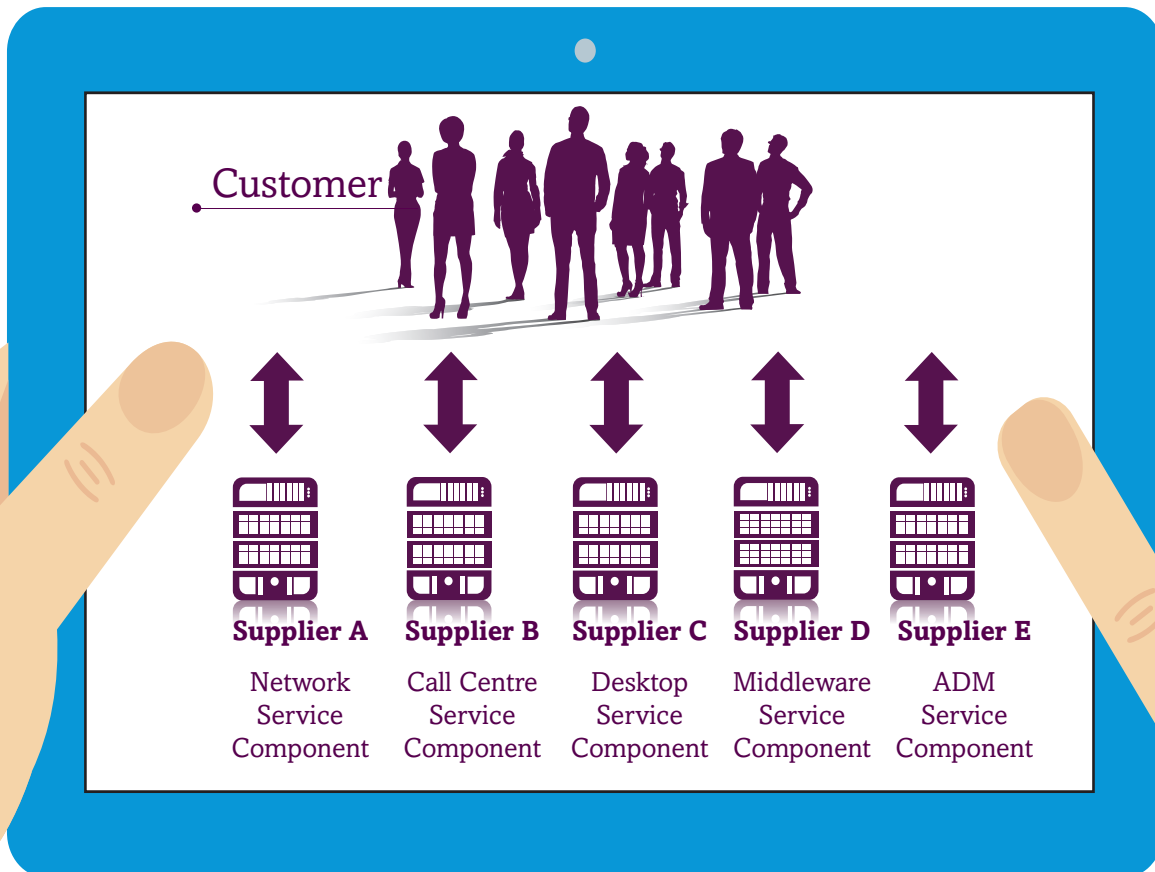


“Transport for London, the FCO, the Metropolitan Police, the Environment Agency, the Ministry of Defence, Enfield Council, the Skills Funding Agency and others are all in the process of procuring or implementing SIAM /service tower models.”

**Robert Shooter, Head of Technology, Outsourcing and Privacy and co-author of the paper**

## 2. An overview of multisourcing

Multi-sourcing can be summarised in diagrammatical form as follows. Each arrow represents a contract. (The service component descriptions are merely examples.)



Multi-sourcing avoids a single point of weakness. If, for example, Supplier C fails, we can terminate their contract and procure another desktop solution. We don't have to start again from scratch in relation to the whole IT estate.

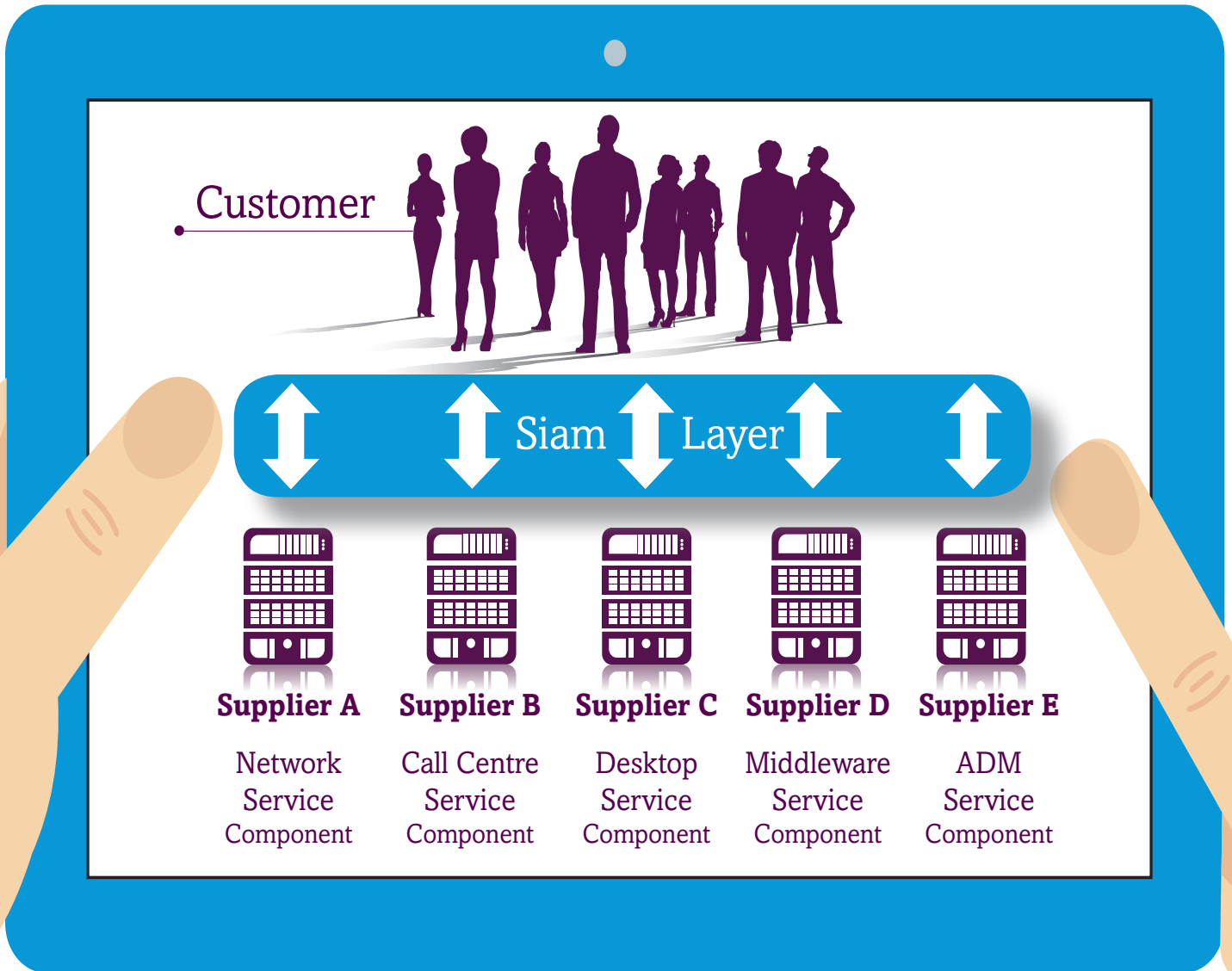
This method also removes 'margin-on-margin' payments. When a prime contractor sub-contracts services, it applies a margin to the sub-contractor's own charges on the grounds that it is responsible to the business for the successful delivery of the sub-contracted service. Directly contracting with all suppliers eliminates this.

However, it will not always be readily apparent where fault lies. Even when it is, the ability to recover damages for failure - even failure by one supplier which impacts on every other service component - is typically limited to the value of the under-performing supplier's service component.

In practice, we often see that whereas customers invest time and money on consultants and lawyers in putting together complex multi-sourcing arrangements, they under-invest in managing these contracts. This function, known as the retained IT organisation or the 'Intelligent Client', is a serious and badly overlooked point of failure, causing many multi-sourced projects to fail to meet time and cost expectations.

SIAM was an attempt to overcome this tension by not only outsourcing non-core functions, but a key part of the retained IT organisation too.

### 3. SIAM 1.0



“In the excitement of trying something new, we have noticed that not all businesses have spent sufficient time on the business case or on identification, allocation and management of the risks associated with the transition to a multi-sourced supply chain.”

**James Buckingham, Partner and co-author of the paper**

## 4. Why SIAM 1.0 remains unproven

We were recently asked whether we were aware of any successful SIAM implementations. This is a difficult question. Most SIAM implementations are going through transition, and whilst we can identify challenges along the way and some signs of success, it is too early to predict how they will fall.

There is, however, a track record of problems in the public sector.

The Office of National Statistics' SIAM procurement 'did not produce anticipated benefits' and has been cancelled.<sup>1</sup> The Ministry of Justice's SIAM programme was beset with delays.<sup>2</sup>

Nevertheless, Transport for London, the FCO, the Metropolitan Police, the Environment Agency, the Ministry of Defence, Enfield Council, the Skills Funding Agency and others are all in the process of procuring or implementing SIAM / service tower models

And outside of the public sector, we are being approached by more private sector organisations who wish to develop a better understanding of the SIAM model and what lessons can be learnt from the public sector's implementation.

### 1. Unreasonable expectations

In the infancy of outsourcing, savings were often disappointing or unrealised due to an underestimation of the cost of managing the supplier. We acted for a UK business that sought to make modest savings by offshoring its back office to India. The entire savings set out in the business case were depleted as a result of unplanned, regular business class trips by numerous board members to Pune to visit the new operation.

### 2. You can't outsource your entire retained IT organisation

Outsourcing your service integration and management layer does not mean outsourcing your entire retained IT organisation. On the contrary, by delegating all the retained IT organisation's functions to your SIAM provider, you are, in some respects, creating a single point of failure. If the SIAM provider is unable to manage each of the service component providers, serious consequences will follow.

### 3. All your eggs in one SIAM basket

We acted for a customer who was procuring SIAM services. It carried out a degree of diligence, ensured that the contract was robust, ran an evaluation and selected a big name SIAM provider. But the SIAM provider failed to deliver in one key aspect. This had a major impact on service delivery and a knock-on effect for service component providers (who themselves were struggling to deliver).

### 4. You cannot price all risk

With a single supplier, financial risk for the entire project is typically capped to a multiple of the overall charges. If the entire project is worth £500 million, liability (risk) will be capped to a multiple of £500 million.

With multi-sourcing, a service component provider's liability is capped to a multiple of the charges relating to that service component.

Assuming five equal-sized service components, each of £100 million, if something goes wrong with a particular service component, liability will be capped to a multiple of £100 million, even if the impact of the default is felt across all of the service components.

When one government department embarked on its high-profile SIAM project, it considered the SIAM layer between it and its service component providers and took the view that the project was more akin to a traditional outsourcing than a multi-sourcing model. It assumed that the SIAM provider - which was not contractually tied to the service component providers and had had no say in their selection - would be prepared to assume financial risk for the entire project.

The department went to the market asking the SIAM bidders to accept a liability multiple *linked to the value of the entire project*. It suggested that the SIAM bidders should price the risk. The SIAM bidders were only prepared to accept a multiple of risk linked to the value of the SIAM services. Pricing the entire risk, as requested by the customer, was impossible. The bidders all walked away and the procurement was pulled.

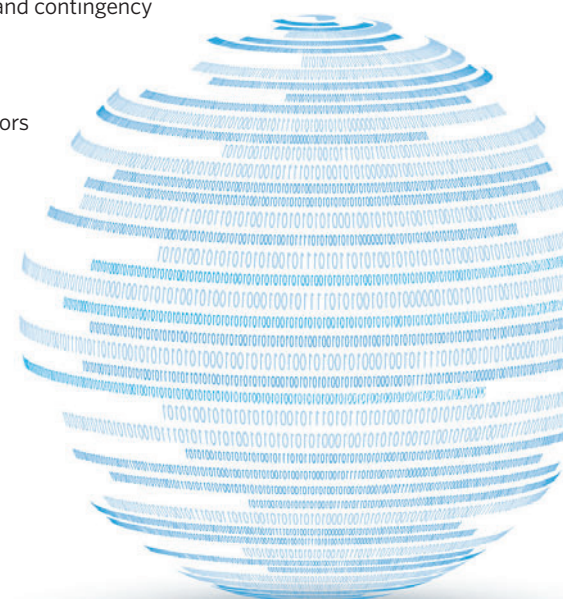
This makes the SIAM model look very high risk: if the SIAM provider is only willing to accept liability as a multiple of its (relatively low) charges, it is the customer who carries the lion's share of the risk. But this is no different to any other multi-sourcing arrangement and can be overcome.

### 5. Inadequate planning

We acted for a business which had decided to transition from a multi-sourced model to a SIAM model. Its IT services were provided by five prime contractors, managed by a small retained IT organisation. The plan was to transition to a new model where the five legacy IT contracts would be replaced by twenty new IT contracts. But the business case did not take into account the addition of internal and external resources that would be required both to renegotiate the exit arrangements from its legacy suppliers and to facilitate the transition to a SIAM model.

Once the business case is sufficiently proven, due diligence needs to be comprehensive and contingency planning is essential.

For example, in many cases, service integrators are simply offering toolsets that they have developed to manage their own internal supply chains. These toolsets need to be carefully reviewed to ensure that they work for the client.



## 5. SIAM 2.0

So, despite some limited successes, SIAM hasn't been proven to date. We present SIAM 2.0 a new improved version of SIAM that addresses some of the original failings and pitfalls.

SIAM 2.0 has a number of features:

“There’s an important shift here from reliance on one player to a team approach. Any good team requires leadership. In particular, clarity on shared overall objectives and a more flexible and collaborative structure to manage issues that will inevitably arise. We know that crystal ball gazing and threat of the stick is not the way to lead a team to success so why did we believe it would work here?”

**Hilary Gallo, Professional Trainer and Coach - Author of the “Power of Soft”**

### 1. Thorough due diligence on the SIAM provider

The usual due diligence needs to be significantly more thorough than usual. For example, thorough references, pilot schemes, toolkit testing are all recommended. The cost and time required to carry out this due diligence needs to be built into the business case.

### 2. An orderly approach to implementation

The Royal Mail’s SIAM implementation took a Big Bang approach, with the SIAM provider and all major service components procured in one go. Such an approach can work, but is high risk. Where possible, the SIAM provider should be procured first, followed by essential infrastructure, with other layers added as necessary. Where service components require staged implementations, the order of the implementation becomes more obvious.

### 3. A road map

A business that wants to implement a SIAM function should only do so once a detailed design of the new operating model and supporting organisation has been produced and approved by senior stakeholders within the business. Services should be disaggregated into a manageable number of recognised industry service components where market tension will continue to apply in terms of price, quality of service and innovation. This may require additional resources that should be planned for.

### 4. Roles and responsibilities that are clearly identified

The business should not commence the procurement process until it has clearly identified the roles and responsibilities of the SIAM provider, the component suppliers and the retained IT organisation. The dependencies between each of the component suppliers should be documented in Operating Level Agreements.





## 5. Retained organisation

The business should invest in the retained IT organisation which will be accountable for decisions about the overall enterprise architecture, financial and commercial considerations, security and compliance, business relationship management and overall programme management.

## 6. SIAM charges

As the role of the SIAM provider is to manage, govern and co-ordinate the delivery of services from multiple suppliers, part of the SIAM's remuneration should be tied to the achievement of milestones and end-to-end service levels. However, the business must be realistic about the level of risk that is appropriate to be allocated to the SIAM provider.

## 7. A new approach to collaboration

A SIAM provider can only manage a portfolio of suppliers if it is confident that they will co-operate with each other. However, we think that the usefulness of a co-operation / collaboration document is largely overstated. We have drafted, negotiated and put in place countless collaboration agreements. Yet we are not convinced that suppliers are willing to work together unless there is a sufficient incentive to do so – and a legal document is not a sufficient incentive alone.

As part of SIAM 2.0, we are, perhaps controversially, recommending the end of the collaboration agreement. We propose to replace this legal fiction with service requirements for each service component which are clear, complete and unambiguous and incentives mechanisms that link supplier success to cross-programme success.



“Clients are always searching for value but will only find it by taking a thoughtful, balanced and well prepared approach to sourcing. Savings can be realised, but sometimes come with risk. Where there is risk, it has to be well managed to minimise its impact. SIAM 2.0 offers a route map to success and is a welcome addition to current thinking on how to procure IT services in a cost effective, efficient and productive manner.”

**Andrew Cleminson, Sales Director - A2B Excellence Ltd**

## 8. Transparency

The service component contracts need to be drafted on the basis that the SIAM provider, rather than the business, will be the day-to-day interface with the service component providers. So service component contracts should include provisions that permit the business to share information, data, and service reports with the SIAM provider and allow the SIAM provider to perform operational and compliance audits on the service component suppliers.

## 9. Governance and dispute resolution

The business needs to consider how it will manage its suppliers individually and collectively and how to facilitate communication between suppliers, through for example joint meetings, sharing service reports, incident reporting and resolution.

Because of the importance of service continuity while disputes are being resolved, we recommend that an expert determination procedure is used for inter-supplier operational disputes, with the SIAM acting as the expert up to an agreed financial threshold and a pre-agreed expert appointed for resolution of operational disputes above the agreed financial threshold.

## 10. Exit

End of contract complications are potentially bigger in a SIAM or multi-sourced operating model. Ideally, suppliers will own the assets which they use to provide the services, but each contract will need to be reviewed to ascertain what people, assets and data will transfer on exit.

In addition, the business must ensure that the SIAM provider's tools and processes are a 'plug and play' fit for them and will accommodate new service component suppliers and new SIAM providers.





“Our recent survey of 260 UK-based organisations suggests that more than half of them are not considering outsourcing their SIAM function. The main reasons are market immaturity and the need to keep close control on SIAM functions that require deep business knowledge.”

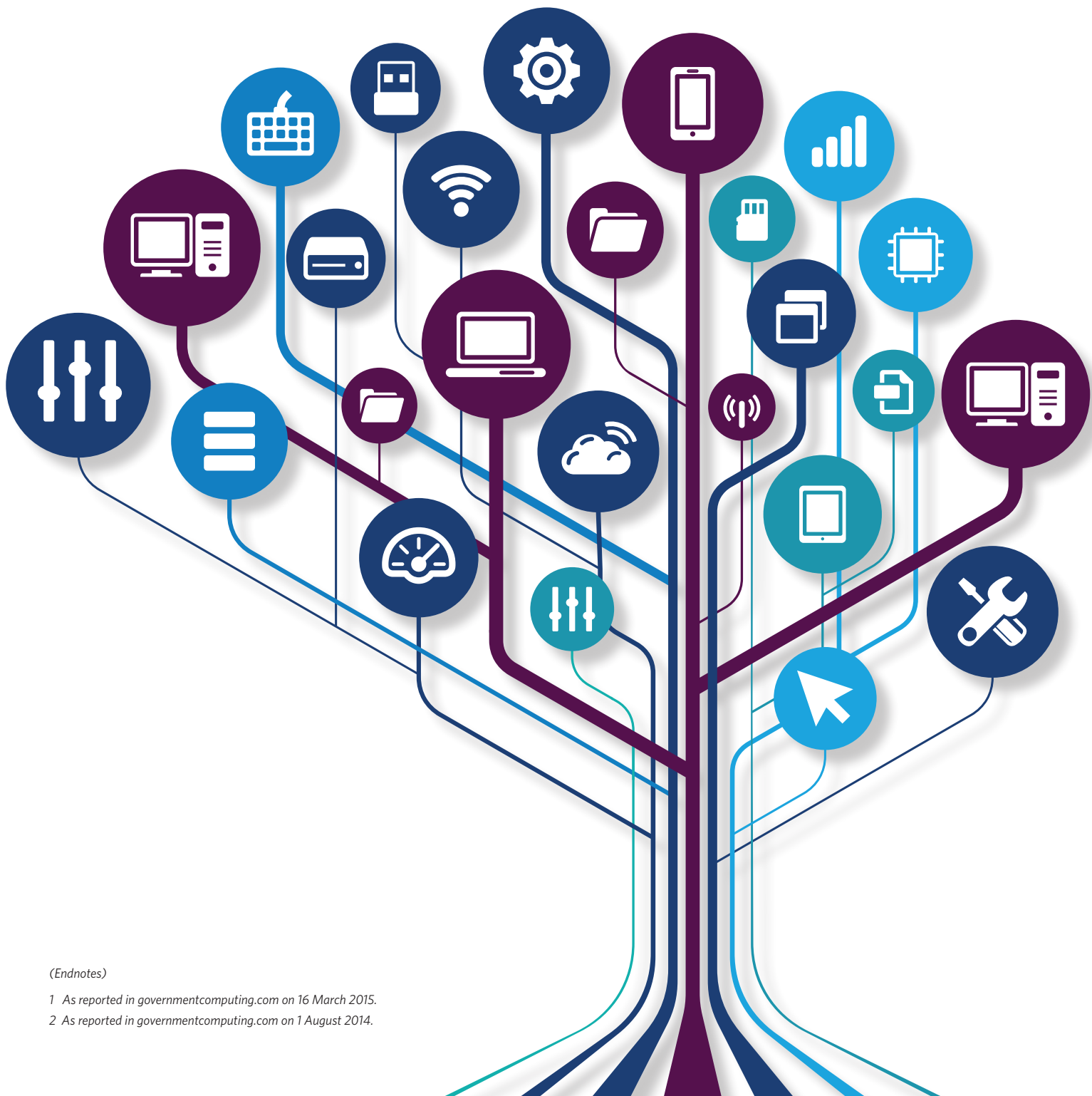
**Vassilis Serafeimidis, Head of UK IT Sourcing at PA Consulting Group**

## 6. Conclusion

Whilst acknowledging some genuine success stories, SIAM has had a difficult start. Often, the business case has been over-egged leading to financial disappointment. In the excitement to try something new, familiar multi-sourcing errors around expectation, risk and the basic pretext that suppliers will work with each other for the common good, have resurfaced in a slightly different guise.

Of course, suppliers will work together (and do) if the incentives mechanisms are sufficiently compelling. Risk can be fairly apportioned. Expectations can be lowered.

And, if an organisation wants to multi-source, some form of integration will be necessary. SIAM 2.0 could be the best way forward.



(Endnotes)

1 As reported in [governmentcomputing.com](http://governmentcomputing.com) on 16 March 2015.

2 As reported in [governmentcomputing.com](http://governmentcomputing.com) on 1 August 2014.



# Our Experience and Contacts

Fieldfisher's top-ranked Technology, Outsourcing & Privacy Group has been leading the way for well over a decade. We have one of the largest teams of lawyers in the field and regularly support the world's biggest organisations, Central Government and some of Europe's most exciting growth companies. We have class-leading expertise in privacy, data security, digital media, big data, the cloud, mobile payments and mobile apps. We're always looking to stay one step ahead.



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