2 Credit Suisse: Sourcing IT Services[1]

On December 16, 2003, Daniel Parker had left a meeting with the third party that provided end-user hardware services for the Credit Suisse Group. Daniel was responsible for strategic sourcing Information Technology (IT) at major Swiss financial services company Credit Suisse. His project was part of an effort to improve the bottom line of the Group by reducing IT costs. However, the current IT service provider was not able to satisfy the new quality and cost requirements of Credit Suisse, and as a result Daniel had to cancel the contract for the upcoming year.

The day after, Daniel discussed the next steps with his boss, Michael Swan, head of supply management. "We have to find an IT provider that can offer the services at a competitive price and that fits our internal demand and process requirements" said Michael. Only then, Michael knew, could they improve service quality and cut IT costs. Daniel swung into action.

Credit Suisse: after the crash

Credit Suisse Group was a leading global financial services company headquartered in Zurich. It provided private clients and small and medium-sized companies with a large spectrum of financial services. The Group employed around 60,000 staff worldwide. As of December 2003, it reported assets under management of CHF 1199.0 billion.

The stock market crash of the early years of the decade hit all banks hard, and Credit Suisse was no exception. During the boom years of the 1990s, everything was going well for the sector and costs had quietly crept up. But with the burst of the bubble in 2001, transactions fell, assets shrunk, interest rates fell, and investment banking revenues collapsed. Banks' inefficient cost structures were exposed. Cost/income ratios stood at around 70-80 percent and staff layoffs were high. The bottom line had become increasingly important and banks had to control their cost base. Such a situation could no longer be tolerated and across the industry, board meetings became preoccupied first with controlling costs, and then cutting them further.

Banks also had to regain the trust of private investors by improving service levels and offering new customer-oriented solutions. An entire generation of customers had not been used to falling stock markets, leading to mistrust in financial markets and institutions. Additional pressure was created by increased transparency on pricing and the emergence of new non-bank competitors. As a result, banks had to accomplish a balancing act. On the one hand, higher service levels and professional risk management

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1. This case was written by Gerhard Trautmann and Dr. Roger Moser, Supply Management Institute SMI™, ebs European Business School, with the support of Dr. Martin Lockström and under the supervision of Prof. Dr. Christopher Jahns. It was prepared solely to provide material for class discussion and does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidential data. Copyright © 2007 by Supply Management Institute SMI™.

procedures were needed to meet client demands, but simultaneously costs had to be lowered to attract the very price sensitive customers.

Analyzing where the cost saving potential was still large, the management team agreed that the supply management team would have to turn into one of the main drivers for cost saving initiatives. With the outsourcing of many non-core activities, in particular IT services at the turn of the millennium, the purchasing volume under the supply management team's control had increased strongly. As a result, supply management was no longer only regarded as a mere support function that only worried about ensuring supply, but rather as a key contributor to company value. Due to its significant influence on the cost base of the firm, the management board decided to give the supply management team the authorization to develop the framework for a lean cost structure.

The Supply Management Competence Centre of the Credit Suisse Group

The supply management department was the centre of competence for purchasing and supply management for Credit Suisse Group in Switzerland. The department was responsible for defining and implementing sourcing strategies, processes, standards and tools but also for managing suppliers and acquiring and integrating best practice knowledge in supply management.
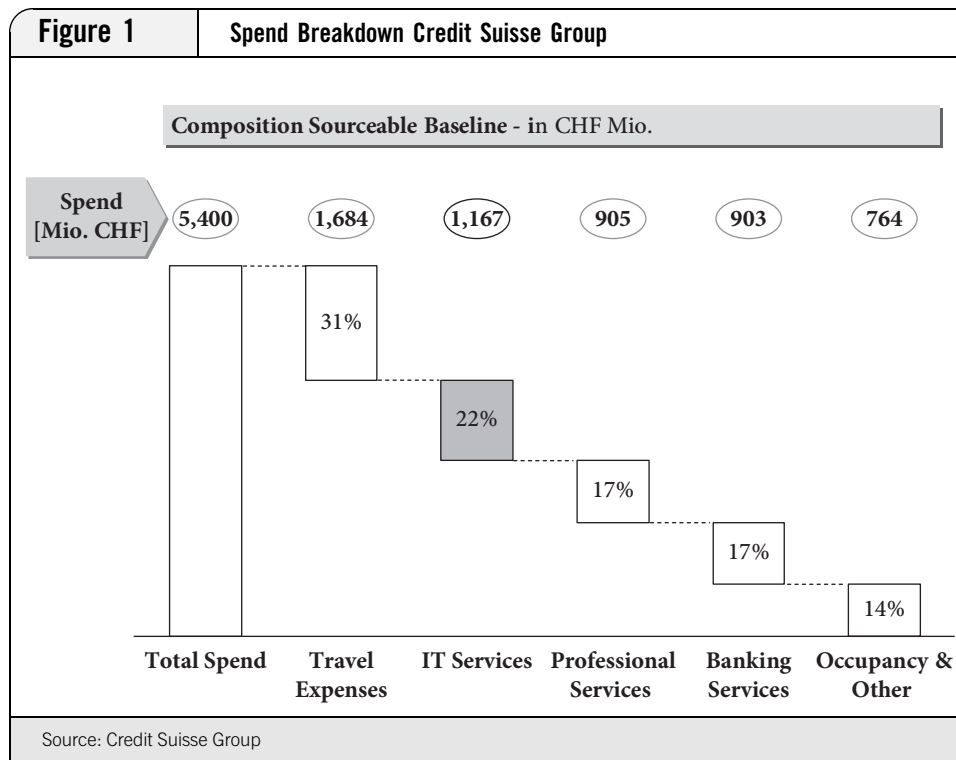
Michael Swan was head of supply management and reported directly to the COO of the Group. He was painfully aware of the pressures facing his team. All his department's initiatives had a direct bottom line impact, and the board had given him the freedom to initiate project after project. In total 29 FTE worked in the supply management department. The addressed spend under Michael's control was around CHF 5.4 billion, and within the year 2002 the team had completed nearly 200 strategic sourcing initiatives, reducing costs by CHF 200 million. But Michael knew that this was only the beginning of the story, and that enormous potential remained.

At the top of Micheal's list for further initiatives in 2003 was the improvement and implementation of sourcing processes. Within this category, there was one main goal: to exploit the sourcing potential of products and services by developing adequate purchasing processes. This was of particular relevance for the sourcing of IT services.

During the last years, IT costs had grown and made up a major stake in the overall purchasing volume (Figure 1). After the supply management team had already launched cost saving initiatives for the sourcing of travel services in the last year, IT services moved into their focus for further reduction of indirect spend. Any optimization in the sourcing of these services had a direct strong bottom line impact.

IT costs had grown substantially since the mid-90s due to the increasing importance of IT for the knowledge- and technology-driven banking sector. Before 1999, Credit Suisse could bundle IT service needs in-house under one centralized department. But increasing process automation, the development of alternative sales channels, and the need for efficient IT solutions had increased the pressure on the IT department. IT had become crucial for the operations of any bank. Simultaneously, independent IT providers could provide the same services more cheaply thanks to economies of scale.

Therefore in 1999, Daniel had been given the order to manage outsourcing of end-user hardware services, such as IMAC (Installation, Move, Add and Change), ordering

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Figure 1 | **Spend Breakdown Credit Suisse Group**

Composition Sourceable Baseline - in CHF Mio.

Spend [Mio. CHF]   (5,400)   (1,684)   (1,167)   (905)   (903)   (764)

	31%	22%	17%	17%	14%

Total Spend | Travel Expenses | IT Services | Professional Services | Banking Services | Occupancy & Other

Source: Credit Suisse Group

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new PCs and repairs. Management had seen the outsourcing project as a success, and a master contract with an IT provider had been negotiated.

Within this contract the most important aspects concerning the individual Service Level Agreements (SLAs) of each business unit had been specified. The provider had offered its services for a fixed price around 20 percent lower than internal costs.

Implications of the IT Outsourcing Project

In mid 2003, the management focused more on the bottom line, and the outsourcing initiative had not proved fully satisfactory. So far, there had been regular debates on quality and price with the provider, which had been a direct consequence of the missing structure and lack of transparency of the previous deal.

When Daniel and his team started their analysis, they identified four main problems:

- The provider's costs were higher than the market average.
- The provider was facing a continuous volume decline.
- The service level agreement (SLA) was cost insensitive.
- There were critical dependencies between the provider and Credit Suisse.

High Costs

The original contract stated that all services were chargeable on a time and material basis rather than at fixed rates. Benchmarking revealed that the hourly rates were 40 percent above best practice and 30 percent above market average. This was partly

attributable to a lack of market pressure as no competitive bidding processes had been implemented over the past couple of years. The other driver behind the high costs was the provider's restructuring in the face of declining demand volumes. Utilization of technicians was very low, limiting economies of scale, and thus service costs were not as competitive as those of providers operating at full capacity.

Slump in Volume

Analysing the provider's economic performance revealed that it was facing strong volume declines. The Credit Suisse Group made up nearly 80 percent of the provider's revenues. Since 2001, the SLA volume had plummeted substantially and by the beginning of 2003 was only at 50 percent of its original volume. Daniel saw no reason for this trend to reverse; indeed further demand reductions were very likely. Due to the high dependency on the Credit Suisse, this meant that the provider could go bankrupt and be unable to provide the services at all.

Cost Insensitive SLA Definition

In the SLA it had been specified that the provider was paid for services on a time and material basis. As a result, the price range of, for example, installing a particular unit could vary from CHF 150 to 1500, making budgeting very difficult. This cost variability occurred because of lacking transparency on the service quality. Whenever a user faced a problem, the helpdesk sent out a service request to the provider without giving any further details. A highly qualified technician would investigate, but as the exact problem was not yet clear, it was impossible to estimate how long it would take to solve the problem. There was huge leeway for technicians to work unproductively since their service quality could not be controlled. The problem was accentuated by the fact that the technician often had to make an extra trip to obtain the specific materials needed to remedy the problem, further increasing costs. The lack of transparency for both sides had led to very inefficient processes that were costly both for Credit Suisse and for the provider.

Critical Dependency

A complex technical environment had evolved with high system/database dependencies between Credit Suisse and the provider. Many important tools, such as inventory management or ordering tools, fell under the provider's responsibility. The interfaces had not been defined clearly, and the provider was often interfering in Credit Suisse's system. Data ownership in many areas had to be transferred completely to Credit Suisse as it was too sensitive to be in the hands of a third party. Additionally, the provider controlled facility management and network design of the Credit Suisse without accessible documentation of this knowledge. This IT tangle and the missing documentation meant that switching to other providers was very difficult.

Daniel concluded that the relationship with the provider had to be altered, and there was substantial room for improvement. He had to find a fast and effective approach that would allow him to improve the purchasing processes and lower costs while also reducing dependencies. He decided to start negotiations with the incumbent provider to impose the necessary changes and solve these problems.

The results of these negotiations were rather dissatisfactory. The provider could not cut its prices; and given the concerns about bankruptcy, Credit Suisse cancelled the contract. But with just a year's notice, Daniel had to solve several problems: he had to select a provider that would best match their internal requirements; he had to ensure that the

incumbent provider would provide the services until the end of 2004; and he had to manage the transition process to a new provider as smoothly as possible.

A New Outsourcing Deal for End-User Hardware Services

Daniel planned to master the whole challenge in three broad steps. First, he wanted to conduct an internal problem analysis to identify the internal requirements for end user hardware services. Based upon this analysis, a Request for proposal (RFP) would be prepared and a provider selected that would match to the identified requirements. Finally, in a third step the integration of the new and the phase out of the incumbent provider had to be implemented. Having this plan in mind, Daniel gathered his team around him to get into action.

At the project kick-off meeting the main hypothesis developed was that huge costs savings could be realized if, in the new SLA, 80 percent of the total costs would be charged within output oriented service packages. The idea was to categorize the different orders/services into service packages, each with a fixed price. A user with an IT problem would call the Credit Suisse IT helpdesk. The helpdesk would then identify the exact problem and send out a specific request to the provider asking for a pre-defined service package. This new procedure could cut the total time needed for fulfilling the services and increase the predictability and transparency of costs for Credit Suisse.

This hypothesis was the main trigger for improvement suggestions. Before rushing to the implementation phase and searching for a new provider, Daniel first asked his team to conduct an internal problem diagnosis. The objective was to identify the inefficiencies that had arisen by outsourcing IT services to the provider and then to develop solution proposals for improving them. To achieve maximum synergies, cross-functional teams—consisting of end users, the supervisors of the line functions, and the supply management team—were built. For their problem analysis they differentiated between two categories: process adjustment needs and service level adjustment needs.

For the process adjustment needs, the goal was to redefine and optimize processes so that the working relationship with the provider could be designed more efficiently and both parties would benefit more from their relationship. Within the service level adjustment, the goal was to implement changes in price and service level structure to reduce costs.

The team used a structured approach to identify the initiatives. In a first step, Daniel had asked his team to analyze the business model of IT providers to get a deep understanding of how they were running their business. "Only if we also adjust our internal processes to the provider's business, will we receive high quality service at lowest price." Then the team interviewed internal customers involved in the relevant processes, and used input from other projects as well as a profound data analysis and the feedback from the incumbent provider to develop a variety of proposals for optimizing the processes and service levels. To give just one example, the team reported that through data analysis it had emerged that 79 percent of total costs were attributable to the service and installation processes. Based on such analyses the team could identify the main inefficient processes, where demand adjustment initiatives were of major importance.

In a second step, the team defined six main levers for internal improvement initiatives:

- reduce service demand
- de-skill processes to optimize resource use of provider
- cut work duration/level of activity needed in a process
- align service level to target processes
- establish controlling and reporting systems to prevent inflated bills
- develop a continuous improvement mentality in the operative business

Reduce Service Demand

The team found out that many small end-user problems could be repaired by the users themselves, or through helpdesk support. One proposal was therefore to give helpdesk access to all decentralised systems so that services from the provider were requested only when really needed. Printer problems in particular were easily remedied through appropriate user instructions and warning and information signs on the printer. "Sometimes a highly skilled technician was being called out to fix a paper jam," reported the team.

Not all end-user problems were as banal. But the team found that software issues could be overcome too. One problem was that software and equipment were not suitably standardized, and users had too many access rights. Almost a third of the provider costs arose from software problems; this needed to be addressed. The team proposed that all software problems should be resolved without the direct commitment of an on-site technician. Improved remote access from helpdesk was a first step. If helpdesk couldn't solve the problem it would simply install a new standard system. Only if the new installation didn't solve the problem would a technician be called on-site. Through this process change, long-lasting repair through a highly qualified technician was circumvented and software costs could be reduced substantially.

De-Skill Processes

Process costs could also be cut by ensuring that most of the service requirements could be performed by less qualified employees. This would be possible by categorizing the services and using the helpdesk to define the user's problem, thereby reducing the need to call out a highly qualified technician. For example, if the helpdesk identified that a monitor was simply damaged and needed to be replaced, then a less-qualified provider employee could do this. This adjustment would lower costs for Credit Suisse and for the provider as low-paid labor could replace some of the work of the highly qualified technicians. Any subsequent software installations could be executed by the remote access from the helpdesk.

Shortening Processes

Eliminating duplication of work was critical. A key concern was to develop a single, clear interface between Credit Suisse and the provider. This would facilitate data entry and prevent data being entered a variety of times across different entry points due to high system complexity. The goal was to reduce the complexity that had evolved over the last years between the databases of the provider and the Credit Suisse.
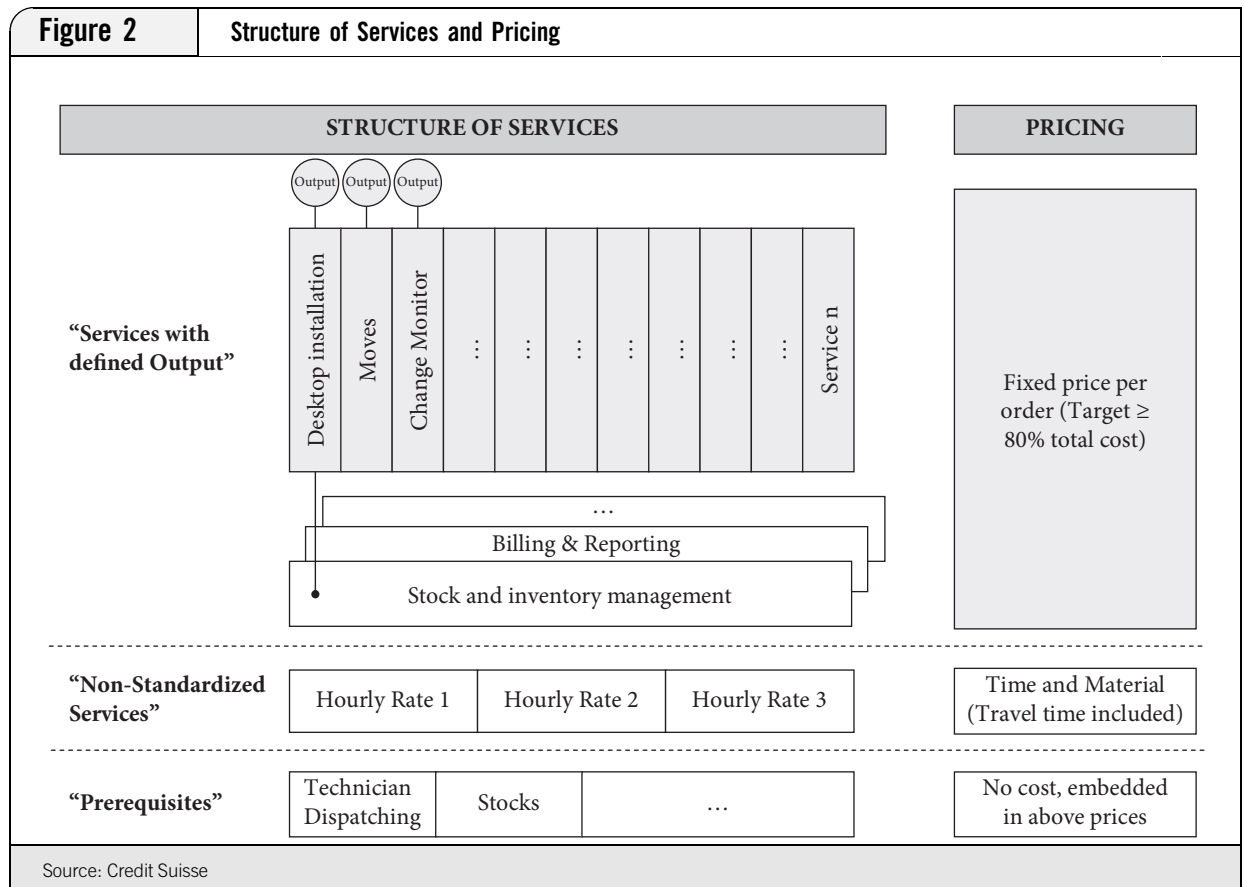
Daniel wasn't finished with time saving ideas. He decided that defective PCs would be replaced rather than repaired on site. This was one of those areas where costs were

unpredictable. His proposed initiative was that PCs would be repaired only when it could be done very easily; otherwise an exchange of PCs would be more time effective. All PCs would be repaired at a centralized location at a fixed price rather than on a time and material basis. This would reduce the incentive for the technicians to be unproductive. For each required service a time window for repairing was defined and an upper limit for the costs related to the service specified.

Align Service Levels with Target Process

Analyzing the old SLA, the team decided that a more efficient and cost effective SLA was needed. Paying for services on a time and material basis meant that it was impossible to control whether the service being provided was really effective and of high quality, or whether it could have been provided much faster. The new SLA therefore had to include a categorization of the different service needs, geared around fixed prices (Figure 2). This new pricing structure sustained the change towards a process output based view, where the output of the service was defined, measured and compared.

Following the decision to exchange PCs rather than repairing them on site, the team wanted to incorporate a simplification of the equipment exchange into the SLA. This specified that the problem analysis and decision process was centralized at the helpdesk and that users had no authority to send out requests. Further simplifications came by specifying that users had neither a claim on a specific PC nor on the recovery of local

Figure 2 — Structure of Services and Pricing

	STRUCTURE OF SERVICES	PRICING
"Services with defined Output"	Desktop installation / Moves / Change Monitor / … / Service n — Billing & Reporting — Stock and inventory management	Fixed price per order (Target ≥ 80% total cost)
"Non-Standardized Services"	Hourly Rate 1 / Hourly Rate 2 / Hourly Rate 3	Time and Material (Travel time included)
"Prerequisites"	Technician Dispatching / Stocks / …	No cost, embedded in above prices

Source: Credit Suisse

data. Finally, non-standardized PCs would only receive very limited support as analysis showed repairing such equipment was a large cost driver.

Daniel had yet another idea. He wanted to define a new service level for user requests that were not critical. Such "low priority services" could be provided two days after the incident had occurred. Some in the team questioned the rationale of this, but Daniel explained that such a differentiation meant that they could demand a lower fixed price for these less urgent services. At the other end of the scale, the team tried to reduce express services. There were no clear SLA guidelines for when an express service could be used. As a result, express services had been demanded for almost half of all server problems, even though data availability was not endangered. The supply management team therefore defined precisely in the SLA when a service could be categorized as an express service in order to gain control over these costs.

Reporting Systems

The fifth starting point for demand adjustment initiatives was to automate, institutionalize and improve the reporting and controlling systems. The goal was to increase transparency over the services provided. One of the main improvement initiatives was to develop an output-oriented reporting system based on the results (output) rather than the time spent (input). "We have too many blank fields in our reporting system, so that we can not really control whether the provider actually gave us the specific service to the agreed upon quality," explained Daniel. Analysis showed that usually it was not controlled whether the provider adhered to the service levels. A manual control of the charged bills was showing significant improvement potential, but was a huge effort. The solution: establish a transparent reporting system that allows a conclusive interpretation of results about the service quality and the main cost drivers within the organization.

The team's main adjustment initiative was to establish fixed prices for the different service packages and to define clear time horizons, in which the services had to be provided. Sticking to the time horizons was then used as the basis for payment. Fixed pricing also simplified invoicing. To ensure that the provider stuck to the SLA, Daniel planned to introduce a system whereby whenever the provider failed to meet its obligations, it incurred a penalty. KPIs were then defined for different information purposes. For example, performance reporting measured the provider's performance on measures such as internal customer satisfaction and incident cause reporting generated information on particular problems that occurred regularly. Finally, for each KPI the frequency and format of reporting, the service level to which it was assigned, and the receiver and its relevance for the bonus/penalty system was determined.

Continuous Improvement

The team discovered that many problems were picked up very late in the day; despite regular meetings with the incumbent provider. The team therefore developed a task force that would work actively on identifying problems. The team also found that cost reduction measures were mostly single actions rather than being embedded in a program supported by Credit Suisse and the provider. "The SLA specifications don't give the provider any incentive to identify significant cost reduction possibilities. But through the service package specifications and the introduction of fixed prices, our provider will also be willing to optimize processes. We have to make sure that improvement initiatives also benefit his business and increase his competitiveness," Daniel told his team.

In total, the team identified 32 demand adjustment initiatives, which they prioritized according to their economic impact, efficiency, feasibility and time horizon for

implementation. The team then worked on making the initiatives concrete as these would be the basis for the specification of the target processes and the new SLA. Once the target processes and the new SLA had been defined in a contract relevant manner, the search for a new provider could begin. The development of concrete demand specifications ensured the selection of a provider that would match best to the new internal requirements of the Credit Suisse Group.

Set Up of RFP and Selection of a New Provider

Set up of RFP

Besides the incorporation of the demand specifications, the second main requirement for the design of the RFP was that it enabled "switchability" of service providers. "We have to design a set up with universal interfaces to/from the provider and that prevents critical data dependencies," Daniel stated to his team.

In the target design, responsibilities and data ownership would be allocated to Credit Suisse. The team tried to reduce dependencies by switching from isolated "people knowledge" to accessible documented information, processes and roles. This meant an increased codification of implicit knowledge of the provider. For example, it emerged that only the provider knew where particular servers and server rooms were located. The whole facility management and network design was controlled by the provider. This knowledge needed to be documented so Credit Suisse had access to it. The supply management team realized that for an independent design, generic and simplified interfaces adhering to standards of most of the providers were needed. The target design would thus enable a fast and smooth transition of providers when required.

Defining and incorporating the relevant content into the RFP took almost six months. During these months, the initial ideas and hypotheses were developed and fine tuned until they could be formulated in contractual terms.

The RFP had been approved by the steering committee in June 2004. The legal entities of the Credit Suisse Group that had committed to use the fix pricing methodology were in the scope of the RFP. They had the chance to propose changes on the general demand specifications of the RFP. Daniel's team then discussed the feedback with each entity and implemented changes where feasible.

The final step was to think about the contractual structure of the RFP. "We had to ensure both continuity and flexibility," said Daniel. Therefore, he decided to develop a frame contract with the legal entity Credit Suisse Group. Within the master conditions, each legal entity still had the flexibility to order the range of services that would best match its internal demands and requirements.

Finally, the RFP was ready for send off to vendors. But Daniel's team was already confronted with the next challenge causing them headaches. Which providers shall be contacted and receive the RFP? What would an efficient selection process look like and what were the main selection criteria?

Selection of New Provider

The team developed a list of potential vendors to whom they could send the RFP, which broke down into three groups: international/generalists that offered a wide range

of products; international service providers; and domestic service providers. Based on this categorization the team identified around 15–25 potential vendors that could probably provide the requested services. The list was still too long, so the vendors were then compared across three dimensions: financial stability; experience and competence; and resources endowment in Switzerland. The last criterion was weighted with 40 percent since only Credit Suisse businesses in Switzerland were affected by the requested services. The financial stability and the experience of the companies were both weighted with 30 percent.

Daniel determined hurdle rates for each criterion. For financial stability, the team analyzed publicly available accounting data, such as IT-support turnover of the company. To assess competence, references from large clients were scrutinized as well as the service partners analyzed. To analyze the resources endowment in Switzerland, the location of the service personnel was investigated, as well as the number of service personnel and the overall PCs under management. Afterwards, Daniel assessed and ranked the vendors according to their overall performance. The eight best vendors received the RFP at the end of June 2004.

Four of the eight companies chose not to participate, leaving four to be evaluated. This was done based on their pricing (50 percent weighting), their quality offering (40 percent), and their corporate image for the services (10 percent). The grading was done on a scale from 1–10 and 7 was considered as "fully meets Credit Suisse requirements and expectations." The rationale of the quality ranking was to consider the extent to which vendors accepted the demand specifications, or whether they asked for alterations. It was also scrutinized whether vendors' existing systems matched the Credit Suisse service model, or whether high up-front investments were necessary to ensure compatibility.

Based upon the final evaluation, two vendors remained in the short list. Daniel's team conducted a detailed evaluation and comparison across quantitative and qualitative criteria. There was no significant difference in pricing between the two; but the quality was still to be determined.

Daniel thought about the starting point of the project and its primary objective again: "We have to find an IT provider that can offer the services at a competitive price and that fits our internal demand and process requirements." This meant that they now had to select one of the two potential vendors based on whatever characteristics they felt were most important and that they had to plan the transition process carefully. Daniel and his team swung into action again!

Discussion Questions

1. Analyze the events and the consequences that lead to the situation described in the bank sector and Credit Suisse Group in particular in the '90s.

2. Which general problems with the old provider can you identify?

3. What are the advantages of Credit Suisse's new supplier management/evaluation system?

4. If you were in the position of Daniel Parker, which other preventive measures would you have to consider to manage the transition process as smoothly as possible concerning the incumbent provider and your own supply management team?

5. Write down the most important steps of the IT-Provider-Switching management activities.

6. Daniel's team had to analyze the last two vendors across four categories. Which basic characteristic groups of the potential providers are important to find the supplier that best matches the internal requirements of the Credit Suisse Group?

7. Daniel's team had to implement the new service level agreement with the new provider. Try to describe the three key areas of managing the transition process.

8. Which quantitative and qualitative results and benefits from the transition to the new provider can you identify?

9. Which important lessons have you learned from this case study?