

Large Multinational Insurance Group

Benchmarking Outsourced Network Services

Business Challenge

The North American division of a large multinational insurance group had, five years earlier, acquired a division from another large insurance company and, at that time, decided to outsource the combined technology operations of the merged business organizations. The aim of this outsourcing project was to allow the business groups to focus on their core business, while leaving the job of consolidating and optimizing technology operations to the outsourcer. The scope of the outsourcing deal included data center operations, network operations, and some application development. The initial deal was for a ten-year term. The merged company had 10,000 employees in North America across 40 U.S. locations.

Approximately five years into the contract, the insurance group realized that it was not getting what it had hoped for from the outsourcing deal. Every small change that the insurance group made to its IT requirements seemed to increase its total costs under the agreement; and no savings had been passed on to the insurance group by the outsourcer as market rates for various services fell and the outsourcer optimized the infrastructure. The insurance group therefore wanted an independent analysis of the deal to determine whether it was in the insurance group's best interests to continue with the outsourcing arrangement for the remaining five years of the term or whether it should seek alternatives.

The part of the outsourcing deal under which the insurance group felt it was getting the poorest value for money was for network services, the total cost of which was approximately \$16.2 million per year. The insurance group therefore decided to take a look at these services first.

The Solution

Acumen Solutions was engaged by the client to:

- Conduct a detailed analysis of the network service elements used and the charges being made by the client for these services,
- Benchmark the current costs to industry-standard rates, and
- Make recommendations on how the client could get better value by moving to alternative service providers and/or renegotiating the agreement from a position of knowledge about alternatives and fair market costs.

**Acumen Solutions
identified a projected
three-year savings of
\$21 million dollars.**

The services covered in this analysis were:

- Voice network services:
 - Local services
 - Long-distance services, including “virtual office connection” services
 - PBX and voicemail services
- Data network services:
 - Wide-area networking services
 - Local area network services
 - Internet access (offices outbound)
 - Internet inbound firewall and intrusion detection services
 - Remote site/user connectivity
 - VPN gateway and VPN user support
 - Internet dial access service (RAS) for VPN

Acumen Solutions reviewed the agreement, service by service, using proprietary benchmarks to inform the client on best-of-breed contract agreements and what it might achieve if changes were made. The project took a total of six weeks. At first, Acumen Solutions encountered obstacles in gaining access to the data necessary to conduct the benchmarking analysis. The outsourcer had become entrenched in the minds of some of the employees and data was scattered throughout the organization.

Acumen Solutions examined each of the ten network services to identify options for addressing the current high cost of each service and to create a financial model of the cost of pursuing differing options, including termination penalties incurred under the outsourcing agreement. The analysis also considered the operational impacts of pursuing 4 different options ranging from “do nothing” through “transition to new suppliers”. Based upon this analysis, Acumen Solutions then made service-by-service recommendations.

Return on Investment

Acumen Solutions concluded that the outsourcing deal, which was entered into five years earlier, had not achieved its goal of optimizing and consolidating the client’s network services. Comparing what the client had on a service by service basis with Acumen Solutions’ industry benchmarks showed that the services supplied by the outsourcer represented extremely poor value. Overall, the client’s costs of \$16.2 million were 2.35 times the benchmark of \$6.9 million per annum for the same set of services. Acumen Solutions identified considerable opportunities for reducing the costs of network services and a projected three-year savings of about \$21 million. Acumen laid the groundwork for the next step, a full RFP process.