

## 2 Credit Suisse: Sourcing IT Services<sup>1</sup>

### Teaching Note

#### Case Synopsis

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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 provider was not able to satisfy the new quality and cost requirements of the 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.” Only then, Michael knew, could they improve service quality and cut IT costs. Daniel swung into action.

#### Teaching Objectives

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The case study *Credit Suisse: Sourcing IT Services* was written for an introductory course in purchasing and supply management or supply chain management. The case study shows students the development of analytical and decision making skills on a “supplier switching” management decision.

The case study should motivate students to think about the important dimensions of sourcing information technology (IT) and the necessary requirements of a supplier evaluation system in a multinational company. They should be able to relate to the three basic steps of supplier selection/switching:

- Internal need analysis to identify the internal requirements for end user
- Request for proposal (RFP) and provider selection
- Implementation phase: integration of new supplier and the phase-out of the incumbent provider

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1. This teaching note 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™. Used with permission.

## Discussion Questions

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

- a. The stock market crash (burst of the bubble) in 2001 hit the banks hard: transactions fell, assets shrunk, interest rates fell and investment banking revenue collapsed.
- b. Cost structures were inefficient, cost/income ratios stood at around 70–80 percent and customers mistrusted the financial markets and institutions.
- c. Increased transparency on pricing and the emergence of new non-bank competitors created additional pressure.
- d. The bottom line, controlling costs and cutting them further, had become increasingly important. IT costs had grown and made up a major stake in the overall purchasing volume and had a significant influence on the cost base of the banks.
- e. Improving service levels and offering new customer-orientated solutions were essential to regain trust from customers, they expected higher service levels so professional risk management procedures were needed and they became more and more price sensitive.
- f. IT costs had grown substantially since the mid-'90s due to the increasing importance of IT for the knowledge- and technology-driven banking sector.
- g. Increasing process automation, the development of alternative sales channels and the need for efficient IT solutions had increased the pressure on the IT departments of the banks.
- h. Independent IT providers could provide the same services more cheaply thanks to economies of scale.
- i. 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 departments had increased strongly.

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

- a. Provider was not able to satisfy the new quality requirements.
- b. The provider's costs were higher than the market average.
- c. All services were chargeable on a time and material basis rather than at fixed rates. The old service level agreement (SLA) specifications don't give the provider any incentive to identify significant cost reduction possibilities.
- d. The provider was facing a continuous volume decline: since 2001 the SLA volume had plummeted substantially and by the beginning of 2003 was only at 50 percent of its original volume.
- e. Missing structure and lack of transparency of the previous outsourcing deal had led to very inefficient and costly processes.
- f. The service level agreement (SLA) was cost insensitive. 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 due to a lack of transparency on service quality and time requirements.
- g. There were critical high system/database dependencies between the provider and Credit Suisse. 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 hand of a third-party.

Additionally, the provider controlled facility management and network design of the Credit Suisse without accessible documentation of this knowledge.

- h. The Credit Suisse Group made up nearly 80 percent of the provider's revenues. 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.

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

- a. The different orders/services are categorized into service packages, each with a fixed price. This new pricing structure sustained the change towards a process output-based view, where the output of the service was defined, measured and compared. The definition of clear time horizons was then used as the basis for payment. This new procedure cut the total time needed for fulfilling the services and increased the predictability and transparency of costs for Credit Suisse.
- b. The new Service Level Agreement (SLA) was more efficient and cost effective. The SLA specifications give the provider some incentive to identify significant cost reduction possibilities and to optimize processes. These improvement initiatives also benefit his business and increase his competitiveness.
- c. To ensure that the provider adheres to the SLA, Daniel Parker had introduced a system whereby whenever the provider failed to meet its obligations, it incurred a penalty. Key performance indicators (KPIs) were then defined for different information purposes. For example, reportings measured the provider's performance on measures such as internal customer satisfaction and incident cause reportings 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.
- d. Eighty percent of the total cost could be attributed to services with a pre-defined output through the development of standard service packages.
- e. Improvement of Credit Suisse's internal end-user platform processes. A holistic view on the processes had been developed and the transparency and predictability about the processes and the prices increased.
- f. The new outsourcing set-up allowed them to switch providers more easily, should that be required, and reduced the dependencies that had evolved with the old provider. Clear interfaces and internal entry points were created, which prevent the provider from having access to Credit Suisse's critical knowledge.
- g. Availability and quality of the service improved. System downtime was reduced by the more frequent exchange of defective equipment. The availability of distributed IT services as well as the immediate, customer friendly execution of support and IMAC (Installation, Move, Add, Change) orders remained unchanged and guaranteed.

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

- a. The Credit Suisse Group made up nearly 80 percent of the provider's revenues. 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. Daniel Parker had to ensure that the incumbent provider would provide the services until the end of 2004. Together with the Credit Suisse's HR department he developed a backup plan for identified key employees of the current provider—enough to provide the minimum service level—and prepared special contracts. In case of bankruptcy these employees would receive an offer to continue with the same job but working for Credit Suisse.
- b. The last challenge for Daniel was to enable a smooth phase-out of his own team and the transition of the open tasks. The supply management team tried to identify open topics, themes and projects related to the phase-out that still had to be resolved. These were then assigned to the corresponding line functions and a plan for the deliverables set up.

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

The precise preparation of the transformation process is the most important task in order to realize the benefits of the concept development work.

IT-Provider-Switching management activities:

- a. Internal problem diagnosis to identify the inefficiencies with the incumbent provider and development of solution proposals for improving them:
  - 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.
  - Service level adjustment needs: the goal was to implement changes in price and service level structure to reduce costs.
- b. Analyze where the cost saving potential was still large.
- c. Negotiations with the incumbent provider to impose the necessary changes and solve these problems → dissatisfactory negotiations.
- d. Analyze business model of IT providers to get a deep understanding.
- e. Definition of main hypothesis and internal requirements:
  - Development of concrete demand specifications
  - RFP should enable "switch ability" of service providers
- f. Fine tuning of hypothesis and internal requirements and formulation in contractual terms → Request for Proposal (RFP).
- g. New provider selection and evaluation procedure with the help of categorizations, comparison dimensions with weighing and hurdle rates.
- h. Sending out the Request for Proposal (RFP) to the selected vendors.
- i. New provider identification with a detailed evaluation and comparison across quantitative and qualitative criteria.

- j. Management and supervision of transition process from the incumbent to the new service provider:
  - Implementing of demand adjustment initiatives.
  - Coordinating all the affected IT-systems and setting up new interfaces.
  - Coordinating and supervision of the smooth phasing in of the new provider and the phasing out of the incumbent.
- k. Establishment of adequate control and reporting systems to manage your provider → preventing future dependencies.
- l. Improvement of service quality.

**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?**

*# 1: Basic Offers of Providers*

Firstly, the basic offers were compared, including such criteria as regional presence, service partnerships and assignment of subcontractors.

*# 2: Improvement Potential of Providers*

Secondly, the potential for further optimization was analyzed, encompassing criteria such as future savings potential and the impetus for further innovation.

*# 3: Transition/Daily Business Excellence (Project Management Skills)*

Thirdly, Daniel told his team to hold workshops with the two candidates and to organize on-site visits. At the workshops the vendors were compared on their ability to deliver both in the transition phase and in daily business, employees were interviewed and the overall impressions of the processes and of the site visit were evaluated.

*# 4: Gut Feeling of SM Team towards Providers*

The fourth category on which vendors were assessed was simply the gut feeling of the team as to the potential fit of the provider with Credit Suisse in the long term; and the ability to bear losses—especially important in light of the incumbent provider's bankruptcy risk. In particular, the team wanted any future provider to have other large accounts besides Credit Suisse.

Based on this analysis, the team aggregated their findings into a strength and weaknesses profile for each vendor. Finally, the steering committee decided that in principle, both were able to provide the services and that both management teams were committed. Although there was a slight preference for one of the providers because of major quality and minor price advantages, two contracts were negotiated. Daniel's team negotiated that they could enter into the transition process with the preferred provider, but in case of problems during the implementation phase, they had the right to quit the contract and continue with the other provider. This approach had the advantage of having a very good backup solution, in case of major implementation problems with the first vendor.

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

Although a new provider had been found, the risk of the incumbent going bankrupt in 2004 was still acute and Daniel had to come up with a solution. Following long

conversations with Credit Suisse's HR department, they settled on a backup plan should the worst happen. Key provider employees—enough to provide the minimum service level—were identified and special contracts prepared. Now, if the incumbent declared bankruptcy, these employees would receive an offer to continue with the same job but working for Credit Suisse.

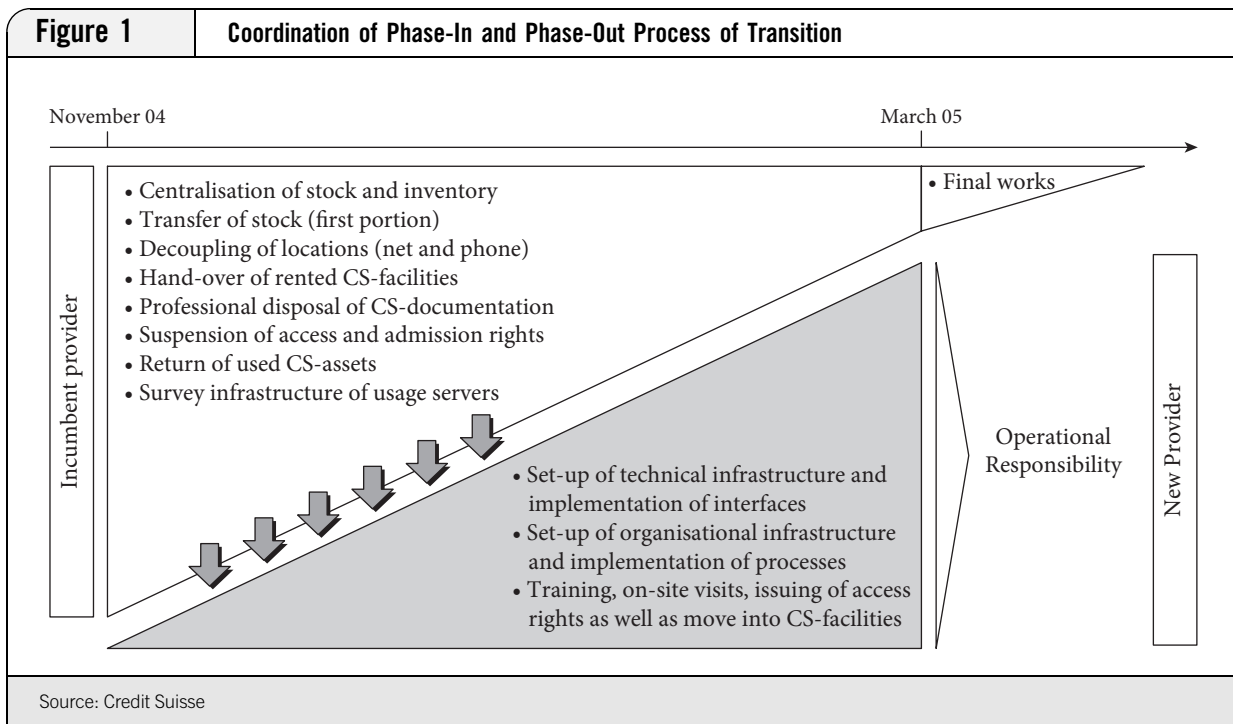
In the actual transition process the role of Daniel's team changed strongly from implementation towards supervision of the relevant change processes. The team turned its attention towards three key areas.

Firstly, at the process level the team had to ensure the target processes were implemented by the responsible line functions. "It is fundamental for the success of the whole project that the demand adjustment initiatives are implemented as planned and that we can guide the organization through the necessary adjustments," Daniel said.

Secondly, the team's focus had been on coordinating all the affected IT systems and setting up new interfaces to certify the best match with the provider. It also had to be verified that the most suitable system would be implemented for each service needed from the provider, to optimize communication.

The third and most challenging goal was to coordinate and supervise the smooth phasing-in of the new provider, as well as the phasing-out of the incumbent (Figure 1). Daniel's team had to ensure that critical knowledge was transferred from the old to the new provider.

Besides the supervision functions, the supply management team also had to ensure that the targeted employees received adequate training and were informed about the relevant changes.



With the training modules complete, the next goal was to test extensively the system's functionality. An analysis was done to determine whether the provider could execute all the services requested by Credit Suisse; whether the IT applications being introduced were supporting the processes optimally; and whether the provider's charges were consistent with Credit Suisse guidelines.

Finally, the team had to consider the point in time when the actual transition would take place, without disturbing the operative business. This was also the point of no return concerning the vendor choice. Once the system of the vendor had been connected and interlinked with the CS, they continued the implementation with the respective vendor. They decided to make the switch on the last weekend in February 2005, activating the necessary applications and setting up the relevant portals and interfaces. On Sunday, the team made final tests with the system to ensure that all the necessary functionalities had been installed and, finally, in the afternoon, the provider phase-in was finalized.

The last challenge for Daniel was to enable a smooth phase-out of his own team and the transition of the open tasks. The supply management team tried to identify open topics, themes and projects related to the phase-out that still had to be resolved. These were then assigned to the corresponding line functions and a plan for the deliverables set up.

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

- a. Quantitative Benefits—The benefits of the change in provider for Credit Suisse were impressive. Daniel's team had reduced the total expenditure for IT end user services by nearly 40 percent from its historical value. The NPV of the project was way higher than expected, so that from a financial perspective the project had met its goals and could be regarded as a tremendous success.
- b. Qualitative Benefits—A major benefit for the supply management department was that the success of the project could be communicated across the organization. The role of the supply management team as initiator of a successful cross-functional cooperation led to an increased acceptance by internal customers. The supply management team was able to show to the rest of the staff that "supply management matters."

One of the most important benefits of the project was that 80 percent of the total cost could be attributed to services with a pre-defined output through the development of standard service packages. This increased transparency and resolved the problem of lopsided information between Credit Suisse and the provider. The quality level of the service was location independent and could be measured clearly through output-oriented KPIs. As a result, the costs for provider services fell as there was an incentive for the provider's technicians to work as fast as possible and performance could be tracked.

The second main benefit was the improvement of Credit Suisse's internal end-user platform processes. A holistic view on the processes had been developed and the transparency and predictability about the processes and the prices increased. This led to billing that could be easily audited, and the service quality could be controlled through monthly KPI reporting.

The third main benefit for Credit Suisse was that the new outsourcing set-up allowed them to switch providers more easily, should that be required, and reduced the dependencies that had evolved with the old provider. Clear interfaces and internal

entry points were created, which prevent the provider from having access to Credit Suisse's critical knowledge. Primary data sources were internalized and provider access was limited. The increased ease of switching also kept the provider on its toes.

The fourth benefit was that the availability and quality of the service improved. System downtime was reduced by the more frequent exchange of defective equipment. The availability of distributed IT services as well as the immediate, customer friendly execution of support and IMAC orders remained unchanged and guaranteed. Additionally, since the provider was only entitled to provide services based on explicit tickets authorized by the support staff, a technician could no longer handle customer requests "along the way,"

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

- a. Specify clearly your internal requirements before setting up an RFP.
- b. Analyze your provider's business to design a win-win situation.
- c. Keep the market pressure on your provider by preventing dependencies.
- d. Establish adequate control and reporting systems to manage your provider.
- e. Find out all information you can get about your internal customers and external suppliers.
- f. The knowledge about your provider's business is very important.
- g. Don't stop to think about cost savings potentials in the organization.
- h. Every far-reaching decision has consequences that have to be considered among the internal and external customers.