# On the Case: HCL – Bekaert

Transitioning service providers and fine-tuning the global services approach

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# Summary

## Catalyst

Satisfaction with traditional, often first-generation outsourcing contracts remains muted. Many of these deals were signed primarily with cost-cutting in mind, and the contractual arrangements often did not offer the flexibility required for the sourcing organization to adapt the contract to its needs. Both the supply- and buy-side have significantly matured their approach to sourcing, making buyers more confident about switching providers. However, mitigating the risks of such a transition remains critical for the overall success of the outsourcing agreement.

In this context, Bekaert, a global market and technology leader in steel wire transformation and coatings, with headquarters in Belgium, chose HCL Technologies to run its data center operations. HCL for its part focused on building the relationship and delivering value beyond what is defined in the contract.

## Key messages

- The successful transition of Bekaert's infrastructure services from another provider provides a reference point for HCL's capabilities in remote infrastructure management services.
- As HCL's first major client in Belgium, Bekaert is a reference point for HCL's approach in the Benelux region.
- The case study highlights the importance of balancing local and offshore teams in a flexible manner adapted to client requirements, rather than taking a more prescriptive approach that focuses on the supplier's margins.
- Critical success factors of the contract are the definition of a target operating model and the attention paid to the retained organization. For instance, level 1 support was retained in-house to the satisfaction levels of internal stakeholders.

## Ovum view

The contract between Bekaert and HCL is a good example of the evolution of sourcing strategies and the maturation of client sourcing organizations. It shows how the emphasis has shifted away from traditional full-scope infrastructure outsourcing in which suppliers take over customer assets and manage them offshore, to a more modern form of outsourcing that offers flexibility in both its contractual terms and the way project teams are put together.

Bekaert provides a useful reference point for organizations that are considering switching outsourcing providers. It is probably fair to describe the maturity of Bekaert's sourcing organization as average, due to it having transitioned from a long-lasting, first-generation outsourcing contract. It was not ready for outcome-based pricing and was not looking for a great deal of innovation in the contract. Rather, the driving force for Bekaert was the desire to move to a more flexible contractual model that also maintained the quality of service delivery.

Bekaert's executives described the transition to HCL as relatively smooth. Having invested in semi-automated migration tools, HCL was well placed to mitigate the transition risks during the transition.

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The Bekaert project is a good example of a market dynamic that Ovum has observed repeatedly in recent times. Namely, that the India-based service providers are increasingly being awarded second-generation outsourcing contracts. This is a reflection of the maturation of these providers and of their investments in localization. The decisive factors in being awarded contracts are not only predicated on price, but also on outsourcers' flexibility in approaching contractual issues and their willingness to listen to clients' concerns. In Bekaert's case, HCL did not necessarily shine in the first round of tenders, but it was willing to listen to the customer's requirements, and able to come back strongly. Client-centricity is difficult to convey in marketing messages alone, and as such the feedback from Bekaert's executives is a much stronger testimony. It is this approach and attitude that we think will help the Indian suppliers such as HCL to make further inroads into the outsourcing market, most notably in Europe.

# Recommendations for enterprises

## What type of customer could benefit from this IT service?

HCL's partnership with Bekaert is a reference point for organizations evaluating their end-of-contract sourcing options. Customer satisfaction in traditional first-generation outsourcing deals often fails to live up to its promise because of inflexible contractual arrangements. However, switching providers bears significant risks that need to be mitigated. Critical in this respect is the provider's understanding of the client's specific challenges, and its ability to match the offering to these requirements and the maturity level of the client organization.

Clients considering switching providers should evaluate the provider's migration methodologies and tools. HCL's long-term focus on, and investments in, remote infrastructure management have been critical in its recent successes, most notably in the Nordics region. However, contractual arrangements should also provide clients with the flexibility to react to market conditions, as well as changes within the business such as mergers and acquisitions (M&A), and expansion into new markets. In our view, the provider's willingness to adopt a more flexible approach to customer requirements is more important than whether it follows the latest trends or is immersed in currently fashionable concepts such as outcome-based contracts or service integration and management (SIAM).

# Customer case file

## IT Services Data Sheet: HCL – Bekaert Infrastructure

**Table 1: Data sheet**

| | | | |
|---|---|---|---|
| **Vertical industry** | Manufacturing sector | **Key SLAs** | Data center uptime; second line help desk time to resolution |
| **Customer size** | Around 27,000 employees, sales in 2013 of €4.1bn | **Chief benefits** | More stable levels of service quality and support. The introduction of business continuity and a technology refresh in infrastructure, as well as centralized services at one offshore location. |

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| | | | |
|---|---|---|---|
| **Priority issues** | To improve levels of service quality: issues had led to negative perceptions of the IT department | **Bid type** | Competitive renewal. Other providers were considered; eventual shortlist of three providers |
| **Types of service** | Infrastructure, and partly SAP basis support | **Contract type** | Fixed price with parts evolving into utility pricing and other more innovative mechanisms |
| **Length of contract** | Five-year contract | | |

Source: Ovum

# Background

HCL's infrastructure services contract with Bekaert, a global market and technology leader in steel wire transformation and coatings, with headquarters in Belgium, is a good example of the transition of a first-generation outsourcing agreement toward more innovative ways of collaboration between customer and provider. At the time of signing the original contract, like many organizations, Bekaert's overriding strategic imperatives were to reduce costs and support global expansion, often within the context of M&A. The takeover of assets, transfer of the IT department, and strong use of offshore services were key elements in the first generation of outsourcing agreements. However, while these achieved significant cost savings, they introduced new challenges, including:

- a lack of transparency in the decision-making process and the level of services pushed offshore
- a lack of consultation for selected technology changes or technology roadmaps
- occasional issues with service levels
- an increase in support tickets

Such challenges are a combination of provider-specific issues and the inherent problems with first-generation contracts. The strong focus on issues directly related to cost reduction, such as asset transfer and the need to build up sourcing skills around governance and vendor management, are often associated with the early phase of outsourcing. In this case, Bekaert felt that the original contractual arrangement had left it with a lack of flexibility. At the same time, there was a misalignment between Bekaert's reliance on its Belgium IT-centric workforce and the expansion toward offshore teams. The aggressive expansion of offshore capabilities led to performance issues affecting overall satisfaction levels.

As a result, Bekaert sought an operating model that took into account its strong IT footprint in Belgium, while recognizing that its international capabilities were not as critical as the aggressive expansion of its core business might have suggested. In fact, it wanted a more centralized IT organization to mitigate against the issues mentioned above. Furthermore, Bekaert wanted to implement a dual data center as part of its disaster recovery strategy, and aimed to gain a balanced approach between cost and innovation. While innovation was not contractually captured during the negotiations, the company was looking for a partner that clearly demonstrated its commitment to continuous improvement. For example, HCL suggested leveraging Bekaert's old data center, which would contain capital expenditure and minimize disruption during the migration.

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# Implementation and results

Transitioning from the incumbent provider to HCL was not an easy undertaking, despite Bekaert executives' assertion that the eventual integration was smooth. However, the experiences provided valuable learnings for other organizations that are evaluating transformational sourcing projects. The starting point was that some incidents in the IT environment had led to negative perceptions of IT within Bekaert, which in turn increased the pressure from various stakeholders. Although the incumbent showed reasonable levels of support and cooperation, the transition process remained challenging. For instance, some of the documentation requested by HCL to plan the transition was protected by intellectual property. The majority of the documentation for transition was available through virtual rooms, but not in person. Similarly, HCL did not have easy access to the data centers to assess their state for planning purposes, and fallback plans after the migration to HCL could only be achieved in a few isolated cases. It also needs to be borne in mind that the commercial models were changing. While the incumbent had leased most equipment, HCL was looking for a different approach, and this slowed down the transition. Equally, both parties evaluated an on-demand utility that was ultimately dismissed as not mature enough to be implemented from the start of the engagement. Furthermore, Bekaert was HCL's first major client in Belgium, leading both partners to go through a learning curve, a fact acknowledged by both parties.

Despite the plethora of challenges, executives at Bekaert described the eventual integration as smooth. They pointed to the transition to the new dual data center with all SLAs and KPIs being achieved.

Further milestones included:

- transitioning to a dual data center setup in Belgium and single data centers in the US and China, with 300+ servers and 200+TB of storage
- connecting remote offices in 27 countries and 77 locations
- the addition of end-user computing services, including Citrix, image development, new hardware testing, distribution of new updates, and end-point protection
- Partial SAP basis support; multiple instances (including production, non-production, quality, test development etc.)

Reflecting on the learnings from the project, executives at Bekaert suggest that there were not too many surprises, which probably reflects the learning process that both Bekaert and HCL went through as well as the comparatively smooth transition. However, they pointed out that organizations should be careful in trying to speed up the transition process. The need for both sides to pay attention to the change management required in such a project is a critical success factor. Similarly, organizations should pay particular attention to defining and setting up the retained organization, as the shape of the IT organization still might need adjustment in this transition to a new supplier. Consequently, organizations need to address the flexibility required to adjust internal capabilities. Self-critical Bekaert observed that the overriding drive to lower cost can lead to suppliers offshoring too large a percentage of services. Organizations need to think about how they address these issues contractually, as the effects are often not foreseen.

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# Appendix

## "On the Case"

On the Case is a premium case study produced by Ovum's IT Services team. These case studies highlight IT services and outsourcing engagements based on a series of criteria, including innovation (a unique component in either service engagement or delivery, or the deployment of cutting-edge technology), proven business benefit or impact, and demonstrable ROI. On the Case is designed to provide insight to enterprise customers looking to implement similar IT services or outsourcing engagements and/or to provide lessons learned on how to work and interact with the IT services/outsourcing vendor profiled in each case study.

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## Ovum Consulting

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