How to Guide
Cloud Processing &
Outsourcing

Janco Associates, Inc.

2024

Table of Contents

Cloud and Outsourcing Management Standard

Overview

Cloud Processing and Outsourcing do not remove the enterprise's requirement to manage the process. A comprehensive cloud processing and/or outsourcing arrangement requires Service Level Agreement (SLA) monitoring and redefinition, as well as strategic management and other retained functions. (See cloud outsourcing approval standard under retained costs – Page 14 for a listing of frequently retained functions).

Many CIOs and business leaders are using the cloud within their enterprise data centers to take advantage of the best practices that cloud computing has established -- scalability, agility, automation, and resource sharing. Others are using third parties to accomplish the same tasks – that is outsourcing.

By using a cloud-enabled application platform, companies can choose a hybrid approach to cloud computing that employs an organization's existing infrastructure to launch new cloud-enabled applications. This hybrid approach allows IT departments to focus on innovation for the business, reducing both capital and operational costs and automating the management of complex technologi

Because cl
with these

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        on

► [text obscured]
As a shared resource, the cloud provides flexible, automated management to distribute computing resources among the cloud's users.

► **Reliability and Fault-Tolerance**
Cloud environments take advantage of the built-in redundancy of the large numbers of servers that make them up by enabling high levels of availability and reliability for applications that can take advantage of this.

► **User-Focused applications**
The cloud is a natural home for service-oriented applications, which need a way to easily scale as services get incorporated into other applications.

► **Computing Utility Users** only pay for the services they use, either by subscription or transaction-based models.

► **Common Infrastructure**
By enabling IT resources to be consolidated, multiple users share a common infrastructure, allowing costs to be more effectively managed without sacrificing the security of each user's data.

► **Service Level Agreements**
Clouds are managed dynamically based on service-level agreements that define policies like delivery parameters, costs, and other factors.

► **Disaster Recovery / Business Continuity**
Meets all requirements for DR/BC for the enterprise, especially if the service provided is DR/BC

Cloud Processing and Outsourcing Approval Standard

Overview

The decision to outsource or migrate towards a cloud is complex and requires a good deal of expertise. Approval of a cloud processing and/or outsourcing agreement requires the implementation of Service Level Agreements, an initial analysis of the overall scope, base case analysis, vendor identification, a request for a price quote, vendor bid appraisal, and contract negotiation. Each of these steps must be performed successfully to achieve a positive decision.
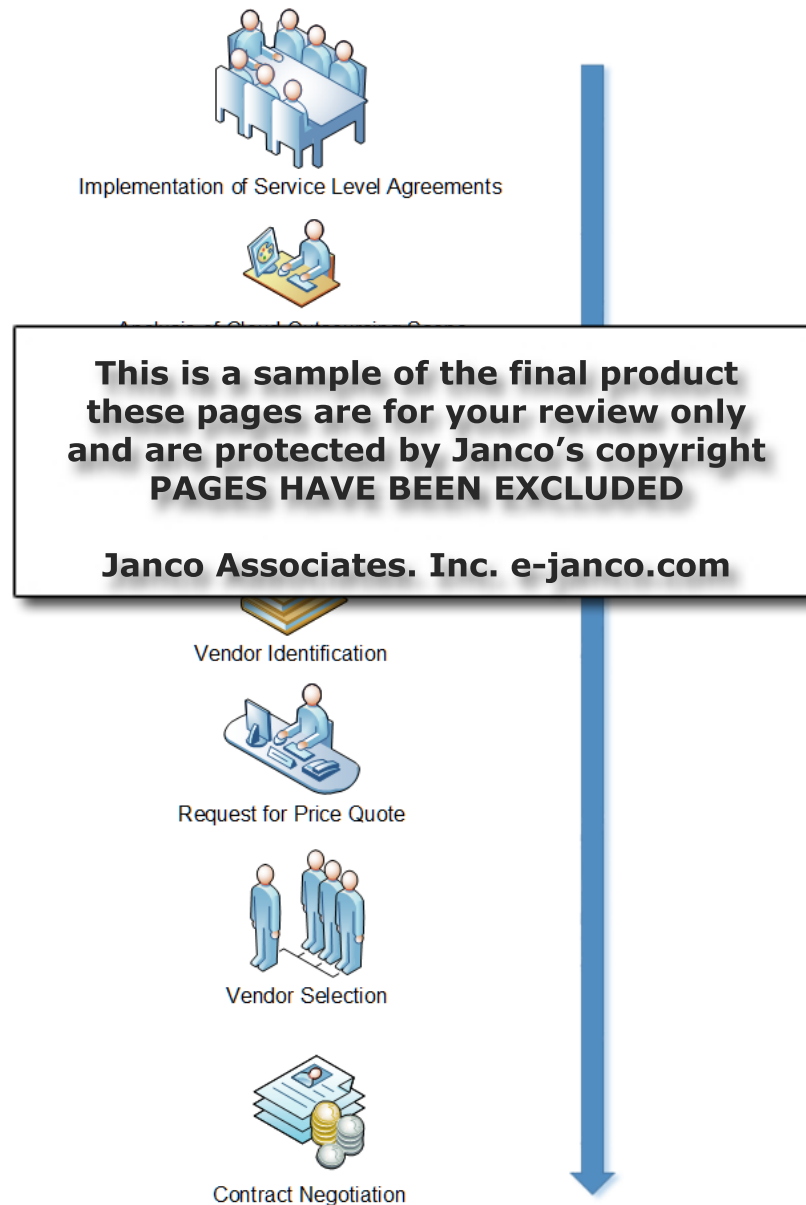

Implementation of Service Level Agreements

Vendor Identification

Request for Price Quote

Vendor Selection

Contract Negotiation

Figure 1 Cloud Outsourcing Process Chart

SLA and Metrics Reporting

The Service Level Agreement (SLA) is the central instrument for managing an outsourced function (See page 50 for a sample SLA). The Manager of Cloud Applications (see page 106) with the help of the Cloud Computing Architect (see page **Error! Bookmark not defined.**) will track SLA (See Service Level Agreement Report Package section – page 19) fulfillment and enforce the contract terms if an SLA is not met. The Manager of Outsourcing must also take an active role in defining and redefining SLAs to take into account changes in the operating environment.

Before outsourcing it is necessary to create Service Level Agreements[6] for the enterprise that will show the existing level of service being provided. These are created with the user in mind. Using such a set of metrics the enterprise will know how the outsourced vendor is performing. The set of metrics that can be considered is listed in Figure 2.

Project Status Report

Internet Performance

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Service Request Backlog

Charge Back

Re-engineering Status
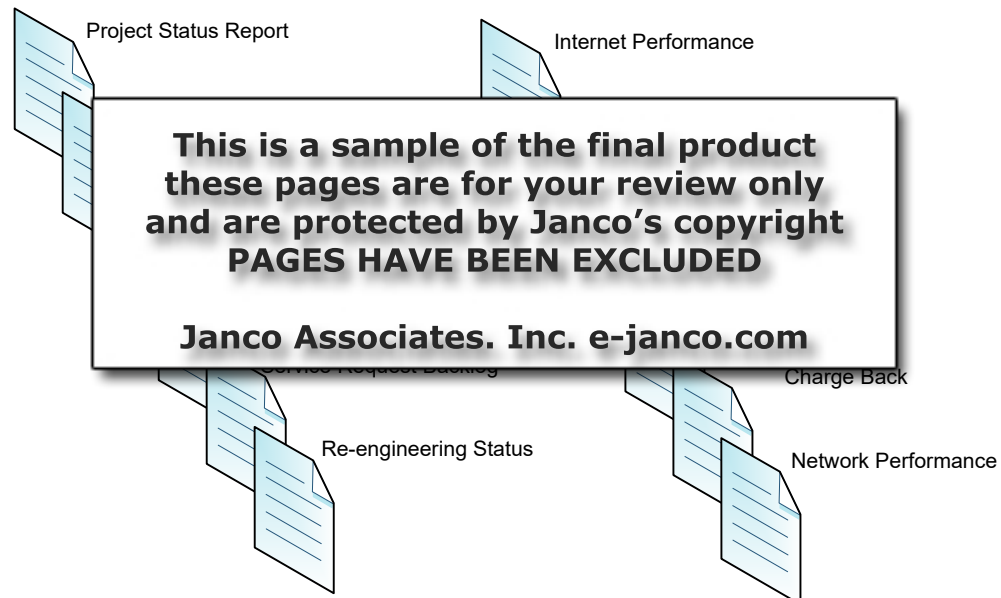
Network Performance

Figure 2 - Reporting Package

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[6] See "KPI Metrics for the Internet and Information Technology- a HandiGuide®" published by Janco Associates, Inc. at https://www.e-janco.com/ for a more detailed discussion.

Formal SLA

The formal SLA (See page 50 for sample SLA) should be signed by the user and IT management as well as the vendor providing the outsourcing service. The agreement should contain at least the following components:

- ▶ Processing volume statistics in user terms
- ▶ Cost for a period based on whatever pricing method is agreed to by all parties
- ▶ Forecast of each of the metrics in the SLA reporting package
- ▶ Performance standards
- ▶ Terms and conditions for performance and non-performance by both parties

Metric Categories

Metrics that have been used in Service Level Agreements are defined in the tables that are contained within the Appendix of this document (see page 63). They are categorized in the following 13 areas and can be used to create specific service level agreements:

- ▶
- ▶
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- ▶

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- ▶ Quality Assurance
- ▶ Help Desk
- ▶ Computer Operations
- ▶ Communications
- ▶ Other Technology
- ▶ Enterprise/Industry Specific

Criteria for Ranking Potential Cloud Outsource Vendor

Once there is a list of 20 to 30 potential vendors, it is time to start to classify them. You will have several comments on each of the potential vendors which are good, bad, and indifferent. These should be recorded in some format that will ensure that information is not lost. Some individuals prefer detailed file folders; others summarize Excel spreadsheets. Whatever works should be used:

Factors to consider are:

▶ The reputation of the vendor and its employees - If a vendor has a bad reputation and/or the individuals who represent the firm are not reputable that is a strong negative. Also, several outsourcing firms pay commissions to consultants or sales agents. Are they representing the outsourcer or themselves?

▶ The financial strength of the vendor - A financial report like a Dun & Bradstreet should be reviewed especially if the outsourcer is a privately held company. At some point, you will have to ask for copies of audited financial statements. In the case of some offshore companies, they will be reluctant or unable to do so. That will have to weigh into the final selection process.

▶ Experience of the vendor - How long have they been in the outsourcing business and what successes and failures have they had? Do they understand your industry, and do they have any clients who are like you in size and scope?

▶ ~~...~~ vendor ~~...~~ ur direct ~~...~~ nd ~~...~~ ic

▶ ~~...~~ ality and ~~...~~ n to any ~~...~~ enterprise.

▶ The focus of the vendor is the dollars you can generate for them - If the focus is on how much business you can provide them versus how much value they can provide to your enterprise that may be an issue.

▶ The insight provided by the vendor - As you communicate with the vendor do they understand what value they can provide to you? Are they trying to sell you their canned solution?

▶ The vendor can define what is a win for you - In communications with the vendor can they define what is a win for your enterprise? Do they have a feel as to how long it will take to achieve a win? Will they commit to that in a contract?

▶ Senior management at the vendor is committed - What level of the vendor is your point of contact? Is their senior management committed to acquiring your business and supporting it? If their senior management is not committed maybe they are stretched too thin, or they may be too busy.

▶ The vendor is committed to big customers or new contracts - Based on the volume of new business a vendor has, they may or may not be able to support your enterprise in both the start-up phase and operations. Sales and marketing people love to brag; listen to what they say, log, and follow up as time permits.

▶ Vendor references come easily - All vendors will provide references for their successes. The challenge will be to learn about their failures and see what the vendor has done so that those failures do not occur again. Gather as much information as possible on the vendor's business practices, honesty, and commitment to its existing client base.

Base Case Development

To help negotiate the best price from a vendor, the enterprise should develop a base case model for volumes and growth that can be used by both the enterprise and the vendor. The factors to be considered are listed below.

Growth Factors That Will Impact the Outsource Vendor

- ▶ Base growth (each major component)
- ▶ Business growth
- ▶ Extraordinary growth
- ▶ Communication growth
- ▶ Application growth

Cost Factors That Will Impact the Outsource Vendor

- ▶ Cost of technology (each major component)
- ▶ Cost of communications
- ▶ Cost of Software Maintenance
- ▶
- ▶
- ▶

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Other Factors

- ▶
- ▶ Retained expenses
- ▶ Pass-through expenses
- ▶ Additional resource charges
- ▶ Reduced resource charges
- ▶ Guaranteed price decreases and price increase caps
- ▶ Shared cost savings and other incentives
- ▶ COLA adjustments
- ▶ Taxes
- ▶ New Services
- ▶ Data Center operational benchmarks
- ▶ Most favored customer provision
- ▶ Penalty for high turnover of personnel
- ▶ "Nuisance damage" credits
- ▶ Vendors slow to replace departed staff
- ▶ Vendors slow to replace departed third-party support
- ▶ Vendor reducing the level of maintenance
- ▶ Clarification of the basis of the calculation
- ▶ Credits and reimbursements to customer
- ▶ Pass-through expenses
- ▶ Approval for an expense to be reimbursed (prior approval, limit without approval)

Sample Metrics for Service Level Agreements

Metrics that have been used in Service Level Agreements are defined in the tables that follow. They are categorized in the following 13 areas and can be used to create specific service level agreements:

- ► Financial
- ► Staffing
- ► Internet – Electronic Infrastructure
- ► Competitive/Comparative
- ► Productivity
- ► System Development
- ► Reengineering – Office Automation
- ► Quality Assurance

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Financial

Report	Metrics
Key Measures	**All data is captured for a rolling 13 months** Expenses - Period Actual (Dollars) Expenses - Period Plan (Dollars) Staffing - Period Actual (FTEs [16] Staffing - Period Plan (FTEs) On-line Availability [17] - Plan (%) On-line Availability - Actual (%) Billing Performance - Plan (Dollars) Billing Performance - Actual (Dollars)
Expense Performance Summary	**All data is captured for a rolling 13 months** Current Period - Actual (Dollars) Current Period - Plan (Dollars) Year to Date - Actual (Dollars) Year to Date - Plan (Dollars) YTD Variance from Plan - Period (Dollars) YTD Variance from Plan - YTD (Dollars)
Expense Va___ Cate___	**All data is captured for the current fiscal year by budget category**
Expense Varia___ Center	Current Period - Actual (Variance Analysis) Cumulative YTD - Plan (Dollars) Cumulative YTD- Actual (Dollars) Cumulative YTD - Actual (Variance Analysis)

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Financial Metrics - Part 1 of 2

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[16] FTE is Full Time Equivalents)

[17] Some users prefer man hours or revenue lost due to failure of system availability. This is a negative measure and we have opted to show only positive metrics in this set of metrics.

Business and IT Impact Analysis Questionnaire

This questionnaire[29] is the basis for documentation necessary to understand the business impact and risks associated with each physical location, business function, and IT application.

A "BEST PRACTICE" is to complete this questionnaire for each physical location, application, business function, department, and organizational entity annually. Also, as conditions change (i.e., events like COVID-19 and 9/11) to alter the operating environment, at least the risk component should be reviewed, and actions should be taken to mitigate unacceptable levels of risk.

Impact - Risk

Once these forms are completed, a summary of the major functions with the Impact to ENTERPRISE should be prepared[30].

Function Application	Metric	Key User(s)	Risk Score
			1
			1
			2
			2
			2
			2
			1
Customer Data	A/R Balances	Credit Sales	3
Liquid Assets	Treasury Balances	CFO	2
Supplier	A/P Balances	CFO	3

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[29] The boxes on the questionnaire that follows can be checked (or unchecked) by double clicking on the box.

[30] Impact is defined as the risk the ENTERPRISE if that function or application became Ounavailable.

Policy

Detailed policy is attached under separate cover.

- Outsourcing & Cloud-Based File Sharing Policy

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Detail Job Descriptions

Detailed job descriptions are attached under separate cover for these positions.

- VP Strategy and Architecture

- Director Disaster Recovery and Business Continuity

- Disaster Recovery Coordinator

- Manager of Cloud Applications

- Manager Outsourcing

- Manager User Support

- Manager Vendor Management

- Manager WFH Support

- Cloud Computing Architect

- Digital Brand Manager

- Capacity Planning Supervisor

- Digital Content Specialist

Cloud and Outsourcing Forms

Forms are attached under separate cover for these forms

- Application & File Server inventory

- Company Asset Employee Control Log

- Non-Disclosure Agreement

- Outsourcing Security Compliance Agreement Form

- Outsourcing and Cloud Security Compliance Agreement Form

- Work From Home Contact Information

- Work From Home IT Checklist

- Work From Home Work Agreement

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What's new

2024

▶ Included Policy
- Outsourcing and Cloud-Based File Sharing Policy

▶ Added Job Descriptions
- Manager User Support
- Manager Vendor Management
- VP Strategy and Architecture

▶ Updated all included job descriptions to the 2024 version

▶ Updated all included electronic forms to the 2024 version

▶ Updated to meet the latest mandated compliance requirements

2023

▶ Added two detailed job descriptions
- Manager Outsourcing
- Digital Content Specialist

▶ Updated all included job descriptions to the 2023 version

▶ Updated all included electronic forms to the 2023 version

▶ Updated to meet the latest mandated compliance requirements

2022

▶ Updated all included job descriptions to the 2022 version

▶ Updated all included electronic forms to the 2022 version

▶ Added electronic form Work and WFH SLA metrics

2021

▶ Added key Disaster Recovery and WFH job descriptions
- Director Disaster Recovery and Business Continuity
- Disaster Recovery Coordinator
- Manager WFH Support

▶ Added key Work From Home forms
- Company Asset Employee Control Log
- Work From Home Contact Information
- Work From Home IT Checklist

▶ Updated DRP and Business Continuity Management Objectives

▶ Updated all Included forms

▶ Updated all included job descriptions

▶ Updated included BIA tools

▶ Added materials to address Work From Home

▶ Added materials to address DR/BC using cloud processing