



## IT Leader Ron Glickman, SVP and CIO of Travel Retailer DFS talks about his experience with “Transformational Outsourcing”

DFS, a global travel retailer of luxury brands, operates 400 stores in 16 countries, selling mostly liquor, tobacco and fragrance products. The impact of September 11<sup>th</sup> on travel-related businesses accelerated DFS’ IT transformation effort from 36 months to 9 months. Through IT outsourcing, DFS has reduced its IT spend over 35% from 2001 to 2002, and its permanent IT staff from about 250 to less than half of that.

Q: Do you look at or differentiate between offshore, nearshore and local outsourcing?

A: Our view historically of outsourcing was that it was a tactical cost-reduction strategy. IT organizations tended to use the offshore partner to either augment their staff or move heavy lifting to a lower-cost region so that their internal staff could do more value-added work.

We take this transformational outsourcing perspective, because we think we are moving from the tactical to the strategic. In our move, we went to our offshore partner for all of the technical services: maintenance and projects. So, they control the entire technology domain with their world’s best practices, their capability to attract and retain very skilled engineers and apply them to the business problems that we present to them.

Whether the team is offshore or onshore is very much dependent on the type of project and where we are in the lifecycle. For example, a brand new system that needs to be built or something new that is being taken over from a support point-of-view will require a large amount of resources - what we call onshore - at our business units.

So, for example, when we started to do knowledge transfer and help the Cognizant folks take responsibility for our legacy systems, we had concurrently placed ten teams of Cognizant and DFS people, one in each division where we had code and operating units. They stayed there as long as they needed to: to understand the systems, get them documented in an online-manageable repository, know where we were having the pain points and the most call-tickets, and be able to support them side-by-side with the people who had been supporting them, before they returned offshore. So, we were virtually 90:10 - 90% in our locations, 10% in India and now we are exactly the opposite - we’re 10% spread around the world to make sure that the interface points are great and 90% of the resources are offshore, cranking code out seven days a week, 24 hours a day.

Q: Is the offshore work moving in a more strategic direction, or is it still mostly tactical?

A: I guess what I'm saying is that you have to look at this holistically from a technology support perspective. We're not a technology company. We're a global retail company. That's what we do best. So, we've taken the whole of our IT organization and sort of divided it into two halves. There's the half that says: what really needs to be done, and what are our business processes, and how does retail work, and how do we differentiate ourselves from the competition in the market? Those are the employees that I have in my organization, that report directly into DFS IT management people. They're figuring out with the business partners what needs to be done, they're reengineering processes, they're managing projects, they're looking after the call center and tracking tickets, and figuring out on the tactical/technical side: where are we getting most of our problems? And how can we do root-cause analysis to figure out how to make that number of tickets go down, so we can redeploy the folks fixing that stuff to more value-added project work.

All of the Cognizant guys, some of them are doing tactical day-to-day maintenance, others are doing development and systems integration, some of them are under the control of the DFS IT management.

Q: So you have really focused most of your IT people on what, in most companies, is the "missing link" between business and technology.

A: the key thing is: yes, they're IT people, but they're really much more business-oriented IT people, if you will. That's what we do well, and that's how we make our business successful. Technology has become such an engineering science, in my view, with all of the legacy code and the accelerated pace of change, the business can't be bothered with our systems integration and platform problems. When all of that work is put within a single company, that - within their brand - has all of the skills that we could need and can bring those skills when we need them, where we need them, it gives us a huge strategic advantage. I'm not wasting a full-time DBA waiting around for a DBA problem - if I need one I call Cognizant and I get it. If I need to put a GUI-interface on top of a legacy system as part of a transformation from old platform to a new, I just tell Cognizant that's what we want to do and they help us sort it out. That's where the power of the transformational comes in: I couldn't hire those people in the US market to work for me and then try to link the work that I'm telling them to do with the work that I would be asking the offshore partner to do. The seams between those organizations would just be too hard to manage, in my opinion.

Q; Have you started getting input from Cognizant on strategic technology direction?

A: Yes - we expect that of them. Just to give you an example, with our data warehouse, they are 100% responsible for creating the target architecture that we want to hit, helping us to select the appropriate tools in the space where we are going to buy vs. build, and helping us to create a data transition and migration plan that we can afford from a cost and risk perspective. My guys are responsible for saying what data marts are the most important, where does that information come from in our business and how do we extend the use of our strategic information platform out into the various PDAs, hand-helds, phones, laptops, etc. if and when we need it. So, they're an extension of my IT organization - we don't even talk about them as a third-party. It's as if my talent pool of the DFS IT organization is very broad and very deep. Nobody in retail can compete with that, in my view, unless they have similar partners. You just

can't have a \$300 million IT department sitting around waiting to do what you need to do, and that's the power of the model. They also have 10-12% of their skills and resources that they keep available to scale up for either new clients or new projects and I take advantage of the idle time there to do first-level research , product awareness and education for my people that is also a big benefit. Add to that the fact that if I need to scale, it takes about a week to get a team in place.

Q: As CIO, what are some of the main challenges that you face?

A: [chuckles] First of all, in a non-technology company: getting the appropriate talent and the right mix is always the biggest challenge. Non-technology companies tend not to change fast enough to keep highly technical people motivated and interested.

Not necessarily minimizing costs, but optimizing them and helping the board and the executive committee see that they're getting value for the money.

The main reason that we exist is to enhance our business partners' ability to deliver their strategic initiatives and enhance competitive advantage. In order to do that, we've got to be productive, very quality-focused, fast and flexible. The challenge is building a bridge between lowering your costs and providing that kind of productivity and expertise.

Q: Was CMM Level 5 certification an important criterion in selecting Cognizant?

A: It was a ticket to entry. It wasn't a selection criterion.

One question we are thinking about now is: what is the path for DFS that parallels SEI CMM 5?

Q: Have you seen improvements based on following a formal process?

We've seen efficiency rating go up, trouble tickets are down, value-added projects have increased, and costs are down.

Q: What are some of the projects that have shown the highest return-on-investment (ROI)?

A: I try to stay away from ROI, because the first one in the boat has to pay for the boat, and if that's the way that the business measures things, you never get off the shore. So, I'm trying to have a longer-term perspective, think a little more strategically, and give the business the tools that they need to compete. Oftentimes, ROI is not a good measure.

We don't typically use ROI is what I guess I am saying.

We have four criteria that you could call financial:

- 1) Does it increase sales?
- 2) Does it reduce operating expense?
- 3) Does it create a barrier or competitive advantage in the marketplace?

- 4) Is it a regulatory or operating requirement, that without it, we couldn't do business in a particular country?

So, those are the things we tend to look at when we are deciding how to spend our IT dollars.

Q: What kind of challenges did you face working with a team offshore?

A: They're really management challenges. Who owns accountability for the business outcomes? In our case, we know who that is - that's the DFS management team. We do not put that burden on Cognizant. We hold them accountable for the things we ask them to do, but not the ultimate business outcome. So, that's really helped us overcome that barrier. The cultural and language barriers can be a challenge, but we've overcome them by frequent visits by the offshore partner and inclusion here onshore of some of their people at our key strategic meetings. We've really integrated them as part of our company, culture and organization. We expect them to behave according to our values, our purpose and direction. They've been really very very good at that.

The other challenge is, we have such a significant pool of resources available to us, keeping the pipeline full is very challenging. We found things to divert people to, but it's a nice problem to have. We need to keep the work in the hopper because they deliver very very quickly for us.

The last thing is just: selling the vision - helping the executive committee and the board understand why we've taken this approach.

Q: Did your folks also have to take some cultural training or orientation?

A: They have done some diversity training for our management team as we've started to take a much more global view. That was helpful.

Q: Do you have a steering committee?

A: We don't have a "steering committee" per se. We have people on a day-to-day basis who have roles and responsibilities for delivering supported projects. The mentor for our account at Cognizant is their CEO. He is based in New Jersey. We have a formal conference call once a quarter. I have access to him whenever I need it and vice versa. We have a very informal structure but one that works very well.

Q: If you were to start this all over again, what would you do differently?

A: In retrospect, we could have done our knowledge transfer faster. We had retained some people in case this didn't work out. Fortunately, we didn't need that insurance policy. So, we could have gone a bit quicker, which would have been helpful.

I don't think that there are very big things that we would do differently. That's because we had change management support from the very beginning, and our board of directors and the executive team on board from the very beginning. If you're not

prepared to take the organization through the cultural changes that are required to make an offshore model work, that's a definite red flag.

Q: Have you been making any efforts towards business process outsourcing (BPO)?

A: We are experimenting with that right now.

Q: Which BPO areas are you looking at now?

A: We are looking at financial management: invoice flow, accounts payable - that type of thing.

While we're very interested in BPO offshore, we're not interested in just moving what's broken to a lower-cost operating environment. We want to reengineer it before we move it. We're working very closely with Cognizant in a couple of areas to see how this model might play out.

Q: Last question: are there any breakthrough technologies that you see on the horizon that have the potential to change your business in a big way?

A: Nothing that is... I think some things that have been in place for a while will be breakthrough for our organization, because they just weren't deployed in the early days. Workflow is a great example. We have Lotus Notes - we use it for e-mail and that's it. We're consolidating it onto a big machine in our Singapore operating center. Once we get that going, we're going to take a tremendous amount of paper and cycle time out of this environment. So, while it's not new and sexy, that's a breakthrough technology from our perspective.