



# FTA Annual 2010 Managed Services

June 8, 2010



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# Agenda

- Managed Services
  - Market Drivers and Trends
  - Business Challenges in Public Sector
  - Solutions and Benefits
- Application Management Outsourcing
- Business Process Outsourcing
- Value Proposition
- Client Case Studies
- Questions

# Managed Services in Tax, Revenue, and Collections

# Market Drivers that Create Trends

## Drivers

- Accelerate availability of new functionality in COTS applications
- Replace or uplift collections and compliance systems and capabilities
- Significant budgetary pressures
- Limited \$'s to invest in release upgrades
- Mitigation of staffing constraints
- Desire to increase predictability of TCO
- Concern for service requirements and business continuity

*Almost every organization seems to be facing one or more of these challenges*

## Trends

- Multi-sourcing: fewer Full-IT deals being awarded to a single provider
- Open solutions that allow for more multi-vendor support
- Federal OMB mandate to procure applications as shared services
- Over 2/3rds of governments need ongoing assistance with application management
- Growth rates accelerated to double-digit levels in 2009

*Governments overall interest and acceptance of managed services is growing\**



*We are being asked by many legacy clients, and virtually all new clients, to discuss managed services delivery models*

## Managed services defined

**Transferring responsibility for some aspect of operations (IT or Business) to a private vendor who will deliver that as a service**

### **AMO Application Management Outsourcing**

- Provider hosted and maintained business processes and services
- Customer manages service provider performance and outcomes

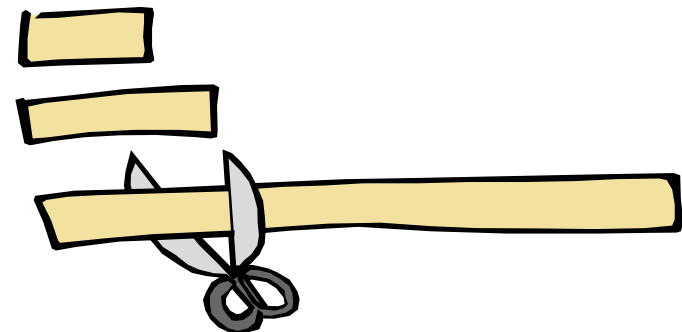
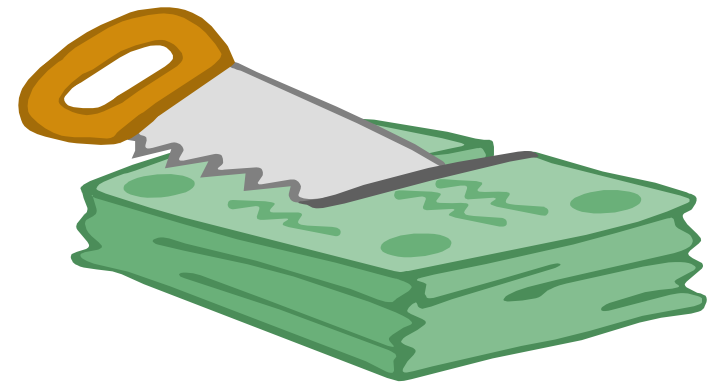
### **BPO Business Process Outsourcing**

- Buying a business outcome
- Service Level Agreement driven by business outcomes

**Multi-Year Engagements with upfront costs spread over a multi-year contract reduces cost and establishes cost certainty**

# Business Challenges in Public Sector

- Growing State & Local **budget shortfalls**, have required agency operating budgets to be slashed and staff furloughed
- **Significant tax gap** from uncollected debts, non filers, and under reporting – taxpayers are becoming more aggressive in this climate
- Revenue generation projects and opportunities are not begun due to **lack of resources and funding**
- **Hiring freezes** (at best), or more likely **staffing reductions**
- Continued **inability to attract/retain skills** in legacy and new technologies
- Inconsistent **application availability**
- Suspect **business continuity** and **disaster recovery capabilities**



# How managed services solves these problems

**Increases business capabilities while decreasing operating costs**

- **Bring in much needed revenues, and implemented faster than a traditional project**
- **Provides more control of IT costs, while maintaining performance**

**Allows agencies to focus on core mission while maintaining (or increasing) control of IT**

- **Provides Service Level Agreements and performance monitoring of application availability and performance**
- **Can include business continuity and disaster recovery capabilities**
- **Can be used to achieve system replacement and upgrade projects**

**Can be used to offset and augment staff reductions**

- **Provides critical skills in legacy and new technologies**

## Other benefits of Managed Services

**Can include requirements to keep software updated to current releases**

**Can mitigate against staff turnover**

**Can significantly reduce the time to implement**

**Shifts upfront cost to the vendor**

**Provides long-term cost predictability**

**State can select to “own” portions of the infrastructure, systems, and automated tools**

**State maintains control of policy, procedures, and relationships with the agencies**

**State can build processes for the return of control at the end of the managed services engagement**

# Managed Service models side by side

**Low** **Client Requirement Centricity** **High**

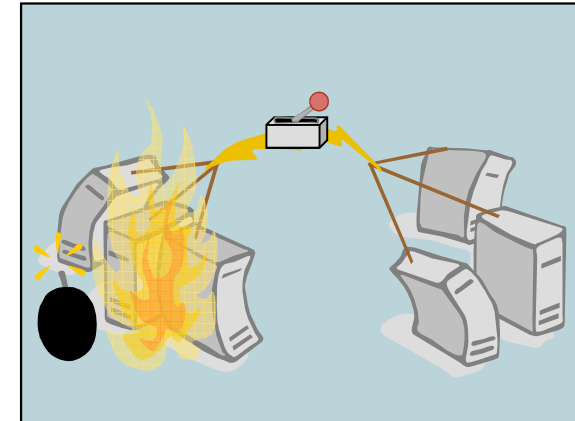
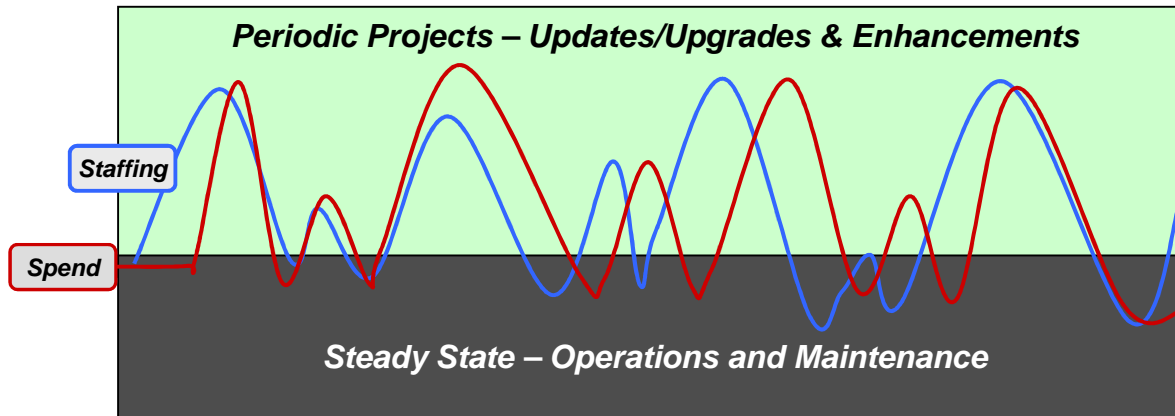
SaaS	BPO	AMO	ITO
<b>Common Shared Applications</b>	<b>Managed Service (Business and IT)</b>	<b>Managed Applications</b>	<b>Full IT Management</b>
<ul style="list-style-type: none"> <li>▪ Leveraged Web Application accessible over the Internet</li> <li>▪ Infrastructure, platform, code, and instance are multi-client, also known as a multi-tenant architecture</li> <li>▪ Offering is for 'commodity' services or smaller clients</li> <li>▪ Client subscriber is limited to changes through configuration of the provider's application</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provider hosts and manages Business Processes and Services</li> <li>▪ Customer manages service provider performance and outcomes</li> <li>▪ Business results and benefits are extended from the provider to the customer</li> <li>▪ Customer does not need to worry about managing technology</li> <li>▪ Best practices and industry certifications in processes and services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Client-centric, tailored application management that may include hosting; architecture independent</li> <li>▪ Client qualifies provider based on expertise in application area</li> <li>▪ Customer manages business processes</li> <li>▪ Established Service Level Agreements</li> <li>▪ Performance Reporting and Monitoring</li> <li>▪ Client Controls Upgrade Frequencies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Full IT Outsourcing</li> <li>▪ Level of Service Improvement over baseline today</li> <li>▪ Cost reduction over a baseline "status quo"</li> <li>▪ Application Rationalization</li> <li>▪ Consolidated Portfolio</li> <li>▪ Governance</li> <li>▪ Qualify Provider in IT governance and process improvement</li> <li>▪ Flexible use of labor</li> <li>▪ Labor arbitrage</li> </ul>

**High** **Business Function Centricity** **Low**

# Application Management Outsourcing



# Common challenges solved by an AMO managed service



## Challenges with Staffing & Cyclical Projects/Budget Needs?

- **Release Management**
  - Inability to Stay Current
  - Ongoing Technical Training & Staffing
- **Budgetary**
  - Lack of Predictability
  - High Operational Costs (vs. Enhancement)
  - Total Cost of Ownership
- **Resource Challenges**
  - Capacity
  - Elasticity (expand/contract)
  - Recruiting/Retention
  - Technology Experience/Fit

## Enhancement Projects – Consistently Delayed or Deferred?

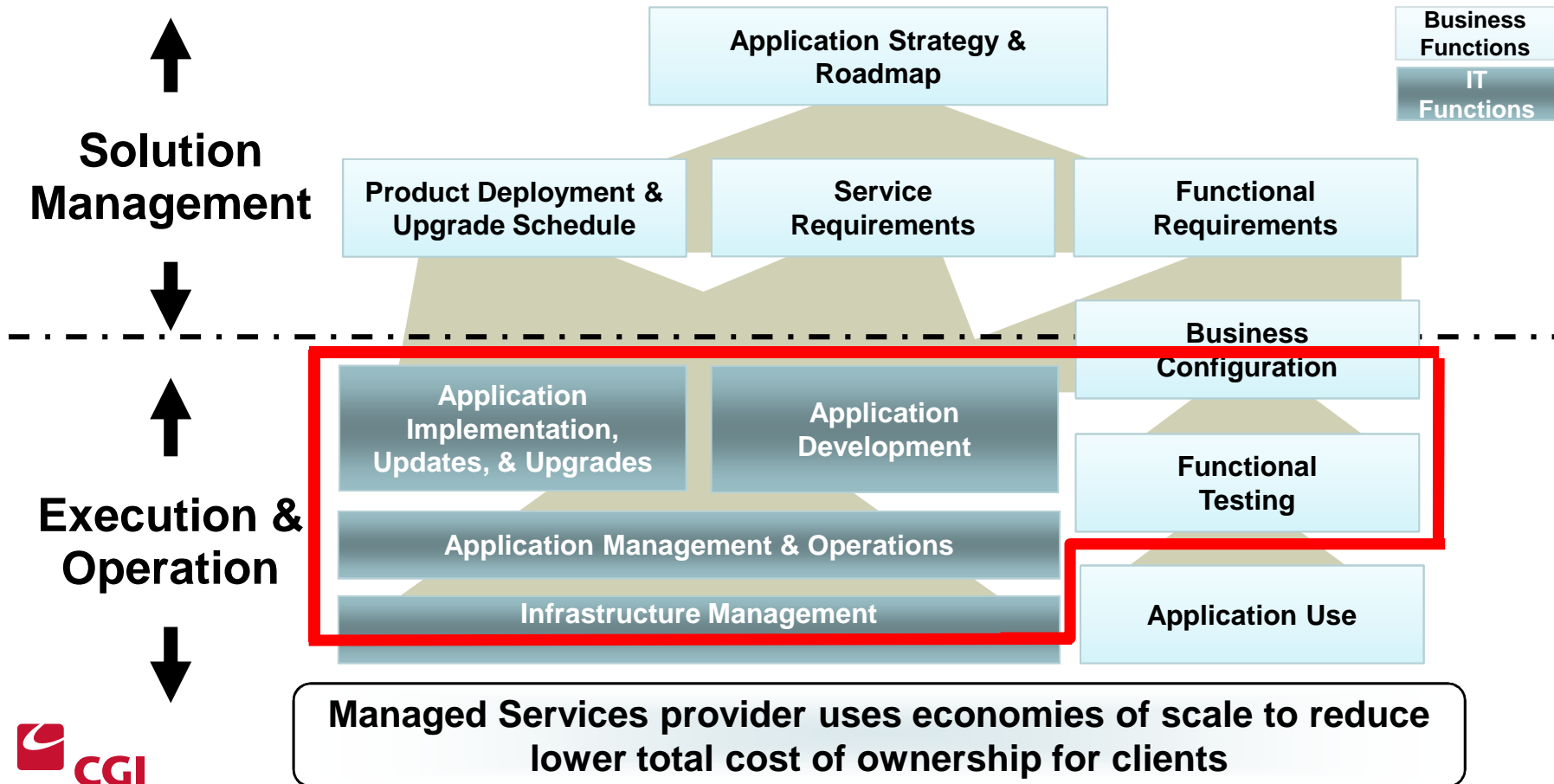
- **Time to Market**
  - Inadequate Funding
  - Backlog of Projects
  - Competing Objectives
- **Cost**
  - Overall
  - Rationalizing Internal Allocations
  - Per FTE/hour
- **Quality Management**

## Risks of Disruption in Application Availability?

- **Service Reliability**
  - Timely Incident Remediation
  - Uptime Levels and Consistency
  - Enforceable Commitments
- **Business Continuity**
  - Resiliency of Primary Location
  - Level of redundancy
    - Technology
    - Staffing
  - Disaster Recovery
    - Backup and Restoration
    - Alternate Site
    - Periodic testing

# Application management value proposition

Clients may not be able to fund, develop, and retain the level of expertise in management of a COTS or Legacy ITS application internally, but they can access these services from an outside provider without loss of control



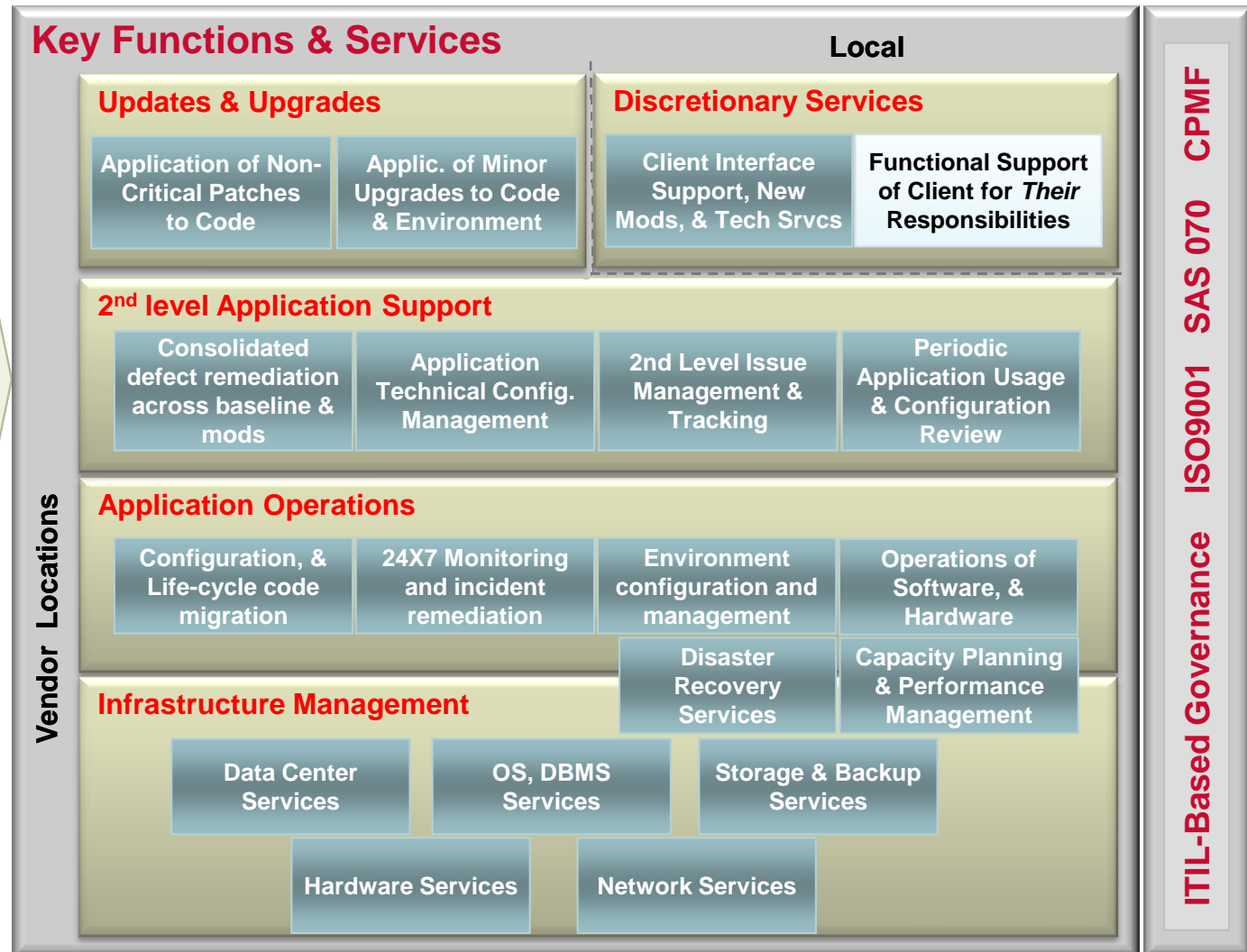
# What is the potential scope of AMO?

## Differentiating Attributes:

- Proliferation of Subject Matter Expertise across Delivery Model
- Proven Managed Collections and ITS Service
- Single Point of Accountability
- Carrier Grade Infrastructure
- Flexible and Extensible
- Business Interaction through IT, who manages vendors provision of technical services

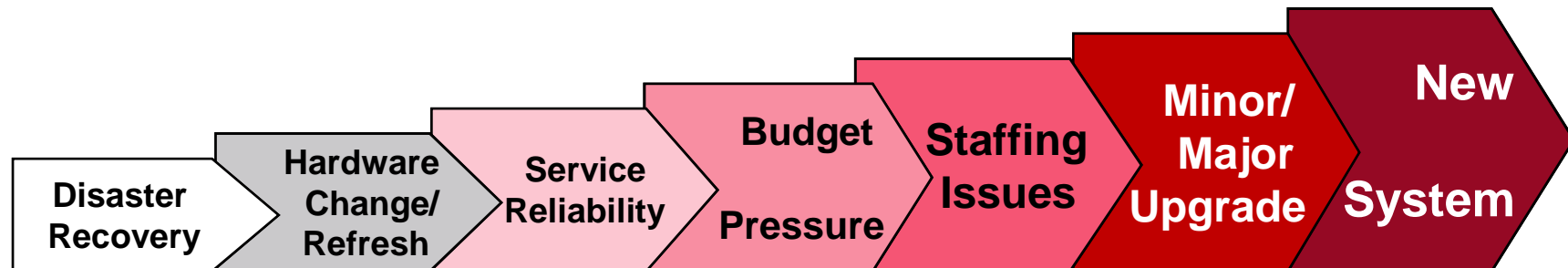
Technical/IT Functions

Functional/Business Functions



# When should you consider AMO in Tax, Revenue, and Collections

*Drivers for considering AMO Managed Services are not all equal...*



Factors to the right provide a stronger case as they are more disruptive. These factors are not mutually exclusive; most clients presently have multiple reasons to consider managed services.

An organization's financial expectations generally take one of two paths...

## **"More for about the Same"**

Reliability, Staff, SLAs, & Upgrades are the principle benefits being sought within a projected level of spend

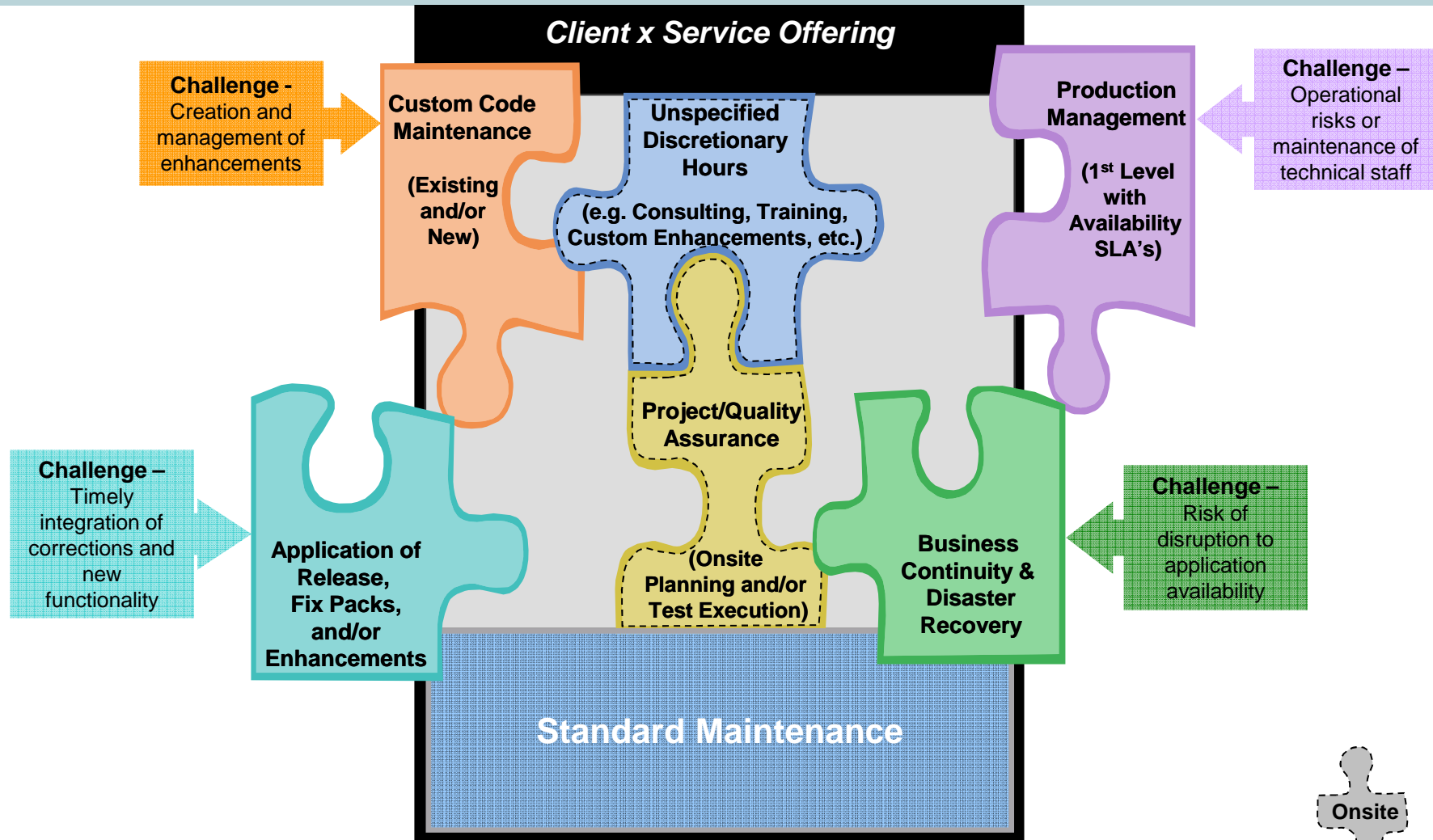
## **"Reduced TCO"**

Savings are a requirement and the 1st hurdle, but other benefits are also a consideration

*The economy has increased the acuity of these challenges among Tax and Revenue Organizations*



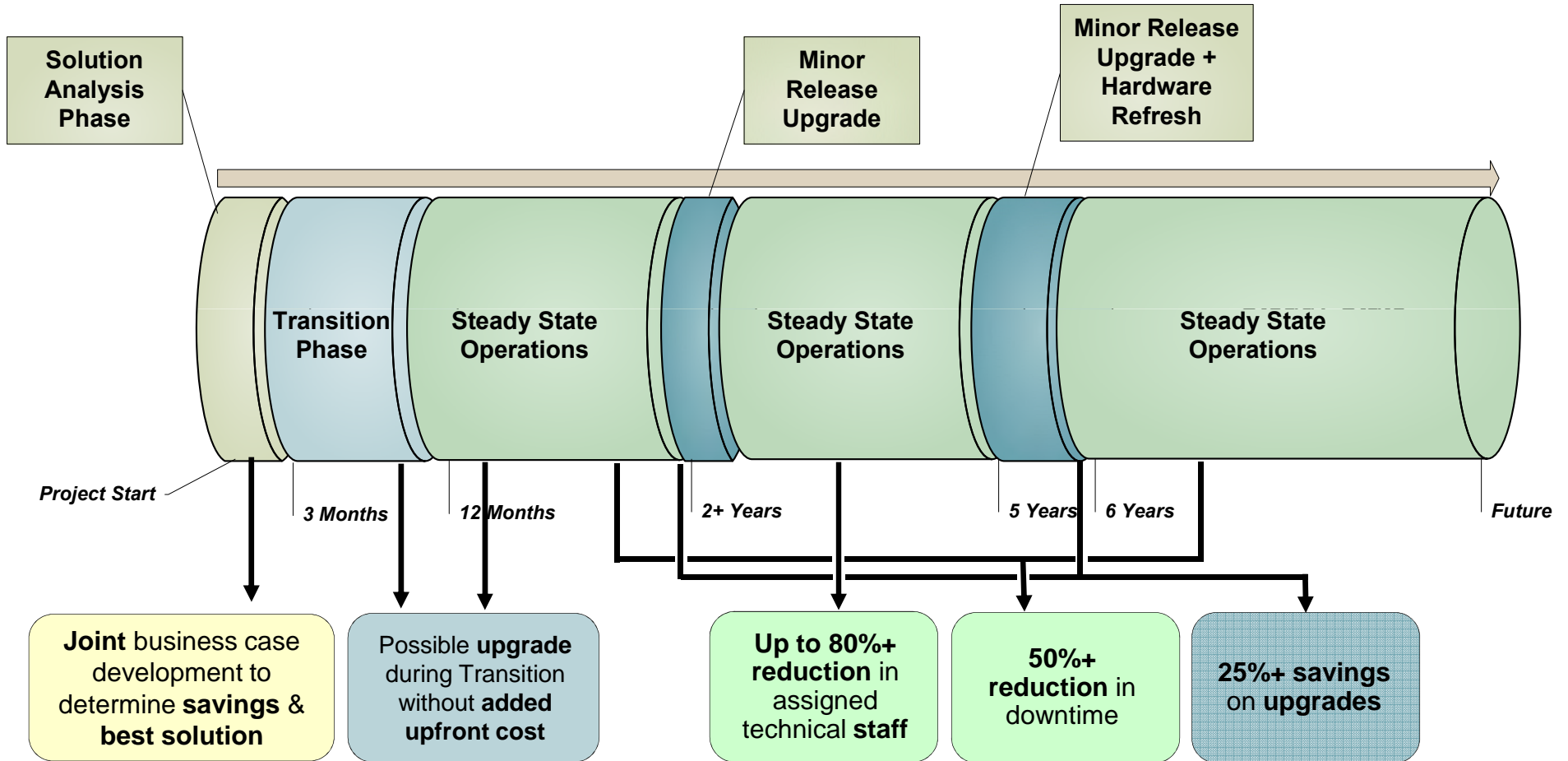
# AMO allows you to purchase only the services you need



*Based on your challenges and the operating model, a qualified provider assembles services to right-size the solution to your needs.*

# Why does AMO examine the full Solution Lifecycle?

## AMO Service Lifecycle



# AMO client case study: *New Integrated Tax System*

## CLIENT DESCRIPTION

- Government tax agency, with hundreds of users, 50+ tax types and billions of dollars of revenues collected
- New Integrated Tax System that support they will be responsible for, despite aging and declining staff

## CLIENT SITUATION

- Lack of skilled technical resources
- Reductions in staff or at best, hiring freezes
- Continued inability to attract/retain skills in new technologies
- No enterprise approach to business continuity and disaster recovery

## AMO SOLUTION

A managed service offering that reflects a partnership approach to support the needs of the business users and the enterprise mission, including:

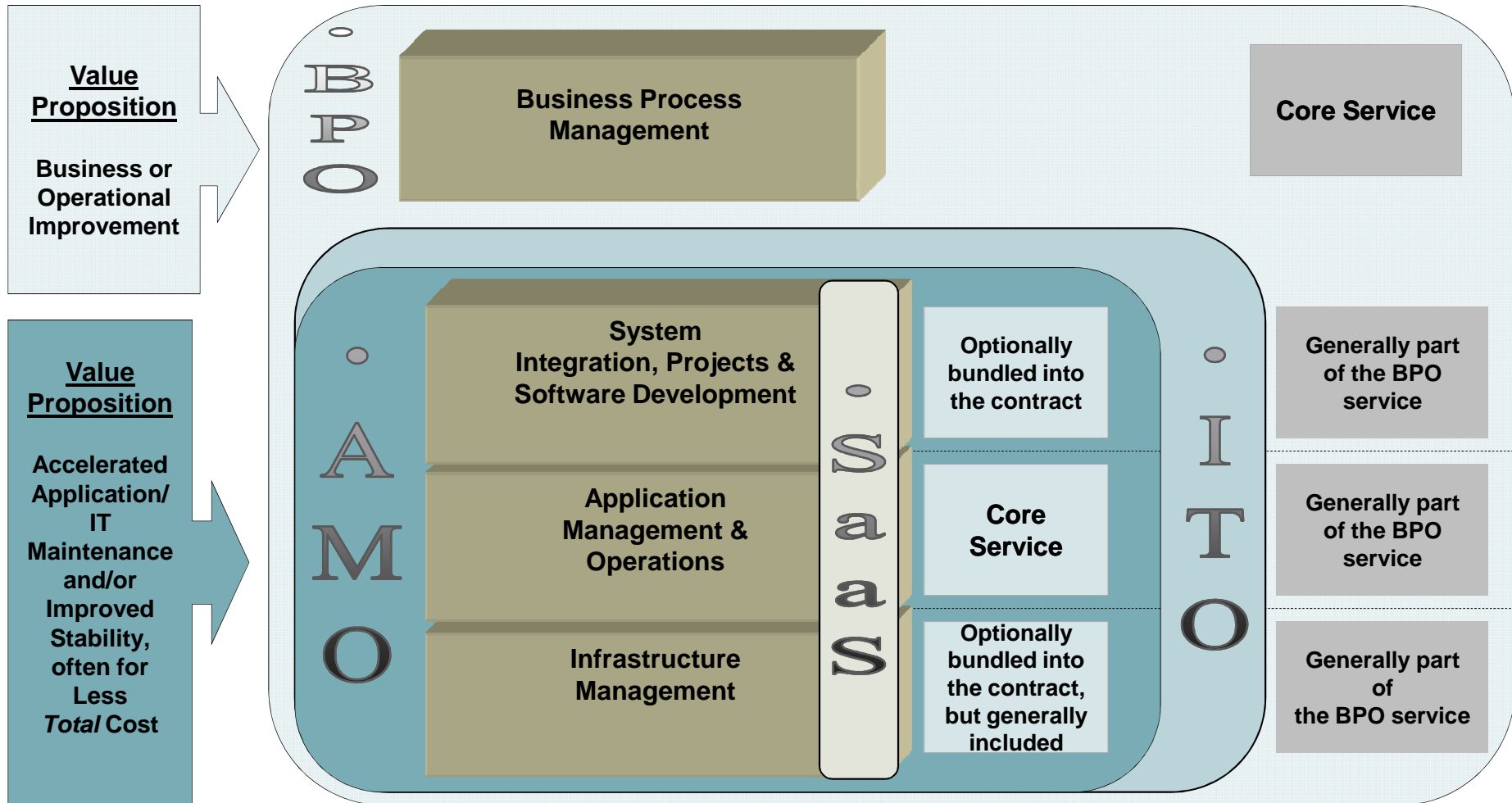
- Application Installation and Configuration
- Application Management
- Testing and Performance tuning
- Overall Systems Software support

## VALUE DELIVERED

- Maximizing the return on taxpayer investment
- Potential for providing little or zero negative budget impact in each fiscal year through benefits funding
- Minimizing implementation and financial risks
- Minimizing the cost and operational effort to implement and maintain
- Desire to increase predictability of TCO
- Concern around service requirements and business continuity
- Limited \$'s to invest in release upgrades
- Underlying objective to accelerate availability of new functionality in COTS applications
- Mitigation of staffing challenges and constraints



# Managed Services in Context



**Managed Services is a multi-year engagement delivering an ongoing service. There are two main variants that have very different value propositions. ITO is AMO applied generically across applications.**

# Business Process Outsourcing



# Examples of challenges solved by a BPO managed service

## Lockbox and Data Entry

- **Avoid peaks and valley staffing** – Allows States to post returns and payments faster
- **Allows agency for focus on higher value activities** – Focuses limited staff on key areas of expertise
- **Increase performance** – Private vendors can reduce cost and time to post
- **Simplified Pricing** – Vendor bundles into a single, flat rate (per month/year) all requisite costs associated with owning and operating our application
- **Maintain Business Control** – Vendor must adhere to strict service level agreements

## Tax and Revenue

- **Quickly provides agencies with a tailored solution** - It takes too long for states to implement new services and systems
- **Vendor provides a business outcome**, and takes on the long-term delivery and operation of the business and IT service
- **Vendor assumes the risk and effort for upgrading and operating the service**, providing you with predictability and reliability
- **Vendor takes on day-to-day operational management for the IT and business**, allowing agency to focus on other priorities

## Collections

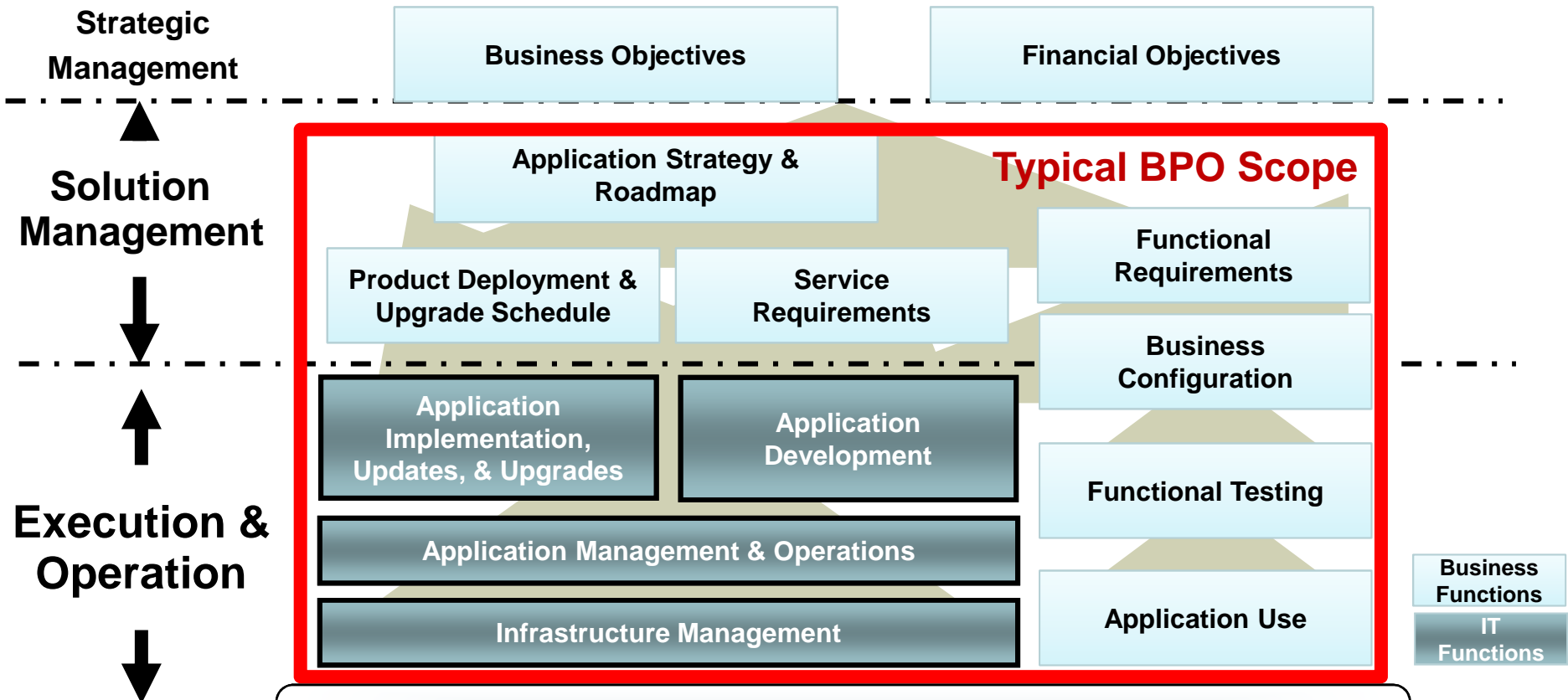
- **Mitigation of Staffing Risks** – Identification, training, and retention of skilled resources
- **Deferred, Predictable TCO** –can defer the cost for new systems, pricing predictability and reducing total cost of ownership
- **Flexible Payment Options** – Operation can be paid for out of increased revenues
- **Extend Delivery Capabilities** – No longer constrained by staffing issues, or retirements
- **Maintain Business Control** – Vendor must adhere to strict service level agreements



*The focus of Managed Services is to address your key challenges by applying as many of these value levers as possible.*

# Business process outsourcing value proposition

Agencies need to drive business outcomes, even when they do not have the staffing or internal capabilities to achieve the desired outcomes/timeframes. BPO allows agencies to implement entire new functions and assure critical business outcomes



The BPO capability can be delivered offsite in secure hosted data centers or onsite in a secure state data centers



# What is the potential scope of BPO for collections?

## Differentiating Attributes:

- Proliferation of Subject Matter Expertise across Delivery Model
- Proven Managed Collections Service
- Single Point of Accountability
- Carrier Grade Infrastructure
- Flexible and Extensible
- Business Interaction through IT, who manages provision of technical services

Technical/IT Functions

Functional/Business Functions

## Business Processes

Scoring and Segmentation	Strategy Management	First Party Collections
Performance Monitoring	Best Practices Benchmarking	Third Party Collections

## IT Solution to enable business processes

Collections Solution	Accounting Solution	3rd Party Data Management Gateway	Decision Analytics	Self-service & Web Enablement
Document/ Reports Management	Predictive Dialing	Interactive Voice Response Sys.	Business Intelligence	

## Imbedded IT/AMO Functions & Services

Updates & Upgrades	Discretionary Services
2 <sup>nd</sup> level Application Support	
Application Operations	
Infrastructure Management	

ITIL-Based Governance ISO9001 SAS 070 CPMF



# When should you consider a BPO instead of an AMO?

## Staffing constraints

- Inability to hire, inability to get staff quickly with the right business skill sets levels, inability to hire and train quick enough
- Inability of existing business staff to meet the service and performance levels required by the business units

## Time to implement

- Implementing a new business function and the State does not have the time to build the necessary business infrastructure, functional management, and business use of the application

## Reductions in operational costs needed

- Budget cuts needed, but business service levels must be maintained or enhanced

# BPO client case study: *Statewide Centralized Debt Collection*

## CLIENT DESCRIPTION

- Implement and manage an “Enterprise Collections Services” organization within the State to increase state revenue from all debt sources (tax, non-tax and municipal debts)
- Scope includes collections system, accounting system, application operations and maintenance, interfaces with additional agencies and BPO services for all collections activities

## PRIOR CLIENT SITUATION

- No statewide ability to consolidate debts owed to multiple agencies
- Provides for system replacement and upgrade projects
- Lack economies of scale prevented investment
- No modernized system to maximize debt recovery

## AMO SOLUTION

Multi-year outsourcing agreement that:

- Reduces agency operational costs
- Provides predictable and smooth annual costs
- Increases revenue collections
- Pays for itself through revenue increases
- Is managed with ISO and Industry standards and processes

## VALUE DELIVERED

- Dramatic increases in revenue
- No need to build new organization
- Fast time to achieve benefits
- Service level agreements to assure performance
- Consolidated management reporting
- Predictable cost levels



# Questions/Discussion



# CGI Managed Services Value Proposition

## Why CGI?

- **Depth of Application Management Expertise** - No one knows Tax, Revenue, and Collections better than we do
- **Depth of Staffing Experience** – CGI has the elasticity in our workforce to respond with skilled members from the same team that developed and/or repeatedly implements COTS ITS and collection systems
- **Simplified Pricing** - CGI bundles into a single, flat rate (per month/year) all requisite costs associated with owning and operating the application or business processes
- **Economies of Scale** - CGI extends to our customers the benefits of the economies of scale we obtain by providing a broader base of services within and across clients

## What is it we do?

- **Provides clients with a custom-tailored solution delivered by a single party** that takes accountability for comprehensive management
- **CGI assumes the future risk and effort associated with upgrading and operating the application or business processes**, providing you with predictability and reliability, for which we are directly accountable
- **CGI takes on day-to-day application management**, allowing customers to redirect their internal talent to strategic imperatives associated with better serving the public

## How does the client benefit?

- **Mitigation of Staffing Risks** – Identification, training, and retention of skilled resources shifts to CGI
- **Extensible Delivery Options** – The tailored solution can be altered to address any aspect of application management
- **Greater Reliability** - Application availability increases and the risk of operational disruption declines
- **Deferred, Predictable TCO** – CGI simultaneously provides greater predictability of expenditures and reduces total cost of ownership while potentially deferring short term spend
- **Improve Return on Application Investments** - Functionality in new ITS and Collections releases is made available on a committed schedule



*The focus of Managed Services is to address your key challenges by applying as many of these value levers as possible.*

# Contact Information

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## About the Presenter

- CIO Kansas DOR 11 Years
- FTA/IRS State Co-Chair TAG 2006-2007
- FTA/IRS State Co-Chair TAG Security Committee 2006-2008
- MTC Technology Committee Chair 2000-2008
- FTA National Service and Leadership Award in State Tax Administration 2008
- Experience with Local, State, Federal, and International tax agencies
- 32 Years in Information Technology Development, Management, and Leadership in State Government

