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JM Family Enterprises Inc.: Selectively Outsourcing IT for Increased Business Value

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Title: **JM Family Enterprises Inc.: Selectively Outsourcing IT for Increased Business Value**

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Abstract: In 2001, JM Family Enterprises (JMFE), the 15th largest privately held company in the United States, began a transformation of its IT services. By 2004, the company was ranked 7th in *InformationWeek* magazine's listing of most innovative users of IT. JMFE's IT transformation involved rationalization of its technology architecture, adoption of best service practices, data center consolidation and selective outsourcing. This case study emphasizes the role of outsourcing in JMFE's IT transformation. Executives from both JMFE and IBM describe how they have managed the relationship to ensure mutual benefits.

Keywords: Outsourcing, IT architecture, relationship management, shared services

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Selectively Outsourcing IT for Increased Business Value

In September of 2004, *InformationWeek* magazine ranked JM Family Enterprises (JMFE) seventh in its annual listing of the 500 most innovative users of information technology in the United States.[1] Companies named to this list, including household names such as Gallo Winery, Verizon, Cisco, Capital One and Dell, demonstrate a consistent pattern of technological and organizational innovation. This recognition of JMFE's increasingly strategic use of IT resulted from senior management decisions several years earlier:

> *"After taking a hard look at our information technology systems and processes and reevaluating how we serviced customers—our associates, our businesses and our automotive dealers—we identified several key areas of improvement. One of the biggest strategic decisions we made was to outsource our mainframe. The resulting partnership with IBM has proven to be a good strategic fit for us. The changes we made have been significant, offering us the flexibility that we need as our business grows. We have lowered our risk, can work more efficiently and can easily vary our pricing and cost structure without sacrificing quality."*
>
> *—Colin Brown, President and CEO, JMFE*

Information Technology Services (ITS) at JMFE had not always been so highly valued. A tradition of customization had undermined user satisfaction:

> *"A mentality of 'we have to do it here' transcended everything else. I mean, we would have built the PCs if we thought we could. Over a number of years we developed homegrown applications to do everything for everybody. ...We were a Burger King business—the users got it 'their way.' And as you can imagine, over time that legacy became very difficult to maintain. It got very expensive. It's possible that some of the business tasks could have been done manually for much less.…ITS had become slow, unresponsive, and expensive. The chargeback model that we used at the time created a lot of animosity between ITS and the business units."*
>
> *—Scott Barrett, EVP, JMFE and President, JM Service Center*

In 2001, ITS began to transform itself into a less customized, more standardized, more efficient, more professional and more service-oriented organization:

> *"Three and a half years ago, ITS had about 450+ people. We had a lot of initiatives going on, but we were really broad and not necessarily very deep in some areas. Today we are about two-thirds that size, but I think we get more done. We are more focused. We control cost more effectively, we are more effective at delivering*

[1] *InformationWeek*, Sept 20, 2004, "Measure Up or Move Out."

This case study was prepared by Cynthia Beath and Jeanne W. Ross of the MIT Sloan Center for Information Systems Research. This case was written for the purposes of class discussion, rather than to illustrate either effective or ineffective handling of a managerial situation. The authors would like to acknowledge and thank the executives at JM Family Enterprises for their participation in the case study.

solutions, and we have delivered, on a real basis, over $20 million worth of savings to the company—just in expense control—just by managing our processes better and being more effective in what we are doing."

—Scott Barrett, EVP, JMFE and President, JM Service Center

The transformation was readily apparent to senior executives at JMFE:

"I think there's now a new awareness in ITS; it's a mental shift from 'I'm a service provider' to 'I am part of your cost competitiveness.' We are linked together....They steward our money as if it's their money." —Ken Czubay, President, Southeast Toyota Distributors, LLC

ITS transformation was brought about through a number of initiatives, including rationalization of the technology architecture, adoption of best service practices from ITIL,[2] data center consolidation and selective outsourcing. Ken Yerves, JMFE Chief Information Officer, continued to identify ways that ITS could contribute to company success.

JM Family Enterprises

Headquartered in Deerfield Beach, Florida, JMFE was the 15th largest privately held company in the U.S. in 2004, according to *Forbes*. The company's businesses included the nation's largest volume Lexus dealership and the largest independent Toyota distributorship in the country. These businesses, along with subsidiaries that sold a variety of vehicle-related financial products to dealers and consumers nationwide, earned $7.7B in revenue in 2003.

The firm was founded in 1968 by Jim Moran, a long-time veteran of the automotive industry. The company grew steadily thereafter. By 2004, Jim Moran was Honorary Chairman of JMFE, and Pat Moran, his daughter, was Chairman.

JMFE put a great deal of energy into developing and appreciating its 3700 associates. In 2005, JMFE ranked 19th on *Fortune's* list of "100 Best Companies to Work For." JMFE offered its associates employee benefits that exceeded what many companies might consider standard. A medical center staffed with doctors, nurses, and a physical therapist, a hair and nail salon, cafeterias offering breakfast, lunch and take-home dinners, and fitness centers were available to JMFE associates. At their on-site day-care center, JMFE executives read books to kids. School-age children were allowed to come in to the day-care center on teacher development days and holidays. Travel to company locations in less-accessible areas was made more family-friendly by utilizing the corporate jets to minimize overnight stays.[3] Family, after all, was part of the company name.

JMFE comprised four closely related businesses: Southeast Toyota Distributors, World Omni Financial Corp., the JM&A Group of companies and JM Lexus (Exhibit 1). Southeast Toyota Distributors, LLC (SET) received, inventoried, processed and delivered cars, trucks and vans manufactured by Toyota to 160+ dealers in the Southeastern U.S. SET was one of only two Toyota distributorships in the U.S. that were not owned by Toyota Motor Sales, U.S.A., Inc. (TMS). SET dealers were number one in owner satisfaction and dealer profits, according to TMS.[4]

World Omni Financial Corp. (WOFC) provided a broad range of financial services to consumers, dealers and lenders, including consumer financing and leasing, dealer and affiliate financing, inventory financing, mortgage loans, and third-party portfolio servicing and remarketing services. WOFC was originally founded to be the captive finance company for SET dealers, but in 2004, it sold risk management services to other financial institutions. In July 2004, Standard & Poor's gave the company a strong ranking, the highest possible, as a consumer finance, automobile loan and lease servicer.

JM&A Group (JM&A) was one of the largest independent insurance and extended warranty groups of companies in the U.S. JM&A provided a variety of finance and insurance products and services to approximately 1,800 automotive dealerships, representing all manufacturer makes and models. In March 2004, the company was ranked highest in Dealer Service Contract Satisfaction by J.D. Power and Associates. JM&A offered credit insurance to consumers, property and casualty insurance to dealers, and extended warranties to customers of all makes of new and used cars.

[2] Information Technology Infrastructure Library (ITIL) was a family of best practices for IT service management. These practices were promoted in a series of books published and sold by the British government. *"ITIL speaks to looking at the IT business from a business perspective, looking at IT business processes and making them as effective as possible, and applying technology to them from a business process standpoint." — Scott Barrett*

[3] *The Miami Herald*, Aug 20, 2004, "JM Family Enterprises," http://www.miami.com/mld/miamiherald/9518134.htm?1c

[4] http://www.jmfamily.com/about_us_full.htm (on 2/2/05)

In 2004, JM Lexus was the highest volume Lexus dealership in the world and was recognized by J.D. Power and Associates with its "Certified Retailer Award" for outstanding sales experience and by Lexus with an "Elite of Lexus Award" for excellence in customer satisfaction.

Finally, the JM Service Center offered shared services to all the other JMFE companies. The largest of the shared services was ITS; the others included Procurement Services, Corporate Services, Dealer Services and Associate Services. Part of the motivation for forming shared services had been to increase the cost efficiency of these services. Another goal was to make it possible to realize some quick economies following expected acquisitions. Scott Barrett, president of the JM Service Center, was the former CIO at JMFE.

Information Technology Services

ITS provided the full gamut of IT services to all JMFE businesses and some IT products and services to automotive dealers. In 2004, ITS had a budget of approximately $82M and employed about 300 associates. Total ITS costs had been dropping year after year.

In 2004, Ken Yerves was JMFE's CIO. His direct reports were responsible for Technology Delivery (application development and project management); Technology Support (application maintenance); Technology Operations (open systems, mainframe services, voice and data communications, inter/intra/-extranets, an extensive service organization, security, disaster recovery and technology planning); and Enterprise Architecture (See Exhibit 2). Also reporting to the CIO were four VPs who headed "project management offices (PMOs)," one for each of the client businesses. The PMO VPs had very strong dotted line relationships to the business units. The PMOs housed "client advocacy" associates—director-level ITS associates who worked with director-level associates in the businesses—and business analysts. New solutions arose from either the PMO offices or the businesses, but high-level business cases were worked out in the PMO offices. Technology Delivery became involved once resources were assigned. Technology Delivery was organized by language (COBOL or Java), but Technology Support was organized by line of business.

With the formation of the shared services company in 2002, ITS began to operate more as a business. It operated with a break-even objective, charging businesses for the consumption of services with the goal of recovering 100% of its costs. Many of the charges were organized by application. Overhead and re-investment in infrastructure were built into the rates that the businesses were charged, but rates were also contained by market comparisons.

> *"A few years ago, when we calculated the rates for desktops, we were higher than the market. We have all this cost associated with providing desktops—the depreciation of equipment, labor to fix and repair, the patches that come in, the help desk. When we divided that by the number of PCs that we had out, we were over the market price. We were about $900,000 per year over the market. But we went ahead and priced desktops at the market price. We made that $900,000 <u>our</u> problem instead of the businesses'. We went to the head of the desktop area and said, 'Listen, we will incent you to mitigate that $900,000 problem over the next year and a half.' And we are proud to say we mitigated it all in one year. We reduced some of the labor expense by implementing ITIL processes. We used service tickets and tracked those; we standardized call handling; we used a lot of automation and we re-negotiated some contracts on the equipment. The desktops were already standardized.…IT people <u>like</u> to solve problems. They go after this stuff. They don't stop. After they mitigate the $900,000, then they say, 'I bet they would be happy if I cut another $200,000.' Before you know it, they just keep driving out the cost."*
>
> *—Ken Yerves, CIO, JMFE*

In late 2004, ITS rolled out a service dashboard that presented service performance from the perspective of business transactions, instead of the particular technology elements that supported those transactions.

> *"We used to just report on availability of servers, applications, etc. But the business doesn't care if a server is up or down. What they are concerned about is, 'How are my transactions? How are my business processes flowing through your system? How long did it take me to fulfill a sales quota?' So with the new dashboard, we look at our services at the business layer as opposed to the IT layer. Now the IT layer is underneath the covers. Even from our perspective, from the IT perspective, from the perspective of associates who work in ITS, the business layer is what they are looking at now. See, [pointing to his monitor] right now it says that 100% of JM&A transactions are going through within the service level that we have agreed to. Instead of saying that the mainframe is up, the Sun servers are up, both*

routers are up, the warranty, sales entry, pricing, performance tracking and menu presentations applications are up, it says that contract sales are up. What the president of JM&A cares about is, 'Are my contract sales meeting the requirements that I have?' At this moment, for contract sales, we are meeting 100% percent of our service level agreement with him.…This system is really changing the whole mindset of the IT shop to becoming a service provider. —Tom Holmes, VP Technology Operations, JMFE

Architecture & Technology Planning

Following recommendations from the Gartner Group, ITS began in 2002 to rationalize JMFE's enterprise technology architecture. ITS published its first architecture in mid-2002 and updated it regularly. In the architecture document released August 20, 2004, six technology elements (data services, application services, integration services, computing infrastructure, network services and security services) were broken down into technology components and then into subcomponents (Exhibits 3A & B).

For each subcomponent, JMFE had identified emerging standards, mainstream standards, containment targets or retirement targets (Exhibit 4). *Emerging standards* were technologies that were expected to become important to JMFE over the next two years. JMFE might invest in experiments using emerging standards. *Mainstream standards* were the primary targets for investment and deployment over the next two years. For these technologies, investments would be made not only in applications, tools and processes, but also in training for both associates in ITS and the business. Applications built on technologies that were *containment targets* would continue to be supported, but no new applications would be built using these technologies. When an associate who specialized in a contained technology left JMFE, he or she was likely to be replaced by a contractor. ITS actively sought to replace ("de-invest" in) applications using the *retirement target* technologies within two years. Where necessary, ITS was willing to share with the business the cost to move critical applications off retirement technologies.

ITS architecture efforts were intended to make JMFE a more efficient, more responsive organization. Tom Holmes noted that a technology was considered mainstream not because it was widely accepted in the IT industry but because of "its importance to the business." In 2004, JMFE had 67 mainstream standards. By comparison, there were more than 80 retirement targets, more than 90 containment targets and more than 110 emerging standards:

"We can show you on one page for hardware, application support pools, communication equipment and software, the number of products that we have and the number of generations that we support. When we do our off-site three-year planning every year we say, 'This is where we were last year. Here is where we are this year. Here is where we hope to be next year.' Our goal is absolutely to simplify the picture and have fewer products here." —Scott Barrett, EVP, JMFE and President, JM Service Center

Outsourcing for Greater IT Effectiveness

Because of JMFE's focus on the well-being of its associates, outsourcing held little interest for company executives. When JMFE was getting started with web-based applications, ITS had tried outsourcing because management believed they lacked sufficient technical expertise to support the effort. But the experiment had gone badly. Ken Yerves noted that the vendor had barely more technical experience than ITS did, and did not understand the needs of the business:

"With 20/20 hindsight, knowing everything, we should have done it ourselves. We underestimated our ability. I think we were probably a little more attuned to the environment than we thought we were at that time. We should have probably used more staff augmentation. We should have left it under our management and under our roof, but gotten some expertise on a contract basis. Bring them into the organization under our management and let us do it. I think that would have worked better." —Ken Yerves, CIO, JMFE

On the other hand, Yerves noted that containment targets, unlike emerging standards, were well suited to outsourcing. The company did not want to invest in skills to support technologies they were gradually phasing out, but the existing applications continued to need reliable support.

In its initial classifications of technologies in 2002, JMFE classified their mainframe platform technologies as "in containment." They expected to transition, over the next five or six years, from large, custom mainframe-based applications, to mostly packaged, Unix-based, server-based applications. Management anticipated that one business unit would be off the mainframe within two years, then a second business unit would be off a year later, and a third would come off sometime later.

Around the same time, it became apparent to ITS managers that their mainframe rates were high relative to the market. ITS ran two data centers; both were well below capacity. To cut costs and prepare for eventual retirement of the mainframes, JMFE looked to outsource mainframe services and to consolidate the rest of data center operations (e.g., all open systems processing, security, records management, technology services, server management, Internet and intranet services, etc.) at a single site in Deerfield Beach.

A big concern with outsourcing and data center consolidation was that any subsequent layoffs would be a departure from JMFE's associate and family-focused culture. As a result, the final decision went all the way up to Mr. Moran:

> *"This company spent a lot of time deliberating whether the savings were really worth it."*
>
> *—Ken Yerves, CIO, JMFE*

When management decided to move ahead, the company provided three months of training in Java for 80 programmers, so that some associates could transfer to new roles within JMFE and the remainder would be prepared for positions outside the company. Executives viewed this training as an important, if not wholly satisfactory, effort to address the needs of JMFE's associates.

Once management committed to the decision to outsource, ITS managers talked with a small number of vendors and elected to outsource to IBM. In the spring of 2002, all the relevant stakeholders from JMFE and IBM's Small and Medium Size Enterprise unit engaged in a 72-hour negotiating session at a local hotel and emerged with a five-year, $32 million contract. JMFE was particularly interested in a contract that would allow the company to step down the number of CPUs, from four to one, at roughly annual points over the five-year contract. But while variable capacity was important, ITS was most concerned about service levels. Regardless of the level of demand for mainframe services, the business units retained a need for high reliability and high availability mainframe services:

> *"We need a reliable system that is up and performing all the time. It's great if you've got a wonderful system, but if it's only up 80% of the time, that just doesn't work for us. Probably 90 plus percent of the credit applications are submitted electronically to us. And 60 plus percent of the time we're electronically returning an approval to them. You know, we can't afford for the systems to be down, or we'll lose the business. The first and foremost thing we need from IT is that reliability."*
>
> *—Brent Burns, President, WOFC*

The contract allowed for some valuable variability in costs. For example, JMFE could request additional capacity for special needs, such as the purchase of a large portfolio of auto loans. They paid IBM for technology-oriented resources (e.g., people, tapes, software licenses); so, in large measure, the minimum cost of the mainframe was fixed, with step-wise reductions in costs possible only as mainframes were retired. In fact, since the processor was only one cost element of the contract, stepping down from four CPUs to three would only reduce the monthly cost about 8%, not 25%. Because ITS charged its internal customers according to their actual usage, managers aimed to target reductions in business unit demand (converting from a mainframe system to a server-based system) to times when CPU charges could be contractually reduced:

> *"We have a contract with IBM for millions of dollars. This contract is a fixed cost to us, if you think about it. What we do to the business, though, is to charge them per CPU second of usage. What if the business stopped using the mainframe tomorrow? They would pay us less. We would still have to pay IBM's bill [until the step-down time rolled around]."*
>
> *—Ken Yerves*

The Transition to Outsourcing

Between April and July, 2002, in preparation for the transition, ITS eliminated, consolidated and rewrote applications. They eliminated 85% of their tape library and reduced their backup time from 8.5 hours to 1.75 hours. In July, they moved the mainframe operations in Jacksonville to a new mainframe in Dallas, and moved the rest of what was in Jacksonville to Deerfield Beach, over one weekend.

> *"Friday night we started all the back-ups, so the business could continue to operate Saturday. We shut them down Saturday at, I guess, noon. Then we started the production back-ups. Sunday was our maintenance window so we had time to do the real conversion then. We used our company jets to fly the data from Jacksonville to Dallas and Deerfield Beach. One set of tapes left the building, another back up was run, an identical back up, and it was put in a second jet. They were both in the air at the same time, one about an hour and a half behind the other. The first jet landed. There was a truck waiting for them. We had an escort to the facility. We started loading tapes. The other*

plane was still in the air so that if one of the tapes was bad, the second one was on its way. We had an 18-wheeler leave the facility for Deerfield Beach with other tapes. We knew exactly when that truck was five hours out. If we were not going to convert, that truck had to turn around. We knew exactly where the point of no return was. I mean, everything was mapped out to that level of detail. And I guess it was Sunday by noon they were up and running in Dallas, and they retested. We had people assigned to each one of the apps, about a hundred in all. The next morning, on Monday July 21, when we came in, the phone rang. 'Did you cancel?' I said, 'No, you are running in Dallas today.' Literally, the head of our parts distribution from Jacksonville called me up and said, 'What did you do? There is no way you could have converted.' I said, 'No, we are done. We are running in Dallas today.'

—Ken Yerves, CIO, JMFE

IBM assigned John Downey as Delivery Project Manager for JMFE. He was responsible for customer service, which involved bidding for services from several different units within IBM for the resources that executed the contract. Ken Yerves met quarterly with John Back, his IBM account executive. Tom Holmes met with John Downey and other IBM reps monthly. In Dallas, a capacity services team of about 75 people provided mainframe services to JMFE and 15 other small and medium-sized businesses. As needed, this team purchased additional services from other IBM sister organizations to meet their customers' needs. About 90% of the services IBM provided to JMFE were standard offerings, while the rest were unique to JMFE.

On a day-to-day basis, AVP Ed Carragee was focused on administering the contract and managing the relationship. Bill Lee, who reported to Ed, stayed in close communication with the IBM capacity service team:

"We have an assistant vice president [Ed Carragee] whose job is nothing but the IBM contract and working with IBM. IBM is accountable and responsible and IBM is running it, but we have a view into what they are doing. We partner with IBM in it. What that means is our operators can see the entire schedule. They can see what the mainframe is doing. They don't touch it. We don't have authorization to make a change or anything. That is IBM's responsibility, but we partner when something is broken. When we have an issue at IBM, it is our people and their people, on the phone, seeing the same things, working through the problem." *—Ken Yerves*

Tom Holmes' interest was in finding ways to save money or to reallocate spending from activities that were less valuable (e.g., storing and managing tapes) to those that would be more valuable (e.g., better disaster recovery). He was not particularly trying to reduce what he spent with IBM, but rather to reallocate his spending to high-value services.

"We want it to be win/win. We want IBM to make the money that they expected to make on the contract and the investments that they made. We have no problem with that. All we are saying is, 'Give us that variability so I can shift those dollars to something that would bring me more value.'" *—Tom Holmes, VP Technology Operations, JMFE*

Contract Results

Ken Yerves observed that the outsourcing resulted in more stable and available mainframe service than he had anticipated. ITS also believed it had saved significantly on its mainframe service costs, even though they had encountered some up-charges from time to time and they were using two people to administer the contract instead of one:

"What we learned that we didn't expect was that we didn't value the deal as much as we probably should have. I mean, we ran a mainframe, but running mainframes is not a core competency of JM Family. At IBM, this is all they do. You don't want to think anybody can do it better than you because you are doing it and you are doing it every day. And you ask, how much better can they really do it?" *—Ken Yerves*

John Back, the IBM account executive for JM Family, agreed that IBM's value proposition was that it could leverage core competencies that customers could not replicate:

"We can scale up and down more incrementally, because we can share capacity across customers. We have broader technical expertise that almost no one can afford to replicate. We also have a lot of specific tools to manage the mainframe environment that they could have bought and trained people to use, but those tools would have been more expensive for JM to buy, and JM would have had great difficulty in leveraging those tools the way IBM does. It is not their core competency. Finally, our audit

and security processes, which are part of our normal business offering, are unparalleled."
—John Back, Director Managed Services and e-Business Hosting, IBM

Yerves had been concerned about month-end processing. All the businesses closed the same day each month and they ran big batch processes to generate their reports. On most mornings, batch runs were completed and reports were on managers' desks by nine o'clock. But on the first of the month, reports usually didn't arrive until around 3:00 P.M. He had emphasized that IBM had to deliver at the end of the month, but when the first month end closing arrived, he wasn't sure what to expect:

"I come in, the first day of the next month, August 1st. As usual, the JM Family is hosting an appreciation party down at Building 1 for all the associates. Free barbecue for everybody. I am down there having this barbecue the day after month-end and it is eleven o'clock. I have people coming up to me all afternoon at this barbeque saying, 'What did you do?' I said, 'What do you mean?' They said, 'I got this report this morning waiting on my desk. I don't get this report until three in the afternoon usually.' I go back and I get Tom in my office, 'Tom, how are these people getting all this stuff sooner?' And we go look, and the batch cycle was finished. Instead of finishing at seven in the morning, this job was finished at two in the morning. We picked up five cycle hours on the mainframe. I said, 'They had to forget to run something. Are these last month's reports?' What we learn is these guys know their machine, <u>their</u> machine, keep in mind, not ours. I mean, who makes the IBM mainframe? IBM. So they know how the machine works and their operators were able to optimize how our programs used the architecture of the new mainframe. So we got an added value out of this whole thing that we never planned on. Customer satisfaction went through the roof. Every month-end has been the same. It is just another day." *—Ken Yerves, CIO, JMFE*

IBM attributed the faster month end processing time to its experience and expertise:

"We've improved feeds and speeds—the processor is faster. What we bring to the plate is subject matter expertise in scheduling. We have significant hands-on experience, collective expertise in restructuring job streams (in conjunction with JM people, of course). We have insight and make critical suggestions for improvements about job scheduling and application monitoring process, and working with them to improve the tool set or improve the process. *—Girma Admasse, Senior Delivery Project Executive and Manager, Capacity Services, IBM*

Business unit managers quickly figured out that faster processing times presented opportunities to leave systems up later at the end of the month. They seized the opportunity to do some additional business each month.

Mastering JMFE's month-end processing requirements generated benefits for IBM, as well:

"With almost every customer, we learn and expand our capabilities. JM's intense month-end process has helped us sharpen our agility. Strengthening our ability to satisfy JM at month-end is valuable to us in serving other clients with similar needs." *—John Back, Director IBM*

The contract specified that JMFE would pay IBM additional fees if they ran more than a set number of jobs in a month, or if they exceeded certain types of resource usage, such as requesting more than 200 scheduling changes in a month. On the other hand, JMFE would receive credits for some things that translated to reduced demand on IBM resources, such as requesting an unexpectedly small number of scheduling changes. These arrangements forced some discipline on users within JMFE:

"When we were running the mainframe in Jacksonville, a business unit associate might come down and say, 'I don't want to run this job schedule tonight. Even though it is five o'clock at night, I want you to take 300 jobs out of your schedule tonight.' We would do it. Our schedulers would stay. We would sit there and we would get it done. The user would never get a bill for that. If I was going to do that with IBM now, because that is 300 scheduling changes and my monthly tick is 200, there will be a cost associated with that. I can now give somebody a number and say, 'Here is what this is going to cost us. Do you still want to do it?'" *—Ed Carragee, AVP, JMFE*

IBM had promised this increased discipline in the management and use of IT resources as part of the strategic partnership:

"Discipline in this case is a good thing. With the ability to better identify true cost for changes to the environment, the users can make a more educated decision around the scope and complexity

of change. In conjunction with the defined change management policies in the agreement, this provides an environment to manage change better, thereby minimizing the risk to business because we can help JMFE plan better."

—John Downey, IBM Project Executive

In addition to creating a more disciplined environment, Carragee found that IBM added value by making periodic changes to their routines to be more efficient, to do more with less, to tweak and tune their practices. Lynn Reagan coordinated several teams within IBM to fulfill JMFE's contract, including an operations team, a scheduling team and a software support team, none of whom were dedicated to JMFE, and none of whom worked solely for the SME business unit within IBM's Global Services Division. But Reagan's negotiations for IBM resources were transparent to JMFE. JMFE knew only that IBM consistently delivered:

"Going back three years when we owned the box running here, systems sometimes broke at 7:30 P.M. and we might not get them fixed until 1:30 A.M.—meaning we didn't start the batch cycle until then. We called up all the vice presidents in the business. We said, 'Guys, you are not going to be able to start working until about eleven o'clock tomorrow.' That happened. I don't want to say frequently but it happened. Now, I will tell you, the first time it happened with IBM, they called. They said, 'We haven't started the cycle yet.' Okay. At 1 A.M. we called all the vice presidents. We woke everybody up. We told them. They all came in the next day and the systems were running. They were like, 'Don't wake me up next time.' So the next time it happened, I notified Scott Barrett at two in the morning. I said, 'Scott, we are not calling the businesses. I just want you to be aware.' Boom, at seven o'clock, everything is working. The third time they called me, I said, 'I am going back to bed.' We will take that risk because they have solved it every time. But there is an added benefit to us in that the business doesn't even know about it. They don't even know."

—Ken Yerves, CIO, JMFE

From IBM's perspective, solving these kinds of problems was what they did best.

"What really sets IBM apart from other providers is that we are very, very good at handling specialized needs and requirements. This competence is based in several core delivery skills, our tools and our equipment. And we can reach out and get any specialized skill we need from the larger global IBM."

—John Back
Director, IBM

Evolving the Partnership

As of late 2004, JMFE had not yet reduced their demand for mainframe services, and they did not expect to for another 12 months. The replacement applications had not come on line as quickly as expected. It was still possible, however, that they would catch up with the step-down schedule by late 2005.

By the end of 2004, JMFE had outsourced only a few services. They had outsourced e-mail in a unique model that involved retaining all the equipment and licenses but giving up responsibility for operations, such as virus protection, back-up and updates. ITS adopted an ASP-provided software package for project management because the chosen product (PM Office) ran on a "containment" technology. In addition ITS was discussing possible outsourcing of its office printers with IBM and others. But JMFE's ITS team thought mainframe processing had been uniquely suited to outsourcing:

"To outsource, you need a large enough chunk and a nice logical chunk. The mainframe was a nice, logical chunk that you could divide off fairly easily. There were people who were focused on and dedicated to the mainframe. It was a technology that really didn't overlap with other technologies. And it was a large enough chunk of the IT budget. Would we outsource just one and a half FTEs? No. The contract work wouldn't be worth the aggravation."

—Tom Holmes
VP Technology Operations, JMFE

JMFE was not aggressively seeking additional outsourcing opportunities. However, managers were willing to outsource where it helped them achieve architectural objectives, specifically, the offloading of skills for containment technologies. Nonetheless, management wanted to do enough business with IBM to retain their trusted partner:

"Some of these businesses might be coming off the mainframe sooner than we thought. So what we recently proposed to IBM was to take the fifth year of this contract, the value of it, and repurpose those dollars to new initiatives, where IBM can earn that money today and also get a stronghold in other areas of JM Family and maybe grow into other opportunities. The dollar we spend with IBM today is worth more to them

than the dollar we are obligated to spend in year five of this contract. And I am not speaking just about the time value of money. What I am talking about is if you let me spend that dollar today on a consulting engagement, well any vendor that gets in the door in multiple areas has the ability to sell up. What I am giving them is the opportunity to do that. Now I am not saying dollar for dollar, but maybe fifty cents on the dollar. If you will lower this by fifty cents and let me spend a dollar with you over here, I contend you are going to get a lot more money over the five years. It's a unique opportunity I posed to them. They can simply say 'No,' but the partnership is such that I think they'll consider it." *—Ken Yerves, JMFE CIO*

Exhibit 1: JM Family Enterprises Organization Chart

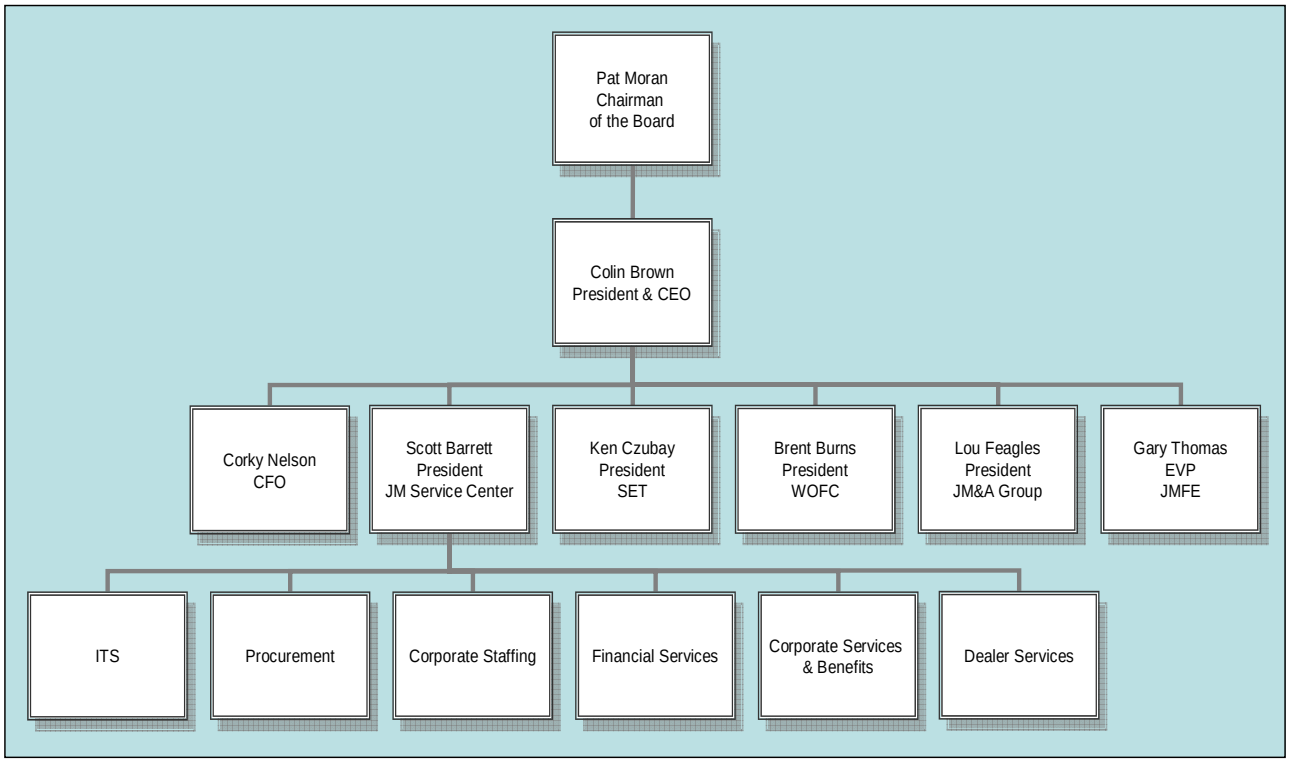


Exhibit 2: JM Family Enterprises IT Services Organization Chart

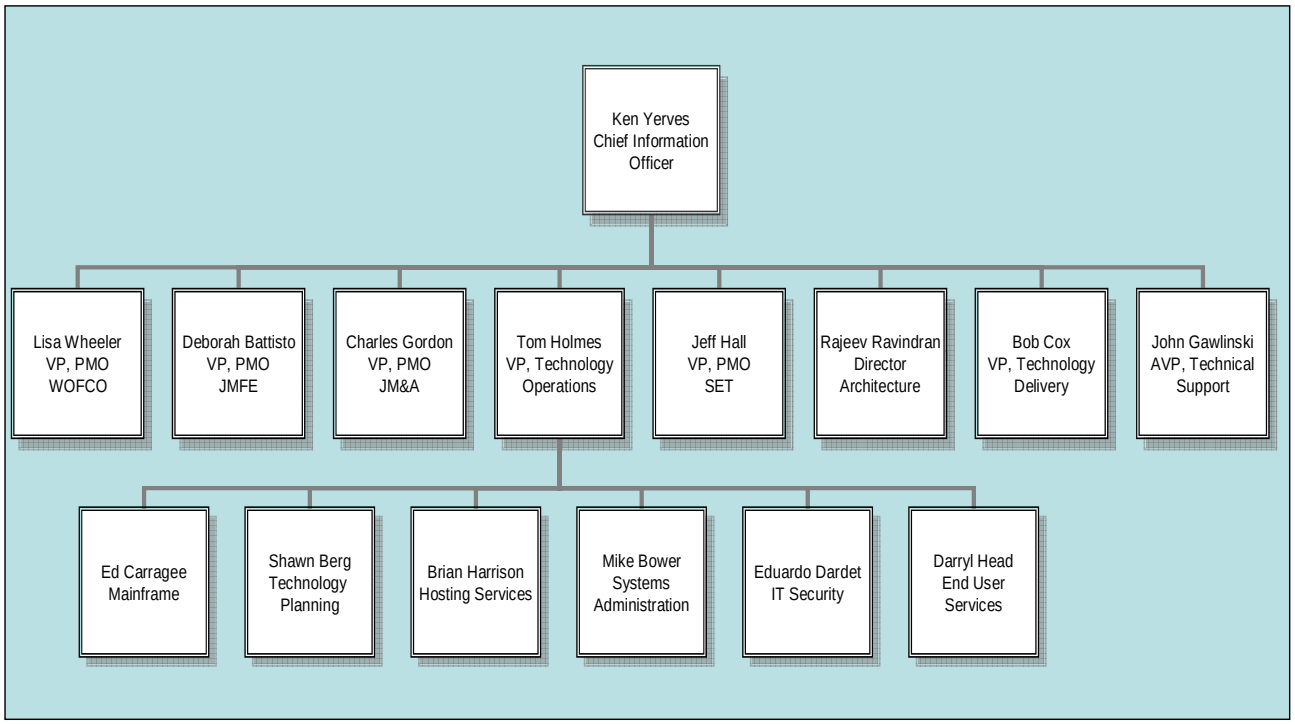


Exhibit 3A: JMFE's Enterprise Technology Architecture
Technology Components and Subcomponents

This page of the architecture document shows the organization of components and subcomponents that are covered in the document.

Data Services		
Database Technologies	Data Stores	Decision Support
▪ DBMS ▪ Access Methods ▪ Data Management	▪ Data Marts ▪ Data Warehouses ▪ Operational Data Store (ODS) ▪ Meta Data Repository	▪ Business Intelligence Tools ▪ Reporting Tools ▪ Knowledge Management

Application Services			
Programming Languages	Applications Dev Environment	Collaborative Systems	Application Architecture
▪ Server Side Programming Languages ▪ Client Side Programming Languages	▪ Modeling Tools ▪ Source Code Repository ▪ Application Development Methodology ▪ QA Tools ▪ Integrated Development Environment (IDE)	▪ Groupware & Messaging ▪ Document Management	▪ Component Model ▪ Application Servers ▪ Thin Client Servers ▪ Frameworks

Integration Services			
Middleware			
▪ Data Movement ▪ Workflow ▪ Integration Broker and Transport ▪ Enterprise Resource Planning (ERP)			

Computing Infrastructure				
O/S and Hardware	Web Infrastructure Environment	Storage	Systems Management	Enterprise Continuity
▪ Desktop Hardware ▪ Desktop O/S ▪ Mobile O/S ▪ Server Hardware ▪ Server O/S ▪ Printers	▪ Web Browser ▪ Enterprise Portal ▪ Web Server ▪ Content Mgmt. ▪ Directory Server	▪ Storage Area Networks/ Network Attached Storage ▪ Tape ▪ Optical/CD	▪ System Management ▪ Help Desk/Change Management ▪ Job Scheduling	▪ Disaster Recovery ▪ High Availability

Network Services			
Lan / Wan	Access Technologies	Voice Technologies	Network Hardware
▪ LAN Protocols/Topology ▪ LAN Connectivity ▪ WAN Transport/Protocols	▪ Remote Access ▪ Terminal Emulators/ Gateways ▪ Video Conferencing ▪ Voice/Data Convergence	▪ VolP ▪ Unified Messaging ▪ Voice Switch and Predictive Dialer ▪ Fax	▪ System Management ▪ Switch / Routers / Load Balancers

Security Services			
User Security	Network Security	Physical Security	Proactive Security
▪ Authorization ▪ Authentication	▪ Firewalls ▪ Security Protocols	▪ Physical Access	▪ Intrusion Detection ▪ Virus Protection ▪ Spam Filtering

Exhibit 3B: JMFE's Enterprise Technology Architecture
The Database Technology Subcomponent

As shown in Exhibit 3A, Data Services is a major component of JMFE's architecture. With Data Services, Database Technologies are one subcomponent (along with Data Stores and Decision Support Tools). Within Database Technologies, DBMS are one sub-subcomponent (along with Access Methods and Data Management tools). This page of the architecture defines the component terms and shows the life-cycle status of the various DBMS' in JMFE's architecture.

Data Services

Data Services facilitates the collection, delivery, integration, transformation, storage, access, analysis, management, integrity, archival, security of business and system information.

Database Technologies

Database Technologies are elements that facilitate the collection, organization, storing and accessing of data.

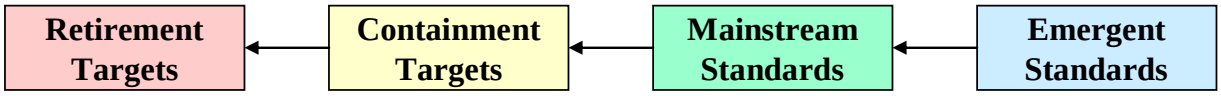
DBMS

Database Management System (DBMS) is a computer program that manages data by providing services for centralized control of complex physical structures for the support of data services.

Current	Tactical (< 1 year)	Strategic (18–24 Months)
SQL Server 6.5 SQL Server 7 SQL Server 2000 DB2 v7.1 for z/OS DB2/400 FoxPro Informix Sybase MS Access DB2 UBD v7.1 Oracle 9i		SQL Server "Yukon" Oracle 10g

Retirement Targets	Mainstream Standards
SQL Server 6.5 and 7.0 DB2 UDB	SQL Server 2000 Oracle 9i
Containment Targets	**Emerging Standards**
MS Access DB2/400 DB2 for z/OS DB2 UDB Informix FoxPro Sybase	XML Database
Implications and Dependencies	
▪ Replacement strategy needed for vendor applications using FoxPro, Sybase and Informix databases ▪ MS Access will not be used for production deployment of new applications. ▪ SQL Server 6.5 will be retired pending a replacement strategy for Strata & Lawpack	

Exhibit 4: JM Family Enterprises Technology Path



Technology is targeted for de-investment during architecture horizon.	**Provide full support of technology for existing systems only.** **Limited (maintenance or current commit-ment) investments during the architecture planning horizon.**	**Provide full support of technology for new and existing systems.** **Primary deployment investment technology or process for new systems or legacy system migration.**	**Identify new technologies.** **Track product developments.** **Follow market trends.** **Identify market leaders.** **Create vendor short list(s).** **Evaluate technologies.** **Recommend new standards, based on technology availability and business need.** **Develop adoption strategies.**

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Since July 2000, CISR has been directed by Peter Weill, formerly of the Melbourne Business School. Drs. Jeanne Ross, George Westerman and Nils Fonstad are full time CISR researchers. CISR is co-located with the MIT Center for Digital Business and Center for Collective Intelligence to facilitate collaboration between faculty and researchers.

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