IT service contracts might bet worth around $900 billion according to Gartner, but contracts behind them are tricky to get right-- and McKinsey & Company shows what goes wrong, and what can one do to win from such relationships.

The analyst examined around 200 live contracts from over 50 companies over the past 3 years. The research shows 60% of contracts lacked well-defined, shared business objectives, leading to an unclear definition of quality of service to both purchasers and providers, as well as limited tracking and control on business and financial targets.

In addition, 90% of contracts had commercial terms and conditions with a "heavy" focus on short-term benefits, with few incentives for joint innovation and limited evidence of such initiatives.

Providers were also "mostly" kept at arm's length, it limited evidence of collaboration in architecture-related topics. As a result innovation was stunted, since providers had limited involvement in internal forums. Cost reduction was the primary objective in 75% of contracts, with no specified transformation plans or measured outcomes beyond cost, while 67% of contracts had no transparency on pricing structures for both parties, with a lack of mutual incentives or gain-sharing mechanisms.

McKinsey suggest a reframing of the sourcing relationship-- with five "obvious but often overlooked" changes that must be made to the sourcing routines, and (hopefully) leading to win-win situations.

1. **Develop a shared understanding of business outcomes:** Purchaser and provider must get clear on business outcomes through a request-for-proposal process reimagined as a "request for solutions," with both sides identifying critical problems and defining possible fixes.

2. **Emphasise the long term**: Both sides need to share a long-term vision, with an annual zero-based reset process to update contracts and a continuously updated requirement backlog.

3. **Actively collaborate on critical architecture decisions**: McKinsey suggests the Toyota "genchi genbutsu" approach. This Japanese phrase translates to "actual place, actual thing," and states that to truly understand a situation, one needs to go the "real place" where the work takes place.
4. **Pursue transformation with clear planning and relentless "grit"**: Purchaser and provider should jointly design a transformation roadmap complete with both costs and nonfinancial goals, as well as detailed planning to get to an operational model.

5. **Device win-win contract mechanisms: Both parties need a balanced set of economic incentives and mutual targets** . A total-cost-of-ownership approach to pricing should be adopted (instead of an emphasis on unit prices), with adherence to said outcomes monitored in a balance-value scorecard.

McKinsey adds companies can reap "significant benefits" from such win-win management practices-- boosts in service quality in customer satisfaction scores, up to 30-50% reduction in time-to-market outcomes on projects, a 2-3x better than existing baseline on mutually agreed upon roadmap on transformation targets and a 2-4x increase in contract maturity score.

Go Five Ways to Unlock Win-Win Value From IT Services Sourcing Relationships