

Outsourcing White Paper

Does Outsourcing have to get Out of Hand?

With increasing pressure on availability of skilled IT staff, challenging technical issues and frozen budgets, outsourcing is a concept that should have obvious appeal for IT Directors and there are many examples where projects have been successfully completed through outsourcing. However the outsourcing record in IT has not been entirely positive and, in some cases, handing over control of large parts of a business and the people within it to 'outsiders' has brought problems.

Meanwhile other forms of outsourcing – credit control, logistics or facilities management, for example, – have been generally more successful, becoming an established part of modern business. What are the factors that have mainly led to success in these kinds of outsourcing and a higher failure rate in IT?

A new model of IT outsourcing, online Managed Services, appears to replicate closely the features of non-IT outsourcing contracts, in that the services focus on limited areas of operations and address specific problems.

But can Managed Services deliver the key benefits of reducing costs, saving staff time and providing effective results at a reliable and predictable level?

Will it become as normal to outsource elements of your IT infrastructure like data backup as it is to outsource elements of your financial management like credit control?

Will Managed Services become a new generation of IT outsourcing that doesn't get out of hand?

Is outsourcing a valid concept?

There are clearly many drivers that bring people to outsource, especially where internal resource is limited or not available. Outsourcing deals have sometimes shown huge benefits for clients as external expertise and focus has brought about a step change in IT processes or systems. However, some of the IT mega-deals negotiated in recent years have proved too cumbersome to manage. Even with an extensive planning/consultation phase and detailed Service Level Agreements, the outsourcing objectives have not been achieved.

Half of information technology outsourcing projects will be considered unsuccessful in 2003 because they have not delivered the expected value, according to a new report from market research firm Gartner.

"Although there will clearly continue to be a market for large-scale outsourcing, senior IT managers are beginning to review how projects and operations being considered for outsourcing can be broken down to a more manageable size," says Steve Pearce, Chief Operating Officer at InTechnology. **"In this way, they can focus sharply on their key objectives, control costs effectively and minimize risk."**

Outsourcing began life as facilities management (FM) with contractors running a client's routine data processing. The idea of asking external suppliers to develop new IT systems to transform the business led on eventually to the idea of asking the external partner to re-engineer the whole business. Once the supplier was involved with the whole business, the business became locked in to the partnership and extricating itself from the grip of the supplier became extremely difficult. Research by Ovum Holway has shown that 97% of outsourcing contract renewals in the UK are with the original supplier.

The mega-deal will continue to have a role in IT in the foreseeable future – Gartner reports that the number of IT infrastructure outsourcing "megadeals" – those worth \$1 billion or more – rose from nine in 2001 to 14 in 2002.

But are IT outsourcing deals in general too complex and burdened with too many expectations?

What are the characteristics that have made outsourcing successful in other areas of business?

Outsourcing that works for business

Logistics is one area that has a comparatively successful track record in outsourcing and has become big business. Outsourcing logistics allows manufacturers to save money and to focus on their primary goal of creating better products. The size of the logistics industry in the United States is \$900 billion a year, of which \$46 billion goes to the third-party logistics supplier, and this figure is growing at 10 to 15 percent every year, according to research by Armstrong and Associates.

The field of facilities management, another example of successful outsourcing, has grown as businesses increasingly see value in 'handing over' to specialists the task of running office services for them.

Modern FM companies manage a wide range of services for their clients - from security to air conditioning, from electrical safety and energy management to fire protection and office cleaning, from reception services to landscaping the grounds and controlling pests.

Credit control is an area in which modern businesses are happy to hand over responsibility to skilled and focused external agencies. Factoring has developed across many industries over the last 30 years because it solves problems, simply and simultaneously, by combining financing, credit risk protection and receivable collection in a comprehensive and competitive service.

Factors for successful outsourcing

The common factor shared by all the models of outsourcing above is that they focus on a specific area of business where specialized knowledge may not exist within the business or would be expensive to hire in.

Another common factor for success is that these areas can be ring-fenced without too much difficulty and the results delivered by the external specialists can be measured and valued accurately. Individual tasks have been outsourced - providing a form of 'out-tasking'.

But do these discrete tasks exist in IT?

Are there areas of IT which can sensibly be ring-fenced and out-tasked?

Can out-tasking work in IT?

As IT becomes increasingly central to business development and new systems are seen as offering competitive advantage, managers are reluctant to outsource these core areas to external partners.

There are however some specialist functions which can be handled effectively by a range of external, specialist partners and which are prime candidates for out-tasking.

They can generally be identified by use of the following questions:

- > Do we have the specific skills for this task?
- > Does the outsourcing supplier have a credible track record and specialist expertise?
- > Are we happy with the SLA the external supplier can offer our users?
- > Do we really understand how much it is costing our business to handle this work ourselves?

A central issue in this area is the issue of skilled staff.

There are many challenges in contemporary employment law, difficulty in finding skilled people and the problems of carrying too many experts, none of whom have enough work to fill their time. Rather than hire additional specialist staff, businesses can often out-task.

"I am not the only IT Director who has a finite amount of time and resource. Increasingly, the key for technologists lies in dealing with strategic and business issues and leaving operational issues at the door," says Jon Gould, IT Director at leading law firm Charles Russell.

"The idea of smart outsourcing pays off when you find people who can do something more cost-effectively and efficiently than yourselves."

Infrastructure management for out-tasking?

One area of IT that can be out-tasked with clear benefit is infrastructure management. With voice and data convergence, communications are becoming more complex to manage and the IT/communications infrastructure requires a wide set of skills to manage it for optimum business benefit.

Data backup is an example of a task that dogs IT staff and can clearly be ring-fenced for outside specialists.

"We had a situation where backups had become a concern," says Gary Donoghue, IT and E-business Director, The Gadget Shop. "The last person in at night did the backup, but like any procedure that relies entirely on humans, errors could occur and the process could not be entirely controlled. I wanted an automatic backup solution with data stored offsite so that I could have control and peace of mind instead of sleepless nights."

"IT directors want their skilled IT staff to focus on the strategic systems development that is going to take the business forward," explains Steve Pearce of InTechnology. "They cannot be spared for routine tasks in infrastructure management. These are however tasks that can be ring-fenced and outsourced to specialist partners with the identifiable skills required."

External specialist suppliers do exist in the field of IT infrastructure management, delivering online Managed Services through which some or all of the infrastructure is managed remotely by experts at a secure data centre.

What are Managed Services and how do they help?

Managed Services generally cover areas of IT infrastructure management such as backing up, storing and managing client data at a Data Centre for increased

security and business continuity. Managed Services can also include hosting, real-time data mirroring and replication, long-term archiving and network services including VPNs, managed firewalls, low-cost internet access and voice over IP.

IDC research suggests that continuing user demand will see the managed services market pick up in the short term and return to healthy growth by 2004.

Managed Services are popular in the specialist field of security where an ordinary IT department would not have the high level of knowledge required. As security company McAfee puts it:

"If you don't have the staff or the time for a complete anti-virus strategy – leave protection to us."

HP Services is one of the major IT vendors offering a comprehensive Managed Services portfolio that provides both traditional and innovative outsourcing offerings.

Established storage experts InTechnology are finding a ready market for their range of Managed Services among businesses wanting to protect their data, save on costs and devote their IT resources to more strategic objectives than infrastructure management.

InTechnology's expertise in storage is especially important in delivery of Managed Services as it is the quality of data management behind the scenes at the data centre and in the communications network that delivers the effectiveness and security that IT Directors value. Clients buy InTechnology's Managed Services at a predictable subscription rate and can measure the value of the service against providing it themselves.

The new model works

There are many similarities between the new model of IT outsourcing in Managed Services and the successful models of outsourcing – credit control for example, – in other areas of business.

The benefits can be summarized as saving costs and saving effort. Tasks can be ring-fenced and the results measured accurately. The supplier has identifiable facilities, skills and experience that a business would never want to build for itself. (With salaries for skilled data storage managers rising fast and data centres

proving costly to run, only an established provider can compete.)

In addition, the tasks involved are carried out with consistent accuracy- for example, automated backup scores heavily over manual daily data backup in this respect. The IT staff in the business can focus on 'core' tasks instead of 'chores'.

"I am looking for services that will make life simpler and will also enable us to get things done as fast and efficiently as possible," says Jon Gould, who has acquired VBAK, one of InTechnology's Managed Services for data backup.

"There is only a finite amount of time and resource for any activity. Why give effort to something that somebody else can take away. VBAK solves the particular problem of backup and takes the drudgery away."

"It's a case of getting the job done and having the confidence of knowing it has been done."

With Managed Services, the IT Director remains in control but the chore tasks are outsourced and the corporate benefits in disaster recovery, security of data and business continuity are clear.

Strategic sourcing through Managed Services from InTechnology is very popular with departments at the heart of government because of its security benefits. At the same time it pleases IT managers in the professions and commerce because of the cost savings and clearly defined boundaries in the outsourced responsibilities.

The new generation of IT outsourcing seems as if it is here to stay and will become as popular with business managers as outsourced credit control, facilities management or other business services.

For further information on Managed Services from InTechnology, call **0800 52 82 52 2**.

