

Lowering Costs through Hosting and Managed Services

Assessing real world benefits

A ONENECK IT SERVICES CASE STUDY

 **OneNeck**[®]
IT Services
ERP Outsourcing Solutions



Introduction

IT cost management has always been a hot topic for companies. However, the issue looms even larger in the current state of the economy. As IT spending continues to be scrutinized closely, technology managers really must do more with less.

Today, enterprises evaluate every IT activity to determine what should be funded or supported. During this evaluation, managers justify the demand and compare the project's costs relative to the projected ROI. Obviously, costs must be at the lowest level possible to demonstrate a greater ROI in a shorter period of time.

Investigating hosting and managed services as an alternative to traditional in-house service delivery should be done by an organization's IT leadership. Often an outsourced model can provide the same services or better services at a lower cost. This approach can save the organization money on an ongoing basis, as well as free up resources (both personnel and cash) that can be deployed against other high-value projects.

For every IT project analysis, decision-makers should include an "in-house" versus "outsourcing" cost comparison. Although outsourcing benefits have become well known over the years, enterprises need to start at square-one, ask some basic questions and evaluate all costs.

Key Considerations

Prior to running the numbers, managers need to ask themselves why they would consider outsourcing. For example, if you started your business from scratch today, would you build this capability internally? To answer this question, you need to *assess your internal capabilities*:

- Would other companies hire you to do this for them?
- Will tomorrow's leaders of the company come from this area of the business?
- Are you receiving world-class services at a competitive cost today?
- Does this process create or defend a unique competitive advantage for your firm?
- Is this business process directly contributing to business growth or expansion?

To make the best decision for your company (and to save the most money), you must have the required expertise to manage

your IT operations at peak performance. If you don't have, or can't afford, this expertise, your IT operations will most likely fall short of expectations and end up costing you more.

In addition, managers need to *explore the reasons for outsourcing*:

- Are you looking to solve tactical issues? For example, are you looking to achieve short-term results, immediate cost reductions and current staff augmentation?
- Are you looking to solve strategic issues? Is your focus longer-term and you want to free up your time for strategic initiatives? Do you want to improve your service level measures?
- Or, are other issues prompting you to outsource, such as leadership frustration or wanting to transfer risk to a third party?

Answers to these questions will provide valuable insight and help align outsourcing projects with business priorities.

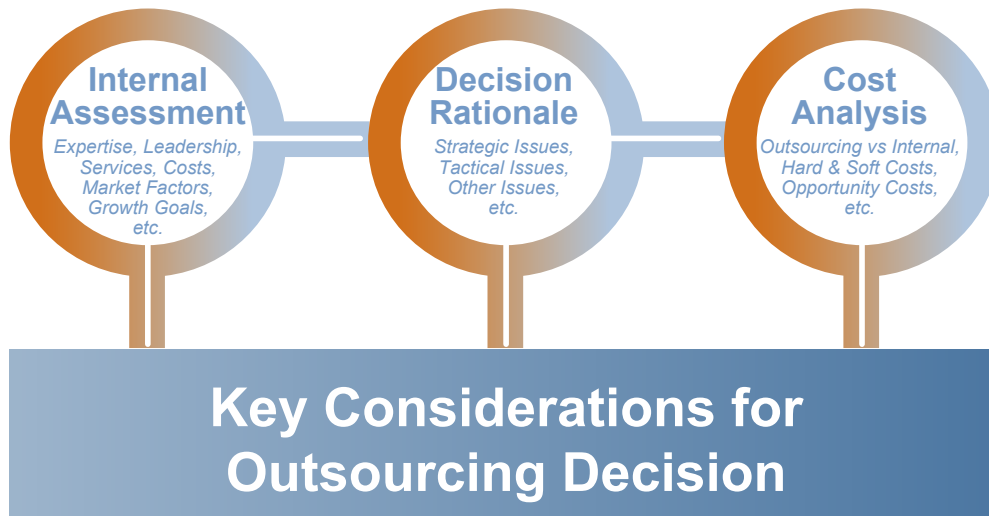
Cost Considerations

IT managers must know the current costs associated with, and current state of, their IT operations. And, they must evaluate objectively the service levels associated with these costs to understand how a vendor's proposal might increase or decrease these levels. Other required cost figures include the total cost of ownership, the cost of hardware refreshes (and whether those will be capital or operating expenditures) and the cost impact on your disaster recovery plan. Finally, what is the cost of doing nothing and continuing as-is?

Compliance can create significant additional costs for businesses. For example, Sarbanes-Oxley, HIPAA, 21 CFR Part 11, SAS 70 Type II all come with hefty price tags. Examine if some of those costs can be deferred or eliminated by outsourcing.

Who you select as your service provider and how you select them can significantly impact your IT costs. To get the best fit, you need to determine what criteria matter most to you and your organization, such as:

- Does the provider fit within cost objectives?
- Do you want your service provider to be onshore, offshore or something in-between?
- Is it important that your vendor have specific experience in an application or your particular industry?



Service Models	Remote Managed Service Model		Infrastructure Hosting Service Model		Application Managed Service Model		Full Managed Service Model	
	Internal IT Department	Service Provider	Internal IT Department	Service Provider	Internal IT Department	Service Provider	Internal IT Department	Service Provider
Data Center Facilities	X			X		X		X
24/7 Support		X	X	X	X	X		X
Infrastructure Management		X		X		X		X
Security Management		X		X		X		X
Network Management	X		X		X			X
Operating System Administration		X		X		X		X
Database Administration	X		X			X		X
Application Administration	X		X			X		X
Application Customization	X		X		X			X
EDI Administration	X		X		X			X
Disaster Recovery	X		X	X	X	X		X
Application Functional Support	X		X		X			X
Desktop, PDA & Phone Systems Management	X		X		X			X

The table above depicts typical service models companies deploy today: Remote Managed Services, Infrastructure Hosting, Application Managed Services and Full Managed Services.

Another important consideration and one that will dramatically impact your IT costs is the type of delivery model your service provider will use. If you operate within a time and materials (T&M) model, you will pay for resource time as it is incurred. Each project, task and issue will be billed separately and you will incur variable costs. Typically guaranteed service levels for service delivery are included and you have substantial flexibility in managing your projects.

With service level (SLA) models, you pay a defined fee for a defined service level. Your costs are fixed and your results are predictable. The vendor manages your environment on an agreed upon service level rather than the amount of time it takes to complete tasks. Most often, outsourcing providers require a contract term.

Finally, the roles and responsibilities between you and the hosting organization must be spelled-out. Discrepancies can wreak havoc on IT costs and performance. Your contracts, service level agreements and measurement criteria should clearly identify who will be doing what along with the associated expectations.

Service Models

Many service models exist for companies to deploy. Although names may vary slightly from one provider to the next, the following represent typical services:

- Remote Managed Services:** This model represents all or part of your existing infrastructure being managed remotely by a vendor. All hardware and software continue to be located on your premises and the vendor monitors and controls the devices from their location. The most common services deployed in this model include 24/7 support, infrastructure management,

security management and operating system administration.

Gartner expects explosive growth of remote infrastructure services. By 2012, 70% of all North American companies will have remote service contracts in place.

- Infrastructure Hosting:** Infrastructure hosting can include a turnkey IT solution on vendor infrastructure or using your existing infrastructure in the vendor's data center. Typical services with this model are 24/7 support, infrastructure management, security management, operating system administration and disaster recovery. Additionally you get the advantage of tested and proven ITIL best practices in IT management, world-class technology, and the ability take advantage of the vendor's practices in the areas of compliance.
- Application Managed Services:** Application management can be added to either remote managed services or infrastructure hosting. Basically, this model involves the vendor managing projects through your application layer. Projects can be as simple as Active Directory, Terminal Services, and Microsoft Exchange to more complex applications like ERP applications, business intelligence and data warehouses.
- Full Managed Services:** Generally, fully managed services involves outsourcing all your organization's IT functions. In this model, IT leadership focuses on developing IT strategies based on the business' objectives. The IT strategy is then executed by the outsourcing vendor. Additionally, the vendor handles day-to-day aspects of IT user support.

Effects of Outsourcing

Real company scenario #1: Before outsourcing, company #1 managed most of its IT operations internally, application and database administration was handled by a contractor, and the infrastructure was co-located at a third-party data center. This arrangement created three independent groups managing the various IT projects. In addition, several crucial IT services were missing. Company #1 had no guaranteed SLAs, no disaster recovery, no true 24/7 support, no centralized monitoring, no centralized change management and patches were incremental cost projects. Further detracting from optimum performance, company #1 was operating Oracle EBS 11i over database 9i – a five year-old hardware platform.

After company #1 selected OneNeck to manage its IT environment, several improvements to performance and cost surfaced. Now, company #1 receives guaranteed SLAs (availability, responsiveness, etc.), disaster recovery with 72 hours RTO and 24 hours RPO, 24/7/365 live support, centralized monitoring on all levels, centralized change management and issue resolution, patches included in the monthly cost, an upgrade to database 10gR2 (included) and an infrastructure refresh during the transition. OneNeck projects a TCO savings of 37% over three years.

Real Company Scenario #1	
Before OneNeck	After OneNeck
Three independent groups managing IT projects	Centralized hosting and management
Crucial IT services missing: <ul style="list-style-type: none"> No Guaranteed SLAs No Disaster Recovery No 24/7 Support No Centralized Monitoring No Centralized Change Management Patches not included 	Crucial IT services included: <ul style="list-style-type: none"> Guaranteed SLAs Disaster Recovery with 72 hours RTO and 24 hours RPO 24/7/365 Live Support Centralized Monitoring on All Levels Centralized Change Management and Issue Resolution Patches Included in Monthly Cost
A five year-old hardware platform	Upgrade to 10gR2 (included) and an infrastructure refresh
Projected TCO Savings of 37% over 3 years	

Real company scenario #2: Before outsourcing, company #2 was hosted and managed by Oracle OnDemand while several integrated third-party applications were hosted and managed in-house. This model created complex dependencies during refreshes, patching, upgrade projects, etc. In addition, company #2 had no guaranteed overall SLAs, spotty disaster recovery, no centralized monitoring, no centralized change management and unpredictable support costs.

When company #2 enlisted OneNeck’s outsourcing services, all applications became centrally hosted and managed. In addition, OneNeck provided refreshes, patching and upgrade projects. Plus, company #2 now had guaranteed SLAs (availability, responsiveness, etc.), disaster recovery with 4 hours RTO and 30 minute RPO, centralized monitoring and reporting on all levels, centralized change management and issue resolution, and fixed and predictable support costs. OneNeck projects a TCO savings of 25% over three years.

Real Company Scenario #2	
Before OneNeck	After OneNeck
IT projects hosted and managed by Oracle OnDemand; third-party apps hosted/managed in-house	Centralized hosting and management
Crucial IT services missing: <ul style="list-style-type: none"> No Guaranteed SLAs Spotty Disaster Recovery No Centralized Monitoring No Centralized Change Management Unpredictable Support Costs 	Crucial IT services included: <ul style="list-style-type: none"> Guaranteed SLAs Disaster Recovery with 4 hours RTO and 30 minute RPO Centralized Monitoring and Reporting on All Levels Centralized Change Management and Issue Resolution Fixed and Predictable Support Costs
Projected TCO Savings of 25% over 3 years	

Summary

The examples above depict real cost savings from using OneNeck’s hosting and managed services. In each situation, costs are negatively impacted by in-house management. Conversely, OneNeck centralized operations, improved performance and lowered costs.

To recap, identify the multiple components that could affect your decision and accurately determine the actual cost of those areas within your business. Understanding where you are now as it relates to costs are crucial to assessing the real cost of in-house versus outsourcing.

Next, look at the management models available: remote managed services, infrastructure hosted, application managed services, fully managed or a blended approach. Compare the strengths and weaknesses of each model, paying close attention to cost impacts.



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