



# OneNeck White Paper

**Forget Speeds And Feeds –  
Outsourcing Today Is All About Your Business**

**ERP Outsourcing for the Mid-Market**

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## FOREWORD

Mid-market companies who've made the commitment to an Enterprise Resource Planning system have several options for deployment. Each option brings with it varying levels of company involvement, efficiency, completeness, and cost.

Perhaps the most difficult decision on the table is whether to deploy, manage and maintain the system in-house, or outsource one or all of these key functions. Influencing the outsourcing decision is the fact that ERP systems cast a huge footprint across an organization – consuming as much as 90 percent of the total IT infrastructure. Consequently, a commitment to ERP requires significant human, technical, and financial resources that may be out of reach for smaller companies.

Increasingly, mid-market companies are seeking out specialized outsourcing partners to manage their complex applications such as ERP. The process of finding the ideal outsourcing partner is no longer a cut-and-dried matter of determining how many servers are needed, or how much bandwidth is available. ERP outsourcing partners now must understand your business, all of your applications, and your short- and long-term business goals. Only then can they create the optimum solution comprising hardware, software, strategic planning, and services.

This white paper presents an overview of ERP outsourcing models and focuses on the critical success factors involved for mid-market companies.

## THE EVOLUTION OF OUTSOURCING

In the early years of the outsourcing industry, vendors of IT infrastructure services were selected primarily on price. Companies of all sizes and stages of maturity chose their IT outsourcing partners on how much of a given specification – for example, bandwidth, disk storage, or number of users – they would receive for a given price. In general, outsourcing decisions were made by analyzing classic build-versus-buy scenarios, with the lowest-cost solution often the winner.

In hindsight, it's safe to state that many outsourcing decisions were based on corporate politics rather than on what was best for the company at the time. IT managers and staff grappled with the issue of staff reductions every time the word "outsourcing" was mentioned, and often turned away from outsourcing for just that reason. But when businesses were forced to reduce headcount and the scale of their operations during the tech downturn of 2000-2003, companies who hadn't turned to outsourcing wished they had.

Corporate data centers began to empty. Elaborate hardware systems sat idle. And corporations were increasingly forced to look outside their walls for ways to continue operations that had become dependant on IT, without spending precious capital to acquire, manage and maintain the equipment, often through the course of a long-term lease.

The ability to scale the breadth and depth of your IT infrastructure can be a corporate life-saver. This need for economical scalability caused many outsourcing companies to position themselves as providers of a utility service. If you need more of any data center commodity, open the outsourcer's faucet to receive exactly the quantity you need. When your need diminishes, reduce the flow back to its normal state.

However, "utility" really doesn't connote a deep partnership between companies. Utilities can be switched on and off at will without human intervention. As companies explored the software side of the IT equation for ways to remain competitive, tight partnerships became more important than ever.

In our so-called New Economy, outsourcing has taken its rightful place as a business strategy, not merely a cost-reduction scheme. In fact, the leading reasons why companies outsource point to business – not technology – advantages and metrics.

- > The in-house IT staff lacks the requisite skill sets to manage and support the latest ERP applications and other complex technologies.
- > Management recognizes the need to outsource the care and feeding of its ERP application, as the function is either too difficult to manage or out of control. If the outsourcer restores calm, management frequently follows their ERP decision with a desire to outsource other applications and IT functions as well.
- > The company needs to deploy applications and enhancements quickly in either start-up, transitional, or expansion modes of operation.
- > To reduce and control recurring operating costs by eliminating redundancies.
- > Extract greater business benefit from the IT infrastructure by standardizing as much as possible on a single ERP backbone.
- > Improve the company's focus on core competencies by reducing or eliminating the distraction of managing their IT infrastructure.
- > Free the internal IT resources for other purposes such as developing strategic enhancements and future-state planning.
- > The company gains access to world-class capabilities without tying up capital or taking the time to build the function in-house.

With the advent of Application Service Provider models, wherein core applications are managed by a vendor or third party – often from a remote location – the criteria for a strong outsourcing partner expanded to include the skills necessary to manage the key applications required by a modern business. Outsourcing is no longer about either hardware or software. Now, it's about total solutions for the business, not just IT.

This need in recent years for specialized expertise has caused many companies to turn to their software vendors for help. While software vendors are obviously highly knowledgeable about their products, most lack expertise outside of their core solutions. This creates a need for multi-sourcing, the practice of using multiple outsourcing partners for a variety of specialized needs within a single company such as data center operations; application and database administration; application development and functional support; WAN/LAN support; phone system; e-mail; and desktop administration.

No doubt, counting on a multi-sourced IT environment to support a complex ERP application can be risky business for mid-market companies.

Multi-sourcing has attracted a lot of attention in the large-enterprise market, where outsourcing needs are greater than what a single service provider can provide. However, for mid-market companies, multi-sourcing brings additional difficulties, including higher costs than originally anticipated; the necessity to contract with and manage more than one provider; and a general lack of accountability among the outsourcers for problems of interoperability and integration that almost inevitably arise.

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### APPLICATIONS MANAGEMENT AT MID-MARKET COMPANIES: A LARGE SLICE OF THE IT PIE

In addition to sorting through the hardware, software, and services offerings of outsourcing providers, you'll need to consider factors that are specific to the size and available resources of your company. For example, in their 2005 outsourcing report, the well-known investment banking firm TripleTree writes, "... the ongoing cost and challenge of application management far exceeds the cost of the initial software license and implementation. This is especially true for companies with less than \$2 billion in revenue."

While not unique to mid-market companies, application management expenses are a significant part of the total cost of IT infrastructure. A hidden contributor to these costs is the decreased number of qualified and certified software technicians in the post-dotcom era. In short, a lot of good people left the software support industry through layoffs, reductions in force, and frustration with shrinking corporate IT budgets. The difficulty in attracting and retaining top IT personnel at mid-market companies is another strong reason to consider outsourcing.

Supporting TripleTree's findings, industry consultants at research firm IDC have discovered through a customer survey that, "Well over 50 percent of the companies with \$50M-\$2B in revenue responded that the ongoing cost to maintain their critical applications exceeded their initial license fees by two-to-five times. It's not surprising to see these statistics reported among middle market companies who, despite their relatively small size, often have very complex business processes that drive significant software management requirements. This challenge is exacerbated by the fact that most middle market companies have comparatively small IT staffs relative to their Global 1000 counterparts."

### WHAT'S MORE IMPORTANT IN AN OUTSOURCING PARTNER — APPLICATION OR BUSINESS ACUMEN?

For mid-market companies, the process of selecting an outsourcing partner must consider how well potential partners understand both the company's mission-critical applications and their business. The adoption of complex, business-critical applications such as ERP has played an important role in heightening the need for outsourcers to possess both of these skill sets.

From the mid-market perspective, the popularity and widespread adoption of ERP, coupled with the maturity of the applications themselves, has effected a shift in the way companies regard their installations. What was once a strategic advantage is now at the core of enterprise-wide infrastructure. And on the hardware side of IT, virtually all technologies have become commodities. Performance differentiation among manufacturers is now apparent only at the highest ends of the product spectrum, essentially leveling the playing field.

Consequently, successful mid-market companies will be those that select outsourcing partners with a strong grounding in ERP and business process management as well as the technical capabilities to provide an IT solution that satisfies all the infrastructure demands through a single point of contact.

**APPLICATION MANAGEMENT EXPENSES FOR COMPANIES WITH REVENUE RANGING FROM <\$50 MILLION - \$2 BILLION IDC SURVEY - 2004**

	Companies with Revenues <\$50m	Companies with Revenues \$50M-\$500M	Companies with Revenues \$500M-2B
Less than software purchase price	19.8%	11.6%	8.8%
Equal to software purchase price	12.3%	7.0%	5.3%
2x-3x software purchase price	25.3%	36.1%	28.1%
4x-5x software purchase price	8.3%	17.5%	19.3%
> 5x software purchase price	8.3%	5.8%	14.0%

Source: IDC

In addition to understanding the IT infrastructure needs of its customers, the extent to which an outsourcing partner understands the business personality of the mid-market company is a distinguishing characteristic that's key to the success of a relationship. For example, how much do company executives want to "notice" their outsourcing partner? Should the relationship be completely transparent, or should communication be frequent and detailed?

Research indicates that most mid-market companies prefer a high level of communication with their outsourcing partner. Because the ERP application and supporting IT infrastructure are critical success factors for these companies, frequent communication provides a comfort level on current states of performance and problem resolution, should difficulties arise. This high level of communication, often referred to as "high-touch," is what enables companies to focus on their core business without diverting time and attention to infrastructure issues.

**ADVANTAGES AND DISADVANTAGES OF OUTSOURCING MODELS**

Buyers looking to outsource can choose from among several types of providers, although some are better suited for mid-market companies than others. Some outsourcers provide shared-services centers that allow them to share infrastructure, people, and software with many customers, frequently creating economies of scale for their customers.

Some have years of IT experience and the industry's best data processing prowess, but lack the knowledge of modern applications such as ERP. And certain providers merely supply hardware platforms

and managed services only for the operating system and network. Buyers must evaluate these differentiating factors and select a service provider based on the best fit for their business needs.

**FOLLOWING IS AN OVERVIEW OF THE MOST COMMON OUTSOURCING MODELS**

**Application Service Provider (ASP)** — An ASP hosts and manages a single or limited number of packaged software applications located in its own or a third-party's data center. In general, an ASP provides hosting on their hardware with standard configurations or very limited customization available. An ASP is essentially a "one-to-many" provider — they use one environment to support many customers.

Among the advantages of working with an ASP are expertise in its software application(s), and, because of its one-to-many business model, the ASP can usually market itself as the low-cost provider of its specific services.

One disadvantage of the "one-to-many" model is either very limited or non-existent customization. If the ASP does provide for customized environments, the pricing for it often eliminates any potential savings. Many companies are unwilling or unable to deploy ERP software that does not take into consideration the unique requirements of their business.

An additional disadvantage is that ASPs generally offer neither skills nor expertise in non-core applications and further lack the abilities to integrate the ERP applications with others. As a result, customers

that do not have in-house expertise to manage and integrate their applications are forced into a multi-sourcing scenario.

A final disadvantage in working with ASPs is they often rely on third-party providers to host and manage their data centers, provide database administration, and manage the back-end infrastructure, networks, and other subsystems. This can result in a lack of accountability for the customer when problems arise.

**Vendor-Hosted Application Provider** — This type of outsourcer sells its proprietary software application, then hosts and manages it for customers. This type of provider is generally best for applications with relatively limited functionality.

An advantage to the vendor-hosted model is that the software provider generally has a deep understanding of, and expertise in the software application. In reality, the developers within the software organization seldom manage the applications, preferring to offload this function to a separate support organization.

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Moreover, designers are usually not the best users of the tools they design and build. For example, you won't find employees of Louisville Slugger on the roster of any Major League Baseball team. Can you imagine their slogan? – "Let us do the hitting for you – we designed the bats!"

In managing a customer's IT environment, knowledge of the software application or design is only a single, albeit important element in providing high service levels. Perhaps more critical is knowledge of, and experience with the IT management processes — change management, release management, configuration management, problem identification, and problem resolution, among others. Successful outsourcers will know how best to deploy these processes in the customer's IT environment.

Another disadvantage of the vendor-hosted model is that, like ASPs, vendor-hosted application providers cannot integrate their software with the customer's ERP solution, e-mail or other applications. For example, customer data and information from an ERP system must be integrated with a Customer Relationship Management (CRM) system, and vice versa, to

drive the greatest efficiency and effectiveness. Furthermore, these providers offer no support for non-core applications and force the customer to multi-source if they lack the in-house expertise to create, manage and integrate the applications.

**Platform IT Outsourcer** — These are usually large-scale vendors that manage all or part of a customer's IT environment, including transfer of the customer's IT facilities, hardware and even staff. Key examples include EDS, CSC, and Perot Systems.

An advantage to this model is that, because of their size and scale, they're generally able to bring the requisite resources to bear to satisfy a customer's demands. Typically, they have the financial resources to purchase the IT equipment and personnel from their customers as part of a transaction. This frequently provides a financial incentive to customers to agree to outsource their entire IT function.

Among the disadvantages of working with a platform IT outsourcer is that in attempting to be all things to all people, they may take on an environment in which they have no expertise. For example, they may undertake a particular ERP application without having a focus in that application, since they inherit only what the customer already has onboard.

Another disadvantage for mid-market companies is connected to the fact that since these outsourcers are typically involved in billion-dollar contracts, it's questionable how much attention mid-market companies will receive from them. Recently, one of the largest platform IT outsourcers announced they are currently pursuing over 100 contracts with a value of \$1 billion or greater. With this kind of opportunity in the Fortune 1000 sector, it's clear where their priorities lie.

This outsourcing model is further complicated by the fact that providers often charge a per-service-request fee. This tends to place a continuous focus on maximizing incremental revenue as opposed to delivering exceptional customer service and support. In the end, this type of fee-for-service structure often leaves customers frustrated and disappointed with an outsourcing relationship that complicates billing while delivering "just enough" support.

**Utility/On-Demand Hosting** — These outsourcers provide hardware and/or software on an as-needed basis, typically priced according to the number of users. Customers pay only for what they use, as they would for any utility, such as electricity.

Among the advantages of this model is that the outsourcer, in providing a one-to-many service, uses economies of scale to offer a presumably low-cost, flexible service. Also, because services are generally billed only as used, the up-front investment by the customer can be reduced.

A disadvantage is that customers could be misled on their total savings since both hardware and software components of an ERP implementation (those elements which are addressed by the on-demand concept) are increasingly smaller elements of the overall costs.

For example, in the mid 1990s, in a moderately sized business, a single Unix server that supported a 100-user environment cost from \$300,000 to \$500,000. Today, a server with similar capacity costs less than \$100,000. Additionally, software that previously cost \$6,000 to \$8,000 per user now costs between \$3,000 and \$4,000 per user. Conversely, other costs such as implementation and ongoing support are rising. As a result, the on-demand solution tries to save money on the smallest cost components of an ERP implementation while ignoring the largest components.

Another disadvantage is that customer costs rise in a linear fashion as the number of users increase, with each new user resulting in increased fees. This situation actually defeats the IT cost savings that should result from using a third-party provider. In reality, the incremental cost of adding an additional user to a service provider is very small. Most service providers don't need to increase their resources to support the environment unless a larger block of users is added. But according to the on-demand model, the costs to the customer rise with each additional user.

The utility/on-demand concept implies a demarcation line of the outsourcer "outside the wall," just as the water provider's responsibility ends at the water meter outside the house. However, mid-market companies need outsourcers to provide service beyond the demarcation line directly to the end user, enabling them to become more effective users of the ERP environment. This is accomplished only when the outsourcing provider has knowledge of using the software to enable better business processes. The on-demand concept ignores the extension of services to business process enablement.

The on-demand concept is cleverly designed to simplify marketing a complex solution. Its limited success in delivering the promised cost reductions, together with the market's slow adoption of the concept, have resulted in significant losses by large providers that are now abandoning the concept.

**Remote Systems/Application Management** — In this model, services are provided at the operating system, database, and/or application levels by organizations and individuals remote from the technical environment. Its advantage is in supplying professionally managed services without the expense of transitioning a technical environment to the outsourcer's location.

However, a disadvantage is that since other organizations and individuals will likely have access to the system, the outsourcer can provide only limited guarantees of security and systems availability in their service level agreements. If the customer requires 99.9 percent system availability of the application, database, server, network, or other subsystem, a remote management provider simply cannot guarantee it. Most users find a lack of availability to be unacceptable in an outsourcing relationship.

Since the capital investment required to provide these services is limited, remote management organizations can be a loose collection of professionals without integrated management of the environment. This situation could lead to poor system documentation and little if any redundancy, resulting in a single point of failure in the management of a company's mission-critical ERP environment. In addition, without rigorous system documentation, the customer simply cannot comply with Sarbanes Oxley section 404 requirements.

### WHAT'S MISSING IN THESE OUTSOURCING MODELS?

Two common shortcomings run through these outsourcing models. The first is a shift away from one-to-one to one-to-many relationships, making individually customized solutions extremely rare. The second is the inability to integrate the service provider's main offering(s) with the customer's other applications. As a result, customers must multi-source if they lack the requisite IT expertise in-house.

None of these outsourcing models offers the right solution for the mid-market company that wishes to outsource its ERP or other applications, yet integrate them tightly to achieve maximum effectiveness for the company. Mid-market companies require an outsourcer that can do it all – one that can customize, integrate and manage the entire IT environment – and do so without multi-sourcing. In other words, the company needs a provider that offers a total solution. The only ERP outsourcing services provider that offers mid-market companies a total solution is OneNeck IT Services.

### THE TOTAL SOLUTION – ONENECK IT SERVICES

OneNeck is the leading mid-market outsourcer that can both manage customers' ERP applications and integrate them with other systems. Unlike other providers, OneNeck does not force its customers to multi-source. In typical relationships with its customers, OneNeck personnel provide all necessary IT services. OneNeck does not subcontract recurring outsourcing services. Rather, as its name implies – "Ours is the one neck on the line" – they take full accountability for issues affecting their customers' environments.

By not needing to cross barriers between different service providers, as is common in multi-sourcing, OneNeck seamlessly provides integrated services to its customers, leading with a high-touch customer interaction approach.

OneNeck customer Mark See, CIO for Targus Group International, confirms the value of the single-source model. "Targus had no organized IT infrastructure - even at the regional level. We were challenged with creating a scalable IT environment that could be centrally managed and supported in order to serve as the foundation for globalizing Targus' communications, supply chain and financial systems. We wanted to do all of this without creating a significant in-house IT department. We reviewed all the big players and decided a middle-market specialist with deep ERP expertise and global experience would be the best fit for us. We chose OneNeck, and we're very glad we did."

OneNeck seamlessly provides integrated services to its customers, leading with a high-touch customer interaction approach.

### ONENECK'S CUSTOMERS BENEFIT FROM THE BREADTH AND DEPTH OF ITS SERVICES

**Breadth** – OneNeck can host and manage any and all the applications of its customers. This is critical because as customers look to ease their IT "pain," they often prefer to outsource everything, not just their ERP system. OneNeck gives its customers a single solution, a single service provider to work with, and a single set of contracts to manage.

OneNeck often manages the following applications for a single customer:

- > ERP Application
- > CRM Application
- > Warehouse Management Systems
- > E-Commerce Solutions
- > Bar Code Solutions
- > Business Intelligence/Reporting Solutions
- > E-mail/Messaging

**Depth** – OneNeck's Application Outsourcing model provides the comprehensive suite of technical and functional/business process support necessary to enable businesses to effectively utilize their ERP systems to drive measurable business benefits. These services include:

### TECHNICAL SERVICES

- > Operating Systems Administration
- > Application Administration
- > Database Administration
- > Network Administration
- > 24x7 Support/Service Desk
- > Desktop Support/End-User Device Management

### FUNCTIONAL/BUSINESS PROCESS SUPPORT SERVICES

- > Functional Support Services (finance, manufacturing, logistics, project management support) performed by personnel experts in both the application software and the business processes
- > EDI Administration and Implementation Services
- > Development Services
  - Business Analysis
  - Customization
  - Application Development

### STRATEGIC AND PROJECT MANAGEMENT SERVICES

- > Software Selection Services
- > IT Due Diligence Services
- > Audit Support Services
- > Program Management
- > Project Management

The best way to build great outsourcing relationships is to wed the buyer's true business objectives with the strengths of the service provider. This allows them to travel down the tough road of business with the same destination.

### ONENECK'S DIFFERENTIATION RESULTS IN THE BEST TOTAL SOLUTION

Basing your selection of an outsourcing partner on a service provider's strengths, it can be difficult to make an apples-to-apples comparison among the various models. The best way to assess service provider strengths in a thoughtful and effective way is to develop individual specifications matching buyer needs with service provider strengths to make an enduring match.

OneNeck offers a single focus on the mid-market with dual expertise on major ERP packages and related applications. The company has developed the ability to integrate and support these applications, not only from a technical perspective, but from a business process perspective as well.

Customers that contract OneNeck's full suite of services realize the greatest benefits from their ERP system by using them to support strategic business decisions that advance their businesses faster. While other providers implement applications for customers and then manage the environment, OneNeck is the only outsourcer that also functionally supports the applications after they become operational. This major difference sets OneNeck apart.

OneNeck's service strategy is built on "customer intimacy," a value discipline described by Michael Treacy and Fred Wiersema in their book, *The Discipline of Market Leaders*. This is an approach of delivering what customers want by completely understanding and fulfilling their needs. OneNeck designs the optimum solution to meet those needs and oftentimes the solution is unique and may never be replicated for another customer. However, the result is the best total solution – exactly what one should expect from their outsourcer.

Although OneNeck can provide all necessary services, the company remains flexible. It crafts solutions that are well integrated with customers' existing IT staff when necessary. OneNeck is also adaptable in the way it designs the technical solution, most often combining hardware components from its own technical infrastructure with required components or systems from the customer's infrastructure.

**OneNeck's family of satisfied customers** includes Russell Stover Candies, Targus Group International, Sunny Delight Beverage Company, and Herman Miller, among many others. As the leading ERP outsourcing services provider to mid-market manufacturing and distribution companies, OneNeck supports most major ERP applications, including J. D. Edwards, Microsoft Business Solutions - Axapta, SSA Baan and Khameleon, and manages more than 70 additional applications. OneNeck's global ERP solutions have enabled customers to improve ERP system performance, enhance revenue flow, and streamline operations.



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