



# OneNeck White Paper

**Is Outsourcing Right for You?**  
Objectively analyzing your organization's  
readiness for outsourcing

## FOREWORD

Although every firm is a candidate for outsourcing, not every company is a good fit. Only by identifying an organization’s motivations, core competencies and corporate culture can a company properly determine if they should outsource. If the organization can clearly identify these factors as they relate to outsourcing, and have a clear vision of their desired results, they should be able to objectively analyze whether an outsourcing strategy is a good fit.

An objective analysis, however, may not be as easy as one might think.

It requires a look at the organization through slightly different eyes, removing the “this is how we’ve always done it” mentality and replacing it with the “if we were to start over today, what would we do?” way of thinking.

This white paper will present an overview of the following issues an organization should consider when deciding whether or not to outsource:

*Demystifying Outsourcing* - With so many different ideas, definitions and misconceptions, it’s important to set a baseline concept of outsourcing.

Outsourcing today has evolved from a purely cost-based decision that a few companies deploy to a widely accepted business practice and legitimate solution used by many companies to achieve their business goals.

*Why Should a Company Outsource?* - The organization needs to outline the reasons for outsourcing and explore how their business demands factor into adopting one outsourcing strategy over another.

*Outsourcing Models* - There are several different outsourcing models, each with associated benefit and risk.

*The Cultural Component* - A company must determine if they can live with an outsourcing strategy. Many companies are simply not a good cultural fit for outsourcing and set themselves up for failure during the exploration phase.

*Exploring Outsourcing* - Should an organization determine outsourcing can help achieve their business goals, we’ll provide the direction to get started on next steps.

## DEMYSTIFYING OUTSOURCING

Misconceptions abound concerning outsourcing. Many people, especially in the media, equate outsourcing to “off-shoring.” While some companies do off-shore certain components of their business, off-shoring is not the only option available when considering outsourcing, nor is it necessarily the right decision.

Almost every company today outsources in some capacity. Whether it’s their payroll, application hosting, or something as routine as printing business cards, most companies simply cannot do everything in-house. And, why should they? Businesses today have become specialized at what they do best. They’ve exploited efficiencies to increase profit on their core operational activities, and in most cases, look to other organizations to complete tasks which are not within their own core competencies.

When looking at outsourcing for what it is, a service provided by another company that would otherwise be done in-house, rather than a sinister plan to redistribute human labor costs by big corporations, the topic becomes more approachable and a logical solution to business challenges.

For example, consider Information Technology (IT) outsourcing. Why should a manufacturing company be expected to build a world-class technology department when they manufacture widgets?

When done right, an IT outsourcer can give a business economies of skill and scale by aggregating demand across their multiple customers. They can force the adoption of proven methodologies, best practices and procedures that create not only a more effective IT function, but a better company as well. An outsourcer can also provide world-class facilities, system availability, monitoring tools, and 24/7 customer support that would normally be too expensive to provide in-house.

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## WHY OUTSOURCE?

If all outsourcing decisions were as easy as printing business cards, this white paper wouldn't exist. However, because IT outsourcing is a very complex and comprehensive initiative that can affect all aspects of business operations, it has to be approached methodically and with a tremendous amount of organizational introspection.

When considering IT outsourcing, a company must first ask themselves what they expect to accomplish. Generally speaking, organizations choose outsourcing for one of the following two reasons:

1. **Tactical Outsourcing** – To eliminate cost, reduce investment or free-up resources.
2. **Strategic Outsourcing** – To gain strategic or operational value from having a third party manage their IT.

Certainly, most companies would say they want to achieve both tactical and strategic advantages from outsourcing. However, it's important to understand what the primary driver is in determining an organization's desire to outsource.

For example, if cost is the primary driver, then it doesn't matter if the outsourcing provider is offshore or if headcount is reduced.

On the other hand, organizations that choose outsourcing for strategic reasons do so to focus on their core competencies while taking advantage of enhanced services, highly developed skill sets, tools and overall IT delivery and operations. Decisions to implement outsourcing for strategic reasons do not view cost reduction as the primary by-product. Rather, it would transform the company to a higher level of service delivery and operational efficiency.

The tactical and strategic methods of outsourcing are discussed in greater detail below:

### Tactical Outsourcing

Historically speaking, organizations first used outsourcing as a tactical method for solving business problems. Tactical outsourcing solved immediate or short-term issues for a business. Reducing or controlling operational costs and freeing up investment dollars or internal resource shortages, are all issues which can be solved through outsourcing.

Businesses that choose outsourcing for tactical reasons are usually focused more on cost and less on service delivery.

Reducing internal staff and integrating cheaper foreign labor often occur in a tactical model.

Tactical outsourcing, while effective in the short-term, has proven to be more of a band-aid solution than a long-term, sustainable, operational model. Often, organizations enter into tactical outsourcing relationships to solve one of the above mentioned problems, stabilize the situation, and then regain control of information technology assets in-house.

### Strategic Outsourcing

According to most IT analyst firms, companies today choose IT outsourcing to allow their IT employees to focus on strategic projects. This approach focuses more on long-term goals and is much more than a simple cost reduction strategy.

While companies still look to cut costs where possible, it is not their only motivation. In today's business world, relationships with outsourcers usually become more of a partnership as companies recognize that an outsourcing relationship will allow them to refocus or gain deeper domain expertise, secure a wider bench of resources and share regulatory risk.

A company may also choose outsourcing to offset risk from regulatory compliance. For example, outsourcing IT can be strategic in assisting with Sarbanes-Oxley audits if an outsourcer's operations are SAS 70 Type II compliant.

Companies that choose to outsource for strategic reasons seek to improve the business focus of their organization. These companies turn to outsourcing to free their existing IT department resources that have become bogged down in basic IT projects, upgrades and support, and instead allow them to focus on using IT in a manner that is more related to streamlining strategic operations. What's more, these organizations have access to experts who are trained and focused on specific domain verticals within IT, minimizing the chance of problems occurring as a result of an overstressed generalist's skill sets.

A great example of strategic outsourcing in information technology today is the outsourcing of a company's Enterprise Resource Planning (ERP) system. ERP systems are incredibly complex, expensive and require a handful of specialized resources to properly maintain and manage the system. A

significant burden is placed upon organizations to maintain these systems and the associated technology talent. Furthermore, organizations often can’t afford to employ all the specialized resources required, so instead they hire generalists to fill in the gaps. This approach not only diminishes the return on investment (ROI) of the ERP system, but also produces lackluster results and stability issues while overstressing the supporting staff, leading to high attrition.

Rather than deal with these headaches, companies may choose to outsource for strategic reasons. Outsourcers can alleviate the day-to-day IT maintenance and fire-fighting, provide a more specialized talent pool, and allow redeployment of a company’s technical resources to focus on more relevant, revenue-generating activities.

A company may also choose outsourcing to offset risk from regulatory compliance. For example, outsourcing IT can be strategic in assisting with Sarbanes-Oxley audits if an outsourcer’s operations are SAS 70 Type II compliant. These types of certifications are relevant to internal controls as they relate to an audit of financial statements, and can be leveraged accordingly by an organization.

Each model has associated advantages and risks. Just as we wouldn’t condone forcing a square peg into a round hole, we also wouldn’t advocate that any one model of outsourcing would suffice for every company.

Businesses that use outsourcing for strategic reasons are focused on leveraging the service provider’s capabilities, skills and market maturity to further their own business activities. The relationship becomes more of a partnership than simply a cost-cutting measure.

The different reasons for outsourcing are driven by the different objectives and demands businesses have to fulfill. In some cases, a purely cost-based decision may be required to sustain the business. In other cases, an organization may need a provider that they can trust to manage their day-to-day maintenance activities.

Each decision to outsource is unique to the short- and long-term requirements of the business. For example, it would be foolish to choose outsourcing simply to cut costs if the long-

term business objectives were to focus on system availability. Therefore, it’s important that before an organization asks if they can outsource, they should know why they want to outsource.

## OUTSOURCING MODELS

Several IT outsourcing options exist today to solve everything from application management and network monitoring to desktop support. The right option should be selected based on the unique business requirements and outsourcing motivations of a company.

Companies can choose from the five main types of information technology outsourcing:

**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 customizations available. An ASP is essentially a “one-to-many” provider – they use one environment to support all of their customers.

**Vendor Hosted Application Provider/Software as a Service (SaaS)** — 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.

**Platform IT Outsourcer** — These typically large-scale vendors manage all or part of a customer’s IT environment, including transfer of the customers IT facilities, hardware and even staff.

**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, just as they would for any utility.

**Managed Services** — In this model, technology services are provided at the operating system, database and/or application level by third-party organizations and/or individuals.

Each model has associated advantages and risks. Just as we wouldn’t condone forcing a square peg into a round hole, we also wouldn’t advocate that any one model of outsourcing would suffice for every company. The model selected should be a reflection of an organization’s size, culture, complexity and requirements, both long- and short-term.

## THE MAIN ADVANTAGES AND RISKS ASSOCIATED WITH EACH OUTSOURCING MODEL

Model	Advantages	Risks
<b>ASP</b>	<ul style="list-style-type: none"> <li>▶ Experts at the application they support</li> <li>▶ Low Cost</li> </ul>	<ul style="list-style-type: none"> <li>▶ Inflexible</li> <li>▶ None or few customizations allowed</li> <li>▶ No support of third party applications</li> <li>▶ Shared computing resources</li> </ul>
<b>Vendor Hosted Application Provider/Software as a Service (SaaS)</b>	<ul style="list-style-type: none"> <li>▶ Deep domain expertise in the software application</li> <li>▶ Efficiencies through shared resources</li> </ul>	<ul style="list-style-type: none"> <li>▶ Less control</li> <li>▶ Technical staff needed for management</li> <li>▶ No support of third party applications</li> <li>▶ Hardware is not onsite</li> <li>▶ Mixed responsibilities</li> </ul>
<b>Platform IT Outsourcer</b>	<ul style="list-style-type: none"> <li>▶ Economies of scale</li> <li>▶ Usually can produce cost savings</li> </ul>	<ul style="list-style-type: none"> <li>▶ Many variables that are outside of the core competency of the vendor</li> <li>▶ Lack of focus on Mid-Market companies</li> <li>▶ Hidden costs from service requests</li> </ul>
<b>Utility/ On-Demand Hosting</b>	<ul style="list-style-type: none"> <li>▶ Minimal upfront investment</li> <li>▶ Infrastructure economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ongoing, long-term fee commitments</li> <li>▶ Incremental cost per user</li> <li>▶ Shared computing infrastructure</li> </ul>
<b>Managed Services</b>	<ul style="list-style-type: none"> <li>▶ Precision in resource costs (paying for the amount a company actually uses)</li> <li>▶ Deep domain expertise</li> <li>▶ Wide Bench</li> <li>▶ Flexibility in diverse applications</li> </ul>	<ul style="list-style-type: none"> <li>▶ Less feelings of control</li> <li>▶ Service levels diminish when done remotely</li> </ul>

### THE CULTURAL COMPONENT

Most outsourcing initiatives fail before they ever begin. And, it's not because the organization doesn't know why they want to outsource; it's because the company culture is incompatible with outsourcing. We've coined this scenario the "outsourcing anxiety."

Outsourcing anxiety occurs with good reason. An organization is making decisions that have trade-offs and risks that affect everyone from the top down, not to mention their customers in some instances. However, most of this anxiety can be managed and approached in a logical manner. If a CEO customarily calls the IT department to run a custom sales report on the fly, chances are the company's outsourcing relationship will fail

unless the CEO's expectations are reset and he or she agrees to new processes, or the outsourcer and outsourcing contract contemplate this level of demand. Most companies, especially in the mid-market, lack the proper experience to truly manage the demands, controls and expectations placed on them. An organization has to be prepared to accept change with an outsourcing partnership.

A good outsourcing company, especially in a strategic outsourcing relationship, will require a governance structure, escalation procedures, change control, and an operational policy to track and manage the IT assets, applications, users and infrastructure. This structure will ultimately add tremendous value in predictability, management and process control. However, it will also introduce new ways of working that will

transcend many departments. The likelihood of the partnership failing increases dramatically if the company is not willing or prepared to work with the outsourcer to align and improve IT operations.

### EXPLORING OUTSOURCING

If an organization believes it is culturally ready for outsourcing, the next thing it should consider is what should be outsourced. In the past, a knee-jerk reaction of a typical CIO was to outsource little to nothing. Why? Because many CIOs had to have their hands in everything to increase their perceived value to the organization. Fortunately, most CIOs today recognize the value of outsourcing the day-to-day tasks so that they can focus on strategic endeavors to move the business forward.

When considering outsourcing, organizations should develop a detailed process for thorough self-examination that incorporates all stakeholders, including key users, relevant executives and IT support staff, to form a steering committee. Together, they should define the organization culture, core business, current assessment of IT needs today, and their needs moving forward.

Outsourcing is a major cultural change that has implications a company may or may not be able to live with. The company needs to understand this and be prepared to put in the required effort in order to achieve the best chance of success.

A good steering committee will first understand the core business and look to outsource the elements of IT that are not core to the organization. Michael F. Corbett of FirmBuilder.com developed a litmus test of six questions to evaluate what is “core” to a business:

1. If starting your business from scratch today, would you build this capability internally?
2. Would other companies hire you to do this for them?
3. Will tomorrow’s leaders of the company come from this area of the business?
4. Are you receiving world-class services at a competitive cost today?

5. Does this process create or defend a unique competitive advantage for your firm?
6. Is this business process directly contributing to business growth or expansion?

If you answered “no” to two or more of these questions, chances are you are a good candidate for outsourcing.

Finally, outsourcing means relinquishing control of systems and applications to a third party—there’s just no way around this. If your organization can’t stomach it—don’t do it. Many people in IT have separation anxiety when they realize they have to move their infrastructure and data to an outsourcer’s data center, or that an outsourcer will restrict administrative access to their system.

The key to overcoming risk and fear is proper management of the outsourcing relationship. If relationships are managed correctly through proper policies and procedures, these problems and fears can be mitigated. If company culture will allow it, an outsourcing partnership can create tremendous value.

### MOVING FORWARD

If an organization thinks it is right for outsourcing at this point, and can commit the level of resources needed for the amount of work which lies ahead, it’s time to consider developing a comprehensive selection process.

The selection process requires an objective and thoughtful analysis that leverages the reasons why a company may want to outsource and builds upon the business objectives required in the relationship.

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Outsourcing does not have a “one size fits all” approach. If someone promises this...run. Cultivating the right outsourcing solution is a tailored process. During vendor selection, a company needs the right people involved to compare, on an apples-to-apples basis, the vendors’ capabilities, strengths, weaknesses and flexibility. The selected vendor must align with the company culture for the greatest chance of a successful partnership.

Although the detailed selection process is outside the scope of this white paper, this discussion should give you a better understanding of how to determine an organization's suitability for an outsourcing arrangement.

OneNeck has developed a comprehensive outsourcing selection methodology that provides a roadmap to move a company from exploration to selection. This selection methodology as well as more information on outsourcing are available upon request.



5301 North Pima Road, Suite 100  
Scottsdale, Arizona 85250  
Fax (480) 609-4308  
info@OneNeck.com

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