

Outsourcing Primer

The who, what, why, and how of IT Outsourcing

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- ▶ **An overview of outsourcing, the vendor selection process, and how to avoid becoming a statistic. Our objective is to answer the following questions:**
- ▶ **What is outsourcing exactly?**
- ▶ **Why outsource?**
- ▶ **Who should outsource?**
- ▶ **What do I outsource?**
- ▶ **How do I select a vendor?**
- ▶ **How do I compare vendor solutions?**
- ▶ **What should I be on the lookout for?**
- ▶ **Aren't there some hilarious anecdotes and misconceptions you can share?**

What is outsourcing?



- ▶ **Collocation**
- ▶ **ASP/Hosting**
- ▶ **Outsourcing**

Why outsource?



➤ Tactical Reasons

- ◆ Reduce/control operating costs
- ◆ Free investment dollars
- ◆ Resources not available internally
- ◆ Function difficult to manage

➤ Strategic Reasons

- ◆ Improve business focus
- ◆ Access to world-class capabilities
- ◆ Shared risk (regulatory compliance)
- ◆ Free internal resource for other purposes

➤ Transformational Reasons

- ◆ Bring new solutions to customers faster
- ◆ Leapfrog competitors
- ◆ Enter new markets with reduced risk

Economy of Skill and Scale



Typical IT Department

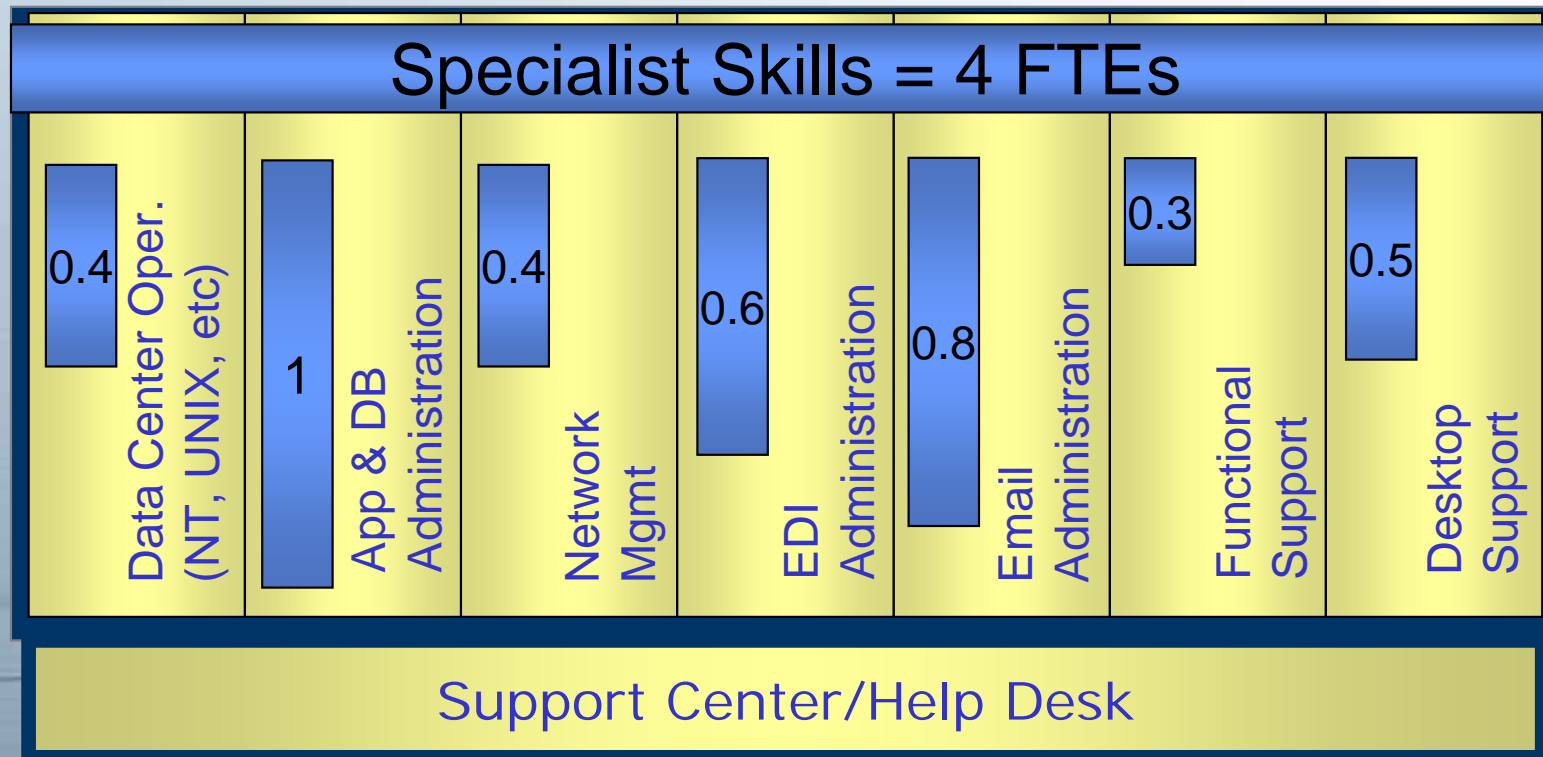
Generalist Skills = 5 Staff (FTEs)						
Support Center/Help Desk						
Data Center Oper. (NT, UNIX, etc)	App & DB Administration	Network Mgmt	EDI Administration	Email Administration	Functional Support	Desktop Support

- Staff of five with generalist skills
- No role-specific expertise
- Utilizing 3rd party skills to fill gaps for projects
- Staff typically acts as help desk/call center as well
- Limited production hour coverage

Economy of Skill and Scale



Outsourced Model



- 4 FTEs made up of multiple roles
- Role specific expertise
- Immediate staff augmentation for projects
- 24 x 7 dedicated support center

Economy of Skill and Scale



24 Hour Support Matrix

	12 AM	1 AM	2 AM	3 AM	4 AM	5 AM	6 AM	7 AM	8 AM	9 AM	10 AM	11 AM	12 PM	1 PM	2 PM	3 PM	4 PM	5 PM	6 PM	7 PM	8 PM	9 PM	10 PM	11 PM
Production Support Hours	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Typical IT staff coverage hours	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
OneNeck coverage hours	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue

- **Required production support hours**
- **IT staff support coverage**
- **Outsourcing vendor support coverage**

Can you recap that?



- ▶ **Outsourcing adds value by providing**
 - ◆ **Economies of skill and scale - Large talent pool and deep domain competency for you to leverage**
 - ◆ **Single point of accountability for all your IT needs**
 - ◆ **Proven methodology for delivering and managing IT solutions**
 - ◆ **Improved system availability levels**
 - ◆ **World class data center facilities for housing the environment**

Who should outsource?



Every company is a candidate for outsourcing. The challenge is identifying your organization's core competencies and then determining what supporting functions of the organization can be outsourced cost effectively.

What do I outsource?



➤ **Corbett Core Competencies Test**

- 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?**

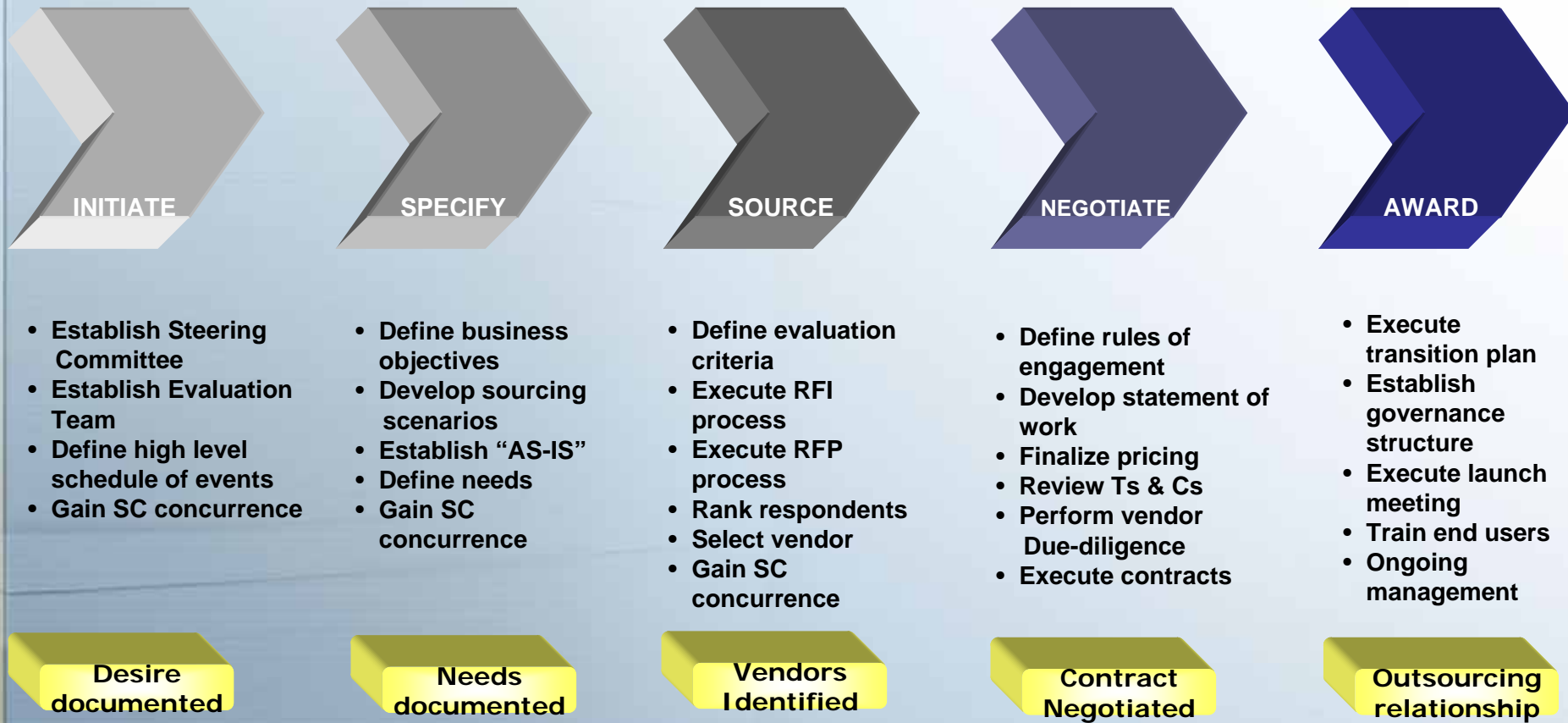
➤ **www.firmbuilder.com**

How do I select a vendor?

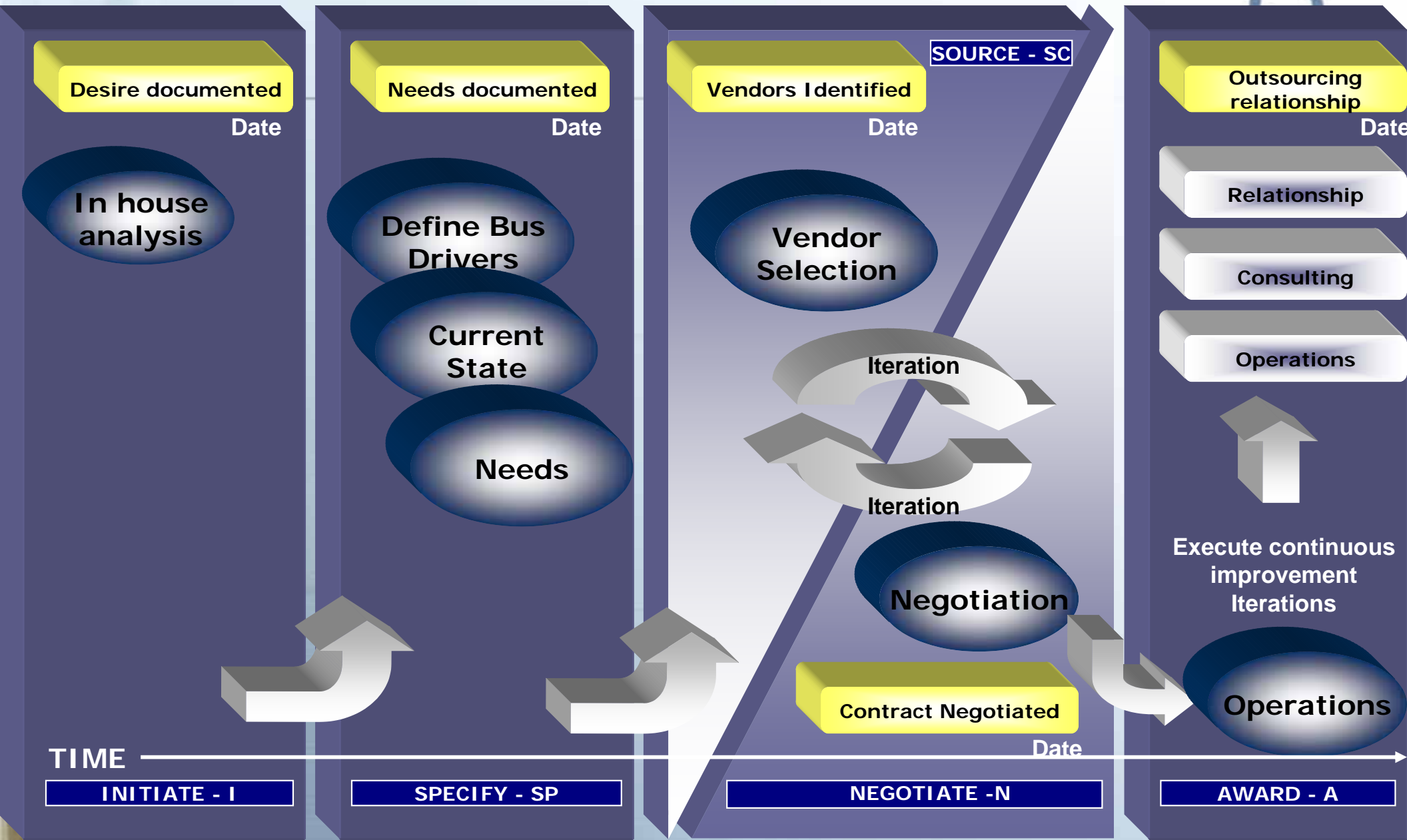


Follow a methodology that will guide your organization through the complicated process of deciding what to outsource to selecting the vendor.

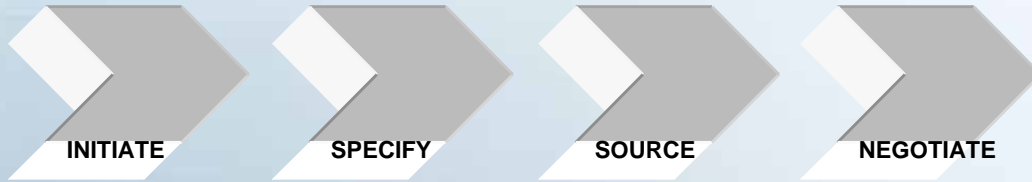
Outsourcing Selection Methodology



Outsourcing Selection Methodology

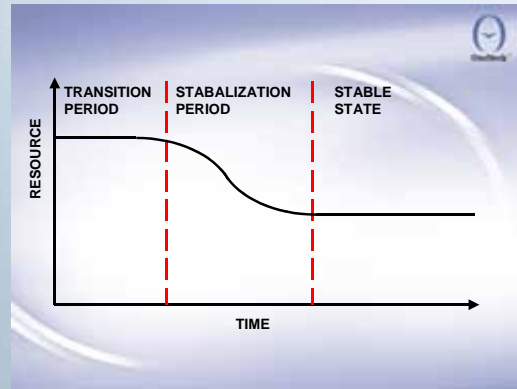


Outsourcing Selection Methodology

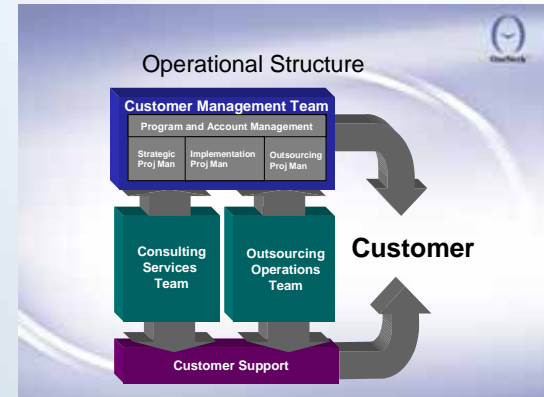


**TRANSITION
MANAGEMENT
GOVERNANCE**

TRANSITION

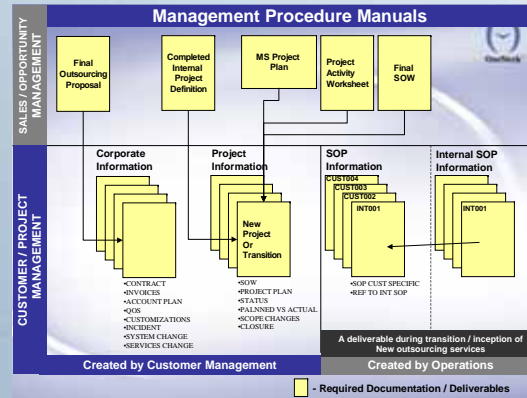


MANAGEMENT



**Outsourcing
relationship**

GOVERNANCE



How do I compare vendor solutions?



- ▶ **Have each vendor complete a matrix that compares, task by task, what is in scope and what is not**

2. Infrastructure Services		Included	Optional	Project	Comment
2.1	Data Center Operations				
	Provide an appropriately equipped data center facility with industry standard high capacity environmental controls				
	24 X 7 support and maintenance of server hardware, network hardware, and operating systems				
	Collect, measure, analyze, and report on systems performance				
	Develop and document server administration procedures				
	Apply Service Packs, application patches, updates and upgrades				
	Identify and report any additional hardware or software requirements				

What should I be on the lookout for?



- ▶ **Four components every successful outsourcing initiative must have:**
 - ◆ **Executive sponsorship**
 - ◆ **Compelling Event**
 - ◆ **Clear and achievable objectives**
 - ◆ **A structured approach to selection**
- ▶ **Cost considerations – know what you are spending already before asking a vendor to save you money**
- ▶ **“Apples to Apples” comparison – solution matrix**
- ▶ **Do not rush to a decision**
- ▶ **Customer/Account management model**

Outsourcing Myths



- **I will lose control of my environment.**
- **I can reduce my costs by XX% because outsourcing is always cheaper!**
- **I will have to reduce headcount when I outsource.**
- **I am Director of IT, my job will be gone if I outsource.**
- **Outsourcing always ends in failure.**
- **We are too big/small to outsource.**
- **We can do it better in-house.**
- **No one understands our business well enough to outsource.**
- **The internal IT staff will be transferred to the outsourcer.**

Thank you

Questions?

Financial Analysis



- **Current budgets:**
 - ✦ Operating budget
 - ✦ Overhead budget
 - ✦ Capital budget
- **Proposed budgets:**
 - ✦ Operating budget
 - ✦ Overhead budget
 - ✦ Capital budget
- **Additional costs**
 - ✦ Planning costs-travel, costs associated w/ staff, professional services
 - ✦ Transition costs-transfer fees, termination penalties, relocation, severance packages, taxes
 - ✦ Oversight costs-issues, personnel turnover, exchange rates
- **Intangible & Risks**
 - ✦ Change
 - ✦ Morale
 - ✦ Performance shortfalls
- **Additional Benefits**
 - ✦ Quality-reduced defects, increased yield, improved services, market share
 - ✦ Capacity-increased throughput, additional services, market growth
 - ✦ Re-investments
 - ✦ Revenue
- **Additional Benefits: Intangible & Rewards**
 - ✦ Organizational change
 - ✦ Employee morale
 - ✦ Breakthroughs
 - ✦ Unexpected synergies
 - ✦ New revenue opportunities
 - ✦ Performance overruns
- **Activity-based cost should be looked at**
- **Capture the total costs associated with the current environment**
- **Examine start-up costs of any investment**

Financial Analysis



- **Watch for demand and levels of volume on internal support services**
- **Consider off-budget costs of:**
 - ✦ Training
 - ✦ Occupancy
 - ✦ Benefits
- **Support services-management, HR, finance, administration**
- **Capital costs-useful life, depreciation, market value**
- **Assumptions**
 - ✦ Future volumes
 - ✦ Service level requirements
 - ✦ Technologies
 - ✦ Costs
- **Look at service or process structure**
 - ✦ All in-scope activities
 - ✦ Total costs
- **Make reasonable assumptions over target term of the agreement**
- **When the vendor proposal is received, it is necessary to examine the vendor's:**
 - ✦ Scope of services
 - ✦ Pricing methodology
 - ✦ Volume assumptions over the term of the agreement
 - ✦ Considerations
 - ✦ Start-up costs
 - ✦ Changes in volume of services
 - ✦ Changes in scope of services
 - ✦ Actual and opportunity cost analysis
 - ✦ Changes in indexes or cost drivers
 - ✦ Pass-through expenses
- **Examine additional benefits vendor can bring**