Leveraging Your Internal IT Staff: Why, When, and How to Outsource

OVERVIEW

With the current corporate drive toward "core competencies *only*," all aspects of business operations are under consideration as candidates for outsourcing. Typically, readily defined, somewhat isolated processes are the best outsourcing targets. However, information technologies—although intertwined with essential business processes—can be outsourced effectively using the strategies outlined here.

In this paper, we will review the dynamics behind the adoption of the outsourcing model and contrast the benefits of the application service provider model against those of traditional outsourcing options.

WHY OUTSOURCE?

"An essential component of an operational excellence strategy is the development of the line manager's capacity and motivation to use systems to continuously enhance performance."
Insider Strategies for Outsourcing Information Systems, Ripin and Sayles

Today information technologies support core business processes and provide indispensable input for managerial decision making. When well conceived and executed, they offer a key competitive advantage.

The changing approach to IT has been characterized by Gartner Group as follows:

- Era I: Automation, cost control, and efficiency (mainframe/midrange computing)
- Era II: Productivity and end-user empowerment (client/server computing)
- Era III: Value creation and business effectiveness (Internet/network computing)
- Era IV: Reshaping business models (ubiquitous computing)

Clearly, the IT department's impact on business structure and performance has increased over time. In fact, according to a current definition "…the Chief Information Officer is looked upon to recommend and oversee the implementation of business methods that add value and strengthen the company's strategic position" (Outsourcing: A CIO's Perspective, Williams).

Ironically, the interrelationship of technology and business process could be said to be an outgrowth of the rise in corporate reengineering. This movement, which focuses on the integration of previously discrete business functions, uses technology to support cross-functional workflows. A majority of corporate reengineering projects are undertaken with the goal of achieving efficiencies that will allow the organization to reduce costs and staff. Thus, the IT department is often asked to step up to a more important role in the organization as it is undergoing cuts—to do more with less.

Outsourcing lets the IT department focus on business goals (the ends) rather than application development (the means). In addition, outsourcing offers the following benefits to organizations:

- Increased speed and flexibility when responding to changing business conditions
- Reductions in both initial investment and long term technology costs

- "Rentable" expertise appropriate to the needs of specific IT projects
- More rapid access to state-of-the-art technologies
- Improved IT customer service

While there are solid business reasons to outsource technology development and support, such outsourcing should not be undertaken because "the organization is divesting itself of everything but core competencies." The use of information technology *is* a core competency for businesses and any IT outsourcing strategy deserves the utmost care in planning and implementation.

WHEN TO OUTSOURCE

"In fact, if you're not taking a close look at your organization right now and deciding what to outsource, you're toast. Because resources that should be going into making your company more competitive are being wasted."
Scott McNealy, CEO
Sun Microsystems

Technology outsourcing can be the right choice for a company in the process of transforming the IT function into a strategic underpinning of the business rather than a tactical execution point for managing systems. Outsourcing frees up focus. However, more specific triggers are generally at work when an outsourcing decision is made. Technology investment banking firm C.E. Unterberg, Towbin has identified the following issues that drive the move toward outsourcing:

- Improved business agility, scalability, and more rapid deployment timeframes
- Financial cost savings through economies of scale, reduced, capital investments, and reduced total cost of ownership
- Scarcity of skilled IT professionals favoring outsourcing to firms with existing resources
- Increasing importance and complexity of applications demanding outside expertise for effective management

In other words, a company should consider IT outsourcing when the need for speed, cost containment, resources, and/or access to more sophisticated systems is a goal.

Speed

In today's competitive business environment, response to rapidly changing market conditions is essential. At the same time, IT organizations find it difficult to keep pace with ever evolving business requirements. They are faced with an overwhelming number of applications that require rewriting, conversion, and integration—and increasing demand to get new applications implemented. Responsiveness suffers and the IT group finds itself completing complex projects only to find that they are already out-of-synch with business needs.

Cost Containment

Under increasing pressure to stretch the IT dollar, today's CIO must maximize the productivity of past IT investments. At the same time, large upfront capital and implementation costs sometimes hide ongoing operational and support costs, including:

- Hardware maintenance
- Software maintenance
- Dedicated staff
- End user training

As information technologies have increased in pervasiveness and complexity, the total cost of system ownership (TCO) for most companies has increased.

Resources

The increasing imbalance between supply and demand has created a dire situation for corporate IT organizations. Unable to recruit and keep key technical talent, CIOs are faced with both a shortage of in-house skills and skyrocketing IT salaries. The ongoing challenge of maintaining legacy applications while implementing new projects is exacerbated by this trend.

Access to More Sophisticated Systems

Lack of IT bandwidth, cost, and the increasing complexity of information systems limits the technology options that can be implemented by in-house staff. However, outsourcing puts state-of-the-art solutions within the reach of all.

HOW TO OUTSOURCE

Outsourcing Defined:

"…using outside vendors to create, maintain, or reengineer IT architectures."

Information Technology for Management, Turban, McLean, and Wetherbe

Typical outsourcing solutions for application development or operation of IT functions such as data centers, help desks, or telecommunications have achieved high visibility for more than a decade and they continue to grow in popularity. In fact, Gartner Group estimates that today 45% of IT service is provided by internal IT staff; by 2003, the percentage will have shrunk to a little over 20%. At the same time, budgets devoted to outsourced IT will increase from the roughly 10% of IT expenditures they represent today (Insider Strategies for Outsourcing Information Systems, Ripin and Sayles). And cost savings are significant—10% to 30% over the life of a 10-year contract (Outsourcing: A CIO's Perspective, Williams).

The authors of Information Technology for Management have identified the following benefits to traditional outsourcing:

- Cost reduction due to economies of scale gained by the outsourcer
- Removal of day-to-day problems maintaining an IT architecture
- Exploitation of newer technology or techniques that the outsourcers may already have implemented
- Freeing up of capital that would have been spent on expensive hardware and software
- Concentration on core business needs
- Addition of personnel quickly in the face of corporate hiring freezes

However, there are pitfalls to the traditional outsourcing model. Typical contracts can cover periods of 5 to 10 years and be 3,000 to 6,000 pages in length. Market orientation to this point has been focused on massive enterprise-wide application development projects or wholesale outsourcing of all IT functions. Many—up to 75%—of these kinds of outsourced initiatives fail, often after incurring millions in expenses.

Emergence of the Application Service Provider Model

ASPs Defined:

"Any company that offers specific business applications on a subscription basis via the Internet or other networked arrangement."

ASP Customer Demand Survey, ITAA

In order for outsourcing to be effective, strategies need to be incremental rather than revolutionary. That realization, in conjunction with the ubiquity of the Internet and the new acceptance of external IT solutions engendered by traditional outsourcing, has led to the rise of application service providers. As described by Gartner Group, "…the ASP service signifies a major computing revolution, with the power to dramatically redraw today's IT ecosystem…"

According to Forrester, 1% of technology acquisitions represent ASP services today; however, the number is expected to increase to 22% of all applications purchased by 2003. Dataquest forecasts a worldwide market for ASPs of $22.7 billion that same year.

The rapid adoption curve for this new technology model is based on the fact that ASPs deliver virtually all of the advantages of traditional IT outsourcing at a much smaller risk. A May, 2000 ITAA ASP Customer Demand Survey indicated that a majority of executives throughout the organization—not just IT professionals—were familiar with the ASP concept. This group of respondents identified the following perceived benefits and concerns when evaluating the ASP model.

Benefits

- Access to high-end applications
- Increased flexibility
- Reduced initial capital outlay
- Guaranteed performance/uptime
- Alleviated shortage of IT personnel
- Reduced length of implementation
- Lower IT costs over time

Concerns

- Integration with existing applications
- ASP vendor stability/longevity
- Loss of control
- Security

In other words, the general business community has recognized that the application service provider model can provide the speed, cost effectiveness, resource extension, and access to sophisticated systems that they desire.

Selecting an ASP

As demonstrated by market concerns, the acquisition of an application service isn't a commodity purchase—rather, it is a long term partnership with a selected service provider. To ensure success, the ASP should meet the following qualifications:

- **Speed**. Solution design and staffing levels that enable rapid customization and implementation.
- **Cost**. Subscription pricing that creates a lower financial barrier to new technology acquisition; ASP rather than customer investment in state-of-the-art infrastructure components.
- **Company Stability**. Both financial resources and time in business.
- **Resources**. All critical skills on staff.
- **Access to Sophisticated Systems**. Best-of-breed offerings with cutting edge security.

The right application service provider will offer a single point of accountability for service configuration, implementation, and ongoing support as well as ongoing commitment to excellence, evidenced in a high level of investment in both the human and physical resources required for the partnership's success.

APIGENT SOLUTIONS

Apigent Solutions is uniquely qualified for its role as an application provider. As the technology development division of a $175 million telecommunications company with almost 150,000 customers in more than 30 states, Apigent offers unparalleled longevity and financial stability—plus a ninety-year history in providing reliable, high availability services. Apigent staff boast unequaled technological and operations expertise, as displayed in the company's flagship offering, ZEOM.net.

Apigent Solutions helps multi-unit operators transform raw data into actionable information they can use to more effectively manage their business.

ZEOM.net was architected to solve the single biggest obstacle to new technology acquisition of any kind—legacy systems. Built on a technology framework that enables one-point integration, ZEOM.net protects an organization's investment in existing systems while providing a path for future upgrades and acquisitions. At the same time, ZEOM.net's technology framework speeds the implementation process.

In addition, ZEOM.net is tailorable to a company's business requirements. Rather than engaging in extensive customization cycles, ZEOM.net users can configure the flexible system to map to defined business rules, key organizational processes, and enterprise-wide workflows. Again, this design element speeds the rollout of the solution.

ZEOM.net is offered on a cost-effective subscription basis and Apigent Solutions has made a substantial investment in a state-of-the-art data center with the highest levels of physical and logical security. This investment limits the upfront costs of acquiring cutting edge technology for the customer.

ZEOM.net is an innovative solution to common operational problems in distributed business environments. Joining together an IP-based communications infrastructure, enterprise portal, business rule-generated alerts, a reporting/querying engine, and an on-line data store, ZEOM.net creates an ***operations infrastructure*** that helps operators to more effectively manage their business, enhance their customers' experience, and drive profitability.

For further information, please contact:

Apigent Solutions
Five North McCormick Drive
Oklahoma City, Oklahoma 73127
800-664-8228 Ext. 3703 Fax 405-946-8242