

Optimizing Productivity: Making the Decision to Outsource

New technology has made it more difficult to support the IT needs by attracting the skills necessary in today's economy. The Outsourcing Institute "Index 2000" reveals that outsourcing in smaller companies is increasing 25% per year.

Outsourcing allows companies to maintain their strategic focus without the added pressures of maintaining an ever expanding IT infrastructure. But companies that want to outsource need to consider what it will take to make the outsourcing move a successful one.

An organizational ability to make critical sourcing decisions will contribute to the overall success and profitability of a company. In an effort to capitalize on that ability, Fortune 500 companies like Kodak and General Motors and even IT innovators like Microsoft and Intel have made the decision to outsource IT services such as end-user support, data center operations and network monitoring. These leading companies decided that they could no longer keep up with a migrating workforce and rapidly changing technologies and still focus on their core competencies.

Small and mid-sized companies are also realizing that to be competitive they must focus on their core business products, not on running and maintaining an increasingly complex IT infrastructure.

Why outsource?

In analyzing whether or not to outsource, an organization must be realistic in determining the basic needs of its IT department, evaluating the department's current strengths and weaknesses and comparing those to the strategic benefits possible through outsourcing. "Why should we do this?" is the question management must ask itself. Typical benefits of outsourcing include:

- Reduced operating costs that are defined during the length of the contract
- Focus on core competencies of the business
- Obtain industry best practices & capabilities
- Access technical resources that are not available
- Free internal resources for strategic roles
- Increase productivity by reducing IT problems
- Establish a consistent level of service to the organization

The following sections describe each of these benefits in detail.

Reduce & define operating costs

More often than not, companies do not have a handle on their total IT costs or understand all the components that make up the total cost of ownership (TCO) of their IT infrastructure. Headcount is traditionally the largest component of cost but within headcount are total burden costs including benefits, management time, training, turnover cost, HR and administrative support, overtime and the like, which can account for a major portion of the overall direct labor costs. Additionally, there are hard costs to support the IT environment such as facilities, equipment, telephone, pagers, parts and shipping. An internal finance department may be able to assist in determining the current TCO.

Outsourcing often leads to an initial cost savings. In an Outsourcing Institute survey, organizations reported direct savings through outsourcing, largely because the outsourcing relationship itself creates a natural check and balance to efficient operating costs and reflects the current market forces that drive the cost of service.

Another fact to consider is that growth or divestitures within a company can make it very difficult to “right-size” its IT costs to fit the changing needs of the organization. Outsourcing solutions can provide scalability and can adjust as corporate requirements change. Often times growth companies that do not outsource experience runaway operating costs that exceed their actual service needs.

When outsourcing is combined with service level agreements a company pays for a specific level of work volume at a specific level of service. This allows a company to understand exactly what it is paying for and hold a provider accountable to deliver the contracted service at the contracted cost. Having a fixed price formula for the organization’s IT services allows for greater fiscal control and stability.

Focus on core competencies of the business

Market competition, unfavorable financial returns and changing technologies will drive companies to realign their internal human capital with the winning competencies that made their organizations successful in the marketplace. By engaging an external expert to assume responsibility for its IT support functions, an organization’s management can focus on the areas that create value for the organization—its core competencies.

Obtain industry best practices & capabilities

Best-in-class technology service providers leverage best practices in their areas of specialization and make major investments in people, methodologies and technologies to support those best practices and implement operational efficiencies. These providers are exposed to many client environments and develop a perspective that allows them to apply what works best to their client engagements. While familiar with their own department, an internal IT department might miss these opportunities because they lack that exposure and experience.

In addition, new technologies are difficult and costly for an organization to evaluate, test and deploy in its environment. Often an in-house IT department lacks the expertise to do the job. An outsourcer, on the other hand, can apply its broad technical expertise and best practices to the task rather than developing new methods and learning the technology from scratch. This reduces the costs and risks involved with the deploying new technologies.

Access technical resources that are not available

In many cases, a company considers outsourcing because it is unable to find the IT resources it needs or because it is losing those resources through turnover, which is both costly and unproductive. The driving force behind both of these situations has been the tremendous demand for IT professionals in recent years. Even with the demise of many dot.com companies, it is difficult for a company to find and retain talented IT staff. Outsourcing provides a clear advantage in this area. Given the nature of their business, outsourcers are experts in technical recruiting—it is one of their core competencies. And outsourcers are also able to leverage their experience in overall staff retention. They can provide a career path that encompasses the spectrum of the IT industry as well as the benefits, training and tools that keep the IT workforce satisfied with their careers.

Free internal resources for strategic roles

Organizations inevitably have resource constraints. Outsourcing can be a vehicle for an organization to shift its valuable resources from tactical day-to-day IT maintenance into more strategic roles. These resources, that perhaps had been contributing on a level far below their capabilities, can now be put in positions adding greater value to the organization. This situation is particularly prevalent in small to mid-sized organizations where growth has stretched their resources too thin. It can also be found in large organizations where even top executives can be distracted by IT escalations on an event-by-event basis.

Increase productivity by reducing IT problems

Employee productivity is often a concern that leads to outsourcing. For example, if a company has a server outage, what is the cost in terms of its employees’ lost productivity? If a help desk is unable to resolve a problem over the phone, what will be the impact on the user’s ability to complete job-related tasks in a timely manner? In many cases this inability to process customer requests in a timely manner can cause direct financial losses to a company. Most companies are less equipped than an IT outsourcer to stabilize an environment, prevent downtime and rapidly respond to unforeseen issues. Outsourcing organizations’ strong vendor relationships with software and hardware manufacturers gives them the inside track on countermeasures and solutions before they are available to organizations.

Establish a consistent level of service to the organization

Outsourcing can also be a means of establishing consistency, improving IT responsiveness and enhancing customer service. Quality is more likely to improve through a vendor whose primary mission is delivering IT services and solutions. Accountability increases with the establishment of service levels and the outsourcer is better equipped to provide incremental resources to address fluctuations in work volumes. The standardization of process may also provide a consistent IT experience in environments that currently communicate ineffectively, partner to resolve common issues or have well-established procedures and documentation through incorporating a vendor with demonstrated industry expertise in providing an extensive variety of outsourcing solutions.

Selecting the Right Outsourcing Vendor

Selecting the right vendor is perhaps one of the most critical success factors within the outsourcing process. First of all, the vendor's strengths and culture should relate to the organization's needs. Second, the vendor must be able to deliver the benefits the company is seeking to realize. Other factors to consider in determining the right outsourcer are:

- Price
- Competency
- Flexibility
- Financial Stability
- Capabilities

A competent vendor will need to spend a lot of time understanding your environment, so it is important to be as candid as possible in portraying the current state of the organization. The outsourcer cannot operate in a vacuum and investigation needs to extend beyond metrics for work volumes and historical performance. Current problems and challenges should not be hidden from the outsourcer, and any constraints such as security restrictions, union employees or confidentiality of any type should be dealt with up front.

Many factors can influence the decision on which technology service provider can provide the best solution and successful implementation. Furthermore, the most obvious candidates may not be the best suited or provide the most benefits, and ultimately even the best outsourcer cannot repair a highly troubled IT organization with systemic problems.

Developing a Transition Plan

Too often a transition plan is addressed only after the commitment to a specific vendor has been made. However, transition is critical to successful outsourcing and should be fully thought out prior to committing to the process. This ensures that there are no surprises once a company has made the decision to outsource. A detailed project plan outlining the specific tasks and priorities can be developed later, but impacts to the organization should be assessed early. By agreeing to a transition plan, risks can ultimately be reduced and even eliminated during the actual transition to an outsourced environment. Some common concerns addressed in transition include:

- Employee impacts
- Loss of control
- Security
- Hand-off points
- Metrics

Bringing It All Together to Make the Right Decision

This document has provided some considerations in making the decision to outsource. Performing your own outsourcing study and the process of procuring the right vendor can be a complex and lengthy undertaking. It may be appropriate to form a dedicated team encompassing a wide range of experience in the fields affected such as management, procurement, technology, finance and HR. Team members should be able to understand the functional operations, communicate effectively and document requirements.

According to an Outsourcing Institute executive survey the top 10 factors for successful outsourcing are:

1. Understanding company goals & objectives
2. A strategic vision & plan
3. Selecting the right vendor
4. Ongoing management of the relationships
5. A properly structured contract
6. Open communication with affected individuals/groups
7. Senior executive support & involvement
8. Careful attention to personnel issues
9. Near term financial justification
10. Use of outside expertise

Successful outsourcing involves many aspects of relationship management. From the initial sizing, contract negotiations and service level monitoring to billing and escalation processes, ongoing relationship management must occur. Many companies that experience outsourcing complications do so because they did not pay enough attention to managing the relationship and contract.

Regular performance reviews are the key to ensure that proper monitoring is in place, problems or issues are identified early and scope creep has not occurred. An organization may delegate functions via outsourcing but the company cannot delegate the accountability of those functions. If an organization cannot be realistic in its performance expectations or appreciate its own role in supporting the outsourcer then the relationship is doomed to fail. Part of the decision to outsource must be to commit resources that can positively contribute to the successful management of the relationship.

The continued growth, acceptance and success of outsourcing have made it an essential business tool. As shown in this article clearly defined strategic goals and scope, a carefully selected vendor and a comprehensive transition plan all enhance the ability to make outsourcing the right decision.

Visit us at www.spherion.com to learn more about how Spherion can help you increase user productivity and lower IT costs via an outsourcing arrangement.