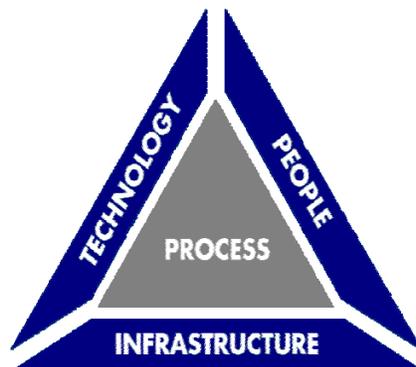




**Presents**

# **Technology Sourcing Considerations**



## Outsourcing

Technology Outsourcing began approximately 25 years ago when organizations started to use external vendors to provide some of their technology solutions. These providers would staff and manage the full scope of the selected technology for the client. This generally included the software, hardware, infrastructure, administration, performance, configuration, engineering, capacity planning, disaster recovery and infrastructure. The client organization was provided with guarantees of minimum levels of service backed by credits and refunds for breaches in the agreement. There are several levels of technology outsourcing that spans the entire range from complete outsourced solutions to a single outsourced component of technology. There are several flavors of outsourcing models and approaches: hosting, ASP model (Application Service Provider), SAAS (Software as a service), Cloud computing, Remotely Managed Services, Staff management, specialized consulting, out-tasked, off-shoring to name a few.

### **Advantages:**

The main benefits of outsourcing have the potential to include: reduced costs, lower capital investments, payment flexibility, predictable minimum costs, metered costs for increased demands, hardened facilities, an aggregation of technical expertise (which generally results in a higher level of support quality), standardization of the service quality, leveraged cost of auditing and feature development, and allowing the business leaders to focus on their core business.

The outsourced model leverages all of the expensive technology resources like the specialized expertise, policies, procedures, standards, infrastructure, networks, servers, SANs, UPS, A/C, datacenters and facilities. Many of these high cost element are able to be spread across multiple clients, thus reducing average cost to the individual clients while enabling the vendor to make a reasonable profit.

The Outsourcing model has spread to other non-core functions like Human Resources, Legal services, Financial Services, Data Entry Services, Engineering Services, Marketing and Call center operations to name just a few.

An off-shore provider has the ability rapidly scale up its staff to meet a client's delivery requirements and they are also able to leverage time zones to effectively work around the clock.

Outsourcing can be used as the driver to streamline and consolidate business processes within an organization that has many separately run units which usually leads to a more efficient overall operation.

### **Disadvantages:**

Depending on the client, it may be more cost-effective to obtain their technology solutions from an internal staff of employees. An organization that does not have a standard set of procedures, software, policies and promotes a diverse set of business

processes may be penalized by their ad-hoc nature. The pay per request of metered services may likely amplify the cost model of outsourcing and thereby make this option unattractive. An internal team can be significantly more responsive to requested changes by the business leaders thus reducing time to market for new opportunities.

An organization that has extremely confidential information or large amounts of sensitive intellectual property may prefer to keep this data and information within the confines of its own facilities and within its own employee pool. Also outsourcing may result in a loss of business process control to the outsource provider.

A business that is uniquely positioned in a market, or the market leader, may not be able to realize the economies of scale from an outsource vendor due to its specialized needs.

As with any third party contract, a poorly negotiated agreement may result in a long term commitment to pay for unsuitable services or a service that does not meet its needs. Considerable care and effort should be spent in this critical process to minimize the risks of miscommunications, strong service level agreements, identifying hidden fees and costs and favorable terms. If the expertise internally is not available the business should engage external resources to reduce this significant risk. The risk of an outsource provider of these critical services going into bankruptcy or delivering below expectation could be disastrous to the client business.

Language barriers may be problematic as a result of off-shoring functions like helpdesk and service desk.

Over a short period of time, the client will lose its technology team and if it determines that it wants to change direction and bring the function back internally, there would be considerable costs involved in recruiting and rebuilding that team and bringing that technical team back up to speed with the client's needs. Insourcing of a previously outsourced solution also requires the capital investment in a completely new set of hardware and infrastructure.

The outsourcing provider will be focused on delivering technology services to a group of clients rather than strictly one client. In addition, in order to sustain efficiencies, the provider will make its overarching technology selections based primarily on their broader business model rather than a vertical solution that might be optimum for the single client. The client will be required to pay, at current market consulting rates, for items like ad-hoc research and small projects which it might have been previously absorbed by its current internal technology team.

The accelerated amortization of existing hardware as these assets are replaced with outsourced-owned assets may negatively impact the client's P&L statements.

## **In sourcing**

The opposite of outsourcing is insourcing. Normally, this means that the technology solution is being managed and internally operated by its own set of employees.

### **Advantages:**

Organizations may opt for insourcing because it enables them to better control their technology and the staff that is providing that service. An organization may require a large set of unique processes and technology solutions of a unique or specialized nature that makes outsourcing model too costly.

An insourced team of technology experts are well positioned to understand the unique needs of the business and will generally work beyond normal hours to assure success to business objectives. The team will be generally more responsive and will readjust their priorities as required by the business leaders. An internal team that is well managed can be a significant strategic advantage by identifying new potential solutions or features that are desirable to the entity. They also will often surface concerns and problems before they are identified by operational organization.

Organizations involved in producing commercial software may choose to use the insource model for that function to keep a long term set of subject matter expertise within their direct control and management. Since this would be a core business competency, the production cost of labor and taxes would normally be lower in an insource model.

### **Disadvantages:**

The cost to recruit, train and retain an adequate technology staff may exceed the cost of outsourcing. The need to ensure that personnel are redundant in functionality for the ongoing security of the organization may lead to additional staffing costs.

A large capital investment is required to build and maintain the infrastructure, server farms, storage, networking, datacenters and facilities needed to engineer an adequate system platform for the business.

The management of the technology department can detract from the business team's ability to focus on business issues and its core competency.

A pure insource provider often moves to vertical technology solutions that could result in compatibility issues with standard non-vertical solutions. The short term process gains of these non-standard solutions may result in long term costs that exceed the short term gains.

Further, the lack of constant first hand exposure to outside technologies can isolate and/or delays the insource team from adapting to new or more importantly, the correct technology. The insource provider is also less capable of specialization and therefore requires either outside assistance or trial and error to implement these new technologies. The costs of internal labor for many skill sets exceed the off-shore provider's costs.

The number of the insource provider's staff makes it unable to be able to rapidly staff up to meet business-imposed deadlines for larger technical projects and therefore there may be a delay in delivering solutions to the business within the desired timeline.

Internal and external audits of an insource solution for regulated companies require ongoing compliance audits of its technology solutions whose full costs must be absorbed by the organization.

## **Hybrid Sourcing**

The good news is that you do not have to strictly outsource or insource. An increasingly popular sourcing solution is the hybrid-source model where some of an organization's technology is insourced and some is outsourced. By insourcing and outsourcing simultaneously, you can have the best of both solutions and your business can get a competitive advantage!

An example: A commercial software service provider maintains a full complement of internal software developers, analysts, QA and testing staff. They utilize an outsource firm to provide the facilities, security, infrastructure, servers, networks, storage and system monitoring of all of their systems.

## **What type of sourcing is right for your organization?**

Organization within the same industries and even direct competitors utilize different sourcing strategies. Some may outsource, some insource and some use the hybrid-source solution. There are many different factors to consider when making a sourcing decision. As your business changes and as outsourcing vendors expand, you may find that you also need to adjust your sourcing strategies.

The following section is provided to assist you in determining the high level factors to consider when tackling the sourcing issue.

### **Choose the right outsource partner(s)**

There must be a strong match between your needs and the provider's capabilities. There is a wide variety of quality, approaches and costs from one provider to the next. The stability of your provider must be considered as part of the selection. References of existing and past clients should be contacted. How well do the vendor's strategies mesh with yours is important.

### **An objective viewpoint is critical**

An independent consultant with experience in this can will provide you with a fair and unbiased business and technical assessment. The consultant will drive to the truth that lies between the outsource provider's and insource providers' viewpoints.

### **No vested interest and advising your business**

The independent consultant should not have an interest in their position after the decision is reached and should also have no financial affiliations with sourcing providers

## **Choose the correct sourcing for each technology component**

A top-down approach should be used to select which main and sub functions are likely candidates for each type of sourcing. Again it is critical to obtain an independent viewpoint for each main function.

### **Main functions**

- Overall Management – CIO/CTO-level, VP-level, Director-level, Managers
- PMO – project management
- Development
- Business Analyst, Development staff, QA, Testing
- Operations
- Data Center, DRP/BCP, Networking, Administration, Security, Servers, Storage, DBA, Helpdesk, System monitoring,
- Service Delivery
- Audit

### **Sub-function examples:**

- Development – Out-task basic data maintenance screen development that does not expose core intellectual Property.
- Operations – use an anti-malware appliance vs. an ASP service.

## **Corporate culture and Beliefs**

Some companies have a strong bias towards keeping everything internal while other companies believe that they should outsource everything that is not central to their core business. What is your current mix of insourcing and outsourcing? Are you happy with the services that are outsourced or the ones that are currently insourced? This information should be readily available and may highlight a reason to change the sourcing of currently unsatisfactory functions. Be sure to confirm the viewpoint rather than relying on a single source for that information. Are you outsourcing non-technical areas like Legal services, H.R., Payroll, and Tax Preparation?

## **External forces may affect your choices**

Has the economy made the workforce so inexpensive that insourcing and on-shoring is now a viable option? What happens when the economy rebounds? Has the economy driven down outsourcing pricing to where it now makes financial sense?

Often times the business situation changes due to the economy and that demands a change in your expense model: mergers, acquisitions, spin-offs, right-sizing, business downturn or upturn scenarios, office closures or expansions. These types of business changes can shift the viability of one sourcing solution over another. Yet it is important to have a solution that is sustainable through business cycles.

## **An appropriate level of Quality**

Quality is critical to your business systems and functions. Reliability and uptime are less critical to idle legacy systems or occasional use systems. Care should be taken to ensure that the cost of each function, application and/or service makes business sense and is properly sourced. The appropriate service level agreements should match the criticality of each need to ensure that you are neither overpaying nor under-engineering. A Business Impact Analysis (“BIA”) should be developed prior to the sourcing change negotiation.

## **Annual Sourcing cost comparison**

Most companies understand their costs and annual budgets. A careful assessment of adherence to past budget projections should be considered when relying on those numbers. A 5 year cost comparison should be developed and should include the transition and normal ongoing costs, accelerated amortizations, recruiting costs, likely projects, travel, overtime, and metered cost variables. A clear understanding should be obtained concerning the two possible reversal scenarios where a decision to change sourcing providers is made at the half way point of the projection and at the end of the 5 year projection. Understand those reversal costs. An additional method to employ in conjunction with a sourcing change is to consolidate and standardize your applications, policies and procedures prior to beginning the sourcing transition. It is critical to understand what effect these consolidations and standardizations will have on both sides of the comparison equation and the anticipated level of success in accomplishing these preparatory efforts.

## **Capital Cost**

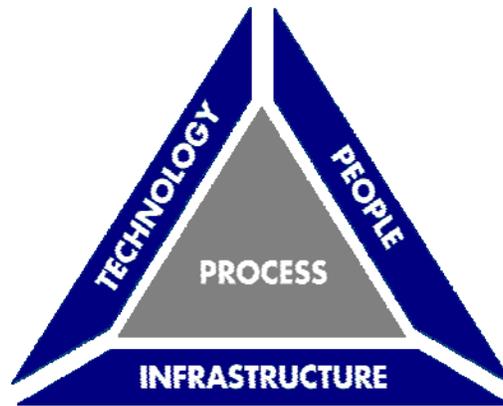
Understand the way that depreciation of your internal assets will work and possibly affect your financial statements. This is particularly important during the outsourcing direction as your current base of equipment might have to be accelerated as it is refreshed by new outsource-owned assets. On the insourcing direction, a large investment in infrastructure, hardware and software may be required along with significant financing commitments and credit impacts. Outsourcing is particularly interesting when the current insourced infrastructure is overdue for a refresh and your business would benefit from the outsource provider's need to always refresh to newer technology.

## **Human Resource Availability**

Specialized skills may be available only at a premium in your region. Also, retaining that person may be difficult if there is no real career development path for that individual in your organization. The uniqueness of that skill set may also result in a series of poor hiring choices, with high turn over and loss of continuity. This is more likely if your organization does not have the experience needed recruiting these non-core resources. On the other hand, a particular skill set may be abundant and economically priced in your region.

## **Risk**

Sourcing changes have an inherent component of risk. It must be approached with an objective focus and guided by professionals with experience in these areas. Attention to the details is critical and will make or break the success. A clear business direction and strategy is first on the list and then aligning those objectives to a technology strategy and sourcing strategy follows. The risk does not end with the decision to change but continues through the contract and SLA negotiations (internal or external), the transition, the ongoing billing cycles and monitoring the provider's performance.



## **BTCG is Here for You**

At BTCG, LLC, we understand the importance of managing your sourcing initiatives. BTCG, LLC is experienced in providing an objective view and vendor agnostic guidance as a trusted business partner. The correct sourcing choices can dramatically improve your organization's processes, and cost structure.

### **BTCG benefits include:**

- A full-life cycle guide during the entire sourcing change journey
- Improved planning and preparation for sourcing changes
- Comprehensive plan execution
- Risk mitigation techniques
- A combination of technology and business expertise
- Effective contract and SLA negotiations on your behalf
- RFP preparation, distribution, response evaluation and vendor selection assistance BTCG, LLC provides the leadership for your sourcing transition program Business case preparation and presentations

### **Specific services offered by BTCG, LLC include:**

- Sourcing Strategies
- Program Management
- IT Due Diligence
- Business Case Development
- Vendor Assessments
- Transition Plan Development
- Staffing Strategy Development
- Governance Development
- Infrastructure acquisitions
- Contract negotiations
- Technology vendor management

As your business requirements change, your strategy should be reviewed and modified. We can help you find the right blend of quality, costs, capabilities, risks, and benefits to make your sourcing initiatives successful.

**Contact us today! (920) 836-3456**

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