



The Outsourcing Decision

With the advancement of business processes and new technologies, both the reasons for outsourcing and the options for doing so expand. In this article, we will pull together the key questions and first steps that can help you take a more methodical look at the value and feasibility of outsourcing for your organization.

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Outsourcing has helped many businesses refocus on their core strengths, reduce costs, and maintain the currency of their Information Technology (IT) services. IT outsourcing can take many forms, but at its core it alleviates many costs and additional burdens company. Smart companies that engage an outsourcing strategy embark on a process that can be bumpy or smooth based on the approach taken.

Let's look at the outsourcing evaluation and decision process roadmap. Unlike an ordinary purchase of goods or services, outsourcing speaks to along term relationship between the enterprise and the service organization, thus determining if outsourcing is right for your business is a vital, painstaking, time consuming undertaking. Consider these questions:

- Is outsourcing a politically viable solution? Your decisions may greatly impact people's lives, the communities where you do business and how the marketplace perceives you. Outsourcing must fit well within your organization. It is a lifestyle altering business decision; again, it is not a simple purchase or investment.
- What are the expected benefits? The gamut of expected benefits range from speed to market, strategic advantages and financial savings, to qualitative measures such as a clearer management focus on core business competencies. Your evaluation process must, necessarily, be in-depth and comprehensive.
- What are the hurdles or barriers? There are myriad technical, cultural, contractual and cost issues that may derail the formation of an outsourcing partnership. For example, you may have software licenses that are not transferable to the outsourcing vendor. Similarly, you may have hardware leases and maintenance agreements that will be costly to terminate.
- What are your outsourcing objectives? What do you hope to achieve? There are many reasons for outsourcing. These may include: reduced operating costs, reduced capital on your books, a jump start in attaining a web presence, shifting IT risk (at a cost) to a service provider, freeing IT management from day-to-day operations management, enabling IT staff reductions, and / or coping with lack of local IT talent. You will need to be specific in articulating realistic objectives that your organization can buy into.

- How do your outsourcing objectives and the organizational climate relate to your evaluation approach? The careful evaluation of outsourcing as a business solution requires a carefully tailored analysis approach. Given a well-articulated set of specific objectives, you must then determine whether outsourcing can realistically meet them.
- Who are the sponsors, recommenders and approvers? Outsourcing demands executive sponsorship, without it there will be no positive outcome. This is an absolute requirement! In determining how to best evaluate IT outsourcing for your organization, you must identify the "players" and their roles. The outsourcing evaluation, itself, is time consuming and expensive. Additionally, it must be carefully managed and controlled. Rumors and misinformation can spread through your enterprise if this is mishandled.

How can outsourcing help you meet your objectives? Your outsourcing provider was not bitten by a radioactive spider. How, then, can outsourcing deliver both added IT capability and cost reduction with IT and Lines of Business (LOB). Factors that meet this promise may include the following:

- Enhanced IT & LOB processes. The outsourcing service provider brings company-wide experience gained from many previous and current outsourcing engagements. This sharing of knowledge is a key lever for doing things better and cheaper, getting to market more quickly and continuous improvement.
- Extensive use of automation and infrastructure tools. The outsourcing service provider invests heavily in developing and maintaining such tools for its multiple customers.
- Centralized operations support. Data Centers, help desks, and other activities lend themselves well to consolidation and centralized operations support. Communications is a great enabler here as the location of operations takes on less importance in a well connected enterprise. Additionally, for global companies the "24 by 7 around the world" capabilities for help desks and other critical operations is often ripe for outsourcing. This is a clear example of additional capability coupled with potential for cost reduction.
- Product standardization. Consolidation of server hardware, software, applications and database environment is often accomplished via outsourcing.
- Global access to IT skills and expertise. This includes the possibility of off-shore application development and maintenance.
- Financing. The outsourcing provider can provide multiple financial alternatives involving hardware acquisition, software assets, lease buyback options, conversion of capital expenses to operating expenses.

You need to understand all of the above opportunities and understand their applicability to your business in order to go forward. As you go forward you will scope the outsourcing agreement to determine which functions will be involved, the volumes and growth expectations. You must build in contingencies for rapid growth or business slowdown. You will develop a business transformation plan and you will determine appropriate terms such as service level agreements, financials and the appropriate length

of the outsourcing agreement. This will result in a Financial Base Case focusing on business value.

The next phases of the decision process involve selecting an outsourcing partner and then coming to an agreement with this selected partner. The proposal (RFP) process employs several selection criteria. These include:

Delivery Skills.	Does the vendor have demonstrated application management capabilities and delivery models?
Service.	What is the quality of service and reliability in order to meet customer requirements?
Financial Stability and Reliability.	Evaluating the vendor's overall business presence.
Vendor Reputation.	What is the vendor's track record? Evaluate vendor references, industry specific experience, etc.
Price.	What are the cost savings? How will price vary with usage if your business grows or contracts?
Personnel.	Examine the vendor's technical skills, back-up depth, and presence at your facilities.
Value.	The vendor's ability to articulate a compelling value justification.
Corporate culture.	Will there be a good fit between the organizations?
Global delivery capabilities.	Can the vendor do business where you need to do business?
Flexibility.	How will the vendor support you if you pursue future business acquisitions or divestments? How will the vendor help you as you change in a changing marketplace? What are the cost and service level implications?

Finally, our experience has identified potential detractors and enhancers to reaching a successful outsourcing agreement. Detractors include inappropriate delegation of decisions, poor communications; and failure to share technical, service level and financial data. Enhancers include gaining senior management sponsorship, jointly developing the outsourcing solution, and striving for a "win / win" business alliance.

Outsourcing can be advantageous for your business, providing needed capability as well as cost savings. Determining whether to outsource and what to outsource is a strategic business decision requiring a rigorous evaluation approach. Selecting an outsourcing vendor might well be compared to courtship, as you will be entering into a close, long-term relationship. Developing an effective outsourcing agreement is a painstaking process requiring extensive documentation and thorough analysis. Following a methodical process and answering the key questions outlined in this article will ensure your organization is on the right path to a successful outsourced solution.

This article was based on content taught at IBM's Advanced Business Institute (ABI). To view more information on this course and more, please visit The Advanced Business Institute Web site at

<http://www-1.ibm.com/ibm/palisades/abi/index.html>

Did this article help your organization formulate an approach to outsourcing? You may consider attending The Outsourcing Decision at the IBM's Advanced Business Institute (ABI) facility. Carl A. Singer, Ph.D., PMP, is a senior consulting instructor at IBM's Advanced Business Institute who has more than 30 years of experience in systems development and related project management.

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