



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.

The Outsourcing Decision

By Carl A. Singer, Ph.D., PMP, a senior consulting instructor at IBM's Advanced Business Institute (ABI). Carl has more than 30 years of experience in systems development and related project management.

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

