Transformational Outsourcing:
The Future of Application Services

January 2016

Accelerating the pace of innovation in application services

In today's technology-driven market, digital is disrupting traditional application outsourcing models. Application services will need to transform significantly to unlock the value from these new technologies that are fundamentally changing the way we do business. Organizations using antiquated labor-based supply models — largely unchanged over the last ten years — will find themselves unable to deliver the value and speed that they need to compete in the ever-changing digital world. Dell Services Transformational Outsourcing seeks to redefine application services, helping companies across the globe accelerate the pace of innovation.

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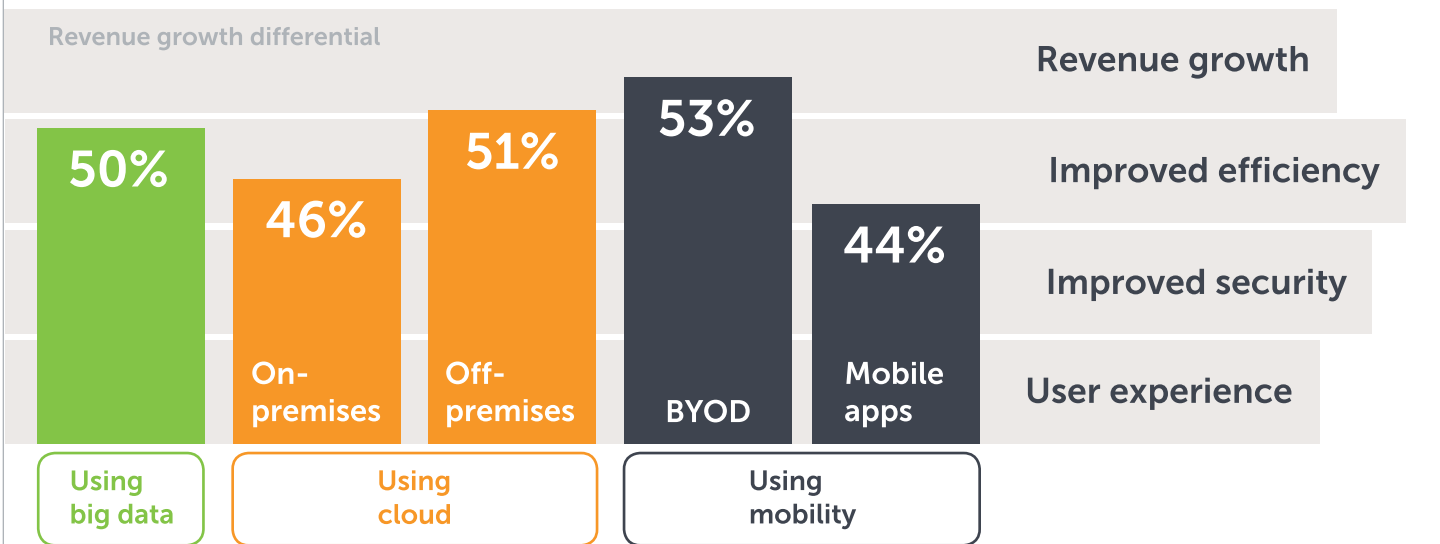
Every year Dell conducts a Global Technology Adoption study. In the 2015 Global Technology Adoption Index, Dell conducted primary research with 2,900 business and IT executives to examine the impact of digital technologies. They found that organizations actively using digital technologies are outperforming their peers — growing in revenue up to 53 percent faster than organizations that haven't invested in these technologies.[1] See the graph below for a breakdown by technology.

The ability to create new business models, influence revenue and market share growth, enhance customer and user experience, and impact security (and, ultimately, business reputation) makes digital technology a CEO priority like never before.

But digital isn't just impacting front-office capabilities and goals. It's creating significant improvements for middle-/back-office functions such as improved operations, increased productivity, streamlined supply chains, and enhanced engagement of internal and external stakeholders.

> Organizations actively using big data, cloud and mobility are growing up to 53 percent faster than companies that are not using digital technologies.

The impact of digital technologies on revenue growth

Revenue growth differential

	Revenue growth
50% Using big data	
46% On-premises / 51% Off-premises Using cloud	Improved efficiency
53% BYOD / 44% Mobile apps Using mobility	Improved security
	User experience

Software applications are becoming the basis of differentiation and growth in business.

[1] "Global Technology Adoption Index 2015," Dell, http://www.dell.com/gtai

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As business strategy becomes technology strategy, client questions regarding technology are changing.

> How can we make IT a **true partner to business**?

> **Cybersecurity** is a big concern for us. How do we proactively ensure that our organization and intellectual property (IP) are protected?

> How can we leverage **digital technologies** to drive **innovation** and accelerate the **speed** of transformation?

> Should we be an **innovator** or a **fast-follower** for new technology adoption?

> How do we attract and retain **specialized skills for next-generation technologies**?

> How can we leverage **cloud** and platform-based **utility models** to enhance **business agility**?

Changing client expectations

As technology and software become the key enablers of business value and competitive differentiation, the nature of demand — and the type of priorities clients are dealing with — is fundamentally changing.

Now, clients want IT application services in a digital environment that offer:

- Improved business and IT alignment
- Innovation at speed
- Lean processes that eliminate effort and waste
- Skilled, certified talent
- Utility-based, pay-per-use models
- Superior business outcomes
- Enhanced security and business continuity

Fulfilling these new demands helps organizations attain their ultimate goal in the digital age of becoming a future-ready enterprise that can keep up with constantly changing technology and consumer needs.

As demands change, expectations of value also change. Speed, agility, flexibility, business outcomes, and best-in-class customer and user experience become the focus. In fact, organizations often consider speed the top priority in IT services.

Even though these elements have shifted, typically, the majority of IT budgets (up to 80 percent) are tied to traditional, run-the-business activities that inhibit an organization's ability to
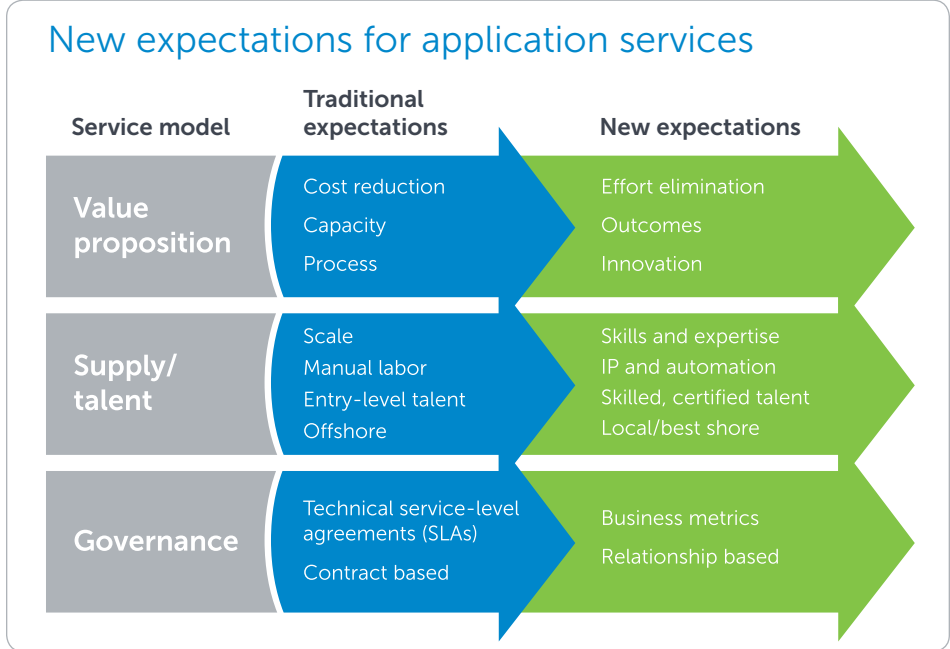
drive innovation. Enterprises today need to extract costs from these day-to-day activities to expand the budget for innovation projects and other value-added tasks.

This creates a significant shift in the application outsourcing service model itself —including client expectations for the value proposition, supply and talent model, and governance frameworks. See the table below for an in-depth look at traditional versus new expectations for application services. However, some vendors can't keep up with the new demands, leading to frustrated, unsatisfied clients.

Changing concerns with traditional application outsourcing:

"They are really good order takers, but they are not problem solvers. The vendors say they are strategic partners. Well, they are neither strategic, nor partners."

"They could have done so much more, considering they know our business so well. They have missed opportunities right under their noses; the current model is no longer meeting our needs."

New expectations for application services

Service model	Traditional expectations	New expectations
Value proposition	Cost reduction / Capacity / Process	Effort elimination / Outcomes / Innovation
Supply/ talent	Scale / Manual labor / Entry-level talent / Offshore	Skills and expertise / IP and automation / Skilled, certified talent / Local/best shore
Governance	Technical service-level agreements (SLAs) / Contract based	Business metrics / Relationship based

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Redefining the application services value proposition

Evolving client expectations also require a fundamentally different delivery model. Companies seeking to transition to a new application outsourcing model should follow three essential steps for value creation — optimize, simplify and innovate.

Optimize

This helps enterprises eliminate effort, waste and inefficiencies that are all too common in today's application services portfolio while reducing the cost of technology. The objective is to help enterprises run more efficiently and free up budgets for more transformational initiatives.

Simplify

Enterprises can then reinvest the savings from the optimize step to reduce the complexity of the IT environment and create new value by meeting expectations such as increased speed, compliance, productivity and quality.

During this step, enterprises also build the foundation of value creation through digital innovation. Simplification is not only about effectiveness, it's also a key enabler for innovation.

Innovate

In the final step, enterprises effectively capitalize on next-generation digital technologies — including cloud, mobility, big data, social media and Internet of Things — to drive innovation that transforms business models. Digital technologies not only help organizations improve sales and marketing through better customer engagement, but also impact internal back-office operations
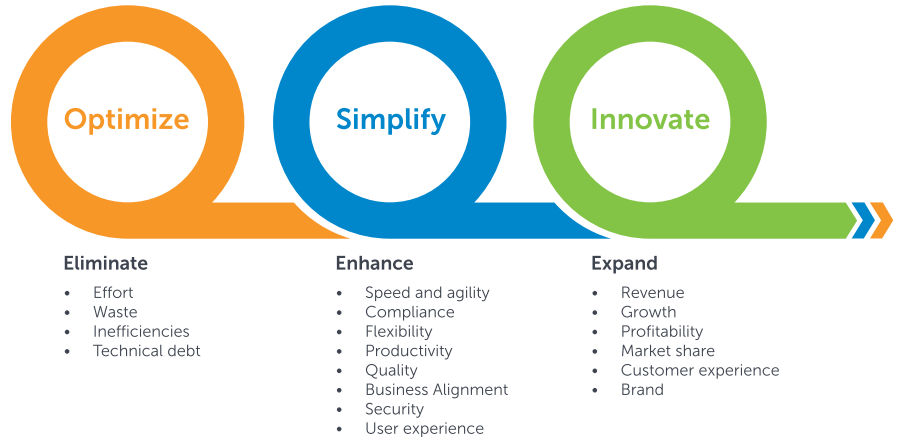
through increased connectivity and collaboration between employees and partners, and improve decision making with new data streams.

These innovations help enterprises increase revenue, growth, profitability, market share, brand value and, ultimately, shareholder value.

IT demand is changing and existing supply models are broken. Companies are now seeking a new supply model to address today's demand for application services. Enterprises seeking to embrace the new application outsourcing model should be aware of the challenges and structural impediments that can delay progress.

There are significant financial barriers within the vendor community to enabling the transition. The new demand has the potential to lower revenues, erode margins, and requires a higher investment profile to deliver sustained value to clients.

Three essential steps for value creation

Optimize   **Simplify**   **Innovate**

Eliminate
- Effort
- Waste
- Inefficiencies
- Technical debt

Enhance
- Speed and agility
- Compliance
- Flexibility
- Productivity
- Quality
- Business Alignment
- Security
- User experience

Expand
- Revenue
- Growth
- Profitability
- Market share
- Customer experience
- Brand

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Dell Services Transformational Outsourcing

Dell Services has created an innovative approach to delivering application services — Transformational Outsourcing. The bold new solution offers a cutting-edge methodology to meet the needs of the future for application services.

Dell Services Transformational Outsourcing ensures increased value for the modern age. It uses the essential three steps for value creation (optimize,

patents. This IP-centric approach enables transformation across the entire software development lifecycle to reduce risks, time and costs.

Best-shore expertise
Industry default: Traditional application outsourcing uses entry-level staff in low-cost offshore factories. These leveraged solutions typically result in poor client experience and low productivity.

Dell Services pre-set: We believe in utilizing local, specially skilled talent

This also helps organizations increase security and governance, and enable faster time to market for new products. In fact, application modernization is an integral part of all Dell Services Transformational Outsourcing engagements.

This approach helps companies transition from legacy to modern digital technology using a structured process created to support growth into future-ready enterprises.

As-a-service model
Industry default: Traditional engagement models focus on staff augmentation or capacity-based solutions to support application services.

Dell Services pre-set: Dell Services delivers end-to-end, integrated managed services — including hardware, software and services.

More than 70 percent of our service engagements are managed services. This means we assume accountability for a business process, the applications and software environment, and the underlying IT hardware and infrastructure services, delivered in a consumption-based utility model.
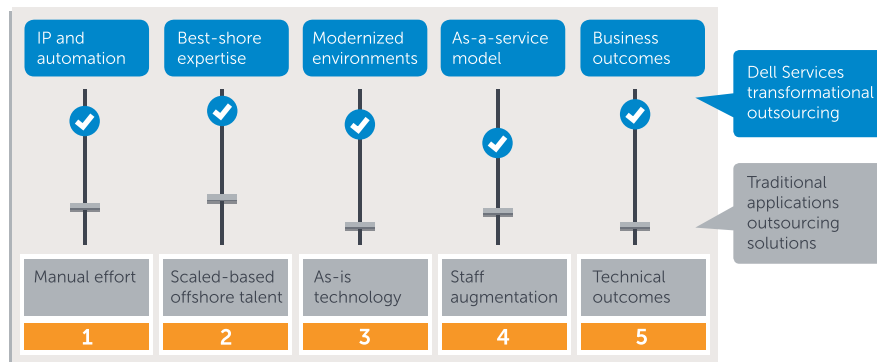
Business outcomes
Industry-default: Most vendors focus on technical outcomes instead of overall business objectives or results.

Dell Services pre-set: At Dell, we take a business-first approach to service delivery, providing outcomes organizations really care about (versus simply meeting technical requirements). Our solutions start with business outcomes first and determine an accelerated path to achieve the desired results.

Dell Services Transformational Outsourcing combines IP and automation, in-depth expertise, modernization and an intuitive

Transformational Outsourcing: A flexible solution optimized for future-ready business needs

IP and automation	Best-shore expertise	Modernized environments	As-a-service model	Business outcomes
✓	✓	✓	✓	✓

Dell Services transformational outsourcing

Traditional applications outsourcing solutions

Manual effort	Scaled-based offshore talent	As-is technology	Staff augmentation	Technical outcomes
1	2	3	4	5

simplify and innovate) and aligns service delivery to the new expectations of the digital age. Our service delivery approach is based on five key levers that Dell Services considers pre-sets of service delivery.

IP and automation
Industry default: Traditional application outsourcing utilizes labor-based solutions that require a great deal of manual effort and little to no automation.

Dell Services pre-set: Dell Services practices technology arbitrage and automation using agile and DevOps (development and operations working together as one) approaches to deliver maximum value to organizations. Dell has made IP acquisitions of over $18 billion and holds more than 4,100

to enable high-speed and high-value interactions. We do this by emphasizing skills and domain expertise in hiring experienced resources.

Our resources are available on-site, in country, nearshore or offshore — to fit a wide variety of company needs across the globe, instead of the traditional one-size-fits-all approach.

Modernized environments
Industry default: Most outsourcing vendors retain legacy environments and application portfolios to protect their existing production support revenues.

Dell Services pre-set: We, on the other hand, aim to simplify and modernize application environments — laying the groundwork for future digital innovation.

as-a-service model to deliver superior business outcomes — for today and into the future.

We can also optimize traditional application outsourcing models to fit a company's exact needs and objectives. No matter the level of application outsourcing maturity, our flexible solutions can help.

Customer success stories

Improved agility, rapid business growth and reduced risks through accelerated technology deployment

A leading bank wanted to transform its business processes with rapid technology deployment through automation and standardization.

An end-to-end Dell solution helped the bank:
- Enhance response to market by improving release frequency on transformation program
- Optimize spend by reducing the cost of quality assurance by over 30 percent
- Improve user experience

Modernized mission-critical applications and reduced costs with a core platform transformation

A U.S. insurance company wanted to update its critical, day-to-day applications as part of its outsourcing initiatives.

Our modernization IP suite helped:
- Reduce time to market for newer products and clients
- Enhance member experience
- Reduce claims resolution time
- Lower operating maintenance costs
- Reduce the cost of future enhancements

Increased growth, compliance, efficiency and affordability using an integrated, consumption-based business outcomes model

A large, not-for-profit health plan engaged Dell for a multi-year, multi-faceted strategic engagement.

Dell helped:
- Enhance member and provider experience to enable membership growth and retention
- Improve the health plans' competitive advantage
- Save more than 30 percent on application support and maintenance
- Reimburse providers based on care quality

How Dell Services can help

Backed by in-depth industry experience, Dell Services uses an IP-centric approach (versus a labor-centric approach) to deliver end-to-end business innovation and transformation. We want to redefine the traditional outsourcing model by focusing on business outcomes. Our services make modernization an integral part of any outsourcing engagement, delivering tomorrow's solutions with cutting-edge technology and support.

For more information about any of our service offerings, please visit Dell.com/services or contact your Dell representative.

Transformational Outsourcing Readiness Checklist

Please answer "Yes" or "No" to the following statements about your current application outsourcing model:

	Yes	No
1. Staff augmentation is the primary engagement model (managing resources versus managing outcomes)	○	○
2. Contracts measure technical SLAs (instead of business metrics)	○	○
3. Limited /no initiatives to modernize and improve your outsourcing technology portfolio	○	○
4. Focus on scale versus skills; teams with limited business context and domain knowledge	○	○
5. Limited improvements in work productivity	○	○
6. Lack of automation and predictive analytics	○	○
7. Labor-centric versus IP-centric approach to drive improvements	○	○
8. Inability to shorten time to market/deployment cycles	○	○
9. Limited success with agile and DevOps methodologies	○	○
10. Inefficient knowledge management and a feeling that only vendor resources have critical environment knowledge	○	○

If you answered "Yes" to three or more statements, we think your application outsourcing environment is a strong candidate for Dell Services Transformational Outsourcing. For a complimentary workshop on the value we can help you create with our innovative solution, contact: **transformational_outsourcing@dell.com**.

During the Transformational Outsourcing Readiness Workshop, Dell Services will engage your IT leadership to help you:

- Define and understand your strategic priorities and business goals
- Establish a baseline of existing application outsourcing maturity
- Identify gaps and limitations in existing model to deliver your desired business goals
- Develop a high-level transformational outsourcing roadmap to help you optimize, simplify and innovate