DELL Services

Achieving Real Results from IT Outsourcing

How to Benefit from Information Technology Outsourcing and Create Long-Term, Measurable Results

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Executive Summary

Achieving real results from information technology outsourcing depends on a variety of factors. Understanding the advantages of outsourcing and identifying business functions with the greatest potential to benefit are fundamental. Defining an outsourcing strategy that aligns with business goals and effectively managing the outsourcing relationship are essential. Finally, setting standards for improvement and evaluating key performance indicators can help ensure long-term, business-building results.

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Why Outsource Information Technology?

Enterprises have long benefited from delegating their non-core business functions to outside service providers. A manufacturer, for example, distributes goods with the help of a transportation company. A retailer engages an accounting firm for an audit. A bank hires an advertising agency for a media campaign.

Typically, the enterprise benefits from outsourcing in one or more of three primary ways, as the outsourced provider delivers the service better, faster, or at lower cost than the enterprise can achieve by itself.

Today, enterprises can realize these same benefits and more as information technology undergoes increasing industrialization. Just as the Industrial Revolution of the late 19th and 20th centuries transformed manufacturing technology from proprietary, localized craft work to standardized global production, the industrialization of information technology in the 21st century is transforming business processes from proprietary, site-bound practices to standardized, segmentable, and transferable ones.

The industrialization of IT overcomes limitations of traditional practices. Unlike proprietary technologies, standardized applications and architectures based on proven technologies can be transferred from one enterprise to another. Processes can be segmented into modifiable parts, automated, and repeated. And metrics can provide objective evidence of process performance.

For enterprises, the benefits of "industrial-strength" IT delivered by an outsourced service provider can include:

Reduced costs. By employing standardized technology and processes in a customized business solution, an enterprise can benefit from the technology provider's lower development costs. Enterprises that delegate a business process performed intermittently at multiple locations to a service provider that performs it continuously at a single location may also realize economies of scale. Enterprises may benefit from lower labor costs by contracting with providers that manage offshore operations centers. And they may enjoy more favorable payment terms and an improved cash position thanks to an outsourced provider's expertise in billing, collections, and payment processing.

Increased efficiency, quality, and productivity. Because IT service providers are specialists in technology and processes, they typically have a larger repository of IT knowledge and skilled IT professionals than most enterprises. By combining knowledgeable, skilled people with proven technologies and best-practice methodologies, an IT service provider can increase the efficiency and quality of an enterprise's processes and help boost its productivity. In addition, a comprehensive IT service provider simplifies management issues by providing a single point of contact for all IT functions.

Improved customer and vendor relationships. IT service providers can supply Web-based applications that enable enterprises to effectively manage relationships with customers and vendors, and establish help desks and call centers to respond to enterprise, customer, and vendor needs. Customer-focused service providers may also deliver higher overall service levels, day in and day out, than internal IT departments can provide.

Increased flexibility and responsiveness. Enterprises can use IT outsourcing as a strategic tool for increasing flexibility and responsiveness. Because of outsourced service providers' specialized expertise, they can relieve enterprises of often-inefficient, internally managed IT operations, enabling the enterprise to more effectively anticipate and adapt to market and regulatory changes.
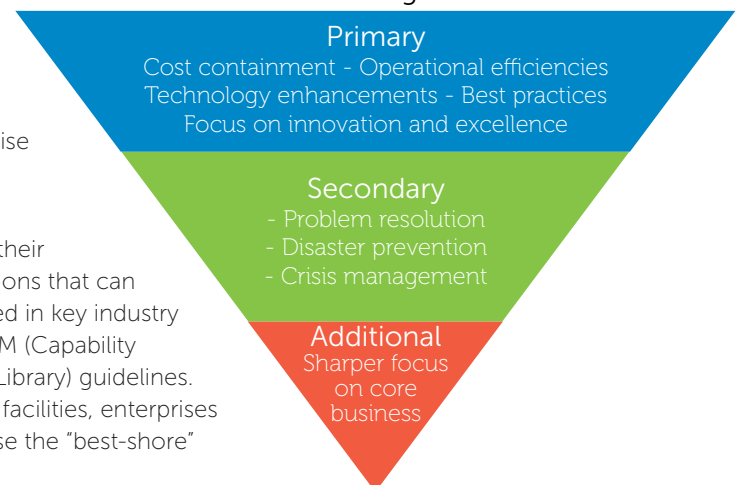
Enhanced technology and access to global sources. Thanks to their technology focus, IT service providers are often aware of innovations that can give enterprises a competitive advantage. They are also well versed in key industry standards such as ISO (International Standards Organization), CMM (Capability Maturity Model), and ITIL (Information Technology Infrastructure Library) guidelines. Through IT service providers that maintain both on- and offshore facilities, enterprises can also enjoy access to global sources of technology and choose the "best-shore" solution to meet their unique needs and goals.

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"Everest Group research reveals that most buyers believe outsourcing can be a valuable strategic tool in areas such as allowing their company to focus on core strengths, reducing costs, impacting broader business goals, and enabling growth with contractual talent. Intangible elements of the relationship including trust, flexibility, and interpersonal rapport are key success factors."

Peter Bendor-Samuel
CEO, Everest Group

IT Outsourcing Benefits

Primary
Cost containment - Operational efficiencies
Technology enhancements - Best practices
Focus on innovation and excellence

Secondary
- Problem resolution
- Disaster prevention
- Crisis management

Additional
Sharper focus on core business

Improved business continuity. Today's complex, volatile business environment presents several compelling reasons for outsourcing IT. What executive hasn't worried about protecting databases and online transactions against computer viruses, system hackers, power outages, natural disasters—even terrorism?

Most organizations have limited resources to guard against the massive data loss and business interruptions that can result from such unforeseen crises. When the unthinkable happens, management who had the foresight to invest in the resources to preserve systems and information deliver incalculable value to their organizations.

World-class IT service providers can establish infrastructure safeguards, develop reliable back-up systems, and implement sound data security. Enterprises that collaborate with such providers leverage the providers' expertise to mitigate risk and speed recovery, should crises occur.

Renewed focus on innovation and excellence. Greater than any single benefit, the promise and opportunity of outsourcing lie in its ability to drive innovation and excellence across the full spectrum of an enterprise's business. When an enterprise strategically integrates and leverages an outsourced service provider's competencies — "smartsourcing" non-core business processes to the provider — it can not only cut costs and improve efficiencies, but also:

- Leverage the provider's expertise to differentiate processes with significant impact from those with minimal impact

- Continuously innovate processes to increase differentiation

- Buffer processes from disruption due to technology change

- Foster excellence to anticipate and align with market changes

- Streamline the value chain as well as operations

- Engender trust and collaboration, leading to greater business value

A Strategic Approach to IT Outsourcing

When properly executed, contracting and managing outsourced IT services can bring an enterprise great rewards. However, to ensure that an enterprise's technology teammate delivers the value promised, the enterprise must carefully plan, negotiate, and communicate before the contracted work begins.

For a successful collaboration, several issues must be addressed. These include aligning IT strategies to business goals, setting the scope of services, determining priorities, defining service level agreements, establishing clear lines of communication and governance, and ensuring adequate levels of accountability.

Aligning IT strategies to business goals. Often, enterprises fail to effectively translate their business goals into IT initiatives. Therefore, aligning an IT strategy to business goals can be a key collaborative effort between the enterprise and the outsourced service provider.

Besides the obvious benefit of selecting the appropriate IT provider and strategy, this exercise often helps enterprises in ways that extend beyond IT and process enhancement. For example, in reviewing business goals and formulating an IT strategy to meet them, an enterprise can sharpen its strategic focus, communicate its vision internally, and renew its commitment to innovation and excellence across all business functions.
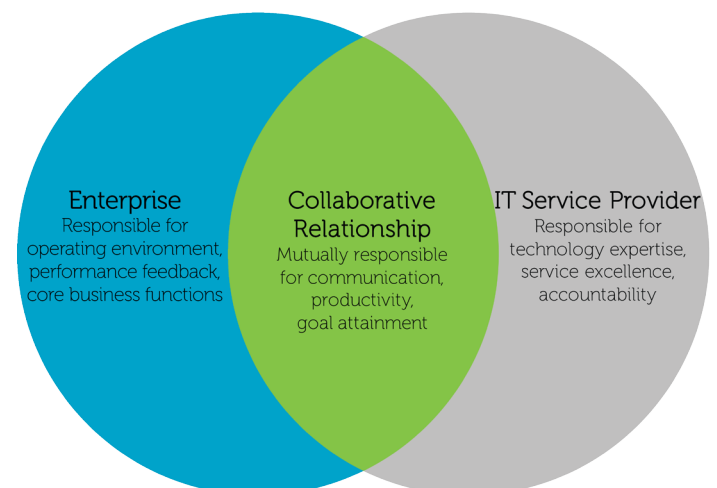
Setting the scope of services. Outsourced services range from individual business functions, such as document management and desktop support, to comprehensive agreements that transfer an enterprise's entire IT staff and infrastructure to a service provider. Prime candidates for outsourcing include non-core business functions that an enterprise performs inefficiently or at too great a cost. Other candidates are large, complex, or lengthy projects that demand an IT service provider's expertise, such as infrastructure upgrades and applications migrations. Regardless of the size of the project, anticipating change and building flexibility into the contract is a sound, forward-looking approach.

Determining priorities. To help define IT's role in supporting business objectives, many service providers offer assessments and consultation to explore an enterprise's needs and opportunities. Once a prioritized schedule of initiatives is established, dividing work into phases with defined timetables and milestones helps the service provider manage resources while enabling the enterprise to establish benchmarks for measuring results.

Defining service level agreements. Typically, measurable objectives provide the basis for service level agreements (SLAs) that both the enterprise and service provider use to define requirements, set schedules, and evaluate results. Progress on SLAs can be measured by key performance indicators (KPIs), which enable the enterprise to evaluate performance.

Incentive-laden, "risk/reward" contracts can enhance SLA effectiveness and deliver substantial benefits to both parties by accelerating the achievement of critical path goals. Again, however, it's important to build in flexibility, as outsourcing arrangements can fail due to overly prescriptive SLAs that impede

The IT Outsourcing Relationship

Enterprise
Responsible for operating environment, performance feedback, core business functions

Collaborative Relationship
Mutually responsible for communication, productivity, goal attainment

IT Service Provider
Responsible for technology expertise, service excellence, accountability

both the enterprise and service provider from achieving the primary goal of enhancing business success.

Establishing clear lines of communication and governance. Effective management of the outsourcing relationship is essential to meeting expectations and achieving long-term success. Blending teams can promote collaboration, and organizing reporting structures to optimize communication can facilitate service adjustments. Regular status reports can help identify problems and keep projects on track, and regularly scheduled project reviews can reprioritize and redirect efforts as needed.

Critical to effective communication and governance is the cultural fit between the enterprise and the service provider. Outsourcing arrangements typically enjoy greater success when cultural compatibility is assessed up-front and cultivated throughout the life of the contract.

Ensuring adequate levels of accountability. To maintain operational continuity and realize maximum return on its investment in IT outsourcing, an enterprise should not only clearly define management roles, responsibilities, and contact points, but also establish clear paths of management escalation, should issues arise. With well-established levels of accountability, both enterprise and service provider can mitigate risks associated with changes in technology and processes. Most enterprises appoint a vendor relationship manager as the single point of contact for the outsourcing engagement and establish a formal management committee to authorize any adjustments to scope, schedules, or service levels that may evolve.

Maximizing Benefits and Measuring Results

Although many enterprises consider IT outsourcing for its cost-containment benefits, the success of an outsourcing engagement can be realized in other benefits previously described: increased efficiency, quality, and productivity; improved customer and vendor relationships; enhanced technology; assured business continuity; and renewed focus on innovation and excellence. Together, these benefits can help an enterprise drive revenue, cultivate growth, and seize opportunities for improvement.

Maximizing the benefits of an IT outsourcing engagement is a shared responsibility that demands the commitment and trust of the enterprise and the IT service provider. Measuring the results requires benchmarking of existing performance, establishment of standards for improved performance, and quantification of results through objective data.

Benchmarking and establishing standards. Enterprises are better equipped to measure improvements if they are already tracking key performance indicators such as IT costs, down time, number of service incidents, and repair time intervals. Such benchmarks enable management to establish quantitative standards for improvement.

Quantifying and qualifying results. Quantitative milestones based on newly established standards can help indicate, through objective data, process and performance improvements. Typically, this data will reveal dramatic gains during early stages of the outsourcing contract because IT service providers often implement best practices at the outset to help achieve immediate results. Periodic re-evaluation of the performance standards and fine-tuning of the IT solutions can generate incremental improvements over the life of the outsourcing contract.

At the same time, enterprises can benefit from qualitative improvements that are not strictly measurable, but just as real. Intangible improvements, such as tighter business integration, better information flow, a sharpened strategic vision, and the cultivation of innovation and excellence are benefits that statistics may not directly reveal.

Seizing Opportunities for Success

Identifying quick-win projects and laying the groundwork for major initiatives are proven paths to early success in the outsourcing relationship. Assessing IT alignment to long-term business goals at the outset can also ensure success. For example, if rapid expansion via acquisition is a key business goal, it's unrealistic to expect cuts in help-desk staff during expansion. Indeed, it may be more productive to expand the help-desk resource to more rapidly digest and integrate acquisitions.

Summary

The strategic outsourcing of non-core, IT-assisted business functions can enable an enterprise to focus less on day-to-day technology management and more on its core competencies and business activities. An effectively managed collaboration with an IT service provider can help the enterprise achieve benefits that include reduced costs, increased productivity, improved customer and vendor relationships, enhanced technology, assured business continuity, and renewed focus on innovation and excellence. Together, these benefits can help an enterprise drive revenue, cultivate growth, and seize opportunities for improvement. Thus, the IT function can be transformed from a cost center into a strategic asset for long-term revenue enhancement and business success.

About the Author

Jay T. Young is Director of Business Development for Dell and a member of the Dell Thought Leadership Council. The Council has been established by Dell to identify and articulate points of view that are important in developing an awareness of today's business challenges and knowledge of opportunities to achieve results through technology-based solutions.

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