

The Outsourcing Business Is it Right for You?

SVPMA

Wednesday, October 6, 2004

Sridhar Ramanathan
Pacifica Group

Agenda

- Outsourcing definition
- Types of outsourcing
- Customer/Vendor perspectives
- Business Considerations
- Product Management Implications
- Resources

Defining Outsourcing

“Outsourcing, a contractual relationship between two or more parties for the ongoing management (and in many cases the improvement) of infrastructure or business processes”

--ITSMA

Source: ITSMA paper “Buyer Views on Outsourcing and Offshoring”

Types of Outsourcing

Type	Example
Applications Outsourcing	ERP Outsourcing (e.g. mySAP)
Business Process Outsourcing	EDS' HR Services (payroll, benefits)
Infrastructure Outsourcing	HP Desktop Management Services
Application Service Providers	Salesforce.com, CRM on Demand
IT Utility Services	Critical Path's Managed Messaging
Internet Service Providers	Savvis hosting services

Note: onshore/offshore is a separate decision from insource/outsource

[→ Select a country](#)**IBM Global Services**[Industries](#)[Business & technology topics](#)[IT services](#)[Training](#)[Conferences & events](#)[Services A - Z](#)[IBM Global Services search](#)**Related links:**[IBM Business Partners](#)[Career opportunities](#)[IBM Global Services](#) > [IT Services](#) >

Outsourcing / Hosting

[Introduction](#)[Services](#)[Case studies](#)[Library](#)[Related items](#)

What is Strategic Outsourcing?

IBM Strategic Outsourcing Services is the management of a companies' applications and information technology (IT) systems. Customers strategically partner with IBM to manage and operate their applications and IT systems, generally under a mutually beneficial agreement. The outsourcing agreement may include the transfer of IT employees and IT assets to IBM. IBM provides service level assurances to ensure quality of service is attained and measured.

IBM offers the following Strategic Outsourcing Services:

- e-business Hosting™ Services
- Data Center Outsourcing Services
- Managed Storage Services
- Network Outsourcing Services
- [Output Management Services](#)
- Application Management Services
- CRM Management Services
- NetWorkStation Management Services

Why Outsource?

- Access to expertise; focus on core competency
- gain time-to-market
- increase operational efficiency
- Manage risk/change over time
- Reduce/contain cost

Pros– The Customer Perspective

More reasons...

- Competition is doing it
- Move big ticket asset purchases off the balance sheet to expense
- Scale; grow the business without scaling costs commensurately

Cons-The Customer Perspective

- Cost savings may not meet expectations; expensive change orders arising from service levels can account for a huge fraction of the bill
- Service levels might not meet expectations
- Switching outsourcers is painful; divorces can be ugly

Pros- The Vendor Perspective

- Recurring/predictable revenue and reduced selling costs due to 2-10 year contract terms
- Add more value to customers and command a bigger share of your customer's wallet
- Keep competition at bay
- High switching costs could yield higher margins

Cons- The Vendor Perspective

- Can become a big diversion from current business model
- Balancing operational efficiency with customer relationship can be tough; most software businesses emphasize volume not maximizing customer value
- Potentially large capital and human resources to build up capability
- Exiting bad business is painful

Vendor Example – Toolwire



TOOLWIRE

[COMPANY](#)[SOLUTIONS](#)[SERVICES](#)[CUSTOMERS](#)[PARTNERS](#)[CONTACT US](#)

LIVELABS FOR ENTERPRISE TRAINING

LiveLabs for Enterprises is a hosted training solution that automates the delivery of lab environments for classroom training (virtual, onsite, and third-party). LiveLabs provide training organizations with greater flexibility and efficiency, making training programs more successful -- growing revenue, reducing costs, and improving student satisfaction.

CENTRALLY MANAGED ONLINE TRAINING ENVIRONMENT

LiveLabs for Enterprises consolidates and centralizes the lab infrastructure in a managed, world-class data center facility. Since this infrastructure is accessible from anywhere, this results in several advantages:

- Significant reduction in hardware expense (server consolidation, lower maintenance costs and higher utilization of equipment)
- No overhead for associated hardware and IT- this expense alone can represent 20% of the total cost of ownership for hardware and is totally outsourced
- Respond to changes in demand (class cancellations, etc.) instantly
- Take advantage of idle capacity for internal and partner training
- No client-side requirements (e.g. memory, processor, etc.) other than an internet connected web-browser
- No shipping costs
- Easier to support and maintain
- Update once, globally -- updates at the data center becomes available everywhere, instantly, without delay



Evaluation Criteria

- 1. Can we make money?**
- 2. Can we deliver?**
- 3. Is the risk/reward acceptable?**
- 4. Does it fit with our strategy?**

1. Can we make money?

- Leading IT outsourcers make over 40% gross margin on multi-year contracts.
- Will you have operational efficiencies, cost advantages, process maturity, and scale?
- Can you drive down costs (labor, capital, software, etc.) while delivering flawlessly against service levels for annuity revenue?

2. Can we deliver?

- Emphasis on value more than volume
- It's a trusted relationship. Customers will escalate to CEO fast if something breaks.
- How well can your team can deliver against tightly specified service level agreements.
- Do you have enough instrumentation to proactively avoid disasters?

3. Is the risk/reward acceptable?

- Outsourcing relationships are all about managing risk. Leaders quantify risk and pricing it into the contract directly.
- For example, are you getting paid enough to deliver five 9's availability globally?
- Has your legal team reviewed the liabilities?
- Do you have mutual responsibilities/accountabilities built into the contract?

Does it fit with our strategy?

- You will need new roles: sales specialists, pursuit teams, delivery/operations, finance, pricing analysts, contracts, and HR.
- Are you willing to institute rigorous processes and metrics to reward behaviors?
- It's a big cultural shift from maximizing volume to maximizing value with a few.

Vendor Example – GlassHouse Technologies



THE GLOBAL LEADER IN INDEPENDENT STORAGE SERVICES



OUR SERVICES

- OVERVIEW
- STRATEGY
- DESIGN & IMPLEMENTATION
- OPERATIONAL SUPPORT
- CUSTOMER SUPPORT SERVICES

OPERATIONAL SUPPORT

GlassHouse Operational Support Services ensure client backup and recovery operations are running efficiently and effectively. Through an in-depth evaluation of the client's environment, our consultants stabilize and optimize operations, applying standard operating procedures to ensure peak effectiveness.

Remote monitoring services provide increased visibility into your day-to-day operations, while onsite services deliver quick and efficient management of assets, changes and events. GlassHouse Operational Support Services ensure critical data is successfully backed up and recoverable, optimize existing storage environments and apply standard operating procedures and controls.

Our Expertise

Archiving
Availability
Backup and Restore
Business Continuity
Change Management
Compliance
Database
Recoverability
Disk Technology
eMail Archiving
Integration
Information Lifecycle Management

Outsourcing is a deeper relationship

	Software Support	Hosted/ OnDemand	Outsource Option
Service level agreement	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Incident management	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
7x24 coverage	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Updates/upgrades	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Proactive ongoing change management		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Design, build and run a specific IT/Business Process			<input checked="" type="checkbox"/>
Transfer of assets/people			<input checked="" type="checkbox"/>

Pricing & Terms

Software Business

- 1 year
- EULA
- Right-to-use license & support as %
- Pricing on seats
- Customer bears all risk

Outsourcing Business

- 2-10 years
- SLA
- Contracted monthly fee plus change orders
- Pricing on servicing # servers, users, messages, or CPU/storage capacity...
- Shared Risk

Product Management Implications

Software Business

- Product definition
- Development & launch process
- Team is Marketing, PM, Engineering & Support
- Customer acquisition
- Innovate

Outsourcing Business

- Service description
- Change management process
- Team incl HR, Legal, Finance, Pricing Analyst
- Customer retention/expansion
- Copy/leverage

Resources

- CIO magazine articles (excellent one on quantifying risk/return)
- BPO-Forum
- ITSMA – Buyer Views on Outsourcing
- Morgan-Chambers whitepapers (dated but good)
- Whitepapers at vendor sites (e.g. CSC, EDS, CapGemini, HP and IBM)
- Gartner and Forrester research notes

Thank you!

Sridhar Ramanathan

Pacifica Group

(925) 371-8400

sridhar@pacifica-group.com