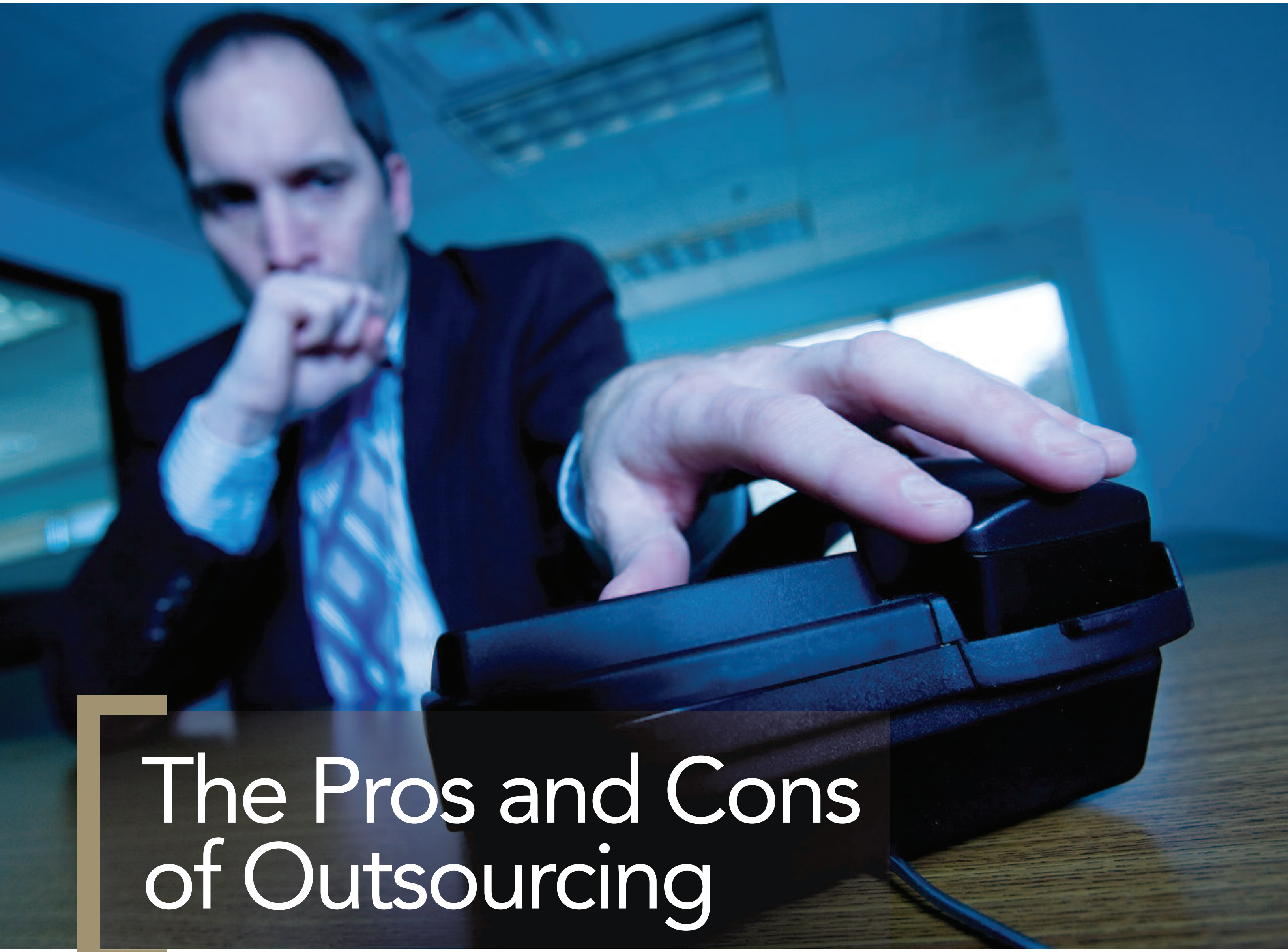
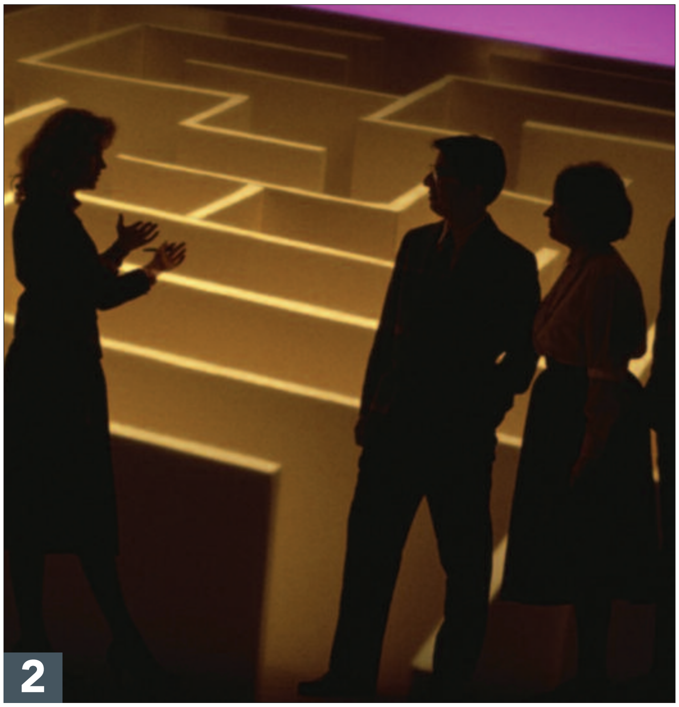


The Pros and Cons of Outsourcing

an internet.com IT Management eBook

contents

The Pros and Cons of Outsourcing



This content was adapted from Internet.com's Datamation and CIO Update Web sites. Contributors: Lionel Carrasco, Sashi Reddi, Claudio Muruzabal, Julie Craig, and Larry Marion.

How to Get Outsourcing Right

By Lionel Carrasco

Outsourcing is one of those terms inherently tied to globalization. Essentially, companies go the outsourcing route as a way to reduce costs, but often they spend too little time considering its strategic value, often overstated by many outsourcing providers.

The truth is one of outsourcing's main values is to relieve IT staff of time-intensive duties and create opportunities for them to take on truly strategic initiatives.

It's widely known that companies pursue outsourcing with the cost-reduction factor in mind. Some also look for outsourcing to improve service levels or to create budget flexibility.

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To fulfill the cost reduction promise that most businesses expect from outsourcing, many outsourcing firms have responded by becoming more efficient and seeking out cost-effective resources in the global marketplace.

Navigating the Maze

The question is, despite the cost advantages of outsourcing IT, why do so many companies tell tales of partial or complete failure in successfully managing this process? Why is it so complex?

Many companies will find that IT outsourcing is complex because it can turn into an "operational labyrinth" simply given the nature of the required services to support complex business processes, as well as the maturity of the IT processes.

There is a significant difference between outsourcing low-value services such as help desk, which are highly stable and standardized, and outsourcing software development or even the whole IT operation; keeping hold only of high value-added or strategic value projects.

Of course, there isn't a universal recipe that applies to all companies developing an outsourcing strategy, but a consistent and moderate-risk strategy can get you much closer to "Right Sourcing."

Consider the following 10 factors to improve the odds of success when planning your outsourcing strategy:

> It's widely known that companies pursue outsourcing with the cost-reduction factor in mind.

1. Identify your team's ability to do the same job today in a different way.
Get to know the tasks your operation is truly effective and efficient in performing, including operational support.

Tasks should be segmented into different categories, such as client-facing vs. internal activities; sales-related vs. business-speed related activities; and centralized vs. geographically dispersed activities

2. Define your processes clearly.
Start by describing the way the tasks are accomplished today, and review the performance indicators and the policies for each process.

With geographically dispersed processes, it's important to clearly establish the borders between activities developed in a different part of the business, or in other countries.

3. Identify your true IT costs.
You will have to get into the weeds to calculate the price you are paying on each maintenance ticket and development project but it will be worth it because it's vital to compare your current operation with the expected financial benefits of outsourcing.

4. Take a guess about which processes you may outsource, and picture an outsourcing partner managing them.
This exercise, which you can do with an outside consultant or take on internally, requires time to evaluate "What if part of X of process Y is done differently than it is today?"

Think about the dispersed activities your team carries out today, and if they were handled in a building across town. Will it work? Look for the most painful processes — the real IT bottlenecks — and the most costly problems.

Finally, imagine these processes upgraded through outsourcing, freeing up time for the IT staff to devote to other more strategic tasks.

5. Think globally.
Outsourcing has really grown up and the market is ripe with competent companies — large and small, near and far.

Keep in mind there are a number of markets with competitive and skilled labor around the world, including often-overlooked places like Eastern Europe and Latin America. Most outsourcing firms can service you from multiple locations, which helps reduce the need to work with more than one provider.

6. Analyze your business.
Only then pre-select the possible geographic locations that it would make sense to outsource to, based on the unique criteria of your business.

It is very important that you move tasks to locations or markets in which your company already does business. By doing so, you have the opportunity to create welfare to foster your own operations in those countries, while also ensuring that your outsourcing partner is aware of your business and concerned about providing good service.

7. Make the business case for outsourcing.
Don't short-change yourself in this process: Include both quantitative and qualitative elements in your strategy.

It's important to quantify the real benefit of going into outsourcing and to know where the estimated savings come from. For instance, if you discover that an activity will represent less than 30 percent in savings, it is advisable to postpone it for a later stage of the outsourcing cycle.

8. Make sure to interview your possible outsourcing providers in their own facilities, no matter where they are located.
This is not a time to cut corners. Go beyond the marketing hype, trade-show buzz, and third-party opinions. Develop your own short list by analyzing each company's capabilities. You will be amazed at what you find.

9. Be up-front about your expectations.
Think about your definition of a successful relationship and be open about the critical elements for success that both parties will need to keep in mind.

Communication is the key. Be sure your potential partner clearly understands the way you want to design the operation and particularly the benefits you seek in moving to an outsourcing model.

Take the time to develop a transition plan, assigning the tasks to be performed in each geographical location by each company, the times of interaction, and the means of control.

10. Consider the benefits of a short-term contract to start your outsourcing project.

You can always renew it for a longer-term commitment. Though the legal conversations can be uncomfortable, contracts are integral to ensuring an effective transition and partnership.

Talk about outsourcing usually starts with cost reduction, which often is the driving force par excellence, but it is very important for you to know that cost reduction has a price in terms of money and time. The true benefits of outsourcing will come to fruition only after you and the outsourcing provider figure out how to work together in the best possible way. ■

Outsourcing's Seven-Year Itch

By Julie Craig

While we laugh about the alcohol-based tonics sold from the backs of wagons in the 1800s, who among us has never placed a bet at a blackjack table? And, while we scratch our heads trying to imagine why anyone would send their retirement savings to a stranger in Nigeria, most of us have been taken in at some point by promises that a stock will rise, a real estate venture will succeed, or a tax cut will really put money in our pocket.

Hope springs eternal, and the promise of getting something for nothing is almost irresistible.

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Let's be clear here — I'm not calling outsourcing snake oil. What I am saying is that, in the past, it has been approached by some as a magic potion that will cure all ills. IT executives are as susceptible to the quest for a magic bullet as everyone else. However, the vision of lowering costs, maintaining or improving service quality, and decreasing service management oversight is a myth at best, and one right up there with the likelihood of consistently beating the house at blackjack. (There is a good reason why Las Vegas is crammed with billion-dollar casinos.)

Transfer of Execution, Not Responsibility

According to Wikipedia, outsourcing is "the transfer of the management and/or day-to-day execution of an entire business function to an external service provider." Obviously, this definition covers a broad range of products and services. At one end of the spectrum is software as a service (SaaS), in which an outside company assumes the execution of a given service, such as ERP or CRM. At the other is wholesale outsourcing of an entire IT operation. This is often a case in which an outsourcer "hires" a company's IT employees and, in return, is contractually obligated to deliver IT services at a specified cost.

There are multiple gradations between the two, and these gradations offer a broad menu of options for IT organizations looking for ways to optimize service delivery. The important thing to keep in mind when considering outsourced services is that every company is different. There is no "one-size-fits-all" outsourcing strategy. Picking and choosing

"The important thing to keep in mind when considering outsourced services is that every company is different. There is no "one-size-fits-all" outsourcing strategy."

from the multiple offerings on the menu requires business knowledge, understanding of the industry vertical in which the business operates, the kinds of IT services needed to stay competitive in that vertical, and the availability of skills and expertise.

This is where today's CIOs have an opportunity to earn their keep, because this "big picture" perspective is one that requires significant experience, knowledge, and judgement. Within high-performing IT organizations, strategically selecting outsourcing options, and skillfully combining them with in-house expertise and services, is high art. Such organizations understand what outsourcing is and what it is not: an opportunity to cede responsibility.

While execution can be outsourced, responsibility cannot. And from a management perspective, many can testify that outsourcing creates as many challenges as it solves.

Managing contracts, service levels, and acting as an intermediary between IT and the business are all activities that have to be resolved. These activities fall on IT organizations traditionally focused on technology and geared towards delivering services rather than managing them. This can result in both a skills and an expectation gap.

If IT doesn't have the skills it needs to manage this new delivery model, and, as a result, expectations of the outsourcing's benefits go unmet. Once this happens, the bloom fades from the outsourcing rose, reality sets in, and the company struggles with a whole new set of challenges that bring with them multiple unfamiliar roles.

Where Outsourcing is Successful

General Motors (GM) is the poster child for outsourcing, and has been since the 1980s. At that time, GM outsourced virtually its entire IT organization to Electronic Data Systems (EDS). Over time, as GM's outsourcing model has evolved and diversified to multiple providers, one thing has stayed the same, GM's internal IT team.

Currently consisting of almost 2,000 people, it is responsible for managing outsourced services. Within GM, the role of IT hasn't diminished — IT is still

Outsourcing ROI Good, Satisfaction Lacking

By CIO Update Staff

A study from Deloitte reports that enterprises entering into outsourcing arrangements are focusing too heavily on reducing costs through labor arbitrage alone, resulting in high levels of disappointment and conflict even though most companies are realizing significant cost savings.

The Deloitte Consulting study, Why Settle for Less, found that 83 percent of companies surveyed had achieved an ROI of more than 25 percent on their outsourcing projects. However, 49 percent of the executives surveyed said they would have defined service levels that aligned better with their companies' business goals if they could start their outsourcing projects over, and only 34 percent of respondents reported that they had gained important benefits from their service providers' innovative ideas or transformation of their operations.

In addition, by a three-to-one margin, the outsourcing service providers polled felt that their client companies did not have a solid outsourcing plan, lacked the operational data needed to make sound decisions, and did not understand how the to-be organization would really work. Such contradictory findings could be the result of a failure to properly define the goals of the outsourcing projects as being more than saving money.

"Outsourcing is working financially for a majority of companies in this survey, however, executives' propensity to lead with cost reduction and labor arbitrage without emphasizing the need for overall optimization stymies their companies' chances to realize the full benefits of outsourcing," said Peter Lowes, a principal with Deloitte Consulting LLP and the leader of its Outsourcing Advisory Services group, in a statement. "The themes of unrealized potential and lost opportunities to use outsourcing as an opportunity to innovate echo throughout this report."

Lowes noted that these lost opportunities might also be the result of the companies' setting their outsourcing goals too low. He said companies

continued

responsible for delivering business services — but it has changed.

There are a few areas where such an outsourcing model tends to be particularly successful. One is when IT organizations utilize it to address those areas of the business that are outside their key competency. For GM, that core competency is automobile manufacturing, not IT. Kudos to GM for realizing this early and moving towards an outsourcing model ahead of much of the market.

What is appropriate for GM, however, is not necessarily the best solution for Google. Google's core competency is technology, and companies like Google excel at delivering IT services. The likelihood that an outsourcer can provide the same combination of leading edge technology, expertise, and innovation that Google has in-house is pretty small.

Targeted outsourcing — particularly of non-differentiating business services — is another sweet spot. In many cases, it makes sense for commodity functions like e-mail management and the help desk to be outsourced to a provider that focuses on that service for their daily bread. Does this mean these services are unimportant? Not by any stretch of the imagination. They are critical, but, as long as e-mail is available, it provides little or no strategic advantage over business competitors. Companies are starting to look at utility services in the same way as they see electricity. Just as most of us rely on the electric company to generate our power and the Post Office to deliver our mail, relying on an outside vendor to deliver utility services makes good sense, especially if the vendor can do it cost-effectively.

SaaS

SaaS is another option that can become a valuable piece of the service delivery mix. SaaS is a subset of outsourcing in which one or more services described in an IT organization's service catalog are delivered and supported by an outside provider. SaaS has some real advantages, especially for organizations with limited resources and expertise supporting multiple departments and a variety of applications. For a small to medium sized company, for example, the cost of supporting the customer relationship management (CRM) systems used by the sales team, the enterprise resource planning (ERP) software utilized by finance,

might have initially perceived outsourcing primarily as a tactic to reduce costs as opposed to a means to fundamentally transform their operations and drive dramatic improvements in efficiency, productivity and reliability. Lowes said that while there is no single right way to use outsourcing for each company, companies should examine the following aspects of an outsourcing deal to see if they need to correct their course even in midstream:

Did you clearly define the strategy? Companies need to ask themselves if they are outsourcing the right things for the right reasons. Transferring a dysfunctional operation to a vendor in hopes of saving costs through economies of scale or arbitrage can be a case of "your mess for less."

Do we have a solid foundation? Companies need to ask if they have defined and quantified what they expect from outsourcing. The creation of a business case and the establishment of effective service level agreements (SLAs) should not be given short shrift; but in practice this is too common.

Vendor selection now means something different. Companies need to select the right service provider, one that is capable of delivering strategic process improvements as well as cost reductions. When things do not go well in outsourcing, most companies automatically scrutinize the service provider, but do not recognize that their decision to select a vendor on cost alone may be the actual root cause of their problems.

Before striking the deal companies need to ask if their contracting process is mutual and flexible. Contract negotiation is a pivotal point in the outsourcing process. After the deal is signed, are you getting what you paid for? It can be tempting to think the signing of the outsourcing contract is the culmination of the outsourcing process. But in reality, effective performance management, especially the insistence that service providers actively search for, develop, and implement strategic improvements, is the crowning component of an effective outsourcing initiative.

Methodology

The survey included more than 300 senior executives at mid-size and large companies. The executives came from the United States (42 percent), the United Kingdom (25 percent), Germany (25 percent), and Canada (8 percent).

and the computer aided design (CAD) systems used by engineering can be exorbitant. Delivering ERP and CRM via SaaS could be a viable option, and one that reduces the services supported by internal staff from three to one.

Not to Be Confused

In addition to underestimating the management requirements of outsourcing, there are other "gotchas" as well. One is when outsourcing is combined with offshoring. There is a difference between the two.

Software companies of all sizes are offshoring programming to geographically distributed teams, with varying results. For example, IBM has opened dozens of development and competency centers across the globe. By and large, the people at these locations are IBM employees who just happen to work outside the U.S., offshore employees rather than outsourced services.

In contrast, outsourced programmers aren't employees, they are contracted providers. On the surface, it looks like outsourcing work to such programmers is cost-effective — wages can be as much as 80 percent less than those of their U.S. counterparts. However, multiple companies are reporting that, in fact, the "real" cost of offshore outsourcing approximates that of using in-country resources in the first place.

Recently, I spoke with an executive from a software company best known for its database management products. His company has been outsourcing programming work to Eastern Europe, but he indicated that, if he had it to do over, he would have kept the work within the Western Hemisphere.

He cited multiple problems. The time difference made it difficult for U.S. staff to collaborate with offshore resources. They ended up putting in long hours during the day, then putting in additional hours at night to meet with Eastern European personnel. Travel was a problem, both in terms of time and expenses, since there was typically a U.S. manager on-site. The trip required multiple plane changes and executives lost a full business day to travel. This particular company was happy with software quality, but multiple companies have reported quality problems that had to be fixed down the line.

> "In addition to underestimating the management requirements of outsourcing, there are other "gotchas" as well."

A Scientific Approach

Vital Roy and Benoit Aubert wrote an excellent analysis of the pros and cons of outsourcing in their paper titled, A Resource-Based Analysis of IT Sourcing. In the paper, they cited some of the less tangible outsourcing costs that, nevertheless, impact a company's short- and long-term revenues.

One is loss of competitive advantage. Especially in today's very competitive business climate, IT is increasingly a business differentiator. Far from Nicholas Carr's "IT is dead" philosophy, there are multiple companies in which IT is breathing life back into the business. We are especially seeing this in companies that have leveraged service-oriented architecture (SOA) to enable a level of flexibility previously unknown in the business world.

SOA has helped banks respond more flexibly to ever changing regulatory and customer demands. It has helped telecommunications companies to dramatically cut the effort required to bring new customers online. And it has enabled healthcare companies to develop new products, such as medical portals that connect pharmacies, medical records, and doctor's offices. The competitive advantage SOA brings with it is so marked that the world of business is increasingly being divided into technology "haves" and "have nots." The "haves" are well-positioned as industry leaders with a solid foundation for future growth. The "have nots" find themselves left behind and facing a gap that grows wider with time.

Loss of the ability to innovate, loss of confidence by high quality employees who have their choice of jobs elsewhere, and loss of brand equity can all be fallout from outsourcing critical business services. CIOs considering outsourcing would benefit from reading Roy and Aubert's paper, as it is well thought out and features a matrix that is useful for determining appropriate sourcing strategies for specific IT services.

Conclusion

Like any development in the IT industry, outsourcing has evolved to the point where, in many cases, it can provide significant business value. Like in any relationship, it appears the early excitement is giving way and IT is developing a more realistic perspective. They are seeing outsourcing as what it is: one of a variety of offerings that can be leveraged to provide high quality IT services to the business.

Developing a strategic mix of internally and externally supported business services is as much an art as a science. In the end, there is no substitute for good management, business-focused technology expertise, and keeping high-quality personnel and strategic assets in-house. ■

The Case for Nearshore Outsourcing

By Claudio Muruzabal

There is a common belief that businesses are better off if they turn over all of their non-core competency work to third parties. This idea has driven the growth of the multi-billion dollar IT outsourcing business. An alarming number of failed attempts at a "one-size-fits-all" approach, however, have shaken corporate faith in the traditional outsourcing model.

The initial concept of outsourcing proved no panacea. As it turned out, well-negotiated deals didn't generate the expected 25 to 30 percent cost savings. Unexpected situations drove additional cost; many of them coming from geography, time zone, and cultural issues.

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The next wave of outsourcing rose in the Far East, driven by the race to comply with Y2K adjustments. This then drove the emergence of software development and application maintenance companies. These new companies, based primarily in India, also promised large cost savings and resulted in the creation of a new industry segment.

Once again, these companies provided nothing new as they essentially made the same promises as earlier domestic outsourcers, but delivered services from thousands of miles away.

Sourcing — With a Twist

The new trend has returned control of core processes to IT leadership. This has resulted in the abolishment of the monolithic, one-vendor-fits-all outsourcing model of the 1990s and has contributed to the emergence of a multi-sourcing strategy where the enterprise contracts with multiple outsourcing vendors for their respective expertise in a given space.

The industry has now realized it is unrealistic to think one can hand over all of one's challenges to a third party and expect that automatically all of the problems will go away.

As such, over the last 18 to 24 months we have seen a new and refreshing trend in the marketplace where IT leadership is taking ownership of the delivery process;

"The initial concept of outsourcing proved no panacea. As it turned out, well-negotiated deals didn't generate the expected 25 to 30 percent cost savings."

contracting out only those pieces that lend themselves better to third-party services while retaining control of the strategy and overall execution plan.

As the industry moves towards a multi-sourcing model, the bid process has opened up to specialized outsourcers with a focus on infrastructure, telecommunications, business process, call center, and software development and maintenance.

IT execs also started to look for development and support capabilities close to their business centers, creating a network of suppliers in different geographies and with different technical expertise. This approach, now widely known as the global delivery model, opened the door to competition with the established Indian and traditional onshore providers.

Providers in Latin America and Eastern Europe are proving to be as well trained and cost effective as the Indian, Filipino, and Chinese providers but offer a closer-to-home delivery mechanism.

The Case for Nearshore

IT services provided from locations in Latin America and Eastern Europe are generally known as "nearshoring" services. A number of providers build software development, maintenance and support capabilities from these locations.

Although it is difficult to argue against the massive availability of talent and low labor costs in India and other locations in the Far East, there are a number of reasons that make nearshoring a more attractive alternative for many large organizations:

Time Zone: Nearshoring offers the alternative of having the developer, support organization, and user community working in similar time zones. This is a critical element in most engagements and could be a defining component in those cases where online interaction is a must.

Geographic Proximity: For most outsourcing deals to function properly, you need some measure of face-to-face interaction. This is as true at the project manager level as it is at the power-user level. Being close to your vendor gives your teams a chance to build chemistry, too.

Immigration Advantages: Of course, travel works both ways. A CIO who oversees a project that requires a mix of onshore-nearshore combination and rotational assignments will play host to visiting workers and need to understand the rules governing visas and any trade agreements.

The good news is, under NAFTA (North American Free Trade Agreement), flexible visa arrangements allow nearshore professionals to travel to the U.S. from Canada or Mexico to work for extended periods of time.

Intellectual Property Protection: NAFTA also provides for increased protection of intellectual property rights. This is a critical component when sensitive proprietary information needs to cross borders as a result of the nearshore engagement.

Cultural Affinity: There is more to affinity in a working relationship than language. When a country shares an extensive border with another and has a common history spanning more than 300 years, like the U.S. and Mexico, there are culture affinities that are strong. When it comes to building the necessary empathy to collaborate in a complex project, this affinity plays a critical role.

Cost Advantage: All of the previous advantages mentioned lead to an ultimate cost advantage for nearshore services. Proximity leads to more interaction at a lower cost allowing for project management to be more present in the project, and cultural affinity reduces the need to spend many cycles to reach a conclusion.

Time zone proximity eliminates the need to work extra hours. As a result of all this, the apparent hourly rate differential between nearshore service and traditional Far East-based service is eliminated and true cost converges.

It is cost advantages that are the ultimate proof-point for any outsourcing program. Nearshore services provide similar cost advantages to those in more far-flung areas of the globe. However, only those organizations that have experienced traditional Far East-based outsourcing know the impact of some of the issues outlined above. In fact, it is actual veterans of these wars that coined the concept of nearshoring being "India without the pain." ■

Five Things Every CIO Should Know About Outsourcing

By Sashi Reddi

If you go by Gartner, many U.S. companies need to seriously rethink their outsourcing strategies. Outsourcing has become so faddish there is a danger that companies may do so compulsively, with little planning or consideration of what it takes to successfully manage contracts, processes and goals.

While the initial driver for outsourcing is cost savings, there's a lot more success criteria that companies should be looking at. With outsourcing expected to continue growing, effectively managing these relationships has never been more important. Generally speaking, the pitfalls associated with outsourcing fall into three categories: geographical, infrastructural, and operational.


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In terms of the geographic location of the outsourcing firm, companies can run into language problems, accent problems, political instability, changes in laws and regulations, labor laws, and cultural issues. Geography is also a root cause of infrastructural problems that can occur in the form of poor communication infrastructure, disaster recovery capacity, power generation capacity, and non-renewable resources availability.

While these setbacks can be overcome by choosing one geographic target over another, it is fundamentally the operational problems that make or break the success of an outsourcing engagement.

Mismanagement on the operations front can make even the most carefully thought-out outsourcing plans go awry. Whether you are re-evaluating your outsourcing strategy, expanding it or considering it for the first time, here are five things every CIO should know about outsourcing.

Evaluate the vendor's processes. Operational problems start with processes. Consequently, you need to ask a lot of questions about the vendor's processes, best practices, and the levels of quality control in place.

Being SEI or ISO rated is often used as a selection criterion. However, these measures of quality are evolving. The SEI capability maturity models (CMM), for example, have been upgraded in the last few years. While these ratings are important, it's more critical that

> Generally speaking, the pitfalls associated with outsourcing fall into three categories: geographical, infrastructural, and operational.

you ask when and how the company was assessed and by whom.

Interview the relationship manager. Too often, companies enter an engagement without fully understanding the processes that will drive the relationship.

It is critically important that you find out in detail how your organizations will engage with each other, what workflow entails, the points of contact and communication and reporting processes. Interviewing key project personnel eliminates unwanted expectations and surprises. Moreover, it clarifies the overall business goals.

Insist on a risk mitigation plan. Any outsourced services firm that takes its reputation and client satisfaction seriously will not balk at putting a risk mitigation plan in place. In fact, this should be a standard practice but it's simply not quite the reality today.

Such a plan should address issues from risk identification, risk analysis, risk management, risk resolution, and monitoring. The plan should assign tasks and responsibilities to the people involved in the project.

You should also be aware of the techniques that will be used to identify risk factors at the beginning of the project and on an ongoing basis. Techniques may involve risk assessment workshops, brainstorming sessions, and interviews at the beginning of each lifecycle phase.

Factor in the costs of internal management. There is a tremendous amount of project overhead that is required to manage just one outsourcing relationship. You have to travel, deal with conference calls outside of the usual business hours, and doublecheck the work three or four times over.

Every deliverable needs to be reviewed and cross-checked to make sure the vendor is telling the truth. Because vendors want to get their payments, they often try to deliver as fast as they can and invariably, quality will sometimes suffer.

The time difference can significantly change the rhythm of your business, or at the very least, the team or department responsible for an outsourcing project. This becomes an overhead because people get burned out. Companies need to understand this cost and sufficient-

Overseas IT Outsourcing Rates Remain Low

By CIO Update Staff

Despite the attention focused on the outsourcing of technology jobs overseas, a survey by Robert Half Technology shows that the majority of U.S. companies are not engaged in the practice.

Ninety-four percent of chief information officers (CIOs) surveyed said their company does not outsource information technology (IT) jobs outside the United States. Among companies that once sent IT jobs overseas but discontinued the practice, nearly six-in-10 (59 percent) respondents cited management challenges as the top reason. These percentages appear unlikely to change significantly in the near future, as most survey respondents expected a continuation of the status quo.

"Challenges such as language, culture, and time-zone barriers can sometimes outweigh the potential benefits of outsourcing," said Katherine Spencer Lee, executive director of Robert Half Technology, in a statement. "Smaller companies, in particular, may lack the resources to commit to an effective long-term offshoring strategy."

The survey shows that large companies (those with 500 or more employees) are much more likely to engage in overseas technology outsourcing than small ones (those with fewer than 500 employees). In companies with more than 500 employees, 11 percent of CIOs reported that they currently engage in outsourcing, compared to five-percent overall.

"Researching viable vendors, and teaching them about the company and its products, management style, and quality control require a substantial investment," continued Lee. "Large companies may be better positioned to absorb the costs of both initial setup and ongoing oversight, and to benefit from economies of scale."

In the near future, growth in offshore outsourcing is likely to come primarily from companies already outsourcing, not from those that are new to the practice. Forty-three percent of respondents from companies that currently engage in offshore out

continued

ly communicate this internally.

Remember, this is a partnership, not a customer-supplier relationship. The most successful outsourcing relationships are those built on a partnership.

Talk to the firm's other clients to find out how aggressively they have to renegotiate contracts. Companies should look for a partner that meets their needs without looking for excuses to re-price services at every opportunity. Since partnerships foster a sense of respect, trust and responsibility, it is important for you to select companies that have satisfied a similar-sized organization.

Whether outsourcing is done offshore or domestically, it is all about efficiency. That is, creating leaner companies that can focus on their core competency or, as Jack Welch explains it, "Move up the food chain," and thereby be more competitive in the market.
Taking these five basic things into consideration will help companies get off on the right track with their outsourcing strategy and maintain successful, long-term relationships.

sourcing said they plan to increase their level of offshore outsourcing in the next two years, versus 13 percent who said they expect levels to decrease.

According to the survey, management challenges are a common obstacle to successful offshoring. More than half (59 percent) of CIOs whose companies had stopped offshore outsourcing cited management and oversight requirements among the reasons they had done so. Unrealized cost savings and quality control also were factors, cited by 30 percent and 23 percent of respondents, respectively.

For firms contemplating offshore outsourcing, Lee pointed out some strategies to consider:

- Look for stability. Choose a vendor that has a track record of measuring staff turnover and retaining employees. Seek a company that has a succession plan in place, as well as defined career paths for their IT professionals.

- Setup time and costs. New jobs or even departments may need to be created to handle vendor selection, manage contracts, train workers, and oversee remote work teams.

- Management challenges. Dispersed IT work teams may require a different level and type of oversight from management. Consider offering training for managers who will lead overseas teams and will likely be managing individuals who may be very different from them, in terms of culture, background and experience. Some companies may find that they need a full-time project manager to oversee the offshore vendor.

- Security and privacy concerns. Intellectual property risks such as the enforcement of patents, copyrights and trade secrets may require additional oversight and resources. Benchmark best practices in the areas of security and proprietary technology, for example, from similar companies that have done it successfully.

Outsourcing: SMBs are Doing It, Too

By Larry Marion

Forget for a moment the tainted pet food, contaminated seafood, poison paint on kids' toys, irate customers frustrated by unintelligible customer service reps, and other problems associated with outsourcing functions across borders. The reality is that most companies – especially small and medium sized organizations – are becoming increasingly reliant on collaboration with third parties around the world. This rise of globalization demands that IT managers and professionals rethink how they are going to service their users.

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An e-mail survey and in-depth telephone interviews of more than 350 CEOs, CFOs, CIOs, COOs, and other senior executives of North American companies found a striking change in the extent of collaboration with third parties in Brazil, China, India, Russia, Taiwan, Vietnam, and elsewhere. While the percentage of operations outsourced by companies with less than 1,000 employees is relatively low right now, it is slated to roughly triple by 2011 (see figure 1 next page: blue bar is today; yellow bar is 2011).

The January 2008 survey, sponsored by business software vendor SAP, found a variety of reasons for the increased reliance on overseas collaboration. The motivation goes beyond the labor cost arbitrage. Access to additional skill sets and ideas is a prime motivator, and access to new markets is increasingly seen as a key reason to seek out overseas partners.

Interestingly, many C-level officials say overseas suppliers enable them to provide higher quality products and services to their customers, though they rated quality as the highest risk of collaboration.

Another key aspect of the rise of collaboration is the broad-based nature of the efforts in the future. Organizations are not just looking for low cost manufacturing help. As the table below shows, small and medium-sized companies are going to increasingly rely on offshore collaboration for R&D, marketing, sales, customer service, and human resources support as well (figure 2).

Outsourcing More Than Just IT

Organizations with less than 2,500 employees are already collaborating with external partners for most corporate functions to a modest extent, but more will be relying on others for a substantial extent in the future.

“The reality is that most companies – especially small and medium sized organizations – are becoming increasingly reliant on collaboration with third parties around the world.”

Figure 1

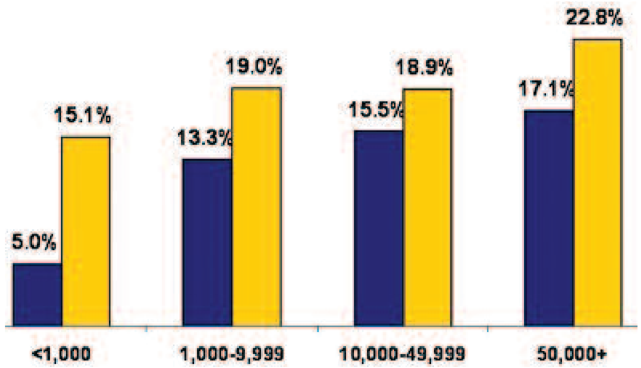

Figure 2

Function	Now collaborating with third parties	Collaborating with third parties in 3 years
R&D	60%	65%
Manufacturing	45	50
Logistics	60	65
Distribution/channel	62	65
Marketing	62	70
Sales	54	62
Customer service	47	61
Human resources	52	60

Source: BusinessWeek Research Services

While the C-level execs are intent on increasing the number and extent of their collaborations with other companies, they're not exactly sanguine about the level of support they're getting from IT. Indeed, the survey indicates that only half of the respondents are satisfied that their IT infrastructure can support the extent of collaboration incorporated into their strategic goals for the next three years.

IT Doesn't Satisfy Most Collaboration Needs

More than one-third of C-level managers say they're dissatisfied with the level of collaboration support from their IT infrastructure expected in three years:

- Very satisfied: 13 percent
- Moderately satisfied: 39 percent
- Neither satisfied or dissatisfied: 18 percent
- Moderately dissatisfied: 21 percent
- Very dissatisfied: 8 percent
- Don't know: 1 percent

How to Get Ahead of the Collaboration Demand

IT managers should view the growing need to support collaboration as a multifaceted opportunity. The C-level interest in improving the ability of IT to enable collaboration gives you a chance to clean up some long standing architecture issues. In addition, collaboration is the excuse you've been looking for to get involved in the new generation of Web 2.0 technologies.

Understand that one of the biggest barriers to successful collaboration is complexity. Having too many systems and too many processes is the bane of any collaboration effort, especially if they're not based on industry standards and best practices. Time to clean the IT house.

If your organization has too many databases, too many ERP platforms, an applications portfolio census that goes beyond 100 and other examples of excessive technology overlaps, now you have another argument to begin the consolidation.

And while you're thinking about simplifying your IT architecture, collaboration is a great door-opener for a services oriented architecture discussion with your CFO. Depending on the size of your organization, SOA provides an ideal platform for providing secure access to information, systems and processes that should be shared with external organizations.

Simultaneously, you need to provide a pallet of Web-based collaboration tools and choices. Relying on a virtual private network (VPN) as a gateway for external individuals to gain the appropriate access to key systems takes too long and costs too much. You need to move quickly and inexpensively.

Think corporate use of wikis, social networking tools, blogs, and other Web 2.0 tools as key building blocks of a collaboration tool set. The criteria include easy to use, easy to manage, easy to deploy and low cost, since there are a wide variety of individuals now involved in collaboration with third parties. ■

This content was adapted from Internet.com's Datamation and CIO Update Web sites. Contributors: Lionel Carrasco, Sashi Reddi, Claudio Muruzabal, Julie Craig, and Larry Marion.