

# It just makes **business sense**

Outsourcing saves companies time and money, and the recession is driving it

BY MIA ANDRIC

**GARTNER ESTIMATES** "that 70% of IT support for infrastructure services can be performed from a remote location" and "remote infrastructure services can reduce labour costs by 10% to 50%, depending on the delivery location, resulting in a 3% to 30% overall net savings, excluding one-time transition charges". Attractive numbers.

For companies that don't have the resources the largest operations do – yet have all the pressures and headaches – this type of managed infrastructure service offers the potential of improved performance and lower expenses, which is a great concept regardless of a company's size. Jaroslav Cerny, MD at RDB Consulting, points out that outsourcing has been gaining popularity recently, mainly due to its effective 'pay as you go' model. "Outsourced and managed services are an attractive alternative to companies that are hard-pressed to find skilled, technical resources and need to lower costs. These services offer a cost-effective 'pay as you go' model for businesses with agreements in place that determine the response time and expected levels of service," he says.

Basically, the outsourcing model offers access to skills, resources and experience that would not otherwise be available to many organisations because of the financial outlay that would be involved in building these specialised proficiencies in-house. This is especially appealing in light of the current global economic downturn.

## RECESSION = CATALYST

"Businesses that are moving to outsourced managed services are looking to lower capital costs, focus on their core business, leverage off experienced knowledge, gain further cost benefits from their IT infrastructure and improve integration to maximise return," says Rabin Ram, divisional director for Xerox Global Services at Bytes Document Solutions.



JAROSLAV CERNY

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—ADI LESHEM

He says that when times are good, companies are better placed to foot the bill for ownership, keeping everything in-house, and retaining control. In times when every cent counts, organisations are well advised to turn to professionals just as they would focus within their organisations on what they do best for their own customers. In return they get the best experience, which leverages experiences globally from international organisations, the collaborative benefits of people working on multiple projects or sites, and the replication of best business practice. "They also get the flexibility of complete solutions broken down into modules, which makes it easier for them to understand and evaluate how customised solutions will benefit them or solve their business problems. There is also the advantage of volume buying power that a single, large service provider can deliver due to economies of scale," he adds.

Adi Leshem, corporate business development manager for ECI Telecom, agrees that the current market situation has made managed services even more appealing than before. "It presents to the customers the opportunity to share risks on one hand and reduce costs on the other," he says.

"Managed services has the potential to reduce costs of existing operations by turning to vendors who, because of specific expertise, can offer the same services in a more efficient manner. It can also support future business development through models of risk sharing which attach pricing to future growth, or deliver services based on the business development needs."

William LaFontaine, IBM general manager of Global Technology Services, adds that controlling costs has always been a key factor in making business decisions, and nowhere is that more prevalent than in the IT department – where a rand saved on operations is a rand that can be invested in more strategic projects. He feels that a solution to the challenge of optimising



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WILLIAM LAFONTAINE

IT operations while balancing budgets may be a creative approach to IT management – remote managed infrastructure services – that keeps control in the CIO’s hands and frees up IT staff to focus on growth areas for the business, yet offers the potential for both reduced costs and improved service levels, too.

**AVOIDING THE PENDULUM**

The risk pendulum, however, can swing both ways when it comes to outsourced managed services. Themis Themistocleous, chairman of IndigoCube, explains that the swinging of the pendulum is a common occurrence: “Businesses have problems, so they look to outsource whatever it is that’s causing them pain. This leads to other problems, so they invariably go back to insourcing, and the old problems resurface.”

This view is shared by Daniel Nel, CEO of Nebula. He says that any organisation looking to outsource any area of its business must make sure their environment is clean, and that the handover is done properly. Ram points out that it can be risky for the customer if the supplier is not chosen well and cannot then deliver the service as originally envisaged and detailed in the service level agreement. “It is therefore of vital importance that any potential solution provider’s track record credentials are comprehensively researched,” he says.

One potential solution to the risks involved in outsourcing is doing it in bite-sized chunks. Rob Kimmings, general manager of business operations at ALIndigo, says that completely outsourcing an IT department can be risky, and suggests managed services of certain areas as a better option, avoiding having companies put “all their eggs in one basket”. Marc Pillay, divisional manager: Best Sourcing at Konica Minolta South Africa, points out that, particularly in light of today’s bleak economic forecast, companies should look to approach outsourcing or “out-tasking” from the perspective of outsourcing a single function at the beginning. The customer can then expand the number of tasks outsourced and appoint an official outsourcing partner as needed.

Despite the potential problems that can arise for companies outsourcing non-core activities, by opting for managed services, businesses can get

**Essential outsourcing checklist**

Top 10 considerations when selecting an outsourced partner

Jaroslav Cerny, MD at RDB Consulting, points out that negotiating the minefield of outsourcing providers and outsourced offerings – and selecting the one that will work best with your organisation – can be challenging. “Taking certain key criteria into consideration when assessing an outsourced service can be advantageous,” he says. These include a review of the following:

1. Appropriately skilled technical staff
2. Multi-platform, multi-operating system support
3. Pre-define the services offered, and how they are delivered
4. In-house developed, proactive monitoring and alerting tools
5. Implementation of industry standards and best practices
6. Service level management
7. Regular management meetings
8. Strategic partnerships with software vendors
9. Comprehensive documentation
10. Achieving a significant ROI

the solutions they need when they don’t have the necessary capex (capital expenditure) for an in-house solution and are lacking the internal skills. The biggest barrier, according to Mark van Rensburg, executive: Managed Services of the Intuate Group, is a mistrust of the outsourcing model, but this barrier is steadily being eroded by every business sector and most organisations feeling some level of added pressure as a result of the economic situation.

# Hand in hand

A carefully crafted SLA is the key to a successful outsourcing partnership

BY MIA ANDRIC

**OUTSOURCING IS OFTEN** perceived as risky – mainly due to many companies having tried to outsource too much, too soon in the past, resulting in unmet expectations and poor service experience. According to Datamonitor, between 25% and 40% of outsourced services are seen as failures by the company using them. Simon Abrahams, head of product marketing for EMEA at Rackspace Hosting, says: "This is alarmingly high and is probably the major reason that companies now look to recognised international outsourcing and managed services providers."

Mark van Rensburg, executive of managed services at the Intuate Group, points out that people use the word outsourcing too often and in the wrong context. "At the executive level, people often don't understand what it is, and many vendors are selling the wrong thing labelled as outsourcing," he adds.

For these reasons, the area where outsourcing is most likely to fail, is the one that forms the backbone of the outsourced model: the service level agreement (SLA). Van Rensburg feels that when SLAs are put in place, they are generally quite loose, leaving the door open to a number of problems – an opinion shared by most outsourcing practitioners, specialists and vendors.

## MORE THAN AN AGREEMENT

Themis Themistocleous, chairman of IndigoCube, says that the outsourcee needs to know that he is receiving what he paid for, and points out that there is software available to manage service levels. "The first part of any outsource agreement is contract management," he says. "In most cases, there is contention around contracts. The way to keep the customer happy is to meet the agreed upon KPIs, but communication is usually the problem." He adds that what companies think they have told their outsource service provider is often not exactly what they get back. For this reason, the specifications in the SLA must be written to finest detail.

Raymond Watt, MD of REO Consulting, says a carefully crafted SLA helps to



MARK VAN RENSBURG, EXECUTIVE OF MANAGED SERVICES AT THE INTUATE GROUP

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—SOURCE: DATA MONITOR

protect both parties. "Effective SLAs are extremely important to ensure effective outsourcing engagements. The metrics used to measure and manage performance to SLA commitments are the heart of a successful agreement and are a critical factor in long-term success," he adds.

Watt believes that SLAs force providers to prove themselves constantly, and says their historical successes mean nothing within the framework of adhering to service levels on a daily basis. "By measuring and communicating tasks and incidents, the risk of service level failure will be greatly reduced, and you can truly start to build a relationship with your client – for life," he says.

And understanding the outsourcing partnership is key to successfully negotiating an effective SLA. Ryan Lawlor, general manager: BMC at AL Indigo, says that the industry is reaching a stage of maturity in the implementation of outsourcing that Rob Kimmings, general manager: business operations at AL Indigo, adds is about understanding that the relationship is an extension of a company's business.

According to Hubert Wentzel, divisional director of EOH Consulting, outsourcing is not just a contract between two parties. "It is a relationship, which has to be managed from day one. Successful outsourcing relationships require a lot of professionalism and good management. Management is so important because it ensures maximum value from the investments made and enables the business to provide world-class services to its customers."

## MANAGEMENT, MANAGEMENT, MANAGEMENT

"Effective management is critical in outsourcing because most contracts require multiple service providers to deliver their expert contribution to the overall deal," says Amir Lubashevsky, executive director of Magix Integration. "When everyone does their job effectively, the outsourcing deal runs smoothly. When someone rocks the boat, however, things go wrong and the service providers often end up blaming

each other for the problems they face. And this is an easy game when some responsibilities overlap.”

Taking charge of the situation is no simple matter for the customer as these relationships are complex and convoluted. Lubashevsky adds that the only way to gain real control is via a management tool that audits each action taken by service providers on the company’s infrastructure.

For his part, Marc Pillay, divisional manager of best sourcing at Konica Minolta, feels that a single provider is critical for companies considering outsourcing. “Once a technology partner is officially appointed, specific SLAs negotiated by both parties can be put in place to ensure accountability and measurability, as well as enabling the client to monitor and manage as needed,” he says. He adds that in order to find the right outsourcing partner, a business must evaluate each candidate in terms of having the right “pedigree” and experience, a solid understanding of the market, financial stability, good references and a national footprint.

Similarly, Van Rensburg points out that it is a challenge for organisations when they end up with different vendors for hardware, software and other services and then still need to find staff to tie everything together and operate the solutions. And whenever there is a problem, companies have to deal with four or five different parties, with each one passing the buck. He says that it is necessary to find a managed services partner who can put together one solution, resulting in one port of call.

## ALL ABOUT THE CHOICE

So choosing the right managed service provider is vital. The criteria that can be used to make the choice vary from company to company, but there are some common characteristics businesses should look out for.

Van Rensburg believes that when evaluating managed service providers, businesses should consider the three V’s: visibility, vendor independence and the vetting of solutions. “It is crucial for companies considering outsourcing to have absolute visibility and to know exactly what will be provided to them and how it will be delivered. Especially in the current tough economic times, they need to know upfront how much they will be paying and what they will get in return,” he says.

According to Jaroslav Cerny, MD of RDB Consulting, one of the fundamentals

in selecting your outsourced partner is to ensure that all technical staff are appropriately certified according to their level of experience and position. “Outsourcing to a partner with a varied level of staffing that can be matched to the appropriate task ensures that your business has access to skilled staff without a significant capital outlay. This also provides peace of mind as you can rest assured that the staff working on your project are competent,” he says.

He adds that the implementation process should be standardised and clearly defined from the beginning. “This forms part of the ‘value add’ consulting service that an outsourced partner should provide. In fact, advising the client of what must be standardised, implementation best practices and the benefits thereof is often regarded as a critical mini-project. As different industries have different best practice standards, it is important for your outsourcer to have a broad knowledge base from which to work. Best practice is not a one-size-fits-all solution, and service delivery must be tailored to suit the needs of the client and their industry, using best practice and industry standards that comply with ITIL and ISO9000 standards.”

While outsourcing business processes may sound like an easy way to cut costs, hiring a service provider doesn’t abdicate your responsibilities to your own customers. Safeguarding the guarantee that the vendor provides an appropriate level of support is paramount to the success of your investment. According to Grant Morgan, CTO of data centre and storage solutions at Dimension Data, it takes a large organisation with a lot of resources, not just a handful of clever guys. “Decide on your objectives. Ask yourself why you want to outsource, and once you have a clear understanding, that needs to translate right down to deliverables,” he advises.



RAYMOND WATT, MD OF RED CONSULTING



AMIR LUBASHEVSKY, EXECUTIVE DIRECTOR OF MAGIX INTEGRATION

## Bear in mind...

Points to remember when considering outsourcing or managed services:

- Outsourcing should never get between you and your customer. Access to your firm anywhere, anytime, any way should be built in.
- Be honest when assessing your current strengths and internal costs.
- Performance standards and business metrics should be established and measured (balanced scorecard). Establish clear expectations and performance standards up front.
- An outsourcing relationship should increase your flexibility or market extension and product expansion, including the ability to respond quickly and efficiently to changes in customer and market requirements.