

IT Outsourcing is not about Cost Savings

The driving forces of change are the speedier, more efficient and more agile delivery of services that transform the business. This is having a huge impact on the way IT professionals and business leaders see the role of outsourcing in helping their organizations transform to become digital businesses.

March 10, 2016

Early in 2014, market researcher IDC asserted that chief information officers had to jettison their old roles of technology overlords in favor of becoming leaders of digital business transformation. But two years later, IDC pointed out the stark reality: "While many CIOs have embraced this change, there are still a large percentage that will benefit from evaluating their organizations as well as their relationship with the business counterparts as they continue on this journey."

It is more than a bit remarkable that so many organizations still struggle to understand how to use technology to improve service delivery and enhance business outcomes. Consider that:

- Only 8% of IT spending is allocated to IT innovation.²
- Fewer companies are committing to year-over-year IT spending increases in 2016 than in previous years.³
- Just 15% of line-of-business respondents to an industry survey said they were completely satisfied with IT's speed of delivering new applications or services.⁴

At the heart of many organizations' struggles to optimize the use of technology is how they have utilized outsourcing as a business strategy. Unfortunately, too many organizations are bogged down by an antiquated and inefficient vision of outsourcing as a sourcing strategy designed solely to shave labor costs. This is a major blind spot. It's more than startling that some organizations still sign 5- and 10-year outsourcing contracts centered only on moving labor-based activities to offshore locales, which incents the outsourcing supplier to maintain the status quo,

¹ "The Changing Role of IT Leadership: CIO Perspectives For 2016," IDC, December 2015

² "Here's What Your Tech Budget is Being Spent On," ZDnet.com, November 2014

³ "2016 IT Salary and Spending Report," Computer Economics, December 2015

⁴ "IT and the Business are Finally Aligned: So Why is No One Happy?" Vanson Bourne study conducted for Computer Associates, December 2014

deliver less innovation, and minimize the number of services—not to help realign the IT activities towards driving business value.

Innovative and truly successful organizations, by contrast, see outsourcing as a way to enhance service delivery, speed time to market, accelerate implementation of new technologies, foster innovation and make smarter decisions.

At the end of the day, outsourcing should be about one thing:
Enhancing shareholder value.

Shareholder value is narrowly defined to initiatives that increase revenue, eliminate cost, mitigate risk, and/or are required for regulatory compliance purposes. Beyond shareholders, there are numerous constituencies that can and should benefit from a strategic, value-based approach to outsourcing, including customers, company employees, trading partners and any other organization whose business intersects with those of the organization.

That's why the most successful executives at the most forward-thinking organizations see outsourcing not as a cost-reduction strategy—frankly, that ship has sailed—but as a vehicle and catalyst to transform the organization into a digital business.

Changing the Rules of the Game for IT and Business Leaders

In today's business environment, the emphasis has shifted from cost to speed—speed to market, speed to value, speed to ROI and more. That's because labor-centric outsourcing and other initiatives have done their jobs at wringing cost out of business operations, but those cost-savings initiatives have largely plateaued.

Instead, organizations have shifted into a mode that places far more value on agility and flexibility, not wanting to be locked into old business models, lengthy contract terms,

vendor relationships or other restrictions that limit their ability to move as fast as new technology allows them to go. After all, it wasn't long ago that organizations were debating how aggressively to embrace trends like cloud computing, layered security, enterprise mobility, BYOD policies or virtual workspaces.

Business leaders and their IT counterparts place a premium on avoiding vendor lock-in, whether that vendor is providing IT outsourcing services, data center infrastructure, cyber security defenses or mailroom services. Today's market is a buyers' market – contracts are more flexible than they have ever been and termination costs are only a fraction of what they once were (if they exist at all). Multi-supplier models further mitigate risk in a sourcing delivery model. If a provider doesn't live up to business-impacting service levels, they can and should be replaced by a better supplier—

ideally, one with a partnership mentality and a shared vision for how to measure mutual success, at no cost to the client.

When the business focus shifts from cost savings to creating shareholder value, the nature of relationships between organizations and their service providers moves away from contract terms and service-level agreements to one where everyone collaborates on how to define and deliver higher levels of business value. It repositions the outsourcing provider from transactional vendor to strategic partner.

Instead of trimming costs—and having suppliers manage to contract terms rather than finding ways to deliver innovative services faster—IT and business executives have reoriented organizational priorities. And this reorientation affects every trading partner and service provider with which the organization does business.

How IT Has Impacted the Role of Outsourcing

Organizations' relationships with outsourcing partners, in particular, have to endure a wake-up call. Business executives obviously want to see financial improvements, and expect their CIOs and IT partners make that a reality. But now those financial improvements have to embrace a far more expansive and strategic issues designed to drive higher revenues, as well as keep costs under control. As an example, the delivery of automation capabilities becomes less about reducing headcount to manage transactional tasks, and more about improving the customer experience.

IT organizations need to ensure that their outsourcing partners are, in fact, true partnerships in delivering services and advancing the goals of the business.

After all, IT leaders don't really place a lot of value on lower-cost ways to write software code or determining if help desk calls should be answered in Bangalore or Minsk. What they do care about is how technology partners help them to make a positive impact on the business, to deliver new and better services—fast—to employees, trading partners and customers.

The "democratizing" of technology through trends like BYOD, public cloud services, Web-hosted applications and app stores has empowered end-user groups to become well-informed, highly motivated consumers and shapers of IT services. This, in turn, means that IT organizations need to work more closely with outsourcing partners to come up with new technology frameworks that result in innovation, improved service delivery, faster time to market and achieving mutually agreed-upon business goals. Running the business is no longer sufficient – the outsourcing model must enable transformation in the business.

Of course, IT departments must insist that their outsourcing partners do that without locking the organization into tangible or intangible penalties should the need for change arise. That means the ability to switch technology platforms, expand cyber security defenses, change application delivery methodologies or quickly adopt new tools for transformative workloads, such as analytics, automation, or to address the Internet of Things.

What to Look For in an Outsourcing Partner

Not every outsourcing vendor has the skills—or even the inclination—to become a true partner in business transformation. That puts big pressure on CIOs, IT leaders and business executives to do their due diligence in thoughtful and thorough evaluation of those partners and their skills.

Here are a few things IT and business decision makers need to keep in mind when looking for this new kind of outsourcing partner:

- **Technology skills are table stakes; be sure to get the right ones.**

Technical skills are important, but technology no longer differentiates companies or their service providers. Be sure they have deep skills in the right kinds of “new” technologies, not just armies of COBOL programmers or mainframe administrators. Those aren’t the tools of transformation. The new technology weapons in business transformation are tools like Hadoop, Spark, enterprise mobility management, hybrid cloud, threat intelligence, robotic process automation, and software-defined infrastructure. Be sure your outsourcing partner has a demonstrated competency to walk that walk.

- **A bias for strategy, an eye for business transformation.**

Your outsourcing partner has to lead with a solution that is laser-aligned to your business strategy and transformation objectives. If your preliminary research of their capabilities, or your initial conversation with their team, doesn't talk about how they have helped organizations morph into sleek, agile and visionary players that compete in new ways walk away.

For others that make the first cut, keep your eyes open for real-world success stories that are relevant to your industry, business model and market challenge. And find out where their consultants cut their teeth and achieved business breakthroughs for their clients. You don't want to be anyone's guinea pig when they are trying to become the next management consulting guru.

- **Outsourcing as business strategy, not procurement exercise.**

Your next outsourcing engagement needs to center on strategies for improved service delivery and architecture reengineering as part of a broader business transformation strategy. As such, it's an executive-level and technology engagement, not a job for your purchasing department to tackle alone.

- **Turning the traditional outsourcing model on its head.**

Put aside old models like long-term, fixed-rate contracts based on cost reduction in favor of business-oriented metrics that encourage service development and delivery.

At the heart of this approach is an understanding that IT, and the delivery and consumption of IT-based services, no longer is the sole domain of the IT department. IT is now owned by the business. Outsourcing must be a deeply collaborative process among IT, business stakeholders and the outsourcing partner.

This puts the IT executive in the critical role of service broker and business unit confidant, not a manager of programmers and tech support staff. Remember: You want to do more than simply embrace change for your organization—you want to accelerate it. Be sure to do business with an outsourcing partner willing and able to do the same.

CONCLUSION

The irony of IT outsourcing is that taking an approach that drives alignment with business requirements, transforms the state of IT, and changes the “work” that is being done not only produces better service levels but also delivers exponentially greater cost savings. Taking an approach from a transformational mindset will best enable the IT and sourcing leader to deliver true business value.

About Co-Author: WGroup

Founded in 1995, WGroup is the preeminent sourcing advisory firm for creating IT sourcing models that directly impact business outcomes. WGroup believes that sourcing is a vehicle for transforming the reference architecture and restructuring the service delivery model to take advantage of new capabilities. Today, these capabilities include cloud, automation (RPA), multi-sourcing strategies, and other advanced capabilities of the digital enterprise. In WGroup's view, sourcing is only successful when it makes a tangible impact on business performance.

The firm supports clients through renegotiations and restructuring of existing sourcing agreements and the creation of new sourcing strategies from strategy development, through provider selection, to transition and vendor management. Over its 21 year tenure, WGroup has advised on some of the most complex and transformative deals in the industry and has a reputation for continually delivering market-leading results in its clients.

At its core, WGroup's chief differentiator is its people. All of WGroup's Principal Consultants have formerly held CIO and senior IT executive roles and are bound by a passion for delivering high quality, professional, fact-based, and results-driven work.

In addition to sourcing advisory activities, the firm has a robust IT Transformation and Management Consulting Practice that assists IT leaders with aligning IT towards business outcomes. Much of this activity is centered on IT strategy, merger and acquisition integration, operational improvements, and tackling complex IT issues. WGroup works across all industries with some of the most forward-thinking IT and business leaders in the world.

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