The IT Outsourcing Research Report

The Services that Payoff & the Ones that Do Not

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A Research Report by
Park City Research

1.0 Executive Summary

The Challenge

Savings Needed Now

- For most organizations, IT budgets are flat, declining, or minimally increasing, and few are reporting significant increases.
- "Available" IT budgets are shrinking: existing systems, new technologies and day-to-day care and feeding consume growing budget portions.
- Needs are growing for new systems/ enhancements to gain a competitive edge.
- IT must adjust to the do-more-for-less world of the global economy.
- IT urgently needs some quick payback solutions to control costs, boost service and especially to free up critical technical resources, moving them away from low-level tasks and making them available for higher-priority activities.

The Opportunities

Close-to-the-Technology

- Since many IT initiatives have longer term paybacks, close-to-the-technology solutions are frequently investigated for shorter-term payback.
- Organizations have been leery of outsourcing due to cost and quality tradeoffs, the increased risks, and the less-than-anticipated cost savings.

Emerging Infrastructure Management Services

IM Could Be the Answer

- Infrastructure management (IM) services have emerged as an appealing form of outsourcing.
- Common IM services include: network monitoring, security monitoring, PC help desk or database management.
- Key benefits of IM services include: quick payback, enhanced service, comprehensive automation, and consistent high service levels.
- IM service providers are easier to evaluate and select because they deliver a well-defined service to a broad customer base.

Strategies for Success

Focus on Service

- Reducing costs is always a primary objective. However, narrowly focusing on costs alone can backfire: eroding service, increasing risks and, in the end, realizing less than the anticipated cost savings.
- IM services appeal when targeted towards operational activities that can be automated and managed through consistent processes.

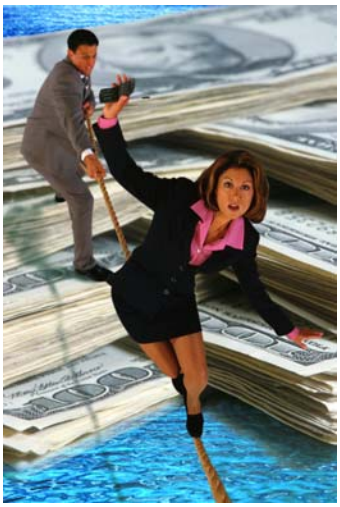
Database Management Emerges as a High Payoff IM Service

Remote Database Administration for Quick Payback

- Many companies outsource PC help desk, network monitoring or security monitoring. These can be good starting points for IM because of the scale offered by providers to more cost-effectively perform these commoditized services.
- Remote database administration (rDBA) is rapidly being recognized as a fertile area for quickly realizing high payback. Data is a valuable corporate resource, yet senior technical resources are often consumed with low level, operational data tasks.
- By leveraging rDBA services, companies can quickly boost service levels, maintain predictable performance and cost levels, and immediately redeploy headcount to more strategic activities.

2.0 The Challenge

For decades the role of IT was to leverage the business in its ever-increasing quest to "do more for less." Early IT initiatives added efficiency by automating previously manual tasks – the same business function now performed cheaper, better, and faster. More recently, IT initiatives have stepped up to help do business differently by driving business performance to the next dimension.



The pressures of the global economy remain relentless. Now "do more for less" increasingly applies to IT itself. Gone are the days of significant year-over-year IT budget increases. For most companies, budgets are keeping pace with inflation at best – the current recession resulting in budget cuts in many cases.

More troubling, companies report that their "available" budget for new competitive edge capabilities is actually shrinking. This decrease is reflected in the nearly flat total budgets combined with the growing share that legacy systems are consuming of existing budgets. The costs of operating, maintaining, integrating, and upgrading existing systems (fees to vendors plus in-house costs) vary from a low of 40 percent to a high of nearly 100 percent, but was most commonly 80 percent of the budget. Thus, the ability for IT to make a difference with high impact, new systems or system extensions is increasingly constrained.

The following study presents the enterprise IT strategies for "do more for less," what alternatives are being considered, how alternatives are assessed, and what strategies will be effective. The results are based on the survey responses of IT executives across corporate America.

The initial responses on how to cope with a do-more-for-less world identified three areas of interest:

- **Longer Term Solutions** – These are mainly focused on technologies and architectures, such as cloud computing, .NET, and service oriented architectures (SOA). Even well into the implementation and deployment of these solutions, respondents generally conceded that the full benefits from strategic architectures is often well into the future.

- **Medium Term Solutions** – These are mainly focused on adding automation layers to existing technologies, such as security information management or network management technologies. However, unforeseen and unpredictable issues keep most companies from realizing the full benefit of their current automation-layer technologies, let alone seeing benefits in new offerings.

- **More Immediate Solutions** – Respondents identified "service" and "operations" as the primary source for more immediate solutions. Short-term technology solutions often become medium- or longer-term solutions because it often takes much longer to fully realize benefits from self-implemented solutions. Quick savings can come from operational outsourcing, whereas longer term benefits are achieved with technology deployments.

Respondents expressed concern that the do-more-for-less pressures were immediate but that many of their alternative solutions would deliver most of their benefits in the long run. They also expressed concern that many of their so-called medium term solutions would most likely deliver benefits in the long run. For example, many cited network and security management as solutions in which they had only implemented a fraction of the full capabilities.

There are significant challenges with solutions that deliver most of their benefits in the long run. The problem is best captured in the John Maynard Keynes quote, "in the long run, we are all dead." Several CIO respondents may counter with an IT paraphrase, "in the long run we mostly have different jobs, often at different companies."

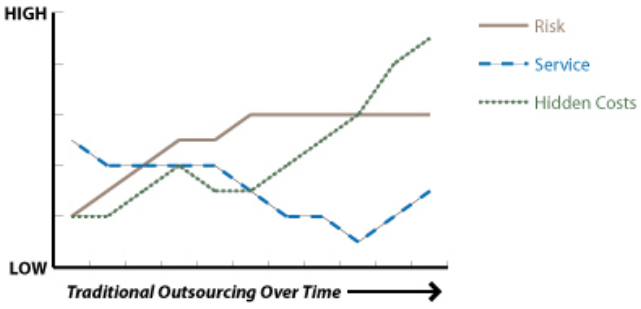
Therefore, we found that longer- and medium-term solutions may bring value, but most IT organizations need a few breakthroughs now. Furthermore, they may need the advantages of shorter-term solutions to free up needed resources to fund their longer-term solutions. Accordingly, our study became focused on opportunities for shorter-term payback in the IT quest to do more for less.

3.0 The Opportunities

The goal is to quickly gain some value to rapidly respond to the pressures of "do more for less." While several longer-term strategies are concurrently being pursued, such as new technologies and architectures, operational services were identified as the most promising path to quickly cut costs, boost service and sharpen focus.

The use of outside services in IT is common, which is evident in the considerable firsthand knowledge of the respondents. Nearly every respondent indicated that they used outside services for hardware maintenance, offsite storage, and other service areas. Most made use of some consultants. The use of consultants varied from occasional, in which they were used for specialty work, to significant, in which they helped handle peak workloads and complete project implementations.

Some outside services were considered "no brainers," such as hardware maintenance or offsite storage. In-house alternatives were not considered cost effective and would be distracting from more important focus areas.



We received mixed responses regarding the use of consultants and outsourcers. Many had experience with onshore and offshore outsourcing and most had experience with consultants. The three most commonly voiced concerns with these types of resources were as follows:

- **Increased risk** – Perceived risks of failure were common, many arising from well-publicized stories of outsourcing brought back in-house. Other risks identified included security and privacy.

- **Decreased service** – Most respondents felt that service often suffered, especially in outsourcing.

- **Saved less than hoped** – Many respondents had experienced less than anticipated savings. This is often due to unanticipated additional costs, such as more management expense and investments in monitoring or improving service levels.

Respondents reported a wide range of strategies for the future evaluation of services, consulting or outsourcing opportunities. Some have decided to minimize usage while others are looking to maximize usage. However, the most common responses were to create strategies for *selective* use of outsourcing or consulting. Therefore, we focused our research on the decision frameworks that are used in evaluating "selective" opportunities.

The considerations for determining the selective use of outside resources can be grouped into two primary categories:

- **Close-to-the-business functions** – This is NOT the category where the use of outside sources will produce success. One respondent said, "You don't want to invest in others to build up the core competencies that you need". Others felt that close-to-the-business was where internal resources should be laser focused to create urgently needed competitive advantage capabilities.

- **Close-to-the-technology capabilities** – These were considered the most fruitful areas for the use of external services. One respondent said, "Even technical skills are commodities today". A frequently cited area for consideration was the PC help desk. Over 90 percent of the calls are "how do I?" questions on simple things, most commonly on Microsoft and other desktop software. Respondents felt that they do not need to bulk up on these capabilities, which are not cost effective given the peaks and valleys and off-hour requirements.

From our surveys, we believe that there will be a small contingent that seeks to outsource almost everything in IT and a small group that seeks essentially no

outsourcing. "Outsource everything" and "outsource nothing" decisions appear to be mostly driven by senior business executives above IT.

"Outsource everything" is most common in companies where "focus" is a keyword in management strategic thinking. In these cases, IT is sometimes viewed as a distraction and is, thus, better performed by outsiders. "Outsource nothing" is sometimes driven by community concerns (e.g. jobs and public relations) and oftentimes by security and confidentiality concerns.

"Selective outsourcing" is tempered by concerns about quality, service, security, and less-than-anticipated cost savings. Secondary concerns include not investing in intellectual property and human skills within the organization. Therefore, consultants and outsourcing will be used selectively to mostly meet peak and valley challenges in system development and operational IT areas. Other ripe areas for selective outsourcing are in legacy systems, where there may be little perceived value in the older technology platforms, or where IT focus should be shifted to newer systems and technologies that will eventually replace these systems.

Given the well-founded concerns and the need for successful outsourcing to stay "close-to-the-technology", infrastructure management services was found to be the most promising new arena for coping with the do-more-for-less pressures.

4.0 Emerging Infrastructure Management Services

We believe that there is one clear trend to realign IT for success in the do-more-for-less world: the rise of infrastructure management (IM) services. Typical outsourcing has involved transferring the same job to a different company or country ("same job, different seat"). This form of outsourcing is characteristic of the concerns of our respondents, in which increased risk, decreased service and unforeseen costs temper the benefits of outsourcing. The issue with this form of outsourcing is that the same job is being handled by a less knowledgeable person in a less manageable location.

Infrastructure management, done the right way, takes a "same task/ different method" approach to outsourcing. It is all about gaining efficiencies in lower level, close-to-the-technology activities, while increasing staff focus on higher value close-to-the-business projects. This approach is not just a "different person" in a "different seat". Rather, effective IM is handled by task-oriented, specialized firms with proven, automated and optimized methods that save costs and improve management infrastructure. In other words, true IM is a *service*.

Unlike replacing a person with an outsourced person, there are not the same issues concerning cost/service tradeoffs. Indeed, many infrastructure management

service providers can deliver far better service. For example, a PC help desk service provider can much more readily provide 24 X 365 coverage, can have many more “level 2” specialists in specific technologies, and can spread peak/valley service requirements across a broad base of clients to reap economies of scale.

There are two key reasons that underlie the confidence in our prediction of the rapidly growing rise of infrastructure management services. First, our surveyed IT executives strongly echoed this conclusion. Second, and probably more importantly, there are strong parallels with IM services in IT and the evolution of many other IM business models. Often, déjà vu makes the most compelling case for predicting the future, as past patterns offer evidence to support future predictions.

Infrastructure management services are common outside of IT. Hundreds of years ago, manufacturers generated their own power, originally via the waterwheel and then through steam power. Today, most manufacturers view power as something to be acquired from an IM service provider (i.e. the power company), and even those who co-generate power are plugged into the infrastructure network. Utilities, though mission critical and important, are deemed commodity services to be best provided as IM services.

Managed services have gone far beyond the obvious public utilities. Most property owners hire property managers. Property managers use cleaning services for their buildings. Large enterprises rely on security firms for what are viewed as commodity guard services.

IT commonly uses managed services for hardware maintenance and other selected activities. However, from our surveys we predict a significant increase in the more broad usage of infrastructure management services. Most commonly, the increases will be in areas that are closer to the technology and further from the business (as in the case of hardware maintenance).

From our studies we identified candidates for rapidly growing infrastructure management services. Some of the most commonly identified infrastructure areas include help desk, network, security, and data. Most organizations we surveyed had at least some limited experience in one or more of these areas and a few had more extensive experience. While all talked about the need to carefully screen the provider, most agreed that the risk/reward and cost/benefit tradeoff for infrastructure management was vastly more attractive than that for traditional consulting or outsourcing. The key reasons cited for the more attractive value proposition of IM include:

- ☑ **Speed to benefit** – All respondents reported very favorable speed-to-benefit experience with infrastructure management services. The service startup was consistent and quick with an almost immediate benefit payback. An often cited factor was the high specialization and experience of the service provider. The providers knew the questions to ask and had the processes in place to speed high-payback results.

- ☑ **Service** – Unlike traditional outsourcing, where service is often sacrificed in the quest to reduce costs, IM service providers generally provided better service than the in-house alternative. These providers have a model designed to focus on delivering the IM service faster and more comprehensively.

- ☑ **Service level agreements** – Because of the focused, specific services provided, most respondents found it straightforward to negotiate effective service level agreements and then consistently receive high service levels.

- ☑ **Comprehensive automation** – Respondents thought that most IM service providers had deployed much better automation platforms, which helped drive rapid speed-to-benefit and better, more consistent service levels.

- ☑ **Reference checking** – The focused, specifically defined services offered by true IM providers made reference checking much more straightforward, and thereby reduced the risk profile for the services. Instead of scrutinizing resumes (and hoping to actually get those individuals), they were able to get highly detailed answers to very specific questions from comparable live users.

5.0 The Strategies for Success

Whether a company is ready to consider or expand its IM service usage, there are important questions to answer regarding how to achieve the best results and how to find the leading providers. We focused our research to search for the answers to these and other key questions.

Success strategies for IM services will often be company-specific. However, we did compile the following list of best practices and knowledge for evaluating, selecting and implementing IM services:

- **Free up critical resources** – One of the main benefits of infrastructure management is the ability to redeploy senior-level staff from lower-level tasks to high-value, strategic functions. Therefore, look for IM services that help to better leverage specialized and talented staff.

- **Think "service first, cost second"** – If service falls, then cost may go up dramatically. Seek significant improvements in consistency, quality and service to produce optimum value and cost control.

- **Focus on automation** – The most reliable infrastructure management service providers have implemented high levels of automation. This is their key to efficiently delivering consistently high service levels and quality. The internal costs to match these capabilities would be a significant increase for any individual organization.

- **Look for specialists** – Superior IM services come from specialists – they have the focus and have developed and refined the specialized talent and automation necessary to excel.

- **Proven track records are key** – General purpose consultants and outsourcers have ambiguous track records based on a wide range of people and project references. The best IM service providers use a high level of automation and consistently follow best practices in performing very standard and repeatable activities. Therefore, their verifiable track record with other accounts can be highly predictive of the service that you can expect.

- **Target operational-intensive tasks** – One-time projects are often the largest target for outsourcing, where additional resources and skills are often needed. However, day-to-day operational tasks are the largest resource drain with the highest IM payoff. Target base technology functions, such as equipment management, software management, and support.

6.0 Database Management Emerges as a High-Payoff IM Service

In our investigation, many companies start with one of these three IM services: PC help desk, network monitoring, or security monitoring. The most common reasons cited were the inefficiencies of internally operating these services with widely varying workloads in a 24 X 365 environment.

Companies should focus on ***using*** their data…***managing*** the data infrastructure can be handled more efficiently as a service.

One of the biggest payoff areas on the horizon is remote database administration (rDBA) services. Data is one of the most valuable of corporate assets, and it consumes significant levels of senior technical resources. Unfortunately, many of these technical resources are wasted on day-to-day care and feeding of systems and technologies – managing servers, technologies, and the like. The high resource utilization of these routine tasks often leaves insufficient time for strategic data service activities.

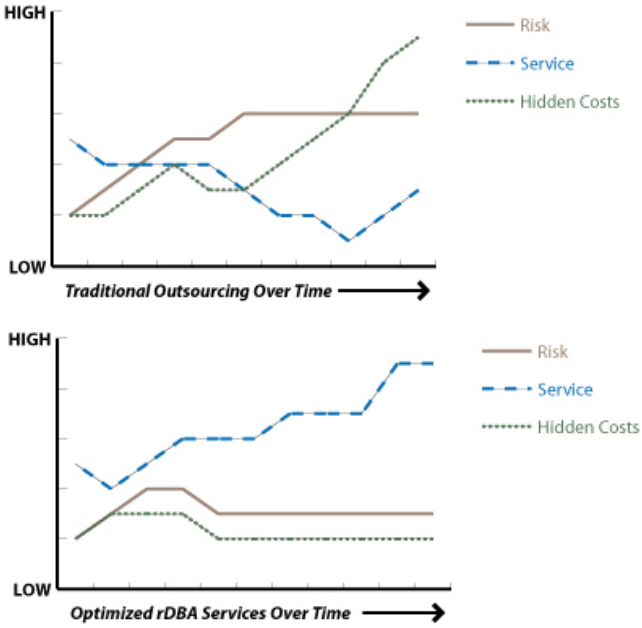
Strategic data service requirements have mushroomed over the last several years. Recently, new data service requirements have come to the forefront. Business intelligence and cloud computing have had a significant impact on business success. In our study, we found that both of these important corporate initiatives could benefit greatly from remote database administration support:

- Business Intelligence projects commonly fall short of expectations. Why? Not because of tools and technologies but from inadequate understanding and leveraging of corporate data assets. This can be abated by deploying internal resources to understand and interpret the data, while an rDBA service provider manages the database infrastructure.

- Gartner predicts that 2009 revenue for cloud computing will exceed $56 billion, with growth to $150 billion by 2013. The cloud offers a hosted approach to applications and infrastructure. But, companies must often still manage their data assets in these hosted environments. A remote database administration provider can manage this aspect of infrastructure management so that companies can focus on using their applications.

rDBA service providers allow companies to redeploy headcount to strategic data services and away from day-to-day care and feeding and other routine management tasks. The big benefits come from sharpening focus on strategic initiatives and away from laborious low level tasks. rDBA services can significantly boost service levels. Live person 24 X 365 support now becomes practical and affordable. Done properly, these services can bring high levels of automation to more efficiently provide consistent high service along with predictable cost and performance.

One important learning point in this study was the clear distinction between traditional outsourcing and automated infrastructure management. The traditional outsourcing model has a mixed track record, in which a person (and that person's workload) is replaced intact with an "outsourced person." Ideally this model lowers costs. However, it has traditionally lowered service, increased risk and, in the end, has not always met the anticipated lower costs objectives. Companies routinely underestimate the much higher levels of management required to make outsourcing work, and this added management brings added costs.



The traditional "same job, different seat" model can and has been used for database administration, remote and onsite. Therefore, even IM services are not immune to outsourcing pitfalls. However, infrastructure management and remote database administration performed as a *service* can be a very appealing proposition. There are potentially huge benefits from adding high levels of automation and best practice operations.

In today's do-more-for-less world, rDBA services offers one of those rare opportunities to control costs, boost service, and free up valuable in-house resources.

About PCR

Park City Research (PCR) has worked with over 300 companies, primarily solution providers in the information technology markets including hardware, software, and services suppliers. Our clients span the gamut from new, often venture-backed start-ups to some of to the largest and best-known industry leaders. The common thread in our assignments is a company that needs to sharpen its go-to-market strategies to realize increased revenue from better serving their targeted markets.

Unlike other research firms we do not "cover" markets on an ongoing basis. Nor do we commercialize our research. All research is sponsored and provides an in-depth market insight focused on what we believe to be changing markets. It is in changing markets where vendors can enjoy their greatest commercial success and also when clearly understanding market requirements is crucial to success. Our role is to help better understand buyer's needs in changing markets.

More information can be found at www.parkcityresearch.com.

About the Sponsor

The research conducted by PCR was sponsored by dbaDIRECT. dbaDIRECT is a pioneer and leader in remote database administration. Since 1998, the company has defined the rDBA market with its scalable, automated processes and expert services that enable companies to focus on higher-value IT alignment. dbaDIRECT provides complete support for all major database platforms, including Oracle, DB2, Sybase, SQL Server, and MySQL. The company manages thousands of databases for customers worldwide, many of which are Fortune 1000 and Forbes Private 500 firms. Their international Data Operations Center is headquartered in Greater Cincinnati.

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