

IT outsourcing: The real story

Cheap labour isn't the only incentive

Don't hire someone else to repeat your mistakes

By **Jacob Stoller**

LAST APRIL, PUBLIC CRITICISM OF the Royal Bank of Canada's decision to displace employees in favour of foreign workers brought information technology (IT) outsourcing into the spotlight. The ensuing conversation, however, addressed only one aspect of outsourcing: the use of cheaper labour from overseas to reduce costs.

There are many other business reasons to seek help from outsourcers. In fact, for all but the largest organizations, cost is rarely the sole determinant.

"It's not just about the money," says Andy Woyzbun, executive adviser for Info-Tech Research Group, a firm based in London, Ont. "Surveys tell us that organizations rate quality of service and proactive strategic positioning as equally important."

Today's outsourcers, many of whom operate in Canada, allow companies to meet these broader objectives through a wide range of services. You might not find them on Google under "outsourcing," though. Many avoid the term lest they be shunned as conniving job stealers by IT departments.

Whatever one chooses to call these companies, they allow organizations to find solutions that tightly match their business objectives. We'll let cost speak for itself, and discuss four additional business drivers that affect the decision.

1. Risk management

IT draws businesses away from their areas of expertise, making them susceptible to risk. But outsourcers can reduce risk exposure in these five areas.

Uptime: Organizations with a significant online presence can be devastated by a major crash. Examples include BlackBerry and Yahoo. Outsourced hosting facilities guarantee high availability through enforceable contracts.

Staffing: Hiring the wrong kind of programmer could leave a company in a tough spot. Outsourcers allow companies to avoid costly staffing errors.

Security: Tighter regulation, employee-owned devices and smarter cybercriminals all make it tougher to protect organizations against security and privacy risks. Outsourcers often have substantial investments in security expertise, process and infrastructure.

Capital: A company heavily invested in a particular platform could be in a bind if the industry moves in another direction. Outsourcing lets

companies reduce their capital investment and makes them more flexible.

New technology: Undertaking a project with an experienced outsourcer reduces the chance of project failure, and provides an easier exit strategy if the project doesn't go as intended.

2. Resource and cost transparency

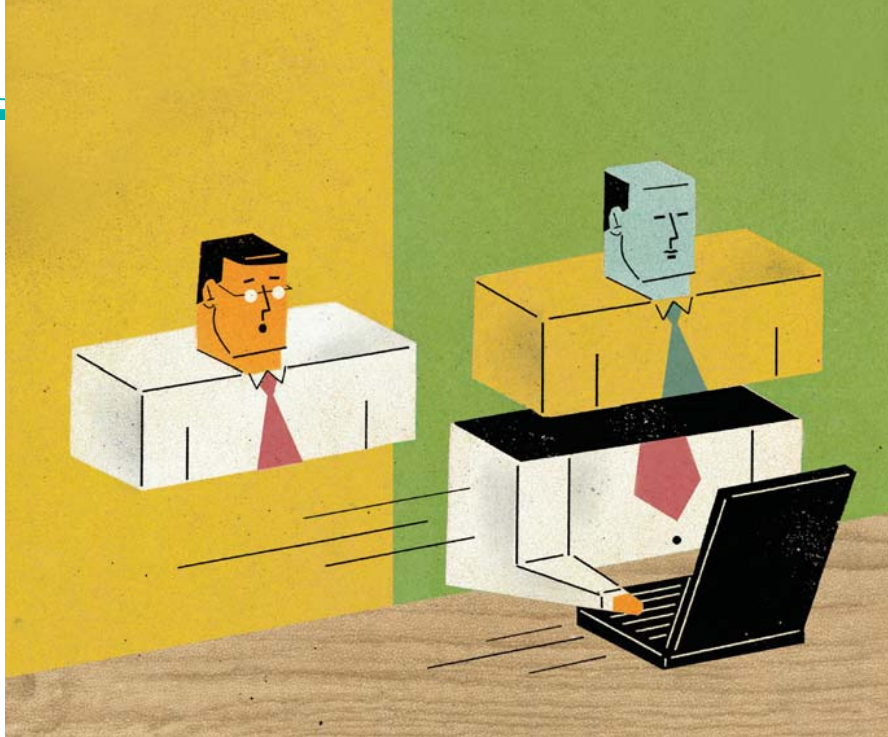
While tracking costs and benefits might appear easier with in-house resources, the opposite is true. "With outsourcers, you know exactly what you're spending, and what service levels you're delivering to your users," says Rob Bracey, president of Quartet Service Inc., a Toronto-based IT service provider. "With in-house resources, it can be hard to determine what you're getting for your money."

Providers such as Quartet use monitoring tools and service management methodologies to generate uptime reports, utilization stats and a host of other intelligence that goes far beyond what all but the largest companies can provide in house.

3. Scalability

Technology resources, particularly skills and infrastructure, can't always be acquired in the desired increments.

A small company with a complex IT environment might need one-third of a database specialist, one-quarter of a programmer and half of an application manager. Outsourcers can make a wide



range of skills available as needed. “You can buy fractional persons, so to speak, from an outsourcer,” says Ron Babin, professor of IT management at Ryerson University in Toronto.

Storage infrastructure, server capacity and other assets often come in large packages; they force organizations to choose between too much or too little capacity. A problem often occurs when a system’s expandability is “maxed out.” Outsourcers now have the technology to provide capacity on demand. This service is especially useful for companies that have seasonal require-

ments, such as the retailer whose requirements in December are triple what they are for the rest of the year.

4. Focus

The classic “stick to the knitting” argument is one of the best justifications for outsourcing, even if the cost is higher. “Allow outsourcers to bring in their expertise, their skill set and their investment in technology to do a good job. This is what they do for a living,” says Babin. “So if you’re a banker, focus on customer service. Focus on product innovation. But

don’t focus on running data centres because you’re never going to be the best in the world at it.”

Today’s IT outsourcing vendors offer far more choice than they did a decade ago, and are also far more flexible. They give organizations many new opportunities to apply IT to gain business advantages. The key is understanding where those opportunities are. ■

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PRACTICAL STEPS

When you strategically outsource information technology (IT), you involve outside parties — often intimately — in your organization’s business processes. Follow these four steps to do the job well.

Be 100 per cent clear about desired outcomes. When you outsource work but have only a vague idea of the purported benefits, you risk hiring others to replicate your mistakes. “Make sure the particular service level that you want to achieve is fairly well defined and readily measurable and that the vendor can deliver the objective,” says Andy Woyzbun, executive adviser for Info-Tech Research Group, a firm based in London, Ont. “The fuzzier the description, the more likely you’ll be disappointed.”

Get the timing right. Outsourcing is more likely to succeed when change is already in the works, and making that change requires resources. “When there’s a new project or a new data centre, there’s a real choice to be made,” says Woyzbun.

“If you outsource at this point, you avoid the disruption of taking something that already exists and putting it into a different form.”

Mind the fine print. Outsourcers are far more flexible now than they were a few years ago, and organizations can cherry-pick the needed resources to complement their operations. The trick is to avoid penalty clauses and other restrictions that might hamper the business.

Let your vendor do the job. After the agreement has been signed and the lawyers have gone home, back off and let the outsourcer do the job. “You have to let your outsourcer handle the solution,” says Woyzbun. “Let them run their own black box.”

Trust is probably the most essential ingredient of any outsourcing arrangement. “We talk a lot about technology, but at the end of the day our business is really about people and relationships,” says Rob Bracey, president of Quartet Service Inc., a Toronto-based IT service provider.