

# **OUTSOURCING**

***A BUSINESS PERSPECTIVE***

**Presented By**

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## **IT Outsourcing -a background**

It is predicted that by the Year 2003 the worldwide IT outsourcing market will grow to over \$120 billion. The range of IT activities being outsourced is expanding fast. It's clear that IT outsourcing is not simply a fashionable, passing trend of the '90s. It is an increasingly viable option being taken by more and more public and private organizations.

A significant change in management philosophy is taking place in the 1990s. Organizations have switched emphasis to concentrate on their core activities in order to increase market penetration and become more competitive. It is now widely recognized that to compete effectively, it is essential for business to concentrate on what they do best and where they can add value.

To begin with, outsourcing requires an understanding of the concept of core competencies. Core competencies are the capabilities of an organization that truly distinguish it from its competitors. They are unique capabilities upon which the success of the company, both today and in the future depends. Core competencies are what gives an organization its clear leadership position as seen by its customers.

All remaining activities are non-core, and executives are now asking if their company is best-in-world at performing these activities. If not, they explore how outsourcing these activities might enable the company to deliver greater value to its customers at lower costs.

## Outsourcing Insights

The future is not what it used to be... & Outsourcing is, increasingly being used as a tool for gaining a competitive edge. Understanding of where, when and how to successfully outsource, is proving to be one of the most difficult and important business skills needed for your company's future.

Outsourcing today covers a range from HR, real estate management, inventory control and most commonly, the information systems (MIS) and related communications network management.

*You MAY be an outsourcing candidate IF you are asking yourself:*

- Are my resources being utilized effectively?
- Do the department's objectives support the corporate direction?
- Can my IT department enhance our corporate financial goals?
- Are the current resources capable of supporting new technology?
- Is there a quicker, more effective method to handle these issues?
- Should we consider an offshore solution?
- Are 40% savings for real; what are the after-shock effects?
- Will employees have a basis for litigation? What are their options?
- If I make the wrong decision, what are the consequences?

Outsourcing used to be a tactic to improve operations and financial performance of troubled organizations. Today's outsourcing has evolved to be a preferred method of doing business by companies for numerous positive reasons. As outsourcing fulfills a need that transcends virtually all businesses, outsourcing has also caught the eye of the investment community. Any business that helps other businesses perform better are well positioned to prosper far beyond the millennium change.

Some of today's common reasons to outsource would be to:

- Reduce and/or control operating costs
- Improve company focus
- Access to additional resources and redeployment of internal resources
- Free up resources for other purposes
- Accelerate reengineering efforts
- Accelerate migration to new technology
- Share risks
- Enable quicker response to business drivers
- Transform capital expenses and fixed assets to more flexible monthly expenses

An outsourcing vendor cannot be selected based upon the lowest price. Both short term and long term goals must be realized to prevent outsourcing from becoming your worst nightmare. For vendor selection, serious consideration must be given to:

- Cultural match
- Commitment to quality
- References and reputation
- Flexible contract terms
- Additional, experienced and available resources
- Price

## **Top Five Strategic Reasons for Outsourcing**

### **Improve Business Focus**

Outsourcing allows companies to focus on broader business issues while having operational details assumed by an outside expert. For many companies, the single most compelling reason for outsourcing is that several of the "how" type issues are siphoning off huge amounts of resources and attention from management.

### **Gain Access to World-Class Capabilities**

By the very nature of their specialization, outsourcing providers bring extensive world-class resources to meeting the needs of their customers. Partnering with an organization with world-class capabilities can *offer* access to new technology, tools and techniques that the organization may not currently possess; more structured methodologies, procedures and documentation; and a competitive advantage through expanded skills.

### **Accelerate Reengineering Benefits**

Outsourcing is often a by-product of another powerful management tool; business process reengineering. It allows an organization to immediately realize the anticipated benefits of reengineering by having an outside organization -one that is already reengineered to world-class standards/process.

### **Share Risks**

There are tremendous risks associated with the investments an organization makes in information technology. When companies outsource they become more flexible, more dynamic and better able to change themselves to meet changing opportunities.

### **Redirect IS Resources to more Strategic Activities**

Every organization has limits on the resources available to it. Outsourcing permits the redirection of resources from non-core activities toward activities that provide a greater return in serving the customer.

## **Top Five Tactical Reasons for Outsourcing**

### **One time applications**

Applications that need to be developed or modified for a specified time require high manpower resources at one point of time. For this the organizations need to ramp up/ ramp down in a relatively short notice. This in-turn is expensive. For this outsourcing are the best solutions. For e.g. Y2K, Euro, porting from one-platform to another etc.

### **Reduce or Control Operating Costs**

The single most important tactical reason for outsourcing is to reduce or control operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. In a recent outsourcing Institute survey, companies reported that on average they saw a 9% reduction in costs through outsourcing.

### **Make Capital Funds Available**

Outsourcing reduces the need to invest capital funds in non-core business functions. This makes capital funds more available for core areas. Outsourcing can also improve certain financial measurements by eliminating the need to show return on equity from capital investments in non-core areas.

### **Generate a Cash Infusion**

Outsourcing can involve the transfer of assets from the customer to the provider. Equipment, facilities, vehicles and licenses used in current operations all have a value and are, in effect, sold to the provider as part of the transaction, resulting in a cash infusion.

### **Secure Resources not available internally**

Companies outsource because they do not have access to the required resources within the organization. For example, if an organization is expanding its operations, especially into a new geography, outsourcing is a viable and important alternative to building the needed capability from the ground up.

## Industry Analysis

Outsourcing is a decades-old business, but lately it has spread like an airborne virus in corporate IT departments. And few IT executives are willing to risk their jobs to fight it, according to a survey conducted by PC Week Executive and the Society for Information Management. Nearly three in four corporations surveyed outsource one or more IT functions-and the often controversial practice still hasn't peaked. Only 8 percent of senior IT managers interviewed say they are neither outsourcing nor studying it. A desire to augment IT staff with highly skilled developers is the most common reason that organizations turn to outsourcing, the survey shows. In a sign of the times, PC and network maintenance is more often outsourced than mainframe or legacy systems.

The PC Week Executive/SIM survey, conducted by telephone in late June 98, asked 100 senior IT executives to evaluate the pros and cons of outsourcing. The responses indicate IT managers are learning to accept outsourcing despite sobering concerns about the "anxiety and stress" it can cause them and their staff.

The senior IT executives, who engage in outsourcing, and the outsourcers, are scrambling to invent new kinds of partnerships aimed at improving bottom-line results. "The interest in outsourcing has shifted from cost containment and cost reduction to business growth and increasing market share," said Mike Bauer, director of technology planning services at Electronic Data Systems, in Plano, Texas. "To say you're avoiding outsourcing is to avoid a tool," said Chuck French, manager of consulting in Meta Group Inc.'s sourcing strategies practice, in Reston, Va. "It's similar to avoiding using a PC or some other form of automation."