Outsourcing

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Introduction

- Introduction
- McKinsey & Co.
- IBM
- Deloitte
- Differing rationales
- Conclusions and issues

McKinsey & Co.

- The global offshoring market for IT services has grown by 21 percent a year since 2001, from:
  - applications development and maintenance
  - R&D services
  - hardware and software maintenance,
  - network administration
  - help desk services

- The global market for business process offshoring has grown by 49 percent a year since 2001

IBM

- The key to successful outsourcing is having the right type of relationship with your service provider
- Aligning and managing outsourcing agreements
- Instilling value throughout the relationship
- Direct access to advanced technologies

Outsourcing changes everything. Not only does it impact a company's relationships, its processes and its technology environment; it also affects a business's very culture.

Selecting the outsourcer

- **Flexibility**
  - Can the provider adapt the scope of work to meet the changing demands of the business and its IT environment?
- **Modularity**
  - As needs evolve, will the provider make it easy to add, remove or modify services?
- **Business and process knowledge**
  - Does the provider know enough about the client's industry to successfully deliver needed services?
  - Does the provider exhibit a real interest in the specific needs of the client's business?
  - Is the provider equipped to align IT strategies and applications with business, industry and market concerns?
  - Is their knowledge of the client's business reflected in how IT products and services will be delivered and managed?

Cisco

- The 2005 Cisco Enterprise CIO Survey found that more than one-third of surveyed enterprises currently outsource at least 25 per cent of their IT budget and more than 60 per cent of survey respondents expect a greater than 6 per cent increase in their outsourcing over the next three to five years

- The outsourcing model has failed

- It needs to be replaced with strategic out-tasking

Drivers of outsourcing


percentage of respondents
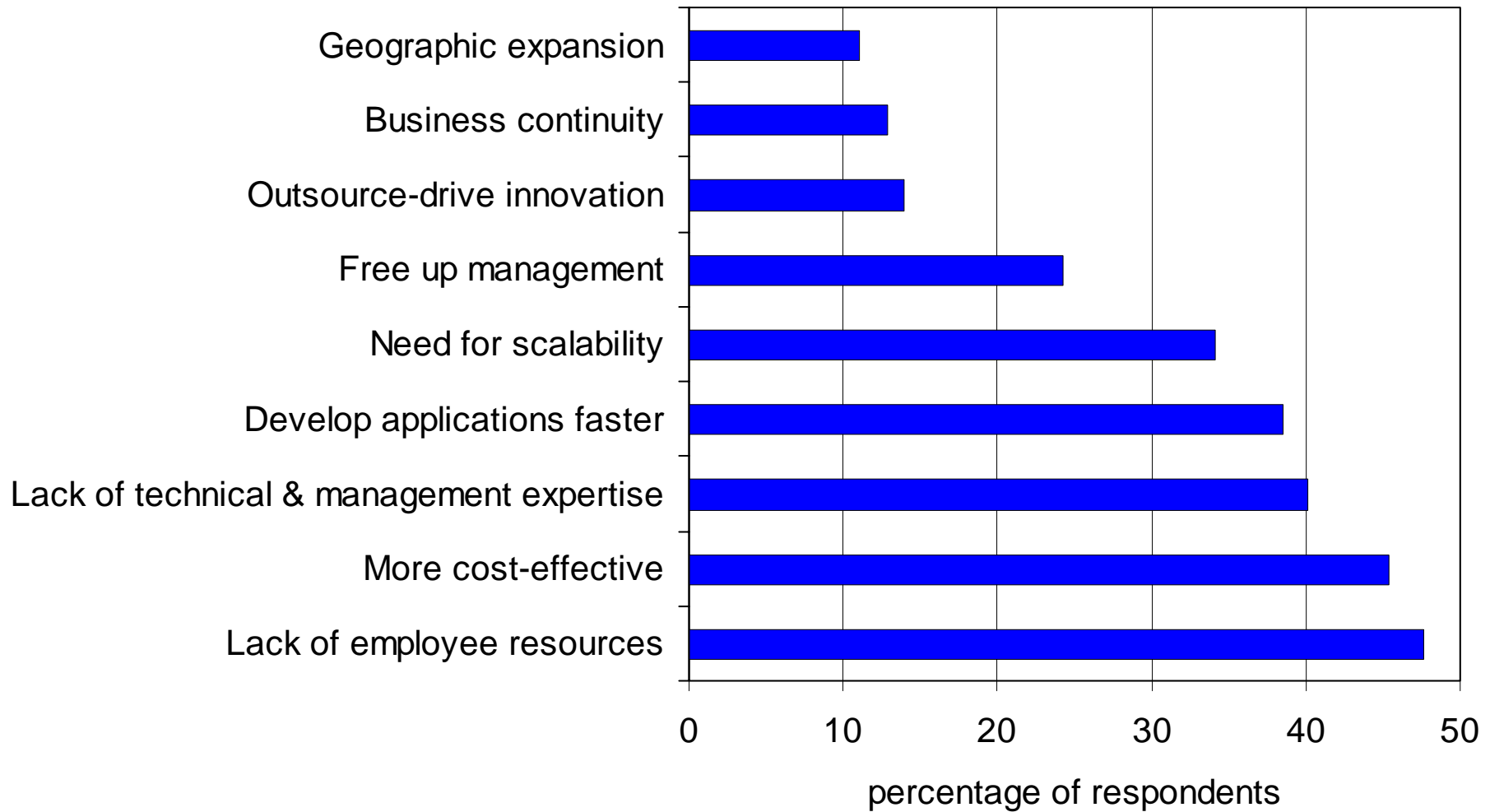
Deloitte

- Organisations have now begun to recognize the real costs and inherent risks of outsourcing.
- Instead of simplifying operations, outsourcing often introduces complexity, increased cost, and friction into the value chain
- It requires more senior management attention and deeper management skills than anticipated
- Outsourcing has allowed organisations to transfer financial and operational risk to vendors, but the contracts never fully protect them against customer damage and business losses caused by service disruption
- Many organisations have responded by bringing operations back in-house and by exploring alternatives to traditional outsourcing, such as the Transform-Operate-Transfer model

"Outsourcing is an extraordinarily complex process, and the anticipated benefits often fail to materialize."

Risks
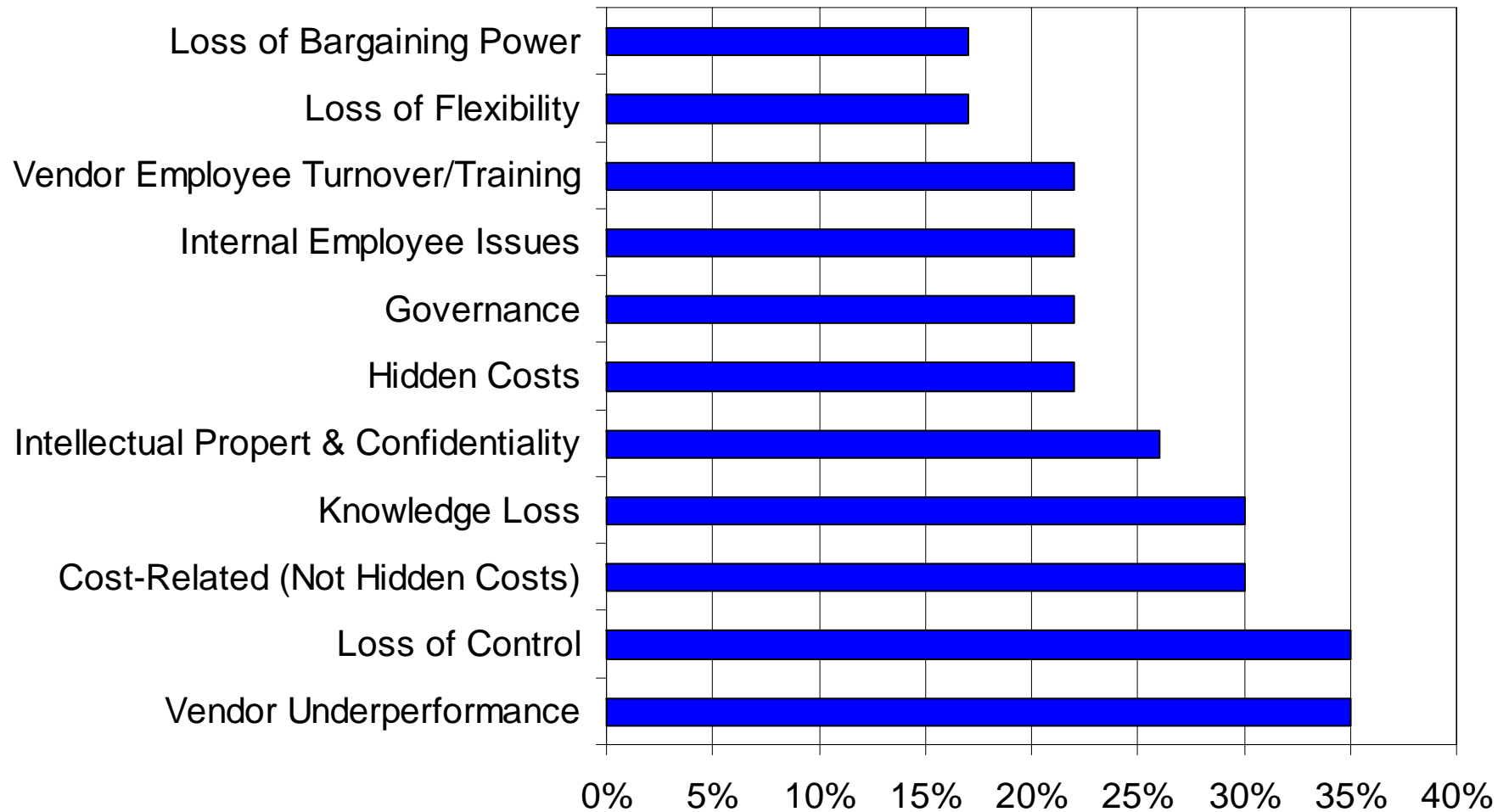
Total outsourcing

- develop partnership with single supplier
- sign long-term contract with supplier
- focus on core business
- IT perceived as a service/support function
- reduce IT costs
- share risk/reward with supplier
- eliminate IT (problem) function
- access to managerial/technical expertise
- retain strategic control

Multiple supplier sourcing

- create competition between suppliers
- standardise/coordinate operations
- focus on core business
- formulate framework agreement
- nurture an alliance of suppliers
- develop short-term contracts with suppliers
- suppliers given management responsibilities
- transfer fixed costs to variable costs
- retain strategic control

Joint venture/strategic alliance sourcing

- take 49% ownership of IT supplier
- IT supplier may be new or existing company
- Differentiation of core competencies between client and IT supplier
- shared risks and rewards
- develop sector specific knowledge
- generate new business opportunities
- access to specialist technical expertise
- retain control and influence over outsourcing

Insourcing

- IT is seen as a core business
- high level of in-house technical expertise
- centralised IT department
- inadequate supplier/market conditions
- synergy between business and technology
- lack of trust about supplier motivation
- manage contractors as permanent staff
- retain up-to-date technical expertise
- manage peaks and troughs of IT work

Currie and Wilcocks *Information Systems Journal* **8** 119-143

Case study - Technovate

Conclusions

- A major and continuing trend in business and to a lesser extent government

- Projects still fail or perform poorly, despite the many lessons and experiences

- Many businesses seem uncertain about what should be retained

Issues

- What are the economic effects on:
  - donor countries?
  - recipient countries?

- Which business activities should be:
  - retained?
  - outsourced?

- How do business bring back activities they had outsourced?

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