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# **Infrastructure Outsourcing: Managing Strategic Assets to Drive Business Value**

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# Infrastructure Outsourcing: Managing Strategic Assets to Drive Business Value

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Ever been without a reliable tool? Like your desktop computer, handheld, laptop, voicemail, or desktop printer? Frustrating, isn't it? In most companies, all those devices (which we tend to take for granted) are part of a complex technology infrastructure distributed among all employees at your location and even across the globe. Managing that collection of hardware and software, as well as the networks that link them all together and the people, information and technology to support the entire system, can be daunting and expensive, but nonetheless essential to company operations.

Many companies turn to outsourcing as a cost-effective solution to managing the distributed IT infrastructure. Why? Because the alternative can be far more costly and inefficient. Recruiting and retaining top information technology (IT) talent is a challenge for any company. Outsourcing offers access to that talent without the hefty payroll burden while allowing your employees to focus on strategic business objectives rather than tactical day-to-day operations. Plus, the capital investment required to keep your IT infrastructure reliable, scalable, and secure equates to reinventing an expensive wheel. Outsourcing offers access to more options and state-of-the-art technology for less.

While companies that are geographically dispersed often stand to gain the greatest cost benefit by outsourcing IT infrastructure management, mergers also tend to stress computing networks with additional workloads and the inherent obstacles of rationalizing, integrating, and standardizing different kinds

of hardware, software, and business processes. Outsourcing is often a good solution.

Many buyers see outsourcing as a way to meet both immediate cost-reduction needs and longer-term strategic needs, according to The Outsourcing Institute (OI) IT Index, an annual industry research report on outsourcing buyers and sellers. "While they are looking to gain cost savings and economies, buyers are also looking to make leaps and bounds in creating the new infrastructure to support future growth," stated Frank J. Casale, OI Chairman and CEO.

## Long-Term Benefits

Outsourcing with an eye towards longer-term possibilities makes sense. Providers prefer long-term partnerships where investments in people and technology can be leveraged across multiple clients. For the buyer, that translates into better customer service. Providers tend to do more, be more responsive, and go the extra mile for long-term clients. The long-term relationship gives the buyer and the provider the opportunity to grow, change, and evolve together.

That can also translate into long-term cost reduction, or "gain sharing," where buyers can share in the resulting financial savings as IT environments mature. For example, consider an integrated service built around a single-point-of-contact service center (also known as a help desk) that provides online, onsite and remote hardware and software support to your employees in multiple locations. In the first month, the outsourced

service provider documents 10,000 service incidents. New technology or processes are introduced to prevent problems, increase reliability, and meet end-user needs more quickly and efficiently. As the distributed network naturally matures year after year, there is less demand for support over time.

So 12 to 24 months later, the service center logs only 8,000 service incidents per month. "Gain sharing passes on the financial savings to the buyer over time," explains George Hynes, engagement principal, Unisys Managed Network Services. "As the desktop technology and overall network environment improves, employees don't have as many questions or problems. The cost of support to the provider decreases, and the buyer's price for support goes down proportionately."

Ironically, while nearly half of buyers surveyed in the IT Outsourcing Index cited cost control and reduction as the number one reason to outsource, many deals don't account for this savings opportunity. Why? Predictability. Many buyers prefer a fixed fee arrangement in order to predict costs into the future. But in the long run, you could end up leaving money on the table.

"Buyers often don't think of long-term savings opportunities. Instead the focus is on comparing apples to apples on immediate IT costs and saving money upfront," says Hynes. That's why a well-crafted sourcing strategy that enhances overall business objectives is essential, according to Casale. "As IT outsourcing has evolved, there is a growing range of options for buyers," explains Casale.

"While more and more companies approach outsourcing as a strategic, proactive business practice, versus a reactive tactic, the number of companies that truly understand the strategic and long-term value of outsourcing is nowhere near where it should be."

Unisys offers fixed fee and gain sharing options. "Gain sharing equates to 'pay for what you need' versus predictability and the chance of overpaying for what you need," adds Hynes. "Not only can a buyer fund what it takes to improve an environment, but also, as a result of those improvements, there are often additional savings the buyer can reinvest in more strategic areas."

Plus, gain sharing helps engender a sense of partnership between both companies.

Hynes recalled one Unisys client that acquired a number of regional companies across the U.S., and as a result inherited disparate technologies and processes across the enterprise. "The environment was extremely complex to support, and lacked standardization," says Hynes. Unisys rolled out Windows 2000 and introduced different technologies to standardize and automate processes nationwide, thereby reducing the overall cost of support and increasing reliability, scalability, and security. "With the gain sharing approach, we expect this client will save \$4.5 million over three years on a \$21 million deal."

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## Productive and Prepared

One of the unsung heroes of infrastructure outsourcing is the boost in employee productivity garnered over time. "The IT infrastructure is critical to strategic applications functioning properly and to employee productivity," according to Everett Dyer, vice president and general manager of Unisys Global Network Services North America. "In addition to IT cost savings, you also need to consider the total economic impact. Improvements in the IT infrastructure make applications and equipment more functional, available and efficient, thereby helping employees be more productive more consistently. Ultimately that can drive revenue."

Of course the total economic impact can't be measured unless your company first understands and documents the connections among people, places, equipment and applications. "Visibility to your infrastructure is key to supporting that infrastructure and understanding cost drivers," stated Mike Hutchinson, vice president and general manager, Unisys Managed Network Services.

Processes to track assets and correlate events in a holistic manner are sorely lacking in most companies, according to Hutchinson. "Ask a CFO how many people they have, and most can't give you an exact number. Ask them how many computers they have, and typically their response is only within 10 to 15% of the actual number," explains Hutchinson, who says an up-to-date asset inventory and a clear understanding of how people, equip-

ment, and applications are linked together are "essential preparations for an unforeseen crisis".

"September 11 was a big wake-up call for many companies," stated Hutchinson. "Sounds obvious, but many companies overlook the fact that without an accurate and complete inventory, when unexpected damage occurs, they can't exercise full insurance claims or quickly reconstruct the infrastructure to get business up and running again."

If companies connect and track employees, equipment, and applications by location, when an application or server goes down they understand how many people are directly affected. "Whether your company faces a significant power outage, or water damage due to bad weather, or a catastrophic loss, such as September 11, the ability to quickly identify people and asset losses or damage is key to recovery," explains Hutchinson.

## Crafting the Right Deal with the Right Partner

How you create and manage an outsourcing relationship is just as important as establishing your goals for the engagement. Outsourcing isn't for everybody. So it's important to first decide whether outsourcing provides the best solution for your company. If it does, you must find the right outsourcing provider and negotiate a win-win deal. What are the key qualities and characteristics to establish and nurture a successful outsourcing relationship? Let's take a look.

## Focus on Company Objectives

First, a company needs to determine whether or not to outsource. "That is the most difficult question because it involves corporate culture and a number of soft decisions across an organization," according to Hynes.

Howard Lackow, a leading authority on outsourcing and senior vice president, *Outsourcing Institute Advisory Services* agrees. "Outsourcing isn't for every company," says Lackow, who helps companies assess outsourcing opportunities before they buy. "Senior executives need to first examine and articulate core competencies, understand the outsourcing process, and consider which functions might be appropriate for outsourcing as well as their motivations to outsource," Lackow explained. "From there, you can begin diagnosing options that best fit your company culture and resources, and design a strategy that serves your company's strategic mission and vision."

Even after a decision to outsource, one common pitfall is ensuring service level agreements (SLAs) to meet IT objectives without an equal focus on achieving overall business objectives. "Any SLA needs to support the buyer's vision and strategic business goals," says Hynes, who also cautions against the tendency to focus exclusively on headquarters goals versus those of the whole organization.

Hynes recommends that companies avoid an "all or nothing" approach and consider a sourcing strategy where select components of the IT environment are outsourced. "The

very large, 10 to 20-year outsourcing deals bear an enormous amount of risk for the buyer," explains Hynes. "Strategically choosing a component or set of components often provides a better opportunity to achieve financial and business benefits and mitigates risk." Plus, that gives inexperienced companies a chance to learn how to manage outsourcing engagements for their organization, as well as how to work successfully with an outsourcing partner.

Another good risk mitigation strategy is to spread IT components among multiple vendors versus "a giant leap of faith that puts all your IT eggs in one basket." Then, if one relationship fails, you still have two or three providers who are already familiar with your employees, the company culture, and the IT environment to fill an unexpected gap.

## Flexibility to Change

"Buyers need to be sure that the outsourcing agreement is flexible enough to meet changing needs," explains Hynes. "Business markets change and companies change. You can't predict the future. Any successful outsourcing agreement must accommodate change."

"Left unchecked, outsourcing relationships can quickly become adversarial rather than cooperative," according to Lackow. "Change is inevitable, so buyers need to anticipate and plan for change upfront, and choose a partner that's fundamentally willing to change and grow with you. Otherwise, you'll pay dearly in time, dollars, and failed relationships."

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Current and even former clients of a service provider can provide useful perspectives on what you can expect. "Nobody likes to talk about disengaging a relationship, but it happens," says Dyer, particularly when companies sell, merge, acquire another company with the expertise currently outsourced, or people simply can't get along. "It's not an ideal situation. The key is to ask, 'How does the provider behave when disengaging?'" Business requirements can change, so it's important to know what to expect in the unlikely event the relationship needs to dissolve."

### *Appropriate Expectations*

Setting appropriate expectations is another critical element for outsourcing success. In addition to details on specific tasks to be performed, Hynes encourages outsourcing buyers to ask and answer the questions involving "How?" How will we work together? How will project management be structured? How will we resolve disagreements? How will we adapt to change? "It's vital that both parties understand and agree upfront on how they will act with each other," according to Hynes, particularly when a problem arises and no one agrees on the solution.

Typically, once companies make a commitment to an outsourcing deal, there's a sense of euphoria, delight, and relief. That lasts for a while, but every relationship will have conflict and change. It's prudent to be prepared for the inevitable, and easier to define problem-solving processes before a crisis occurs—to define not only "what" a provider will do, but

"how the buyer and provider will work together," according to Hynes.

For example, what processes will be used to adapt to change? What procedures will both parties follow to resolve a disagreement? While the agreement won't specify every solution to every problem, it should reflect how the parties agree to conduct business together and manage the relationship. "Most outsourcing buyers bet the provider will deliver in the best interests of the buyer. It needs to be stated," says Hynes. "So if one party says 'black', and the other says 'white', there's a pre-determined process to decide who will make a final decision with the interests of both parties in mind."

### *Task Performance*

"Providers need to clearly demonstrate task performance," according to Hutchinson, who advises buyers to check references and ask for documentation. "When a provider makes a claim, ask their customer to verify it. There should be written monthly reports that document performance measurements."

The complexity of distributed networks and systems and the number of interactions between buyer and provider employees virtually guarantees that nothing will be 100 percent right all the time. Look for client references willing to talk about what happened when projects went awry. "I tend to discount references where everything is rosy, because that's not real," explains Dyer.

"Due diligence is a must-do before

signing a deal—don't cut this corner," warns Lackow. "We recommend that buyers not only talk with a potential provider's clients, but also visit their site to meet with them one-on-one, and see how operations work on a day-to-day basis. The experience is always an eye-opener."

Infrastructure outsourcing is often the most efficient and effective solution to IT management, especially for global enterprises. Outsourcing offers access to more options and state-of-the-art technology at a lower cost than most companies can support in-house. Plus, you can tap the wisdom and experience of expert service providers, and enjoy long-term gains in employee productivity and process efficiency, while focusing in-house talent on more strategic objectives. Outsourcing can be the catalyst to create the IT infrastructure you want to drive strategic business value.

For more information on distributed infrastructure outsourcing, go to [www.unisys.com/networkservices](http://www.unisys.com/networkservices) and click on "Managed Network Services" or call us at 1-800-874-8647, extension 304.

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**For Outsourcing Information, Advice or Support Contact**



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