

# IT Outsourcing Strategy FAQ: Getting Started on Onshoring, Offshoring

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In the past decade, IT outsourcing and offshoring have ramped up in many enterprise IT organizations looking to realize cost savings, globalize their operations and obtain access to skills their staffs lack. The economic recession caused some organizations to pare down their focus to in-house operations and, in turn, temporarily scale back their IT outsourcing efforts. However, as companies look to grow in 2010 and beyond, IT outsourcing is expected to play a big role in that recovery. According to a mid-2009 report by AMR Research Inc. on the state of IT outsourcing, roughly 80% of enterprises plan to increase their amount of IT outsourcing or keep it the same.

In this FAQ, learn why enterprise organizations pursue a complete IT outsourcing strategy, whom the CIO should consult in his or her decision, how organizations should assess their outsourcing readiness, and tips to remember when conducting due diligence on IT outsourcing vendors.

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## Why do enterprise organizations turn to IT outsourcing?

There are many reasons that enterprise organizations pursue IT outsourcing arrangements. The primary reason given by many is cost reduction. "That was particularly the case in the past year with the recession," said Tom Lang, a partner and managing director at TPI, a global sourcing advisory firm based in Houston.

IT outsourcing can be an excellent way to achieve the IT maturity needed to deliver services more efficiently and effectively, said Helen Huntley, a research vice president and IT outsourcing analyst at Gartner Inc., a Stamford, Conn., consultancy. Sometimes internal IT staffs don't possess the desired skill sets and IT leaders don't have the resources to train them quickly enough to meet the demands of the business. And, particularly in troubling economic times, organizations seek workforce flexibility and access to an employee base they can scale up or down as needed without laying off staff or devoting time and resources to the hiring process.

An IT outsourcing strategy allows organizations to access the desired services without a significant capital investment, because the vendor presumably has the infrastructure already in place.

While cost is an important filter, don't focus too much on one-time cost savings, warned Christine Ferrusi Ross, a vice president and research director at Forrester Research Inc., a Cambridge, Mass., technology and market research company.

"Anyone can do one-time cost savings," Ross said. "The question you have to ask yourself is, what would our expectations be so that we're happy in year 3 or 4?"

For more mature clients, there is another advantage in IT outsourcing: Vendors that specialize in certain facets of IT are constantly innovating, coming across process improvements they can pass along to their clients. "They're focusing on improving this in a way that [IT organizations] wouldn't have the time or resources to do," Ross said. While your organization's in-house application development staff might not have the time, scope or scale to make advances leading to time- and money savings, an IT outsourcing company that specializes in application development and has worked with dozens of large enterprises can recognize and more readily build on these innovations.

### Whom should a CIO consult when considering IT outsourcing?

It's important to have an IT governance framework in place before pursuing an IT outsourcing arrangement. Experts stress that these deals should *not* be managed solely by a technical person; rather, the leader must be a business-savvy executive skilled at managing relationships, bringing together various coalitions and balancing departmental needs.

The CIO often is the chairman of this governance group. Depending on the scope of the IT outsourcing engagement being considered, the company's CEO might want to be involved and should certainly be kept informed of any developments and potential partners. The CFO should be involved to ensure that the economic benefits of IT outsourcing are being properly weighted. The organization's legal department likely will play a huge part in overseeing the creation and execution of the contract. Some of the CIO's strong lieutenants, such as directors at the application or infrastructure level, should take part in the discussions. Leaders from the business unit or units that will be the beneficiary of the IT services delivered should have a seat at the table.

There are some other, less obvious departments that will have a stake in your IT outsourcing arrangement. Representatives from human resources should be kept in the loop because any staffing structure changes will involve them. Those charged with overseeing security for your organization should be aware of the deliberations because the outsourcing vendor must meet the minimum security standards of the enterprise -- in fact, some companies are creating enterprise risk organizations to strengthen this area. Also, remember to work with your company's public relations team for both internal and external control of the message.



## How can an organization assess its IT outsourcing readiness?

Analysts agree that IT outsourcing must be part of an organization-wide sourcing structure that takes into account business demands, various models for IT delivery, and a method for deciding whether those services would best be proffered in an internal or external framework.

Enterprise IT executives should start by taking stock of their staff's capabilities and productivity, as well as of the efficiency of their IT operations and infrastructure. They should then compare these findings to external benchmarking materials and determine which areas are the most strategically important to the company. Many analysts recommend keeping in-house the IT work most core to the organization's mission and at which it is most competent, and outsourcing other, less-central functions.

From there, if IT outsourcing is found to be an efficient choice for the organization, examine whether you want to outsource onshore, nearshore, offshore or some combination of those. Factors to take into account include your feelings about an outsourcing partner's proximity and the time zone difference between you. If you're uncomfortable with your work taking place far away (making travel to the work site more difficult) or in a place with a vast time zone difference (such countries as the IT outsourcing giants India and China), consider nearshoring your work in Latin America or keeping it domestic altogether. Cultural differences are also an important factor to take into account if you will be conducting business in a foreign country.

## How do you conduct due diligence on IT outsourcing vendors?

It's important to consider the size of deal you are offering -- whether it is small or large, and whether you intend to outsource to a single or multiple vendors. Which you choose should affect the number and types of IT outsourcing partners you consider.

In addition to reviewing credentials, considering technical prowess and cultural fit, and asking questions about a vendor's finances and past work on IT projects similar to your own, conduct a series of peer reference checks. Ask your potential vendor to provide a list of clients that engaged in similar arrangements, and schedule visits to discuss their problems and the solutions your vendor offered. Also consider visiting one or more of the vendor's outsourcing or offshoring facilities where your IT work will be taking place. If you are multisourcing, ask how the vendor has interacted with other vendors in the past, and request specific examples of its success in working through trouble spots.

Also keep in mind that the vendor may very well be running due diligence checks on you, which could affect whether and how much they bid for your work. That fact underscores the importance of keeping up good outside relationships on your part, in case you decide at some point to pursue an IT outsourcing arrangement.

