

# Outsourcing is in



A PMP Research survey underlines the continuing popularity of outsourcing and the reasons why companies like it.

Outsourcing is a strong growth area in an IT industry which has seen many other innovations given a 'thumbs down' by organisations who lack the cash and enthusiasm to invest heavily in new technology.

Over the past decade, outsourcing has undergone a radical transformation from being an option reserved for the few – and the brave – to becoming an almost routine choice for the many.

At the same time, the types of service on offer from suppliers have grown dramatically, while the reasons why companies contemplate using such services have also undergone major change. PMP Research has examined the key trends in this area.

The first conclusion to draw is that outsourcing is most definitely here to stay. As Figure 1 shows, one in four of our sample devote a significant proportion of their IT budget to this kind of service – with 13% reckoning to put between half and three-quarters of their total IT spend into outsourcing and 8% committing three-quarters of their IT budget to outsourced services.

Moreover, this trend is set to continue as a third of those polled (36%) report an increase in their spend on outsourcing. Of the remainder, the biggest slice (38%) expect spending in this area to stay the same in future, with 18% undecided and just 8% planning to reduce outsourcing spend.

The most common option to choose is a managed service, which is the type of outsourcing used by 60% of both the private and the public sector companies in our survey (see Figure 2). Traditional outsourcing, selected by 60% of public sector organisations and 50% of private sector concerns, is also popular.

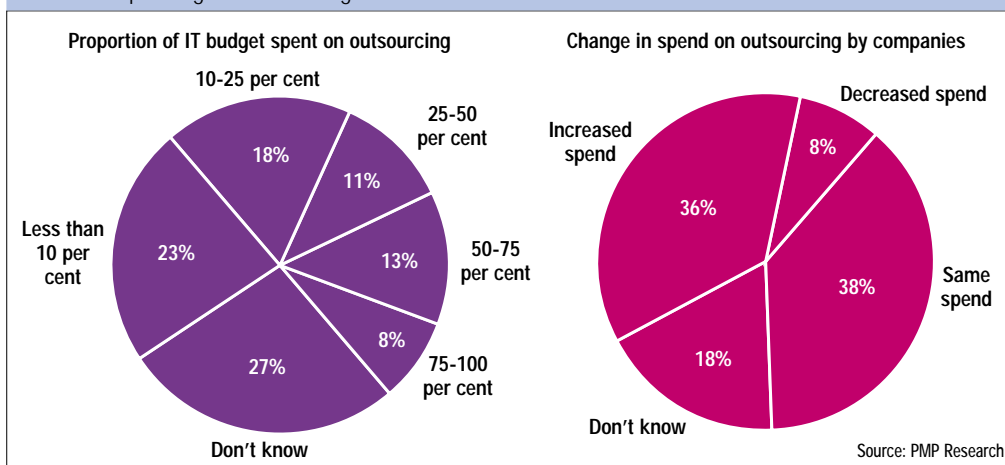
In addition, both commercial (43%) and public sector (40%) operations find favour with the newer concept of business process outsourcing (BPO).

But application service provider (ASP) style options still have some way to go before achieving widespread acceptance – only 29% of private sector companies currently use this kind of service and just a quarter of public sector organisations.

It seems possible that lingering concerns about security continue to put a brake on take-up in this area.

BPO is more common in the private sector, for instance, because many companies have a similar enterprise model which makes it easier to 'ring-fence' standardised processes for outsourcing, such as billing, HR or payroll.

FIGURE 1: Spending on outsourcing



## SURVEY STATISTICS

For this survey on the use of outsourcing, PMP Research spoke to a broad cross-section of companies.

Around a quarter (28%) come from very large organisations, who have traditionally been the pioneers in this area – 11% of those polled record a turnover greater than £10 billion, a further 2% fall into the £5 billion to £10 billion bracket, and 15% are in the £1 billion to £5 billion range.

But the views of smaller operations are also included, since 18% have a turnover of between £50 million and £100 million, 16% between £100 million and £200 million, and 21% report a £200 million to £500 million turnover.

Computing facilities are widespread amongst our sample since 10% have more than 20,000 desktop systems in place. The biggest proportion (31%) have between 1,000 and 5,000 such systems, while 14% have 5,000-10,000 and 12% between 15,000 and 20,000. Just 10% have fewer than 250 desktop systems in use.

FIGURE 2: Types of outsourcing currently used

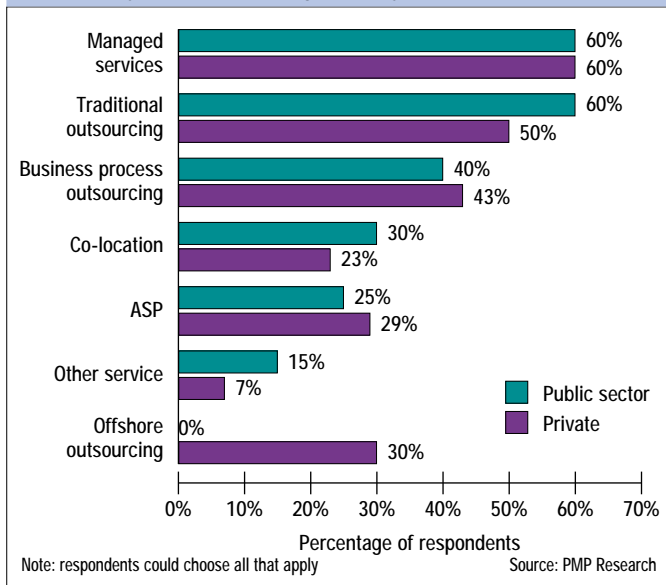
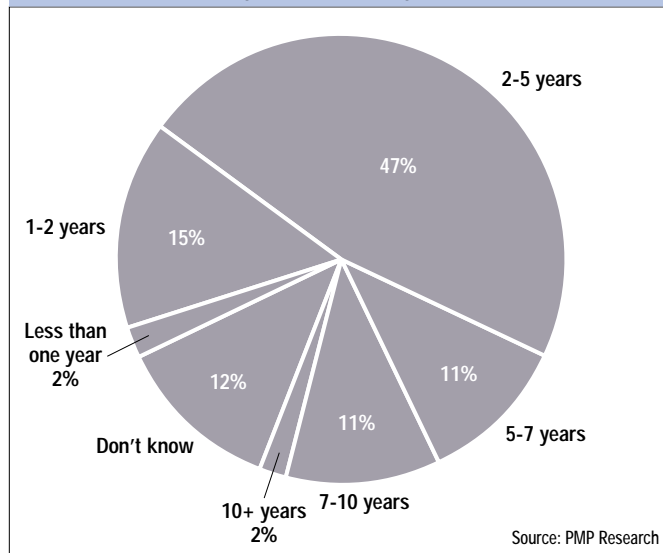


FIGURE 3: Preferred length of outsourcing contract



But our survey indicates that public sector agencies are starting to see the virtues of adopting common approaches and reducing the number of specialised applications.

However, the biggest and most clear-cut difference between private and public sector use of outsourcing relates to offshore services. This is where activities such as application development take place in another country – which often combines a good supply of high-quality graduate labour with a lower-cost economy. Call and customer service centre operations are another common candidate for this approach.

Indeed, 30% of the private sector organisations in our sample currently make some use of offshore facilities.

In contrast, not a single public sector respondent records any use of offshore services. Since many public sector organisations are sophisticated buyers of outsourced services, with many years' experience, this seems unlikely to be the result of mere oversight. More probably, a focus on EU-approved suppliers combined with political pressure to use UK or local service providers are the drivers here.

Overall, enthusiasm for offshore outsourcing is more muted than might be expected from recent publicity, with 45% of our sample describing this option as 'not very important' to their future plans and just 11% indicating offshore services will play an increasingly important role in their organisation.

As to which areas of IT companies choose to outsource, the most common currently for both private and public sector organisations are website and e-business activities, which are cited by 54%. A further 31% plan to outsource these activities in the future.

Network infrastructure (53%), along with desktop systems (47%), IT helpdesk (47%) and service infrastructure (46%) are also popular areas to be outsourced right now, with around 30% of our sample aiming to do so in the future. The increasing availability of high-bandwidth, lower-cost network services across the EU and UK probably play a part in this.

In contrast, applications hosting – outsourced by 43% currently with 27% intending to do so – and data centre operations (outsourced by 33% now with 20% indicating future interest) share a relatively low profile.

Outsourcing contracts are most likely to be for a period of between two and five years, according to 47% of our sample (see Figure 3). Only 11% would consider either a five to seven-year deal or a seven to ten-year contract, while just 2% expect to sign up for more than 10 years. Short-term contracts are popular, with 15% indicating that a one to two-year timeframe suits their organisation.

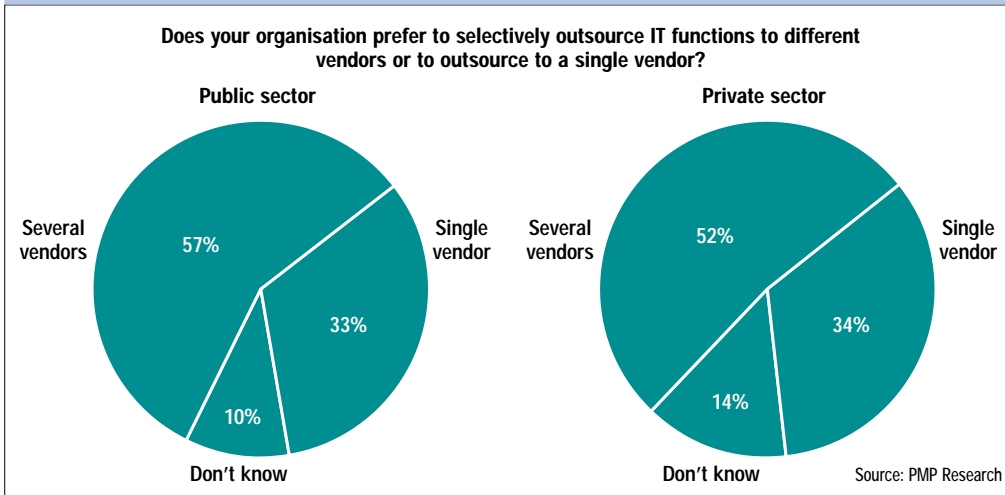
We asked the sample to identify what they see as the key requirement of any potential outsourcing supplier – using a scale of 1 to 5 where 1 is equivalent to 'not important' and 5 is 'very important'.

The aggregated scores show that financial stability, coupled with a willingness to work in partnership, are the chief characteristics sought, both scoring 4.5. Wide-ranging IT expertise (4.2), a willingness to share risk (4.1) and a good cultural fit with the organisation's own staff (4.0) are also important.

However, commitment to innovation (3.5) – despite being frequently cited as a reason to look for an external specialist – is not routinely viewed as significant and nor is the ability to offer global capabilities (2.8), which will disappoint the many outsourcing providers who have devoted considerable effort and investment to achieving this kind of reach.

Instead, suppliers would do well to note the key factors which influence companies once they start the evaluation and

FIGURE 4: Choice of supplier



selection process. These are first and foremost the vendor's ability to demonstrate an understanding of the company's requirements (86%), followed by the quality and professionalism of their staff (82%), and their technical and commercial expertise (78%).

Companies clearly prefer to check that vendors really can perform as they claim, with 41% of our sample labelling reference sites as 'very important' when

evaluating specific suppliers.

Nor are companies overly keen to put all their eggs in one basket. More than half – 52% of private sector companies and 57% of public sector bodies – prefer to outsource selected IT functions to different vendors, rather than using a single supplier (see Figure 4).

Public sector organisations go further, with 57% indicating they would consider multi-source contracts from a consortium of IT vendors, compared to 44% of private sector companies.

Overall, three-quarters of companies would contemplate renewing their outsourcing contract without going to tender, provided they had a good working relationship with the outsourcing company and service level agreements were being met or exceeded. Significantly, meeting agreed financial objectives carries less weight (68%).

## Bigger goals

One of the most striking findings is that organisations from both backgrounds are no longer primarily concerned with divesting themselves of unwelcome technological distractions. Instead they have much more ambitious goals for their outsourced services.

We asked the sample to identify the key reasons to outsource, again using a scale of 1 to 5. The aggregated scores in Figure 5 reveal the main ambitions are to reduce operational costs (4.1) and improve service levels (4.0), whereas the freedom to focus on core business issues rates a lesser 3.8.

And while companies are anxious to gain access to specialist IT skills through outsourcing (3.8), they are less concerned about using advanced technology (3.4). Nor are they especially looking to reduce risk (3.7).

Instead, the key aims are to carry on using the same technology as before, but with the sort of economies of scale outsourcing offers, combined with higher service levels measured via specified metrics.

The main barrier to such an approach is likely to be problems managing the relationship with the outsourcing supplier – cited by 70% as potentially a major issue – along with a lack of the specialist IT knowledge required internally to manage deals successfully (69%).

Half of our sample also anticipate problems in managing service level agreements (SLAs), which is mentioned by 56%. But issues such as a lack of contract flexibility (51%), changes in personnel at the outsourcing supplier (49%) or problems interfacing with other inhouse IT systems (38%) all seem to give rise to much less concern.

In fact, two-thirds of our sample reckon that their existing

FIGURE 5: Key reasons for outsourcing IT activities

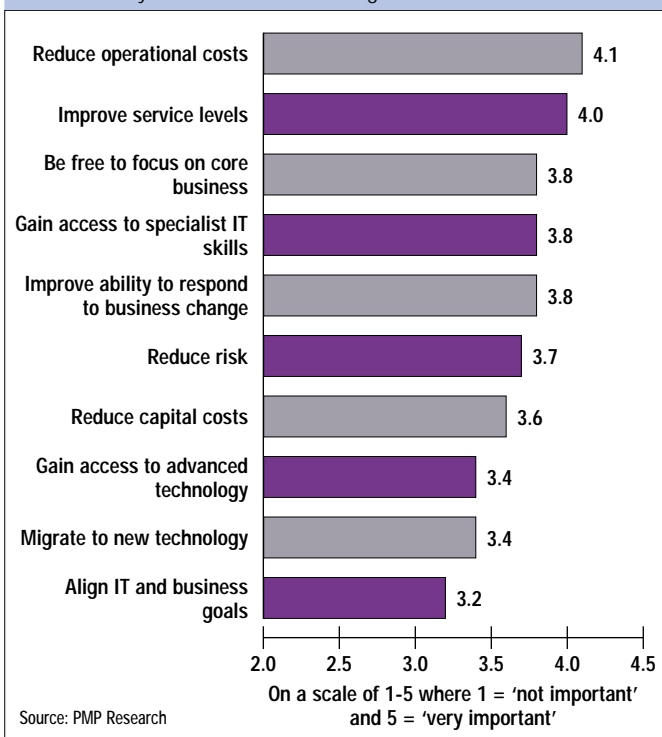
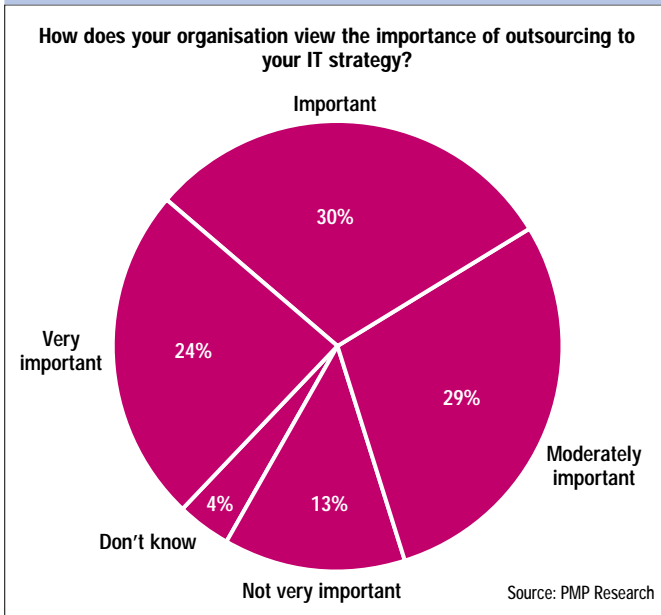


FIGURE 6: Strategic importance of outsourcing



SLAs are either met exactly as they anticipated (58%) or even exceed expectations (8%). Just 18% report that their SLA falls below expectations and only 4% well below the expected standards.

Half of our sample believe that outsourcing has delivered benefits such as access to a wide range of IT skills (56%), measurable cost savings (52%) and improvements in service level (45%).

It is not surprising, therefore, to find that a similar proportion believe that outsourcing is either 'very important' (24%) or 'important' (30%) to their IT strategy, with only 13% suggesting this approach is 'not very important' (Figure 6).

With half their potential buyers won over already, and some substantial benefits delivered, outsourcing suppliers just need to convince the other half to overcome their doubts and jump onto the bandwagon as it gathers speed.

● *If you are interested in this study, please contact Steve Markwell at PMP Research. Email: [stevem@pmp.co.uk](mailto:stevem@pmp.co.uk).*

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