

# **Outsourcing IT Management Functions is Fast Becoming a Key Growth Enabler for Small-to-Medium-Size Businesses**

**By**

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## ***Not Just for Big Companies***

Both supply and demand for small business outsourcing is stronger than ever, according to the *Fifth Annual Outsourcing Index*, published by The Outsourcing Institute of Jericho, NY. and covering the period from January to June 2002. Some 60% of companies with fewer than 500 employees expect to spend \$1 million to \$5 million on outsourcing during 2003, and an additional 20% have each budgeted up to \$1 million for outsourcing. Some 58 percent of respondents from the smallest companies (under 500 employees) listed improving company focus as a primary reason for outsourcing.

The institute's report said that "more than a market equalizer, outsourcing today is a key growth enabler for small to medium-size firms. Outsourcing offers economies of scale resulting in more predictable costs, shared or reduced risk, as well as access to expertise and infrastructure (resources) small businesses typically cannot afford on their own." Furthermore, entrepreneurs gain time and energy to focus on what they do best without incurring additional overhead expense from having to hire technical managers.

Frank Casale, founder and CEO of The Outsourcing Institute, says "Outsourcing is the practical tactic that enables small business owners to leverage other people's resources to ease growing pains or navigate a market slump...Success is hinged to the resources and talent you can access."

## ***An Accelerating Trend***

Information Technology represents 28% of all outsourcing activities in the U.S. -- growing at a rate of 18% annually, based on the Outsourcing Institute's 2001 *IT Index*. Spending on IT outsourcing reached \$56 billion in 2000 and is expected to top \$100 billion by 2005, according to a 2001 report issued by IDC, a Framingham, Massachusetts-based market research firm.

Why this accelerated trend toward IT outsourcing? For many firms, the slowing of the economy has sharply increased interest in working with outsourcing partners to increase efficiency and avoid in-house capital costs.

In the wake of Y2K system upgrades, there is also a need to consider a transformational approach to outsourcing focusing on managing uncertainty and increasing flexibility when coping with ever-changing market dynamics. In addition, some firms are in various stages of privatization and deregulation resulting in radical new ways of doing business.

Global expansion is another outsourcing driver -- enabling strategic change and as a catalyst for overall business transformation. With ongoing pressure on executives to protect bottom line numbers, it is little wonder there is a focus on creative ways to further cut costs.

Whether small or large, companies today are embracing a variety of scalable outsourcing methods. Many businesses see it as a way to augment internal IT staff functions. Others consider outsourcing only for specific short-term projects, while still others view it as a cost-effective way to transfer all or most of their IT department's management function to a trusted vendor.

### ***Why Many Firms Seek Vendor Support***

In the *Annual Survey of Current and Potential Outsourcing End Users* published in 1998, the Outsourcing Institute found that the majority of reasons why companies outsource fall into the following categories. (NOTE: Subsequent research has shown that these reasons are still valid today, with some items moving up or down on a given firm's priority list.)

- Reduce cost and control operating expense
- Improve company focus
- Gain access to world-class capabilities
- Free internal resources for other purposes
- Resources are not available internally
- Accelerate re-engineering benefits
- Function difficult to manage/out of control
- Make capital funds available
- Share risks
- Cash infusion
- Plus, a desire to reduce human resource (HR) problems

Secondary reasons for outsourcing include:

- The ability to take advantage of more current hardware and software technology available from outsourcing firms;
- As a transitional solution while directing resources toward a more current application and hardware platform;
- To eliminate the need for an expensive hardware upgrade, data center expansion or data center relocation, as well as
- To off load certain application processing functions from the mainframe processor.

As a result of these and other factors, there is tremendous interest today in business process outsourcing (BPO) as well as in technology outsourcing – recognizing that the value is created from the process, not from the technology per se.

In general, more and more companies are looking at outsourcing not just as a tactical, reactive approach, but also as a strategic and proactive move.

According to a survey conducted by Stamford, Connecticut-based Gartner research in 2001, some 56% of respondents were increasing their IT budgets over those in 2000, despite the economic slowdown, as they continue to seek immediate cost-reduction goals and longer-term strategic solutions.

## **Benefits**

Verizon Information Technologies Inc. research in 2002 revealed that there are 10 key benefits associated with outsourcing IT requirements:

- More profitable use of valuable IT talent
- Reduced IT overhead
- Reduced capital expense
- Improved IT performance and reliability
- Gaining a technology edge over competitors
- Access to different skills and technology as required
- Accelerated development and time-to-market cycles
- Reduced risk of unscheduled downtime
- Smoother, less costly, technology migration
- Increased business contingency and continuity capabilities

Other advantages for considering IT outsourcing listed in the Verizon report include a need to improve overall organizational efficiency, a lack of strategic relationships with world-class technology vendors, a need to improve customer satisfaction, a desire to reduce costs and improve cash flow, internal IT resources that are not keeping pace with business growth, along with a desire to reduce the management burden while retaining decision-making control.

## **Success Factors**

The outsourcing process begins with the selection of the right vendor, but other factors are equally important, such as having a properly structured contract, the ongoing management of the relationship as well as the vendor's ability to understand your company's goals and objectives. Other key ingredients of success include: senior executive involvement, a strategic vision, open communications and near-term financial justifications to show an early return on investment (ROI).

The vendor you choose should be upfront when it comes to discussing price, offer flexible contract terms, have a strong commitment to quality as well as access to a wide range of resources and other value-added capabilities it can bring to the engagement. The reputation of the vendor, based on good references (based on solid existing relationships) and combined with a track record of success, along with a close cultural match between the two parties should all be considered.

Portola Systems, Inc. can provide the information you need to make an informed vendor decision. Our subject matter experts in the following divisions can assist you at each step of the outsourcing process – from Consulting, Engineering and Remote Managed Services to Applications Support. For more information, visit [www.portolasystems.net](http://www.portolasystems.net) or call 707-824-8800.

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