

# IT Mentor

TOPIC FOCUS: HIDDEN OUTSOURCING COSTS

## The Hidden Cost of IT Outsourcing

### SPECIAL POINTS OF INTEREST IN THIS ARTICLE:

- Finding Your IT Outsourcing Partner
- Transition of Support Services
- Where and Why Outsourcing Problems Begin.
- Are You Really Saving Money?
- Field-Proven Techniques to Avoid the Hidden Costs of IT Outsourcing.

*"With over 20 years experience delivering measurable improvements in Application Support Outsourcing, we guarantee our results - in writing! Call us. We'll deliver results for you!"*

*Tony Salvaggio  
President and CEO  
Computer Aid, Inc.*

### Computer Aid, Inc.

1390 Ridgeview Drive  
Allentown, PA 18104  
United States  
(610) 530-5000  
www.compaid.com



**You know it's gonna' be 'one of those' days.**

**H**ave you ever had one of those days when you get to the office at 8:00 am, pour your first cup of coffee, begin reviewing e-mails... and one jumps out marked "URGENT?" It's from your boss requesting that you attend a meeting in his office at 9:00 am today.

You get to the boss's office and after the usual pleasantries, the bomb hits... there are any number of bomb-types:

- Business is not doing well; all departments, including IT must cut 20% from their application support budgets by the next quarter.
- Company decision-makers have elected to re-platform critical business systems with an enterprise solution; existing systems must still be supported with no drop in service.
- IT application support is not considered your company's core competency. Management plans to outsource to an application service provider. Significant savings must be achieved while maintaining service levels.

The "bomb-types" that require IT outsourcing decisions can be described as follows.

### Find Your IT Outsourcing Partner.

Your next task is to find an outsourcing partner who will get the job done right... for the right cost while keeping the business users happy *and you employed.*

The vendor selection process begins; you establish all the criteria the vendor-candidates must meet. You receive hundreds of pages of RFI's and RFP's that allow you to drill down to the final top 3 or 4 candidates; each company's value propositions is compelling and fits your company's requirements.

- They all say they can reduce your cost by 20% to 30% because of highly qualified but inexpensive labor.
- They are all CMM Level 5 Certified.
- They all have defined service metrics and long lists of Fortune 500 customers.
- They are all well-known in the industry with impeccable reputations.
- They all have SLA's and can produce performance reports, charts and graphs.



**CAI's Bob Anderson  
IT Mentor Advisor**

Read on, he'll tell you how to avoid the hidden costs of IT Outsourcing.



# IT Mentor

PAGE 2

**Y**ou finally select a vendor because they have the industry experience and fit your criteria. However, in your heart you still know that despite your effort it is still a “crap shoot.” You put in place all the right checks and balances and performance metric requirements; it seems like all your “i’s” have been dotted and “t’s” crossed.



For the purposes of our discussion we will consider a scenario of outsourcing Application Support services. The following information, however, is valid for any IT function or service being outsourced.

## Transition of IT Support Services

Once the contract is awarded, the outsourcing process begins with the “Transition” of support services to the new vendor. The transition process is one of the most critical and riskiest activities your company will ever undertake.

To use a metaphor, think of open heart surgery on your company with you as the surgeon. The transition of application support services starts and for a while all goes well. Then, as the vendor begins to take over support responsibilities things begin to “spin sideways.”

## Where are the Problems?

The spending rate is in line with projected budget numbers, but there are disturbing rumbles from your organization. Business users indicate that application support is not meeting their expectations. IT staff is being overloaded with problems the vendor’s staff should be handling. Work status and measurement reports from the vendor are not in synch with what you are hearing. The problems must be hidden or missing from service activity and metric reports provided by the vendor.

## Where and Why IT Outsourcing Problems Begin.

1. The transition of support services to the vendor is behind schedule because of inadequate planning or lack of transition process disciplines.

2. The vendor’s team is taking an inordinate amount of time to answer technical questions and fix application problems.

3. The vendor is experiencing high employee turnover.

4. Vendor’s support personnel do not appear to have a good grasp of the application functions or your business because no business training was done as part of Transition.

5. Quality of software work products has dropped.

6. Delivery of application enhancements has slowed significantly, defects have increased and the backlog is increasing.

## Where the Hidden Problems and \$Costs of IT Outsourcing Pile Up.

- Additional **\$Cost** because your IT staff cannot move to new assignments. They are still fixing problems, many of which are caused by the vendor. Your staff continues to fight fires with application users because of a lack of specific problem-solving techniques known only by the your IT support staff.
- The vendor’s staff seems to be missing critical application knowledge that is in the heads of your support team. Vendors must learn solutions that were previously known but undocumented by your staff; resulting in delays and additional **\$Cost** to fix application problems.
- Additional **\$Cost** to business users, because they cannot perform their job while waiting for your vendors to fix their problems.
- Business opportunities lost to the competition because your critical business function enhancements are delayed. Your competition does not seem to have this problem.
- Additional **\$Cost** because users are taking longer to complete their normal business functions because of the additional time it takes to get technical questions answered by the vendor.

*“CAI has a structured methodology for Managed Maintenance that plans for thorough knowledge transfer and rapid transition of team members to full support.”*

Michael V. Hmel  
Senior VP  
Fed Ex Ground  
Information Systems

### Computer Aid, Inc.

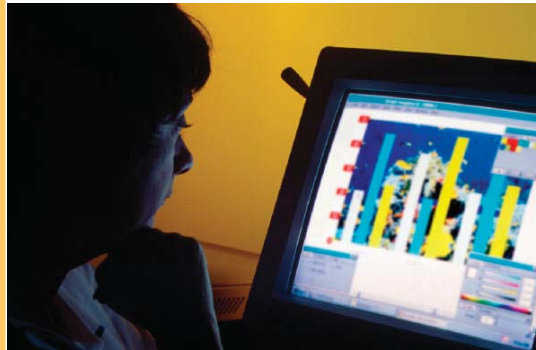
1390 Ridgeview Drive  
Allentown, PA 18104  
United States  
(610) 530-5000  
www.compaid.com



# IT Mentor

PAGE 3

## Where the Hidden Problems and \$Costs of IT Outsourcing Pile Up.



*"CAI's processes, methodologies, and metrics are invaluable to our business. Choosing CAI as our prime application support partner will reduce our expenses, saving us over 25% per year in direct costs."*

Anne Wilms  
Vice President and  
Chief Information Officer,  
Rohm & Haas Company

**Computer Aid, Inc.**  
1390 Ridgeview Drive  
Allentown, PA 18104  
United States  
(610) 530-5000  
www.compaid.com

- Vendor staff turnover means additional application knowledge is lost resulting in **\$Cost** associated with the vendor retraining new people who must relearning or recreate knowledge needed to support the application and business users.
- More lost time and additional **\$Cost** required for the new Vendor's staff to find and fix problems, respond to user queries and develop application enhancements.
- Additional **\$Cost** for vendor personnel to re-search application functions and how they work for business users. They cannot communicate effectively with application users because they do not understand business terminology used in your company.
- Software defects go up resulting in additional **\$Cost** for re-work and additional **\$Cost** in lost productivity of business users – A double hit!
- Additional IT cost associated with managing the vendor and possibly additional infrastructure for remote locations.
- New processes, artifacts and communication requirements necessary in an outsourced and possibly remote IT support environment.
- Additional cost to the business if support services are slow and/or inadequate.
- Additional cost to the business if critical projects are delayed because of the vendor's inability to deliver on-time.
- If an off-shore vendor is involved there may be time zone, cultural and language differences. Additional cost of solution development because of misunderstood requirements, which create software defects, which in turn cause costly re-work.

## Really Saving Money or Just Shifting the Costs?

By the time we see these issues surfacing, both you and the vendor are in "reaction mode," putting out one fire after another with little time to fix the underlying causes.

Overall this means the IT budget may go down for awhile, but work quality and volume have slowed down significantly. Additionally, the business users are absorbing unexpected costs due to delays in knowledgeable technical support and timely issue

resolution. There are potential lost business opportunities because critical application changes are being delayed... or are not working when implemented.

What has really happened? In this example, IT is not achieving the **\$Cost** savings promised by the vendor AND the business is also being hit with additional **\$Cost** because of poor support service – the double cost whammy is kicking into high gear!

In order to know the "true outsourcing savings" you must know the, "true costs" of IT outsourcing, the following is a summary of these additional **\$Cost** elements:





## Field-Proven Techniques to Avoid the Hidden Costs of IT Outsourcing

**H**ow do we avoid or at least minimize the hidden costs of IT Outsourcing? How do we get early warning before we get to the point where the cost of IT Outsourcing far exceeds the “value” being delivered? The following is a summary of field-proven techniques that, if implemented, will significantly reduce the “hidden cost” of IT Outsourcing for both IT and business users.

1. **Vendor Contract Sign Off:** A contract which includes SLA's signed off by all parties, including business users.
2. **Industry Standards:** Consistent and appropriate use of industry standards like CMMI or ITIL.
3. **Achievable Project Plan:** A comprehensive and achievable project plan for transitioning support services from current provider to the vendor's support team.
4. **Knowledge Notebooks:** Detailed application knowledge notebooks captured by the vendor from the current application experts, including the current team leader.
5. **Vendor Training Program:** In order to communicate with application users a training program defining your company's business functions and terminology must be developed for the vendor's team.
6. **Verifiable Training Process:** A verifiable process for cross-training and re-training vendor support staff on critical application functions, problem history and fixes and business knowledge of functional area being supported.
7. **Communication Infrastructure:** Communication procedures, infrastructure and protocols in place. Where appropriate, video/audio conferencing facilities.
8. **Performance Report:** Work status, resource utilization, SLA performance matrixes report, schedules and recipients clearly defined.
9. **Process Assurance Procedure:** Vendor must identify in the contract what process assurance procedures will be used to verify that the work has been performed in accordance with the vendor's defined process standards.
10. **Data Collection:** A data collection tool must be used throughout the vendor's entire support team that captures data on all support activities: Work type, status, scheduling and backlog, resource loading, time tracking and data required for accurate SLA performance reporting.
11. **Customer Satisfaction Reports:** Customer satisfaction reports should be based on actual data collected on work performed for customers, not periodic and anecdotal Customer Satisfaction Surveys.
12. **QA Reviews:** Quality Assurance (QA) process and reporting in place for both Transition of services and continued support operations. Operational QA reviews are for the life of the contract and are usually quarterly unless problems require more frequent back-checks.
13. **Process Improvement Programs:** Process improvement programs should be an outgrowth of the QA process and agreed by both the vendor, IT sponsor and business customer.



*“CAI's methodologies continue to focus our organization on increasing value, through driving down fix and support work, and focusing on system enhancements. Our effectiveness continues to increase significantly.”*

Tom Murphy  
Chief Information Officer  
Royal Caribbean International

**Computer Aid, Inc.**  
1390 Ridgeview Drive  
Allentown, PA 18104  
United States  
(610) 530-5000  
www.compaid.com