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- Some debate over ITIL as its initial costs are very expensive when compared to the sluggish returns you get from it.

05/05/16

OUTSOURCING

"The delegation of certain functions, for a long period, to service providers outside a company".

- Top outsourced functions (EU) Maintenance 80%, Distribution/Logistics 70%, IT 67%, HR 58%

The outsourced company

- Companies are basically brands - everything outsourced or leased

- Nike - 49% of global sports apparel, 25% sales

40k employees but stock involved in production of their product

Principal business is the design, development and marketing and selling of

Virtually all product manufactured by independent contractors - basically a marketing business

- Have to remember that is the core of the brand

Factors in Outsourcing Decision

- Cost reduction achieved through economies of scale - achieved through centralised "green" data centers, preferential contracts with suppliers, and large pools of technical expertise

- Need for help transitioning to new technologies through access to larger IT talent pools

- Ability to handle peaks in processing

- An infusion of cash from selling equipment to outsourcing vendors

- Advantages for a product or service that is considered to be a commodity instead of a core competency

• Focusing management's attention on core activities

• Helping a company transition to new technology

• Gaining access to larger pools of talent with more current knowledge of advanced technology

• Helping implement ERP, enterprise, or web tools

• Knowing how to hire, manage and retain IT staff

Contract issues:

• Objectives

• Scope

• Deliverables

• Deadlines

• Contractor obligations

• Client obligations

- Financial Arrangements
- Escalation procedures
- Arbitration procedure
- Property rights
- Confidentiality
- Warranties
- Indemnities
- Limitations of Remedies

Full and selective outsourcing. Best of breed \rightarrow Suppliers are chosen for their expertise in specific tech area such as - hosting, web apps, networking etc.

Offshoring

- Is org. uses contractor services or even builds its own data centre in a distant land.
- Functions range from routine IT transaction to increasingly higher end knowledge based business process.
- Programmer salaries can be a fraction of those in the home country - other costs increase due to additional technology, telecoms, travel, project change and management overhead.
- Employed in many offshore companies are well educated and proud to work for an international company.
- Offshore providers are often profit centres and have well established certification programs.

Onshoring / Inshoring

- Performing outsourcing work domestically.
- May be considered the opposite of offshoring.
- Rural sourcing, hiring outsourcing providers with operations in rural parts of America is a growing trend.
- Lower salaries and living costs.
- Close time zones, similar culture, fewer hurdles crop up than dealing with foreign providers.
- Too small to handle large scale projects.
- May not have the most tech advanced people.
- Global warming may not be early.
- Client hopes to benefit from one or more ways of being close - geographically, temporally, culturally, linguistically, economically, politically or from historical linkages.

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Insourcing

- Drivers:
 - Good for core competences
 - Good for confidential or sensitive IS services or software development
 - True evaluate in house to complete software development projects
 - In house IT pros have adequate training, experience or skills to provide service according to plan
- Challenges:
 - Dealing with inadequate support from top management to acquire needed resource
 - Finding a reliable, competent outsourcing provider that is likely to stay in business

Captive centers

- An over sized subsidiary that is set up to serve the parent company
- Alternative to offshoring or near shoring
- 4 major strategies involved:
 - Hybrid captive: perform core business process for parent company but also serve non core to other parts
 - Shared captive: perform work for both parent and external customers
 - Direct captive: have a large enough scale and scope that it is a real potential to be sold for a profit by parent company
 - Terminated captive: has been shut down, usually because its inferior service was hurting the parent company's reputation

Back Sourcing

- Company takes back in house, previously outsourced IS, assets, activities and skills
- Partial or complete reversal
- 70% of outsourcing clients have negative experience and 25% have back sourced
- 41 of 70 north american companies would not consider back sourcing
- Back source after terminating, renegotiating or letting their contract expire
- Reasons often mirror those for outsourcing:
 - Higher than expected cost
 - Poor service
 - Change in management
 - Change in way IS is perceived within the company
 - Sometimes cost not reduced but provided opportunities

Back Sourcing Example - Hewlett

- American apparel maker, ended IS outsourcing after 13 years
- Original outsourcing contract integrated 12 individual account units with different systems into one system
- Hewlett packed and moved private in 2008
- COO facing a mountain of debt and public bankruptcy wanted to:
 - Bring IS operations back in house
 - Reduce costs
 - Overcome the lack of IS standardisation
- CIO concerned that the transition from outsourcing to insourcing would cause severe disruption to IS service level and project deadlines
- Hired a third party consultant
- Back Sourcing would help save money and respond to changes caused by both the market and internal forces
- The transition and implementation went smoothly
- By performing streamlined operations in-house, it was able to report 17% saving in annual IS expense after the first year
- Companies adopt outsourcing as means of controlling IS costs and acquiring better IT breed capabilities
- IS departments must maximize the benefits of these relationships to the enterprise and pre-empt problems that might occur
- Failure could result in deteriorating quality of service, loss of competitive advantage, costly contract disputes, low morale and loss of key personnel

Shared Service

- It's tried to do it for colleges - didn't work

Advantages of Shared Service:

- Economies of Scale
- Resilience
- Consistency/Standards
- Concentration of expertise

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- Career paths
- Cooperative learning
- Less vulnerable to loss of key personnel
- Easier to outsource components

Disadvantage

- Remote
- Local problems not ~~spontaneous~~ understood
- Forced unwanted ~~responsibility~~ standardisation
- Unreliable
- Problems in determining who pays what
- Priority conflict
- Communication problems

KPMG REPORT - DEAL TRACKING

- In terms of value 70% of deals by value originated in US followed by Spain (5%)
- Average deal tenure has been consistently increasing since 2014
- Defense and government sectors continue to be the top consumer of IT-BPO services contributing 44% and 30% respectively in terms of value of all outsourcing deal signed in Q3 2014

Mazars Report

- 33% of companies indicated they were more likely to move to an outsourced model as a result of the economic downturn
- 25% of companies indicated that they would increase their use of outsourcing in the next 12 months
- 92% of organisations believe outsourcing add value to their company
- Results indicate a continued strong demand for highly skilled outsourcing services in the Irish market with IT managed services and web hosting being the most common activities that companies outsource
- Primary reason for outsourcing is to enhance process efficiency and quality and to relieve internal resources to concentrate on core functions