



# Value of Selective Outsourcing

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Businesses are increasingly relying on networks, systems, applications and databases to stay competitive and enable rapid innovation. Pressure to control costs and improve performance continues while pressing strategic initiatives are competing for a company's limited IT resources. Consequently, businesses have migrated many of their mission critical applications to new support models that allow companies to selectively outsource functions that enable predictable budgetary operational costs, eliminate capital for expensive management software, while meeting the demanding needs of the business in terms of performance, security, availability and regulatory compliance. Buyers of IT services are now finding a proven and successful model for utilizing third-party resources to meet these challenges: **selective outsourcing**.

### Outsourcing vs. Selective Outsourcing -

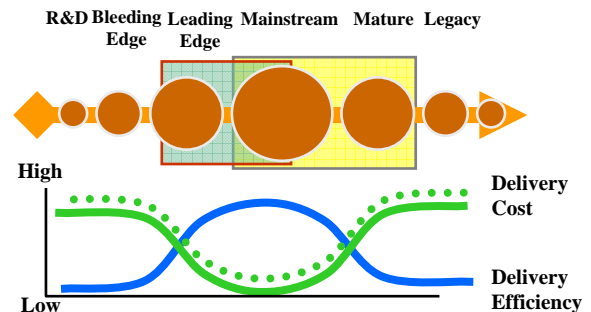
Large scale outsourcing deals, where a company transfers equipment and people are expensive, require long-term commitments and have huge implementation efforts. Many companies find traditional outsourcing deals have slow transitions and typically result in a loss of control and visibility. Sole sourcing these types of engagements is not typically done as they could eliminate the valuable knowledge transfer that occurs when evaluating the approaches vendors have in their models. Seeking competitive bids for large outsourcing deals, although expensive and time-consuming, are done largely to assess potential deal structures and strategic alternatives. Although the bidding process attempts to compare 'price', it is more likely to illustrate the differences in vendor's approach and can be an exercise in 'finding the costs', i.e. what is not included, etc.

### Selective Outsourcing - The Best Alternative

- More and more companies are discovering that selective outsourcing is the most flexible and cost-effective way to manage their business-critical IT/Communication infrastructure.

Unlike traditional outsourcing, where an outside organization takes control of your equipment and your staff, selective outsourcing allows your IT organization to contract for the specific critical service needed to run your IT/Communication infrastructure – while maintaining overall control. Selective outsourcing services are an excellent option or technique for those who want to create business value AND reduce costs.

**Why Do-It-Yourself? -** Selective outsourcing is more likely to be viewed as an alternative to 'Do-It-Yourself' than to traditional outsourcing. The DIY approach requires significant in-house expertise (24x7x365 availability), investments in sophisticated management tools and the ability to integrate new complex business processes. Couple those requirements with the challenges of introducing emerging technology and regulatory compliance issues, and many companies find they are faced with difficult implementations, lack of experience and unexpected and significant hidden costs.



Is selective outsourcing a good alternative for you company? Generally it is suggested companies evaluate their current business IT requirements against available resources. Day-to-day management of IT infrastructure can negatively impact an IT departments' ability to support new strategic initiatives. Having to spread valuable technical resources over 24x7 coverage creates even more staffing problems.

Another common indication is that it is difficult to predict your IT budget and adopting new technology is required to meet critical business objectives. If you are faced with capital expenditures for management tools, worried about integration risks and believe there is a 'GAP' between the needs of the business and the resources of the company, then your company might benefit from selective outsourcing.

**New Support Models** - Selective outsourcing, specifically Remote Monitoring and Management services (RMM), are the fastest growing segment of IT services. Gartner research reports that RMM services are expected to grow by nearly 36 percent compounded annual growth rate (CAGR). RMM services are operations and management capabilities provided over a networked connect – public or private – from a central operations center based on a network and systems management platform.

In this model, an IT services vendor creates an IT management platform instrumented with a collection of proprietary, or commercial off-the-shelf, element and enterprise management applications. Typically services are charged using a monthly subscription model for a term of three years. The providers of RMM services range from carriers to system integrators to manufacturers to small, niche providers. Most providers market RMM services as providing increased availability, system performance and reduced costs and risks.

You will also find providers aligning along Small-Medium Business (SMB) vs. Enterprise, and their definition of infrastructure, network, systems, security and applications.

**Selection is Important** - Choosing a provider of selective outsourcing services can be difficult. Here are some considerations when looking for a solution provider. Many providers can only

manage a limited spectrum of technologies you need, leaving 'stuff' they do not offer to you. Find a provider who will be responsible for providing end-to-end services and takes 'own-the-problem' approach for managing other suppliers. Some providers require you to turn over complete control of everything (people, process, tools, etc), and will not let you have visibility to the network, systems or applications, meaning they do not realize why a company would consider selective outsourcing to start with. Companies want a 'right sized' solution, not a one size fits all. You want to select a provider who can avoid charging large up-front fees, one who can package services into solutions and can demonstrate the necessary infrastructure visibility to make you feel comfortable about having a partner who is accountable for increasing performance and availability, i.e. you do not want to have to wait 30 days after a reporting period to find whether you are within your Service Level Agreement (SLA).

**Getting Business Value** - If reducing your IT costs and creating business value is your objective, it is recommended to identify potential suppliers that match up well against your technologies and deal with them sequentially in terms of qualification and negotiation. This process, known as **sole sourcing**, occurs when a customer selects a single vendor to perform an IT services (such as IT selective outsourcing) without going to competitive bid.

By dealing with potential suppliers in terms of first choice, second choice, and so on until you find a fit, you will most likely find a selective outsourcer who creates the best business value (combination of reduced costs and improved IT value). Unfortunately, the knee-jerk reaction of some IT service buyers today is to develop a request for proposal (RFP) and send it out to as many "qualified" vendors as possible. This creates a tremendous burden of time and expense on

the buyers, who are not equipped or prepared to deal with the voracious information appetite of both their own senior executives as well as that of competing vendors. By establishing a competitive bidding process, most companies believe they are going to get the lowest price. That is certainly true if price is the only decision making criteria.

### **Competitive Bidding – Everyone Loses -**

I know it sounds counter-intuitive. When buying services particularly commodity services, creating a competitive bidding process can create enormous value as it can force competing vendors to reduce their price and therefore margins, against a standard well-defined deliverable. Where competitors range from IBM to emerging start-ups focusing on niche applications, prices range greatly and it will take significant work to analyze scope and definition differences, hidden costs, cultural compatibility and negotiate SLAs and terms. According to G2R, a leading technology services consultancy, customers seeking business value from their vendors find there are many drawbacks to the competitive bid process. These include:

**Mistrust:** The atmosphere of a competitive bid situation is sowed with mistrust. Vendors are convinced their good ideas are absorbed by the customer and then passed onto their competitors. Competitors know that the price they initially submit will only get beaten down as the negotiations continue.

At the same time, buyers are convinced that the vendors are reluctant about putting everything on the table in early negotiations (they are largely right).

**Margin Recapture:** What most users do not understand is that there is an enormous cost to the vendor in a competitive bid situation that is ultimately passed on to the customer. This flies in the face of conventional wisdom, which states that competitive bidding drives

costs down. A competitive bid process can ‘add’ up to 5% in sales costs to the total contract value. That 5% comes from somewhere. In a sole source dialogue the vendor sales costs can be reduced by 50% to 75%, savings that are often re-invested into the account.

**Hero Syndrome:** This is another defeating development in competitive bid situations. A manager or executive evaluates three competing bids of \$3m, \$4.5m and \$6m. According to vendors, more than 75% of the time the award goes to the \$3m dollar bid for one simple fact. The executive making the decision tells the CFO and/or CEO “I just saved you \$3m dollars.” There is limited thought as to the degradation of the service or the effectiveness of the solution. Most customers measure the price of a vendor against what they are spending today, without considering the potential investment costs to improve service, deliver increased performance and higher availability. A 20% reduction in total cost of ownership when measured against today’s investments might actually be 40% to 50% if measured against the appropriate levels of investment necessary to deliver operational excellence.

**Solution Degradation:** In today’s competitive environment, a \$3m difference in a bid cannot be explained away purely because of one vendor’s inefficiencies. More times than not, the customer gets a better, more robust solution for the \$6m than the \$3m. In addition to the little forethought in solution degradation, there are no processes or penalties in place for the manager who selects the cheapest solution, even though service quality may suffer.

**Lack of Differentiation:** Customers who are ONLY interested in reducing price can find it difficult to gain the full benefit of selective outsourcing. By the time the vendor list is down-selected to a set of finalist the negotiation becomes very cost competitive;

and any value attached to technological currency, geographic diversity, cultural fit and operational excellence, etc. has fallen by the wayside. All too often, the winning vendor in this situation begins to implicitly disinvest in the account. This takes the form of scope change being explicitly charged for, redeployment of high quality resources and less willingness to introduce new technologies.

Sole sourcing gives the customer more control over the relationship under less intense deadlines. This leads to a less adversarial relationship where there is ample time for the development of formal, robust SLAs, establishment of a mutually agreeable project migration plan and clear success measurements. The very best partnerships are developed as a result of identification of compatible requirements, agreement to common goals and on-going negotiations.

**Selective Outsourcing - Our Approach -** P4solve<sup>SM</sup>, our IT Management Solution, proactively manages the performance and security of your application, database, network and system infrastructure by identifying potential problem thresholds that alert P4's highly skilled operations staff. P4's delivery model leverages remote monitoring and management services from our Global Enterprise Management Center (GEMC<sup>TM</sup>).

Our Titan<sup>TM</sup> Intelligent Performance Platform provides automated problem identification, diagnostics and resolution for maximum application and infrastructure availability. P4 | Vu<sup>SM</sup>, our secure Web-accessible dashboard provides a customizable window into your operations, providing a personalized view on virtually every aspect of your network, systems and applications performance.

We utilize best practices derived from the IT Infrastructure Library (ITIL), our people are exceptionally talented and trained, and our technology is industry leading.

**Selective Outsourcing – Customer Value -** P4 customers realize significant benefits, including:

- Ability to redeploy IT resources to strategic business objectives
- Increased performance and availability of business critical applications and systems
- Capability to adopt new technology and minimize potential execution risks
- Avoid expensive management tools and costly integration
- 24x7 operational support, simplifying staffing complexity
- Improved regulatory compliance
- Lower and predictable total costs



## **P4 Performance Management, Inc.**

P4 provides intelligent and innovative selective outsourcing solutions to enterprise customers to ensure high availability of their business applications and communications networks through a combination of strategic consulting, network solutions and performance management. P4 offers industry-focused solutions to businesses in the financial, telecommunications, entertainment/media and information technology industries.

### ***Customer Challenges:***

- Ever increasing and unpredictable operational costs
- Lack of control and visibility of mission critical applications and systems
- Developing in-house solutions and maintaining expert resources is time consuming and expensive
- Increasing IT complexity and security threats
- Regulatory compliance requirements

### ***P4 Solutions provide:***

- Budget Predictability and lower total cost of ownership: Fixed monthly recurring fee structure with no capital expenditure resulting in potential immediate ROI.
- Control and Visibility: Complete real-time Web-enabled visibility and monitoring from the network layer to the application layer
- Managed Service: 24x7 monitoring and network management center support by dedicated industry experienced professionals
- Highly Secure: Reduces security threats and provides higher availability of enterprise applications
- Achieve Regulatory Compliance: Separation of management, data storage and third party audits

### **Contact Information**

For more information about P4 Performance Management, Inc. and our industry leading selective outsourcing solutions please call us at 919-783-1500 or visit our web site at [www.p4performance.com](http://www.p4performance.com).