

EXECUTIVE BRIEF

Comparing In-House vs. IT Outsourcing



Using a Cost-Benefit Analysis Framework for Making IT Sourcing Decisions

IT Outsourcing can be a very effective alternative to using internal information technology and resources, but a full understanding of the objectives and options are required to make that decision. The key to a successful outsourcing decision is the cost-benefit analysis, a mixture of the hard dollar costs and the less tangible soft costs, qualitative measures of needs, risks, and benefits.

The decision of when, how and what to outsource is also an essential part of the equation. Organizations evaluating their options for moving complex applications or functions, selective pieces of their IT environment, or their entire IT infrastructure to an external service provider – should consider how each option delivers on strategic business goals.

Some sample questions organizations should ask themselves:

- What are the goals we want to achieve from outsourcing?
- What are our core competencies and which services or functions are not core?
- What would be the cross-functional impact of outsourcing?
- What functions and services can the outside vendor manage better?
- What are the most critical IT and data security issues?
- What criteria should we use to select 'what' to outsource?
- How much experience does my IT organization have managing outsourced engagements?

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IT environments and expert management and support for your business.

Identifying Business Goals and Needs

The first steps towards a positive sourcing decision are to set those organizational goals and determine the desired success criteria for the sourcing decision. The decision whether to use internal or external IT services must be made by:

- Understanding the needs and limitations of the organization
- Identifying and prioritizing the goals of the sourcing engagement
- Developing appropriate measures for internal and external operations
- Conducting a cost-benefit analysis of the internal and external options

TYPICAL GOALS FOR IT INFRASTRUCTURE AND APPLICATION OUTSOURCING

Tactical Outsourcing Goals

COST REDUCTION

Take advantage of provider's lower cost structure and operational efficiencies to free funds for other projects.

COST AVOIDANCE

Eliminate big upfront investment and reduces the need to invest capital funds in noncore business functions.

SHIFT FROM CAPEX TO OPEX

Pay as you go model eliminates the need to carry debt liability and the hardware and software assets on the balance sheet.

ACCESS TO TECHNOLOGY AND SKILLED RESOURCES

An effective and practical alternative to building new capability from the ground up.

REDUCING COMPLEXITY AND RISK

Gain the expertise to handle complex applications and functions that are a challenge to manage.

Strategic Outsourcing Goals

IMPROVE BUSINESS FOCUS

Focus on core business while operational details are expertly managed by skilled specialists.

ACCESS TO WORLD-CLASS CAPABILITIES

Gain extensive resources and access to leading technology, knowledge, tools, and processes.

ACCELERATE REENGINEERING

Benefit from having an organization that is already reengineered to world-class standards -- take over systems and processes.

INCREASED AGILITY AND SPEED

Outsourcing allows organizations to can be more flexible, dynamic, and adaptable to market opportunities.

REFOCUS RESOURCES

Shift internal IT staff from noncore activities to activities with higher business value.

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Comparing Costs

An IT outsourcing cost-benefit analysis typically includes a comparison of the existing or future state of in-house capital and operational costs with the cost of externally provided services. To make an accurate and effective comparison, organizations must have a thorough understanding of all service costs and benefits.

While hard cost savings and the desire to avoid capital investments continue to be a top priority, business benefits and qualitative soft cost savings also play a role in the decision to outsource and the scope of the engagement.

Below are some costs categories as a starting point:

STANDARD COST CATEGORIES		
LABOR <ul style="list-style-type: none"> • Salaries/Wages • Overtime/Benefits • Payroll Taxes • Travel • Other Employee Expenses • Contract Employee Expenses 	HARDWARE <ul style="list-style-type: none"> • Purchases/Upgrades • Sales Tax @ XX% of purchase • Shipping • Installation • Write-off Old Hardware • Disposal Old Hardware 	SOFTWARE <ul style="list-style-type: none"> • Recurring License Fees • Purchase • Upgrades • Implementation • Write-off Old Software • Other
COMMUNICATIONS <ul style="list-style-type: none"> • Circuits • Other (Equipment/Capturing) • Other 	MAINTENANCE <ul style="list-style-type: none"> • Hardware • Software • Other 	ACCESS CONTROL <ul style="list-style-type: none"> • Infrastructure • Administration • Monitoring
RECOVERY/DR/ITIL <ul style="list-style-type: none"> • Staffing • Hardware • Software • Vendor Services/Testing • Other 	TECHNICAL EXPERTISE <ul style="list-style-type: none"> • Contract Programming • Internal Resources • Training • Other 	FACILITIES <ul style="list-style-type: none"> • Building/Floor Space • Property Taxes • Utilities/Security • Furniture/Equipment • Other
ONGOING SUPPORT <ul style="list-style-type: none"> • Audit • Legal • Insurance 	GAINS <ul style="list-style-type: none"> • Sale of Equipment (Gain) • Reallocation of Building/Space • Reallocation of Furniture 	GAINS <ul style="list-style-type: none"> • Internal Resources (FTEs) • Refresh Avoidance • Insurance

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Benefits are as Important as Costs

The benefits of IT application and infrastructure outsourcing can be significant. Financial and human resource limitations, the growing complexity of technology, and cost and risk of deploying new technology can present challenges to an organization's internal IT operations.

By outsourcing selective pieces of the IT environment, CIO's can leverage a service providers expertise, economies of scale, high performance, and enhanced IT service delivery to address some of their most pressing issues – and remove barriers to innovation and value creation.

IN-HOUSE CHALLENGES AND OUTSOURCING SOLUTIONS	
In-House Challenges	Outsource Hosting & Cloud Solutions
UNEXPECTED EXPENSES <ul style="list-style-type: none"> Thousands of out-of-pocket expenses Unpredictable ongoing costs of management and upgrades 	PREDICTABLE COSTS <ul style="list-style-type: none"> Save thousands on development Ongoing costs predefined, easy to budget Cost savings from economies of scale
STAFF/TRAINING BUDGET <ul style="list-style-type: none"> Costly new hiring and training of dedicated personnel 	NO IT STAFF/REFOCUS IT STAFF <ul style="list-style-type: none"> Lower cost of management and operations 24x7 service desk and support
HIGH MAINTENANCE <ul style="list-style-type: none"> Additional features such as security, capacity management, and device management are hard to deploy with lack of technical expertise and budgets 	WORLD CLASS SERVICE <ul style="list-style-type: none"> Solutions available right away Competitive pricing Extensive breath and depth of services
AGING SYSTEMS <ul style="list-style-type: none"> Productivity suffers dramatically if older version of technology and applications are still running in-house 	PREDICTABLE COSTS <ul style="list-style-type: none"> Best equipment, software and support available – refreshed to stay current Continuous investment & improvement
RETENTION & TRAINING <ul style="list-style-type: none"> In-house staff may not have the specialized training and experience Experienced staff may have high turnover rates 	SKILLED IT PROFESSIONALS & ENGINEERS <ul style="list-style-type: none"> We know the technology You have access to technical and IT engineering experts
YOU OWN THE HARDWARE/SOFTWARE <ul style="list-style-type: none"> (Apply Depreciation) 	YOU DON'T OWN THE HARDWARE <ul style="list-style-type: none"> No capital expense

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The Decision to Outsource

CIOs and CFOs are rethinking their IT strategies to improve business processes, cut costs and make sure their organizations are future-ready.

Outsourcing all or part of an organization's IT infrastructure, operations and applications is just one option in the CIOs tool kit for moving to the next generation of IT - and bringing IT in closer alignment with these business objectives.

Developing a systematic cost-benefit analysis can help assure that successful sourcing decisions are based on a clear picture of all the options, cost and benefits.

To learn more about how outsourcing your applications and infrastructure to Secure-24 can help your organization achieve its business goals, contact us at:

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Secure-24 is committed to helping your organization succeed by bringing the best innovations and technology to your IT needs. That's why we have developed strategic relationships with market-leading business and technology companies and emerging players. Working closely with our network of alliance partners strengthens our ability to deliver genuine business value to the enterprise and help clients make the most of their IT investments.

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