ADVANTAGES OF

I T
OUTSOURCING FOR
AMERICAN COMPANIES

During this pandemic period

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Contents

<u>INTRODUCTION</u>

How is your company doing in this difficult economic situation as a result of the global pandemic? Are you spending more in your IT department or are you just trying to keep up with booming technologies instead of spending money on your merchandising and marketing departments? Will income keep up with your increasing spending during this economic downturn, in which gross domestic product has been decreasing quarter over quarter?

During this period, companies take steps to reduce cash outflow. The success factor depends on how greater margins can be achieved with lower investment. During this difficult time, there has been a great deal of research and investigation into business spending on products and services. Most surveys and studies have concluded that enhancing efficiency and improving productivity while spending less is the key. These studies show that the decision to outsource and improve the margins of products and services would create more liquidity in a company.

IT outsourcing has long been a successful strategy and has become increasingly important over time. In times of pandemic like we are experiencing now, companies are trying harder than ever to find ways to cut spending. One of the best ways to achieve these goals is through outsourcing. While you can outsource a variety of tasks, from human resources to development to technical support, the real possibility and actual opportunity is to outsource IT work as a lot of IT professionals are located in countries like Ukraine, India and others, where hourly rates are much more competitive than America.

Companies and operations in the United States and other countries hardest hit by the pandemic are increasingly turning to outsourcing as a viable option in the field of internet marketing, development and call-center operations. Online sales have exploded in this period since the arrival

of Covid-19, as consumers seek alternatives to physical stores going out of business. Some of these near-bankrupt companies are turning to online marketing and sales, outsourcing most of their IT work to stay afloat.

<u>UNDERSTANDING OUTSOURCING</u>

Outsourcing occurs when a company hires an external third party to perform work that it would have otherwise performed internally. Companies often do this to save money by finding a third party who can do the same job for less than the company would have spent to employ its own people.

There are some important points to understand when outsourcing:

- Unlike the traditional meaning, outsourcing does not automatically refer to sending jobs abroad while that is often the case. While a company can outsource work to a foreign company, it can easily outsource to a firm down the street. Outsourcing abroad or overseas is known as "offshoring."

- Relating to the aforementioned, outsourced labor is not always done outside the company. An outsourced contractor can still bring his staff into the company's building. For example, a company can outsource its technical support department. In this case, the company would lay off its own technicians and the service provider would bring its employees into the offices.

- Outsourcing is not limited to manufacturing and call centers. Companies can outsource virtually any part of their business model.

- Outsourcing is not the same as buying a product or service. While the distinction can be a good one at times, outsourcing specifically refers to finding a third party to do work that the company would otherwise have done itself.

OUTSOURCING PHASES

Outsourcing involves transferring responsibility for carrying out an activity - previously carried out internally, to an external service provider. The service provider, in turn, provides services to the customer according to agreed service levels for an agreed fee. In many situations, the outsourcing activity transfer involves the transfer of personnel and assets. However, that doesn't need to be the case.

Outsourcing is often characterized by three different phases mentioned below.

1. The customer transfers the existing service to the service provider.
2. The services are provided by the service provider.
3. Termination / expiration, which could be either as mentioned below.

     i. Renegotiation / renewal of the service contract; or

     ii. Exit management either by:

    - The service returned internally – in house, which is usually rare in most practices; or

    - The appointment of a new service provider, which is more likely to occur.

Examples of Outsourcing

Some examples of outsourcing, in addition to IT outsourcing, are numerous and can be seen below.

- Application and software development.

- Technical support.

- Hosting.

- Telecommunication services.

- Database development and support.

- Infrastructure.

- Human resources management.

- Supply chain management.

- Accounting.

- Software maintenance and management.

- Marketing.

- Business process outsourcing.

- Legal documentation.

OUTSOURCING & OUTSOURCED COMPANIES

Outsourcing offers great advantages to companies. Cost savings and flexibility are the top two benefits of outsourcing. Most outsource companies work in countries with cheaper infrastructure and human resources compared to other countries. This would definitely result in huge savings in project costs or the cost of services. The aforementioned flexibility is another benefit of outsourcing. The outsourcing company, outsourcer, can make better use of its resources and spend more time on strategy development, planning, and marketing. It also helps reduce the overhead of the outsourcing company. Here, the outsourcing company only pays the outsourcee company for what it actually produced. While outsourcing can be beneficial most of the time, it also has some drawbacks, including lack of direct management control and unfavorable contract terms. Most outsourcing companies provide a highly trained workforce to meet the specific needs of their clients and build a relationship in the industry.

WHAT IS IT OUTSOURCING?

IT outsourcing refers to the use of external service providers to deliver business processes, applications, and IT infrastructure solutions that help companies grow at a much lower cost.

IT outsourcing is popular among companies of all sizes. The 2018-19 Spending and Staffing Benchmark study found that large companies had increased their spending on "nearshore" software outsourcing from 6.3% to 8.7%, while medium companies increased their investments into technology outsourcing from 4.7% to 6.5%.

Today, IT outsourcing has become a common practice among companies around the world. The global Information Technology services market size reached US $85.6 billion in 2018. There are many reasons why they decided to choose to outsource from the ability to reach a more diverse talent pool to cost reduction.

By partnering with a qualified, skilled and experienced external provider, companies can make optimal use of IT expertise without having to invest in building an in-house team of experts. In this way, companies can reduce their IT costs, take advantage of better technical skills, and get their products or services to market faster while smoothing out human resource usage.

On the surface, building an internal team may seem less expensive than working with an external IT expertise. However, considering all the factors involved in hiring that include new staff, salaries, hardware costs, software licenses, and cloud service subscriptions, not to mention maintenance costs and all the costs required to keeping your team updated on current trends ranging from training, workshops and also keeping them happy by providing benefits, a company would want to think otherwise.

This is why so many companies choose outsourced solutions. However, the cost of outsourced IT services can vary widely depending on the quality and scope you are looking for. Still, most small and medium-sized businesses will be able to meet their technology needs at a fraction of the in-house cost.

Additionally, outsourcing helps companies control their capital expenditures, as costs for IT services, which are set internally, are now variable, freeing up capital that can be used in other areas. As a result, these companies are more attractive to investors. Instead of spending thousands of dollars to maintain a small internal team in the company, they can channel these resources into areas that generate income directly.

HOW DOES IT OUTSOURCING WORK?

Outsourced IT services come in many shapes and sizes, depending on where and how the work is delivered. Here are some collaborative models you can choose from when working with a third-party provider:

Project-Based Outsourcing

In this case, the company makes all the information related to the project available to the third party, the external provider who is responsible for the entire software development process, including quality control, project management, and backlog development, sometimes combined with product development, UX design, and many others.

Body Leasing

In this case, the company buys employee time from the outsourcing provider, usually at hourly or monthly rates.

Offshoring and Nearshoring

In this case, the company chooses to partner with an external provider in another city, country, or even on another continent. These collaborations can be beneficial if the provider has experience working with clients in their geographic location.

Dedicated Teams

This is a business model in which the third party accepts to deliver software development experts to the company on a long term basis, within a separately functioning team that delivers agreed work to the client.

Expanded Teams

Ongoing collaboration between core internal team members and the professionals provided by the provider as an expansion to the team.

<u>ADVANTAGES OF IT OUTSOURCING</u>

Outsourcing your IT requirements has many advantages. It goes without saying that the most discussed advantage is nothing other than the opportunity to save a good deal of money. Compared to internal employees, an outsourcing company or firm does not get the typical benefits from your company's account such as conference tickets, paid holidays, etc. Therefore, your employees' overhead costs are bound to decrease.

These are some of the main reasons to consider.

1. Scalability And Efficiency

In the place of hiring full-time employees for an IT department these days, companies want to sign a contract with an IT consultancy to investigate their problems as they arise. This can take the form of one-time projects, hourly contracts, monthly contracts, or pay-per-visit terms. In this tough economic pandemic, the more scalable and mobile businesses are the more likely they are to prosper.

2. Opportunity to Completely Devote to Your In-House Core Activities

One of the many advantages of IT outsourcing is the ability to fully dedicate attention to your core competencies. You can focus on your in-house core activities without having to worry about other secondary tasks or non-essential activities. All of your secondary responsibilities are areas where you typically lack knowledge and experience. So, doing them in-house would take a few months, or maybe years, before you are able to eliminate inefficiencies. On the other hand, IT outsourcing companies most likely have taken on these jobs for many years and have reached that level of efficiency that you cannot jump to right away. So, instead of getting back behind the wheel, hire

professional IT experts who keep themselves up to date on market trends and know the latest technologies like the back of their hand. This helps generate income for your company in all situations.

3. Expert Advice And Risk Reduction

Companies nowadays can't risk the employment of an IT workforce and further down the line deal with the incompetence of said workforce who may or may not possess the advanced skills for complex IT problem solving needed for the foreseeable future. Therefore, companies who lack a technical workforce with the needed expertise go for IT outsourcing and consultation to determine their needs and the best way to implement solutions to maximize productivity.

4. Security

Unless your team specializes in computer security, you need expert advice to protect your company's sensitive data from cybersecurity threats such as malware or hackers. Third-party providers specialize in protecting assets against digital threats using the most innovative and advanced security tools. Furthermore, optimal security requires the installation of an infrastructure that is often very expensive. Outsourced services reduce these requirements and ease the digital security requirements for your company.

5. Free Up Fixed Costs

Companies don't have unlimited resources and hiring full time IT staff costs a lot of money. Having an IT person on staff requires back-filling during vacation, regular training, and upgrading skills and hardware. More time is needed to manage more personnel. The cost for one full time IT staff member can easily exceed 2 or 3 times the cost of a full time service contract with an IT

outsourcing company. You can free up fixed costs and allocate that money to other important areas of your company.

6. Peace of Mind From Employee Selection and Retention

Another often-overlooked benefit of IT outsourcing is security in employee selection and retention. If you're a small business on a low budget, hiring people may mean ignoring your core competencies for at least a few days. Additionally, it becomes a double whammy when the employee leaves your company and joins your competitor, leveraging multiple company secrets and competitive insights, and demanding a lengthy new hiring process. Therefore, IT work outsourcing is a pretty smart strategy and can bring several benefits that are rarely thought about.

7. Quick Implementation

If you're doing major IT projects or upgrades, an outsourced IT team can typically meet your needs much faster than any in-house IT staff. They have the ability to bring in more people, they already have relationships with contractors and suppliers, and they have probably already done similar projects for other companies.

8. Price-Performance Ratio

Even having an in-house team of talented developers doesn't mean you have to delegate them to work on every issue. First, consider their time and effort. Does it make sense to waste your company's best talent on IT support? They may be busy doing things that directly contribute to your company's goals. Outsourcing works like resource optimization because it helps you make sure that talented employees are free to do what they do best.

9. New Ideas

Just as you specialize in your business, so do IT professionals in their field. Every day, they are faced with new challenges and solutions, which lead to new levels of experience that are an extremely valuable resource for you to have at your disposal. No in-house IT staff would have the same experience and constant updating that an IT outsource company can provide. It gives them a new vision of your business and helps you come up with a proper plan to move your company forward.

10. Higher Productivity

Another advantage of outsourcing is that United States based companies can invest virtually the same amount of funds that would normally be spent on compensating one worker and sometimes get four or more experts who will in fact get the work done at a faster rate. The major outcome of outsourcing is "increased productivity," as you might never get the results that will be great for your business if you only hire one specialist. As a business owner, you need to understand that the benefits of outsourcing your IT work offers American business owners the chance to get a lot more control of their business results and also the chance to effectively plan their work activities in advance. All smart business owners know that for businesses to prosper there should be control and reliability in combination with expenditure variability improvements.

11. Capital And Time

Time is money and this phrase is especially true when it comes to small companies that cannot handle IT-related problems. Additionally, if IT problems cannot be solved within a certain period

of time since these companies are autonomous and are left with their devices, this can cause huge financial losses for such companies.

12. Cut Costs

Another major advantage of IT outsourcing is the need to spend the extra money it takes to keep innovating technology with each technology transformation. Constantly updating to the latest technology costs money, a lot of money, and it can also affect a company's plans at the least expected moment. In other words, this simply means that companies don't have to spend money on advanced equipment and / or software. The sad part is that companies may not even have to use the software they spent so much money acquiring. This is a really pertinent advantage of IT outsourcing.

13. Versatility

As your business evolves, it can be difficult for your IT team to keep up with developments or cope with changes. Outsourced IT providers can quickly adapt their services to the changing needs of your business and ensure that you are leveraging technology to achieve your goals.

14. Distribution of Business Costs

Large companies continue to outsource as costs are shared or distributed with third parties. Since third parties have their own specialty, they continue to invest in these facilities. This saves the American companies infrastructure investment.

15. Make Companies Competitive

Since most companies outsource their IT today, those that are not doing it have a cost disadvantage. To remain and survive in the competition, most companies are now turning to outsourcing. In fact, this level of competition often leads companies to explore new offshore outsourcing destinations with better technology infrastructure and better advancements.

SMALL BUSINESS OUTSOURCING

Small businesses have always been faced with the inability to meet their IT needs. Lack of resources whether staff, budgets, or resource management, has led small businesses to consider outsourcing because they have specific needs that only a few outsource companies can adequately meet. Affordable IT solutions that are easy to install and configure, service/support requirements, and most importantly, integrated and ready-to-use methods and tools are the most important requirements of an small business wishing to outsource its IT services.

What Drives Small Business to Outsource Their IT?

The small-business market is too eager to find affordable and easy-to-use IT solutions. Small businesses want IT solutions that are easy to install, configure, and require minimal tweaks and integrations. Above all, they demand responsive and reliable customer service and support. They do not take customer service or technical support for granted. For many small businesses, technical support from a solution provider is not just a convenience; it is a critical IT service for the business due to its limited IT resources.

The challenges and pain points of these businesses determine their specific needs. Most outsourcing providers specialize only on early adopters of outsourced software services, that is to say, large multinational companies. Therefore, there are only a few specialized service providers for small bussinesses that can adapt to their business model and needs. However, small and medium-sized businesses are still technology-intensive businesses that deserve a lot of attention from outsourcing providers. Small businesses should choose to outsource their IT to providers with experience in managing small business projects.

Reasons Cited by Small Businesses for Outsourcing

- Cost reductions.

- Access to better skills and in-depth experience.

- Access to the best and latest technology.

- Increased user productivity.

- Reassigning personnel to more strategic activities.

- Convenience.

Common Reasons for Small Business Outsourcing

- Network connectivity: Monitoring and management of WAN's, routers, Internet connections, and VPN's.

- Security: Firewall Monitoring and Management, Virus Protection, Spam Prevention, IDS/IPS.

- Data Backup/Archive: External Storage, Shared SAN, Data Centers, Archiving Services.

- Messaging And Collaboration: Email, Web Conferencing.

- Software Applications: Licensing Management and ASP.

- Desktop Management: Helpdesk and Break/Fix.

- Server Management: Monitoring of Health and Performance Thresholds, Break/Fix, and Administration.

- Web Development/Electronic Commerce (E-Commerce).

- Database Administration.

Small businesses prefer IT solutions with simple pricing and no hassle, but they need the flexibility to use the technology in modular components that can be expanded when needed. It is also

important to understand the preferences of these businesses, including but not limited to brand loyalty, bundling, and packaging, as well as service delivery options such as outsourcing and software as a service when they upgrade and expand their IT environments. However, there are still problems that have prevented them from outsourcing their IT services. Part of those problems includes the items below.

Affordability

Recent market figures show that 40% of small businesses stated cost as still their main reason why they are not able to outsource. However, offshoring has shown that in most cases, the outsourcing option is significantly cheaper than hiring in-house staff as the costs of labor or infrastructure are lower at the provider's end.

Trust

The lack of clearly defined methods and contracts, quality certifications, security guarantees, and even cultural issues can contribute to a low level of trust among these businesses when it comes to outsourcing relationships. The provider must be able to provide confidence, expectations, agree to the contract, and act predictably and fairly to gain the trust of his customers.

Intellectual Property and Data Security

One of the main drawbacks of the adoption of outsourcing by small businesses has to do with the protection of intellectual property and information in general. These are business-critical issues, especially for technology-intensive startups that rely on innovation, and not all providers have the procedures necessary to ensure all of this.

Understanding

A clear understanding of the outsourcing process and benefits is minimal for small businesses. Offshore software service providers are more interested in adding Fortune 500 names to their customer lists and have often neglected to educate small businesses on the benefits of outsourcing even though they represent a large portion of American business.

Volume Of Work

Large service providers prefer to work with large companies that can outsource large amounts of work. The volume of work outsourced by small to medium businesses (SMB's) may not be achievable for large providers. This trend seems to be reversing, but slowly.

Management Experience

Small and medium-sized businesses do not have the management experience required to work on an outsourcing project. Large companies, for example, have specialized resources dedicated to managing providers.

SMALL BUSINESS OUTSOURCING MYTHS

Some of the deterrents mentioned above are just misunderstandings. Some of the most common statements that an SMB manager makes about software services being offshored are below.

We Are Too Small to Outsource

The reality is that it is very difficult to define the size of an organization that is ready to outsource. There are "virtual companies" that outsource all their development needs and only manage marketing and branding. If you see the need to develop software, you can outsource it.

We Cannot Outsource Our Core Product Development

The reality is that core product development can be outsourced and there are several success stories. However, it is imperative to conduct a thorough background check on the provider and ensure they have a good record of protecting intellectual property (IP) before outsourcing a core product development project.

It Is Expensive: We Cannot Afford Outsourcing

The underlying meaning of this statement again reflects the perceived difference in outsourcing core and non-core areas. You don't have to outsource for outsourcing's sake! Engaging an offshore partner is typically 30-40% cheaper if not more because the provider's infrastructure and labor costs are much lower.

The Return On Investment (ROI) Has Not Been Proven

The reality is that, by contrast, the ROI component of outsourcing has been proven time and time again. In fact, the greatest arbiter, the market, seems to be giving outsourcing a big boost. In

addition to reducing staffing and overhead costs, additional benefits, such as faster time to market and improved quality of the finished product can in some cases achieve a return on investment of more than 400%. Today the question is not whether to outsource, but when and how.

Factors to Consider Before Outsourcing

SMBs that have identified providers for outsourcing development/maintenance or are looking for a provider need to consider certain aspects that can easily anchor the outsourcing initiative. Some of the factors that SMB's should consider before signing the contract are discussed below.

Focus Alignment

Providers also come in different sizes with different priorities! Some of them are big operators and some of them are small. SMB's must select the provider that best suits the needs of their company and/or business. In determining the ideal fit, alignment of focus is a key parameter aside from a few other factors like culture, competence, skill, etc.

Lack of Well-Defined Processes

Small businesses and startups don't always have defined processes for managing outsourced software development. Many providers find it difficult to deal with this setup. Providers are more comfortable with companies with clearly defined processes. Companies looking to outsource must spend time defining the roles and responsibilities of their internal team and the provider's team. Most providers have sophisticated development processes in place that businesses can make use of.

Commitment To A Relationship

All major providers work with multinational companies and a small customer may not be considered as important as a Fortune 500 client. In other words, a large provider will most likely focus on serving large customers with enormous business volumes rather than serving small

customers. Small businesses should choose a provider that values the relationship and therefore has a share in the success of the engagement.

Background and Experience

Small businesses should analyze the provider's track record and experience working with small businesses and operations. Providers enjoy working with large companies and may not understand the nuances of working with small companies. Small businesses may not have the proper documentation or hardware/software infrastructure for testing, version control, etc. A provider with experience in working with small businesses should be able to anticipate such situations.

Risk Management

SMB's should seriously evaluate the risk management processes adopted by the provider. The recent trend among offshore software service providers is the adoption of a Business Continuity Plan (BCP). Providers with a clear BCP are more likely to provide uninterrupted service even in unforeseen circumstances.

CONCLUSION

Many companies outsource IT to reduce labor costs. Companies with IT departments in the United States should expect to save an average of 38% to 48% in labor costs or even more by outsourcing transactional IT roles and functions.

Outsourcing has been discovered by large corporations for some time, but it has barely caught the attention of SMB's. However, there are many proven benefits that should encourage SMB's to outsource their IT functions. More importantly, there are outsourcing service providers that fit the small business model and already have experience handling these types of projects.

Whether it's a large company or a small one, businesses of all kinds are now choosing to outsource IT services for many different reasons. Naturally, outsourced services offer many benefits, but it also comes with some less-than-obvious risks.

For this reason, companies must carefully weigh these benefits and risks before deciding to outsource any part of their services or systems to another company. Additionally, if you choose to outsource, you need to prepare for the risks that outsourcing involves.

Companies are increasingly using technology to manage non-critical operations such as internet branding, inventory management, human resource augmentation, and vendor billing. Although companies are outsourcing more during this time of the pandemic, many will continue to find value in the marketplace and adjust the way they operate to include overseas representation and management because of the flexibility advantages. The reduction of personnel and inventories will be the main areas of intervention in the restructuring of the company's procedures. These two areas represent the highest cost of a company and outsourcing is undoubtedly the solution.

As companies turn more to outsourcing to protect their margins, business process outsourcing companies are exploding with growth. As these overseas representatives gain more knowledge about internet marketing, social networking, article marketing, and web savvy branding, as well as development and staff augmentation they become less a service provider and more of a partner with troubling and struggling companies seeking relief. Choosing the right IT outsourcing company is the key to their success.

In order to attract the best clients, outsourcers are investing in the training of state-of-the-art, field proven technologies that large companies have come to expect. The right outsourcing IT companies are meeting the expectations of large industries so that they can meet a wide variety of business needs. Companies realize the advantages that come with new technologies without having to invest in them.

As companies reduce costs by outsourcing, they flatten the playing field in the market as a whole, taking pressure off of their IT departments, redirecting their call center operations, cutting labor costs and taking advantage of lowering the costs of their products and services. These cost saving measures can bring a company back to vitality, increase falling stock measures, and bring a company back into the fold. Building a partnership with an outsourcing company can make all the difference in the world.

There is no denying that IT outsourcing brings you many advantages that will help your business grow faster. Although there is risk involved in outsourcing, it is a common practice during this period and you can find many experienced providers in the market who can take your company to the next level.

Don't forget that your provider's best interest lies in helping your company thrive. Their success is based on you becoming successful. Finding a reliable technology partner is an excellent strategy to benefiting from a scalable and cost-effective solution and therefore, IT outsourcing is a great way to save money, augment your current IT staff, expedite major projects and generally reduce the headache of dealing with the day-to-day computer issues. Using IT outsourcing is the smart way to save time and money.