

2010

VERSION **1**



IT Outsourcing Survey

Introduction to the Survey

About the Survey

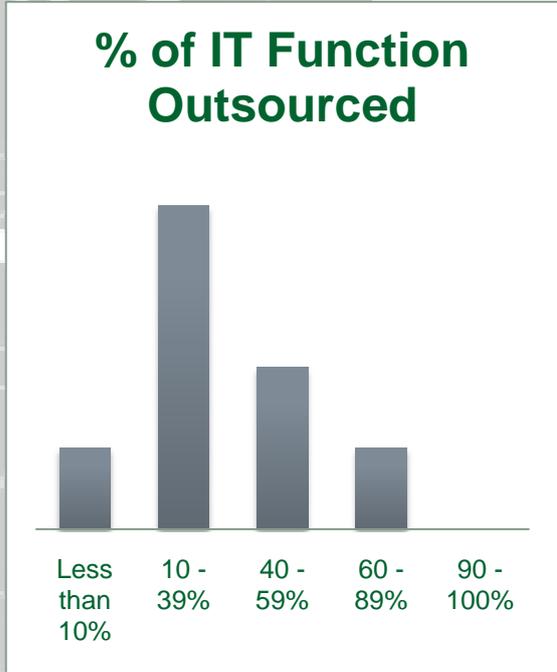
Version 1 recently conducted an IT Outsourcing Survey as part of an Executive Roundtable attended by a group of senior executives from Irish organisations in the Public and Private sectors. This was the first in a programme of Executive Roundtables to give senior executives a forum to discuss important topics effecting Irish business today. The CIOs and CFOs surveyed represented companies ranging in size from medium (500+ employees) to large (2,000+ employees). The survey was conducted to give insight into current and future IT Outsourcing trends and the associated benefits and challenges that Irish organisations face. This report presents both quantitative survey results and qualitative executive insights.

About Version 1

Founded in 1996, Version 1 is Ireland's leading IT Consulting and Outsourcing Company with in-depth expertise across a range of technologies and extensive experience in Government, Utilities, Financial Services, Education and Private Enterprise sectors. Version 1 provides outsourced support and maintenance services to over 140 organisations and has a dedicated 80+ strong support team staffed with ITIL®-certified professionals with expertise covering the entire IT function.

Current Trends

IT Outsourcing is defined as an organisation handing over some or all of its IT function or business processes to a third-party service provider. All of the executives surveyed said that their organisation was currently participating in IT Outsourcing. The survey indicated that most organisations were Outsourcing between 10 and 59 percent of their IT function to service providers. Business Applications, Databases and Hosting were the most popular area to outsource, while other categories such as Business Processes and IT Management were not being outsourced to the same extent.



Economic Downturn Drives Increase in Outsourcing

All respondents said they had either maintained or increased their level of outsourcing in the last 18 months. The deterioration in Ireland’s economic environment over this period has forced businesses to look at cost restructuring. Indeed, the survey indicated that the number one driver to outsource was the need to reduce operating costs. Other drivers that featured heavily included improving service quality, leveraging industry best practice and freeing in-house resources to focus on other business activities.

“Improved quality of service is being delivered at a lower cost.”

Multi-Sourcing is King

The majority of respondents indicated that they had adopted a multi-sourcing strategy, partnering with one or more outsource service providers. The multi-vendor model has become popular as organisations guard against vendor lock-in and seek to spread the risk. Taking the “Don’t put all your eggs in one basket” approach further, Irish organisations are decentralising outsourcing. While all executives surveyed were outsourcing to an Irish service provider, the vast majority were also either outsourcing to a UK and/or Offshore provider.



Quality Beats Cost

References and reputation was highlighted as the primary criterion used by executives to select a service provider. Sound experience in similar projects and industries, availability of specific skills and price were secondary criteria, with quality certification (such as ITIL or ISO), a local presence and a flexible business model being less important factors. In-house functional assessments, engaging with external consultancies and formal tender processes were the actions most frequently used in the selection process.

“Outsourcing enforces formality and definition of business processes.”

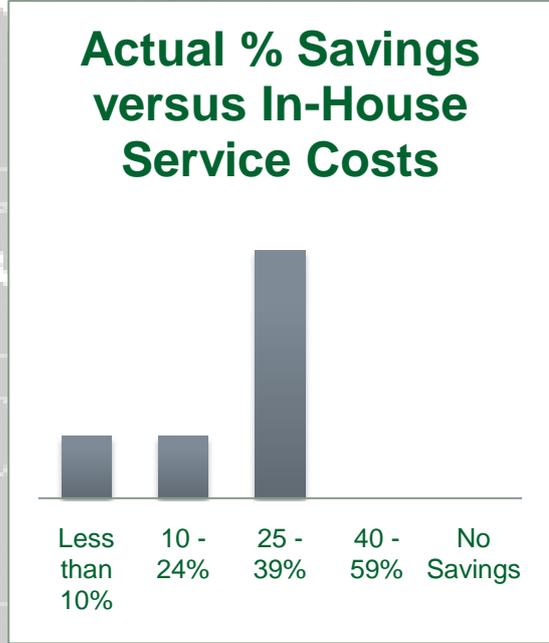
“Outsourcing makes you learn your business yourself.”

The Benefits

Tangible Cost Saving Achieved Through Outsourcing

Every respondent said that IT Outsourcing delivered significant business benefit to their organisation. The majority said that actual cost savings of outsourcing compared to the in-house service were in the region of 25-39%. All executives said that actual incurred annual costs of outsourcing were about the same as the expected contracted costs.

As well as tangible cost savings, other benefits organisations enjoy from IT Outsourcing include, in order, improved responsiveness and reliability of service, access to expert skills and the ability to leverage industry best practice.



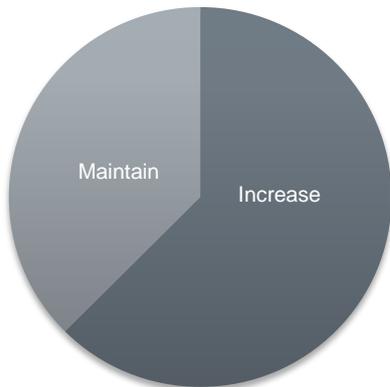
All respondents were positive about their outsourcing experiences, with 100% of executives indicating a high level of satisfaction with their main service provider. So how do executives ensure optimum value is delivered by their service providers?

The most common measures included Termination and Penalty Provisions, Service Level Agreements, Regular Performance Reviews and Performance Reporting against contractually binding KPIs. One participant suggested that

50% of contract negotiation time should be spent on provisions for termination and penalties for poor performance, however he went on to suggest that the vendor should be given the opportunity to 'earn back' any penalties through prompt and measurable improvements in service. Continuous Service Level Improvement Plans, Consolidation of Suppliers and Contracts and Benchmarking Services were being utilised to a lesser extent.

The Future

IT Outsourcing Levels (Next 18 Months)



All respondents said that they would be increasing or maintaining their level of IT Outsourcing in the coming 18 months. A result that is perhaps unsurprising given the level of satisfaction reported by the executives surveyed. But are executives facing any challenges with their service providers, and are there risks and barriers to increasing levels of outsourcing?

Challenges, Risks and Barriers

A minority of executives reported no major challenges with their service providers, while the remainder pointed to responsiveness, communication issues and poor quality deliverables as the main problems.

“Don't outsource a problem, this will fail - instead identify and agree opportunities for improvement that are truly achievable and work with your outsourcer to achieve these.”

Data Security a Major Impediment to Outsourcing

The top three risks associated with IT Outsourcing included Data Security, Vendor Management and Vendor Lock-In concerns. Issues regarding Data Security were high on executives list of potential barriers to outsourcing, with regulatory compliance and data loss being the main concerns. Vendor Management, or rather ineffective management, was identified as a risk to effective IT Outsourcing. Acknowledgement that the skills required to manage a third party service provider are very different from those required to manage an IT Department was identified as the primary mitigation factor against this risk. Vendor Lock-In - the erosion of internal knowledge reducing an organisation to complete dependency on the service provider – was the other major risk factor identified. Comprehensive Documentation, Contract Termination, Handover Provisions and Multi-Sourcing were the main mitigation options against this risk.

“Our challenge is that people like to have the IT guys around.”

“It’s very important to have a strong vendor service delivery manager who understands your business and will listen.”

Conclusion

Irish organisations have mostly increased their levels of IT Outsourcing in the last 18 months; a trend that seems set to continue for the coming 18 months. The economic downturn and associated pressure to reduce operating costs seems to be the primary driver to outsource. Irish organisations have mainly adopted a multi-sourcing approach, partnering with one or more geographically dispersed service providers. Tangible cost savings in the region of 25-39% are reported as well as high levels of satisfaction with service providers. Data Security, Vendor Management and Vendor Lock-In are the main barriers to greater levels of IT Outsourcing in Irish organisations.

Report Authors:

Susan Grant & Brendan McGettrick

[Susan.Grant@version1.com] [Brendan.McGettrick@version1.com]



Head Office
Jervis House
Jervis Street
Dublin 1
+353 1 865 7800

Cork Office
NSC Campus
Mahon
Cork
+353 21 435 0073

Belfast Office
The Mount Business Centre
2 Woodstock Link
Belfast BT6 8DD
+44 28 90 730156

info@version1.com

www.version1.com

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