

# Kenson



## The Outsourcing of IT Infrastructures for Strategic Business Processes

**The outsourcing of IT and other business processes has been undertaken since the 1980s and is now commonplace. Most business processes can be outsourced, however, to do it well, and reap the potential rewards is always a challenge.**

Good supplier '*partnering*' is fundamental to success. When the objectives of outsourcing move from operational considerations such as cost control to strategic considerations such as obtaining business advantage, choosing a partner that understands the business, all the technical issues and the blend between them is a 'mission critical' decision.

In this article, we provide some guidelines on how to assess the needs and potential for outsourcing and set clear and achievable project objectives.

Where the delivery of in-house IT resources is not keeping pace with the commercial demands of the business, outsourcing has long been accepted as a positive way for companies to approach its management. Most of the larger UK financial institutions, for example, often as a result of a balanced review of the staffing issues, costs, processes and technology involved, have outsourced their WAN networks.

Where tasks are easily defined and the responsibilities clear, then outsourcing is an easy decision - most organisations outsource cleaning and catering, for instance. Each organisation outsources for it's own specific reasons, but typically they can be categorised in Table 1.

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**Table 1. Typical Reasons for Outsourcing**

- |      |                               |
|------|-------------------------------|
| 1.   | Cost Reduction                |
| 2.   | Re-focus in-house staff       |
| 3.   | Improved IT flexibility       |
| 4.   | Better quality service        |
| 5.   | Access to scarce IT skills    |
| 6.   | Improved use of IT resource   |
| 7.   | Focus on core business        |
| 8.   | Improved business flexibility |
| 9.   | Better management control     |
| 10 . | Access to new IT technologies |
| 11 . | Balanced processing loads     |
| 12 . | Assist cash flow              |

With outsourcing maturing as an accepted management choice, best practices in the outsourcing process have developed. Pioneers in this area are The National Outsourcing Association (NOA), a trade body composed of customers, suppliers and facilitators including legal and management experts.

The implications that result from outsourcing are a key part of the business process and the IT systems that support them. So much so, that without professional help, the control mechanisms recommended often place outsourcing beyond the reach of smaller organisations.

Staffing is a typical management issue frequently and very specifically associated with IT. The dilemma is how to retain operational staff, who understand both legacy and current systems, and who, at the same time, are naturally interested in the newer technologies and projects.

In a fast moving industry, a staff IT career priority must be to maintain up to date skills, however, providing training as part of personal development to a network support engineer can be counter-productive for many companies. Training may not only develop transferable skills but create in-house pressures if the opportunities to use them are not available.

It is no surprise that outsourcing responsibility to specialists becomes attractive in these circumstances. The organisation gets the benefits of skills and resources when it needs them and mitigates the costs and complexities of retaining in-house staff.

Computer networks present a particular challenge. They have developed to where multiple technologies, all with their own unique technical and management issues are integrated in the solution. They are not only difficult to manage in-house, but it also becomes difficult to outsource them.

The LAN environment is the business network infrastructure where it becomes most difficult. It is easy to define the components covered, but due to the extensive use an internal network is put to, not the management controls. Any supplier agreeing to a service level contract where he guarantees the network will support business applications to a users satisfaction, is either brave or foolhardy. If the client is unable to control the use of the network by his own users or other parties, the supplier may, in effect, end up providing a service that is probabilistic and cannot be measured. Users can compromise the shared service by flooding the network, doing backups at inappropriate times, setting IP addresses in PCs that conflict with routers etc., This is always a problem for contract managers.

Technical solutions and business issues are often '*ships that pass in the night*'. In one instance, the outsourced LAN service provider had suggested to his client that he would not get an improved service levels to his users without upgrading his whole network.

This was duly done only for the client to discover that it was lack of memory in one key server that was the limiting factor. The expertise that the client had engaged proved to be superficially technical in nature, he had not ensured the supplier was aware of the inherent nature of his business applications.

A common issue in IT is the '*Silo*' approach where everyone knows about his own area but nothing about the other related areas. The result is that improvement of end-to-end service levels for users cannot be done without change in culture or management style. For a client to get the maximum benefits of network outsourcing, it must be a partnership approach. The outsourcer is made more and more aware of the business critical priorities when monitoring and analysing network traffic.

This is essential information which the business needs when maintaining operational systems and planning future requirements. The customer should ensure the outsourcer is part of his management processes. This reduces risk and controls cost in cases such as maintenance contracts, security, BCP planning, adoption of new technologies etc.

Good supplier '*partnering*' is fundamental to success when the objectives of outsourcing move from operational considerations such as cost control to strategic considerations such as obtaining business advantage. Choosing a partner that understands the business, all the technical issues and the blend between them is a key decision.

Realistically, outsourcing often fails to meet all the benefits that were originally envisaged because the outsourcing process was itself flawed. Take advantage of the NOA toolkit at [www.noa.co.uk](http://www.noa.co.uk) which has been built up as a result of the experience of experts and contracts. The first step to successful outsourcing is a well thought out internal strategy, then finding suppliers where culture is as important as technical knowledge. Then the deal can be done and the best supplier selected. Outsourcing however, does not stop at the award of the contract. Typically, for success, between 3%-8% of the budget needs to be allocated to contract administration.

At some stage, there will be a contract renewal or review where in-sourcing or supplier change is considered. Before agreeing to start a contract it is essential to understand how to end it and important to ensure the contract allows for this fully. Supplier lock in must be avoided as it is difficult to predict where both parties will be in say 5 years time, so the ability to part in a controlled way must be understood.

We would think little of changing our cleaning company, but it is a different issue when considering a change of Web-Hoster. We have defined service criteria for cleaning, but often not the web site, even though the business benefit and risk is greater. The management of IT systems will continue to go through many changes, what does not change, is the need to manage effectively. Understanding the business needs and then reviewing the best way to deliver is a continuous process. Strategic sourcing of IT is becoming a critical competency which must be retained in-house, so there will always be a need to retain key individuals who have the commercial and technical knowledge needed to select and manage suppliers.

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