OUTSOURCED SERVICES: DETERMINING A RETURN ON INVESTMENT

Relying on a trusted partner for IT services can lead to savings, efficiency and a boost to the bottom line.

EXECUTIVE SUMMARY

The modern CIO faces a serious challenge: C–suite colleagues recognize the value of IT and count on technology teams to contribute to the organization more than ever. At the same time, IT budgets remain flat throughout government and industry, and senior executives ask CIOs to justify every significant expense with a strong business case. Increasingly, IT leaders are being asked to do more with less. As they discuss modernization projects, determining the return on investment (ROI) is critical.

It's against this backdrop that CIOs are seeking outsourcing opportunities from vendors who specialize in focused technologies. Unlike professional services agreements, where organizations hire vendors on a project–by–project basis, CIOs use managed services providers to handle important IT responsibilities over an extended period. Whether this involves security monitoring, network management or desktop support, vendors provide the same service to a variety of organizations, leveraging an economy of scale that simply isn't possible in a single entity.

Managed services may provide increased security, reliability and scalability, but leaders can only assess the impact of those benefits in their proper financial context. ROI provides that essential information and facilitates data–driven decision–making.

Why Is ROI Important?

The modern IT organization faces a difficult situation, one that places increasing demands on staff while imposing flat or shrinking budgets. Today, when CIOs bring technology opportunities to senior executives, they can often guess the first question: What's the return on investment?

This is a change. Traditionally, firms viewed their IT organizations as a cost of doing business. They didn't always apply the same financial scrutiny to IT investments that they might have followed with other expenditures. As budgets tighten, however, that attitude is evolving. Now, CIOs are challenged to provide the same evidence for IT investments as they would for new construction, advertising or research and development. This can be a difficult process because ROI calculations inherently call for a numerical answer, while many of the benefits of tech initiatives are less tangible.

Analyzing the return of an IT investment requires two components: hard and soft costs. Financial leaders are most familiar with the hard–cost approach to ROI that follows a simple formula:

$$ROI = \frac{Financial\ Gain}{Financial\ Investment}$$

This calculation is readily understood and can be used to compare investment alternatives. For example, if an organization is investing $100,000 in new web servers that will allow the website to scale and, in turn, generate $50,000 in additional profit, the ROI calculation for the first five years looks like this:

$$ROI = \frac{\$50,000\ x\ 5}{\$100,000} = 250\%$$

$289 billion

The amount of money businesses are projected to spend on technology outsourcing in 2018[1]

Although it is an elementary version of the ROI equation, it sufficiently illustrates the concept. An IT manager with a limited budget attempting to decide among three competing projects could calculate the return of each initiative and then select the project with the highest ROI.

In addition to equipment, hard costs may include the overhead associated with staff. If an IT project requires hiring three new staff members for ongoing maintenance, the ROI calculation should include the expense of paying those employees. Similarly, if an IT outsourcing project will allow the company to downsize its IT staff, which is rarely the case, the salary and benefit savings may be included in the calculation.

Unfortunately, IT projects don't often come with neat and clean profit figures. Suppose an organization decides to move to a cloud infrastructure. The organization may benefit financially, but those advantages may not be the true drivers of the initiative. Instead, the move could be motivated by a desire to reduce operational risk, enhance security, increase uptime, improve the agility of software development or foster innovation. Those soft costs and benefits are more difficult to quantify than simply calculating new revenue or reduced expenses. All of this can make a traditional ROI equation difficult, if not impossible.

Savvy IT leaders, however, recognize that C–suite executives want to be able to point to the intangible benefits that IT generates for the organization as well as the hard costs. Any discussion of return on investment should incorporate both elements. For example, a CIO might be willing to absorb a slight financial loss on a project if it leads to significant improvements in delivering IT projects on time. As a result, IT leaders who build models that combine quantitative assessments of hard

What's the Best Way to Outsource Projects?

As IT leaders consider outsourcing services, they should keep in mind that outsourcing is not exclusively a technology initiative. It's critical to include other business leaders in the decision–making process to avoid last–minute objections that may threaten the project.

Financial leaders are critically important stakeholders in this process. When the CIO presents financial data supporting outsourcing, executives will likely look to the CFO for confirmation that the numbers are accurate. If the IT team worked closely with the financial group on its analysis, the CFO will have the confidence to nod and lend support to the project. If the data is a surprise to the CFO, it's much more likely that he or she will take a defensive posture and demand more time to analyze the

numbers, subjecting them to rigorous scrutiny. CIOs who head into the boardroom having already gained the CFO's support will find themselves in a stronger position.

IT teams also should consult with each line of business that may be affected by the outsourced service. Change is difficult. Leaders who are comfortable using internal services may be skeptical that the outsourced provider will offer the same service level as the in–house team. Take the time to explain the rationale for outsourcing to these leaders and assure them that they will continue to have visibility and input into IT services in an outsourced environment.

costs and qualitative assessments of soft costs will be more persuasive in the boardroom.

How Outsourcing Helps Improve IT Operations

IT leaders tired of the struggle to maintain in-house resources and weary of straining an already tight budget should consider outsourcing IT operations. When carefully planned and properly executed, outsourcing IT services can help an overstretched IT staff focus on efforts that directly contribute to the organization's mission.

Primarily, this approach can help organizations stay current as technology evolves, which manifests itself in two ways.

First, managed services providers work with a large customer base and can leverage their size and scale. This means a provider can make early investments in new technologies as well as upgrade existing technologies. For example, if an organization uses a managed provider to operate an intrusion detection service, that provider is likely to evaluate and implement new intrusion detection techniques more rapidly than an in-house security team.

Second, IT outsourcing also provides an organization with access to resources and staff who are better trained on specific technologies. Consider an IT organization in a midsized business that has 20 staff members. That organization may be responsible for operating 150 different technologies. This makes it difficult, if not impossible, for the IT team to maintain subject matter expertise on every technology in the organization. Outsourced service providers, on the other hand, can typically afford to

5%

The amount of growth expected in government spending on technology outsourcing during 2017 and 2018[2]

have many staff members master each technology, inverting the support ratio and allowing the provider to maintain technical proficiency.

Here are four key ways outsourcing can improve IT operations:

- **Fortified security.** Security is often a primary driver for outsourcing technology. All too often, organizations find themselves operating with critical security vulnerabilities left unpatched. For example, an attacker may compromise a specific service, and only in the wake of the breach does the organization realize the state of disrepair that exists. IT leaders then find themselves faced with an unpalatable situation in which they are rapidly hiring staff to modernize and support the damaged infrastructure on an emergency basis. Outsourcing offers an appealing alternative because organizations can hire a provider to manage the service on their behalf, avoiding missteps or emergency measures.

- **Greater scalability.** Organizations can turn to outsourcing to improve the scalability of their services. IT leaders shouldn't plan capacity solely to meet the needs that exist within their organizations today; rather, they should position themselves to meet future needs. When an organization maintains in-house services, it often purchases capacity that sits unused in anticipation of future demand. But organizations that outsource services to scalable providers may gain access to burst capacity. This allows them to meet periods of peak demand. It also allows them to incrementally add capacity and to meet ongoing business requirements without a significant capital investment.

Managed Services in Action: Tablet Subscriptions

As organizations are embracing mobility solutions, such as Wi-Fi, cellphones and tablets, IT leaders are learning how to manage the expenses that accompany those projects. By offloading the management and support of its mobile devices, an IT department can reduce its total cost of ownership from the outset.

One way IT can maximize its investment is through a managed tablet subscription. Subscription programs allow organizations to offer tablets to more employees without shouldering the expense of managing all the devices.

In a traditional ownership model, costs can multiply quickly and snowball beyond budget. Almost immediately, IT support staff need to incorporate enterprise mobility management, mobile applications, carrier plans and disposal into their day-to-day work.

Tablet subscription programs save time and money by reducing variables and standardizing devices, operating systems and configuration operations. For example, an organization can run a private app store that provides its users with the apps they need while prohibiting any unapproved apps. Most important, subscription programs ensure the tablets work as expected from the moment they're placed in users' hands. This makes the transition as seamless as possible for customers.

This approach, with one billing point for hardware, software and voice and data plans, allows a provider to leverage economies of scale for lower prices.

- **Improved reliability.** As with security and scalability, an outside IT provider can often improve the reliability of IT services. By dedicating significant financial resources and entire teams of technologists to each managed service, the provider can realize uptime levels that simply aren't financially feasible for an organization operating a service in a single data center. Today's organizations are no longer 9-to-5 operations — they now serve customers and users working from home during off-hours and from around the world. Business leaders expect IT services to be available on a 24/7/365 basis. This new reality requires the around-the-clock staffing that IT service providers already offer.
- **Increased flexibility.** Outsourced IT services give organizations the flexibility they need to reallocate their own IT staff to higher-priority initiatives. By outsourcing commodity services to providers, CIOs may focus their own teams on delivering value directly related to the mission of the organization. For example, if a hospital's IT team is freed from the drudgery of network and desktop management, they may focus their time on development activities that directly improve the delivery of healthcare.

Through outsourcing, organizations can upgrade their technology, improve security, enable scalability, bolster reliability and increase their availability to work on mission-critical activities.

Factors for an ROI Equation

Calculating the return on investment for an IT outsourcing initiative can be a complex process. Organizations that simply include the costs of hardware and software acquisition plus staff time are missing substantial costs that may dramatically alter their analysis. There are several indirect costs to running an IT service. Such a basic calculation leaves out key expenses such as staff training, infrastructure and software upgrades, maintenance and support contracts, administrative overhead and backup solutions.

Here are four areas IT leaders should be sure to factor in to their equation.

- **Workforce.** The IT workforce represents a common expense leaders identify for cost savings when considering outsourcing IT services. Rather than incurring the expense of recruiting, hiring, training and retaining IT staff with specialized skills, IT leaders can depend on outsourced service providers to manage the talent pool associated with those services. While those costs are passed on to customers, in many cases the scale of managed providers allows them to serve clients with fewer IT employees than the organization would require to manage the service internally. But IT leaders should keep in mind that reducing payroll expense is not likely to make a compelling business case because technology staffers regularly make up a disproportionately small percentage of overall employees. In addition, regardless of any reduction, organizations
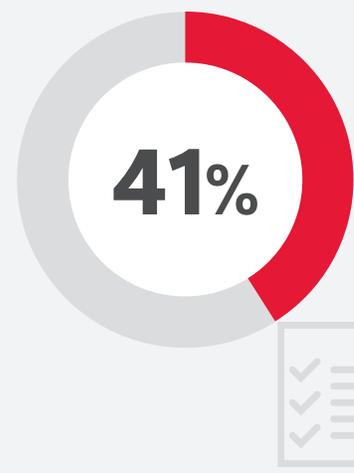
Percentage of organizations surveyed that currently use a managed security services provider for specific capabilities:[3]

57%
24/7 MONITORING
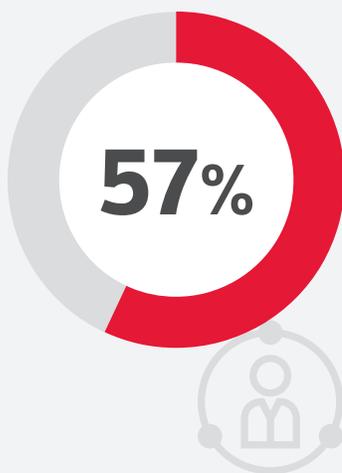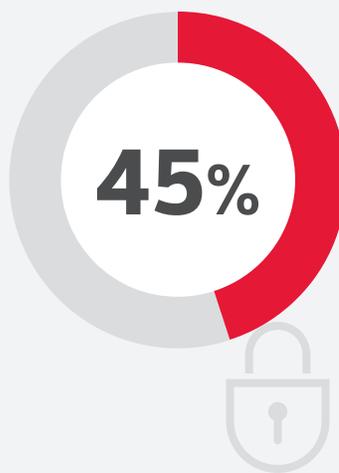
45%
ADVANCED THREAT DETECTION AND INTELLIGENCE

41%
TECHNOLOGY ASSESSMENT AND ANALYSIS

Source: [3]Forrester, "Rethink Your Security Strategy," May 2016

will still incur management and human resources costs, minimizing potential savings.

- **Infrastructure.** Outsourcing IT services allows businesses and government agencies to reduce their costs by renting, rather than purchasing, hardware. When service providers operate a single platform for multiple clients, those costs are spread across their customer base. In addition, customers can scale their use of services by leveraging the slack capacity that sits unused. This is a welcome alternative to purchasing hardware that can go idle for long periods of time when an organization runs its own data center. An unexpected benefit of this approach is that organizations often gain access to more advanced hardware platforms than they are currently using for in-house services.

- **Software.** Software solutions often introduce a variety of hidden costs into IT organizations. Along with license fees and maintenance contracts, software can layer additional burdens on IT staff. License management is an onerous task, requiring resources to deal with contract restrictions, employee head count, changes in deployment and other bureaucratic issues. In organizations with hundreds of software titles, software license management can easily turn into a full-time position. Similarly, most tech teams now dedicate significant resources to application administration. Well-compensated engineers install upgrades, tweak security settings and maintain licensed software. In an outsourced situation, these burdens shift to the services provider who can reduce the per-customer cost through economies of scale.

- **Disaster recovery.** Outsourcing can often reduce an organization's technology risk by providing advanced disaster recovery capabilities. This comes in two forms. First, providers operate each managed service as a highly professional IT offering. They can afford to dedicate significant resources to ensuring that the service remains online, even in the event of a technical or operational failure. They can make redundant backups available if a catastrophic event occurs. Further, service providers operate managed disaster recovery services that allow an organization to back up both servers and desktop systems on-premises or in the cloud. The value of this should be clear to the C-suite because it significantly bolsters an organization's ability to recover from a disaster.

How Outsourcing Transforms the Customer Experience

Aside from offering a direct return on investment, outsourcing IT services can also transform the customer experience.

> **IT leaders who build models that combine quantitative assessments of hard costs and qualitative assessments of soft costs will be more persuasive in the boardroom.**

Professional and managed services often provide benefits that make it easier for users to do their jobs, thereby increasing the productivity of the organization and improving the bottom line. The less time users focus on wrangling IT services, the more time employees have to conduct the business of the organization and improve interactions with customers, and the more time customers have to choose, purchase and enjoy the company's products and services.

Here's how this happens:

24/7 Support. Most managed service providers offer a 24/7/365 help desk service that supports both IT staff and the organization's end users. Managed help desk providers offer a variety of service levels that handle general technical issues and organization-specific services. These providers may offer services to internal employees, customers or a combination of the two. For customers, this means never having to wait until morning for assistance. While some larger organizations may operate their own around-the-clock help desk, it's likely that those operations are staffed by IT generalists during off-peak hours. Those generalists may lack the expertise to handle cases involving more obscure services and may need to refer difficult issues to staff who are only available during business hours. Service providers, on the other hand, thrive and benefit from specialization. The global nature of their operations allows them to operate 24/7 with experienced engineers. As a result, when users run into problems during off-peak hours, managed providers are more likely to be able to resolve the issues, often faster than in-house operations. In other words, users get back to work quickly, improving productivity and boosting the bottom line.

Some organizations choose to go a step further when it comes to help desk support: They outsource their entire help desk to a managed services provider. Callers may not even realize that they're working with a provider located halfway around the world, and not an employee a couple of floors down. At the same time, the organization relieves itself of the burden of recruiting and retaining high-turnover help desk staff and can assign its own IT staff to more mission-critical activities.

Improved Monitoring. Another core benefit of outsourcing IT services is a 24/7 operations center that performs monitoring and issue resolution. This means customers are guaranteed to see an organization operating at its best. These centers can proactively identify issues, such as failing hardware or problematic network links, and dynamically reconfigure the service. This approach avoids dispatching technicians to repair the failure. In addition, such behind-the-scenes

monitoring can prevent an issue from disrupting operations in the first place, or it can boost user productivity by reducing unplanned downtime. It also decreases the likelihood that an IT glitch ever affects customers.

Vigilant Security. This 24/7 coverage also extends to security services and keeps customer information safe. A loss of personally identifiable information, such as credit card numbers, health records or purchasing histories, could lead to a loss of trust or, worse, irreparable harm to a customer's brand. Organizations that outsource security gain access to robust security operations centers staffed with highly trained security professionals. This stands in stark contrast to the thinly staffed cybersecurity teams in most enterprises that simply do not have the resources required to perform around-the-clock monitoring and incident resolution. While in-house teams may operate on an on-call basis, this approach no longer meets the bar for security incident response. Security experts commonly cite the "golden hour" principle for security incidents. This philosophy follows that teams who can respond to security breaches within the first hour of detection are often able to significantly reduce the damage caused by the breach and the amount of sensitive information lost to attackers. An immediate response fortifies an organization's security posture.

Organizations willing to outsource portions of their IT services to managed service providers often realize significant financial benefits, but money is only one advantage. IT service providers offer access to cutting-edge technology, reduce IT risk, improve reliability and enhance the customer experience. These benefits make a compelling case for CIOs to identify and outsource commodity services as well as to reallocate internal IT staff to higher-priority services.

CDW: A Managed Services Partner That Gets IT

CDW provides organizations with a wide variety of managed IT services and leverages partnerships with industry-leading vendors to create holistic IT solutions. CDW's portfolio includes:

- Connectivity services, offered in partnership with more than 90 global telecommunications companies, that help organizations connect their most critical communications, infrastructure, applications and workloads.
- Colocation center services, offered in partnership with over 2,000 global facilities, that help organizations take advantage of cloud computing regardless of their network or geographic requirements.
- Managed cloud services that help organizations add scale and infrastructure as needed, including Infrastructure as a Service, managed hosting, backup, disaster recovery, Desktop as a Service, hosted Exchange and Unified Communications as a Service offerings.

CDW account managers and engineers assist customers at every phase as they select and implement managed services. CDW's team of technology professionals takes a comprehensive approach to identifying and meeting the needs of every customer.

The CDW Approach

ASSESS
Evaluate business objectives, technology environments, and processes; identify opportunities for performance improvements and cost savings.

DESIGN
Recommend relevant technologies and services, document technical architecture, deployment plans, "measures of success," budgets and timelines.

MANAGE
Proactively monitor systems to ensure technology is running as intended and provide support when and how you need it.

DEPLOY
Assist with product fulfillment, configuration, broad-scale implementation, integration and training.

To learn more about how CDW's managed services solutions can improve the customer experience and help deliver the perfect mix of flexibility, scalability and innovation, contact a CDW account manager, call 800.800.4239 or visit CDW.com.

CDW® PEOPLE WHO GET IT®