# fruition

**PARTNERS**
A CSC COMPANY

## Outsourcing with Insourcing in Mind

*- Eugene Zimmerman*

**OUTSOURCING**

**INSOURCING**

*This article does not contain anything to help you decide whether or not you should outsource, or a repeat of many of the current very good recommendations on who or how to outsource. This article does contain observations of failures, successes, and new ideas on best practices when outsourcing so that your organization is in the best possible position when the time comes to insource.*

# Outsourcing with Insourcing in Mind

## *- Eugene Zimmerman*

### *Executive Summary*

Where your business and technology needs are today is not where they will be tomorrow. Outsourcing portions, or all of your non-strategic IT functionality, may be appropriate today, but there may be a time in the future when insourcing or re-sourcing some or all of what has been outsourced will be equally, if not more, compelling. The decisions you make with your current outsourcing effort will either nail shut or open wide windows of opportunity for your organization's future.

- Assume you will need to change vendor partners or insource in the future.

- Write / agree to contracts with the expectation that real and intellectual property (hardware, licenses, process, etc.) will eventually need to be transferred to another vender or back to your firm.

- If the vendor partner is unwilling to agree to the transfer or insourcing terms, negotiate a buyout clause that normalizes the deal and takes away the unfair advantage of the vendor partner (which would otherwise tie you to that partner).

> *What goes up must come down.*
>
> *Isaac Newton*
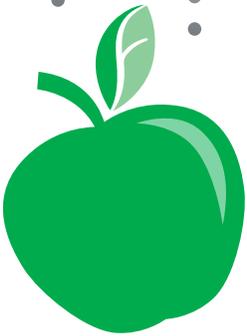
## Outsourcing makes sense

Most all Fortune 2000 companies outsource some part of their IT services. Outsourcing non-strategic and commodity services such as Service Desk operations, Data Center operations, Service Management Toolset operations, Cloud Services, File, Print and Email services are very common. There are many well informed articles on whether or not you should outsource IT services and I will not bother wasting the reader's time here. This article assumes you have already made this decision and are currently searching out a vendor partner or finalizing contracts. The goal of this article is to introduce you to new ideas that will help you establish an outsourcing contract that will benefit your firm in the future by allowing you flexibility of choice.

## Service Innovation

Companies have to be dynamic and change with the rest of the world, lest they become the "buggy whip" example for the next generation. Because you cannot see tomorrow, what was once considered to be a commodity and or nonstrategic service to your company may indeed tomorrow become critical. This can happen organically, or inorganically. Your company may develop a new product in five years, and what was a technology commodity is now a proprietary advantage for your firm. Or, your business could purchase another firm (or be purchased) and what was once outsourceable is now critical or even your "bread and butter". A very common reason to insource or re-source operations is dissatisfaction with the current vendor partner performance. Finally, your industry regulatory requirements may have some unforeseen change that would impede your firm's ability to outsource. For one reason or another, there is a good chance that one or all of the services you are now getting ready to outsource will need to be insourced or re-sourced to another firm at some point in the future.

> *History has always been a series of pendulum swings, but the individual doesn't have to get caught in that.*
>
> *Robert Johnson*

## Bad examples of outsourcing contracts

I have consulted with firms of many sizes that for some reason or another have decided to insource or re-source many of their outsourced services. Often the leadership that made the outsourcing decision has moved on, more often than one would have expected, that same team still exists at the top of the internal IT structure and has now found the previously unthinkable is upon them – we can do it better ourselves. In the beginning of this cycle, however, companies having once decided to outsource came to believe their decision to outsource was obvious, unarguable by logic or accounting, and would stand the test of time.

One company I had worked with had outsourced their data center operations more than a decade prior to my engagement. Included in the original contract was a stipulation that the outsourcer keep the systems in good working order and that they be returned to the company should the contact end. They omitted a clause to ensure the equipment be kept up to date. When it was decided to insource the data center operations, this company had to buy back out dated and unsupported equipment, pay for disposal, and then pay the cost of replacement for the out dated equipment.

Outsourcing is often leveraged as a time to update policies, procedures, and metrics gathering and reporting solutions. Another regretful outsourcing example is a company that did not ensure the newly documented procedures were the intellectual property of the company and not the outsourced vendor partner at the conclusion of the contract. When this company decided to change vendor partners, they realized they had essentially paid twice for process mapping and documentation exercises, as well as training materials for the re-sourced vendor partner. Many outsource vendor partners leverage scalability into their ability to deliver services at a lower cost than the individual company could do it themselves. An often seen example of this practice is a highly automated Network Operations Center that monitors multiple networks 24/7 with close to the same staff as it would take to effectively manage one network at the same level of detail. Staffing cost is largely an unavoidable cost when in or re-sourcing.

## Specific Recommendations

### Intellectual Property

Intellectual property is any idea, thought, process or creation of your own. As with any other property, it should be protected. The most common intellectual property involved in Outsourcing will be your Processes, Images and Packages, Documentation, and Training Materials.

### Processes

Ensure any processes created, transferred or updated by your vendor partner as part of their engagement with your outsourcing project are owned by you when created, used, and at the termination of the contract. If your outsourcing solution is Managed Services for your Cloud solution, your managed services provider should agree that any new configurations created specifically for you are your intellectual property. Finally, your vendor partner should pay you if they want to leverage any process they create with or for you with other clients (if you choose to allow it).

### Images and Packages

OS images and software packages for automated deployment are considered intellectual property as they are custom configurations of software that are often refined over time into extremely well-functioning and critical parts of your IT infrastructure. These configurations are often reflective of specific directions in your IT Strategy and should be owned by you at the end of your contract.

### Documentation

All documentation you turn over to your outsourcing vendor partner and all documentation (both internal support and user / customer facing) should be owned by you, and not your vendor partner. Ensure this is stated clearly in your contract. This includes not only original work but updated work done by you or the outsourcing vendor partner.

### Training Materials

Training materials you create and share with your outsourcing vendor partner as well as those created by your vendor partner for the purposes of training internal support staff (outsourced resources) as well as your user / customer population should be owned by you. Again, this includes all updates and should be clearly stated in your contract.

### Licensing

Software licensing can be complicated in outsourcing contracts. Some outsourcing contracts stipulate the vendor partner will take ownership of your licenses when the contract commences. Who owns them at the termination of the contract? Do not assume they revert to you unless the contract explicitly states such. Additionally, ensure the contract clearly stipulates who is responsible for software maintenance and upgrade fees. A separate note here – be sure your outsourcing contract stipulates who is accountable and who is responsible for software asset management. Specify who will pay the bill if an outside audit turns up problems.

### Software Media

Software rarely is in physical form these days. Ensure your outsourcing contract clearly indicates who has access to the software sources from the respective software vendors. Ownership of, and access to, software license keys, site account association (i.e. Microsoft fulfillment) and any other method of accessing software should be clearly stated in the contract.

### Systems Management Software

Most outsourcing vendor partners can "do it for less" because they can consolidate your systems with other clients into co-located data centers. The software to manage these systems is often leveraged across all clients' systems in the shared data center. Ensure the software used to keep your systems patched, secure, and managed has clear ownership at the termination of the contract. If the vendor partner is managing your servers in your data center, the vendor partner may still opt for their preferred systems management solution for volume cost benefits.

### Virtualization

For the same "do it for less" reasons as above, many outsourcing vendor partners are now virtualizing as many systems as possible. Often the real systems that run the virtual systems are owned by the vendor partner. Be aware of the vendor partner's strategy in this case and keep it in mind in the cost when exiting the contract.

*Hardware*

Often when outsourcing contracts are concluded, the hardware is out of support.   Be aware of the contract terms for keeping hardware up to date.  If it is kept up to date, who owns the new hardware? Depending on your contract, plan on not only replacing the hardware but also the cost of disposing the old hardware.

## Conclusion

Outsourcing your IT services today (either Service Desk, systems management, or both) may be the best solution for your companies' current state.  Be aware that just as it was once made more business sense to run those Services and Systems in house and now outsource, it may in the future make more business sense to move some or all of them back in house.  Or, it may make sense to transfer the outsourced Services to another vendor partner.  Either way, ensure your initial contract allows you the flexibility to execute and deliver what is best for your business.

**For More Information:**
Contact Fruition Partners at +1 888-604-0055 or info@fruitionpartners.com. You can also browse some related resources on our website:

• ESM Showcase
• Case Studies
• Webinars

fruition™
PARTNERS
A CSC COMPANY

fruition™
PARTNERS
A CSC COMPANY

🖥  www.fruitionpartners.com

✉  info@fruitionpartners.com

📞  +1 888.604.0055