

A Case For Insourcing ITSM Governance & Tools While Managing Multiple Vendors



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Assessing the outsourced and insourced services mix is a healthy exercise for any enterprise, especially if you are seeking more in-house expertise

Insourcing is a business decision that is often made to maintain control of critical competencies or systems and is described as the commencement of performing a business function internally which was earlier fully contracted to another company. It may also include bringing a third party outsourcer to work inside a company's facility.

The Benefits of Insourcing

When General Motors decided to shift from a 90 percent outsourced IT service model to a 90 percent insourced service delivery model, they created a stir in the market which made businesses leave their outsourcing cocoons and give insourcing of IT services a serious look. Assessing the outsourced and insourced services mix is a healthy exercise for any enterprise, especially if you are seeking more in-house expertise, the ability to react more quickly to changing business requirements, or if you have concerns about quality issues or unrealized value from outsourcing. So what are the benefits that stem from returning IT services in-house? These include:

- ✓ Improving efficiency and at times reducing costs
- ✓ The ability to integrate a range of services
- ✓ Enhanced flexibility
- ✓ Minimizing risk
- ✓ Regaining control
- ✓ Reducing cost and time spent managing contracts
- ✓ Boosting local engagement and accountability
- ✓ Greater staff motivation and improved service quality
- ✓ Maintaining expertise and capacity

Companies may find that services from an outsource provider cost more than expected due to hidden or unforeseen costs

Why are US Companies Increasingly disappointed with Outsourcing?

When well planned and executed, outsourcing relationships provide substantial benefits to organizations that maintain an agreement that drives cost reduction, takes advantage of outsource provider best practices, clearly defines scope and service levels that meet the company's needs, and allows the company to focus on its core competencies. Then why are companies seriously evaluating more in-house solutions and making the decision to repatriate their outsourced IT services? The reasons are –

- ✓ **Failure to Meet Expectations.** This is one of the major reasons for failure of outsourcing with deals having fallen short of expectations from a financial and/or service delivery perspective. Companies may find that services from an outsource provider cost more than expected due to hidden or unforeseen costs like increased travel to delivery centers, the need to supplement services with additional in-house staff and/or additional suppliers due to shortfalls of the outsource provider, or that the costs of dealing with a third party and geographic separation are degrading efficiency and quality.
- ✓ **Desire for In-House Expertise.** A company may set a strategic imperative to establish broader in-house service capabilities, with the expectation that these capabilities will benefit the business in the form of faster product to market timeframe, revenue generation, greater innovation, and protecting the company's intellectual property. A desire to contribute to local economy may also contribute to a company's decision to insource operations.
- ✓ **Marketplace Pressures.** Dynamics in the outsourcing marketplace are creating challenges for outsourcers to maintain their value propositions. Wage inflation in traditional outsourcing markets is putting pressure on outsource providers to find alternative delivery locations and to adjust their staffing mix in order to remain financially competitive. These changes, like replacement of experienced staff with junior staff, can translate into reduced quality. Also, job hopping by human resource decreases the stability of delivery.
- ✓ **Lack of Innovation.** Outsourcing is increasingly becoming like a widget making process. Outsourced providers often provide discrete process improvements but are not able to innovate as effectively as fully dedicated, in-house teams. This has been a core issue with outsourcing that experienced outsourcing companies have been facing.

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How ITSM services are Affected in Multi Vendor Scenario

The role that ITSM should adopt in a company's growth assumes immense significance not only because it forms a vital component of the overall organization as a core competency but also because it provides results which are born of IT best practices that ensure high system and end-to-end application availability and performance. It also allows for a seamless flow of IT service delivery and lead to an overall low total cost of IT operations.

Many organizations that are in a multi-vendor outsourcing scenario do not pay close attention to how various ITSM processes will work between them and their vendors. In order to maximize this potential of end to end services of ITSM functions need to be based on a single system of record and follow a consistent process. Often organizations fail to comprehend the complexities of establishing and following consistent processes for governing ITSM. In such scenarios, we recommend insourcing and building core ITSM capabilities on a trusted platform. A lot of these processes and data will often be used across multiple contracts and vendor replacements, so it often makes sense to own and manage the platform internally. In our view, this will help organizations manage multi-vendor outsourcing much more effectively than what is done today. The reasons for considering such an in sourced scenario are far ranging, including the following:

- √ Each individual vendor only manages and supports his own part of the IT environment and therefore does not possess the complete overview to facilitate effective end to end ITSM deliverables.
- √ As all the individual vendors manage their respective verticals and are individually responsible to the client contractually, there is no cross-vendor contractual capability in a client environment. Thus, independent vendors functioning on fragmented processes cannot enforce ITSM deliverables. Only the client who has the overview can coordinate between multiple vendors as they have a contract with each vendor.
- √ ITSM being a core IT function, its knowledge and overview specific to the complete organization is hard to replace; especially as it covers the complete gamut of verticals in operation within the organization. When the verticals are outsourced to individual vendors on separate contracts, what happens when the contract of a vendor runs out and the client replaces the vendor with another? The knowledge and experience gained by the previous vendor is lost in the blink of an eye thereby losing effectiveness abruptly. Keeping ITSM functions in-house surely obviates this preventable outcome and is the key to continuity and effective delivery across all verticals. Outsourcing this core function has often resulted in throwing the baby out with the bathwater.

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- √ A major factor which often gets sidelined in the focus on operations is the highly skilled human resource element which actually drives operations on ground. The experience and knowledge gained by human resource in actual management and delivery is lost with change in vendors and is not readily replaceable severely affecting IT operations. In-house ITSM functioning will result in the continued availability of the highly skilled and experienced workforce which will inevitably lead to faster product to market timeframe, revenue generation, greater innovation, and greater safety of the company's intellectual property.
- √ With new cloud based ITSM technologies, ITSM can play an even bigger role in the organization by developing other applications for shared service processes that depend on the Service Request Management (SRM) philosophy. Therefore, all processes, where there is a requestor and a fulfiller, can be modeled on the ServiceNow platform. This requires in depth business knowledge of the customer environment and is a competitive differentiator between companies. In order to maintain this edge, the in-house application of ITSM assumes critical importance and must be addressed accordingly.
- √ ITSM processes are required to be adopted in the client organization and even if clients depend on vendors to bring in best practices, experience has shown in a majority of outsourcing deals that vendors do not bring the requisite knowledge base of the processes in vogue in the organization nor are they tuned to the specific requirements of the vertical in specific and the organization in general. Vendors invariably seem to depend on the intimate knowledge in exclusive possession of the clients for process and requirements definition.
- √ The inability of vendors to bring the requisite knowledge leads to a total lack in innovative thought and hence a lot of outsourcing deals fail due to this lack of innovation by the vendors involved. In such a scenario, it is risky to leave the management of a new breakthrough technology to vendors.

The biggest reason for the trending emergence of insourcing is that for the delivery of some IT services, it just makes sense. Trends tend to be cyclical and are spurred by changes in market conditions. A new ITSM technology like ServiceNow are driving this trend and is being fueled by certain changes in IT such as a bigger domestic talent pool outside tier-one cities, the use of video conferencing to make distributed teams highly productive and the overall maturation of the outsourcing market.

Pitting outsourcing to multiple vendors vs. insourcing is not the correct approach because most company's need both to get the right combination of best talent and most-cost-effective IT services. The best sourcing strategy should be complementary, not competitive, thereby focusing on "cost elimination" through automation rather than "cost reduction" through outsourcing. Implementation of in-house, cloud based ITSM solutions is likely the best and most cost effective way ahead.



Alcor is a technology implementation company focusing on Enterprise and Government technology needs in ITSM, systems integration, web development and mobility space. We provide a strategic ITSM implementation approach to our clients and focus on solving business problems by leveraging an integrated business process design and technology implementation capability.

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