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Outsourcing - Does It Work For HP Shops?

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What does each of these companies have in common?

General Electric, Owens-Corning, Ford Motor Company, Kodak, Hoechst Celanese, James River.

Each of these large users of Hewlett Packard technology have outsourced all or part of their IT functions. But don't assume outsourcing is only for the big players. Coopers & Lybrand reports that more than eight in 10 of America's fastest growing companies with revenue of less than $50 million outsource some corporate function, including IT.[1] By the end of 1995, one in every $12 spent in corporate America in IT flowed through an outsourcing contract.[2]

Outsourcing is a huge trend for information technology functions. It has become an accepted management tool for redefining the corporation. As we will explore, the reasons for outsourcing have changed, but it has become an increasingly popular strategy. Companies are rethinking traditional vertical integration and structuring their IT departments around core competencies and long-term partnerships.

In this paper, we will take an overview of the ways outsourcing is being used specifically in companies that use HP technology. We'll also look at the human element--how it feels to be an IT employee transitioned to an outsourcing vendor. We'll conclude with advice from decision makers in organizations that have made the outsourcing decision.

Definition and Background

"Outsourcing is the acquisition of product or service, now performed or produced internally, but sourced out to an outside supplier or provider. " -Louis J. DeRose, DeRose & Associates, Inc.

Assigning responsibility for the entire IT function to an outside service provider is the historic paradigm of outsourcing. The providers of these services are the large vendors usually associated with outsourcing such as EDS, CSC (Computer Sciences Corporation), and IBM. Indeed, 50% of all new major contracts in 1995 were captured by EDS.[3] The vendor takes over everything from the hardware to employing the IT staff. Historically, this type of outsourcing often was done as a last ditch effort to save a financially troubled company. The customer payments to the outsourcing vendor were structured in a way that achieved a short-term reduction in expenses.

The growing trend toward streamlining IT operations has paved the way for partnership agreements between companies and technology services providers. These relationships form long-term strategic alliances as opposed to short-term financial arrangements. The number of vendors offering services to IT organizations has grown along with the services they provide.

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Megadeals

Outsourcing is big business. Worldwide, corporations are expected to spend as much as $71 billion in the year 1999 on outsourcing activities, according to Dataquest.[4] As published in *Information Week*,[5] here are the biggest outsourcing deals by industry. Several of these companies use Hewlett Packard technology somewhere in their IT organizations.

Although EDS and IBM Systems and Services Corp. (ISSC, now called IBM Global Services) dominate the outsourcing market, several other vendors, including Hewlett Packard, hold strong market positions. The following table puts Hewlett Packard in the top five based on scoring criteria that included annual revenue growth greater than 20%, greater than 10% revenue by service to four or more industries, and more than one research center.

Hewlett Packard's own outsourcing megadeal was the 1995 signing of Owens-Corning in a 5 year contract reported to be worth as much as $50 million.[6] The Toledo, OH manufacturer of glass materials farmed out their legacy computer systems which included 70 HP3000 and 9000 systems and 2 IBM mainframes in the US, plus several other boxes in Europe. Although HP hired about 50 of Owen-Corning's IT staff, the impetus for outsourcing was to redirect the efforts of the remaining staff toward the deployment of SAP R/3 worldwide. The company expects to save nearly $30 million in IT costs over the life of the contract.

In 1996, James River Corporation signed a seven year comprehensive outsourcing agreement with Computer Sciences Corporation. CSC became responsible for data center management, network management, help desk functions, end user computing, and applications development. The company's HP and IBM hardware assets were purchased from James River's data center in Richmond, VA. According to Stephen Hare, CFO, the impetus to outsource was to "improve information technology capabilities while at the same time, free management to focus on strengthening our consumer products business."[7] The full-service, seamless offering of CSC as the single technology partner allowed James River to make rapid, sweeping changes to pare costs and build market share.

In 1994, Xerox awarded EDS a 10 year, $3.2 billion outsourcing contract as part of a reengineering project. Jag Delal, VP of information management, had to reduce his IT spending and redirect it. Outsourcing spared him the time in reorganizing, downsizing staff, and consolidating data centers.

But cost saving is not the biggest reason to outsource. Of 184 large companies surveyed last year by Gartner Group, only 16% listed cost saving as a major benefit of outsourcing.[8] In many small to midsize companies, outsourcing solves the problem of how to implement client-server or other technologies without having the expertise in-house.

Top 10 Reasons for Outsourcing

How many of the following reasons could apply to your shop?   This list is the result of The Outsourcing Institute's 1995 Trends Report and you will notice that the first five are tactical, near-term issues while the last five are more strategic and long-term. Although this survey was not specific to IT, the validity of these reasons for IT outsourcing is apparent.

Add to the Top Ten List this most critical of IT needs:

The Year 2000 Problem

The popular press has often mentioned the increased demand for COBOL programmers to help companies modify their legacy applications for Y2K readiness. Yankee Group analyst Perry Harris says that "There's going to be a real crunch on manpower." [9] There are probably several software services providers at this conference who will supply can programmers for the down and dirty coding that needs to be done. The group of HP customers that may be suffering the most with this problem though, are the former ASK, now CA Manman, users who need millions of lines of FORTRAN code modified. Here too, are niche providers like SE Technologies.

Outsourcing legacy applications emphasizes the effectiveness of this management tool to keep IT departments focused on their core competencies and strategic goals. The in-house programming staff is not only better utilized developing new applications, they are likely to be happier doing so.

Applications development, not just maintenance, is being outsourced. In a report sponsored by Keane, Inc., the $450M software services outsourcing company, "The prevailing view now is that outsourcing all, or selected aspects, of applications development and maintenance can actually accelerate the value realized from IT investment."[10]

Emerging Technologies and Outsourcing

The challenge of recruiting and training employees with technical skills in emerging technologies has prompted managers of IT organizations to look to outsourcing to get the needed expertise.

"When asked why they outsource, 63% of CIOs said the prime reason is to gain access to people and companies with specific expertise in client/server technology."[11] It should be no surprise then, that there has been an increase in SAP outsourcing vendors, especially for small to midsize companies. Since 45% of SAP implementations are on HP platforms, this accounts for a significant amount of outsourcing among HP customers.

GATX Corp. is a $300 million financial services company that has outsourced its SAP R/3 applications running on an HP9000 to Affiliated Computer Systems, Inc. (ACS) in Dallas. The IT staff of 16 at GATX configured the application while ACS is responsible for systems administration and installing new versions and upgrades of R/3. "The biggest concern to us was having resources consumed by tasks that didn't add value to our business," says Michael Cromar of GATX. The outsourcing vendor fills the gap in their client server technical expertise.

GE Appliances defined a client server architecture for its decision support systems that dramatically changed its IT environment. 80 HP9000 enterprise servers run more than a terabyte of operational

decision support data through 100 HP 9000 NetServers, 75 Unix servers and 3,500 HP Vectra PCs.[12] In order to allow its lean staff to stay focused on technology leadership, GE Appliances outsourced the management of the WAN, LAN, PC support and help desk functions to two providers: Hewlett Packard and Vanstar.

In this alliance, HP supports the Unix servers and network management. Vanstar, the largest supplier of Windows and Intel services in the country, derives 20% of its $2.3 billion revenue from services, according to William Tauscher, CEO. They provide the operations and support of GE Appliance's distributed environment including deskside support and help desk. Vanstar can provide clients with services they never had in-house such as 7 X 24 support including full call management and reporting.

Network Outsourcing

Outsourcing the management of networks was a $6.4 billion market in 1996, up from $2.9 billion in 1995, according to the Gartner Group.[13] Hewlett Packard is a leading provider of networking services. Here are the top 10:

Ford Motor Company uses HP to manage its private internet. HP is responsible for day to day management of the network, including monitoring, troubleshooting, fault isolation, and performance reporting. In addition, HP provides help desk services for end users and system management for multi-vendor servers.

SmithKline Beecham's global wide area network is outsourced to HP to keep 90 sites in 30 countries operating efficiently. The $11 billion manufacturer of pharmaceuticals and health-related consumer products designed and engineered the Virtual Data Network in-house, then outsourced the worldwide frame relay services to Sprint and network management to HP. Contracting with HP eliminated software-related network management costs and contributed to a 24% cost savings realized by SmithKline Beecham by the outsourcing arrangement.[14]

But large vendors like HP or a partnership such as HP, Sprint and the customer are not always the best choices for outsourcing. The new best of breed outsourcing vendors offer turnkey solutions that include refacilitation, deployment, management services, and even over the shoulder, on the fly support.

Cambrex, a $400 million chemical manufacturer and user of HP9000 hardware, needed a turnkey network solution from a single provider. With MCI Systemhouse, they got a vendor which provides the frame relay network in addition to the enterprise management service that includes desktop support worldwide.

The decision was strategic, not financial: "Even though we could afford the technology, we didn't have the ability to provide and deliver the services on a worldwide basis. Outsourcing with MCIS allows my staff to focus on our value added core business like internet, intranet, remote access solutions and groupware," according to Phil Biancavilla, Manager of Technology Services. The outsourcing arrangement protects Cambrex from issues like software compliance, the administrative burden of upgrades, and interoperability.

The Human Side of Outsourcing

"I was told on Monday I had two days to accept the EDS offer or quit with no severance or unemployment." The systems programmer who told me this is an EDS employee now, but he's looking for a new job. He says the outsourcing arrangement has not been a good experience because he feels removed from the decision makers. "The new systems people are from EDS and they don't know this business."

EDS has a great deal of experience offering jobs to its customer's employees. Over 50% of the 95,000 workforce of EDS have transitioned to EDS from its customers. EDS reports that it offers employment to people identified as being within the scope of the contract, and that their compensation package is equivalent to their existing package. [15]

CSC reports that half of the VPs in its outsourcing organization were once employees of its clients, lending credibility to the claims that outsourcing vendors offer upwardly mobile career tracks. But the transition is difficult. "You have shock, denial, and despair, then optimism and genuine excitement," says Rolfe Schroeder, VP of Human Resources at CSC.[16] After an adjustment period, many employees find that little has changed. But the critical time seems to be in advance of the outsourcing decision. "There are rumors that IT is going to be outsourced" is a refrain often heard by headhunters. The uncertainty alone is enough to drive some employees to seek employment elsewhere.

One group that may clearly benefit from joining an outsourcing vendor are pc support / help desk employees. As William Tauscher, CEO of Vanstar points out: "At most companies, these people are often lowest on the IT food chain. In our world, they're the highest; it's our business."

Like all management decisions, the success of the outsourcing arrangement is enhanced by open communication by management in advance of the award as well conscientious efforts for a smooth transition on the part of the vendor.

Words of Advice

For the most part, decision makers in HP shops are pleased with their outsourcing arrangements. Most rate overall performance at satisfactory to above average. So the prospects for having a positive experience with outsourcing are good. Industry wide, the Gartner Group reports that 90% of the outsourcing deals reach the end of term without being prematurely canceled. However, 80% renegotiate after the first year, half because of technology changes (such as new architectures that have been implemented like intranets or data warehousing). According to the Gartner Group, the nontechnology reasons for renegotiating are as follows:

Reasons Given by Users for Renegotiating Outsourcing Contracts

Source: Gartner Group

An *InformationWeek* survey of 55 IS managers showed less positive overall results.[17]

Were You Satisfied?

Have you ever had problems with the services provided by outsourcing or systems integration subcontractors?

If yes, what kind of problems?

Although service quality was sited as the biggest complaint in the survey, it was not mentioned by any of the companies interviewed for this paper. Problem areas that did get mentioned by users of outsourcing services interviewed for this paper included:

> Lack of technical skills
> Poor communication between vendor and client
> Lack of documentation.

As outsourcing increases in popularity, managers are developing the skills to manage the relationships and maintain control over the service providers. In some companies, an outsourcing management group is formed to oversee the activities of the service providers. In others, an internal project manager works with the outsourcers and serves as liaison to internal business units. Whatever is arranged, the important thing is to have clear lines of communication and accountability so that management productivity does not suffer.

In all cases, the success of the outsourcing relationship can be linked to a sound procurement process that should include:

> Clear, well understood measurable objectives
> A disciplined purchasing process that has no vendor bias
> A spirit of win-win negotiating with the vendor or vendors.

Here are several suggestions from managers of HP technology who have made the decision to outsource all or part of their IT function.

1) Don't underestimate the time it takes to research an outsourcing service provider. Peel back the marketing hype in a proposal, check customer references, make client site visits.

2) Check out the vendor's resources. If it says it has a help desk facility, make sure there's more than one person answering a telephone.

3) Remember that vendors price risk higher than known things. Know your own environment including the thousands of small things that will be covered by the contract. You'll save money if the vendor knows he is supporting 542 pcs, not "around 550".

4) Have the vendor provide a service level agreement (SLA) which spells out % uptime, response time, etc. and get credits back if the level of service is not met. Anticipate possible changes; best practice today might not hold for the term of the contract.

5) Verbalize expected outcomes but don't tell the vendor how to do the work. Once you have made your decision, trust the vendor's expertise.

6) Make certain you have rigorous implementation project plans early in the process and a "rock solid" project plan when the contract is awarded.

7) Although short term business issues like cash infusion can result from outsourcing, don't let them overshadow the strategic reasons for outsourcing.

8) Understand double outsourcing—your outsourcing vendor subcontracts the work to other vendors. In the area of HP UX system administration, for example, your vendor may need to go to several sources to get the technical expertise required. If everyone has been trained properly and has a clear vision of the contract, the subcontractors should be transparent.

9) Build in the ability to renegotiate the contract, preferably at the end of year one. If you're new to outsourcing, you need the flexibility to re-evaluate your needs after the project gets started.

Outsourcing- does it work for HP shops? From the examples we have seen from several users of HP technology, outsourcing is alive and well. Like all management tools, outsourcing needs to be implemented with careful planning, open communication, and a strong relationship with the vendors. But when it is, outsourcing is an effective way for managers of HP technology to gain expertise, improve services, and sometimes even cut costs.

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