Funding IT: When Does Outsourcing Make Sense?
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Current Issues Roundtable Meeting Notes
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Overview:
Many institutions struggle with funding IT infrastructure, services, and strategic projects. Outsourcing can address both service delivery and funding, but care must be exercised to find outsourcing opportunities that best match institutions to vendors. At this roundtable, participants will explore the advantages and disadvantages of outsourcing, and will share their experiences in selecting and administering outsourcing relationships.

Examples of Challenges:
1. Recruitment and retention of qualified staff
2. ERP systems implementation
3. E-commerce, portal technology, web-enablement
4. Infrastructure implementation and maintenance
5. Computer procurement
6. User and technical support
7. Limitations of legacy funding and budgeting models

Examples of Sourcing Options:
1. Traditional “macro-sourcing”
2. Micro-sourcing
3. Traditional contract services
4. Application service providers
5. Internal sourcing via federation
6. Mixed models
Suggested Topic Areas for Discussion:
1. Objectives of sourcing initiative
2. Anticipated advantages and challenges
3. Vendor selection process
4. Contract administration process
5. Outcomes of the sourcing initiative
6. Lessons learned

Issues/Topics Identified by Participants:

1. How can institutions with small budgets and staff appropriately source services to maintain an appropriate level of network infrastructure (wiring plant, network design, network administration)?
2. How do you measure the values and estimate the administrative needs when sourcing using mixed models (insourcing, outsourcing, ASPs, federated services)?
3. How do we incorporate sourcing decisions into capital budgeting processes?
4. When we say, “we can’t outsource strategic services,” do we need to question traditional assumptions about which services are strategic?
5. What internal measures and costing metrics do we need to employ to provide baseline data for use in making outsourcing decisions?
6. What are the issues faced by traditional service organizations that find themselves in the role of an outsourcing service provider to other organizations?
7. How do institutions and potential vendor providers work together to identify the actual institutional cost structure, service level definitions, capacity planning methods, and other measures?
8. What are the necessary “dos” and “don’ts” of outsourcing activities?
9. When and how should institutions outsource in conditions where appropriate levels of staff expertise are not available?
10. Are there a suite of services which are more likely to yield service level or cost advantages when outsourced?

Discussion:

1. Doug Gale outlined the cost structure developed for a large outsourcing contract. The model included an estimate of FTEs required to perform the set of tasks associated with the agreement, an “uplift” factor (i.e. profit margin), corporate overhead, management fees for equipment purchased by the outsourcing vendor, hardware and software costs, and an inflation factor.
2. Outsourcing decisions can be driven by cost, the need for “speed to market,” institutional capabilities, and the “worry factor” associated with critical projects.
3. Candidate services for outsourcing include e-mail services, server and network operations, 7x24 help desk services, network security, wiring infrastructure, network operations, network engineering, and planning and management services. Most of these services occupy the “lower layers” of the IT architecture.
4. It appears that outsourced services are now starting to “move up the stack” to include services previously thought to be strategic. Recent outsourcing decisions by the Navy and NSA underscore this trend.

5. Outsourcing “dos” and “don’ts” focus on these areas:
   a. Do spend time defining appropriate service levels.
   b. Do hire a full-time contract administrator.
   c. Do use or hire an experienced negotiator during contract negotiations. Remember that outsourcing vendors do this for a living.
   d. Do maintain a core staff of specialists to maintain knowledge of key systems and to support bringing services back in-house at the end of the agreement.
   e. Don’t sign long-term contracts (example cited of a ten year agreement for outsourcing administrative systems).
   f. Don’t enter into an outsourcing agreement without a plan to insource services at the end of the agreement.
   g. Don’t ignore or underestimate the impact of outsourcing agreements on institutional culture (e.g. salary differences, conflicting loyalty, fear of being fired).