



Ahead In The Clouds

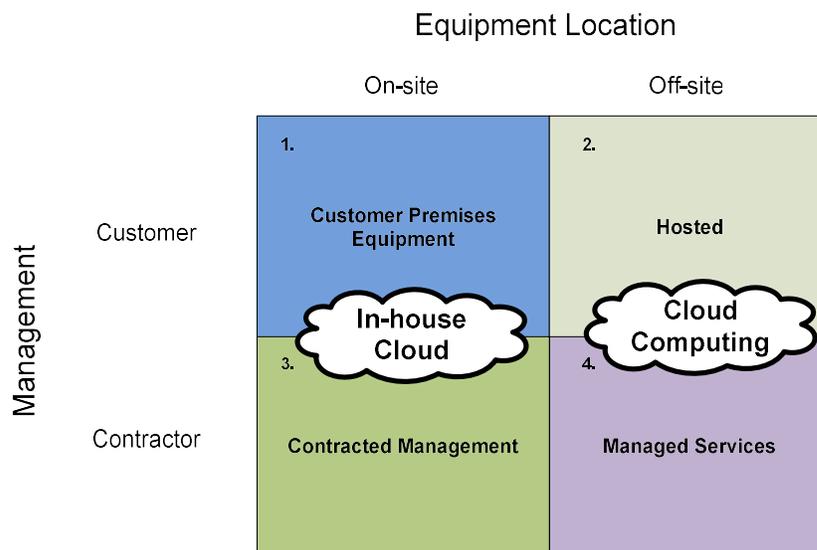
Is Outsourcing Right For Higher Education Technology Services?

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Introduction

Cloud computing, hosting, managed services, anything as a service (xAAS)¹... The options for moving technology and technology management out-of-house (collectively referred to as “outsourcing”) are more numerous than ever. The claims about these services can be compelling especially for an institution that is short on capital, dealing with personnel freezes and cutbacks, and facing replacement of obsolete technology. Since the question of whether to outsource technology services and support is being raised with increasing frequency at many colleges and universities, this article will provide the issues for consideration when determining how outsourcing best fits into an institution's technology management strategy.

While complex, the range of options available for providing and supporting technology can be [over] simplified to a two-by-two matrix of where the equipment is located as compared to who does the management.



¹ Software as a Service (SaaS), Infrastructure as a Service (IaaS), Hardware as a Service (HaaS), Platform as a Service (PaaS), ...

While the popular definition of Outsourcing is presently “anything outside of the firewall”, that definition is limited and doesn’t address contracted management of in-house assets. Outsourcing exists in quadrants 2, 3, and 4 and, because the range of outsourcing options is so great, it appears that outsourcing is “taking over” from in-house management.

Thus there is a general perception among higher education senior management that many educational institutions are outsourcing their technology operations (“Everybody’s doing it!”). This misconception arises from the fact that many institutions are outsourcing **some** technology services – for example student email. Outsourcers often take over some management aspects of the service including equipment hosting, software support, marketing, and customer service. While some outsourcing is presently being done at many institutions (public and private, large and small), it is not at this time the prevalent management and service delivery option. I know of very few institutions where information technology (IT) is totally outsourced.

Outsourcing has its place. It can be a cost effective method of supplementing in-house capabilities, providing additional expertise, and allowing an organization to concentrate its limited resources on those efforts which most greatly support its strategic mission. However, outsourcing is not an all-or-nothing decision. It can best be viewed as a continuum, moving from no outsourcing to full outsourcing. An organization must decide not only **whether to outsource** a function (IT, telecommunications, food services, custodial services), but often which **specific tasks** within that function to outsource.

Most of our clients believe that technology is too vital and too strategic to relinquish control entirely to a third party. However, many of our clients do outsource *some* technology services (maintenance, project management, cabling, consulting...). So, the question is not **whether** to outsource technology services – the question is **what and how much** to outsource.

Why Is Outsourcing So Attractive?

Outsourcing, in all its many forms, is increasing in popularity for many reasons. Chief among these are:

- Technology is increasingly complex, rapidly changing, and constantly converging. The speed at which most institutions budget and procure technology often leaves IT “behind the curve” and unable to respond as quickly as necessary.
- The flexible, scalable nature of outsourcing, such as being able to add or increase capabilities or capacity “on the fly”, can be very attractive. Many cloud-based services can support this more easily than in-house services.
- People are expensive especially given the level of benefits at most institutions. In addition, complex hiring practices, remote locations, and lower pay scales impede the ability to find, attract, and retain the right personnel. With outsourcing, the number, type, and skills of support personnel are the outsourcer’s concern.
- Most (good) outsourced service providers have redundant, hardened data centers and with redundant and diverse routing improving business continuity and offer a higher level of disaster preparedness. Multiple services from various providers reduce the risk of a single,

catastrophic failure. Replicating this same level of reliability on site is expensive to provide and manage and may not address access in case of a campus disaster.

- Web-accessed, location agnostic services appeal to an increasingly mobile population.
- Technology transitions are easier and technology is kept up-to-date with constant capital required.
- Outsourcing is perceived as being “greener” (or at least the power consumption and carbon footprint fall to someone else). Space, power, and capacity planning for university data centers are all reduced.

It is important to note that outsourcing trends are **cyclical**. Various industries and functions alternate between outsourcing and in-house management. In the 80s it was very popular to outsource computing functions and companies like EDS and SCT made millions of dollars taking over computing departments. Throughout the 90s many institutions moved IT back in-house, citing higher costs, lack of flexibility, and lack of vendor responsiveness as the primary reasons. In the 30 years I have been an independent consultant to higher education, I’ve watched the outsourcing pendulum swing in and out of favor several times. Right now, we’re strongly toward the outsourcing side, but many factors—including economic factors, changing technologies, and institutional attitudes—can affect the swing of the pendulum as well.

Issues When Considering Outsourcing

When technology is outsourced, there are numerous changes which take place. It cannot be assumed that one can transparently make a transition of this magnitude without significant and sweeping changes in day-to-day operations.

- Contrary to popular belief, outsourcing **doesn't eliminate the institution's need to manage**; it just changes the nature and level of management. Someone still has to manage the outsourcers, the contract, the interface with the school, etc. Failure to manage is the single most common cause that outsourcing endeavors fail.
- **Control** is lost, at least to some degree. No matter how good the management interface is or how responsive the organization is, control is no longer entirely yours.
- **Costs** change, but don't necessarily decrease
 - **Non-personnel costs** vary but are not significantly reduced; outsourcers can realize some cost savings due to economies of scale, bulk pricing, etc. On the other hand, outsourcers are required to make a profit or they will not be in business for long.
 - **Your direct personnel costs** are lowered
 - No need to pay benefits.
 - There are fewer FTEs.
 - However, you will pay the outsourcer higher salary costs for comparable technology skills

- Recurring expenses may go down if the outsourcer provides more efficient service.
- “Free” services like Google gmail tend to cloud the issue. [Pun intended.] While these services cost less on the surface, there are always the ultimate questions of how long will these services will remain free and what does “free” really cost?
- **Quality** may improve or may suffer depending on how well you are currently doing things and how well the outsourcer will do them in the future.
- **Institutional knowledge** is lost for outsourced functions.
- **Allegiance** of staff is to the check-signers. This is especially true with Managed Services where existing staff might be transferred to a third-party provider.
- University technology is **not generic**. Every campus environment, infrastructure, network and culture is unique. "Cookie-cutter" outsourcing organizations frequently don't understand this (at least initially).
- Technology reaches every location, activity and constituent of the institution. While certain functions can be easily segregated and outsourced, treating all of IT as if it were self-contained and able to be outsourced can be short-sighted and dangerous.
- Technology is **strategic** to the institution. It is a **fundamental, mission critical** function of the school. Outsourcers do not necessarily see it in this light.
- Frequently, the principal difference between outsourcing and in-house services is where the equipment itself is located (your sever room or the vendor's). But equipment location is only **one piece of the technology puzzle**. Outsourcing separates this piece and tries to deal with it out of the overall context.
- While outsourcers can frequently bring more and broader expertise to any given technology than is available from in-house personnel, in-house personnel often have a better feel for the culture and politics of the institution which is valuable.
- With the continued merging of voice, data, and video technologies and infrastructures, it is hard enough to coordinate the activities of internal staff for different departments. It may become even more complicated to manage these technologies when one or more of them are managed by an outsourcer.

Outsourcing Decision Criteria

Before you decide to outsource and to what degree, you should consider the following questions:

1. What problem are you trying to solve? Why do you want to outsource? Are you trying to save money? Improve service? Lower FTEs? Provide more or better service?

2. What does an outsourcer bring to the table that the institution does not already have in-house? (This should be asked up at the top.) Does outsourcing make sense in terms of the institution's stability, size and culture?
3. Can the outsourcing company provide equal or better flexibility in terms of types and levels of service, hours of operation, etc?
4. Which services make the most sense to consider for outsourcing? What would be the impact on staffing levels? Will the outsource company hire away some of your staff?
5. Is space allocation, together with all associated furniture and equipment, an issue in your organization? Would it be a factor in this decision? If the outsourcer is off-site, how far away are they located?
6. How much control would you lose (or perhaps gain) by outsourcing?
7. How is performance measured? By whom?
8. What is your recourse if the outsource company is not working out? Are performance penalties and/or performance bonuses addressed in the contract? What is your exit strategy should you decide to not renew the agreement? Are there limits on price increases at the end of the contract term?
9. Is the outsourcer independent, or are they affiliated with a vendor? If the latter, how does this influence any decisions regarding selection of products and services for you? Is the outsourcer stable? Likely to merge? What would a merger do to your relationship?
10. What has been the experience of other organizations which have used an outsourcing company, especially this particular outsourcing company?
11. How does the outsourcer address disaster prevention and recovery?
12. What are the qualifications and experience of the employees that the outsourcer will provide? How is performance assessment and monitoring handled? What is your recourse if an outsourcer's employee is not working out or if they leave the company?
13. How difficult will layoffs and re-organization be at your school? Are your employees unionized?
14. What are the pros and cons of having outsourced staff working with your staff and/or the staff of another outsource company?
15. How will customer service handled? Will the change improve or degrade customer service on campus?
16. One attraction of outsourcing is that many of the outsourcing companies "aggregate" services from many different customers to achieve bigger discounts, and can negotiate bulk purchasing arrangements with suppliers. Will quality suffer when you become "a small fish

in a bigger pond”?

17. How is security handled? Information security not only implies protection of personally identifiable information (PII) and data back-up, but regulatory compliance and records retention as well.
18. Are there clearly spelled out service level agreements defining the rights, responsibilities, and expectations of all parties? Are they fair and enforceable?
19. What changes need to be done to the campus IT infrastructure and WAN links to support the outsourced service with acceptable performance and reliability? Cloud-based and hosted services demand large, reliable pipes.
20. What about present assets and investments - can they be transferred to the outsourcer? Sold? Re- deployed?
21. How standard are the institution's technology implementation and infrastructure? Do they lend themselves easily to outside services and management?
22. What about integration with other technology functions? Can the outsourced service interconnect and interoperate better with present and anticipated campus technologies?
23. To what extent does your outsourcing decision limit choices in the future?
24. What arrangements will allow you to sleep best at night?

Where to Start?

If outsourcing is gaining traction at your campus and you are wondering where to start in your assessment, start with the areas where you are having trouble and are weakest. This increases the likelihood that outsourcing will solve real problems and provide a win-win for IT and your users. Any assessment of what to outsource and what to keep must start with a thorough understanding of the services you offer, what they really cost, their value to the institution, and the impact that moving them out would have on your department and your users. Only then can you effectively assess the options.

To understand what outsourcing will cost, financial modeling is a must. Evaluation of outsourcing options requires a traditional cost/risk/benefit analysis akin to the old "lease vs. buy" question. Things to factor into the modeling process include salaries, benefits (including holidays, vacation days and sick days), training, test equipment, tools, computers, telephones, furniture, space -- everything that relates to having an employee on the payroll as opposed to being on a contract and off-site.

The biggest caveat is to make sure that you keep people on your staff who are knowledgeable and experienced enough to properly interact with and supervise the outsourcer, question major decisions as appropriate, and be a liaison between the outsourcer and your own organization.

Summary

Colleges and universities are all about educating *people*. While technology services supporting that end must be provided intelligently and cost effectively, “human capital” is ultimately more valuable than “financial capital”. Overall, long term strategy generally favors a prudent balance of outsourcing and in-house management and varies from institution to institution.

Outsourcing has its strengths and its shortcomings. Outsourcing can work successfully for an institution in certain circumstances and for certain functions, but cannot be viewed as an across-the-board cure-all for the ills that plague IT in higher education. Outsourcing must be carefully evaluated and weighed against issues such as control, the strategic value of technology to the institution, staffing, responsiveness, and, of course, costs. Properly applied, outsourcing offers many benefits; improperly applied, it offers even greater risks.

Careful assessment and thoughtful planning can make the difference between “a head in the clouds” and “ahead in the clouds”.



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