IT OUTSOURCING IN 2018 – REDUCING RISK AND IMPROVING THE BOTTOM LINE

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Why and When to Outsource IT

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Principal, Technology and Management Consulting
- Specializes in network design, assessment and implementation, as well as business continuity project management, and Web site development.
- More than 20 years of helping clients identify current or future pain points and providing recommendations and solution plans to address those.
- Focus is on financial institutions.

Agenda
- State of the Market
- What Constitutes IT Outsourcing?
- Business Drivers
- Knowing When to Outsource and What to Avoid
- Summary
Learning objectives

• Provide an overview of the current market challenges and why banks are migrating heavily to IT outsourcing

• Articulate what all is involved in IT managed services for an organization

• Discuss the business benefits of using IT outsourcing or co-sourcing to address skills gaps/labor shortages and risk reduction

• Share ways to get started with IT outsourcing
STATE OF THE MARKET
The challenges we face in 2018

People / Labor
Right talent, but also right “fit?”
Rising labor costs of strong technology people

Technology
Lack of automation / robotic process automation (RPA)
Technology over- or under-spend
Changes in technology
Disaster recovery planning
Protection of data / cyber security

These two areas are increasing costs and risk for your organization – let’s dive deeper
Current market conditions

- A recent RSM survey indicated business leaders face two key issues with IT:

  - FILLING THE GAPS CREATED BY THE IT TALENT SHORTAGE
  - ENABLING A DIGITAL TRANSFORMATION BY LEVERAGING THE CLOUD

How many dedicated IT staff members (FTEs) does your organization employ?

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<thead>
<tr>
<th>Response</th>
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<tr>
<td>More than 20</td>
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<td>10.9%</td>
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<tr>
<td>Don’t know</td>
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<td>1.7%</td>
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Please indicate the extent to which you agree with the following statement. In general, my business is adversely impacted by our ability to attract and retain qualified technology talent.

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
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<th>60%</th>
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</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td></td>
<td></td>
<td>15%</td>
<td></td>
<td>85%</td>
<td>15.0%</td>
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<tr>
<td>Agree</td>
<td>10%</td>
<td>25%</td>
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<td>65%</td>
<td>35.8%</td>
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<tr>
<td>Disagree</td>
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<td>60%</td>
<td>20%</td>
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<td>20%</td>
<td>36.7%</td>
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<tr>
<td>Strongly disagree</td>
<td>10%</td>
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<td></td>
<td>90%</td>
<td>12.5%</td>
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If you answered agree or strongly agree to that question, which of your business functions are most severely impacted by a technology talent shortage?

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<th>Response</th>
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<tbody>
<tr>
<td>Operations</td>
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<td>64.4%</td>
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<tr>
<td>Finance</td>
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<td>35.6%</td>
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<tr>
<td>IT</td>
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<td></td>
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<td>35.6%</td>
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<tr>
<td>Customer service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27.1%</td>
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<tr>
<td>Sales and marketing</td>
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<td>27.1%</td>
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<tr>
<td>Product development</td>
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<td></td>
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<td>11.9%</td>
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<tr>
<td>Other (please specify):</td>
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</table>
What are the most difficult talent issues that you have to deal with related to your current IT staff?

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
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<tbody>
<tr>
<td>Technical competency</td>
<td></td>
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<td>39.8%</td>
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<tr>
<td>Strategic planning and vision</td>
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<td>35.7%</td>
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<tr>
<td>Industry knowledge</td>
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<td></td>
<td></td>
<td>33.7%</td>
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<tr>
<td>Project management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>32.7%</td>
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<tr>
<td>Customer service skills</td>
<td></td>
<td></td>
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<td>27.6%</td>
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<tr>
<td>Other (please specify)</td>
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<td>5.1%</td>
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Current market conditions

- RSM’s most recent Middle Market Business Index (MMBI) showed a decline for the first time in over a year
  - Tightening labor market and modest growth played a major factor
- Only 44% indicated that hiring conditions are expected to improve in the next six months
- 72% reported that they were having some or substantial trouble finding qualified personnel for open positions
- 64% indicated that they turned to higher compensation levels to attract labor

Current market conditions

• Increased reliance on technology coupled with increased complexity has created the perfect storm to attract and retain top IT talent!

• The days of “THE” Network Administrator are gone

• Security threats from every angle and increasing demands by staff and customers require 100% uptime and availability

• 2/3rds of all organizations carry some level of outsourcing, with 1/3rd outsourcing more than 20% of their IT budget

• The main areas typically outsourced include application development, application support, infrastructure and helpdesk
  – The level of application development and infrastructure outsourcing is consistent amongst all sizes
  – Application support outsourcing is more prevalent in SMB
  – Helpdesk outsourcing is more prevalent in larger companies
• RSM’s recent survey also indicated that CFOs believe that outsourcing services can lead to better results:

CEO / CFO own IT in small and medium sized business

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<thead>
<tr>
<th>Response</th>
<th>20%</th>
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<th>60%</th>
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<tbody>
<tr>
<td>CEO</td>
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<tr>
<td>CFO</td>
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<td>29.7%</td>
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<tr>
<td>President</td>
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<td>18.6%</td>
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<tr>
<td>COO</td>
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<td>11.0%</td>
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<tr>
<td>Managing/Executive Director</td>
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<td>5.9%</td>
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<td>Other (please specify):</td>
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Over 50% of respondents cited freeing up internal resources and access to world-class capabilities as biggest benefits of outsourcing.
What specific IT functionalities would you be most willing to turn over to a provider?

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<tr>
<th>Response</th>
<th>20%</th>
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<th>Frequency</th>
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<tbody>
<tr>
<td>Data backup and recovery</td>
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<td>62.2%</td>
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<tr>
<td>Network management and 24/7 monitoring</td>
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<td>56.8%</td>
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<tr>
<td>Security and compliance</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>33.8%</td>
</tr>
<tr>
<td>Business application support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>32.4%</td>
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<tr>
<td>End-user help desk</td>
<td></td>
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<td></td>
<td></td>
<td>29.7%</td>
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<tr>
<td>Telephony</td>
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<td></td>
<td>29.7%</td>
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<tr>
<td>After-hours support</td>
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<td></td>
<td></td>
<td>28.4%</td>
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<tr>
<td>Report writing and database administration</td>
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<td>20.3%</td>
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<tr>
<td>Strategic IT planning (virtual CIO)</td>
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<td>17.6%</td>
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<td>Other (please specify):</td>
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WHAT CONSTITUTES IT OUTSOURCING
Outsourcing relationship continuum

- **Staff augmentation**: “Need a person with a specific skill to manage”
- **Break fix**: “Call you when we need you”
- **Support contract**: “Can you support this one system”
- **Managed services**: “Please take all or part of my IT dept.”

Tactical and reactive → Proactive and strategic
What Exactly Constitutes IT Outsourcing?

- Off-Shore application development?
- Embracing Cloud technologies?
- Use of a 3\textsuperscript{rd} Party for helpdesk services?
- The hiring of a consulting company to help develop a new mobile application?
- The use of a Virtual CIO to help develop and adopt strategy?
- The addition of a DRaaS (Disaster Recovery as a Service) provider to augment backup and recovery efforts?
IT Outsourcing

- Stuff vs Staff
- Pre-defined service
- Pre-defined deliverable and expenditure (mostly) that can be measured
Fully managed IT services – RSM example

The essentials
- End user support
- Asset management
- Network operations
- Daily administration
- Staff onboarding

Modern workplace
- Office 365 E5
- D365 Accelerator
- RSM Digital Hub
- Analytics
- Cloud phone system

Security and compliance
- Security training
- Security management
- Threat protection
- RSM Cloud™
- Information protection

Virtual CIO
- Digital strategy
- Risk management
- IT budgeting
- Change management
- Project portfolio
BUSINESS DRIVERS
Business Drivers

- Cost savings
- IT efficiency (improvement) / Reducing Risk
What do you perceive as the biggest potential benefits you would realize from outsourcing some or all of your company's IT functionalities to a trusted managed IT services provider?

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<tr>
<th>Response</th>
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<th>80%</th>
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<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>Freeing internal resources for other purposes</td>
<td></td>
<td></td>
<td>62%</td>
<td></td>
<td>38%</td>
<td>56.6%</td>
</tr>
<tr>
<td>Gaining access to world-class capabilities</td>
<td></td>
<td>40%</td>
<td></td>
<td></td>
<td>60%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Streamlining or increasing efficiency for time-consuming functions</td>
<td>36%</td>
<td></td>
<td></td>
<td></td>
<td>64%</td>
<td>45.3%</td>
</tr>
<tr>
<td>Reducing and controlling costs</td>
<td></td>
<td></td>
<td>40%</td>
<td></td>
<td>60%</td>
<td>32.1%</td>
</tr>
<tr>
<td>Maximizing use of external resources</td>
<td></td>
<td></td>
<td></td>
<td>40%</td>
<td>60%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Improving company focus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>50%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Sharing risks with a partner company</td>
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<td></td>
<td></td>
<td>50%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Other (please specify):</td>
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Cost Savings Breakdown

- Infrastructure - highest avg. & median savings, low variability
- Application development - 2\textsuperscript{nd} highest savings rate, but highest variability
- Application support - similar to application development, with slightly smaller savings
- Help desk - lowest cost savings, BUT lowest variability and very stable

Percentage of Savings

- Infrastructure
- App. Dev
- App. Support
- Help Desk
Transition from Cost Reduction to Efficiency and Risk Reduction

• As the proportion of IT budget committed to outsourcing increases, cost reduction ceases to be a top priority.

• Instead, the value is seen in:
  – Accessing deeper and wider skill sets
  – Providing focus for in-house IT staff, along with career path
  – Improving overall delivery
    • Satisfaction
    • Delivery timetable
    • Product quality
  – Reducing risk
  – Enterprise grade
KNOWING WHEN TO OUTSOURCE AND WHAT TO AVOID
When to Outsource

• Critical initiative - Internal IT cannot meet need
  − Strategic, high urgency
• Bottom up - Specific area of IT is underperforming and increasing risk
  − IT efficiency & value
• Top down - Specific need isn’t being addressed
  − Cost savings
Today’s functional IT needs

Run
- Help desk
- Desktop
- Engineering
- Project mgmt.
- Vendor mgmt.

Grow & Transform
- Relationship management and strategy
- Business analyst
- Data management/Reporting
- Operations
- Security
- Architecture

Medium to large sized opp.

Small to medium business opp.
What to Avoid / Watch for

• Contract
  – Term
  – SLA
  – Data ownership
  – Personnel

• “Hidden” Costs
  – What’s not included
  – Transition costs
  – Point person

• Security
  – Data residency / NDA

• Flexibility
  – Track record with provider
  – What happens if circumstances change, grow, shrink?
How do you get started with IT Outsourcing

Begin with an IT assessment....

- Security posture review
- IT spending benchmarking
- Business application review
- Staff evaluation and functional analysis

- Infrastructure and system performance
- Cloud opportunities
- Productivity and collaboration
- Disaster recovery readiness
SUMMARY
Summary

• Research shows the adoption of IT outsourcing is on the rise

• Rising labor costs and the lack of qualified talent can be addressed with the right outsourcing strategy

• Outsourcing drives increased efficiency while reducing risk and providing access to top-tiered technology

• By embracing IT outsourcing you will better be able to focus on more strategic initiatives to drive organizational success