



WINDSOR GROUP
SOURCING ADVISORY

DATA CENTER OUTSOURCING



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INTRODUCTION

According to industry analysts, many large companies spend two-thirds of their IT budgets on operations more than half (55%) of businesses' technological budget is spent on maintaining business operations. Currently, only 19% of available funds are spent on building innovative new capabilities. However, CIOs and CEOs say they would rather redirect that spending toward innovation and new initiatives. They cite the need for greater agility and believe that outsourcing their commodity support services can help them achieve that goal in 2021 and beyond.

And although reducing costs is a nagging corporate necessity, nearly half of executives say that enhanced performance capability trumps the search for lower-cost IT options as an incentive for transformational change. Meanwhile, the global economy is still unpredictable. And on the outsourcing front, burgeoning marketplace diversity significantly compounds the problem.

Datacenter outsourcing is becoming common because more software is moving from on-premises to off-premises reducing the need for data center services. The global data center outsourcing market is projected to grow at the rate of 8.31% between 2020 and 2025.

But what exactly does that mean for your enterprise? Choice is a good thing, but with seemingly limitless options permutations, designing and selecting the right solution plus finding the right provider can be daunting, to say the least.

And if you truly want the agility offered by new IT innovations, you must adopt an entirely new way of looking at things by rethinking your infrastructure and operations and then applying radically different approaches to securing a strong tech-based future.



HOW CAN YOU FIND MORE TIME?

You have a business to run. Your IT teamfolks have their hands full already. And transformation is about more than just your IT department, because data centers have become corporate nerve centers. However, for outsourcing to be successful long term, you must consider corporate security as well as data security, compliance issues, real estate and finance implications.

Is it worth the effort? Of course. The key is choosing the right analytical process, so you can explore data center outsourcing from a position of strength.

Read on to learn why you should seriously carefully evaluate outsourcing opportunities, the most effective approach to comparing solutions and where you can find the kind of exceptional professional assistance you need to get the job done right.

OUTSOURCING YOUR COMMODITY SUPPORT SERVICES

With a full purely in-house IT infrastructure, the risks are high. All or some of your facilities might be located in a disaster-prone area. Your infrastructure and processes are becoming outdated, veteran IT staff are retiring, and operation expenses continue to rise (rent, utilities, etc.). Outsourcing can take you out of the data center business by connecting you with the right company to deliver these essential services efficiently and effectively.

On top of all the potential data center issues you may be facing, the need for data center facilities and operations support services is dwindling as the big software companies are moving to a cloud-based, off-premises subscription model. Now is the time to evaluate data center outsourcing for your environment. The commodity support services in scope include:

- Data center facilities
- Disaster recovery
- Compute and storage
- Network and security
- Operations and technical support
- End user support services

The reality is that for a growing number of companies, having a data center is more of an expense than an investment.

CEOs are asking themselves, why own this stuff? After all, you don't need to own the power company to have electricity. When indicators the business drivers within your company show indicate a need for change, outsourcing can help reduce your total cost of ownership as well as provide scalability and flexibility to future-proof your enterprise.

Historically, data center outsourcing merely offered a "same stuff, different staff" approach, and rarely included any kind of transformation. But in recent years' providers have taken a whole new approach, entirely by transforming client environments with new delivery models such as cloud computing that can provide highly customized solutions.

Plus, you can still save money.

Few organizations can afford an internal transformation. But the advent of cloud computing, with its pay-by-unit pricing, provides increased incentive to move internal assets to the cloud. For some, it still seems risky, but it's just time sharing with a new name. The cloud can run your systems better, cheaper and faster, enabling your in-house IT staff to focus more strategically on ways to increase both top-line and bottom-line performance.

EXCHANGING OLD SYSTEMS FOR NEW SYSTEMS

Whatever your industry, IT is not a primary business focus for your enterprise, it's just a necessity. But for outsourcing firms, IT is indeed their primary focus. Their mission, and their daily work, are geared toward improving techniques and processes to enhance performance and reduce costs, based on innovative technology innovations.

Many of the largest global companies can't create and find the kind of internal configuration that economies of scale that they can be achieved via outsourcing. It also offloads IT "utility services" so your organization can concentrate on more strategically valuable initiatives and planning.

Even mainframe outsourcing is still going strong as a valuable opportunity for very large and complex companies to capture cost savings and other efficiencies. But while the business case for mMainframe outsourcing is very good, it's especially important to cautiously analyze look at the details, because identifying cost per unit can be complex and you need accurate data to lower your internal cost of operations.

MORE EFFICIENT SERVICE

Economies of scale also extend to staffing, too. Whether you're running mainframes or smaller data center operations, your pool of top qualified employees is dwindling. It's downright difficult to hire the level of talent you need to run things internally because service providers are snapping up the best and the brightest. They can offer a far more challenging, leading-edge work environment, and good people gravitate to that.

IMPROVED DISASTER RECOVERY CAPABILITY

Every enterprise needs to strategically improve disaster recovery planning. However, recovery and business continuity become infinitely more complicated when you're managing a multi-location or global organization.

You must address issues affecting technology, processes, and people, creating a plan that considers everything from technology standardization and institutionalized support processes to governance structure and delineation of responsibilities. You must comply with country-specific, industry, and government-imposed regulations. Third-party providers can fulfill all of these needs.

TURN FIXED COSTS INTO VARIABLE COSTS

Outsourcing enables you to eliminate IT-related capital outlay, redirecting funds toward more mission-critical needs. At the same time, you can increase scalability and flexibility - today's business essentials. That includes financial flexibility because you can "bury" future IT costs in your outsourcing budget. Retaining a service expense on your balance sheet may be better for you than adding infrastructure or personnel to handle more work.

WHICH SOLUTIONS ARE RIGHT FOR YOU?

Outsourcing is always evolving. There's offshoring, near-shoring and rural sourcing. Traditional vendors have been joined by specialized providers for select platforms and applications, remote infrastructure management such as managed services or colocation, and many flavors of cloud computing. "Anything-as-a-Service" is the new normal. And it's up to the customer to navigate through the different options.

HOW DO YOU APPROACH SUCH A DAUNTING TASK?

The ideal approach is based on a quantifiable impact analysis. You break down your decision-making process into manageable components, taking an iterative approach and building consensus as you go. You can consider how your decisions will affect staff, budgets, risk, compliance, and your ability to meet the future profitably.

Avoid the most common mistake by having an invalid baseline. If your baseline is off, so is everything else. Any assumptions or omissions, even seemingly minor ones, skew your data and everything that follows. You've just wasted a monumental amount of time, not to mention money, and now you're either headed in an unproductive direction or you're more confused and disillusioned than ever.

Instead, this 3-step process will help you systematically construct an accurate baseline, identify areas of opportunity within your organization and make a high-level business case.

STEP 1: DEFINE YOUR IT SERVICES BASELINE

You're establishing a critical foundation to compare to similar services in the outsourcing marketplace, by:

- Organizing your IT service costs and outputs as a provider would, identifying platforms, applications and services currently provided to your business units.
- Correlating financial data to each area, accounting for all direct and indirect costs, including HR, office space, facilities and overhead expenses, depreciation, and amortization. Only by understanding your total cost of ownership can you make an accurate business case to compare with outside proposals.
- Projecting costs over the entire anticipated length of contracted outside services. This is also critical for accurate Total Cost of Ownership (TCO) comparison. You'll document every assumption about current and future needs, so potential providers can include the same factors in their assumptions, giving you a true comparison.

STEP 2: IDENTIFY AREAS OF OPPORTUNITY

You're narrowing possible outsourcing solutions by:

- Researching providers to understand major cost drivers associated with each alternative, including, whether cloud computing, traditional IT outsourcing solutions or selected sourcing options. You'll identify key volumes and metrics that affect pricing.
- Going beyond the financials to understand your internal business drivers, to identify specific criteria and intangibles that will affect your sourcing decisions. For example, if your company has strong ties to a geographic area, it may be inappropriate to consider outsourcing providers located elsewhere.
- Evaluating available service offerings to design a high-level solution with best-case pricing. This is where your baseline, projections and documented assumptions come together to form a critical mass. And it's the only way potential providers can devise outcomes-based solutions tailored specifically for your enterprise.

STEP 3: CREATE YOUR HIGH-LEVEL BUSINESS CASE

Now you have a complete and thorough baseline. You've aligned cost drivers to potential marketplace solutions, and you've identified the most promising design and provider options. It's time to make your first strategic decision regarding data center outsourcing: should we proceed to the next step - a closer examination of the most promising solutions?

Maybe outsourcing isn't right for you, at least not right now. Chances are some level of outsourcing can help you make significant progress toward your long-term cost reduction and performance goals.

To make that decision, you'll compare the internal cost of operations you developed in Step 1 with the high-level design and pricing information you generated in Step 2. You'll want to include transition and transformational expenses. And, remember, you're looking at the value of new solutions over time, not just an immediate snapshot.

Comparing your baseline costs and projections to each provider's proposed pricing plus any expenses you'll retain in-house assures you're comparing total TCO on both sides. You need to:

- Account for costs and residual costs of out-of-scope functions.
- Identify whether in-scope services will affect retained services.
- Identify assets such as hardware and software or contractual commitments that may be "stranded" by a move to outsourcing, unless your vendor will account for them, including leases, depreciation, etc.
- Include one-time costs associated with transition or up-front transformation costs. Your provider may be willing to spread these over the life of your contract to reduce impact on your cash flow.
- Identify ongoing costs of managing or interfacing with your service provider.
- Attempt to apply a monetary value to any intangible benefits your company hopes to achieve by engaging in the deal.

When you add all that up, your business case becomes clear and. You may already have all the data you need. However, this approach simply reassembles it, to showsee your IT setup picture in a different light.

WHY IS THE INCREMENTAL APPROACH BETTER?

You don't have to dive into the unknown. This streamlined version of the usual procurement process gets you to an answer faster. It also eliminates the time and expense of going through a formal Request for Proposal (RFP) submission and scoring process prematurely. You can avoid a lengthy, full-blown process that could be a lot of work that leads nowhere, and you can avoid winding up with a "solution" pre-defined by you rather than taking advantage of the latest marketplace innovations by letting potential providers help devise your solution.

An incremental, step-by-step approach allows you to see if preliminary results look promising, then spend time and effort on the next phase. And there's a valuable side-benefit -- getting to know providers better during the selection process before you commit to a contract. Most outsourcing agreements fail because of relationship issues, not technical issues.

Overburdened IT organizations have found this step-by-step approach to be much more valuable and produces more custom-tailored results.

BE SMART. BE STRATEGIC. GET HELP.

Increasing corporate efficiency through outsourcing starts with the investigative process itself. In today's do-more-with-less economy, you and your staff are probably feeling nearly overwhelmed just keeping operations going and staying one step ahead of new business requirements in-house.

Hiring an IT outsourcing consultant can help clarify your current situation and scrutinize potential solutions and deals, without disrupting your organization or budget. You can't remain focused on core responsibilities if you're caught up in a massive effort to learn about and understand all the outsourcing opportunities that exist. But for sourcing consultants, that's their job.

Teaming up with the right consulting firm can speed you on your way to more intelligent decision-making. That gets you closer to the transformational results you may be looking for.

They're unbiased.

Sourcing consultants bring an outside perspective and specialized insight to address your challenges. They're not a sales force, so they won't push you in a direction that doesn't make sense.

They know more than you do.

There's a lot to think about when you're considering outsourcing. You could easily miss details, fail to ask the right questions, or make assumptions that could harm your chances of success. You want to get the smartest and best advice in the industry, so nothing is left to chance.

You'll get the best advice from a consulting team with significant senior executive management experience working in IT environments like yours in terms of size and scope. They can easily understand your needs, both industry and enterprise-specific.

Of course, they're intimately familiar with all the alternatives in the marketplace. They'll help you examine the ramifications of those various solutions as they apply to your organization. If you determine that outsourcing is your best option, your consultants can help you with the next steps, from designing a tailored solution to negotiating a success-oriented contract with the right service provider.

Based on your corporate IT assessment, business case and goals, they'll help you select well-defined metrics to gauge ongoing performance. Some of those metrics will be monetary, but some will relate to internal and/or external customer service, etc.

Hire a consultant that embraces the incremental approach.

Not every firm follows this method. That means you could find yourself signed up for months of comprehensive consulting services which forces you to commit to outsourcing even if it's not the best avenue for you. You're investing in the process of justification rather than a process of investigation.

On the other hand, the step-by-step decision-making process allows you to determine if your business case even points the way toward outsourcing as the best solution. A consultant that stresses this process is focused entirely on your needs and your goals.

GET THE MOST FROM YOUR RELATIONSHIP

Trust and accountability are the cornerstones of good teamwork. A well-defined scope of services with clear expectations for outcomes and a good communications plan are all essential to collaborate successfully with your outsourcing consultant. The same will be true if you decide to pursue an outsourcing partnership later.

Your consultants should be willing to use readily available internal data to complete your work as quickly as possible without sacrificing thoroughness.

Be aware that consulting firms can have very different fee structures. A firm that operates on a no-results no-cost-to-your policy will be your most budget-friendly. You'll only pay if you get results. And by following an incremental approach to decision-making, you'll only pay for incremental assistance, rather than contracting for a "soup to nuts" range of services you may not need or even want.

WHAT DOES IT ALL MEAN?

Waiting until things start to slip doesn't make sense, especially in a post-COVID world when businesses are experiencing a slump. Many companies don't realize the importance of data centers in their business and stop focusing on its transformation. In fact, global IT spending on data center systems reduced by nearly 9.7% in 2020. If companies don't have the manpower or financial health to manage their data centers, they should turn to outsourcing. The sooner you begin to investigate data center outsourcing, the more comfortable you'll be allowing time to thoroughly examine and assess your options. Even with top professional consultants at your side, it will take some time to determine which delivery models are most appropriate, design a high-level solution and compare providers.