



Outsourcing - Is It Right For Higher Education Technology Services?

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Introduction

The question of whether to outsource technology support is being raised with increasing frequency at most colleges and universities. Vantage Technology consulting Group (Vantage), on behalf of its clients, has prepared the following white paper on issues for consideration when determining how outsourcing best fits into an institution's technology management strategy.

General Observations

- 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 increasingly limited resources on those efforts which most greatly support its strategic mission.
- Outsourcing is not necessarily an all-or-nothing decision. Outsourcing can best be viewed as a continuum, moving from no outsourcing to full outsourcing, and an organization must decide not only **whether to outsource** a function (telecommunications, food services, custodial services), but often which **specific tasks** within that function to outsource.
- Contrary to popular belief, outsourcing does not negate the need to manage, though it may mitigate that need to a degree.
- There is a general perception in higher education that many educational institutions are outsourcing management of their technology operations. We feel that this misconception arises from the fact that many institutions are outsourcing **some** technology services - especially student telephone services. Companies often take over some management aspects telephone service including marketing, billing, collections, posting, and customer service. This kind of outsourcing is presently being done at large and small institutions, both public and private.
- Vantage only knows of very few institutions where telecommunications and/or information technology (IT) is totally outsourced. Most of our clients believe that technology is too vital and too strategic to relinquish control to a third party. However, many of our clients do outsource some technology services.

When Technology Is Outsourced

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

- **Control** is lost, at least to some degree.
- **Costs** change, but don't necessarily decrease
 - **Non-personnel costs** vary but are generally not significantly altered; outsourcers can realize some cost savings due to economies of scale, bulk pricing, etc. On the other hand, outsourcers are in the business to make a profit.

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- **Personnel costs** are lowered
 - no benefits
 - fewer FTEs
 - but generally higher salary costs for comparable technology skills
- **Recurring expenses may go down if the outsourcer provides more efficient service.**
- **Overall long term costs generally favor a prudent balance of outsourcing and in-house management and vary from institution to institution.**
- **Quality** may suffer.
- **Institutional knowledge** is lost for outsourced functions.
- **Allegiance** of staff is to the check-signers.
- University technology is **not generic**. Every campus environment, infrastructure, network and culture is unique. "Cookie-cutter" outsourcing organizations don't understand this (at least initially).
- Technology is **not self-contained**. It reaches every location, activity and constituent of the university.
- Technology is **strategic** to the institution, a **fundamental, mission critical** function of the university. Outsourcers do not necessarily see it in this light.
- Technology management is only **one piece of the technology puzzle**. Outsourcing separates this piece and tries to deal with it out of the overall context.
- Outsourcing **doesn't eliminate the institution's management responsibilities**, just changes their nature and level. In other words, someone still has to manage the outsourcers, the contract, the interface with the university, etc.

Thoughts On Outsourcing

- Whether to outsource or not is not a simple decision. One must take into consideration not only the function itself, but also:
 - the education industry - how critical is technology in higher education?
 - the telecommunications and computing industries - right now, they are very dynamic. Who offers the best flexibility?
 - rapidly evolving technology
 - present assets and investments - can they be transferred to the outsourcer? Sold? Re- deployed?
- It's not a question of whether or not to outsource technology services. More than likely, you already do! For example, institutions regularly outsource:
 - hardware and software maintenance
 - hardware moves, adds, changes
 - software changes and custom programming
 - consulting and project management for large, complex, strategic projects

The question is **what** and **how much** to outsource.

- Evaluation of outsourcing options requires a traditional cost/risk/benefit analysis akin to the old "lease vs. buy" question.
 - What are the short and long term costs?
 - Who fixes it when something breaks?
 - How long will you own it?
 - What happens when the "lease" runs out?
- Outsourcers can frequently bring more and broader expertise to any given technology than is available from in-house personnel.
- 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 is managed by an outsourcer.
- 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. Companies like EDS and SCT made millions of dollars taking over computing departments. Presently, many institutions who used to totally outsource IT have moved it back in-house, citing higher costs, lack of flexibility, and/or lack of responsiveness as the primary reasons.

- There are generally three **Outsourcing Models**
 - Total outsourcing
Common for food service, custodial services, etc.: Outsourced functions are seen as self contained, non-strategic, and generic. When the contract runs out, new contract is signed with another generic provider.
 - Partial outsourcing
Common for Physical Plant, Telecommunications, etc.: The department handles in-house the day-to-day activities, basic maintenance, customer service, and other tasks, including those involving specialists and technicians. The department outsources certain jobs (or parts of jobs) that are routine, large scale, dangerous, specialized, one-of-a-kind, etc.
 - No outsourcing (or virtually none)
Admissions, Registrar, etc.: All activities and responsibilities are handled in-house because they are unique to the university, are part of the university's identity and marketing strategy, and vital to the university's viability.

Points To Ponder

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

- What problem are you trying to solve? Why do you want to outsource?
 - save money?
 - improve service?
 - fewer FTEs?
 - more service?
 - what else?
- How important is control of technology to the institution?
- How standard are the institution's technology implementation and infrastructure? Do they lend themselves easily to outside management?
- What does an outsourcer bring to the table that the institution does not already have in-house?
- How strategically does your institution view technology management?

Outsourcing Decision Criteria

1. **Cost:** Can you reduce your overall costs by outsourcing? Financial modeling might provide the answer. 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. Don't pay for more than you need. Define what you need, and continually monitor.
2. **Expansion/Downsizing:** Does outsourcing make sense in terms of the institution's stability, size and culture?
3. **Flexibility:** Can the outsourcing company provide equal or better flexibility in terms of types and levels of service, hours of operation, etc.
4. **Service/Staffing:** Does it make sense to outsource all of the services that you presently provide, or just some of them? How will you decide which ones to keep - the easiest ones, the most interesting ones, the ones with the highest profile, the most expensive ones to outsource, the ones which have a limited life span? What would be the impact on staffing levels in each case? Will the outsource company hire away some of your staff?
5. **Space:** 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. Control: How much control would you lose (or perhaps gain) by outsourcing? How is security of information and university property maintained with outsourced employees?
7. Performance: How is performance measured? By whom?
8. Contract and recourse: How can you escape the contract? What is your recourse if the outsource company is not working out? Are performance penalties and/or performance bonuses addressed in the contract?
9. Reliability: Which arrangement would allow you and upper management to sleep easier at night? What has been the experience of other organizations who have used an outsourcing company, especially this particular outsourcing company? How does the outsourcer address disaster prevention and recovery?
10. Company profile: 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?
11. Company employees: What are their qualifications and experience? How is performance assessment and monitoring handled? What is your recourse if an outsourcer's employee is not working out?
12. Would it be an advantage or disadvantage to have different staff (the outsourcer's) working on your account? How about staff from several different outsourcing companies?
13. 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. There may also be other economies of scale achieved by the outsourcer.
14. If you are going to monitor the outsourcer, why not just monitor the asset?
15. 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 upper management levels in your own organization.

Summary

In summary, 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 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 some benefits; improperly applied, it offers even greater risks.



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