

Making managed services pay

There is no getting around the importance of cost savings in the decision to outsource non-core processes, but cost alone is a short-term consideration. In the long term, managed services must offer flexibility if they are to help a firm grow.

Firms in many industries are now turning to managed services, outsourcing non-strategic processes, in order to focus on their core competencies. Leveraging the expertise of managed services providers and exploiting preferential labour rates in offshore locations can deliver significant cost savings, which help firms achieve much-needed efficiencies.

Long-term thinking needed

Managed services agreements, however, are for the most part long-term in their nature, and therefore need to offer more than just cheaper labour in order to truly benefit modern businesses. 'Cost is important in a short-term scenario,' says Ira Entis of Bearing Point, a global consulting firm. 'It is always an issue in decisions, but it is not the only consideration. In a downturn, the focus is on efficiency and productivity, but if a firm only focuses on cost in an upturn, it may be locked into an inflexible contract that does not allow for growth and innovation.'

There are signs that the global economic situation is starting to improve, and this turnaround may bring more firms to focus once again on expansion and innovation. The right managed services agreements can help foster this growth and help firms exhibit the responsiveness that is so important in today's markets.

'It is important to know the type of relationship and the quality of the service provider you work with,' says Entis. 'The

relationship must adapt and evolve over time. Outsourcing processes and systems is often part of broader changes and it needs to be flexible over time, given that contracts are usually three, five or seven years long.'

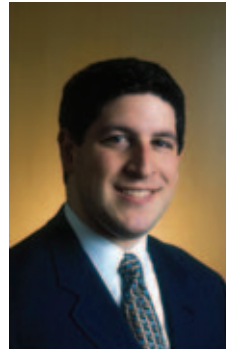
Bad press

A lack of flexibility in previous outsourcing contracts, particularly in IT outsourcing (ITO), has put up a barrier to the greater adoption of managed services by some firms. 'Firms' experience of traditional ITO, which had a reputation for being static, controlled and rigid, is a hurdle,' believes Entis. 'This may have been appropriate for

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old mainframes, but modern processes and information systems like Siebel, SAP and Oracle need flexibility. Some firms are reticent to outsource because of negative ITO experience, and because there are myths about outsourcing that are still perpetuated.'

Among these myths is the idea that firms are abdicating responsibility for systems or processes when they outsource



Ira Entis, Bearing Point

them. In fact, firms will often find that if they choose the right partner they can retain their desired level of control while significantly improving the efficiency and quality of a process.

'It is crucial that efficiency improves over time,' says Entis, 'and firms need to be aware that this can happen through outsourcing. Many are sceptical that it is possible, given the preponderance of shared service providers who get firms to work in a particular way. In the long term, the strategic focus must be on process efficiency improvement.'

This is another area in which managed services can deliver an advantage. What may be a non-core process or application for a company, and therefore lower on the list of priorities than strategic issues, becomes a high priority for a service provider.

Right partner

'A company must understand that pulling out a process won't necessarily improve its efficiency,' warns Entis. 'A bad process in a cheap labour environment is still a bad process. Firms can direct outsourcing

toward improving processes, and this comes down to the choice of service provider. A general contractor like Bearing Point can manage a global resource pool to provide the right locations, the right insight and the necessary process improvement.'

So it becomes clear that there is considerably more to managed services than offshoring a process or application to an environment where labour is cheaper. Finding the right blend of expertise, location and flexible relationships gives firms the ability to use outsourcing to make their businesses more efficient, agile, productive and scalable.

It is time for firms to look beyond the myths about outsourcing and explore the potential benefits. ■