White Paper

IT Outsourcing Reasons
for SMBs

SUMMARY

Small businesses have always confronted with addressing their IT necessities. The lack of resources – be it staff, budgets or managing resources – have determined SMBs to start exploring the offshore outsourcing option. But start ups and small enterprises have specific needs that few outsourcers can address correctly. **Affordable IT solutions** that are easily to install and configure, **service/support requirements** and, most of all, **integrated ready-to-use methodologies** and **tools** are the most critical demands of an SMB willing to outsource its IT department.

What drives SMBs to IT outsourcing?

The SMB market is to eager to find **affordable IT solutions** that are **easy to use.** Just as important, however, is are the requirement that address SMB **deployment issues**, **operational challenges** and **service/support requirements**. SMBs want IT solutions that are easy to install and configure, and require minimal customization and integration. More importantly, they demand responsive and reliable **after-sales service** and support. SMBs don't take customer service and technical support for granted. For many small companies, a solution provider's technical support isn't merely a convenience; it's a **business-critical IT service**, because of their **resource-constrained** IT staffs.

SMB business specific challenges and "pain points" determine **specific needs** for small enterprises. Most outsourcing providers are specialized on the early adopters of outsourced software services - large companies multinationals. Therefore there are **few specialized providers** for SMBs and able to adapt to their business model and needs. Yet small-sized, SMBs are still **technology-intensive** businesses that require great attention from outsourcing providers. Small businesses should choose outsourcing their IT to those providers with **experience** in managing SMB projects.

What holds them back?

At first glance, this key issue can seem redundant with the ones in the previous paragraph. However, we often see a contradiction between SMB IT requirements and how SMBs buy technology. For example, SMBs cite **tight IT budgets** as an inhibitor for adopting technology, but yet they choose not to use vehicles such as "leasing" to work around limited IT budgets.

Creating the right IT solution for SMBs requires a clear understanding of their **technology and business** needs.

REASONS SMBs CITE FOR OUTSOURCING

- Cost Reduction
- Access to better skill sets, depth of experience
- Access to the best / most current technologies
- Minimizing downtown
- Increasing user productivity
- Reallocating personnel to more strategic activities
- Convenience

OUTSOURCING FACTORY
Powering Your Business

SMBs prefer IT solutions that have **simple and straightforward pricing** (the requirement), but they need the **flexibility** to consume technology in modular components that can be extended when required (the behavior). It is also important to understand SMB preferences including, but not limited to, brand loyalty, bundling and packaging, and service delivery options, such as **outsourcing** and **software as a service**, as SMBs upgrade and expand their IT environments.

Yet, there are still issues that have prevented SMBs to start outsourcing their IT department until recently. And these are:

Affordability: Recent market figures point out that still 40% of SMBs state **cost** as still the strongest reason preventing them from outsourcing. But offshoring proved that in most cases the outsourcing option will be significantly cheaper than hiring in-house staff – since manpower or infrastructure costs are lower at the vendor's location.

Trust: Lack of clearly defined **methodologies** and **contracts**, **quality certifications**, **security assurance** and even **cultural issues** can contribute to low trust levels among SMBs when engaging in an outsourcing relationship. The vendor must be able to place confidence, expect with assurance, agree to the contract, and act predictably and fairly in order to obtain trust from their clients.

Intellectual Property and Data Security: One of the major drawbacks for outsourcing adoption among SMBs is related to protection of intellectual property and information in general. Especially for technology-intensive start ups that rely on innovation, these are business-critical issues, and not all providers have yet in place the procedures for ensuring all these.

COMMON AREAS FOR SMB OUTSOURCING

- **Network Connectivity:**
  Monitoring and Management of WAN, Routers, Internet Connections, VPN

- **Security:**
  Monitoring and Management of Firewall, Virus Protection, Spam Prevention, IDS / IPS

- **Data Backup / Archiving:**
  Offsite Storage, Shared SAN, Data Centers, Archiving Services

- **Messaging and Collaboration:**
  Email, Web Conferencing

- **Software Applications:**
  Licensing Management, ASP

- **Desktop Management:**
  Helpdesk, Break/Fix

- **Server Management:**
  Monitoring Health and Performance Thresholds, Break/Fix, Administration

- **Web Development / E-Commerce**

- **Database Administration**

Understanding: A clear understanding about the outsourcing process and benefits is minimal among small companies. Offshore software services vendors are more interested in adding Fortune 500 names to their client lists and hence have failed to educate small businesses about the benefits of outsourcing.

Volume of work: Large service providers would rather work with large corporations that can outsource large volumes of work. The volume of work outsourced by SMBs may not be feasible for large vendors. This trend seems to be reversing, but slowly.

Management experience: Small and medium businesses do not have the "management experience" required to work with an outsourcing project. Large corporations, for instance, have dedicated specialized resources to manage vendors.

Benefits of IT Outsourcing for SMBs

Process Maturity

Perhaps the main reason companies want to outsource is to engage a mature team for its development tasks. Types of processes, the investments being made in services, the infrastructure and the level of communication, trust and understanding that exists between the vendor and client's company all influence the quality, results and outcomes of the process. The maturity process should be adapted and flexible not static, developing in scale, scope and framework as the relationship evolves and business results need to be maximized.

Process maturity is effective when it improves costs, efficiency and productivity in a total quality control approach.

Cost Savings

Lower cost is one of the primary reasons for outsourcing. The cost savings are commonly based on the wage difference between the Western world and offshore destinations. Other factors such as economies of scale and specialization could also have a considerable impact.

POTENTIAL COST REDUCTIONS THROUGH OUTSOURCING FOR SMBs	
HARD COSTS	**SOFT COSTS**
Hardware/Software	Downtime
Personnel (training/management)	Productivity / Efficiency
Contractors	Peer Support
Application Support	Casual Learning
Installations	Customer Service
Moves/Adds/Changes	Customer Satisfaction
Computer Networking	
Help Desk	
Maintenance	
Internet Connection	
Data Backup/Storage	

Knowledge & Expertise

Outsourcing gives you access to **knowledge pools** that you might not have inside your own company. Outsourcing also enables you to focus on your company's core business and competences.

Risk & Quality Control

Outsourcing agreements can be structured in a way that the responsibility to produce a certain quantity/quality of output is placed at the outsourcing provider, thereby giving you a better way of managing risk. The responsibility of the provider can be defined in so-called Service Level Agreements (SLAs).

Capacity Management

Outsourcing gives you a tool to manage your output or production capacity in a flexible way.

Staffing

By using external resources, you can overcome possible shortages on the job market. This is especially the case for highly specialized roles in, such as the information technology industry.

Despite the proven benefits of outsourcing – shown below - SMB managers still seem to be reluctant when it comes to IT outsourcing. Many of them share so-called "myth" beliefs which we would like to address as follows.

Outsourcing Myths among SMBs

Some of the deterrents mentioned before are only misconceptions. Some of the most common things an SMB manager will say when approached for offering offshore software services are:

"WE ARE TOO SMALL TO OUTSOURCE"

The real thing: It is very difficult to define the size of an organization that is ready to outsource. There are "virtual companies" that outsource all their development requirements and handle only marketing and branding. In short, if you can see a need for **software development**, you can outsource.

"WE CANNOT OUTSOURCE OUR CORE PRODUCT DEVELOPMENT"

The real thing: Core product development can be outsourced and there are several success stories. However, it is absolutely essential to do a thorough background check on the vendor and ensure that the vendor has a good track record in protecting IP before outsourcing core product development.

"WE DON'T AFFORD OUTSOURCING"

The real thing: The underlying meaning of this statement again reflects the perceived difference in outsourcing core and non-core areas. You don't have to outsource for the sake of outsourcing! Engaging an offshore partner is usually cheaper by 30 to 40%, as manpower, infrastructure costs are far lower at the vendor's location.

"THE ROI OF OUTSOURCING HASN'T BEEN PROVED"

The real thing: On the contrary, the ROI component of outsourcing has been shown time and time again. In fact, the greatest arbiter, the marketplace, seems to give outsourcing a resounding thumbs up. Beyond reducing head count and employee overhead, additional benefits such as faster time to market and improved quality of

the finished product can achieve an ROI of over 400% in some cases. Today, the question is not if you will outsource, but when and how.

"OUTSOURCING MEANS MORE TIME SPENT MANAGING OUTSIDE VENDORS WHO ARE UNLIKELY TO BE FAMILIAR WITH MY BUSINESS"

Like most services related to IT, choosing the right provider can make all the difference. In addition to SLAs, SMBs considering outsourcing IT tasks should look for providers with **specific and proven experience in appropriate industries**. Outside providers can also offer **solutions that are vertically aligned**.

Challenges SMBs face in outsourcing

SMBs that have identified vendors for outsourcing development / maintenance or looking for a vendor, should consider certain aspects that can easily ground the outsourcing initiative. Some of the factors that SMBs should consider before signing on the dotted line are as follows.

Alignment of focus: Vendors too come in different sizes with different priorities! Some of them are large operators and some of them are small. SMBs should choose a vendor most aligned to the company's needs. Some of the vendors have of late spread too thin by getting into non-development outsourcing services resulting in lack of focus. In determining the ideal fit, alignment of focus is a key parameter apart from several other factors like culture, competence etc.

Lack of well-defined processes: In most of the small companies, a bunch of motivated tech team manages software development. Small companies and start-ups do not always have defined processes for managing outsourced software development. Many of the vendors find it difficult to deal with such a setup. Vendors are more comfortable dealing with companies with clearly defined processes. Companies looking to outsource should spend time in defining the roles and responsibilities of their internal team and the vendors' team. Most of the vendors have mature development processes in place and companies can adopt them.

Commitment to a relationship: All major vendors work with multinational companies and a small client may not be considered as important as a fortune 500 client. In other words, a large vendor would most likely focus on serving large clients with large business volumes rather than serving small clients. Small companies should choose a vendor who values the relationship and hence has a stake in the success of the engagement.

Track record and experience: Companies should look at the vendor's track record and experience in working with small companies. Vendors are comfortable working with large companies may not understand the nuances of working with smaller companies. Small companies may not have proper documentation or hardware/software

infrastructure for testing, version control etc. A vendor with a track record of dealing with small companies should be in a position to expect such situations.

Risk Management: SMBs should seriously evaluate risk management processes adopted by the vendor. The recent trend among offshore software services vendors is the adoption of a business continuity plan (BCP). Vendors with a clear BCP stand a better chance of providing uninterrupted services in the face of contingencies.

Conclusion

Offshore outsourcing has been discovered for quite some time by large corporations but has barely attracted the attention of SMBs. Still, there are many proven benefits that should encourage SMBs to outsource their IT function. And, more important, there are providers of outsourcing services that accommodate on a small business' model and already have experience in dealing with this kind of projects. As we mentioned before, it's not a question of whether to outsource but more likely when to do it and especially who is the right outsourcing vendor for your buying profile.

For more information on choosing the right provider, see also the "Steps to Select the Right Outsourcing Vendor" white paper.