

WHITE PAPER

Application Outsourcing: Leveraging Its Intrinsic Benefits

Sponsored by: Oracle

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EXECUTIVE SUMMARY

As companies strive to outmaneuver their competition, through product, service, or revenue model innovation, the drive to cut costs and improve operational efficiencies becomes an unquestionable business imperative. These demands require smart usage of new technologies combined with talent that is seasoned in the sophisticated implementation and management of IT assets.

Application outsourcing (AO) is an enabler of business value through the benefits it brings in lowering total cost of ownership (TCO) and expanding geographic reach while leveraging the technology, industry, and process expertise of the service provider. For example, 2008 IDC survey research has found that executives increasingly see the benefits of outsourcing engagements for transformation projects, be it in the form of portfolio optimization, enhancement, or redesign work across the technology stack.

Among 500 executive respondents, nearly 25% expressed interest in using outsourcing as a means to transform. Forty percent of IT respondents cited the value of outsourcing in improving linkages between business process and IT, leveraging standardization and consolidation as leading approaches. Nearly 40% of line-of-business (LOB) executives see the value of outsourcing in being able to refocus staff on strategic direction.

Whatever the rationale behind the decision to outsource applications, companies need to perform the necessary due diligence to find a service provider that best fits their needs. Key factors to consider are the protection of existing application investments and the leveraging of a best-of-breed strategy that can build upon and augment that value. The need to depend on a partner for innovative approaches in service delivery and support that can meet today's business requirements is leading many customers to utilize a next-generation hosting model.

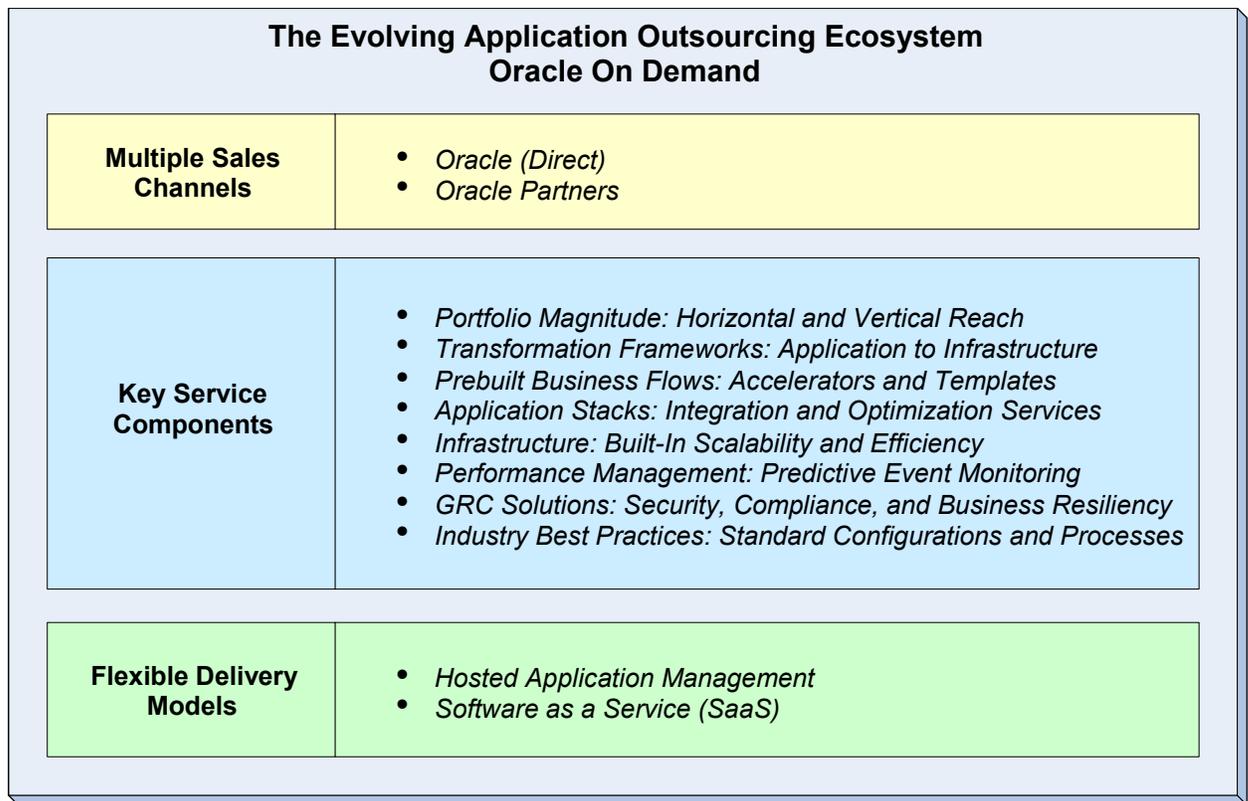
Oracle On Demand is one such offering that meets these core business requirements through its flexible integrated AO solution. The service leverages an extensive software portfolio skillfully embedded with end-to-end business process and domain expertise. Prebuilt process templates, full application life-cycle support, uniform reference configurations, and scalable architecture are among deliverables shaped by industry best practices. Access to a tightly knit team of Oracle experts means clients can rely on this relationship for 24 x 7 x 365 proactive operations support as well as broader transformation initiatives.

Figure 1 summarizes the application outsourcing framework and capabilities that characterize Oracle's On Demand ecosystem. This solution is designed to accelerate the pace of IT transformation for companies as they can migrate toward standardized, streamlined services. Oracle's ownership of a significant portion of the IT software stack enables it to offer customers greater control over the management and evolution of their portfolio footprint. The ISV's transactional capabilities and integration expertise supports the multisourcing of both Oracle and other vendor applications. A customer's need to quickly adapt to changes in market demand can be supported by an Oracle team that combines consulting, implementation, and operational expertise.

Because customers have multiple application outsourcing options to choose from, this white paper first clarifies trends and types of solutions that are available in the market. This is followed by deeper insight into how Oracle On Demand demonstrates its business value through a well-balanced hosted portfolio.

FIGURE 1

The Evolving Application Outsourcing Ecosystem: Oracle On Demand



Source: IDC, 2008

MARKET OVERVIEW

Key Market Trends

As corporate pressure intensifies to maximize profits and shareholder value, C-level executives are honing their capabilities to support more diverse, rapidly expanding global customer requirements. Restructuring from accelerated M&A activity along with increasing needs for faster times to market requires more efficient management of technology portfolios. This faster pace is pushing companies to take the following steps:

- ☒ **Utilize new service models and advanced technologies.** To meet internal requirements for more dynamic and cost-efficient service delivery, companies are broadening their use of new service models. The demand for hosted utility-based infrastructure models is expected to increase in parallel with growing usage and integration of software as a service (SaaS) solutions within traditional application portfolios.
- ☒ **Turn to outsourcing as a means of transformation.** While many companies choose to transform internally as a first step, an increasing number are recognizing the value of transitioning to an outsourcer to enable the modernization of their IT environment. Through the applied portfolio and infrastructure expertise that a provider brings to an engagement, companies can realize multiple benefits at both strategic and operational levels (see *Customers Increasingly Looking to Outsourcing as a Means of Transformation*, IDC #212575, June 2008).
- ☒ **Procure services from a broader selection of providers** (i.e., traditional outsourcers, online providers, ISVs, and offshore players). Enterprises are evaluating how to best leverage the capabilities of different providers, taking both short-term and long-term application portfolio needs into consideration. Single provider versus multiprovider strategies are often influenced by prior outsourcing experience and perceived value in IT governance approaches.
- ☒ **Leverage global sourcing in support of low cost solutions.** A key element of a business strategy is leveraging best shore locations (e.g., offshore, nearshore), or what is increasingly referred to as global sourcing, to gain access to lower-cost resources, new talent pools, as well as innovation and emerging markets.
- ☒ **Engage in the self-financing model for transformation.** While the rehosting, rearchitecting, or transitioning of legacy systems to packaged solutions remains a high priority for customers, the parallel requirement exists to lower costs and reinvest these customer savings to drive transformation.
- ☒ **Implement robust risk mitigation and regulatory compliance strategies.** Customers are operating under a rigorous paradigm that necessitates ongoing compliance with regulatory requirements, be it in support of Sarbanes-Oxley (SOX), or specific industry compliance mandated by Basel II, or HIPAA, for example. In parallel, third-party providers must ensure that their own internal business processes align with scalable and consistent delivery models.

CUSTOMER OPTIONS

Range of Application Outsourcing Services

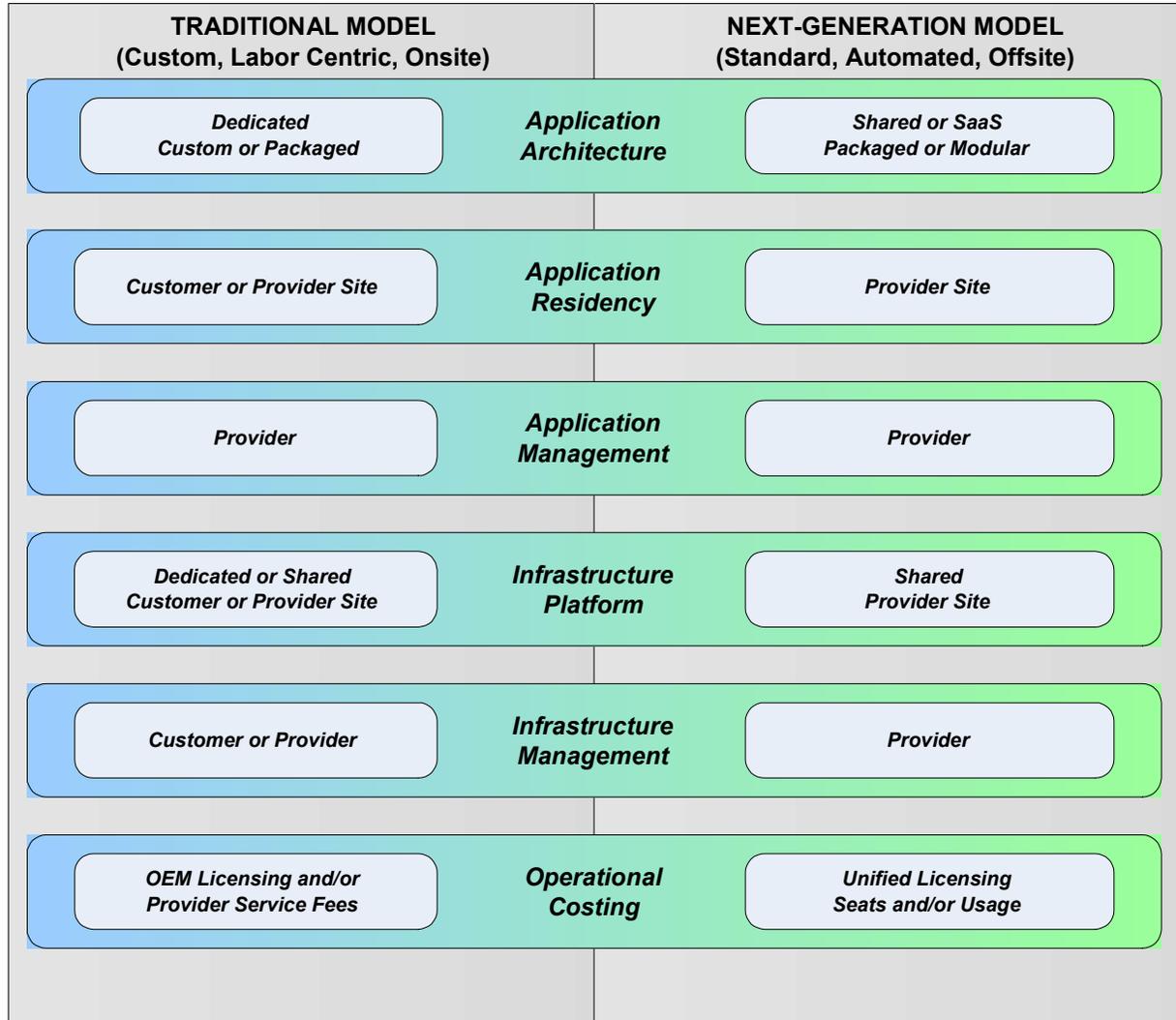
As the market trends indicate, pressures are mounting to increase operational efficiencies, with many organizations turning to application outsourcing (AO) services for help in extracting maximum business value from their IT investments. AO is often used to indicate a broad set of outsourcing services, which include discrete application management (AM) functions that may be coupled with a range of project-based modernization activities. AM services are available in a number of forms, including both "traditional" AM and hosted AM services, the latter being the focus of this white paper.

Overall, AM services are designed to provide for the day-to-day operations, support, and maintenance of enterprise applications. AM services include but are not limited to end-user support, monitoring, proactive problem avoidance, issue resolution, service restoration, and root cause analysis. Patching, application enhancements, and operational responsibility for application performance and uptime are often core services. Various project-based activities can also occur within an AM contract, including package customization, implementation and integration, portfolio optimization, and legacy modernization. The main value proposition of AM services is that they free IT budget and staff from the usually higher cost of in-house management of enterprise applications and allow access to the generally higher service levels and AM expertise offered by outsourcers.

Historically AM services have focused on external management of dedicated infrastructure environments, located primarily in customer facilities. Initially customers often began with the outsourcing of custom applications, with business-critical need for mainframe support. As software and hardware technologies have evolved, breakthroughs in virtualization, remote infrastructure management, modular code development, and service-oriented architecture (SOA)-based architectural constructs have led to new outsourcing options at both the infrastructure and application layers. Availability of dedicated application instances for packaged software (e.g., enterprise resource planning [ERP], supply chain management, finance and accounting) or shared application instances (e.g., customer relationship management [CRM]) residing in shared environments is leading to growing adoption of hosted solutions. These technology advancements are enabling customers to gradually shift from traditional custom application management for legacy applications to proven standardized hosted offerings. Figure 2 illustrates the evolution and continuum of application outsourcing options.

FIGURE 2

Evolution of the Application Outsourcing Model



Source: IDC, 2008

Innovation in Application Management Services: The Hosted Model

Hosted AM refers to application management services, such as Oracle On Demand, in which a customer's licensed packaged applications are hosted out of a provider-managed datacenter. There are major differences between hosted AM, which is a standardized service, and "traditional" AM, which is a customized outsourcing engagement. With hosted AM:

- ☒ Customer applications are primarily hosted out of the provider's datacenter.
- ☒ Support resources and certain elements of the low-level infrastructure (e.g., network, transport) are shared across customers (a one-to-many model).

- ☒ The provider uses automated provisioning, management, monitoring, and maintenance technologies including virtualization to create economies of scale in managing within and across multiple customer environments, which is designed to reduce costs when compared with traditional outsourcing models.
- ☒ In most cases, the provider sets a flat price per user (depending on a host of variables including promised uptime, support response times, and more), and contracts are typically for a shorter time period.
- ☒ Providers bring expertise in standardization of packaged application implementations and assist customers in reducing customization by leveraging prebuilt template solutions.
- ☒ The resources and expertise of providers are positioned to deal with the increasingly complex and fast-changing evolution of hardware platforms.
- ☒ Customers can relinquish the need to remain up to date with the latest software upgrades, new functionality, and patch releases as these requirements can become the ongoing responsibility of the provider.
- ☒ The main value proposition of the hosted AM model is that the software management processes are designed specifically for the software by the software vendor that created it. The service provider can and does influence the serviceability of the software and hardware, feeding improvements back into the development process and even eliminating service tasks over time. Standardization improves reliability and agility for the customer.
- ☒ One of the key benefits of hosted AM versus "traditional" AM is that because the provider has complete ownership and control over the hardware environment, customers are freed from the time associated with managing the systems upon which their applications are running and are able to focus on core competencies.
- ☒ Hosted solutions are designed to offer greater opportunity for maximum resource utilization, help reduce capital budget requirements, lower IT operating costs, as well as provide more comfort to an organization with available pretested solutions. Enterprises can implement phased consolidation measures with provider assistance and realize ROI savings without impacting ongoing business operations.

The differences between "traditional" AM services and next-generation service models, including hosted AM or SaaS, are highlighted in Table 1.

TABLE 1**Distinctions Between Traditional Application Management and Next-Generation Models — Hosted Application Management and Software as a Service**

| | Traditional AM | Next-Generation Model Hosted AM | Next-Generation Model SaaS |
|--|--------------------------------|------------------------------------|-------------------------------|
| Where are the applications located? | Customer site or provider site | Provider datacenter | Provider datacenter |
| Who is responsible for hardware procurement, financing, and configuration? | Customer | Provider | Provider |
| Who is responsible for hardware management and uptime? | Customer | Provider | Provider |
| Is the infrastructure shared? | No; one to one | One to one or one to many | Yes; one to many |
| Are the applications shared? | No; one to one | No; one to one | Yes; one to many |
| Is staff transferred? | Sometimes | Never | Never |

Source: IDC, 2008

KEY PROVIDER REQUIREMENTS**Qualities to Look for in a Service Provider**

In IDC's 2008 IT outsourcing survey, 500 large U.S. enterprises were asked what characteristics they look for in an IT outsourcing vendor, especially when they want to leverage transformation as part of a managed service engagement. The two leading qualities were business process and industry knowledge. IT consulting and integration capabilities ranked close behind in importance.

- ☒ **Criticality of business process and industry knowledge.** LOB executives are clearly looking for outsourcing partners that have business process expertise. This is the leading factor identified across all company sizes and across industry verticals.
- ☒ **Value of IT consulting and integration capabilities.** IT executives not only emphasize the need for process expertise but also point to the significance of strong IT consulting and integration skills, which are needed for rationalizing and accelerating the pace at which solutions can be delivered to market.
- ☒ **Access to new technologies and expertise.** Supporting modernization initiatives requires a holistic set of solutions that combine key technologies/architectures (e.g., virtualization, SOA, rich Internet applications [RIAs]) with a range of service delivery options (e.g., hosted, SaaS, utility computing).
- ☒ **Ability to provide low-cost service options.** Topping the list of requirements in supporting customer transformation is the need to drive down costs. This can be achieved using both lower-cost labor via offshore/global sourcing and technologies that provide cost efficiencies, such as virtualization and advanced Web services.

When looking at providers with which to collaborate on upgrading, replatforming, or the ongoing management of a hosted solution, companies should seriously consider the source ISV. How an ISV invests in its broader application portfolio and how it brings operational expertise, efficiency, and adaptability to a managed service should factor into the outsourcing evaluation process. Ultimately, a due diligence process should involve an assessment of all the relevant AM hosting providers.

ORACLE ON DEMAND

Oracle On Demand offers a broad portfolio of managed and subscription application services, supporting the entire Oracle stack, extending from the base infrastructure layer to the database, middleware, and application tiers. According to Oracle, the extensive reach of Oracle On Demand currently includes the support of over 3.6 million users representing thousands of global customers.

Oracle has utilized its many man-years of business process expertise to produce a comprehensive set of prebuilt process templates that integrate with industry-specific solutions. The development and implementations of an end-to-end architecture, with pretested reference configurations, are designed to provide customers with solidly performing solutions that are dynamically scalable to meet key business needs. At the forefront of Oracle's strategic investments stands its ongoing commitment to advance its clients' IT agility and scalability. Key building blocks behind the Oracle On Demand framework include the following:

Magnitude of portfolio capabilities

- Breadth and depth of portfolio options, from horizontal business process to vertically complex application offerings, supporting a partial to full IT stack of requirements
- Flexibility and range of services offered (including access to consulting and systems integration expertise)

Infrastructure efficiencies

- Economies of scale, proven standardized configurations
- Core investments in a global integrated delivery model

Quality of service (QoS) initiatives

- Performance-engineered best practices
- Proactive self-healing approaches to service management

Oracle relationships

- Strategic customer value in an end-to-end integrated solution
- Adaptable partnership models, from joint engagements with outsourcers to platform support for SaaS ISVs

Portfolio Scope and Flexibility

The Oracle On Demand portfolio is structured to provide a robust, scalable alternative to traditional outsourcing. Oracle handles the infrastructure and application management at one price per user per month, with customers' having seamless access to Oracle's software, upgrades, embassy-level security, and ongoing systems maintenance.

Customers can elect to host directly with Oracle in one of its certified facilities (@Oracle), or they can alternatively work with a certified Oracle partner (@Partner) or choose an on-premise certified approach (@Customer) supported by Oracle remote management services. Engagements encompass a range of services and benefits as follows:

- ☒ **Partial or full stack of services.** Customers have significant flexibility in how they choose to engage Oracle as a managed solution provider. They can decide to leverage a partial or full stack of Oracle On Demand capabilities — combining hosted infrastructure with one or more managed applications (e.g., including Oracle E-Business Suite, PeopleSoft Enterprise, JD Edwards EnterpriseOne, Hyperion, Siebel CRM, Collaboration Suite) and/or subscription services (e.g., Oracle CRM On Demand, Oracle iLearning, Oracle Retail.com).
- ☒ **Full application life cycle.** Oracle supports the full application life cycle, extending from broader front-end portfolio assessment, through optimization/migration strategies and implementation, into ongoing production-level support. The customer no longer has to independently determine how to optimize a conversion strategy from a custom-developed solution to a more standardized package alternative.
- ☒ **Modernization assessment/CEMLI framework.** The comprehensive nature of Oracle's application modernization approach includes leveraging the CEMLI framework (standardization of Configuration, Extensions, Modifications, Localizations, and Interfaces). This approach includes assessing IT processes per Information Technology Infrastructure Library (ITIL) guidelines while providing a budget, spend analysis, and environmental assessment as part of a full-scale migration plan.
- ☒ **Prebuilt integration packs.** Customers can leverage Oracle's deep software expertise in the evaluation, architectural design, and implementation of modular, accelerated solution sets using predefined process integration packs (e.g., prebuilt connectors). Custom application code may need to be refactored, streamlined, or partially rewritten to create more clearly defined and documented modules that disentangle execution, workflow, and business logic. These steps can be included in the structural support for an SOA implementation and leveraged in conjunction with predefined business flows (Oracle accelerators) that are core components of the Oracle modernization toolkit.

- ☒ **TCO reductions/operational efficiencies.** Moving toward standardized solution sets, maintained by certified developers and operations staff, enables companies to maximize their ongoing use of Oracle's R&D investments. As the breadth and depth of the Oracle product portfolio continues to expand, customers increasingly will be looking for help to integrate and manage new products by aligning customer requirements with Oracle product direction. This movement toward standardization simplifies customer environments, making IT more of an enabler of business transformation.
- ☒ **Single point of accountability.** The customer benefits from the synergy tied to combining a full life-cycle approach with a single Oracle point of accountability. Customers can optimize and derive more functional value from their applications rather than focus on daily maintenance and troubleshooting.
- ☒ **Scalable grid technology.** Oracle's clustering technology provides the backbone to an inherently scalable datacenter environment. Its On Demand Grid, an advanced hosting center in Austin, Texas, is architected to support thousands of servers and petabytes (1 million gigabytes) of data. CPU and storage resources can be dynamically increased or decreased to respond to fluctuating market demand.
- ☒ **Security solutions.** In line with its operational discipline, Oracle offers multiple security solutions to its customer base with guidance on how best to apply them (e.g., Oracle Single Sign On, Identity Management, Database Vault). Its Austin datacenter, a tier 4 facility, offers a Federal Zone for the segmented operation of systems for U.S. federal government customers. Backed by SAS 70 and PCI standard auditability, U.S. security services are compliant with a range of federal legislative and executive mandates that relate to the hosting, access, management, operations, maintenance, and protection of federal agency information and software applications.
- ☒ **Business resiliency.** Oracle offers flexible backup and disaster recovery (DR) solutions, from mirroring, high-availability options to basic or enhanced data and service recovery plans that are tested periodically to support restoration goals.

On Demand Infrastructure: Embedded Efficiencies

Oracle's On Demand solutions leverage the latest developments in scalable infrastructure management with continued expansion of its global delivery network. These advancements include:

- ☒ **Virtualization capabilities.** Virtualization techniques are applied within dedicated or shared environments. A pooled resource strategy supports the Oracle CRM On Demand (SaaS) offering. Alternatively, virtualization is being used to consolidate equipment footprint used in support of multiple applications within a single-tenancy architecture. For managed licensed implementations, Oracle prescribes a uniform reference configuration, with grid technologies incorporated into each dedicated customer's instance.

- ☒ **Dynamic service management tools.** Investment in automated dynamic provisioning tools is another core component of Oracle's integrated delivery model. The underlying goal is to support the smooth acceleration of intelligent, scalable virtualized environments at both the infrastructure and application layers. As multiple customers, such as financial institutions or universities, require periodic capacity increases due to event or seasonal spikes in traffic, Oracle supports the expansion and contraction of needed resources.
- ☒ **Investments.** Oracle's priority is to evolve a consistent, consolidated, and scalable architectural framework to bring greater efficiency to support its multiproduct Oracle On Demand suite. Continued infrastructure investment can be seen in Oracle's plans to open a global information technology center in Utah by 2010. This 200,000 square foot facility will be used partly to help expand its On Demand business, in addition to providing support for R&D and customer service operations.
- ☒ **Global delivery expansion.** Global delivery centers are strategically located in Australia, the United Kingdom, Egypt, Chile, India, the United States, and the Czech Republic. Growth in Brazil, China, and Mexico is expected to drive further investment in these countries. Oracle's recent partnership with British Telecom in the United Kingdom further reflects development of its hosting efforts in the EMEA region. Its worldwide customer services group currently exceeds 14,000 resources, supporting Oracle customers and partners in more than 145 countries.
- ☒ **Transition advisory services.** As part of Oracle's flexible On Demand approach, transition advisory services are available to guide customers who choose to use their own infrastructure in combination with a remotely managed solution. Oracle will provide an infrastructure assessment, offering its own operational best practices, reference configurations, and benchmark data to assist customers in improving the performance of their internal IT environments.
- ☒ **Compliance, training, and certification.** Compliance initiatives for SOX, the Payment Card Industry Data Security Standard (PCI DSS), the Federal Information Security Management Act (FISMA), and other mandated requirements are supported within the Oracle On Demand structure. Extensive training and certification programs are part of the ongoing staff development required to build and maintain the hosted environment. Experienced technical project management resources are educated in the successful execution of migration strategies and trained in quick, proactive problem resolution methods to mitigate risk in production-based activities.

On Demand Service Performance

QoS Heuristics: Knowledge Management at Work

To support the smooth daily management of complex heterogeneous environments, Oracle has developed a self-healing approach that utilizes predictive event monitoring. The use of causal heuristics is incorporated to accelerate speed-to-incident correlation and quick resolution of events at their onset. This methodology has Oracle actively codifying technical operations knowledge that is resident within its expert resource base. Operations capabilities encompass a disciplined structural approach, including:

- ☒ **Validation procedures.** Scheduled application of configuration and change management policies and processes is built into routine service maintenance. The availability of software change management protocols ensures that customers move forward in software releases, thereby avoiding large upgrade costs.
- ☒ **Certified hardware and software configurations.** Standardized scripts based on engineered best practices are repetitively applied by specialists to maximize availability, performance, security, and software currency throughout the system life cycle.
- ☒ **Use of best practices and ITIL-based processes.** Ongoing analysis and efficient application of best practices include incremental updates, periodic maintenance programs with critical patch upgrades, regulatory changes, table updates, and patching performed in accordance with a plan tailored to meet the business requirements of each client.
- ☒ **Practical governance.** Robust governance including dashboards, reporting, Service Delivery Manager for problem escalation, and project guidance and management is provided.
- ☒ **Backup and security methodology.** Regular validation of business continuity measures is conducted; security checks at facility, infrastructure, and application layers are built in; and fraud and identity management support is available, as needed.
- ☒ **Tactical continuous improvement.** A disciplined focus on continuous improvement supports the complete end-user experience, linking application and infrastructure performance into one comprehensive view for transparent, high-performance results. In conjunction with this, Oracle is driving toward the use of self-service customer portals that provide customers with real-time access and visibility into the performance of their business-critical applications. Customers will be able to download key metrics from Oracle's enterprise management monitoring framework. Core documentation, including change history and associated configurations, will be available to help customers achieve operational reliability. SAS 70 compliance documents are planned for client download access.

According to Oracle, dozens of customer success stories serve as proof points where customers such as Iron Mountain and BMO Financial Group have implemented strategic business transformations with Oracle products and partnered with Oracle On Demand. SMB success stories are also prevalent: Companies such as Mercury Computer Systems and Madacy Entertainment have supported their own growth through scalable Oracle applications and infrastructure — achievements that otherwise might have been difficult or impossible.

The Oracle Relationship

Strategic Customer Value

Companies can realize significant benefits in working directly with Oracle. Technical and project management resources, immersed in daily application and management of the On Demand portfolio, enable customers to optimize or migrate existing assets in a manner that is efficient and structurally sound, backed by proven CEMLI methodology and process. Complex custom implementations can be evaluated by Oracle for partial or full conversion to standard solution sets. Customers have immediate access to technical resources who can address problems, changes, requests, and enhancements.

The Oracle's transactional capabilities and expertise in management of integration allow for multisourcing of Oracle and other vendor applications. Oracle's ownership of a significant portion of the IT software stack enables it to offer customers greater control over the management and evolution of their portfolio footprint. A customer's need to quickly adapt to changes in market demand can be addressed through an integrated Oracle team that combines consulting, implementation, and operational expertise.

As part of its embedded value proposition, Oracle remains heavily engaged in how it is adapting, integrating, and expanding its asset portfolio. Areas of focus include:

- ☒ **Integration acceleration.** Oracle's extensive Application Integration Architecture (AIA) capabilities support the evolutionary track of linking disparate systems with adaptive middleware options. While Oracle has an extensible track record of innovation through acquisition and internal R&D, it is accelerating the pace at which these products are being rolled into the On Demand service. For example, Oracle aggressively accelerated the secure integration of Hyperion into the Oracle On Demand platform in 2008 (following its acquisition into the Oracle family in 2007) to meet demand from a number of new Hyperion hosting customers.
- ☒ **Best-of-breed Oracle-based solutions.** High-performance or niche software products continue to be added to the portfolio, including edge and vertical solutions such as Agile, Demantra, Transportation Management, and core business intelligence (BI) products such as the BI Applications and Oracle Business Intelligence Suite Enterprise Edition (Oracle BI EE). Oracle is also focused on extending its vertical reach, including packages that address federal security and retail needs, with more to follow. As Oracle continues to optimize and round out its assets, it is focused on deploying the new and acquired products to make it easier for customers to turn to Oracle to host, manage, integrate, and streamline more and more of their IT portfolio. Upcoming portfolio additions include Portal, MetaSolv, and Stellent, among others.

- ☒ **Investment in utility platforms.** Software as a service, in support of end user and partner alike, further signifies Oracle's vision in reaching toward greater modularity in both development and operational capabilities. As more companies adopt niche SaaS offerings for collaboration, talent management, and the like, Oracle is already integrating SaaS with its hosted and managed applications portfolio; Oracle CRM On Demand to Oracle E-Business Suite are just two examples.
- ☒ **Business process management (BPM) focus.** Customers can either implement prebundled business flows or weave together their own custom permutations using Business Process Manager, based on Business Process Execution Language (BPEL). As the portfolio extends its vertical industry reach, Oracle is expected to maintain its investment momentum in the consulting and systems integration expertise that supports BPM. Its plans for BEA WebLogic integration into the On Demand asset pool further substantiate the transformational portfolio agenda that Oracle is charting.

Partnership Model and Strategy

Oracle has developed a range of partnership options in support of the On Demand portfolio.

- ☒ **Joint engagements with systems integrators and outsourcers.** Oracle will work in tandem with outsourcers such as Accenture, Unisys, HP-EDS, and others. As part of a wholesale model, Oracle will sell to partners, who in turn offer Oracle On Demand as part of an IT outsourcing or enterprise application management solution. For customers who may have both Oracle and SAP products, the third-party provider can provide a complete solution that addresses all aspects of the customer's portfolio. Alternatively, Oracle has the ability to subcontract to an outsourcer, depending on client requirements. The customer, too, may elect to have the infrastructure provided by a third party and have Oracle manage the software remotely.
- ☒ **Support for partners, systems integrators, and BPO providers.** Oracle partners with a range of service providers, including business process outsourcers, that can license the Oracle On Demand solution in support of a full business process outsourcing (BPO) offering. For example, Oracle is working with Hewitt Associates on a joint BPO engagement for Marriott Hotels in the United Kingdom. Hewitt is managing the business processes, Oracle is managing the IT framework, and the customer is receiving a complete outsourced solution.
- ☒ **Oracle SaaS 2.0 Platform On Demand.** Oracle is actively engaged in supporting ISVs that are interested in building and delivering SaaS applications. Oracle Technology On Demand offers partners such as 170 Systems, Infopia, and several others the use of the Oracle database and middleware layers to develop their own SaaS solutions on an Oracle foundation. In turn, these customers manage their own applications and sell their software to others while Oracle maintains control and management of the underlying database and middleware. For companies that want to host or develop a SaaS application but do not want to invest in the up-front infrastructure, this is an attractive option.

Oracle Challenges

Oracle faces a few key challenges as it evolves its software and services business strategy and global delivery efforts. Core considerations include:

- ☒ **Maximizing investment value.** The ability to clearly interpret and focus investment dollars on critical customer priorities is fundamental to building customer loyalty. The need to keep up with customer pain points so that resources can be channeled in profitable directions cannot be underestimated. Since January 2005, IDC estimates that Oracle has invested more than \$23 billion to build out its presence in core ERP, CRM, and business intelligence software segments.
- ☒ **Pace and approach to product integration.** Due to its massive acquisition campaign, Oracle remains under pressure to continue its track record of rationalizing and effectively integrating multiple enterprise application software products as standalone and On Demand solutions. Oracle's announced acquisition of BEA in 1Q08, for example, requires the company to share its vision of how BEA products will be combined with Oracle Fusion Middleware to create best-in-class combinations. Customers are seeking to understand how synergies will be leveraged between the two product lines. The application-middleware bundling and cross-sell opportunities between Oracle and BEA are extensive, but customers need direction as they seek to leverage multiple Oracle products within their own portfolio plans.
- ☒ **Leveraging new delivery models.** SaaS-based solutions threaten to slow down and cannibalize the traditional licensed software revenue stream. Oracle is confronting the challenge head on, building up its capabilities not only in support of SaaS solutions for the end user but also in support of other ISVs that can leverage Oracle's technology and infrastructure framework to develop next-generation subscription-based services. Moreover, Oracle is positioned to meet the need for integration between standalone niche SaaS solutions and traditional back-office systems. The need for metadata management, security, and compliance across the application portfolio continues to be at the forefront for enterprises that aim to use these next-generation tools.

KEY FACTORS FOR A SUCCESSFUL OUTSOURCING RELATIONSHIP

As in any relationship, the success of an outsourcing engagement requires give and take from customer and provider alike. For customers, the potential success of an outsourcing engagement starts before the contract has been signed. Following are a few of IDC's recommendations for a fruitful relationship:

- ☒ **Executive buy-in.** Critical to the success of any outsourcing engagement is the need for a C-level executive to sponsor and support the business case and value proposition of utilizing a service provider. Without high-level support within the organization, it can be exceedingly difficult to marshal the resources and the willpower within IT and lines of business to make the outsourcing relationship work. For a CIO or an IT manager who recognizes the potential value of

outsourcing AM, building a credible business case is key. This requires making connections between technical improvements, such as improved uptime, or indirect benefits, such as focusing IT staff away from maintenance, and the direct business results they can provide. Most providers would naturally be amenable to working with sponsors within the organization to build the business case that executives need to make the engagement as successful as possible.

- ☒ **Criticality of open communication.** In IDC's conversations with AM services customers, those that were satisfied invariably had good provider communication procedures in place. This is often more difficult to implement than it would first appear because there is often a wide range of stakeholders in an outsourcing engagement. It is a good idea to involve as wide an array of internal business and IT stakeholders as possible in conversations with the provider about the level of satisfaction with the outsourcing engagement. These conversations should be formally scheduled on a regular ongoing basis to ensure that the provider is aware of issues across the organization.

- ☒ **From provider relationship to partnership.** Successful outsourcing relationships can be raised to a higher level of effectiveness when they are thought of as a truly collaborative partnership and not just a customer-provider relationship. Though this may sound like a "soft" concept, it is actually grounded in the idea that collaboration between provider and customer can lead to innovation and shared benefits. For example, one of the secondary benefits that customers receive when they work with IT outsourcing providers is access to their investments in R&D and services innovation. In Oracle's case, such investments can be massive. Working in partnership means thinking beyond service-level agreements (SLAs) and performance levels and allows the customer to leverage the vast array of talent and technologies that an organization such as Oracle can offer. It also means being proactive about how a client organization can best utilize those considerable resources for its own benefit, something that providers such as Oracle are more than willing to assist with. Put simply, working in partnership requires an attitude shift away from simply extracting the most cost savings from a provider and, instead, working toward larger common goals. The greatest ROI can be realized from an outsourcing engagement when it is part of such a symbiotic partnership.

- ☒ **Collaboration.** The key is in developing a collaborative provider-client relationship that can foster more effective joint strategies for managing continuous business improvement when launching new products or new service models. Open communication between provider and client can also surface problems more quickly before critical issues become a source of frustration for either party. Setting realistic expectations (e.g., accurate timing assessments for deliverables according to agreed-upon milestones) is essential. A continuous improvement milestone approach that can be presented at regularly scheduled intervals to different levels of management helps maintain buy-in and demonstrates the value of outsourcing relationships at multiple levels.

CONCLUSION

As the power, scope, and value of application outsourcing have greatly expanded, so, too, have their importance and integration with business operations. As such, it is increasingly important to choose an AO solution with the necessary maturity, experience, and breadth of services to provide maximum value and mitigation of risk. Oracle's On Demand portfolio is one choice among a number in the market that can support such criteria. Its broad solution set is built on a foundation of best-of-breed Oracle-based software that is driven by highly skilled and certified professionals who are dedicated to achieving service delivery excellence through the efficient use of engineered best practices.

Ultimately, a well-chosen AO framework will reduce customer effort by offloading internal resources so they can focus on core business objectives. The innovation and efficiencies tied to new service delivery approaches can also stabilize or significantly improve the performance of a company's own application portfolio. Factors such as increased standardization and the availability of prebuilt template solutions, for example, can lead to greater customer agility, allowing customers to more readily adapt their own solution portfolio to address the ever-changing dynamics of the marketplace.

IT environments need to become enablers and supporters of business transformation. A well-executed outsourced solution not only provides a core suite of applications but also needs to integrate new features and functionality to maintain alignment with the customer's ongoing needs and changing business goals.

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