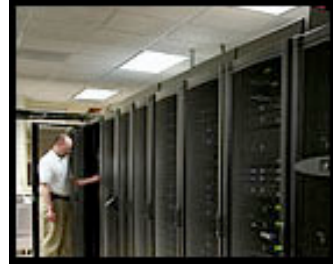




ROI of Outsourcing Information Technology



Cost effectively managing your infrastructure in the Information Age

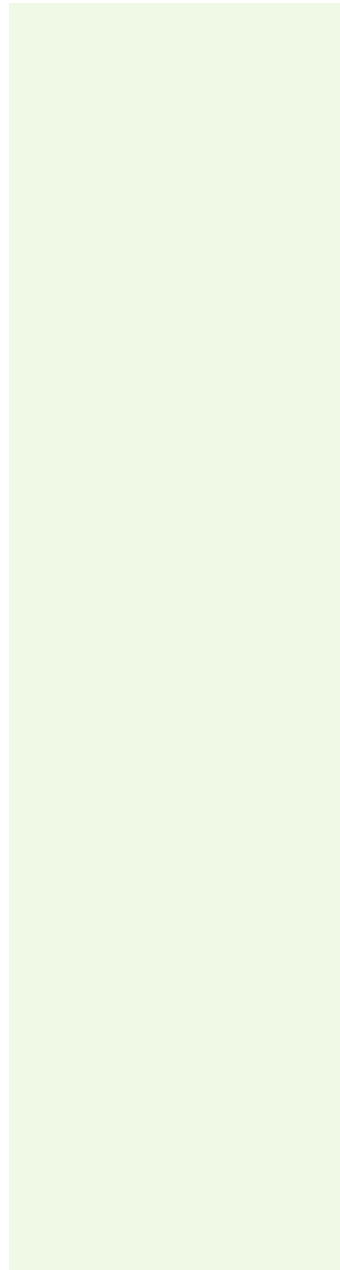


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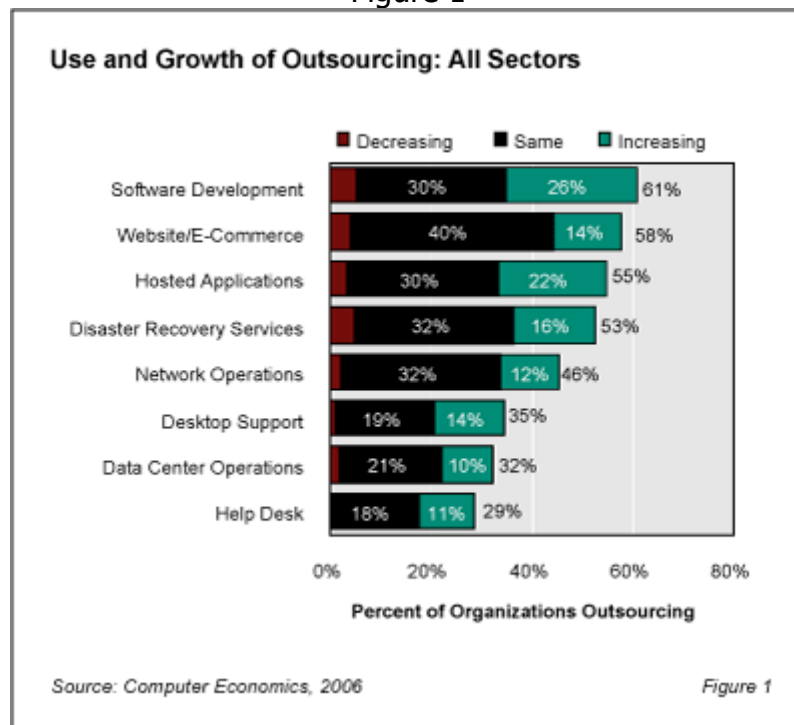
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Current Information Technology Environment

In today's economic environment, companies of all sizes need to re-evaluate how they do business, with acumen for finding cost-cutting savings and productivity increases. Most areas outside a "Core" competency of the business are evaluated for outsourcing. These outsourced functions are enablers for the business, but not directly related to its "Core" competency. Many businesses outsource Payroll, Accounting, Recruitment and their Information Technology Infrastructure.

According to Computer Economics report *IT Spending & Staffing 2006/2007: Chapter 5, IT Outsourcing Trends* published July of 2006; the graph in Figure 1 shows the growth rate of Outsourcing various IT functions and their associated percentages of growth.

Figure 1



There are a myriad of questions to consider when faced with the prospect of outsourcing your IT functionality. Similar in scope and impact when considering outsourcing your other business functions such as Human Resources or Accounting; is this right for my business? Will I retain control of my resources? Will there be a loss in performance of my systems and applications? Is my pertinent data safe, secure and reliably accessed?

Is there a true return on my investment? That is the question that this White Paper will address, for most businesses, outsourcing your IT functions, if partnered with the right Managed IT vendor will result in positive benefits to your organization.

This White Paper examines how IT outsourcing works, how it may benefit your business and items to consider when considering Outsourcing your IT Infrastructure.

The Benefits of Outsourcing IT

Just what are the benefits to Outsourcing some or all of your business IT functionality? The growing trend in Outsourcing business functions such as Human Resources, Accounting and Information Technology are not happening by accident; they are happening as a result of an ultra competitive marketplace, an emerging global marketplace requiring internet technologies and a difficult economic climate. Outsourcing of Information Technology allows your business to focus on what it does best, your "Core" competency while allowing your IT outsourcing vendor to focus on what they do best, manage IT.

Listed below are several advantages to outsourcing, they include:

Cost and Risk Assessment, Reduction

Outsourcing can reduce the costs and risks associated with IT projects and functionality in many ways. Acquisition of hardware and software infrastructure can be leveraged since Managed IT Vendors can purchase for several customers establishing a scale of buying power unmatched by small to medium-sized businesses. This buying power translates into many benefits that a small to medium-sized company would not have, such as; higher level back-end support, quality of equipment, quality of connectivity, a large pool of technology professionals to draw experience from and a vastly improved overall IT efficiency for you, the small to medium-sized business. That efficiency and economy of scale translates directly to your bottom line and the prosperity of your business.

Cost Avoidance

The demarcation line between cost reduction and cost avoidance can be clearly seen as businesses shift their critical business applications to the internet. The requirement for successfully hosting a web-enabled application is 24/7 availability. Most small to medium-sized business cannot handle that level of infrastructure and 24/7 support requirement. The cost impact to get to this level of maintenance can be staggering in relation to a pre-internet IT initiative. To support this endeavor you need database administrators, networking experts, security experts and around-the-clock technical support to assist your users and customers. Avoiding this cost by outsourcing these functions can be quite significant.

Core Competencies

Your business has succeeded to date because of your focus to your "Core" competency, the difficulty lies in wearing many hats as most small to medium-sized business managers are required to. If it is outside your "Core" competency, then you may lack the necessary expertise to succeed at a similar level as you would within your "Core" competency. A Managed IT Vendor

focuses on it's "Core" competency, and can assist your business with these issues.

Scalability, Adaptability

Building and maintaining an IT infrastructure takes time and money; options not readily available to small to medium-sized businesses competing for every dollar in their marketplace. Outsourcing IT allows your business to grow in size while having a predictable, managed cost. Outsourcing IT allows your business to quickly adapt to sudden market or competitor threats in a world where complacency can kill a business.

IT Staffing

Gartner Group studies and a new study by CTG determine that the basic support and maintenance of existing applications and infrastructure take up as much as 50-80% of resources allocated to an IT budget. This poses impacting barriers to being able to effectively compete with new and improved services for your customers and users.

There are many factors to consider in IT staffing that most organizations are now cognizant of when hiring for those positions. Such as:

- Training, IT staffing requires constant updating of skills to remain able to meet today's demanding technology. Compare this with a Managed IT Vendor that can aggregate training costs over several IT workers.
- Turn-over and the impact of losing key IT personnel, small to medium-sized business traditionally have few IT personnel thus increasing the impact to loss in knowledge and procedure when they depart. Compare this with a Managed IT Vendor who has a vast pool of skilled workers and can mitigate the loss of key personnel.
- Employee costs, Taxation and other Human Resources costs can add significantly to the cost of an in-house employee. Compare this with a Managed IT Vendor that can provide these services for a fixed fee that is predictable and scalable to your organizations needs.

Capital Investment, "Pay as You Play"

The investment required for IT infrastructure can be significant for small to medium-sized businesses. Your Managed IT Vendor can lease you the required infrastructure for a monthly fee, mitigating the huge investment cost and allowing your company to "Pay as You Play", improving your overall businesses economic health.

Availability and Reliability

Downtime... How do you measure the cost to your business? Imagine losing your ability to communicate via email, file sharing or even visiting key websites for only a day? Or imagine losing precious data such as accounting, customer records or human resource documentation for that same day? Wouldn't be fun would it? This is an important consideration when it comes to factoring in the true cost of IT infrastructure. Most loss due to outages are seen as soft cost losses, your business may not be generating direct revenue from IT infrastructure, you will still be impacted due to outages or loss in a number of ways. Some are:

- Web sites that generate revenue directly in online sales. This is obvious, but a soft cost hit is the loss in brand value and a loss in confidence in your business to deliver. From the mind of one user, "If you can't keep your website up, how can I be sure you can ship my products on time?"
- Accounting data, sales leads and even customer or internal email; consider the statement above and the impact to your business if you were to lose that information for a 24 hour period or worse yet, completely. Consider the three important statements below:

The U.S. Small Business Administration says, "Small business owners invest a tremendous amount of time, money and resources to make their ventures successful, and yet, while the importance of emergency planning may seem self-evident, it may get put on the back-burner in the face of more immediate concerns. For small business owners, being prepared can mean staying in business following a disaster."

"Of those businesses that experience a disaster and have no emergency plan, 43 percent never reopen; of those that do reopen, only 29 percent are still operating two years later." From *The Hartford's Guide to Emergency Preparedness Planning*.

"70 percent of small firms that experience a major data loss go out of business within a year." From the *Contingency Planning, Strategic Research Corp*

In today's business climate, a business cannot afford to not meet the basic availability and reliability of data. A Managed IT Vendor can provide high uptime and availability of key IT functions. In addition, they can be made very reliable in the event of a disaster. All of these services can be provided for a nominal cost and can be considered "Insurance" in the case of loss.

Is Outsourcing a fit for your organization?

Today's business climate has put IT outsourcing on the same level as other outsourced services, such as Human Resources, Accounting and Facilities. Study after study by The Gartner Group, Computer Economics, Small Business Administration and others all conclude the same thing. Outsourcing adoption rates have soured in part because of the "Back to Basics" adoption of "Core" competencies and the dramatic improvement of efficiencies and costs when services are outsourced. But is IT Outsourcing a good fit for your business?

The Gartner Group has conducted detailed studies on outsourcing adoption rates by industry. The highest rate for IT and business process outsourcing is listed below by industry, information from The Gartner Outsourcing Summit in 2005:

- Financial Services
- Manufacturing
- Government Services

What drives outsourcing? These industries cite their reasons below:

- Healthcare – Reduction of costs
- Manufacturing – Enable internal IT staff to focus on strategic projects
- Retail – Operational Efficiency
- Transportation – Standardization of technology across company
- Utilities - Enable internal IT staff to focus on strategic projects
- Communications - Enable internal IT staff to focus on strategic projects
- Energy – Reduction of costs
- Financial Services - Standardization of technology across company
- Government - Enable internal IT staff to focus on strategic projects

Let's consider the Gartner Group's recommendation to outsource the most inefficient processes and IT solutions, be they generic or industry specific. What factors must your organization consider?

Are you a startup? The sooner you consider IT Outsourcing the better your return on investment on many levels, from asset acquisition to transition of infrastructure to a Managed IT Vendor.

- It is always easier to start down a path than to change directions mid-stream.
- Startups can benefit from moving most if not all of their IT to a Managed IT Vendor as it will allow for growth without the barrier of capital investment.

Is your company experiencing rapid growth? Rapid growth can be a problem, as most every business owner has heard "Too much growth can kill a business".

- Managed growth is the key and managing IT growth can be a strategic problem to a business if not handled correctly.
- "Pay as You Play", is a powerful economic tool a small business can use to its advantage by saving precious capital for strategic business objectives.

Does your company have an existing IT Staff? Some of the problems with IT staffing come into play here, such as expertise, training and staff turnover.

- Does your IT staff have the expertise to cover what your business needs from a strategic IT viewpoint? Things to consider are:
 - General desktop support
 - Database administration
 - Network Connectivity
 - Internet Services, WWW or Web
 - Email services, SMTP, POP, Blackberry, Exchange
 - File Server services, SharePoint, FTP
 - Security Services, Anti-Virus, Spam Filtering, Firewalling
- Almost every small to medium-sized business has use of proprietary applications, from accounting software to inventory tracking. Are these web-enabled? If so, does your current infrastructure support high availability?
- How fast is your company growing? Stated above, rapid growth can have a host of problems to deal with.
- Is your IT staff support internal applications primarily and general IT and internet services secondarily? Allowing a Managed IT Vendor to handle your secondary services allows your internal staff to focus on their "Core" Competency while improving your business efficiency.
- Are the "Core" competencies required from a technological standpoint, outpacing your ability to hire skilled staff to meet the demand?
- Does your internal infrastructure have survivability in the event of disaster?
 - Do you have a backup strategy? Is it offsite? What do you backup?
 - Is your infrastructure susceptible to environmental disaster such as tornados or earthquakes?
 - Have you considered the costs of the infrastructure, in terms of power consumption and cooling?

These are just a few things to consider when looking into IT Sourcing.

Cost Analysis, does it add up?

The definition of ROI is the return on investment of a project. You can measure the value proposition of outsourcing by measuring the reduction of the total cost of ownership or TCO. That reduction value is the baseline ROI. When looking at ROI, there are many cost factors to consider that extend beyond the reduced overhead costs. Such as the value of a predictable cost model. Being able to accurately predict the cost of your IT initiative through expensing your outsourced project has inherent value unto itself.

Other costs to consider when outsourcing are:

- Staffing
- Occupancy (space to house staff)
- Energy footprint (energy for equipment and personnel)
- Management
- Software Server Licensing
- Training
- Benefits and Human Resources
- Support Services
- Finance and Administration
- Strategic Planning

Also bear in mind that some capital costs, such as useful life, depreciation and market value will come into play. Pay attention to certain assumptions, such as future volumes, service level requirements, technological changes and licensing costs will play a large role in the calculations of your current and proposed budgets.

Comparing your current budget to the proposed budget helps determine if the outsourcing decision is financially sound. The items to use in the comparison are:

- Operating Budget
- Overhead Budget
- Capital Budget

By comparing these budgets we can determine a cost savings attributable to outsourcing.

There are numerous cost calculators out there, from The Gartner Group, Ingram Micro and others. Below is a sample cost calculator of a 20 desktop business outsourcing their IT and edge services to a Managed IT Vendor.

Business name: Sample Goods, Inc.
Number of desktops: 20
IT staff on premise: 0

Needs:

- Local network services
- Internet gateway – web access, local firewall
- Exchange Email
- File and document sharing over the Internet
- Security services – anti-virus, spam filtering
- Support services – system uptime monitoring, break-fix
- Daily backups

This is a basic set of needs for a growing small business. Let's walk through the cost of supplying these needs in-house first, and then compare that budget to an outsourced model.

Internal Solution

Staffing requirement: 1 individual

Equipment requirement: Servers, Router/Gateway, Firewall, Server licenses, desktop licenses, AV software licenses, large disk storage

Immediate Costs:

- Desktops (18) and laptops (2) - \$9200.00
- Servers with licensing - \$11000.00
- Network equipment - \$5000.00

Note that these immediate costs can be purchased on a monthly lease from most providers. But you still have to consider useful life, depreciation and market value of the items once purchased.

Monthly Budget:

- Labor costs (includes HR and benefit costs) - \$5500.00
- Utilities and facilities (Power and occupancy) - \$400.00
- Management - \$100.00
- Planning - \$100.00
- Finance - \$100.00
- Training - \$300.00
- Licensing (Software updates) - \$120.00

The budgeted monthly cost of IT for this business is roughly \$6620.00.

While this solution will support up to 50 users without adding to the IT staff (in most cases, depends on the application and need) there will be an increase in overall infrastructure and acquisition costs that scale with the increase in users.

Also to consider is that since we only have one individual on our IT staff, when they go on vacation, who is watching the network and maintaining the equipment?

Outsourced Solution

Staffing requirement: none

Equipment requirement: Servers, Router/Gateway, Firewall, Server licenses, desktop licenses, AV software licenses, large disk storage

Immediate Costs:

- Desktops (18) and laptops (2) - \$9200.00
- Servers with licensing – monthly startup fees, roughly \$500.00
- Network equipment – monthly startup fees, roughly \$200.00

Note that these immediate costs are much lower with a monthly lease apart from the desktops and laptops. Some Managed IT Vendors will lease the desktop and laptops as well.

Monthly Budget:

- Outsourced cost - \$2400.00
- Labor costs (includes HR and benefit costs) - \$included
- Utilities and facilities (Power and occupancy) - \$included
- Management - \$included
- Planning - \$included
- Finance - \$included
- Training - \$included
- Licensing (Software updates) - \$included

The budgeted monthly cost of IT for this business is roughly \$2400.00.

While this solution will scale to almost any size since the costs associated are directly attributable to the increase in equipment and service needs. This comparison is based on generic IT needs and can obviously change dramatically due to special requirements such as proprietary applications, VPN access, diverse geography of employees in satellite offices, etc. For most general needs, outsourcing to a Managed IT Vendor will reduce IT overhead costs dramatically for almost any small to medium-sized business.

Selecting the right Outsourcing Partner

Choosing the right Managed IT Vendor can be like picking what to eat for dinner with your spouse. There are different tastes and needs to be met and there seem to be a plethora of choices that all seem viable.

Your Managed IT Vendor is a business partner. They should be very interested in your business model, and should be deeply engaged to insure that your IT needs are successfully met, since that dependency on mutual cooperation and success can have direct impact to both businesses, good or bad.

Find a Managed IT Vendor that is willing to partner and share in the direct concern for your IT needs. Remember, IT is just a tool for people to use to successfully run their business. Be just as concerned for the relationship and service as you would the quality of equipment and pricing.

Things to consider when looking at a Managed IT Vendor:

- Demonstrated Expertise in your business area, including similar clientele
- Clear definition of service offerings
- Reasonable cost in line with market value
- Good references from clients with similar needs
- Dedicated infrastructure, reliable hardware, software, management tools and networking equipment
- Organizational strength, time in business, community involvement and reputation
- Staffing to support daily requirements and emergencies
- Service Level Agreements

Your Managed IT Vendor should behave like an extension of your business, as your IT department would internally.

About 85under and PCnet

White Paper Boilerplate for 85 Under

85 Under is a state-of-the-art data center offering secure data storage, data backups, leased hardware and collocation services to businesses throughout the country. Operating out of Springfield, Missouri in the Springfield Underground, 85 Under offers clients one of the most secure and unique facilities available anywhere in the U.S.

PC Net, Inc. has been providing best-in-class IT services to the Springfield community for more than 20 years. The company's new Pulse IT Management offers growing businesses a cost-effective yet highly responsive way to outsource IT services that feel like they're in-house.

For more information, contact us at 877-85UNDER(86337) or visit us online at www.85under.com, and www.pcnetinc.com locally at (417) 831-1700.

Conclusion

Outsourcing IT can build a long-term, sustainable competitive advantage. It can accomplish this by leveraging enterprise level IT infrastructures among many smaller companies and providing those services at a much more attainable fee.

Being able to compete, in Internet Time and Space, cannot be overlooked and every business should consider the value of IT outsourcing. Some may not find the fit is right for them, for others, the benefits will enable their business to flourish in a very competitive, global marketplace.