



## ***Build Your Business***

An eNewsletter for  
CEOs looking to  
grow their companies.

High-value, "how-to" articles on customer-attraction, sales development, leadership, and best-practices in HR, IT, product development, communication, financial operations, engineering and M&A/value creation.

# ***How to maximize the value of IT in your business - IT Outsourcing***

You know that you spend a lot of money on IT and that you need to maximize the value of your investments in IT. Do you know if you have made the right decisions on make vs. buy on IT functions and services?

*Written by:*

Manoj Garg, Managing Partner  
Virtual Information Executives

12639 NW Waker Drive,  
Portland, OR 97229

mgarg@viellc.com • www.viellc.com



***Bridging the Divide between Business and Technology***

# *How to maximize the value of IT in your business - IT Outsourcing*

**Evaluate your core competency and make vs. buy decisions for IT services.**

You know that you need to leverage Information Technology (IT) for your business success. You are spending a lot of money on IT services. Have you thought about which IT capabilities you should retain in-house and which IT capabilities you should purchase? How can you figure this out? How can you get maximum value from money you spend on IT services?

What is your attitude towards doing things yourself through staff or outsourcing to service providers? Do you feel that it is better to do as much as you can in-house? Are you the kind of organization that hates to see data residing outside your office premises? IT is a complex asset consisting of many parts. Some parts provide strategic value. Others do not. This article discusses how to make decisions about outsourcing certain commodity IT functions that can be performed better by vendors of IT services. And how you can manage these services to get better value for your money and your people resources.

## **IT Functions and Services.**

Unfortunately, most IT people (due to reasons including lack of business orientation and desired job security) tend to want to do most things in-house. It is good business strategy for any organization to review IT capabilities available from vendors of IT services and compare cost and quality to similar functions being performed in-house to get a true comparison.

The following IT functions and services are typically performed by the IT department:

- Business Process Optimization
- Business Unit Applications
  - Design
  - Build and Support
- Enterprise Applications
  - Design
  - Build and Support
- Business Intelligence solutions

- Enterprise Architecture
- IT Infrastructure
  - Design and Engineering
  - Maintenance
- Project Management Office
- Help Desk

Do you think you are better off if all of these functions are performed in-house? Perhaps. Perhaps not. How would you know?

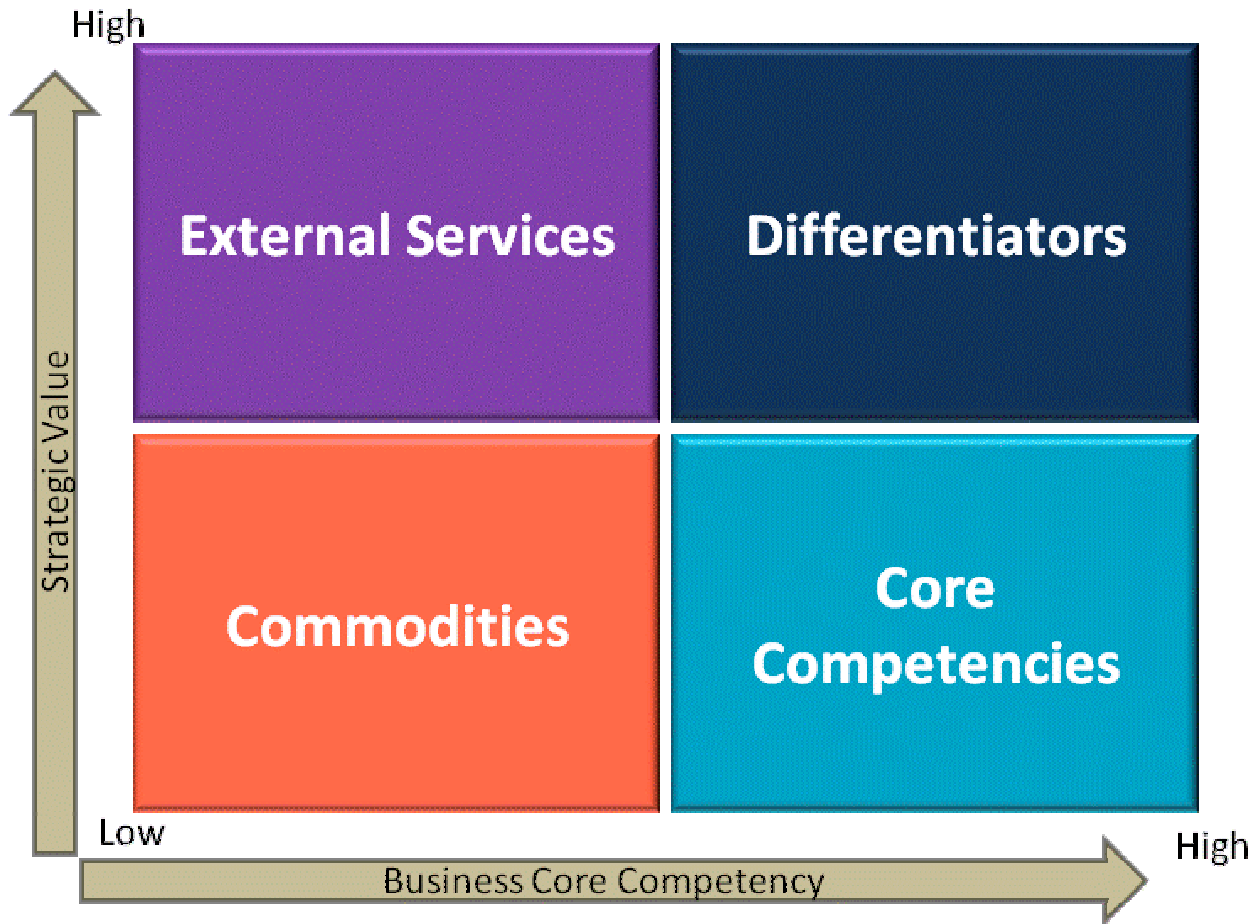
## Core competencies and Outsourcing

Let us briefly review how most organizations create value for their customers. Most organizations have to have certain capabilities and competencies in order to stay in business. Some of these competencies are industry-related that *others* in their industry may possess. Organizations also purchase certain products and services where it makes sense. Examples may include items such as commodities, raw materials for manufacturing companies, power and facilities, and other services such as accounting and legal services to name a few.

As seen in the chart on the next page, we can use a simple classification system to group capabilities in our organization:

1. External Services - Things others specialize in and can do much better than us. We can take advantage of these to meet strategic objectives. eg. legal and some financial services.
2. Differentiators - Things that we do really well and help us compete and differentiate ourselves. eg. ease-of-use for Apple, Inc. products.
3. Core Competencies - Things that we do really well and are our bread and butter. eg. preparing tax returns for Financial service firms.
4. Commodities - Things that others can do better than us and we have to do as part of staying in business. eg. Utilities such as power and water.

The chart on the next page shows how strategic value varies with different types of capabilities (in-house or acquired) in any organization. Clearly, things that differentiate us from competitors are things that we should do ourselves and continuously strive to do better. Our core competencies are things that all companies in our industry know how to do and we have to continue to do them though we should be working on how to do them at lower cost. Capabilities that are External Services are things we should consider buy from the outside because we don't have the expertise to do them in-house. The last set of capabilities - Commodities are things that we absolutely need to stay in business but we can buy those from others who sell them in the marketplace.



Every organization should take needed business functions and capabilities and classify them according to the chart above. Once we have done that, we should decide to keep Core competencies and Differentiators in-house and try to acquire External Services and Commodities at the best possible combination of price and quality.

### Core competency concept applied to IT functions

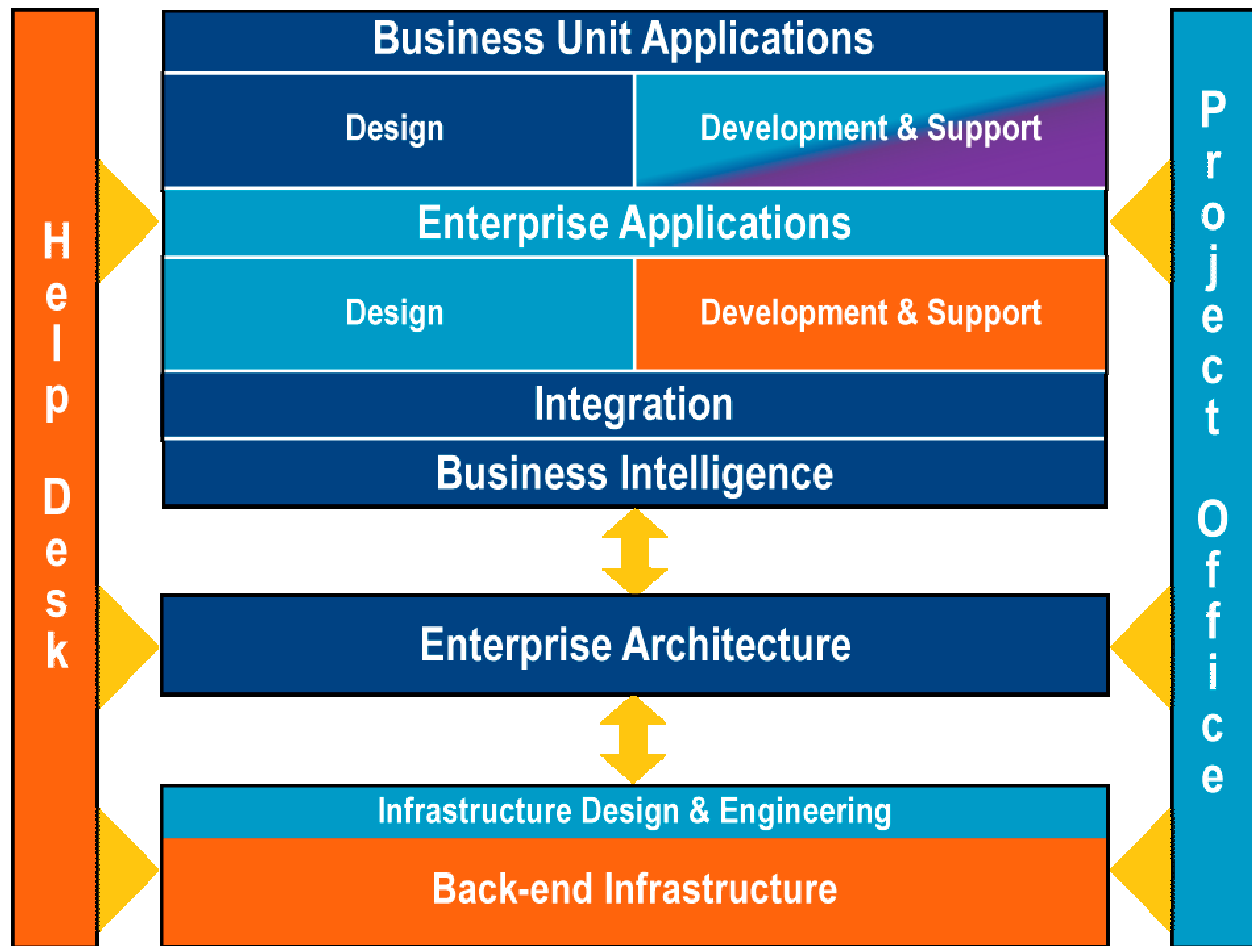
Do you think we should apply the same thinking to IT functions and services? That depends on your world-view. If you feel strategy can provide much more value than taking a tactical approach, then yes. Because IT is part of the business.

The chart on the next page takes the list of IT functions and services described in a previous section and shows the classification by color code for a large transportation company. The classification for your organization may differ depending on your size and industry.

*Differentiators* may include Business Unit Applications design, Integration, Business Intelligence, and Enterprise Architecture. These are functions that are unique to a business and if done well can help the business innovate and compete successfully.

*Core competencies* may include Business Unit Applications development and support, Enterprise Applications design, Project Management Office, and Infrastructure design and engineering. These functions are also unique to the business or at least its industry and these services cannot easily be purchased from the outside for certain size organizations.

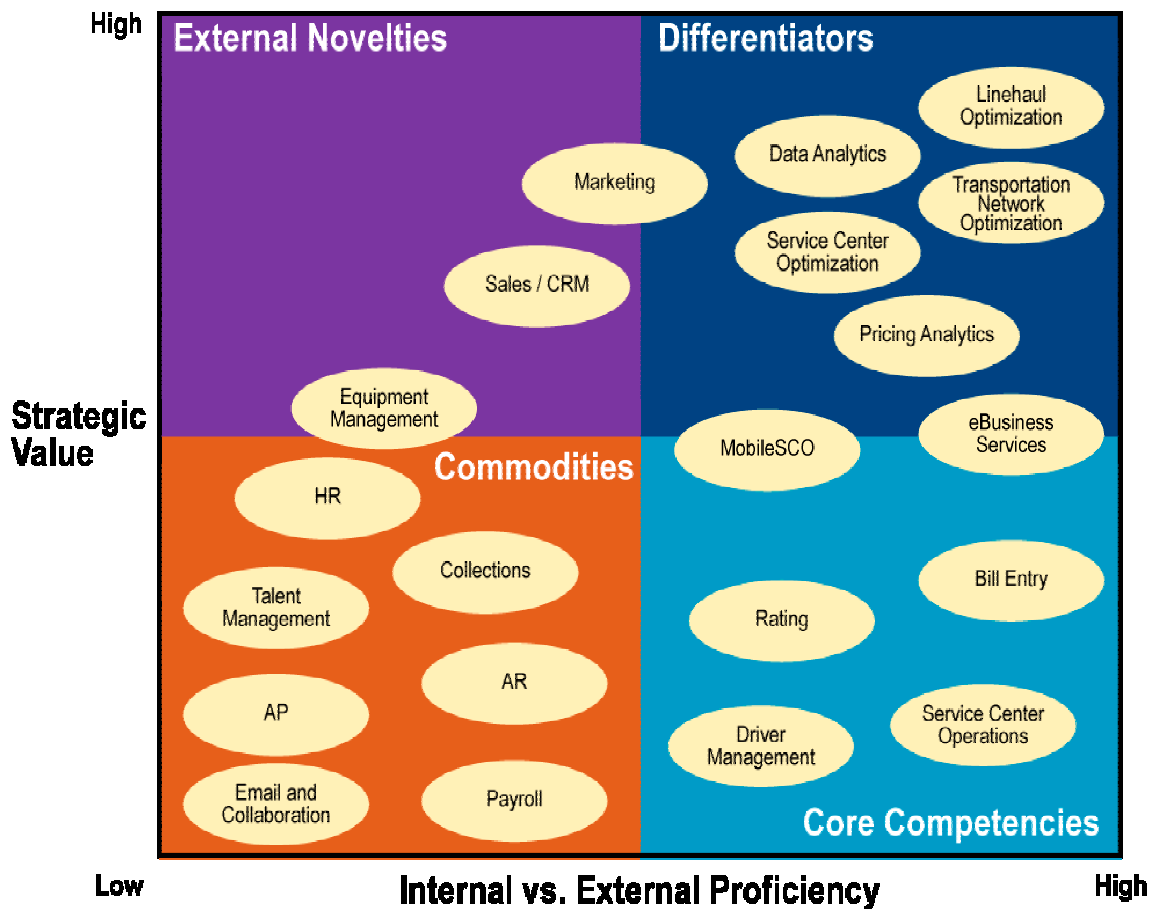
External Services may include Business Unit and Enterprise Applications development and support. May also include certain niche cloud based applications. These are services such as Salesforce.com, Netsuite and others that can solve certain class of problems very successfully and are difficult to build in-house at the same cost and quality.



Commodities may include help desk, Infrastructure support and possibly Enterprise applications development and support. These are services that are needed in large volume by most organizations. Certain IT vendors have evolved over time to provide these services very efficiently and at reasonable cost and quality, which might be hard to duplicate in-house.

Once you perform similar analysis for your organization, you can get a very clear picture of which functions are going to be strategic and which functions should be outsourced. Outsourcing is not necessarily easy but done right it can lower your costs substantially. For commodities in IT – such as cloud based IT infrastructure - hosting services and managed IT services, you can gain expertise that you do not have to own and develop in-house. You may be able to lower your costs of IT operations by outsourcing the IT help desk and also be able to buy External Service items from these vendors at reasonable costs.

### Sample application of IT Outsourcing Strategy



At a large transportation client of VIE, the CIO performed analysis of the IT applications to determine a good strategy for sourcing. The picture on the previous page shows the results of the analysis.

Using the results of this analysis, the organization has made many changes to their applications portfolio. They have implemented Salesforce.com for their sale process automation, an application for their Equipment management application. They have transitioned several commodity applications to the cloud including e-mail, HR talent acquisition and a few other business services. This has allowed them to focus available IT resources on applications such as Data Analytics, Transport Network Optimization and Driver Management which will help them differentiate themselves in the market.

The benefits of pursuing this strategy has allowed the company to minimize their costs for commodities, acquire external services as needed (based on business justification) and dedicate in-house resources to things that help them compete and differentiate.

### **So what can you do now?**

If you and your executives are unsure about the high costs of IT, and the business value it delivers, you might consider performing a simple analysis of your IT functions based on your business needs and core competencies. You can take the following steps:

1. Start with a diagram similar to the one on page 4.
2. Develop a list of all services provided by the IT department or acquired externally similar to the list on page 2.
3. For each IT service, place it in one of the four quadrants - Core competency, External Service, Commodity and Differentiator.
4. For commodities, work with vendors of IT services to get best possible cost for minimum acceptable service levels and quality for your organization.
5. For External Services, work with outside specialty vendors to acquire services after making the business case for it.
6. For core competencies and differentiators, dedicate people with the right talent internally to delivering the best possible service.

Doing these steps will allow you to leverage IT appropriately in your business and get the best possible value for your IT investments.

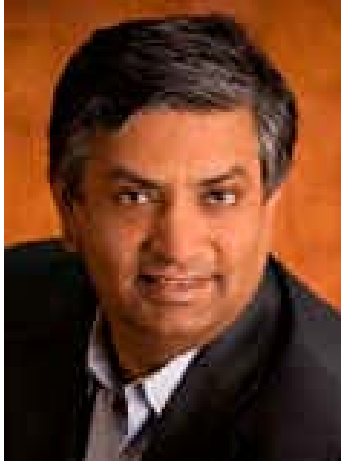
If you don't know how, or don't have the time to do this, hire an expert to assist you.

Finally, if you have serious feelings that something is wrong with IT in your company but cannot put your finger on the issue, or if there is a set of apparent complex inter-related IT issues, consider performing an IT assessment\*. Remember, IT is essential and expensive but it does not have to be hard to do right. If you can learn how to be technology savvy, you too can learn how to measure and get the maximum possible value from your IT investments.

Copyright © 2011 - Virtual Information Executives. All rights reserved.

\* Please review VIE's services page for their "IT SnapShot™"





### Author's Biography

Manoj Garg is a founder of Virtual Information Executives, LLC (VIE). He is currently the Managing Partner of VIE and brings over 25 years of senior executive leadership skills and technology management experience with domestic and international operations to VIE's clients.

Manoj's prior experience includes senior executive roles in Higher Education, Technology and Manufacturing organizations. His experience covers a broad array of skills, including Large Scale Technology Infrastructure Management, Outsourcing Management, Information Security Management, Program Management and Enterprise

Resource Planning. Manoj has managed technology budgets in excess of \$20M. He is noted for creating and implementing innovative solutions that assist businesses in achieving goals rapidly. He has significant outsourcing experience and has delivered successful projects in many overseas locations including Brazil, Argentina, Egypt, Australia, India and China. Manoj serves on several boards of directors and advisory groups for companies.

Manoj is an active member of the Oregon Entrepreneur Network, a non-profit organization whose mission is to provide support activities and mentoring to the entrepreneurial community to foster business growth and employment opportunities in Oregon.

He can be contacted at [mgarg@viellc.com](mailto:mgarg@viellc.com).



### *Bridging the Divide between Business and Technology*

VIE is a group of business and IT executives who specialize in IT assessments and in leading IT organizations. We are a five year old company with over sixty satisfied clients. VIE clients range from education, non-profit, healthcare and charitable organizations to financial services companies to large multi-national manufacturing and logistics companies. Clients have had needs ranging from assessments, software selection, IT strategy development, and interim CIO services, to IT investment strategy. All our consultants have been operational executives, each with over twenty years of practical business and IT experience. Our differentiating feature from traditional consulting firms is that all VIE consultants have been operational executives with responsibility for running day to day IT and business operations for organizations all while leading multi-million dollar IT projects.

Our primary goal is to build trusted relationships with our clients. By having no contractual agreements with any product or service vendors but being knowledgeable about many top providers, we are able to bring a very “what is best for the client” approach to our clients. This neutral approach is one level of assurance that we will always wear your hat.

We work with CEOs and other business executives who supervise the IT function to assess the state of technology in their organization and increase technology savvy substantially. Doing this enables them to integrate business and technology to gain the maximum possible advantage.

We work with CIOs to assist them with key initiatives that require senior level expertise. We mentor IT Directors and IT Managers to improve their performance and their leadership and communication skills.

Services include:

- ❑ IT SnapShot™ Assessments
- ❑ Interim and part-time CIO Services
- ❑ IT Strategic Planning
- ❑ IT Governance implementation
- ❑ Enterprise Software Selection and Implementation Services
- ❑ IT Due Diligence for mergers and acquisitions

For more information about how VIE can help you, please visit [www.viellc.com](http://www.viellc.com). Or call 503-828-1248.



*March's eNewsletter summaries are provided below. If you would like to receive the three trial issues, please go to:*  
***[www.synergy-usa.com/eNews.html](http://www.synergy-usa.com/eNews.html)***

**How a \$3 million/yr Company was Acquired for nearly \$20 million: in 6 Months**      **Mark Paul**

Are you looking for ways to increase the value of your company? As one CEO found out: Attracting significantly more "A" customers, while decreasing expenses is the surest way.

**How to Improve Your Company's Cash Flow**

**Patrick Wheeler**

Do you need extra cash? Are you searching for new sources of capital to help you survive & thrive? This article is for nonfinancial CEOs and discusses the different "levers" you can pull to improve your cash flow.

**Using HR to Boost Company Performance**

**Iris Sasaki**

If you are interested in dramatically increasing your employees' and managers' performance, there is a little-known secret that will leverage your strengths – and those around you – to accomplish far more.

**Simplifying the Sales and Channel Strategy**

**Bill Etheredge**

Is your sales and channel strategy defined? Have you assessed the effectiveness of existing strategies? Are changes in market conditions causing chaos in your strategy? This article defines what to do to boost effectiveness.

**How to Really Get Things Done**

**Alexander Stein**

Are you always short on time? Does your To-Do list only get longer? Are you at the end of your rope with trying to get ahead? In this article, learn how to get you and your business ticking.

**How to maximize the value of IT in your business - IT Outsourcing**

**Manoj Garg**

You know that you spend a lot of money on IT and that you need to maximize the value of your investments in IT. Do you know if you have made the right decisions on make vs. buy on IT functions and services?

**Are You Jumping on the Lean Bandwagon?**

**Rick Pay**

Are you trying to reduce operations cost – and considering Lean Manufacturing? Companies are climbing on the Lean bandwagon in droves, but how do you know if Lean is the right approach for your organization?

**Got Heart?**

**Dan Duggan**

Is morale an issue at your company? Do employees act listless? Is absenteeism beginning to be a problem? Learn how to recognize and transform "lost heart" into "loving your work".

**Ten Reasons to go International**

**Richard Biggs**

If you are pondering whether to go global, recognize the fact that you are already "global", in that you very likely have global competitors. You are in a competitive global marketplace.

**Engineering Resources: Captive or Consultant?**

**Mike Miles**

Too many projects and too little staff? Can't afford to hire anyone full-time? This article outlines how CEOs can clarify what is important in choosing to hire technical staff or to retain an outside consultant.

**Can you do it in 6:40?**

**Dave Yewman**

Chances are your presentations are too long. Why? Because everyone's presentations are too long. So how do you fix that? Here's one option, a radical option. Are you feeling brave?

**How to Find & Attract Capital to Grow Your Company**

**Brent Freeman**

If you have ever had to find capital to grow your company, this article will show you how prepare critical documents required to find capital from non-traditional sources.

This is the third edition of a three-month trial of the Build Your Business eNewsletter. We are interested in your thoughts via a survey. To receive past months' articles and to take the survey, please 'subscribe' at [www.synergy-usa.com/eNews.html](http://www.synergy-usa.com/eNews.html). Thank you.