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**MISTAKES  
BUSINESSES  
MAKE **WHEN**  
**OUTSOURCING**  
**THEIR IT****



# SO WHAT IS OUTSOURCING?

Before we look at the 8 common mistakes made when businesses look to outsource their IT, lets first look at what outsourcing actually is. A loose definition is it is the engagement of an external company to fulfil the day to day needs of your business around a specific competency like legal, accounting, HR, recruiting or IT etc that you do not have the desire, skills, resources or capacity in-house to meet.

For most business at a purely economic level it doesn't make financial sense to maintain say a full time lawyer when you might only need their services once a month or once a quarter. Obviously as the scale and size of a business changes there is a tipping point when it can make sense to have your own in-house counsel as many large enterprises do. However in today's global digital economy even that situation is shifting.

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"From an IT point of view the complex nature and almost total dependency some companies have on IT to transact and operate day to day means there is an increased reliance of having a partner to provide and look after that function in the business."

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Unfortunately due to the highly fragmented and immature status of the IT industry there are little to no guidelines or principles to follow on how to make it a successful partnership at the small and medium business level. There are plenty of billion dollar outsourcing contracts and worldwide service providers but when you break it down to your local city the landscape, offerings and capabilities shrink dramatically.

What's worse is that without any strong governing bodies or associations to police compliance, certifications or competence it can really become the IT 'wild west'. So to help you avoid a shoot out when outsourcing your organisations IT let's take a look at the most common mistakes others make when looking to outsource their IT;



# 1. NO PLAN OR STRATEGY

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If you look at your accounting function, getting someone to do the compliance and tax work for your business is relatively simple (quality is obviously a different matter). However when it comes to finding an accounting firm skilled in planning and providing true business advisory services the standards seem to be from different planets. The exact same holds true in IT. There are a ton of IT companies who will put their hand up to look after day to day support for you. However the nature of business and IT has dramatically changed to the point where just responding is not only not good enough it can leave you at a substantial competitive disadvantage in the market.

Often companies who have given their IT support to a third party find that the relationship is completely reactive and moves from fire to fire with unexpected costs, outages, unresolved problems and staff frustration. Without identifying a goal or direction for IT the end result ends up being an ever increasing expense item that never meets all the talk and hype about efficiency and productivity gains let alone any kind of innovation.

So begin with the end in mind and have an actual IT plan, roadmap or strategy that is aligned with your business plan that outlines where IT needs to head. This should happen before you start considering support. First strategy then tactics.

# 2. WRONG MODEL

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One of the most disappointing situations is when a client has chosen to outsource their IT support but the model they have chosen sets them up to spend far more than they need too. In short they have chosen a pre-paid hours, block hours or hourly charge contract with no cap. The result is the IT company gets to bill the client as much as they like each month regardless of the problem. In essence this 'pay as you go' model is unfairly bias towards the IT company who has no incentive to make anything perform any better or fail any less or fix any quicker.





Every time an issue occurs the clock starts ticking and irrelevant of how long it takes they just get to keep charging. So in many cases you might get some onsite time or minimum time each month that you pay but anything after that is billable. This is obviously appealing to many companies due to the low upfront cost and so many sign on with the mistaken idea that now there is someone looking after it, everything should just work. Yet the opposite happens (a lot) and you end wearing all of the costs due to "unforeseen issues" you don't understand or get any warning about and you have to foot the bill which can spike from month to month off the chart. Just like the introduction of capped plans changed the mobile phone industry the same is true for IT.

Always choose a cap plan that limits your exposure to bill spikes. It might seem like more to begin with but the alternative is a purely one sided engagement where you end up losing.

### 3. **CONTRACT LOCK IN**



A new trick that has crept into the small business end of the IT industry is the notion of the long term contract. It has always been in place for large million dollar outsourcing arrangements (and with good reason due to the extra zero's involved) but now there are numerous instances where a small or medium client simply cannot exit despite how bad things are.

Typically these 3 year contracts are sold on the very first dealing or interaction between you and the IT company. They propose the



outsourcing deal but you need to commit to 3 years. The lock in is a penalty or payout clause that comes into effect if you want to leave or exit early. Clients get burnt because they trust someone at the start but for whatever the reason the delivery doesn't meet any of what was promised. The cost to legally force it becomes too high so you are literally stuck working with a provider who is taking advantage of your business.

The best advice would be to 'date' for a period before deciding to 'get married'. This might mean a month to month agreement or 1 year contract but with a no penalty, 30 day exit clause. Once you have some time together and you both understand each other then you can absolutely bring in the long term contract to fix your costs and set your budget accordingly.

## 4. NO OWNERSHIP/ EXECUTIVE INVOLVEMENT



IT is changing the way business works around the globe. If it is treated and left to someone further down the chain with no strategic input then all you end up with is a break fix or rinse and repeat relationship. This lack of executive input means other competitors or industry forces and trends can slowly cook the organisation out of business.

Too often IT companies engage with a business only to discover an IT approach straight out of the 1980's with business processes to match. The unfortunate reality is some firms are so far behind due to no leadership both internally and externally that they face a significant, lengthy and costly journey to catchup (if in fact they can). This is typically not the fault of the admin person who looks after IT day to day. Many IT companies themselves still wish it was the 80's with the matching margins so they continue in the same way hoping clients won't notice or don't want to be involved.

All quarterly meetings need to be anchored around the business discussion first and foremost with only a small amount of time spent on reviewing the IT operations side of things. The rest of the time needs to be focused on maximising the returns IT can provide to the company and what you want it do for the bottom line.



## 5. LACK OF PEOPLE FOCUS



We have all heard the term people are your greatest asset. We also see how automation and process efficiency can remove unnecessary jobs or roles and help scale a business. In reality, the two are actually closely related but many companies continue to massively underinvest in their staff from an IT literacy point of view but over invest in unneeded technology that staff don't know to use properly. So an IT provider may walk into a business with fantastic technology standards who are operating the same way they did 5 years ago and the business leadership team can't understand why they aren't seeing any returns on all this spending.

Again many IT providers or outsourcing firms would much rather you operate uneducated staff as it increases the costs of support and especially if you're operating under a pay as you go model then they reap all the upside of unneeded support calls. In reality if you can invest in the IT literacy of your staff and drive up their usage and adoption of different more efficient business processes based around technology then you will naturally achieve higher returns.



Whenever you are considering changing or upgrading or migrating technology identify what kind of training can be included to leverage this and how it will help your staff. Put your people first and build their knowledge in IT and you will help create a workforce that can not only leverage what you invest in but provide the best outcomes for the company into the future.





## 6. NO BUDGETING

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As companies mature and grow one of the common traits we see is their adoption of budgeting, forecasting and reporting. Yet for some unknown reason IT providers seem to be able to escape delivering any kind of basic budget to the client. If you are moving from one provider to another you need to understand your total spend and trends so that when you engage a new partner you can easily identify areas or items that will be impacted.



The hidden cost in a lot of outsourcing arrangements are that all of the focus is put on the support costs at the total exclusion of what the potential capital investments need to be. Both go hand in hand yet a client ends up choosing a low cost outsourcing provider only to spend 2 or 3 times the market price on the project or upgrade that "has to be done" due to some random unplanned emergency.

Ensure your budget to 'actual spend' is being reviewed quarterly and identify additional areas that are often overlooked, such as your telecommunications, photocopier and internet/web spend that can also be monitored.



## 7. CAPABILITY GAPS

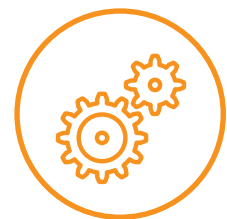


There is nothing worse than sitting across from a disgruntled business owner who has just found a key area of their business has been impacted by something their current IT outsourcing provider didn't have the skills to deal with. At the moment that is largely around speciality areas like security and business continuity but even common fields like cloud and mobility can stretch some IT firms.

The days of just having a few networked PC's and servers to look after are long gone. Yet many IT companies are cutting their teeth on new technologies at the expense of business owners or executives like you and then only after it goes pear shaped do you find out you were one of the first they had done it for.

Support in IT is a nebulous term and as mentioned before, a complete plan or strategy needs to encompass all of the key facets of technology that most companies are exposed too. What is very important to work out is if the potential outsourcing firm has the internal skills, qualifications and experience across major new fields like security, cloud and so on, that you may already be looking to invest in. Without identifying that upfront you could be engaging only a third of what is really needed and again you will be the one footing the bill if they start experimenting on your business.

## 8. MISSING A METHODOLOGY



Whilst IT is largely unregulated that doesn't mean there aren't any models for supporting business from an IT context. Popular current examples used by many large enterprises or government organisations include Cobit and ITIL. These can be a burdensome for small businesses but at a certain size all outsourcing providers need to be using or basing their work on these standards.





Even with these standards in place, some clients have been exposed to an almost brutal form of IT support with no structure, process, escalation or reporting. So issues drag on for months, problems constantly re-occur, simple changes cause unneeded downtime and issues get lost in the system (or lack of).

The result is a hap hazard chaotic level of support that leaves most businesses forever on the back foot. They claim that they were assured the provider had a best practice model they followed or were ITIL compliant but as soon as they asked for documents or processes to verify, the answers were nowhere to be seen. Insist on seeing their documented processes so you know how you will be looked after.

IT is an incredibly complex and fast changing industry – most businesses need to partner with an experienced, reputable and reliable IT support company. Just make sure that the partner you choose is a partner for the long term.



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