

Outsourcing

You're offshoring. Now what?



High performance. Delivered.

A company's business applications are the energy that powers the entire enterprise. Connecting all of its people, locations, customers and partners, housing its critical data and information, and enabling its essential business transactions and analyses, applications are the driving force behind the business.

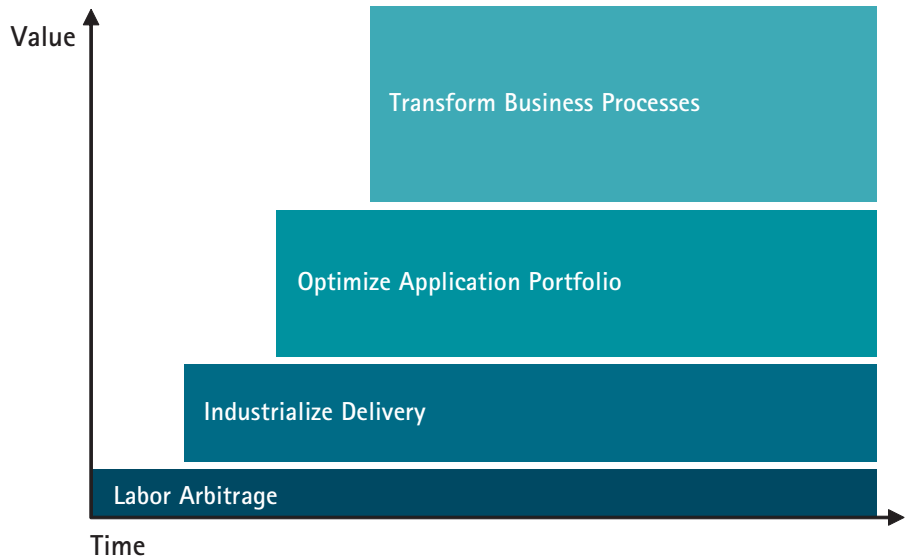
As one of the biggest line items in the IT budget, application development and maintenance has also been a central focus in the ongoing effort to drive cost out of an organization.

Always under intense financial pressures, business executives have turned in recent years to offshoring their IT work in search of immediate relief. Labor arbitrage advantages delivered rapid results, to the accolades of shareholders and chief financial officers alike.

Today, however, as those same executives survey their far-flung IT operations, the question weighing on their minds is: "**Now what?**"

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A high-value approach to application outsourcing builds on a foundation of labor arbitrage



The new vision for the possibilities of application outsourcing is broader and more comprehensive.

Accenture's most recent High-Performance IT Research has found that the pressures on the IT function, beyond cost reduction, are stronger than ever: delivering more business functionality faster, creating greater value from IT investments, improving customer satisfaction through highly reliable systems and services. In light of those ongoing needs, the cost savings from offshoring seem now like a one-hit wonder. Since every company is to some extent relying on lower-cost overseas talent, it's a strategy unlikely to create competitive advantage. In short, offshoring the company's applications is able to take the IT organization only so far. It decreases their costs, but it does not increase their power.

What would a high-value approach to application outsourcing look like? Accenture believes that a fundamentally different operating model is necessary if companies are to attain high performance through an application outsourcing strategy. In the next era of application outsourcing, organizations

will achieve not only lower labor costs, but lower total cost of ownership for their applications. They won't just be buying capacity, they'll be leveraging the skills and expertise of a service provider acting as a business partner. They will be saving money and also producing business value.

Progressive companies today are already exploring this new territory, and their results have been dramatic: some have seen their total cost of application ownership cut in half; some have increased productivity by as much as 60 percent; others have seen step change improvements in ROI. How have they done it?

More than labor arbitrage

The new vision for the possibilities of application outsourcing is broader and more comprehensive. (See figure.) Because cost pressure is the "new normal" for every CIO, offshoring labor in low-cost countries remains a key component. In our experience, a number

of benchmarks are important to bear in mind to maximize the value of labor arbitrage. For example, high performers are offshoring as much as 80 percent of their application development and maintenance work. And they are continuing to target 25 percent cost reductions, at the least.

In addition to labor arbitrage advantages, however, application outsourcing leaders are setting the bar even higher, to include:

Industrializing delivery

One of the major accomplishments of the past several years by leading service providers has been the development of a repeatable and predictable delivery approach by which the management of multi-location work can be optimized. This industrialized discipline provides additional cost savings of up to 25 percent, by leveraging scale across clients, driving productivity and enabling delivery excellence through a highly specialized workforce focused on quality and continuous improvement.

Optimizing the application portfolio

By rationalizing technology platforms and by simplifying and optimizing hardware and software assets, companies can move beyond labor cost reduction and begin lowering their total cost of ownership across their portfolio of applications. Most importantly, this directly translates into simplified business processes which dramatically impacts the overall value delivered to the organization.

Transforming business processes

Ultimately, high performers are looking to IT to have a greater impact—leveraging an optimized IT function and industrialized delivery capabilities to enable business transformation. Here, the benefits of application outsourcing are articulated in specific business terms: increasing inventory turns; improving customer retention; enabling smoother and faster connections to suppliers, customers and other stakeholders; and so forth.

Get ready to outperform

So, once again: **"Now what?"**

What should business executives do immediately to maximize the energy of their business applications, and to advance their organizations toward high performance through a high-value approach to application outsourcing?

Here are three critical steps:

Outdistance by driving for business value

Create higher expectations for your IT organization and your outsourcing service provider when it comes to application development and maintenance. Articulate the goals of the outsourcing relationship in specific business terms (faster time to market, improved customer retention, etc.), which, in turn, require fundamentally changing the operating model at the heart of that relationship. Put in place metrics and incentives that demonstrate how the relationship is adding value to the business. Look at the portfolio of investments and ensure that the majority of spending is going to value-generating projects, rather than non-discretionary activities.

Outmaneuver by restructuring the IT function for nimbleness

A high-value approach to application outsourcing has benefits that go beyond the applications themselves. Another crucial part of the value to be derived comes from tapping into an application outsourcing service provider's scale to drive overall efficiencies. Rationalizing the application portfolio and reducing the complexity of application interfaces are important parts of the restructuring necessary. Industrializing delivery capabilities is another. And don't forget about the people challenges. Transforming the capabilities of the IT organization is a key part of the equation. At its best, an effective outsourcing relationship should enable your critical IT personnel to focus on more strategic aspects of the business. Ultimately, a high-value approach can help executives forge a

new, more effective and more nimble IT function that supports a company's ability to innovate and grow.

Outpace competitors by leveraging the capabilities of your service provider

In most cases, an application outsourcing service provider is not a business partner in the legal sense; but they should be acting like one. Executives should look for a strategic relationship that leverages a provider's technology and delivery capabilities, as well as their business and industry acumen and culture of innovation. In the race to high performance, the added strength of a strategic application outsourcing provider can help you outpace competitors. From a tactical point of view, consider moving beyond a standard deal shape to structure an outcome-focused agreement that drives toward specific business results and shares in rewards. Maximizing the benefits of an application outsourcing arrangement is more likely to occur if everyone has a stake in the outcome.

Increase the power of your applications

If business applications are the energy of a company, application outsourcing is the transformer. Business executives are looking to the future, pleased with the savings they have realized through offshoring portions of application development and maintenance, but also sobered by the continued pressure to deliver business value.

Today's application outsourcing strategies should be focused on building upon the value generated from labor arbitrage. By industrializing delivery, optimizing the application portfolio and transforming business processes, companies can reinvent their IT function and propel the entire enterprise toward high performance.

What's next?

To learn how Accenture can help you outperform, reach us at www.accenture.com/outperform.

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