

Outsourcing : Total Cost of Management Benefits

WHITE PAPER

Summary

Based on a study done by Wipro Technologies on Total Cost of Management (TCM), it has been found that medium sized organizations or large departments employing about 5000 employees can get a cost benefit of \$9.7 Mn - \$18.4 Mn per annum by outsourcing their IT infrastructure management. The saving can vary from 35.8% to 50.7% of the total IT Infrastructure management cost of \$ 170 Mn over 5 years. This saving is accrued because of (a) saving in cost due to reduced in-house IT infrastructure management staff and (b) better SLA deliverables because of outsourcing.

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Total Cost of Management – Cost Benefit of Outsourcing

Based on a study done by Wipro Technologies on Total Cost of Management (TCM), it has been found that medium sized organizations or large departments employing about 5000 employees can get a cost benefit of \$9.7 Mn - \$18.4 Mn per annum by outsourcing their IT infrastructure management. The saving can vary from 35.8% to 50.7% of the total IT Infrastructure management cost of \$ 170 Mn over 5 years. This saving is accrued because of (a) saving in cost due to reduced in-house IT infrastructure management staff and (b) better SLA deliverables because of outsourcing.

Predictable Costs

All organizations and departments, regardless of size, operate under similar constraints: control and reduce expenditures, enhance customer satisfaction, improve margins and increase revenues. In order to accomplish these basic, bottom-line endeavors, the enterprise must be able to accurately match budget. Estimating and maintaining the costs for IT infrastructure can be difficult. Due to either technological or human error, outages occur, and the downtime due to these outages translates into losses and potential budget and cost overruns. This study shows, IT Infrastructure management outsourcing offers enterprises totally predictable costs. One of the most revealing value proposition, organizations that select outsourcing services get, will be the ability to incorporate finitely predictable budgets.

However, in addition to this, it is seen that outsourcing can deliver real dollar benefits in terms of Total Cost of Maintenances. The cost summaries emphasize that outsourced services can save on administrative, management and downtime-related costs.

Total Cost of Management (TCM)

TCM consists of both visible and invisible costs. Directly visible costs are (a) cost to resolve downtime (b) Technical support costs which includes the cost of help desk, support staff, tools, payments to vendors and (c) administration and management costs to supervise the support staff and to do vendor management. The other part of TCM which is usually not visible, but significant like the lower portion of an iceberg is the hidden costs. (Refer Figure – 1.0: Iceberg Model of Total Cost of Management.) These hidden costs consist of (a) productivity loss of all affected employees due to the down time and (b) revenue loss to the organisation because of the outage.

Typical Organization

A typical medium sized organization or a large department with 5000 employees requires the following IT infrastructure.

IT Infrastructure considered for the study	
Description	Numbers
No. of Desktops	3500
No. of Servers	175
No. of Databases	35
No. of Networking Products	263
No. of mail boxes	5000
No. of Tech. Support staff for Desktop Mgmt.	35
No. of Tech. Support staff for Server Mgmt.	9
No. of Tech. Support staff for Database Mgmt.	4
No. of Tech. Support staff for Network Mgmt.	13
No. of Tech. Support staff for Mail Mgmt.	13
Help Desk Personnel	13
No. of Technical Support Managers	6

Key Assumptions

For the purpose of the study, the following key assumptions have been made:

Key Cost Assumptions	Annual Costs	Change p.a.
Mean Cost per IT Infrastructure	80,000	7.50%
Support Staff – Client		
Mean Cost per IT Infrastructure	96,000	7.50%
Support Manager - Client		
Mean Cost per Employee (non-IT) – Client	72,000	7.50%
Vendor on-site charges (per personnel)	156,000	10%
Vendor off-shore charges (per personnel)	78,000	15%
Link Charges for off-shore connectivity (only in case of off-shore management)	265,000	-5%

An experienced outsourced vendor can bring in world-class processes and expert multi-skilled professionals leading to significant improvements in the operational efficiency.

Parameters	Before Outsourcing	After Outsourcing
No. of IT Infrastructure Support Personnel – Client	87	9
No. of IT Infrastructure Support Managers – Client	6	6
Productivity Enhancement leading to reduced head count of total support staff (Client + Vendor)	0%	20%
No. of Vendor Personnel	0	70
Uptime (only prime shift)	95%	98%
Hours per work year	2080	2080
No. of employees adversely affected by downtime (*)	38.90%	38.90%
Productivity decrease due to downtime (*)	26.20%	26.20%
Ratio of revenue generation to salary (*)	2.8	2.8
IT Support personnel productivity increase p.a. (Client or Vendor)	10%	12%

*CNI's market research group has a database of over 4000 North American enterprises. Input for this study has been collected from a selected subset of these organizations. The study has been done in three innovative scenarios:

- 1) Scenario-1: 100% on-site (Classical Facilities Management)
- 2) Scenario-2: 100% off-shore management (innovative!)
- 3) Scenario-3: 20% on-site and 80% off-shore management (hybrid)

The costs of 10% of technical staff and 100% of the IT Infrastructure management staff have been considered in the post- outsourcing period also. One-time knowledge acquisition, pilot, tools costs have also been considered in the first year. For the purpose of offshore management, the cost of communication link has been taken into account.

Total Cost of Management Scenario

All Values in \$ Million

5 Year Costs	Without Outsourcing	Scenario-1	Scenario-2	Scenario-3
Visible Costs	79.5	73.0	47.7	52.6
Hidden Costs	90.5	36.1	36.1	36.1
Total Cost of Management	170.0	109.1	83.8	88.7
5-Year saving	-	60.9	86.2	81.3
5-Year saving %	-	35.8%	50.7%	47.8%

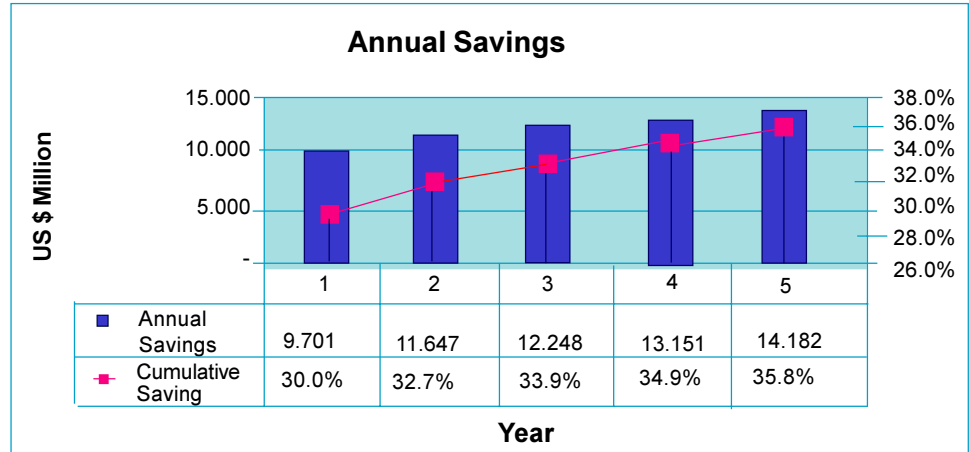
Conclusion

There are obvious gains in TCM that favor outsourcing standardized products. Outsourcing is attractive to many organizations. Their economies come from the traditional focus that market specialization creates. An outsource vendor that specializes in IT Infrastructure management can bring to the TCM table person-years of invaluable experience, industry certified expert skill, world class processes honed through practices, significantly enhanced service levels, at a cost savings that is passed on to the enterprise.

The best cost-benefit model is the innovative 100% offshore model of remote management. The hybrid model is also very close in terms of cost-benefit with the remote management model. With about one-third savings in a 5-year period, the classical facilities management model of outsourcing is also attractive. Depending upon the level of standardization of IT architecture in an organisation or department and the maturity of the SLA, the client can choose one of three models for outsourcing.

Scenario-1 (On-site Facilities Management):

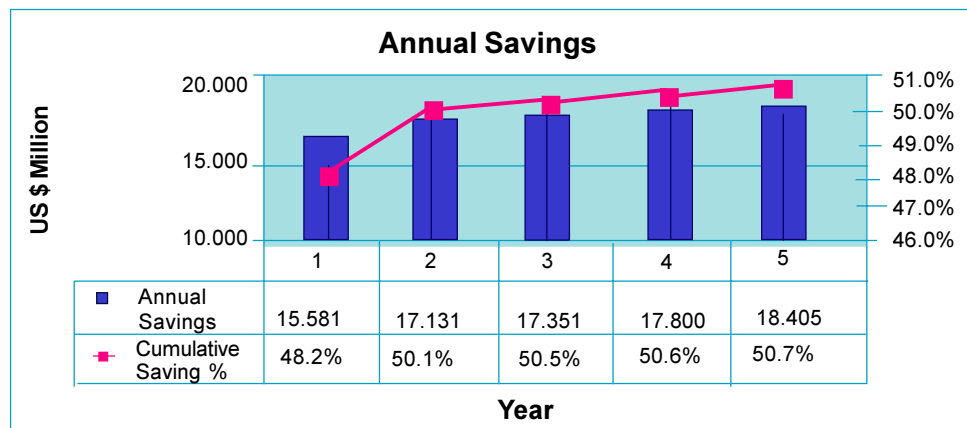
In this scenario, it has been assumed that 100% of the vendor’s personnel are on-site at the client’s site.



The annual savings in year-1 is US \$ 9.7 Million progressively increasing year after year to US \$ 14.182 Million in year-5. Knowledge acquisition costs and costs of tools have been factored in year-1 leading to a lower saving in the first year. On a 5-year basis, the client can save more than one-third of the total cost of management by opting for outsourcing.

Scenario-2 (Off-Shore Management):

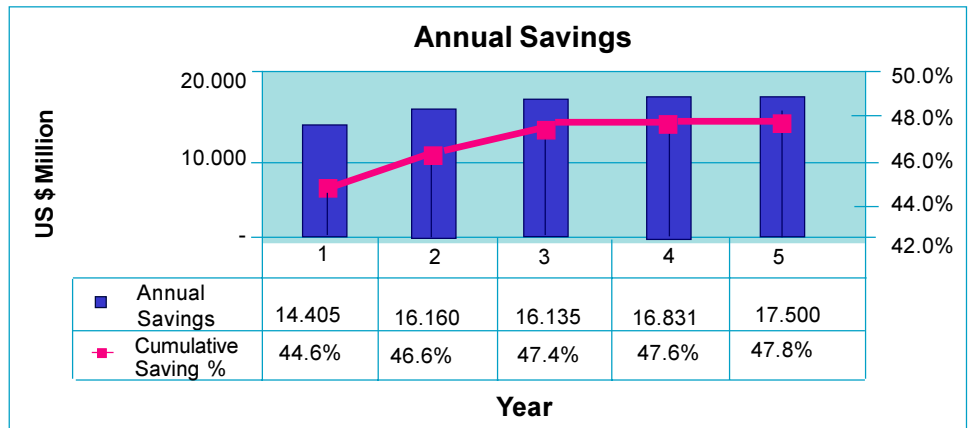
In this an innovative scenario, wherein it has been assumed that 100% of the vendor’s personnel are located off-shore.



The annual savings in year-1 is US \$ 15.5 Million progressively increasing year after year to US \$ 18.4 Million in year-5. Knowledge acquisition costs and costs of tools have been factored in year-1 leading to a lower saving in the first year. Communication link costs have been factored every year. On a 5-year basis, the client can save about half of the total cost of management by opting for this innovative outsourcing.

Scenario-3 (Hybrid 20% Onsite & 80% Off-Shore Management):

In this hybrid scenario, it has been assumed that 20% of the vendor’s personnel are located on-site at the customer’s site and the rest are located off-shore.



The annual savings in year-1 is US \$ 14.4 Mn progressively increasing year after year to US \$ 17.5 Mn in year-5. Knowledge acquisition costs and costs of tools have been factored in year-1 leading to a lower saving in the first year. Communication link costs have been factored every year. On a 5-year basis, the client can save little less than half of the total cost of management by opting for this hybrid model.



About Wipro

Wipro (NYSE: WIT) is the first SEI CMM Level 5 certified and the first PCMM Level 5 certified IT Services Company operating in the global market. Wipro provides software solutions and services to global corporate enterprises and Research and Development services to Technology companies. In the Indian market, Wipro is a leader in providing IT solutions and services for the corporate segment offering system integration, network integration and IT services.

Shoregain : Wipro's Pioneering Global Delivery Model

ShoreGain, Wipro's mature and proven onsite – offshore outsourcing model guarantees cost savings upto 35% within the first 18 months. Not without a reason, World leaders like Nortel, Allianz Ireland, Transco, Seagate, Weyerhaeuser, HP, Farmers and many more have set-up ODCs with Wipro and are realizing high returns on their IT investments. Wipro currently has one of the largest base of ODCs in India with an experience of setting up and managing over 30 ODCs for clients around the world. With state-of-the-art communication facilities and infrastructure, our offshore centers work as a virtual extension of our client's development environment providing 24x7 service.

Wipro pioneered the Offshore Software Development Model in early 90s and was awarded the Business Model Innovation award in 1993 by Electronics and Software Export Promotion Council of India for its unique offshore outsourcing model.

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