

Outsourcing Versus Out-tasking

DELIVERING INPUTS VS. OUTCOMES

While out-tasking can lower costs, organizations only pay for inputs – there's no incentive for the out-tasker to lower risks or guarantee improved operations. In contrast, true outsourcing delivers outcomes aligned with business objectives.

This executive summary provides an overview of why the outsourcing model is superior to out-tasking. To provide your perspectives on the topic and to learn more about CGI, contact us at info@cgi.com.

“Out-tasking” has emerged as a competitive alternative to the more traditional “outsourcing.” While both out-tasking and outsourcing promise lower IT cost, the former is based upon providing a lower cost input to IT services due solely to labour costs. The latter commits to an IT service outcome at a lower cost. Focused on outcomes, the outsourcer assumes the risks and is incented to achieve business outcomes. As a result, outsourcing proves to be both superior and sustainable.

Out-taskers are not incented to achieve productivity, eroding savings.

IT effectiveness can be defined, perhaps simplistically, as meeting the business IT service requirements at the “best” cost that can be sustainably achieved. Business requirements are key to the value model as the value destruction risks associated with not meeting requirements – or delivering services in excess of requirements – can be substantial. To achieve “best” cost for a given level of business-justified IT service, the CIO orchestrates many elements. The key elements include:

1. What technologies (both applications and infrastructural) to use
2. How to maintain the technologies and when to refresh/replace them
3. How to interlink the technologies within the full IT archipelago
4. How to deliver the technologies to the user community
5. What suppliers to use
6. What labour profile and skill set to develop
7. How to achieve productivity gains
8. How to make the environment secure and recoverable

Out-tasking addresses only one element. That is, for a defined labour profile, out-tasking provides a lower unit cost. The argument seems compelling and obvious. Why pay \$100,000 for a North American senior technical resource when one can be sourced from a low-cost labour country for \$30,000 – a 70% cost reduction.

Of course, achieving “best” cost for a defined outcome is left to the CIO in this model. Certainly a lower labour cost helps, but IT management will readily attest that value destruction in IT was never a matter of high labour cost in the first place. Moreover, the value opportunity for the out-tasking provider is associated with maximizing the number of resources utilized. The provider's objectives are diametrically opposed to those of the CIO. There is no incentive to achieve productivity and savings quickly erode as a consequence.

Outsourcers commit to defined service levels at a defined cost, incenting them to achieve business outcomes.

Let's contrast the outsourcing value model. The outsourcer commits to a defined service level at a defined cost. In short, the outsourcing provider assumes the risks and responsibilities of the CIO for service. "Best" cost for service is generally determined competitively and is generally lower than achievable internally as the outsourcer has multiple levers at its disposal, including using talent from low-cost labour countries.

A major "lever" is the management of IT for value, given a service level. The outsourcing provider, by assuming the risk of delivering an outcome for a fixed price, is highly incented to achieve operational excellence and productivity. Failure to do so kills the outsourcer's profitability opportunity as more money would have to be spent to achieve an outcome and the added cost cannot be passed to the client. In consequence, the outsourcer does the following:

- Tracks utilization to ensure that resources are optimized and most productive
- Installs updates and patches to avoid costly service interruptions
- Replaces high-cost technology components
- Uses a global delivery model that distributes resources onsite, nearshore and offshore to optimize service delivery and cost (downtime is a cost to the provider)

Looking at the list, it is clear that the objectives and value model of the outsourcing provider are tightly aligned with the true business objectives of the CIO: provide a defined service at the best cost and achieve excellence in IT management.

One may ask, why can't the CIO achieve the same value?

It is not a question of capability, it is one of resources. The outsourcing provider, knowing that excellence in IT management is core to achieving profitability, invests heavily in tools and processes to achieve the required excellence. Most organizations do not, as such investments compete with other alternatives more closely linked to their core business.

Lower cost does not equal greater value

Outsourcing is premised on building long-term value – something that out-tasking can not achieve. By entering into outsourcing relationships, organizations can achieve a wide range of goals, such as driving greater systems and business process flexibility, optimizing IT and enabling business transformation. Clients can then focus on their core business and rely on their provider to assume the risks and responsibilities to leverage economies of scale, exploit new technologies and source the wide range of necessary skills.

ABOUT CGI

At CGI, we're in the business of satisfying clients. For more than 30 years, we've operated upon the principles of sharing in clients' challenges and delivering quality services to address them.

A leading IT and business process services provider, CGI has approximately 27,000 professionals operating in 100+ offices worldwide, giving us close proximity to our clients. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the combination of value and expertise they require.

CGI defines success by exceeding clients' expectations and helping them achieve superior performance.