



# White Paper

## When to Change Hosting Partners: A Conversation with SOMA Networks

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What is Application Hosting or Outsourcing?

- **Outsource** - *to buy labor or parts from a source outside a company or business rather than using the company's staff or plant\*\**

\*\* Encarta Dictionary, 2004

Why do Companies Outsource or Host Applications systems?

Let's look at a company Loud Technologies that develops engineers, manufactures and markets professional audio and video reproduction and recording equipment and software. Loud's Primary reasons for migrating to a hosted environment were:

- Improve response time for user transactions
- Provide a more secure hosting environment for hardware and application to provide optimal business continuation globally
- Reduce overall expense and establish consistent, predictable expense for using, supporting and managing Oracle
- Improve access to, and reliability of management information
- Derive greater value from Oracle and make better leverage of applications currently owned.



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In today's globally competitive business climate each organization is looking to get a competitive edge on the competition. Companies are returning to their roots it could be manufacturing a product or providing a service. Companies are looking at their core competencies, what they want to be now and in the future. They are looking at all aspects of the business and determining what is right for them. Some of the questions that companies are asking themselves are:

- **Do we want to build our own Furniture?**
- **Do we want to run our own Cafeteria?**
- **Do we want to have a Custodial Staff?**
- **Do we want to Program all our own Software?**
- **Ever Use a Consultant or Contract Help....?**

There's been a lot of noise and both affirmative and downbeat press on outsourcing or hosting IT solutions over the last few years. You listen to a lot about "lost" jobs and big companies altering the way they carry out things. But the questions are, what is outsourcing, and how can it help you make more money, and why you should outsource?

Have you ever heard of the following?

**"I think there is a world market for maybe five computers."**

*Thomas Watson, Chairman of IBM, 1943*

**"Computers in the future may weigh no more than 1.5 tons."**

*Popular Mechanics, forecasting the relentless march of science, 1949*

**"There is no reason anyone would want a computer in their home."**

*Ken Olson, President, Chairman and founder of Digital Equipment Corp., 1977*

**"640K ought to be enough for anybody."**

*Bill Gates, 1981*

You can't help but think that twenty years from now, today's comments about how bad outsourcing is will be laughed at on a similar slide.



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**In a Wall Street Journal on line article (February 14, 2008)**

**Posted by Ben Worthen**

## Why Outsourcing (Hosting) can be Like a Strained Marriage

I have selected a few thoughts

“Deciding to outsource tech work is like getting married: You carefully select a partner and agree to stay together for a long time, and from that point on your fortunes are intertwined—at least until relations get too strained to carry on.”



*'Till someone gets a better deal do us part*

“Not surprisingly, many outsourcing relationships, like many marriages, are dysfunctional. While 70% of tech leaders say they’re satisfied or very satisfied with their outsourcing relationship, a closer look reveals some underlying tension, according to a Deloitte Consulting report that will be released today.”



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## **Let's look at the Outsourcing or the Hosting Journey from the beginning or 1.0 to 2.0: the next evolution of outsourcing.**

In its simplest perspective outsourcing is just paying someone else (a third party) to do something that either you, or a member of staff or yours, could do, but is better done by someone else.

When you go to the doctor, you're not "outsourcing" your work because you couldn't do it yourself – even if you happen to be a doctor too. On the other hand, if you hire a company to clean your office or set up computer networking, that really is a form of outsourcing – because it is something you could do, or hire people directly to do, but that it makes more sense, and most likely costs less money, to have someone do who specializes in it.

Hiring a full-time network administrator is not outsourcing, whereas hiring a once per week software or hardware administration service is. While outsourcing is not new either in personnel lives or business practice, it has gotten a lot of press attention for the reason that it is happening with record speed and in ways that never happened before.

## **The Key elements for outsourcing 1.0 to 2.0, how they have changed**

Let's look at the key elements for outsourcing change from outsourcing 1.0 to 2.0.

### **Assigned Tasks and Deliverables:**

A major driver 'Outsourcing 1.0' was expected to take on arranged tasks, creating complex contracts and delivering on the contract or service level... One of the main objectives of outsourcing 1.0 is to segregate business task, moving systems from "Your Place" to the "Hosted Place". Companies typically moved HR Systems, Accounting solutions, Payroll processing, etc. "The driver in this model was cost containment" Companies tried to get out from under the \$75 per hour DBA.

### **Partnership**

The new driver for 'Outsourcing 2.0' is more collaborative, building a mutual relationship, a partnership with your "Hosting



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Provider”. You want to make your hosting company a partner in your business. They need to be brought into the “fold” and be an extension of your day to day operations.

## The Old vs. the New

In the old days “Outsourcing 1.0” was about negotiating the best deal with the lowest costs. They were intricate, multi-party agreements which in many cases did not focus on the business need of both organizations.

In the new era for Outsourcing or Hosting “2.0”, it’s imperative that both the client and provider have business models that are vitally aligned. The new era for hosting is all about collaboration and service to the customer

## InformationWeek Research survey on the subject of IT Outsourcing.

50% of companies' rate their outsourcing efforts a success, a third are neutral, and 17% - *nearly one in six* - call them disasters. See Figure 1. For those in the latter category, primary reasons for dissatisfaction include:

- Poor customer service, vendor responsiveness or flexibility (45%)
- Hidden vendor costs
- Insufficient up-front planning by our company

Another InformationWeek article reports the prime motivator for outsourcing is, of course: cutting costs, among others. McDougall's article, however, tells how Sprint, while planning to save \$2M by outsourcing to IBM, instead ended up accusing IBM in court of failing to achieve the promised productivity improvements.



Figure 1.

From the InformationWeek study if only one half of the business analyzed found their experience successful the other half had mixed emotions. Of the unhappy half in this study most felt that the Hosting Provider marked low in service or responsiveness to the customer.



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In a Wall Street Journal on line BLOG GRQUILL comments below.

Comments from [blogsadmin@wsj.com](mailto:blogsadmin@wsj.com)

After spending more than 30 years on both sides of the outsourcing equation, I can tell you that a strong partnership is required. Both parties have to be clear as to their goals and agenda. Government is an ideal location for outsourcing, with U.S. companies, to achieve lower costs, higher accountability, and measurable results! Technology refresh with in-house staff is difficult in these budgetary times and outsourcing with credentialed staff is a key to doing more with less.

Comment by GRQUILL - February 14, 2008 at [1:16 pm](#)

## Cost Containment

The InformationWeek Study found that the major reasons to head down a path of Outsourcing or using Hosting Providers were cost savings. See Figure 2. In many cases companies are looking to Hosting Provider for all the wrong reasons.



The real drivers should be what are last on the list of expected drivers or outcomes. Companies should be looking at things like Improved IT performance, better support for internal users and better reliability. The key to the Outsourcing decision is to allow the business to focus on Core Competencies of the business not IT.

Let's talk with Controller of SOMA Networks, Paul Eller about his experiences in changing hosting partners and any lessons learned.

## Questions for Paul Eller

- SOMA Networks recently changed Hosting Partners, what are some of the issues that your company faced in making the decision to move to a new provider?
- In the InformationWeek research outlined some issue that many organization face. Did SOMA Networks face any of the issues on Figure 3.



Figure 3.





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- When you changed hosting providers did you find a company that you could partner with?
- What were some of the key attributes in selecting the new Hosting Partner?
- How important is the relationship or partnership between SOMA Networks and your hosting provider?
- How have you found the overall experience with hosting your Oracle eBusiness Suite Applications?
- Would you recommend other companies follow a similar path and have their Applications hosted?
- In the InformationWeek Study outlines “What Matters Most”, how would you rank what matters most to your business for your continued success with outsourced or hosted solutions? See Figure 4.

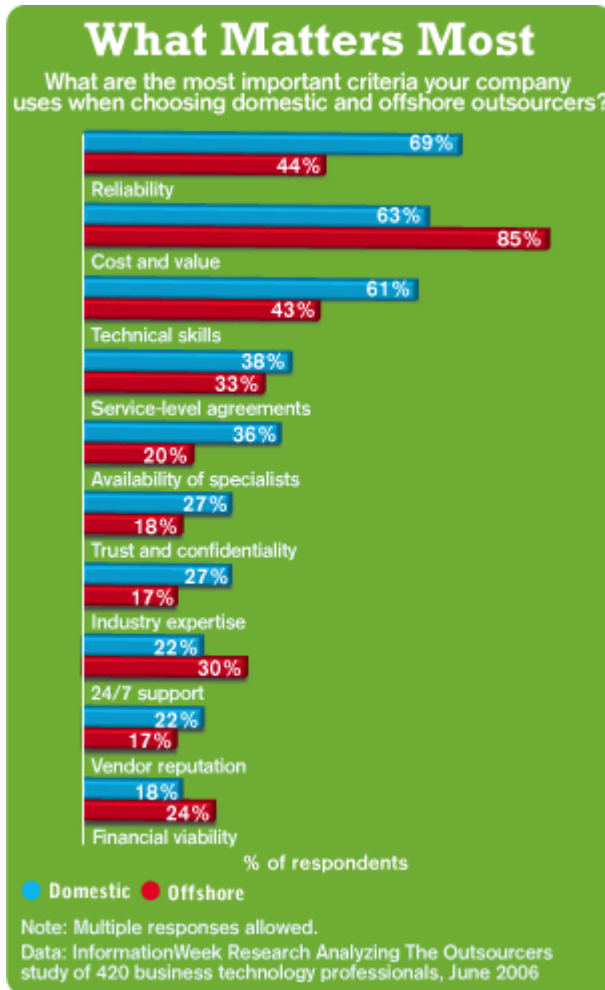


Figure 4

- What are the key issues that companies should consider when outsourcing IT functions?
- What trends do you see for the future of IT outsourcing?



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To Sum up the Good, Bad and hopefully not the Ugly of IT Outsourcing.

## Potential Benefits and Pitfalls

- The Good:
  - Cost reduction
  - Budget predictability
  - Improved service levels
  - Additional functionality
  - Ability to focus on higher, more valuable priorities
  - Opportunity to develop newer skills
  
- The Bad:
  - It's not a quick fix
  - Investment of time, money and resources is required
  - Requires a paradigm shift
  - Generally entails some short term unpleasant side effects (reductions in work force or skills change-out)
  - May involve some 'head banging' to get there
  - May create an unexpected 'monster'
  
- The Ugly, If It's Not Done Right:
  - Service degradation
  - Cost saving not realized:
    - Lack Of Service Penalties
    - Twice The Time at Half the Rate Does Not Save Money
    - Hidden Expenses
  - IT credibility loss
  - Bad media press!!
  - High cost to recover (in-source)



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A few Good Principles to remember for your next Hosting Contract Negotiation.

- Seek quality service at a fair, competitive price
- Create long term relationships with short term contracts
- Get detailed service descriptions with adequate metrics for each activity
- Make supplier fully accountable for delivering services with penalties when service levels are missed
- Manage, monitor and review supplier's performance with clear delineation of responsibility boundaries

What you can do when you get back in the office

- Develop Your Goals
- Recognize Your True Core Competencies
- Identify Outsourcing Candidates
- Know Your Culture and How To Work Within It
- Seek Out and Analyze Your Alternatives
- Use Professional Assistance