IT OUTSOURCING IN 2018 – REDUCING RISK AND IMPROVING THE BOTTOM LINE

March 2018
Why and When to Outsource IT

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Principal, Technology and Management Consulting
- Specializes in network design, assessment and implementation, as well as business continuity project management, and Web site development.
- More than 20 years of helping clients identify current or future pain points and providing recommendations and solution plans to address those.
- Focus is on financial institutions.

Agenda
- State of the Market
- What Constitutes IT Outsourcing?
- Business Drivers
- Knowing When to Outsource and What to Avoid
- Summary
Polling question #1

Do you currently outsource any of your IT functions?

- Yes, I only outsource one function in IT
- Yes, I outsource some of my IT functions
- Yes, I outsource all of my IT functions
- No, I do not outsource IT today
Learning objectives

• Provide an overview of the current market challenges and why banks are migrating heavily to IT outsourcing

• Articulate what all is involved in IT managed services for a bank

• Discuss the business benefits of using IT outsourcing or co-sourcing to address skills gaps/labor shortages and risk reduction

• Share ways to get started with IT outsourcing
STATE OF THE MARKET
The challenges we face in 2018

People / Labor
Right talent, but also right “fit?”
Rising labor costs of strong technology people

Technology
Lack of automation / robotic process automation (RPA)
Technology over- or under-spend
Changes in technology
Disaster recovery planning
Protection of data / cyber security

These two areas are increasing costs and risk for your bank – let’s dive deeper
Current market conditions

• A recent RSM survey indicated business leaders face two key issues with IT:

FILLING THE GAPS CREATED BY THE IT TALENT SHORTAGE

ENABLING A DIGITAL TRANSFORMATION BY LEVERAGING THE CLOUD

RSM Survey – IT staff size

How many dedicated IT staff members (FTEs) does your organization employ?

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<tr>
<th>Response</th>
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<td>More than 20</td>
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<td>10.9%</td>
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<tr>
<td>Don’t know</td>
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<td>1.7%</td>
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</tbody>
</table>
Please indicate the extent to which you agree with the following statement. In general, my business is adversely impacted by our ability to attract and retain qualified technology talent.

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<thead>
<tr>
<th>Response</th>
<th>20%</th>
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<th>60%</th>
<th>80%</th>
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<tbody>
<tr>
<td>Strongly agree</td>
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<td>15.0%</td>
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<tr>
<td>Agree</td>
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<td>35.8%</td>
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<td>Disagree</td>
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<td>36.7%</td>
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<tr>
<td>Strongly disagree</td>
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<td>12.5%</td>
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If you answered agree or strongly agree to that question, which of your business functions are most severely impacted by a technology talent shortage?

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<th>Response</th>
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<tbody>
<tr>
<td>Operations</td>
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<td>64.4%</td>
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<tr>
<td>Finance</td>
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<td>35.6%</td>
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<tr>
<td>IT</td>
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<td>35.6%</td>
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<tr>
<td>Customer service</td>
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<td>27.1%</td>
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<tr>
<td>Sales and marketing</td>
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<td>27.1%</td>
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<tr>
<td>Product development</td>
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<td>11.9%</td>
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<td>Other (please specify):</td>
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</table>
What are the most difficult talent issues that you have to deal with related to your current IT staff?

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
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</thead>
<tbody>
<tr>
<td>Technical competency</td>
<td></td>
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<td>39.8%</td>
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<tr>
<td>Strategic planning and vision</td>
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<td>35.7%</td>
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<tr>
<td>Industry knowledge</td>
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<tr>
<td>Project management</td>
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<td>32.7%</td>
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<tr>
<td>Customer service skills</td>
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Current market conditions

• RSM’s most recent Middle Market Business Index (MMBI) showed a decline for the first time in over a year
  - Tightening labor market and modest growth played a major factor
• Only 44% indicated that hiring conditions are expected to improve in the next six months
• 72% reported that they were having some or substantial trouble finding qualified personnel for open positions
• 64% indicated that they turned to higher compensation levels to attract labor

Current market conditions

• Increased reliance on technology coupled with increased complexity has created the perfect storm to attract and retain top IT talent!

• The days of “THE” Network Administrator are gone

• Security threats from every angle and increasing demands by staff and customers require 100% uptime and availability

• 2/3rds of all organizations carry some level of outsourcing, with 1/3rd outsourcing more than 20% of their IT budget

• The main areas typically outsourced include application development, application support, infrastructure and helpdesk
  – The level of application development and infrastructure outsourcing is consistent amongst all sizes
  – Application support outsourcing is more prevalent in SMB
  – Helpdesk outsourcing is more prevalent in larger companies
Current market conditions

• RSM’s recent survey also indicated that CFOs believe that outsourcing services can lead to better results:

  69% Say a trusted IT services provider can do a better job than a typical company can do on its own

  60% Say they would be comfortable having a trusted managed IT services provider deliver all of their company’s IT functionality

RSM Survey - IT results

CEO / CFO own IT in small and medium sized business

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
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<tbody>
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<td>CEO</td>
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<tr>
<td>CFO</td>
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<tr>
<td>President</td>
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<td>18.6%</td>
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<tr>
<td>COO</td>
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<td>11.0%</td>
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<tr>
<td>Managing/Executive Director</td>
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Over 50% of respondents cited freeing up internal resources and access to world-class capabilities as biggest benefits of outsourcing.
Polling question #2

What specific IT functionalities would you be most willing to turn over to a provider? (please choose up to 4)

- Data backup and recovery
- Network management and 24/7 monitoring
- Security and compliance
- Business application support
- End-user help desk
- Telephony
- After-house support
- Report writing and database administration
- Strategic IT planning (virtual CIO)
### RSM Survey - IT survey results

**What specific IT functionalities would you be most willing to turn over to a provider?**

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
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<tbody>
<tr>
<td>Data backup and recovery</td>
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<td>62.2%</td>
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<td>Network management and 24/7 monitoring</td>
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<td>56.8%</td>
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<tr>
<td>Security and compliance</td>
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<td>33.8%</td>
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<tr>
<td>Business application support</td>
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<td>32.4%</td>
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<tr>
<td>End-user help desk</td>
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<td></td>
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<td>29.7%</td>
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<tr>
<td>Telephony</td>
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<td></td>
<td></td>
<td>29.7%</td>
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<tr>
<td>After-hours support</td>
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<td>28.4%</td>
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<tr>
<td>Report writing and database administration</td>
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<td>20.3%</td>
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<tr>
<td>Strategic IT planning (virtual CIO)</td>
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</table>
WHAT CONSTITUTES IT OUTSOURCING
Outsourcing relationship continuum

Staff augmentation

“Need a person with a specific skill to manage”

Break fix

“Call you when we need you”

Support contract

“Can you support this one system”

Managed services

“Please take all or part of my IT dept.”

Tactical and reactive

Proactive and strategic
What Exactly Constitutes IT Outsourcing?

• Off-Shore application development?
• Embracing Cloud technologies?
• Use of a 3rd Party for helpdesk services?
• The hiring of a consulting company to help develop a new mobile application?
• The use of a Virtual CIO to help develop and adopt strategy?
• The addition of a DRaaS (Disaster Recovery as a Service) provider to augment backup and recovery efforts?
IT Outsourcing

• Stuff vs Staff
• Pre-defined service
• Pre-defined deliverable and expenditure (mostly) that can be measured
Spectrum of Services

Management Responsibilities

Traditional on-premise computing
- Data
- Applications
- Runtime
- Middleware
- O/S
- Virtualization
- Servers
- Storage
- Networking
- AC/Cooling
- Facilities

Co-Location or aka CoLo
- Data
- Applications
- Runtime
- Middleware
- O/S
- Virtualization
- Servers
- Storage
- Networking
- AC/Cooling
- Facilities

Infrastructure as a Service (IaaS)
- Data
- Applications
- Runtime
- Middleware
- O/S
- Virtualization
- Servers
- Storage
- Networking
- AC/Cooling
- Facilities

Private cloud
- Data
- Applications
- Runtime
- Middleware
- O/S
- Virtualization
- Servers
- Storage
- Networking
- AC/Cooling
- Facilities

Software as a Service (SaaS)
- Data
- Applications
- Runtime
- Middleware
- O/S
- Virtualization
- Servers
- Storage
- Networking
- AC/Cooling
- Facilities

YOU MANAGE
Fully managed IT services – RSM example

The essentials
- End user support
- Asset management
- Network operations
- Daily administration
- Staff onboarding

Modern workplace
- Office 365 E5
- D365 Accelerator
- RSM Digital Hub
- Analytics
- Cloud phone system

Security and compliance
- Security training
- Security management
- Threat protection
- RSM Cloud™
- Information protection

Virtual CIO
- Digital strategy
- Risk management
- IT budgeting
- Change management
- Project portfolio
Polling Question #3

What are the most difficult talent issues that you have to deal with related to your current IT staff? (choose all that apply)

- Technical competency
- Strategic planning and vision
- Industry knowledge
- Project management
- Customer service skills
Business Drivers

- Cost savings
- IT efficiency (improvement) / Reducing Risk
What do you perceive as the biggest potential benefits you would realize from outsourcing some or all of your company’s IT functionalities to a trusted managed IT services provider?

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
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<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freeing internal resources for other purposes</td>
<td></td>
<td></td>
<td>56.6%</td>
<td></td>
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<tr>
<td>Gaining access to world-class capabilities</td>
<td></td>
<td></td>
<td>50.0%</td>
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<tr>
<td>Streamlining or increasing efficiency for time-consuming functions</td>
<td>45.3%</td>
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</tr>
<tr>
<td>Reducing and controlling costs</td>
<td></td>
<td></td>
<td>32.1%</td>
<td></td>
<td></td>
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<tr>
<td>Maximizing use of external resources</td>
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<td></td>
<td>23.6%</td>
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<tr>
<td>Improving company focus</td>
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<td>21.7%</td>
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<tr>
<td>Sharing risks with a partner company</td>
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<td>12.3%</td>
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<td>Other (please specify):</td>
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</tbody>
</table>
Cost Savings Breakdown

- **Infrastructure** - highest avg. & median savings, low variability
- **Application development** - 2\textsuperscript{nd} highest savings rate, but highest variability
- **Application support** - similar to application development, with slightly smaller savings
- **Help desk** - lowest cost savings, BUT lowest variability and very stable

![Percentage of Savings](image)
Transition from Cost Reduction to Efficiency and Risk Reduction

• As the proportion of IT budget committed to outsourcing increases, cost reduction ceases to be a top priority.

• Instead, the value is seen in:
  – Accessing deeper and wider skill sets
  – Providing focus for in-house IT staff, along with career path
  – Improving overall delivery
    • Satisfaction
    • Delivery timetable
    • Product quality
  – Reducing risk
  – Enterprise grade
KNOWING WHEN TO OUTSOURCE AND WHAT TO AVOID
When to Outsource

• Critical initiative - Internal IT cannot meet need
  – Strategic, high urgency
• Bottom up - Specific area of IT is underperforming and increasing risk
  – IT efficiency & value
• Top down - Specific need isn’t being addressed
  – Cost savings
Today’s functional IT needs

Run

- Help desk
- Desktop
- Engineering
- Project mgmt.
- Vendor mgmt.
- Relationship management and strategy
- Business analyst
- Data management/Reporting
- Operations
- Security
- Architecture

Medium to large sized opp.

Small to medium business opp.
What to Avoid / Watch for

• Contract
  - Term
  - SLA
  - Data ownership
  - Personnel
• “Hidden” Costs
  - What’s not included
  - Transition costs
  - Point person
• Security
  - Data residency / NDA
• Flexibility
  - Track record with provider
  - What happens if circumstances change, grow, shrink?
How do you get started with IT Outsourcing

Begin with an IT assessment….

- Security posture review
- IT spending benchmarking
- Business application review
- Staff evaluation and functional analysis

- Infrastructure and system performance
- Cloud opportunities
- Productivity and collaboration
- Disaster recovery readiness
Polling Question #4

Do you know who you might consider talking to about IT outsourcing?

- Yes, I think so
- Possibly, I was at a conference and heard some possible Firms to consider
- Not really
Summary

• Research shows the adoption of IT outsourcing is on the rise

• Rising labor costs and the lack of qualified talent can be addressed with the right outsourcing strategy

• Outsourcing drives increased efficiency while reducing risk and providing access to top-tiered technology

• By embracing IT outsourcing you will better be able to focus on more strategic initiatives to drive organizational success
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