

Why Choose a Managed Application Service? An Analysis of the Benefits of Outsourcing

What is Outsourcing?

Outsourcing involves contracting non-core business activities to specialists outside the confines of an organization. Outsourcing is a strategic management tool that allows organizations to concentrate on their core competencies by “contracting out” functions that are outside the realm of their expertise.

Outsourcing allows organizations to meet their business objectives and maximize their success by allowing them to concentrate on the finished output of a process instead of on the management and control of the process itself.

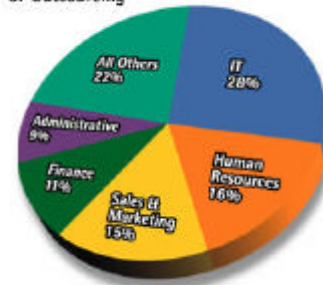
There are several advantages to not only Information Technology (IT) outsourcing but also Business Process Outsourcing (BPO).

If building applications and re-engineering business processes is not your company's core competency, then outsourcing could be the right solution for you.

The tactical and strategic reasons for outsourcing IT and BPO include:

- Reduction or Control of Operating Expenses
- Increased Availability of Capital Funds
- Lack of Internal Resources
- Solve Problematic Functions
- Improve Your Business Focus
- Access Superior Technology
- Accelerate Your Reengineering Efforts
- Share Risk
- Redirect Your Resources
- Improve Customer Service
- Improve Vender Relationships
- Avoid Extensive Capital Outlay

IT Leading As Most Active Area of Outsourcing



A recent study by the Outsourcing Institute indicates that E-commerce functions and IT outsourcing are replacing traditional IT development and support. According to the Institute, IT is the leading outsourced activity comprising 28% of outsourced services.

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What is a Managed Hosted Solution?

A managed and hosted solution is an application service that is outsourced to a service provider with the expertise to monitor, maintain, enhance and trouble-shoot the applications your business relies on. Application services that are managed and hosted require no capital expenditure on your part. You theoretically are “renting” the use of the application from the service provider.

You may be wondering if all hosted solutions are managed. The answer is no. Some hosted solutions are just that, hosted. The application provider is generally not the party hosting the application. If a third party vendor is hosting the application, they generally are only responsible for routine maintenance of the equipment (making sure it is turned on) and the condition of the telecommunications lines. If there is a problem with the application itself, they are not responsible for resolving the problem and are not equipped with knowledge of the application’s functionality.

Service providers who both manage and host your application are your virtual IT department. They have the ability and knowledge to not only maintain equipment and communications services, but also the know-how and access to trouble-shoot any application problems that may arise.

Build vs. Buy vs. “Rent”

We’ve all heard the phrase, “If you build it, they will come”. But you have to ask yourself, how long will it take me to build it myself and how much will it cost me. If it is longer than it takes to implement an existing solution then chances are you’ve missed the market and the elusive “they” have probably already gone somewhere else.

Pros of Building a Custom Application:

- Complete control over application design
- Complete control over application functionality
- Pride of accomplishment

Cons of Building a Custom Application:

- Lack of IT expertise internally
- Lack of business analysis expertise internally
- Time, effort, cost involved in
- Getting proper personnel involved requires pulling resources away from other projects
- Time to design, develop, test and implement takes longer than using a solution already on the market
- Lost opportunity and possible loss of market share to competitors

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Application Development Assumptions

- Planning, development, testing and implementation will take 12 months.
- There will be no personnel turnover during the project.
- The direction of the project and all associated decisions are accurate from day one.
- Necessary hardware and software, including all development/programming/testing tools, have been identified, purchased, implemented and all team members have adequate skills to use the tools.

Risks of Building a Custom Application

- Scope of effort associated with first release of the project (time and labor) is beyond what is anticipated
- Cash flow during development: more going out than coming in
- Assumptions made during development of application are not accurate

Pros of Buying a Solution

- The application has already been built
- Less implementation time than building

Cons of Buying a Solution

- Longer implementation time than hosted solution
- Capital intensive -- requires same hardware/software environment as the build solution
- Few customization options
- If the solution is client/server based, access to the application is restrictive

Cons of "Renting" an Application Service

- Equipment is not on your premises (e.g. you can't touch and feel it)
- You don't need a large "army"

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Pros of “Renting an Application Service”

- Less implementation time than building or buying
- No capital expenditures
- No IT staffing requirements
- Shared risk
- Accessible from anywhere at anytime
- Ability to concentrate on your core business and not on IT processes
- Usually more customizable than an off-the-shelf solution

Buying/Building an Application and Outsourcing the Hosting Only

This solution requires capital outlay as well as a reliance on an outside source to “baby sit” your hardware. In this solution you move your equipment to a co-location center or you pay a hosting service provider to use their equipment. You must still rely on an internal IT department to manage your application and possibly your hardware which is now located off site.

Monthly hosting costs at a co-location or hosting center do not include management of your application. Only hardware and sometimes the operating system are monitored/maintained.

Co-location centers, which provide only the connectivity for your equipment, charge from approximately \$1,500 to \$4,000 per month. Hosting centers, which provide connectivity, hardware and system software to run your application, are approximately \$7,000 to \$12,000 per month.

Neither of these solutions provide the application system (which is the end game here).

The application system, similar to the AppraisalTrac^{®*} system, is to be provided and maintained by the customer in any of these environments.

* AppraisalTrac[®] is a registered trademark of Dattar Systems, Inc. Registered U.S. Patent and Trademark Office.

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AppraisalTrac® vs. Other Applications

Feature	AppraisalTrac	Other Applications
Dedicated database for each client	✓	✗
Dedicated application space for each client	✓	✗
Customization	✓	some solutions
Integration	✓	some solutions
Implementation within 2 weeks of contract	✓	✗
Hosted and Managed by Service Provider	✓	✗
Private labeling/branding	✓	some solutions
No HW/SW required for client or appraiser	✓	✗
Charge to appraiser for use	✗	some solutions
Web-Centric	✓	some solutions are partially web-enabled but not web-centric
Secure delivery mechanisms not only secure logins but fully encrypted transactions (e.g. not e-mail based or un-secured text or XML transmissions)	✓	✗

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The following checklists can be used to estimate your costs for building and/or maintaining a collateral services workflow application.

If you review the resource requirements for building and/or maintaining and hosting your application you will see why a hosted solution may be the best answer for your organization.

Development Costs Checklist

Personnel	Skills Required
Project Manager	<ul style="list-style-type: none"> • Business knowledge expertise • Process engineering expertise • IT project management experience • Functional and Technical Requirements development knowledge
Engineer (3)	<ul style="list-style-type: none"> • DB design • DB administration • Application server programming • Application server implementation • Transactional application experience • Internet security design and implementation • Network and system administration • Fax server experience/programming • E-Mail server experience/programming • GUI design skills • Graphic Design
QC/Tester	<ul style="list-style-type: none"> • Business knowledge • System testing and documentation experience • Experience with web-testing tools including load testing

Your estimated development costs: \$ _____

NOTE: These costs do not include the costs to enhance and further develop the application after initial implementation.

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Implementation Costs Checklist

Personnel	Skills Required
Systems Engineer	<ul style="list-style-type: none"> • Setup, configuration and tuning of servers • Setup, configuration and tuning of applications
Network Engineer	<ul style="list-style-type: none"> • Setup and configuration of communications and networking equipment

Hardware and Telecomm

Database Servers (2)	Redundant servers capable of storing large amounts of data and providing fast disk access.
Web Server/Application Server (2)	Redundant servers capable of supporting transactional volume.
UPS	
T-1 Installation	
Router, Firewall, Local Director (e.g. Cisco equipment)	Networking and security equipment.

Software

Operating System Software (e.g. Windows 2000 Advanced Server)	
Database Software (e.g. IBM UDB/DB2, Oracle)	Secure database application capable of handling large amounts of data and BLOB files for storage and archival of binary files.
Web Server Software (e.g. IBM WebSphere, BEA WebLogic)	Secure application server software environment capable of handling transaction-based applications.

Your estimated implementation costs: \$ _____

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Ongoing Hardware, Software and Support Costs Checklist

Personnel Required	Skills Required
DB Engineer	<ul style="list-style-type: none">• Database tuning and maintenance skills
Web Application/Network Engineer	<ul style="list-style-type: none">• Web application server tuning and maintenance skills• Networking skills• E-Mail and Fax Server tuning and maintenance skills• Ability to perform backup operations and disaster recovery
Help Desk	<ul style="list-style-type: none">• Experience supporting PC users

Monthly Recurring Hardware/Software/Telecomm Cost Items

Amortization costs of hardware and software

T-1 monthly charge

Your estimated ongoing and support costs: \$ _____

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Conclusion

Strategic outsourcing is both practical and effective. However, management must be prepared to adopt a new perspective on process control. They must focus on the end result, the delivered collateral service product, and not on the process of obtaining the result. The most compelling reasons for outsourcing are the reduction and/or control of operating expenses and the access to the service provider's expertise and low cost structure.

By eliminating the need to show return on equity from non-core business investments and the outlay of capital for non-core business functions, improvements in financial forecasts are inevitable. Immediate benefits are achieved without capital expenditure and budgeting for future growth becomes simpler.

Outsourcing reduces the risks associated with technology investments (staff, equipment, software, lost opportunity). It allows organizations to benefit from re-engineering without having to invest resources into the re-engineering process.

In conclusion, outsourcing non-core business functions like IT and BPO allow an organization to concentrate on what they do best and allow them to grow their business with the knowledge that their technology and business process requirements are taken care of.