



Gartner Chief of Research: Stop Off-Shore Outsourcing Now

By Sharon Gaudin

It's time to stop outsourcing overseas.

That's a pretty strong statement coming from most anyone in the industry. But it takes on even more weight when it's coming from Gartner's chief of research for outsourcing.

"What we're doing is compulsive outsourcing," says Linda Cohen, a Vice President and Chief of Research at Gartner, an industry analyst giant. "We're trying to solve a problem, and that's a very tactical approach to outsourcing. And it's resulted in too much outsourcing. We need to stop and consider the strategy, so we're enabling a business goal rather than fixing a problem."

Cohen, who is co-author of [Multisourcing: Moving beyond Outsourcing to Achieve Growth and Agility](#), says companies are in trouble because executives are making knee-jerk outsourcing decisions. And it's causing chaos in IT departments, as well as on the business side.

In that chaos is a lot of failed outsourcing, and offshoring, projects, says Cohen in a one-on-one interview with *Datamation*. *Gartner research suggests that 50 percent of all outsourcing contracts signed during the last three years will fail to meet expectations.*

And that's largely because executives are being short-sighted when it comes to moving work outside the company's walls or even off U.S. shores.

"The problem with outsourcing to solve a problem is that it's not enduring," says Cohen. "Tomorrow there will be a new problem. And next year there will be another problem. They have to be able to be flexible with changing problems."

And costs are usually the problem that companies are trying to remedy.

"Today, outsourcing is applied to basically be a remedy for cost problems or assumed cost problems," adds Cohen. *"The thought is if they outsource this, it will be cheaper. And that's not usually the case.* We've gotten to a state of compulsive outsourcing. It's this need to outsource because everybody else is doing it... It's keeping up with the Joneses. If my competition is doing it, then we better do more of it.

"When your CEO stops asking, 'Should we be outsourcing this?' and starts asking, 'Why aren't we offshoring this?' or even worse, 'What more could we outsource?'... It's gotten to the point that it's almost a compulsive reaction."

Lasting Results?

And while *outsourcing and offshoring might save a company money in the short run, it's often not a lasting result, according to Cohen, who says many companies will save money the first year. If a company was in really bad shape before they outsourced some work, they might save money for two years. However, when the deal hits the third-year mark, things tend to blow up, says Cohen.*

"The buyers and sellers disconnect on why they're still in this deal together," says Cohen. "Maybe there's a need for an improvement but it's not happening because the deal was never structured for that... Two or three years into it, the deals start to lose their value. We need to take a more strategic approach to making these



decisions. What will this do for us over time? What will we get from this relationship two years out, three years out? What will drive this over the long haul?"

Cohen says there are three basic reasons to outsource:

- Cost Improvement;
- Operations Improvement, and
- Business Performance Improvement.

The problem is that most corporate and IT executives only look at cost improvement, disregarding the other two reasons. It's time, Cohen says, to align outsourcing goals with business goals.

Cohen says it's time to come up with a multi-sourcing model that would handle in-house operations, along with outsourcing and offshoring.

And that doesn't mean scrapping every outsourcing deal and pulling all that work immediately back in-house. It means it's time to slow down and think it all through.

"It's the way we approach it," says Cohen. "It's the way we make decisions and manage it that's wrong. Of course we're not going back to a time when you provide all resources internally. That's just not going to happen... I'm saying it's time to stop the madness.

"[Companies] need to go back and analyze why they're outsourcing and why their work is offshored," Cohen adds. "Go back and restructure those deals. They may require a new set of service metrics or new terms and conditions... First go back and put together a sourcing strategy that relates directly to the business strategy and align a sourcing plan and a business case. Then look at the whole portfolio of providers and realign expectations and details of the deal."

Cohen says this will entail a large change -- a change in thinking, a change in processes, a change in organization and management. But without making this change, companies can expect service disruptions and that cuts directly into profits.

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