

Outsourcing: Still In The Closet

“Outsourcing: Still In The Closet”, the report on which this article is based, is the eleventh installment of the LAN Research Panel and provides primary, end-user data on the implementation and use of outsourcing by companies and organizations today. 464 panelists responded to this survey. Panel members represent companies and organizations of all sizes and a range of industry verticals. While the outsourcing business model initially garnered enthusiasm from the market and investors in the late 1990’s and early 2000, outsourcing service providers have been largely unable to gain traction in the market, with the downturn in the economy in 2001 and 2002. This report examined outsourcing from the standpoint of the business and organizational customer actually contracting for services.

Data for the report was collected in September of 2002, and includes information and analyses on: the adoption and implementation of outsourcing, including future plans; reasons for NOT outsourcing; reasons FOR outsourcing; factors that most influence the selection of outsourcing service providers; key attributes that customers and potential customers look for in outsourcing service providers; the number of outsourcing service providers typically used by individual companies; the impact of the weak economy, and security concerns stemming from terrorism, on attitudes toward outsourcing; and the amount of money companies expect to spend on outsourcing in 2002.

Upon analyzing the survey results, In-Stat/MDR came to the following conclusions:

- LAN outsourcing has not gained traction in the market; moreover, no one segment within outsourcing, i.e. applications, security, equipment, etc., has emerged as a clear leader or compelling theme within the outsourcing market. Larger companies are more likely than smaller companies to outsource, which means they spend more both due to a larger volume of outsourcing services they require, as well as using proportionally more outsourcing services than smaller companies.
- Most companies that are not currently outsourcing have no plans to outsource, at least within the next several years. Those that are planning to outsource are largely planning to wait a year to do so. This is therefore both long-term and short-term bad news for the outsourcing; most companies will not outsource, and among those that will, it will not be for another year. Additionally, companies do not appear to have visibility into their outsourcing plans beyond the two-year time horizon.
- Companies main concerns with outsourcing revolve around the loss of control over their LANs, rather than a lack of adequate outsourcing solutions in the market place, or outsourcing being “too complex”. Related to this, key attributes customers are looking for in an outsource provider center on ensuring that they can “trust” the provider (i.e., that the provider has a “good reputation” and provides 24 x 7 customer support) in case something does go wrong.

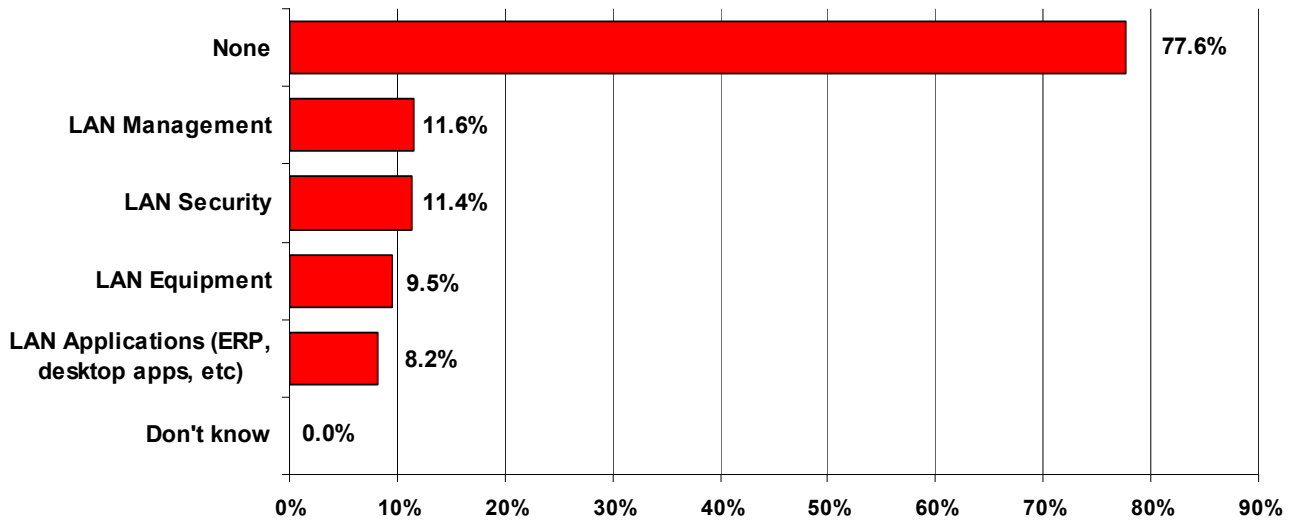
- Companies are being sold outsourcing services based on a “Here’s what you can do/get with outsourcing” model, rather than a “Here’s how you can save money with outsourcing” model. However, once companies do outsource some of their LAN functionality, they are seeing direct financial benefit from having done so; decreasing operating expenses and lowering asset amounts held on the balance sheet. This may indicate that outsource providers need to more effectively communicate the financial benefit aspect of outsourcing to their customers.

- Personal recommendations, either from colleagues or from equipment vendors, are the most important means by which potential customers decide on doing business with an outsource provider. More than advertising or trade shows, outsource vendors need to ensure they are going to get good word of mouth recommendations from their current customers and from relevant equipment vendors. They do, however, also need to do a better job marketing outsourcing through traditional media, especially to potential customers who are not currently outsourcing.

- While the poor economy in 2001/2002 has had an effect on companies’ attitudes toward outsourcing, making them somewhat more likely to outsource, companies are largely unaffected by security concerns arising from terrorism. This aspect of security falls under the category of “disaster recovery.” By contrast, from the results of this survey, In-Stat/MDR does believe that companies are concerned about security from the standpoint of control over their data and data privacy.

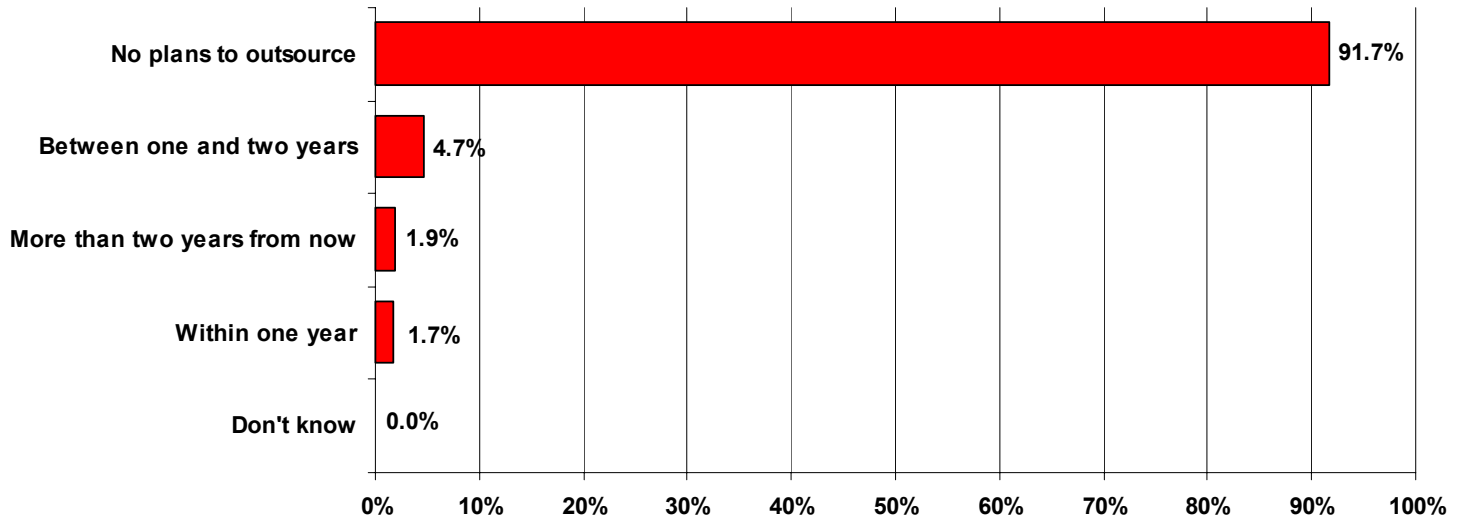
- Most companies will spend less than \$100,000 on outsourcing in 2002, suggesting that most companies are only outsourcing one or two LAN functions. This may indicate that it will be difficult to convince companies to eventually migrate to a “Thin LAN” model, where appreciably all of a company’s LAN functionality is outsourced. In-Stat/MDR believes that for the Thin LAN model to gain traction, more companies will have to be able to connect to the Internet and data networks at T-3 speeds and above, for less than what they would pay for a T-3 currently; in other words, connections, overall, need to become faster and cheaper. Additionally, outsourcing providers need to do a better marketing job, both from the standpoint of highlighting the direct financial benefits of outsourcing, as well as, allaying concerns about companies losing control over their networks with outsourcing.

Which, if any, of the following does your company outsource? (n = 464; multiples accepted)



Source: In-Stat/MDR, 10/02

Which of the following best describes your company's plans to outsource its LAN functionality in the future? (n = 360)



Source: In-Stat/MDR, 10/02