

# 7 hot IT outsourcing trends — and 7 going cold

The days of low-cost commodity services are waning, as IT organizations seek stronger strategic partnerships with IT outsourcing providers in the era of digital transformation.

By Stephanie Overby

CIO |

DEC 4, 2018 1:56 PM PST

As IT organizations become more strategic, so too do their partnerships with IT outsourcing providers. Digital transformation, automation, cognitive capabilities, and the data revolution are not just shaking up how IT operates, they are greatly impacting the kind — and quality — of services under contract with IT outsourcing firms.

ADVERTISING



Here is a look at the technologies, strategies outsourcing right now and the once-hot dev to leverage an IT outsourcing partnership, or as a provider yourself, the following heat inc

**[ Find out the 11 keys to a successful outso to avoid. | Sign up for our CIO newsletter. ]**



AD

00:06 / 00:15



## Heating up: Competitive sourcing

The increased adoption of as-a-service options and intelligent automation are enabling more IT services integration and true vendor agnosticism, making it possible for IT leaders to adopt more of a competitive sourcing model where service providers vie for the enterprise's business.

**[ Outsourcing can be tricky. Take this multi-part online course and learn to develop a sound outsourcing strategy. ]**

"In such a model, the 'champion' is rewarded for delivering business outcomes and transformative performance in the knowledge that a designated 'challenger' is also at work — albeit to a lesser extent — and ready to scale up and assume the future role of a champion," says Craig Wright, managing director with business transformation. "Leveraging service integration and managed services, champions and challengers in a seamless service experience with the right tools."

## Cooling down: Jacks of all



IT service providers eager to go after the rapidly expanding market of digital technology services initially tried to be everything to everyone, but now rationalization and specialization are taking over.

“We’re seeing the large IT services providers spend some real time figuring out what they’re *not* going to cover. The digital services market is now so complex and cluttered it simply isn’t possible to be a master of everything, and vendors are realizing this,” says Ollie O’Donoghue, *research* director for IT Services at HfS Research. “We’re already hearing firms selectively align their offerings to core markets — while bringing in partners to tackle the rest.”

## Heating up: Re-platforming

As transformation has evolved from buzzword to business opportunity, more IT leaders are looking to shift their entire platforms to something more adaptable and scalable by leveraging automation, cloud, and modern enterprise applications.

“In response to this, we can expect providers to put more emphasis on the fundamentals of business technology, alongside broader consulting services to help their clients through an extensive re-platforming exercise,” says Jamie Snowdon, chief data officer at HfS Research.



**BrandPost** Sponsored by Expanse  
Take Steps Now to Minimize Glaring Telnet Vulnerabilities

## Cooling down: Traditional

One of the biggest changes facing the IT ser has been how to quantify services. Contract models to those built on business metrics ar

×

ACTIVE DUTY | GUARD | RESERVE

VETERANS

WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN.  
© 2019 USAA. Use of the term "member" or "membership" refers to membership in USAA Membership Services and does not convey any legal or ownership rights in USAA. Restrictions apply and are subject to change. To join USAA, a separate military personnel must have received a discharge type of "honorably." Eligible former members of USAA may join USAA. Product restrictions apply and are subject to change. Insurance provided by United Services Automobile Association and its affiliates. San Antonio, TX. Life insurance and annuities provided by USAA Life Insurance Company, San Antonio, TX, and in New York by USAA Life Insurance Company of New York, Highland Falls, NY. All insurance products are subject to state licensing, underwriting, and contractual terms and conditions. Each company has sole financial responsibility for its own products. Members were compensated for their participation. 201949-0419

AD 00:06 / 00:15

UNITED STATES  
“As-a-service delivery models and services-centric IT frameworks continue to drive IT to re-package and better orient services and performance towards business consumable metrics and work-products,” says Wright of Pace Harmon.

When it comes to workplace services, for example, “enterprises are increasingly asking for experience-level agreements—or XLAs,” says Yugal Joshi, vice president of information technology services at Everest Group. “There has been an increase in the number of contracts where enterprises have Net Promoter Scores or Customer Experience Index as the primary evaluation criteria for the service partner.”

## Heating up: Robotic process automation (RPA) at scale

“Various service providers confused the market with unrealistic commitments around the impact of automation,” says Joshi of Everest Group. “Enterprises have learned from their mistakes and are now demanding real working solutions that go beyond simple prototypes.”



**SponsoredPost** Sponsored by SAP  
IT organizations are the main drivers of digital transformation.

Real results of RPA at scale are driving automation going forward.

“Enterprises are now working with providers and partners to really leverage and industrialize the technology and drive real business impact,” says Phil Fersht, CEO of HfS Research. “This is a decisive moment for the outsourcing industry — where new and business models — and providers will now reinvigorate their automation services and speed efficiency and drive down cost.”

Automation is reducing the labor component of IT, according to Steve Hall, a partner at ISG.

×

VETERANS

WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN.  
© 2019 USAA. Use of the term "member" or "membership" refers to membership in USAA Membership Services and does not convey any legal or ownership rights in USAA. Restrictions apply and are subject to change. To join USAA, a separate military personnel must have received a discharge type of "honorable." Eligible former members of USAA may join USAA. Product restrictions apply and are subject to change. Insurance provided by United Services Automobile Association and its affiliates. San Antonio, TX. Life insurance and annuities provided by USAA Life Insurance Company, San Antonio, TX, and in New York by USAA Life Insurance Company of New York, Highland Falls, NY. All insurance products are subject to state licensing, underwriting, and contractual terms and conditions. Each company has sole financial responsibility for its own products. Members were compensated for their participation. 2019-04-19

AD 00:06 / 00:15

Meanwhile, automation offerings are getting smarter. “Intelligent automation, machine learning, and cognitive analysis are no longer the exclusive domain of the Tier I service providers. Such capabilities and tools are available and affordable for niche players as well as clients,” says Wright of Pace Harmon. “Such tools and capabilities remove barriers to periodic competitive sourcing and allow clients to take back strategic control of the environment while benefiting from the significant labor cost elimination through the deployment of robotics and AI.”

## Cooling down: Low-cost service desks and call centers

CIOs and IT leaders quickly realized that outsourcing the “face to the business” to a third party may not be in their best interests. We will continue to see more creative, on-site and integrated solutions as organizations integrate a complete workplace solution into their delivery models.


“The role of the service desk is being redefined,” says Wright of Pace Harmon. “‘Shift left’ strategies have historically been focused on shifting service desk work to self-help, self-heal user portals, or key users; however, increasingly the expectations are that through the bundled award of synergistic applications and infrastructure work or deployment of a service integration layer across an ecosystem of service, there is a real opportunity to shift more technically challenging IT support to service desk agents without compromising quality of service, speed of answer, contact handle times, or first contact resolution.”

Outsourcing clients are willing to pay a small premium for the improved customer experiences and quicker resolutions such transformed service desks can deliver.

## Heating up: Platform services

With IT leaders more interested in business outcomes than how they’re achieved, discussions are now focusing on the intellectual property platform. The key areas of focus are IT operations and cloud, most of application services and user experience.

## Cooling down: Traditional



WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN.

© 2019 USAA. Use of the term "member" or "membership" refers to membership in USAA Membership Services and does not convey any legal or ownership rights in USAA. Restrictions apply and are subject to change. To join USAA, a potential member must have received a discharge from military service. USAA Insurance products are provided by USAA Insurance Company, San Antonio, TX, and in New York by USAA Life Insurance Company of New York, Highland Falls, NY. All insurance products are subject to state licensing, underwriting, and contractual terms and conditions. Each company has sole financial responsibility for its own products. Members were compensated for their participation. 2019-04-19

AD00:06 / 00:15

Old-school outsourcing has been under fire for some time and the steep decline in traditional approaches is expected to continue. “Digital services and the as-a-service model continue to offer enterprises more bang for their buck, alongside scalability and adaptability,” says Snowden of HfS Research. “But we’re also seeing commercial models catch up and pricing is starting to more readily align with client outcomes. These new pricing models don’t sit well with traditional outsourcing, signaling another blow to an already struggling model.”

## Heating up: Onshore digital services

There’s no question that digital transformation is driving most IT decisions today. “Every conversation started and ended with digital this year,” says Hall of ISG. “Costs saving were interesting, but the market was defined by significant investments by the business and IT to all things digital.”

One result of that is that outsourcing IT functions closer to home is very much back in vogue. “Enterprises want to be part of their digital transformation journey and there’s an appetite for getting ‘hands on’ in the ideation and development of solutions,” says O’Donoghue of HfS Research. “For providers, this has meant building capabilities onshore and nearshore to facilitate a more tactile approach to service delivery that they would struggle to offer through traditional offshore models.

However, that doesn’t mean offshoring for cost savings is dead. “Right-shoring of labor may not be a popular topic to discuss; however, many organizations are still wrestling with suboptimal project engagement and operating models as there is an over-indexing of resources to higher-cost IT service locations close to business delivery center and their major marketplaces,” says Pace Harmon’s Wright. “Shared services in the form of Global Delivery Centers (GDCs) or through third-party outsourcers is still a major source for cost-optimized IT delivery capabilities.”

## Cooling down: Cloud as ir

Cloud is no longer just a tactical hosting choice. “Cloud-native services are the new norm,” says Hall of ISG. “Cloud leaders plan to build cloud-native service to the business, not just IT. This is the reason the proportion of enterprises adopting cloud-native services grew in the last three years from 30 percent to 43 percent.” Cloud is becoming the underlying consistent platform to be leveraged to build cloud-native services.”

×

VETERANS

WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN.  
© 2019 USAA. Use of the term "member" or "membership" refers to membership in USAA Membership Services and does not convey any legal or ownership rights in USAA. Restrictions apply and are subject to change. To join USAA, a potential member must have received a discharge from the military. Digital member documents of USAA members may join USAA. Product restrictions apply and are subject to change. Insurance provided by United Services Automobile Association and its affiliates. San Antonio, TX. Life insurance and annuities provided by USAA Life Insurance Company, San Antonio, TX, and in New York by USAA Life Insurance Company of New York, Highland Park, NY. All insurance products are subject to state regulations, underwriting, and contractual terms and conditions. Each company has sole financial responsibility for its own products. Members were compensated for their participation. 2019-05-01

AD 00:06 / 00:15

# Heating up: Increased focus on compliance and security

IT outsourcing customers are focusing even more on providers' data security and regulatory compliance capabilities. "Clients' intensity on this front has only gotten more focused as public awareness has magnified," says Ken Dort, a partner at law firm Drinker Biddle, noting that some are demanding that data sets are fully encrypted.

There is also increased diligence around cloud security. While the move from servers to cloud-based services has been a learning experience for IT security functions, there is growing acceptance that many cloud security failures have been the customer's fault, according to Wright of Pace Harmon.

"The speed at which workloads are moving to the cloud is increasing, aided and abetted by increased design for security, whereby security is no longer a retrofit or afterthought," Wright says. "Leveraging the full benefits of public cloud requires consistent, automated protection across a multi-cloud deployment to mitigate the threat of attacks. New generations of tools allow organizations to simplify cloud security management and achieve the desired consistency in protection."


## Cooling down: Promises of digital payback

Service providers have and continue to be reluctant to commit to a specific payback period on digital initiatives, says Joshi. Many service providers, for example, promise to deliver results in 18 to 24 months, but are rarely contractually obligating to do so.

"Enterprises are losing patience with such engagement models. We believe enterprises are seeing through the classical 'save costs through outsourcing to fund digital' trap and don't want to get into long-term engagements to wait for savings."

Instead, they'll begin to demand that service providers contractually commit to those returns. "Enterprises will begin to orchestrate the solution elements across technology, talent and financing," Joshi adds.

## Heating up: Rapid software



WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN.  
© 2019 USAA. Use of the term "member" or "membership" refers to membership in USAA Membership Services and does not convey any legal or ownership rights in USAA. Restrictions apply and are subject to change. To join USAA, a licensed military personnel must have received a discharge type of "honorable." Eligible former members of USAA may join USAA. Product restrictions apply and are subject to change. Insurance provided by United Services Automobile Association and its affiliates. San Antonio, TX. Life insurance and annuities provided by USAA Life Insurance Company, San Antonio, TX, and in New York by USAA Life Insurance Company of New York, Highland Falls, NY. All insurance products are subject to state licensing, underwriting, and contractual terms and conditions. Each company has sole financial responsibility for its own products. Members were compensated for their participation. 2019-03-04

AD 00:06 / 00:15

UNITED STATES  
IT organizations have been looking for partners who can work with them as they embrace agile development and DevOps approaches, and this shift has only gotten hotter since our last look at outsourcing trends. Since then, the embrace of design thinking to solve complex business problems is another key driver.

“By embracing these three approaches, partners can deliver innovative solutions, whereby the design thinking process allows IT to engage much earlier versus traditional models to empathize with the business and help define and visualize the human-oriented problem statement,” says Wright of Pace Harmon. “It can then brainstorm in order to ideate on problem solutions and gain additional learning and insights through prototypes and tests. Due to this earlier discovery, IT is then better equipped and their third-party partners are better able to rapidly move the solution into the next IT development and delivery-centric stages and rapidly deliver them to the marketplace. The iterative and orderly agile and DevOps processes connect seamlessly from inception to operationalization with creative, iterative and user-oriented design thinking.”

## Cooling down: Organic growth

2018 has been an active year for mergers and acquisitions (M&A) in IT services, with 225 acquisitions through October, according to ISG. “These acquisitions are completely redefining the space,” says Hall. “Scale is important as demonstrated by the Atos/Syntel acquisition. But capabilities are even more important.”

💡 **Get the best of CIO ... delivered. Sign up for our FREE email newsletters!**

### SPONSORED STORIES ::

VETERANS

WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN.  
© 2018 USAA. Use of the term "member" or "membership" refers to membership in USAA Membership Services and does not convey any legal or ownership rights in USAA. Restrictions apply and are subject to change. To join USAA, a licensed military personnel must have received a discharge type of "honorable." Eligible former members of USAA may join USAA. Product restrictions apply and are subject to change. Insurance provided by United Services Automobile Association and its affiliates. San Antonio, TX. Life insurance and annuities provided by USAA Life Insurance Company, San Antonio, TX, and in New York by USAA Life Insurance Company of New York, Highland Falls, NY. All insurance products are subject to state licensing, underwriting, and contractual terms and conditions. Each company has sole financial responsibility for its own products. Members were compensated for their participation. 201803-0419

AD 00:06 / 00:15

Try these tips to help ease a home downsizing

AARP

How to Pay Off \$10,000 Fast

NerdWallet

10 Tips To Help Drop Pounds With Obesity

HealthCentral

[Pics] Pilots Go Nuts Over Flying This One Plane

PostFun

Work Meeting Fails That Sent Twitter Into a Laughing Fit

Work+Money

Forbes Ranks The 13 Richest Black Billionaires

Forbes



As cognitive technologies take hold, preparing your

CIO



5 technical capabilities required

CIO

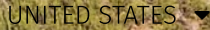


What is Kanban? Workflow

SPouses and Children

AD

00:06 / 00:15



## Energy Bill Cruncher

Gundry MD

## CIO's guide to IT "As-A-Service"

