



NATIONAL ASSOCIATION OF
ELECTRICAL DISTRIBUTORS

Executive Guide #12

IT Services: Use In-House Staff or Outsource? *Considerations in Using Managed IT Services*

Developed by the NAED Strategic Technology Committee
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PURPOSE OF THIS DOCUMENT

NAED's Strategic Technology Committee created ***Executive Guide #12: IT Services: Use In-House Staff or Outsource?*** to assist distributor executives in understanding how outsourcing some IT services may provide competitive advantages to their individual companies.

Since every electrical distributor is different, the contents of this white paper are presented in a descriptive—*rather than prescriptive*—format to promote brainstorming and stimulate discussion. In many cases, more questions are presented than answered.

Since 2012, NAED's Strategic Technology Committee has created a series of guides to assist distributor executives in understanding the latest technology issues and concerns. Previous topics include effective online presence, e-commerce capability, mobile device security policies, server virtualization, selecting tablet computers, IT disaster recovery planning, mobile technology, a mobile sales force and the changing roles of Information Technology and Marketing. All are available for download at www.naed.org/strategictechnology.

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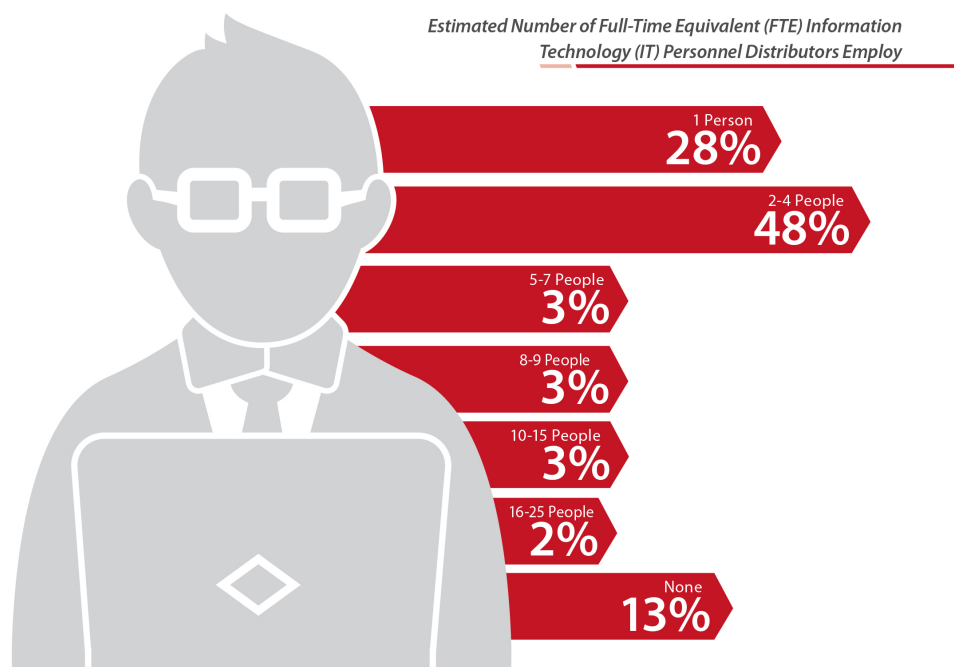
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INTRODUCTION

Technological innovation is electrical distributors' new, constant reality, increasing the challenges electrical distributors' face in providing IT services exponentially. However, most electrical distributors have limited IT staff, with 28% of the respondents to NAED's 4th annual Technology Benchmarking Survey¹ employing only one IT person (see Exhibit 1).

Exhibit 1. Full-Time Equivalent (FTE) Information Technology (IT) Personnel Employed by Electrical Distributors

Source: 2014 NAED Distributor Technology Benchmarking Report (Full Report, page 21)



Relying on a few people for all IT services makes it increasingly difficult for electrical distributors to balance the demands of day-to-day operations—*equipment failures, security issues, system maintenance, help desk support, etc.*—with the implementation of new and strategic technology. Moreover, even if your company has sufficient IT personnel to handle today's—and tomorrow's—workload, how much time do they have to obtain specialized knowledge about any one IT function?

The good news is electrical distributors can address these issues without adding in-house IT capability.

¹ NAED's 4th annual Technology Benchmarking Survey was conducted in the fall of 2014. The research reports are available for download at www.naed.org.

IMPORTANCE TO ELECTRICAL DISTRIBUTION

A growing business trend is to focus internal resources on “core” functions—i.e., *critical, differentiating and/or value-adding*—and contract with expert partners—referred to as *Managed Service Providers*, or *MSPs*²—to provide “non-core” tasks.

Outsourcing particular IT functions allows electrical distributors to focus internal resources on critical, differentiating and/or value-adding functions while at the same time leveling the playing field, accessing specialized talent, as well as conserving capital and reducing costs. Moreover, Deloitte’s 2014 Outsourcing and Insourcing Survey lists Information Technology as one of the top 3 most commonly outsourced business functions.

Top 4 Reasons to Outsource Particular IT Functions

1. Focus on things that matter
2. Level the playing field
3. Access specialized talent
4. Conserve capital and reduce costs

Focus on things that matter

The ability to move a particular application or service to an outside service provider gives electrical distributors’ IT personnel time to focus on critical, differentiating and/or value-adding business processes and applications. As an example, managing a website in-house requires a high level of attention to many intricate details—*bandwidth demands, server maintenance, backups, testing, disaster preparedness, etc.* Website hosting services, on the other hand, are specialists with well-established processes in place to provide these services around the clock.

Focus on critical, differentiating, value-adding processes.

Level the Playing Field

Contracting with expert partners to provide certain IT services makes company size less of an issue. Electrical distributors of all sizes can gain immediate entry to the newest products and systems. And most importantly, as long as a particular IT function works, customers don’t care whether it’s performed in-house or “virtually” by a managed service provider.

Customers only care that it works.

² A Managed Service Provider (MSP) assumes day-to-day management and operational responsibility for performing specified functions.

Access Specialized Talent

Outsourcing particular IT functions (and/or special projects) allows electrical distributors to augment in-house capabilities with expert talent without long-term employment commitments or incurring hiring and training expenses. Besides providing specialized knowledge, outsourcing to technical experts may also help electrical distributors improve customer service levels by focusing internal resources on the most critical, value-added activities that touch customers.

***Move beyond general knowledge
to in-depth expertise.***

Conserve Capital and Reduce Costs

Outsourcing selected IT functions also allows electrical distributors to take advantage of new technologies without capital investments. Furthermore, many studies show cost savings in IT hardware, licensing, operational costs, as well as software expenses. And while some Managed Service Providers (MSPs) may charge an upfront setup fee, most typically invoice a monthly service fee, which provides electrical distributors predictable costs, similar to utility bills for electricity and gas.

***Get the latest technology at predictable cost
with little or no capital investment.***

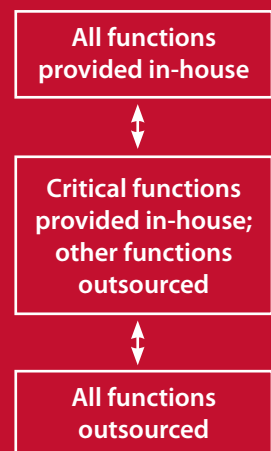
STRATEGIC CONSIDERATIONS OF OUTSOURCING PARTICULAR IT SERVICES

One size does not fit all. Every electrical distributor has different sales approaches, go-to-market strategies, competitive differentiation and geographic dispersion. However, there are five key considerations every electrical distributor faces in determining whether to outsource any IT services: *company culture; core competencies; and the impact on people, operations and finances.*

OUTSOURCING IS NOT AN ALL OR NOTHING PROPOSITION

Electrical distributors don't have to choose between providing all functions in-house or outsourcing all functions. Instead, individual distributors can determine what functions are critical for your company to handle in-house and what services others can provide more effectively and perhaps even more efficiently. For example, consider your accounting department.

Outsourcing Continuum



Typically the general ledger, accounts payable and accounts receivable are handled in-house, but payroll processing and payroll tax filing are provided by outsiders. There is a clearly established record of outsourcing payroll processing and payroll tax filing. Additionally, both functions require vast, singular knowledge of local, state and federal tax codes as well as specialized software with up-to-date state and federal tax tables. Many viable payroll managed service providers also exist—*ranging from local accountants to giants such as ADP, Intuit Full Service Payroll and Paychex.*

Key Considerations in Selecting IT Services to Outsource

- Company Culture
- Core Competencies
- Impact on People
- Operational Impact
- Financial Impact

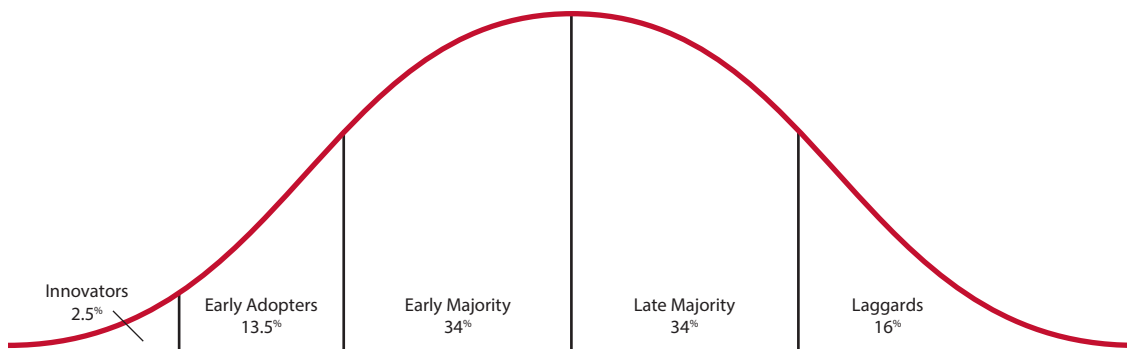
Impact of Company Culture on Outsourcing

The success or failure of any undertaking is dependent on a company's culture—*its vision, values, norms, assumptions, beliefs and habits*.

Consider these questions about your company's culture before making a decision to outsource particular IT services:³

- How amenable to change is our corporate culture?
- What is our philosophy towards outsourcing?
- What are our views on job eliminations and layoffs?
- What is our desired level of control over company processes?⁴
- How well does our company leverage currently available technology?
 - Are we innovators, early adopters, early majority, etc. (see Exhibit 2)
- On the whole, is IT viewed as a differentiating factor for our company or an expense?

Exhibit 2. Rogers' Bell Curve of Technology Adoption



Is IT a Core Competency for Our Company?

Core competencies are a company's business imperatives, i.e., the few things a company does better than anyone else. Amazon, Google and Wal-Mart use certain aspects of information technology to set themselves apart from their competitors.

³ If your company currently has a policy of handling all functions in-house, the first question is, "Are we willing to change this policy?" If the answer is, "No," outsourcing is not a consideration for your company.

⁴ Outsourcing can result in feelings of reduced control since you can no longer walk down the hall to check on progress.

Exhibit 3 lists examples of IT services electrical distributors can use to differentiate themselves from the competition. However, it's not the technology itself that differentiates a company from the competition, it's what the company does with the technology.

Exhibit 3. Examples of Business Differentiating IT Services for Electrical Distributors

EXAMPLES OF IT SERVICES THAT CAN BE BUSINESS-DIFFERENTIATING

- Business Intelligence (BI) and analytics
- Customer pricing technologies management
- Customer relationship management (CRM)
- ERP system management
- Intranet, website and mobile app content
- Physical security of on-site IT equipment, including storage
- Sales force automation (SFA) management

Consider these questions about your company's core competencies before making a decision to outsource particular IT services:

- What IT Services provide our company a strategic advantage over our competitors?
 - How strategically important (i.e., a source of competitive advantage) is this IT service to our business?
 - Is it vital to our company's competitive advantage?
 - Does it make our business unique, differentiate us from our competitors, or set us apart in any way?
 - Does it play a major role in customers' selection of our company over competitors?
- What IT Services add value to our company by allowing us to focus on business imperatives?
- What IT Services are critical to our company?
- What IT services are causing us pain?
- What specialized IT skills and systems do we need that are not core to what we do as a company?

Can Our People Handle the Workload?

Most electrical distributors have limited IT staff to support a multitude of technology. Each electrical distributor must determine if their IT staff possesses the requisite expertise to support and maintain today's technology as well as technology needs into the future.

Consider these questions about your IT staff as input into a decision to outsource particular IT services:

- Are we adequately handling IT services internally today?
 - Do we have the staff to continue at this pace tomorrow?
- What technologies are changing so rapidly our staff has a hard time staying up-to-date, much

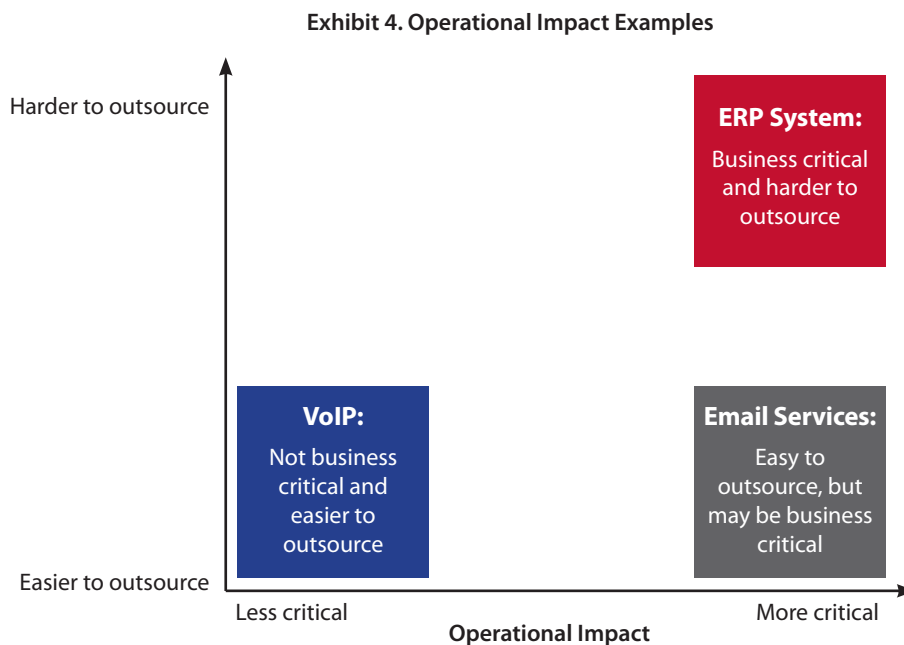
less become experts?

- What is the technical expertise of our internal resources?
 - In the company today
 - Availability in the job market
 - Salary requirements for qualified IT personnel
- How would any IT personnel replaced by outsourcing be redeployed?

What is the Impact of Outsourcing on Operations?

Not only are different skill sets required to manage outside vendors, rather than provide IT services, but the risks of outsourcing critical IT functions, such as an electrical distributor's ERP system, may be very high.

Exhibit 4 provides examples of the operational impact on electrical distributors in outsourcing email, the ERP system and VoIP (Voice over Internet Protocol).



Consider these questions about the operational impact of particular IT services before making any outsourcing decision:

- What is the role of IT Services in our company?
- What IT Services require high availability?
- What is this IT service's impact on our organization's operational performance?
 - Will our operations suffer if this IT service is poorly implemented?

- What new technologies—*hardware capacity and expertise*—do we need in order to maintain and grow our business?
- What is the frequency of change in the technology?
- Will outsourcing this IT service provide the flexibility to scale up or down?
- What are the risks and disadvantages of outsourcing this IT service?
- How will security be maintained?
- What trade-offs are our company willing to accept between:
 - High availability (customer service levels) and cost?
 - Disaster recovery (customer service levels) and cost?
 - Other trade-offs?

What is the Financial Impact?⁵

Every electrical distributor will want to know if outsourcing is a good investment and how much it will cost. Some advantages of outsourcing a particular IT service may be hard to quantify, but strategic considerations may outweigh cost. For example, internal assets may be redeployed to add value to core competencies. In addition, expert resources may be able to improve system stability and reduce downtime. Trade-offs may also need to be made between service levels and costs.

Consider these questions about the financial impact as part of making a decision to outsource particular IT services:

- Can our company afford the service levels we want?
 - What service levels is our staff currently providing? At what cost?
 - What IT Services can we obtain at the same or higher service levels at a cost savings by outsourcing?
- Is it cost-effective to increase our IT staff to meet our IT needs?
- Are we considering outsourcing IT solely to save money?
 - If so, what is our target return on investment (ROI)?
- Is it necessary to make large investments in technology systems, or infrastructure in-house, or can off-the shelf solutions be modified quickly and easily to meet our needs?
 - What are the economics of in-house IT services vs outsourcing?
- What are the strategic ramifications of outsourcing that are not easily quantified?

If outsourcing fits strategically, then select IT functions to outsource.

⁵ Some electrical distributors will have no choice but to outsource particular IT functions, while others will need to factor in previous IT investments into their decision-making process.

Most Frequently Outsourced IT Functions

While every IT function—including *IT management*—can be outsourced, the 11 IT functions most frequently outsourced according to Computer Economics⁶ are application development, application maintenance, application hosting, data center operations, database administration, desktop support, disaster recovery services, help desk services, IT security, network operations and web/e-commerce systems. Moreover, the three most outsourced IT functions in 2014-2015 are application hosting, IT security and web/e-commerce systems (see Exhibit 5).

Exhibit 5. Key IT Functions Outsourced

MOST FREQUENTLY OUTSOURCED IT FUNCTIONS

- Application development
- Application maintenance
- Application hosting
- Data center operations
- Database administration
- Desktop support
- Disaster recovery services
- Help desk services
- IT security
- Network operations
- Web/e-commerce systems

THE NEXT STEP: SELECTING A MANAGED SERVICE PROVIDER

By the time you've answered the questions posed in this document, it will be apparent whether or not outsourcing select IT functions is a compelling business proposition for your company.

If your company decides to outsource select IT services, your next step will be to select a Managed Service Provider. Similar to recruiting and hiring a new employee, you will need to investigate viable service providers and determining their suitability as a business partner.

In the coming months, NAED's Strategic Technology Committee plans to release a white paper on this next step in outsourcing journey.

⁶ IT Outsourcing Statistics 2014/2015: Outsourcing Trends and Cost/Service Experiences for 11 Key IT Functions.

RECOMMENDED RESOURCES

NAED's 2014 Technology Benchmarking Survey Results

Gauge your challenges and opportunities against the industry's with the results of a benchmarking report on how distributors are using technology.

(Published November 2014)

Computer Economics

Computer Economics conducts original research and delivers advisory services regarding the strategic and financial management of information systems.

Interesting Articles

How Outsourcing Works

IT Outsourcing: The Reasons, Risks and Rewards

Should Your Company Outsource IT Services?

White Papers

Guide to Strategic Technology Outsourcing

Three Essential Outsourcing Methods Every Business Should Know

WHAT YOU CAN DO

Please help us leverage the collective knowledge of the industry by giving us your feedback. Share your insight and input with the Committee by calling NAED Member Services at 888-791-2512 or emailing memberservices@naed.org.

Be on the lookout for additional tools from NAED's Strategic Technology Committee, available for download at www.naed.org/strategictechnology.

UPCOMING TOPICS INCLUDE:

- Selecting the Right IT Solutions Provider for Your Company
- Mobile technology for warehouse and delivery personnel