



NATIONAL ASSOCIATION OF
ELECTRICAL DISTRIBUTORS



Executive Guide #13

IT Service Outsourcing

Selecting a Managed Service Provider

Developed by the NAED Strategic Technology Committee
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PURPOSE OF THIS DOCUMENT

NAED's Strategic Technology Committee created this ***Executive's Guide #13: IT Service Outsourcing: Selecting a Managed Service Provider*** to assist distributor executives in understanding how to select the right IT services solution provider for their company; evaluate a IT services solution provider's performance, and preventing common mistakes in IT outsourcing.

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, the changing roles of Information Technology and Marketing, and IT Services: Use In-house Staff or Outsource? All are available for download at www.naed.org/strategictchnology

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INTRODUCTION

With limited IT staff, many electrical distributors are finding it increasingly difficult to balance the day-to-day demands of IT support and operations---*equipment failures, security issues, system maintenance, help desk support, etc.*---with the in-depth expertise required for technological innovation.

The good news is electrical distributors can gain technical expertise without adding staff in-house by outsourcing selected IT functions to expert partners---referred to as **Managed Service Providers**, or **MSPs**. Managed Service Providers assume day-to-day management and operational responsibility for performing specified functions and operate under contracts referred to as Service Level Agreements.¹

Besides allowing electrical distributors to focus on core capabilities, outsourcing non-core IT functions to MSPs also typically reduces costs, improves quality, increases speed to market, fosters innovation, and conserves capital. Furthermore, Deloitte's 2014 Outsourcing and Insourcing Survey lists Information Technology as one of the top 3 most commonly outsourced business functions.

MOST FREQUENTLY OUTSOURCED IT FUNCTIONS

While every IT function can be outsourced, the most frequently outsourced² IT functions 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, many electrical distributors outsource IT services today---only 57% of respondents to NAED's 4th annual Technology Benchmarking Survey³ report having IT personnel on their company payroll.

Exhibit 1. 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

Source: Computer Economics' IT Outsourcing Statistics 2014/2015

All the IT functions listed in Exhibit 1 have an established record of outsourcing as well as a large group of viable service providers in place to support a transition to outsourcing. However, in as much that every electrical distributor's technical capabilities are different, some IT functions will be easier for your company to outsource than others.

¹Information about Service Level Agreements (SLAs) is on Page 4.

²IT Outsourcing Statistics 2014/2015: Outsourcing Trends and Cost/Service Experiences for 11 Key IT Functions www.computerenonomics.com

³NAED's 4th annual Technology Benchmarking Survey was conducted in the fall of 2014. The research reports are available for download @ http://www.naed.org/NAED/Research/Benchmarking/Technology_Benchmarks/NAED/Resources/Business_Tools/Technology/Benchmarking.aspx?hkey=1910bad7-0e7e-4a75-8602-32b27ca22a27

SELECTING THE RIGHT IT SOLUTIONS PROVIDER FOR YOUR COMPANY

Every electrical distributor must conduct their own due diligence on potential MSPs. It's important to determine the "chemistry" and "fit" between company cultures as well as the depth of the MSPs skills, their certifications, partnerships, the tools and software they use, their financial stability, reputation, credibility, whether they are reactive or proactive, etc.

Consider these questions to determine if a particular MSP is a good fit with your company:

- What services does this Managed Services Provider (MSP) provide?
- Does this MSP understand our business needs?
 - Do they have a demonstrated capability providing similar solutions to similar-sized companies?
 - Are they familiar with the software applications we work with day in, day out?
 - Can they work with PCs, Macs, servers, etc.?
 - What about mobile devices?
 - What combinations of different printers, scanners, routers, firewalls, etc. do they support and use?
- Have their policies and practices been audited or accredited?
 - Do they have SSAE16 Type II or other accreditation?
- What other companies do they work with? Are any in our industry?
 - Can we talk to current and previous clients?
- How scalable and stable are they?
 - ▶ Consider their business history, growth, number and location of employees, clients served, customer retention and attrition rates, lawsuits, D&B's, 5 year plan, etc.
- Are they able to respond in a timely fashion?
 - What are their service hours, response times, etc.?
 - Do they work nights and weekends, 24 hours a day, 365 days a year?
 - ▶ Review performance statistics of current and previous clients
- Will they support us remotely or is on-site support also available?
 - Where are they located?
 - ▶ If local, consider making an unscheduled site visit
- What security measures will they take to ensure our data is protected?
- What kind of customer support can we expect?
- How will our company measure the vendor's success against performance targets?
- What is our level of control? The escalation process for issues?
- Do they offer proactive support?
- How do they charge for their services?
 - Do they offer an unlimited amount of Support Desk incidents?
 - Do they guarantee their service with Service Level Agreements?
 - What external index do they benchmark their pricing (*and future price increases*) against?
- What is the process for transferring our business experience and knowledge to the MSP?
- How difficult will it be to move our data from them to a different provider or to an in-house system if things don't work out as planned?
 - ▶ Ask MSP and previous clients

EVALUATING THE MANAGED SERVICE PROVIDER'S PERFORMANCE

Outsourcing changes an electrical distributor's focus from how an IT service is performed to the service your company receives from the Managed Service Provider. The contracts used in IT outsourcing are referred to as Service Level Agreements (SLAs) because they define success and spell out the MSPs responsibilities---including how to communicate, report, manage, and escalate issues. And since many MSPs back up service commitments with guarantees, make sure to ask for financial penalties if agreed upon service levels are not met.

Common components of Service Level Agreements (SLAs) include metrics for accuracy and timeliness of problem resolution, response rates, availability, quality, security, transparency of information, dashboards and reporting, penalties for non-performance, and exit strategies for both parties. (See Exhibit 2)

Exhibit 2. Suggestions for Basic Service Level Agreements (SLAs)

SUGGESTIONS FOR BASIC SERVICE LEVEL AGREEMENTS (SLAS)

- Accuracy of Resolution (% problems needing additional support)
- Timeliness of Resolution (average length of time to solve problem)
- Response Rates (request/issue turnaround time)
 - Specify the level of communication needed with the support provider
 - Do you keep a low level support staff in house?
- Availability (% and hours of uptime/downtime)
 - How much coverage/support is needed - 24 hours? 8am until 5pm? Other?
- Quality of Service (% users satisfied with service)
- Data/Systems Security
- Transparency of Information
- Dashboards & Reporting
- Penalties for non-performance
- Exit strategies defined

TIPS FOR SUCCESSFUL OUTSOURCING

Successful outsourcing requires a systematic approach and proper planning. This will take time. Not only must your business and IT strategies be aligned, but outsourced IT must also be integrated into your company's strategic plan.

Outsourcing will not fix broken business processes; they must be fixed before IT outsourcing begins. In addition, your IT system must be documented and a process in place to record any system changes.

Employees must be made aware of any IT outsourcing initiatives---*their involvement makes it easier to transfer their business experience and knowledge to the vendor*. In addition, internal requirements and expectations should be documented, timelines established, performance targets set, mechanisms established to the MSPs measure performance on a consistent basis, and incentives developed to reward desired behavior for both employees and the MSP.

Most importantly, your company will need to maintain some level of technical expertise on staff to make sure your company's technology is properly integrated into all systems, supervise the various service providers, manage the ramp-up/onboarding process, monitor the MSPs performance, and perhaps even administer the contracts. Besides their knowledge of company operations, this person can also provide a level of comfort to those who may be resisting the change from IT provided in-house to outside vendors.

Exhibit 3. Keys to Successful IT Outsourcing

KEYS TO SUCCESSFUL IT OUTSOURCING

- Systematic Approach
- Proper Planning
- Fix Broken Business Processes
- Document IT System
- Involve Employees
- Regularly Evaluate & Reward Performance

RECOMMENDED RESOURCES

NAED Executive Guide 12: IT Services: Use In-House Staff or Outsource?

This Executive Guide assists distributor executives in understanding how outsourcing some IT services may provide competitive advantages to their individual companies.

Computer Economics

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

Interesting Articles

9 Things IT Pros Are Doing Instead Of Managing Infrastructure

Outsourcing Advisors: 6 Tips for Selecting the Right One

White Papers

Top ten criteria for selecting a managed services provider

Ask before you outsource: Ten Critical Questions to Put to Potential Service Providers

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 toll free at 1.888.791.2512 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:

- Mobile technology for warehouse and delivery personnel