

IT as energy - changing the outsource vs insource debate

 By [AJ Hartenberg](#)

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Information technology (IT) as energy is not a new concept but has been spoken about in the 90s and the early 2000's. It is the analogy where IT services can be regarded in a similar light to energy. The question that arises is 'should I generate my own energy or source it from a third-party supplier?' The same can be applied to IT. The answer: you can do both.



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First prize is to outsource as this is not your core business function. Secondly you generate your own 'energy' when required. IT as energy is both a science and an art. It is a science as you need it to be methodical, calculated and controlled. It's also an art as you need to see it as poetry in motion. It brings creativity, innovation, flexibility and automation to any organisation that wants to survive in today's economic climate.

The debate around outsourcing versus insourcing is an ongoing one and brings in the question of balance. Today's CIO needs to be able to achieve balance and understand both worlds of the science of IT and the art of IT. Outsourcing has undoubtedly become more attractive in the current tough economic climate that is forcing businesses to do more with less. Organisations are having to examine every aspect of their business and investigate the possibilities of both outsourcing and insourcing for almost everything. When IT is seen as energy, the idea of outsourcing versus insourcing is understood a lot better.

The science and art of outsourcing

When IT is understood within the concept of energy, and principles of energy can be applied to IT outsourcing, this brings a logical conclusion to outsource certain functions. The factors that have to be considered are cost of service, the skills required to provide the service and management of services from the service provider. The science is the IT infrastructure operations and the CIO is charged with ensuring it runs well. The balance is which service provider will match the creativity to the organisation and the business strategic roadmap?

Questions to ask include what does the service provider's strategic innovation roadmap look like? Has the service provider already included flexibility in their offering and contracting model? How much automation has the service provider included in their service offering? The art is IT innovation, meeting the CIO's mandate of when and what innovation do I bring to the business and how does it fit.

Yet the cost benefit of outsourcing often trumps the decision to keep IT functions in-house and as such, business believes that by outsourcing they can simply handover a function to an outsource service provider and that they will achieve a year-on-year reduction in IT spend. Just as energy is viewed as a cost to the business so too IT is viewed as a cost centre, especially when IT functions are deemed to be non-core. However, it is not so simple.

Insourcing, putting IT in control of business value

Insourcing allows organisations control of their IT operations to ensure a reduction of costs. The challenge is knowing when to reduce costs and understanding the business desire for new products and services. When IT controls the business value of IT services by allowing themselves understanding the business and the industry that they are in, this is a monumental game changer. This is achieved by gaining a deeper understanding of the business and increasing focus on core functions by taking small steps to outsource certain non-core aspects that are operationally done better by others.

So why the see-saw effect between outsourcing and insourcing? Such a back-and-forth discussion is usually because IT is running in the 'maintain' mode of IT operations i.e. keeping the lights on. Being stuck in mode one of operation – run and maintain – gives rise to the business case to outsource as time and budgets constraints inhibit the move to mode two where innovation, flexibility and agility comes in.

The key for business is to insource resources that understand the business and introduce enterprise architecture functions that will match business expectations. Gartner has dubbed this bimodal IT delivery yet companies are still in a place where the question to outsource or insource is dependent solely on perceived cost effectiveness.

Outsourcing versus insourcing

When IT organisations start to adopt the 'IT as energy' concept, they can start to focus on what value can be derived from IT services that are outsourced. The focus now shifts to either the public cloud market for certain services as well as the private cloud market for other services, in essence, that show business value.

This does not take into consideration that while the business may reduce costs from an operational perspective, as the business continues to use other services, IT spend will increase due to acquisition of other IT services that was not part of the business.

Another potential pitfall of outsourcing arises when the overarching service contract does not provide the business with sufficient flexibility to move in and out of the contract in a scalable manner. Flexibility within the contract when choosing a service provider should be foremost in mind, especially with regards to the contracting period for services. Gone are the days of multi-year contracting terms.

Customers are looking for flexible contracts; they want to have the flexibility to change service providers in order to guarantee the required levels of service delivery. Some clients may experience service delivery challenges; they may not be large enough to warrant foremost attention when they have an outage.

It's time to approach the debate from a new angle

Gone are the days of poor service delivery. Customers are now wiser with regards to genuine and authentic service delivery and IT outage is no longer acceptable from a business perspective. Organisations are starting to question how the delivery of IT services is affecting businesses ability to generate new products, meet their own customers' expectations of providing quality services and finally, increase capacity when business demand increases unexpectedly. This change in focus is what will enable businesses to increase revenue and market share. This shift is seeing the outsource versus in-house debate changing.

In short, we shouldn't be talking about outsourcing versus insourcing. It is important for companies to realise that the decision is not exclusive and that the conversation should be around multi-sourcing instead and a new way of doing business.

ABOUT AJ HARTENBERG

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