



Key Takeaways Technology is changing more rapidly than ever while also getting more expensive. With the emergence of consumer digital, mobile apps, artificial intelligence, process automation, and security tools, there are more ways than ever to digitize a business, and more competition for technology spend. Having a modern digital footprint is now required for most companies, and the costs those platforms bring are **permanent additions** to the technology cost structure. The shift of technology spend, while not new, is accelerating and driving more technology operating expense to the income statement. Software as a service (SaaS) solutions also now have more restrictive license models, and changes in the business can make it difficult to predict cloud software renewal and annual true-up costs. Two effective ways of combatting this tide of rising costs are (1) controlling the addition of new costs through disciplined business cases involving technology, and (2) reducing permanent on-going technology costs.

Companies have been building extensions of their organizations off-shore for years and they have benefitted from access to global talent, more control, lower costs, and better outcomes. Those facilities are commonly referred to as “Global In-house Centers” (or GICs) but they have been out of reach for all but the largest global technology players. Versitae has now brought that capability to companies of all sizes with our Managed GIC outsourcing format. Our clients operate off-shore extensions of their IT organizations in a Versitae managed facility for less than \$15/hr, which saves them 40% or more on their outsourcing costs.

This paper explains how you can use this strategic outsourcing capability to combat the rising costs of digital transformation.

The shift from Cap-ex dominated technology spend to Op-ex spend is accelerating. Cloud computing has resulted in most new and emerging technologies being cloud-based, or SaaS-based (Software as a Service). These technologies are entirely rented. You pay per user, or per usage metric, for as long as you use the solution. And if you stop paying, it goes away. Companies don’t actually own any of this technology and that is a scary proposition for those that are investing millions of dollars in SaaS solutions, and cloud platforms. Changing accounting regulations have resulted in some of the Op-ex shift, but gone are the days where a company could purchase technology, capitalize it over 3-5 years, then sweat the asset without any impact to the income statement. Today, these costs have become permanent additions to the cost structure, and they are expensive.

Cloud software upgrade cadence has become shorter which results more work. Years ago, companies would spend large sums of money on an ERP implementation, then ride out the depreciation without further upgrades to minimize their ongoing costs. With cloud-based platforms companies no longer have that choice. Upgrades are now imposed by vendors, they come on a regular schedule, and they must be tested and absorbed by customers. This adds workload to IT staff and business experts, often at inconvenient times or at risk to business operations.

Software license models are changing. Software providers are getting more sophisticated with their licensing models, and less flexible with pricing. None of those changes are designed to save their customers money. Today, most cloud-based platform providers are licensing by user, and further tiering their costs such that power users pay more than casual users, but everyone is counted, and everyone pays. Other creative license models are being introduced to offset advances in computing power. Now, many providers charge by connection, or by processor. With cloud-based storage, it’s free to add your data to the cloud, but it costs you to access it. Not only is data proliferating, the more you use your data, the more you pay.

A Client Success Story

A national consumer chain with over 500 locations needed to expand IT services to handle increasing security workload, new digital transformation efforts, and new testing/quality assurance for a new SaaS ERP platform. A tight cost structure was important because a recent RFP for traditional Managed SOC services resulted in proposals costing between \$1M-\$1.8M/year.

The chosen approach was to use a Managed GIC to build an extension of the IT organization, and have each function led by a key member of the client’s leadership team. A Security Operations team was built and the team reported to the client’s SOC manager. A agile development/ dev ops/ QA team was established to deliver ongoing enhancements to a key consumer-facing, revenue-generating web application. A configuration management and QA team was established to manage changes to the SaaS ERP solution.

The resulting teams were combined with an infrastructure operations team to provide a holistic, client-directed, extension of the organization and effectively delivering the new IT services at a blended cost of under \$15/hour. The configuration of the SOC team alone saved the client between \$800K and \$1.2M per year. Total savings were over \$2M when compared to alternative service provider configurations.

Usage-based pricing, Software as a Service, and the cloud are all conspiring to make IT spend hard to control, and impossible to reduce. There are some techniques for managing IT costs management in the digital age



There are fewer cost saving options today

Control the inflow of costs. If increasing technology spend isn't producing measurable business returns, then companies need to first examine how projects are prioritized and funded. There is a good chance the project financial evaluation process is missing a Total Cost of Ownership (TCO) methodology, which results in project proposals that underestimate ongoing costs, and over promise benefits. No matter how important digital transformation is, companies must understand and plan for the costs that come with it.

Capture baseline technology spend and benchmark changes. Capturing all components of baseline technology spend provides a company with visibility to its cost drivers as well as insight as to the drivers of change. In most companies, the baseline support spend is mixed up with a lot of other technology spending. Consolidating all on-going technology spend in one place will provide the insight needed to answer key questions such as: How have costs changed due to business growth? Are we spending the appropriate amount on customer facing value? Are we focused on the right productivity measures? Implementing basic metrics like software cost per user, and other usage-based cost drivers can help with the project evaluation process. You don't need to bother benchmarking against other companies. That process is expensive, and the business technology environment has become too complex, and too many variables make peer benchmarking less effective than in the past. Instead, focus on measuring yourself.

Reduce baseline support costs. The increasing op-ex support costs driven by digital transformations can be addressed two ways: (1) by reducing the volume of support workload, and (2) by reducing the unit cost of supporting the baseline workload. Realistically, however, in a rapidly changing technology world, the support workload is going to be hard to reduce. With every new technology comes new skills, new things that break, new business demands, and new details to manage.

The most effective way to address rising technology cost is by using a Managed Global In-house Center

That shouldn't stop companies from trying to reduce work, but we need to accept that the baseline support workload is going to increase faster than productivity improvements can reduce it. That has been the trend in IT for the past 25 years.

A Managed Global In-house Center, or Managed GIC is the best way to get a handle on your on-going baseline technology costs. Large global companies have been establishing extensions of their organizations off-shore, typically in India, for the past 20 years. These off-shore centers are called Global In-house Centers (or GICs) and they provided access to global talent, dedicated staff, time zone leverage, retention of valuable domain knowledge, shared values, lower costs, and better outcomes. With a Versitae **Managed** GIC, those same benefits are available to companies of all sizes. It's like traditional outsourcing but it works better AND costs less than traditional offshoring, and that makes it a source of strategic competitive advantage.



By establishing an extension of a technology team off-shore, using a Versitae Managed GIC, **a company can reduce its offshore support costs by 40%, typically to \$15/hour or less** using dedicated and experience resources. The approach works better than legacy off-shoring because, like the big companies that pioneered the model, Versitae provides experienced resources, and can coach and train them to work effectively in a close relationship with our clients which results in better outcomes. A Managed GIC can also free up internal technology resources to focus on innovation and growth. In a world of increasing technology complexity and costs, a Versitae Managed GIC is one of the few cost-saving options remaining for companies.



Outsourcing doesn't have to be hard. A Managed GIC is a more effective and sustainable outsourcing approach, and a proven option many companies don't know is available. Don't wait for a business crisis to face a push for IT cost savings. Prepare for the future today by contacting us to learn how a Managed GIC can achieve more value for your business.

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