

Outsourcing Debate Driven by Cost, Agility

IT managers find offshore outsourcing to be a compelling way to cut costs

BY THOMAS HOFFMAN
SCOTTSDALE, ARIZ.

COST PRESSURES and the need for increased business agility are leading a growing number of companies to shift more of their IT work offshore, according to panelists who discussed sourcing issues at the *Computerworld* Premier 100 conference here last week.

On average, 60% of IT spending now goes to external companies for hardware, software and services, while 40% goes to staff, said Bart Perkins, the panel moderator and managing partner at Leverage Partners Inc., a Louisville, Ky.-based CIO consulting firm. The percentage of external spending will continue to grow as more companies turn to offshore outsourcing, said Perkins, who is also a *Computerworld* columnist.

That's the trend at Agilent Technologies Inc., a spin-off of Hewlett-Packard Co., which outsources about 35% of its IT work. Two years from now, it expects to outsource about 60% of its IT functions, particularly in areas such as application development and maintenance. The reason: Seven consecutive quarterly losses are driving the Palo Alto, Calif.-based company to reduce costs and become ever more agile in the market, said Marty Chuck, CIO at the scientific instrument maker.

The cost of labor in places such as India is "too compelling," said Chuck, referring to a figure cited by Merrill Lynch & Co. Chief Technology Officer John McKinley in an earlier conference session. McKinley estimated the sav-

ings from offshore outsourcing of IT at 40% to 50%.

Currently, 90% of Agilent's IT workforce is based in the U.S. and Europe. By 2005, Chuck sees that ratio flipping, with just 30% of the IT workforce remaining in the

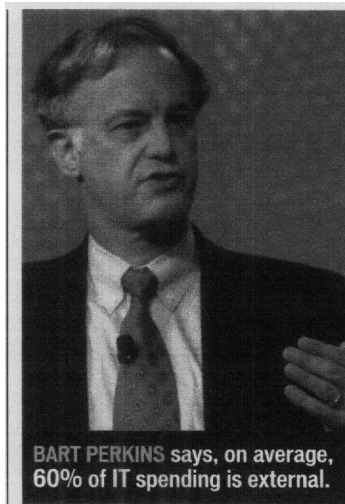
U.S. and Europe.

Agilent isn't alone. A few years ago, Northbrook, Ill.-based Allstate Insurance Co. created a wholly owned IT subsidiary in Northern Ireland to help cut IT costs and allow

faster response to competitive pressures. Even with 900 highly skilled IT employees there, CTO Cathy Brune finds herself struggling with whether to shift operations elsewhere.

"Anytime you go outside your four walls, there's risk associated with it," said Brune. "But if you have a very smart team, you can figure things out and learn from others."

"We'll be doing more outsourcing in the next two years," said George Lin, vice president and CIO at Documentum Inc., a Pleasanton, Calif.-based enterprise content management software vendor. Both near-shore and offshore vendors "are becom-



BART PERKINS says, on average, 60% of IT spending is external.

ing more savvy about understanding my unique business," said Lin. That's one reason he expects his company to move a growing portion of its software quality assurance and maintenance offshore.

While offshore outsourcing might be attractive from a cost standpoint, there are wrenching cultural and political issues

that IT managers have to iron out with domestic IT employees. "You have to be honest with people and [tell them] what you're planning on doing," said Brune. It's also important to help them improve their technical skill and business acumen to keep them valuable to the organization.

Retaining technical knowledge of certain technologies that are sent offshore is a must as well, said Chuck. "If you don't retain some of that knowledge in-house, it's almost cost-prohibitive to bring it back in," he said.

For its part, Agilent plans to keep people with business process and project management expertise. In addition, it has opted not to outsource its data center operations, since a recent benchmarking exercise revealed that Agilent can run its back-office operations more cost-effectively than service providers can. ▀

Microsoft Security Czar Critiques Efforts

'Traffic cop' says company making strides toward goal

BY MARK HALL
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Listeners praised Microsoft Corp.'s recent efforts to improve product security and patch management after hearing Scott Charney, the company's chief security strategist, describe them in detail. But they agreed that Microsoft hasn't yet shown it can reach its own security goals.

Speaking here at the *Computerworld* Premier 100 conference last week, Charney explained how, as part of its Trustworthy Computing initiative, Microsoft delayed the release of products such as Windows 2003 and Visual Studio .Net. That delay, he said, gives developers who have been trained in areas such as threat modeling and penetration testing a chance to review

the software code for flaws.

The company also added two layers of security verification outside of the product groups, because making developers in the product groups responsible for security "was like having the fox guarding the henhouse," Charney said.

And despite complaints from some corporate users, Microsoft products will now be shipped with maximum security features turned on, Charney said.

Those moves are essential, according to Phil Dunkelberger, CEO of PGP Corp., a software security provider in Palo Alto, Calif. "Now they have a guy who is a traffic cop who does not have money at stake," he said of Charney.

Dunkelberger went on to praise the idea of shipping products with security features enabled by default. "Locking down products when they're released is good, even when faced with resistance from larger users," he said.

But he expressed disappointment that Charney didn't discuss the idea of opening up the security elements of Microsoft's products to open-

source evaluation. PGP's source code is released for open-source review before it's sold commercially.

RA Vernon, chief security officer at Reuters America Inc. in New York, said that before Microsoft can achieve the goals of its Trustworthy Computing initiative, "major cultural change has to take place" within Microsoft.

Charney acknowledged that that was true, specifically in relation to the vendor's patch management procedures, which he characterized as "not good today at all."

He said Microsoft's decentralized management approach, while "wonderful" in many respects, is an impediment to effective patch management. For example, the company had eight patch installers, and some tools can't determine whether a patch has been installed properly or not.

That, he said, will change with the release of Longhorn, the code name for the next release of the Windows operating system. With that release, which isn't expected before mid-2004 at the earliest, a single patch installer will exist. ▀



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