IT Outsourcing Statistics 2019/2020

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Executive Summary

Introduction

Many IT functions, from help desk to data center operations, have a long history of outsourcing. In this study, we profile the outsourcing of 11 IT functions in order to inform outsourcing decisions by IT executives. This study also is a valuable source for service providers in understanding market trends and for IT organizations in comparing their choices with their peers. For each function in the study, there is a clearly established record of outsourcing and a well-established group of service providers to support a transition to outsourcing. Our list of 11 IT functions is not intended to be exhaustive. Every IT function can be outsourced, including IT management roles, but this study focuses on those IT functions that are most frequently outsourced.

There are many reasons to outsource. Outsourcing enables an organization to augment in-house capabilities without making long-term commitments or large capital investments. In other cases, the decision to outsource is strategic and follows a careful analysis that indicates service levels can be improved or costs reduced, or both, by relying on a service provider’s expertise. Whether tactical or strategic, our research shows that organizations most frequently engage in partial outsourcing, preferring to retain in-house at least part of the workload for any given function.

The reasons for outsourcing—just like the range of services that can be outsourced—are evolving. Organizations turn to outside service providers to preserve capital, reduce costs, improve operational flexibility, increase service levels, reduce management overhead, or more rapidly deploy new capabilities. IT executives need to continually evaluate the potential of outsourcing to help meet their tactical and strategic objectives. This study is designed to help IT organizations decide whether outsourcing a particular function can help meet those objectives.

We define IT outsourcing as contracting with a service provider to perform an IT function that is commonly performed in-house. This study does not use the term “outsourcing” as a synonym for “offshoring.” In fact, most outsourcing is delivered by domestic service providers, although they may leverage offshore resources. From the point of view of the IT organization, any function that is not performed by its IT staff is outsourced, regardless of whether the outsourcing is onshore, near-shore, or offshore.

Another important element of the definition is the term “service provider.” A service provider is an organization that manages the work as well as performs the work. As such, we do not count the hiring of contract workers as outsourcing. If a temporary employee or contractor works under the supervision of the IT organization, it is staff augmentation, not outsourcing. In brief, outsourcing is
the movement of work commonly performed in-house to a service provider that performs the work, manages the work, and takes responsibility for the outcome.

**Key Findings**

The overall percentage of the typical IT budget going to outside service providers has risen significantly this year, reversing a tick down last year. Many IT organizations are committing to outsourcing some of their internal operations and are relying less on in-house skills to meet their service goals. Outsourcing this year accounts for 12.7% of the total IT budget on average, a steep increase from the 9.4% figure from 2018.

The median percentage of the IT budget that goes to outside service providers is up this year as well, rising from 6.4% to 6.7%. In terms of the outsourcing frequency (how often departments are outsourcing), organizations are decreasing the outsourcing of only three functions—desktop support, application management, and IT security—while all other functions remain flat or are rising. After what we reported as a weak year for outsourcing frequency in most areas in late 2018 and early 2019, it seems that many organizations are jumping back into outsourcing.

The news that outsourcing has increased is somewhat paradoxical. As we mentioned last year when outsourcing decreased, outsourcing generally goes down in good economic conditions and up in poor ones. However, the economy has shown steady growth throughout our survey period. And our data shows that companies are increasing IT operational budgets at the highest rate they have in recent years. The economy is likely not a primary reason for the increase in outsourcing.

One potential reason is that companies are simply more comfortable with handing over their work to outside service providers. The cloud transformation has been well under way for the past few years. More companies are adopting software as a service and increasing their use of the public cloud. While not all of this fits under our definition of outsourcing, these cloud services are likely making companies more comfortable with putting their fate, not to mention their data, in a provider’s hands. At its heart, the outsourcing decision is a risk. Will the third party provide the necessary service levels and security? The more companies put their data in the hands of outside providers, the more they are willing to accept the risk and the more skilled they are in identifying vendors that can perform as needed.

Another issue might still be the economy. While the actual economic data has been strong, there have been fears of a looming recession for some time. Some economic indicators point toward a recession, and some forecasts have been predicting it since the fourth quarter of 2018. It is possible some companies are being proactive after the deep recession of 2008.

Both of these reasons are bolstered by the fact that the average spending on outsourcing is rising significantly faster than the median. Averages can be affected by a handful of companies in comparison to medians. This is why we report both numbers. Because the average has risen so much
more than the median, it is likely that a relatively small number of companies are driving this number. And this is true. Small companies are definitely driving this increase. Median outsourcing as a percentage of IT budget for small companies increased from 6.0% to 9.1%, and the average outsourcing went from 9.2% to 16.0%. Midsize and large companies saw smaller increases in average outsourcing. Small companies tend to be the “canary in the coal mine” for the economy. And they also have adopted the cloud at a quicker rate than their larger cousins. So if there is any increase in outsourcing because of the economy or because of comfort with putting critical workloads in the hands of providers, small companies are likely to show it first.

In general, we have predicted for several years that, over the long term, outsourcing would grow. IT organizations of all sizes are looking to reduce their infrastructure burdens and concentrate on serving the business. This will likely happen through two major ways—reducing their physical infrastructure through the use of the cloud and reducing their management burden through the use of managed services. We expect some areas of outsourcing to grow in the near future. But the outsourcing trends among the 11 functions vary, and it is important to understand the economics and strategies surrounding each function.

Here are other key findings from our IT Outsourcing Statistics study this year:

- Network operations outsourcing has increased the most in terms of frequency, which is the percentage of companies outsourcing this function. About 34% of companies now outsource at least some of their network operations, compared with 30% last year. This falls in line with our general prediction that reducing the network infrastructure burden and concentrating on serving the business is the goal for most companies.

- Application management has dropped the most in terms of the percentage of companies outsourcing this function. In 2018, 36% of companies outsourced at least some of their application management, compared with 33% in 2019. Application management is being impacted by SaaS, as some of the application management burden is shifted to SaaS vendors and away from potential outsourcing providers.

- Application development is the most frequently outsourced function in the study. Around 56% of organizations outsource some or all of this function. Application development continues to take larger parts of the IT budget, and many IT organizations are looking to get more out of their internal staff through selective use of outside development firms.

- IT security outsourcing is showing the largest growth rate of all outsourced functions in terms of the percentage of work outsourced, with a net 48% of respondents reporting that they will increase the amount of security work that they outsource. Even though the percentage of companies outsourcing IT security declined this year, those that are still outsourcing IT security are sending a greater percentage of the security work to outside service providers. With the constant coverage of high-profile security and privacy
breaches and rising variety of threats, it is no surprise that IT organizations are using security service providers to bolster their defenses.

- Help-desk support and disaster recovery are the top IT functions for reducing costs through outsourcing. The economies of scale that service providers offer make these areas good opportunities for cost savings.

- The functions with the greatest potential for improving service through outsourcing are IT security and web operations. IT security is an area where the motivation to outsource has less to do with saving money and more to do with having the job done better than it can be done in-house.

- The outsourcing of disaster recovery delivers the best value when looking at both cost and service delivery. Disaster recovery and application management are the only functions that have a high cost-success and service-success rating. For other areas, there is generally a trade-off between saving money and improving service levels.

These and other important trends are documented in more detail in the remainder of this study.
How the Study Measures Outsourcing Activity

This study measures outsourcing activity by frequency, level, trend, cost-success rate, and service-success rate. We use these metrics to rate the popularity and potential value of outsourcing for each of the functions, and we use these same metrics to profile each function. As such, it is important to understand our definition of these metrics.

We define these terms as follows:

- **Frequency**: The outsourcing frequency is the percentage of organizations that outsource each function. The frequency shows how common it is for organizations to outsource a function.

- **Level**: While frequency shows how many organizations are outsourcing a function, the level identifies how much work is being outsourced. It is the percentage of total work being outsourced by organizations that outsource the function.

- **Trend**: For each function, we report the percentage of organizations decreasing, maintaining, or increasing the amount of work being outsourced in the current year over the prior year. This represents the outsourcing trend. The net growth trend is the percentage of organizations planning to increase the amount of work outsourced minus the percentage planning to decrease it. We also derive volatility from the outsourcing trend. Volatility is the percentage of organizations planning to change the amount of work they are outsourcing either up or down. When many respondents are changing their level of outsourcing of a function, we rate the outsourcing of that function as having high volatility.

- **Cost-Success Rate**: We asked our respondents whether, in their experience, outsourcing costs less, the same as, or more than performing the function in-house. We are seeking an answer to the question: Does outsourcing save money? We call this the cost experience and define a successful cost experience as one in which outsourcing costs the same as or less than performing the function in-house.

- **Service-Success Rate**: For organizations that outsource a given function, we asked respondents whether, in their experience, service is better, the same, or worse with outsourcing compared with performing the same service in-house. We call this the service experience and define a successful experience as one in which service is the same as or better than when the function is performed in-house. The service-success rate is the percentage of organizations that have a successful service experience.

The size of an organization influences outsourcing activity. Large companies tend to outsource at a higher frequency than small organizations. However, when smaller organizations do outsource, they
tend to outsource at a higher level than larger organizations. We report outsourcing activity by organization size. To do this, we divide the sample into two groups defined as follows:

- **Large organizations** are those with IT operating budgets of $20 million or greater.

- **Small/midsize organizations** are those with IT operating budgets of less than $20 million. When assessed separately, small IT organizations have budgets of less than $5 million.

Organizations in the sample must have at least $50 million in annual revenue or $2 million in IT operational spending. The study is based on a survey of 201 IT organizations in the U.S. and Canada, stratified by organization size and sector. A further explanation of the survey methodology and sample is located in the Appendix.
IT Functions Covered in the Study

In this year’s study, we assess the outsourcing of 11 functions:

1. **Application development** outsourcing is where a service provider is responsible for developing new systems or enhancing existing systems.

2. **Application management** outsourcing is where a service provider takes over ongoing day-to-day operation and management of existing systems.

3. **Data center operations** outsourcing is where a service provider operates the data center, regardless of whether the customer owns the facilities or equipment.

4. **Database administration** outsourcing is where an outside provider monitors and tunes databases at the physical or logical level.

5. **Desktop support** outsourcing is where a service provider is responsible for installation, maintenance, or support of personal computers. Desktop support technicians can be located on-site or work from remote locations.

6. **Disaster recovery** outsourcing is where an outside provider is responsible for off-site data storage, recovery data centers, or redundant systems or networks that are used in the event of a disaster or other disruption requiring business continuity services.

7. **Help desk** outsourcing is where an outside provider is responsible for any type of phone or electronic response to end-user incidents or inquiries.

8. **IT security** outsourcing is where a service provider performs security-related functions such as security assessments, penetration testing, or managed security services.

9. **Network operations** outsourcing is where a service provider is responsible for all or part of voice and data network operations, network monitoring, or contract services to install, repair, or maintain network equipment, software, or circuits.

10. **System implementation/integration** outsourcing is where a service provider is responsible for implementing new systems, which often involves integration of those systems with other new or existing systems.

11. **Web operations** outsourcing is where a service provider hosts, operates, or maintains a corporate website or e-commerce system.
Part II: Outsourcing Profiles (Part I in the Full Report)

This section profiles the outsourcing of the 11 functions in the study. For each function, we describe outsourcing activity with eight charts. Those charts are as follows:

- **Outsourcing Profile:** We begin each profile with the outsourcing profile chart, which simply recasts the results from our comparative analysis in the previous section in a form that allows for a quick assessment of each function. The low, medium, and high ratings in the outsourcing profile chart are on a relative scale defined by the lowest and highest values in the study. The ratings provide a framework for assessing the actual data as presented in the other charts in the profile.

- **Outsourcing Frequency:** This figure provides historical trend data on the outsourcing frequency of each function. It can be used to assess the current frequency rate as well as change in recent years. The charts cover varying periods based on the availability of historical data.

- **Outsourcing Level:** In the previous section, we presented the mean average outsourcing level in order to compare and contrast the outsourcing of various functions. The average, however, can be misleading as few organizations outsource at the average level. In this section, we present the outsourcing level as the percentage of total work outsourced at the 25th percentile, median, and 75th percentile. Percentiles present a clearer picture of the range of levels.

- **Outsourcing Trend:** This figure presents the percentage of organizations that are increasing, decreasing, or maintaining the percentage of work they outsource at current levels. The trend chart shows the data behind the net growth trend and volatility ratings displayed in the profile chart.

- **Cost Experience:** Cost experience is the percentage of organizations that find cost is more, about the same, or less than performing the function in-house. The pie chart presents the data behind the cost-success ratings.
Service Experience: The service experience chart presents the data behind the service-success ratings. It shows the percentage of organizations that find service is better, the same, or worse than when performing the function in-house.

Outsourcing Frequency and Level by Organization Size: Organization size can influence the outsourcing frequency and level. This chart compares outsourcing frequency and level of smaller organizations with larger organizations.

Outsourcing Frequency by Sector: Sector has less influence on outsourcing activity than size, and differences in outsourcing frequency by sector are not always significant. We nevertheless present this information because, for some functions, the differences can be important.
Application Development

Whenever outsourcing is discussed, application development is at the center of the debate. Application programmers constitute the largest component of most IT staffs, and they command some of the highest wages in the organization. IT executives are looking for ways to reduce the cost of developing applications, and outsourcing this labor-intensive function is a well-established practice. Another motive for outsourcing this function is to augment in-house resources with skilled professionals to complete specific projects.

Outsourcing Profile

The outsourcing profile in Figure 10 shows that the percentage of organizations outsourcing this function (frequency) is high compared with the outsourcing of the other functions in the study. The average percentage of work outsourced (level) is low, however.

The profile also shows that the net growth trend is low, while volatility, as determined by the number of organizations changing the amount of work outsourced, is high. The amount of application development work being outsourced changes from year to year, as would be expected with a project-based function.

The cost and service experiences are both moderate. IT organizations often outsource application development for reasons other than reducing costs or improving service. However, both cost and service success have improved greatly over previous surveys.
Outsourcing Frequency

Figure 11 shows that application development is outsourced, entirely or in part, by 56% of IT organizations. The frequency is unchanged from last year. Given the improved service and cost success, it is possible we may see an increase in outsourcing in this function in the near future. Either way, given the variable nature of the application development project workload, outsourcing this function—at least to some extent—is likely to continue to be a strategy.

![Outsourcing Frequency: App Development](chart)

*Source: Computer Economics, 2019*

*Figure 11*
**Outsourcing Level**

Figure 12 shows that the outsourcing level is 50% at the median among organizations that outsource this function. About half of the organizations outsource more of their total application development workload than the median level, and the other half outsource less. The level ranges from 20% at the 25th percentile to 80% at the 75th percentile.

![Outsourcing Level: App Development](source)

Source: Computer Economics, 2019

*Figure 12*
**Outsourcing Trend**

Figure 13 shows that among organizations that outsource this function, 55% are increasing the percentage of work outsourced over the previous year, compared with 11% that are decreasing it, for a net growth trend of 44 points. The outsourcing of this function has a moderate net growth trend.

The volatility rating for outsourcing this function is high: 66% of IT organizations that outsource application development work are changing the amount of work they outsource.
Cost Experience

Outsourcing application development costs more for 47% of outsourcing customers, about the same for 26%, and less for 27% compared with performing the same work in-house, Figure 14 shows.

Relative to the outsourcing of the other functions in this study, the cost-success rate is moderate. About 53% of organizations experience the same or lower costs with outsourcing application development than when performing the same function in-house.
Service Experience

Among organizations that outsource application development work, the service experience is worse for 16%, the same for 59%, and better for 25% of the organizations than when they perform the same service in-house, as shown in Figure 15.

The service-success rate is moderate. The percentage of organizations experiencing the same or better service with outsourcing application development is 84%.

Source: Computer Economics, 2019  Figure 15
Outsourcing Frequency and Level by Organization Size

Organization size has little influence on the outsourcing of this function. While 57% of small/midsize organizations outsource at least a portion of their application development work, 55% of large organizations outsource this function, as shown in Figure 16.

Contrary to previous years, small and large organizations are starting to outsource at similar frequency levels. However, there is still some difference in the level of outsourcing. Large organizations outsource an average 50% of their total application development work when they outsource it, compared with an average 40% for small/midsize organizations.
Outsourcing Frequency by Sector

Sectors sometimes influence the tendency of organizations to engage in outsourcing. Figure 17 shows that the financial services sector outsources application development at a higher-than-average rate, with 73% outsourcing some application development work. Manufacturing companies are second and outsource at a 71% rate. Healthcare companies, at 33%, are the least likely to outsource application development work.

![Outsourcing Frequency by Sector: App Development](source: Computer Economics, 2019)

*Figure 17*
Appendix

Methodology and Sample

The survey for this study was conducted from January to April 2019. We identified and selected participants by making solicitations to specific organizations in the U.S. and Canada that met our criteria for organization size and industry sector. As the survey progressed, we monitored response volume by industry and organization size and adjusted our survey solicitation activities accordingly to ensure that the stratification of the survey sample was within acceptable bounds. There were 201 IT organizations that participated in the outsourcing study. Figure A-1 displays the key demographics for organizations in the sample.

<table>
<thead>
<tr>
<th>Key Demographics of Survey Sample</th>
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</thead>
<tbody>
<tr>
<td>Metric</td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>IT Spending</td>
</tr>
<tr>
<td>Outsourcing Budget</td>
</tr>
</tbody>
</table>

Source: Computer Economics, 2019

Figure A-1

Because small and midsize organizations outsource at lower frequencies than large organizations, we combined the small and midsize samples when assessing outsourcing activity by organization size. Large organizations with IT operational budgets of $20 million or greater made up 32% of the sample, while small and midsize organizations made up 68% of the sample.

By sector, manufacturing made up 22.4% of the sample; financial services, 20.4%; government/nonprofit, 16.9%; professional and technical services, 10.4%; healthcare, 9.0%; retail/wholesale distributors, 7.0%; and other sectors, 13.9%.