Respondent Summary

The Outlook for ASP and IT Outsourcing in Higher Education in the U.S. and Canada

Outsourcing is a familiar practice to higher education institutions. More recently, with the emergence of reliable and secure high-speed networking and of Web-enabled services, IT outsourcing and the use of application services providers (ASPs) have become ways in which higher education institutions can meet IT resource demands. However, little comprehensive data existed to assess and evaluate trends or model practices in this area.

Research conducted by INPUT between September 2001 and March 2002 on behalf of the EDUCAUSE Center for Applied Research (ECAR) was initiated to fill that knowledge gap for the benefit of ECAR subscribers, survey respondents, and the higher education community at large. This respondent summary provides research participants with a complimentary overview of research results.

Study Objectives, Scope, and Methodology

Fundamentally, the study was designed to evaluate the breadth of IT outsourcing in the higher education community and to seek details of higher education's experience with IT outsourcing.

The primary objectives of the study were to

- Determine the extent to which higher education institutions are outsourcing IT services.
- Estimate actual and forecast IT outsourcing spending in higher education.
- Identify the forms of IT outsourcing being used and planned by higher education.
- Identify and analyze higher education institutions' experience with various forms of IT outsourcing, including applications services.
- Develop an understanding of the reasons why IT outsourcing is or is not used in higher education and the conditions that make outsourcing attractive, or not.
- Identify the decision makers who are responsible for IT outsourcing.
- Determine criteria used for vendor selection and evaluation.
- Identify types of outsourcing contract vehicles used.
- Determine client satisfaction with existing IT outsourcing contracts.
- Identify project success factors, sources of failure.
- Provide profiles of select IT outsourcing vendors in the higher education market.
- Analyze ASP services used by educational institutions, their cost, success, and outlook.
- Compare IT outsourcing in higher education with commercial and government markets.

The study research scope covered higher education institutions in the United States and Canada. For U.S. institutions, analysis was performed for respondents as a whole and, where appropriate, by Carnegie classification subsegments as appropriate, including

- DR (research) institutions
- MA (master's) institutions
- BA (baccalaureate) institutions
- AA (community college) institutions
- Specialized and tribal institutions

The survey population was the universe of colleges and universities that are members of EDUCAUSE.

The research conducted addressed the following operational services categories:

- IT Outsourcing, including
  - Infrastructure services (platform operations)
  - Applications management (software development and maintenance)
  - Applications services (combined platform/software operations, such as ASP services)
  - Distributed services (desktop services)
  - Network services (not involving platform operations)
  - E-learning services
- Processing services (specific to single applications and utilities, including ASP services)
- Business process operations (outsourcing inclusive of more than just IT operations, but must include a significant portion of IT services)

Outsourcing was defined in the survey as a long-term (greater than one year) contracting between a customer and a vendor in which the customer contracts all, or a major portion, of an organizational operation or function to the vendor. Within this research, the critical components that define an outsourcing service were as follows:

- Delegating an identifiable area of the IT or IS operation to a vendor.
- Single-vendor responsibility for performing the delegated function as a prime contractor (it may have partners or sub-contractors).
- Intended, long-term relationship between the customer and the vendor, where
  - the contract term is for at least one year, and
  - the customer's intent is not to perform the same function with internal resources.

Methodologically, this study made use of the following:

- An extensive review of applicable secondary source literature
- A comprehensive review of INPUT studies, analyses, and data of IT outsourcing trends and practices in the commercial and government sectors
- A survey of 1,359 EDUCAUSE member institutions, yielding 286 responses for analysis
- Telephone interviews of IT practitioners in higher education, as well as commercial providers of IT outsourcing solutions for higher education
- In-depth, on-site studies of three illustrative examples of higher education IT outsourcing

Overview of Research Findings

The research highlighted a number of findings about IT outsourcing and use of ASPs in higher education, often in comparison to the commercial and government markets.

Highlights

- IT outsourcing is growing more slowly in higher education than in commercial and government markets:
  - IT outsourcing activity in higher education is estimated to have been $782 million in 2001, compared to $57 billion for the U.S. commercial sector and $6.4 billion for the U.S. federal government.
  - For the period 2001–2006, IT outsourcing in higher education is forecast to grow at a compound annual growth rate (CAGR) of 17 percent, whereas the commercial market is expected to grow at a CAGR of 19 percent and the federal market by a CAGR of 16 percent.
- Trends promoting IT outsourcing growth common in all markets include
  - continuing transition from traditional business to e-business,
  - proliferation of pervasive (mobile) computing, and
  - continuing high cost of recruiting and maintaining critical in-house IT resources.
- Trends promoting IT outsourcing growth specifically in higher education include
  - mandates to wire all classrooms for the Internet,
  - updating and streamlining IT infrastructures for the transition to enterprise resource planning (ERP) administrative systems,
  - interactive distance and distributed learning activities and ventures that will require new IT capabilities,
  - demographic trends (lifetime learning and the fitful emergence of a global e-learning market and industry), and
  - technological change (handhelds).
- On the other hand, trends stalling IT outsourcing in higher education include
  - aversion to the perceived, higher level of risk resulting from handing over responsibility for critically important IT functions to commercial vendors that may prove unreliable due to financial weakness;
  - special employee concerns, specifically a reluctance to consider IT outsourcing as a source of potential staff reductions;
  - some continuing resistance by organized labor, supported at times by faculty and students (which can result in negative publicity);
  - unclear outcomes from prior IT outsourcing initiatives;
  - complex decision-making structures; and
  - the comparative small size of the higher education market, and the lack therefore of vendors with significant industry-specific expertise.
- Of those institutions surveyed, slightly less than half of U.S. and Canadian higher education institutions reported outsourcing IT functions.
- Cost savings is *not* the most important reason to outsource IT functions; the primary reasons to outsource IT functions are
  - the lack of critical in-house IT skills,

  - access to more advanced technologies, and
  - operating inefficiencies.
- The greatest benefits associated with higher education IT outsourcing are
  - access to superior technical solutions and resources, and
  - lower risks.
- Successful IT outsourcing engagements are based on vendor
  - experience,
  - performance, and
  - reliability.
- The most frequently encountered problems associated with outsourcing are
  - vendors didn't fulfill their promises, and
  - project implementations took longer than expected.
- Compared to commercial sector and federal government, higher education institution IT outsourcing engagements appeared to be characterized by a *lower* level of
  - competitive bidding (versus sole sourcing — although a slight majority of higher education institutions still award contracts through a competitive bidding process).
  - detailed negotiations and project management/performance terms and conditions.
  - vendor experience (both in the higher education market as well as with outsourcing — although the most heavily weighed criterion in vendor selection is capability).
- IT functions most frequently outsourced by higher education are
  - IT Infrastructure,
  - application management, and
  - e-learning.
- IT functions least likely to be outsourced by higher education are
  - business process operations, and
  - distributed services.
- The majority of higher education institutions outsource on the enterprise level (as opposed to the institution or program level).
- Institutions that outsource have a more diffused decision-making structure.
- IT vendors not traditionally associated with the higher education sector will need to gain experience in order to gain market share.
- The ASP model, while likely to become increasingly attractive to higher education, will not fulfill its overall potential until the market matures, which depends on
  - consolidation of ASP vendors, resulting in greater financial viability, better business models, and more reliable fulfillment experience, and
  - making institutions feel more comfortable with the concept.
- A little more than half of all institutions reported having had experience with ASPs:
  - Half of these reported that their experience was as expected.

  - Equal tenths reported that their experience was better and worse than expected.
- Higher education institutions are most likely to use an ASP for
  - e-learning services, and
  - processing services.
- System integrators are preferred for IT infrastructure work.

The research also evidenced a number of practices, among commercial, government, and higher education outsourcers alike, that should lead to better experiences with IT outsourcing.

Lessons

- Early-stage, internal consensus building and vendor qualification, not just expertise, will go far to ensure successful IT outsourcing.
- Sufficient analysis and planning, as well as more stringent requirements definition, including identification and investigation of any need for solution customization, lead to shorter implementation time and less costly implementations.
- Although the term of the typical IT outsourcing contract has fallen from 7–10 to 3–5 years, fixed-term contracts increasingly are being treated as master agreements with specific terms and conditions to be adjusted annually and statements of work renewed so long as both client and outsourcer perceive mutual benefit and trust in the relationship.
- Clients are beginning to insist on "value for money" throughout the life of outsourcing contracts; clients are ensuring that they achieve this by developing contracts that permit benchmarking of vendor pricing and performance throughout the contract.
- Pricing mechanisms, such as time and materials pricing, that allocate the major elements of risk to the client rather than the vendor are not attractive; clients can encourage greater vendor solution creativity, but with the vendor taking a major share of the financial risk.
- Greater client flexibility in actual service usage, with considerable leeway to adjust the volume of services to be used according to prevailing business requirements and circumstances, will become increasingly attractive.

About ECAR

ECAR was established in 2001 by the Board of Directors of EDUCAUSE to foster higher education decision making in matters related to information technology by creating and disseminating timely applied research. ECAR research focuses on how information technologies are developed, selected, deployed, adapted, financed, and socialized in colleges and universities.

A copy of the full study referenced above will be available via subscription or purchase through the EDUCAUSE Center for Applied Research (www.educause.edu/ecar/)

About INPUT

INPUT is a Web-based IT market research and marketing services firm. Since its inception, the company has offered full-service market research capabilities to IT buyers and vendors through subscription and custom projects. IT users and vendors have relied on INPUT for proprietary data, targeted research, objective analysis, and insightful opinion to prepare sales and product plans, customer and market assessments, and to make strategic business moves.