The Essential Guide to Mainframe Outsourcing

IBM Mainframes continue to serve as the cornerstone of IT operations for the vast majority of Fortune 1000 companies. Nearly 2/3 of mainframe sites report MIPS growth, with the largest enterprises seeing the greatest increases. Yet legacy systems are becoming intolerably difficult and overly expensive to maintain. While dwindling financial and human resources make staying current with rapidly evolving hardware and software even more problematic.

Windsor Group finds the average cost of managing a mainframe internally is from 10% to as high as 30% of an organization's total IT expense. No wonder reducing costs on the platform continues to be a major priority for large enterprise shops.

Mainframe strategy is shifting.

Your goal is best in class internal IT management. But there's competition within your enterprise for resources. Investing in IBM Mainframe operations is often given low priority, because it "doesn't affect customers." The result is a shortage of funding tools necessary to reach expected IT goals.

To ease the pain, large global enterprises are choosing to transition some or all applications out of their mainframe environment, moving to combinations of mainframe-plus-distributed systems uniquely configured to suit their organization's specific performance and budget needs. They're looking at outsourcing to accomplish this.

For many firms it no longer makes strategic sense to put their limited capital resources into maintaining an IBM Mainframe operation. You have three choices: run everything yourself, outsource some functions, or get off the mainframe altogether. There's a place for mainframe outsourcing in all three scenarios, allowing you to switch from fixed to variable costs.

It's not hard to make a strong business case for mainframe outsourcing. It's been done for many years. It is a stable, reliable secure platform. Vendors are very experienced at migrating mature technology, and they can clearly demonstrate savings with the economies of scale they offer.

If you're a CIO, CFO, CTO or chief of IT infrastructure, working in a highly regulated industry or handling extremely high transaction volumes, it's time to take a fresh look at IBM Mainframe outsourcing. There are many new services and offerings in the marketplace. Many CIOs at large enterprise corporations know its not if but when they will execute an IBM Mainframe outsourcing transaction. This ebook explains what you can expect from the current marketplace and offers guidance regarding the most effective approach to determining your future on the IBM Mainframe platform.

WHAT'S THE PROBLEM?

You should consider mainframe outsourcing if:

- It's time to refresh, or you're coming to the end of a lease.
- You're running out of capacity but don't want to keep investing valuable capital.
- You want to migrate specific applications, but not all of them.
- You're planning to migrate everything eventually, so you're not excited to invest big money in existing systems. However, you need to maintain their value in the near term.

• Your firm is finding it increasingly difficult to recruit and retain talented IBM Mainframe systems personnel.

• Third party software contracts are up for renewal and are increasingly expensive.

• The corporate data center is facing expensive facility (mechanical, engineering and plant upgrades) to supply the necessary infrastructure and power.

• Disaster Recovery is in place but may not work in a real disaster. You need to improve your Recovery Time and Recovery Point Objectives.

IBM Mainframe proponents appreciate the security, backup, disaster recovery, scalability and reliability they get from their systems. Nonetheless, costs are rising for hardware and software, human resources are disappearing and legacy systems may have unique protocols that complicate how they interact with emerging technologies. If you turn away from mainframes, you're still stuck with fixed costs and a new platform. If you try to stabilize costs in the short term, you still face "retire-ment" challenges for both equipment and personnel.

Costs.

Naturally, your goal is to run your mainframes as well and as cost efficiently as possible, but the fact is these platforms are expensive to operate. Most IT managers feel they're held hostage by third-party software, which accounts for nearly half of mainframe budgets. On the distributed side, it's more like a third. Vendors are generally inflexible when it comes to costs as well as increasingly important factors such as scalability.

Because mainframe costs are so high, executive management considers them an easy target for budget reduction.

People.

There's a shortage of talented, skilled IT people. Recent graduates aren't trained on the languages of mainframes and other necessities of maintaining your legacy systems, and some companies report "cultural barriers" affecting workplace communication between mainframe and other IT staff.

Meanwhile, your knowledgeable systems programmers are retiring. They have your institutional

knowledge locked up inside their brains, putting your functional future at risk. This alone keeps many IT leaders up at night.

Inherent inflexibility.

Because servers are seen by many as the future of data management, there is comparatively little new development surrounding mainframes. IBM continues to improve their products, but mainframe operations suffer from the fundamental problem of fixed costs that don't serve your corporate interests well at all.

It's crucial to find the least-cost option for running your mainframes. You can cut your best deal on hardware, but very few companies maintain a big enough workload to manage cost effectively on their own compared to the results they can realize through outsourcing. To remain productive and competitive, you need solutions that offer variable pricing. Your actual pricing should be based on used MIPs not installed MIPs. It obviously makes sense to pay for your use and have the capability to burst up or down

when needed. This is difficult to achieve with an in-house IBM Mainframe operation.

MAINFRAME OUTSOURCING MAY BE YOUR SALVATION.

Outsourcing can help you take a different technology direction, convert to contracted services, redirect executive time from running data centers to growing the business and even increase customer satisfaction.

The leveraged outsourcing environment offers valuable economies of scale in services delivery, personnel, continuity protection and more through a pool of hardware, storage, tape, DR, software and support resources that enable you to achieve broad cost reductions.

Let go of your fear.

You may worry about control priorities in a shared environment – will they take care of me? Or you may worry that a competitor could somehow learn vital details about your business. Fortunately, there are plenty of relevant case studies and other examples to

allay these concerns.

IBM Mainframe outsourcing comes in more than one flavor. If you don't want to migrate out of a data center completely, you may consider outsourcing facilities management (your facilities, vendors, staff on site) although software costs can still be high. Another solution is Remote Infrastructure Management (RIM), but cost reductions may not reach your goal. You could also shut down your mainframes and physically move or replicate the workload to your provider's data center.

The point here is that you can create highly customized solutions and make incremental changes based on your firms goals, compliance, regulatory, cultural and risk tolerances.

Save money.

The economies of scale derived from outsourcing are superior to just about any individual environment, so you can build a solid business case to save money while maintaining or improving service levels. Experience has proven you can reduce costs for managing mainframe infrastructure and applications by as much as 20%, with software and personnel accounting for

about three-quarters of that. And of course you can reduce indirect HR expenses as well.

The single most effective way to get a grip onmainframe operations costs is to pay only for what you need and use, assured of the flexibility to increase or decrease resources as necessary. With fixed software fees, you could be paying for capacity you no longer use or paying a premium because you're using older versions of software or hardware. Aging hardware costs more to maintain.

Third-party providers have the newest equipment and software with easily expandable capacity, yet shared costs mean you pay less than you'll pay on your own. In addition, you don't have to manage the facility side of things. You also get a cleaner accounting model to facilitate charge-backs to internal departments. Your provider has the tools to tell you which users are using resources and other reporting details to help you fully understand your costs.

You can conserve precious capital. One of the Windsor Group's clients was about to renew their software licenses on mainframes -- to the tune of about $3.5 million but chose outsourcing to avoid that capital expense. In a world of slender budgets and increasing internal competition for capital allocations as well as operating funds, outsourcing puts the latest technology at your fingertips without major investment.

You can use your savings to fund your transformation.

Gain expertise.

You can stop fretting over the shortage of new, skilled mainframe professionals because service providers employ top-flight talent. You can benefit from their expertise and avoid having to manage so much complexity at the same time. You'll have access to the latest best practices as well as standardized, automated and automatically updated mainframe technologies. And you'll always have the newest supported software.

If you've openly declared a corporate intention to ease off mainframes, you could lose key people before you can afford to lose them. Outsourcing can ensure your vendor absorbs your top people, along with their familiarity of your environment, to smooth the transition. That can assure an enhanced career path for your IT staff, too.

Increase agility.

What's your MIPS quotient? No matter what your current and projected future usage, service providers purchase in far greater volumes, so they get lower prices – reductions they pass along to you. You get the flexibility of shared facilities, agility to run any size workload and vitally important variable costs.

Mainframe providers offer cloud-like methodology in an incredibly stable environment but with latest technologies available. If your goal is to get entirely out of the data center business, outsourcing can transport you from z/OS into the cloud or virtualized solutions. Even your enormous archives will remain easily accessible.

With ready access to innovation, you can exploit new technologies sooner, without risk. You can repurpose physical facilities for another use. And you can redirect monetary and creative thinking resources toward addressing the challenges of BYOD, mobile and end-user computing.

Refocus on your core business.

Outsourcing can position your company to expand production or markets without worrying about your IT department's ability to keep up. You can be confident about business continuity, too, because outsourcing gives you broader, more reliable disaster recovery capabilities.

ALL IT TAKES IS THE RIGHT APPROACH.

Mainframe outsourcing may not be so much a question of "whether," but "how." You have a target end state in mind, but successful transformation starts with an assessment – essentially a feasibility study. Ultimately, you want to compare your capabilities (in house expense and services) to real-time service providers.

It's a 3-step process.

Systematically constructing a comprehensive baseline will help you identify how your decisions might affect staff, budgets, risk compliance and future profitability. You can do that relatively quickly and inexpensively.

Step 1: defining your IT services baseline. ▲

You need a complete picture of your current services and costs in order to realistically compare services available via outsourcing alternatives. That requires:

- Identifying platforms, applications and services you now provide each business unit, plus the associated financial data.
- Accounting for all direct and indirect costs, from HR, hardware, software and facilities overhead to depreciation and amortization. Without knowing your total cost of ownership, your business case and everything that follows will be inaccurate.
- Projecting costs over the entire expected service contract duration and documenting assumptions about current and future requirements, so potential providers can wholly understand your needs.

Step 2: identifying opportunities. ▲

Now that you know where you stand, you can zero in on appropriate alternatives, by:

- Researching providers to understand key cost drivers associated with traditional outsourcing solutions, cloud computing or selected services.
- Examining internal business drivers – criteria or intangibles pertinent to your unique circumstances. For instance, perhaps you only want to consider potential outsourcing partners in a specific geographic area or vertical.
- Evaluating mainframe-specific service offerings to design a high-level solution and most advantageous pricing model. Your baseline, projections and documented assumptions come together to define a unique scenario prospective providers can use to create performance-based solutions individually tailored for your company.

Step 3: creating your business case. ▲

Now you have a comprehensive baseline and a short list of best-case marketplace solutions and pricing options. Compare your internal cost

of operations identified in Step 1 with the high-level solution and pricing you developed in Step 2, evaluating the benefits of change over time. You'll also want to consider:

- Costs and residual costs of out-of-scope functions.
- In-scope services that could affect retained services.
- Hardware, software, leases, depreciation, etc. that could be "stranded" if you switch to outsourcing, unless your vendor will account for them.
- One-time transition costs and up-front transformation costs. Your provider may agree to spread these over the life of your contract, to help control your cash flow.
- Governance and ongoing costs of working with your outsourcing provider.
- Monetary value of intangible outsourcing benefits you hope to gain.

Your business case becomes clear when you analyze your data in this holistic manner.

Approaching your outsourcing decision incrementally saves time and money, because you can answer your initial question -- should we, or shouldn't we? – without prematurely spending time and money on a formal RFP process. If preliminary results look promising, then you can take the next step.

Most importantly, allowing candidate providers to propose solution details based on your identified benchmarks means you'll get the most innovative solution. You'll also get to know potential providers better before you commit to a contract.

Cultural fit can make or break outsourcing.

After meeting with a prospective provider, you should come away feeling like you've made a new friend. If they seem like just another vendor, it's not a good fit. You want to look them in the eye and know you can trust them, especially when it comes to proactive problem detection and management. You want a firm that is flexible and responsive to your corporation's changing requirements over the term of agreement. They should anticipate your needs; you should feel confident they have your back.

95% of outsourcing contracts fail due to poor communication and relationships, but that's not always the provider's fault. You have to actively participate, too.

GET IT RIGHT. GET SOME HELP.

Your assessment has to be accurate in every detail. Devising the strongest, most versatile transformation solution takes highly specialized know-how. And sourcing can be grueling.

Some executives shy away from using IT consultants because they fear they'll get little value at great expense. However, that's no risk if you hire an outcomes-oriented advisor. The point of getting help is to increase your ability to reach your stated goals, not to have an outsider crunch vast volumes of numbers. Results are what count.

The right consultant can cut through the effort to connect you with the right solution and provider. Your people have a day job and may not know the marketplace like a professional consultant does.

Your data has value, but only if it's specifically useful. And you use it strategically. That's what you should

look for in an advisor. They can help you use your data to craft a transformation plan that makes sense for you, functionally and financially. And they can help you plan and execute your transition. That's essential, because transition could take three to five months and success requires "inside sales" to excite and enable employees.

You don't need an army of advisors, you need a tightly-calibrated strike team.

The most effective consultants focus on outcomes. Their work is wholly centered on your needs. They work faster and more efficiently because you need answers to move forward.

The process of assessing your current situation and finding a good match doesn't have to take a year and be excruciatingly painful. You should be able to measure the experience in weeks, not endless months. It shouldn't be an onerous expense, either. And your consultant should protect your anonymity until you're ready to formalize an outsourcing agreement.

In some ways, the help you get from a sourcing advisor to secure the right provider is the most important of all, because no solution will be successful in achieving your goals if it's not implemented properly, by people you can work with effectively.

Look for an advisor that emphasizes unit cost reduction. One who has scoured the marketplace to identify the best provider options, because a firm you've never heard of could very well be the one best able to fulfill your needs. That's the provider who can help your enterprise achieve long-term sustainability.

Dual skill sets are paramount.

Only an advisor that has both superior IT expertise on IBM Mainframe platforms and high-level business management experience can truly understand your enterprise and your challenges. They've actually been in your shoes, so you won't get theoretical advice. You'll get practical, cost-effective specially-tailored solutions for your consideration.

Choose a consultant that applies a leading-edge approach to their own

work, offering results-based services and pricing.

An advisory should be empowering. Your consultant should be mentor and coach as well as advisor. You may want to call on them again later for additional specific assistance, but you can't proceed into the future if you can't help yourself.

THE BOTTOM LINE.

If you're standing still, you're losing ground. Losing to your peers and your market. Acquiring customized, flexible solutions that enable you to keep pace with rapidly-changing technology innovation is the only way you'll be able to keep up with the changing needs of your customers. Or be able to surpass your competitors.

IBM Mainframes handle mission-critical functions, keeping your huge volumes of data moving smoothly and stored securely. "Mainframe class" is considered the gold standard. With well-structured systems and the right services provider, mainframe outsourcing can ensure you continue to meet this standard.

You can do that because nothing will ever be more strategically important for a mainframe provider than mainframe technology. Their business growth and reputation depend on guaranteeing you always have access to the latest tools, top-trending best practices and flexible pricing, even if your data volumes or your company's overall growth rate fluctuate. Even if you deliberately reduce usage over time.

The economics of mainframe outsourcing simply make sense, giving your organization the opportunity to save money, achieve the transformation you want and deftly sidestep staffing challenges without sacrificing skill or agility. The risk is low, because you're dealing with proven, mature solutions and knowledgeable providers. Yet you're able to capture the benefits of leveraging shared services, the latest governance and compliance practices and round-the-world support, if that's what you need.
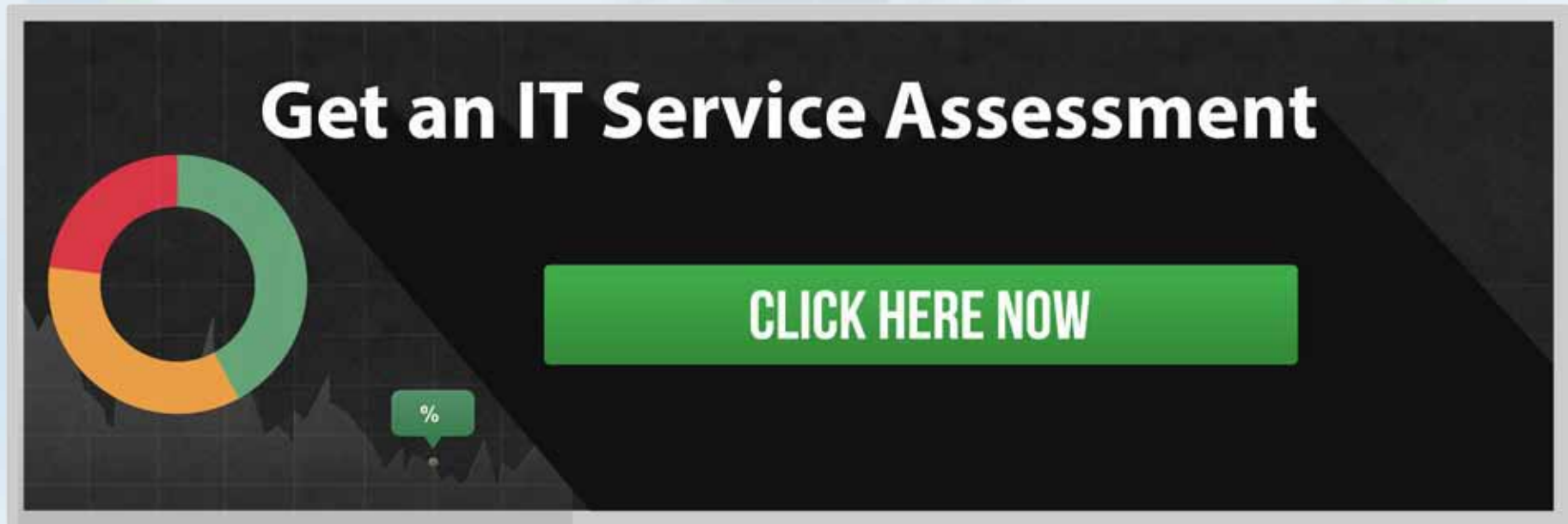
It's the new way of doing business on the mainframe front -- investing in a comprehensive set of tools at a great price. All these advantages are better than what your individual enterprise could accomplish on your own.

The bottom line? Mainframes aren't "too big" for outsourcing. Your organization isn't "too complex" for outsourcing. Only further investigation can tell you exactly where and how much you can save money and gain productivity.

About The Windsor Group

CEOS, CIOs, and CFOs rely on strategic initiatives to take their organizations to the next level. Selective IT Services Outsourcing enables businesses to maintain a competitive edge. The Windsor Group helps executives implement enterprise wide efforts to realign organizational priorities, ensuring that core competencies and strategic initiatives are synchronized from a technology perspective. Request an IT Service Assessment and we can determine if Mainframe Outsourcing is a potential vendor solution for you.

Get an IT Service Assessment

CLICK HERE NOW