

White Paper

Outsourcing vs Managed Services

Which Model is Right for Your Business?



Although both Managed Services and traditional outsourcing involve engaging external providers, these models offer distinctly different value propositions. Traditional outsourcing, often referred to as first-generation outsourcing, has been a staple in business operations for over two decades. In contrast, Managed Services, or second-generation outsourcing, is a more recent approach designed to address evolving market demands and operational realities.

Determining which model aligns best with your business objectives depends on your unique requirements and several critical factors. By exploring these five key questions, you can identify the approach that will most effectively meet your needs.

Understanding Traditional Outsourcing

Traditional outsourcing involves contracting an external party to perform a specific, defined business activity or process. This is done with a view to reducing costs and freeing up in-house teams.

The outsourced tasks are usually non-core functions. Usually, IT tasks are the most common function that companies seek to outsource. However, organizations also outsource non-IT functions such as accounting, payroll, data entry, document scanning, and customer interaction processes.

Traditional outsourcing is typically task or activity oriented. Since the outsourcing firm specializes in the specific task or activity it has been contracted to deliver, it can execute it more cost-effectively and efficiently, to help you achieve cost savings and improved operations.

Outsourcing frees up your people to concentrate on core business activities and provides you the flexibility to add capacity when required.



The Quick 1-2-3

- You define the activity you want done.
- The outsourcing firm executes the contracted activity as per agreed standards.
- You pay the outsourcing firm for the activity they perform; usually, at a lesser cost than doing the activity yourself.

Understanding Managed Services

Managed Services, a second-generation outsourcing model, is also built around the concept of hiring an external party to meet your internal business requirements. However, this model is more proactive and holistic.

The delivery under this model isn't just limited to the performance of a specific task or activity. Instead, the Managed Service Provider (MSP) is expected to proactively manage, support, execute, and continuously improve the process or function contracted to it, in alignment with your business needs.

That said, 'proactive support' is one of the key differentiators that sets Managed Services apart. An ideal MSP is constantly on the lookout for both optimization and value creation opportunities. And therefore, you get dual advantage.

You stay protected, as the MSP's focus on proactive support ensures that you get ahead of issues before they get out of hand. Also, the MSP uses its deep expertise and experience to identify and actualize performance improvement and value creation opportunities you might not even have known existed.

In terms of pricing, the MSPs typically offer consumption-based or capacity-based models. You pay on a predefined unit of measure. Alternatively, MSPs offer a stair-step pricing strategy, where costs are constant for a given level of activity but increase or decrease based on predefined thresholds and predefined pricing levels.

The Quick 1-2-3

- You define the business outcomes you want from a particular function or process.
- The Managed Service provider proactively manages, supports, executes, and continuously improves the function in alignment with the outcome you want, as per agreed standards. This helps you create value.
- You pay the MSP on a consumption-based or capacity-based model, depending on the usage of service, and avoid ownership costs.



Along with providing services more cost-effectively and efficiently, Managed Services yield several other key benefits such as productivity improvement, increased technology adoption, financial predictability, project delivery risk mitigation, reduced capital expenditure, agility, flexibility, and scalability, ultimately leading to a true transformation of the activity undertaken.

Together, these benefits help you drive innovation and create breakthrough value for your business.

5 Key Questions to Help You Make the Right Choice

The following guiding factors will help you evaluate which outsourcing model is best suited for your business purpose. Run your requirement past these five questions to make an informed choice.

Question 1

Is your objective completing a task effectively or achieving an outcome?

Traditional outsourcing is task or activity oriented whereas Managed Services is outcome oriented. That said, if the MSP feels that it needs to change the task definition to achieve the intended business outcome, the contract allows for this shift. You're not constrained by narrow, pre-defined specifications.

Although at times, it's a little confusing to decide whether your objective is task performance or outcome achievement. For instance, let's say you want to outsource customer help desk service. Will the traditional outsourcing model — under which you would specify that X amount of customer queries be met at Y levels of service — be enough to deliver enhanced customer experience? Or do you need to enter a distinct managed service contract focused on the business outcome of enhanced customer experience?

The checklist below can help you clarify your objective.

	No	Yes
<i>Is it difficult to define the specific task you want performed?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Are you operating in a shifting, unpredictable market?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Are you looking for a comprehensive, long-term solution?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Is the nature of the task, and the parameters you, still evolving?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Is the velocity of technology change in the function high?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Can this function create competitive differentiation for you?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

If majority of the answers are yes, your objective is oriented towards outcome achievement, and a Managed Services contract is the way forward.

Question 2

Do you need a proactive or reactive contract?

The proactive support provided by an MSP is a key advantage of the Managed Services model. But how do you evaluate this advantage in terms of your unique context and needs? Consider these two valuables to get started:

- The level of risk the failure of the outsourced function pose
- The rate of change, in terms of market and/or technology, associated with the function?

If your outsourcing requirements score high on these variables, the proactive support of Managed Services could yield you a vital benefit.

Let's consider the example of a legal firm that wants to outsource its cybersecurity needs. It could go for traditional outsourcing, where a service provider will address a security breach as soon as it occurs. This would be a reactive, maintenance contract.

Even when proactive, the outsourcer would primarily focus on the attack surface and the number of events. This would be a limited perspective. Instead of proactively future-proofing the environment based on the types of attacks experienced by its customers, the outsourcer would concentrate only on actionable threats.

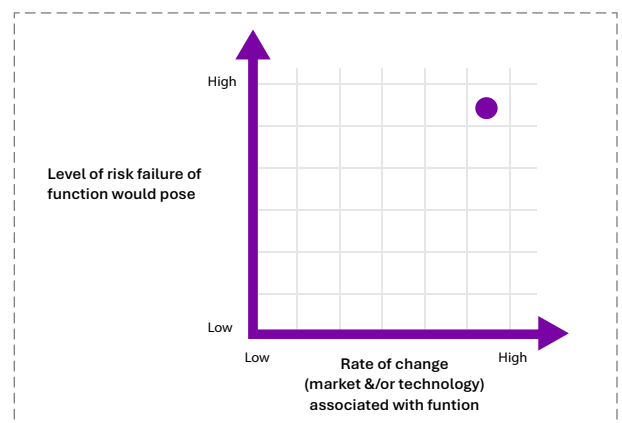
On the other hand, Managed Services would handle the cybersecurity requirement on a holistic, proactive basis. It would focus on maintenance and preventive action to ensure that no problems arise in the first place.

It would constantly monitor the evolving cyber threats in your industry, while keeping up with technological improvements that make an environment more secure and resilient from all kinds of attacks.

And in case of an actual attack, the MSP would be well-equipped to address and remediate any damage that may have been sustained.

Since both the degree of risk posed by cyber breach and the rate of change associated with the data security function are high, the bank would do well with Managed Services.

The quadrant on the right offers you a quick way to figure out whether you need proactive or reactive contracts. If your requirements fall anywhere in the top right, you need Managed Services.



Question 3

Are you looking for a trusted supplier or a true partner?

Traditional outsourcing services are often projected as partnerships. The client wants a particular service, and the outsourcing firm is considered a partner who provides it.

However, this isn't a true partnership. The client-vendor relation here is more in the nature of a trusted supplier relationship. You have contracted a specific function, and the outsourcing firm delivers it.

Under Managed Services, both you and the MSP are focused on achieving the same outcomes and the pricing is often outcome-linked — either through SLAs or more aggressively through Value Level Agreements (VLAs).

The ideal MSP also offers you a governance model that is specifically engineered to align all levels, from strategy to execution. This collaborative approach is a far more effective tool than a legal document that needs you to assemble a team of lawyers for interpretation (and potential misinterpretation). The shared goals between the MSP and the client translate into deeper, more collaborative contracts. What's even more important is that the relationship extends beyond mere contractual terms set in a legal document. With an MSP, you achieve a true partnership through the demonstration of tangible value, objective achievement, and goal alignment.

To understand whether you need a partner or a trusted supplier, evaluate two points:

a) What SLAs resonate with you?

Traditional Outsourcing SLAs

- *SLAs based on easily measurable indicators focused on individual components of vendor performance.*
- *SLAs focused on metrics such as specific availability, response and resolution time.*

Managed Service SLAs

- *More mature, holistic, business outcome-oriented SLAs.*
- *SLAs focused on indicators that link the service delivery to business drivers - such as enhanced customer experience, new functionality delivery, ability to adapt to change, and continuous improvement - and lead to reduced revenue for the MSP.*

b) Are you looking for a partner with business and functional experience who can offer you comprehensive, long-term solutions, or a process vendor who can help you meet an immediate, specific requirement?

Managed Services would make sense in the first scenario, while traditional outsourcing would be a good fit in the second.

In traditional outsourcing, the focus is on finding a vendor with strong functional experience to meet your requirements. For instance, if you're outsourcing an IT function, you'd look for a vendor with the technical skills and experience necessary to deliver that service effectively.

However, Managed Services offers more mature project governance. Along with high-quality functional talent and experience, it also provides business strategy focused resources. The MSP's focus on business strategy helps it construct, deliver, and continually improve long-term solutions that achieve your desired outcome.

Question 4

Is the benefit case you're seeking value creation or cost-savings?

The checklist below highlights the benefits that Managed Services yield. Applied in conjunction, these benefits help an organization to drive innovation and value.

If you feel that your organization is seeking a benefit case beyond point 3, Managed Services may be the right approach:

	Benefit	No	Yes
1	Cost Reduction		
2	More efficient performance		
3	Productivity Improvement		
4	Scalability		
5	Flexibility		
6	Agility		
7	Financial predictability		
8	Project delivery risk mitigation		
9	Reduced Capital Expenditure		
10	Increased technology adoption		

Question 5

Would you prefer flexible, innovative contract terms or a more fixed structure?

Managed Services contracts typically offer higher flexibility than traditional outsourcing contracts.

Do you feel that you need scalable, transparent contracts that provide for variable conditions and contingencies, to cope with the shorter business cycles and the complex, ever-shifting markets of today? If so, you may want to explore the Managed Service option.

Managed Service contracts offer:

- Innovative pricing terms such as:
 - **Usage-based pricing:** This utility style, pay-per-use services, allows organizations to scale up or down almost on demand.
 - **Risk/reward sharing arrangements:** In case savings and efficiencies are achieved, the MSP shares the benefit with the client in terms of capacity discounts or tenure discounts.
 - **Output-based pricing:** This model charges based on the results or outcomes delivered, providing you with more predictable expenses compared to the traditional hourly billing approach.
- **Flexibility around scope and term:** As the deliverable is the business outcome, the contract allows for changes in scope and term of activities and tasks to ensure the preferred outcome is delivered.
- **Variability Cushion:** The scope for evolution and change as the business changes over time are factored into the contract.

Conclusion

Choosing between traditional outsourcing and Managed Services comes down to understanding the specific needs of your business. By evaluating key factors such as your objectives, the type of support required, the nature of the relationship you seek, and the flexibility needed in contract terms, you can make a well-informed decision. Whether you need a cost-effective solution for specific tasks or a proactive, long-term partner to drive business transformation, aligning these factors will help you choose the model that best supports your strategic goals.



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