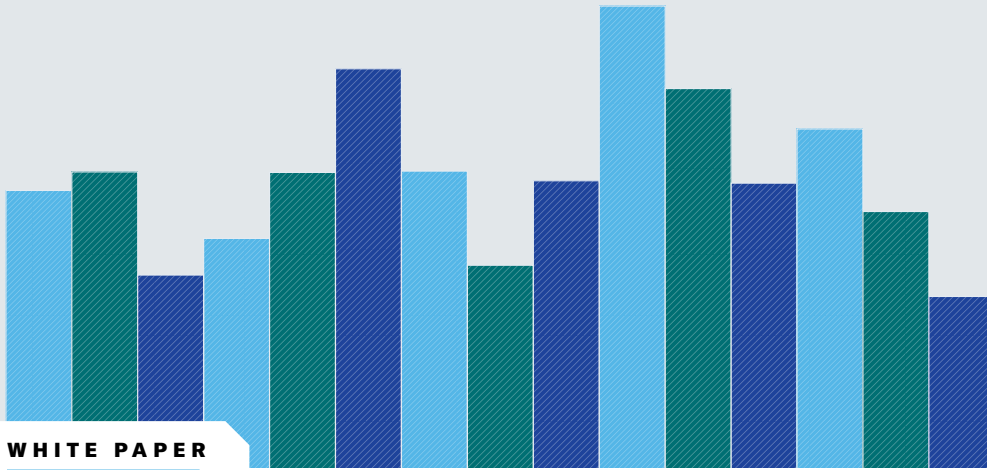




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ANALYTIC SERVICES



WHITE PAPER

Next-Generation Managed Services: Journey from Cost to Value



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Recent years have seen a fundamental shift in the way organizations operate. When the pace of change was less dynamic and operations were more static, outsourcing was often a way to save costs in non-mission-critical areas of business.

However, traditional outsourcing models—and, more recently, managed services—aren't tuned to today's reality, in which technology, talent, and risk forces are colliding. With new disruptive technologies making and breaking organizations, scarce sought-after skills, and evolving risk and regulatory pressures, it's hard to keep up, let alone respond to the pace of change that's reshaping business.

Forward thinkers are revisiting the age-old “build versus buy” discussion—do I build in-house or use a third party? In more recent years, I have witnessed a paradigm shift in the breadth and depth of capability that such organizations are entrusting to service providers—from basic back-office processes to core business areas and functions. Many of these projects would not have been considered five to 10 years ago. Key to their success has been the recognition that business outcomes, not cost efficiencies alone, are what matter.

The good news, according to this new white paper from Harvard Business Review Analytic Services, is that organizations are successfully using next-generation managed services, otherwise known as “Operate” services, to access this next level of value. Through more flexible engagement models, these services are used to embed the right combination of critical skills, industry depth, latest technology, and proactive knowledge of emerging risks at the heart of business operations. They also help organizations enhance capabilities and scale capacity (human or automated) as and when needed.


Moving beyond commentary and hypotheticals, in this white paper you'll read real examples from several leading executives who are using Operate services to solve challenges from the routine to the mission critical—across IT, cybersecurity, tax transformation, and more. You'll also hear from experienced academics who are at the forefront of research in the field.

I encourage you to use this report, sponsored by Deloitte, as a practical guide as you consider Operate services for your organization. The real-life accounts demonstrate the importance of selecting the right provider, reveal the opportunities and pitfalls, and make it clear that the benefits are not confined to a few organizations. Read on for tangible insights and how to turn them into action.



Doug Gish
Global Operate Leader
Deloitte

Next-Generation Managed Services: Journey from Cost to Value



Businesses in nearly every industry confront decisions about whether to outsource key processes and functions. Traditionally, organizations looked to outsourcing providers to help them reduce costs in non-mission-critical areas of the business. Outsourcing projects tended to be narrow in scope, often solving discrete and transactional business problems in HR, finance, manufacturing, and other domains. Popular outsourcing models included voice and nonvoice business process outsourcing services as well as application management services and help desk services.

These traditional outsourcing models are no longer adequate to accommodate today's complex combination of new technologies, labor shortages, risk mitigation, and regulatory requirements or to embed continuous innovation and agility into corporate business processes. Traditional outsourcing—as well as legacy managed services—is evolving toward next-generation managed services, also known as Operate services. This newer model allows a third party to manage core business functions and associated technologies while adapting to disruptive technologies, talent shortages, and risk pressures.

Forward-thinking organizations rely on these next-generation managed services engagements to help them fill skills gaps, discover new revenue streams, and gain competitive advantage in key areas. Bringing in outside expertise for core functions is changing the shape of business—from managed services projects that focus on simple task completion and cost reduction to outcome-oriented, innovation-driven engagements that allow organizations to operate with greater agility.

HIGHLIGHTS

Businesses are **rethinking “build versus buy” decisions** because of widespread digitization, talent shortages, and the need for increasingly specialized skill sets.

Bringing in **outside expertise for core functions is changing the shape of business**—from managed services projects that focus on simple task completion and cost reduction into outcome-oriented, innovation-driven engagements that allow organizations to operate with greater agility.

Next-generation managed services, also known as Operate services, allow **multiple companies to share the cost of hiring specialized experts in high-risk, hard-to-staff areas** such as cybersecurity, tax, and digital transformation.



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This report examines both the opportunities and the challenges that organizations face as they forge dynamic relationships with service providers, from routine technology challenges to complex projects related to taxation, cybersecurity, and many digital business domains. It also explores how organizations can work with next-generation managed service providers (MSPs) to acquire the right mix of critical skills, industry depth, and technology capabilities.

“We look to our MSPs to help us obtain these insights,” says Sanjay Shringarpure, chief information officer and executive vice president at Republic National Distributing Company (RNDC), a wholesale distributor of premium wine and spirits.

Adds Nader Mherabi, executive vice president, vice dean, and chief digital and information officer at NYU Langone Health: “Whether that’s continuously helping us operate a service or simply helping us kick-start a project, a good service provider helps us gain better business capabilities.”

Expecting More from Managed Service Providers

Businesses are rethinking “build versus buy” decisions because of widespread digitization, talent shortages, and the need for increasingly specialized skill sets. As a result, the business world is witnessing a transition from traditional managed services engagements—which are relatively static—to more dynamic, outcome-oriented managed services engagements.

According to RNDC’s Shringarpure, many companies are initially drawn to an MSP because they want to standardize routine operations or automate repetitive processes. They

also want to free up capacity to work on strategic projects and initiatives. However, these organizations often don’t get beyond that first step because they view outsourcing as merely a way to boost efficiencies and reduce costs—an evolutionary rather than a revolutionary transformation.

In addition to expanding its workforce, RNDC looks to its managed service providers for innovation—especially the “flash of genius” that can launch a new business model or revolutionize a key business process. “Step one is to focus on automation,” Shringarpure suggests. “Step two is to identify people with unique talents who can drive projects and lead the organization. Step three involves enabling those people to work with your internal group to pursue strategic value initiatives. That is the model that has been working for us.”

Having an adjunct workforce is especially helpful when RNDC pursues new technology initiatives such as its “connected data fabric”—an advanced software layer that will make it easier for the beverage distributor to share forecasts with trading partners, make planning adjustments, onboard new suppliers, and phase in new products. “It’s not just bottles that we are moving, but information,” Shringarpure emphasizes. “The physical execution is reliant upon the data execution. We may need 15 people on a particular project for a quarter or two, and then we can move them on to another project. We leverage our partners to be more dynamic in our staffing as well as to match the labor pool to the growth curve of the company.”

Insights derived from its new data fabric will allow RNDC to react to demand fluctuations during unexpected situations such as a pandemic or a hurricane, and to respond to market movements brought on by “mega events” like the Super Bowl.

“Covid taught us the importance of building resiliency into our shared processes,” Shringarpure adds. “Prior to that, our industry built systems based on the assumption of endless production capacity. Today we are trying to figure out how to increase resiliency in a just-in-time supply chain.”

Innovating from the Outside In

Digital technology is being rapidly infused into every aspect of our personal and professional lives, leading to a complex blending of the physical and digital worlds. Vast amounts of data and real-time analytics are yielding more sophisticated products and services. These widespread digital developments come with a host of legal, cyber, and tax implications, fundamentally changing what businesses need from their MSPs.

In response, companies such as RNDC are engaging third parties to operate technology applications and infrastructure at a higher level than ever before. “It’s not just about running a call center or outsourcing an accounts payable function, but about operating strategic functions,” says Rudy Hirschheim, PhD, a distinguished professor of information systems at Louisiana State University. “What’s new is the depth and breadth of these operations.”

While enduring trends such as offshoring and multisourcing have been around since the 1980s, the emphasis has shifted in recent years from outsourcing legacy and/or traditional services to outsourcing motivated by legal concerns, regulatory challenges, talent shortages, and, in particular, the pressing need for digital transformation. “Digital transformation changes the way organizations use technology, people, and processes to fundamentally change business performance,” says Hirschheim, who described these changes in his seminal work on the history of outsourcing.¹

For example, NYU Langone Health relies on MSPs to improve care delivery and efficiency throughout the organization’s extensive health care provider footprint, which includes NYU Grossman School of Medicine, NYU Long Island School of Medicine, and more than 300 other locations throughout the New York metropolitan area, including six inpatient facilities. At the heart of NYU Langone’s digital transformation is a pressing need to establish a “single source of truth” that allows doctors and nurses to make better decisions—no matter which part of the organization they work for.

“Can diverse teams of physicians share patient records easily and smoothly?” asks Mherabi of NYU Langone Health. “Will our analytics flag critical issues? Just like a GPS mapping app, which provides turn-by-turn navigational insights, our staff needs current data to help them make informed decisions at the point of care. Having a single source of truth allows everyone to see the same charts and act on the same information.”



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A key part of this process has been the development of a data warehouse that combines clinical and financial data across inpatient facilities, outpatient centers, and NYU Grossman School of Medicine. Mherabi envisions advanced analytics that will trigger real-time recommendations, such as prescribing the most cost-effective medications based on each patient’s condition, allergies, and insurance plans. “Our MSPs can add a greater depth of understanding as we develop our future framework for analytics, AI [artificial intelligence], and cloud,” Mherabi says. “This includes paying attention to the quality of data, how data travels, and where the master data resides.”

In some cases, a managed services contract is motivated by “enterprise life events,” such as when NYU Langone acquires a new hospital or physician practice. The health system may look to a managed service provider to advise, implement, and operate key information systems, as it did with its recent implementation of Salesforce Marketing Cloud and Salesforce Service Cloud. Mherabi calls the endeavor Digital Transformation 2.0 because it encapsulates not only implementing these new cloud applications but also operating those systems and improving them over time. He maintains that the skills required to effectively operate this type of cloud-based technology are so vast that most companies aren’t likely to have all the resources they need in-house.

“It’s not just about installing software patches and managing computer infrastructure, because much of that is now automated,” Mherabi sums up. “Next-generation managed services are more about how you create value and



“We need people who can knowledgeably meet our compliance responsibilities and our financial reporting responsibilities so we can make sure we are distributing consistent information to shareholders, regulators, investors, and other constituents,” says Thomas Hogan, senior vice president of global tax at Pfizer.

how you work with partners to operate cloud-based services. A managed service provider can supply the right talent to help us bring new capabilities to market, such as specialized resources to build real-time AI models.”

Will Venters, PhD, an associate professor of information systems at the London School of Economics, validates this approach. “It makes sense that the company that helps you implement and integrate a cloud system can also help run it and offer advice on the best way to maximize its use,” he notes.

To manage risk throughout these long-term relationships, Hirschheim encourages companies to forge managed services contracts that define milestones, increments, and checkpoints. Venters agrees with this suggestion. In his workshops on digital innovation, he teaches his graduate students to embrace the idea of dynamic learning processes. Similarly, he advises companies that work with an MSP to utilize proven software development concepts such as adaptive planning and continual improvement to quickly determine whether a new idea is “core” to the opportunity at hand. “Build in agile processes so you can work with a managed service provider to come up with new ideas over short periods of time, and then decide whether they are beneficial to both sides,” he suggests. “Agile processes allow you to stay on top of the flow of change and create dynamic cycles of learning.”

Mitigating Risk with Advanced Technology

The complexity of today’s data-driven business models, coupled with the global nature of business and the demand for increased transparency, has turned routine regulatory challenges into headline-making news stories. Whether it be an inadvertent violation of data privacy laws or the public perception that a company isn’t paying its fair share of taxes, small mistakes can cause permanent brand damage and be extremely costly to resolve.

This mounting list of risks, in the U.S. and elsewhere, has motivated many companies to turn to Operate service providers for help. Pfizer Inc., for example, does business in more than 150 countries and files taxes and financial reports in all of them. Reporting requirements vary widely from

country to country and region to region and are subject to frequent change, which is challenging. Pfizer outsources many of its global tax compliance functions to a managed service provider, although ultimate compliance responsibility remains with Pfizer.

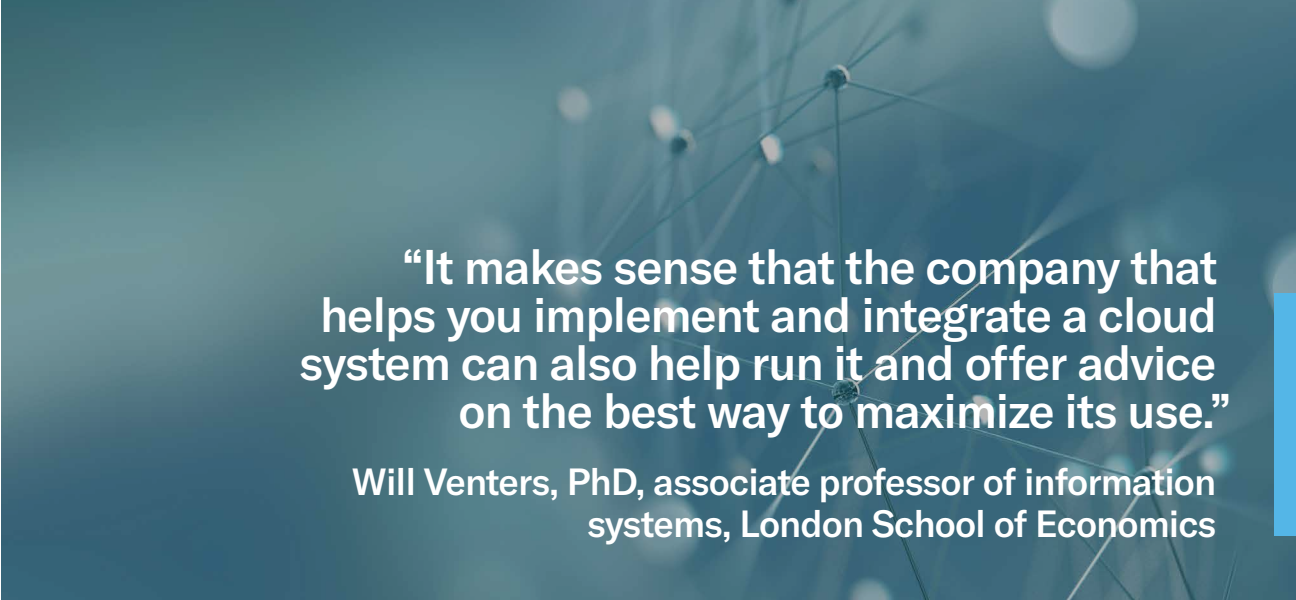
“I need to be aware of what’s happening in each jurisdiction, including certifying financial statements,” explains Thomas Hogan, senior vice president of global tax at Pfizer. “We need local subject matter experts who can keep us informed of current and proposed legislative and regulatory matters in real time and ensure we are meeting all of our requirements.”

Hogan’s group handles direct taxes (income taxes) as well as indirect taxes such as value-added tax, sales and use tax, property tax, and customs and duties tax. Information for managing these global tax endeavors arises from multiple sources, and that forced the in-house tax team to spend an inordinate amount of time gathering and managing data.

“We need to manage the accumulation of data, and we need to make sure that the data that we’re using for indirect tax compliance is similar to what we’re using for income tax compliance, which is similar to what we use for financial services, and so forth,” Hogan says. “We need people who can knowledgeably meet our compliance responsibilities and our financial reporting responsibilities so we can make sure we are distributing consistent information to shareholders, regulators, investors, and other constituents.”

Historically, Pfizer employed a finance director in each country. Each director had a local team that managed financial reporting, statutory filings, financial audits, and tax compliance activities. However, it became increasingly difficult to find senior-level candidates with deep knowledge of pertinent laws, regulations, and court cases. Pfizer decided to work with a managed service provider that could supply these country representatives at the local level. Today these local experts extract the necessary data, prepare tax returns for Pfizer review and filing, and support Pfizer with the local tax examinations. “These subject-matter experts in each market have become an extension of our team,” Hogan adds.

However, a point to note is that the laws of many countries do not allow taxpayers to outsource their legal responsibility to third parties, and the regulatory environment for related



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services requires their providers to remain independent of their clients and not take on the responsibilities of management.

NYU Langone looks to its MSPs for help deciphering complex U.S. health care regulations, such as those related to the proper use of electronic health records, and reporting mortality statistics using the MSP’s predictive analytics and AI capabilities.

“Because we have such a large hospital ambulatory practice, we engaged outside experts to help us,” Mherabi says. “Some consulting firms have a practice devoted to deciphering these regulations to make sure that you comply.”

Transforming Cybersecurity Readiness

Today’s managed service providers strive to help customers minimize risk, especially for complex domains such as cybersecurity. In many cases, the MSP can do a better job fending off cybersecurity threats than customers can on their own. This situation is because the purveyors of these advanced cybersecurity services are privy to a wide array of threats. They constantly monitor new and emerging risks and continually assess the best set of technologies to mitigate exposure.

Loblaw Cos., a Canadian grocery and pharmacy chain, offloads its level one security operations center (SOC) monitoring services to an Operate service provider with a global cybersecurity practice. “Implementing a cybersecurity program is very complex,” explains Vivek Khindria, senior vice president of cybersecurity, network, and technology risk at Loblaw. “You will never have all the skills, all the funding, all of the technology you need to do the entire job at any one

point in time. By looking across a broad set of security alerts from multiple companies, the MSP helps us prioritize by leveraging their experience and visibility on what is going on at the moment, which helps us understand how to save time and effort. It doesn’t make sense for any one company to do security monitoring exclusively internally. A managed service security provider can monitor security events from multiple customers, analyze and correlate multiple cybersecurity threat intelligence feeds, and provide a rich supply of actionable trends. It all becomes a shared resource.”

With business services that span retail, pharmacy, beauty, health care, banking, telecom, travel, and insurance, Loblaw is one of the largest companies in Canada and the nation’s largest food distributor. It depends on MSPs for many other important tasks in addition to SOC monitoring. “You have to move fast in the retail business,” Khindria says. “We don’t always have time to fully research each problem, train people on every scenario, and get everything ramped up quickly. We have hired managed service providers to help us engineer new technology solutions when required.”

For example, Loblaw looks to its level one SOC MSP to constantly collect event data from software applications, hardware assets, cloud environments, and network devices, as well as to consolidate and analyze the data to monitor potential attacks. The MSP uses sophisticated software to automatically correlate event data from machine logs and other network sources into logical functions that indicate potential attack attempts, suspicious activity, probable attack patterns, and other types of cybersecurity incidents—a managed service arrangement that Khindria calls security as a service. “Our best



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partners will have a maniacal approach to automation, which really helps us with scaling and efficiency,” he notes. “They are constantly collecting event data and cross-referencing it against other threat intelligence to generate and prioritize actionable information. Key metrics such as cost per device monitored help show value trending over time.”

This type of cybersecurity service reveals how the managed services industry has evolved while also illustrating some of the new types of contracts that are necessary to define today’s MSP engagements. Venters at the London School of Economics says traditional outsourcing was based on deep contractual commitments to provide standardized services. But the outsourcing industry is witnessing a transition from relatively static managed services engagements to the more dynamic agreements required to adopt digital business models. This shift is especially true of cloud-based services, which can be easily changed and rapidly deployed, as evidenced by the growing popularity of cloud-based threat intelligence services for cybersecurity practices.

Combining Innovation and Talent

Today’s businesses are looking for service providers that can operate the strategic, high-risk aspects of their businesses. Operate services allow multiple companies to share the cost of hiring specialized experts in high-risk, hard-to-staff areas such as cybersecurity, tax, and digital transformation. These versatile, open-ended engagements allow businesses to utilize on-demand, fractional resources as well as to benefit from the collective wisdom gleaned from multiple companies.

Working with an Operate service provider not only extends an organization’s overall base of expertise but also gives internal resources more latitude to pursue projects that interest them. “We’ve had tremendous success in retaining and attracting new talent because of the types of responsibilities we have retained in-house versus the ones that we’ve outsourced,” Pfizer’s Hogan says.

Talent shortages were particularly acute during the Covid-19 pandemic, which precipitated widespread change


in many industries and markets. “Previous conversations about business transformation were focused on opportunity,” Venters observes, “whereas now these discussions are focused on risk, as well.” Venters believes this shift is based, in part, on the sudden transitions that have occurred in the marketplace and the dearth of skills that resulted. “Many industries have tight labor pools and a competitive market for finding and retaining good talent, which has motivated organizations to contract with managed service providers to supplement their in-house staff,” he explains.

Lack of cloud skills, in particular, is hampering businesses that are intent on retooling their information systems. Not only is it difficult to find good talent, but the types of skills that companies need are much more specialized and don’t always warrant hiring a full-time employee. “It has been a long time since companies could very easily find tech talent,” Venters says. “The use of outsourcing services is in response to this skills crisis.”

Defining Optimal Use Cases

While outsourcing can be a helpful way to extend in-house resources, some organizations choose to maintain core strategic functions in-house. Other companies leverage the expertise, focus, and speed of a strategic partner to accomplish business-critical activities, particularly when modernizing IT systems and adopting cloud infrastructure. Of course, each company must decide what it is willing to share with a service provider and what to maintain in-house.

“You can’t outsource your basic architecture, your IT vision, or your strategy,” NYU Langone’s Mherabi insists. “Those assets are core to your organization, and you must always maintain a very tight control and continuously examine that. We might brainstorm with [a trusted partner] on general topics to gain insight into our future framework for analytics, AI, or cloud. Or we may seek technology expertise to understand a new cloud platform, such as Amazon Web Services or Microsoft Azure. These are the areas we seek architecture input on. But ultimately, the final decisions are ours.”



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“There is no reason why you can’t outsource strategic functions to third-party providers, but you have to have tight legal contracts, skilled internal talent to monitor these engagements, and provisions to ensure that data doesn’t fall into the wrong hands.”

Rudy Hirschheim, PhD, distinguished professor of information systems, Louisiana State University

According to Hirschheim, in the past, many business leaders hesitated to outsource strategic functions simply because of concerns about data privacy and the potential legal issues that could arise if that data is mishandled or misused. Today these outsourcing contracts are much more common. “There is no reason why you can’t outsource strategic functions to third-party providers, but you have to have tight legal contracts, skilled internal talent to monitor these engagements, and provisions to ensure that data doesn’t fall into the wrong hands,” he suggests.

Having a shared understanding of the desired outcomes helps align incentives between the client and the MSP. To achieve this alignment and keep consulting projects on track, proper oversight, tight contracts, and constant communication are essential. To that end, Hirschheim advises business leaders to maintain a skeletal team of people inside the company who understand the domain at hand, buttressed by experts from the managed service provider who can provide additional capabilities. “Particularly for complex areas such as taxation, you need internal personnel who understand what the outsourcing provider is doing for you,” he emphasizes.

One reason to engage with an MSP that offers Operate services is that it allows multiple companies to share the cost of hiring specialized experts. For example, if Pfizer invests in specialized technologies and skill sets in-house—as it did with its finance directors in 150 countries—it has to bear all of those costs. If it outsources these resources to a third party that has multiple clients with similar needs, all the companies can effectively share these fractional resources. “It’s more efficient, and often faster, to rely on the in-house

risk management and risk mitigation processes that these big firms have,” Hogan notes.

However, Hogan cautions executives to maintain close oversight, including in-house staff resources who can knowledgeably manage MSP relationships. “On a global basis, Pfizer is a big client, but we may be a very small client for a particular country,” he says. “How do I make sure that I’m getting the right resources in each jurisdiction? The key is to obtain local country expertise, gain access to cutting-edge technology, and allow the in-house resources to focus on high-value challenges and opportunities.”

Hirschheim concurs. “Some business leaders assume that once they move into a managed services arena, that kind of solves their problem. However, to mitigate risk, you need to maintain a certain amount of expertise internally. Otherwise, you’re at the whims of the vendor to tell you what you should or should not do.”

At a large company such as Pfizer, sometimes that expertise can come from within. For example, Hogan’s group has partnered with Pfizer’s in-house digital team to implement a new tax technology platform and integrate it with the company’s existing software systems. This three-year effort includes working with an MSP to develop a “tax hub” that will serve as a single source of truth for all tax data, including data from an SAP enterprise resource planning (ERP) system, an SAP HANA analytical database, and an Oracle Hyperion Financial Management application. Pfizer conducted the architectural design in-house with external support and outsourced the development and implementation to a managed service provider. Once the system goes live, Pfizer will also consider

having the service provider operate the system and processes. Pfizer's digital team remains on the steering committee along with an in-house audit team to ensure the MSP builds in the appropriate controls and integrations. "Good communication with our third-party providers is critical," Hogan says.



"Previously, the MSPs were only managing customer assets. Today that requires incorporating the public cloud providers. These providers now have an alternative means of providing infrastructure and software via their own data centers, but the MSPs have to pull it all together," says David Tapper, program vice president of outsourcing and managed cloud services at IDC.

Eyeing Continuous Improvement

Outsourcing engagements often morph into different contractual forms based on each organization's particular journey and most pressing needs. This tendency has given rise to many types of MSPs, from small firms that assist with particular applications and business functions to larger firms that also help with long-term vision, planning, and strategy. Now that many businesses require continuous evolution to remain competitive, it's no longer about retaining a partner to help with finite projects, but rather about having a partner to continuously operate and improve certain aspects of the business.

According to David Tapper, program vice president of outsourcing and managed cloud services at International Data Corp. (IDC), a global provider of market intelligence and advisory services based in Framingham, Mass., another shift in the MSP industry involves the inclusion of public cloud providers such as Amazon, Google, and Microsoft. "Previously, the MSPs were only managing customer assets," he explains. "Today that requires incorporating the public cloud providers. These providers now have an alternative means of providing infrastructure and software via their own data centers, but the MSPs have to pull it all together."

These hybrid cloud and on-premises environments can include a broad diversity of hardware and software assets—some on-site in the customer's data center, some in colocated data centers, and some in public and private clouds. "We are moving toward a world in which the large MSPs have a competitive edge because they know how to manage it all," Tapper continues. "Today's information systems are granular. MSPs are not only charged with implementing and operating monolithic apps, such as ERP systems, but also with orchestrating lots of interconnected microservices. It's still about fulfilling service levels and meeting response times, although this increasingly includes helping firms achieve critical business objectives. It has to be done quickly, and it's much more difficult to manage. To put it simply, in today's world, nothing can shut down ever. Speed, volume, and diversity have all increased."

Given these macro trends, Khindria believes boutique service providers can still make sense for some specific projects, such as migrating technology components or monitoring during a transition or acquisition. However, for strategic projects, smaller firms may lack the capacity to operate these services at scale. He agrees with Tapper

that a large MSP with a global reach and broad perspective is preferable, particularly for a domain like cybersecurity, where multiple sectors and national scales are involved. "A smaller MSP may have really good skill sets focused on specific technology areas, as well as a more economical approach for a basic set of requirements," he says. "A larger service provider is able to draw from different talent pools across the globe to get the job done, keep it on track, get it staffed. Having a provider that has looked across many business sectors and threat scenarios is important to help anticipate future threats. You can learn a lot from what's going on around the world, and we expect our MSP to share learnings from across its customer base and proactively work and communicate to protect everyone."

Achieving Long-Term Resiliency

Engaging with a next-generation MSP often makes sense for one-off projects, such as when a company is shifting operations among hardware platforms, moving to the cloud, or implementing new software applications. It can also be a good strategy for adding a flexible pool of workers that can be adjusted up and down as business needs dictate. "You probably don't need to hire all the required engineers on staff for securing these migration projects, because you will build security testing requirements into your release pipelines and frameworks to cover future releases," Khindria says. "An MSP can bring in specialized skills to help you augment your team to design and implement new platforms so they are resilient and secured based on learnings from



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Clearly, a managed service provider can supply targeted and highly specialized skill sets to help achieve desired business outcomes, but Venters warns against unwittingly creating an “ambidextrous IT organization” where the skills required to maintain legacy systems differ markedly from the skills for implementing and maintaining new cloud-based systems. “A managed service provider may drive innovation at the edge as you explore new business opportunities and drive change, but make sure this doesn’t pull your team in opposite directions,” he cautions. “The total cost of ownership can be very high if you require skills that aren’t core to the business. Build on your systems of record, and make sure that your new systems are stable, governable, and well-managed.”

Similar precautions apply when adopting technology from software-as-a-service (SaaS) providers. Venters acknowledges that these cloud-based systems allow you to deploy new technology quickly but may also “hitch your future” to a unique development pathway. “Try out new capabilities in a sandbox to see how they work within your business, but pay attention to the SaaS fees since there can be big cost implications. The implementation might be easy, but you’ll be paying more for the operational usage,” he warns.

When a company chooses to work with a SaaS provider or managed service provider to hasten a move to the cloud, it may find itself in an expensive transitional period while software engineers integrate new and old information systems. This period is when it is essential to have a carefully wrought IT strategy and the architectural foresight to see the implications of each decision, as NYU Langone has achieved with its “future framework.”

“What is left behind when you move to the cloud that you can’t turn off?” Venters asks. “You may find you are still maintaining the same data center, even though it’s running only half the applications it used to. A careful audit might persuade you that what seemed to be a very expensive managed service contract isn’t as expensive as you thought.”

When evaluating the credentials of a potential service provider, Khindria makes a distinction between “order takers”

and “innovators.” “We don’t just want MSPs that will do what we tell them,” he states. “They need to have the courage to tell us there may be a better way to do it. Some MSPs don’t want to have those conversations because they are afraid they might lose the business. We look for outcome-driven MSPs that can bring value and insights. It’s not just about getting the technology running. It’s also about achieving positive outcomes and helping to drive down costs to keep the business resilient.”


Conclusion

Multiple forces are converging to drive a shift toward next-generation managed services, including the urgency of digital transformation, the difficulty of bridging talent gaps, and the importance of complying with increasingly rigorous regulations in areas such as tax, legal, and cybersecurity. These dynamics will only increase with the continual rise of AI and the need for autonomous information systems.

A next-generation managed service provider can help business leaders solve today’s problems as well as address the problems they will likely be wrestling with in the future. These trusted partners increase value by helping business leaders implement cutting-edge technologies and run their companies more effectively.

“The pressure on a managed service provider today is enormous,” IDC’s Tapper sums up. “The technical complexity is tremendous, and the risks associated with maintaining service levels are greater than ever. As a result, the barrier to entry is much higher. It’s more difficult to architect today’s information systems, and it can be very complex to orchestrate new and old functionality.”

While no service provider can excel in every functional area or technology domain, the right firm can help organizations drive projects forward and see the big picture. “As internal teams evolve, sometimes they need an outside catalyst or spark of enlightenment to move forward into new areas,” Shringarpure says. “You can become myopic when you constantly have the same team looking at the data. Getting a fresh perspective helps you find nuggets of insight that you might not otherwise find.”



Multiple forces are converging to drive a shift toward next-generation managed services, including the urgency of digital transformation, the difficulty of bridging talent gaps, and the importance of complying with increasingly rigorous regulations in areas such as tax, legal, and cybersecurity.



“Cost is no longer the main driver. It’s more about achieving greater agility, opening new revenue streams, improving employee productivity, and increasing customer satisfaction,” says Tapper of IDC.

However, the client must maintain in-house knowledge and oversight as well as exercise control over long-term vision and strategy. For its part, the Operate service provider must have a proven track record with the client’s industry and specialty domain as well as the critical mass to support that client in the many areas in which it does business. “A niche provider may have strong expertise in a certain area, but big companies understand the structure of large organizations and the complications of change management,” Venters notes.

In the end, finding the right partner can be a game changer. “Cost is no longer the main driver,” Tapper adds. “It’s more about achieving greater agility, opening new revenue streams, improving employee productivity, and increasing customer satisfaction.”

Endnotes

- 1 Hirschheim, Rudy. “The Early History of IT Outsourcing: A Personal Reflection,” in *Digitalization Across Organizational Levels*, Dibbern, J., Förderer, J., Kude, T., Rothlauf, F., and Spohrer, K. (eds.), Springer, Berlin, October 2022, pp. 21–39.



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