

IT Outsourcing  
Pitfalls to Avoid in the

**Road to Successful**

**Digital Transformation**



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# INTRODUCTION

Organisations embrace digital transformation (DX) due to its ability to continuously unlock new value for employees, customers, and stakeholders. Enterprises that are successful at implementing digital transformation strategies will achieve five crucial benefits:

- Increased efficiency and productivity for employees
- Increase customer satisfaction levels
- Enhanced operational agility to navigate through dynamic business environments
- Develop sustainable competitive advantages for today and the future
- Diversify revenue streams to increase profit and achieve business growth

The strategic goldmine of digital transformation represents why 89% of organisations worldwide[1] and 60%[2] in Singapore have adopted a digital-first strategy business strategy, albeit with varying success.

DX statistics from 2021 showed a 30% success rate[3] for in-house implementation, prompting recommendations for outsourcing specific DX processes where organisations have limited implementation capabilities.

The abysmal success rate of DX implementations is why leaders and stakeholders must understand that progress will be achieved by organisations that:

- View DX as not a one-and-done project but a journey and
- Avoid IT outsourcing pitfalls through the DX journey.

This compendium will explore prevalent IT outsourcing pitfalls and provide applicable recommendations for avoiding them on the journey to a successful DX implementation.



## PART 1

# THE ROLE OF IT OUTSOURCING IN ACHIEVING DIGITAL TRANSFORMATION SUCCESS

- 1 The Impact of IT Outsourcing
- 2 Outsourcing or In-house Implementation: Which is Right for You?
- 3 3.Why Organisations Choose to Outsource

# WHAT IS IT OUTSOURCING IN RELATION TO DIGITAL TRANSFORMATION

Singapore's IT outsourcing market is expected to reach \$4.66 billion at the end of 2024[5] due to increased demand by small, medium, and large businesses for managed IT services. This statistic considers every aspect of outsourced IT services, from help desk outsourcing to managed cybersecurity services, and does not differentiate concerning DX.

This extensive array of services raises the question of whether every outsourced IT service can be categorised as outsourcing DX implementations. The answer is no. **According to widely accepted definitions of DX**, an implementation occurs when digital technologies have been deployed or embedded into your organisation's business processes.

Digital transformation is the rewiring of an organization, with the goal of creating value by continuously deploying tech at **scale A**

According to Deloitte, digital transformation is **the use of digital technologies to improve an organization's performance or reach**. It's more than just Figure 1.

This means outsourcing your customer support department to a third party should not be categorised as outsourcing a DX initiative, unlike outsourcing the deployment of virtual management software or helpdesk management tools to enable employees to deliver customer support remotely.

Outsourcing customer support or help desk involves moving customer support responsibilities from the purview of internal departments to third parties. Conversely, outsourcing the deployment of digital helpdesk tools that assist employees in optimising customer support is an example of IT outsourcing that enables DX. An inadequate understanding of this key difference is why many organisations outsource DX implementation to vendors incapable of deploying specific technologies to ease the transformation process for in-house applications.

# IT OUTSOURCING OR IN-HOUSE DIGITAL TRANSFORMATION IMPLEMENTATION: WHICH IS RIGHT FOR ME?

Organisations choose to develop in-house DX capabilities or outsource implementation for different reasons. These reasons include:

- **1. Technical Expertise and Skill Set:** DX requires holistic changes in technology and processes to be successful. Implementing these changes requires extensive expertise in using new digital technologies to transform conventional processes.
- **2. Resources Availability:** Developing in-house DX capabilities requires extensive resources to maintain a workforce and the tools needed for implementation. Outsourcing IT services also comes at a cost, but it generally costs less than building in-house capacity.
- **3. Cybersecurity Considerations:** Many stakeholders still believe that keeping digital resources, implementation, and management in-house optimises the security of IT systems. However, Managed IT service providers offer enhanced security as part of their core competencies.

Analysing the Options	In-House DX Implementation	Outsourcing IT Services for DX Implementation
<b>Technical Expertise and Skill Set Analysis</b>	I. Small and medium-sized businesses (SMBs) may need employees with the required expertise. II. Large corporations need help to retain skilled employees.	I. Understanding DX is the core business of Managed IT service providers. II. Managed IT Service providers have tons of real-world experience.

<b>Cost Analysis</b>	<ul style="list-style-type: none"><li>I. Hiring a digital transformation expert to continuously implement DX costs between S\$120,000 annually, and set-up costs may exceed S\$1,000,000. [6]</li><li>II. In addition to tooling costs, hiring a cybersecurity expert to secure DX infrastructure costs approximately S\$120,000 to S\$180,000 per annum.</li></ul>	<ul style="list-style-type: none"><li>I Outsourcing IT services relating to DX costs approximately S\$8,500 per month or S\$102,000 per annum[7].</li><li>II. Utilising managed security service providers (MSSP) costs \$52,700 annually.</li></ul>
<b>Cybersecurity Analysis</b>	<ul style="list-style-type: none"><li>I. Securing IT systems is dependent on the capabilities of in-house teams.</li><li>II. Hiring cybersecurity experts and purchasing solutions is expensive.</li></ul>	<ul style="list-style-type: none"><li>I. MSSPs focus on securing IT systems as their core responsibilities.</li><li>II. MSSPs utilise proprietary tools that factor into the cost of services.</li></ul>

Table 1. In-house vs. Outsourcing IT services for DX Implementation.



# WHY ORGANISATIONS CHOOSE TO OUTSOURCE IT SERVICES

Cost savings, access to technical talent, increased efficiency, and the freedom to pursue core business operations are significant reasons why 75% of CEOs outsource the IT services crucial to implementing DX[8]. These services include app and software development, cybersecurity, virtual helpdesks, and remote managing and monitoring solutions.

## Traditional Outsourcing



**Infographic 1. The most commonly outsourced IT services.**



### Cost Saving

Outsourcing IT services reduces the cost of purchasing the IT and operational technologies (OT) needed to implement DX. Partnering with DX or IT service providers also eliminates the need to raise capital to hire talent. The reduced implementation cost is why 57% of organisations[9] choose to outsource IT services.

### Increased Efficiency

65% of organisations[10] outsource IT services because it allows employees to focus on core tasks. When the outsourced services lead to a successful DX, even more, work hours are freed, ensuring employees have the time and digital resources to be more productive.

### Unlocking New Capabilities and Value

Outsourcing IT services to implement DX successfully provides organisations with improved capabilities. Examples of new capabilities include facilitating hybrid work and automating repetitive tasks. The ability to unlock new capabilities is why 49% of organisations outsource IT services[11].

### Traditional Outsourcing



### Infographic 2. Reasons why organisations choose to outsource IT services

The benefits of outsourcing IT services have led to organisations increasing outsourcing budgets. 57% of business executives confirmed increased budgetary allocations for Managed IT services, with the most spending on expanding DX initiatives. Despite the increased adoption rate of IT outsourcing, 65% of organisations need help to achieve stated goals[12].

The reasons: 41% of organisations cite a lack of clear goals, 45% say not having or using the right DX tools constrain their efforts, 53% say they lack the expertise, and 28% say struggles with choosing the right outsourcing partner harm their efforts to implement DX strategies[13] successfully. What many organisations need to realise is that these challenges are all interconnected. Businesses that get IT outsourcing right solve most of the difficulties of implementing a DX strategy.



## PART 2

# IT OUTSOURCING PITFALLS THAT DERAIL DIGITAL TRANSFORMATION

- 1 Pitfalls and Challenges Organisations face with Outsourcing IT Services
- 2 Case Studies from the Frontline

# IT OUTSOURCING PITFALLS AND CHALLENGES

'IT outsourcing failure stories' is its own Google keyword. Organisations that encounter obstacles and complexities when outsourcing IT services have provided clear pictures of the common pitfalls and challenges. The significant pitfalls include:

- **1. Misunderstanding the role of IT service providers** - Lack of insight into an IT service provider's capabilities is a major reason businesses make erroneous choices when outsourcing to implement DX. Enterprises that outsource IT services for DX must understand the differences between 'traditional IT outsourcing' and 'Managed IT services'.

## Infographics 3. Traditional IT services vs. Managed IT services.

- **2. Choosing the wrong service provider** — Simply stating that organisations outsource to inadequate vendors may be considered ad hominem because this topic is nuanced. No one knows the future or how a relationship will develop over time. However, ignoring signs of incompetence, such as a service provider's ignorance about your organisation's industry, customer expectations, and existing processes, will lead to the wrong choices.
- **3. Inadequate communication** – 41% of businesses say that their DX implementations fail due to inadequate communication. Inadequate communication includes internal communication among team members and external collaborations with IT service providers[14]. Without clear guidance on the assignment of responsibilities to the involved parties and clarity on the DX goals to be achieved, DX initiatives will fail.

- **4. Inadequate cost assessments and service Agreements** – Outsourcing IT services is expected to save costs. Hidden subscription costs and unplanned implementation costs increase the total overhead expenditure on IT outsourcing, thus eliminating one of the critical benefits of outsourcing. Once again, outsourcing to the wrong service provider is a major factor in ballooning implementation costs.
- **5. Overlooking IT Infrastructure and Data Security** – Outsourcing involves providing the service provider access to existing IT infrastructure and the adopted technologies. Lack of technical expertise means that many organisations that outsource do not have a monitoring strategy, utilise non-disclosure agreements, or enforce privacy policies to protect enterprises from internal cybersecurity incidents or intellectual property theft.
- **6. Losing control over the DX Process** — Successful DX is a continuous process defined by the gradual implementation of technology. Organisations that outsource IT services to facilitate DX may become complacent with monitoring and ensuring in-house employees learn specific processes over time. Overlooking the need for continuous knowledge transfer could ultimately derail their DX strategies.
- **7. Complete dependency on outsourced services** – Outsourcing IT services involves leveraging the expertise of expert service providers, not losing your strategic independence. Organisations that do not strike a healthy balance between developing in-house capabilities and the responsibilities of external parties will end up dependent on a service provider. Total dependency means that adverse relationship changes derail the DX implementation process.
- **8. Overlooking outsourcing and data privacy regulations** – Regions implement outsourcing and data privacy regulations to ensure customer data protection. Examples include Singapore's Cybersecurity Act and Guidelines for Outsourcing. Overlooking your industry-specific regulations may incur fines.

# STORIES FROM THE FRONTLINES

IT outsourcing has transformed how people work, but harnessing DX has resulted in unsavoury experiences for some organisations. At the top of this list is MillerCoors, a brewer based in Chicago.

## MillerCoors Costly Digital Transformation Experience

In 2014, the brewery published a request for proposals to digitally transform its warehouse and supply chain management operations. MillerCoors awarded the project to HCL Technologies, India's fourth-largest managed IT services provider, headquartered in India and with offices in the United States.

- **The Solution**—Both organisations signed a master service agreement that cost \$53 million, and HCL Technologies chose SAP to implement the DX. The plan was to use SAP's Global Available-to-promise (ATP) and Extended ATP to digitise MillerCoors warehouse management processes.
- **Implementation Challenges** – Outsourcing IT services involves leveraging the expertise of expert service providers, not losing your strategic independence. Organisations that do not strike a healthy balance between developing in-house capabilities and the responsibilities of external parties will end up dependent on a service provider. Total dependency means that adverse relationship changes derail the DX implementation process.
- **Implementation Results** – Regions implement outsourcing and data privacy regulations to ensure customer data protection. Examples include Singapore's Cybersecurity Act and Guidelines for Outsourcing. Overlooking your industry-specific regulations may incur fines.
- **Understanding the Pitfalls** – MillerCoors' example showcases the common IT outsourcing pitfalls organisations overlook. The outsourcing project was marred by inadequate communication, poor cost assessment, and, ultimately, choosing the wrong service provider.

## TSB's Negligence Disrupts DX Rollout

- **The Challenge** - Spanish bank Sabadell acquired TSB to expand its operations into the UK. To provide more value for its 1.9 million new customers, the bank chose SABIS's Spain and UK branches to manage its DX implementation.
- **The Solution** - The bank entered a managed service agreement with SABIS Spain and SABIS UK to manage the transformation process. The vendor was expected to build DX solutions that streamline the provision of banking services to customers.
- **DX Implementation Challenges** - Sabadell and TSB failed to carry out due diligence concerning SABIS's abilities to manage DX implementations at scale. SABIS re-outsourced the DX process to a third party, which led to extensive delays. Sabadell and TSB lost control of the process as SABIS also outsourced specific parts of the DX to third-party service providers, making it difficult to track implementation progress.
- **Implementation Results** - Although TSB was unaware of SABIS's downstream outsourcing activities, its DX breached the UK's Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) residency rules. The result was a disrupted DT rollout and a hefty \$64million fine.
- **Understanding the Pitfalls** - Sabadell and TSB neglected their responsibility to research SABIS's capabilities, lost control of the DT process, and flouted privacy and outsourcing regulations.





## **PART THREE**

### **HOW TO AVOID IT OUTSOURCING PITFALLS THROUGH YOUR DIGITAL TRANSFORMATION JOURNEY**

- 1 Recommendations for Recognising and Avoiding Pitfalls**
- 2 The Comprehensive Checklist for Choosing the Right Managed Service Provider**
- 3 Conclusion**

# RECOMMENDATIONS FOR RECOGNIZING AND AVOIDING IT OUTSOURCING PITFALLS

So how does one avoid the horror stories of TSB, MillerCoors and the many other pitfalls when outsourcing IT services? The short answer is continuous diligence. The longer answer addresses each of the outlined pitfalls, and it includes:

## Phase 1 – Assess your DX objectives

The first step to choosing the right service provider and building a successful buyer-vendor relationship is defining the objectives of your DX and whether outsourcing should be pursued as an option. If yes, the shape and size of the deal must be defined. Then, finding the right partner can commence using these tips:

### 1. Use a descriptive request for proposal – Descriptive RFPs define:

- The scope of the job
- The current state of the process to be transformed
- The expected capabilities of prospective service providers
- Industry regulatory requirements
- Cybersecurity and IP integrity concerns
- Delivery timelines
- Define the service agreement model—This specifies the relationship with the vendor. Options include the retainer, managed services, or assisted services model.
- Budget expectations
- Result evaluation criteria.

**2. Shortlist capable service providers** – You can cull the list of applicants by analysing what each vendor brings to the table with these tips:

- Assess the success rate of previous implementations
- Confirm provided referrals
- Evaluate their engineers' core competencies
- Ask for and verify DX or IT-related certifications.
- Assess their understanding of industry-specific applications and regulations.
- Evaluate the cost and payment structure offered.

**3. Request a Demo** – Request a demonstration, if possible, using your organisation's peculiar DX use cases and operational challenges. Demonstrations provide insight into the following:

- Technical capabilities
- Teaching or training abilities and
- The personality of prospective vendors.

## Phase 2 – Evaluate relationship compatibility

A comprehensive evaluation of the relationship with prospective vendors reduces the possibility of choosing the wrong vendor and the pitfalls associated with inadequate communication and collaboration. Implement a proper assessment by:

**1. Defining a point of contact and project management process** – Communication and collaboration challenges are eased when a single point of contact and a suitable project management or collaboration process are defined. Your organisation should have a communication and conflict resolution plan to manage future collaboration challenges.

**2. Analyse project management processes and collaboration tools** – Insight into how your team will communicate with the vendor throughout the contract process eases communication challenges. Analyse the proposed communication channels or platforms and your employees' proficiency.

**3. Assessment of location and cultural differences** – Location and time zone differences may affect the ability to communicate in real-time. Assessing location-related challenges and agreeing on a specific communication strategy streamlines collaboration.

### Phase 3 – Commit after due diligence.

Analysing the contract, proposed delivery timelines, regulatory obligations, and partnership expectations before making financial commitments reduces the chances of budget inflation or hidden costs during implementation. Conduct due diligence on proposed service agreements by:

- 1. Seeking Professional Support** – SMBs may not have the expertise to evaluate contracts and regulatory obligations to spot hidden complexities. Seeking the assistance of your lawyer, financial adviser, or industry benchmarkers to assess contracts helps avoid future challenges.
- 2. Be Realistic.** DX is a journey, and unrealistic expectations regarding achievable results may lead to a breakdown in your relationship with vendors. Conduct the needed research to set achievable goals and gain insight into the approximate cost of your proposed DX projects or initiatives.
- 3. Be flexible to future change** – DX agreements may require changes due to adopting cutting-edge solutions or changing market conditions. When changes to existing contracts are proposed, evaluate the business case for these updates and seek the help of a professional before committing.

### Phase 4 – Transition with Cybersecurity in mind

Once contracts have been signed, handing over or providing access to existing IT infrastructure is the next stage. During Phase 1, you must have assessed and discussed your IT infrastructure vulnerabilities with the chosen service provider. Regardless of the assurances received, securing business and customer data is your responsibility. Cybersecurity can be assured by:

- 1. Vendor monitoring and management** – The transition and DX implementation process must be monitored regardless of your organisation's technical skill sets. Ensuring the service provider integrates a member of your organisation through the implementation phase ensures knowledge transfer. You could also seek help from an IT professional to monitor the transition phase.
- 2. Use Non-disclosure Agreements** – NDAs provide legal cover when outsourcing to an IT service provider. Have one in place. An ironclad NDA should include agreements concerning cybersecurity, adherence to residency regulations, and intellectual property protections.
- 3. Seek Professional Assistance** – Although outsourcing is a method of seeking expert support, outsourcers must understand the quality of the service provided. SMBs can partner with professional benchmarkers or non-profit regulatory organisations that can assist at affordable rates.

## Phase 5 – Participate in the Journey

Knowledge transfer is crucial to ensuring employees are incorporated into DX processes and can utilise digital technologies in the future. Here are some tips to avoid being entirely dependent and losing control to the vendor:

- 1. Implement knowledge transfer activities** – Create training programs and ensure employees participate in training focused on new technologies' operational capabilities and uses. This secures long-term employee buy-in to the DX and knowledge transfer.
- 2. Design and implement an innovation management policy** – Create a dedicated team to evaluate improvements and milestones achieved by the DX implementation against set objectives. The policy should assess other venues for continuous growth and extracting new value from the DX.
- 3. Seek opportunities to improve pricing** – As the DX situation changes with time, opportunities such as cheaper alternative technologies may provide a means to reduce expenditure. The DX monitoring team must remain flexible to change that optimises operational efficiency and revenue generation.

# CONCLUSION



In today's world, where talent, cost, technology, and cybersecurity are differentiated capabilities, IT outsourcing and managed services delivery models are vital to unlocking immediate and long-term business value.

Thankfully, SMBs have an extensive ecosystem of vendors or IT service providers to choose from and making the right choice will make or break your digital transformation project. This E-book provides actionable insight into navigating the third-party service provider ecosystem to implement digital transformations successfully.

Today's sourcing environment provides tremendous opportunities for forward-thinking SMBs looking to enhance innovation, leverage cutting-edge technologies and enhance their market competitiveness. Please contact us if you want to gain deeper insight into using our tips, recommendations, and digital transformation solutions to successfully achieve your organisation's goals. Our team of experts would be glad to provide you with comprehensive assistance.

# LET'S TALK!

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FUJIFILM Business Innovation Singapore  
20 Anson Road, #06-01,  
Singapore 079912



+65 6766 8888



[shm-fbsg-campaign.marketing@fujifilm.com](mailto:shm-fbsg-campaign.marketing@fujifilm.com)



<https://www.fujifilm.com/fbsg>