



INFORMATION TECHNOLOGY

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# A fresh wind for offshoring infrastructure management

*A laggard so far, it may be about to take off.*

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**Article  
at a  
glance**

While other offshoring services have grown rapidly, the management and maintenance of core infrastructure from afar has been slow to gain popularity. Only a sliver—about 7 percent—of the addressable market is being captured.

But our research suggests that this is about to change. Shifts in customer attitudes and economics could trigger rapid growth for these services, known in the industry as remote infrastructure management.

Businesses have begun tapping offshore companies to monitor, maintain, and fix their IT infrastructures. Revenues from remote infrastructure management, as these services are called, have grown by 80 percent a year since 2005 and are expected to reach \$6 billion to \$7 billion this year. But our research shows that the possibilities for managing servers and other IT hardware from afar are largely untapped. Changes in the business environment could let loose a sudden rush to adopt this approach.

While customers have enthusiastically offshored application development and business processes, remote infrastructure management has languished by comparison. Our estimates suggest that at the end of 2007, such revenues accounted for less than 7 percent of an addressable market of \$96 billion to \$104 billion, despite a steady increase in recent years. But within half a decade, those revenues could grow fourfold, reaching \$26 billion to \$28 billion annually.

The benefits of remote infrastructure management can be considerable—Fortune 50 companies, with budgets of \$2 billion, can save as much as \$500 million of their IT infrastructure budgets, mostly from labor savings. Yet there are also risks. Disruptions in core IT systems during the transition or ongoing operations have real financial and security costs, including possible data loss and the interruption of operations. Other concerns include regulatory problems, such as the possibility of giving third parties inadvertent access to confidential medical records, and of financial fraud or intellectual-property (IP) theft when vendors gain full access to corporate systems.

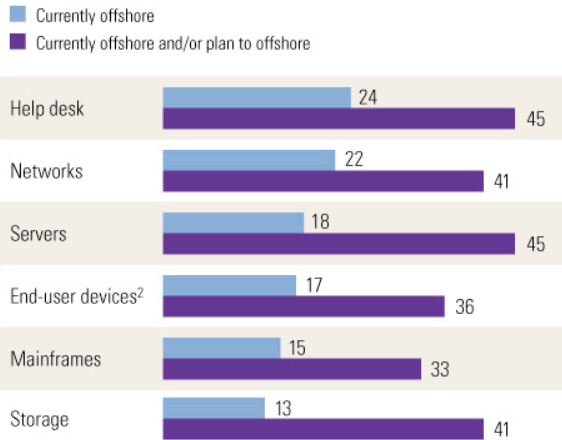
Nonetheless, a change in customer attitudes confirms the growth potential. We surveyed 141 CIOs at multinational corporations in 2007, and 34 percent of them say they expect to offshore some infrastructure services over the next three years—a sharp increase from 19 percent in a similar survey a year earlier. The responses suggest that the growth will encompass a broad swath of remote-management opportunities, including storage, help-desk, server, and network services (Exhibit 1).

EXHIBIT 1

**A likely increase**

% of respondents (n = 141)<sup>1</sup>

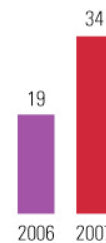
*Does your organization currently offshore or plan to offshore any of the following types of infrastructure work?*



Respondents who have offshored some fraction of infrastructure



Respondents who plan to offshore infrastructure in 3 years



<sup>1</sup>Excludes those who do not plan to offshore.

<sup>2</sup>For example, desktops, laptops, PDAs.

Source: 2006 and 2007 McKinsey surveys of CIOs; McKinsey analysis

A change in the economics lies behind the expected growth. As hardware costs fall, labor has become the most addressable cost in infrastructure. We estimate that costs for nonlabor components—hardware, software, maintenance (for instance, software updates and hardware replacement), and facilities—declined by almost 44 percent between 2000 and 2008 as competitive pressures, innovation, and tougher negotiations with vendors brought prices down. Between 2008 and 2010, nonlabor costs are expected to fall by 54 percent, thanks to innovations such as virtualization, which essentially allows several hardware components to act as a single component or, conversely, a single component to act as several separate ones. Total costs will fall by nearly half from 2000 to 2010, while labor’s share (largely infrastructure management) will more than double, to 62 percent, from 30 percent (Exhibit 2).

Changes in the deployment of infrastructure have also made remote management more attractive for a growing list of companies. Many have simplified their IT architecture; for example, the marketing division of a global pharmaceutical company consolidated 95 servers, each running a different version of an operating system, into just 7, with standard configurations. Standardization makes repetitive tasks such as updating virus definitions easier to automate, and improved documentation allows complex tasks to be broken up into a series of simpler steps

that less skilled workers can undertake. As a result, it is easier to manage complex tasks from remote locations.

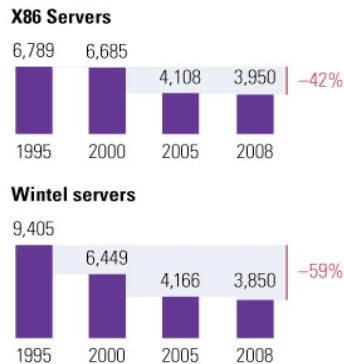
EXHIBIT 2

**Labor: The most addressable cost**

% of respondents (n = 141)

**Hardware prices have rapidly declined . . .**

Average selling price, \$



**. . . making labor and software key cost savings levers.**

Estimated total cost of ownership for a server, \$ a year




Source: Forrester 2005; IDC; Meta 2004; McKinsey analysis

At the same time, customers have grown more sophisticated: they can judiciously outsource selected parts of infrastructure management while retaining control over critical ones. Some companies, for example, have outsourced only network monitoring; others, the total management and ownership of existing data centers. Many more infrastructure contracts are being signed, and individual deals tend to be smaller and to cover shorter periods; between 2002 and 2007, the average contract’s value dropped by more than 70 percent, the average duration by more than 20 percent. Both trends give companies greater flexibility when contracting with different vendors.

The greater speed and security of data communication has made interactions between companies and their outsourcers easier and more stable and thus increased their level of comfort with outsourcing. A critical mass of sophisticated vendors has emerged as well. In 2000, for example, 84 percent of the largest infrastructure-management outsourcing contracts went to the top six vendors, but by 2007 they were capturing just 54 percent. This shift gives customers greater confidence in the outsourcers’ ability to provide and retain qualified workers to staff a growing number of projects.

Although remote infrastructure management has become more attractive, challenges remain. Disruptions brought on by the transition still carry real costs. Planning and implementation can take four months to a year and generally involve changes in a company's IT and communications architectures, as well as investments in software for remote troubleshooting and enhanced security within networks. Additionally, roles in a company's IT organization usually change.

To overcome these obstacles, a company considering the benefits of remote infrastructure management should collaborate with vendors early in its deliberations. The topics for discussion include which company holds responsibility for each aspect of the project, the planning of the transition, and performance metrics. A company taking this route should also design its management structure from a clean slate rather than tweak current systems to fit a vendor's model. 

**About the Authors**

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