Is Outsourcing Right for You?

From IT to food service, outsourcing can be a viable means for IHEs to provide services and save money.

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The basic rationale for a college or university to outsource to a vendor could be summed up this way: I can't do this, others can, I think I'll let them.

Services currently outsourced	
Food Service	61%
Bookstore	52%
Endowment Fund	41%
Legal Service	28%
Housekeeping, janitorial	25%
Laundry	20%
Copy center, reproduction	17%
Security	17%
Debit card	16%
Payroll	15%
Computer store	10%
Energy management	9%
Mechanical maintenance	9%
Grounds	8%

The reason for outsourcing food services, maintenance, bookstore management, some IT functions, or any other needed campus service is driven by dollars and sense, so to speak. It is common for higher education institutions to decide that it is simply more economical or more productive to bring in an outside vendor to handle nonacademic tasks than it is to hire and train in-house staff.

"I ascribe to Peter Druker's business philosophy," says Gregg Lassen, CFO at the **University of Southern Mississippi**. Management guru Druker was known for telling businesses to focus on their core strengths. In a higher ed setting those would be research, instruction, and service, says Lassen. Cooking is not on the list.

In mid-2004, Lassen was part of the team that brought Aramark's dining services to USM, along with the Barnes & Noble franchise, which now manages the bookstore. Prior to last year, USM staff managed these operations. The move to outsourcing is part of the overall redevelopment of the campus, adds Lassen. USM is currently constructing a new student union that will include a campus retail area. Aramark and Barnes & Noble are the two anchor tenants. "We needed to provide a 'wow' factor," he explains, referring to the retail area that is expected to draw not only students and staff, but residents in greater Hattiesburg.

Aramark has already upgraded the dining facilities with new design. Barnes & Noble, also in operation, will eventually become a two-story outlet in the new building. While Lassen will not reveal the financial details of the agreements, he says that both outsourcing agreements are saving money for USM.

Outsourcing has taken on negative connotations during the past few years due mainly to the term being associated with corporations outsourcing jobs to foreign countries. Outsourcing has come to mean "offshoring" to many people because of the issue over companies using cheaper labor from such countries as India, which especially has been singled out for handling call center and IT support positions for U.S. companies. Outsourcing in higher education bears no resemblance to this. Further, outsourcing is nothing new to higher education.

Temple University (Pa.) has outsourced a portion of its IT work to SCT, now SunGard SCT, since 1977. (The contract was most recently renewed in November 2004.) Specifically, SunGard SCT manages Temple's mainframe computer and data center, much of which runs on legacy systems. "It is a 24/7 operation," says Tim O'Rourke, vice president for computer and information services, who adds that SunGard SCT, which is based Malvern, Pa., employs 37 IT professionals to work on the Temple campus. These outsourced employees run daily reports, manage accounts payable, and handle payroll reporting. The arrangement assures O'Rourke that key functions will be completed, while freeing him from worrying about HR issues. "If someone critical is sick, it is SCT's responsibility to fill that position. Otherwise, I would have to find other resources." O'Rourke estimates that Temple pays several million per year to SCT; the university is responsible for buying equipment.

More recently, Temple has outsourced some telecommunications functions to Verizon. "Cost is a major factor in any outsourcing decision," he says, declining to give specifics about that arrangement. He adds that bringing expertise to campus is another important criteria. Bottom line, says O'Rourke, is the realization that the money spent on outsourcing will "buy" a team that can do the job more efficiently than an in-house team.

This is because a vendor will often pay a professional a higher salary than a college or university can afford. Vendors can make this affordable by dividing an employee's time across various campus projects, or between different institutions. SunGard SCT might pay a database administrator--a very in-demand job that does not need to be done on-site--an annual salary of $70,000 to $90,000, whereas a higher education institution might start a professional at $50,000, estimates Mike Macos, the company's vice president of outsourcing and hosting.

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New Trends Emerging

On the surface, outsourcing in higher education really doesn't look much different than it did a decade ago, says Ronald Phipps, senior associate for the Washington, D.C.-based Institute for Higher Education Policy, a nonprofit think tank. The services that have most likely been outsourced by higher education have not changed much over time. These include food service, bookstore management, and facilities, he says.

But a closer look reveals some hints of change.

According to a study supported by UNICCO, a Newton, Mass.-based facilities maintenance firm, and presented in a white paper by the Institute for Higher Education Policy, 91 percent of higher education institutions surveyed in 2002 outsourced some type of campus service. This was up from 82 percent in 2000.

Of the 112 colleges and universities that participated in the study, 65 percent outsourced two to five services; only 13 percent outsourced five or more. Food services were far and away the most likely to be outsourced, with 61 percent of IHEs reporting that they do so. The bookstore came in second, at 52 percent. Next came the endowment fund, legal services, housekeeping, and janitorial functions

While there is some predictability to higher education's use of outsourcing, there are twists. More schools are slowly adding IT to the list of outsourced services. Temple's 28-year history with SCT aside, outsourcing IT will continue to grow as more and more IHEs look to reduce costs and improve efficiencies.

There may be more contracts, such as the ones **Community College of Philadelphia** and the **University of Pennsylvania Health System** have with the Dallas-based Affiliated Computer Services, to handle mainframe operations, processing, web hosting, storage, and disaster recovery services. Other higher ed technology vendors, such as Datatel of Fairfax, Va., are being tapped for IT outsourcing contracts. A company partner, Verifications, Minneapolis, is conducting background checks for **Doane College** (Neb.) and **Elgin Community College** (Ill.).

George Washington University (D.C.) relies on the Washington, D.C.-based Blackboard to handle certain financial transactions related to its campus card system. Since fall 2003, Blackboard's BbOne program has supported the university's campus card program. George Washington's GWorld One card is like an ATM/debit card, used by students, staff, and faculty who shop and eat at restaurants on campus and off. Blackboard's technology is licensed to handle the volume of merchant transactions generated by on-campus and off-campus restaurants and retailers who are part of the GWorld One program.

The card program is nothing new at George Washington, adds Debbie Cary Wright, director of the GWorld Card Program. In 1997, the university began allowing students to buy campus services with their ID cards. What is new is the partnership with Blackboard. By fall 2003, the program had expanded on campus and off. There were 60 to 70 partner merchants and an additional 60 interested in coming on board. "We were becoming victims of our own success," Wright says.

The number of merchant transactions climbed to 5,000 per day. At first, the staff of the internal card office tried to handle the workload. It was clear that the staff--made up of Wright, an additional four customer service representatives, two application analysts, and an assistant director--needed help. Besides, juggling the transactions is not where Wright and the administration wanted to be putting their energy, she adds. Outsourcing to Blackboard gave George Washington's staff access to an infrastructure that would deal with the merchants in setting up the program and rectifying transaction balances on a daily basis. While Wright cannot release the details of the contract, she asserts that the merchant program generates revenue for George Washington. Blackboard is paid an undisclosed percentage on each transaction.

According to an **Educause Center for Applied Research** summary titled "The Outlook for ASP and IT Outsourcing in Higher Education in the U.S. and Canada," such IT outsourcing activity in higher ed is forecast to grow at a 17 percent annual growth rate between 2001 and 2006. This trend, which some observers dub "netsourcing," includes schools such as George Washington which pay licensing fees for ASPs, otherwise known as application service providers, that allow them to access browser-based applications without having to install software and successive upgrades on campus.

The growth statistic should not overstate the trend, however. The Educause summary notes that IT outsourcing in higher education accounted for only $782 million in spending in 2001, a very modest number when compared to the $57 billion for IT outsourcing spent by the U.S. commercial sector that same year, or the $6.4 billion spent by the U.S. federal government.

Still, the trend will continue, says the Educause report, as more colleges and universities incorporate e-business solutions. Vendor services will be needed to enable seamless money transfers, online registration, tuition payments, grades and transcripts, and student loan data.

IT outsourcing can be divided into two distinct categories, adds John Krieger, president of Bridger, a property, operations and technology firm. One group of vendors is being tapped to manage software applications, including ERP, admissions records, and financial data. SCT,

Datatel, and Jenzabar, Cincinnati, Ohio, are some of the vendors who provide these services. The other IT category is network administration. SunGard Collegis can handle this, as does Datatel and Krieger's own firm, Bridger.

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'Co-sourcing' is Another Option

Some colleges and universities are banding together to form consortia that, in turn, seek outsourced services that benefit the group. The Boston Consortium took shape in 1995 when the CFOs of 11 Boston-area colleges and universities came together to compare operating budgets, explains Philip DiChiara, managing director. Since then, executives at the **Massachusetts Institute of Technology**, **Northeastern University**, **Harvard University**, **Berklee College of Music**, **Boston University**, **Brandeis University**, **Wheaton College**, and other member schools have worked together to save money and find resources.

Its scope includes much more than outsourcing. Specific to outsourcing, though, members have worked together on risk management, professional development and management training, and some internal audit services. Each member school in the consortium pays annual dues that equal no more than the "average tuition of an FTE (full-time, equivalent student)," says DiChiara. The investment has been worth it, adds DiChiara, who reports that collectively the member schools have saved at least $800,000 by working together.

Still other schools, such as **Rockford College** (Ill.) have gone as far as to outsource the entire outsourcing operation. Just 18 months ago the college hired Bridger. The company, in turn, hired a full-time director of finance and administration to work on campus and to handle all outsourcing. The director, Rob Werthman, is technically a Bridger employee, but he reports to Rockford's president and is involved in strategy.

During his time on campus, Werthman--who happens to be a Rockford alum--has signed contracts to outsource maintenance to Aramark, food service to Chartwells, and bookstore management to Follett. Werthman also has outsourced fleet management to Enterprise, a move that he estimates has saved the school $30,000 in annual car and van costs. No longer are campus-owned cars and vans sitting idle, he explains.

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Get Campus 'Buy-in'

How does an administrator break the news that a campus function is being handed to an outside vendor? Carefully, says Don Aungst, vice president for Resource Management and treasurer at **Capital University** (Ohio). "Get buy-in," advises Aungst. "There shouldn't be someone in my seat saying, 'We are going to outsource because we are going to save money,'" he cautions. Such sentiments and edicts from the administrative office create resentment. They can also set staff fretting that administrators are going to sacrifice quality of service. The best approach is to enlist a team of staffers and managers who are responsible for, or impacted by, the task being considered for outsourcing. This way they will be invested in the cost and quality concerns.

In Capital's case, Aungst and others formed a team last year to review the best options for housekeeping and custodial services. The group included those who had the most contact with the custodial staff.

The team then issued a "request for proposal," or RFP, which is another best practice. The RFP gives very specific needs and guidelines to interested vendors. The RFP provides a reasonable means for evaluating and comparing one to another. Within three months, the team selected UNICCO.

This was not Capital's first experience with outsourcing. The university had already outsourced its food service to Parkhurst Dining Services. At one time Capital also outsourced security, adds Aungst. That program was brought back in-house after staff and students grew concerned about customer satisfaction. "The types of employees the firm was supplying had no higher education experience. We had to train the employees ourselves," he says, adding that the security staff had high turnover. Aungst's experience can be interpreted as another best practice: Review the situation regularly.

Lassen was part of a similar review team at the USM. He organized road trips to other campuses. "We had about 12 people go to the **University of Georgia** and **Georgia Tech**. (The latter school's recent downtown campus transformation was particularly impressive, says Lassen.) "They came home realizing how things could be here."

Mark Olson, executive director of sales and marketing for Campus Partners, Columbus, Ohio, and co-author of the book *The Business Value Web: Resourcing Business Processing in Higher Education*, a text offered by the National Association of College and University Officers, adds that higher ed staffs typically worry about losing control. It takes time to build "consensus."

"There is often the notion that university employees are going to lose their jobs and that outside employees won't be as loyal," acknowledges Keith Polizzano, vice president of business development at Aramark. He directly addresses these fears at the beginning.

In addition, Aramark, like some other vendors, provides training and advancement to employees who will now work for the company. In the end it comes down to proving that a vendor can serve the campus community better while making more financial sense for the school. Once established, the IHE and the vendor can establish solutions that can benefit both for years.

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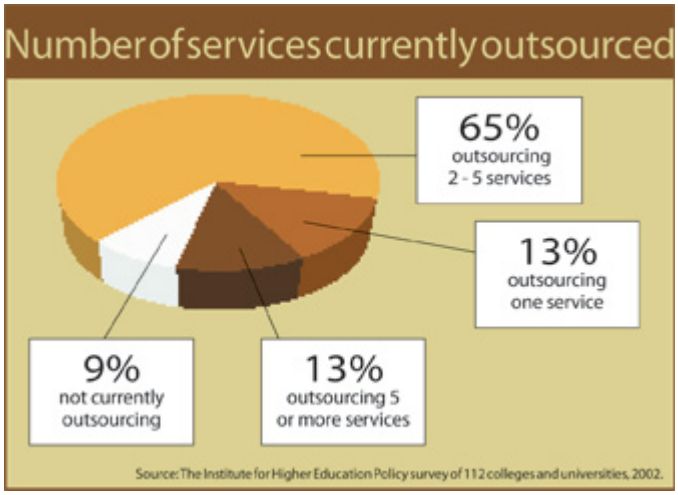
Related Information



Five Outsourcing Tips

1. **Know why you want to outsource**, says John Krieger, president of Bridger, a property, operations and technology firm. Are cost savings driving the decision? Is better service to students the primary aim? Is the answer a little bit of both? Only strategic planning will yield an answer.
2. **Be honest about how outsourcing will impact the staff.** Will there be fewer staffers needed to manage the bookstore, the fleet of vehicles, the cafeteria? Should there be? One of the benefits of outsourcing is forming a partnership with an "expert" who can manage systems more efficiently, says Krieger. This means vendors should be training those who manage operations and providing them with career opportunities. Usually, these are just the things a college and university has not been able to do for service professionals.
3. **Don't let outsourcing create more work for the chief business officer.** Managing outsourcing agreements is one of the little-understood aspects. The often-stated goal is to free up a VPs time to think more about the big picture. Yet, new outsourcing agreements can saddle this person with minutia about trash pick-up and the temperature in the residence halls. That's no good for anyone. Don't have too many direct reports coming to the CFO and business VP, says Krieger.
4. **Negotiate the outsourcing agreement.** Don't accept the vendor's boilerplate contract, says Krieger. Many contracts include "evergreen" clauses that automatically renew a contract after a period of time that is stated in the fine print. Don't let that happen. Be sure to build in a "60-day notice" clause so that it is easy to end the relationship.
5. **Measure performance.** Develop metrics that clearly show if the outsourcing vendor is doing a good job. Review these regularly and be specific, says Krieger. If the job requires a series of monthly preventative maintenance routines, say so. It is reasonable to ask the vendor to effectively manage the operating budget within a 2 percent margin.

Resources

Affiliated Computer Services is an outsourcing technology company, www.acs-inc.com
Aramark's roster of services cover food, facilities, and technical needs, www.aramark.com.
Barnes & Noble College Booksellers handles bookstore management on campus, www.bkstore.com.
Blackboard can offer security and course management services on an ASP model, www.blackboard.com.
Bridger is a property, operations and technology firm, www.bridgered.com.
Campus Partners handles student loan needs, focusing on Perkins Loan processing, www.campuspartners.com.
Chartwells provides food service, www.chartwells-usa.com.
Datatel provides technology services for higher education, www.datatel.com.
Follett's Higher Education Group manages campus bookstores and retail outlets, www.follett.com.
Jenzabar offers technology solutions for higher ed management, www.jenzabar.com.
Johnson Controls handles facilities management and other needs, www.jci.com.
National Association of College and University Officers (NACUBO) offers a catalog of higher education business books, www.nacubo.com.
Parkhurst Dining Services can be found at www.parkhurstdining.com.
Sodexho is a food and facility management company, www.sodexhousa.com.
SYSCO is a food service company, www.sysco.com.
The Boston Consortium is a group of 11 colleges and universities, www.boston-consortium.org.
The Institute for Higher Education Policy is a non-profit think tank that has analyzed outsourcing trends, www.ihep.com.
Honeywell provides safety and environmental systems, www.honeywell.com.
SunGard SCT provides IT services to higher education, www.sct.com.
UNICCO Service Company provides facilities management, www.unicco.com.