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## Outsourcing strategies

# Outside help for your site

**Whether you choose to outsource your site's development, hosting, or both, you have a wide range of options**



By Lisa L. Sweet

**I**t used to be that companies looking to set up shop online would put up a basic site as fast as possible, then worry later about how well it worked. However, this model is changing: If your electronic storefront provides first-time consumers with a less-than-favorable shopping experience, they may not come back a second time.

This means that, before you put up an electronic-commerce site, you need to think carefully about who will design, build, and host it.

Some large companies may have enough staff members who know about networking, the Internet, and shopping online to do the job entirely in-house. But for many, outsourcing some or all of the development and hosting has become a viable option. In fact, Forrester Research, a market research company, predicts that the demand for Web hosting alone will grow to \$50 billion by 2002. (For a detailed look at your options for building an e-commerce site, see our [Test Center Action Plan](#).)

If you want to outsource your e-commerce site, you have several options. The first is to pick one of the numerous vendors out there who is ready, willing, and able to host your site via browser-based store-building tools, such as Yahoo Store. (For more on this option, see [Part Two](#) of this series.)

These services are geared toward smaller companies that need a site put up fast. They provide everything you need to get your store up and running quickly, including domain registration and store-management software. They'll also help with setting up your merchant account, hosting your site, and, in some cases, submitting your site to search engines. However, they may lack the customization and personalization capabilities that go far in attracting and maintaining customers.

Another outsourcing option is to contract with a group that specializes in building electronic businesses. You can have this company simply develop your site and then leave the rest to you, or you can have it build and implement your entire e-business for you, including such major tasks as integrating your e-business with your enterprise resource planning (ERP) system.

Some people caution against outsourcing too much, though.

"The definition of outsourcing is when you transfer the ownership of a process to the supplier," says Peter Bendor-Samuel, president of the Outsourcing Center, in Dallas. "And while this works very well in outsourcing the hosting of your site, it doesn't always work well when contracting a vendor to do it all for you. It's oftentimes cost-prohibitive, and you're transferring the ownership and the future of your e-business into the hands of someone else, which may result in the loss of your traditional business model."

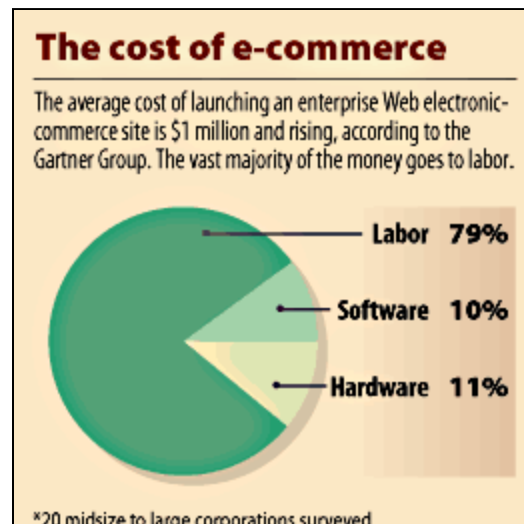
Companies must maintain some ownership when having their site built externally -- they know their business and need to stay involved in its operation. However, in some cases, it may make sense to bring in outside help in putting together a site. A consulting company may be able to launch your site in less time than it would take to do it in-house, and consultants who have built many sites know what works and what doesn't.

## Site development

Two types of outsourcing companies can help develop your site.

Top outsourcing and strategy companies, such as EDS, IBM Global Services, and Computer Sciences Corp., would love to build, host, and maintain your e-business. But not everyone thinks this type of company will be the answer to your e-business prayers.

"These large, traditional data-processing outsourcing companies are good at what they do, but may lack expertise in the e-business arena," says Colin Mahony, an analyst of Internet



computing strategies at the Yankee Group, in Boston. "By hiring e-business experts and utilizing expertise from recent acquisitions, they're starting to get up-to-speed with the e-business way of doing business. Nonetheless, there are already companies in place that are experts in the field of implementing e-businesses. Further, you can expect an average implementation cost to run between \$400,000 and \$600,000, which does not include the cost of integration with ERP systems."

In some cases, a smaller, more specialized company may better suit your needs.

One such company is Scient, a full-service e-business systems innovator in San Francisco. Scient specializes in building e-businesses for Fortune 500 companies as well as for well-funded dot-com businesses. Scient typically spends an average of six months getting a site up and running, and continues to work with its clients to improve their business by adding new functionality or modifying the company's business model to meet their objectives. On the low end, Scient's typical fees run from \$1.5 million to \$3 million per year; larger companies are likely to spend upward of \$10 million over a period of time.

### **Site hosting**

If a company has a full-blown data center, dedicated bandwidth, and expert personnel on staff, it may make sense for it to host its own site.

However, it may be more economical for small to midsize companies to outsource their hosting instead of spending the money to purchase hardware, implement security measures, and hire a staff to maintain the site. For example, hardware is one of the leading single points of failure, and a good ISP will have fault-tolerance polices in place.

There are three different types of hosting to consider. One is a dedicated server, which means your site is the only one that exists on the server. The hosting company provides the server, rack space, bandwidth, connection to the Internet, hardware maintenance, uninterruptible power supply, and continuous server monitoring.

A less expensive but more problematic option is a shared server. In this scenario, the hosting company provides everything it does with a dedicated server, except that your site is not the only one on the server.

The problem with this solution is that it is difficult for you to know how many virtual servers are sharing the resources on the server that your site is on. Obviously, you wouldn't want to coexist with a high-traffic, graphically intensive site because that could dramatically slow down the response time for your customers. And someone else's mass-mail delivery in the middle of the day could substantially slow down your connection times.

The last way to outsource your hosting is collocation. You provide the hardware and rent space at the hosting facility. Also, you are responsible for the procurement and maintenance of the server and network hardware. If you choose this, make sure you consider the costs of the hardware and your staff's time.

Whichever option you choose, make sure you discuss with the outsourcer how much bandwidth you're purchasing. This will definitely have a bearing on how fast your site will

be able to handle transactions. An ISP can boast that it has T1 or T3 connections, but it is important for you to know whether you're getting a dedicated or shared link to the outside world.

There are several other key things to look for when selecting an outsourcing vendor:

- You'll want a high-speed Internet server in a secure environment, with your choice of either a shared or a dedicated server for hosting. This should include your choice of hardware platform and operating system.
- Your contract should give the hosting site responsibility for maintenance and fixing any hardware failures. The machines should be located in a data center that is staffed around the clock.
- Make sure that the site has redundant server hardware and backup procedures in place. To prevent any disruption in service, the outsourcer should be connected to at least two major backbone providers with multiple high-speed Internet connections.
- Finally, and most importantly, you should look for a bandwidth performance guarantee as well as a guarantee of network uptime.

How much do hosting services cost? According to Verio, a Web hosting company in Englewood, Colo., you can outsource the hosting of your site for just over \$3,000 per month for a large, busy site. Verio's midrange customers generally pay between \$475 and \$995 per month.

Verio estimates that for a company to host a site itself using a Pentium-based system and redundant T1 lines, the cost of equipment and installation fees alone could be more than \$12,000, and you could easily spend another \$12,000 for monthly recurring costs.

Finally, whether you're selecting an outsourcer to develop your site, host it, or both, don't simply go with the first vendor that knocks on your door. After all, you want customers to find your site easy to use, and you don't want customers turning away due to slow links or an unreliable server. Check around, get references, and ask for examples of several outsourcing companies' success stories to make sure that they have a high level of e-business talent in-house.

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## Three phases of outsourcing

According to a report by The Outsourcing Institute, in New York, organizations that have successfully outsourced go through three major phases of the process.

### Phase 1: Internal analysis and evaluation

Only the top-level executives have the power to define the vision and implement the changes that are necessary for outsourcing to succeed. You'll need to clarify organizational goals in relation to outsourcing. Also, define the core competencies of the organization and the functions of the business that are not core. An organization should outsource its non-core functions so that it can focus on its core competencies.

Having identified non-core functions, gather facts and figures to determine where you will get the quickest and best return on investment. To determine the return on investment, analyze current return compared to what an outside vendor may offer. And lastly, determine a long-term strategy. If you are outsourcing a function that already exists, remember that employee support and morale will be critical. Job retention should be a major feature of your strategy. In some relationships, workers are hired by the new vendor.

### **Phase 2: Needs assessment and vendor selection**

This is a research phase in which you learn about your own specific needs and find out which qualified vendors will be best to meet those needs.

To find out more about your own needs, research the needs within the organization and learn from other companies who have outsourced the same kind of function. Form a team of people to help you ask the right questions and analyze the information you gather. Once you've selected a vendor, negotiate a contract and a reasonable price and define performance measurement goals.

### **Phase 3: Implementation and management**

Decide in advance how you are going to manage the relationship. Create a system that allows you ways to monitor and evaluate performance, identify and communicate issues early, resolve issues quickly and fairly, and help people in your organization adapt to a new way of doing things.

For a full copy of this study, see [www.outsourcing.com/howandwhy/introduction/phases](http://www.outsourcing.com/howandwhy/introduction/phases).

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### **Do you know who visits your site?**

**N**ow that you've spent all this money getting your electronic business up and running, obviously it would be nice to know how well you're doing. For a site sanity check, you need to know not only how much money you're making but also how many visitors you're attracting.

For example, only 8.6 percent of 6.4 million Amazon.com visitors in one study actually bought something, according to NetRatings, in Milpitas, Calif.

How do you turn all those browsers into buyers? The best way to do this is by analyzing log files. If you have an outside company hosting your site, it may provide you with some basic

reports regarding site hits.

But chances are that your hosting vendor is not in the business of generating custom reports. For a more in-depth analysis, you may want to buy software to analyze your traffic. (For more on Web-traffic analysis tools, see our [Test Center Comparison](#).)

WebTrends, in Portland, Ore., continues to outshine its competitors by offering two products that can help you crunch your hit statistics.

WebTrends Professional Suite provides up-to-the-minute statistics on your site visitors.

WebTrends also offers CommerceTrends, the first e-business measurement and forecasting solution that allows merchants to forecast revenue by product or product category regardless of how the visitor came to the site. CommerceTrends can help track which of your Internet advertising options are working and which aren't.

CommerceTrends comes with the same historical log-file analysis capabilities found in WebTrends, with added features such as the ability to track the dollars spent vs. the actual dollars earned per visitor.

The solution also facilitates return on investment calculations on advertising and promotional campaigns. For instance, you can track which products interest customers in order to forecast future revenue or determine if you want to boost your engineering efforts on a product segment based on sales.

For more information about CommerceTrends, see the [InfoWorld Test Center review](#).

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