



Elisabeth Horwitt

09/05/2007

Application outsourcing has proved a definite winner for Church's Chicken. It took the global fast food chain two tries, however, to find the right outsourcing partner.

San Antonio-based Church's first outsourcing partner was IBM. Big Blue hosted, managed and maintained the food chain's entire IT infrastructure, including its network, help desk and data center. IBM technicians also managed point-of-sale systems at Church's outlets worldwide and worked with Church's two-person IT team on software development.

But IBM's performance left much to be desired, according to Church's CEO, Harsha V. Agadi. "We found that IBM's style of dealing with us was to dictate what our needs were, rather than listening to us," Agadi said -- he attributed that to IBM's size. "Mid-sized companies, I find, do best with mid-sized outsourcing partners."

Not surprisingly, when its outsourcing deal with IBM was due to expire shortly after Church's was acquired by venture capitalist firm Arcapita Bank B.S.C., Agadi and company decided to look for another vendor.

After a competitive request for proposal, Church's decided to go with Sonata Software Ltd., a \$198 million outsourcing firm based in Bangalore, India. What won Sonata the deal? Unlike IBM, Sonata offered to go the extra mile for Church's to ensure a productive partnership - even though Sonata wasn't a Fortune 200 enterprise.

The initial \$5 million, five-year contract called for Sonata to take over Church's IT operations and infrastructure. Within the past year, Church's decided to extend the agreement to include management of business-critical systems such as global sales, as well as software design, testing and maintenance.

Since switching to Sonata, performance has improved and Church's has realized cost savings of around 40% compared with the IBM arrangement, according to Agadi. Agadi said Sonata's already-developed strong global presence was a better fit than a domestic firm like IBM. Even though Big Blue has a strong international presence - its overseas workforce now exceeds its domestic force -- the vendor wasn't passing on labor cost savings to Church's, according to Agadi.

Church's Chicken's experiences illustrate the challenges midmarket IT executives face as they try to develop a viable IT outsourcing strategy: Finding the right-size outsourcing firm in the right place for the right price. The stakes are high. But make the right choice, and IT application outsourcing can reap big rewards for midmarket companies.

#### Outsourcing success strategies

Based on Church's positive experiences with Sonata, companies with revenues north of \$500 million should definitely consider offshoring IT operations and application development, according to Agadi. His own company realized approximately \$1.1 billion in revenues in 2006 among company-owned and franchise restaurants.

But the success of an outsourcing strategy depends more on the scope and scale of the work than on sheer corporate size. If a project is too small, the benefits won't outweigh the costs, said Fran Karamouzis, vice president of research at Gartner Inc. in Stamford, Conn.

The size of a potential outsourcing vendor is also important. A mid-sized outsourcing firm is more likely to go the extra mile for a mid-sized customer, particularly one that is outsourcing all or most of its IT operations.

Setting up a productive and successful outsourcing relationship requires considerable up-front time and effort. The two sides need to divide work and responsibilities; establish mechanisms for oversight, collaboration and information-sharing; and, of course, get to know each other and establish ground rules for working together.

As a global company with 1,600 stores and 35,000 employees worldwide, Church's was an especially strong candidate for IT offshoring. For one thing, the company already had an overseas support infrastructure in place, as well as in-house global expertise and experience. "We're doing business roughly 23 out [of] 24 hours a day," Agadi said.

Sonata's strong global presence was a key factor in Church's decision to go with the India-based vendor. "They have people working in all our time zones, available around the clock," Agadi said. Sonata, for instance, set up a help desk for Church's Latin American sites, with native Spanish speakers.

But few mid-sized firms are as ideally suited to overseas IT outsourcing as Church's. Many lack the in-house skills and resources to manage the relationship effectively, Karamouzis pointed out. That's why it's so crucial for firms to do a stringent cost-benefit analysis, and a careful and thorough evaluation before choosing a vendor.

#### A recipe for success

Church's has a dedicated team of Sonata technical consultants, some of whom reside at the company's Atlanta headquarters. Others are based on a separate floor at Sonata's India headquarters.

Church's two-person IT team is thus able to collaborate directly with Sonata's on-site technical staff on the design and development of new applications, according to Alan Stukalsky, Church's CIO. Workers on the business and management side are able to meet with Church's and Sonata's IT teams in order to provide input on requirements for specific projects. "Sonata is a critical participant in the short- and long-term budgeting and planning process, while ownership remains with internal IT," Stukalsky said.

While Sonata typically provides some level of dedicated on-site and off-site support to customers, the offshore-to-on-site ratio depends on a number of factors, said Partho Mukherjee, an associate vice president at Sonata. These include the scope, duration and nature of the outsourcing work, as well as the phase of the project's lifecycle. "On-site work is heavier at the beginning, when the knowledge transfer takes place," Mukherjee said. Infrastructure management requires an ongoing technical presence onsite; software development does not.

#### Realizing outsourcing results

At Church's, improvements to IT practices brought yet another key benefit, Agadi said: happier end users. An annual IT customer survey conducted after moving to Sonata found a 25% improvement in customer satisfaction ratings.

"Sonata brought in processes and methodologies that reduced the number of [IT] issues," Agadi said, which "resulted in better service to our employees and restaurants."

The right outsourcing partner, as Church's found in Sonata, brings new ideas and fresh approaches, as well as more rigorous methodologies and discipline, from application design and development to testing and quality control, Karamouzis said. Improved efficiency and productivity result, which in turn brings new applications to market faster, and more cheaply.