Outsourcing Presentation

for
Hoskyns Ltd.

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U.S. Outsourcing Information Systems Program
(SOSOP)

Outsourcing Presentation

SOSOP • 491 • 1992

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California, New York, Washington D.C.,
London, Paris, Tokyo, Frankfurt

Emphasis on Primary Research

Experienced Senior Executives

Comprehensive Forecasts

MS-7

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SO/SI Market Analysis Research Basis

- Telephone and on-site interviews
  - 350 vendor revenue surveys
  - 30 detailed vendor profiles
  - 50 vendor interviews
  - 120 user interviews

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SO/SI Market Analysis Research Basis

- Contract data base
  - 160 outsourcing contracts
  - 240 SI contracts

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Information Systems Outsourcing

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Outsourcing is the contracting of information systems processes to external vendors.

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- Systems outsourcing is <u>function</u> oriented
- Systems integration is <u>project</u> oriented

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"I haven't lost 200 people,
I've gained 50,000."

Jack Livingston,
National Car Rental

Source: *Fortune* article

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"IBM runs our computer center as it's supposed to be run—as a profit center, not a cost center."

Kathy Hudson, Kodak

Source: *Fortune* article

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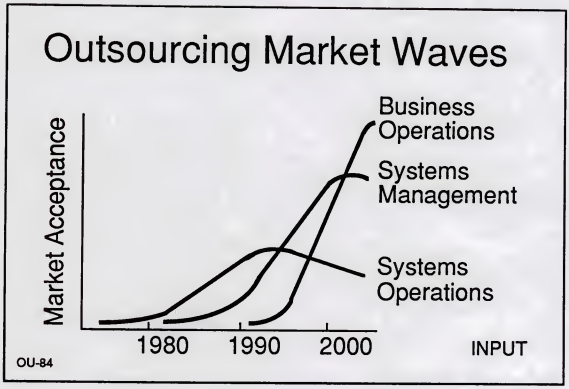

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U.S. Outsourcing Market Forecast

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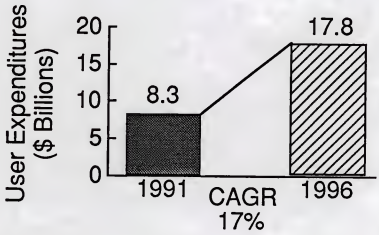
U.S. Outsourcing Market Forecast, 1991-1996



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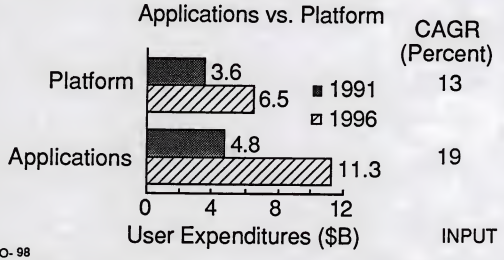
U.S. Outsourcing Market Forecast, 1991-1996



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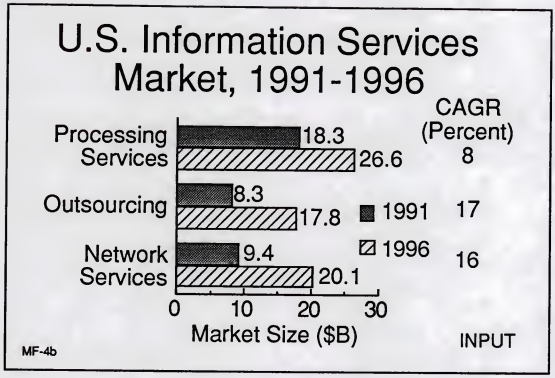

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Outsourcing Market Trends/Issues

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Driving Forces—Outsourcing

Category	Outsourcing
Response	Service requirements Flexible operations
Financial	Cost reduction New scales of economy
Management	Executive refocus

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Driving Forces—Outsourcing

Category	Outsourcing
Staff	Scarcity of talents
Technology	Increasing complexity New technology

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Inhibiting Factors Outsourcing

Category	Outsourcing
Management	Loss of control
Fallback	Inability to reverse decision

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Inhibiting Factors Outsourcing

Category	Outsourcing
Financial	Uncertain savings
Staff	Threat to organization

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Outsourcing User Issues

- Business environment
  - Critical value of information
  - Organizational impact
  - Flexibility for change

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Outsourcing User Issues

- Operating environment
  - Dependency on vendor
  - Long-term stability
  - Improved service levels
  - Control over operating costs

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Major Vendor Strategies

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Leading U.S. SO Vendors

Vendor	1990 Market Share (Percent)
EDS	14
CSC	6
Systematics	3
ISSC	3

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EDS

- 1990 sales - $6 billion
- 60,000 employees
- Outsourcing market leader
- Large accounts focus

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EDS Outsourcing Strategy

- Maintain market dominance
- Acquire client assets
- Leverage acquired assets
  - Reservation systems
  - Manufacturing software

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IBM

- 1990 sales - $69 billion
- 374,000 employees
- World information technology leader

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IBM Outsourcing Strategy

- Focus marketing through ISSC
- Leverage base of experience:
  - Banking
  - Retailing
  - Manufacturing
- Early wins—platform operations

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Andersen Consulting

- 1990 CY sales - $2 billion
- 19,000 professionals
- Reexamining marketing strategies

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Andersen Outsourcing Strategy

- Reduce emphasis on processing
- Focus on applications management
- Use consulting as entree

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Computer Sciences Corporation

- 1991 revenue - $1.7 billion
- 22,000 professionals
- Strong acquisition activity

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CSC Outsourcing Strategy

- Leverage federal experience
- Gain commercial market share
- Focus on applications processing

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Vendor Strategies

- Invest in client business
- Hire client staff
- Acquire participating firms
- Develop risk containment

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Vendor Strategies

- Provide full service
- Focus on vertical market
- Target companies in transition
- Form ad hoc alliances

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Major Contracts

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IBM—United Technologies

- $1 billion over ten years (estimate)
- UT traditional in-house focus
- Platform processing, not applications
- Three UT divisions (1 data center)

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CSC—General Dynamics

- $3 billion over ten years
- 2,600 people transfer to CSC
- Applications management/processing
- Culture = 2 defense contractors

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Perot Systems
NCNB Bank

- $200 million over ten years
- 240 people transferred
- Data center operations
- Started as systems integration project

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Andersen
BP Exploration (U.K.)

- $50 million over 4 years
- 260 staff transferred
- Assume business (billing) operations

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Outsourcing Contracting and Pricing

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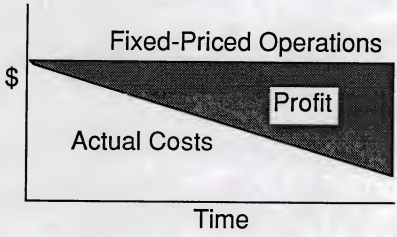
Outsourcing Efficiency Yields Profits



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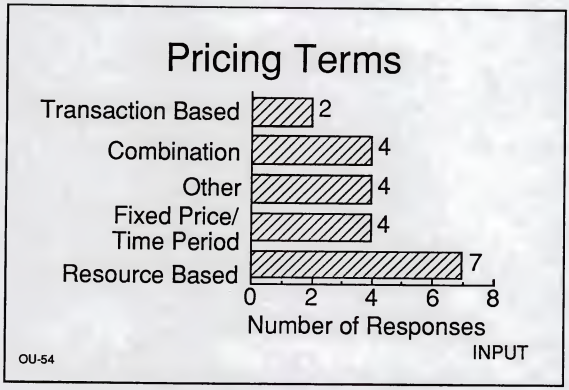

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Value Pricing Concept

- Three components
  - Audience
  - Determine benefit
  - Cost of achieving benefit
- EDS and DEC

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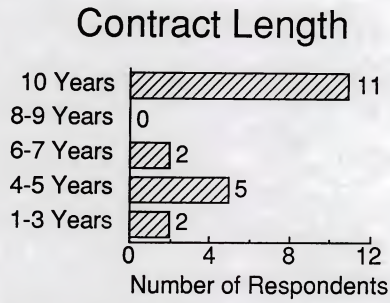

OU-53 Average contract length: 7.7 years

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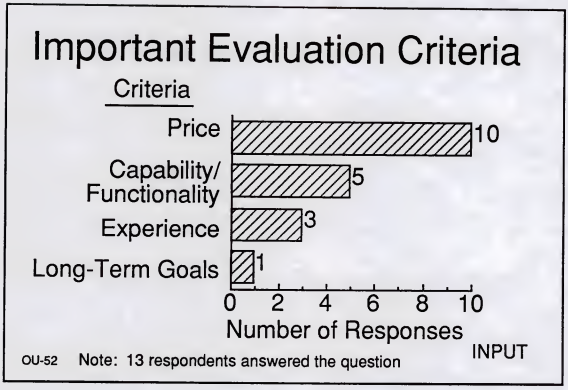

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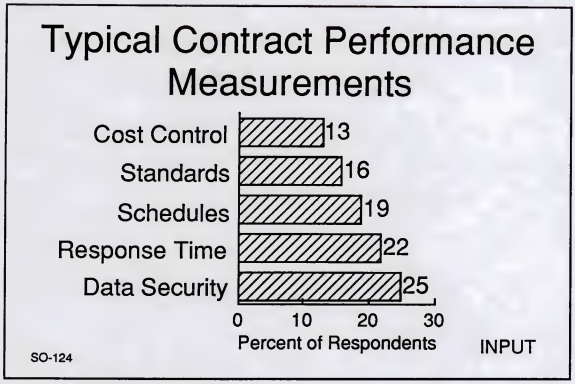

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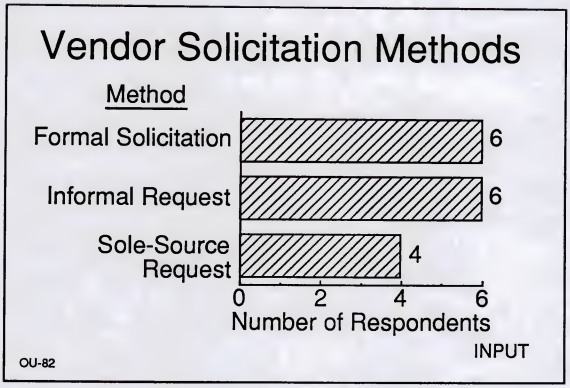

Notes

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Systems Operations Client Staffing

	Before Contracting	After Contracting
Bank	300	5
Government Agency	64	36
Retail Chain	70	0

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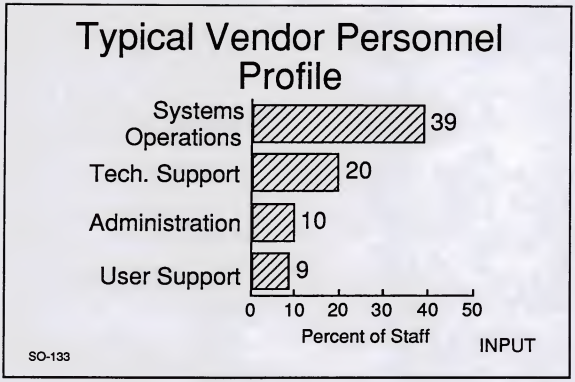

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Market Diversification

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IS Outsourcing Areas

1. Systems operations
2. Applications management
3. Network operations
4. Desktop services

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Notes

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Outsourced Functions

Function	Number of Resp.	
	Yes	No
Processing Operations	20	1
Network Operations	10	11
Applications Management	10	11
Applications Maintenance	1	20
Desktop Services	7	14

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Notes

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Applications Management

- Outsourcing of IS applications and IS operations
- Includes both maintenance and applications development

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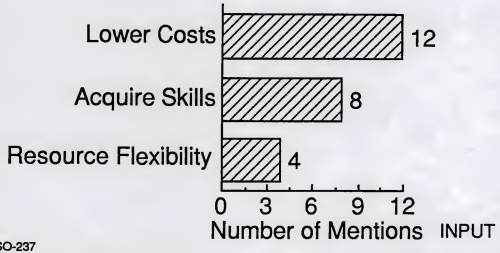
Buyer Motivation
Outsourcing of Appl. Mgmt.



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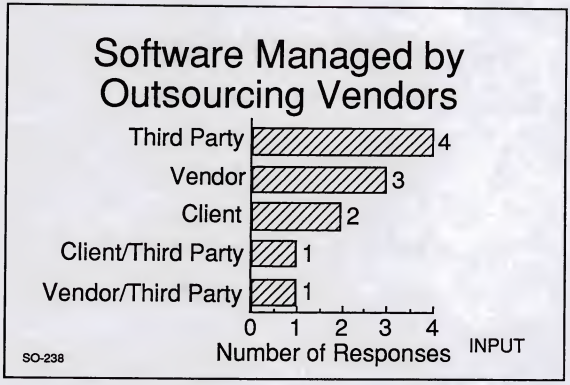

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Outsourcing of Network Management

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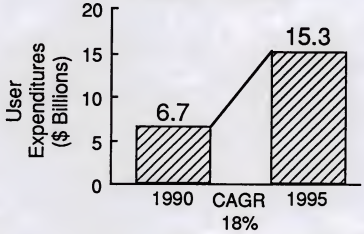
Network Management Expenditure Forecast, 1990-1995



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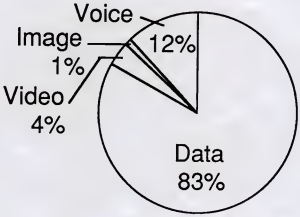
Network Operations Management Revenue



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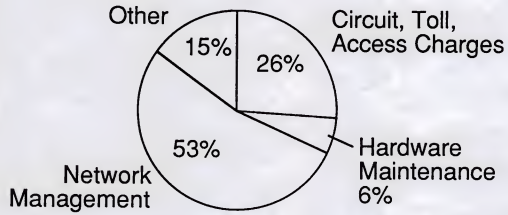
Vendor Revenue by Type of Service



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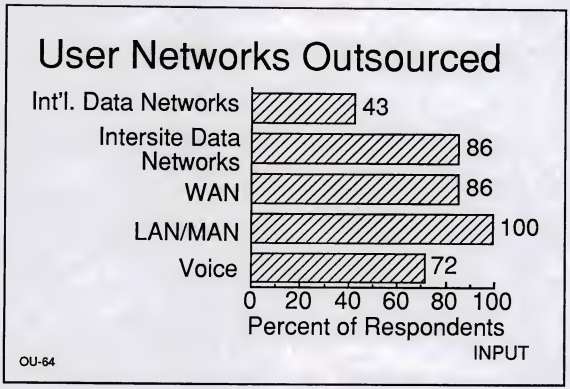

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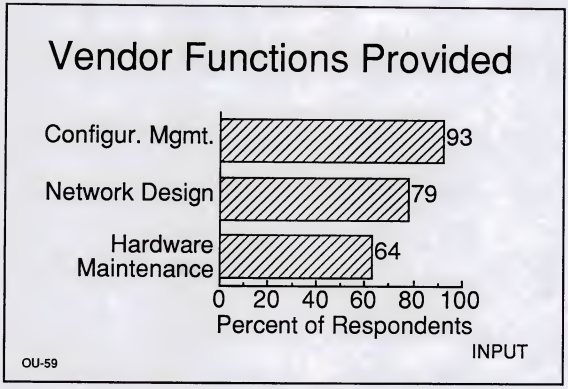

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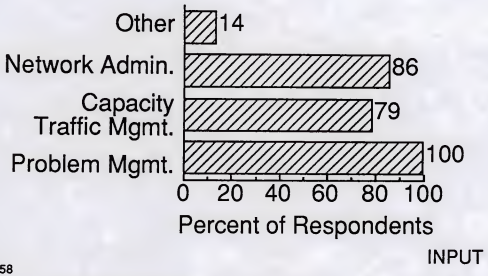

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Desktop Services

A Key Outsourcing Opportunity

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Elements of Desktop Services

- PC/workstation maintenance
- PC/workstation software installation

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Elements of Desktop Services

- LAN administration
- LAN expansion
- Help desk functions
- User training

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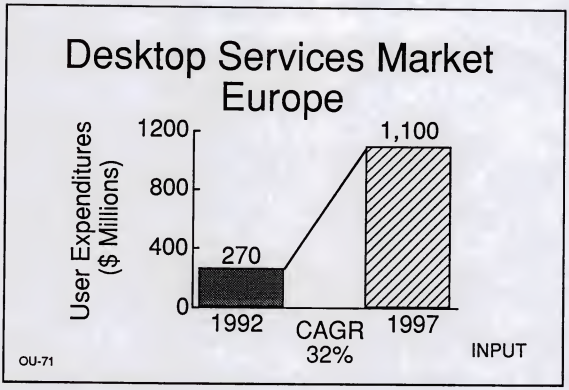

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Driving Forces
Desktop Services

- Core Business Focus
- Downsizing
- PC/LAN Based Applications
- Technological Change

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Typical Desktop Contracts in the U.S.

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JWP/Kodak

- Part III of large outsourcing contract (ISSC/DEC)
- Provide
  - PC/workstation maintenance
  - Software upgrade
  - Help desk services

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Notes

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EDS/GE

- Contract valued at $500 million (5 yrs)
- Provides:
  - PC/workstation central purchasing
  - Establishment of product specs
  - PC/workstation maintenance
  - Software upgrade and training
  - Help desk

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DEC/Blockbuster Video

- International contract
- Provides:
  - Implementation and start-up service
  - Connectivity to network
  - Help desk
  - Hardware and software upgrade

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ISSC/Zale Corp.

- Part of large outsourcing contract
- Provides:
  - PC/workstation maintenance
  - Software upgrade
  - Help desk

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Business Operations Outsourcing

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Business Operations Market

- Potential market 2 to 5 times information systems expenditures
- Contractors will show reduction in overall costs of 25% or more

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Business Operations Examples

- Insurance claims processing
- Telephone company yellow pages operation
- Credit card operations
- Coupon processing for retailers
- Fulfillment for direct marketing

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IS-39

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Conclusions

- Outsourcing is revolutionary
  - Functional responsibility to vendor
  - Increased dependence for clients
  - Increased risk for vendor

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Conclusions

- Outsourcing is revolutionary
  - Vendor/client partnerships
  - Vendor success tied to client success
  - Vendor provides all services

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Conclusions

- Outsourcing revolution continues
  - Deals are getting bigger
  - Larger vendors most successful
  - More services being outsourced

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The Outsourcing Revolution

A new way of doing business . . . better

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Major Vendor Strategies

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