L'Outsourcing

pour qui, pourquoi, quand, comment?

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Conférence INPUT
4 Juin 1992

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Piccadilly House
33/37 Regent Street
London SW1Y 4NF
United Kingdom

Published by
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1280 Villa Street
Mountain View, CA 94041-1194

Outsourcing Information Systems Programme—Europe
(OEOSP)

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Services Industry Trends

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Services Industry Trends 1991-1996—Primary Forces

- The Economy
- The Market Size
- The Influence of Large Vendors
- Downsizing
- The Changing Buyer
- Outsourcing
- The Standards Process

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The Economy

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Weak Economy

- Lingering recession delays decisions
- Information systems under tight control
- Information systems budgets—5% to 10% increase
- Vendor investment is slowed

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IT User Expenditure Europe—Historical Growth

Category	'81 ($B)	CAGR (%)	'91 ($B)
Systems	25	9	60
Systems Software	1	28	12
Equipment Maint.	5	12	15
Services	9	20	58
Total	40	14	145

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The Market Size

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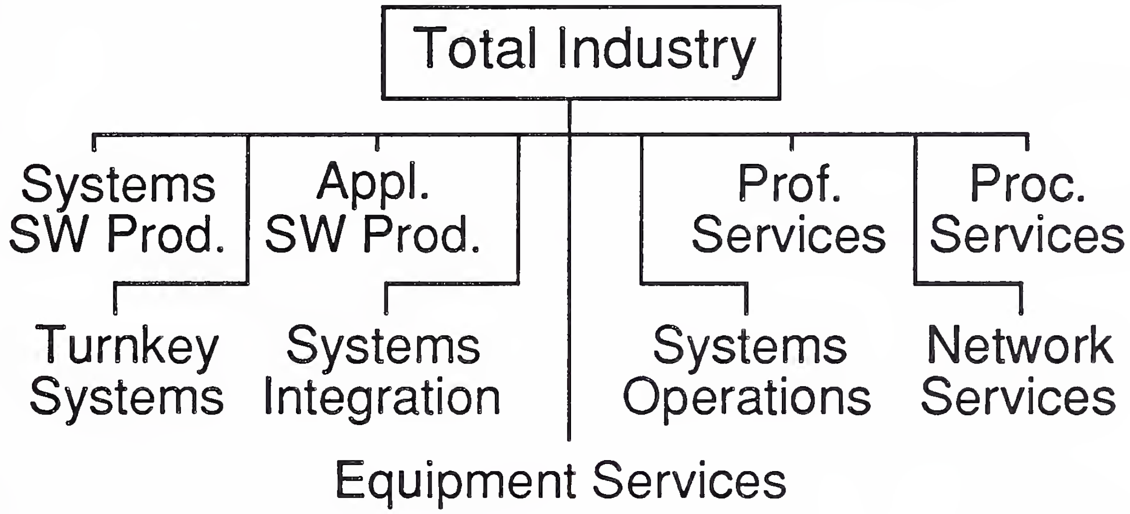
Information Services Industry Structure



IS-2

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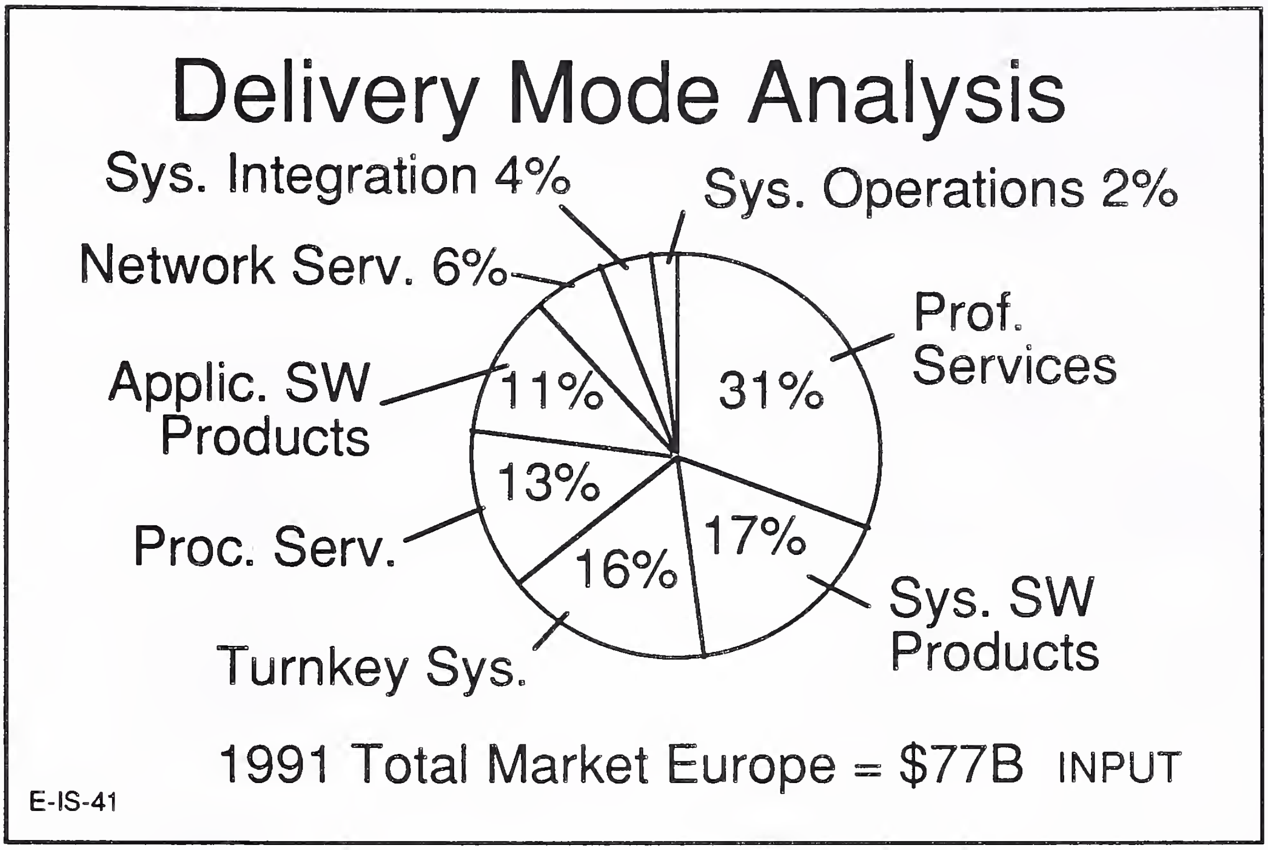
Delivery Mode Analysis
Sys. Integration 4%
Sys. Operations 2%
Network Serv. 6%
Prof. Services
31%
Applic. SW Products
11%
13%
Proc. Serv.
17%
16%
Sys. SW Products
Turnkey Sys.
1991 Total Market Europe = $77B INPUT
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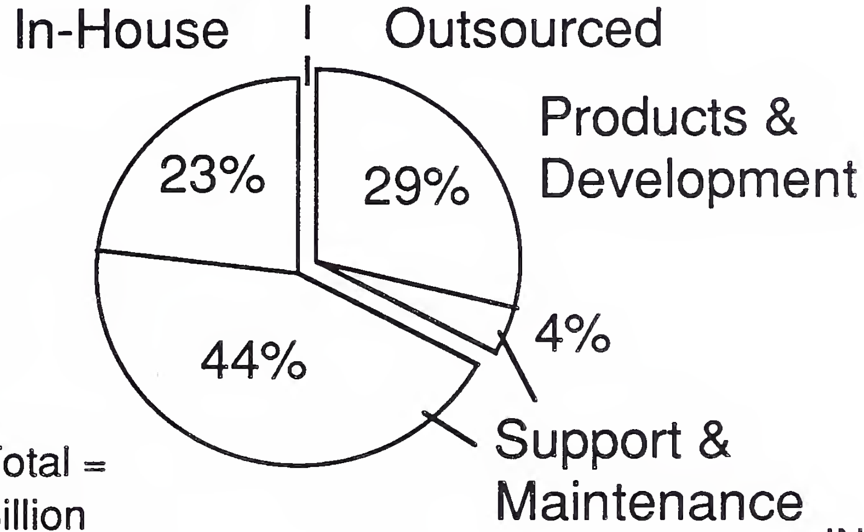
European User Software Budgets



1990 Total = $90 Billion

MEMAP-RF-7/3- 15

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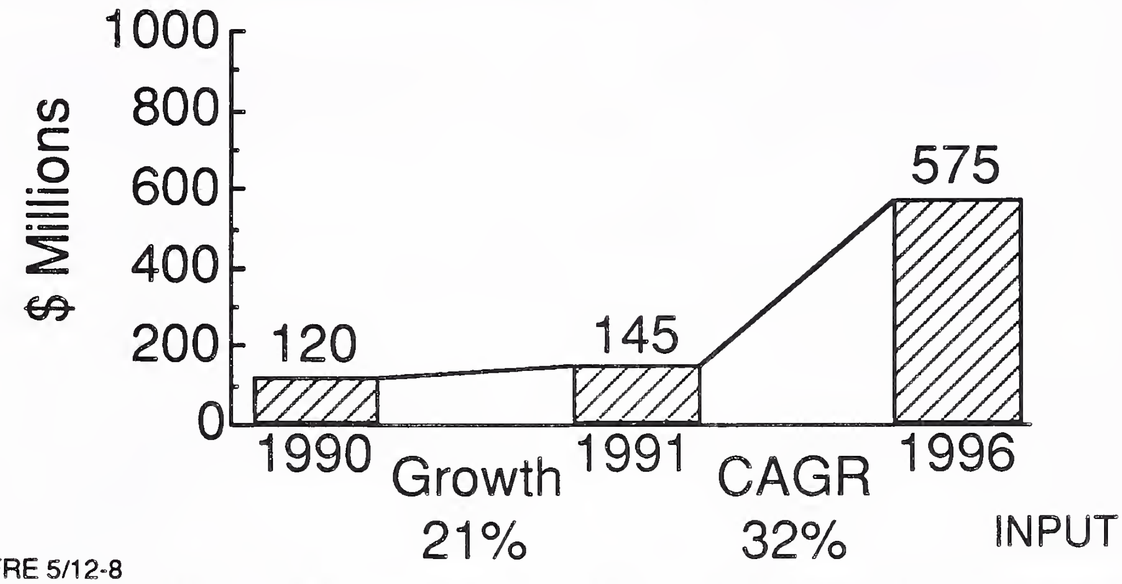
Eastern Europe, 1991-1996
Software and Services



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The Influence of Large Vendors

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Increasing Influence of Large Vendors

- Consolidation continues
- Market share creeping up
- Outsourcing favors larger vendors
- Slows technological change and adoption

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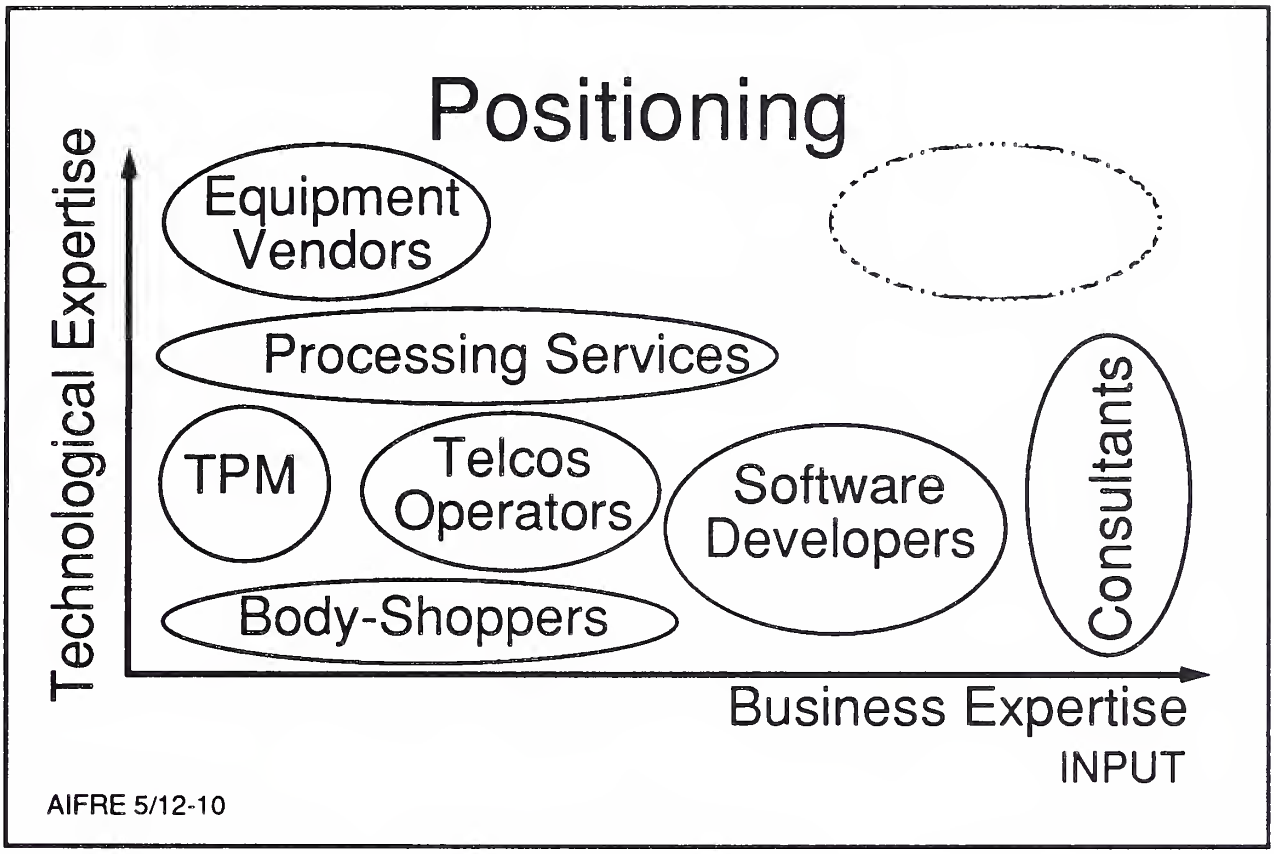
Positioning
Technological Expertise
Equipment Vendors
Processing Services
TPM
Telcos Operators
Software Developers
Consultants
Body-Shoppers
Business Expertise
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AIFRE 5/12-10

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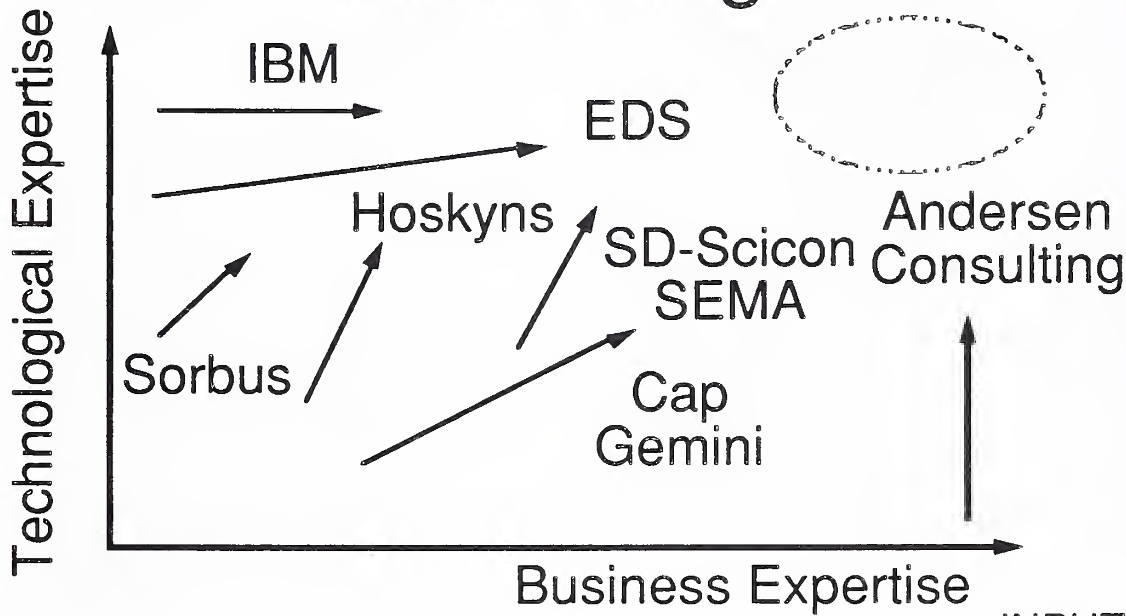
Positioning



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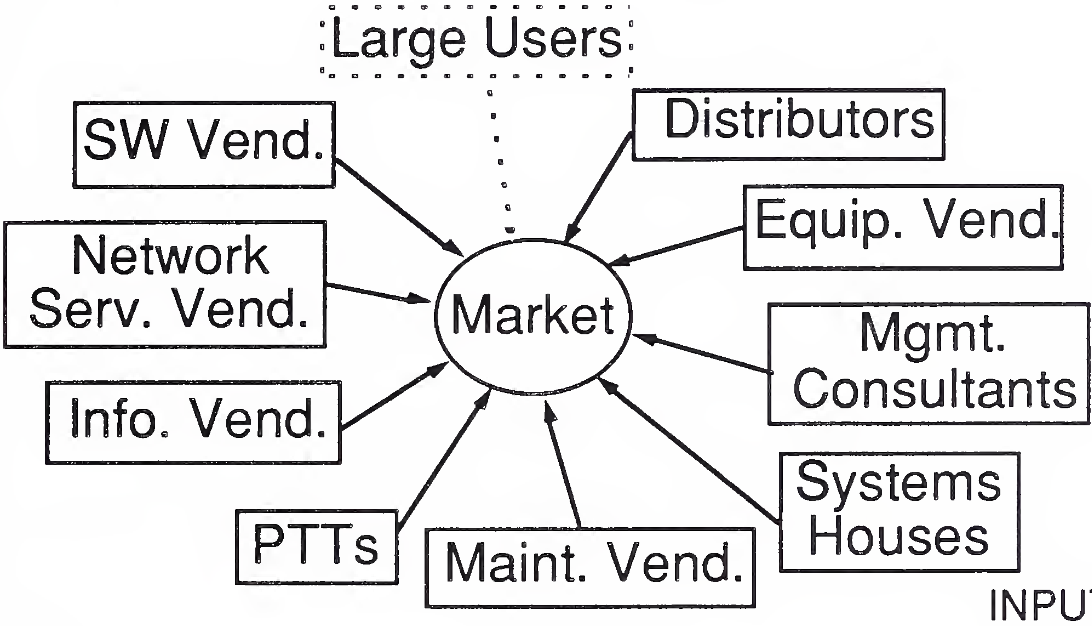
Increasing Competition



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Downsizing

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AIFRE 5/12-11

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Downsizing
What Is Its Meaning?

- Something new
- Something old
- Downsizing = Upsizing
- Downsizing = Smartsizing = Upsizing
  Rightsizing

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Notes

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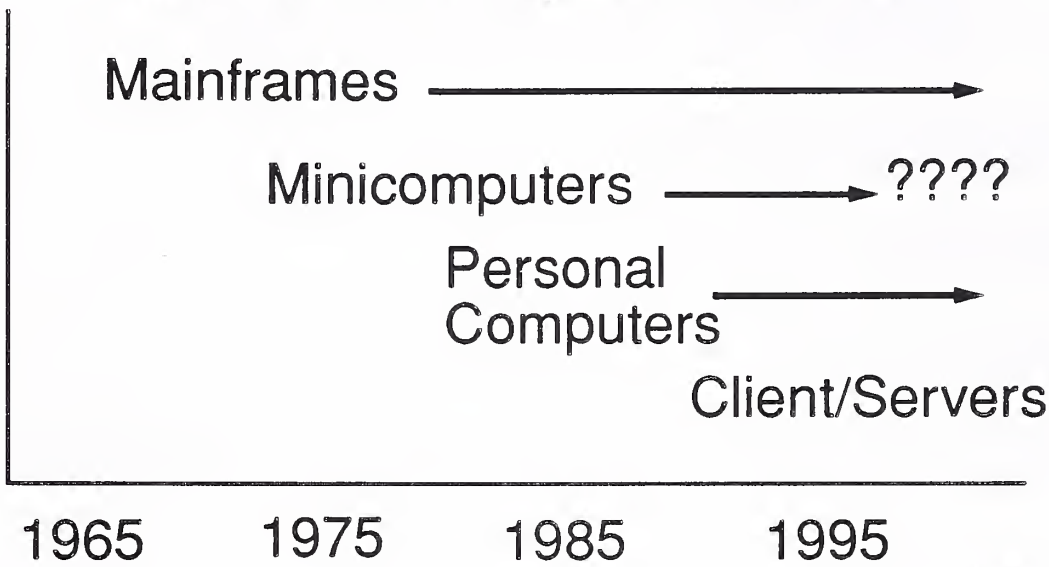
Downsizing Timeline



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AIFRE 5/12-13

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Downsizing
What Are the Motivations?

- Lower costs
- Distribute data bases
- Improve productivity and return on investment
- Put the power in the hands of the users

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The Changing Buyer

AIFRE 5/12-15

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The Changing Buyer

- General manager becomes primary buyer
- IS becomes internal consultant
- Solutions versus technology

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The Changing Buyer

- Decisions become larger—take longer
- The budget is decentralized—multiple buyers

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Revolutions or Evolutions?

- Re-engineering
  - Organization: All or parts
  - IS Organization

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Outsourcing

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

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“Outsourcing” vs. Buying Services

- Greater commitment on part of buyer
- “Partnership”
- Responsibility/risk for vendors

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Product and Service Trends

Transition Management	*Applications Maintenance*	*Applications Management*

Sys. Integ. Sys. Oper.

Applications Software	Turnkey Systems	Processing Services
Systems Software	Professional Services	Network Services

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The Standards Process

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The Systems Industry—Past

Operating environments protected core systems prices

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The Systems Industry—Now

Open Systems

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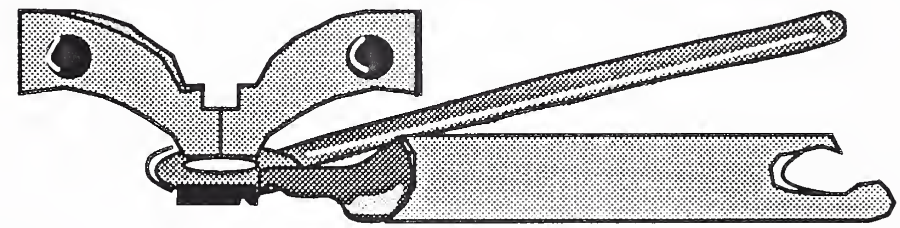

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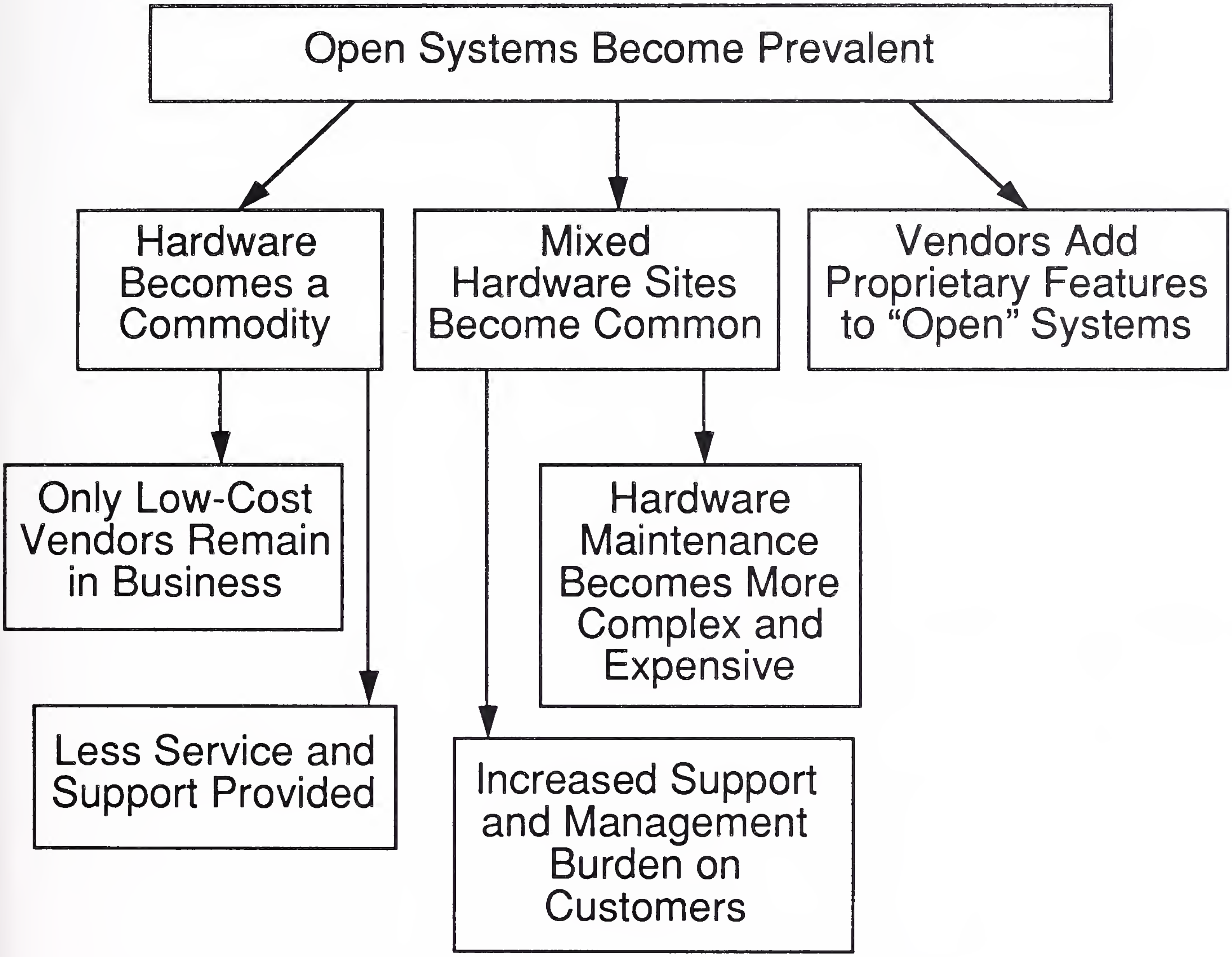
Open Systems: Market-Related Problems



Overview of Outsourcing Market in Europe

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Systems Operations, Europe

Key Trends

- Users' outsourcing becomes more complete
- New types of service emerging
- Vendors seek increased profitability

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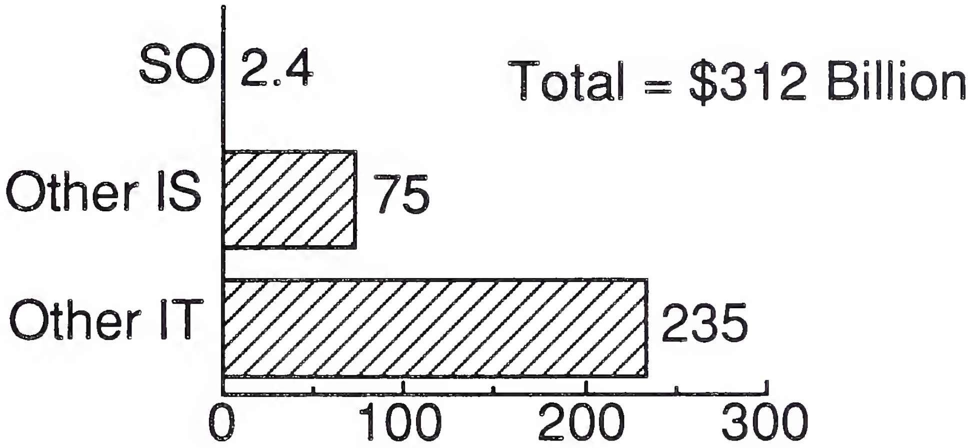
Total IT Expenditure Europe, 1991



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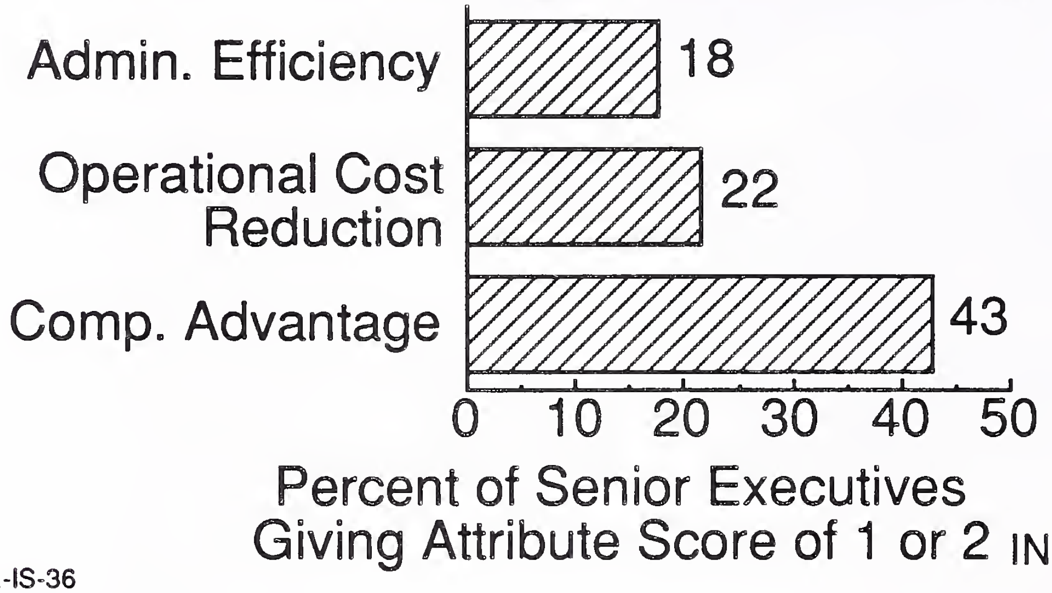
Europe

Major Challenges for IS Depts.



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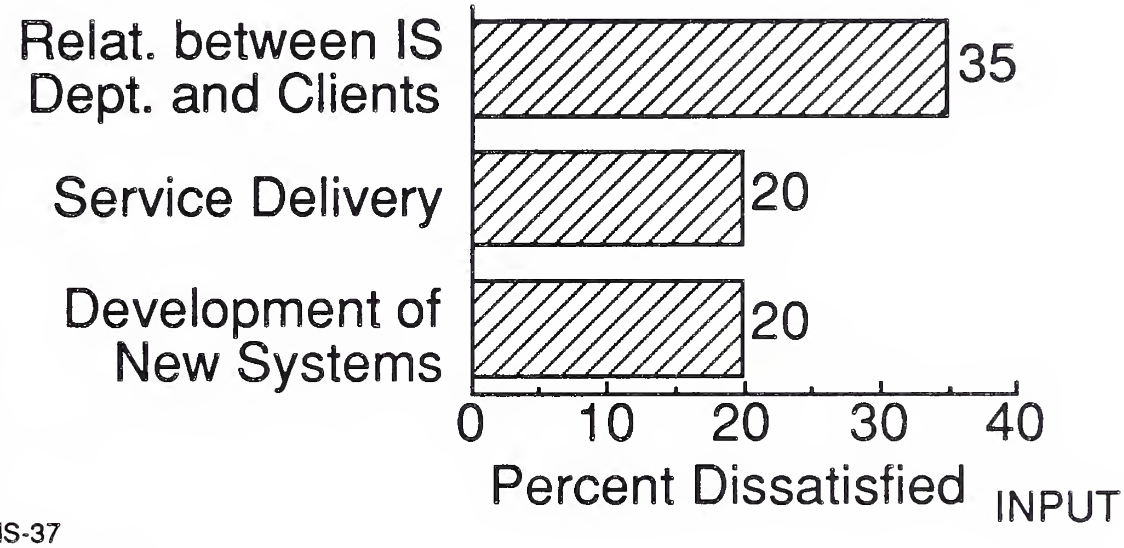
Europe

Major Challenges for IS Depts.



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Outsourcing, Europe

Identification of Prospects

Low

Level of In-house IS Capability

Changing Co. Struct. Changing Business Focus	Remote Subsid. New Acquisition
Stable Well-Focused Org.	Change of CEO

Quality of Relat. Between IS & Clients

High

Low

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Notes

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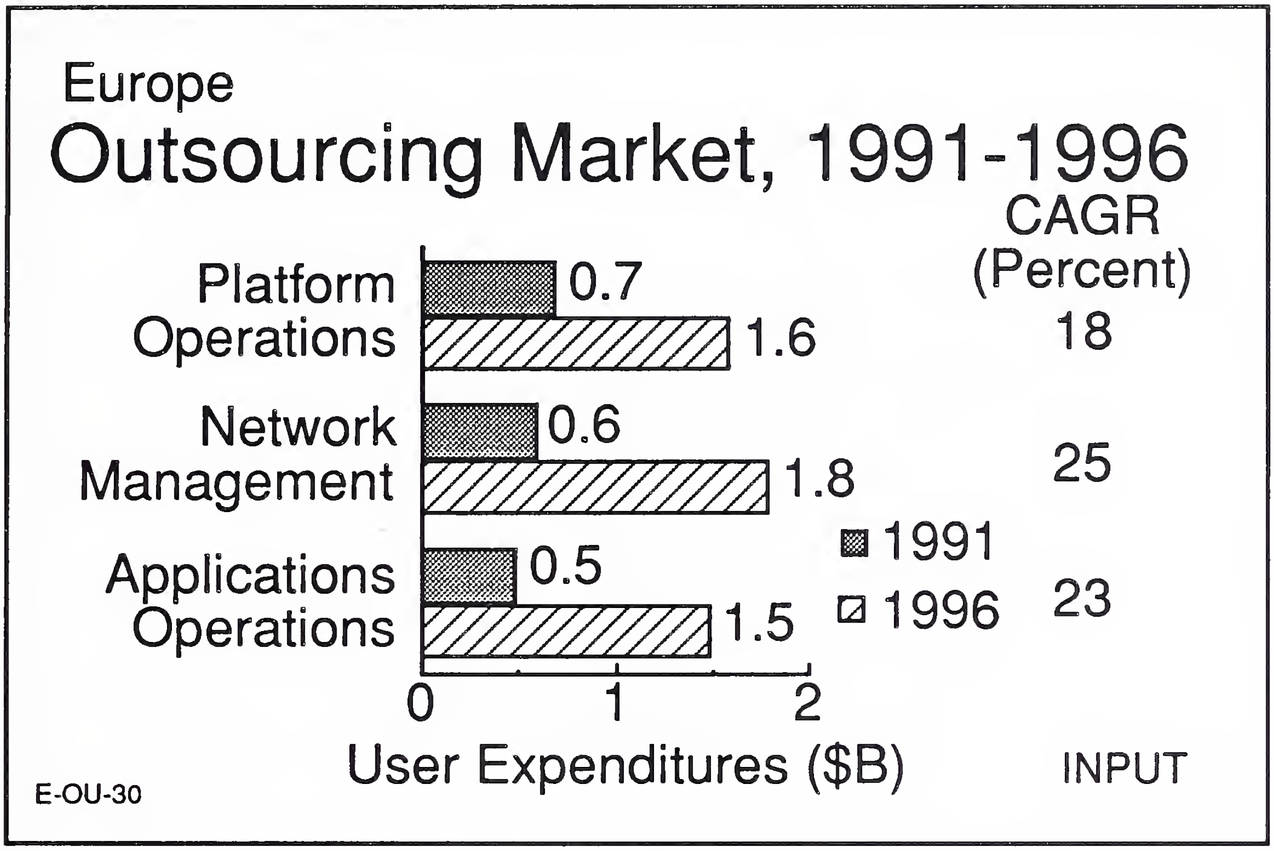

Europe
Outsourcing Market, 1991-1996
CAGR (Percent)
Platform Operations
0.7
1.6
18
Network Management
0.6
1.8
25
Applications Operations
0.5
1.5
23
1991
1996
0
1
2
User Expenditures ($B)
INPUT
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Notes

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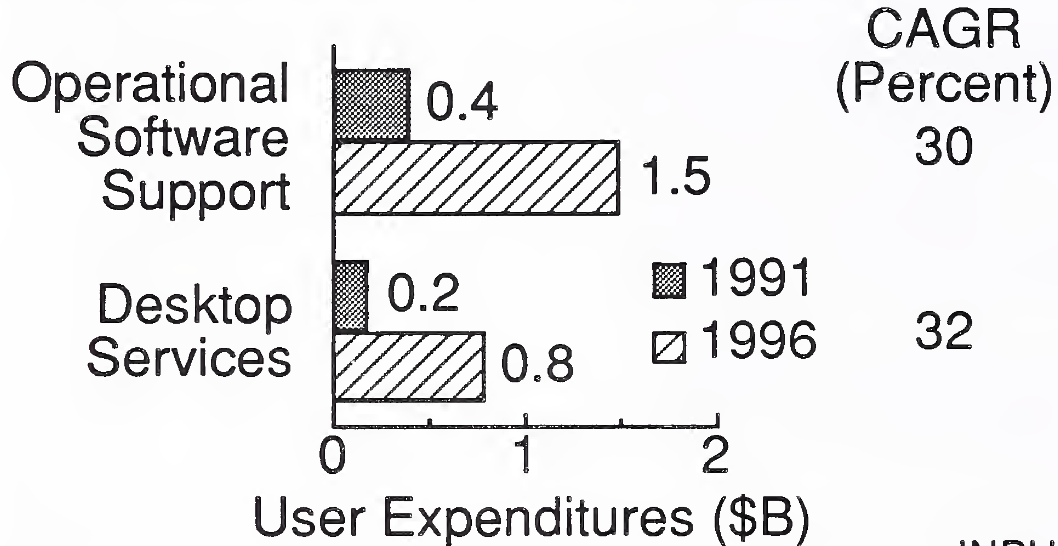
Europe

Outsourcing Market, 1991-1996



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Notes

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Outsourcing, Europe

Principal Reasons for Platform Operations

Factor	Degree of Imp.
Easier planning of IS costs	High
Complexity of technology	High
Difficulty in recruiting staff	Med.
Change in technology used	Med.

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Platform Operations, Europe

Nature of Renewals

- Existing service levels crucial
- Users attempt to drive down costs
- Users more susceptible to total solution

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Network Management Outsourcing Drivers

- Increasing reliance on the network—globalisation of business
- Increasing complexity of networking technology
- Increasing volatility of the public network infrastructure

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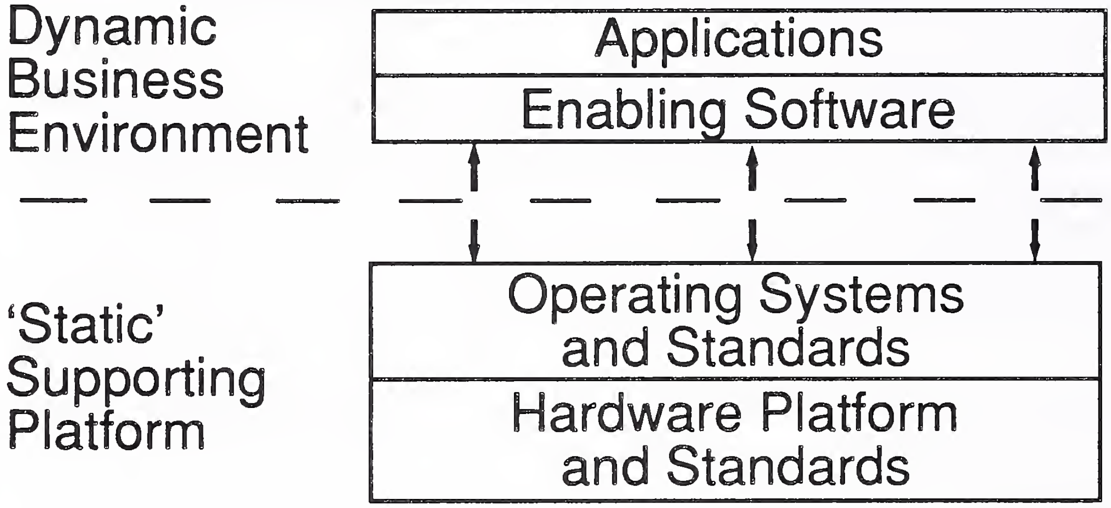
Uncoupling Applications from Infrastructure



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Operational Software Support Outsourcing Drivers

- Dependence on aging application systems
- Resource management difficulties
- Software staff discontent

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Operational Software Support Outsourcing Drivers

- New business demands on staff
- Holding action during transition
- User discontent with quality of service

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Operational Software Support Conclusions

- Untapped market opportunity
- Total user spend ~ $44 billion
- Less than 1% is outsourced
- Primary need—IS management skills

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Application Operations, Europe

Reasons for Adoption

Factor	Degree of Imp.
Making IS relate to business needs	High
Making IS more manageable	High
Easier planning of IS costs	High
Need to reduce IS costs	High

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Notes

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Application Operations, Europe

Vendor Selection Criteria

Factor	Rating
Industry knowledge	High
Business consultancy skills	High
Development capability	High
Vendor independence	High

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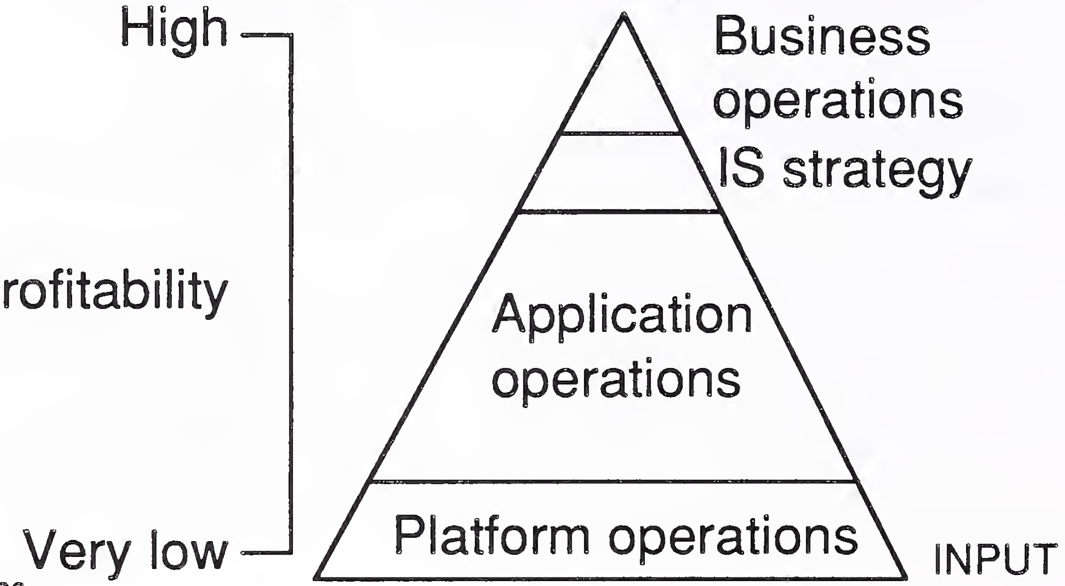
Outsourcing, Europe

Profitability



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Outsourcing, Europe

Leading Vendors, 1990

Rank	Company	Est. Rev. ($M)
1	CGS/Hoskyns	145
2	EDS	132
3	AT&T Istel	78
4	GSI	64
5	SD-Scicon	59

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Outsourcing Product Lines Hoskyns

- Midrange
- Mainframe
- Application management
- Desktop services

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AT&T Istel

Breakdown by Service Type Outsourcing Customer Base

Service	(%) of Contracts
FM and efficiency mgmt.	55
Service management	35
Change management	5
Information systems mgmt.	5

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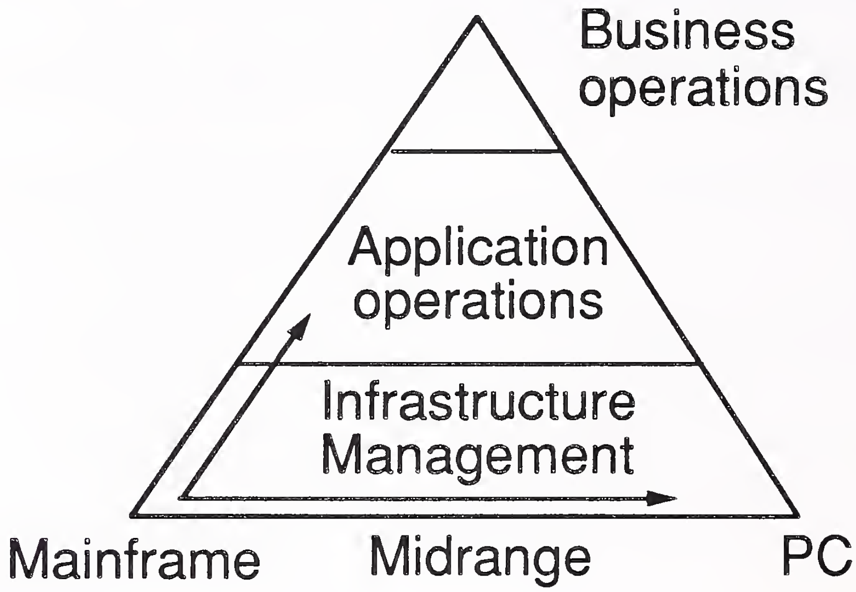
Outsourcing Trends



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Outsourcing Desktop Services In Europe

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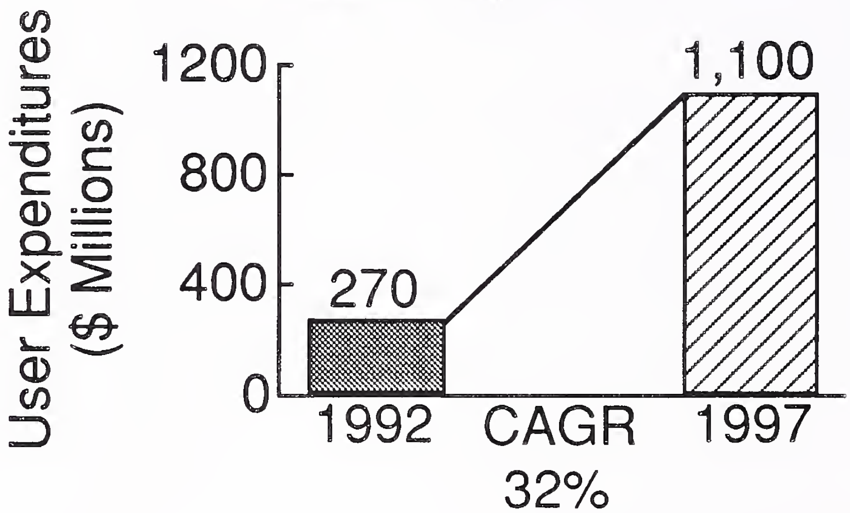
Desktop Services Market
Europe



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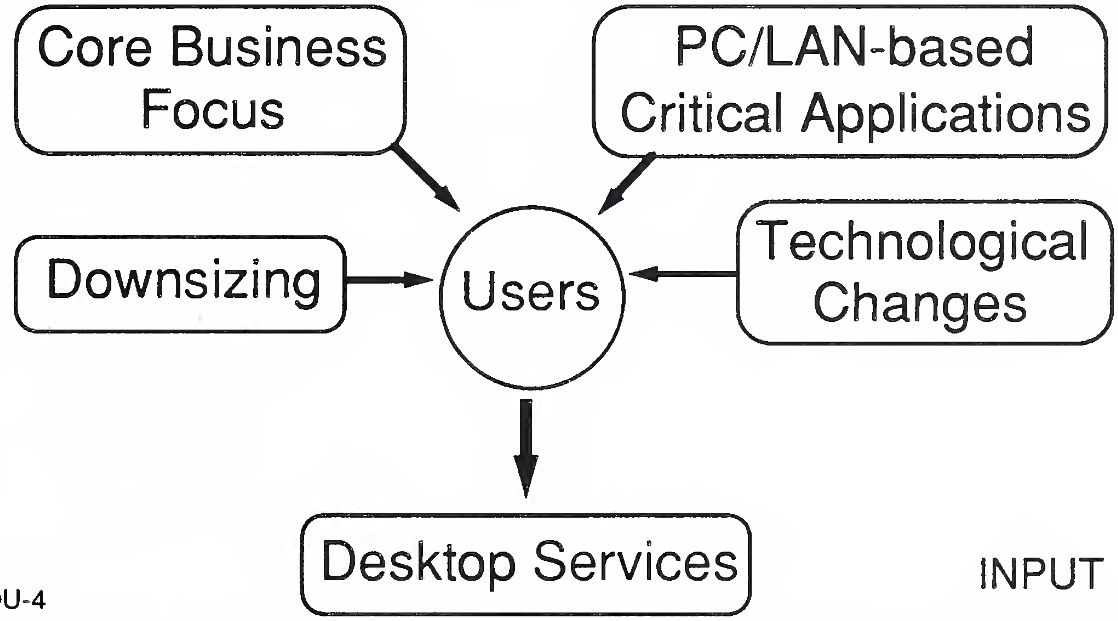
Desktop Services, Europe

Driving Forces



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Desktop Services, Europe

The Decision Process

Size of Organization	In-House Capability Level	Source of decision to outsource
Large organizations	High	Senior executives
Medium-sized organizations	Low	IS management

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Desktop Services, Europe

Major Country Markets, 1992

Country	1992 Revenues ($ Millions)
United Kingdom	120
Germany	40
France	30
Netherlands	25

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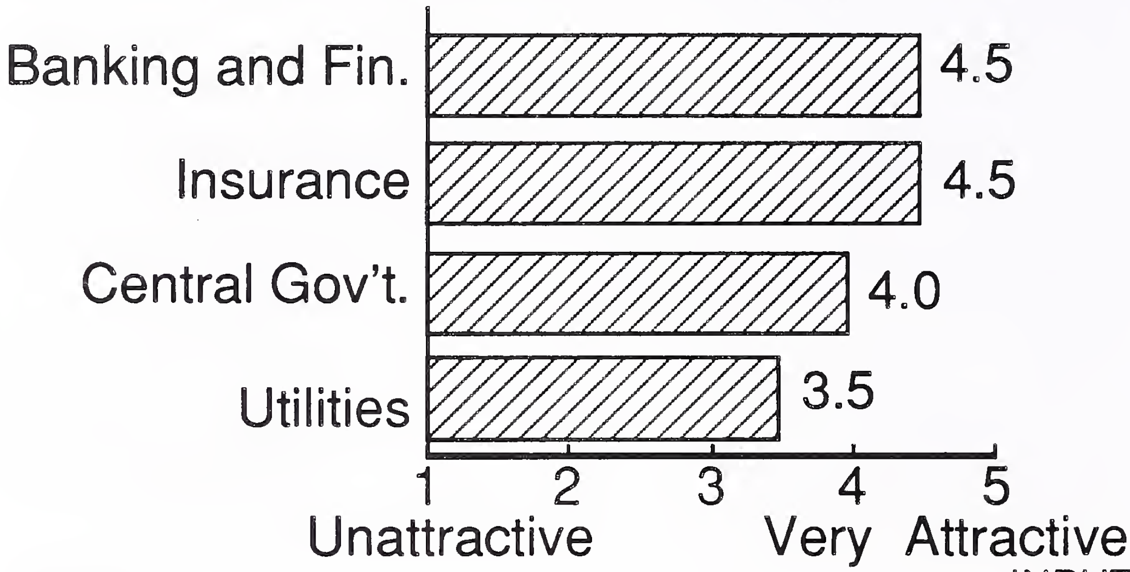
Desktop Services, Europe

Attractiveness of Industry Sectors



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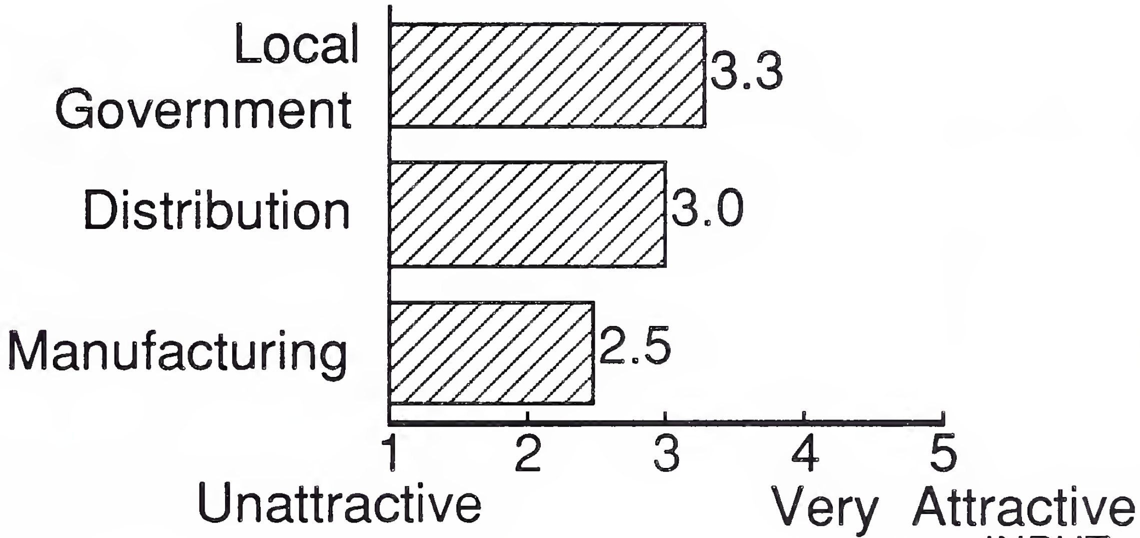
Desktop Services, Europe

Attractiveness of Industry Sectors



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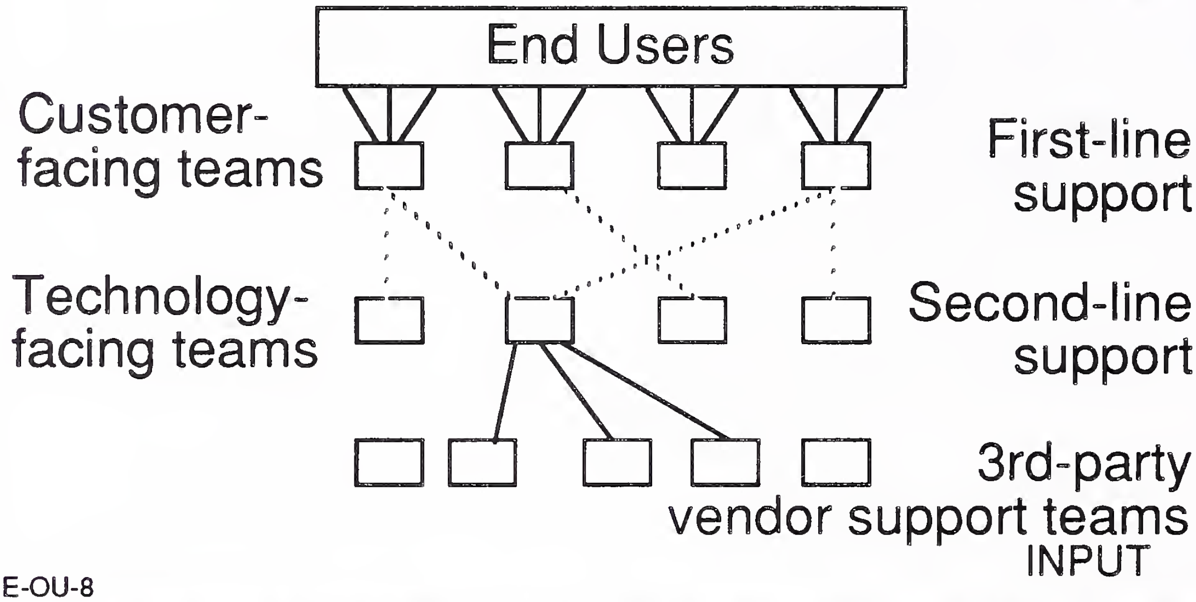
Desktop Services, Europe

Delivery of Help Desk Services



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Desktop Services, Europe

Pricing Mechanisms

- Cost of on-site support plus mark-up
- Monthly usage of remote help desk
- Volume discounts

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ICG Service Offerings

- Help Desk
- International account management
- Consulting services
- PC integration services

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Delivery Capability: ICG

Service Element	Level of Capability
Purchasing consulting	High
Equipment purchase	High
Equipment maintenance	High
LAN/equipment installation	High
LAN management	High

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Delivery Capability: ICG

Service Element	Level of Capability
Help desk services	
- Systems software	High
- Applications SW products	High
Second-line technical support	High

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ICG: Strengths and Weaknesses

Strengths	Weaknesses
Pan-European coverage	Lack industry-specific expertise
Equipment supply	Lack mainframe expertise
Breadth and depth of support capability	SO customer base

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Service Offering: Sema Group

- Based on LAN expertise
- Support limited application range
- Prefer remote help desk

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Desktop Services, Europe

Delivery Capability: Sema Group

Service Element	Level of Cap.
Purchasing consultancy	Medium
Equipment purchase	Medium*
Equipment maintenance	Medium-High*
LAN/equipment installation	High
LAN management	High

*Via partner

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Desktop Services, Europe

Delivery Capability: Sema Group

Service Element	Level of Cap.
Help desk services	
-Systems software	High
-Applications software products	Medium
Second-line technical support	High

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Strengths and Weaknesses: Sema Group

Strengths	Weaknesses
LAN skills Willingness to support ASPs	Lack breadth of PC application support capability

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Desktop Services, Europe

Dealer/Distributor Strategies

- Develop pan-European capability
- One-stop shopping
- Partnerships for proprietary capability
- Major opportunity to enter high-margin services business
- Targeting system development

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Desktop Services, Europe

Strategies: Professional Services Vendors

- Only targeting desktop services as part of wider offering
- Concentrating on network implementation and management

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Desktop Services, Europe

Key Trends

- Downsizing producing substantial market growth
- Could become dominant form of infrastructure management

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Desktop Services, Europe

Key Trends

- Outsourcing ITTs increasingly request desktop services
- Desktop services also emerging as standalone service

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Desktop Services, Europe

Vendor Challenges

- Independence of supply
- Full-service capability
- Breadth of software product support capability
- Up-to-date technical skills
- Pan-European coverage

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