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Annual Presentation
to
IMI Systems

August 9, 1993

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IMI Systems

August 9, 1993

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Annual Presentation to IMI Systems

MAP • 1993

Annual Presentation to IMI Systems

Peter Cunningham
President
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Presentation Outline

- Information Services Issues
- Trends and Markets
- User Environment
- Vendor Environment
- Conclusion

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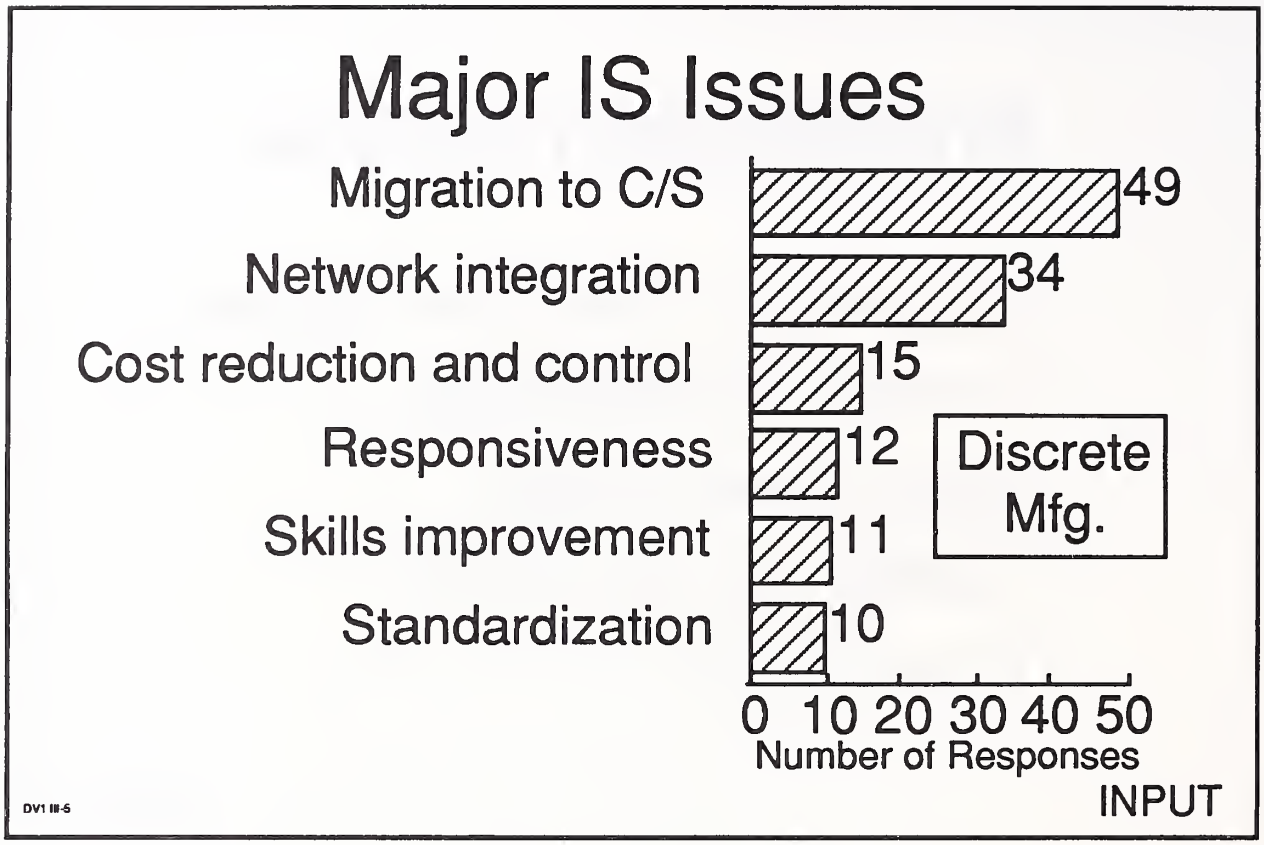
Notes

8/5/93


Major IS Issues
Migration to C/S
Network integration
Cost reduction and control
Responsiveness
Skills improvement
Standardization
49
34
15
12
11
10
Discrete Mfg.
0 10 20 30 40 50
Number of Responses
INPUT
DV1 III-5

Notes

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Information Systems Major Buyer Issues

- Pressures to increase quality and effectiveness
- Restructuring of business activity
- Downsizing business functions and systems

MAPF2 V-1b

INPUT

Notes

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Information Systems Major Buyer Issues

- Need for networking aid and expertise
- Shortage of high-level technical expertise
- Possibility of outsourcing work

MAPF2 V-1c

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Notes

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Information Systems Major Buyer Issues

- User role in planning and decision making
- Use of client/server technology
- Budget pressures and pricing sensitivity

MAPF2 V-1a

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Notes

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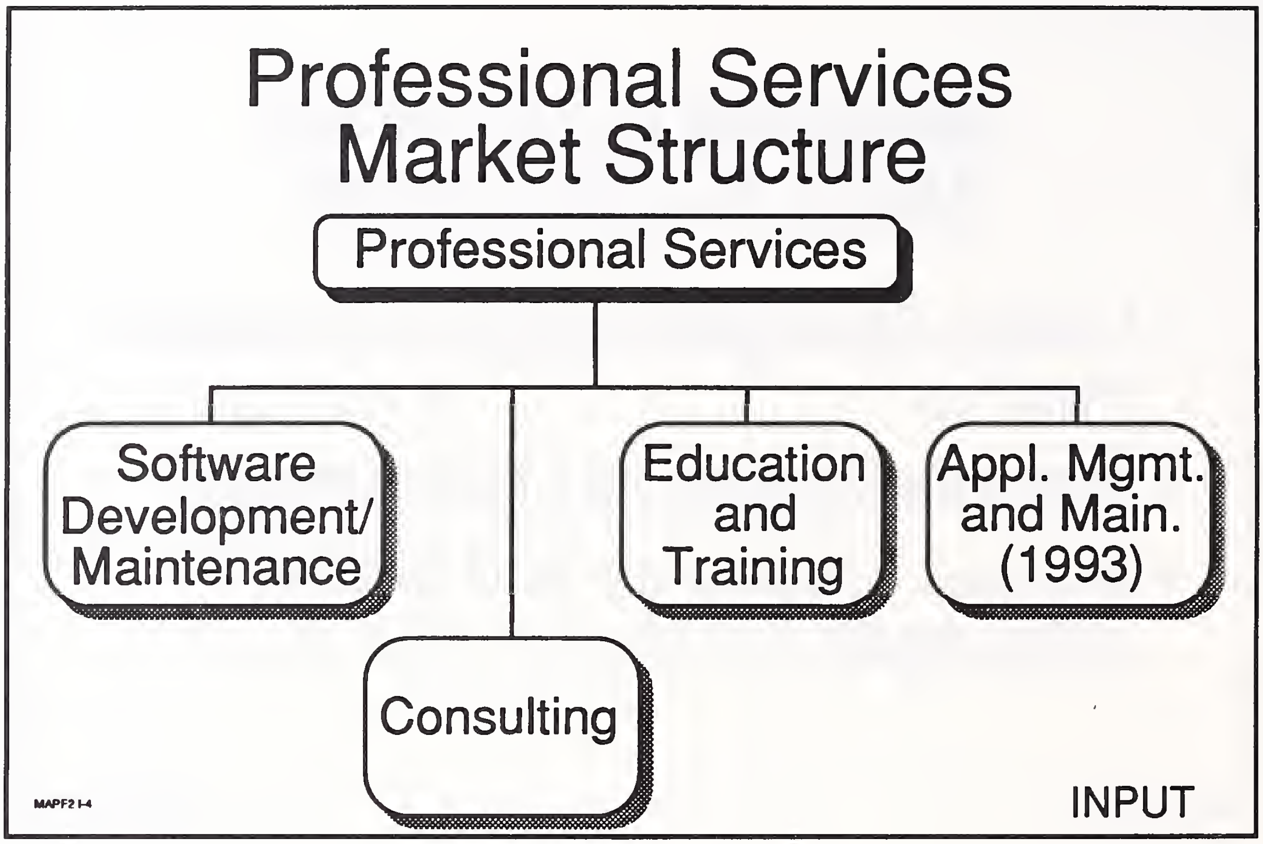
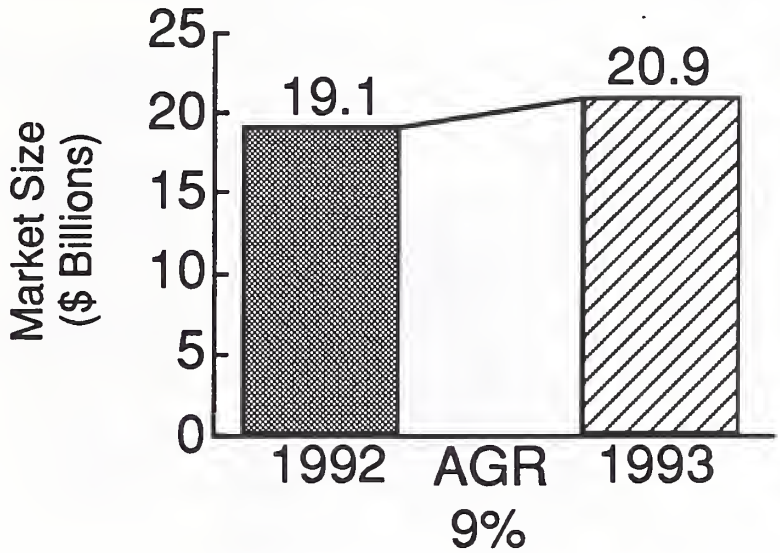

Professional Services
Market Structure
Professional Services
Software Development/ Maintenance
Consulting
Education and Training
Appl. Mgmt. and Main. (1993)
MAPF2 I-4
INPUT

Notes

8/5/93

U.S. Professional Services Market—1992-1993 Growth



IMI-18

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Notes

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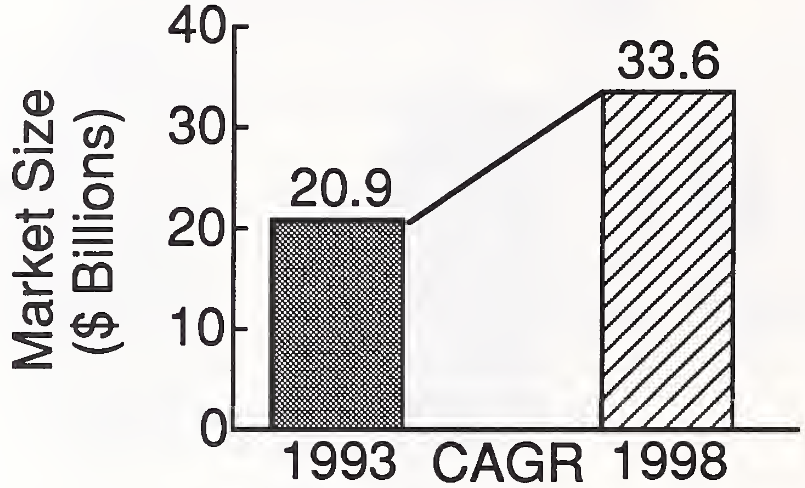
U.S. Professional Services Market, 1993-1998



IMI-6

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Notes

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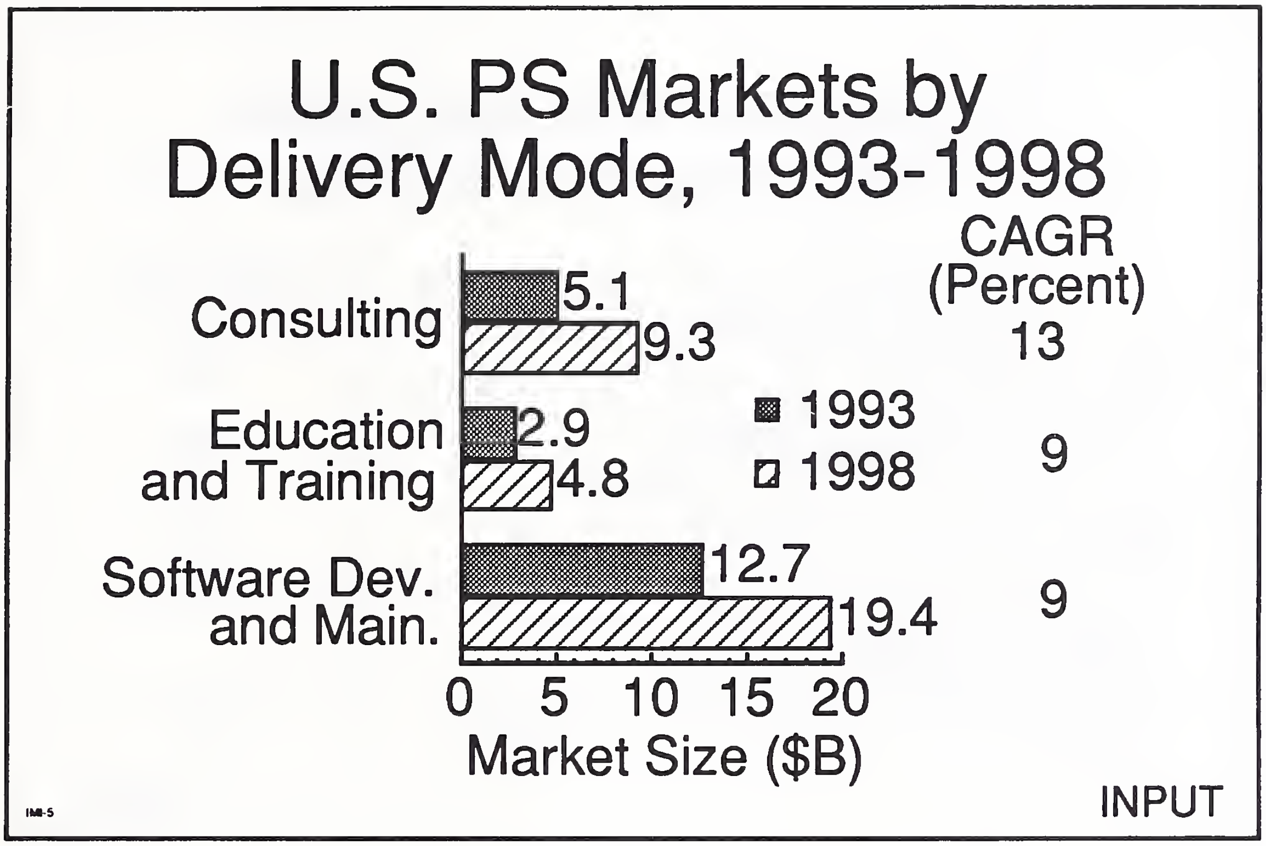

U.S. PS Markets by
Delivery Mode, 1993-1998
CAGR
(Percent)
Consulting
5.1
9.3
13
Education
and Training
2.9
4.8
9
1993
1998
Software Dev.
and Main.
12.7
19.4
9
0
5
10
15
20
Market Size ($B)
INPUT

Notes

8/5/93

PS Expenditures by Target Platforms,1992-1998

Platform	1992 (%)	1998 (%)
Mainframe	52	15
C/S, workstation/PC	25	60
Midrange	21	15
Standalone open systems	2	10
Total	100	100

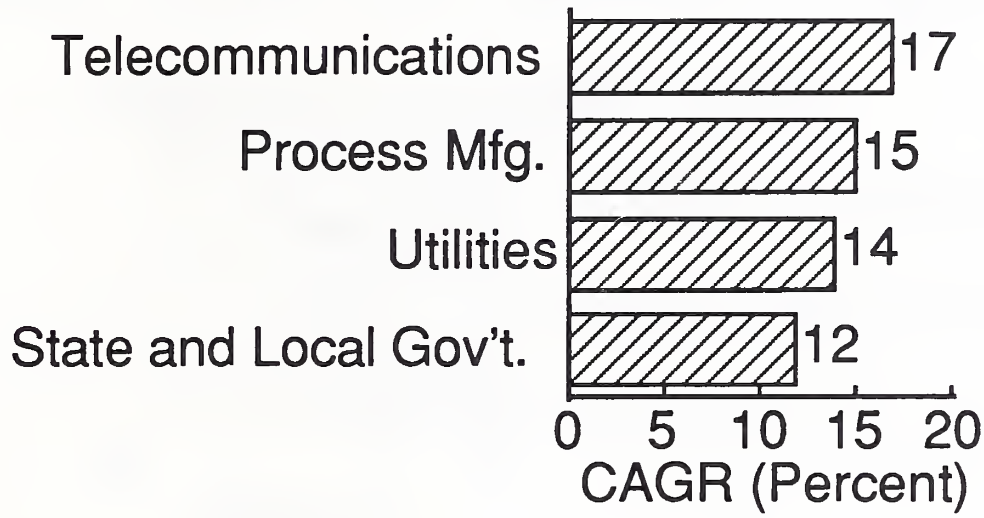
MAN V-2

INPUT

Notes

8/5/93

Fastest Growing PS Vertical Markets, 1993-1998



MI-4

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Notes

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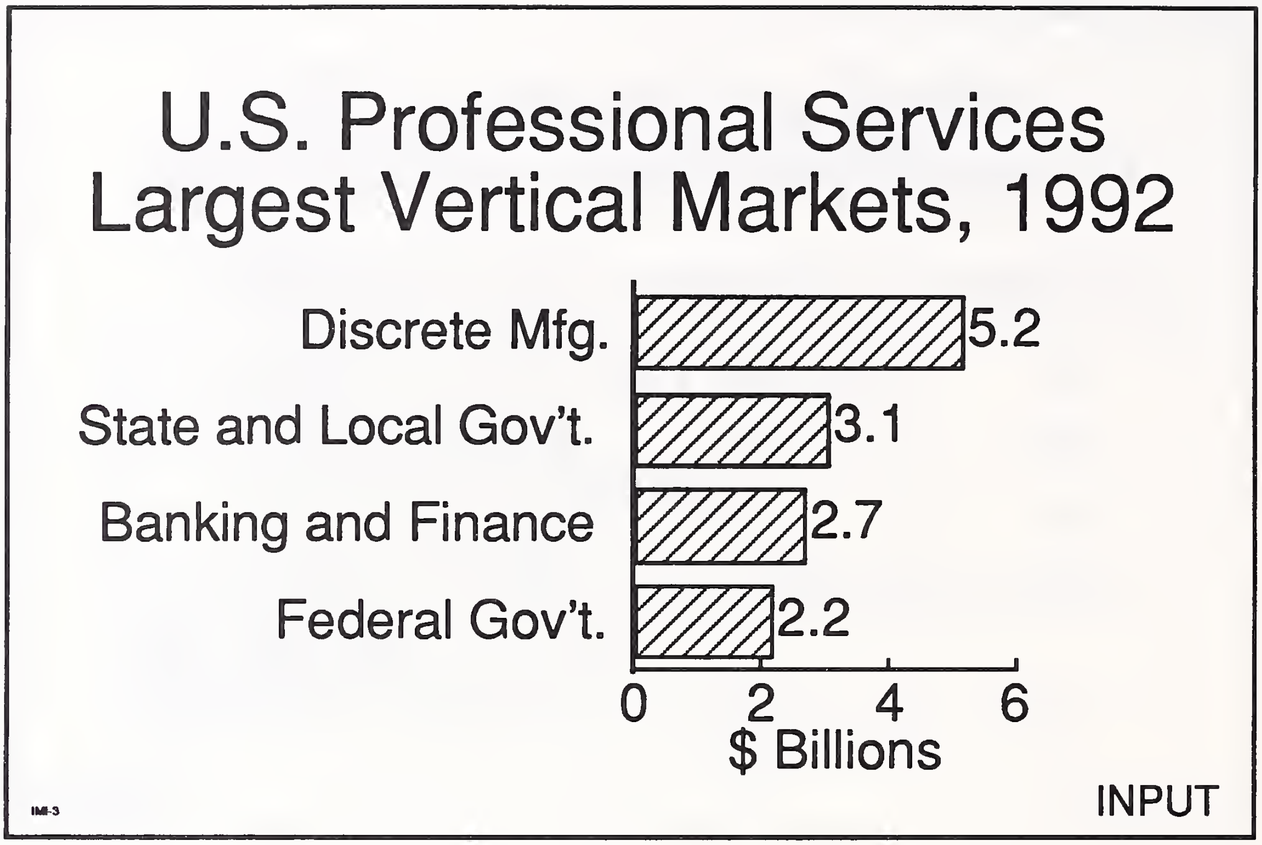
U.S. Professional Services
Largest Vertical Markets, 1992
Discrete Mfg.
5.2
State and Local Gov't.
3.1
Banking and Finance
2.7
Federal Gov't.
2.2
0
2
4
6
$ Billions
IMI-3
INPUT

Notes

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Largest Vertical Markets

- Discrete manufacturing
  - Integrating "islands of automation"
  - Customization demands of standard by buyers

IMI-29a

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Notes

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Largest Vertical Markets

- State and Local Gov't.
  - Reliance on contractors, often local
  - Integration of departments
  - Pent-up demand, despite budget limits
  - Willingness to invest where payback is clear

IMI-29b

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Notes

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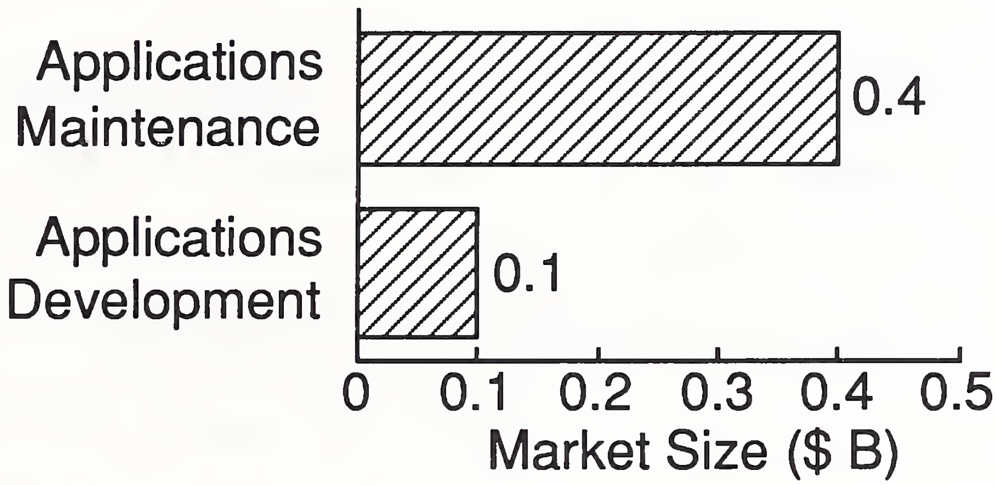
Applications Management
1992 Market



SOAMM III-3

INPUT

Notes

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Profile of a Typical Application Management Contract

- Value $2 million over three years
- Covers all commercial applications
- Cobol predominant language

SOAMM III-5

INPUT

Notes

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Components of Professional Services Consulting

Component	Distribution (%)
Planning and Auditing	8
Systems Analysis	15
Network Planning, Design and Implementation	10
Project Mgmt., Procedure Development, and Other	67

MAPF2 VI-11

INPUT

Notes

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Professional Services Driving Forces

- Growing end-user involvement
  - Need outside assistance
  - Smaller projects
  - Education
- Business process re-engineering
- Driving system changes
- 1993 buzz-word

IMI-30c

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Notes

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Professional Services Driving Forces

- Connectivity
  - intercompany (electronic commerce)
  - Intracompany
    - Cross-functional
    - Connecting "islands"

INPUT

BM-30b

Notes

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Professional Services Driving Forces

- Improving product/service quality
- Increasing sales effectiveness
  - Sales support applications
  - Growing importance, 1992-1997

INPUT

IMI-30a

Notes

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Professional Services Market Driving Forces

- Need for technical skills/industry knowledge
- Need for improved business performance
- Use of client/server technology

MAN V-4a

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Notes

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Professional Services Market Driving Forces

- Vendor bidding/pricing tactics
- Budget pressures
- Growing interest in application support

MAN V-4b

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Notes

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Professional Services Market Growth Inhibitors

- Weak economic recovery
- Tight budgets
- Competition from other types of vendors
- Shortages of critical technical skills
- Internal consulting organizations

MAPF2 V-8

INPUT

Notes

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Current Issues for PS Vendors

- Pressure on rates
- Need for experience with client/server software products
- More competition from SI, SO vendors
- Use of open systems

INPUT

IMI-10a

Notes

8/5/93

Current Issues for PS Vendors

- Use of object-oriented development
- Corporate use of one-person contractors and temporary service firms

INPUT

IMI-10b

Notes

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Factors Having an Impact on Billing Rates

- Media focus on "easy" C/S solutions
- Cutbacks of senior personnel who can contract for services
- Using "temporary services firms" for high-level IS skills

IMI-9a

INPUT

Notes

8/5/93

Factors Having an Impact on Billing Rates

- Low-cost expectations for modifications needed to meet requirements
- Tradeoff—users will pay more to Big 5 or SI vendors and expect to pay others less

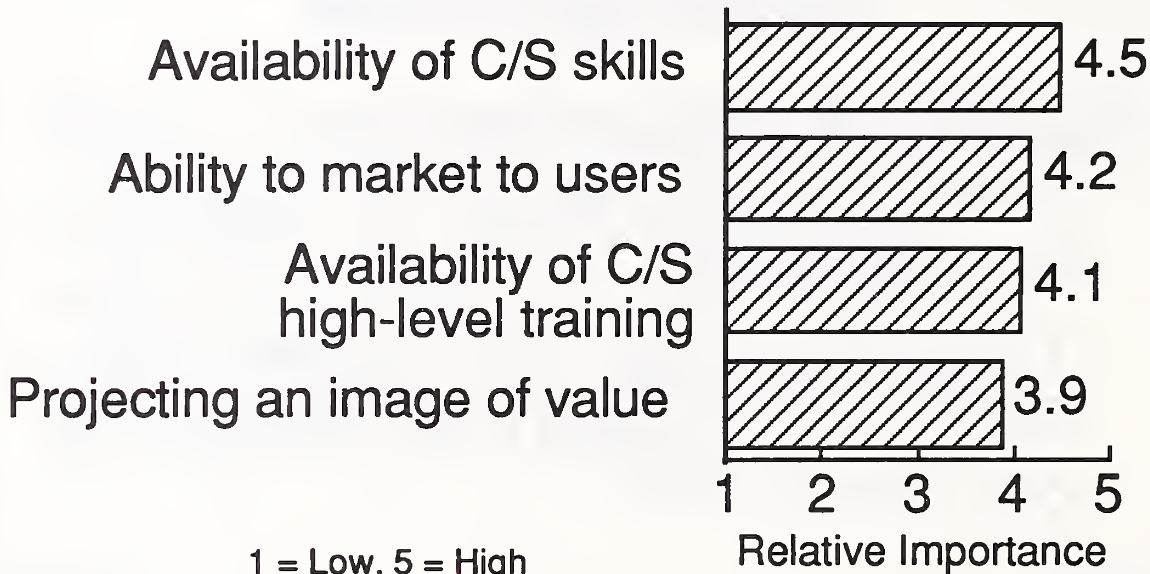
INPUT

IMI-9b

Notes

8/5/93

Factors That Drive Use of PS



1 = Low, 5 = High

INPUT

Notes

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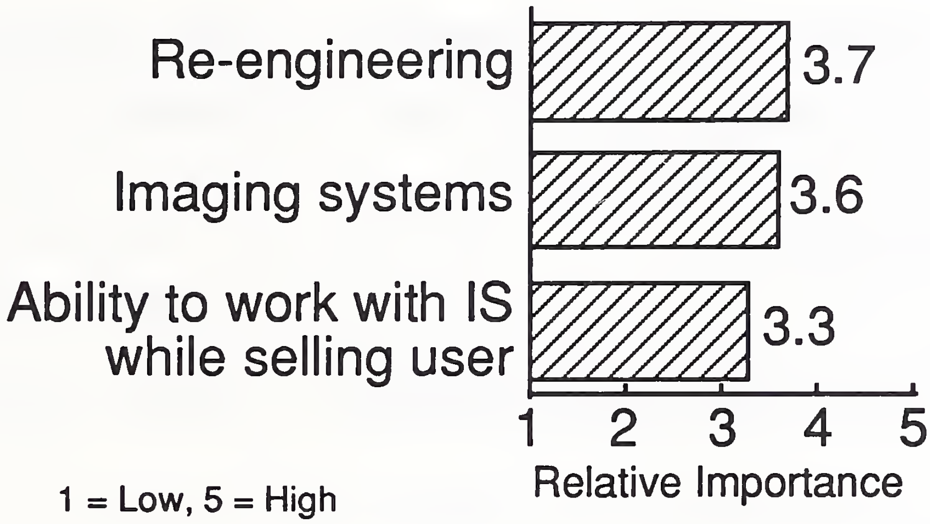
Factors That Drive Use of PS



IMI-24b

INPUT

Notes

Planned Systems Projects

Positive User Responses	No.	Percent
Including EDI application	621	35
Planning to include software products	611	35
Part of a C/S strategy migration	587	34
Part of a downsizing strategy	374	21

INPUT 1993 User Survey (N = 1,748)

INPUT

IMI-12a

Notes

8/5/93

Planned Applications Projects

Positive User Responses	No.	Percent
Planning to use outside services	339	19
Planning to use systems integrators	174	10
Planning to use an outsourcing vendor	151	9

INPUT 1993 User Survey (N = 1,748)

IMI-12b

INPUT

Notes

8/5/93

Planned Use of Development Resources

Organization	Responses	Percent
Corporate IS staff	623	37
User personnel	555	33
User IS staff	491	29

INPUT 1993 User Survey (N = 1,669)

IMI-15

INPUT

Notes

8/5/93

Platforms for Planned Projects

Platform	Responses	Percent
PC/Workstation	616	42
Mainframe	586	40
Mini	250	17

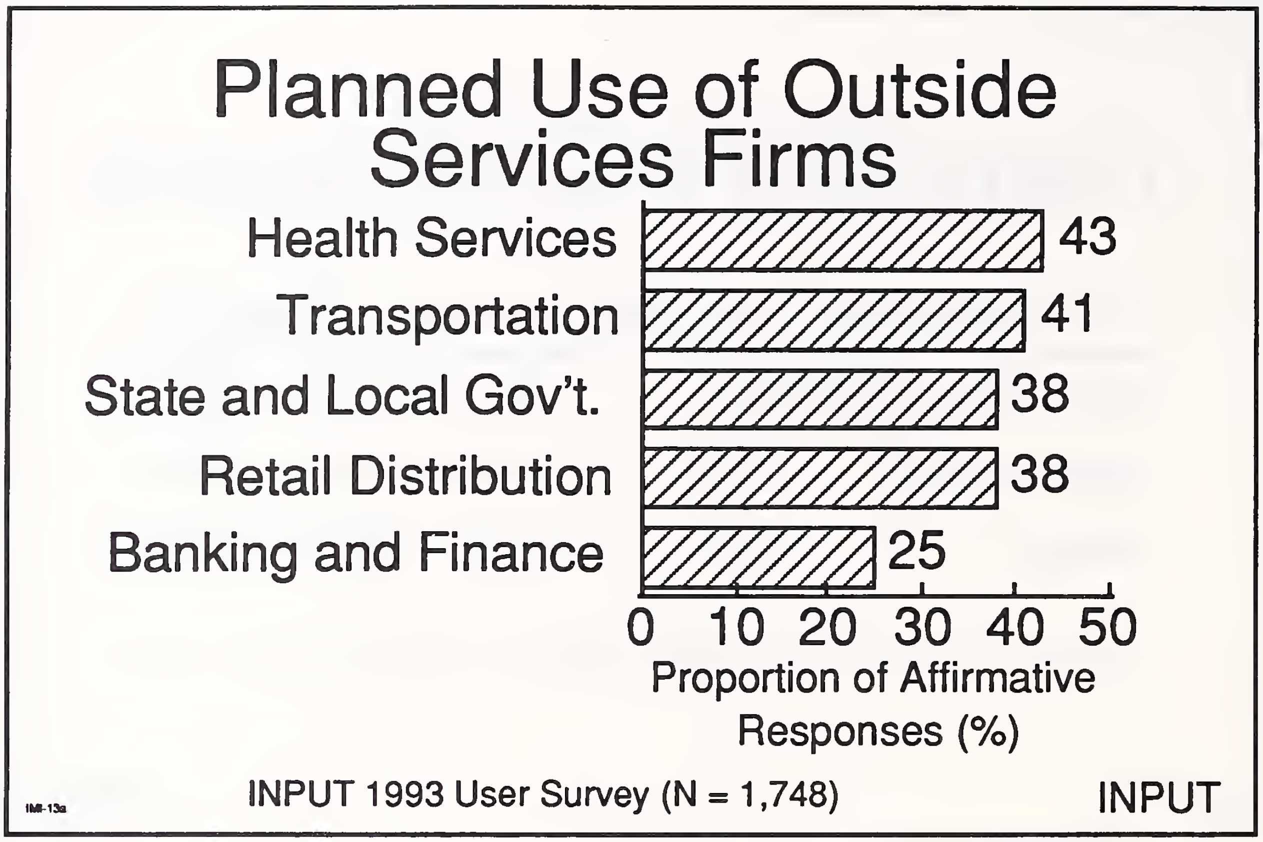
INPUT 1993 User Survey (N = 1,452)

BM-16

INPUT

Notes

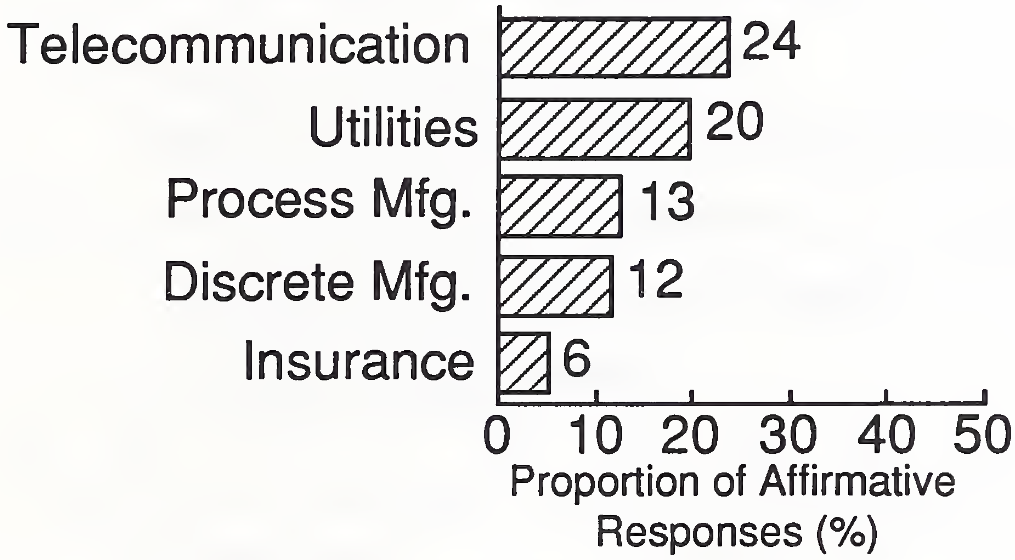
8/5/93


Planned Use of Outside Services Firms
Health Services
Transportation
State and Local Gov't.
Retail Distribution
Banking and Finance
43
41
38
38
25
0 10 20 30 40 50
Proportion of Affirmative Responses (%)
INPUT 1993 User Survey (N = 1,748)
INPUT
IMI-13a

Notes

8/5/93

Planned Use of Outside Services Firms



INPUT 1993 User Survey (N = 1,748)

INPUT

Notes

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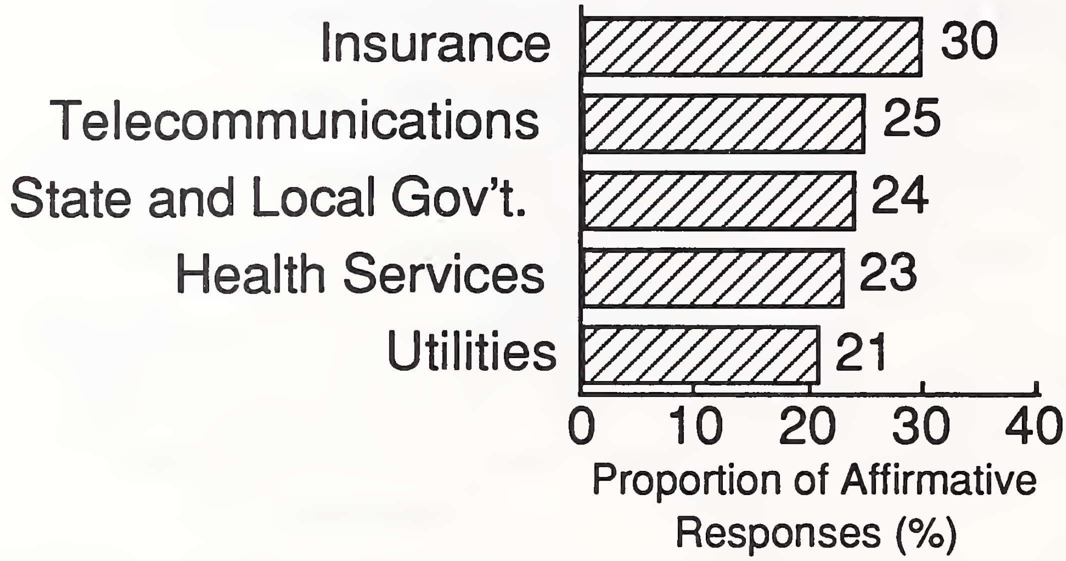
Planned Use of Systems Integrators

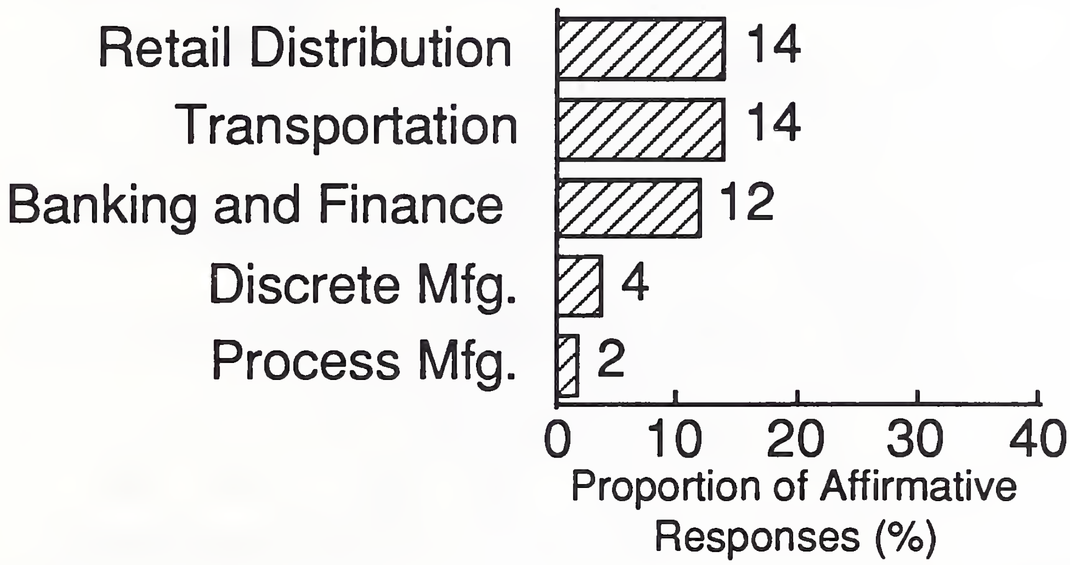


IMI-14a INPUT 1993 User Survey (N = 1,748) INPUT

Notes

8/5/93

Planned Use of Systems Integrators

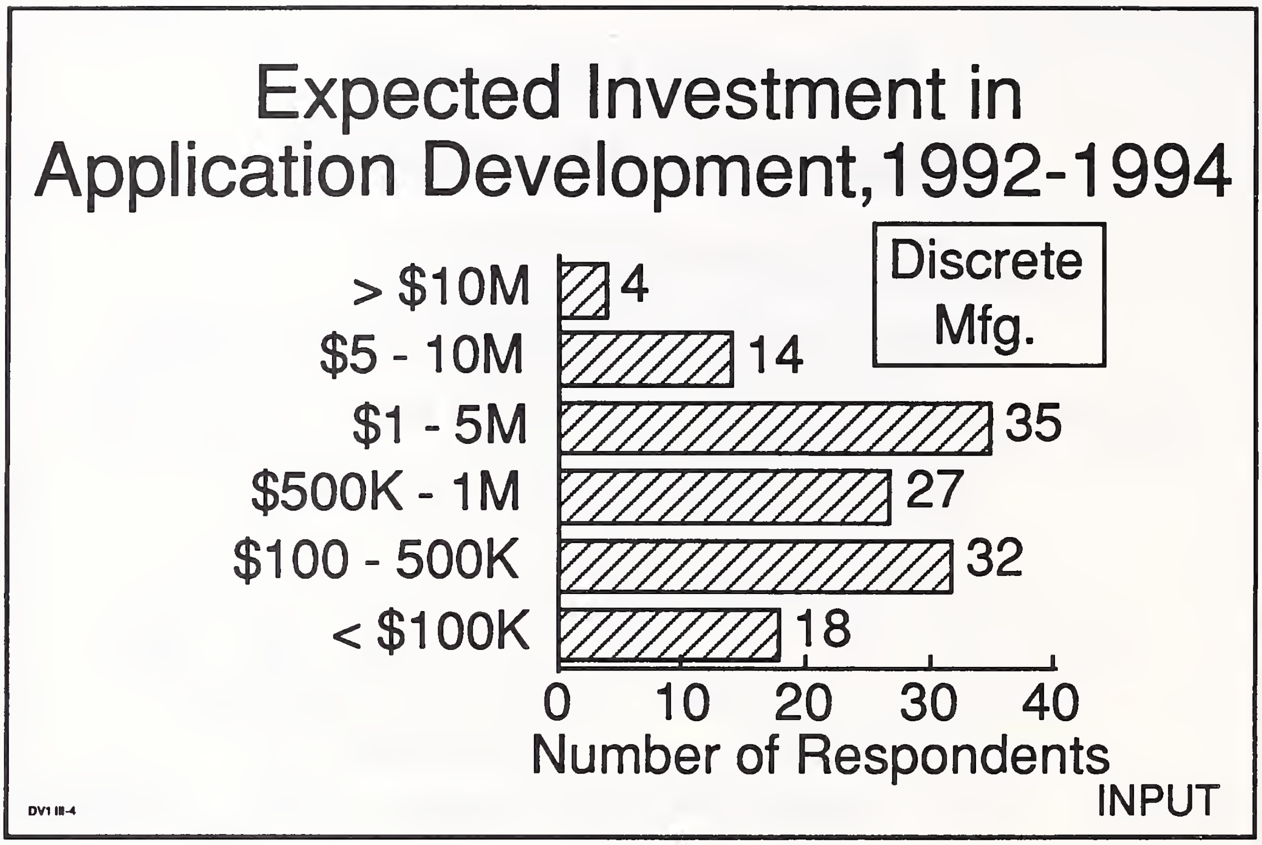


INPUT 1993 User Survey (N = 1,748)

INPUT

Notes

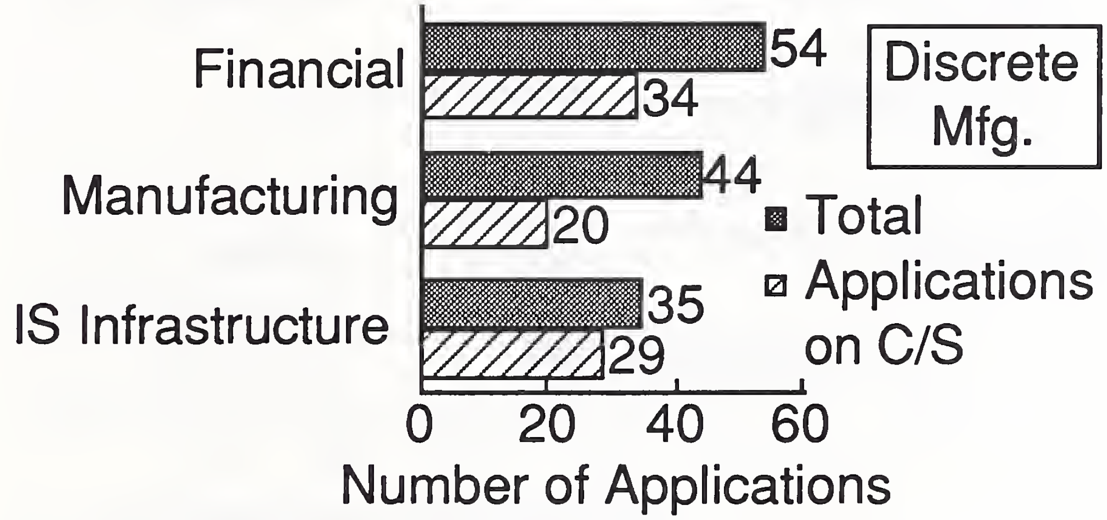
8/5/93


Expected Investment in
Application Development, 1992-1994
Discrete
Mfg.
> $10M
$5 - 10M
$1 - 5M
$500K - 1M
$100 - 500K
< $100K
4
14
35
27
32
18
0
10
20
30
40
Number of Respondents
INPUT
DV1 III-4

Notes

8/5/93

Planned Applications Changes and Use of C/S by Category



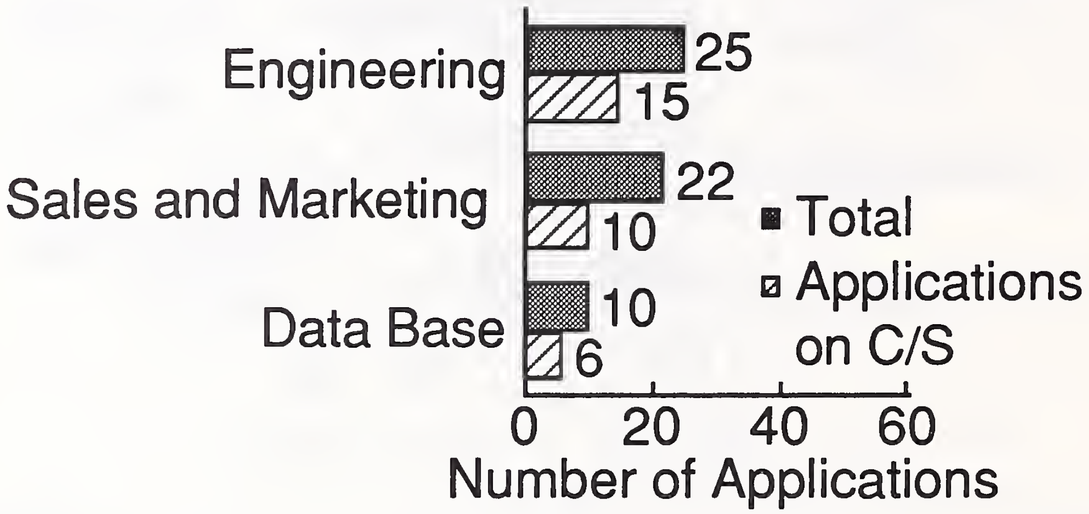
DV1 II-2a

INPUT

Notes

8/5/93

Planned Applications Changes and Use of C/S by Category



DV1 II-2b

INPUT

Notes

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What Is Expected from Professional Services Vendors

Expectation	Average Response
Application/industry knowledge	4.7
Source of technical skills	4.4
Systems integration strengths	4.3
Source of contract personnel	4.2

Source: INPUT User Surveys

MAPF2 IV-11a

INPUT

Notes

8/5/93

What Is Expected from Professional Services Vendors

Expectation	Average Response
Quality professional services work	4.1
Project management strengths	4.0
Application support/ management	4.0

Source: INPUT User Surveys

MAPF2 IV-11b

INPUT

Notes

8/5/93

Business Needs and Issues Driving Professional Services

Needs and Issues	Average Importance
Improving product and service quality	4.2
Increasing sales effectiveness	4.1
Improved connectivity of functions	4.0
User systems responsibility	3.8

MAPF2 IV-2a

INPUT

Notes

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Business Needs and Issues Driving Professional Services

Needs and Issues	Average Importance
Restructuring business	3.7
Reducing or outsourcing functions	3.2
Cost-cutting alternatives	3.1

MAPF2 IV-2b

INPUT

Notes

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Major Criteria for Evaluating Project Bids

Selection Criteria	Average Response
Pricing	4.1
Acceptability of solution to users	4.1
Industry/application understanding	4.0
Proposal quality	3.7
Technical skills of vendor	3.4

MAPF2 IV-8a

INPUT

Notes

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Major Criteria for Evaluating Project Bids

Selection Criteria	Average Response
Experience of vendor in industry	3.2
Reputation	3.1
Size/stability	3.0
Project mgmt. skills	2.4
Contacts/relations	2.1

MAPF2 IV-8b

INPUT

Notes

8/5/93

Encouraging Technology-Related Knowledge—PS Vendors

Factor	Average Rating
Downsizing, client/server	4.1
Network technology	4.1
Distributed data bases	3.4
Open systems	2.8
CASE and/or re-engineering	2.7
Imaging	2.4

MAPF2 IV-10

INPUT

Notes

8/5/93

Problems Encountered by Clients of PS Vendors

Situation	Average Response
Costs exceeded estimates	3.4
Documentation problems	3.3
Project time exceeded estimates	3.2
Problems in coordinating tasks	3.2
Encountered minor or no problems	2.3
Problems in user education	2.2

MAPF2 IV-9

INPUT

Notes

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Type of Aid Sought from PS Vendors

Type of Aid	Average Interest
Application upgrading, enhancing	4.0
Network consulting, development	3.9
Aid with downsizing, client/server	3.8
Other technical skills	3.7
Planning for SI and outsourcing	3.0
Project management	2.9

MAPF2 IV-3

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Notes

8/5/93

PS Capabilities of Interest in Relation to Projects

Capability	Average Interest
Industry/application knowledge	4.1
Network, including LAN experience	3.9
Downsizing experience	3.7
Application development skills	3.2

MAPF2 IV-4a

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Notes

8/5/93

PS Capabilities of Interest in Relation to Projects

Capability	Average Interest
Project management	3.0
Consulting skills	3.0
Open systems experience	2.7
CASE experience	2.5

MAPF2 IV-4b

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Notes

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Present and Future Decision Makers in Relation to Projects

	Average Likelihood	
Decision Maker	Now	Future
User alone	3.5	Greater
User and IS	3.0	Greater
Top mgmt. or CEO	2.5	Less
CIO	1.9	Less
IS manager (not CIO)	1.4	Less

MAPF2 IV-7

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Notes

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Leading IT Service Firms, 1992
U.S. Revenues ($ Millions)

Vendor	Prof. Svcs.	SI	SO	Total Rev.
IBM-ISSC	1,420	3,900	550	5,870
EDS	680	1,120	1,700	3,500
Andersen	750	1,820	150	2,720
Digital	540	1,630	330	2,500
CSC	750	590	860	2,200

IMI-11

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Notes

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Public PS Companies Financial Analysis

		Percent of Growth
Revenues	1990-1991	12
	1991-1992	12
Net Income	1990-1991	-15
	1991-1992	11

HMI-26

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Notes

8/5/93

Public PS Companies
1992 Ratio Analysis

Revenue/Employee	83,200
Sales, G&A/Sales Expense	15.9%
Gross Margin	24.6%
Net Income/Sales	3.5%
Net Assets/Sales	6.0%

N = 19

INPUT

IMI-27

Notes

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American Management Systems

- Revenues: 1Q92—$75M 1Q93—$86M
  15% AGR
- Earnings: 1Q92—$3.5M 1Q93—$4.4M
  25% AGR
- Delivers key software products only if bundled with consulting/analysis
- Proven application products

IMI-36a

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Notes

8/5/93

American Management Systems

- No longer doing IBM vertical appls. (IBM reduced investment from 10% to 6.5%)
- IBM revenues down 54% in 1st half of 1993
- Working on C/S transition
- Disappointing 2Q93 earnings (4% gain)
- Launching new advanced tech. lab: Multimedia, OOPS, Mobile computing

IMI-36b

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Notes

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Broadway & Seymour

- Revenues: FY91—$52M FY92—$66M 25% AGR
- Earnings: FY92—$2M 1Q93—$1M
- Acquired Accura Innovative SVCS (Imaging)
- "Transformation" from contract services to SI and consulting
- Financial services focus

INPUT

BMI-34a

Notes

8/5/93

Broadway & Seymour

- 83% of 1992 revenues from existing base
- Positioned as C/S IT provider
- Impact of corporate repositioning is now behind them

IMI-34b

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Notes

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Computer Task Group

- Revenues: 1Q92—$75M 1Q93—$78M
  3% AGR
- Earnings: 1Q92—$1.7M 1Q93—$1.0M
- Announced Lotus Notes call-tracking system
- Teaming with CRT for S/36-AS/400 conversion projects
- Installed Resumix at White House

IMI-33

INPUT

Notes

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Compuware

- Revenues: 2Q92—$11M 2Q93—$15M 36% AGR
- Earnings: 2Q92—$(16.3)M 2Q93—$8.4M
- Acquired CICS problem determination/MVS products from Landmark and IBM.
- Will focus on mainframe despite C/S trend
- Acquired Ecosystems Software - a start-up systems mgmt. vendor

INPUT

IMI-32

Notes

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Keane

- Revenues: 2Q92—$24.8M 2Q93—$43.4M
  75% AGR (acquisition)
- Earnings: 2Q92—$1.7M 2Q93—$2.1M
  23.5% AGR
- Strong industry focus
- Acquired GE Consulting Services

IMI-37

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Notes

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Analysts International Corp.

- Revenues: 1991—$117M 1992—$130M 11% AGR
- Earnings: 1991—$5.6M 1992—$5.4M
- 225 new clients in 1992
- 1992 wins: American Electric Power, Redwing Shoes, Kodak

BM-35

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Notes

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Computer Horizons

- Presents image as SI vendor, good network, downsizing capabilities
  - Marketing position, not necessarily reality
- Prospect *believes* they are getting superior people

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BM-31

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"SASM" Equivalents

- NCR: Process IT
- Cadre
- Software Control Corp: Hypersource
- Gimpel: C-Vision
- Cognos: Architect

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IMI-38

Notes

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Conclusions—Professional Services Sector Markets

- Systems integrators and outsourcers are targeting bigger prospects/deals.
- Pressure on midsized and small firms will intensify. They must find niches where specialization can create value.

IMI-26a

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Notes

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Conclusions—Professional Services Sector Markets

- Alliances are potentially valuable, but benefits may be elusive.
- Credibility is key. Prospects must believe in vendor's industry or technical expertise. Market position and good references are vital.

IMB-26b

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Conclusions—Professional Services Sector Markets

- Marketing of vendor "position" is vital. Buyer perception of vendor outweighs reality.

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- 7 Cross-Industry Markets
- The Worldwide Market (30 countries)

— U.S. —

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- Systems Integration
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- EDI / Electronic Commerce
- U.S. Federal Government IT Procurements

— European —

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