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STRATEGIC MARKET PERSPECTIVE

Outsourcing Client Satisfaction Europe

1993

Outsourcing Programme - Europe

DECEMBER 1993

CLIENT SATISFACTION WITH IT OUTSOURCING SERVICES

EUROPE, 1993

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Abstract

Outsourcing is now well established in the United Kingdom, France and Germany. However, it is still used primarily as a means of phasing out mainframe-based legacy systems or reducing the cost of computer operations.

In addition, outsourcing is still often viewed as a hostile activity by in-house information systems management and the technical press. Accordingly, press coverage often presents outsourcing in an unfavourable light.

This report endeavours to take a more objective view of outsourcing. It identifies the main benefits which existing outsourcing clients expected from outsourcing and analyses the extent to which clients perceive these benefits have been delivered. It also identifies the major areas of dissatisfaction with outsourcing and suggests remedial actions that should be taken by vendors.

Finally, the report considers the manner in which existing clients' use of outsourcing will develop and the steps vendors should undertake to take advantage of these opportunities.

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I

Introduction

A

Scope and Objectives

Outsourcing has now become well established in Europe. Nonetheless, there remains considerable hostility to outsourcing within the IT community and the technical press.

It is important, if outsourcing is to maintain its current momentum, for clients of outsourcing services to show high levels of satisfaction with the impact of outsourcing on their organisations. Outsourcing needs to demonstrate long-term benefits to clients to avoid becoming a short-lived management fashion.

In addition, vendors need to learn from the reactions of their clients and continuously act to improve the quality of their outsourcing services.

The objectives of this report are:

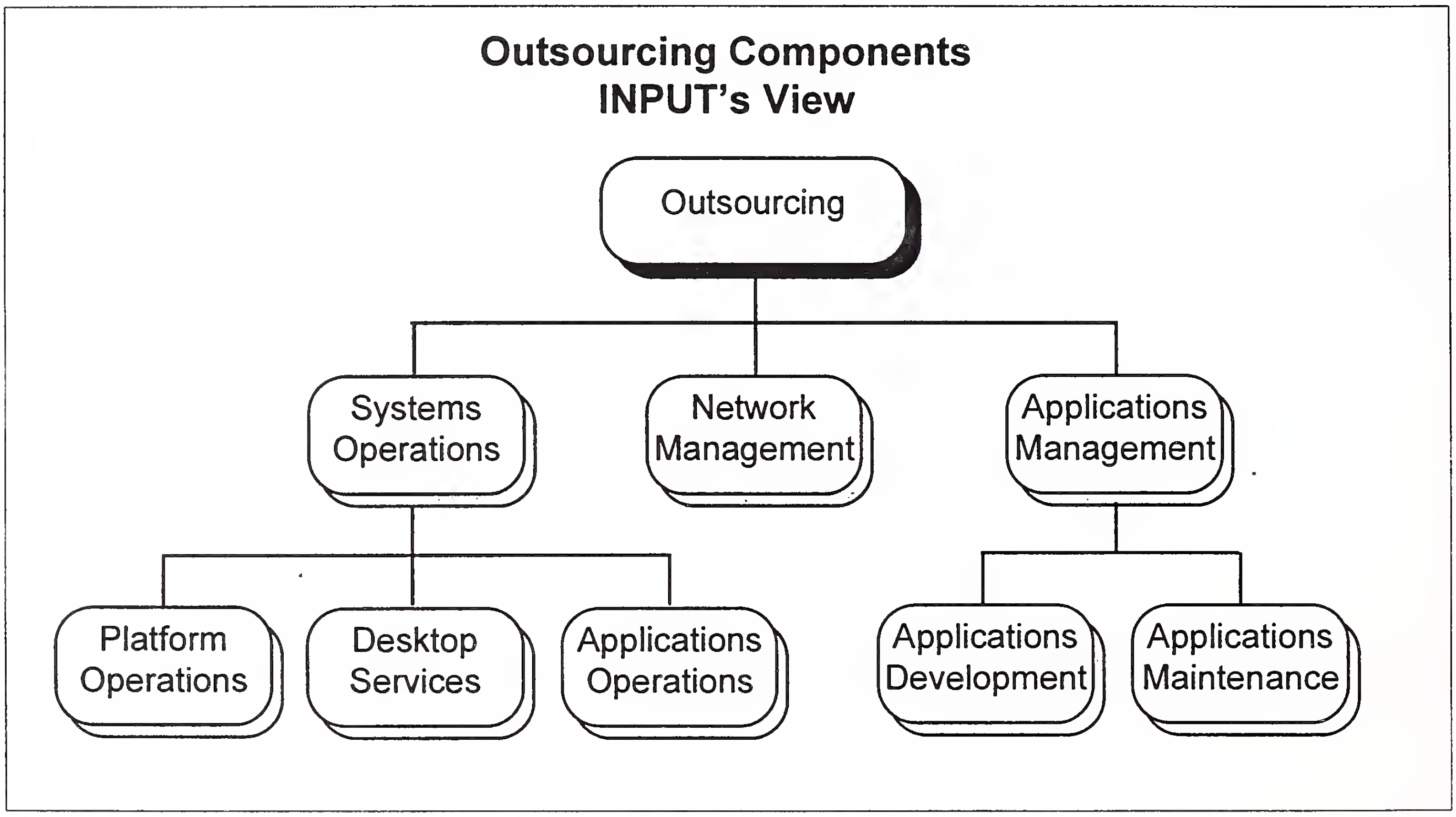
- To identify the major benefits clients seek from outsourcing
- To analyse the extent to which vendors are perceived to have achieved these benefits
- To identify clients' likes and dislikes
- To identify the actions vendors should take to improve user perception of their outsourcing services
- To identify the future development of outsourcing services within the current client base

These issues are tackled at the European level and individually for:

- The United Kingdom
- France
- Germany

INPUT considers the submodes shown in Exhibit I-1 to be outsourcing-type relationships and in aggregate to represent the outsourcing market.

EXHIBIT I-1



The segments within outsourcing are defined as follows:

Systems Operations - Contracting out, to a vendor, the information systems operations in either of three ways:

- *Platform Systems Operations* - The vendor is responsible for managing the computer systems and their associated networks.

- *Desktop Services* - Contracting out to a vendor for the deployment, maintenance, support and connectivity of the firm's PC/workstation inventory. The service may also include performing the help desk function.

- *Applications Systems Operations* - The vendor is responsible for developing and/or maintaining a client's applications software as well as operating and managing the computer systems and their associated networks.

Network Management - Contracting to a vendor for the operations and management of the computer-related telecommunications network, transmitting data, voice, image, and text via local-area and wide-area networks. Voice-only network operations are not part of information systems outsourcing.

Applications Management - The vendor is responsible for the development and maintenance of all the applications systems a client uses to support a business operation.

- *Applications Development* - Contracting out for the design, development and long-term maintenance and enhancement of new applications software associated with a business operation.

- *Applications Maintenance* - Contracting out for the maintenance of the existing applications software associated with a business operation.

B

Methodology

This study is based on interviews conducted with clients of IS outsourcing services in Europe. In total, forty-seven respondents were interviewed. The breakdown of respondents by country is as follows:

- 20 in the United Kingdom
- 17 in France
- 10 in Germany

C

Report Structure

Chapter II consists of the Executive Overview, which is a summary of the key conclusions of the study.

Chapter III-VI analyse client satisfaction with outsourcing in more detail. These sections identify user expectations and the degree to which vendors currently meet these expectations, client satisfaction by service type, areas of high and low satisfaction, and clients' future buying intentions.

Chapter III provides a European perspective, while chapters IV, V and VI focus on the United Kingdom, France and Germany, respectively.

D

Related Reports

Information Systems Outsourcing Competitive Analysis—Europe, 1992

Outsourcing Systems Operations—Europe, 1992-1997

Outsourcing Network Management and Operations—Europe, 1992-1997

Outsourcing Desktop Services—Europe, 1992-1997

Outsourcing Applications Management—Europe, 1992-1997

Outsourcing Opportunities in Government—Europe, 1993-1998

Information Systems Outsourcing Market—Europe, 1993-1998

II

Executive Overview

A

Partnership Development Key to Future Outsourcing Success

The majority of European clients are satisfied with the outsourcing services they receive from vendors.

However, it is noticeable that the level of satisfaction with outsourcing services is much higher in Germany than in the United Kingdom and France.

This may be because outsourcing vendors operating in Germany such as EDS and debis Systemhaus, provide higher quality services than their counterparts in France and Germany.

However, there is also another factor which should be taken into account, namely the relative immaturity of the German outsourcing market. Experience of the outsourcing market in the United Kingdom and France suggests that user satisfaction will decline over the life of the contract unless the vendor takes positive action to maintain customer satisfaction. Users are typically very enthusiastic about outsourcing in the first year of the contract. Much of this enthusiasm stems from the initial improvements achieved in operational service provision and cost reduction. However, when these initial service standards do not continue to improve throughout the life of the contract, users become less satisfied.

It is essential that vendors maintain high levels of satisfaction among their outsourcing clients. Users of outsourcing services show a high level of future commitment to outsourcing and typically expect to expand the scope of services outsourced. This makes them a valuable asset for the outsourcing vendor. In addition, outsourcing prospects are very risk averse and will avoid any vendor with a poor reputation.

To ensure that clients remain highly satisfied throughout the life of an outsourcing contract and beyond, vendors must develop a strong feeling of partnership between their clients and their own organisation.

To achieve a high-quality partnership, vendors must take positive action:

- To manage their clients' price expectations
- To improve customer liaison
- To anticipate clients' emerging needs

B

Managing Clients' Price Expectations

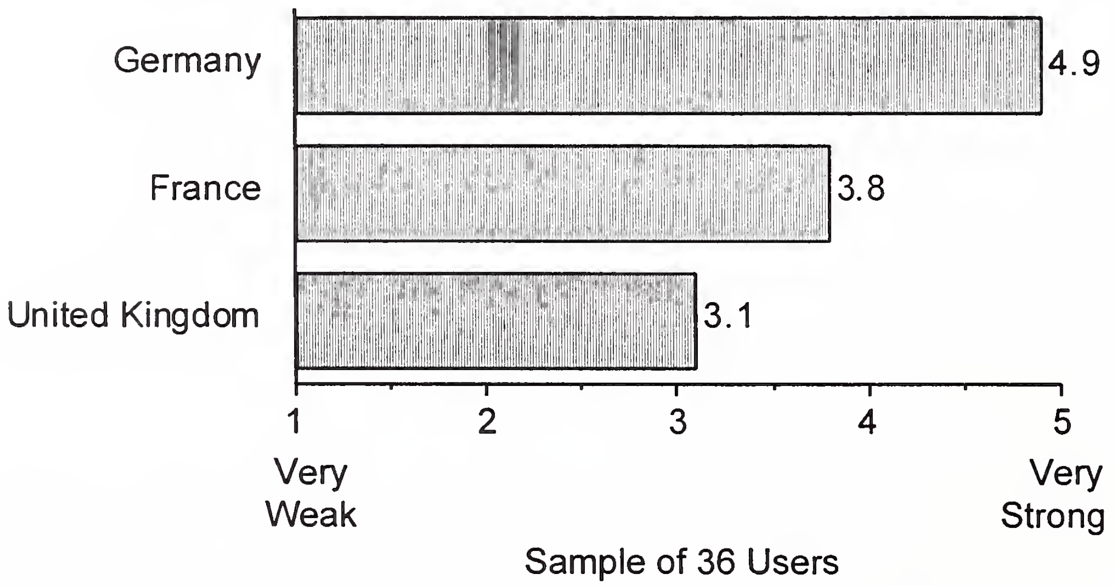
Users acknowledge that outsourcing is a success in enabling them to adopt a core business focus. Within the IS department, outsourcing enables clients to refocus their resources from computer operations and application maintenance towards new system development and implementation.

However, outsourcing is perceived to be less successful in delivering cost reduction and improved service levels.

The perceived success of outsourcing in delivering cost reductions is shown by country in Exhibit II-1.

EXHIBIT II-1

Perceived Achievement of Cost Reduction



Standard error = 0.3

Again, the relative maturity of the various national markets appears to be a significant factor. Outsourcing clients are initially pleased with the level of cost savings achieved. However, they become increasingly dissatisfied if further improvements are not manifest during the life of the contract. As outsourcing contracts mature, clients can become suspicious of vendor profitability. In the United Kingdom especially, and also in France, clients perceive that vendors are making excessive profits from outsourcing. This perception contrasts sharply with the reality. The platform operations market is extremely price-competitive in both France and the United Kingdom. Vendor margins are typically low. Vendors rely on operating at close to the break-even point in the first year of many outsourcing contracts, with improved margins expected in later years.

However, this style of pricing is a cause of considerable customer dissatisfaction. Clients of outsourcing services expect the price of the service provided to steadily decline over the life of the contract. If it does not do so, they often perceive that the vendor is making excessive windfall profits. Hence, the perception of poor cost reduction may be largely a psychological reaction to the client's beliefs regarding vendor profitability.

The solution to this problem is not necessarily an overall reduction in cost. Instead, vendors must manage client expectations. One means of doing so is to consider an open book approach, and regularly review the cost of service delivery and the contract price with clients. Improved communication will assist in managing client expectations, and may change the perception of excessive vendor profitability.

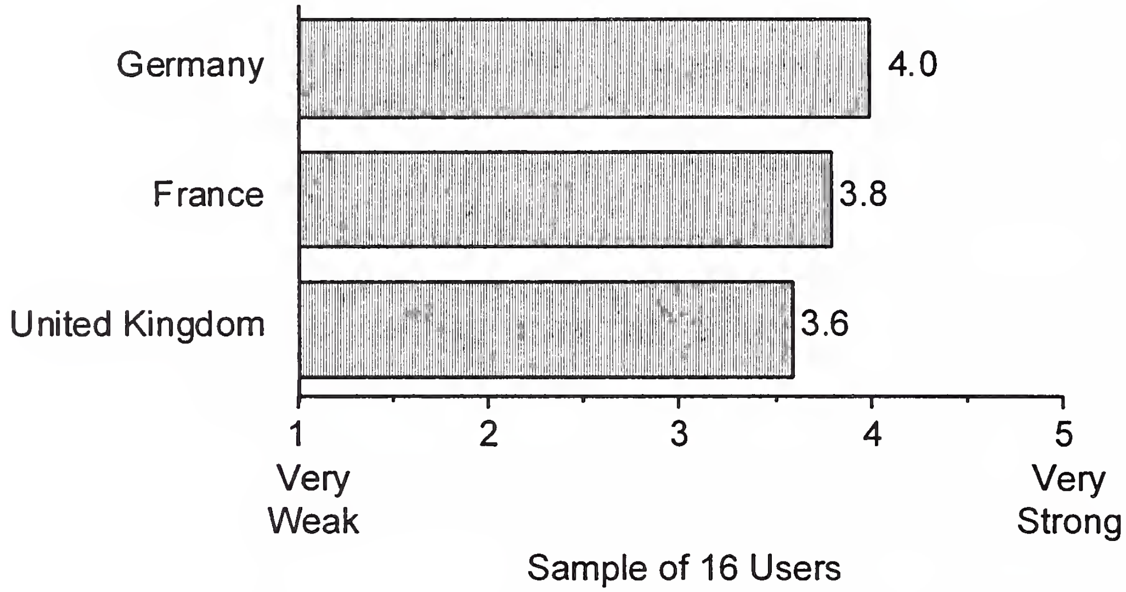
C

Improving Client Liaison

The perceived success of outsourcing in improving service levels is shown by country in Exhibit II-2.

EXHIBIT II-2

Perceived Achievement of Improved Service Levels



Standard error = 0.3

Users typically acknowledge that vendors have high levels of data centre service management capability.

However, vendors' technical capabilities are often undermined by poor customer service skills. Clients would like to achieve high-calibre working partnerships with their vendors. They can, however, be frustrated in achieving this goal by vendors restricting themselves rigidly to the terms of their contracts.

The principal areas in which clients expressed dissatisfaction with vendors' customer service are listed in Exhibit II-3.

EXHIBIT II-3

Areas of Dissatisfaction with Customer Service

- Vendor responsiveness
- Lack of proactive approach
- Inadequate business knowledge

Vendors need to take a more proactive stance on customer service and customer development.

At the day-to-day level, clients still complain about aspects of service quality which are easily corrected by improved communication. These complaints include:

- Lack of customer awareness

- Poor communication

- Slow reaction to special requests

- Errors in printout delivery

In addition, some clients perceive vendors to be unnecessarily bureaucratic. Vendors should endeavour to reduce the burden of administration imposed on their clients.

Vendors also need to take a more proactive approach to their clients' long-term development. Typical complaints from clients include:

- The vendor is only interested in mainframe-based services.

- The vendor has much more information systems expertise than the client does, but never makes suggestions for improvement.

Clients would often like to develop the partnership with their outsourcing vendor beyond the confines of the current contract and service level agreements.

In particular, vendors need to demonstrate to their clients that they understand their business and can work with them in close partnership to improve the application of information systems to this business.

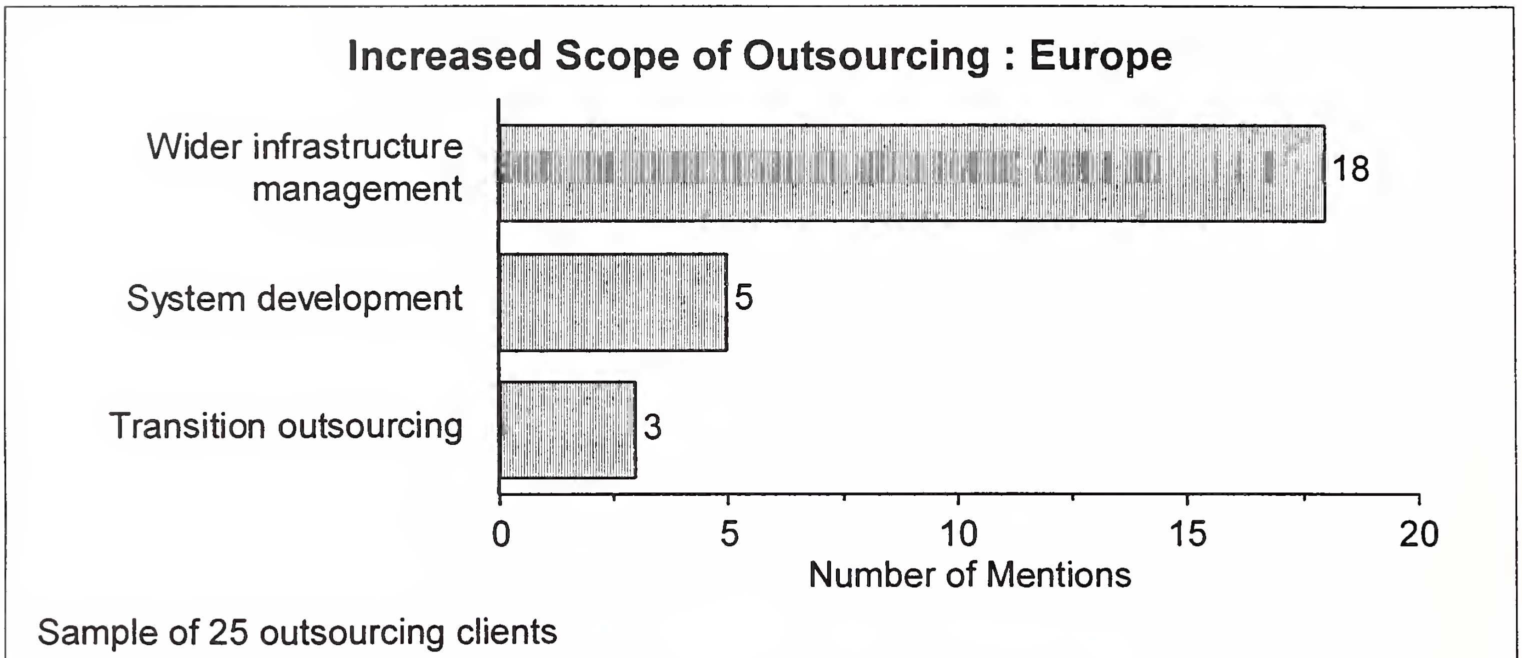
D

Vendors Should Anticipate Emerging Client Needs

Provided that vendors develop a proactive stance on customer development, outsourcing clients offer considerable ongoing opportunity. Over seventy percent of outsourcing clients expect their usage of outsourcing to increase. Ninety percent of outsourcing clients expect to continue using IS outsourcing services beyond the end of their current contracts.

The additional areas that existing clients anticipate outsourcing are listed in Exhibit II-4.

EXHIBIT II-4



The main trend is increased outsourcing of the IS infrastructure. Outsourcing clients expect to outsource the main components of their client/server architectures. These components consist of:

- Midrange systems, including UNIX-based equipment
- Local-area networks, personal computers, and help-desk services
- Wide-area networks

However, vendors are perceived to be most capable in providing well-established services such as data centre management and transition outsourcing.

In contrast, vendors need to improve their service capability in the less established areas such as wide-area network management and desktop services. Users specifically identified a shortfall in vendors' technical expertise necessary to manage these activities.

Secondly, vendors need to address their capability to meet clients' growing need for outsourced system development. Outsourcing is currently perceived by clients to be less relevant to systems development than infrastructure management. However, there is a growing trend, particularly in the United Kingdom, towards viewing outsourcing as a means of improving the effectiveness of information systems in supporting business goals. This poses a threat to outsourcing vendors who are currently regarded as having a poor understanding of their clients' business. However, it is a major opportunity for vendors who can demonstrate their ability to proactively apply up-to-date technology in support of their clients' business goals.

III

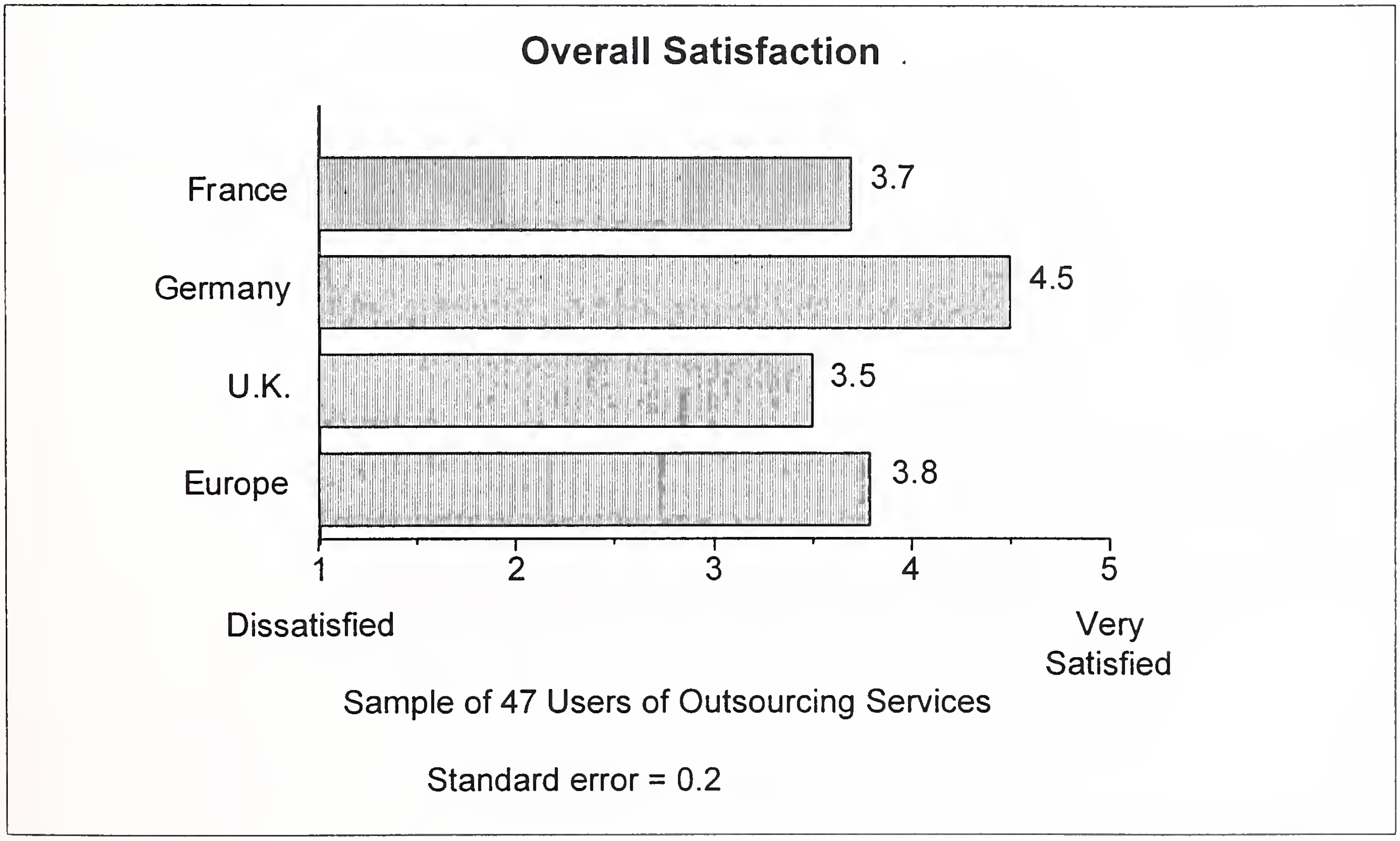
Outsourcing Clients Become More Demanding

A

Outsourcing Services Show Scope for Improvement

Exhibit III-1 lists the overall level of satisfaction of outsourcing clients by country.

EXHIBIT III-1



Overall, a high level of satisfaction is exhibited by users of outsourcing services across Europe. Ninety percent of current outsourcing clients are satisfied or more than satisfied with the services they receive.

However, levels of satisfaction are lowest in the United Kingdom, which has the most mature outsourcing market.

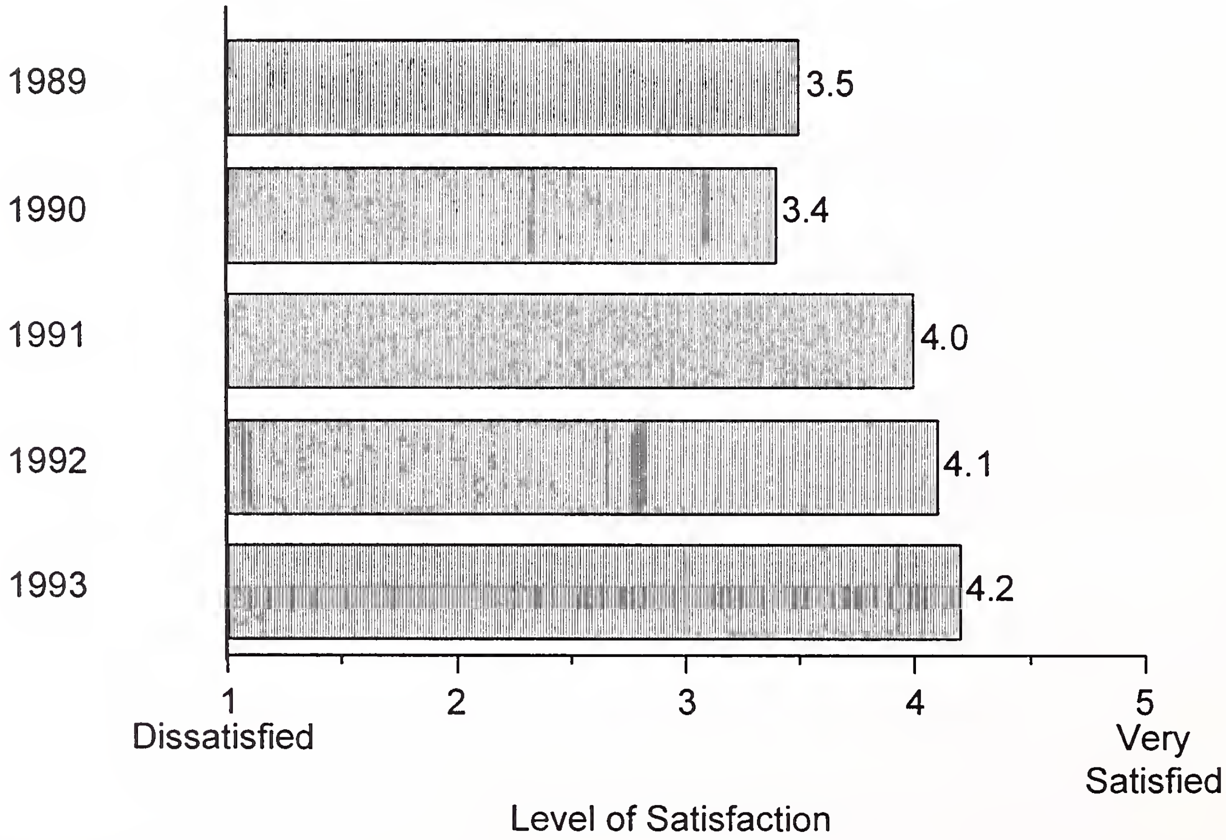
Clients tend to become less satisfied with their outsourcing services over time unless vendors take action to manage their clients' expectations. This is partly due to vendors' initial success. Clients typically show high levels of enthusiasm for outsourcing in the first year of the contract as they enjoy the initial benefits of outsourcing. However, as the level of benefit stabilises rather than continues to increase, clients can begin to become dissatisfied.

Levels of client satisfaction are currently very high in Germany. However, it is important that vendors in Germany take action now to ensure that these satisfaction levels do not begin to decline in the future.

Exhibit III-2 lists the level of client satisfaction by contract start date.

EXHIBIT III-2

Overall Satisfaction by Contract Start Date

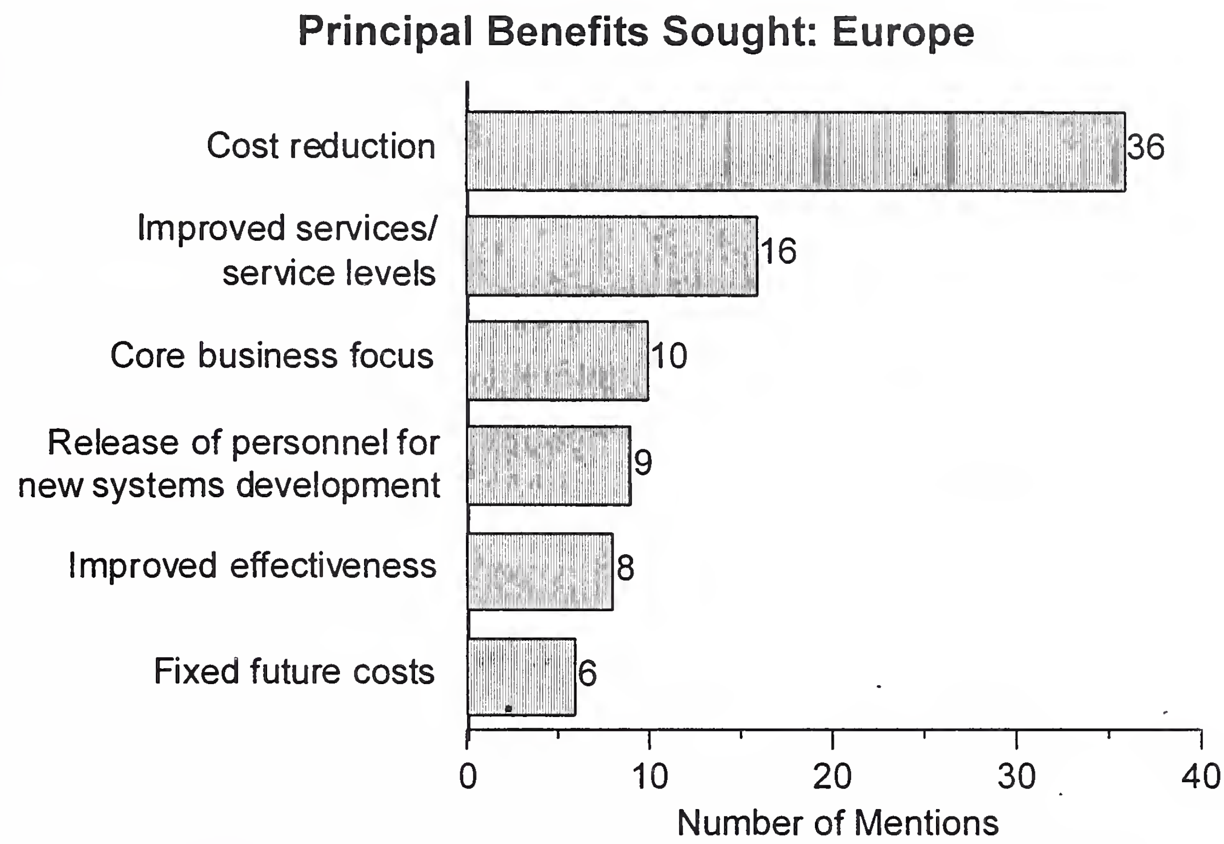


Sample of 29 outsourcing clients

Standard error = 0.2

Exhibit III-3 lists the principal benefits that users expected to achieve by outsourcing elements of their IS function.

EXHIBIT III-3



Sample of 47 outsourcing clients

Cost reduction is the most consistently mentioned benefit sought. It was cited by 75% of respondents. Another potential major benefit is the ability of outsourcing to remove the uncertainty of future information systems costs. In particular, outsourcing can be used to fix computer operations costs, removing the uncertainty over the cost of future equipment upgrades. However, the present adverse economic climate in Europe is driving users to look beyond cost fixing. Users clearly wish to reduce their information systems spending, and view outsourcing as a key mechanism by which this can be achieved.

Simultaneously with reducing their costs, users wished to improve the service levels received by their clients.

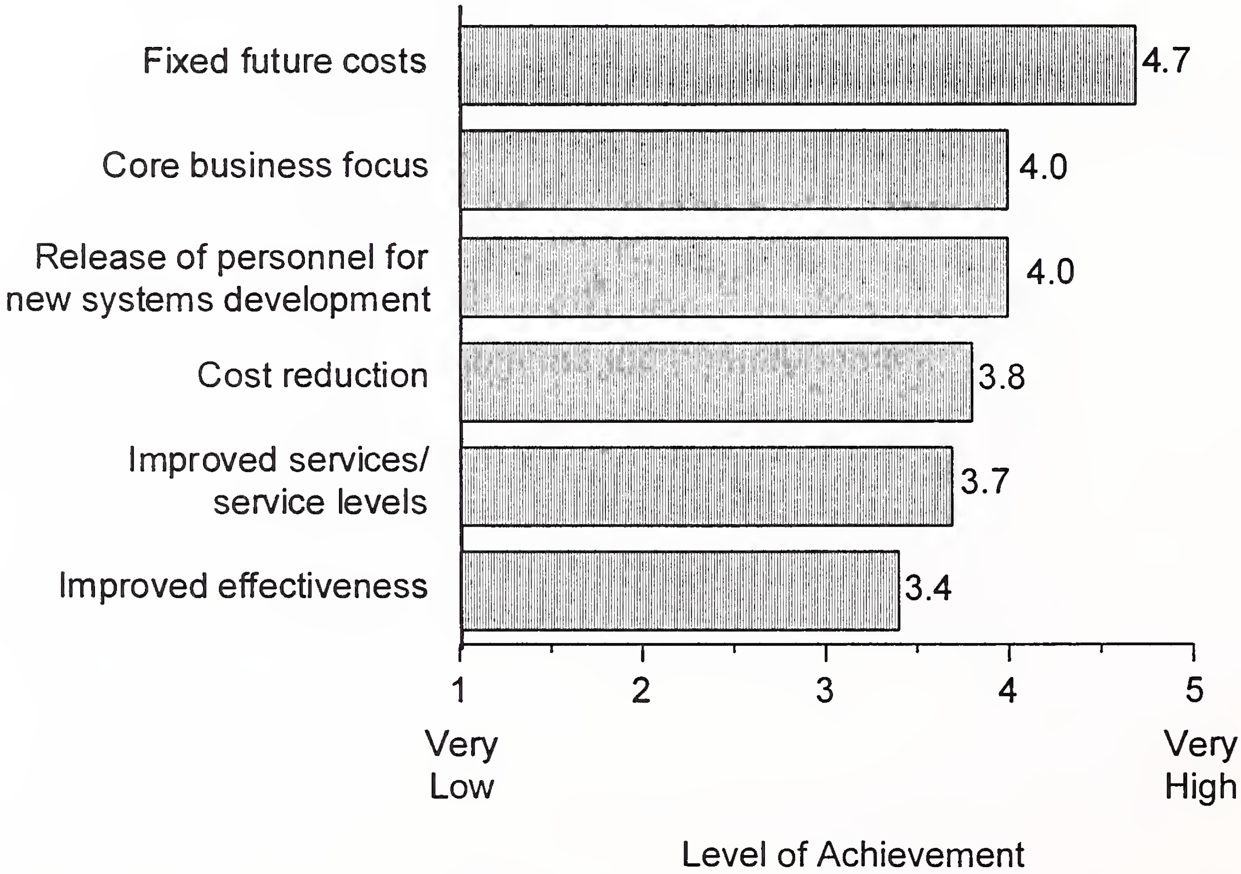
Users also wish to decrease the amount of management time and attention spent on managing the IS function and devote this attention to the management of their core business. This core business focus operates at two levels. Firstly, senior management wants to spend less time on IT issues. Secondly, within IS departments, managers want to decrease the effort devoted to day-to-day computer operations management and spend more time addressing IS strategy and the provision of new information systems. This is particularly pronounced where users are migrating from one IT environment to another. The major benefit sought from outsourcing in these instances is the release of the IS personnel formerly associated with the system being replaced.

Improved effectiveness of information systems was cited as a key requirement by 17% of respondents. This reflects the trend for outsourcing to become a mechanism for improving the business relevance of information systems and not just a means of achieving increased efficiency internally within IS functions.

Exhibit III-4 lists outsourcing clients' perceptions of the extent to which these benefits have been achieved within their current contracts.

EXHIBIT III-4

Degree of Achievement of Benefits Sought: Europe



Sample of 47 outsourcing clients

Standard error = 0.3

Overall, the level of attainment of these benefits is high. However, it is also noticeable that the most important benefits are less well achieved than others.

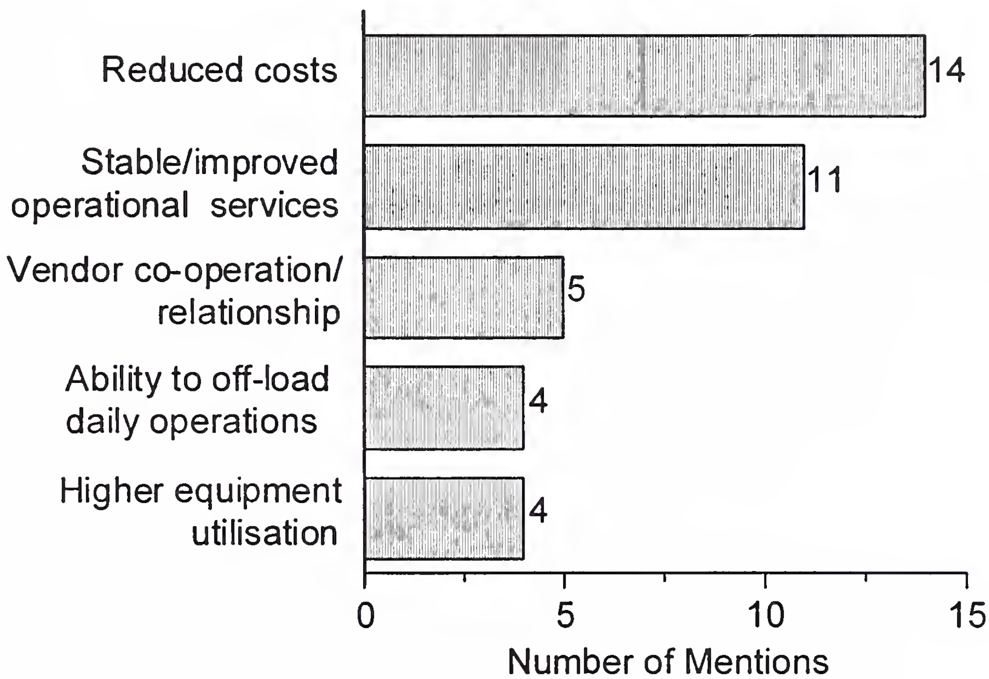
In particular, there remains scope for vendors to improve their delivery of cost reduction and improve service levels.

The most substantial cause for concern in the long term is the user perception that outsourcing has not significantly improved the effectiveness of their information systems. It is essential that vendors succeed in improving their clients' effectiveness in using information systems if vendors are to move away from the price-competitive platform operations segment into the more profitable applications operations segment of the market.

Exhibit III-5 lists aspects of their outsourcing services that clients find most satisfactory.

EXHIBIT III-5

Aspects of Service Liked: Europe

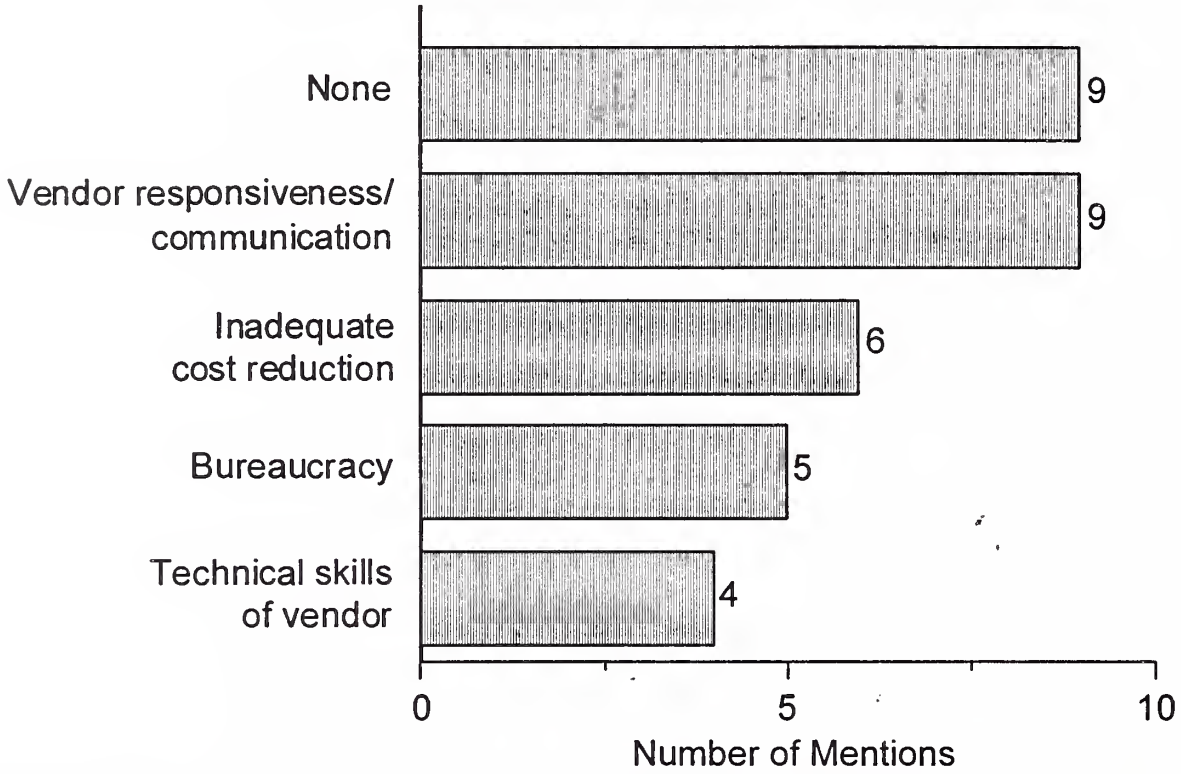


Sample of 47 outsourcing clients

Exhibit III-6 lists their major areas of dissatisfaction.

EXHIBIT III-6

Areas of Dissatisfaction: Europe



Sample of 47 outsourcing clients

The number of outsourcing clients who are very satisfied with the level of cost reduction achieved outweighs the number of clients dissatisfied in this respect by two to one. However, this still leaves an estimated 15% of outsourcing clients dissatisfied with their level of cost savings. These clients are the ones who are most susceptible to competitive attack at contract renewal.

Vendors often stress the concept of partnership when selling outsourcing services. Indeed, it is important for there to be a high level of mutual trust and co-operation between user and vendor for a long-term outsourcing type of relationship to be successful. In this context, it is a matter of some concern that only 10% of outsourcing clients stated that they were pleased with the relationship between themselves and the vendor, while 20% were dissatisfied with the responsiveness of vendor personnel. In addition, 10% of outsourcing clients complained about excessive bureaucracy.

The final major area of concern was related to vendors' technical skills. Vendors' mainframe system management skills are rarely criticised, and are usually praised by clients. However, a significant number of users expressed concern about their vendor's ability to manage other aspects of their IT infrastructure, such as wide-area networks and personal computer-based services.

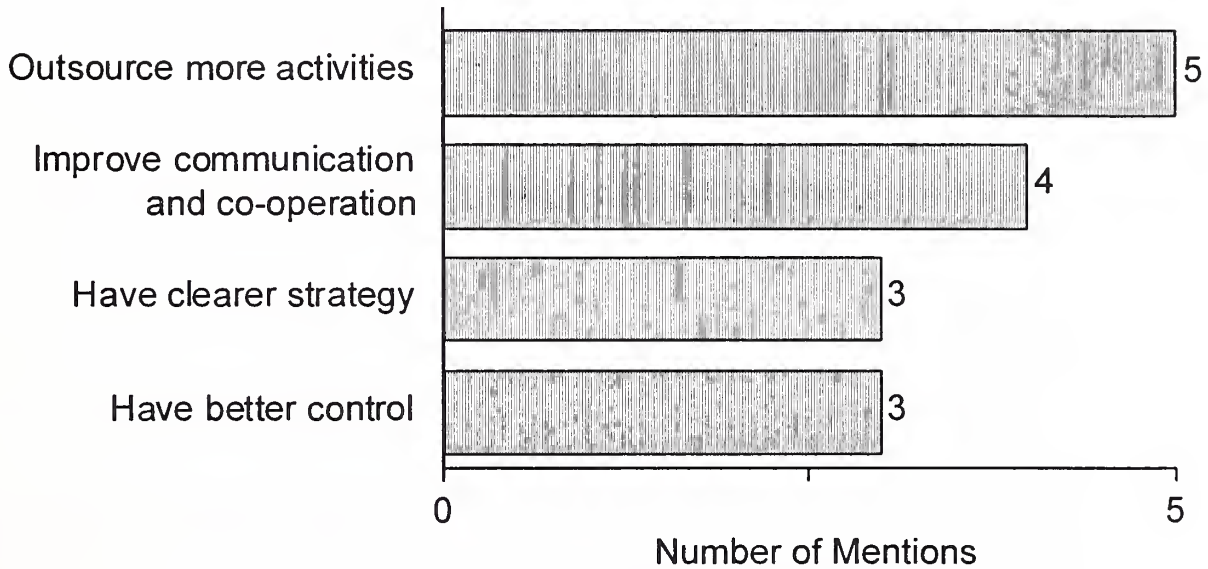
Again, it is critical that vendors be proficient in these areas if they wish to maintain outsourcing relationships with their clients as the latter move from mainframe-based services to client/server architectures.

Users' views on how their use of outsourcing might be improved are shown in Exhibit III-7. Users perceive that they need to develop clearer outsourcing strategies and use outsourcing services in a more strategic than tactical manner.

In addition, outsourcing clients perceive a need to improve the relationship between the vendor and themselves. This entails both a higher level of control of the outsourcing services and improved co-operation between vendor and client personnel.

EXHIBIT III-7

How to Improve Use of Outsourcing



Sample of 24 outsourcing clients

B

User Perceptions of Vendor Profitability Are a Cause for Concern

Users are typically outsourcing their platform operations systems motivated by a desire to cut costs. Accordingly, they tend to invite a variety of vendors to tender for the service contract.

Exhibit III-8 shows the profile of the number of vendors invited to tender for outsourcing contracts. Typically, users invite between three and five vendors to tender.

EXHIBIT III-8

Number of Vendors Invited to Tender: Europe

Number of Vendors	Number of Contracts
1-2	7
3-5	20
6-10	8
4.4	Average

Sample of 35 outsourcing clients

Outsourcing clients tend to claim that price alone is an insufficient criterion for choosing a vendor. Indeed, it is important that clients feel that the vendor chosen:

- Exhibits a good cultural fit with their own organisation
- Has the ability and market presence to be a reliable choice over the life of the outsourcing contract

Nonetheless, price is a very important selection criterion and users may well indicate to the favoured vendor the price that must be met to win the contract. Axone, in particular, has demonstrated that competitive pricing, together with perceived financial stability, can enable a vendor to dominate the platform operations segment of the outsourcing market.

In the current survey, 35% of outsourcing clients admitted that they had selected the vendor offering—or presumably matching—the lowest bid (Exhibit III-9).

EXHIBIT III-9

Number of Clients Selecting Lowest Price Bid

Region	Did Select Lowest Price	Did NOT Select Lowest Price
France	4	9
United Kingdom	6	10
Germany	3	5
Europe	13	24

It is possible for vendors to adopt more innovative pricing mechanisms when offering application operations and business operations services. These pricing mechanisms can reduce the level of price competition and hence raise vendor profitability.

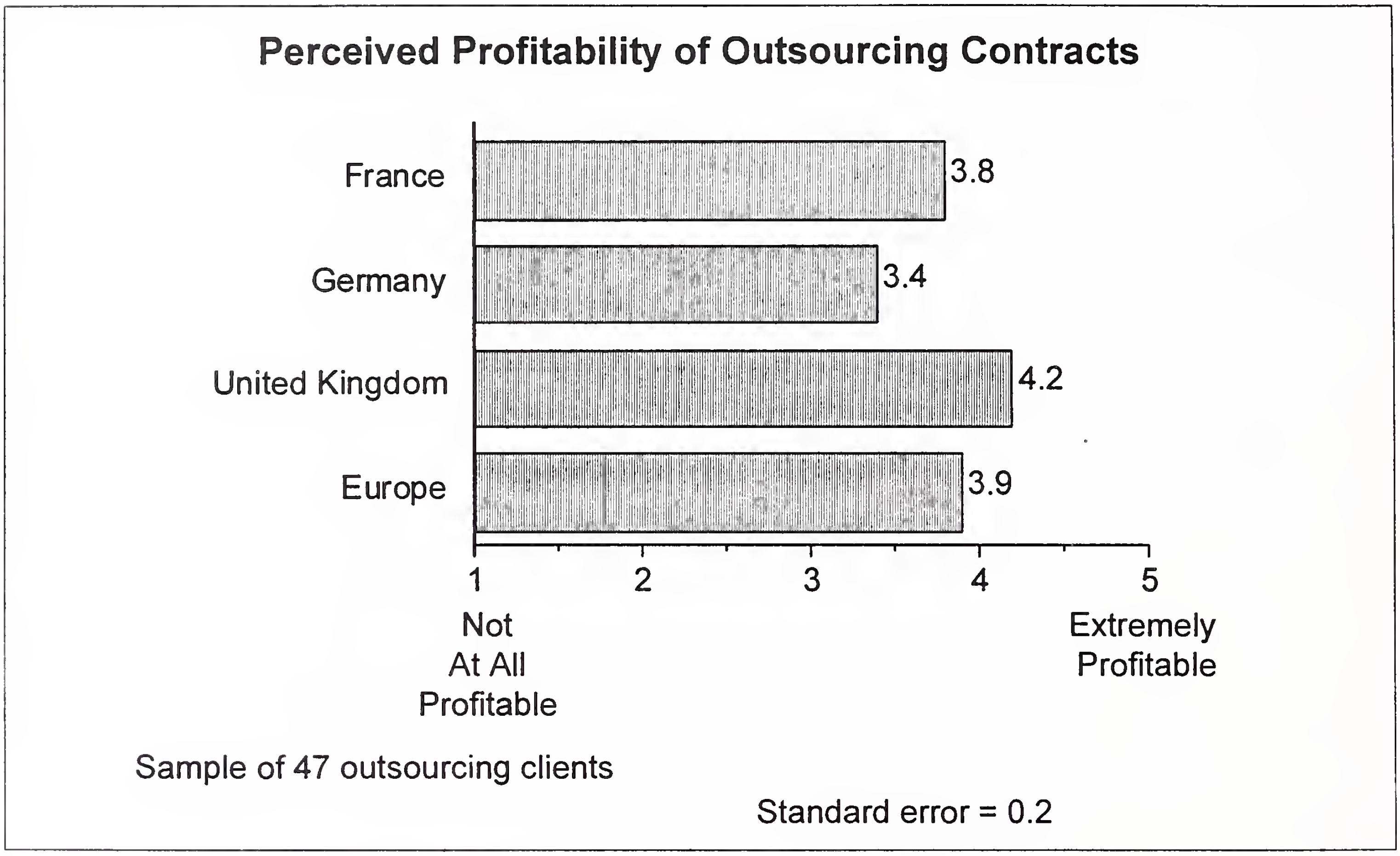
However, these approaches are less applicable to infrastructure management services such as:

- Platform operations
- Desktop services
- Network management

Price will remain a particularly important vendor selection criterion in contracts involving these service elements, but not those including business operations or system development.

This high level of price competition is exacerbated by users' perception of vendor profitability. In particular, outsourcing clients in the United Kingdom and France perceive that vendors are making excessive profits from outsourcing. Exhibit III-10 shows users' perceptions of vendor profitability by country.

EXHIBIT III-10



Vendors should improve their communication with clients to change this perception. A more open approach to pricing and their costs is necessary from vendors. It is not in vendors' best interests for their clients to perceive their profitability to be high while their actual margins are very moderate.

C

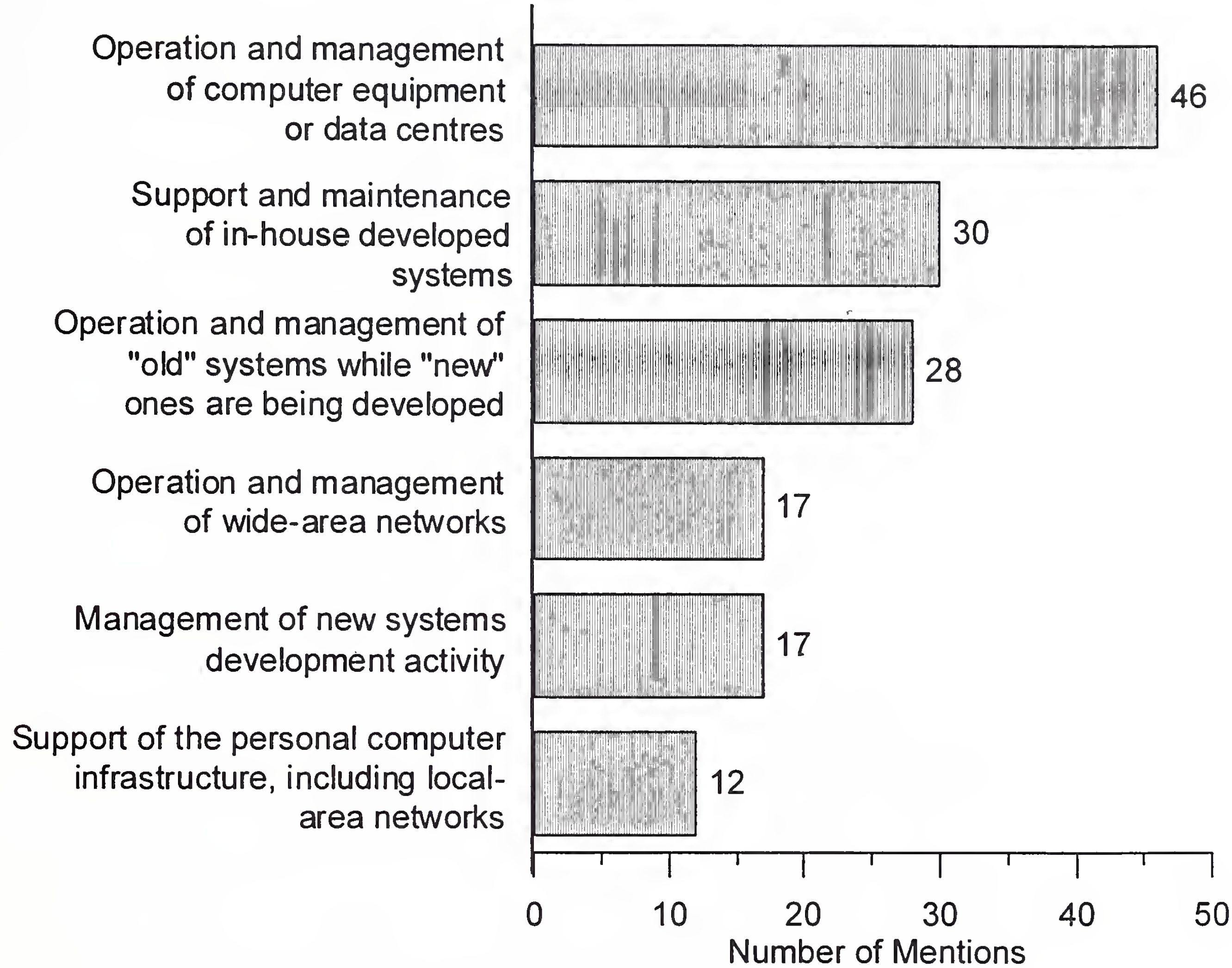
Vendors Must Develop Existing Clients

Outsourcing could be viewed as a short-term phenomenon linked to organisations' current dependence on mainframes, with little relevance to the new client/server environment.

Indeed, outsourcing remains most commonly associated with mainframe-based platform operations services. Exhibit III-11 shows the pattern of usage of outsourcing services within Europe.

EXHIBIT III-11

Outsourcing by Service Category: Europe



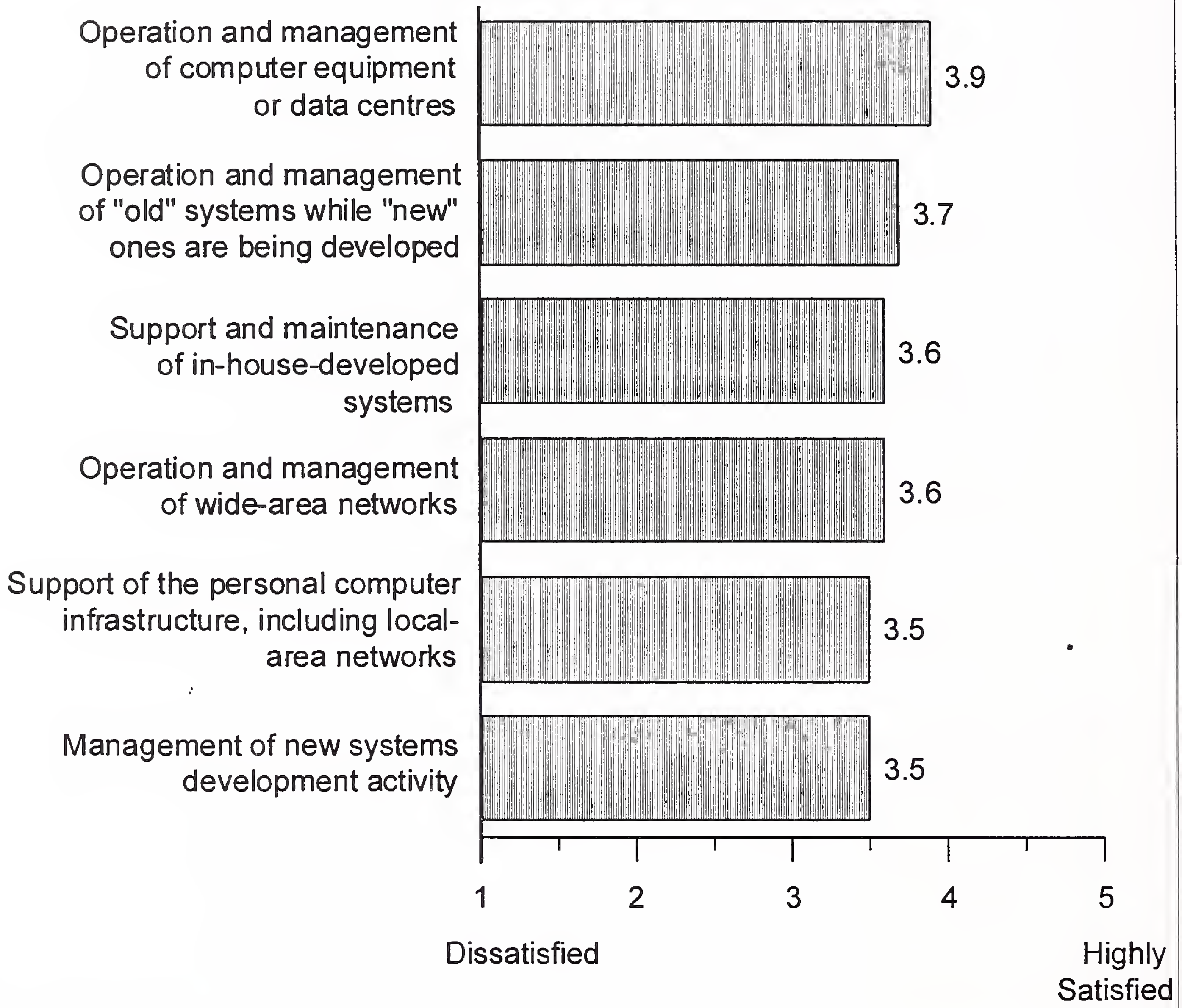
Sample of 47 European outsourcing clients

Vendors need to develop their prospects and clients beyond price-competitive data centre management services. To achieve this goal, vendors must demonstrate their ability to manage the complete IT infrastructure, including local- and wide-area networks. They must also demonstrate their ability to apply IT imaginatively in support of their clients' business goals.

The evidence so far suggests that vendors need to improve their ability to offer this complete service offering. Exhibit III-12 shows that vendors are currently perceived to be better at supplying platform operations services than other aspects of outsourcing.

EXHIBIT III-12

Level of Satisfaction by Service Category: Europe



Sample of 47 outsourcing clients

Standard error = 0.2

It is important that vendors strengthen their capabilities beyond mainframe-based platform operations and transition outsourcing.

Existing users of outsourcing expect to increase their use of outsourcing and to expand the functions outsourced.

Overall, approximately 70% of outsourcing clients expect their usage of outsourcing to increase, as indicated in Exhibit III-13.

EXHIBIT III-13

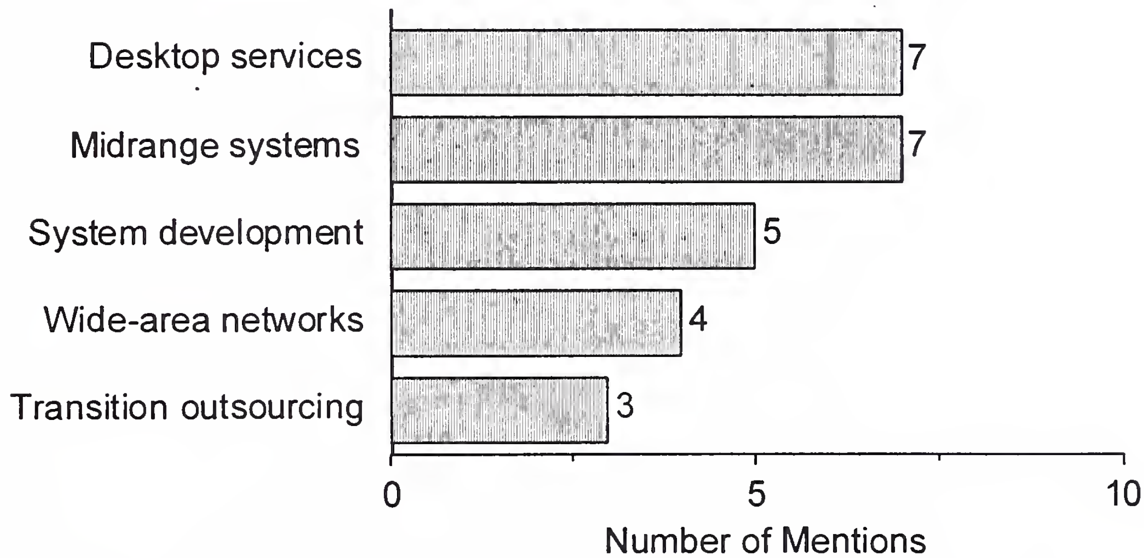
Trend in Outsourcing Usage

	France	Germany	U.K.	Europe
Outsourcing usage will increase	11	6	13	30
Outsourcing usage will not increase	4	-	7	11
Total	15	6	20	41

In the short term, outsourcing clients do expect to increase their use of data centre management and transition outsourcing. However, they also expect to begin using outsourcing in new areas. The principal areas in which existing outsourcing clients expect to introduce outsourcing are listed in Exhibit III-14.

EXHIBIT III-14

Increased Scope of Outsourcing: Europe



Sample of 25 outsourcing clients

The main trend is increased outsourcing of the IS infrastructure. Outsourcing clients expect to outsource the main components of their client/server architectures. These components consist of:

- Midrange systems including UNIX-based equipment
- Local-area networks, personal computers, and help desk services
- Wide-area networks

Another indication that outsourcing is not a short-term expedient is provided by research finding that 90% of outsourcing clients will continue outsourcing at the end of their current contracts (see Exhibit III-15).

EXHIBIT III-15

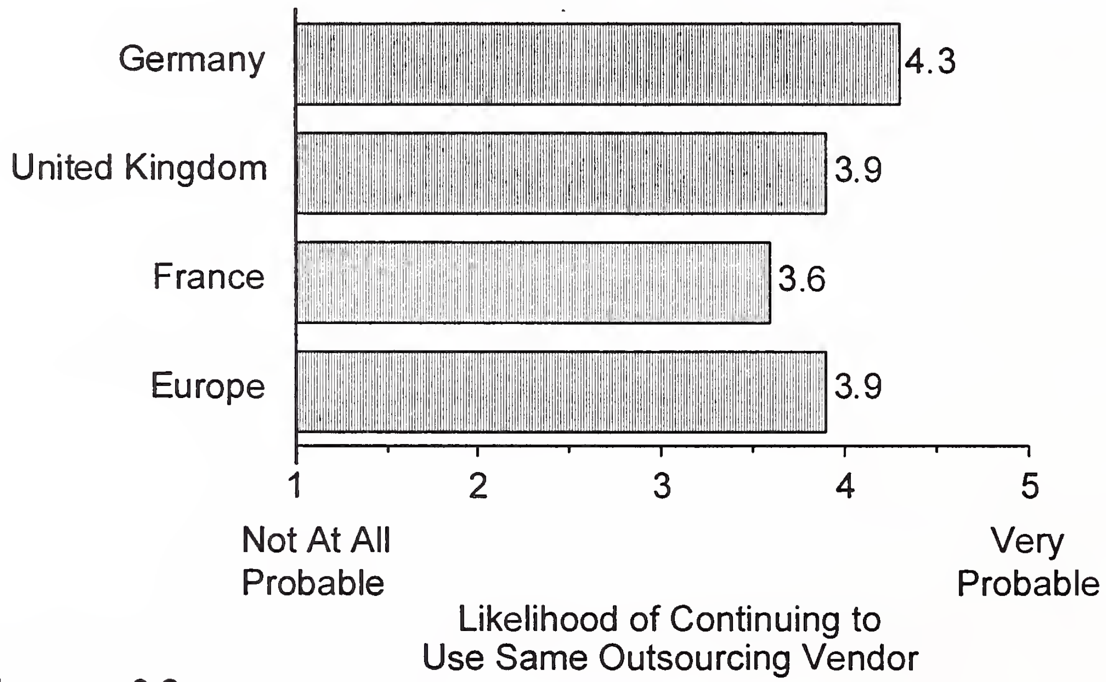
Action at End of Present Contract

	Number of Mentions			
Action	France	Germany	U.K.	Europe
Continue to outsource	12	5	16	33
Stop outsourcing	1	-	3	4
Total	13	5	19	37

However, it will be difficult for new entrants to the outsourcing market to break into this established base. User loyalty to vendors is high (see Exhibit III-16).

EXHIBIT III-16

Client Loyalty



Standard error = 0.2

Less than 10% of respondents perceived that it was unlikely that they would continue to use the same vendor. However, users' loyalty to vendors is lower in France than in the U.K. and Germany. In particular, a significant element of EDS-GFI's client base is vulnerable to competitive attack on contract renewal. In the U.K., AT&T Istel's client base in the health sector is particularly vulnerable.

IV

United Kingdom

A

Need for Improved Business Performance Begins To Drive Outsourcing

The United Kingdom remains the most competitive outsourcing market in Europe, with a higher average number of vendors invited to tender than in France or Germany. The profile of the number of vendors invited to tender in the United Kingdom is shown in Exhibit IV-1.

EXHIBIT IV-1

Number of Vendors Invited to Tender: United Kingdom

Number of Vendors	Number of Contacts
1-2	3
3-6	5
6-10	6
5.3	Average

Cost reduction remains a major driving force in the IS outsourcing market. However, there are signs that organisations' motivations are steadily changing. As shown in Exhibit IV-2, 40% of clients now cite improved effectiveness as a key benefit required from outsourcing.

EXHIBIT IV-2

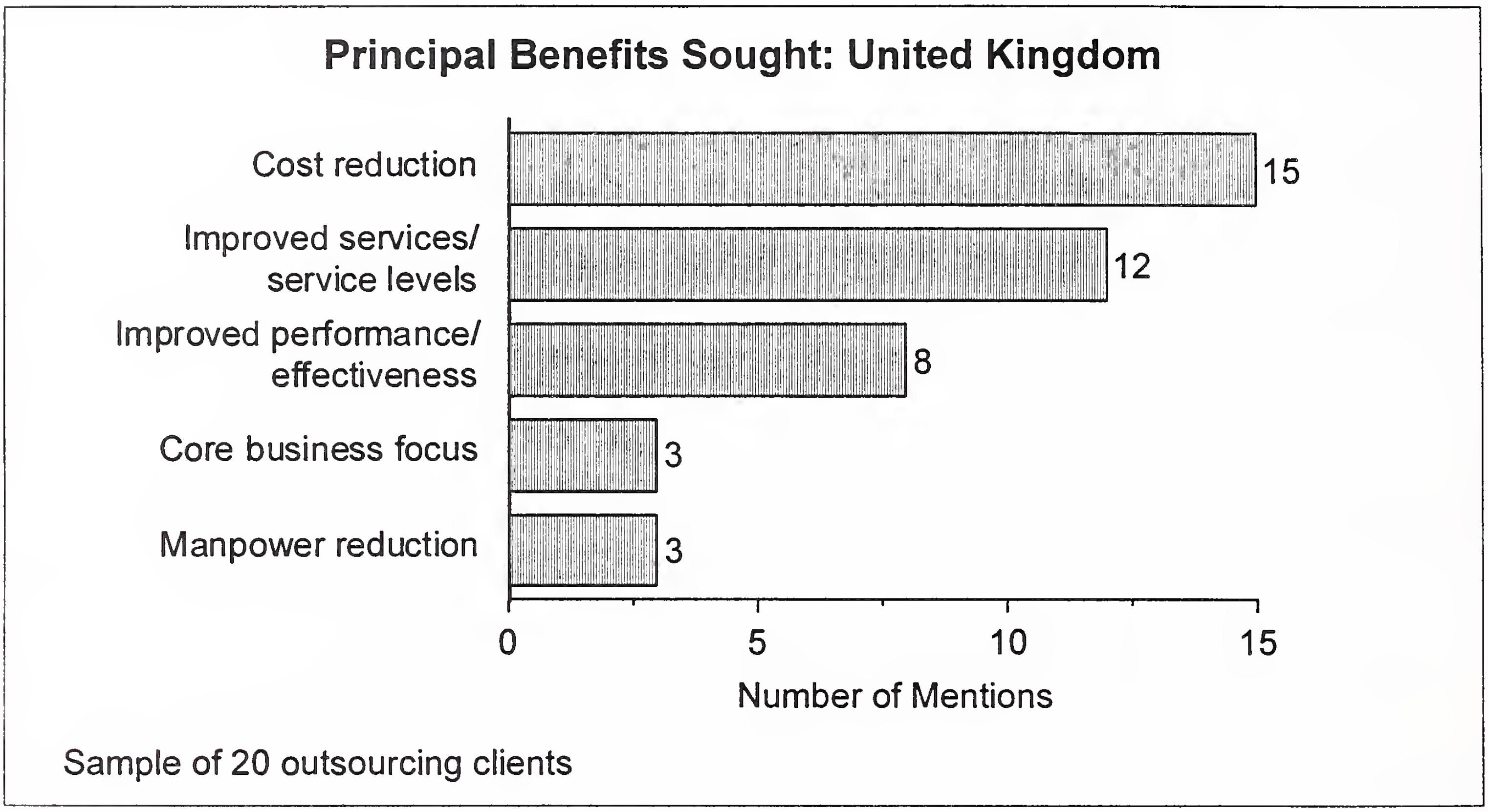
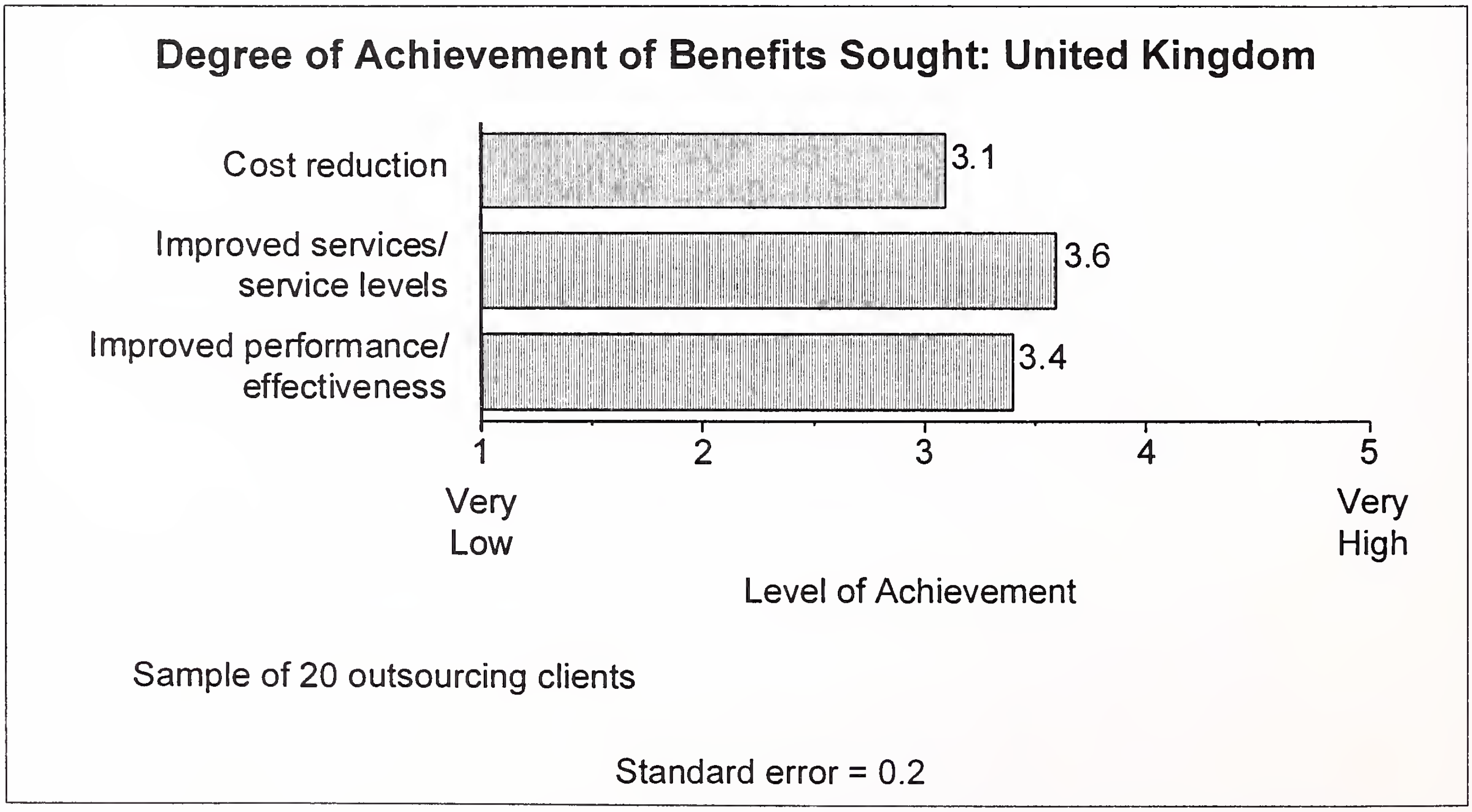


Exhibit IV-3 shows outsourcing clients' ratings of vendors' ability to deliver the three key benefits sought.

EXHIBIT IV-3

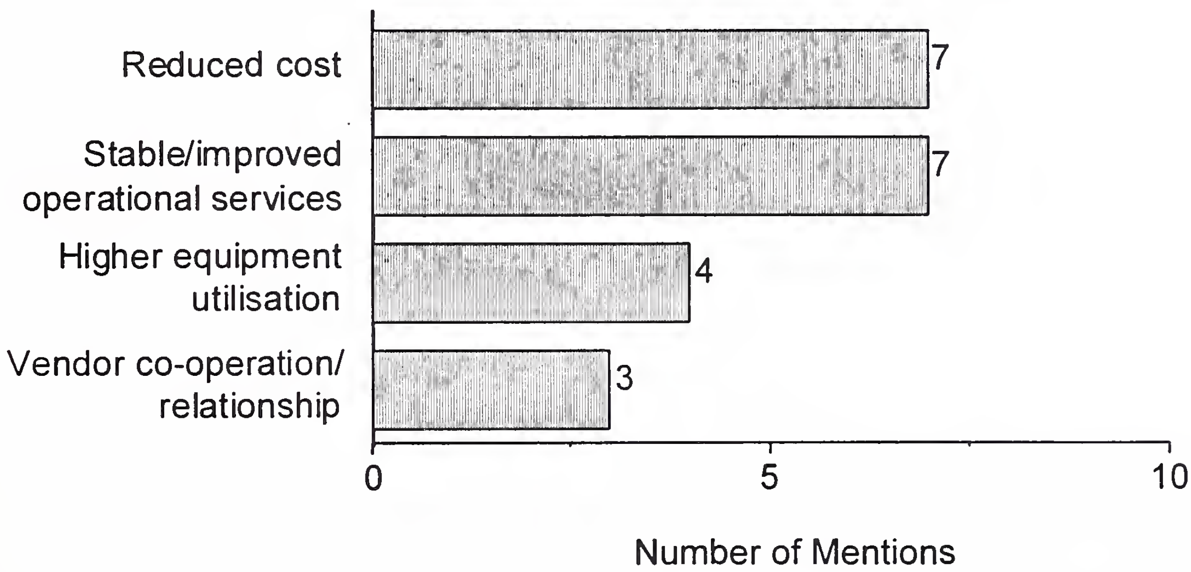


Overall, these ratings are relatively low and should be a cause of considerable concern to vendors. Clients rated vendors' ability to reduce costs particularly low, though it should be recognised that this low score is largely caused by high levels of dissatisfaction in a minority—20%—of clients. Nonetheless, there is clear evidence that vendors and their clients hold very differing views on vendor profitability. Outsourcing clients in the United Kingdom perceive that vendors are making excessive profits at their expense. On the other hand, vendors perceive that the outsourcing market is extremely price-competitive. In particular, vendors are showing low levels of profitability in the platform operations segment. Vendors need to take action to change this perception. Outsourcing clients will take a particularly aggressive stance on contract renewal if they perceive that their vendor is making windfall profits. Vendors should take an "open book" approach to counter this threat, and initiate regular client meetings at which contract profitability and price are openly discussed and reviewed.

Exhibit IV-4 lists the aspects of outsourcing services with which users are particularly satisfied. Exhibit IV-5 lists the principal areas of dissatisfaction.

EXHIBIT IV-4

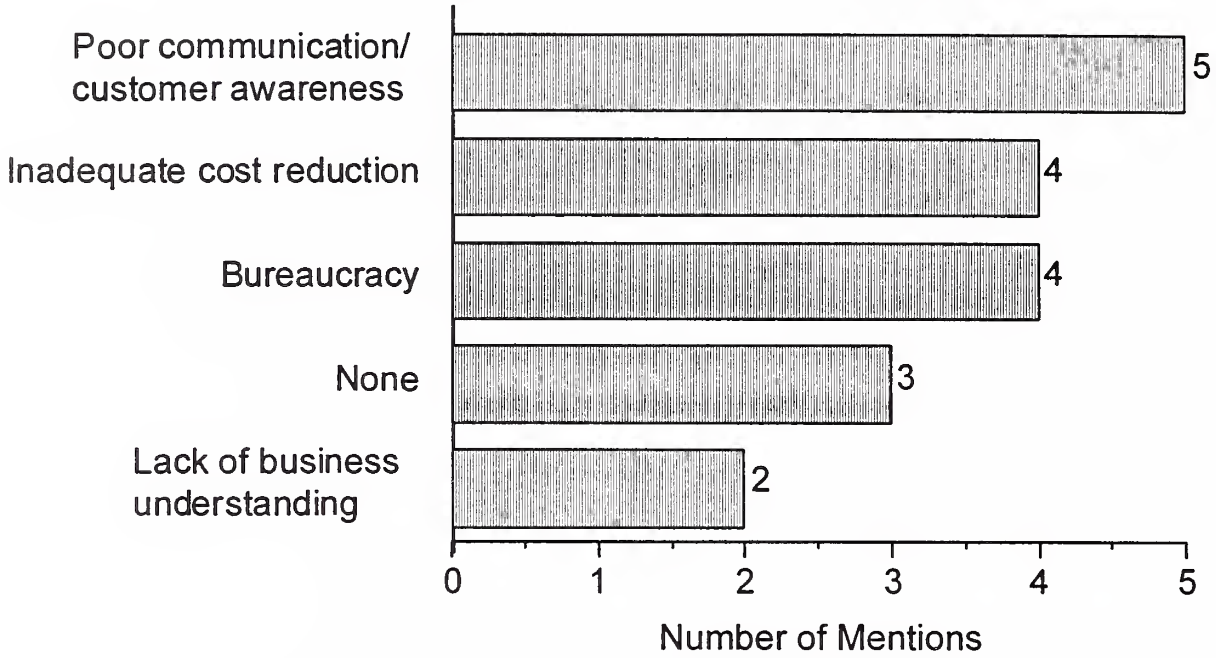
Aspects of Service Liked: United Kingdom



Sample of 20 outsourcing clients

EXHIBIT IV-5

Areas of Dissatisfaction: United Kingdom



Sample of 20 outsourcing clients

The number of respondents who are particularly pleased with the level of cost reduction achieved significantly outweighs the number of respondents who were dissatisfied with the level of cost reduction achieved. Nonetheless, the establishment of a common expectation between user and vendor regarding cost reduction remains a significant vendor challenge.

Vendors have in many cases established their capability to improve operational service levels through outsourcing. Vendors' technical capability to manage mainframe-based operational services is well established. However, vendors' customer service skills are in need of refinement. Only three clients in the United Kingdom commented favourably on their relationship with their vendor. On the other hand, seven clients complained about poor communication and excessive bureaucracy.

Vendors need to establish a more proactive approach to communication with their clients to address these issues.

The sometimes poor communication between vendor and client can exacerbate a perception on behalf of clients that vendors do not understand their client's business. Vendors should take a proactive approach to assisting their clients in meeting the client's business needs, even if such advice apparently lies outside the scope of the outsourcing contract.

B

Existing Clients Require Network Outsourcing

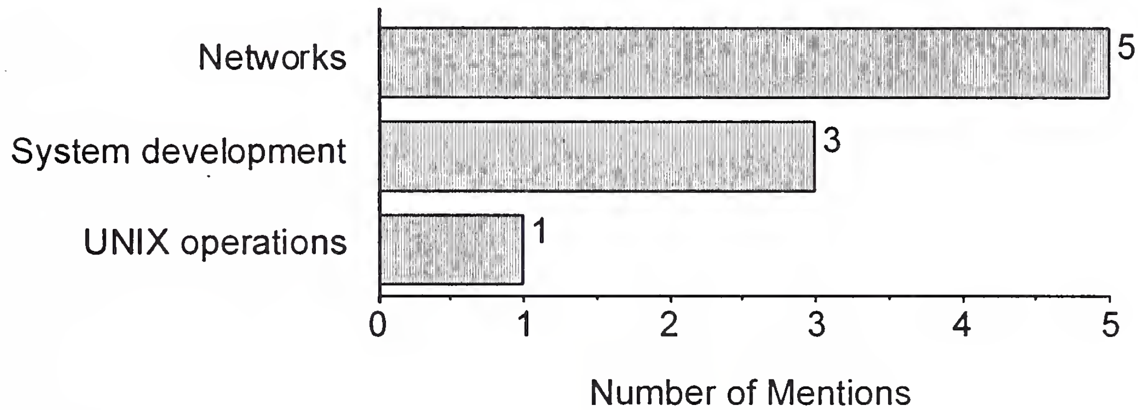
Existing clients are potentially a major source of ongoing and new business. In the United Kingdom, eighty-five percent of clients of outsourcing services expect to continue outsourcing beyond the expiry of their current contracts.

In addition, two-thirds of clients expect to increase their usage of outsourcing. In many cases, this simply involves extending the usage of current services more widely within the organisation.

However, many existing clients also plan to introduce new forms of outsourcing. The requirements of this group of clients are listed in Exhibit IV-6.

EXHIBIT IV-6

Increased Scope of Outsourcing: United Kingdom



Sample of 20 outsourcing clients

The principal need is for increased infrastructure management. In particular, outsourcing clients expect to outsource the management and operation of their networks. As organisations move to client/server architecture, it is becoming difficult to establish meaningful boundaries between wide-area networks and local-area networks. Users are increasingly seeking vendors who can manage both these aspects of their information systems infrastructure.

In addition, there is a trend towards purchasing applications operations services, as users request vendors to become more involved in the development and implementation of new information systems.

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V

France

A

Transition Outsourcing Remains a Key Requirement

The outsourcing market in France is less competitive than that in the United Kingdom in terms of the number of vendors currently active. The average number of vendors invited to tender for outsourcing contracts in France is also lower. The profile of the number of vendors invited to tender in France is shown in Exhibit V-1.

EXHIBIT V-1

Number of Vendors Invited to Tender: France

Number of Vendors	Number of Contracts
1-2	3
3-5	9
6-10	1
3.5	Average

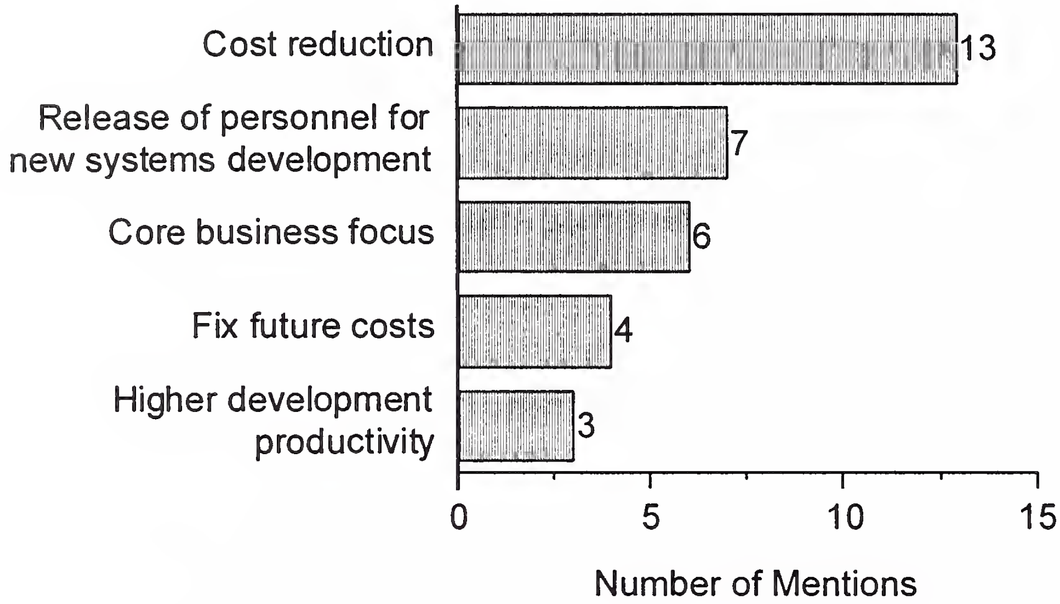
Sample of 13 outsourcing clients

Fewer invitations to tender does not mean that the barriers to entry are less than in the United Kingdom or that the majority of vendors perceive the level of competition to be low. Indeed, the level of competition is very high. In particular, the platform operations segment of the market is at least as price-competitive in France as in the United Kingdom.

As shown in Exhibit V-2, the need for cost reduction remains a major driving force behind outsourcing in France.

EXHIBIT V-2

Principal Benefits Sought



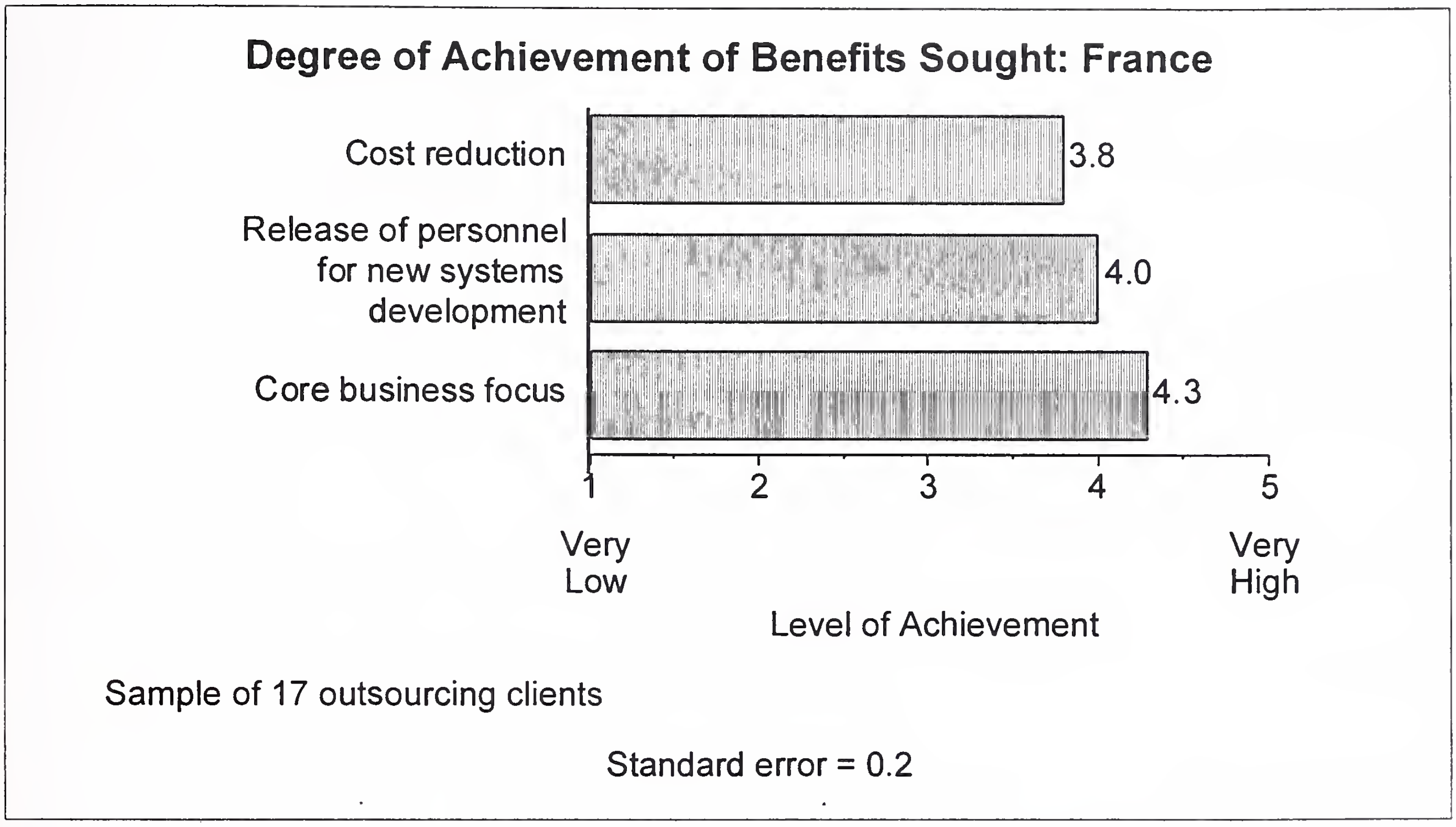
Sample of 17 outsourcing clients

The importance of transition outsourcing is also evident in Exhibit V-2. Forty percent of the respondents perceived outsourcing as a means of freeing internal resources from the ongoing delivery of existing services to concentrate on new system development.

Encouragingly for outsourcing vendors, thirty percent of users perceived that one of the principal benefits of outsourcing was to enable them to concentrate on core business activities.

Overall, vendors in France have been successful in delivering these benefits to their clients. Exhibit V-3 indicates their degrees of achievement.

EXHIBIT V-3



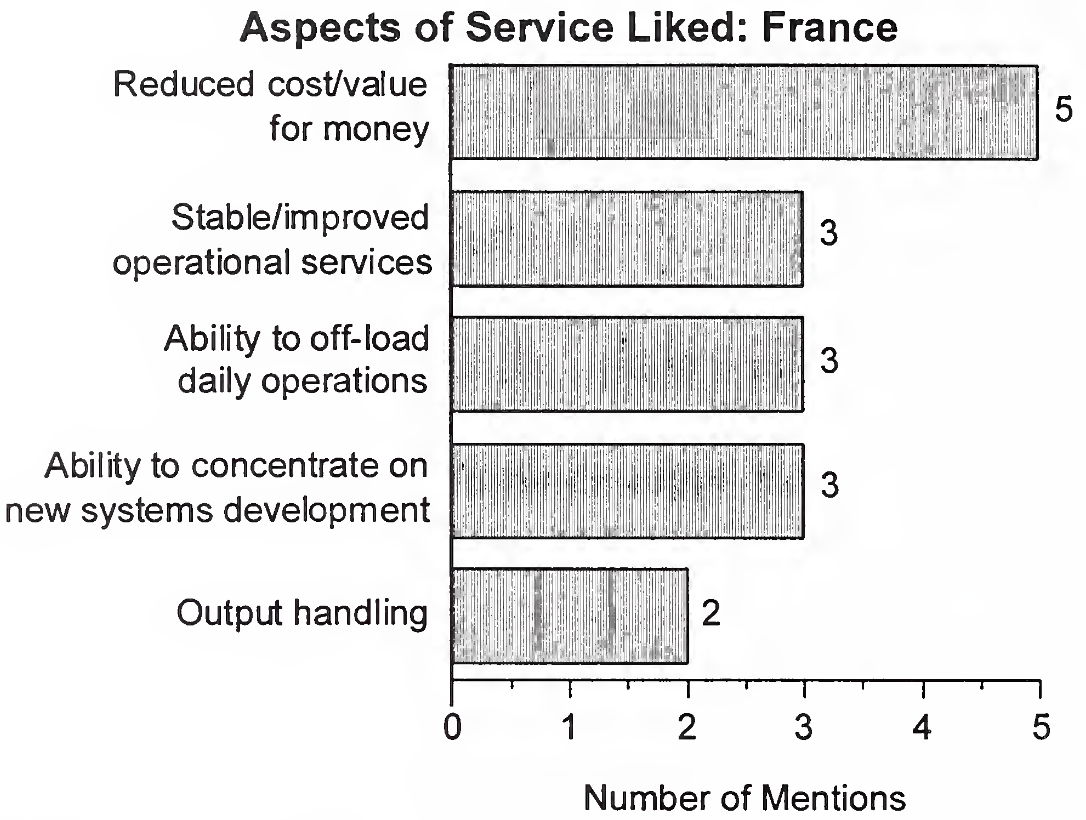
In particular, outsourcing clients perceive that outsourcing has been successful in freeing their organisations to concentrate on core business activities rather than technology and in releasing personnel within the IS department from the onerous task of operating and maintaining established business systems.

In addition, vendors in France have been much more successful than those in the United Kingdom in satisfying their clients' cost reduction expectations.

However, despite this more positive outlook, French outsourcing clients show comparatively low levels of vendor loyalty, and are more likely than average to switch vendors at the end of their current contracts.

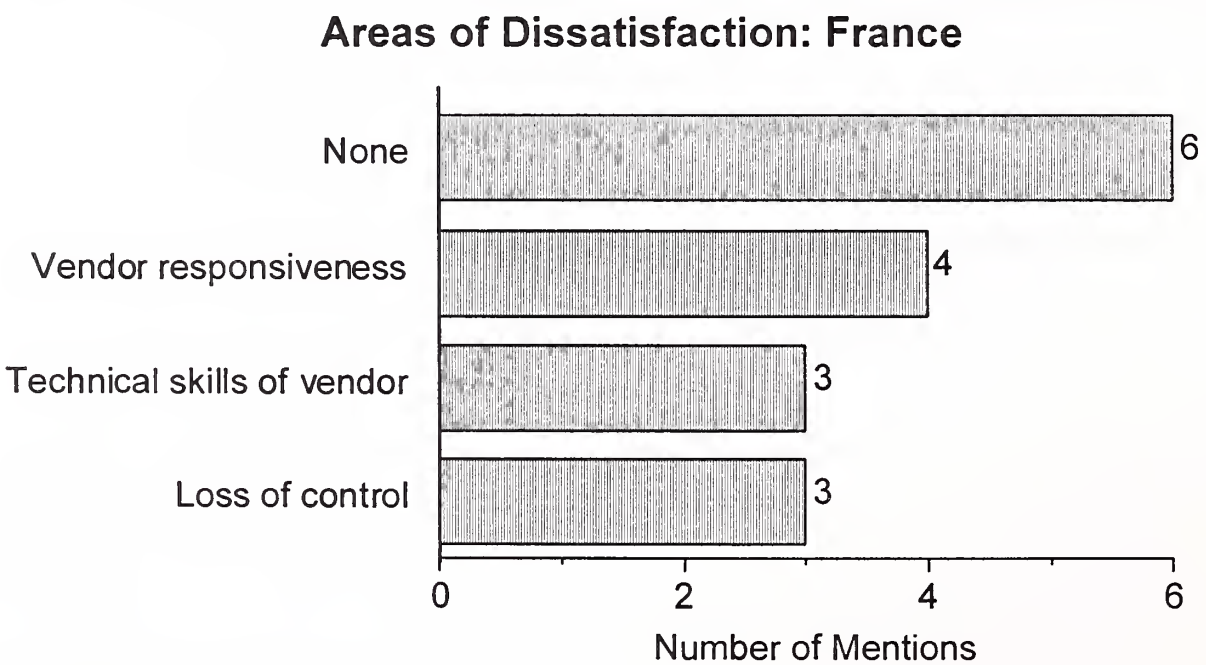
Exhibit V-4 lists the aspects of their outsourcing services with which users are particularly satisfied. Exhibit V-5 lists the principal areas of dissatisfaction.

EXHIBIT V-4



Sample of 17 outsourcing clients

EXHIBIT V-5



Sample of 17 outsourcing clients

The proportion of outsourcing clients with no significant areas of dissatisfaction is appreciably higher in France (6 out of 17) than in the United Kingdom (3 out of 20).

However, the main area of dissatisfaction is the same, namely vendor communication. Vendors need to develop a more proactive stance towards the clients and to react more quickly to one-off requests and the changing needs of their clients.

Concern was also expressed by clients in France concerning vendors' ability to manage the wider aspects of their IS infrastructures. Clients perceived that vendors were sometimes too preoccupied with mainframe operations and doubted their expertise in network design and the management of wide area networks and personal computer-based desktop services.

B

Vendors Need to Widen Their Technical Capabilities

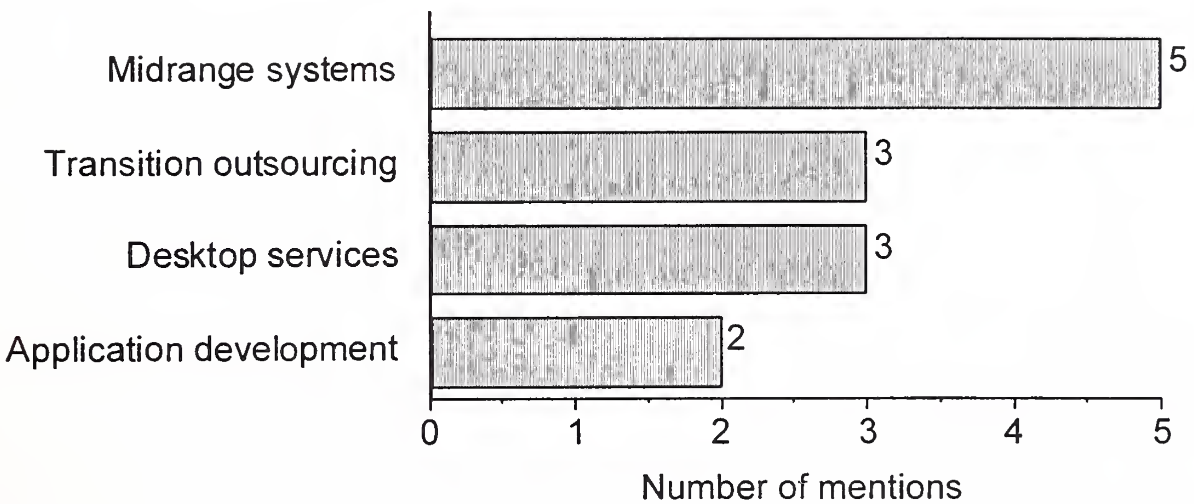
It is important that vendors demonstrate to their French clients their capability to manage wider IS infrastructures.

At least seventy percent of outsourcing clients in France expect to continue outsourcing beyond the expiry of their current contracts, and many clients will introduce new forms of outsourcing service.

The principal additional requirements of these outsourcing clients are listed in Exhibit V-6.

EXHIBIT V-6

Increased Scope of Outsourcing



Sample of 12 outsourcing clients

The principal need is again for increased infrastructure management. In France, this was expressed in terms of the need to manage midrange and personal computer-based services. As in the United Kingdom, there is also a trend for clients to involve vendors in the development and implementation of new information systems.

VI

Germany—In the Honeymoon Period

Outsourcing has only become established in Germany over the past two years. Hence, the pattern of respondents in Germany is very different from that in the United Kingdom and France. On average, the respondents to this survey in the United Kingdom and France commenced outsourcing in 1990. In Germany, on average, respondents commenced outsourcing in 1992. This difference may be a very significant factor in explaining the exceptionally high levels of customer satisfaction observed in Germany.

It is common for users of outsourcing to exhibit high initial levels of enthusiasm, with the level of enthusiasm declining as the contract matures.

Despite the comparatively recent introduction of outsourcing services in Germany, the German market is no less competitive than the French market in terms of the number of vendors typically invited to tender. The profile of the number of vendors invited to tender for outsourcing contracts in Germany is shown in Exhibit VI-1.

EXHIBIT VI-1

Number of Vendors Invited to Tender: Germany

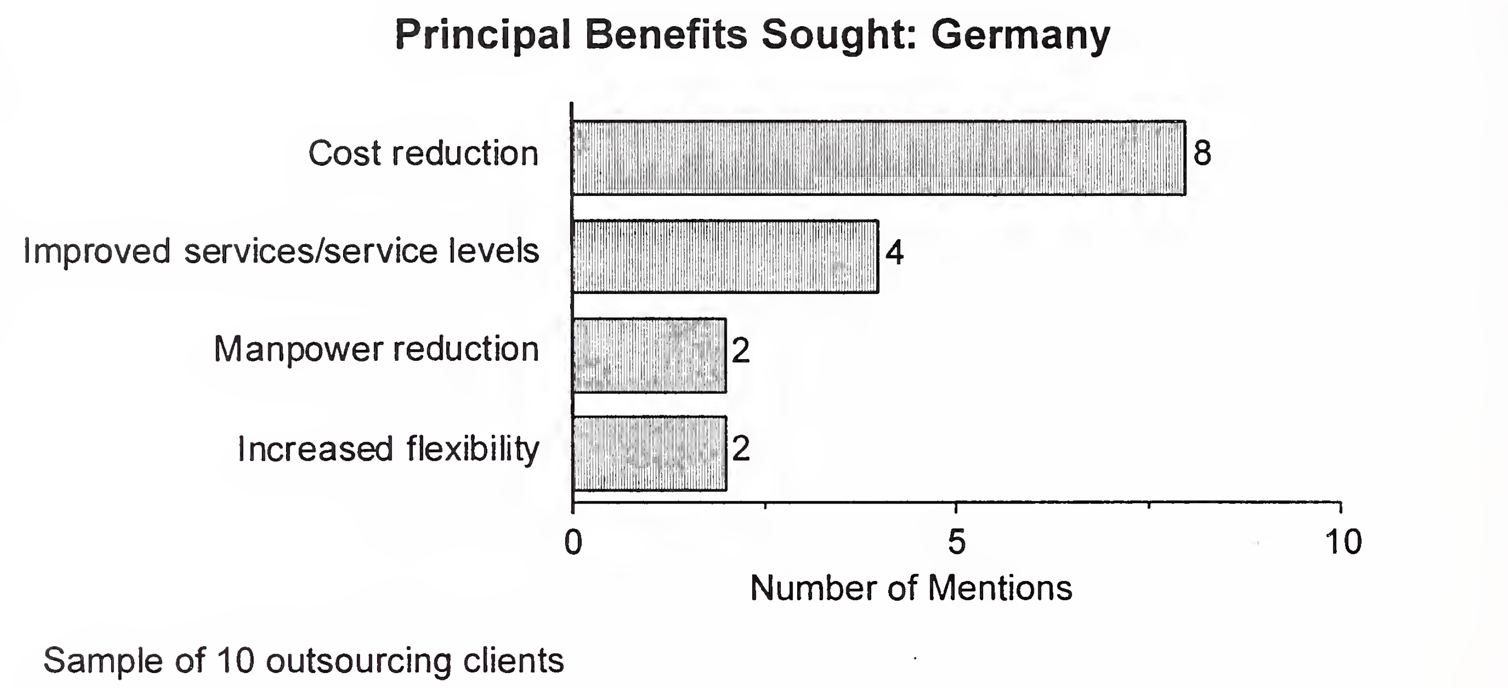
Number of Vendors	Number of Contracts
1-2	1
3-5	6
6-10	2
4.3	Average

Sample of 9 outsourcing clients

Like its French and British counterparts, the German platform operations market exhibits a high level of price competition. debis Systemhaus has been established as CAP Gemini Sogeti's centre of excellence for low-cost data centre management services.

As shown in Exhibit VI-2, cost reduction is a major driving force behind outsourcing in Germany, as elsewhere in Europe.

EXHIBIT VI-2

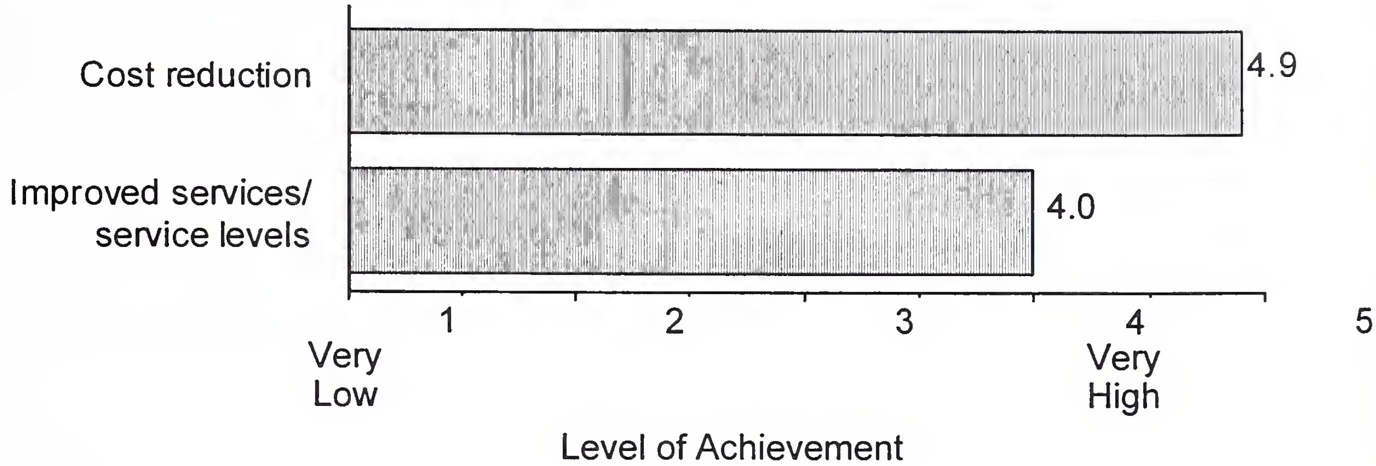


The other major benefit sought by German clients is improved service levels.

So far, vendors have been extremely successful in meeting their German clients' needs, as shown in Exhibit VI-3.

EXHIBIT VI-3

Degree of Achievement of Benefits Sought: Germany



Sample of 10 outsourcing clients

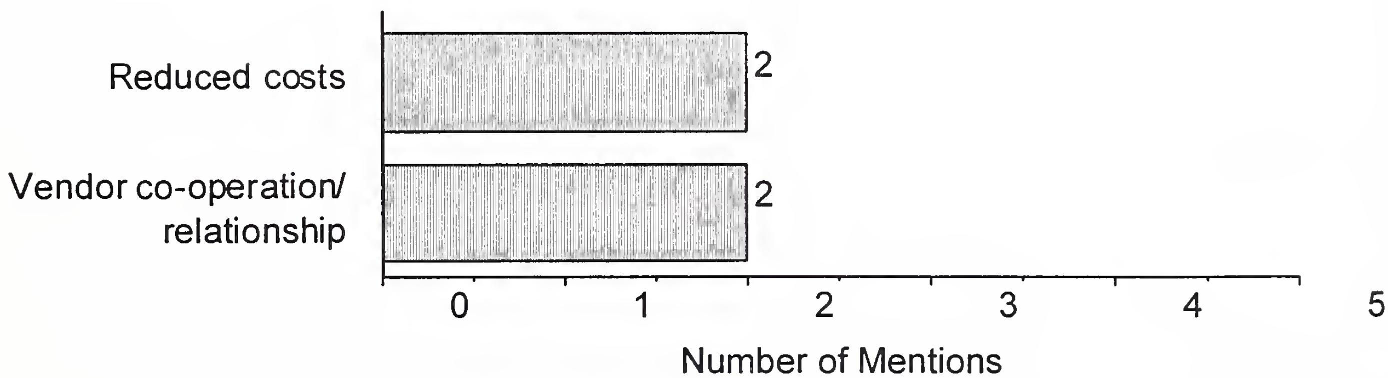
Standard error = 0.2

Outsourcing clients in Germany are overwhelmingly satisfied with the level of cost saving achieved and show a high level of satisfaction with the service levels delivered.

Exhibit VI-4 lists the principal aspects of their outsourcing services with which German users are particularly satisfied.

EXHIBIT VI-4

Aspects of Service Liked: Germany



Sample of 10 outsourcing clients

German clients offered no significant criticisms of their current outsourcing services. However, one user did state that outsourcing could be improved by greater co-operation between vendor and client.

As their outsourcing contracts mature, it is important that vendors in Germany endeavour to maintain proactive, close relationships with client personnel. If they do not do so, then the level of customer satisfaction with outsourcing services in Germany will fall from its current high levels over the next few years.

As elsewhere in Europe, German clients of outsourcing services are intending to migrate to client/server architectures in the future. There is a corresponding opportunity for outsourcing vendors in managing systems based on this architecture.

A

Satisfaction with Outsourcing: User Questionnaire

INPUT defines outsourcing as the subcontracting of the management of part or all of an IS function to an external vendor.

Outsourcing does *not* include project activity such as the development of a specific system for a fixed price.

1. Would you please describe the scope of your organisation's IS outsourcing?

Satisfaction

2. Does your company outsource any of the following activities?

   (a) The operation and maintenance of computer equipment or data centres YES/NO

   Vendor used _______________

   (b) The support and maintenance of in-house-developed systems YES/NO

   Vendor used _______________

   (c) The management of new systems development activity YES/NO

   Vendor used _______________

   (d) The support of the personal computer infrastructure, including local-area networks? YES/NO

   Vendor used _______________

(e) The operation and management of wide-area networks? YES/NO

Vendor used _______________

(f) The operation and management of "old" systems while "new" ones are being developed? YES/NO

Vendor used _______________

3. What is your overall level of satisfaction with each of the outsourcing services you receive?

	Dissatisfied				Highly Satisfied
(a) The operation and management of computer equipment or data centres	1	2	3	4	5
(b) The support and maintenance of in-house-developed systems	1	2	3	4	5
(c) The management of new systems development activity	1	2	3	4	5
(d) The support of the personal computer infrastructure, including local-area networks?	1	2	3	4	5
(e) The operation and management of wide-area networks?	1	2	3	4	5
(f) The operation and management of "old" systems while "new" ones are being developed?	1	2	3	4	5

4. What were the three main benefits you expected to achieve from IS outsourcing?

(a) Benefit	Level of Achievement Very Low				Very High
______________________	1	2	3	4	5
______________________	1	2	3	4	5
______________________	1	2	3	4	5

(b) To what extent have these anticipated benefits been achieved?

(c) Which aspects of the service are you particularly pleased with? Why?

(d) Which aspects of your outsourcing services are you dissatisfied with? Why?

5. (a) What is your overall level of satisfaction with the outsourcing services you receive?

Dissatisfied 1 2 3 4 5 Very Satisfied

(b) To what extent do you believe that by outsourcing:

	Not At All				Completely
Your company has achieved good value for money	1	2	3	4	5
Your company has improved the effectiveness of its information systems	1	2	3	4	5
Improved service levels have been achieved	1	2	3	4	5

Pricing

6. (a) How many vendors did you invite to tender for your outsourcing contract?

(b) Did you choose the lowest price bid?

Yes/No

If not, why not?

(c) Has accepting a competitively priced bid caused your organisation any problems? Yes/No

If so, what are they?

	Not At All				Extremely
(d) How profitable do you believe outsourcing contracts such as yours are for vendors?	1	2	3	4	5

(e) On what basis is your contract priced?

(f) Do you believe there are any disadvantages to this pricing approach? If so, what are they?

(g) What pricing basis do you favour for future contracts? Why?

Future Plans

7. (a) How do you expect your use of outsourcing to develop in the future?

(b) How do you believe your use of outsourcing could be improved in the future?

(c) Which additional IS or business functions do you expect to outsource over the next 2-3 years?

(d) What actions are you likely to take at the end of your existing outsourcing contract(s)?

(e) How likely are you to continue to outsource each of the following?

	Not At All				Highly Probable
The operation and management of computer equipment or data centres	1	2	3	4	5
The support and maintenance of in-house-developed systems	1	2	3	4	5
The management of new systems development activity	1	2	3	4	5
The support of the personal computer infrastructure, including local-area networks	1	2	3	4	5
The operation and management of wide-area networks?	1	2	3	4	5
The operation and management of "old" systems while "new" ones are being developed?	1	2	3	4	5

(f) How likely are you to continue to use the same vendor(s)?

Not At All Probable						Very Probable
	1	2	3	4	5	

Background Details

8. (a) When did your outsourcing contract begin?

(b) What is the total length of your outsourcing contract?

(c) What is the approximate overall value of your outsourcing contract?

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