Packing List

Customer Number 190932 Date 11/05/96
Bill to Customer

INPUT
1881 LANDINGS DR

MOUNTAIN VIEW
CA 940430848 US

Ship To Number 3 Store
Ship To Customer

BRADFORD ADAMS
1086 MEADOWS CIRCLE

PALO ALTO
CA 94303 US

Ship From: GENERAL BINDING CORP DC 96
1101 SKOKIE BLVD
NORTHBROOK, IL
60062 US

Order Number 216293 Your Order Number 9103
Warehouse 93 Consolidation
Carrier SHOP Route
Ship Via BW Shipper

Order Date 10/22/96
Request Date 11/05/96
Ship Date 11/05/96

Line	Item No-UPC Code	Description	Qty Ord	Prv Shp	Ship Qty	Backorder	Carton
1	**5519997-**	SPECIAL NON-STD IMP TAB-QUOTE	110.000	.000	110.000	.000	
2	**59102** -	FOIL STAMP RUN CHARGE PER 100	110.000	.000	110.000	.000	
3	**59102** -	FOIL STAMP RUN CHARGE PER 100	110.000	.000	110.000	.000	
4	**59190** -	SPECIAL DIE CHARGE #1B	1.000	.000	1.000	.000	
5	**59191** -	SPECIAL DIE CHARGE #1	1.000	.000	1.000	.000	
6	**59300** -	SET UP CHARGE - TAB	1.000	.000	1.000	.000	

Weight .000
Volume .000
Pallet .000

Qty OrdPrv Shp

Fulfillment/Printing for INPUT

Date 11/4/96 By RH

Program Code 0S96 Project Code OSRB

INPUT P. O. # ~~9124~~ 9126 BAC Ref. #

Title: "The Future of EDS"

- ☐ Report
- ☒ Research Bulletin
- ☐ Profiles
- ☐ Newsletter
- ☐ Reprints
- ☐ Other

Fulfillment - Please print list to order covers>>

Reports		Executive OV	
Fulfillment	~~110~~	Fulfill.	
Stock	~~140~~	Stock	
		TU Pkg.	
Total	~~250~~	Total	

Research Bulletin
Fulfillment 250

Newsletter
Fulfill.

TO: GBC
Covers Order

Date
Quantity
Color
Size
P. O. Number
GBC Control Number

Date/ FedX GBC
Date Due INPUT
Date Rec. INPUT

Date
PLEASE PRINT ☐ labels ☐ packing slips
To: BAC

TO BRADFORD ADAMS

>>

☐ Folder ☐ Disk ☐ Hard Copy ☐ Blue Form ☐ GBC Cover

Dates

For Set Up/Proof
Proof rtn to INPUT
Final proof rtn to BA
Scheduled to Ship

Instructions:

- ☐ Window Cover
- ☐ Hot Strip
- ☒ 3-Hole Drill
- ☐ Staple
- ☐ Shrink Wrap
- ☐ Other

Other Information/Notes

marcom outsourcing masthead

let me know if price is not $48.40

rewrite is OSRB#86.doc

Return to INPUT Ship Date

- ☒ Originals/Disk in folder
- ☒ For Stock: RP OV 140 RB PR
- ☒ Internals for Distribution
- ☒ International for mailing/DHL
- ☐ Other
- ☐ INPUT *add stock quantity to inventory report*

Vol. VII, No. 8 November 1996

The Future of EDS

EDS has been considered a leader in outsourcing with consistently strong financial performance. That leadership is now in question, reflected by the 36% plunge in EDS stock value in late October and slower earnings growth coupled with significantly fewer new contract signings.

The future of EDS will be characterized by fairly strong revenue growth, narrowing margins, and shrinking market share.

EDS will have to make fundamental changes in order to protect its future, becoming more open to competing on cost and focusing on higher growth segments of its markets.

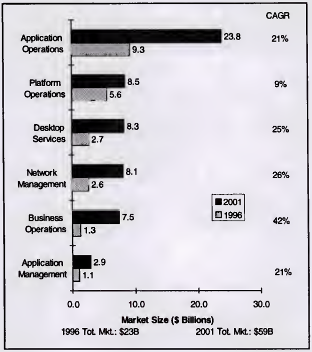
Focus on Slower Growth Segments of Market

The bulk of EDS' contracts continues to be in the Application Operations segment of the Outsourcing Market, despite the fact that this is a slower growth segment (21% CAGR), as compared to segments such as network operations (26%) and business operations (42%).

Relative growth rates of the outsourcing market segments are indicated in Exhibit 1.

Exhibit 1

Outsourcing Market 1996 - 2001



Source: INPUT

While EDS' revenue growth will remain fairly strong due to the overall growth of the market (21% CAGR), EDS will need to focus more on the higher growth segments of the market to accelerate growth. In addition, EDS will need to improve its win rate in Application Operations and build more revenue from existing clients.

Pressure on Margins

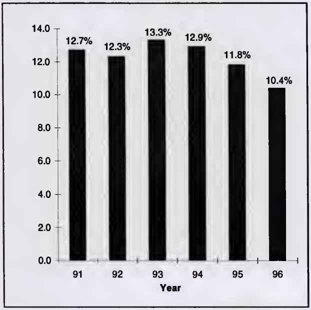
Margin pressure is resulting from:

- Fewer new contract signings: $5.4B during the first three quarters of 1996 vs. $6.6B for the same period in 1995. (ISSC had $5.1B in new outsourcing contracts during First Half 1995.)
- Poor monitoring of financial health of customers: some have gone bankrupt, e.g. Spectradyne, Memorex Telex.
- High expenses due to the trend toward smaller contracts, which will drive up SG&A, an increased debt burden and recent one-time charges.
- The acceleration in price performance improvements in the industry and the perceived need to pass them on to the customer.

The four-year downward trend in EDS margins is indicated in Exhibit 2.

Exhibit 2

EDS Gross Margin Trends 1991-1996



Source: INPUT

(Note: Margins are based on pre-tax income divided by revenues. The 1996 margin, which is calculated on the basis of the first three quarters, excludes a restructuring charge and asset write-downs.)

A smaller number of new contract signings in 1996 is likely to contribute to the trend into 1997. Additional margin pressure will result from renewals of large contracts re-negotiated at less favorable rates.

Intensifying Competition A Key Concern

New competitors, such as the telephone companies (e.g., AT&T Solutions) and specialized vendors (e.g., First Data) as well as strengthening traditional competitors such as IBM/ISSC and CSC are diverting revenues from EDS. The reasons these companies are performing well include:

- Focus on stronger growth segments: networking expertise at AT&T and IBM/ISSC, business process outsourcing capabilities at Andersen Consulting.
- Partnerships/acquisitions in the case of CSC, especially overseas companies but also Continuum, have boosted revenues and profits.
- Vertical market expertise is more sharply honed, e.g. Andersen Consulting in manufacturing, First Data in finance.
- The acceleration in price performance improvements in the industry has created the perceived need to pass the savings on to the customer.

Strengths of competitors as compared to EDS are indicated in Exhibit 3.

Exhibit 3

Competitor Strengths

Competitor	Superiority
IBM/ISSC	Networking , price, brand, sales
AT&T	Networking expertise, brand
Andersen Consulting	Business process and applications expertise
CSC	New partnerships & acquisitions, price
MCI Systemhouse	Networking, client server
First Data	Vertical business process knowledge, electronic commerce
Continuum (CSC)	Vertical business process knowledge

Source: INPUT

Market Share Likely to Shrink

As competition intensifies, EDS' large market share is likely to shrink, as indicated in Exhibit 4.

Exhibit 4

U.S. Outsourcing Market Share 1991 - 2001

Vendor	1991	1996	2001
EDS	45%	40%	36%
IBM/ISSC	0	25%	35%
CSC	5%	8%	10%

Source: INPUT

The increasing success of network management outsourcers, such as IBM/ISSC, AT&T, and others will contribute to EDS' shrinking market share.

Strengths Remain

- EDS' backlog of business, which grew to $75B by early November, 1996. This backlog will sustain growth.
- Strong overall outsourcing market growth will buoy sales.
- International coverage will contribute to overall growth.
- Size and resources.
- Vertical approach to markets.

Contributors to Current Challenges

Further contributors to EDS challenges include:

- Distractions from business focus: split-off from GM, A.T. Kearney acquisition
- The trend toward smaller contracts will require more sales expenditures.
- Traditional markets, e.g. U.S. federal government, are spending less
- Focus on value-based pricing over low cost, even though cost remains the key concern among customers.
- Weak position in emerging markets, e.g. applications implementation (SAP, Oracle) compared to competitors such as IBM and Andersen Consulting
- Less successful sales approach for the very large U.S. contracts, e.g. the $2 billion J.P. Morgan contract won in 1996 by CSC in partnership with AT&T, Andersen Consulting and others.

Future Scenario: EDS' New Imperative

EDS' new strategic imperative will be to make the following changes:

- Increase flexibility: compete on cost as well as value, enter new markets more aggressively.
- Strengthen business process vertical market expertise.
- Reduce overhead further while increasing selective spending, such as sales and sales support expenditures.
- Strengthen capabilities in strong growth segments, e.g. network operations and business operations. This will require more strategic partnerships and better use of A.T.Kearney expertise.
- Change focus from slower growth traditional markets, such as the U.S. Federal government, to new, high growth markets such as the Internet, intranets and electronic business; strengthen capabilities in these new areas through focus, improved hiring and partnerships.
- Target financially strong customers only, avoiding the customer that needs a cash infusion to survive. Select customers that are leaders in their markets: the result will be the elimination of customers that cannot pay and more valuable on-the-job learning.

This Research Bulletin is issued as part of INPUT's U.S. Outsourcing Services Program. If you have questions or comments on this bulletin, please call your local INPUT organization or Sherry Sumits (sumits@input.com) at INPUT, 1881 Landings Drive, Mountain View, CA 94043-0848, (415) 528-6322.