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Business Integration Vendor Selection - Process and Criteria

Business Integration Programme–Europe

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Business Integration Vendor Selection: Process And Criteria

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Abstract

The need to improve the processes organisations have in place via which they buy mission critical, business systems, is a major concern to both IT user and supplier communities. Users unsurprisingly need to maximise their chances of making the "right" buying decision, whilst vendors need to understand the steps by which they are able to benefit from and influence user's decisions and minimise their own commercial risk.

Improved buying processes can be seen as a part of the attempt to benefit from the opportunities which correctly utilised Information Technology offers an organisation.

The principle objective of this report is to assist vendors of Business Integration (BI) services in gaining a better understanding of the dynamics of vendor selection in order to compete successfully in the increasingly dog-eat-dog BI marketplace.

In summary, the report:

- Analyses the processes users have in place to make selection decisions and the way in which these processes have been developed. It examines the roles and the relationships between differing functions in these processes and also the role external consultants play in these processes.
- Examines the actual criteria, and relative weighting of these criteria, users have when selecting a supplier to work major systems development or integration projects.
- Discusses the marketplace conditions against which Business Integration vendors are having to compete. It also lists the leading European Business Integration services providers.

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Business Integration Vendor Selection: Process And Criteria

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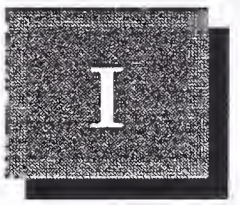
Table of Contents

List of Exhibits

IV

V

VI



Introduction

A Objectives

Deciding to utilise external resources in the development or integration of large scale, mission critical business systems is a major decision, and subsequent undertaking, and one that invariably requires a significant deal of involvement from an organisation's senior executive management.

Understanding both the processes by which organisations come to selection decisions and the key factors that influence this decision is of vital importance to vendors hoping to provide Business Integration (BI) services. It is especially important to vendor organisations who are in the process of changing their internal business focus and/or culture due to perceived changes in the marketplace in order to address the many opportunities the dynamic BI market presents.

The principle objective of this report is to gain a better understanding of the dynamics vendors need to be aware of in order to compete successfully in the increasingly dog-eat-dog BI market. Specific issues the report considers are:

- Identifying the key criteria by which companies chose business integration vendors
- Examining the bid process in detail and analysing reasons why vendors are selected or rejected
- Investigating both the "hard" and "soft" elements within the buying decision
- Providing qualitative analysis of the relative importance and inter-relationships of these areas

- Studying the use of external consultants in the bid process; their influence and subsequent role in development or integration projects

- The types of data, models and analysis tools used in the evaluation and selection process.

This study provides insight into these questions and issues from the viewpoint of the buyer. The report examines the roles, and relative importance, of corporate officers and their external advisors.

Analysis of the data provides considerable insight into various aspects of the BI selection process and its constituent elements.

B
Methodology

The report analyses responses from major European IT users of system integration and professional services vendors to a telephone based questionnaire which is attached in Appendix A.

Interviews were conducted with 90 senior IT function executives from companies split evenly across Germany, France, and the United Kingdom.

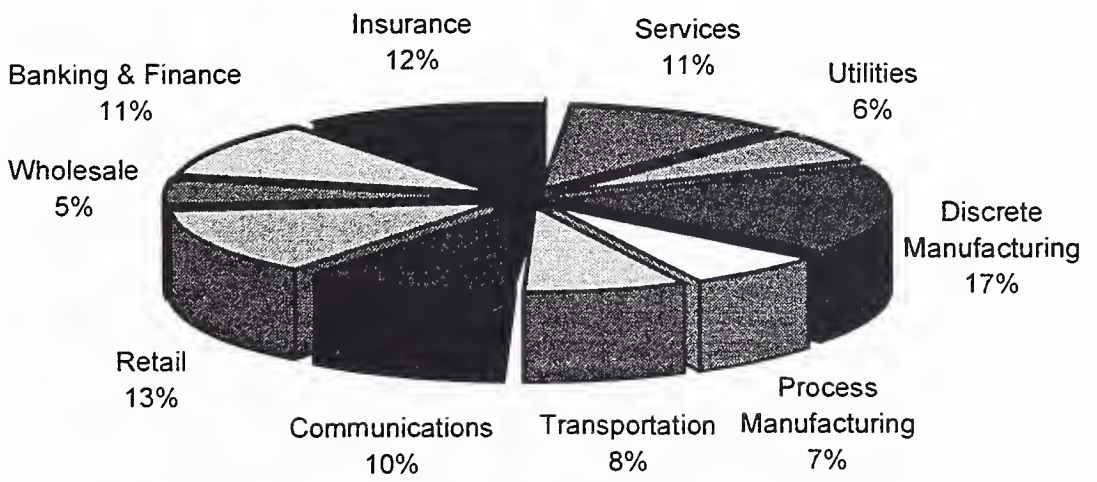
These responses were supplemented by face-to-face interviews with five leading Business Integration vendors to discuss and clarify specific issues, gain both a high level and detailed view of vendor's initiatives, and understand BI vendors strategic plans.

Exhibit I-1 provides a profile of the sector breakdown of user respondents across Europe whilst Appendix B provides a list of companies interviewed for the report.

In addition to the data gathered through the field interviews, information from INPUT's prior information services and systems integration research both in Europe and America was used to formulate the conclusions and observations presented in this report.

Exhibit I-1

Industry Sector Analysis of Questionnaire Respondees



Source: INPUT

C
Report Structure

Chapter II consists of the Executive Overview which is a summary of the key findings, analysis, conclusions and recommendations of this study.

Chapter III is an analysis of the processes users have in place to make selection decisions and of the way in which these processes have been developed. It examines the roles and the relationships between differing functions in these processes and also the use of external consultants.

Chapter IV examines the actual criteria, and relative weighting of these criteria, users have when selecting a supplier to work on a large, mission-critical, systems development or integration project.

Chapter V is a brief discussion of marketplace conditions against which Business Integration vendors are having to compete. It also lists the current leading European Business Integration services providers.

Chapter VI defines the Business Integration marketplace.

Appendix A provides the questionnaire used in interviewing organisations for this report.

Appendix B lists the 90 companies who were interviewed for the report.

Appendix C provides the currency exchange rate details used for compiling this report.

D
Related Reports

- Managing Risk in Systems Development Contracts (1994)
- Procurement Approaches to Systems Integration Projects (1993) — *US Report*
- The Role of the Chief Financial Officer in Outsourcing Decisions (1994) — *US Report*
- Pricing and Marketing of Outsourcing Services (1994)
- Systems Integration Market — Europe, 1995–2000 (1995)
- Business Integration Market, Competitive Analysis (1995)

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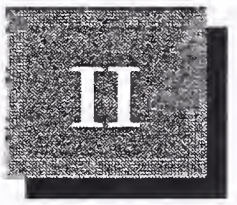


Executive Summary

A
Understanding Selection Processes and Criteria are Mutually Supportive

The ability to understand, interpret and respond to user's demands for systems integration project services, and the ways in which these demands are expressed, has clearly always been a vital requirement for vendors of Business Integration (BI) services.

This ability however, has become even more crucial over the last two years as marketplace conditions have become increasingly fierce.

Though demand is currently relatively buoyant, the BI industry, consisting of systems integrators and professional services firms, is becoming dominated by a distinct "break away" group of vendors who are demonstrating most clearly their ability to understand and meet the demands of the IT user community.

Vendors emerging in this "top tier" are also currently developing creative new approaches to service delivery which will, arguably, see them extend their leadership over the course of the late 1990's.

In the face of these dynamics it has become key to understand not only the criteria by which leading, blue-chip, European IT users chose BI vendors but the processes by which they come to their decisions and the role differing participants play in these processes.

The decision to utilise external resources in systems development or integration projects and then of which supplier to use for a project are complex and involved and require extensive time and commitment from an organisation's senior management.

BI vendors need to be mindful of the dynamics involved in the tendering process for large scale, mission-critical IT systems development or integration projects. This is particularly true in distributed integration projects which are drawing vendors of systems integration services closer to business decision makers in customer organisations.

This growing visibility for business integration (BI) vendors, moving from the "glasshouse" to the office, offers both opportunities and threats; the opportunity to extend the value added component of integration and development projects, and the threat of failing to meet rising business user expectations. Rewards and requirements, intrinsically linked in the "new" IT world, are simultaneously becoming greater.

INPUT's latest report on this subject identifies a number of key issues, as illustrated in Exhibit II-1, which vendors need to be aware of in their business development activities:

- Vendor selection is resolutely an art rather than a science, but users report high levels of satisfaction with the end results of their selection exercises

- European IT users exhibit strong preferences for vendors with whom they have established on-going relationships

- Contract innovation is an increasing differentiator for vendors. These innovations however, must be clearly shown to be in the buyer rather than the seller's best interests

- Being sensitive to "cultural dynamics" is key. In the majority of examples in this survey, company culture ultimately plays a disproportionately large part in the final selection of a supplier even though users have only imprecise and informal ways of measuring or comparing supplier's cultures.

Exhibit II-1

Key Findings of Report

- Little Best Practice in Vendor Selection
- Great Premium in Existing Relationship
- Contract Innovation is of increasing importance
- Cultural dynamics are crucial

Source: INPUT

B

Vendor Selection: Art, not Science

It is clear from the results of this report that the selection of a systems integration or professional services firm is, despite the use of models, methodologies, and external consultants, a process best described as an art, rather than a science.

Despite the growing sophistication behind systems development and integration projects the actual process of selecting an IT services vendor to manage and undertake a major project is still relatively unsophisticated.

Although European IT user organisations typically establish vendor selection project teams, utilise both external and in-house consultants, and report broad satisfaction in the vendors they select, suggesting as a consequence little unease in the way vendors are chosen, closer examination of the findings of this survey imply that there is little best practice in terms of vendor selection.

Analysis of the data provides considerable insight into various aspects of the selection process and the criteria organisations use in deciding which vendors to use.

However, the data reflects the difficulty organisations have in commenting on in a theoretical or practical sense the role, gut-feel, instinct, and people-centred issues, play in the selection process.

It is clear though, from many of the anecdotal comments in the survey responses, that these types of issue are of crucial importance in selection decisions and are often the final element in the selection process. When vendors of a similar size and service capability are involved in a final bidding shortlist, these issues often are uppermost in the final say senior executives have in the contract award.

It is arguable that users are nervous about reporting this fact too directly or clinically, wanting in the face of the need for rational decision making to report clear, concise, and scientific arguments for a decision. They do, however, it appears, recognise the truth of these comments.

"Culture" is too weak, indefinable, unexplainable, and undefendable an excuse to be used in contract award meetings or loss debriefings. Ultimately though, vendors need be aware that the difference between losing and winning a major contract may come down to the question of whether two sets of people, and their resulting organisational cultures, can work side-by-side over long periods of time, under pressurised conditions, to their mutual benefit.

C

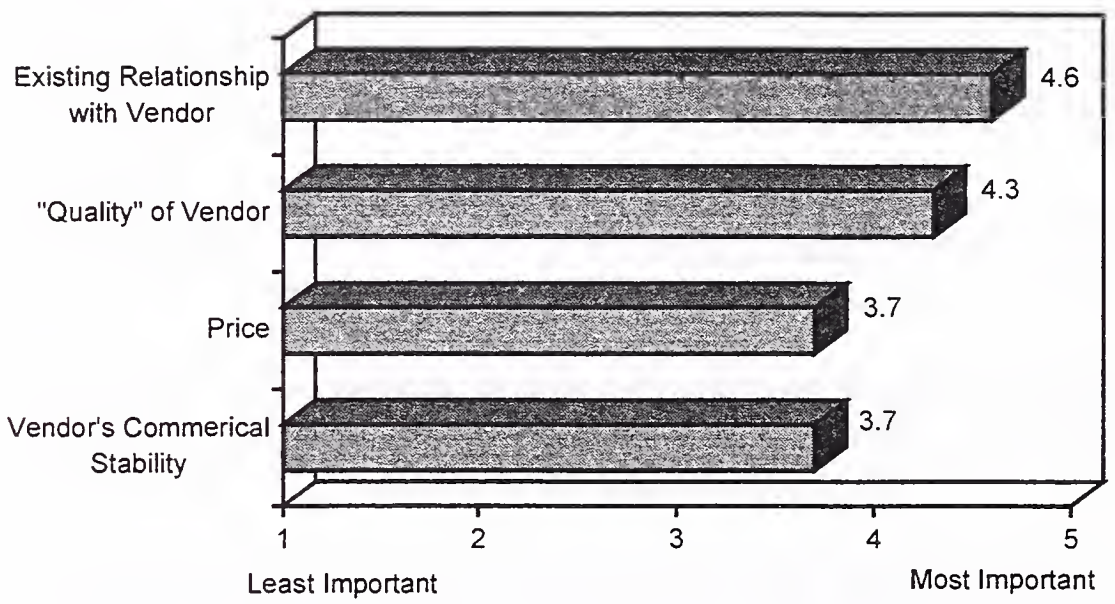
High Premium on Existing Customer Relationships

Research with leading European IT users for this report supports the view commonly held within the industry that although there are wide differences in approach to vendor selection there are broad correlations in the actual selection criteria organisations have.

Exhibit II-2 demonstrates what becomes overwhelmingly clear from the research for this report; the premium for vendors of existing relationships with clients.

Exhibit II-2

BI Vendor Selection Criteria — Most Important Criteria



Sample of 90 Leading European IT Users *Source: INPUT*

To be the preferred supplier, to control the account, to be, in mainframe speak, the installed base, is to offer enormous benefit to a vendor. The high rating of 4.6, consistent across the three main countries surveyed for this report, of *existing relationships with suppliers*, suggests this factor is one of the main reasons behind a vendor's selection.

Organisations who have had successful experiences with a particular vendor are clearly comfortable with awarding new business to the vendor, in situations where the vendor is not even seen, in terms of service offering, as the most suited for a specific engagement.

Companies who have had less than successful experiences with vendors are in many cases reluctant to change supplier and also appear prepared to give a vendor the benefit of the doubt, on the implicit understanding of a "better the devil you know" principle.

It appears that vendors who have formed strong relationships with customers have to perform particularly badly to drive their customers into the arms of another vendor.

Despite the growth of open environments for IT technology there still exists a considerable bias towards using preferred suppliers. This bias exists particularly within IT departments where existing relationships may perhaps be strongest. Relationships tend to be based on benefits derived from a vendor's knowledge of an organisation's business.

Users express the view that vendors knowledge of the political and cultural ways users work internally give them a leverage over vendors without this knowledge.

It is of course understandable that users may prefer to work with vendors who understand their customers business issues, and the technology implications of these issues, in more than a generic way.

In the selection process however, users are, of course, careful to disguise their reliance or favouritism towards a vendor, hoping to maintain pressure on a vendor in order to keep the vendor performing.

Users are clearly keen to encourage competition, drive down costs and gain additional expertise at the best possible rates.

D

Contract Innovation Must Be Driven By Customer Need

The systems integration and professional services industry has entered a phase in which vendors are attempting to demonstrate IT's ability to deliver benefits on business terms, for example, through increasing an organisation's earnings per share or its market ranking.

A number of leading vendors have been extremely vocal in pushing the message that they are now contracting to deliver IT projects to non-IT metrics rather than traditional IT ones based on functional requirements aligned to a fixed development term or price.

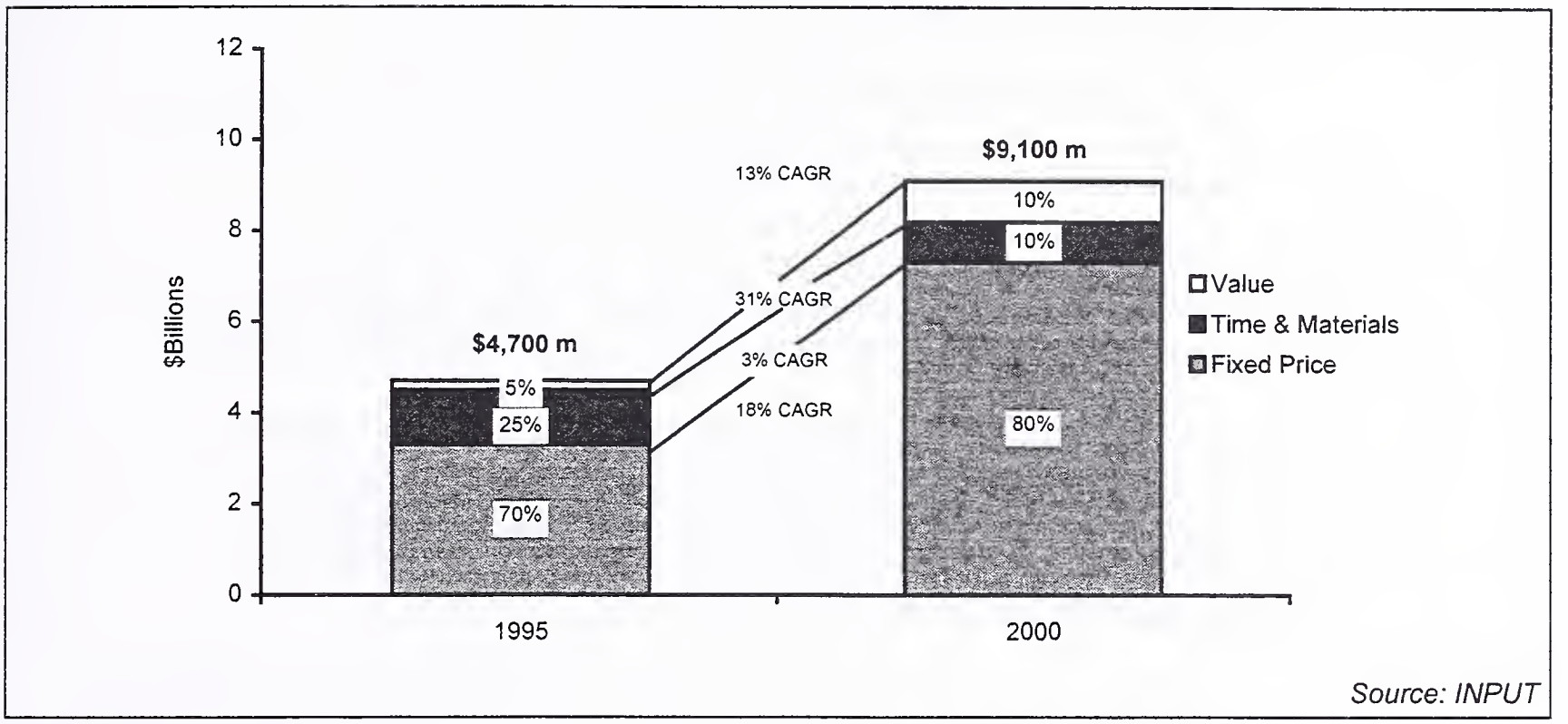
At the same time, other vendors have expressed scepticism towards these developments seeing enormous complication in defining and isolating specific measurable metrics which can be used to judge long term success or failure of a contract. The ability to separate the causal correlations between the development of an IT system and the subsequent fortunes of a company have also been questioned.

However, evidence from this report provides further evidence that large European IT user organisations **are** increasingly demanding innovation in contract approaches and selecting those vendors who can demonstrate an ability to perform to non-IT orientated objectives.

Exhibit II-3 indicates the development of user preferences for contract approaches over the last three years and Exhibit II-4 provides INPUT's forecast of the overall impact this will have on contracting in the next five years.

Exhibit II-3

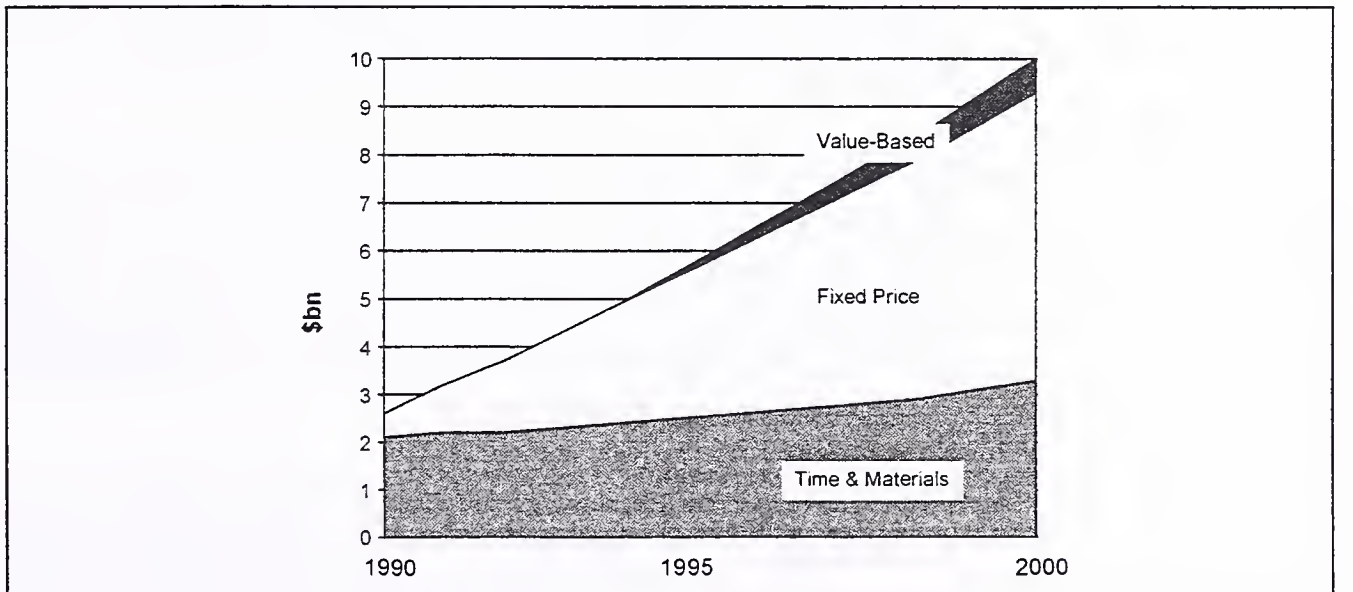
Development of Contract Preference



Source: INPUT

Exhibit II-4

Contractual Approaches to European Systems Integration Projects, 1995-2000



Source: INPUT

Value-based pricing can be defined as the linking of project price to the achievement of specific business goals within a client organisation. If the project succeeds in achieving these goals then the vendor is rewarded with a share of the savings or potentially more importantly of the increased revenues.

This approach has benefits for both the client and the vendor as value-based pricing focuses management attention on the achievement of the client's business goals.

Value-based pricing provides vendors with an incentive to address business problems rather than just minimising their own commercial exposure while delivering a technical solution.

The emergence of this concept is the result of a maturing of IT development and integration processes, in turn a consequence of the increasingly embedded role technology plays in business processes.

It is becoming increasingly inappropriate to examine, and more importantly change, business processes without examining, understanding and changing the technology underlying and facilitating these processes. IT is also becoming a much more significant cost as its uses change.

Vendors and users now concede that it is artificial to draw a distinction between strategy and implementation; that unless one knows what each part plays, one cannot understand the other; that one needs strategy knowledge to do successful implementation and implementation knowledge to do strategy.

As a result technology services organisations are being forced to understand business issues which historically have been above them on the theoretical strategy/operations "value chain".

The ability to engage potential customers' senior executives in discussion about the contribution technology can make to an organisation in terms of value rather than purely cost **is** giving certain vendors an edge in the marketplace's consideration of service providers. Vendors should however, regard value-based contracts as another string to their bow and not an altogether different bow.

The development of the concept of "value-delivery" is part of the process of creating a differentiated, premium position and attempts to move a vendor up the value chain of positioning, pricing, and profitability away from pure IT based systems integration where margins are under intense pressure.

The development of this "value proposition" is in many ways analogous to the development over the last five years of Business Process Reengineering which, though as a theory has had many detractors, has had a significant impact on the systems development and integration industry.

As in the early period of the BPR movement there are, as yet, only fragmented details about the actual structure of these types of contract; vendors are, unsurprisingly, cautious about laying competitive details on the table. This tantalising situation of course plays into the hands of the doubters and sceptics.

These innovations however, must be clearly shown to be in the buyer rather than the seller's best interests. Users are sophisticated and mature enough to recognise, and indeed seek out, win-win situations with vendors. They are sceptical though when contract innovation fails to fit this overriding criteria.

Vendors are selling to experienced people who have had seen many different contract approaches appear and disappear; vendors need be aware that often they are selling to bruised and sceptical people who firstly may believe that "partnership" and "value" as concepts are not the way to proceed, and secondly regard them purely as marketing hype.

E

Cultural Issues Are Key

Implicit in the selection decisions that IT users make are a whole set of assumptions and understandings, many of which are unspoken and unformulated, but which represent the real, "beneath the surface", reasons why users actually choose one supplier over another.

These assumptions and understandings can be characterised as being the sum total of an organisation's *culture*. Organisational culture is a much commented on, and much misunderstood, topic and one which is extremely difficult to simplistically define.

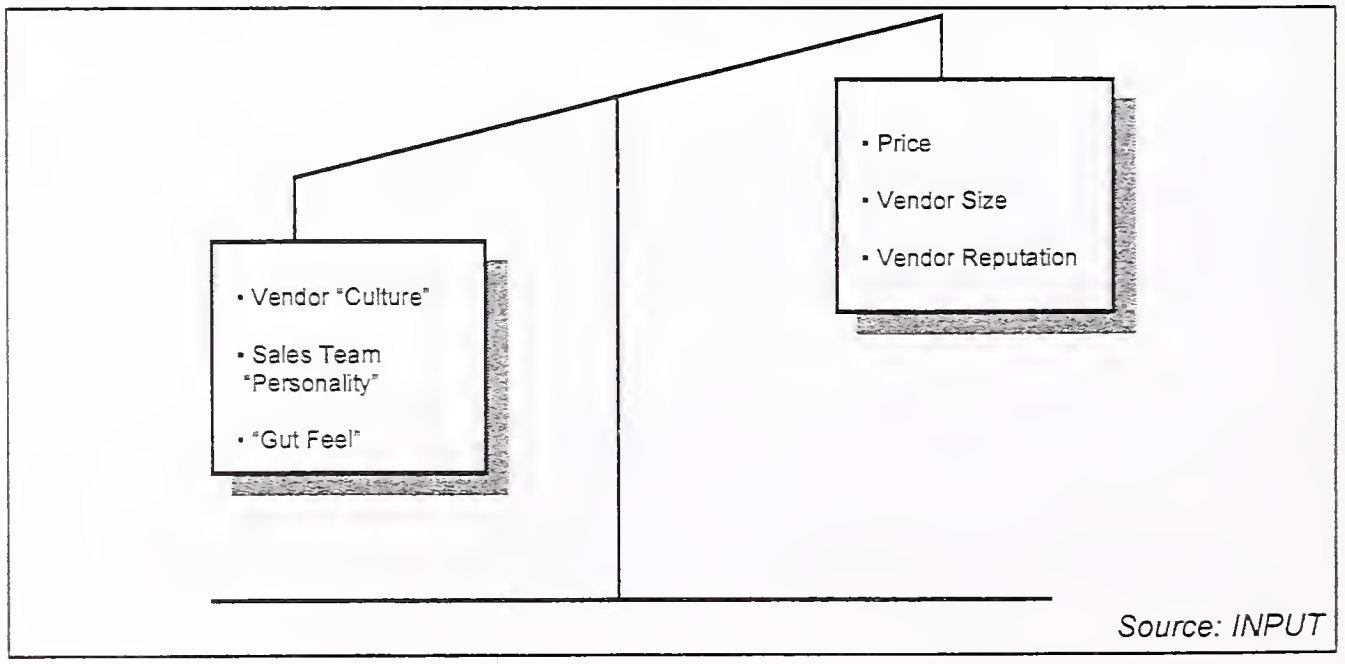
Exhibit II-5 illustrates the fact, which this survey supports, that culture is however of crucial importance and underlies the hard, best-economic, business decision which executives make in the selection process.

Being sensitive to culture, though hard to factor into the selection process on both the user and vendor side of the equation, is a necessary requirement. In the majority of cases users have no formal way of measuring or comparing suppliers' cultures, but they are attuned to them, and ultimately they play a disproportionately large part in the final selection.

Vendors, in certain situations it appears, need not even bother responding to particular Invitations To Tender (ITT's), though they may have the financial muscle and technical skills to undertake a project, purely because culturally they are perceived by the customer as "not right" for the project.

Exhibit II-5

Relative Weightings of "Soft" and "Hard" Issues in Selection Process



Source: INPUT

F

Cost, Models, and Consultants

Cost remains a primary factor in motivating the decision to utilise external resources; access to advanced technologies including client/server and sophisticated networking services, development methodologies and unique vertical market expertise are all increasingly important reasons users seek vendor assistance in systems development and integration.

There appears, however, few variations in how the decision to utilise external BI resources are made based on an organisation's industry sector and little difference based on a company's size. It should be noted however, that the majority of companies interviewed for this report were of a broadly similar financial stature.

Models play an important role in the evaluation and selection of BI vendors. This is for two reasons:

- They act as frameworks for buyers to place often disparate responses to ITT's on a common footing
- They provide an analytical characterisation of how factors beyond cost should be weighted and evaluated.

However, the actual use of models or methodologies is not as widespread as may have been expected.

The majority of user organisations rate their own procedures and approaches to vendor selection highly. This suggests an unexpected corollary of the research; that users are, broadly, satisfied with the solutions and services they receive from the vendor community.

Users perceive the use of consultants as an asset in the process of selecting BI vendors both for their knowledge of vendors and for the fact that they have typically been through selection exercises before.

However, of these two factors, consultants are less influential in the actual selection decision than they may commonly have been thought the case. Users, and specifically the senior IT role in an organisation, typically carry the weight and responsibility of a final selection decision.

G
Recommendations to Vendors

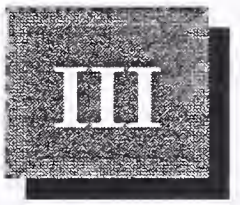
Do not underestimate the role of the senior IT executive in the evaluation and selection process. Though Financial Directors have come to be seen as the driving and controlling representative of the business in dealings with IT suppliers it is clear that both the control of the process and of the actual selection criteria of vendor selection ultimately lies with IT directors. This is true even where IT directors, or managers, report directly to the finance function.

Understand and examine how organisations measure their IT processes and particularly how they measure IT's contribution to the success of the business. Gain as much insight as possible into the cultural assumptions the businesses hold about the IT function. These become valuable in deciding how to structure a response to an ITT. With an understanding of these parameters or assumptions vendors are in a stronger position to generate proposals which are understandable to users and emphasise those services and concerns of highest interest to the prospect.

Respond to ITT s on a point-by-point basis and, of crucial importance, in the terminology, language and style, of the ITT. Multi-national, blue-chip organisations (i.e. those companies interviewed for this report) contain experienced managers who have seen boiler plate responses to ITT's on many occasions and who can discern the difference between a vendor's proposal which has required thought and effort and one which is only slightly more developed than a mail-shot.

Ensure that managers and staff used in the response and proposal period are those who will be used in the actual project. Again, users are sceptical of the "A-Team sell" and "B-Team delivery" scenario. This is particularly relevant to larger vendors. Participating in the selection process will provide individuals on the project team with insights into the user organisation and the nature of the real, soft, unspoken issues at the heart of any large IT project.

Significant opportunities exist for consultants in the selection process. Demand for consultants with prior experience in helping an organisation choose an IT vendor and independence and objectivity (i.e. not those within systems vendors or implementation based management consultancies) will grow significantly. Consultants will have an advantage if they have methodologies and supporting tools for vendor selection exercises.



Business Integration Users' Selection Processes

A
Poor Processes Lead to Poor Decisions

The need to improve the processes organisations have in place through which they buy mission critical, business systems, is a major concern to both IT user and supplier communities. Users unsurprisingly need to maximise their chances of making the "right" buying decision, whilst vendors need to minimise their exposure to commercial risk.

This concern expresses itself in a number of ways:

- The need to justify the growing cost of the buying/selling process
- An awareness of the, at times, fractious relationships between buyers and sellers, and the unspoken desire of both parties to improve these relationships
- Increasing demands for fixed price contracts from users, whilst leading vendors attempt to manoeuvre into potentially more profitable contractual arrangements
- The difficulties associated with moving from "legacy" to "brave new world" IT environments.

Improved buying processes can be seen as a part of the attempt to benefit from the opportunities which correctly utilised Information Technology offers an organisation. The ability to understand, interrupt and respond to user's demands for Business Integration project services, and the ways in which these demands are expressed, has clearly always been a vital requirement for vendors of Business Integration (BI) services.

Exhibit III-1 shows the views expressed by respondents in the three major country markets on their existing selection procurement process. Unsurprisingly vendors believe that these processes are currently good. Although this is a not unexpected response it does imply, as a welcome unexpected by-product of the survey, that users are satisfied with their selection of vendors, and hence of the vendors themselves.

Vendor selection is already at present, typically a fairly lengthy process. One customer interviewed for this survey reported spending two years developing specifications for a project before a vendor was selected.

It should be noted that in this study systems specification was not factored into the length of time the actual selection process took.

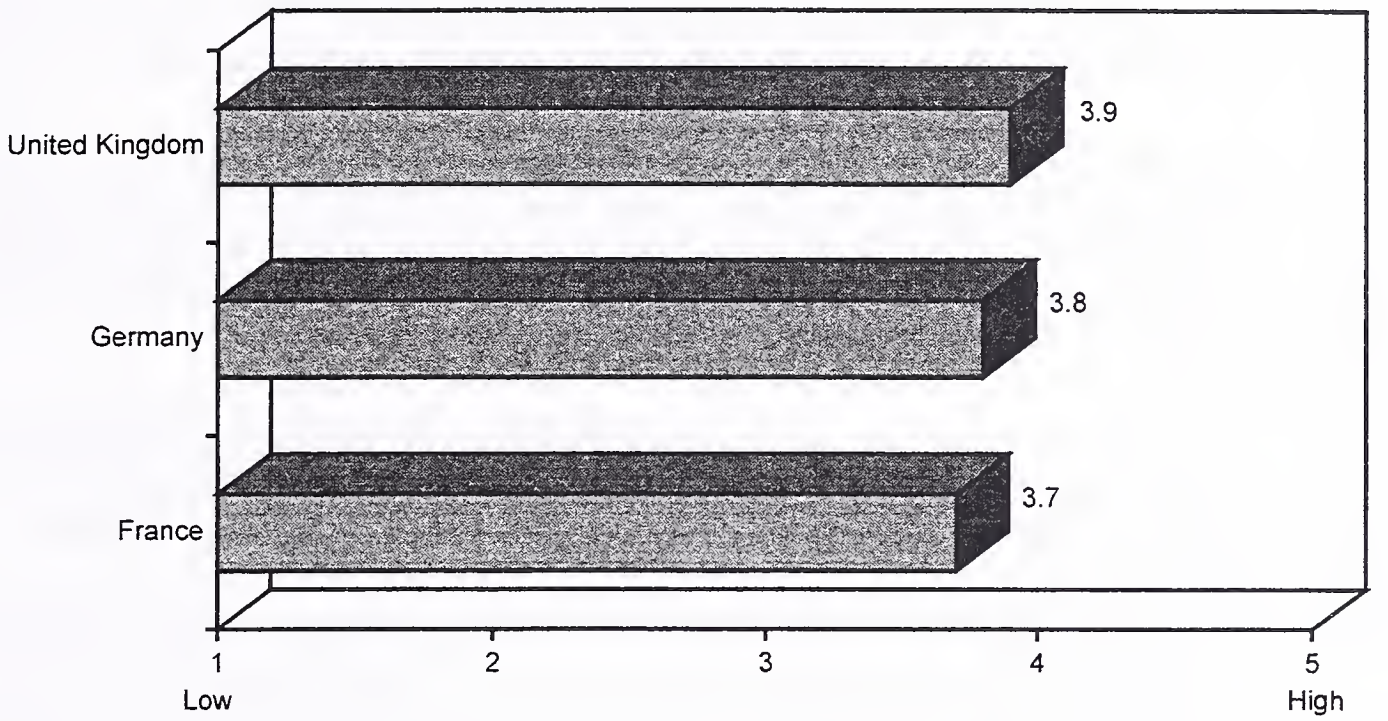
However, length of time taken over a process can also indicate problems with the process an organisation is using to select a vendor

The research for this report indicates that many suppliers still lack a clear understanding of the business processes that are in place in buying organisations.

Suppliers would do well to commit more time within the selling process to better understand these processes, and encourage users to assist them in coming to understand these processes. In this way solutions offered may be more appropriate. It would appear that in both the first and second "round" of the selection process, there is a good deal of room for improvement for users to make clearer their real requirements. It is often only when an organisation attempts to make clear what it requires that it actually becomes consciously aware of these needs.

Exhibit III-1

User Satisfaction with Existing Selection Processes



Sample of 90 Leading European IT Users

Source: INPUT

B

IT Directors Look to Appear as "Part of the Solution"

IT directors are, perhaps somewhat surprisingly, still the main drivers behind the promotion of the use of external Business Integration services.

IT directors, a beleaguered tribe over the last few years, have it appears become aware of the need to be regarded as "positive" and "open" to the challenges the business throw the IT function and now see the need to drive the agenda of external resource sourcing rather than have it drive them.

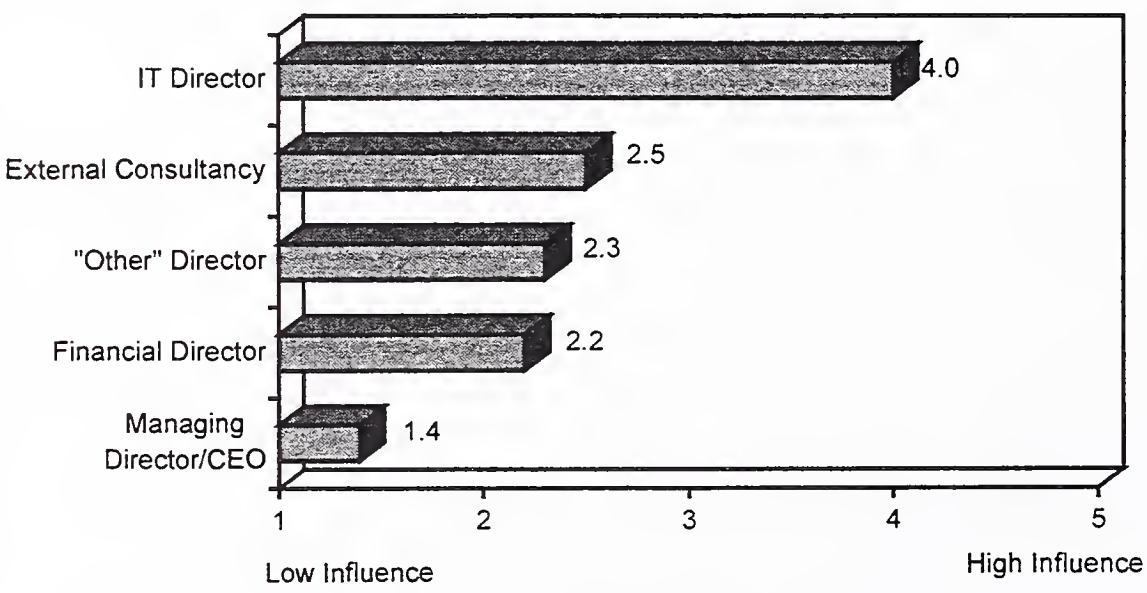
With the clearest view of available internal resources and their ability to meet ongoing or specific requirements the IT director is clearly in the prime position to initiate the concept of utilising external resources.

Managed properly an external services firm acting as a prime contractor can strengthen the position of the *in-situ* IT team. If, however, the need for these external resources is foisted onto an in-house team, and then managed by those outside of this team, an external resource can quickly begin to become a threat to the existing lines of authority.

Exhibit III-2 shows the relative importance of the differing functions within a user organisation in promoting the use of a BI firm.

Exhibit III-2

Influence in Promoting Use of a Business Integrator



Sample of 90 Leading European IT Users *Source: INPUT*

It appears that the influence of senior executives is less crucial to the promotion of a BI company than is commonly thought. The average at the overall European level is only 1.4. The senior finance function is similarly regarded as less influential than may have been assumed at this stage of the procedure, only being rated at 2.2 on a grading scale of 1-5 where 1 is low importance and 5 is high importance.

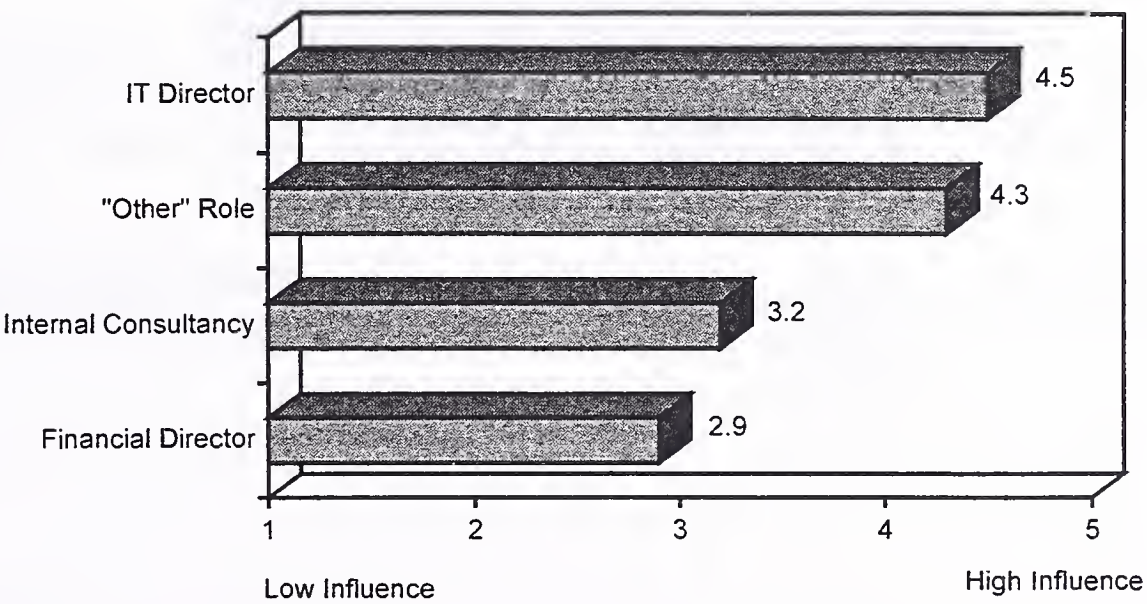
Both of these functions are seen as having a less influential role than the one external consultants play. Consultants, rated at 2.5, are themselves however not that important at this stage of the process it appears, but typically having been involved at the back end of systems specification project are used to suggest and comment on the need for an external resource requirement.

Consultants in many cases also have experience of both selecting and working with BI firms and are well positioned to advise in-house executives of the pluses and minuses working with an external resource will entail.

When looking at the issue of *selection* rather than *promotion* there appears a strong correlation to those promoting the use of an integrator and the actual selection. Exhibit III-3 shows the relative weightings of roles in the selection process.

Exhibit III-3

Influence in Selecting a Business Integrator



Sample of 90 Leading European IT Users *Source: INPUT*

Selection appears to be an issue primarily for the IT department, with no other departments or roles having much say in this decision. IT departments are trusted with having the best feel for what resources are available in the marketplace and what companies are most likely to be able to satisfactorily meet a requirements specification.

That the actual decision is kept within the IT department is supported by the high scoring of the "Other". In most cases other represents other senior people within the IT Department, perhaps the Deputy director or soundings taken informally of the department's staff who have experience of, and opinions about, relevant BI services companies in the marketplace.

The low scoring that users gain in response to this question is noteworthy; at the stage of actual selection it appears that users, although having been consulted on the use of external resources, are not that important in the actual selection.

The only other role scoring above 3 is an organisation's internal consultancy. Internal consultancy is used in quality controlling both the process and the submissions of vendors and the way in which they have conducted their part in the selection exercise. Internal consultants may also act as sounding board or counsel to the IT director and his staff in the final parts of the actual selection.

External Consultants appear to be less important in the selection than might have been assumed.

What is certainly clear is that senior line or corporate executives have only a marginal role in the actual selection of a BI services firm whilst the senior finance role is typically used to rubber stamp decisions made by operational managers and executives.

It should be remembered that the primary respondees to this survey were senior IT executives; these findings should be seen through the prism of this bias.

C

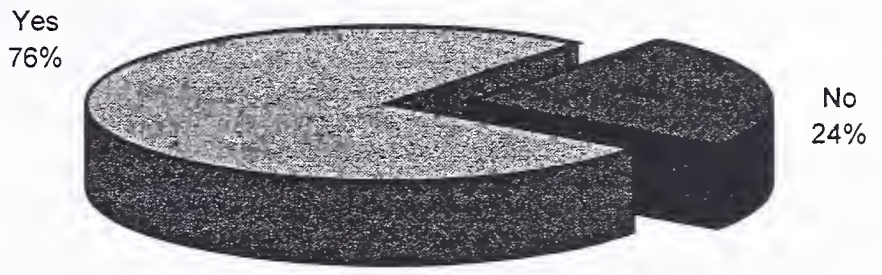
Selection Project Teams are the Norm

Exhibit III-4 provides two charts analysing the issue of vendor selection project team formation. Three quarters of the survey base assemble a specific selection project team, and of this group just over 60% establish this group on a full time basis.

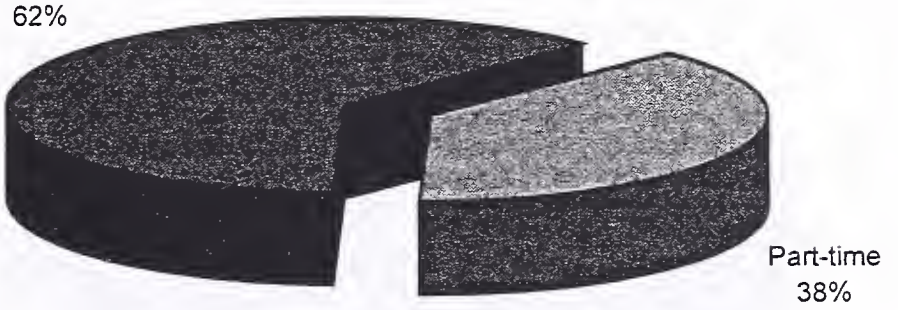
Exhibit III-4

Function of a Vendor Selection Project Team

Is a Specific Selection Team Assembled?



Is this Team Full or Part-time?



Sample of 90 Leading European IT Users *Source: INPUT*

Exhibit III-5 shows the composition of the vendor selection project team. The chief executive officer was in no instance involved in the selection project team. Only in 10% of cases was the Financial Director a decision maker. The IT director was involved in all, bar a very small number of examples, project teams.

Interestingly, procurement executives were only involved in the actual selection process in a quarter of the survey base. In the overwhelming majority of surveyed companies (85%) a user representative was involved in the selection process.

Exhibit III-5

Composition of Vendor Selection Team

Number of Mentions (Multiple Choices Allowed)	
Role	**Mentions**
IT Director	85
User Representative	76
Procurement Executive	22
Finance Director	9
Chief Executive	0
External Audit	3
Internal Audit	0
External Consultancy	15
Internal Consultancy	7
Legal Representative	0

Source: INPUT

External consultants sat on the project team in a surprisingly small number of cases.

Selection teams make extensive use of models in the selection process. Modelling processes are primarily used to provide a comparison between vendors on key selection criteria, and the kinds of parameters used in the modelling process provide an accurate reflection of the criteria.

Set out below are anecdotal responses to the question of who and how selection models have been developed:

- "We use a system developed by Andersen Consulting"
- "A PC based system developed and based on experience and past mistakes and errors which have happened"

- "We use a model from IBM which analysis the suitability of suppliers on a whole range of issues"
- "An in-house Lotus type package in which criteria are set and it rates the responses based on this"
- We use a model for analyses purposes and the project plan
- "A portfolio method developed in-house to score vendors against a range of activities"
- "We use a model for project evaluation and also for project management"
- "An assessment system based on pre defined selection criterion. Very logical and takes emotion from decision".

Exhibit III-6 shows that the survey base is split evenly between those who use and those who do not use a formal selection methodology. 70% of those who do use a formal methodology have developed this themselves rather than utilising an external consultant.

Exhibit III-6

Use of Formal Selection Methodology

Sample of 90 Leading European IT Users *Source: INPUT*

D

Differing Processes For Different Expenditure Levels

Users report that there are different procurement processes for different levels of expenditure. Below are provided some anecdotal descriptions of these differences:

- "Small projects can be decided at a local operational level"
- "Larger projects must go for board approval, smaller projects are usually simply signed off"
- "Hierarchy changes. The greater the budget the higher up the decision process takes place"
- "Different degrees of the same process"
- "Different sized teams are used according to size of project. It also depends on whether the project is department specific or enterprise wide"

Exhibits III-7, III-8, and III-9 show average procurement lengths for different sized projects.

Exhibit III-7

Projects Under Three Months

	Responses
Procurement Process (Months)	
< 1 month	5
< 3 months	16
3 < 6 months	7
6 < months	2
> 12 months	1

Source: INPUT

Exhibit III-8

Projects Between Three and Six Months

	Responses
Procurement Process (Months)	
< 1 month	1
< 3 months	16
3 < 6 months	11
6 < months	7
> 12 months	3

Source: INPUT

Exhibit III-9

Projects Over Six Months

	Responses
Procurement Process (Months)	
< 1 month	1
< 3 months	5
3 < 6 months	15
6 < months	15
> 12 months	12

Source: INPUT

Exhibit III-10 shows that only 14% of users issue a formal Expressions of Interest and of those who do none are sent unsolicited to vendors. In only a quarter of respondents cases do they have informal discussion with vendors prior to the process of issuing interest documents.

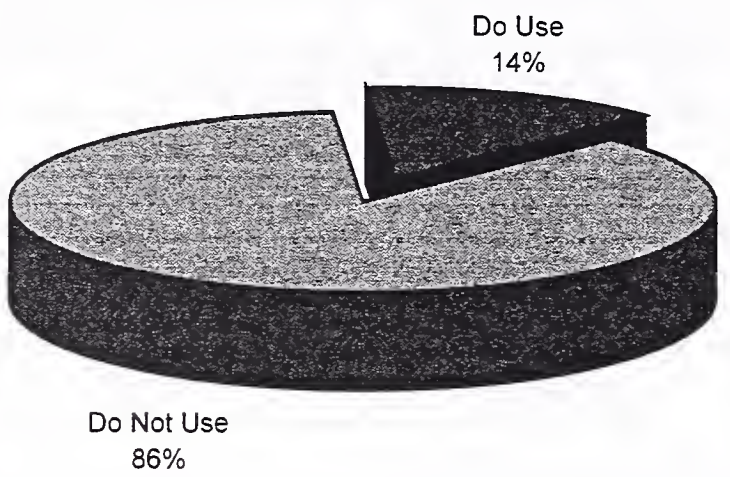
However, the large majority (85%) do issue formal Invitation to Tenders as shown in Exhibit III-11. The typical time vendors are given to respond is three months.

In the case where users are considering selecting a consortium it is clear that the main spotlight falls on the prime contractor, and that users assume that the project leader will underwrite the involvement of other sub-contractors. Exhibit III-12 shows user's response to this question.

Just over 60% of users purely evaluate the prime contractor; 30% evaluate a combination of both. Only 9% evaluate all the sub-contractors.

Exhibit III-10

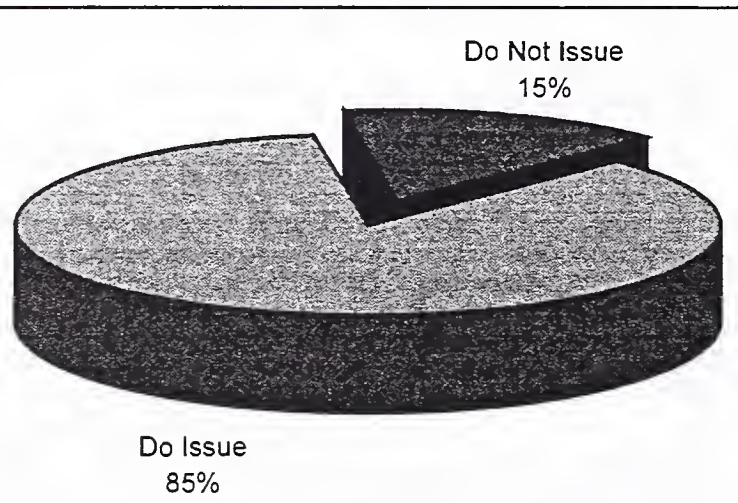
Use of Formal Expression of Interest



Sample of 90 Leading European IT Users *Source: INPUT*

Exhibit III-11

Use of Formal Invitation to Tender Document

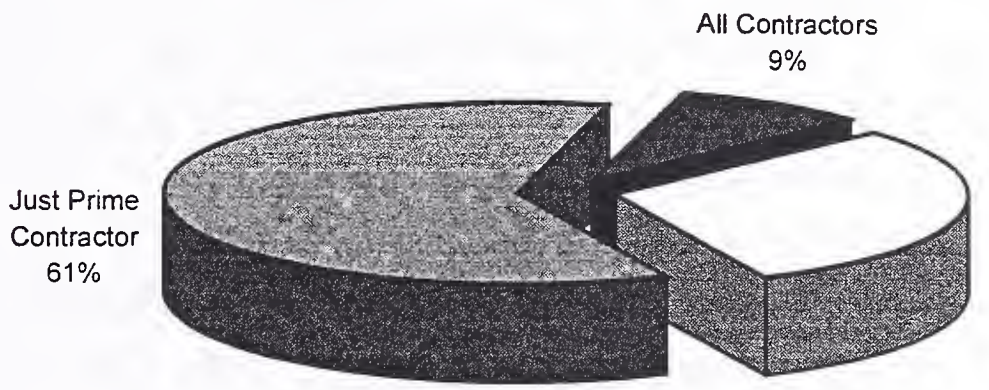


Sample of 90 Leading European IT Users *Source: INPUT*

Exhibit III-12

Evaluation of Prime and Sub-Contractors

Do You Evaluate Just the Prime Contractor or all Parties Invited?



Sample of 90 Leading European IT Users *Source: INPUT*

Prospective vendors are commonly required to proceed through a number of different stages or rounds. Within these rounds vendors are being required to prove that they can "do the job" and explain what standards and management processes would be used in the case of their being the successful bidder.

Typically, users initiate the selection process by defining the "workflow" of the process. This is then discussed and analysed with interested vendors.

A specification is produced for the business process and underlying IT development project which is discussed with vendors to analyse prospective vendor's methodology and reasonableness of a suggested solution.

Users normally state a preferable methodology and decision tools which are assessed with suppliers.

Each subsidiary involved in the integration or development project will describe their business process. IT departments typically act as a co-ordinating function and will produce a systems specification to be sent to, and then discussed, with potential suppliers.

Pre-study or feasibility studies are invited from vendors and shortlists analysed in more detail. Shortlisted candidates present their proposed solution.

Selection processes typically contain two stages and it is only in extremely large projects that there may occasionally be a third stage where two vendors, both suitable for a project, are invited to demonstrate a "proof of concept".

Exhibit III-13 shows the percentage of the overall cost the BI project users expect to spend on the selection and procurement process.

Exhibit III-14 shows the percentage of the overall procurement cost spent on external advice.

Exhibit III-13

Percentage of Overall Project Cost Spent on Selection Process

Percentage	Response (%)
0-2	16
3-5	29
6-10	34
10+	19

Source: INPUT

Exhibit III-14

Percentage of Selection Process Costs Spent on External Advice

Percentage	Response (%)
0-2	56
3-5	13
6-10	4
10+	26

Source: INPUT

E

Bids Are Judged Relatively Rather Than Absolutely

What becomes extremely evident from the survey response base is that bids are judged *comparatively* rather than against a *theoretical ideal.*

This would suggest that users are broadly seeking a "good enough" solution and do have realistic expectations of what is available in the marketplace.

The following anecdotal responses to the question of how bids are evaluated suggest the importance of comparative analysis:

- "Against other bid, against our expectations"
- "By doing comparisons"
- "Through comparing bids"
- "Everything is compared with our own in-house methodology"
- "Compare with other bids and our own estimates"
- "We always request three proposals"
- "Compare with other bids; compare cost in-house"
- "Purchasing department compare other bids/cost ratios".

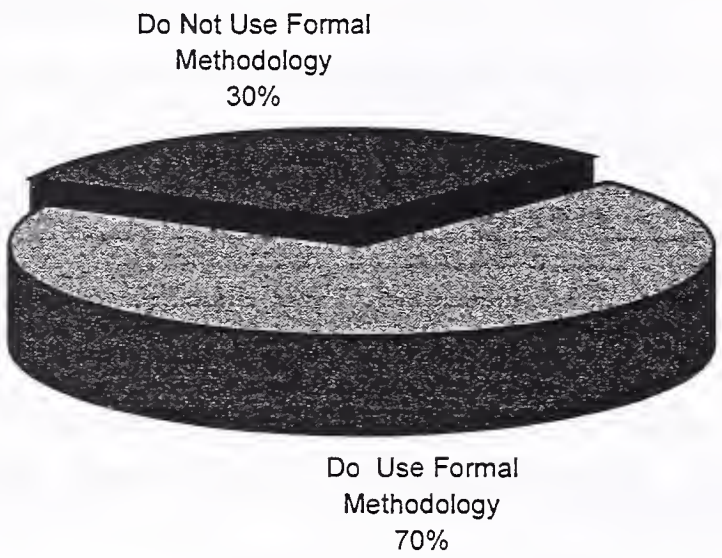
Another key issue is the presence in the selection process of what might be labelled the "feel-good factor".

Just over a third of respondees stated that they had no formal way of dealing with the vague, but all important, concept of the "feel-good" factor as illustrated in Exhibit III-15.

Within the remaining 70%, the overwhelming majority of respondees state that they do attempt to grapple with the issue of selecting a vendor that "feels right".

Exhibit III-15

Use of Formal Methodology to Analyse "Feel Good Factor"



Sample of 90 Leading European IT Users *Source: INPUT*

Users report the crucial nature this concept has in their ultimate selection but their anecdotal comments, set out below, reveal the difficulty they have of recording or measuring it:

- "Difficult to quantify it but you do form an impression"
- "We would not use a supplier that we didn't feel good about"
- "As well as the technical appraisal we also consider how well a vendor would work with us and relate with our staff"
- "Not formally per se but is relevant"
- "We try and score a "confidence level" in the prospective suppliers"
- "Yes; based on many things. Current performance of vendor; overall do we get a good impression about this company ?"
- "Our consultants will advise us here. We have had good success with smaller SI houses"
- "Yes-different team members will express their views on each supplier"
- "Not formal, but is considered. This is what the vendor will sell you"

- "Yes, based on the feedback from the customer's publicity and the impression given when we visit the vendor".

Items which contribute to the "feel-good" factor include personality issues, clarity of communications, quality of presentations, and timelines.

Being included on a short list is typically a rational process. Actually winning the bid or order is not.

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IV

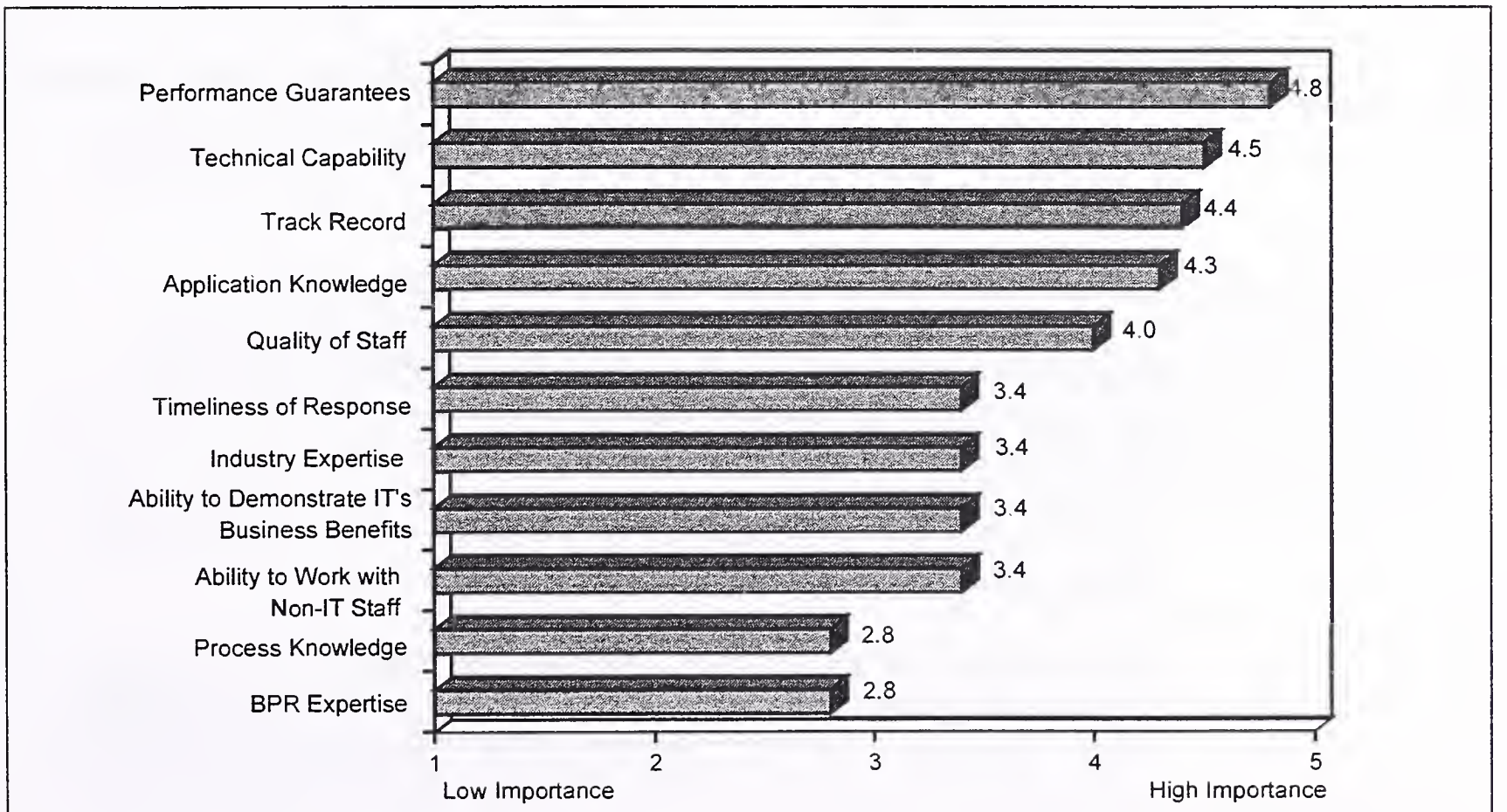
Business Integration Users' Selection Criteria

A
Guaranteed Performance is Key

Exhibit IV-1 shows the qualities users actually use to select vendors. At the overall European level, the message from this response is extremely clear.

Exhibit IV-1

Key Selection Qualities



Sample of 90 Leading European IT Users *Source: INPUT*

The overriding requirement users expect from vendors is that performance to budget and schedule is met. Although in the sales process this is obviously accepted as a given, users are increasingly demanding that vendors *guarantee* performance; hence, the need for upfront performance guarantees.

This is only ranked as less than the most important quality by users in the German market, where it is ranked second most important. It may be, in explanation of this slight difference, that in the German market there is less need for a formal guarantee due to a more trusting, implicit understanding of "my word is my bond" than in the more cynical British and French markets.

Track record is clearly important and scores highly across all three countries surveyed. The importance of actual experience in undertaking large scale BI projects is crucial to vendors; of course, this presents a catch-22 type problem to vendors attempting to move towards this type of solutions delivery, if this is an area in which they have not traditionally been active. It is also a reason behind the increasing separation of the market into a "two-tier" environment.

Those vendors able to respond to the increasingly competitive commercial pressures are becoming separated, and differentiated in the marketplace's perception, from those finding marketplace conditions increasingly arduous.

Vendors emerging in the top tier are also strenuously developing creative new approaches to service delivery such as "value-based" contracting which will see them extend their leadership over the course of the late 1990's.

The European BI marketplace faces the constant threat of commoditisation which, while in many ways good for the customer, continually threatens the service offerings of vendors. This dynamic forces vendors to unceasingly reinvent themselves as higher added value providers; firstly just to remain as competitive as they presently are (i.e. others are undergoing this process), and secondly, to attempt to achieve market leadership. Of course in addition, higher value-added services attract higher fees and profit.

Michael Porter's famous dictum is particularly appropriate; "if you are not expanding into other organisations' "space", others will expand into yours". There are a number of aggressive players presently operational in the marketplace who have this creed uppermost in their strategic plans.

These issues are set to continue the process of vertical market disintegration which has dominated the industry over the last five years.

Technical competence and the breadth of technical capability is ranked extremely highly.

Exhibit IV-2 shows a comparison between selection criteria in the UK and in the US. In the US market criteria with the highest importance were:

- Vendor reputation
- Technical expertise
- Application knowledge
- Industry expertise.

Exhibit IV-2

Comparison Between European and US IT User's Key Selection Criteria

Europe		United States	
Performance Guarantees	4.8	Vendor Reputation	4.8
Technical Capability	4.5	Technical Capability	4.7
Track Record	4.4	Application Knowledge	4.6

Source: INPUT

Criteria ranked on a scale of 1 – 5, where 5 is most important.

Again the willingness to share risk is seen as extremely important, and pricing is somewhere down the list. It appears that pricing amongst vendors has become uniform to the extent where it has become an issue to be dealt with almost when all other elements of a decision have been factored; pricing may be the final determinant, especially where there is a wide discrepancy between bids, but pricing is not an up-front concern.

To gain insight into the weighting of selection criteria, respondents were asked to identify the key selection criteria that applied in their particular case (if they were referring to one particular case) and discuss any factors that influenced the final selection.

Vendors may, it appears, be de-selected both unconsciously and consciously on the basis of a perceived lack of cultural fit. However, the importance of cultural fit is hard to ascertain, as culture is itself such a nebulous concept, and thus hard to query and question. Cultural fit scores as the least important criteria on this ranking, and yet perhaps is one of the key issues in whether a vendor and a customer can work successfully together on long term, high risk, projects.

It may be that the respondents in this survey felt unable to commentate in quantitative terms on an issue such as cultural fit whilst acknowledging qualitatively its importance.

In the actual decision making process what is overwhelmingly clear is the premium existing relationships with clients have. To be the preferred supplier or to control the account offers enormous benefit to a vendor. The rating of 4.6, consistent across the three main countries surveyed for this report, suggests that existing relationships with vendors are the main reason behind vendor selection.

Clients who have had successful experiences with a vendor are clearly comfortable with awarding new contracts often, it appears, for projects where the vendor is perhaps not the most suited for the particular engagement.

Companies who have had less than highly successful experiences with a vendor are also tempted to give that vendor the benefit of the doubt, on the implicit understanding of "better the devil you know" principle.

It appears that vendors have to perform particularly badly to drive their customers into the arms of another vendor.

Despite the growth of open environments for IT technology there still exists a considerable bias towards using preferred suppliers. This bias exists particularly within IT departments where existing relationships may perhaps be strongest. Relationships tend to be based on benefits derived from a vendor's knowledge of an organisation's business.

Users express the view that vendors knowledge of the political and cultural ways users work internally give them a leverage over vendors without this knowledge. It is of course understandable that users may prefer to work with vendors who understand their customers' business

issues, and the technology implications of these issues, in more than a generic way.

In the selection process of course users are careful to disguise their reliance or favouritism towards vendors, hoping to keep vendors under pressure to keep performing.

User's are keen to encourage competition, drive down costs and gain additional expertise at best possible rates.

Against these real politic, hard nose commercial concerns it is clear that establishing long term partnership type relationships is in many ways a challenging, and perhaps unworthwhile aim. Users will seek the benefits of partnership in added value benefits but are unlikely to volunteer premium payments for them.

This of course has implications for vendors in terms of cost of sale ratios; clearly the cost of sale in existing accounts is a fraction of that involved in bidding for integration deals with "cold" clients. Original cost of sale will be 15-25% higher than in extension sales.

Second to the existing relationship between vendors and customers comes the relationship vendors have with other existing customers. Although the survey suggests that vendors are infrequently asked to provide details of and arrange visits to reference sites, customers do appear to count on and trust vendors' relationships with other comparable companies.

Knowledge of, and experience in, undertaking similar exercises with other companies clearly counts for a great deal.

More surprisingly the third highest ranked criteria in judging integrators is the innovation they demonstrate in contracting to deliver their services. Although, the concept of partnering appears relatively unimportant, companies are interested in vendors devoting time and resources, at their rather than the customers expense, to devising new approaches to systems delivery and integration rather than the established and tested ones of fixed price or time and materials.

The ability to engage potential customers' senior executives in discussion about the contribution technology can make to an organisation in terms of value rather than purely cost is giving certain vendors an edge in the marketplace's consideration of service providers.

The development of the concept of "value-delivery" is part of the process of creating a differentiated, premium position and attempts to move a vendor up the value chain of positioning, pricing, and profitability away

from pure IT based systems integration where margins are under intense pressure.

The development of this "value proposition" is in many ways analogous to the development over the last five years of Business Process Reengineering which, though as a theory has had many detractors, has had a significant impact on the systems development and integration industry.

As in the early period of the BPR movement there are, as yet, only fragmented details about the actual structure of these types of contract; vendors are, not unsurprisingly, cautious about laying competitive details on the table. This tantalising situation of course plays into the hands of the doubters and sceptics.

Innovation in contracting appears to be an issue that will develop over the coming months and vendors should be aware of the potentially extremely important role it could come to play in vendor selection.

Its is extremely interesting to note that the demand for vendors to demonstrate innovation is ranked higher than the price of a proposal when organisations are judging vendors.

In other surveys undertaken by INPUT, notably *The Role of the Chief Financial Officer in Outsourcing Decisions*, price was ranked far and away as the single most important criteria in vendor selection. However, in this most recent survey price is relegated to fourth in the pecking order.

Closely listed behind innovation in contracting comes both the commercial stability of vendors and then the actual price of a proposal.

Clearly the reputation, success, and subsequent financial standing of a vendor organisation is of serious concern to users of large scale IT systems integration.

Indeed the financial stability of vendors organisations is in many ways becoming of even greater concern and importance as vendors seek to finance creative approaches to contracts and assume long term risks in projects. If for instance vendors are being expected to demonstrate a project's success through business related metrics, this may entail a waiting period of potentially up to two years before an organisation starts to be remunerated, on whatever basis. Few organisations have the financial strength to sustain deferred payments of that length.

Other factors taken into consideration include a customer's gut feel, professionalism of the vendor during the tendering process and existing relationship with the vendor, and a willingness to assume risk.

It should be noted that there are many situations in which contracts are awarded on the basis of only one of these factors, especially when the time factor is critical.

Customers often have one or two criteria that must be met in order to select a vendor. A vendor lacking in these areas will not be selected; therefore these criteria are referred to as rejection criteria. Commonly cited rejection criteria are listed below:

- Professionalism
- Required technical expertise
- Industry expertise
- Flexibility
- Commitment
- Workable pricing.

Existing relationships play an important part in selecting a vendor for a new project. However, many customers report that even if they were satisfied with their current vendor, they would consider using another vendor for their next project if the requirements of the project were different and another vendor could meet the requirements at a higher level.

B

Financing Requirements Become Crucial in High-Risk Environments

Respondents were asked to comment on how they judge a vendor's commercial stability. This issue is becoming of more importance as vendors are being forced into more risk-orientated commercial arrangements.

The ability to finance multi-million dollar, long term development or integration projects has traditionally been a defining characteristic of the systems integration marketplace; this characteristic is becoming if anything more defined.

Exhibit IV-3 shows that length in business is regarded as the most important factor in judging an organisation's stability, and suitability to tender for integration and development projects.

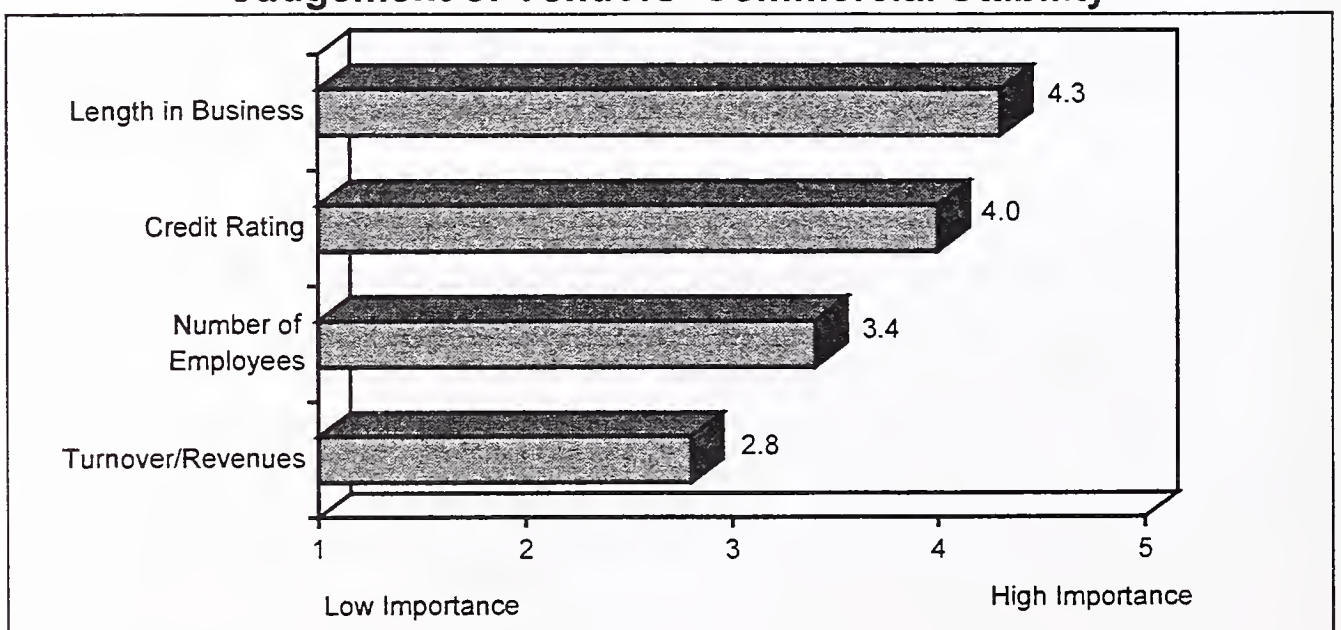
Understandably, organisations are looking for a combination of track record and its corollary of experience in those companies it trusts with major mission critical systems projects.

Users also regard credit ratings as important in their financial checking on potential suppliers.

Turnover and number of employees are not the prerequisite they are often thought to be. Clearly these criteria are of major concern, and in large BI deals there may only be a limited number of vendors who have the capacity to handle the project. But it would appear that size alone is not the most important concern for many user organisations.

Exhibit IV-3

Judgement of Vendors' Commercial Stability



Sample of 90 Leading European IT Users *Source: INPUT*

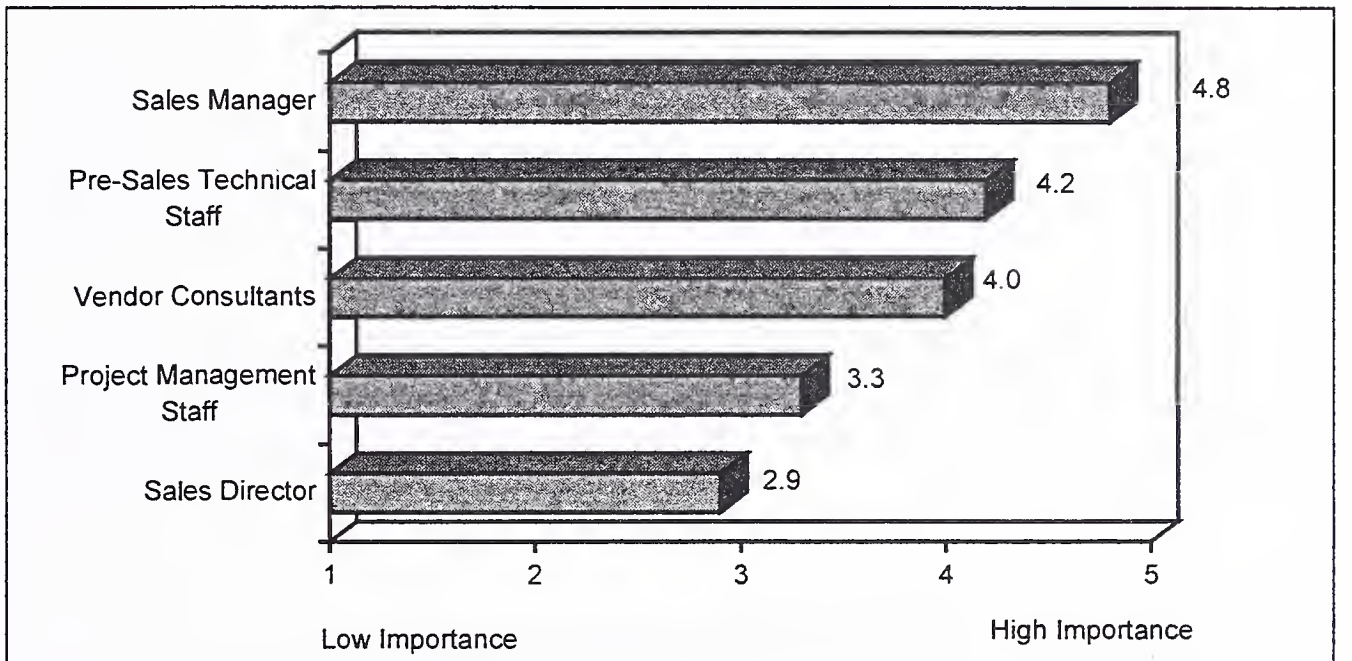
C

Importance of Appropriate Sales "Front End"

Exhibit IV-4 shows the overriding importance of those at the front-end of the selection process. The extremely high score of the engagement sales manager demonstrates that no matter how good the backup and staff who will actually undertake a project are, it is the people at the coal face of the initial sales cycle who are the real ambassadors for an organisation and are those on whom the bulk of the selection scrutiny falls.

Exhibit IV-4

Users' Views of the Relative Importance of the Vendors' Sales Team



Sample of 90 Leading European IT Users *Source: INPUT*

Pre-sales technical staff rank, some way behind front-end sales teams, as the second most important part of the sales process. A vendors consultants are also clearly important, but come third in importance.

This is somewhat surprising in the light of the efforts vendors have undertaken in attempting to build their consultancy offerings on the premise that consultants offer the ability to develop greater levels of higher value assignments, and that consultants are essential to moving up the theoretical value-chain.

What is perhaps surprising is that the senior sales representative is ranked so lowly in the process. It appears that, at 2. 9, sales directors, brought in at the end of a process but obviously influential behind the scenes on the vendors side, can *lose* the deal but do not add much to the *winning* of it.

Users report another dynamic occurring in the BI arena which has been commented on often in the consulting market.

Vendors are noted as increasingly putting forward their "top" people during the sales process, but making them unavailable once the project is starting. As could be expected, customers experiencing this type of situation, quickly become disillusioned with the vendor. It is important that vendors use the same "sales staff" for both the sale and the project itself.

This development is perhaps unsurprising as it mirrors the movement of consultant level staff into integrators over the last two years, as integrators have attempted to move into offering consultancy services.

D

Skills Transfer and Change Management Are Increasing Differentiators

Skills transfer is a growing issue for systems vendors and the survey supports this contention. Using external development and integration resources has traditionally been a way of accessing skills which an organisation does not have in-house.

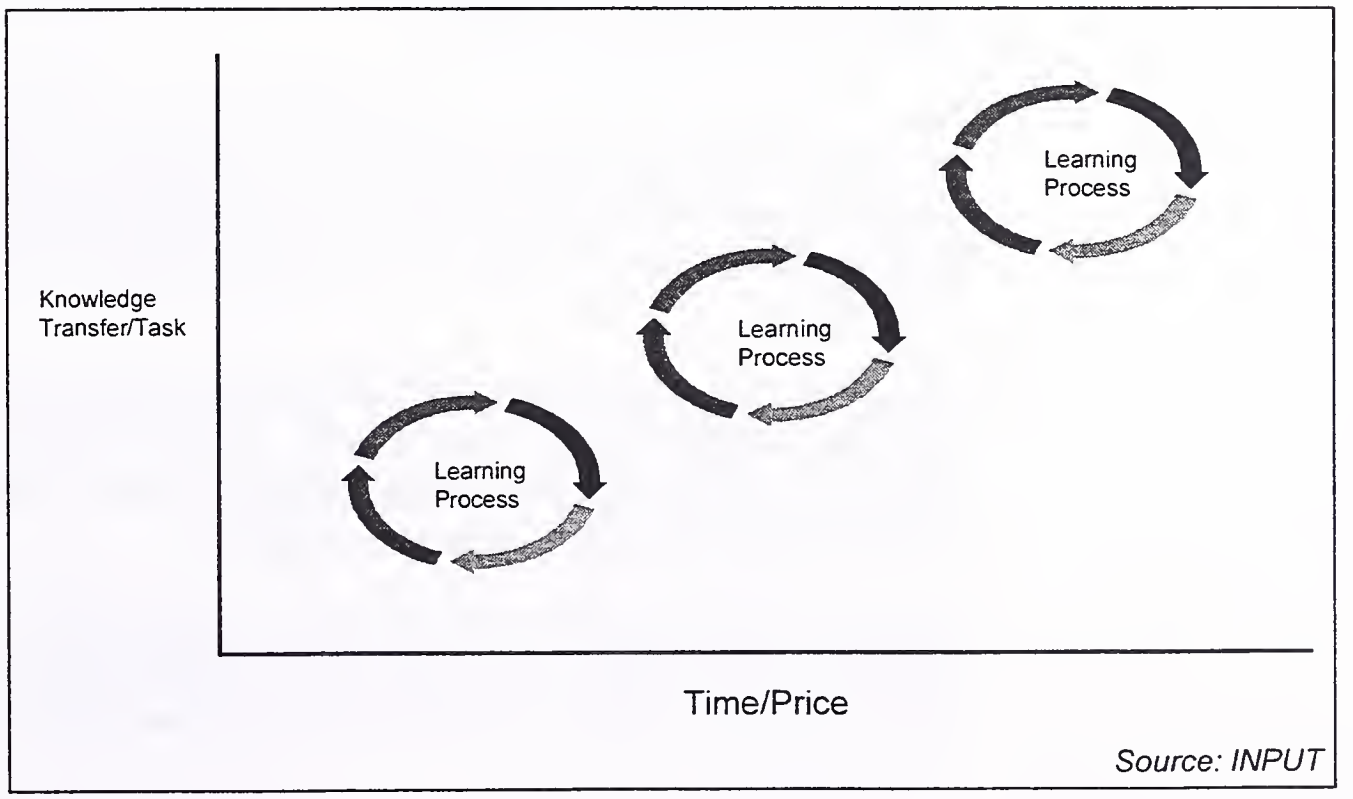
Vendors are now increasingly being asked not only to develop or integrate a system but develop the skill sets of in-house staff, to enable them to undertake similar exercises again themselves. Training is becoming embedded in systems development.

Of course this represents both an opportunity and a threat to vendors; the threat is that skills transfer lessens the demand for the vendor's skills offering; the opportunity is that it forces vendors to develop new, premium rated skills sets allowing them to move up the conceptual value-chain of services offerings towards a higher price model. This dynamic is illustrated in Exhibit IV-5.

As skills become commoditised and the value of the skill declines, new skills are needed to maintain profitability and growth. Vendors have the opportunity of seeking out these new skills and requirements to maintain the position in the marketplace.

Exhibit IV-5

Client/Supplier Relationships

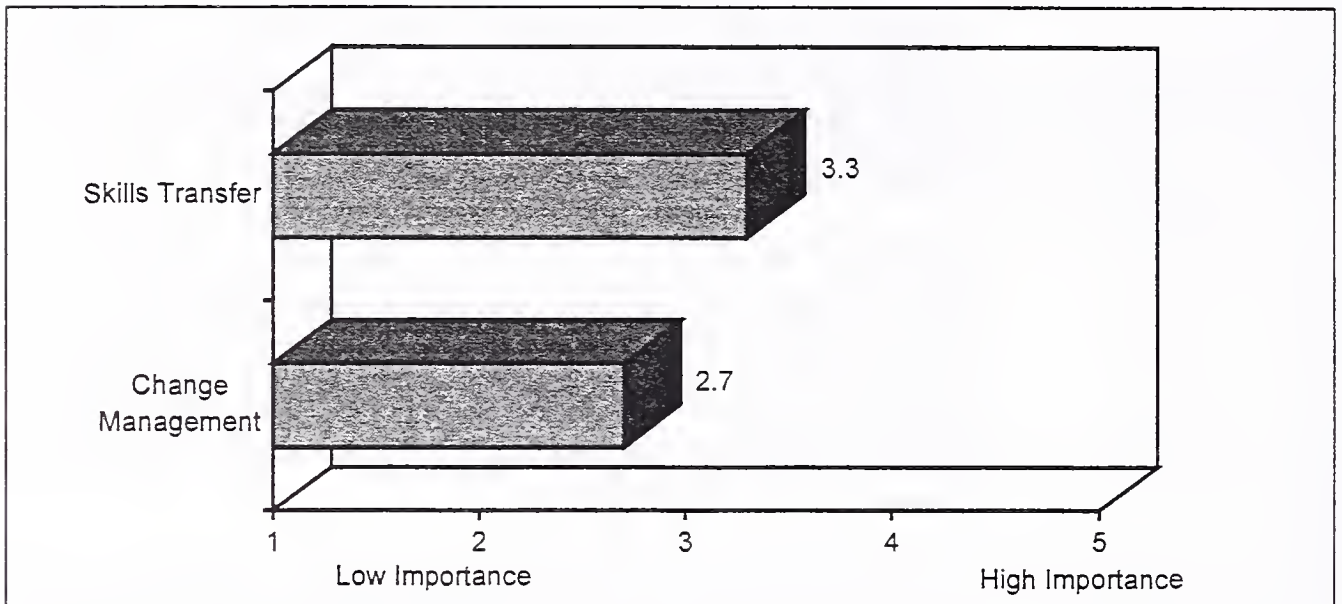


Source: INPUT

Exhibit IV-6 shows that users rate skills transfer highly in vendor selection and are requesting that vendors undertake "do IT with us" rather than "do IT to us". Users see this as a way of refreshing their internal capabilities, and do not want to be increasingly de-skilled by a reliance on external vendors.

Exhibit IV-6

Importance of Skills Transfer and Change Management



Sample of 90 Leading European IT Users *Source: INPUT*

Those vendors who adopt this collaborative approach will be able to stake a differentiated credible position in the marketplace which will be attractive to many user organisations not looking for total hands off contact with external vendors.

Many leading professional services firms have in the last two years developed strong change management capabilities, recognising that the ultimate block to project success is the rejection of new systems, and the changes these systems have on working practices, by the people who have to use them.

It has been recognised that the humanistic element of systems acceptance has been under-developed and that the upheaval caused by new processes and their underlying systems can become of major importance when developing new specifications and practices.

However, the findings from this survey suggest that change management, which is still a concept in its early stage of marketplace understanding and acceptance, plays very little role at present in the selection process.

The European averages are a number of points lower than the UK scores, 3.9 and 3.8 respectively. This would suggest that these dynamics are more advanced in the UK market.

At the overall European level user respondents scored vendors' ability to manage change in the user's organisation as 2.7, relatively unimportant, in the actual selection of vendors. The picture is the same at a country level, with the highest score only 3.1 in France. In the UK the score was 2.5, and Germany 2.6.

This finding would suggest that change management as a service offering is still a supply push issue, and that the marketplace is not yet seeing change management skills as a particularly key element of vendor differentiation.

This of course may change and vendors should be aware of the potential role change management could come to play. This is especially true where systems are closely embedded in business processes and where they are used by large numbers of non-technical end users.

Change management has been a growing area of demand within the mainstream management consultancy market for the last two years; systems vendors could potentially benefit from growing demand as the marketplace shifts towards buying consultancy offerings from systems vendors.

E

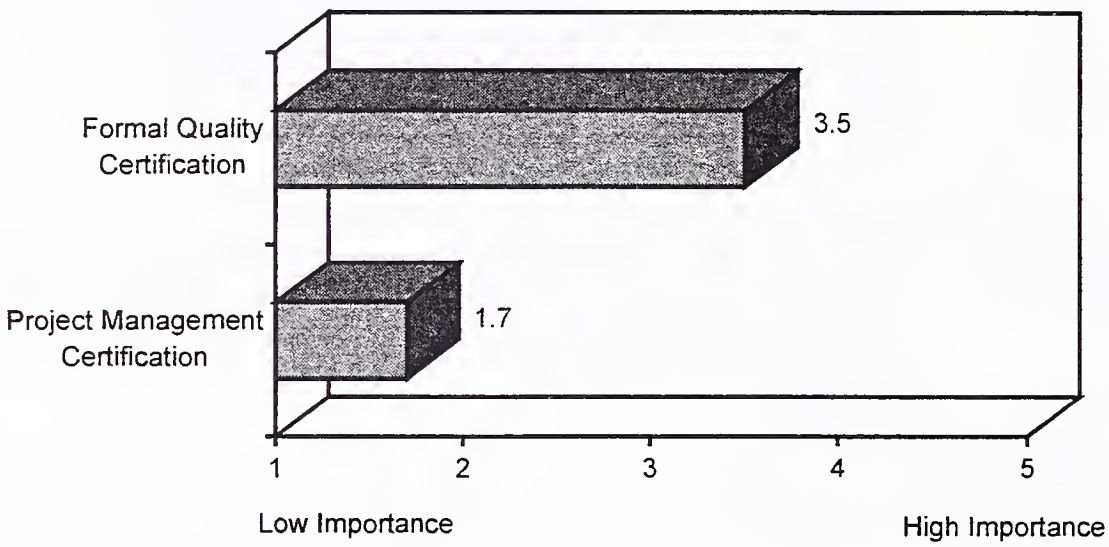
Formal Certification of Skills Seen as Relatively Unimportant

User organisations were asked about the importance of a vendors project management skills in making their selection of a systems vendors and whether formal certification of these skills was relevant.

Surprisingly this issue appeared unimportant to vendors in all three countries. UK organisations reported the highest scoring in response to this question, but as Exhibit IV-7 illustrates even here it was relatively low.

Exhibit IV-7

Importance of Skill Certification



Sample of 90 Leading European IT Users *Source: INPUT*

The UK government and bodies such as the Confederation of British Industry and the Institute of Directors have been extremely vocal over the last five years about companies gaining quality certification under the banner of ISO9000.

Many organisations from different areas, including both manufacturing and service companies have undertaken this process, one that is expensive and not to be considered lightly. As a result in the UK procurement departments typically expect to see medium-sized and large companies have certification; certification has become the norm and this is reflected in the high scoring gained in this survey.

This dynamic whilst less pervasive in France and Germany is continuing to become more important and, even in these markets, which have not been subject to the same amount of governmental influence, the requirement for certification from users is still relatively high.

In the UK it would now be unusual for large systems vendors not to have undergone the certification process and the minority who have not are at a clear disadvantage. The bulk of this minority is made up of companies who are currently in the position of obtaining certification.

Project management is one of the key concerns for integration and development vendors and this result is unexpected. Assessment of project risk factors suggests that management and business factors rather than technical factors are most likely to cause projects to fail.

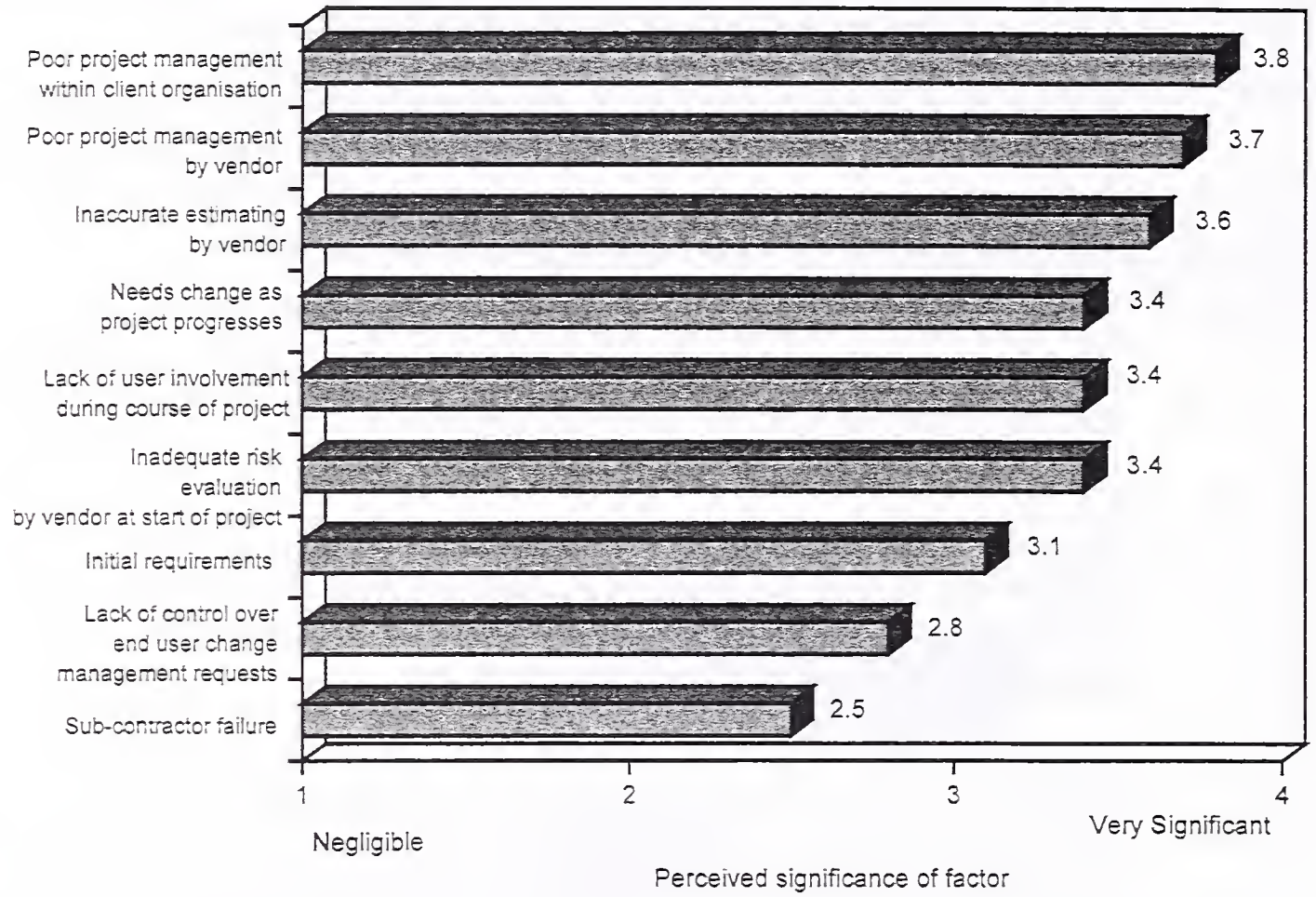
Both vendors and users have been found to agree that poor project management is perhaps the key reason for project failure. Users perceive that both their own personnel and those of a vendor contribute towards project risk through poor project management.

Inaccurate estimation of the real resources required for project completion, failure to define initial requirements, and the lack of user involvement at the early crucial stages of a project have all been found to be of key importance in project management.

Exhibit IV-8 shows user's perception of potential factors in project risk. Inadequate project management and inaccurate estimating are viewed as the most significant risk factors. However, whilst users perceive project estimating to be the responsibility of a vendor, they also perceive that their own organisation's project management capability comprises an approximately equal threat to project success. It is well known amongst vendors that the client's inability to manage a vendor is a considerable threat to project success.

Exhibit IV-8

Significance of Risk Factors — Client Perception



Sample of 90 Leading European IT Users *Source: INPUT*

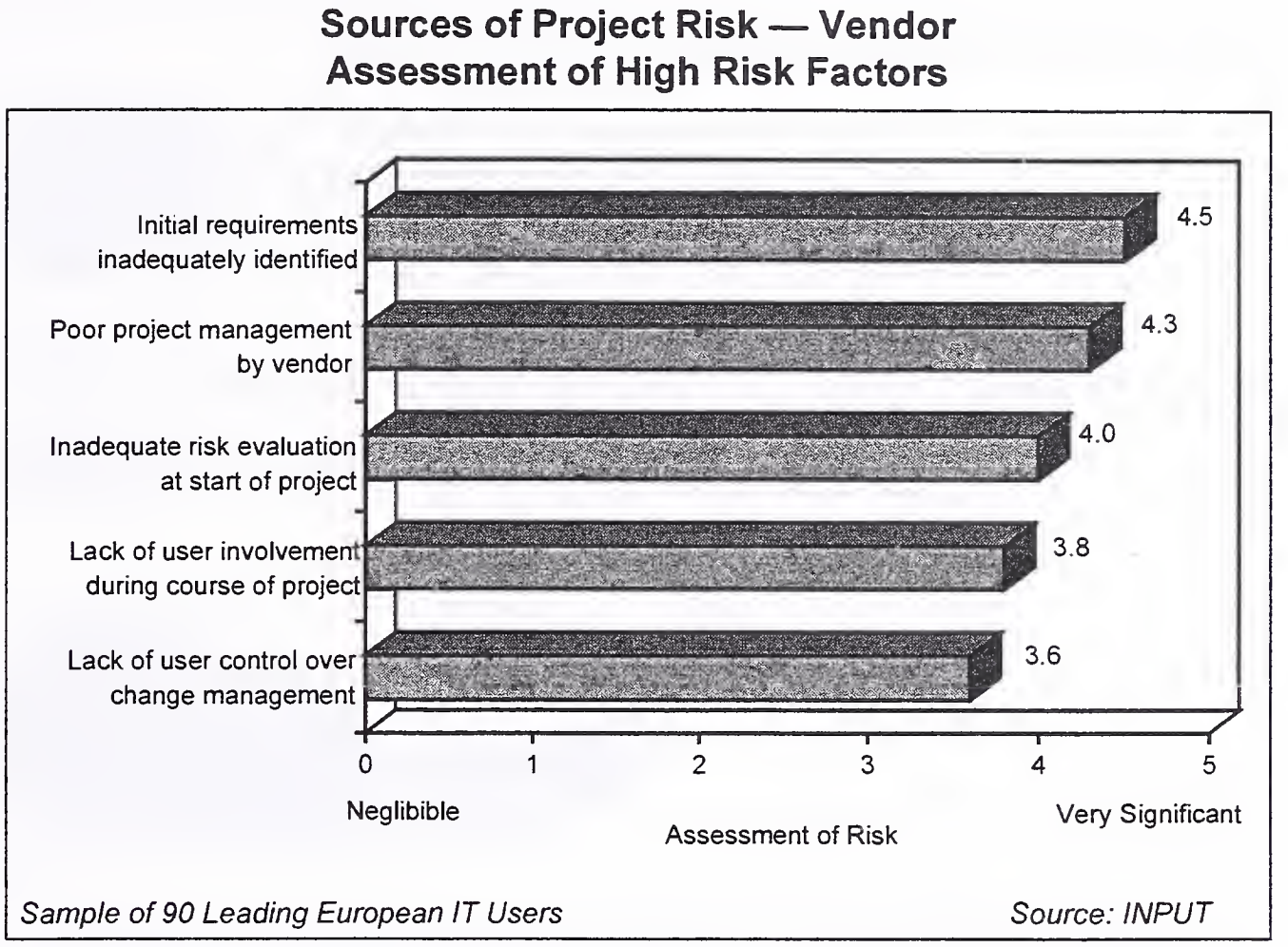
Against this background it is extremely surprising to see the low importance users across all three major countries of Europe pay to formal project management certification and skills.

Exhibit IV-9 shows vendors perceptions of this issue. Clearly vendors are more concerned by these issues than users; this is due to the fact that poor project management has a direct impact on vendors outside of the immediate concern for the user in question.

Failure to manage project risk effectively can lead to:

- Cost overruns impacting the bottom line profitability of a project
- Damage to a vendor's reputation causing a potential negative impact on future revenue streams.

Exhibit IV-9



It appears vendors are more anxious to protect their own profitability than users are to diminish project risk.

The lack of project management expertise is clearly one of the primary reasons for project failure, yet users do not see project management expertise as a key issue in vendor selection.

This, in INPUT's opinion, is a short sighted and irrational position to adopt. Vendors, though not being driven by user demand in this regard should strenuously continue to develop their project management capability and should be vocal in the marketplace about demonstrating both the importance of project management and their capabilities in this regard.

As the market moves towards more use of value based contracting and shared risk/reward situation, the need for strong project management skills will increase. As more contracts are struck on a bonus or penalty basis mechanism to reduce risk and potential downside, project management will be of vital importance to both users and vendors.

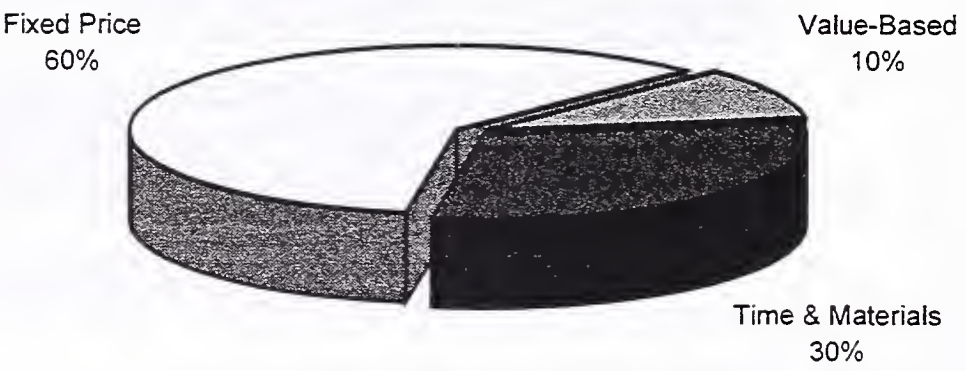
F

Contract Innovation Is More Than Marketing

Exhibit IV-10 suggests that Fixed Price is still the predominant contract type that users favour and that innovation in contract pricing is attractive in the first instance to users but ultimately less important in the actual selection decision. The concept of partnerships is regarded lowly and only scores 2.1.

Exhibit IV-10

Users Favoured Method of Project Contracting

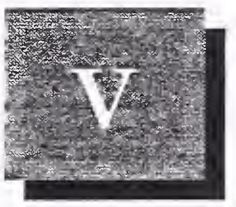


Sample of 90 Leading European IT Users *Source: INPUT*

Although Value-based pricing provides vendors with an incentive to address business problems rather than just minimising their own commercial exposure whilst delivering a technical solution, the pragmatics of solutions delivery is still key.

These innovations although clearly important must be balanced against the pragmatic answers users are after in response to pragmatic questions. Innovation must be clearly shown to be in the buyers rather than the seller's best interests.

Users are sophisticated and mature enough to recognise, and indeed seek out, win-win situations with vendors. They are sceptical though when contract innovation fails to fit this overriding criteria. Vendors are selling to experienced people who have seen many different contract approaches appear and disappear; vendors need be aware that often they are selling to bruised and sceptical people who may firstly believe that partnership and value are not the way to proceed, and secondly regard them purely as marketing hype.



Business Integration Market - Major Trends and Issues

A
New Challenges and Opportunities

The move towards mission-critical client/server computing utilising global networks is for many leading user organisations still a challenging prospect; in reality, behind vendor claims and hype, it is for vendors too. This move requires expertise and commitment on both sides of the supply and demand equation.

Emerging technologies on which integrators are starting to work with clients include the Internet, electronic commerce, mobile computing, rapid application development, and object-orientated technology.

It is no longer enough for consulting firms to offer IT services, such as system integration alone. Customers are looking for vendors to provide the "answer" or the "solution", including management consulting services, the development of business strategy, business process reengineering, in addition to defining, developing, and implementing technology solutions.

Many vendors are now offering the implementation of packaged software such as SAP as part of their service offerings. The immediacy of the need for solutions has led to a dramatic increase in the use of packaged software even by industries that traditionally developed custom solutions in-house such as telecommunications. Because packaged software solutions do not provide the architectural flexibility of custom software solutions, integrators often implement packaged software as part of an overall solution.

Skills shortages are still a key concern for both users and vendors. Access to skilled people is one of the major reasons users engage vendors to develop systems, but is in parallel one of the main problems vendors have in meeting marketplace demand. The dramatic results of this problem are particularly evident in the SAP arena where salaries of both temporary and permanent SAP R/3 staff have risen to phenomenal levels over the last nine months.

Allied to these problems are those of maintaining quality levels in both people and processes whilst growing a business. Vendors are attempting to build their consulting organisations through a combination of dedicated recruitment personnel and training programmes designed to reskill and retool staff already on-board.

"Open" technologies have, in a relatively short period of time, become a de facto requirement in the development, operation, and integration of business systems.

However, real vendor independence and its corollary of broader marketplace competition, have not occurred. The leading vendors in the marketplace remain the same as those in *pre-open* times.

Exhibit V-1 shows the leading Business Integration Vendors in 1994 and clearly demonstrates the continuing dominance of the BI services market by the familiar major names of the "old style" computing world, and suggests that these vendors' attempts to reposition themselves as services vendors has, with some exceptions, been extremely successful.

Although the nature of the evolving equipment vendors' operations has changed considerably, be it in the development and deployment of new technology, or in their sales and marketing stances, vendors such as IBM with market share of 5.7%, ICL with almost 2%, and Olivetti with 1.4%, have proved more adaptable in changing pro-actively to the marketplace's new requirements than they are often given credit for.

Exhibit V-1

Leading Business Integration Vendors, Europe 1994

Rank	Company	1994 Estimated Revenues ($ Millions)			Total BI Revenues
		Professional Services	Systems Integration	Turnkey Systems	
1	IBM	1240	994	275	2509
2	Cap Gemini Sogeti	900	342	85	1327
3	Siemens Nixdorf	350	152	580	1082
4	Digital	500	235	260	995
5	Andersen Consulting	435	474	-	909
6	ICL	400	260	-	660
7	EDS	390	250	-	640
8	Finsiel	620	-	-	620
9	Sema	400	190	-	590
10	Groupe Bull	170	370	-	540

Sample of 90 Leading European IT Users *Source: INPUT*

B

Marketplace Differentiation Set to Increase in Importance

The European Business Integration (BI) market has grown robustly since the European economy recovered from recession in late 1993.

However, this growth has hidden a number of important structural changes in the market which threaten vendors' approaches to competition in the coming years. Perhaps most importantly, growth has disguised the fact that the range of strategic competitive choices open to BI vendors are becoming more limited as clear groupings of market positioning, driven by customer needs, emerge.

Increasing competitive conditions coupled with new market entrants, primarily driven by the commercial impact of technological *convergence*, are ensuring that sustainable, profitable, marketplace *differentiation* has become crucial.

The European BI market is currently at a period in which a two-tier marketplace is merging, in which vendors able to respond to the increasingly competitive commercial pressures are becoming separated, and differentiated in the marketplace's perception, from those finding marketplace conditions increasingly arduous.

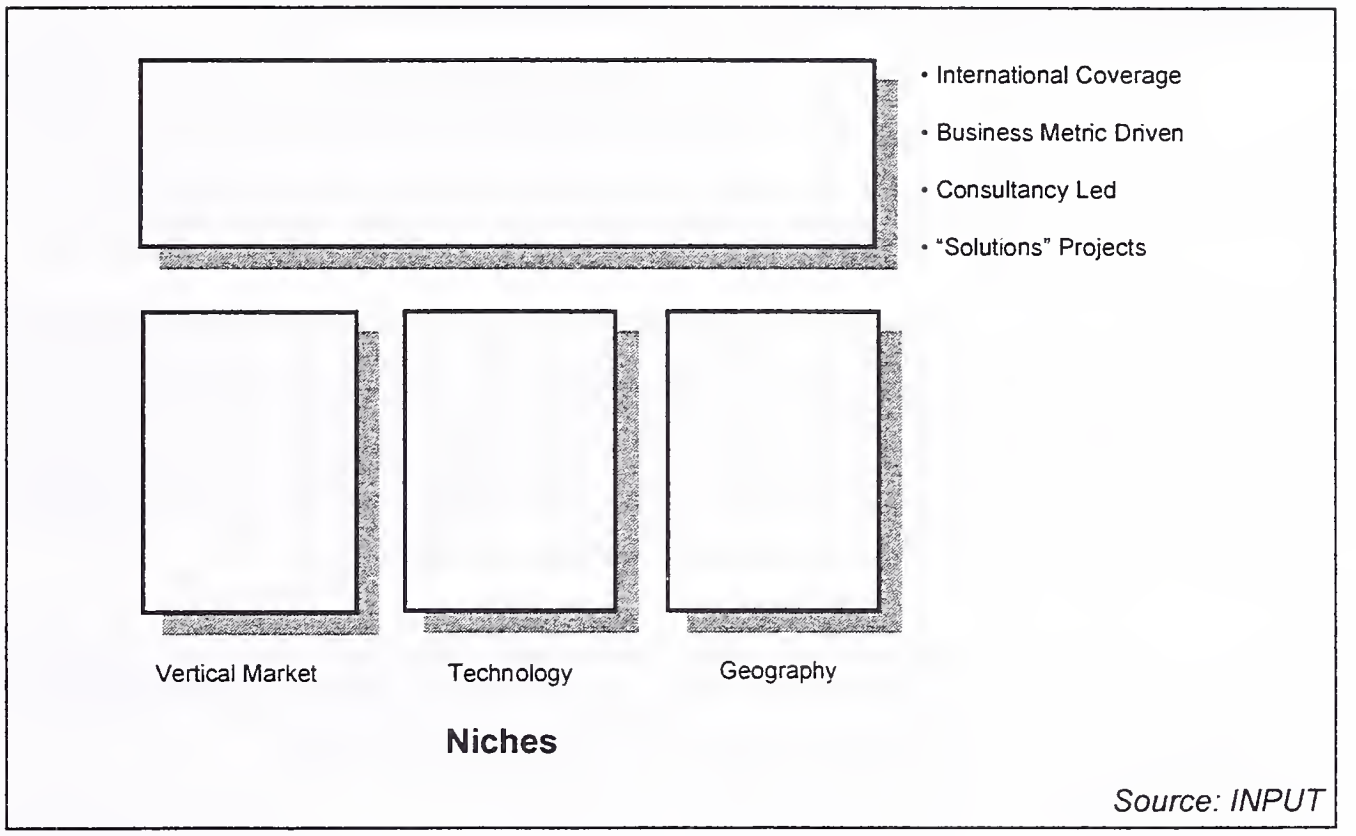
Those vendors emerging in the top tier are also strenuously developing creative new approaches to service delivery and the marketing of their capabilities which will see them extend their leadership over the course of the late 1990's.

Beneath this increasing concentration of leading vendors, the marketplace is extremely fragmented, and becoming more so as vendors attempt, in the face of pan-European, broad based major service players, to redefine competitive domains appropriate to their skill sets, geographical coverage, vertical market experience, and perhaps most importantly, their financial capitalisation.

However, the overall size of the BI market allows smaller competitors enormous opportunity to operate successfully and profitably in myriad niches and specialisations. Crucial to operational success however, will be the adoption of a clear, coherent, strategic vision of an organisation's core competitive domain. The range of strategic choices open to BI vendors is illustrated in Exhibit V-2.

Exhibit V-2

Business Integration Marketplace — Competitive Coverage



Source: INPUT

C
Changes in High Growth Vertical Market Profile

The telecommunications sector has replaced the financial services sector as the most dynamic area for the adoption of new technologies and has led some to dub it *The New City*; *The City* being the last area to witness such high growth rates of IT related investment.

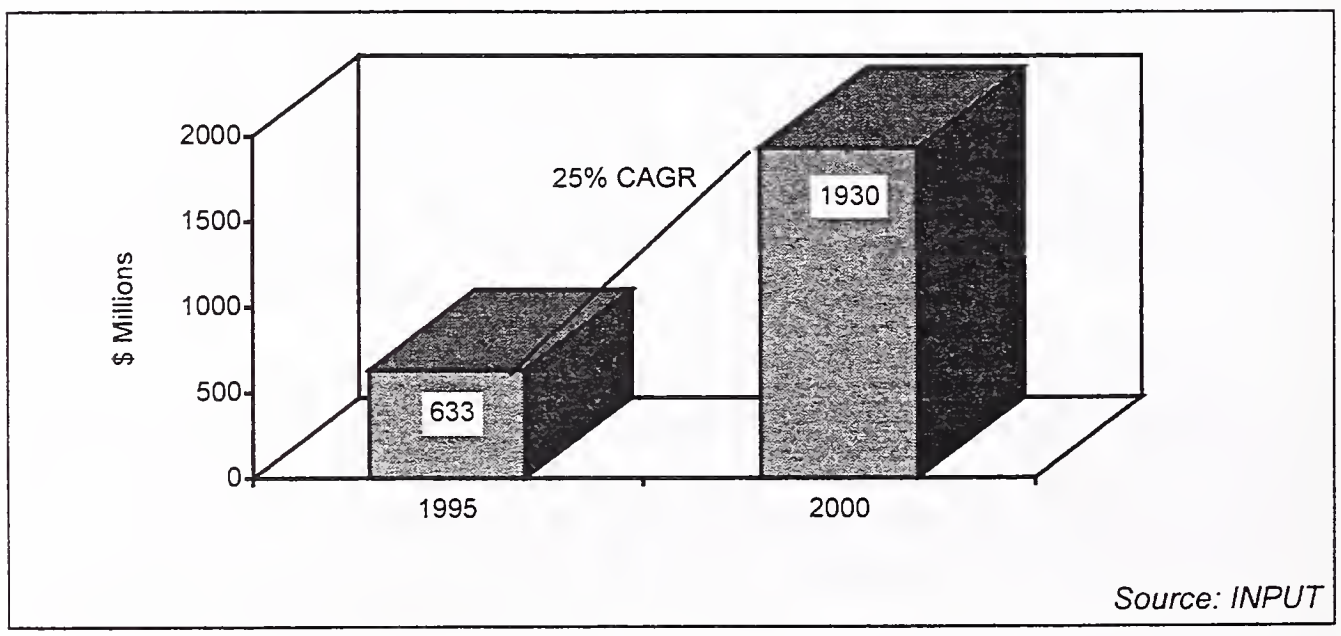
However, this explosive growth is not unsurprisingly attracting growing numbers of vendors into the European marketplace. These include traditional, existing European SI players who are attempting to manoeuvre their services offerings away from low growth or stagnating vertical markets, as well as players new to the European market or new to the IT services industry altogether.

This situation is creating heightened levels of competition in a market which is undergoing, and will continue to undergo for some time, fundamental structural transformation.

The market for SI related services in the telecommunications industry will grow at a compound annual growth rate of 25% over the next five years, from $633m in 1995 to $1930m in 2000. Exhibit V-3 provides a forecast of the growth of the European Telecommunication opportunity over the next five years.

Exhibit V-3

Systems Integration Services Growth in the Telecommunications Sector, Europe 1995-2000



Source: INPUT

Systems Integration services are being used to link critical operations such as customer services, maintenance systems, and billing applications systems; the objective being to improve customer response and services and to establish the basis for higher speed services and specialised applications such as interactive services.

Technological applications are being provided around "POTS" - pretty old technology but increasingly "PANS" - pretty awesome new stuff.

Professional services are also in great demand across Europe in order to assist large organisations in identifying, planning and developing major new systems. Vendors that have experience in developing large complex integrated systems are finding a ready market for their service offering as carriers and cable television companies develop comprehensive new systems capabilities.

These services are complementary to system build and systems integration activities as large European and increasingly American based carriers and cable TV companies invest in new technologies to support new information services, electronic imaging systems and network switching devices.

D
Key Areas of Project Focus

Recent research suggests that vendors need to address increasing demand-side requirement and supply-side competition in three areas:

- "Network Centric" Implementation and Development
- The Second Wave of SAP R/3 Adoption
- Application Software Integration.

The research provides further evidence at the European level of the increasing role for, and importance of, Local and Wide Area Networks.

The internal network and the network interface outside of the enterprise is set to become one of the key competitive areas over the next five years.

Over 95% of European organisations stated that this was their primary technological implementation focus at present as shown in Exhibit V-4.

The convergence of information technology and communications, long heralded, is finally becoming a reality and will increasingly influence the future development of both areas. It will no longer be possible to think about IT and communications technologies in isolation; this is leading to increasingly interlinked and inseparable supply side value chains.

Exhibit V-4

The Broader Professional Services (PS) Opportunity Around SAP Products

	SAP PS Revenues	SAP PS "Market"
1995	$320 m	$1 bn
2000	$1.5 bn	$4.5 bn

Source: INPUT

Vendors are being faced with the increasing realisation that in the words of George Shaheen, managing partner of Andersen Consulting, paraphrasing George Bush, "it's the network, stupid"; that network-centricity is a key element in being able to offer a broad solutions-based approach to integration and development across these converging worlds.

SAP R/3 is fast becoming ubiquitous across these three territories.

R/3 implementation is the overriding theme behind large scale projects in Germany with over 30% of German companies stating that this will be their priority focus.

The picture in the UK appears less clear cut. The SAP success story of the last 18 months seems less assured with only 8% of companies stating that SAP implementation was their present or planned key application focus.

Perhaps one of the most interesting themes emerging in considering the R/3 market is its increasing maturity, characterised by both a growth in negative comments regarding its adoption, and the increasing expectations customers and potential customers are expressing regarding vendors offering R/3 related services.

Both of the developments are to be expected in what could be considered the "second wave" of R/3 market acceptance.

Users and vendors have begun expressing the view that the growth of R/3 has the inherent implication of "tie-in", redolent of the historical account control IBM once enjoyed, the ending of which was one of the key drivers behind the growth of the open systems movement of the early 1980's.

Users, and their advisors, however are rapidly moving up the learning curve of using R/3 in more appropriate and cost effective ways.

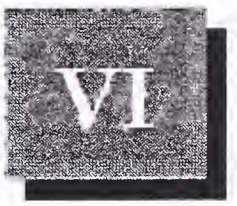
These developments are creating tougher market conditions for vendors offering R/3 services and placing increasing pressure on vendors to manage and deliver R/3 projects in a more mature "win-win" environment.

R/3, though obviously requiring tailoring in implementation, is one of the major "packaged applications" finding significant favour amongst users at present

Packaged application software will grow from representing 19% of the overall contract to 33%. This clearly represents a major shift in systems development and utilisation and is one that has significant implications for vendors strategic positioning over the medium term. Exhibit V-4 provides an estimate of the growth of the SAP R/3 market over the next five years in Europe.

The far from straight forward challenge for all integration and development services vendors, but one felt especially keenly by the mid sized, in the main local market focused vendors, will be to develop offerings around the major packaged software applications such as R/3 and Oracle Financials as the demand for these services grows and while the demand for their custom software development skills declines rapidly.

As the market for this the R/3 style approach matures vendors will increasingly be under pressure to develop viable marketplace competitive differentiators.



Business Integration Market Defined

Business Integration, as defined by INPUT, is a "meta" term which reflects the increasingly embedded role technology plays in business processes as shown in Exhibit VI-1.

From the point of view of tracking vendor's Business Integration revenues, this meta terms has three delivery sub-modes, Systems Integration, Turnkey Systems, and Professional services. Exhibit VI-2 illustrates how these sub-modes fit into INPUT's mapping of the overall software and services industry.

The complexity of mapping definitions onto the nature of the "real world" is such that it is unrealistic to completely mirror the complexity of supply and demand in the marketplace. This complexity is especially evident in the areas INPUT tracks within its Business Integration Programme. It is necessary therefore to regard INPUT's definitions as, to some extent, conceptual models of marketplace activity.

Exhibit VI-3 illustrates the primary difference between the turnkey systems delivery mode and the systems integration delivery mode. The major difference between the two delivery modes is one of customisation. SI projects are defined as comprising of more than 50% customisation.

However, there are **real** differences in the marketplace between these two delivery modes. Exhibits VI-4 and VI-5 provide more detailed analyses of these differences.

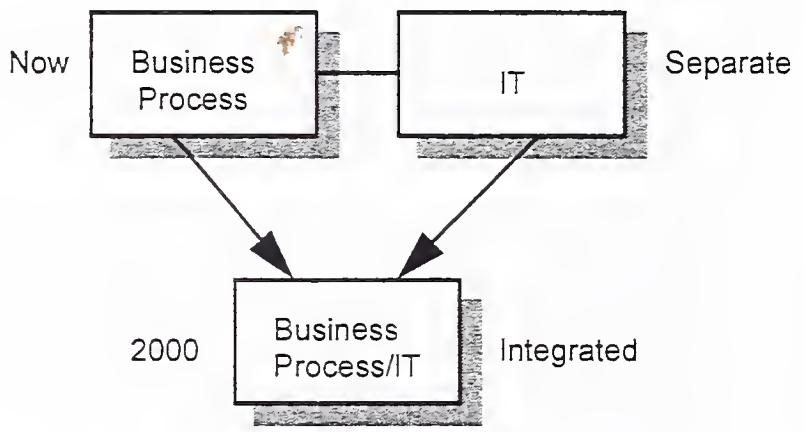
The purpose of presenting the three delivery modes or conceptual modes within the broad term Business Integration in this report is to offer vendors the ability to utilise the analysis in a variety of ways.

Combining the SI and TK delivery modes may be appropriate for certain country markets but inappropriate in others; for example it is appropriate to combine the delivery modes in German market whereas however, it is inappropriate to do this in other country markets such as the UK and France and particularly at a European level where this combination would contort a true picture of marketplace competition.

Providing data and analysis under the meta level allows users of this report the liberty to combine the base data provided in any way that they see fit and present their own vision of marketplace competition.

Exhibit VI-1

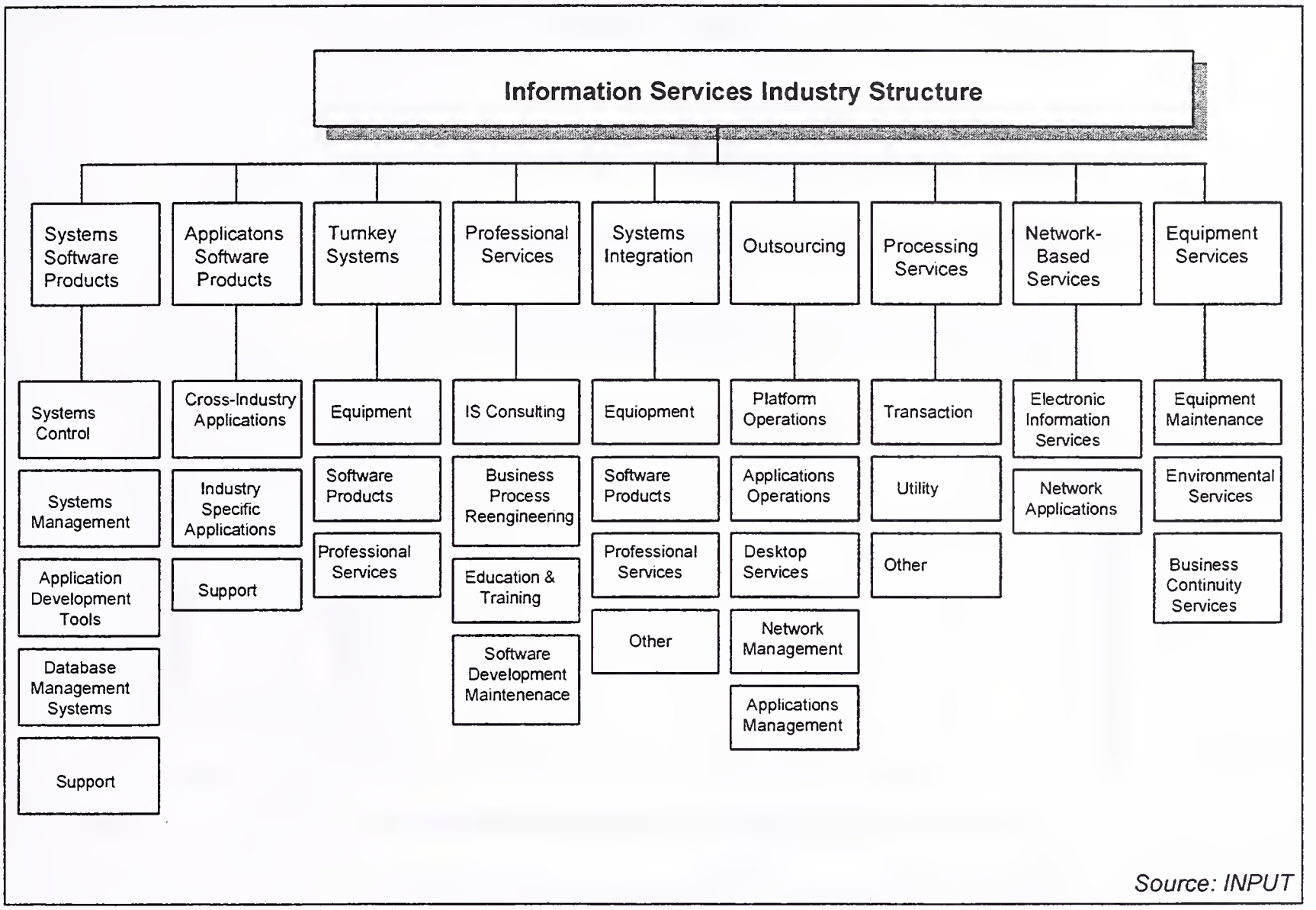
Integration of IT and Business Processes



Source: INPUT

Exhibit VI-2

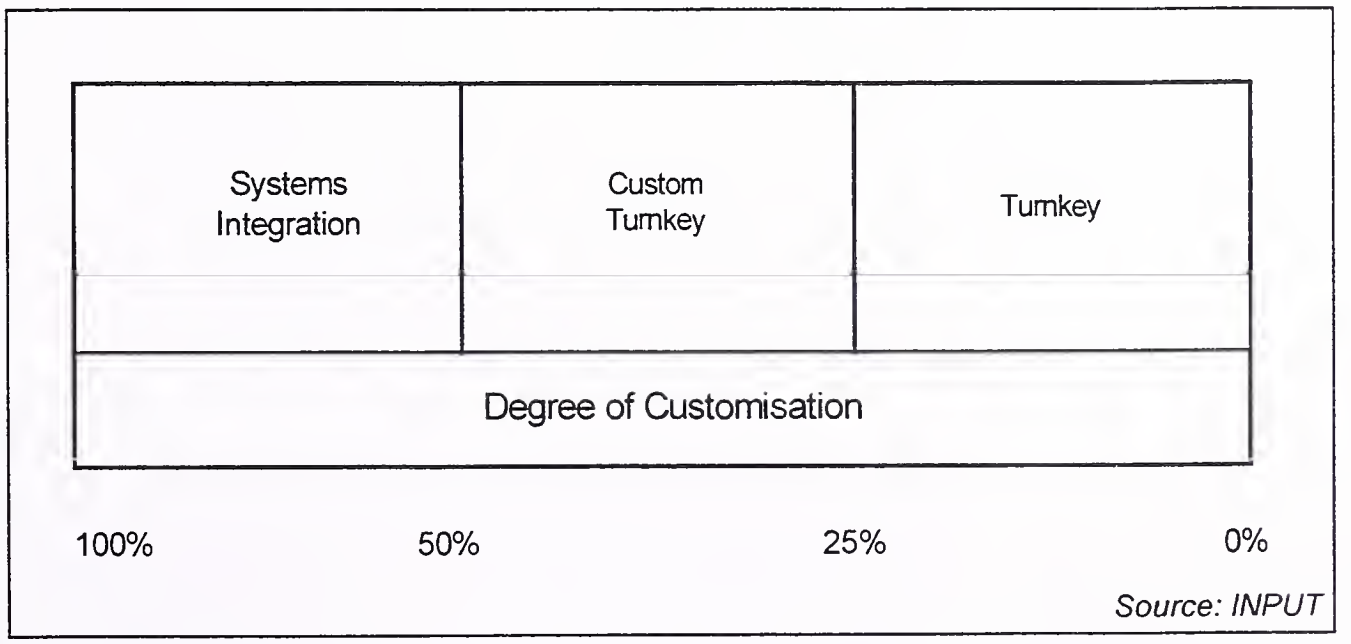
Information Services Industry Structure



Source: INPUT

Exhibit VI-3

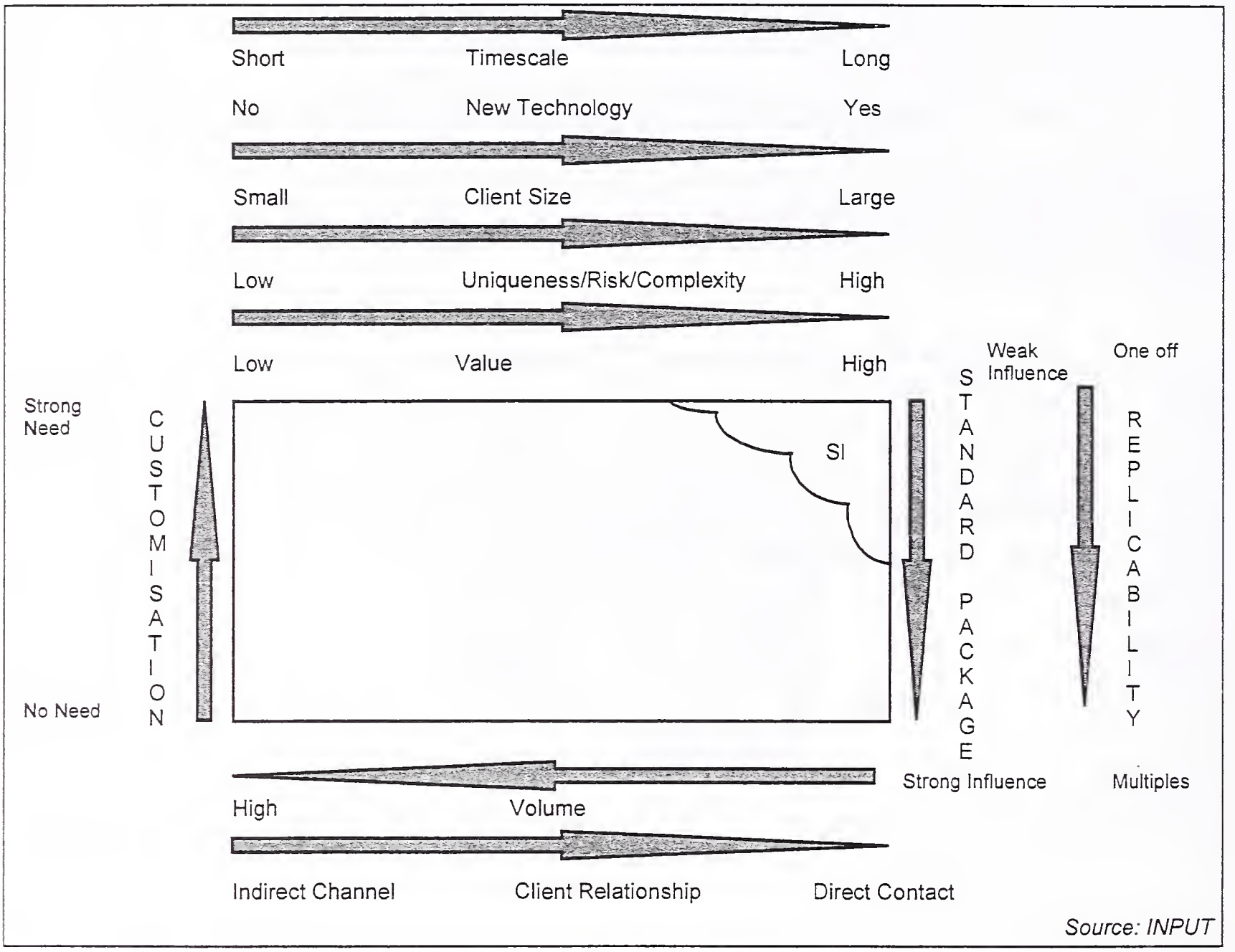
The Customisation Spectrum



Source: INPUT

Exhibit VI-4

Systems Integration and Turnkey Mapping



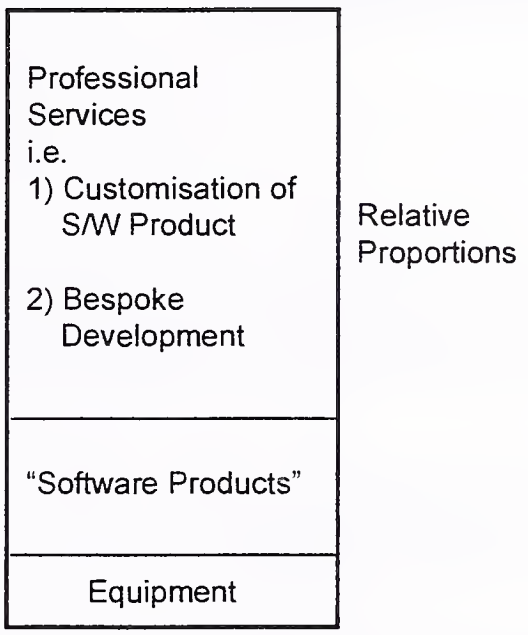
Source: INPUT

Exhibit VI-5

Similarity/Differences Between Systems Integration and Turnkey Systems

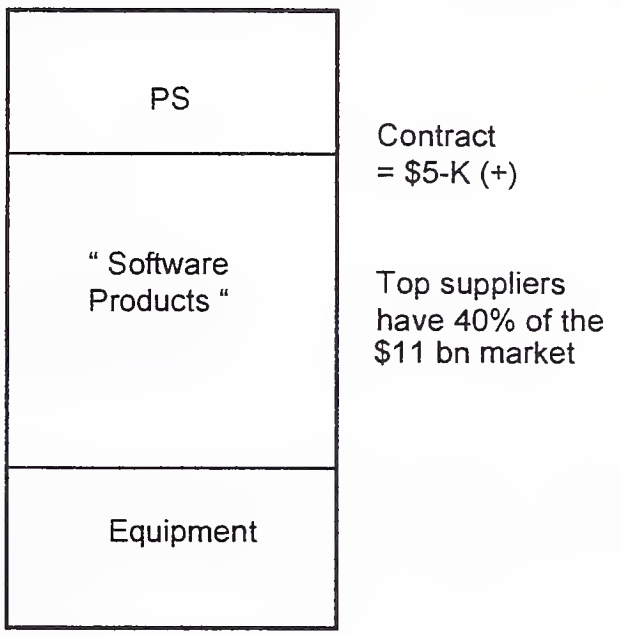
Systems Integration

- Prime Contractor
- Contract = $2m(+)
- Top 10 suppliers have 85% of the $4.6 bn market



Turnkey

- Lower Risk
- Fewer subcontractors
- Contract = $55-K (+)
- top suppliers have 40% of the $11 bn market



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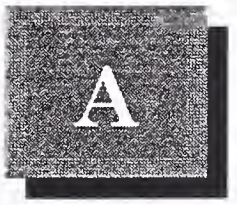

Questionnaire Used for Survey

A
Systems Integration Vendor Selection - Process

1 How influential were each of the following in *promoting* the use of a systems integrator ? (Please rate on a scale of 1 to 5 where 1 = not influential and 5 = very influential)

Managing Director/Chief Executive Officer _____

Financial Director/Chief Financial Officer _____

IT Director _____

Other Director (please specify) _____

Job Title _____

External Consultancy _____

2 (a) In selecting a systems integrator for a major SI project was a specific selection project team assembled ?

Yes _____

No _____

If 2 (a) answered no please proceed to 2 (c)

2 (b) Was this project team full or part time ?

Full-time _____

Part-time _____

2 (c) Who was responsible for the selection of a systems integration vendor ?

_____

_____

If 2 (c) answered please go to question 6

3 Who did the vendor selection project team comprise of ?

	Yes	No
Chief Executive Officer		
Financial Director		
IT Director		
Procurement Director		
Legal Representative		
User Representative		
External Audit Representative		
Internal Audit Representative		
External Consultant		
Internal Consultant		
Other (Please describe)		

4 How influential were each of the following in *selecting* the use of a systems integrator ? (Please rate on a scale of 1 to 5 where 1 = not influential and 5 = very influential)

Managing Director/Chief Executive Officer _____

Financial Director/Chief Financial Officer _____

IT Director _____

Other Director (please specify) _____

Job Title _____

User Representative _____

External Audit Representative _____

Internal Audit Representative _____

External Consultancy _____

Internal Consultancy _____

Other _____

5 Was the selection team managed by internal staff or consultants ?

Internal staff _____

External consultants _____

6 Did the selection of an SI vendor require formal board approval ?

Yes _____

No _____

7 (a) Are there different procurement processes for different levels of expenditure on systems integration related services ?

Yes _____

No _____

7 (b) If yes, please briefly describe these different levels

_____

_____

8 In selecting a systems integrator for a major SI project how long does the selection/procurement process typically take as a percentage of the length of the overall project ? [EITHER A SHORT ANSWER OR ANSWER USING THE BOX BELOW]

Procurement Process (Months)	Average Project Length (Months)		
	< 3 months	3 < 6 months	6 months +
< 1 month			
1 < 3 months			
3 < 6 months			
6 < 12 months			
> 12 months			

B

Systems Integration Vendor Selection - Methodology

9 (a) In selecting a commercial systems integrator for a major SI project do you use a formal selection methodology ?

Yes _____

No _____

If no go to question 13

9 (b) Is it your own or a consultants ?

Our own _____

A consultants _____

9 (c) If your selection process uses a specific selection model could you please indicate who developed the model, describe its purpose and key parameters ?

Description/Developer	Purpose	Key Parameters

10 How are the following issues investigated and evaluated ?

	Investigated	Evaluated
Cost information of the bids		
Financial stability of vendors		
Viability of proposals		
Track Record of vendors		

11 (a) Do you issue a formal Expression of Interest ?

Yes _____

No _____

11 (b) Do you send these unsolicited to vendors ?

Yes _____

No _____

11 (c) Do you have informal discussions with vendors prior to this process ?

Yes _____

No _____

12 (a) Do you issue a formal Invitation To Tender ?

Yes _____

No _____

12 (b) How long are bidders given to respond to an ITT ?

_____

_____

If 9 (a) answered yes please go to question 15

13 What are the principle stages of your SI vendor selection process ?

_____

_____

14 Does your process contain different first and second round criteria ?

Yes _____

No _____

15 Does your selection/procurement process have a formal methodology for factoring in a "feel-good" factor ? If so, please describe briefly

_____

_____

16 Where you are considering selecting a consortium is your evaluation purely of the prime contractor or does it include evaluating the sub-contractors ?

Purely the prime contractor _____

Individual sub-contractors _____

A combination of both _____

C

Systems Integration Vendor Selection - Costs

17 (a) What percentage of the overall cost of the SI project do you expect to spend on the selection/procurement process ? If you have undergone a similar exercise before how has this changed since then ? If you undergo the process again how will this change ?

	Presently	Change Over the Last Time a Similar Exercise Was Undertaken (+/-)	Anticipated Change in the Next Selection Project (+/-)
0 - 2% 3 - 5% 5 - 10% 10% +			

17 (b) What percentage of the procurement costs will be spent on external advice ?

0 - 2% 3 - 5% 5 - 10% 10% +	

D

Systems Integration Vendor Selection - Vendor's Sales Team

18 (a) How important is the performance/credibility/culture of the following members of the vendor's sales team to you when you are selecting an SI vendor ? (Please rate on a scale of 1 to 5 where 1 = not important and 5 = very important)

	Rating
Sales Director	
Sales Manager	
Pre-Sales Technical Staff	
Project Management Staff	
Vendor Consultants	

18 (b) What procedures do you have in place to assist systems integration vendors understand your business ?

18 (c) What is your retention rate of systems integration vendors ?

E
Systems Integration Vendor Selection - Criteria

19 (a) In judging which systems integrator to select how important are the following criteria ? (Please rate on a scale of 1 to 5 where 1 = not important and 5 = very important)

Criteria	Rating
Vendor's price proposal	
Vendor's commercial stability	
Vendor's relations with existing customers	
Your existing relationship with the vendor	
Quality of the vendor	
Vendor's commitment to partnering	
Culture of the vendor	
Vendor's innovation in contracting	
Vendor's commitment to protecting your intellectual property rights	

19 (b) In judging which systems integrator to select how important are the following qualities of a vendor ? (Please rate on a scale of 1 to 5 where 1 = not important and 5 = very important)

Vendor Qualities	Rating
Technical capability	
Staff qualification	
Timeliness of response	
Track record	
Performance guarantees	
Application knowledge	
Industry experience	
Process knowledge	
Process reengineering skills	
Ability to demonstrate IT's business benefits	
The management of risk	
Ability to work with non-IT staff	
Other	

19 (c) Do you require potential vendors to provide details of reference sites ?

Yes _____

No _____

19 (d) Do you utilise reference sites ?

Visit _____

Contact _____

Do not use reference sites _____

20 In judging a vendor's commercial stability how important are the following criteria ? (Please rate on a scale of 1 to 5 where 1 = not important and 5 = extremely important)

Turnover _____

Number of Employees _____

Credit Rating _____

Length in business _____

Other (please describe) _____

_____

21 How do you judge a vendor's relations with its existing customers ?

_____

_____

22 (a) Please rate the importance on a scale of 1 (not important) to 5 (very important) of a vendor's ability to

Transfer skills to your organisation _____

Manage Change within your organisation _____

22 (b) Please rate the importance on a scale of 1 (not important) to 5 (very important) of a vendor having

Formal quality certification (i.e. IS09000) _____

Project management certification(i.e. CRAMM) _____

22 (c) How important on a scale of 1 (not important) to 5 (very important) is a vendor's international capability ?

_____

_____

23 (a) What type of contract do you favour for large SI contracts ?

Fixed price _____

Time & materials _____

Value based _____

Range based _____

Other (please describe) _____

23 (b) Is innovation in contract pricing attractive and important to you organisation?

(i) Attractive

Yes _____

No _____

(ii) Important

Yes _____

No _____

24 (a) In value based pricing do you use open-book accounting ?

Yes _____

No _____

24 (b) In selecting a systems integrator how important is the concept of partnership to your organisation ? (Please rate on a scale of 1 - 5 where 1 = not at all important and 5 = very important)

_____

_____

25 How important is the culture of prospective suppliers; how is this articulated and measured ?

_____

_____

26 (a) In answering this questionnaire have you been referring to a particular SI selection project or your general experience ?

A particular project _____

General experience _____

26 (b) If you are referring to a particular SI project who did you chose ?

_____

_____

27 How would you presently rate your own systems integration vendor selection/procurement process ? (Please rate on a scale of 1 to 5 where 1 = poor and 5 = extremely good)

Thank you for your assistance

(Blank)

B

Companies Interviewed for Report

Seeboard Plc

Severn Trent Water

Lloyds Bank

Albany Life

WPP Group Plc

Scottish & Newcastle

Ford Motor Company

Thorn EMI Plc

Allied Dunbar

Schroders

Sony (UK)

East Midland Electricity Plc

John Laing Plc

United Distillers

Inchcape

Legal & General

Booker Belmont

Midland Bank

Redland Plc

3i

Amec Plc

Grand Metropolitan Plc

DHL

Dairy Crest

Fisons Plc

Bass Plc

AXA Equity & Law

Milk Marketing Board

Scottish Equitable

Picker International

Hartmann & Lämmle

Solvay Deutschland

3M Deutschland

Gilds Brauerei

Deutsche Herald

Klöckner-Moeller

Deutsche Telekom Mobilfunk

AGIP Deutschland

Panavia

Thyssen Informatik

Deutsche Telepost

Schiedel GmbH

Sanyo Büro Elektronic

Fa Bucher

BEB

Henkel AG

Bertrams GmbH

Philips GmbH

Ideal Standard

Sandvik

Detutsche Exxon

Continental AG

Konica GmbH

Schunk AG

Rhode & Schwarz

Benz Werkzeng Maschinenfabrik

Chemie 2000

Hueber Baacke

Schindler Aufungfabrik

Sony France

Banque Pour L'Industrie Francaise

France Voyages

Assurances Generales

Acoss

Banca Commerciale Italiana

American Express

Banque de L'Union Maritime

CNAV

France Telecom

Banque Occidental

CPR

Montbard Inox Nucleaire

Generale de Transport

France SA

GEC Unelec

Cogelex Alsthom

Alcatel Cuivre

Generale D'Electronique

Hoover

Marchand Pernot

Massor Masson

Blancs Muneraux de Paris

Chloride France

BP France

AST Electronique

Agip Francaise

ITT Composants & Instruments

Banque Sudamerique

Banque pour L'Industrie Francaise

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Thank You.

1. Report title ***Business Integration Vendor Selection: Process and Criteria***

2. Please indicate your reason for reading this report:

☐ Required reading	☐ New product development	☐ Future purchase decision
☐ Area of high interest	☐ Business/market planning	☐ Systems planning
☐ Area of general interest	☐ Product planning	☐ Other _____

3. Please indicate extent to which report has been used and overall usefulness:

	Extent		**Usefulness (1=Low, 5=High)**				
	Read	Skimmed	1	2	3	4	5
Executive Overview	☐	☐	☐	☐	☐	☐	☐
Complete report	☐	☐	☐	☐	☐	☐	☐
Part of report (_____ %)	☐	☐	☐	☐	☐	☐	☐

4. How useful were:

Data presented	☐	☐	☐	☐	☐
Analyses	☐	☐	☐	☐	☐
Recommendations	☐	☐	☐	☐	☐

5. How useful was the report in these areas:

Alerting you to new opportunities or approaches	☐	☐	☐	☐	☐
Covering new areas not covered elsewhere	☐	☐	☐	☐	☐
Confirming existing ideas	☐	☐	☐	☐	☐
Meeting expectations	☐	☐	☐	☐	☐
Other _____	☐	☐	☐	☐	☐

6. Which topics in the report were the most useful? Why? _____

_____

7. In what ways could the report have been improved? _____

_____

8. Other comments or suggestions: _____

_____

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Thank you for your time and cooperation.

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