STRATEGIC MARKET PERSPECTIVE

Desktop Services

User Perspectives

U.S. Outsourcing Program

Desktop Services
User Perspectives

INPUT®

Frankfurt • London • New York • Paris • San Francisco • Tokyo • Washington, D.C.

INPUT®

Clients make informed decisions more quickly and economically by using INPUT's services. Since 1974, information technology (IT) users and vendors throughout the world have relied on INPUT for data, research, objective analysis and insightful opinions to prepare their plans, market assessments and business directions, particularly in computer software and services.

Contact us today to learn how your company can use INPUT's knowledge and experience to grow and profit in the revolutionary IT world of the 1990s.

SUBSCRIPTION SERVICES

- **Information Services Markets**
  - Worldwide and country data
  - Vertical industry analysis
- **Business Integration Markets**
- **Client/Server Applications and Directions**
- **Client/Server Software**
- **Outsourcing Markets**
- **Information Services Vendor Profiles and Analysis**
- **EDI/Electronic Commerce**
- **U.S. Federal Government IT Markets**
- **IT Customer Services Directions (Europe)**

SERVICE FEATURES

- Research-based reports on trends, etc. (Over 100 in-depth reports a year)
- Frequent bulletins on events, issues, etc.
- 5-year market forecasts
- Competitive analysis
- Access to experienced consultants
- Immediate answers to questions
- On-site presentations
- Annual conference

DATABASES

- **Software and Services Market Forecasts**
- **Software and Services Vendors**
- **U.S. Federal Government**
  - Procurement Plans (PAR)
  - Forecasts
  - Awards (FAIT)
- **Commercial Application (LEADS)**

CUSTOM PROJECTS

For Vendors—analyze:

- **Market strategies and tactics**
- **Product/service opportunities**
- **Customer satisfaction levels**
- **Competitive positioning**
- **Acquisition targets**

For Buyers—evaluate:

- **Specific vendor capabilities**
- **Outsourcing options**
- **Systems plans**
- **Peer position**

OTHER SERVICES

Acquisition/partnership searches

INPUT WORLDWIDE

Frankfurt
Sudetenstraße 9
D-35428 Langgöns-
Niederkleen
Germany
Tel. +49 (0) 6447-7229
Fax +49 (0) 6447-7327

London
17 Hill Street
London W1X 7FB
England
Tel. +44 (0) 71 493-9335
Fax +44 (0) 71 629-0179

New York
400 Frank W. Burr Blvd.
Teaneck, NJ 07666
U.S.A.
Tel. 1 (201) 801-0050
Fax 1 (201) 801-0441

Paris
24, avenue du Recteur
Poincaré
75016 Paris
France
Tel. +33 (1) 46 47 65 65
Fax +33 (1) 46 47 69 50

San Francisco
1881 Landings Drive
Mountain View
CA 94043-0848
U.S.A.
Tel. 1 (415) 961-3300
Fax 1 (415) 961-3966

Tokyo
Saida Building, 4-6,
Kanda Sakuma-cho
Chiyoda-ku, Tokyo 101
Japan
Tel. +81 3 3864-0531
Fax +81 3 3864-4114

Washington, D.C.
1953 Gallows Road
Suite 560
Vienna, VA 22182
U.S.A.
Tel. 1 (703) 847-6870
Fax 1 (703) 847-6872

Abstract

The migration to client/server (C/S) architecture continues at an accelerated pace. As more firms commit mission-critical applications to distributed platforms operating on local-area networks (LANs), the need to maintain and support distributed infrastructure also grows. Traditionally, support of these types of environments has been provided by in-house, user support functions. As production applications move from the mainframe, many in-house organizations find themselves without either the capacity or technical capabilities to handle:

- The complexities of dealing with the heterogeneous hardware and software platforms

- The sheer volume of installations necessary to support the roll out of a major corporate-wide system across multiple geographic locations

- The distribution, installation and testing of new release levels of applications and systems software

- The support required to maintain the high system-availability levels required for production applications

The: *Desktop Services—User Perspectives* report investigates the facts behind this phenomena. The research included 190 interviews with middle to large-sized U.S. firms to determine the set of desktop services currently employed, the satisfaction with the delivery of these services and future plans. In addition, the report:

- Identifies changes in the key desktop services trends from a user perspective

- Provides insight into which types of services are perceived to have the most value and why

- Analyzes vendor performance based on users evaluations of how well key services are being delivered

This report contains 68 pages, 35 exhibits and is part of INPUT's 1994 Information Systems Outsourcing Program.

**Outsourcing Information Systems
Program—U.S.**

Desktop Services—User Perspectives

Table of Contents

Exhibits

I

Introduction

The migration to client/server (C/S) architecture continues at an accelerated pace. As more and more firms commit mission-critical applications to distributed platforms operating on local area networks (LANs), the need to maintain and support distributed infrastructure also grows. Traditionally, support of these environments has been provided by in-house end-user support functions. However, as production applications move down from the mainframe, many in-house organizations find themselves without the capacity or technical capabilities to handle:

- Complexities of dealing with heterogeneous hardware and software platforms required to support enterprise-wide production applications, as opposed to personal or departmental computing environments

- The sheer volume of installations necessary to support the rollout of a major corporate-wide system across multiple geographic locations

- Distributing, installing and testing new release levels of applications and systems software

- The support required to maintain the high system availability levels required for production applications

As a result, many companies outsource their desktop services to third parties. In fact, INPUT forecasts for the past three years suggest that vendors are growing in revenues from these types of services more than 20% annually, with no indication that the rate will decline.

A
Purpose and Scope

INPUT completed its first study on desktop services, *Outsourcing Desktop Services*, late in 1992. It focused on:

- Why user organizations buy desktop services
- How they evaluate vendors
- Types of services provided
- Key vendors and their strategies
- Relationships between buyers and vendors

The study also provided a market forecast for the desktop services component of the outsourcing market.

Since the publication of *Outsourcing Desktop Services*, major outsourcing companies and specialized firms have or are rapidly putting into place specific strategies to deal with growing user demand for desktop outsourcing.

The purpose of this report is to:

- Identify any changes in the key trends in desktop services from a user perspective

- Provide insight into which types of services are perceived to have the most value and why

- To analyze vendor performance based on users' evaluations of how well key services are delivered

The report focuses on the following 10 classes of desktop services:

- Software products supply
- Equipment supply
- Equipment/software installation
- LAN installation and expansion
- LAN management
- Network interface management
- Logistics management
- User support

- Help desk functions
- User training and education

The analysis is limited to the United States. A report covering the same general scope of interest for Europe is also available.

B
Methodology/Demographics

1. Methodology

To obtain the data used in this analysis, 190 interviews were conducted with middle- to large-sized U.S. firms. Firms were selected at random, but some emphasis was placed on manufacturing organizations. Federal departments or agencies were not included because of the unique processes used for the acquisition of services.

The questionnaire used in the survey is contained in *Appendix A.* Questions covered the following areas:

- Current use of outsourcing service
- Reasons for outsourcing desktop services
- Functions outsourced and their perceived value
- How services are delivered
- Vendor selection and evaluation
- Benefits

Questionnaire data was analyzed to prepare the conclusions and recommendations presented here. Information from INPUT's first report on this subject, *Outsourcing Desktop Services*, was also used to identify changes in desktop services trends.

2. Demographics

The distribution of respondents by industry, shown in Exhibit I-1, is somewhat weighted toward the manufacturing sector.

Exhibit I-1

Distribution of Respondents by Industry

Industry

Manufacturing	65
Finance	31
Utilities	23
Business Svcs.	15
Communications	12
S&L Government	12
Distribution	8
Misc. Industries	7
Transportation	6
Other	6

Number of Respondents
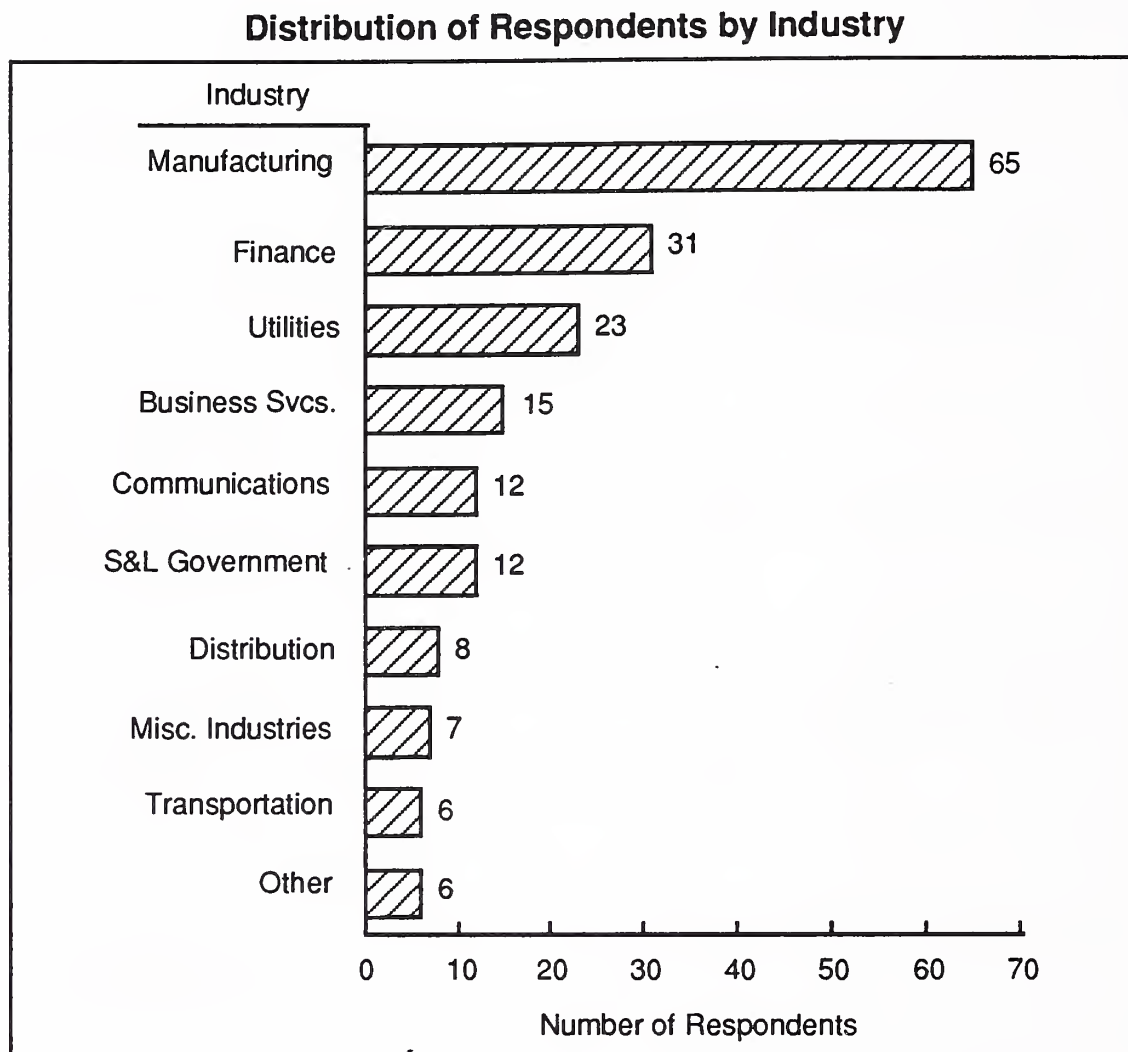
Of the total number of companies sampled, 57 actually turned out to be outsourcing desktop services.

C
Report Organization

The remainder of the report is organized into four chapters:

- Chapter II, *Executive Overview*, gives highlights of the report's contents.

- Chapter III, *Buyer Motivations and Trends*, discusses reasons why companies do or do not outsource the desktop, their evaluation of the various components of service offerings, and their assessment of the benefits.

- Chapter IV, *Vendor Selection and Delivery Preferences*, examines buyers' vendor selection criteria and their preferences for how various classes of service are delivered.

- Chapter V, *Desktop Trends*, looks at conclusions drawn in INPUT's first desktop services report, and compares them to this research.

D
Related Reports

For additional insight into the desktop services and systems operations market, consult the following published INPUT reports:

- *Outsourcing Desktop Services (1992)*

- *Contract Approaches to Project Risk Reduction (1994)*

- *Information Systems Outsourcing Market Analysis: 1993—1998 (1994)*

- *Client/Server Applications Trends—Banking and Finance (1993)*

- *Client/Server Applications Trends—Insurance (1993)*

- *Client/Server Applications Trends—Discrete Manufacturing (1993)*

- *Client/Server Applications Trends—Process Manufacturing (1993)*

- *Client/Server Applications Trends—Health Services (1993)*

- *Client/Server Applications Trends—Telecommunications (1993)*

- *Client/Server Applications Trends—State and Local Government (1993)*

- *Client/Server Applications Trends—Retail Trade (1993)*

- *Client/Server Applications Trends—Utilities (1993)*

- *Client/Server Market Analysis, 1993-1998 (1993)*

- *Client/Server Service Opportunities—Europe, 1993-1998 (1993)*

- *Client/Server Impact On Major Project Contracting—Europe, 1993-1998 (1993)*

- *Client/Server Trends In The Federal IT Market: 1994 (1994)*

- *The Client/Server Explosion—How Users Choose Platforms (1994)*

II
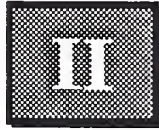
Executive Overview

A
Introduction

The market for outsourcing desktop services has been growing at a rate of more than 20% per year for the last several years. INPUT's projections indicate that this exceptional growth rate is likely to continue as a growing number of companies move to downsized client/server environments. Just as the market is expanding, it is also evolving.

- Buyers are identifying requirements for new services.

- New vendors are entering the market to meet the growing demand.

In 1992, INPUT conducted its first study on the subject, *Outsourcing Desktop Services*. It identified key trends, buyer preferences and vendor strategies. The objective of this study is to examine recent developments in this evolving market to:

- Identify key trends

- Gain insight into which types of services are growing most rapidly, and why

- Analyze how vendors deliver these services and how buyers perceive their quality

To gather information for the study, INPUT conducted 190 telephone interviews with buyer organizations from a broad range of industry groups. Questions covered were:

- Current use of services
- Reasons for outsourcing
- Vendor evaluation and selection
- Services used
- Mode of delivery and quality

Analysis of this data, in conjunction with the information gathered in the 1992 study, was the primary source of information used in the preparation of this study.

B
Findings

1. Buyers versus Nonbuyers

Of the 190 respondents, 57 were users of desktop services. The remainder broke down into two categories—those who felt they had no need, and those who had examined the option but had other reasons for not buying. Exhibit II-1 shows the sample breakdown by these categories.

Exhibit II-1

Breakdown of Respondents by Buying Category
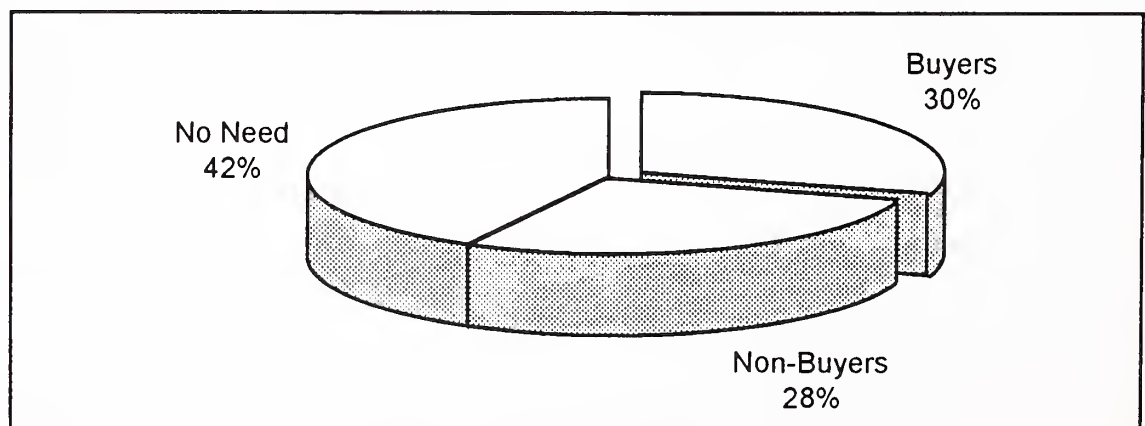
- The 42% in the "no need" category tended to be smaller companies or those who had not gotten committed production business applications to downsized environments.

- Those in the "nonbuyer" category gave a variety of reasons. The leading reasons was cost. However, at least 14 indicated they felt the applications they had committed to the desktop were too critical to turn over to a third party.

- Larger companies dominated the group of 57 buyers. This is probably because larger companies have been on the leading edge of business process re-engineering, usually resulting in downsized systems that require more sophisticated support than traditional desktop departmental or office support applications.

2. Buyers

The data indicates the companies that outsource desktop services tend to be large (Fortune 1000), geographically dispersed and/or firms that have made a commitment to downsizing to C/S desktop architectures. The industry sector with the highest penetration rate of desktop services outsourcing was manufacturing.

a. Reasons for Outsourcing the Desktop

Respondents indicated that the strongest motivators for outsourcing their desktop operations were service and cost.

- Once companies commit to C/S migration support, service and operational integrity become critical issues for desktop platforms. Typical in-house, frequently *ad hoc* support organizations, are usually poorly equipped to respond. Consequently, companies have a strong motivation to look outside for these services.

- The cost savings available from outsourcing desktop services is not likely to be as great as from outsourcing mainframe operations. However, potential buyers who carefully assess their real in-house expenses for providing comparable support, frequently find that outsourcers can save them money.

b. Financial Characteristics

As shown in Exhibit II-2, for firms that outsource all of their IS functions, the desktop portion represents about 20% of their total expenditure.

Exhibit II-2

Distribution of Expenditures for Firms that Outsource All IS Functions

Desktop
20%

Platform
40%

Applications
20%

Network
20%
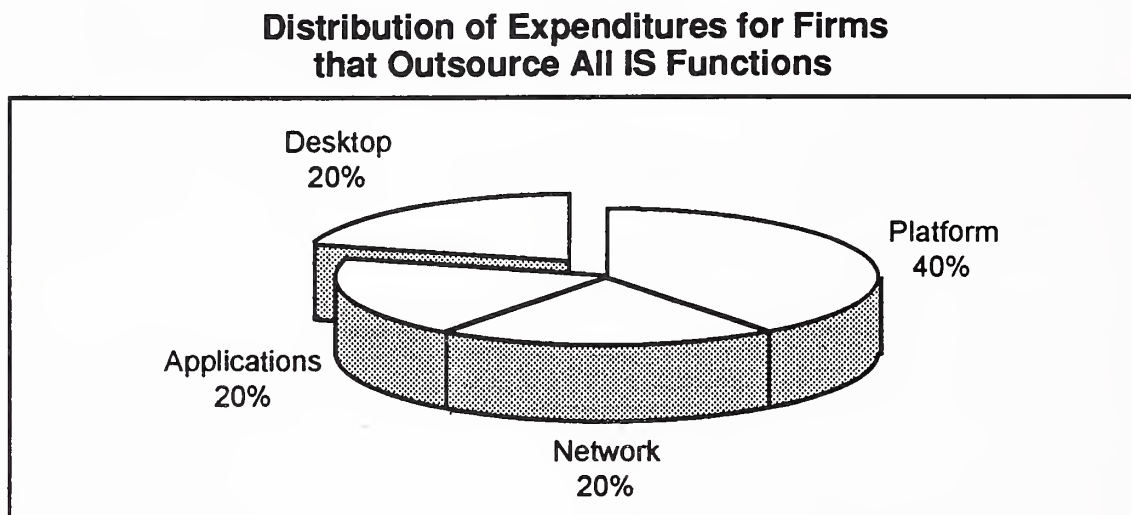
Sample = 16

For a large outsourcing deal covering all aspects of a customer's data processing, the 20% generated by the desktop can be a large number. In fact, at least five companies in the sample who have outsourced everything indicated that the desktop services portion of the cost was in excess of $10 million dollars per year.

However, most contracts are significantly smaller and have relatively shorter contract lives.

• The adjusted average annual expenditure for the sample was $0.9 million.

• The adjusted average contract life was 2 years.

3. Users' Evaluations of Services

A wide variety of support activities fall under the general umbrella of desktop services. For purposes of this study twelve distinct functions or services were included. Users' gave assessments of the value of these services as well as a projection of

future use. Exhibit II-3 groups their collective value assessment for each service into three categories, high, medium and low. It also gives INPUT's assessment into each functions potential growth based on the data provided by respondents. (The growth numbers indicate potential growth for survey respondents, not the total potential market.)

Exhibit II-3

Desktop Services
User Value Assessments and Future Growth

User Value Rating	Service	Growth
High	• LAN Management	High
	• Maintenance (Hardware & Software)	Low
	• C/S Support	High
	• User Support	Med
	• Help Desk Operation	High
	• Network Interface Management	High
	• User Training	Med
Medium	• Installation (Hardware & Software)	Low
	• LAN Installation and Expansion	Med
Low	• Equipment Supply	Low
	• Software Supply	Low
	• Logistics Management	Low

- In general, users give high value ratings to service functions with high professional content such as C/S support, help desk operations, etc., and lower value ratings to services less professionally intensive, such as logistics, installation and distribution.

- Furthermore, users tend to feel that most of the services with high professional content will experience the strongest growth rates.

Taken in combination, these two statements lead to a key finding over time, we can anticipate the mix of services of the typical desktop outsourcing agreement to migrate more toward high-end professional services intensive offerings. Furthermore, this migration for existing users of desktop services and potential future users will be accelerated by the service demands created by the ongoing migration to C/S architectures.

4. Vendor Evaluation and Selection

The vast majority of companies (50% of the survey respondents) use a formal RFP process to solicit proposals for desktop outsourcing. But existing relationships do have an impact on the process. The analysis shows that:

- In place, vendors have little influence on the decision to do desktop outsourcing, rated 2.8 as an influence factor by users

- Once the decision to move in that direction is made, there is a 75% change the company will go with an existing vendor, if one is in place.

Regardless of who wins the bid, the awarding organization is likely to be the buyer's information services function. Exhibit II-4 shows that IS was the final decision maker in 75% of the sample.

The 1992 research showed IS as the decision maker in only 53% of the cases with a much higher proportion of the decisions being made on a divisional basis. This shift probably is the result of a combination of trends.

- The migration to downsized enterprise-wide systems requires a corporate overview in order to insure consistently high levels of corporate-wide support.

- As production applications migrate to the desktop, IS is taking much more interest in how the desktop infrastructure is managed than they did in the early days of the standalone PC.

EXHIBIT II-4

Decision Makers for Desktop Services

Other
9%

User/Divisions
16%

Information
Systems
75%
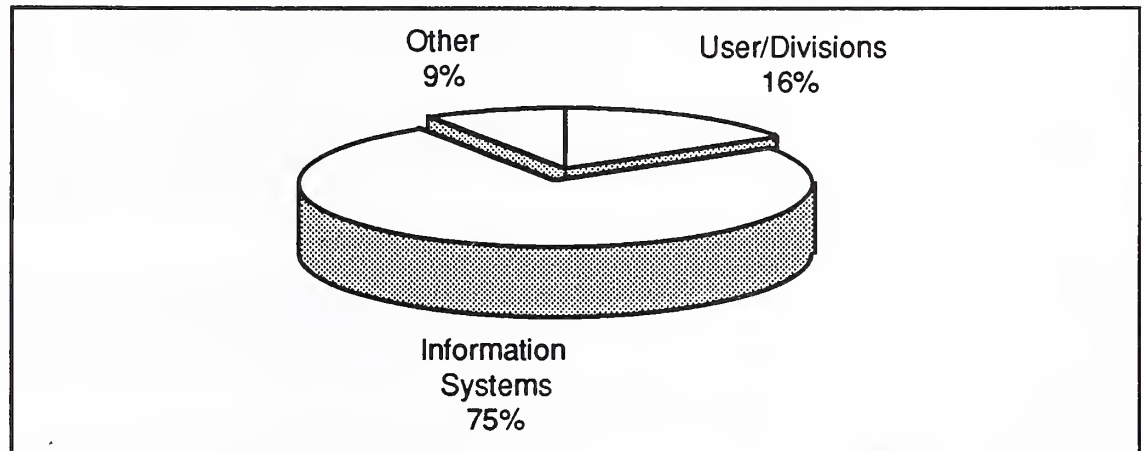
Sample = 57

5. Selection Criteria

Users rate all of the following four selection criteria as critical.

- Strong commitments to high service delivery levels

- Technical capabilities to deal with more complex C/S environments

- Ability to provide on-site support

- Cost

Other criteria, such as the vendor's reputation, may have an influence in breaking a tie but were not rated nearly as highly as the group listed above. Similarly, geographic coverage can be an important factor in some situations. By and large however, the ability to cover the required locations is used as a screening device, rather than a key criteria.

Some criteria, such as the ability to take over assets or personnel relatively important in the selection of platform operations vendors, have little impact on the selection of desktop outsourcers.

This is probably due to the fact that the dollar value of assets involved in most of these deals are small, and the number of support personnel, relatively few.

6. Modes of Distribution

As discussed earlier, most buyers prefer on-site to off-site support for the vast majority of services. Exhibit II-5 shows the method of support received by survey respondents. The proportions are based on tallying the mode of support, on-site, off-site, or some combination of the two, for a total of 374 service activities.

EXHIBIT II-5

**Mode of Delivery of Desktop Services
Used by Survey Respondents**
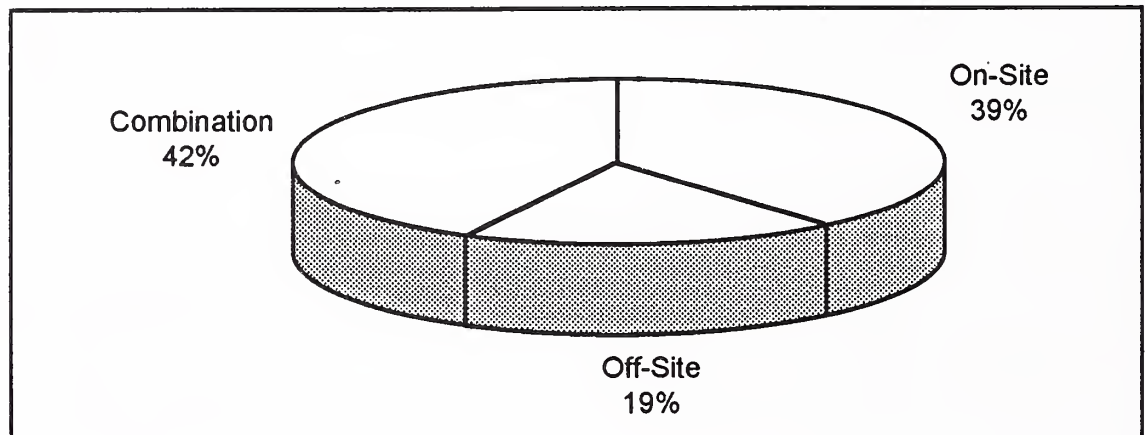
Considering that the items in the "combination" category include elements of on-site service, on-site is clearly the predominant product/service market today. However, a number of trends are gradually reducing the requirement for the presence of on-site personnel.

- Equipment maintenance is rapidly becoming equipment replacement. Vendors will replace equipment and take defective hardware to central maintenance locations for repair, with problem diagnosis accomplished electronically.

- Many vendors accomplish software upgrades through electronic distribution, eliminating the need for any on-site intervention.

- Training-on-demand is replacing classroom instruction through the use of electronically or CD ROM-based interactive training programs.

- Vendors are developing experience databases for diagnostic and other issues that reduce the need for on-site support, by facilitating problem diagnosis electronically.

Over the longer term, the on-site professionals required to deliver high quality desktop services across broad geographic areas are likely to be reduced.

7. User Satisfaction

As shown in Exhibit II-6, approximately 75% of the survey respondents felt that service from their desktop outsourcers either met or exceeded expectations.

EXHIBIT II-6

User Levels of Satisfaction with Desktop Outsourcing

To Early to Tell 16%

Exceed Expectations 16%

Below Expectations 11%

Sample = 56

Equal Expectations 57%
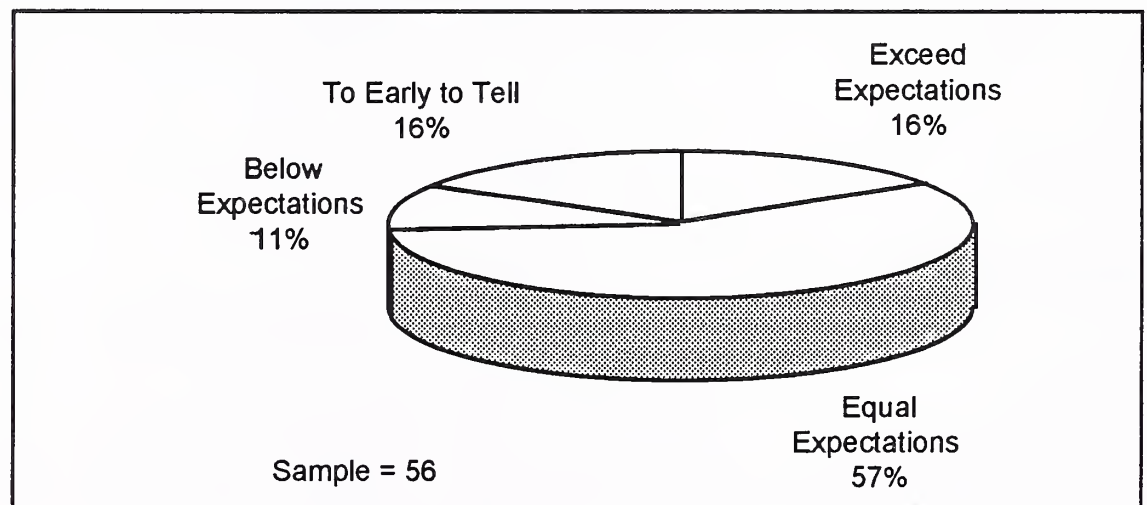
C
Conclusions & Recommendations

- The best prospects for desktop services vendors are companies that are moving toward the implementation of mission-critical and/or enterprise-wide production applications on desktop environments. Under these conditions, the support

requirements for the desktop take an order-of-magnitude leap, such as:

- Consistent operational control and high uptime requirements across a geographically dispersed infrastructure

- Disciplined management of change control for hardware, systems and applications software

- Localized customer support

• Unlike other classes of outsourcing, demonstrating to prospects the potential cost savings from using desktop services can be extremely difficult.

- Existing user costs are frequently hidden, or at least not identifiable through traditional accounting methods.

- Comparisons between in-house solutions and vendor proposals are based on noncomparable services. In other words, the in-house service frequently does not realistically account for the increased service requirements required for the transition to C/S or other distributed production networks.

• Fortune 1000 companies were identified as the best prospects for desktop services in INPUT's 1992 study. The current research indicates that is still the case. These are the companies most aggressively pursuing business process re-engineering and other strategies most likely to result in the significant desktop support requirements typical of C/S enterprise-wide systems.

• Discrete and process manufacturing firms are currently the leading users of desktop services. However,

- U.S. banking operations, particularly for major regional banks, continue to expand geographically.

- Retail and wholesale distribution operations continue to consolidate through merger and acquisition.

  These trends are likely to set up the same conditions of geographic dispersion and decentralized operations that will make the outsourcing of desktop operations increasingly attractive.

- It appears that buyers have a generally lower opinion of the value of desktop services as compared to other types of outsourcing. While they recognize the necessity of performing these services at a high- quality level (particularly when mission-critical applications are involved), they do not believe the technical skills required are comparable to those involved in other types of outsourcing such as platform or network operations. This implies that vendors seeking higher margins will need to develop packaging and marketing approaches that demonstrate high value-add.

- Buyers' assessments of the value of various desktop services functions are highly correlated to the level of professional services capability required to deliver the function. That is, functions such as C/S support and LAN management, requiring significant professional services skills, are valued much more highly than equipment supply or logistics management services. Consequently, vendors whose offerings do not include high-end services are likely to face lower margin levels in a given account.

- A significant differentiator that effects buyer behavior is whether the company is looking to outsource traditional desktop environments consisting of departmental, office and *ad hoc* applications, or whether the objective is to upgrade desktop service infrastructure to support C/S or enterprise-wide applications.

  - In the former case, price will become the dominating factor in the vendor selection process, and buyer's will attempt to "cherry pick" on the basis of price from the offerings of multiple vendors to meet their requirements.

- In the later case, buyers are looking for significantly improved service levels and technology, and while sensitive to price, are more inclined to go with a vendor whose demonstrated technical capabilities can meet all of their requirements.

• Desktop service providers will continue to seek innovative uses of technology to reduce the labor-intensive components of service functions. This will have two major impacts over the next several years.

- Vendors should be able to obtain improved margins through the leverage of technology

- Users would see improved productivity through the flexibility customization that technology-assisted support services can provide.

• Average contract lengths and annual contract fees are likely to increase as buyers seek more high-end professional service intensive services from desktop services vendors.

III
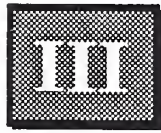
Buyer Motivation and Preferences

Outsourcing desktop services offers many potential benefits to users. Providers of these services promote their use by pointing out that:

- Use of these services frees up the IS department from daily operational problems that usually require rapid response.

- Cost savings can be achieved while improving the overall quality of the service to users.

- Internal staffing and training problems are eliminated.

- Vendors have many more resources available to them through their organizations and their alliance partners than in-house organizations, particularly when it comes to responding to unique or specific needs.

However, even though the growth rate for the use of desktop services is high, many firms believe they can do just as well on their own.

This chapter looks at the survey data from the perspectives of buyers and nonbuyers. Section A compares those respondents who are buyers of desktop services with those who are not. Section B analyzes the motivating factors and service preferences of buyers, and Section C discusses buyer benefits.

A
Buyers versus Nonbuyers

1. Nonbuyers

Of the 190 respondents, 133, more than 70%, indicated that they were not currently using desktop services. Although, out of the 133, 17, or approximately 13% of the sample, were doing some other type of outsourcing.

Their reasons for not using desktop services are shown in Exhibit III-1.

Exhibit III-1

Distribution of Reasons for Not Using Desktop Services
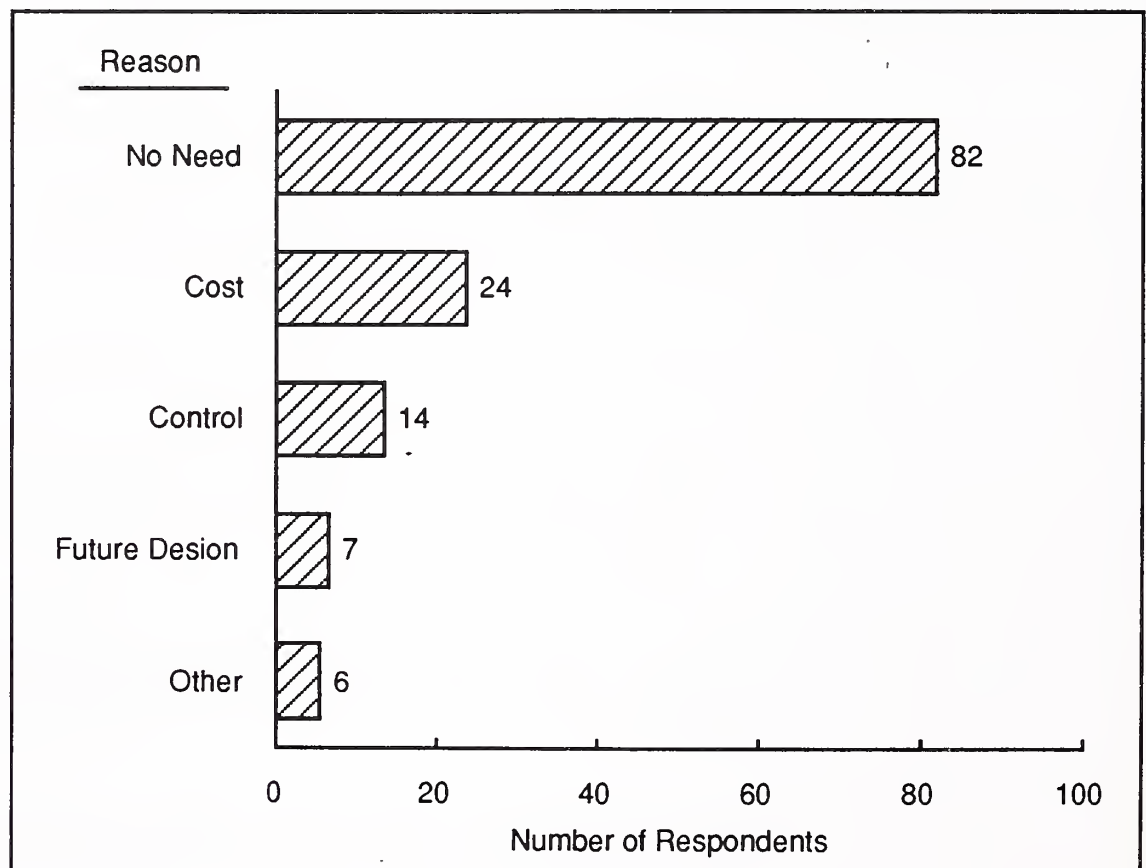
Those indicating "no need" make up just about 60% of the sample. Further analysis of this group shows that at least half do not run production applications on their existing desktop environments. The primary applications are likely to be office support, administration or departmental management information

systems. Support is typically provided by in-house user computing organizations with connectivity and up-time demands much less than those for the typical enterprise-wide applications.

Of the other half, some 40% indicated that it was their policy to provide desktop support in-house. Where specific reasons were given for the policy, they centered around the concept that by providing the services internally, they were able to stay in continuous touch with customer (users) needs. The remainder of the "no need" category did not give any specific reasons.

Approximately 18% of the respondents indicated they could provide comparable services at equivalent or lesser cost than an outside supplier. Although the data is not detailed enough to make a statistical assessment, at least half of those falling into this category indicated that they had undertaken some formal analysis to arrive at their decision.

A key issue with 10% of the respondents was control. Interviewees indicated that the business importance of the environment was too great to be outsourced. They typically cited mission-critical or customer-related applications.

At least seven of the respondents said that even though they were not using desktop services today, they were actively considering the option. This 5% is certainly not a strong indicator that many of the current non-buyers are likely to become converts in the near future.

It appears then, that for firms who are not currently users, the key issue is need—driven by whether a firm is actively moving toward production or enterprise-wide applications. In most instances, companies believe that they can provide acceptable service at lower costs to support today's typical departmental and office systems.

2. Comparing Buyers to Nonbuyers

Exhibits III-2 and III-3 show the distribution of sales for buyers and non-buyers of desktop services.

Exhibit III-2

Sample Distribution by Sales Volume for Companies Using Desktop Services

Size Category

Size Category	Number of Respondents
>5B	8
1B-5B	18
<1B	29

Number of Respondents
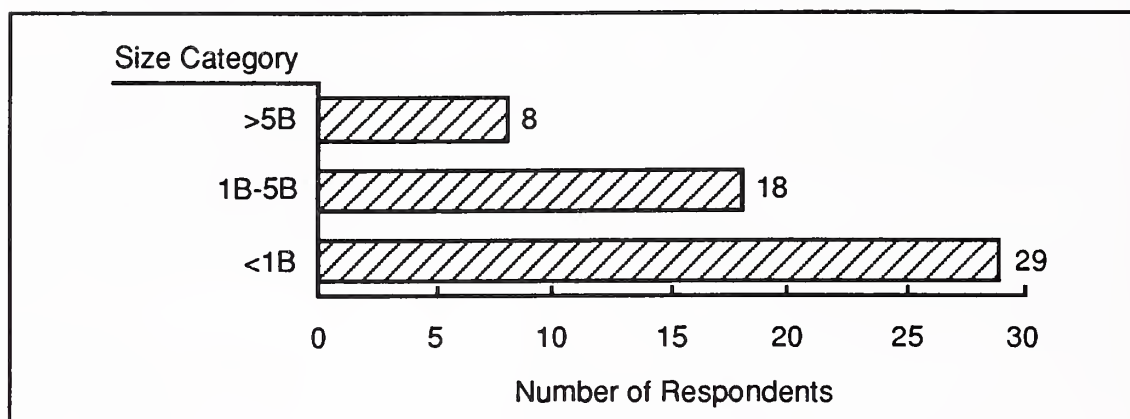
Exhibit III-3

Sample Distribution by Sales Volume for Companies Not Using Desktop Services

Size Category

Size Category	Number of Respondents
>5B	6
1B-5B	30
<1B	85

Number of Respondents
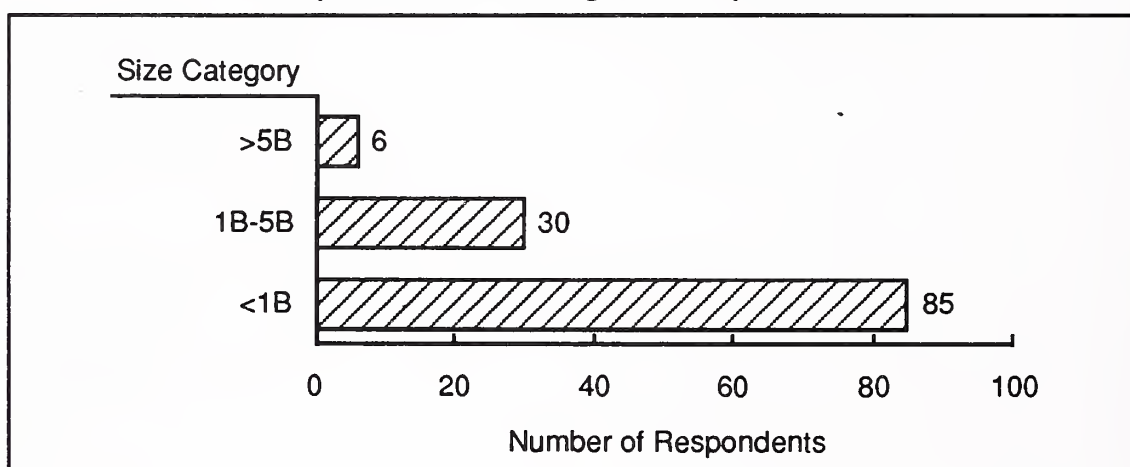
The data clearly indicates that larger companies are more frequent users of desktop services than smaller ones. There are a number of explanations.

- Larger companies are more aggressively looking to business re-engineering and downsizing as restructuring alternatives. The net result is a strong movement to C/S based applications.

- These firms tend to be geographically dispersed, requiring that enterprise-wide applications must be supported at a uniformly high quality level on a broad geographic basis.

- Larger firms are becoming increasingly more aggressive about partnering with outside companies to provide noncore services, and are therefore more open desktop services offerings.

Exhibit III-4 compares the proportion of users of desktop services for the entire sample on the basis of sales volume. At least for the moment, the larger firms appear to be the most receptive to this type of offering.

Exhibit III-4

Comparison of Users and Nonusers of Desktop Services Based on Company Size
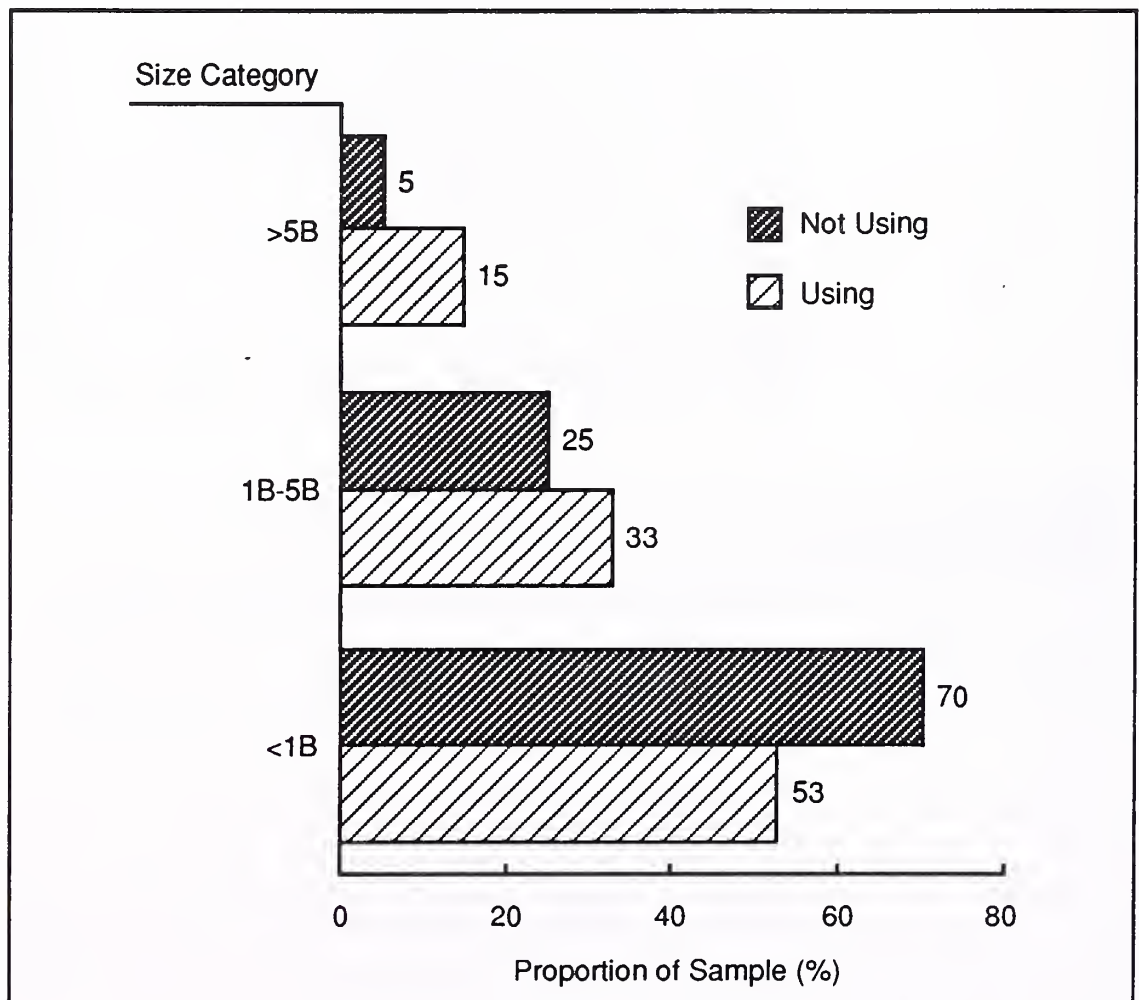
There appear to be few parameters other than size that differentiate users and nonusers of desktop services. Analysis of the data by industry group indicates that manufacturing companies tend to be the most likely to use these services. This is attributable to the following:

- U.S. manufacturing firms are the most aggressive industry group to adopt business process re-engineering as a strategy. This has resulted in major corporate-wide downsizing efforts, creating an environment where the requirements for top-level desktop support services warrant looking for outside support.

- Major process and discrete manufacturing companies tend to be widely geographically dispersed. Unless service demands in all locations, including international, can support in-house local staff, an outsourcer with broad geographic coverage is a good alternative.

The distribution and financial services industries should be likely candidates for desktop services as well. In the case of financial services, the movement to desktop applications is still in its early stages. Likewise with retail and wholesale distribution. However, both industries are undergoing consolidation which will ultimately lead to a requirement to support more decentralized operations. It seems inevitable that as consolidation proceeds, firms in these industry groups will see a growing requirement for decentralized support of desktop operations.

B
Buyer Preferences

1. Reasons for Outsourcing Desktop Services

The 57 companies in the survey who did outsource desktop services gave a number reasons for doing so. Respondents were asked to comment on the importance of a variety of factors that influenced their decisions, and comment on any special circumstances that might have influenced their decision. They were also asked to assess whether relationships with outsourcing suppliers for other classes of service influenced their decisions.

Their motivations for deciding to outsource desktop services are summarized in Exhibit III-5.

User Ratings for Reasons for Outsourcing Desktop Services

Reason

	Average Rating (1-5)
Service	3.8
Reduce Cost	3.8
Technology	3.1
Relationships	2.1

1.0   2.0   3.0   4.0   5.0

Low   High

Average Rating (1-5)
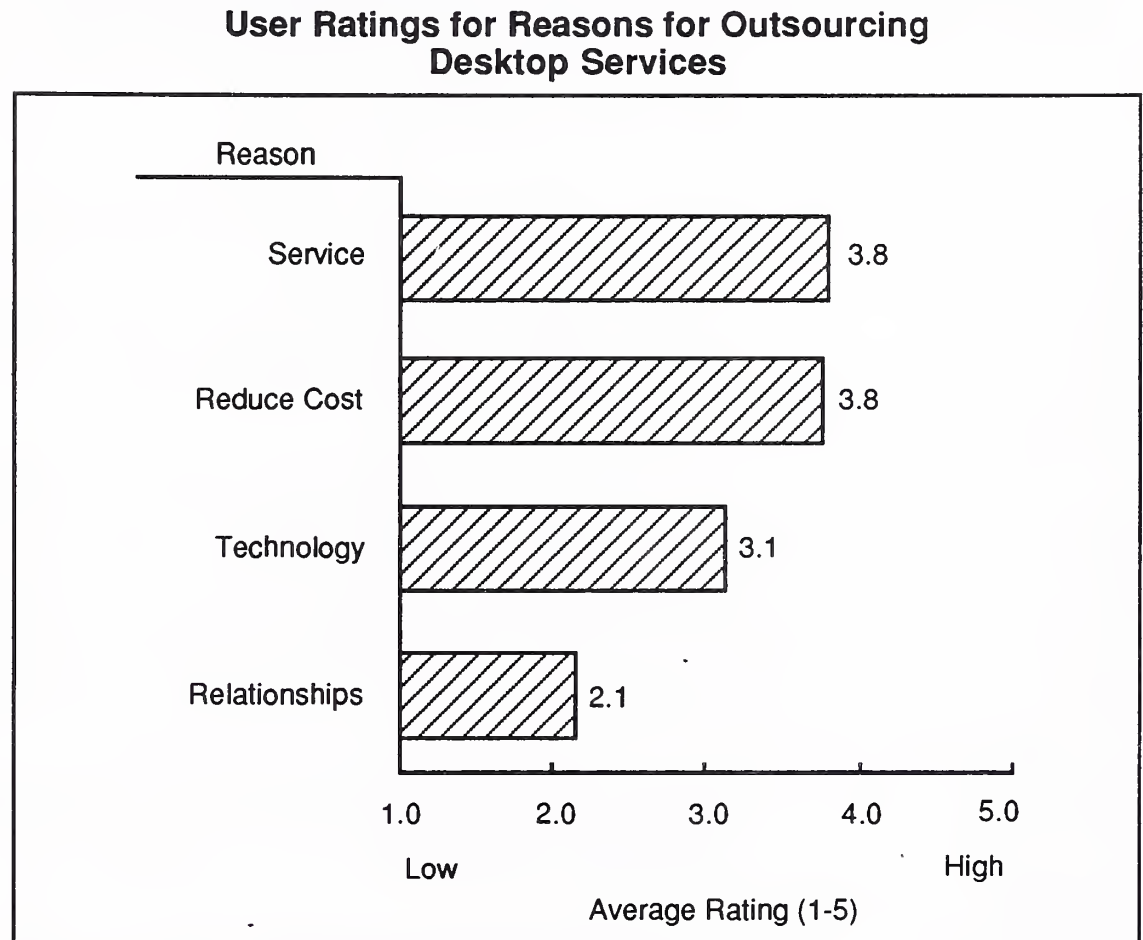
Sample = 57

Clearly cost and service dominate as primary motivators for going outside for desktop services. It is interesting to note however, that unlike the motivating factors for outsourcing mainframe operations where cost is the overwhelming consideration, service ranks at an equal level for desktop services. There are at least two explanations.

- Going to outsourcers for desktop services cannot produce the dramatic cost savings that it can for mainframes, where the opportunity to leverage technology on the basis of economy of scale is significantly greater. The same logic applies to professional support which, by and large, must be provided on a distributed basis for desktop as opposed to centrally for mainframe support.

- In-house organizations to support desktop environments have traditionally functioned on an *ad hoc*, "when I can get to you", basis. This level of service is adequate for casual administrative and office support users, but hardly acceptable for production business applications.

Buyers appear to be relatively neutral on the benefits of going to an outsourcer to gain a technology advantage they rate its importance at 3.1 on a scale of 1 to 5. For the other categories of outsourcing, such as platform operations and applications management, the technology capabilities of the vendor have a more significant influence. There are two reasons.

- A lack of appreciation on the part of buyers of the complexity of supporting heterogeneous desktop architectures and distributed networks

- A general impression that the value-add that desktop services vendors bring is strictly tactical and not strategic. That is, they are not perceived to bring solution-oriented value to the business side of the equation.

Finally, it appears that existing relationships with outsourcers have little to do with the decision to outsource desktop services. Existing relationships were rated 2.1 as an influencing factor. However, a significant proportion of buyers of desktop services do outsource other aspects of their IS operations. Exhibit III-6 gives a breakdown of the types of outsourcing used by the buyers in the survey. Exhibit III-7 summarizes the information according to whether an the company outsources desktop alone, all of its IS activities or a combination of different functions.

EXHIBIT III-6

Other Functions Outsourced by Desktop Services Buyers

Number of Respondents	Platform Operations	Applications Management	Network Operations
16	✓	✓	✓
6		.	✓
3	✓	✓	
3		✓	
3		✓	✓
1	✓		
1	✓	.	✓
1	✓		✓

EXHIBIT III-7

Types of Outsourcing Used by Buyers of Desktop Services

Combination 30%

Desktop Only 42%

Total IS Function 28%
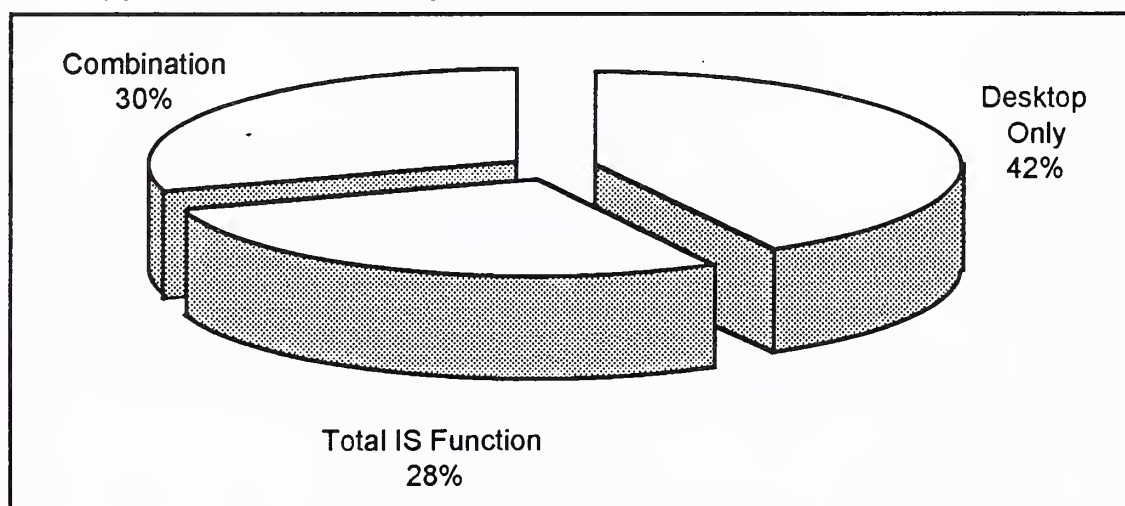
A simple tally of each of the other functions outsourced in combination with desktop services indicates that the most frequent combinations involve network services and applications management. However, there is no high degree of correlation. As shown in Exhibit III-7, close to half of the companies surveyed outsourced desktop services alone. Overall, this data, combined

with the generally low assessment of the influence of existing outsourcing agreements on the decision to outsource desktop services, suggests that in most instances outsourcing desktop services is a standalone decision.

For firms that do outsource their entire IS function, the typical proportion of the total budget going to desktop services is about 20%, as shown in Exhibit III-8.

Exhibit III-8

Distribution of Expenditures for Firms that Outsource All IS Functions
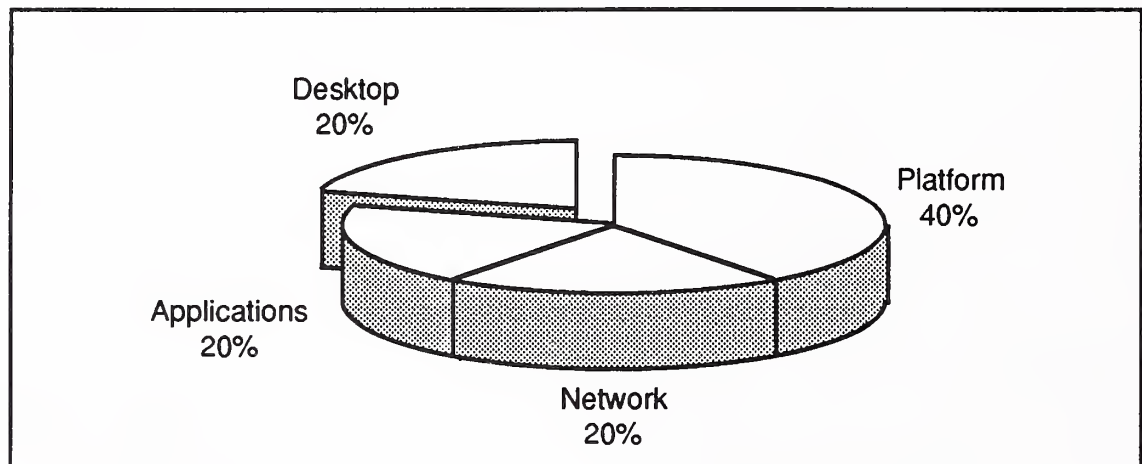
Sample = 16

2. Users' Assessments of the Value of Desktop Services Functions

Survey respondents provided information on their current and future use and the value the twelve classes of desktop services shown in Exhibit III-9. The ratings given in the exhibit are the average of the respondents' perceptions of each service's value.

Exhibit III-9

User Ratings of the Value of Desktop Service Functions

Function

Function	Average Rating (1-5)
Maintenance	4.2
LAN Installation	3.7
Installation	3.7
User Training	3.6
Equipment Supply	3.4
Software Supply	3.4
User Support	3.3
LAN Management	3.3
Help Desk	3.2
C/S Support	3.2
Net.Interface Mgt.	3.2
Logistics Mgt.	2.8

Low   High
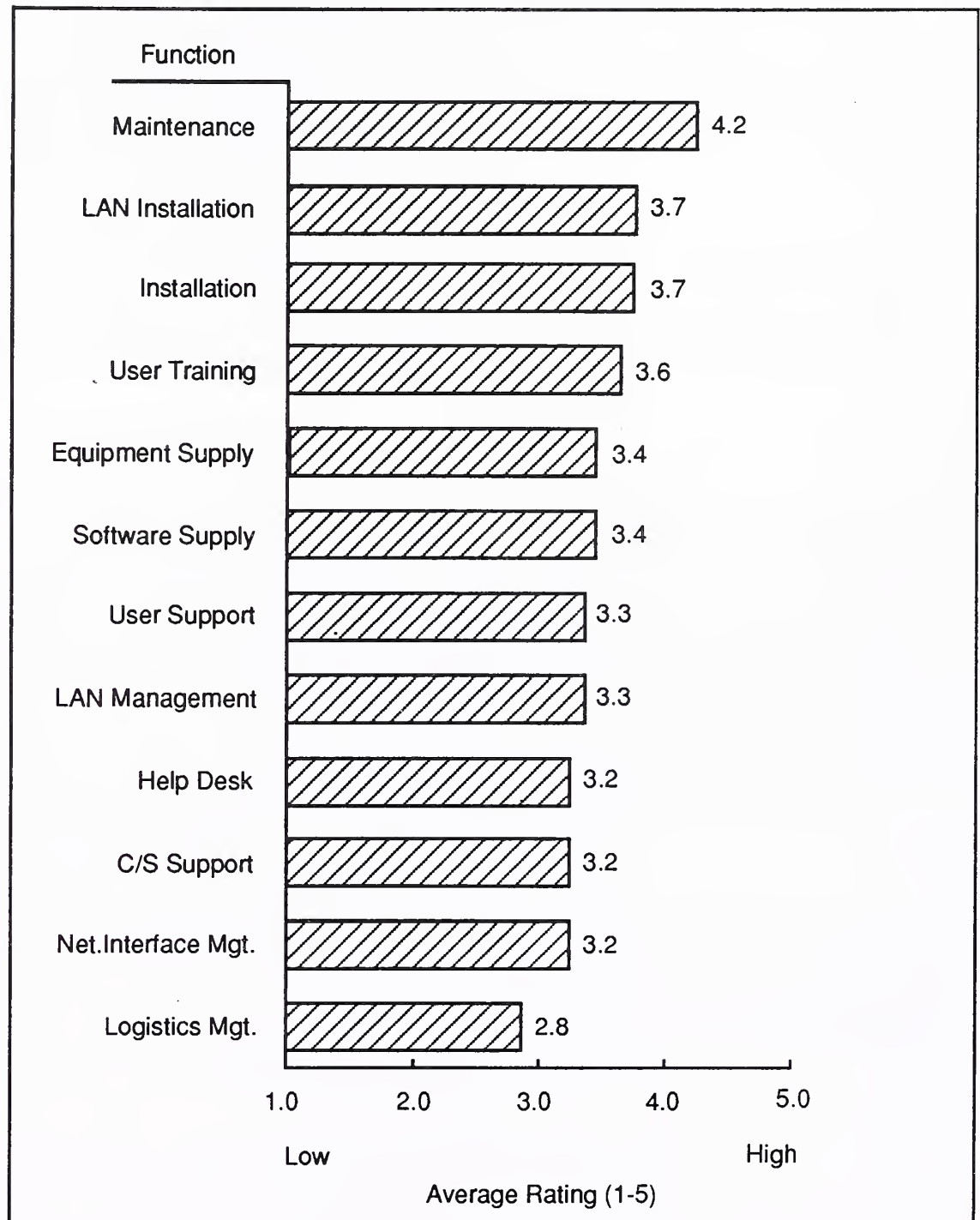
Average Rating (1-5)

a. Installation and Maintenance

With the exception of logistics management the average user value ratings for all classes of service were above 3.0, indicating some above-average level of perceived value. However, the only

three that stand out are maintenance, LAN installation and general installation services.

- Maintenance, as used in the context of this study, covers hardware, software and local network systems such as LANs. This being the case, the study results would indicate buyers recognize benefits from having these activities performed in a professional manner. But in general, they only use these services for the maintaining off-the-shelf hardware and software components. Only two respondents in the survey indicated that maintenance or updating of proprietary applications software was included in their desktop services agreements.

- Installation services also received relatively high ratings. As is the case with maintenance, installation includes hardware and software. Most buyers who assigned a high value to installation services come from firms that require integration of heterogeneous hardware and software platforms. For the twenty firms that fell into this category, the average rating for the value of installation services was above 4.0.

- Technically speaking, LAN installation, shown as a separate category of service in this study, should be included as part of the general category of installation services. However, users see this service as requiring unique technical skills as well as the specialized capabilities to physically install infrastructure such as cabling and power on site. Consequently, the higher perceived value.

b. Supply and Logistics Services

Most users apparently do not assign a significant value to supply or logistical services. To some degree this is surprising, since one would assume that desktop services vendors through commodity buying agreements should be able to deliver these items at a favorable price. A more in-depth analysis of the survey data offers an explanation.

- Company size appears to be a factor. Very large companies who use desktop services vendors already have commodity

buying agreements for most off-the-shelf desktop hardware and software products and have typically arranged for the delivery or distribution of the products through the vendor. Consequently, any leverage that might be available through the services supplier is probably minimal. Companies in the survey that fell into this category rated the value of supply and logistics services at below 3.0.

• On the other hand, companies who use desktop services vendors to do any significant integration of hardware and/or software rate these services more highly. Respondents with these characteristics rated the services at approximately 4.0.

c. Other Services

User support, user training, help desk, LAN management, network interface management and C/S support are all high-end desktop services with heavy professional services components. One would expect these services all to be highly valued, yet the average ratings, with the exception of user training, are in the low 3s (refer to Exhibit III-9). However, the level of penetration for use of these was lower than most other services analyzed in the survey. Exhibit III-10 breaks down the data on the basis of those respondents that currently use these services compared to nonusers.

When companies that apparently have no need for these services (non-buyers) are eliminated, the average value ratings for these services move up significantly. In fact, the adjusted ratings rank these services with high professional services component at the top end of the user value scale.

EXHIBIT III-10

Value Ratings for Professional Services and Support Activities
Users versus Nonusers

Activity	Number of Users	Average Value Rating	
		Users	Nonusers
Client/Server Support	22	3.9	2.6
User Support	28	3.9	2.5
Help Desk Operation	23	4.0	2.2
LAN Management	20	4.3	2.5
Network Interface Management	19	4.1	2.3
User Training	31	4.0	2.1

As it turns out, applying the same process (adjusting the averages for usage) to the other services shown in Exhibit III-9 does not significantly impact their average value ratings. Exhibit III-11 groups the services into high, medium and low user value levels taking into account the low usage levels for some services.

User Ratings of the Value of Desktop Services Functions
Adjusted for Usage Levels

User Value Rating	Service
High	• LAN Management • Maintenance (Hardware & Software) • C/S Support • User Support • Help Desk Operation • Network Interface Management • User Training
Medium	• Installation (Hardware & Software) • LAN Installation • Equipment Supply
Low	• Software Supply • Logistics Management

Based on all the information available from the survey, this ranking provides the most accurate assessment of the value that users place on twelve key desktop service functions.

3. Current and Future Usage Levels

Exhibit III-12 shows the percentage of respondents using each of the twelve desktop services functions.

It appears that the majority of the respondents in this sample are using the basic services. Maintenance, installation (including LANs) and supply of hardware and software are predominate. The only service being used by more than 50% of the group with a high professional services component is user training.

Exhibit III-12

Use of Desktop Functions by Survey Respondents

Function	Proportion Using (%)
Maintenance	84
Installation	70
User Training	68
Software Supply	68
Equipment Supply	63
LAN Installation	58
User Support	49
Help Desk	40
C/S Support	39
LAN Management	35
Net.Interface Mgt.	33
Logistics Mgt.	25
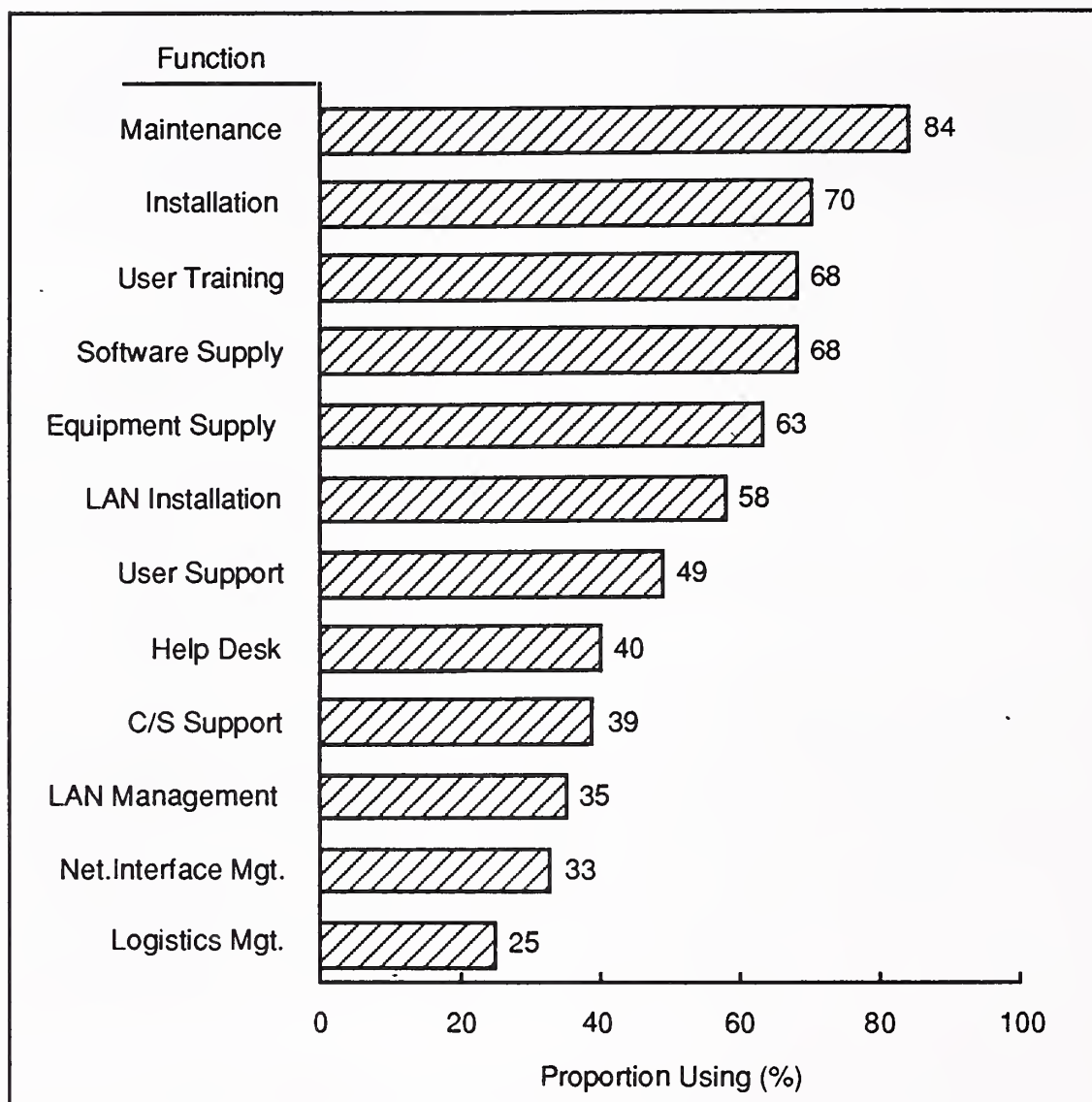
This distribution is probably typical of the distribution of desktop services being sold in the market today. However, indications are that the highest growth rates will be for the services such as help desk operations, C/S support, LAN management and network interface management. Exhibit III-13 shows planned future use by survey respondents for each function.

Exhibit III-13

Projected Growth for Desktop Services Functions

Anticipated Growth	Service
High Greater than 10%	• LAN Management • Help Desk Operations • Network Interface Management • Client/Server Support
Medium Between 5% and 10%	• User Support • User Training and Education • LAN Installation and Expansion
Low Below 5%	• Installation (Hardware and Software) • Maintenance • Equipment Supply • Software Supply • Logistics Management

These projections reflect the potential growth for companies who are already users of desktop services. Consequently, they should not be interpreted as projections applicable to the overall market. However, they do provide some insight into how the market for desktop services is structured and is likely to evolve.

It appears that the market is segmented into two classes of buyers. The first group consists of companies whose requirements are for basic support of traditional desktop environments where desktop systems are used for administrative, office support and departmental applications. With the exception of user training and help desk operations, this group has little need for the professional services intensive functions such as C/S support, network interface management and LAN management. However, they remain good targets for the more basic services.

The second group consists of companies who have or are in the process of committing to client/server architecture. For these companies, the integration of desktop environments and the requirement for high operational integrity presents a host of

technical and management issues that can be addressed by enhanced professionally intensive services.

Given the ongoing migration to C/S environments, many companies who start out as candidates for basic services will become candidates for enhanced services over time. We conclude that the highest growth rates in the long term for new buyers and existing users will be for enhanced or professionally intensive services. This implies that:

- Vendors who currently offer only basic services will need to develop enhanced services to take advantage of the highest growth segment of the market and/or to protect their existing client base as its needs evolve.

- As professionally intensive services become a bigger proportion of most contracts, the profitability of desktop services should increase since professionally intensive services requiring specialized skills generally carry higher margins.

- As the professional services content of desktop services and margins increase, and more mission-critical applications migrate to the desktop, new vendors will be attracted to the market.

So overtime, the study results indicate that the twelve service functions examined in this study will form a hierarchy in terms of market value, largely based on the level of professional services content of each function.

This hierarchical segmentation is depicted in Exhibit III-14.

Exhibit III-14

Segmentation of the Desktop Services Market by Class of Service

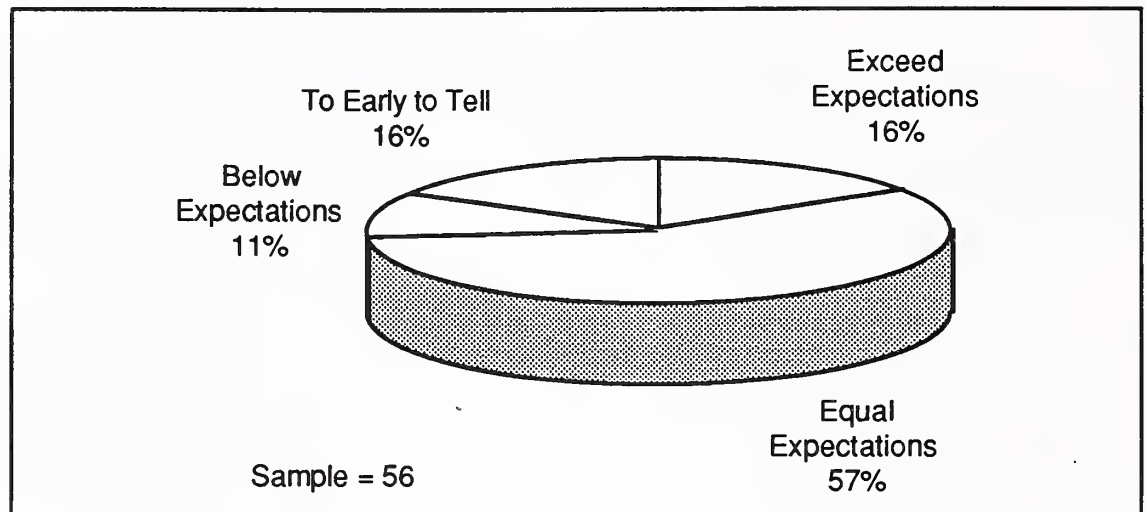| Class of Service	Service
Enhanced Services High Professional Service Content	• LAN Management • Client/Server Support • Network Interface Management • User Support
Transition Services	• Help Desk Operations • User Training and Education
Basic Services Low Professional Service Content	• Installation (Hardware and Software) • LAN Installation and Expansion • Maintenance • Equipment Supply • Software Supply • Logistics Management

C
Buyer Satisfaction

In general, buyers of desktop services find that the services they buy meet their expectations. As shown in Exhibit III-15, only 11% indicated that they were dissatisfied.

There were a number of reasons why some buyers were disappointed.

• The most frequently cited reason was response time on problem resolution. In general, while their vendor's ability to perform new installations according to plans and schedules was fine, fixing problems, particularly network problems, was an issue.

• Another area of complaint had to do with help desk operations. At least three companies indicated that user complaint levels had risen after they had converted over to a vendor managed help desk.

User Levels of Satisfaction with Desktop Outsourcing

To Early to Tell
16%

Exceed
Expectations
16%

Below
Expectations
11%

Equal
Expectations
57%

Sample = 56

On the other hand, a significant percentage of buyers felt their relationships with their desktop services vendors exceeded expectations. They cited:

- Significantly improved levels of service and support based on user satisfaction surveys

- System and/or network availability far in excess of contract commitment

- Greater than anticipated reductions in cost

On balance then, most buyers of desktop services are pleased. In fact, even those who expressed some levels of dissatisfaction, usually found that some other aspect of the relationship was going better than they had anticipated.

IV

Vendor Selection and Delivery Preferences

The origins of desktop services vendors are quite varied. Some have evolved from the equipment services organizations, others from the PC hardware and software distribution business. Vendors, such as IBM, EDS and Andersen have moved into desktop services as a logical extension of their outsourcing and/or systems integration businesses. So the variety of background and capabilities is quite large.

Likewise, buyers have come from a variety of business functions. Of course, IS has been a buyer. But traditional purchasing organizations, departmental computing groups, divisional operating management and others have had a larger role in purchasing desktop services than any other type of data processing services. To some degree this has occurred out of necessity, simply because many IS organizations elected to ignore the explosion of desktop systems in the mid-1980s, leaving users to their own devices, in terms of support.
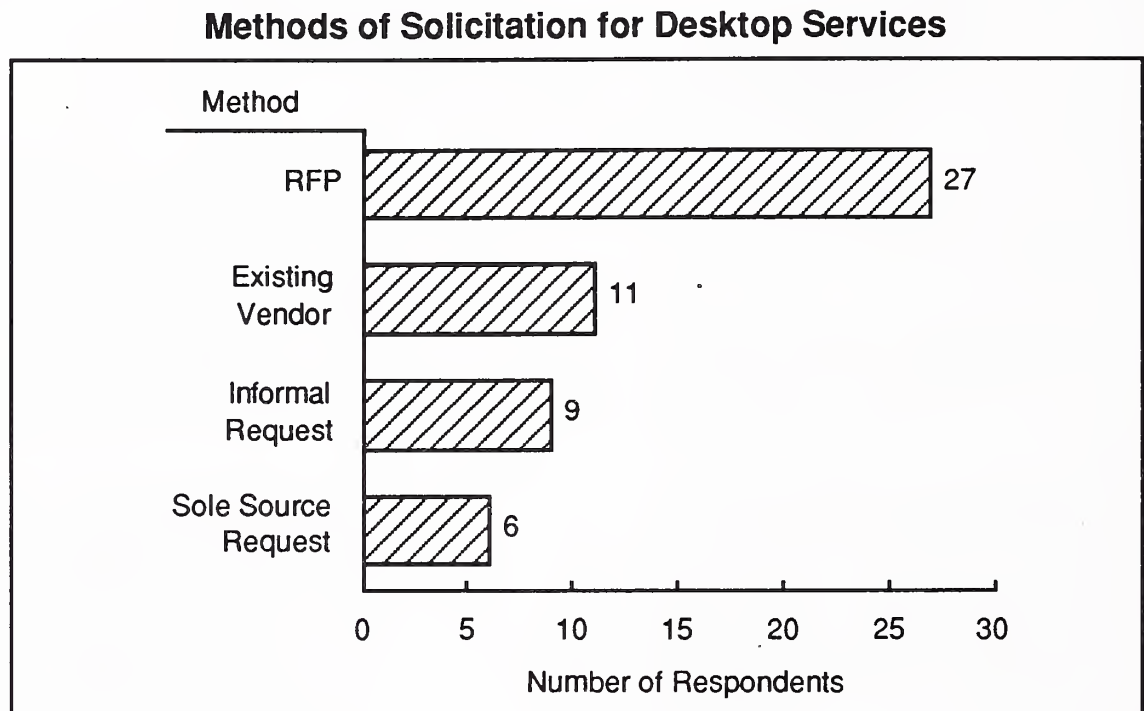
This chapter examines:

- Current vendor selection processes
- Selection criteria
- Methods of delivery
- The length and sizes of contracts

A
The Selection Process

1. Method of Solicitation

As shown in Exhibit IV-1, most firms use a formal process such as an RFP to solicit proposals for desktop services.

Exhibit IV-1

Methods of Solicitation for Desktop Services

However, where an outsourcing firm is already in place, companies will frequently go directly to that organization for desktop services. This appears to be true even though on average, respondents indicated that the influence of existing vendors on their decision to outsource the desktop was 2.1 on the 1 to 5 scale. In short, existing vendors have little impact on whether or not to outsource desktop services. But, once that decision is made, they will probably be the vendor of choice.

Some additional analysis of the data indicates this tendency to go with an existing supplier is strong even in situations where a formal bidding processes is used. Of the 27 companies shown in Exhibit IV-1 who used RFP processes, 14 of the 17 who had

existing agreements with vendors for other services selected the incumbent vendor.

Therefore, the pressure is on traditional outsourcing companies to provide or form alliances with companies that provide desktop services if they want to insure account control.

2. Decision Makers

Exhibit IV-2 makes it quite clear that the IS function is today's key decision maker when it comes to selecting the vendor and managing the contract relationship.

Exhibit IV-2

Decision Makers for Desktop Services

Other
9%

User/Divisions
16%

Information
Systems
75%
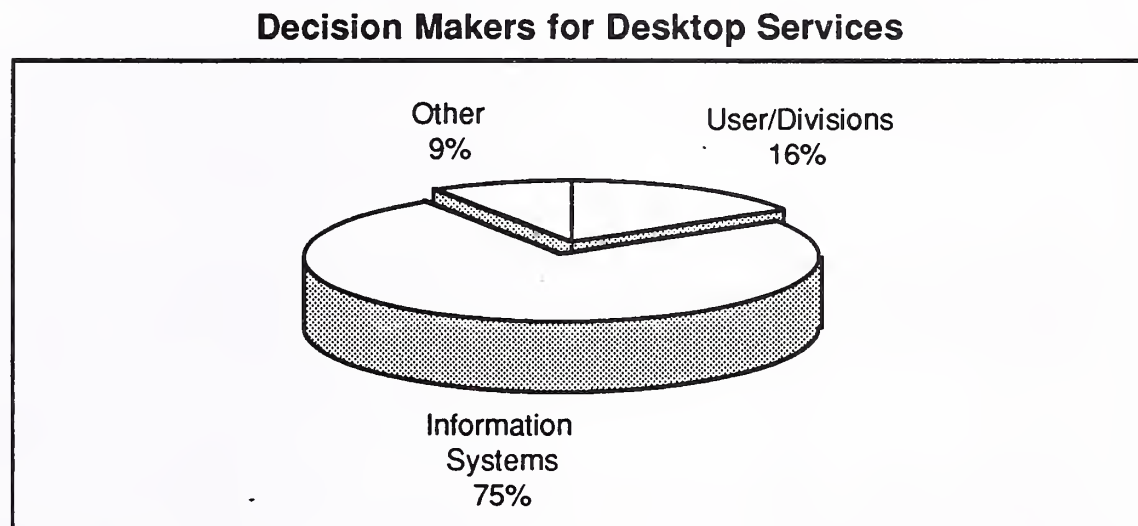
Sample = 57

The 75% for information systems is almost 20% greater than the comparable number from INPUT's 1992 study and probably reflects two underlying trends.

- The growing movement of mission-critical production systems to the desktop requires that service and support for the infrastructure be uniform across multiple organizational and geographic locations. This will typically elevate the decision from a departmental or divisional selection to a corporate one.

- As more core systems move away from mainframes and onto the desktop, corporate or major divisional IS functions have begun to focus their attention on this part of the infrastructure.

Thus, the IS function's influence is likely to continue to grow when it comes to the evaluation and selection of desktop services vendors.
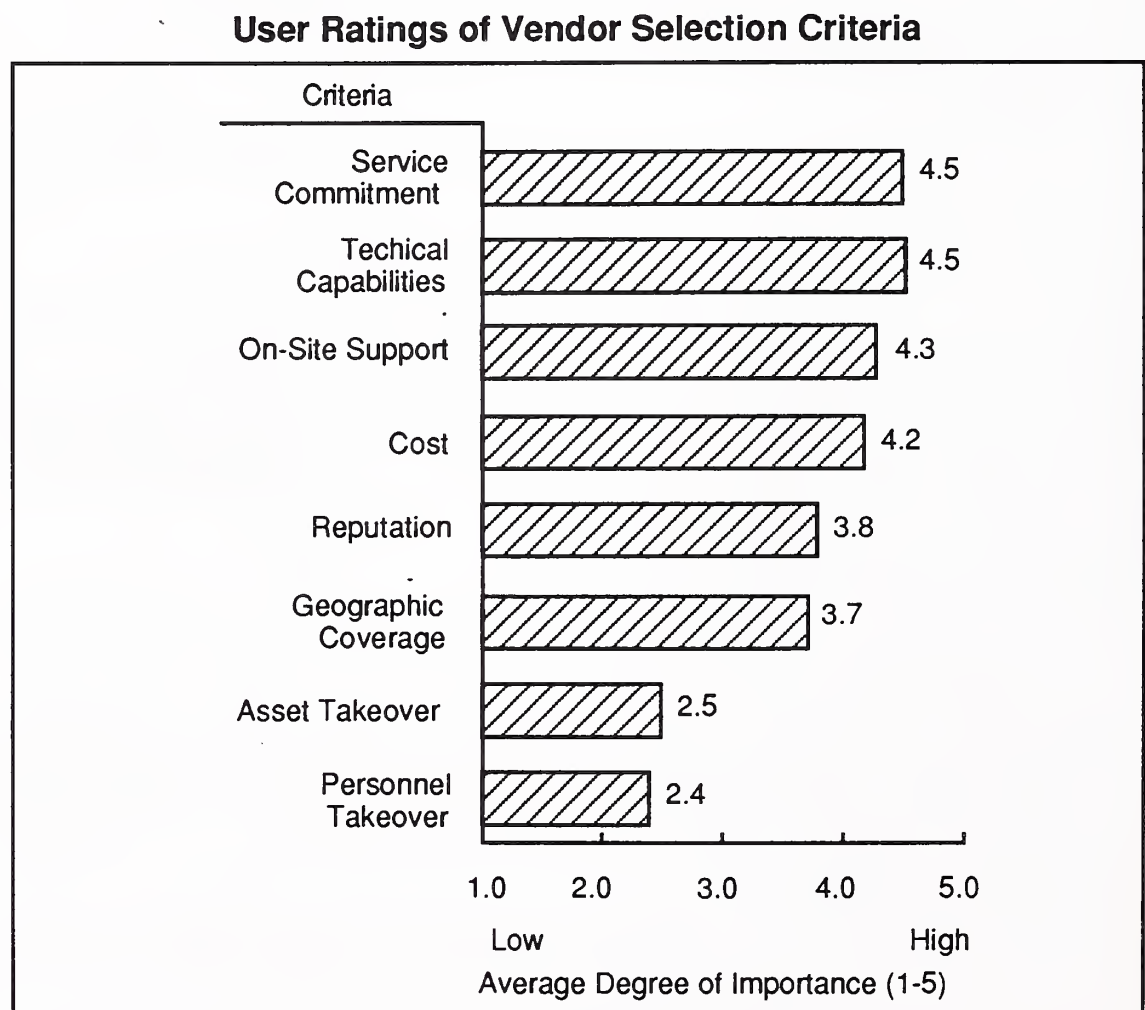
B
Vendor Evaluation

1. Selection Criteria

Exhibit IV-3 gives respondents average ratings for eight key vendor selection criteria.

Exhibit IV-3

User Ratings of Vendor Selection Criteria

With average ratings all in excess of 4.0, the first four criteria clearly dominate the selection process and are consistent with the selection criteria analysis done for INPUT's 1992 report. Companies moving into client/server computing from traditional desktop environments are generally looking for an order-of-

magnitude improvement in service, not simply an outsourcing of their existing operations. Consequently, a vendor's ability to commit to higher-level service requirements is a critical evaluation factor.

Furthermore, most of these types of outsourcing deals commit the vendor to a general upgrade of the hardware/software environment and supporting network(s). Buyers' want to be assured that the selected vendor has the demonstrated technical capability to accomplish and support the migration.

And of course, cost, at least on a per-unit basis, remains a critical issue. In fact, in situations where an upgrading of service and technology is involved, the total cost is likely to rise, but buyers will still look for the best unit prices available. In fact, some respondents indicated that they had resorted to multivendor agreements to get the best price for their specific hardware, software and service requirements.

Unlike platform operations or applications management, most buyers of desktop services do not perceive that a vendor's ability to take over company assets or personal as a strong selling point. There are a number of reasons.

- In general, the assets involved are minimal. Even when the numbers of PCs are extremely large, depreciated values are likely to be low. Thus, there is little financial motivation for an asset transfer.

- In general, the number of personnel involved in supporting traditional desktop departmental and office environments is small. Many of the individuals involved are likely to be user employees rather than members of a formal IS organization. So the personnel issues associated with the transfer of services to a third party are minimal.

- Unlike platform operations, where buyers usually anticipate comparable service with declining personnel requirements, many companies that outsourcing desktop services are looking for service upgrades, which will should create more opportunities for existing staff.

It is likely that the top four criteria will continue to dominate the selection process over time. However, the average rating for cost may decrease slightly as buyers look to desktop outsourcers to provide more integration and management services.

2. Vendors

As mentioned in the chapter's introduction, there are a wide variety of vendors in the market who provide all or some subset of the twelve types of services analyzed in the study. Essentially, they fall into two categories: boutique or specialty companies and full service solution providers. The former category is populated by a host of firms. The later tends to be dominated by the larger traditional outsourcing and systems integration companies. As shown in Exhibit IV-4, the respondents for this study were big users of services from boutique or specialized firms.

Exhibit IV-4

Proportion of Respondents Using Different Classes of Desktop Services Vendors

Full Service
25%

Mix
.15%

Boutique
60%
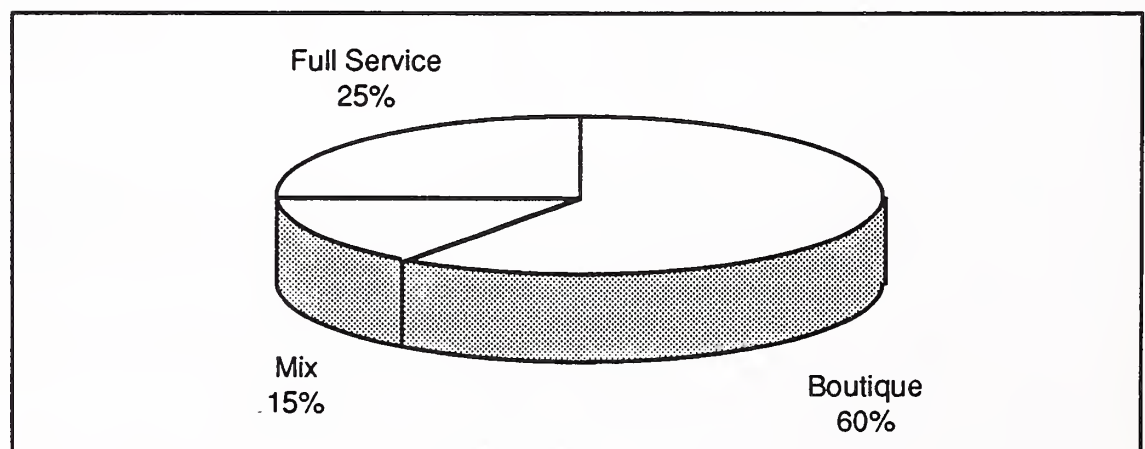
Sample = 57

It is probably a safe assumption that those who indicated they used a mix of vendors, probably meant a mix of the smaller specialized firms. If that is the case, then the data tells us that

the larger outsourcing, hardware and systems integration firms only have 25% of the market, based on number of contracts.

Over time, that is likely to change. All indications point toward a rapidly growing demand for those desktop functions high in professional services and management content. As that demand is felt in the market, the larger firms with strong professional services capabilities in place will:

- Find the desktop services business more profitable and attractive

- See the business as a logical extension of a growing number of engagements involving C/S migration

- Be in the best position to attack the market

There is only one inhibiting factor that could prevent the larger traditional companies from moving into the market aggressively—pricing. If the demand for the high-end services is not high enough to generate better overall margins than have been experienced with desktop services to date, the larger firms may be reluctant to pursue the market aggressively. Two current approaches that could become more popular are:

- Targeting on desktop services prospects who have long-term requirements for other high-end services such as systems integration

- Forming alliances with smaller specialty firms to deliver those desktop services functions which would be unprofitable for them to deliver themselves.

But regardless of how vendors get there, INPUT believes that over the longer term, there will be a consolidation of desktop services vendors as the entire business moves toward solution rather than piece-part buying.

OSDS   IV-7

C
Product/Service Market

The twelve functions analyzed as desktop services in this study cover a broad array of activities. How a vendor is equipped to delivery them clearly is a differentiation factor from the viewpoint of buyers. For example, the ability to deliver services on-site had an average rating of 4.3 on the 1 to 5 scale for survey respondents. But each service is different, and depending on collection of services bundled into a given contract, both vendor strategies and users' preferences for mode of delivery vary.

This section gives and overview of delivery preferences and provides and analysis based on specific types of services.

1. Overview

Exhibit IV-5 shows the method of vendor support received by survey respondents. The proportions are based on tallying the mode of support, on-site, off-site, or some combination of the two, for a total of 374 service activities.

Exhibit IV-5

**Mode of Delivery of Desktop Services
Used by Survey Respondents**
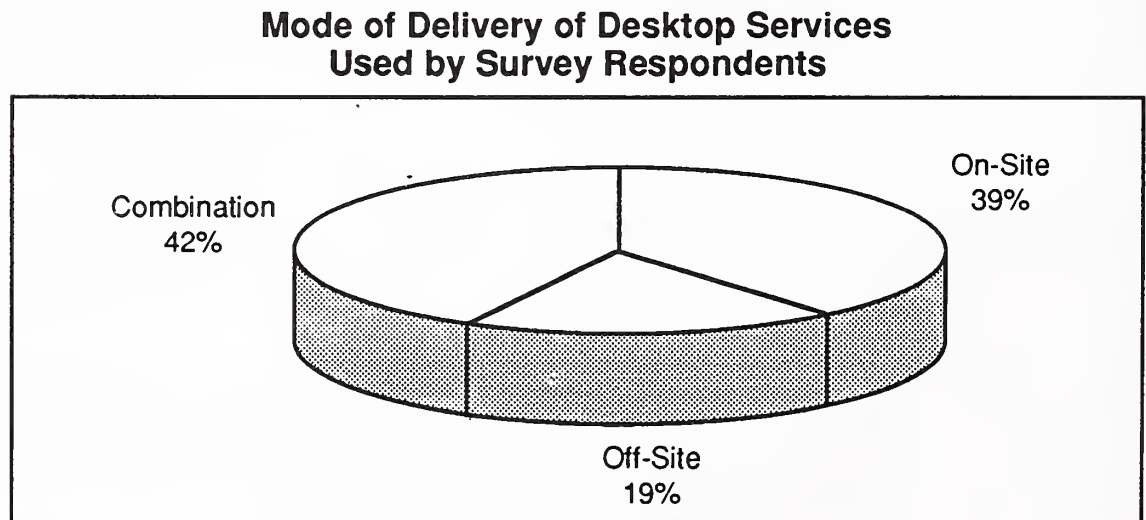
Keeping in mind that the activities in the "combination" category carry some aspect of on-site service, this data supports the notion that users want, and place heavy emphasis during the evaluation process (4.3 rating), on-site service capabilities.

Interestingly enough however, their overall evaluation of the quality of the services delivered on-site or in combination tends to be lower than their assessment of quality for off-site services. Average quality ratings for the same 374 service activities are shown in Exhibit IV-6.

Exhibit IV-6

Comparison of Average User Quality Ratings by Mode of Delivery
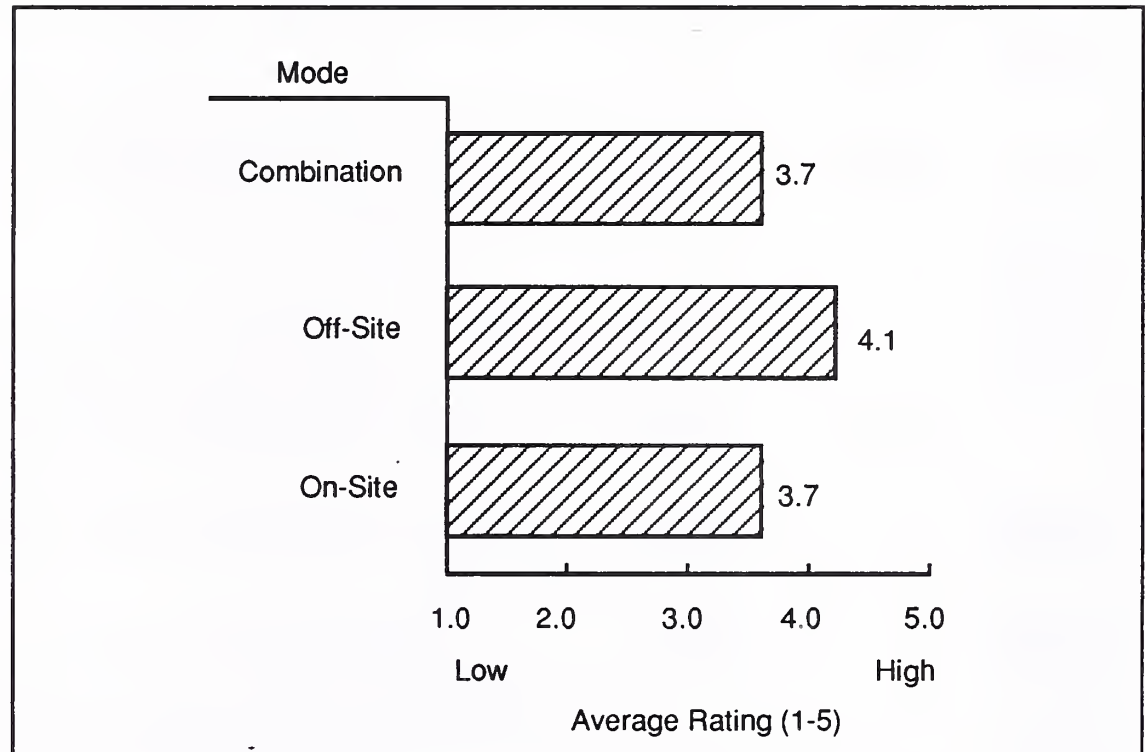
The primary reason for this difference is explained by the fact services delivered off-site tend to be significantly easier to perform than those delivered on-site or in some combination. For example, equipment supply and software supply are two of more frequently used services where off-site management of the activity is common. As individual services these services had average ratings of 4.3 and 4.0 respectively in respondents ratings of the quality of individual service functions.

Services typically delivered on site, such as LAN installation and maintenance, user support and help desk operations have higher levels of complexity and professional content. Therefore, they are likely to undergo more critical scrutiny than product-related logistical services.

The next section discusses product/service market and users assessments of quality on a service by service basis.

2. Analysis by Service Function

Respondents supplied information regarding the mode of delivery and quality of service for each of the services they currently used. Exhibit IV-7 summarizes their responses on mode of delivery.

In general the services heavy in professional content are delivered on site. This would include equipment maintenance, LAN installation and expansion, user support, etc. But several of these have a back office or off-site component.

- Network interface management shows frequent use of off-site as well as on-site support. Many vendors are able to provide all or part of these services across the network itself. They utilize newer technologies and operate from network control centers.

- Similar technologies make it possible to manage LANs remotely as well.

- Even the diagnostic aspects of equipment maintenance can be handled using software diagnostics to analyze individual PCs or workstations from a remote diagnostic center.
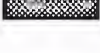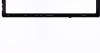
Although technology is providing some assistance, most services that involve people-to-people interactions remain on-site services. Help desk and direct user support, as well as client/server support fall into this category. The one exception seems to be user training and education, where at least for the companies in this sample, the dominant approach was to delivery the service off-site.

Even though users have a strong preference for on-site support for most functions, vendors will continue to pursue innovative strategies to reduce the actual numbers of hours of on-site time required to deliver service of a given quality level, thereby, decreasing the highest cost component of most services. As previously discussed, software and communications technology is

already contributing to reduced labor intensity for many services. Other trends are also underway.

Exhibit IV-7

Desktop Services Functions—Common Modes of Delivery

Service Function	Mode of Delivery		
	On-Site	Off-Site	Both
Software Products Supply	Average Use	Frequent Use	Frequent Use
Equipment Supply	Average Use	Frequent Use	Average Use
Equipment/Software Installation	Average Use	Little or No Use	Frequent Use
Equipment Maintenance	Frequent Use	Little or No Use	Frequent Use
LAN Installation and Expansion	Frequent Use	Average Use	Little or No Use
LAN Management	Frequent Use	Little or No Use	Frequent Use
Network Interface Management	Frequent Use	Little or No Use	Frequent Use
Client/Server Support	Average Use	Little or No Use	Frequent Use
Logistics Management	Frequent Use	Little or No Use	Average Use
User Support	Frequent Use	Average Use	Little or No Use
Help Desk Functions	Frequent Use	Average Use	Little or No Use
User Training and Education	Little or No Use	Little or No Use	Frequent Use

■ = Frequent Use

▨ = Average Use

□ = Little or No Use

- Equipment maintenance is frequently accomplished by replacement. Rather than diagnose and fix individual workstations on site. Entire units are swapped out for replacements. Problem diagnosis and repair is accomplished in a centralized diagnostic and maintenance center. For large vendors, these centers serve multiple customers in a given metropolitan area.

- It is becoming more common for vendors to accomplish software upgrades through electronic distribution of new releases to server hubs. Individual "clients" receive notification and take the necessary action steps to upgrade there individual systems at their convenience without ever seeing a technician bearing a box full of disks.

- Training and education are also undergoing a technology-assisted revolution. Training-on-demand systems will distribute instruction materials across networks, including home access. CD ROM technology will offer interactive training that can be tailored to individual requirements in terms of content and pace.

- The growing use of experience databases by vendors will reduce the problem diagnosis and resolution time for many problems that today require intensive professional intervention.

The net effect of these trends will be to reduce the labor intensity and increase the responsiveness of desktop services offerings.

Exhibit IV-8 summarizes the discussion on how services are delivered today. But INPUT believes that the overall trend will significantly change this picture over the next three years, as automation of the processes and information required to provide services becomes the standard way of doing business.

Exhibit IV-8

Desktop Service Functions Grouped by
Primary Mode of Delivery

Product/Service Market	Function
On-Site	• LAN Installation and Management • User Support • Logistics Management • Help Desk Operations
Off-Site	• Equipment Supply
Combination	• Software Products Supply • Equipment/Software Installation • Equipment Maintenance • LAN Management • Network Interface Management • Client/Server Support • User Training and Education

But despite how services are delivered, and as pointed out in Chapter III, most users of desktop services (79%) find that the services received generally meet or exceed their expectations.

Exhibit IV-9 shows how survey respondents rated the quality of individual service functions they used.

This analysis on a service-by-service basis supports the previously presented argument, that in general, the highest perceived quality levels are generally associated with the more traditional services.

The lowest ratings go to the newest services with the highest professional content. However in reality, there is probably no statistical significance to the difference in ratings for at least the first eight services in the exhibit.

Exhibit IV-9

User Ratings of the Quality of Service by Desktop Service Function

Function	Average Rating (1-5)
Software Supply	4.1
Maintenance	3.9
Installation	3.9
Equipment Supply	3.9
LAN Installation	3.8
User Training	3.8
Help Desk	3.8
LAN Management	3.7
User Support	3.6
Net.Interface Mgt.	3.6
C/S Support	3.3
Logistics Mgt.	3.1

1.0   2.0   3.0   4.0   5.0

Low   High
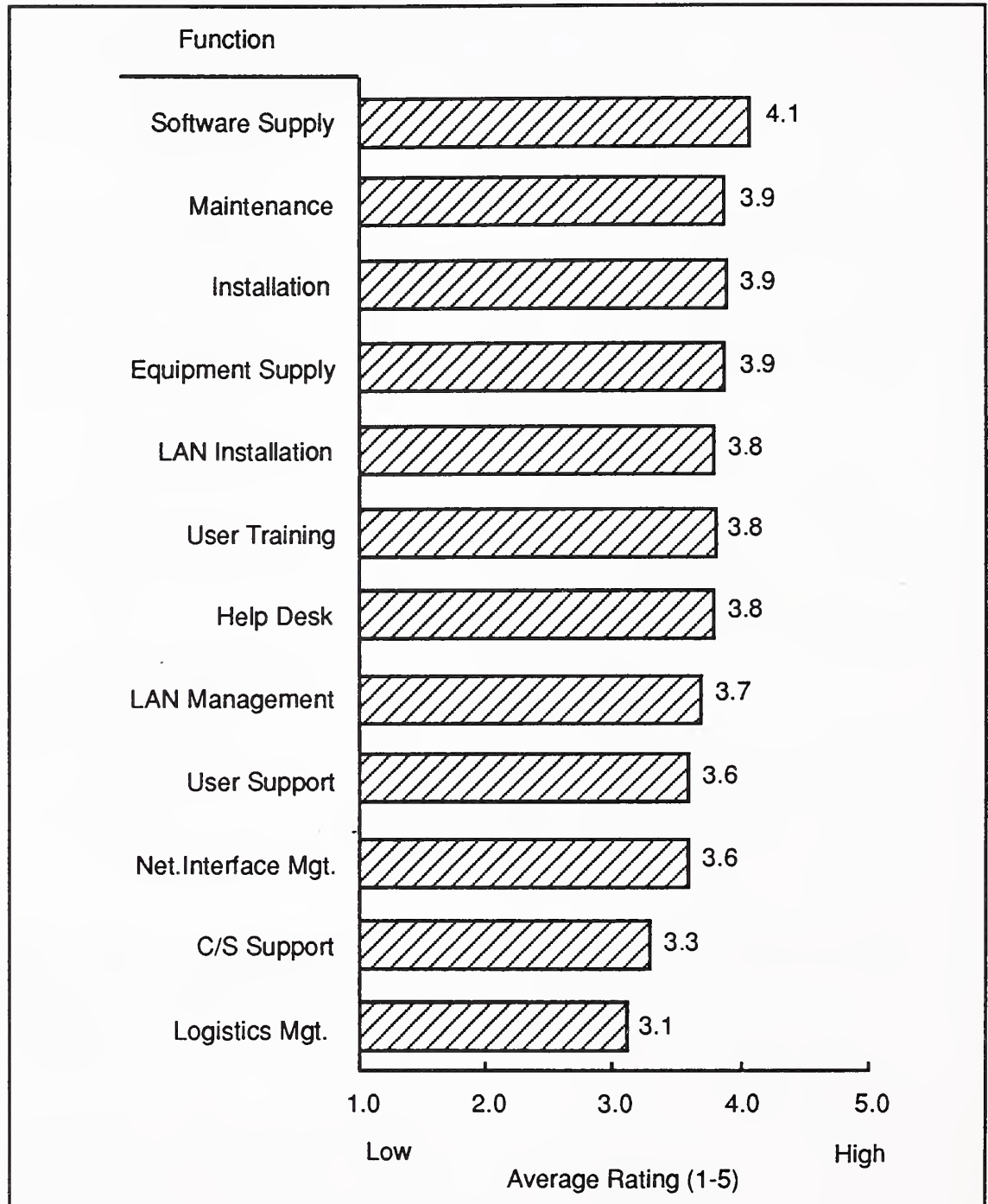
Average Rating (1-5)

Then what are we to conclude? All but two of the services scored average ratings of above 3.5, indicating a fairly significant level of satisfaction with quality. And, even C/S support and logistics management were above the average rating of 3.0. The only conclusion that can be drawn is that users perceive that the

quality of services they receive from desktop outsourcers is above average. As vendors refine their service delivery methods, these ratings are likely to go even higher.

D
Contract Sizes

As shown in Exhibit IV-10, the vast majority of contracts for desktop services have relatively short durations. In fact, the average life for agreements for survey respondents was approximately three years. However, if we were to discount the five companies in the sample with ten year contract lives, the average would drop to closer to two years.

Exhibit IV-10

Desktop Services Contract Life

Life/Years

	Number of Companies
1	22
1-5	13
>5	6
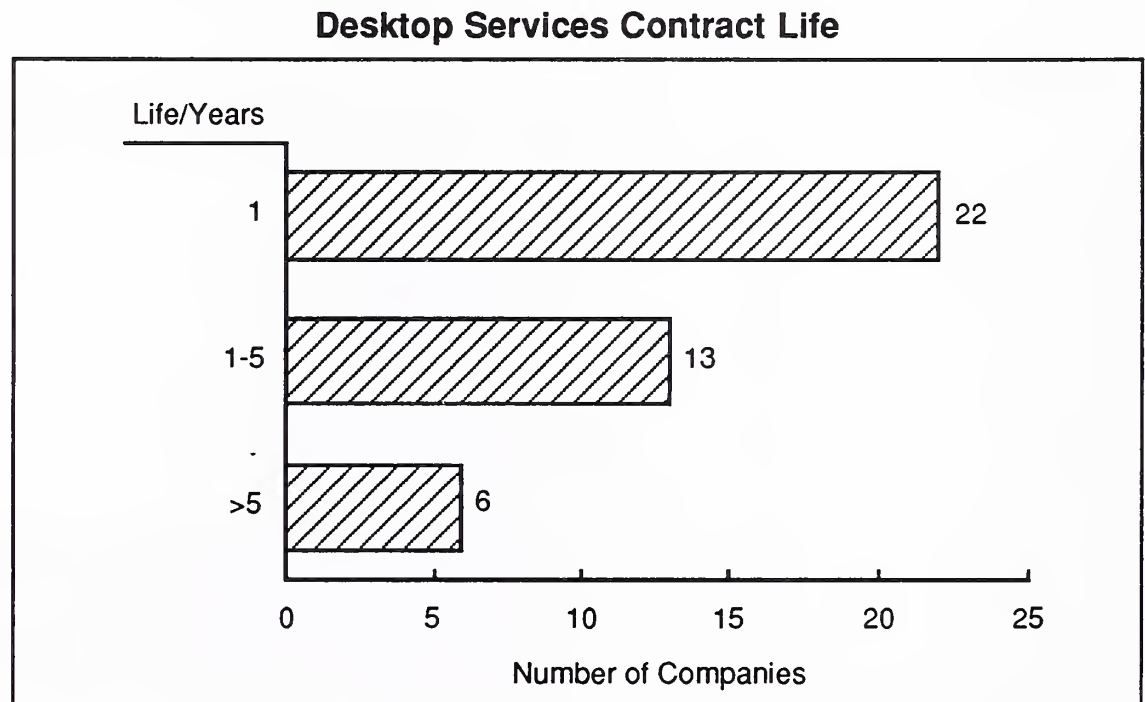
This average life is significantly shorter than the average life span for the typical platform operations agreement, and probably reflects:

- The commodity nature of many current desktop services contracts

- The lack of impact that low-end desktop services have on the overall information systems or general business activity

- The fact that large asset transfers do not necessitate extensive amortization periods.

When desktop services vendors are involved in providing solutions, implementing new technologies, or otherwise directly involved in desktop migration strategies, the length of the agreements tend to go up. All the agreements in the greater than five years category were tied to some other major systems initiative. INPUT believes that as users begin to take more advantage of the higher-end services such as C/S support, the life of desktop services agreements will increase.

A similar situation applies to annual contract fees. The distribution of average annual contract fees for survey respondents is shown in Exhibit IV-11.

Exhibit IV-11

Distribution of Annual Expenditures for Desktop Services
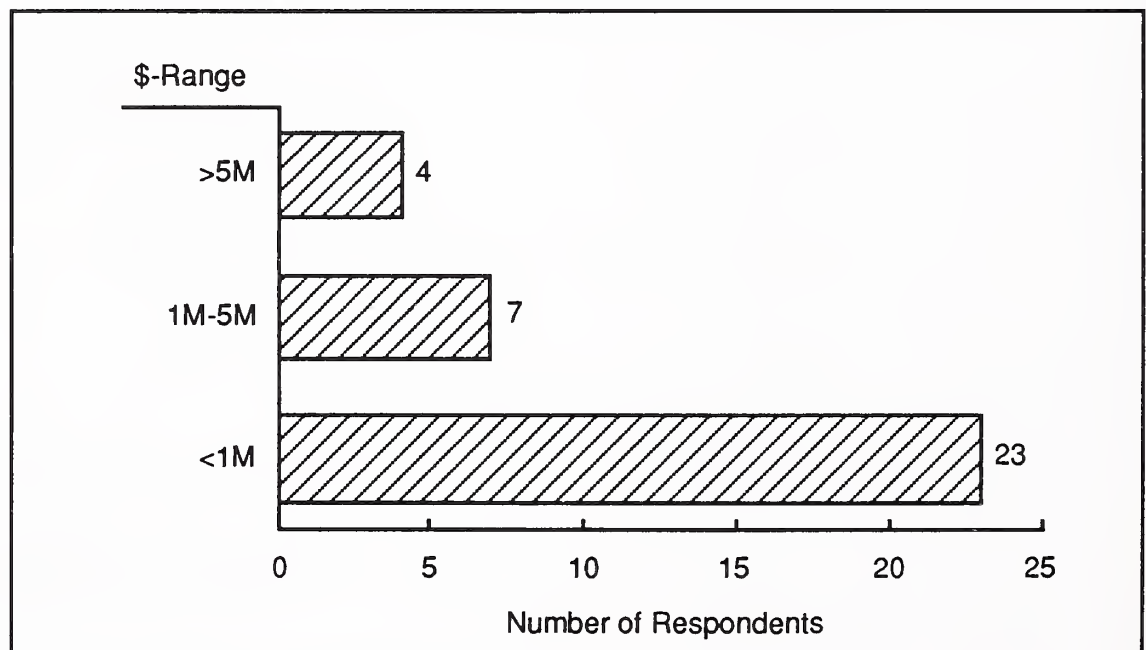
Excluding three extremely large contracts (in excess of $50 million per year), the average annual contract for survey respondents was approximately $0.9 million.

But unlike most platform agreements, many desktop services outsourcing deals involve only minimal fixed fees. The bulk of the

annual cost will be incurred, based on the number of platforms supported or other contract specific parameters. No doubt, as buyers increasingly look to desktop outsourcers for more high-end services we expect annual expenditures as well as the average contract life to increase.

(Blank)

V

Desktop Services Trends

Throughout this report several trends have been identified. On occasion comparisons of the results of this study were made with the results of INPUT's 1992 report, *Outsourcing Desktop Services.* This chapter compares the results of the two studies and identifies any that might indicate future directions for desktop services.

A
Areas of Agreement

Although the sample size of the 1992 study was significantly smaller than the sample for this survey, there are a number of areas where findings from the 1992 report were very similar.

- Manufacturing still remains a prime industry for desktop outsourcing. However, the results of this study indicate that other industries are becoming equally interested. Financial services and distribution where downsizing or geographic expansion has raised interest in desktop services should be primary candidates.

- Larger companies still form the best prospect base, particularly when they are implementing business process re-engineering strategies, that usually result in a migration to downsized desktop business systems.

- There appear to be no changes in desktop services costs for firms that outsource their entire IS activity. Both studies reported expenses for desktop services at 20% of the overall outsourcing budget.

- Likewise, the results of both studies indicate that if an existing outsourcing supplier is already managing part of the companies IS function, the tendency will be to go with that supplier for desktop services when they have the necessary capabilities.

- In addition, buyers reported the same motivating factors for going to outside suppliers, such as C/S migration, potential cost savings, improved service levels and access to better technology. However, cost reduction has ceased to be at the head of the list.

- Finally, buyers still appear to apply the same selection criteria when it comes to picking vendors. Moreover, it is still relatively common to use more than one vendor to provide different services when the dominating consideration is cost reduction.

B
Changes in Direction

On the other hand, there are several areas where the two studies yielded different results. These differences are probably indicative of emerging trends. Key areas of difference included:

- Anticipated growth for specific services

- Method of vendor support

- Vendor selection processes

- Vendor solicitation methods

1. Anticipated Growth for Specific Services

Although sample sizes were limited in the 1992 study, ample data was collected to analyze potential high growth areas for specific desktop services. The study predicted that help desk operations and user support would be the hottest growth areas, along with LAN management and network interface management.

While help desk and user support are still forecasted as significant growth areas by this study, C/S support shows the brightest prospects for the future.

2. Method of Vendor Support

The 1992 study reported that 64% of the services delivered as part of desktop outsourcing were actually performed on-site. Comparable results for 1994 show that only 39% were on-site services. This rapid shift is a reflection of:

- The use of new technology to automate support and leverage professional services resources. Remote diagnostics, expert databases, and the use of on-line software to detect potential problem situations and answer user inquiries are all being employed to provide higher quality service with lower professional services content.

- The creation of the capability to use electronic communications to provide support as user desktops become increasingly integrated into corporate-wide networks.

- The development of on-demand services, particularly for user training that deliver education across networks or through CD ROM capabilities.

3. Vendor Selection Processes

The earlier study showed that user organizations, purchasing and other functions controlled most of the contract awards. IS was involved in only 53% of the buying decisions. The current study shows that 75% of the buying decisions are made by IS. This shift reflects the facts that:

- IS has taken an increasing interest in the desktop as mission-critical applications have moved from the mainframe to the desktop.

- The complexity of agreements and their impact on company operations has grown significantly since the days when PC environments were largely localized and supported only office and departmental applications.

4. Vendor Solicitation Processes

The current study shows that buyers use formal RFP processes 50% of the time. The 1992 survey indicated that formal solicitation processes were used in just about 30% of the cases. There are probably two key reasons why this is the case.

- The emphasis on using multiple contractors to provide specific individual services at lowest cost, while still a prevalent mode of buying, is gradually shifting to the purchase of packaged solutions, incorporating a full array of services. As this occurs, the complexity and potential size of the desktop outsourcing agreements increases, warranting a more formal approach to bid solicitation.

- The shift from localized buying to more centrally managed agreements also has the effect of increasing the formality of the process.

In summary, a comparison of the two research studies would show the emergence of the following trends:

- A movement from boutique shopping to solution buying

- A growing involvement of corporate functions, and in particular, IS in the evaluation and selection process

- A movement from individual, localized support to technology-based service and support offerings that leverage integrated distributed networks

- A greater emphasis on service and technological capability compared to cost
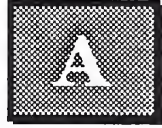
User Interview Guide

The following contains the user interview guide for the study.

User Questionnaire:
Desktop Services—User Perspectives

The following survey is being to identify key trends in desktop services from a buyer's perspective, and to provide insight into which types of services are perceived to have the most value and why. All responses will be kept confidential; i.e. data from individual companies will not be identified in the final report.

1.   Has your organization outsourced all or part of its information systems activity?
_____ (Y/N)

If no, End Questionnaire

2.   Which of the following information systems function have you outsourced?

☐ Platform operations   ☐ Network management
☐ Applications operations   ☐ Desktop services

3.   *(If respondent has outsourced desktop services go to question 4.)* In your opinion, why hasn't your company considered outsourcing desktop services?

_____

_____

_____

End Questionnaire

Could you please estimate the percentage of your annual outsourcing expenditure for each type of outsourcing performed, and provide the name of the firm with whom your contract? *(See question 2.)*

		(a) %	(b) Supplier
4.	Platform Operations		
5.	Network Management		
6.	Applications Management		
7.	Desktop Services		

Reasons for Outsourcing Desktop Services

Could you please give me a rating of 1-5 (1 Low, 5 High) of the degree to which each of the following factors were important in your companies decision to outsource desktop services.

8. _____ Cost reduction in total or on a per unit basis

9. _____ Improved technology

10. _____ Improved user support and/or service

11. _____ The fact that other functions were being outsourced

12. _____ Other:_____

_____

_____

Functions Outsourced—Perceived Value

Which of the following desktop functions does your company currently outsource to a vendor, or have plans to outsource in the future? Also please indicate for each function, how your firm values that capability on a scale of 1-5, with 1 indicating little or no value, and 5 indicating high value.

	Desktop Function	(a) P Current	(b) P Future	(c) Value (1-5, 5 High)
13.	Software products supply			
14.	Equipment supply			
15.	Equipment/software installation			
16.	Equipment maintenance			
17.	LAN Installation and expansion			
18.	LAN management			
19.	Network interface management			
20.	Client/server support			
21.	Logistics management			
22.	User support			
23.	Help desk functions			
24.	User training and education			

25. If there are any services provided as part of your desktop services outsourcing agreement that were not included in the above, could you please describe them and give an estimate of their value using the 1-5 scale?

_____

_____

_____

Mode of Delivery—Vendor Evaluation

For those desktop functions provided to your company by your vendor, please indicate whether they are provided by on-site (1), off-site (2), or through a combination of on-site and off-site personnel, and give an estimate of how satisfied you are with the service quality on a scale of 1-5 with 1 indicating very poor quality, and 5, excellent quality.

	Desktop Function	(a) (1,2,3)	(b) Quality (1-5)
26.	Software products supply		
27.	Equipment supply		
28.	Equipment/software installation		
29.	Equipment maintenance		
30.	LAN Installation and expansion		
31.	LAN management		
32.	Network interface management		
33.	Client/server support		
34.	Logistics management		
35.	User support		
36.	Help desk functions		
37.	User training and education		

Vendor Selection

38.   What organization within your company was/is responsible for evaluating and selecting desktop services vendors?

_____

39.   Which of the following best describes how your company approached potential vendors for bids on the current contract?

☐ Formal solicitation document   ☐ Sole source request to one vendor

☐ Informal request to vendors   ☐ Approached existing vendor to add services

In your opinion which of the following criteria are important when evaluating desktop services vendors? Please rate the criteria on a scale of 1-5 with 1 indicating not important at all and 5, very important.

	Criteria	(b) Importance (1-5)
40.	Overall cost or unit price	
41.	Technical capabilities	
42.	Ability to provide wide geographic coverage	
43.	Service level commitments	
44.	Reputation (size, number of customers, etc.)	
45.	Ability to provide on-site support	
46.	Ability/willingness to buy existing assets	
47.	Ability/willingness to take over in-house personnel	
48.	Other:	

49. Some desktop services vendors provide some of their services through third party contractors. In your opinion, would you be less inclined to contract with these vendors than you would be if all services were to be delivered directly by your potential supplier?

_____ (Y/N)

Benefits/Contract

50. Which of the following best describes your current feelings regarding the benefits obtained as a result of your desktop services outsourcing agreement?
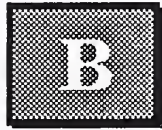
☐ Exceed expectations   ☐ About equal expectations
☐ Fall below expectations   ☐ Too early to tell

38. What is the annual contract cost ($M) _____, and life (Years) _____?

I want to thank you for participating in the survey. A complimentary executive summary outlining the findings will be sent to you early in 1994.

(Blank)

A-6

(Blank)

B

Definition of Terms

Outsourcing is a long-term relationship (greater than one year) between a client and vendor in which the client delegates all, or a major portion, of an operation or function to the vendor. The operation or function may be solely Information Systems Outsourcing-based, or merely include Information Systems Outsourcing as a prominent component of the operation (at least 30% of the budget).

The critical components defining an outsourcing service are:

- Delegating an identifiable area of the operation to a vendor.

- Single vendor responsibility for performing that delegated function.

- Intended, long-term relationship between the client and vendor.

    - Contract term is at least one year.

    - Client's intent is not to perform this function with internal resources.

- The contract may include non-Information Systems Outsourcing activities, but Information Systems Outsourcing must be an integral part of the contract.

- Outsourcing is a collection of services integrated under a single, long-term contract with one vendor responsible for its operation and management.

Business Operations Outsourcing (also known as, Business Outsourcing or Functional Outsourcing) is a relationship in which one vendor is responsible for performing an entire business/operations function including the Information Systems Outsourcing that support it. The Information Systems Outsourcing content of such a contract must be at least 30% of the total annual expenditure in order for INPUT to include it in the Business Operations Outsourcing market.

Information Systems (IS) Outsourcing can be viewed as a component of the Business Operations Outsourcing market (i.e., Information Systems Outsourcing is a business/operations function, see Exhibit B-1). However, in order to delineate between outsourcing contracts that are solely IS versus those that include IS as well as other functions, IS Outsourcing will be segregated from Business Operations Outsourcing. Information Systems Outsourcing is divided into four service components as shown in Exhibit B-2.
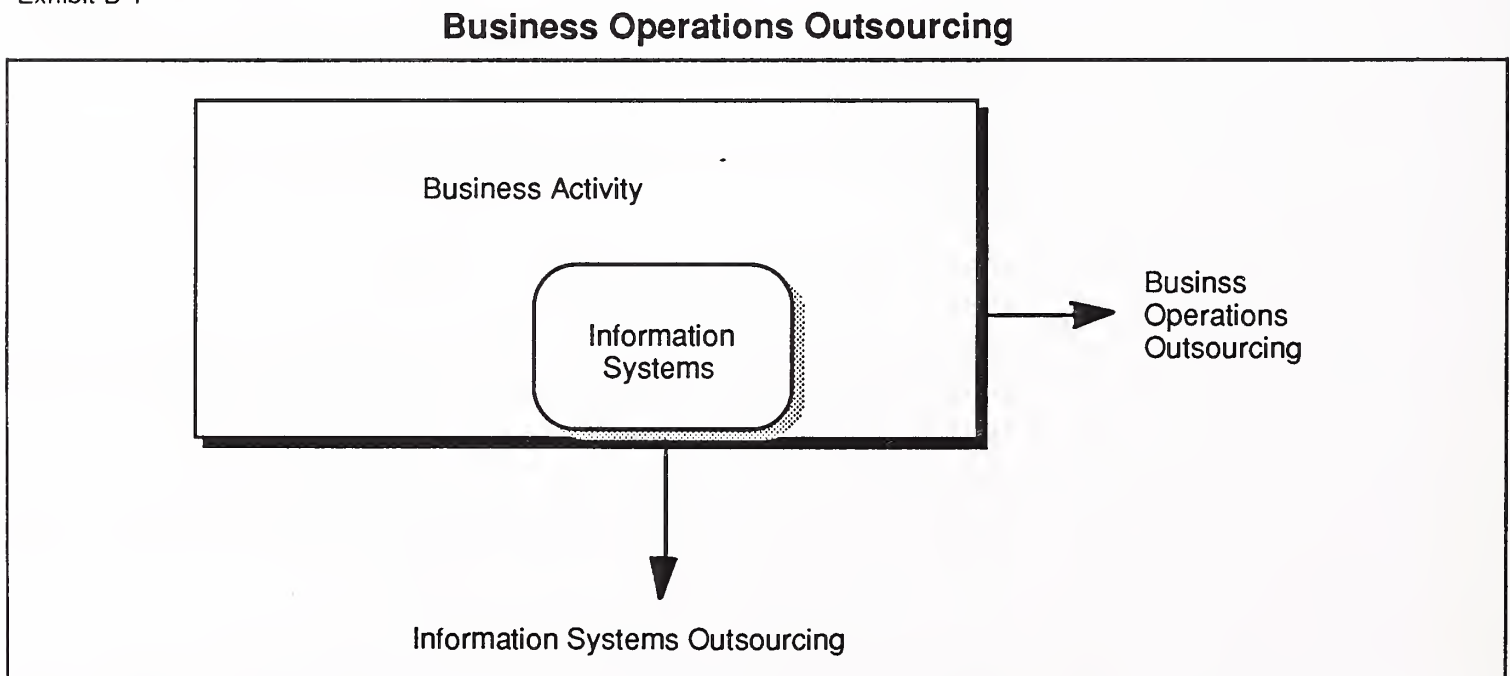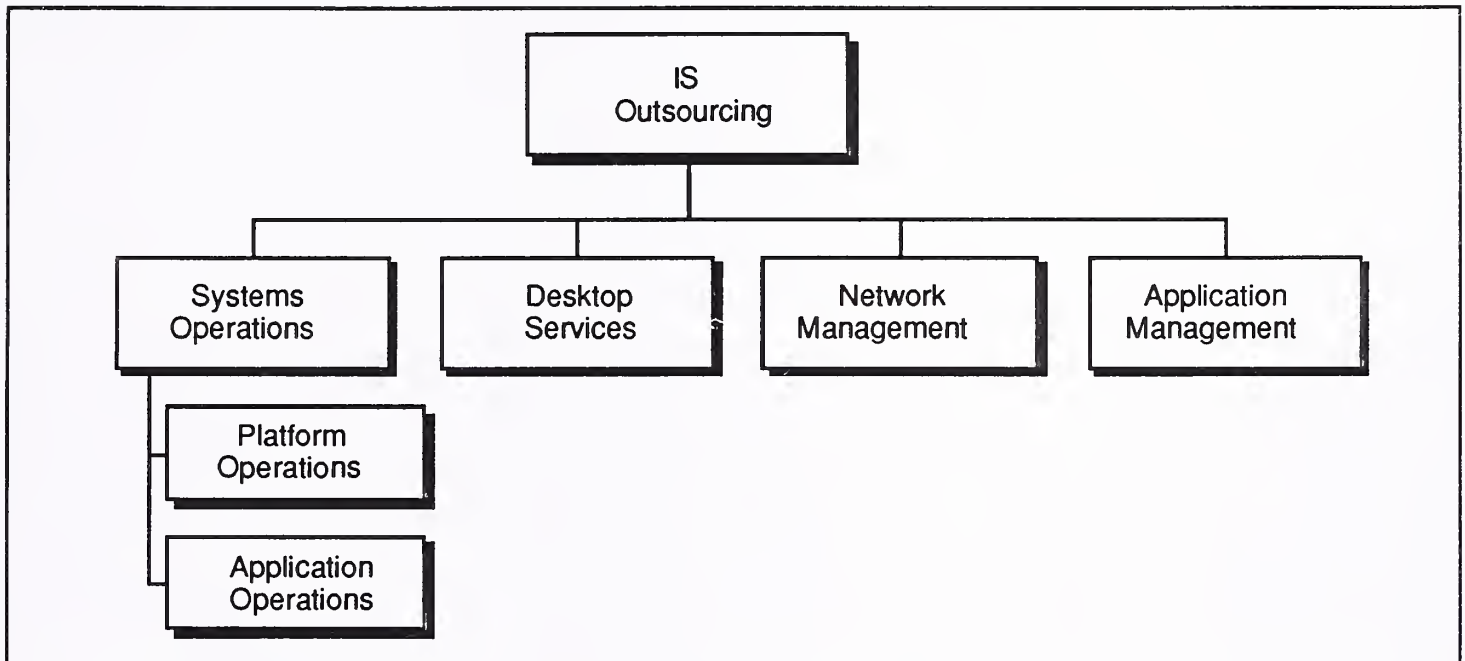
Exhibit B-1

Business Operations Outsourcing

Business Activity

Information Systems

Businss Operations Outsourcing

Information Systems Outsourcing

Information Systems (IS)
Outsourcing Service Categories

```
                        ┌──────────────┐
                        │      IS      │
                        │  Outsourcing │
                        └──────┬───────┘
          ┌──────────────┬─────┴────────┬──────────────┐
   ┌──────┴──────┐ ┌─────┴─────┐ ┌──────┴──────┐ ┌──────┴──────┐
   │   Systems   │ │  Desktop  │ │   Network   │ │ Application │
   │  Operations │ │  Services │ │ Management  │ │ Management  │
   └──────┬──────┘ └───────────┘ └─────────────┘ └─────────────┘
      ┌───┴──────────┐
      │   Platform   │
      │  Operations  │
      └──────────────┘
      ┌──────────────┐
      │ Application  │
      │  Operations  │
      └──────────────┘
```

- *Systems Operations* outsourcing describes a relationship in which a vendor is responsible for managing and operating a client's "computer system"/data center *(Platform Systems Operations)* or developing and/or maintaining a client's application as well as performing Platform Operations for those applications *(Applications Systems Operations)*.

- *Desktop Services* is a relationship in which a vendor assumes responsibility for the deployment, maintenance and connectivity of personal computers, workstations, client/server and LAN systems in the client organization. To be considered as Desktop Services outsourcing, a contract must include a significant number of the individual services listed below.

  - Software Product Supply
  - Equipment Supply
  - Equipment/Software Installation
  - Equipment Maintenance
  - LAN Installation and Expansion
  - LAN Management
  - Network Interface Management

- Client/Server Support
- Logistics Management
- User Support
- Help Desk Functions
- User Training and Education

• *Network Management* outsourcing is a relationship in which a vendor assumes full responsibility for operating and managing the client's data telecommunications systems. This may also include the voice, image and video telecommunications components.

• *Application Management* is a relationship in which the vendor has full responsibility for developing and maintaining all of the application systems for a business operation or function.