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Hewlett-Packard Launches Selective Outsourcing Strategy

Despite signs that the outsourcing market is maturing, a new vendor has entered the arena with a novel, targeted approach to the market.

On January 17, Hewlett-Packard announced the formation of a new organization, the Operations Services Division. Their stated objective is to participate in the outsourcing market by providing a "selective outsourcing" option to potential clients.

Selective Outsourcing is HP's Market Strategy

Hewlett-Packard defines "selective outsourcing" as the choice the client makes when they turn over only a part of their operations to the outsourcing vendor. Hewlett-Packard decided that many prospects do not want to outsource their entire operation, but prefer to combine internal and external resources to meet IT support needs, while focusing on strategic business issues of the company. (This concept is called "cooperative outsourcing" in the U.K. and Australia.)

Until now, no vendor has focused on this aspect of the market exclusively. Many vendors were most interested in large, long-term contracts, where the vendor took over the entire IS operation or other business functions as well. Others had recently targeted the transition outsourcing market, seeking prospects who were moving from mainframe to client/server, and wanted to pass on their legacy systems to vendor management.

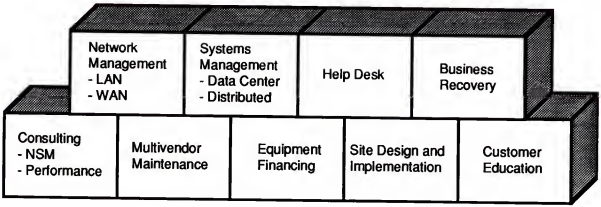
Hewlett-Packard presents prospects with a variety of service options from which to choose. By selecting the pieces of the Hewlett-Packard management package they need, businesses essentially customize their own outsourcing solution.

Hewlett-Packard Offers a Range of Services

Exhibit 1 illustrates the capabilities that HP currently offers to the outsourcing prospect. Some of these capabilities have been delivered by Hewlett-Packard for more than 15 years. Other services, such as systems management and network management, are newer aspects of the Hewlett-Packard offering. In all cases,

Exhibit 1

HP's Capabilities



Source: Hewlett-Packard

however, HP identified existing clients who can be referenced during the sales cycle.

Lane Nonnenberg, general manager of the new division, said HP brings unique attributes to the market. They will concentrate on managing client/server systems, a rapidly growing area. If a prospect wants to turn over a mainframe operation as part of the agreement, Hewlett-Packard is ready to engage partners to help them do this. They are already negotiating with mainframe outsourcing vendors for this capability.

The new division provides experience in managing legacy HP environments, by delivering productivity and network management tools that only HP can supply, and provides a long-standing capability in desktop maintenance. HP will also focus on the fast-growing desktop management market. In addition, they have the financial resources and experience to take over capital assets and manage them effectively, when required.

One area of outsourcing they will avoid is applications management, according to Nonnenberg. HP will concentrate instead on the systems and network management challenges. If the client needs this capability, HP's Professional Services Division has been assigned the responsibility of partnering with the Operations Division to provide that capability. HP will also work with other third-party vendors as appropriate.

Hewlett-Packard Market Strengths

Exhibit 2 lists the characteristics that Hewlett-Packard identifies as market strengths they can leverage with their entry into the outsourcing market.

Industry data shows that 46% of 1992 commercial UNIX sales were Hewlett-Packard equipment and software. This gives them a strong base of experience in the emerging open systems environment.

Besides having much equipment in open systems environments, HP has also gained

Exhibit 2

Hewlett-Packard Market Strengths

- Leadership in multivendor, open systems environments
- Industry leader in open systems and client/server network management
- Experience gained from managing internal HP systems
- Extensive financial resources
- Extensive help desk management experience

Source: INPUT

extensive experience in the systems and network management area, both with their client base and their own internal systems. In fact, Hewlett-Packard was designated by Information Week as one of the Fortune 500 companies with the most effective IS operations in 1992, as determined by a poll of CIOs.

HP's current financial health is strong. In October 1993, HP announced a 33% increase in net earnings from the previous year. This positions them well to invest in the resources necessary to penetrate a new market.

The help desk function is increasingly regarded as a key management tool for the IS department of the future. It can give management important insights into the expanding computing needs of user organizations, as well as rapidly identify training needs of all those user departments. Hewlett-Packard's proprietary problem tracking and response management tools are based upon years of experience. These can be very valuable to the client who finds the management of the distributed client/server environment more and more complex.

Organized to Provide Complete Service Range

Exhibit 3 illustrates the support available through the Operations Services Division. The division operates as part of the Worldwide Customer Support organization, and functions at the same level as the Hewlett-Packard Professional Services organization formed in 1991.

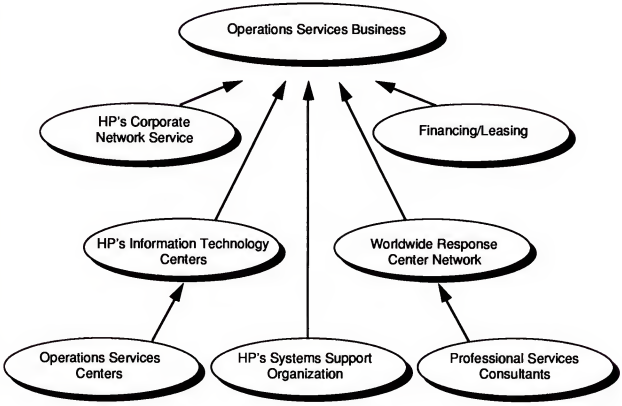
The Operations Services organization uses HP's Professional Services consultants for systems integration activities, and the capabilities of the HP Systems Support Organization for maintenance and site design. Operations Services Centers will be housed with HP Response Center Networks to take advantage of that organization's built-in problem solving resources.

The Operations Services Centers, shown in the lower left of the diagram, will actually provide day-to-day operations staff to manage and monitor computing assets for outsourcing clients. Remote systems and network management activities will be conducted from these centers, tied into the worldwide network of 27 response centers.

New approaches and technology developed at HP's Information Technology Centers will be available to the Operations Services organization. The leasing expertise and resources of the extensive HP Financing operations will also be available for creative solutions to asset acquisition.

Exhibit 3

HP Support Structure



Source: Hewlett-Packard

One key to the success of this strategy is that the Operations Services Division has its own dedicated sales force developing opportunities and identifying prospects. The sales strategy appears to be well thought out, with a transition of responsibility identified from the sales consultant to the implementation manager and finally to the service manager as the project evolves.

HP's Target Markets

Hewlett-Packard has identified three market segments in which they can be successful. Exhibit 4 lists these in order of importance.

Many organizations are in transition from a proprietary environment to open systems. When the proprietary environment is HP and the open systems environment is UNIX-based, the new Operations Services group can provide strong support to these organizations. By HP's own assessment, there are hundreds of these prospects. Most of them do have a high regard for HP and often lack the technical expertise to make the transition smoothly to new open systems.

Some firms have already made the transition to client/server environments, at least for part of their operations. These are good candidates for selective outsourcing. They probably find it harder

Exhibit 4

HP's Targeted Outsourcing Markets

- Organizations transitioning from proprietary to open systems
- Open systems client/server environments
- HP proprietary environments

Source: INPUT

to manage the distributed computing environment than expected and might welcome the help of Hewlett-Packard experts.

Finally, there are a large number of MPE-based HP proprietary systems that are still running smoothly. Many firms need to retain these legacy systems, and will welcome the opportunity to turn over day-to-day management of them to an outsourcer, while they use their resources for new systems development activities.

These three types of prospects will keep the HP sales force occupied for some time. They also have the inherent advantage of needing no introduction to Hewlett-Packard, by simply learning that HP now has a new service offering from which they can benefit.

In the course of a recent briefing for consultants, HP identified clients in all of these market segments. Some of the firms were Fortune 500 companies, while others were either European or Asia/Pacific-based organizations. Though there were many HP customers on the list, there were others who had no HP equipment on site at all. They chose HP for their worldwide presence and demonstrated network management capabilities.

Potential to Become Worldwide Outsourcing Vendor

In 1993, a research bulletin in this program posed the question: "Do any real international outsourcing contracts exist?" The conclusion then was that there were none, merely a vendor based in one country assuming responsibility for the management of client systems in another country. No single vendor had taken over responsibility for a client's IT management in multiple locations around the world.

Hewlett-Packard has the potential to be the vendor to do that first, for the following reasons:

- Their support infrastructure is currently established worldwide, while being centrally controlled. They operate in 110 countries now and appear able to coordinate services from one place.
- The open systems environment should be easily transportable to branch locations, no matter where those locations are. HP's support capabilities are already in place to make sure the hardware and software runs effectively under all conditions.
- One of the hidden assets, extensive customer training capabilities, would be particularly attractive to the client who wants to establish a standard system in many countries.

Whether HP can really become a worldwide outsourcer depends on how well

their marketing and support functions can operate across national borders.

Conclusions and Assessment

Hewlett-Packard has a set of market differentiators that may allow them to enter the outsourcing market at this late date and still be successful. These are summarized in Exhibit 5 below.

Exhibit 5

Hewlett-Packard Market Differentiators

- Selective outsourcing, a unique market
- Skilled in the client/server environment
- Leadership in establishing open standards
- Global infrastructure in place

Source: INPUT

First, HP targeted an unmet market need with their "selective outsourcing" approach. They decided that many clients may be more willing to turn over part of their IS operations to the vendor, rather then the whole operation. This approach will require a true partnership relationship with the client, since both parties will support the user organization.

HP runs their own business operations in a client/server environment now and pioneered many of the products that make the client/server revolution so pervasive today. They have also been leaders in establishing Openview standards. When an outsourcing prospect seeks an "expert" in its outsourcing vendor, HP qualifies in the client/server environment.

Finally, as mentioned earlier, their global infrastructure has prepared them to operate smoothly in the new worldwide business environment.

Hewlett-Packard is right in entering the outsourcing market as a niche player. They may avoid, in the short term, any head-to-head competition with large mainframe outsourcers, such as EDS, ISSC and CSC, who are competing strongly for the large, multibillion, multiyear awards. HP is carving out a sector of the market to apply their own differentiators to potential outsourcing situations. They are leveraging their experience at managing legacy systems and applying the proprietary tools they developed for network management and customer service.

They have a base of clients to work from, an international organization to leverage and the dedication of a new venture from which to build. They appear to be a viable alternative for any client considering outsourcing or undergoing change.

HP does need to make their capabilities better known in the marketplace, however, so their particular brand of outsourcing is well understood by companies considering all available options . They need to do this quickly because, if they are successful, other vendors will adopt the "tailoring" approach that HP is pioneering here, within a year at the most.

This Research Bulletin is issued as part of INPUT's Outsourcing Information Systems Program for the information services industry. If you have questions or comments on this bulletin, please call your local INPUT organization or Robert L. Goodwin at INPUT, 1881 Landings Drive, Mountain View, CA 94043-0848, (415) 961-3300.