


INPUT

STRATEGIC MARKET PERSPECTIVE

Opportunities in Business
Operations Outsourcing
Europe 1996

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Abstract

The concept of the virtual corporation has been established in Europe for a considerable time. Indeed, organisations are increasingly encouraged to outsource functions and processes that cannot be performed to a world-class standard in-house.

However, organisations tend to be slow to implement such advice, not wishing to be pioneers in such a process. Such concepts only tend to become widely implemented once a number of early adopters have achieved demonstrable success.

This stage has now been reached in the European business operations outsourcing market and a number of major opportunities are beginning to emerge.

The purpose of this report is to assist vendors in identifying and quantifying the emerging opportunities for business operations outsourcing in Europe. In particular, this report provides:

- Estimates of the in-house expenditure of European organisations for a variety of support services including accounting, human resources administration, supply chain management, customer administration and marketing
- Perceived and planned usage of business operations outsourcing by industry sector and business function
- Estimates of new business revenues from business operations outsourcing in Europe
- An analysis of board members propensity to outsource business operations across a number of industry sectors
- Analysis of current business operations outsourcing activity including examples of current contracts.

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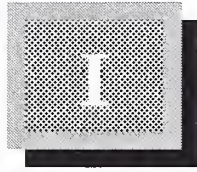
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Introduction

A

Scope and Objectives

Organisations in Europe are currently displaying a considerable willingness to outsource IT functions, either partially or completely. This trend towards outsourcing of IT services is driven by a need for change in terms of the types of IT service, the nature of applications delivered to the business and in the skills required to implement these changes accentuated by considerable cost pressure on IT departments.

However, IT functions are not the only areas of business that are subject to outsourcing pressures. In theory, organisations should consider outsourcing any business process that cannot be performed to a world-class standard in-house.

In practice, some organisations, for example the Co-operative Bank in the U.K. are prepared to outsource a wide range of business functions while others prefer to retain operational capability in-house. However, overall, a growing number of organisations, including a number that have already outsourced IT functions, are now considering outsourcing business functions.

Indeed business operations outsourcing contracts are becoming common in local government in the U.K. where many local authorities have already outsourced IT functions and are now becoming required to undergo competitive tendering for additional white-collar services such as revenue collection and housing management.

The focus of this report is primarily on business function outsourcing in the private sector in Europe.

The objectives of this report are to identify:

- The market potential for business operations outsourcing
- The current and emerging opportunities in business operations outsourcing
- The opportunities emerging from individual industry sectors
- Senior managers' attitudes towards business operations outsourcing and the concept of the virtual corporation
- Organisations' outsourcing intentions and the level within the organisation at which business operations outsourcing will take place.

Outsourcing is defined by INPUT as follows:

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).

This restriction has been partially relaxed for the purposes of this report.

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 I-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 I-2.

- *Systems Operations* outsourcing describes a relationship in which a vendor is responsible for managing and operating a client's "computer system"/data centre (*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 computer, workstations, client/server and LAN systems in the client organisation. 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 or function.

Exhibit I-1

Business Operations Outsourcing

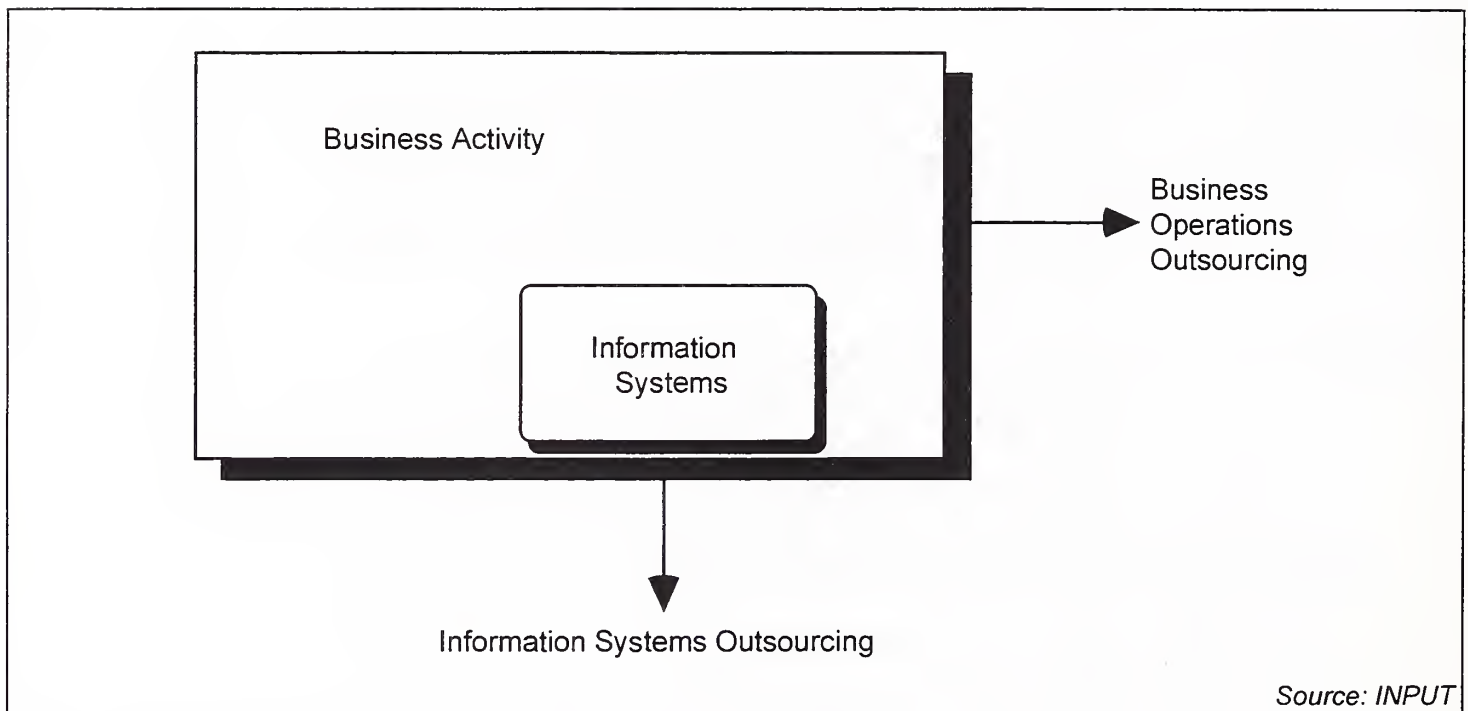
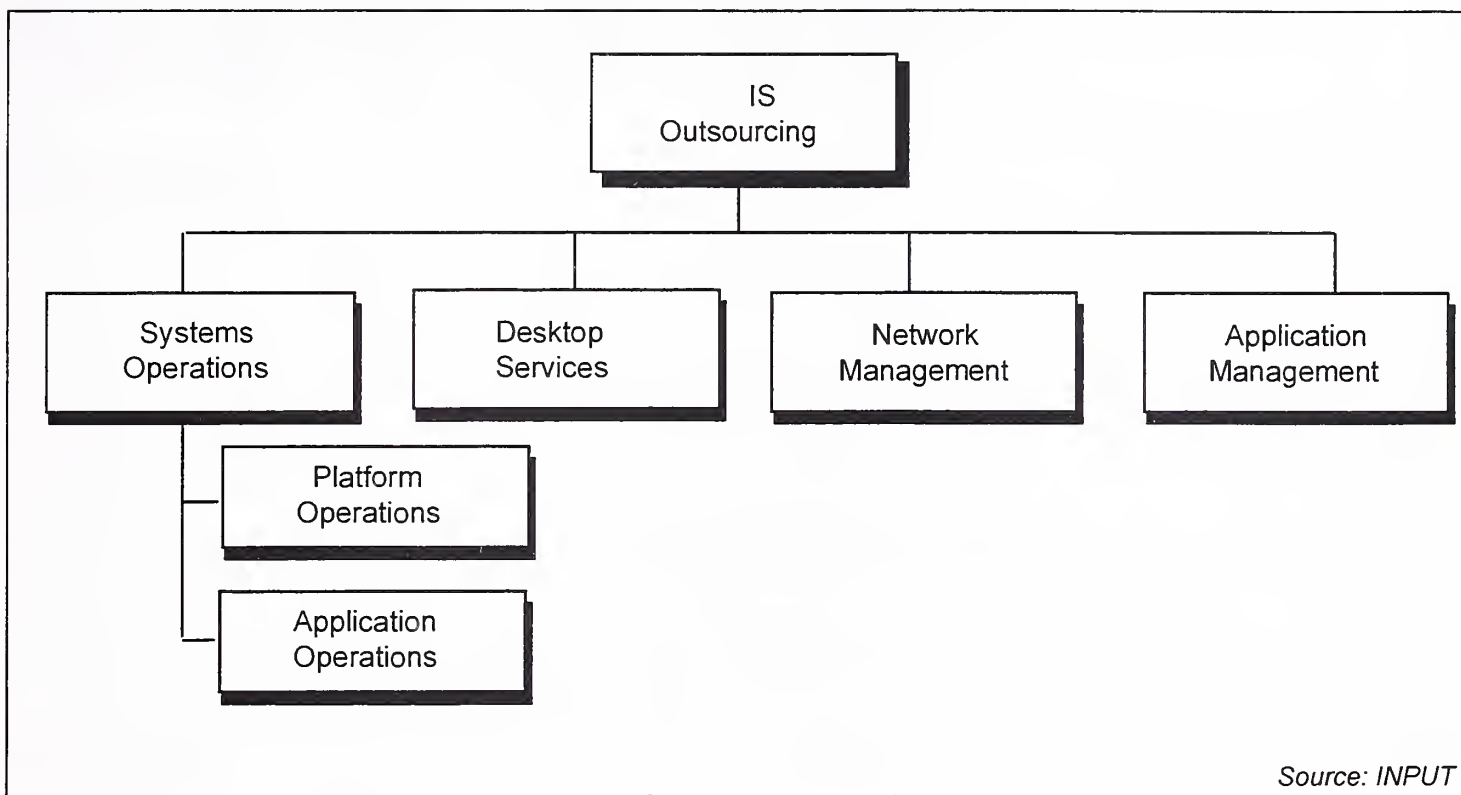


Exhibit I-2

Information Systems (IS) Outsourcing Service Categories



Source: INPUT

The above definitions focus on the services covered in the outsourcing contract. For example, an Application Operations contract can include all facets of Information Systems Outsourcing (platform operations, desktop services, network and application management). The key to INPUT's market definition is the service contract . If a customer only wants to outsource the network, it is network management outsourcing. If an airline, for example, wishes to outsource their reservation operation which includes not only the network, but also its infrastructure, applications and the people running the operation, this is a Business Operations Outsourcing contract. Exhibit I-3 shows the service components that may be included in each outsourcing service category.

Exhibit I-3

Outsourcing Service Components

Component	Platform Ops	Appl. Ops.	Desktop Services	Network Mgt.	Appl. Mgt.	Business Ops.
Project/Contract Management	X	X	X	X	X	X
Data Centre Management	X	X				X
Client\Server Operations	X	X	X			X
Equipment Maintenance	X	X	X			X
System Software Maintenance	X	X	X	X		X
Application Software Maintenance		X	X		X	X
Application Development		X			X	X
LAN Management		X	X	X		X
WAN/MAN Management		X		X		X
Transaction Processing Services		X				X
Other Professional Services		X	X		X	X
Business Process Operations						X

Source: INPUT

The largest, most visible contracts awarded over the past year have been typically Application Operation outsourcing contracts since they, at least, included management of the infrastructure (data centres and various computing platforms) and the support of some the legacy applications. In the past, most Application and Platform Operation outsourcing contracts included network management but recent contracts have also included desktop services.

What is not included in INPUT's world of outsourcing are the following:

- Project based services are not considered as part of outsourcing. Thus, Systems Integration and application development projects are not included
- Services that were never intended to be performed internally. Maintenance only services do not constitute an outsourcing function by itself. however, responsibility for hardware and software maintenance is inherent in most outsourcing contracts
- Processing services contracts of less than one year
- Voice-only network management

- Business operations with minimal information systems content. The outsourcing of the marketing communication function to an outside agency is not covered by INPUT's analysis. A function or business operation must at least have 30% of its budget attributed to information technology to be included.

B

Methodology

The data in this study was derived from the following combination of sources:

- Ninety-one telephone interviews with board-level personnel
- Ten interviews with outsourcing vendors
- Discussions with trade associations and PIMS Services to assess organisations' internal spend by business function.

The user interviews were spread across organisations in France, Germany, and the U.K.

The breakdown of user telephone interviews by country is shown in Exhibit I-4.

Exhibit I-4

Interview Profile by Country

Country	Number of interviews
France	30
Germany	31
United Kingdom	30
Total (Europe)	91

Source: INPUT

All interviews were carried out with organisations with annual revenues in excess of \$100 million.

The breakdown of user telephone interviews by industry sector is shown in Exhibit I-5.

Exhibit I-5

Interview Profile by Industry Sector

Industry Sector	Number of interviews
Banking	13
Insurance	8
Discrete Manufacturing	14
Process Manufacturing	13
Retail	12
Wholesale	8
Services	18
Utilities	5
Total (All Industries)	91

*Source: INPUT***C****Report Structure**

Chapter II consists of the Executive Overview which is a summary of the key findings of the report.

Chapter III analyses managers' attitudes towards business operations outsourcing. In particular, it identifies:

- The level of acceptance of the concept of the virtual corporation and business operations outsourcing
- The key drivers of business operations outsourcing
- Perceived and planned usage of business operations outsourcing by business function
- Estimates of the market potential and new business revenues from business operations outsourcing in Europe.

Chapter IV analyses business operations outsourcing opportunities by industry sector, including, for each sector, identification of:

- Key driving forces
- The perceived level of cost and investment pressure on a range of business functions

- The relative importance of a range of business functions in delivering competitive advantage within the sector
- The propensity of organisations in the sector to outsource each of a range of business functions.

Chapter V analyses a number of major business operations outsourcing opportunities that are beginning to emerge in Europe. The focus of this chapter is on individual business operations outsourcing service lines. It includes analyses of vendor activity in the business operations sector providing examples of current business operations outsourcing contracts.

D

Related Reports

Outsourcing Opportunities in Government — Europe, 1993-1998

Business Operations Outsourcing — Europe, 1993

Desktop Services Outsourcing — Europe, 1994

Impact of Business Reengineering on Outsourcing — Europe, 1994

Identifying & Winning Outsourcing Opportunities — Europe, 1994

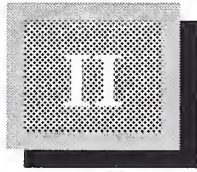
Network Outsourcing — Europe, 1995

Information Systems Outsourcing Market — Europe, 1995-2000

Outsourcing In Europe — Competitive Analysis, 1995

Vendor Performance Analysis — Europe, 1996

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Executive Overview

A

Business Operations Outsourcing New Business Potential Equals \$2,500m Per Annum

IT outsourcing is now well-established in Europe and many IT services vendors are beginning to target the business operations outsourcing market.

In particular, a number of major opportunities have arisen in the U.K. government sector, where the current administration is actively implementing the philosophy of the enabling authority, whereby authorities purchase services but do not actively provide operational and administrative capabilities themselves.

However, the focus of this report is the private sector in Europe, where the nature of the business operations outsourcing market is less clearly defined.

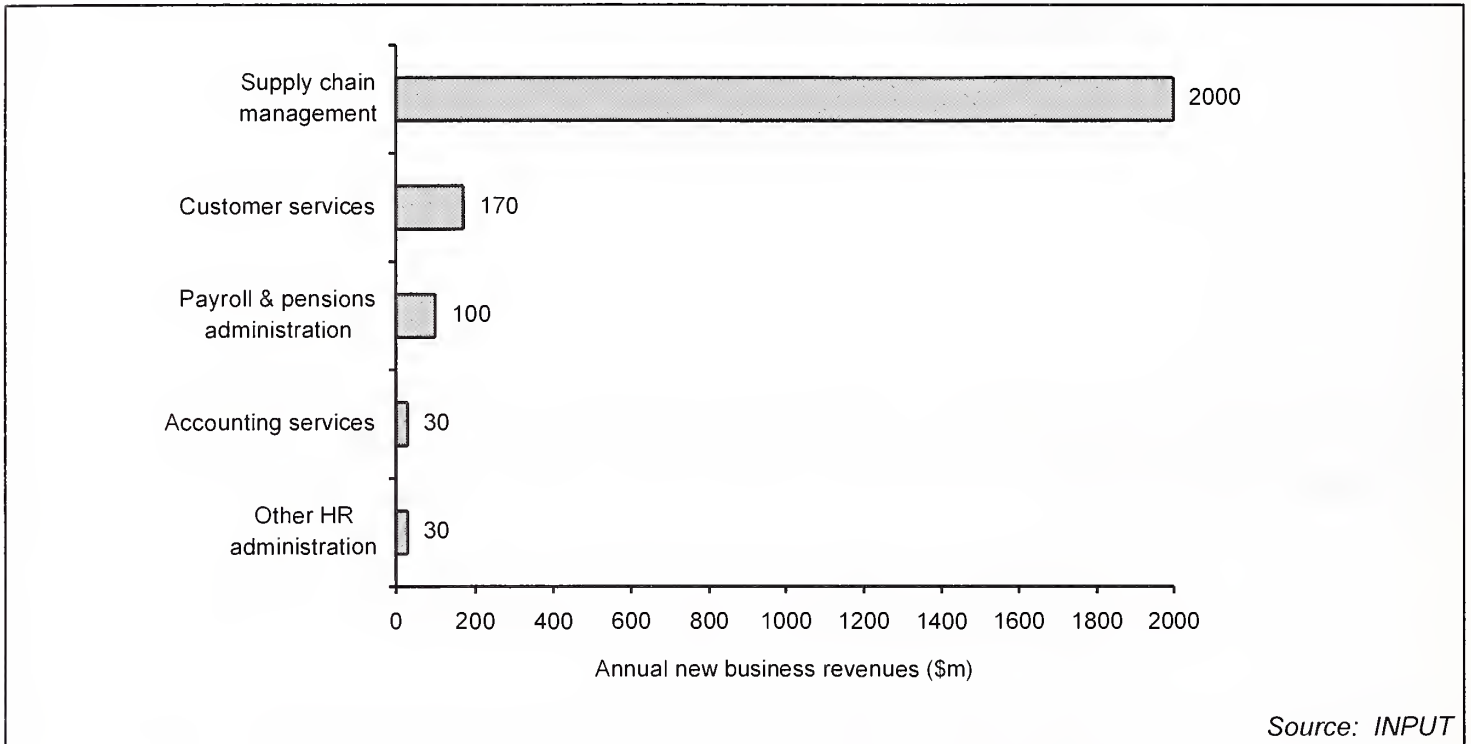
Opportunities are now emerging in the private sector based around a number of business functions, including:

- Supply chain management comprising purchasing and logistics
- Customer services comprising customer service desks and customer fulfilment services
- Accounting services including billing, handling of purchase ledgers and day-to-day accounts preparation
- Human resources administration, principally payroll and pensions administration.

The annual new revenues forecast to arise from outsourcing of these functions within large organisations in 1997 are listed in Exhibit II-1.

Exhibit II-1

Annual New Business by Business Function: Large Organisations in Europe



Supply chain management dominates this forecast because of the considerable expenditure on logistics in Europe. However, much of this revenue will be taken by specialist logistics/transportation companies rather than IT services vendors.

Overall, the research conducted for this report reveals that:

- The business operations outsourcing market potential in Europe exceeds \$650 billion
- Almost one in five organisations expect to extend their use of business operations outsourcing within three years
- In the short-term, organisations will focus on outsourcing payroll administration and supply chain management
- Vendors can succeed in business operations outsourcing either by emphasising reengineering capability or by building administrative capability around existing processing services.

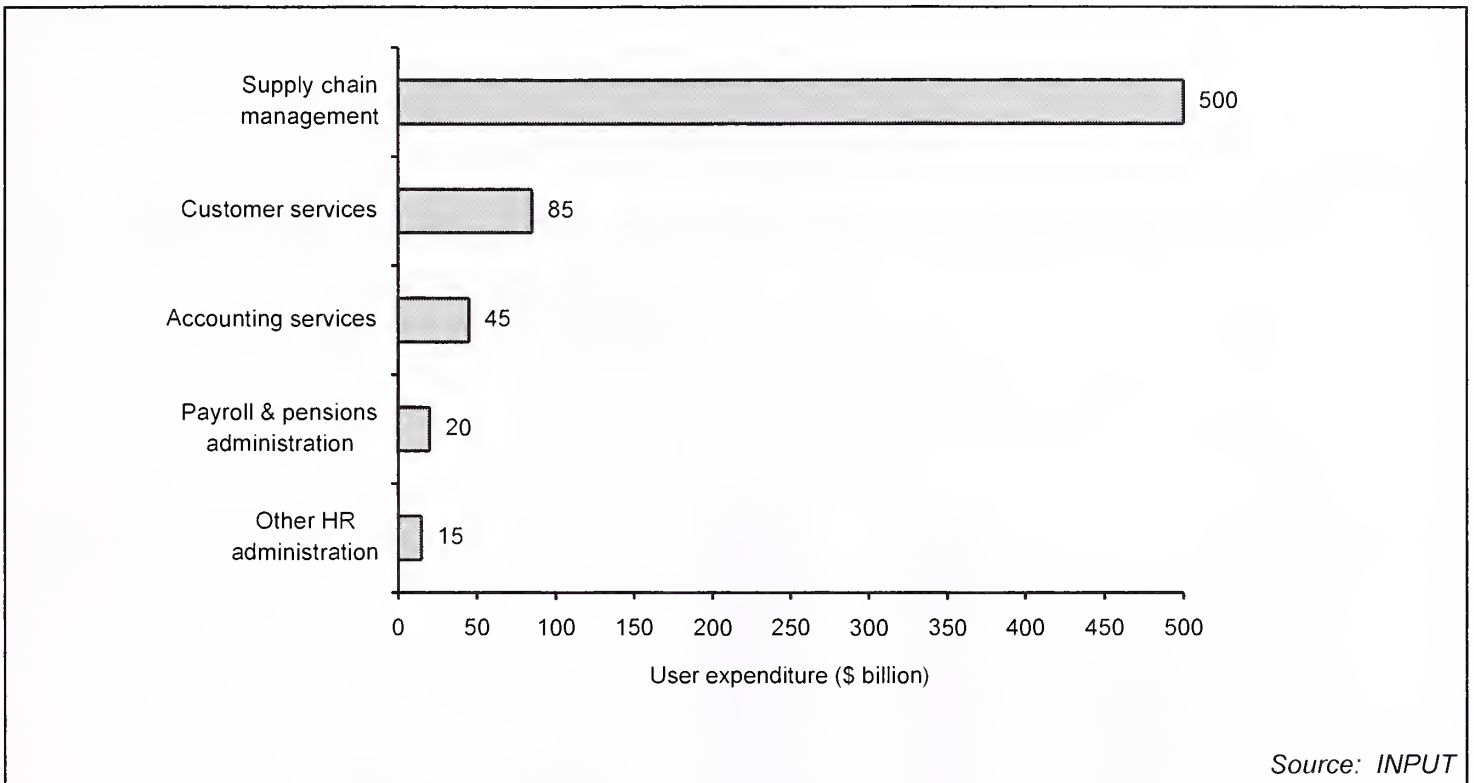
B

Market Potential for Business Operations Outsourcing Exceeds \$650 Billion

Exhibit II-2 lists the market potential of the business operations outsourcing market in Europe by business function.

Exhibit II-2

Market Potential by Business Function



These figures represent the total expenditure of European organisations by business function.

This includes organisations of all sizes. However, SMEs - organisations with less than 500 employees - on average account for 70% of activity, and hence expenditure.

Typically vendors targeting these SMEs will wish to offer them a highly packaged service while offering a highly customised outsourcing offering to large organisations. This pattern is already evident in the payroll administration services market, where vendors such as Ceridian typically offer two services:

- A highly specific service for organisations with up to 24 employees
- A highly customised managed operations service for major corporations.

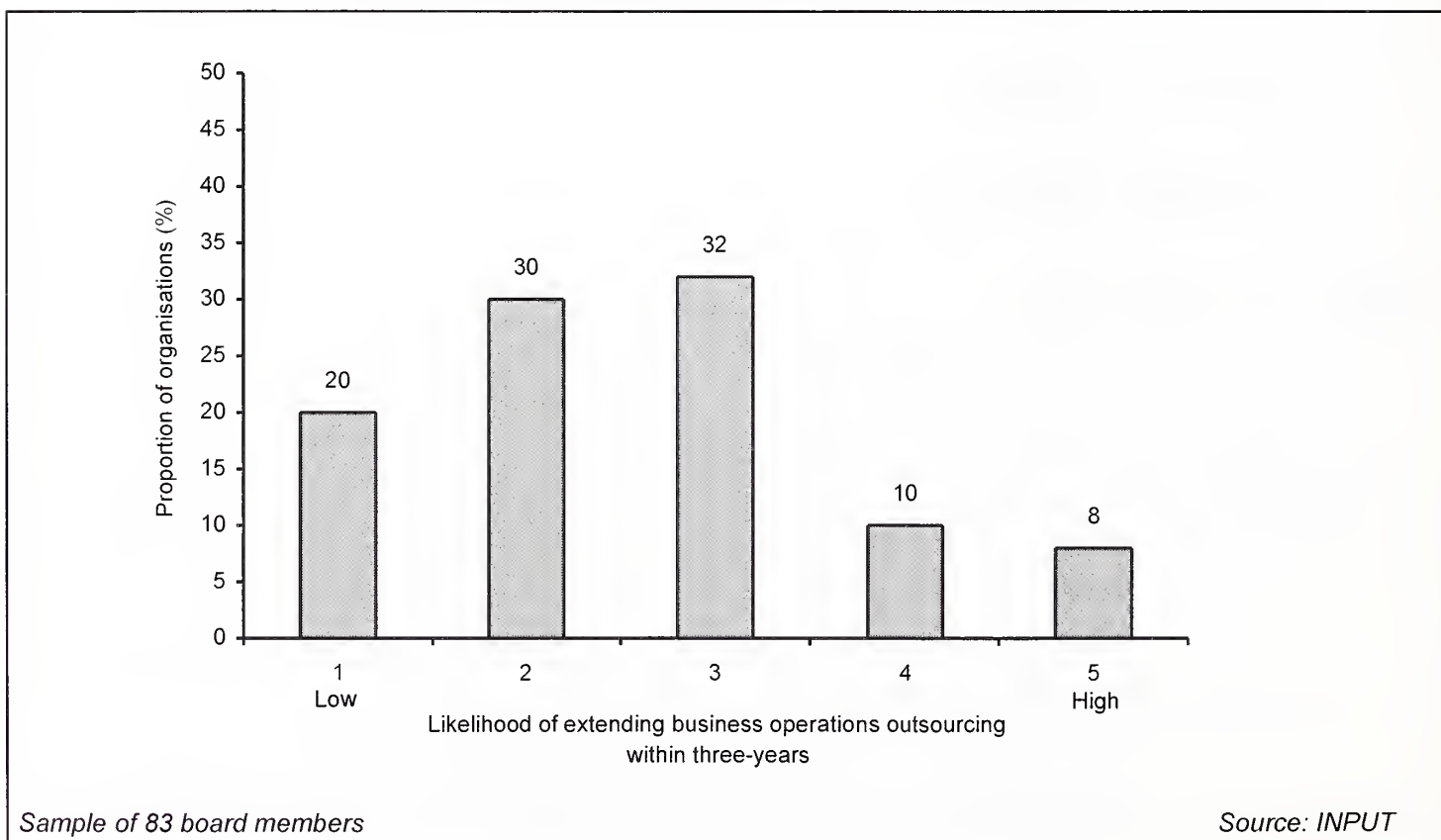
C

Eighteen Per Cent of Major Organisations Strongly Expect to Extend Usage of Business Operations Outsourcing

Exhibit II-3 lists the profile of responses to the question: “To what extent is your organisation likely to extend its use of business function outsourcing over the next three years?”

Exhibit II-3

Likelihood of Organisations Extending Business Function Outsourcing



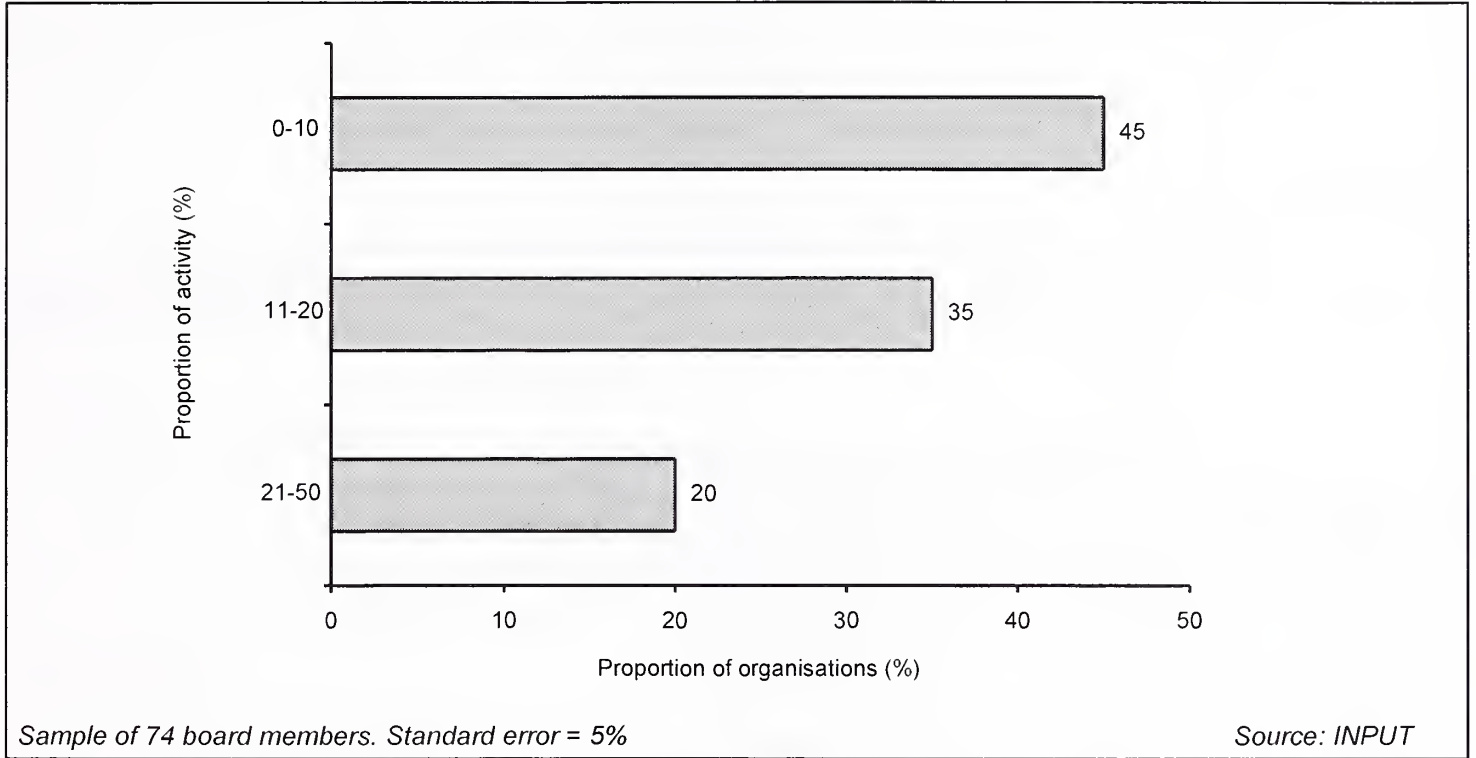
While there is still considerable resistance to the concept of business operations outsourcing, particularly in France, a significant minority of board members strongly intend to adopt this philosophy.

A similar proportion of board members strongly perceive that their organisation should reduce the range of activities performed in-house.

Exhibit II-4 lists the proportions of current in-house business activity that organisations expect to outsource by the Year 2000.

Exhibit II-4

Proportion of Current In-house Activity to be Outsourced by Year 2000



Again approximately 20% of organisations exhibit a strong commitment to outsourcing a major element of current in-house business processes.

Together with the market potential data, these charts form the basis for the market forecast for business operations outsourcing shown in Exhibit II-1.

D

Organisations Will Outsource Payroll Administration & Supply Chain Management First

Organisations relative propensity to outsource business functions varies considerably between functions. The relative propensity of organisations in Europe to outsource each of the functions identified earlier is listed in Exhibit II-5.

Exhibit II-5

Relative Propensity to Outsource by Business Function

Relative Propensity	Business Function
High	IT Services Payroll Administration Supply Chain Management
Medium	Other Human Resources Administration Customer fulfilment
Low	Customer Service Desks Accounting Services

Source: INPUT

This survey investigated a number of factors likely to influence organisations' willingness to outsource business functions. At one extreme, organisations show a high propensity to outsource functions such as payroll services that add little to their competitive differentiation.

However, organisations also display a high propensity to outsource IT services, the function perceived by board members overall to have the highest ability to assist their organisations' competitive differentiation.

The explanation for this apparent contradiction may lie in the fact IT services also received the highest rating of any business function for cost pressure and future investment requirement. It appears that these factors typically tend to outweigh any need to deliver competitive differentiation in-house.

After IT services, the functions perceived to be under greatest cost pressure are procurement and supply chain management. The functions perceived to require the highest levels of investment, apart from IT services, are procurement, customer service desks and customer order taking and fulfilment.

However, the case for outsourcing customer service desks and customer order taking and fulfilment is tempered by their comparatively high rating as areas of competitive differentiation for organisations.

Organisations showed a surprisingly low propensity to outsource accounting services considering this an area of low competitive differentiation that has received considerable publicity from a number of high profile outsourcing contracts in Europe, including Andersen Consulting's contract with BP Exploration.

Overall, the business operations outsourcing opportunities in Europe vary by industry sector. Exhibit II-6 lists the emerging business operations outsourcing opportunities, excluding IT services, by industry sector.

Exhibit II-6

Emerging Opportunities by Industry Sector

Industry Sector	Short-Term Opportunities	Medium-Term Opportunities
Banking	Cheque Processing ATM Management	Securities Handling Payroll & HR Administration
Insurance	Settlement Services	Policy Administration
Discrete Manufacturing	Accounting Services	Procurement Administration Supply Chain Management
Process Manufacturing	Accounting Services	Procurement Administration Supply Chain Management
Retail	Payroll & HR Administration	Supply Chain Management
Wholesale	Customer Services	Supply Chain Management
Utilities	Supply Chain Management Customer Services	Accounting Services

Source: INPUT

E

Reengineering is a Critical Vendor Skill

Exhibit II-7 lists some of the leading vendors currently active in the European business operations outsourcing market.

Exhibit II-7

Leading Vendors: Business Operations Outsourcing

Business Function	European Private Sector	U.K. Public Sector
Accounting Services	Andersen Consulting EDS Axime	Capita CSL ITnet
Payroll Services	ADP-GSI Ceridian CMG	ITnet Capita CSL
Supply Chain Management	Andersen Consulting	
Customer Services	EDS Ventura	Capita CSL
Cheque & Credit Card Processing	Axime EDS	

Source: INPUT

There are several ways in which vendors can target the business operations outsourcing market in the private sector. One way is build greater administrative capability into existing processing services such as payroll services, shareholder administration, and cheque/credit card processing. This approach is used by vendors such as ADP-GSI, Ceridian, Axime and CMG and is particularly effective in targeting SMEs but it can also be adapted for targeting major corporations by increasing the flexibility and scope of the offering.

Axime is currently finding that its extended business operations outsourcing capability such as its means of payment and billing services give the company a competitive advantage when targeting company start-ups. In these instances, clients are pleased to consider a vendor that can offer wider services than just the implementation and management of the IT.

Another approach is via demonstration of reengineering capability to major corporations. The approach adopted by Andersen Consulting is to build on its perceived reengineering capability. The company typically forms joint ventures with a client, for example Thames Water in the

U.K., with the client providing the joint venture company with day-to-day operational knowledge and manpower and Andersen Consulting deploying its reengineering skills in order to turn the joint venture company into a vendor with world-class capability that can attract external business from similar organisations.

The major benefits of this approach to the original client are:

- Access to world-class operational capabilities for its own internal use
- A share in profits from a subsidiary providing third-party services externally.

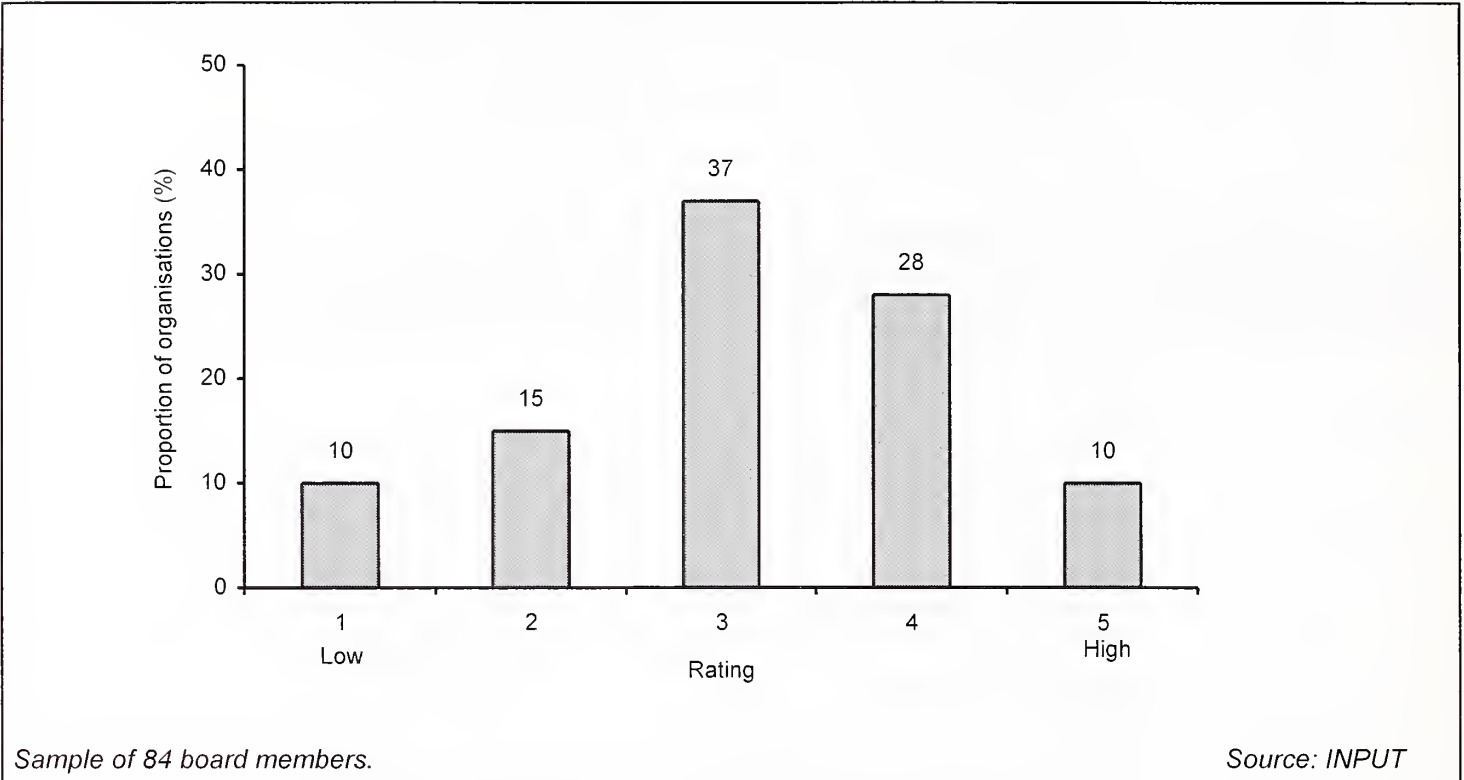
This approach is similar to that adopted in IT services, where a number of organisations created independent trading entities from their IT departments in the belief that external trading would improve their operational capabilities and ability to deliver value for money to the parent organisation. Many of these organisations, including Istel and CMS in the U.K. and KF in Sweden have now been purchased by large IT services vendors.

Another approach, based around reengineering, is to offer to consolidate the business functions of a number of business units or subsidiaries that each have their own service departments. This is the approach that Andersen Consulting has taken with Sears, where Andersen Consulting is combining the various IT departments and accounting units into a central services function.

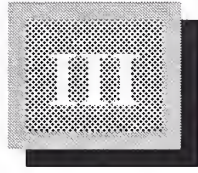
There is scope for other vendors to adopt this practice. Exhibit 11-8 shows the extent to which board members believe that there is scope within their organisations to rationalise business practices across business units or subsidiaries.

Exhibit II-8

Scope for Rationalisation of Business Practices



Over a third of board members believe that there is scope within their organisations to achieve this and only a minority of board members believe there is limited scope for such an approach.



Attitudes to Business Process Outsourcing

A

U.K. and Germany Accept Virtual Corporation Concept

The concept of the virtual corporation has been widely promoted by the management press in recent years. However, the concept has yet to manifest itself in terms of widespread business operations outsourcing and the majority of major organisations continue to perform business activities in-house that make only minor contributions to their competitive positioning.

The reasons for this lie both in the difficulty, and expense, of benchmarking business processes with comparable organisations and in the organisational turmoil caused by transferring staff between organisations.

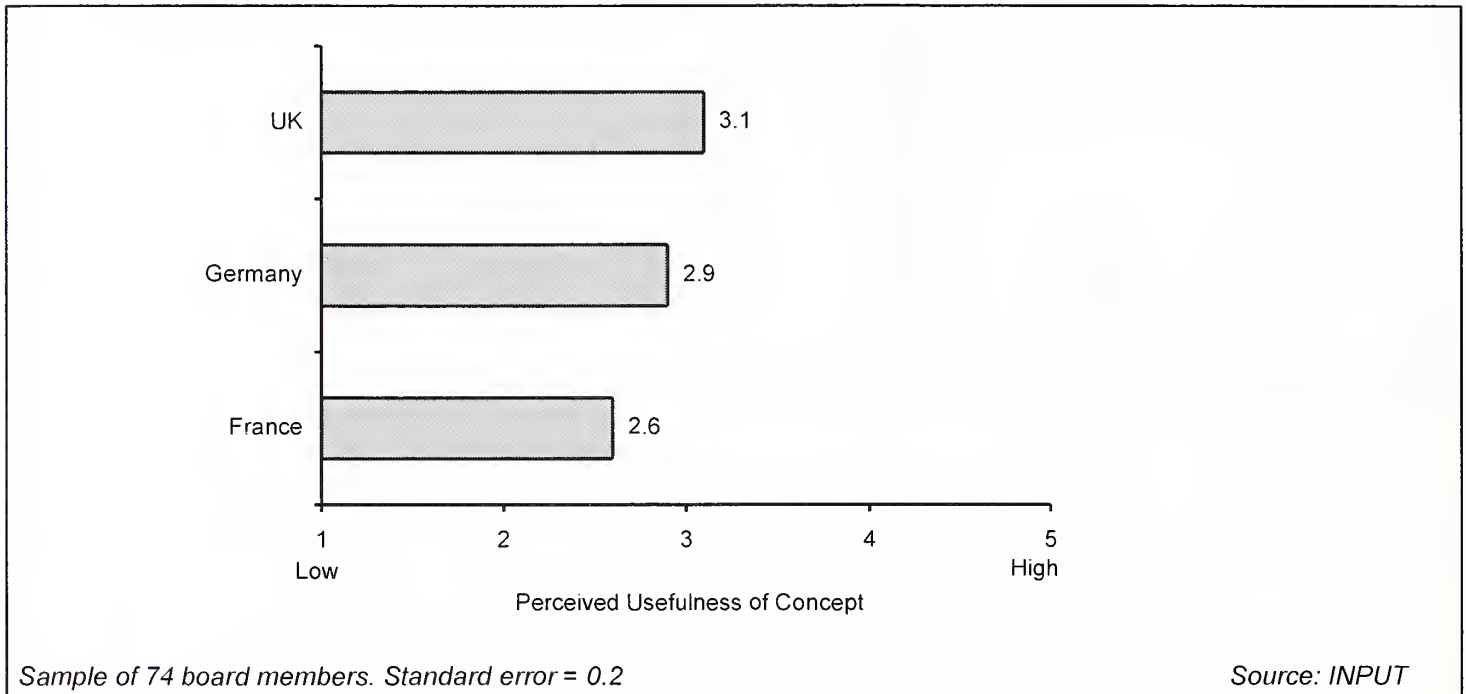
As a result, few organisations adopt a true core business focus. Typically organisations are only likely to consider outsourcing business processes when one or a combination of the following conditions apply:

- The overall organisation faces financial difficulties and actively seeks areas where short-term savings can be made
- A major investment decision relating to that business process has to be made, for example company start-ups or management buy-outs
- Major skill shortages emerge
- The organisation faces external coercion, for example the public sector in the U.K.

Indeed, despite its considerable promotion, the concept of the virtual corporation has yet to achieve widespread acceptance. Exhibit III-1 lists the extent to which managers in each of France, Germany and the U.K. perceive the concept of the virtual corporation to be a useful business model.

Exhibit III-1

Acceptance of the Virtual Corporation Concept: Perception by Country

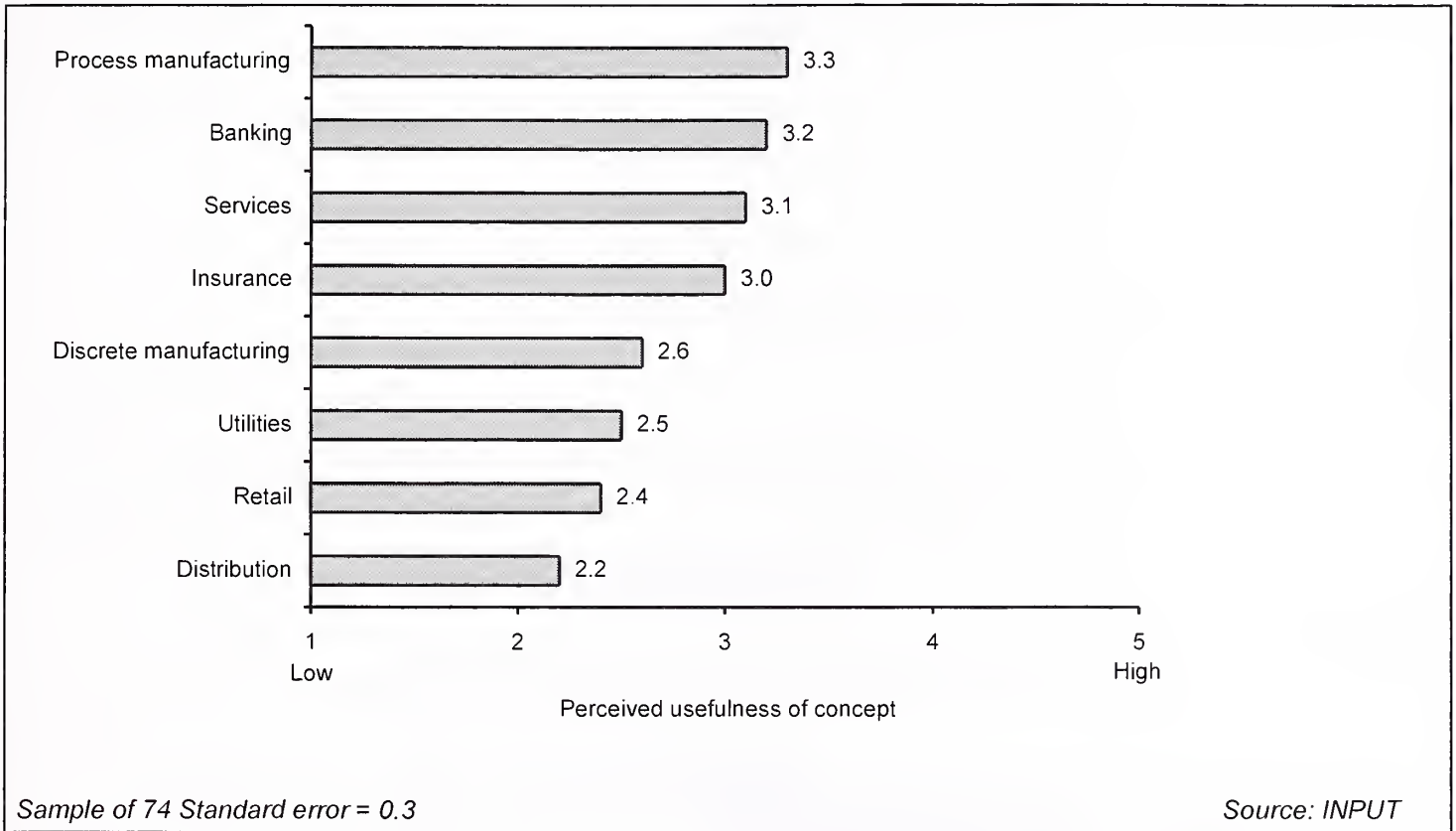


The concept has limited acceptance throughout the three countries and a particularly low acceptance in France, where only a quarter of managers strongly perceive the concept to be a useful one.

The acceptance of the concept of the virtual corporation also varies considerably by industry. Exhibit III-2 lists by industry sector the extent to which managers perceive the concept of the virtual corporation to be a useful business model.

Exhibit III-2

Acceptance of the Virtual Corporation Concept: Perception by Industry



The highest acceptance of the concept is in the process manufacturing sector where half of managers strongly favour the concept. The concept is also relatively highly favoured in the financial services sector, with approximately a third of managers strongly in favour.

However, the concept is not typically accepted in the distribution sector where only 5% of managers strongly view the virtual corporation as a useful concept.

B Business Operations Outsourcing Will be Driven by Variable Workload and Low In-house Cost-Effectiveness

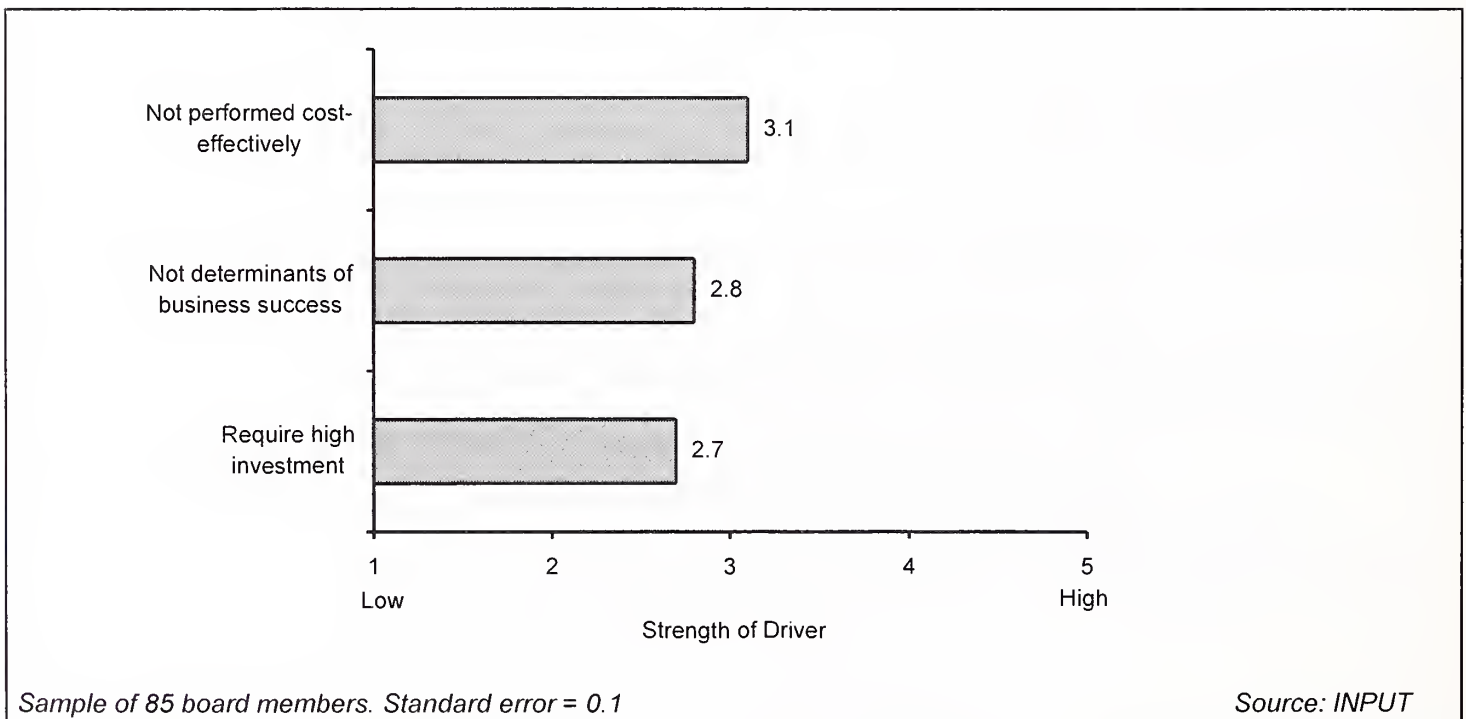
Prior to the study, three potentially key drivers of business operations outsourcing were identified, namely:

- Low impact on business success
- Low in-house process cost-effectiveness
- A requirement for high levels of process investment.

The extent to which managers perceive that individual business processes should be outsourced because they meet each of these criteria is shown in Exhibit III-3.

Exhibit III-3

Drivers of Business Operations Outsourcing



Overall the major driver of those shown in Exhibit III-3 is low in-house cost-effectiveness. Approximately 50% of managers interviewed strongly perceived that business functions not cost-effectively performed in-house should be outsourced.

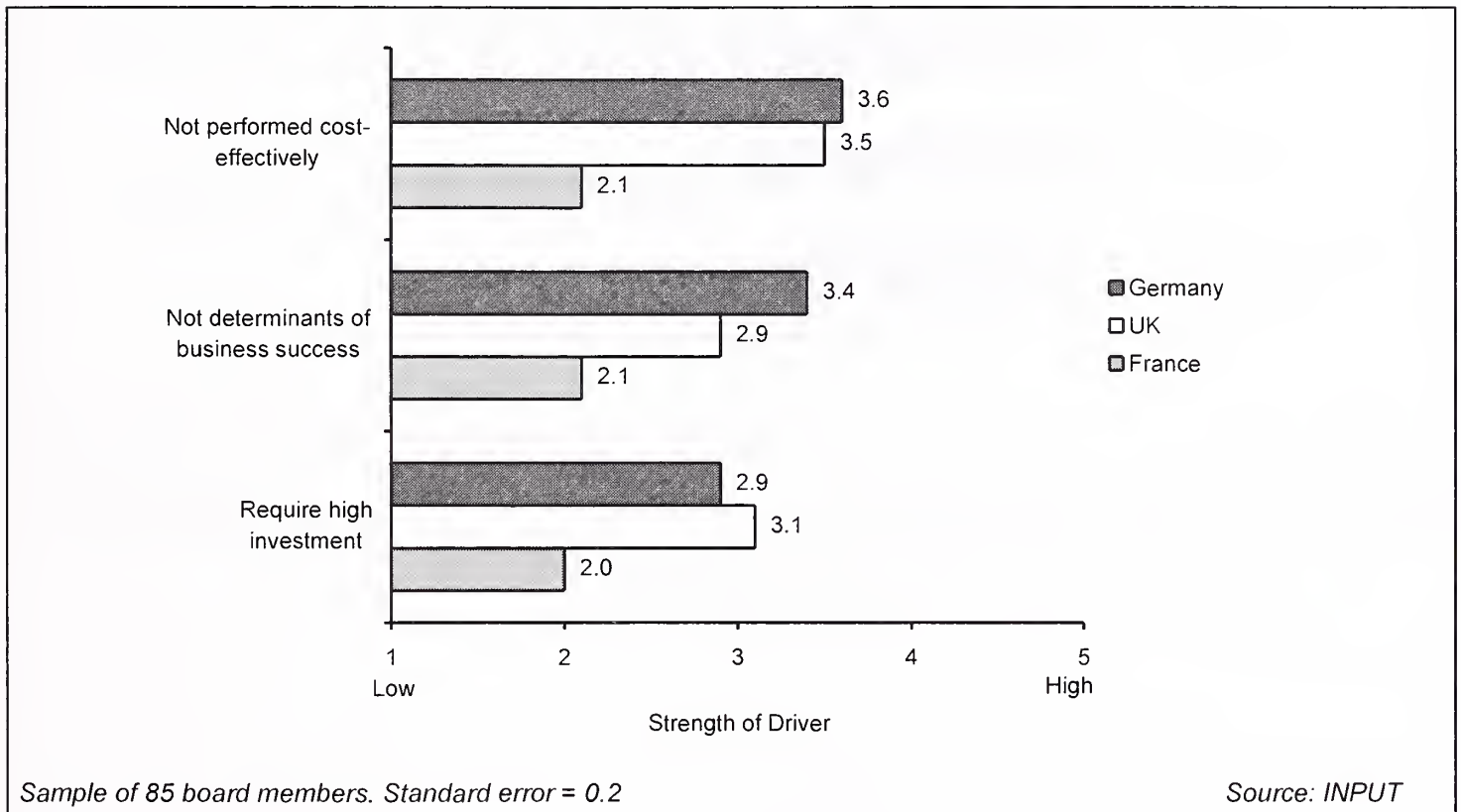
However, the fact that a business function is not a core activity is not typically perceived to be a sufficient condition to outsource it. Less than a quarter of managers thought that functions should be outsourced simply because they were not important determinants of business success.

Similarly a requirement for high investment is insufficient on its own to lead to process outsourcing.

There is considerable variation across Europe. The extent to which managers perceive that business processes should be outsourced because they meet each of the above criteria is shown by country in Exhibit III-4.

Exhibit III-4

Drivers of Business Operations Outsourcing by Country



As was noted earlier, managers in Germany and the U.K. exhibit the greatest enthusiasm for business function outsourcing with, for example, three-quarters of managers in Germany believing that functions should be outsourced if they are not performed cost-effectively in-house. Only one quarter of managers in France share this view.

In addition, managers in Germany apparently have the greatest core business focus, with approximately half of those interviewed prepared to outsource non-core functions that made low contribution to business success.

Exhibit III-5 lists those process characteristics given the highest ratings when managers were asked what characteristics made a business operation a candidate for outsourcing. Similarly, Exhibit III-6 lists those process characteristics awarded the lowest ratings.

Exhibit III-5

Major Characteristics of Processes Selected for Outsourcing

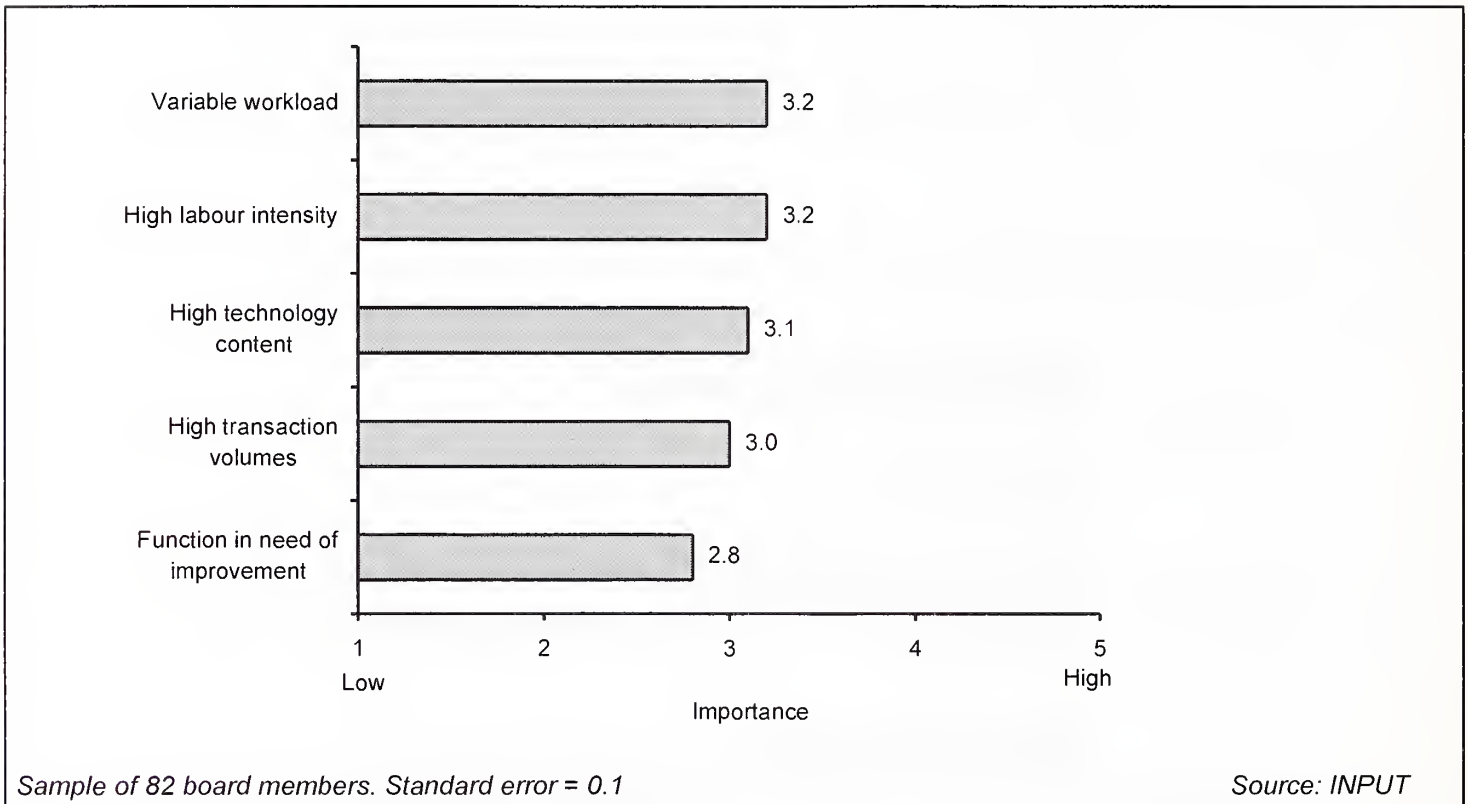
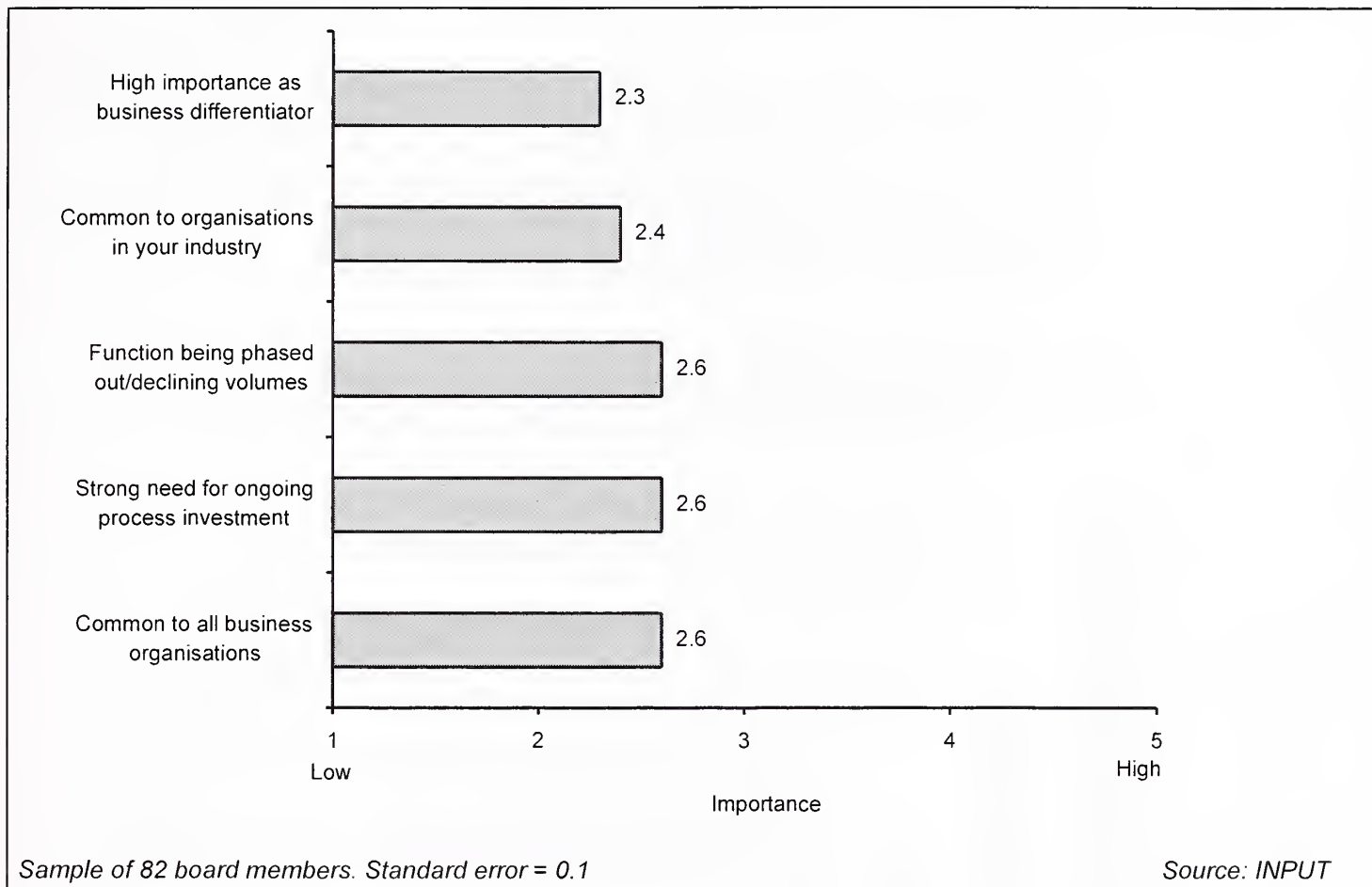


Exhibit III-6

Least Important Characteristics of Processes Selected for Outsourcing



The most important factors were a variable workload and high labour intensity, both factors that potentially lead a high cost structure.

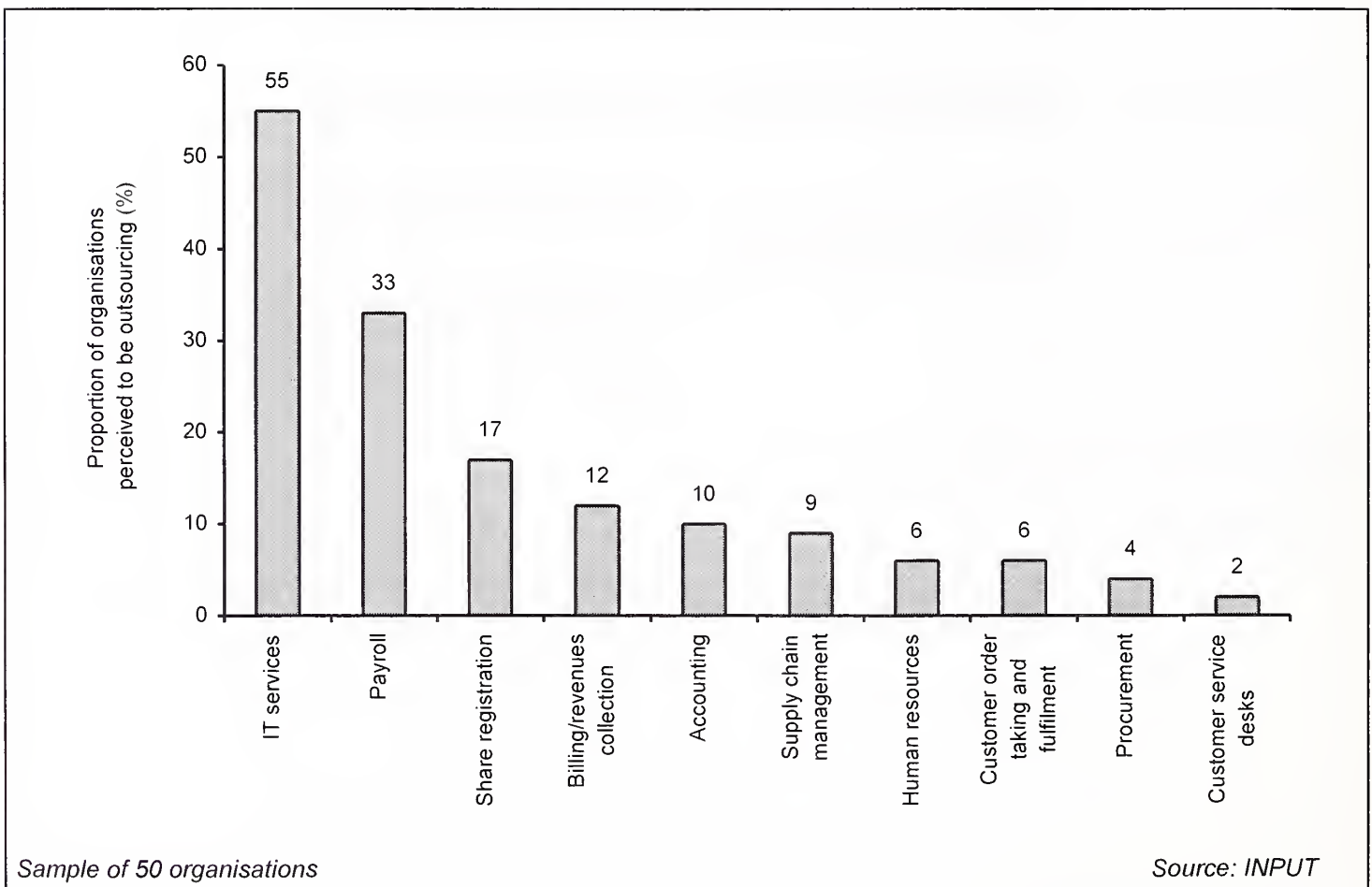
C

Payroll Services is Most Widely Outsourced Business Function

Exhibit III-7 lists the proportion of respondents stating that their organisation currently outsource each of a number of business processes. In practice, these figures are likely to be over-estimates including elements of partially subcontracted work. However, these estimates can be used to provide an indication of the relative level of outsourcing within each of these activities at the present time.

Exhibit III-7

Perceived Level of Outsourcing by Business Function



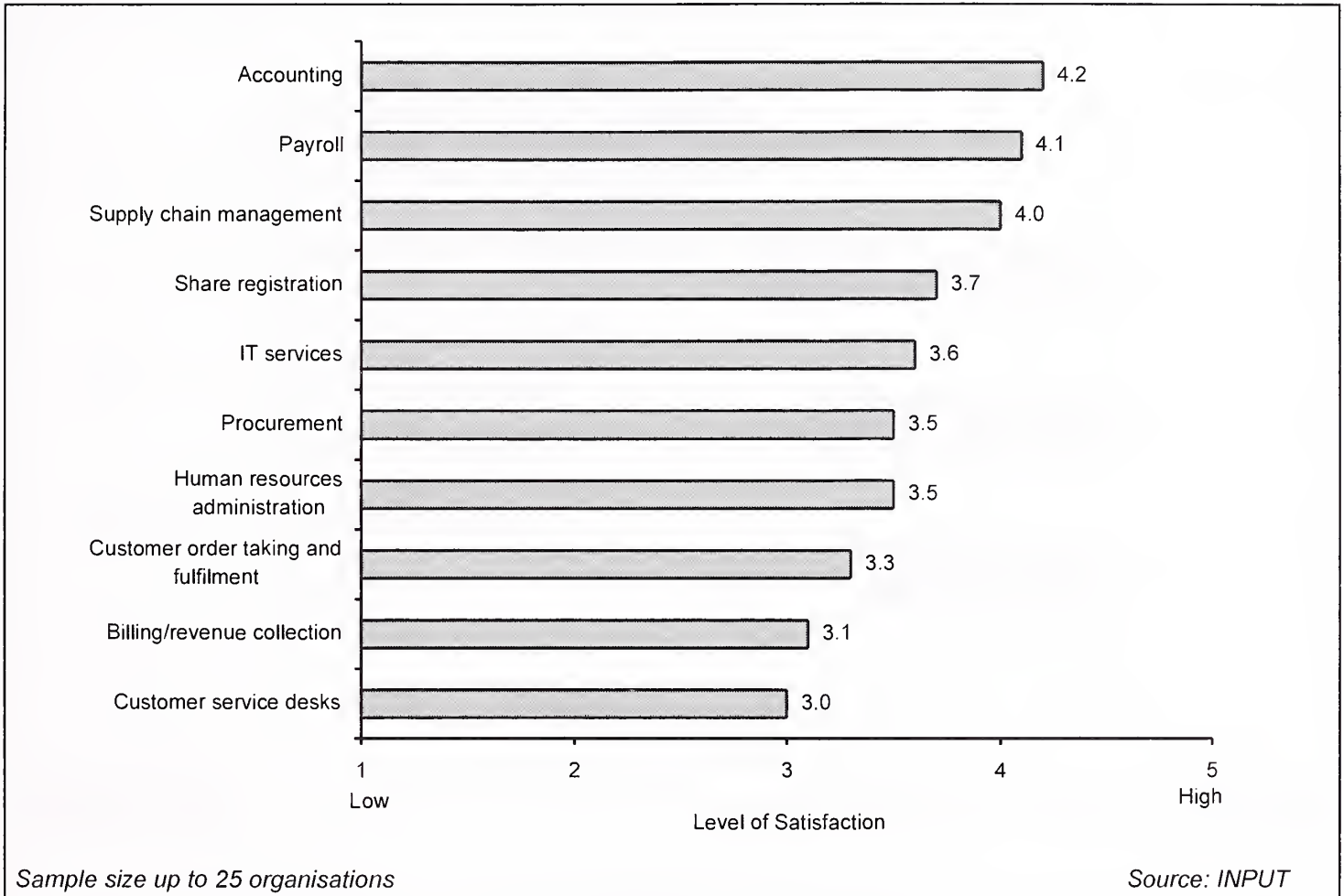
IT services is the most widely outsourced activity, with payroll outsourcing and share registration services becoming increasingly commonplace.

Organisations appear to still be comparatively wary of outsourcing functions involving close contact with their customers such as customer order taking and customer service management.

The level of satisfaction with business operations outsourcing by business function is listed in Exhibit III-8.

Exhibit III-8

Satisfaction with Outsourcing by Business Function



Again these statistics should be treated with caution for the reasons discussed above. However they imply that it may be easier to satisfy clients in the provision of non-core support activities such as accounting and payroll services than in more business critical functions such as customer order taking and fulfilment and revenue collection.

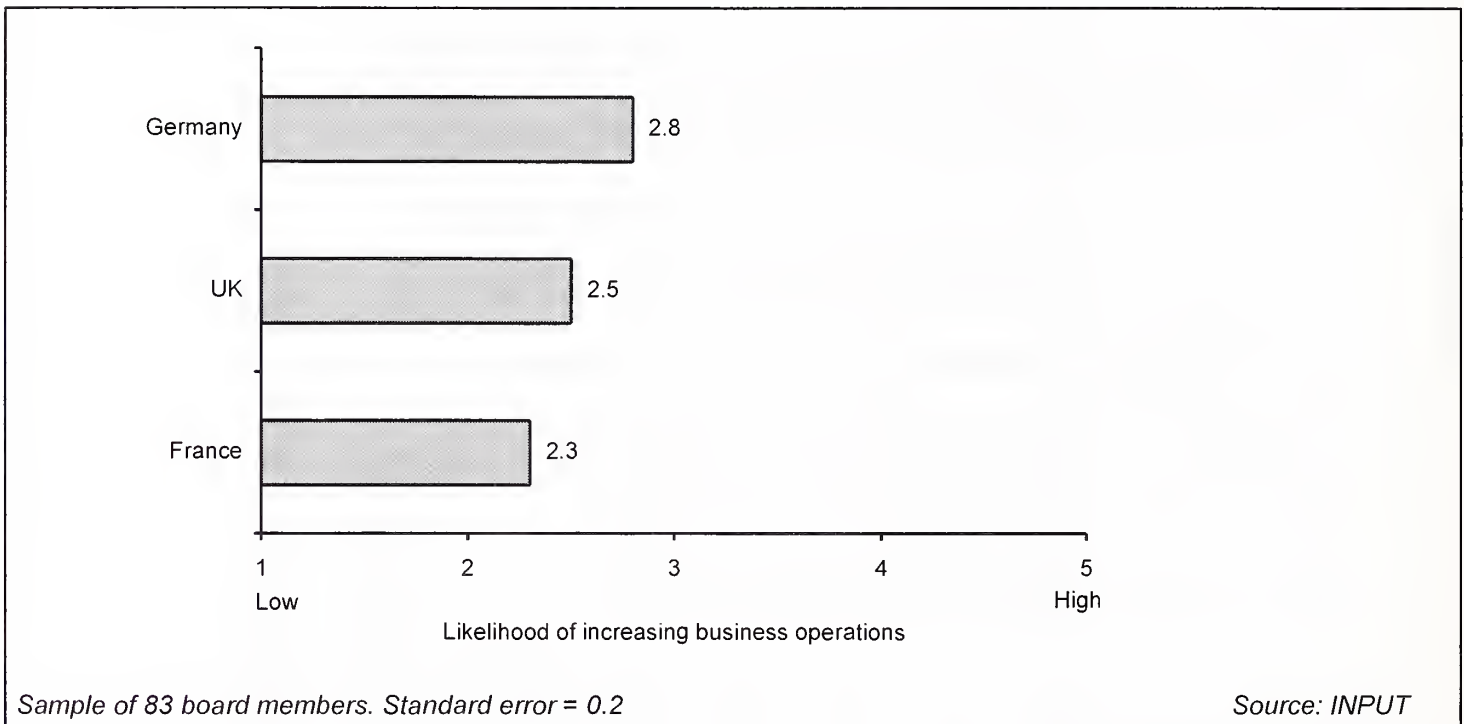
D

Germany - A Leading Advocate of Business Process Outsourcing

Exhibit III-9 shows by country the extent to which organisations are likely to extend their use of business function outsourcing over the next three years.

Exhibit III-9

Increase in Business Operations Outsourcing by Country

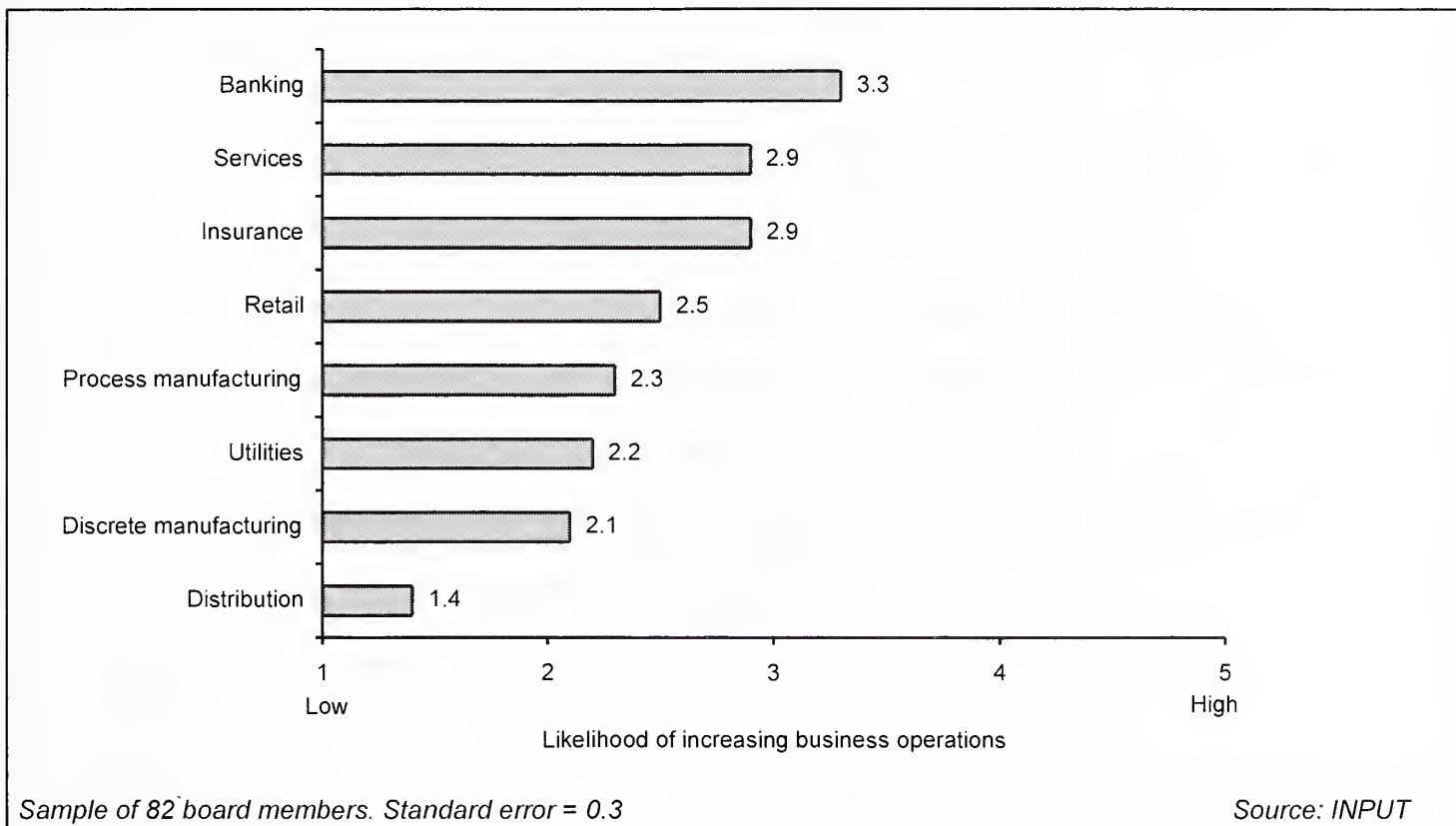


The greatest acceptance of the merits of business process outsourcing is in Germany where approximately a third of managers perceived it to be highly probable that their organisation will extend its use of business process outsourcing over the next three years. Once again, managers in France displayed the lowest level of acceptance for business process outsourcing. Here less than 10% of managers perceived it to be highly probable that their organisation will extend its use of business process outsourcing over the same period.

Exhibit III-10 shows by industry the extent to which organisations are likely to extend their use of business function outsourcing over the next three years.

Exhibit III-10

Increase in Business Operations Outsourcing by Industry Sector



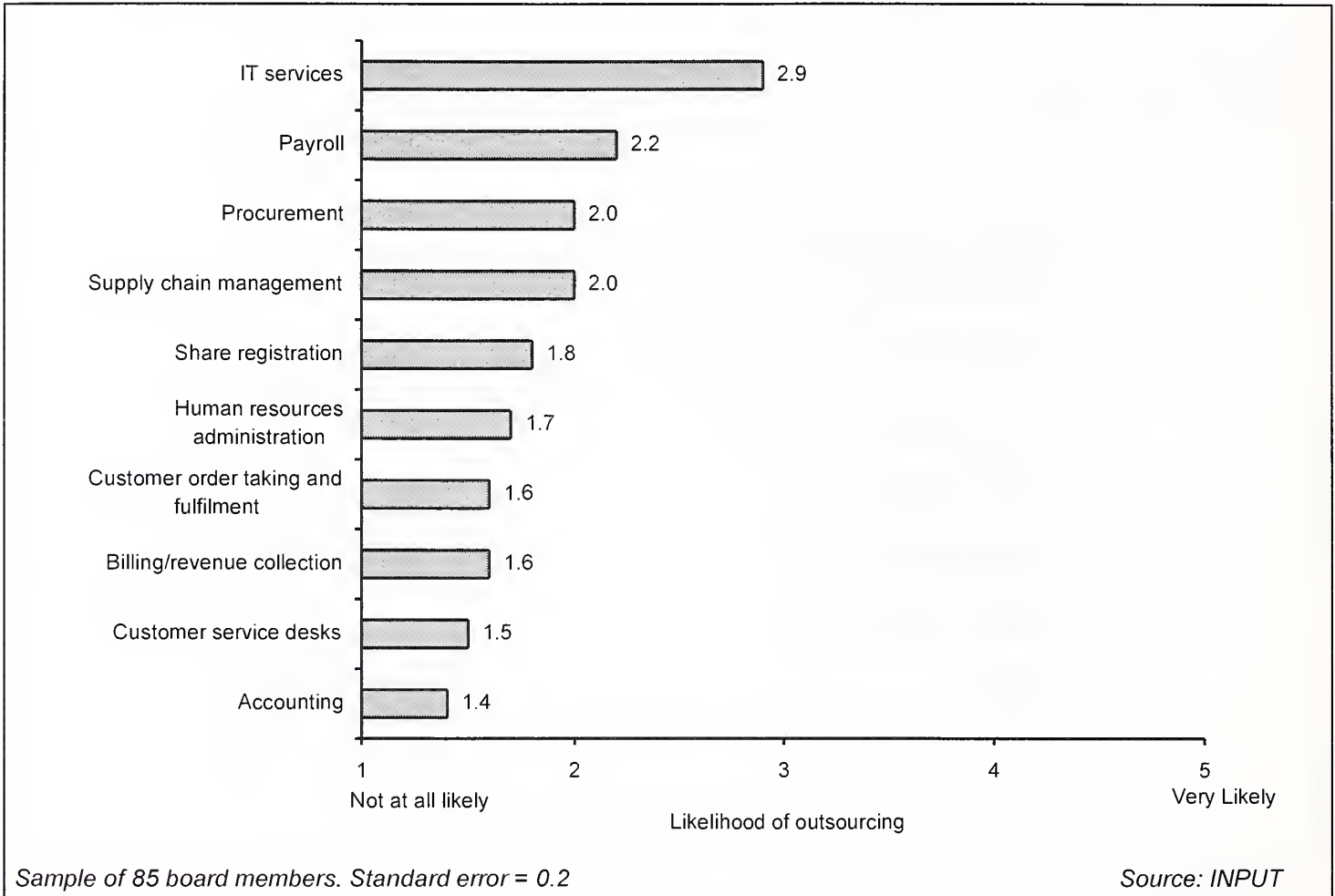
Managers in the banking and services sectors exhibited the highest levels of expectation of business operations outsourcing activity. Approximately 40% of managers in the banking sector strongly expected their organisation to outsource business functions. Similarly a quarter of managers in the service sector expected their organisation to do so.

However, less than 10% of managers in the retail and wholesale distribution sectors strongly expected their organisation to extend its use of business function outsourcing.

Exhibit III-11 shows the extent to which managers perceive that their organisation is likely to outsource each of a number of named activities.

Exhibit III-11

Business Operations Outsourcing Intentions by Activity



IT outsourcing is becoming widely accepted in Europe, and is growing strongly at present, while other forms of business function outsourcing have yet to establish their credibility outside a small number of niche markets.

The relative strength of the trend towards IT outsourcing was confirmed once again in this survey, with over a third of managers stating that they strongly expected their organisation to outsource IT services.

In second place is payroll services, with 20% of managers strongly expecting to outsource this activity.

The only other two activities that more than 10% of managers strongly expect their organisations to outsource are supply chain management and share registration services.

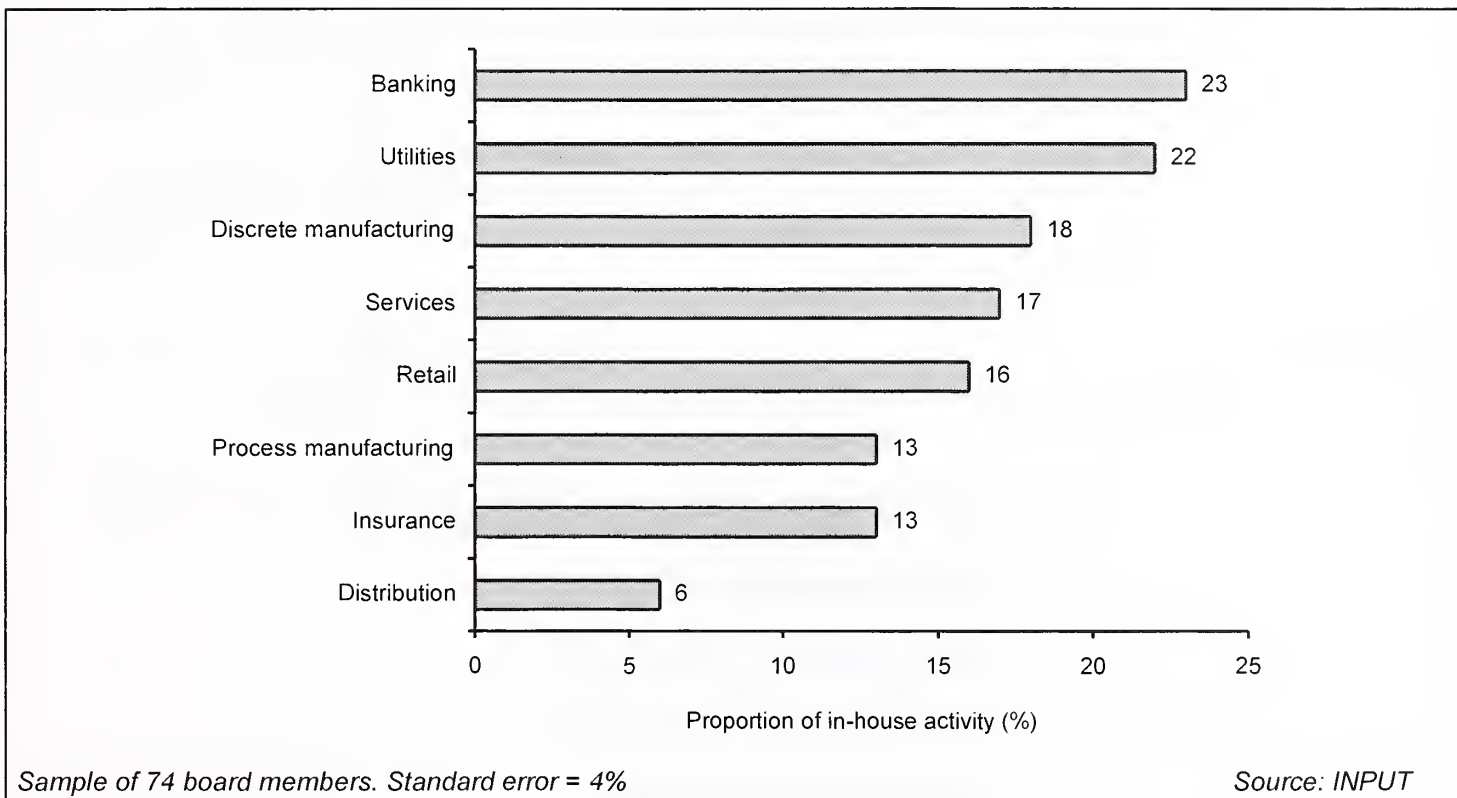
Surprisingly, in view of the amount of publicity given to Andersen Consulting's contract for accounting services with BP Exploration and the

apparent success of this venture, only 2% of managers strongly expect to outsource their day to day accounting activities.

Exhibit III-12 lists the average proportion by sector of current in-house business activity that is expected to be outsourced by the year 2000.

Exhibit III-12

Increase in Outsourced Business Activity by Year 2000 by Sector



E

Banking Sector Will Rationalise Business Processes

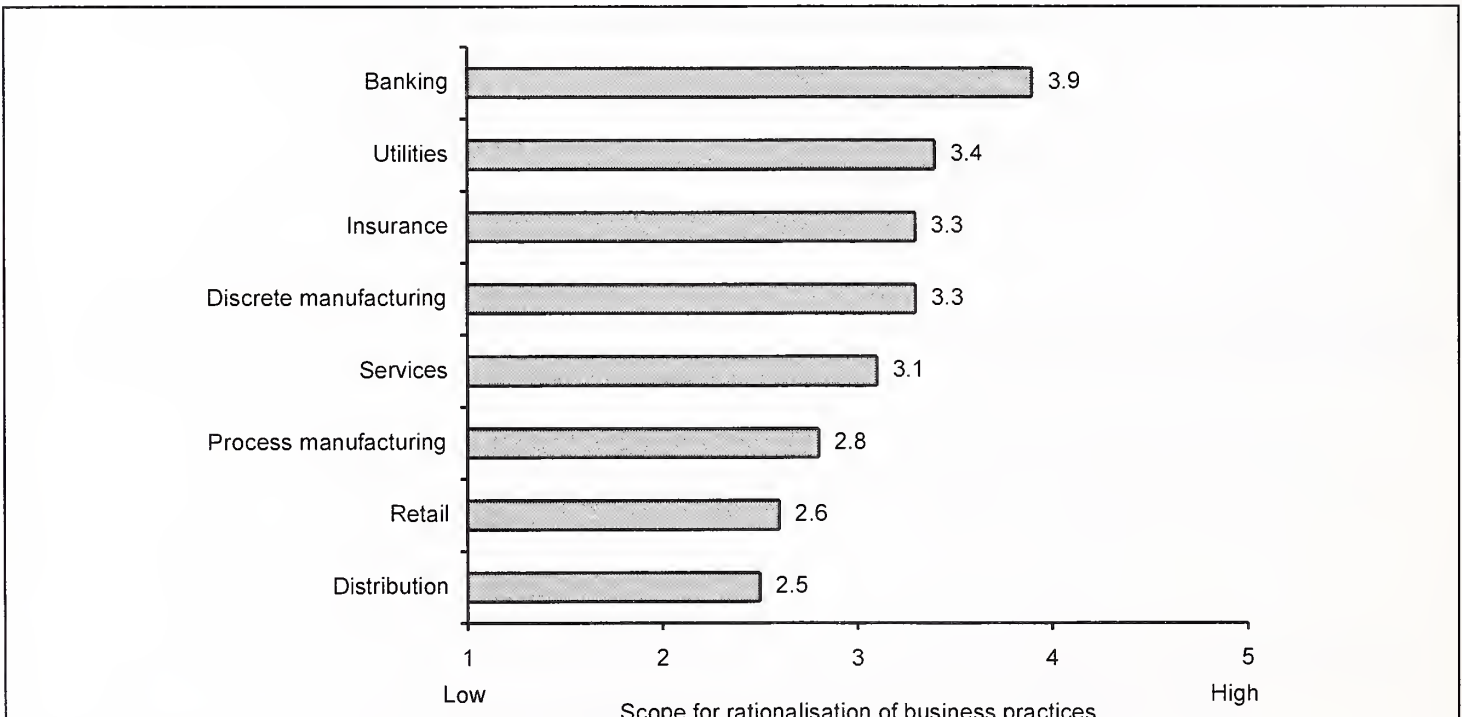
One factor contributing to Sears award of a contract for outsourcing services to Andersen Consulting was the desire to achieve economies by establishing a common process, and facility, for accounting services across the various group subsidiaries.

Accordingly one potential opportunity for outsourcing vendors is to identify organisations where a set of common processes can be applied across a number of subsidiaries, business units or departments.

Exhibit III-13 shows by industry sector the extent to which managers perceive a scope for rationalisation of business practices across business units or subsidiaries.

Exhibit III-13

Scope for Rationalisation of Business Practices by Sector



Sample of 84 board members. Standard error = 0.3

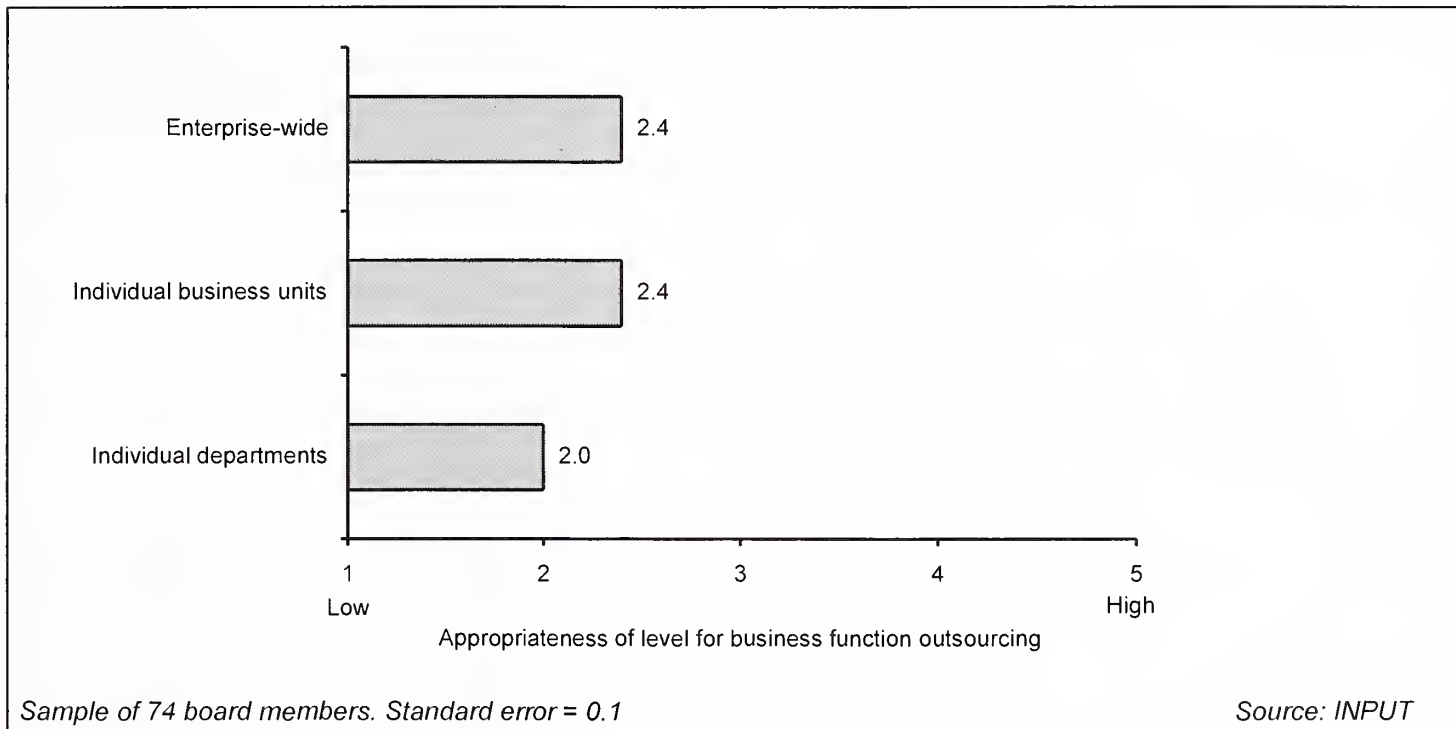
Source: INPUT

Again the opportunities presented appear to be highest in the financial services sector and lowest in the distribution sector.

Exhibit III-14 shows the extent to which managers believe business function outsourcing should take place at various levels within the organisation.

Exhibit III-14

Organisational Level for Business Operations Outsourcing



Approximately 20% of managers strongly perceive that business function outsourcing should take place on an enterprise-wide basis, while approximately 10% believe it should take place at the level of the individual department.

F

Business Operations Outsourcing Market is Valued at \$2.5 Billion Per Annum

Exhibit III-15 estimates the expenditure incurred by organisations in Europe for a number of support activities.

Exhibit III-15

Total Expenditure by Activity

Activity	Average Proportion of revenue (%)	European Expenditure (\$ Billion)	European Expenditure within Large Organisations (\$ Billion)	European Expenditure within SMEs (\$ Billion)
Accounting Services	0.38	46	14	32
- Accounts receivable	0.21	25	8	17
- Accounts payable	0.14	17	5	12
Payroll & Pensions Administration	0.15	18	6	12
- Payroll	0.09	9	3.2	7.2
- Pensions	0.06	6	2.3	5.2
HR Administration	0.14	16	5	11
- Personnel Records	0.05	6	1.7	3.9
- Training admin	0.05	6	1.9	4.2
- Severance	0.04	5	1.4	3.2
Supply Chain Management	4.20	500	155	350
- Procurement	0.70	85	25	60
- Logistics	3.50	420	130	290
Customer Administration	0.68	80	25	55
- Order taking and fulfilment	0.33	40	12	25
- Customer service desks	0.35	40	13	30
Marketing	3.34	400	120	280
- Administration	0.74	100	30	60
- Media advertising	2.60	300	100	220
IT Services	2.00	240	75	170
Total		1300	400	900

Source: INPUT

The keys to this analysis are the estimates of the proportions of their revenues that organisations, on average, spend on each activity. These average proportions, listed in column 2 of the chart, were derived from the PIMS database by PIMS Services.

The resulting figures include the staff and associated equipment costs of performing each activity but exclude the facilities cost (office accommodation) associated with the activity.

In addition, the total turnover of organisations in Europe is estimated to be approximately \$12,000 billion (ECU 10,000 billion - Source: Eurostat).

The total European expenditures listed in column 3 represent the market potentials for each business activity i.e. the value of the European market if all organisations totally outsourced this activity.

Columns 4 and 5 estimate the market potentials within the large organisation (greater than 500 employees) segment and the SME segment (less than 500 employees). Eurostat estimates that SMEs generate approximately 70% of total business turnover in Europe.

Exhibit III-16 estimates the annual new business outsourcing revenues accruing from the large organisation segment.

Exhibit III-16

Outsourcing Expenditure by Activity

Activity	European Expenditure within Large Organisations (\$ Billion)	Proportion of organisations out-tasking within three years (%)	3-Year Out-tasking New Business (\$ Million)	Annual New Business Outsourcing Revenues (\$ Million)
Accounting Services	14	2	280	30
- Accounts receivable	8			17
- Accounts payable	5			12
Payroll & Pensions	6		900	100
- Payroll	3.2	20	650	70
- Pensions	2.3	10	250	25
HR Administration	5		250	30
- Personnel Records	1.7	5	100	10
- Training admin	1.9	5	100	10
- Severance	1.4	5	70	8
Supply Chain Management	155		20000	2200
- Procurement	25	10	2500	300
- Logistics	130	13	17000	2000
Customer Administration	25		1500	170
- Order taking and fulfilment	12	8	1000	110
- Customer service desks	13	4	500	60
Total Business Operations Outsourcing	1100		23000	2500
IT Services	75	35	26000	3000
Overall total	330		50000	5500

Source: INPUT

These figures were derived on the basis of the following assumptions:

- Those organisations giving a rating of 4 or 5 in response to the question, "How likely is your organisation to outsource the following activity" will outsource that activity within 3 years

- These organisations will not outsource the entire workload related to the activity, but will typically outsource a third of the workload for each activity. No attempt has been made to differentiate between activities in this respect.

In addition, it has been assumed that major organisations are the major target for the outsourcing vendors originating in the IT services sector. However, it is apparent that in some activities, notably payroll outsourcing, a considerable proportion of the outsourcing activity for IT services companies originates in the SME segment.

In other activity areas, for example revenue collection there are already established vendors (factors) serving the SME segment.

Exhibit III-17 estimates the overall value added attributable to each industry sector in Europe.

Exhibit III-17

Value-Added by Sector

Industry sector	Approximate Proportion of European GDP (%)	European Value Added (\$ Billion)	European Value Added within Large Organisations (\$ Billion)	European Value Added within SMEs (\$ Billion)
Manufacturing	20	1500	440	1000
- Discrete	10	750	220	500
Manufacturing	10	750	220	500
- Process	10	750	220	500
Financial Services	10	750	220	500
- Banking	5	370	110	250
- Insurance	5	370	110	250
Distribution	25	1800	550	1300
- Retail	20	1500	440	1000
- Wholesale	5	370	110	250
Utilities	5	370	110	250
Services	15	1100	330	750
Total	75	5500	1600	3800

Source: INPUT

The total European value-added was estimated to be ECU 6000m (source: Eurostat). In addition, it was assumed that the proportions of value-added broken down by industry sector approximated to the proportions broken down by GDP.

In the future, elements of value added will be increasingly out-tasked by organisations. Exhibit III-18 estimates both the total size of the out-tasking opportunity by industry and the resulting size of the outsourcing market.

Exhibit III-18

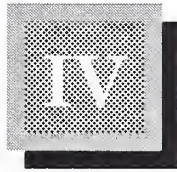
Out-tasking & Outsourcing Expenditure by Sector

Industry sector	European Value Added within Large Organisations (\$ Billion)	Proportion to be out-tasked within three years (%)	3-Year Out-tasking New Business (\$ Billion)	Annual Out-tasking New Business Revenues (\$ Billion)	Annual Outsourcing New Business Revenues (\$ million)
Manufacturing	440		70	23	2300
- Discrete Manufacturing	220	18	40	13	1300
- Process Manufacturing	220	13	30	10	1000
Financial Services	220		40	13	1300
- Banking	110	23	25	8	850
- Insurance	110	13	15	5	500
Distribution	550		80	25	2500
- Retail	440	16	70	23	2300
- Wholesale	110	6	7	2	200
Utilities	110	22	25	8	800
Services	330	17	55	20	2000
Total	1600		270	90	9000

Source: INPUT

The survey respondents estimated the proportion of in-house activity (value-added) that will be outsourced by the year 2000 and this data has been used as the basis of the proportion of value-added to be out-tasked within three years.

It has then been assumed that 10% of the total out-tasking market will emerge in the form of outsourcing contracts. No differentiation in this proportion has been made between industry sectors.



Industry Sector Opportunities

A

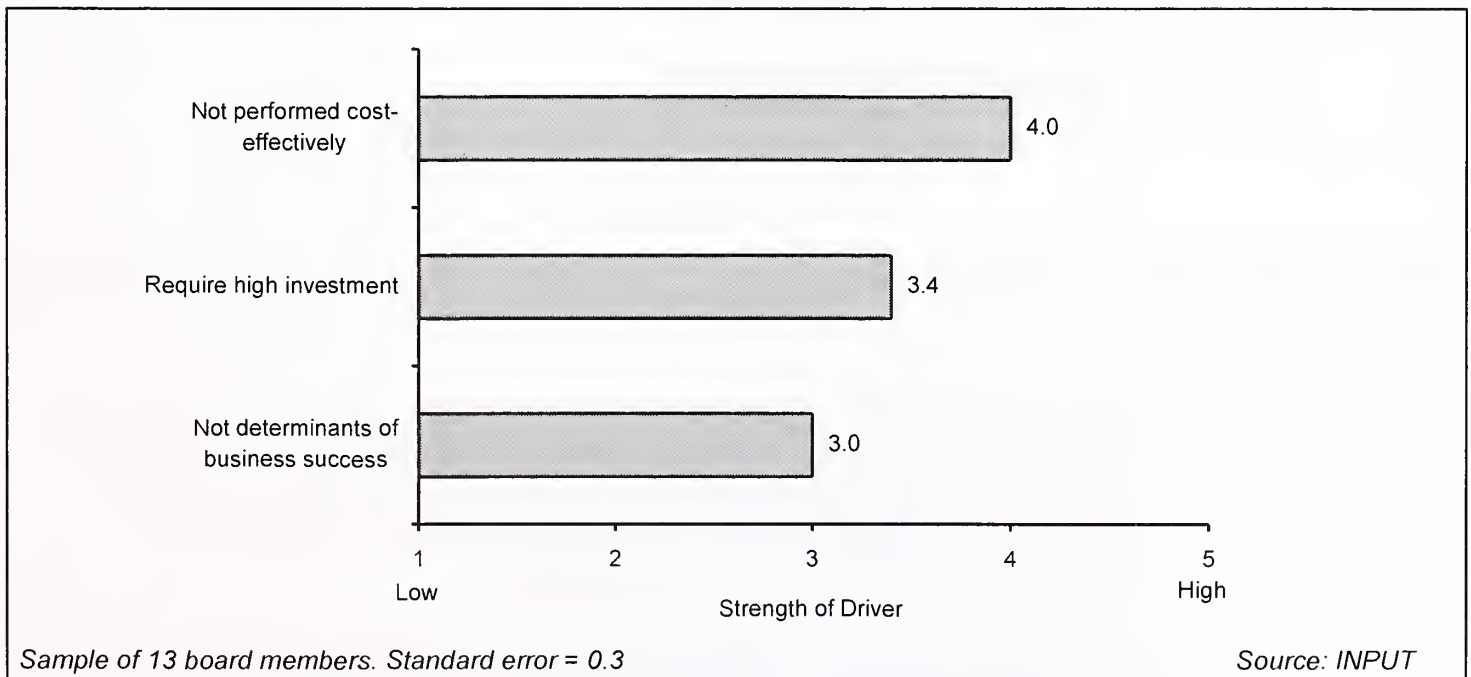
Banking

Organisations in the banking sector exhibit a comparatively high level of enthusiasm for the concept of the virtual corporation, making this sector a prime candidate for the adoption of business process outsourcing.

Exhibit IV-1 lists the relative importance of a number of potential drivers of business operations outsourcing in the banking sector.

Exhibit IV-1

Drivers of Business Operations Outsourcing: Banking



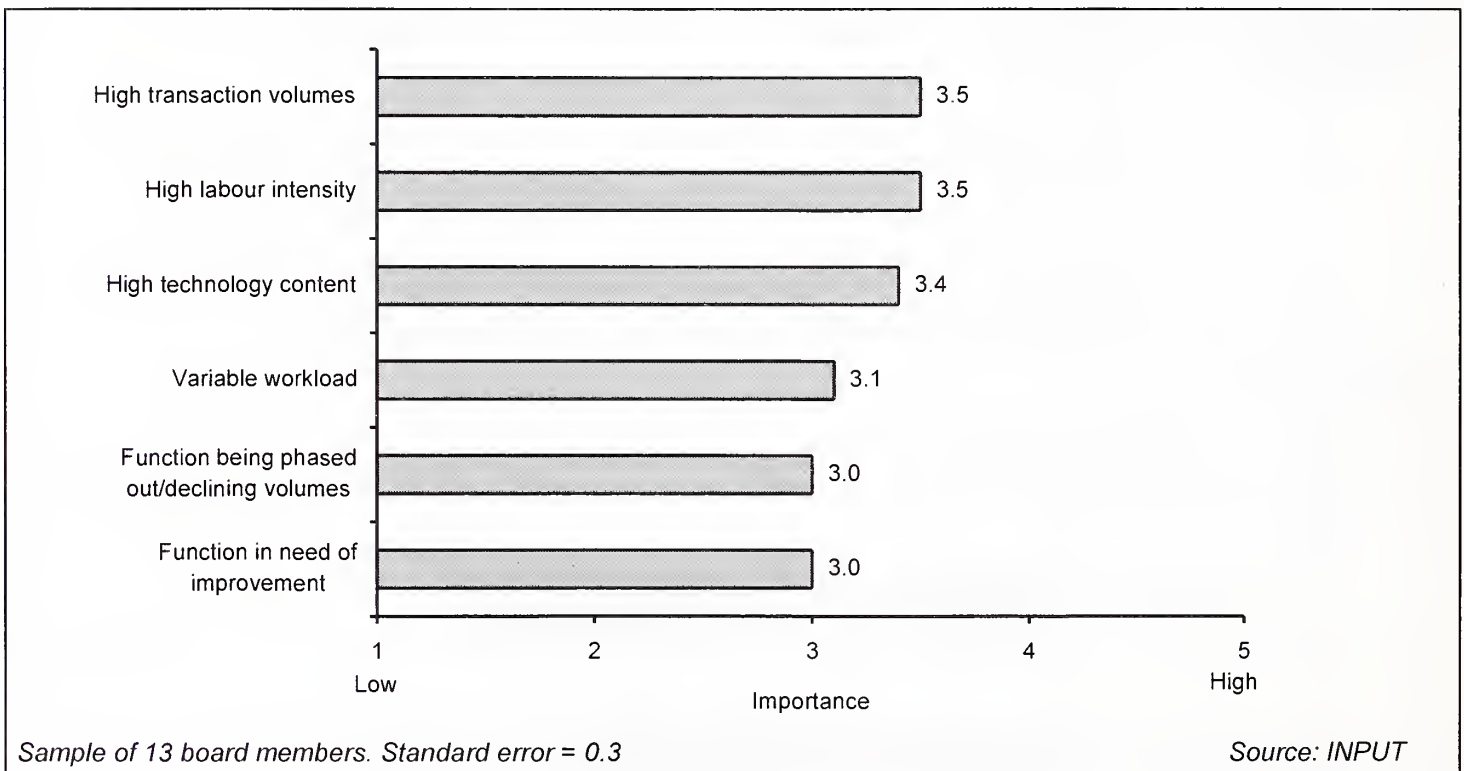
Despite the sector's high core business focus, a drive for greater efficiency is perceived to be the major factor driving business process outsourcing in the banking sector followed by a need to fund high levels of investment.

These factors are already beginning to have a significant impact on IT outsourcing in the banking sector, with a number of banks outsourcing their datacentres in the last year and others signing network management contracts to avoid the high investment required to re-implement their WAN infrastructures.

Exhibit IV-2 lists the extent to which other process attributes are associated with process outsourcing in the banking sector.

Exhibit IV-2

Major Characteristics of Processes Selected for Outsourcing: Banking



High labour intensity is seen to be an important factor, with many of the leading banks engaged in major programmes to reduce their number of employees. This is particularly true in the retail banking sector where the banks are in the process of making the transition from branch banking to telephone or electronic banking.

In this area, any vendor offerings that could utilise both existing staff and existing premises would be extremely attractive to the banking sector.

Activities with high transaction volumes have already been a source of processing contracts in the banking sector. In France, a number of vendors, for example Axime, specialise in cheque and credit card processing and in the U.K. contracts have been awarded for cheque processing.

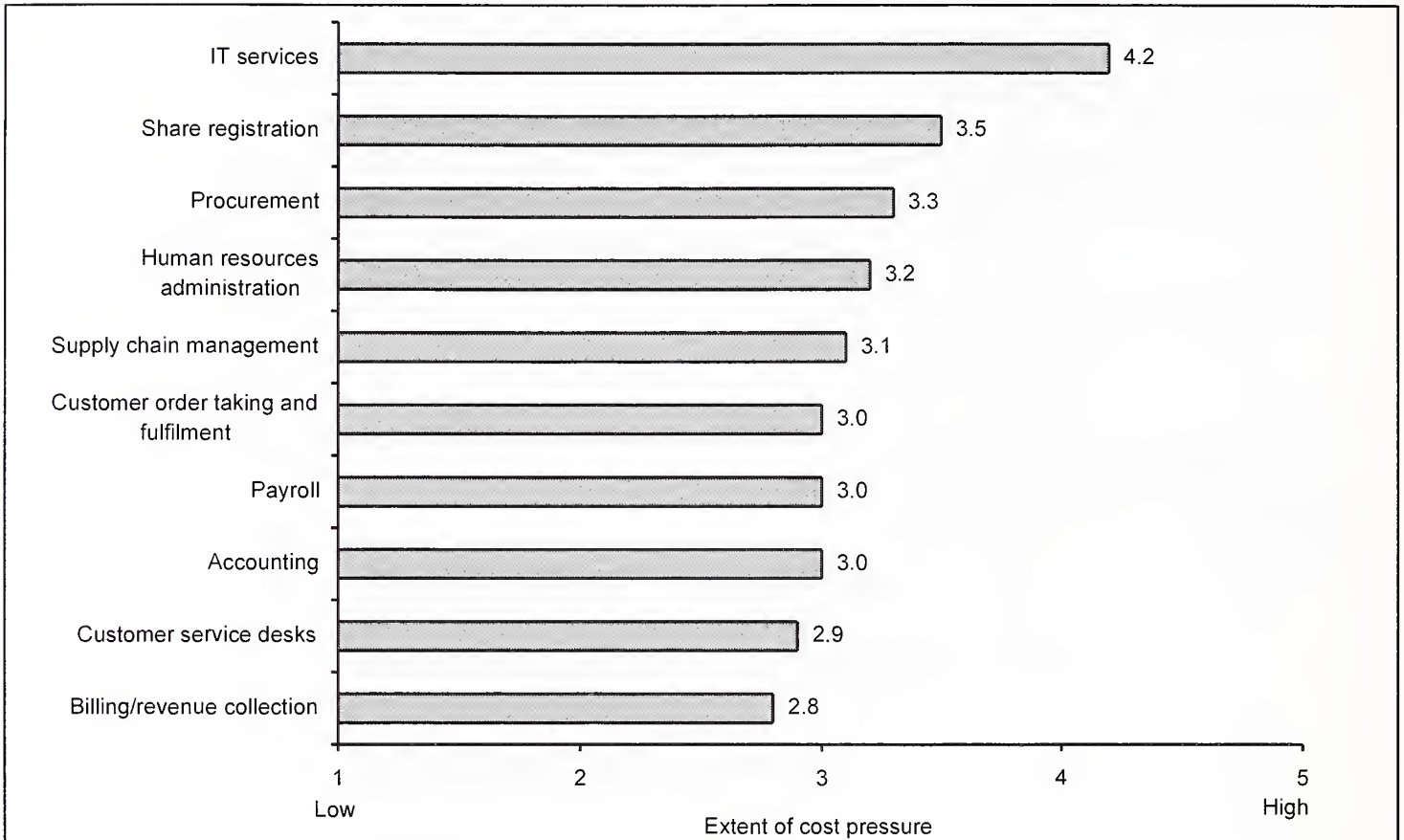
Cheque processing is particularly appropriate for outsourcing. Banks do not wish to continue to invest in this activity as the use of personal cheques is expected to decline in favour of electronic banking methods. At the same time, a reduction in volumes processed will lead to an increased cost per transaction.

Exhibits IV-3 to IV-5 list the extent to which a number of business functions within the banking sector are perceived to be:

- Subject to a high level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-3

Cost Pressure by Business Function: Banking



Sample of 13 board members. Standard error = 0.2

Source: INPUT

Exhibit IV-4

Competitive Pressure by Business Function: Banking

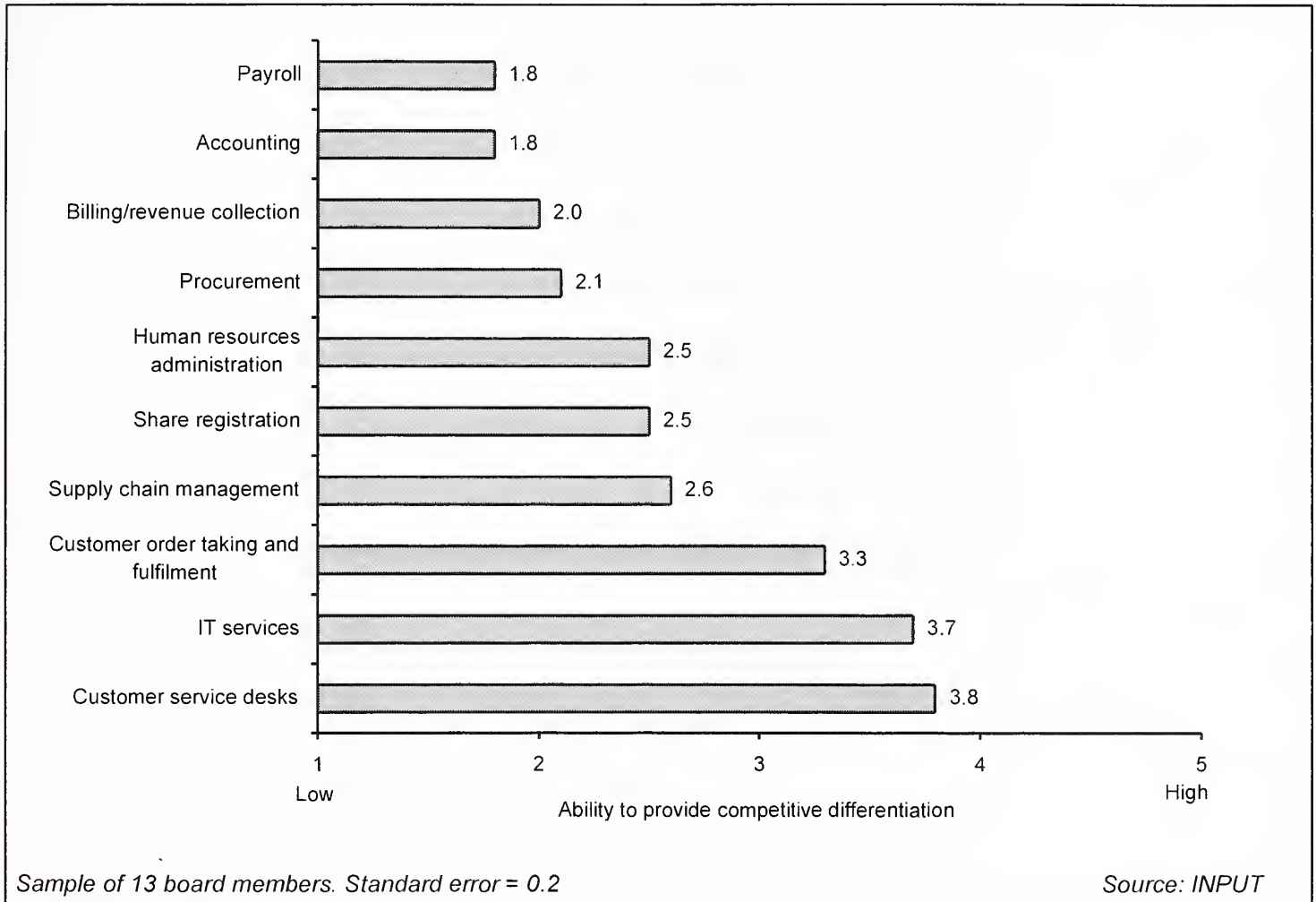
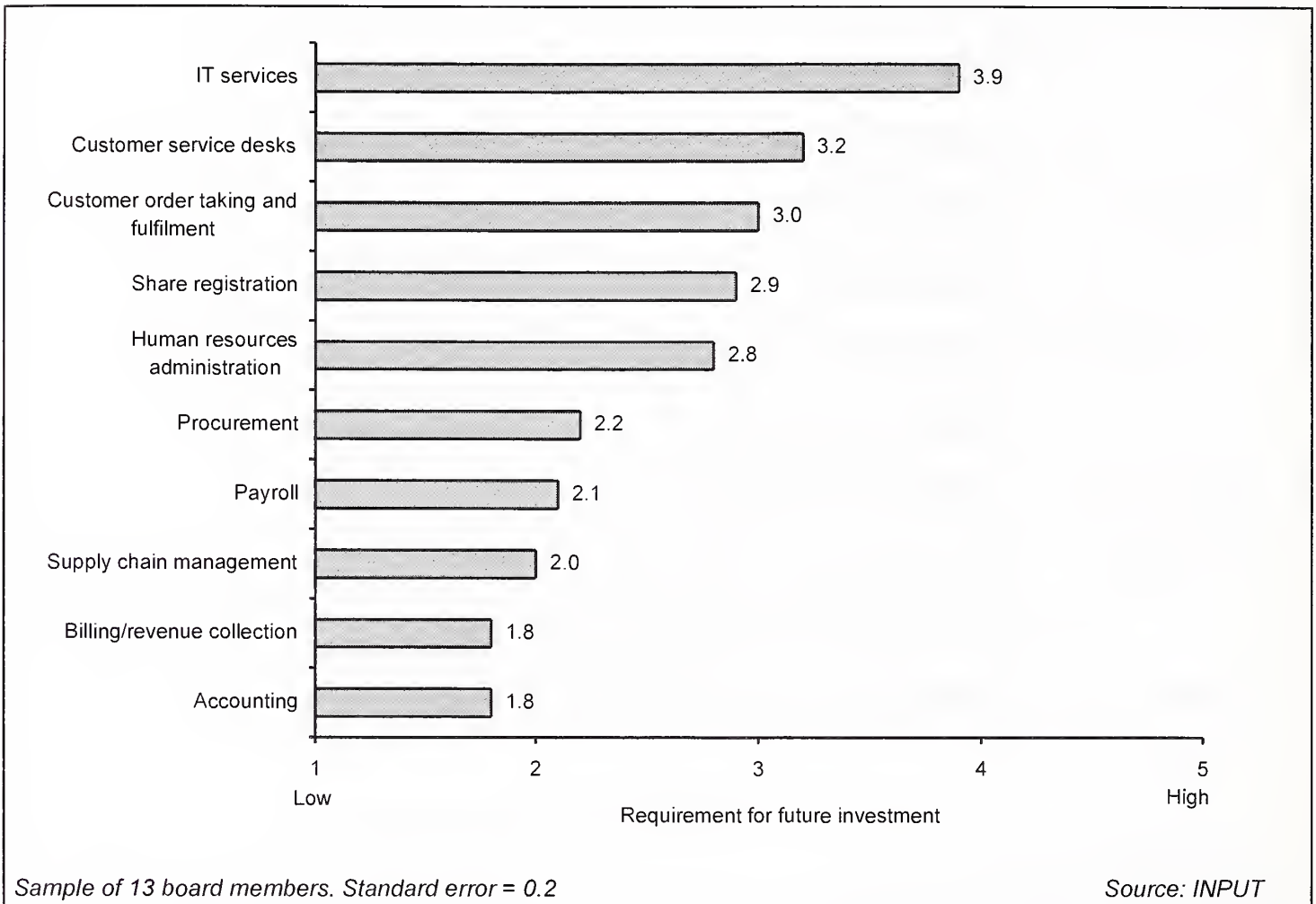


Exhibit IV-5

Investment Pressure by Business Function: Banking

IT services are perceived to be under considerable cost and investment pressure in the banking sector, yet are seen to be important in assisting the organisation achieve competitive differentiation.

Accordingly, the level of IT outsourcing in the banking sector will continue to increase but the pattern of outsourcing will frequently be selective in order for the banking organisation to maintain a high degree of control over its use of IT.

As the banking sector moves to electronic rather than branch banking, so customer services desks will become increasingly vital for the industry and this is reflected in the high rating given to customer service desks as a means of competitive differentiation.

In addition, customer service desks are currently perceived to face some investment pressure but only low levels of cost pressure. This cost pressure will increase as organisations switch to electronic service

delivery. However, it is unlikely that major banks will be prepared to outsource their customer service desks in the short-term.

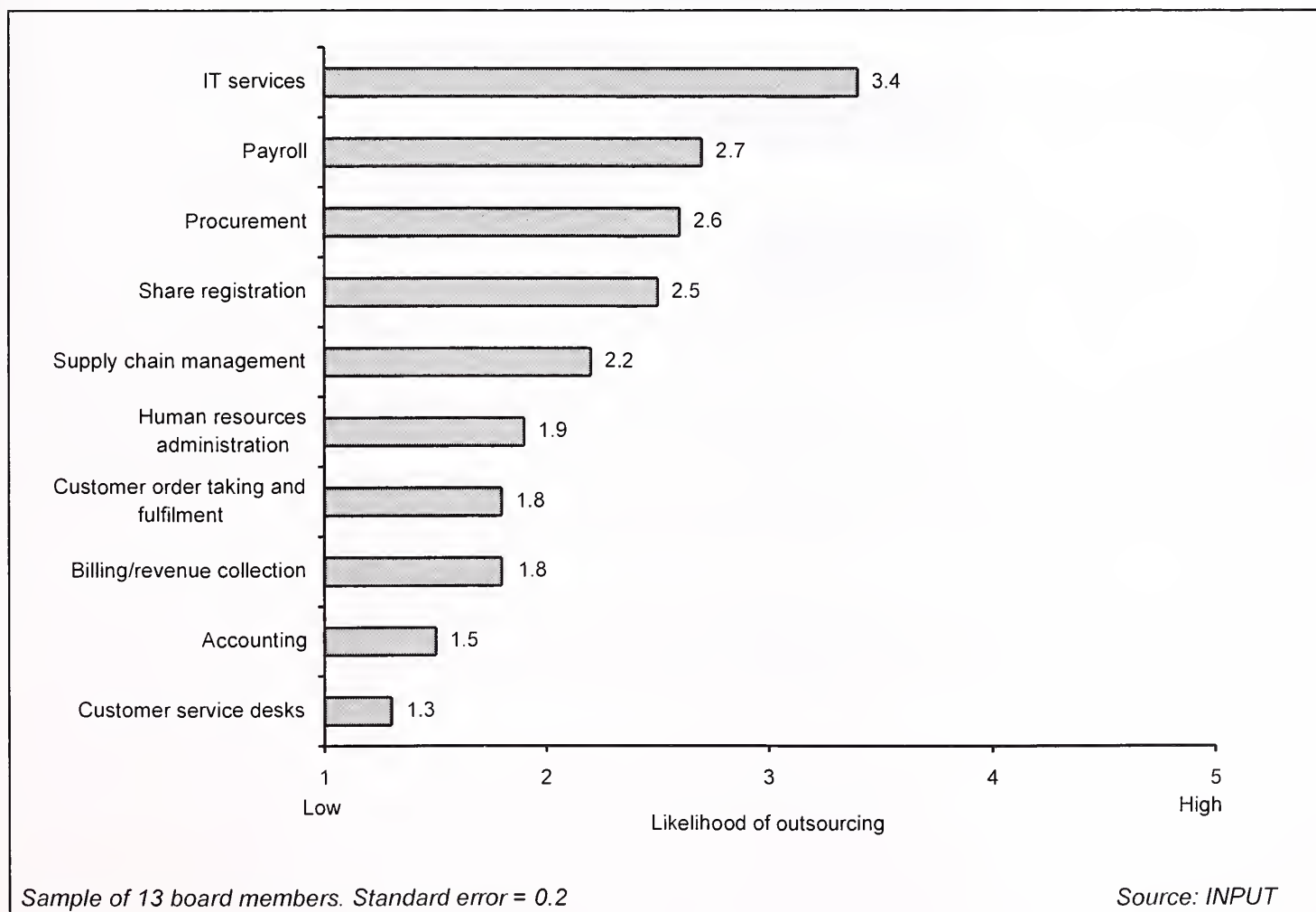
While banks are unlikely to outsource customer service desks handling banking queries, the banks will be faced with a new need to provide their clients with technical support relating to their use of electronic banking and this could become a major support opportunity for outsourcing vendors.

Securities processing is another back-office function within the banking sector that is under significant cost pressure and is a potential candidate for business operations outsourcing.

Exhibit IV-6 shows the propensity of organisations in the banking sector to outsource each of a number of activities.

Exhibit IV-6

Business Operations Outsourcing Intentions: Banking



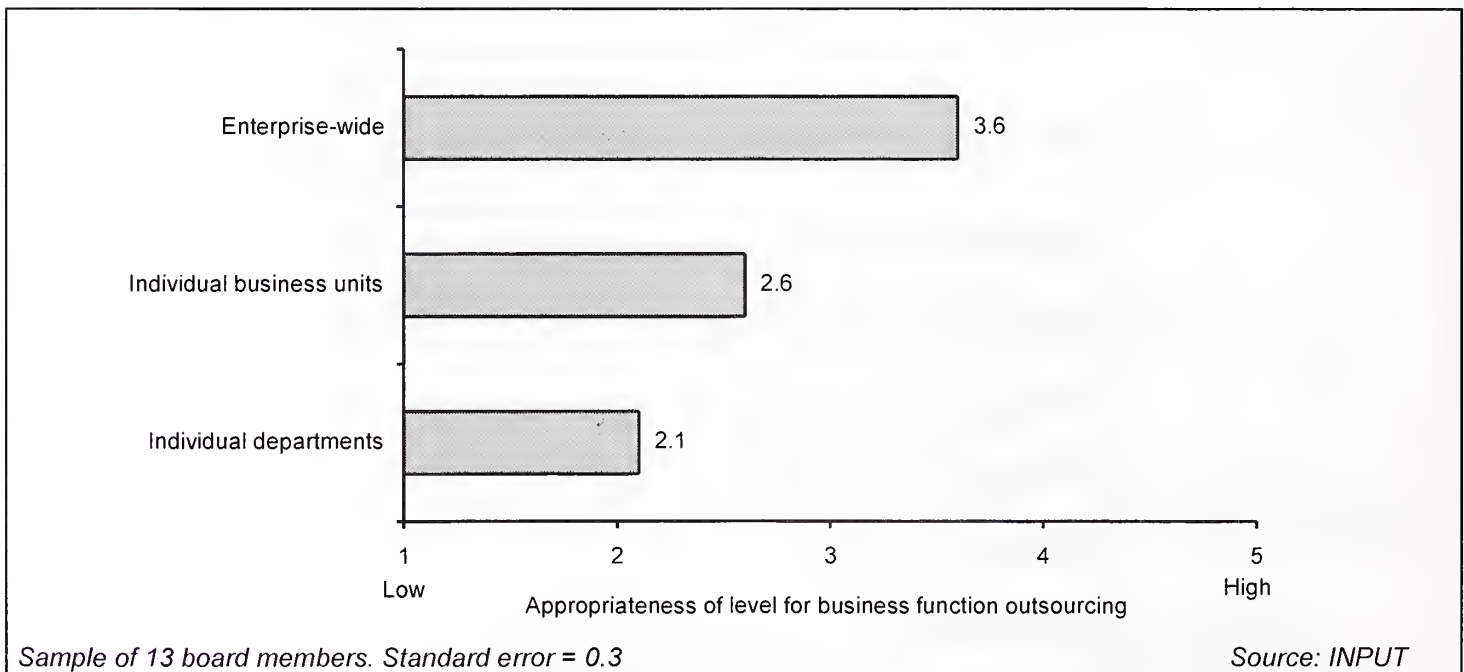
The highest level of outsourcing activity will continue to be for IT services. However, opportunities are also emerging for the supply of payroll and human resources administration services and for payments and securities handling.

For example, TSB Bank has already signed a major contract for managed payroll services with Capita in the U.K.

Managers within the banking sector perceive that business process outsourcing is most appropriate at the enterprise-level rather than at the business unit or departmental level (Exhibit IV-7).

Exhibit IV-7

Organisational Level of Business Operations Outsourcing: Banking



B

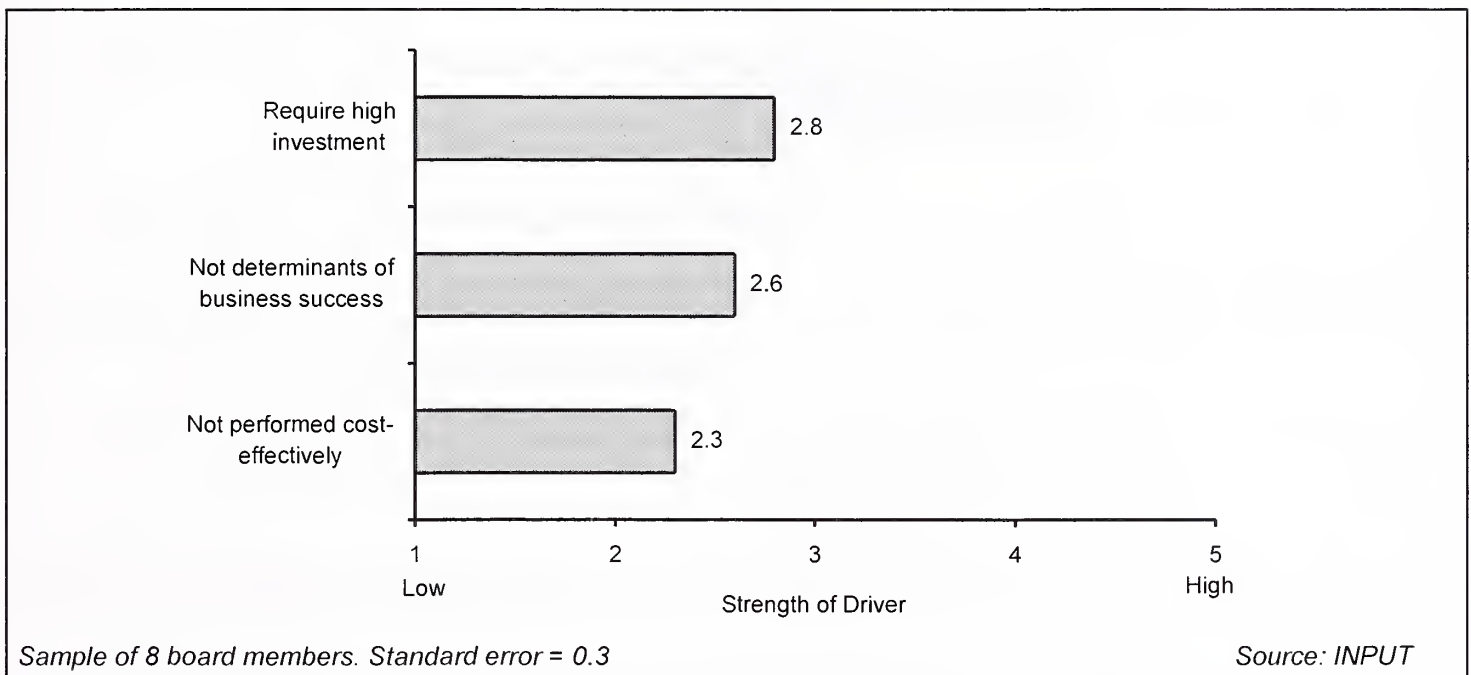
Insurance

Unlike organisations in the banking sector, organisations in the insurance sector do not perceive inability to perform activities cost-effectively in-house as a major driver for business operations outsourcing.

Exhibit IV-8 lists the relative importance of a number of potential drivers of business function outsourcing in the insurance sector.

Exhibit IV-8

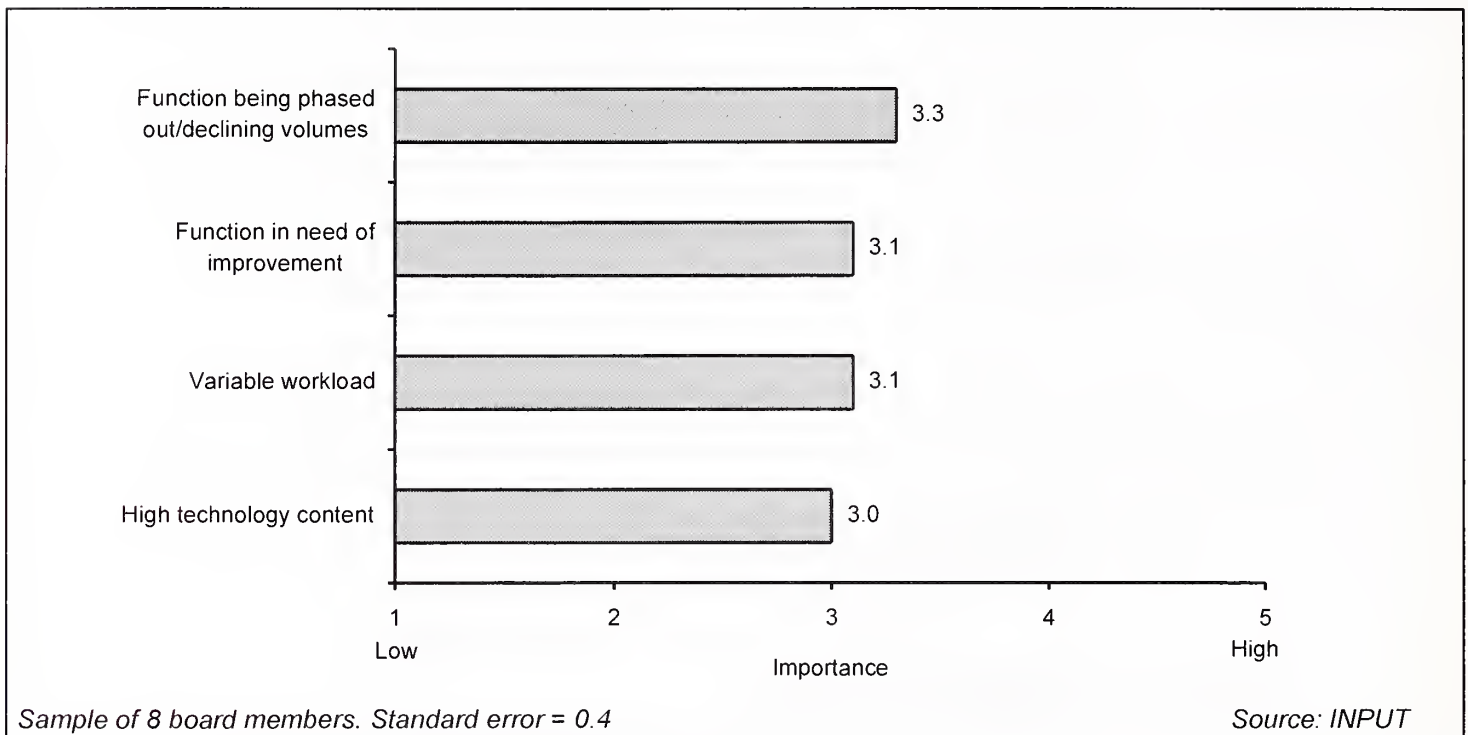
Drivers of Business Function Outsourcing: Insurance



Indeed the need for high levels of investment is perceived to be a more important factor.

Exhibit IV-9 lists the extent to which other process attributes are associated with process outsourcing in the insurance sector.

Exhibit IV-9

Major Characteristics of Processes Selected for Outsourcing: Insurance

The main factor expected to drive process outsourcing in the insurance sector is declining volumes as service streams become obsolete.

The types of opportunity that may emerge from this consolidation within the insurance sector are described in more detail in Chapter V.

Exhibits IV-10 to IV-12 list the extent to which a number of business functions within the insurance sector are perceived to be:

- Subject to a high level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-10

Cost Pressure by Business Function: Insurance

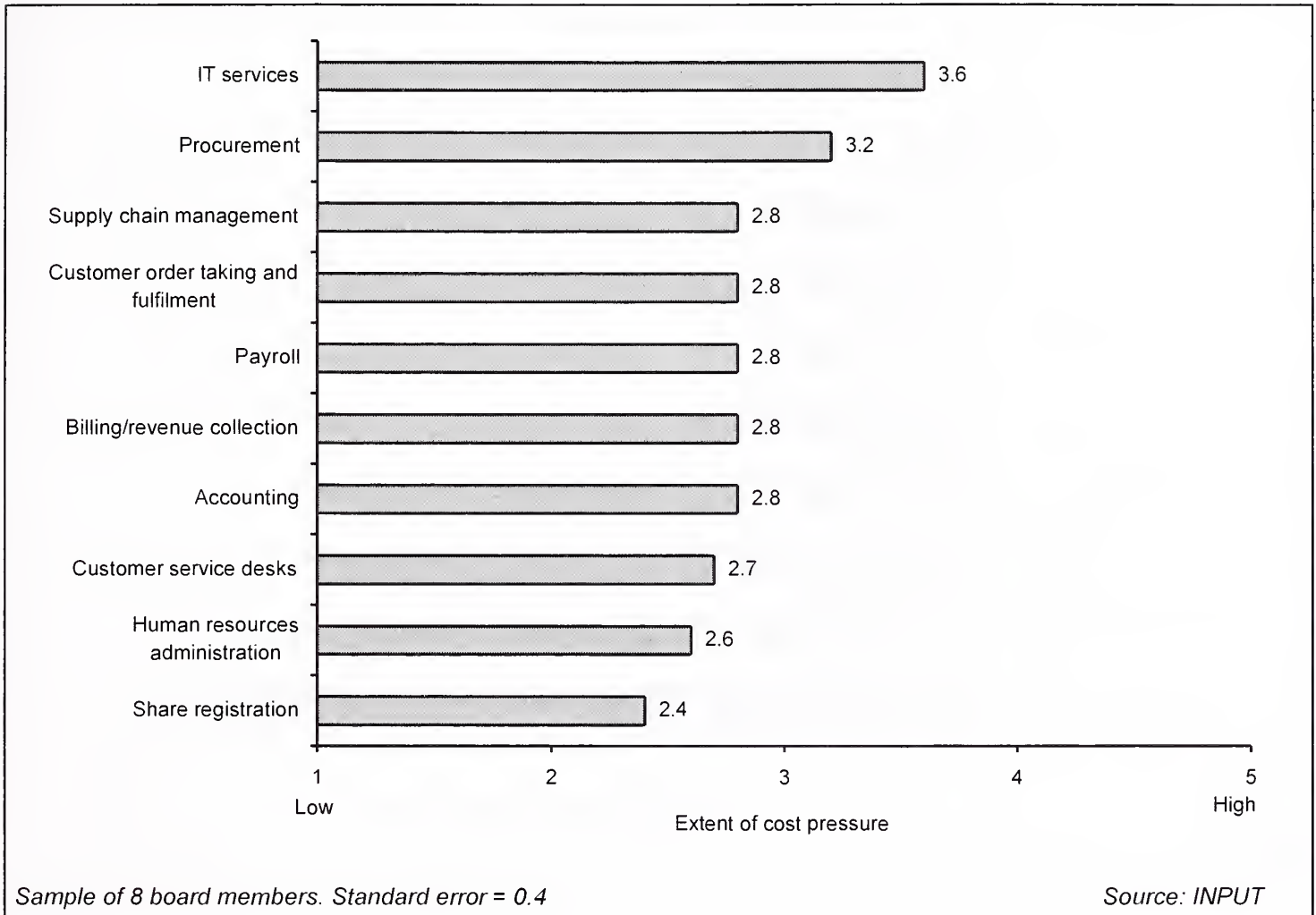


Exhibit IV-11

Competitive Pressure by Business Function: Insurance

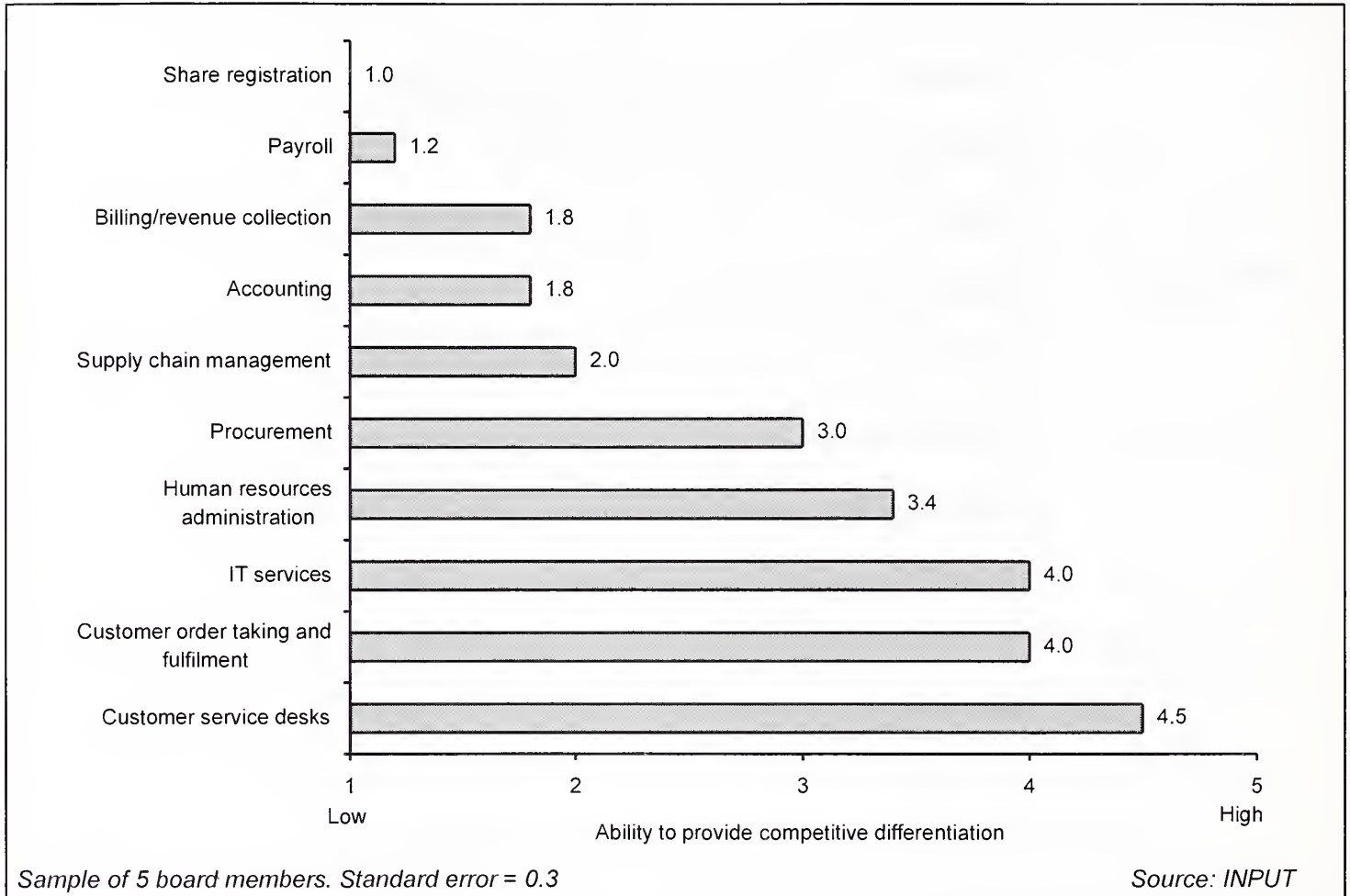
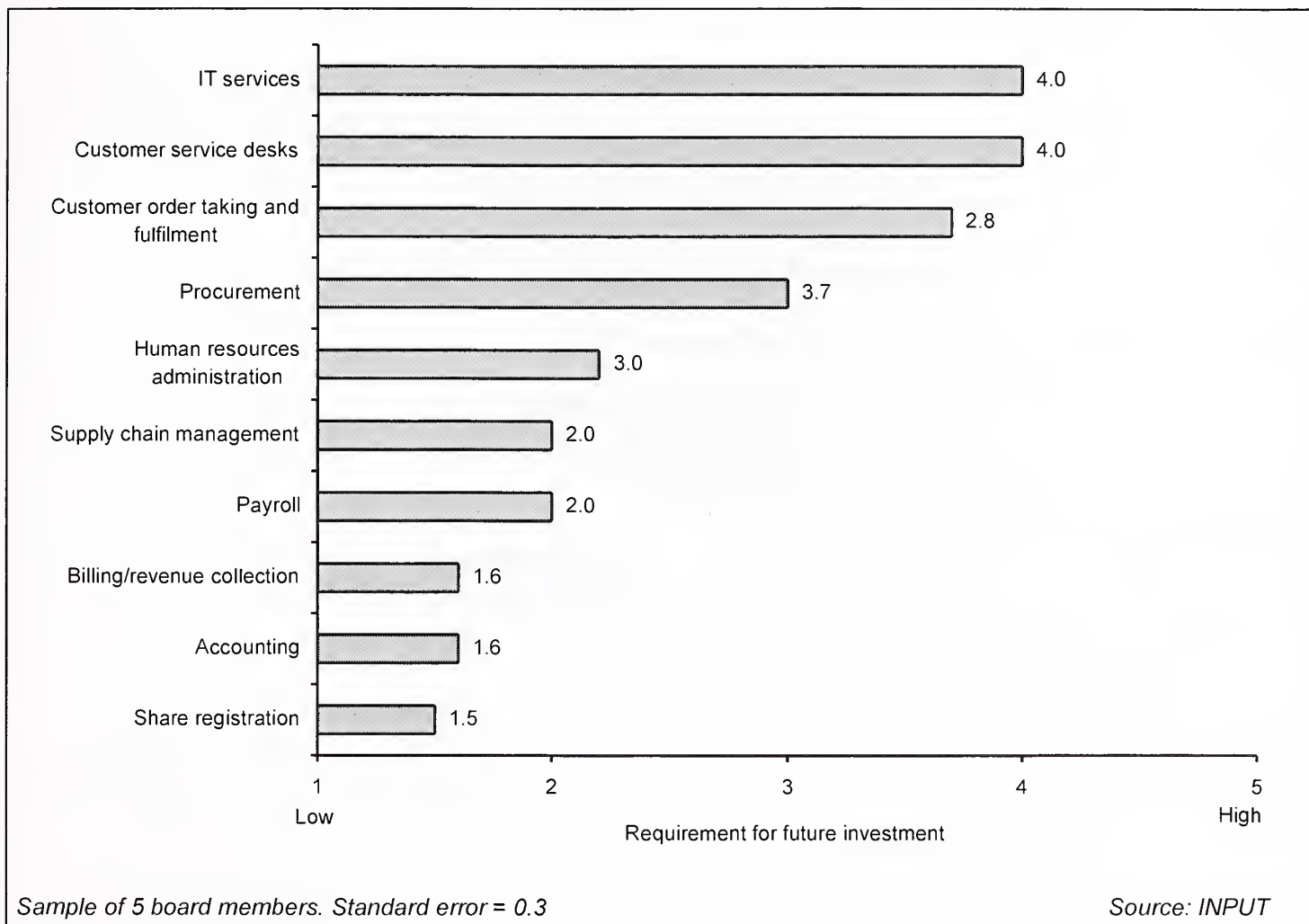


Exhibit IV-12

Investment Pressure by Business Function: Insurance



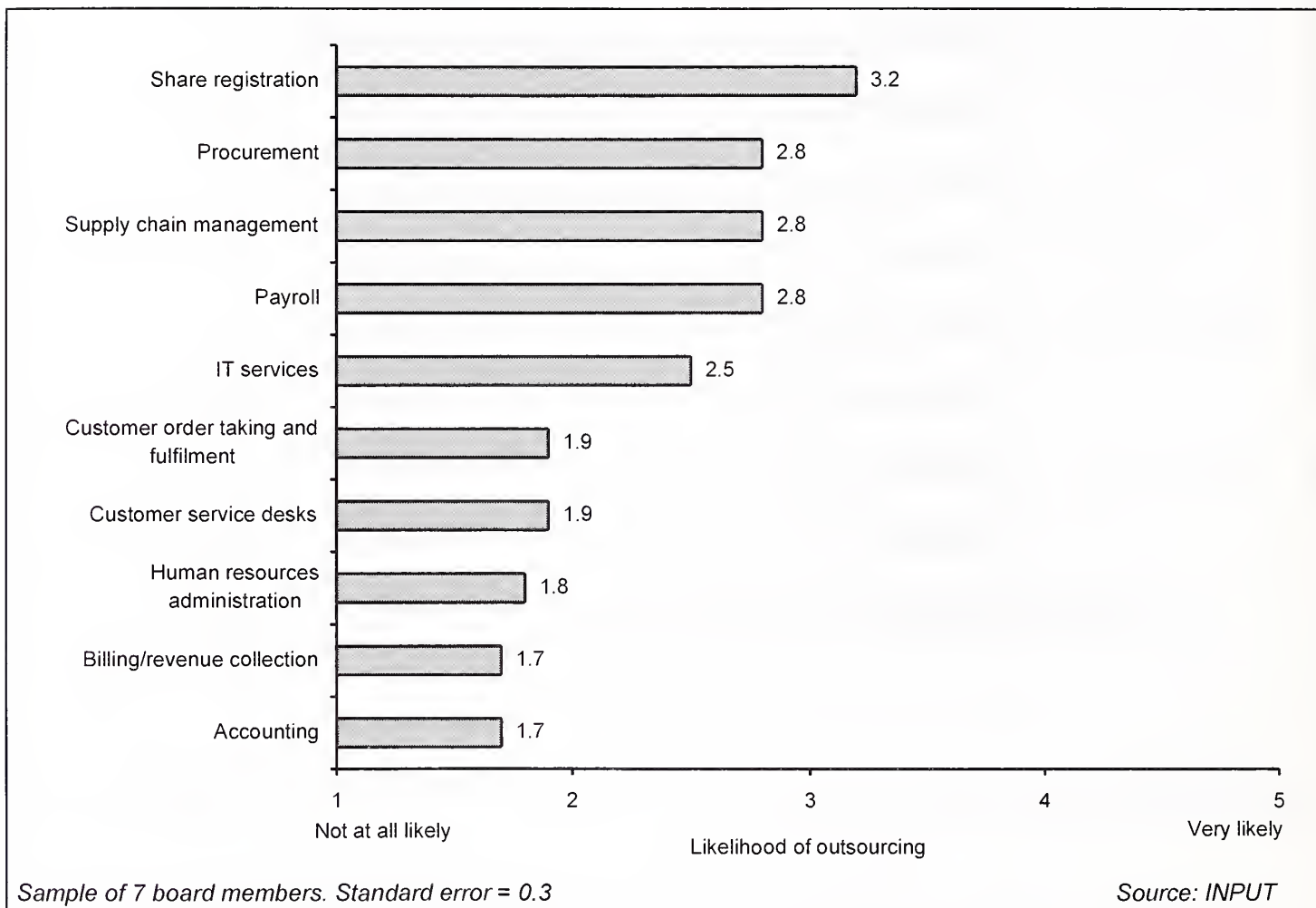
The three functions facing the highest investment pressure in the insurance sector, namely IT services, customer service desks and customer order taking and fulfilment are simultaneously the three functions perceived to provide organisations with their greatest competitive differentiation.

The insurance sector is comparatively conservative in its approach and is unlikely to significantly outsource customer service desks and customer order taking and fulfilment for ongoing services. The principal business operations outsourcing opportunity in the insurance sector appears to be in handling the administrative activities for service lines that are no longer marketed.

Exhibit IV-13 lists the propensity of organisations in the insurance sector to outsource each of a number of activities.

Exhibit IV-13

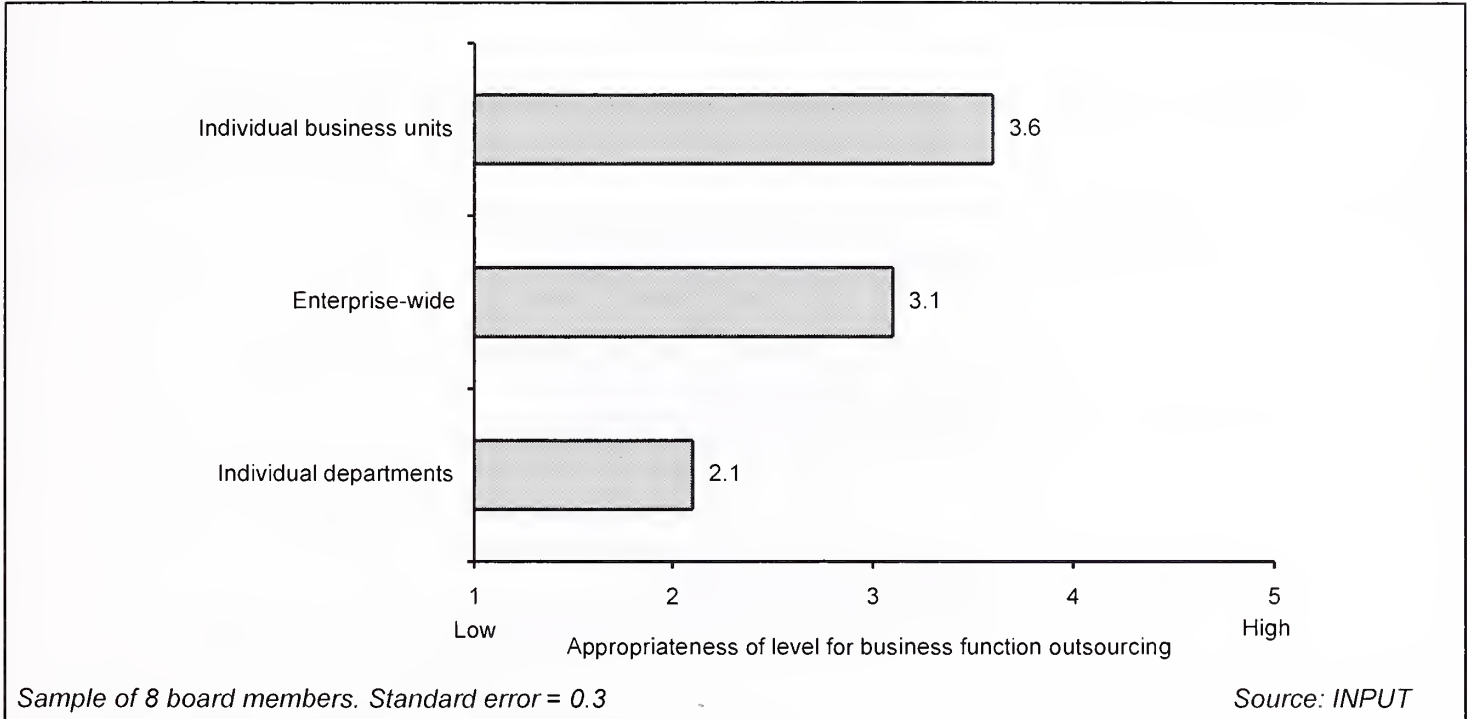
Business Operations Outsourcing Intentions: Insurance



Managers within the insurance sector perceive business process outsourcing to be most appropriate at the business unit level rather than at enterprise level (Exhibit IV-14).

Exhibit IV-14

Organisational Level of Business Operations Outsourcing: Insurance



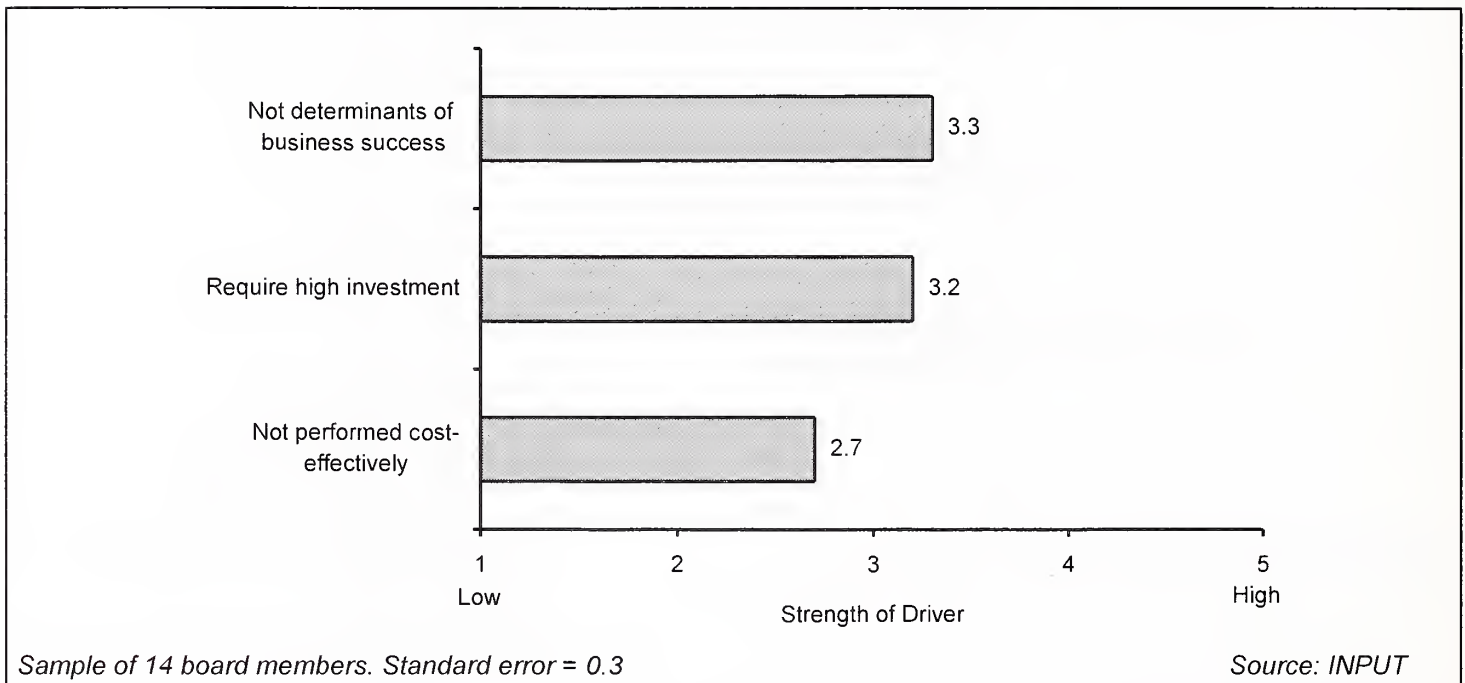
C

Discrete Manufacturing

Exhibit IV-15 lists the relative importance of a number of potential drivers of business function outsourcing in the discrete manufacturing sector.

Exhibit IV-15

Drivers of Business Function Outsourcing: Discrete Manufacturing



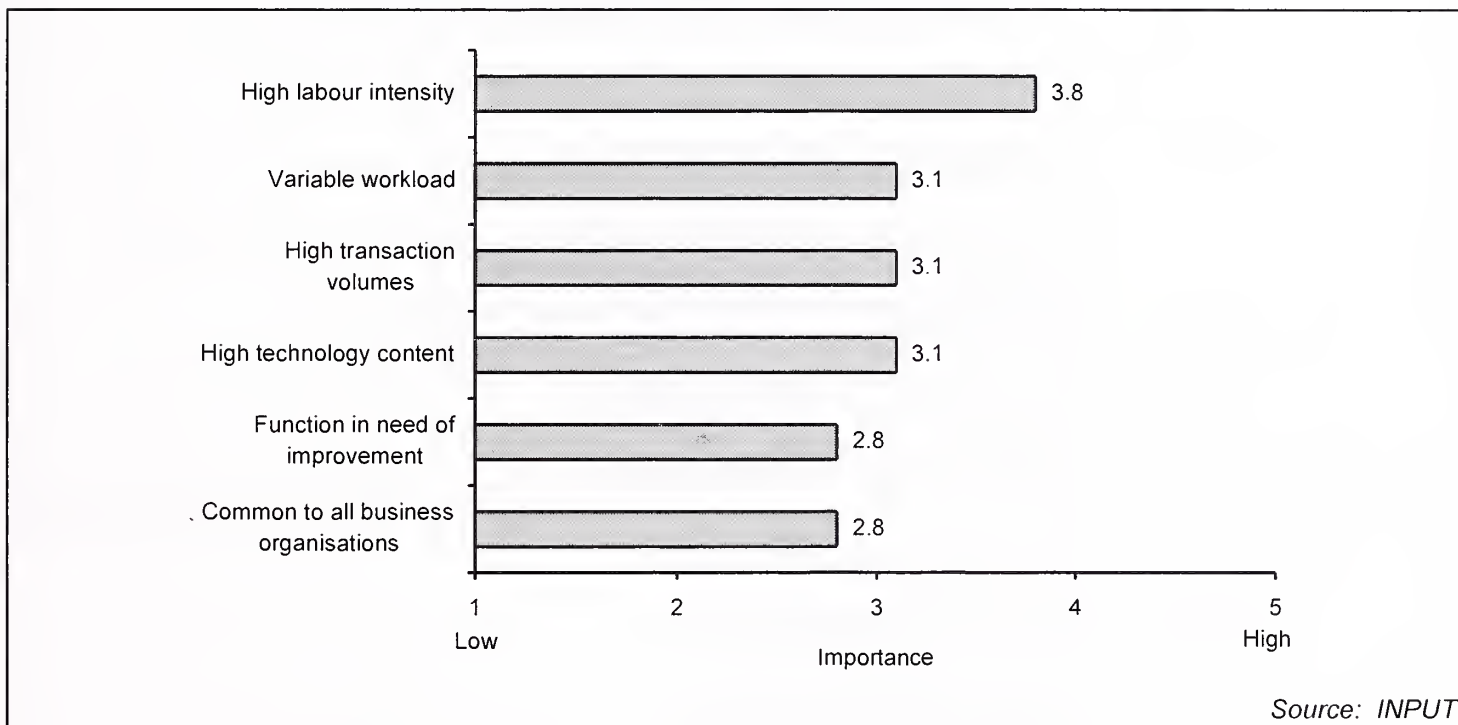
Organisations in the discrete manufacturing sector appear to judge business processes on their suitability for outsourcing primarily on the basis of their core relevance rather than the cost-effectiveness with which they are currently performed.

Exhibit IV-16 lists the extent to which other process attributes are associated with business process outsourcing in the discrete manufacturing sector.

High labour intensity is seen to be the major factor. In particular, many organisations in the discrete manufacturing sector are moving their production facilities out of Europe to regions of low labour cost.

Exhibit IV-16

**Major Characteristics of Processes Selected for Outsourcing:
Discrete Manufacturing**



Exhibits IV-17 to IV-19 list the extent to which a number of business functions within the discrete manufacturing sector are perceived to be

- Subject to a high level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-17

Cost Pressure by Business Function: Discrete Manufacturing

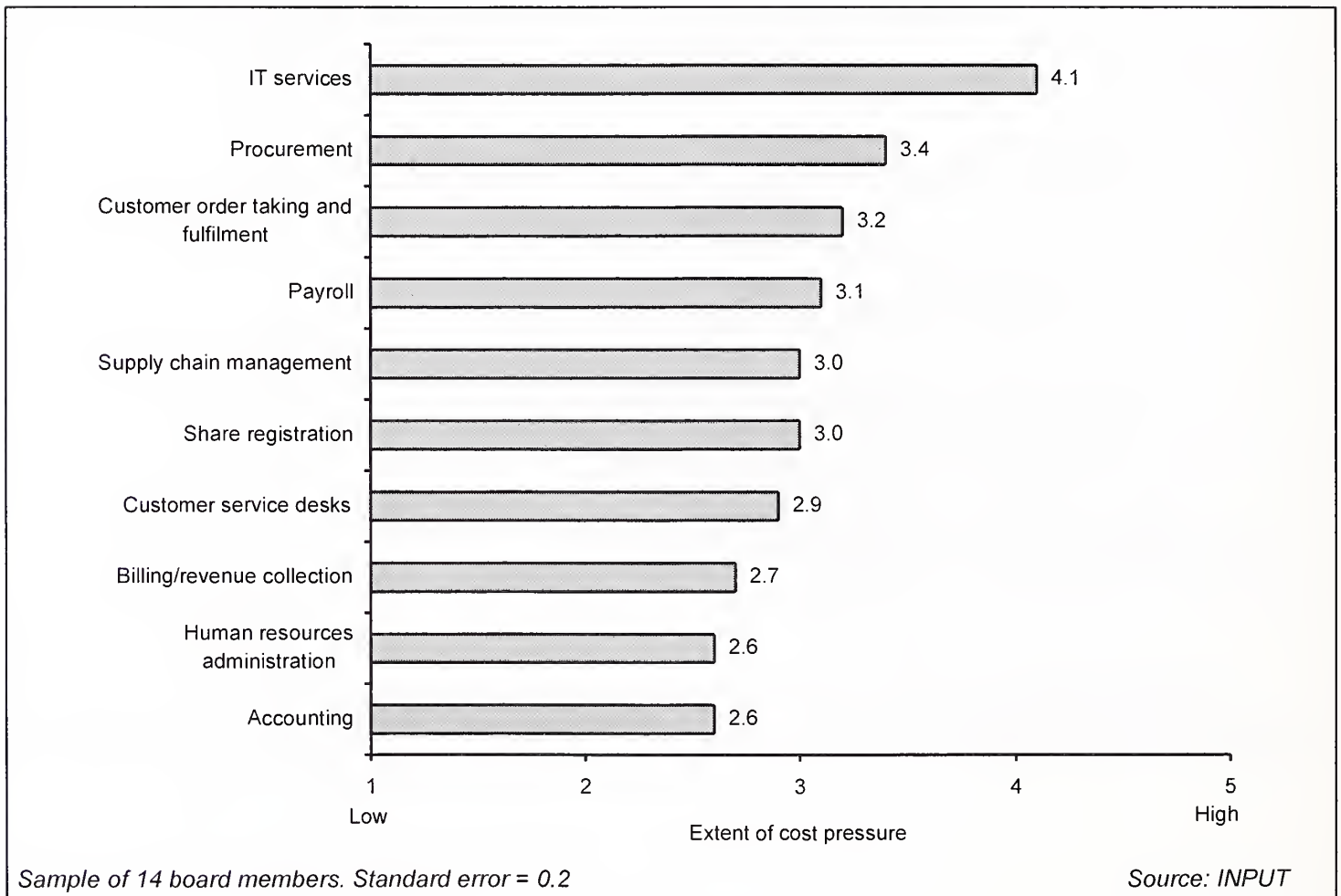


Exhibit IV-18

Competitive Pressure by Business Function: Discrete Manufacturing

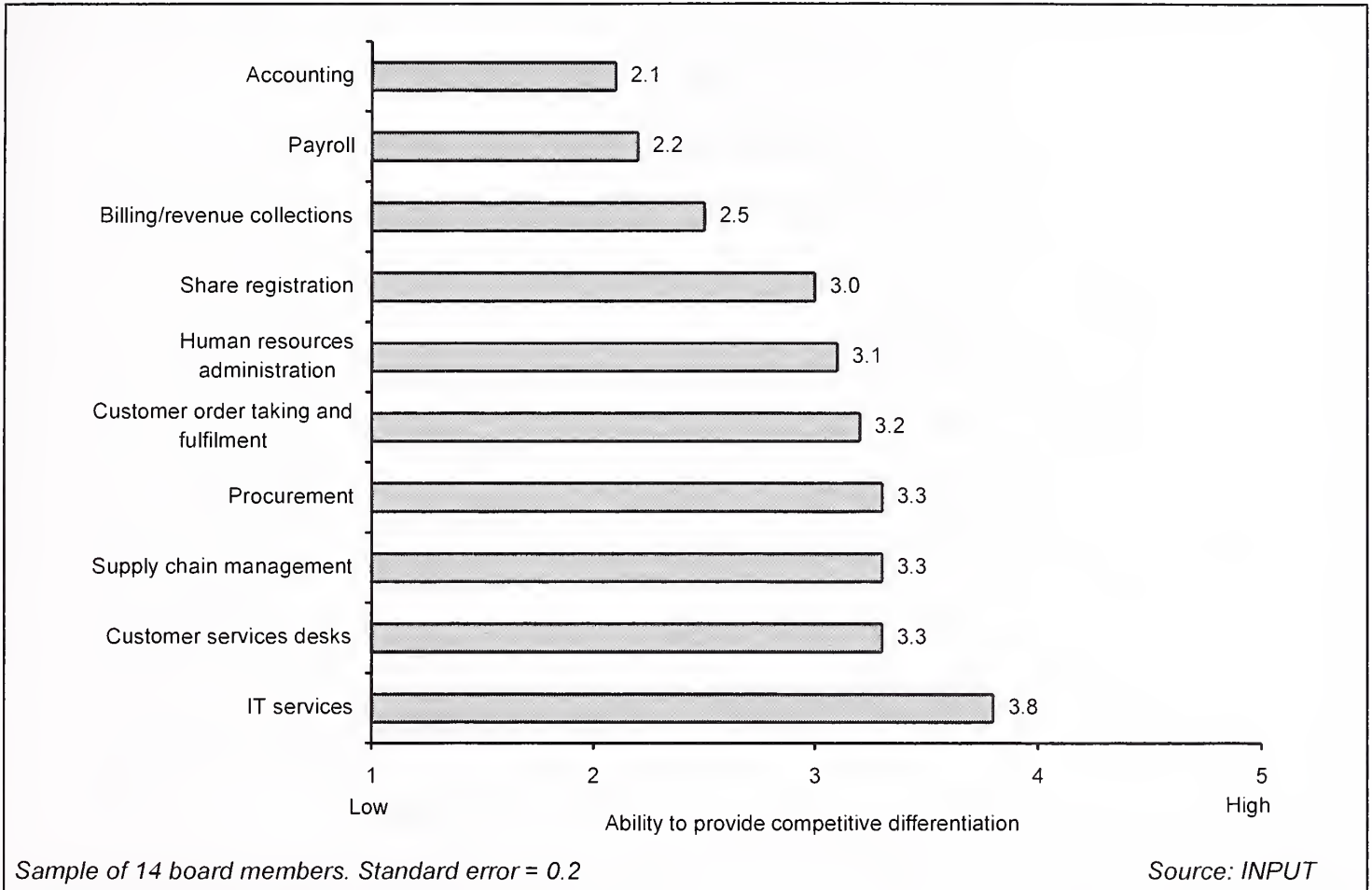
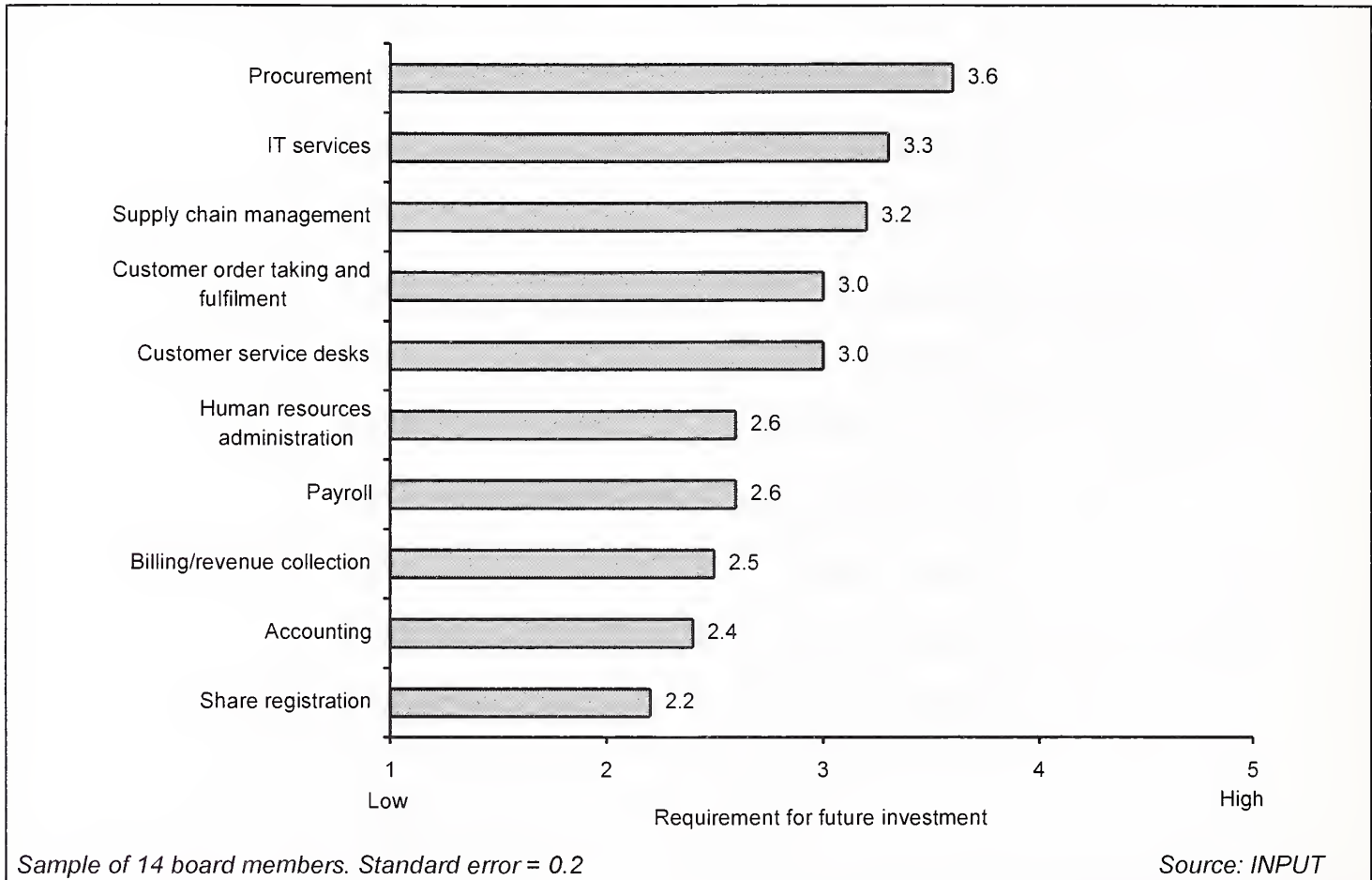


Exhibit IV-19

Investment Pressure by Business Function: Discrete Manufacturing

The five areas under most investment pressure in the discrete manufacturing sector are:

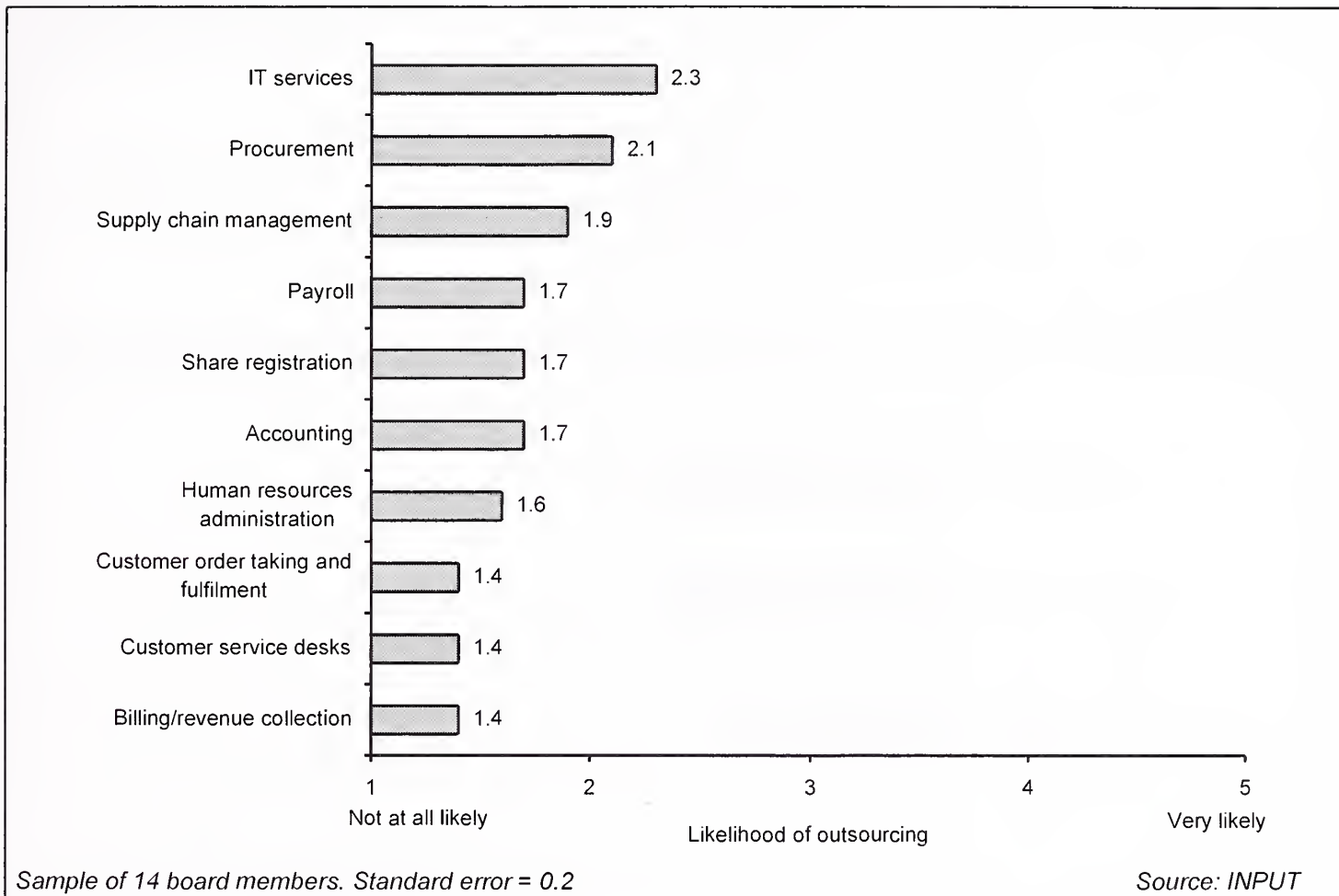
- Procurement
- IT services
- Supply chain management
- Customer order taking and fulfilment
- Customer service desks.

Of these, cost pressure is highest for IT services, procurement and customer order taking and fulfilment, all of which present potential opportunities for outsourcing vendors.

Exhibit IV-20 shows the propensity of organisations in the discrete manufacturing sector to outsource each of a number of activities.

Exhibit IV-20

Business Operations Outsourcing Intentions: Discrete Manufacturing



The principal opportunities for vendors appear to be in outsourcing IT services, procurement services and supply chain management.

The challenge for vendors is implementing these in a manner that benefits the client by reengineering the process and sharing the reengineered facility across a number of organisations.

It can sometimes be difficult for the vendor to justify reengineering on behalf of a single client given that the contract can be expected to include:

- Improved service levels
- Reducing transaction costs over time.

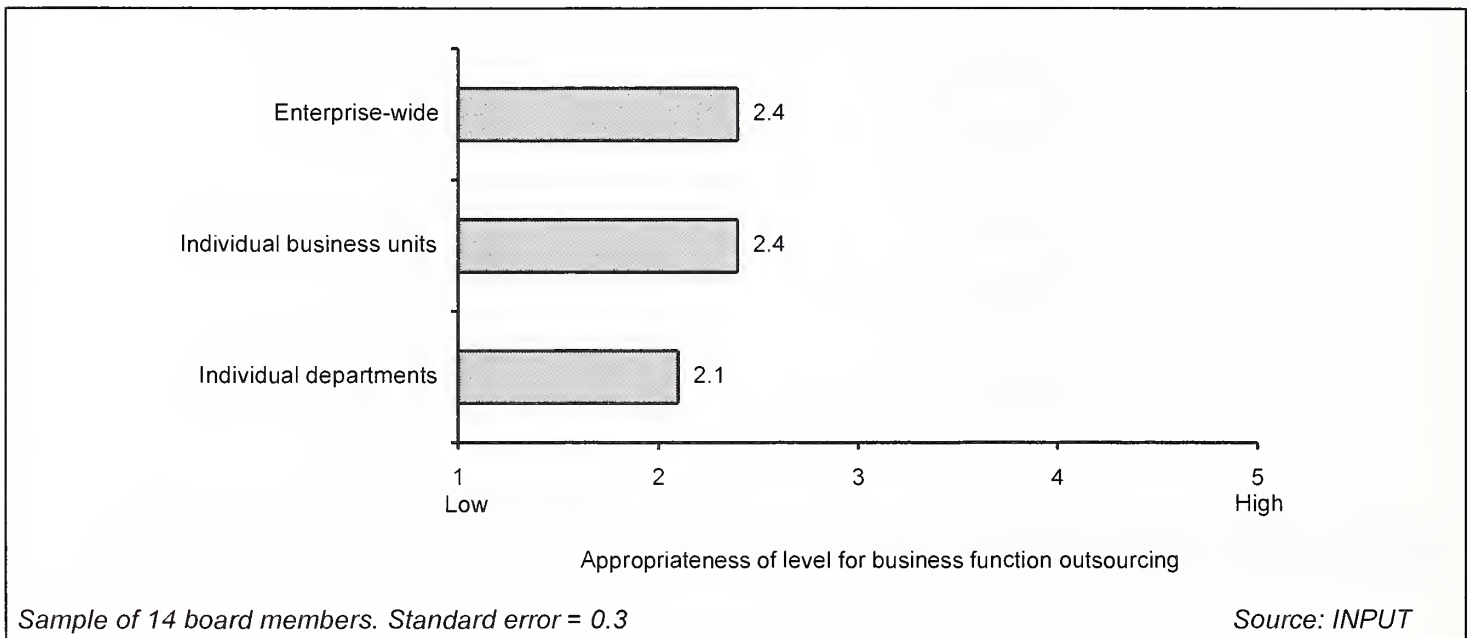
However, without reengineering the process, it may be difficult to achieve an ongoing reduction in transaction costs.

Ideally, the vendor needs to identify a group of organisations with common processes, which probably means a specific industry sub-sector, who wish to reduce the investment and costs related to a process such as supply chain management, but do not see this activity as a major source of competitive differentiation.

Managers within the discrete manufacturing sector perceive business process outsourcing to be most appropriate at the enterprise or business unit level rather than at the departmental level (Exhibit IV-21).

Exhibit IV-21

Organisational Level of Business Operations Outsourcing: Discrete Manufacturing



D

Process Manufacturing

Managers in the process manufacturing sector exhibit the highest level of enthusiasm of any sector for the concept of the virtual corporation, making this sector one of the prime candidates for the adoption of business process outsourcing.

Indeed this sector already contains the best example in Europe of a sub-sector which has outsourced a business process to an individual vendor. So far, five oil companies operating in the North Sea have outsourced the provision of day-to-day accounting services to Andersen Consulting.

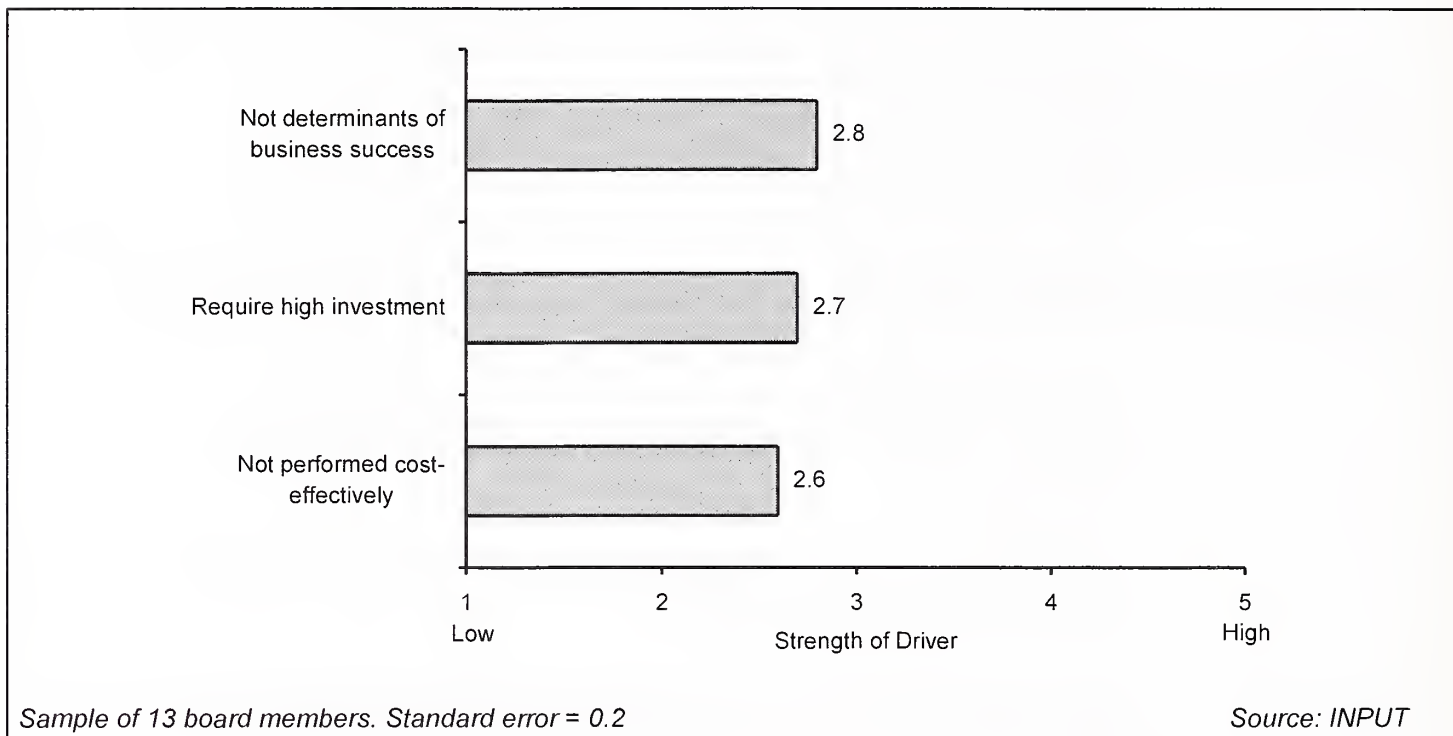
Overall, oil companies are used to subcontracting much of their business activity including for example exploration and rig production, and companies such as BP have undertaken massive downsizing exercises in recent years.

This philosophy is also evident to a less marked extent elsewhere in the process manufacturing sector.

Exhibit IV-22 lists the relative importance of a number of potential drivers of business function outsourcing in the process manufacturing sector.

Exhibit IV-22

Drivers of Business Function Outsourcing: Process Manufacturing

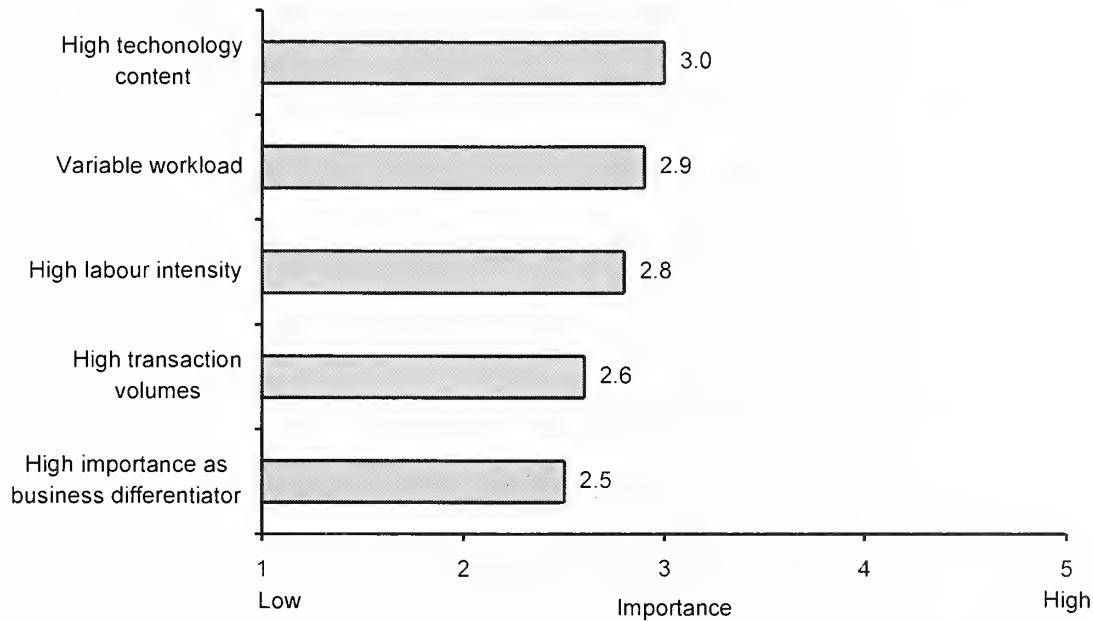


A core business focus appears to a marginally stronger driver of business operations outsourcing than process cost reduction.

Exhibit IV-23 lists the extent to which other process attributes are associated with process outsourcing in the banking sector.

Exhibit IV-23

Major Characteristics of Processes Selected for Outsourcing: Process Manufacturing



Sample of 13 board members. Standard error = 0.3

Source: INPUT

A high technology content and a variable workload appear to be the most significant drivers of business operations outsourcing in the process manufacturing sector.

Indeed the sector already subcontracts the construction of new facilities and, in this sector, these tend to have a high technology content. This relative willingness to subcontract activities with a high technology content favours the outsourcing of IT-intensive business processes within this sector.

Exhibits IV-24 to IV-26 list the extent to which a number of business functions within the process manufacturing sector are perceived to be:

- Subject to a high level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-24

Cost Pressure by Business Function: Process Manufacturing

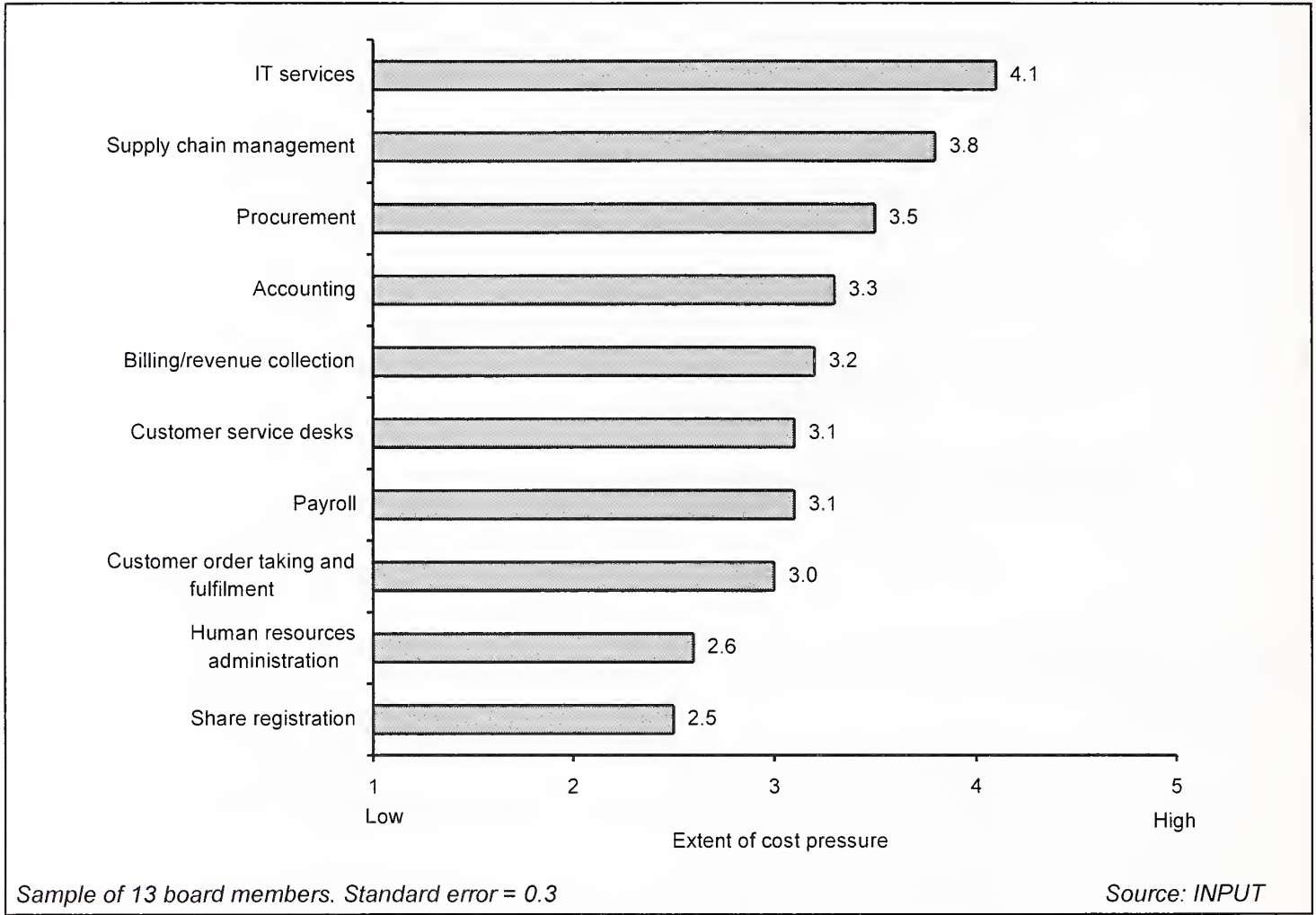


Exhibit IV-25

Competitive Pressure by Business Function: Process Manufacturing

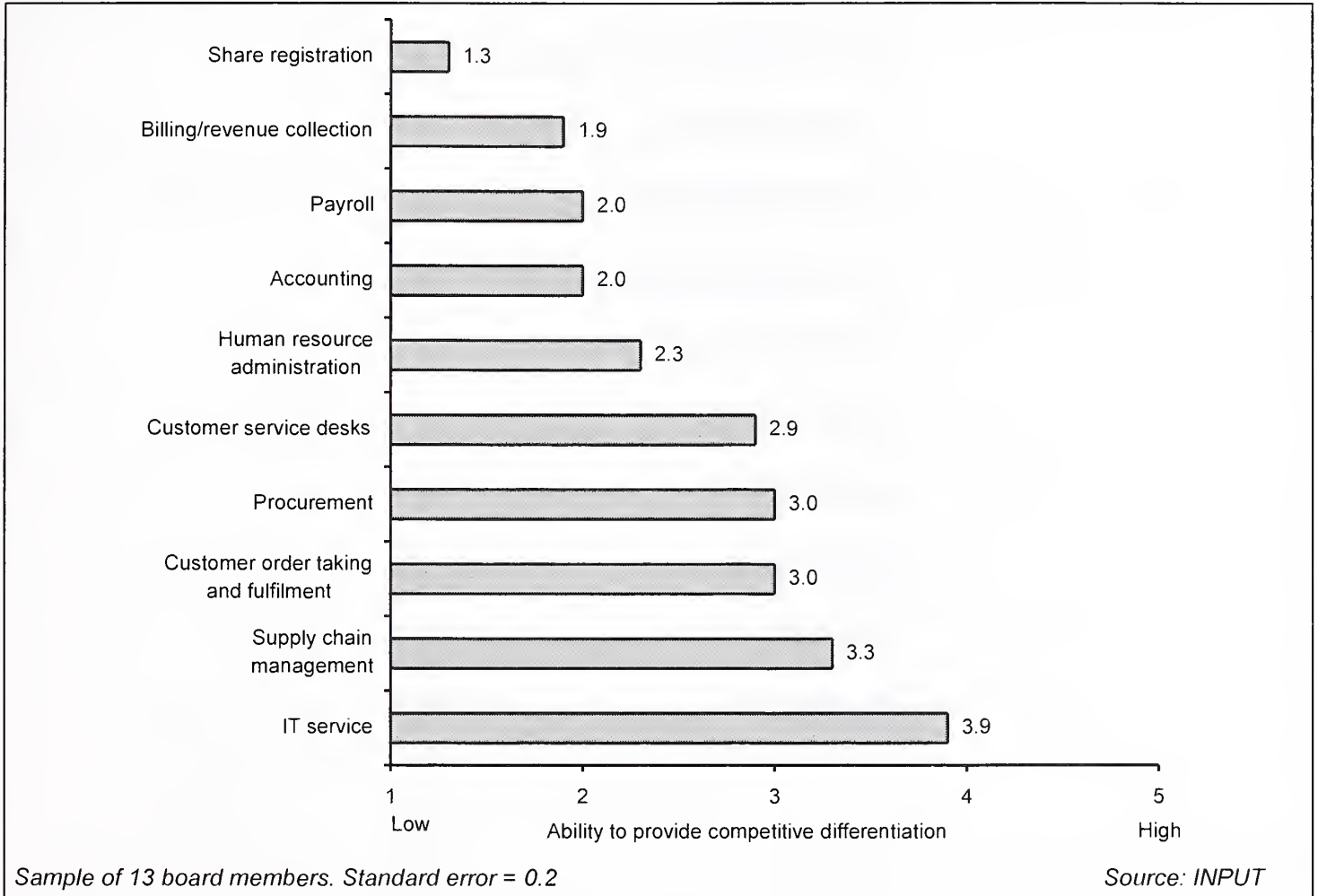
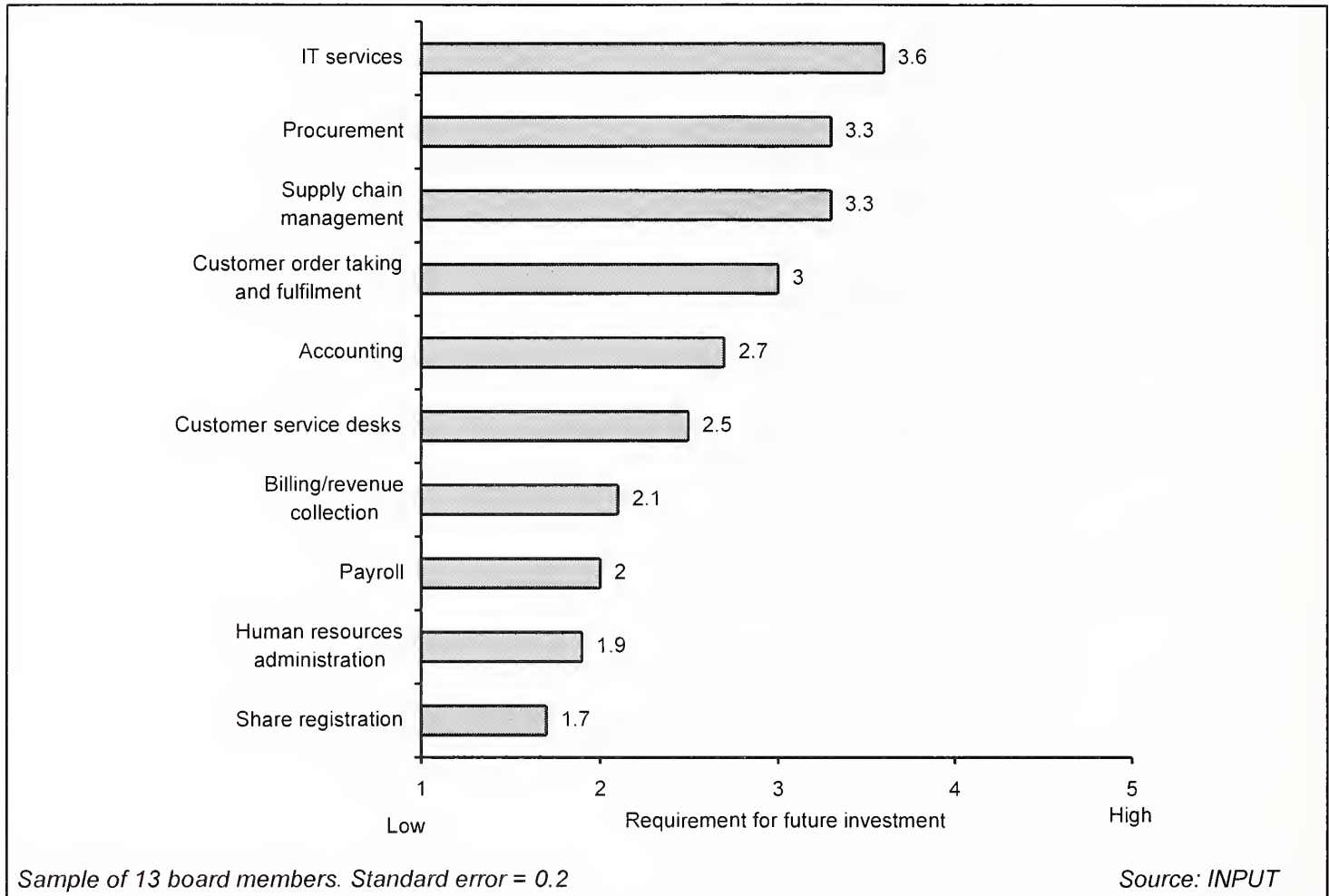


Exhibit IV-26

Investment Pressure by Business Function: Process Manufacturing

The three activities in the process manufacturing sector with the highest levels of investment and cost pressure are:

- IT services
- Supply chain management
- Procurement.

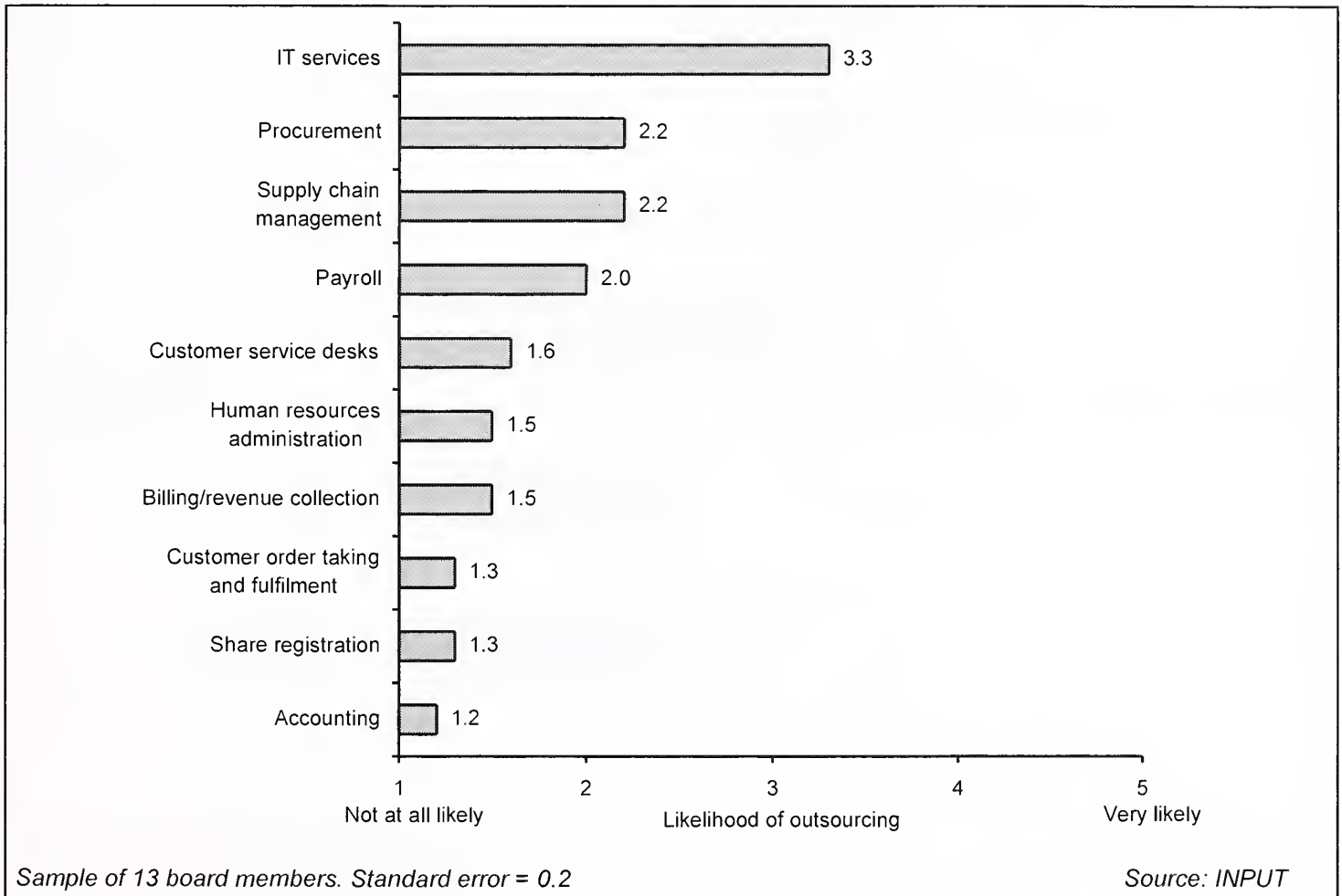
However, these are also perceived to deliver the highest levels of competitive differentiation to the organisation.

In practice, managers' emphasis on outsourcing non-core activities appears to be largely theoretical. Despite the recognition that IT has the potential to provide considerable competitive differentiation, it is the most widely outsourced activity.

Instead outsourcing appears to be driven by a combination of cost pressure, investment pressure, skill deficiencies and the need for change. Consequently, the activities most favoured for outsourcing within the process manufacturing sector are IT services, procurement and supply chain management (Exhibit IV-27).

Exhibit IV-27

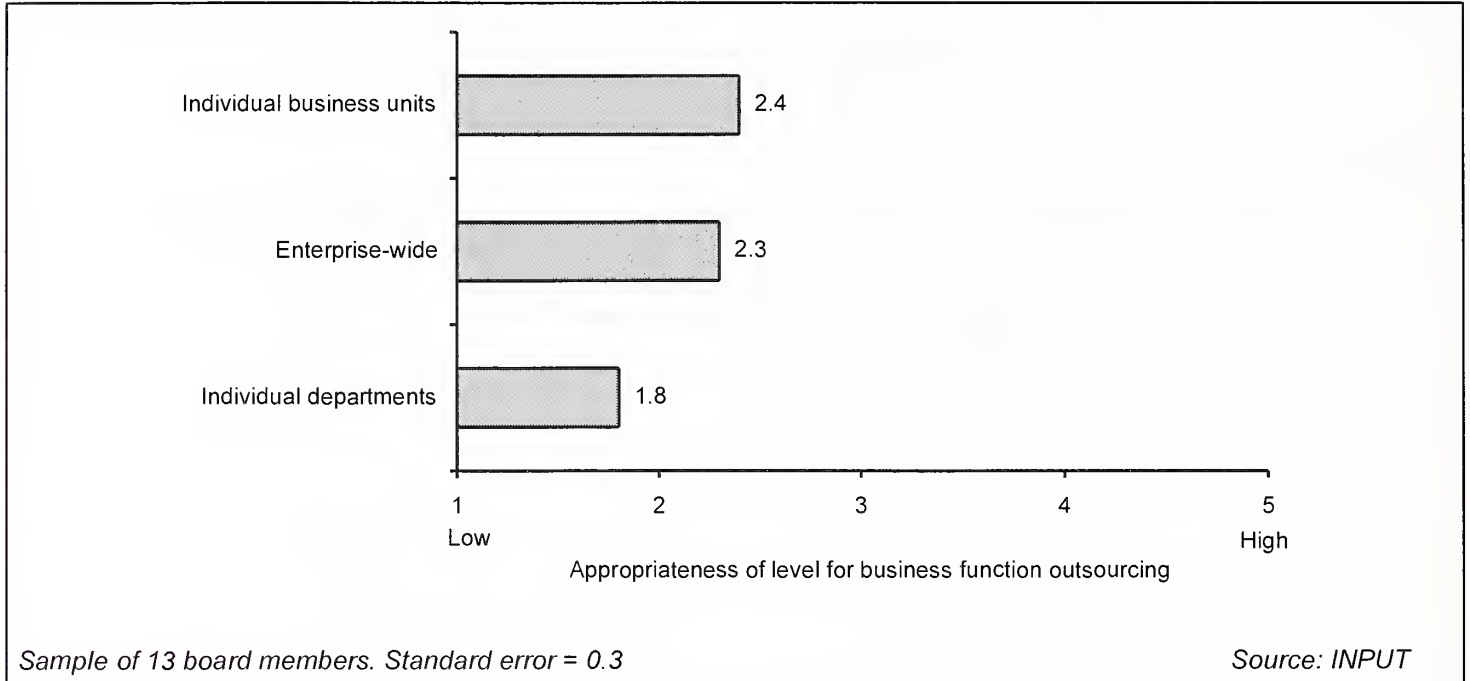
Business Operations Outsourcing Intentions: Process Manufacturing



Managers within the process manufacturing sector perceive that business process outsourcing is more appropriate at the business unit and enterprise-levels rather than at the departmental level (Exhibit IV-28).

Exhibit IV-28

Organisational Level of Business Operations Outsourcing: Process Manufacturing



E

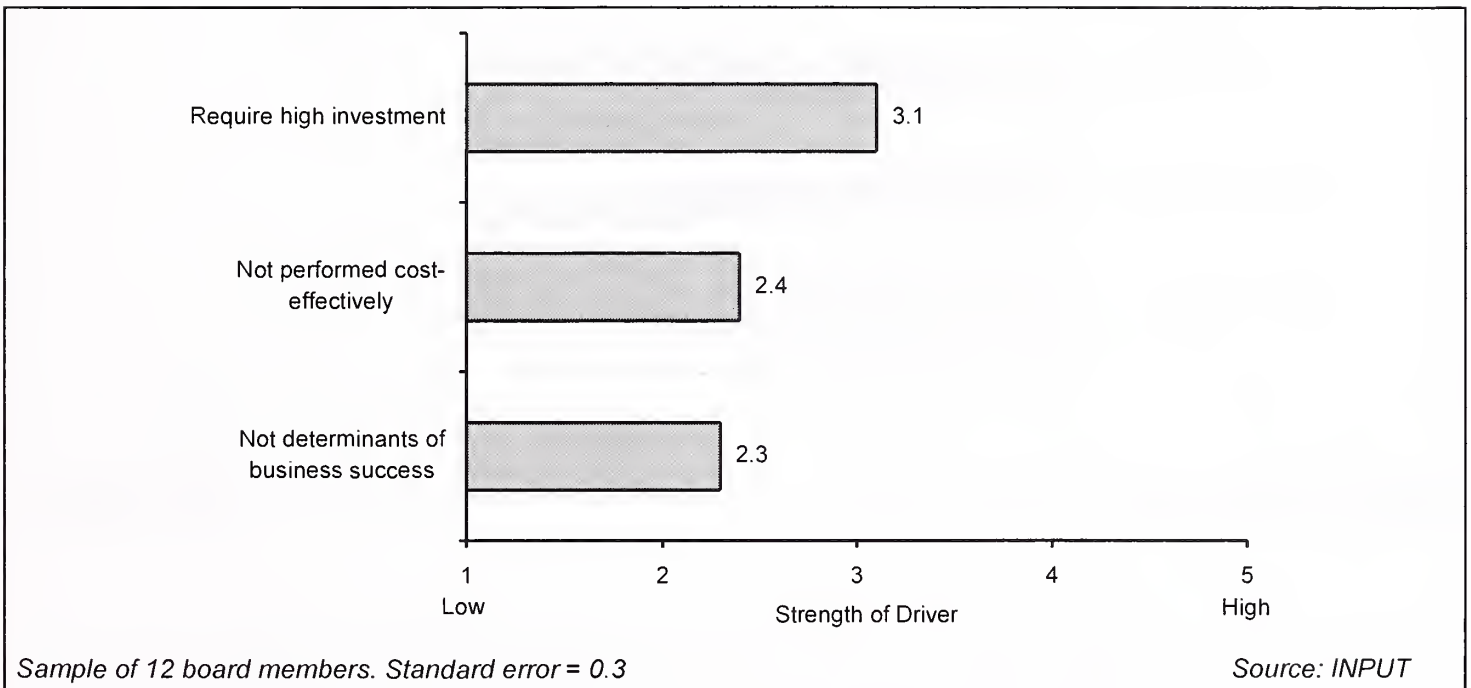
Retail

Managers in the retail sector apparently have a low regard for the concept of the virtual corporation. This sector tends to operate as a closed community with a comparatively low exchange of management with other business sectors. In addition, the sector has so far been comparatively slow to adopt IT outsourcing.

Exhibit IV-29 lists the relative importance of a number of potential drivers of business function outsourcing in the retail sector.

Exhibit IV-29

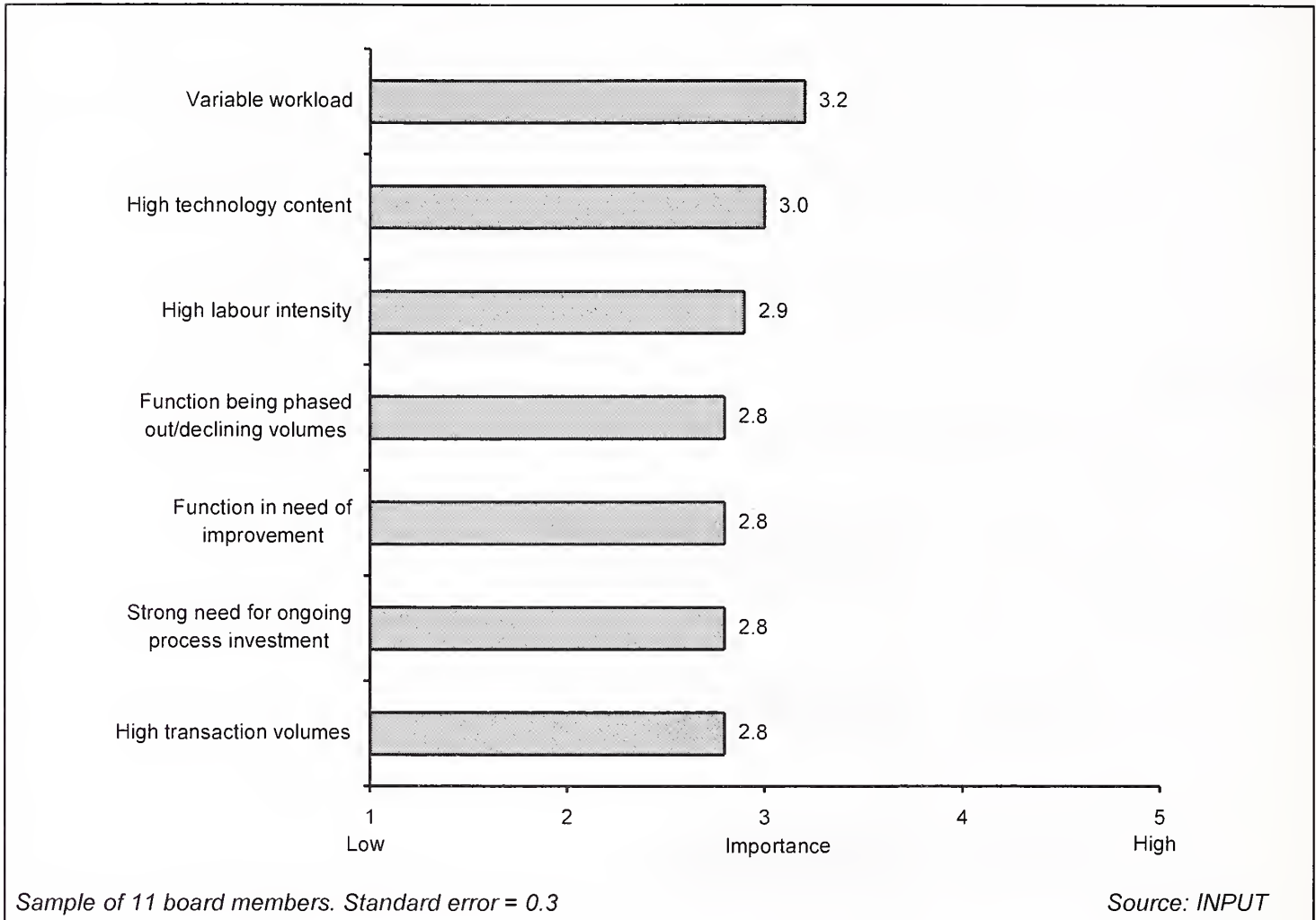
Drivers of Business Function Outsourcing: Retail



A need for high investment appears to be a more significant driver of business operations outsourcing within the retail sector than internal process cost-effectiveness.

Exhibit IV-30 lists the extent to which other process attributes are associated with process outsourcing in the retail sector.

Exhibit IV-30

Major Characteristics of Processes Selected for Outsourcing: Retail

Although there is no statistically significant difference between the factors listed, variable workload and high technology content appear to be the principal factors considered in the retail sector in determining a process's suitability for outsourcing.

Exhibits IV-31 to IV-33 list the extent to which a number of business functions within the retail sector are perceived to be:

- Subject to a high level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-31

Cost Pressure by Business Function: Retail

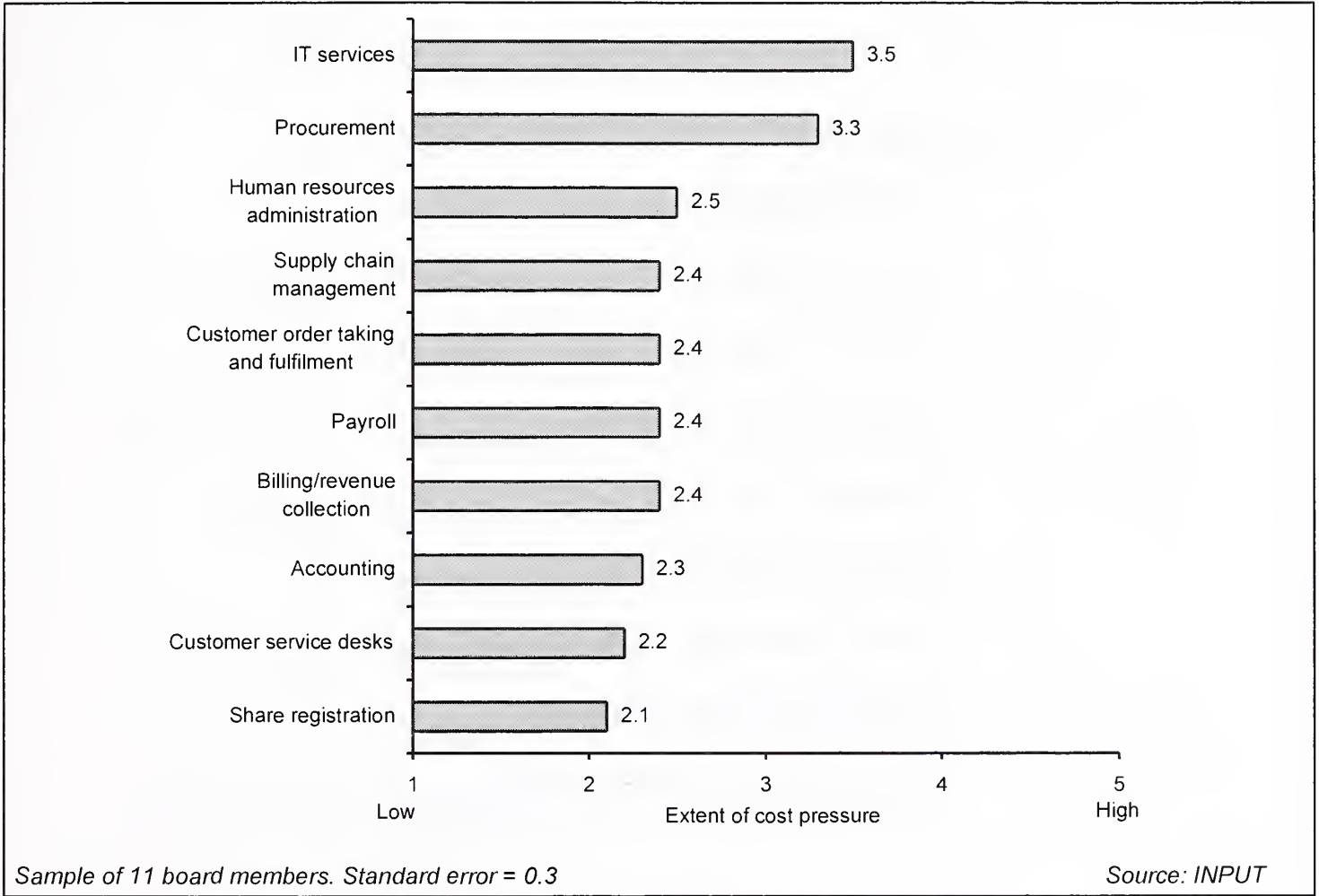


Exhibit IV-32

Competitive Pressure by Business Function: Retail

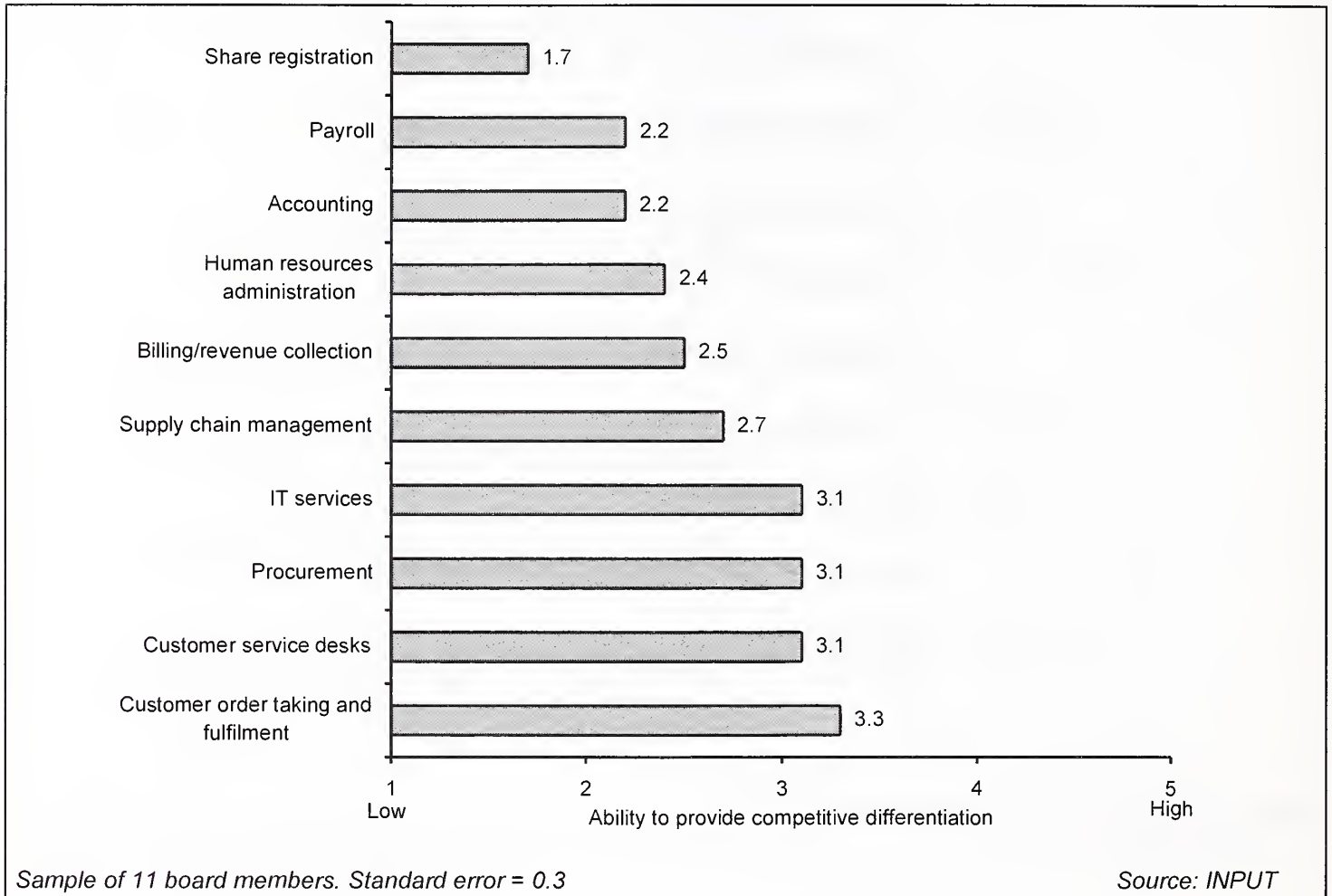
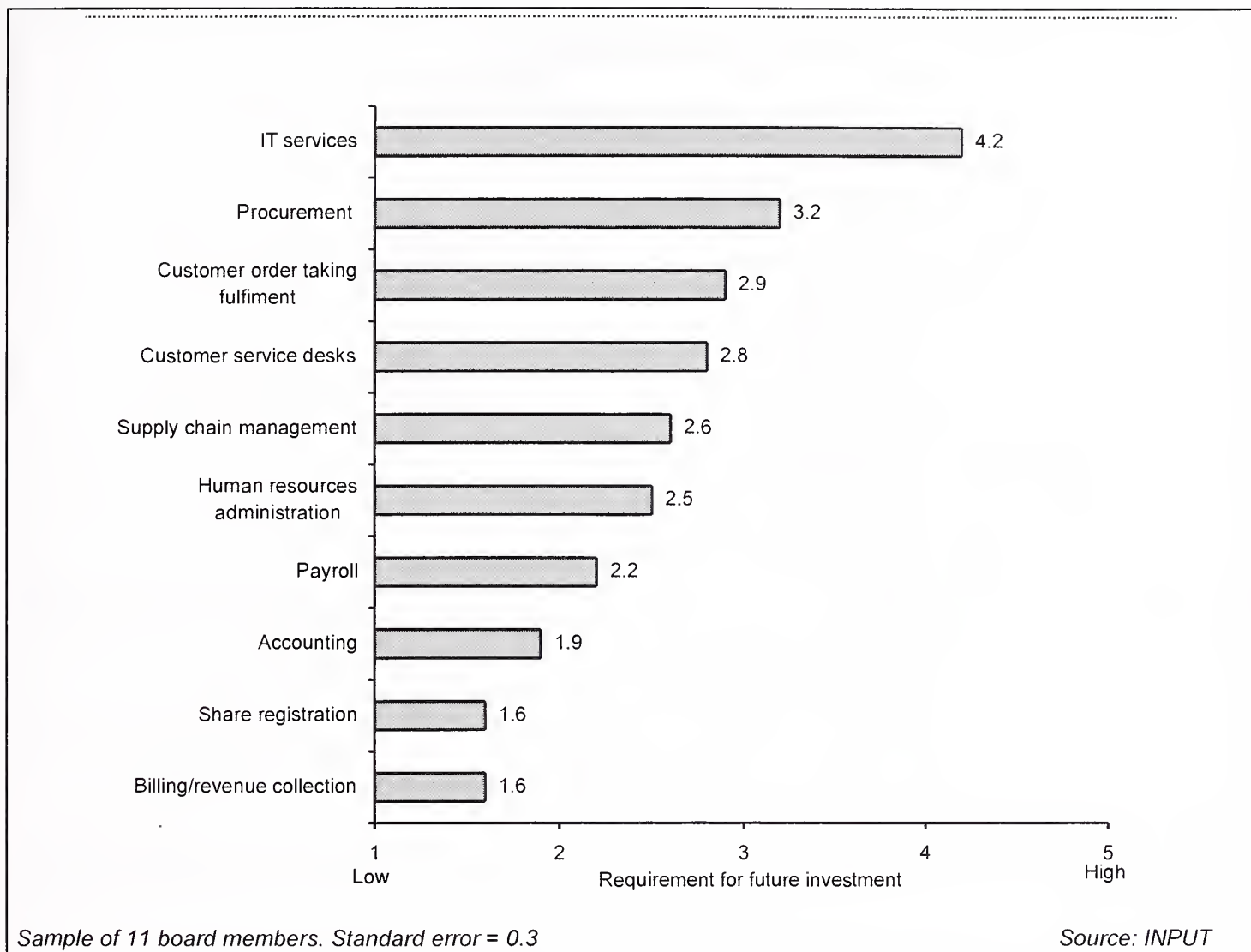


Exhibit IV-33

Investment Pressure by Business Function: Retail



The two business functions facing the greatest investment and cost pressure are IT services and procurement services.

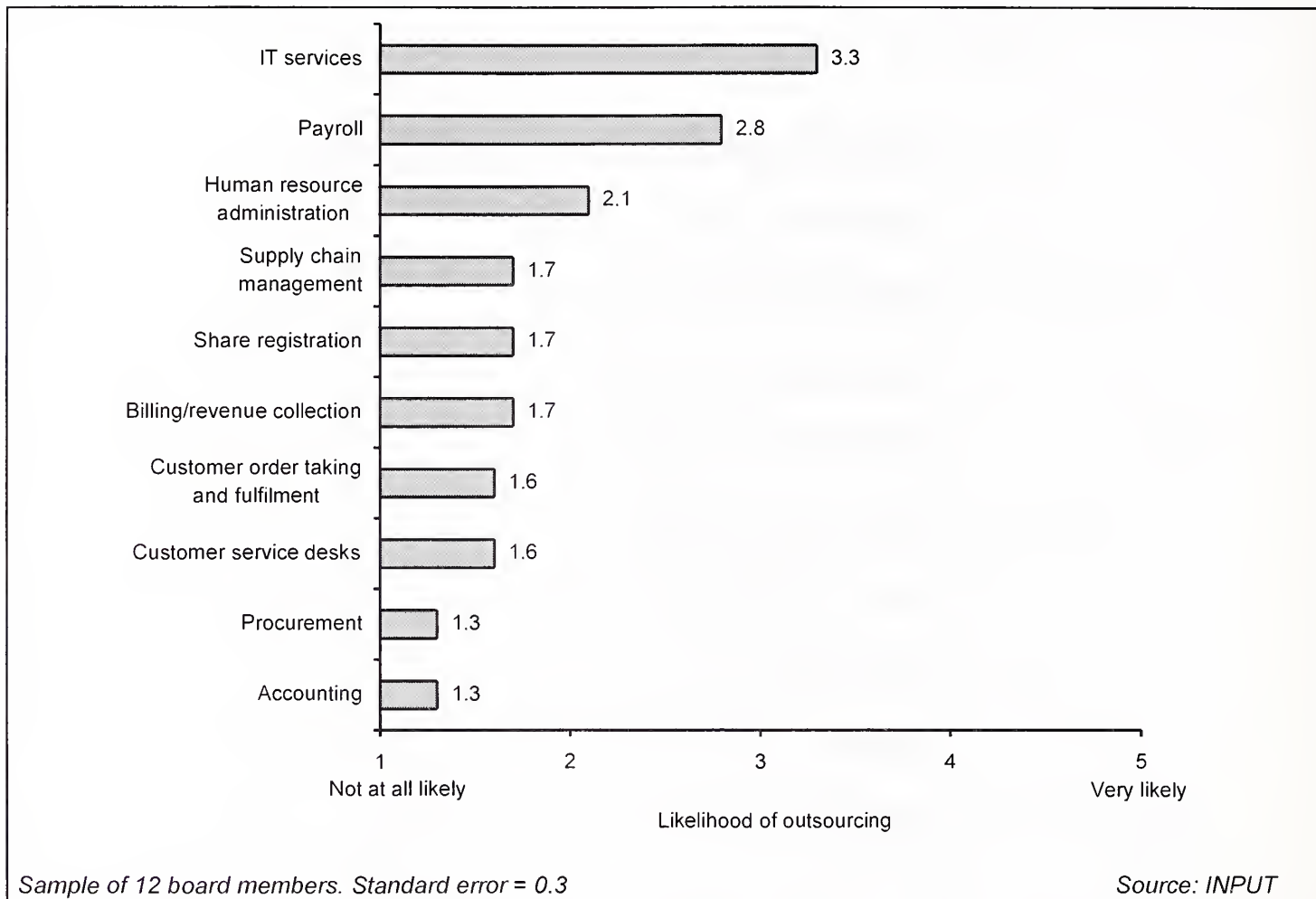
Surprisingly, supply chain management was identified by managers in the retail sector as facing only low levels of cost and investment pressure. This may be because these activities are already extensively outsourced. Another surprise is that procurement is not perceived to provide a high level of competitive differentiation to organisations in the retail sector.

This may create opportunities for vendors to establish buying consortia for small communities of retailers.

Exhibit IV-34 lists the propensity of organisations in the retail sector to outsource each of a number of activities.

Exhibit IV-34

Business Operations Outsourcing Intentions: Retail



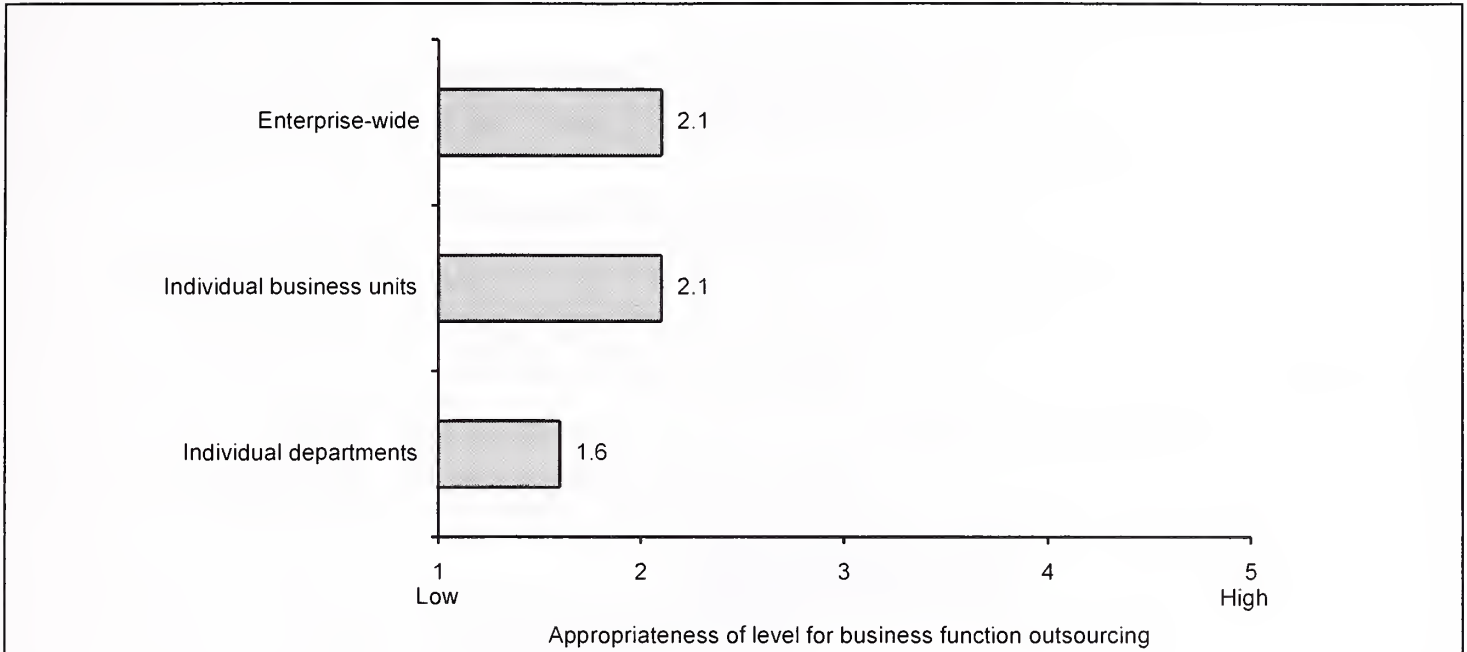
The activities that managers in the retail sector show the greatest propensity to outsource are IT services, payroll services and human resources administration.

Payroll and human resources administration can become a burdensome distraction in the retail sector where many organisations have very high staff turnovers. In addition, this is a generic activity offering the organisation little scope for competitive differentiation. It is likely that the retail sector will form a major opportunity for suppliers of payroll and human resources administration services over the next few years.

Managers within the retail sector appear to perceive that business process outsourcing is more appropriate at the enterprise and business unit -levels rather than at the departmental level (Exhibit IV-35).

Exhibit IV-35

Organisational Level of Business Operations Outsourcing: Retail



Sample of 11 board members. Standard error = 0.3

Source: INPUT

F

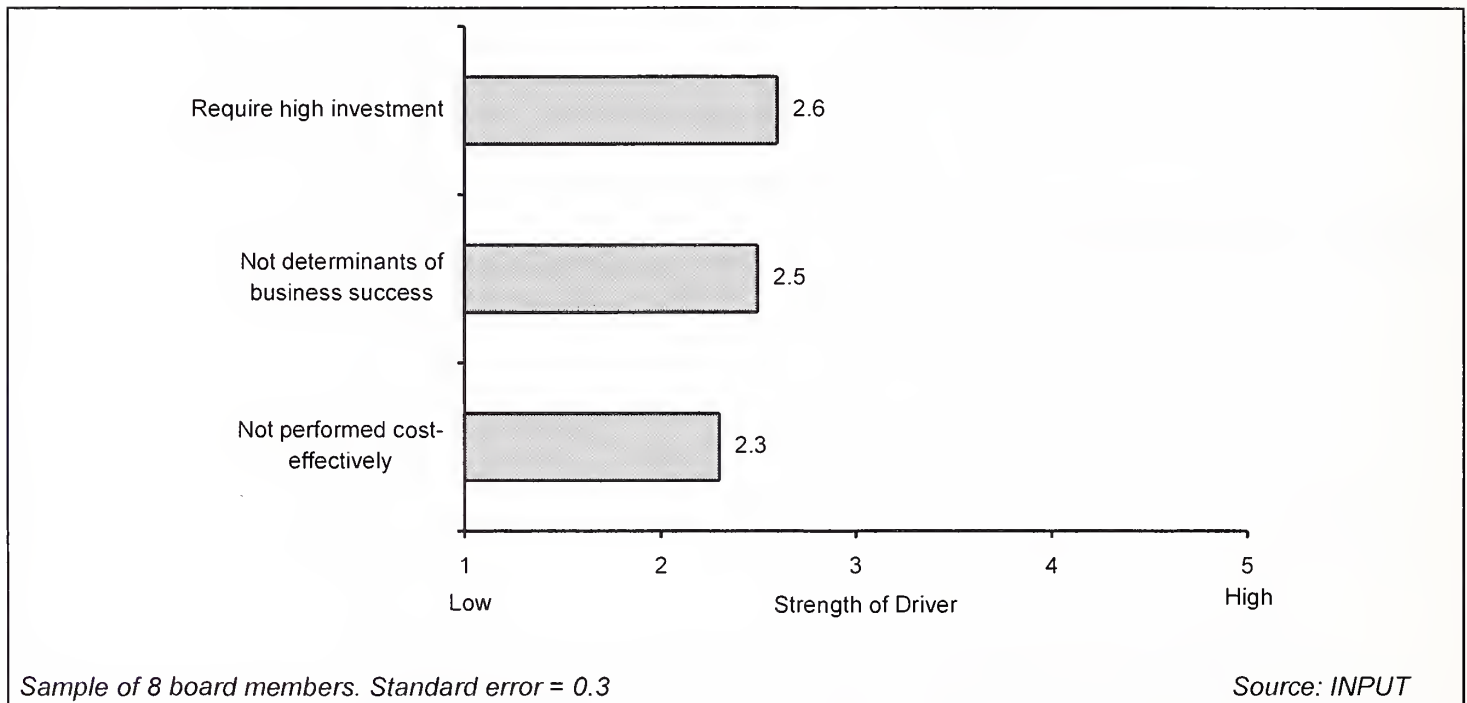
Wholesale

As with the retail sector, the wholesale sector has a very low regard for the concept of the virtual corporation. In addition, the wholesale sector has the lowest intention of any of the sectors surveyed to increase its use of business process outsourcing.

Exhibit IV-36 lists the relative importance of a number of potential drivers of business function outsourcing in the wholesale sector.

Exhibit IV-36

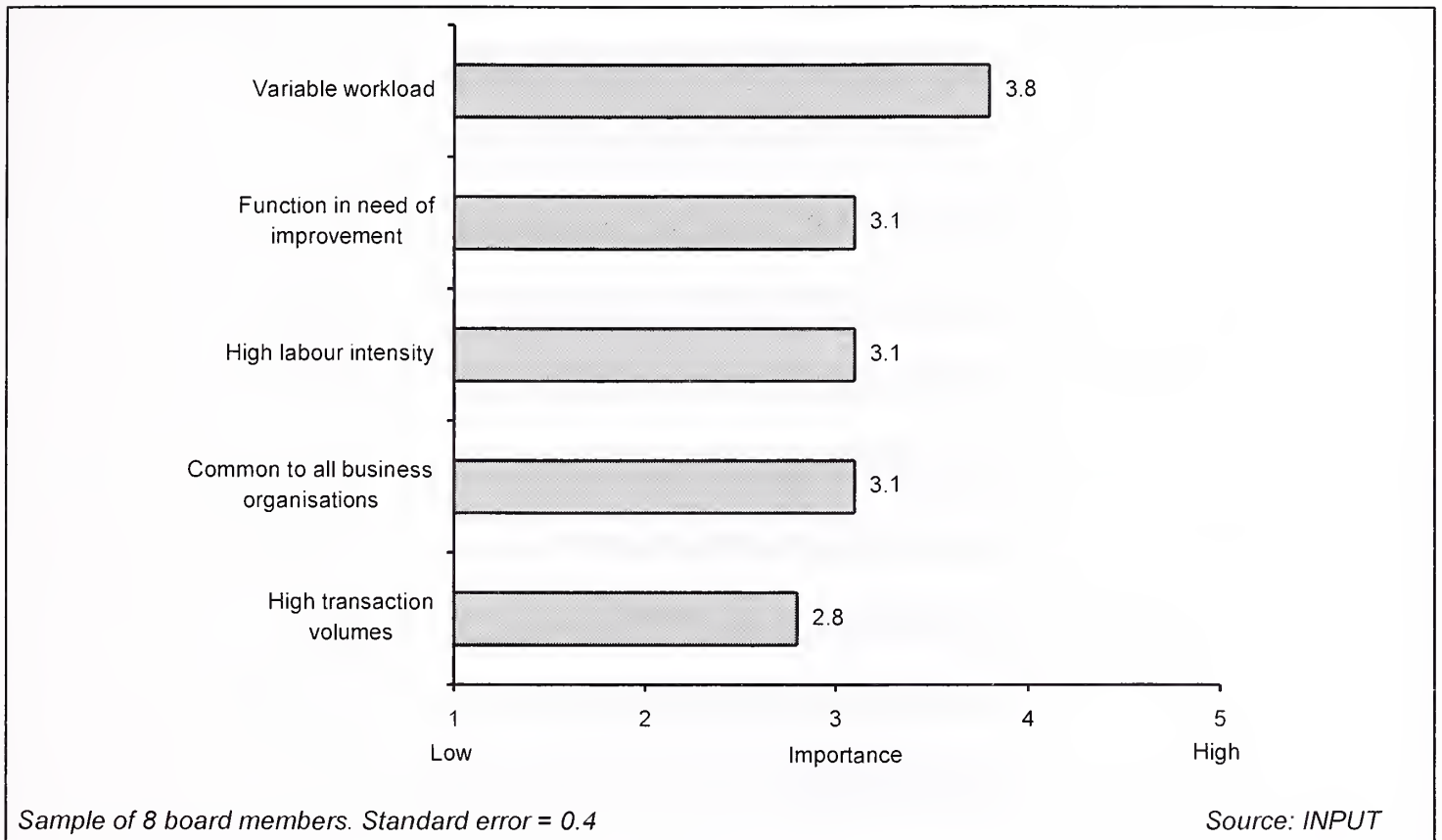
Drivers of Business Function Outsourcing: Wholesale



None of these factors appear to be particularly strong drivers of business operations outsourcing in the wholesale sector.

Exhibit IV-37 lists the extent to which other process attributes are associated with process outsourcing in the wholesale sector.

Exhibit IV-37

Major Characteristics of Processes Selected for Outsourcing: Wholesale

As in the retail sector, the presence of a fluctuating workload appears to be the most important determinant of business process outsourcing in the wholesale sector.

Exhibits IV-38 to IV-40 list the extent to which a number of business functions within the retail sector are perceived to be:

- Subject to a **high** level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-38

Cost Pressure by Business Function: Wholesale

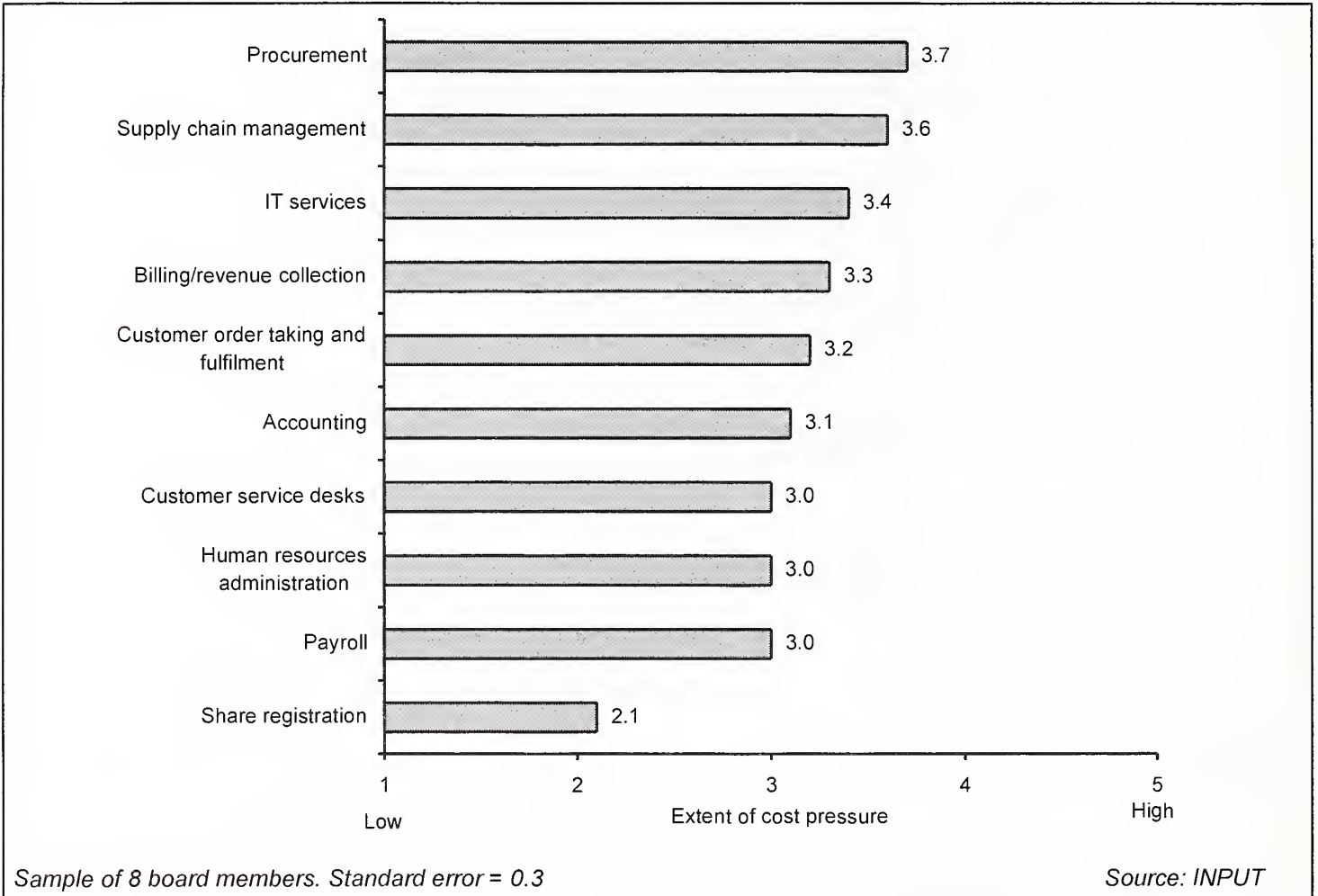
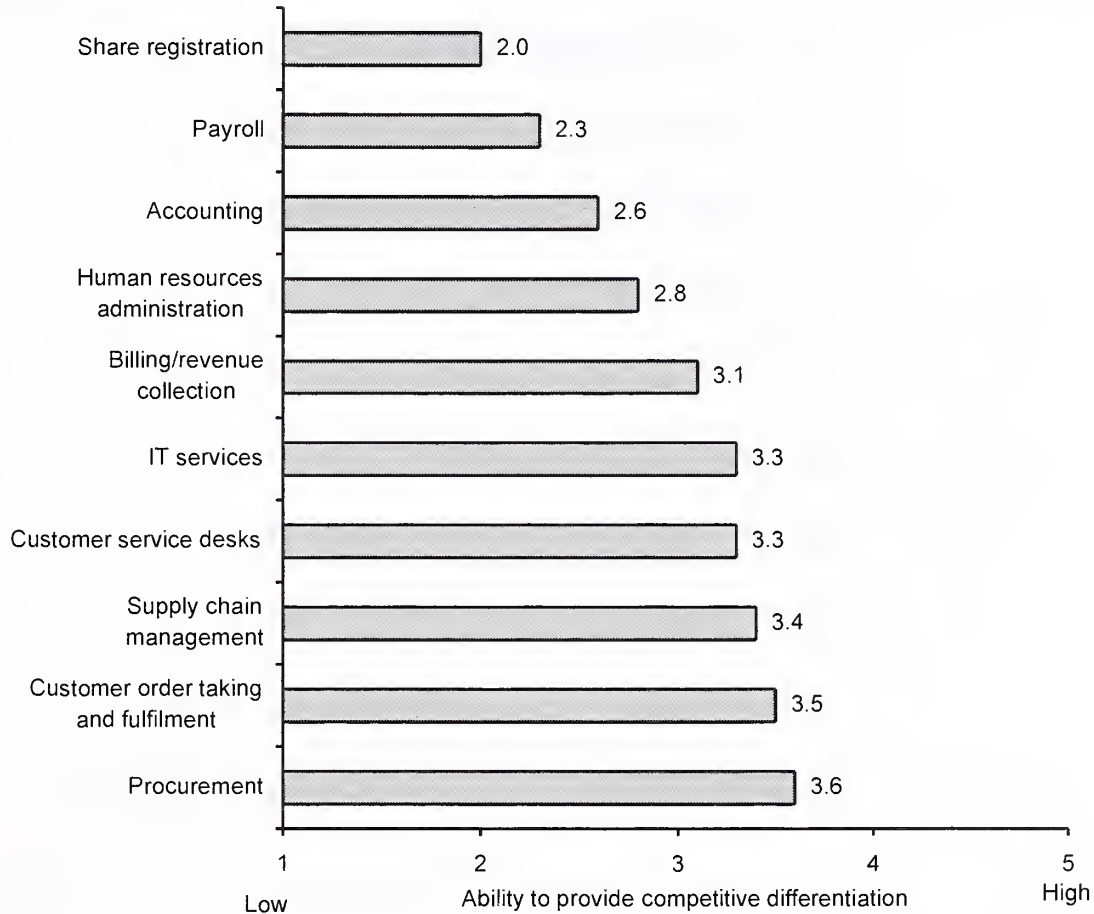


Exhibit IV-39

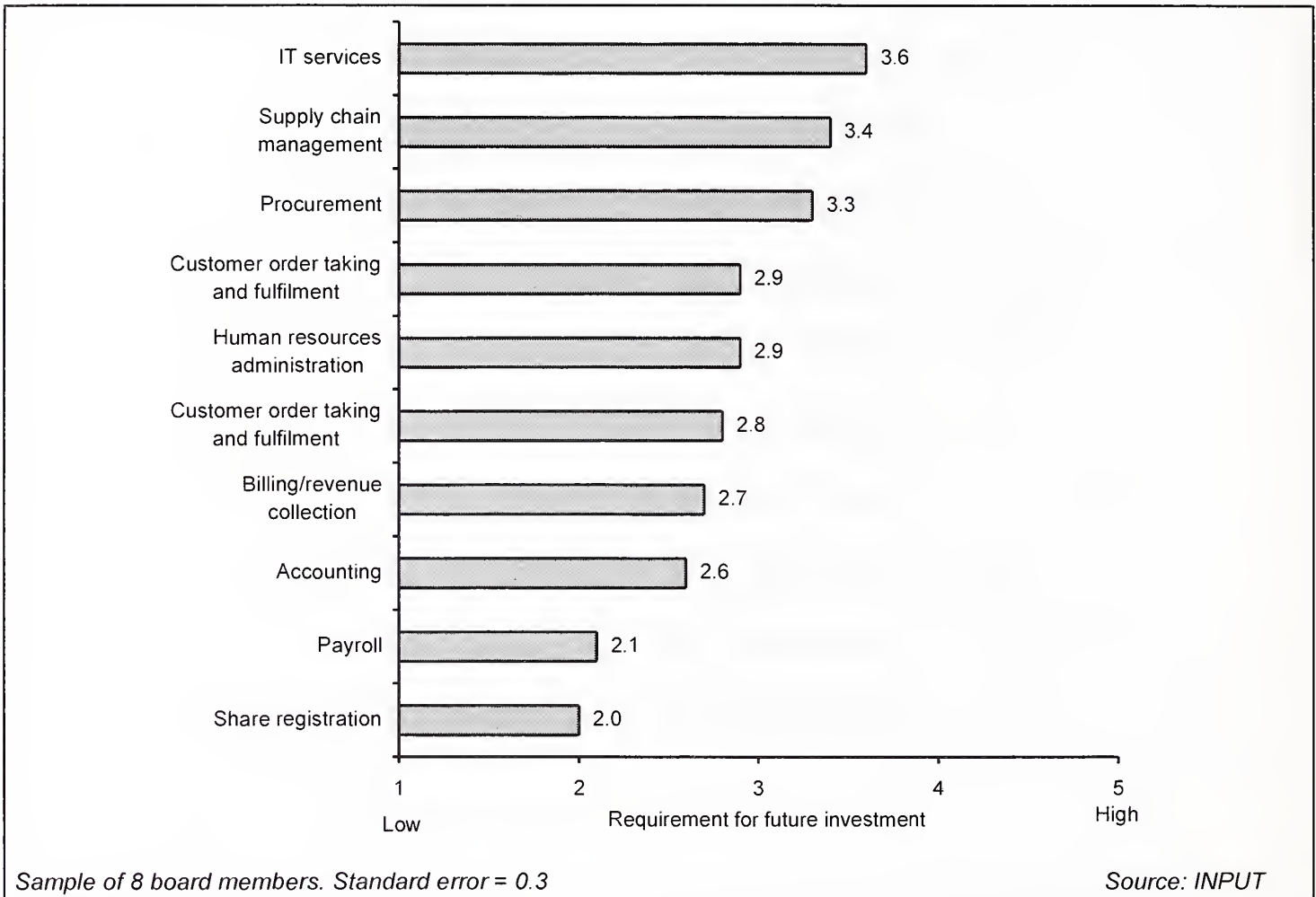
Competitive Pressure by Business Function: Wholesale



Sample of 8 board members. Standard error = 0.3

Source: INPUT

Exhibit IV-40

Investment Pressure by Business Function: Wholesale

The three functions facing the highest level of investment and cost pressure in the wholesale sector are:

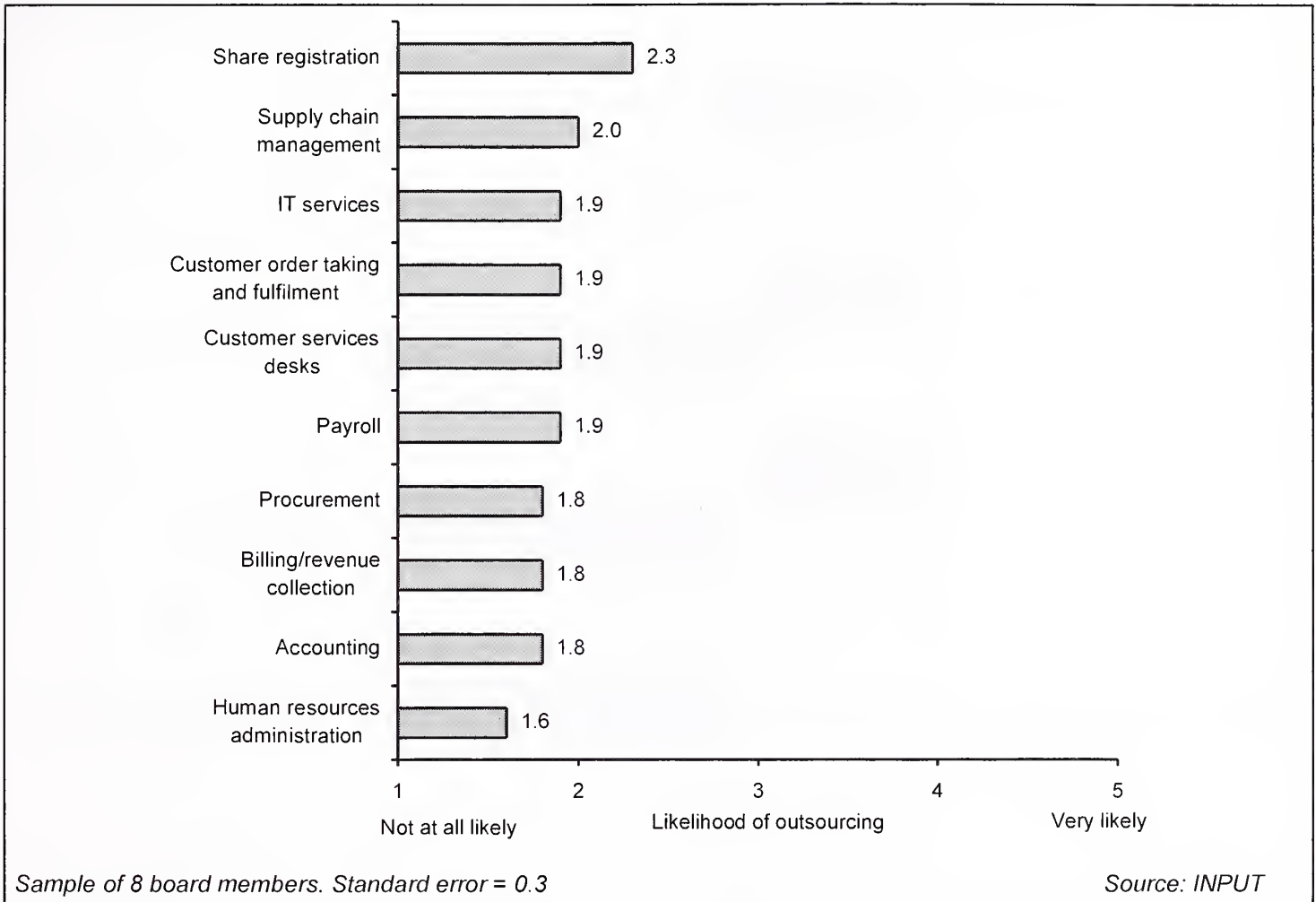
- Procurement
- Supply chain management
- IT services.

As has frequently been the case, the activities facing the greatest financial pressures are also amongst those with the greatest potential to provide the organisation with competitive differentiation.

Exhibit IV-41 lists the propensity of organisations in the wholesale sector to outsource each of a number of activities.

Exhibit IV-41

Business Operations Outsourcing Intentions: Wholesale

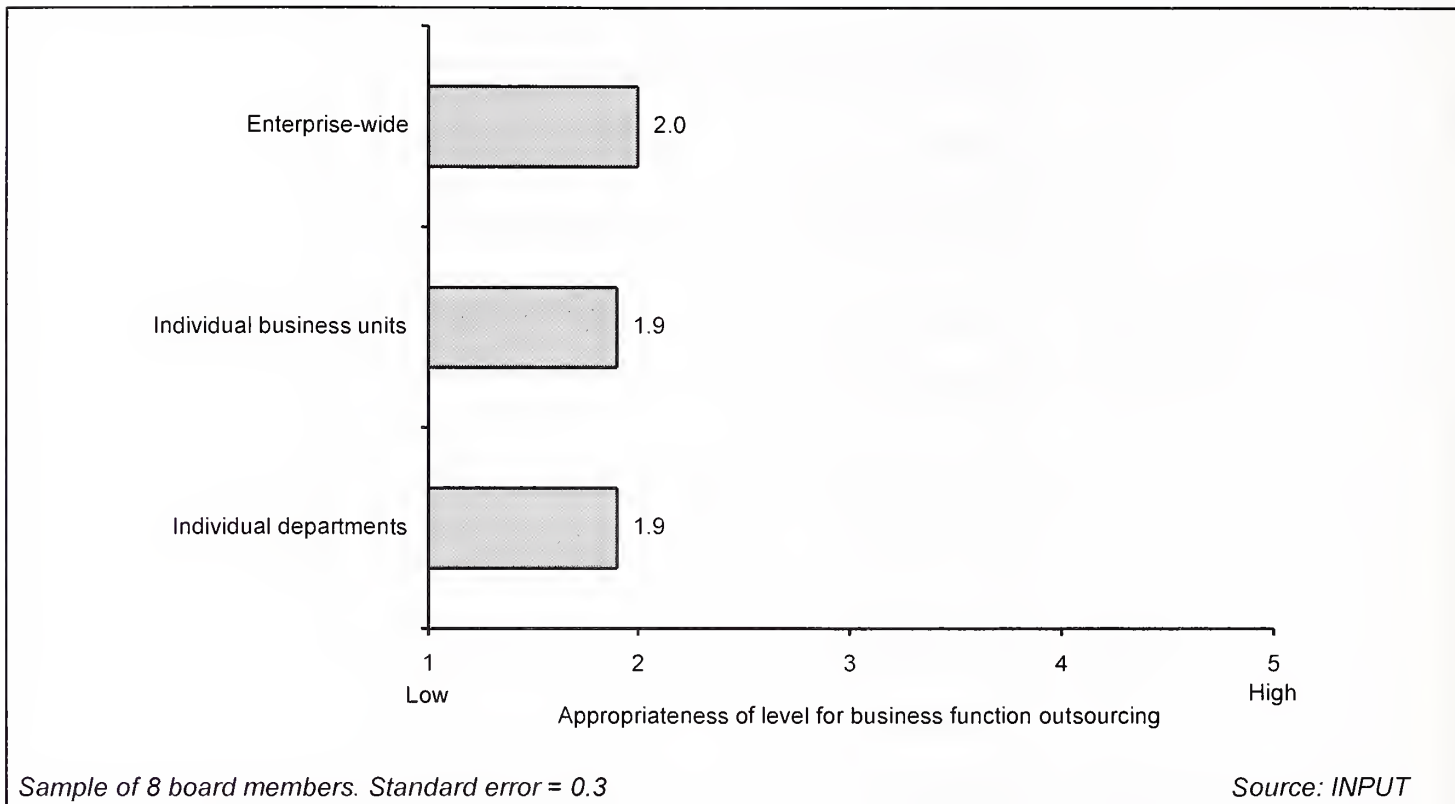


Although the overall level of buying intention is low, the distribution sector shows a relatively high level of buying intention compared to other sectors for customer order taking and fulfilment and for the operation of customer service desks. These may emerge as the most significant business operations outsourcing opportunities within this sector.

Managers within the wholesale sector show no strong views regarding the appropriate organisational level for business process outsourcing (Exhibit IV-42).

Exhibit IV-42

Organisational Level of Business Operations Outsourcing: Wholesale



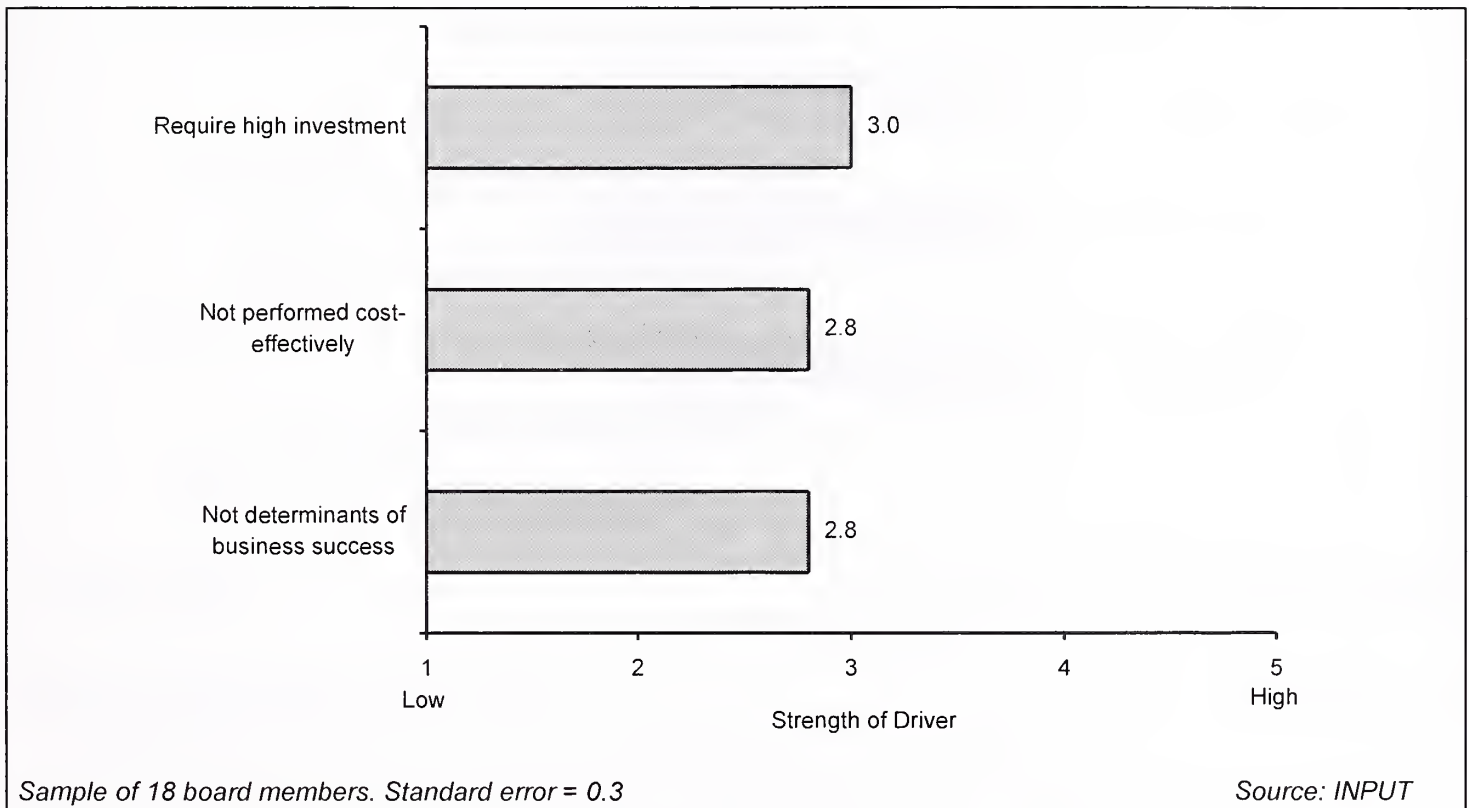
G

Services

Exhibit IV-43 lists the relative importance of a number of potential drivers of business function outsourcing in the retail sector.

Exhibit IV-43

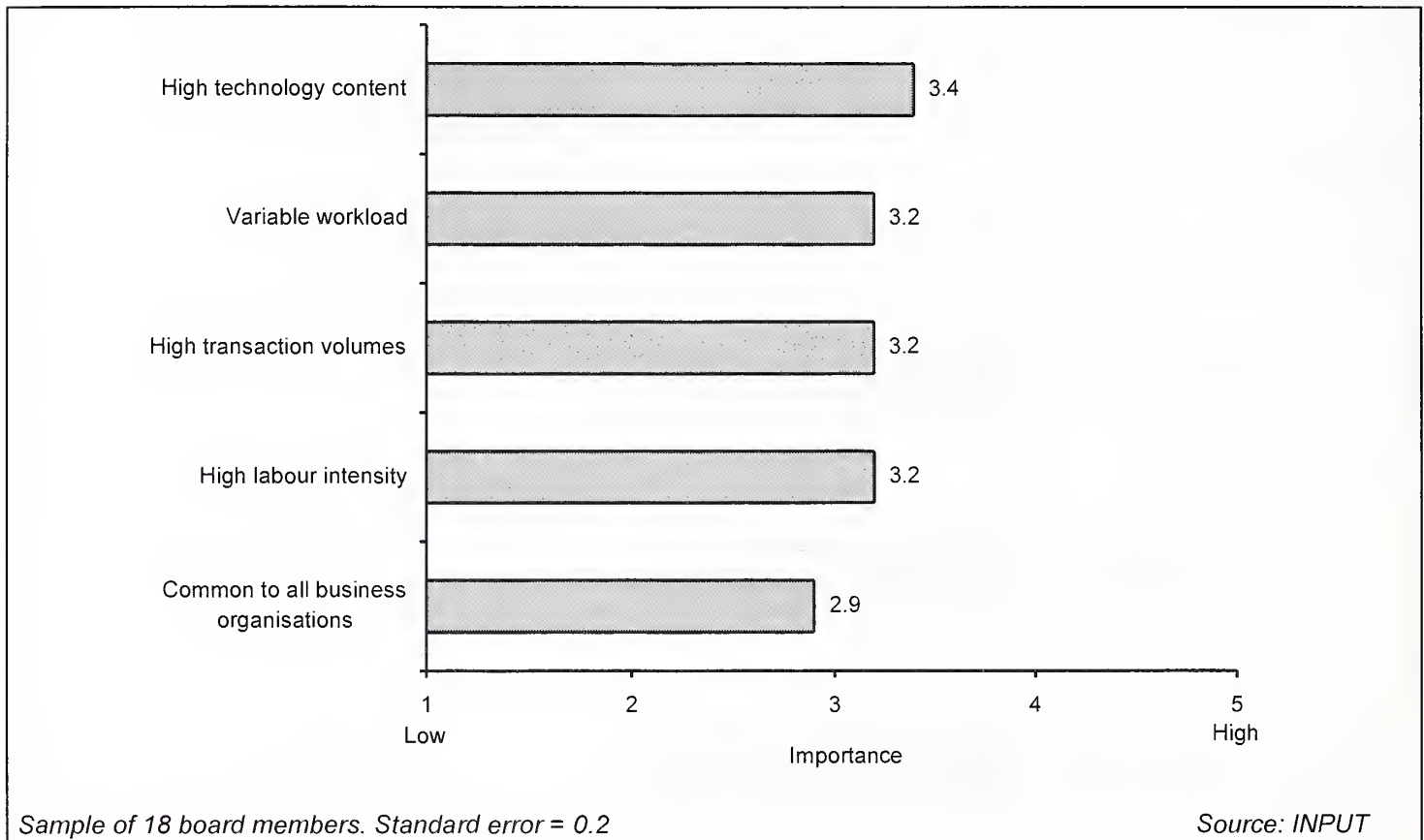
Drivers of Business Function Outsourcing: Services



None of these factors appear to be strong drivers of business operations outsourcing in the services sector.

Exhibit IV-44 lists the extent to which other process attributes are associated with process outsourcing in the retail sector.

Exhibit IV-44

Major Characteristics of Processes Selected for Outsourcing: Services

High technology content appears to be the major factor in determining the suitability of business processes for outsourcing in the services sector, creating a favourable environment for vendors of IT outsourcing services. In addition, it may lead to a propensity to outsource business processes that can be extensively reengineered using IT.

Exhibits IV-45 to IV-47 list the extent to which a number of business functions within the retail sector are perceived to be:

- Subject to a high level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-45

Cost Pressure by Business Function: Services

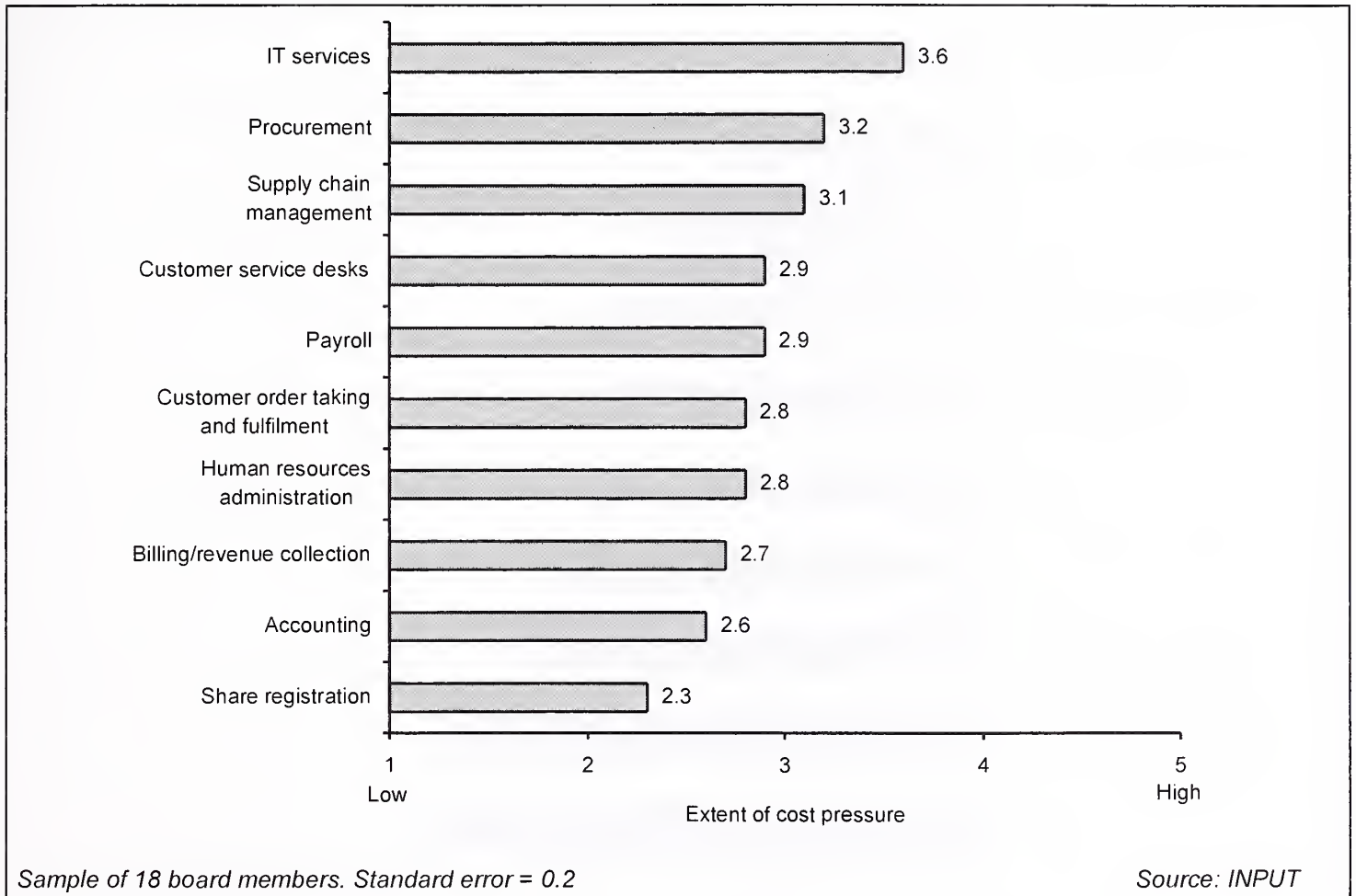


Exhibit IV-46

Competitive Pressure by Business Function: Services

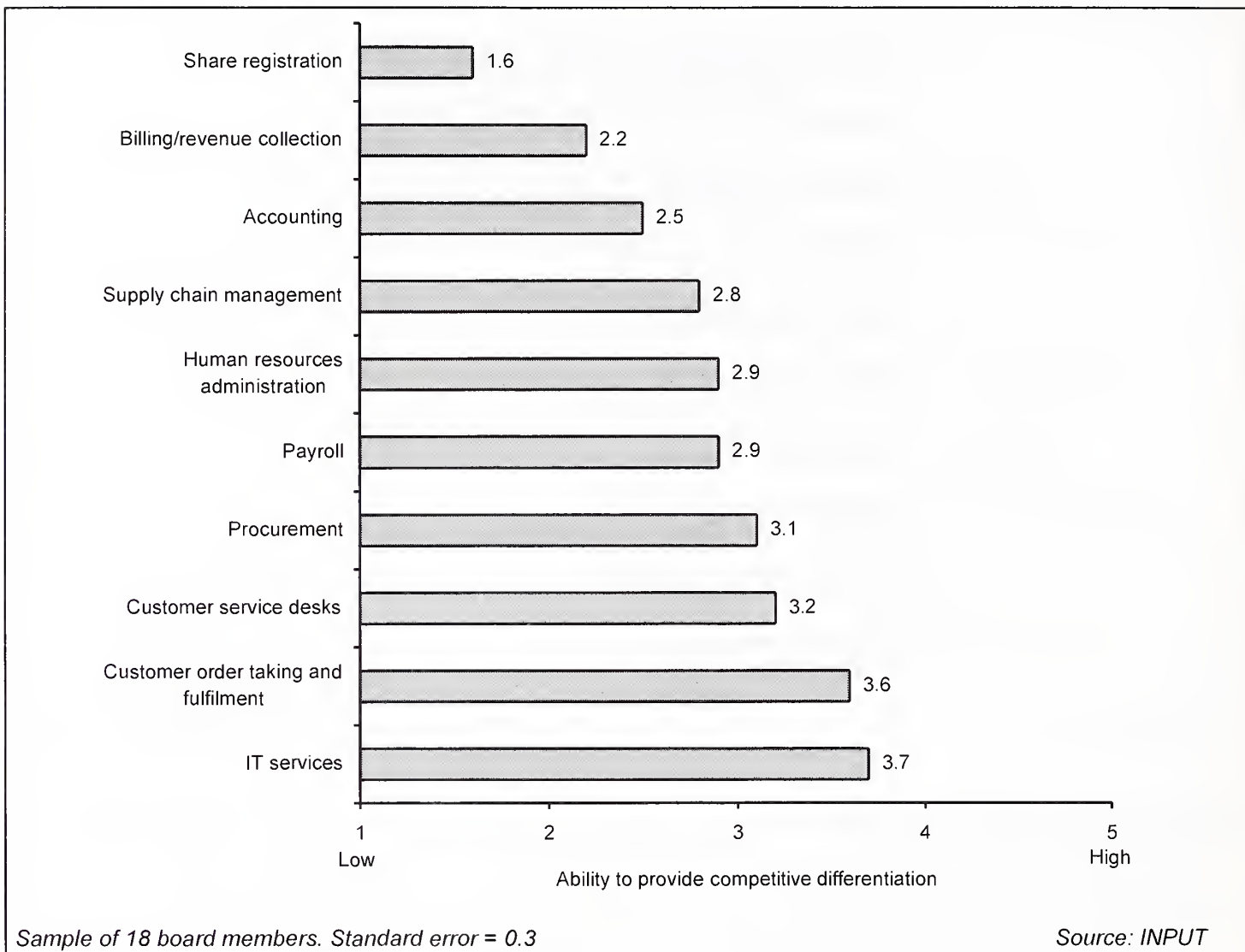
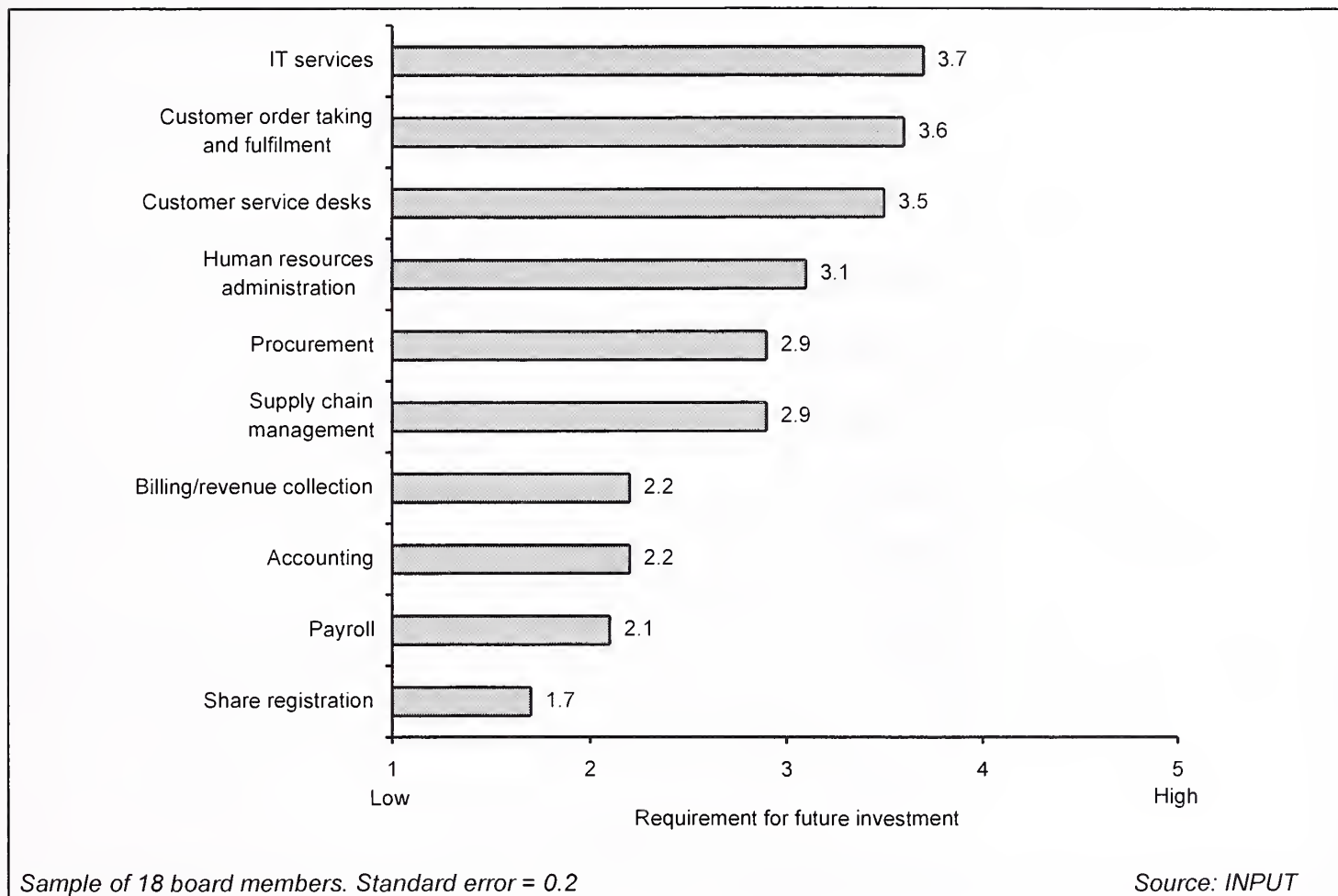


Exhibit IV-47

Investment Pressure by Business Function: Services

There are three areas facing relatively high investment pressure in the services sector, namely:

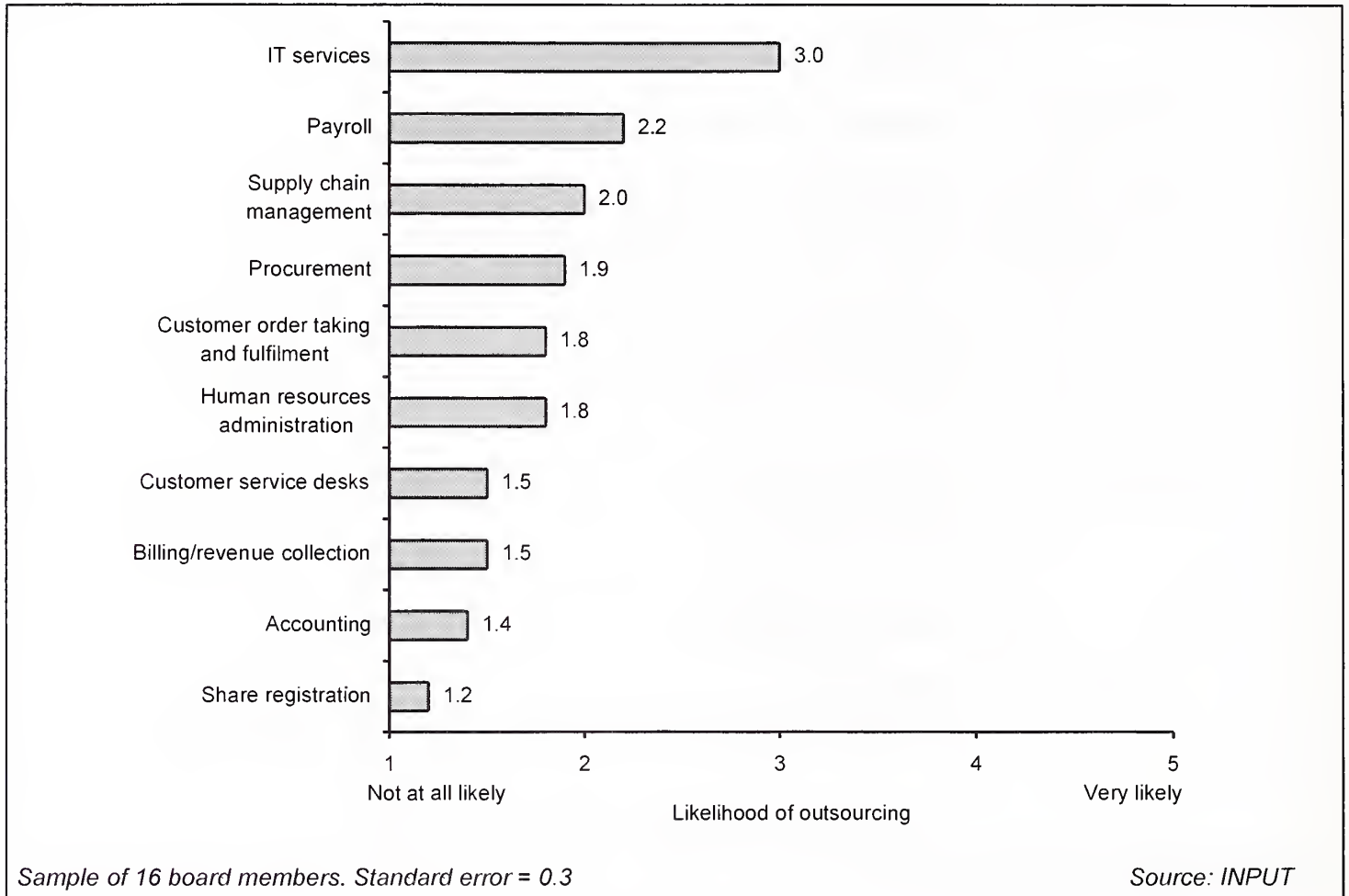
- IT services
- Customer order taking and fulfilment
- Customer service desks.

Despite their potential ability to provide the organisation with competitive differentiation, these may be areas that service organisations will increasingly outsource in the medium term.

Exhibit IV-48 lists the propensity of organisations in the services sector to outsource each of a number of activities.

Exhibit IV-48

Business Operations Outsourcing Intentions: Services

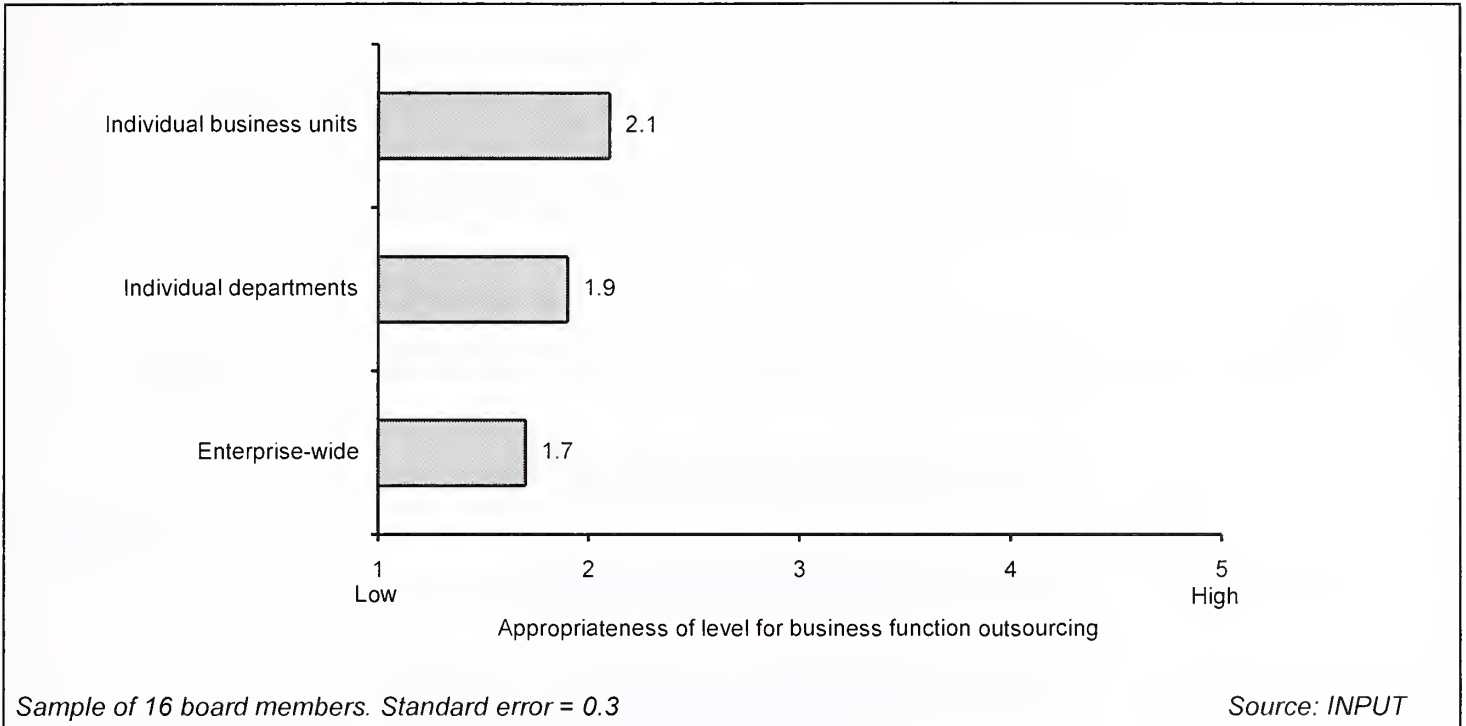


The principal activities that organisations in the services sector expect to outsource in the short-term are IT services and payroll administration.

Managers within the services sector appear to perceive that business process outsourcing is more appropriate at the business unit level than at the departmental or enterprise level (Exhibit IV-49).

Exhibit IV-49

Organisational Level of Business Operations Outsourcing: Services



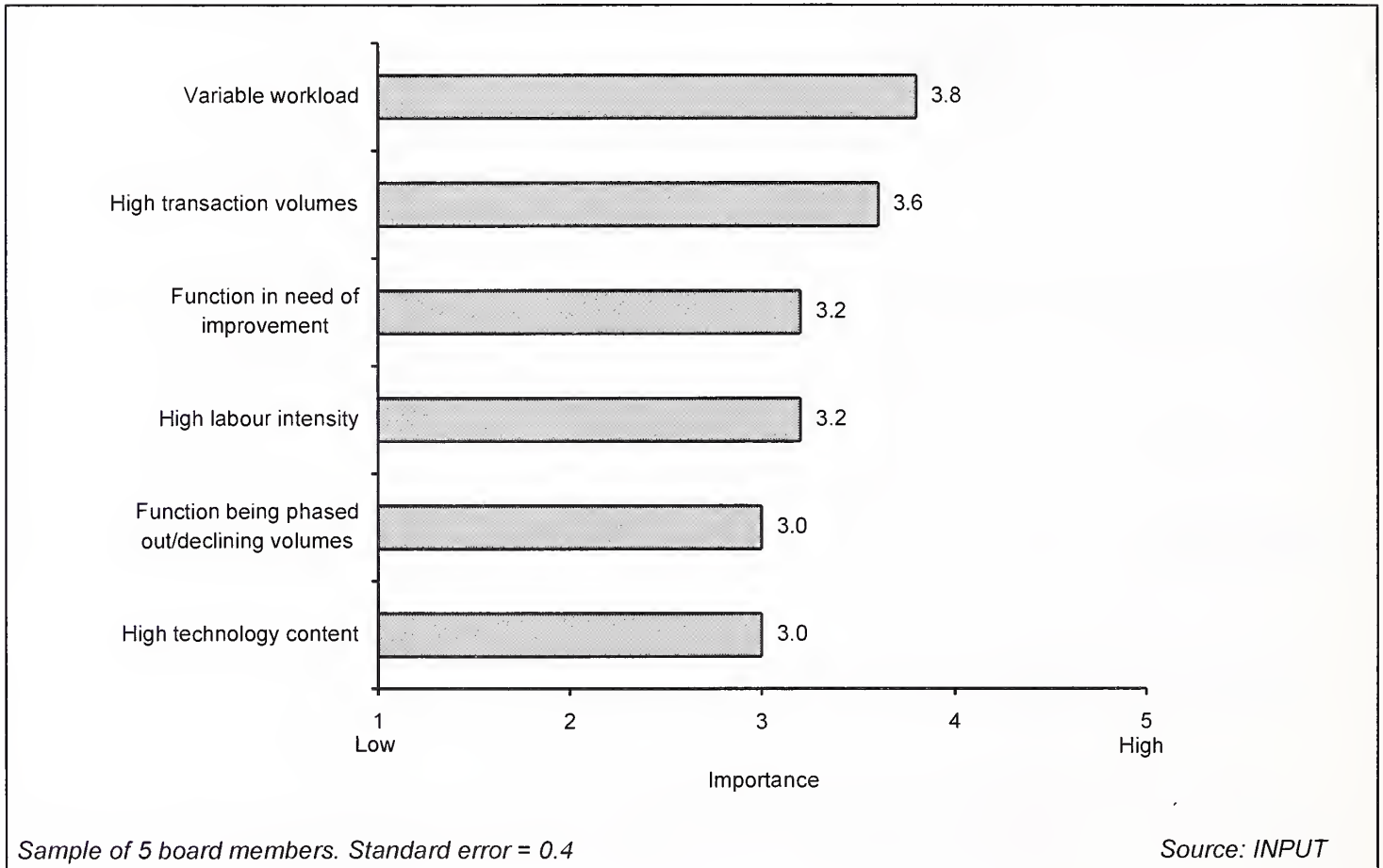
H
Utilities

Utilities typically do not appear to regard a lack of in-house cost-effectiveness as a major driver of business process outsourcing.

Exhibit IV-50 lists the extent to which a number of process attributes are associated with process outsourcing in the utilities sector.

Exhibit IV-50

Major Characteristics of Processes Selected for Outsourcing: Utilities



Managers within the utilities sector appear to regard a variable workload and high transaction volumes as the key criteria in identifying processes for business operations outsourcing. Indeed the major utilities in the U.K. have invested considerable sums in customer billing systems since privatisation, and have taken a number of steps, including customer incentives, to reduce the volume of manual payments received.

However, so far there are no major examples of organisations in the utilities sector outsourcing their billing and revenue collection processes, though Capita has a joint venture with Yorkshire Water and United Utilities has established a subsidiary, Vertex, to offer such services externally.

Exhibits IV-51 to IV-53 list the extent to which a number of business functions within the retail sector are perceived to be:

- Subject to a high level of cost pressure
- Provide competitive differentiation for the organisation
- Require high levels of future investment.

Exhibit IV-51

Cost Pressure by Business Function: Utilities

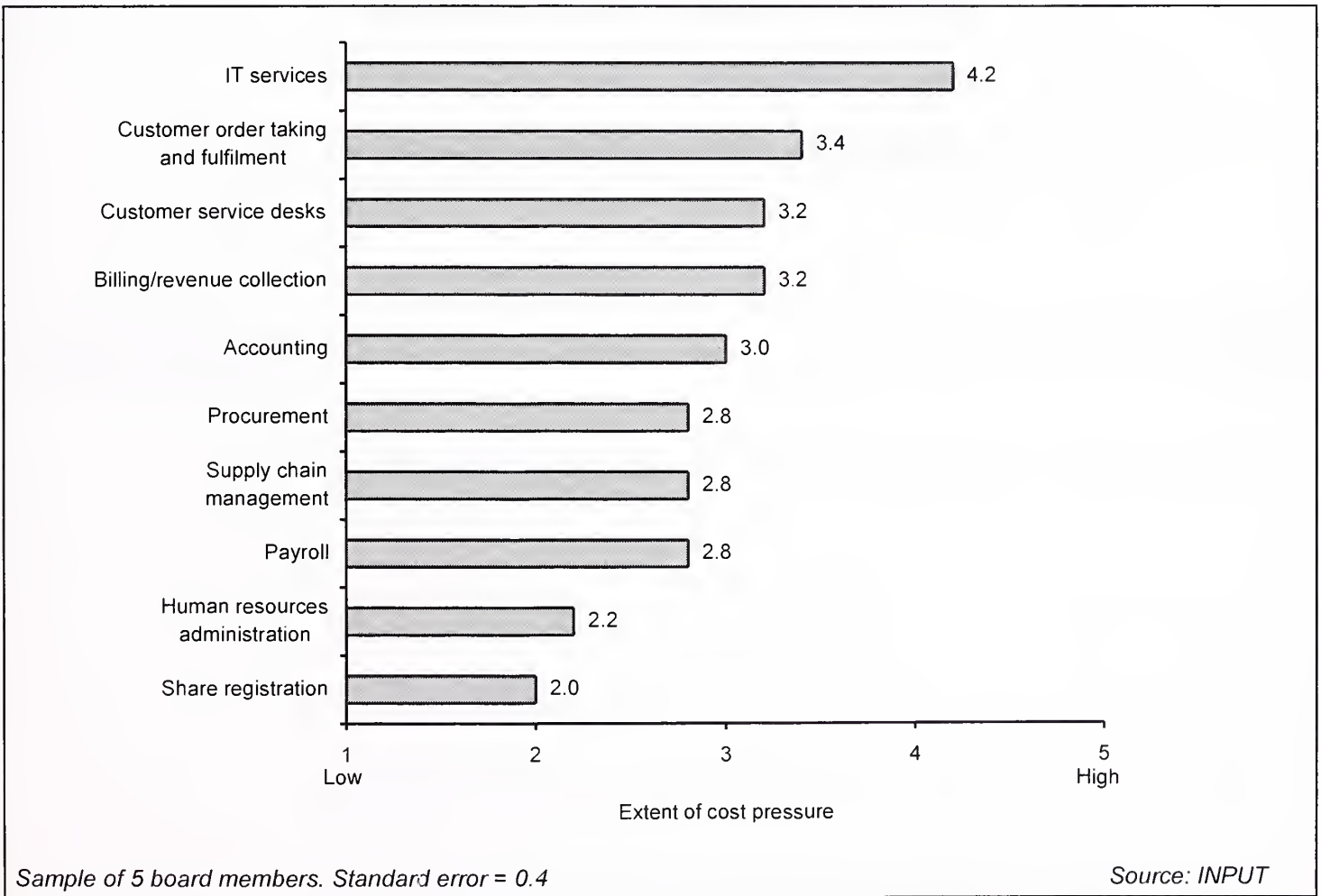


Exhibit IV-52

Competitive Pressure by Business Function: Utilities

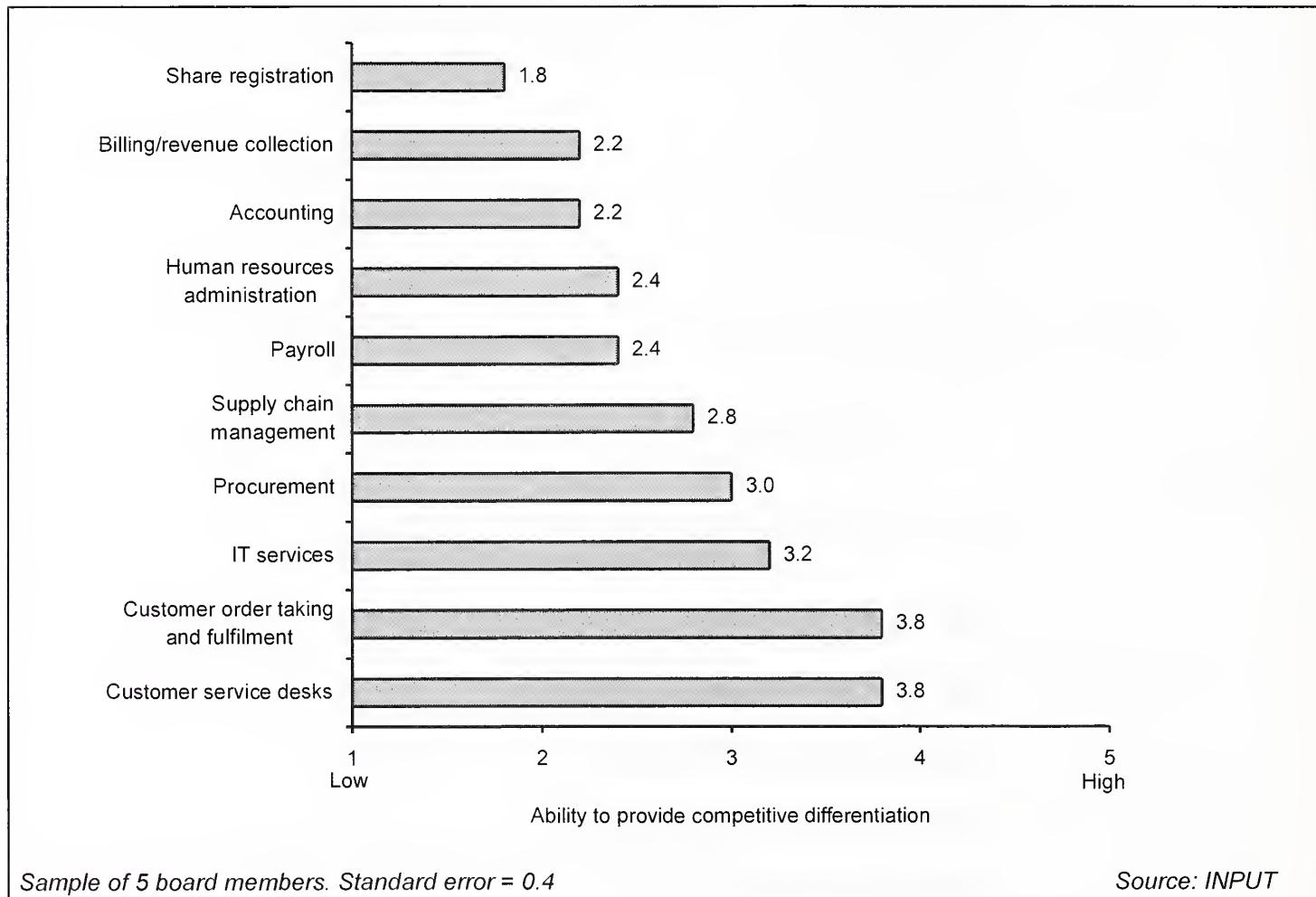
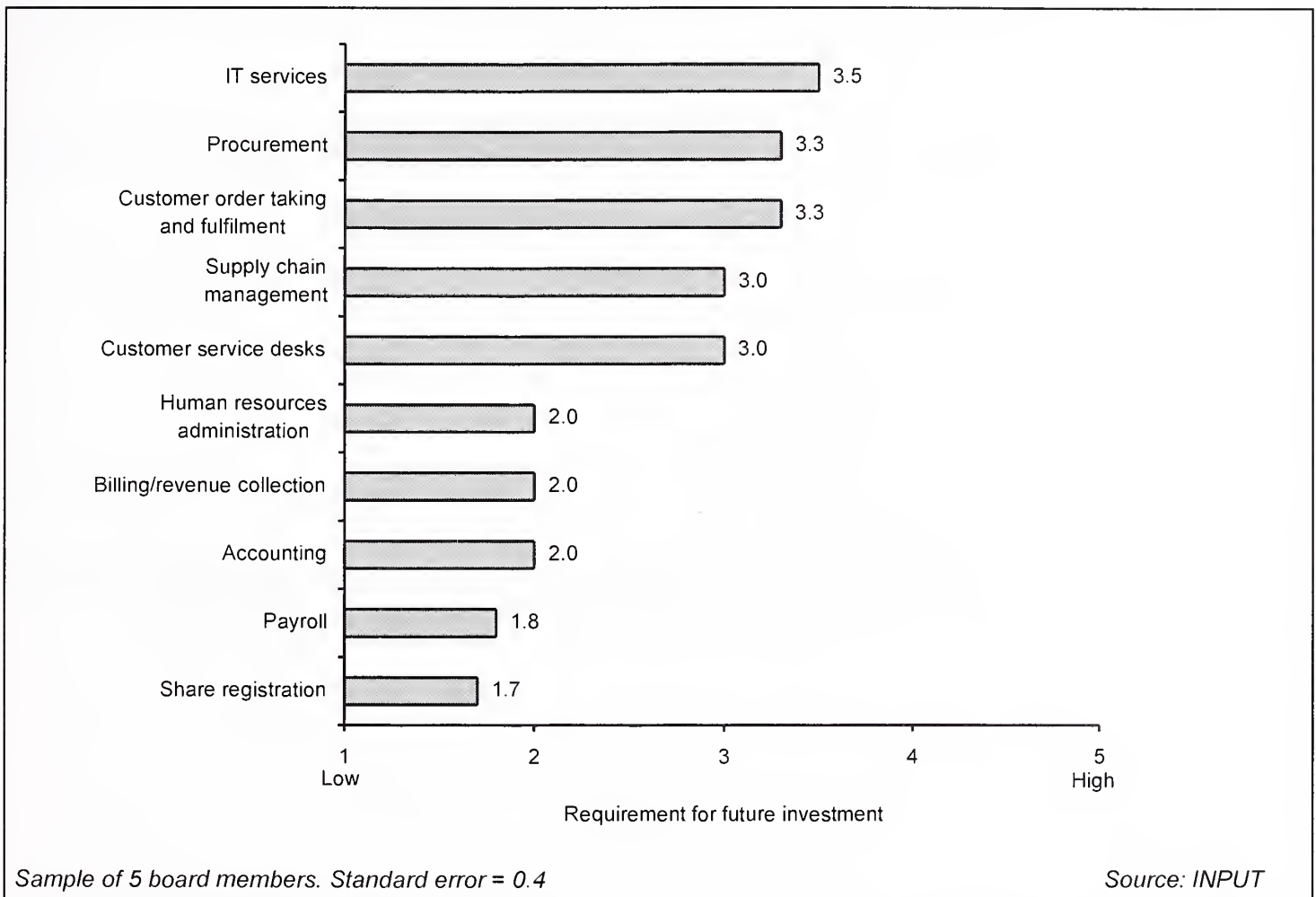


Exhibit IV-53

Investment Pressure by Business Function: Utilities



The functions in the utilities sector facing the greatest combination of investment and cost pressure are:

- IT services
- Customer order taking and fulfilment
- Customer service desks.

Again these are the areas identified as providing the organisation with its greatest competitive differentiation.

However customer services was the area identified as in most need of rationalisation by managers in the utilities sector and so presents a business operations outsourcing opportunity in the medium-term. In the U.K., there has been significant activity in targeting the billing and customer services activities of the newly privatised electricity and water utilities.

Capita has formed a joint venture company with Yorkshire Water to provide a range of customer services. Initially, this joint venture has been awarded a contract worth \$3m per annum to manage an element of Yorkshire Water's revenue collection activity.

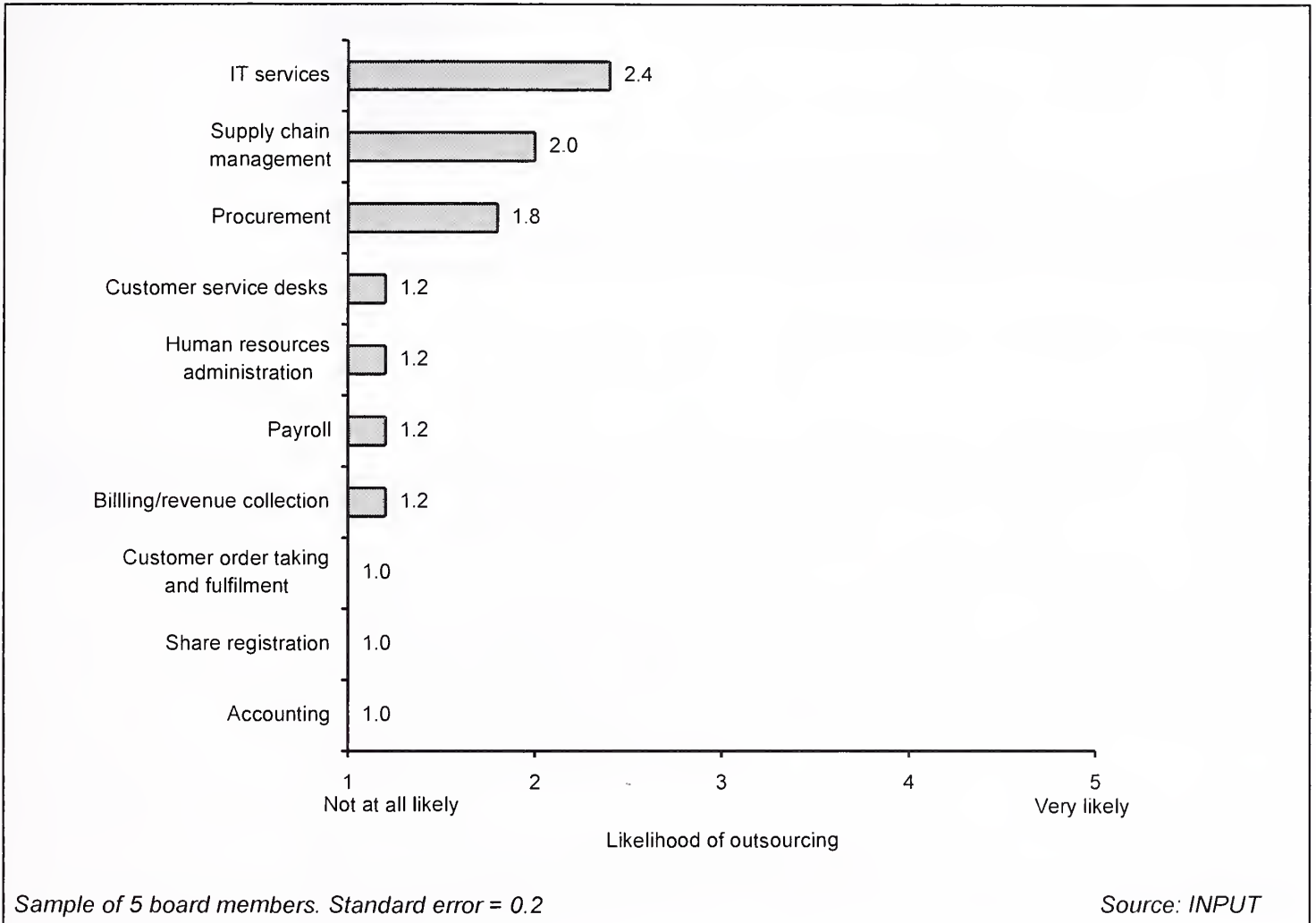
Another venture in this industry is Vertex. Vertex offers a range of business operations outsourcing services to the utilities and other sectors, including:

- Customer services management (call centre operations, billing and cash collection)
- Accounting services
- Procurement services
- Works management.

In the short-term, the propensity of organisations in the utilities sector to outsource each of a number of activities is listed in Exhibit IV-54.

Exhibit IV-54

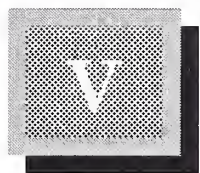
Business Operations Outsourcing Intentions: Utilities



Supply chain management and procurement appear to represent the most promising opportunities for vendors in the short-term.

One notable example of logistics outsourcing in the utilities sector is Andersen Consulting's joint venture with Thames Water in the U.K.

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Major Service Line Opportunities

A Administration Services in the Insurance Sector

1. Change in Critical Success Factors Drives Outsourcing

Traditionally, the insurance sector has been comparatively reluctant to adopt IT outsourcing. In 1994, the insurance sector was estimated to account for outsourcing revenues of \$330 million in Europe, less than 8% of the total IT outsourcing market.

However, the insurance sector is now facing a period of intense change and several major applications operations contracts have recently been signed in Europe as organisations endeavour to reengineer their business processes.

The pace of change in the life assurance sector is now accelerating. In the short-term, this is being driven by regulatory changes in the U.K. market. However, the resulting drive for substantial increases in productivity in the U.K. will subsequently have an impact on life assurance organisations throughout Europe. Although there is as yet little competition between life assurance companies at the European level, any extensive reengineering of the life assurance sector in the U.K. is likely to be emulated elsewhere in Europe. In particular, the level of productivity in the life assurance sector in Germany appears to be low, a situation which could lead to the extensive adoption of outsourcing there.

Overall, the high level of conservatism, and reluctance to outsource, of the life assurance sector may be about to change. The industry is facing a period of intense competition. In particular:

- The growth rate in new policies is declining rapidly
- Regulatory pressures in the U.K. will change the nature of competition
- This will create opportunities for outsourcing vendors.

2. Life Assurance Growth is Declining

Exhibit V-1 shows the growth in new policy numbers and premiums in the U.K. in recent years.

Exhibit V-1

U.K. Life Assurance

Year	New Policies (number)	Growth (%)	New Premiums (£m)	Growth (%)
1989	11388	–	10321	–
1990	9709	(15)	11565	12
1991	9319	(4)	14690	27
1992	9067	(3)	17529	19
1993	7941	(12)	19066	9
1994*	6590	(17)	16770	(12)

= estimated Source: ABI

Growth rates in new life assurance premiums have declined steadily since 1991. The level of new premiums in 1994 has been estimated on the basis of performance in the first three quarters of the year. On this basis, the industry appears to be heading for a significant reduction in new premium income compared to 1993.

Whilst the 1994 reduction in premium income might be considered an exceptional case, attributable to a year in which the industry attracted a considerable amount of criticism concerning its sales methods, the number of new policies has been declining for some time. Much of the cost in the life assurance sector is associated with the selling and initial administration to establish new policies. The reduction in the number of new policies sold and administered could be expected to lead to a significant reduction in the number of sales and administrative staff within the industry. However, while this has begun to occur within the sales channel, there have yet to be significant redundancies within life assurance administrative staff.

3. Regulatory Pressures will Change the Nature of Competition

Another traditional feature of the life assurance sector has been its immunity from cost pressure. Indeed until recently companies have been forbidden by the regulator from disclosing the commissions paid to sales personnel and intermediaries and their own internal administrative charges. This situation has led to the industry paying comparatively little attention to its cost structure.

However, since January 1995 the regulatory environment in the U.K. has changed dramatically. While all companies are still required to project the same rates of investment growth, organisations are now required to disclose their sales commission charges and their administration charges to their prospects.

This is radically changing the nature of the critical success factors in the life assurance sector. Whereas sales force coverage, including intermediaries, and the speed with which a policy could be authorised, were possibly the most important factors in the past, the principal objective criterion on which potential customers are now able to judge suppliers of life assurance will be their charge structure.

Hence the basis of competition in the industry has changed overnight from the sales person's credibility to the cost structure of the policy provider.

This is producing a major shake-out in the industry and dramatically reducing the number of companies administering their own policies in the U.K..

Exhibit V-2 compares some of the key statistics for organisations offering life assurance in France, Germany and the U.K..

Exhibit V-2

Life Assurance Statistics, 1992

	France	Germany	U.K.
Number of life companies	147	326	196
Total gross premiums (\$ Bn)	52	52	77
Number of employees (000's)	124	255	260
Gross premium per employee (\$ 000's)	420	205	295

Source: INPUT

While the present shake-out only immediately threatens the U.K. market, companies in Germany clearly face a similar threat should they be equally judged on their relative efficiency in a European life assurance market of the future.

4. Opportunities for Outsourcing Vendors

In the past, the level of outsourcing activity in the insurance sector has been very low. Some examples of past contracts are shown in Exhibit V-3.

Exhibit V-3

Contract Examples

Client	Vendor	Type of Contract
INA	EDS	Applications operations
Marsh & McLennan	Andersen Consulting	Global applications operations
Target Life	Unisys	Applications operations
Sturge	Data Sciences	Data centre management
Sedgwick	Data Sciences	Infrastructure management
GRE	IMI	Application maintenance management

Source: INPUT

More recently, Sema Group and IBM have been successful in winning IT contracts in the insurance sector.

Typical contracts have been to assist the smaller insurance companies in adopting new IT infrastructures. In addition, the insurance sector exhibited a need for application maintenance management services to assist companies in migrating between applications. Indeed, the longevity of products in the life assurance sector was a key factor leading to the low rate of adoption of IS outsourcing.

Systems relating to the management of an individual life assurance product need to remain in place for a minimum of 20 years. This longevity, together with the current change in the basic structure of the life assurance sector in the U.K. now presents a number of opportunities to outsourcing vendors.

The number of life assurance companies administering their own policies in the U.K. will reduce significantly, possibly halving over the next few years. However, even if a company closes its doors to new business, it still

needs to administer existing policies for many years. Activities involved include:

- Collection of committed premiums
- Liaison with existing policy-holders
- Administering policy terminations and early surrenders.

Since these activities must be continued, the supplier has a choice of options including:

- Selling its life assurance business to another vendor
- Continuing to sell policies but subcontracting their administration to a low cost operator
- Attempting to become one of the low-cost administrators
- Exiting the business but subcontracting the administration of the existing policy portfolio.

Accordingly, outsourcing vendors can respond by offering a range of outsourcing services, from business operations outsourcing through applications operations outsourcing, to transition outsourcing and application maintenance management.

The most ambitious of these options is to offer a complete business operations outsourcing service on behalf of insurance companies. This would entail the outsourcing vendor providing both information systems capable of delivering low administrative costs and also the administrative personnel. It is likely that this is an opportunity being investigated by a number of vendors.

This scenario has the potential to create a business operations outsourcing opportunity worth in excess of \$100 million per annum, and significantly increase the significance of the insurance sector in the outsourcing market.

For example, Andersen Consulting is endeavouring to adopt this business operations focus since it follows one of their current approaches of developing facilities that can be shared by a number of players in an industry and which target business operations outsourcing rather than purely IT outsourcing.

Since it is unlikely that any vendor could completely set up such a facility on its own, a number of outsourcing vendors are believed to be seeking

acquisitions or joint ventures with suitable partners already active in the life assurance sector to offer business operations outsourcing services.

It is also probable that there are insurance companies that need to improve their cost base, but still wish to retain their administration in-house. These companies are candidates for major systems integration or application operations outsourcing contracts with vendors offering considerable business reengineering capability and knowledge of best practice in the insurance sector. Examples of organisations that have undertaken such contracts include INA and Marsh & McLennan.

In addition, organisations acquiring other insurance companies will experience initial difficulties in using common information systems to administer policies across organisations. This again results in opportunities ranging from transition outsourcing of datacentres and application maintenance management through to a short-term business operations outsourcing opportunity.

Following its acquisition of Continuum, a leading supplier of application software products to the insurance sector, CSC is likely to target business administration opportunities in the insurance sector.

However, IT vendors have not been successful in targeting this business operations outsourcing opportunity so far. In practice, much of the less efficient capacity within the industry will be absorbed by acquisition by more successful organisations in the insurance sector.

In addition, there are specialist organisations now targeting life assurance administration. For example, in the U.K., Scottish Widows has transferred the administration of its \$30 billion investment portfolio to WM Company. WM was originally part of stockbrokers Wood MacKenzie but is now controlled by Bankers Trust.

Scottish Widows will continue to manage the portfolio and decide where funds are placed. However the administration, including trade settlement, securities reconciliation, income collection and tax recovery will be performed by WM.

Scottish Widows is in the process of streamlining its head office operations, with a number of staff being transferred to WM. However, the need to upgrade its computer systems was one of the key drivers in Scottish Widows' adoption of outsourcing, and the company expects to make considerable savings in IT costs as a result.

Overall WM administers funds valued at \$75 billion. Other clients include Marks & Spencer Financial Services and the British Rail pension fund.

B**Cheque and Credit Card Processing**

The financial services sector in Europe has been very conservative in its use of outsourcing. Much of the outsourcing that has taken place so far has been concentrated around the maintenance of legacy applications or support for the desktop environment.

However, the banking sector in France is facing considerable pressure to improve its financial performance. This will encourage banking institutions to reconsider outsourcing, and potentially creates opportunities for vendors to increase their involvement in the running of back-office systems.

Axime is potentially well placed to take advantage of this opportunity, since the company:

- Has a broad portfolio of services which are supportive of the financial services sector
- Has the potential to convert its processing services and IS outsourcing services into business operations outsourcing services for the financial services community.

The financial services sector still accounts for over half of Axime's revenues.

The breakdown of revenues between Axime's service divisions is shown in Exhibit V-4.

Exhibit V-4

Axime's Revenues by Activity

Activity	1994 Revenues (FFm)	Proportion (%)
Processing & Facilities Management	1004	55
Systems engineering and integration	514	28
Direct communication	317	17
Total	1835	100

Source: Axime

Axime Intégration de Systèmes focuses on four areas that are applicable to the financial services sector:

- securities trading rooms
- electronic funds transfer systems
- banking software
- interapplications communication management software.

For example, Axime has signed an exclusive licensing agreement with California-based Infinity Financial Technology to distribute its middle- and back-office trading room products in France, Belgium and Luxembourg.

Axime Direct aims to provide full-service direct marketing capability. The unit has recently formed a Statistics and Modelling unit to complement its existing services in database management and fulfilment, mail production, and consulting and list brokerage.

Overall, Axime has a broad range of services applicable to the financial services sector ranging from direct marketing, through systems integration to electronic funds transfer and the processing of securities. This range of services enables Axime to offer financial services organisations a wide range of outsourcing options and positions the company to take over business operations functions such as credit management in addition to platform and application operations services.

1. Converting Processing Services into Business Operations Outsourcing

Axime Services focuses on information processing and network services. The division's technical resources include:

- 800 MIPS of processing capability
- 500 Transpac lines
- 8000 videotex access points
- 2,500 audiotex lines.

The Axime Services Division is divided into three operating units:

- Telematics
- Means of Payment

- Facilities Management and Securities & Banking Processing.

A breakdown of Axime Services' revenues according to these units is shown in Exhibit V-5.

Exhibit V-5

Axime Services: Revenue by Activity

Activity	1994 Revenues (FFm)	Proportion (%)
Telematics	374	37
Means of Payment processing	269	27
Facilities Management	183	18
Securities Processing	178	18
Total	1004	100

Source: Axime

Axime views telematics as a major growth opportunity and the company's revenues from this activity grew by 30% in fiscal 93/94.

Axime's telematics services offer information providers the means to make their information widely accessible over private networks or the public Transpac network. Axime places considerable emphasis on developing the multimedia capability of its telematics services. Axime's telematics services cover audiotex, videotex and fax, and in 1994 the service achieved 12 million hours of connection time.

The current information providers include a wide range of media such as newspapers and TV channels, and also financial institutions.

Axime is endeavouring to develop its Telematics services internationally and has developed audiotex services in Belgium, the Netherlands, Germany and Italy.

In 1994, Axime processed 350 million bank card transactions. For example, Axime developed, installed and operates Visa's CIBLE information system in France. CIBLE acts as a clearing house for international settlements and performed 70 million transactions in 1993.

In addition, Axime signed major contracts for cheque processing with Paris' public transport system (RATP) and with the oil companies Total and Shell.

In addition to its means of payment services, Axime provides the following processing services for use by financial institutions:

- The TITAN services for securities back-office processing
- The ATLAS service for processing of banking operations.

The level of activity for each of these services is listed in Exhibit V-6.

Exhibit V-6

Axime: Securities and Banking Processing

	Securities Processing	Banking Processing
Accounts processed	1.3 million	400,000
Orders/entries per month	430,000	2 million
Volume of custody	FF600 Bn	

Source: Axime

Overall, the volume of cheques is expected to continue to decline in favour of increasing debit and credit card usage. This leads to a situation in which financial institutions no longer wish to invest in a declining service function and face the prospect of their unit costs increasing over time.

Accordingly financial institutions are increasingly outsourcing such processing services.

In the U.K., EDS has signed a number of contracts for cheque and credit card processing starting with a contract with Midland Bank in 1990 covering credit and debit card processing. Subsequently, EDS has signed contracts with:

- The Royal Bank of Scotland for cheque processing
- Shell U.K. for fuel card services
- Girobank to enable the organisation to deliver debit and credit card merchant acquiring services to retailers.

Girobank will provide customer-facing sales and account management functions while EDS provides electronic transaction capture, paper voucher capture, automatic and voice authorisation, charge-backs and retailer support.

Elsewhere the Co-operative Bank has entered into an agreement with Unisys to split off its payment processing function including 200 personnel into a wholly owned Unisys subsidiary.

This organisation is seeking to expand its third-party business, including the processing of transactions involving paper other than cheques, such as invoices.

In 1994, the Co-operative Bank processed approximately 300 million pieces of paper per annum.

The overall money transmission volumes in the U.K. are listed in Exhibit V-7.

Exhibit V-7

U.K. Money Transmission — 1994

Item	Volume (billion)
Cheques	3.3
Credit & charge-cards	0.9
Debit card purchases	0.8
Cash Payments	16.1
Total payment and cash acquisition volume	26.1

Source: Eurostat

Assuming that the U.K. accounts for approximately 17% of the volume of cheque, credit and debit card transactions gives a European volume of 30 billion such transactions.

C

Accounting Services

Andersen Consulting has achieved only limited success in the IT outsourcing market in Europe and in recent years has focused its energies on becoming one of the market leaders in the emerging business operations outsourcing sector.

The organisation's first business operations outsourcing contract was signed with BP Exploration in 1990 and involved the supply of day-to-day accounting services.

Between 1990 and 1995 the organisation gradually extended its presence in accounting operations for North Sea oil companies but was largely unable to extend the scope of its accounting services beyond this highly specialised field.

However, in the last year, Andersen Consulting has begun to make significant new breakthroughs in developing its market presence in accounting services. The organisation's major recent accounting services contracts are listed in Exhibit V-8.

In particular, Andersen Consulting has:

- Consolidated its presence in oil company accounting operations
- Developed an accounting operations presence outside the oil sector.

Exhibit V-8

Andersen Consulting: Recent Accounting Services Contracts

Client	Function	Date signed	Number of personnel transferred	Contract Value (\$m)
Sears Plc	IT and Finance functions	1/96	900	540
BP Exploration (Norway)	Accounting services	95	25	n/a
Conoco	Accounting services	8/95	120	n/a
BP Exploration (U.K.)	Accounting services	8/95	Renewal of existing contract	60
Fiat New Holland	Accounting services	95	n/a	n/a

Source: INPUT

Andersen Consulting's contract for accounting services signed with BP Exploration (U.K.) in 1990 was the organisation's first major accounting services contract. Accordingly, it was very important for Andersen Consulting that this contract, and this stream of business, should be a success.

The business activities performed by Andersen Consulting within the contract included:

- Processing and paying approximately 12,000 invoices per month
- Management of bank accounts

- Production of monthly and quarterly management reports and identification of variances
- Production of statutory accounts.

However, these activities were all handled in a manner specific to oil companies operating in the North Sea. Between 1990 and 1994, Andersen Consulting extended its activity in this niche, winning contracts with three other oil companies operating within the North Sea regime, including Sun Oil and ASCo.

In 1995, Andersen Consulting consolidated its position in this activity by signing an additional client, Conoco, and more importantly by the renewal of its original contract with BP Exploration (U.K.). This contract was renewed following a benchmarking survey of BP Exploration's accounting services. Andersen Consulting estimates that BP Exploration achieved a 30% cost reduction within its accounting services during the course of the initial 5-year contract.

In addition, Andersen Consulting has now signed additional accounting services contracts with BP Exploration in Norway and BP in the U.S. In the U.S., the agreement covers five BP businesses: BP Exploration, BP Oil, BP Chemicals, Air BP and BP Marine. This contract is estimated to be worth \$120 million over 10 years.

As a result, Andersen Consulting has proved that outsourcing accounting services is a viable option and has established itself as market leader in the specialised niche of oil company accounting.

However, Andersen needed to extend its accounting services activities outside the specialised market segment.

In the last year, Andersen Consulting has extended its involvement with New Holland, with whom Andersen Consulting already had a joint venture in logistics services, to include accounting services.

This is an important breakthrough for Andersen Consulting since it gives the organisation a reference site for accounting services within the manufacturing sector. This is a major opportunity for Andersen Consulting since the market potential for accounting services in the wider European manufacturing sector far exceeds that within the European oil sector.

In addition, the manufacturing sector in Europe has so far shown the highest propensity of any sector to outsource its IT services, organisations often regarding these as non-core activities. Similarly the

European manufacturing sector is increasingly likely to regard accounting services as non-core over the next few years.

In addition, Andersen Consulting has made a breakthrough in the retail sector. The organisation has signed an outsourcing contract with Sears Plc within which all of Sears IT and finance operations have been transferred to Andersen Consulting.

This contract involved the transfer of 900 staff, approximately doubling the staffing of Andersen Consulting's Business Process Management division in the U.K.

The Sears group consists of a diverse range of manufacturing and retailing subsidiaries operating in different markets. Previously each subsidiary had its own unique accounting, logistics and IT functions. These functions have now been combined across companies into single common support functions serving all companies remaining within the Sears group. By combining these common support functions, Sears expects to achieve annual savings in excess of \$30m by the year 2000.

Consequently, Andersen Consulting now manages accounting services for oil companies, and for organisations in the manufacturing and retail sectors.

D

Local Government Managed Services

A wide range of managed service opportunities have emerged in recent years in the U.K. government sector. Much of this activity has derived from the government's use of Compulsory Competitive Tendering to encourage local authorities in a change of role from service provision to service management.

The principal opportunities in this sector are:

- Accounting services, with the emphasis on revenue collection and benefits administration
- Payroll and pensions administration
- Housing management.

A number of vendors specialise in this market including: Capita, CSL and ITnet.

Capita's Outsourcing Division had revenues of \$85 million in 1995, with approximately half of these revenues derived from non-IT managed services. Capita divides its outsourcing services into four areas:

- Customer Services, for example call centres for customers of client organisations
- Back-office Services, for example payroll, pensions and revenue collection services
- IT support
- Site services.

Within local government, Capita supplies revenue collection services to Bromley and Westminster councils.

CSL had managed services revenues of \$45 million in 1995 with three-quarters of this revenue derived from local government. CSL's services include:

- Accounting services , including revenue collection
- Payroll, personnel and pensions administration
- Benefits administration
- Housing stock management.

The company currently manages the housing stock on behalf of four councils in the U.K.

ITnet has a number of contracts for managed financial services in local government and is particularly strong in the provision of managed payroll services to the public sector.

Business operations outsourcing opportunities are also emerging from central government in the U.K. Examples of contracts of this type recently awarded include:

- Administration of the new theory driving test
- Administration of the Phase I Pre-School Voucher System.

In the first case, Capita formed a joint venture with JHP Limited to form DriveSafe. DriveSafe is responsible for invigilation, marking and fee collection at 140 test centres throughout the U.K.

In the second instance, administration of the pre-school voucher system, Capita is responsible for:

- Application processing
- Voucher issuing
- Maintaining databases of eligible children and educational establishments
- Preparation of weekly payment schedules.

E

Managed Payroll Services

The payroll services market is well-established in Europe. Initially payroll services were primarily provided as a bureau processing service with a low level of administrative content. However the leading vendors are now focusing on transforming these offerings into fully managed services.

The level of vendor interest in this market is indicated by recent acquisition activity, with ADP acquiring GSI in France and Ceridian acquiring the Personnel and Payroll Services division of Centre-file, the IT services subsidiary of National Westminster Bank in the U.K.

Ceridian now offers two types of payroll service, namely:

- A standard payroll processing service for small organisations with up to 24 employees
- A fully managed payroll service for major organisations that wish to retain no in-house payroll expertise.

Ceridian is now extending its managed payroll services to include other aspects of human resources administration such as handling legislative administration, new starter and leaver administration.

CMG also offers two types of payroll services, including:

- Payroll services where the client retains its payroll office and CMG provides processing facilities
- Managed payroll contracts where CMG acts as the payroll department of the client.

Within its managed payroll service:

- All source documents are sent by the client to CMG
- CMG handles all administrative liaison with central government departments such as the Department of Social Security and the Inland Revenue and BACS payments
- CMG retains all employee records and answers personnel queries through a central client contact point
- CMG advises the client on DSS payments.

Although no clear pattern of prospects has emerged by industry, CMG regards MBO's as prime prospects as are organisations, such as some retailers, with high levels of staff turnover.

The company currently has managed payroll services revenues of approximately \$10 million. Current clients for this service include BurgerKing, Coats Lorilleux and Power Construction.

Other processing services can be extended into fully managed services by extending the scope of associated administrative activities. For example, CMG has extended its bureau service for share registration into a managed operations service.

CMG has a number of clients for this service, including BP. CMG supplies all share registration services to BP including:

- Shareholder queries
- AGM administration
- Dividend fund administration
- Administration of lost certificates and deaths.

CMG is endeavouring to develop these activities into a full range of investor services.

F**Customer Services**

As shown in INPUT's research, the overwhelming majority of organisations are not ready to outsource their customer handling activity, perceiving this to be a core business activity.

However, despite this widespread belief, there are already some examples of this type of activity in Europe.

One organisation offering customer service management is Ventura, a subsidiary of the Next retail group. Ventura has a staff of 1200 handling 9 million calls a year.

Ventura's clients include the Co-operative Bank, Time Retail Finance and Cellnet. Ventura handles all accounts, payments, inquiries and complaints for Cellnet's non-business customers.

Ventura offers call handling, mailing services and financial management. Within its call handling activities, Ventura typically contracts to handle more than 90% of customer calls within 15 seconds. In addition, the company stores and analyses customer data, enabling it to spot trends and target customers at risk.

Overall Ventura aims to assist its clients in managing the customer life-cycle developing greater loyalty between its clients and the clients' customers.

Ventura was initially formed as a credit card company operating store cards. Another company offering customer management services in Europe is First Data Resources, which was spun off by American Express in 1992.

EDS is also targeting customer service operations in Europe.

For example, the company runs customer assistance centres on behalf of GM subsidiaries, including Vauxhall in the U.K. Here, EDS provides a customer hotline service for Vauxhall handling customer complaints to assist Vauxhall in maintaining high levels of customer satisfaction. In addition, information gathered by the hotline is channelled back into Vauxhall's ongoing marketing and product development.

A less successful venture into customer services management is EDS' contract with Time Life.

In this case, EDS relocated Time Life into its Stockley Park offices from where it provides fulfilment services including:

- Capturing and processing all incoming mail (approximately 4 million items per annum)
- Processing new enrolments
- Processing customer orders and payments
- Maintaining customer accounts.

EDS is paid a fixed rate per item processed by Time Life. Three years ago, when the contract was signed, EDS aimed to reengineer the business processes in the medium-term to reduce costs. Increased levels of automation were seen as critical to this reengineering process.

However, although Time Life is broadly satisfied with the service levels provided, no significant reengineering has taken place and the cost structure of the processes has not significantly improved.

As a result, at the mid-way point of the five-year contract, it is unlikely that Time Life will renew this contract. In particular, Time Life wants:

- To move to a cheaper location than Stockley Park
- To gain greater control of the service.

At present, the company is having difficulty in covering its overheads and needs to reduce its costs per customer transaction. At the end of its contract with EDS, it is probable that the company will merge its fulfilment operations with those of Book of the Month Club, using shared facilities to reduce its operating costs.

G

Supply Chain Management

Andersen Consulting has so far been the most successful IT services vendor in targeting supply chain management. The organisation formed a joint venture with FIAT's New Holland agricultural machinery group to manage logistics and distribution of spare parts for agricultural and construction equipment.

New Holland has an 80% stake in the joint venture and Andersen Consulting a 20% shareholding. The joint venture employs 800 staff and operates from six centres in Europe: in Italy, the U.K., Belgium, France, Spain and Germany. The organisation has a turnover of approximately \$400m.

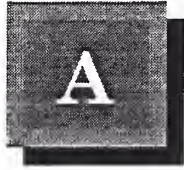
The joint venture is designed to utilise Andersen Consulting's expertise in process reengineering and IT and New Holland's operational capability in warehousing and distribution.

In September 1995, Andersen Consulting also announced a joint venture with Thames Water. The new company formed, Connect 2020, will initially provide supply chain management services to Thames Water. Andersen Consulting and Thames Water will share any profits that arise out of improved operational efficiencies.

The rationale for the joint venture is that Andersen Consulting has the reengineering skills to improve the processes within Thames Water's existing supply chain management procedures. Thames Water's contribution to the joint venture is personnel with detailed operational knowledge of supply chain management within the utilities sector.

One hundred and thirty personnel have transferred from Thames Water to the joint venture company.

In future, Connect 2020 intends to target the operation of purchasing and supply services more widely within the utilities sector. This will involve targeting, for example, the electricity and gas utilities in addition to other water companies.



Business Function Outsourcing: User Telephone Questionnaire

Support for Business Function Outsourcing

1. To what extent do you think that the concept of the virtual corporation is a useful business model? (Please rate on a scale of 1-5 where 1=not at all useful and 5=very useful).

2. To what extent do you believe that organisations should outsource business functions because these functions (please rate on a scale of 1-5 where 1=not at all and 5=strongly agree):

Are not important determinants of business success

Are not performed cost-effectively in-house

3. What other factors, do you think are important in deciding whether a business function should be outsourced?

Current Use of Business Function Outsourcing

4. Does your organisation already outsource any major business functions?

Yes/No?

5. If so, which functions and what were the main reasons for outsourcing?
How satisfied are you with the service provided? (Please rate on a scale of 1-5 where 1=dissatisfied and 5=very satisfied.)

Business Function	Reason(s)	Level of satisfaction (1-5)

6. Which of the following business functions do you currently outsource? For those outsourced, how satisfied are you with the current performance of the vendor? (Please rate on a scale of 1-5 where 1=dissatisfied and 5=very satisfied.)

Function	Outsourced (Yes/No)	Level of satisfaction (1-5)
Day to day accounting activities		
Billing/revenue collection		
Share registration		
Payroll		
Human resources administration		
Customer service desks		
Customer order taking and fulfilment		
Supply chain management		
Procurement		
IT services		

Driving Forces

7. The following is a list of potential characteristics of a business operation. How important is each of these on a scale of 1-5 in making the business operation a candidate for outsourcing?

Common to organisations in your industry	_____
Common to all business organisations	_____
High labour intensity	_____
High technology content	_____
High transaction volumes	_____
Variable workload or transaction volumes	_____
High importance as business differentiator	_____
Strong need for ongoing process investment	_____
Function in need of improvement	_____
Function being phased out/declining volumes	_____

8. Which business functions within your organisation do you perceive:

- Becoming more generic in nature?
- To be declining in importance or transaction volumes?
- To have rapidly increasing business volumes?
- To require high levels of ongoing investment?
- To be support processes that add little competitive differentiation?
- To be under high levels of cost pressure?
- To be best performed by an external agency?

9. To what extent do you perceive each of the following functions:

- To be under high a high level of cost pressure
- To provide competitive differentiation for the organisation
- To require high levels of future investment

(Please rate on a scale of 1-5 where 1=low and 5=high.)

Function	Cost Pressure (1-5)	Competitive Differentiation (1-5)	Future Investment (1-5)
Day to day accounting activities Billing/revenue collection Share registration Payroll Human resources administration Customer service desks Customer order taking and fulfilment Supply chain management Procurement IT services			

Outsourcing Intentions

10. To what extent do you think that your organisation should reduce the range of activities performed in-house? (Please rate on a scale of 1-5 where 1=strongly disagree and 5=strongly agree).

11. To what extent is your organisation likely to extend its use of business function outsourcing over the next three years? (Please rate on a scale of 1-5 where 1=not at all likely and 5=extremely likely).

12. In which areas do you expect your organisation to consider business function outsourcing over the next 12 months?

13. In which areas, would you expect your organisation to subsequently extend its use of business function outsourcing?

14. How likely is your organisation to outsource each of the following activities (please rate on a scale of 1-5 where 1=not at all likely and 5=very likely):

- Day to day accounting activities _____
- Billing/revenue collection _____
- Share registration _____
- Payroll _____
- Human resources administration _____
- Customer service desks _____
- Customer order taking and fulfilment _____
- Supply chain management _____
- Procurement _____
- IT services _____

15. In many large organisations the business practices are relatively unique within each business unit? To what extent do you think that there is scope within your organisation for rationalisation of business practices across business units or subsidiaries. (Please rate on a scale of 1-5 where 1= very little and 5=considerable.)

16. Which business functions, if any, do you think are candidates for rationalisation across the organisation?

17. To what extent do you believe business function outsourcing should take place at each of the following levels within your organisation:

Individual departments	_____
Individual business units/subsidiaries	_____
Enterprise-wide	_____

18. What proportion of business activity that is currently carried out in-house do you think will be outsourced by the year 2000?

_____ %

Thank you very much for your assistance.

(Blank)

