"IBM runs our computer center as it's supposed to be run—as a profit center, not a cost center."

Kathy Hudson, Kodak

Source: *Fortune* article

OU-2a
11/11/91

"I haven't lost 200 people, I've gained 50,000."

Jack Livingston,
National Car Rental

Source: *Fortune* article

OU-3a
11/11/91

Outsourcing is the contracting of information systems processes to external vendors.

OU-6a
9/3/91

IS Outsourcing Areas

1. Systems operations
2. Applications management
3. Network operations
4. Desktop services

OU-7
4/15/92

INPUT

“Outsourcing” vs. Buying Services

- Greater commitment on part of buyer
- “Partnership”
- Responsibility/risk for vendors

Driving Forces—Outsourcing

Category	Outsourcing
Staff	Scarcity of talents
Technology	Increasing complexity New technology

OU-24
9/3/91

INPUT

Driving Forces—Outsourcing

Category	Outsourcing
Response	Service requirements Flexible operations
Financial	Cost reduction New scales of economy
Management	Executive refocus

OU-25
11/11/91

Inhibiting Factors
Outsourcing

Category	Outsourcing
Management	Loss of control
Fallback	Inability to reverse decision

OU-25a
10/25/91

INPUT

Inhibiting Factors
Outsourcing

Category	Outsourcing
Financial	Uncertain savings
Staff	Threat to organization

OU-25b
10/25/91

Outsourcing User Issues

- Business environment
  - Critical value of information
  - Organizational impact
  - Flexibility for change

OU-25c
10/25/91

INPUT

Outsourcing User Issues

- Operating environment
  - Dependency on vendor
  - Long-term stability
  - Improved service levels
  - Control over operating costs

OU-25d
10/25/91

INPUT

Outsourcing

OU-43

INPUT

Conclusions

- Outsourcing is revolutionary
    - Functional responsibility to vendor
    - Increased dependence for clients
    - Increased risk for vendor

OU-46
11/11/91

Conclusions

- Outsourcing is revolutionary
  - Vendor/client partnerships
  - Vendor success tied to client success
  - Vendor provides all services

Conclusions

- Outsourcing revolution continues
  - Deals are getting bigger
  - Larger vendors most successful
  - More services being outsourced

OU-48
11/11/91

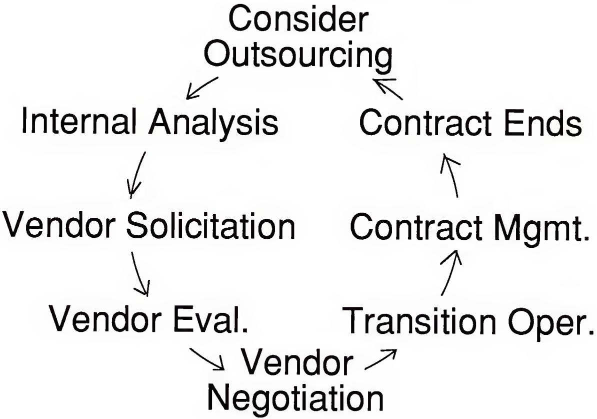
The Outsourcing Revolution

A new way of doing business . . . better

OU-49
11/11/91

INPUT

Outsourcing Cycle



Consider Outsourcing

Internal Analysis

Vendor Solicitation

Vendor Eval.

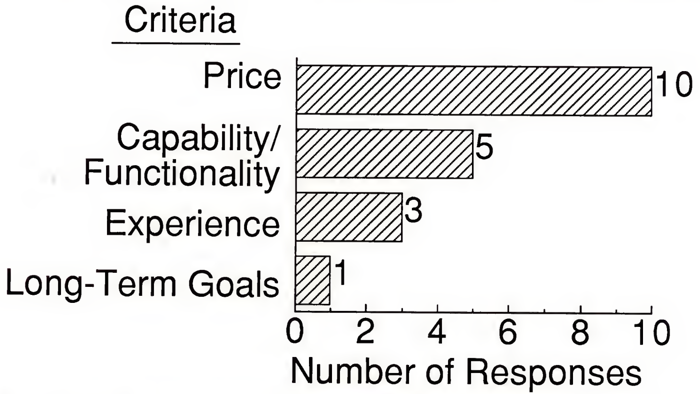
Vendor Negotiation

Transition Oper.

Contract Mgmt.

Contract Ends

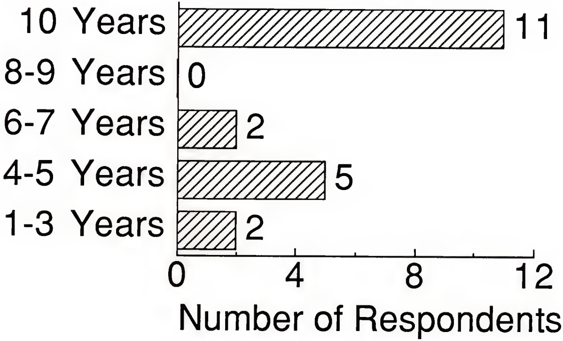
Important Evaluation Criteria



OU-52
4/15/92

Note: 13 respondents answered the question

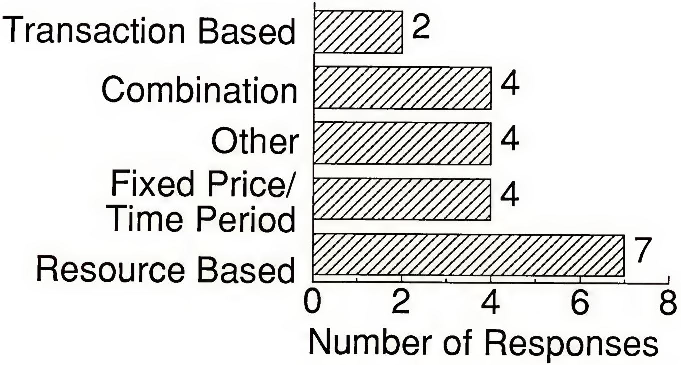
Contract Length



OU-53
4/15/92

Average contract length: 7.7 years

Pricing Terms



OU-54
4/15/92

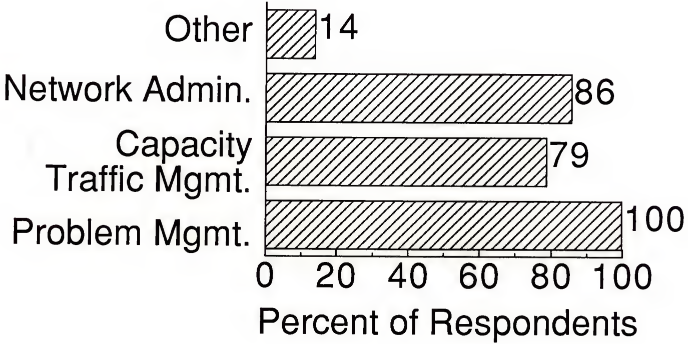
WM(8) 6-UP HARDCOPY

Outsourcing of Network Management

OU-56
4/15/92

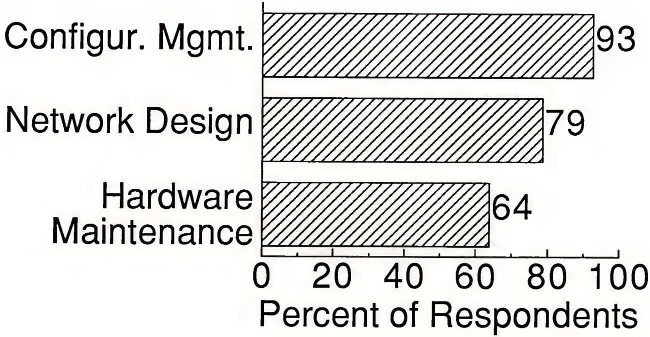
INPUT

Vendor Functions Provided



OU-58
4/15/92

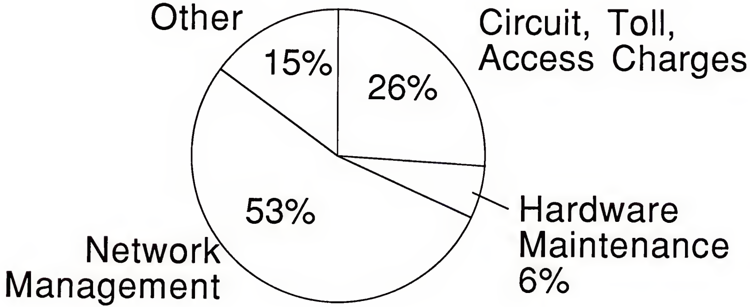
Vendor Functions Provided



OU-59
4/15/92

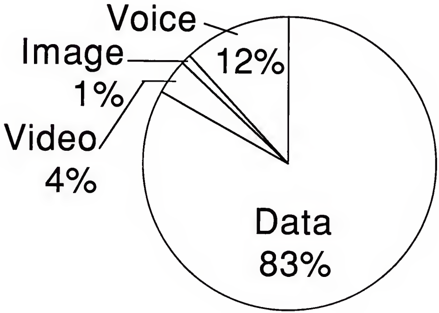
INPUT

Vendor Revenue by Type of Service



OU-60
4/15/92

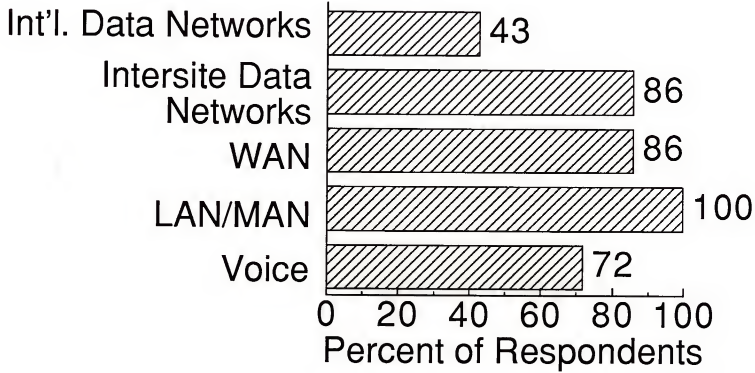
Network Management Market



OU-61
11/12/92

INPUT

User Networks Outsourced



OU-64
4/15/92

Desktop Services

A Key Outsourcing Opportunity

OU-65
4/15/92

INPUT

Elements of Desktop Services

- PC/workstation and software procurement/installation
- PC/workstation maintenance
- Client/server management

OU-66
8/19/92

INPUT

Elements of Desktop Services

- LAN administration
- LAN expansion
- Help desk functions
- User training

OU-67
4/15/92

INPUT

Elements of Desktop Services

- LAN installation and expansion
- LAN management
- Network interface management

OU-67a
8/19/92

Elements of Desktop Services

- Logistics management
- User support
- Help desk functions
- User training and education

OU-67b
8/19/92

Desktop Services Providers
Current

- EDS
- DEC
- ISSC
- SHL Systemhouse
- Computerland
- JWP

OU-68
8/19/92

INPUT

Desktop Services Providers

- Potential
  - Integris
  - Bell Atlantic
  - Sears Business Center

OU-69
10/29/92

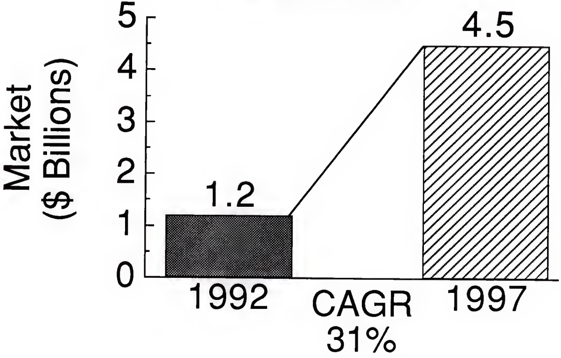
INPUT

Desktop Services User Concerns

- Core Business Focus
- Downsizing
- PC/LAN Based Applications
- Technological Change

OU-70
10/29/92

U.S. Desktop Services Market



OU-71
11/11/92

Typical Desktop Contracts in the U.S.

OU-72
4/15/92

INPUT

JWP/Kodak

- Part III of large outsourcing contract (ISSC/DEC)
- Provide
  - PC/workstation maintenance
  - Software upgrade
  - Help desk services

EDS/GE

- Contract valued at $500 million (5 yrs.)
- Provides:
  - PC/workstation central purchasing
  - Establishment of product specs
  - PC/workstation maintenance
  - Software upgrade and training
  - Help desk

OU-74
8/19/92

DEC/Blockbuster Video

- International contract
- Provides:
  - Implementation and start-up service
  - Connectivity to network
  - Help desk
  - Hardware and software upgrade

ISSC/Zale Corp.

- Part of large outsourcing contract
- Provides:
  - PC/workstation maintenance
  - Software upgrade
  - Help desk

OU-76
4/15/92

INPUT

ISSC/Zale Corp.

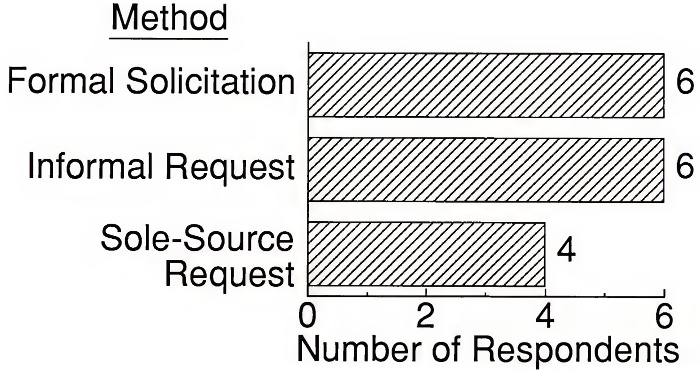
- Part of large outsourcing contract
- Provides:
  - PC/workstation maintenance
  - Software upgrade
  - Help desk

Benefits of Desktop Services

- Clients regain control over PCs
- Management shifts to vendor
- Expenses are predictable
- Enhancements easier to implement
- Standards are a by-product

INPUT

Vendor Solicitation Methods



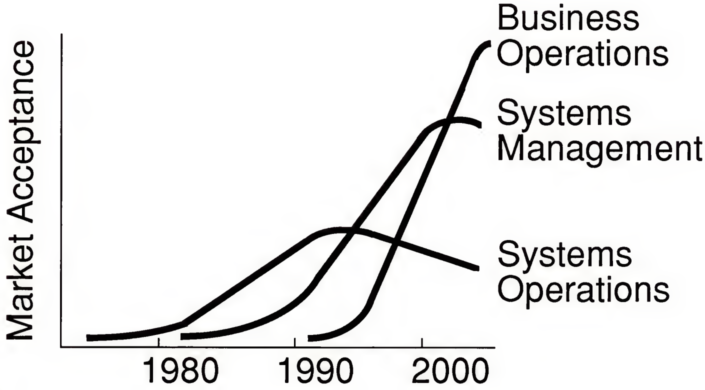
OU-82
4/23/92

Information Systems Outsourcing

OU-83
6/10/92

INPUT

Outsourcing Market Waves



OU-84
6/10/92

U.S. Outsourcing Market Forecast

OU-85
6/10/92

INPUT

Outsourcing Market Trends/Issues

OU-86
6/10/92

INPUT

Major Contracts

OU-87
6/10/92

Outsourcing Contracting and Pricing

OU-88
6/10/92

INPUT

Value Pricing Concept

- Three components
    - Audience
    - Determine benefit
    - Cost of achieving benefit
- EDS and DEC

OU-89
6/10/92

Market Diversification

OU-90
6/10/92

INPUT

Business Operations Outsourcing

OU-91
6/10/92

INPUT

Transition Outsourcing

- Vendor manages current systems operations
- Client develops new systems
- Client transitions to new systems environment

OU-92
8/4/92

Transition Outsourcing

- Tool for management of change
- Controlled phase-out approach
- Management of existing operations
- Short-term agreement

Typical Transition Contracts

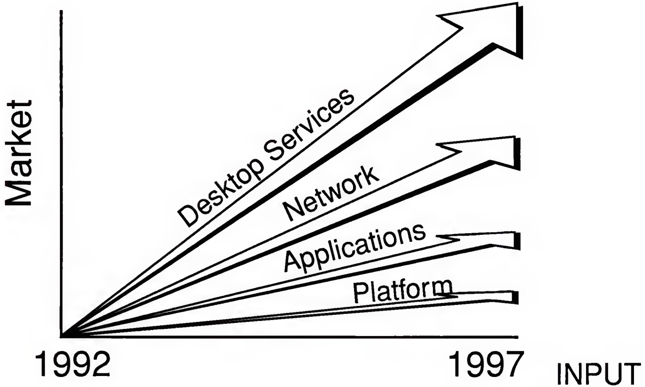
Client	Vendor	Value ($M)
Dial Corp.	Andersen	10
Revlon, Inc.	Andersen	2
Penrod Drilling	EDS	2
Combustion Engr.	Power	1
Freeport-McMoran	ISSC (?)	10 *

*Estimate

OU-94
8/4/92

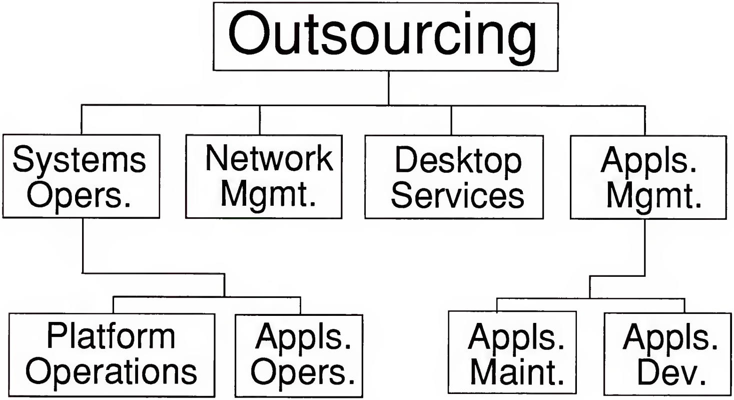
INPUT

Changing Outsourcing Options



OU-104
8/19/92

INPUT



Outsourcing

Systems Opers.

Network Mgmt.

Desktop Services

Appls. Mgmt.

Platform Operations

Appls. Opers.

Appls. Maint.

Appls. Dev.

OU-117
8/19/92

Drivers to Desktop Services

- Whole environment is new and complex
- IS departments lack skills, coverage and inclination
- Users lack skills and inclination
- Third parties are acceptable

OU-118
8/19/92

Opportunities for Desktop Services Suppliers

- Become equipment/software suppliers
- Direct contract with users creates SI/professional services opportunties

OU-119a
8/19/92

INPUT

Opportunities for Desktop Services Suppliers

- Considerable ‘add-on’ potential, including
  - Telecommunication systems
  - Office (e.g., image) systems

OU-119b
8/19/92

INPUT

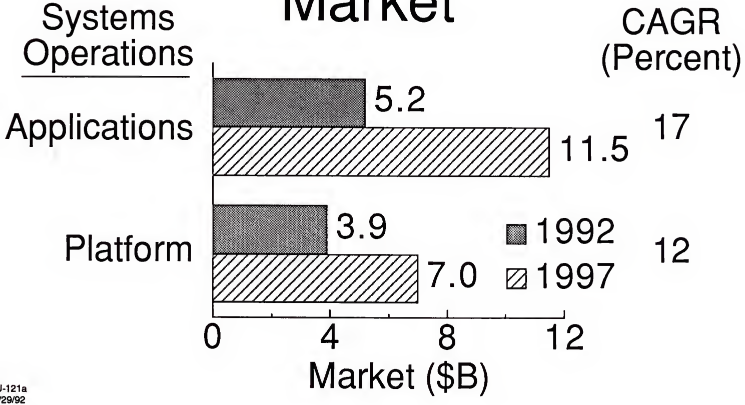
Introduction

- Changing outsourcing options
- Outsourcing strategies
- Impact of downsizing on outsourcing
- User concerns
- Vendor directions and strategies
- Conclusions/recommendations

OU-120
10/29/92

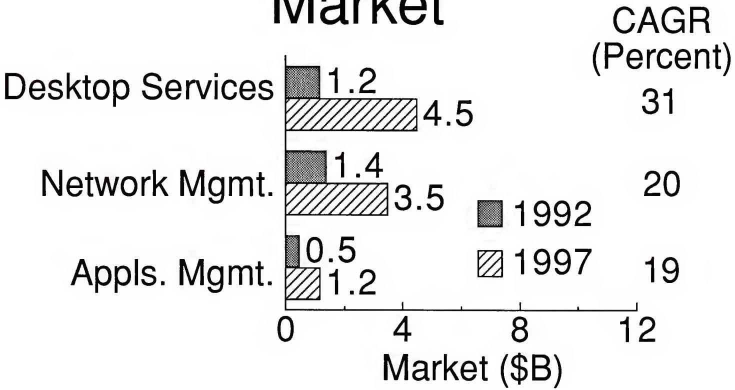
INPUT

Changing Outsourcing Market



OU-121a
10/29/92

Changing Outsourcing Market



OU-121b
10/29/92

INPUT

Current Outsourcing Strategies

- Economic strategy
- Service enhancement

OU-122
10/29/92

INPUT

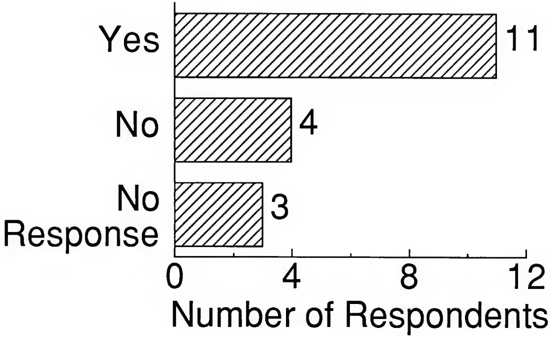
New Outsourcing Strategies

- Transition strategy
- Change agent
- Business strategy

OU-123
10/29/92

INPUT

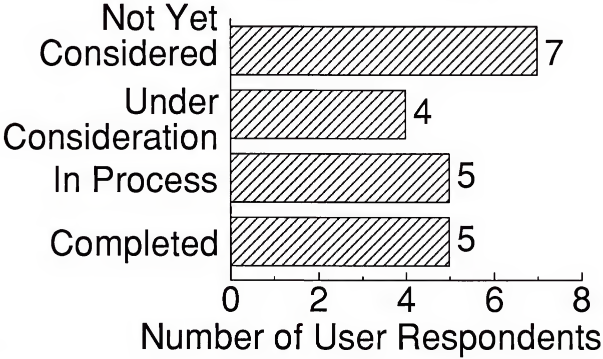
Both Outsourcing and Downsizing Viable?



OU-124
10/29/92

INPUT

Impact of Downsizing on Outsourcing



OU-125
10/29/92

Vendor Challenges

- Provide full service range
- Maintain flexible organization
- Meet growing network requirements
- Educate users on expectations

User Concerns

- Define requirements clearly
- Re-engineer business operations
- Control IT resources
- Keep up with technology change

OU-130
10/29/92

INPUT

Vendor Strategies

- Ride the downsizing wave…
  - Applications management
  - Network management
  - Desktop services

OU-131
10/29/92

INPUT

Conclusions

- Downsizing provides outsourcing opportunities
  - Short term
    - Transition management

OU-132a
10/29/92

INPUT

Conclusions

- Downsizing provides outsourcing opportunities
  - Long term
    - Desktop services
    - Network management
    - Applications management

OU-132b
10/29/92

INPUT

Conclusions

- Outsourcing vendors to assume new roles
  - System integrator
  - Network manager
  - Business manager

OU-133
10/29/92

INPUT

Introduction

- Elements of desktop services
- Market size
- User requirements/concerns
- Vendor strategies
- Conclusions and recommendations

OU-134
10/29/92

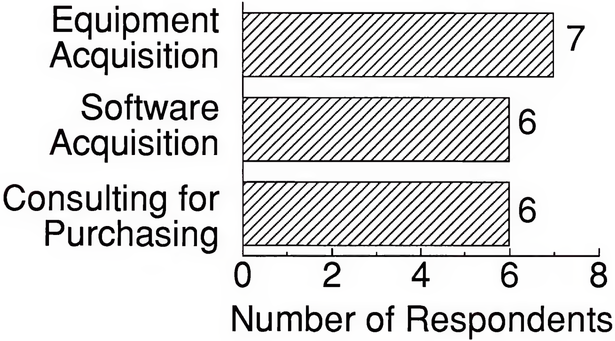
INPUT

Elements of Desktop Services

OU-135
10/29/92

INPUT

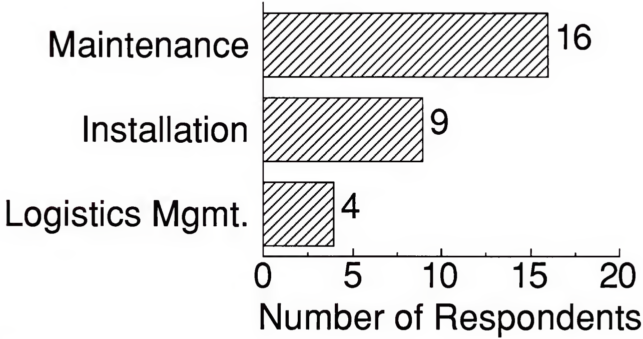
Supply Services Required



OU-136
10/29/92

INPUT

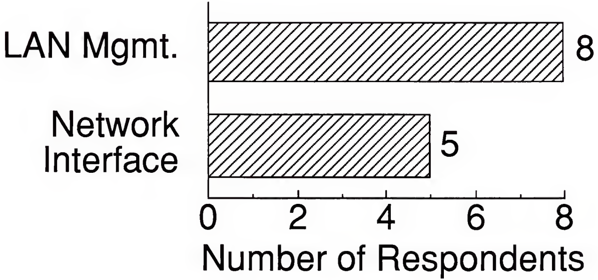
Equipment Support Required



OU-137
10/29/92

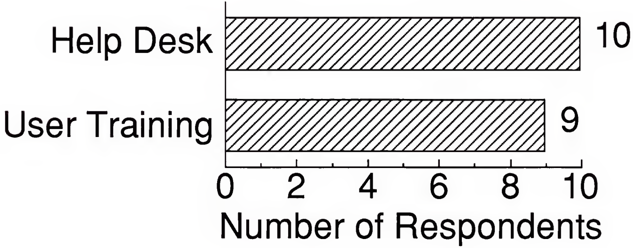
INPUT

Connectivity Services Required



OU-138
10/29/92

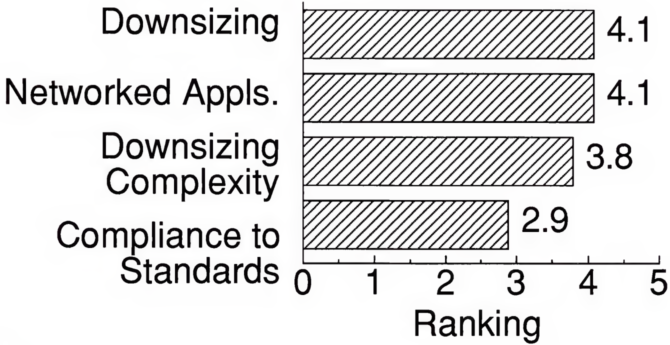
User Support Required



OU-139
10/29/92

INPUT

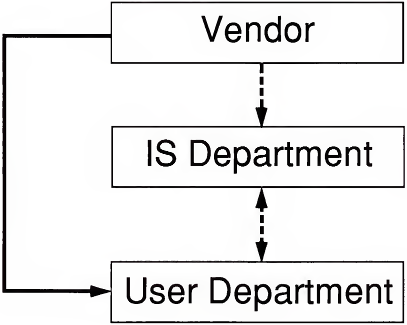
What Is Spurring Desktop Services?



OU-140
10/29/92

INPUT

Change in Client Interface



Vendor

IS Department

User Department

OU-141
10/29/92

INPUT

User Requirements

- "80% solutions" today
- Convenient interface/access
- Training
- Rapid problem resolution

OU-142
10/29/92

INPUT

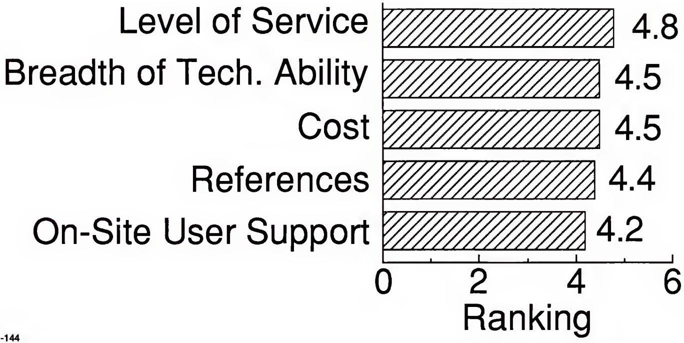
IS Department Requirements

- Control over standards
- Predictable costs
- Relief from management burden
- Removal from daily problems

OU-143
10/29/92

INPUT

Major User Criteria for Desktop Vendors



OU-144
10/29/92

Vendor Strategies

OU-149
10/29/92

INPUT

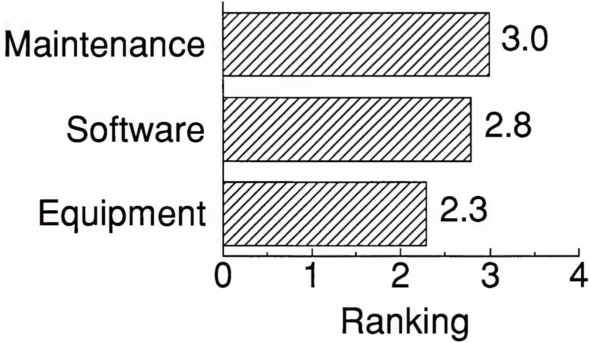
Desktop Vendor Requirements

- Need local presence
- Need large, dispersed staff
- Control inventory
- Educate users

OU-150
10/29/92

INPUT

Least Profitable Desktop Components



OU-151
10/29/92

Opportunities for Outsourcing Vendors

- Provide additional services
- Broaden client penetration
- Protect existing relationship
- Create application management opportunity

OU-152
10/29/92

INPUT

Recommendations and Conclusions

OU-153
10/29/92

INPUT

Vendor Recommendations

- Develop new staff capabilities
- Invest in management tools
- Form alliances

INPUT

User Recommendations

- Standardize equipment/software
- Invest in training
- Be skeptical of technology

OU-155
10/29/92

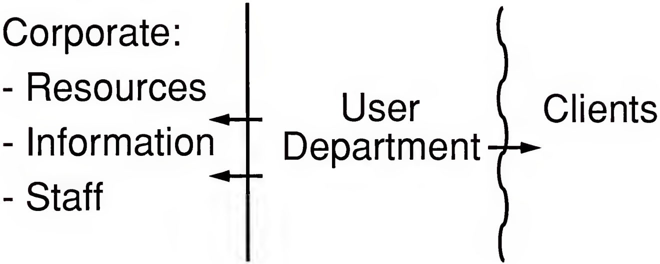
INPUT

Conclusions

- Vendors need to support downsizing
- Desktop services difficult to manage
- Benefits to users significant
- Growth potential explosive

INPUT

User Environment Changing



Corporate:
- Resources
- Information
- Staff

User Department

Clients

OU-157
10/29/92

INPUT

Vendor Directions

- IBM/Sears joint venture
- EDS restructure/refocus
- Ameritech/May-Speh partnership

OU-158
10/29/92

INPUT

Recommendations
Vendors

- Position for change
- Restructure for diversity
- Assume role of change agent

OU-159
10/29/92

INPUT

Recommendations
Users

- Consider all options
- Forget non-critical functions
- Manage outsourcing relationships

OU-160
10/29/92

INPUT