

What is it?

Why is it becoming a
major factor?

OU-1

INPUT

Notes

Outsourcing makes good business sense for the client

Fortune article, Sept. 23, 1991

INPUT

OU-1a

Notes

Beyond Products: Service-Based Strategy

HBR March/April 1990

OU-2

INPUT

Notes

“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

INPUT

OU-2a

Notes

Key Findings

- Value added from services
- Technology enhances services
- Services enable competitive differentiation

Source: *HBR* article

INPUT

OU-3

Notes

“I haven’t lost 200 people,
I’ve gained 50,000.”

Jack Livingston,
National Car Rental

Source: *Fortune* article

OU-3a

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Notes

Recommendations

- Focus on core services
- Outsource other activities

Source: *HBR* article

INPUT

OU-4

Notes

Key Conclusions

- Vendor profit margins are generous (25-30%)
- Clients save up to 40%
- Outsourcing—a strategic decision for clients

Source: *Fortune* article

INPUT

OU-4a

Notes

Key Conclusions

- Some risk in outsourcing development
- New forms of corporate interdependence

Source: *Fortune* article

OU-4b

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Notes

Outsourcing

- Outsource non-competitive activities
- Outsourcing builds flexibility
- Outsourcing allows focus

Source: *HBR* article

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OU-5

Notes

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

OU-6a

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Notes

Outsourcing Provides For:

- Vendor responsibility for IS processes
- Long-term relationship
- Structured price for services

OU-6b

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Notes

IS Outsourcing Areas

1. Systems operations
2. Application maintenance
3. Application management

OU-7a

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Notes

Outsourcing represents the
future of the information
services industry

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OU-8

Notes

“Outsourcing” vs. Buying Services

1980s: Services achieved recognition

1990s: Overcome prejudice against buying management services

OU-10

INPUT

Notes

“Outsourcing” vs. Buying Services

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

OU-11

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Notes

Focus

Systems integration (SI)
Systems operations (SO)

OU-12

INPUT

Notes

Outsourcing Vendors

- Approaches differ greatly
- Variety of capabilities needed
- Partnerships/alliances result

OU-13

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Notes

Client Organization

- IT and IS will change the organization
- How will it operate?

OU-14

INPUT

Notes

Client Organization

- People
 - How many?
 - When?
 - What skills?

INPUT

OU-15

Notes

Potential for revolution is
there.

Forecasts are based on
evolution.

INPUT

OU-17

Notes

Evolution of Outsourcing

Product/Service	1970s	1990s
Applications Software	Applications Packages	Applications Management
Professional Services	Consulting Contract Prog	Applications Maintenance

INPUT

OU-18a

Notes

Evolution of Outsourcing

Product/Service	1970s	1990s
Processing Services	Specific Proc Serv	→ Systems Operations
Networking Services	Value-Added Networks	→ Network Operations

INPUT

OU-18b

Notes

Outsourcing in the 1990s What is Different

- Size and length of commitment
- Breadth of responsibility assumed by vendor
- Client seeking partner

OU-19

INPUT

Notes

Outsourcing in the 1990s

What is Different

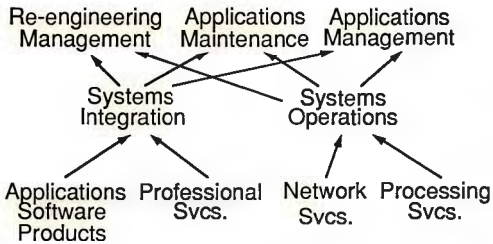
- Complexity of IT solutions
- Professional services component
- Systems management

OU-20

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Notes

Systems Management Opportunities

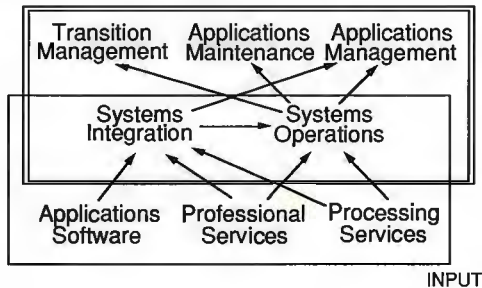


OU-21

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Notes

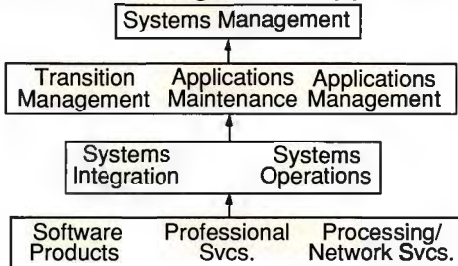
Systems Management Opportunities



OU-21a

Notes

Systems Management Opportunities



OU-21b

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Notes

Organization/IS Impact

Outsourcing Category	Impact		
	Operational	Tactical	Strategic
Applications Management	High	High	Medium
Systems Operations	High	Medium	Medium

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OU-22

Notes

Organization/IS Impact

Outsourcing Category	Impact		
	Operational	Tactical	Strategic
Applications Maintenance	High	Medium	Low

OU-23

INPUT

Notes

Driving Forces—Outsourcing

Category	Outsourcing
Staff	Scarcity of talents
Technology	Increasing complexity New technology

OU-24

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Notes

Driving Forces—Outsourcing

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

OU-25

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Notes

Inhibiting Factors Outsourcing

Category	Outsourcing
Management	Loss of control
Fallback	Inability to reverse decision

OU-25a

INPUT

Notes

Inhibiting Factors Outsourcing

Category	Outsourcing
Financial	Uncertain savings
Staff	Threat to organization

OU-25b

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Notes

Outsourcing User Issues

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

OU-25c

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Notes

Outsourcing User Issues

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

OU-25d

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Notes

Outsourcing Relationship Classification

Relationship Type	Outsourcing Category	Relationship Characteristics
Partnership-Based	Applications Management	Management-oriented Broad scope Open-ended timing

OU-26

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Notes

Outsourcing Relationship Classification

Relationship Type	Outsourcing Category	Relationship Characteristics
Partnership-Based	Systems Operations	Broad expertise Personnel transfer Flexible agreement Service levels

INPUT

OU-27

Notes

Outsourcing Relationship Classification

Relationship Type	Outsourcing Category	Relationship Characteristics
Partnership-Based	Network Operations	Communication expertise Service levels Change management

OU-28

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Notes

Outsourcing Relationship Classification

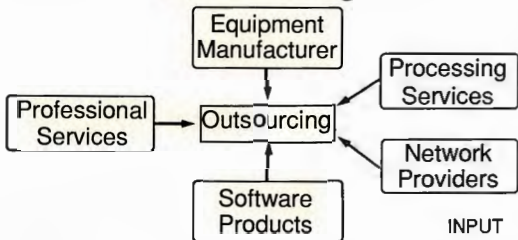
Relationship Type	Outsourcing Category	Relationship Characteristics
Objective-Based	Applications Maintenance	Specific expertise Focused agreement Target dates

OU-29

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Notes

Vendor Orientation to Outsourcing



OU-30

Notes

Vendor Strategies

- Systematics
- Andersen Consulting
- Electronic Data Systems

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OU-31

Notes

Systematics/Alltel

Heritage	Applications operations
Focus	Banking/health care
Strength	Industry specialization Application software
Direction	Systems management

OU-32

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Notes

Andersen Consulting

Heritage	Professional services
Focus	Business solutions
Strength	Business knowledge Technology orientation Change management
Direction	Systems management

INPUT

OU-34

Notes

Computer Sciences Corp.

Heritage	Professional services/consulting
Focus	Systems integration/ systems operations

OU-34a

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Notes

Computer Sciences Corp.

Strength	Federal government experience Large technical staff Program management experience Re-engineering (index)
Direction	Commercial systems operations Transition management

OU-34b

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Notes

Electronic Data Systems

Heritage	Facilities management
Focus	Systems/network operations
Strength	Worldwide network Huge data centers Desktop management
Direction	Business operations Functional management

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OU-35

Notes

Organizational Impacts

Group	Impacts
Total Organization	No visible impact Reallocation of personnel Faster access to skills More disciplined implementation

OU-36

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Notes

Organizational Impacts

Group	Impacts
Information Systems Management	Manage a smaller organization Shift to tactics and strategy Time available for planning

OU-37

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Notes

Organizational Impacts

Group	Impacts
Information Systems Professional	Significant initial anxiety Greater career opportunities

OU-38

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Notes

Conclusions User View

- Outsourcing is different for the 1990s
- Outsourcing offers new opportunities
- Outsourcing leads to faster response
- Outsourcing helps IS change role

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OU-39

Notes

Government Outsourcing Inhibitors

- Government union pressures
- Legislative union support
- Government information protection

OU-40

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Notes

Government Systems Changes

- Replacing outdated systems
- Automating labor intensive operations
- Connecting standalone systems
- Moving control to end users

OU-41

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Notes

Government Systems Directions

- Point-of-service functions
- Client-server features
- Move to open systems
- Adoption of UNIX standards

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OU-42

Notes

Outsourcing

OU-43

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Notes

Buyer Motivation for Outsourcing

	Ranking	
	1991	1990
Reduce Operating Costs	1	2
Improve Service Levels	2	5
Refocus Executive Attention	3	8

OU-45a

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Notes

IBM (ISSC)

Heritage	Equipment manufacturer
Focus	Platform operations
Strength	Selective industry knowledge Large resource base Customer base Services infrastructure
Direction	Systems management

INPUT

OU-44

Notes

Buyer Motivation for Outsourcing

	Ranking	
	1991	1990
Supplement Internal Skills	4	7
Provide Flexibility/Response	5	6
Acquire New Technology	6	NM

NM=Not Mentioned

INPUT

OU-45b

Notes

Conclusions

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

INPUT

OU-46

Notes

Conclusions

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

OU-47

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Notes

Conclusions

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

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OU-48

Notes

The Outsourcing Revolution

A new way of doing
business . . . better

OU-49

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Notes

Outsourcing Cycle



OU-50

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Notes

Outsourced Functions

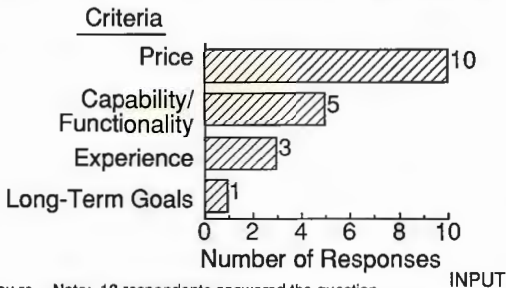
Function	Number of Resp.	
	Yes	No
Platform Operations	20	1
Applications Operations	10	11
Applications Maintenance	1	20
Network Operations	10	11
Desktop Services	7	14

OU-51

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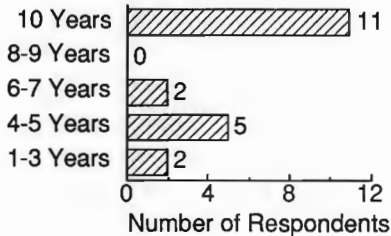
Notes

Important Evaluation Criteria



Notes

Contract Length

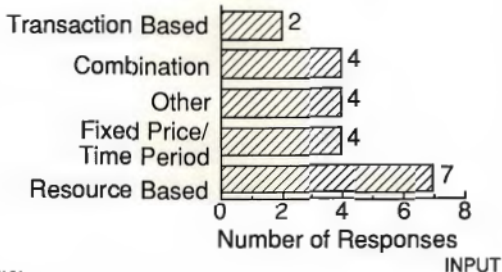


OU-63 Average contract length: 7.7 years

INPUT

Notes

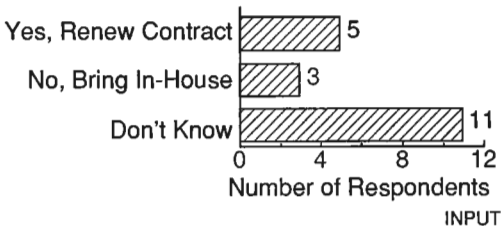
Pricing Terms



OU-54

Notes

Upon Contract Expiration Continue Outsourcing?



OU-55

Notes

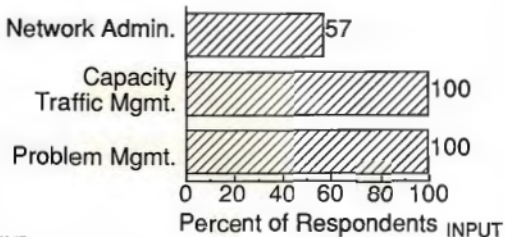
Outsourcing of Network Management

OU-56

INPUT

Notes

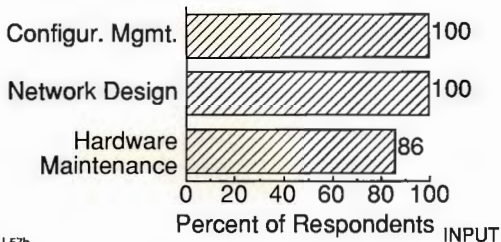
Functions Included in Outsourcing Contract



OU-57a

Notes

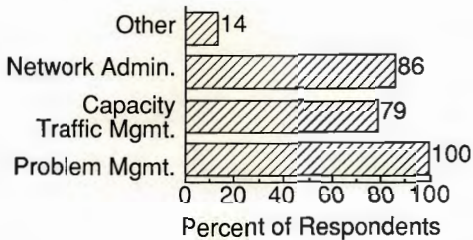
Functions Included in Outsourcing Contract



OU-57b

Notes

Vendor Functions Provided

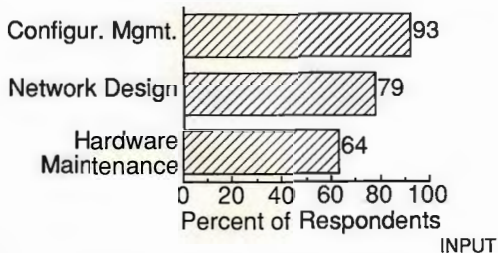


OU-58

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Notes

Vendor Functions Provided

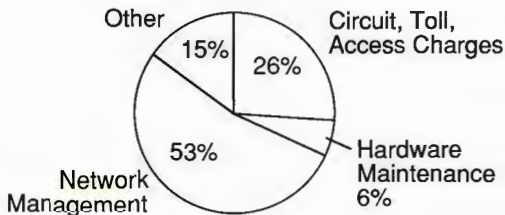


OU-59

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Notes

Vendor Revenue by Type of Service

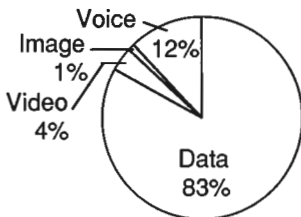


OU-60

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Notes

Network Management Market



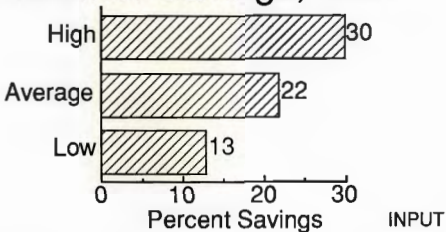
OU-61

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Notes

Network Operations Management

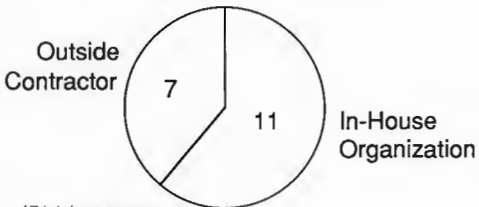
Vendor Estimates of Customer Savings, 1991



OU-62

Notes

Who Does Your Network Management



17 total responses

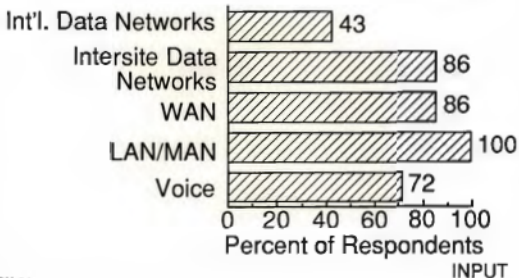
1 company used both in-house and outside vendor

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OU-63

Notes

User Networks Outsourced



OU-64

Notes

Desktop Services

Outsourcing Opportunity

OU-65

INPUT

Notes

Elements of Desktop Services

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

OU-66

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Notes

Elements of Desktop Services

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

OU-67a

INPUT

Notes

Elements of Desktop Services

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

OU-67b

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Notes

Desktop Services Providers Current

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

OU-68

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Notes

Desktop Services Providers

- Potential
 - Integris
 - Bell Atlantic
 - Sears Business Center

OJ-69

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Notes

Driving Forces Desktop Services

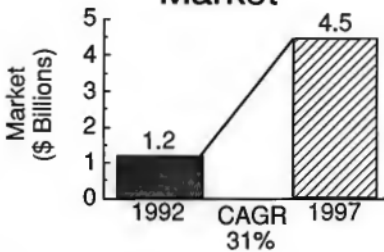
- Core Business Focus
- Downsizing
- PC/LAN Based Applications
- Technological Change

OU-70

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Notes

U.S. Desktop Services Market



OU-71

INPUT

Notes

Typical Desktop Contracts in the U.S.

OU-72

INPUT

Notes



JWP/Kodak

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

OU-73

INPUT

Notes

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

INPUT

Notes



DEC/Blockbuster Video

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

OU-75

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Notes



ISSC/Zale Corp.

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

INPUT

OU-76

Notes



Vendor Characteristics

- Broad geographic base
- Good program management resources
- Prior demonstrated success
- Resources to invest in expansion

OU-77

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Notes



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

OU-78

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Notes



Desktop Services

Conclusions

- Newest phase of outsourcing market
- High growth potential
- Driven by downsizing pressure
- High technology content

OU-79

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Notes



Important Factors in OS Contract Management

- Ongoing communications
- Vendor flexibility

OU-80

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Notes



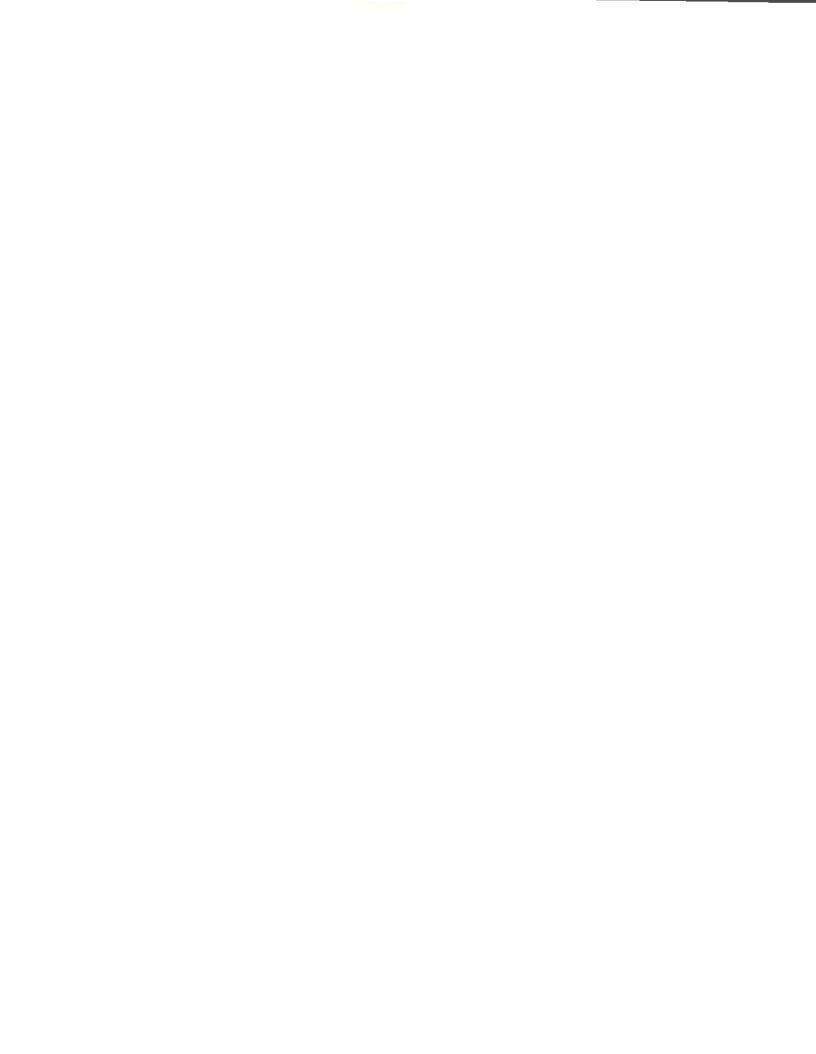
Recommendations

- Solicit a number of bids
- Look for responsive vendors
- Specify performance standards and penalties
- Demand a short contract period

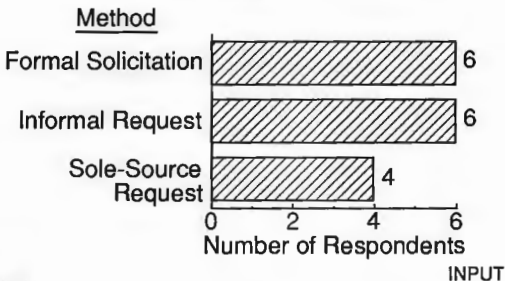
OU-81

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Notes



Vendor Solicitation Methods



OU-82

Notes



Information Systems Outsourcing

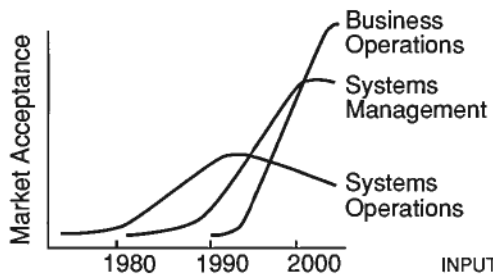
OU-83

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Notes



Outsourcing Market Waves



OU-84

Notes

U.S. Outsourcing Market Forecast

OU-85

INPUT

Notes

Outsourcing Market Trends/Issues

OU-86

INPUT

Notes

Major Contracts

OU-87

INPUT

Notes

Outsourcing Contracting and Pricing

OU-88

INPUT

Notes

Value Pricing Concept

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

OU-89

INPUT

Notes

Market Diversification

OU-90

INPUT

Notes

Business Operations Outsourcing

OU-91

INPUT

Notes

Transition Outsourcing

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

INPUT

OU-92

Notes

Transition Outsourcing

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

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OU-93

Notes

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

INPUT

OU-94

Notes

Impact of Transition Outsourcing

	% of Total Market	
	Now	3 Yrs.
Platform Operations	20-25	<10
Applications Operations	<10	15-20
Network Operations	10-15	15-20
Desktop Services	0	<2

INPUT

OU-95

Notes

Transitional Outsourcing Benefits to Client

- Shifts focus to system enhancements
- Better control of phase-out
- Shifts onus for closeout to vendor

OU-96

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Notes

Transitional Outsourcing Benefits to Vendor

- Potential for SI add-on
- Develop client relationship
- Necessary part of some SI engagements

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OU-97

Notes

Typical Networks Management Contracts in the U.S.

OU-98

INPUT

Notes

FTS 2000/AT&T/Sprint

- AT&T has 60%, Sprint 40% of agency business
- Issue of “technology refreshment” critical
- Savings significant to government
- Multibillion \$/10-year contract

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OU-99

Notes

State of Minnesota/MCI

- Links agencies, counties, cities and colleges
- High level of video traffic
- 5-year implementation

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OU-100

Notes

Kodak/DEC

- Part II of larger Kodak outsourcing contract
- Expansion to international in process
- Staff transfer key element

OU-101

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Notes

Quotron/IBM

- Includes customer service function
- IBM using VAN as backbone
- Quotron helps its data centers

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OU-102

Notes

Outsourcing Revolution Is Changing

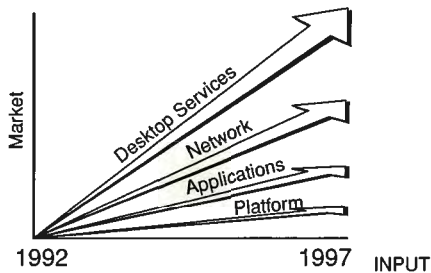
- New outsourcing options
- Contract award slowdown
- Changing players
- Shorter contracts

OU-103

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Notes

Changing Outsourcing Options



OU-104

Notes

1992 Forecast Summary

- Growth rate increasing
- Federal market confused
- New vertical market strengths
- Potential for explosive growth

OU-105

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Notes

Recent Market Aberrations

- Mellon Bank gets National Steel
- Kimberly Clark leaves market
- ISSC to manage Advantis
- New vendors emerging
- Users changing vendors

OU-106

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Notes

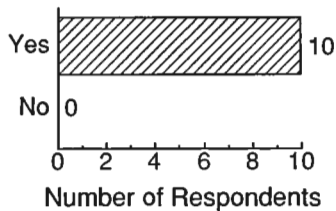
Impact of Downsizing on Outsourcing

OU-107

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Notes

Outsourcing Clients Considering Downsizing

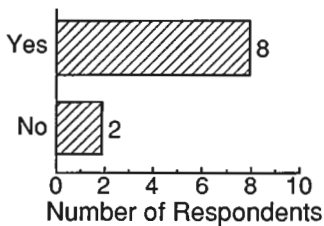


OU-108

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Notes

Vendors Adding Downsizing to New Contracts



OU-109

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Notes

Impact of Downsizing on Platform Operations

- Applications migrate to client/server
- Mainframes become servers
- Fewer mainframes required
- New skills required

OU-110a

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Notes

Impact of Downsizing on Platform Operations

- Existing contracts renegotiated
- Some contracts canceled/replaced
- Profitability affected in out-years
- New contracts shorter and transitional

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OU-110b

Notes

Impact of Downsizing on Network Management

- Increase in demand
- Nature of network mgmt. changes
 - Centralized network requirements reduced
 - Distributed network requirements increased

OU-111a

INPUT

Notes

Impact of Downsizing on Network Management

- Need for enhanced technology
- Need for consolidation of distributed applications
- Challenge to vendors
 - Increase functionality while reducing costs

OU-111b

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Notes

Impact of Downsizing on Applications Management

- Increase in demand
- Transition management opportunities
- Re-engineering opportunities

OU-112a

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Notes

Impact of Downsizing on Applications Management

- Requirement for integration of applications
- New skills required
- Increased partnerships with software product vendors

OU-112b

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Notes

Impact of Downsizing on Applications Maintenance

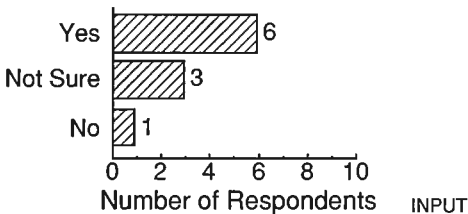
- Transition management opportunities
- Traditional maintenance revenue decline
- Local presence required for downsized applications
- New skills/partners required

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OU-113

Notes

Do Certain Outsourcing Vendors Have Advantage in Downsizing?



OU-114

Notes

Vendor Views

Outsourcing Vendor Downsizing Strategies

Leverage
professional skills

Andersen
PRC
SHL Systemhouse

Leverage hardware
and professional skills

ISSC
DEC

OU-115

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Notes

Vendor Views

Outsourcing Vendor Downsizing Strategies

Leverage software
products/reputation

Systematics

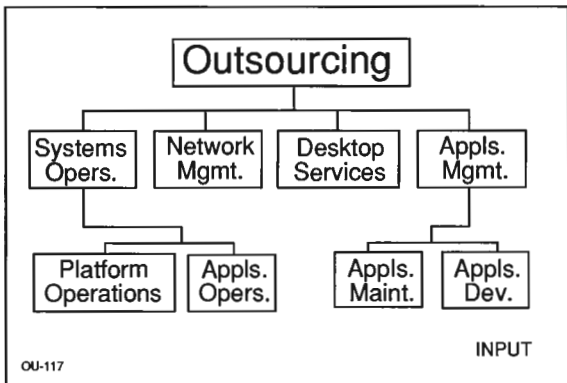
Use teaming partners

Perot Systems

OU-116

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Notes



Notes

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

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Notes

Opportunities for Desktop Services Suppliers

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

OU-119a

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Notes

Opportunities for Desktop Services Suppliers

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

OU-119b

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Notes

Introduction

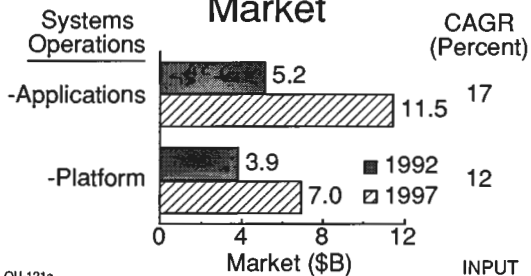
- Changing outsourcing options
- Outsourcing strategies
- Impact of downsizing on outsourcing
- User concerns
- Vendor directions and strategies
- Conclusions/recommendations

OU-120

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Notes

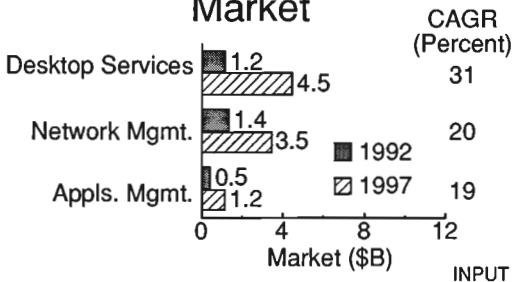
Changing Outsourcing Market



OU-121a

Notes

Changing Outsourcing Market



OU-121b

Notes

Current Outsourcing Strategies

- Economic strategy
- Service enhancement

OU-122

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Notes

New Outsourcing Strategies

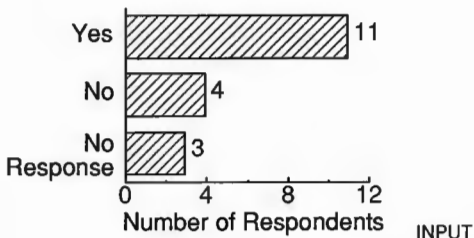
- Transition strategy
- Change agent
- Business strategy

OU-123

INPUT

Notes

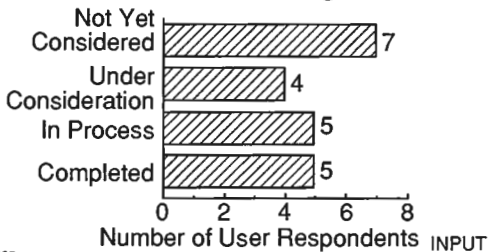
Both Outsourcing and Downsizing Viable?



OU-124

Notes

Impact of Downsizing on Outsourcing



OU-125

Notes

Impact on IS Function

Technocrat \neq CIO = Business Manager

Operational \neq IS = Strategic/Planning

Centralized \neq Processing = Distributed

OU-126

INPUT

Notes

Vendor Challenges

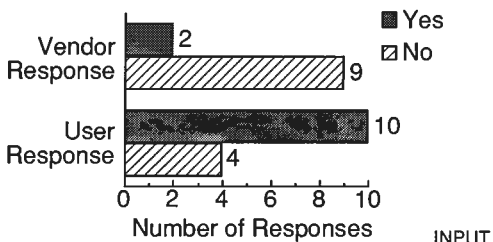
- Provide full service range
- Maintain flexible organization
- Meet growing network requirements
- Educate users on expectations

OU-127

INPUT

Notes

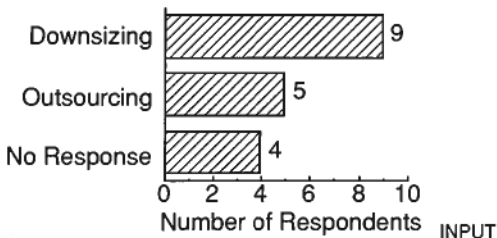
Users Downsize with In-House Staff?



OU-128

Notes

Which Saves Most Downsizing or Outsourcing?



OU-129

Notes

User Concerns

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

OU-130

INPUT

Notes

Vendor Strategies

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

OU-131

INPUT

Notes

Conclusions

- Downsizing provides outsourcing opportunities
 - Short term
 - Transition management

OU-132a

INPUT

Notes

Conclusions

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

OU-132b

INPUT

Notes

Conclusions

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

OU-133

INPUT

Notes

Introduction

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

OU-134

INPUT

Notes

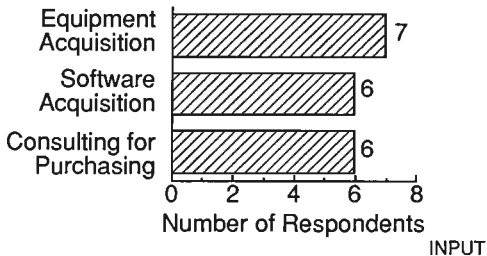
Elements of Desktop Services

OU-135

INPUT

Notes

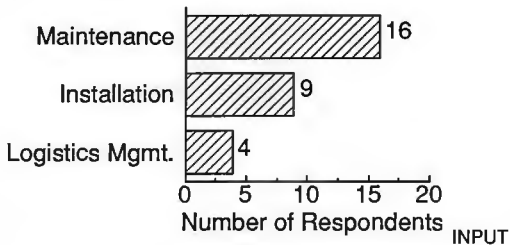
Supply Services Required



OU-136

Notes

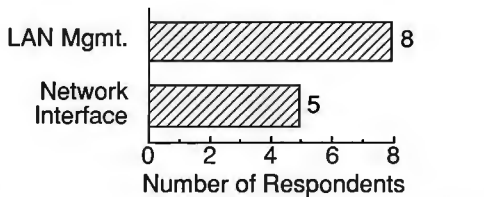
Equipment Support Required



OU-137

Notes

Connectivity Services Required

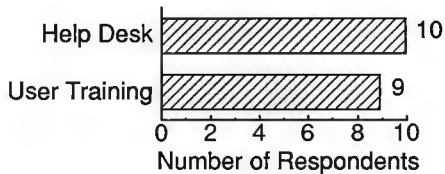


OU-138

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Notes

User Support Required

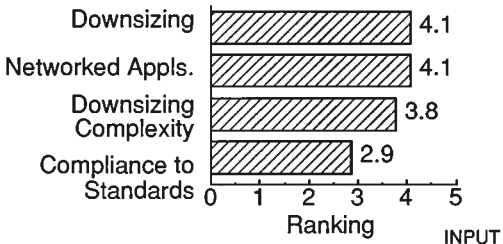


OU-139

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Notes

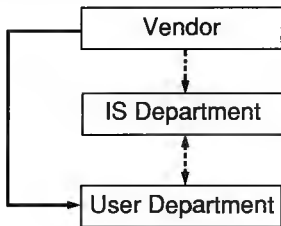
What Is Spurring Desktop Services?



OU-140

Notes

Change in Client Interface



OU-141

INPUT

Notes

User Requirements

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

OU-142

INPUT

Notes

IS Department Requirements

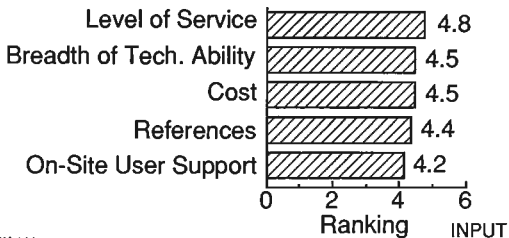
- Control over standards
- Predictable costs
- Relief from management burden
- Removal from daily problems

OU-143

INPUT

Notes

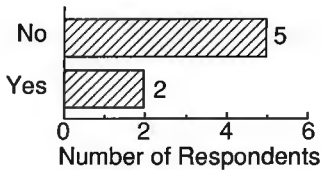
Major User Criteria for Desktop Vendors



OU-144

Notes

Separate Contract for Desktop?



OU-145

INPUT

Notes

Typical Inclusive Desktop Contracts

- JWP/Kodak—Part III of large 3-vendor contract
- ISSC/Zale—Part of large applications operations

OU-146a

INPUT

Notes

Typical Inclusive Desktop Contracts

- Businessland/Freeport—Part of large 3-vendor contract
- DEC/Imperial Oil—Not only piece outsourced

OU-146b

INPUT

Notes

Typical Exclusive Desktop Contracts

- EDS/GE—\$500 million for 5 years
- DEC/Blockbuster—International contract

OU-147

INPUT

Notes

Desktop User Issues

- Accept responsibility
- Maintain connectivity
- Control productivity
- Educate end users

OU-148

INPUT

Notes

Vendor Strategies

OU-149

INPUT

Notes

Desktop Vendor Requirements

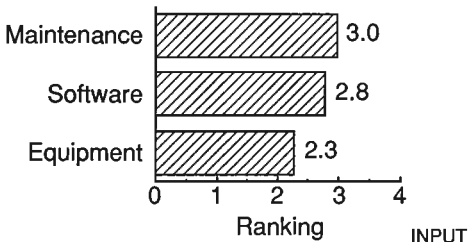
- Need local presence
- Need large, dispersed staff
- Control inventory
- Educate users

OU-150

INPUT

Notes

Least Profitable Desktop Components



OU-151

Notes

Opportunities for Outsourcing Vendors

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

OU-152

INPUT

Notes

Recommendations and Conclusions

OU-153

INPUT

Notes

10/29/92

Vendor Recommendations

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

OU-154

INPUT

Notes

User Recommendations

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

OU-155

INPUT

Notes

Conclusions

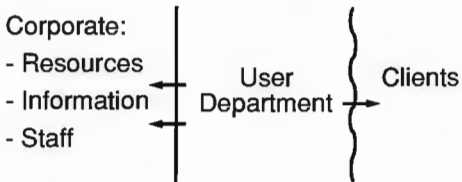
- Vendors need to support downsizing
- Desktop services difficult to manage
- Benefits to users significant
- Growth potential explosive

OU-156

INPUT

Notes

User Environment Changing



OU-157

INPUT

Notes

Vendor Directions

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

OU-158

INPUT

Notes

Recommendations Vendors

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

OU-159

INPUT

Notes

Recommendations Users

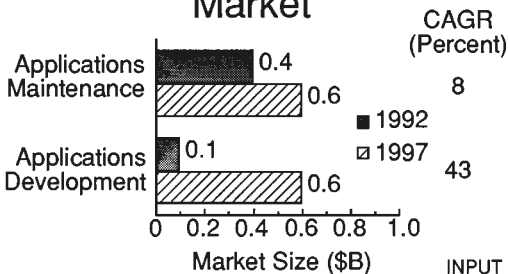
- Consider all options
- Forget non-critical functions
- Manage outsourcing relationships

OU-160

INPUT

Notes

Applications Management Market



OU-161

Notes

Major Applications Management Vendors

- Andersen Consulting
- EDS
- ISSC
- Ernst and Young

OU-162

INPUT

Notes

Applications Management 1992 Market



OU-163

INPUT

Notes

Profile of a Typical Application Management Contract

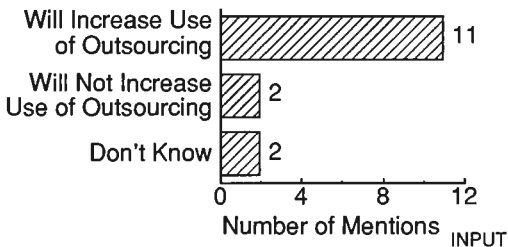
- Value \$2 million over three years
- Covers all commercial applications
- Cobol predominant language

OU-164

INPUT

Notes

Future Outsourcing Intentions



OU-165

Notes

Sample of 15 users

BPR Vendor Strategies

- Do BPR as part of service
 - Andersen
 - EDS
 - CSC
- Don't do BPR at all
 - TSC
 - CTG

OU-166

INPUT

Notes

BPR Tools

- CASE methodology
- CALS philosophy/software
- Change management

OU-167

INPUT

Notes

Business Operations Outsourcing

OU-168

INPUT

Notes

Vendor Strategies

- Consider business operations next logical step
- Look for “niche” markets
- Do operation better than client

OU-169

INPUT

Notes

Operations to be Outsourced

- Claims processing
- Document processing
- Accounting function
- Human resources management

OU-170

INPUT

Notes

Claims Processing Vendors

- CSC
 - Blue Cross
 - Federal Emergency Management
 - Black Lung Program
- EDS
 - Blue Cross
 - Medicaid/Medicare

INPUT

OU-171

Notes

Document Processing Vendors

- EDS
 - Printing, retrieval, and fulfillment
- Genix
 - Printing and fulfillment
- ACXIOM
 - Fulfillment management and printing

INPUT

OU-172

Notes

Major Outsourcing Vendor Strategies

OU-173

INPUT

Notes

Outsourcing Vendor

IBM (ISSC)

- Autonomous subsidiary
- Use IBM marketing strength
- Respond to “trading area” needs
- Stress services orientation

INPUT

OU-174

Notes

Outsourcing Vendor

EDS

- Major equity investment to gain business
- Reduced GM-derived revenue
- Aggressive “independent” marketing units
- Shift to international focus

INPUT

OU-175

Notes

Outsourcing Vendor

CSC

- Shift emphasis to commercial
- Strategic acquisitions
 - Index Group
 - Intelicom

OU-176

INPUT

Notes

ISSC - McDonnell Douglas

- \$3 billion over 10 years
- Responsible for all IT and communications
- Staff and facilities transferred
- Unisys large subcontractor

OU-177

INPUT

Notes

EDS - Bethlehem Steel

- \$500 million for 10 years
- Manage data center
- Manage shop floor equipment
- Network management to be added

OU-178

INPUT

Notes

Major Awards 1993 (YTD)

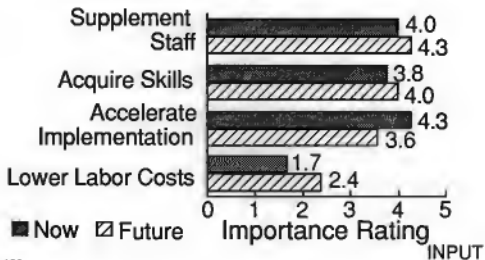
- Bethlehem Steel/EDS
- Equifax/ISSC
- Department of Labor/CSC
- TransAlta Utilities/Digital
- Kaiser Permanente/ISSC

OU-179

INPUT

Notes

Reasons for Outsourcing Projects



OU-180

Notes

Evolution of Outsourcing

Type of Prod. or Service	1960s	1970s	1980s	1990s
Applications Software	Packages	Turnkey	Appl. Mgmt.	
Professional Services	Consulting	Dev.	SI	

OU-181

INPUT

Notes

Applications Management Functions

- Convert existing code to advanced languages
- Provides consulting services for new applications

OU-182

INPUT

Notes

Applications Management Functions

- Technology assessment of packages
- Upgrade installed base
- Modify vendor and client packages

OU-183

INPUT

Notes

Applications Management

- Development of applications software
 - Design
 - Language selection
 - Development
 - Test/implementation

OU-184

INPUT

Notes

Applications Management

- Emerging opportunity
- Maintenance of software
 - Systems
 - Applications

OU-185

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Notes

Evolution of Outsourcing

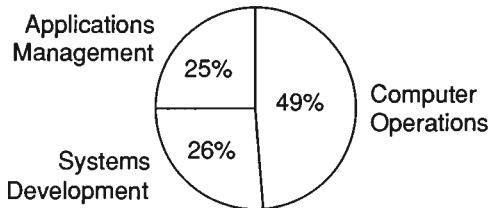
Type of Prod. or Service	1960s	1970s	1980s	1990s
Processing Services	Remote Processing		FM	SO

OU-186

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Notes

User Perspective Spending on Services

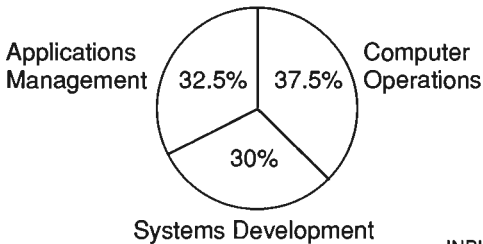


OU-187

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Notes

Vendor Perspective Spending on Services



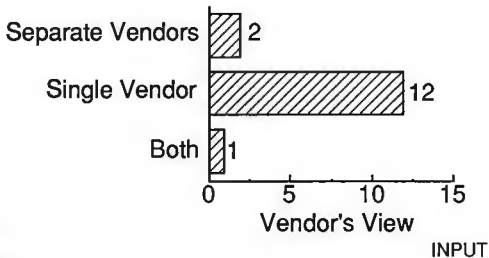
OU-188

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Notes

Computer Operations includes existing data center equipment
Systems Development includes new project equipment

Single versus Separate Vendors



OU-189

Notes

Vertical Market Activity

- Banking/finance
- Discrete manufacturing
- Federal market
- State/local government
- Utilities

OU-190

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Notes

Key Factors Banking/Finance

- Positive
 - Consolidation of operations
 - Savings and loan retrenchment
 - New product/service introduction
 - Strong cost pressures

OU-191

INPUT

Notes

Key Factors Banking/Finance

- Negative
 - Internal staff resistance
 - Unique industry knowledge
 - Complex multihardware environment

OU-192

INPUT

Notes

Key Factors Discrete Manufacturing

- Positive
 - Islands of automation integrated
 - Data base use increasing
 - Customized solutions preferred
 - Batch-oriented systems replaced
 - Distributed PCs/workstations

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OU-193

Notes

Key Factors Discrete Manufacturing

- Negative
 - Infrastructure in place
 - Build rather than buy
 - Industry experience prerequisite

OU-194

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Notes

Key Factors Federal Government

- Positive
 - Technical staff shortages
 - Shared implementation risks
 - Information technology upgrades
 - Service demands increase

OU-195

INPUT

Notes

Key Factors Federal Government

- Negative
 - Deficit-limited budget
 - Greater protest activity
 - Existing systems maintenance

OU-196

INPUT

Notes

Key Factors Federal Government

- Negative
 - Slow standards implementation
 - Extended implementation schedules

OU-197

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Notes

Key Factors State/Local Government

- Positive
 - New program/service demands
 - Shortage of qualified staff
 - Increasing network demands

OU-198

INPUT

Notes

Key Factors State/Local Government

- Negative
 - 82,000 government units
 - Emphasis on local vendors
 - Federal budget reduction impact
 - Federal revenue-sharing ended

INPUT

OU-199

Notes

Key Factors—Utilities

- Positive
 - Competitive use of technology increasing
 - Hardware/software obsolescence
 - Repetitive tasks automated

OU-200

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Notes

Key Factors—Utilities

- Negative
 - Day-to-day orientation
 - Limited number of establishments
 - Financial constraints
 - Incentive for in-house capacity

OU-201

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Notes

Outsourcing Vendor Andersen Consulting

- Wide industry knowledge
- Rapid expansion of consulting
- Worldwide presence
- Extensive employee development

OU-202

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Notes

Outsourcing Vendor CSC

- Strong federal market position
- Systems integration background
- Worldwide presence
- Shift emphasis to commercial

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OU-203

Notes

Leading Vendor Strategies

- Acquisition and equity positions
- Long-term alliances
- Staff training and development
- Broaden service offering
- Reduction of single industry dependence

OU-204

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Notes

Emerging "Outsourcing" Trends

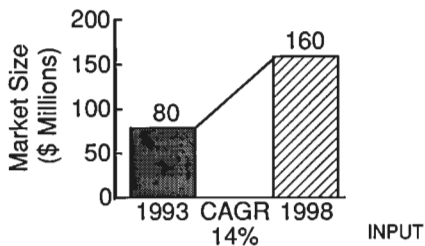
- Applications management
- Desktop services
- Transition management

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OU-205

Notes

Outsourcing Market Telecommunications Industry



OU-206

Notes

8/27/93

New Market Entrants

- Document Management
 - Moore
 - Xerox
- Network Management
 - Advantis
 - MCI
 - Syncordia

OU-207a

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Notes

New Market Entrants

- Billing
 - Systematics
 - May and Speh
- Health Care
 - FFMC
 - First Data

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OU-207b

Notes

8/27/93

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Outsourcing Market Leaders

1989	% Share	1992	% Share
EDS	16	EDS	14
CSC	5	CSC	5
Systematics	3	ISSC	4
ACS	3	First Data	3
Shared Medical	2	Digital	2

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OU-208

Notes

New Technology Initiatives

- Client/server—Fast growth in desktop and network
- EDI/Electronic Commerce—Fast change in transactions activity
- Mobile communications—Exploding need for billing sophistication

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Notes

Globalization Trends

- EDS—European presence
 - Chausson and Cie
 - Credit Lyonnais
 - Bertin Cie-France
 - CC Banque, Belgium

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OU-210a

Notes

Globalization Trends

- Perot—U.K. penetration
 - East Midlands Electricity
 - EuropeCar
- CSC—New activity
 - British Home Stores

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OU-210b

Notes

Globalization Trends

- Digital—Canadian success
 - Imperial Oil
 - Tranalta Utilities
- Systemhouse—Beyond Canada/U.S.
 - Mexican Finance Ministry

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OU-210c

Notes

Outsourcing Client Satisfaction Study

- Approach:
 - Contact senior management—
Outsourcing clients
 - Determine level of satisfaction
 - Identify perceived benefits/
drawbacks

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OU-211

Notes

Outsourcing Client Satisfaction Study

- Preliminary Conclusions:
 - Clients looking for closer vendor relationships
 - Cost not overriding but important

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OU-212a

Notes

Outsourcing Client Satisfaction Study

- Preliminary Conclusions:
 - Vendor staff not always viewed as best
 - Not enough resources
 - Not high quality

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OU-212b

Notes

Conclusions

- Outsourcing vendors need integrators' skills
- Risk-and-cost management essential
- Users want partners, but for shorter time
- Major vendors continue to dominate market

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OU-213

Notes

1993 Market Summary

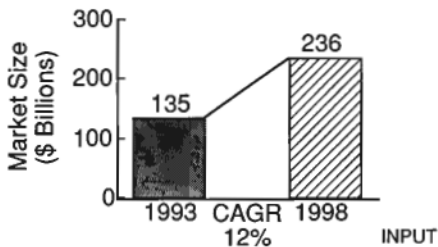
- Users making more buy decisions
- Prospects looking for wider range or services
- Major challenges developing
 - Billing
 - Distributed management

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OU-214

Notes

Total IS Market Potential 1993-1998



OU-215

Notes

ISO 9000 Compliance

- Critical to software companies
- Causes process redesign
- Calls for periodic site audits
- Strong business reasons to begin process
- Especially important for international business

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OU-216

Notes

Vendor Management Style

- A—Arrogant
 - Change systems and personnel acquired
 - Install management on-site
 - Live by the contract

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OU-217a

Notes

Vendor Management Style

- B—Benevolent
 - Thoroughly understand client organization
 - Adapt services provided to client needs
 - Provide very flexible contract

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OU-217b

Notes

Vendor Management Style

- C—Careful
 - Tends to use conservative approach
 - Not likely to provide surprises
 - Reacts more slowly to needs, but reacts

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OU-217c

Notes

