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Outsourcing in Europe Competitive Analysis 1995

Outsourcing Programme — Europe

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Outsourcing in Europe — Competitive Analysis, 1995

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Abstract

Initially the principal criterion for success in the European IT outsourcing market was the ability to offer cost-effective MIPS. At the same time, the customer requirement was typically tactical, often related to the phasing out of mainframe-based applications. However, more recently vendors such as EDS and CSC have achieved success with a value-based message offering to share the rewards from improved business impact.

The criteria for success continue to evolve creating opportunities for vendors in both strategic and tactical forms of outsourcing. Future success criteria in the European outsourcing market are likely to include reengineering capability, business operations capability, and the ability to manage international client/server based infrastructures dominated not by the mainframe but by LANs and WANs.

The purpose of this report is to analyse trends in vendor positioning in the European information systems outsourcing market.

In particular, the report provides:

- A comparison of the market positioning and approaches of the leading European outsourcing vendors
- An analysis of the market leaders by outsourcing service type
- An analysis of current user perceptions of the relative capability of a number of leading outsourcing vendors
- League tables of outsourcing vendors by country.

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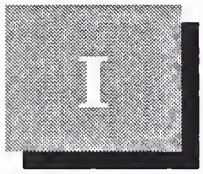

Introduction

A
Scope and Objectives

Historically, success in the European outsourcing market depended heavily on a vendor's ability to cost-effectively manage mainframe datacentres. However, the nature of the European outsourcing market is changing and vendors need to modify their positioning accordingly.

In particular, the new success criteria include the ability to reengineer, and provide IT support for, core business processes, the ability to manage non-core business functions, and the ability to manage complex, distributed wide-area and local-area networks.

The objectives of this report are:

- To compare the market positioning and approaches of the leading European outsourcing vendors
- To analyse the market leaders by outsourcing service category
- To analyse current user perceptions of the leading outsourcing vendors
- To provide league tables of outsourcing vendors by country.

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).

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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)

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- *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.

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Exhibit I-1

Business Operations Outsourcing

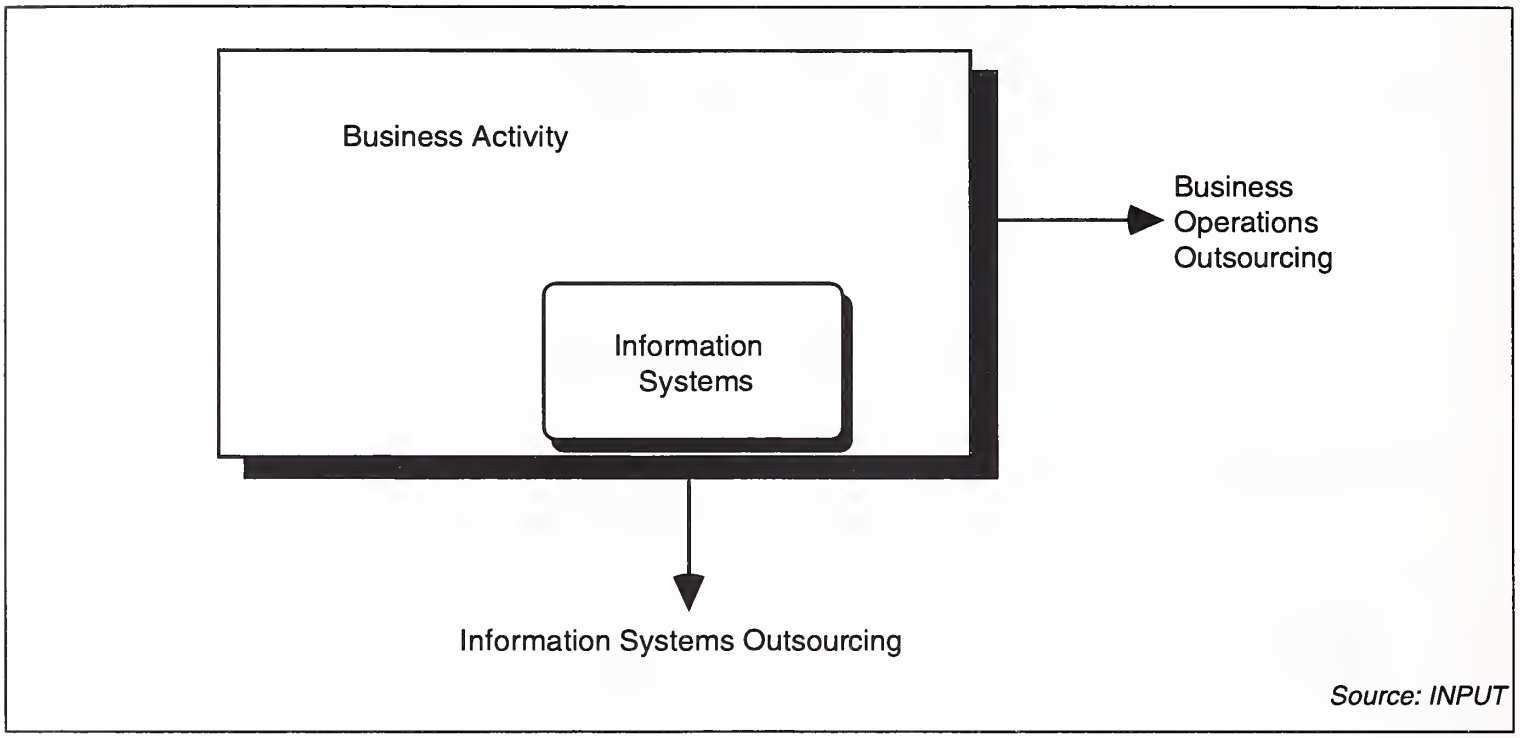

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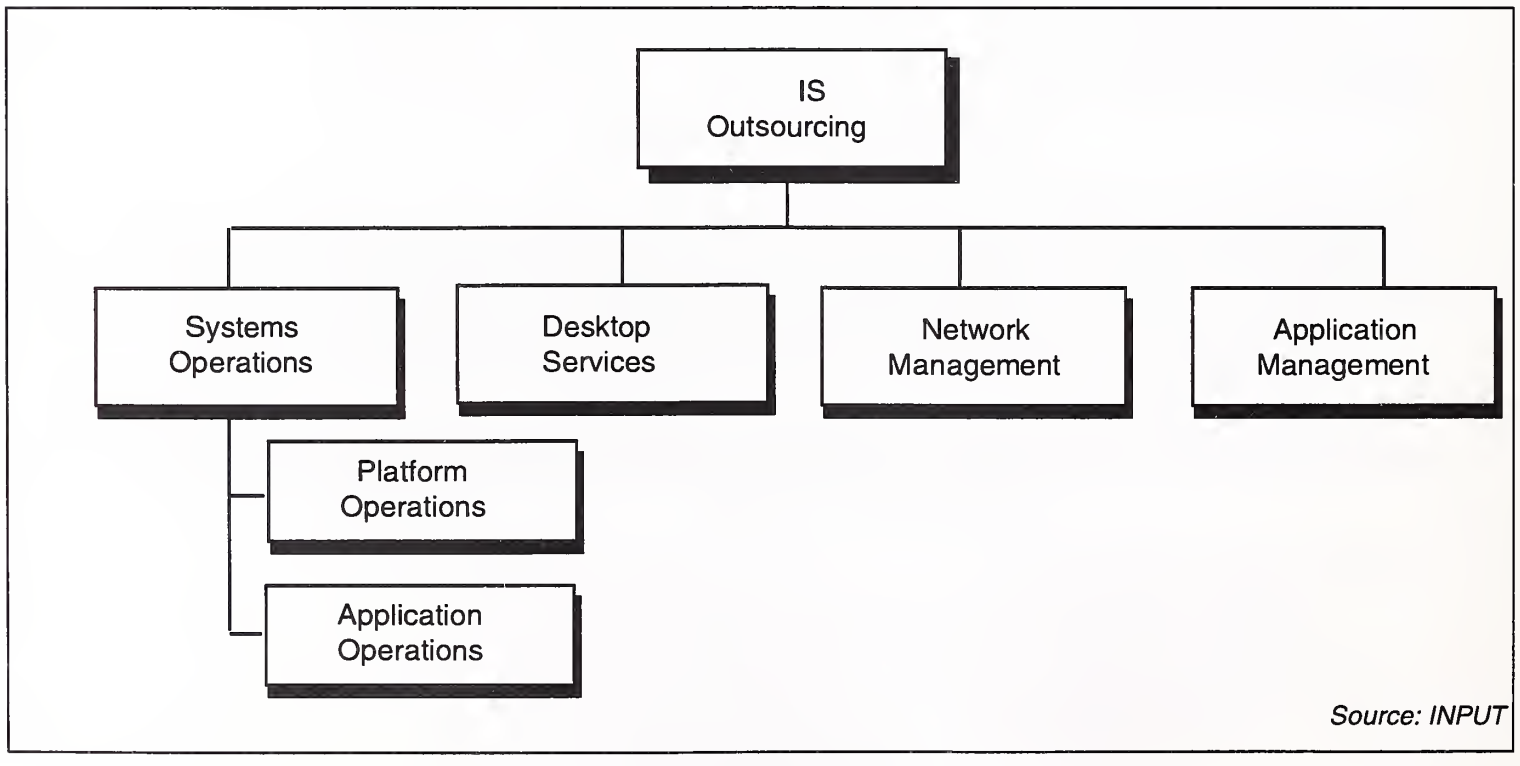
Exhibit I-2

Information Systems (IS) Outsourcing Service Categories



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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, include management of the infrastructure (datacentres and various computing platforms) and the support of some of the legacy applications. In the past, most Application and Platform Operation outsourcing

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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:

- A vendor research programme of over 500 interviews with key software and services vendors across Europe
- INPUT's extensive library and database of information relating to the European outsourcing market
- A further 87 user interviews to investigate current perceptions of the capability of leading outsourcing vendors.

The user interviews were spread across organisations in France, Germany, and the UK and between IT managers and senior non-IT executives such as chief financial officers.

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

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Exhibit I-4

Interview Profile by Country

Country	Number of interviews
France	30
Germany	29
United Kingdom	28
Total (Europe)	87

Source: INPUT

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

Capability ratings were requested for the outsourcing vendors listed in Exhibit I-5.

Exhibit I-5

Vendor Coverage by Country

France	Germany	United Kingdom
Axone	AT&T	AT&T
AT&T	CSC	CFM (ICL)
Bull (Integris)	debis Systemhaus	CSC
Cap Gemini Sogeti	Digital	Data Sciences
CSC	EDS	Digital
Digital	Hewlett-Packard	EDS
EDS	IBM	Hewlett-Packard
GSI	Siemens-Nixdorf	Hoskyns
Hewlett-Packard	tds	IBM ISSC
Télésystèmes		

Source: INPUT

Where possible, the country ratings for each vendor have been combined to give overall European ratings.

It is important to note that these ratings are a measure of the **image** of each vendor in the general marketplace. They do not reflect either

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customer satisfaction with vendors based on detailed interaction with the vendor or in-depth assessments of vendor capability.

C
Report Structure

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

Chapter III analyses the overall service emphasis of the leading outsourcing vendors in Europe. In particular, it identifies leading organisations in each of the following service categories:

- Applications Operations
- Client/Server Systems management
- SAP R/3 Outsourcing
- Wide-Area Network Management
- Application Management
- Business Operations.

Chapter IV analyses user perceptions of vendor capability for a number of leading vendors and compares this with the profile of in-house capability.

The perceptions of leading vendors in France, Germany, and the UK are compared in terms of their perceived abilities in:

- Reengineering
- Industry sector knowledge
- Applying IT to business processes
- Technical skills
- Cost reduction.

Chapter V provides market shares for the leading outsourcing vendors by country.

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D
Related Reports

Outsourcing Opportunities in Government-Europe, 1993-1998

Client Satisfaction with IT Outsourcing Services — Europe, 1993

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

In addition, subscribers to INPUT's European IT Outsourcing Programme receive regular updates on the activities and positioning of leading outsourcing vendors in Europe.

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II

Executive Overview

A
Vendors Must Reposition To Adapt To Market Evolution

Five years ago, the outsourcing market was becoming established in France and the UK, but had yet to materialise in Germany and Italy. At this time, the leading outsourcing vendors were primarily national in focus, and the nature of the service was primarily based on providing legacy support for organisations undergoing technology transformations, primarily downsizing from mainframes, and seeking reductions in the cost of running datacentres.

Since then, the nature of vendor offerings in Europe has changed dramatically, with EDS emphasising a value-based approach to outsourcing, and Cap Gemini Sogeti extending its service scope with considerable emphasis on service lines such as application management and distributed systems management.

Both these approaches have proved successful, as can be seen from the rankings of the leading five outsourcing vendors in Europe shown in Exhibit II-1.

Exhibit II-1

Leading Vendors: Europe — 1995

Vendor	Estimated 1994 Revenues ($m)	Estimated Market Share (%)
EDS	650	13
Cap Gemini Sogeti /debis Systemhaus	570	12
IBM ISSC	340	7
Sema Group	275	6
CSC	180	4

Source: INPUT

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However, the names of the market leaders may begin to change yet again over the next five years. Much of the current success of the market leaders is still based on their ability to cost-effectively manage datacentres.

Some of the current key players in each outsourcing service category in Europe are listed in Exhibit II-2.

Exhibit II-2

Outsourcing Specialists by Service Category

Activity	Key Vendors
Platform operations	EDS Cap Gemini Sogeti debis Systemhaus IBM ISSC CSC
Client/server systems management	Hewlett-Packard Olivetti SHL/MCI IBM
Application Management	Cap Gemini Sogeti debis Systemhaus FI Group Unilog
Application Operations	EDS IBM ISSC CSC
Business Operations	Andersen Consulting EDS

Source: INPUT

Already datacentre management capability, which has been critical to outsourcing success so far, is beginning to decline in importance. The ability to manage distributed, international, client/server architectures with large numbers of LAN and WAN inter-connections will increasingly become the critical skill in IT infrastructure management.

Such a change in emphasis could give a major boost to the fortunes of outsourcing vendors currently less well established in the European IT outsourcing market. In particular, the merger of SHL and MCI has the potential to create an entity with substantial client/server systems management capability. The real need for convergence between IT and telecommunications may be in services, not at the equipment level.

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Key challenges that outsourcing vendors in Europe face as the nature of the European outsourcing market continues to evolve include:

- Whether to adopt a value-based or selective approach to outsourcing
- The technical and geographic complexity of managing international client/server IT infrastructures
- How to differentiate their capabilities in terms of industry knowledge and process skills.

B

Vendors Must Choose Between Value-Based and Selective Outsourcing Approaches

In many ways, the outsourcing services capabilities of the current market leaders, Cap Gemini Sogeti and EDS, are very similar:

- Both have built up strong management consulting groups, and hence reengineering consultancy, through acquisition. Indeed, Cap Gemini Sogeti had built up potentially a much stronger management consulting organisation than EDS, with the creation of Gemini Consulting, prior to EDS' acquisition of A. T. Kearney
- Both have strong datacentre management and professional services skills
- Both have recently been assembling desktop services capability: CGS with the creation of its distributed systems management offering and EDS through Technical Products Division (TPD).

Indeed these similarities are reflected in almost identical perceptions of service attribute profiles for the two vendors by senior executives in Europe (see Exhibit II-3).

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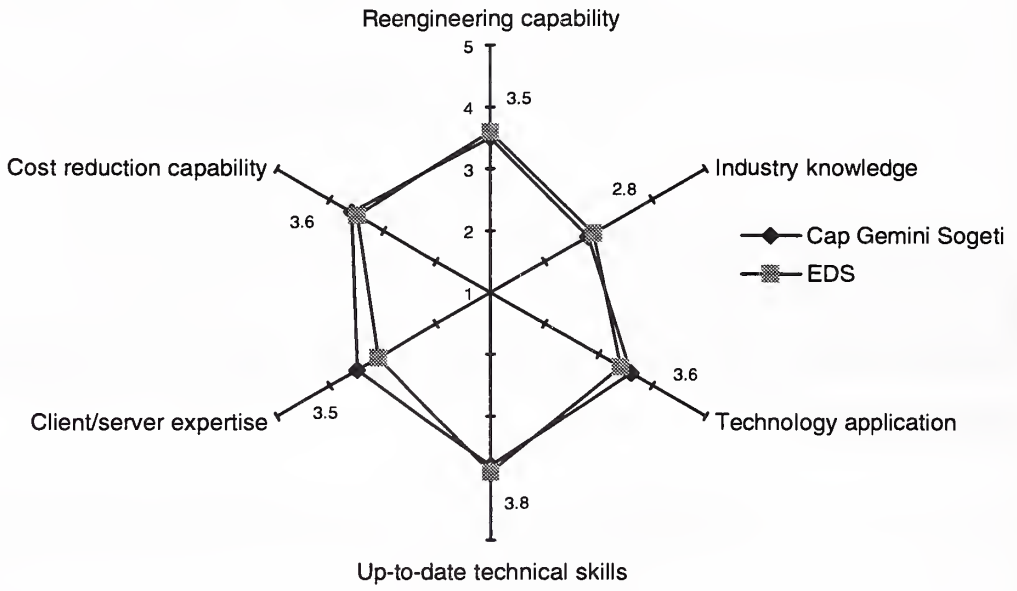
Exhibit II-3

Perceived Capabilities: Cap Gemini Sogeti and EDS



Source: INPUT

However, despite these considerable similarities, the two organisations have targeted, and won, very different contract portfolios.

EDS has tended to seek, and win, major application operations contracts with a value-based proposition. Examples of recent contracts include INA in Italy, the Inland Revenue in the UK, and the Dutch National Railway. In Germany, EDS has established a joint venture with Lufthansa, called Lufthansa Systems GmbH, to target the transportation sector internationally.

Cap Gemini Sogeti has been less successful in winning major application operations contracts, but has been very successful in marketing platform operations, application management and distributed systems management as relatively stand-alone services.

However, it is difficult for any vendor to combine these two approaches. Cap Gemini Sogeti has found it difficult to reconcile the management consulting message of Gemini Consulting with the marketing of its IT outsourcing services as essentially professional technical management services. Accordingly the company is still having difficulty in fully integrating Gemini Consulting with its IT activities.

On the other hand, EDS is advocating a value-based approach to outsourcing, which is incompatible with simultaneously providing lower-

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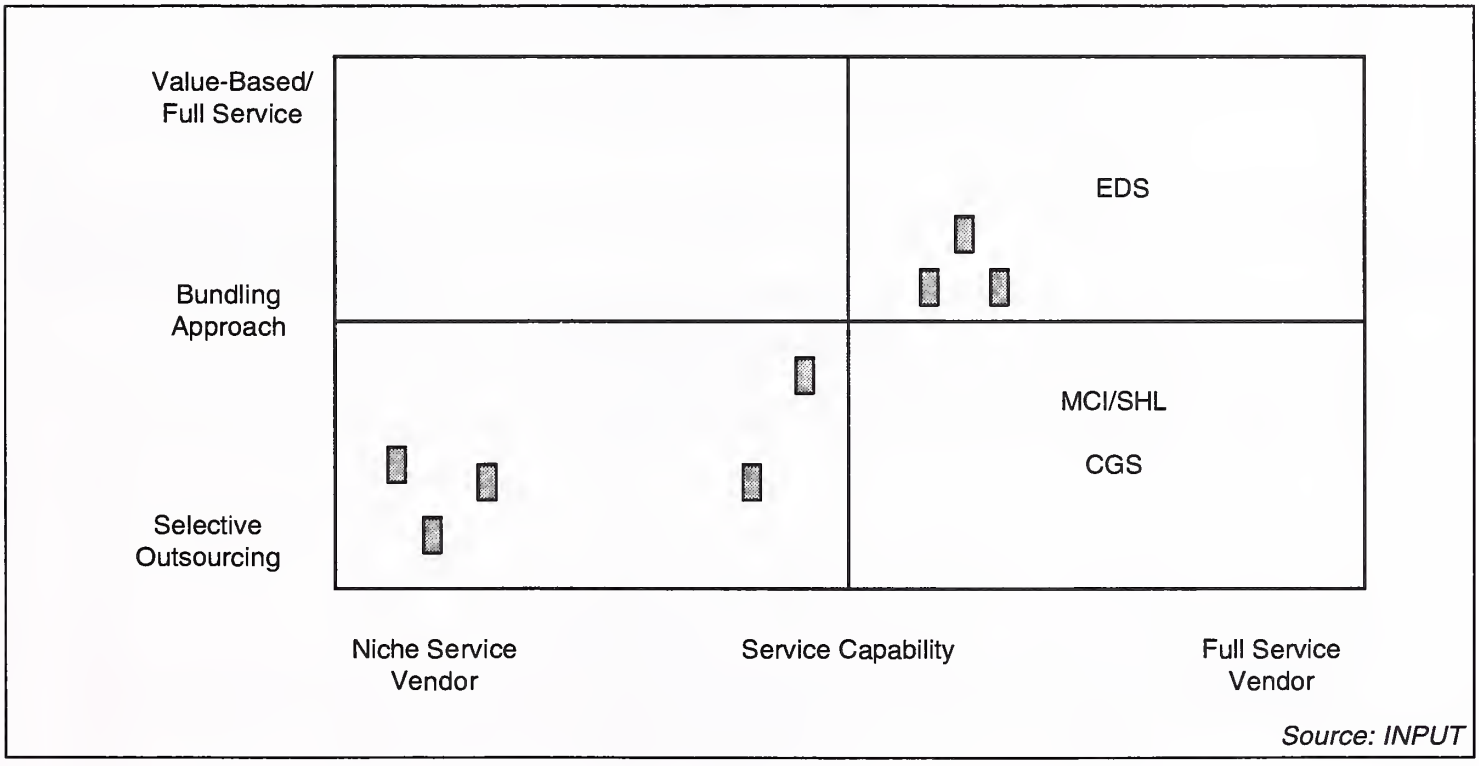
level technical support services to IT executives. As a result, EDS does not have a significant presence in application management or desktop services in Europe.

Accordingly, the extent to which an outsourcing vendor bundles its services is not simply a function of service capability. Indeed for a vendor with a widespread service capability, it is a totally separate decision.

Exhibit II-4 illustrates the breadth of service capability and service bundling philosophies of a number of leading outsourcing vendors.

Exhibit II-4

Service Capability and Bundling Philosophy: Outsourcing Vendors



Source: INPUT

Over the past two years, the value-based message has proved a successful differentiator for EDS and CSC, and to a lesser extent Andersen Consulting, in winning major outsourcing contracts. However, there are merits to both this approach and a more incremental approach.

A value-based approach to the market implies a high level of service bundling. At present, potential clients are divided approximately 50:50 between those that wish to adopt a high level of bundling of outsourcing services from a single vendor, and those that wish to individually select a best of breed supplier for each service area.

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Indeed, one future scenario favouring the incremental approach would be organisations increasingly selecting one supplier, or a small number of suppliers, to manage their IT infrastructures while appointing other suppliers to assist them both in the reengineering and application management associated with core business processes, and in managing the business operations of non-core processes.

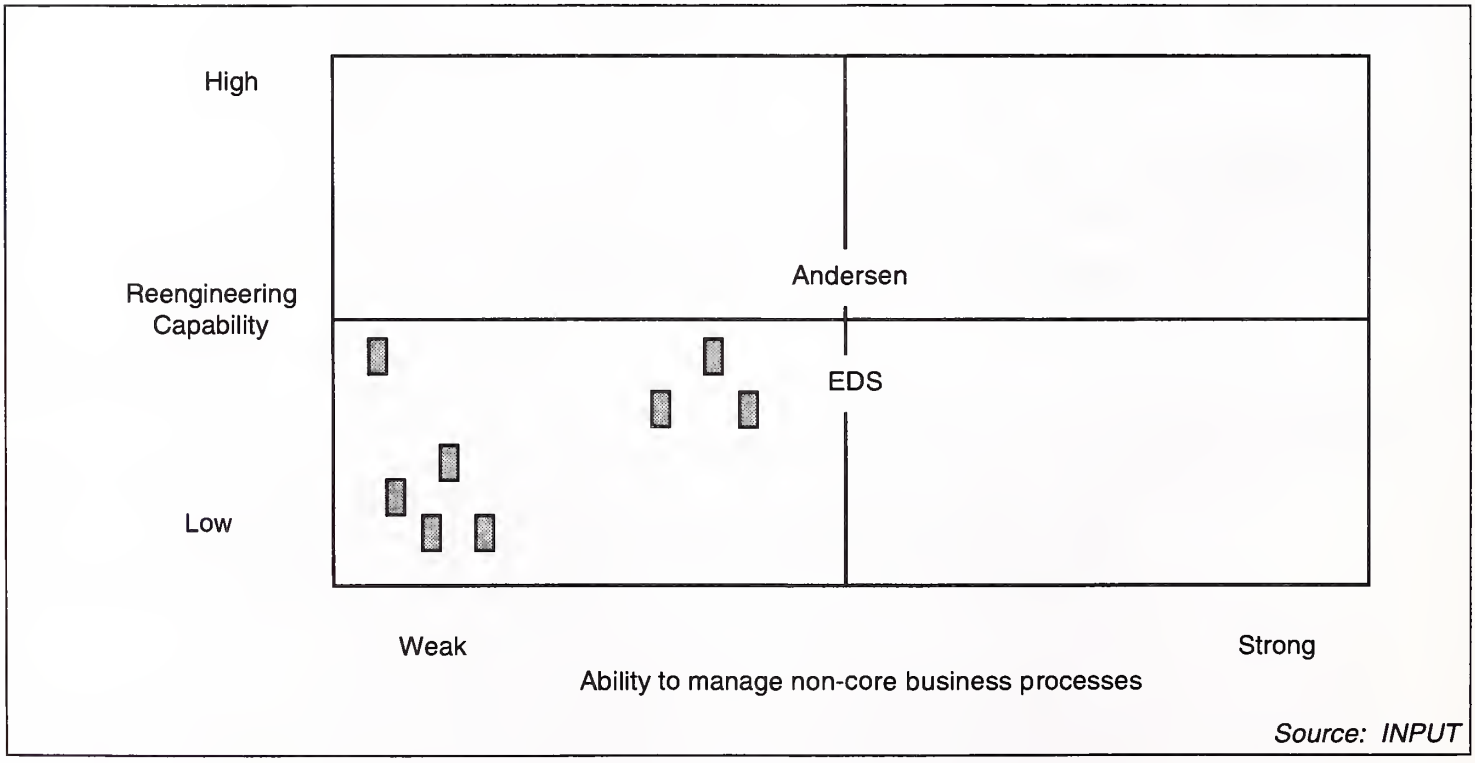
However, one of the keys for success as a niche supplier, or as a supplier of unbundled services within this scenario is a strong, demonstrable capability and willingness to work well with other outsourcing vendors involved in the account.

Regardless of the level of service bundling, one key criterion for future success will be a vendor's reengineering capability. There will also be a considerable growth in the business operations opportunity.

A number of leading vendors are positioned in terms of these two key characteristics for future success in the outsourcing market in Exhibit II-5.

Exhibit II-5

Reengineering and Business Operations Capability: Outsourcing Vendors



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From the senior executive viewpoint, no vendors have yet demonstrated a completely convincing capability in either of these areas in Europe.

Andersen Consulting, EDS and Cap Gemini Sogeti are beginning to build reputations for reengineering capability in Europe, but have yet to fully prove their ability to deliver demonstrable business value.

Business operations success is also proving elusive. Andersen Consulting has succeeded in building up a small customer base of North Sea oil companies for whom it performs day-to-day accounting functions. However, it has proved difficult to extend the service beyond this limited community of specialist organisations.

Similarly, EDS has won a small number of business operations contracts in Europe, but so far these have tended to be one-off contracts, rather than the group of clients that are required to justify the investment of reengineering the processes for maximum efficiency and effectiveness.

C

Convergence of Network Management and Desktop Services Poses a Challenge to Vendors

In the future, IT infrastructure management will no longer be synonymous with datacentre management. The key IT infrastructure management skill will be the ability to manage distributed client/server infrastructures.

Many of the early entrants into this market, such as the major PC dealers, began by offering desktop services on a largely national basis. However, over the next few years, the key success criteria will become combined LAN and WAN management capability covering the entire geographic scope of the client organisation. This geographic scope will be international, if not global, for many large organisations.

Exhibit II-6 shows the scope of service offerings and the geographic coverage for the client/server management offerings of a number of leading vendors.

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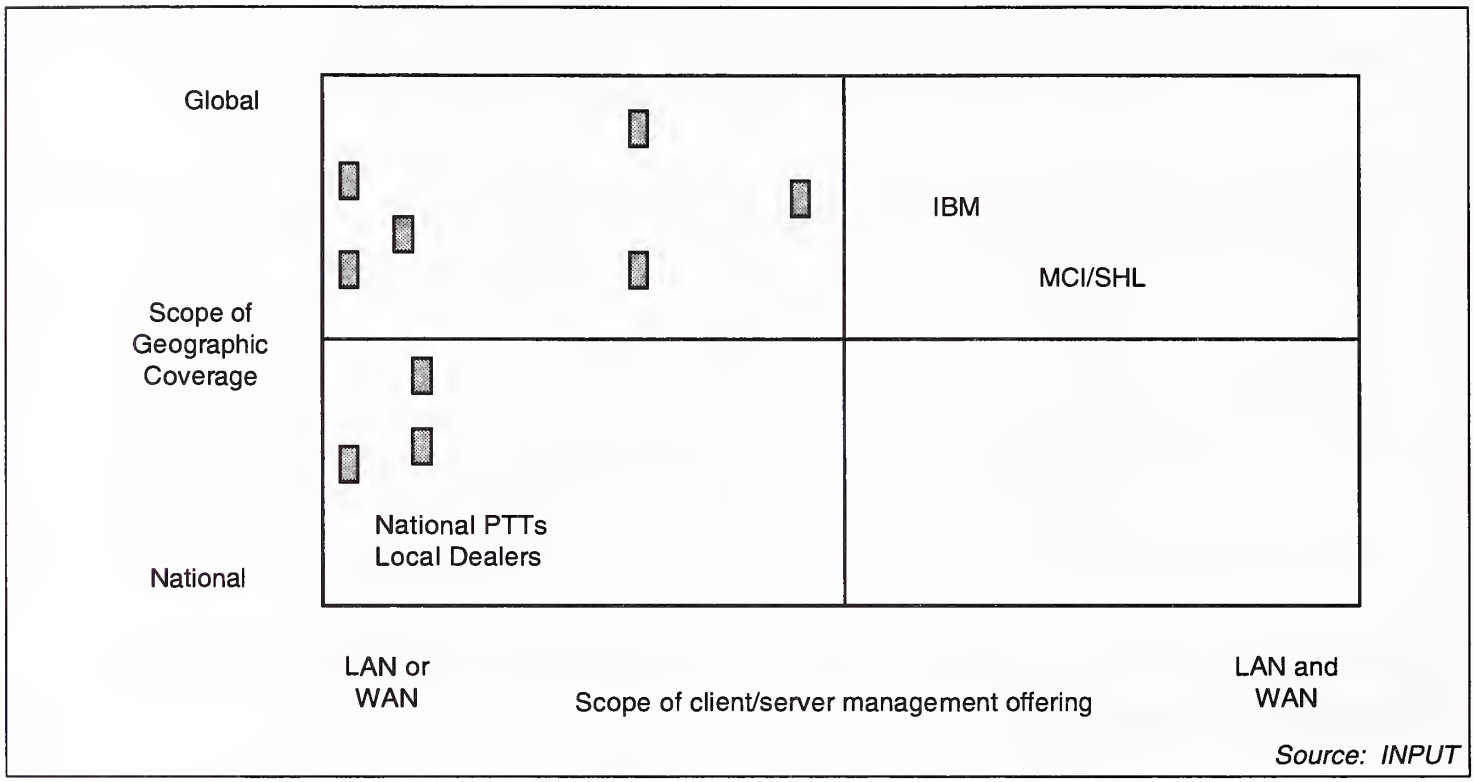
Exhibit II-6

Geographic and Service Scope: Client/Server Systems Management



At present, lack of wide area network management capability is inhibiting market growth. The national PTTs cannot typically provide a combination of widespread international coverage, high bandwidth and cost-effectiveness.

Among the traditional IT outsourcing vendors, IBM is the only company offering both LAN and WAN management capability, the latter through the IBM Global Network. Even in this instance, the services are often presented piecemeal, detracting from the image of an integrated outsourcing service.

However, organisations such as Hewlett-Packard, Olivetti and SHL Systemhouse are building strong LAN management capability and the merger between MCI and SHL Systemhouse offers the prospect of a complete client/server management capability. Further alliances or mergers may take place as other vendors team up to create units with this combined LAN/WAN management capability.

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D
Is There a Choice Between Industry Knowledge and Process Skills?

One reason for the high level of success experienced by EDS and CSC in the European outsourcing market in recent years was the scale of their existing outsourcing presence in the US. Organisations undertaking outsourcing are extremely risk-averse and the scale of business already performed by these vendors made them a secure choice compared to their European competitors. Another factor was their ability to point to the greater maturity of business process reengineering in the US with the implication that European organisations would benefit from their state-of-the-art business process knowledge.

However, in spite of this apparently superior industry knowledge, organisations typically perceive that their own in-house IT departments have greater business knowledge than the leading IT outsourcing vendors. On the other hand, the leading vendors are typically perceived to have greater levels of ability in reengineering and in applying IT to business processes.

Consequently, it is questionable whether vendors should place such a high level of emphasis on industry sector knowledge. A better approach might be to stress their skills in reengineering processes and in managing the introduction of IT in support of these processes.

At present, many vendors are reorganising their operational capabilities along industry sector lines. For example, EDS in France has allocated all its operational staff to one of a number of industry sector facing units covering:

- Manufacturing industry
- Energy, chemicals and pharmaceuticals
- Banking, finance and insurance
- Services, distribution, transportation and media
- Government.

However, many existing business processes within these sectors owe much to custom and practice. The focus in outsourcing is now moving towards the business process, both in terms of reengineering core processes and in terms of business operations contracts for non-core processes. As part of this trend, organisations will begin to adopt best process practices from sectors outside their own. Accordingly, there will in

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the future be an argument for organising operational staff into business process groupings rather than industry sector groupings.

Such groupings could provide support both for reengineering where the process is critical to the organisation and perform business operations for organisations where this is not the case.

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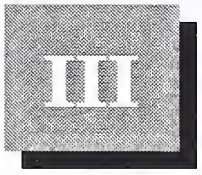

Service Positioning — Europe

A
Market Shares of Leading Outsourcing Vendors

Exhibit III-1 shows the market shares of the leading outsourcing vendors in Europe.

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Exhibit III-1

Leading Vendors: Europe — 1994

Vendor	Estimated 1994 Revenues ($m)	Estimated Market Share (%)
EDS	650	13
Cap Gemini Sogeti /debis Systemhaus	570	12
IBM ISSC	340	7
Sema Group	275	6
CSC	180	4
ICL/CFM	160	3
Digital	160	3
Integris	140	3
Télésystèmes	120	2
Andersen Consulting	120	2
Data Sciences	100	2
GSI	95	2
AT&T Istel	95	2
Olivetti	90	2
Finsiel	85	2
Philips C&P	80	2
Perot Systems	75	2
Capita Group	70	1
FI Group	65	1
tds	55	1
Sligos	55	1
ITnet	55	1
Hewlett-Packard	50	1
Alldata	50	1
SG2	40	1
France Telecom	40	1
Axime	35	1
AC Service	35	1
Siemens-Nixdorf	32	1
SHL Systemhouse	30	1
CMS	30	1
Total listed	3980	80
Total market	4950	100

Percentages are rounded. *Source: INPUT*

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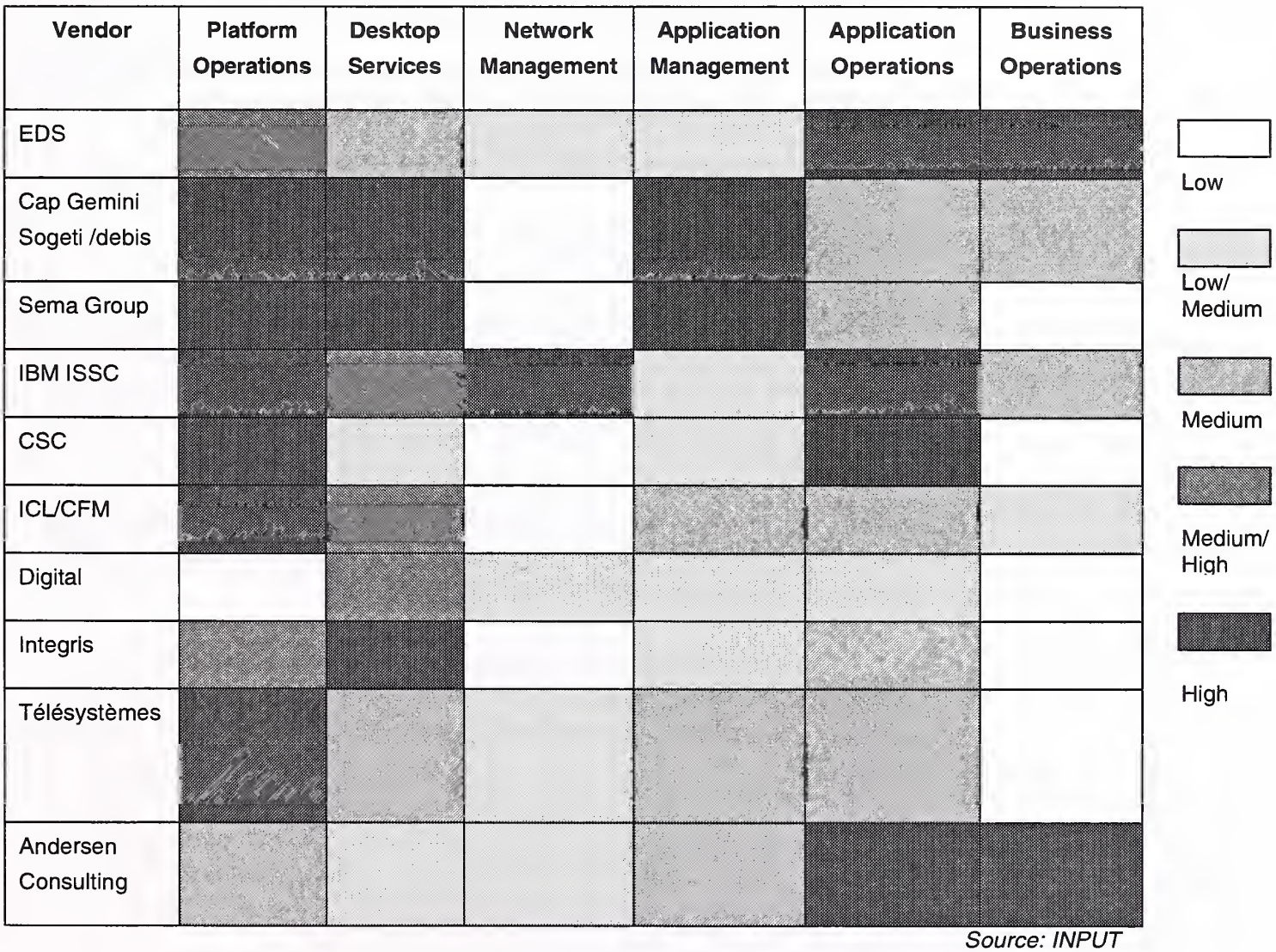
The European outsourcing market is growing rapidly at present, creating a wide range of opportunity for vendors. This variety of opportunity is reflected in the differing ways in which vendors are approaching the market.

In particular, vendors differ markedly in their emphasis on the various outsourcing service categories. Exhibit III-2 summarises INPUT's view of the emphasis each of the leading ten European outsourcing vendors places on each service category.

Exhibit III-2

Leading Vendors: Service Category Emphasis - Europe



Source: INPUT

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B

EDS, IBM and CSC Lead the Way in Major Applications Operations Activity

Although many European outsourcing vendors have extensive applications operations capability, there are four vendors that strongly emphasise their applications operations capability, sometimes to the detriment of the individual services underlying this capability, namely: EDS, IBM ISSC, CSC, and Andersen Consulting.

EDS now focuses strongly on its CoSourcing offering. EDS defines the key characteristics of CoSourcing as:

- A collaborative relationship based on delivering business value that is clearly defined and measured in the customer's terms
- A blend of traditional IT services with process engineering skills
- Value-based compensation.

In practice, it can be difficult for vendors to agree a basis for value-based compensation. However, EDS has been successful in differentiating itself from many of its competitors, from the perspective of senior commercial executives, on the basis of its message of delivering business value rather than IT services.

This value message gives EDS a powerful market positioning advantage with large organisations, even if the services delivered in practice differ only marginally from those of its competitors.

One of the keys to this approach is strong process reengineering capability. To strengthen this capability, EDS has continued to acquire management consultancy firms during 1994 and 1995. In April 1994, EDS acquired the French management consultancy Eurosept. This acquisition added 150 consultants to the 20 management consultants previously employed by EDS France, considerably increasing EDS's management consultancy presence in France. In September 1995, EDS acquired A. T. Kearney and merged it with its own management consulting group, creating a group with 2,300 consultants world-wide.

Examples of recent major applications operations contracts won by EDS in Europe include:

- A $400m contract with the Italian insurance group, INA
- A $1.5 billion contract with the UK Inland Revenue

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- A contract to run the IT function of the Dutch national railway.

EDS' closest competitors in competing for major applications operations contracts in Europe are CSC and IBM ISSC.

EDS has established a widespread European coverage, largely by acquisition, in recent years. CSC is not as well represented as EDS throughout Europe. However, the company's acquisition of Ploenzke has given the company a strong foothold in the financial services sector in central Europe. In addition, CSC has achieved some notable successes in the UK, where the company has a strong outsourcing presence, during recent months. In addition to the company's major contracts with BhS and British Aerospace, CSC has now added:

- A 10 year, $500m contract with Lucas Industries
- A 10-year, $200m contract with Anglian Water
- Contracts with United Distillers, Scottish Health Service Trusts, Autoglass and ICI Paints.

CSC has also re-entered the health sector in the UK with the purchase of the Oxford Consortium.

IBM Système und Netze is one of the market leaders in applications operations in Germany, winning major contracts with Continental AG and a contract with the insurance company Gothaer Versicherung AG valued at approximately $700m over 10 years. However, in the UK, IBM ISSC has been relatively unsuccessful in winning major contracts.

Across Europe, IBM, despite the existence of the IBM Consulting Group, apparently has less business consulting expertise than its three major competitors.

Andersen Consulting has a more limited capability than EDS, CSC and IBM to handle large numbers of major outsourcing contracts. Until recently, the organisation was at a disadvantage in financing such deals because of its partnership structure. However, the organisation has now entered into an agreement with GE Capital to develop access to the financing necessary in the initial stages of such deals.

Nonetheless, Andersen Consulting has been comparatively inactive in the applications operations segment in Europe recently. However, Andersen Consulting has now followed up its contract with the London Stock Exchange by signing the first major Public Finance Initiative (PFI)

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contract to develop the new National Insurance Recording System (NIRS 2) in the UK.

The strength of the leading applications operations vendors in each of the leading countries is summarised in Exhibit III-3.

Exhibit III-3

Applications Operations Capability by Country

Vendor	France	Germany	UK	Italy
EDS				
CSC				
IBM ISSC				
Andersen Consulting				

Key: Low; Low/Medium; Medium; Medium/High; High

Source: INPUT

C

Hewlett-Packard and Olivetti Lead the Way in Client/Server Systems Management

One of the areas of greatest activity in the European outsourcing market over the past year is undoubtedly client/server systems management. Here many of the existing outsourcing leaders and a number of new entrants are making significant investments in order to establish a leadership position.

In particular, companies such as Hewlett-Packard, Digital and Olivetti, that have lacked the facilities to become major players in the mainframe datacentre outsourcing arena, are now strongly targeting this new outsourcing opportunity.

Overall, the competition in this area will be intense with many participants from among the existing outsourcing vendors, equipment vendors, telecoms vendors, and dealers all endeavouring to capture a significant share of this emerging opportunity.

The critical success criteria in client/server systems management are the vendor's ability:

- To match its service portfolio to the client requirement

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- To automate service delivery to drive down support costs and ensure price-competitiveness with other vendors
- To demonstrate improved end user productivity
- To match the client organisation's required geographic coverage.

It is important to note that client/server systems management is a rapidly evolving area. This is particularly true of the tools used for remote monitoring and system management.

The comparison of five leading vendors' client/server management capability that follows is based on an assessment carried out earlier this year. Accordingly, this assessment will tend not to reflect the precise tools now in use by any particular vendor. However, it is probable that the assessment shown will provide a guide to the overall pattern of client/server management capability by vendor throughout 1995.

1. Scope of Services

Many organisations will not want to purchase client/server systems management in isolation but will require a broader range of services. For example, organisations making the transition from mainframe-oriented infrastructures to client/server architectures may require:

- A vendor capable of acquiring, and running, services based on existing mainframes
- Assistance in designing and building the new infrastructure
- Application management services for legacy, or new, applications
- Systems management of the client/server infrastructure.

An assessment of the capability of each of a number of leading vendors to deliver these services is shown in Exhibit III-4. The ability to manage client/server infrastructures locally is relatively commonplace and so in Exhibit III-4 the vendors have been assessed on their ability to conduct client/server management remotely.

Among the vendors discussed, Cap Gemini Sogeti and SHL Systemhouse have the highest levels of capability to provide the entire service portfolio.

Cap Gemini Sogeti has well-established offerings for datacentre management, application management and client/server

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implementations. This wider capability is critical to Cap Gemini Sogeti's current success in distributed systems management.

Cap Gemini Sogeti claims 1994 revenues of approximately $140 million for its distributed systems management services. Many of the company's distributed systems management contracts are accompanied by a wider range of outsourcing services.

In addition, INPUT's research has shown that many organisations that initially outsource mainframe operations, subsequently seek to outsource management and operation of their client/server infrastructures.

Exhibit III-4

Overall Service Capability

Capability	Olivetti	Hewlett Packard	Digital	Cap Gemini Sogeti	SHL Systemhouse
Datacentre management	Medium (Via Syntax)	Low	Low - Medium	High	High
Client/server implementation	High	High	High	High	High
Remote client/server management	Medium - High	Medium - High	Medium - High	Medium	Medium - High
Application management	Low - Medium	Low	Low - Medium	High	Medium - High

Source: INPUT

SHL Systemhouse also has a broad service portfolio compared to the equipment vendors listed. The company does not promote application management as a separate offering in the manner of Cap Gemini Sogeti, but performs application management as a component of its transformational outsourcing service offering.

Olivetti has the best all-round portfolio among the three equipment vendors, since the company has a mainframe datacentre management capability through its Syntax subsidiary. However, Olivetti may have more difficulty than Cap Gemini Sogeti and SHL Systemhouse in demonstrating to prospects its ability to co-ordinate its various offerings into a single coherent service.

Overall the two traditional outsourcing vendors Cap Gemini Sogeti and SHL Systemhouse have a higher level of ability than the three equipment vendors to provide the broad outsourcing capability often required in

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transition outsourcing. However, the ranking is very different when the vendors are judged solely on their current ability to deliver remote client/server systems management.

In particular, Cap Gemini Sogeti appears not to be as advanced as the other vendors in the implementation of its infrastructure for remote client/server systems management. This infrastructure was still at the pilot stage at the end of March, 1995 and Cap Gemini Sogeti was at this time the weakest of the five vendors in its ability to demonstrate remote client/server systems management.

An assessment of each vendor's client/server systems management capability by service component is listed in Exhibit III-5.

Exhibit III-5

Capability by Principal Service Component

Capability	Olivetti	Hewlett Packard	Digital	Cap Gemini Sogeti	SHL Systemhouse
Consulting and planning	High	High	High	High	High
Asset management	Medium - High	Medium - High	Medium - High	High	High
Financing	Medium - High	Medium - High	Medium - High	High	High
Procurement	High	Medium - High	Medium - High	Medium - High	High
Installation and staging	High	High	High	Medium - High	Medium - High
Remote LAN/server management	High	High	Medium - High	Medium	High
Remote client management	Medium - High	Medium - High	Medium - High	High	High
Update management	Medium - High	High	High	Medium - High	High
Help-desk services	High	High	High	High	High
Equipment maintenance services	High	High	High	Medium	Medium - High

Source: INPUT

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All of the vendors listed aim to provide complete portfolios of client/server systems management and support services. However, while most of the vendors can provide a largely complete service using their own delivery mechanisms, Cap Gemini Sogeti has a comparatively strong need for partners to supplement its own service capability in delivering its client/server support services. Unlike the other vendors, Cap Gemini Sogeti cannot deliver equipment maintenance without external assistance and lacks the procurement experience that would typically be found in a dealer environment.

Accordingly, Cap Gemini Sogeti will be more likely to win business where a broad outsourcing capability is required in addition to client/server systems management. However, the equipment vendors and SHL Systemhouse are better positioned where the client is solely focusing on client/server systems management. Digital, Olivetti and Hewlett-Packard are particularly well-positioned where the client is evolving towards client/server systems management from a multi-vendor customer services background.

SHL Systemhouse is very well-positioned in terms of its capabilities and service portfolio, and has a significant UK presence. In addition, SHL Systemhouse is targeting organisations with a major presence across continental Europe and aims to build a major pan-European support capability in conjunction with one or more prospective clients. However, so far the company has yet to develop extensive European coverage and presence.

2. Automation of Service Delivery

The concept of outsourcing client/server systems management will only become widely accepted by the user community when vendors can demonstrate significant real cost reductions without the need to invoke *hidden cost* based arguments. The automation of service delivery is the second necessity, after standardisation of the IT infrastructure, in order for vendors to demonstrate this ability to reduce support costs.

At present, a considerable proportion of client/server systems management service is delivered by on-site personnel. However all of the vendors discussed are making considerable investments to reduce the need for on-site personnel.

Exhibits III-6 and III-7 provide assessments of the remote systems management capabilities of the vendors.

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Exhibit III-6

Platforms/Protocols Supported Remotely

Platform/Protocol	Hewlett Packard	Olivetti	Digital	Cap Gemini Sogeti	SHL Systemhouse
Novell Netware	yes	yes	yes	yes*	yes
LAN Manager	yes	yes	yes	yes*	yes
Microsoft NT	yes	yes*	yes	yes*	yes
SNMP	yes	yes	yes	yes*	yes
Unix (TCP/IP)	yes	yes*	yes	yes*	yes
DOS/Windows	yes	yes	yes	yes	yes
Appletalk	yes	no	yes	no	yes
Digital VAX	yes	no	yes	yes	yes
IBM AS/400	yes	no	no	yes	yes

Notes: * *by mid '95*

Source: INPUT

Exhibit III-6 lists each vendor's current ability to manage platforms remotely.

Each of the vendors is working towards a broad remote platform management capability. At present, Hewlett-Packard and SHL Systemhouse have the broadest current platform management capability. However, in practice, these companies do not have substantial levels of business on each of these platforms.

For example, SHL Systemhouse still predominantly manages Netware and Unix environments, and Hewlett-Packard does not currently manage any Apple platforms from its UK network management centre.

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Digital does have a significant number of outsourcing contracts involving management of IBM AS/400 equipment, but so far manages these systems on-site rather than remotely.

Each of the vendors discussed has been making considerable investments to assemble a network of network management centres. Each of these centres must be capable of handling all of the elements of remote systems management in a highly integrated manner.

At present, this requires vendors to integrate a range of diverse systems management tools. The tools used by each of the vendors are listed in Exhibit III-7.

Exhibit III-7

Principal Tools Used

Function	Olivetti	Hewlett Packard	Digital	SHL Systemhouse	Cap Gemini Sogeti
Help-desk/trouble ticketing	In-house system based on Oracle database; migrating to Scopus	Remedy	In-house system	Remedy	Remedy
Network management	OpenView	Open View	Polycenter/ NetView	OpenView	OpenView
Workstation management	Proxy and PC Anywhere	Norton Administrator	PC Duo	Proxy	PC Anywhere
Software distribution	SMS (planned)	Farpoint SMS (planned)	Software Utility SMS (planned)	Tivoli	SMS (planned)
Asset administration	Qualiparc	AssetView	Polycenter AssetWorks Software Utility	Assetpro (Remedy database)	
Automatic inventory updating	NetCensus		Polycenter AssetWorks	AssetPro NetCensus	

Source: INPUT

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It is important to note that the choice of tools and the scope of remote systems management capability is rapidly evolving. Vendors are currently replacing existing tools and integrating new ones with considerable frequency.

Hewlett-Packard is one of the leaders in the development of a complete remote systems management toolset. However, each of the vendors listed in Exhibit III-7 demonstrated highly integrated environments. Olivetti had yet to develop a high level of integration between its network management and trouble-ticketing systems, but was planning to do so by mid-1995.

The ability to remotely conduct systems management can produce a considerable reduction in the need for on-site intervention. For example, Hewlett-Packard, Olivetti and SHL Systemhouse can manage each of the following functions remotely:

- Server administration
- Server back-up
- Software distribution
- Software asset recording.

At present, Olivetti can only remotely handle software distribution in an OS/2 environment, but plans to introduce Microsoft's SMS for software distribution in the future. This intention is shared by the majority of the vendors surveyed.

Olivetti also typically requires on-site personnel to handle the loading and unloading of physical media during back-ups. SHL Systemhouse, on the other hand, endeavours to persuade its clients to invest in jukebox systems reducing the need for physical manipulation of back-up media.

Olivetti is also able to collect equipment inventory details remotely, though the company still finds it initially necessary to place a physical identifier on each equipment item to assist its equipment maintenance engineers.

3. Improved End User Productivity

However, while the overall toolsets of the vendors are broadly comparable, there are some differences in emphasis reflecting slightly differing philosophies. In particular, it is noticeable that the traditional outsourcing vendors Cap Gemini Sogeti and SHL Systemhouse display a

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greater emphasis on client management and user support than Hewlett-Packard.

Olivetti's help-desk aims to route callers to a support analyst capable of beginning problem resolution within 20 seconds of receiving the call. If the support analyst is unable to resolve the problem within 15 minutes, then escalation procedures come into force. However, the initial analyst retains responsibility for the problem and for agreeing sign off of the problem with the caller.

All of the vendors discussed have a broadly similar capability to support the major shrink-wrapped packages currently in use. Similarly all of the vendors strongly promote their special relationships with vendors such as Microsoft and Novell.

Exhibit III-8

Locations of European Network Management Centres

Country	Hewlett Packard	Olivetti	Digital	Cap Gemini Sogeti	SHL Systemhouse
France	Current	1995	Current	1995	
Germany	Current	Planned	Current	1995	
UK	Current	Current	Current	1995	Current
Italy	Current	Current & 1995			
Belgium	Current	Planned	Current		
Netherlands	Current	1995	Current	1995	Current*
Sweden	Current			1995	
Denmark	Current	1995			
Norway	Current				
Finland	Current				
Spain	Current	1995		1995	
Switzerland	Current		Current		
Austria	Planned				

*Notes: *Not available to new clients* *Source: INPUT*

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However, Digital appears to be particularly strong in this area. The company claims to support more than 60 standard PC software products and has very close support relationships with Microsoft, Novell and Lotus. Digital is also strongly moving into the area of software licence asset management.

A major problem in supporting client/server environments is the need for the help-desk to be able to support other proprietary, or in-house developed, applications.

Cap Gemini Sogeti potentially has an advantage here since the company offers application management services and will take over the support of existing in-house developed applications where required. In instances where the company does not provide application maintenance management, SHL Systemhouse ensures that all problems are routed through a single help-desk by taking over first-line help-desk support for in-house developed applications, routing second line support through to the appropriate in-house development team.

4. Appropriate Geographic Coverage

Exhibit III-8 lists the locations of the vendors' European network management centres.

Hewlett-Packard is the current leader in establishing a major network of network management centres throughout Europe. Hewlett-Packard has implemented standard processes and toolsets to ensure the company's ability to provide common support to multinationals on a transnational basis.

Olivetti is also establishing a strong European network management infrastructure. The company's philosophy has been to rapidly establish network management centres to cover each of the various language groups in Europe.

SHL Systemhouse has seven network management centres world-wide, but six of these are located on the American continent. The company has also built a network management centre for sole use by a specific client in the Netherlands.

The siting of help-desk support is another consideration. Vendors need to decide whether to base application support teams in each country or in regional centres.

At present, Olivetti is handling application support within each country, but may decide to concentrate user support, possibly in Belgium, in the future. On the other hand, Digital has a multilingual User Application

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Support centre covering all of Europe from Utrecht. Cap Gemini Sogeti currently favours the national model but may decide to concentrate user support in language groupings in the future.

Recently SHL has purchased PCL in the UK and has itself been purchased by MCI. The acquisition of PCL will further strengthen SHL's desktop support capability in the UK while the company's acquisition by MCI should provide a major boost to the organisation's client/server systems management capability. Many organisations would like to outsource both their LANs and their WANs to a single vendor. However, at present, it is difficult to find vendors with this combined capability since the PTTs tend to be comparatively weak in LAN management. Two vendors are now appearing that can begin to offer this capability, namely MCI/SHL and IBM.

In addition to the vendors discussed above, other vendors with a major presence in client/server systems management are:

- IBM with NetWorkStation Management
- The PTTs, particularly AT&T
- Major dealers, such as Computacenter.

Amongst the dealers, Computacenter has been particularly successful in targeting desktop services. In the UK, the company has won desktop services contracts with amongst others, SG Warburg, TSB and United Distillers.

D

tds and Hewlett-Packard are Winning SAP R/3 Outsourcing Contracts

The SAP R/3 outsourcing market in Germany began to take off in the last quarter of 1994. By November 1994, the total number of R/3 outsourcing contracts in Germany was estimated to have reached 25. In the following nine months to August 1995, the R/3 outsourcing market has continued to grow rapidly with the number of contracts now estimated at 70.

Last November, the initial R/3 outsourcing contracts were emerging primarily from outside the SAP R/2 customer base, as organisations that had previously relied on bespoke developments or competitors' offerings switched to the R/3 standard. Also at that time, no vendor had secured more than five R/3 outsourcing contracts and no clear market leaders had emerged.

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However, nine months later, this situation has changed, and some trends are beginning to emerge. At the present time, it is apparent that:

- Many of the clients for R/3 outsourcing are initially seeking implementation services and not outsourcing
- Organisations beginning the migration from SAP R/2 to SAP R/3 are becoming the major source of business
- A number of market leaders are beginning to emerge.

1. Implementation Clients Need to be Converted to Outsourcing

In general, organisations are not approaching vendors requesting R/3 outsourcing services. Organisations are typically approaching vendors with one of the following problems:

- A need for assistance in implementing R/3
- A lack of client/server skills
- A reluctance to invest in building their own client/server infrastructures.

Consequently, one of the key skills lies in persuading clients requesting implementation support that they also require ongoing outsourcing support. At present, it is estimated that vendors are succeeding in persuading 1 in 3 of the organisations approaching them for R/3 implementation services that there are additional benefits to be obtained from outsourcing.

2. R/2 to R/3 Migration Now the Major Source of Business

During 1994, organisations were slow to begin the migration from SAP R/2 to SAP R/3. This was understandable given the number of major obstacles facing organisations endeavouring to migrate from R/2 to R/3. These obstacles are discussed in the Research Bulletin published in November 1994 (reprinted in Appendix C).

Consequently, the main source of R/3 outsourcing opportunities during 1994 were organisations migrating from bespoke and non-SAP applications. However, this situation has changed during 1995. Most of the growth in SAP R/3 outsourcing has been derived from organisations previously using SAP R/2, with the result that approximately 60% of the current R/3 outsourcing contracts have now originated from R/2 users. However, this does not mean that R/3 is necessarily replacing R/2 in these

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organisations. In many instances, organisations are using R/3 to complement R/2 often using a subset of the modules within R/3.

As a result, the phasing out of mainframes, and transition outsourcing of R/2 systems, remains a minor element in the market. Indeed R/2 and R/3 systems will typically continue to co-exist for a number of years. Although the majority of SAP R/3 outsourcing contracts are now derived from organisations using R/2, the principal requirement is not classic transition outsourcing (i.e. the take-over of operation and maintenance of R/2 systems enabling in-house staff to focus on implementing R/3 and the associated IT infrastructure). Instead, the operation and maintenance of R/2 systems is tending to remain in-house and organisations, often lacking in-house client/server skills, are seeking help in the implementation and running of R/3 and the associated client/server infrastructure.

Organisations currently utilising R/3 outsourcing include both large and medium-sized companies across a range of industry sectors. For example EDS and IBM tend to focus more on the larger organisations. EDS' SAP R/3 outsourcing clients include Goodyear and Bosch and IBM's clients include Conti and FAG. IBM is involved in assisting 24 Conti subsidiaries across Europe and 8 FAG subsidiaries in utilising R/3.

Many of these large organisations have prior experience of SAP R/2. On the other hand, some vendors such as tds, for example, tend to focus primarily on medium-sized companies that are new to SAP applications.

3. Emerging Market Leaders

Exhibit III-9 lists the number of R/3 outsourcing contracts held by each of the leading vendors offering R/3 outsourcing services at mid-August 1995.

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Exhibit III-9

Vendor Penetration of R/3 Outsourcing Market

Vendor	Number of R/3 Outsourcing Contracts
EDS	16
debis Systemhaus	12
tds	11
Hewlett-Packard	9
IBM Système und Netze	4
Alldata	4
Digital	3
DVO	3
Orga	2
Total	64

Source: INPUT

These vendors are adopting a number of differing approaches to R/3 outsourcing.

EDS prefers to view its services as reengineering projects and R/3 as a means of reorganising companies. EDS sees R/3 as a key tool for providing senior management with increased visibility of operations and as a tool for enabling multinationals to consolidate figures across a number of independent subsidiaries.

Accordingly EDS prefers to commence its activities by using management consultants to identify the organisation's major problems and suggest revised business processes. EDS regards the key to R/3 outsourcing as persuading the client of the need to change their business processes.

However, it is probable that much of EDS' current R/3 outsourcing business derives from within GM subsidiaries. Similarly, many of debis Systemhaus' current R/3 outsourcing contracts are with fellow Daimler-Benz subsidiaries.

IBM Systeme und Netze has also used R/3 in outsourcing contracts involving major reengineering projects. However, IBM is also using an

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approach based on taking away organisations' uncertainty in deciding whether to invest in upgrading to version 5 of SAP R/2 or whether to migrate to R/3 instead. IBM is offering to take-over organisations' current R/2 equipment and operations and to migrate the organisation to SAP R/2 version 5 at no extra cost. IBM will then migrate the organisation to R/3 outsourcing at a later date. This is an example of a vendor pursuing a R/2 transition outsourcing strategy. Many of the active R/3 outsourcing vendors are tending to neglect the opportunity in phasing out R/2 systems in favour of concentrating on acquiring R/3 system management contracts.

The majority of the vendors listed in Exhibit III-9 have acquired licences from SAP to offer SAP services, without the client having to acquire their own R/3 licence. The two vendors who have yet to do this are Digital and Hewlett-Packard. Hewlett-Packard is currently focusing on client/server systems management but expects to purchase a value contract from SAP during the first half of 1996.

At present, Hewlett-Packard does not manage the application, but focuses on providing systems management services from its operations centres in Ratingen and Böblingen. For half of its R/3 outsourcing clients, Hewlett-Packard additionally supplies elements of its selective desktop services offerings.

tds, formerly an SAP R/2 bureau, has made the transition to a full-service provider for R/3 outsourcing. The company now offers a range of services including SAP R/3 consultancy and implementation services, systems management, desktop services, and network management. To complement its R/3 outsourcing offerings, tds has built its own ISDN-based wide area network. This network is used by a number of the companies R/3 outsourcing clients and provides the capability to transmit data, image and voice to a heterogeneous IT infrastructure containing, for example, mainframe, Unix-based and desktop devices.

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E

MCI and the PTTs Make Progress in Network Management

Many organisations are having difficulty in supporting their desktop users and the increasing number of geographically dispersed LANs. However, the major constraint in using IT effectively for many organisations is now the wide area network, where organisations are faced with major changes in technology in order to achieve:

- Adequate international coverage
- Support for electronic commerce
- Improved communication using multi-media techniques.

Accordingly, there is a very high level of potential demand for wide area network management. However, the inadequacies of existing corporate data networks have been largely matched by vendors' inability to supply international coverage and high bandwidth services. There is a considerable market opportunity facing any vendor that can quickly overcome these hurdles.

Despite these problems, a number of major network management contracts have been signed in 1995. In particular, BT has added major contracts with Sun Alliance and NatWest Bank in the United Kingdom.

It is important that vendors succeed in introducing new technology into their accounts. BT acquired one of TSB's existing corporate data networks in 1992. However, TSB has found that BT has so far tended to manage this existing network, rather than migrate the bank onto ATM technology as originally hoped.

The major vendors in this area seem likely to be the PTTs and IBM. However, the merger of MCI and SHL may be the first of a number of such acquisitions or partnerships as vendors endeavour to assemble complete client/server systems management services including wide area network management capability.

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F

Cap Gemini Sogeti, debis Systemhaus and FI Group Set the Pace in Application Management

Application management is another relatively neglected market. Because of their emphasis on major application operations contracts, vendors such as EDS and CSC have not targeted this opportunity.

Indeed, there has been a strong contrast in styles between vendors such as EDS and CSC that have been focusing primarily on selling solutions of bundled services and vendors such as Cap Gemini Sogeti and debis Systemhaus that have offered similar services in unbundled form.

So while, EDS has aimed its appeal at commercial executives stressing the merits of CoSourcing and value-based pricing, Cap Gemini Sogeti has tended to be more incremental, and technically focused, in its approach offering stand-alone services of:

- Datacentre management
- Distributed systems management
- Application management
- Project services.

This approach has the advantage of appealing to IT Directors that are only seeking limited support and has enabled Cap Gemini Sogeti and debis Systemhaus to establish themselves as market leaders in application management in Europe.

However, it has the disadvantage of being an approach that is hard to reconcile with the services of Gemini Consulting. Cap Gemini Sogeti's outsourcing contracts tend to be sold individually to IT management with a technical support emphasis. Gemini Consulting's services need to be sold to commercial executives with a more strategic emphasis similar to that used by EDS.

Apart from Cap Gemini Sogeti, application management still tends to be the province of specialist vendors such as Unilog in France and the FI Group in the UK. The keys to application management are a sound methodology for assessing the quality of existing systems and a structured approach to service delivery.

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G

Andersen Consulting and EDS are Poised for Business Operations Opportunities

So far, there has only been a low level of business operations activity in Europe. With the notable exception of EDS' contract with Leuna-Werke in Germany, most of the current business operations activity is taking place in the UK.

Within the UK, there are three main types of business operations activity:

- Andersen Consulting's contracts with the North Sea oil companies to manage their accounting operations
- The Private Finance Initiative (PFI) within the health sector and central government
- Managed services activity within local government.

In addition, EDS has been comparatively successful in initiating a small, diverse range of business operations contracts, such as its fulfilment services for Time Life and its Parking Fine Collection services in Seville and London.

Andersen Consulting won its first business operations contract in the North Sea oil sector when the company signed a contract with BP Exploration for the management of its day-to-day accounting functions in 1990. Since then, Andersen Consulting has additionally sold accounting operations services to four North Sea operators, including Sun Oil, Asco and Conoco.

Andersen Consulting is now strongly targeting other business operations opportunities including logistics and the operation of administration on behalf of life assurance companies.

Andersen Consulting is estimated to be the leader in business operations in Europe outside the public sector. EDS is estimated to be in second place in terms of European private sector business operations revenues.

However, Andersen Consulting is also targeting Public Finance Initiative(PFI) contracts within UK central government, and won the first major PFI IT contract in 1995.

Within PFI, vendors will be expected to fund the initial capital outlay and to recover their costs on the basis of a service charge for ongoing service provision. Andersen Consulting has committed to develop the new

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National Insurance Recording System (NIRS 2) by April 1997. Andersen Consulting will receive no payments for systems development. The bulk of their revenues will be derived from the ongoing provision of a service based on this system.

This approach has the advantage to the purchaser of transferring most of the risk inherent in large-scale systems development projects to the supplier. In due course, such an approach may prove attractive to the private sector throughout Europe. Andersen Consulting will be well-positioned as this trend gains momentum.

Capita Group is the leader in providing managed services, principally exchequer services, to UK local government. Other vendors active in this market include Touche Ross and ITnet.

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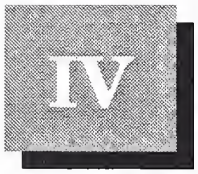

Perceptions of Vendor Capability

A
Vendors Still Perceived to Lack Industry Knowledge

Overall there is a low level of awareness among senior executives of the capabilities of individual outsourcing vendors. Nonetheless it is possible to examine the current perceptions of executives to obtain typical attitudes towards:

- Vendor capability relative to in-house IT departments
- Some of the perceived strengths and weaknesses of individual vendors.

Such an analysis reveals that:

- IT departments are still typically perceived to have much higher knowledge of their organisation's business sector than even the leading outsourcing vendors
- Vendors are perceived to possess superior ability to IT departments in the application of IT
- Systems vendors are perceived to have the most up-to-date technical skills.

It is appropriate to issue a number of warnings at this point:

- Firstly, the research is based upon executives' current perceptions of vendors and these perceptions should not be taken as accurate measures of vendor capability

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- Executives are typically expressing opinions of vendors with whom they do not have current working relationships. This is an image study not a customer satisfaction study

- The overall level of knowledge of vendors, their offerings and capabilities within the interview base is low

- Executives may give low ratings, instead of not responding, to vendors of whom they have no or little direct experience. Hence low ratings can reflect a lack of knowledge as well as a poor image

- Most of the research was carried out with executives representing organisations in the commercial sector. This produces a bias against organisations such as CFM whose activity (and reputation) is concentrated in the public sector.

Accordingly the results of this research are primarily for use by vendor marketing departments. The results of the image analysis should not be interpreted by service purchasers as providing objective measures of vendor capability.

1. IT Departments Perceived to Have Greater Industry Knowledge Than Outsourcing Vendors

Exhibit IV-1 shows a comparison between the perceived capabilities of IT departments and three leading IT outsourcing vendors. The three vendors included in this analysis were Cap Gemini Sogeti, EDS, and IBM and the research was based on interviews in France, Germany and the UK. debis Systemhaus was regarded as part of Cap Gemini Sogeti for the purposes of this analysis, since the two organisations currently have a common approach and offerings in outsourcing.

The first conclusion from this research is that neither the outsourcing vendors nor IT departments are especially highly regarded. The successful application of IT remains a major problem for many organisations.

In the past, many senior executives have tended to regard the capabilities of vendors and IT departments as largely comparable. However, the leading outsourcing vendors are now beginning to differentiate themselves from IT departments.

Much of this differentiation is based, not on perceived superior commercial insight, but on superior technical and project management skills. Indeed, relevant industry sector knowledge is the characteristic where vendors receive their lowest rating from potential customers.

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In order to address this weakness, many vendors are establishing industry sector based competence sectors and organising their sales approach on a sector specific basis. However, in spite of these approaches, it remains difficult for a vendor to maintain a detailed understanding of all the nuances within, for example, the manufacturing sector, where there is considerable heterogeneity of business practice. Many organisations still regard their business approach and processes as unique.

Exhibit IV-1

Relative IT Department Capability

Characteristic	IT Department Rating	Average Rating of Leading Outsourcing Vendors	Difference
Reengineering Capability	3.1	3.4	0.3
Industry Sector Knowledge	3.6	3.0	(0.6)
Ability to Apply IT to the Business	3.0	3.6	0.6
Up-to-date Technical Skills	3.3	4.0	0.7
Cost Reduction Capability	3.1	3.4	0.3
Average	3.2	3.5	0.3

Source: INPUT

2. Vendors Perceived to Have Greater IT Application Skills

One way of avoiding some of the difficulties in developing detailed business knowledge across an extremely wide and heterogeneous range of industries, is to concentrate on a skill-based, rather than a knowledge-based, approach.

The leading vendors are beginning to establish a degree of credibility in terms of their reengineering capability. At the same time, vendors are perceived to be considerably in advance of IT departments in applying IT to business problems.

Accordingly vendors should be prepared to leverage in-house industry knowledge, but stress their capability to add value by:

- Examining and modifying the organisation's current business processes
- Successfully applying IT to the new business processes.

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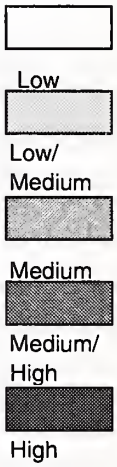
Exhibit IV-2 compares the perceived strengths of a number of outsourcing suppliers against a number of key criteria.

Exhibit IV-2

Perceived Supplier Capability: Europe

Supplier	Reengineering Capability	Industry Sector Knowledge	Application of IT	Up-to-date Technical Skills	Cost Reduction Capability
IT Department					
Cap Gemini Sogeti/debis Systemhaus					
EDS					
IBM					
Hewlett-Packard					
AT&T					



Source: INPUT

However, EDS and Cap Gemini Sogeti are now perceived to have a significantly higher level of reengineering capability than IT departments.

EDS is taking advantage of this perceived reengineering approach and has encapsulated it into its CoSourcing offering. However, Cap Gemini Sogeti still appears to be having problems in leveraging the expertise of Gemini Consulting. Many of these problems appear to result from the separation of Gemini Consulting from Cap Gemini Sogeti and from the Cap Gemini Sogeti's desire to incrementally offer services such as distributed systems management and application management. Marketing these services as individual offerings makes it more difficult for Cap Gemini Sogeti to present itself as a company capable of delivering business transformation.

IBM is regarded as having a similar level of reengineering capability as IT departments, but the highest level of industry knowledge amongst the vendors listed.

However, one of the most significant perceived weaknesses of IT departments is their relative difficulty in successfully applying IT to business processes. All of the vendors listed were perceived to have greater capability than IT departments.

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In conclusion, it may still be difficult for many vendors to demonstrate sufficient industry knowledge and reengineering capability to acquire major applications operations responsibility. However, vendors' relative strength in the application of IT combined with IT departments' current difficulties in new systems development potentially creates major application management opportunities.

The two vendors of those listed perceived to have the highest level of ability to apply IT to the business were IBM and Cap Gemini Sogeti. Cap Gemini Sogeti and debis Systemhaus have been successful in developing and promoting application management as a separate service offering. Possibly it is time for IBM to take advantage of its comparatively strong image and also develop a focused application management offering across Europe.

3. Systems Vendors are Perceived to Have Most Up-to-date Technical Skills

In addition to the ability to apply IT to business problems, there was one other characteristic where all the vendors listed were perceived to be stronger than IT departments, namely in maintaining up-to-date technical skills.

This perception will be particularly important in influencing the award of infrastructure management contracts such as desktop services. Even though much of the technology involved is based around software product knowledge rather than hardware related expertise, the systems vendors, namely Hewlett-Packard, IBM and AT&T, are perceived to have higher levels of capability than Cap Gemini Sogeti and EDS.

Hewlett-Packard is regarded as having a very high level of expertise in client/server technology. The acquisition of Lotus should assist IBM in demonstrating a strong technological understanding of the desktop environment.

Cost reduction capability is another important factor in the infrastructure management area. However, despite the apparent price-competitiveness of Axone in France and IBM Système und Netze in Germany, IBM is perceived to have a lower level of cost reduction capability than Cap Gemini Sogeti and EDS.

The systems vendors need to complement their perceived high level of technical capability with an improvement in their perceived ability to reduce an organisation's IT costs.

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B

Perceived Capability is not Uniform Across Europe

However, neither vendor capability nor their positioning is entirely consistent across Europe.

Firstly, many of the leading vendors owe much of their presence in individual countries to acquisitions of indigenous vendors. Accordingly, the positioning of the vendor in each country can vary according to its heritage and the timing of its market entry.

Secondly many of the leading outsourcing vendors in each country are predominantly national, or regional, in their coverage.

The importance of the timing of entry into the outsourcing market can have a major impact on a vendor's success and positioning. Exhibit IV-3 summarises the timing of market entry for the four leading vendors in each of the three major countries.

Exhibit IV-3

Timing of Market Entry: Outsourcing

Vendor	France	Germany	United Kingdom
EDS	Early through acquisition of GFI	Early	Timely but not pioneer
Cap Gemini Sogeti	Late	Early through transfer of Hoskyns expertise to debis	Very early through Hoskyns
Sema Group	Sold Axone stake to IBM Now approaching CISI	Timely but not pioneer	Early
IBM ISSC	Early through joint venture with Sema Group	Early	Late

Source: INPUT

As a result, IBM is strongly positioned in the outsourcing market in France and Germany, but has not managed to establish itself as one of the market leaders in the UK. Similarly, Hoskyns and debis Systemhaus have managed to establish themselves amongst the leaders in outsourcing

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in the UK and Germany but Cap Sesa Hoskyns has struggled to establish itself in the French outsourcing market.

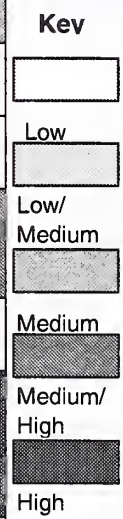
Sema Group initially built up a strong position in France through Axone, but having sold its stake in Axone to IBM, is now in the process of re-establishing its presence there.

Exhibit IV-4 shows the perceptions of a number of the leading outsourcing vendors in France.

Exhibit IV-4

Perceived Supplier Capability: France

Supplier	Reengineering Capability	Industry Sector Knowledge	Application of IT	Up-to-date Technical Skills	Cost Reduction Capability
IT Department					
AT&T					
Bull (Integris)					
Cap Gemini Sogeti					
Digital					
EDS					
GSI					
Hewlett-Packard					
Axone					
Télésystèmes					



Source: INPUT

EDS and GSI, followed by Axone and Télésystèmes, are well-positioned in France, being regarded as having comparatively high levels of both reengineering and cost reduction capability.

GSI and Télésystèmes are also regarded as having comparatively high levels of industry sector knowledge.

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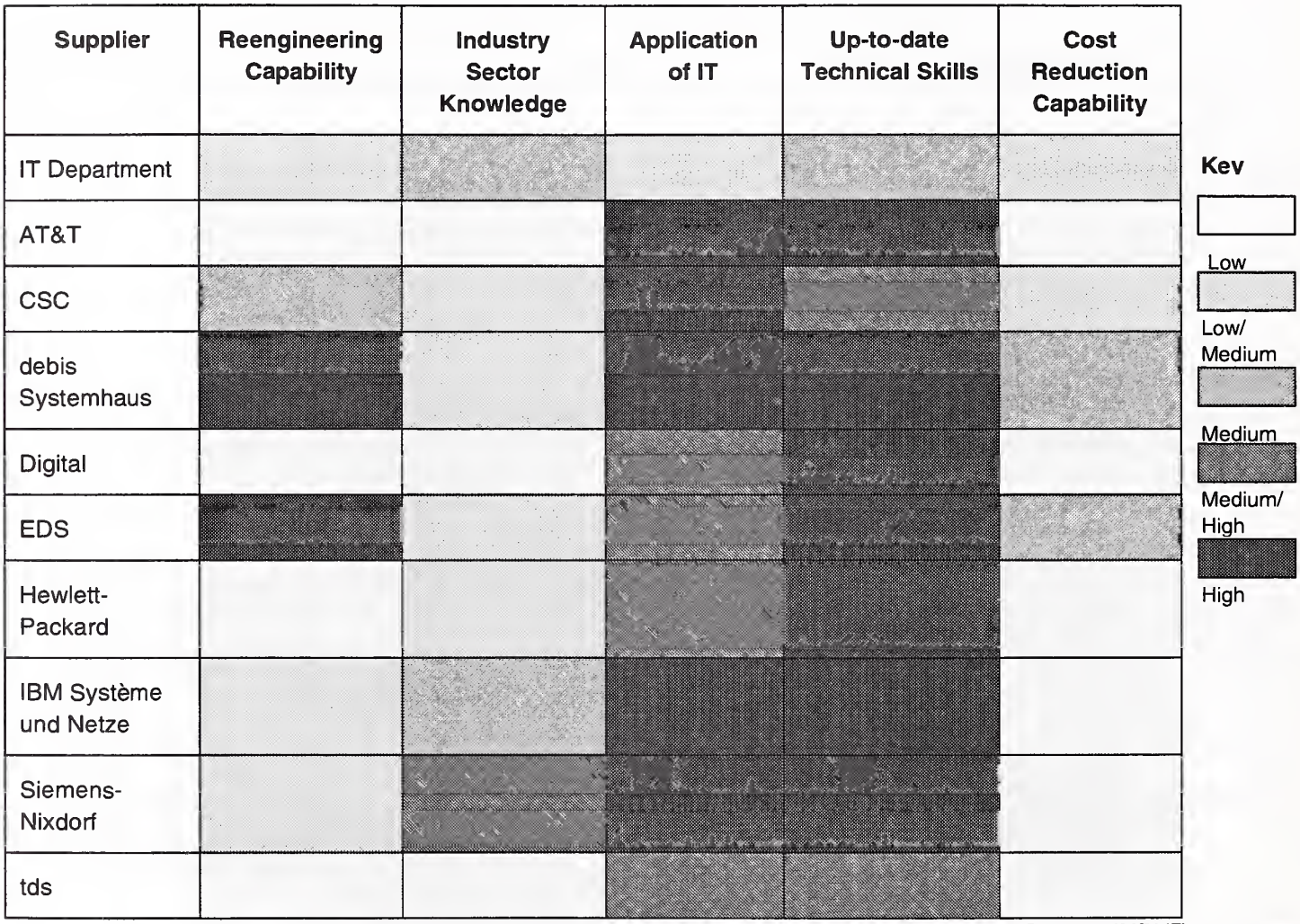
Exhibit IV-5 shows the perceptions of a number of the leading outsourcing vendors in Germany.

Exhibit IV-5

Perceived Supplier Capability: Germany



Source: INPUT

In Germany, EDS and debis Systemhaus are perceived to have the highest levels of both reengineering and cost reduction capability.

Siemens-Nixdorf and IBM Système und Netze are perceived to have comparatively high levels of industry sector expertise.

Exhibit IV-6 shows the perceptions of a number of the leading outsourcing vendors in the UK.

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Exhibit IV-6

Perceived Supplier Capability: United Kingdom

Supplier	Reengineering Capability	Industry Sector Knowledge	Application of IT	Up-to-date Technical Skills	Cost Reduction Capability
IT Department					
AT&T					
CFM					
Digital					
EDS					
Hewlett-Packard					
Hoskyns					
IBM ISSC					

Kev
Low
Low/ Medium
Medium
Medium/ High
High

Source: INPUT

In the UK, EDS and Hoskyns, followed by IBM ISSC, are perceived to have the highest levels of both reengineering and cost reduction capability.

IBM ISSC is perceived to have a comparatively high level of industry sector expertise.

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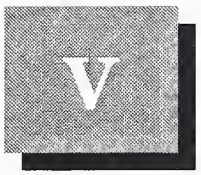

Country Positioning

A
France

Exhibit V-1 shows the market shares of the leading outsourcing vendors in France.

Exhibit V-1

Leading Vendors: France — 1994

Vendor	Estimated 1994 Revenues (FFm)	Estimated Market Share (%)
EDS	1000	17
Télésystèmes	620	11
Cap Gemini Sogeti	560	10
Axone	550	9
GSI	400	7
Integris	400	7
SG2	230	4
Perot Systems	200	3
France Telecom	200	3
Axime	185	3
Total listed	4345	75
Total market	5800	100

Source: INPUT

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EDS France underwent a major re-organisation at the beginning of 1995 with the intentions of re-emphasising its CoSourcing philosophy, divesting its body-shopping activities, and strengthening its industry sector focus. In 1995, EDS opened a retailing sector centre of competence in Strasbourg.

Examples of recent major contracts awarded to EDS in France include contracts with MORY-TNTE and Compagnie Générale Maritime (CGM).

Axone has traditionally maintained a separate identity from the rest of the IBM outsourcing group, and has resisted attempts at renaming to bring it into line with the IBM ISSC brand. However, Axone is now trying to reposition to become more than a very cost-effective datacentre management vendor in France. The company now strongly emphasises its global capability as part of the IBM outsourcing group and its client/server management capabilities.

Axone estimates that its revenues grew 25% in France in 1994 with the acquisition of 25 new contracts. New business in France included:

- Transition outsourcing contracts with Unimetal and Cedilac-Candia
- An applications operations contract with Banque Hypothécaire Européene.

Other new clients included Banco Exterior de Espana, Laboratoires Wellcome, Les Laboratoires Associés Kodak, and OPAC du Nord. Accordingly, it can be seen that international contracts are beginning to form a significant element of Axone's new business.

GSI also had a successful year in 1994, signing contracts with, for example, France Printemps, Kaysersberg, Enterprise Minière et Chimique, and EIFB. The company has now begun to focus on application management as a separate offering.

Unilog is a specialist niche vendor in applications management in France with 1994 application management revenues of FF110m.

Cap Gemini Sogeti was a late entrant to the outsourcing market in France. As a result, the bulk of the company's activity there tends to be focused around individual distributed systems management and application management services rather than platform operations or application operations.

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B
Central Europe

For the purposes of this chapter, Central Europe is defined as Germany, Austria and Switzerland. Exhibit V-2 shows the market shares of the leading outsourcing vendors in Germany.

Exhibit V-2

Leading Vendors: Germany — 1994

Vendor	Estimated 1994 Revenues (DMm)	Estimated Market Share (%)
IBM Systeme und Netze	230	18
EDS	200	16
debis Systemhaus	180	14
tds	88	7
Alldata	82	7
Sema Group	75	6
Siemens-Nixdorf	50	4
Digital	45	4
AC Service	40	3
CSC	30	2
Total listed	1020	82
Total market	1250	100

Source: INPUT

In 1995, EDS made progress in developing its industry sector focus in Germany with the formation of a joint venture with Lufthansa to serve the travel and transportation sectors. Examples of new outsourcing clients announced by EDS in Germany in 1994 and 1995 include Stadtverwaltung Cottbus, Fresenius, and Didier.

IBM Système und Netze is much more successful in major applications operations contracts in Germany than its counterparts in France and the UK. Over the past year, IBM Système und Netze continued to make major progress as one of the leading applications operations providers in

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Germany with the signing of contracts with Gothaer Versicherung AG and Continental AG.

In addition, IBM in 1995 acquired DVO, the computer services arm of Deutsche Babcock.

Sema Group is also continuing to make progress in developing its outsourcing presence in Germany. In 1994, the company signed transition outsourcing contracts with Adidas and Dürkopp Adler AG.

Exhibit V-3 shows the market shares of the leading outsourcing vendors in Austria.

Exhibit V-3

Leading Vendors: Austria — 1994

Vendor	Estimated 1994 Revenues (Sch m)	Estimated Market Share (%)
AI Informatics	70	25
IBM ISSC	60	21
Philips C&P	35	13
Spardat	30	11
EDS	12	4
Total listed	207	74
Total market	280	100

Source: INPUT

A number of outsourcing contracts have already been signed with manufacturing organisations in Austria, and the Austrian manufacturing sector is unlikely to remain immune from cost pressures in the medium-term.

For example, Philips C&P (now renamed ORIGIN following its merger with BSO ORIGIN) already has a number of outsourcing contracts with manufacturing companies, and EDS has signed one contract with a textiles manufacturer experiencing financial pressures.

At present, the major outsourcing vendors are only just beginning to position their outsourcing offerings in Austria and they have yet to fully establish their presence.

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It is likely that they will do so within two years, both by winning major contracts and by acquiring local players. By 1999, it is probable that vendors such as IBM and EDS will dominate the Austrian outsourcing market, having overtaken local vendors who will find it difficult to organically develop the financial reengineering and business consulting skills necessary to win major contracts.

Vendors' strategies will differ markedly. The local vendors and debis Systemhaus will adopt incremental approaches to outsourcing. For example, debis Systemhaus is likely to adopt a bottom-up strategy in Austria and target areas such as SAP outsourcing, application management and distributed systems management.

On the other hand, EDS is likely to follow a similar strategy to that taken by the company elsewhere in Europe and target a large CoSourcing contract with a major organisation in Austria while simultaneously seeking to acquire a leading Austrian vendor. Organisations serving the financial services community, such as Spardat, or Management Data, are prime prospects for acquisition in the medium-term.

Exhibit V-4 shows the market shares of the leading outsourcing vendors in Switzerland.

Exhibit V-4

Leading Vendors: Switzerland — 1994

Vendor	Estimated 1994 Revenues (SF m)	Estimated Market Share (%)
IBM ISSC	15	13
Digital	12	10
Telekurs	12	10
Hewlett-Packard	10	8
AC Service	10	8
Total listed	59	49
Total market	120	100

Source: INPUT

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C
United Kingdom

Exhibit V-5 shows the market shares of the leading outsourcing vendors in the UK.

Exhibit V-5

Leading Vendors: United Kingdom — 1994

Vendor	Estimated 1994 Revenues (£m)	Estimated Market Share (%)
Hoskyns	125	12
EDS	120	12
ICL/CFM	101	10
Sema Group	90	9
CSC	70	7
Andersen Consulting	65	6
Data Sciences	63	6
AT&T Istel	60	6
Capita Group	45	4
Digital	45	4
FI Group	40	4
ITnet	35	3
Perot Systems	25	2
Computacenter	23	2
CMS	20	2
Total listed	927	91
Total market	1020	100

Source: INPUT

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EDS and CSC are continuing to make huge strides in the UK outsourcing market. In addition, both companies are extending their sector coverage, increasing their presence in the local government and health sectors.

In 1995, EDS has begun contracts with:

- Girobank for cheque processing
- Brent Council for revenue collection and benefits administration
- North Staffordshire Hospital Trust
- South & West RHA (Swift)
- ITSA for comprehensive datacentre services throughout the UK.

As a result of the contract with Brent Council, EDS is now positioned to become one of the major competitors in managed services in local government alongside the Capita Group.

CSC has also been winning contracts on an unprecedented scale for the company in Europe, including major contracts with Lucas Industries, Anglian Water, Scottish Health Service Trusts, John Menzies Retail, ICI Paints, and Autoglass. The total lifetime value of these contracts is approximately £750m.

Sema Group continues to be successful in the Central government sector. In 1994, the company won a £50m contract with the Home Office, and, in 1995, the company won one of the ITSA contracts for desktop services.

In 1995, CFM increased its presence outside the local government sector with the award of a £30m contract from London Underground.

Data Sciences has entered the application management market through a partnership with Unilog. Data Sciences originally teamed up with Integris (Bull) to win several contracts, including Brighton council, but has recently sold its mainframe datacentre capability to Integris.

At the time of writing, CMS, the outsourcing subsidiary of British Steel, had just become available for acquisition.

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D
Italy

Exhibit V-6 shows the market shares of the leading outsourcing vendors in Italy.

Exhibit V-6

Leading Vendors: Italy — 1994

Vendor	Estimated Revenues (Lira Bn)	Estimated Market Share (%)
Finsiel	140	27
Olivetti	80	15
IBM ISSC	25	5
Cap Gemini Sogeti	20	4
Integris	15	3
Total listed	280	54
Total market	520	100

Source: INPUT

EDS had been targeting the financial services sector in Italy since its acquisition of the S&M Group there in 1993. At the beginning of 1995, this activity resulted in the award of a major $400m contract from the Italian insurance group INA.

IBM ISSC has been most successful in Italy in the manufacturing sector, where the company was awarded a major contract with Pirelli in 1994.

Finsiel has traditionally focused primarily on the public sector and runs the integrated accounting system used by the State Comptroller and the State Audit Court. However Finsiel is now making progress in extending its outsourcing activities into the financial and manufacturing sectors.

In 1994, Finsiel established a new subsidiary called Bisiel that will target the finance sector in the North of Italy. The Intersiel and Sibisiel subsidiaries already target the banking sector in the south of Italy.

In the manufacturing sector, Finsiel signed outsourcing agreements in 1994 with Fiat Trattori and the Iritecna Group.

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E
Nordic Region

Exhibit V-7 shows the market shares of the leading outsourcing vendors in Sweden.

Exhibit V-7

Leading Vendors: Sweden — 1994

Vendor	Estimated 1994 Revenues (SK m)	Estimated Market Share (%)
EDS	600	24
Celsius	470	19
Cap Gemini Sogeti	450	18
Sema Group	400	16
IBM ISSC	240	10
WM-Data	120	5
Total listed	2280	93
Total market	2450	100

Source: INPUT

EDS' major outsourcing activity in Sweden remains its major contract with Kooperativa Förbundet. However, in 1994, the company also signed a contract with Riksbyggen.

Much of the outsourcing activity in Sweden is in the public sector, and Celsius is particularly active in the local authority and healthcare sectors.

In 1994 Cap Gemini Sogeti took over Servo AB, the company that processes 60 million credit card transactions on behalf of the Swedish commercial banks, giving the company one of its first footholds in business operations services.

In April 1994, Sema group acquired the Swedish company TPData and won a five-year applications operations contract with Bilspedition, a major Swedish transport company. Other outsourcing clients of Sema Group in Sweden include SCA Skog and the national statistical bureau.

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So far in 1995, WM-data has signed outsourcing contracts with the Fortifications Administration and NCC.

Exhibit V-8 shows the market shares of the leading outsourcing vendors in Denmark.

Exhibit V-8

Leading Vendors: Denmark — 1994

Vendor	Estimated 1994 Revenues (DK m)	Estimated Market Share (%)
PBS	50	19
JDC	40	15
Olivetti	30	11
OK Data	15	6
danNet	15	6
Total listed	150	56
Total market	270	100

Source: INPUT

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Exhibit V-9 shows the market shares of the leading outsourcing vendors in Finland.

Exhibit V-9

Leading Vendors: Finland — 1994

Vendor	Estimated 1994 Revenues (FM m)	Estimated Market Share (%)
Cap Gemini Sogeti	110	30
EDS	50	14
Tietotehdas	45	12
Paakupunk	35	10
Progmatic	30	8
Total listed	270	74
Total market	365	100

Source: INPUT

EDS has a Co Sourcing contract with Oy Hartwall AB, a beverage producer.

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Exhibit V-10 shows the market shares of the leading outsourcing vendors in Norway.

Exhibit V-10

Leading Vendors: Norway — 1994

Vendor	Estimated 1994 Revenues (DK m)	Estimated Market Share (%)
Fellesdata	60	19
NIT	30	9
Teamco	20	6
Digital	15	5
WM-Data	15	5
Total listed	140	44
Total market	320	100

Source: INPUT

IBM has now acquired NIT and is merging its Norwegian outsourcing subsidiary with NIT.

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F
Benelux

Exhibit V-11 shows the market shares of the leading outsourcing vendors in Belgium.

Exhibit V-11

Leading Vendors: Belgium — 1994

Vendor	Estimated 1994 Revenues (BF m)	Estimated Market Share (%)
CSC	600	18
Cap Gemini Sogeti	550	16
Cegeka	330	10
EDS	200	6
Digital	200	6
Total listed	1880	55
Total market	3400	100

Source: INPUT

In 1994, IBM signed a contract with Kraft Jacobs Suchard for the consolidation of their eight European datacentres into one central datacentre located in Belgium.

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Exhibit V-12 shows the market shares of the leading outsourcing vendors in the Netherlands.

Exhibit V-12

Leading Vendors: Netherlands — 1994

Vendor	Estimated 1994 Revenues (Dfl m)	Estimated Market Share (%)
EDS	50	14
Cap Gemini Sogeti	50	14
CSC	50	14
Philips C&P	50	14
CMG	30	8
Total listed	230	64
Total market	365	100

Source: INPUT

In 1995, Philips C&P announced its intention to merge with BSO/Origin forming a new company called Origin. The purpose of the merger is to form a full-service outsourcing vendor. Philips C&P currently specialises in IT infrastructure management whereas BSO/Origin specialises in systems integration, consultancy, development and application management.

A notable development in 1994 was that CSC took over the datacentres formerly belonging to RAET and EDS was awarded a contract by Rijkswaterstaat.

EDS also has CoSourcing contracts with Friesland Dairy Foods and Nuon. The contract with Nuon is being used as the basis for establishing a Utilities Competence Centre in the Netherlands, which will be the centre of EDS' utilities' expertise for Continental Europe.

EDS has a systems management contract with AKN, the television company.

In 1995, IBM signed outsourcing agreements with DSM Resins and the Flower Auction in Aalsmeer.

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G
Spain

Exhibit V-13 shows the market shares of the leading outsourcing vendors in Spain.

Exhibit V-13

Leading Vendors: Spain — 1994

Vendor	Estimated 1994 Revenues (Ptas m)	Estimated Market Share (%)
Sema Group	5000	42
Eritel	2000	17
Cap Gemini Sogeti	1500	13
Andersen Consulting	1100	9
EDS	500	4
Total listed	10100	84
Total market	12000	100

Source: INPUT

Andersen Consulting has been more successful in establishing itself as a leading outsourcing vendor in Spain than elsewhere in Europe. The organisation's current contracts (with Pescanova, Campofrio, Renault, and Petrogal) are largely confined to the manufacturing sector, but Andersen Consulting expects an increase in activity in the utilities and finance sectors.

Eritel also has several outsourcing clients in the manufacturing sector including INI/Teneo and Sidenor.

EDS expects to become a major presence in the financial services sector in Spain. EDS has acquired Leinsa, an IT subsidiary of Banco Espanol de Credito (BANESTO), and has signed two four-year contracts for Leinsa to provide IT services to BANESTO and to the Banco de Santander Group, of which BANESTO is a part.

EDS had already formed an alliance, in 1991, with Banco Santander and The Royal Bank of Scotland to develop the Inter-Bank On-Line System (IBOS), an international funds transfer system.

In addition, EDS has an outsourcing agreement with the construction company, Agroman.

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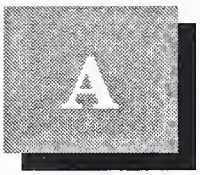

User Perceptions by Attribute

A
Europe

Exhibits A-1 to A-5 summarise the perceived abilities of a number of leading European outsourcing vendors (based on interviews with 90 European executives) in terms of their:

- Reengineering capability
- Level of industry sector knowledge
- Ability to apply IT to meet business need
- Access to up-to-date technology and technical skills
- Ability to reduce IT costs.

It is appropriate to re-issue a number of warnings at this point:

- Firstly, the research is based upon executives' current perceptions of vendors and these perceptions should not be taken as accurate measures of vendor capability
- Executives are typically expressing opinions of vendors with whom they do not have current working relationships. This is an image study not a customer satisfaction study
- The overall level of knowledge of vendors, their offerings and capabilities within the interview base is low

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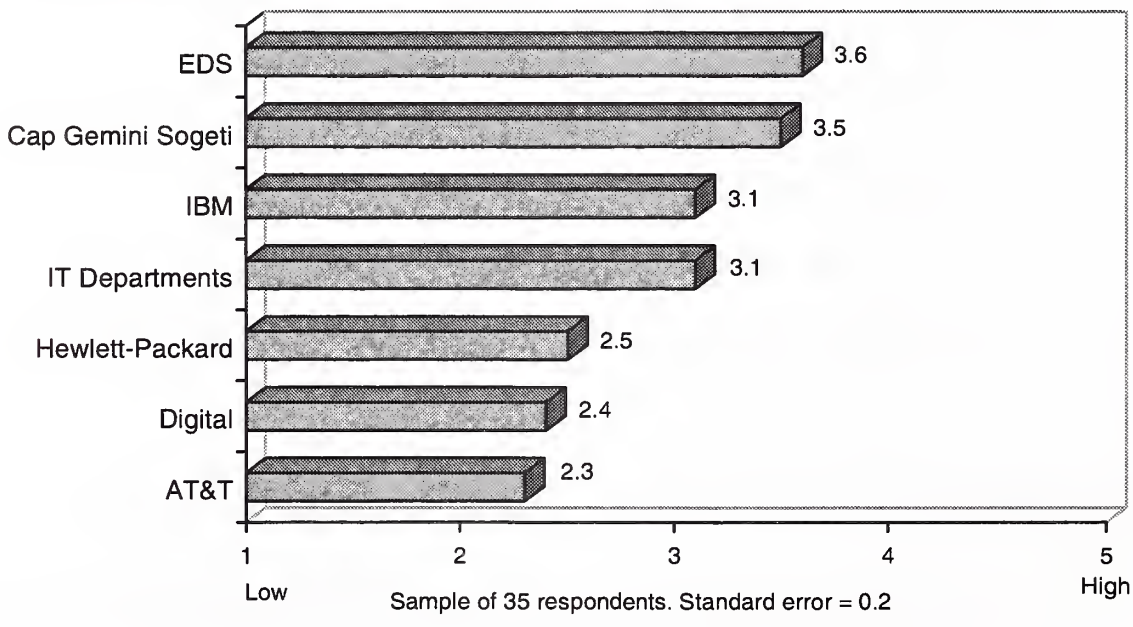
- Executives may give low ratings, instead of not responding, to vendors of whom they have no or little direct experience. Hence low ratings can reflect a lack of knowledge as well as a poor image

- Most of the research was carried out with executives representing organisations in the commercial sector. This produces a bias against organisations such as CFM whose activity (and reputation) is concentrated in the public sector.

Accordingly the results of this research are primarily for use by vendor marketing departments. The results of the image analysis should not be interpreted by service purchasers as providing objective measures of vendor capability.

Exhibit A-1

Perceived Reengineering Capability: Europe



Source: INPUT

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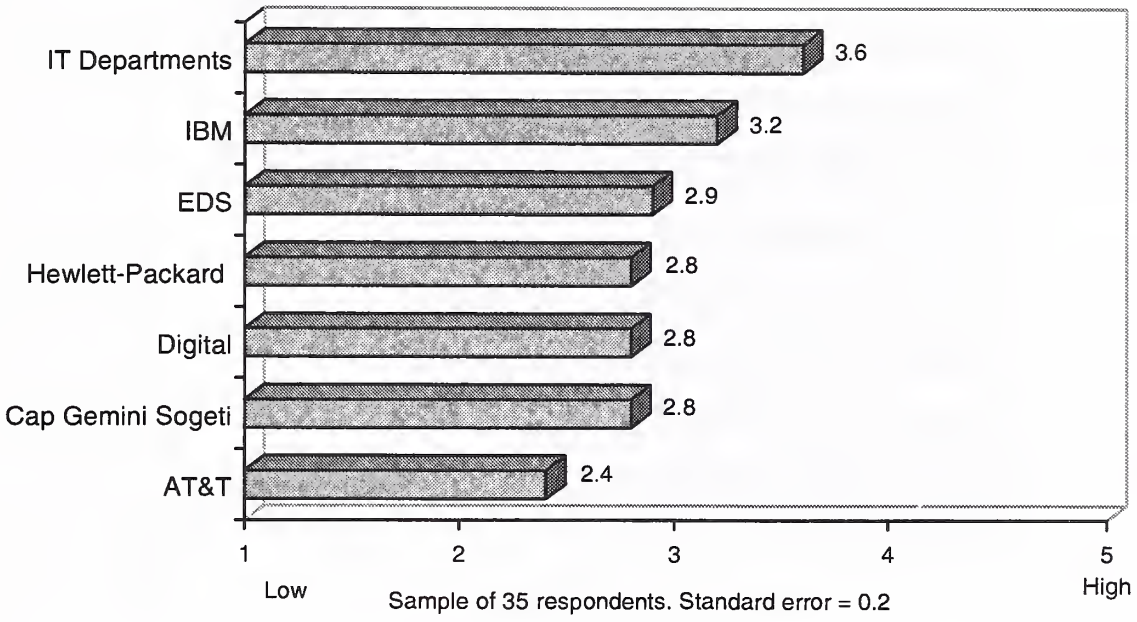
Exhibit A-2

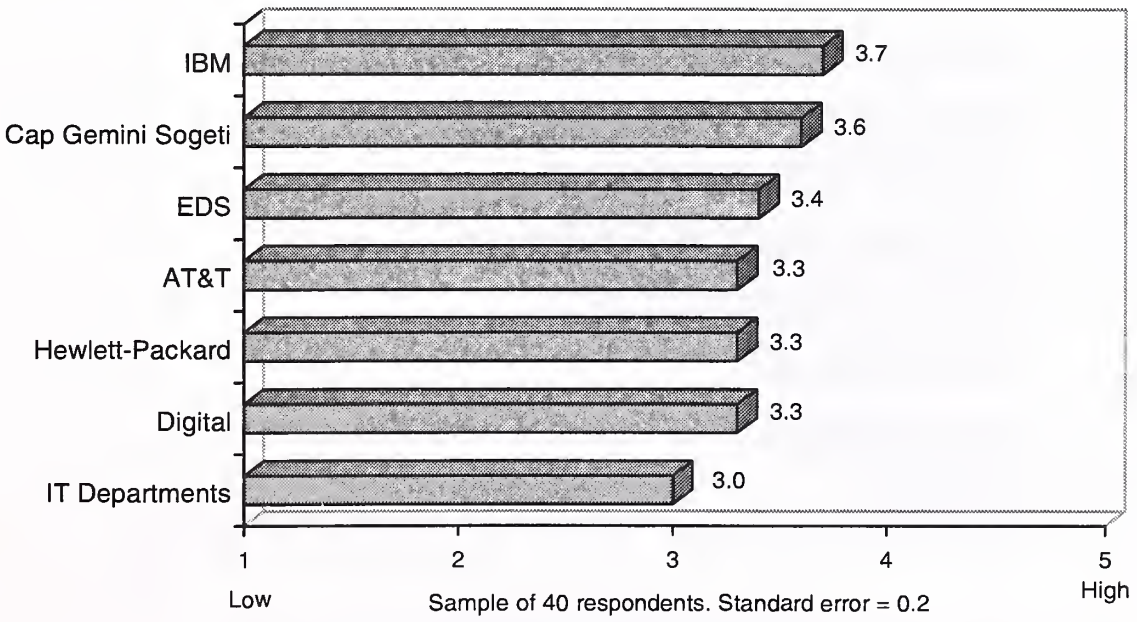
Perceived Level of Industry Sector Knowledge: Europe



Source: INPUT

Exhibit A-3

Perceived Ability to Apply IT: Europe



Source: INPUT

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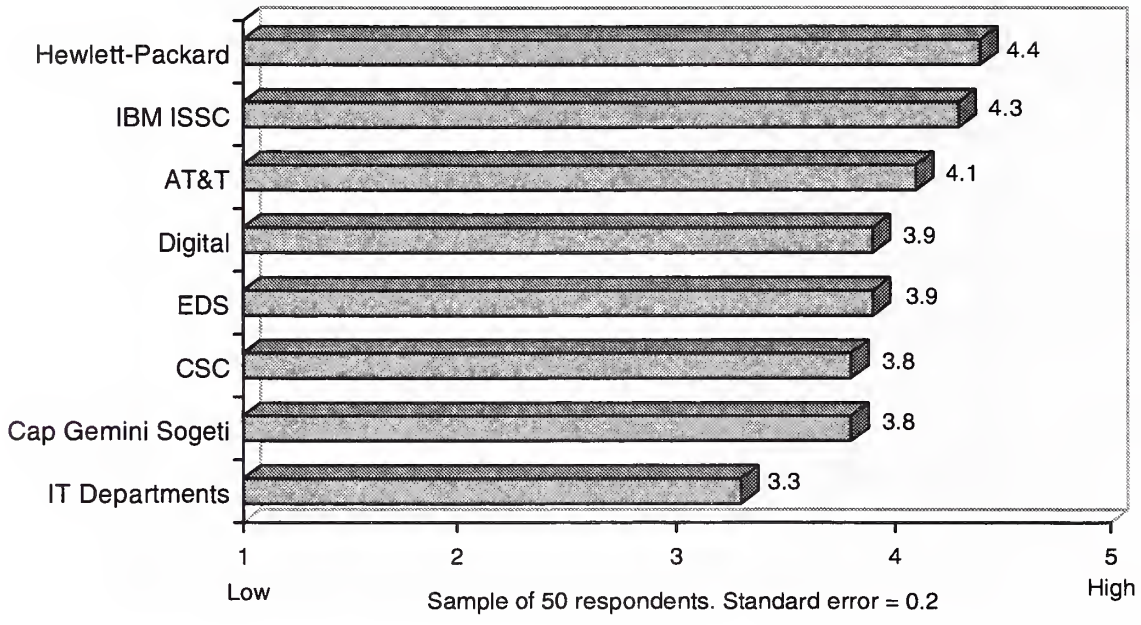
Exhibit A-4

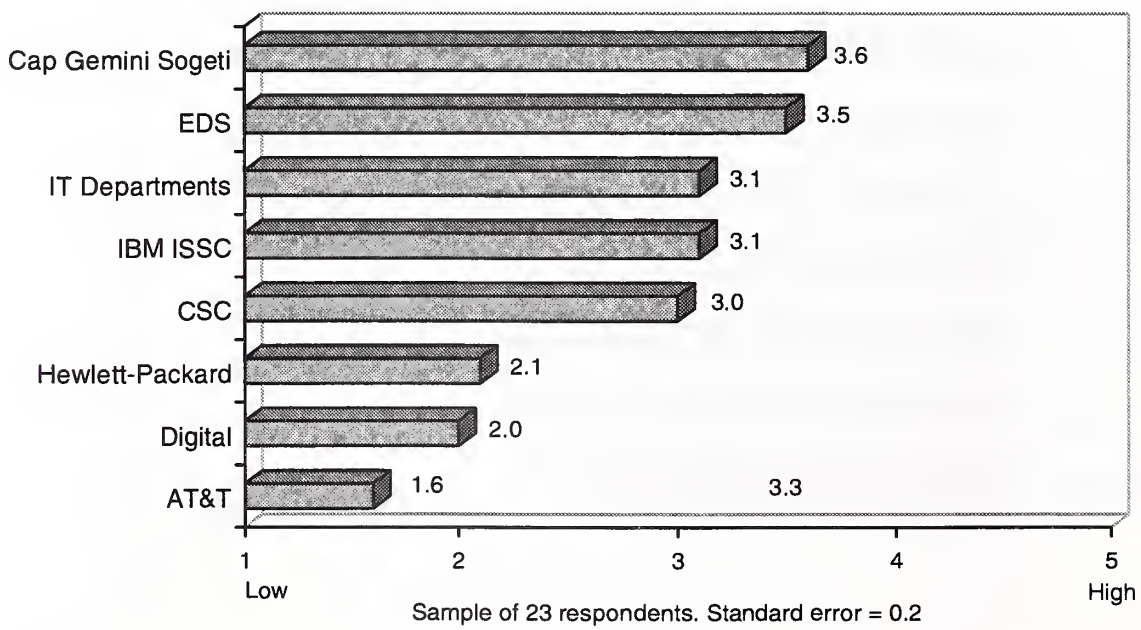
Perceived Currency of Technical Skills: Europe



Source: INPUT

Exhibit A-5

Perceived Cost Reduction Capability: Europe



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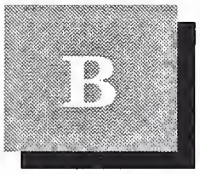

Perceived Attributes by Vendor

This appendix contains radar charts illustrating executives' perceptions of a number of leading outsourcing vendors.

It is appropriate to again re-issue a number of warnings at this point:

- Firstly, the research is based upon executives' current perceptions of vendors and these perceptions should not be taken as accurate measures of vendor capability
- Executives are typically expressing opinions of vendors with whom they do not have current working relationships. This is an image study not a customer satisfaction study
- The overall level of knowledge of vendors, their offerings and capabilities within the interview base is low
- Executives may give low ratings, instead of not responding, to vendors of whom they have no or little direct experience. Hence low ratings can reflect a lack of knowledge as well as a poor image
- Most of the research was carried out with executives representing organisations in the commercial sector. This produces a bias against organisations such as CFM whose activity (and reputation) is concentrated in the public sector.

Accordingly the results of this research are primarily for use by vendor marketing departments. The results of the image analysis should not be interpreted by service purchasers as providing objective measures of vendor capability.

Eighty seven interviews were carried out. However, the generally low levels of vendor awareness reduced the number of executives prepared to comment on any individual vendor. The number of responses on which each of these charts is typically based is approximately 30 for each of the European level charts and 10 for each country level chart.

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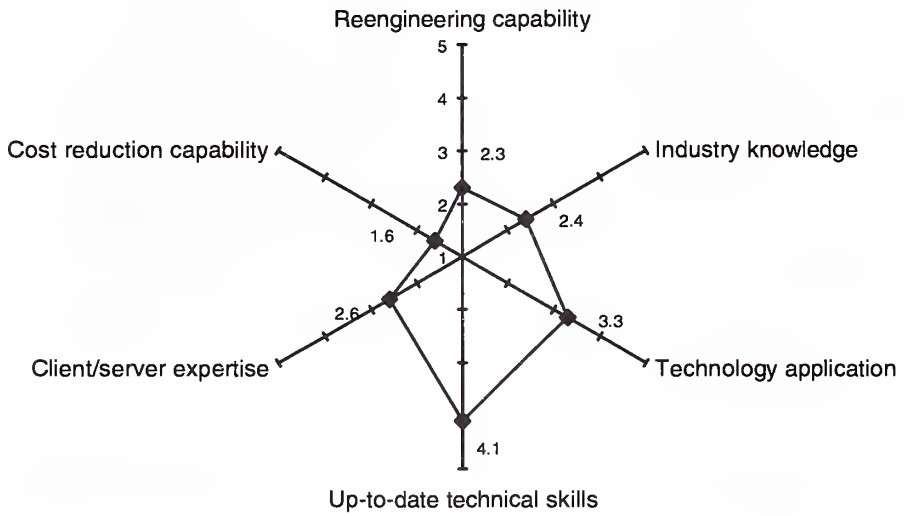
A
Europe

Exhibits B-1 to B-6 plot executives' perceptions of a number of leading outsourcing vendors averaged across France, Germany and the UK.

Exhibit B-1

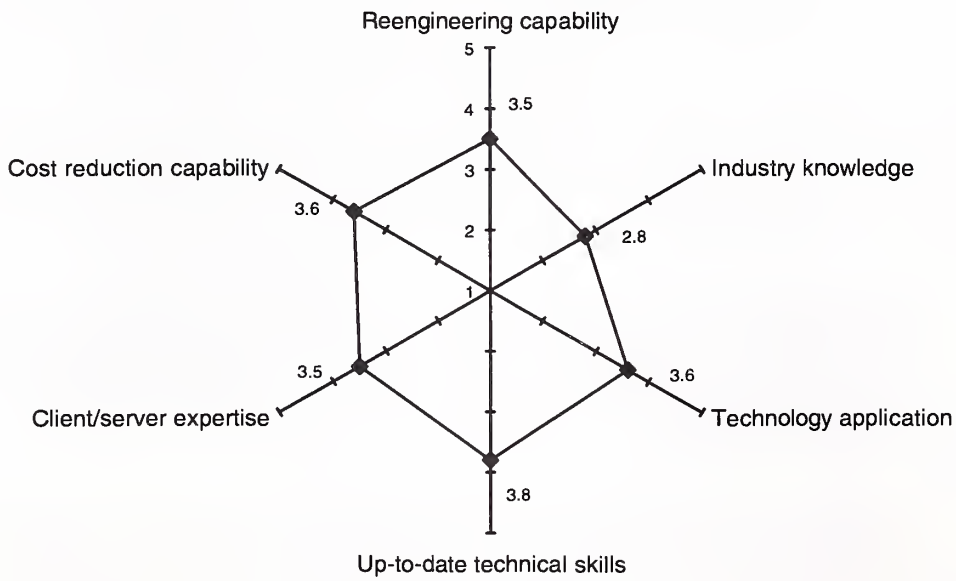
AT&T



Source: INPUT

Exhibit B-2

Cap Gemini Sogeti



Source: INPUT

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Exhibit B-3

Digital

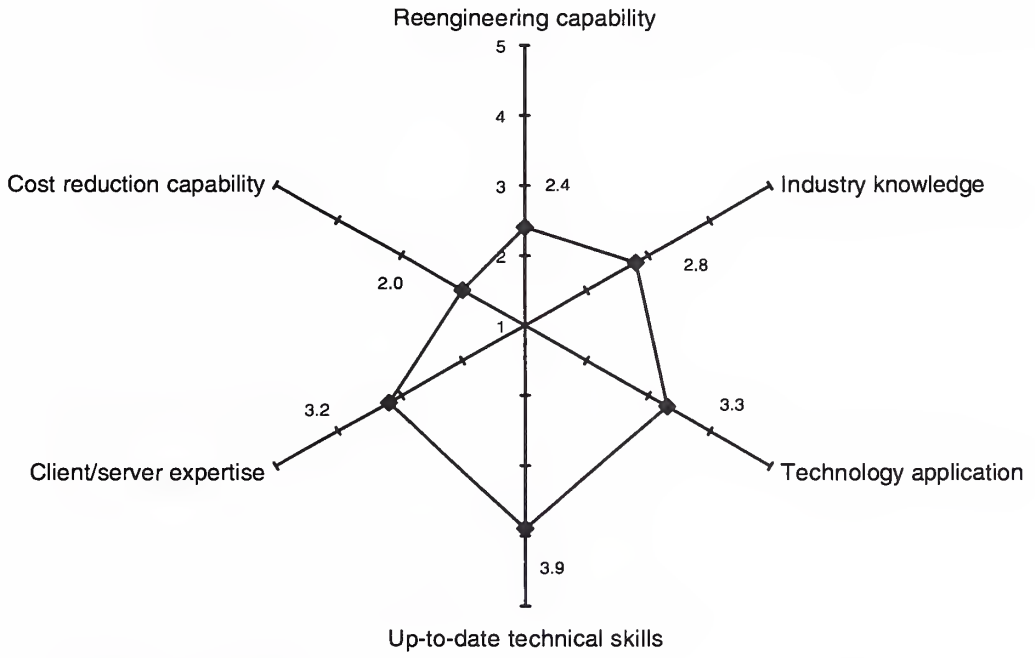

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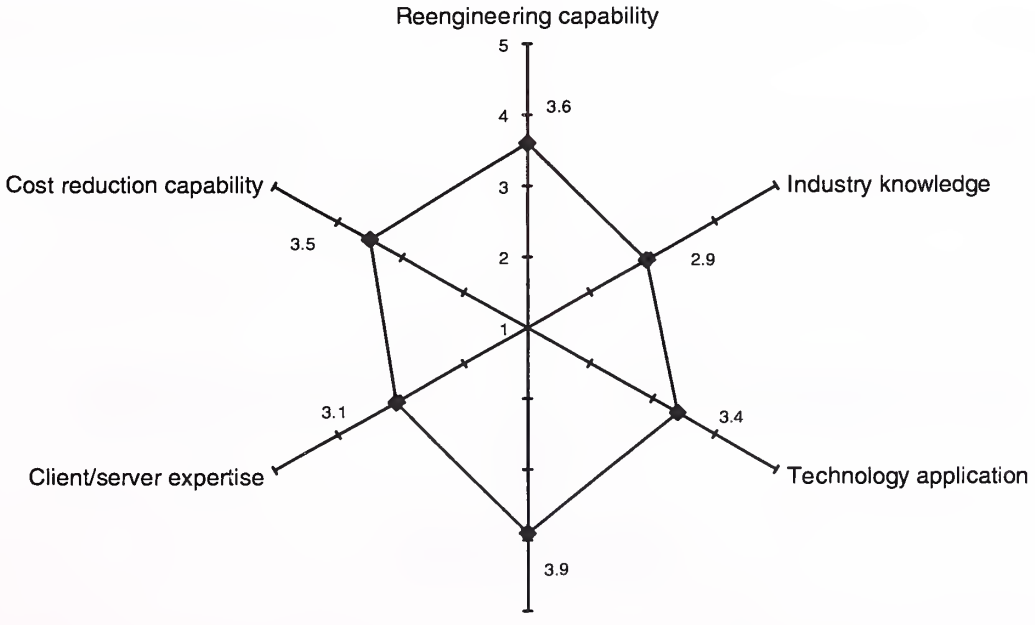
Exhibit B-4

EDS



Source: INPUT

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Exhibit B-5

HP

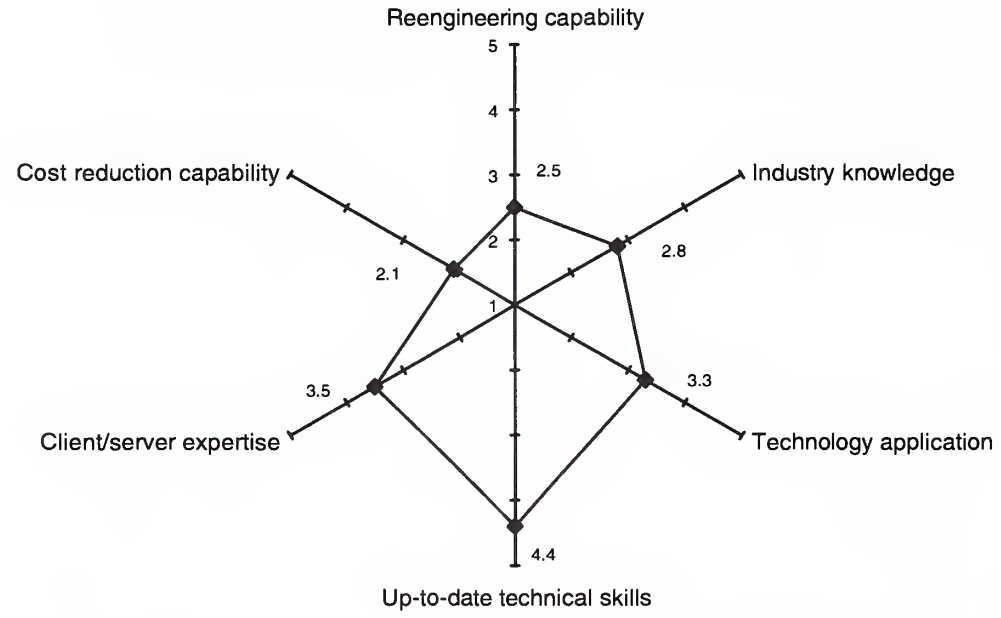

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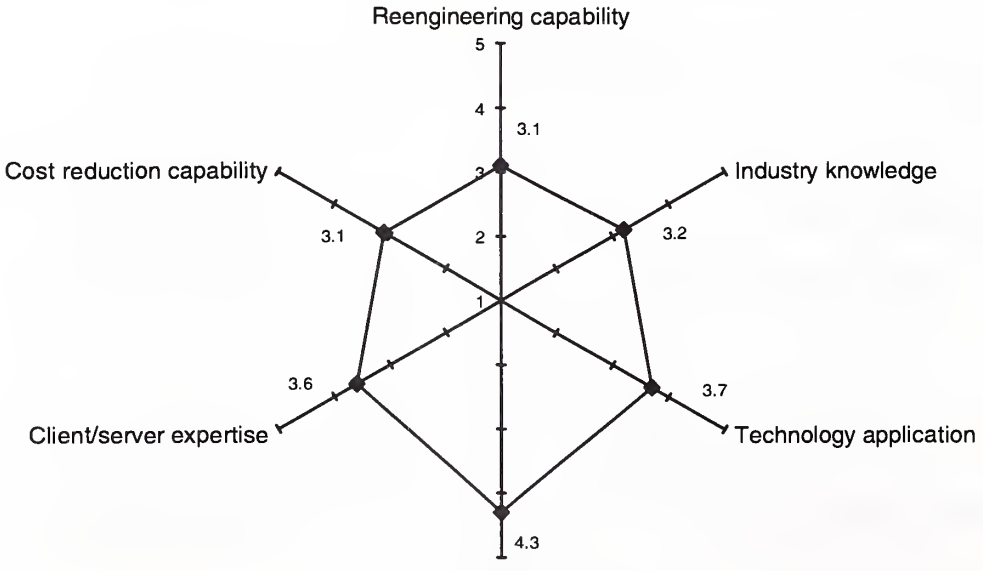
Exhibit B-6

IBM



Source: INPUT

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B
France

Exhibits B-7 to B-15 plot external perceptions of a number of leading French outsourcing vendors.

Exhibit B-7

AT&T

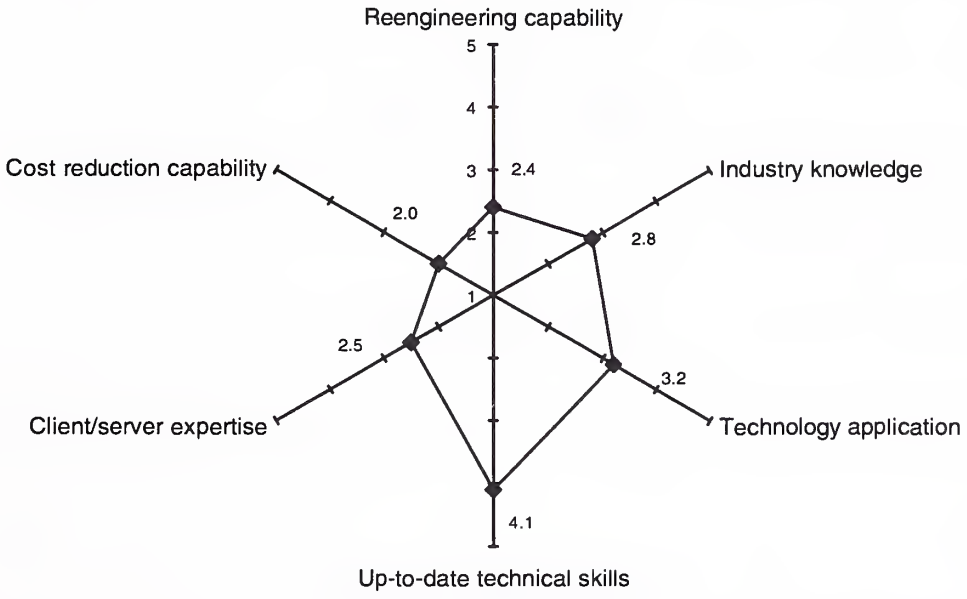

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Exhibit B-8

Axone

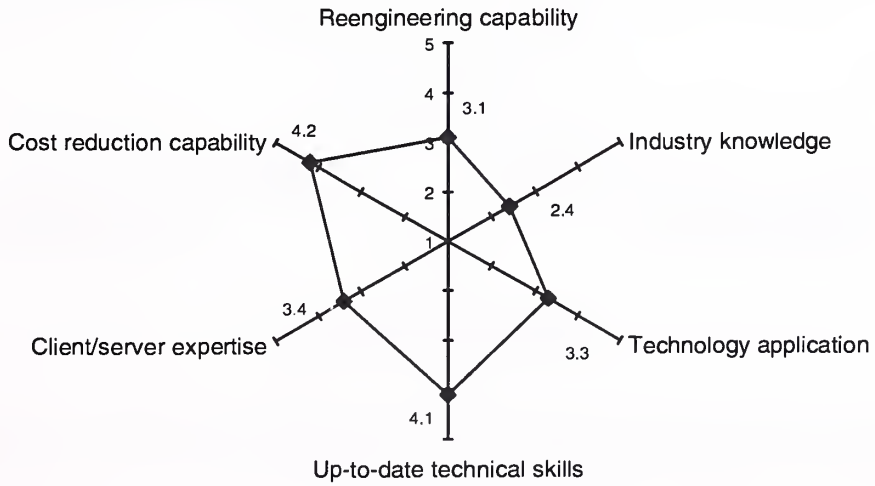

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Exhibit B-9

Bull (Integris)

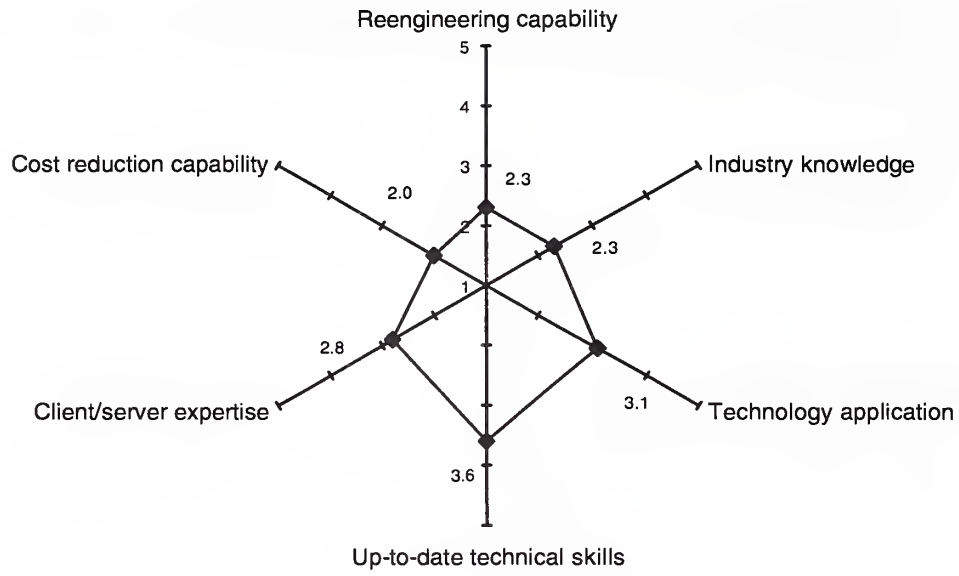

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Exhibit B-10

Cap Gemini Sogeti

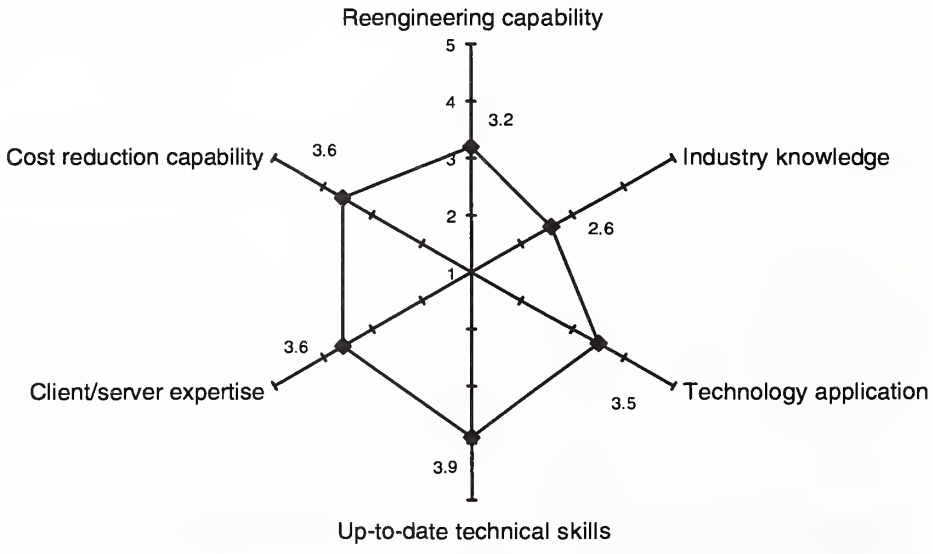

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Exhibit B-11

Digital

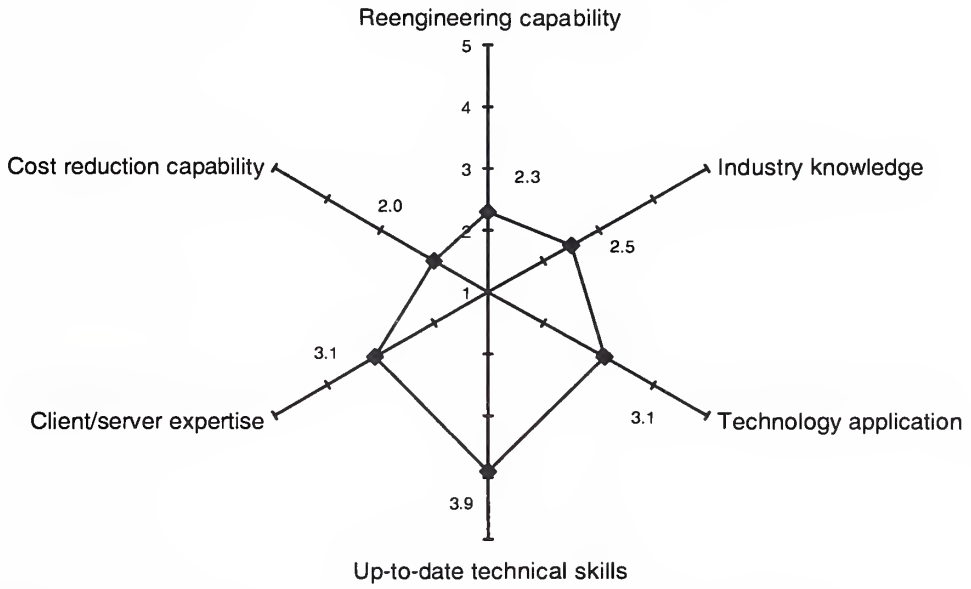

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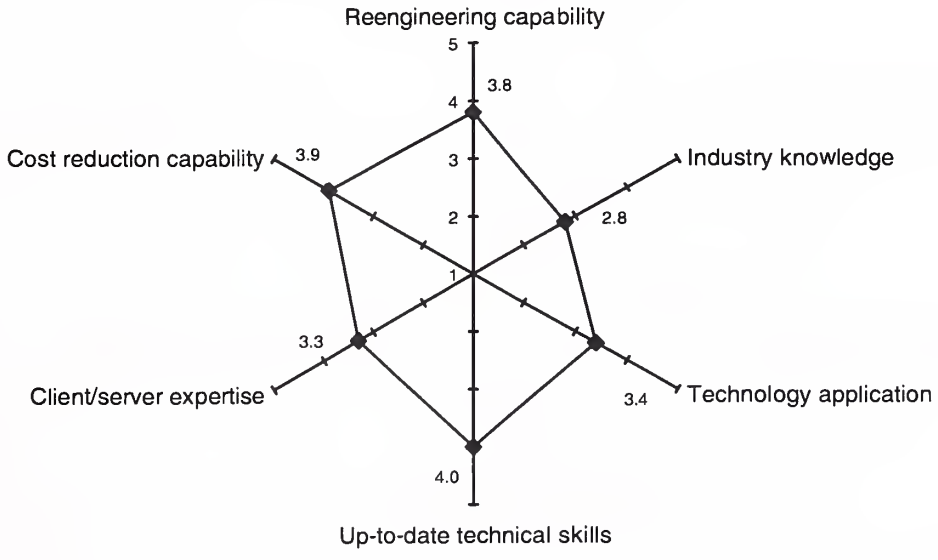
Exhibit B-12

EDS



Source: INPUT

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Exhibit B-13

GSI

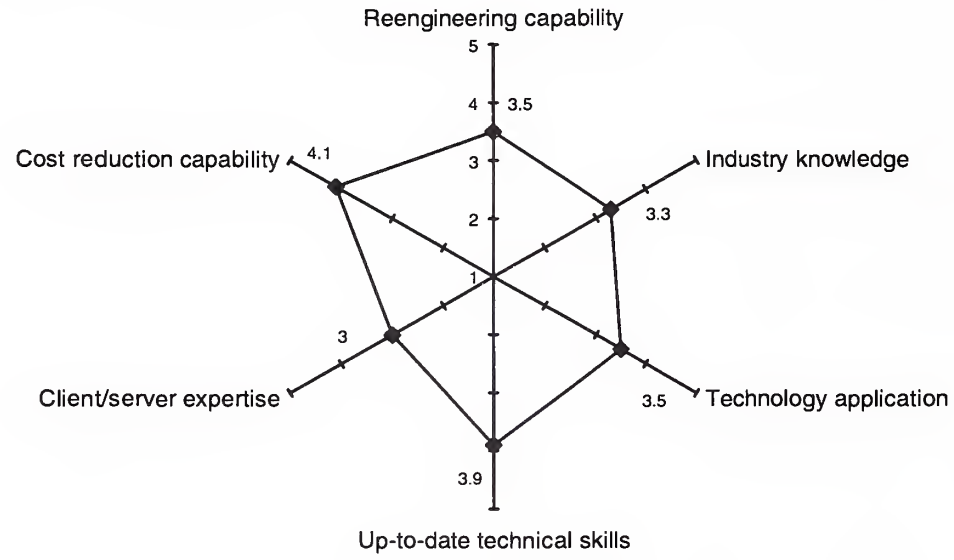

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Exhibit B-14

Hewlett-Packard

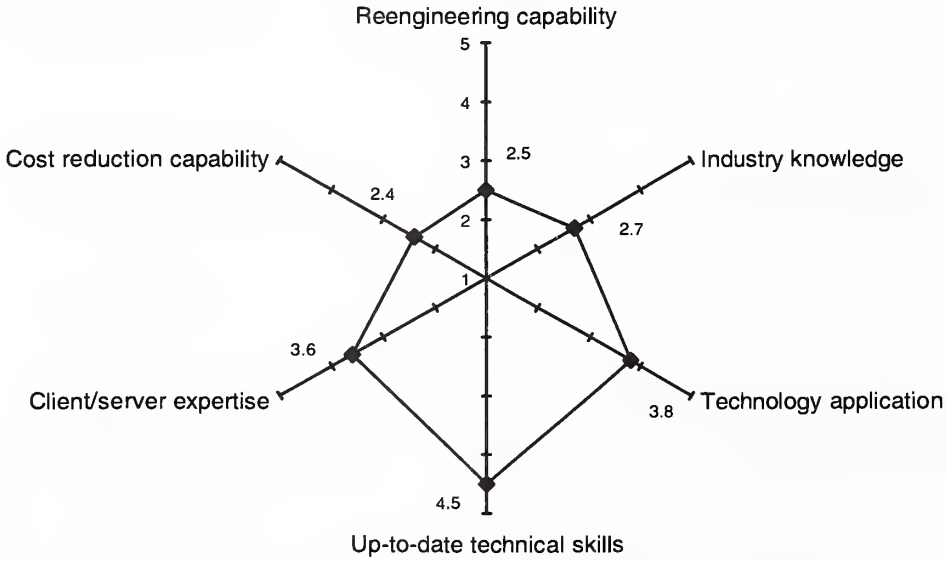

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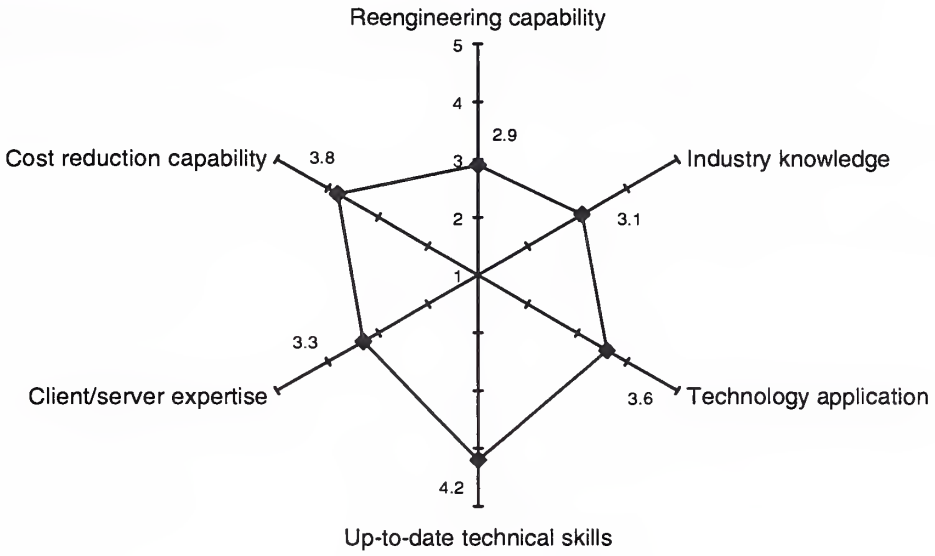
Exhibit B-15

Télésystèmes



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C
Germany

Exhibits B-16 to B-24 plot external perceptions of a number of leading German outsourcing vendors.

Exhibit B-16

AT&T

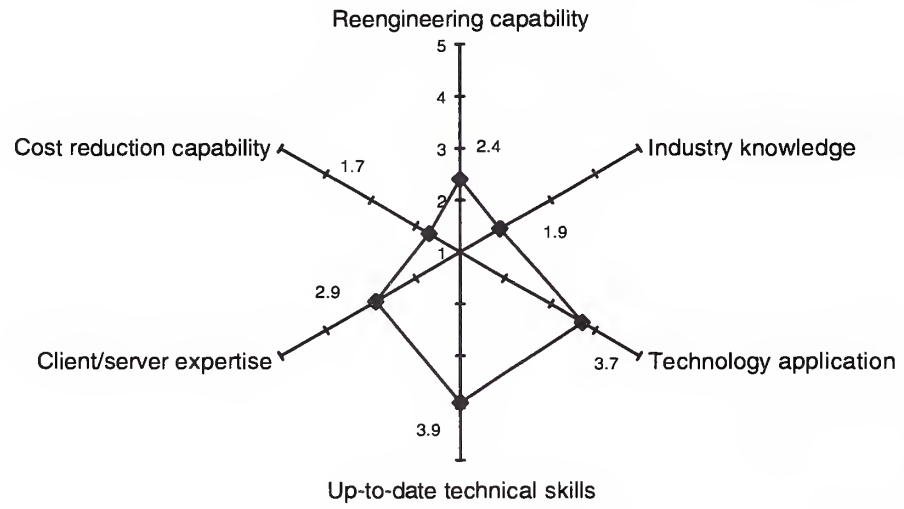

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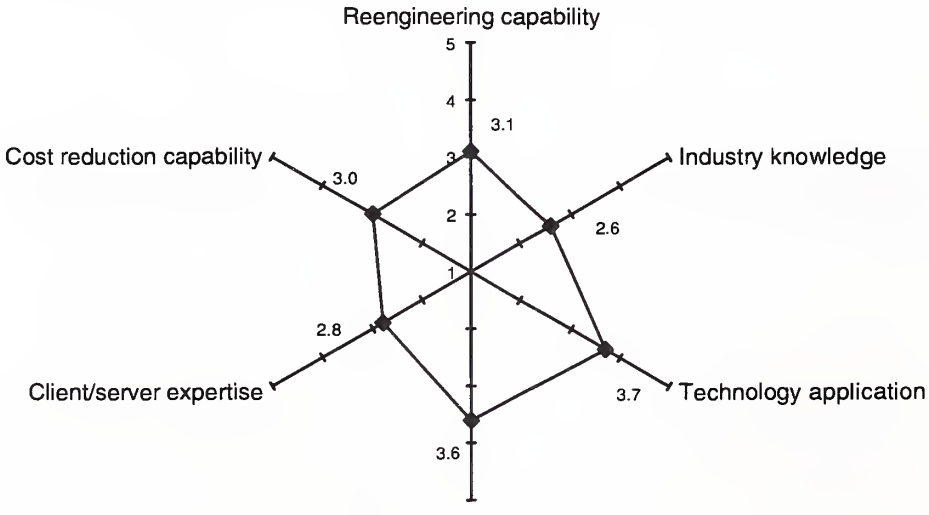
Exhibit B-17

CSC



Source: INPUT

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Exhibit B-18

debis Systemhaus

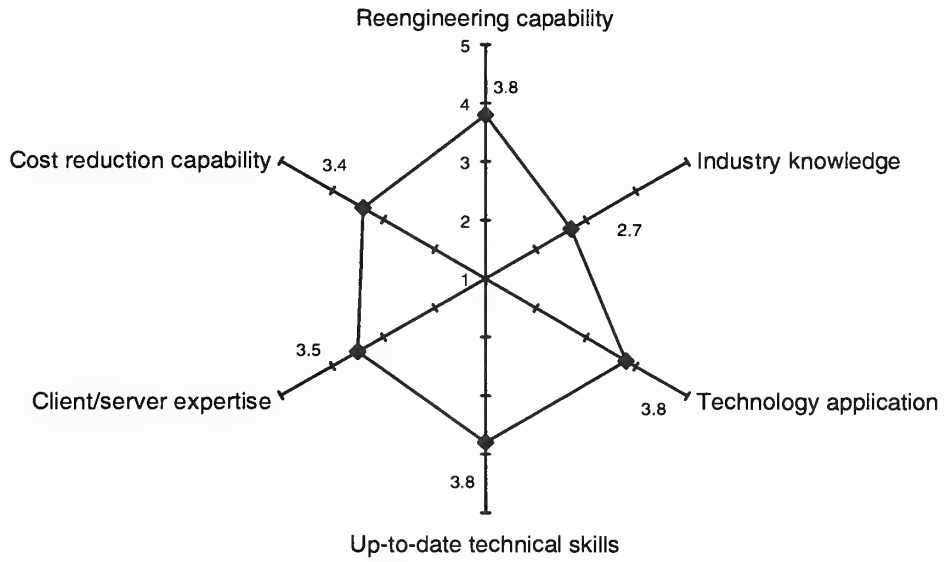

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Exhibit B-19

Digital

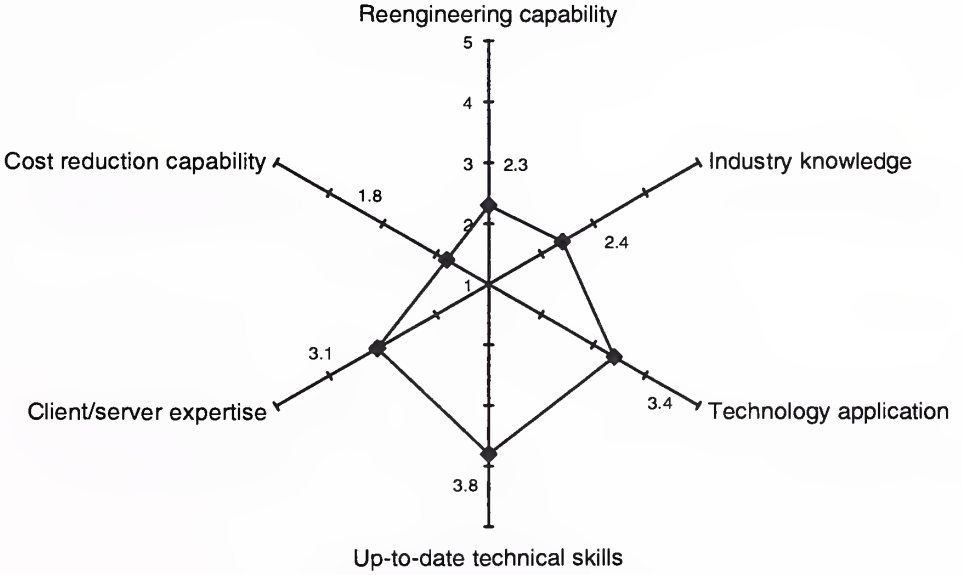

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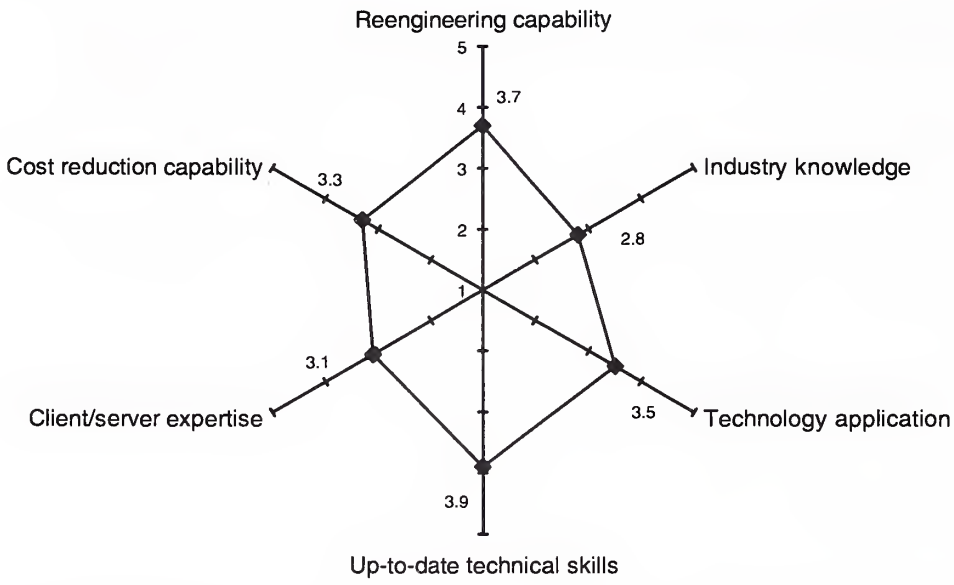
Exhibit B-20

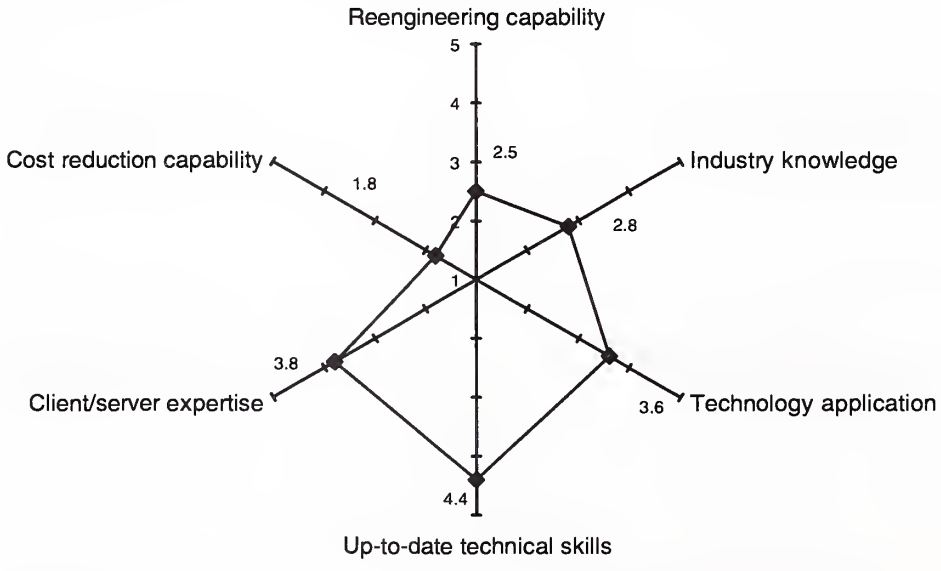
EDS



Source: INPUT

Exhibit B-21

Hewlett-Packard



Source: INPUT

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Exhibit B-22

IBM Systeme und Netze

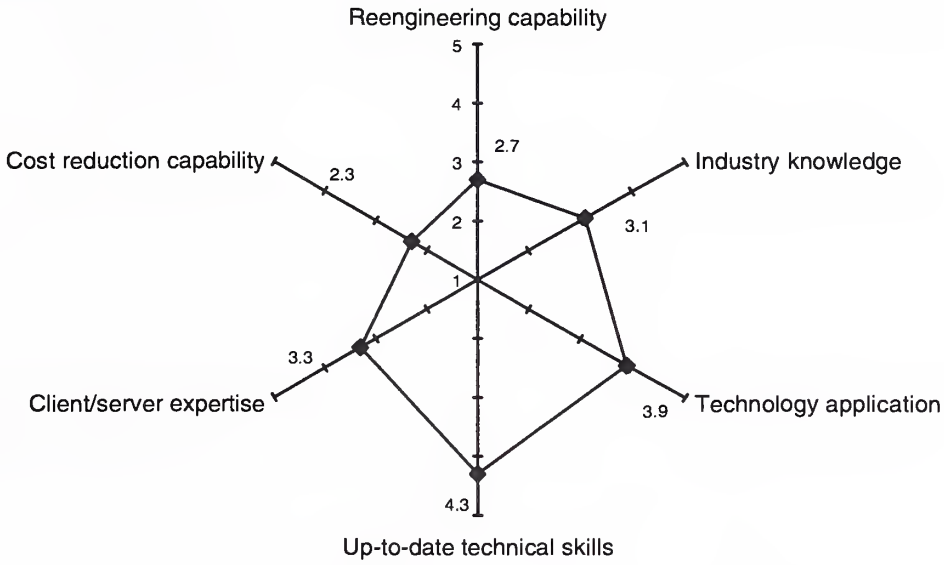

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Exhibit B-23

Siemens-Nixdorf

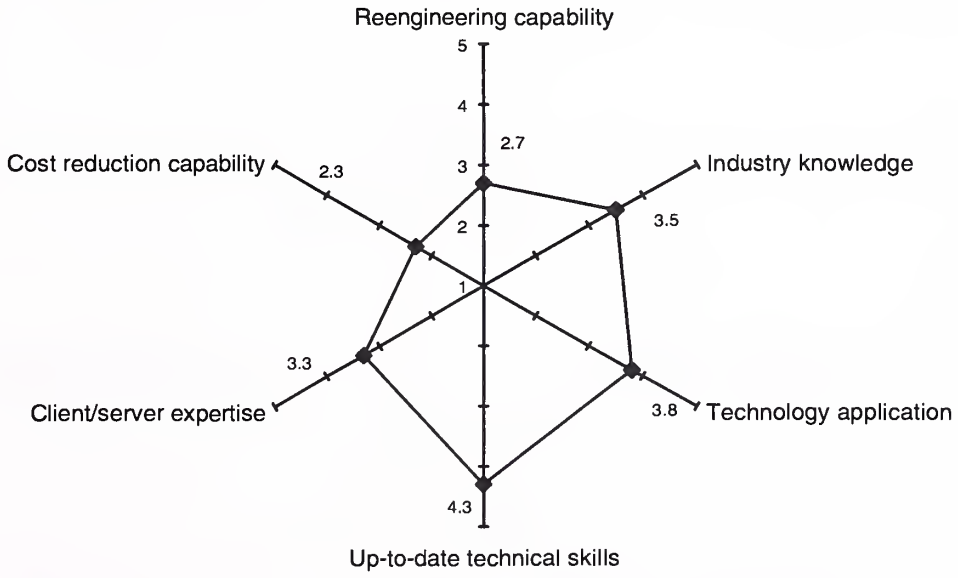

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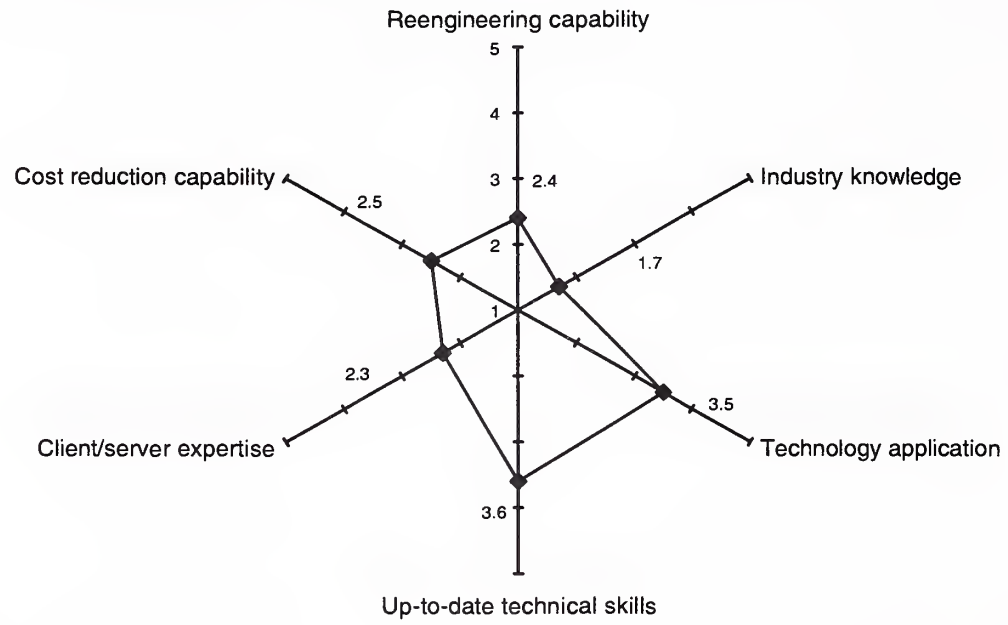
Exhibit B-24

tds



Source: INPUT

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D
United Kingdom

Exhibits B-25 to B-32 plot external perceptions of a number of leading U.K. outsourcing vendors.

Exhibit B-25

AT&T

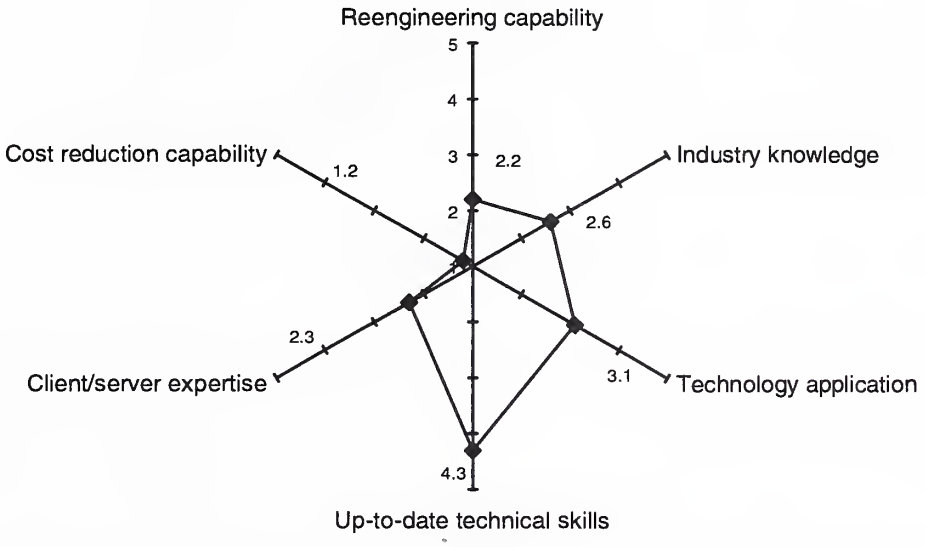

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Exhibit B-26

CFM (ICL)

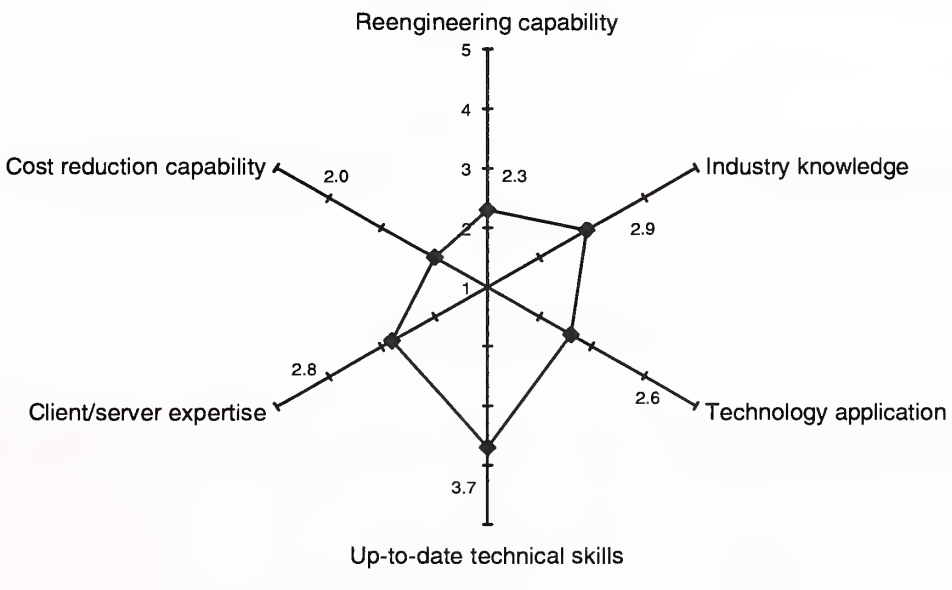

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Exhibit B-27

Data Sciences

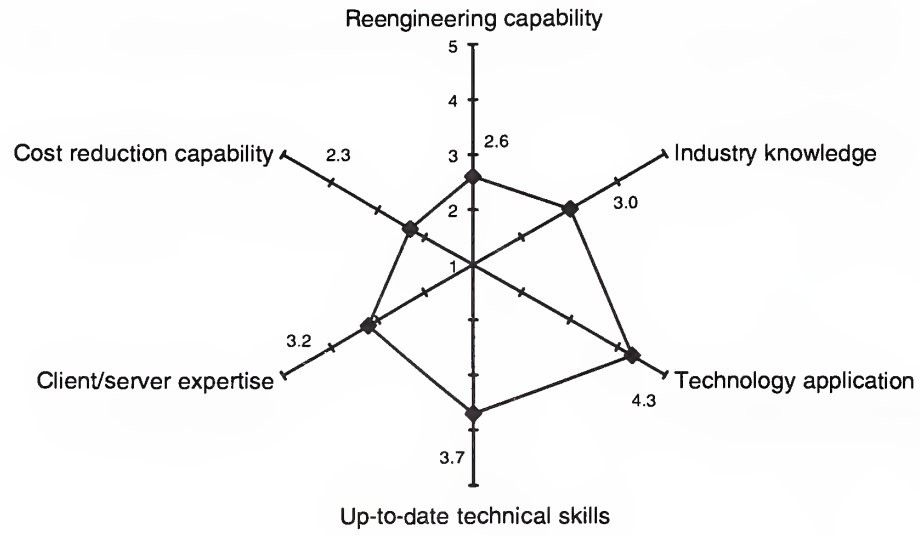

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Exhibit B-28

Digital

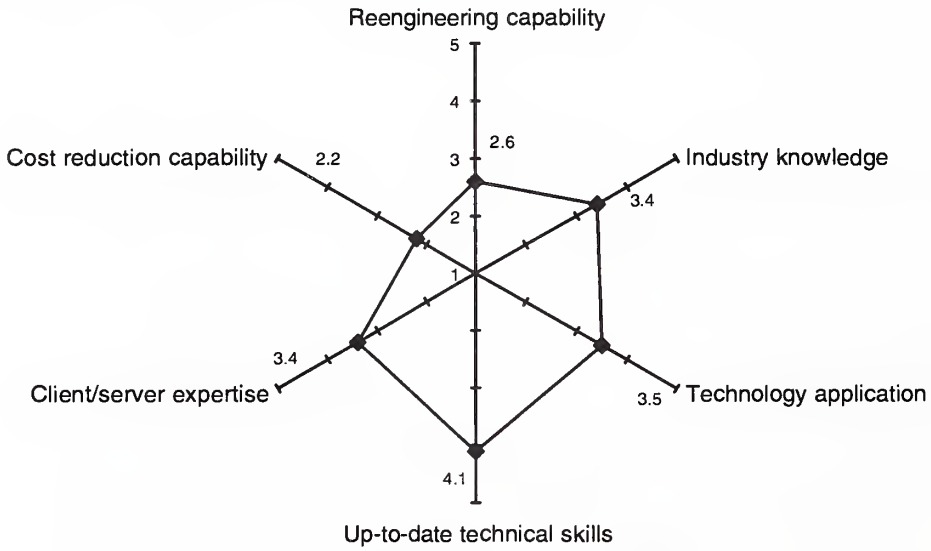

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Exhibit B-29

EDS

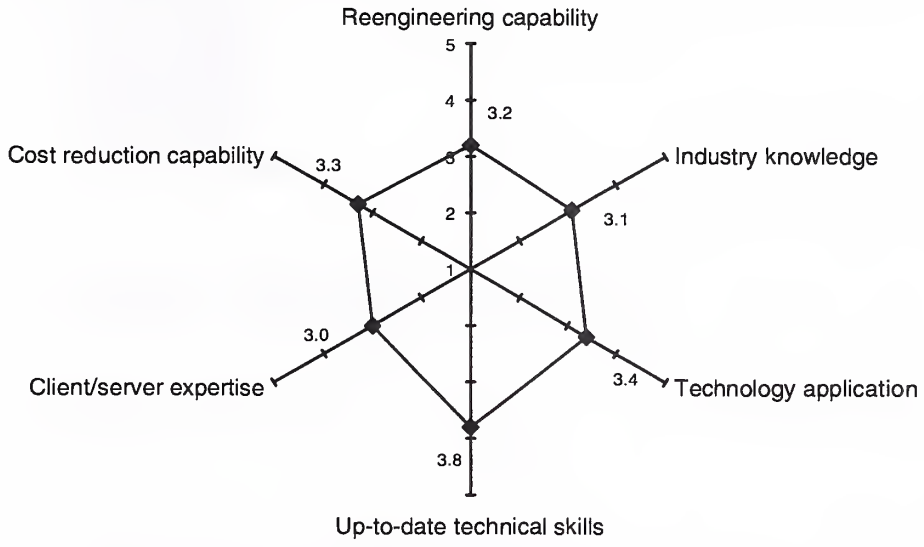

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Exhibit B-30

Hewlett-Packard

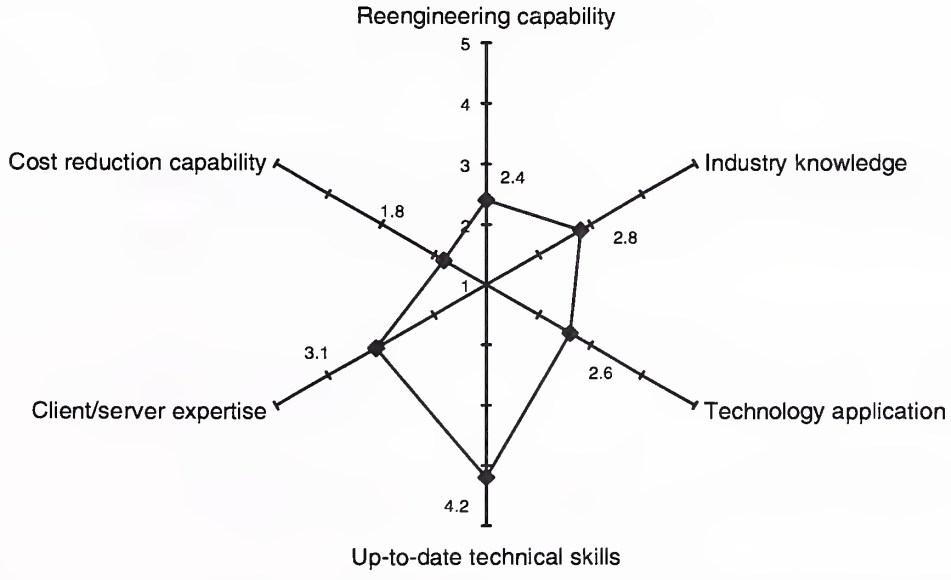

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Exhibit B-31

Hoskyns

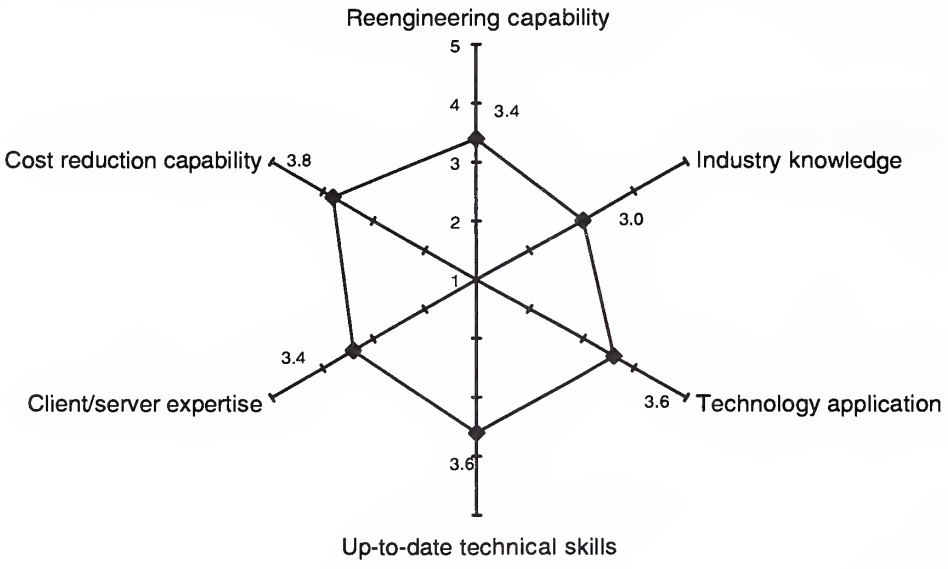

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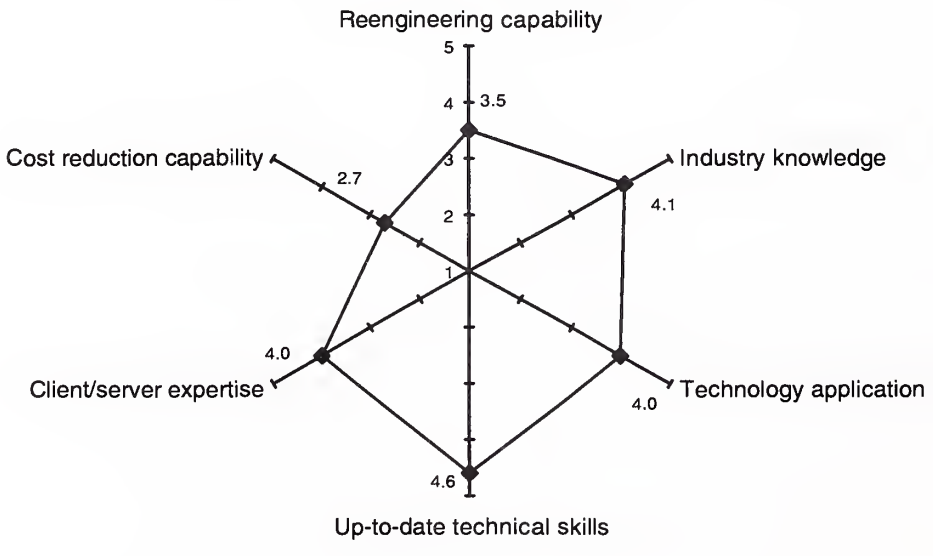
Exhibit B-32

IBM ISSC



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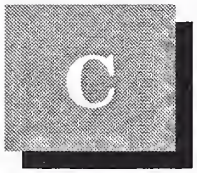

SAP Outsourcing

Traditionally the SAP outsourcing vendors in Germany have targeted medium-sized manufacturing companies. These companies could not justify the cost of running their own mainframe, and employing all the associated systems engineering personnel, but still wished to take advantage of the facilities offered by R/2. Accordingly the purchase of processing services was appropriate for their needs.

However with the introduction of R/3, these medium-sized manufacturing organisations can now purchase a combination of equipment and software more appropriate to their needs.

This poses a threat to the SAP processing services vendors such as tds, Alldata, DVO, and BB-Data. In response to this threat, these organisations may have to change either their target market or the nature of their offerings.

There are a number of ways in which the SAP outsourcing vendors can adapt, including:

- Offering transition outsourcing services to larger manufacturing organisations
- Developing distributed systems outsourcing capabilities
- Targeting outsourcing contracts worth less than DM5 million.

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A

Offering Transition Outsourcing Services to Larger Manufacturing Organisations

Exhibit C-1 shows a breakdown of the outsourcing market, including SAP outsourcing, in Germany.

Exhibit C-1

Outsourcing Market Germany, 1993

Segment	Market Value (DM million)	Proportion (%)
Platform Operations	180	18
Desktop Services	80	8
Network Management	155	15
Applications Operations	125	12
Applications Management	23	2
SAP Outsourcing	470	45
Total Outsourcing	1030	100

Source: INPUT

At present the SAP outsourcing market comprises nearly half of the total German outsourcing market. However the proportion of the market accounted for by traditional SAP R/2 outsourcing will fall over the next five years as organisations make the transition to R/3 and as the systems operations market in Germany shows high growth.

While the SAP outsourcing vendors can be expected to lose some of their medium-sized clients for R/2 processing, the introduction of R/3 will create additional opportunities for R/2 outsourcing in the larger manufacturing organisations that currently run their own R/2 installations.

At the end of 1992, there were approximately 1,500 installations of R/2 in Europe, with the majority of these located in Germany. Most of the organisations using these systems will migrate from R/2 to R/3 over the next five years.

Organisations will have difficulty in managing and staffing all aspects of these migrations themselves. A typical response will be for organisations to concentrate their own resources in understanding and implementing R/3.

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This will create opportunities for vendors to manage the former R/2 environment, or at least those elements of the R/2 system that are being replaced in the short- to medium-term.

In some cases, organisations will entirely replace R/2 with R/3. In these situations, vendors can acquire the equipment from the client and consolidate the provision of R/2 to the client from the vendor's site for a limited period, while R/3 is being implemented. In other cases, organisations may be prepared to transfer their R/2 installations to vendors in return for a phased run-down of their R/2 service over a period of up to five years.

Transition outsourcing is not solely limited to the provision of R/2 based services. Organisations using other mainframe-based MRPII systems such as those from IBM, Dun & Bradstreet, and Computer Associates may also wish to migrate to R/3.

Accordingly opportunities will exist to offer additional transition outsourcing services based around the appropriate product, e.g. IBM's COPICS.

B
Developing Distributed Systems Outsourcing Capabilities

The client/server environment that will become increasingly adopted by R/3 users can be a very demanding environment to manage. At present, few in-house IT departments have the appropriate skills and it can be difficult for these organisations to assemble a coherent set of systems management tools for this environment.

Accordingly there is a growing demand for vendors to manage the client/server based infrastructure.

This is another opportunity that could be addressed by the SAP outsourcing vendors. It is also a means of retaining their current client bases if their traditional clients begin to migrate from using R/2 based processing services and adopt their own R/3 based installations.

The main competition to the SAP outsourcing vendors in this segment of the market will come from Hewlett-Packard and Digital who are broadly targeting distributed systems outsourcing.

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C
Targeting Small Outsourcing Contracts

The leading outsourcing vendors in Germany are listed in Exhibit C-2.

Exhibit C-2

Leading Outsourcing Vendors Germany, 1993

Rank	Company	Estimated Market Share (Per cent)	1993 Estimated Revenue (DM Millions)
1	debis Systemhaus	17	180
2	EDS	12	120
3	Alldata	10	100
4	tds	4	40
5	IBM	3	30
5	AC Service	3	30
5	Digital	3	30
8	Fiducia/Orga	2	20
8	CSC	2	20
10	Taylorix	1	15
	Total Listed	57	585
	Total Market	100	1030

Source: INPUT

Over the last two years, major vendors such as debis Systemhaus, EDS, and IBM have established themselves in the German systems operations market.

It will be difficult for the traditional SAP outsourcing vendors to compete with these organisations for major systems operations contracts. The critical success factors in winning large platform operations contracts include financial size and stability, and price. The SAP outsourcing vendors are typically much smaller companies than these major vendors and will have greater difficulty in achieving economics of scale in platform operations. In addition, they typically lack the systems integration and

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major project management skills essential for success in applications operations.

However, there is scope for the SAP outsourcing vendors to target the smaller platform operations and transition outsourcing contracts worth around DM1 million per annum. In this segment, their comparative lack of financial size is less important. In addition the major systems operations vendors will tend to concentrate on contracts with higher values.

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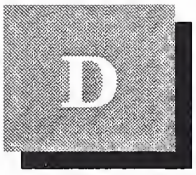

User Questionnaire: Vendor Positioning

1. If your organisation were to adopt IT outsourcing, what qualities would you look for in a potential vendor?

2. Which vendors do you think would be most suitable for your organisation? Why?

3. Which vendors do you think would be least suitable for your organisation? Why?

4. How suitable do you think each of the following vendors would be? (Please rate on a scale of 1-5 where 1 = not at all suitable and 5 = very suitable.)

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	____		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

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5. What are the main characteristics that you would seek in an outsourcing vendor to ensure their cultural compatibility with your own organisation?

6. Which outsourcing vendors do you believe are most culturally compatible with your own organisation? Why?

7. How culturally compatible with your organisation do you perceive each of the following vendors to be?

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	____		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

8. Which outsourcing vendors do you believe are best suited to assisting your organisation in migrating towards and running a client/server (or distributed) systems environment?

9. Which outsourcing vendors do you believe are still focused primarily on running mainframe data centres?

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10.How capable in developing and running client/server (or distributed) architectures are each of the following vendors? (Please rate on a scale of 1- 5 where 1 = not at all capable and 5 = very capable.)

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	____		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

11.To what extent do you believe that each of the following vendors has access to up-to-date technology and technical skills?)Please rate on a scale of 1-5 where 1 = not at all and 5 = considerable access.)

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	____		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

12.Which vendors do you believe have the best understanding of your industry sector?

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13.To what extent do you believe that each of the following vendors has a high level of experience and understanding of your industry sector? (Please rate on a scale of 1-5 where 1 = little understanding and 5= considerable experience and understanding.)

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	___		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

14.Which outsourcing vendors do you believe have the highest level of ability to apply technology to your organisation's business need ?

15.How capable in applying technology to meet business need are each of the following vendors? (Please rate on a scale of 1-5 where 1 = not at all capable and 5 = extremely capable.)

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	___		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

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16. Which outsourcing vendors do you believe possess the highest levels of business reengineering and change management capability?

17. To what extent do you believe that each of the following vendors has the ability to assist your organisation in business reengineering and change management? Please rate on a scale of 1-5 where 1 = very low level of capability and 5 = high level of capability).

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	___		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

18. Which outsourcing vendors do you believe are most flexible in their approach to meeting client needs?

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19.How flexible in meeting client needs do you perceive each of the following vendors to be? Please rate on a scale of 1-5 where 1 = not at all flexible and 5 = very flexible.

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	___		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

20.How manageable do you perceive each of the following vendors to be?)Please rate on a scale of 1-5 where 1= not at all and 5 = very easily managed.)

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	___		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

21.Which vendors do you believe would make the biggest contribution to reducing your ongoing IT costs?

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22.To what extent do you think each of the following vendors would be capable of reducing your IT costs?

France		Germany		UK	
EDS	____	debis Systemhaus	____	Hoskyns	____
GSI	____	EDS	____	EDS	____
Axone	____			ICL (CFM)	____
Télésystèmes	____	IBM Système und Netze	___		
Bull (Integris)	____	tds(tele-daten-service)	____	AT&T	____
Cap Gemini	____	Digital	____	Digital	____
Hewlett-Packard	____	Hewlett-Packard	____	Data Sciences	____
CSC	____	Siemens-Nixdorf	____	IBM	____
Digital	____	CSC	____	Hewlett-Packard	____
AT&T	____	AT&T	____	CSC	____

Thank you very much for your assistance.

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Economic Assumptions

Exhibit E-1 lists the exchange rates used in this report.

Exhibit E-1

US Dollar and ECU Exchange Rates: 1995

Country	Currency	US Dollar	ECU
Europe	$	1	0.815
France	FF	5.34	6.54
Germany	DM	1.55	1.90
United Kingdom	PS	0.639	0.784
Italy	Lira (K)	1.62	1.99
Sweden	Sek	7.43	9.11
Denmark	DK	6.08	7.46
Norway	NK	6.76	8.29
Finland	FM	4.74	5.82
Netherlands	Dfl	1.74	2.13
Belgium	BF	31.8	39.00
Switzerland	SF	1.31	1.60
Austria	Sch	10.9	13.40
Spain	Ptas	131.6	161.40
Ireland	IP	0.647	0.794
Portugal	Esc	159.2	195.20
Greece	Dra	240.6	295.20
Eastern Europe	$	1	0.815

Source: Financial Times January 1995

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Exhibit E-2

Inflation Assumptions 1994 and 1995

Country	Assumption 1994-1999	Assumption 1995-2000	Change
France	1.9	1.9	0.0
Germany	2.9	2.4	-0.5
United Kingdom	3.0	2.9	-0.1
Italy	3.2	3.2	0.0
Sweden	2.0	2.4	0.4
Denmark	2.6	2.8	0.2
Norway	1.5	2.3	0.8
Finland	2.0	3.2	1.2
Netherlands	2.0	2.3	0.3
Belgium	2.2	2.4	0.2
Switzerland	1.7	2.1	0.4
Austria	2.8	3.1	0.3
Spain	3.4	2.6	-0.8
Portugal	4.8	3.8	-1.0
Greece	11.2	5.3	-5.9
Ireland	3.3	2.8	-0.5
Eastern Europe	-	-	-
European Average	2.8	2.6	-0.2

Source: OECD December 1994

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