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STRATEGIC MARKET PERSPECTIVE

Outsourcing Vendor
Performance Analysis —
France 1996

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Outsourcing Vendor Performance Analysis

France 1996

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Abstract

The nature of outsourcing is changing with decreasing emphasis on platform operations and increasing emphasis on the operational management of new technologies and delivery of business value.

In response to these trends, this study aims to identify how client expectations are evolving in line with these market changes and to monitor vendor performance against these expectations, enabling vendors to re-align their service offerings and service styles accordingly.

In particular, this report provides an overall assessment of outsourcing vendor performance from their clients' perspective, including analyses of:

- Service quality by service type
- Vendor service culture, including measures of vendor responsiveness, flexibility, and creativity
- Contract terms and pricing mechanisms
- Level of contribution to desired benefits and IT goals.

In conclusion, the report identifies the principal issues faced by outsourcing vendors and the key directions in which clients expect their outsourcing offerings to evolve.

In addition to this report vendors that have subscribed to the associated sponsored research project each receive a detailed analysis of their performance compared to the average for the outsourcing industry enabling them to identify their own relative strengths and weaknesses.

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Outsourcing Programme — Europe

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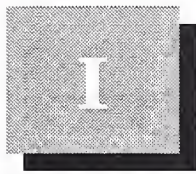
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Introduction

A

Scope and Objectives

Traditionally, the level of satisfaction with outsourcing services has been high and the rate of contract renewal has been impressive. However, there are now some indications that outsourcing clients are showing an increased propensity to switch vendors.

Accordingly, it is important that vendors maintain very high levels of client satisfaction throughout the life of the contract. This is particularly true of the more people-oriented aspects of customer service. While clients may employ teams of lawyers to specify their precise contractual requirements, few clients are satisfied if the vendor performs their duties to the letter of the contract. In practice, the majority of clients are seeking a more flexible and proactive service than is outlined in their contracts or service level agreements.

In addition, the benefits sought from outsourcing change as the contract matures and clients become more demanding.

Consequently, it is important that outsourcing vendors closely monitor their client satisfaction and, where possible, benchmark their performance against that of their major competitors.

This report aims to assist vendors in these activities. Its objectives are:

- To identify the major benefits sought by clients and vendors' performance in meeting these expectations
- To identify the contribution that outsourcing is perceived to make towards the clients' overall IT objectives
- To enable vendors to benchmark their performance against industry parameters

- To identify areas for improvement by outsourcing vendors.

Within the quantitative benchmarking of current services, the report focuses on three key aspects of outsourcing performance:

- Service quality analysis, including breakdowns by service type
- Service culture analysis, including perceptions of vendor responsiveness, flexibility, and pro-activity/creativity
- Contract terms and pricing mechanisms.

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).

The critical components defining an outsourcing service are:

- Delegating an identifiable area of the operation to a vendor
- Single vendor responsibility for performing that delegated function
- Intended, long-term relationship between the client and vendor
- Contract term is at least one year
- Client's intent is not to perform this function with internal resources
- The contract may include non-Information Systems Outsourcing activities, but Information Systems Outsourcing must be an integral part of the contract
- Outsourcing is a collection of services integrated under a single, long-term contract with one vendor responsible for its operation and management.

Business Operations Outsourcing (also known as Business Outsourcing or Functional Outsourcing) is a relationship in which one vendor is responsible for performing an entire business/operations function including the Information Systems Outsourcing that support it. The Information Systems Outsourcing content of such a contract must be at

least 30% of the total annual expenditure in order for INPUT to include it in the Business Operations Outsourcing market.

Information Systems (IS) Outsourcing can be viewed as a component of the Business Operations Outsourcing market (i.e., Information Systems Outsourcing is a business/operations function, see Exhibit I-1). However, in order to delineate between outsourcing contracts that are solely IS versus those that include IS as well as other functions, IS Outsourcing will be segregated from Business Operations Outsourcing. Information systems Outsourcing is divided into four service components as shown in Exhibit I-2.

- *Systems Operations* outsourcing describes a relationship in which a vendor is responsible for managing and operating a client's "computer system"/data centre (*Platform Systems Operations*) or developing and/or maintaining a client's application as well as performing Platform Operations for those applications (*Applications Systems Operations*).
- *Desktop Services* is a relationship in which a vendor assumes responsibility for the deployment, maintenance and connectivity of personal computers, workstations, client/server and LAN systems in the client organisation. To be considered as Desktop Services outsourcing, a contract must include a significant number of the individual services listed below.
 - Software Product Supply
 - Equipment Supply
 - Equipment/Software Installation
 - Equipment Maintenance
 - LAN Installation and Expansion
 - LAN Management
 - Network Interface Management
 - Client/Server Support
 - Logistics Management
 - User Support
 - Help Desk Functions
 - User Training and Education

- *Network Management* outsourcing is a relationship in which a vendor assumes full responsibility for operating and managing the client's data telecommunications systems. This may also include the voice, image and video telecommunications components.
- *Application Management* is a relationship in which the vendor has full responsibility for developing and maintaining all of the application or function.

Exhibit I-1

Business Operations Outsourcing

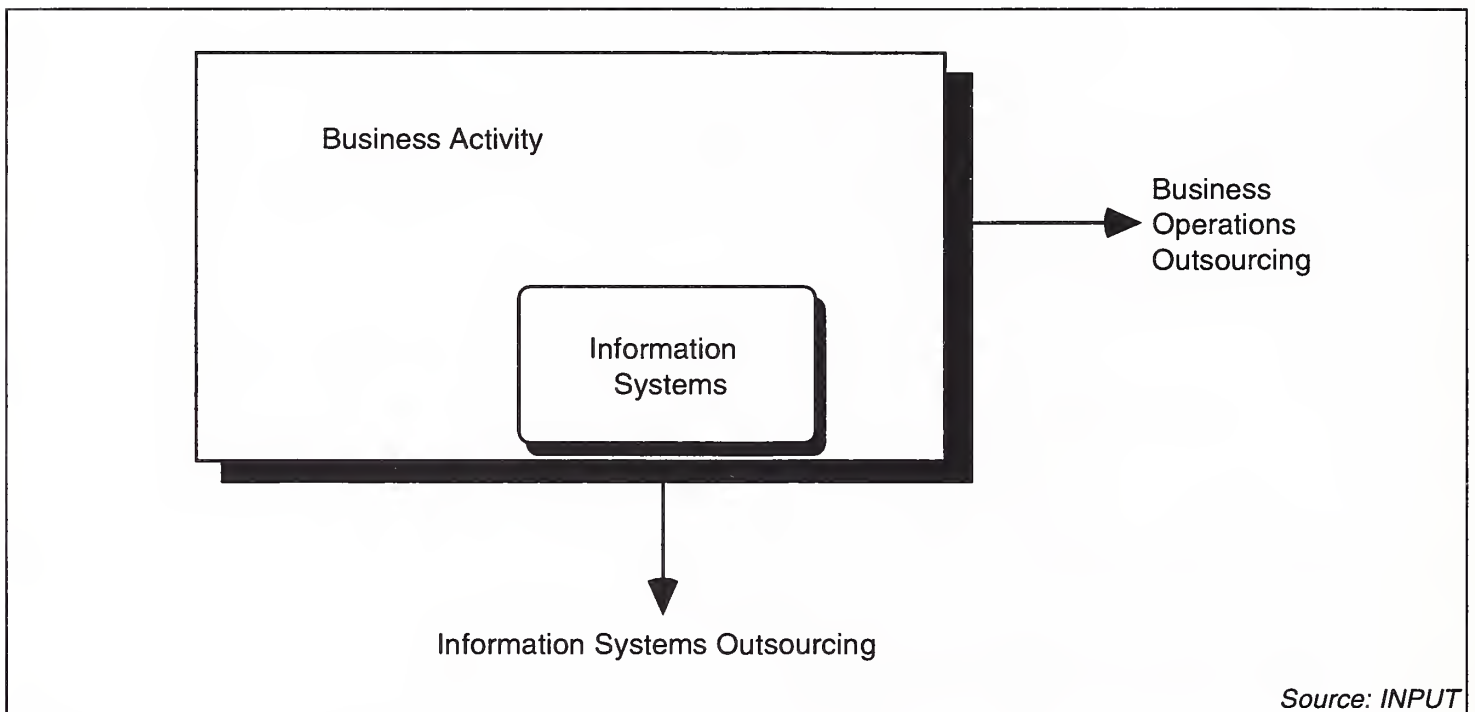
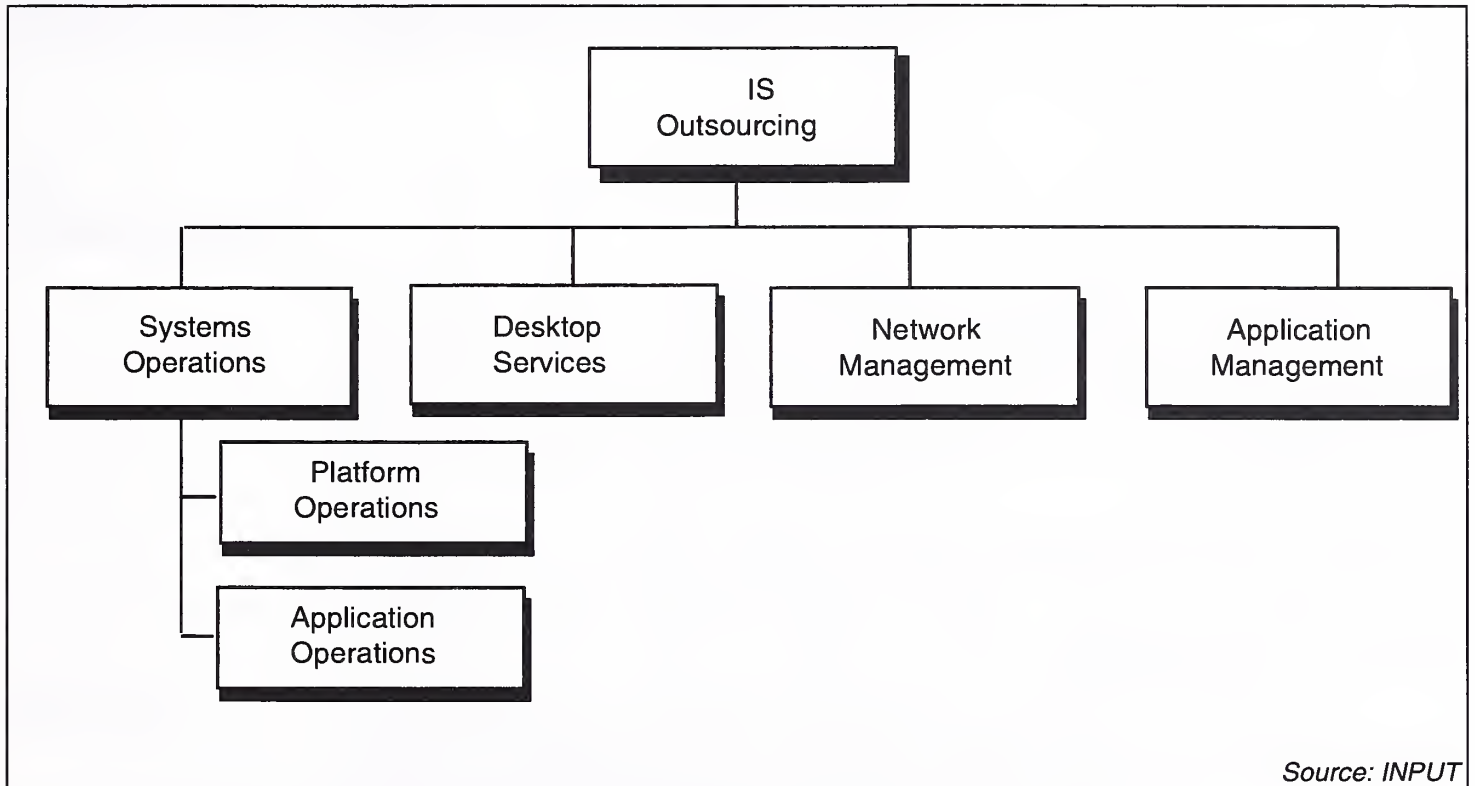


Exhibit I-2

Information Systems (IS) Outsourcing Service Categories



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

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

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

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

B

Methodology

This report supplements the original report, based on telephone interviews with 131 respondents, covering outsourcing in the U.K. and Germany. In the original report, the number of interviews in France was severely affected by the transport strike that took place simultaneously with the French interview programme.

This report contains the results of 20 interviews subsequently carried out with clients of outsourcing vendors in France.

The overall study was performed as part of a research project benchmarking service quality on behalf of a number of outsourcing vendors. In addition to the published reports, the research sponsors each received a confidential report comparing their service performance with the overall outsourcing industry standard.

This enables the sponsors to identify the relative strengths and weaknesses of their outsourcing services in considerable detail. This service benchmarking is now performed annually to assist outsourcing vendors in continuously monitoring their service improvement and their capability relative to other outsourcing vendors. For further details of this service, contact INPUT.

The average length of the outsourcing contracts covered in France is three years.

C

Report Structure

Chapter II consists of the Executive Overview, which is a summary of the key conclusions and recommendations of the research, and identifies the main issues that outsourcing vendors need to address.

Chapter III contains an analysis of vendor performance relative to client expectations. It analyses vendor performance in terms of:

- Service quality by service function
- Vendor service culture
- Commercial terms and pricing
- Their contribution to achievement of IT goals and benefits sought
- A number of summary criteria, including clients' renewal intentions.

Appendix A summarises the results of the outsourcing vendor performance analysis in France in questionnaire format.

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

Information Systems Outsourcing Market—Europe, 1994-1999

Impact of Business Reengineering on Outsourcing — Europe, 1994

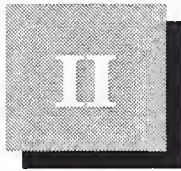
Identifying & Winning Outsourcing Opportunities — Europe, 1994

Network Outsourcing, — Europe, 1995

Outsourcing Pricing Mechanisms — Europe, 1995

Outsourcing Vendor Performance Analysis — Europe, 1996

Opportunities in Business Operations Outsourcing — Europe, 1996



Executive Overview

A

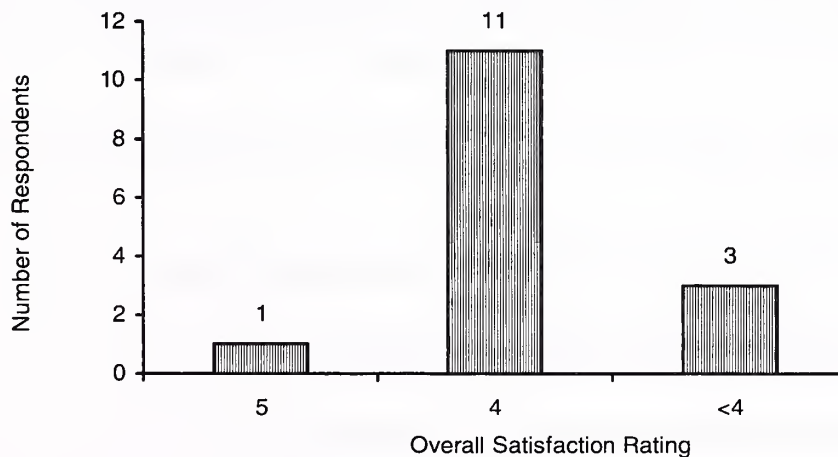
Clients Express High Levels of Satisfaction with Outsourcing Services

Clients of outsourcing vendors in France currently exhibit a high level of satisfaction with the overall service that they receive. Vendors in France received an overall rating of 3.9 compared to 3.8 for vendors in the U.K.

Exhibit II-1 shows the pattern of overall satisfaction ratings given to vendors. Clients were asked to rate their overall satisfaction on a scale of 1 to 5 where 1 = dissatisfied and 5 = very satisfied.

Exhibit II-1

Profile of Client Satisfaction with Outsourcing: France



Sample of 15 respondents

Source: INPUT

Approximately three-quarters of respondents awarded their vendor a score of 4 or more, signifying a high degree of satisfaction. No clients expressed a clear dissatisfaction with their vendor's overall performance. The remaining quarter of the clients interviewed viewed their vendor's performance as moderate, implying some room for improvement and potentially a significant level of competitive tendering on contract renewal.

However, this fairly high level of client satisfaction still leaves scope for improvement. Clients tend to be most pleased with vendors' technical capabilities and ability to respond to client specified requests. This is exemplified by the list of criteria for which clients expressed both high levels of importance and high levels of satisfaction, for example:

- Meeting of requirements/specifications
- Delivery of projects on-time
- Achievement of agreed support levels
- Openness of communication
- Responsiveness to day-to-day issues
- Calibre and continuity of personnel
- Introduction of up-to-date technical knowledge.

However, outsourcing vendors in France appear to achieve relatively low levels of cost reduction. For example, clients attached high levels of importance but low levels of satisfaction to vendors':

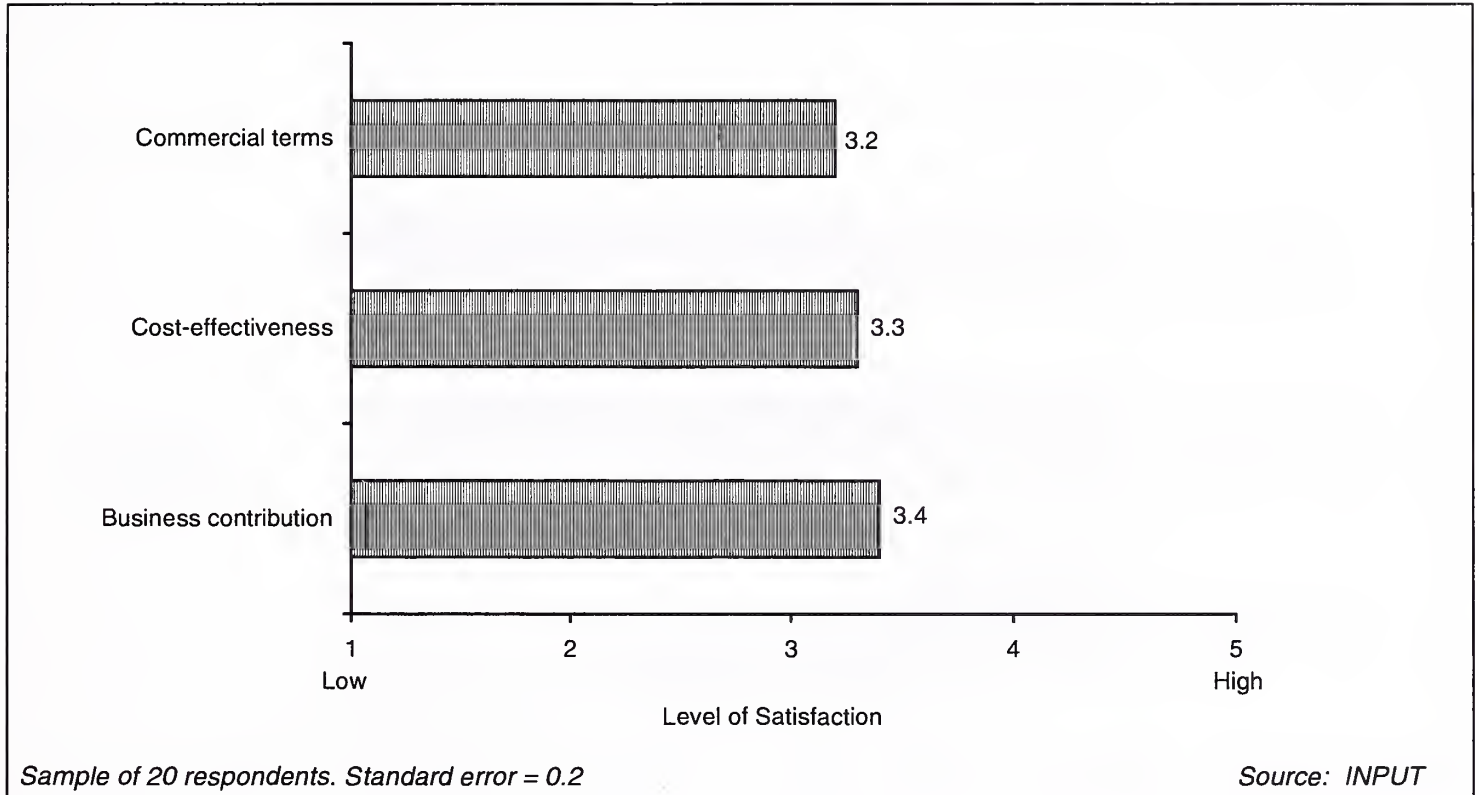
- Ability to assist their organisation in becoming more cost-effective in its use of IT
- Ability to control costs and meet budget targets
- Ability to deliver initial cost reductions
- Ability to deliver ongoing cost reduction.

In addition, vendors in France need to develop further their understanding of their clients' business activities and their ability to assist clients in deriving business benefit from their use of IT.

Exhibit II-2 lists the summary criteria against which vendors in France received the lowest ratings.

Exhibit II-2

Major Challenges for Outsourcing Vendors: France



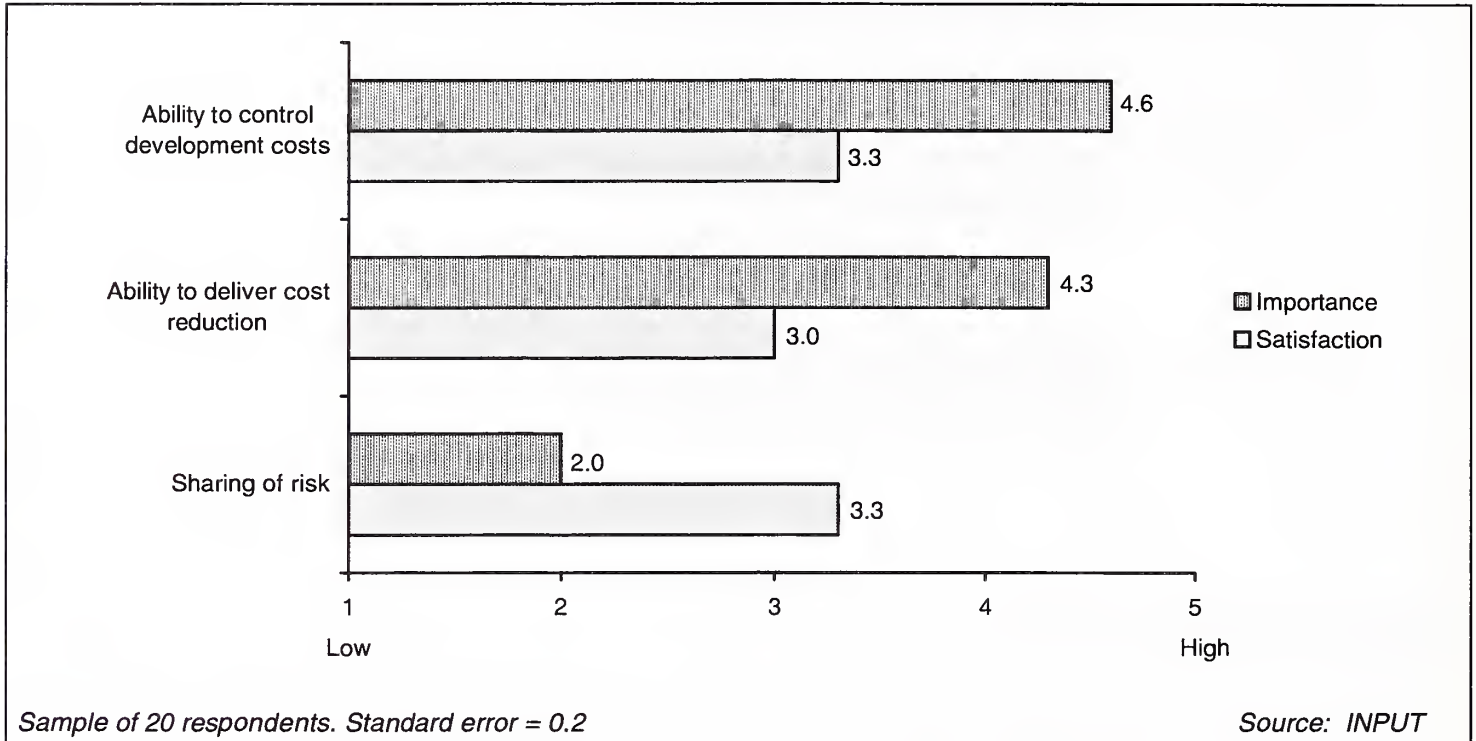
The main priority for outsourcing vendors in France is to make a greater contribution to the client’s business development while simultaneously assisting the client in achieving greater cost-effectiveness in their use of IT.

B Vendors in France Must Become More Cost-Effective

Exhibit II-3 lists the difference between importance and satisfaction from the client perspective against a number of cost control criteria.

Exhibit II-3

Satisfaction with Vendor Cost Control: France



Firstly, it is important to point out that cost control and/or reduction and delivery of business benefit are not viewed by clients as mutually exclusive. Clients would like outsourcing vendors to be more proactive but, at the same time, to supply the basic services underlying such activity at competitive rates.

Clients in France are relatively highly satisfied with the level of partnership achieved with their outsourcing companies. However, they are largely dissatisfied with the lack of improved cost-effectiveness throughout the life of the outsourcing contract.

This contrasts significantly with the situation in the U.K. where outsourcing vendors are perceived to achieve a substantial increase in cost-effectiveness in the early stages of the outsourcing contract but fail to maintain these levels of cost-effectiveness in the later years of the contract. This may be partly due to vendors recovering their operational

margins downstream or vigorously using change management procedures in support of contract profitability.

One factor contributing to this difference may be the differing service patterns between the organisations interviewed in France and those in the U.K. The research base in France contained a higher proportion of application management and desktop services components whereas the research base in the U.K. contained a higher proportion of datacentre management.

One of the key challenges for outsourcing vendors in the future is to develop means of demonstrating the increases in cost-effectiveness achieved in datacentre management in the desktop and application management arenas.

For example, a number of clients, in both France and the U.K., that have outsourced their desktop support together with mainframe operations are now considering bringing their desktop support services back in-house because of the relatively low value for money in this area.

Another factor may be the longer contract length of the U.K. contract base, where the outsourcing contracts researched averaged five years in length compared to three years in France.

Finally there appears to be a major difference in clients' attitudes towards risk sharing between France and the U.K. French outsourcing clients displayed very low levels of interest in the concept of risk sharing and in pricing mechanisms linked to business transaction volume or performance. This may be because French clients still primarily view their suppliers as technology advisors rather than business advisors. However, it is likely that both these attitudes will change over the next few years as the outsourcing market in France matures further.

C

Outsourcing Vendors Have Made Significant Progress in Technology Transfer in France

A traditional disadvantage of outsourcing is that it can potentially slow-down the rate at which new systems and technologies are introduced. This effect can be partly caused by contract pricing mechanisms, but also emerges, to a certain extent, from vendor capabilities and service cultures.

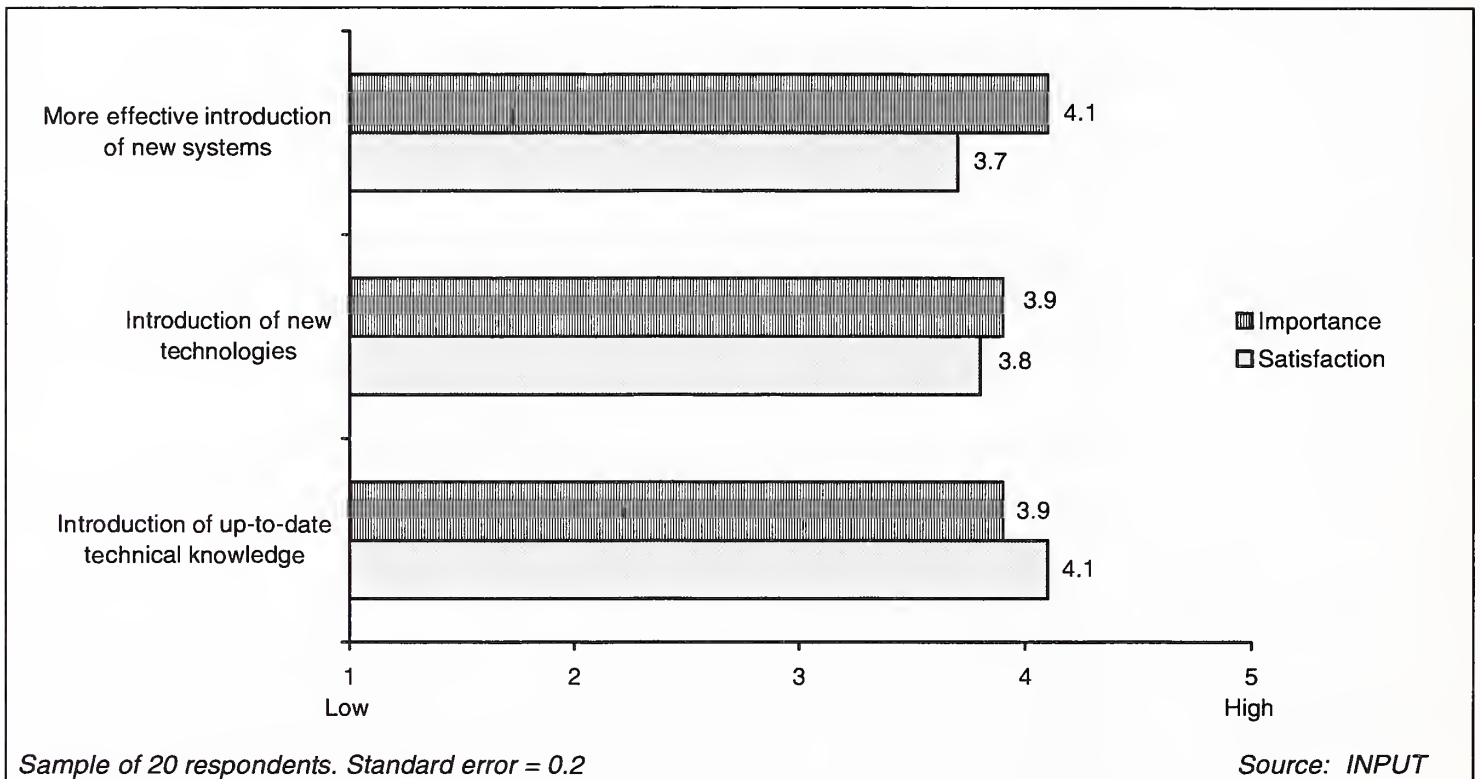
For example, many clients across Europe that have outsourced platform operations services are seeking to undergo technology transitions to

client/server architectures involving large numbers of LANs and desktop devices.

The results shown in Exhibit II-4 suggest that technology transfer is taking place reasonably rapidly in France and certainly more rapidly than in the U.K.

Exhibit II-4

Satisfaction with Technology Transfer: Outsourcing — France



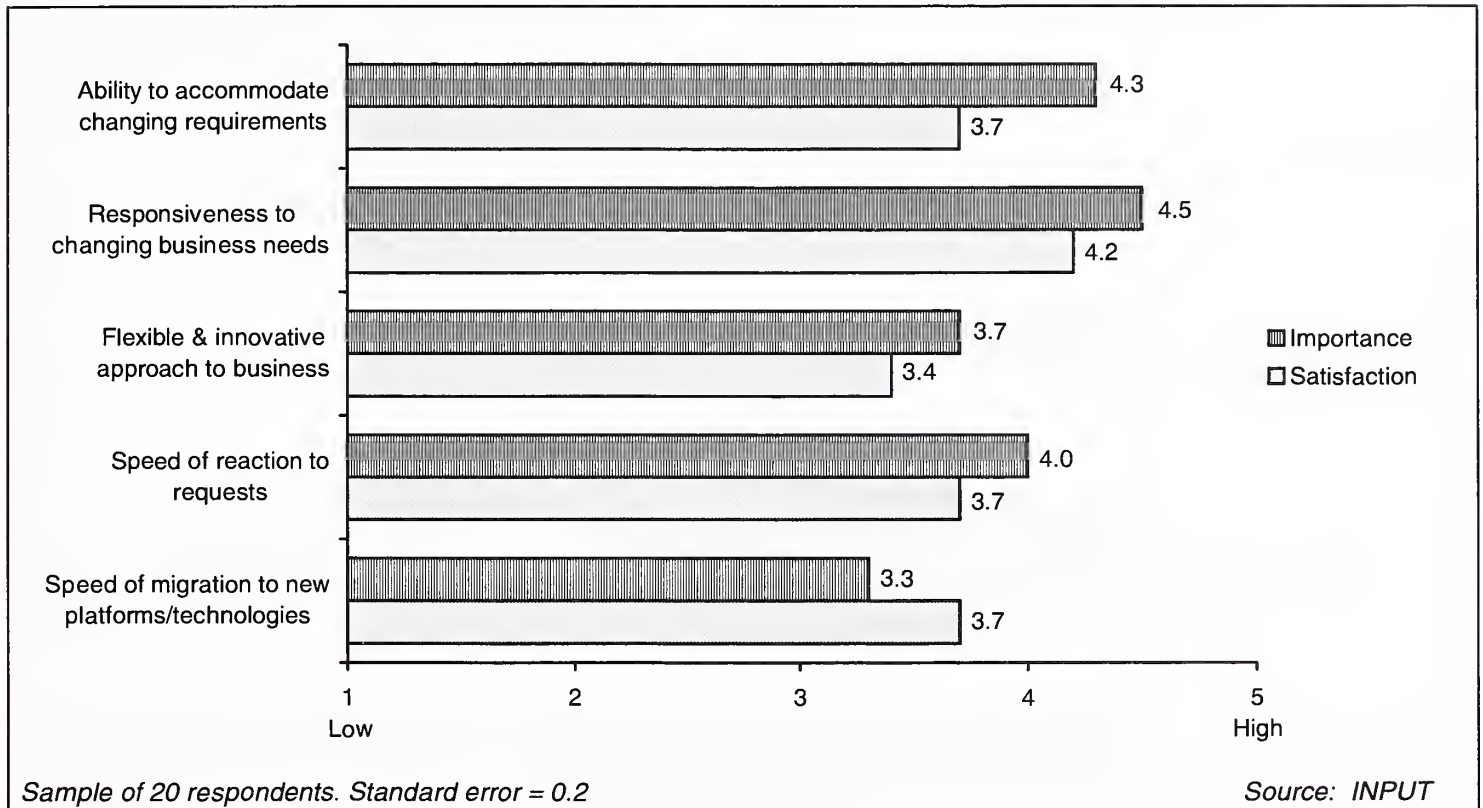
Vendors in France have made considerable progress in supporting the newer technologies and have apparently developed strong desktop services capability to complement their traditional datacentre management capability.

Vendors now need to complement this high level of technical innovation with greater level of innovation in addressing clients' business needs.

Exhibit II-5 lists the importance and satisfaction perceived by clients against a number of measures of vendor responsiveness to changing client circumstances.

Exhibit II-5

Satisfaction with Vendor Flexibility: Outsourcing — France



Overall these scores are moderately high. However clients would still like vendors operating in France to become more creative and flexible in their response to changing circumstances.

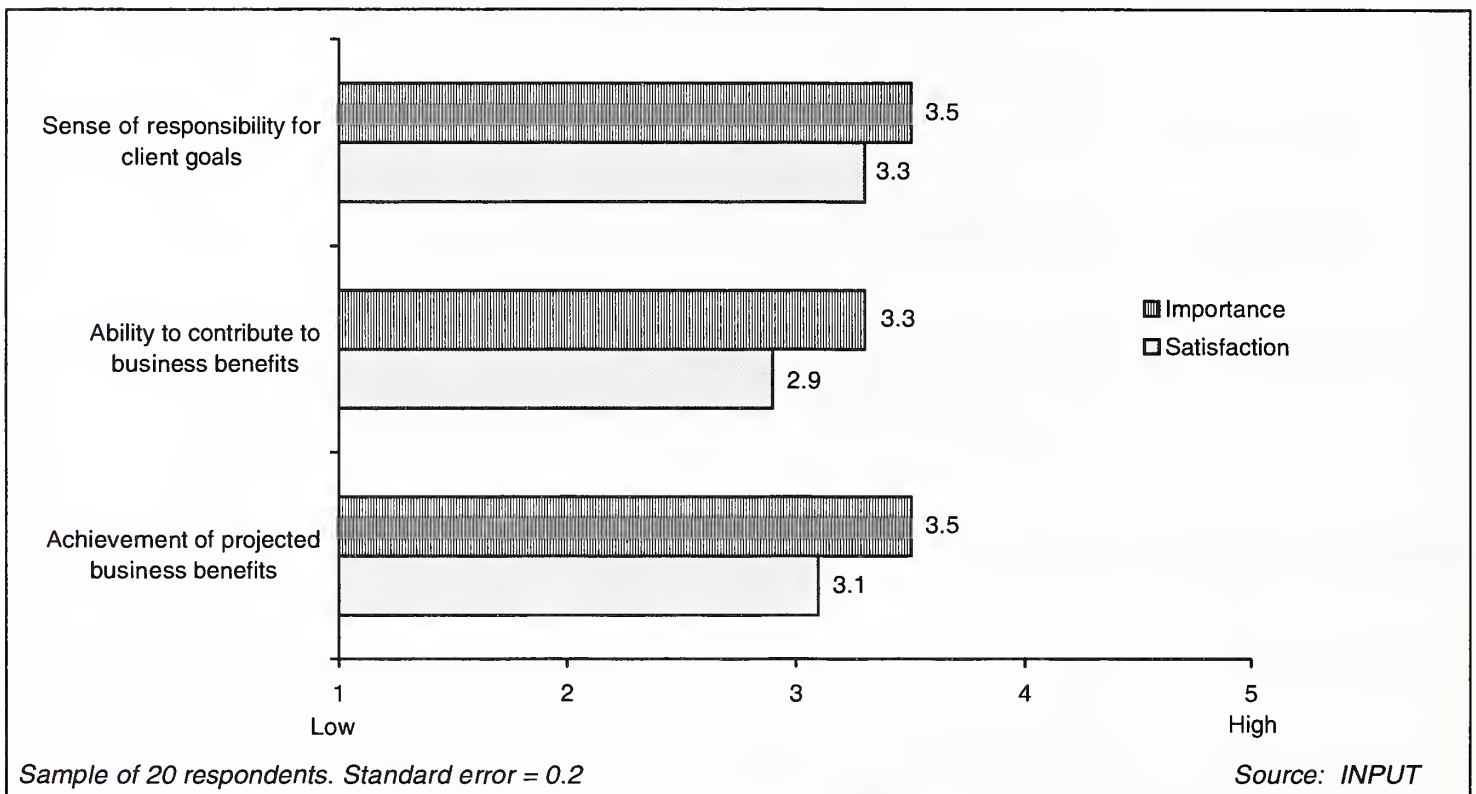
D

Vendors Must Increase Their Focus on Helping the Client Organisation Progress

Finally, vendors need to become more involved with their clients' business problems and less concerned with purely technical deliverables. Exhibit II-6 lists the importance and satisfaction perceived by clients against a number of measures of business contribution by vendors.

Exhibit II-6

Contribution to Business Benefits: Outsourcing — France



At present, outsourcing vendors are typically making only a minor impact on their clients' business processes and outsourcing remains primarily a support service rather than a direct source of competitive business advantage.

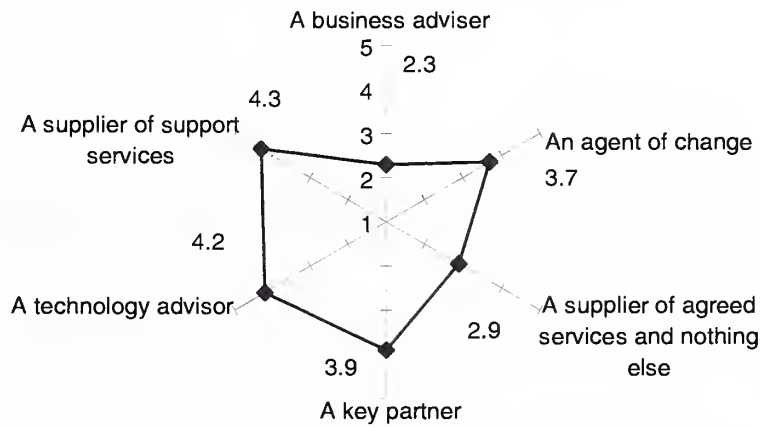
However, vendors have typically proven their ability to provide existing IT services to a high standard and to have a valuable understanding of new technologies that is often lacking in in-house IT departments. The key challenge now is to link outsourcing services to the client's business in a manner that will deliver significant business value.

At present, clients in France have lower expectations of vendors' ability to understand their business dynamics and enhance their competitive positioning. Again, this trend can be expected to develop more strongly over the next few years.

Exhibit II-7 lists French clients' overall perception of the role of outsourcing vendors.

Exhibit II-7

Perceived Roles of Outsourcing Vendors: France



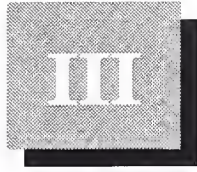
Sample of 20 respondents. Standard error = 0.2

Source: INPUT

Outsourcing vendors have made some progress towards becoming key partners to their clients. However they are still primarily perceived to be suppliers of support services and technology advisors rather than business advisers. In France, outsourcing vendors have become key agents of technological change but have not yet become agents of change in a more commercial sense.

However, outsourcing vendors should not discard their role as technology advisors and they should continue to strengthen this perception by proactively assisting their clients in adopting new technologies where appropriate. At the same time, vendors need to strengthen their roles as business advisers and business change agents.

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Service Analysis

A

Vendors Must Refine Their Application Management Skills

Exhibit III-1 identifies the pattern of services being outsourced by the organisations surveyed in France.

Exhibit III-1

Outsourcing Service Breakdown by Function

Function	Proportion of respondents outsourcing (%)
Mainframe Operations	65
Application Development Management	60
Application Maintenance Management	55
Desktop Services	55
Other IT Consultancy Services	38
WAN Management	30

Source: INPUT

The pattern of services outsourced in France is apparently much more developed than the pattern of services outsourced in the U.K. and Germany.

In particular, the levels of desktop services outsourcing and application development management are high and there is less emphasis on datacentre management.

Exhibit III-2 lists the perceived service quality by IT function.

Exhibit III-2

Service Quality by IT Function

Function	Satisfaction Rating
Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment	4.1
Responsibility for new systems development as a preferred supplier	4.0
Day-to-day management of the personal computer infrastructure including servers and local area networks	3.9
Day-to-day management of the corporate data network	3.8
Support and maintenance for in-house developed applications	3.7

Source: INPUT

Overall the level of service satisfaction in France appears to be very high, though a larger sample is needed to verify this conclusion.

In particular, clients in France appear to be relatively highly satisfied with the quality of day-to-day management of the desktop services environment and the quality of new systems development. However, indications from INPUT's Desktop Services Programme in France suggest that client satisfaction with desktop services may be overrated within this report.

In the U.K., clients are highly satisfied with the provision of mainframe-based platform operations services but only moderately satisfied with the provision of desktop services support. In part, this reflects the fact that much of the present desktop support apparently identified in the U.K. is not true outsourcing but a range of support services, supplied at the moment by the vendor's datacentre outsourcing group rather than a specialist desktop services outsourcing unit.

Exhibit III-3 lists the difference between importance and client satisfaction against a range of operational management criteria.

Exhibit III-3

Operational Management: Service Features

Feature	Importance Rating	Satisfaction Rating	Difference
Achievement of operational service level agreements	4.5	3.7	0.8
Scope of operational capability	4.2	3.8	0.4
Capability of help-desk	4.0	3.8	0.2
Speed of migration to new platforms/technologies	3.3	3.7	(0.4)

Source: INPUT

Overall, while there is some scope for improvement, clients exhibit a uniformly high level of satisfaction with operational management.

However, compared to the U.K., market there remains a need for vendors to continue to develop their ability to meet agreed SLAs. In addition, despite the relatively high levels of satisfaction, it is important that vendors continue to develop their range of operational capability and their help-desks.

These skills are critical to success in the outsourcing market in future.

Exhibit III-4 presents the data from Exhibit III-3 in a manner aimed to facilitate vendors in identifying the main priorities for service improvement.

Exhibit III-4

Satisfaction with Operational Management

	High Satisfaction	Medium Satisfaction	Low Satisfaction
High Importance		Achievement of operational service level agreements Scope of operational capability Capability of help-desk	
Medium Importance		Speed of migration to new platforms/technologies	

Source: INPUT

The provision of help-desk services becomes both more vital to the client and a more demanding challenge for vendors as systems being outsourced become more distributed in nature.

Exhibit III-5 lists the difference between importance and client satisfaction against a range of application management-related criteria.

Exhibit III-5

Application Management: Service Features

Service Characteristic	Importance Rating	Satisfaction Rating	Difference
Ability to control costs/meet budget targets	4.6	3.3	1.3
Delivery of projects on time	4.9	4.0	0.9
Ability to contribute to business benefits	3.3	2.9	0.4
Achievement of projected business benefits	3.5	3.1	0.4
Meeting of requirements/specification	4.6	4.3	0.3
Achievement of agreed support service levels	4.4	4.4	0.0

Source: INPUT

Exhibit III-6 presents the data from Exhibit III-5 in a manner aimed to facilitate vendors in identifying the main priorities for service improvement.

Exhibit III-6

Satisfaction with Application Management

	High Satisfaction	Medium Satisfaction	Low Satisfaction
High Importance	Delivery of projects on time Meeting of requirements/specification Achievement of agreed support service levels		Ability to control costs/meet budget targets
Medium Importance			Achievement of projected business benefits
Low Importance			Ability to contribute to business benefits

Source: INPUT

Overall, there is a marked polarisation between vendors' ability to deliver reactively against user specifications and their ability to deliver business benefits through the application of IT.

Outsourcing vendors were typically rated most highly against their ability to meet client-supplied technical objectives, such as delivering against an agreed specification or supplying agreed support services. They were typically rated comparatively lowly against their ability to deliver business benefit.

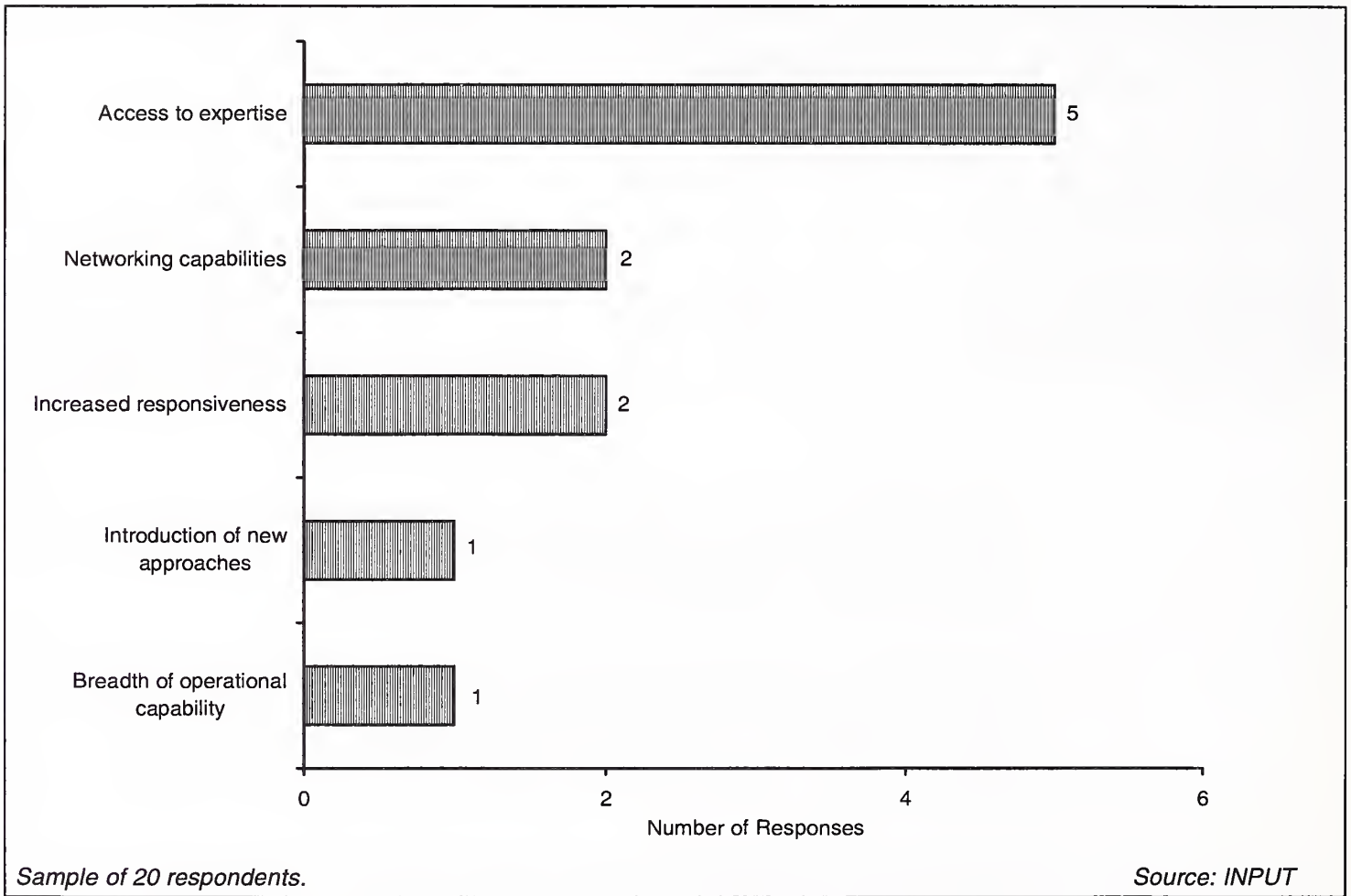
In addition, cost control is a major challenge within application management. Clients will expect to achieve a similar pattern of cost savings in application maintenance management as they often receive in mainframe platform operations services. Once again, this level of saving can only be achieved by the application of both methodologies and automation. So far, much of the progress in application management has been achieved by the application of disciplined methodologies. Added measures are now necessary to significantly increase the levels of cost control.

B Vendors Need to Develop Greater Business Understanding

Exhibit III-7 lists the most frequently given replies from outsourcing clients when asked unprompted what they most liked about their vendors' service culture or approach.

Exhibit III-7

Aspects of Vendor Culture Liked



Clients are clearly pleased with the introduction of new skills into their organisation. This includes both technical know-how such as networking and improved approaches to managing information technology.

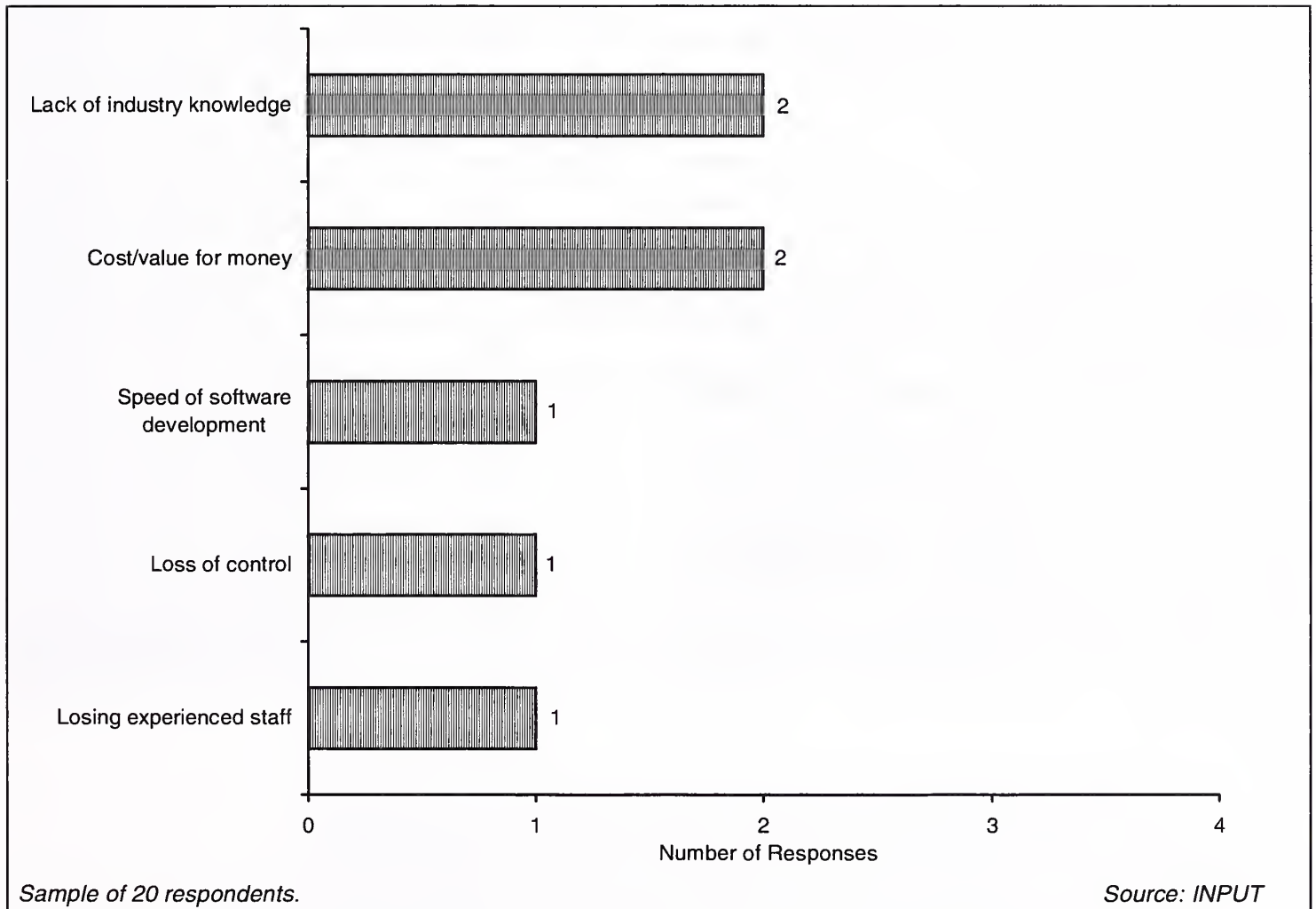
One of the advantages often cited for outsourcing is the introduction of a more professional service culture to in-house IT personnel. This argument is supported by the answers given above. Clients tend to be pleased with the overall responsiveness of personnel and the efforts that personnel take in order to meet their commitments.

However, no mention was made of vendors' business knowledge or reengineering skills suggesting that vendors do not currently make a major contribution in non-technical areas.

Exhibit III-8 lists the most frequently given replies from outsourcing clients when asked unprompted how they perceived their vendors' service culture or approach could be improved.

Exhibit III-8

Areas For Improvement



The principal criticism of outsourcing vendors centres around an increased need to understand their clients' businesses and assist them in deriving greater business benefit from IT.

In addition, a number of clients did not perceive that they had achieved the anticipated cost savings through outsourcing.

Exhibit III-9 lists the difference between importance and client satisfaction against a range of service culture criteria.

Exhibit III-9

Service Culture Ratings

Attribute	Importance Rating	Satisfaction Rating	Difference
Calibre of personnel	4.8	4.2	0.6
Commitment to achieving agreed requirements	4.2	3.8	0.4
Understanding of your business requirements	3.7	3.3	0.4
Responsiveness to day-to-day issues	4.5	4.2	0.3
Openness of communication	4.4	4.1	0.3
Continuity of personnel	4.4	4.1	0.3
Speed of reaction to requests	4.0	3.7	0.3
Level of bureaucracy	4.0	3.7	0.3
Flexible and innovative approach to your business requirement	3.7	3.4	0.3
Effective and appropriate communications channels	3.9	3.7	0.2
Sense of responsibility for your goals	3.5	3.3	0.2
Willingness to take ownership of problems	3.8	3.7	0.1
Responsiveness to changing business needs	3.7	3.6	0.1
Willingness to compromise when conflicts arise	3.7	3.6	0.1
Co-operation with other vendors	3.3	3.4	(0.1)

Source: INPUT

Exhibit III-10 presents the data from Exhibit III-9 in a manner aimed to facilitate vendors in identifying the main priorities for service improvement.

Exhibit III-10

Satisfaction with Service Culture Features

	High Satisfaction	Medium Satisfaction	Low Satisfaction
High Importance	Responsiveness to day-to-day issues Openness of communication Calibre of personnel Continuity of personnel	Effective and appropriate communications channels Commitment to achieving agreed requirements Speed of reaction to requests Level of bureaucracy	
Medium Importance		Flexible and innovative approach to client's business requirement Willingness to take ownership of problems Responsiveness to changing business needs Willingness to compromise when conflicts arise	Understanding of business requirements Sense of responsibility for clients' goals
Low Importance		Co-operation with other vendors	

Source: INPUT

Lack of continuity of personnel leading to misunderstandings of operational requirements was a significant issue for clients within the last outsourcing client satisfaction study conducted by INPUT. This is no longer a problem for clients. Indeed, clients typically have high levels of satisfaction with the continuity and calibre of vendor personnel and find them very responsive on day-to-day issues.

However, vendors still need to improve their focus on the client rather than the technical service. In particular, vendors should encourage their personnel to take ownership of problems and to become more flexible in their approach to addressing clients' business requirements.

The principal challenge for vendors remains in making the transition from being technical services suppliers to business partners. In particular, vendors need to develop:

- A sense of responsibility for assisting clients in meeting their business goals rather than a sense of responsibility for delivering a technical service
- Greater understanding of clients' business requirements.

C

Clients Continue Drive for Value-For-Money

Exhibit III-11 lists the most frequently given replies from outsourcing clients when asked unprompted what they most liked about their vendors' contract terms.

Exhibit III-11

Aspects of Commercial Terms Liked

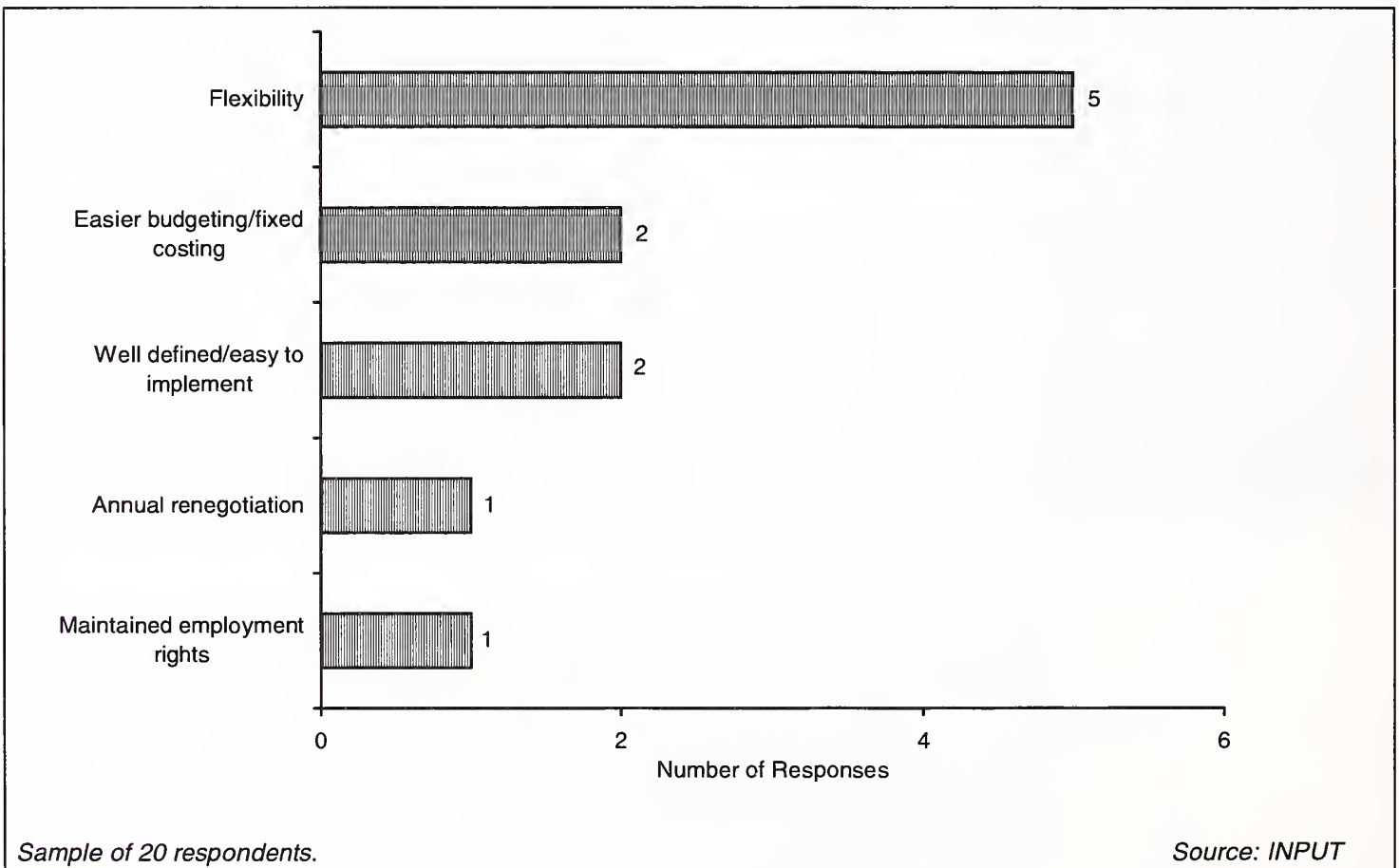
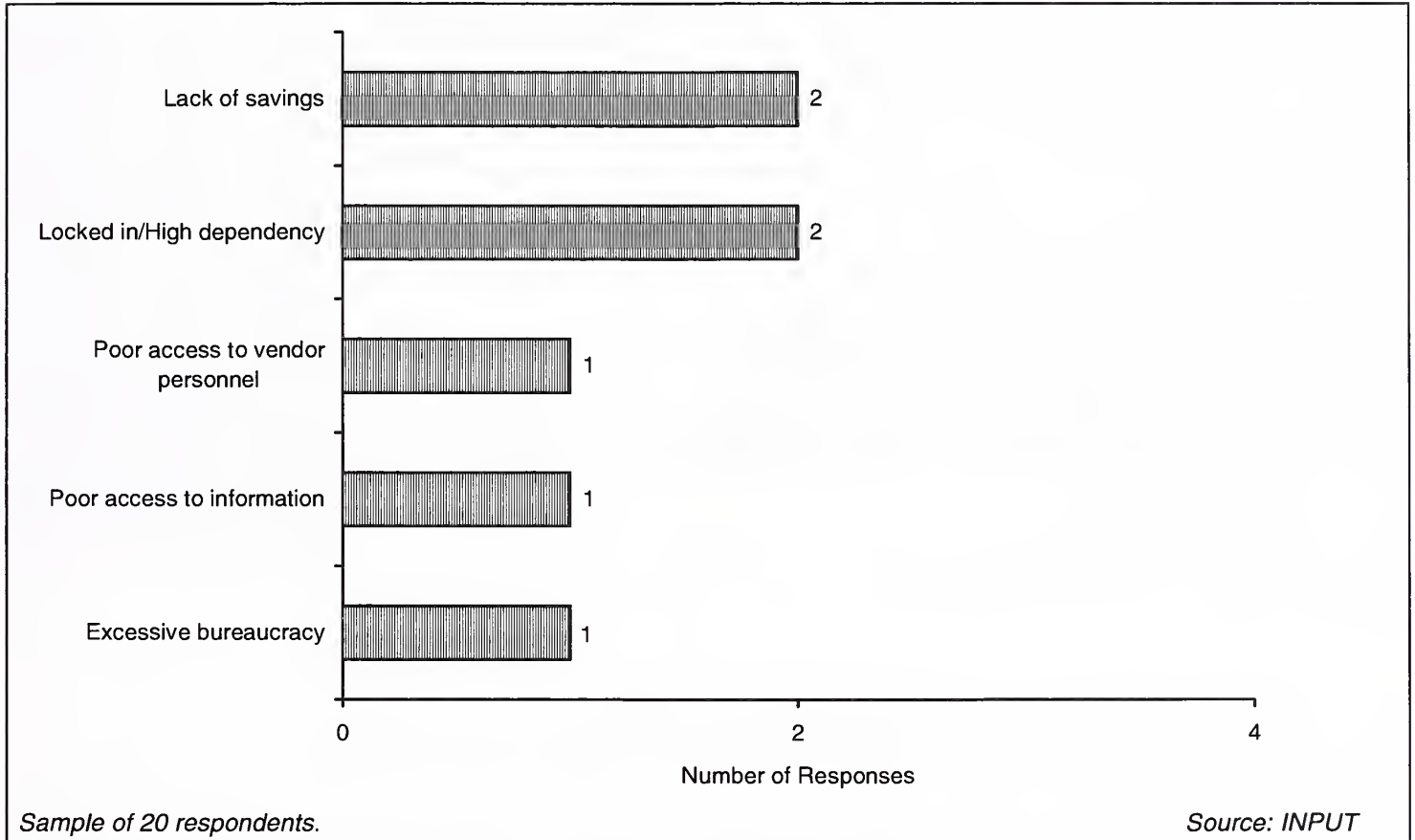


Exhibit III-12 lists the most frequently given replies from outsourcing clients when asked unprompted what they most disliked about their vendors' contract terms.

Exhibit III-12

Aspects of Commercial Terms Disliked



Overall clients in France are relatively pleased with the flexibility of their outsourcing contracts, with the number of clients stating that their contracts had a high level of flexibility exceeding the number of clients that complained that their contracts lacked flexibility.

Similarly the number of clients that were pleased with the clear definition of service levels in their contracts is higher than the number of clients complaining about contract complexity and lack of service definition.

However, one cause for concern is that fewer clients in France than in the U.K. seem to perceive that they receive good value for money from outsourcing.

Exhibit III-13 lists the difference between importance and client satisfaction against a range of contract-related criteria.

Exhibit III-13

Ratings of Contract Terms

Attribute	Importance Rating	Satisfaction Rating	Difference
Commitment to meet agreed prices	4.5	3.5	1.0
Service level agreement	4.4	3.8	0.6
Ability to accommodate changing requirements	4.3	3.7	0.6
Overall contract flexibility	4.5	4.1	0.4
Length of contract	4.5	4.1	0.4
Penalties and bonuses	3.5	3.1	0.4
Terms of transfer of employees	4.1	3.8	0.3
Willingness to tailor contract to client's situation	4.1	4.0	0.1
Ease of termination of contract	3.5	3.7	(0.2)
Flexibility to use additional suppliers where appropriate	2.5	2.7	(0.2)

Source: INPUT

Exhibit III-14 presents the data from Exhibit III-13 in a manner aimed to facilitate vendors in identifying the main priorities for improvement in contract terms.

Exhibit III-14

Satisfaction with Outsourcing Contract Features

	High Satisfaction	Medium Satisfaction	Low Satisfaction
High Importance	Willingness to tailor contract to client's situation Overall contract flexibility Length of contract	Commitment to meet agreed prices Service level agreement Ability to accommodate changing requirements Terms of transfer of employees	
Medium Importance		Ease of termination of contract	Penalties and bonuses
Low Importance			Flexibility to use additional suppliers where appropriate

Source: INPUT

Overall, outsourcing clients are much more highly satisfied with the general terms of their outsourcing contract than with contract pricing.

In particular, clients are highly satisfied with the flexibility of their contract terms, particularly vendors' willingness to develop contracts to match their circumstances. They are also satisfied with the length of their contracts, irrespective of their actual length.

However, relative to the U.K. there is scope for vendors in France to improve the terms of transfer of personnel and their level of commitment to meet the price agreed in the contract.

In addition, clients would like vendors to introduce greater flexibility to accommodate changing requirements into their outsourcing contracts, and to improve their service level agreements.

Overall, the freedom to use third parties is not important to clients, possibly because of their high degree of dependence on their principal outsourcing vendor. However, there are some indications that outsourcing clients will become increasingly selective in the functions outsourced, and in the manner in which they bundle services for outsourcing. In particular, clients that perceive their vendor to underperform in certain functions will seek to contract those functions separately to a third-party.

Exhibit III-15 lists the most frequently given replies from outsourcing clients when asked unprompted what they most liked about the pricing mechanisms used within their outsourcing contracts.

Exhibit III-15

Aspects of Pricing Mechanism Liked

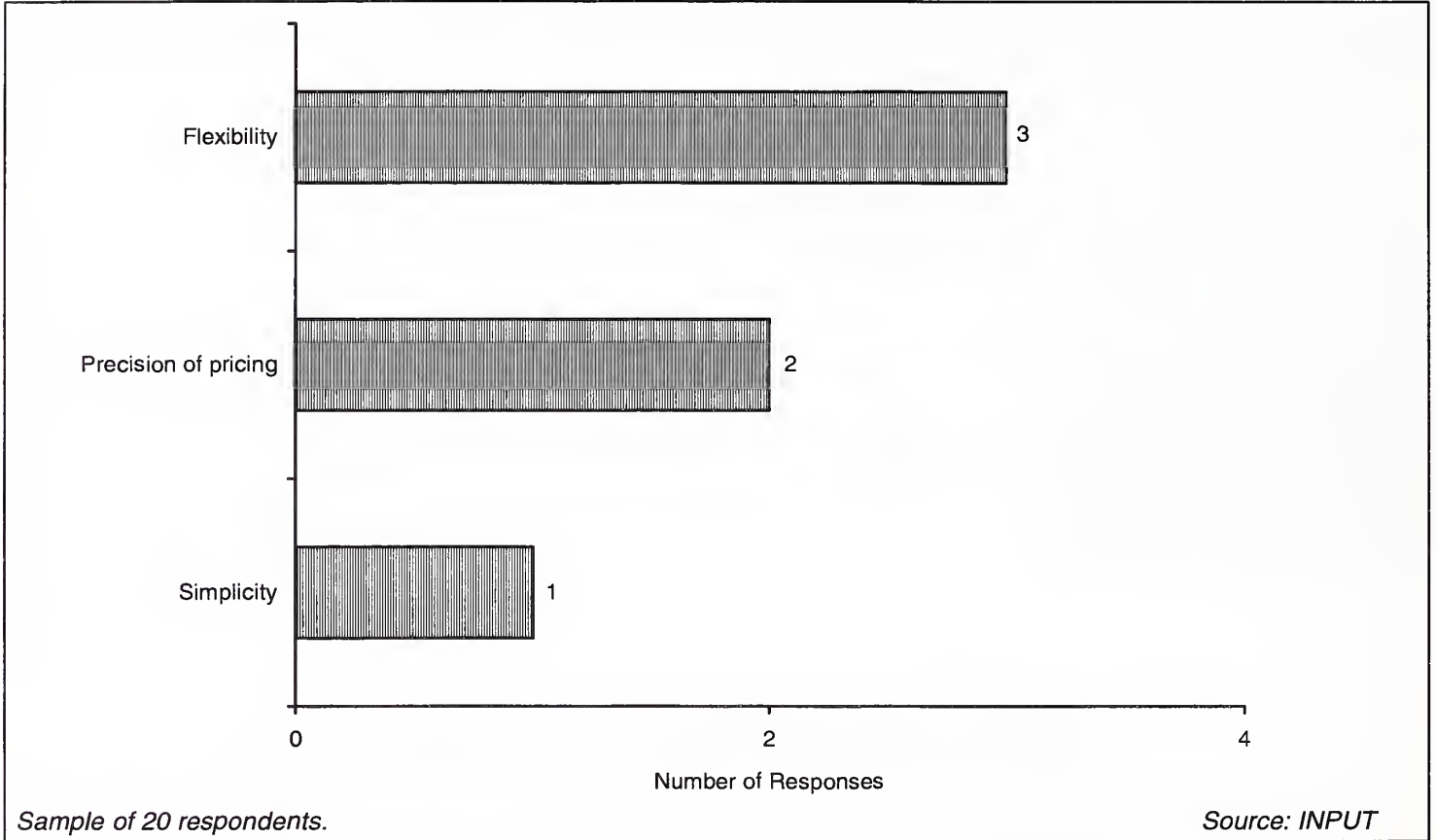
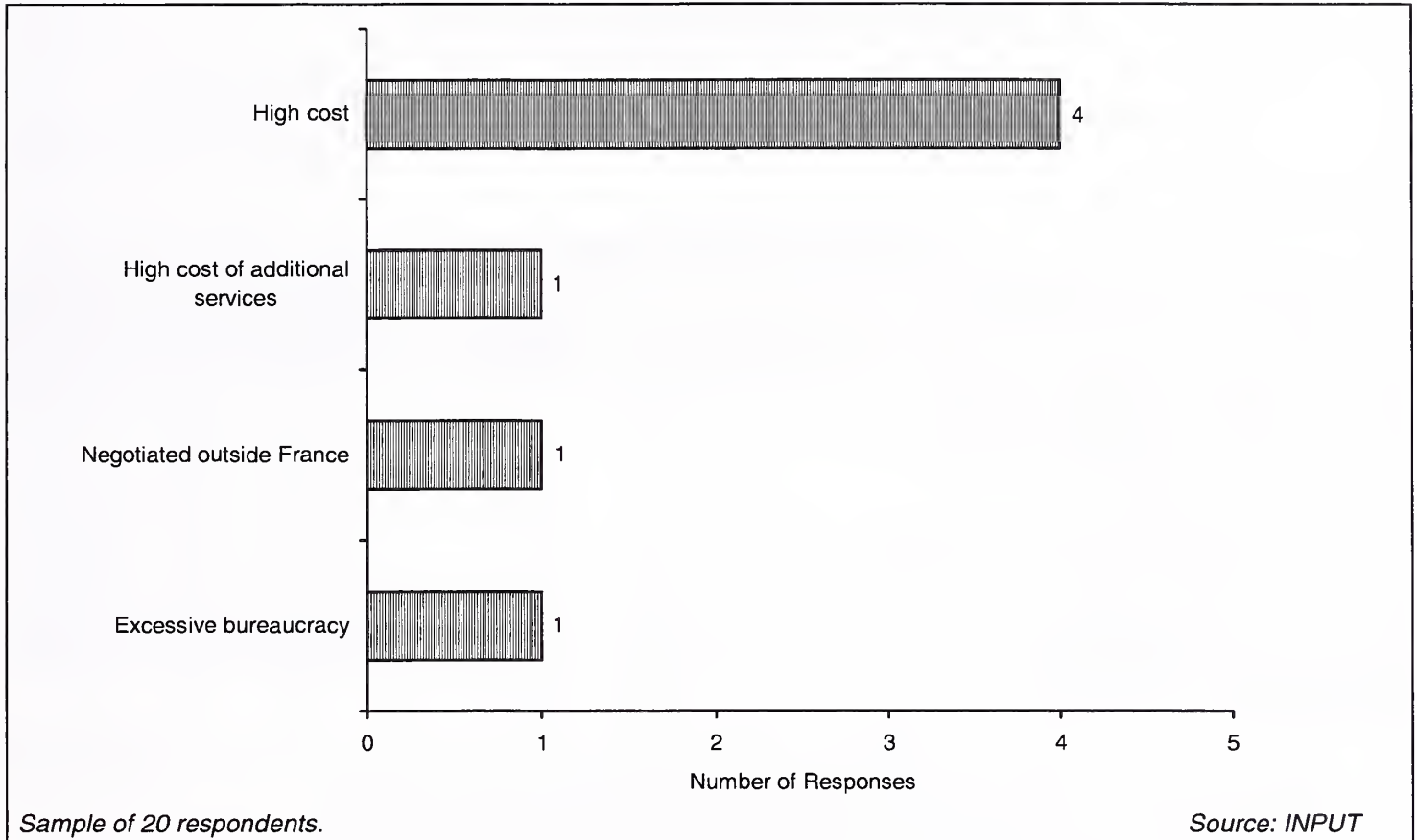


Exhibit III-16 lists the most frequently given replies from outsourcing clients when asked unprompted what they most disliked about the pricing mechanisms used within their outsourcing contracts.

Exhibit III-16

Aspects of Commercial Terms Disliked



The majority of the outsourcing clients interviewed used predominantly fixed price contracts. This approach is highly favoured because it enables clients to work to fixed budgets and is very simple to understand.

However, this approach has a number of disadvantages. Firstly, it can be quite inflexible and be a significant impediment to change if the client's circumstances are evolving rapidly.

Secondly, it can lead to the client perceiving that economies of scale are not being passed back to the client. In the absence of open book pricing, it is not uncommon for clients to perceive that the cost of service provision to the vendor is declining much more rapidly than the price charged to the client. This particularly applies where the client is phasing out a number of systems and the transaction workload is declining.

Thirdly, outsourcing contracts can be perceived to favour maintenance of the status quo, since the vendor is paid on the basis of existing services. This can, from the client's perspective, act to discourage innovation. Clients would like to encourage vendors to be more proactive in improving their use of IT, through the use of new technology where appropriate. Accordingly, appropriate contract terms to encourage innovation are seen as necessary by some clients.

Exhibit III-17 lists the difference between importance and client satisfaction against a range of pricing mechanism criteria.

Exhibit III-17

Ratings of Pricing Mechanisms

Attribute	Importance Rating	Satisfaction Rating	Difference
Ability to deliver initial cost reduction	4.4	3.1	1.3
Ability to deliver ongoing cost reduction	4.3	3.0	1.3
Open book approach	2.2	2.8	(0.6)
Incentives to encourage vendor creativity	2.0	2.7	(0.7)
Links to business success	1.7	2.5	(0.8)
Links to business parameters	1.8	3.0	(1.2)
Sharing of risk with vendor	2.0	3.3	(1.3)

Source: INPUT

Exhibit III-18 presents the data from Exhibit III-17 in a manner aimed to facilitate vendors in identifying the main priorities for modification of their pricing mechanisms.

Exhibit III-18

Satisfaction with Pricing Mechanism Features

	High Satisfaction	Medium Satisfaction	Low Satisfaction
High Importance			Ability to deliver initial cost reduction Ability to deliver ongoing cost reduction
Medium Importance			
Low Importance			Open book approach Incentives to encourage vendor creativity Sharing of risk with vendor Links to business parameters Links to business success

Source: INPUT

Within pricing mechanisms, clients in France attach a considerably higher significance to vendors' ability to deliver cost reduction than to incentives to encourage vendor innovation.

Indeed, vendors in France appear to be still failing to deliver cost reduction to their clients. In the U.K., the main cost reduction issue for vendors is not the provision of an initial cost reduction but demonstrating to clients that they can maintain the cost reduction momentum throughout the life of the contract. In France both areas are a major concern for clients.

France also appears to be at a later stage than the U.K. in the attitude of outsourcing clients to risk-sharing. While the satisfaction ratings for risk sharing are only slightly lower in France than in the U.K., clients in France attached considerably less importance to the concepts of risk sharing and linking price to business success.

D

Vendors' Need to Increase Their Contribution to Business Value

Exhibit III-19 lists the principal benefits sought by outsourcing clients and the extent to which those seeking each of these benefits felt that they had been achieved.

Exhibit III-19

Principal Benefits Sought

Benefit Sought	Level of achievement
Adopt core focus within IT	5.0
Access to skills	4.5
Faster new systems development	4.3
Cost savings	4.0
Support for downsizing	3.7

Source: INPUT

The major benefits sought by the respondents in France were cost reduction and access to new expertise. Vendors were regarded as delivering these benefits, with the proviso that a significant number of respondents (not included in this table) who did not mention cost reduction as a key benefit sought were clearly dissatisfied with the levels of cost reduction achieved.

This low satisfaction may result from an expectation that cost reduction would naturally arise out of outsourcing without this being specifically targeted within the contractual basis of the agreement.

Major theme driving outsourcing in France appear to be the needs for access to new skills and for improved/faster new systems development while avoiding the employment of additional IT staff in-house.

Exhibit III-21 shows the extent to which outsourcing vendors are perceived to contribute towards each of a number of potential IT goals.

Exhibit III-20

Ratings of Contribution to IT Goals

Goal	Expectation Rating	Achievement Rating	Difference
To become more cost-effective in using IT	4.6	3.0	1.6
To increase effectiveness in applying IT to the business	4.4	3.9	0.5
To aggressively use IT for competitive advantage	3.8	3.3	0.5
To free in-house managers/staff for other work	3.9	4.0	(0.1)
To adopt a distributed, rather than centralised, architecture	3.5	3.6	(0.1)
To reduce the time taken to implement new systems	4.1	4.3	(0.2)

Source: INPUT

Exhibit III-22 highlights the difference between the importance of contributing to each of these IT goals and clients' satisfaction with vendors' current contribution.

Exhibit III-21

Satisfaction with Contribution to IT Goals

	High Satisfaction	Medium Satisfaction	Low Satisfaction
High Importance	To increase effectiveness in applying IT to the business To free in-house managers/staff for other work To reduce the time taken to implement new systems		To become more cost-effective in using IT
Medium Importance		To adopt a distributed, rather than centralised, architecture	To aggressively use IT for competitive advantage

Source: INPUT

Outsourcing in France, as in the U.K., remains relatively unsuccessful in assisting organisations in aggressively using IT for competitive advantage. However, outsourcing vendors in France appear to have made greater progress towards this goal than their counterparts in the U.K. achieving high levels of satisfaction in two key areas:

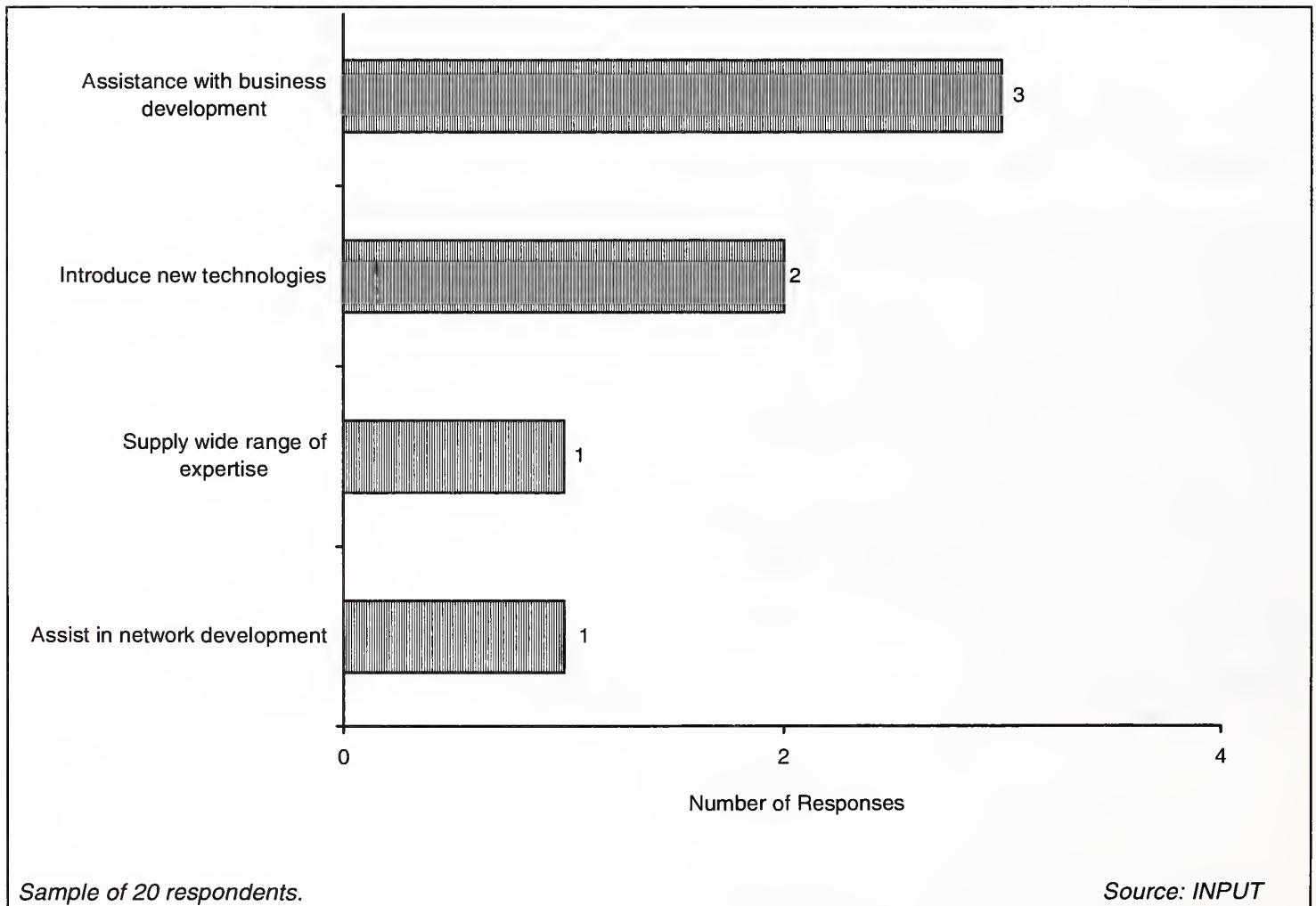
- The reduction of the time taken to implement new systems
- Increasing the effectiveness with which IT is applied to the business.

However, there are lower levels of satisfaction with outsourcing vendors in France, compared to those in the U.K., in terms of their ability to assist clients in becoming more cost-effective in their use of IT.

Exhibit III-22 lists the most frequently given replies from outsourcing clients when asked unprompted what key benefits they would seek from a vendor in any future outsourcing contracts.

Exhibit III-22

Principal Future Benefits Sought



Two main themes emerged from this question.

Firstly clients require a forward looking approach from vendors. Principally this involves vendors in assisting their clients to apply IT to future business needs. Outsourcing can sometimes hold back the development of clients by concentrating on management of current technology. Clients want outsourcing vendors to move in parallel with their organisational development and assist them in developing new business approaches using new technologies where appropriate.

Secondly, clients want vendors to supply a wide range of up-to-date technical expertise and to introduce them to new technologies which might be appropriate for them in the future.

Overall vendors must become more proactive in addressing the needs of their clients and assisting them in managing change. Vendors, rather than their clients, are expected to be the principal source of understanding of the relevance of new technology and how it might be applied to the client's business.

Exhibit III-23 lists the difference between client expectation and perceived vendor achievement against a number of potential benefits.

Exhibit III-23

Contribution to Benefits

Potential Benefit	Expectation Rating	Achievement Rating	Difference
Cost reduction	4.6	2.8	1.8
Improved cost-effectiveness	4.6	3.3	1.3
Improved operational service levels	4.3	3.4	0.9
Removed in-house involvement with legacy systems	3.8	3.4	0.4
Introduction of new technologies	3.8	3.9	(0.1)
Introduction of up-to-date technical knowledge	3.9	4.1	(0.2)
More effective introduction of new systems	3.7	4.1	(0.4)
Improved ability to relate IT to the business	3.3	3.9	(0.6)
Access to best practices in using IT	3.3	4.0	(0.7)

Source: INPUT

Exhibit III-24 highlights the difference between the clients' expectation of vendors' contributing to each of these potential benefits and clients' perception of vendors' current achievement.

Exhibit III-24

Achievement of Potential Benefits

	High Achievement	Medium Achievement	Low Achievement
High Expectation	Introduction of up-to-date technical knowledge	Improved operational service levels	Cost reduction Improved cost-effectiveness
Medium Expectation	Introduction of new technologies More effective introduction of new systems	Removed in-house involvement with legacy systems	
Low Expectation	Improved ability to relate IT to the business Access to best practices in using IT		

Source: INPUT

Outsourcing vendors in France, unlike their counterparts in the U.K., are perceived to be successful in introducing and applying new technologies.

However, vendors in France need to deliver improved value for money and there still remains scope for improvement in terms of:

- Removed in-house involvement with legacy systems
- Improved operational service levels.

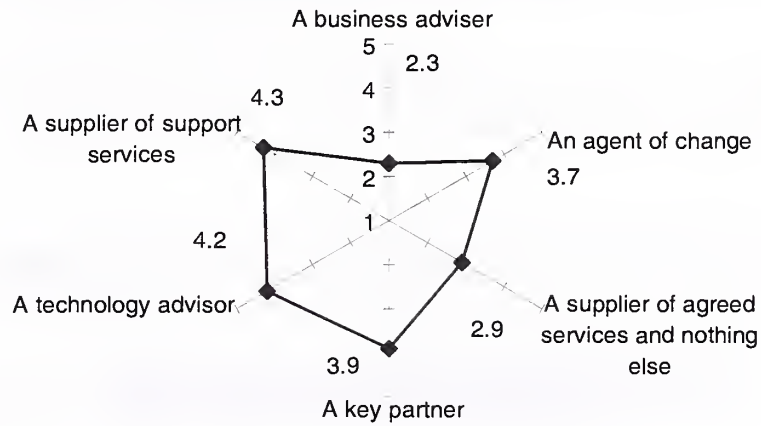
This suggests that outsourcing vendors in France are beginning to make the transition from low cost support for legacy systems to the delivery of business benefit through the rapid provision of new systems and new technology.

However, it is important to remember that outsourcing clients typically want both improved business application of IT and high levels of value for money.

Exhibit III-25 shows the perceived roles of outsourcing vendors from the perspective of their clients.

Exhibit III-25

Perceived Role of Outsourcing Vendor



Sample of 20 respondents. Standard error = 0.2

Source: INPUT

Outsourcing vendors in France are typically perceived to have progressed beyond being *suppliers of agreed services and nothing else* to become *key partners* of their clients.

They have also started to become *agents of change* to their clients. However at present their role in the change process is primarily as *technology advisors* rather than *business advisors*.

An important challenge for outsourcing vendors in France is to develop beyond this technological role and become more involved with the client's business processes from a business as well as a technological perspective.

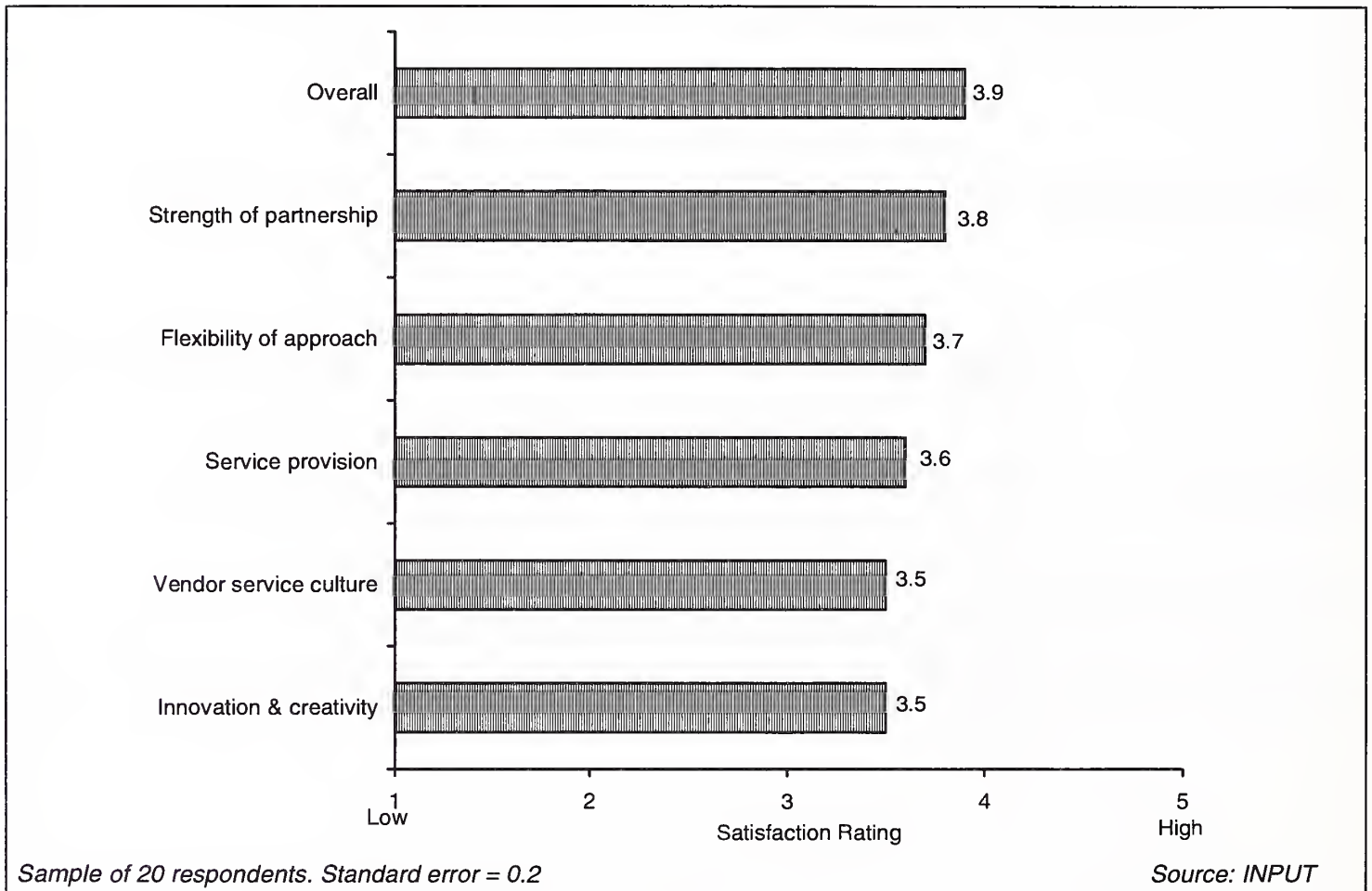
E

Vendors Need to Combine Business Contribution with Greater Value For Money

Exhibit III-26 lists those aspects of vendor performance that received the highest overall ratings.

Exhibit III-26

Most Satisfactory Aspects of Vendor Performance



Vendors in France received a slightly higher overall satisfaction rating than their counterparts in the U.K. and were perceived to have stronger partnerships with their clients.

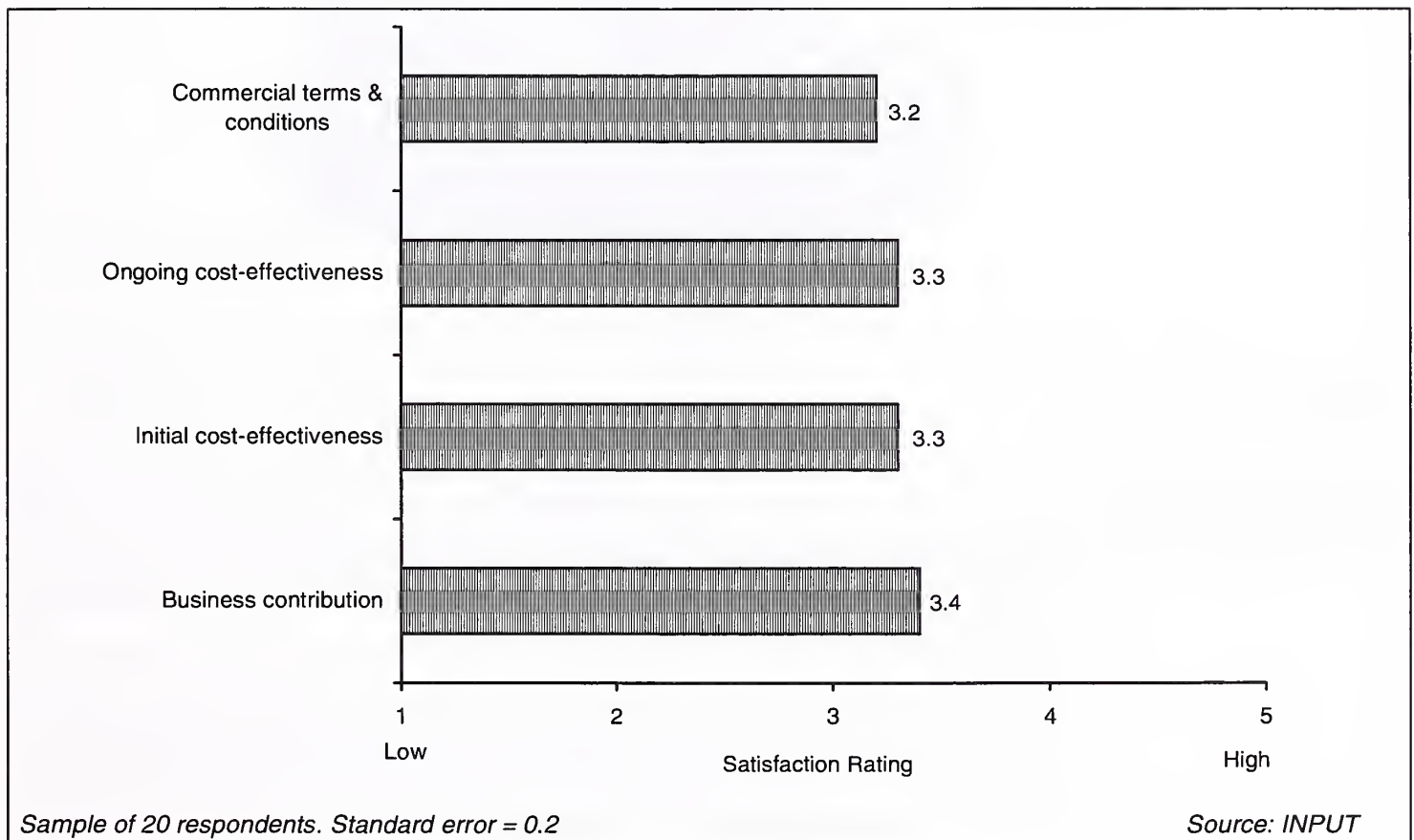
A strong sense of partnership typically results from the vendor being flexible in addressing client needs, being perceived to make a significant business contribution and acting as an agent of change. Outsourcing vendors in France appear to be more successful than their counterparts in the U.K. in addressing these issues.

However, the standard of service provision is perceived to be relatively low in France and there is scope for improvement in developing vendors' service cultures to give a greater sense of involvement with clients' evolving business needs.

Exhibit III-27 lists those aspects of vendor performance that received the lowest overall ratings.

Exhibit III-27

Least Satisfactory Aspects of Vendor Performance



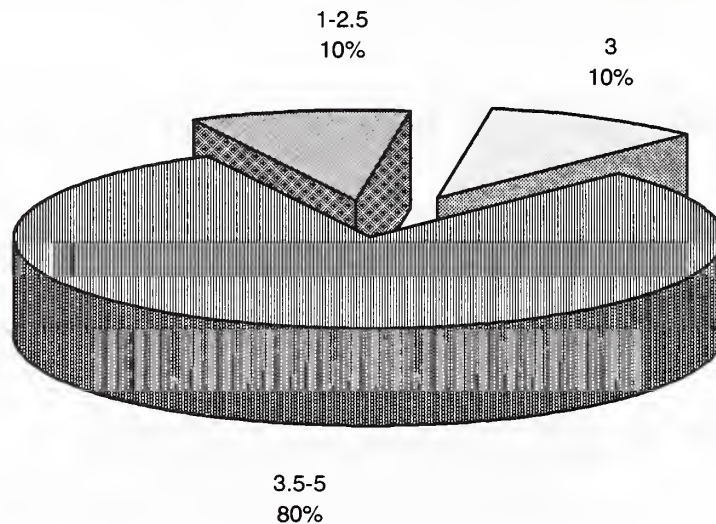
Despite the relatively high business contribution made by outsourcing vendors in France this aspect of the service needs to be developed further.

However, two of the main causes for concern in France are vendors' poor commercial terms and the perceived inability of vendors to deliver improved cost-effectiveness.

Exhibit III-28 lists the likelihood of clients renewing their outsourcing contracts with the same vendor.

Exhibit III-28

Likelihood of Contract Renewal



Sample of 12 respondents.

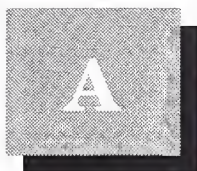
Source: INPUT

Expectations of contract renewal are extremely high in France, where vendors have been more successful than those in the U.K. in developing a strong sense of partnership.

Overall, vendors are better protected from their competitors where they are perceived to be key partners that can make a significant business contribution to the client than where they provide cost-effective services but lack the sense of business involvement.

Overall French outsourcing clients show low levels of intention to take services back in-house.

However, as in the U.K., a small number of clients perceived that they received poor value for money by outsourcing desktop support and may take this service back in-house once the desktop environment has been stabilised by the vendor.



Results in Questionnaire Format: France

Service Quality

1. Which of the following functions does your organisation outsource and to whom? How satisfied are you with the service you receive in each of these areas? Please rate on a scale of 1-5 where 1 = dissatisfied and 5 = very satisfied.

Function	Satisfaction Rating (OVERALL)
Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment	4.1
Day-to-day management of the personal computer infrastructure including servers and local area networks	3.9
Day-to-day management of the corporate data network	3.8
Support and maintenance for in-house developed applications	3.7
Responsibility for new systems development as a preferred supplier	4.0
Business process reengineering consultancy	
IT strategy consultancy	
Other IT consultancy services)	
Business functions such as accounting or fulfilment	

Source: INPUT

From this point onwards, I should like to concentrate on your attitudes towards the services that you receive from *name*.

2. Which aspects of your current outsourcing services, if any, are you particularly pleased with?

- Access to expertise
- Vendor network skills
- Increased responsiveness

3. Which aspects of your current outsourcing services, if any, cause you concern?

- Lack of industry sector knowledge
- Price/value for money

If respondent answered yes to Q1 (1,2 or 3)

4. Would you please rate the importance of, and your level of satisfaction with, each of the following service features relating to operational management? Please rate on a scale of 1-5 where 1 = not at all important/dissatisfied and 5 = very important/very satisfied.

Feature	Importance Rating (OVERALL)	Satisfaction Rating (OVERALL)	Difference (OVERALL)
Scope of operational capability	4.2	3.8	0.4
Achievement of operational service level agreements	4.5	3.7	0.8
Speed of migration to new platforms/technologies	3.3	3.7	(0.4)
Capability of help-desk	4.0	3.8	0.2

Source: INPUT

If respondent answered yes to Q1 (4 or 5)

5. Would you please rate the importance of, and your level of satisfaction with, each of the following areas relating to application support and development? Please rate on a scale of 1-5 where 1 = not at all important/dissatisfied and 5 = very important/very satisfied.

Service Characteristic	Importance Rating (OVERALL)	Satisfaction Rating (OVERALL)	Difference (OVERALL)
Delivery of projects on time	4.9	4.0	0.9
Ability to control costs/meet budget targets	4.6	3.3	1.3
Meeting of requirements/specification	4.6	4.3	0.3
Achievement of agreed support service levels	4.4	4.4	0.0
Achievement of projected business benefits	3.5	3.1	0.4
Ability to contribute to business benefits	3.3	2.9	0.4

Source: INPUT

Vendor Style

6. What do you like about the culture/approach of your outsourcing vendor?

- Professionalism
- Responsiveness/helpfulness
- Quality of relationship
- Flexibility

7. In what respects do you think their service culture could be improved?

- Become more open/less formal
- Become less bureaucratic
- Become more flexible

8. How important, and how satisfactory, are the following aspects of their approach? Please rate on a scale of 1-5 where 1 = unimportant/dissatisfied and 5 = very important/very satisfied.

Attribute	Importance Rating (OVERALL)	Satisfaction Rating (OVERALL)	Difference (OVERALL)
Understanding of your business requirements	3.7	3.3	0.4
Sense of responsibility for your goals	3.5	3.3	0.2
Commitment to achieving agreed requirements	4.2	3.8	0.4
Flexible and innovative approach to your business requirement	3.7	3.4	0.3
Responsiveness to changing business needs	3.7	3.6	0.1
Willingness to compromise when conflicts arise	3.7	3.6	0.1
Willingness to take ownership of problems	3.8	3.7	0.1
Responsiveness to day-to-day issues	4.5	4.2	0.3
Continuity of personnel	4.4	4.1	0.3
Openness of communication	4.4	4.1	0.3
Effective and appropriate communications channels	3.9	3.7	0.2
Level of bureaucracy	4.0	3.7	0.3
Speed of reaction to requests	4.0	3.7	0.3
Co-operation with other vendors	3.3	3.4	(0.1)
Calibre of personnel	4.8	4.2	0.6

Source: INPUT

Commercial Terms

9. What do you like and dislike about the contract terms of your outsourcing arrangement?

Like:

- Flexibility
- Ease of budgeting
- Well-defined/easy to implement

Dislike:

- Lack of savings
- High dependency
- Inadequate access to personnel and information
- Complexity/bureaucracy

10. How important, and how satisfactory, are the following aspects of your outsourcing contract(s)? Please rate on a scale of 1-5 where 1 = unimportant/dissatisfied and 5 = very important/very satisfied.

Attribute	Importance Rating (OVERALL)	Satisfaction Rating (OVERALL)	Difference (OVERALL)
Overall contract flexibility	4.5	4.1	0.4
Length of contract	4.5	4.1	0.4
Willingness to tailor contract to client's situation	4.1	4.0	0.1
Terms of transfer of employees	4.1	3.8	0.3
Commitment to meet agreed prices	4.5	3.5	1.0
Flexibility to use additional suppliers where appropriate	2.5	2.7	(0.2)
Ease of termination of contract	3.5	3.7	(0.2)
Ability to accommodate changing requirements	4.3	3.7	0.6
Service level agreement	4.4	3.8	0.6
Penalties and bonuses	3.5	3.1	0.4

Source: INPUT

11. On what basis is your outsourcing contract priced?

12. What do you like and dislike about the pricing mechanism used within your outsourcing contract?

Like:

- Flexibility
- Certainty/predictability
- Simplicity

Dislike:

- Too expensive/expected savings not achieved
- High cost of additional services
- Excessive bureaucracy

13. How important, and how satisfactory, are the following aspects of your pricing mechanism? Please rate on a scale of 1-5 where 1 = unimportant/dissatisfied and 5 = very important/very satisfied.

Attribute	Importance Rating (OVERALL)	Satisfaction Rating (OVERALL)	Difference (OVERALL)
Open book approach	2.2	2.8	(0.6)
Sharing of risk with vendor	2.0	3.3	(1.3)
Incentives to encourage vendor creativity	2.0	2.7	(0.7)
Links to business parameters	1.8	3.0	(1.2)
Links to business success	1.7	2.5	(0.8)
Ability to deliver initial cost reduction	4.4	3.1	1.3
Ability to deliver ongoing cost reduction	4.3	3.0	1.3

Source: INPUT

14. How would you like to change the pricing mechanism used? What pricing mechanisms will you seek to adopt for use in future outsourcing contracts?

- Reduce cost of additional services

Overall Objectives/Benefits Sought

15. To what extent do you expect your outsourcing vendor to contribute towards each of these potential IT goals? To what extent have they contributed towards these goals? Please rate on a scale of 1-5 where 1 = low expectation/achievement and 5 = high expectation/achievement.

Goal	Expectation Rating (OVERALL)	Achievement Rating (OVERALL)	Difference (OVERALL)
To aggressively use IT for competitive advantage	3.8	3.3	0.5
To increase effectiveness in applying IT to the business	4.4	3.9	0.5
To adopt a distributed, rather than centralised, architecture	3.5	3.6	(0.1)
To become more cost-effective in using IT	4.6	3.0	1.6
To reduce the time taken to implement new system	4.1	4.3	(0.2)
To free in-house managers/staff for other work	3.9	4.0	(0.1)
Other (please specify)			

Source: INPUT

16. What were the principal benefits you originally sought from using outsourcing and, to what extent have each of these anticipated benefits been delivered? Please rate on a scale of 1-5 where 1 = low achievement and 5 = high achievement.

Benefit Sought	Level of achievement (OVERALL)
Adopt core focus within IT depts	5.0
Access to skills	4.5
Faster new systems development	4.3
Cost savings	4.0
Support for downsizing	3.7

Source: INPUT

17. Your expectations have probably changed over the life of the contract. Which key benefits will you seek from a vendor in any future outsourcing contracts?

- Assistance with business development
- Introduction of new technology
- Access to wider range of expertise

18.To what extent do you currently expect your outsourcing vendor to contribute towards each of the following potential benefits? To what extent have they contributed towards each of these? Please rate on a scale of 1-5 where 1 = low expectation/achievement and 5 = high expectation/achievement.

Potential Benefit	Expectation Rating (OVERALL)	Achievement Rating (OVERALL)	Difference (OVERALL)
Improved cost-effectiveness	4.6	3.3	1.3
Cost reduction	4.6	2.8	0.8
Improved operational service levels	4.3	3.4	0.9
Removed in-house involvement with legacy systems	3.8	3.4	0.4
Introduction of up-to-date technical knowledge	3.9	4.1	(0.2)
Introduction of new technologies	3.8	3.9	(0.1)
Improved ability to relate IT to the business	3.3	3.9	(0.6)
More effective introduction of new systems	3.7	4.1	(0.4)
Access to best practices in using IT	3.3	4.0	(0.7)

Source: INPUT

19.To what extent do you perceive your current outsourcing vendor to be: (Please rate on a scale of 1-5 where 1 = not their role and 5 = a key role).

A supplier of agreed services and nothing else	2.9
A business advisor	2.3
A technology advisor	4.2
An agent of change	3.7
A supplier of support services	4.3
A key partner	3.9

Overall Satisfaction

20. Please rate your overall level of satisfaction with your outsourcing vendor on the following criteria on a scale of 1-5 where 1 = dissatisfied and 5 = very satisfied:

Overall	3.9
Service provision	3.6
Flexibility of approach	3.7
Vendor service culture	3.5
Commercial terms and conditions	3.2
Innovation and creativity	3.5
Strength of partnership	3.8
Business contribution	3.4
Initial cost-effectiveness	3.3
Ongoing cost-effectiveness	3.3

21. How likely are you to renew the contract with the same vendor? Please rate on a scale of 1-5 where 1 = not at all likely and 5 = very likely. 4.2

Why/Why not?

Why:

Why not?

22. Which functions, if any, might you take back in-house? Why?

- PC/network support

Background Details

23. When did your outsourcing contract begin? 1994.4
24. What is the total length of your outsourcing contract 3.2 years
25. What is the approximate value of your outsourcing contract? Please state currency and time period.

Thank you very much for your assistance.

(Blank)

