
**Outsourcing Vendor
Performance Analysis -
U.S. 2000**

INPUT®

Abstract

The nature of outsourcing is changing with decreasing emphasis on platform operations and increasing emphasis on the operational management of new technologies such as Intranets and Web servers 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 the 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 would like 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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Operational Services

Outsourcing Vendor Performance Analysis - U.S. 2000

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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 pro-active 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 and expectations from all services vendors have changed dramatically under the influence of e-business.

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 business 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 was previously called Systems Operations in the 1990s and 1980s and Facilities Management in the 1970s and 1960s. Outsourcing is a long-term (greater than one year) contract between a customer and a vendor in which the customer delegates all, or a major portion, of an organizational operation or function to the vendor. Outsourcing vendors now provide a variety of services in support of customers' information systems and electronic business requirements.

- The vendor can plan, control, provide, operate, maintain and manage any or all components of the customer's information systems environment (equipment, networks, applications systems), either at the customer's site or the vendor's site.
- Various Internet and Web related categories of outsourcing service have emerged to include Internet Managed Services (included in Infrastructure Operations).
- The equipment involved may be at the customer or vendor's site and may be owned by the customer or the vendor. In some markets such as the US Federal Government these options are described by the terms "COCO" (Contractor-Owned, Contractor-Operated), and "GOCO" (Government-Owned, Contractor-Operated).
- To be included in INPUT's Outsourcing market forecast, the operation or function must be either solely information systems outsourcing or include information systems as a major component (at least 30% of the costs) of the operation (Business Operations or Business Process Operations).
Note that BPO is not included in the overall Electronic Business and IT Software and Services market.

The critical components that define an outsourcing service are:

- Delegating an identifiable area of the operation to a vendor
- Single-vendor responsibility for performing the delegated function
- Intended, long-term relationship between the customer and the vendor, where:
- The contract term is for at least one year
- The customer's intent is not to perform the 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.

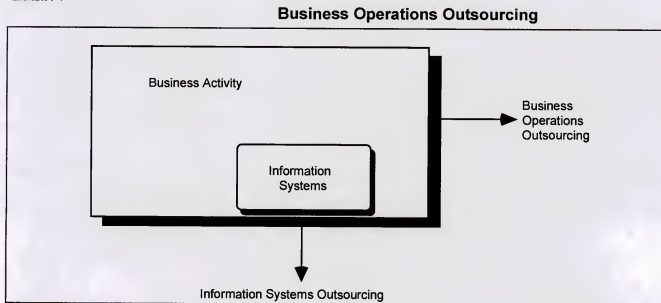
Business Operations Outsourcing (also known as Business Outsourcing or Functional Outsourcing) is a relationship in which one vendor is responsible for performing an entire business/operations function including the Information Technology Outsourcing that support it. The Information Technology Outsourcing 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 Technology Outsourcing can be viewed as a component of the Business Operations Outsourcing market (i.e., Information Technology Outsourcing is a business/operations function, see Exhibit I-1). However, in order to delineate between outsourcing contracts that are solely IT 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.

- Infrastructure Services outsourcing describes a relationship in which a vendor is responsible for managing and operating a client's "computer system"/data center (Platform Systems Operations) or developing and/or maintaining a client's application as well as performing Platform Operations for those applications (Applications Systems Operations).
- *Distributed Services (includes 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 organization. To be considered as Distributed Services Outsourcing, a contract must include a significant number of the individual services listed below.

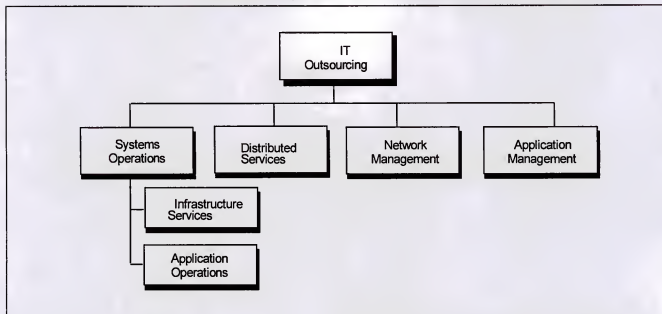
- Software Product Supply
- Equipment Supply
- Equipment/Software Installation
- Equipment Maintenance
- LAN Installation and Expansion
- LAN Management
- Network Interface Management
- Client/Server Support
- Logistics Management
- User Support
- Help Desk Functions
- User Training and Education
- Network 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



Source: INPUT

Exhibit I-2

Information Systems (IS) Outsourcing Service Categories

Source: INPUT

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

Exhibit I-3

Outsourcing Service Components

| Component | Infrastructure Services | App. Ops. | Distributed Services | Network Mgt. | App. Mgt. | Business Ops. |
|----------------------------------|-------------------------|-----------|----------------------|--------------|-----------|---------------|
| Project/Contract Management | x | x | x | x | x | x |
| Data Center 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 centers and various computing platforms) and the support of some of the legacy applications. In the past, most Application and Platform Operation outsourcing contracts included network management but recent contracts have also included desktop services.

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

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

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

B

Methodology

The report is based on telephone interviews with 35 respondents in the U.S. The majority of these interviews were carried out with IT contract managers. The interviews were conducted across the clients of a range of major outsourcing vendors.

This study was performed as part of a sponsored research project. In addition to this document, the research sponsors each received a confidential report comparing their performance from their clients' perspective with the overall industry performance.

This enables the sponsors to identify the relative strengths and weaknesses of their outsourcing services in considerable detail.

The average length of the outsourcing contracts covered in this research is two years. This counts rolling contracts with annual renewals as a series of one-year contracts.

The average value of the outsourcing contracts covered is \$1 million per annum.

Throughout this report, the interpretations of importance and satisfaction ratings listed in Exhibit I-4 have been adopted.

Exhibit I-4

Interpretation of Ratings

| Rating | Interpretation |
|---------------|----------------|
| 3.9 or higher | High |
| 3.4 to 3.8 | Medium |
| 3.3 or lower | Low |

Source: INPUT

C**Report Structure**

Chapter II consists of the Executive Summary, 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 analysis 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.

Chapter IV provides an analysis of the change in client satisfaction between 1997 and 2000.

Appendix A summarizes the results of the outsourcing vendor performance analysis in U.S. for 2000.

Appendix B summarizes the results of the outsourcing vendor performance analysis in U.S. for 1998.

Appendix C summarizes the results of the outsourcing vendor performance analysis in the U.S. for 1997.

D**Related Reports**

- Outsourcing Pricing Mechanisms — U.S., 1995*
- Outsourcing Vendor Performance Analysis, — U.S., 1996*
- Opportunities in Business Operations Outsourcing — U.S., 1996*
- Information Systems Outsourcing Market — U.S., 1997-2002*
- Outsourcing Vendor Performance Analysis — U.S., 1997*
- Outsourcing Vendor Performance Analysis — Europe, 1999*
- Assessment of Human Resources Services — Europe, 1998*
- Assessment of Human Resources Services — U.S., 1998*

II

Executive Summary

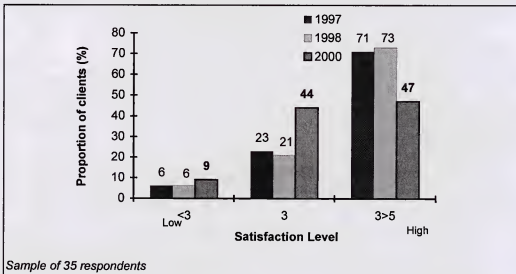
A

Overall Satisfaction with Outsourcing Declined Between 1998 and 2000

The overall profile of satisfaction exhibited by clients of outsourcing vendors in the U.S. remained roughly constant between 1997 and 1998 but has declined markedly between 1998 and 2000. Exhibit II-1 shows the profiles of overall satisfaction ratings given to outsourcing vendors in the U.S. between 1997 and 2000. Clients were asked to rate their overall satisfaction on a scale of 1 to 5 where 1 = very dissatisfied and 5 = very satisfied.

Exhibit II-1

Change in Client Satisfaction with Outsourcing: U.S. 1997 to 2000



Source: INPUT

In addition to their level of overall satisfaction, clients were asked the likelihood of their renewing contracts with their current supplier.

There is frequently a lag between changes in levels of satisfaction and changes in renewal intentions with clients retaining a high level of loyalty for some time after a serious decline in satisfaction levels.

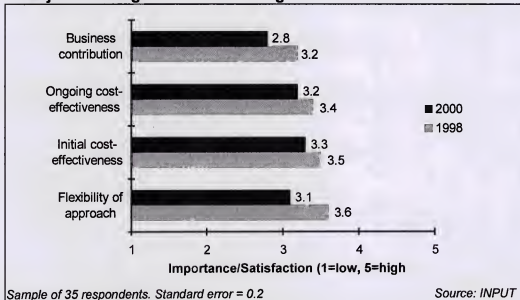
This appears to have happened in this case with 80% of clients still showing a high vendor loyalty. At present only 15% of clients are currently likely to switch outsourcing vendors on contract renewal.

However, it is unlikely that these predicted low switching rates will be maintained in the coming years. It is probable that the decline in satisfaction levels will soon be followed by a marked decline in vendor loyalty. Vendors will need to deliver service improvements in many areas in the coming years if the predicted high renewal rates are to become a reality.

Exhibit II-2 lists some of the key summary criteria against which vendors need to deliver immediate improvement.

Exhibit II-2

Major Challenges for Outsourcing Vendors: U.S. 1998 to 2000



The three principal themes in 2000 were the needs for vendors to deliver:

- Higher levels of client responsiveness
- Achievement of business benefits
- Improved value for money.

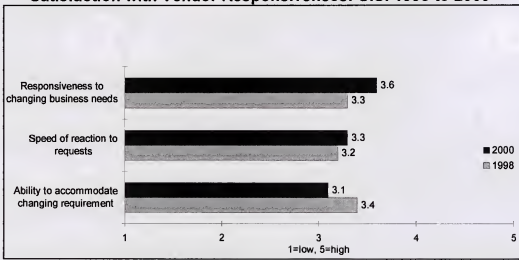
B

Vendors Must Deliver Higher Levels of Client Interaction

Exhibit II-3 lists the importance and satisfaction perceived by clients against a number of measures of vendor responsiveness.

Exhibit II-3

Satisfaction with Vendor Responsiveness: U.S. 1998 to 2000



Sample of 35 respondents. Standard error = 0.2

Source: INPUT

Clients perceive vendors' reactive service capabilities to have improved in some areas between 1998 and 2000. In some respects, vendors seem to have become flexible contractually.

There is a perception that despite this increased willingness, it is becoming more difficult for vendors to respond. The reasons for this situation principally seem to be the sheer rate of business and technology change prompted by e-business, resulting in:

- Greater difficulty for vendors in understanding their clients' businesses and the new competitive pressures faced. Vendor personnel who had achieved some level of understanding of clients' business processes are now seen to be increasingly out-of-touch with the new business reality.
- Change management processes that are inappropriate in times of rapid change. The formal planning sessions followed by formal consultancy studies established by many outsourcing vendors to manage change control may be too slow-moving for the new economy. In the new economy, exchanges of information between client and vendor may need to be much more frequent and informal if the client is to respond rapidly to changes in the business environment.

The net impact of these factors may be a perceived lack of ability to respond that is frustrating for both parties.

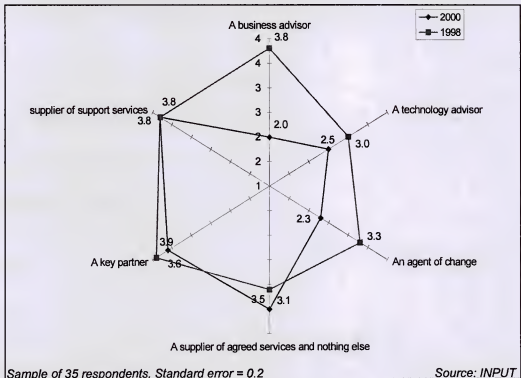
C

Vendors Need to Regain the High Ground

Exhibit II-4 lists U.S. clients' overall perception of the role of outsourcing vendors.

Exhibit II-4

Perceived Roles of Outsourcing Vendors: U.S. 1998 and 2000



Vendors are to some extent still regarded as key partners by their clients. However the nature of this partnership is becoming a supporting one rather than a strategic one. Clients are increasingly regarding outsourcing vendors as organizations that supply agreed support services on demand rather as change agents. Clients, no longer, typically expect outsourcing vendors to behave as:

- Business advisors
- Technology advisors
- Agents of change.

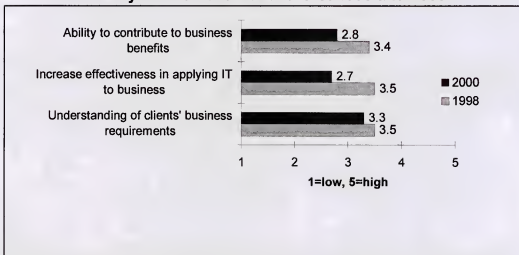
However, this is a dangerous change in the role of outsourcing vendors from the vendor perspective. To continue to strengthen the sense of partnership with their clients, outsourcing vendors need to be seen either as key technology advisors and implementers or as business advisors and business change agents. Unless outsourcing vendors can begin to deliver the levels of technical and business innovation required by their clients, there is a danger that they will become just commodity suppliers of support services.

Although the skills of many outsourcing vendors are primarily technical, it is important that vendors can use their skills to deliver business benefit on behalf of their clients.

Exhibit II-5 shows vendor performance against selected measures of delivery of business benefit.

Exhibit II-5

Delivery of Business Benefit: U.S. 1998 and 2000



Sample of 35 respondents. Standard error = 0.2

Source: INPUT

The typical levels of achievement in this area remain low and have deteriorated further between 1998 and 2000.

Vendors' understanding of clients' business requirements has deteriorated and this has severely impacted their ability to contribute to their clients' business success.

Yet, it is unlikely that vendor performance has deteriorated over the past two years. The principal factors likely to be causing this change in perception are the rapid changes in technology and the business environment as a result, expectations have risen.

As organizations seek to redefine themselves in the new economy so it has become more difficult for vendors to keep up with industry and individual strategies and contribute to these in a timely fashion.

If vendors are to make a contribution to their clients in times of rapid change, then they will have to take steps to:

- Track industry and technology developments more closely
- Work more informally and closely with their clients
- Put in fast reaction mechanisms that allow them to react quickly to identified changing needs.

D

Improved Value for Money Remains Important

A traditional disadvantage of outsourcing is that it can potentially slow-down the rate at which new systems and technologies are introduced. This effect has in the past been caused by contractual style and pricing mechanisms, irrespective of vendor capabilities.

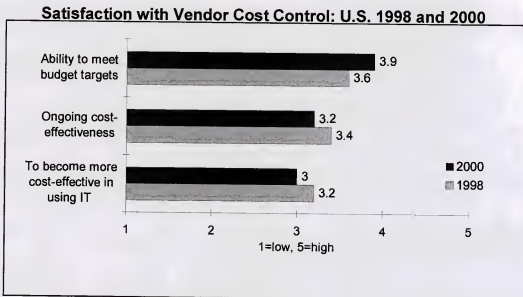
However, it appears that vendors have now addressed the issue of lack of flexibility in contractual approach. The issue is now one of expectation management and delivery of value for money.

Clients expect a reducing cost for support of existing systems and infrastructure over time. These cost reductions do not always manifest themselves as strongly as clients expect and, as a result clients are increasingly critical of vendors' abilities to meet budget targets and deliver ongoing cost reduction. It is also a question of approach. Clients expect vendors to pay the same level of attention to cost management on their behalf as would be taken by in-house management. Accordingly, vendor personnel need to constantly seek ways of saving money for their clients and recommend cost reduction strategies to them. Again these cost reduction strategies should not necessarily result from major formal, chargeable studies, but should also arise at a more incremental and informal level.

At the same time, the level of change that can arise as a result of e-business initiatives can have a huge impact on existing expenditure plans. Accordingly, it is important that vendors manage expectations accordingly and seek other areas in which savings can be made.

Exhibit II-6 lists the levels of satisfaction from the client perspective against a number of cost control criteria.

Exhibit II-6



Sample of 35 respondents. Standard error = 0.2

Source: INPUT

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 are more likely to favor forms of risk sharing where the vendor takes the risk of falling workloads, than forms of risk-sharing that merely enhance vendor profitability.

Clients also frequently perceive that they receive poor value for money from any changes in operational service volumes. They perceive that they are expected to pay additional charges when volumes increase, but do not receive a proportionate decrease in charges when transaction volumes decrease.

Overall clients:

- Dislike pricing mechanisms such as "time and materials" that allocate the major elements of risk to the client rather than to the vendor. This applies particularly to systems development contracts where clients perceive themselves as carrying the bulk of the burden of commercial risk
- Would like to encourage greater vendor creativity, but with the vendor taking a major share of the risk.

In particular, clients would like greater flexibility in service usage with considerable flexibility to adjust the volume of services used according to their business requirement and circumstances. In extreme cases, this could entail turning services on and off at short notice with the vendor taking the commercial risk over whether the services are utilized or not.

Overall there is an increasing tendency for clients to insist on value for money throughout the life of outsourcing contracts. Some clients are ensuring that they achieve this by developing contracts that permit them to benchmark vendor pricing throughout the contract. This will place greater margin pressure on vendors by making it more difficult for them to increase their profitability significantly in the later stages of the contract.

Ideally, clients would like vendors to behave as though they owned the client IT budget and continually sought out ways in which IT services could be delivered within a set budget and at increased value for money. Clients tend to disapprove of vendors that are continually trying to increase IT expenditure at the clients' expense, regardless of the worthiness of the projects and services themselves. Vendors need to take a more holistic view on behalf of their clients and this includes both the achievement of business benefit and the management of the IT budget. At the moment, there is a danger that vendors are merely responding to requests for individual projects and services from the client without taking this overall perspective of effectiveness and value for money into account.


 III

Vendor Performance Analysis — U.S. 2000

A

Application Management Becomes Increasingly Important

Exhibit III-1 identifies the pattern of services being outsourced by the organizations surveyed.

Exhibit III-1

Outsourcing Service Breakdown by Function

| Function | Proportion outsourced (%) |
|------------------------------------|---------------------------|
| Desktop services | 32 |
| Application development management | 29 |
| E-business services | 29 |
| BPR consultancy | 29 |
| Application maintenance management | 24 |
| IT strategy consultancy | 24 |
| Mainframe operations | 21 |
| WAN management | 18 |
| Intranet and Web hosting | 15 |
| Other IT consultancy services | 6 |
| ERP management | 3 |
| Business process outsourcing | 3 |

Source: INPUT

The management of datacenter operations no longer dominates outsourcing activity. The challenge in IT infrastructure management now is to provide end-to-end service management covering the desktop, LANs, WANs and servers. Indeed the areas in need of systems management are now moving beyond these with Intranets and Web services strongly emerging as key technologies requiring external management services.

At the same time, application management is becoming an important activity, with considerable emphasis on application development management driven by the considerable demand to implement e-business applications.

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

Exhibit III-2

Service Quality by IT Function

| Function | Satisfaction |
|------------------------------------|--------------|
| IT strategy consultancy | 3.7 |
| Desktop services | 3.6 |
| WAN management | 3.6 |
| E-business services | 3.6 |
| BPR consultancy | 3.6 |
| Intranet and Web hosting | 3.5 |
| Application development management | 3.5 |
| Application maintenance management | 3.4 |
| Mainframe operations | 3.3 |

Source: INPUT

Unlike in Europe, the problems associated with the management of the desktop infrastructure appear to be finally coming to an end in the U.S. Although many vendors established their initial desktop services offerings five years, or more, ago desktop services have proved troublesome throughout this period for both vendors and clients alike and the overall level of satisfaction was typically been moderate in earlier years.

The challenge now for vendors in the U.S. is to develop high-quality services around the development and operation of Intranets and Web servers. Organizations are now starting to require Web-hosting services. At the same time there is a need to improve the quality of application management services. These services are of increasing

importance but need to adapt to become more responsive to the demands of the e-economy.

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 |
|---|-------------------|---------------------|------------|
| Provision of Web hosting services | 1.9 | 3.3 | (1.3) |
| Moves and user requested changes | 2.7 | 2.6 | 0.1 |
| Capability of help-desk | 3.2 | 3.1 | 0.2 |
| Utilization of new technologies | 4.1 | 3.4 | 0.7 |
| Scope of operational capability | 4.6 | 3.5 | 1.1 |
| Achievement of operational service level agreements | 4.6 | 3.5 | 1.1 |
| Levels of systems availability | 4.5 | 3.4 | 1.1 |

Source: INPUT

The scope of operational management capability has often failed to keep pace with the rate of change of technology. Vendors initially experienced difficulties in operational management when making the transition from operating centralized to decentralized systems. In addition, they now have to adjust rapidly to the need for operational capability in support of Web technologies.

In particular, clients would like vendors to assist them more in speeding up these changes in architecture and assisting them in utilizing new technologies. At the same time, the e-economy is placing increasing demands on levels of systems availability and vendors need to recognize and respond to these requirements.

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 | | Scope of operational capability Achievement of operational service level agreements Level of systems availability Utilization of new technologies | |
| Medium Importance | | | |
| Low importance | | | Capability of help-desk Moves and user requested changes Provision of Web hosting services |

Source: INPUT

Exhibit III-5 shows the profile of network availability guarantees currently provided by vendors.

Exhibit III-5

Profile of Systems Availability Guarantee

| Level of Availability Guaranteed (%) | Proportion of contracts (%) |
|--------------------------------------|-----------------------------|
| 90%--97% availability | 57% |
| 97%--99% availability | 14% |
| 99% -99.5% availability | 14% |
| Over 99.5% availability | 14% |

Source: INPUT

Exhibit III-6 shows the profile of network availability guarantees currently provided by vendors.

Exhibit III-6

Profile of Network Availability Guarantees

| Level of Availability Guaranteed (%) | Proportion of contracts (%) |
|--------------------------------------|-----------------------------|
| 90%--97% availability | 60% |
| 97%--99% availability | 20% |
| Over 99% availability | 20% |

Source: INPUT

The levels of systems and network availability currently guaranteed are very low when viewed in the context of the new economy. Only 30% of organizations are guaranteed systems availability in excess of 99% and only 20% of organizations are guaranteed network availability in excess of 99%. Vendors will need to strive to improve these levels of availability if clients are to remain satisfied with their ability to provide operational services.

Exhibit III-7 lists the difference between importance and client satisfaction against a range of application management-related criteria.

Exhibit III-7

Application Management: Service Features

| Service Characteristic | Importance Rating | Satisfaction Rating | Difference |
|--|-------------------|---------------------|------------|
| Ability to control costs/meet budget targets | 4.3 | 3.9 | 0.3 |
| End user satisfaction | 3.6 | 3.2 | 0.3 |
| Achievement of projected business benefits | 3.4 | 3.0 | 0.4 |
| Achievement of agreed support service levels | 3.6 | 2.9 | 0.6 |
| Ability to contribute to business benefits | 3.2 | 2.6 | 0.6 |
| Delivery of projects on time | 4.1 | 3.5 | 0.7 |
| Meeting of requirements/specification | 4.1 | 3.5 | 0.7 |

Source: INPUT

Exhibit III-8

Satisfaction with Application Management

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

Source: INPUT

Exhibit III-9 shows the proportions of projects performed on time within the outsourcing contracts surveyed.

Exhibit III-9

Profile of Projects On-time

| Proportion of projects on-time (%) | Proportion of respondents(%) |
|------------------------------------|------------------------------|
| 0 - 50% | 18 |
| 51-79% | 18 |
| 80-89% | 29 |
| 90-100% | 35 |
| Total | 100 |

Source: INPUT

Exhibit III-10 shows the proportions of projects performed on budget within the outsourcing contracts surveyed.

Exhibit III-10

Profile of Projects On-budget

| Proportion of projects on-time (%) | Proportion of respondents (%) |
|------------------------------------|-------------------------------|
| 0 - 50% | 15 |
| 51-90% | 23 |
| 91-100% | 62 |

Source: INPUT

Clients expressed high levels of satisfaction with vendor ability to control costs within application management services. On average, 82% of projects were completed on-budget, an increase from the level of 75% reported in the U.S. in 1998.

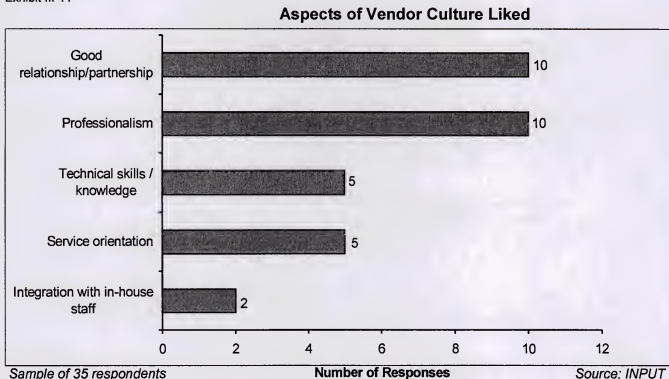
However, clients expressed only moderate levels of satisfaction with vendors' ability to deliver projects on-time. On average, 72% of projects within outsourcing contracts were reported as being completed on-time.

Overall, clients appear to increasingly regard outsourcing vendors as support vendors tasked with delivering against agreed specifications. Clients' expectations that vendors will contribute in business terms remain low. Clearly, vendors need to make more of a business contribution if they are to protect their relationship with their client.

B**Vendors Need To Become More Responsive To Changing Business Needs**

Exhibit III-11 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-11

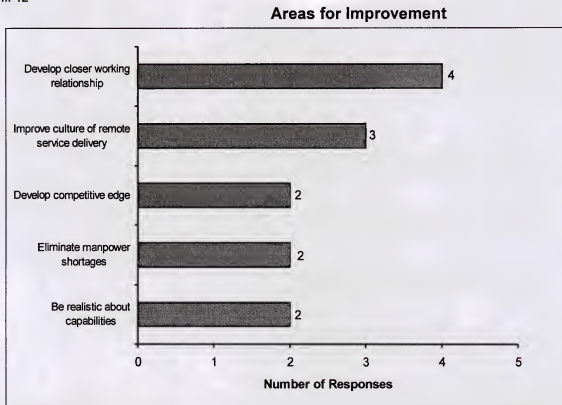


One of the advantages often cited for outsourcing is the introduction of a more professional service culture to in-house IT personnel. This argument has been supported by previous studies of this type. Clients have tended to be pleased with the overall responsiveness of vendor personnel and the efforts that these personnel take in order to meet their commitments.

However, the stage beyond professionalism demands seamless integration with in-house staff and a strong feeling of partnership by the client. In many cases, this type of relationship has now been established showing that vendors are working well with their clients.

Exhibit III-12 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-12



Sample of 35 respondents

Source: INPUT

Nonetheless, the principal criticism of outsourcing vendors centers around the need to continue to work on building relationships and a sense of partnership with clients. Account management is critical to the success of outsourcing and in some instances there remains scope for improvement. Money, in particular, is a cause of many of the relationship-related problems with some clients believing that vendors need to take more financial risk if they are to develop true partnerships with their clients. Others would merely like vendors to offer a level of informal consultancy to assist them in developing approaches to improved use of IT.

Clients have typically built up good working relationships with service delivery personnel located on their premises and this is one of the current strengths of outsourcing. But, maintaining strong client working relationships is more of a challenge where remote service delivery is used.

Remote service delivery is increasingly used as a means of reducing service delivery costs, it is difficult for remote service personnel working on a multitude of accounts to develop detailed understanding of the client's business environment and pressures and to offer informal advice. Accordingly, vendors may need to strengthen the account management, at both operational management and relationship management levels, in those accounts where remote service delivery is used.

Extending this theme, some clients would like their suppliers to become more involved and take a greater ownership of their IT issues and direction.

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

Exhibit III-13

Service Culture Ratings

| Attribute | Importance Rating | Satisfaction Rating | Difference |
|---|-------------------|---------------------|------------|
| Co-operation with other vendors | 3.0 | 3.3 | (0.3) |
| Continuity of personnel | 3.9 | 3.7 | 0.1 |
| Effective and appropriate communications channels | 3.1 | 3.0 | 0.1 |
| Fast speed of reaction to requests | 3.4 | 3.3 | 0.1 |
| Calibre of personnel | 4.2 | 4.1 | 0.1 |
| Understanding of latest technologies | 3.9 | 3.8 | 0.1 |
| Sense of responsibility for your goals | 3.6 | 3.4 | 0.2 |
| Ability to apply latest technologies | 4.2 | 3.9 | 0.3 |
| Understanding of your business requirements | 3.7 | 3.3 | 0.4 |
| Responsiveness to changing business needs | 4.0 | 3.6 | 0.4 |
| Willingness to compromise when conflicts arise | 3.5 | 3.1 | 0.4 |
| Responsiveness to day-to-day issues | 4.0 | 3.6 | 0.4 |
| Low level of bureaucracy | 3.3 | 2.9 | 0.4 |
| Commitment to achieving agreed requirements | 4.1 | 3.6 | 0.5 |

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

Exhibit III-14

Satisfaction with Service Culture Features

| | High Satisfaction | Medium Satisfaction | Low Satisfaction |
|--------------------------|--|--|---|
| High Importance | Calibre of personnel Ability to apply latest technologies | Commitment to achieving agreed requirements Responsiveness to changing business needs Responsiveness to day-to-day issues Continuity of personnel Understanding of latest technologies | |
| Medium Importance | | Sense of responsibility for clients' goals | Understanding business requirements Willingness to compromise when conflicts arise Fast speed of reaction to requests |
| Low Importance | | | Effective and appropriate communication channels Low level of bureaucracy Co-operation with other vendors |

Source: INPUT

Clients are typically impressed with the caliber of vendor personnel and their ability to apply the latest technologies. However, the prime issue is vendors' ability to apply these skills to maximize the impact on their clients' businesses. Business environments are changing increasingly rapidly and clients would like vendors to improve their understanding of their clients' business requirement and become more responsive to change on a day-to-day basis.

Organizations are currently faced with major changes in the way they operate, much of it facilitated by e-business, and they would like vendors to exhibit much higher levels of performance in:

- Delivering agreed systems and services
- Responding to changing business needs
- Reacting much more quickly to requests.

C

Clients Require Improved Mechanisms for Cost Control

In contractual terms, clients want a specified commitment that facilitates their budgeting but, at the same time, a relatively simple and fair means of accommodating their changing requirements.

Exhibit III-15 lists the difference between importance and client satisfaction against a range of contract-related criteria.

Exhibit III-15

Ratings of Contract Terms

| Attribute | Importance Rating | Satisfaction Rating | Difference |
|---|-------------------|---------------------|------------|
| Terms of transfer of employees | 2.5 | 3.1 | (0.6) |
| Penalties and bonuses | 2.4 | 2.4 | 0.0 |
| Flexibility to use additional suppliers where appropriate | 2.3 | 2.1 | 0.1 |
| Ease of termination of contract | 2.6 | 2.5 | 0.1 |
| Length of contract | 4.2 | 4.0 | 0.2 |
| Ability to accommodate changing requirements | 3.3 | 3.1 | 0.2 |
| Overall contract flexibility | 4.0 | 3.7 | 0.3 |
| Overall service level agreement | 3.5 | 3.2 | 0.3 |
| Willingness to tailor contract to client's situation | 4.0 | 3.5 | 0.4 |
| Commitment to meet agreed prices | 3.8 | 3.0 | 0.8 |

Source: INPUT

Exhibit III-16 presents the data from Exhibit III-15 in a manner aimed to facilitate vendors in identifying the main priorities for improvement in contract terms.

Exhibit III-16

Satisfaction with Outsourcing Contract Features

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

Source: INPUT

Overall, the flexibility of outsourcing contracts is no longer a major issue and this issue appears to have been addressed by outsourcing vendors.

Perhaps surprisingly, clients typically do not regard vendor penalties and bonuses or terms of transfer of employees as a high priority.

Nor is the freedom to use third parties seen as important despite the 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 under perform in certain functions will seek to contract those functions separately to a third party, or even transfer them back in-house.

Outsourcing clients tend to favor fixed-price contracts because these enable clients to work to fixed budgets and are very simple to understand.

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

On the other hand, time-and-materials pricing elements are typically perceived as introducing excessive charges and as unduly passing all risk to the client. This is currently most prevalent in systems development projects. Clients would typically like vendors to take a greater share of the financial risk inherent in new developments and to be contractually committed not to exceed target budgets.

The difficulty of establishing and managing contracts is also a major concern to some organizations. Vendors need to assist their clients in making contract monitoring and amendment a much more simple process.

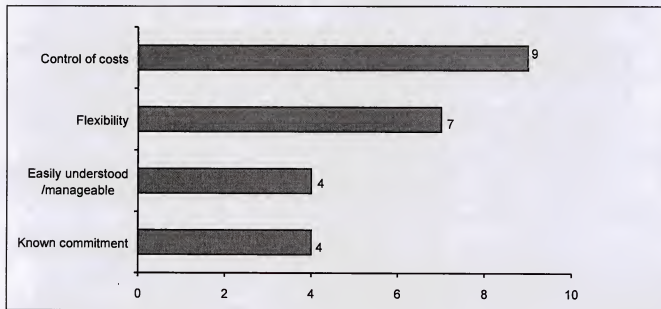
Vendors should consider discussing future service requirements with their clients on a regular basis, e.g. quarterly and adjusting the service and contract terms as required. This approach can avoid a major discontinuity between service requirement and the actual services being delivered. It can also reduce the impact of pricing changes.

Clients are also concerned in a number of cases about the unexpectedly high costs of their outsourcing services. Another challenge for vendors is not only delivery of an initial cost reduction, but demonstrating to clients that they can maintain the cost reduction momentum throughout the life of the contract.

Exhibit III-17 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-17

Aspects of Pricing Mechanism Liked

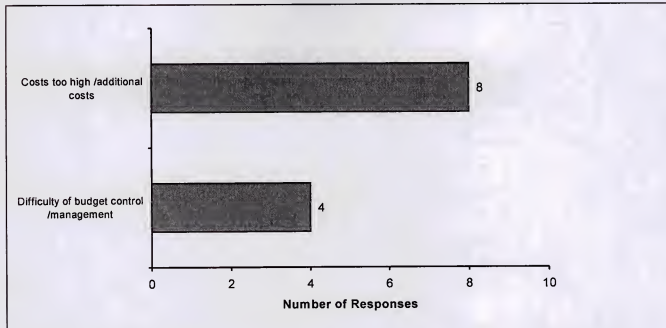


Sample of 35 respondents

Source: INPUT

Exhibit III-18 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-18

Aspects of Commercial Terms Disliked

Sample of 35 respondents

Source: INPUT

D**Vendors' Need to Support Their Role as Change Agents**

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.

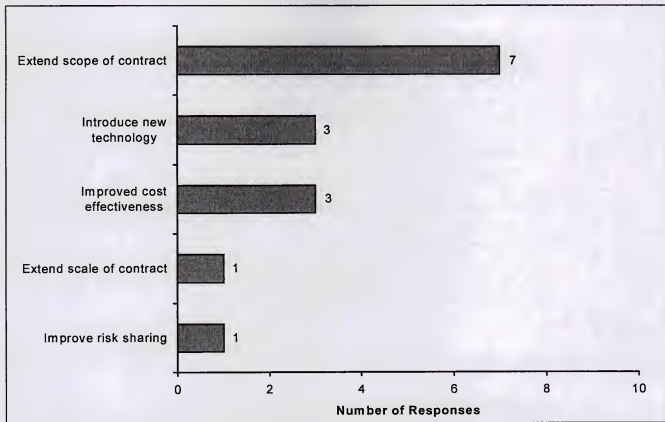
Exhibit III-19

Principal Benefits Sought

| Benefit Sought | Level of achievement (1998) |
|------------------------------------|------------------------------------|
| Cost efficiency/reduction (35) | 3.6 |
| Access to technical expertise (21) | 4.2 |
| Improved service levels (21) | 3.9 |
| Access to skilled personnel (10) | 4.5 |
| Support for existing systems (5) | 3.6 |
| Introduction of new technology (5) | 3.8 |
| Cost flexibility (4) | 4.3 |
| Implement best practice (4) | 4.3 |

Source: INPUT

Exhibit III-20

Principal Future Benefits Sought

Sample of 35 respondents

Source: INPUT

The overwhelming majority of outsourcing clients cited traditional criteria such as cost savings and access to IT skills. Nevertheless, there was a continuing emphasis in 2000 on access to IT skills indicating that clients are now relying heavily on vendors to supply personnel skilled in new technologies such as the Web technologies.

Overall clients are pleased with the caliber of these personnel. Surprisingly, the provision of technical expertise was perceived to be delivered to a higher standard than support for existing systems. This may reflect the problems currently being experienced in some instances in providing high levels of help-desk service.

The other area of concern was the cost-efficiency of outsourcing vendors.

When outsourcing clients were asked unprompted what key benefits they would seek from a vendor in any future outsourcing contracts three main themes emerged.

Firstly, outsourcing clients are still extending the use of outsourcing within their organizations. However, they are becoming more selective in their choice of supplier for each function so that vendors will need to ensure high levels of service and staff resourcing in each service area in order to ensure access to this apparently captive business.

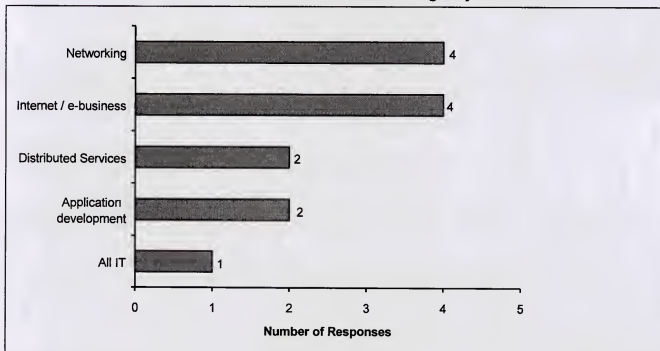
Secondly, clients need to find mechanisms to support them in the rapid introduction of new technology.

Thirdly, they need to achieve these aims in a cost-effective fashion with vendors taking a greater share of the financial risk involved in systems development projects.

Exhibit III-21 lists the profile of areas where outsourcing is most likely to be extended within client organizations.

Exhibit III-21

Areas Where Outsourcing May be Extended



Sample of 35 respondents

Source: INPUT

The emphasis in extension of outsourcing contracts is now very forward-looking, focusing on e-business development and the

management of Web technologies such as corporate Intranets and Web servers.

Exhibit III-22 shows the extent to which outsourcing vendors are perceived to contribute towards each of a number of potential IT goals.

Exhibit III-22

Ratings Of Contribution To IT Goals

| Goal | Expectation Rating | Achievement Rating | Difference |
|--|--------------------|--------------------|------------|
| To reduce the time taken to implement new system | 3.2 | 3.7 | (0.4) |
| To accelerate your implementation of e-business | 3.0 | 3.2 | (0.2) |
| To free in-house managers/staff for other work | 3.6 | 3.5 | 0.1 |
| To introduce knowledge of new technologies | 3.7 | 3.2 | 0.5 |
| To become more cost-effective in using IT | 3.5 | 3.0 | 0.5 |
| To increase effectiveness in applying IT to the business | 3.3 | 2.7 | 0.6 |
| To aggressively use IT for competitive advantage | 3.6 | 2.8 | 0.7 |

Source: INPUT

Exhibit III-23 highlights the difference between the importance of contributing to each of these IT goals and clients' satisfaction with vendors' current contribution.

Exhibit III-23

Satisfaction with Contribution to IT Goals

| | High Satisfaction | Medium Satisfaction | Low Satisfaction |
|-------------------|-------------------|---|---|
| High Importance | | | |
| Medium Importance | | To free in-house managers/staff for other work | To aggressively use IT for competitive advantage To introduce knowledge of new technologies To become more cost-effective in using IT |
| Low Importance | | To reduce the time taken to implement new systems | To accelerate implementation of e-business To increase effectiveness in applying IT to the business |

Source: INPUT

Expectations from outsourcing are quite low at present, though organizations would like outsourcing vendors to place greater emphasis on using new technology for competitive advantage in a cost-effective manner.

Exhibit III-24 lists the difference between client expectation and perceived vendor achievement against a number of potential benefits.

Exhibit III-24

Contribution to Benefits

| Potential Benefit | Expectation Rating | Achievement Rating | Difference |
|---|--------------------|--------------------|------------|
| Development process transfer to organization | 2.8 | 3.5 | (0.7) |
| Higher levels of development and support productivity | 3.2 | 3.9 | (0.7) |
| Improved management of resources | 3.8 | 3.7 | 0.1 |
| Removed in-house involvement with legacy systems | 3.5 | 3.4 | 0.1 |
| More effective introduction of new systems | 3.3 | 3.1 | 0.2 |
| A solution to resource shortfalls | 3.9 | 3.5 | 0.4 |
| Improved resource flexibility | 4.0 | 3.6 | 0.4 |
| Improved ability to relate IT to the business | 3.2 | 2.8 | 0.4 |
| Access to new skills/expertise | 4.2 | 3.7 | 0.5 |
| Improved support standards and service to users | 3.7 | 3.1 | 0.6 |
| Improved service levels | 3.9 | 3.2 | 0.7 |

Source: INPUT

Exhibit III-25 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-25

Achievement of Potential Benefits

| | High Achievement | Medium Achievement | Low Achievement |
|--------------------|---|--|---|
| High Expectation | | A solution to resource shortfalls Improved resource flexibility Access to new skills/expertise | Improved operational service levels |
| Medium Expectation | | Improved management of resources Removed in-house involvement with legacy systems | Improved support standards and service to users |
| Low Expectation | Higher levels of development and support productivity | Development process transfer to organization | Improved ability to relate IT to the business More effective introduction of new systems |

Source: INPUT

At present, outsourcing vendors are perceived to be most successful in delivering:

- Improved access to resources
- Improved management of resources and resource productivity.

Vendors need to pay continuing attention to improving levels of operational support. Both operational service levels and support services are perceived to be below client expectations at present. Again the nature of Web-based technologies increases the focus on interoperability and availability and vendors will have to exceed the support, systems and network availability levels that were appropriate in legacy environments.

Exhibit III-26 shows the perceived roles of outsourcing vendors from the perspective of their clients.

Exhibit III-26

Perceived Role of Outsourcing Vendor

| Potential Role | Importance Rating | Achievement Rating | Difference |
|--|-------------------|--------------------|------------|
| An agent of change | 2.3 | 2.3 | 0.0 |
| A business advisor | 2.1 | 2.0 | 0.1 |
| A supplier of agreed services and nothing else | 3.7 | 3.5 | 0.2 |
| A key partner | 3.8 | 3.6 | 0.2 |
| A supplier of support services | 4.1 | 3.8 | 0.3 |
| A technology advisor | 3.0 | 2.5 | 0.5 |

Source: INPUT

Outsourcing vendors are typically perceived to have progressed beyond being *suppliers of agreed services and nothing else* and have made some progress towards being viewed as *key partners in the supply of support services*. This is the role that they are currently expected to play by their clients. However, this is very much a secondary role. Vendors are not typically expected to act as business advisors.

In addition, outsourcing vendors receive low ratings as *technology advisors* and *agents of change*. Vendors should work to change the expectation that they can make a significant contribution in these areas.

The key challenge for outsourcing vendors is to improve these perceptions so that they become key technology advisors and agents of change that play a crucial role in assisting their clients in improving their business processes through the application of new technology. At present, outsourcing vendors tend to be viewed as primarily playing a supporting role to their clients rather than one of thought leadership.

E

Vendors Need to Strengthen Their Business Contribution to Protect Contract Renewals

Exhibit III-27 summarizes attitudes to overall vendor performance.

Exhibit III-27

Summary Criteria

| Criterion | Importance Rating | Achievement Rating | Difference |
|---------------------------------|-------------------|--------------------|------------|
| Business contribution | 3.0 | 2.8 | 0.2 |
| Service provision | 4.1 | 3.8 | 0.3 |
| Vendor service culture | 3.9 | 3.6 | 0.3 |
| Flexibility of approach | 3.4 | 3.1 | 0.4 |
| Commercial terms and conditions | 3.6 | 3.3 | 0.4 |
| Strength of partnership | 3.6 | 3.1 | 0.5 |
| Innovation and creativity | 3.1 | 2.5 | 0.6 |
| Initial cost-effectiveness | 3.9 | 3.3 | 0.7 |
| Ongoing cost-effectiveness | 4.1 | 3.2 | 0.8 |
| Overall | 4.3 | 3.4 | 0.9 |

Source: INPUT

The overall performance of outsourcing vendors is currently disappointing. While clients show a moderately high level of satisfaction with current levels of service provision and with vendor service cultures, vendors are currently perceived to be failing to add value through innovation and creativity or by delivery of a business contribution.

Indeed, outsourcing vendors are no longer expected by their clients to make a significant business contribution. Vendors need to become more involved in assisting their clients to adopt e-business by acting as a change agent within the client's organization.

In addition, vendors need to deliver higher levels of value for money.

Exhibit III-28 shows those aspects of their outsourcing services with which clients are particularly pleased.

Exhibit III-28

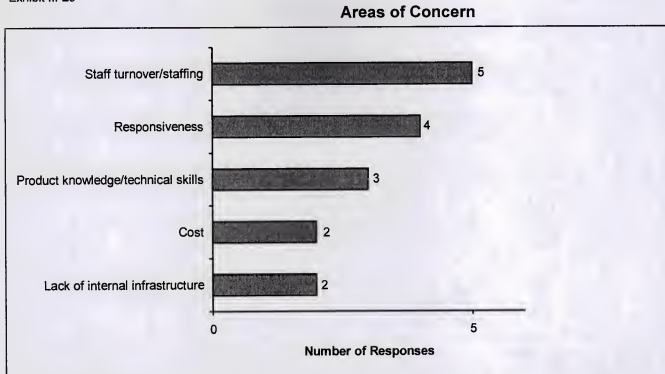
Most Satisfactory Aspects of Outsourcing Services

Sample of 35 respondents

Source: INPUT

Exhibit III-29 shows those aspects of their outsourcing services that currently cause clients concern.

Exhibit III-29



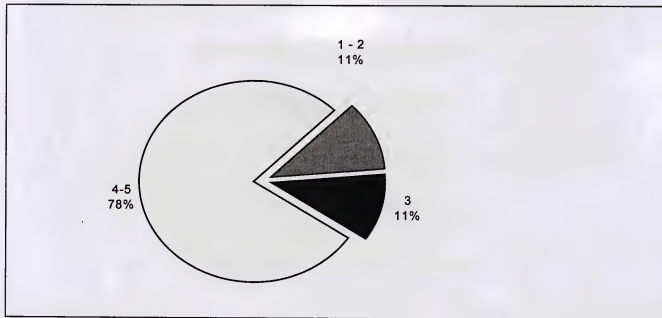
Sample of 35 respondents

Source: INPUT

Exhibit III-30 lists the likelihood of clients renewing their outsourcing contracts with the same vendor.

Exhibit III-30

Likelihood of Contract Renewal



Sample of 35 respondents

Source: INPUT

Clients exhibit a relatively high level of loyalty with approximately 80% of clients exhibiting a strong likelihood of contract renewal with their existing vendor. This figure has increased from 55% in 1997, indicating a considerable increase in client loyalty during 1998 which has been maintained over the past two years.

Despite low levels of satisfaction with outsourcing vendors as agents of change, only 10% of clients show a marked disinclination to renew contracts with their existing suppliers. Few clients are undecided indicating that approximately 15% of clients will switch vendors on contract renewal.

Overall, clients tend to express a high likelihood of renewing their contracts with their current vendor where they are pleased with the current service. Vendors are increasingly being viewed as suppliers of support services for existing infrastructure and applications and as suppliers of technical personnel rather than as agents of change able to make a significant business contribution to their clients.

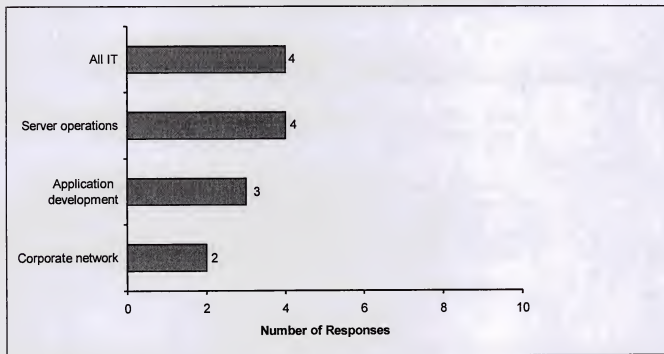
Despite the high levels of loyalty expressed by clients, this situation may lead to increasing cost competition in the near future. Vendors are better protected from their competitors where they are perceived to be key partners that can make a significant business contribution to the client.

There are also some indications that clients will unbundle services where they perceive vendor service quality to be variable across a range of services. In some cases, clients expect to break up existing contracts into a number of smaller contracts; in others, clients anticipate taking services back in-house.

Exhibit III-31 lists the profile of activities that organizations expect to revert in-house.

Exhibit III-31

Functions That May Revert In-house



Sample of 35 respondents

Source: INPUT

IV

Changes in Vendor Performance 1997 - 2000

This chapter compares the relative levels of satisfaction of outsourcing clients in the U.S. between 1997 and 2000 and comments on the principal changes in satisfaction that have taken place.

A

Service Delivery Perceived to Deteriorate Between 1998 and 2000

Exhibit IV-1 lists the level of satisfaction with service quality by service function.

Exhibit IV-1

Satisfaction with Service Quality by IT Function: 1997 to 2000

| Function | Satisfaction Rating (1997) | Satisfaction Rating (1998) | Satisfaction Rating (2000) | Difference |
|----------|----------------------------|----------------------------|----------------------------|------------|
|----------|----------------------------|----------------------------|----------------------------|------------|

| | | | | |
|---|-----|-----|-----|-------|
| IT strategy consultancy...(7) | 4.1 | 3.7 | 3.7 | 0.0 |
| Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment...(1) | 3.9 | 3.2 | 3.3 | (0.1) |
| Day-to-day management of the corporate data network...(3) | 4.4 | 3.8 | 3.6 | 0.2 |
| Support and maintenance for in-house developed applications...(4) | 4.2 | 3.6 | 3.4 | 0.2 |
| Responsibility for new systems development as a preferred supplier...(5) | 4.2 | 3.8 | 3.5 | 0.3 |
| Day-to-day management of the personal computer infrastructure including servers and local area networks...(2) | 3.7 | 4.0 | 3.6 | 0.4 |

Source: INPUT

Overall, the level of satisfaction with service quality declined even further during 2000. However, levels of satisfaction with distributed systems management in the form of network management and desktop services remains at moderate level and exceeds the level of satisfaction with mainframe operations.

Satisfaction with application management fell between 1998 and 2000, possibly as a result of the pressure from e-business development, which requires a much more rapid and iterative approach to application development.

Exhibit IV-2 lists the level of satisfaction with a number of service features relating to operational management.

Exhibit IV-2

Satisfaction with Operational Management Capability: 1997 to 2000

| Feature | Satisfaction Rating (1997) | Satisfaction Rating (1998) | Satisfaction Rating (2000) | Difference |
|---|----------------------------|----------------------------|----------------------------|------------|
| Scope of operational capability | 4.0 | 3.6 | 3.5 | 0.1 |
| Achievement of operational service level agreements | 4.1 | 3.6 | 3.5 | 0.1 |
| Capability of help-desk | 3.9 | 3.4 | 3.1 | 0.3 |

Note: * called "utilization of new technologies" in 1998

Source: INPUT

Satisfaction with operational management capability has fallen significantly over the past three years. The principal reason for this may be the desire to implement and manage new technologies. Desktop services capability is no longer sufficient and outsourcing vendors need to address urgently the management of emerging technologies such as Intranets and Web servers to a high standard.

In addition to concern about the rate at which new technology is introduced into the client's IT infrastructure, there remain concerns regarding help-desk services. The demands placed on help-desks increase as these new technologies are introduced and computer usage widens even further within client organizations.

Exhibit IV-3 lists the levels of satisfaction with a number of service features relating to application management.

Exhibit IV-3

Satisfaction with Application Management Capability: 1997 to 2000

| Service Characteristic | Satisfaction Rating (1997) | Satisfaction Rating (1998) | Satisfaction Rating (2000) | Difference |
|--|----------------------------|----------------------------|----------------------------|------------|
| Ability to control costs/meet budget targets | 4.1 | 3.6 | 3.9 | (0.3) |
| Meeting of requirements/specification | 4.0 | 3.6 | 3.5 | 0.1 |
| Delivery of projects on time | 4.0 | 3.7 | 3.5 | 0.2 |
| Achievement of projected business benefits | 4.0 | 3.5 | 3.0 | 0.5 |
| Ability to contribute to business benefits | 4.0 | 3.4 | 2.6 | 0.8 |
| Achievement of agreed support service levels | 4.0 | 4.2 | 2.9 | 1.3 |

Source: INPUT

The overall level of satisfaction with application management fell between 1998 and 2000, despite the strengthening of vendors' ability to meet development budget targets.

In particular, clients are no longer convinced of vendors' ability to go beyond basic software development services and play a greater role in addressing and delivering business benefits.

At the same time, the nature of systems development is changing, and vendors need to improve their ability to implement shorter projects to a specified timescale. Development times are increasing by being measured in weeks or a low number of months rather than years.

B**Vendors Need to Improve Level of Business Understanding**

Exhibit IV-4 lists the level of satisfaction with a number of customer service criteria.

Exhibit IV-4

Satisfaction with Vendor Service Cultures: 1997 to 2000

| Attribute | Satisfaction Rating (1997) | Satisfaction Rating (1998) | Satisfaction Rating (2000) | Difference |
|---|----------------------------|----------------------------|----------------------------|------------|
| Caliber of personnel | 3.9 | 3.8 | 4.1 | (0.3) |
| Continuity of personnel | 3.8 | 3.5 | 3.7 | (0.2) |
| Responsiveness to changing business needs | 3.7 | 3.5 | 3.6 | (0.1) |
| Commitment to achieving agreed requirements | 4.0 | 3.5 | 3.6 | (0.1) |
| Speed of reaction to requests | 3.7 | 3.2 | 3.3 | (0.1) |
| Sense of responsibility for goals | 4.0 | 3.5 | 3.4 | 0.1 |
| Level of bureaucracy | 3.7 | 3.0 | 2.9 | 0.1 |
| Responsiveness to day-to-day issues | 3.8 | 3.8 | 3.6 | 0.2 |
| Understanding of business requirements | 4.0 | 3.5 | 3.3 | 0.2 |
| Co-operation with other vendors | 3.9 | 3.6 | 3.3 | 0.3 |
| Effective and appropriate communications channels | 3.9 | 3.5 | 3.0 | 0.5 |
| Willingness to compromise when conflicts arise | 3.7 | 3.8 | 3.1 | 0.7 |

Source: INPUT

Satisfaction with vendor personnel remained high during 2000. However, the overall level of communication between client and vendor fell during 2000. The basic problem appears to be that though vendor personnel are working well with their clients on a day-to-day basis, they tend to lack a good understanding of the client's business and the formal communication channels established are too slow moving to meet the need for rapid business and technology change.

The challenges for vendors are:

- To strengthen their relatively high level of reactive support (at least partially through much improved help-desks and online support capabilities)

- To develop mechanisms that enable them to develop further their understanding of client business requirements and to translate these into improved processes for their clients with a sense of urgency.

C

Vendors Must Manage Expenditure Expectations

Exhibit IV-5 lists the level of satisfaction with criteria relating to the commercial terms of outsourcing contracts.

Exhibit IV-5

Satisfaction with Contract Terms: 1997 to 2000

| Attribute | Satisfaction Rating (1997) | Satisfaction Rating (1998) | Satisfaction Rating (2000) | Difference |
|---|----------------------------|----------------------------|----------------------------|------------|
| Service level agreement | 4.1 | 3.0 | 3.2 | (0.2) |
| Overall contract flexibility | 4.0 | 3.9 | 3.7 | 0.2 |
| Willingness to tailor contract to client's situation | 4.1 | 3.8 | 3.5 | 0.3 |
| Ability to accommodate changing requirements | 4.0 | 3.4 | 3.1 | 0.3 |
| Length of contract | 4.0 | 4.4 | 4.0 | 0.4 |
| Commitment to meet agreed prices | 4.0 | 3.7 | 3.0 | 0.7 |
| Penalties and bonuses | 3.8 | 3.5 | 2.4 | 1.1 |
| Terms of transfer of employees | 4.0 | 4.3 | 3.1 | 1.2 |
| Ease of termination of contract | 4.0 | 3.8 | 2.5 | 1.3 |
| Flexibility to use additional suppliers where appropriate | 4.2 | 3.6 | 2.1 | 1.5 |

Source: INPUT

Satisfaction with overall SLAs increased between 1998 and 2000, but from a very low base level.

Yet, during the same period, there was some decline in satisfaction with contract flexibility, and a major decline in satisfaction with vendors' commitments to meet agreed prices.

This dissatisfaction may be caused by the potentially considerable shift in the profile and volume of activity that accompanied the emergence of e-business. Vendors need to pay more attention to managing clients' expenditure expectations in times of rapid change.

D

Vendors Must Utilize New Technologies More Effectively

Exhibit IV-6 lists the perceived level of contribution made by outsourcing vendors towards potential IT goals.

Exhibit IV-6

Perceived Contribution to IT Goals: 1997 to 2000

| Goal | Achievement Rating (1997) | Achievement Rating (1998) | Achievement Rating (2000) | Difference |
|--|---------------------------|---------------------------|---------------------------|------------|
| To reduce the time taken to implement new systems | 3.9 | 3.0 | 3.7 | (0.7) |
| To free in-house managers/staff for other work | 3.8 | 3.6 | 3.5 | 0.1 |
| To become more cost-effective in using IT | 3.8 | 3.2 | 3.0 | 0.2 |
| To increase effectiveness in applying IT to the business | 3.7 | 3.5 | 2.7 | 0.8 |
| To aggressively use IT for competitive advantage | 4.0 | 3.7 | 2.8 | 0.9 |

Source: INPUT

The overall satisfaction with vendors' contribution to their clients' IT goals decreased between 1998 and 2000.

The perceived contribution of outsourcing to the goal of increasing effectiveness in applying IT to business fell sharply and the level of satisfaction with assisting organizations to become more cost-effective in using IT continued to fall.

More encouraging, vendors were seen to dramatically reduce the time taken to implement new systems, which may be part of the overall trend in systems development approaches.

Exhibit IV-7 lists the perceived level of contribution made by outsourcing vendors towards potential benefits.

Exhibit IV-7

Perceived Contribution to Benefits: 1997 to 2000

| Potential Benefit | Achievement Rating (1997) | Achievement Rating (1998) | Achievement Rating (2000) | Difference |
|--|---------------------------|---------------------------|---------------------------|------------|
| Removed in-house involvement with legacy systems | 3.5 | 3.7 | 3.8 | (0.1) |
| More effective introduction of new systems | 3.8 | 3.5 | 3.3 | 0.2 |
| Improved operational service levels | 3.9 | 3.9 | 3.6 | 0.3 |
| Improved ability to relate IT to the business | 3.8 | 3.9 | 3.1 | 0.8 |

Source: INPUT

Vendors' overall contribution to benefits also fell between 1997 and 2000.

In particular, vendors' ability to deliver improved operational service levels came into question for the first time as operational expectations underwent a period of major change and vendors' perceived ability to relate IT to their clients business also fell dramatically.

Both of these changes in perception were probably caused by the high impact on expectations, and the high level of business and technical change, resulting from e-business rather than any fundamental underlying change in vendor capability. However, this does raise the question as to whether or not outsourcing is an appropriate vehicle for turbulent times. Outsourcing might instead be more appropriately used to steadily improve service levels and steadily manage down cost in a more steady-state environment.

Exhibit IV-8 lists the extent to which outsourcing vendors are perceived to play a number of potential roles.

Exhibit IV-8

Perception of Vendor Roles: 1997 to 2000

| Vendor Role | Rating (1997) | Rating (1998) | Rating (2000) | Difference |
|--|---------------|---------------|---------------|------------|
| A supplier of agreed services and nothing else | 3.2 | 3.1 | 3.5 | (0.4) |
| A supplier of support services | 3.3 | 3.8 | 3.8 | 0.0 |
| A key partner | 3.6 | 3.9 | 3.6 | 0.3 |
| A technology advisor | 2.9 | 3.0 | 2.5 | 0.5 |
| An agent of change | 2.3 | 3.3 | 2.3 | 1.0 |
| A business advisor | 2.4 | 3.8 | 2.0 | 1.8 |

Source: INPUT

Indeed the past two years seem to have confirmed the role of outsourcing as the supply of support services. The perceptions of outsourcing vendors as agents of change and advisors has declined considerably.

Outsourcing vendors are still not seen to play a significant role as technology advisors. It is critical for the future success of outsourcing vendors that they can begin to make a more significant contribution to their clients' technology strategies if not their business strategies.

E

Outsourcing Vendors Need to Regain The High Ground

Exhibit IV-9 lists the level of vendor satisfaction against a number of summary criteria.

Exhibit IV-9

Summary Satisfaction Criteria: 1997 to 2000

| Summary Criteria | Satisfaction Rating (1997) | Satisfaction Rating (1998) | Satisfaction Rating (2000) | Difference |
|---------------------------------|----------------------------|----------------------------|----------------------------|------------|
| Service provision | 3.9 | 3.8 | 3.8 | 0.0 |
| Vendor service culture | 3.8 | 3.6 | 3.6 | 0.0 |
| Initial cost-effectiveness | 3.7 | 3.5 | 3.3 | 0.2 |
| Ongoing cost-effectiveness | 3.9 | 3.4 | 3.2 | 0.2 |
| Commercial terms and conditions | 3.8 | 3.6 | 3.3 | 0.3 |
| Overall | 3.9 | 3.8 | 3.4 | 0.4 |
| Business contribution | 3.8 | 3.2 | 2.8 | 0.4 |
| Flexibility of approach | 3.8 | 3.6 | 3.1 | 0.5 |
| Innovation and creativity | 3.7 | 3.0 | 2.5 | 0.5 |
| Strength of partnership | 4.0 | 3.8 | 3.1 | 0.7 |

Source: INPUT

Overall satisfaction with outsourcing vendors worsened between 1998 and 2000 and has now reached a relatively low level. Despite this overall level of deterioration, satisfaction with service provision remained comparatively high, at least at the level of day-to-day service provision and working relationships.

However, there are some significant causes for concern.

Firstly, satisfaction with innovation and creativity, although not widely regarded as important by the client community, continues to fall sharply.

Secondly, satisfaction with the business contribution of outsourcing vendors continues to fall as does the sense of strength of partnership between client and vendor. Business contribution is ultimately a key criterion against which outsourcing vendors will be judged and could be a key to future contract renewals.

Finally, satisfaction with commercial terms and conditions and ongoing cost-effectiveness decreased. If outsourcing vendors fail to rise to this primarily contractual challenge, they will miss the opportunity to play a vital role in their clients' business development and so will play increasingly minor roles in the development of their clients' future IT.



Results in Questionnaire Format: U.S. 2000

Service Quality

1. Which of the following functions does your organization 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 | Outsourced (%) | Vendors | Satisfaction (1-5) |
|---|----------------|---------|--------------------|
| Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment....(1) | 21 | | 3.3 |
| Day-to-day operation of the personal computer infrastructure including servers and local area networks....(2) | 32 | | 3.6 |
| Day-to-day operation of the corporate data network....(3) | 18 | | 3.6 |
| Development and operation of corporate Intranet and Web servers....(4) | 15 | | 3.5 |
| Support and maintenance for in-house developed applications.....(5) | 24 | | 3.4 |
| Responsibility for new systems development as a preferred supplier....(6) | 29 | | 3.5 |
| Enterprise application implementation & support....(7) | 3 | | |
| E-business and e-commerce related services....(8) | 29 | | 3.6 |
| Business process reengineering consultancy....(9) | 29 | | 3.6 |
| IT strategy consultancy....(10) | 24 | | 3.7 |
| Other IT consultancy services....(11) | 6 | | |
| Business functions such as accounting services or HR benefits administration....(12) | 3 | | |

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?

- Quality of service (9)
- Technical/product knowledge (8)
- Reliability (5)
- Responsiveness (4)

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

- Staff turnover (5)
- Responsiveness (4)
- Technical/product knowledge (3)
- Cost (2)

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 (1-5) | Satisfaction (1-5) |
|---|---------------------|-----------------------|
| Scope of operational capability | 4.6 | 3.5 |
| Achievement of operational service level agreements | 4.6 | 3.5 |
| Levels of a systems availability | 4.5 | 3.4 |
| Utilization of new technologies | 4.1 | 3.4 |
| Capability of help-desk | 3.2 | 3.1 |
| Moves and user requested changes | 2.7 | 2.6 |
| Provision of Web hosting services | 1.9 | 3.3 |
| Other (please specify) | | |

Source: INPUT

4b. If you have an overall systems availability guarantee, please indicate the level of availability that is guaranteed

| | |
|-------------------------|-----|
| 90%--97% availability | 57% |
| 97%--99% availability | 14% |
| 99% -99.5% availability | 14% |
| Over 99.5% availability | 14% |

4c. If you have an overall network availability guarantee, please indicate the level of availability that is guaranteed

| | |
|-----------------------|-----|
| 90%--97% availability | 60% |
| 97%--99% availability | 20% |
| Over 99% availability | 20% |

If respondent answered yes to Q1 (5 to 8)

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 (1-5) | Satisfaction (1-5) |
|--|---------------------|-----------------------|
| Delivery of projects on time | 4.1 | 3.5 |
| Ability to control costs/meet budget targets | 4.3 | 3.9 |
| Meeting of requirements/specification | 4.1 | 3.5 |
| Achievement of agreed support service levels | 3.6 | 2.9 |
| Achievement of projected business benefits | 3.4 | 3.0 |
| Ability to contribute to business benefits | 3.2 | 2.6 |
| End user satisfaction | 3.6 | 3.2 |
| Other (please specify) | | |

5b What proportion of development projects performed by this vendor in the last year were carried out:

- 72% On time
- 82% On budget

Vendor Style

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

- Good relationship/partnership (10)
- Professionalism (10)
- Technical skills/knowledge (5)
- Service orientation (5)

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

- Develop closer working relationship (4)
- Improve culture of remote service delivery (3)
- Develop competitive edge (2)
- Be realistic about capabilities (2)

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 (1-5) | Satisfaction (1-5) |
|---|---------------------|-----------------------|
| Understanding of your business requirements | 3.7 | 3.3 |
| Sense of responsibility for your goals | 3.6 | 3.4 |
| Commitment to achieving agreed requirements | 4.1 | 3.6 |
| Responsiveness to changing business needs | 4.0 | 3.6 |
| Willingness to compromise when conflicts arise | 3.5 | 3.1 |
| Responsiveness to day-to-day issues | 4.0 | 3.6 |
| Continuity of personnel | 3.9 | 3.7 |
| Effective and appropriate communications channels | 3.1 | 3.0 |
| Low level of bureaucracy | 3.3 | 2.9 |
| Fast speed of reaction to requests | 3.4 | 3.3 |
| Co-operation with other vendors | 3.0 | 3.3 |
| Calibre of personnel | 4.2 | 4.1 |
| Understanding of latest technologies | 3.9 | 3.8 |
| Ability to apply latest technologies | 4.2 | 3.9 |

Source: INPUT

Commercial Terms

9. 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 (1-5) | Satisfaction (1-5) |
|---|---------------------|-----------------------|
| Overall contract flexibility | 4.0 | 3.7 |
| Length of contract | 4.2 | 4.0 |
| Willingness to tailor contract to client's situation | 4.0 | 3.5 |
| Terms of transfer of employees | 2.5 | 3.1 |
| Commitment to meet agreed prices | 3.8 | 3.0 |
| Flexibility to use additional suppliers where appropriate | 2.3 | 2.1 |
| Ease of termination of contract | 2.6 | 2.5 |
| Ability to accommodate changing requirements | 3.3 | 3.1 |
| Overall service level agreement | 3.5 | 3.2 |
| Penalties and bonuses | 2.4 | 2.4 |

Source: INPUT

10. On what basis is your outsourcing contract priced?
11. What do you like and dislike about the pricing mechanism used within your outsourcing contract?

Likes:

- Control of costs (9)
- Flexibility (7)
- Known commitment (4)
- Easily understood (4)

Dislikes:

- Costs too high (8)
- Difficulty of budget management (4)

11b. How would you like to change the pricing mechanism used? What pricing mechanisms will you seek to adopt for use in future outsourcing contracts?

11c. What change in cost-effectiveness have you achieved by outsourcing in each of the following areas: (Please prompt for percentage increase or decrease)

- ___ Mainframe operations
- ___ Distributed systems management
- ___ Wide area network operations
- ___ Application maintenance and development
- ___ Business process outsourcing

Overall Objectives/Benefits Sought

14. 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 (1-5) | Achievement (1-5) |
|--|----------------------|----------------------|
| To aggressively use IT for competitive advantage | 3.6 | 2.8 |
| To accelerate your implementation of e-business | 3.0 | 3.2 |
| To increase effectiveness in applying IT to the business | 3.3 | 2.7 |
| To introduce knowledge of new technologies | 3.7 | 3.2 |
| To become more cost-effective in using IT | 3.5 | 3.0 |
| To reduce the time taken to implement new systems | 3.2 | 3.7 |
| To free in-house managers/staff for other work | 3.6 | 3.5 |
| Other (please specify) | | |

Source: INPUT

15. 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 (1-5) |
|------------------------------------|---------------------------------------|
| Cost efficiency/reduction (35) | 3.6 |
| Access to technical expertise (21) | 4.2 |
| Improved service levels (21) | 3.9 |
| Access to skilled personnel (10) | 4.5 |

Source: INPUT

16. 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?

- Extend scope of contract (7)
- Introduce new technology (3)
- Improved cost-effectiveness (3)

17. 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 (1-5) | Achievement (1-5) |
|---|------------------------------|------------------------------|
| Improved management of resources | 3.8 | 3.7 |
| A solution to resource shortfalls | 3.9 | 3.5 |
| Improved resource flexibility | 4.0 | 3.6 |
| Development process transfer to your organization | 2.8 | 3.5 |
| Higher levels of development and support productivity | 3.2 | 3.9 |
| Improved service levels | 3.9 | 3.2 |
| Removed in-house involvement with legacy systems | 3.5 | 3.4 |
| Improved support standards and service to users | 3.7 | 3.1 |
| Access to new skills/expertise | 4.2 | 3.7 |
| Improved ability to relate IT to the business | 3.2 | 2.8 |
| More effective introduction of new systems | 3.3 | 3.1 |

18. To what extent would you like your current outsourcing vendor to undertake each of the following roles: (Please rate on a scale of 1-5 where 1 = not their role and 5 = a key role). To what extent do you perceive them to undertake each of these roles at present?

| Potential Role | Importance (1-5) | Achievement (1-5) |
|--|---------------------|----------------------|
| A supplier of agreed services and nothing else | 3.7 | 3.5 |
| A business advisor | 2.1 | 2.0 |
| A technology advisor | 3.0 | 2.5 |
| An agent of change | 2.3 | 2.3 |
| A supplier of support services | 4.1 | 3.8 |
| A key partner | 3.8 | 3.6 |

Source: INPUT

Overall Satisfaction

19. How important are each of the following criteria? What is your overall level of satisfaction with your outsourcing vendor against each of these criteria? Please rate on a scale of 1-5 where 1 = dissatisfied and 5 = very satisfied:

| Criterion | Importance (1-5) | Achievement (1-5) |
|---------------------------------|---------------------|----------------------|
| Overall | 4.3 | 3.4 |
| Service provision | 4.1 | 3.8 |
| Flexibility of approach | 3.4 | 3.1 |
| Vendor service culture | 3.9 | 3.6 |
| Commercial terms and conditions | 3.6 | 3.3 |
| Innovation and creativity | 3.1 | 2.5 |
| Strength of partnership | 3.6 | 3.1 |
| Business contribution | 3.0 | 2.8 |
| Initial cost-effectiveness | 3.9 | 3.3 |
| Ongoing cost-effectiveness | 4.1 | 3.2 |

Source: INPUT

20. 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?

21. Do you believe that you have benefited from outsourcing compared to a continuation of in-house services?

75%/25% Yes/No

22. Which functions, if any, might you take back in-house? Why?
23. In what ways are you likely to extend your use of outsourcing?
- Network outsourcing (4)
 - Support for Internet/e-business (4)
 - Desktop services (2)
 - Application development (2)

Background Details

24. When did your outsourcing contract begin? 1998
25. What is the total length of your outsourcing contract 2 years
26. What is the approximate value of your outsourcing contract? Please state currency and time period.
\$1m per annum

Thank you very much for your assistance.


B

Results in Questionnaire Format: U.S. 1998

Service Quality

1. Which of the following functions does your organization 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 | Outsourced (%) | Satisfaction (1-5) |
|--|----------------|--------------------|
| Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment...(1) | 17 | 3.2 |
| Day-to-day operation of the personal computer infrastructure including servers and local area networks...(2) | 40 | 4.0 |
| Day-to-day operation of the corporate data network...(3) | 23 | 3.8 |
| Development and operation of corporate Intranet and Web servers | 30 | 3.6 |
| Support and maintenance for in-house developed applications...(4) | 30 | 3.6 |
| Responsibility for new systems development as a preferred supplier...(5) | 15 | 3.8 |

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?
- Responsiveness and quality of help-desk (7)
 - Level of expertise/quality of personnel (5)
 - Depth and breadth of resources (4)
 - Understanding of clients' business and systems (3)
 - Service levels (2)
 - Implementation of new technologies (2)
3. Which aspects of your current outsourcing services, if any, cause you concern?
- Ability to apply new technology (6)
 - Technical support/help-desk (3)
 - Unwillingness to take responsibility (3)
 - Lack of proactivity (2)

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 (1998) | Satisfaction Rating (1998) | Difference (1998) |
|---|--------------------------|----------------------------|-------------------|
| Scope of operational capability | 4.3 | 3.6 | 0.7 |
| Achievement of operational service level agreements | 4.7 | 3.6 | 1.1 |
| Utilization of new technologies | 4.2 | 3.6 | 0.7 |
| Capability of help-desk | 4.5 | 3.4 | 1.2 |
| Moves and user requested changes | 4.3 | 3.4 | 0.9 |

Source: INPUT

- 4b. If you have an overall systems availability guarantee, please indicate the level of availability that is guaranteed

- 4c. If you have an overall network availability guarantee, please indicate the level of availability that is guaranteed

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 (1998) | Satisfaction Rating (1998) | Difference (1998) |
|--|--------------------------|----------------------------|-------------------|
| Delivery of projects on time | 4.9 | 3.7 | 1.2 |
| Ability to control costs/meet budget targets | 4.7 | 3.6 | 1.1 |
| Meeting of requirements/specification | 4.8 | 3.6 | 1.2 |
| Achievement of agreed support service levels | 4.7 | 4.2 | 0.5 |
| Achievement of projected business benefits | 4.2 | 3.5 | 0.6 |
| Ability to contribute to business benefits | 3.9 | 3.4 | 0.5 |
| End user satisfaction | 4.5 | 4.1 | 0.5 |

Source: INPUT

- 5b What proportion of development projects performed by this vendor in the last year were carried out:

85% On time
75% On budget

Vendor Style

6. What do you like about the culture/approach of your outsourcing vendor?
- Good working relationship (4)
 - Service orientation (3)
 - Well proven relationship (2)
7. In what respects do you think their service culture could be improved?
- Become less risk averse (2)
 - Take greater responsibility (1)
 - Take long-term perspective (1)

- Stop arguing about invoices (1)

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 (1998) | Satisfaction Rating (1998) | Difference (1998) |
|---|--------------------------|----------------------------|-------------------|
| Understanding of your business requirements | 4.5 | 3.5 | 0.9 |
| Sense of responsibility for your goals | 4.6 | 3.5 | 1.1 |
| Commitment to achieving agreed requirements | 4.6 | 3.5 | 1.1 |
| Responsiveness to changing business needs | 4.5 | 3.5 | 1.0 |
| Willingness to compromise when conflicts arise | 4.2 | 3.8 | 0.5 |
| Responsiveness to day-to-day issues | 4.4 | 3.8 | 0.6 |
| Continuity of personnel | 4.4 | 3.5 | 0.8 |
| Effective and appropriate communications channels | 4.2 | 3.5 | 0.8 |
| Low level of bureaucracy | 3.0 | 3.0 | 0.0 |
| Fast speed of reaction to requests | 3.9 | 3.2 | 0.8 |
| Co-operation with other vendors | 3.9 | 3.6 | 0.4 |
| Caliber of personnel | 4.4 | 3.8 | 0.6 |
| Understanding of latest technologies | 4.4 | 3.6 | 0.8 |
| Ability to apply latest technologies | 4.2 | 3.5 | 0.7 |

Source: INPUT

Commercial Terms

9. 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 (1998) | Satisfaction Rating (1998) | Difference (1998) |
|---|--------------------------|----------------------------|-------------------|
| Overall contract flexibility | 4.3 | 3.9 | 0.3 |
| Length of contract | 4.5 | 4.4 | 0.1 |
| Willingness to tailor contract to client's situation | 4.2 | 3.8 | 0.4 |
| Terms of transfer of employees | 1.9 | 4.3 | -2.5 |
| Commitment to meet agreed prices | 4.4 | 3.7 | 0.7 |
| Flexibility to use additional suppliers where appropriate | 3.0 | 3.6 | -0.6 |
| Ease of termination of contract | 3.7 | 3.8 | -0.2 |
| Ability to accommodate changing requirements | 3.9 | 3.4 | 0.5 |
| Overall service level agreement | 3.8 | 3.0 | 0.8 |
| Penalties and bonuses | 3.2 | 3.5 | -0.2 |

Source: INPUT

10. On what basis is your outsourcing contract priced?
11. What do you like and dislike about the pricing mechanism used within your outsourcing contract?
12. 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.
13. How would you like to change the pricing mechanism used? What pricing mechanisms will you seek to adopt for use in future outsourcing contracts?

- 13b. What change in cost-effectiveness have you achieved by outsourcing in each of the following areas: (Please prompt for percentage increase or decrease)

| | |
|---|------|
| Mainframe operations | -13% |
| Distributed systems management | |
| Wide area network operations | |
| Application maintenance and development | |
| Business process outsourcing | |

Source: INPUT

- 13c. Can you estimate your average costs for each of the following service types?

Overall Objectives/Benefits Sought

14. 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 (1998) | Achievement Rating (1998) | Difference (1998) |
|--|---------------------------|---------------------------|-------------------|
| To aggressively use IT for competitive advantage | 4.0 | 3.7 | 0.3 |
| To increase effectiveness in applying IT to the business | 4.0 | 3.5 | 0.5 |
| To introduce knowledge of new technologies | 3.7 | 3.1 | 0.6 |
| To become more cost-effective in using IT | 3.7 | 3.2 | 0.5 |
| To reduce the time taken to implement new system | 2.5 | 3.0 | -0.5 |
| To free in-house managers/staff for other work | 3.5 | 3.6 | -0.1 |

Source: INPUT

15. 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 (1998) |
|---|-----------------------------|
| Improved efficiency/cost reduction (14) | 3.5 |
| Access to technical expertise (13) | 4.4 |
| Focus in-house personnel (4) | 2.5 |
| Ease support burden (3) | 3.7 |

Source: INPUT

16. 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?
17. 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 (1998) | Achievement Rating (1998) | Difference (1998) |
|--|---------------------------|---------------------------|-------------------|
| Improved cost-effectiveness | 4.4 | 3.7 | 0.8 |
| Cost reduction | 4.5 | 3.4 | 1.1 |
| Improved operational service levels | 4.2 | 3.9 | 0.3 |
| Removed in-house involvement with legacy systems | 4.1 | 3.7 | 0.4 |
| Introduction of up-to-date technical knowledge | 4.2 | 3.9 | 0.3 |
| Introduction of new technologies | 4.2 | 3.6 | 0.6 |
| Improved ability to relate IT to the business | 4.6 | 3.9 | 0.7 |
| More effective introduction of new systems | 3.6 | 3.5 | 0.1 |
| Access to best practices in using IT | 4.3 | 3.9 | 0.3 |

Source: INPUT

18. To what extent would you like your current outsourcing vendor to undertake each of the following roles: (Please rate on a scale of 1-5 where 1 = not their role and 5 = a key role). To what extent do you perceive them to undertake each of these roles at present?

| Potential Role | Importance | Achievement | Difference |
|--|------------|-------------|------------|
| A supplier of agreed services and nothing else | 2.6 | 3.1 | -0.5 |
| A business advisor | 1.7 | 3.8 | -2.1 |
| A technology advisor | 2.1 | 3.0 | -0.9 |
| An agent of change | 2.9 | 3.3 | -0.4 |
| A supplier of support services | 4.2 | 3.8 | 0.4 |
| A key partner | 4.4 | 3.9 | 0.5 |

Source: INPUT

Overall Satisfaction

19. How important is each of the following criteria? What is your overall level of satisfaction with your outsourcing vendor against each of these criteria? Please rate on a scale of 1-5 where 1 = dissatisfied and 5 = very satisfied:

| Criterion | Importance | Achievement | Difference |
|---------------------------------|------------|-------------|------------|
| Overall | | 3.8 | |
| Service provision | 4.8 | 3.8 | 1.0 |
| Flexibility of approach | 4.5 | 3.6 | 0.9 |
| Vendor service culture | 3.9 | 3.6 | 0.3 |
| Commercial terms and conditions | 4.1 | 3.6 | 0.6 |
| Innovation and creativity | 2.9 | 3.0 | -0.1 |
| Strength of partnership | 4.3 | 3.8 | 0.5 |
| Business contribution | 4.0 | 3.2 | 0.8 |
| Initial cost-effectiveness | 4.4 | 3.5 | 0.8 |
| Ongoing cost-effectiveness | 4.5 | 3.4 | 1.0 |

Source: INPUT

20. 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.
Why/Why not?

21. Do you believe that you have benefited from outsourcing compared to a continuation of in-house operations?
90% Yes
22. Which functions, if any, might you take back in-house? Why?
- None (19)
 - Application development (2)
 - Application maintenance (2)
 - Support for new development (1)
 - Development of Internet services (1)
23. In what ways are you likely to extend your use of outsourcing?
- Application development (3)
 - Specific development projects (2)
 - Web site hosting (2)

Background Details

27. When did your outsourcing contract begin?
28. What is the total length of your outsourcing contract?
29. What is the approximate value of your outsourcing contract?
Please state currency and time period.

Thank you very much for your assistance.

Results in Questionnaire Format: U.S. 1997

Service Quality

1. Which of the following functions does your organization 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...(1) | 3.9 |
| Day-to-day management of the personal computer infrastructure including servers and local area networks...(2) | 3.7 |
| Day-to-day management of the corporate data network...(3) | 4.4 |
| Support and maintenance for in-house developed applications...(4) | 4.2 |
| Responsibility for new systems development as a preferred supplier...(5) | 4.2 |
| Business process reengineering consultancy...(6) | 4.5 |
| IT strategy consultancy...(7) | 4.1 |
| Other IT consultancy services...(8) | 4.2 |
| Business functions such as accounting or fulfillment...(9) | |

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?
- Responsiveness (4)
 - Expertise (3)
 - Mainframe-based services (3)
 - Operational services (2)

- Help-desk (2)
 - Cost savings (1)
 - Increase focus on IS (1)
 - Reliability (1)
 - Project methodology (1)
3. Which aspects of your current outsourcing services, if any, cause you concern?
- Cost/cost overruns (5)
 - Speed of response (3)
 - Support for desktop (2)
 - Not committed to client goals (2)
 - Don't meet deadlines (2)
 - Lack of innovation (1)
 - Lack of flexibility (1)
 - Support of Year 2000 upgrades (1)
 - Insufficient staffing (1)

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 | 4.4 | 4.0 | 0.4 |
| Achievement of operational service level agreements | 4.5 | 4.1 | 0.4 |
| Speed of migration to new platforms/technologies | 3.8 | 4.0 | (0.2) |
| Capability of help-desk | 4.4 | 3.9 | 0.5 |
| Moves and user requested changes | 4.3 | 3.9 | 0.5 |

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 | 4.3 | 4.0 | 0.3 |
| Ability to control costs/meet budget targets | 4.5 | 4.1 | 0.4 |
| Meeting of requirements/specification | 4.3 | 4.0 | 0.4 |
| Achievement of agreed support service levels | 4.4 | 4.0 | 0.4 |
| Achievement of projected business benefits | 4.3 | 4.0 | 0.3 |
| Ability to contribute to business benefits | 4.3 | 4.0 | 0.3 |

Source: INPUT

Vendor Style

6. What do you like about the culture/approach of your outsourcing vendor?
- Responsiveness/support (5)
 - Reliability (3)

- Professionalism (2)
 - Consulting capability (1)
 - Flexibility (1)
 - Technically up-to-date (1)
 - Project focus (1)
 - Ability to work with users (1)
 - Operational capability (1)
7. In what respects do you think their service culture could be improved?
- Improve business understanding & response to business need(4)
 - Improve speed of response (4)
 - Improve honesty and reliability (2)
 - Improve productivity (2)
 - Improve communication with clients (2)
 - Improve proactivity (1)
 - Remove compartmentalization of services (1)
 - Increase staff training (1)

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 | 4.5 | 4.0 | 0.5 |
| Sense of responsibility for your goals | 4.6 | 4.0 | 0.6 |
| Commitment to achieving agreed requirements | 4.7 | 4.0 | 0.7 |
| Flexible and innovative approach to your business requirement | 4.2 | 3.8 | 0.4 |
| Responsiveness to changing business needs | 4.4 | 3.7 | 0.6 |
| Willingness to compromise when conflicts arise | 4.4 | 3.7 | 0.7 |
| Willingness to take ownership of problems | 4.6 | 3.8 | 0.8 |
| Responsiveness to day-to-day issues | 4.5 | 3.8 | 0.7 |
| Continuity of personnel | 4.3 | 3.8 | 0.4 |
| Openness of communication | 4.5 | 3.8 | 0.8 |
| Effective and appropriate communications channels | 4.6 | 3.9 | 0.7 |
| Level of bureaucracy | 3.8 | 3.7 | 0.2 |
| Speed of reaction to requests | 4.4 | 3.7 | 0.7 |
| Co-operation with other vendors | 4.2 | 3.9 | 0.3 |
| Caliber of personnel | 4.4 | 3.9 | 0.5 |

Source: INPUT

Commercial Terms

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

Like:

- Flexibility (3)
- Maintains current cost level (1)
- Structured on win/win basis (1)

Dislike:

- Price is too high (5)
- Inflexible (1)
- Charging for minor extras (1)

- Out-dated contract (1)

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 | 4.0 | 0.5 |
| Length of contract | 4.1 | 4.0 | 0.1 |
| Willingness to tailor contract to client's situation | 4.7 | 4.1 | 0.6 |
| Terms of transfer of employees | 4.2 | 4.0 | 0.2 |
| Commitment to meet agreed prices | 4.7 | 4.0 | 0.7 |
| Flexibility to use additional suppliers where appropriate | 4.2 | 4.2 | 0.1 |
| Ease of termination of contract | 4.3 | 4.0 | 0.3 |
| Ability to accommodate changing requirements | 4.6 | 4.0 | 0.6 |
| Service level agreement | 4.6 | 4.1 | 0.5 |
| Penalties and bonuses | 4.2 | 3.8 | 0.3 |

Source: INPUT

11. On what basis is your outsourcing contract priced?

- Resource-based (10)
- Fixed price (7)

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

Like:

- Value for money (2)
- Flexibility (1)
- Easy to understand (1)

Dislike:

- High price (3)
- Lack of flexibility (1)
- Pricing not aligned with business reality (1)

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 | 4.3 | 3.8 | 0.5 |
| Sharing of risk with vendor | 4.4 | 4.0 | 0.4 |
| Incentives to encourage vendor creativity | 4.4 | 3.8 | 0.6 |
| Links to business parameters | 4.2 | 4.0 | 0.2 |
| Links to business success | 4.3 | 4.0 | 0.3 |
| Ability to deliver initial cost reduction | 4.7 | 3.9 | 0.8 |
| Ability to deliver ongoing cost reduction | 4.6 | 3.9 | 0.8 |

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?

- No change (10)
- More competitive pricing (2)
- Incentives to reduce overall cost (1)
- Move to fixed price (1)
- Increase flexibility (1)

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 | 3.9 | 4.0 | (0.1) |
| To increase effectiveness in applying IT to the business | 3.9 | 3.7 | 0.1 |
| To adopt a distributed, rather than centralized, architecture | 3.6 | 4.2 | (0.6) |
| To become more cost-effective, in using IT | 4.5 | 3.8 | 0.6 |
| To reduce the time taken to implement new system | 4.1 | 3.9 | 0.1 |
| To free in-house managers/staff for other work | 4.2 | 3.8 | 0.4 |
| 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) |
|--|--------------------------------|
| Cost-effectiveness/reduction | 3.9 |
| Increased access to resources/scarc skills | 4.3 |
| Improve level of IT expertise | 4.4 |
| Free up in-house resources | 3.8 |

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?

- Increased cost reduction (3)
- Increase rate of introduction of new technology (2)

- Increased ability to interpret business needs (2)
- Increased flexibility (2)
- Increase vendor's sense of ownership (1)
- Scaleable pricing (1)
- Increased commitment to personnel training

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 | 4.5 | 3.9 | 0.6 |
| Cost reduction | 4.5 | 3.9 | 0.6 |
| Improved operational service levels | 4.4 | 3.9 | 0.4 |
| Removed in-house involvement with legacy systems | 3.5 | 3.5 | (0.1) |
| Introduction of up-to-date technical knowledge | 4.3 | 3.9 | 0.4 |
| Introduction of new technologies | 4.4 | 3.9 | 0.5 |
| Improved ability to relate IT to the business | 3.9 | 3.8 | 0.1 |
| More effective introduction of new systems | 4.0 | 3.8 | 0.2 |
| Access to best practices in using IT | 4.2 | 3.8 | 0.4 |

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 | 3.2 | |
| A business advisor | 2.4 | |
| A technology advisor | | 2.9 |
| An agent of change | 2.3 | |
| A supplier of support services | 3.3 | |
| A key partner | | 3.6 |

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 | 3.9 | |
| Flexibility of approach | 3.8 | |
| Vendor service culture | 3.8 | |
| Commercial terms and conditions | | 3.8 |
| Innovation and creativity | 3.7 | |
| Strength of partnership | 4.0 | |
| Business contribution | 3.8 | |
| Initial cost-effectiveness | 3.7 | |
| Ongoing cost-effectiveness | 3.9 | |

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.

3.9

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

- None (13)
- Datacenter (1)
- Operations (1)
- WAN management (1)

Background Details

23. When did your outsourcing contract begin?

24. What is the total length of your outsourcing contract?

25. What is the approximate value of your outsourcing contract? Please state currency and time period.