

2000

Outsourcing Vendor Performance Analysis Europe 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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***Outsourcing Vendor Performance
Analysis — Europe 2000***

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I

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 functions 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 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, Government-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.

The outsourcing product/service subcategories (tasks) are defined below:

- Network Management, Applications Management and Desktop Services are often included in contracts.
- Separate contracts in such subcategories are often referred to as Out-tasking contracts.

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.

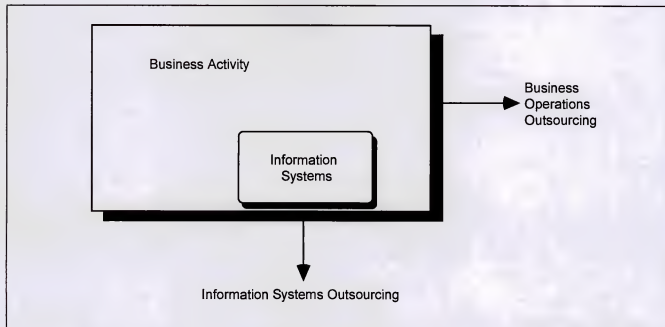
Information Technology (IT) Outsourcing can be viewed as a component of the Business Operations Outsourcing market (i.e., Information Technology Outsourcing is a business/operations function, see Exhibit I-1). However, in order to delineate between outsourcing contracts that are solely IT versus those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

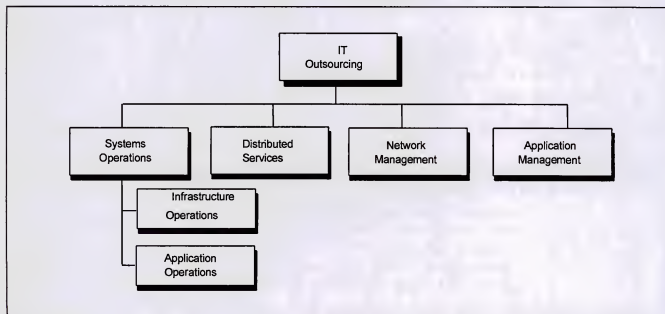
- **Distributed Services** is a relationship in which a vendor assumes responsibility for the deployment, maintenance and connectivity of personal computers, workstations, client/server and LAN systems in the client organization. To be considered as Distributed Services Outsourcing, a contract must include 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

Business Operations Outsourcing

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 | Appl. Ops. | Distribution Services | Network Mgt. | Appl. 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 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 120 respondents in Europe. 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 across France, Germany and the U.K.

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 four years.

The average value of the outsourcing contracts covered is \$5 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 Europe for 2000.

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

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

D**Related Reports**

- Client Satisfaction with IT Outsourcing Services — Europe, 1993*
- Identifying & Winning Outsourcing Opportunities — Europe, 1994*
- Competitive Analysis of the European Outsourcing Market, 1995*
- Outsourcing Pricing Mechanisms — Europe, 1995*
- Outsourcing Vendor Performance Analysis, — Europe, 1996*
- Opportunities in Business Operations Outsourcing — Europe, 1996*
- Information Systems Outsourcing Market — Europe, 1996-2001*
- Outsourcing Enterprise Infrastructure Management — Europe, 1996*
- Outsourcing Vendor Performance Analysis — U.K., 1997*
- Outsourcing Vendor Performance Analysis — France, 1997*
- Outsourcing Vendor Performance Analysis — Germany, 1997*
- Assessment of Human Resources Services — Europe, 1998*

II

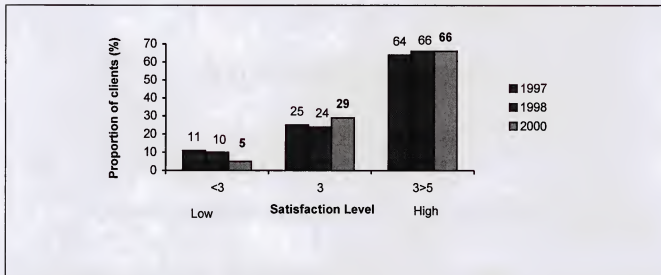
Executive Summary

A

Outsourcing Increasingly Used for Tactical Rather than Strategic Purposes

Clients of outsourcing vendors in Europe are typically satisfied with the overall service that they receive. However their satisfaction is principally with the delivery of agreed services and their day-to-day relationship with service personnel. Their levels of satisfaction with vendor ability to recommend and introduce new initiatives is much lower. Exhibit II-1 shows the profiles of overall satisfaction ratings given to outsourcing vendors in Europe between 1995 and 1998. 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: Europe 1997 to 2000

Sample of 120 respondents

Source: INPUT

Between 1997 and 2000, the proportion of clients that were highly satisfied remained approximately constant and the likelihood of outsourcing clients switching vendors is currently approximately 1 in 4.

However, despite this constancy of overall satisfaction, the profile of expectation from outsourcing vendors has changed considerably in Europe over the past two years. Exhibit II-2 summarizes some of the major changes in perception that took place between 1998 and 2000.

Exhibit II-2

Changes in Satisfaction: Europe 1998 to 2000

| Feature | 1998 | 2000 |
|---------|------|------|
|---------|------|------|

| | | |
|-----------------------------------|---|--|
| High Importance/High Satisfaction | Calibre of personnel Free in-house personnel for other work Removed in-house involvement with legacy systems | Calibre of personnel Service provision |
| High Importance /Low Satisfaction | Achievement of projected business benefits Responsiveness to changing business needs Fast speed of reaction to requests | Delivery of projects on time Ability to control costs/meet budget targets |

Source: INPUT

At year-end 1995, clients were generally highly satisfied with vendors' technical capabilities and reactive service capability. By mid 1997, clients were no longer highly satisfied with vendors' technical capabilities but required:

- More effective introduction of new systems
- A much faster rate of migration to new technology.

In addition, clients were becoming much less satisfied with vendors' service cultures and were beginning to show signs of dissatisfaction with vendor pricing and contractual terms.

During 1998, vendors had begun to address client concerns about the technical knowledge of their personnel and begun to show a greater level of understanding of their clients' businesses. Nonetheless vendors still needed to show that they could translate this newfound understanding into live systems and real business benefits for their clients.

By 2000, clients remained highly satisfied with day-to-day service personnel and were beginning to show high levels of satisfaction with the day-to-day services delivered by these personnel. However other perceptions of vendors had changed once more.

With the advent of e-business in Europe, the need for rapid changes in business models and IT had increased considerably between 1998 and 2000. This enhanced several pressures on outsourcing vendors. Firstly, there was considerable pressure on vendors to deliver e-business projects in greatly reduced timescales and within modest budgets and this is an area where outsourcing vendors have struggled to meet the challenge. Secondly, organizations revised their expectations of outsourcing vendors' abilities to anticipate their business needs and appear to have taken back in-house much of this thinking.

At the same time, the doubts related to the viability of the outsourcing model remain. Flaws in vendor service culture, levels of business understanding, and cost-effectiveness appear deep-rooted.

Exhibit II-3 lists some of the key summary criteria against which vendors need to deliver improvement.

Exhibit II-3

Major Challenges for Outsourcing Vendors: Europe 1998 to 2000



Sample of 120 respondents. Standard error = 0.2

Source: INPUT

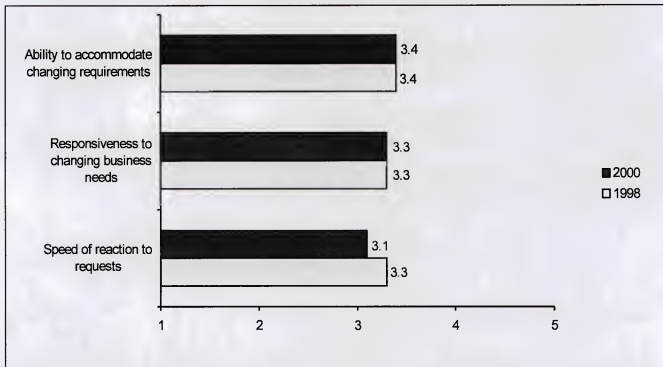
Between 1998 and 2000 outsourcing vendors failed to improve in providing:

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

B**Vendors Must Deliver Higher Levels of Client Responsiveness**

Exhibit II-4 lists the levels of satisfaction perceived by clients in 1998 and 2000 against a number of measures of vendor responsiveness.

Exhibit II-4

Satisfaction with Vendor Responsiveness: Europe 1998 to 2000

Sample of 120 respondents. Standard error = 0.1

Source: INPUT

In 1995, outsourcing vendors were perceived to offer a high level of reactive service but needed to become much more proactive in their interaction with clients. Since then the situation has failed to improve significantly. The result is that clients often perceive vendors to be inflexible both in terms of reacting to and anticipating changing circumstances.

Vendors need to overcome these negative impressions of outsourcing. At the day-to-day level, vendors should address their support mechanisms to ensure faster, more accurate responses to users. This may include devising ways of enhancing their help-desks with e-care systems to provide some element of self-service support, freeing up the help-desk for the demanding support tasks.

At a more fundamental level, the search is still on for account management frameworks that enable outsourcing to facilitate the introduction of new technologies and processes rather than hinder their development.

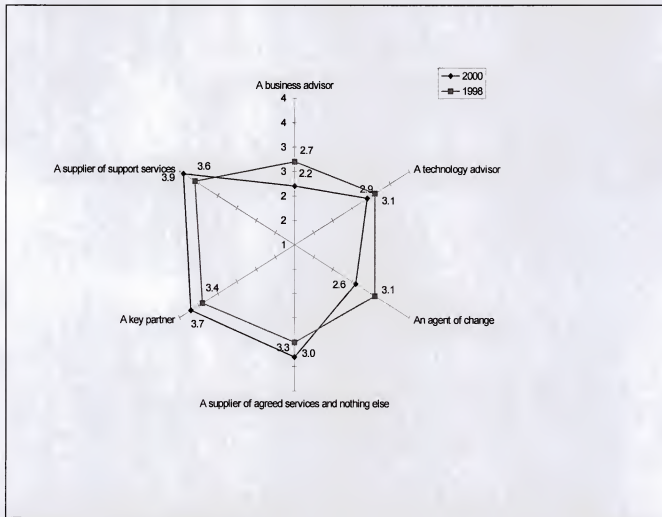
C

Vendors Need to Become Agents of Change

Exhibit II-5 lists European clients' overall perception of the role of outsourcing vendors.

Exhibit II-5

Perceived Roles of Outsourcing Vendors: Europe 1998 and 2000



Sample of 120 respondents. Standard error = 0.1

Source: INPUT

Outsourcing vendors have made some progress towards becoming key partners to their clients. However there is a danger that outsourcing vendors are increasingly being perceived as suppliers of support services rather than agents of change, placing outsourcing vendors in danger of competing against one another largely on price.

Unless outsourcing vendors can deliver the business changes required by their clients, they will become just commodity suppliers of support services. To develop strong partnerships with their clients, outsourcing vendors need to be seen either as key technology advisors and implementers or as business advisors and business change agents.

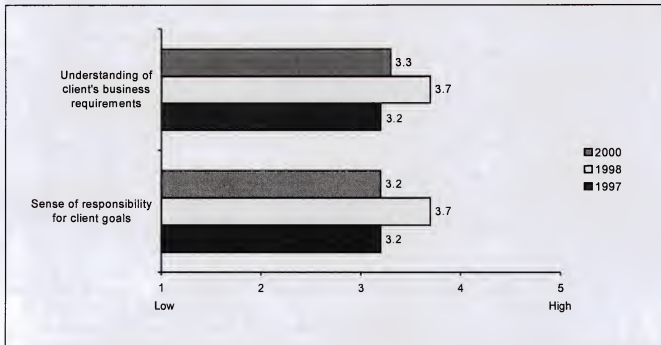
Outsourcing vendors are no longer typically perceived to be technology advisors by their clients. The perception of outsourcing vendors as technology advisors fell from a rating of 3.7 to 3.2 between 1995 and 1997, and fell further to an all-time low of 2.9 in 2000.

Vendors did appear to make some progress towards becoming business advisors in 1998, raising their rating on this criterion from 2.1 in 1997 to 2.7 in 1998. However their rating as business advisors had fallen back to 2.2 by 2000.

Outsourcing vendors had appeared to make some progress in 1998 in understanding the business issues of their clients. However, the rapid business changes of the past two years appear to have undermined this progress, leaving outsourcing vendors inadequately placed as agents of change.

Exhibit II-6 shows the change in level of understanding of clients' business requirements achieved in recent years.

Exhibit II-6

Change in Understanding of Clients' Business Requirements

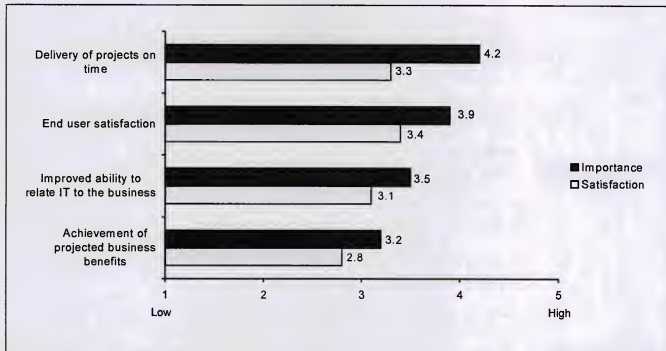
Sample of 120 respondents. Standard error = 0.1

Source: INPUT

Exhibit II-7 shows vendor performance against selected measures of delivery of business benefit.

Exhibit II-7

Delivery of Business Benefit: Europe 2000



Sample of 120 respondents. Standard error = 0.1

Source: INPUT

The typical levels of achievement in this area remain low, from the fundamental delivery of projects on time through to the achievement of the projected business benefits from new systems.

However, of potentially greater concern, is the fact that client expectations of outsourcing vendors appear to be diminishing. Clients no longer strongly expect vendors to act as change agents and improve their ability to achieve business benefit from IT. Instead they merely expect vendors to support existing systems and to demonstrate the ability to deliver specified projects on time and budget.

D**Ability to Meet Budget Targets Is Key**

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

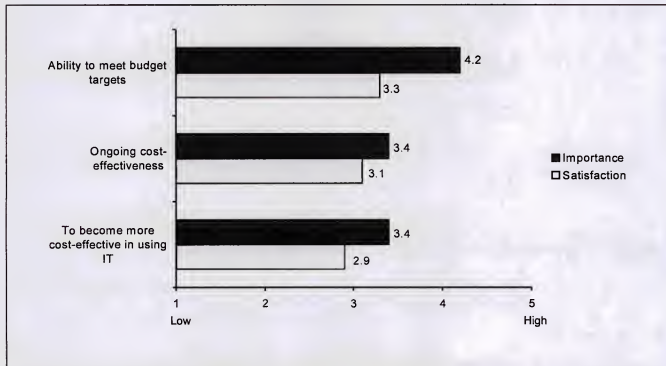
However, vendors have addressed part of this problem in recent years and now typically offer much more flexible contractual approaches than previously. The key issues now are no longer the contractual framework but:

- The ability of account management to work at a strategic level, and not just a tactical level, in a timely fashion
- The ability of vendors to provide individual service and project elements in a cost-effective fashion.

Exhibit II-8 lists the difference between importance and satisfaction from the client perspective against a number of cost control criteria.

Exhibit II-8

Satisfaction with Vendor Cost Control: Europe 2000



Sample of 170 respondents. Standard error = 0.1

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.

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 significantly increase their profitability in the later stages of the contract.



Vendor Performance Analysis — Europe 2000

A

Application Management Takes Center Stage

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 (%) |
|------------------------------------|---------------------------|
| Application maintenance management | 45 |
| Desktop services | 43 |
| Application development management | 40 |
| Mainframe operations | 31 |
| WAN management | 27 |
| ERP management | 24 |
| Intranet and web hosting | 22 |
| E-business services | 8 |
| BPR consultancy | 7 |
| IT strategy consultancy | 7 |
| Business process outsourcing | 4 |
| Other IT consultancy services | 2 |

Source: INPUT

The management of datacenter operations no longer dominates outsourcing activity. Overall the area now outsourced most

extensively in Europe is application management, with both application maintenance management and application development management being outsourced more extensively than mainframe operations.

Indeed, the current challenge in IT infrastructure management is to provide end-to-end service management covering the desktop, LANs, WANs, mainframe and web servers. Over the past year, Intranets and web servers have strongly emerged as key technologies requiring external management services.

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

Exhibit III-2

Service Quality by IT Function

| Function | Satisfaction |
|------------------------------------|--------------|
| Business process outsourcing | 4.0 |
| Application maintenance management | 3.8 |
| Mainframe operations | 3.6 |
| Desktop services | 3.6 |
| WAN management | 3.5 |
| E-business services | 3.5 |
| Intranet and web hosting | 3.4 |
| Application development management | 3.4 |
| ERP management | 3.0 |
| IT strategy consultancy | 3.0 |
| BPR consultancy | 2.0 |

Source: INPUT

Despite the increasing emphasis on outsourcing of web servers and application development management, vendor capability is perceived to remain strongest in more traditional areas such as application maintenance management and infrastructure management related to mainframe operations and desktop services.

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 (1-5) | Satisfaction Rating (1-5) | Difference |
|---|-------------------------|---------------------------|------------|
| Provision of web hosting services | 2.2 | 3.2 | (1.0) |
| Moves and user requested changes | 2.6 | 2.9 | (0.3) |
| Utilization of new technologies | 3.3 | 3.2 | 0.1 |
| Capability of help-desk | 3.4 | 3.2 | 0.2 |
| Levels of systems availability | 4.2 | 3.8 | 0.5 |
| Scope of operational capability | 4.4 | 3.7 | 0.7 |
| Achievement of operational service level agreements | 4.4 | 3.7 | 0.7 |

Source: INPUT

Clients are typically quite pleased with the ability of vendors to meet operational service level agreements in terms of levels of systems availability. As in previous years, vendor help-desk capabilities remain a major cause for concern, as does the ability of vendors to respond to requests for moves and changes. Clients sometimes perceive moves and changes to involve a high level of bureaucracy and a perceived slow response.

However, the main challenge for outsourcing vendors remains in establishing their role as partners who can assist clients in adopting and obtaining value from new technology. Vendors are still often perceived to be slow to offer advice on the applicability of new technologies and the current level of satisfaction with web hosting services is low. Vendors need to increase this level of satisfaction rapidly since web hosting is a major outsourcing growth market at the present time.

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 | | Level of systems availability | |
| Medium Importance | | | Capability of help-desk |
| Low Importance | | | Utilization of new technologies Moves and user requested changes Provision of web hosting services |

Source: INPUT

The provision of help-desk services becomes more vital to the client and a more demanding challenge for vendors as systems being outsourced become more distributed in nature. This challenge has been exacerbated by the emphasis on interoperability and the move to e-business access for all personnel. While vendors can transfer some elements of support to the web or corporate Intranet, and will increasingly need to do so to ensure support quality and responsiveness, such systems still need to be integrated with a highly capable help-desk facility.

Overall, as in 1998, the main challenges in operational management remain keeping pace with technology and providing high-quality support for the end user.

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

Exhibit III-5

Profile of Systems Availability Guarantee

| Level of Availability Guarantee (%) | Proportion of contracts (%) |
|-------------------------------------|-----------------------------|
| 90%--97% availability | 18% |
| 97%--99% availability | 18% |
| 99% -99.5% availability | 32% |
| 99.5% -99.9% availability | 27% |
| Over 99.9% availability | 5% |

Source: INPUT

The level of guaranteed systems availability has increased considerably under the influence of e-business with nearly two-thirds of contracts now specifying guaranteed availability in excess of 99%. However, there remain a significant minority of contracts with availability guarantees below 97%.

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

Exhibit III-6

Profile of Network Availability Guarantee

| Level of Availability Guarantee (%) | Proportion of contracts (%) |
|-------------------------------------|-----------------------------|
| 90%--97% availability | 20% |
| 97%--99% availability | 30% |
| 99% -99.5% availability | 10% |
| 99.5% -99.9% availability | 30% |
| Over 99.9% availability | 10% |

Source: INPUT

Levels of network availability guaranteed are more polarized than those for systems availability. A higher proportion of networks are guaranteed availability levels in excess of 99.5%, but at the same time, a higher proportion of contracts have guaranteed network availability below 99%.

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 (2000) | Satisfaction Rating (2000) | Difference (2000) |
|--|--------------------------|----------------------------|-------------------|
| Ability to contribute to business benefits | 3.1 | 2.9 | 0.2 |
| Achievement of projected business benefits | 3.2 | 2.8 | 0.4 |
| Achievement of agreed support service levels | 4.0 | 3.5 | 0.5 |
| End user satisfaction | 3.9 | 3.4 | 0.5 |
| Meeting of requirements/specification | 4.2 | 3.5 | 0.6 |
| Delivery of projects on time | 4.2 | 3.3 | 0.9 |
| Ability to control costs/meet budget targets | 4.2 | 3.3 | 1.0 |

Source: INPUT

The overall level of satisfaction with application management service provision is typically higher than that for service criteria related to operational management.

However, while vendors are moderately successful in delivering systems and support to agreed specifications as shown in Exhibit III-8, they are less effective in delivering business benefit to the client organization. This is a source of major concern since the need to demonstrate and achieve business benefit has increased dramatically with the advent of e-business applications. In particular, e-business applications are frequently expected to increase revenues or improve communication with clients and business partners. These benefits can be more difficult to deliver than the process cost reduction typically sought from ERP Projects.

There are also major concerns about the ability of vendors to deliver projects on time and on budget. Again, these criteria have become of paramount importance in the new world of e-business, where speed to market is a critical factor and clients have come to expect project deadlines to be measured in weeks rather than years.

Many clients have outsourcing contracts that have a fixed price component for systems management but use time and materials pricing for systems development. There was widespread concern that while fixed price contracts for systems management work well from the clients' perspective vendors frequently go over-budget when

working against time and materials contracts on systems development projects.

Exhibit III-8

Satisfaction with Application Management

| | High Satisfaction | Medium Satisfaction | Low Satisfaction |
|-------------------|-------------------|--|--|
| High Importance | | Meeting of requirements/specification Achievement of agreed support service levels End user satisfaction | Delivery of projects on time Ability to control costs/meet budget targets |
| Medium Importance | | | |
| Low Importance | | | Ability to contribute to business benefits Achievement of projected 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% | 3 |
| 50-74% | 21 |
| 75-89% | 23 |
| 90-94% | 21 |
| 95-100% | 33 |
| Total | 100 |

Source: INPUT

Despite the relatively low levels of satisfaction expressed, the proportion of projects completed on time has improved in the last two years. On average 81% of projects are now completed on time within outsourcing contracts, compared to 75% two years ago.

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 budget (%) | Proportion of respondents (%) |
|--------------------------------------|-------------------------------|
| 0 - 50% | 12 |
| 51-75% | 27 |
| 76-90% | 37 |
| 91-100% | 24 |

Source: INPUT

Similarly the proportion of projects delivered on budget has improved with 84% of systems development projects within outsourcing contracts now delivered on budget compared to 77% in 1998.

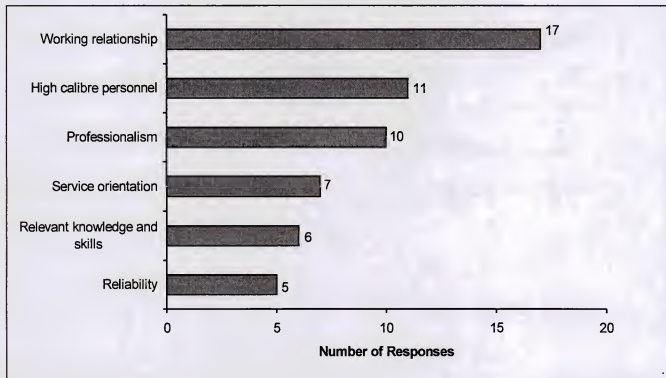
Overall, vendors are steadily improving their ability to deliver projects on time and on budget. However it appears that clients will be satisfied with nothing less than 100% performance in these areas.

At the same time, vendors need to place greater emphasis in assisting their clients to realize the anticipated business benefits from systems development projects

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

Aspects of Vendor Culture Liked

Sample of 120 respondents

Source: INPUT

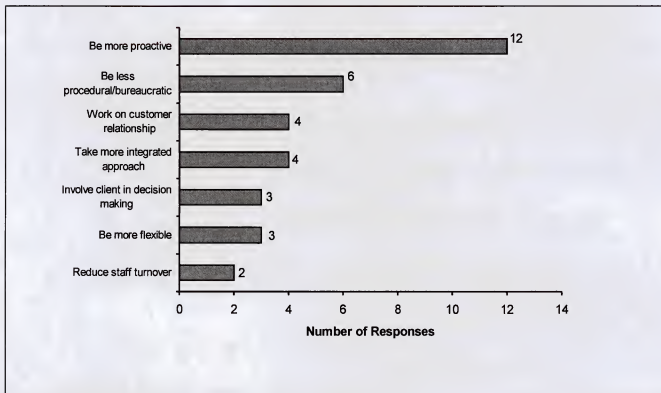
One of the advantages often cited for outsourcing is the introduction of a more professional service culture to in-house IT personnel. This argument has been supported by previous studies of this type. Clients have tended to be pleased with the overall responsiveness of vendor personnel and the efforts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

Areas for Improvement



Sample of 120 respondents

Source: INPUT

Clients are increasingly satisfied with those vendor personnel with whom they have a day-to-day working relationship. However, clients are often less satisfied with the way these personnel are managed by vendors.

In particular, many clients would like their suppliers to become more involved and take a greater ownership of their IT issues and direction. Clients are increasingly faced with rapidly changing business environments and technological possibilities and, having often transferred many of their more IT-literate personnel to the outsourcing vendor, feel increasingly exposed. In return for the outsourcing contract, clients expect to receive a certain amount of relatively informal advice and guidance, which does not involve huge consultancy studies at considerable expense. This informal guidance is not always readily provided by vendors at present.

Account management is critical to the success of outsourcing and in some instances there remains scope for improvement.

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 | Satisfaction | Difference |
|---|------------|--------------|------------|
| Co-operation with other vendors | 3.1 | 3.2 | (0.2) |
| Continuity of personnel | 3.6 | 3.7 | (0.1) |
| Effective and appropriate communications channels | 3.0 | 3.0 | (0.1) |
| Calibre of personnel | 3.9 | 3.9 | 0.0 |
| Low level of bureaucracy | 3.0 | 3.0 | 0.1 |
| Understanding of latest technologies | 3.8 | 3.7 | 0.1 |
| Ability to apply latest technologies | 3.9 | 3.7 | 0.2 |
| Willingness to compromise when conflicts arise | 3.2 | 2.9 | 0.3 |
| Fast speed of reaction to requests | 3.4 | 3.1 | 0.3 |
| Understanding of your business requirements | 3.7 | 3.3 | 0.4 |
| Sense of responsibility for your goals | 3.6 | 3.2 | 0.4 |
| Commitment to achieving agreed requirements | 3.8 | 3.5 | 0.4 |
| Responsiveness to changing business needs | 3.7 | 3.3 | 0.4 |
| Responsiveness to day-to-day issues | 3.7 | 3.3 | 0.4 |

Source: INPUT

Exhibit III-14 presents the data from Exhibit III-13 in a manner aimed to facilitate vendors in identifying the main priorities for 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 | |
| Medium Importance | | Commitment to achieving agreed requirements Continuity of personnel Openness of communication Understanding of latest technologies | Understanding of your business requirements Sense of responsibility for clients' goals Responsiveness to changing business needs Responsiveness to day-to-day issues Fast speed of reaction to requests |
| Low Importance | | | Willingness to compromise when conflicts arise Low level of bureaucracy Effective and appropriate communications channels Co-operation with other vendors |

Source: INPUT

Clients are impressed with the calibre of vendor personnel. At the same time, they are reasonably satisfied that vendors have developed an understanding of the latest technology.

However, they remain unconvinced that vendors are prepared to harness these capabilities in the interests of their clients. Clients typically perceive that vendors have insufficient understanding of their business requirements and take insufficient responsibility for their clients' goals. Overall the major problem areas appear to be a lack of business knowledge combined with a management style that slows down the rate of response to new business trends and technologies. It appears as though too many vendors are still awaiting instructions from their clients rather than initiating new ideas themselves.

C**Contractual Terms Meet Client Expectations**

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 | Satisfaction | Difference |
|---|-------------------|---------------------|-------------------|
| Commitment to meet agreed prices | 3.0 | 3.7 | (0.7) |
| Willingness to tailor contract to client's situation | 3.5 | 3.9 | (0.4) |
| Ability to accommodate changing requirements | 3.1 | 3.4 | (0.3) |
| Overall contract flexibility | 3.7 | 3.9 | (0.2) |
| Overall service level agreement | 3.3 | 3.5 | (0.2) |
| Length of contract | 3.8 | 3.9 | (0.1) |
| Penalties and bonuses | 2.3 | 2.4 | (0.1) |
| Ease of termination of contract | 3.0 | 2.8 | 0.2 |
| Flexibility to use additional suppliers where appropriate | 2.6 | 2.3 | 0.3 |
| Terms of transfer of employees | 3.4 | 2.4 | 1.0 |

Source: INPUT

Exhibit III-16 presents the data from Exhibit III-13 in a manner aimed to facilitate vendors in identifying the main priorities for improvement in contract terms.

Exhibit III-16

Satisfaction with Outsourcing Contract Features

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

Source: INPUT

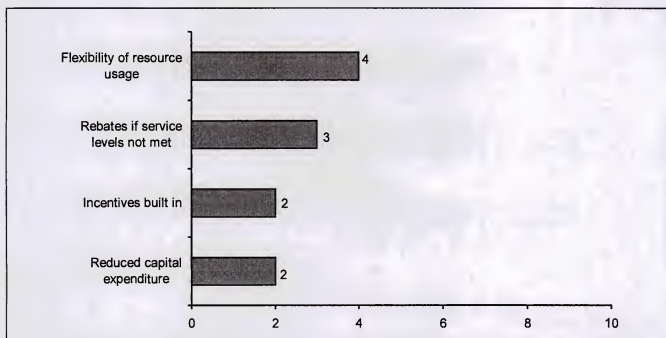
Overall, outsourcing clients are more moderately satisfied with the general terms of their outsourcing contracts. Vendors appear to have made considerable improvement in recent years tailoring contracts for individual clients and introducing greater flexibility into their contracts.

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 to underperform in certain functions will seek to contract those functions separately to a third party or even transfer them back in-house.

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

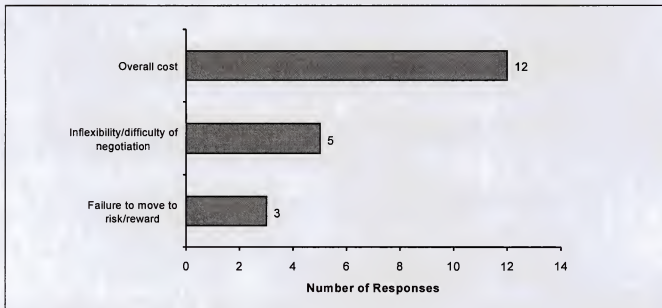
Sample of 120 respondents

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 120 respondents

Source: INPUT

Recently, vendors appear to have become much more flexible in the manner in which they allow their clients to utilize resources within their overall contract frameworks. This is particularly important in the new economy where the pattern and nature of systems development resources change rapidly in response to both market and technology pressures.

At the same time, the pressure to achieve higher levels of systems availability is increasing and users perceive that rebates for unmet SLAs are a good mechanism for ensuring vendor management attention to systems availability. While a rebate is inadequate recompense in itself for low systems availability, users assume that loss of income to the vendor will place sufficient pressure on the account manager to ensure that any problems are addressed in a timely fashion.

However, organizations would like vendors to move beyond debates for unmet service levels and adopt still greater levels of risk/reward. At the same time, many users still perceive that the overall costs of outsourced services are higher than they should be. Organizations undertaking outsourcing often targeted cost reductions in the order of

20% but find that the levels of cost reduction achieved in practice are somewhat lower than this.

D

Vendors Need to Focus on Adding Business Value

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

Exhibit III-19

Principal Benefits Sought

| Benefit Sought | Level of achievement (2000) |
|--|-----------------------------|
| Add business value (23) | 3.1 |
| Access to skills/resources (21) | 3.7 |
| Improve efficiency / reduce costs (18) | 3.8 |
| Improve service (14) | 3.6 |
| Flexible resourcing (13) | 4.5 |
| Improve IT infrastructure (12) | 3.6 |
| Improve process methodology (6) | 3.8 |
| Provision of web-based services (5) | 3.8 |

Source: INPUT

Many outsourcing clients still cite traditional criteria such as cost savings, improved service levels and access to IT skills. Indeed, there was marked 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 and e-business.

However, IT in the form of e-business is now expected by many organizations to deliver a high level of business impact and the ability to add business value is now the leading benefit sought from outsourcing. Unfortunately, it is also the area where clients perceived vendors to be least successful.

Traditionally outsourcing has often behaved as a way of delivering lower cost IT services on demand. Within this model the focus has often been on maintaining stable operations rather than on assisting the client to adopt new business models. In order to retain their outsourcing contracts, vendors should now provide their clients with greater levels of business consultancy than in the past and some of this consultancy should be provided in an ongoing informal context rather than as part of major chargeable studies.

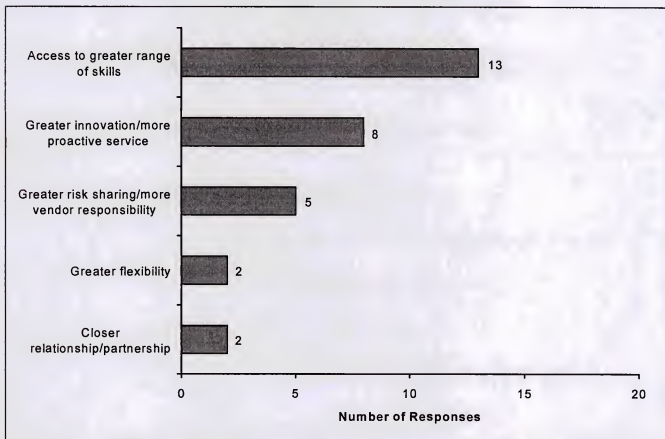
Organizations that have outsourced major elements of their IT frequently miss the informal conversations with experts "in the

corridor.” These conversations are an important mechanism in applying IT to the business and enable executives to develop and test ideas on an informal basis, before initiating more formal studies. Outsourcing vendors need to find mechanisms for re-introducing this style of debate with their clients if they are to be successful in assisting their clients to add business value.

Exhibit III-20 lists the most frequently given replies from outsourcing clients when asked unprompted what key benefits they would seek from a vendor in any future outsourcing contracts.

Exhibit III-20

Principal Future Benefits Sought



Sample of 120 respondents

Source: INPUT

Two main themes emerged from this question.

Firstly, clients recognize the need to develop much closer relationships with vendors if the vendor is to provide a more innovative and involved approach. As mentioned earlier, clients nowadays tend to have excellent working relationships with project and service personnel. The areas where much closer day-to-day

relationships need to develop are with the types of personnel who tend not to be involved with the client on a day-to-day basis such as business and technology consultants and senior vendor management. In addition to the lack of day-to-day advice from business and technology consultants, there is a danger where vendor management are remote from the client that they lay down guidelines that are seen as restricting the flexibility and ability of local account managers to respond to client needs.

Secondly, outsourcing clients need access to a very wide range of skills and technologies. There is always a danger with outsourcing that the profile of skills available to an individual account can stagnate over time. In these times of e-business, clients require access to a comprehensive set of skills and knowledge regardless of the skill set initially required within the account.

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 120 respondents

Source: INPUT

The emphasis in extension of outsourcing contracts is now very forward looking. Predictably the area of greatest demand is for e-commerce related skills.

However, while there is considerable emphasis on the need to implement e-commerce and develop new e-business applications, e-business is also leading to a greater emphasis on operational outsourcing, particularly in the area of web hosting.

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 accelerate implementation of e-business | 2.8 | 3.1 | (0.3) |
| To free in-house managers/staff for other work | 3.3 | 3.5 | (0.2) |
| To reduce the time taken to implement new system | 3.3 | 3.4 | (0.1) |
| To introduce knowledge of new technologies | 3.6 | 3.3 | 0.3 |
| To aggressively use IT for competitive advantage | 3.4 | 3.0 | 0.4 |
| To become more cost-effective in using IT | 3.4 | 2.9 | 0.5 |
| To increase effectiveness in applying IT to the business | 3.6 | 3.0 | 0.6 |

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 aggressively use IT for competitive advantage To increase effectiveness in applying IT to the business 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 free in-house managers/staff for other work | To accelerate implementation of e-business |

Source: INPUT

Overall expectations and levels of satisfaction are relatively low. However the major theme remains that vendors need to take more action to assist their clients in achieving business value from IT.

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 | Achievement | Difference |
|---|-------------|-------------|------------|
| Development process transfer to organization | 3.0 | 3.5 | (0.4) |
| Higher levels of development and support productivity | 3.5 | 3.6 | (0.1) |
| Removed in-house involvement with legacy systems | 3.7 | 3.7 | 0.0 |
| More effective introduction of new systems | 3.3 | 3.3 | 0.0 |
| Improved management of resources | 3.9 | 3.7 | 0.2 |
| Improved resource flexibility | 4.0 | 3.7 | 0.3 |
| Improved support standards and service to users | 3.8 | 3.4 | 0.3 |
| Access to new skills/expertise | 4.0 | 3.7 | 0.3 |
| A solution to resource shortfalls | 3.9 | 3.5 | 0.4 |
| Improved service levels | 4.0 | 3.6 | 0.4 |
| Improved ability to relate IT to the business | 3.5 | 3.1 | 0.4 |

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

Source: INPUT

Overall outsourcing vendors are perceived to be moderately successful in:

- Providing access to technical resources
- Managing technical resources
- Improving service levels.

However, most of the benefits that clients receive from outsourcing remain at a detailed technical level. The overriding issue for outsourcing vendors is to move beyond high levels of technical capability and to begin to show their capabilities and ability to support their clients at a business level.

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 | Achievement | Difference |
|--|------------|-------------|------------|
| A supplier of agreed services and nothing else | 3.1 | 3.3 | (0.2) |
| An agent of change | 2.6 | 2.6 | (0.1) |
| A supplier of support services | 4.0 | 3.9 | 0.0 |
| A business advisor | 2.3 | 2.2 | 0.1 |
| A technology advisor | 3.2 | 2.9 | 0.3 |
| A key partner | 4.0 | 3.7 | 0.3 |

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, they are typically not yet viewed as *business advisors* and expectations in this area are low.

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 Become More Proactive to Protect Contract Renewals**

Exhibit III-27 summarizes attitudes to overall vendor performance.

Exhibit III-27

Summary Criteria

| Criterion | Importance | Achievement | Difference |
|---------------------------------|------------|-------------|------------|
| Vendor service culture | 3.0 | 3.2 | (0.2) |
| Innovation and creativity | 2.9 | 2.9 | 0.0 |
| Commercial terms and conditions | 3.1 | 3.0 | 0.1 |
| Business contribution | 3.0 | 2.9 | 0.1 |
| Initial cost-effectiveness | 3.0 | 2.9 | 0.1 |
| Strength of partnership | 3.5 | 3.3 | 0.2 |
| Flexibility of approach | 3.3 | 3.0 | 0.3 |
| Ongoing cost-effectiveness | 3.4 | 3.1 | 0.3 |
| Service provision | 4.4 | 4.0 | 0.4 |
| Overall | 4.3 | 3.6 | 0.7 |

Source: INPUT

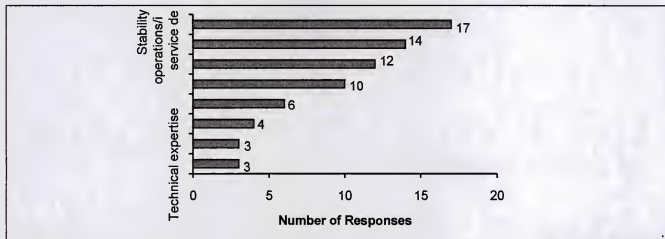
The overall performance of outsourcing vendors is sound rather than impressive and organizations are highly satisfied with their provision of agreed services.

However, outsourcing vendors must move beyond the provision of agreed services in response to client requests and start to make a business contribution on behalf of their clients.

Indeed, there is a danger that clients have already come to expect outsourcing vendors to play a purely supporting and reactive role in terms of service provision. This survey indicates that clients now have low expectations of their vendors making a business contribution. This is a dangerous position for vendors, since clients who regard outsourcing vendors, as reactive suppliers of services will tend to treat their supplier's services as a commodity. Once this happens, contract renewals will increasingly be based on calculations of best price rather than on the added value that a particular vendor can deliver.

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

Exhibit III-28

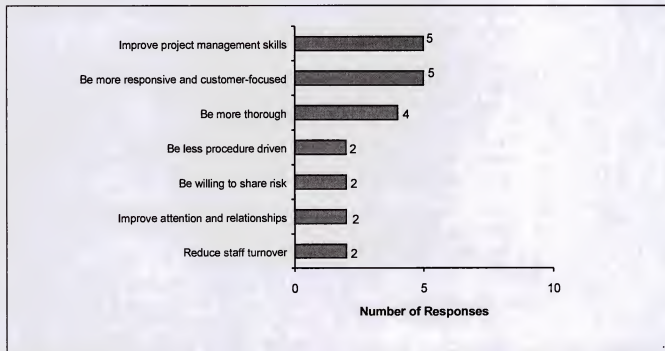
Most Satisfactory Aspects of Outsourcing Services

Sample of 120 respondents

Source: INPUT

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

Exhibit III-29

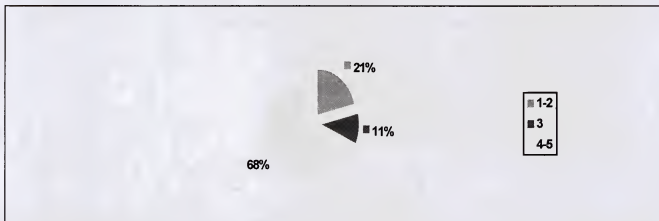
Areas of Concern

Sample of 120 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 120 respondents

Source: INPUT

Despite the moderate ratings given to outsourcing vendors, clients exhibit a relatively high level of loyalty with approximately two-thirds of clients exhibiting a strong likelihood of renewing with their existing vendor.

Only 20% of clients explicitly show a marked disinclination to renew contracts with their existing suppliers. However, since another 10% of clients are undecided, it is probable that approximately 25% 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 and perceive the commercial terms and conditions of the contract favorably. However, a perception of cost-effectiveness in itself offers little protection against competitors. Clients will typically want to benchmark vendors that offer primarily cost-effectiveness to ensure their future cost-competitiveness.

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.

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IV

Changes in Vendor Performance 1997 - 2000

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

A

e-business Increases Pressures on Service Delivery

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 |
|---|----------------------------|----------------------------|----------------------------|------------|
| Day-to-day management of the personal computer infrastructure including servers and local area networks...(2) | 3.5 | 3.5 | 3.6 | (0.1) |
| Support and maintenance for in-house developed applications...(5) | 3.8 | 3.7 | 3.8 | (0.1) |
| Day-to-day management of the corporate data network...(3) | 3.6 | 3.7 | 3.5 | 0.2 |
| Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment...(1) | 3.8 | 3.8 | 3.6 | 0.2 |
| Responsibility for new systems development as a preferred supplier...(6) | 3.5 | 3.7 | 3.4 | 0.3 |
| IT strategy consultancy...(10) | 3.7 | 4.0 | 3.0 | 1.0 |

Source: INPUT

Overall, the level of satisfaction with service quality has remained relatively constant by service type in recent years. However clients are becoming more demanding in their expectations and the pressure on server operations and network management is beginning to build under the influence of e-business. However the greatest decreases in satisfaction have been in strategy consultancy and systems development, areas that are growing in importance.

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 |
|---|----------------------------|----------------------------|----------------------------|------------|
| Speed of migration to new platforms/technologies* | 3.1 | 3.2* | 3.2 | (0.1)* |
| Capability of help-desk | 3.4 | 3.4 | 3.2 | 0.0 |
| Scope of operational capability | 3.5 | 3.7 | 3.7 | 0.0 |
| Achievement of operational service level agreements | 3.6 | 3.8 | 3.7 | 0.1 |

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

Source: INPUT

Concerns about the rate at which new technology is introduced into the client's IT infrastructure remain. There is always a danger that outsourcing concentrates on managing up the services levels, and managing down the costs associated with existing infrastructure rather than on evaluating the relevance of new technologies.

At the same time, help-desk services remain a major cause for concern in the industry. The main issue in the use of external help-desks is the ability of help-desk personnel to understand the business issues associated with the technical problem. In addition, for smaller clients there is often the issue of vendor management attention and adherence to escalation procedures.

Exhibit IV-3 lists the level 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 contribute to business benefits | 2.8 | 3.1 | 3.3 | (0.2) |
| Ability to control costs/meet budget targets | 3.4 | 3.4 | 3.3 | 0.1 |
| Delivery of projects on time | 3.4 | 3.5 | 3.3 | 0.2 |
| Achievement of agreed support service levels | 3.8 | 3.7 | 3.5 | 0.2 |
| Meeting of requirements/specification | 3.8 | 3.8 | 3.5 | 0.3 |
| Achievement of projected business benefits | 2.9 | 3.3 | 2.8 | 0.5 |

Source: INPUT

Clients are no longer satisfied with vendors' ability to deliver systems to agreed specifications. Clients now expect vendors to go beyond this and play a greater role in addressing and delivering business benefits.

Elsewhere, the pressure on vendors to deliver projects on time and on budget is increasing and satisfaction in these areas has decreased slightly over the past two years.

B**Satisfaction with Service Cultures Deteriorates**

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 |
|---|----------------------------|----------------------------|----------------------------|------------|
| Responsiveness to changing business needs | 3.1 | 3.3 | 3.3 | 0.0 |
| Level of bureaucracy | 3.1 | 3.0 | 3.0 | 0.0 |
| Continuity of personnel | 3.7 | 3.8 | 3.7 | 0.1 |
| Calibre of personnel | 3.7 | 4.1 | 3.9 | 0.2 |
| Commitment to achieving agreed requirements | 3.6 | 3.7 | 3.5 | 0.2 |
| Speed of reaction to requests | 3.3 | 3.3 | 3.1 | 0.2 |
| Co-operation with other vendors | 3.3 | 3.5 | 3.2 | 0.3 |
| Responsiveness to day-to-day issues | 3.8 | 3.6 | 3.3 | 0.3 |
| Understanding of business requirements | 3.2 | 3.7 | 3.3 | 0.4 |
| Sense of responsibility for goals | 3.2 | 3.7 | 3.2 | 0.5 |
| Effective and appropriate communications channels | 3.3 | 3.5 | 3.0 | 0.5 |
| Willingness to compromise when conflicts arise | 3.4 | 3.5 | 2.9 | 0.6 |

Source: INPUT

Satisfaction with the calibre of vendor personnel remains high and vendors are still perceived to exhibit a reasonable level of responsiveness to achieving agreed requirements. However, the overall level of satisfaction with vendor service cultures, which reached an all-time high in 1998, has deteriorated markedly over the last two years.

In 1998, vendors appeared at last to have developed an understanding of their clients' businesses and to be starting to develop a sense of responsibility towards their clients' goals. However, the business environment in many industries has changed markedly over the past two years and vendors are typically perceived to have lost this ability to relate IT to their clients' businesses. On the whole, vendors appear to have fallen back to a position of trying to respond to client requests rather than assisting clients in anticipating their future competitive position and IT needs.

Satisfaction with vendor personnel reached an all-time high and it appears as though vendors are finally beginning to develop some understanding of their clients' business requirements.

However, vendors' understanding of, and sense of involvement with, business issues do not appear to have translated into action. Vendors' responsiveness to changing business needs remains at its historically low level. This may be an ability to translate business vision into appropriate IT systems or it may simply reflect the lack of a contractual mechanism that would facilitate a rapid response.

At the same time, possibly as a result of competition for the new skill sets now heavily in demand, vendors continue to lose some of the reactive service capability that characterised the early days of the outsourcing market. Satisfaction with responsiveness to day-to-day issues continues to decline and satisfaction with speed of reaction to requests remains at an unsatisfactory level.

C

Levels of Contractual Flexibility Have Increased

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 |
|---|----------------------------|----------------------------|----------------------------|------------|
| Willingness to tailor contract to client's situation | 3.6 | 3.6 | 3.9 | (0.3) |
| Overall contract flexibility | 3.7 | 3.7 | 3.9 | (0.2) |
| Length of contract | 4.0 | 3.7 | 3.9 | (0.2) |
| Commitment to meet agreed prices | 3.7 | 3.6 | 3.7 | (0.1) |
| Ability to accommodate changing requirements | 3.4 | 3.4 | 3.4 | 0.0 |
| Service level agreement | 3.6 | 3.6 | 3.5 | 0.1 |
| Penalties and bonuses | 2.7 | 2.7 | 2.4 | 0.3 |
| Flexibility to use additional suppliers where appropriate | 3.3 | 3.0 | 2.3 | 0.7 |
| Ease of termination of contract | 3.7 | 3.6 | 2.8 | 0.8 |
| Terms of transfer of employees | 3.7 | 3.8 | 2.4 | 1.4 |

Source: INPUT

Satisfaction with contract terms increased in a number of important areas between 1998 and 2000.

Prior to 1998, clients had become steadily less satisfied with vendors' willingness to tailor their outsourcing contracts and their overall levels of contract flexibility. However, vendors appear to have now developed more flexible contractual frameworks that will enable them to react quickly and cost-effectively to emerging technologies and the need for new business processes. The main issues are no longer contractual but the ability of vendors to understand the environments in which their clients now find themselves.

D

The Role of Outsourcing Vendors is Diminishing

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: 1995 to 1998

| Goal | Achievement Rating (1997) | Achievement Rating (1998) | Achievement Rating (2000) | Difference |
|--|---------------------------|---------------------------|---------------------------|------------|
| To reduce the time taken to implement new system | 3.3 | 3.1 | 3.4 | (0.3) |
| To aggressively use IT for competitive advantage | 2.8 | 2.8 | 3.0 | (0.2) |
| To increase effectiveness in applying IT to the business | 3.0 | 3.0 | 3.0 | 0 |
| To become more cost-effective in using IT | 3.3 | 3.1 | 2.9 | 0.2 |
| To free in-house managers/staff for other work | 3.7 | 4.0 | 3.5 | 0.5 |

Source: INPUT

The overall satisfaction with vendors' contribution to their clients' IT goals remained largely unchanged. However, there was some change in the extent to which outsourcing contributed towards each individual IT goal.

Encouragingly, vendors' performance in reducing the time taken to implement new systems has improved over the past two years, as has their ability to assist clients in using IT for competitive advantage. Unfortunately, despite these relative improvements, these are areas where the goalposts have moved dramatically in Europe over the past two years and these levels of improvement are no longer sufficient. Continued improvement in both these areas is required.

Clients are also becoming more demanding in their expectations of value for money and satisfaction with vendor cost-effectiveness continues to decline.

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 |
|--|---------------------------|---------------------------|---------------------------|------------|
| More effective introduction of new systems | 3.1 | 3.1 | 3.3 | (0.2) |
| Improved ability to relate IT to the business | 2.8 | 3.0 | 3.1 | (0.1) |
| Improved operational service levels | 3.6 | 3.7 | 3.6 | 0.1 |
| Removed in-house involvement with legacy systems | 3.7 | 3.9 | 3.7 | 0.2 |

Source: INPUT

In this instance there is also encouraging news for outsourcing vendors. Vendors are again perceived to be steadily improving their ability to relate IT to their clients' businesses and their ability to introduce new systems. Again the downside of this news is that satisfaction is increasing from a very low level and considerable scope for improvement remains.

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 key partner | 3.6 | 3.4 | 3.7 | (0.3) |
| A supplier of agreed services and nothing else | 3.2 | 3.0 | 3.3 | (0.3) |
| A supplier of support services | 4.2 | 3.6 | 3.9 | (0.3) |
| A technology advisor | 3.2 | 3.1 | 2.9 | 0.2 |
| A business advisor | 2.1 | 2.7 | 2.2 | 0.5 |
| An agent of change | 3.0 | 3.1 | 2.6 | 0.5 |

Source: INPUT

The perception of outsourcing vendors as key partners improved between 1998 and 2000. However, vendors are increasingly being viewed as suppliers of support services rather than being perceived to play a more strategic role.

The perception of outsourcing vendors as advisors (both business and technology) and as agents of change declined markedly between 1998 and 2000.

This is extremely worrisome since it appears that outsourcing vendors are steadily becoming less important to their clients. Indeed it is critical for their success that outsourcing vendors are seen as able to make a significant contribution to their clients' business and technology strategies. At the moment there is a danger that outsourcing vendors will be left to operate the status quo, with additional vendors being used to provide new thinking and new services.

E**The Business Contribution from Outsourcing is Improving - Slowly**

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

Exhibit IV-9

Summary Satisfaction Criteria: 1995 to 1998

| Summary Criteria | Satisfaction Rating (1997) | Satisfaction Rating (1998) | Satisfaction Rating (2000) | Difference |
|---------------------------------|----------------------------|----------------------------|----------------------------|------------|
| Service provision | 3.8 | 3.8 | 4.0 | (0.2) |
| Innovation and creativity | 2.8 | 2.7 | 2.9 | (0.2) |
| Business contribution | 2.7 | 2.8 | 2.9 | (0.1) |
| Overall | 3.6 | 3.7 | 3.6 | 0.1 |
| Strength of partnership | 3.5 | 3.5 | 3.3 | 0.2 |
| Vendor service culture | 3.4 | 3.4 | 3.2 | 0.2 |
| Ongoing cost-effectiveness | 3.3 | 3.4 | 3.1 | 0.3 |
| Flexibility of approach | 3.4 | 3.4 | 3.0 | 0.4 |
| Commercial terms and conditions | 3.4 | 3.4 | 3.0 | 0.4 |
| Initial cost-effectiveness | 3.2 | 3.4 | 2.9 | 0.5 |

Source: INPUT

Overall satisfaction with outsourcing vendors has remained roughly constant in recent years.

The satisfaction with service provision has strengthened and is high. Elsewhere satisfaction levels remain low.

Satisfaction with innovation and creativity and business contribution has increased slightly, though insufficiently, over the past two years. Other areas including vendor service cultures and perceived cost-effectiveness appear to have deteriorated.

A

Satisfaction with Outsourcing Services: Europe - 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) | 31 | | 3.6 |
| Day-to-day operation of the personal computer infrastructure including servers and local area networks....(2) | 43 | | 3.6 |
| Day-to-day operation of the corporate data network....(3) | 27 | | 3.5 |
| Development and operation of corporate Intranet and web servers....(4) | 22 | | 3.4 |
| Support and maintenance for in-house developed applications....(5) | 45 | | 3.8 |
| Responsibility for new systems development as a preferred supplier....(6) | 40 | | 3.4 |
| Enterprise application implementation & support....(7) | 24 | | 3.0 |
| E-business and e-commerce related services....(8) | 8 | | 3.5 |
| Business process reengineering consultancy....(9) | 7 | | 2.0 |
| IT strategy consultancy....(10) | 7 | | 3.0 |

| Function | Outsourced (%) | Vendors | Satisfaction (1-5) |
|--|----------------|---------|--------------------|
| Other IT consultancy services....(11) | 2 | | |
| Business functions such as accounting services or HR benefits administration....(12) | 4 | | 4.0 |

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?
- Stability of operations (17)
 - Process/way of working (14)
 - Reliability (12)
 - Service from support team (10)
3. Which aspects of your current outsourcing services, if any, cause you concern?
- Improve project management skills (5)
 - Be more customer focused (5)
 - Be more thorough (4)

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 | 4.4 | 3.7 |
| Achievement of operational service level agreements | 4.4 | 3.7 |
| Levels of a systems availability | 4.2 | 3.8 |
| Utilization of new technologies | 3.3 | 3.2 |
| Capability of help-desk | 3.4 | 3.2 |
| Moves and user requested changes | 2.6 | 2.9 |

| Feature | Importance (1-5) | Satisfaction (1-5) |
|-----------------------------------|---------------------|-----------------------|
| Provision of web hosting services | 2.2 | 3.2 |
| 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 18%

97%--99% availability 18%

99% -99.5% availability 32%

99.5% -99.9% availability 27%

Over 99.9% availability 5%

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

90%--97% availability 20%

97%--99% availability 30%

99% -99.5% availability 10%

99.5% -99.9% availability 30%

Over 99.9% availability 10%

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 | 4.2 | 3.3 |
| Ability to control costs/meet budget targets | 4.2 | 3.3 |
| Meeting of requirements/specification | 4.2 | 3.5 |
| Achievement of agreed support service levels | 4.0 | 3.5 |
| Achievement of projected business benefits | 3.2 | 2.8 |

| Service Characteristic | Importance (1-5) | Satisfaction (1-5) |
|--|-----------------------------|-------------------------------|
| Ability to contribute to business benefits | 3.1 | 2.9 |
| End user satisfaction | 3.9 | 3.4 |
| Other (please specify) | | |

Source: INPUT

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

81% On time

84% On budget

Vendor Style

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

- Working relationship (17)
- High calibre personnel (11)
- Professionalism (10)
- Service orientation (7)

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

- Be more proactive (12)
- Be less procedural (6)
- Work on customer relationship (4)
- Take more integrated approach (4)

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 | 3.2 |
| Commitment to achieving agreed requirements | 3.8 | 3.5 |
| Responsiveness to changing business needs | 3.7 | 3.3 |
| Willingness to compromise when conflicts arise | 3.2 | 2.9 |
| Responsiveness to day-to-day issues | 3.7 | 3.3 |
| Continuity of personnel | 3.6 | 3.7 |
| Effective and appropriate communications channels | 3.0 | 3.0 |
| Low level of bureaucracy | 3.0 | 3.0 |
| Fast speed of reaction to requests | 3.4 | 3.1 |
| Co-operation with other vendors | 3.1 | 3.2 |
| Calibre of personnel | 3.9 | 3.9 |
| Understanding of latest technologies | 3.8 | 3.7 |
| Ability to apply latest technologies | 3.9 | 3.7 |

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 (1-5) | Satisfaction (1-5) |
|---|------------------|--------------------|
| Overall contract flexibility | 3.7 | 3.9 |
| Length of contract | 3.8 | 3.9 |
| Willingness to tailor contract to client's situation | 3.5 | 3.9 |
| Terms of transfer of employees | 3.4 | 2.4 |
| Commitment to meet agreed prices | 3.0 | 3.7 |
| Flexibility to use additional suppliers where appropriate | 2.6 | 2.3 |
| Ease of termination of contract | 3.0 | 2.8 |
| Ability to accommodate changing requirements | 3.1 | 3.4 |
| Overall service level agreement | 3.3 | 3.5 |
| Penalties and bonuses | 2.3 | 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:

- Flexibility of resource usage (4)
- Rebates if service levels not met (3)

Dislikes:

- Overall cost (12)
- Inflexibility/difficulty of negotiation (5)
- Failure to move to risk/reward (3)

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

12. 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 | 3.4 | 3.0 |
| To accelerate your implementation of e-business | 2.8 | 3.1 |
| To increase effectiveness in applying IT to the business | 3.6 | 3.0 |
| To introduce knowledge of new technologies | 3.6 | 3.3 |
| To become more cost-effective in using IT | 3.4 | 2.9 |
| To reduce the time taken to implement new systems | 3.3 | 3.4 |
| To free in-house managers/staff for other work | 3.3 | 3.5 |
| Other (please specify) | | |

Source: INPUT

13. 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) |
|--------------------------------------|----------------------------|
| Add business value (23) | 3.1 |
| Access to skills/resources (21) | 3.7 |
| Improve efficiency/reduce costs (18) | 3.8 |

Source: INPUT

14. 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?

- Access to greater range of skills (13)
- Greater innovation/more proactive service (8)
- Increased risk sharing (5)

15. 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 | 3.9 | 3.7 |
| A solution to resource shortfalls | 3.9 | 3.5 |
| Improved resource flexibility | 4.0 | 3.7 |
| Development process transfer to your organization | 3.0 | 3.5 |
| Higher levels of development and support productivity | 3.5 | 3.6 |
| Improved service levels | 4.0 | 3.6 |
| Removed in-house involvement with legacy systems | 3.7 | 3.7 |
| Improved support standards and service to users | 3.8 | 3.4 |
| Access to new skills/expertise | 4.0 | 3.7 |
| Improved ability to relate IT to the business | 3.5 | 3.1 |
| More effective introduction of new systems | 3.3 | 3.3 |

Source: INPUT

16. 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 | 3.1 | 3.3 |
| A business advisor | 2.3 | 2.2 |
| A technology advisor | 3.2 | 2.9 |
| An agent of change | 2.6 | 2.6 |
| A supplier of support services | 4.0 | 3.9 |
| A key partner | 4.0 | 3.7 |

Source: INPUT

Overall Satisfaction

17. 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 | 3.6 |
| Service provision | 4.4 | 4.0 |
| Flexibility of approach | 3.3 | 3.0 |
| Vendor service culture | 3.0 | 3.2 |
| Commercial terms and conditions | 3.1 | 3.0 |
| Innovation and creativity | 2.9 | 2.9 |
| Strength of partnership | 3.5 | 3.3 |
| Business contribution | 3.0 | 2.9 |
| Initial cost-effectiveness | 3.0 | 2.9 |
| Ongoing cost-effectiveness | 3.4 | 3.1 |

Source: INPUT

18. 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. 3.6

Why/Why not?

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

88%/12% Yes/No

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

21. In what ways are you likely to extend your use of outsourcing?

- E-commerce related skills (16)
- Operational outsourcing (11)
- Application development (7)

Background Details

22. When did your outsourcing contract begin? 1997
23. What is the total length of your outsourcing contract 4 years
24. What is the approximate value of your outsourcing contract? Please state currency and time period.
- \$5m per annum

Thank you very much for your assistance.

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B

Results In Questionnaire Format: Europe 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) | 50 | 3.8 |
| Day-to-day operation of the personal computer infrastructure including servers and local area networks...(2) | 30 | 3.5 |
| Day-to-day operation of the corporate data network...(3) | 30 | 3.7 |
| Development and operation of corporate Intranet and web servers | 15 | 4.0 |
| Support and maintenance for in-house developed applications...(4) | 40 | 3.7 |
| Responsibility for new systems development as a preferred supplier...(5) | 25 | 3.7 |

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?

- Datacenter operations (26)
- Availability and/or reliability of services (10)
- Technical skills (10)
- Cost-effectiveness (10)
- Professionalism (8)
- Responsiveness (7)
- Quality of service (6)
- Business understanding of vendor (4)
- Reliability of vendor (4)
- Y2K capability (4)

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

- Technical support/help-desk (9)
- High cost (5)
- Desktop services/PC support (4)
- Lack of proactivity (4)
- Inability to adopt new technologies (4)
- High level of bureaucracy (3)
- Corporate network (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 | 4.1 | 3.7 | 0.4 |
| Achievement of operational service level agreements | 4.5 | 3.8 | 0.6 |
| Utilization of new technologies | 3.5 | 3.2 | 0.3 |
| Capability of help-desk | 4.2 | 3.4 | 0.8 |
| Moves and user requested changes | 4.1 | 3.4 | 0.7 |

Source: INPUT

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

| Availability | Proportion of respondents (%) |
|---------------------------|-------------------------------|
| 90%–97% availability | 18% |
| 97%–99% availability | 44% |
| 99% -99.5% availability | 18% |
| 99.5% -99.9% availability | 19% |
| Over 99.9% availability | 2% |

Source: INPUT

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

| Availability | Proportion of respondents (%) |
|---------------------------|-------------------------------|
| 90%–97% availability | 28% |
| 97%–99% availability | 28% |
| 99% -99.5% availability | 19% |
| 99.5% -99.9% availability | 17% |
| Over 99.9% availability | 8% |

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 (1998) | Satisfaction Rating (1998) | Difference (1998) |
|--|--------------------------|----------------------------|-------------------|
| Delivery of projects on time | 4.3 | 3.5 | 0.8 |
| Ability to control costs/meet budget targets | 4.1 | 3.4 | 0.7 |
| Meeting of requirements/specification | 4.4 | 3.8 | 0.6 |
| Achievement of agreed support service levels | 4.4 | 3.7 | 0.6 |
| Achievement of projected business benefits | 3.9 | 3.3 | 0.6 |
| Ability to contribute to business benefits | 3.7 | 3.1 | 0.7 |
| End user satisfaction | 4.2 | 3.5 | 0.7 |

Source: INPUT

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

75% On time

77% On budget

Vendor Style

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

- Good relationship/partnership (21)
- Professionalism (5)
- Service orientation (4)
- Well-resourced (4)
- Integration with in-house staff (3)
- Flexibility (3)

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

- Improve account management/contact with client (7)
- Take greater ownership (3)
- Reduce staff turnover/number of reorganizations (3)
- Be less commercially aggressive (3)
- Eliminate manpower shortages (2)
- Be less complacent (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 Rating (1998) | Satisfaction Rating (1998) | Difference (1998) |
|---|--------------------------|----------------------------|-------------------|
| Understanding of your business requirements | 4.0 | 3.7 | 0.4 |
| Sense of responsibility for your goals | 4.1 | 3.7 | 0.4 |
| Commitment to achieving agreed requirements | 4.1 | 3.7 | 0.5 |
| Responsiveness to changing business needs | 4.0 | 3.3 | 0.7 |
| Willingness to compromise when conflicts arise | 3.8 | 3.5 | 0.3 |
| Responsiveness to day-to-day issues | 4.2 | 3.6 | 0.5 |
| Continuity of personnel | 4.3 | 3.8 | 0.4 |
| Effective and appropriate communications channels | 3.9 | 3.5 | 0.4 |

| Attribute | Importance Rating (1998) | Satisfaction Rating (1998) | Difference (1998) |
|--------------------------------------|--------------------------|----------------------------|-------------------|
| Low level of bureaucracy | 2.7 | 3.0 | -0.3 |
| Fast speed of reaction to requests | 3.9 | 3.3 | 0.6 |
| Co-operation with other vendors | 3.2 | 3.5 | -0.2 |
| Calibre of personnel | 4.5 | 4.1 | 0.4 |
| Understanding of latest technologies | 3.8 | 3.6 | 0.2 |
| Ability to apply latest technologies | 3.6 | 3.3 | 0.3 |

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 | 3.9 | 3.7 | 0.2 |
| Length of contract | 4.3 | 3.7 | 0.5 |
| Willingness to tailor contract to client's situation | 4.0 | 3.6 | 0.4 |
| Terms of transfer of employees | 2.6 | 3.8 | -1.2 |
| Commitment to meet agreed prices | 4.1 | 3.6 | 0.4 |
| Flexibility to use additional suppliers where appropriate | 2.4 | 3.0 | -0.6 |
| Ease of termination of contract | 3.7 | 3.6 | 0.1 |
| Ability to accommodate changing requirements | 4.0 | 3.4 | 0.6 |
| Overall service level agreement | 4.0 | 3.6 | 0.4 |
| Penalties and bonuses | 2.3 | 2.7 | -0.4 |

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?
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 | -22% |
| Distributed systems management | -12% |
| Wide area network operations | -10% |
| Application maintenance and development | -16% |
| Business process outsourcing | -12% |

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 | 3.1 | 2.8 | 0.3 |
| To increase effectiveness in applying IT to the business | 3.5 | 3.0 | 0.5 |
| To introduce knowledge of new technologies | 3.1 | 3.2 | -0.1 |
| To become more cost-effective in using IT | 3.4 | 3.1 | 0.3 |
| To reduce the time taken to implement new system | 3.1 | 3.1 | 0.0 |
| To free in-house managers/staff for other work | 4.0 | 4.0 | 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) |
|------------------------------------|-----------------------------|
| 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

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?
- Increased emphasis on new systems development (7)
 - Extend scope of contract (4)
 - Improved risk sharing (3)
 - Introduce new technology (3)
 - Improve staff resourcing (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 Rating (1998) | Achievement Rating (1998) | Difference (1998) |
|--|---------------------------|---------------------------|-------------------|
| Improved cost-effectiveness | 3.7 | 3.4 | 0.3 |
| Cost reduction | 3.4 | 3.2 | 0.2 |
| Improved operational service levels | 4.0 | 3.7 | 0.3 |
| Removed in-house involvement with legacy systems | 3.9 | 3.9 | 0.1 |
| Introduction of up-to-date technical knowledge | 3.9 | 3.6 | 0.3 |

| Potential Benefit | Expectation Rating (1998) | Achievement Rating (1998) | Difference (1998) |
|---|---------------------------|---------------------------|-------------------|
| Introduction of new technologies | 3.6 | 3.3 | 0.3 |
| Improved ability to relate IT to the business | 3.6 | 3.0 | 0.6 |
| More effective introduction of new systems | 3.4 | 3.1 | 0.3 |
| Access to best practices in using IT | 3.4 | 3.6 | -0.2 |

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 | 2.8 | 3.0 | -0.2 |
| A business advisor | 1.4 | 2.7 | -1.3 |
| A technology advisor | 2.6 | 3.1 | -0.5 |
| An agent of change | 2.7 | 3.1 | -0.5 |
| A supplier of support services | 4.1 | 3.6 | 0.5 |
| A key partner | 3.8 | 3.4 | 0.4 |

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 | Achievement | Difference |
|---------------------------------|------------|-------------|------------|
| Overall | 3.7 | 3.7 | 0.0 |
| Service provision | 4.5 | 3.8 | 0.7 |
| Flexibility of approach | 4.0 | 3.4 | 0.6 |
| Vendor service culture | 3.7 | 3.4 | 0.3 |
| Commercial terms and conditions | 3.8 | 3.4 | 0.4 |
| Innovation and creativity | 2.5 | 2.7 | -0.3 |
| Strength of partnership | 3.9 | 3.5 | 0.4 |
| Business contribution | 3.3 | 2.8 | 0.4 |
| Initial cost-effectiveness | 3.9 | 3.4 | 0.5 |
| Ongoing cost-effectiveness | 4.0 | 3.4 | 0.6 |

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. 3.5

Why/Why not?

- Will go out to tender (7)
 - Probably use multiple suppliers (4)
 - End contract (mainframe being replaced) (6)
21. Do you believe that you have benefited from outsourcing compared to a continuation of in-house operations?
- 86% Yes
22. Which functions, if any, might you take back in-house? Why?
- None (58)
 - Server operations (4)
 - Everything (4)
 - Application development (3)

- Network support (2)
- Desktop services (1)
- Help-desk (1)
- IT infrastructure (1)

23. In what ways are you likely to extend your use of outsourcing?

- No plans (23)
- Application development (11)
- Networking (6)
- Intranet/web services (5)
- Consultancy/BPR (4)
- Desktop services (3)
- Application support (3)

Background Details

24. When did your outsourcing contract begin? 1995
25. What is the total length of your outsourcing contract 4.1 years
26. What is the approximate value of your outsourcing contract? Please state currency and time period.

Thank you very much for your assistance.

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C

Results In Questionnaire Format: Europe 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 (1997) |
|---|----------------------------|
| Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment...(1) | 3.8 |
| Day-to-day management of the personal computer infrastructure including servers and local area networks...(2) | 3.5 |
| Day-to-day management of the corporate data network...(3) | 3.6 |
| Support and maintenance for in-house developed applications...(4) | 3.8 |
| Responsibility for new systems development as a preferred supplier...(5) | 3.5 |
| Business process reengineering consultancy...(6) | 3.6 |
| IT strategy consultancy...(7) | 3.7 |
| Other IT consultancy services...(8) | 3.7 |
| 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?
- Reliability of service/operations (33)
 - Mainframe operations (26)

- Day-to-day service quality (20)
 - Access to skills/specialist know-how (19)
 - Responsiveness (16)
 - Recent service improvements (8)
 - Flexibility (6)
 - Professionalism (5)
3. Which aspects of your current outsourcing services, if any, cause you concern?
- Lack of technical expertise (24)
 - Lack of responsiveness/professionalism (17)
 - None (17)
 - Lack of proactivity/poor account management (12)
 - System response times/availability/downtime (6)
 - Data communications/network management (6)
 - Cost (5)

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 (1997) | Satisfaction Rating (1997) | Difference (1997) |
|---|--------------------------|----------------------------|-------------------|
| Scope of operational capability | 3.9 | 3.5 | 0.5 |
| Achievement of operational service level agreements | 4.4 | 3.6 | 0.7 |
| Speed of migration to new platforms/technologies | 3.9 | 3.1 | 0.7 |
| Capability of help-desk | 4.0 | 3.4 | 0.6 |
| Moves and user requested changes | 3.4 | 3.1 | 0.3 |

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 (1997) | Satisfaction Rating (1997) | Difference (1997) |
|--|--------------------------|----------------------------|-------------------|
| Delivery of projects on time | 4.4 | 3.4 | 1.0 |
| Ability to control costs/meet budget targets | 4.5 | 3.4 | 1.0 |
| Meeting of requirements/specification | 4.5 | 3.8 | 0.8 |
| Achievement of agreed support service levels | 4.4 | 3.8 | 0.6 |
| Achievement of projected business benefits | 3.5 | 2.9 | 0.6 |
| Ability to contribute to business benefits | 3.2 | 2.8 | 0.4 |

Source: INPUT

Vendor Style

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

- Approachability (38)
- Commitment/professionalism (20)
- Helpfulness/responsiveness of personnel (17)
- Reliability (8)
- Knowledge/experience of personnel (7)
- Flexibility in adapting to business (5)
- Business understanding (4)
- Breadth & depth of resources (4)
- Flexibility & availability of personnel (4)

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

- Increase proactivity/improve account management (19)
- Become more flexible (9)
- Improve responsiveness (8)
- Not at all (6)
- Increase technical innovation (5)
- Increase staff training (5)
- Introduce higher level business skills (5)
- Become more willing to use other suppliers (4)
- Reduce staff turnover (3)
- Take greater share of risk (3)

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 (1997) | Satisfaction Rating (1997) | Difference (1997) |
|---|--------------------------|----------------------------|-------------------|
| Understanding of your business requirements | 3.8 | 3.2 | 0.6 |
| Sense of responsibility for your goals | 3.9 | 3.2 | 0.7 |
| Commitment to achieving agreed requirements | 4.2 | 3.6 | 0.6 |
| Flexible and innovative approach to your business requirement | 3.5 | 2.9 | 0.6 |
| Responsiveness to changing business needs | 4.0 | 3.1 | 0.9 |
| Willingness to compromise when conflicts arise | 3.7 | 3.4 | 0.3 |
| Willingness to take ownership of problems | 3.9 | 3.5 | 0.5 |
| Responsiveness to day-to-day issues | 4.3 | 3.8 | 0.5 |
| Continuity of personnel | 3.9 | 3.7 | 0.2 |
| Openness of communication | 3.8 | 3.5 | 0.3 |
| Effective and appropriate communications channels | 3.7 | 3.3 | 0.4 |
| Level of bureaucracy | 3.3 | 3.1 | 0.2 |
| Speed of reaction to requests | 4.0 | 3.3 | 0.7 |
| Co-operation with other vendors | 3.6 | 3.3 | 0.3 |
| Calibre of personnel | 4.3 | 3.7 | 0.6 |

Source: INPUT

Commercial Terms

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

Like:

- Flexibility (17)
- Overall terms are fine (11)
- Simplicity/predictability (7)

Dislike:

- Additional work is expensive (9)
- Resource based pricing (5)
- Does not promote problem ownership (5)
- Contract administration is time consuming (5)
- Rigidity of cost base (4)
- Contract length (too long) (4)
- Too expensive (3)

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 (1997) | Satisfaction Rating (1997) | Difference (1997) |
|---|--------------------------|----------------------------|-------------------|
| Overall contract flexibility | 4.4 | 3.7 | 0.7 |
| Length of contract | 3.9 | 4.0 | (0.1) |
| Willingness to tailor contract to client's situation | 4.2 | 3.6 | 0.6 |
| Terms of transfer of employees | 3.4 | 3.7 | (0.3) |
| Commitment to meet agreed prices | 4.4 | 3.7 | 0.7 |
| Flexibility to use additional suppliers where appropriate | 3.4 | 3.3 | 0.1 |
| Ease of termination of contract | 3.7 | 3.7 | 0.0 |
| Ability to accommodate changing requirements | 4.1 | 3.4 | 0.7 |
| Service level agreement | 4.1 | 3.6 | 0.5 |
| Penalties and bonuses | 3.4 | 2.7 | 0.7 |

Source: INPUT

11. On what basis is your outsourcing contract priced?

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

Like:

- Easily understood/easy budgeting (23)
- Value for money (13)
- Flexibility (11)

Dislike:

- Additional charges (8)
- Lack of flexibility/volume adjustments (7)
- Resource based/client takes risk (7)
- Lack of clarity/cost visibility (5)
- Nothing (5)
- Price is too high (4)
- Lack of penalties for poor performance (4)

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 (1997) | Satisfaction Rating (1997) | Difference (1997) |
|---|--------------------------|----------------------------|-------------------|
| Open book approach | 3.6 | 3.5 | 0.2 |
| Sharing of risk with vendor | 2.8 | 2.8 | 0.0 |
| Incentives to encourage vendor creativity | 2.7 | 2.3 | 0.4 |
| Links to business parameters | 2.1 | 2.4 | (0.3) |
| Links to business success | 1.9 | 2.0 | (0.1) |
| Ability to deliver initial cost reduction | 3.8 | 3.2 | 0.7 |
| Ability to deliver ongoing cost reduction | 3.9 | 3.0 | 0.9 |

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?

- Move to fixed price (12)
- Greater flexibility (to turn services on and off) (9)
- Improve transparency of costs (6)
- To encourage creativity (4)
- Link to achievement of results (4)
- Increased emphasis on productivity improvements (4)

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 (1997) | Achievement Rating (1997) | Difference (1997) |
|---|---------------------------|---------------------------|-------------------|
| To aggressively use IT for competitive advantage | 3.3 | 2.8 | 0.5 |
| To increase effectiveness in applying IT to the business | 3.6 | 3.0 | 0.6 |
| To adopt a distributed, rather than centralized, architecture | 3.0 | 3.3 | (0.3) |
| To become more cost-effective in using IT | 4.0 | 3.3 | 0.6 |
| To reduce the time taken to implement new system | 3.7 | 3.3 | 0.4 |
| To free in-house managers/staff for other work | 3.9 | 3.7 | 0.2 |
| 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 (1997) |
|---|-----------------------------|
| Cost stability/reduced risk | 4.3 |
| Reduced/more flexible staffing | 4.3 |
| Access to expertise | 4.2 |
| Improved service quality | 3.9 |
| Improved cost-effectiveness | 3.7 |
| Innovation/speed of technology adoption | 3.0 |

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?
- Improve value for money/cost reduction (21)
 - Greater emphasis on business change (17)
 - Accelerated use of new technology (13)
 - Increased flexibility/management of change (11)

- Greater proactivity (10)
 - Increased service coverage(10)
 - Improved technical skills (4)
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 (1997) | Achievement Rating (1997) | Difference (1997) |
|--|---------------------------|---------------------------|-------------------|
| Improved cost-effectiveness | 3.9 | 3.3 | 0.6 |
| Cost reduction | 3.8 | 3.0 | 0.8 |
| Improved operational service levels | 4.0 | 3.6 | 0.4 |
| Removed in-house involvement with legacy systems | 3.9 | 3.7 | 0.2 |
| Introduction of up-to-date technical knowledge | 3.9 | 3.2 | 0.7 |
| Introduction of new technologies | 3.8 | 3.0 | 0.8 |
| Improved ability to relate IT to the business | 3.6 | 2.8 | 0.7 |
| More effective introduction of new systems | 3.9 | 3.1 | 0.8 |
| Access to best practices in using IT | 3.4 | 3.2 | 0.2 |

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 2.1
 - A technology advisor 3.2
 - An agent of change 3.0
 - A supplier of support services 4.2
 - 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 3.6
- Service provision 3.8
- Flexibility of approach 3.4
- Vendor service culture 3.4
- Commercial terms and conditions 3.4
- Innovation and creativity 2.8
- Strength of partnership 3.5
- Business contribution 2.7
- Initial cost-effectiveness 3.2
- Ongoing cost-effectiveness 3.3

21. How likely are you to renew the contract with the same vendor? Please rate on a scale of 1-5 where 1 = not at all likely and 5 = very likely. 3.7

Why?

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

- None (75)
- Systems development (3)
- Unix operations and support (3)
- All (2)
- Desktop services (2)
- Network management (2)
- Mainframe operations (2)
- User help-desk (1)

Background Details

23. When did your outsourcing contract begin? 1994
24. What is the total length of your outsourcing contract 4.3 years
25. What is the approximate value of your outsourcing contract? Please state currency and time period.
- \$3m per annum

Thank you very much for your assistance.

D

Results In Questionnaire Format: Europe 1995

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 (1995) |
|---|----------------------------|
| Day-to-day operation of mainframe(s) and/or stand-alone mid-range equipment...(1) | 4.0 |
| Day-to-day management of the personal computer infrastructure including servers and local area networks...(2) | 3.4 |
| Day-to-day management of the corporate data network...(3) | 3.7 |
| Support and maintenance for in-house developed applications...(4) | 3.7 |
| Responsibility for new systems development as a preferred supplier...(5) | 3.6 |
| Business process reengineering consultancy...(6) | |
| IT strategy consultancy...(7) | 3.4 |
| Other IT consultancy services...(8) | |
| 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?

- Mainframe operations
- Everything
- Application support

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

- Network/desktop support
- Price/value for money
- Application development
- Lack of proactivity/innovation
- Operational problems

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 (1995) | Satisfaction Rating (1995) | Difference (1995) |
|---|--------------------------|----------------------------|-------------------|
| Scope of operational capability | 4.3 | 3.9 | 0.4 |
| Achievement of operational service level agreements | 4.5 | 3.9 | 0.6 |
| Speed of migration to new platforms/technologies | 3.6 | 3.3 | 0.3 |
| Capability of help-desk | 4.0 | 3.6 | 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 (1995) | Satisfaction Rating (1995) | Difference (1995) |
|--|--------------------------|----------------------------|-------------------|
| Delivery of projects on time | 4.6 | 3.4 | 1.1 |
| Ability to control costs/meet budget targets | 4.6 | 3.3 | 1.3 |
| Meeting of requirements/specification | 4.5 | 3.7 | 0.8 |
| Achievement of agreed support service levels | 4.6 | 3.8 | 0.8 |
| Achievement of projected business benefits | 3.9 | 3.3 | 0.6 |
| Ability to contribute to business benefits | 3.8 | 3.1 | 0.7 |

Source: INPUT

Vendor Style

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

- Professionalism
- Responsiveness/helpfulness
- Reliability
- Quality of relationship
- Honesty/approachability
- Flexibility

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

- Become more client focused
- Become less bureaucratic
- Become more proactive

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 (1995) | Satisfaction Rating (1995) | Difference (1995) |
|---|--------------------------|----------------------------|-------------------|
| Understanding of your business requirements | 4.0 | 3.3 | 0.8 |
| Sense of responsibility for your goals | 3.9 | 3.2 | 0.7 |
| Commitment to achieving agreed requirements | 4.3 | 3.7 | 0.6 |
| Flexible and innovative approach to your business requirement | 3.8 | 3.0 | 0.8 |
| Responsiveness to changing business needs | 4.1 | 3.3 | 0.8 |
| Willingness to compromise when conflicts arise | 4.1 | 3.6 | 0.6 |
| Willingness to take ownership of problems | 4.3 | 3.5 | 0.8 |
| Responsiveness to day-to-day issues | 4.5 | 3.9 | 0.6 |
| Continuity of personnel | 4.0 | 4.0 | 0.1 |
| Openness of communication | 4.3 | 3.9 | 0.4 |
| Effective and appropriate communications channels | 4.3 | 3.7 | 0.6 |
| Level of bureaucracy | 3.6 | 3.3 | 0.3 |

| Attribute | Importance Rating (1995) | Satisfaction Rating (1995) | Difference (1995) |
|---------------------------------|--------------------------|----------------------------|-------------------|
| Speed of reaction to requests | 4.3 | 3.6 | 0.7 |
| Co-operation with other vendors | 3.5 | 3.3 | 0.2 |
| Calibre of personnel | 4.5 | 3.9 | 0.6 |

Source: INPUT

Commercial Terms

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

Like:

- Flexibility
- Value for money
- Well-defined service levels

Dislike:

- Lack of flexibility
- Poor value for money
- Too long contracts
- Complexity/bureaucracy

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

| Attribute | Importance Rating (1995) | Satisfaction Rating (1995) | Difference (1995) |
|---|--------------------------|----------------------------|-------------------|
| Overall contract flexibility | 4.5 | 3.8 | 0.7 |
| Length of contract | 4.0 | 3.9 | 0.1 |
| Willingness to tailor contract to client's situation | 4.4 | 3.8 | 0.6 |
| Terms of transfer of employees | 3.9 | 4.0 | (0.1) |
| Commitment to meet agreed prices | 4.6 | 4.0 | 0.5 |
| Flexibility to use additional suppliers where appropriate | 3.3 | 3.4 | (0.1) |
| Ease of termination of contract | 3.9 | 3.6 | 0.3 |
| Ability to accommodate changing requirements | 4.4 | 3.4 | 1.0 |
| Service level agreement | 4.5 | 3.8 | 0.7 |
| Penalties and bonuses | 3.5 | 3.4 | 0.1 |

Source: INPUT

11. On what basis is your outsourcing contract priced?

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

Like:

- Certainty/predictability
- Flexibility
- Simplicity

Dislike:

- Too expensive/economies of scale not passed on
- Lack of flexibility

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 (1995) | Satisfaction Rating (1995) | Difference (1995) |
|---|--------------------------|----------------------------|-------------------|
| Open book approach | 3.7 | 3.2 | 0.5 |
| Sharing of risk with vendor | 3.8 | 3.3 | 0.4 |
| Incentives to encourage vendor creativity | 3.4 | 2.8 | 0.5 |
| Links to business parameters | 3.6 | 3.2 | 0.3 |
| Links to business success | 3.5 | 3.2 | 0.3 |
| Ability to deliver initial cost reduction | 4.3 | 3.8 | 0.5 |
| Ability to deliver ongoing cost reduction | 4.3 | 3.5 | 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?

- Closer links to realized benefits/performance
- Unbundle individual services
- Increase flexibility
- Move to fixed price

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 (1995) | Achievement Rating (1995) | Difference (1995) |
|---|---------------------------|---------------------------|-------------------|
| To aggressively use IT for competitive advantage | 3.4 | 3.0 | 0.3 |
| To increase effectiveness in applying IT to the business | 3.8 | 3.3 | 0.5 |
| To adopt a distributed, rather than centralized, architecture | 3.2 | 3.1 | 0.1 |
| To become more cost-effective in using IT | 4.1 | 3.4 | 0.7 |
| To reduce the time taken to implement new system | 3.9 | 3.3 | 0.6 |
| To free in-house managers/staff for other work | 3.8 | 3.4 | 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 (1995) |
|-------------------------|-----------------------------|
| Cost savings | 4.3 |
| Access to skills | 4.0 |
| Improved service levels | 3.9 |

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?
- Greater/continuing cost reduction
 - More flexible approach to changing business/service needs
 - Access to wider range of expertise
 - Commitment to exploit new technology

- Shared risk
 - Increased flexibility of resources/skills
 - Greater involvement/interest of vendor in delivering business benefit
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 (1995) | Achievement Rating (1995) | Difference (1995) |
|--|---------------------------|---------------------------|-------------------|
| Improved cost-effectiveness | 4.2 | 3.6 | 0.7 |
| Cost reduction | 4.3 | 3.5 | 0.7 |
| Improved operational service levels | 4.1 | 3.7 | 0.4 |
| Removed in-house involvement with legacy systems | 3.8 | 3.8 | 0.0 |
| Introduction of up-to-date technical knowledge | 3.9 | 3.4 | 0.5 |
| Introduction of new technologies | 3.8 | 3.3 | 0.5 |
| Improved ability to relate IT to the business | 3.5 | 3.1 | 0.4 |
| More effective introduction of new systems | 3.8 | 3.3 | 0.6 |
| Access to best practices in using IT | 3.5 | 3.3 | 0.2 |

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 3.3
 - A business advisor 2.5
 - A technology advisor 3.7
 - An agent of change 3.1
 - A supplier of support services 4.1
 - A key partner 3.7

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 3.8
- Service provision 3.9
- Flexibility of approach 3.6
- Vendor service culture 3.6
- Commercial terms and conditions 3.7
- Innovation and creativity 2.8
- Strength of partnership 3.6
- Business contribution 2.9
- Initial cost-effectiveness 3.7
- Ongoing cost-effectiveness 3.5

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. 3.5

Why/Why not?

Why:

- High level of service
- Current service is cost-effective

Why not?

- Too early to say
- Will go out to tender/benchmark service
- No further requirement
- Inadequate performance
- Depends on price
- Will split up contract

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

- PC/network support
- New application development

Background Details

23. When did your outsourcing contract begin? 1992.8
24. What is the total length of your outsourcing contract? 5.0 years
25. What is the approximate value of your outsourcing contract? Please state currency and time period.
 - \$3m per annum

Thank you very much for your assistance.

