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Professional Services Profile of AT&T Istel

The management services arm of the Rover Group, Istel was the subject of a management and employee buy-out in 1987 and of acquisition by AT&T, Inc. in 1989, when it was renamed AT&T Istel. Ambitious growth plans for Europe are now aimed at increasing turnover from $425 million in 1992 to $2.5 billion by the end of the century, with growth split between internal organic growth and acquisitions. Exhibit 1 contains the breakdowns of the company's revenues by sector and product group.

Recent purchases in Europe to support this growth include:

- QA Business Services
- Impcon Solutions
- Daton Systems
- Chorus Software—all in the U.K.
- Infoplan
- CAB—in Germany
- Dataid—in France

A European Development Group was established in Brussels in 1991.

Positioning

AT&T Istel operates through a number of market-facing industry sector-oriented subsidiaries, aimed at such industries as process manufacturing and health information services, which each provide a range of products and services specific to the needs of that particular marketplace.

Generic products and services provided include:

- Software development
- Industry specific software
- Networking products
- Systems integration
- Project management

There is no doubt, however, that AT&T Istel's key skills are in outsourcing—managing computer systems and networks on behalf of customers through its own main processing centre in Redditch, near Birmingham, U.K. and another 10 satellite sites.

Outsourcing services are divided into two main groups:

- Information processing
- Network services

Within network services AT&T Istel distinguishes:

- Managed-data network services
- Value-added data services

Some services, such as capacity planning and disaster recovery, are only provided for outsourcing customers, but not to all those on the open market.

AT&T Istel does not aspire to be a full-service supplier across all market sectors, preferring to focus its activities within its target markets and under the outsourcing umbrella. It has a clear ambition to understand and exploit technology developments on behalf of its customers, and to manage technological complexity through the integration of computing and communications services.

Future Directions

AT&T Istel believes that the increasing acceptance of the principle of outsourcing will fuel organic growth in its main product and service areas. Acquisition, focused initially on France and Germany, will continue to leverage its ambitious growth plans to become a major international company, able to compete for large, cross-border contracts from multinational corporations.

Access to technology through parent AT&T, co-subsidiaries such as NCR, the Bell Research Laboratories, and AT&T investments is key to AT&T Istel's future strategy. Corporate strategy and corporate product management groups have been set up to channel knowledge and to manage internal relationships. AT&T Istel aims to give its customers access to state of the art technologies earlier than they could do so for themselves, particularly in the areas of global networks, global messaging, high-technology data centres and access to open systems.

Strengths and Weaknesses

AT&T Istel's key strengths are its early entry into and track record within the facilities management (systems operations) marketplace, coupled with its strong vertical orientation. The backing of AT&T gives credence to its stance as a technology innovator, and its increasing

Exhibit 1

AT&T Istel Revenue Splits

Market Breakdown 1991 (percent)		Product Breakdown 1991 (percent)	
Rover	23	Computer Applications:	
Cross-Industry	18	Processing	29
Manufacturing	17	VADS	26
Finance & Retail	17	General Systems	23
Health	14	Systems and Consulting	22
Travel	7		
Other Automotive	3		

Source: INPUT

presence in European and worldwide infrastructure services (such as global messaging) underpins its offerings to international companies. Other assets are its high level of investment in its own infrastructure, its vendor independence and its open systems skills, particularly in the area of proprietary to open systems migration services.

Acknowledged areas of weakness are business consultancy and marketing. Business skills exist, but would need to be packaged more effectively if AT&T Istel developed this as a distinct service stream. Similarly, AT&T Istel's low profile outside the IT community is a problem. Steps are being taken to strengthen corporate and product marketing activities in this area.

Services Provided

The range of services provided is broad:

- Network services, which includes:
  - Infotrac - the data communications network
  - Transpoll - a credit card polling service
  - Travel agency electronic booking services
  - Insurer and insurance broker network services
  - Orderlink - the EDI service for manufacturing suppliers
  - Statim - a database of hospital waiting times
  - Accumaster - a family of managed data services including Accunet Packet Service
  - Easylink - the global messaging service
  - Global Network Management Centres - available to customers for remote network management or for network management outsourcing
- Market specific application software, such as:
  - Hospital administration and automotive systems
- Outsourcing services embracing:
  - Applications processing
  - Facilities management (systems operations) services on all major hardware platforms
  - Service management covering hardware, software and personnel
  - Migration services
  - Total information systems management
- Computer simulation software for the manufacturing and defence sectors
- Computer-integrated manufacturing services

Pricing

Pricing is usually based on the assumption of a fixed price per service module, although outsourcing related activities will include a flexible element to allow for increases and/or decreases in facilities usage. Discounts are given when processing flows can maximise system usage (in off-peak periods).

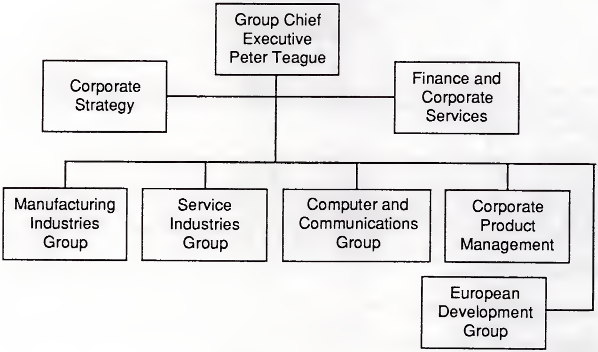
Organisation

Exhibit 2 contains the company's current organisation chart.

Sales and marketing activities are principally organised by vertical business, although there are dedicated sales personnel for the facilities management and network services business streams. A new corporate marketing director has recently been recruited to raise market awareness, and the corporate product marketing function is being strengthened.

Exhibit 2

AT&T Istel Organisational Structure



Source: INPUT

Service delivery of outsourcing and network services is through the computer and communications group, with customer revenue attributed to the appropriate vertical market business.

Resourcing

AT&T Istel will recruit or partner when specialist skills, such as business consulting, are required. Other personnel are acquired either through outsourcing contracts that include the take-on of client staff, or through the current programme of company acquisitions. AT&T Istel has reduced staff due to redundancy in current market conditions in the U.K. Subcontractors are used, for example, to provide hardware maintenance services.

Competitive Positioning

AT&T Istel's principal competitors are the international, long-term players in the outsourcing marketplace, such as IBM, Digital, EDS and CGS. Its competitive attack is based on access to and exploitation of technology, coupled with the heavyweight backing of AT&T and the strength of its vertical market expertise. AT&T Istel feels exposed to competition in markets where it has not yet developed strong expertise, and in its lower-market profile against competitors like Hoskyns. Critical mass is important and lies behind the drive for growth.

AT&T Istel believes that high added value will become a stronger differentiator than price in the markets in which it is competing. AT&T

Istel seeks to improve all aspects of its own performance through the 'Renaissance' project, a board-level-driven programme designed to sharpen project, quality, account and product management.

AT&T Istel's View on the Marketplace

AT&T Istel sees the current long-term industry trends, such as downsizing and outsourcing, as moving the market into its own court where it can provide computing and communications infrastructures, as well as the expertise in their use. This offering is likely to prove attractive to organisations wishing to benefit from technology exploitation, but that do not want to participate themselves in the provision of the facilities needed.

AT&T Istel is already testing itself in the open systems market by developing vertical market products and moving customers onto them. It is not, however, yet in a position to provide fully integrated, open systems support services.

Other technology developments likely to impact the demand for its services are:

- Client/server computing
- Improved storage technologies

INPUT's Assessment

AT&T Istel's unashamed focus upon technology and infrastructure makes a refreshing change from the massed ranks of information services suppliers trying to break into boardroom consulting. Its tight focus upon niche markets and niche services, such as process manufacturing and networks, means that AT&T Istel has established a strong U.K. market share without excessive competition in markets that have up to now shown high levels of growth.

To move from this relatively protected position into the international league, at a time of increased competition from heavyweights such as IBM and CGS, will be challenging and will demand substantial support from the AT&T family of businesses—some of whom, such as NCR, are also potential competitors.

With a well-developed spectrum of operational services, AT&T Istel is well positioned to provide the more streamlined support services, likely to be needed by mid-size and large corporate customers; provided that it can shake off its image as a low-visibility organisation operating only in the U.K. market.

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INPUT advises users on a variety of IT planning and implementation issues. Clients retain INPUT to assess the effectiveness of outsourcing their IT operations, assist in the vendor selection process and in contract negotiation/implementation. INPUT has also evaluated users' plans for systems and applications downsizing.

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