Systems Operations Markets and Practices





Systems Operations (SO)

SO-1

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Notes



SO Definition

Contracting for all or a major portion of an IS operation on a long-term (more than one year) basis

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Systems Operations Characteristics

- · Hardware Ownership
 - Vendor-owned
 - Customer-owned

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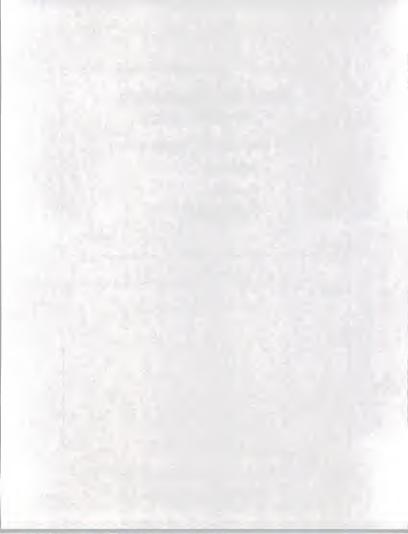
Systems Operations Characteristics

- · Method of Operation
 - Remote
 - On-site
 - Distributed

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Systems Operations Characteristics

- · Equipment dedication
 - Single customer
 - Multiple customers

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Systems Operations

- Processing services
 - Vendor-owned equipment
- Professional services
 - Client-owned equipment

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Applications Systems Operations

 Outsourcing of IS applications and IS operations

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Platform Systems Operations

Outsourcing of computer operations and/or communications networks

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System Operations Market Trends

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Systems Operations Driving Forces

- Core business focus
- Business transition
- Expense reduction
- Capital preservation

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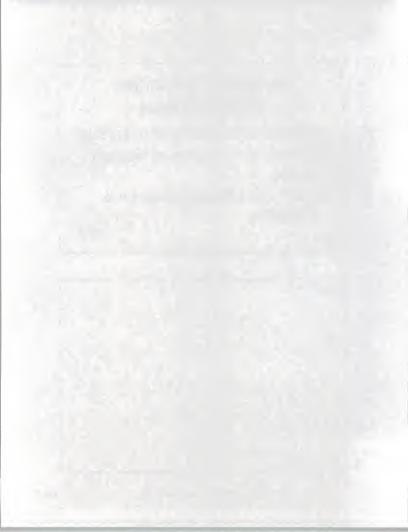
Systems Operations Driving Forces

- · Increasing complexity of operations
- Scarcity and expense of required talents
- Costs and problems of systems upgrades

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Perceived SO Inhibitors

- Cost
- Employee loyalty
- · Vendor employee turnover
- · Loss of control
- Acceptance by user community

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Perceived SO Inhibitors

- Savings uncertainty
- · Loss of control
- Service quality
- Organizational threats

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Major Buyer Issues

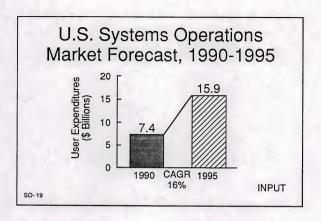
- · Loss of control of IS
- · Dependency on vendor
- Vendor industry knowledge
- · Reversing the decision

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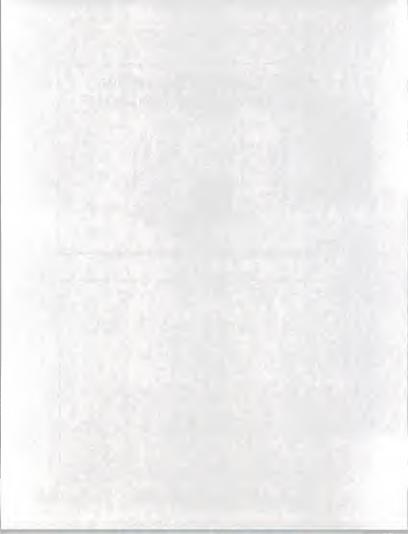
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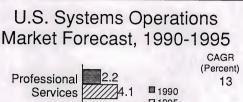
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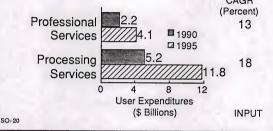






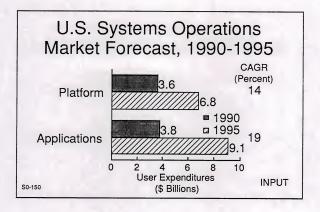


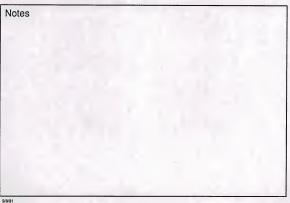


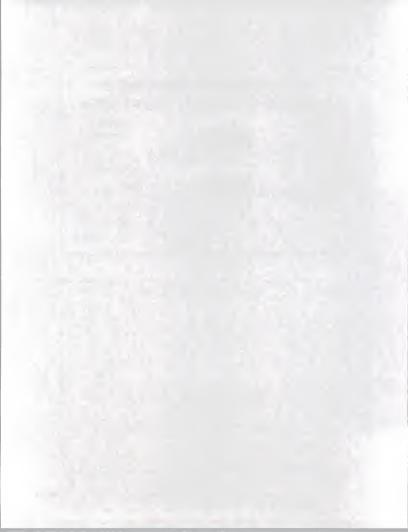


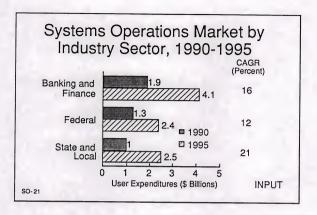
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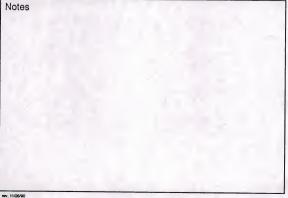




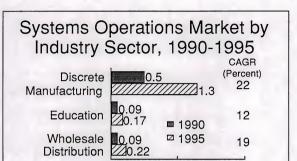






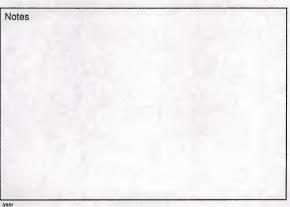






User Expenditures

(\$ Billions)

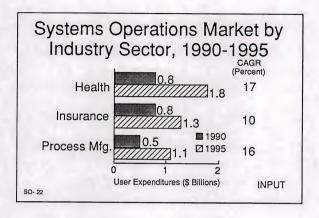


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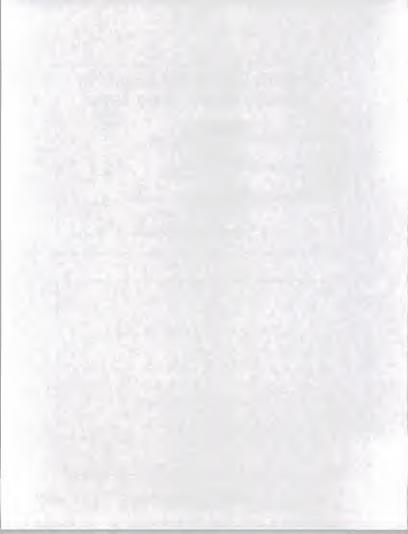
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SO Buyer Practices

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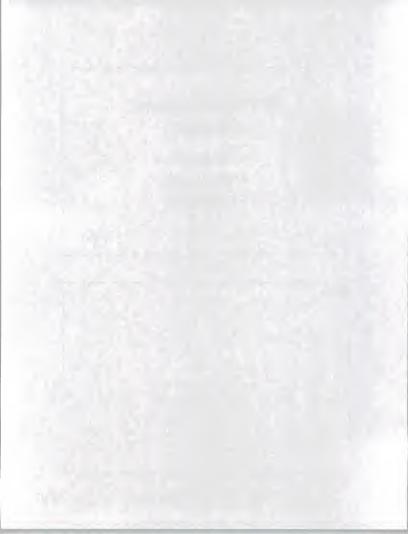
SO Procurement Process

- Evaluation
- Negotiation
- Transition

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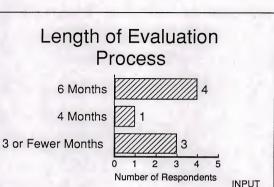


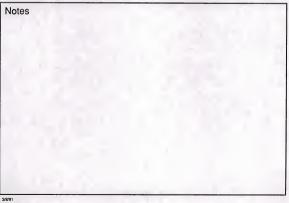
SO Procurement Process

Evaluation

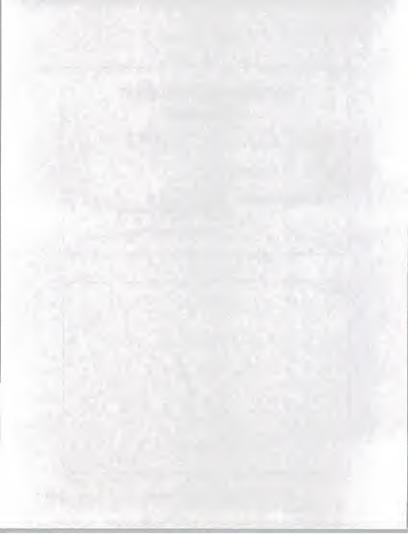
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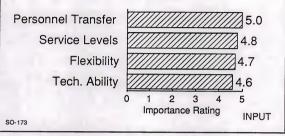


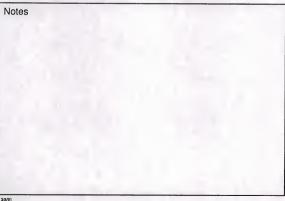


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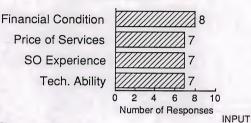
Vendor Evaluation Criteria







Vendor Evaluation Criteria



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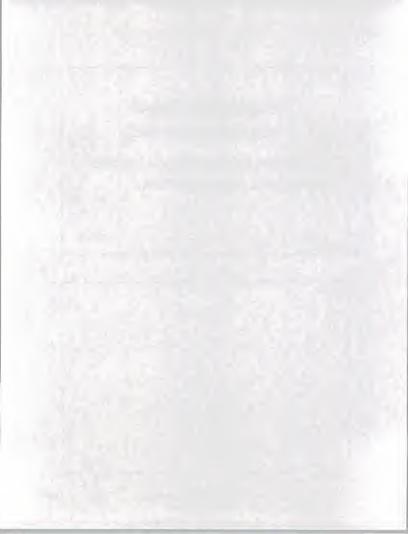


Evaluation Phase Lessons Learned

- · Provide all information to vendor
- Request vendor cost data

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SO Procurement Process

Negotiation

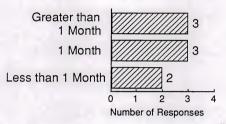
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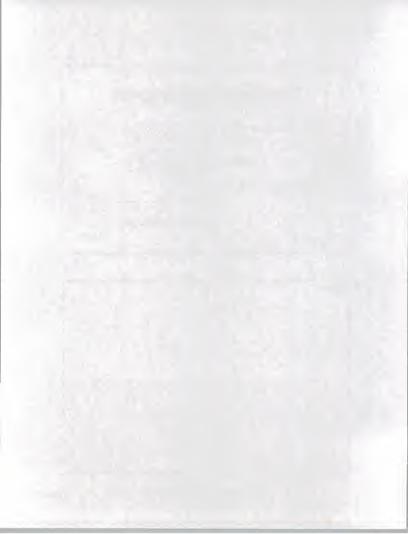
Length of Negotiation

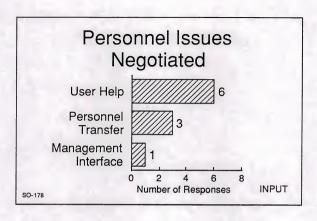


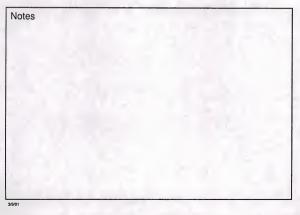
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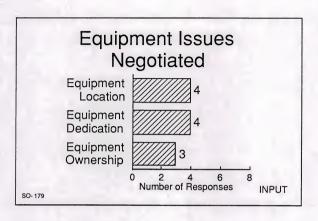
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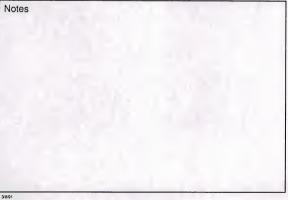




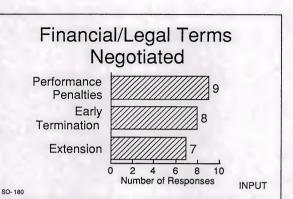


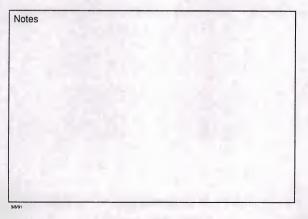






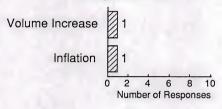








Financial/Legal Terms Negotiated



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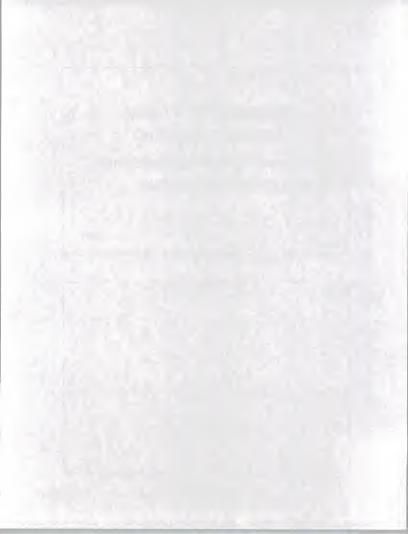


Negotiation Phase Lessons Learned

- · Avoid early staff announcement
- Avoid complex contracts

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SO Procurement **Process**

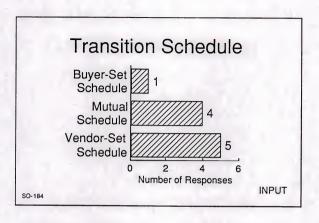
Transition

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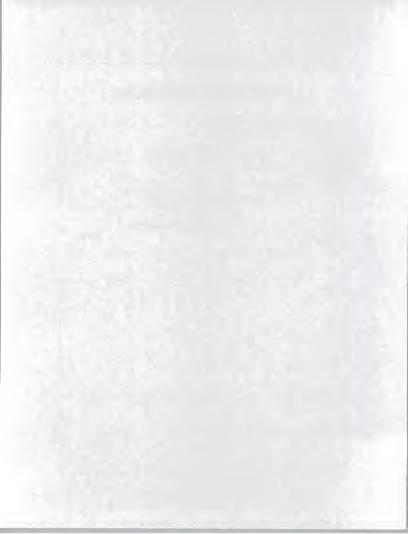
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Personnel Transitions

- · Guarantee vendor employment
- Transfer seniority and benefits

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Personnel Termination

- Provide good severance package
- Provide outplacement service

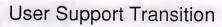
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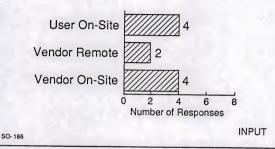
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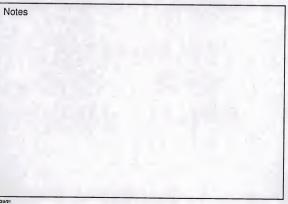
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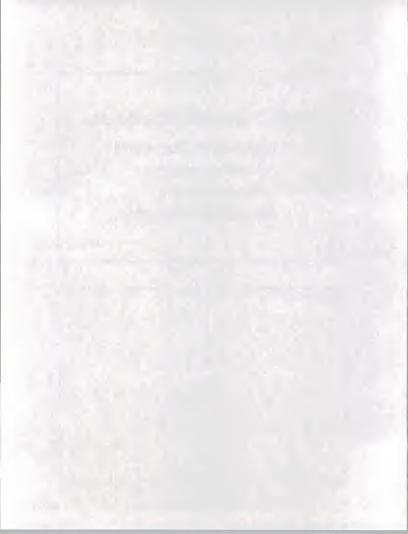
Post-Transition Strategies

- Applications Operations
 - Weekly meetings
 - Monthly reports
 - Quarterly VP meeting

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Post-Transition Strategies

- Platform Operations
 - Daily communications
 - Executive to executive
 - Account manager on site
 - Ad hoc contacts

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Transition Phase Lessons Learned

- · Minimize transition time
- Address employee morale problems

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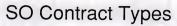
SO Vendor Practices

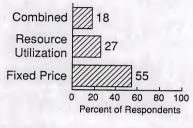
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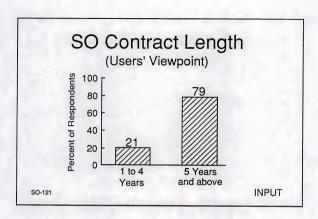


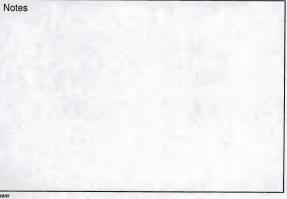


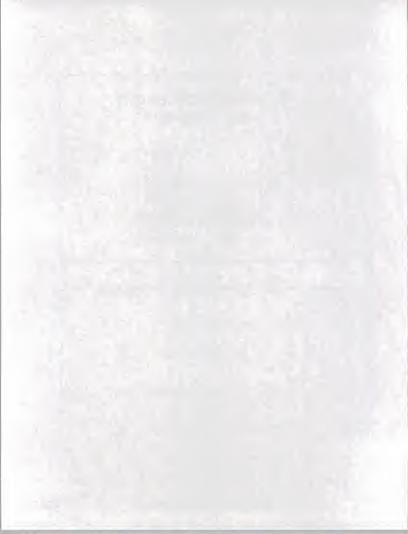
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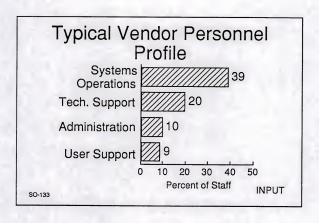
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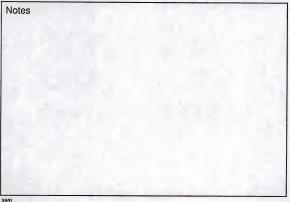




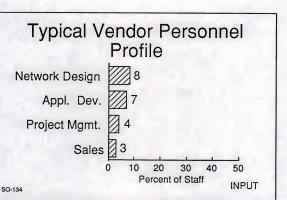
















Vendor Capabilities and Alliances

| | % Have Capability | % Use Alliances |
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| Computer operations | 100 | 90 |
| Applications/ development | 90 | 60 |
| Business consulting | 90 | 50 |
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Vendor Capabilities and Alliances

| | % Have Capability | % Use Alliances |
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| Applications maintenance | 80 | 60 |
| Packaged appl. software | 80 | 60 |
| Disaster recovery | 60 | 80 |

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Vendor Capabilities and Alliances

| | % Have Capability | % Use Alliances |
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| Equipment maintenance | 50 | 70 |
| Network management | 10 | 30 |

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SO Vendor Trends

- · Client/vendor relationship=partnership
- · Vendor assumed risks
 - Acquire client hardware
 - Assimilate client staff
- · Long-term relationships increasing

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SO Competitive Trends

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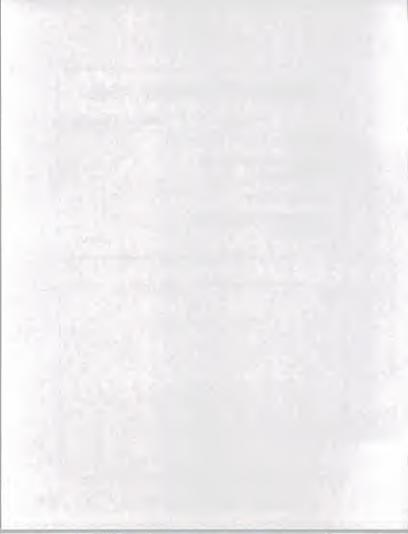
Notes



Leading SO Vendors, 1989

| Vendor | Market Share (%) | | |
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| Electronic Data Systems | 16 | | |
| Computer Sciences Corporation | 5 | | |
| Systematics | 3 | | |
| Affiliated Computing Services | 3 INPUT | | |

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Leading SO Vendors, 1989

| Vendor | Market Share (%) |
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| Shared Medical Systems | 2 |
| Securities Industry Automation Corporation | 2 |
| Boeing Computer Services | 2 |
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Vendor Motivations

| Professional services | Follow systems integration contract |
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| Processing services | Expand remote processing |

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Vendor Motivations

| Equipment manufacturer | Protect distribution channels |
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| Others | Leverage functional expertise |

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SO Vendor Classification Professional Services

- Andersen
 CSC

- CTG
 Perot Systems
- SAIC
- McDonnell Douglas

SO- 197

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SO Vendor Classification **Processing Services**

• EDS

· STM

· SAIC

· Shared Medical

Systematics
 SCT

GENIX

Affiliated Computing

SO- 198

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SO Vendor Classification Equipment Manufacturers

- · IBM
- Unisys
- · DEC
- · CDC

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SO Vendor Classification Other

- Mellon Bank
- FMC
- Citicorp

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SO Vendor Issues

- Account control
- · Potential conflicts of interest
- Profit maximization vs. performance

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Notes

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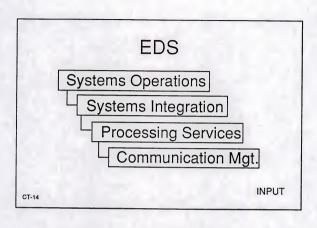
SO Vendor Profiles

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EDS

- 1990 sales \$6 billion
- 60,000 employees
- · SO market leader
- · Large accounts focus
- Equity position emphasis

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EDS

- Targeted markets
 - Finance
 - Insurance
 - State and local government
 - Banking
- Recent moves into travel reservation

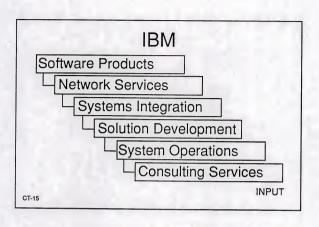
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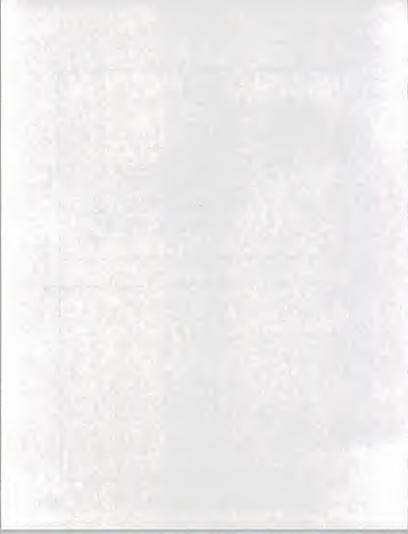
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IBM

- 1990 sales \$69 billion
- 374,000 employees
- World information technology leader
- · New ISSD SO focus
- U.S. "trading areas" focus

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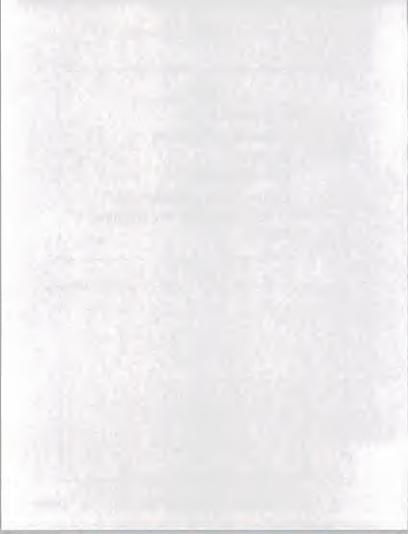


IBM

- Targeted markets
 - Federal government
 - Banking
 - Manufacturing
 - State and local government
- SO not integrated into "trading areas"

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Andersen Consulting Management Consulting Software Development Software Products Education INPUT

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Andersen Consulting Systems Integration Systems Management Systems Operations **INPUT** CT-4b

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Andersen Consulting

- 1989 sales \$1.5 billion
- 14,000 professionals
- Expanding consulting focus

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Notes

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Andersen Consulting

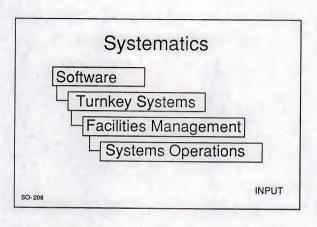
- Targeted markets
 - Manufacturing
 - Medical
 - Energy
 - Consumer products
- Still has strong CASE orientation

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Systematics

- 1990 sales \$255 million
- 3,900 employees
- · 20+ years in finance/banking
- 948 banking/finance clients

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Systematics

- Targeted markets
 - Commercial banks
 - Saving and loans
 - Credit unions
 - Mortgage servicing

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Computer Sciences Corporation

Systems Integration Systems Operations Professional Services

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Notes 3/8/91



Computer Sciences Corporation

- 1991 sales \$1.7 billion
- · 22,000 professionals
- · Index Group will provide
 - Reengineering
 - Application management
- · Concentrating on "full service" SO

SO-212

INPUT

| Notes | |
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Computer Sciences Corporation

- Targeted markets
 - Strong federal markets
- · Resurgent interest in
 - Health and insurance
 - Distribution (logistics)
 - Retail distribution

SO-213

INPUT

| Notes | |
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GENIX

Facilities Management

Systems Operations

Communications Mgt.

SO- 214

INPUT

Notes



GENIX

- 1990 sales \$50 million
- 270 employees
- Recent merger with MCN doubled revenue base

SO-215

INPUT

| Notes | |
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GENIX

- Targeted markets
 - Manufacturing
 - ° Process
 - ° Discrete
 - Engineering

SO-216

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| Notes | | |
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Vendor Strategies

- Full service providers
- Vertical market focus
- Target companies in transition
- · Vendor-client partnerships
- · Shared resource use

SO- 26

INPUT

| Notes | | |
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Vendor Strategies

- · Client assets purchase
- Client business investment
- · Client staff hiring
- · Global networks added

SO-27

| Notes | | | |
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3/8/91

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Vendor Strategies

- SI projects lead to SO opportunities
- "Flow-through" prospects
 - -Add-on equipment
 - -Software
 - -Supplies

SO- 155

| Notes | | | |
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Summary

SO-217

INPUT

Notes



Summary

- Renewed SO acceptance
- Large vendors' market entry
- Track record importance
- · SI stimulation of SO growth

SO-70

INPUT



Summary

- · Commercial sector emphasized
- Buyer/vendor partnership encouraged
- Buyers buy reliability/experience

SO- 218

INPUT

| Notes | |
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About INPUT

INPUT provides planning information, analysis, and recommendations to managers and executives in the information processing industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions.

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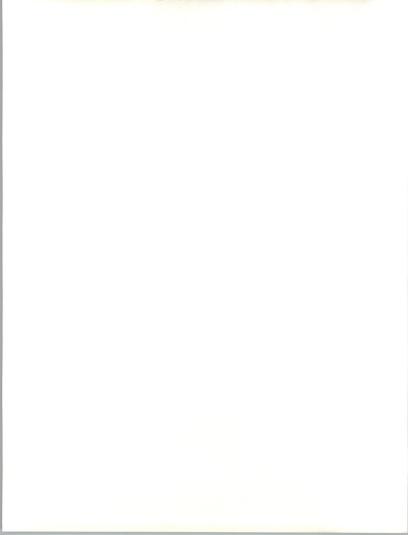
75003 Paris, France Tel. (33-1) 42 77 42 77 Fax (33-1) 42 77 85 82

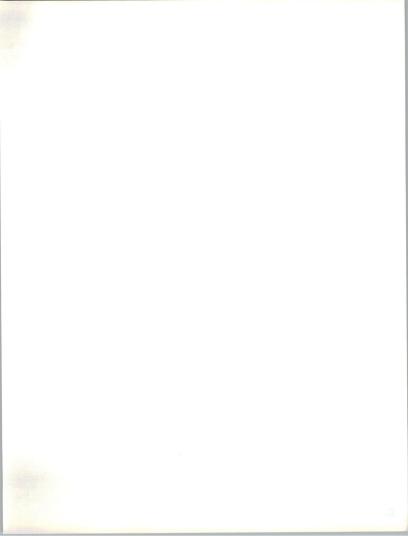
Frankfurt Sudetenstrasse 9 D-6306 Langgöns-Niederkleen, Germany Tel. (0) 6447-7229 Fax (0) 6447-7327

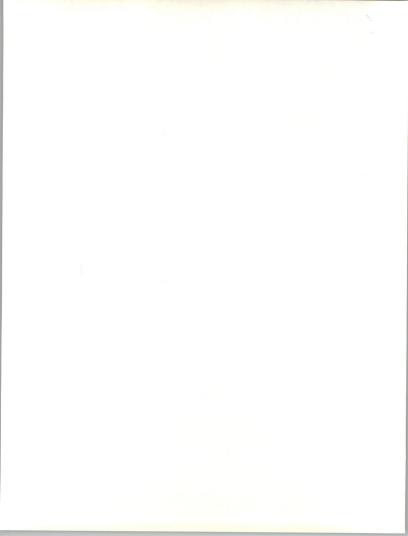
Tokyo Saida Building 4-6, Kanda Sakuma-cho Chiyoda-ku, Tokyo 101, Japan Tel. (03) 3864-0531 Fax (03) 3864-4114



Systems Operations Markets and Practices







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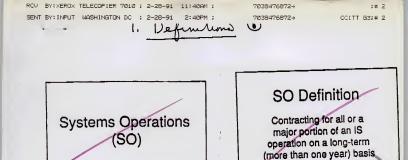
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FACSIMILE TRANSMITTAL FORM

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|---|-------------------------|-------|
| Destination: | Mountain View | |
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Systems Operations

- Characteristics

 · Hardware Ownership
 - Vendor-owned
 - -Customer-owned

(MATCH THE FACE U 50-8/50-9)

Systems Operations Characteristics

- Method of Operation
 - Remote
 - -On-site
 - Distributed

INPUT

Systems Operations Characteristics

- · Equipment dedication
 - Single customer
 - Multiple customers

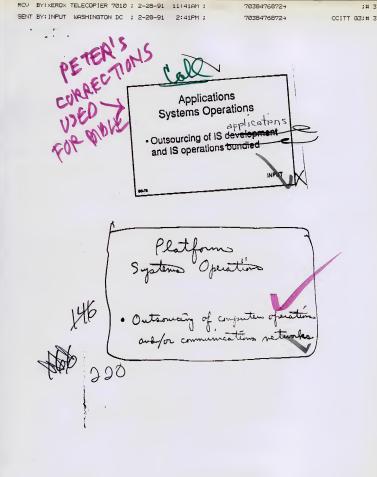
Systems Operations

- Processing services
 - Vendor-owned equipment
- · Professional services
- Client-owned equipment

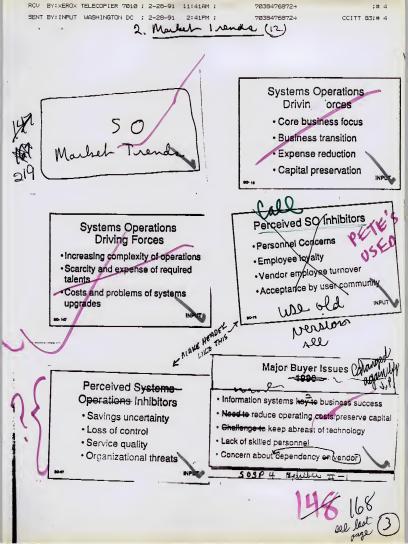
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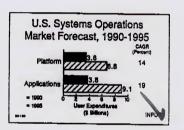




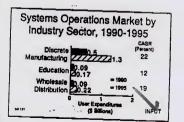






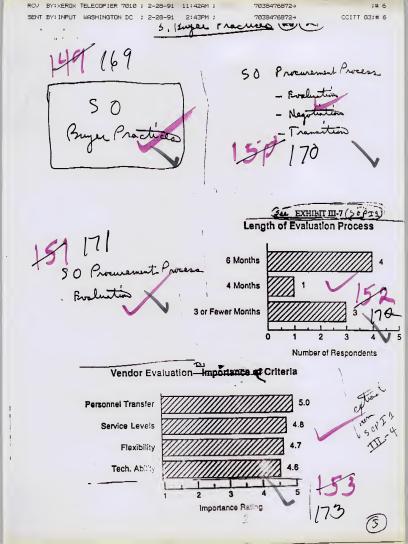


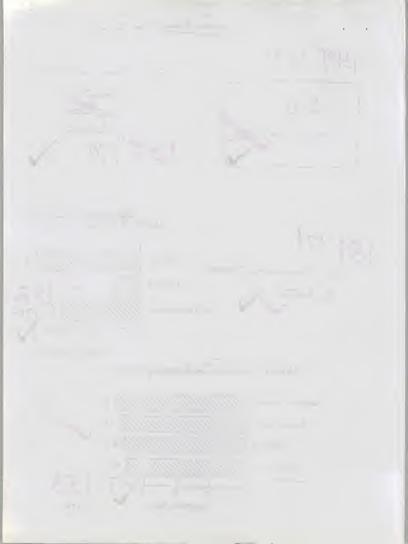


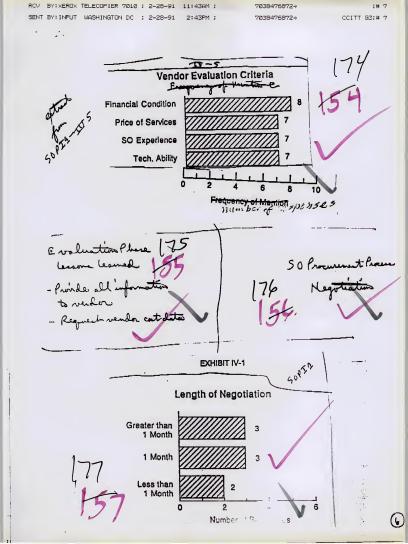


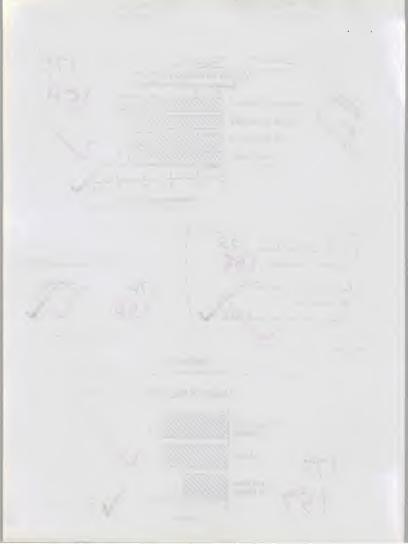






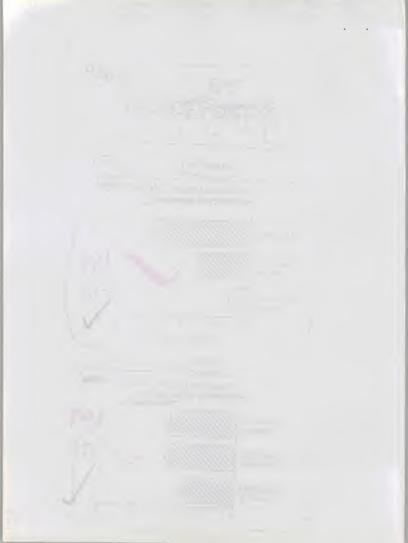


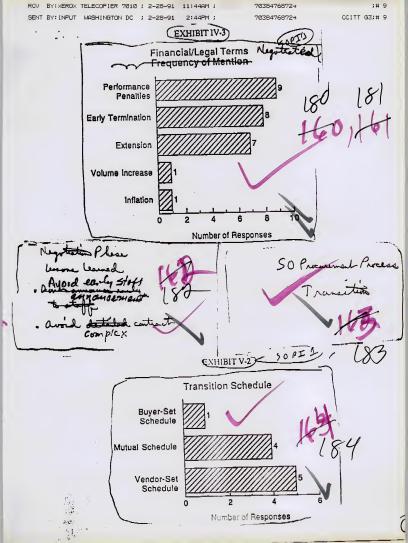


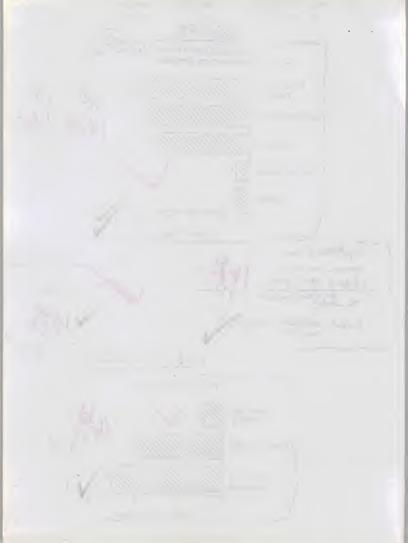


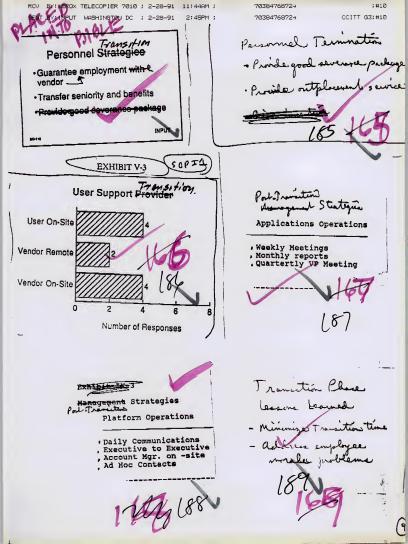
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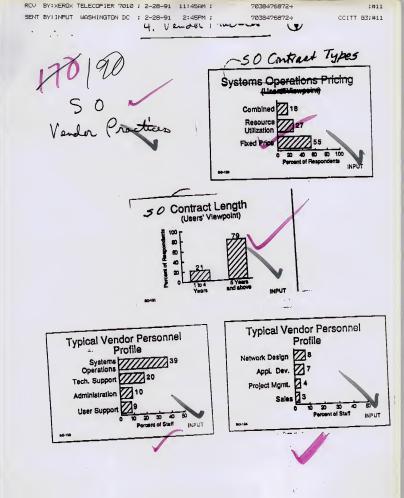












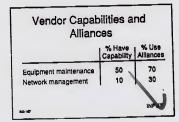
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| Vendor Capat Allian | | nd % Use Alliances |
|------------------------------|-----|--------------------------|
| Computer operations | 100 | 90 |
| Applications/ development | 90 | 60 |
| Business consulting | 90 | 50 INPUT |

| Vendor Capabi Allianc | es | |
|-----------------------------|----------------------|--------------------|
| | % Have Capability | % Use Alliances |
| Applications maintenance | 80 | 60 |
| Packaged appl. software | 80 | 60 80 |
| Disaster recovery | 1 00 | INPUT |



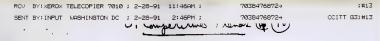
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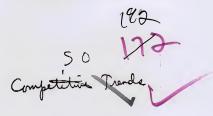
50 Systems Operations Trends

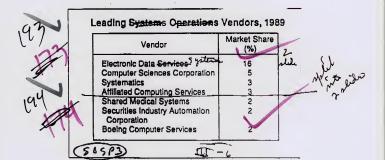
- · Client/vendor relationship=partnership
- · Vendor assume risks
 - Acquire client hardware
 - Assimilate client staff

· Long-term relationships increasing



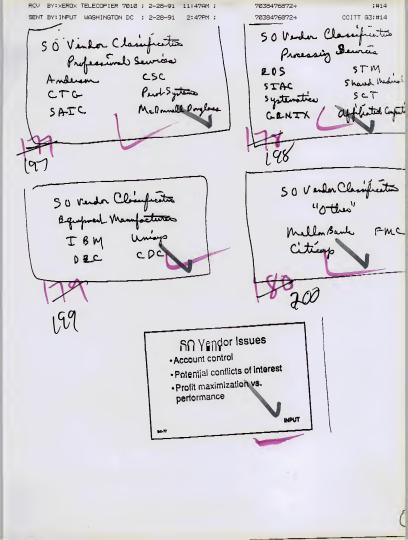


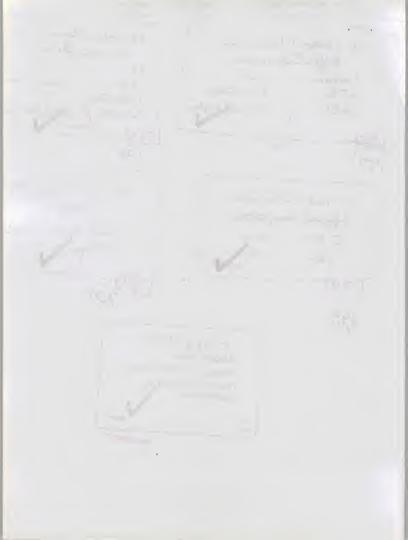


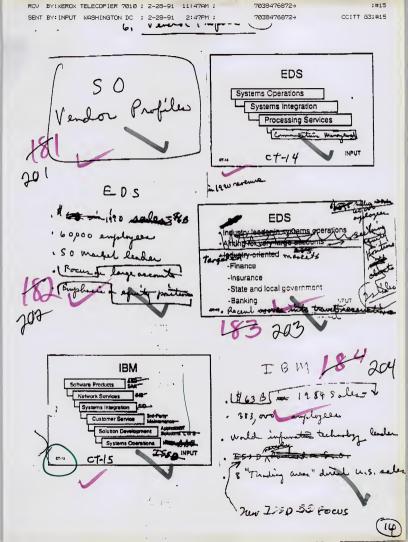


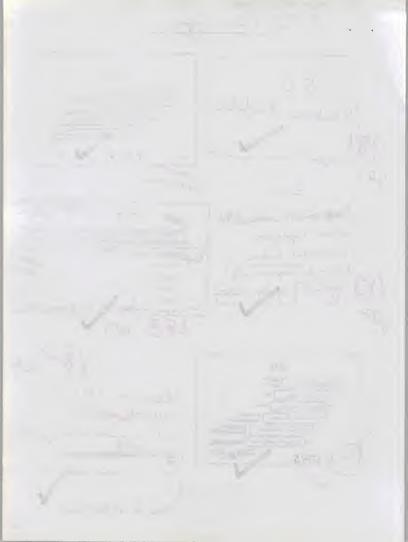












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IBM

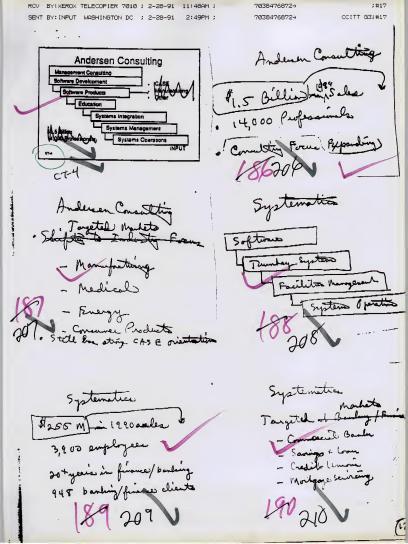
- Federal government

- Banking. - Manufacturing

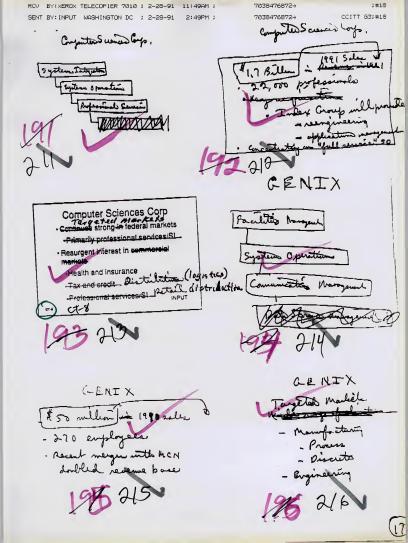
- State + local government

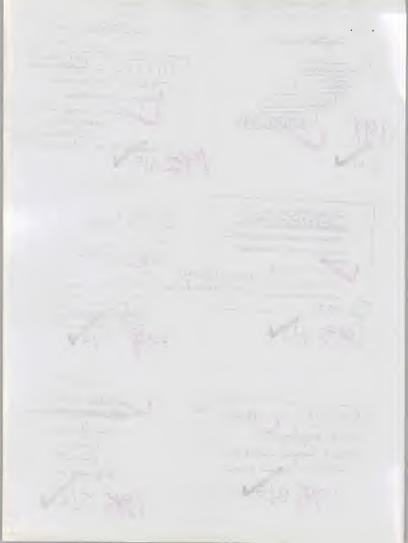












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Vendor Strategies

- Full service providers
- Vertical market focus
- Target companies in transition
- Vendor-client partnerships

Shared resource use

Vendor Strategies

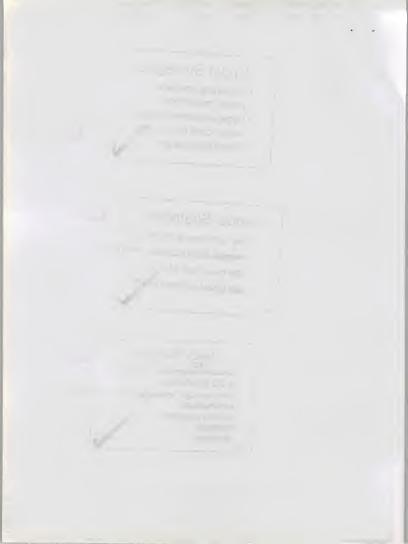
- · the client assets purchase
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- · Him client staff hiring

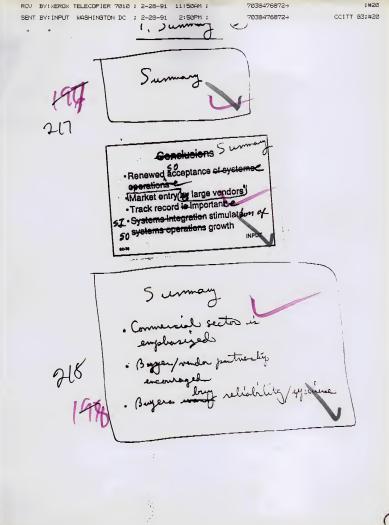
· Add global networks adde.

Vendor Strategies

- Systems integration projects lead to SO opportunities
- · "Flow-through" create profil Prospects epportunities
- -Add-on equipment
- -Software
 - -Supplies









Major Buyer Issues

- 50-148
- · Lose of Control of IS
- · Dependency on Vendor
- · Vendor Industry Knowledge
- · Reversing the Decision Miller

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