

ovum

Navigating IT's ups and downs: outsourcing and global sourcing in context

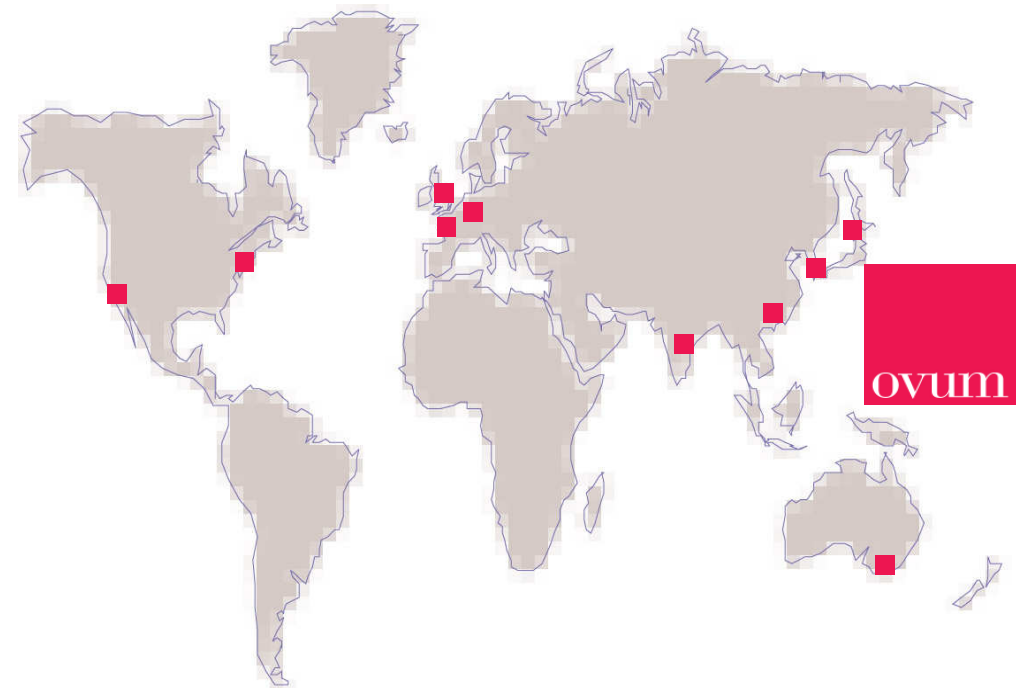
Samad Masood, Senior Analyst, Ovum

samad.masood@ovum.com

16th September 2008

As part of the Datamonitor and Informa Groups, Ovum provides specialist consulting & advisory services on the telecoms and software & IT services markets, differentiating ourselves through:

- our unique expertise where these sectors converge
- the access that we have to our extensive research base
- our global analyst & consulting experts
- developed consulting methodologies and models
- deep connected relationships with the industry
- our independence charter



Chaotic times

Challenging economic outlook

Cost containment agenda

Pressure on pricing

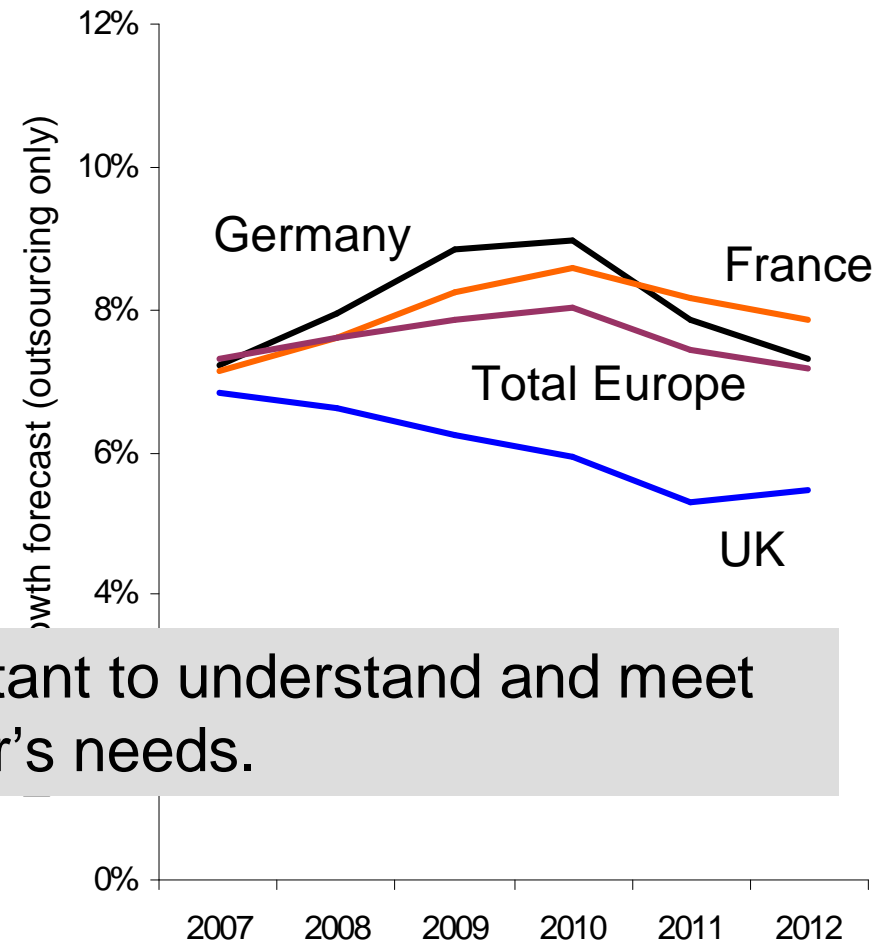
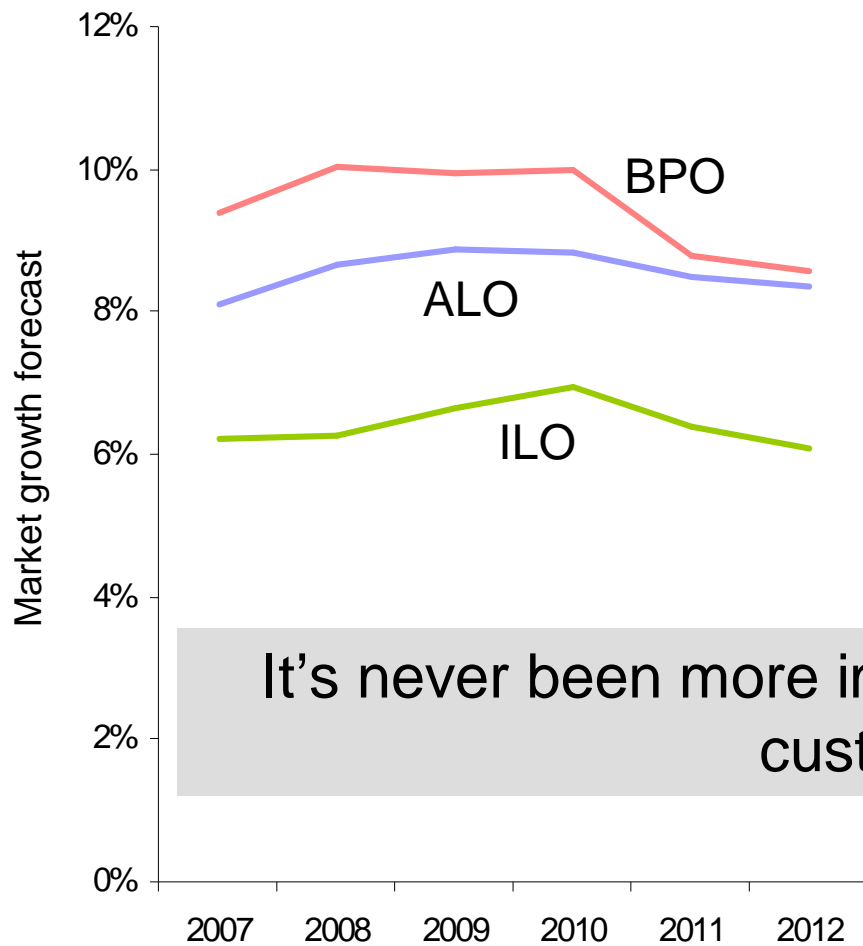
Over-supply

Outsourcing broadly a-cyclical

Growth agenda for IT

Potential for innovation

A tougher outlook



It's never been more important to understand and meet customer's needs.

Customers' two challenges

ovum

Effectiveness

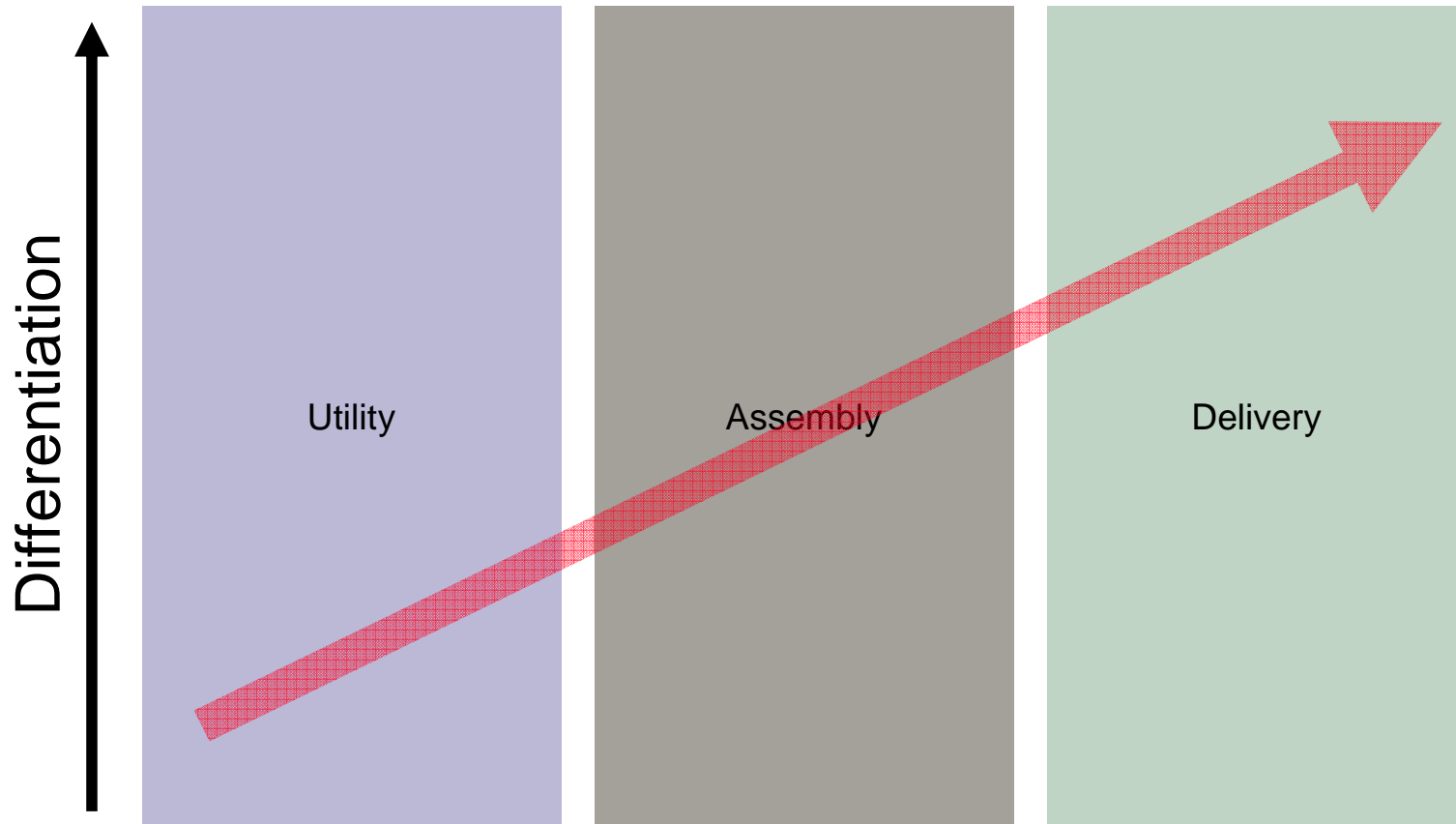
Deliver the flexibility and innovation that the business needs to grow and compete

Efficiency

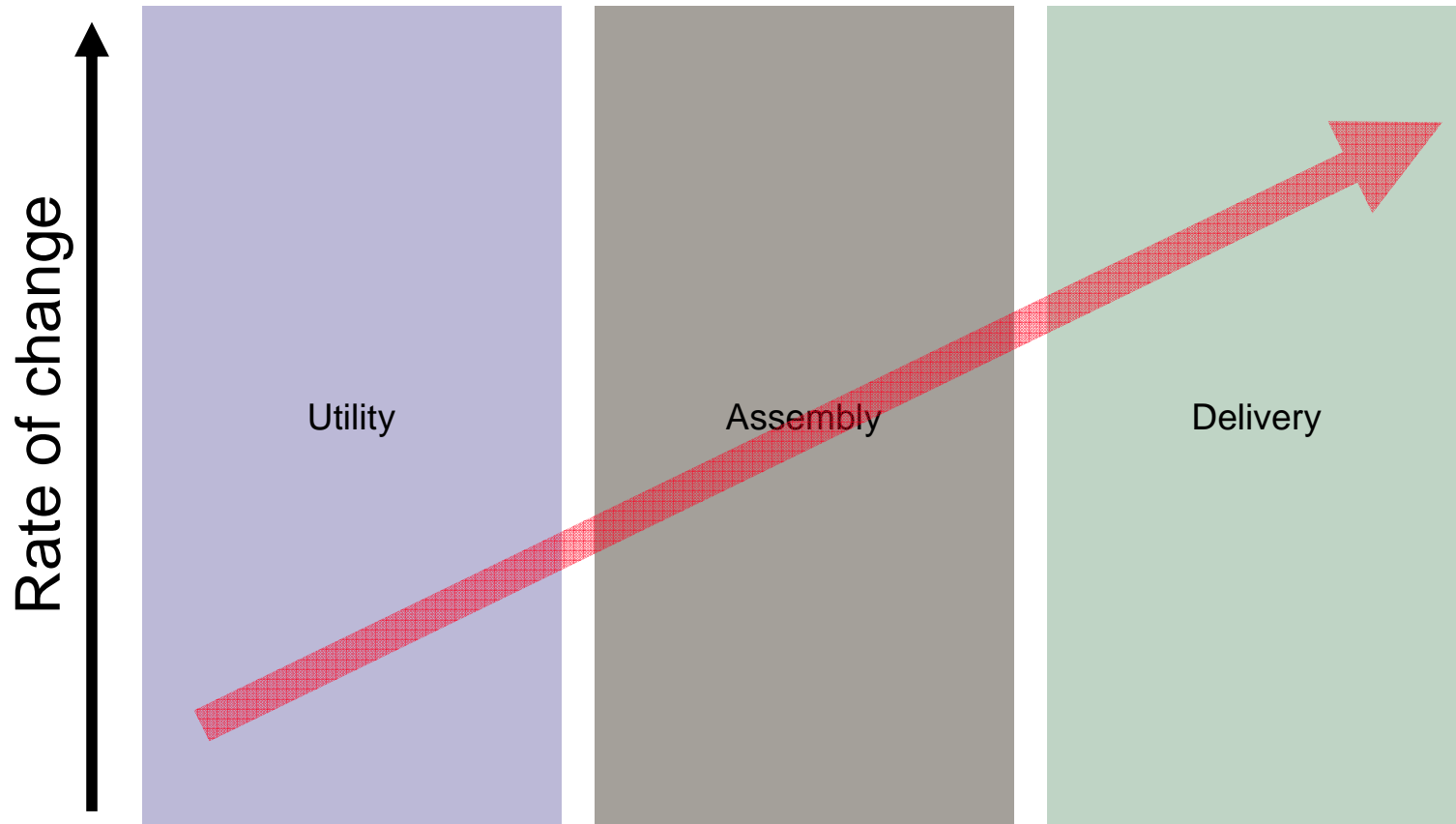
Drive down the cost of core, non-differentiating processes and systems



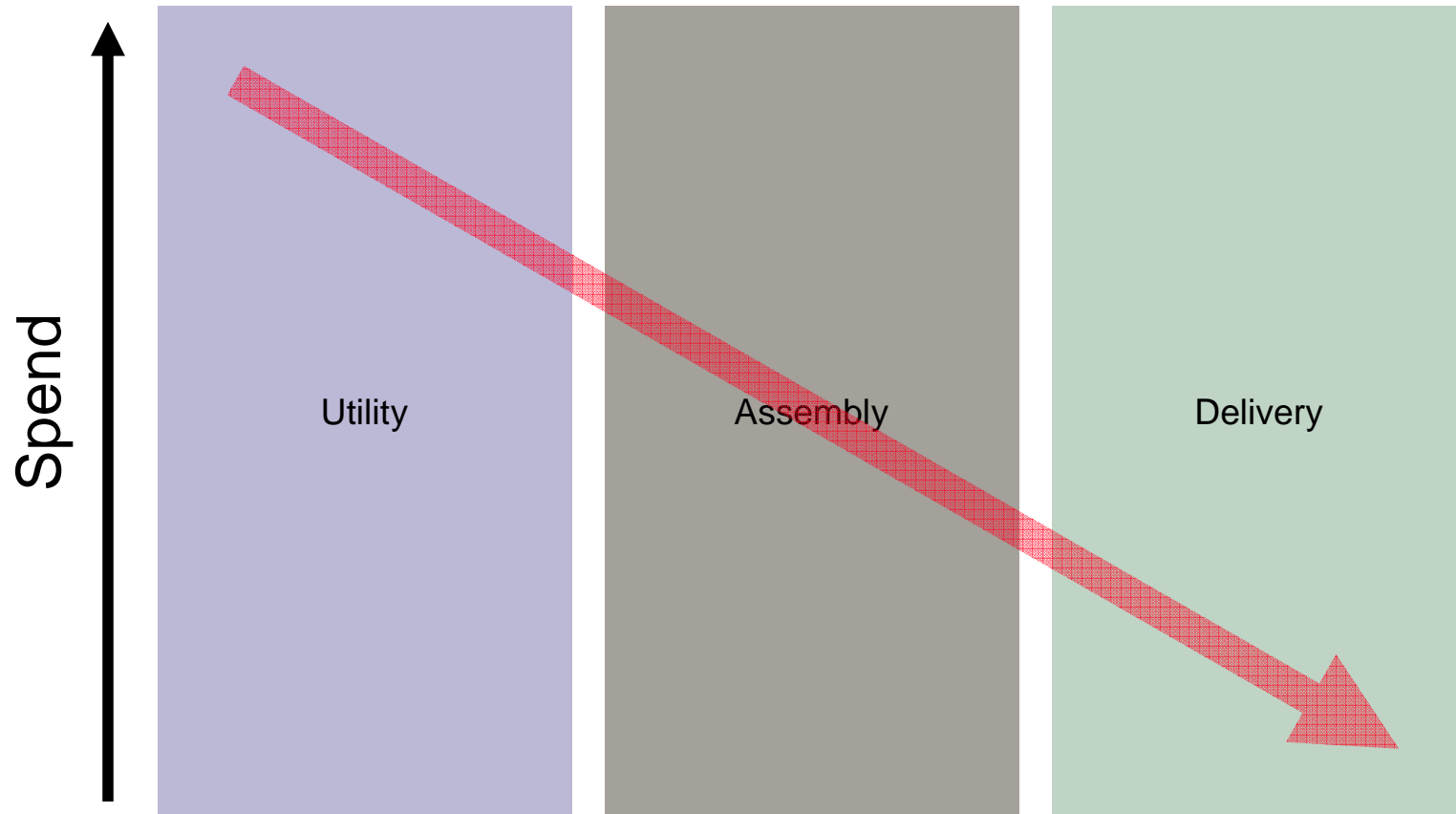
Where do clients differentiate?



What changes most?

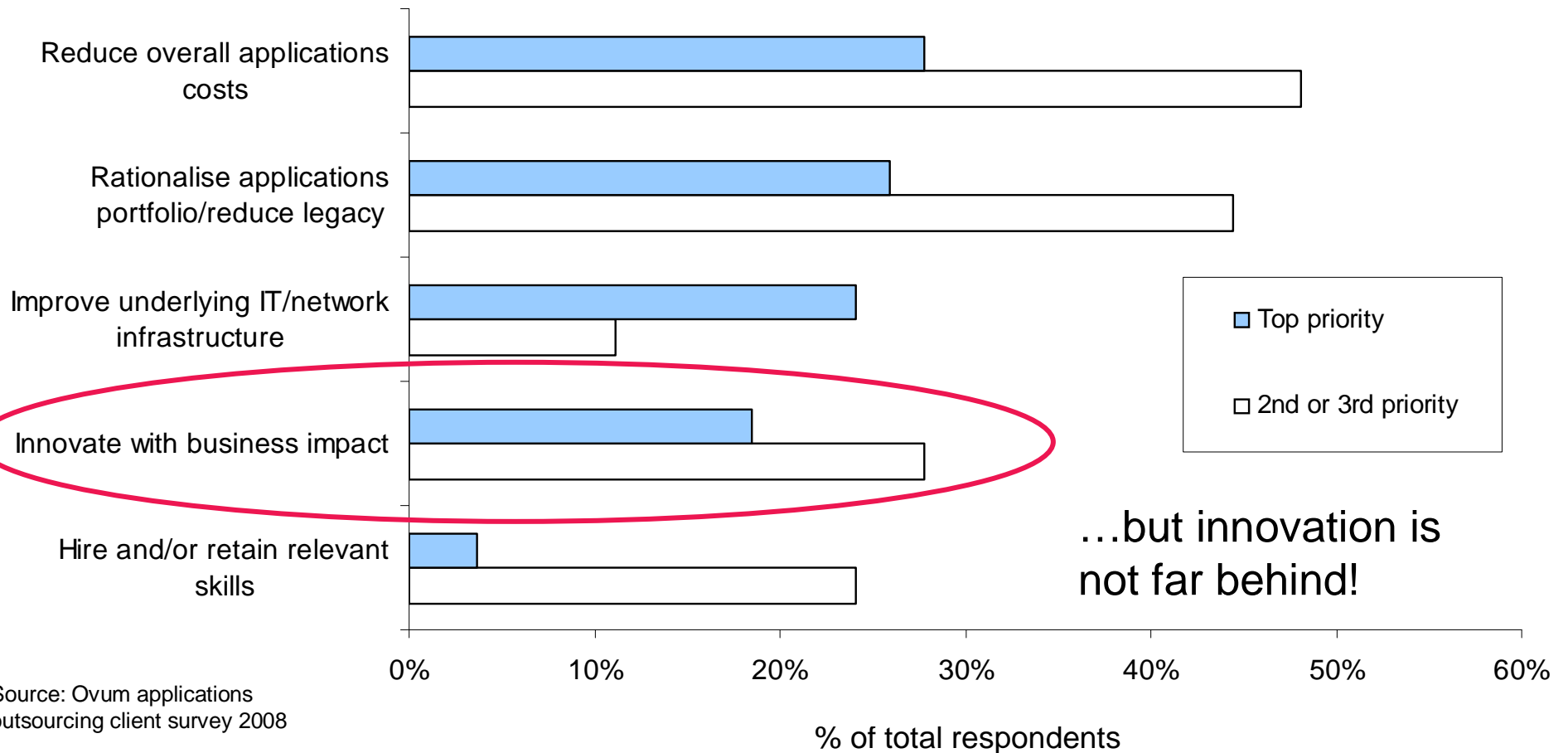


Where do they spend their money?



A cost agenda drives outsourcing...

“Please indicate your organisation's three highest priorities with regard to its use and management of applications in the twelve months ahead...”

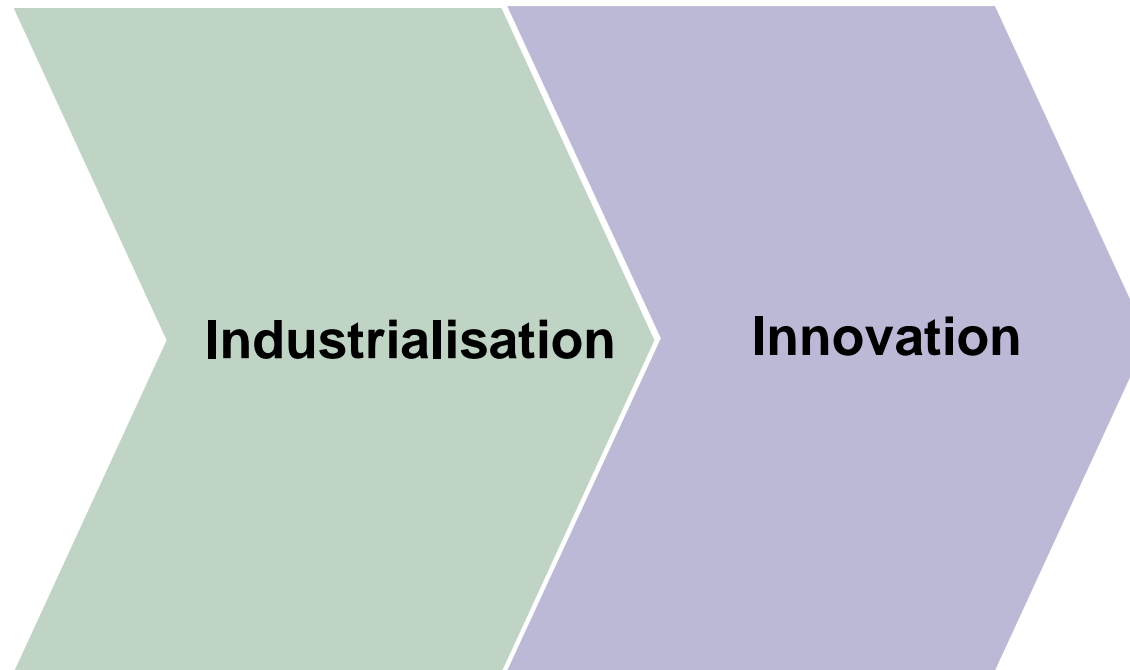


...but innovation is not far behind!

Source: Ovum applications outsourcing client survey 2008

Keys to success

ovum



Organisations on innovation

ovum

“Innovation is about new ideas that **increase revenues** or **reduce costs**” (Cetrel)

“Innovation is a tool to enable us to meet **business objectives**” (Banca Carige)

“Innovation is about new ideas that **add value**” (Norwich Union)

“Innovation is about **delivering business value**” (SKF)

“Innovation enables us to **develop new ideas** and **define more effective ways of working**” (Max Bahr)

“The innovation process is a dialogue focused on **business outcomes**” (DWP)

But it's not just about cost

ovum

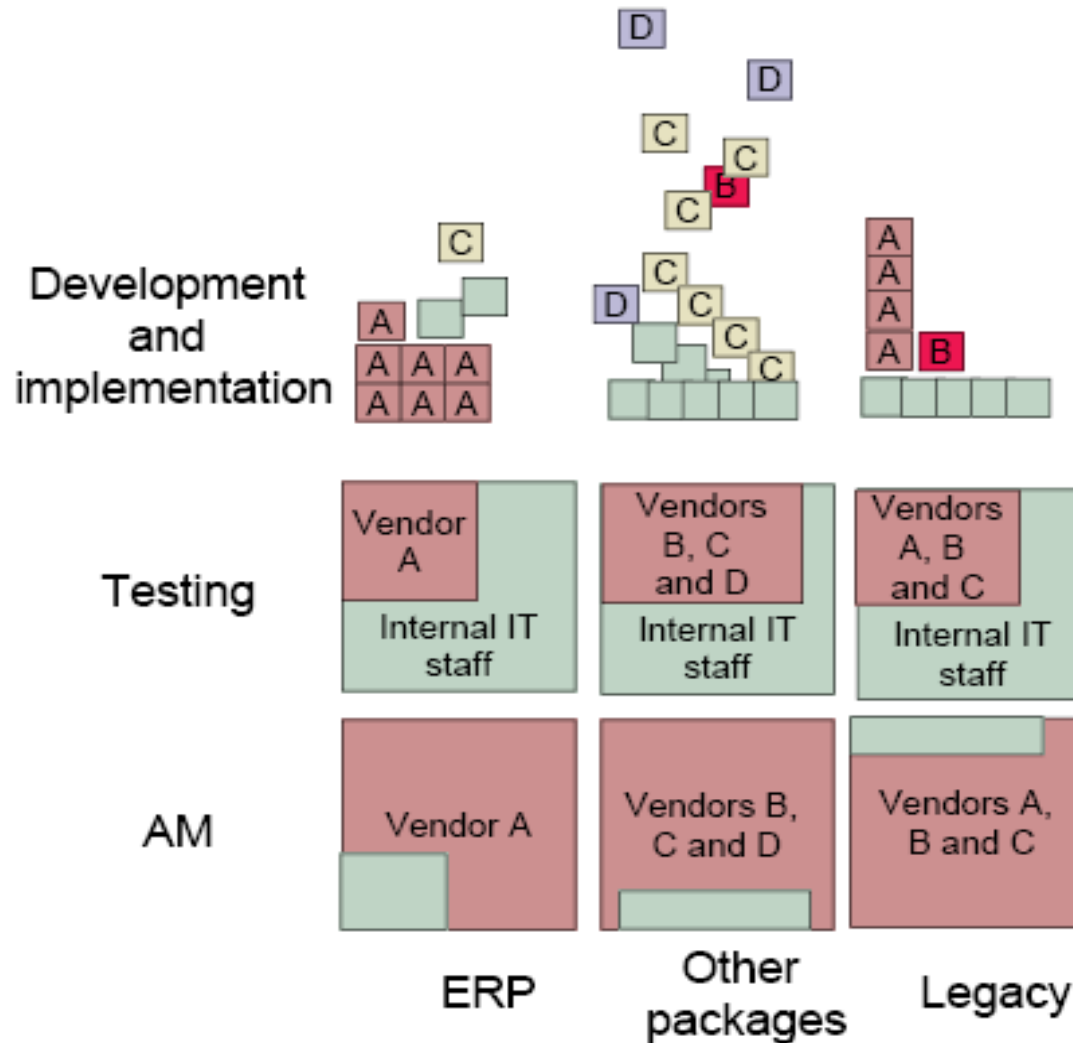
Cost

Risk

Flexibility

A more fluid and selective approach to sourcing
Multi-sourcing, smart sourcing
Low-margin, non-strategic deals

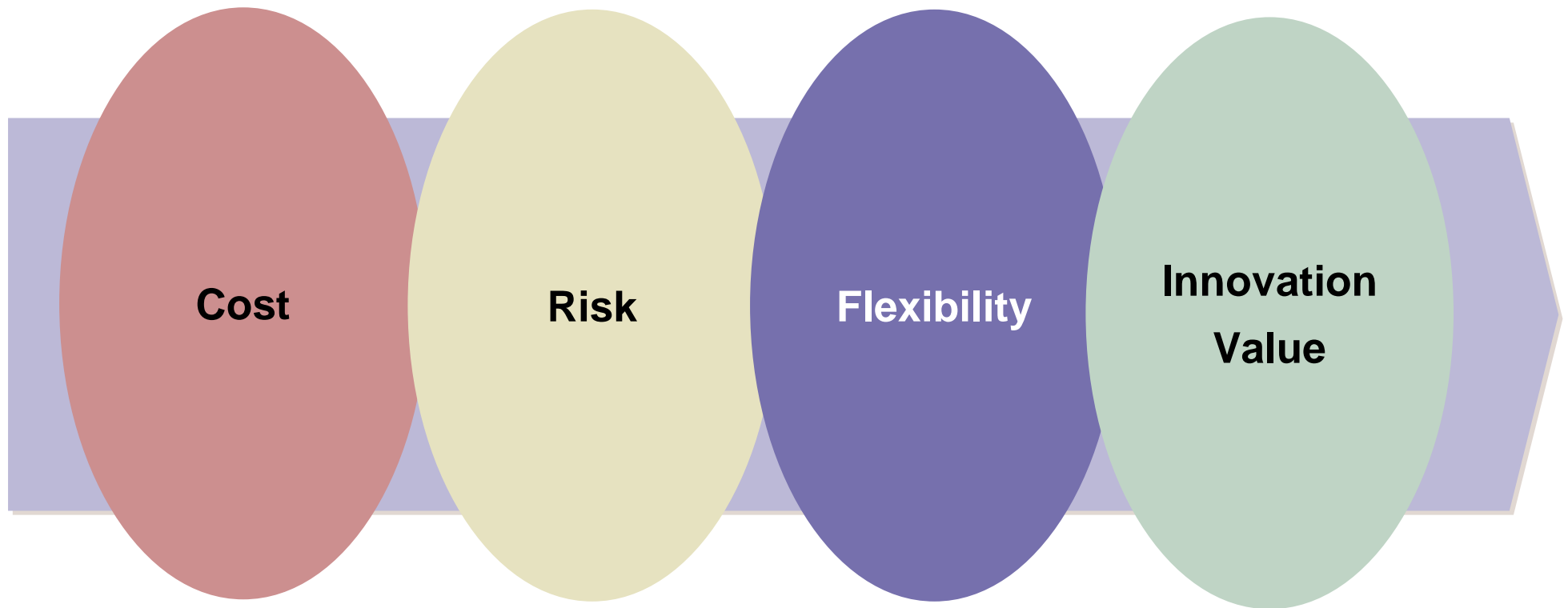
The reality...



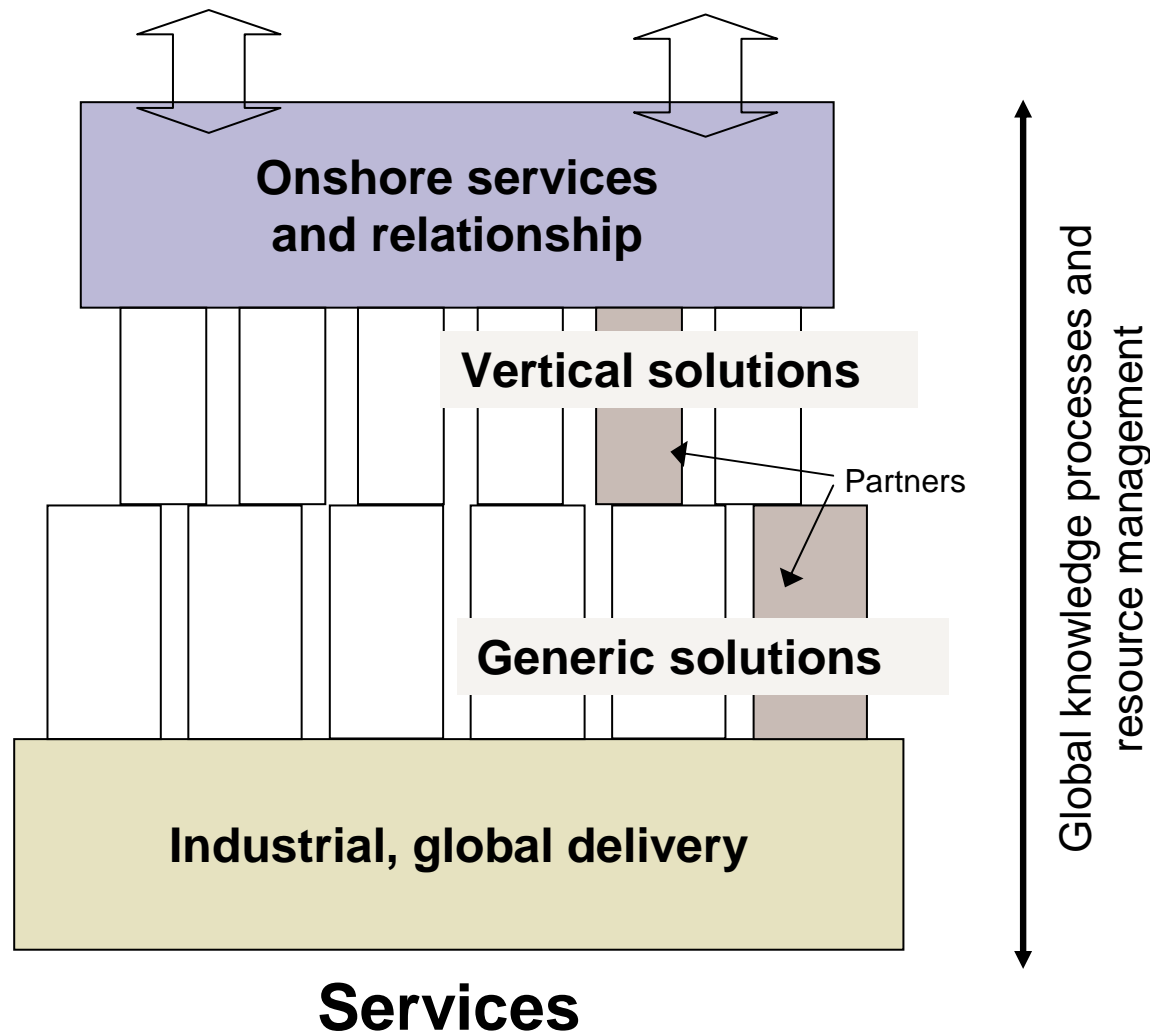
... often an unmanageable, ineffective mess

Customer priorities are evolving

ovum



Competitive formulae



No single player has this model working fully, yet

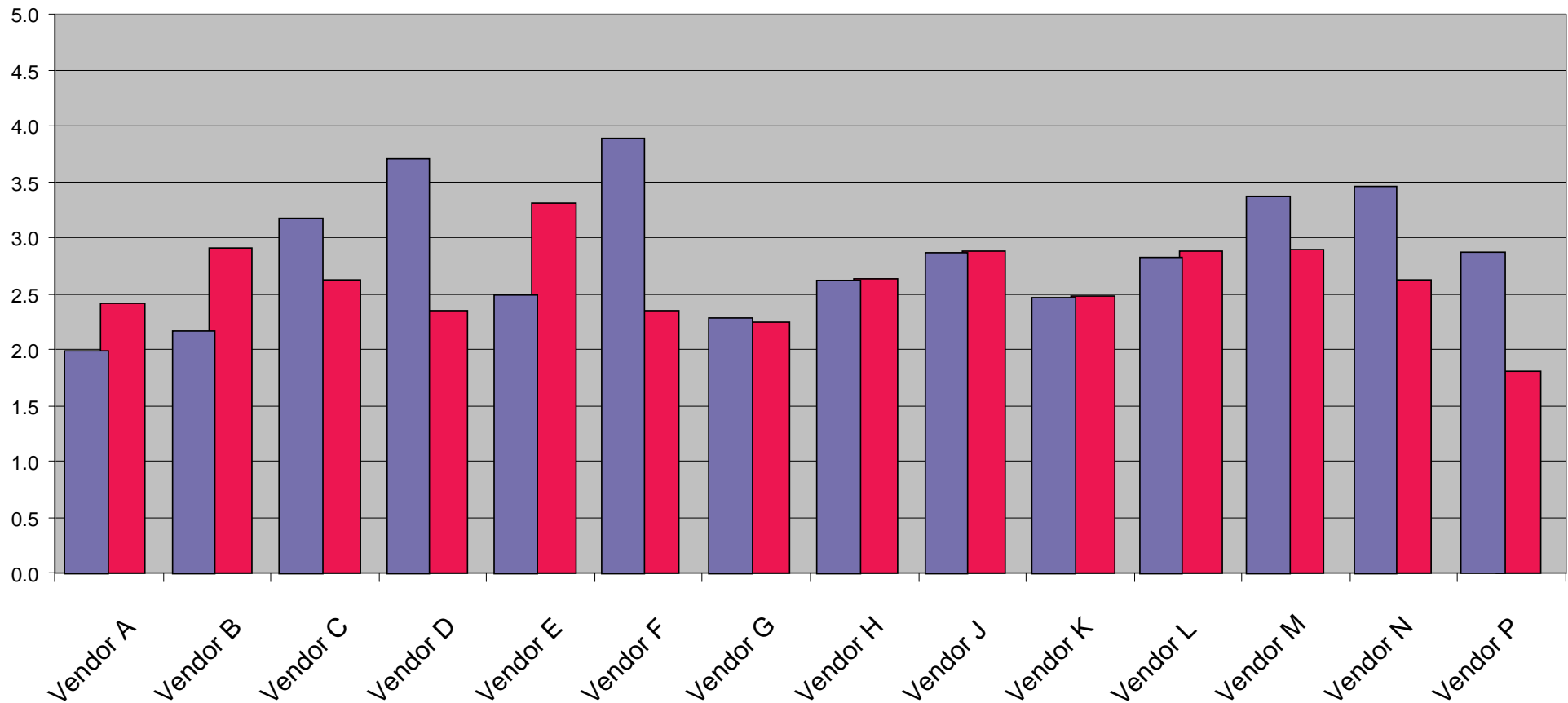
Remaining challenges

- “Onshore” players have made progress on scale of global delivery but integration challenges remain
- “Offshore” players are starting to make progress on the onshore, business analysis piece but have a long way to go
- Such models work best at scale
- Commercial models still evolving
 - How to ensure that some of the savings from efficiency are reinvested in innovation and value for the business?
 - How to measure and reward innovation and value?
 - How to balance ISV support with independence

Innovation and cost reduction not in sync

 Perception of cost reduction performance

 Perception of innovation performance



No competitor is good at everything

ovum

Strengths*

Weaknesses*



Big, complex deals. Customer presence. Financial services. Global scale and reach.

Smaller deals. Mid-sized customers. Go-to-market and delivery could be more joined up.



High level relationships. Vertical go-to-market. Consulting / devt capability. Global scale.

Seen as too expensive for AM. Hierarchy impedes flexibility. Mega-deal failures.



Mega-deal experience. Indian capability. Partnering. Industrialisation progress.

Commercial sector, especially at business level. High-profile messes. Sales reputation.



Consistent delivery. Indian capability. Good at smaller deals too. Flexible.

Perception of infrastructure focus. Lack of proactive sales / consulting capability.



Shared services experience. Growing offshore presence. European scale.

Over-reliance on one customer in UK. Could be more joined-up on sales and delivery.



Mid-sized deal focus. Improving joined-up go-to-market and delivery. Business consulting.

Lack of multi-national sales. Low offshore scale and experience.



Applications focus. Vertical specialisms and go-to-market. Industrialisation progress.

Corporate angst. Lack of proactive selling and "rainmakers". Falling behind on offshore.



Price. Offshore/onshore delivery processes. Often seen as improving quality. Flexibility.

Lack of business-level capability and relationships. Still gaining experience in many areas

The crux of the problem...

ovum

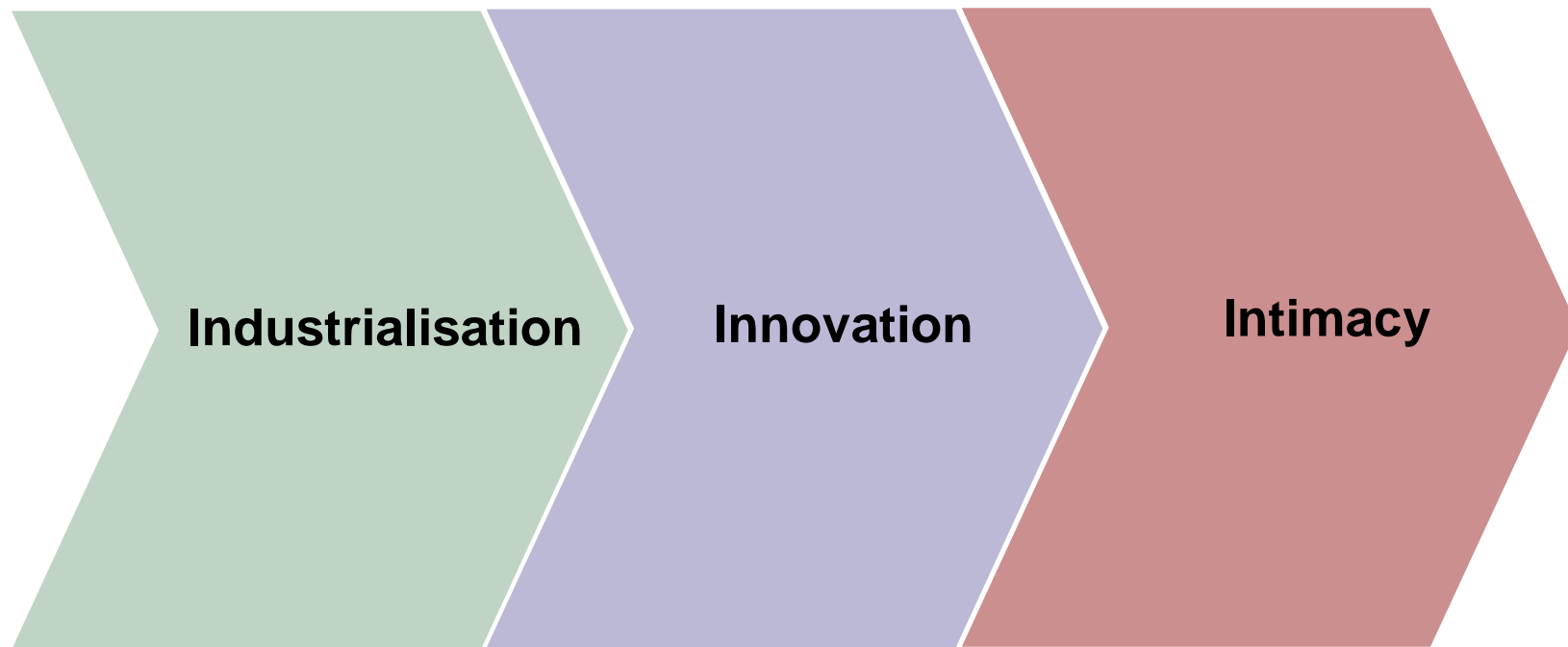
Efficiency



Effectiveness

Customers often have conflicting needs and priorities but this creates opportunities for vendors that can be **flexible**, **manage relationships** and **listen**...

Three keys to success



The fundamentals behind “value-adding” partnerships

- Customers want to see*:
 - Presence and reach, breadth of skills, quality of people
 - Trust and flexibility
 - Track record / results
 - Demonstrable business case
 - Innovation network / ecosystem
 - Willingness to support knowledge transfer
 - Understanding of the business
 - Ability to discover unmet needs

Client organisations are using such criteria to distinguish between “suppliers” and “partners”

* Based on conversations with CxOs, Summer 2007

Being a partner demands a lot more of the vendor



Suppliers

A sales culture: transactional

Know the IT team

Hire sales people

Familiar with the systems and some processes

Deliver the contract

Respond to tenders

Margins always under pressure

Unlikely to have a great brand as an employer

One of the crowd

Partners

A partnering culture: open, trusting, personal

Maintain relationships with senior management

See the value of “rainmakers”

Familiar with the business, its context and its priorities

Deliver and seek out new ways to add value

Uncover needs and opportunities pro-actively

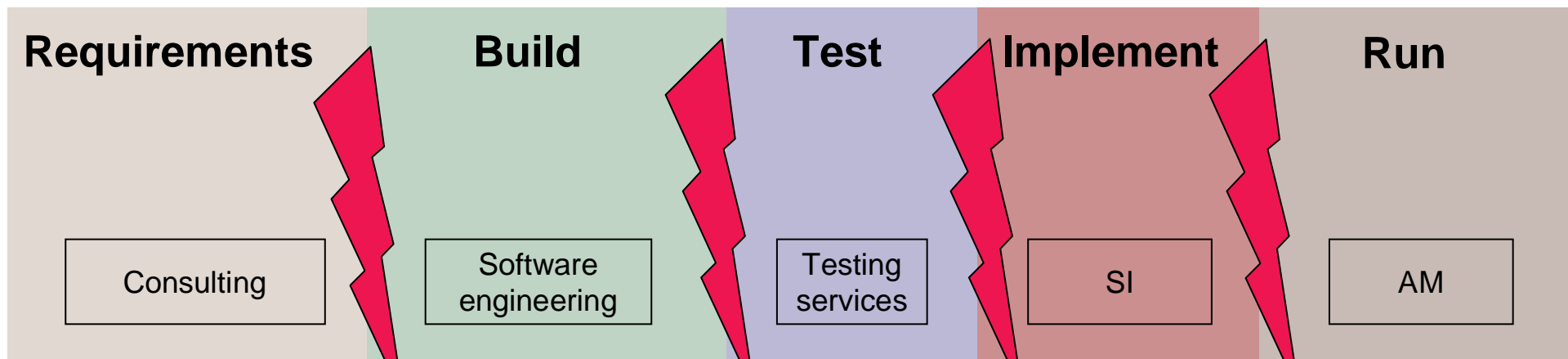
Better chance of improving margins

Attract and retain the best in the industry

Differentiated...

Example: extending service range and relationship to deliver innovation in AM

Cost to fix errors →



Hand-offs are critical and often poorly executed

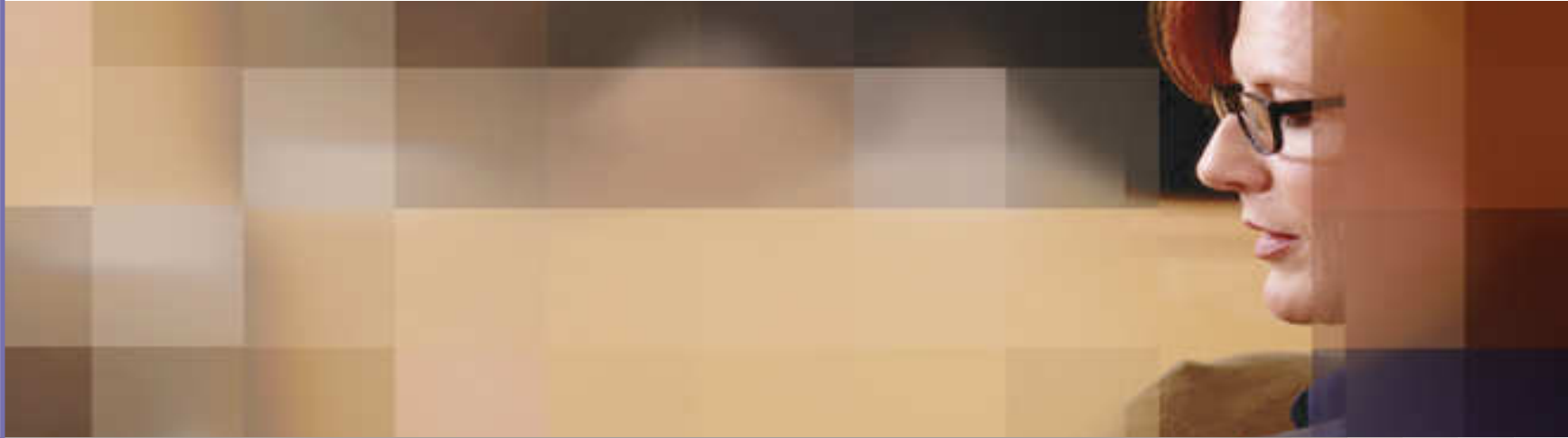
In conclusion

ovum

- Industrialisation of service, and globalisation of delivery are the “table stakes” for outsourcing today and going forward
- Getting closer to the client will help vendors navigate the downturn over the rest of the ‘naughties’
- Customer intimacy will also help vendors deliver innovation with a real impact on client’s business

So...

“Glocalisation” is real, valid, and what customers are demanding. It needs to be taken seriously by all vendors in the market!



ovum

Thank you