

WholeView™ TechStrategy™ Research

April 2003

# Can Outsourcers Really Transform IT?

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FORRESTER



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APRIL 2003

## Can Outsourcers Really Transform IT?

IT outsourcing lowers costs but often fails to provide additional value-added enhancements. We evaluated the transformational capabilities of 13 outsourcers, and most had good skills that clients need to tap into.

### 2 MARKET OVERVIEW

- Clients don't receive the infrastructure enhancement they're looking for from outsourcers.
- Outsourcing deals need business-based SLAs.

### 3 ANALYSIS

- Forrester evaluated IT outsourcers using the Forrester Wave™ methodology.
- CSC, HP, IBM, and (i)Structure lead the pack.
- Vendors have spotty transformation skills.

### 8 ACTION

- Reward outsourcer employees for their suggestions.

### 9 RELATED MATERIAL

- Online interactive spreadsheets for evaluating outsourcers in both desktop and distributed environments.

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## MARKET OVERVIEW

### THE HUNT FOR OUTSOURCING NIRVANA

IT outsourcing represents the fastest-growing segment of the technology services market -- expanding at a healthy 14% annual rate through 2007 (see the December 2002 Forrester Report "Services Market Sizing Through 2007").<sup>1</sup> What's driving the demand for these services? Large corporations tell us about two enticing benefits:

- **Lower costs.** Outsourcers can provide better economies of scale for technology purchases, automated monitoring and management, and a reduction in the headcount needed to support the environment. Forrester's research shows that clients typically save between 11% and 25% when they outsource their IT infrastructure (see the August 2002 Forrester Report "Transforming Outsourcing With Organic IT").<sup>2</sup>
- **Improved infrastructure.** Companies often want outsourcers to provide more than just better costs -- they expect to gain new technologies, improved architectures, and in some cases completely revamped infrastructures. American Express signed an outsourcing deal with IBM that included a migration of the financial giant's static, dedicated servers to a pay-per-use, shared IT environment that more dynamically meets its business needs.<sup>3</sup>

### Transformation Remains Elusive In Most Outsourcing Deals

While many companies save money by outsourcing IT, few achieve their infrastructure enhancement goals. Why aren't firms getting the benefits they expected?

- **Clients don't push for transformation.** Firms often write RFPs with terms that hold the outsourcer accountable for improvements in the client's core business. But outsourcers push back on these line items, complaining that these "softer" goals can't be easily measured. The ensuing pain of negotiating for specific service level agreements (SLAs) causes many clients to just give up -- yanking transformational requirements from their contracts.
- **Short-term savings overshadow long-term gains.** Since outsourcing deals traditionally focus on cutting costs, the executives that sponsor these efforts often are pressured to demonstrate immediate savings. The impact: Sponsors get jittery about making additional investments that might jeopardize upfront savings.

- **Change ruins providers' operational efficiency.** Since outsourcing is a low-margin business, outsourcers balk at any activities that introduce inefficiencies, choosing instead to squeeze incremental improvements from existing environments. And since many IT upgrades, like consolidating servers, will actually reduce the outsourcer's scope of effort, the vendors don't often recommend these efforts.

### WHAT TO LOOK FOR IN A TRANSFORMATIONAL OUTSOURCER

Lacking any proactive recommendations from their outsourcers, companies end up with well run, but outdated, infrastructures. To achieve longer-term benefits from the effort, firms must demand more than basic operational best practices when selecting a partner. Companies should seek vendors with strong (see Figure 1):

- **Business value focus.** Outsourcers should help clients use the infrastructure in new ways to fuel the clients' business success. Firms should look for vendors that sign up for metrics like an increase in inventory turns instead of just IT-based metrics like 99.99% uptime for servers that support inventory management apps.
- **Client management.** Buyers need to look for account teams that will proactively help internal employees become more effective with nonoutsourced IT. A key element: Get the provider to train a client's organization on its best practices.
- **Transformation skills.** Clients need outsourcers that can help with continuous change, not just one-time migrations. Look for vendors with existing deals that provide for ongoing technology upgrades.

## ANALYSIS

### FINDING THE BEST IT OUTSOURCER

Which IT outsourcers provide the most transformational capabilities? To answer this question, Forrester evaluated outsourcers in desktop and distributed environments using the Forrester Wave™ methodology. Our analysis looked at the providers':

- **Current offering.** Forrester judged the outsourcers' existing ability to provide transformational benefits. We looked at their business value focus, client management practices, transformation skills, and operational management.<sup>4</sup>

## Can Outsourcers Really Transform IT?

### ANALYSIS

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**Figure 1** Criteria For Transformational Outsourcing

Criteria	Evaluation
<b>Business value focus</b>	
Value proposition	How well does the provider articulate how outsourcing will help improve the client's business operations?
Outsourcing's effect on business	How well does the provider leverage IT outsourcing to improve the client's business processes?
Business-based SLAs	What is the provider's experience and comfort with creating business-based SLAs?
<b>Client management best practices</b>	
Client-driven account management	How well does the provider's account management structure meet current and future client needs?
Client satisfaction	How deep is the provider's commitment to client satisfaction?
Problem resolution	How clear and thorough is the provider's problem resolution and escalation procedure?
Knowledge transfer	What formal training and education does the provider offer to client employees on IT operations best practices?
<b>Transformation</b>	
Technology refresh	How many of the provider's contracts include automatic technology refresh?
Technology leadership	What is the provider's role in helping the client with new technologies?
Change-ready contracts	How well do the provider's current contracts account for potential IT usage and business change?
Risk management	How well does the provider's risk management process account for both technology and business risks?
Change management	How well does the provider incorporate new technologies and explain the implications of those changes?
Technology road map	How well-defined is the provider's internal architecture road map, and how much does the road map fuel the provider's recommendations to clients?

Source: Forrester Research, Inc.

**Figure 2** Criteria For Strategy And Market Presence

Criteria	Evaluation
<b>R&amp;D</b>	
Outsourcing-specific R&D	What percentage of the provider's outsourcing revenue is spent on outsourcing-specific R&D?
Technology R&D	What percentage of the provider's outsourcing R&D is spent on new technology?
Service delivery R&D	What percentage of the provider's outsourcing R&D is spent on client service improvement?
<b>Future direction</b>	
Infrastructure vision	What is the provider's vision for how infrastructure will evolve and the outsourcer's role in the evolution on behalf of clients?
Investment toward vision	How much has the provider invested in distributed environment shared service centers based on its vision?
Outsourcing employee training	How much training do IT outsourcing employees receive on new infrastructure concepts, technologies, and architectures?

Source: Forrester Research, Inc.

- **Strategy.** We looked at outsourcers' future plans (see Figure 2). The analysis focused on the vendors' outsourcing-specific R&D and the usefulness of their technology road map for driving ongoing improvements within a client's environment.
- **Market presence.** To evaluate the providers' business strength, Forrester reviewed outsourcers' financial strength, outsourcing capacity, client-base growth, and partnerships with hardware and software vendors.

### The Forrester Wave™ For IT Outsourcers

The Forrester Wave highlights significant differences across the outsourcers. Some key findings of the analysis:

- **CSC, HP, and IBM lead in desktops.** Of the 13 outsourcers we graded, CSC, HP, and IBM made it into the top category for desktop environments (see Figure 3). CSC received the highest overall score for current offering, and IBM topped the list in strategy.
- **(i)Structure plays with the big boys in distributed environments.** Little firm (i)Structure, with only 334 employees, joins the leaders category for distributed environments (see Figure 4). The provider's position was bolstered by its R&D focus on client delivery improvements.
- **CGE&Y should bolster its account management.** With a score of 2.45 out of 5 on client management best practices, CGE&Y's score was hurt by an account team that can get out of alignment with the client and by limited knowledge transfer.
- **EDS' and Perot Systems' positions may be deceiving.** EDS and Perot Systems both have strong current offerings, but they did not disclose their R&D spending -- which dragged down their strategy scores.<sup>5</sup>

### Transformation Exists -- But Only In Pockets

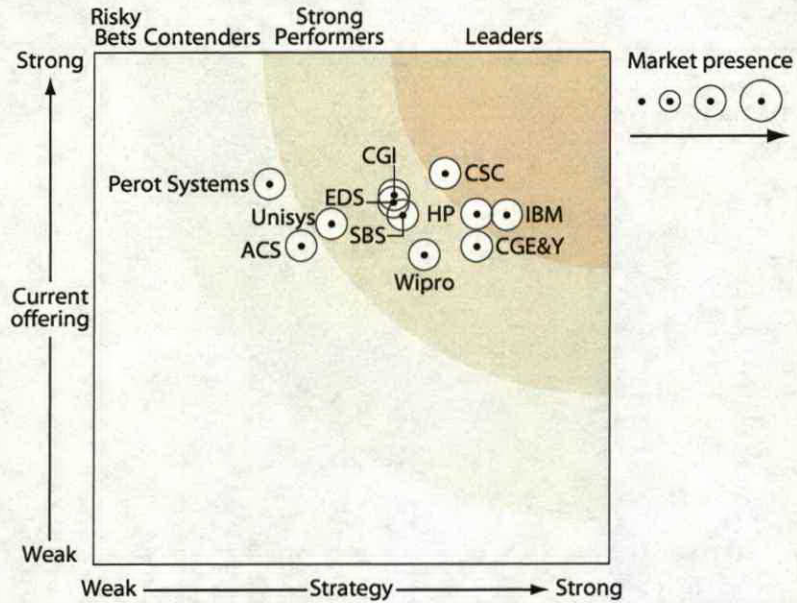
Despite the almost unanimous chorus among outsourcing client references that their providers don't bring innovation to deals, our evaluations found that outsourcers actually possess some strong offerings. What's causing the discrepancy?

- **Spotty capabilities.** The highest score in the transformation skills category was 3.6 points on a five-point scale. Although every provider was strong in at least one component of technology innovation, none of the firms scored well across all areas. Some highlights: Canadian firm CGI proactively discussed new technologies and potential implications, IBM articulated a clear view on the future of infrastructure, and Unisys incorporated automatic technology refresh into 100% of its contracts.

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**Figure 3** Forrester Wave™: Transformational Outsourcing, Desktop, Q1 '03

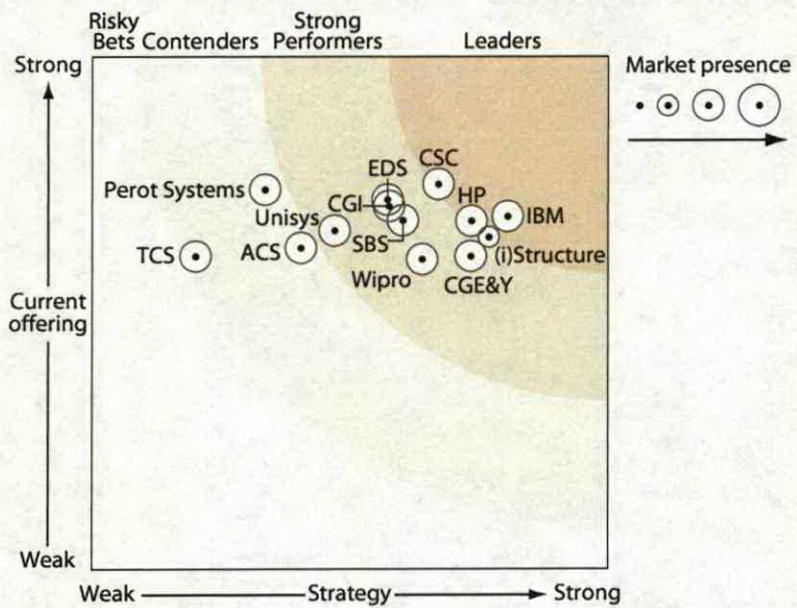
View the data supporting this graphic by clicking the online "Get Data" button above the figure



Source: Forrester Research, Inc.

**Figure 4** Forrester Wave™: Transformational Outsourcing, Distributed, Q1 '03

View the data supporting this graphic by clicking the online "Get Data" button above the figure



Source: Forrester Research, Inc.

- **Limited skills transfer.** Only two outsourcers -- EDS and TCS -- received top marks for transferring skills to clients. While these two vendors train client employees consistently on best practices in all aspects of systems management, operations, and change management, other providers could offer only isolated examples of transferring knowledge back to the client.
- **Sparse training.** No outsourcer scored better than a three out of five in training its staff on new technologies. Most firms delivered just-in-time training -- keeping staff from getting smart about new technologies until they're being deployed. The impact: Delivery teams can't advise clients about potentially valuable changes.



## ACTION

Outsourcers possess some transformational outsourcing capabilities that don't reach clients. To ensure that they get infrastructure enhancements as part of the deal, outsourcing buyers should:



**Include road map milestone metrics in contracts.**

Clients that want enhanced infrastructures without big bang migrations should ensure that the outsourcer is compensated on meeting specific incremental milestones. For example, to achieve virtual storage over time, the provider should receive a bonus for moving the client from dedicated direct-attach storage to networked storage, then get another bonus when it implements storage virtualization tools. This type of innovation should be blended into agreements -- not treated as "additional projects" on top of existing contracts.



**Insist on an outsourcer training commitment.**

When writing the outsourcing contract, buyers should insist on terms that oblige outsourcing employees to be conversant in new technologies. How? Require the outsourcer to commit at least three to five days' training on emerging technologies to the delivery team members. The specific technologies chosen should be determined jointly by the client and the outsourcer based on the client's infrastructure road map.



**Reward individuals, not just the outsourcer as a company.**

To encourage outsourcer employees to suggest new ideas, firms should develop a bonus system for delivery team recommendations that are implemented. If Siemens Business Services earns a \$250,000 bonus for helping a client identify savings from route optimization, for example, the contract should require Siemens to give a \$2,500 bonus to the individual delivery team member who initiated the suggestion.

## RELATED MATERIAL

### Online Resources

The underlying spreadsheets detailing the evaluations used to create the Forrester Waves in Figures 3 and 4 are available by clicking the online "Get Data" button above the figures.

### Methodology

Forrester asked outsourcers to complete a detailed survey regarding their current offerings, strategy, and market presence. We also interviewed client references for the providers under nondisclosure to validate providers' answers and to hear how vendors put client management and innovation into practice. We did not evaluate their cost structures or pricing models because these items, while important, depend on the scope of work and other deal-specific factors.

### Outsourcers Participating In This Report

Affiliated Computer Services  
[www.acs-inc.com](http://www.acs-inc.com)

Cap Gemini Ernst & Young  
[www.cgey.com](http://www.cgey.com)

CGI Group  
[www.cgi.ca](http://www.cgi.ca)

Computer Sciences Corporation  
[www.csc.com](http://www.csc.com)

EDS  
[www.eds.com](http://www.eds.com)

Hewlett-Packard  
[www.hp.com](http://www.hp.com)

IBM  
[www.ibm.com](http://www.ibm.com)

(i)Structure  
[www.i-structure.com](http://www.i-structure.com)

Perot Systems  
[www.perotsystems.com](http://www.perotsystems.com)

Siemens Business Services (USA)  
[www.sbs-usa.siemens.com](http://www.sbs-usa.siemens.com)

Tata Consultancy Services  
[www.tcs.com](http://www.tcs.com)

Unisys  
[www.unisys.com](http://www.unisys.com)

Wipro  
[www.wipro.com](http://www.wipro.com)

### Experts Interviewed For This Report

The Everest Group  
[www.the-everest-group.com](http://www.the-everest-group.com)

### Related Research

December 6, 2002 Forrester Brief "Outsourcing Trends In 2003"

December 2002 Forrester Report "Services Market Sizing Through 2007"

August 2002 Forrester Report "Transforming Outsourcing With Organic IT"

March 2002 Forrester Report "US Outsourcing Decelerates"

October 1, 2001 Forrester Brief "New Business Models Remake IT Outsourcing"

## GRAPEVINE

### **Goodbye, Inacom . . . and good riddance.**

Two reference clients for this report (for two different vendors) discussed how they became involved with their outsourcer after their original provider, Inacom, went out of business. And both of those references said it actually turned out to be a good thing that Inacom went out of business because their current outsourcer is so much better. Forrester thinks that client references like this are probably a good indicator of why Inacom went out of business in the first place.

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### **Playing both sides against the middle.**

We recently talked with Vinod Khosla, long-time Silicon Valley venture capitalist and a partner with Kleiner-Perkins. His thoughts on IT outsourcing? "Outsourcing the way it is done is a huge disaster. Customers are locked into paying for IT outsourcing. When you outsource, you must have at least two outsourcers bidding for your business so you can play one against the other to get a better deal." Forrester agrees, but both outsourcers need to offer innovation as well as great pricing.

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### **Internal and outsourced IT must make pricing transparent.**

We spoke with Murat Sönmez, founder of startup infrastructure services vendor Centrata, who offered his thoughts on the state of outsourcing: "There is disappointment with outsourcing because it helps balance sheet cost, but it isn't great at servicing business unit customers. But IT's economic buyer is the business unit, and they're frustrated with the black box nature of pricing. So IT and outsourcers are under enormous pressure to make pricing transparent. That's the shift toward service-based management -- enabling economic buyers to know exactly what they're paying for." We think that pricing transparency will be resolved as outsourcers start to measure things that business users value -- like business process improvements instead of server uptime.

## ENDNOTES

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- 1 Apps outsourcing is the most popular new initiative for next year. Outsourcing networks and desktops are the two most popular new infrastructure initiatives being outsourced in 2003.
- 2 The percentage of savings varied among clients who outsourced, with percentage of savings increasing as the scope and size of the deal increased.
- 3 American Express reported that it plans to spend \$4 billion on its outsourcing contract, with a goal to save \$400 million over the life of the deal.
- 4 We did not evaluate outsourcers' cost structures because pricing is so specific to each deal.
- 5 ACS and Unisys were also unable to provide R&D information.

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## Forrester Events

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How To Evaluate And Fix Your  
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Cambridge, Mass.  
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Register by July 1, 2003, and qualify  
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Executive Strategy Forum 2003

Boston, Mass.  
October 27-29, 2003  
Register by August 15, 2003, and qualify  
for an early registration discount.