

Outsourcing Service Provider Performance Study 2007 – BeLux

A Morgan Chambers Management Summary

MorganChambers



Introduction

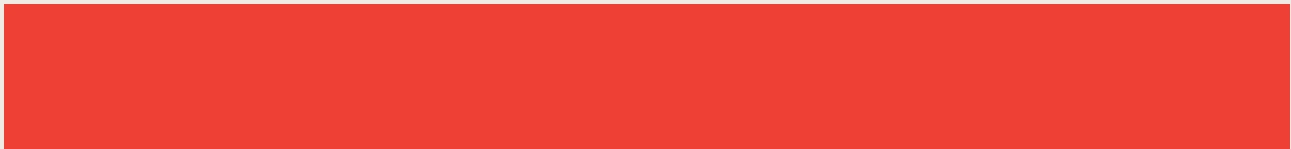
For the fifth consecutive year, Morgan Chambers has conducted an in-depth investigation of the BeLux market for Outsourcing services. Each year, the executives responsible for managing the contracts with their service providers provide their opinion on provider performance and Outsourcing trends. The study is carried out in the most mature Outsourcing markets in Europe: the United Kingdom, Belgium/ Luxembourg, the Netherlands and the Nordic region.

The results prove insightful for both parties in the Outsourcing relationship. End user organisations can compare their Outsourcing plans to the market as a whole and in addition can assess strengths and weaknesses of their current suppliers.

On the other side of the table, service providers use the results of the study to reflect upon portfolio choices and go-to-market strategies. In today's increasingly competitive environment only the largest providers can maintain a one-stop-shop approach, with other providers needing to clearly define their client segments and service portfolios. The results of this study can assist in making choices on where to invest and in developing and improving Outsourcing services.

This study is based on perception. Results reflect the opinion of key decision makers in client organisations. Scores are not based on actual delivery of services that can be measured objectively; rather the results reflect the feelings and perceptions of the decision makers based on provider performance. Service providers can use this information to identify gaps between opinions at the management level and performance on the delivery level. As such, the research approach reflects the reality that satisfaction of clients is not only based on objective measurement of performance alone.

Morgan Chambers conducts these investigations in order to advance the Outsourcing decision making process and help improve relationship performance. Let the results of this study help you to determine the right path to successful Outsourcing. This year over 300 contracts were evaluated in the BeLux market.



Summary

Management summary

The results of this year's study confirm that Outsourcing will continue to gain importance within organisations. At the same time the changing dynamics of the market like 'globalisation' and 'specialisation' will impact the Sourcing strategy. Success in Outsourcing, both for clients and providers, depends on adapting to new circumstances. Through the input of client organisations in the BeLux region, this report demonstrates why and how.

The major findings of the study include:

- Outsourcing is on its way to being fully embraced by Belgium, 63 per cent of companies intend to outsource more.
- Business Process Outsourcing is still on the agenda of executives, 20 per cent of the participating companies are considering BPO.
- Shortage of skills is the main driver for Application Management Outsourcing.
- Multi-Sourcing is increasing. This will have a serious impact on the revenues of the major suppliers and offer greater opportunities for niche players.
- More and more services will be delivered through global Sourcing models. Indian service providers are most successful in this domain for the moment.
- General satisfaction is poor for many of the largest players (IBM, HP, CSC) while local and niche players are the best performers in this study. Indian providers are gaining increasing market share and have a current annual deal value of over 100 million euro in the BeLux market.
- Relationship management and quality improvements are key to satisfying clients – meeting SLAs is nowhere near enough.
- Governance skills are becoming increasingly important. Clients however are overestimating their supplier management skills and underestimate the importance of executive sponsorship.

The key observations of the study can be grouped into four areas:

1. The increasing importance of Outsourcing
2. The increasing impact of globalisation
3. Governance is still underestimated
4. With performance under pressure, providers should decide on service portfolios

The most prominent conclusions from each of these sections are summarised below.

1. The increasing importance of Outsourcing

Since the inception of this study Outsourcing has been increasingly embraced by companies in the BeLux region. Given the fact that a number of organisations still do not outsource and the majority of participants in this study will outsource more, growth in this market is certain to continue in the years to come. With increasing use comes a certain level of commoditisation. Organisations know what to expect and have learnt how to use Outsourcing as a delivery mechanism. However, current satisfaction levels show that although standardisation can bring certain cost advantages it can also bring a level of rigidity that can impact business growth. New contracts will have to find a balance in cost awareness and supporting business growth.

Each year we conclude that price has little impact on general satisfaction. It seems that costs are less important in relation to other KPIs once contracts are signed; the impact of creating new cost savings on overall satisfaction diminished compared to last year. This is an indication that clients are ready to focus less on the cost side and more on the value side of the deal. A welcome shift and just in time, because important technological innovations need to be included in

new contracts. Missing out on these developments will impact end-user satisfaction, hamper much needed change and ultimately hurt general satisfaction. Clear winners will be the clients and providers who together develop solutions that drive business growth and at the same time consolidate technological platforms to drive out inefficiencies and unnecessary costs.

2. The increasing impact of globalisation

The results of this year's study show that offshore providers are continuing their strong performance in satisfying their clients and participants indicate that they will increase the use of offshore mechanisms. Indian providers in particular can take advantage of this intention. India is on the top of the list of countries to outsource to and the providers can backup their proposition with a satisfied client base in the BeLux market. Major providers will feel increasing head-to-head competition in the local market and have to find appropriate answers. It is therefore not surprising that providers like Accenture and Capgemini expect to grow exponentially in India to make global Sourcing a reality for their client base.

3. Governance is still underestimated

For the first time, we invited all the providers being reviewed in this study to rate the relationship management skills of their clients. These results are in sharp contrast to those presented when asking the same question to the clients themselves. Interestingly enough, both providers and clients agree that having the right governance structure in place is one of the most important prerequisites for successfully managing suppliers. However, providers and clients disagree in pinpointing other requirements. Clients put the emphasis on experience while providers indicate that absence of executive sponsorship is much more important.

Governance skills are becoming increasingly important for organisations. The changing dynamics of the market requires organisations to continually check if the Sourcing strategy is being successful or needs to be adjusted. Market forces like globalisation, scarcity in local IT-skills and Outsourcing complete business processes cannot be managed without appropriate skills. Clients must take a business wide perspective of their Outsourcing arrangements. Risk management, communication and value management for the business and other stakeholders, are essential elements of good governance.

Currently, client organisations seem to overestimate their own supplier management skills. The support of internal stakeholders is especially underestimated. The existence of executive sponsorship is according to providers one of the cornerstones for successful Sourcing and clients that do have the right skills seem to support this view.

4. With performance under pressure, providers should decide on service portfolios

In a maturing market, clients become more demanding. This can be concluded from the individual performance of providers in this study.

A concurrent phenomenon is the move towards multi-sourcing in which several providers operate simultaneously; larger Outsourcing contracts are cut into smaller, focused areas and each area is awarded to the provider with the best matching qualities. The days of one supplier taking everything in a multi-year contract are over. Just like examining their core competencies, clients are assessing the core capabilities of their suppliers.

It is interesting to notice that providers with a focused portfolio perform quite well in the study. These niche players are well positioned to win contracts if organisations bring specialised processes to market.



Recommendations

Next steps in Outsourcing performance

The results of the study call for immediate action.

Recommendations for clients

1. Have a Sourcing strategy and keep it current

Too often Sourcing initiatives are started without having a proper strategy in place. Important issues that are easy to miss include the cultural aspects, the assessment of providers based on historical performance, the readiness of processes to be outsourced, appropriate risk management and a well established link with related business strategies. Reviewing the Sourcing strategy should be a scheduled activity.

2. Safeguard flexibility

Changing business dynamics will have a knock-on impact for requirements in the services environment. Sourcing objectives may well be quite different two years into an agreement and as such it is essential to build enough flexibility into contracts to allow for change. Recognise that flexibility is not only a contractual, but also a financial matter.

3. Allow a healthy margin to the provider

Experience shows that almost all agreements fail if the provider is not able to realise a decent profit on the deal. If a client squeezes the margin of the provider, the provider will have limited room for manoeuvre. The result will be a frozen technological environment without the needed innovation and the relationship will suffer. Successful Sourcing is the result of creating a win/win environment that includes the proper financial rewards, without abuse but with justified trust.

4. Prepare to gear up for offshore Sourcing

Organisations expect the financial advantages of global Sourcing but sometimes fail to see that proper preparation is needed to access these rewards. The Sourcing strategy and the related processes have to be adapted to the new reality of global delivery. A clear understanding of the challenges associated with global delivery is needed as well as the advantages and disadvantages of specific location choices.

5. Invest in governance skills

A well thought through contract does not guarantee an effective Sourcing relationship. Execution of the underlying strategy is what counts. Clients have to invest in governance capabilities to ensure that they receive the agreed upon services and service levels. Even the best contract with the best supplier will not be successful if the right governance capabilities are not present within the client organisation.

Recommendations for providers

1. Respect your SLAs

Delivering the agreed upon quality is the absolute bare minimum in an effective Sourcing relationship. Keep in mind that respecting SLAs is not the goal but a starting point for customer satisfaction. Meeting SLAs is not a qualifier to get a contract, but it is absolutely a disqualifier if contracts need to be renewed.

2. Invest in relationships

Managing the relationship is closely related to customer satisfaction. Promises should be kept and therefore commercial and delivery management need to be closely aligned. Involve the client in important decision making and ensure your organisation takes note.

3. Improve your global delivery models

A global delivery model is not just a matter of available resources in an offshore location. It is not enough to buy an offshore based company to be able to offer a global service model. The entire delivery model within the organisation needs to be adapted for global Sourcing; factoring in cultural, financial and productivity issues for offshore location.

Profile of respondent group

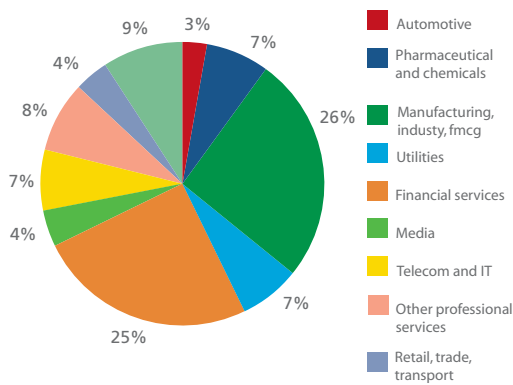


Fig 5.1 Sector

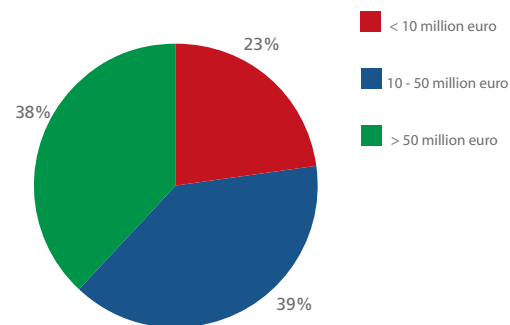


Fig 5.2 IT spend

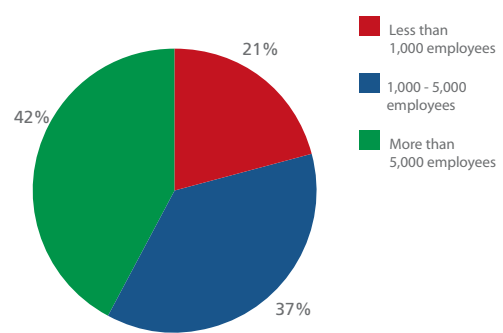


Fig 5.3 Employees

Morgan Chambers' qualifications for conducting this research

Based in the heart of Europe, Morgan Chambers is the leading independent Sourcing advisory firm, combining world-class specialist knowledge with global reach. For over a decade, Morgan Chambers has advised companies on their Sourcing strategies enabling them to make positive decisions that materially affect their competitive advantage. Our people have taken Sourcing decisions at the highest levels, both as buyers and sellers. We use this experience and expertise to provide practical advice that is knowledgeable, insightful and impartial, exploring all the options to guide you in achieving the most flexible and sustainable solution for you and your business.

Differentiated by our deep practical understanding of the Sourcing process, marketplace and business environment built up through more than 1,000 client engagements across 60 countries worldwide – we deliver measurable results. In every one of these engagements, Morgan Chambers' consultants work in a collaborative partnership with our clients to create sustainable value and demonstrable business benefits. This does not necessarily mean recommending Outsourcing: a fifth of our clients opt for an in-house solution for the capabilities they need. Our successful track record of value delivery has seen us grow into the leading European-based Sourcing advisory firm sharing over 700 years of practical Sourcing experience.

About Morgan Chambers

Established in 1994 with a single purpose – to provide high quality, practical and totally independent advice on the best client Sourcing solutions, Morgan Chambers remains true to these principles today.

We employ business and service delivery experts who passionately believe that balanced Sourcing strategies deliver sustainable business advantage and huge flexibility. Whether in-house, Shared Services or utilising external suppliers, we drive innovative, accountable and measurable solutions.

Europe's leading specialist Sourcing advisory firm, we employ consultants at eight offices world-wide. With more than 1000 client engagements in over 60 countries, we have unrivalled experience in achieving successful results.

www.morganchambers.com

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