



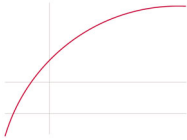
# Strategic Outsourcing: Current Practices & Future Expectations

**SUMMARY REPORT:**

**CSC SURVEY OF SENIOR EXECUTIVES  
FROM EUROPE'S TOP 250 BUSINESSES**

**October 2003**





# Key Findings and Messages

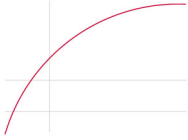
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# 1 Approach and Methodology

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- This is the first survey to give a “snapshot view” of the Strategic Outsourcing activities of Europe’s biggest companies.
- The study helps Europe’s business leaders to understand:
  - The maturity of Strategic Outsourcing across different European regions;
  - The ways in which other leading companies view their future business challenges and how they are preparing to meet them;
  - The services that other companies have outsourced, the scale of contracts that have been used and the results that have been achieved;
  - The drivers behind the future Strategic Outsourcing intentions of their peers;
  - The likely future trends in Strategic Outsourcing across Europe;
  - How other companies manage Strategic Outsourcing in order to deliver successful results.
- The survey focused on “Strategic” Outsourcing, by which we mean sourcing arrangements that companies engage in which have a significant impact on their business results and how these results are achieved.
- We chose contracts of five years or longer believing that these represent significant long-term business relationships and that these are more likely to be “strategic” than shorter-term contracts.
- The survey targeted the biggest European-owned businesses as defined by the *Financial Times* European Top 250 listing for 2002.
- We decided to limit the study to the use of Strategic Outsourcing by commercial business, believing that the motivations and expectations of business leaders would be broadly similar but different in some key aspects from the perspectives of the government sector.
- The survey was mailed at the end of May 2003 and responses were collected during June and July 2003.
- A 20-question survey document was mailed to the CFO, COO and CIO of the target companies. The questionnaire was split into three sections addressing the following areas of interest:
  - Section 1 – How prepared businesses are to face their future challenges;
  - Section 2 – The experience and trends in the use of Strategic Outsourcing;
  - Section 3 – The ways in which companies manage their Strategic Outsourcing relationships.
- A simplified survey document was mailed to the CEO of the target companies. All questions in the CEO survey were included in the main questionnaire, enabling us to compare responses from CEOs with those of other executives.
- The survey has been underpinned by a rigorous analytical approach.



## 2 Survey Responses

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- In total, we had responses from 62 companies representing the views of one quarter of the top 250 businesses in Europe.
- We received responses to the survey from all major countries in Western Europe. More responses were received from the UK than any other country. There were also significant responses from France, Italy, Belgium and Germany.
- In terms of industries, Financial Services contributed the most responses. The second largest sector in terms of survey responses was Telecoms.



## 3 Key Findings – Preparing for the Future

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- Today, businesses face tougher challenges than ever before.
- In terms of executives' perceptions of competitive pressures, not surprisingly a significant majority feel that these will either increase or increase significantly over the next three years.
- The combined pressures of relentless global competition and the ever-increasing pace of change mean that businesses can never rest from the job of working out how they will navigate the challenges of the future.
- CEOs have a greater tendency to think that competitive pressures will significantly increase than do other executives.
- 40 per cent of CEOs think that their strategy needs either revisions or major revisions.
- One interpretation of these findings is that the unprecedented pace of change in business means that strategy processes traditionally used by large companies are failing to deliver what is needed in today's business environment.
- Innovation is a more critical capability for business than ever before.
- If you want to stay ahead of the pack, and have products and services that excite customers and represent value for money, you have to keep innovating.
- Executives believe that Strategic Outsourcing is currently a more important business tool than was the case five years ago, and that importance will continue to grow over the next three years.
- The increasing use companies are making of Strategic Outsourcing suggests that this must be at least part of the way in which companies are seeking to meet their ever-increasing challenges.
- Looking three years ahead, nearly 70 per cent of CEOs think that Strategic Outsourcing will be either important or very important, in terms of improving business results.
- UK executives clearly think that Strategic Outsourcing is currently more important in improving business results than do executives from elsewhere in Europe.
- After Northern Europe, the regions are ranked in the following way in terms of their views about the future importance of Strategic Outsourcing:
  - Central Europe; Western Europe; Nordic; Southern Europe.

## 4 Key Findings – Using Strategic Outsourcing

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- Overall, 57 per cent of the largest companies in Europe use Strategic Outsourcing.
- UK companies make more use of Strategic Outsourcing than do companies elsewhere in Europe. In the UK, 75 per cent of companies make use of Strategic Outsourcing. This compares to 38 per cent of the companies in the rest of Europe.
- There are clear indications that the German market, closely followed by the French market, will expand considerably during the next three years.
- 11 per cent of UK companies reported that their first Strategic Outsourcing contract started more than seven years ago.
- There were no responses from elsewhere in Europe where the first Strategic Outsourcing relationship started more than seven years ago.
- The peak for companies across Europe entering their first Strategic Outsourcing relationship was between 1998 and 2000.
- This data suggests that the other European markets will continue to develop over the next three years as they approach the level of maturity of the UK market.
- Telecoms companies that participated in the survey are typically much more likely to have Strategic Outsourcing contracts than Financial Services companies.
- 71 per cent of Telecoms companies report having Strategic Outsourcing contracts while 40 per cent of Financial Services companies report having Strategic Outsourcing contracts.
- The average contract value reported for Strategic Outsourcing relationships across all survey responses was Euro 279 Million.
- Companies with contracts above Euro 100 Million see Strategic Outsourcing as more important in improving business results than companies with smaller contracts.
- The results from this survey show clearly that reducing and controlling costs is consistently the main objective behind Strategic Outsourcing decisions.
- However, looking forward, we can see two areas – improving business and IT flexibility and enabling business transformation – emerging as becoming significantly more important objectives for Strategic Outsourcing.
- This may prove challenging for both customers and providers of Strategic Outsourcing services as the agendas of cost reduction and control, and flexibility and transformation, often seem to pull in opposite directions.
- Customers are most happy with the traditional Strategic Outsourcing value propositions of being able to deploy standard solutions and improve service delivery.

- Nearly two thirds are happy with their provider's abilities to reduce and control costs, rating the performance of their providers as either meeting or exceeding expectations in this area.
- The two areas in which customers are least happy with their provider's ability to deliver are improving business and IT flexibility and enabling business transformation.
- Strategic Outsourcing providers will have to step up to the challenge of demonstrating that they can deliver in these two critical areas, especially as these are the areas that customers will place more importance on over the next three years.
- Today, Europe's top businesses make less use of Business Process Outsourcing than they do of IT Outsourcing.
- In IT Outsourcing, although customers make more use of Infrastructure Outsourcing than they do of Applications Outsourcing, they are much happier with the results in the Applications Outsourcing area.
- Looking forward three years, there is an increased desire for Strategic Outsourcing to enable business transformation.
- There will be a greater demand for IT Transformation (72 per cent of survey respondents will be seeking either significant changes or radical transformation in IT).
- There will also be a significant demand for Strategic Outsourcing to help achieve Business Transformation (47 per cent of survey respondents will be seeking either significant changes or radical transformation in business).
- Three main reasons emerged as to why some companies do not outsource:
  - High level of satisfaction with internal services;
  - Control of key areas of the business should be kept within the company;
  - Feeling that contracts of five years are too long. This finding suggests that in today's fast-changing business environment, a significant number of executives believe that it is not possible to predict what will be best for their businesses beyond a short-term horizon.



## 5 Key Findings – Managing for Results

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- Any Strategic Outsourcing relationship between a customer and a provider goes through four distinct logical stages:
  - Sourcing Approach, where the customers’ overall approach to using external partners to provide required services is defined;
  - Selection Approach, where the ways and means of deciding who to partner with are defined;
  - Negotiation Approach, where the approach to shaping the deal with the chosen supplier is defined;
  - Management Approach, where the ways in which the relationship with the chosen supplier will be managed over time are defined.
- While nearly half of companies reported that they had explicit approaches to Sourcing Management, only one third of companies have an explicit approach to negotiation.
- It seems surprising that relatively few companies have thought through guidelines to ensure that they get the best deal from suppliers during contract negotiation.
- Interestingly, 20 per cent of companies reported that members of the board make Strategic Outsourcing decisions. While this may be expected for relatively large deals, we could find no correlation between companies that reported that members of the board make the decisions and those which reported having larger-value contracts.
- In both the selection and management of Strategic Outsourcing partners, companies believe that they use more effort than average.
- Looking forward, companies clearly want to engage with multiple “best of breed” Strategic Outsourcing partners. This may suggest that the benefits of using “best of breed” suppliers are easy to see and that executives have not thought through some of the potential drawbacks such as the potential management overhead involved.





## 6 Conclusions

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- Strategic Outsourcing is a key corporate response to intensifying business pressures. As competitive pressures grow over the next three years, so will the importance of Strategic Outsourcing as a tool for delivering business results.
- During the next three years, the German and French markets will increasingly emulate the British use of Strategic Outsourcing.
- Reducing costs will continue to be the main driver behind Strategic Outsourcing decisions. However, improving flexibility and transformation of the business and IT will become increasingly important objectives.
- Most companies that have outsourced are happy with the results; however, the amount of effort put into Strategic Outsourcing work does not seem to be reflected in the quality of the results.
- Being able to reliably deliver the results needed from Strategic Outsourcing will become a key core competence for business over the next three years.
- Businesses will seek to gain the perceived benefits of using multiple “best of breed” suppliers without incurring the penalties of additional time and effort in the selection and ongoing management of Strategic Outsourcing providers.
- Newer models of Strategic Outsourcing based on consortia and alliances will emerge that provide access to specialist suppliers through a single point of contact and management.