

Unisys Outsourcing Study

Unisys Outsourcing Study: Global Results

Conducted by:
IDG Research Services Group

Research Overview and Methodology

This study was conducted on behalf of Unisys to gain a better understanding of outsourcing practices and metrics among large organisations. The research was conducted in the US and Europe among senior IT management respondents at companies with annual revenues of US\$1 billion or more.

In the US, the sample for this study was selected on an *n*th name basis among qualified *CIO* magazine subscribers, while in Europe names were selected from the Dun & Bradstreet file. Respondents were screened for appropriate titles and company size criteria as described above. In both markets, Unisys also provided lists of target accounts. Quota sampling was employed in the US and Europe to ensure that at least 60 surveys in the US and 40 surveys in Europe were completed among Unisys target accounts.

The US study was conducted via the Internet beginning on February 8, 2006 with an email broadcast to approximately 15,000 qualified *CIO* magazine subscribers. Each sample member received a unique URL link to access the survey. A reminder broadcast was sent to non-respondents one week after the initial survey invite to boost response rates. The study closed on February 21, 2006 with a total of 222 qualified completed responses. In addition a total of 75 interviews was completed in Europe during February, 2006 (25 in the UK and 50 in central Europe). The margin of error for a sample of 297 at the 95% confidence level is +/- 5.69 percentage points.

Outsourcing Environment

- Nine out of ten respondents currently engage ITO services (90%), while nearly six out of ten engage BPO services (58%). European respondents outsource BPO services significantly more often than US respondents (77% vs. 51%). In addition, European respondents are significantly more likely than US respondents to outsource the following ITO services:
 - Mobile infrastructure management (48% Europe vs. 10% US)
 - Security (36% Europe vs. 11% US)
 - Communications/networking (57% Europe vs. 29% US)
 - Disaster recovery/backup (55% Europe vs. 29% US)
 - Desktop (39% Europe vs. 29% US)
 - E-business/intranet (39% Europe vs. 28% US)
 - Data center (36% Europe vs. 27% US)
- Among those considering outsourcing, ITO tops BPO (59% to 35%). US respondents are significantly more likely to consider outsourcing ITO services in the future (69% US vs. 28% Europe).
- In keeping with these findings an average of 66% of respondents' total outsourcing spending in 2006 will be allocated to IT outsourcing, and 34% will be allocated to business process outsourcing. US companies spend more on average on IT outsourcing (70%) than European companies (53%). Overall, US companies allocate the majority of their spending to IT outsourcing, while spending at European companies is more evenly distributed between ITO and BPO services:

	US	Europe
Ave. amount of spending allocated to ITO	70%	53%
Ave. amount of spending allocated to BPO	30%	47%

Outsourcing Outcomes

- When asked about their organization's expectations for outsourcing, respondents most often rate cost savings as an important outcome. The table below summarizes the proportion of respondents rating each potential outsourcing outcome as critical or high in importance:

% rating 5 or 4 where 5 = critical and 1 = not at all important

	Worldwide	US	Europe
Cost savings	82%	84%	77%
Improved IT effectiveness/focus on core competency	70%	70%	69%
Improved quality of service	63%	61%	68%
Enhanced business value	62%	70%	40%
Access to expertise	62%	61%	65%
Variable capacity	59%	64%	41%
Alignment with business requirements	58%	63%	44%
Improved risk management	46%	45%	47%
Improved IT transparency	37%	35%	43%

- Among those rating cost savings as important, *cost predictability*, *ability to consolidate resources*, *standardization*, and *shared services model* are the most commonly cited outcomes to achieve cost-related goals worldwide and in the US. In Europe, these are also among the top cost-related outcomes along with *management oversight costs* and *risk mitigation*.

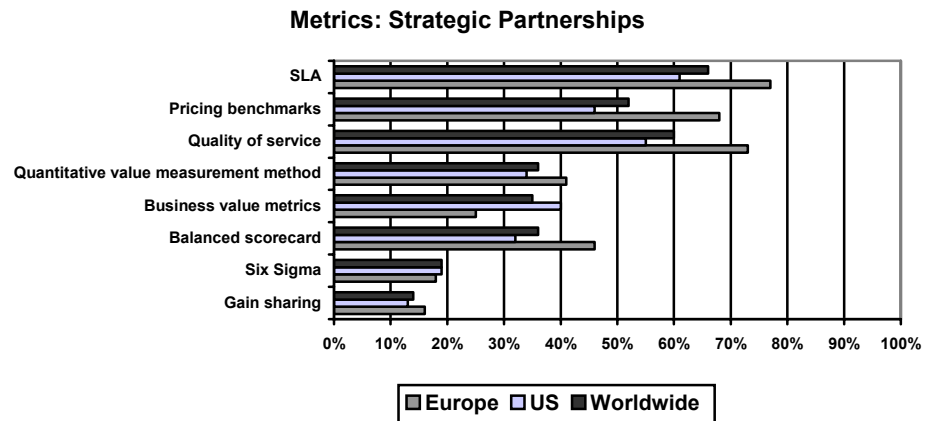
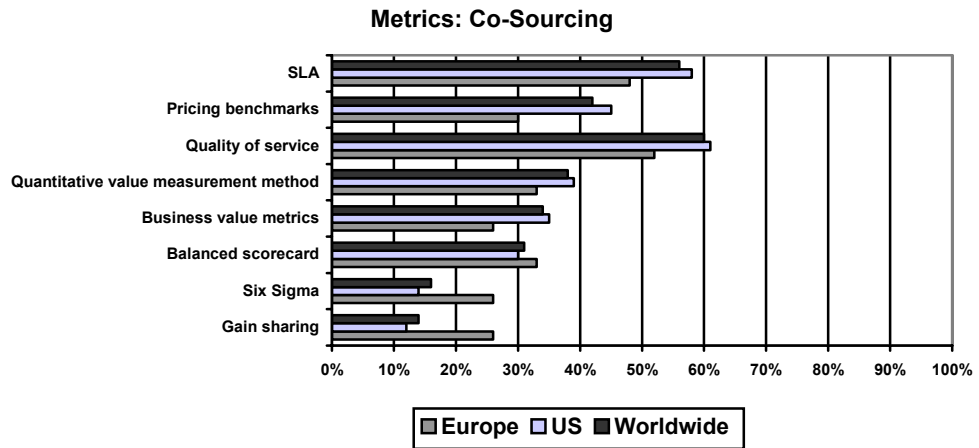
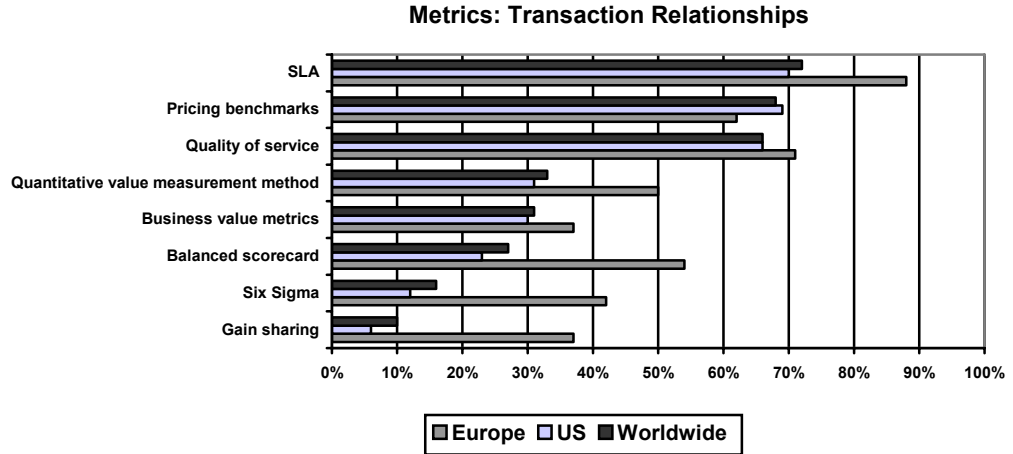
Types of Outsourcing Relationships

- Worldwide, transaction relationships (59%) are most common among respondent organizations, followed by co-sourcing (49%) and strategic partnerships (49%). These are also the most common arrangements in the US. In Europe, however, strategic partnerships are the most common.

	Worldwide	US	Europe
Transaction relationships	59%	68%	32%
Co-sourcing	49%	57%	25%
Strategic partnerships	49%	46%	57%

Outsourcing Metrics

The charts below should the outsourcing metrics used for each type of outsourcing relationship.



- Roughly six out of ten respondent organizations (58% worldwide; 60% in US and 51% in Europe) use the same tools for measuring the success of ITO and BPO relationships.
- Among those using quantitative value measurements to measure the success of their outsourcing relationships, ROI (70%) is most commonly used followed by IRR (38%), EVA (24%), NPV (24%), and return on employed capital (21%)*.
- Roughly half of the respondents using pricing benchmarks (53%) work with third-party partners, most often Gartner (74%).
- Respondents utilizing each outsourcing metric were asked to rate its effectiveness as a tool for measuring the success of outsourcing relationships. SLAs and quality of service are rated among the most effective outsourcing metrics.

% rating very or moderately effective

	Worldwide	US	Europe
Service Level Agreement (SLA)	82%	81%	84%
Quality of service	80%	79%	81%
Quantitative value measurement method	71%	71%	71%
Business value metrics	70%	70%	74%
Pricing benchmarks	69%	69%	69%
Balanced scorecard	69%	69%	68%
Gain sharing	65%	63%	70%
Six Sigma	67%	61%	77%

* Return on Investment, Internal Rate of Return, Economic Value Added, Net Present Value.

Other key findings

- Overall respondents most often report difficulty measuring or interpreting the following intangible benefits from outsourcing: innovation/thought leadership (47%), linking IT value to business value (39%), and continuous service improvements (36%). These are also the top three mentions in the US. In Europe, however, linking IT value to business value (40%) is mentioned most often followed by innovation/thought leadership (31%), risk mitigation (27%), security (27%), and access to resources (25%); continuous service improvements lags behind at 23%.
- Roughly one half of respondents (47%) rate their organization's ability to measure the impact of its outsourcing ventures on business value *excellent or good*. This number is slightly lower among US respondents (44%), and slightly higher among European respondents (57%).
- One-third of respondents (35%) work with third-party partners to put processes and metrics in place for measuring the success of outsourcing relationships. This is consistent across all geographic areas measured.
- More than one-half of the respondents (54% worldwide; 52% US and 60% Europe) are standardizing on definitions of processes (e.g., ITIL and/or CobiT) to illustrate the business value of outsourcing actions. With respect to the adoption of ITIL and/or CobiT, European organizations are more likely to have it fully deployed:

	Worldwide	US	Europe
Fully deployed/management phase (5)	5%	2%	15%
(4)	6%	5%	8%
Deploying (3)	23%	24%	21%
(2)	19%	22%	11%
Planning deployment (1)	17%	12%	31%
No deployment plans	30%	35%	15%

- Most of the respondents note there is very little definition around outsourcing metrics:

	Worldwide	US	Europe
Very transparent/clearly linked to corporate business goals (5)	5%	4%	9%
(4)	15%	15%	17%
(3)	39%	35%	51%
(2)	25%	28%	17%
Very little definition around outsourcing metrics/vendor-driven (1)	15%	19%	5%

Respondent Profile

- Respondents most commonly hold the following job titles:

	US	Europe
CIO/CTO/CSO	11%	21%
Exec VP/VP IT/Networking/Communications	24%	8%
Director/Manager IT/Communications	45%	68%
IT Consultant/Systems Integrator	13%	3%
Business Unit Management (non-IT)	8%	0%

- The average company size of respondent organizations is US\$14.8 billion worldwide (US\$16.9 billion in the US and US\$8.3 billion in Europe). Worldwide, respondent companies employ an average of 44,210 employees enterprise-wide (45,850 employees in US companies; 39,300 employees in European companies).
- Respondents report that an average of 65% of their total employee base requires IT management support (64% in the US and 68% in Europe).
- European companies report that 74% of their employees, on average, use desktop PCs and 26% use laptops.
- Top industries responding include manufacturing and finance.