The Future of IT Sourcing
Finanstilsynset Seminar

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Sourcing: Time for Change

70% will change their technology and sourcing relationships in the next 2 to 3 years for a variety of reasons...

- Price/Price Structure: 57%
- Service Quality: 55%
- Flexibility: 52%
- Ability to Partner: 46%
- Innovation: 45%
- Scale: 28%

46% need to work with new categories of partners, for example...

- Mobility
- Cloud
- Digital Agency
- Big Data
- Analytics
- Social

"IT sourcing strategies must be structured to enhance IT agility and address the needs of digital businesses. Organizations that don't adapt their strategies, and the competencies required to execute them effectively, will fail to achieve the value opportunities presented by a highly digitalized future."

— Ian Marriott, Gartner Research VP
The content

• The future of IT sourcing in a digital word
• The digital sourcing strategy
• Core IT processes and competencies you never outsource
• A changing and evolving vendor landscape
We Are Entering a Third Era of Enterprise IT

**Focus**
- **IT Craftsmanship**: Technology
- **IT Industrialization**: Processes
- **Digitalization**: Business models

**Capabilities**
- **IT Craftsmanship**: Programming, system management
- **IT Industrialization**: IT management, service management
- **Digitalization**: Digital leadership

**Engagement**
- **IT Craftsmanship**: Isolated, disengaged internally and externally
- **IT Industrialization**: Treat colleagues as customers, unengaged with external customers
- **Digitalization**: Treat colleagues as partners, engage external customers

**Outputs and Outcomes**
- **IT Craftsmanship**: Sporadic automation and innovation, frequent issues
- **IT Industrialization**: Services and solutions, efficiency and effectiveness
- **Digitalization**: Digital business innovation, new types of value
The IT services market will be reshaped by the consumerization and digital business transformation opportunities. Winning providers will find unexpected sources of growth helping clients exploit such opportunities, enabled by the Nexus of Forces.

Read the full research document: "Agenda Overview for the IT Services Market, 2014" (G00259488)
The Market Will Not Grow Uniformly — Market Segments Collide and Cannibalize

Top 5 Fastest % Growing

<table>
<thead>
<tr>
<th>2013 Market Size ($B)</th>
<th>2013-2017 Growth ($B)</th>
<th>2013-2017 CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloud Compute IaaS</td>
<td>$7.5</td>
<td>$19.4</td>
</tr>
<tr>
<td>Cloud Storage as a Service</td>
<td>$1.6</td>
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</tr>
<tr>
<td>Cloud Print Services</td>
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<td>Procurement BPaaS</td>
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<td>$0.3</td>
</tr>
<tr>
<td>Accounts Payable BPaaS</td>
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<td>$0.7</td>
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</table>

Top 5 Greatest Absolute $ Growth

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Cloud Compute IaaS</td>
<td>$7.5</td>
<td>$19.4</td>
</tr>
<tr>
<td>Commercial Application Implementation</td>
<td>$68.9</td>
<td>$14.7</td>
</tr>
<tr>
<td>Hosting</td>
<td>$27.7</td>
<td>$13.7</td>
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<tr>
<td>Custom Application Implementation</td>
<td>$91.7</td>
<td>$11.3</td>
</tr>
<tr>
<td>Applications Consulting</td>
<td>$35.2</td>
<td>$10.2</td>
</tr>
</tbody>
</table>

IT Services Market 4.9% CAGR

Size of bubble = $4.5 billion in 2013-2017 absolute growth
European Organizations' Outsourcing Drivers: A Multidimensional Challenge

IT Outsourcing Drivers

- Cost Takeout/Predictability: 46%
- Improve Service to End Users: 45%
- Focus on Core Business: 39%
- Speed/Flexibility/Innovation/Agility: 33%
- Align Business and IT Goals: 30%
- Technical/industry Expertise: 27%
- Free Internal Staff for strategic tasks: 26%
- Fund Projects through Outsourcer: 16%
- Senior Executive Mandate to outsource: 13%

All ITO Satisfaction

- 6-7 Extremely Satisfied: 38%
- 5 Just Satisfied: 32%
- 3-4 Unsatisfied: 24%
- 1-2 Extremely Dissatisfied: 6%

Outsourcing Satisfaction

Source: "IT Outsourcing in Europe: Opportunities Exist, but Handle With Care," G00166012 (Europe 310)
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And thought, if we did those things well, we "did good."
And we were done ....
Then Two More Dimensions Added: Significant India Involvement and Impact

And thought we were good. And done....
The Gartner IT Services Sourcing Cycle

1. Sourcing Strategy
2. Evaluations and Selections
3. Contract Negotiations
4. Sourcing Management

Business Process Services
Application Services
Infrastructure Services
Cloud Services
Continued Global Economic Challenges

Round 0: Let's outsource the "commodity" work
"Help us manage 'run the business' stuff, and they did."

Round 1: We asked vendors to move up the value chain.
"Support us in higher-value work, and they did — when they had spare resources."

Round 2: We asked vendors to partner with us
"Help us drive enterprise growth and optimize cost." Vendors said, "Your engagement isn't large enough."

Round 3: We examined our delivery needs and delivery methods
"Do we really need customized delivery?"

Round 4: We embraced new delivery models/methods
"Industrialized services, low-cost IT and the cloud became more palatable."

Difficulty

Value
Multisourcing is emerging as the dominant model for sourcing relationships of the future.

Most clients now have three to five major service providers, along with another five to ten suppliers they work with on a regular basis.

Gartner expects this number to increase dramatically, especially as clients start to contract with more cloud service providers. This will add further complications to multiple vendor management.

To manage this complexity clients are increasingly defining Multisourcing Service Integrator (MSI) functions within their IT departments.

These MSI functions are typically distinct teams who take responsibility for coordinating delivery amongst a potentially diverse group of suppliers (this team can itself be an outsourced service).
The FSI Industry Shows A Variety of Sourcing Strategies

<table>
<thead>
<tr>
<th>Application Dev. &amp; Maintenance</th>
<th>Infrastructure</th>
<th>Networking</th>
<th>Data Centre Facilities</th>
<th>Desktop Mgmt</th>
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<tbody>
<tr>
<td>Outsourced</td>
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<td>Outsourced</td>
<td>Outsourced</td>
<td>Mix</td>
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<tr>
<td>Captive / Out-tasking</td>
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<td>Outsourced</td>
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<tr>
<td>Out-tasking</td>
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<td>In-house / Out-tasking</td>
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What You Should Never Outsource: The Three Key Rules

First Rule: Never Outsource or Lose Control of Managing Your Strategic Vendors

Second Rule: Never Outsource or Lose Your Capability to Manage a Multisourced Environment

Third Rule: Never Entirely Outsource the Sources of Your Competitive Advantage in the Market

1. IT Leadership
2. Architecture Development
3. Business Enhancement
4. Technology Advancement
5. Sourcing Management

- Leadership
- Innovation
- Differentiation
- Business Change
- End-to-end Services
The 5 sourcing management: A Services Perspective of the MSI/SIAM Role

Source: Gartner (January 2014)

KPI = key performance indicator; E2E = end to end; OLA = operating level agreement; MSI = multisourcing service integrator; SIAM = services integration and management; CSB = cloud service brokerage
Key Multisourcing Competencies to E2E Service and Vendor Management

- **Self Evaluation**
- **Process Maturity**
- **Skills, Loads, Behavior**

- 8% Only Master
- 42% Lack Execution
- 21% New Strategy
- 31% Considering Re-insourcing

- Your Capability
- Selective Outsourcing
IT roles will evolve to deliver more business value

- **IT services today**:
  - Innovate: 5%
  - Design and build: 25%
  - Operate: 70%

- **IT services in 2015**:
  - Innovate: 10%
  - Design and build: 40%
  - Operate: 50%

- **IT services in 2020**:
  - Innovate: 15%
  - Design and build: 50%
  - Operate: 35%
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• Revenue for eight of the top 25 ITO market share leaders declined in U.S. dollars during 2013. The top two market share leaders, IBM and HP, each lost market share. India-based providers and cloud-based service providers gained market share in 2013.

• We continue to see cloud-based providers and India-based providers gaining market share. We expect this trend to continue through 2014, even though growth is slowing for several leading India-based players who delivered high-single-digit ITO growth rates during 2013.
The Nordic Vendor landscape

- Infrastructure sourcing services:
  - *Data Center (accept RIM services)*
  - *Mainframe*
  - *Desktop*
  - *Network*
  - *Basic Operations*
  - *Application operation and support*

- AD- Application Development
- AM- Application Maintenance + Management

<table>
<thead>
<tr>
<th>Vendors</th>
<th>AD/AM</th>
<th>INFRA</th>
<th>Verticals</th>
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<tbody>
<tr>
<td>Accenture</td>
<td>X</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capgemini</td>
<td>X</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>CSC</td>
<td>-</td>
<td>X</td>
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<td>X</td>
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<td>HP</td>
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<td>X</td>
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</tbody>
</table>
Remote infrastructure management is a strong growth area for India-based providers, with revenue experiencing more than 40% growth on average.

India-based providers are still in the early stage of maturity in RIM capabilities as they continue to invest in automation and intellectual property.

**Figure 1.** India-Based Providers’ Revenue Distribution by Vertical Industry (Percent)

Source: Competitive Landscape: India-Based Remote Infrastructure Management Service Providers, June 2012, ID:G00229732
Remote Infrastructure Management capabilities for INFRA Vendors (HCL, Infosys and TCS) (2:2)

- On average, 70% of Infrastructure management revenue is from RIM
- Around 20% revenue come from Europe, 60% North America, rest is from Asia/Pacific

Source: Competitive Landscape: India-Based Remote Infrastructure Management Service Providers, June 2012, ID:G00229732
# EMEA: Top 10 ITO Providers by Market Share, 2013 (Millions of Dollars)

<table>
<thead>
<tr>
<th>2013 Rank</th>
<th>2012 Rank</th>
<th>Change in Rank</th>
<th>Vendor</th>
<th>2013 Revenue</th>
<th>2013 Market Share (%)</th>
<th>2012-2013 Revenue Growth Rate (%)</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>0</td>
<td>IBM</td>
<td>9,841</td>
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<td>2</td>
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<td>HP</td>
<td>4,782</td>
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<tr>
<td>3</td>
<td>3</td>
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<td>Atos</td>
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<td>4</td>
<td>4</td>
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<td>T-Systems</td>
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<td>5</td>
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<td>Capgemini</td>
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<td>9</td>
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<td>10</td>
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<td>CSC</td>
<td>1,899</td>
<td>2.0</td>
<td>-8.7</td>
</tr>
</tbody>
</table>

|       |          |                | **Top 10**| **40,067**   | **41.3**                | **1.0**                           |

Source: Gartner (May 2014)