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STRATEGIC MARKET PERSPECTIVE

Major Forces Shaping the European I.T. Services Market

Market Analysis Programme – Europe

1995

Major Forces Shaping the European I.T. Services Market

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Abstract

This report examines key trends which will have strategic impact upon the future shape of the market. The purpose of this report is to examine the changing shape and form of the information services business over the next five to ten years. Although the industry is being beset by enormous forces for change it is possible to discern a fundamental pattern emerging.

The report bases its conclusions on a review of the most important trends, namely:

- **Outsourcing:** this continues, despite skepticism from some quarters, to make striking inroads into conventional methods for running information systems

- **Re-engineering:** this contains many fundamental messages for all businesses and will continue to be a major factor as organisations experience change management

- **Support Services:** the emergence of this segment as a distinct and identifiable activity is likely to have as dramatic an impact on software support firms as the opening of the hardware support business had on equipment manufacturers in the past decade

- **The Internet:** although still in embryonic form, there are already signs that the market for Internet services will be immense

The report establishes a model for understanding the European IT services market. It also examines how Internet use can lead to the creation of successful business processes. In addition, it focuses on new outsourcing directions (desktop and network management), the impact of re-engineering on the system integration and outsourcing markets and software product support strategies.

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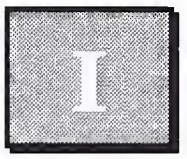


Introduction

The Information Services industry developed rapidly throughout the last fifteen years meeting little apparent difficulty in achieving high growth rates from a market presenting unlimited opportunities.

The second half of the 1990s is, however, ushering in a period of enormous change which will have a profound impact on the vendor community.

New communications services, notably those being made possible by the Internet, are creating mass consumer markets for personal communications opening up the possibility for innovative *business-to-business* and *business-to-person* electronic commerce.

However, traditional corporate and government markets will be characterised by increasing pressures on IT budgets. IT managers will continue to strive to deliver high value from their IT investments and operational costs in an increasingly cost competitive environment.

The vendor community is thus being faced with a new set of market realities to which they will need to adapt if they are to remain successful in optimising the enormous opportunities available in the run up to the next century.

In order to do this vendors must make key choices about their strategic development and about the kind of company they want to be in the twenty first century.

This report examines some of the most important trends shaping the European information services business over the next five years. It examines the impact of these trends on the strategic decisions that vendors will need to take about the kind of information services organisation they want to be.

This report argues that the information service business will polarise around a number of key fundamental types of service activity, delivery, support and operations.

In discussing these evolving developments this report also paints a picture of the likely nature and shape of the information industry in the year 2000.

INPUT expects only modest overall growth for a number of reasons:

- The industry is now of a size that high growth would mean huge incremental year on year *absolute* amounts compared to numbers ten years ago when the industry was in its infancy
- Areas of high growth are counterbalanced by large sectors with low or negative growth as the nature of the markets change
- The overall economic scenario is considered to be unfavourable with cost deflation leading to a continuing cost-cutting and value-seeking mentality unknown in the previous inflationary environment
- The switch from a technology-driven, demand-based market to an intensely cost-conscious model.

All of these factors will have significant impact on the development of the market over the next five to ten years.

A
Objectives and Scope

The purpose of this report is to examine the changing shape and form of the information services business over the next five to ten years. Although the industry is being beset by enormous forces for change it is possible to discern a fundamental pattern emerging.

The report bases its conclusions on a review of the most important trends, namely:

- **Outsourcing**: this continues, despite scepticism from some quarters, to make striking inroads into conventional methods for running information systems

- **Re-engineering**: this contains many fundamental messages for all businesses and will continue to be a major factor as organisations experience change management

- **Support Services**: the emergence of this segment as a distinct and identifiable activity is likely to have as dramatic an impact on software support firms as the opening of the hardware support business had on equipment manufacturers in the past decade.

These trends are compounded by two other more general forces: convergence and knowledge transfer. The impact on the information services industry of the convergence of communications, entertainment (content provision) and IT remains to be seen. But it is an event which will shape the future of the industry. Likewise, the indexation of intellectual capital within companies and the effective transfer of knowledge between and within organisations will provide competitive advantage for both major service vendors and their clients. These last two subjects are covered in depth in INPUT's *The European Software & Services Market Forecast, 1995-2000*. The use of multimedia for new approaches to education and training has accelerated this phenomenon.

B
Methodology

The data in this study was derived from the following combination of sources:

- A vendor research programme of over 600 interviews with key software and service vendors across Europe

- INPUT's extensive library and database of information relating to the European software and services market

- Further vendor and user interviews across European markets to determine trends and opinions within specific market sectors.

C
Report Structure

Chapter I outlines the scope and objectives of the report.

Chapter II consists of an Executive Overview which provides a model for understanding IT service frameworks and examines the benefits that Internet use can bring to organisations in their business processes.

Chapter III examines the impact of re-engineering on the information services industry, particularly its impact on systems integration and Outsourcing.

Chapter IV continues with an examination of two major new manifestations of Outsourcing: the impact of networking, particularly WAN Outsourcing and strategic Outsourcing.

Chapter V focuses on the development of the support services industry, particularly the effect of communications needs as the dominant paradigm of the future.

D
Related Reports

The European Software & Services Market Forecast, 1995-2000

IT Customer Services Market Trends and Forecast - Europe 1995-2000

Information Systems Outsourcing Market - Europe, 1995-2000

Reengineering - Impact on the European Systems Integration Market, 1995

Systems Integration Market - Europe, 1995-2000

Using the Internet for Business Processes

Software Product Support Market Trends and Forecast - Europe 1995-2000

In addition, subscribers to INPUT's research programmes receive regular updates on the activities and positioning of leading vendors in Europe.

II

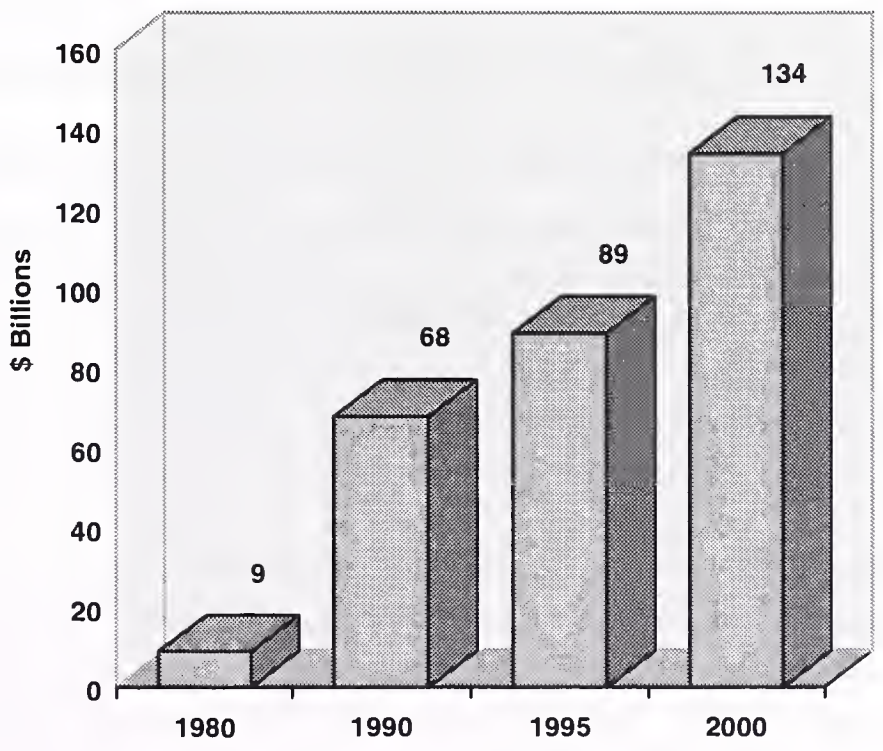
Executive Overview

A
Identifying Strategic Market Directions

Since its beginning, approximately forty years ago, the computer industry has grown enormously. The information services industry also developed particularly rapidly from the early 1980s (see Exhibit II-1). However, growth slowed markedly during the early 1990s ushering in an environment of increasing competitive pressures as users have demanded higher value from their IT investments and operational expenditures.

Exhibit II-1

European IT Services Market 1980-2000



Source: INPUT

We can expect the second half of the 1990s to continue to remain fiercely competitive for information services vendors. The future presents enormous opportunities but market conditions are likely to become increasingly volatile as new technologies and rapidly changing user requirements and preferences make sustained success more and more difficult to achieve.

Increasingly the computer business is becoming entwined with the *communications* and *content* businesses. Additionally, the consumer business for IT-related products and services is becoming increasingly important alongside the traditional government and commercial markets.

Faced with these new realities, particularly the expectation of continuing rapid change, information services vendors need to pay increasing attention to:

- Their strategic role within the information services market
- The choice of those critical areas in which they intend to offer world-class service levels
- The identification of appropriate market opportunities.

In order to support these objectives this chapter reviews the likely development of the information services business over the next few years. Its major themes are covered below:

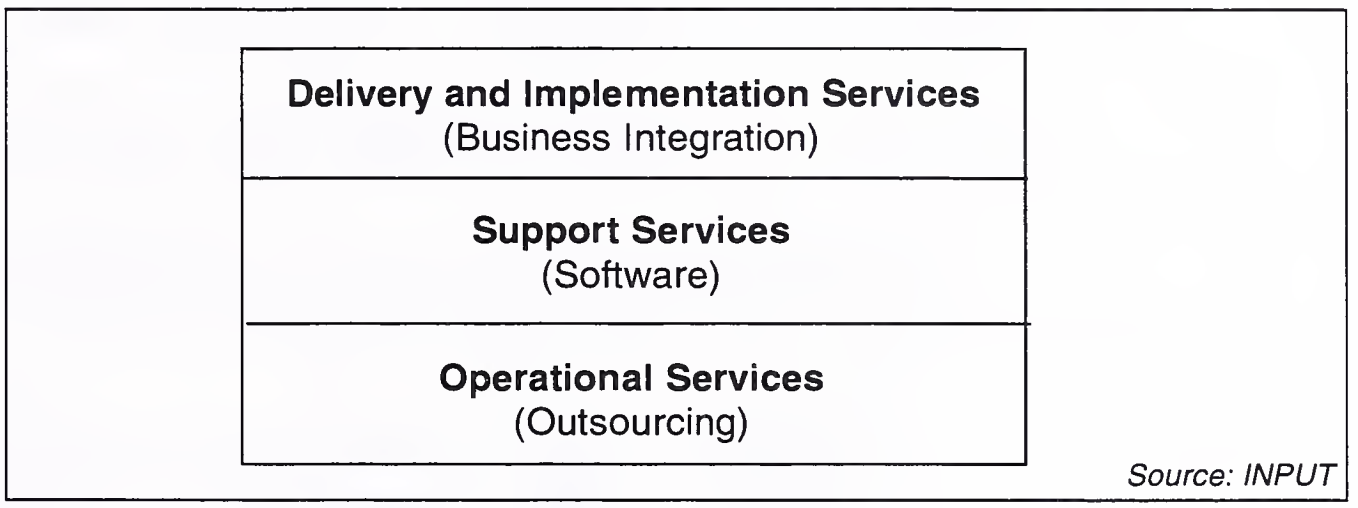
- The major components of the future information services market
- The boundaries of the information services industry and how that defines which opportunities should be targeted
- The role of the Internet in linking IT to business processes.

B
Evolving Service Models

As the information services industry continues to develop there is a constant influx of new firms impelled by technological developments on the one hand and entrepreneurial responses to new user needs on the other.

Exhibit II-2

Fundamental Information Services Industry Structure



Source: INPUT

However, despite the significant level of flux that can be observed in the vendor community, currently characterised by a significant level of merger and acquisition activity, service fundamentals remain immutable and consistent over the long term.

Consequently it is possible to identify at a high level three fundamental areas of service activity from which the total information services business is based. This fundamental structure is shown in Exhibit II-2.

In essence it can be observed that information services firms or major distinct divisions of larger organisations are separately targeting three distinct areas of activity viewed at this meta level:

1. The *delivery channel* through which *complete* systems are introduced and installed into the customer environment. In the early years of the industry this sector was represented largely by professional services (that tended to support direct product sales channels) and turnkey systems. Today, *systems/ business integration* has also become a significant delivery channel.

2. The *support* infrastructure that ensures that the fundamental software and hardware technology carries out the functions assigned - once represented by the hardware maintenance sector - is becoming increasingly concerned with *software product support* and whole system environment support.

3. The *operations* environment, manifested in the early years as the bureau business, is, of course, the focus of much greater interest as *outsourcing* continues to remain one of the key topics and issues in the approach to the 21st century.

Each of these areas has its own particular and enduring characteristics:

- The *delivery* sector is by its very nature event driven and exhibits the need for particular skills, notably project management

- The *support* sector requires the existence of logistics networks and, particularly today, the provision of sophisticated call monitoring systems and rapid response deployment infrastructure

- The *operations* sector has fundamentally been distinguished by the ownership of assets; computer bureaux operate physical and IT intellectual assets to provide remote services while outsourcing vendors are typically more fully integrated into the infrastructure of the client organisation; but both types of vendor do require an operational skills focus.

Recent reorganisations have served to underline the enduring nature of these fundamentally different services business models.

For example, the 1995 Unisys reorganisation created three distinct and separate operating entities. The largest will incorporate the hardware and software product division, the other two will focus on services - integration (*delivery*) services and global *support* services. Services within Unisys now account for 27% of revenue and are their single largest business area.

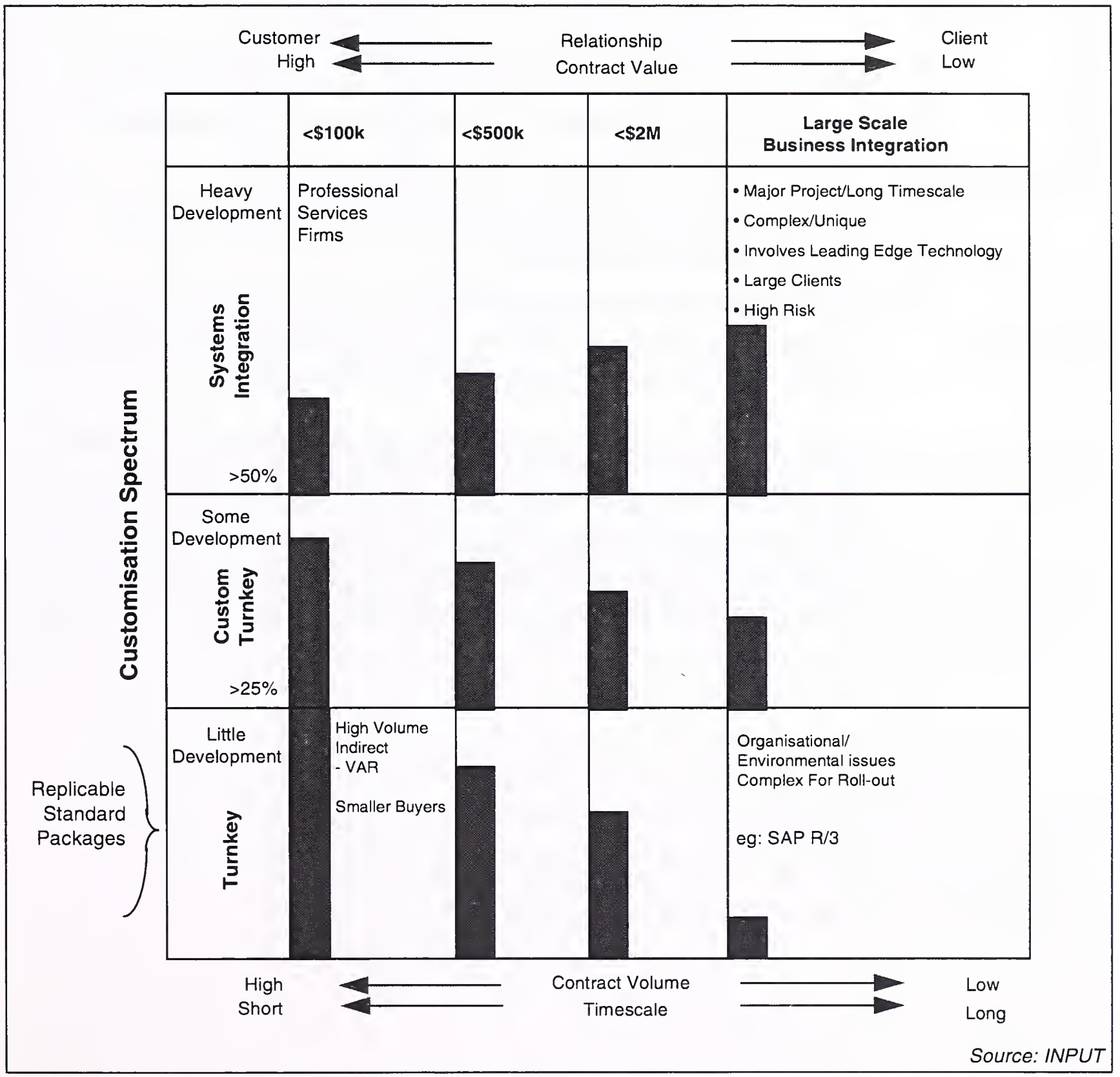
ICL's internal structure has adopted this model for some years. ICL Enterprises and Technology plc is essentially ICL's *delivery* mechanism, CFM is its *operations* arm and ICL Sorbus offers system and software *support*.

It needs to be recognised that each of these service meta-levels can be analysed further into important sub-sectors, some of which again have

significant differentiation between them with regard to the skill levels and management competence required. This is particularly true of the delivery sector, which resulting from commoditisation of products has been invaded by a variety of new delivery modes necessary for targeting different levels of customer needs and wants.

Exhibit II-3

Characteristics of the Delivery and Implementation Services Matrix



Source: INPUT

The character of the delivery services level is further analysed in Exhibit II-3. The bar charts represent the significance of the market in terms of contract potential.

Firms are compelled to address the opportunity represented by specific cells characteristics - the further away from these 'optimised cells' (core competencies) they stray, the weaker their offer.

C
Defining the Information Services Business Boundaries

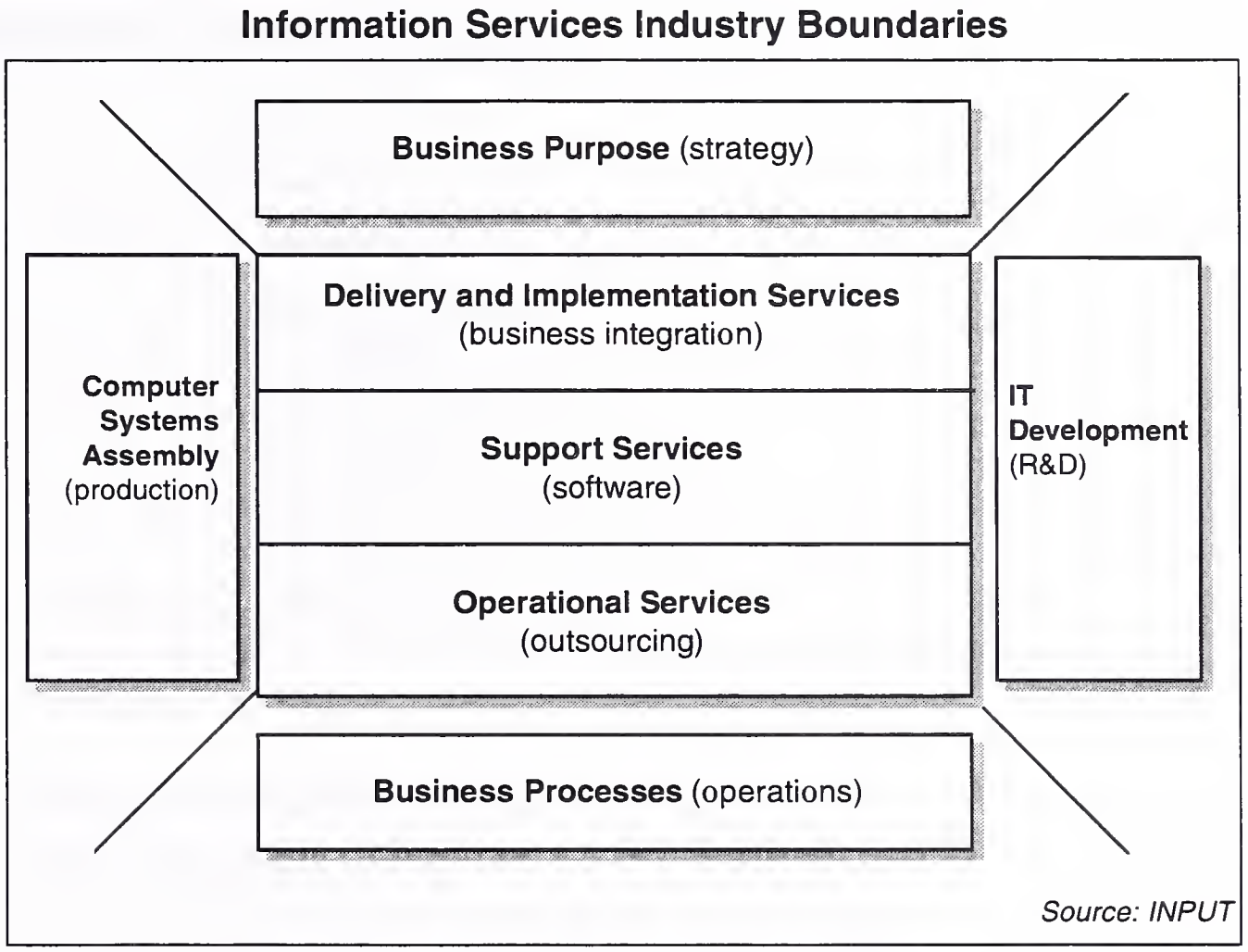
Having established the basic framework of the services part of the industry it is then possible to extend this model to a wider view of the business, incorporating parts of the computer and communications industry.

Exhibit II-4 shows the conceptual model for the boundaries of the information services business.

It can be seen that in each case as we move from the defined central area we encroach into domains that are distinctly different and not part of the market for IT services or support functions of any kind.

However, over the last three years there has been tremendous growth in offering consultancy for *all* elements of the business, using IT as an enabling factor to improve business processes in the areas of production, R&D, procurement, logistics - and other elements along the value chain. Consultancy and education and training are services not mapped onto this domain since they are pervasive and could relate to any or all sectors.

Exhibit II-4



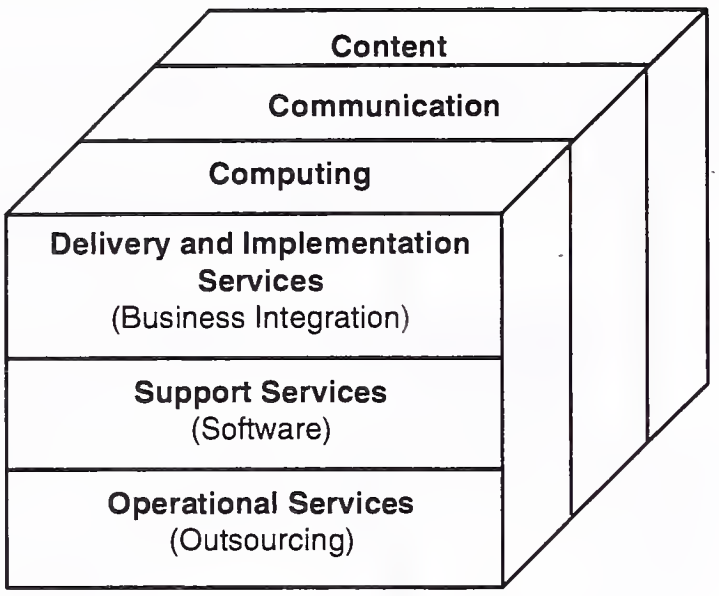
A further dimension is to place the service-dominated part of the business in relation to the communications and content aspects. See Exhibit III-5.

Although many commentators have forecast the convergence of these industries what INPUT has observed to date is rather a *nexus*, an overlap and interlinking of businesses and markets. This nexus is creating vast potential opportunities for information services vendors, although we have yet to see large firms delivering these converged needs.

Large firms have found it difficult to achieve dominance in areas of completely new or different technology. As technologies continue to converge and market demand becomes increasingly difficult to forecast so dominating the market nexus of technologies is likely to prove more and more difficult. Also, given the diversity of skills and knowledge required to succeed in any one of them it seems unlikely that any one organisation could excel in all of them.

Exhibit II-5

The Role of Services Within the Convergence Process



Source: INPUT

We can expect that the future will be characterised by conditions of increasing industry competition and consumer choice. Even in the one area that is still regulated, telecommunications transmission, we are witnessing the threat of break up for the remaining monopolies that still exist in Europe.

Faced with the complex and ever more confusing environment presented by such market conditions there exists an imperative for vendors to rationalise their strategies based on sound principles that are indicated by the structure of the business and that reflect the users real needs.

The impact of IT on the business landscape is increasingly debated and remains one of the most important issues for executives in the second half of the 1990s. The information services business is continuing to benefit from that impact as few organisations really have the resources to cope with that impact and the speed with which it is happening.

Hitherto we have used the term information services as a close synonym for the software and services part of the computer business. Now in the connected world so typified by the convergence process outlined above plus the explosion of interest in the Internet (especially the World Wide Web) over the last 18 months, we find that information services is a viable term to describe the activities of that set of markets. The final section examines the role of the Internet in developing applications and systems for internal business processes.

D

Linking Internet to Business Processes

The Internet has created a revolution in low-cost, global business communication. However, only a small minority of companies are exploiting the new networked environment to gain significant advantages.

This minority is using the Internet not just to advertise on the World Wide Web, but to develop applications and systems for their internal operations—their Business Processes.

These early adopters are racing up the experience curve and are gaining invaluable skills for future network-centric business. This presents a significant challenge for future Internet users and a considerable opportunity for vendors to provide stepping stones for the rest of the business community.

Several key trends are emerging:

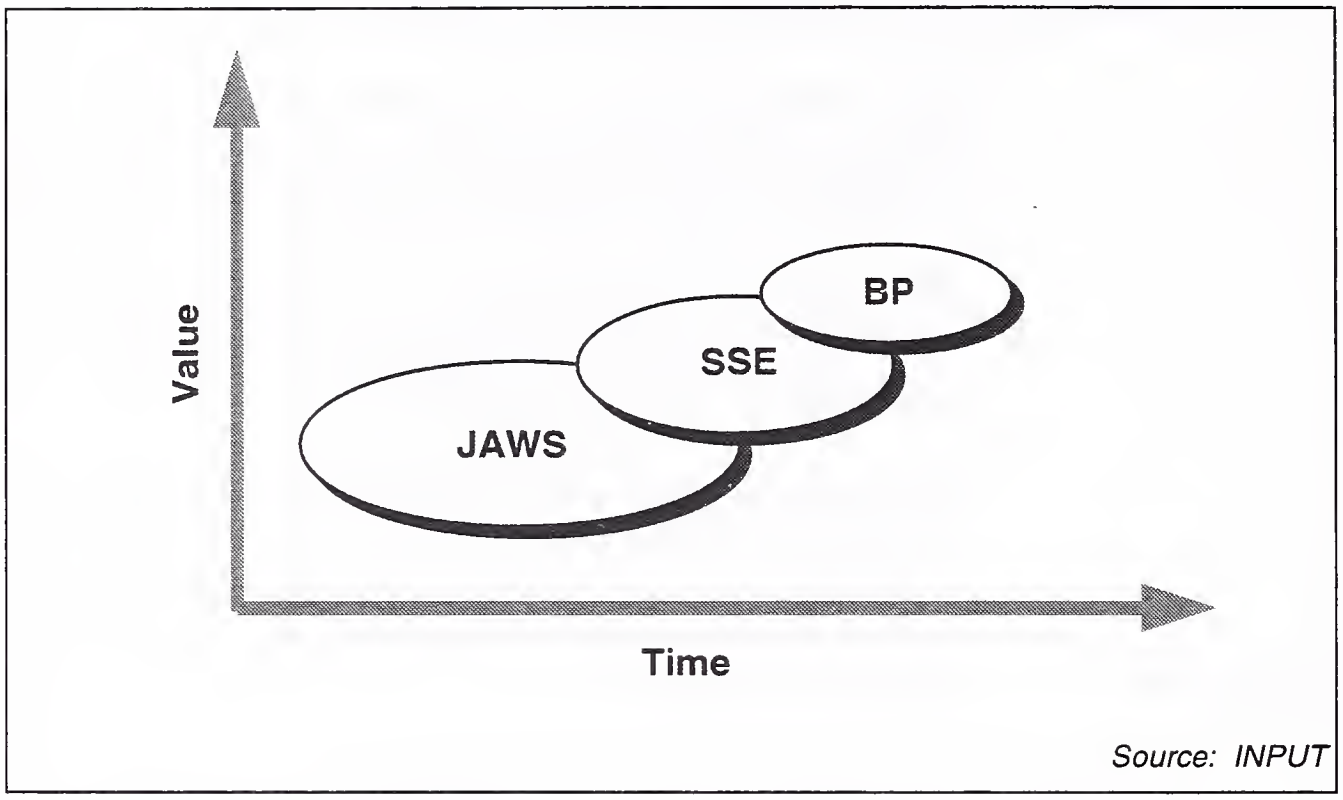
- Experience brings value
- Strong emphasis on the Web for Business Processes
- The Web is challenging Lotus Notes.

Three broad categories of business Internet use exist:

1. Reactive and passive—the JAWS ("Just Another Web Site") syndrome
2. Active commerce—the serious sales engine
3. Practical and operational—Business Processes

Exhibit II-6

Finding Value Along the Internet Food Chain



These three categories require, respectively, more experience but bring greater value (see Exhibit II-6).

Internet experience is one of the best tools a company can acquire to prepare for the future of networked business.

Companies inexperienced in Internet matters fully understand neither how the Internet can benefit them nor what they can expect the Internet to deliver successfully. They place importance on management control, yet older hands know this is one of the least important benefits of the Internet. They place importance on improving quality, yet the more experienced company knows quality improvements will not occur simply as a result of an Internet connection.

Project plans become more focused as companies gain more Internet experience. The most coherent and achievable future Internet goals are consistently heard from organisations which already have the weight of experience behind them.

Despite the current climate of Internet-as-marketing, practical Business Process-orientated applications are gathering momentum.

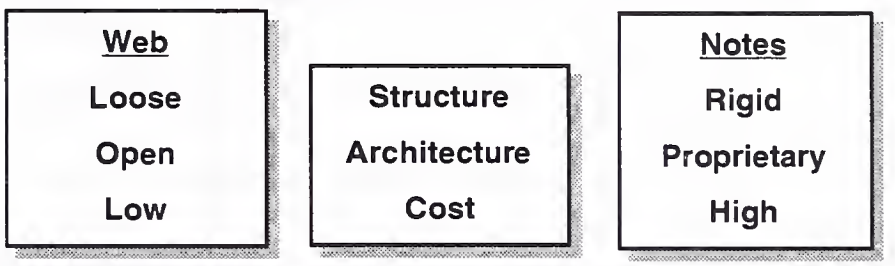
Company Webs are rapidly becoming the standard environment in which company-specific information is shared. They are currently used in different ways:

- Purely internally—departments run their own Web servers and communicate over the company LAN and private WAN
- Purely externally—company information is put on a public Web server and access restricted to staff only
- Both internally and externally—a company adopts the internal Web model but uses the public Internet to connect remote offices.

Many companies are taking a serious look at the Web as their future information platform. This positions the Web directly against proprietary products, specifically Lotus Notes.

Exhibit II-7

The Web Challenges Notes



Source: INPUT

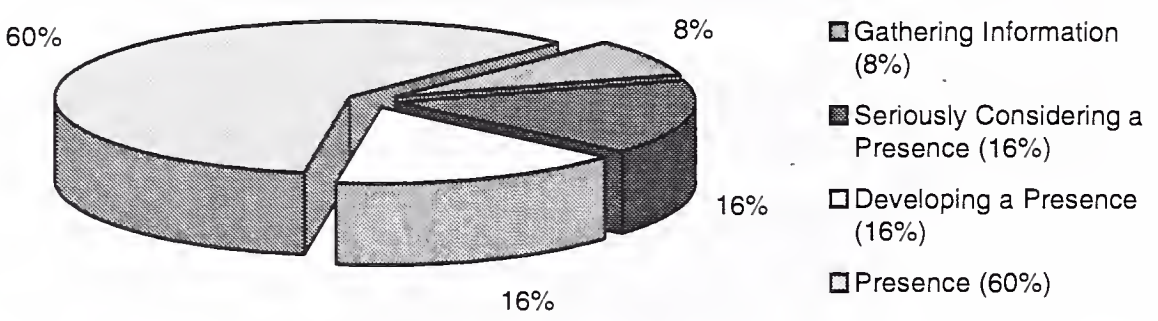
Both the Web and Notes have their own distinct advantages (see Exhibit II-7*)*. The low-cost, unstructured nature of the Web, however, makes it ideally suited to large-scale free-form information distribution.

The Web gives companies an easy to use front end for the seamless transfer of any computer storable data. In offering such flexibility, however, the Web sacrifices rigid data structuring. Some applications require very powerful data structures and are more suited at the moment to proprietary solutions such as Notes.

It is clear from the profile of respondents that Internet activity is well underway across most large organisations. The average size of company surveyed for this report was $6 billion, and 60% of these companies are already active on the Internet (see Exhibit II-8*)*. Only a very small proportion are still at the data gathering stage. Overall, the sample represents a body of motivated and mostly experienced users.

Exhibit II-8

Current Internet Status



Source: INPUT

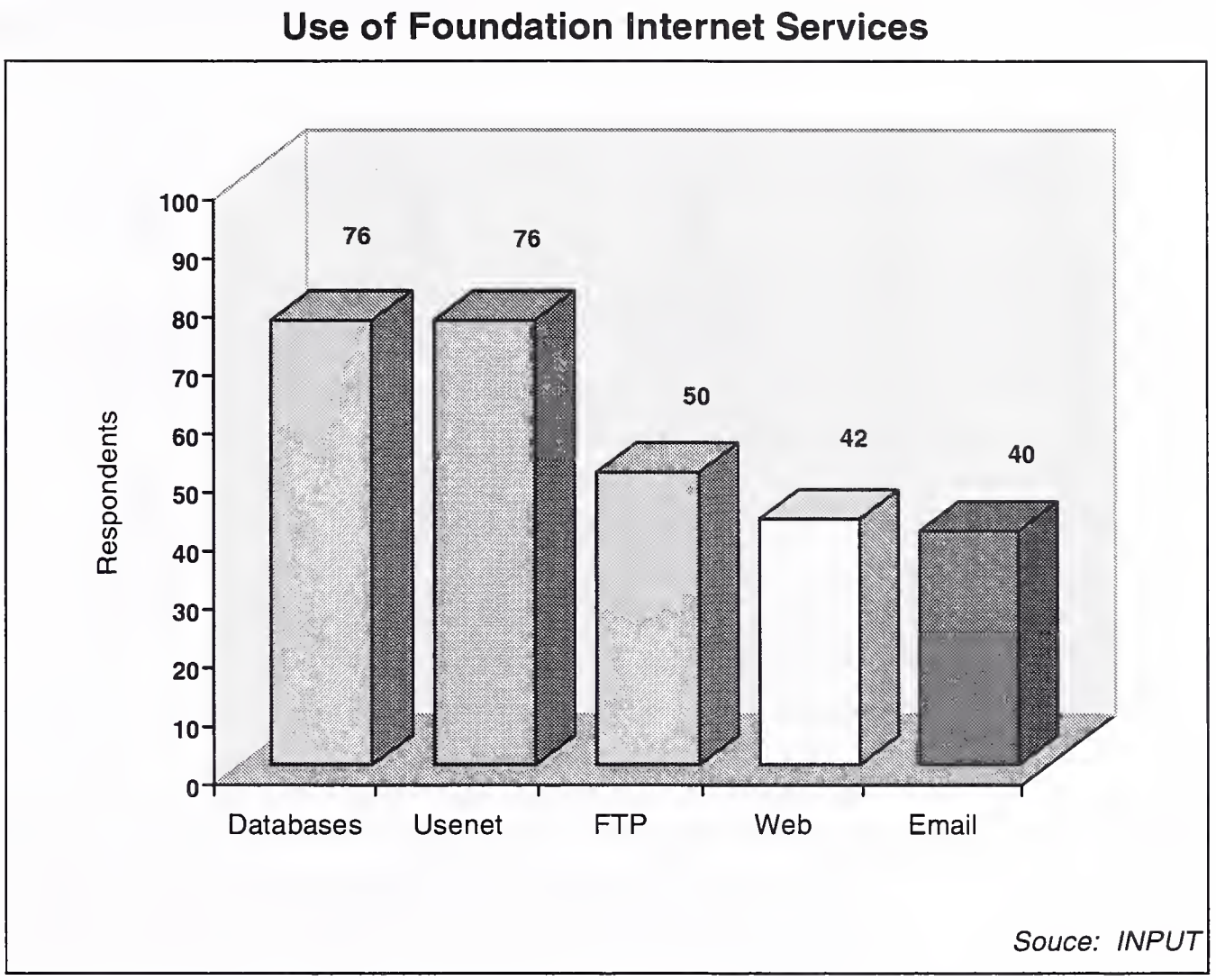
Companies who are using the Internet for Business Processes today, therefore, are seeing the positive effects the Internet can bring:

- Faster communications
- Open access to internal information
- Reduced overheads and cost.

These more experienced companies are reflecting this unfolding knowledge in their estimation of the future. By learning from these early adopters, we can appreciate that Business Processes will be impacted significantly in the future, and probably to a greater extent than many of the survey respondents currently imagine.

Usage of the various foundation Internet services remains fairly uniform across the groups of active users and developing users. Usage patterns follow the norm, with the email and the Web being used by most companies (see Exhibit III-9).

Exhibit II-9



It is surprising to find that there are even some respondents who claim not to use email. Among both active and developing users, between 20% and 30% claim not to do so.

Industry Impact

Of all the industry sectors represented in this report five stand out in their assessment of the importance of Internet benefits (see Exhibit II-10).

Three stand to gain in particular from the Internet:

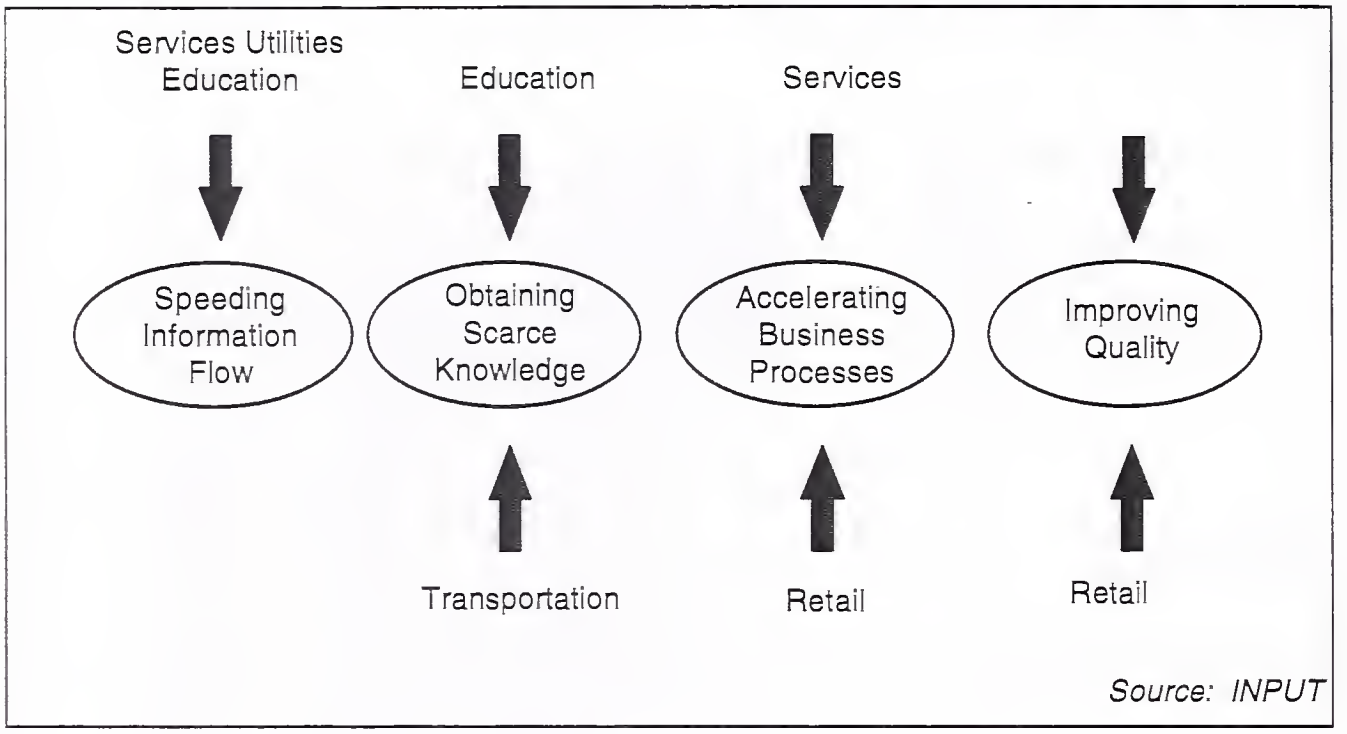
- Services
- Education
- Utilities.

Two stand to gain relatively little:

- Retail
- Transportation.

Exhibit II-10

Importance of Potential Internet Benefits by Industry Sector



Representatives of the Retail and Transportation industries consider the potential benefits of the Internet to be of under average importance in all cases, with the exception of Improving Quality, which respondents from the Transportation industry perceive as slightly more important than average.

In the Transportation industry, Obtaining Scarce Knowledge is particularly unimportant. This is one of the most mature industry sectors, and information is relatively openly accessible. All respondents in this industry are active on the Internet already, and their response carries with it the authority of practical experience.

In the case of Retail, similarly unimportant factors are Accelerating Business Processes and the Improving Quality. The former category is the perpetual hare to the retail greyhounds: in retail companies' constant drive to automate, streamline and optimise processes, they are well served by specialist equipment and service suppliers. The real-time, high volume nature of retailing means that current use of the Internet is unlikely in many cases to be able to rival current internal systems of process.

The Retail industry's 'product' is intrinsically entwined with its internal operations—the product is not the goods which are sold in shops, but the added value with which they are sold: service, price, support, environment. There may be no more ways that the Internet can improve these areas than there are ways in which it can improve the general area

of Business Processes. We see, therefore, very similar responses for both categories.

The Utilities, Services and Education sectors are looking to the Internet to solve current problems, and so rate potential benefits as highly important.

The Utilities industry voiced the need to speed information flow and the Education sector expressed the importance of obtaining scarce knowledge. In both examples, all respondents placed the highest importance ranking on these areas in all cases. Clearly these are problem areas.

Utilities are facing increasing world-wide deregulation, and need to streamline operations inherited from their public past. Information and knowledge is at the heart of Education and access to both is a cornerstone. The Internet is extremely well suited to addressing both areas, and these sectors will gain particular advantages from use of the Internet.

In summary, INPUT identified five benefits that Internet use can bring to organisations in their Business Processes:

1. Accelerating Business Processes
2. Speeding information flow
3. Ensuring management control
4. Obtaining scarce knowledge
5. Improving quality

a. Accelerating Business Processes

This benefit was perceived similarly by respondents at all stages of the Internet development process. Few deny that the Internet will speed business processes overall, or that considerable time savings will be made in certain areas. But the category of 'Business Processes' is a far reaching one and encompasses many, very different functions.

Some organisations' interpretation of the category will tie in very closely with the processes that the Internet is perfect for accelerating—digital information exchange—whereas others' will be somewhat removed from the Internet's *modus operandi*.

b. Speeding Information Flow
This category is seen as the most important benefit the Internet can bring to commercial organisations.

In contrast with the category of management control, the importance attached to information flow over the Internet shows us that the greatest benefits, and the benefits which users are placing greatest emphasis on, are the ones that are most easily achievable, the ones that the Internet is easily capable of delivering.

The Internet's greatest strengths include the rapid transfer of electronic files between arbitrarily located sites, and so this easily achievable factor is reflected in the perceived importance of information flow among existing, new and future Internet users alike.

When looking at Business Processes, rapid and efficient information flow is essential for nearly any function and must be regarded as a prerequisite for any serious use of the Internet.

c. Ensuring Management Control
Conversely, the category of management control is seen as by far the least important benefit the Internet will bring. This category was alone in receiving the lowest possible rating, signifying that the issue is "not important", from any respondents.

The pattern of views on this issue is relatively linear—respondents with less experience place more importance on it, showing again that as organisations gain knowledge and experience, they recognise that the need for management control is not as great as they once imagined.

d. Obtaining Scarce Knowledge
Of particular relevance to R&D and marketing units, this category received a relatively uniform response from all categories of respondent. As a research environment, the Internet is an extremely potent medium, and respondents will in general be satisfied with the Internet's ability to assist in most research efforts.

For many companies, ease with which they can obtain information is one of the biggest attractions of the Internet. This covers the instantaneous and far reaching connectivity of email as well as the breadth and depth of search possible with the Web, gopher, FTP, archie and veronica services in front-line research.

While the Internet is an open environment, access to information can be restricted as required. 'Scarce knowledge' can take the form of publicly available *or* highly restricted data, and the Internet can be used in both cases. With the use of password control and domain authentication, highly confidential information can be made available on a selective basis. With the use of encryption, requests for information can be fulfilled through secure email.

e. Improving Quality

Improving quality is the second most important potential benefit of the Internet to respondents. With this category as with certain others, we see that the potential benefit tends to be more important to less experienced organisations, reflecting the trend in change of values and expectations as companies travel down the development path.

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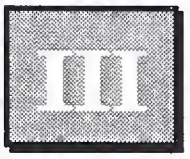


New Outsourcing Directions

Outsourcing remains the single most powerful trend driving growth and development of the information services business.

However, although outsourcing has created many profitable opportunities for vendors here has been little differentiation in service offerings. It has bee a sellers market. This is changing.

Outsourcing vendors will now need to pay careful attention to their strategic marketing approach. Vendors will need to achieve differentiation through the development of increasingly focused outsourcing service offerings based on:

- Vertical industry sector specialisation
- Specialised application and business process service offerings
- Value-based contract strategies.

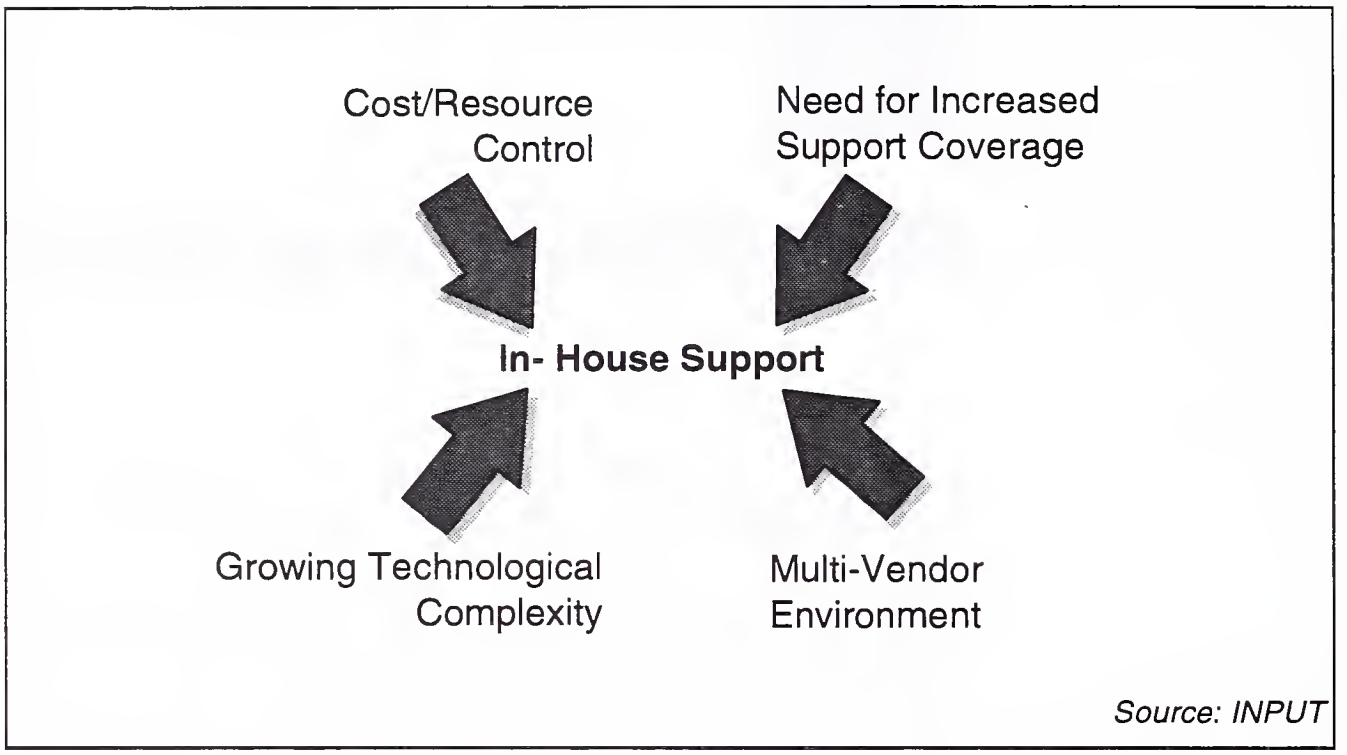
A
Outsourcing Services at the Desktop

1. Users Believe Outsourcing Desktop Services Improves Service Responsiveness

Users are much more convinced than their colleagues in IT management that outsourcing their desktop services would generate significant benefits. In particular, approximately 60% of users strongly believe that outsourcing desktop services would improve the focus of their in-house IT department, while 40% of users strongly believe that outsourcing would lead to improved responsiveness, improved cost-effectiveness, and improved user productivity. However, IT managers are less favourably impressed by the concept of outsourcing, and remain more resistant to outsourcing their organisation's desktop services.

Exhibit III-1

Desktop Support Challenges



Source: INPUT

This is unfortunate for vendors since IT managers remain the major influence in the control of external expenditure on desktop services. Some of the keys to overcoming their resistance lie in vendors using the following tactics:

- Offering breadth of support
- Assisting organisations in spreading the cost of technology refreshment
- Demonstrating their ability to provide pro-active help-desk services
- Increasing awareness of their specific desktop services outsourcing capability.

2. Organisations Need Breadth of Support

Exhibit III-1 indicates the major support challenges facing organisations trying to deliver desktop services in-house.

Many IT departments are facing severe headcount and/or budget constraints which limit their capability to meet the growing demand for desktop services. These constraints hinder the IT department from recruiting personnel with the necessary skills to support the changing nature of user support. In addition, they may prevent the in-house IT

department from retraining personnel as rapidly and as thoroughly as is required.

At the same time, the support role is increasing in technological complexity. Technological complexity is being increased both by the transition from stand-alone systems to interlinked client/server architectures and also by the range of architectures and systems software that is being connected into this framework. It may be necessary for service providers to support a range of equipment and operating systems for many years to come.

Accordingly, organisations expect desktop services vendors to offer a complete portfolio of desktop services and to have a depth of capability within each service element. It is difficult for many in-house organisations to be able to afford to support this depth and breadth of capability. Indeed as LANs become increasingly connected as part of an enterprise-wide, multi-vendor IT infrastructure, so there is a growing need for vendors to combine WAN management with their desktop services to provide total operational management of the emerging client/server IT infrastructure.

The other major challenge for in-house service providers is developing adequate geographic coverage. Users perceive that they require a more comprehensive support service than they currently receive. In many organisations, the number of desktop users, and LAN's to which they are connected, is still growing rapidly. All of these users need to receive a comparable standard of support.

Organisations expect their desktop service provider to be able to achieve this by matching their own geographic coverage. In some instances, this means global or European coverage, but, more typically, it translates into national coverage with an element of on-site support expected regardless of location. This can be one of the most difficult challenges for an in-house support organisation.

Users are also seeking more knowledgeable support. In addition to the rapid growth in the user population with access to desktop services, users are becoming more sophisticated and placing greater demands on the service provider. For example, the need to link applications and share data across both platforms and the user base is becoming paramount.

3. Spreading the Cost of Technological Refreshment

In order for users to be able to freely share information, there must be a compatible desktop architecture throughout the organisation. This compatibility is easily destroyed if the numerous departments or business units within the organisation each have differing upgrade policies, resulting in incompatible software products, or versions, throughout the organisation.

This potential problem is compounded by the rapid rate of change in desktop technology. Two common complaints from users are:

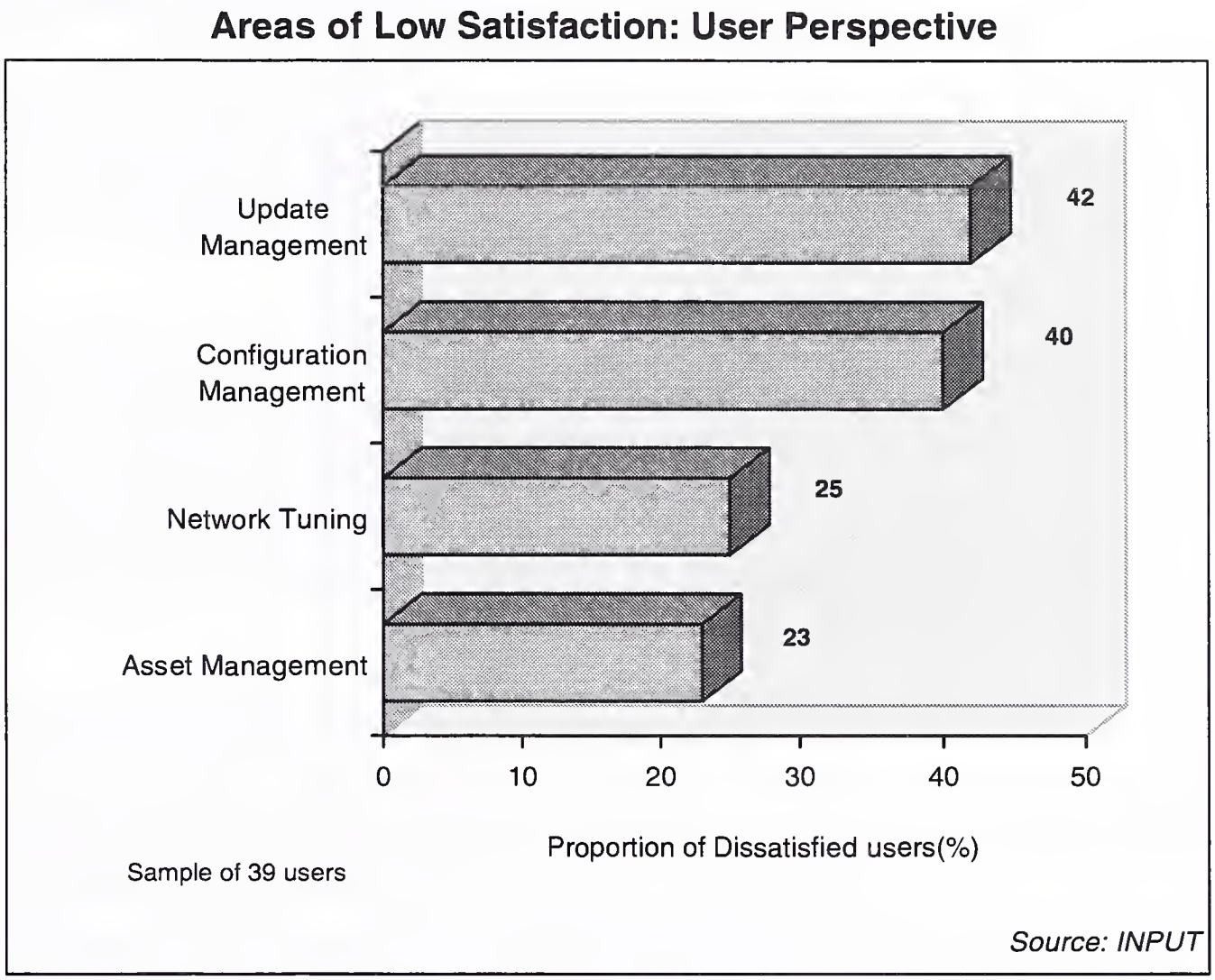
- Inadequate hardware performance as their equipment becomes obsolete approximately every three years
- Frequent changes in the versions of operating systems and application software products.

Many users are finding that their hardware is inadequate to run the latest software and/or that data sharing becomes difficult as new versions of software products are introduced.

This situation creates a demand for two important components of desktop services: namely, update/version management and providing product financing/leasing services.

Users' current levels of satisfaction with update and asset management are shown in Exhibit III-2.

Exhibit III-2



IT managers tend to be more concerned with access to implementation skills and technical support. On the other hand, users are more concerned with the operational management of their desktop systems. There is a danger that IT managers currently under-estimate the value of these operational practices. In practice, update management is typically inadequately performed by in-house support functions much to the frustration of desktop users.

However, the difficulties of achieving a satisfactory standard of update management and consistent versions of operating systems and application products across the entire organisation is compounded by the high level of autonomy user departments have in determining the timing and extent of purchasing of standard equipment and software products.

It is virtually impossible for an in-house IT department to combine products and service into a fee-based service. However, this approach may be the only way of satisfactorily spreading the high cost of technology refreshment every two to three years. Periodic high investment can be a

major barrier to maintaining consistency of desktop applications and tools throughout an organisation.

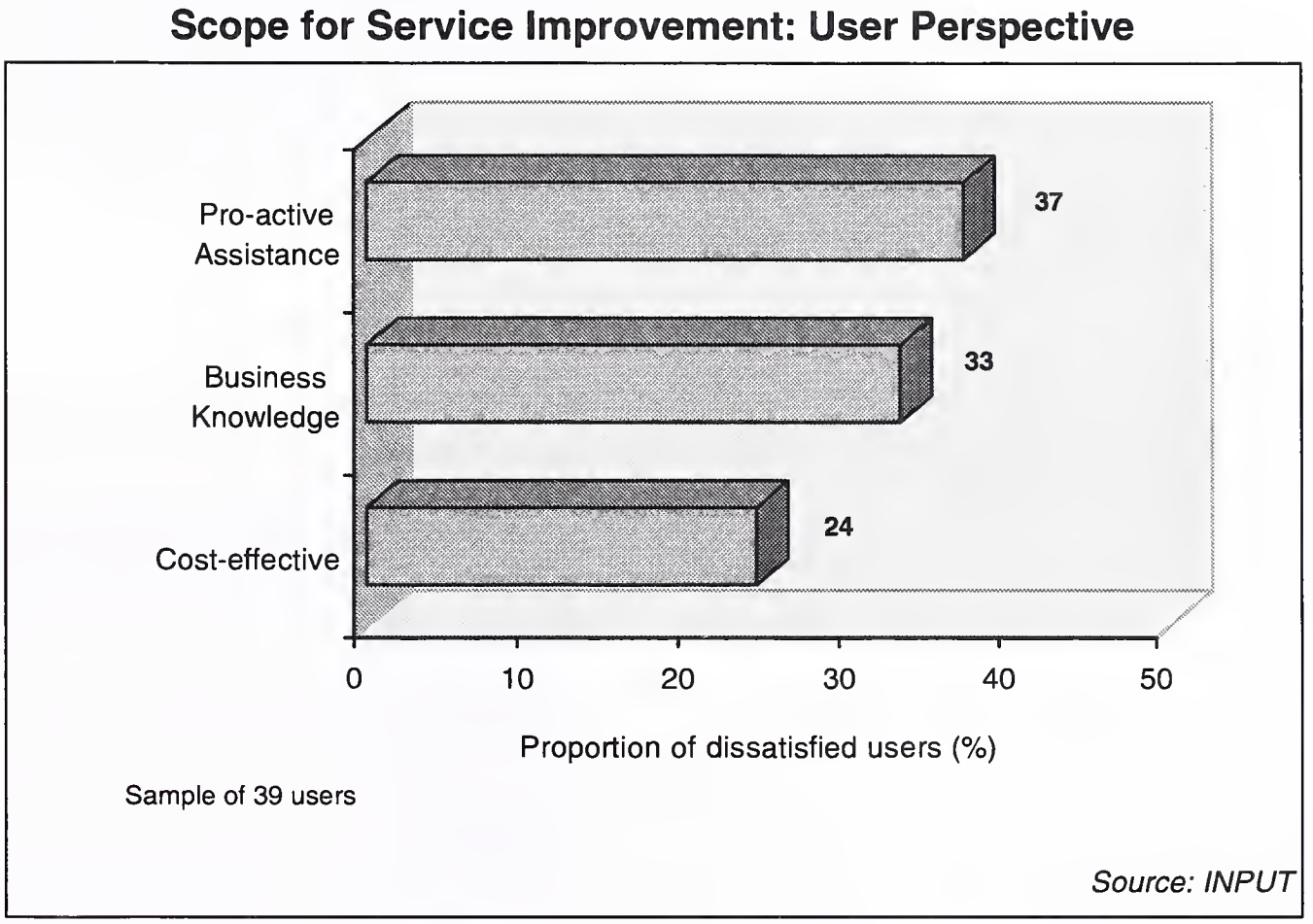
The provision of financing/leasing services may be the only way for some organisations to overcome their lack of willingness to make the continuing investments necessary to maintain a consistent, up-to-date desktop environment.

However, there are also signs that update management and asset management are given comparatively low levels of priority by the in-house service provider. IT departments appear to focus their attention on areas such as LAN implementation and technical support, with asset and update management sometimes remaining the responsibility of the user department. Inadequate version control can generate considerable day-to-day difficulties for users.

4. Establishing the Importance of Pro-Active Help-Desk Services

Users are currently receiving a basic, reactive technical support service that addresses their immediate technical queries reasonably satisfactorily. However, users do not perceive this service to be particularly cost-effective nor to be sufficiently pro-active. Exhibit III-3 identifies some of the areas where users perceive there to be scope for improvement.

Exhibit III-3



One reason often given for not outsourcing is the in-house service provider's detailed knowledge of the organisation's business environment and practices. In practice, this argument does not appear to be valid for desktop services, since approximately a third of users are dissatisfied with the business knowledge exhibited and level of pro-active support provided by the in-house support organisation.

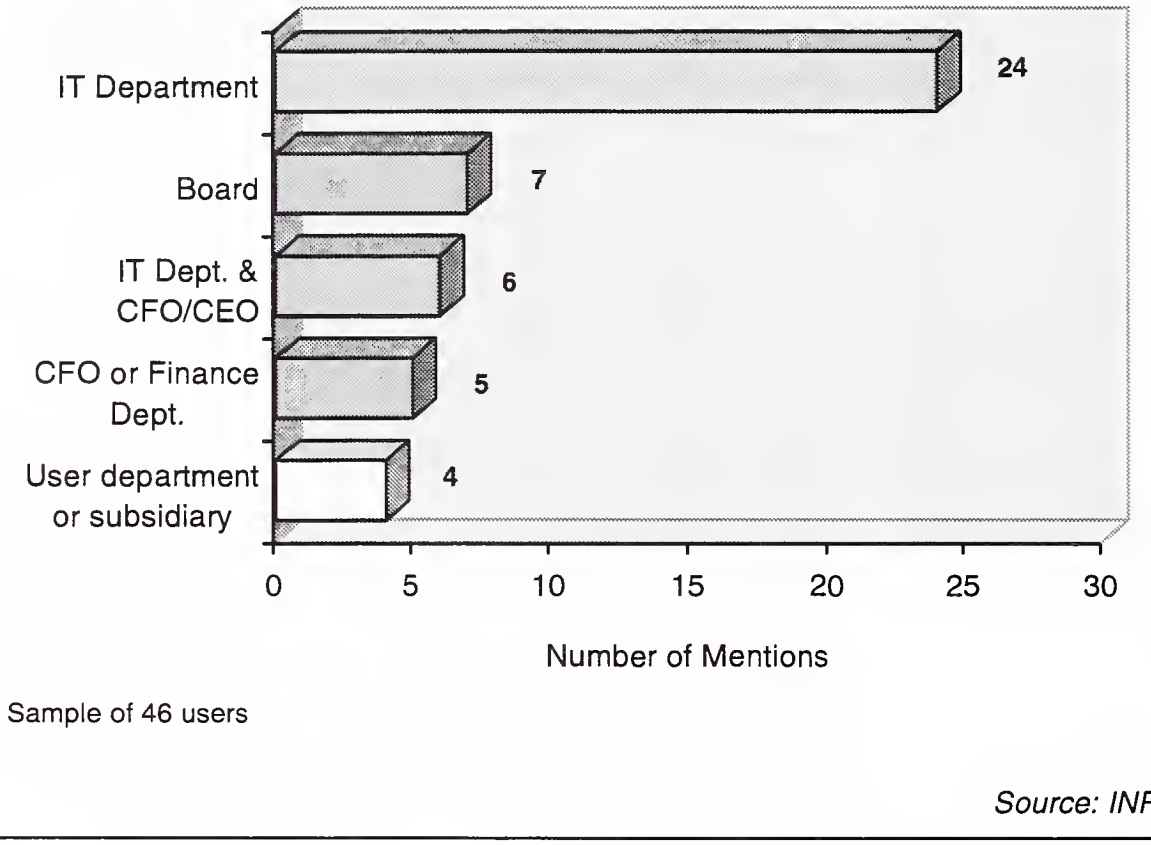
Ideally users require a support service that is forward looking and assists them in achieving greater productivity and fully utilising the potential of their desktop IT infrastructure.

The help-desk service should enable the vendor to identify emerging problem areas and address them pro-actively. For example, the vendor needs to ensure that data sharing is facilitated between workgroups and departments and that incompatibility problems do not arise due to poor choice of software product or lack of version control. In addition, vendors should build into their desktop service offerings a consultancy element that assists users in identifying their future requirements so that these can be addressed.

Outsourcing of the first-line help-desk is an important component of desktop services outsourcing but potentially an area of considerable resistance to outsourcing. IT managers typically wish to maintain control of the direct interface to user personnel, though they are enthusiastic about subcontracting second-line technical support.

Exhibit III-4

Purchasing Control: Desktop Services



Source: INPUT

In addition, users perceive that the first-line help-desk is one of the areas where external vendors can make least contribution. The major reason for this view is the extensive use of bespoke applications on proprietary equipment that are still being accessed from the desktop. Both users and IT managers perceive that outsourcing vendors are ill-equipped to support these applications, which have often been written or tailored in-house.

However, this is a potential opportunity for vendors to consider offering application maintenance management as part of their desktop services portfolio. This could overcome one of the biggest obstacles to selling a more complete range of desktop outsourcing services to organisations which have retained a major element of their legacy systems.

5. Increasing Awareness of Vendors' Capabilities

Exhibit III-4 shows respondents' views on the major influence on desktop services expenditure.

Exhibit III-5

Perceived Benefits of Desktop Services Outsourcing: Users and IT Managers

Benefit	Level of importance	
	IT Manager	Users
Cost reduction	Very high	High
Improved/additional technical skills	Medium	High
Increased emphasis on commercial objectives	Low	Medium-High
Protection against equipment obsolescence	Low	Medium
Consistency of support	Medium	Low

Source: INPUT

The in-house IT department is still seen to be the major influence in authorising external expenditure on desktop services, and most vendors active in this market state that their leads are primarily originating from in-house IT departments. However the company board, CEO, or CFO are likely to be important decision-makers in deciding whether or not to adopt a high level of desktop service outsourcing.

User departments still have only low levels of direct influence, though their dissatisfaction with current services may prompt either senior executives or the IT manager to investigate outsourcing. There were no instances in this survey in which end users were considered to be in control of purchasing decisions for arguably the most important element of operational management, namely LAN management.

Overall, there is low awareness of vendors' desktop outsourcing capabilities and hence an opportunity for vendors to establish high profiles as desktop services outsourcing specialists.

Respondents tended to rate vendors' desktop services outsourcing capabilities in line with the vendor's standing in the overall outsourcing market. As a result, EDS and IBM are regarded as having comparatively

high levels of desktop services capability while Digital and Hewlett-Packard are regarded as having relatively low levels of capability.

Users and IT managers differ in their views on the perceived benefits of desktop services outsourcing. These differences are summarised in Exhibit III-5.

While cost reduction is important to both IT managers and users, it is of particular importance to IT managers who strongly emphasise this facet of outsourcing. In addition, IT managers expect outsourcers to provide consistency of support in terms of wide geographic coverage and additional technical skills to those available in-house. This perspective is reflected in IT managers' vendor selection criteria where cost and breadth of desktop technical skills receive the highest number of mentions.

On the other hand, users place more emphasis on the contribution the vendor can make in assisting them to meet their business objectives and the need for operational management services. Selection criteria that are important to users include the vendor's level of understanding of their business and a capability to provide them with higher service levels than they have historically received. Some users also stress the importance of flexible contracts that do not lock them in to a particular vendor or to particular products.

B
Network Management Outsourcing

1. Pace of Change Drives WAN Outsourcing

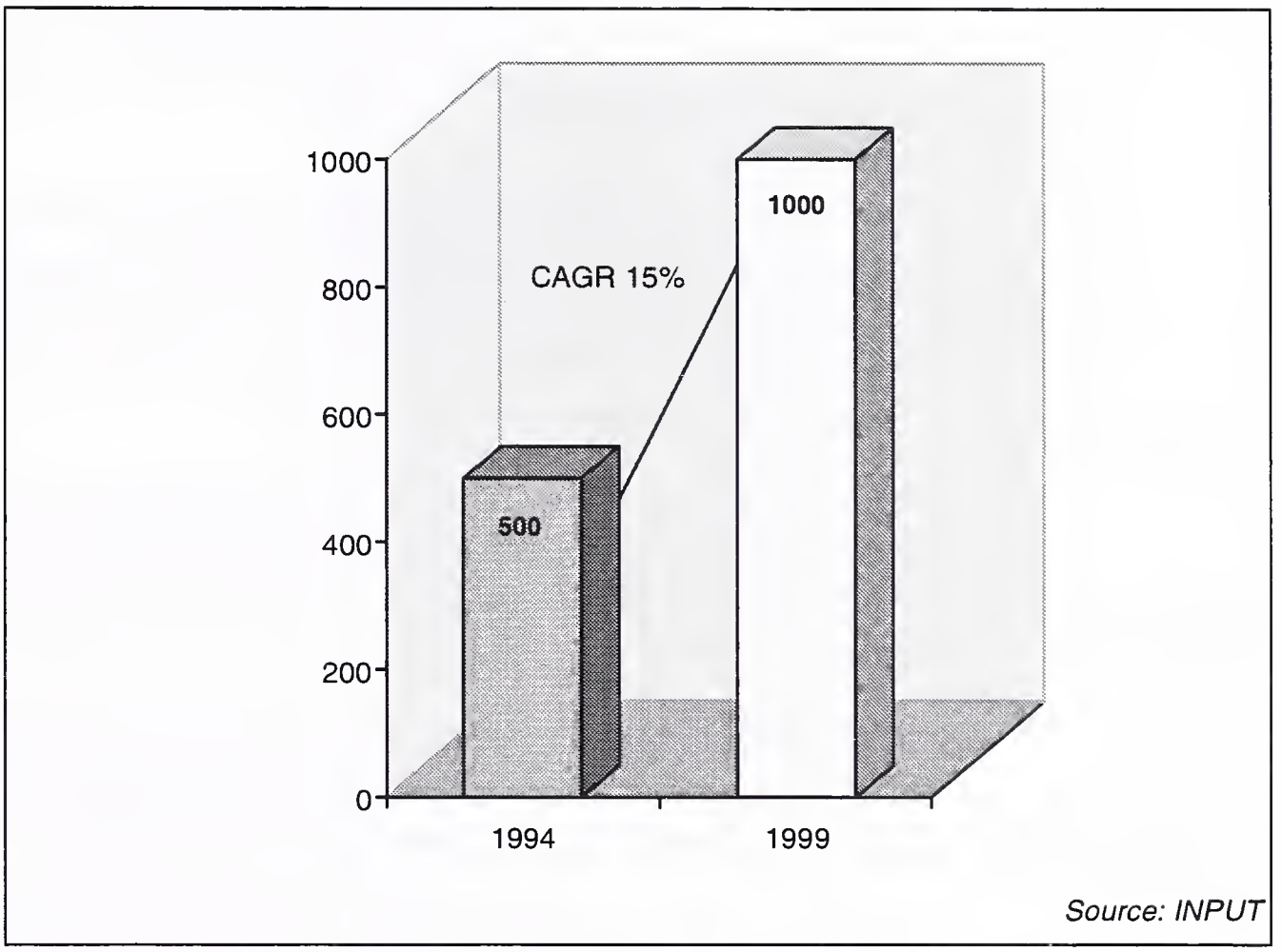
Much of the recent activity in the European outsourcing market has concerned vendors developing desktop services outsourcing capability. These services have been developed to address the difficulties that organisations are beginning to face in managing new technologies in the form of distributed local area networks (LANs). However, changing technology and business requirements are also beginning to have a major impact on the ability of organisations to manage their wide area networks (WANs).

In many ways, the forefront of technological change is now moving from the desktop to the wide area network. Many wide area networks will have to undergo fundamental changes over the next few years if they are to continue to play an effective part in their organisation's use of information technology. At present, many are ill-equipped to facilitate the use of the technology now being implemented at the desktop. As a

result, existing wide area networks are potentially more of an impediment to the application of technology for business advantage over the next few years than are existing datacentres.

Exhibit III-6

Network Management, Europe



Source: INPUT

Exhibit III-7

Network Management by Country

Country	Revenues ($m) 1994	Revenues ($m) 1999	CAGR (%)
France	140	310	17
UK	135	270	15
Germany	110	190	12
Rest of Europe	115	230	15

Source: INPUT

The scale of change required, and the consequent pressures on in-house service departments to implement change, are creating major opportunities for vendors offering WAN outsourcing services in Europe over the next few years. Overall, approximately one-quarter of major European organisations expect to outsource their WAN within three years. The resulting growth in WAN outsourcing, or network management, is forecast in Exhibit III-6, with a breakdown by country provided in Exhibit III-7.

Expectations of outsourcing WANs are highest in France. While this expectation appears to be partly due to the continuing perception by French organisations of the need to avoid large investments, another factor apparently is the prominent position of France Télécom as a potential vendor of outsourcing services.

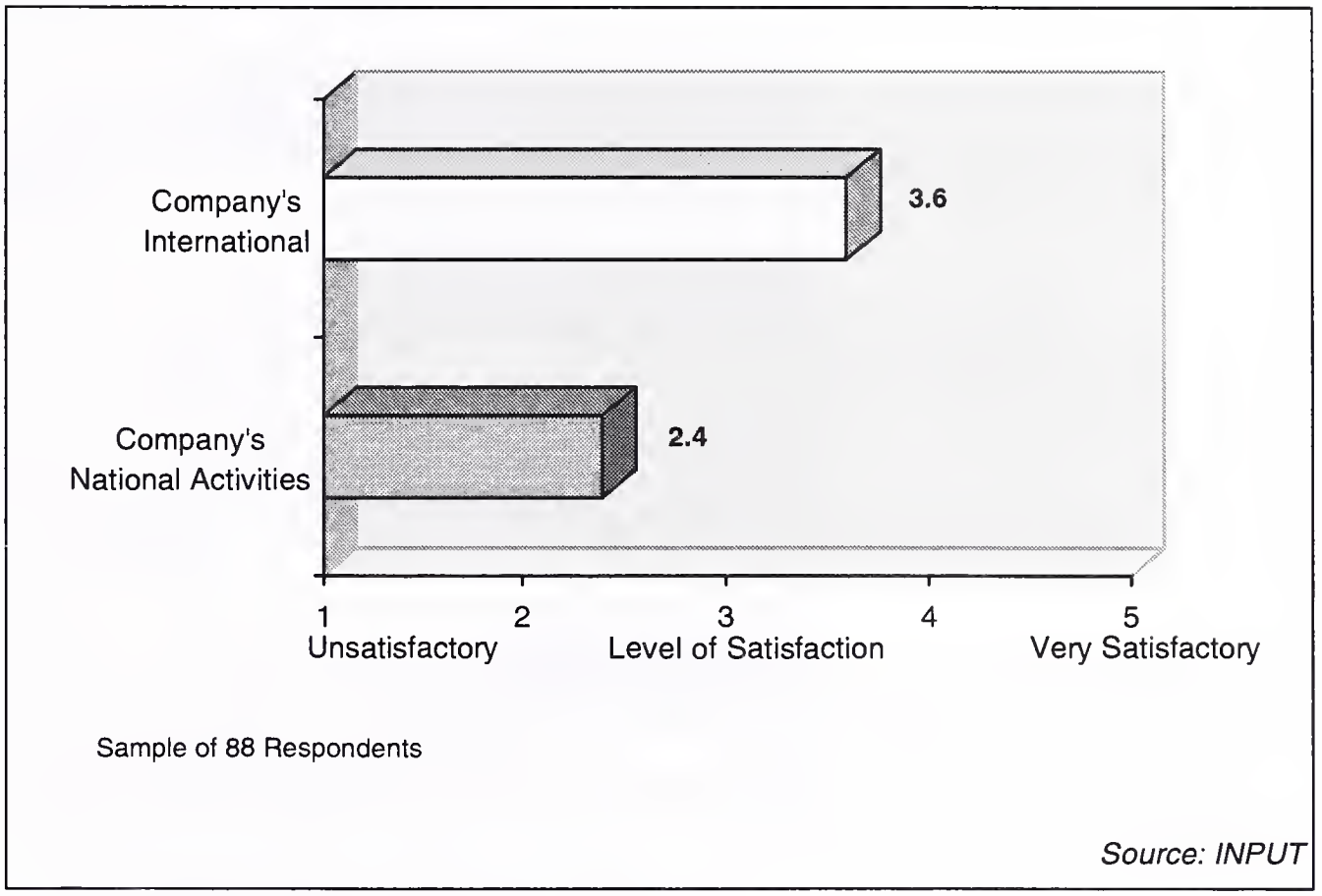
Organisations in Germany show the lowest level of propensity to adopt WAN outsourcing in the immediate future. The principal motivation for WAN outsourcing in Germany is the need to introduce technical expertise lacking in-house.

In the UK, there is also a high level of resistance to stand-alone WAN outsourcing since network management is perceived to be an integral part of the organisation's overall outsourcing strategy.

In order to take advantage of the emerging network management opportunity, vendors must:

- Demonstrate widespread geographic coverage
- Provide comprehensive operational support for client/server-based IT infrastructures
- Widen their service capabilities.

Exhibit III-8



2. Improving Geographic Coverage

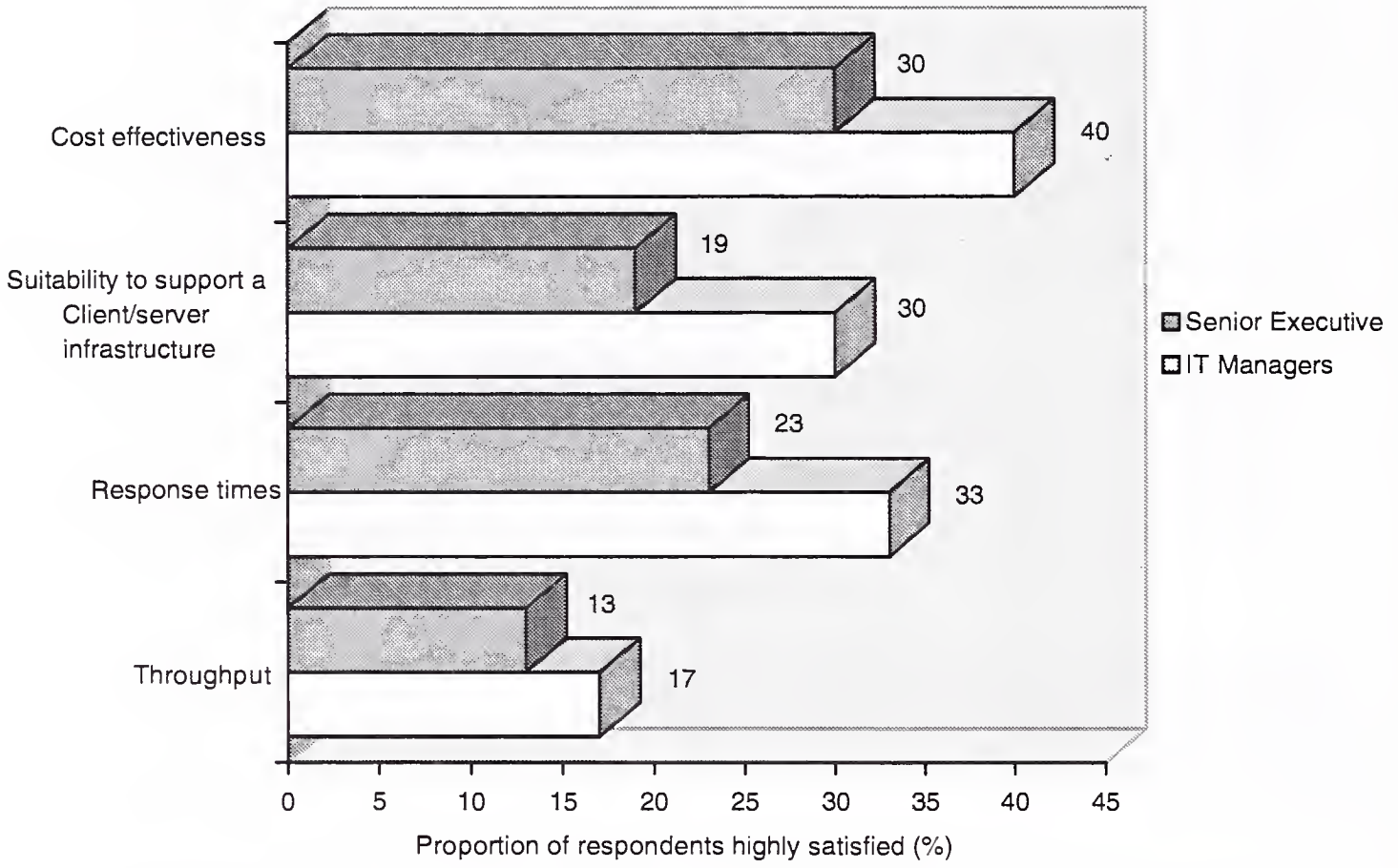
Exhibit III-8 lists the levels of satisfaction with the current geographic coverage of organisations' WANs.

Overall, approximately 60% of respondents expressed a high level of satisfaction with their current WAN's ability to support the organisation's national activities. However, this is not a particularly high level of satisfaction and the level of satisfaction expressed by senior executives was lower than that of their IT managers. Senior executives typically expect their wide area networks to play a growing role in facilitating electronic trading with customers and suppliers and are not totally satisfied with the geographic coverage of their corporate data network to support these activities - even within their principal national market.

The situation is even worse on a wider geographic basis. Representatives of less than 15% of organisations are highly satisfied with their wide area network's ability to support the organisation's international activities.

Exhibit III-9

Wide Area Network Weaknesses



Sample of 88 respondents

Source: INPUT

However, this situation still represents a significant challenge for vendors. In order to be able to offer an improved level of service, vendors need to be able to offer their clients comprehensive network coverage of the client's national market, since the largest part of an organisation's network traffic is likely to be within its country of origin, together with less concentrated, but extensive, international coverage.

Few vendors can currently offer this pattern of coverage. INPUT's network management survey in 1992 showed that organisations felt that vendors lacked the necessary international coverage. This perception does not appear to have changed significantly. Only 5% of respondents in the 1994 survey strongly perceived that outsourcing would assist them in improving the geographic coverage of their WANs.

C
Supporting Client/Server Architectures

Exhibit III-9 shows the proportion of respondents who expressed a high level of satisfaction with their WAN's ability to support changing business needs in terms of each of the listed attributes.

Organisations typically expect their use of WANs to increase substantially over the next few years and current WANs are perceived to lack the capacity to meet this increase in demand. The increased usage of WANs will arise both from an increase in the number of users connected to the wide area network and from a change in the nature of the services used.

Firstly, organisations are trying to provide improved interoperability, both within the organisation and with external partners. Organisations are endeavouring to provide all their locations with access to the wide area network, regardless of location, with the goal of providing full user access to all systems, irrespective of location. This includes providing remote access for mobile users. In addition, senior executives are placing a growing emphasis on electronic trading which they see as a key means of enhancing the organisation's service delivery to its customers and partners.

Secondly, many organisations now require their WAN to support a client/server architecture. Organisations increasingly expect their future IT architecture to be based around a large number of site/departmental/workgroup LANs that need to be fully linked via wide area networks. Existing corporate data networks are commonly perceived to be inadequate to support this style of operation.

This combination of the need for change on this scale together with a perception of low cost-effectiveness creates a natural opportunity for outsourcing vendors. However, the vendors will themselves need to implement networks and network management centres that support this new mode of IT infrastructure.

Exhibit III-10

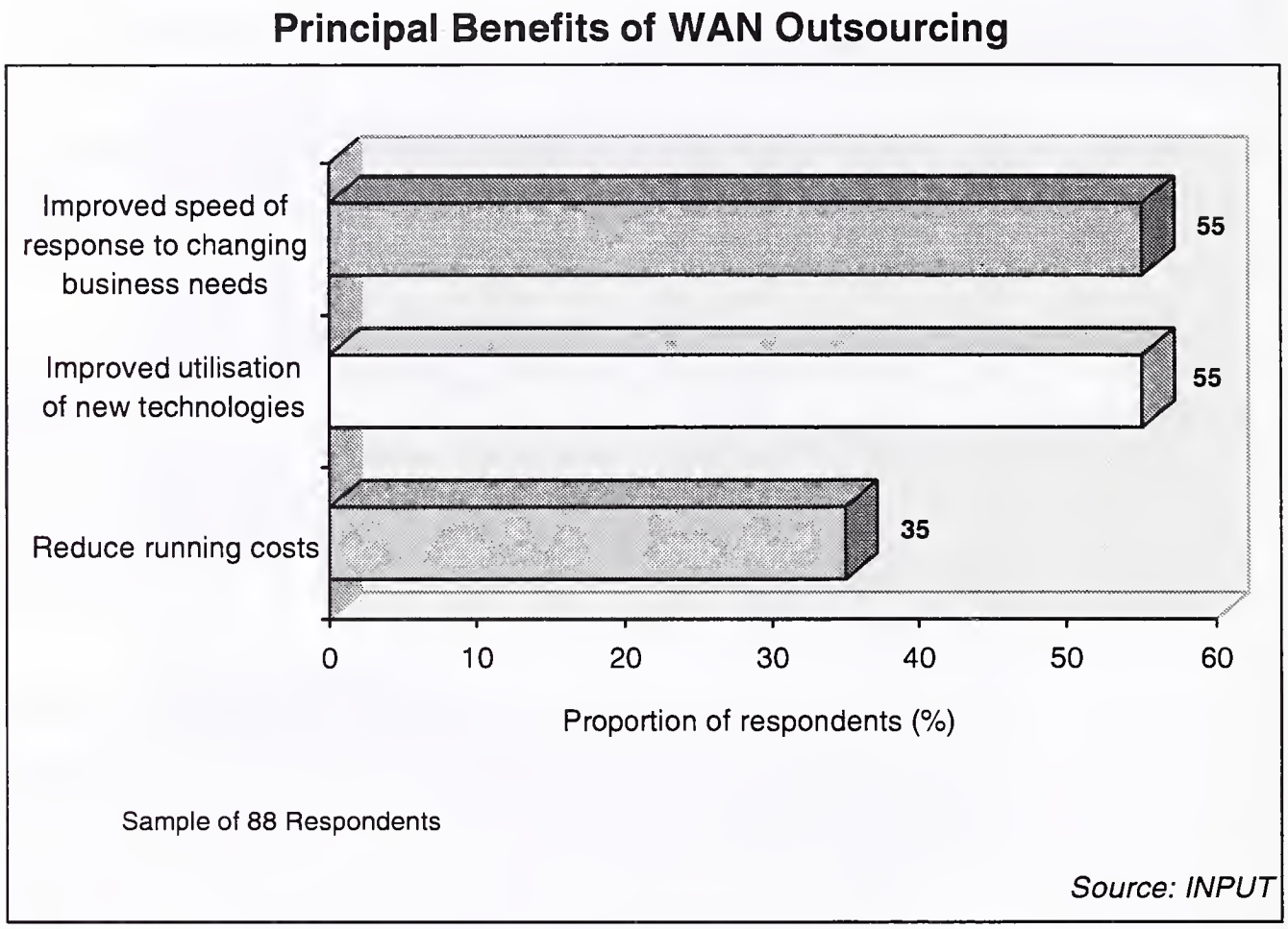


Exhibit III-10 lists the proportion of respondents who strongly perceived that outsourcing would assist their organisation in achieving each of the benefits shown.

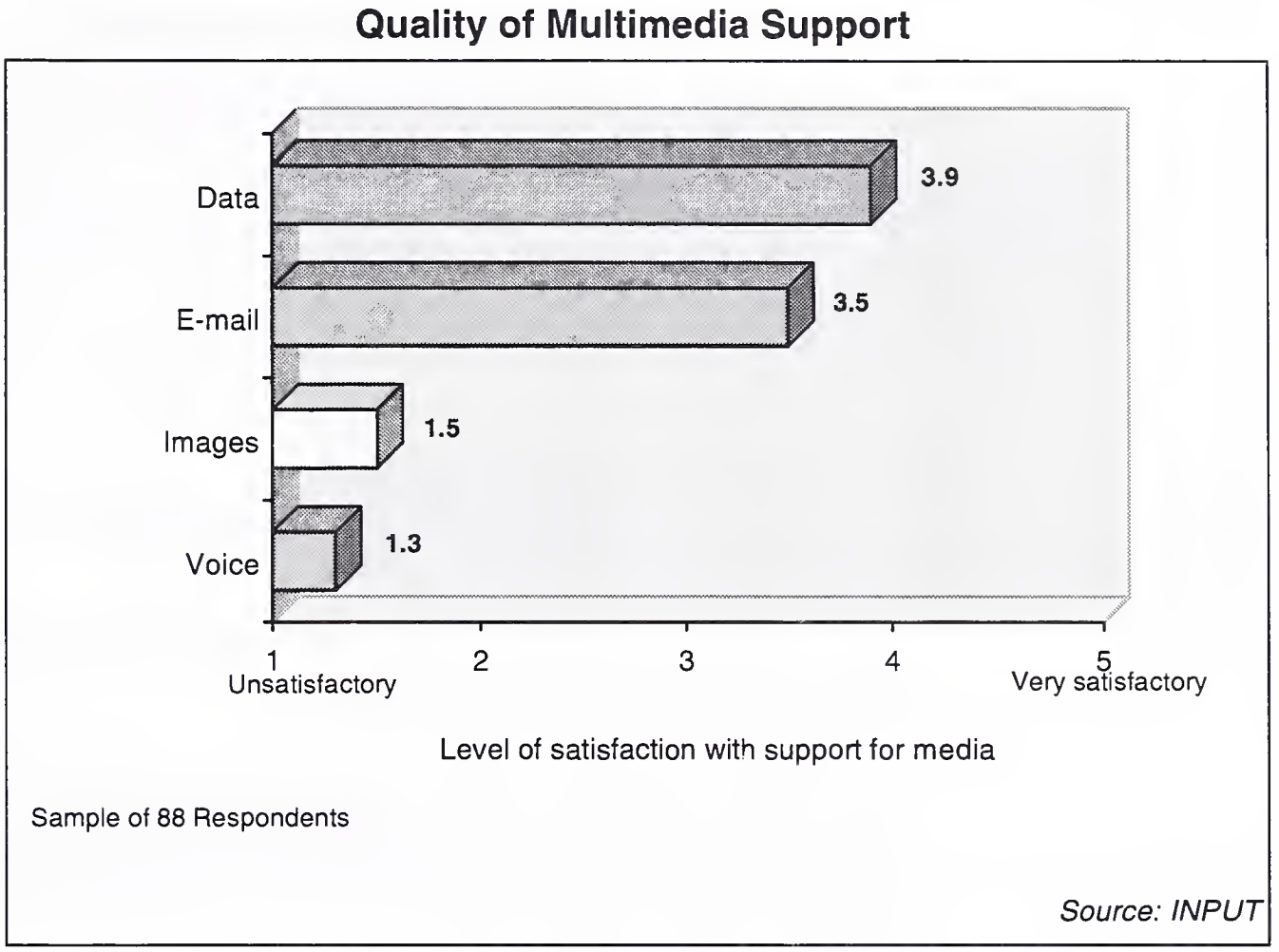
As is common in outsourcing surveys, cost savings is one of the leading benefits anticipated for WAN outsourcing. However, the more important role of WAN outsourcing is not to reduce the cost of operation of the current WAN, but to assist organisations in changing their nature.

Accordingly vendors should stress their ability to take over the management of an existing network and upgrade its scope and performance so as to meet future business needs.

Organisations also require vendors to provide them with enhanced ability to communicate using new types of media.

Exhibit III-11 shows the level of satisfaction with the present WAN's ability to support various types of media.

Exhibit III-11



The level of satisfaction with current data transmission capability and e-mail facilities appears to be comparatively high. Nonetheless, only two-thirds of senior executives expressed a high level of satisfaction with their current WAN capabilities in these areas.

Widespread support for image transmission is virtually non-existent within current corporate data networks. However, changing business needs are widely expected to produce a requirement for cost-effective multi-media transmission capability within the next three years. Many users now wish to go significantly beyond e-mail and be able to communicate via data, voice, fax and image on a desk-to-desk basis, both within their own organisations and with their suppliers and customers.

Organisations are also beginning to want to merge their voice transmission with their data networks.

Exhibit III-12

Key Vendor Capabilities

Critical	Very Important	Important
National network	Image transmission	Total IT infrastructure management
Combined LAN/WAN management	Pan-European network	Global network

Source: INPUT

D
Widening Service and Support Capabilities

Exhibit III-12 lists the key characteristics perceived to be needed by a vendor of WAN outsourcing services.

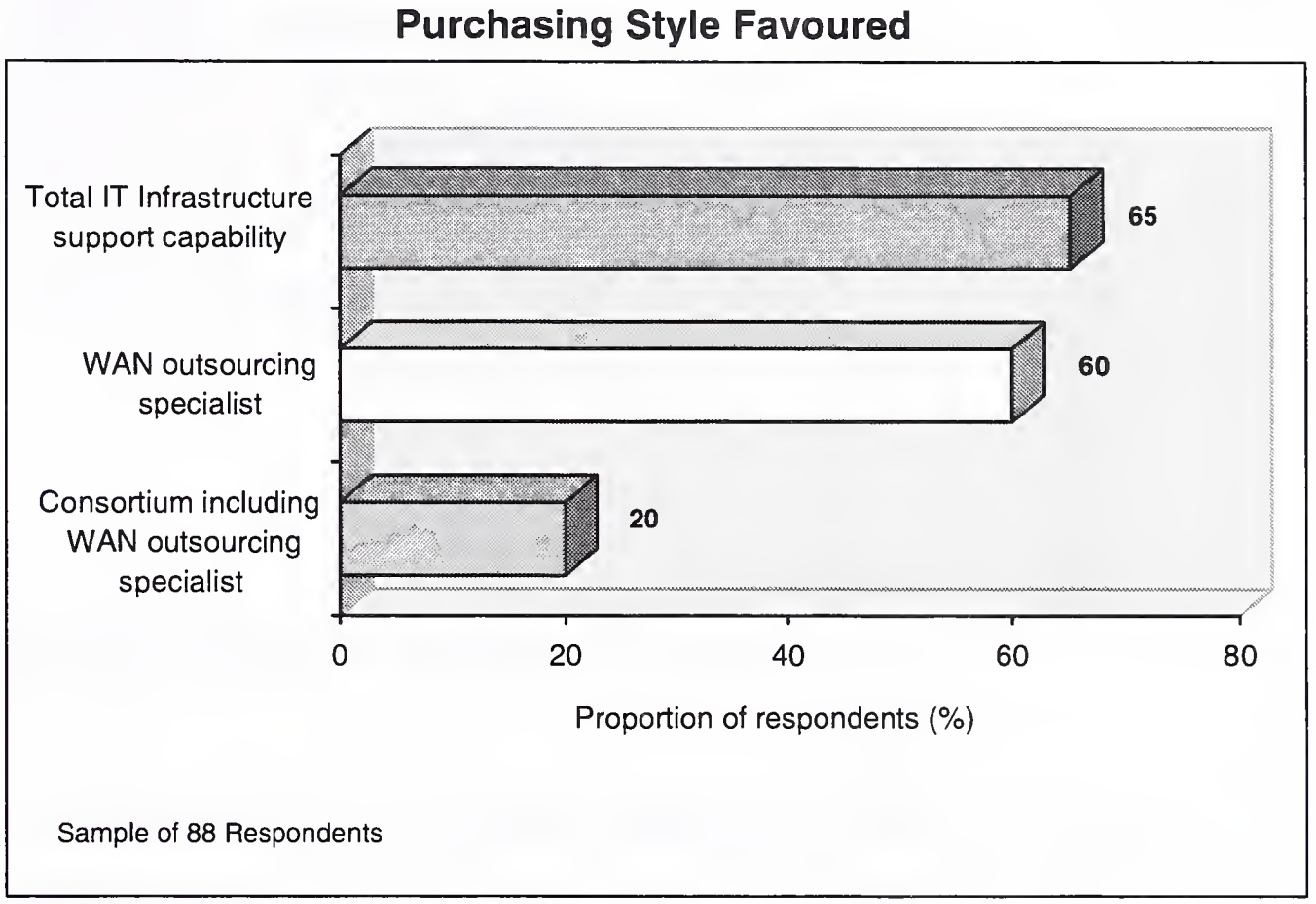
It is essential that the outsourcing vendor can offer the appropriate geographic coverage to mirror the client's requirements. The most important elements of this geographic coverage, in order of importance to European organisations, are:

- Extensive national coverage of the organisation's home market
- Coverage of the organisation's European markets
- Global coverage outside Europe.

Vendors also need to offer a wider service than just WAN management. In particular, there is a very high level of demand for combined WAN and LAN management. As organisations adopt client/server architectures based around LANs, they do not wish to become involved in disputes between rival vendors disagreeing on whether the problem lies with the WAN or the LAN.

Many organisations perceive WAN outsourcing to be an integral component of their overall IT infrastructure outsourcing and do not wish to outsource their wide area network separately. This view is particularly common among senior executives. On the other hand, IT managers tend to be conscious of the need for specialist expertise and are more prepared than senior executives at present to use the services of a WAN outsourcing specialist.

Exhibit III-13



Source: INPUT

Exhibit III-13 summarises the proportions of respondents who perceive that vendors with each of the types of capability listed are an appropriate choice for provision of WAN outsourcing services.

In the future, it is probable that organisations will increasingly tend to favour organisations with a total IT infrastructure management capability. Only a small minority of respondents perceived that using a consortium including a WAN outsourcing specialist was a very suitable way of purchasing WAN outsourcing services.

Accordingly, it is important that the PTTs and other vendors specialising solely in WAN-related services develop a wider outsourcing capability.

Exhibit III-14 lists the perceived suitability of a number of vendors as suppliers of WAN outsourcing services.

Exhibit III-14

Perceived Vendor Suitability

Vendor	Proportion of respondents rating highly (%)
IBM	40
EDS	35
Cap Gemini Sogeti	35
AT&T	30
France Télécom	25
BT	20
Digital	20
Deutsche Bundespost Telekom	15
Unisource	10

Source: INPUT

Overall, the major IT outsourcing vendors were rated more highly than the telecommunications specialists. This was only partly as a result of the leading IT outsourcing vendors' broader geographic acceptance compared to the national carriers. Indeed, France Télécom was the only PTT to receive the highest level of support for its WAN outsourcing capability in its home market. For example, higher proportions of respondents in Germany perceived IBM and EDS to be very suitable suppliers of WAN outsourcing services than they did Deutsche Bundespost Telekom. Similarly, higher proportions of respondents in the UK perceived Hoskyns, IBM and EDS to be very suitable suppliers of WAN outsourcing services than they did BT.

IV

The Impact of Reengineering on Information Services

A
Reengineering and the Systems Integration Business

1. Reengineering – Impacts on Systems Integration Delivery

Reengineering was proclaimed as a revolutionary concept for the organisation. However, in a world awash with management gurus' prescriptions for business success *reengineering* and the term *business process reengineering* (BPR) have been hijacked to be applied as the *in vogue* expressions for almost any type of business improvement activity.

Users, wishing to be viewed at the cutting edge of best business practice, use these terms for all new business initiatives concerned with their organisation and their systems.

Vendors of management consultancy and IT-related services use the terms to demonstrate their credentials as leaders in the application of best business practice.

Reengineering, as defined by Michael Hammer and James Champy in the 1993 book, *The Reengineering Corporation,* has revolutionary implications for businesses and consequently for the vendors serving them. This chapter provides insights into how the reengineering approach is actually being applied at a working level in the context of its relationship with systems integration projects.

Vendors and users of information services can optimise their performance in the market on a long-term basis through careful implementation of the following precepts (as summarised in Exhibit IV-1):

Exhibit IV-1

Business Process Reengineering – Implications for Services Delivery

- **Understanding the reengineering impact on SI**
- **Identifying value contribution**
- **Delivering core capabilities**

Source: INPUT

- Gaining a true understanding of the real essence of the reengineering revolution and its long-term implications whilst being able to effectively relate this to business process improvement activities on a day-to-day basis

- Making decisions about a firm's unique value-added contribution to the delivery of reengineering-driven systems integration projects

- Developing and positioning the necessary capabilities to deliver the higher rewards from BPR-related systems integration projects whilst at the same time controlling the higher risks involved.

2. Understanding the Reengineering Impact within the SI market

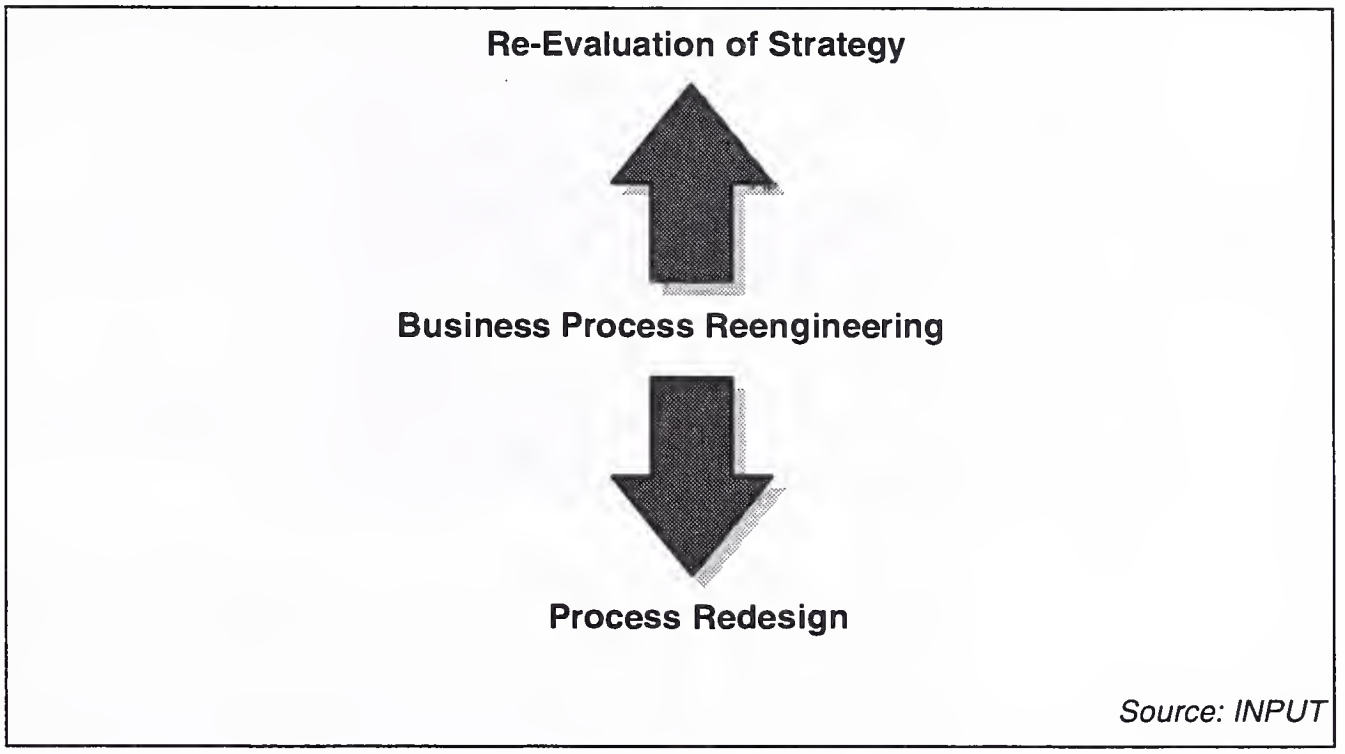
Reengineering and the term BPR have become absorbed into the business and information services vocabulary as the accepted descriptions for all and any types of business restructuring, change or improvement initiative.

Unfortunately, this widespread acceptance of the terminology has led to a comprehensive failure on the part of many managers and executives to understand the fundamental message that the reengineering philosophy implies.

The real message implied in the Hammer and Champy reengineering philosophy is that in the ever more complex information age that we are now entering, corporations abandon the old *command and control* management model that has been pervasive throughout the 20th century.

Exhibit IV-2

Vendor Perspectives on Reengineering



The oft-reported failures of reengineering as a prescription for business success are increasingly being identified as resulting from the failure of managers to abandon that operational mode. Indeed Champy's recently published book, *Reengineering Management,* addresses exactly this point as this did not get sufficient emphasis in the original book.

The research conducted for this study revealed a wide range of usage for the terms reengineering and BPR (see Exhibit IV-2).

Whilst about half the number of vendors interviewed paid lip service to the Hammer and Champy definition, significant minorities, about one quarter of the sample in each case, gave the concept either a completely strategic or a completely tactical interpretation.

The strategic view was characterised as Strategic Innovation, the re-evaluation of corporate strategy. This approach completely ignores the internal messages about running organisations on a radically different model to that hitherto accepted as the norm, irrespective of the overall strategy objectives of the firm.

The tactical view was characterised by a view that it was simply an improvement philosophy with a particular emphasis on step improvements in process performance and that there was nothing particularly new in this approach.

The client view of reengineering was generally much more confused than that of the vendors. Only one interviewee accepted the Hammer and Champy definition as having practical applicability in their organisation. A number of users saw no real possibility that reengineering concepts could be implemented in their own organisations.

Generally, users preferred to take what has become quite a popular view, that taken by the *tactical definition* vendors referred to above.

Champy, in his new book, clearly recognises these road blocks even in the US business environment in contrast to the European environment as supported by the evidence presented here.

Champy sees the new obstacle as management attitudes and this is clearly demonstrated in this study. He talks about shifting the focus of reengineering away from the operational processes to concentrate on management and in particular changing management methods.

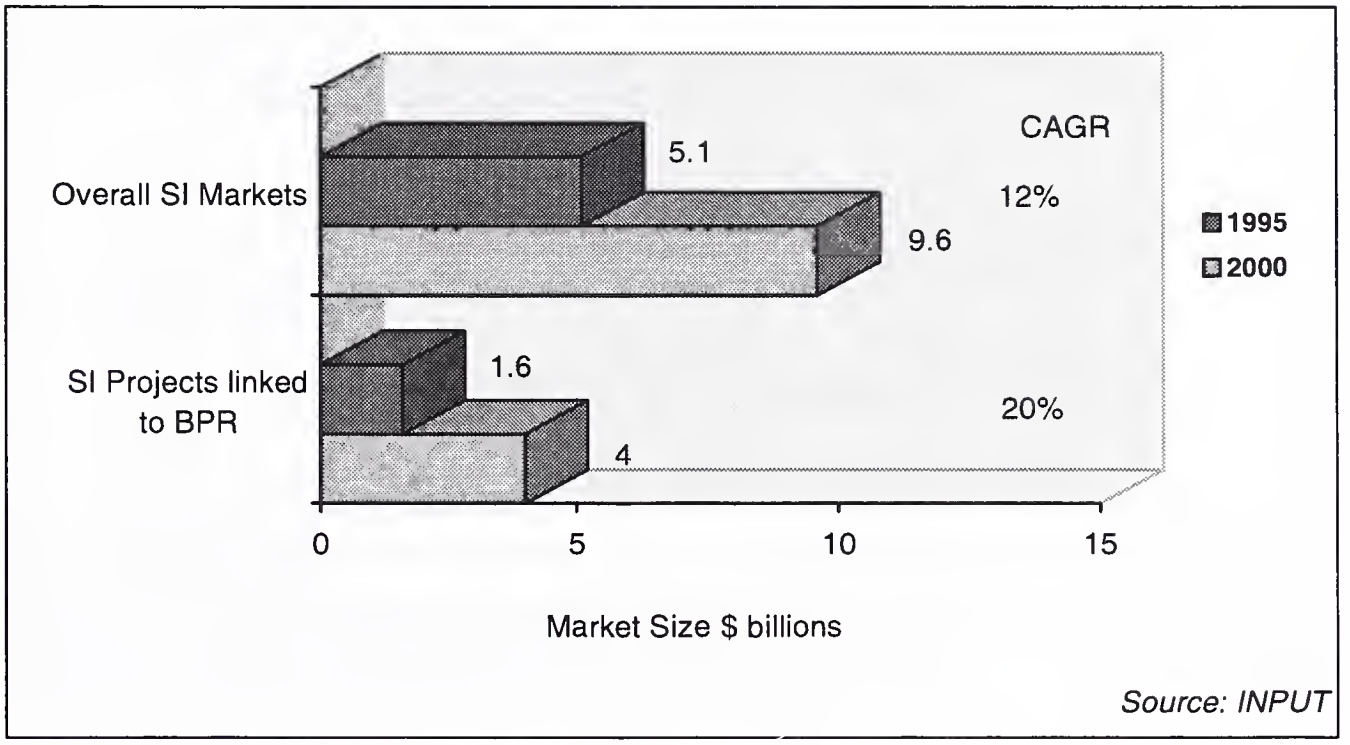
Clearly these ideas are going to be extremely challenging to managers and executives over the next few years. The shift away from the *command and control* model, under the pressure of huge amounts of information and increasing complexity, are creating the conditions for the application of the professional services firm model. This, interestingly, is one that vendors are very familiar with in the context of their own business and is consequently reflected in their generally more coherent view of reengineering.

3. Identifying the Value Contribution

Irrespective of the finer definitional points, the reengineering phenomenon has undoubtedly had, and will continue to have, an important driving effect on the systems integration contrasting business. INPUT's projections for this impact on the European market are shown in Exhibit IV-3.

Exhibit IV-3

Reengineering Drives the European SI Market



Source: INPUT

Generally, both vendors and users reported significantly higher absolute expenditure on SI than on BPR.

BPR creates not only general growth opportunities, but more specifically opportunities for increasing the value contribution that vendors can make to their client's business.

The central question that vendors face in assessing these opportunities is identifying the particular services that they are going to offer to clients. This can be reviewed essentially under two headings:

- The driving impact of BPR on SI
- The range of services being offered by vendors.

a. Drivers for SI

Users saw a very definite correlation between reengineering initiatives and the generation of systems integration projects to implement the newly-defined systems and processes.

Vendors too, not surprisingly, commented strongly on the growth potential of reengineering and BPR work on system integration contracts. The opposite effect, the development of BPR work from SI contracts, was however reported by vendors to be much weaker, as is shown in Exhibit IV-4.

Exhibit IV-4

BPR and SI Relationship – Vendor Perspective

Proportion of Projects	%
• BPR Driving SI	70
• SI Driving BPR	30

Source: INPUT

One of the most important driving forces for SI was related to the size of the contracts. Reengineering and BPR initiatives were viewed as having had a very beneficial effect on emphasising business benefits. Under these circumstances larger budgets would be approved as executives could see the potential impact for the business much more readily.

There was further evidence of the benefits and value to be obtained from BPR-driven SI that emerged from descriptions by both users and vendors in respect of comparative project characteristics.

For example, Exhibit IV-5 shows the vendor's perspective of the changing nature of SI projects as they become increasingly initiated from reengineering work.

Exhibit IV-5

Comparative SI Project Characteristics – Vendor View

Traditional		BPRDriven
Function	→	Process
Mechanistic	→	Open
IT	→	Business
Middle Management	→	Executives
Fixed Price	→	Value Opportunities

Source: INPUT

Exhibit IV-6 shows these same trends from the perspective of the user.

Exhibit IV-6

Comparative SI Project Characteristics – User View

Traditional		BPR - Driven
Internal Focus	→	External Focus
Technology Focus	→	Business Focus
Limited Reference Frame	→	Open Objectives
Little Business User Involvement	→	Active use of RAD and Prototyping to support users

Source: INPUT

The trend exhibited here offers vendors an obvious opportunity for seeking to increase the level of value they can deliver to clients.

Certainly the CSC Index Group have given notice of this as they have observed a commoditising impact of BPR ideas at the lower end of the market.

Reengineering initiatives are of course leading vendors into higher risk territory where higher value opportunities mean sharing business objective goals with the client.

Another factor consistent with this move up the "value chain" is higher level client expectations as projects shift from the general IS department domain into the boardroom.

The research data is in this sense highly supportive of at least some of the underlying principles of the reengineering movement. For example, the introduction of BPR-type work as a precursor of systems developments clearly reflects a shift in seeing IT projects as focused as external or business issues rather than regarding them as internally focused.

Greater open-mindedness also seemed to be a continuing theme. There was some evidence that organisations were going back to the drawing boards and rethinking how their company was going to operate.

Exhibit IV-7

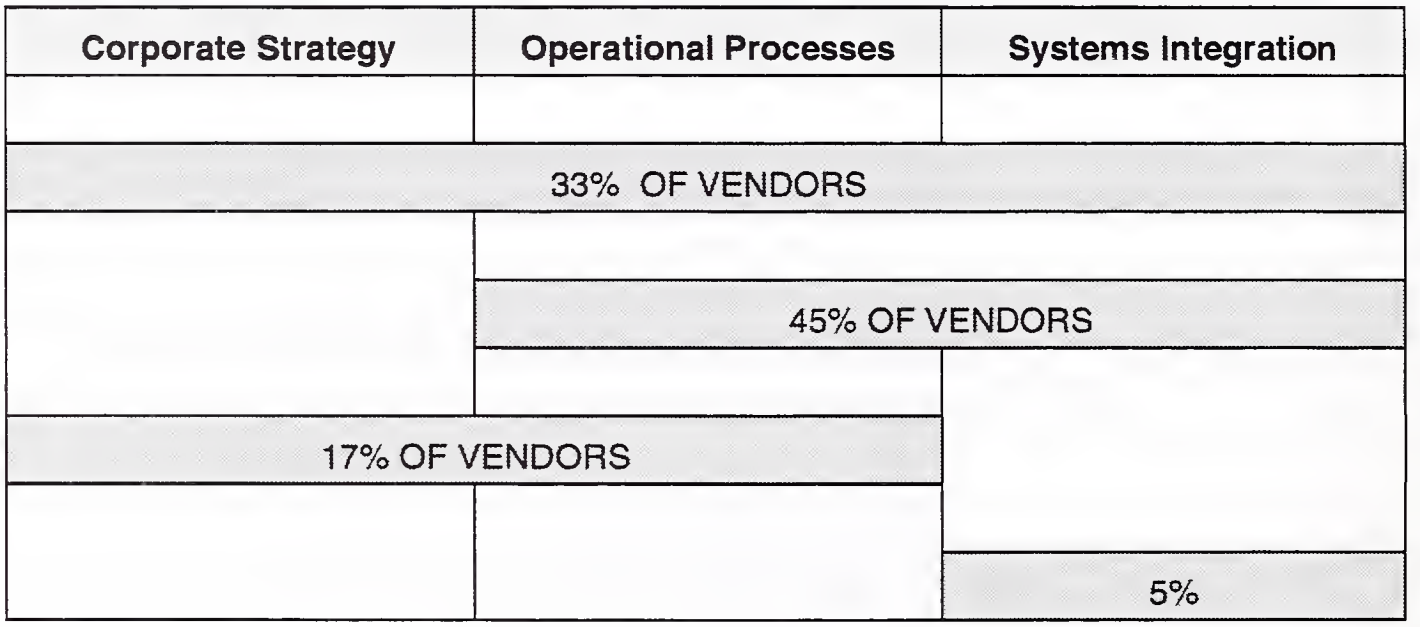
Comparative BPR Project Characteristics – Vendor View

SI Generated	Stand-Alone
Problem Driven	Issue Driven
Middle Management	Board Level
Technology Limits	Blank Sheet Approach
Smaller Projects	Open-Ended Projects

Source: INPUT

Exhibit IV-8

The Service Spectrum – Vendor View



The shaded areas are services offered by vendors (proportion of sample) *Source: INPUT*

Exhibit IV-7 shows a comparison of BPR-type work characteristics.

Users had little experience about the differences between BPR work generated from systems integration projects and BPR work conducted on a stand-alone basis, thus reflecting comments from vendors. The key elements were:

- The narrower focus and smaller size of SI instigated work
- The likelihood of BPR solving short-term rather than longer-term problems.

b. Range of Services

Exhibit IV-8 provides a view of the vendor service spectrum.

Exhibit IV-9

Vendor Partnering Requirements

Vendors need to be partnered with:	Percentage of sample
System Developers	35
Strategy Consultants	30
Specific Industry Skill Vendors	30
Specific Technology Skill Vendors	25
Application Product Vendors	10

(Multiple responses allowed) *Source: INPUT*

Although a significant number of vendors claim to be operating across the full range of service delivery, in general they are only managing to do this when they subcontract significant amounts of work.

In reality there is a strong recognition of the fact that it is increasingly difficult to operate alone.

At the same time there was a significant recognition of the need to partner or at least subcontract in order to be able to deliver everything to a client. This is clearly revealed in the analysis shown in Exhibit IV-9.

4. Delivering Core Capabilities

The increasing trend towards BPR-influenced SI will have some important impacts on vendors. Whatever particular piece of the value chain they have decided to make their own they face the challenge of marketing and selling these services in a very different environment than that which they have experienced to date.

Three aspects are considered here:

- Competitive positioning
- Key vendor characteristics
- Changing skill requirements.

a. Competitive Positioning

Not surprisingly the user view of the competitive scene was more fragmented than that of the vendors. Vendors tend to be more acutely aware of their direct competitors. Users clearly are more open-minded about whom they would like to consider than vendors would sometimes wish.

This suggests that the often repeated conventional wisdom of a "full service" offering, ranging from high to low value added services, may not in fact be the most appropriate competitive position to adopt.

The research suggests that users look for the best and most competitively priced offering at all points on the value chain and that they are comfortable with the added complexity of managing multiple suppliers.

Only 21% of users plan to use the same vendor for a reengineering engagement and the subsequent SI delivery project.

As with all procurement processes the key criteria in vendor selection is credible references; proven delivery, proven results and proven benefits are the key differentiators vendors must be able to leverage. The offering of full service is not, it appears, a major differentiator. From a commercial point of view vendors offering full service do not always necessarily win over niche players.

b. Key Vendor Characteristics

These views are supported by the user's views of what they are looking for in selecting a reengineering vendor.

The most frequently mentioned characteristics were the ability to be able to transfer skills and knowledge about best external practice to the client. This was closely bracketed with functional experience.

c. Changing Skill Requirements

Perhaps the most important issues integrators face in considering reengineering and its implications is in confronting the skill requirements which a reengineering offering would require.

Systems Integration (SI) services are currently in the midst of a subtle period of transition. Major organisations are being forced to change in order to respond to the business challenges of the mid-1990s. Many of the historical tenets of the services industry are being challenged and altered. Reengineering is simply another factor increasing the complexity and speed of change in this environment.

Against this background of increasing commercial pressures, vendors of information technology-related services are having to adapt to the delivery of new technologies in shorter timescales, to increased levels of functionality, and to benchmarks of provable and demonstrable business benefit.

However, vendors of services in the forefront of this transition will be well placed to help their clients make real progress in meeting the challenges of these new market realities. Those who are able to succeed in this period will emerge with real and sustainable market leadership.

Although IT is widely perceived by many business people to have failed the enterprise, it is also now paradoxically recognised that IT is increasing importance to the corporation and that the implementation of IT *can* bring measurable benefits.

The major role for vendors of integration services is to help their clients, and demonstrate to potential clients, that they are able to assist in managing this paradox.

Until recently many corporations' IT investment was focused on the development, improvement and management of their *internal* organisation. It is becoming clear now that executives are moving towards a more customer-facing approach as a result of the increasing competitive need to provide better service.

These important developments are coupled with the growing trend to merge information systems (IS) with information management functions outside the confines of the IS department. IS roles and structures are integrating with line functions such as logistics, order processing, and customer service.

Information-based work is increasingly being "stitched" into system-based work. Artificial distinctions between system builders, support services, and users are being discarded.

At the same time SI projects are evolving from large bespoke development projects to projects based around the assembly of standard products and kernels. These developments have important implications for services vendors in terms of project management but also in the skill sets required by vendors to deliver projects successfully.

Vendors need to carefully examine the skill profiles of their professional staff, optimally manage this human resource in client engagements, and invest in training aimed at exploiting these opportunities. Rewards and requirements, intrinsically linked in the "new" IT world, are simultaneously becoming greater.

These dynamics are, and will continue to be, supported by large scale client/server integration projects, as widely reported in previous INPUT bulletins and reports. Vendors are undoubtedly finding themselves "deeper" in their clients' organisations, dealing with technology-literate, enabled and competent users, as well as with IT personnel from traditional domains.

B

Impact of Business Reengineering on Outsourcing

1. Role of IT Stimulated by Business Reengineering

During the 1980s, many senior executives became disillusioned with the contribution that information technology was making to their business. In spite of the large sums of money spent, IT appeared to do little to enhance the competitive standing of organisations and was frequently inflexible and slow to change, acting as a barrier to organisations wishing to respond quickly to their changing business environment.

A typical response to these problems was for senior executives to become more involved in steering the use of IT within their organisations, coupled with the imposition of considerable budgetary constraints on the IT department.

However, INPUT research indicates that the emergence of client/server architecture and the concept of business re-engineering are now acting as major stimuli to the use of information technology. In particular, there is a major opportunity for outsourcing vendors to become more involved in business re-engineering. This is due to two factors: technology is back on the agenda; and reengineering and outsourcing have synergistic goals.

However, in order to take advantage of this opportunity vendors need to become more pro-active, develop their commercial skills and significantly improve their ability to identify process improvements.

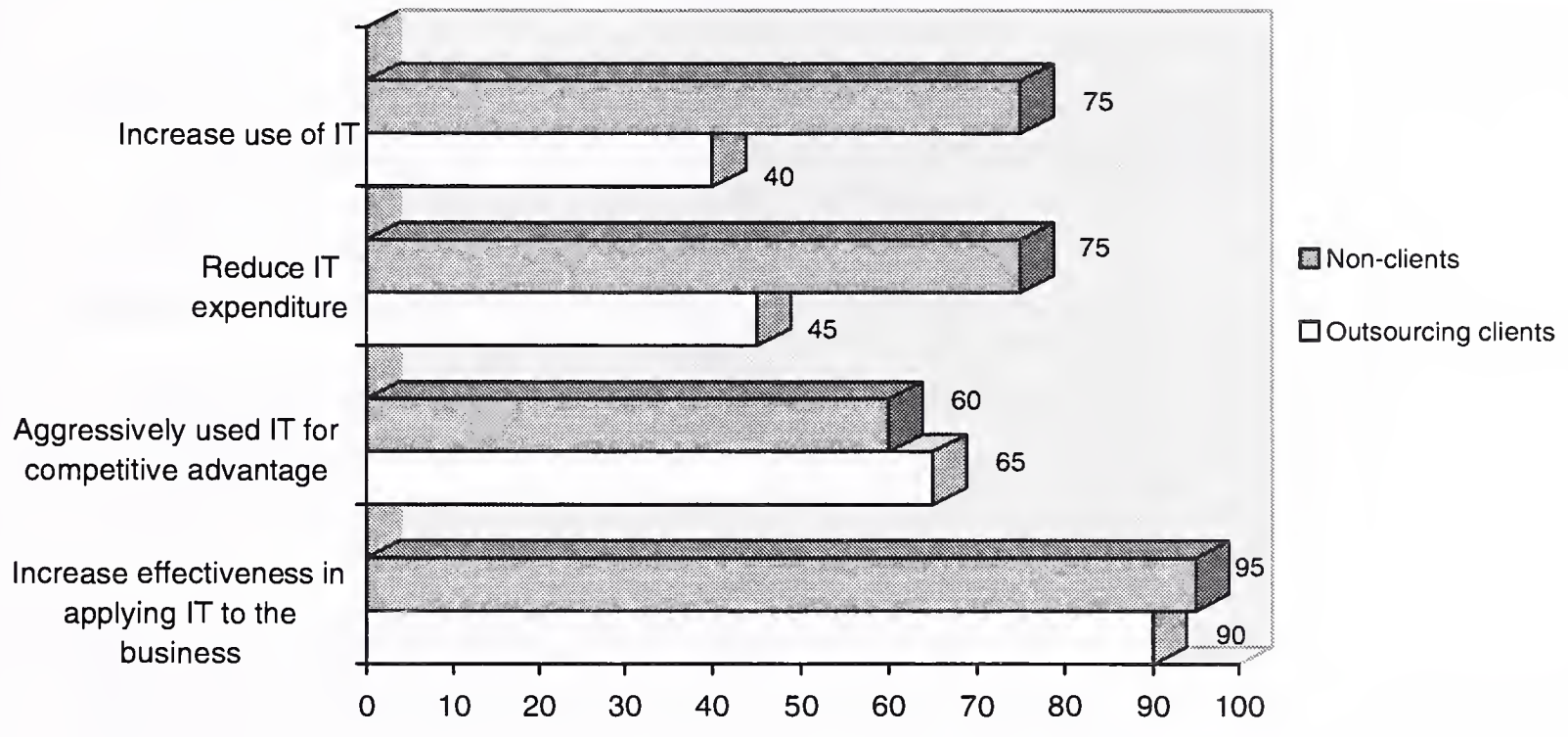
Exhibit IV-10 contrasts the typical IT goals of executives within organisations that have already adopted IT outsourcing and those within organisations that have not yet done so.

During much of the 1980s, information technology was viewed by many senior executives in Europe as a necessary evil. Information technology was seen as vital to support business procedures, but viewed only as a supporting tool which made little contribution to the development of the business. In particular, executives were reluctant to adopt leading edge

technology, preferring other organisations to take the risks of innovating with new products and techniques.

Exhibit IV-10

IT Goals: Outsourcing Clients and Non-clients



Sample of 30 outsourcing clients and 60 non-clients
Proportion of executives giving a score of 4 or 5.

Source: INPUT

However, there are signs that European executives are now prepared to be more aggressive in their use of IT and are more prepared to recognise the potential of information technology to assist pro-actively in the re-engineering of key business processes.

A survey of Fortune 500 companies between 1987 and 1991 identified an average 67% return after depreciation on investments in information technology and revealed benefits such as improved quality and customer service, greater product variety and speed.

The majority of executives now strongly agree that information technology should be used aggressively to obtain a competitive advantage for their organisations. This view is equally shared by executives within organisations that have already adopted IT outsourcing and those within organisations that have not yet done so.

It is also held by a high proportion of executives in each of France, Germany, and the U.K. However, German executives expressed a higher commitment to using information technology for competitive advantage than their counterparts in France and the U.K.. Many executives in France remain highly concerned with the need to reduce their level of IT expenditure.

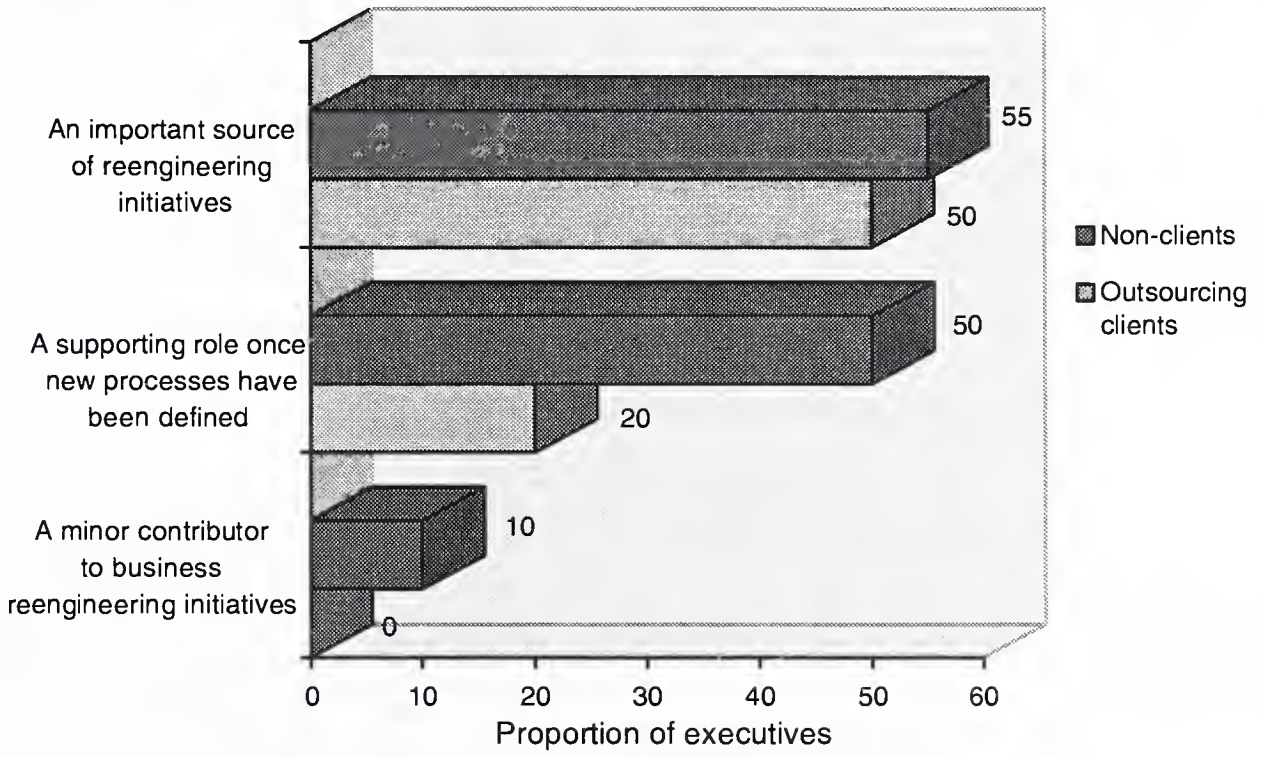
Organisations that have adopted IT outsourcing have often been characterised as being more concerned with cost reduction than with improving their use of information technology. However, organisations that have adopted IT outsourcing are equally enthusiastic about aggressively using IT for competitive advantage compared to other organisations (see Exhibit IV-10). Such organisations are more likely than their counterparts to increase their use of information technology.

The characteristic that distinguishes outsourcing clients from other organisations is not a desire to lessen the role of IT within their organisations, but a combined need to use IT more effectively while simultaneously reducing their IT expenditure.

Exhibit IV-11 contrasts the attitudes of executives within organisations that have already adopted IT outsourcing and those that have not yet done so towards the role of information technology within business re-engineering.

Exhibit IV-11

Role of IT Within Business Reengineering



Sample of 30 outsourcing clients and 60 non-clients
Proportion of executives giving a score of 4 or 5

Source: INPUT

Indeed executives within organisations that have already adopted outsourcing tend to regard information technology as more important within the business re-engineering process than their counterparts in organisations that have not adopted IT outsourcing. None of the executives interviewed within organisations that have *already adopted* IT outsourcing regarded information technology as a minor contributor to business re-engineering.

Similarly, a much smaller proportion of executives within companies that have outsourced regard information technology as playing merely a supporting role once new processes have been defined.

However, amongst the companies that have yet to adopt IT outsourcing, there are significant national differences in attitude towards the role of IT. The majority of executives in these organisations in France and Germany strongly perceive information technology to be an important source of re-engineering initiatives. On the other hand, the majority of executives in the U.K. primarily perceive IT to perform a subordinate role once new business processes have been set up.

Exhibit IV-12

Goals of Reengineering and Outsourcing

- Cost saving
- Improved core business focus
- Target labour-intensive activities
- Increased flexibility

Source: INPUT

2. Reengineering and Outsourcing Have Synergistic Goals

The concepts of IT outsourcing and business re-engineering are perceived to have a strong cultural compatibility, and to share a number of common themes. Exhibit IV-12 lists some of the objectives shared by the concepts of IT outsourcing and business re-engineering.

The prime benefit executives anticipate from business re-engineering initiatives is improved process efficiency or cost savings. The same applies to IT outsourcing.

However, executives do not typically view outsourcing as directly supportive of re-engineering, for example, by providing improved process knowledge or access to leading-edge technology. Instead they typically regard outsourcing as indirectly supportive of re-engineering.

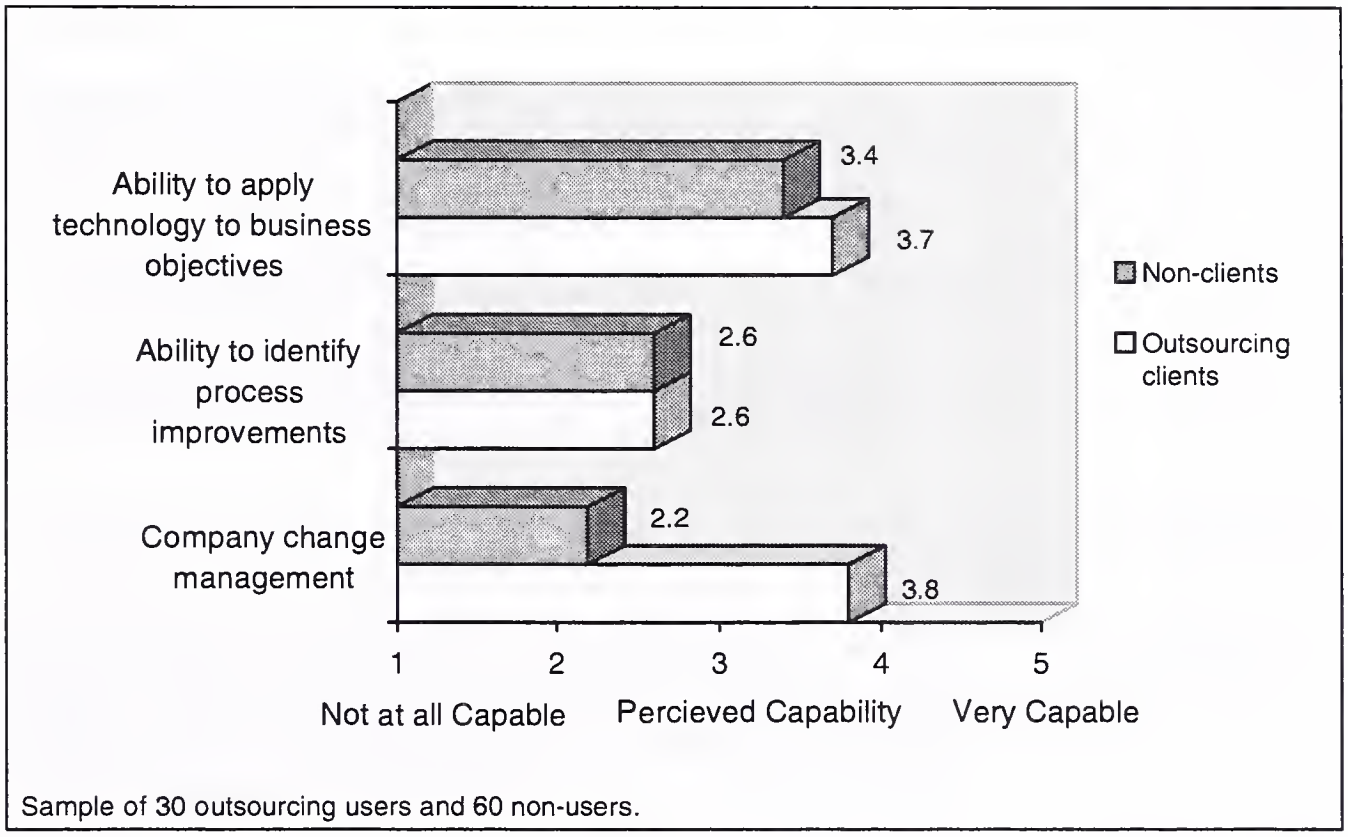
One of the major ways in which outsourcing is seen to support business re-engineering is by freeing management resources to concentrate on re-engineering initiatives. In a similar manner, IT outsourcing is often viewed as freeing IT management resources to refocus on new systems development and the more strategic application of IT to the business.

Key targets for business operations outsourcing and re-engineering are labour-intensive activities. Indeed, one of the outcomes from a business re-engineering exercise will often be a decision to outsource a number of activities, where the organisation is unable to match the performance of external vendors.

IT outsourcing is also considered to create an environment in which business re-engineering is more likely to succeed by removing one of the major impediments to change and by demonstrating the practicality of outsourcing an in-house service to the remainder of the organisation.

Exhibit IV-13

Comparative Capabilities of IT Departments and Outsourcing Vendors



Sample of 30 outsourcing users and 60 non-users.

Source: INPUT

3. Vendors Must Improve Ability to Identify Process Improvements

Exhibit IV-13 compares executives' perceptions of the capabilities of their IT departments and outsourcing vendors.

Overall the performance of in-house IT departments and outsourcing vendors is perceived to very similar. Both organisations are perceived to have similar levels of capability to apply technology to business objectives.

Approximately 45% of executives perceived each to possess a high level of capability here. The ratings of each group were also virtually identical in terms of their:

- Technical capability
- Understanding of the latest technologies
- Business understanding.

Exhibit IV-14

Areas for Vendor Improvement

- Improve flexibility
- Improve commercial perspective
- Remove IT bias

Source: INPUT

However, there is scope for vendor improvement in terms of business understanding. Only 45% of executives within organisations that have already adopted IT outsourcing perceive their outsourcing vendor to have a high level of understanding of their business.

Indeed, if outsourcing vendors are to make a significant contribution to their clients' future use of IT, then they must take action to improve their ability to identify process improvements.

In a customer satisfaction study conducted by INPUT in 1993, a number of executives reported that their outsourcing vendor provided only a reactive service and suggested that outsourcing vendors take a more pro-active approach. Vendors need to be able to identify business process improvements for their clients if they are to meet this need for a more pro-active service. At present, fewer than 10% of the executives interviewed perceive that their outsourcing vendor has a strong ability to identify process improvements.

The one area where outsourcing vendors significantly outscore in-house IT departments is in their change management capability. However, this may relate less to their ability to bring about business process change and

more to their ability to transfer equipment between datacentres and phase out legacy systems.

Exhibit IV-14 lists the principal areas where executives perceived outsourcing vendors could improve their support for business re-engineering initiatives.

While outsourcing is perceived to be complementary to business re-engineering, only 50% of the executives interviewed perceived their outsourcing vendor to be well qualified to support business re-engineering initiatives.

In particular, executives were concerned about the restrictive nature of many outsourcing contracts. Instead of freeing clients to re-engineer their organisations, executives perceived that these contracts could severely restrict their ability to change to more appropriate forms of IT support for their business. Vendors, like their IT department counterparts, are viewed as being to committed to restrictive IT policies and a limited range of operating environments.

Executives are also concerned about the level of re-engineering capability possessed by outsourcing vendors, their tendency to view all organisational issues from an IT perspective, and their vested interest in developing the client's use of IT. Vendors have to considerably enhance their capabilities before they will be generally accepted for their commercial consulting skills.

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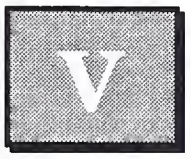


Providing Support Services

A
Software Product Support Strategies

1. Introduction

Software product support is being delivered in a world that is rapidly changing for both users and vendors. The following trends are apparent:

- LAN-based client/server architectures are dramatically increasing user support costs at the same time as software product prices are declining.
- More market growth will be found over the next five years in the market for software support than in the market for software products.
- The move away from proprietary solutions towards *open* systems architectures increases the need for software vendors to support multivendor solutions.
- An increasing diversity of users are calling for a wider range of support services

It is evident that the packaging and pricing of these support services require overhaul.

2. Vendor Concerns

a. Revenue and Customer Perception are Key Issues

The two major concerns raised by more than a third of all vendors interviewed for this report were:

- The need to generate revenue and/or profit from software product support

- The need to change customer perceptions about the value and quality of software product support.

Falling profit margins on product sales have forced vendors to recognise the revenue opportunities inherent in support. They are beginning to monitor support revenue, although it is still rare to find support organisations that are regarded as profit centres.

An increasingly competitive and open marketplace means that vendors cannot afford to take customers for granted. Products are coming to be regarded as commodities and in competitive situations support is becoming a more significant factor in customers' purchasing decisions. Vendors feel they must convince customers of the quality of their support; manage customer expectations of levels of support; and – particularly in the PC world – persuade customers to pay realistic prices for the support of their software.

Vendors are having to invest more in training their support staff. As support ceases to be the poor relation within software organisations, so higher levels of professionalism are expected. Increased product complexity calls for more technical training. Training in problem- solving skills, telephone techniques and customer relations is now becoming more commonplace.

Competition is also beginning to emerge in the support marketplace itself. In multivendor environments one vendor may offer a competitive threat by providing some elements of support for another vendor's product.

b. Vendors' Attitudes are Beginning to Change

Vendors now appreciate the importance of support as a source of revenue and profit, but still see support primarily as an adjunct to sales of the product. Around 20 per cent of vendors feel that margins are not an appropriate measurement of support.

Exhibit V-1

Varieties of Customer Support Requirements

Type of Customer	Support requirements
Users of business-critical applications	Round-the-clock availability with guaranteed response times
Experienced programmers	Infrequent but high level
Inexperienced users	Ability to relate to non-computer literate caller, and to present solutions in clear and simple terms

Source: INPUT

Over 90 per cent of vendors believe that bundling of all support no longer makes sense. Some prefer a mixed approach, whereby a certain amount of support is included in the licence fee but the majority of support is priced separately. This approach encourages the customer to use some support to maximise the chances of a successful implementation of the product, yet recognises that the cost and price of support are largely unrelated to the cost and price of the product.

It is unlikely in the new open software world that a single vendor has all the skills needed to support his customer. Partnerships are needed in which each party brings one or more strengths to bear in meeting the customer's needs.

Not all vendors have the skills and attitudes necessary to make partnerships work. But many vendors understand the need to monitor the quality of support offered by third parties, ensuring that third parties are satisfied with the quality of assistance they in turn receive from the vendor. Overall, there is a tendency to see partners as a necessary evil, rather than a strategy to be pursued with enthusiasm.

Vendors recognise the importance of offering flexible support, particularly in meeting the needs of widely different categories of customers, as illustrated in Exhibit V-1.

3. The State of Software Support

a. The Historical Perspective

Exhibit V-2 shows the traditional profile of software product support offerings, which has changed little since the emergence of the software products business in the mainframe-dominated world of the 1970s.

Originally, the cost of some support items (most commonly, installation and initial training) was included in the product licence fee, whilst other items (most commonly, telephone support and the provision of fixes and enhancements) were provided on payment of an annual maintenance fee. The fee was typically set at 12 per cent of the product price, despite the tenuous connection between the cost of the product and the cost of delivering the support.

Exhibit V-2

Traditional Software Support Offerings

- Initial training
- Occasional on-site support (often including installation of the product)
- Correction of bugs found in the product
- Telephone support:
  - to answer customers' questions about techniques and meet to explain unexpected results
  - to take not of problems found in the product

Source: INPUT

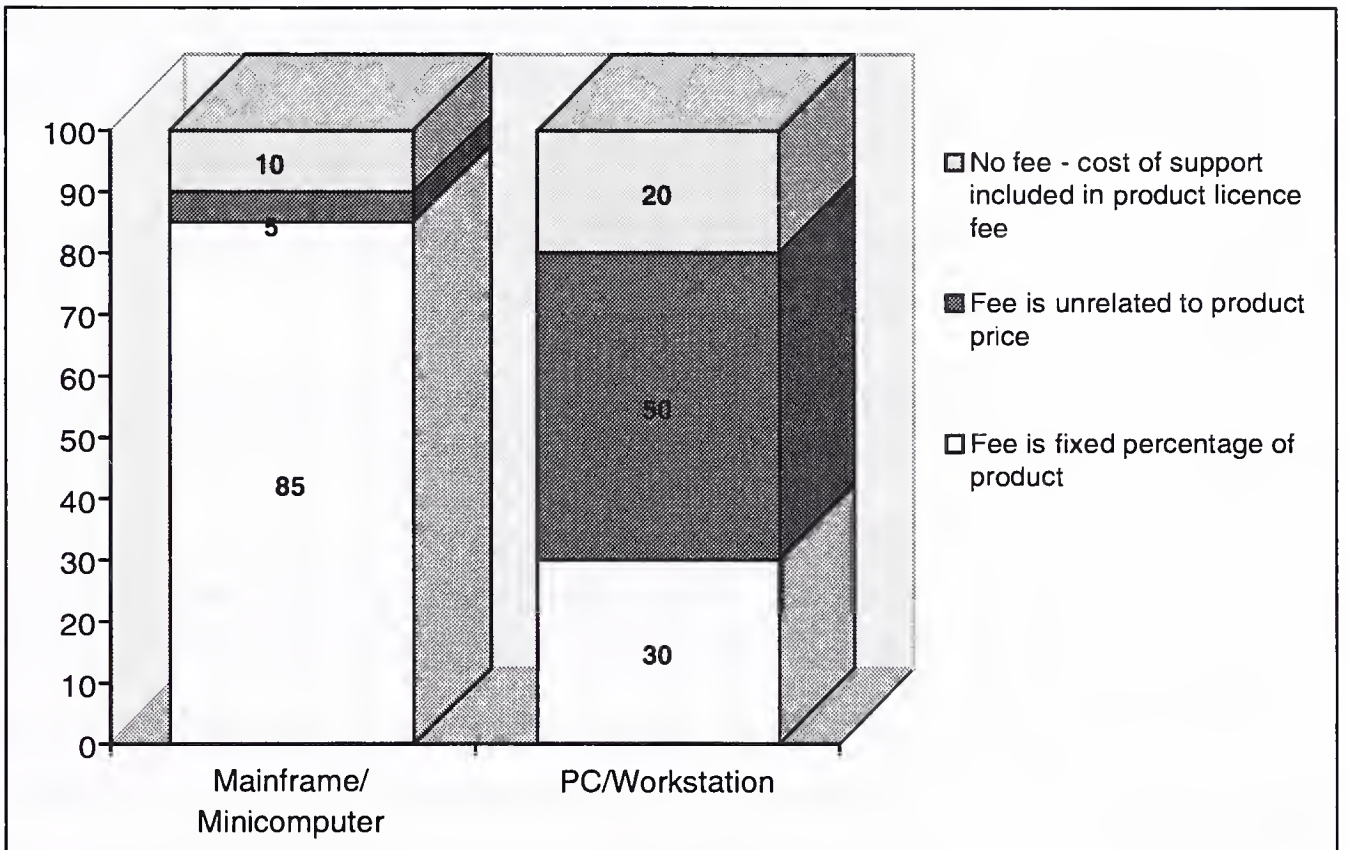
Until the 1990s, the only significant developments in the profile of software product support were:

- Increase in annual maintenance fees to between 15 and 20 per cent of the prevailing product price
- Development of the minicomputer software product support market along the same lines as the mainframe model described above
- Development of the PC software product support along different lines:

- Training available on a separate fee basis
- No provision of on-site support
- Enhancements and bug fixes only available with new releases, for which a separate charge is made
- No charge for provision of telephone support (now becoming chargeable)

Exhibit V-3

Comparison of Charging Methods between PC/Workstation and Mainframe/Minicomputer



Proportion of vendors using each charging method (%)

Source: INPUT

Exhibit V-3 illustrates the differences in charging for support between the PC and mainframe/minicomputer markets.

b. Support Offerings Become More Flexible

Vendors are now beginning to offer more extensive and more flexible support. Items common to at least 50 per cent of all surveyed vendors' basic services included:

- Software helpdesk support

- Software bug fixes
- Electronic bulletin board
- Remote diagnostics

There is an emerging tendency to offer various levels of service aimed at different customer needs. Oracle, for example, has a *World-wide Customer Support Programme* which offers four levels of support and additional field support options.

Some vendors offer different services tailored to different types of product and different types of customer. For its *Microsoft Support Network*, Microsoft has identified four different product groups and has defined support offerings which vary according to product group.

c. Current Trends Force Further Change

Recent developments have compelled vendors to rethink the whole notion of support:

- The introduction of complex LAN-based client/server architectures generates a need for more expensive multivendor support
- The structure of software product licence fees has become increasingly complex and has made many people question the logic of basing support prices on an apparently arbitrary percentage of a product price
- Customers' support demands are becoming more diverse, creating a demand for flexible packaging of support offerings
- Technology offers ways of enhancing and extending support services
- Software product prices are declining and software product support markets are growing faster than software product markets

As markets become more competitive, vendors have to become more receptive to customer needs.

4. Vendor Plans to Enhance Software Product Support

Exhibit V-4 summarises the key strategies adopted by the vendor community.

Over 60 per cent of respondents plan to increase their marketing activity for support. They want to present support in a positive light as a key benefit.

Support prices which represent a percentage of product price are no longer appropriate, and most vendors are moving towards pricing based upon some combination of cost of delivery and usage of service.

Exhibit V-4

Vendor Strategies to Attract Customers and Improve Margins

- **Attract customers by:**
  - Better marketing
  - Flexible packaging
  - Flexible pricing
  - Improved upgrade processes
- **Improve margins by:**
  - Increased productivity
  - More use of technology
  - Quality initiatives
  - Charging for support of PC product

Source: INPUT

Planned uses of technology include:

- Implementing helpdesk management software
- Using telephony, call queuing and call management
- Using CD-ROM to distribute information on known problems and problem resolutions
- Implementing video and desktop conferencing
- Other planned productivity improvements include:
- More staff training

- Reduced call volumes as a result of improved software quality
- Organisational changes, including centralising support and hiring more multi-lingual staff.

In terms of installing new releases of software in a more cost-effective and trouble-free manner vendors saw no immediate panacea, but mentioned a number of approaches. This included better use of technology, better compatibility between releases of software and provision of a special customer upgrade service. A combination of all these approaches offers the best hope of success.

5. Key Conclusions

The key attributes for success from a vendor perspective include:

- Recognise customer sensitivities
- Adopt a business orientation
- Use technology effectively
- Consider partnerships
- Focus on quality.

a. Successful Support Businesses Need Satisfied Customers

The increasing diversity of customers, from departmental users of PC products to professional mainframe programmers, calls for a corresponding diversity of service.

Customers want prices that are equitable and logical. Customers who have become used to "free" support may have to be subjected to a painstaking process of re-education, but most people will pay for a service that meets a real need at a fair price.

Open client/server solutions create a need for multivendor support and vendors should adapt their strategies accordingly. A good model is the TSANet consortium of vendors, established in the United States in 1992 and not yet present in Europe. The members of the consortium – who include Hewlett Packard, IBM Novell and Oracle – agreed to work together to resolve problems in multivendor environments and to accept joint ownership of customer problems.

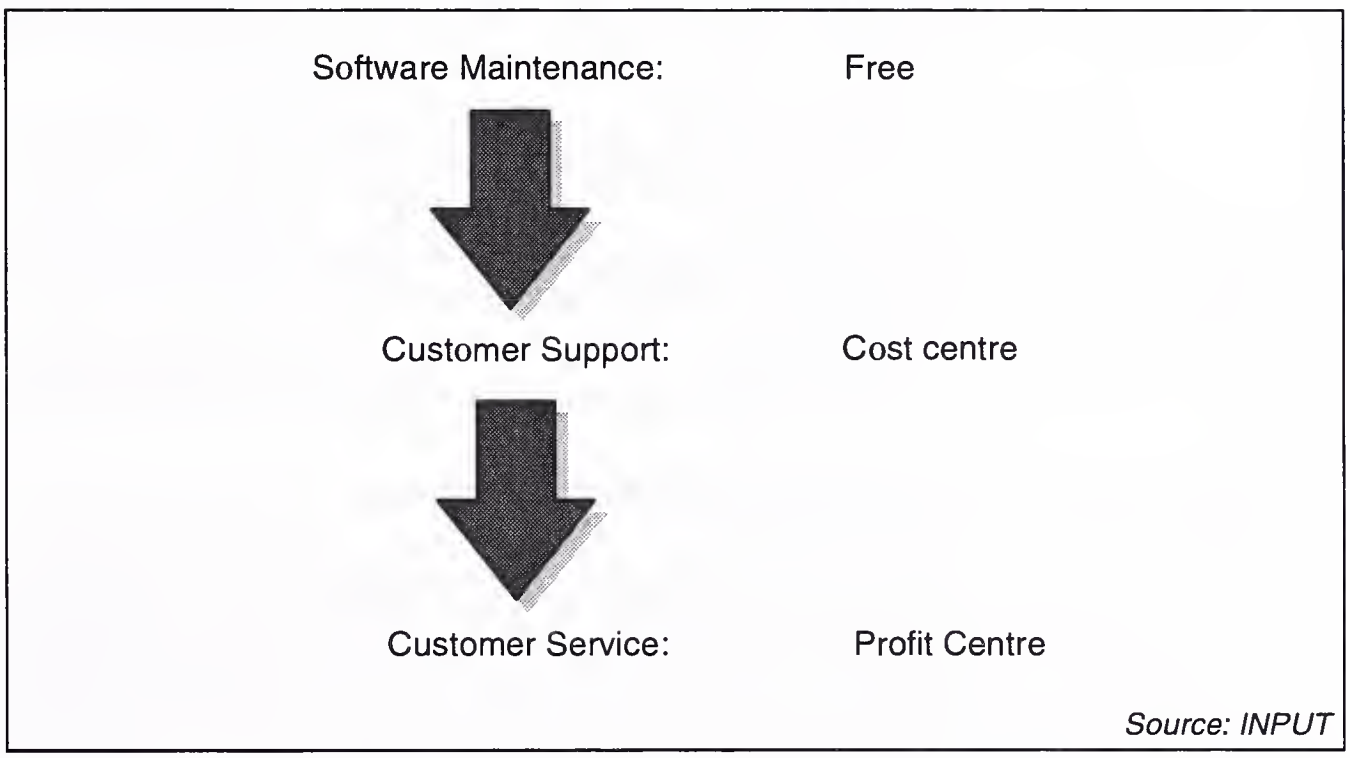
Another appropriate strategy for multivendor environments is for vendors to support the whole environment in which their products run, including elements supplied by other vendors.

Vendors should be willing to help customers set up internal helpdesks that take over the first line of support from the vendor's staff.

Vendors must monitor their success in delivering customer satisfaction via independent surveys and other informal means and act upon the information gathered as a result of this monitoring.

Exhibit V-5

The Evolution in Attitudes to Software Product Support



Source: INPUT

b. Support Organisations Must be Treated as Profit Centres

Decreasing profit margins in product markets are forcing vendors to re-appraise the role of support in their organisations. Support must now be viewed not as a necessary evil but as a key element of the vendor's business and as a contributor to profit with its own dedicated marketing and sales effort.

Exhibit V-5 shows the evolution of attitudes to software product support. There is an implied relationship between value and price: the customer service approach involves a highly sophisticated support role which can command a premium price.

Vendors should consider leveraging the skills of their support staff to break into other areas as long as this does not dilute the quality of the support service. Examples of this include the provision of professional

services based around the use of the vendor's software product and helpdesk support of applications written by the customer.

Large vendors may be able to achieve economies of scale by reducing the number of their major support centres. Obviously, they must ensure that customers do not lose access to first-line support that is provided in their own time zone and their own language, irrespective of its physical location.

c. Technology is the Key to Cost Reduction

Vendors should regard electronic bulletin boards and call-logging, problem-tracking and service level monitoring software as indispensable elements of an effective support service. They should be actively considering the benefits of other facilities such as:

- Telephony services to switch calls between centres at times of overload
- Fax services to automate receipt of problems and dispatch of solutions and other information
- Increasingly widespread on-line services like CompuServe
- Automated software delivery.

Vendors should remember, however, that technology can be misused, particularly if it seeks to remove the human element from the support process. Voice mail, for example, is an effective technology that, in the wrong hands, can make customers feel that they are not valued by the vendor.

The opportunity to talk directly to support staff should never be excluded from support services and technology must be regarded as an adjunct to the human element rather than a replacement for it.

d. Partnerships Make Sense

Vendors should embrace partnerships willingly rather than reluctantly, and recognise they cannot do everything themselves.

Vendors who allow other organisations to represent them must be sure to monitor closely the quality of third party's support. Certification schemes with frequent follow-up checks are necessary to maintain customer confidence.

e. Vendors Must Commit to Quality

Vendors must attain ISO 9000 quality certification and understand that quality is more important than quantity. It is not enough just to hire more staff or extend helpdesk availability hours – customers appreciate good service during business hours better than bad service round the clock.

The quality of support staff is vital. Training is required not only to ensure technical expertise, but also to master the softer skills involved in handling customers with appropriate sensitivity.

B
Channel Service Strategies

1. Open Services Market Promotes Channel Complexity

The development of open markets for computer products and the continuous downward pressure on prices have forced IT vendors to turn to product support and customer services for alternative revenue streams. Consequently, services and solutions have replaced computer products as the core business of today's leading IT vendors.

The emergence of open markets for computer products and services has also had a significant effect on the channels to market. The value-added Reseller (VAR) channel, once primarily a means for vendors to reach wider and more specialist markets, is today a source of competition in its own right. Just as IT vendors have responded to market demand for services, so the VARs have also responded by developing their own service capabilities.

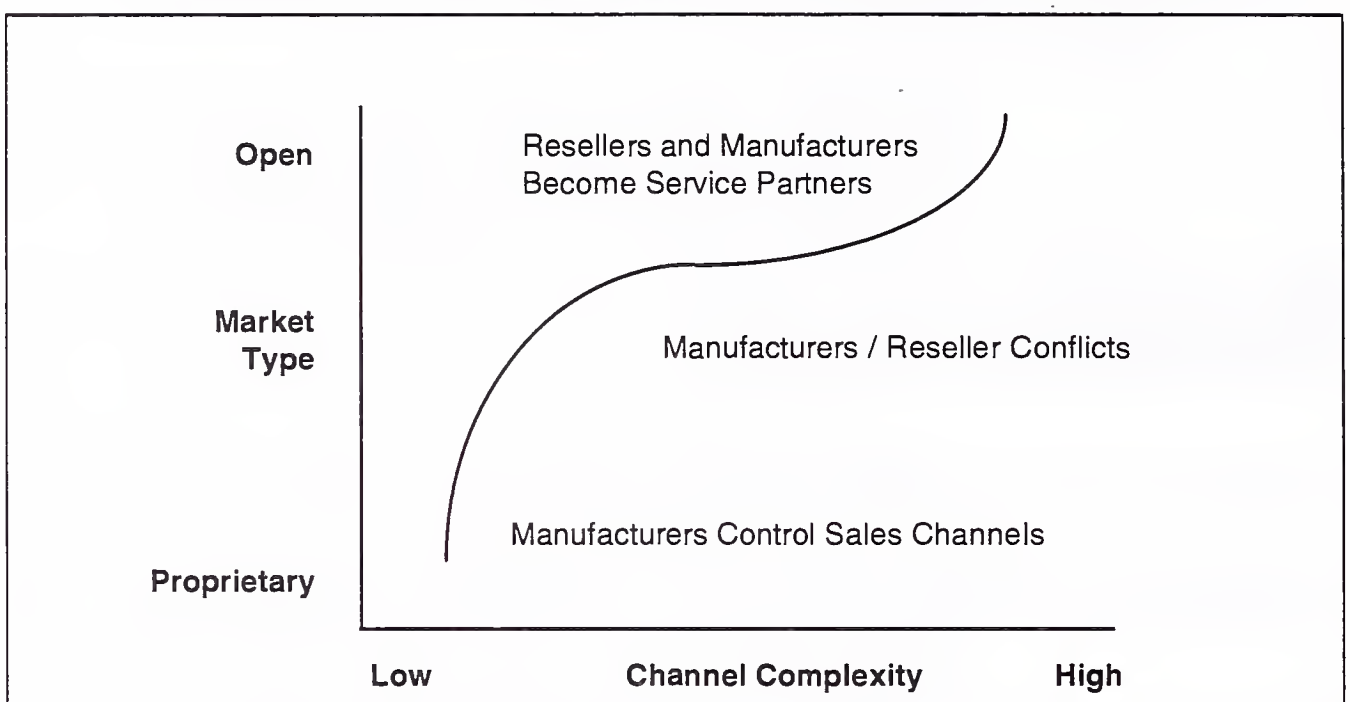
Exhibit V-6 shows the trend towards greater channel complexity as open markets emerge. The diagram highlights three stages of channel development:

- In proprietary markets manufacturers control the sales channels for their products and services
- As the market for services opens up manufacturers are less able to control the channels. Typically, resellers establish their own service capabilities, which the manufacturers may perceive as threatening to their customer base

- In a fully open market environment the channel assumes greater control; manufacturers are obliged to acknowledge resellers as both competitors and service partners.

Exhibit V-6

The Influence of Open Markets on Channel Complexity



Source: INPUT

When INPUT assessed the VAR market three years ago, the position with respect to service delivery through the VAR channel was relatively straightforward. Vendors expected their VAR partners to be non-servicing; that is, **not** to offer independent services in association with the products passing through the channel. At that time, INPUT surveys revealed that 80% of vendors' VAR partners were non-servicing.

By contrast, today's VAR market is far more complex. In the great majority of cases, VARs offer a comprehensive range of services and increasingly they consider service to be their core business.

Furthermore, there are no longer clean distinctions between vendor and VAR, since IT companies frequently act in the capacity of direct vendor, service provider and reseller simultaneously.

In today's complex markets, vendors are actively encouraging sales through almost every route to market that is available. In this respect the relationship between vendor and VAR is still a critical one. However, whereas in the past, vendors selected VAR partners on the basis of their business direction and financial strength, the selection process is now more formal and involves more rigorous qualification.

Most of the leading equipment and software product vendors today have channel development programmes which include authorisation schemes designed to encourage relationships with only the most suitable resellers.

The effect of these channel development initiatives is that the reseller market is beginning to polarise. At one end, there are companies which sell volume products, while at the other there are companies which offer specialist services such as product support, training or enterprise networking skills.

Slowly, an elite group of resellers who hold all of the major technical authorisations is emerging. It is this group which vendors are seeking to nurture.

Vendors can succeed in establishing viable relationships with their resellers by:

- Acknowledging and leveraging the resellers' own service capabilities
- Ensuring that reseller support programmes deliver genuine benefits to the reseller and are kept current
- Establishing and maintaining effective lines of communication with the reseller.

2. Vendors Must Play to VAR Partners' Strengths

The relationships between vendors and their VAR partners are often difficult. Vendors commonly mistrust their resellers, despite the fact that they provide an effective means of bringing products to new and existing markets.

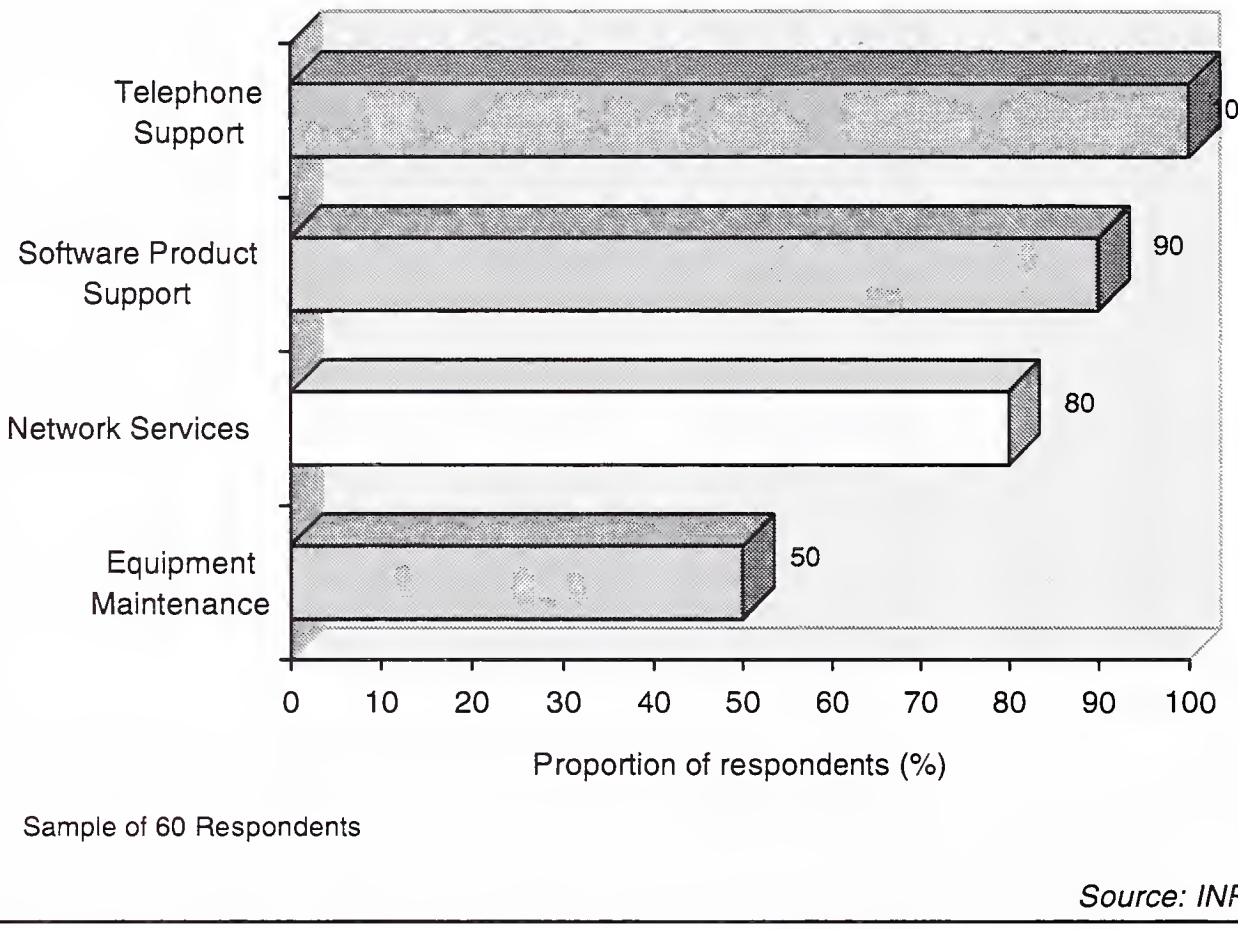
Conversely, resellers often feel that once they select a vendor they are subject to unwelcome constraints upon their broader business objectives.

A common vendor concern is that VAR partners may seek to deliver independent services outside their own customer base and so establish themselves as direct competitors to the vendor in the wider marketplace. However, the reality of today's open market for services is that vendors, independent service organisations and the channels are all competing for the same service business. *Fifty per cent of the VARs surveyed for this study revealed that they currently offer services outside their own installed base.*

Furthermore, VARs increasingly acknowledge services as their core business. Exhibit V-7 shows the proportions of VARs offering a selection of key customer services.

Exhibit V-7

Services Currently Offered by the VAR Channel



Sample of 60 Respondents

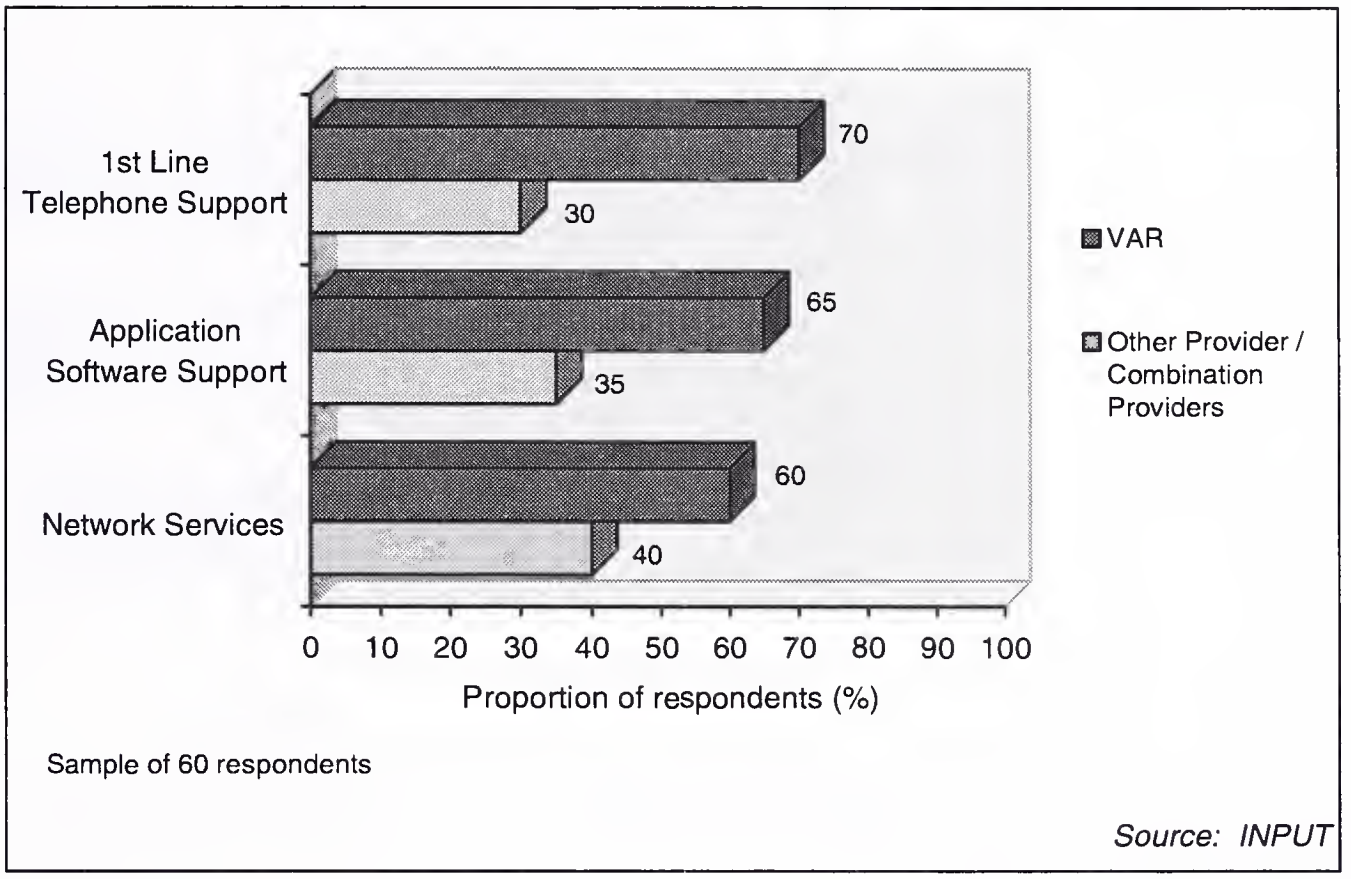
Source: INPUT

Most of the VARs surveyed claimed to have their own support infrastructure, though clearly most rely on strong back-up arrangements and support links to the equipment vendors.

As shown in Exhibit V-8, VARs consider themselves to be highly capable in the areas of telephone support, application software support and network services.

Exhibit V-8

VAR Perceptions of their Own Service Strengths



Sample of 60 respondents

Source: INPUT

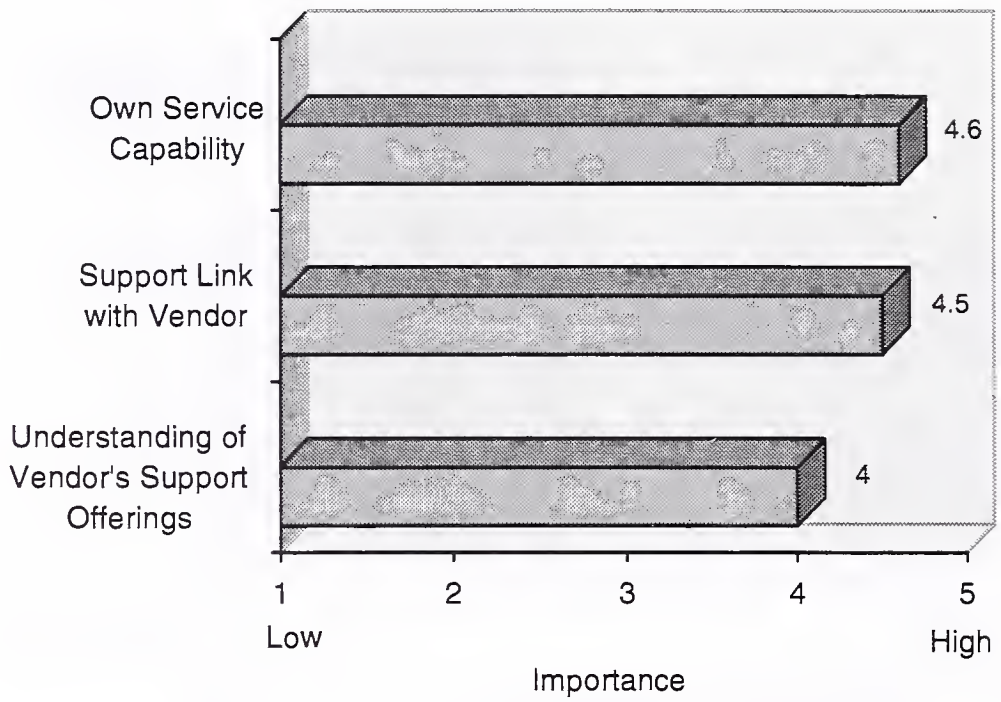
Many of the respondents to the VAR survey indicated that they had significant network services capability and that this was a key area for future development. Also, when asked to give details of any new services they were planning to offer, almost 40% of the sample indicated that they were currently developing some form of network-based remote service capability.

VARs also acknowledge that, for certain services, they are not the most appropriate providers. In areas such as equipment maintenance, training and disaster recovery, respondents indicated that alternative service suppliers, or combinations of suppliers, represent the best option for their customers. Furthermore, almost all the VARs surveyed stressed the importance of strong support arrangements with the vendors.

Clearly, today's VAR community has come a long way in developing its own service capability. To some extent this represents a challenge to vendors. However, both parties possess key service strengths which can be made to complement each other.

Exhibit V-9

Importance of Improving Aspects of VAR Service Capability



Sample of 60 respondents

Source: INPUT

Vendors can no longer assume to be the customers' natural choice of service provider. They must accept open market realities, play to the strengths of their reseller partners, and accept that *competition* with their resellers is now the norm.

3. Vendors Must Ensure Quality of Reseller Support Programmes

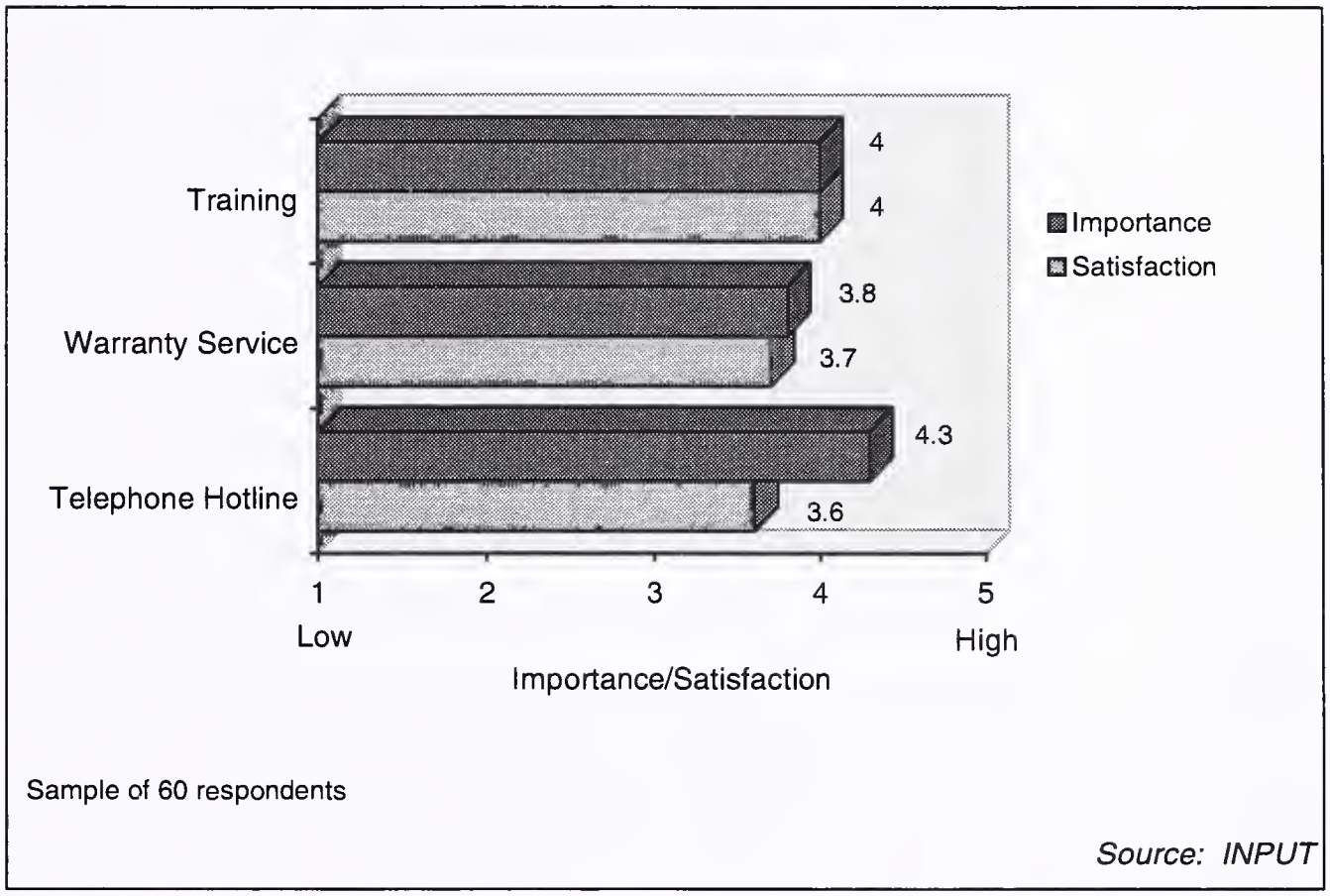
VARs consider the need to enhance their own service capability to be highly important. However, as shown in Exhibit V-9, they also acknowledge the need to improve their support links with vendor partners and to understand the vendors' support offerings more fully.

In most cases, the VARs' requirements for back-up and support arrangements are catered for by some form of *reseller support programme* from the vendor. Such programmes offer a range of support products which the VAR can sell on, plus training and documentation services and escalation routes back to the vendor.

VARs surveyed for this study indicated current levels of satisfaction with the main components of their reseller support programmes. Exhibit V-10 shows that VARs are satisfied with the training they receive from their vendors. The provision of warranty services is also close to meeting VAR support needs.

Exhibit V-10

VAR Satisfaction with Key Elements of Support Programmes



Sample of 60 respondents

Source: INPUT

However, VARs are undersatisfied with the quality of available hotline support from the vendors. The margin of dissatisfaction should give vendors cause for concern, particularly since telephone support was considered to be extremely important.

Most vendors communicate the potential benefits of their reseller support schemes with reasonable success. It is relatively easy to sell programmes on the promise of additional profitable revenue for the reseller. However, it is then the vendors' responsibility to ensure that the quality of the support delivered to resellers is consistently maintained.

Vendors who doubt that poor support for their reseller partners can have serious effects should note that 43% of VARs surveyed admitted to having switched vendors due to poor support capability at some time in the past.

Exhibit V-11

VARs' Concerns Regarding Communication with Vendors

Concern	Comments
Quality	Need better system of communication, especially on new products and training
Responsiveness	Communication is poor, never get a response We have to chase the vendor a lot Need better hotline, always long waits
Timeliness	New product information is not even on time
Accessibility	Need better access to technical information on-line Would like to talk with the vendor direct, not via a distributor Need direct access to technical experts

Source: INPUT

4. Effective Communication is the Key to VAR Relationships

The survey revealed that VARs have numerous concerns about the communication channel between themselves and their vendor partners. In answer to both prompted and unprompted questions, VARs revealed their concerns about the frequency and timeliness of information from the vendor, about the quality of documentation and on-line information services, and in particular about the responsiveness of telephone hotline services.

Exhibit V-11 presents a sample of the comments made by respondents to the VAR survey.

There has been a tendency in the past for vendors to treat their VAR partners with, at worst, complete mistrust and, at best, grudging acceptance. VARs have also been guilty of reciprocal feelings.

There is no place in today's open market environments for short-sighted attitudes. In order to succeed, service organisations of all types must learn to both partner and compete with each other, and to understand each others' strengths and core capabilities. This can only be achieved by ensuring that the communication channels between the players remain open and are used effectively.