

## VIEW FROM THE TRENCHES

Malcolm Swallow (pictured) of EquaTerra provides an analysis of the current UK IT outsourcing market from the people who matter most – the end users.



UK IT executives responsible for their organisations' outsourcing strategy say they are more satisfied than ever with the results being delivered through outsourcing. They are also becoming increasingly confident at managing outsourcing contracts and are likely to outsource more in the future – all at a time when technology budgets are restricted and the focus is firmly on achieving cost savings.

These are some of the key findings from the recent EquaTerra UK 'Service Provider Performance and Satisfaction' study (see Box, next page).

Participants in the study rate their outsourcing service providers on a selection of key criteria; they only rate those providers that are currently actively delivering services to their organisation.

The study does not seek to establish anything as absolute fact (as perceptions are by definition subjective), but to report on the feelings and broader perceptions of key decision makers regarding the services supplied by their outsourcing providers.

### Key results

A broad but very significant finding is that among the UK's leading organisations, their satisfaction with the performance of IT service providers has increased to record levels this year, as has their ability to manage their outsourcing contracts – supporting EquaTerra's belief that there is a strong link between good governance and client satisfaction.

The amount of outsourcing has also increased and looks set to increase further during 2010.

In terms of satisfaction levels with service providers, the latest study ranks Capgemini (79%), Cognizant (79%) and Computacenter (78%) as the top three service providers for client satisfaction scores; the bottom three were HP/EDS (59%), Verizon Business (58%) and CSC (51%), as shown in Figures 1 and 2.

Of equal significance are the results that show clients' satisfaction increasing for outsourcing on all performance indicators measured, including quality of service, price, innovation and flexibility.

Incidentally, feedback from the service providers who achieved the best client satisfaction scores highlights two key common

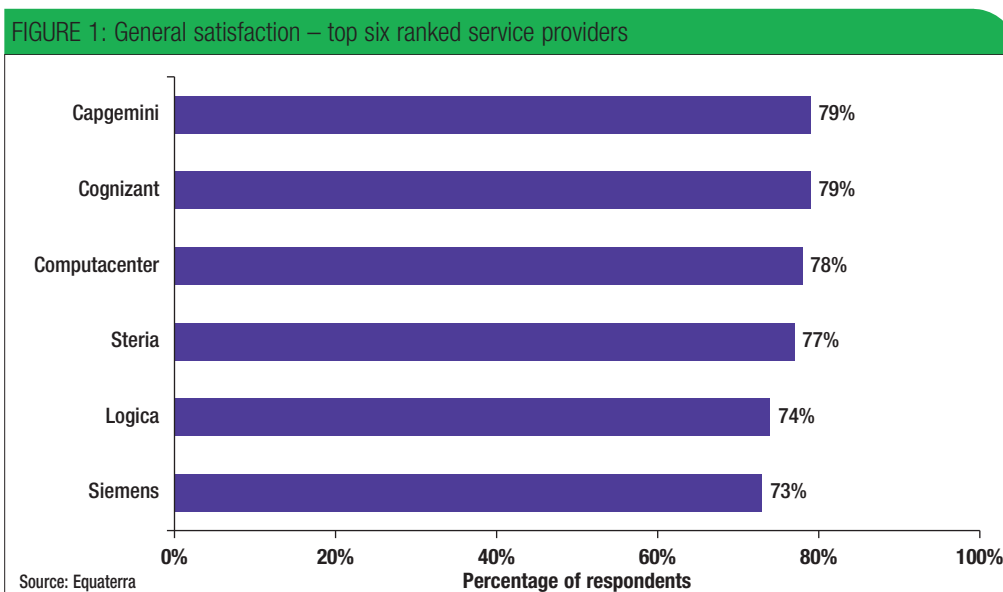
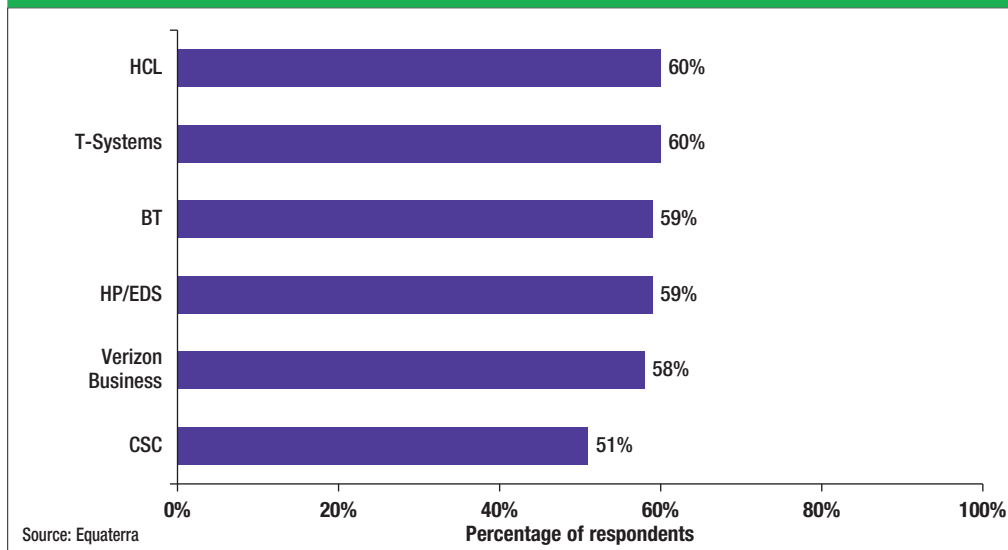


FIGURE 2: General satisfaction – bottom six ranked service providers



traits – namely, a strong desire to deliver a focused portfolio of services; and, in particular, successfully developing an internal culture which empowers their staff to proactively engage with clients to develop innovative solutions.

The study also reveals that European IT outsourcing service providers improved their satisfaction scores more than most Indian-based service providers.

In the previous year's edition of the study, the top five rated service providers for customer satisfaction included four Indian and only one European provider. Now four of the top five rated providers are European, while just one is Indian.

Further trends identified include:

- A significant improvement in customers' abilities to manage service providers. End-user organisations continue to improve

## SURVEY APPROACH

Each year, EquaTerra undertakes an investigation into organisations' satisfaction with their outsourcing service providers. The research is conducted in a number of European countries using a common format to enable Europe-wide analysis and conclusions – though this article focuses on the UK market.

The latest study covered over 500 outsourcing contracts held by around 160 of the top IT-spending organisations in the UK. The total annual value of the contracts involved is around £10 billion, accounting for roughly two-thirds of the total UK outsourcing market in terms of annual contract value.

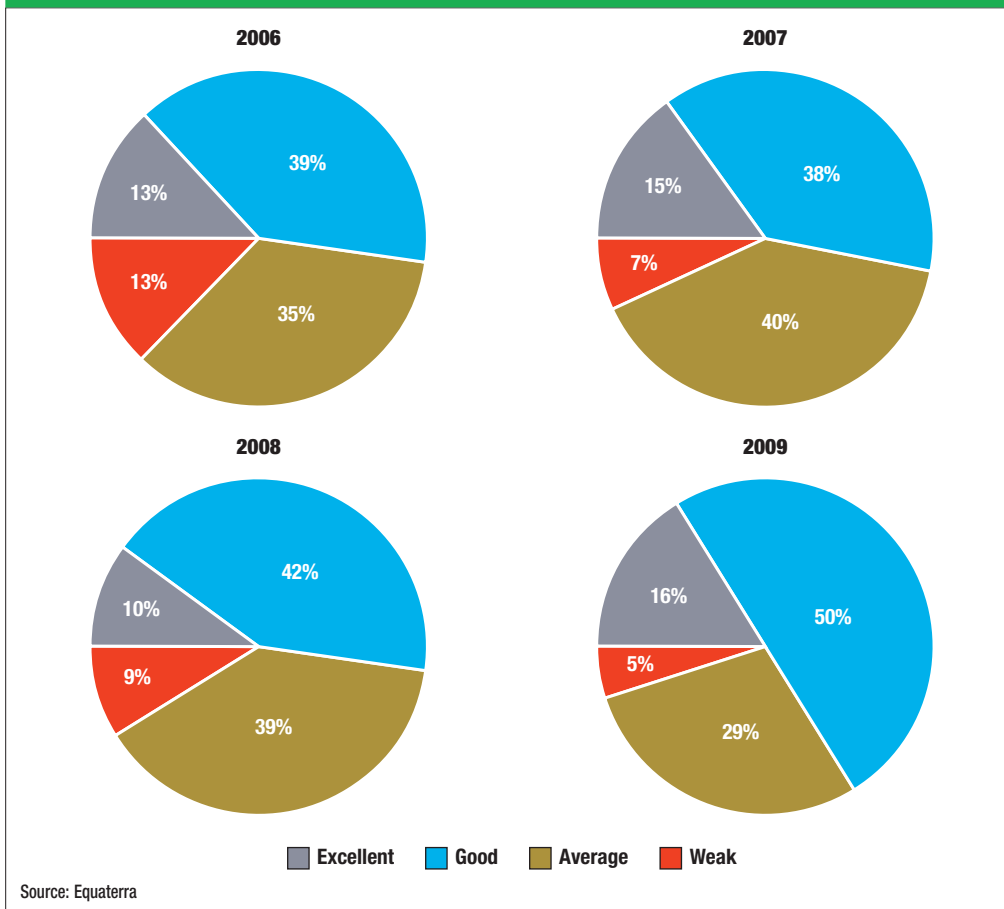
All commercial sectors are represented in the study, as is the public sector, including both central and local government organisations.

To have such a strong sample size as well as historical data from previous years' studies – the study has been running in the UK for four years – means that robust findings can be obtained.

Participants in the study are senior management or C-level executives with influence over corporate strategy and third-party services decisions and are responsible for the outsourcing strategy within their organisation. They also decide on or greatly influence budgets and are the influencers of decisions related to provider choice.

Satisfaction is not only based on actual delivery, but also on how these individuals perceive the value they get from their providers.

FIGURE 3: Competence to manage service provider



their outsourcing governance skills (see Figure 3). This is particularly the case in the UK.

The greatest area of weakness within outsourcing governance relates to buyers' use of supporting software tools and solutions and their ability to easily access accurate and timely service provider cost and performance data.

- The dynamics of the UK outsourcing market are changing as it matures. Service providers will need to adapt to the increasing confidence and sophistication of outsourcing buyers. While buyers may have paid a premium for the reassurance of working with an established brand in the past, UK organisations are increasingly willing to select a small, specialist service provider.

As brand loyalty declines for the established service providers, price competition is likely to increase. In addition, maintaining standards is not enough – the report findings highlight that a continual improvement in service levels is needed to remain competitive.

- Cost reduction and flexibility dominate at the expense of quality improvement. Creating cost savings remains the main driver for IT outsourcing, but enabling greater financial flexibility is gaining importance, while the focus on improving the quality of services has slipped in importance.

- Global sourcing remains a dominant element in an organisation's sourcing strategy. Rising protectionist trade sentiment and policies have not materially impacted global IT sourcing. Buyers in general are moving more towards a global sourcing model and away from just employing point-to-point offshore outsourcing.

- The financial climate is still increasing the demand for outsourcing in the UK. Economic conditions continue to provide buyers with the motivation to develop more radical and deeper IT outsourcing strategies.

Tight IT budgets are driving additional outsourcing as buyers are forced to do more with less, especially if they hope to make any sort of major investments in new hardware or software in 2010. This increased demand for outsourcing is a trend EquaTerra expects to continue as organisations prepare for improved economic conditions.

It will be fascinating to see the evolution of the outsourcing market during the remainder of 2010 and beyond. Given the strong emphasis on cost cutting in 2009, the ability of service providers to deliver high-quality, innovative and flexible services at a lower cost is a positive sign of the resilience of the outsourcing market and its ongoing growth.

But a word of caution: as economic conditions improve and demands on organisations' IT services increase, will your service provider have the capacity to accommodate this increasing demand – and equally important, do you have a contract that allows for flexibility in demand?

These are questions that businesses need to consider now, rather than when it becomes a critical issue.

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