

# 1.0 Introduction and Report Overview

In today's climate of economic uncertainty, many enterprises are pursuing the outsourcing of IT services and business processes to cut costs and increase efficiency. However, the bigger picture behind today's sourcing decisions is far more complex than that: Sourcing is moving toward becoming a strategic tool to help enterprises evolve as part of the connected economy.

Pushed by market competition, enterprises must become more focused, streamlined and IT-intensive. However, the services provided by today's collections of tactical sourcing initiatives will soon be unable to cope with these strategic requirements. Proceeding with a tactical approach to outsourcing will increase the risk of engaging in unsuccessful outsourcing deals — deals that will ultimately damage, rather than streamline or improve, the business.

Sourcing is a management discipline that is distancing itself from the restricted perspective of procurement and becoming strategic. Increasingly, enterprises are strategically employing a multisourced environment to deliver the services that will best achieve their business objectives.

Modern enterprises will progressively source from the market to gain agility, flexibility, scalability, diversity and innovation, while preserving a core of internal resources in strategic roles. Internal resources, such as the retained IS organization, will have an important role as organizational “glue” among the resources from various sources. The emphasis has shifted from merely *finding* the right source to dynamically *managing* different sources.

In this environment, CIOs and other enterprise leaders must master the discipline of strategic sourcing. They must recognize the enterprise's internal limits in providing the appropriate resources to support business objectives, and start developing a sourcing practice aimed at successfully managing their multisourced environments.

Strategic sourcing ties its decisions and actions directly to business objectives — specifically, to finding and managing the right selection of resources and services to achieve business goals. These resources and services will come from both internal sources, such as employees and competence centers, and external sources, such as free agents and service providers. Increasingly, externally sourced resources will focus not only to IT, but also on other components, such as

business processes. It is sourcing management's core responsibility to map planned services and their resource needs over time, and to proactively plan how to supply these resources from different sources.

This Executive Report is designed to help enterprises wisely source IT and business process services — and make the most of their relationships with external service providers (ESPs). It provides recommendations, planning guidance, trend forecasts, and in-depth analysis of outsourcing issues that are critical to both IS organizations and business management.

Topics addressed in the chapters of this Executive Report include:

- The keys to developing a successful sourcing strategy
- Selecting the right relationship model to achieve outsourcing goals
- Management imperatives for the multisourced environment
- Building the outsourcing business case
- Evaluating risk in outsourcing engagements
- Tackling the human-capital and organizational issues posed by outsourcing, and managing workforce-related risks
- Conducting a thorough and effective service provider evaluation and selection process, and managing the transition to the outsourced environment
- Applying best practices in managing ESPs through outsourcing contracts and service-level agreements (SLAs)
- Examining the market for offshore IT services
- Exploiting business process outsourcing (BPO) market opportunities, including human resources (HR) and contact center BPO
- Effectively measuring BPO performance
- Exploring the market for IT utility infrastructures and services
- Identifying solutions and providers for network managed services
- Evaluating options in the application outsourcing and application service provider (ASP) markets

The remainder of this introductory chapter provides a general guide and overview to the elements and high-level concepts presented in this Executive Report. Section 1.1 reviews the standard Gartner research elements used, while the remaining subsections provide an executive overview of each of the 18 remaining chapters of this report. This overview has been tailored for executives who require a high-level summary of the issues, forecasts, guidelines and recommendations offered in each chapter. Each section number corresponds to the chapter summarized — for example, Section 1.2 summarizes Chapter 2, Section 1.3 summarizes Chapter 3, and so on.

## **1.1 Research Elements Used in This Report**

This Executive Report is based on Gartner's extensive research facilities and archives, which include conference presentations, Research Notes and Strategic Analysis Reports. The report is structured around Gartner Key Issues and corresponding Strategic Planning Assumptions and Tactical Guidelines.

- *Key Issues* pose questions that embody important concepts or problems facing decision makers in a given topic area. Gartner develops Key Issues about markets, technologies and business strategies.
- *Strategic Planning Assumptions* are forecasts — usually framed within a defined, multiyear time horizon — that are assigned probabilities denoting Gartner's level of confidence in the outcome (see Section 1.1.1).
- *Tactical Guidelines* are analytical statements addressing important tactical factors enterprises will face in addressing a Key Issue.

In addition, selected sections conclude with Action Items — statements that convert a section's analysis into concise, actionable advice. High-level recommendations, spanning the overall content of the chapter, are typically offered in the concluding section of the chapter.

### **1.1.1 Probabilities Defined**

Probability statements are most commonly used within Gartner Strategic Planning Assumptions, although they are occasionally used in other research contexts (for example, to qualify the likelihood of a vendor's product

availability estimate, or within a figure illustrating a timeline of future events). In any context, probabilities never exceed 0.9, which represents Gartner's highest confidence level in a forecast. (Because no future outcome is 100 percent certain, a probability of "1.0" is never used.)

Because a forecast is logically phrased in form of the likely outcome, probabilities lower than 0.6 are rarely used. Occasionally, however, probabilities ranging from 0.1 to 0.5 may be used in special contexts — for example, in "scenarios" of mutually exclusive possible outcomes, in which all probabilities total 1.0.

Within the context of a formal Strategic Planning Assumption, the probabilities assigned will normally range from 0.6 to 0.9. These probabilities are defined as follows:

- 0.9: This will almost certainly happen, barring a major industry reversal. Gartner would be shocked otherwise. Moreover, the timing is almost certain.
- 0.8: This is likely to happen, barring exceptional circumstances. Gartner would be quite surprised if it failed to happen, but a degree of uncertainty exists. The timing estimate is fairly certain.
- 0.7: There is good reason to believe that this will be true, but there is a fair chance that it won't. Gartner would be surprised, but not shocked, if it did not happen. Moreover, the timing is unclear and may vary from estimates.
- 0.6: For planning purposes, this should be treated only as a general direction, rather than a solid forecast. It is better than a rumor or a guess, but not necessarily by a wide margin. Most likely, Gartner does not have a firm idea of the timing.

### 1.1.2 Type A, B and C Enterprises Defined

Gartner often identifies enterprises as "Type A," "Type B" or "Type C" based on the aggressiveness with which they adopt and use technology. These terms are often used to offer different recommendations to different types of enterprises, based on their approach to technology adoption. Briefly defined:

- Type A enterprises are technology-driven, and are often willing to risk using immature, cutting-edge technologies to gain a competitive edge.

- Type B enterprises are moderate technology adopters, using new technologies once they have been proven and have entered the mainstream.
- Type C enterprises are technologically risk-averse and cost-conscious, and are usually among the last to adopt new technologies.

### 1.1.3 The Gartner Magic Quadrant

Gartner's Magic Quadrant diagrams (see Figure 1-1) are graphical portrayals of vendor performance in a market segment. Within the diagram, vendors are grouped within four categories — Leaders, Challengers, Visionaries or Niche Players — based on their positioning along two axes.

*Completeness of Vision*, the horizontal axis, assesses factors such as:

- The existence of a clear vision
- Consistency with industry trends
- Product completeness for the target buyer
- Creativity in the plan of attack for the defined market

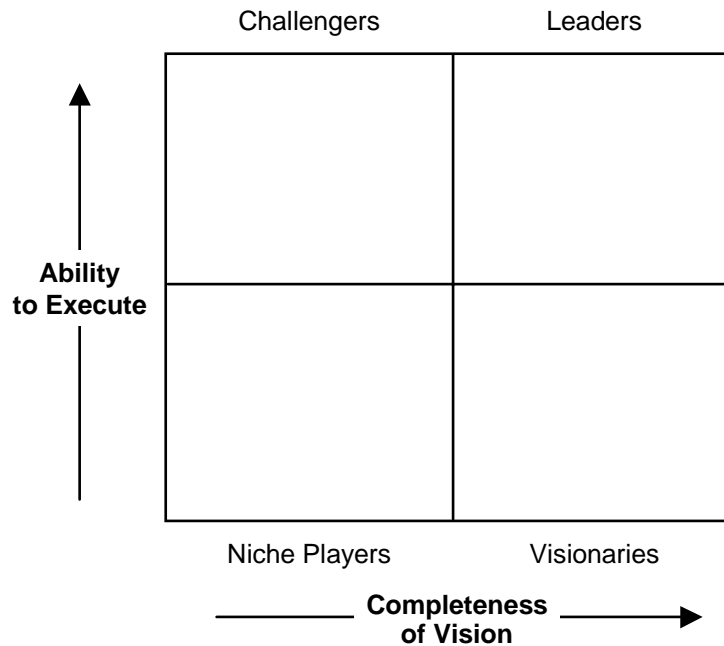
*Ability to Execute* (the vertical axis) assesses factors such as:

- Senior management talent
- Sales, marketing and distribution capabilities
- The depth of research and development
- The quality of a vendor's professional services and support
- The strength of a vendor's finances and alliances

Based on these positionings, vendors fall within one of the following four quadrants:

- *Leaders* are companies that are doing well today and have great prospects for tomorrow.
- *Visionaries* are those that have great ideas for tomorrow, but may not be executing consistently or well in all areas.
- *Challengers* are those that execute well today and may dominate a large segment, but do not fully understand market trends and directions and thus may not have all the elements necessary for future success.

**Figure 1-1: The Gartner Magic Quadrant**



Source: Gartner

- *Niche Players* are either companies that focus on a small segment of the market (and may do so well), or those that have modest horizons and possibilities owing to their inability to innovate or outperform other vendors.

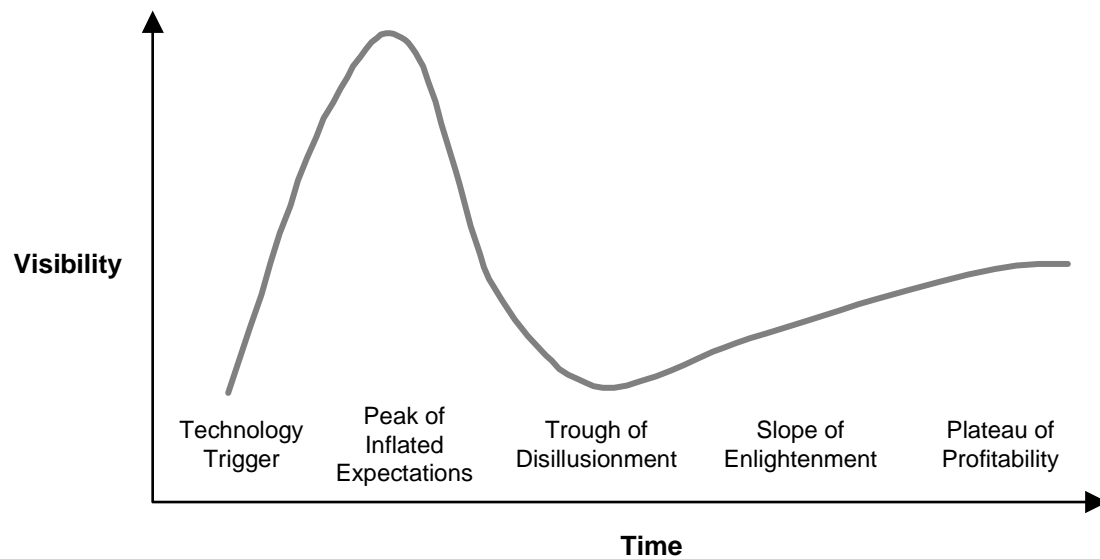
Magic Quadrants can be used to support technology selection decisions; however, Gartner cautions that they should not be used as the sole means of evaluation. Enterprises should not limit their considerations only to vendors that are in the Leaders category, nor should they necessarily reject those ranked as Niche Players. In certain situations, Niche Players' products may be appropriate tactical choices. User organizations should carefully evaluate vendors based on their own unique circumstances and specific requirements.

### 1.1.4 The Gartner Hype Cycle

Gartner uses its Hype Cycle diagram (see Figure 1-2) to illustrate the pattern of intense hype, followed by disillusionment, that emerging technologies typically pass through on the road to eventual productive use and mainstream adoption. Technologies or services are plotted

on the diagram to illustrate Gartner's estimates of their current maturity, and how far away they are from providing mainstream value. The Hype Cycle contains five phases:

- *Technology Trigger*: This is an event that generates significant press and industry interest, such as a breakthrough, invention, discovery, public demonstration or product launch.
- *Peak of Inflated Expectations*: During this phase of over-enthusiasm and unrealistic projections, a flurry of well-publicized activity by technology leaders results in some successes, but more failures, as the technology is pushed to its limits. The enterprises that make money during this phase are generally conference organizers, magazine publishers and consultants.
- *Trough of Disillusionment*: The technology fails to live up to the inflated promise. As a result, it rapidly becomes unfashionable, and the press abandons the technology or touts its failure deliver on what were, in retrospect, unrealistic expectations.
- *Slope of Enlightenment*: Focused experimentation and hard work performed by an increasingly diverse range

**Figure 1-2: The Gartner Hype Cycle**

Source: Gartner

of organizations leads to a true understanding of the technology's applicability, risks and benefits. Commercial, off-the-shelf methodologies and tools become available to ease the development process and application integration.

- *Plateau of Productivity*: The real-world benefits of the technology are demonstrated and accepted. Tools and methodologies are increasingly stable as they enter their second and third generations. The final height of the plateau varies according to whether the technology is broadly applicable or benefits only niche markets.