

IT Outsourcing Trends: Tips to Shape Your Strategy

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IT Outsourcing – An Approach (and Market) Undergoing Accelerating Change

Hypercompetition

- Diverse and crowded competitive landscape
- IT budget restrictions in past year drove extreme cost-based decision-making
- High levels of contract renegotiation have left many marginal contracts
- More work going "offshore" dampens revenue growth
- More viable choices: traditional — offshore — emerging — niche providers

Hypercompetition drives lowest cost — but your real opportunity is to place your bets on the right list of providers that will be with you in the future

Consolidation

- Providers' organic growth proves insufficient to achieve growth targets
- Acquisitions accelerate, many of considerable size: HP/EDS – Xerox/ACS – Dell/Perot — Deloitte/BearingPoint ... expect more
- Most acquisitions are focused, small ones (with little impact) — but don't underestimate the potential for major surprises
- Cloud skills acquisitions — next on the horizon

Market consolidation is the wild card in provider selection

Innovation

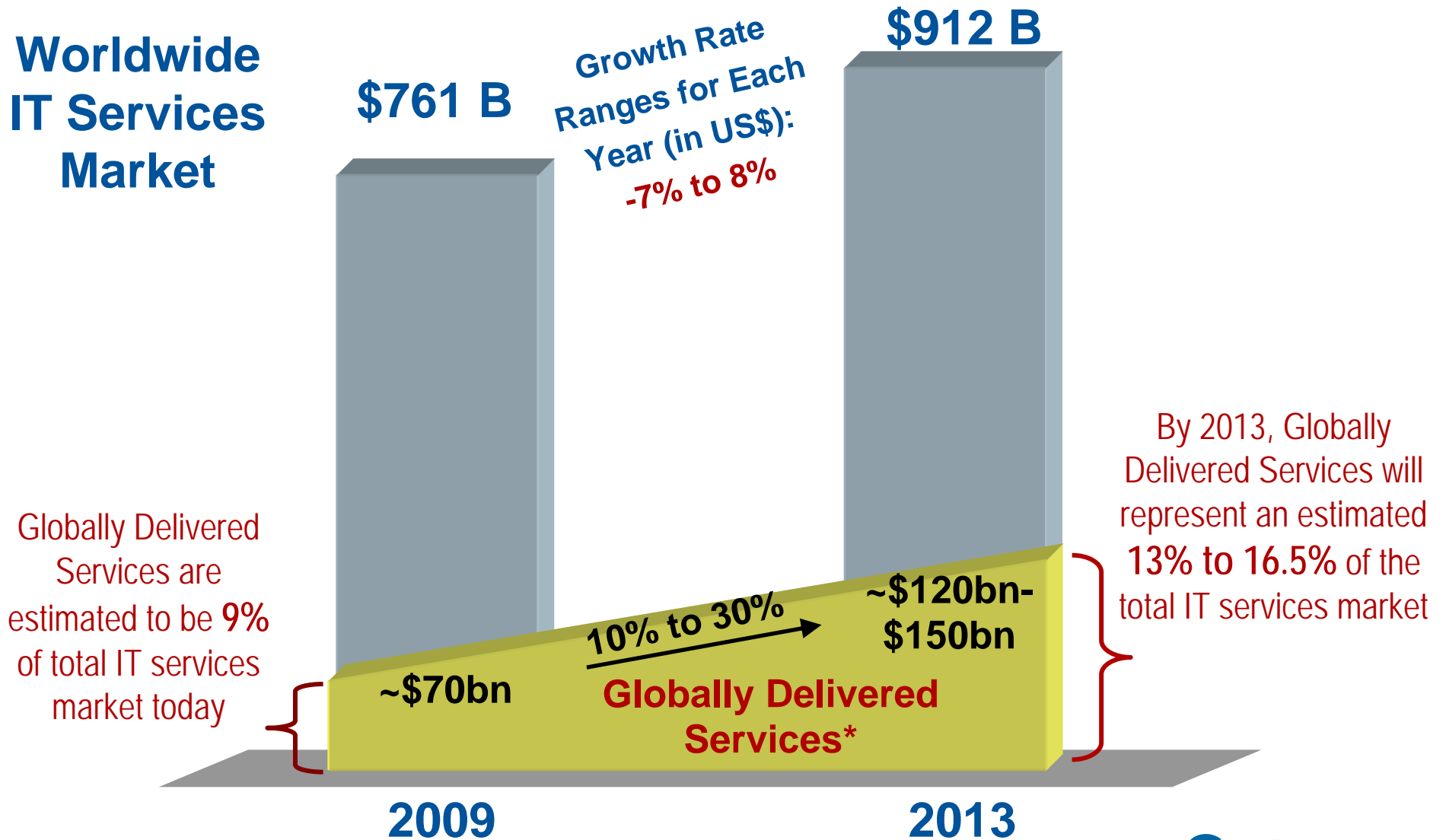
- Systemic changes in technology sector require responses from providers
- Growth rates for new industrialized services — SaaS, Cloud, Utility models — exceed the market growth rates for traditional services
- Service leaders invest to reposition, some will catch early wave — others will be cautious

Evaluate your key providers' investments as these are indications of their relevancy and longevity

Key Issues

- What factors are creating change in the outsourcing marketplace?
- How are vendors – both old and new – positioning themselves amidst these changing tides?
- How should enterprises leverage the future shape of the outsourcing market to ensure they obtain the business outcomes they expect?

Globally Delivered Services: Now a Consideration in *Every* Outsourcing Decision



***Gartner estimate** — *not a Gartner forecast*

No Sign of the Cloud Lifting Anytime Soon

- The hype around the cloud obscures the very real sea-change occurring.
- The cloud is *the platform*.
- Cloud computing disrupts business models, operating principles and competitive strategies.
- Transition between eras is never smooth.
- The cloud is your future.



I've looked at clouds from
both sides now

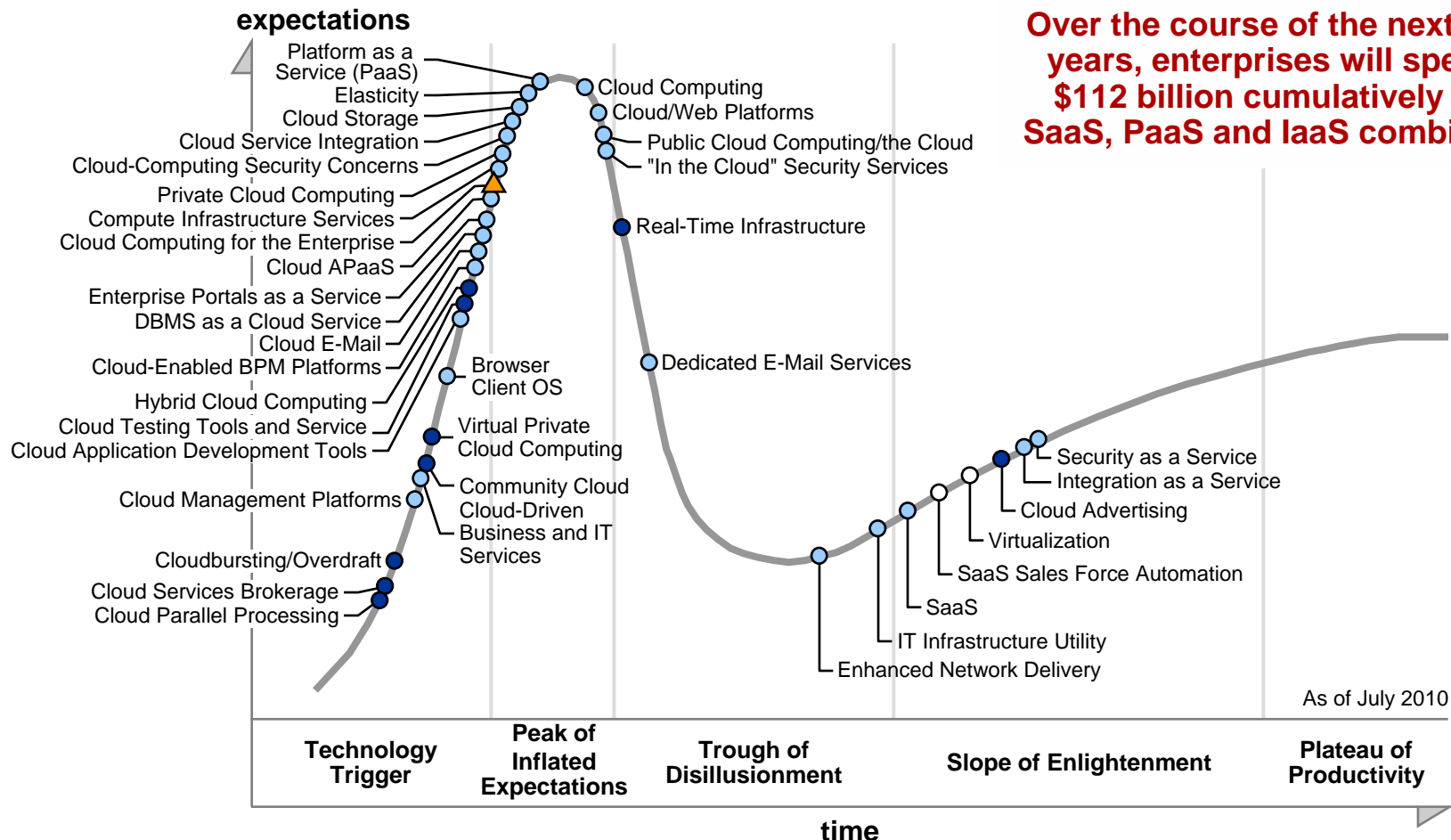
From up and down, and
still somehow

It's cloud illusions I recall

I really don't know clouds
at all

-Joni Mitchell, "Both Sides Now"

Cloud Computing is Impacting – Directly or Indirectly - Every Aspect of IT ...

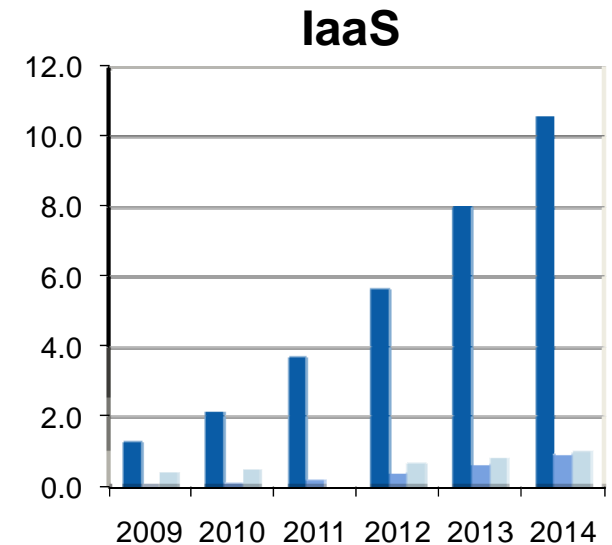
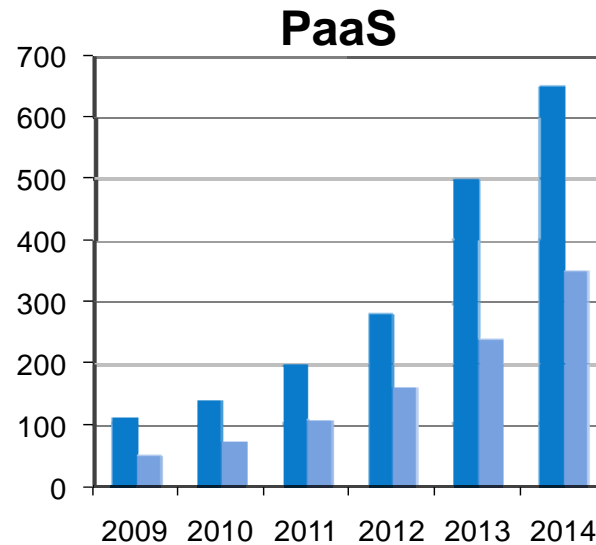
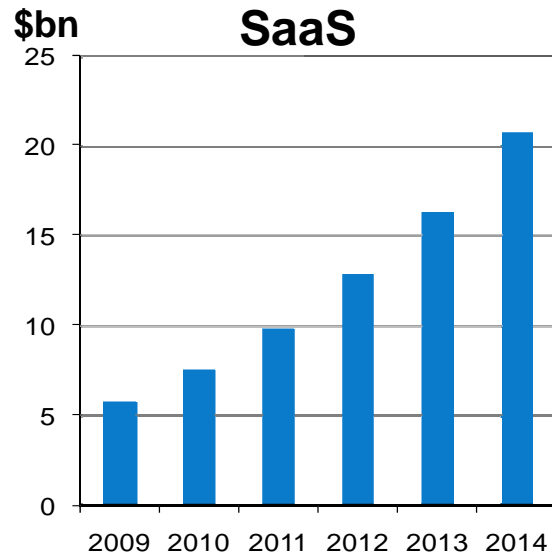


Years to mainstream adoption:

○ less than 2 years ● 2 to 5 years ● 5 to 10 years ▲ more than 10 years ⊗ obsolete before plateau



Cloud Market Adoption Continues to Scale



- *SaaS establishing itself as new norm for the software industry.*
- Slightly slower spending on all IT over the next few years.
- Scale of deployments growing; multithousand seat deals are increasingly common.
- SuccessFactors won with a 420,000-seat deal with Siemens.

- Platform Infrastructure a high profile area.
- Salesforce, VMware and Microsoft adding credibility in an early market.
- Integration as a service (part of brokerage) is growing – (e.g., IBM acquisition of Cast Iron).

- Greater interest than expected.
- 2013 market to be worth \$8 billion (up from \$6.8 billion forecast last year) and the 2014 market to be worth \$10 billion.

So What? Why Is This Important to Consider in the Context of My Outsourcing Decisions?



Internal vs. External Choices Will Change

- New functionality will arrive from the "outside."
- Traditional IT life cycle approaches will be obsolete.
- Winning models of tomorrow are not the same as those of yesterday.



New Functionality Will Come From New Providers

- Get used to new strange provider brands.
- Amp up your due diligence capabilities.
- Make sure your road map is up to date.
- Change your internal skills mix; less "rowing," more "steering."



Not All Traditional Outsourcing Providers Will Morph and Adapt

- Some will become legacy vendors managing legacy code.
- Some will wither all together.
- Don't get locked into long-term deals with dinosaurs.

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Cloud Is the Next Chapter in the Story of Outsourcing

Decline

- New functionality won't be "outsourced" — it will simply be an external service.
- As you move more of your technology portfolio to the cloud, your need for traditional outsourcing will diminish.

Evolve

- Force your traditional outsourcing vendor to leverage multitenancy and virtualization in traditional outsourcing delivery (i.e., IUS).

Some outsourcing vendors will offer cloud services — some won't.

Some outsourcing vendors will evolve, and some will decline.

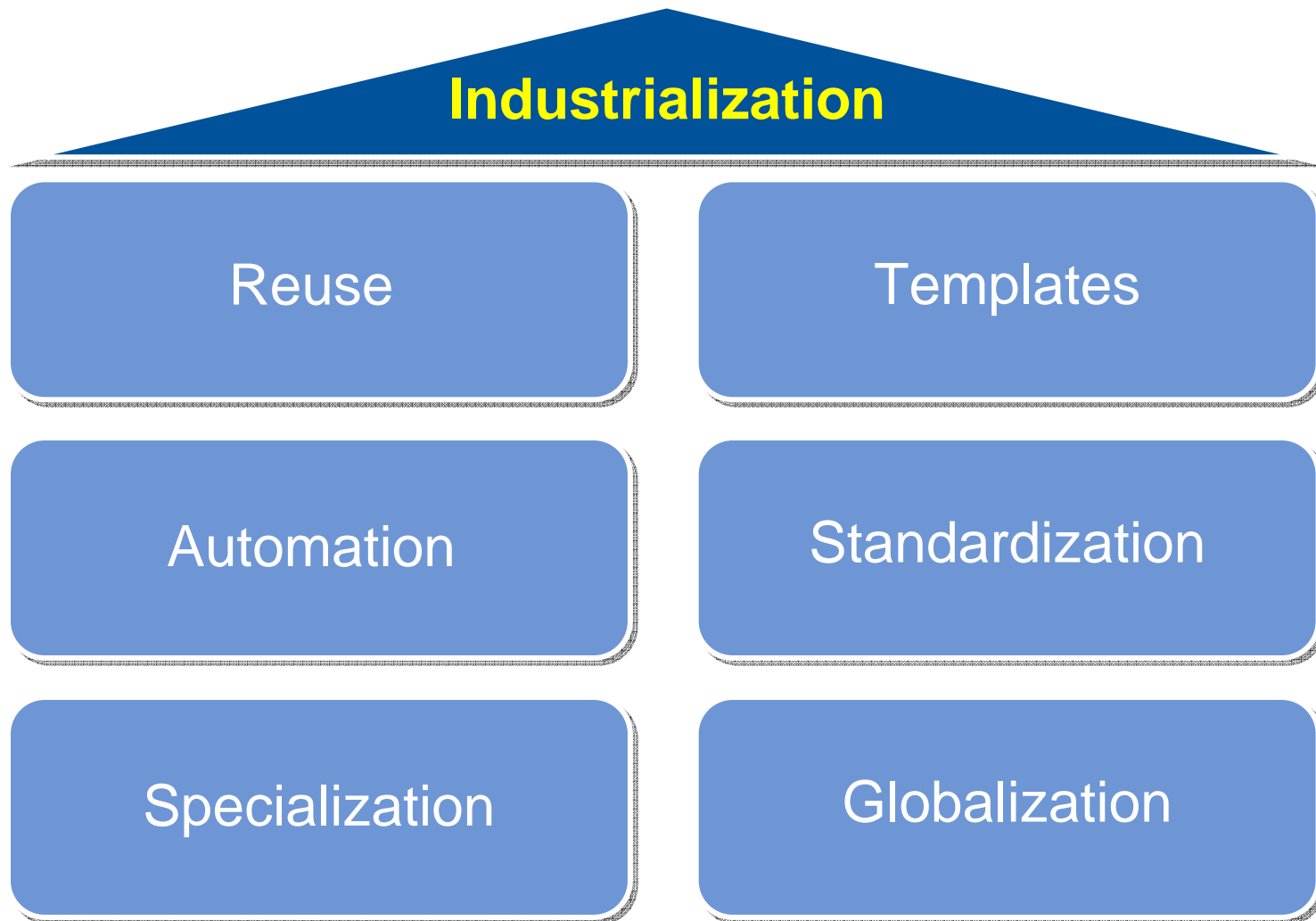
Monitor the success your outsourcing vendor is having in adapting to the world of cloud computing to ensure the ongoing success of your sourcing requirements.

What This Means to You — Your Provider Options Are Changing . . . And Growing!



Note: Not a definitive list of providers in the market. Relative positioning. Not absolute — many providers play in multiple areas.

Look for Providers Aligned With the Operating Principles for 21st-Century IT



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What All This Means to Sourcing/IT Management ...

Your role is more important than ever.

But your role is *changing*.

It's not about where the cloud takes you — **it's about where YOU take the cloud.**

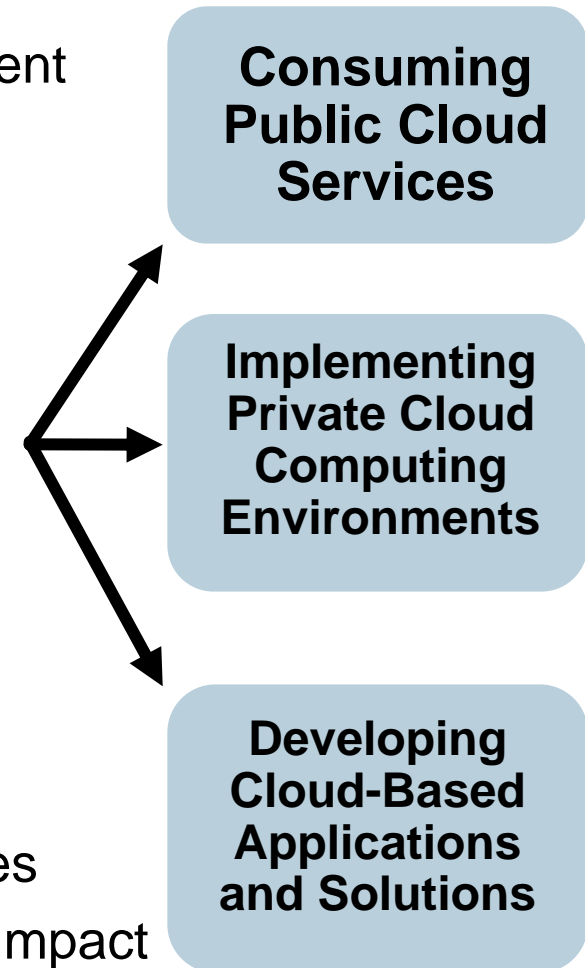
Cloud Computing Requires Sound "First Principles" — The Common Sense That Is Not Common

"First principles" represented in this best-case scenario ...

- ... there already exists an IT policy document that sets out roles, rights and responsibilities. Issued from CEO, COO and CFO, and representing consensus view of C-level execs. Holistic enough to cover cloud computing.
- Good-case scenario: Existing IT policy document (see above), although not comprehensive enough currently, can be updated to cover emergence of cloud computing.
- Worst-case scenario: No IT policy document exists. Two options available: (1) use the emergence of ADAMs to be the catalyst to create one, and (2) develop a set of more-immediate, tactical guidelines.
- Very-worst-case scenario: The issue is ignored, relationships between IT and LOBs continue to deteriorate. IT tries to stop the use of cloud computing for the "wrong" reasons.

Undertake a Cloud Computing/Service Readiness Assessment

- **Organizational Assessment**
 - Outsourcing Models and Vendor Management
 - Governance and Investment Models
 - Roles, Responsibilities, Policies, Guidelines
 - Run, Grow and/or Transform the Business
- **Technology Readiness Assessment**
 - Data Center, Infrastructure and Operations
 - Architecture
- **Data-Readiness Assessment**
 - Data Definitions and Security Levels
- **Derivative Impact Assessment**
 - Drive/Accelerate Existing Trends or Activities
 - Combines With Other Trends to Create an Impact



Focus on Making Everything Service-Led — If It's Not a Service, It's "No Deal"

LESS OF THIS ...

- Physical inputs
- Piece parts
- Technology selection
- Technical service-level agreements (SLAs)
- Technical audit

- Technology first
- Labor pricing
- People
- "Reactive to demand"

MORE OF THIS ...

- Business output
- Prebuilt solution
- *Service* selection
- Business outcome agreements (BOAs)
- Business-orientated due diligence
- Business first
- Outcome pricing
- Software
- "Proactive supply"

Action Plans

CIOs, IT operations and sourcing management should ...

•Now

- *Experiment* with the cloud (and discover where it is already taking place in the enterprise).

•Your Next 90 Days

- *Use* virtualization as a catalyst to drive IT modernization (technology, process and people).
- *Inventory* existing cloud services.
- *Identify* new opportunities for the enterprise that are emerging due to cloud computing.

•Your Next 12 Months

- *Develop* an overall cloud-computing strategy; create a multidisciplinary task force to create consensus on the use of cloud services.
- *Update/upgrade* your sourcing skills.

Related Gartner Research

- **Steering Your Business Through the IT Services and Outsourcing Revolution** Linda Cohen, Bob Igou (G00206038)
- **Hype Cycle for Cloud Computing, 2010**
David Mitchell Smith (G00201557)
- **Q&A: Understand the Shift From Traditional Offerings to Cloud Computing and SaaS**
Ben Pring, Claudio DaRold (G00170572)
- **Dataquest Insight: Impact of Cloud Computing on IT Outsourcing Providers' Opportunities**
Ben Pring, Rob Addy, Allie Young (G00172544)
- **Forecast: Public Cloud Services, Worldwide and Regions, Industry Sectors, 2009-2014**
Ben Pring et al (G00200833)

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