

## European Outsourcing and Services Survey Reveals Client Organization Priorities for 2009

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The results of this outsourcing survey provide a good indication of the goals of current and prospective buyers relative to IT outsourcing and services in Europe. Clients and providers can compare their own strategies to the market trends in 2009. New decision makers and new delivery approaches challenge the traditional ones.

### Key Findings

- Outsourcing and services will increase. There is an increased level of interest within midsize businesses and across a balanced share of vertical markets toward extending their externally sourced activities in 2009.
- More business managers than IT managers appear to be involved in service sourcing decision making.
- Outsourcing growth has slowed, but is still there. Almost 60% of surveyed organizations have indicated that they will outsource more, versus 7% that indicated they will outsource less.
- Evergreen objectives and challenges dominate the plans. Client organizations are predominantly looking for cost reduction, seeking access to resources, aligning IT to the business needs and getting more value from existing investments.
- Interest in and use of services based on alternative delivery models are on the rise. Europe is becoming a sweet spot for these new offerings through 2009 and 2010.

### Recommendation

- Consolidation of traditional providers, the rise of new and industrialized offerings, and increasing price pressures are affecting everyone. Careful strategy development, superior execution (operational control and quality assurance) and a strong understanding of the current market reality are required. Despite the traditional, although more intense, requirements for prompt cost optimization, better business alignment and more value for money, IT and business managers will be required to apply more-diligent approaches to developing sourcing strategies and management capabilities. Midsize companies and business managers also need to address these issues.

## ANALYSIS

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Because of the uncertainty of the worldwide and European economy and marketplace as Gartner prepares for the upcoming European Outsourcing and IT Services Summit, we decided to share some of the results from a recent survey of Gartner clients. The survey is not representative of the entire market, because it was directed to the typical companies and individuals who are likely to be involved in decision making on outsourcing and IT services in the next year or so, and potentially be interested in participating in the Summit. The value of the reported findings, therefore, is more about the change compared with a similar survey conducted 12 months ago than about the absolute value. The results are indicative only for those organizations and specialists that are strongly focused on leveraging outsourcing and services.

The data reported here is produced from an online survey executed by Gartner during the last week of November 2008 and the first week of December 2008. The main scope is to provide early indications of the 2009 trends, which will be refined and consolidated through the more traditional user wants and needs survey during the year. These early indications are used to select content for the next Gartner Outsourcing and IT Services European Summit, to be held in London in June 2009 (see Note 1).

### **"Outsourcing Newcomers" Are Indicated: Increase of Business Oversight on Sourcing Decisions, More Vertical Industries and Companies With Smaller Budgets**

Changes in the sample composition have occurred. Senior management (CEO and COO) and general management (head of departments or business units) are on the rise in the sample. IT operations/management goes down from 59.8% to 56%. Financial services and government previously represented 42.3% of the sample. This survey is more balanced across vertical markets, with those two down to 35.5% and a particular increase in participants from healthcare and pharmaceuticals, services, retail and wholesale. Companies with IT budgets of less than 10 million euros represented 22.8% of last year's survey and have increased to 30.3%. Outsourcing decisions are affecting organizations of all sizes. This creates a sweet spot in Europe for industrialized offerings, such as the infrastructure utility (IU) or software as a service (SaaS), and requires a more industrialized approach to the sales and engagement process.

The stated importance of outsourcing and IT services strategies and management for the organization is still very high, but drops slightly from 94.6% (very important or important — the typical answer of managers directly involved in it) to 92.3%. This appears to be in line with the increased participation of business management, which sees external sourcing as an important management tool, among others.

Approximately one-third (32%) of organizations appear to be in the initial stage of their next outsourcing endeavor, with no plans yet (10%), establishing their outsourcing strategy (20%) or starting the implementation. Another 4% of organizations have not selected their provider yet. These numbers are up from the previous year (from 24% to 26%) — indicating that 10% more organizations are in the initial phase of their next sourcing endeavor.

Organizations' external budgets are set to increase, while fewer companies overall will outsource more. Of the sample, 54% already leverage external services for more than 25% of their budget, and 28% of the sample leverage more than 50% of their budget. The organizations in this sample that already outsource some aspect of IT or applications have increased to 93.9%, versus 88.9% last year. On the business process outsourcing (BPO) side, the number of organizations that outsourced rose to 54.1% from 52.1%.

The external service budget for 2008 was expected to grow in 54.8% organizations (in the 2007 survey); now the expectation of growth is only in 46% of the organizations. For 2009, the expectation of growth of the external service budget goes down to 28.7%. Essentially, the expectation of growth has fallen in a quarter of the organizations. This is confirmed in another statistic. In 2007, only 9.5% of organizations expected their 2008 external budget to decrease, but this is up to 13.3% for this year (actual) and 31.3% for 2009.

Of the organizations surveyed, 59.8% expect to outsource more IT and business process functions, which is down from 69.3% last year. And, 7.2% of organizations expect they will outsource less, which is up from 5.9%. However, many more organizations expect to outsource, and spend more externally, compared with those that expect to reduce spending.

## Main Three Objectives and Main Three Challenges Point to Costs, Business Needs, Competencies and Productivity

The first question we asked was, "What are your company's three basic objectives for outsourcing (indicate the top three only)?"

The top objectives for 2009 are:

- Economic/financial condition: Reduce cost, reduce assets or improve cash flow — 76.8% (was 73.9% in 2007)
- Access to resources: Access to capabilities and competencies that you don't possess — 47.4% (was 53.4% in 2007)
- Company improvement: Improve company/customer service level — 27.4% (was 14.8% in 2007)
- Flexibility: Improve flexibility — 30.5% (was 33.2% in 2007)

The second question we asked was, "Please choose the top three challenges facing your IT organization in the next 12 to 18 months (choose three only)." See Table 1 for the results.

**Table 1. Top Challenges Facing IT Organizations in 2009**

Top Challenges	2009	2008
Budgets/cost containment	70.4%	52.9%
Aligning IT with the needs/requirements of the business	42.0%	47.1%
Getting more productivity or value from existing applications, systems or services	39.5%	17.9%
Supporting business growth and change	37.0%	50.8%

Source: Gartner (December 2008)

It is clear that reducing cost, achieving more from previous investments, enhancing productivity, and being aligned to business needs and requirements are top concerns for these managers.

## More Renegotiation, Fewer Transitions Back In-House

Data about renegotiations and changes of providers points to a refocus on renegotiation with current providers as the key approach to solve clients' issues. In this turbulent phase, clients ask for more from their existing providers (see Table 2), and this includes renegotiations to access cost and price reductions (see "Potential Impact of Economic Downturn on IT Infrastructure Outsourcing Prices, 1Q09").

**Table 2. Renegotiations and Transitions**

	2009	2008
Are you considering bringing outsourced services back in-house?	24.5%	28.8%
Are you considering changing your service providers?	42.7%	44.2%
Are you considering changing or renegotiating your outsourcing contracts?	61.1%	58.4%

Source: Gartner (December 2008)

## Use of Traditional and New Offerings

We also asked participants, "What type of outsourcing has your organization implemented or initiated (tick all relevant options)?" The type of outsourcing (or external services) endeavor that these organizations are implementing or have initiated also provides some new and interesting trends. Most traditional offerings (despite the question allowing multiple answers) are down in terms of activities within this sample:

- Data center/server outsourcing is 55.2% (down from 64%).
- Desktop management is 46.9% (down from 55.1%).
- System integration projects are 24.0% (down from 34.3%).
- Application maintenance and management (AMO) are 60.4% (down from 70%).
- BPO declined to 29.2% for horizontal processes and 14.6% for vertical ones (compared with 36.4% and 18.7%, respectively).

Interest in application development is on the rise (74% versus 70%), while some new services based on alternative delivery and acquisition models (ADAMs) appear on a rising tide of practical interest. Although being far from the mainstream interest reported by the traditional options, clients are already engaging with IU (22.9%), SaaS (15.6%) and remote management services (15.6%). Cloud computing is still reported at a lower 4.2%.

## Interest in New Alternative Models Is on the Rise

Table 3 reports the rate of interest (high or very high) in the hot alternative models in 2008.

**Table 3. Rate of Interest in Alternative Models**

	2009			2008			Delta
	Very High	High	Total	Very High	High	Total	
SaaS	13.9%	38.0%	51.9%	13.1%	29.7%	42.8%	9.1%
IU	21.5%	35.4%	56.9%	19.1%	36.9%	56.0%	0.9%
Business Process Utility	7.6%	39.2%	46.8%	3.9%	30.2%	34.1%	12.7%
Remote Infrastructure Management	8.9%	35.4%	44.3%	8.4%	32.6%	41.0%	3.3%
Cloud Computing	5.1%	26.6%	31.7%	6.0%	18.3%	24.3%	7.4%

Source: Gartner (December 2008)

It is clear that the rise of interest, year over year, in these models (collectively, the high/very high interest) has seen a significant growth of 33 points. The IU/infrastructure as a service continues to be at the top of organizations' interest (as last year), while there is a significant growth in awareness around business process utility, SaaS and cloud computing/Web platforms.

Although objectives (cost, efficiency, business value and capabilities) are the traditional ones, the approach to achieve these appears in a state of flux. Most of the traditional approaches — even on a growing base of newcomers — appear to be losing ground and interest, while alternative delivery models and industrialized services are confirmed on the rise.

### Note 1

#### European Summit Surveys (2009 Versus 2008 and Previous Years)

Comparison of 2008 and 2009 Gartner Outsourcing and IT Services European Summit preparation surveys:

- 2009 (run in December 2008): Survey invitations were sent to 11,300 client organizations. The online survey was open for eight working days, and 116 organizations responded.
- 2008 (run in December 2007): Survey invitations were sent to 16,500 client organizations. The online survey was open for 11 working days, and 311 organizations responded.
- Previous years' surveys: There were 209 respondents in 2007 and 202 respondents in 2006.
- The survey is an online survey based on a set of more than 20 questions.

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