The Future of IT Sourcing

Finanstilsynet Seminar

Ali Hamadi

Senior Managing Partner, FSI Nordics

ali.hamadi@gartner.com

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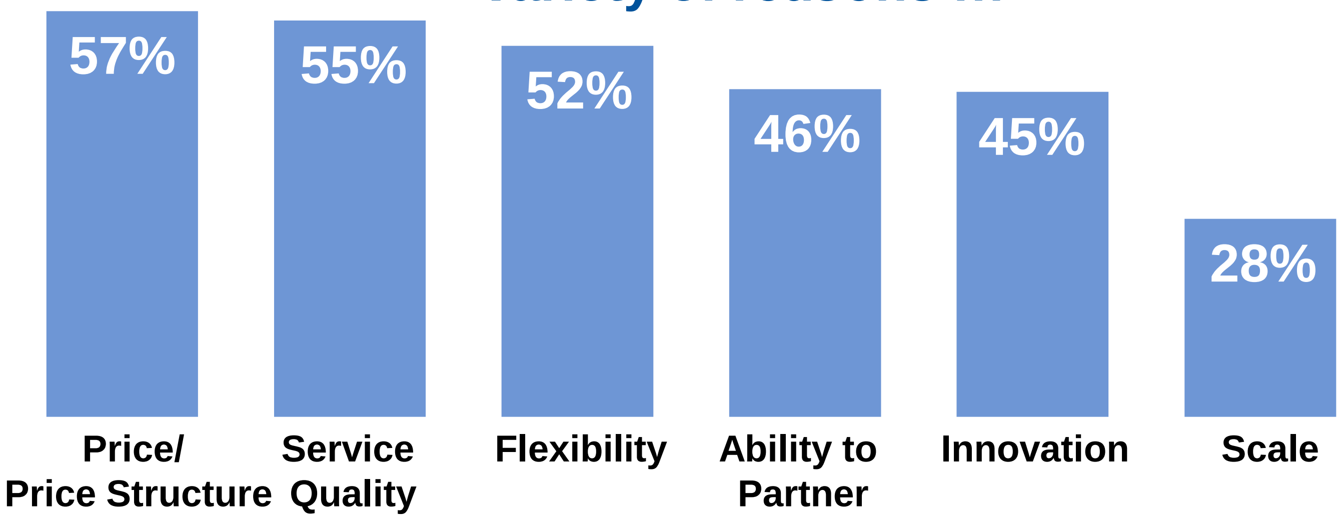
Sourcing: Time for Change

70% will change their technology and sourcing relationships in the next 2 to 3 years for a variety of reasons …



46% need to work with new categories of partners, for example …

Mobility Cloud Digital Agency

Big Data Analytics Social

"IT sourcing strategies must be structured to enhance IT agility and address the needs of digital businesses. Organizations that don't adapt their strategies, and the competencies required to execute them effectively, will fail to achieve the value opportunities presented by a highly digitalized future."

— *Ian Marriott, Gartner Research VP*

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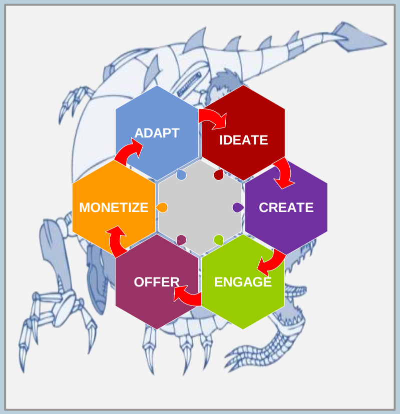
The content

- The future of IT sourcing in a digital word
- The digital sourcing strategy
- Core IT processes and competencies you never outsource
- A changing and evolving vendor landscape

We Are Entering a Third Era of Enterprise IT

We are here



	IT Craftsmanship	IT Industrialization	Digitalization
Focus	Technology	Processes	Business models
Capabilities	Programming, system management	IT management, service management	Digital leadership
Engagement	Isolated, disengaged internally and externally	Treat colleagues as customers, unengaged with external customers	Treat colleagues as partners, engage external customers
Outputs and Outcomes	Sporadic automation and innovation, frequent issues	Services and solutions, efficiency and effectiveness	Digital business innovation, new types of value

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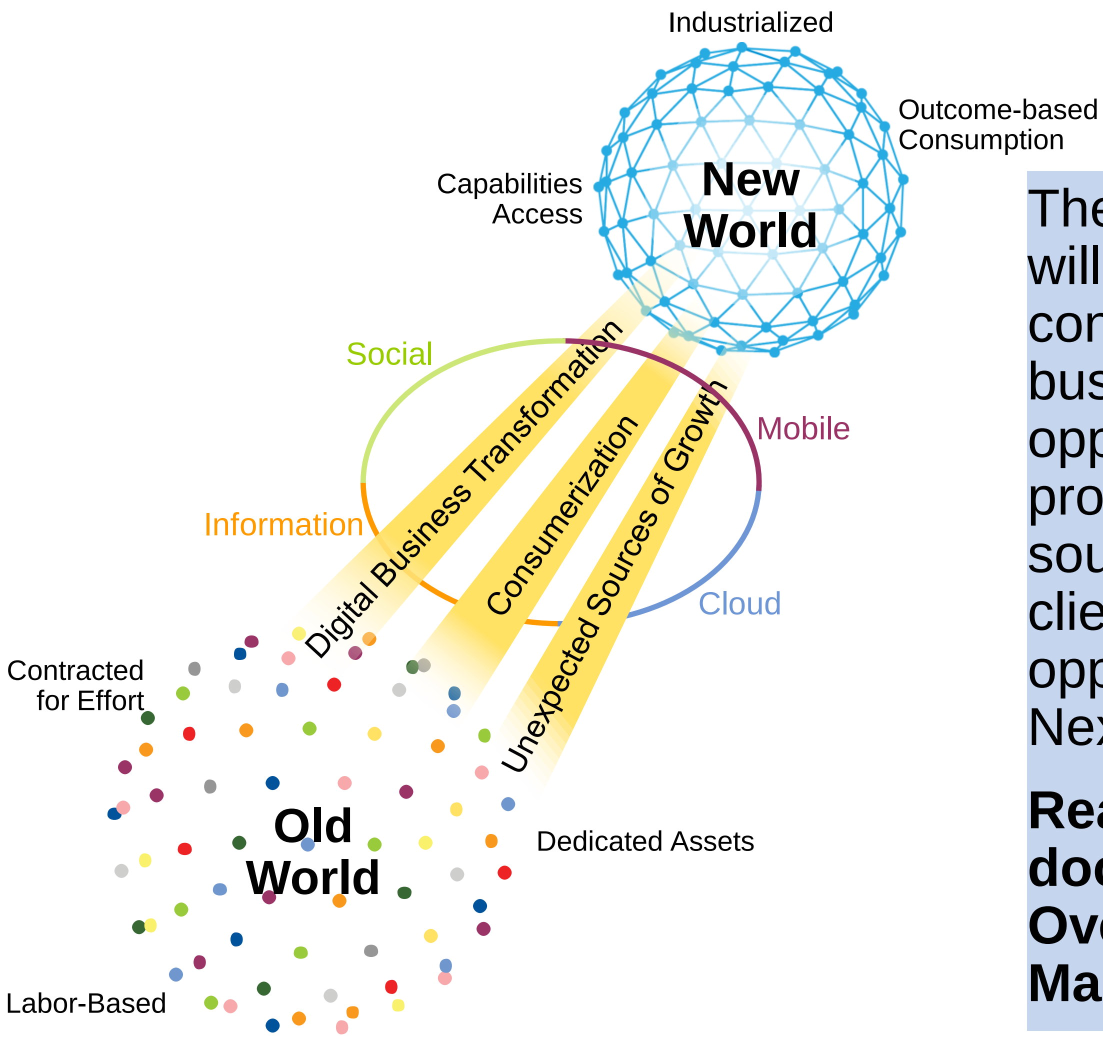
IT Services Market, 2014 and Beyond:

Keys to Thriving During Unprecedented Change



The IT services market will be reshaped by the consumerization and digital business transformation opportunities. Winning providers will find unexpected sources of growth helping clients exploit such opportunities, enabled by the Nexus of Forces.

Read the full research document: "Agenda Overview for the IT Services Market, 2014" (G00259488)

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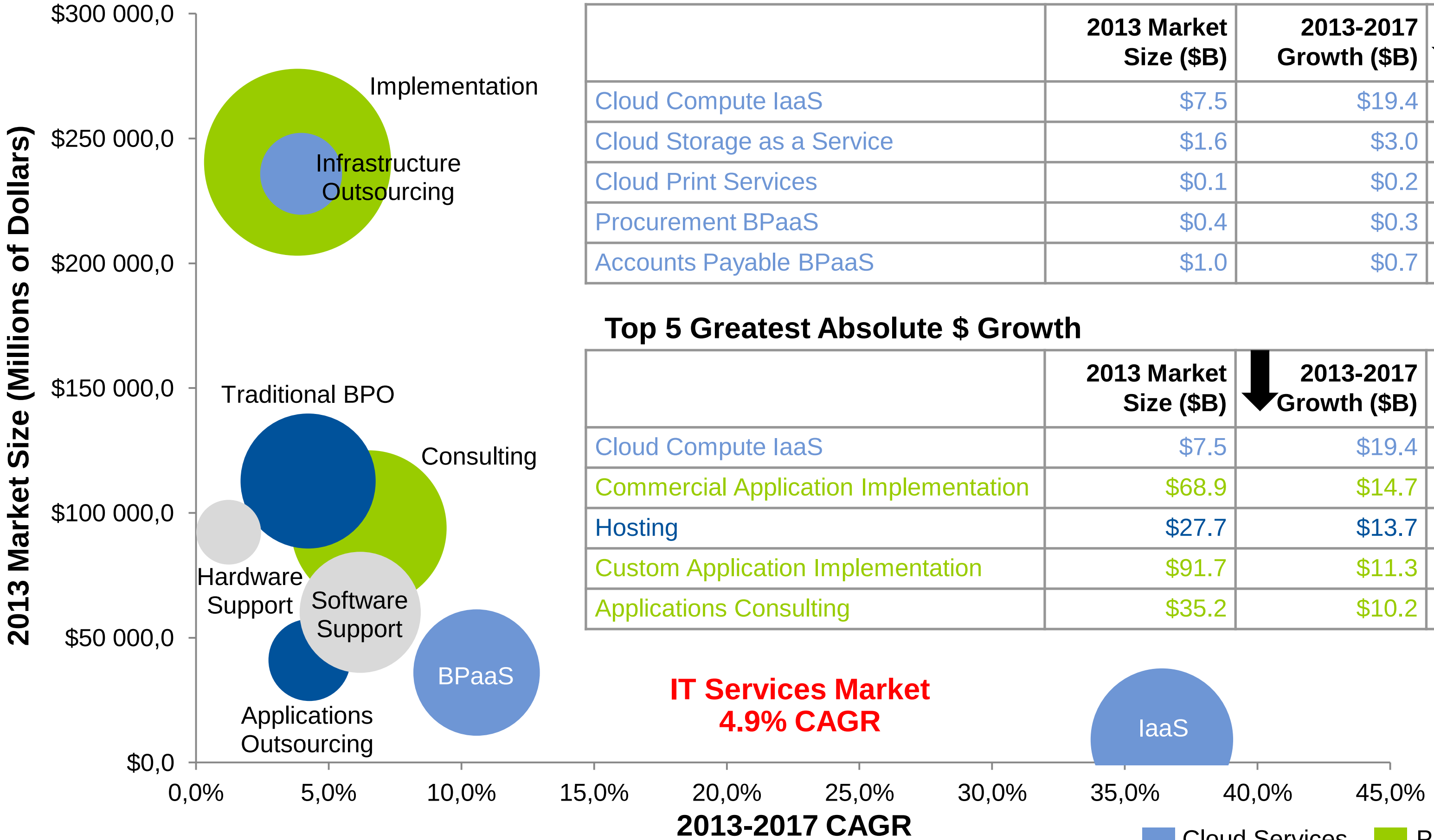
The Market Will Not Grow Uniformly — Market Segments Collide and Cannibalize



Size of bubble = $4.5 billion in 2013-2017 absolute growth

Top 5 Fastest % Growing

	2013 Market Size ($B)	2013-2017 Growth ($B)	2013-2017 CAGR (%)
Cloud Compute IaaS	$7.5	$19.4	37.6%
Cloud Storage as a Service	$1.6	$3.0	30.8%
Cloud Print Services	$0.1	$0.2	27.0%
Procurement BPaaS	$0.4	$0.3	16.4%
Accounts Payable BPaaS	$1.0	$0.7	14.3%

Top 5 Greatest Absolute $ Growth

	2013 Market Size ($B)	2013-2017 Growth ($B)	2013-2017 CAGR (%)
Cloud Compute IaaS	$7.5	$19.4	37.6%
Commercial Application Implementation	$68.9	$14.7	4.9%
Hosting	$27.7	$13.7	10.6%
Custom Application Implementation	$91.7	$11.3	3.0%
Applications Consulting	$35.2	$10.2	6.6%

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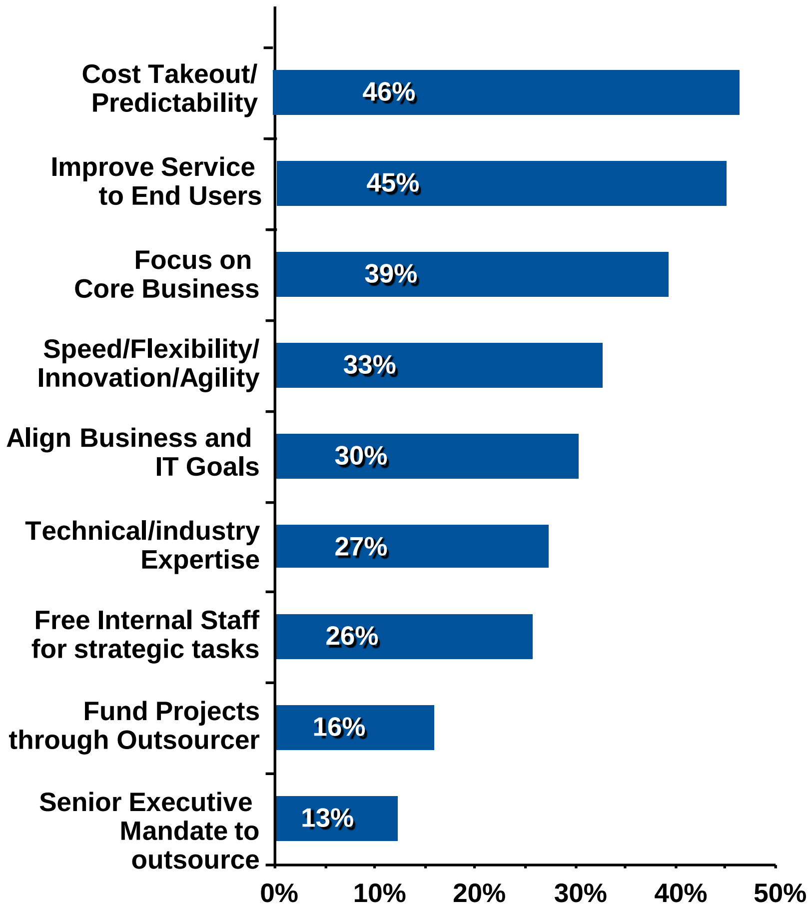
European Organizations' Outsourcing Drivers: A Multidimensional Challenge

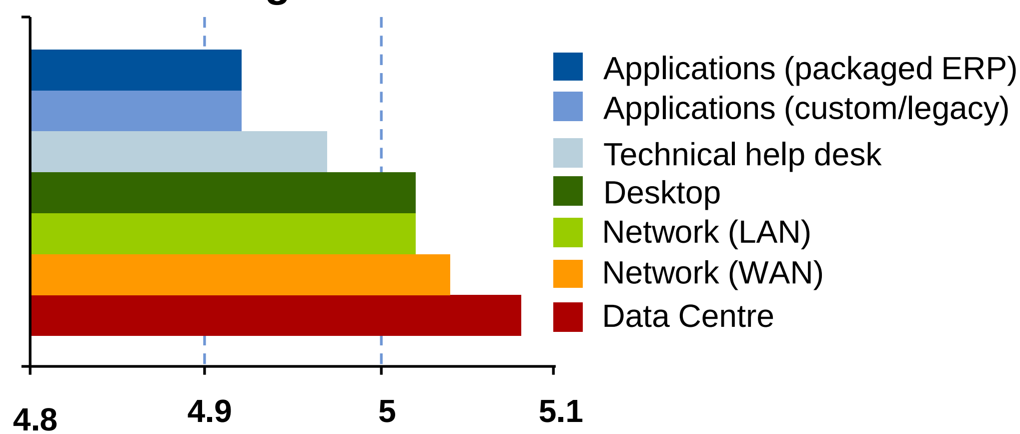
IT Outsourcing Drivers



All ITO Satisfaction

6-7	Extremely Satisfied	38%
5	Just Satisfied	32%
3-4	Unsatisfied	24%
1-2	Extremely Dissatisfied	6%

Outsourcing Satisfaction



Source: "IT Outsourcing in Europe: Opportunities Exist, but Handle With Care," G00166012 (Europe 310)

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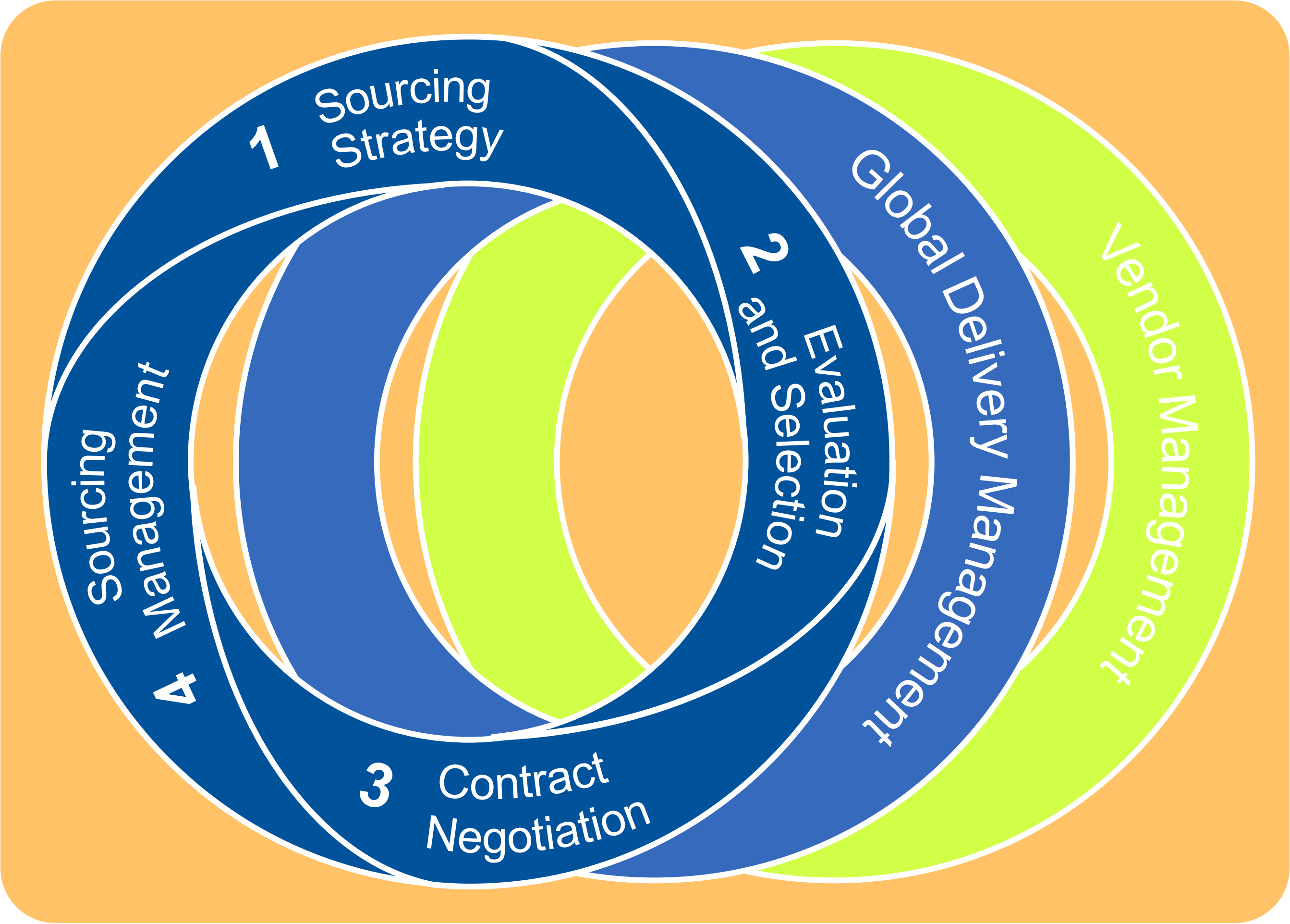
Traditional Sourcing Life Cycle

IT Services Sourcing Cycle

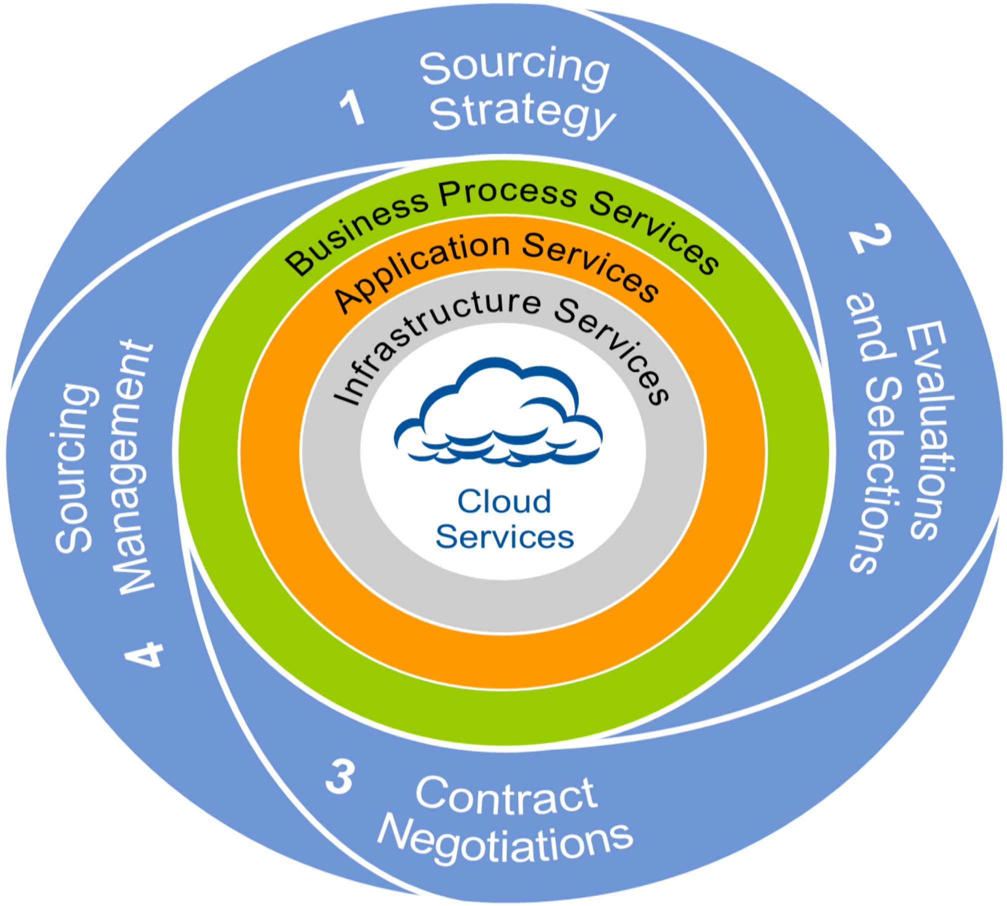
And thought,
if we did those things well,
we "did good."
And we were done ….

Then Two More Dimensions Added: Significant India Involvement and Impact



And thought we were good. And done….

The Gartner IT Services Sourcing Cycle



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Continued Global Economic Challenges

Difficulty

Value

Round 4: We embraced new delivery models/methods

"Industrialized services, low-cost IT and the cloud became more palatable."

Round 3: We examined our delivery needs and delivery methods

"Do we really need customized delivery?"

Round 2: We asked vendors to partner with us

"Help us drive enterprise growth and optimize cost." Vendors said, "Your engagement isn't large enough."

Round 1: We asked vendors to move up the value chain.

"Support us in higher-value work, and they did — when they had spare resources."

Round 0: Let's outsource the "commodity" work

"Help us manage 'run the business' stuff, and they did."

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The Continued Rise of Disciplined Multisourcing

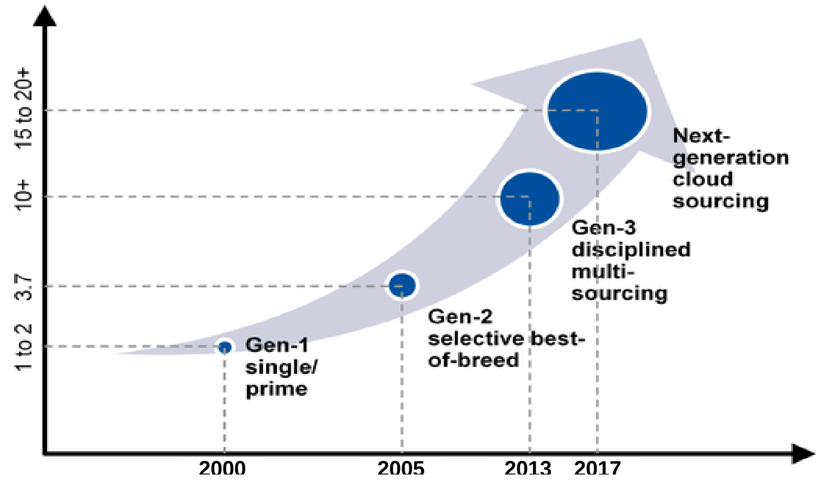
Multisourcing is emerging as the dominant model for sourcing relationships of the future

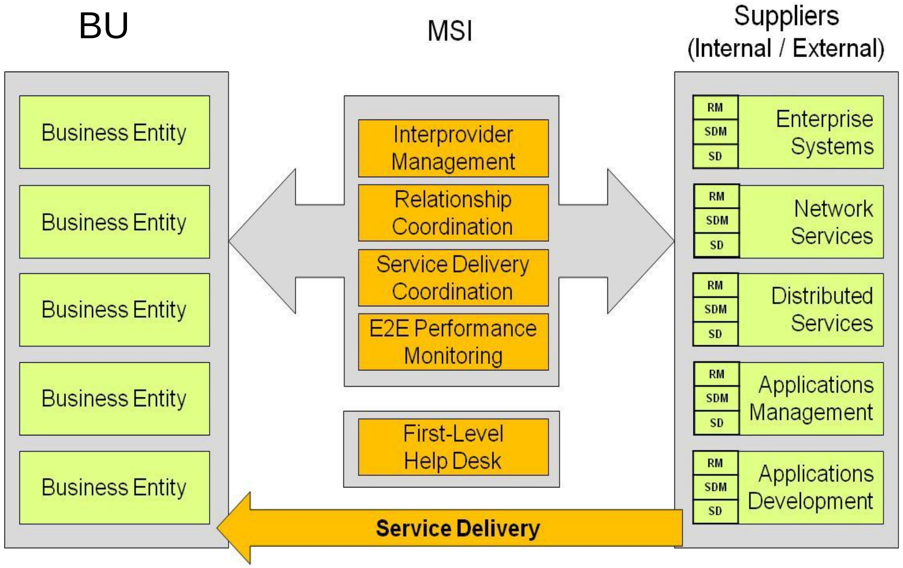
Most clients now have three to five major service providers, along with another five to ten suppliers they work with on a regular basis

Gartner expects this number to increase dramatically, especially as clients start to contract with more cloud service providers. This will add further complications to multiple vendor management.

To manage this complexity clients are increasingly defining Multisourcing Service Integrator (MSI) functions within there IT departments

These MSI functions are typically distinct teams who take responsibility for coordinating delivery amongst a potentially diverse group of suppliers (this team can itself be an outsourced service)





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The FSI Industry Shows A Variety of Sourcing Strategies

		Application Dev. & Maintenance	Infrastructure	Networking	Data Centre Facilities	Desktop Mgmt
Outsourced	DNB	*Mix*	Outsourced	Outsourced	Outsourced	Outsourced
	Danske Bank	*Mix*	Outsourced	Outsourced	Outsourced	Outsourced
	Deutsche Bank	*Outsourced*	Outsourced	Outsourced	Mix	Outsourced
	ABN·AMRO	*Outsourced*	Outsourced	Outsourced	Outsourced	Outsourced
Mixed	Nordea	*In-house / Out-Tasking*	Mix	Outsourced	Mix	Mix
	BBVA	*Out-Tasking*	In-house	Outsourced	In-house	Outsourced
	Santander	*Captive / Out-Tasking*	In-house	Outsourced	Outsourced	In-house
	UBS	*Mix*	In-house / Out-tasking	Outsourced	In-house	In-house
	ING	*Mix*	In-house	Mix	In-house	Outsourced
	BNP PARIBAS	*In-house / Out-Tasking*	Outsourced	Outsourced	Outsourced	Outsourced
In-house	Bank of America	*Outsourced*	In-house	Mix	In-house	In-house
	HSBC	*Captive*	In-house	In-house	In-house	In-house
	INTESA SANPAOLO	*Mix*	In-house	Mix	In-house	Mix
	JPMorgan	*Mix*	In-house	In-house	In-house	In-house
	Rabobank	*Mix*	In-house	In-house	In-house	In-house

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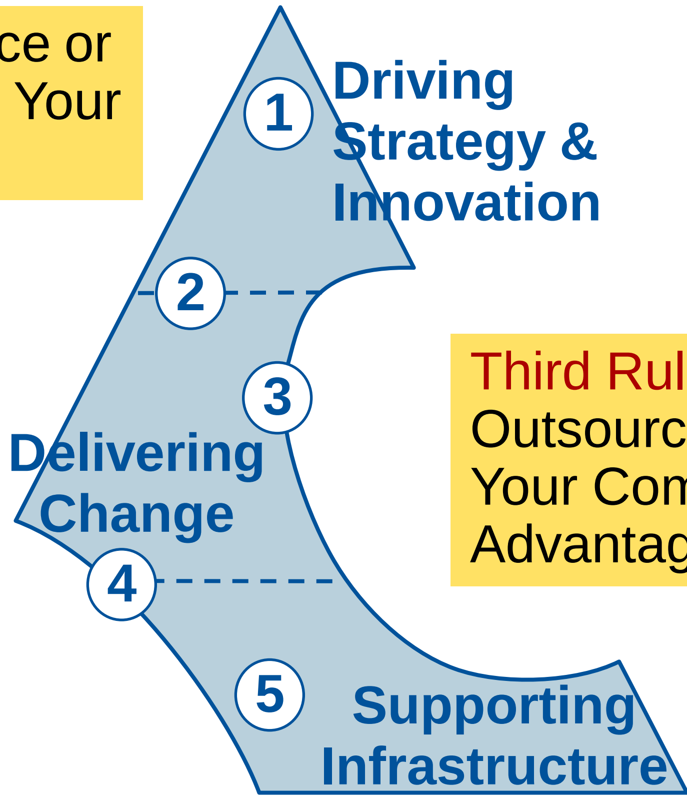
What You Should Never Outsource: The Three Key Rules

First Rule: Never Outsource or Lose Control of Managing Your Strategic Vendors

1. **IT Leadership**
2. **Architecture Development**
3. **Business Enhancement**
4. **Technology Advancement**
5. **Sourcing Management**

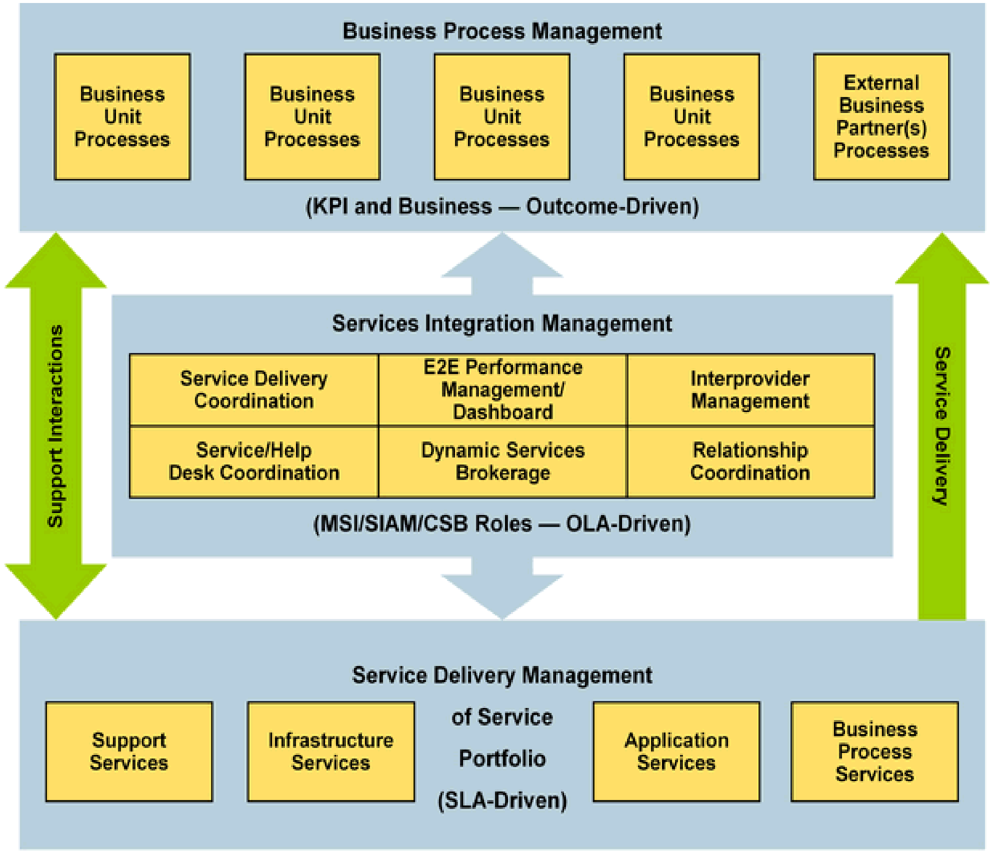


Third Rule: Never Entirely Outsource the Sources of Your Competitive Advantage in the Market

Second Rule: Never Outsource or Lose Your Capability to Manage a Multisourced Environment

- Leadership
- Innovation
- Differentiation
- Business Change
- End-to-end Services

The 5 sourcing management: A Services Perspective of the MSI/SIAM Role



Source Gartner (January 2014)

KPI = key performance indicator; E2E = end to end; OLA = operating level agreement; MSI = multisourcing service
integrator SIAM = services integration and management CSB = cloud service brokerage

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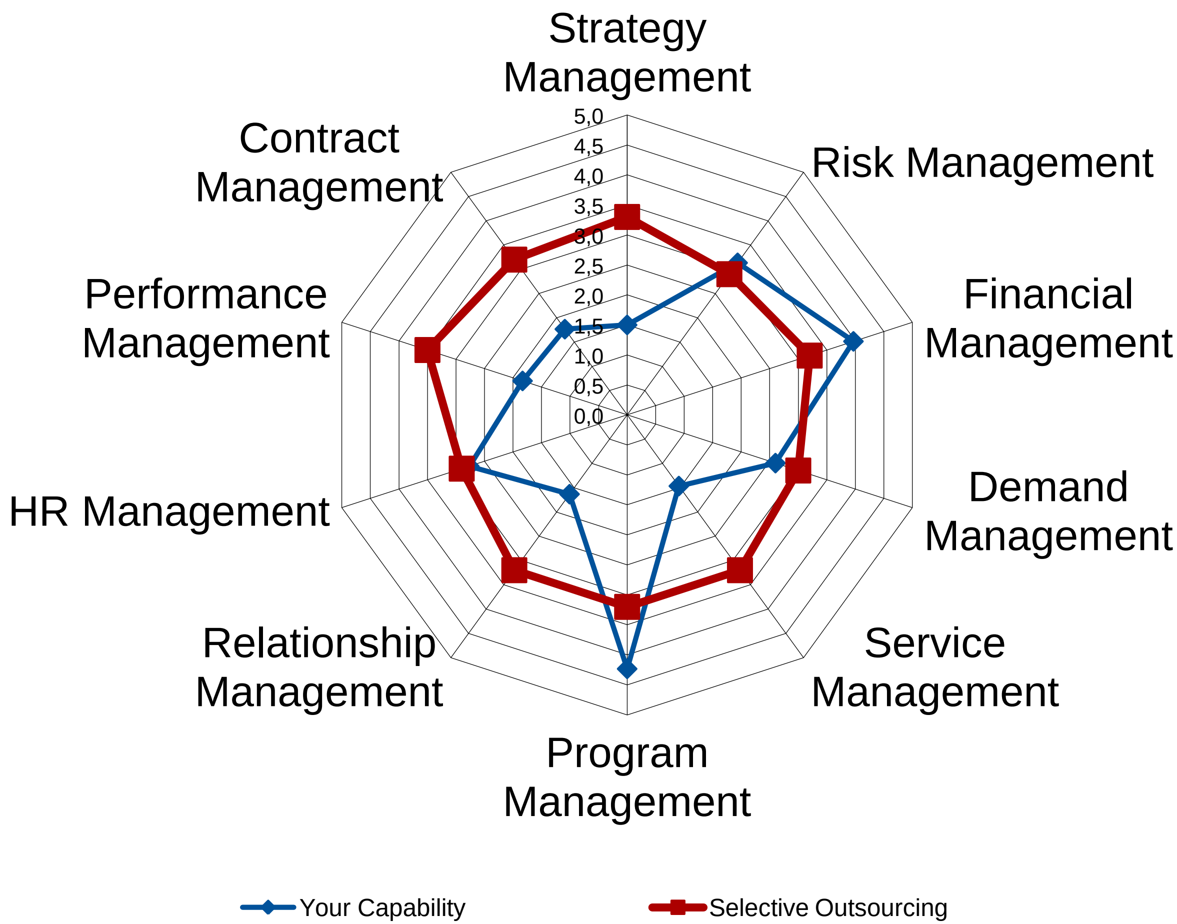
Key Multisourcing Competencies to E2E Service and Vendor Management



8% Only Master

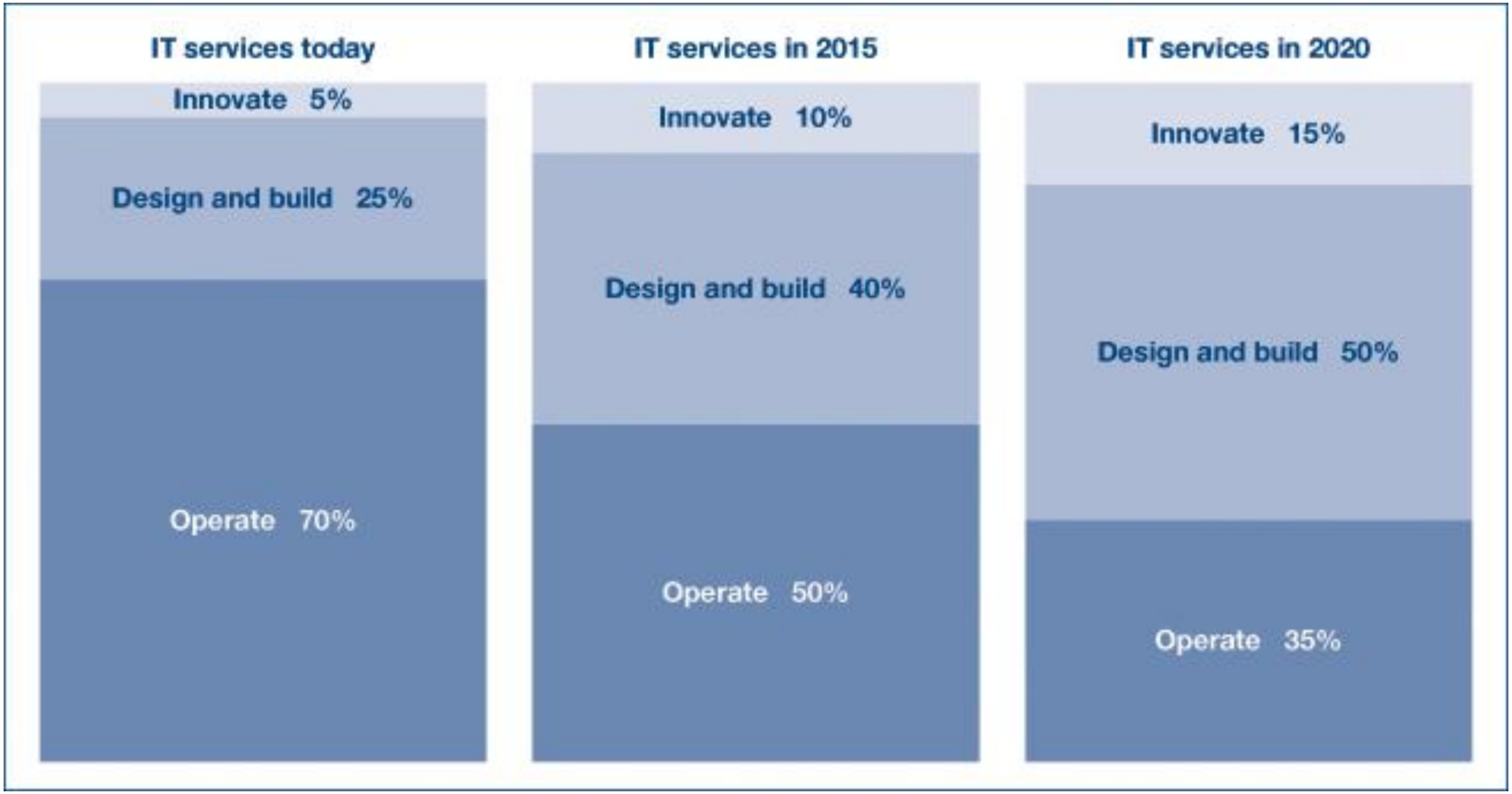
42% Lack Execution

21% New Strategy

31% Considering Re-insourcing

- Self Evaluation
- Process Maturity
- Skills, Loads, Behavior

IT roles will evolve to deliver more business value



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Market Share Analysis: IT Outsourcing Services, Worldwide, 2013

- Revenue for eight of the top 25 ITO market share leaders declined in U.S. dollars during 2013. The top two market share leaders, IBM and HP, each lost market share. India-based providers and cloud-based service providers gained market share in 2013.
- We continue to see cloud-based providers and India-based providers gaining market share. We expect this trend to continue through 2014, even though growth is slowing for several leading India-based players who delivered high-single-digit ITO growth rates during 2013.

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The Nordic Vendor landscape

- Infrastructure sourcing services:
  - *Data Center (accept RIM services)*
  - *Mainframe*
  - *Desktop*
  - *Network*
  - *Basic Operations*
  - *Application operation and support*

- AD- Application Development
- AM-Application Maintenance + Management

Vendors	AD/AM	INFRA	Verticals
Accenture	X	-	-
Capgemini	X	-	-
CSC	-	X	X
EVRY	-	X	X
HCL	X	X	-
HP	-	X	X
Infosys	X	X	-
Nets			X
TCS	X	X	X

Remote Infrastructure Management capabilities for INFRA Vendors (HCL, Infosys and TCS) (1:2)

Remote infrastructure management is a strong growth area for India-based providers, with revenue experiencing more than 40% growth on average.

India-based providers are still in the early stage of maturity in RIM capabilities as they continue to invest in automation and intellectual property.

Figure 1. India-Based Providers' Revenue Distribution by Vertical Industry (Percent)

Providers	Banking and Securities	Communications, Media and Services	Education	Government	Healthcare	Insurance	Manufacturing and Natural Resources	Retail	Transportation	Utilities	Wholesale Trade
Infosys	25	19				2	23	20	5	6	
HCL	19	9	3	3	16		24	10	5	7	4
Cognizant	32	13			17	14	4*	20			
TCS	20	31		6	2	4	7	18	3	9	

Low ⟷ High

Concentration

Source: Competitive Landscape: India-Based Remote Infrastructure Management Service Providers, June 2012, ID:G00229732

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Remote Infrastructure Management capabilities for INFRA Vendors (HCL, Infosys and TCS) (2:2)

- On average, 70 % of Infrastructure management revenue is from RIM
- Around 20 % revenue come from Europe, 60 % North America, rest is from Asia/Pacifi

India-Based Providers	System Monitoring/ Management	Network Monitoring/ Management	Security	Desktop Support	Email Support	ERP Ops. Support	DB Administration	Wintel Support	Unix Support	Help Desk	Storage Mgmt.	Application Monitoring	Website	Linux Support	Middleware	IT Asset Management	Print Management
Allied Digital	●	●	●	●	●	◑	◑	●	●	●	●	●	●	●	●	●	○
TCS	●	●	●	●	●	●	●	●	●	●	●	●	NA	●	●	●	●
Cognizant	●	●	●	●	●	NA	●	●	●	●	●	●	●	●	●	◑	NA
GAVS	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑	◑
Genpact	●	●	◑	◑	◑	●	●	●	◑	●	◑	●	◑	◑	◑	◑	●
HCL	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Hexaware	●	◑	◑	◑	◑	◑	●	●	●	◑	◑	●	●	●	◑	◑	◑
iGATE Patni	●	●	◑	◑	●	●	●	●	●	●	●	●	●	●	●	◑	◑
Infosys	●	●	◑	◑	●	◑	●	●	●	◑	◑	●	◑	●	●	◑	◑

○ Planning ◑ One to 10 customers ● 10+ customers

TCS: RIM employees total: 9,000
Europe Rev (% of total): 20 %
(930 MUSD$)

HCL: RIM employees total: 17,000
Europe Rev (% of total): 35 %
(450 MUSD$)

Infosys: RIM employees total: 8,000
Europe Rev (% of total): 33 %
(590 MUSD$)

Source: Competitive Landscape: India-Based Remote Infrastructure Management Service Providers, June 2012, ID:G00229732

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EMEA: Top 10 ITO Providers by Market Share, 2013 (Millions of Dollars)

2013 Rank	2012 Rank	Change in Rank	Vendor	2013 Revenue	2013 Market Share (%)	2012-2013 Revenue Growth Rate (%)
1	1	0	IBM	9,841	10.2	-1.6
2	2	0	HP	4,782	4.9	-9.3
3	3	0	Atos	4,689	4.8	0.6
4	4	0	T-Systems	4,077	4.2	3.3
5	5	0	Capgemini	3,549	3.7	4.5
6	6	0	Accenture	3,376	3.5	0.2
7	7	0	BT	3,112	3.2	-4.3
8	8	0	Fujitsu	2,562	2.6	-1.2
9	12	3	CGI	2,180	2.2	101.3
10	9	-1	CSC	1,899	2.0	-8.7
			Top 10	**40,067**	**41.3**	**1.0**

Source: Gartner (May 2014)

Traditional Sourcing Models

Industrial Sourcing Models

Delivery

Value

Close