

CSC FEATURE

European Strategic Outsourcing Survey: In for the Long Haul

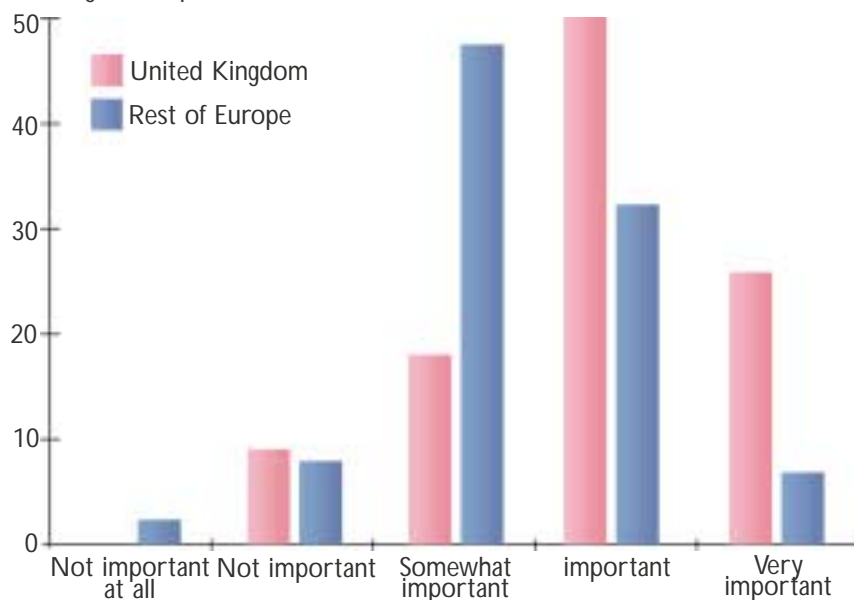
More than half of the largest companies in Europe have significant strategic outsourcing contracts, and the number of contracts will increase in the next three years, according to a recent CSC survey of top European executives.

Much of the development of thought and literature surrounding strategic outsourcing is based on an U.S. perspective. As strategic outsourcing grows in importance to European business, CSC conducted a study, *Strategic Outsourcing: Current Practices and Future Expectations*, to help the leaders of Europe's top companies understand the views of their peers on outsourcing.

The European strategic outsourcing report draws on a single survey of the top executives of Europe's 250 biggest businesses. A 20-question survey went to the chief financial officer (CFO), chief operations officer (COO) and chief information officer (CIO) of each company, covering questions such as preparedness to face business challenges, trends in the use of strategic outsourcing and the ways company's manage strategic outsourcing. A simplified questionnaire was sent to the company's chief executive officers (CEOs) so that CSC could compare the CEO responses with those of other executives.

Importance of Strategic Outsourcing; UK vs. Rest of Europe

Percentage of response



EXPERIENCE. RESULTS.



BUSINESS CHALLENGES AND OUTSOURCING

Much has changed since 1998. When CSC asked European executives to remember what they thought about strategic outsourcing five years ago, not a single CEO, and only 30 percent of CIOs, COOs and CFOs, thought it was “important” or “very important.” The gap between the two groups is still there in 2003, but at a higher level: Now 30 percent of CEOs and 60 percent of the other C-level executives say outsourcing is important.

CEOs caught up with the rest of the executives when asked if outsourcing would continue to be important in the next three years. About 70 percent of CEOs and more than 80 percent of the other C-level executives said it would.

This opinion was almost twice as likely to come from respondents in Northern Europe, which includes the United Kingdom, Ireland and the Netherlands, as from those in Southern Europe, which includes Italy and Spain. The difference between Western (including responses from France and Belgium) and Central (including responses from Germany and Switzerland) Europe was less pronounced.

Today, the United Kingdom is clearly the most mature strategic outsourcing market in Europe, with 75 percent of UK companies having strategic outsourcing contracts. This compares to an average of 38 percent of companies across the rest of Europe. However, there are clear indications that the German market, closely followed by the French market, will expand considerably during the next three years.

What is not so clear is why executives think outsourcing is important. One reason might be to gain competitive advantage. Both sets of respondents agreed that competitive pressures have been increasing.

The executives might see outsourcing as a way to become more innovative, as most of them agreed that their companies’ innovation was important for future success. The problem is that there is no correlation between these assessments of competitiveness and innovation and the same respondents’ assessments of how important outsourcing had become.

Businesses can also use outsourcing to revise a failed business strategy, but most respondents in both groups of executives believed their companies’ strategies were at least acceptable and did not need to be revised.



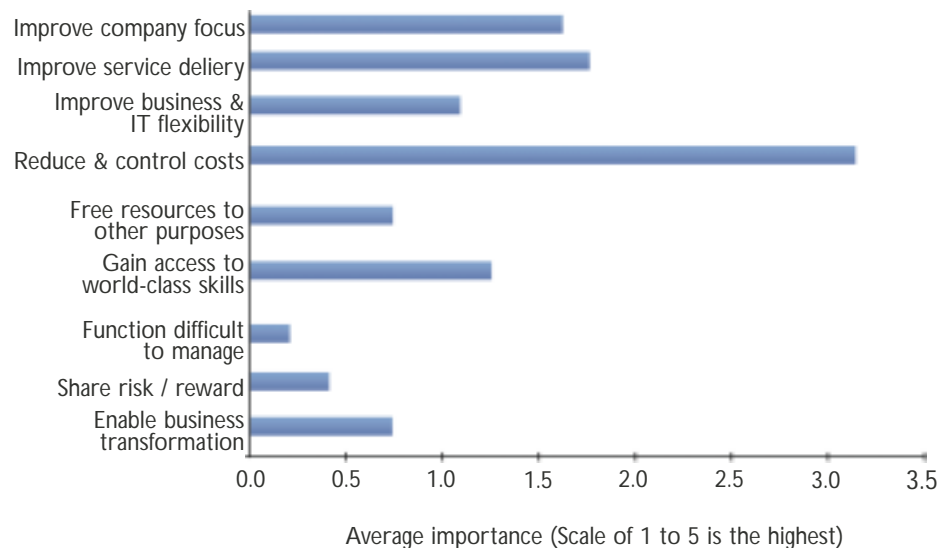
This question brought out more disagreement between the two groups, however, with CEOs more likely to say their strategies needed to be changed. Here, too, there was no correlation between judgments that outsourcing was important and statements that business strategies needed to be revised.

TRENDS IN STRATEGIC OUTSOURCING

The picture became clearer when respondents were asked directly what they hope to achieve through outsourcing.

Most respondents reported that they have succeeded in using outsourcing to achieve six business goals: improving company focus, improving service delivery, reducing and controlling costs, converting fixed to variable costs, freeing resources for other purposes, and deploying standard solutions. Reducing and controlling costs was easily the most important of these objectives, as it topped the list in all three time periods: five years ago, in 2003, and for the next three years.

Objectives for Strategic Outsourcing





The one goal that most executives agreed has not been achieved is improving business and IT flexibility. One reason it has not been achieved may be that those executives did not regard this goal as being important five years ago. They have changed their minds on that score – survey respondents say it will be second in importance only to cutting costs over the next three years.

Gaining access to world-class skills and expertise was the third-ranked outsourcing goal for the next three years, with enabling business transformation close behind in fourth place. When asked directly if they want to use outsourcing providers to achieve business transformation, one half of executives said they want providers to help them make significant changes or radical transformation.

HOW COMPANIES MANAGE STRATEGIC OUTSOURCING

Almost all of the respondents tend to think small, at least in outsourcing: 90 percent of them reported that their companies prefer smaller contracts with multiple suppliers to larger contracts with only one. The average value of outsourcing contracts in Europe is 279 million euros, but the typical company has two outsourcing contracts, each valued at less than 50 million euros. Only 16 percent of companies had “megadeal” contracts valued at more than 500 million euros.

Although most companies do not have explicit approaches to making decisions, such as what to outsource and how to select a services provider, nearly 60 percent said those decisions are made by a small team of executives. Almost 20 percent of respondents said their companies include board members and other stakeholders in these teams.

There was broad agreement that a great deal of effort is required to make outsourcing succeed. This is especially true in choosing a services provider: Three-fourths of executives said that selecting the right strategic outsourcing provider requires “considerable” effort. The amount of effort that executives perceive their organizations have to put into a contract lessens only slightly once a selection has been made. Nearly two-thirds of respondents said it takes just as much effort to manage an outsourcing provider as to choose one.

What companies achieve with this effort, however, is not clear, as there is no correlation with executives’ happiness or unhappiness with how well their expectations are met. It may be that companies that have little experience of outsourcing think that selecting a partner and managing the relationship should take less effort than it actually does.



OVERALL INSIGHTS

European business executives displayed broad agreement on the short-term objectives they hoped to achieve through outsourcing, and on how much progress they had made toward meeting those objectives. Continued success in achieving short-term goals, such as cost-cutting, service delivery and standard solutions, should mean that companies are better able to focus on the long term.

In fact, executives are giving more attention to long-term business goals. There may be less consensus about long-term goals, but most respondents did say that objectives such as business and IT transformation will become more important to them in the next three years. Cutting costs will nonetheless continue to be the dominant reason for outsourcing.

Delivering results from outsourcing is now a core competence that must exist in any major organization. The survey shows that this is not yet the case and that therefore some key things have to change. Strategic outsourcing will continue to grow in importance as a business tool and clients, as well as service providers, will have to find ways to succeed in delivering on these short- and long-term business agendas.

This feature is based on an article from CSC's Smart Business magazine and a CSC Research & Advisory Services report, Strategic Outsourcing: Current Practices and Future Expectations.

Contact:

CSC

Simon Knowles
European Business Development
The Royal Pavilion
Wellesley Road
Aldershot
Hampshire GU11 1PZ
United Kingdom
Phone: +44.1252.536871
Fax: +44.1252.534043
e-mail: sknowle2@csc.com
www.cscresearchservices.com