

Outsourcing: A No-Brainer

Outsourcing Trends in Western Europe

This study examines the approach of large companies to outsourcing. It is based on the results of a survey by IDC covering four Western European countries.

The main part of the study is a description of survey results. It contains an introduction covering relevant market trends. The study is supplemented by IDC's opinion on the survey results.



Document Type
An IDC White Paper



Sponsored by
Comarch



Publication Date
December 2018



Authors
Ewa Zborowska
Marianne Kolding

TABLE OF CONTENTS

Outsourcing Market Trends.....	3
Outsourcing: A Corporate Standard.....	4
<i>Almost Everybody Outsources</i>	4
<i>Reasons to Outsource</i>	5
<i>Not Everything Is Outsourced</i>	6
<i>Where to Outsource?</i>	7
An Outsourcing Partner is Key.....	7
<i>How to Choose the Right Partner</i>	7
<i>How Many Partners?</i>	9
<i>The Challenges of Outsourcing</i>	10
What About the Non-Outsourcing Few?	10
<i>Reasons to Stay In-House</i>	10
<i>A Willingness to Outsource – Eventually?</i>	11
<i>Converting Non-Outsourcers</i>	11
Survey info	11
IDC's Opinion	12

OUTSOURCING MARKET TRENDS

The Western European datacenter life-cycle services market is forecast to reach a value of \$66.1 billion by the end of 2021. This represents an 0.5% compound annual growth rate (CAGR) during 2016–2021.

Trends vary across service lines. Hosting infrastructure services (HIS) are expected to remain the chief catalyst of growth, with revenues estimated to increase by 5.4% over the five-year period. By the end of 2021, HIS is expected to be the lead market segment, with a value of \$19.2 billion.

Digital transformation (DX) continues to drive datacenter modernization, consolidation, and expansion. Cloud will remain the foundational technology, while interest in the Internet of Things (IoT), mobility, and cognitive solutions is expected to rise. The shift to hybrid IT and multicloud datacenters will boost end-user spending in the HIS market. Strategic infrastructure transformation will benefit IT consultants and systems integrators.

The provision of datacenter outsourcing services is expected to fall by 0.2% over the forecast period. Traditional IT outsourcing, which is projected to post a negative CAGR of 4.5% over the next five years, is contributing to the subdued demand.

Cloud services are profoundly affecting the overall outsourcing market. European organizations are increasingly looking for shorter, smaller, and flexible cloud-based contracts. They are frequently sourcing from multiple providers to maximize price competition and avoid vendor lock-in. While this shift in purchasing models is reducing demand for traditional outsourcing services, it is fueling demand for managed cloud services.

The following are some of the factors impacting the outsourcing market.

- ▶ **Hybrid IT and Multicloud Infrastructure Services:** IDC's 2017 European services survey showed that more than one-third of end users rely on cloud for at least part of their infrastructure services (e.g., hosted private or public infrastructure as a service). This percentage is on target to double to two-thirds of all organizations in 2019.
- ▶ **Managed Cloud Services:** Outsourcing, initially focused on cost cutting, has evolved to include the creation of value through strategic partnerships. In Europe, traditional deals are being retrofitted to include a cloud element when they come up for renewal. Service providers in the areas of IT outsourcing and HIS must adjust their strategies and operations to seize the managed cloud services opportunity.
- ▶ **Consulting-Led Engagements:** Consulting is becoming more integrated with outsourcing. As the focus of spending shifts to business outcome-driven infrastructure services, transformational projects will require a holistic approach. Enterprises should transform their datacenters into cost-efficient, agile, and automated environments.
- ▶ **Integrated Services Delivery:** The pursuit of hybrid/multicloud strategies is putting pressure on providers to deliver increasingly sophisticated capabilities. A growing number of vendors will position themselves as service-agnostic or third-party services aggregators.
- ▶ **New Technologies:** The adoption of virtualization and software-defined infrastructure and networking technologies is enabling enterprises to abstract the infrastructure layer from the underlying hardware. This allows vendors with large physical estates to optimize their facilities by making hardware more standardized and easily replaceable. Growing end-user interest in cognitive deployments, mobility, and IoT at the infrastructure layer will create opportunities around datacenter transformation strategies that align with business requirements.

Source: *Western Europe Datacenter Life-Cycle Services Forecast 2018–2021 (Update: The Pivot to Hybrid Cloud)*

OUTSOURCING: A CORPORATE STANDARD

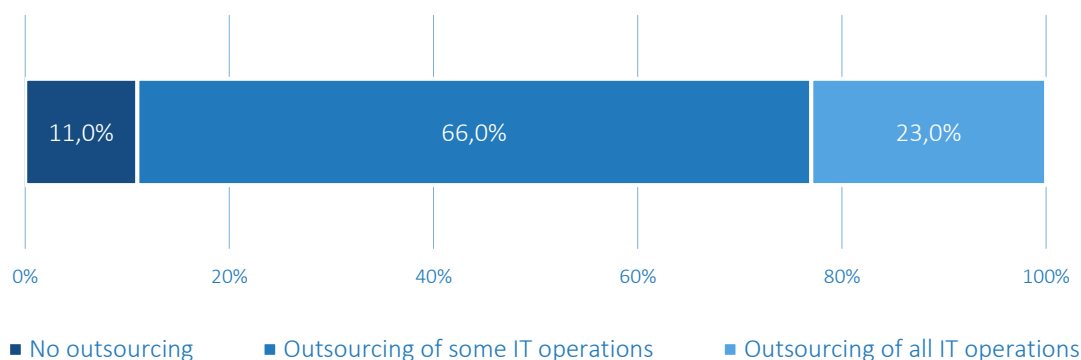
Almost Everybody Outsources

Nearly all surveyed companies said they outsource all or some of their IT operations to third-party providers. Only 11.3% of companies said they do not outsource.

Among the outsourcers, two-thirds (66.0%) have outsourced some of their IT operations. Nearly one-quarter (22.7%) have outsourced all IT operations.

FIGURE 1

How Western European Companies Approach Outsourcing



Note: Western European companies employing 500+ (n = 133)

Source: IDC Survey, September 2018

The larger the company, the less enthusiastic it usually is about outsourcing. Among companies that employ 500–999 people, almost 30% outsource every IT operation to a third party. Among companies that employ 2,500+ people, the number drops to 19%. The lower rate can be attributed to the more complex nature of IT operations at many larger organizations, as well the difficulty associated with integration of IT processes.

Reasons to Outsource

Outsourcing is driven by new delivery models offered by technology, the growing convergence of IT and business, and the continuous process of IT transformation.

According to the survey, the top three reasons that companies outsource include:

- ▶ New delivery models (e.g., on-demand, managed services, cloud): 47.4%
- ▶ Lack of internal resources to acquire new technologies (e.g., cloud, artificial intelligence, machine learning, augmented reality/virtual reality): 45.1%
- ▶ Growing IT needs from lines of business: 42.1%

More than half (61.7%) of very large companies (2,500+ employees) cite a lack of internal resources as the top reason to outsource. This shows that even companies with extensive internal IT departments may lack the time and resources to invest in developing new competences.

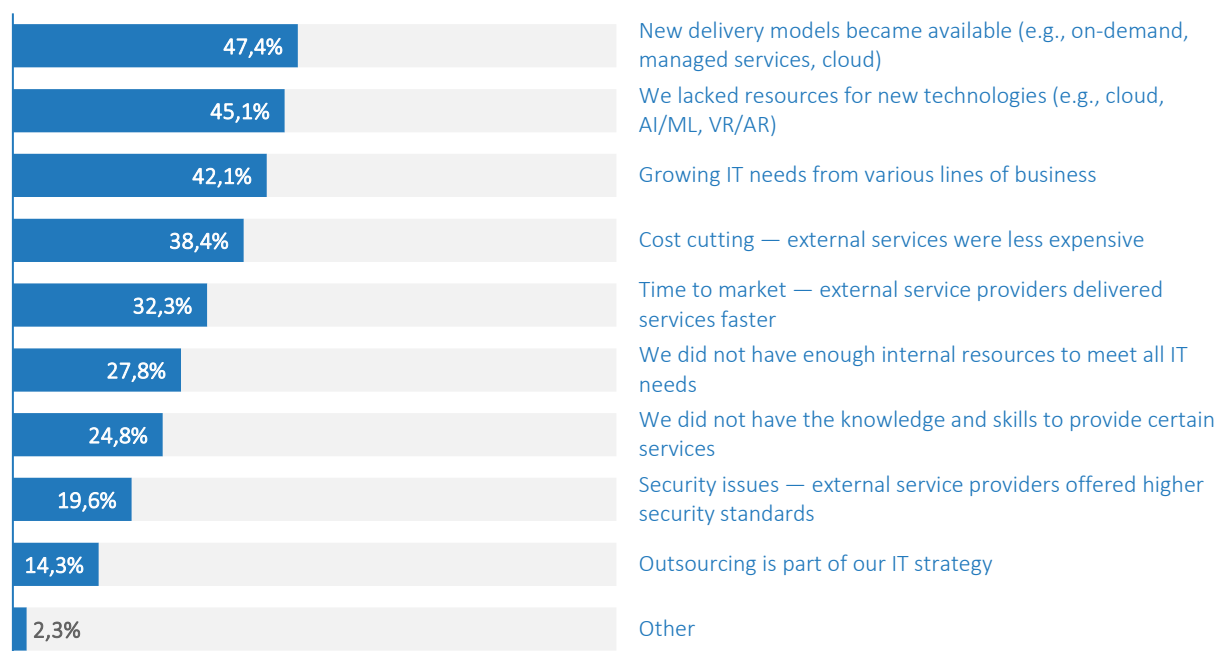
The least frequently cited reasons to outsource include:

- ▶ Outsourcing is part of our IT strategy: 14.3%
- ▶ Outsourcers provide better security: 19.5%
- ▶ We lack the knowledge and skills to provide certain services: 24.8%

The last reason indicates that outsourcing can be a solution for organizations that are dealing with IT talent scarcity.

FIGURE 2

Reasons to Outsource



Note: Western European companies employing 500+ (n = 133); top three answers

Source: IDC Survey, September 2018

Not Everything Is Outsourced

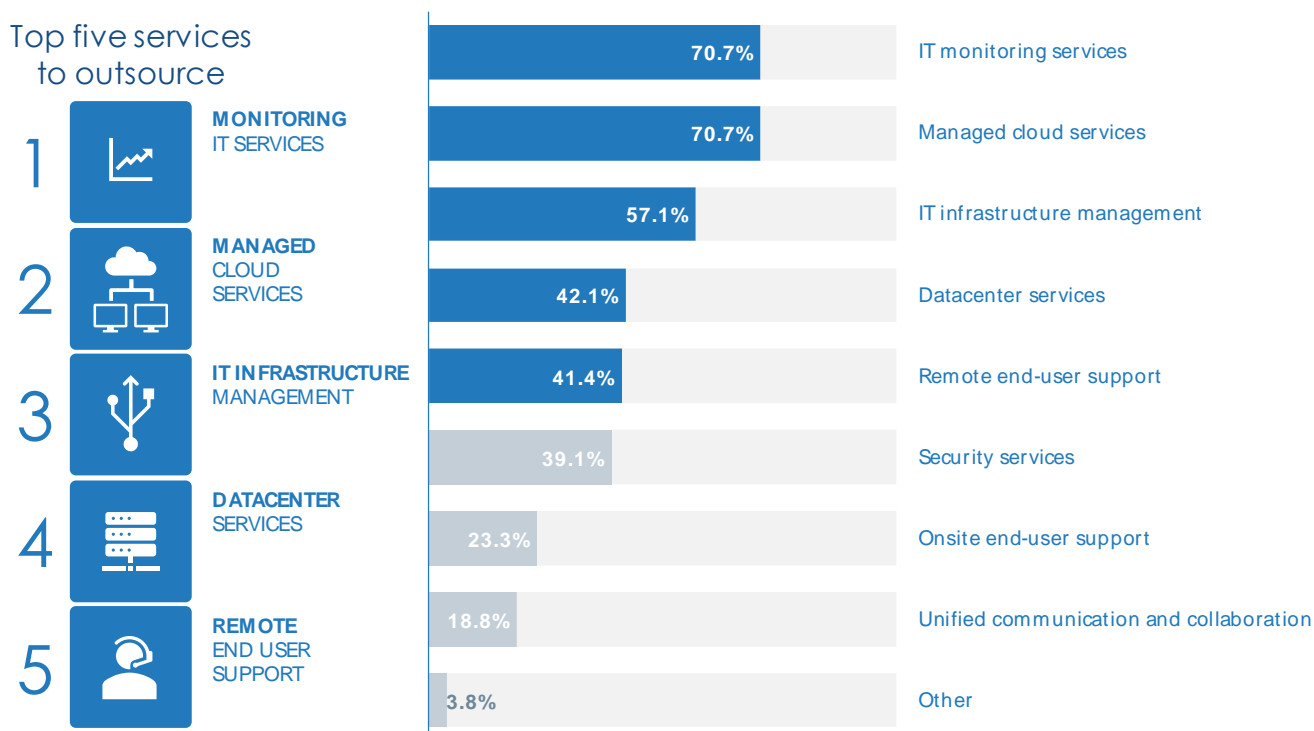
IT monitoring, a relatively basic service, is outsourced by 70.7% of all companies. This shows that, despite the availability of a growing number of IT monitoring tools, outsourcing this service allows companies to devote internal resources to other tasks.

The other top category is managed cloud services, also outsourced by 70.7% of respondents. This, of course, goes hand in hand with the growing popularity of cloud among companies in Western Europe, especially in the UK and Benelux. It also confirms IDC's prediction that the share of managed cloud services in the global outsourcing market would increase.

FIGURE 3

Most Commonly Outsourced Services

Q. Which IT services do you outsource?



Note: Western European companies employing 500+ (n = 133); top 3 answers

Source: IDC Survey, September 2018

Demand for various types of infrastructure-related outsourcing is high: 57.1% of companies outsource IT infrastructure management, while 42.1% outsource datacenter services.

The dynamic development of remote tools and the growing popularity of mobile solutions have driven demand for remote end-user support. Less than one-quarter (23.3%) of companies outsource onsite end-user support.

The relatively small number (18.8%) of companies that outsource unified communications and collaboration (UC&C) indicates that the currently available tools are broadly sufficient. Organizations deploy UC&C tools on-premises and, increasingly, in the cloud.

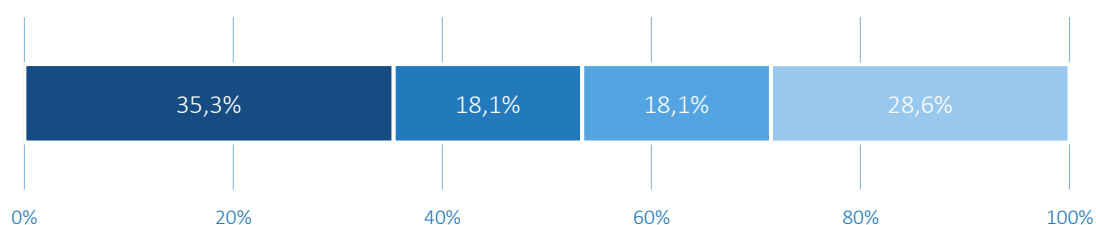
Where to Outsource?

Onshore outsourcing is the top choice for companies in all Western European countries except France. Substantial numbers of companies also prefer near-shoring, offshoring, or a mix of models.

- ▶ We outsource to companies with operations in our country (onshore): 35.3%
- ▶ We outsource to companies with operations in neighboring countries or in our region (near-shore): 18.1%
- ▶ We outsource to companies with worldwide operations (offshore): 18.1%
- ▶ We use a mix of models: 28.6%

FIGURE 4

Preferred Outsourcing Model



- Onshore: We outsource to companies with operations in our country.
- Offshore: We outsource to companies that have worldwide operations.
- Near-Shore: We outsource to companies with operations in neighboring countries or in a region.
- Mix of the above

Note: Western European companies employing 500+ (n = 133)

Source: IDC survey, September 2018

Due to their size and the geographical spread of their operations, the largest companies (2,500+ employees) often use a mixed model (42.6%). Large companies are less likely to exclusively use the onshore model than medium-sized companies (500–999 employees). Nearly 40% of medium-sized organizations outsource within the countries of their operation.

AN OUTSOURCING PARTNER IS KEY

How to Choose the Right Partner

The survey results show that when choosing a provider, clients tend to rely on their own experiences rather than the opinions of their peers. Customers are also open to new provisioning models and interested in access to new technologies.

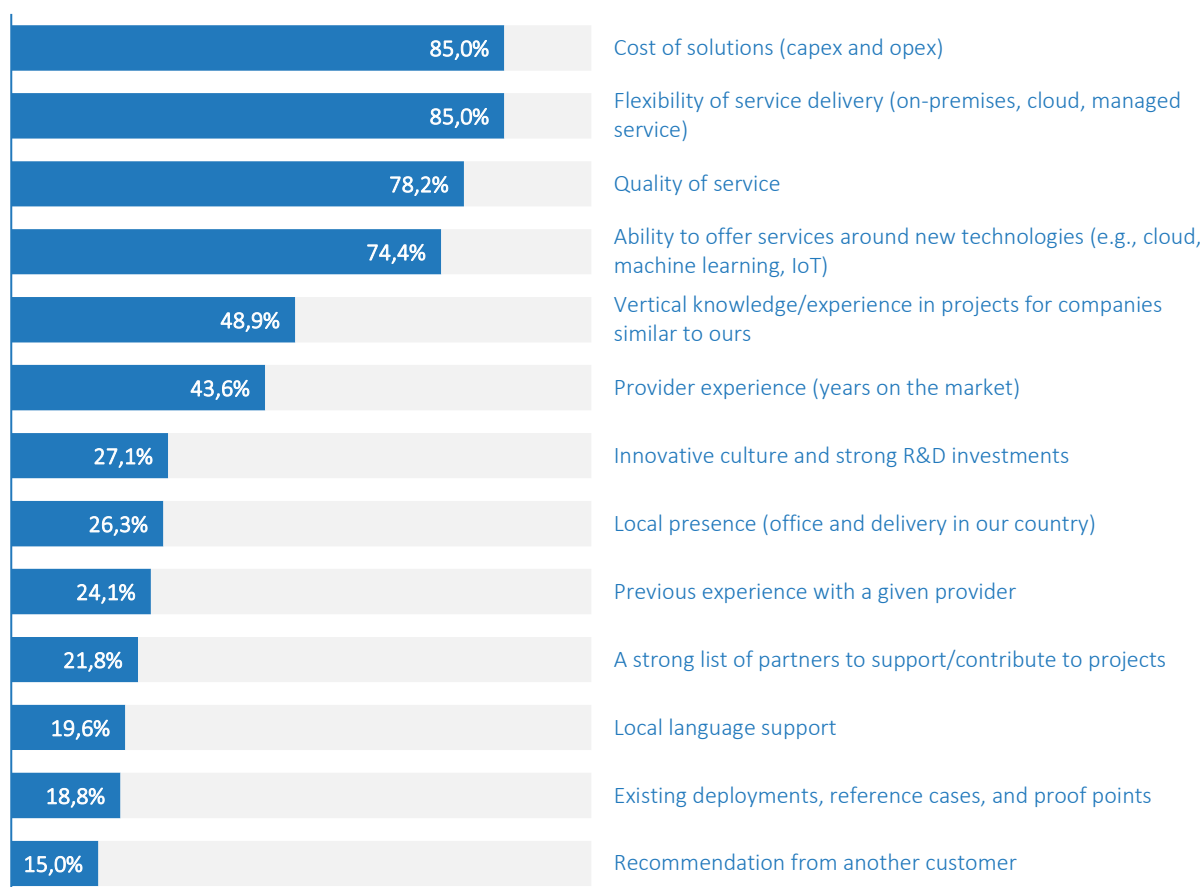
The top five factors when choosing an IT service provider include:

- ▶ **Cost Efficiency (85%):** Although cost cutting is no longer always the main reason organizations outsource, the survey shows that companies still seek the best value for money when choosing a partner.

- ▶ **Flexibility (85%):** The business and operational flexibility offered by a mix of on-premises, cloud, and managed services is driving the growth of hybrid solutions.
- ▶ **Quality of Service (78.2%):** Organizations experienced with outsourcing are usually clear on what level of service satisfies them. Because of this, providers often face demanding service-level agreement conditions from potential customers and have limited room to negotiate. In the case of basic outsourcing services, expectations are usually high and terms mostly non-negotiable. However, in transformational deals where outcomes may be difficult to predict, clients may be more flexible and open to outsourcers' suggestions.
- ▶ **New Technologies (74.4%):** Cloud, software-defined infrastructure, machine learning, and IoT implementations can be difficult for internal IT teams to master. This drives the use of external partners.
- ▶ **Vertical Knowledge/Experience (48.9%):** Customers want providers to understand their operations and business. Industry-specific acumen is essential for outsourcers' success.

FIGURE 5

Key Factors in Choosing an IT Provider



Note: Western European companies employing 500+, all answers that apply (n = 133)

Source: IDC Survey, September 2018

Only 18.8% of outsourcers consider the current engagements or references of providers to be important. Only 15.4% of outsourcers rely on recommendations from other buyers. This suggests that companies often believe their needs are unique and that their peers' experiences may not be relevant. They may also understand that in a constantly evolving environment, one successful engagement does not mean that others will go as smoothly.

Less than one-fifth of surveyed companies regard local language support as a selling point (which provides an opening for near-shore and offshore firms). Additionally, less than one-quarter of companies say their previous experience with a provider is a key factor in their outsourcing decisions. As business customers, like consumers, become less loyal, providing a good customer experience is becoming more important. Providers should strive to offer high-quality services: When contracts are being renegotiated or renewed, customers cannot be expected to endure less than ideal conditions.

How Many Partners?

Some technology buyers/customers have been limiting the number of external providers they work with, and thus aiming to simplify management of the outsourcing process. The survey found that more than half of companies (51.1%) have fewer than three outsourcing partners. Nearly two-thirds of the largest companies (2,500+ employees) engage with fewer than three outsourcers. Many organizations that outsource are seeking to streamline their activities and limit the number of service-level agreement contracts and invoices.

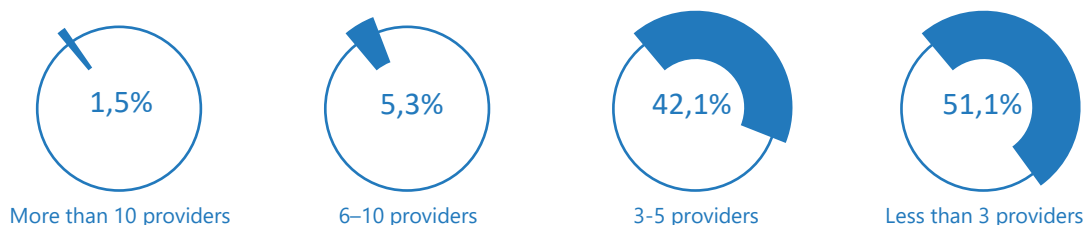
Well under half of companies (42.1%) use 3–5 external services providers. Only 5.3% of all surveyed companies cooperate with 6–10 providers, and just 1.5% of companies maintain relations with more than 10 outsourcing partners.

Having more than six partners is most common among medium-sized companies (500–999 employees). In this group, 11.6% of companies work with 6–10 partners, and 4.7% with more than 10 partners. It is extremely rare to find a company employing 1,000+ people that works with more than 10 external partners. Only 2% in this group are engaged with 6–10 outsourcers.

FIGURE 6

Number of Outsourcers

Q. How many external IT service providers do you have?



Note: Western European companies employing 500+, (n = 133)

Source: IDC Survey, September 2018

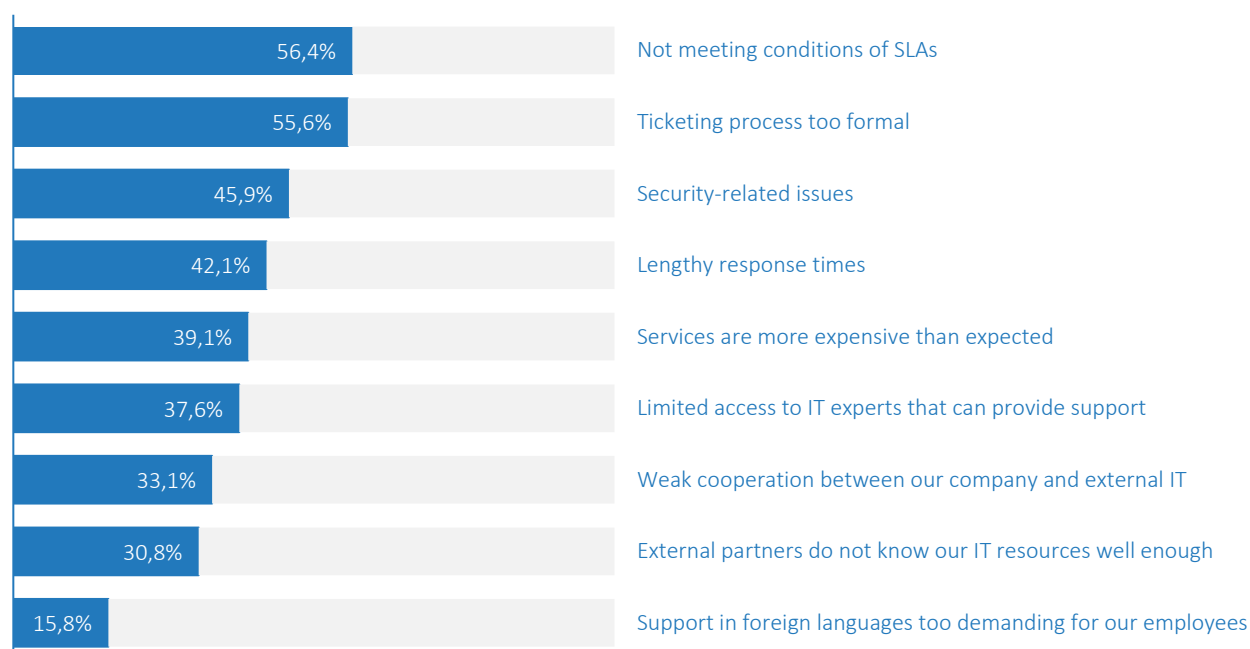
The Challenges of Outsourcing

Although customer experience is usually a top priority for providers, most end-user companies (56.4%) say their main challenge with outsourcing is that suppliers sometimes do not meet service-level agreements. Although outsourcing should be a step to streamlining IT processes, many customers also often find ticketing processes too formal and response times too long (55.7% and 42.1% of respondents, respectively).

Some customers say their relations with an outsourcer lack continuity. One-third (33.1%) of companies stated that different engineers from the outsourcer have arrived each time an intervention was needed. Almost one-third (30.1%) of survey respondents also said their suppliers failed to meet expectations when they did not provide professionals who were sufficiently familiar with the organization's IT resources.

FIGURE 7

Main Challenges with Outsourcing Providers



Note: Western European companies employing 500+, all answers that apply (n = 133)

Source: IDC Survey, September 2018

WHAT ABOUT THE NON-OUTSOURCING FEW?

Companies that do not outsource represent only a fraction of survey respondents (and no statistically viable data on them can be presented). However, the responses from non-outsourcers illustrate a few key points.

Reasons to Stay In-House

Companies usually decide not to outsource because their IT strategy assumes that IT development and management will stay in house. Companies that do not outsource also cite security and regulatory

concerns as reasons for keeping IT in house. Some are also convinced (rightly or wrongly) that outsourcing is ultimately more expensive.

A Willingness to Outsource – Eventually?

Few non-outsourcers are bold enough to declare that they do not need outsourcing because their IT team can fulfill all of the organization's needs. A clear majority of companies that currently do not outsource say they are open to outsourcing in the future. Almost half of these would prefer local providers. A small group is open to a mixed model of onshore and offshore providers. A lack of experience with outsourcing or data location requirements may predispose these companies in favor of onshore.

Non-outsourcers say that demand for new IT services within the organization, a change of the organization's IT strategy, or extremely beneficial pricing could prompt them to consider outsourcing. These companies indicated that they would consider outsourcing managed cloud services, IT infrastructure management, IT monitoring services, and UC&C.

Converting Non-Outsourcers

Like the customers of today, new outsourcing customers will look for high quality of service and flexibility of delivery (e.g., on-premises, cloud, managed services, or a combination of these). They may be highly sensitive to capex and opex. Because of their inexperience with the service, they may pay more attention to a provider's track record and local presence than companies that already outsource.

SURVEY INFO

The survey was conducted in September 2018 in four markets:

- ▶ Benelux (Belgium, Luxembourg, the Netherlands)
- ▶ France
- ▶ Germany
- ▶ United Kingdom

The participants included 150 companies that employ 500+ people in these industries:

- ▶ Manufacturing (discrete and process)
- ▶ Professional and consumer services
- ▶ Financial services (banking, insurance, or other financial services)
- ▶ Retail and wholesale
- ▶ Utilities (electricity, gas/heat, and water)
- ▶ Media and entertainment
- ▶ Transport and logistics

Computer-aided telephone interviews were conducted with representatives of senior and mid-level management of finance and accounting, IT, production, engineering, and research and development departments.

IDC'S OPINION

IDC research shows that practically all major European organizations, and over 80% of smaller organizations see digital transformation (DX) as a major business priority. For the majority of both groups, transformation of IT infrastructure is one of the key elements for business transformation, and various types of outsourcing engagements often play a vital role in this process.

Survey results among large Western European businesses indicate that they realize potential benefits from outsourcing parts of their IT operations, and they have the necessary knowledge and expertise to choose outsourcers effectively. The majority of companies have a clear understanding why they want to outsource and which features they need to take into account when choosing an outsourcing partner. This is both an opportunity and a challenge for outsourcing providers, as they must meet high expectations and be ready to prove their value for transforming the customer's business. Outsourcing providers like Comarch have an advantage of years of experience supporting various clients in the outsourcing field, accompanied by Comarch's business-related expertise gained while delivering consulting and integration projects.

Also, outsourcing providers will have to adjust their offering and way of engaging with customers, as the need for a more holistic approach grows. Given the continuous shift from cost-efficient to business outcome-driven IT, the outsourcer is no longer an external provider of basic IT but a partner for transformational projects.

Finally, this is a time of technology-enabled change for most organizations in Western Europe; therefore, almost all client engagements have an element of transformation. Companies see project services engagements, especially consulting and implementation, as having potential to transform their technology and/or business. Various types of managed services, including outsourcing, must be transformative, as well. Outsourcing engagements should not be just about lifting and shifting and running a given environment for the client. Outsourcing providers must focus on improving the technologies and, even more importantly, the processes they are managing for the client. This applies to all types of outsourcing engagements, which should be evolving and integrating new technologies such as automation, software-defined infrastructures, cloud, and cognitive solutions to support greater agility and lower costs.

As outsourcing morphs into managed services deals that include cloud elements, the demand for external partners to run complex IT operations will grow. The management of complex hybrid environments requires active involvement, and this requirement is often best met by a third-party provider.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

IDC Poland

ul. Gotarda 9
02-683 Warszawa,
Poland
+ 48 225 484 050

Twitter: @IDC
idc-community.com
www.idc.com

Copyright Notice: External Publication of IDC Information and Data — Any IDC information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC vice president or country manager. A draft of the proposed document should accompany any such request. IDC reserves the right to deny approval of external usage for any reason. Copyright 2018 IDC. Reproduction without written permission is completely forbidden.