Major trends in IT Outsourcing: a preview of 2020

Results of a survey conducted by CIONET and Cegeka in Belgium and the Netherlands

Introduction

Letter from Zander Colaers

Dear technology leader,

There is no doubt that outsourcing has become a strategic management tool for probably every modern IT organization. The reasons for this may vary. Some appreciate the opportunity to focus on core activities and 'digital', while others see outsourcing as a catalyst to deal with business requirements in a more flexible and agile way. The management of outsourcing business cases varies as well. When engaging in an outsourcing project, IT leaders are confronted with a wide array of challenging choices to make, each having specific long-term consequences for their organization.

In our recent book: 'Dare to outsource', we took the opportunity to investigate every aspect of outsourcing, from the decision-making process regarding day-to-day operational management to the strategic management of the business case.

However, this study would be incomplete without looking for what effectively happens in the market. How do senior IT leaders experience their outsourcing journey and, more importantly, how do they expect this journey to evolve in the future?

To get a better view on this we organized a survey, the results of which are contained in this report. Eighty senior IT leaders from Belgium and the Netherlands participated in the survey, through in-depth interviews and online questionnaires.

The resulting picture offers an intriguing view of the outsourcing market: homogenous in some practices, quite mixed in others. As such we are confident it offers a valuable reference for any IT organization engaging in a journey towards outsourcing parts of their operations.

I wish to thank all the IT leaders who participated in this survey. This is a first, but very important step towards a more precise understanding of the dynamics behind outsourcing journeys. A step I am sure will be valuable to every IT leader reading this report.

I wish you an insightful read!

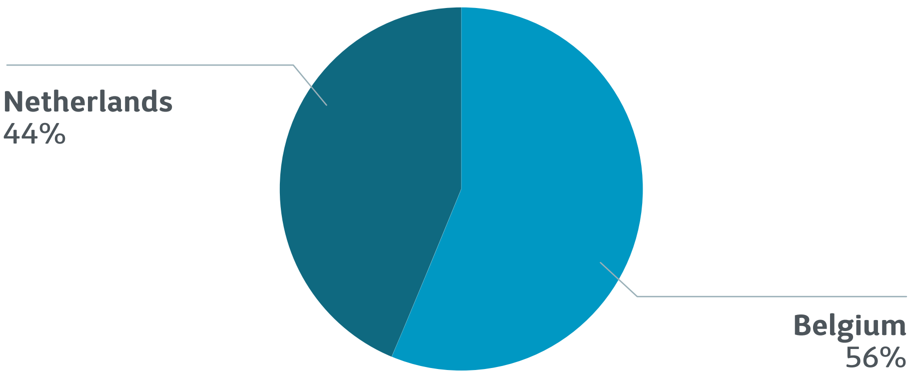
- Zander Colaers, Managing Director Cegeka Netherlands, COO Cluster Infrastructure Cegeka

Methodology and profile of respondents

The findings contained in this document are based on the results of a survey conducted by CIONET & Cegeka throughout July and August 2016. The survey was conducted both via an online questionnaire and through in-depth interviews.

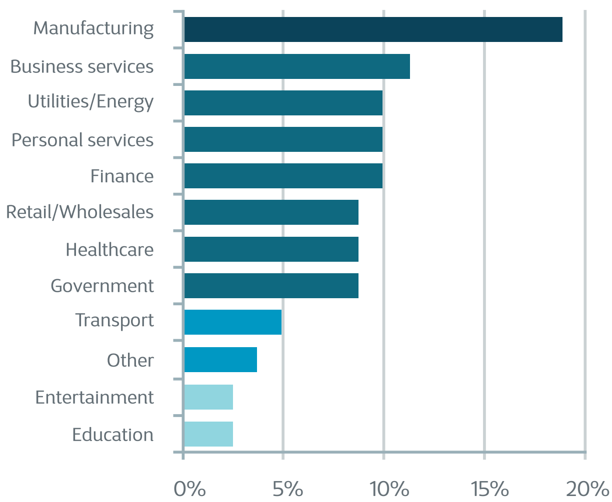
80 CIOs and senior IT decision makers from Belgium (56%) and the Netherlands (44%) completed the survey. 19% of the respondents are employed in manufacturing, while the other respondents were evenly distributed throughout the other industries.

Geographical distribution of respondents



(figure 1a)

Industry distribution of respondents



(figure 1b)

Executive summary

The survey was designed to cover three areas of investigation: the context in which IT leaders operate, the current state of IT outsourcing and the outsourcing plans going forward.

Achieving an impact on the overall business is clearly the main objective of most IT leaders. 39% of them say 'thinking and acting strategically' is their main focus area, while 55% mention it in their top three focus areas. This is also reflected in the second biggest focus area mentioned: successfully implement business requirements.

Enterprise Resource Planning (ERP), Security and ICT Infrastructure are the main destinations of renewal budgets in the short term. Internet of Things appear to be a low priority in these renewal budget, but perhaps the reason for this is that such projects would appear in other budgets, such as budgets of the shadow IT organization.

Looking to the main drivers for outsourcing, we see a demand for access to knowledge that is not readily available in the organization. IT organizations are struggling with following new technology evolutions. On the other hand they are required to quickly expand or reduce capacity within the organisation. These are the main drivers mentioned by over 50% of the respondents. Outsourcing projects can hence be understood as ways for IT organizations to offer their solutions as a flexible service to their business.

However, organizations can benefit more from outsourcing. There is a room of businesses to get more from outsourcing. Only 44% of the respondents to the survey claim that the underlying business case of the outsourcing project is intensively or regularly monitored during the complete course of the project.

Looking into the future it becomes clear that very few parts of the IT organization will not be subject to outsourcing. An increasing number of respondents indicate that areas not yet outsourced have the potential to be outsourced in the future.

For 40% of the respondents there is a strong relation between the portion of infrastructure and application to be outsourced in the future. For the remaining 60% the portion of infrastructure to be outsourced will be bigger than the portion of applications.

Given the substantial impact of outsourcing projects on the overall organization, partners play a vital role in this evolution. Most of the respondents rely on three to five partners in their outsourcing projects, and intend to do so in the longer run. This again does not translate into losing control over the outsourcing process: 66% of the respondents state that steering the overall outsourcing project will remain within the IT organization.

Overall the survey shows that the outsourcing market in Belgium and the Netherlands will still grow substantially in the future, as more areas of IT practices are considered for outsourcing. This is the result of two driving forces. First, there is a growing confidence of IT leaders in how to successfully manage and steer outsourcing projects. This becomes apparent from the observation that the majority of respondents do not intend to dramatically alter the way they would manage outsourcing projects in the future. Secondly, the growth of outsourcing as an IT practice is driven by the need for IT organizations to become more closely aligned with overall business objectives and a necessary focus on innovation of business processes and functionalities, what we call 'digital' outsourcing will clearly become a key asset for the strategic objectives of IT organization.

Detailed findings

Main focus areas of the CIOs

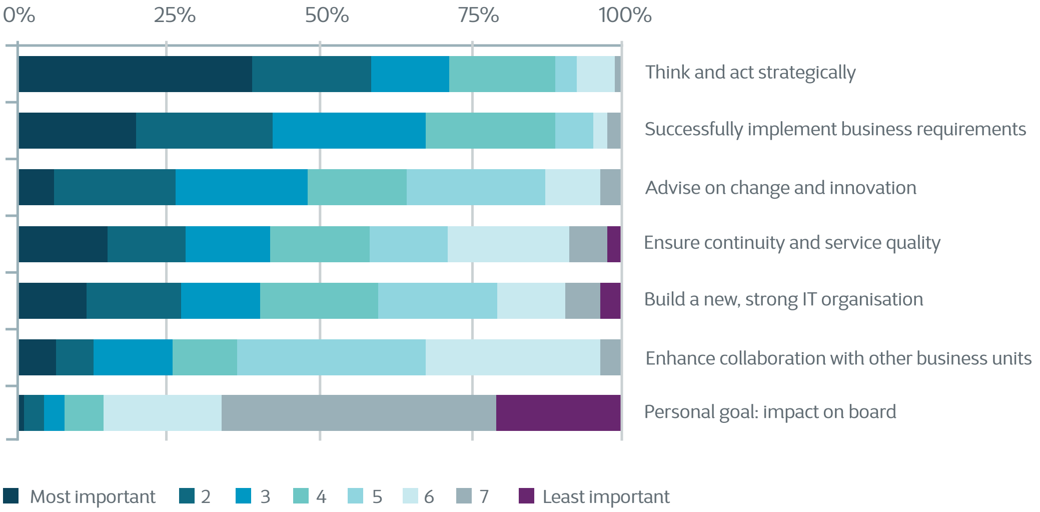
In order to fully comprehend the future outsourcing plans of CIOs it is important to understand their current environment.

The respondents were asked to rank their main professional focus areas for the coming three years. Almost 40% of the respondents indicated that their first priority was to act and think strategically within their organization.

'Successfully implement business requirements' and 'Advise on change and innovation' also appear strongly in the top three focus areas of the CIOs.

The top three focus areas of CIOs are a confirmation of the need for IT leaders to get closer to the business side of their organization, serving as internal trusted advisors on critical business issues.

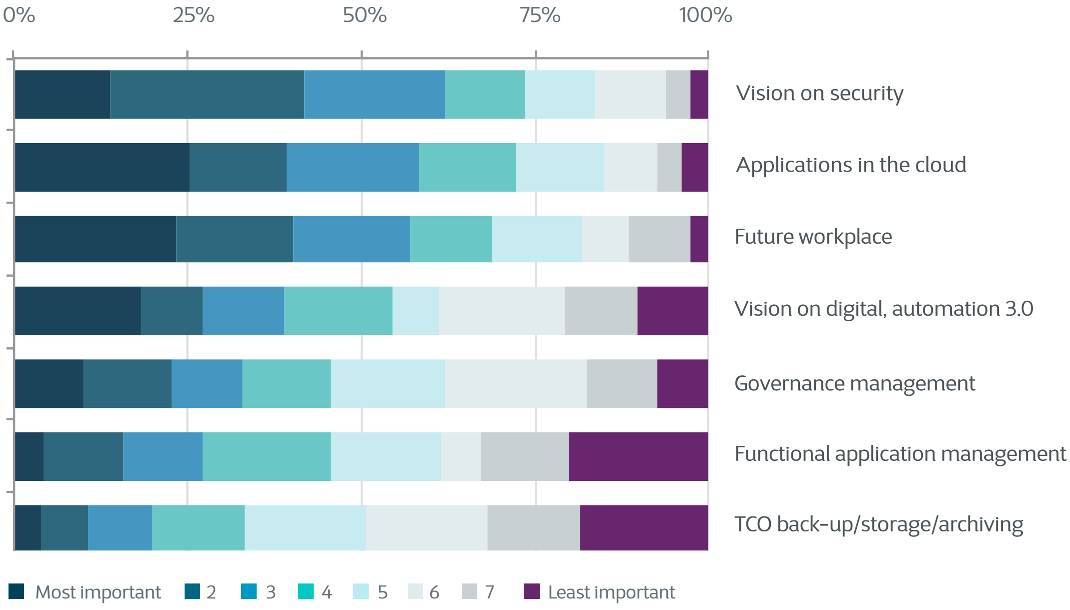
What are your main focus areas as a CIO the coming 3 years? (ranked by importance)



(figure 2)

Asked about the areas in which their organization could benefit from increased knowledge or vision, CIOs pointed out: 'Security', 'Applications in the Cloud' and 'Future Workplace'. The fact that CIOs are focusing on Applications in the Cloud explains the fact that in the coming period, these CIOs will bring their application landscape to the cloud (software as a service – SaaS).

Which topics would you like to increase knowledge of in your organization?



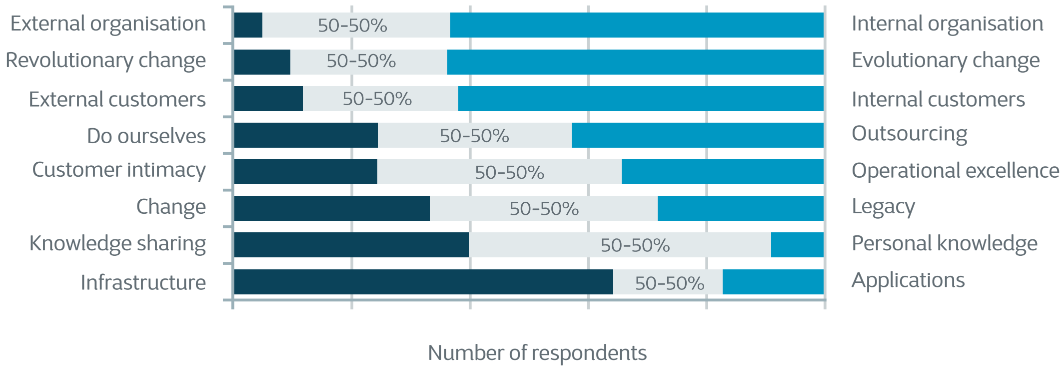
(figure 3)

CIOs often have to make tough choices about where to put their focus. Moreover, the options are frequently diametrically opposed, making the choice even harder. The survey offered nine of these choices and asked the respondents to assess how much of their time and focus is spent on either of these options, or both.

While for most of the options the spread of focus between both extremes is relatively evenly distributed around the middle (50%-50% for both extremes, with some variation to 25-75% either way), for three areas the results showed a more pronounced choice:

- a majority tends to spend more time and focus on applications, rather than infrastructure
- a (smaller) majority tends to spend more time focusing on internal customers rather than external clients
- CIOs tend to prefer evolutionary changes, rather than revolutionary changes

What is your main focus area?

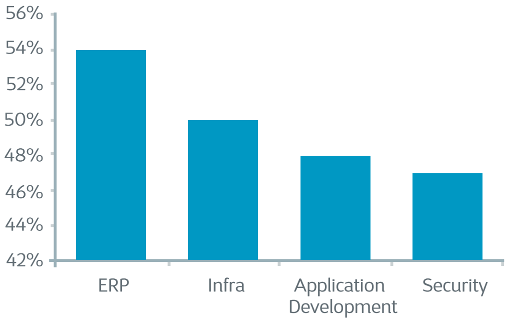


(figure 4)

When asked about the destination of renewal budgets in the near future, Enterprise Resource Planning (ERP), Security, ICT infrastructure and Application Development were mentioned most frequently. This is most probably an indication of the fact that a lot of companies are still in the phase of preparing for digital transformation by strengthening the fundamentals first. The major focus at this moment seems to be on the backbone application landscape and the underlying infrastructure.

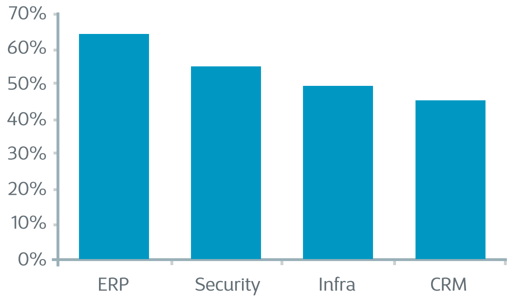
There was a small difference between Belgian and Dutch respondents with regard to the third priority: whereas Belgian respondents mentioned Application Development as their third renewal priority, for Dutch respondents Security was the third biggest destination for renewal budget.

mentions in the top 3 priorities, Belgium



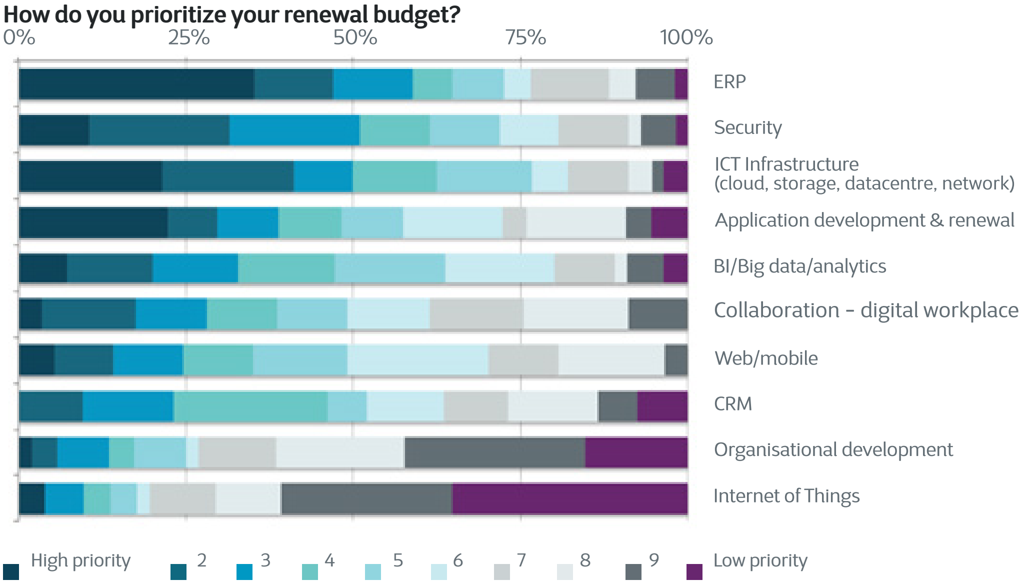
(figure 5a)

mentions in the top 3 priorities, Netherlands



(figure 5b)

How do you prioritize your renewal budget?



(figure 6)

The current outsourcing context

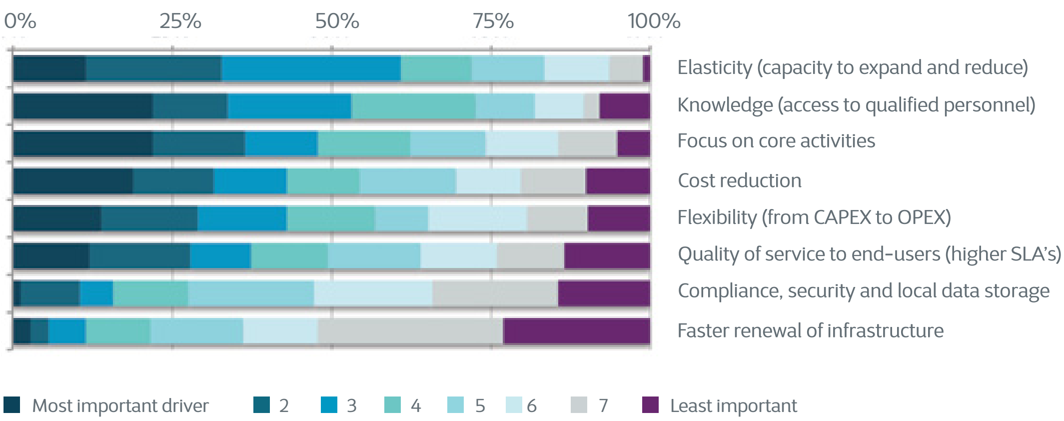
The top four reasons to outsource parts of the IT environment are:

- **Elasticity:** the capacity to swiftly add or reduce IT capacity dependent on changing needs. The accessibility of cloud solutions is seen as a major means to achieve this flexibility.
- **Knowledge:** access to talent and information that are otherwise hard to find and/or attract due to a shortage of specialized professionals. Companies look to the cloud as a solution to the 'War for Talent'.
- **Focus on core activities**
- **Cost reduction**

A small difference can be noted between Belgian and Dutch respondents. For Belgian respondents the ability to focus on core activities is the most important reason for outsourcing, while for Dutch respondents, elasticity is the key driver. However, the general list of top four reasons is the same in both countries.

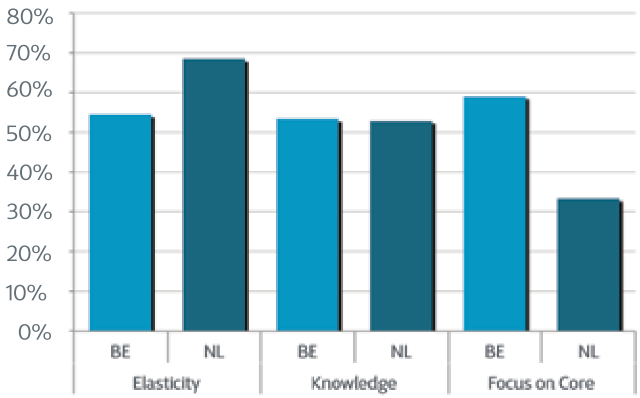
Compliance and Security, as well as faster renewal of the infrastructure were consistently regarded as the least important reasons to outsource.

What are your main drivers to outsource? (ranked by priority)



(figure 7)

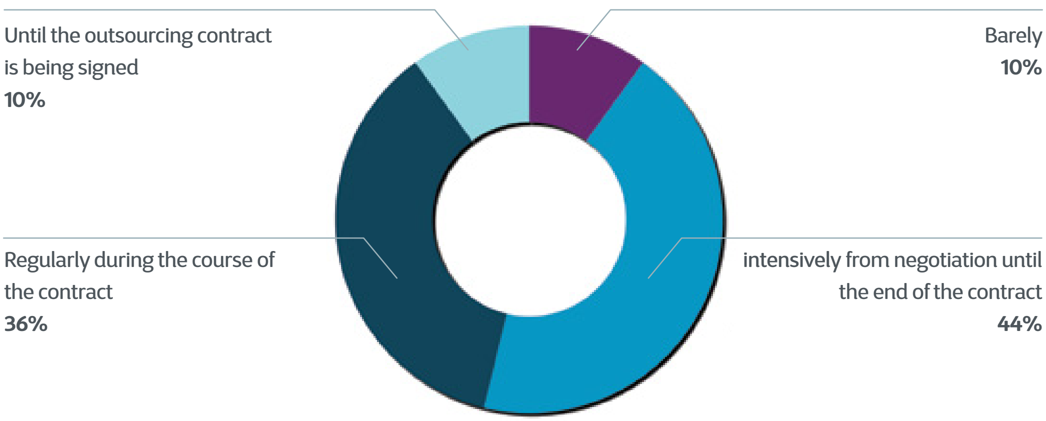
Number of occurencies of top 3 drivers



(figure 8)

Each outsourcing project is supported by a business case. However, when asked whether that business case is regularly monitored and reviewed, 10% of the respondents admitted that this is rarely the case, but only 10% declared that this is the case until the signing of the contract. Overall, a substantial percentage of respondents admitted that the business case of outsourcing projects is being insufficiently reviewed and managed. The attention on the outsourcing contracts diminishes throughout the duration of the project, while dynamic management of the contract is a key driver of the success of outsourcing projects.

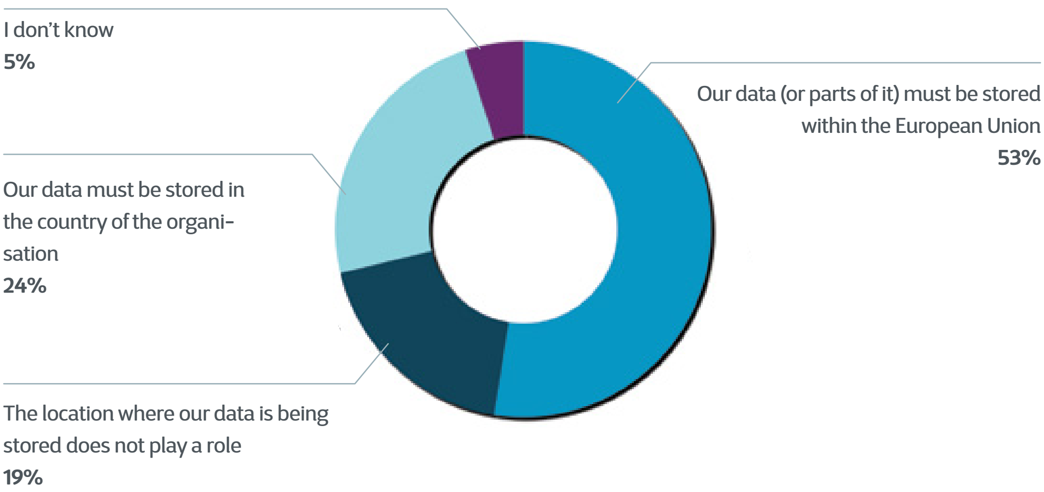
How do you CIOs see the business case behind outsourcing projects?



(figure 9)

Data storage is undoubtedly the most critical area for outsourcing. In order to assess the criticalness of the location, the survey asked for the legal imperative of the place where customer and business data needs to be stored. A vast majority is legally bound to store such data in the country of operations, or at least in the European Union. But 19% of the respondents claimed to be able to store the data wherever they choose. Hence, over 80% of the respondents have a legal obligation to store their data locally (24%) or within the European Union (54%).

Geographical location of data storage

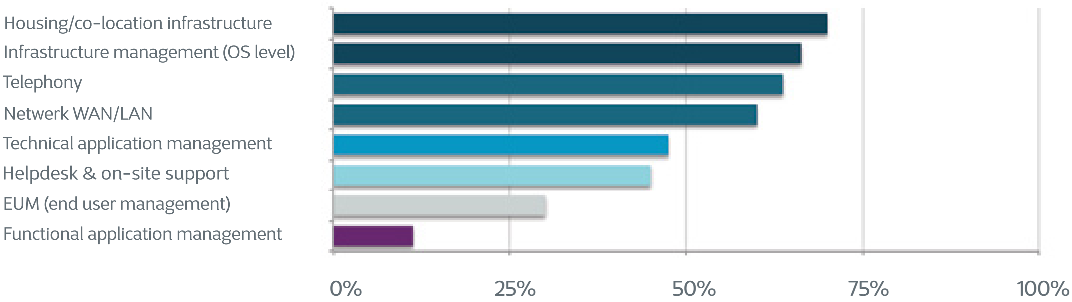


(figure 10)

Future plans for IT outsourcing

When asked about which portions of the IT environment would be susceptible to being outsourced by 2020, most domains are considered potential candidates by a majority of respondents. Only a minority of organizations consider End User Management and Functional Application Management areas to be outsourced. The more traditional parts of the IT infrastructure are more likely to be outsourced, which can be seen as yet another indication that companies want to free themselves of the complexity of commoditized parts, in order to focus more on digital innovation.

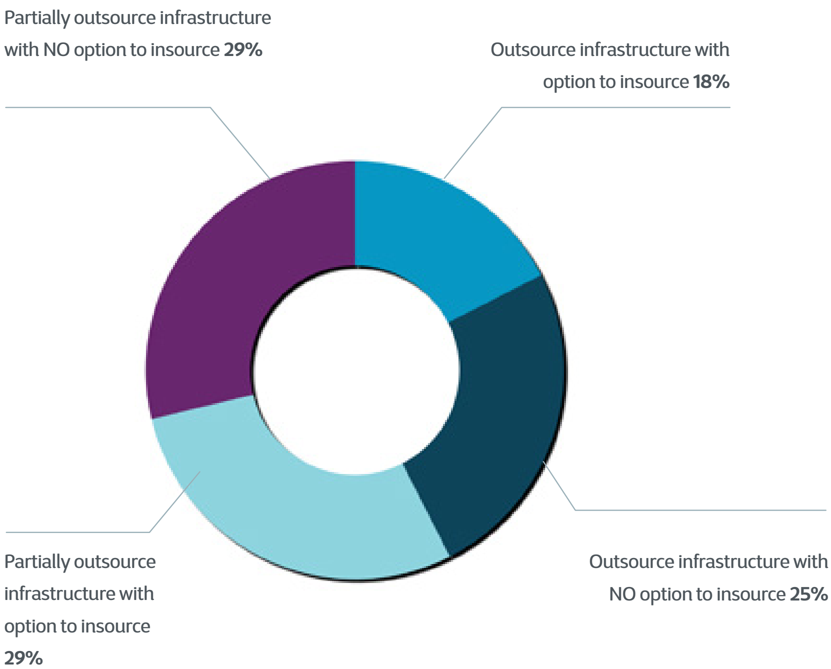
Which parts of your operations do you plan to outsource by 2020? (% respondents)



(figure 11)

For the outsourcing of infrastructure there is no clear preference as to whether the infrastructure will be partially or fully outsourced by 2020, nor is there a preference as to whether an option to insource again in the future is included. 54% of the respondents said they would consider not to insourcing again in the future.

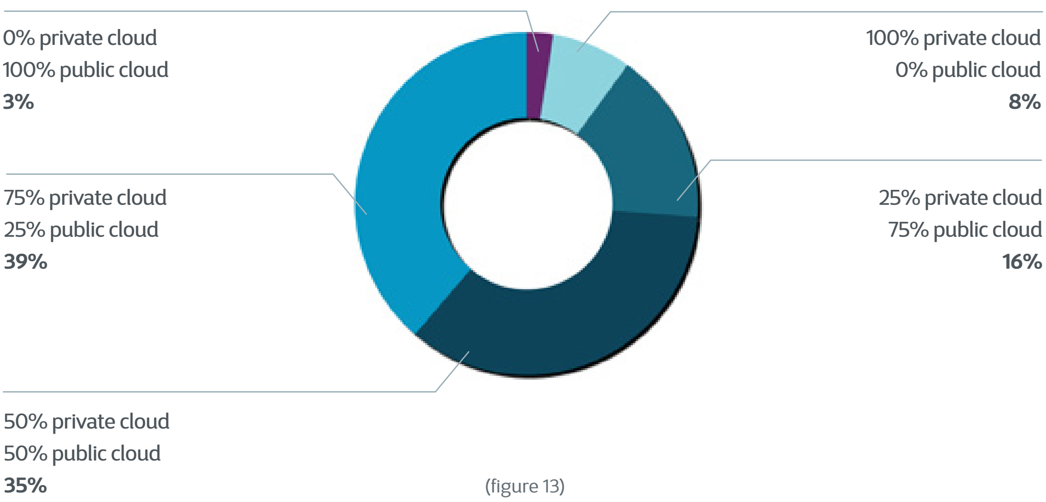
Which outsourcing plans do you want to realize by 2020?



(figure 12)

When asked about the balance between public and private cloud, 82% of respondent opted to dedicate at least half of their outsourcing budget to private cloud. While the survey shows that hybrid cloud is increasingly popular, it is clear that private cloud is still the preferred option for most of the organisations.

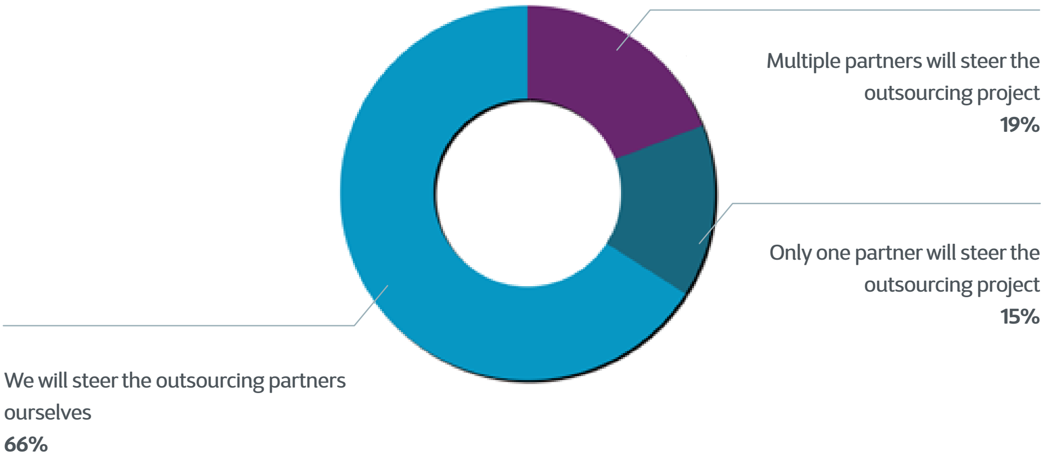
Budget Private vs Budget Public Cloud by 2020?



(figure 13)

With regard to management and control over outsourcing projects, a large majority of companies prefer to steer the project themselves. When the steering of the project is outsourced, a majority prefers to have multiple partners steering the project.

Governance model of the outsourcing partner(s)

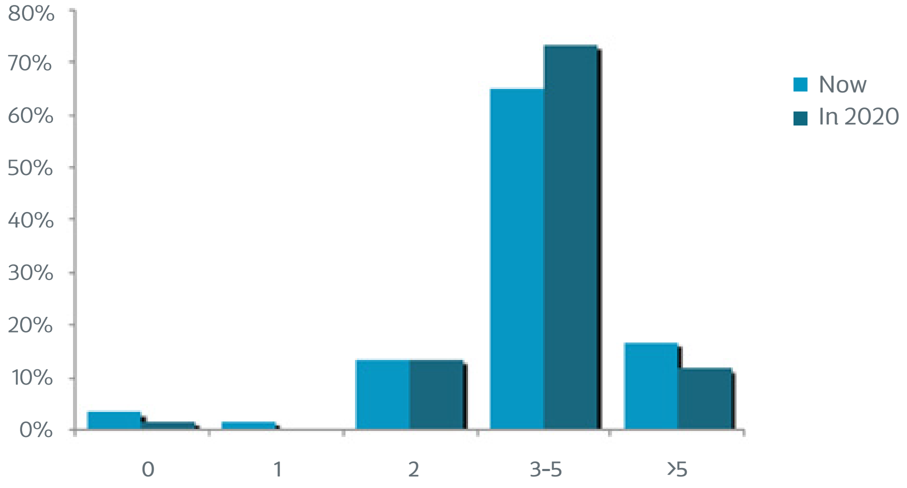


(figure 14)

With regard to the number of partners companies want to work with in outsourcing projects, a clear majority of companies (62%) are now trusting in 3-5 outsourcing partners. This amount will grow to 73% of companies by 2020. Only a very small minority (15%) will have fewer than 3 partners in 2020.

The preferred number of partners (3 to 5) can be seen as further evidence of the increasing number of areas likely to be outsourced in the future (figure 8), requiring partners with specific skill sets and areas of expertise.

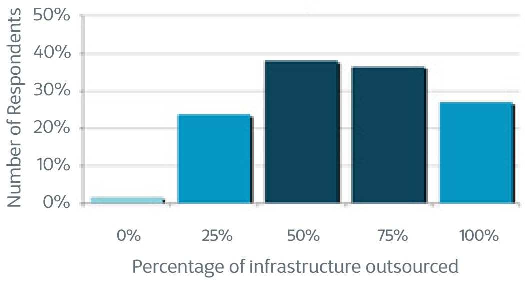
Number of outsourcing partners



(figure 15)

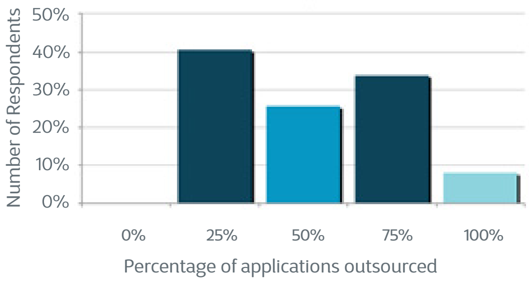
While 80% of the respondents outsource more than 50% of their infrastructure budget, this figure drops to 63% when it comes to applications. This is further evidence that organisations prefer to outsource core, commoditized parts of their IT rather than portions that are closer to the business.

How much of your infrastructure budget will be outsourced by 2020?



(figure 16a)

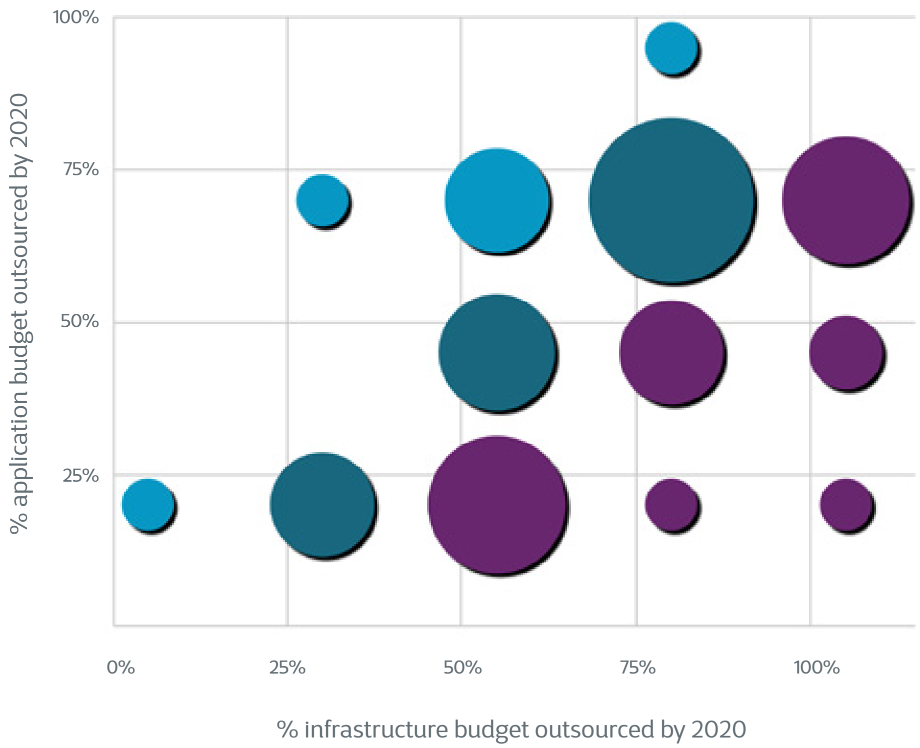
How much of your application budget will be outsourced by 2020?



(figure 16b)

Interestingly, 40% of the respondents claim to outsource the same portion of infrastructure and application budgets, represented in blue in the bubble chart. Here again, a bigger proportion (44%) is likely to outsource a bigger portion of its infrastructure budget, compared to its application budget – represented by the orange bubbles in the chart. The bubble size represents the number of respondents in that exact situation.

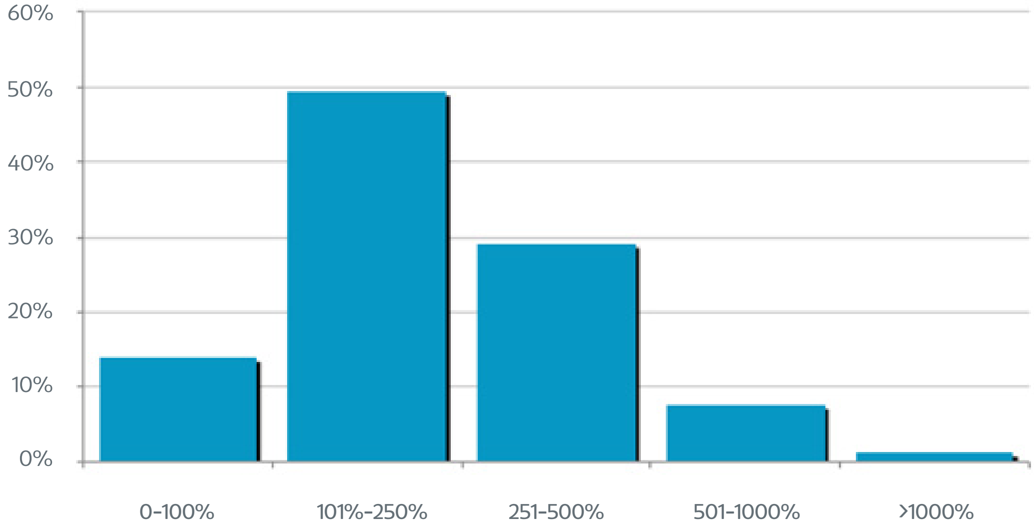
Correlation between infrastructure budget outsourced versus application budget outsourced



(figure 17)

The market for storage outsourcing in Belgium and the Netherlands is clearly set to grow substantially in the coming years. From the survey it appears that 86% expect their storage needs to at least double in size by 2020. Almost 10% of them even foresee an increase of a fivefold compared to current storage needs.

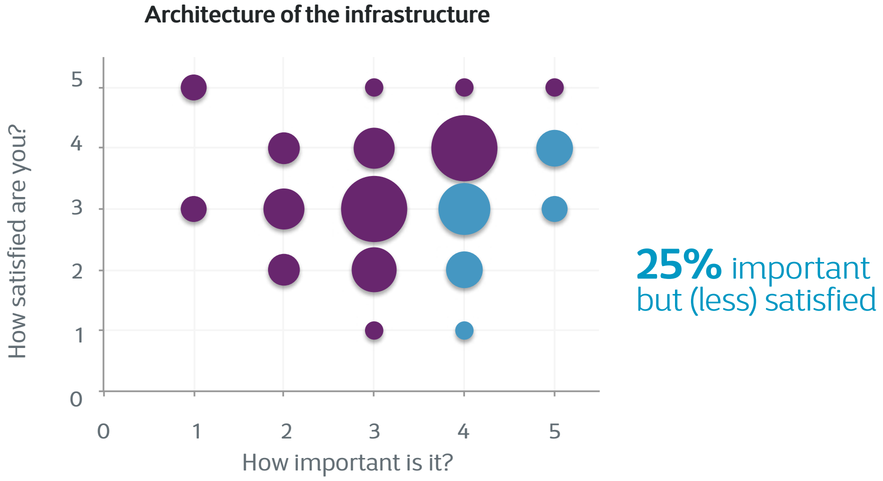
By how much will your storage capacity needs grow by 2020?



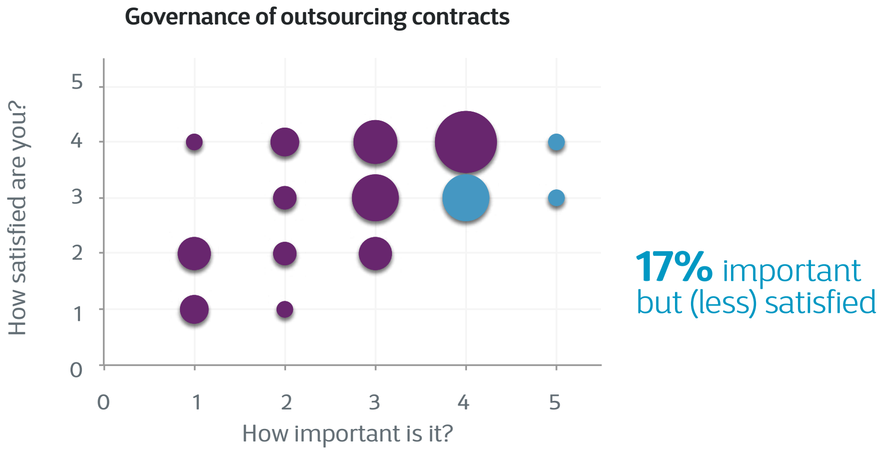
(figure 18)

Appendix - additional charts

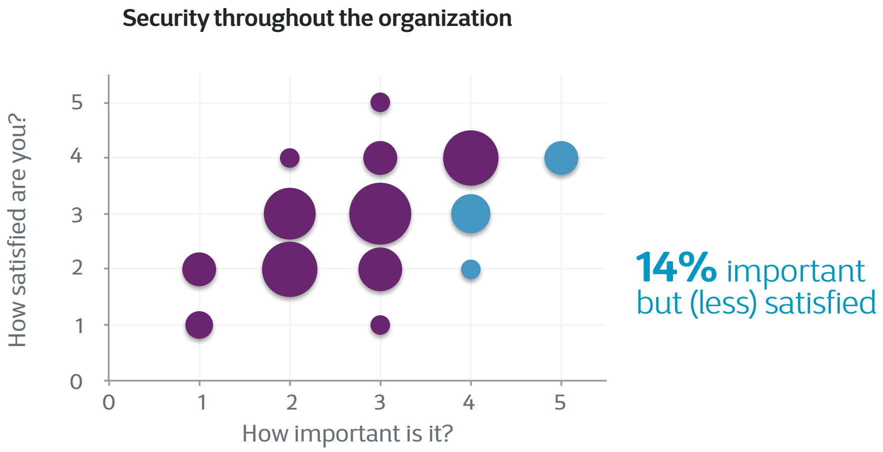
Current satisfaction versus importance of specific IT activities



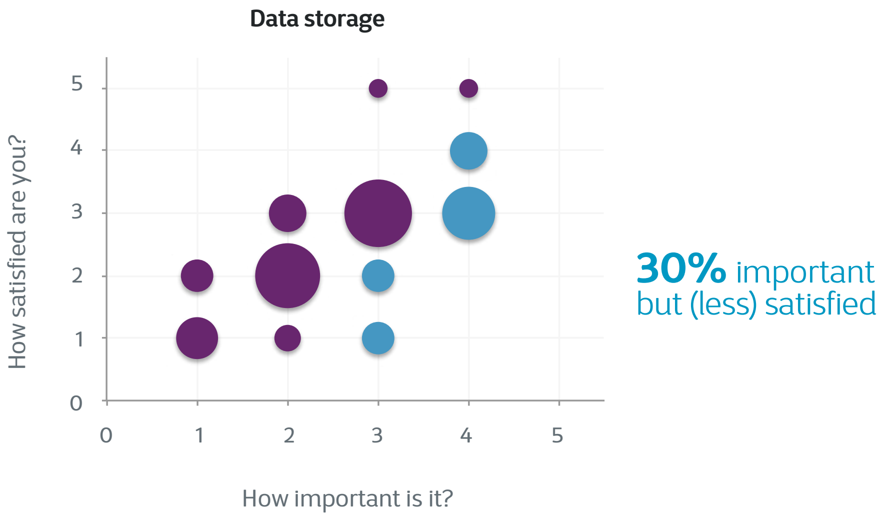
(figure 19a)



(figure 19b)



(figure 19c)

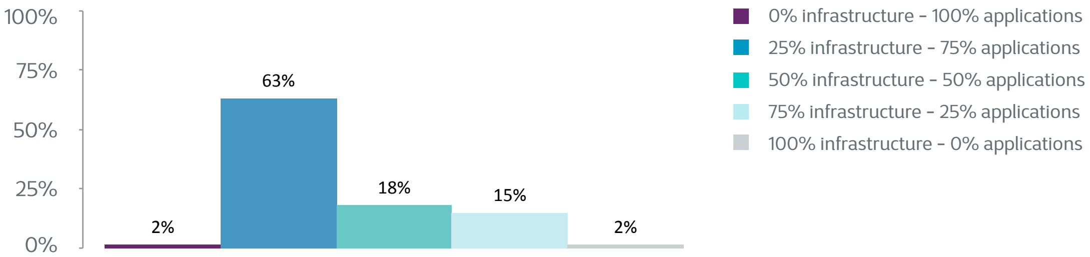


(figure 19d)

The survey asked respondents to assess how important certain areas of their IT operations were, and how satisfied they were with regard of these operations. Both were scored from 1 (not important/ not satisfied) to 5 (very important/ very satisfied). The bubble chart shows the frequency of the combination of both, the bubble size represents the number of respondents in that exact situation.

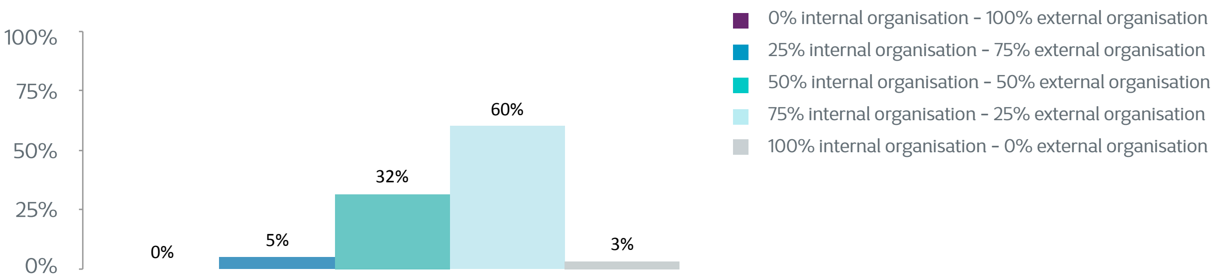
The aim of this question was to discover areas CIOs find extremely important (4-5 level) but were consistently unsatisfied with (1-2 level). The bubbles in blue represent these. However, the answer showed no evidence of a specific important area of which CIOs are consequently unsatisfied about.

Infrastructure vs applications



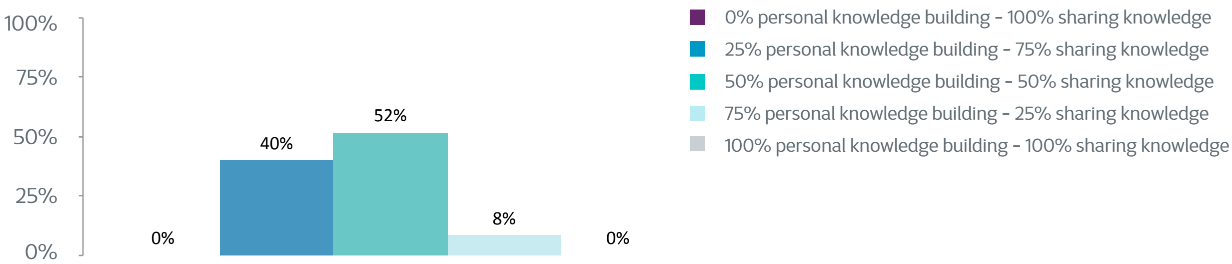
(figure 20a)

Internal vs external organization



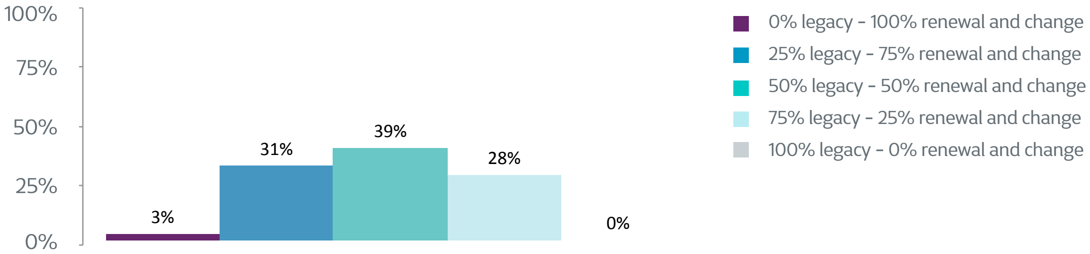
(figure 20b)

Personal knowledge building vs knowledge sharing



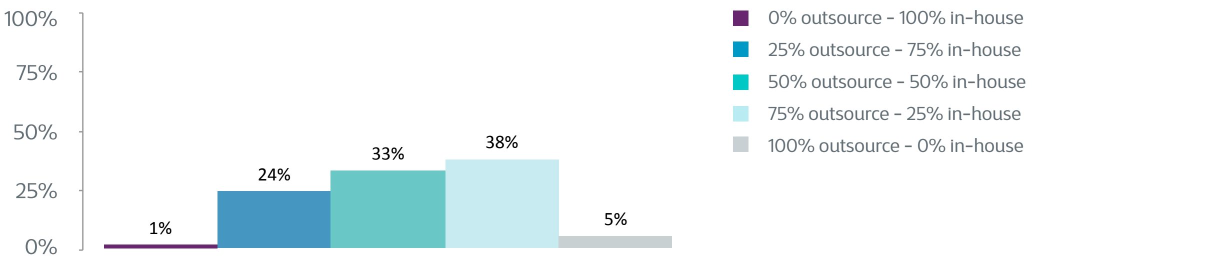
(figure 20c)

Legacy vs renewal & change



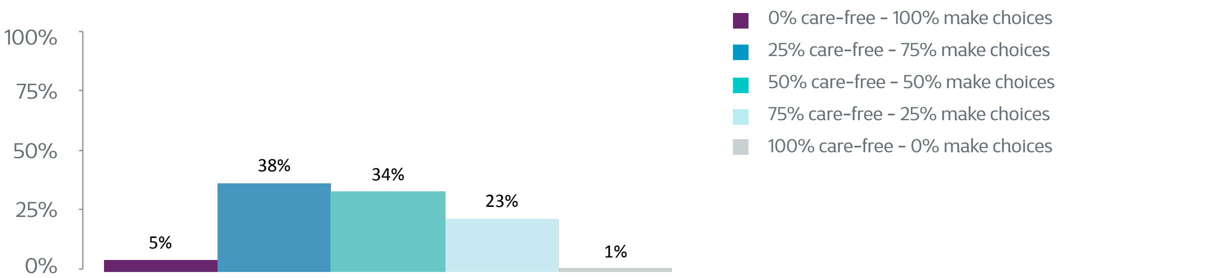
(figure 20d)

Outsource vs in-house



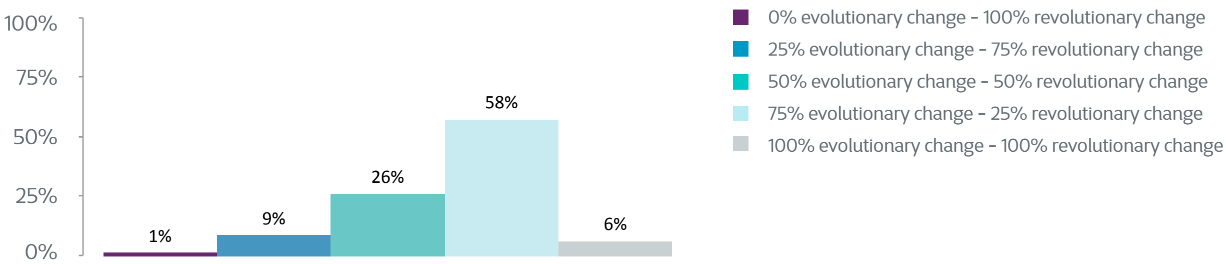
(figure 20e)

Care-free vs make own choices



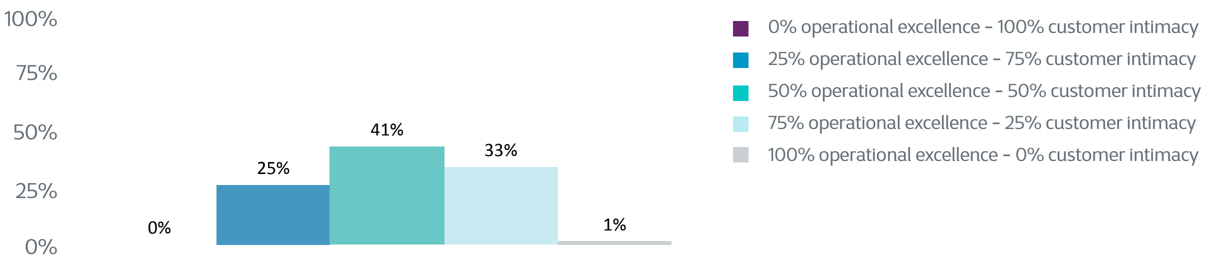
(figure 20f)

Evolutionary change vs revolutionary change



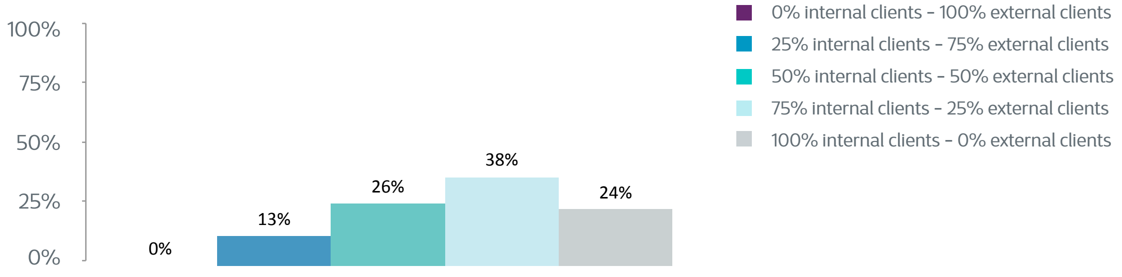
(figure 20g)

Operational excellence vs customer intimacy



(figure 20h)

Internal clients vs external clients



(figure 20i)

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