

Outsourcing Services in CEE

- concept overview and market trends -

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e FOCUS



Pierre Audoin Consultants

PAC Business Overview

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About **Pierre Audoin Consultants (PAC)**

eFOCUS



Pierre Audoin Consultants

PAC Business Overview



Pierre Audoin Consultants



PAC Business Overview (1)

Who is PAC ?

Pierre Audoin Consultants (PAC) was established by our founder Pierre Audoin in **1976 (Paris)**.

The **only European Group with Global coverage:**
Strong local competences and global response.

The specialist for the **Software & IT Services Industry:**
IT Services and Software suppliers, IT users, influencers and public bodies.

An integrated approach covering the whole value chain of our customers: **off-the-shelf reports, marketing & consulting services.**

PAC supports IT decision makers & suppliers in the development and implementation of a successful strategy by providing them with a better understanding of the market, the competition and end-user behavior.

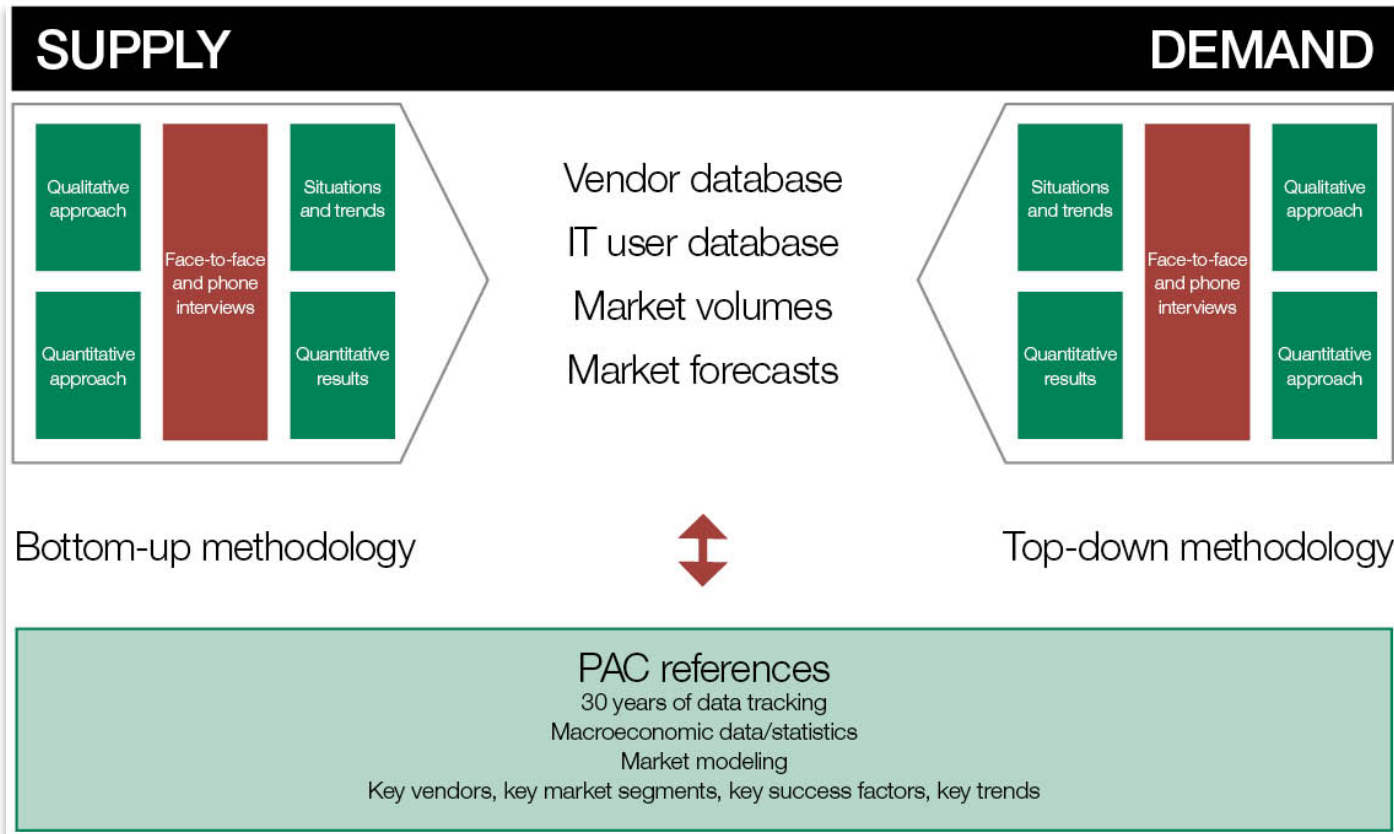
Years our Offices Opened:

Paris Office	1976
Munich Office	1992
Bucharest Office	1999
New York Office	2000
London Office	2002
Sao Paulo Office	2009

PAC Business Overview (2)

Our Methodology

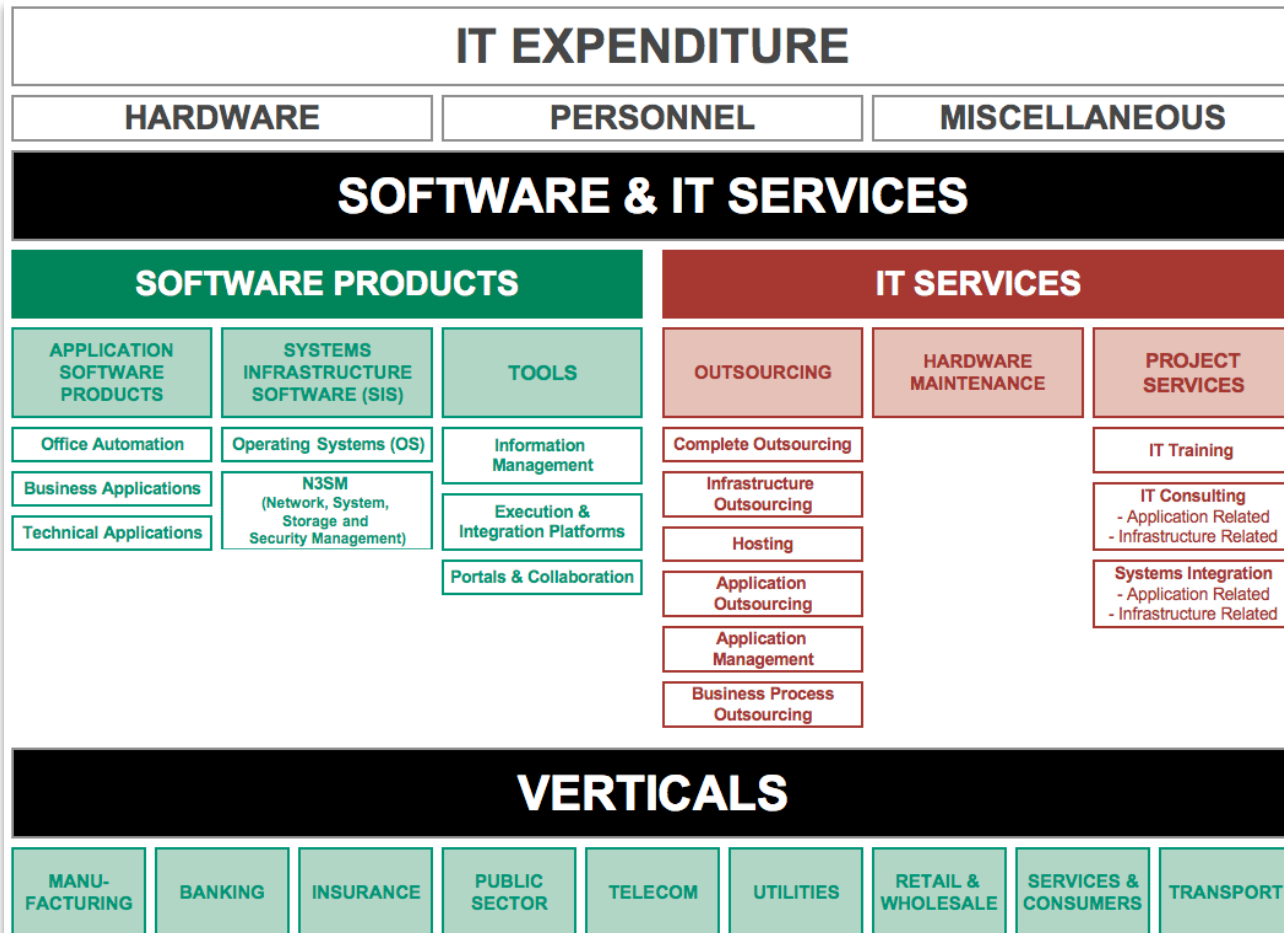
Our top-down methodology relies on macroeconomics and market models built on a large set of statistics and referrals (demographic, geopolitical, economic, technological, industrial, etc)



PAC Business Overview (3)

Our Market Segmentation

Each research project we undertake including custom projects refers to our single market model that contains a high level of granularity. We update our segmentation every year, based on market evolutions.



Why Outsourcing?



Pierre Audoin Consultants



Why Outsourcing?

***“Outsourcing is expected to be the growth driver in the Eastern European IT industry for the next ten years.
Why?”***

Why Outsourcing? (1)

Main Issues → **Solutions** → **Forms of Outsourcing**

• **Manage crisis**

• **Cost cutting
(Focus on core
business)**

• **Complete (1),
infrastructure,
commodity applications**

• **Manage growth**

• **Improve efficiency,
improve service quality,
increase flexibility**

• **Strategic applications,
decentralised
infrastructure, BPO**

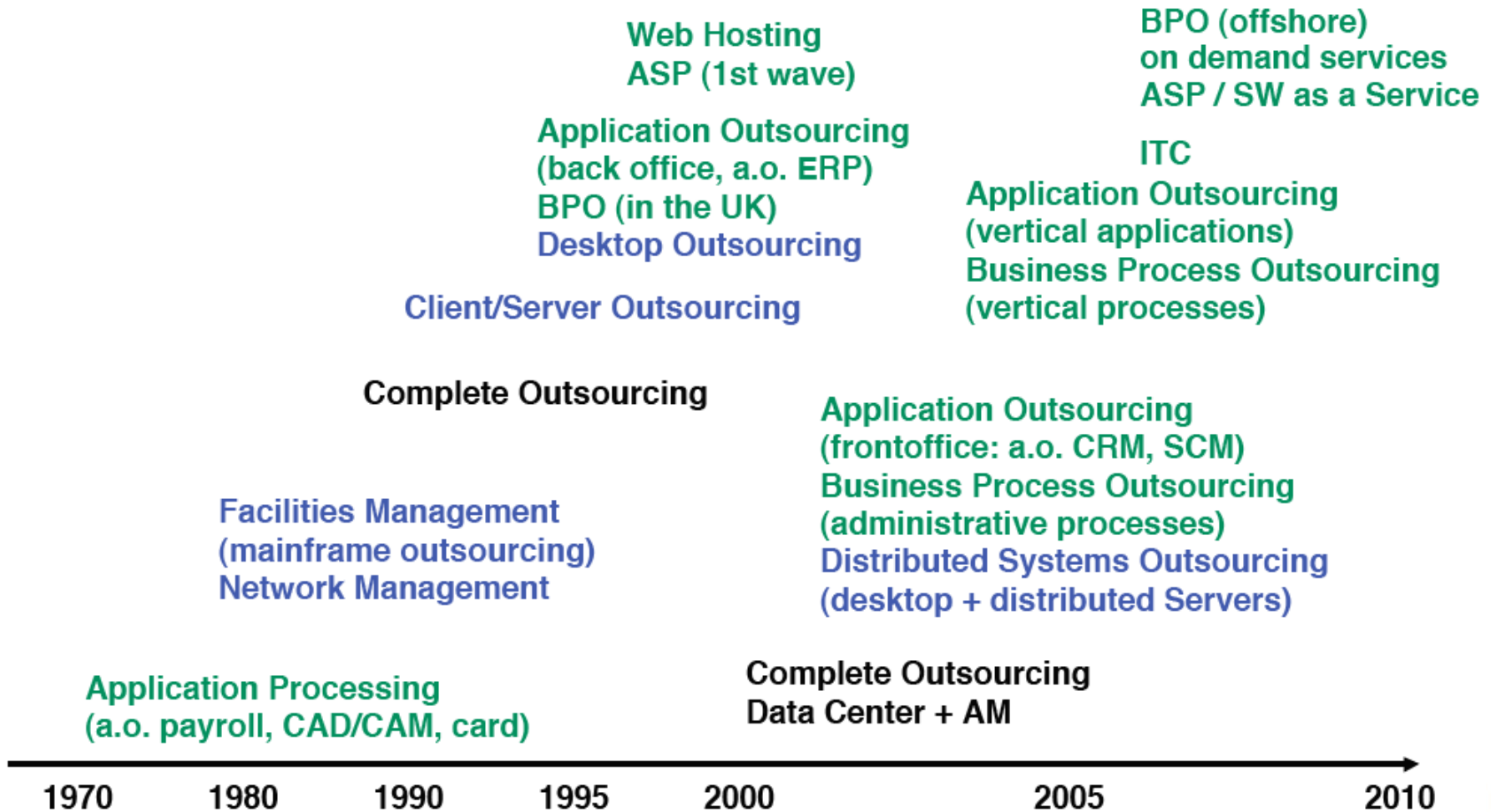
• **Manage change**

• **Focus on core business**

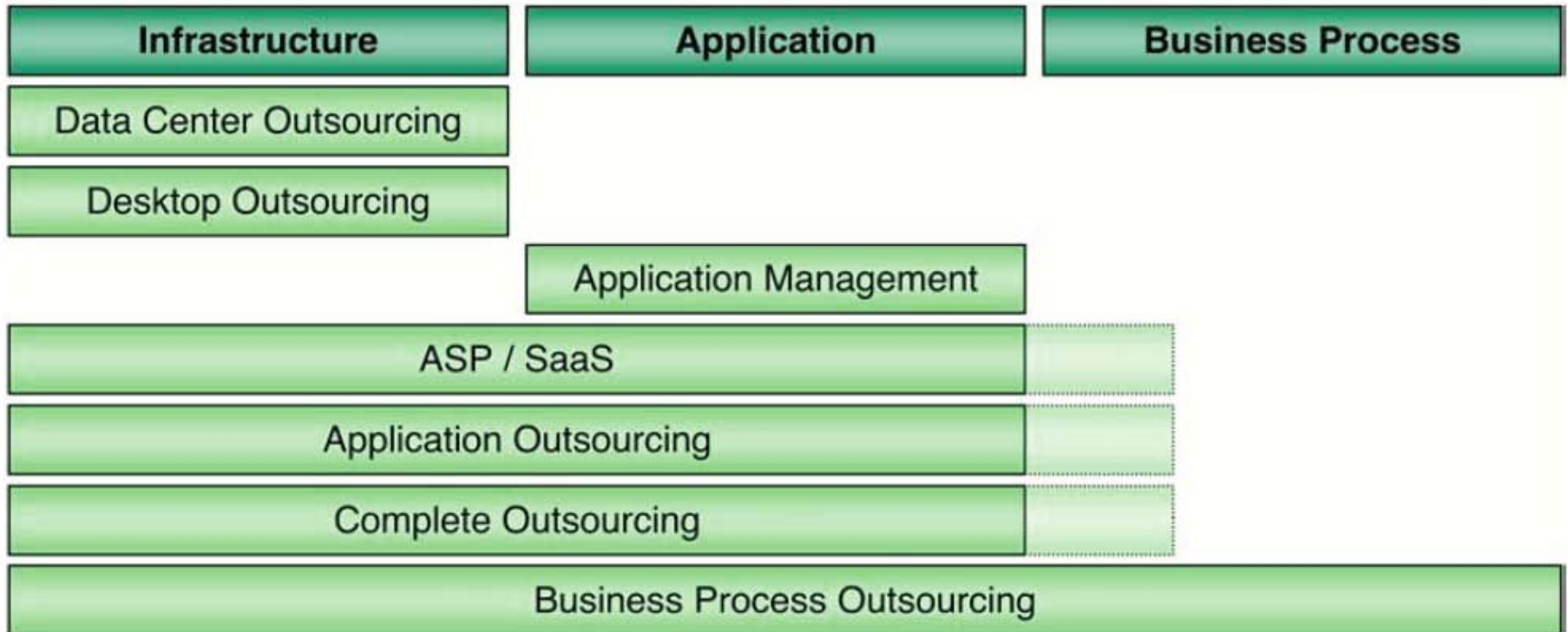
• **All kinds of outsourcing**

(1): increasingly split, e.g. into infrastructure / AM / network / BPO

Why Outsourcing? (2) - Chronological Development



Why Outsourcing? (3) - Effects on an IT Landscape



Why Outsourcing? (4)

Outsourcing as a Reaction to Changing Conditions or Requirements

Outsourcing can help cut costs, but also close gaps concerning capital appropriations, competencies, innovation and time:

- **Integration**
- **Globalization**
- **Growing importance of IT**
- **Growing complexity of IT**
- **Accelerating pace of change**
- **Increasing efficiency**
- **Compliance**

In most cases, all these challenges can only be managed through outsourcing parts of or the entire IT.

Why Outsourcing? (5)

Major Reasons for Outsourcing

Improving efficiency, flexibility, availability and service quality (concerning IT but also business processes)

- ➔ **Cost reduction**
- ➔ **Increasing cost transparency;**
- ➔ **Concentration on core competencies;**
- ➔ **Mastering changes (concerning technology and/ or business/ strategy);**
- ➔ **Mastering growth;**
- ➔ **Lack of skilled labor;**
- ➔ **Improving the cash flow/ short-term amelioration of the balance sheet**
- ➔ **Turning fixed costs into flexible costs**

Transferring risks to the supplier

Why Outsourcing? (6)

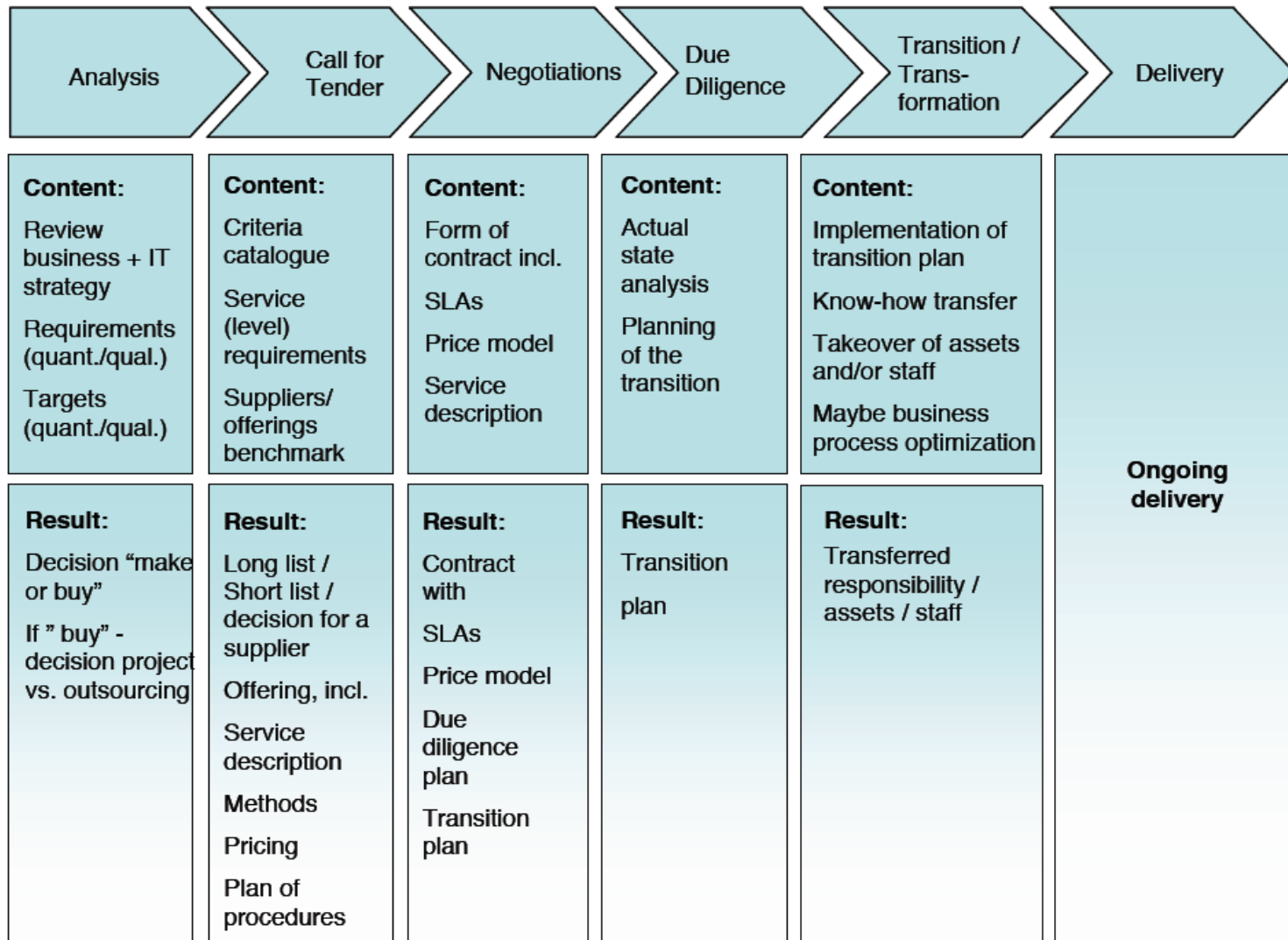
Major Reasons Against Outsourcing

Strategic role of IT/ competitive advantages by means of IT

- ➔ Security concerns (data security, among other things);
- ➔ Dependence on the provider;
- ➔ TCO of the internal IT department is not identified (particularly in the SMB area);
- ➔ Concerns that the outsourcing provider will not be able to deliver the quality required in the medium to long term;
- ➔ Lack of industry and process competencies on the part of the outsourcing provider;
- ➔ Concerns that the status-quo of the IT landscape will be “frozen” during the contract period.

Concerns that the cancellation of an outsourcing deal/ the change of the supplier might be too complicated

Outsourcing Procedure Model



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Criteria for a Successful Tender (1)

First step: internal audit (potentially with external consultants or an outsourcer)

- ✓ Goal: getting an overview of all internal IT costs (TCO)

Definition and exact description of targets

- ✓ What can be outsourced?
- ✓ How much money can/ is to be spent for which results?
- ✓ Comprehensive overview (infrastructure, applications, security, geography...)
- ✓ Matching the IT point of view with strategic and management goals
- ✓ Considering the long-term perspective (flexibility, evolution)

Choosing potential partners

- ✓ With the help of references and one's own experience

Criteria for a Successful Tender (2)

Obtaining and analyzing bids

- ✓ Has the bidder understood the company's goals?
- ✓ Does the bid comply with these goals?
- ✓ Is the bid transparent and flexible?
- ✓ Does it include clearly defined penalties in case of non-compliance?
- ✓ Reversibility of the contract: reasonable conditions?

Evaluating a bidder

- ✓ Does the bidder have the required competencies and resources?
- ✓ Does he act according to proven methodologies and processes?
- ✓ Financial stability
- ✓ Does it feel right to choose this bidder?
- ✓ Does the bidder have the knowledge and competency for proactive improvement in technology and processes?

Criteria for a Successful Tender (3)

Long-term perspective/ potential extension of the business relationship

- ✓ In terms of other countries
- ✓ In terms of other business units, applications, infrastructure components...
- ✓ In terms of additional services (systems integration, IT consulting...)

Is the supplier ready to re-invest achieved cost reductions in innovation during the contract duration (keyword: gain sharing)?

Is the price-performance ratio satisfying?

Key Criteria of an Efficient Service

- **Governance:** define and assign processes and structures with regard to cooperation; optimize customer/ supplier interface;
- **Monitoring & controlling:** evaluate the hard facts (availability, quality, etc.) AND the soft facts (satisfaction of staff, team spirit, etc.); and react, if necessary;
- **Long-term perspective:** do not forget that the IT strategy acts as a support factor for the business strategy (!); show steadily increasing added value, including optional extensions like BPO; stress an “innovation partnership”.
- **Communication:** frequent exchange between supplier and customer is indispensable!

Service Level Agreement (1)

Within the negotiation phase, most attention has to be paid to the following aspects should be included in an SLA:

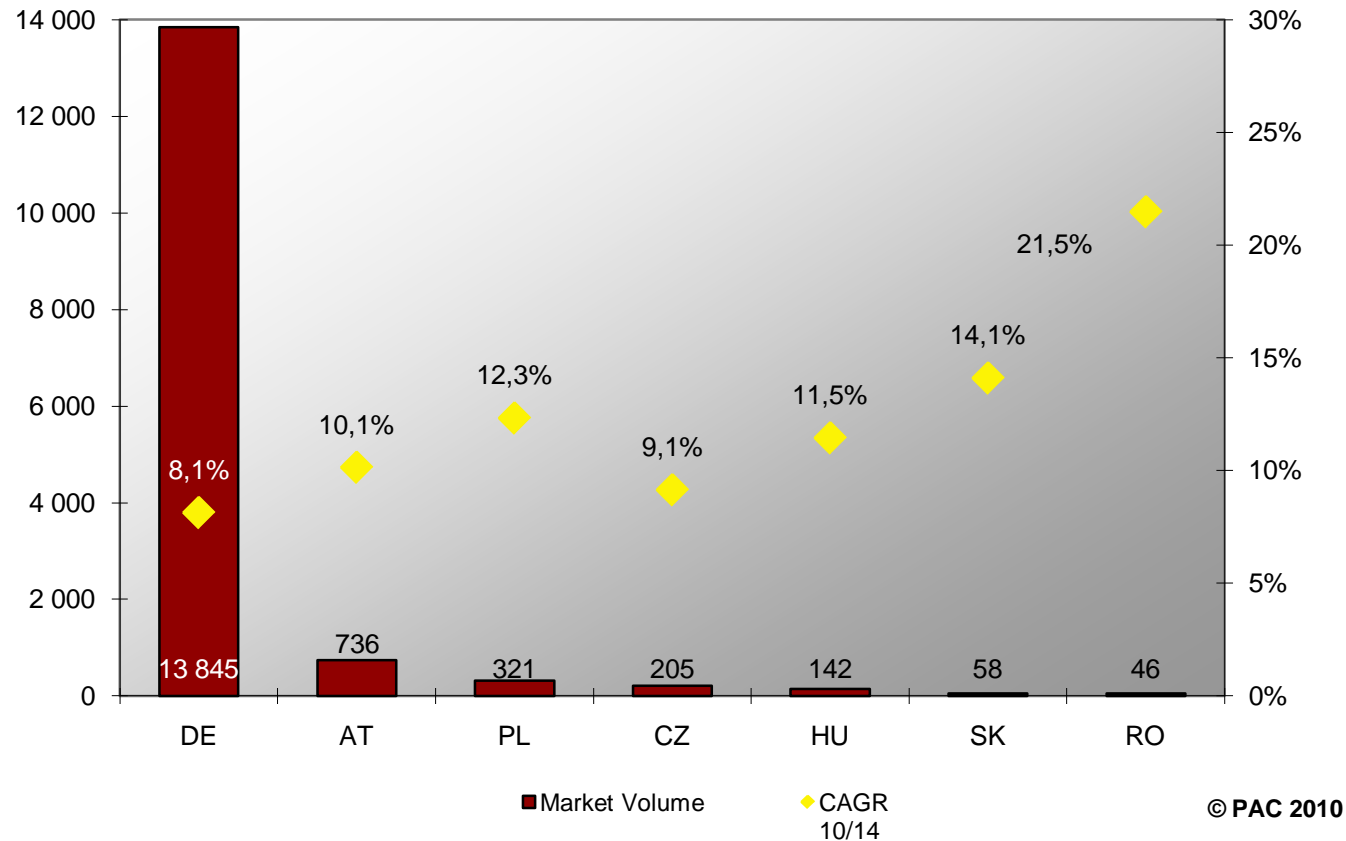
- **Service specification: description of the process targets;**
- **Main activities: documentation of several work steps;**
- **Responsibilities: allocation of responsibilities for all work steps;**
- **Interfaces: documentation and allocation of interfaces between supplier,**
- **customer and third parties;**
- **Service parameters: target dimensions, e.g. by geography, by organization, by timeframe, etc.;**
- **Service limits: excluded services;**

Service Level Agreement (2)

- **Service pricing: fixed price, “on demand”/ usage based, risk and reward, etc.;**
- **Obligation to co-operate: the customer’s duties (staff, infrastructure, etc.);**
- **Contracting: timeframe, minimum purchase, under-/over-performing, etc.;**
- **Service targets/ metrics: qualitative and quantitative, e.g. availability, etc.;**
- **Monitoring and reporting methods: constitution of monitoring tools, reporting range, etc.;**
- **Security management;**
- **Problem and change management;**
- **Review and escalation methods, disaster recovery.**

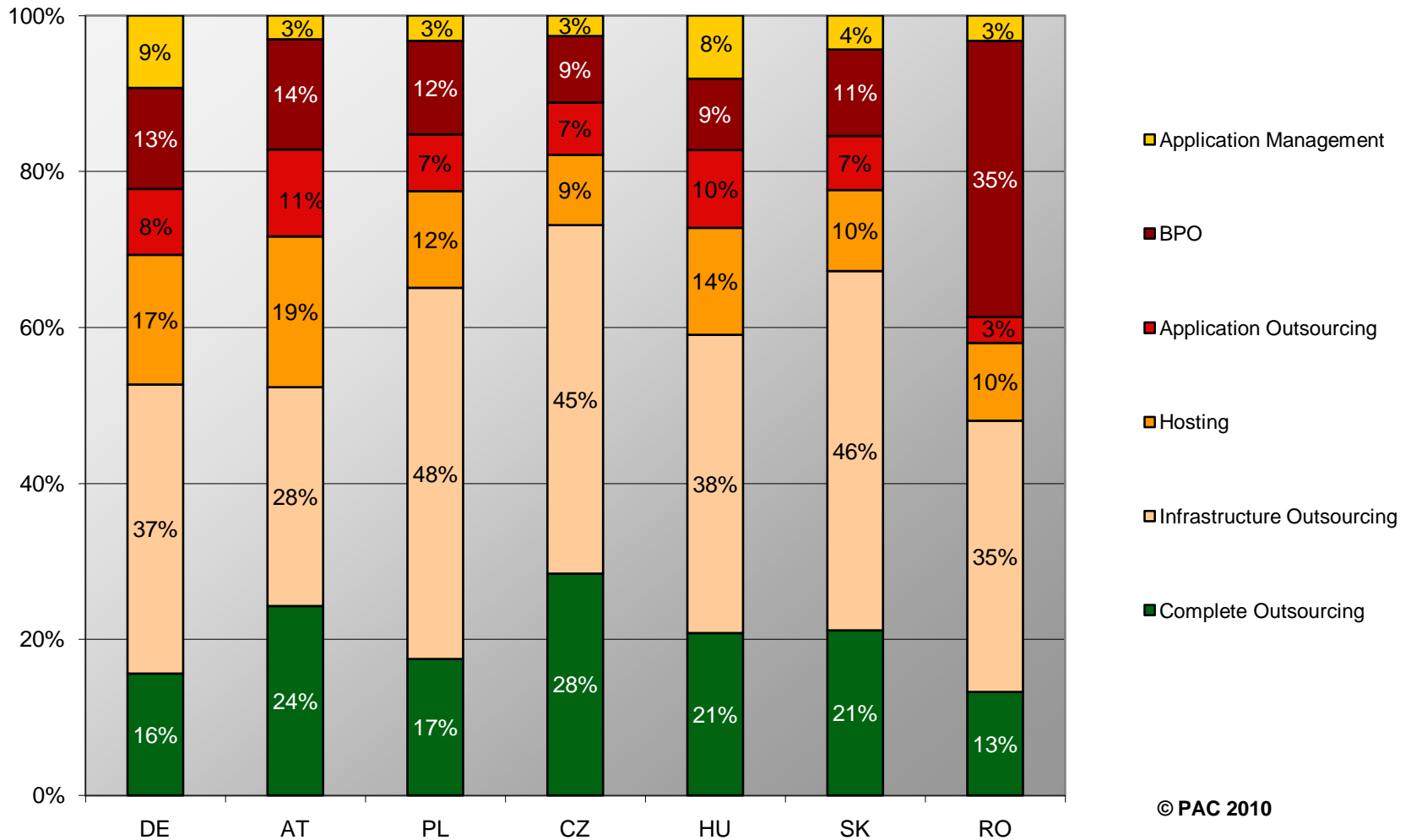
Outsourcing Markets (1)

Key markets in CEE compared to Germany & Austria (1)



Outsourcing Markets (2)

Key markets in CEE compared to Germany & Austria (2)



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About Pierre Audoin Consultants

(PAC):

PAC is a global market research and strategic consulting firm for the Software and IT Services Industry (SITSI). PAC helps IT vendors, CIOs, consultancies and investment firms by delivering analysis and advice to address a range of growth, technology, financial and operational issues.

Our 30+-year heritage in Europe – combined with our US presence and worldwide resources – forms the foundation of our ability to deliver in-depth knowledge of local IT markets, anywhere. We employ structured methodologies – undertaking thousands of annual face-to-face interviews on both the buy and sell side of the market, as well as a bottom-up, top-down approach – to leverage our research effectively.

PAC publishes a wide range of off-the-shelf and customized market reports –including our best-selling SITSI® program – in addition to our suite of strategic consulting and market planning services. Over 160 professionals in 16 offices – across all continents – are delivering the insight that can make a difference to your business.

For more information, please visit our website at www.pac-online.com

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Thank you for your attention



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