

# IT OUTSOURCING IN CANADA

## *The IT Vendors Guide to Customer Economics*



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## **IT OUTSOURCING IN CANADA**

### *The IT Vendors Guide to Customer Economics*

**Toronto, ON**—The next two years appear to be of critical importance for providers who already own an outsourcing relationship with clients, based on the findings of a new Ipsos-Reid information technology study, *The IT Vendors Guide to Customer Economics*, conducted with 603 businesses across Canada.

*The wide scale IT study was launched in February 2004 with the participation of five IT organizations: Borland Software, Hewlett-Packard, IBM, SAS and TELUS. The purpose of this joint Ipsos-Reid buyer focused study was to provide the insight and visibility required to help synchronize objectives with buyer ambitions about IT. This meant taking a hard look at what buyers think and want out of IT, what their key pain points are and where their links to vendors are weakest. This also meant understanding and rationalizing the important buyer spending patterns and spend data that was revealed through this study.*

*We believe that the positive outcome of this report is to provide vendors and service providers with the opportunity to either validate the soundness of existing strategies or reformulate new ones, which serve not only to strengthen market share but also to deepen wallet share. Our premise is based on the notion that the more you understand your customer, the more likely it is that this customer will sign their next important contract with your firm - and remain loyal when renewal comes up.*

Indications are that the number of companies which outsourced many key services in 2003 will decrease in 2005, but the percentage of spend allocated to outsourcing will increase over this period. These-are some of the important findings revealed from the study.

Canadian companies do not expect to spend more on IT this year and next; in fact, they plan to spend less. IT spend is not projected to increase yearly for the next two years, which is the

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period covered in this report. We can anticipate a projected drop of 4.4% in overall spending by 2005 in the four major IT sectors covered in this report: applications, hardware and infrastructure, services and security. The steepest decline in spend will take place in the applications sector, with a 13% projected decline in spend from 2003 to 2005.

Although net new IT spend will not increase in 2004 and 2005 based on the aggregated data reported by 603 companies, the percentage of spend that is outsourced will actually increase by 5% over this period.

Where this money is spent is of primary importance to vendors and IT providers. “Strategies vendors implement to capitalize on this trend is of primary importance as to whether revenues increase or shrink in the next two years”, said Lise Dellazizzo, Vice President of Information Technology at Ipsos-Reid.

A majority (88%) of Canadian businesses interviewed said that they were not willing to outsource business process outsourcing (BPO) globally. “We believe that this overwhelming response may be biased due to the influence of current political and economic conditions, and we suspect these conditions may dissipate in the near term. However, the fact that such a significant percentage of companies expressed this concern means that it is an issue at present, no matter how temporary”, said Dellazizzo. The desire to retain development jobs in Canada was revealed as one of the important inhibitors to global outsourcing, with 32% of Canadian businesses who indicated such.

The study indicates that the market is starting to top up in certain service areas more so than in others. Some important findings include:

- The applications sector is a market coming of age. Outsourcing as a percentage of spend will increase by 6% in the application services sector by 2005. Migration trends



indicate that buyers are likely to outsource deeper and broader either with existing providers or through existing contracts, by expanding current selective application outsourcing contracts, or by incorporating application related services into larger IT outsourcing agreements.

- Software vendors may need aggressive strategies to capitalize on a buyer environment that is shifting towards outsourcing in light of an anticipated decline of 13% in spending in the applications sector, coupled with an increase of 6% in outsourcing for this same sector by 2005. It is perhaps more critical now for software vendors who have not already made the transition to take the plunge and make serious inroads in the Canadian application outsourcing market, either directly or through partnership.
- BPO is on the rise, as anticipated. Of all businesses surveyed in this study, 20% currently outsource and 28% plan to outsource BPO within the next 18 months. Adoption trends indicate a migration towards increased adoption in the large business segment in 2005 and a decline of net new BPO outsourcing in the small business segment within the next 18 months. Consulting companies have the greatest mindshare with buyers when it comes to the provision of BPO services.
- Integration is a major issue for Canadian businesses. The lack of process and systems integration expertise surfaced as the leading inhibitor when integrating new technology with existing IT. A total of 43% of companies indicated this was a major challenge.

*These are some of the findings of the Ipsos-Reid survey of 603 companies across Canada during Q1 and Q2 2004. Interviews were done with senior decision makers at the C suite or senior management level. Respondents were selected to reflect a balanced sample of IT and business executive decision makers. The result is a study based on the aggregated findings of 305 interviews with senior IT managers and*



*298 interviews with business executives from companies across Canada. Companies were selected based on size and industry vertical.*

*The data was segmented by business size into small, mid and large size companies, and by vertical groups into four major industry groups: financial and insurance services, communications and services, government and manufacturing. The IT market was segmented into four major sectors: applications, services, hardware and infrastructure and security.*

*Market projections for the four major IT markets included in this study were based on actual survey data from 603 representative companies across Canada. Statistics Canada was used as the data source to extrapolate a representative universe by company size and vertical group. Each segment from the data source was evaluated and weighted according to actual sample representation and actual dollars spent. An analysis of actual survey data produced the spending patterns for each segment under review. The metrics derived from this analysis were used to extrapolate projected spend for each segment from the representative data source. IT market shares by sector were based on actual spending patterns.*

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