CSC stakes its claim to prosper in the new IT services ecosystem

Author
Euan Davis, Managing Director, European Research Practice

Executive summary

CSC has struck out in a new direction sketching out a long-term position as a “service integrator” and laying out a cloud strategy that goes beyond the usual hype.

CSC needed to realign and refocus as the large outsourcing opportunities declined and its customers transform and trigger demand for new, agile services. It’s a step change for the company—and the right one—as it looks to ditch the baggage from its large outsourcing business and emerge as a trusted partner for its clients. It understands that customers are sourcing cheaper and faster in a fragmenting market and that they want to consume services, while minimizing risk. The real test is whether CSC can channel its pricing and engagement models, its service management frameworks and—critically—its sales team in the same direction as the new IT services ecosystem emerges.

New thinking needed as “old world” outsourcing withers

Why did CSC need a strategic rethink? Because most customers no longer want large-scale complex outsourcing deals underpinned by too many technical SLAs that add no value; they’re changing what and how they buy. Market watchers see a trend towards shorter deals signed with multiple providers. The trend points to a future of multisourcing as firms attempt to gain leverage over price or to capture the strategic service developments that the best of breed approach generates. The problem for CSC is it’s known for the big deal and its business model predicated on winning them, but customers see the big deals as:

- **Inflexible and unresponsive**: Conversations with sole source clients (and some of them are CSC clients) reveal the challenges and frustrations of managing a single source deal as the pace of business change accelerates. One client revealed how the financials of the deal meant that any change or swerve in corporate strategy created lots of expensive change requests and extended negotiations. IT delivery through their service provider was not responsive to business requirements.

- **Set up to fail**: Inflexible and unresponsive contracts create frustrated stakeholders and causes gaps to grow between IT and business strategy. When service delivery fails to respond rapidly to business needs there’s a gap and a problem. One client revealed to HfS Research that the green lights on their SLA dashboard were all green but business users were clearly dissatisfied with IT delivery—both the provider and the client were managing to a bunch of technical SLAs rather than managing activities that create value.
CSC strategy must reflect “new world” realities

CSC’s strategy and service offerings had to change as the traditional outsourcing market withers and firms consume IT and business services from a wider field of IT providers. This is the new world: service offerings have to change to reflect how customers want to buy, how they are organizing to buy and what capabilities they need from a large player like CSC. These new world realities are shaping service demand and are manifesting through:

- **Firms avoiding risk**: Firms want new technologies and solutions but many cannot quantify and mitigate the risk quickly enough. Banks and financial services firms for example find cloud propositions intriguing from a cost and agility perspective but find them incredibly risky from a regulatory standpoint while running the due diligence is prohibitively expensive. CSC offers best practices gleaned from multiple clients, can tap a massive R&D budget and offer security methodologies as table stakes—in effect firms pass some of the risk to CSC.

- **Growing sourcing maturity**: Customers and prospects know how to source: ITIL process maturity, service catalogue development and good governance controls sitting between firms and their IT providers means (in theory) firms are rejecting the large outsourcing deal and looking to manage the moving parts themselves. Firms on a second- or third-generation outsourcer deal want to carve up the IT estate into service lots or service towers that providers bid on in the multisourcing model—which bit does CSC pick up? It needs a new role.

- **Desire for business transformation**. HfS Research sees an insatiable desire from firms to optimize business process—to refresh, reorganize, and re-engineer business processes to make them more flexible, agile, and lean. CSC put up several fascinating case studies from Europe where firms are pivoting around their business processes and demanding a host of new agile business focused services. Tech savvy business buyers need a different engagement model—step forward the cloud.²

**CSC leads with cloud and a vision for the future**

The event saw CSC mapping out a strategy for the medium and long term. Its cloud strategy is defensive and works to secure its position in the medium term; the aim to be a services integrator offers CSC a credible long term strategy only when it figures out the detail and when the rest of the world catches up with it. (As a service integrator, CSC would marshal an eco-system of IT providers on behalf of the client. CSC would sets the predefined delivery roles, mutual commitments and the swim lanes for the other providers and specify how the joined up delivery processes will work. It’s a complex role, requires sharing and collaborating and a mind-set change from both its partners and its customers.) Both its cloud strategy and service integrator thinking link together so that success in one feeds success in the other. They also link into the realities of customer demand—lower risk, growing sourcing maturity and the demand for new services that follow business transformation.

**Transitioning customers to the cloud**

CSCs strategy around the cloud is solid. It offers existing clients a clear path to adoption by grading those work streams that can move easily onto CSC’s cloud platform while prospects can bite off manageable chunks and experiment with them. Security and risk concerns have guided development and it shows in what was showcased. Demand is growing witnessed by the half a million users in its own cloud and by HfS Research’s own survey results.³ CSC’s portfolio of cloud services offers:

- **Clarity and security**: CSC’s cloud strategy offers three entry points: private cloud, community cloud and public cloud. The portfolio will grow around business processes, software, platform and infrastructure. The community cloud is the keystone to radically lowering costs for customers that have security and risk concerns in mind. CSC streams customers onto a multitenant “community” platform where they share the same security or risk profiles.

- **Blended solutions for customers**: CSC’s existing customers can port elements of their existing contracts to the cloud. Account teams offer cloud enablement workshops to create a blended solution to reduce TCO on existing operations. The workshop identifies elements of infrastructure, application and process work streams that can move into a private,
community or public cloud and those that must remain in the traditional hosted model. The result? A blended cloud solution.

- **Access to safe and secure ecosystem:** CSC offers a service orchestration layer—cleverly linking to its service integrator role that it wants to pursue—so that accredited vendors can begin selling their services through CSC’s portal. CSC in effect becomes a services hub, guaranteeing architectural standards and security for its clients.

**Moving to the centre as a “service integrator”**

The service integration plank is trickier one to walk. It’s a highly complex role with limited revenues for a player the size of CSC and it requires the rest of the industry and its customers to play ball.

- **Business outcomes shape the deal:** Business outcomes steer the model rather than a bunch of technical SLAs. The client sits down with CSC and sets clear outcomes around the model. CSC then sets and polices the ecosystem to ensure all providers pull in the same direction. Each provider undertakes shared account with CSC (and each other) and then shares in the pay-out. Again, this needs a mind-set change.

- **Bullet proof governance is critical:** CSC as service integrator uses operating level agreements to define the delivery roles, shared processes, and shared KPIs between providers. Synchronizing all the moving parts needs a governance model on steroids: Operational delivery boards, service portfolio boards and innovation mechanisms are run between all providers working through CSC—naturally CSC controls all the moving parts.

- **External policing to maintain impartiality:** Clients will rightly question the impartiality of CSC as service integrator with its own services business to feed. To counter, CSC proposes an executive function of independent academic organizations, IT industry analysts, think tanks and customer peers that offer advice to the client and keep the integrator honest—it’s an intriguing proposal and one that HfS Research would like to see more thinking around.

**Vendor verdict: CSC strategy is on the money**

CSC strategy will sustain its long term growth and it’s good for clients and prospects. CSC’s traditional outsourcing and solutions business delivers revenue and margin in the short term while its cloud strategy gives CSC breathing space to figure out a long term play for the service integrator market. CSC’s instincts are right on the money because:

- **Cloud strategy maps to customer realities and demand:** Existing customers can start to port service delivery to the cloud in a safe and secure way: Think about the bonanza of large sole source deals that CSC won from 2000 to 2005: each one is ticking down to renewal. Rather than lose the deal, customers can reconfigure them into more manageable lumps using CSC’s cloud workshops and methodologies to open up a range of cheaper, more agile services to satisfy stakeholders. Prospects can source from CSC’s community clouds in a safe and secure way.

- **Service integrator role is the right move:** It’s a complex role, requires sharing and collaborating with other IT providers and offers limited revenues for a player the size of CSC. So why do it? Because the role offers CSC an opportunity to work as a partner, orchestrating service delivery and controlling the ecosystem—CSCs calls it “nth generation outsourcing” but in reality its sole sourcing configured for a new world. Working as a service integrator will opens doors for CSC to the business transformation opportunities not to mention the ability to sell its own low cost cloud services.

**Bottom line**

- Existing customers will find an effective way to port contracts to the cloud using CSC workshops and workflow methodologies—investigate now.

- The focus on service integration needs more work but the strategy holds promise for the future for those firms investigating systematic multisourcing strategies.
CSCs focus on cloud and service integration will enable a degree of control in the new IT services ecosystem but how it sells to customer and the incentive schemes that underpin the selling will be critical for CSC.

**About HfS Research**

HfS Research is the foremost advisory analyst firm and networking community, focused on helping enterprises make complex decisions with their business process and IT outsourcing strategies. HfS is an acronym for “Horses for Sources”, the globally acclaimed blog for the global sourcing industry, based on the English phrase “Horses for Courses” which implies race horses will run better on certain race courses, not dissimilar to outsourcing and enterprises today.

With 36,000 subscribers to its research website and blog, HfS provides the most impactful and frequently-visited global collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing dynamics. The organization is unique in the fact that it integrates personable social networking with market research and advisory services.

HfS’ mission is to provide a unique environment for collective research, opinion, experience and knowledge across the global outsourcing industry to help enterprises explore new performance thresholds. Led by industry expert Phil Fersht, the HfS team is a multi-disciplinary group of analysts across North America, Europe and Asia/Pacific regions, with deep domain knowledge in Business Process Outsourcing, Information Technology Services and Cloud Business Services.

Launched in 2007, the HfS blog has more than 120,000 monthly visitors across the global outsourcing industry, and is widely recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The HfS LinkedIn community is thriving with over 10,800 industry professionals sharing views and information daily. More information about Horses for Sources can be accessed at horsesforsources.com. The company can be followed on Twitter at twitter.com/horses4sources and LinkedIn by joining The BPO and Offshoring Best Practices Forum group.

For more information about Horses for Sources research, please email research@horsesforsources.com

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i CSC showcased two fascinating case studies demonstrating how business transformation created demand for new agile service offerings: The UK’s National Health Service and French Retailer FNAC both revealed how business transformation unleashed demand for more agile and business focused services—CSC showcased how they were delivering new business focused offerings based on cloud technologies. What’s clear is tech savvy business buyers need a different engagement model.

ii HfS has launched a study in collaboration with the London School of Economics to gain real insight into how businesses plan to adopt "Cloud Business Services. The initial results from over 1000 users reveal the appetite for cloud service propositions. HfS will be running detailed analysis of the results over the next two quarters.

iii These are big challenges. However, HfS Research feels the wind is blowing in CSC’s direction. HfS Research conversations with clients and with other providers recognize that systematic sourcing models built around multiple providers is where the IT services market is heading, a phenomenon that all things cloud will drive—who or what does the service integration—in-house or outsourced is the interesting question. CSC wants it outsourced.

iv Using business outcomes rather than technical SLAs makes sense as business processes become fused with IT and firms reorganize around their business processes. Another trend HfS Research sees is how the trigger for business transformation has been firms reorganizing around their business processes rather than in cross functional silos.