

Press contact:
Monika Hoogenvest
+31 (0) 30 689 2410
monika.van.hoogenvest@capgemini.com

European organisations fail to realise cost benefits gained through outsourcing

London – 15 February 2006: European companies have gained significant cost benefits from outsourcing low-value IT processes but are failing to reinvest those savings into innovation that will rejuvenate the business. Yet according to Capgemini's *European CIO Survey – views on future IT delivery 2006*, those companies that invest their savings in technology to constantly innovate enjoy 10% higher productivity than those who focus on cost-cutting alone.

European CIOs surveyed for Capgemini's report predict that they will continue to change IT delivery models over the next two years. On average companies currently outsource 2% of IT operations offshore, but plan to more than double this to 5% by 2008.

In fact by 2008, just 53% of European organisations will deliver IT from internal resources. The other 47% will have external partners to deliver IT. However, the survey finds worrying signs that while European CIOs see the benefits of offshore outsourcing, they are still too focused on cost-cutting rather than delivering the value required from IT to boost productivity.

Gilles Camoin, vice president of Capgemini Consulting, explains: "Lower cost is cited by 82% of CIOs as the key driver for changing the IT delivery model. The problem is that companies have not yet learned that they need to take the savings gained through outsourcing and plough them back into making IT deliver innovation for the business. IT budgets are either staying the same or decreasing for the majority of businesses – only 36% are investing more in new technology to make their companies more competitive.

"This is worrying when you consider that productivity growth in the US in 2005 was 1.8%, but actually fell in Europe. We are winning at cost-cutting but losing at productivity and need to address this issue as a matter of urgency."

According to Capgemini's survey, 87 cents in every IT euro are currently spent on relatively low-value, back office tasks such as support, infrastructure management, application management and testing/roll-out. Only five cents are spent on strategy and planning and just eight cents on conceptualisation and design. Organisations have saved money by outsourcing and offshoring back office tasks, but claim to plan increasing their spend on strategy and planning by just 1.2% over the next two years.

However, there are plans Europe-wide to realign spending along the IT value chain. Companies intend to shift an average 4% of their total IT budgets from the later parts of the value chain to earlier parts. This shift in spending will be nearly 10 times bigger than reallocations that have been made in the past two years, says Camoin.

“There is already a clear correlation between profitability and how well the IT delivery model is aligned to the business. Those companies that innovate through IT instead of seeing it as a cost centre have 10% or higher operating margins. If a CIO says IT has changed but the business hasn’t, then you have failed. It’s vital to take money saved from outsourcing and re-invigorate the business – otherwise Europe will lose a massive opportunity to improve its productivity by investing in innovative IT.”

About Capgemini

Capgemini, one of the world’s foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, which it calls the Collaborative Business Experience. Through commitment to mutual success and the achievement of tangible value, Capgemini helps businesses implement growth strategies, leverage technology, and thrive through the power of collaboration. Capgemini employs approximately 60,000 people worldwide and reported 2004 global revenues of 6.3 billion euros.

About Capgemini’s Consulting Services (CS)

Capgemini Consulting Services is the management consulting discipline of the Capgemini Group and has a leading role in the strategy-, management-, and technology consultancy markets. Capgemini is aiming to offer excellence through understanding the specific customer needs in all business sectors. Based on our strong functional expertise, it is our ambition to work with our customers to identify the best strategies and execute transformation projects impacting both business growth and competitiveness.

Across the world, it employs over 5000 consultants specializing in Transformation Consulting, CRM, Supply Chain and Finance and Employee Transformation, in nearly 30 countries.

More information about individual service lines, offices and research is available at www.capgemini.com