

Benchmark of IT Strategy 2005



The annual appraisal of IT strategy in the UK



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1 Executive Summary

Overall Outlook and Perceptions

There is an air of moderate optimism amongst the UK's senior IT decision makers in terms of the current business climate and in terms of their organisations' own forecasts and prospects for the forthcoming financial year. The majority remain cautious and feel that things will stay about the same.

However, they don't sit on the fence when it comes to expressing their view of the IT function within their organisation. A staggering 96% believe the IT function is perceived to be delivering business value to the organisation, and they are satisfied with the technical and managerial competencies of the IT function.

The majority it would seem also lack any real drive or motivation in the area of their own personal prospects for the coming year – not anticipating any change over the next 12 months.

IT Outsourcing

Very few organisations have or plan to outsource all of their IT activities, it is more typical for organisations to have outsourced parts of their IT function, those elements that are furthest removed from their core services or customer focused activities. Of those who have outsourced some of their activities already, one would assume this has been a success as most expect to expand their outsourcing over the next two years.

Interestingly the perception that outsourcing brings a lower quality of service has almost doubled from 23% in 2003 to 41% in 2005. From the survey we were not able to determine whether this view stemmed from an apparent lack of control.

Open Source & Linux

A quarter of organisations are currently evaluating the adoption of Open Source or Linux architectures while the remaining three-quarters are still seemingly ambivalent to much hyped value propositions – from both a service delivery and cost saving perspective – from implementing either Open Source or Linux architectures.

The greatest perceived benefit of Open Source was savings in license costs, while the greatest concern was the lack of support.

Standards & IT Governance

Just over half of respondents are fully aware of their obligations in terms of IT governance and the impact of lack of compliance on their IT systems, while astonishingly just under 50% are only partially aware or not aware at all of the need to comply and the impact on IT systems – and in some cases on them and their senior executives – if they fail to do so.

In order to comply with IT governance, the majority believe they will have to change a combination of people and attitudes, processes, performance and technology.

Remote Access

The growth in demand – and the realisation of the benefits of a more flexible approach enabled by technology – for PDAs and other handheld devices is strong with a forecast growth rate of 199% over the next two years. Correspondingly, the survey highlights only a 3% forecast growth rate for portables and laptops.

Broadband will continue to be the most popular method of working remotely with a moderate increase from 73% (in 2005) to 78% in two years. Meanwhile, the use of dial-up is expected to decline in popularity with 62% using this method currently to 51% using dial-up by 2007. However, it is wireless hotspots that are expected to have the greatest impact with a 20% increase forecast over the next two years (from 27% in 2005 to 47% by 2007).

Technology Forecasts

The sheer volume and range of data captured and stored in modern businesses and the value of this intelligence to the business is the root cause of the technology challenges faced over the next 12 months. The majority (70%) of organisations will be concentrating on storage technologies over the next 12 months. However, they are split between storage hardware and storage software, with 38% considering storage hardware and server consolidation and 32% looking at storage software for business continuity, disaster recovery and risk management.

43% of organisations will be looking at application software deployment, installation or extension over the next 12 months, and 41% will be concentrating on infrastructure software upgrades.

2 Background

Survey Methodology

The NCC Benchmark of IT Strategy 2005 was a telephone-based survey. Prospective respondents were contacted and invited to participate, with telephone interviews conducted between December 2004 and February 2005.

The Respondents

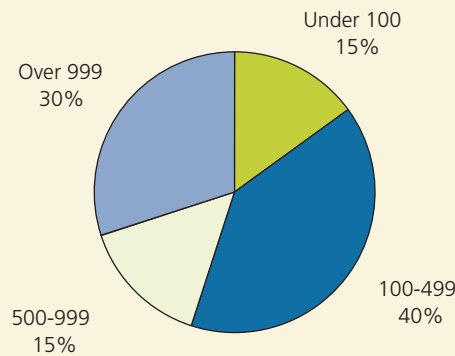
This report is based on 300 responses from senior IT decision makers in UK-based organisations, representing both the private and public sector.

The breakdown by industry sector follows the Standard Industrial Classification Code (SIC).

Respondents operated across a broad cross-section of vertical sectors. The majority of representation was in manufacturing with 46%, services with 23%, construction with 19% and public administration with 12%.

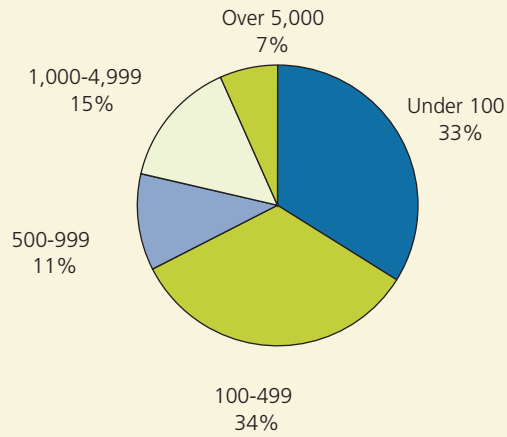
Manufacturing	47.3%
Services	23.3%
Public Administration	12.7%
Construction	3.3%
Transportation & Communications	2.7%
Wholesale	2.7%
Retail	2.3%
Finance, Insurance & Real Estate	2.0%
Mining	1.7%
Agriculture, Forestry and Fishing	1.3%
Entertainment, Media & Leisure	0.7%

Figure 2.1 Breakdown of Respondents by Number of Employees



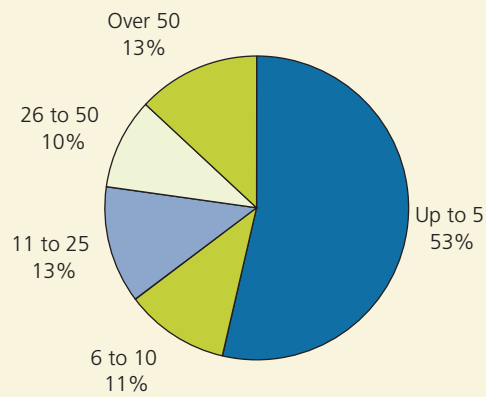
The majority of respondents can be classified as medium to large sized enterprises, comprising 45% of respondents from companies with 500-plus employees and 40% with 100-500. Only 15% of respondents were from organisations with less than 100 employees.

Figure 2.2 Breakdown of Respondents by Number of End-users



Two-thirds of responses are from organisations with less than 500 end-users. The other third is made up of large medium-sized organisations and those categorised as large.

Figure 2.3 Breakdown of Respondents by Number of IT Staff



Over half of the respondents represent smaller IT contractors. While at the other end of the scale, 13% represented organisations with more than 50 IT staff.

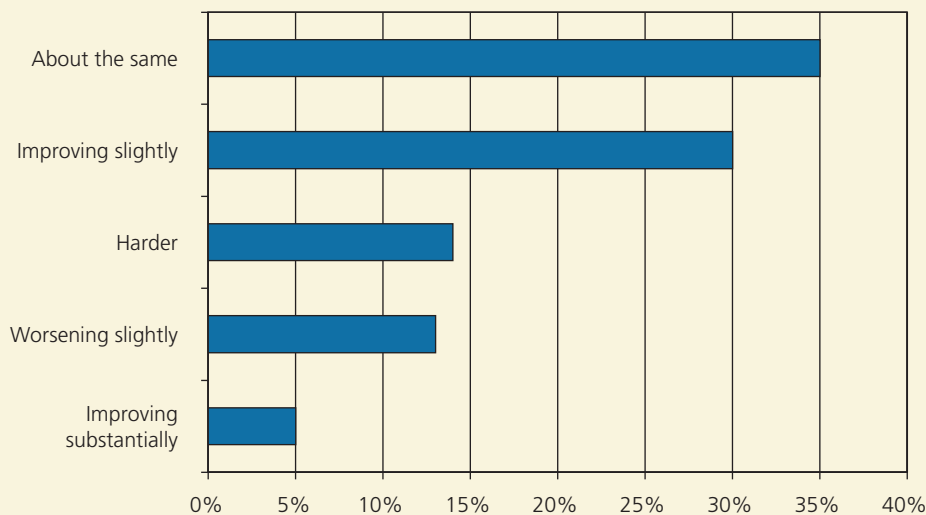
3 Overall Perceptions

- ▶ 45% of organisations believe the business climate will improve slightly over the next 12 months...
- ▶ ... while 59% expect an improvement in their organisation s prospects over the next 12 months.
- ▶ 53% do not expect any change in their career prospects over the next 12 months.
- ▶ 88% of organisations are more than satisfied with the technical and managerial competencies of their IT department.
- ▶ Over 96% believe the IT function delivers good value to the organisation.

Introduction

In this section we asked respondents about perceptions and overall sentiment toward the economy, the business, their career prospects, IT staff competencies and training, IT spending and strategic concerns.

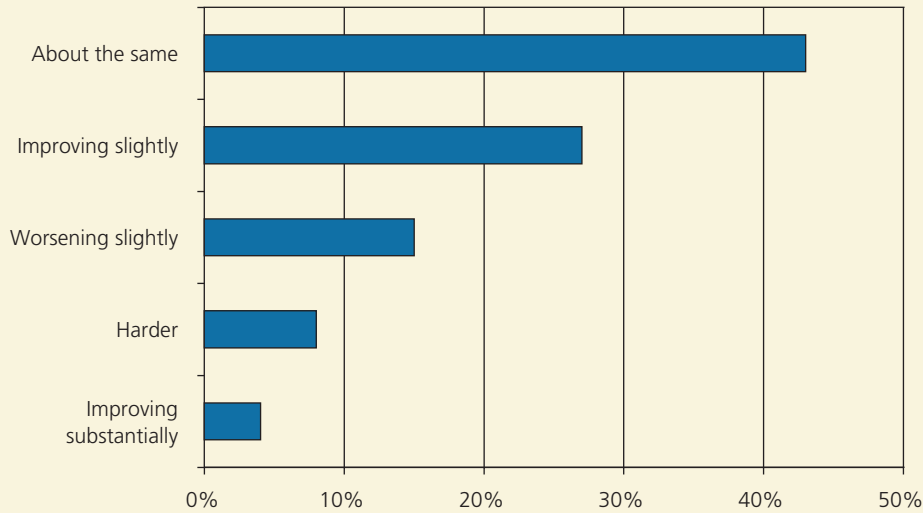
Figure 3.1 Perception of the Business Climate over the Next 12 Months



Overall the general mood amongst responding organisations was neutral to slightly positive about the impact of the economy on business over the next 12 months. 30% indicated that they believed there would be a slight improvement in the business climate, while 5% believed there would be a substantial improvement.

A further 35% did not think there would be a great deal of change and so they expected the business environment to be about the same. However, 14% believed it would be much harder to do business over the next 12 months, and 13% expect conditions to worsen slightly.

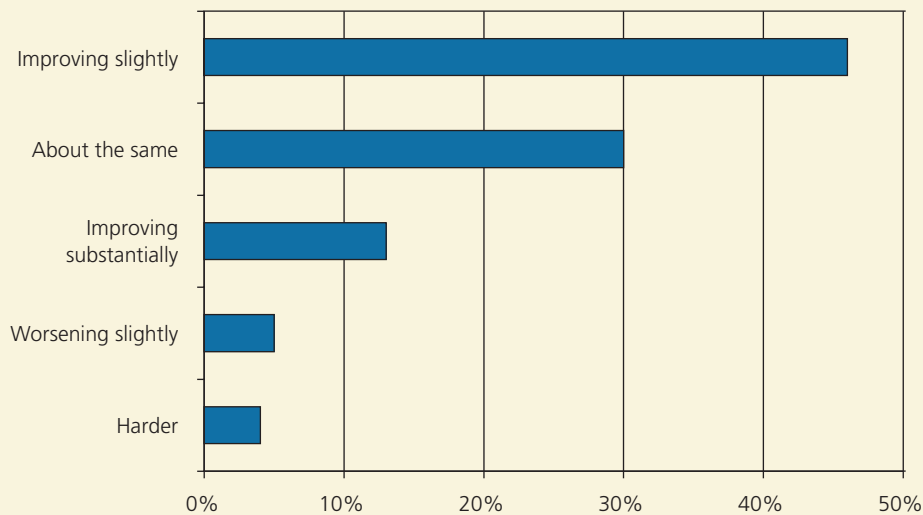
Figure 3.2 Perception of IT Spending over the Next 12 Months



43% of respondents expected their IT spending in the coming year to be about the same as the previous IT spend. Just over one-quarter (27%) expected a slight improvement, while only 4% expected their IT spending

to improve substantially over the next 12 months. Just under one-quarter were more pessimistic about the next 12 months with 15% thinking their IT spending would worsen slightly and 8% expected a much harder budget.

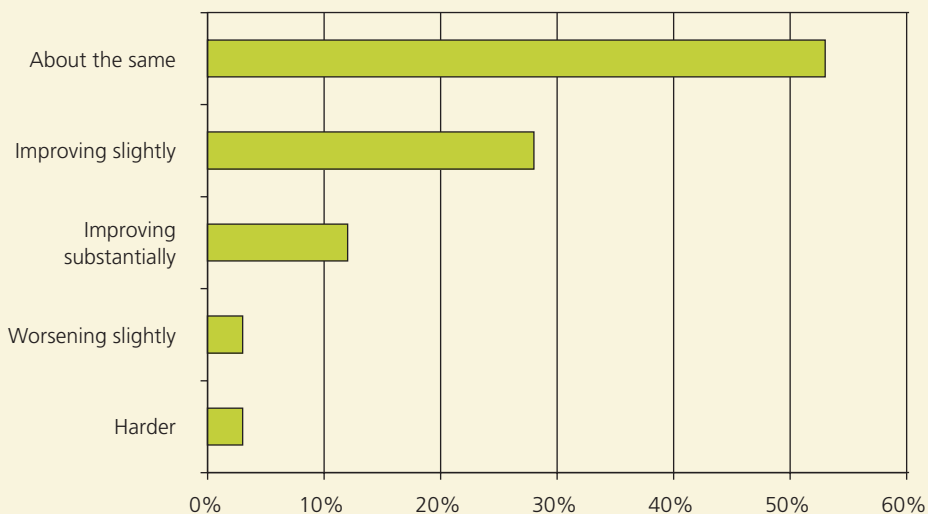
Figure 3.3 Business Prospects over the Next 12 Months



Over half of respondents have taken a positive view and expect their business prospects to improve over the next 12 months. 46% of respondents predicted a slight improvement in their organisation's prospects, while 13% expected their prospects to improve significantly.

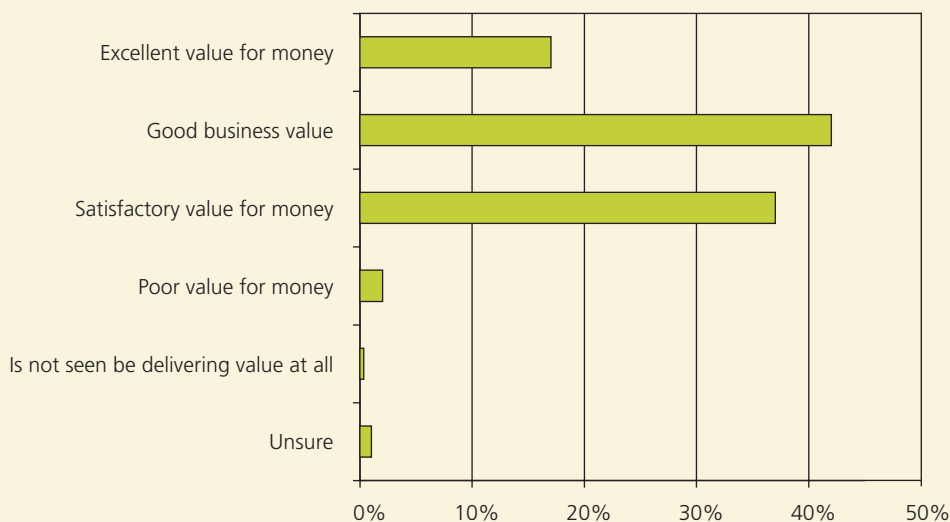
30% expected their business prospects to remain the same, and less than 10% expected it to be more difficult for their organisation in terms of business prospects over the next 12 months.

Figure 3.4 Career Prospects over the Next 12 Months



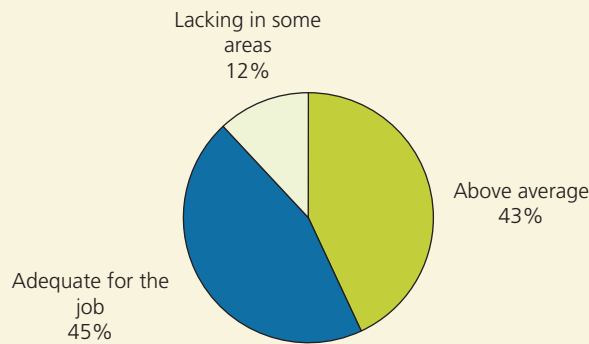
A similar pattern emerged for job and career prospects with 53% of respondents not expecting any change; 28% only expecting a slight improvement in their career prospects and 12% being more positive, expecting a substantial improvement in their career prospects over the next 12 months.

Figure 3.5 Perception of the IT Department



Over 96% of the senior decision makers in IT that were interviewed were either happy or satisfied with their IT department's ability to deliver results and business value to the organisation. Most organisations were split between IT providing "good value for business" (43%) or "satisfactory value for money" (37%). On the extremes only 17% considered their IT departments to deliver "excellent value for money", and less than 3% considered their IT department to be "poor value for money" or "not seen to be delivering value at all". These results are interesting, but should be treated with some caution as the respondents are senior IT decision makers in the organisation.

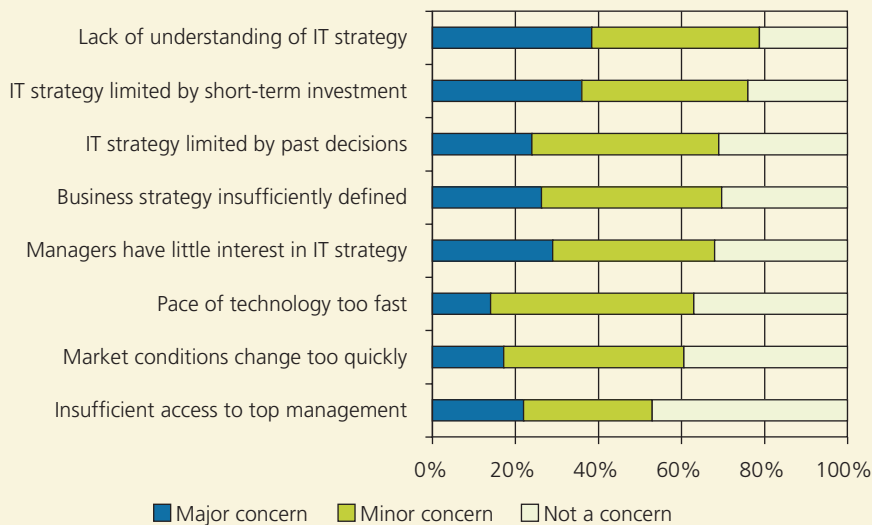
Figure 3.6 IT Staff Competencies



88% of organisations were more than satisfied with the technical and managerial competencies of their IT department – split almost equally between “above average” (with 43%) and “adequate” (with 45%). Only 12% of companies thought their IT staff were “lacking in some areas”. The larger the organisation, in terms of number of end-users, the more likely they are to be

satisfied that the skills of their IT staff are adequate for their role within the organisation. Over 50% of organisations said they promoted internal and external certification training courses for their IT staff. Microsoft, Cisco, Oracle and Novell certifications figured prominently. However, 46% did not have any formal training or certification processes in place.

Figure 3.7 Extent of Concerns with Alignment of IT Strategy



In terms of concerns with the alignment of the IT strategy or delivering value from IT, the majority of respondents had concerns with senior managers lack of understanding of IT issues (78%), and limitations imposed by short-term investments or spending limits

(75%). While insufficient access to the highest level of management was the least concern for the IT department with 53% citing this as a concern. These results are very similar to those reported for 2003 when we last asked this question (IT Strategy Survey 2003).

4 IT Outsourcing

- ▶ Access to specialist skills is perceived to be the greatest benefit with 79%.
- ▶ Loss of internal knowledge and high cost are both cited by over half the respondents as a major disadvantage of IT outsourcing.
- ▶ Lower quality of service as a major disadvantage has almost doubled in 2005 (41%) compared to 2003 (23%).
- ▶ Only 8% (which is only 2% higher than those currently outsourcing IT) say they are likely to outsource their total IT activities in two years time.

Introduction

Respondents were asked about the perceived benefits and disadvantages of outsourcing. They were also asked whether they currently outsource the whole of their IT activities or parts of it and if they plan to do so in two years time. In addition, we investigated offshore and nearshore options.

Figure 4.1 Perceived Benefits of IT Outsourcing

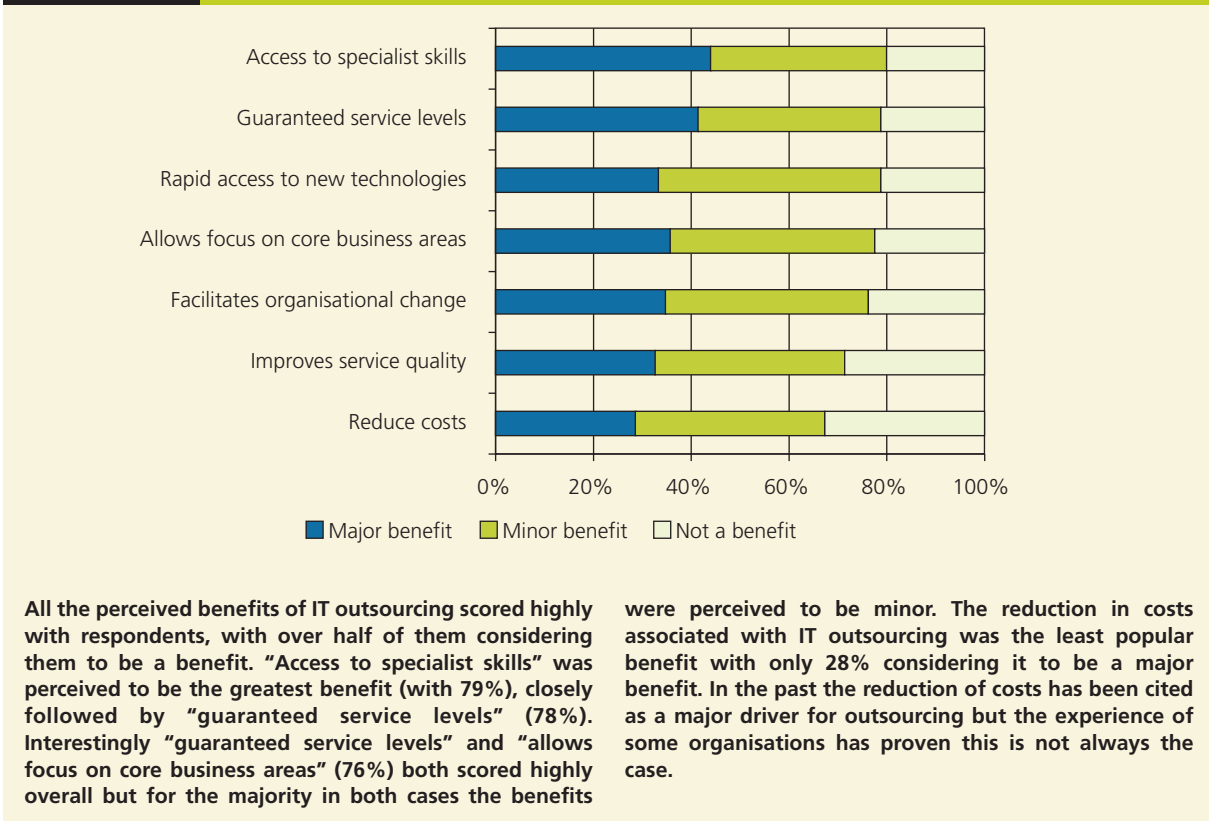
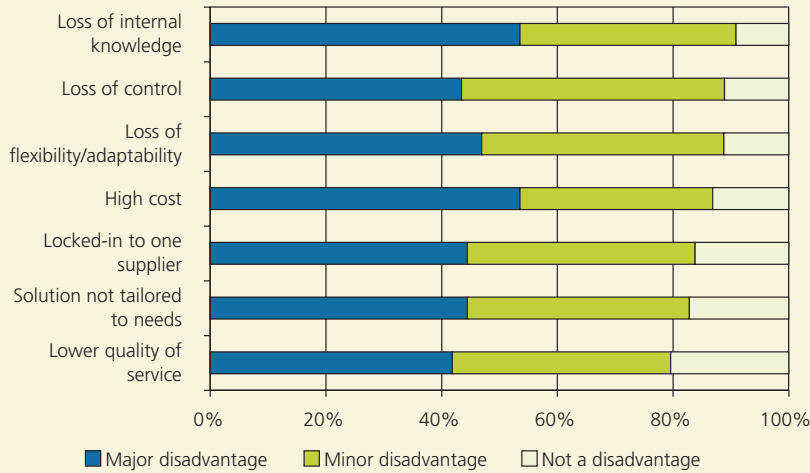


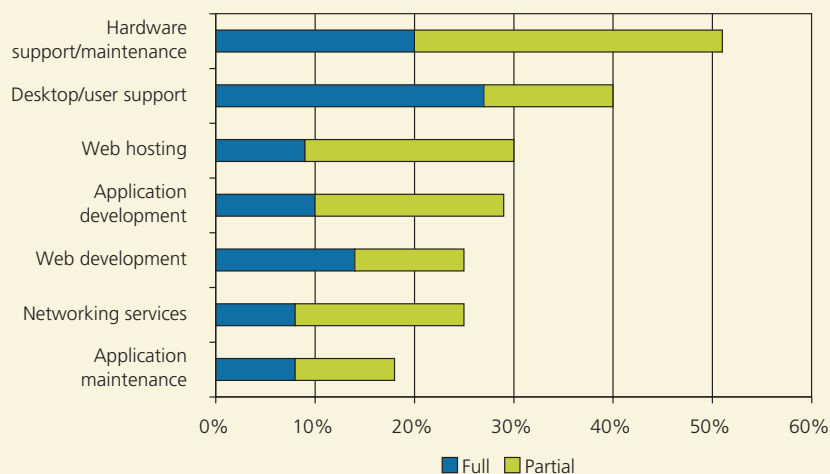
Figure 4.2 Perceived Disadvantages of IT Outsourcing



“Loss of internal knowledge” and “high cost” were both cited by over half of the respondents as a major disadvantage of IT outsourcing. While a lower quality of service was perceived to be the issue of least concern. High cost was perceived to be a major disadvantage for organisations in the Retail, Wholesale, Construction, Mining and Services sector and Public Administration. Loss of internal knowledge was perceived to be a real problem for the Finance and Retail sectors in particular. The Finance sector also perceived the loss of quality of service to be a major disadvantage with 83% considering this an issue, but this is not surprising considering this sector is very much a customer-focused service industry. Looking back to 2003, when we last asked about

advantages and disadvantages of IT outsourcing, there is very little difference in the overall results. However, in some cases there has been a shift in perception of benefit or risk being major or minor. In the NCC IT Strategy Survey 2003 both a reduction in costs and improvement in service quality were perceived to be the least benefit, just as our latest research has shown, but in both cases the percentage of people considering them to be a major benefit has doubled compared to 2003. Similarly when looking at disadvantages, lower quality of service as a major disadvantage has almost doubled in 2005 compared to 2003 (41% in 2005 compared to 23% in 2003).

Figure 4.3 Outsourcing — Current Use



The overwhelming majority of respondents (94%) did not currently outsource all of their IT activities. Nor did many anticipate their position to change over the next two years. Only 8% (which is only 2% higher than those currently outsourcing IT) said they were likely to outsource their total IT activities in two years time. The

most widely outsourced IT activities that organisations cited were “hardware support and maintenance” (52%) and “web hosting” (40%). The least cited were “desktop/user support” and “web development”. In two years time most organisations plan to expand their outsourcing across these areas, albeit modestly.

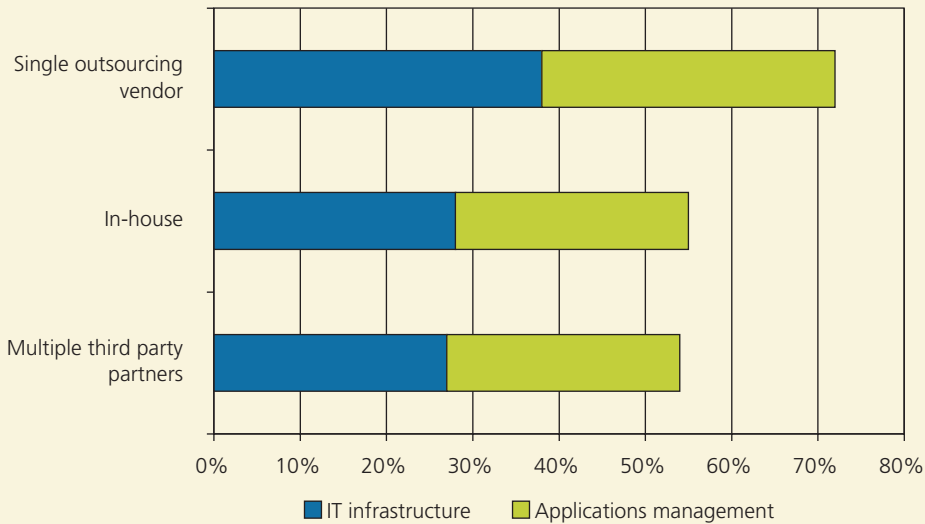
IT Infrastructure and Applications Management

25% of responding organisations currently outsource either IT infrastructure or applications management or both. (The majority of organisations who outsourced IT infrastructure also outsource applications management.)

IT Skills Sourcing Strategies

Of the 25% of organisations that engage in outsourcing activities, the preferred method for sourcing skills for IT infrastructure or applications management show a very similar pattern. The majority of respondents prefer a single outsourcing supplier for their skills requirements.

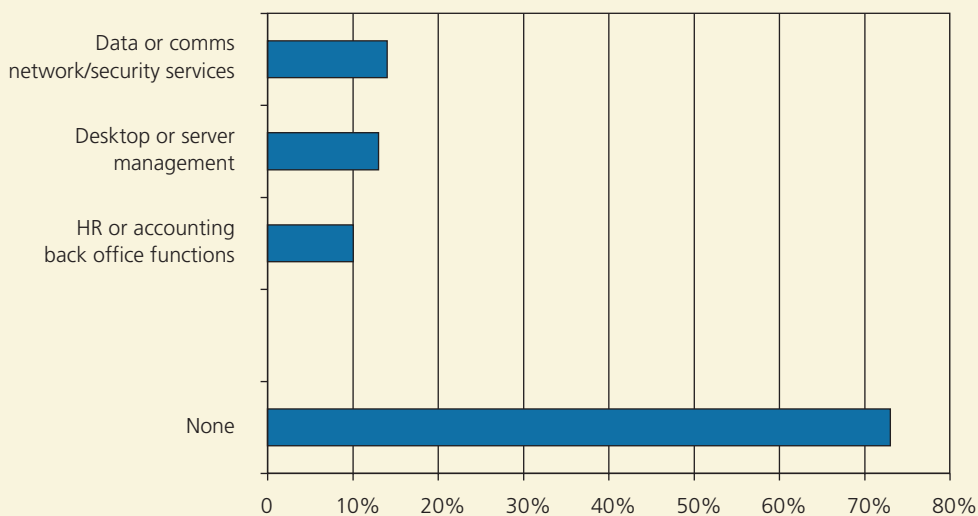
Figure 4.4 Preferred Method for Sourcing Skills



Just under 5% of organisations indicated “no preferred sourcing method”. In the majority of cases it was applications management where there was no preference. The larger the organisation the more likely

they are to have multiple third party partners for outsource skills, especially for applications management and the least likely for them to have “no preferred method”.

Figure 4.5 Plans to Outsource over the Next Two Years

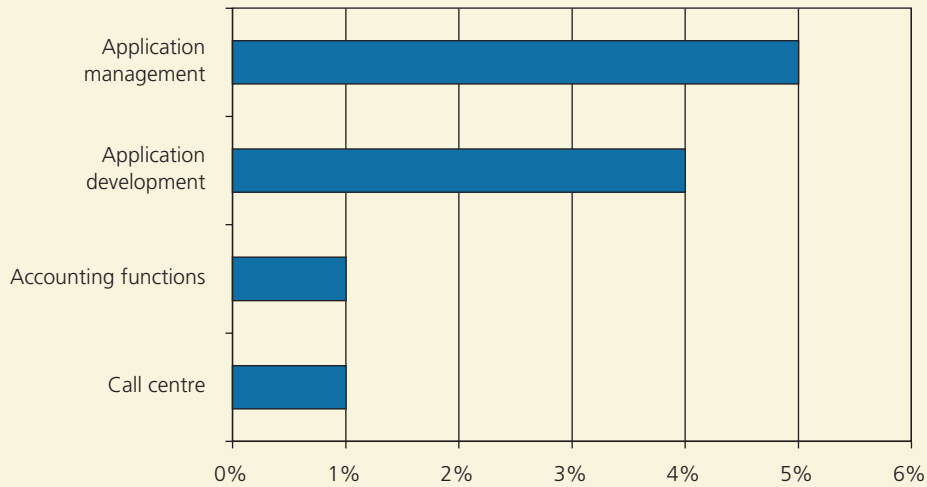


73% of respondents did not plan to outsource any IT functions over the next two years. 14% expected to outsource their data communications and network security services within the next two years, while 13%

expected to have outsourced desktop and server management and 10% expected to outsource their HR or back-office functions by 2007.

Figure 4.6

IT or Back Office Functions Currently Outsourced to an Offshore/Nearshore Location

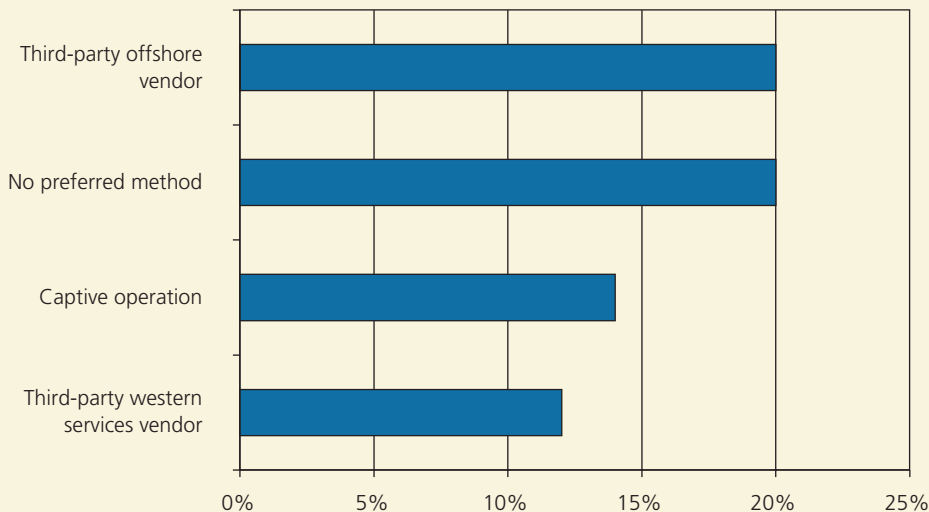


Almost 88% of respondents do not currently outsource any back-office IT functions to an offshore or nearshore location. 5% of organisations currently outsource their applications management, 4% outsource applications development, and just 1% outsource call centres and 1%

outsource accounting functions. A further 2% indicated they currently outsource other IT functions such as application maintenance, hardware maintenance, web hosting, disaster recovery and network management.

Figure 4.7

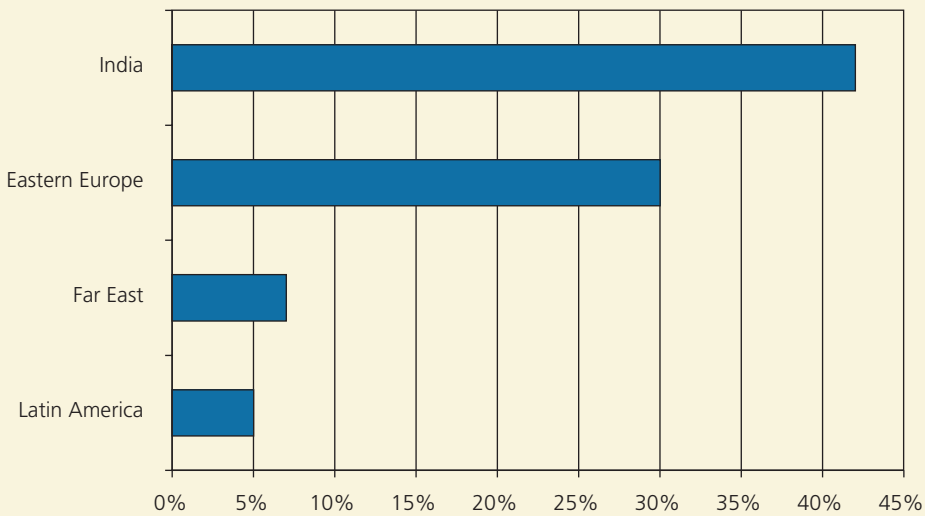
Method for Accessing Offshore Resources



Third-party offshore vendors were cited by 20% of respondents as their preferred method of accessing offshore resources. However, it was the least likely option for organisations with less than 100 end-users. 14% cited a captive operation and 12% cited a third-party Western services vendor as their preferred methods. A further 20% did not have a preferred method. 14% of organisations indicated they would

prefer to use their own in-house developed captive operation for offshore outsourcing. However, it can take time for an organisation to establish such a unit and as another department within the organisation this can be seen as a cost centre whereas a third-party outsourcer is driven by profit. Therefore, it's probably not surprising that it is the larger organisations that tended to indicate this type of method.

Figure 4.8 Respondents Preferred Offshore/Nearshore Location



Just over half of the respondents indicated they have a preferred offshore or nearshore location. Of these, the Indian subcontinent was cited by 42% of organisations that are currently engaged in offshore/nearshore activities as their preferred offshore location. This was followed by Eastern Europe (30%), the Far East (7%) and Latin America (5%). Other locations cited by 17% of respondents included Europe (in particular Germany, but also Ireland, France and Northern Ireland), South Africa and the North America. The overwhelming majority of

respondents (97%) are not currently using multiple offshore/nearshore locations in order to mitigate risk nor do they expect to do so in the future. Just over 63% of responding organisations had a tendency to consider nearshoring as a future consideration, while only 13% cited offshoring. 15% said they had no preference between offshore or nearshore, while less than 1% said their decision would depend on the best deal or specific IT needs.

NCC View

Why is interest in BPO growing?

Most surveys continue to predict that the worldwide BPO market will grow at around 10% per annum and external spending will reach in the region of £100,000M per annum by 2008. Similarly the IT Outsourcing market is predicted to grow at around 7% per annum to reach an external spend of around £150,000M by 2008 (source: Gartner).

The growth in BPO is set to continue as organisations continue to focus on core business. This is further helped by the fast-maturing offshore supply of such services which offer the potential for even greater levels of cost savings, improvements in service quality, better risk management and greater levels of flexibility. BPO for some is a useful tool for financial re-engineering – the share price impact from announcing a major outsourcing deal, the impact on balance sheet from moving internal operating costs to on-going external service provision costs, asset transfer that removes potential liabilities, and reducing the fixed cost base of the organisation. For 'horizontal' processes such as back office processes, cost savings are the primary driver with savings of 15% to 40% possible depending on the business and service provider circumstances.

Historically organisations have outsourced for a multiplicity of reasons and these are borne out by these Benchmark findings. The important point is that there is either a

correlation between the business strategy of the organisation and the objectives of the outsourcing, or there is a business case for pursuing outsourcing.

An overview of the vendors

The BPO provider landscape in Europe is relatively fragmented. Local market specialists such as Capita, Liberata, Xchanging, Siemens Business Services, Serco, Capgemini, and Xansa are competing against the global IT services giants such as IBM, EDS, CSC, and Accenture. Some companies, such as Unisys, have gained market share by building market-leading capabilities in key BPO verticals of check processing and life pensions policy administration.

Lacking critical vertical market expertise, several generalists are building market momentum through having the right contracts at the right level of the business to assume a competitive stance. This is particularly true of Accenture, which has many years of experience in selling IT service to top business management.

Large IT services providers are also investing in or looking to invest in specialised BPO providers with vertical domain expertise. Indian offshore vendors such as Tata, Infosys, Patni, Wipro and WNS are getting into the fray with their respective BPO divisions. A few Indian providers are shopping Eastern Europe for low-cost nearshore locations. These Indian

vendors have developed best practice status in their respective niche markets and acquired vertical domain expertise along the way.

Application vendors in the core systems space are watching closely to determine where they will fit in a growing BPO universe and whether their business models can extend to BPO. Vertical BPO is an extension into the business process from existing application work. Traditional outsourcers don't have this capability and will have to partner or acquire solutions to fill gaps. Traditional BPO providers are experienced in running operations. IT vendors are experienced in transformation. They need each other, so consolidation is happening. For hardware and software providers, the client base is changing. Increasingly, BPO providers instead of the end clients will be the buyers, and vendors will have to adapt to this changing market.

There are also instances of end client organisations and the BPO service provider collaborating to create 'utilities' that offer value propositions to secure third party revenues from other customers – this is the business model adopted Xchanging in their partnerships with BAE systems and Lloyds of London for procurement and insurances services respectively.

The market share for outsourcing continues to be dominated by the large scale multi-national suppliers like IBM, EDS, CSC and Accenture who have successfully extended their traditional IT services reach into the execution of business processes. Put simply big name clients have traditionally bought from big name suppliers. However, offshore outsourcing is growing at around 30% compared to an overall market growth of 10% and this has forced the big name players to adopt their own aggressive offshore strategies to maintain competitiveness.

Recently we have seen several deals, IBM acquiring the Indian BPO player Daksh, Hewitt Associates acquiring another Exult, Capita acquiring a majority stake in Mastek's BPO operation and two venture capital firms buying a majority stake in General Electric's Indian-based captive Gecis. The type of work being executed by the Indian BPO vendors is also changing – from the traditional customer interaction processes (such as call centres) to domain-specific and back-office support processes of increasing sophistication. In terms of the public image associated with offshoring it is now widely accepted that the globalisation of industry is now irreversible and what is now needed are:

- Strategies to identify and execute services that can be offshored profitably
- Skills and competencies to execute high-value and retained tasks
- Alignment of the firm's quality management processes to meet the normally high standards implemented by offshore companies
- Appropriate procedures and governance structures

Despite the press and political attention (more notably in the US than Europe) being given to offshoring the actual job losses arising from sending jobs offshore is relatively small as a percentage of total job losses.

Future Trends

BPO is being increasingly used as a tool to drive business strategies and business benefits in a measurable way. An increasing proportion of the market is expected to be serviced

from lower cost locations and this will give risk to new service delivery models – for example:

- Companies placing BPO contracts directly with offshore companies so that some processes are executed from lower cost locations; and those processes that are executed locally are done so by the end organisation or by the offshore company who will transfer in staff from the Organisation
- Multi-national vendors expanding their own offshore delivery capabilities by organic growth or acquisition, to offer a blended delivery model combining local know-how and cost-effective offshore delivery in a single bundled deal
- As companies begin to realise the benefits from offshoring then the work put offshore will scale in terms of numbers and position in the value chain. This will increase the case for 'captive' operations as we are currently seeing with Tesco, Unilever and Prudential.

The utilisation of offshore capabilities in BPO delivery models will grow significantly in the coming years driving a globalisation in the supply of business services across all sectors. There will also be an increase in Transformational BPO in which there is a radical transformation of processes at the outset and process improvement over time through techniques such as Six Sigma or Lean Processing. This will also create a renewed focus on technology platforms where technology innovation and streamlined applications can give competitive advantage.

As a result of business process automation future processes will be far more IT-intensive and less reliant on people and paper. This will have a significant impact on employment – clearly some job creation around technology implementation/process re-engineering will result from this shift, but the overall effect will be dominated by operating workforce reduction.

The proportion of domain-specific BPO is expected to increase – currently 80% of the cost base in the European financial services is in domain-specific processes but 70% of the BPO deals done are in the back office space. This reflects a current comfort level which is expected to change over time as high cost areas are examined, and as greater acceptability of BPO permeates the market and as service providers invest in domain skills. Most BPO activity will continue around a greater number of smaller, more focused deals than 'megadeals' (in excess of £500M) which will continue to be the exception. This is also borne out by recent figures which show over 50% of the new BPO contracts during the first quarter of 2005 had a value of between £6M to £30M. The same research also shows that the average value of IT outsourcing and BPO contracts fell by 18% in the same quarter, and for the third quarter running.

In terms of geographical trends European outsourcing is fast approaching the scale of outsourcing in the US with BPO leading the way. Within Europe the UK has historically led outsourcing activity and it now accounts for about 50% of the European outsourcing business with Germany, Switzerland and Benelux accounting for most of the remainder. The reasons include Continental European headquarters of major multinationals increasingly adopting back office BPO, and the banking sector in Germany has become more receptive to BPO.

5 Open Source & Linux

- ▶ 25% of respondents are currently using or considering adopting Open Source or Linux architectures.
- ▶ The greatest perceived benefit of Open Source software cited by respondents was cost savings.
- ▶ While the biggest inhibitor was lack of support.

Introduction

In this section we look at respondents' views on Open Source and Linux and their perception of the benefits and inhibitors to the adoption of Open Source Software.

Open Source & Linux Architectures

The majority (75%) of organisations did not have Open Source or Linux architectures nor did they plan to implement Open Source or Linux architectures over the next two years.

Of the 25% that are currently using or are considering adopting Open Source or Linux architectures, only 8% of respondents said they had Open Source/Linux architectures in place or were seriously considering deploying them in the near future. 8% of respondents said they had replaced some of their RISC-based UNIX servers with Open Source/Linux platforms. A further 7% said they had experimented with some open systems in various systems deployments.

Less than 2% of companies are actively evaluating Open Source/Linux – either internally or via external consultants.

Open Source Software — Today and Future

17% of organisations cited Linux as their open source architecture or software in place/use today. Apache and MySQL (both 4%) and Open Office (3%) were also cited.

While, 20% of organisations are considering Linux as a future operating platform.

Other Open Source technology considerations were minor and included: Apache (6%), MySQL (6%), OpenOffice (5%), Mozilla/Firefox (4%) and PHP Perl (3%).

Core Functions Supported by Linux — Today and Future

Of the 25% of companies that use Linux, "Other" (7%) and "web serving" (6%) were cited as the most popularly supported IT function. 3% ran Linux-based data warehousing systems and 2% business intelligence/analytic systems. 3% ran Linux e-mail and 1% groupware systems and file and print. And 2% ran Linux desktop and networking systems.

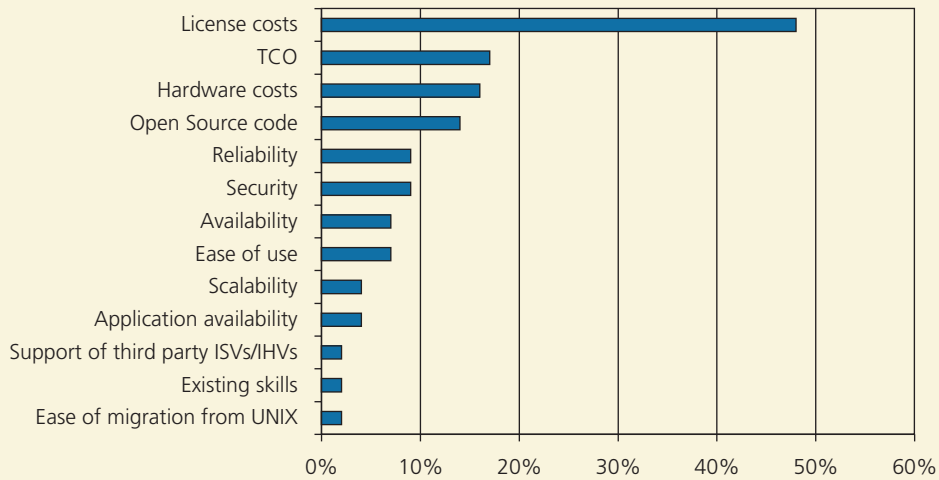
Less than 1% of companies ran core ERP and CRM, proxy/caching, security, systems management applications on Linux.

"Other" Open Source software that 3% of organisations cited included: firewall, testing/bug tracking and application server management.

The biggest category to emerge was "Other" with 8% of companies citing web browsing, firewalls, file serving, bug tracking, database management, and accounting.

5% of organisations expect to use Linux to drive future web serving initiatives. 4% expect to adopt for data warehousing and 4% also expect to adopt for e-mail system. 3% intend to support their future desktops with Linux.

Figure 5.1 Perceived Benefits of Open Source

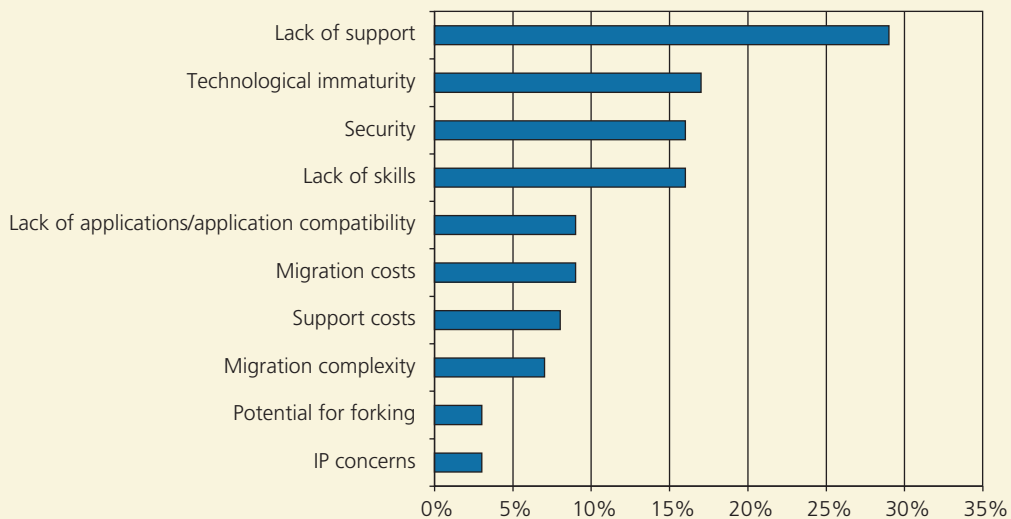


The greatest perceived benefit of Open Source software cited by respondents was “cost savings” with 48% citing “license savings” and 16% citing “hardware savings”. 17% of companies also regarded “Total Cost of Ownership (TCO)” as a major advantage of open source. 14% saw “Open Source code” as an advantage, 10% of companies cited “reliability” as a benefit. 9% cited “security”. And only 6% of respondents cited “ease of use”. Support for ease of migration from UNIX, scalability, application availability, support for third-party ISVs and existing skills, each garnered less than 5%

of responses. 8% of respondents also suggested other benefits of open source, including:

Flexibility; Speed; Adaptability; Functionality; Customisation; Portability; Quality; Vendor independence; More efficient than, for example, Microsoft; Interchangeability of information; Technologically sound; Software independence; Ease of development; Stability of operating system; Reduced maintenance costs; Not locked into one major supplier such as Microsoft.

Figure 5.2 Major Concerns with the Adoption of Open Source Software



The greatest concern with the adoption and use of open source software was the “lack of support” (29%). “Technological immaturity” (17%), “lack of skills” (16%), “security” (16%), “migration costs” (9%) and “lack of applications/applications compatibility” (9%) were all cited as concerns. Only 8% of companies cited “support

costs” as a concern, 7% thought migration complexity an issue, while “IP concerns” or the “potential for forking” (where development takes different directions) did not seem to worry companies too much with only 2% for both.

NCC View

Open Source in business

2004 was a year in which open source technologies established themselves as a viable alternative within the corporate market place. Open source gained increasing credibility particularly, the Linux operating system whilst open source on the desktop still has some work to do. This Survey provides a useful overview of where the gains have been achieved and where the challenges lie if open source technologies are to build upon these successes throughout 2005.

Open Source — steady growth .

The pattern of steady OS growth in all markets was confirmed in 2004; but it remains the case that OS still hasn't caught the imagination of all IT managers, Directors or CIOs. As a consequence there will be no seismic shift in 2005, moreover OSS applications and operating systems may represent a viable alternative and have certainly established as an option for the corporate desktop. With core packages at, or approaching, maturity and evident interest from buyers, there is now ample commercial incentive for the support infrastructure to begin catching up with the technology.

The money spent on OSS products and services in 2004 continued to accelerate; the range of active projects increased; new software categories and industrial sectors were pioneered; established products continued to mature and extend; leading products achieved marked improvements in usability and support; new converts were made among ISVs and end-users; even a steady increase in the number of abandoned and merged projects was a positive sign. There is no indication that any of these trends will peak before 2007.

Although there were no startling setbacks in 2004, there were some which served to reveal real commercial weaknesses that are likely to continue into 2005. The withdrawal of Sharp's technically impressive Zaurus PDA from the UK reflected Linux's failure to counter the questionable (but popular) belief that WinCE has intrinsically superior desktop integration. Without sufficient backing from other vendors, something similar may befall Motorola's Linux smart phones in 2005. The abandonment of Newham's Linux desktop pilot demonstrated the scale of discounts that a serious defection threat can extract from Microsoft. Given the impossible cost of buying-off every potential defector, the demise of Turku's OpenOffice migration is arguably more significant. There, staff resistance was the primary obstacle.

Finally, IT centralisation and longer-term contracts in UK central government (especially the NHS), combined to intensify Microsoft lock-in and to squeeze out the small innovators who are most likely to champion open source. Public sector open source experienced few direct losses in 2004, but significant barriers to its future growth were raised. Together, these setbacks remind us of the overwhelming challenge for open source migration: that its benefits have to

be very large, very timely, and well-understood to offset transitional costs, inertia, fear uncertainty and doubt and anti-competitive pricing.

The open source movement's overall exposure to tangible risk remained roughly static throughout most of 2004, with intellectual property law still the primary concern. However, the fear that open source development could be constrained by well-financed (if legally dubious) patent claims grew in the last quarter. Microsoft's claim to patents over 130 internet and interoperability protocols raised the temperature, following on from draft EU legislation to recognise software patents, and a significant out-of-court patent settlement between Sun and Kodak. This bad news was partially offset by supportive declarations from IBM, Novell and the W3C over patents, and by favourable developments in court cases brought by SCO and Eolas. Nothing happened to challenge the common assumption that open source developers will be able to quickly work around intellectual property encumbrances, and that it is quite unlikely that end-users will have to pay for any proven infringement.

Forecast developments for 2005

The Linux desktop will not be the dominating concern for open source developers in 2005, nor even the most important element in OSS desktop development. The direction of greater resources towards it will, serve to put clear blue water between Linux's market share and the third placed Macintosh. Expect to see Linux on up to five per cent of all desktops by the end of the year (from an estimated three per cent in 2004, IDC). Defections will come largely from Windows.

Lower TCO will be the obvious driver for corporate adoption. The key permissive factor will be dramatic improvements in the capabilities and usability of OSS desktop applications during 2004. Three packages exemplify this trend and provide the core around which many OSS desktop strategies will be built: the OpenOffice suite; the Mozilla Foundation's web application suite; and the Gnome desktop environment.

Together with an operating system, these three packages provide most of the day-to-day requirements of non-specialist knowledge workers. These workers are not the current priority for Linux vendors, but they are being prioritised by others in the open source community, and especially by those playing the long game. For the latter group, Windows versions of OpenOffice and the Mozilla applications play a crucial role in enabling people to continue using files created with tools like MS Office, while progressively freeing the data itself from dependency on Microsoft-only systems. Getting such data into international standard formats (XML, XHTML, etc) significantly increases the feasibility of complete platform migration by dramatically reducing transition costs. This approach, rather than sales of Linux systems, will be the defining feature of the OSS desktop in 2005

6 Standards & IT Governance

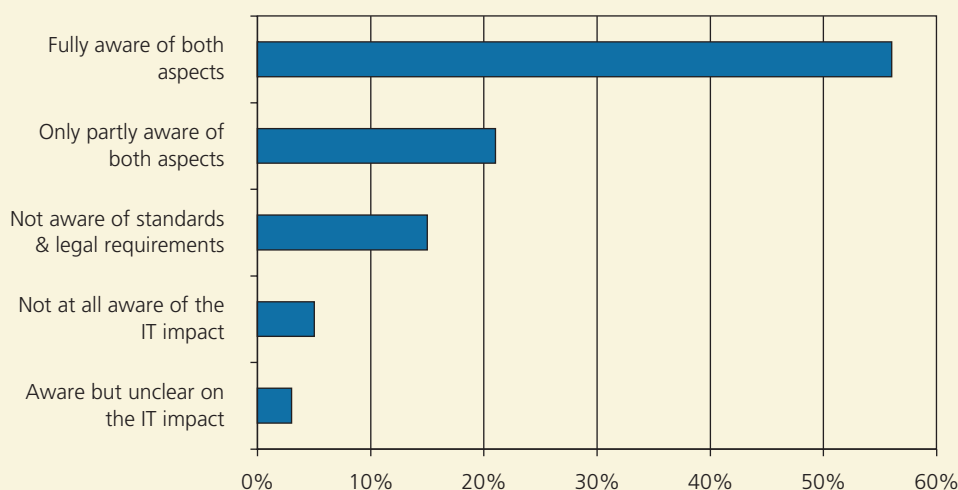
- ▶ 56% of organisations are fully aware of governance and compliance obligations and the impact on IT...
- ▶ ...but 44% are not fully aware or not aware at all of the obligation and the impact on IT.
- ▶ 41% believe they will need to make changes to a combination of people, process and technology in order to comply.
- ▶ From a IT governance perspective, network virus protection is the main purchasing driver.

Introduction

In this section respondents were asked about their awareness of standards, the legal requirements and the potential impact on IT systems if they fail to comply.

They were also asked how compliance to standards could be improved within their organisation and how IT governance influences their purchasing decisions.

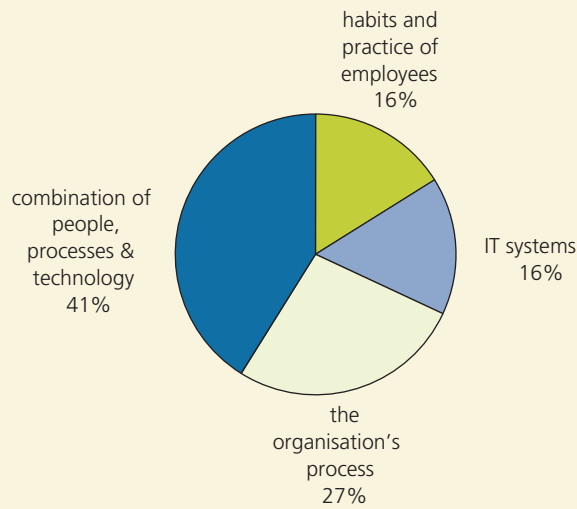
Figure 6.1 Awareness of Standard & Legal Compliance and the Impact on IT



Just over half (56%) of the respondents were “fully aware” of the corporate IT standards and legal requirements they need to comply with and their impact on the management and development of corporate IT systems. 21% of respondents were only partly aware of

IT standards and legal requirements, while 20% admitted they were neither aware of any such requirements in place, nor aware of the IT impact. Only 3% did not know about IT standards and legal requirements.

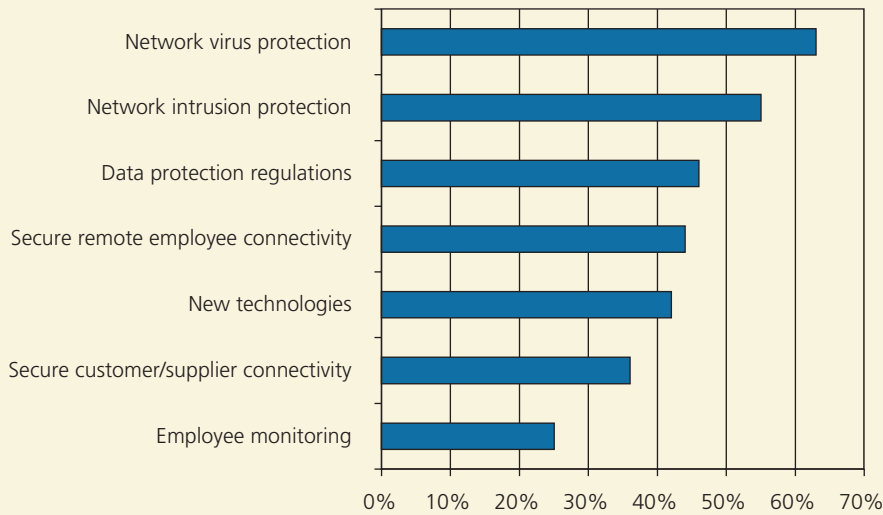
Figure 6.2 Changes Required in the Organisation to Comply with Standards



Overall, 41% of respondents believed that changes needed to be made to a combination of people, processes and technology in order to comply with standards. 27% identified changes to the organisation's

processes as key, 16% considered changes to employees habits and practices and a further 16% thought there would need to be some changes to their organisation's IT systems.

Figure 6.3 IT Purchasing Drivers



For 63% of organisations the need to protect their network from viruses and to filter content and spam drives their purchasing decisions. Security connectivity was also a driver for 80% of respondents. 44% of them were specifically concerned with secure remote offices and/or employee connectivity, and 36% were concerned

with securing customer/supplier connectivity. Only a quarter of respondents indicated that the need for employee monitoring influenced their purchasing decisions, which is interesting as recent NCC research has found that your employees can be the greatest threat to your organisation's IT systems.

7 Remote Access

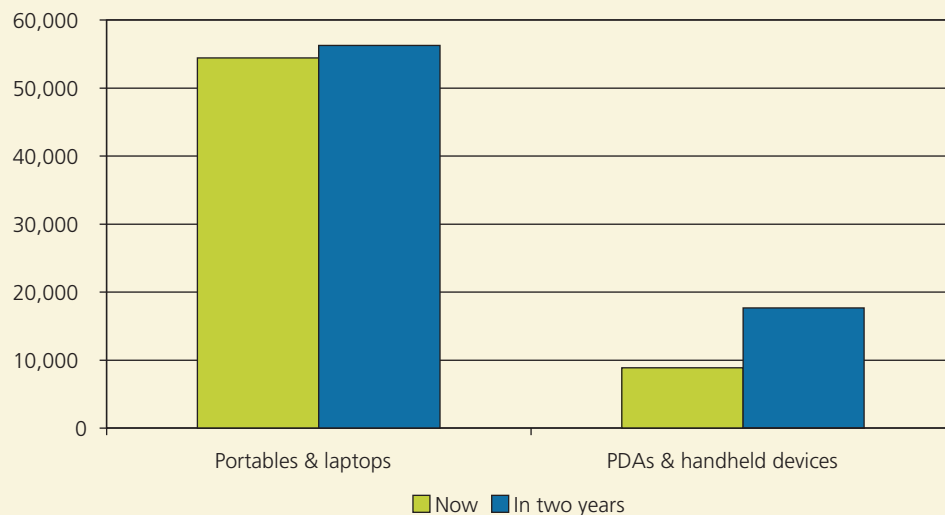
- ▶ Broadband is the most popular method for working remotely with 73% currently using it. This is expected to grow to 78% by 2007.
- ▶ Dial-up, currently used by 62% of organisations, is expected to decline to 51% by 2007.
- ▶ 68% of organisations are currently using virtual private networks (VPNs) and 74% expect to be using them by 2007.

Introduction

Respondents were asked about the number of portables/laptops and PDAs/handheld devices they had within their organisation now and how many they expect to have in two years time.

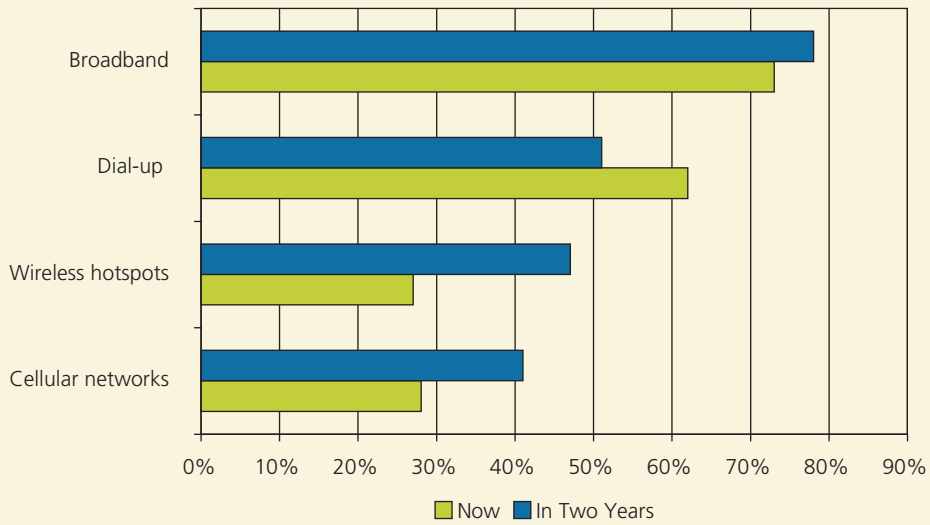
They were also asked about the types of connection they use for remote access and the security they use to protect their data, devices and connection both now and the expected use in two years.

Figure 7.1 Number of Devices Now and in Two Years



Less than half of the respondents currently have PDAs and handheld devices but organisations are predicting a 199% growth by 2007. The predicted growth rate for portables and laptops is only 3%.

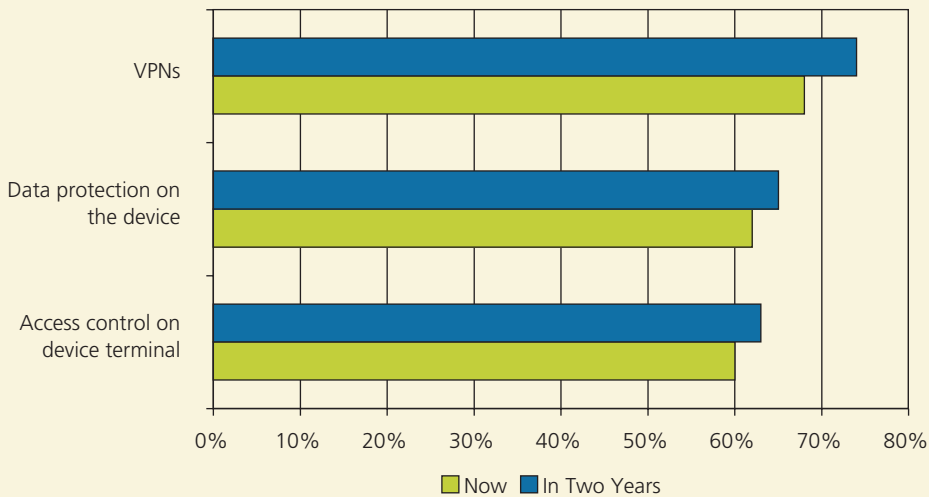
Figure 7.2 Remote Access — Now and in Two Years



Broadband is the most popular method for working remotely with 73% of responding organisations indicating its use. This is expected to grow to 78% by 2007, so continuing to remain the most popular method for remote access. Dial-up, currently used by 62% of organisations is expected to decline in use to 51% by

2007. While the use of wireless hotspots is expected to have the greatest increase in its use from 27% currently to 47% by 2007. Finally, the use of cellular technology is also expected to increase, although not as quickly as wireless, with 28% currently using this method and 41% expecting to be using it by 2007.

Figure 7.3 Security Being Used in Enabling Remote Access — Now and in Two Years



All forms of security for remote access are expected to increase in use over the next two years, although in all cases the increase is predicted to be less than 6%. 68% of organisations are currently using virtual private networks (VPNs) and 74% expect to be using them by

2007. A similar picture emerges for data protection on the remote devices (currently 62% and expected to be 65% by 2007) and access control on the device terminal (60% now and increasing to 63% by 2007).

NCC View

Remote access — the real challenges

Flexibility in the workplace has emerged as a major challenge for businesses of all sizes over the past couple of years and the integration of a remote access strategy is fundamental to its enterprise wide success. Home and remote working are the main beneficiaries which allow for concentrated effort and more effective working. It has been shown that home working can improve staff morale considerably with the benefits of reduced staff turnover leading to reduced recruitment and retraining costs.

Today's technologies allow for secure, reliable and responsive connections between home workers and central offices. Virus checking updates, patch management and remote assistance are all achievable providing the central IT function with the ability to control the connections made into the network. Systems not meeting the organisation's security policies can also be blocked.

Additionally, with renewed take-up of VOIP, voice communications are readily and seamlessly routed from a centralised switch to the remote worker. Using VPNs access to email systems and centralised databases using mobile devices such as smartphones and PDAs allows for seamless integration of company business systems.

As with all projects the business benefit must be weighed against the cost. Some organisations will find that VPNs are not cost effective but until the potential benefits are documented and measured against the costs of implementation and support then this statement may be nothing more than an excuse.

The technology should not control the business processes. The security technologies are there to support and protect the business not to be a barrier to effective working.

One benefit organisations often miss when considering the benefits of home working is a happier workforce. Anything from a 10 to 60 percent increase in staff contentment has been recorded during other surveys. The AA have claimed around 40% increase at their "virtual" breakdown response centre across the 150 call centre agents. The direct benefit of this to organisations is increased staff retention with the reduced expenditure on recruitment and staff training. Other direct and more obvious savings are reduced office costs and freed up office space.

To balance this there are some potential pitfalls of implementing such a scheme (employees not being trained, challenges in the area of technology and user support).

The major pitfall when implementing home working is lack of planning, which often results in an unstructured approach. Providing employees with the necessary equipment and facilities is neither the start nor the end of the process. Organisations must understand the benefits they hope to achieve and drive the processes in a structured, controlled and monitored way. All the benefits should be squeezed from the deployment. For example it would be easy to roll-out a remote working policy and leave the office half empty without obtaining the cost reduction of re-using the office space.

8 Technology Forecasts

- ▶ 70% of organisations will be concentrating on storage technologies and their adoption over the next 12 months, with 38% considering storage hardware and server consolidation and 32% looking at storage software.
- ▶ 43% are planning to look at application software...
- ▶ ...while 37% will be spending time on PC refreshes.

Introduction

In this section, respondents were asked about significant IT projects they may have undertaken in 2004, any they expect to deploy in 2005 and which areas of IT they expect to be adopting or considering adopting over the next 12 months.

Significant Large IT Projects — Last Year

Responses were generally across the board, with companies citing a broad range of IT initiatives around ERP implementation, Microsoft Exchange migrations, network consolidation/upgrades, PC desktop upgrades, data warehousing, Sarbanes-Oxley compliance.

Significant Large IT Projects — This Year

A similar lack of commonality of IT projects emerged when respondents were asked about their IT plans this year.

21% of organisations did not know their IT plans for 2005. 17% did not have any major IT projects planned for this year and 5% refused to detail their plans.

Focus for IT Adoption Cycles

43% of organisations said that application software would capture most of their attention this year in the context of planning new IT adoption cycles. 41% said infrastructure software upgrades would be their focus this year.

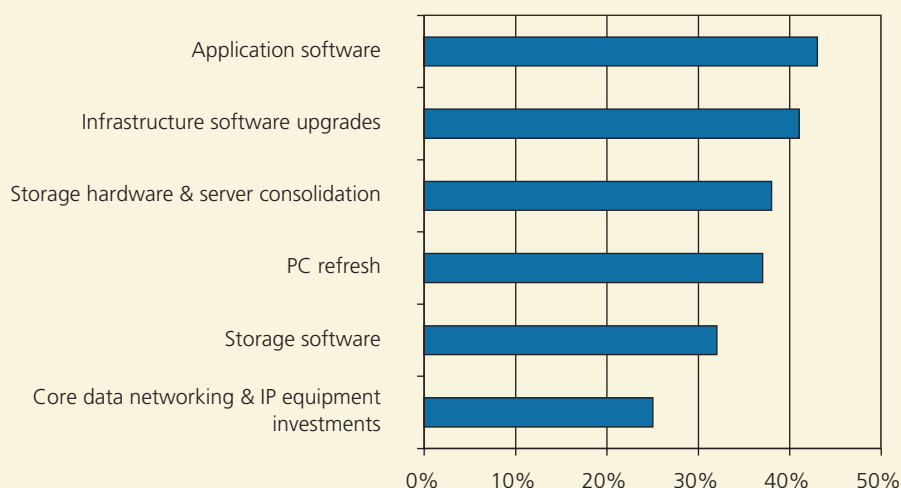
70% of organisations cited storage technologies, split as follows: 32% for storage software for business continuity, disaster recovery and risk management purposes; and 38% for storage hardware and server consolidation for more economic, cost-effective data infrastructure.

Business Drivers for IT Projects

When asked about the key business imperative driving the above project needs, responses were again spread across the board.

These ranged from cost reduction/efficiency, risk management, keeping up to scratch with technology advances, improved security, IT standardisation, regulatory compliance, and improved remote connectivity.

Figure 8.1 Expected Technology Adoption Cycle over Next 12 Months



PC refreshes (look at how often they refresh) accounted for 37% of planned new IT adoptions cycles. And core data networking and IP equipment investments as

enablers of mobility and wireless accounted for 25% of respondents.

Appendix — Tables

The table numbers refer to the graphs earlier in the report. Any additional information provided has a title but no table number.

Section 2 Introduction

Respondents by Industry Sector

Industry Sector	% of interviews	Frequency
Manufacturing	47.3%	142
Services	23.3%	70
Public Administration	12.7%	38
Construction	3.3%	10
Transportation & Communications	2.7%	8
Wholesale	2.7%	8
Retail	2.3%	7
Finance, Insurance & Real Estate	2.0%	6
Mining	1.7%	5
Agriculture, Forestry and Fishing	1.3%	4
Entertainment, Media & Leisure	0.7%	2
		300

Table 2.1 Respondents by Number of Employees (Figure 2.1)

Number of employees	% of interviews	Number of interviews
Under 100	15.0%	45
100-499	40.0%	120
500-999	15.0%	45
Over 999	30.0%	90
		300

Table 2.2 Respondents by Number of End-users (Figure 2.2)

Number of end-users	% of interviews	Number of interviews
Under 100	33.3%	100
100-499	33.3%	100
500-999	11.0%	33
1,000-4,999	14.3%	43
Over 5,000	6.7%	20
		296

Table 2.3 Respondents by Number of IT Staff (Figure 2.3)

Number of IT Staff	% of interviews	Number of interviews
Up to 5	52.7%	158
6 to 10	10.7%	32
11 to 25	12.3%	37
26 to 50	9.7%	29
Over 50	12.7%	38
		294

Section 3 Overall Perceptions

Table 3.1 Perceived impact of the economy on business over the next 12 months (Figure 3.1)

	Number of interviews	% of interviews
About the same	106	35.3%
Improving slightly	89	29.7%
Harder	42	14.0%
Worsening slightly	39	13.0%
Improving substantially	16	5.3%
	292	

Table 3.2 Expected change in IT spending over the next 12 months (Figure 3.2)

	% of interviews	Number of interviews
About the same	43.0%	129
Improving slightly	27.3%	82
Worsening slightly	15.0%	45
Harder	8.0%	24
Improving substantially	4.3%	13
		293

Table 3.3 Perceived business prospects over the next 12 months (Figure 3.3)

	% of interviews	Number of interviews
Improving slightly	46.3%	139
About the same	30.3%	91
Improving substantially	12.7%	38
Worsening slightly	5.0%	15
Harder	4.3%	13
		296

Table 3.4 Respondents perceived career prospects over the next 12 months (Figure 3.4)

	% of interviews	Number of interviews
About the same	53.0%	159
Improve slightly	28.3%	85
Improve substantially	12.0%	36
Worsening slightly	3.0%	9
Harder	3.0%	9
		298

Table 3.5 Perception of the IT department (Figure 3.5)

	% of interviews	Number of interviews
Excellent value for money	17.0%	51
Good business value	42.3%	127
Satisfactory value for money	37.3%	112
Poor value for money	2.0%	6
Is not seen be delivering value at all	0.3%	1
Unsure	1.0%	3
		300

Table 3.6 Competencies of IT staff (Figure 3.6)

IT staff competencies	% of interviews	Number of Interviews
Above average	43%	130
Adequate for the job	45%	134
Lacking in some areas	12%	36
		300

Table 3.7 Extent of concerns in the alignment of IT strategy with business strategy alignment (Figure 3.7)

	Major concern	Minor concern	Not a concern
IT function has insufficient access to top management	21.7%	31.3%	46.7%
Market conditions change too quickly	17.3%	42.7%	39.0%
Pace of technology too fast	13.7%	49.3%	36.7%
Senior managers lack of understanding of IT strategy	37.7%	40.3%	21.3%
IT strategy limited by short-term investment criteria	35.7%	39.7%	24.0%
Senior managers have little interest in IT strategy	29.0%	38.7%	31.7%
Business strategy insufficiently defined for alignment	26.0%	42.7%	30.0%
IT strategy limited by past decisions/legacy systems	23.7%	45.0%	31.0%

Section 4 IT Outsourcing

Table 4.1 Perceived benefits of IT sourcing (Figure 4.1)

	Major benefit	Minor benefit	Not a benefit
Access to specialist skills	44%	36%	20%
Reduce costs	28%	38%	32%
Allows focus on core business areas	35%	41%	22%
Improves service quality	32%	38%	28%
Rapid access to new technologies	33%	45%	21%
Guaranteed service levels	41%	37%	21%
Facilitates organisational change	41%	49%	28%

Table 4.2 Perceived disadvantages of IT outsourcing (Figure 4.2)

	Major disadvantage	Minor disadvantage	Not a disadvantage
High cost	53%	33%	13%
Loss of flexibility/adaptability	46%	41%	11%
Locked-in to one supplier	44%	39%	16%
Loss of internal knowledge	53%	37%	9%
Lower quality of service	41%	37%	20%
Solution not tailored to needs	44%	38%	17%
Loss of control	43%	45%	11%

Table 4.3 Outsourcing – Current use (Figure 4.3)

	Full Use	Partial Use
Application maintenance	8%	10%
Networking services	8%	17%
Web development	14%	11%
Application development	10%	19%
Web hosting	9%	21%
Desktop/user support	27%	13%
Hardware support/maintenance	20%	31%

Table 4.4 Preferred method of sourcing skills (Figure 4.4)

	IT infrastructure	Applications management
Multiple third party partners	29%	31%
In-house	30%	31%
Single outsourcing vendor	41%	39%

Table 4.5 Plans to outsource over the next two years (Figure 4.5)

Data or comms network/security services	14%
Desktop or server management	13%
HR or accounting back-office functions	10%

Table 4.6 IT or back-office functions currently outsourced to an offshore/nearshore location (Figure 4.6)

Application management	5%
Application development	4%
Call centre	1%
Accounting functions	1%

Table 4.7 Methods for accessing offshore resources (Figure 4.7)

Third-party western services vendor	12%
Captive operation	14%
No preferred method	20%
Third-party offshore vendor	20%

Table 4.8 Preferred offshore/nearshore location (Figure 4.8)

	%	number
India	41.9	65
Eastern Europe	29.7	46
Far East	6.5	10
Latin America	5.2	8

Section 5 Open Source & Linux

Table 5.1 Perceived benefits of open source (Figure 5.1)

	Yes	No
License costs	48.3%	47.3%
TCO	16.7%	79.0%
Hardware costs	16.0%	79.7%
Open Source code	13.7%	82.0%
Reliability	9.3%	86.3%
Security	8.7%	87.0%
Availability	7.3%	88.3%
Ease of use	6.7%	89.0%
Application availability	4.3%	91.3%
Scalability	4.3%	91.3%
Support of third party ISVs/IHVs	2.3%	93.3%
Ease of migration from UNIX	2.3%	93.3%
Existing skills	1.7%	94.0%

Table 5.2 Concerns with the adoption of Open Source software (Figure 5.2)

Lack of support	29%
Technological immaturity	17%
Lack of skills	16%
Security	16%
Migration costs	9%
Lack of applications/application compatibility	9%
Support costs	8%
Migration complexity	7%
IP concerns	3%
Potential for forking	3%

Section 6 Standards & IT Governance

Table 6.1 Awareness of standards and legal requirements need to comply with and the impact they will have on the management and development of IT systems in your organisation (Figure 6.1)

	yes	number
Aware but unclear on the IT impact	3%	10
Not at all aware of the IT impact	5%	16
Not aware of standards & legal requirements	15%	43
Only partly aware of both aspects	21%	62
Fully aware of both aspects	56%	165
		293

Table 6.2 Changes needed for the organisation to comply with standards (Figure 6.2)

	yes	number
Changes need to be made to people, processes & technology	41%	112
Mostly changes need to be made to the organisation's process	27%	73
Mostly changes need to be made to people's habits and practice	16%	43
Mostly changes need to be made to the organisation's IT systems	16%	44
		272

Table 6.3 IT purchasing drivers from an IT governance perspective (Figure 6.3)

	yes	number
Protect my network from viruses and/or filter content/spam	62.6%	184
Notify/protect my network from intruders and create counter measures	55.4%	163
Regulations on data protection such as the FOI, HIPPA or Sarbanes Oxley	46.3%	136
Secure remote office/employee connectivity	44.2%	130
New technologies driving new business needs (i.e. wireless)	41.8%	123
Secure customer/supplier connectivity	36.1%	106
Employee monitoring	24.8%	73

Section 7 Remote Access

Table 7.1 The number of portables and PDAs in use – now and in two years (Figure 7.1)

	Now	In Two Years	Growth Rate
Portables & laptops	54,386	56,239	3%
PDAs & handheld devices	8,843	17,635	199%

Table 7.2 Method of remote access – now and in two years (Figure 7.2)

Method	Current	In Two Years
Broadband	73%	78%
Dial-up	62%	51%
Cellular networks	28%	41%
Wireless hotspots	27%	47%

Table 7.3 The forms of security being used for remote access – now and in two years (Figure 7.3)

	Current	In Two Years
Access control on device terminal	60%	63%
Data protection on the device	62%	65%
VPNs	68%	74%

Section 8 Technology Forecasts

Table 8.1 Expected technology adoption cycle over the next 12 months (Figure 8.1)

	% interviewed
Application software	43.0
Infrastructure software upgrades	41.0
Storage software	31.7
Storage hardware & server consolidation	38.3
PC refresh	36.7
Core data networking & IP equipment investments	25.0

Benchmark of IT Strategy 2005

The National Computing Centre (NCC) has been providing its members and the wider IT community with an annual snapshot of IT strategy issues for over 20 years.

The NCC Benchmark of IT Strategy 2005 provides an appraisal of current IT strategy and forecasts future trends. The report enables organisations to benchmark their IT strategy, supporting effective IT decision making.

The 2005 report looks at:

- Outsourcing
- Open Source and Linux
- Legal Issues and Compliance
- Technology Forecasting
- Remote Access

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