

European IT Outsourcing Intelligence Report 2011: The Netherlands





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Executive Summary

This Intelligence Report is based on a February 2011 survey of the 469 Dutch companies that either outsource their Software Development (SD) / Information Technology (IT) functions or develop their software/IT solutions within own house.

The Report aims to help Dutch outsourcing companies:

- Get an in-depth understanding of the current Dutch IT Outsourcing (ITO) demands and trends
- See what challenges are facing their market peers and how they respond to them
- Revise / improve their current ITO engagements / business models based on the industry best practices

The Report aims to help Dutch non-outsourcing companies:

- Better understand modern SD/IT costs optimization and/or reduction strategies
- See what challenges are facing the in-house software development and how their market peers respond to them
- Evaluate own readiness to adopt the outsourced / distributed development
- Find out what their market peers think about SD/ITO and how they are / will be preparing for adoption of the outsourced development in the future

Survey Overview

The Dutch ITO survey 2011 was conducted between February 2 and February 28, 2011, in the frames of the All-European ITO research.

Survey goals:

- Explore factors that drive Dutch companies to outsource their SD/IT functions in 2011
- Explore challenges associated with offshore/nearshore outsourcing and the most effective problem solving strategies
- Explore the use of different business models in ITO engagements and find out which model works best for different types of companies and industries
- Explore factors that keep Dutch companies away from outsourcing their SD/IT functions
- Compare and contrast the 2011 and future ITO demand in the Netherlands

The survey was available online and hosted by SurveyMonkey, the world's leading provider of web-based survey solutions. In order to reach as many Dutch companies as possible, IT Sourcing Europe used its own database of business contacts and sent out a survey invitation letter to each company's decision makers (C-level executives, IT Managers, Directors, Heads of Software Development etc).

Additionally, inbound marketing initiatives were launched in order to attract more companies to participate in the survey.



In the frames of this initiative the following steps were taken:

- Online press releases and survey announcements distribution;
- Survey localization and optimization in social media such as networks (LinkedIn, XING, Facebook, Mobile Monday Amsterdam, Dutch iGaming Communities), blogs (Twitter, Word Press, IT Sourcing Europe's Blog), event management systems (Amiando), and B2B web portals (Europages, Hoovers)

All data obtained were analyzed in the form of industry aggregates. The answers to open-end questions were organized by their relativity to the study goals and displayed as the option "all other responses" in charts and graphs further in the Report.

Outsourcing Activity & Categories Surveyed:

The following 'outsourcing activity' is referred to in the 2011 Dutch ITO Report:

- Software Development / Information Technology Outsourcing (SD/ITO) is the process of transferring part of/entire software development function and/or other Internet related work to the execution by the external IT services provider(s)

The following categories fall under this activity:

- Application (app) development and maintenance;
- Website / ecommerce systems;
- Data warehousing;
- IT security;
- Data / voice network operations;
- Remote IT infrastructure management

These categories further fall under the five key areas of expertise:

- Web (Web 2.0, .NET, Java, PHP, open source etc);
- Enterprise 2.0 (J2EE, J2SE, C#, MySQL etc);
- Mobile development (J2ME etc);
- Embedded development;
- Software as a service (SaaS) and Cloud Computing

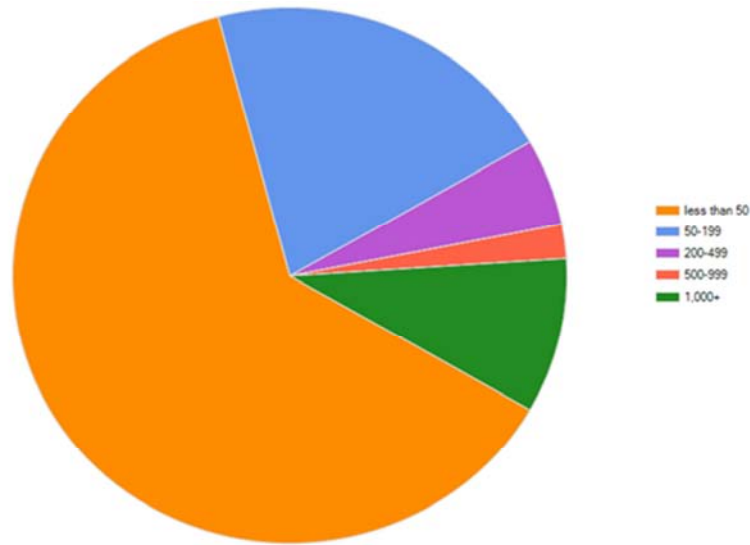
The key takeaways from the survey:

- In the Netherlands, companies that do not outsource their SD/IT outnumber those that outsource by only 3.6%
- Most of the Dutch outsourcers have been outsourcing their SD/IT for 37+ months now
- Most of the Dutch outsourced projects are valued at €0-49K
- Most of the Dutch outsourcers partner with their ITO service providers via the Dedicated / Own Team Model
- Web is the most outsourced area of expertise in the Netherlands, followed by Mobile Computing
- Most of the Dutch companies single-source their solutions
- Nearshoring is the most preferable type of outsourcing in the Netherlands
- Top three drivers of ITO decisions in the Netherlands are: reduction of operating costs, shortage of domestic IT skills and resources and focus on core business expertise

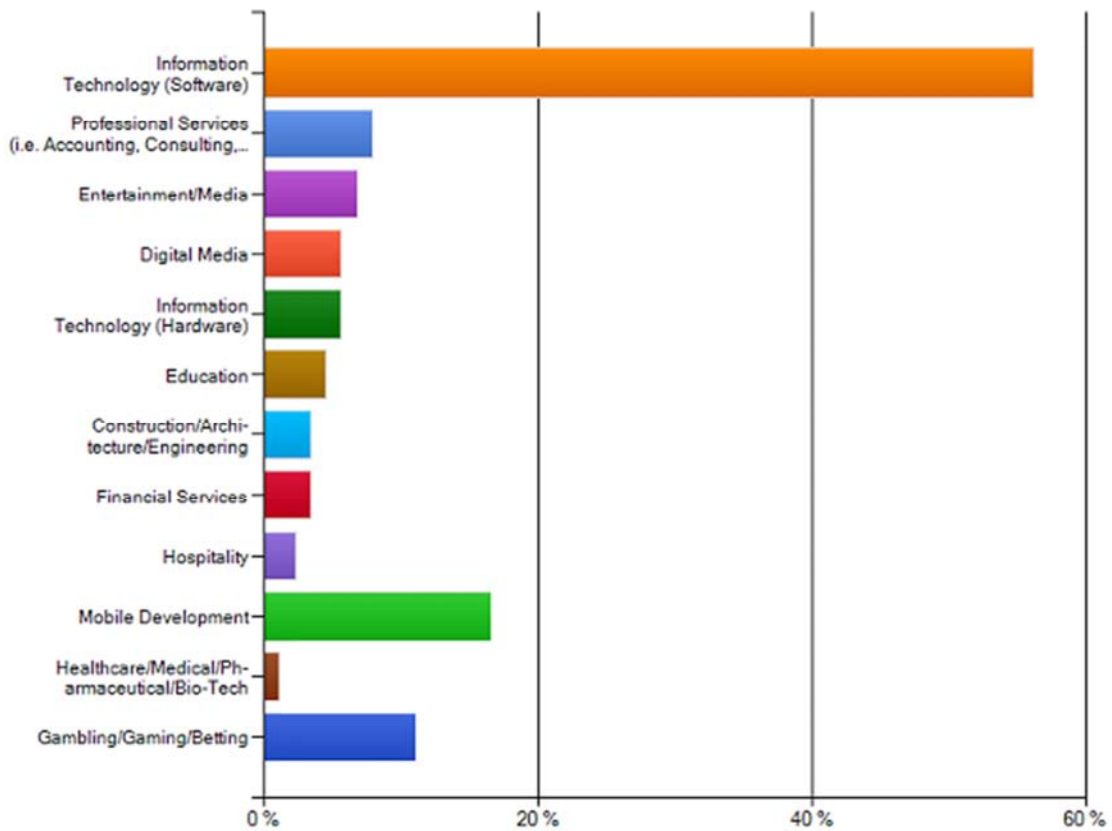


Respondent Profiles

Company Size (Headcount)

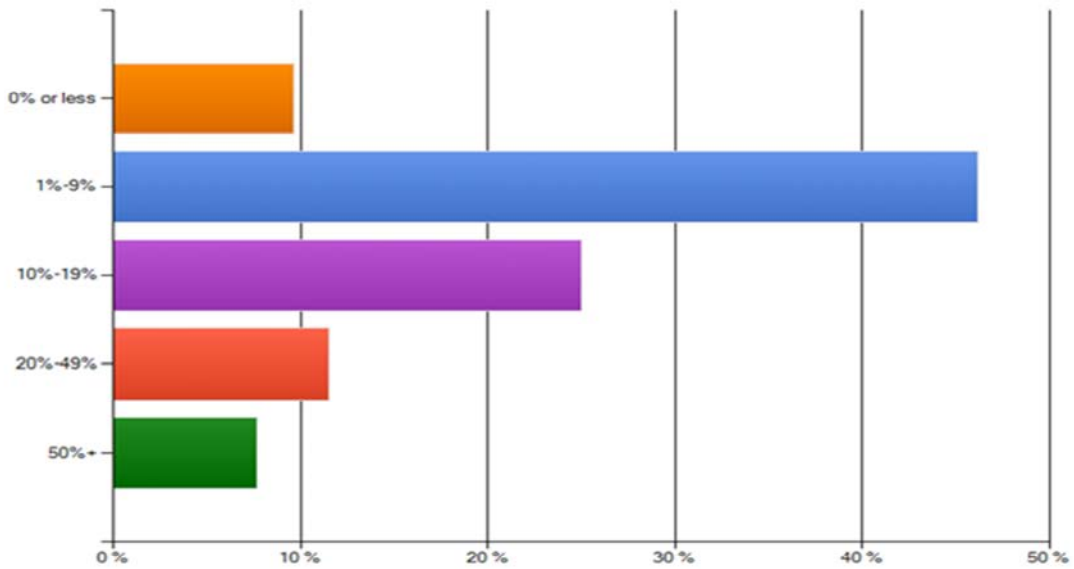


Primary Industry

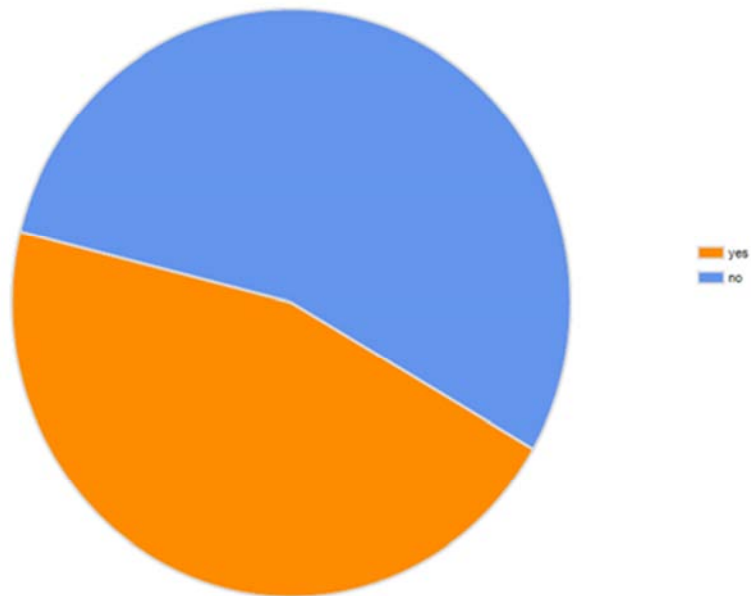




Revenue Growth Expectations For 2011



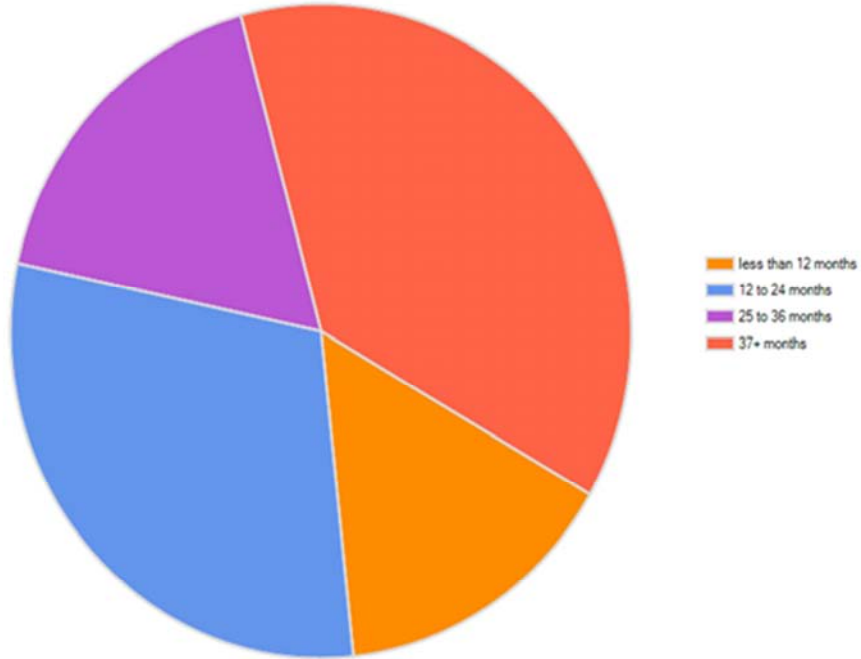
Currently Outsourcing?



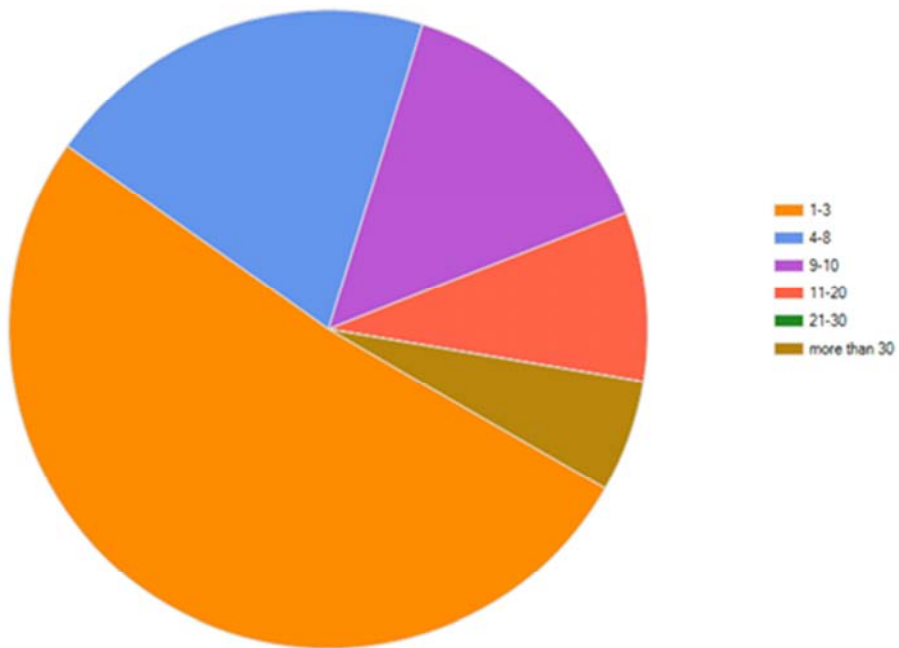


Outsourcing Behaviors

Overall SD/ITO Experience

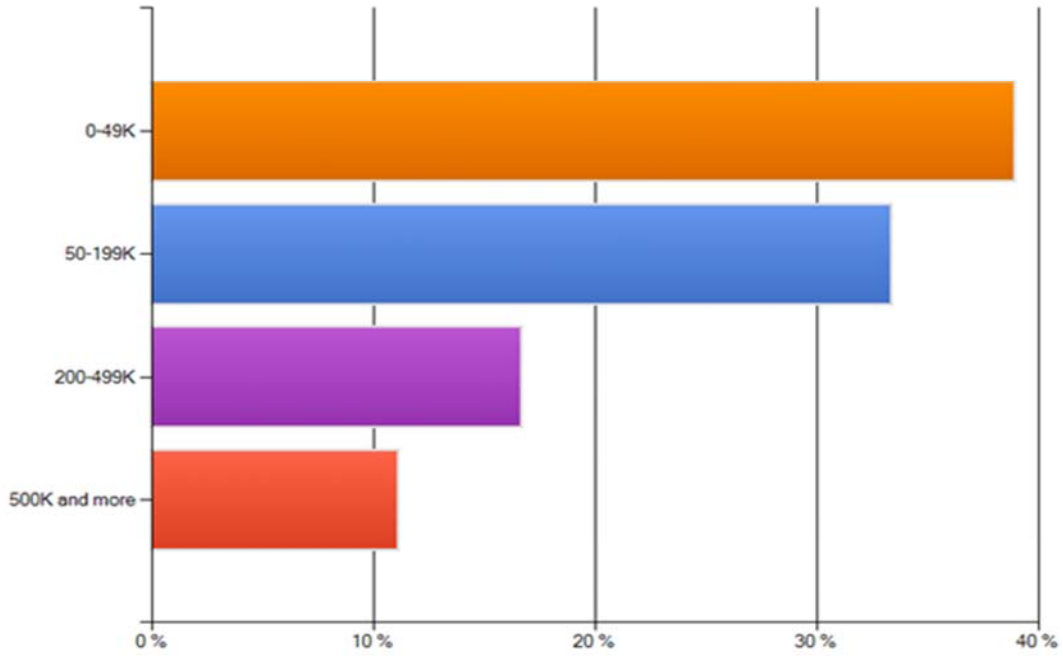


Size Of The Outsourced Team(s) (Headcount)

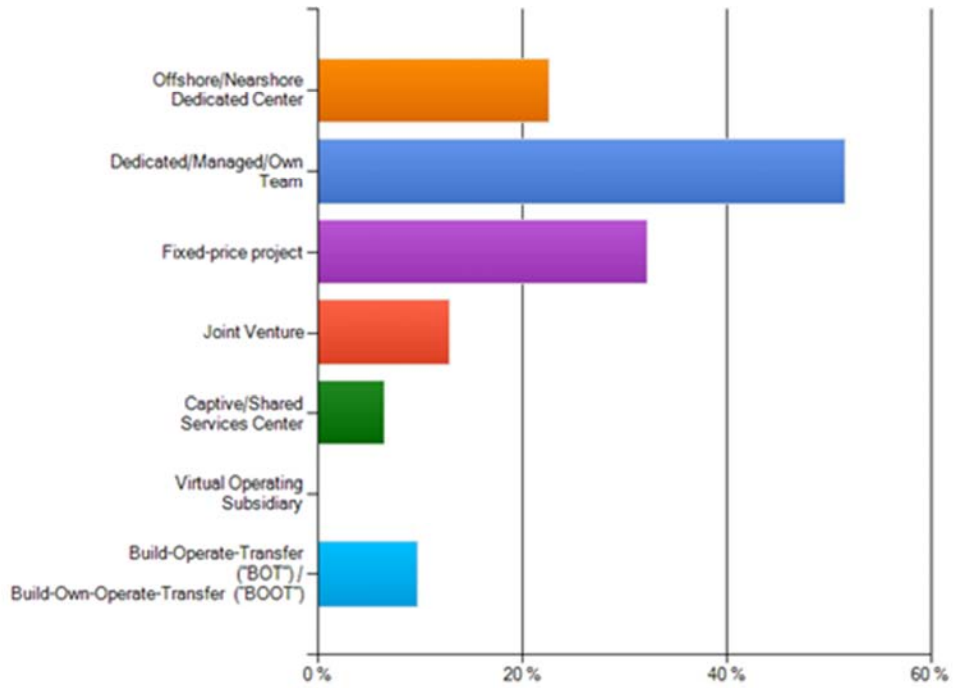




Value Of The Outsourced Project(s) (In €)

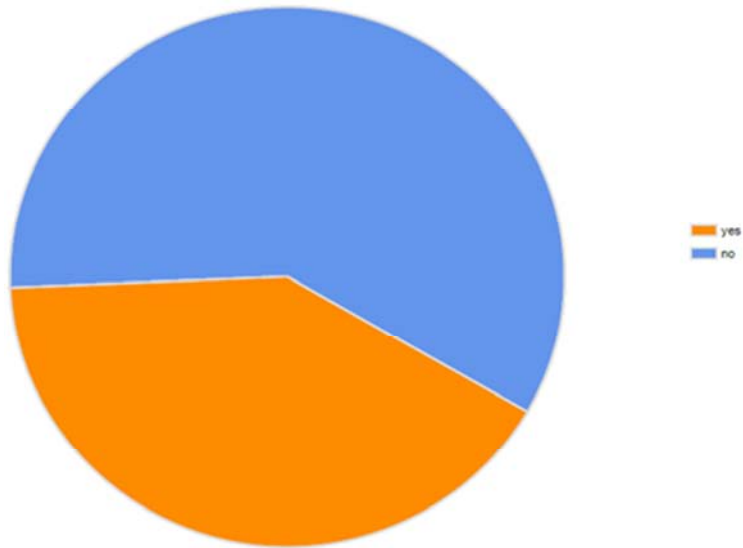


Business Models Used To Partner With ITO Provider

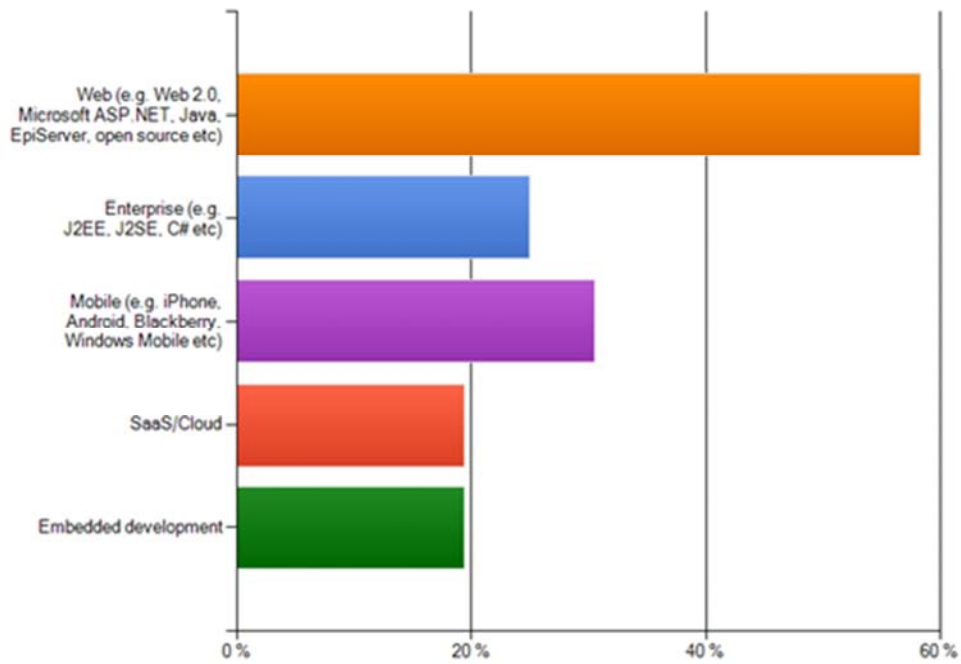




Multi-Sourcing?

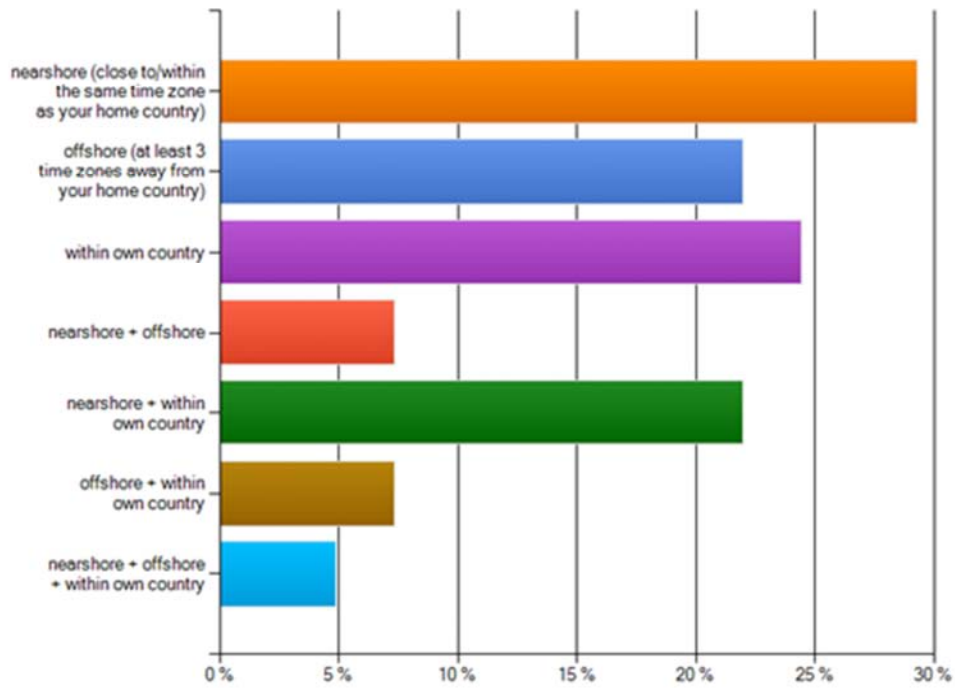


Outsourced Areas of Expertise



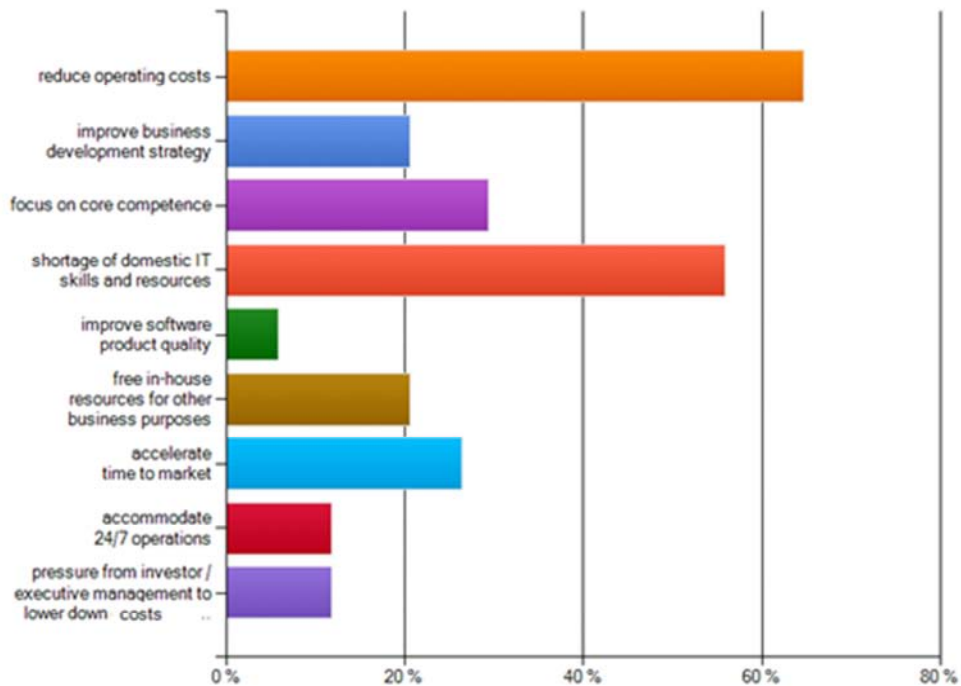


Current Outsourcing Destinations



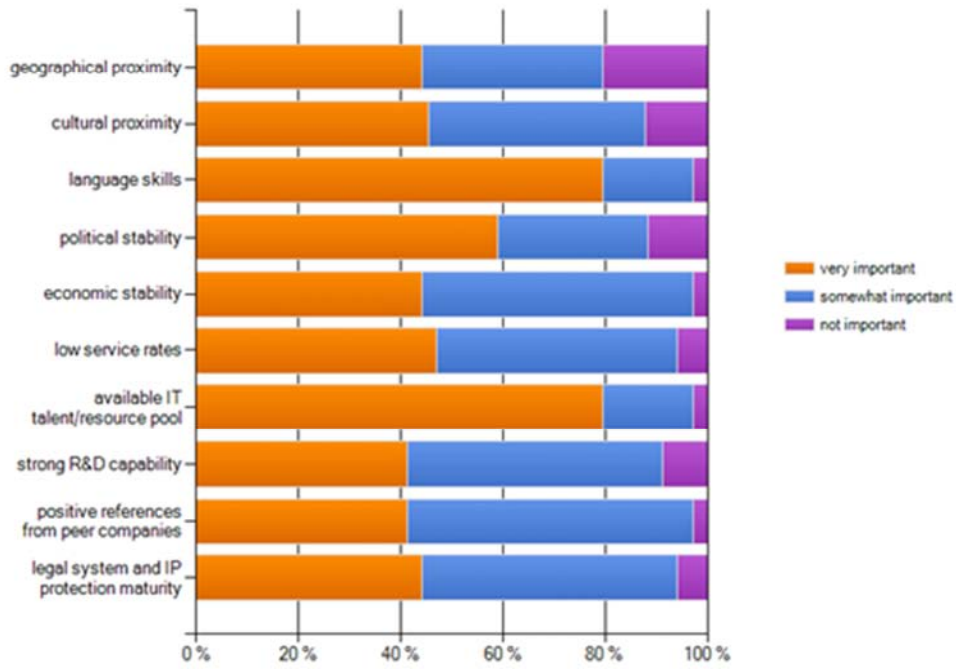
Outsourcing Drivers & Factors

Drivers Of Decisions To Outsource SD/IT

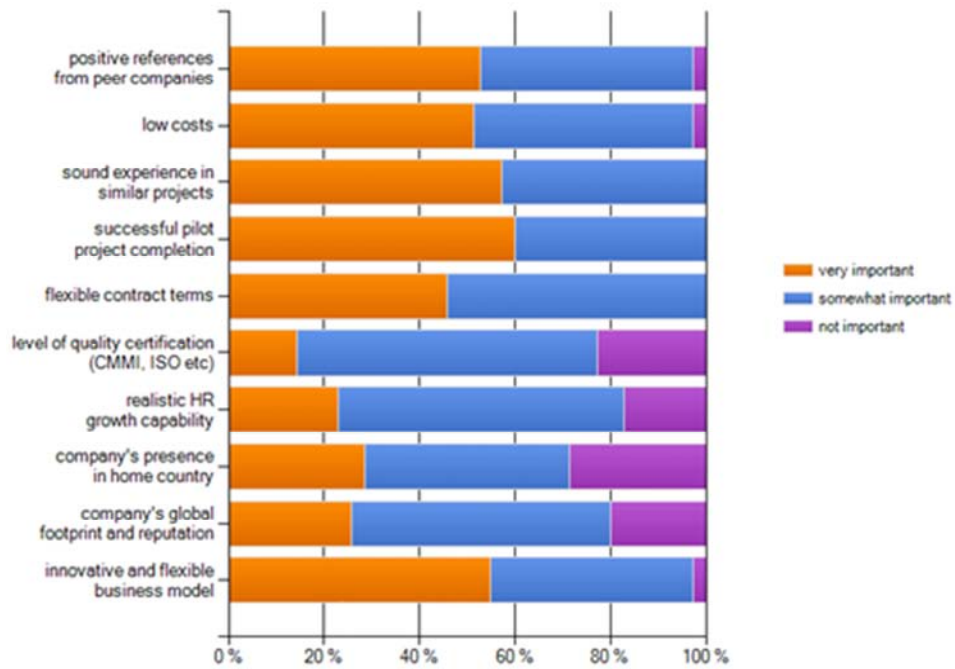




Factors' Rating In Terms Of Their Importance In The Choice Of The Outsourcing Destination



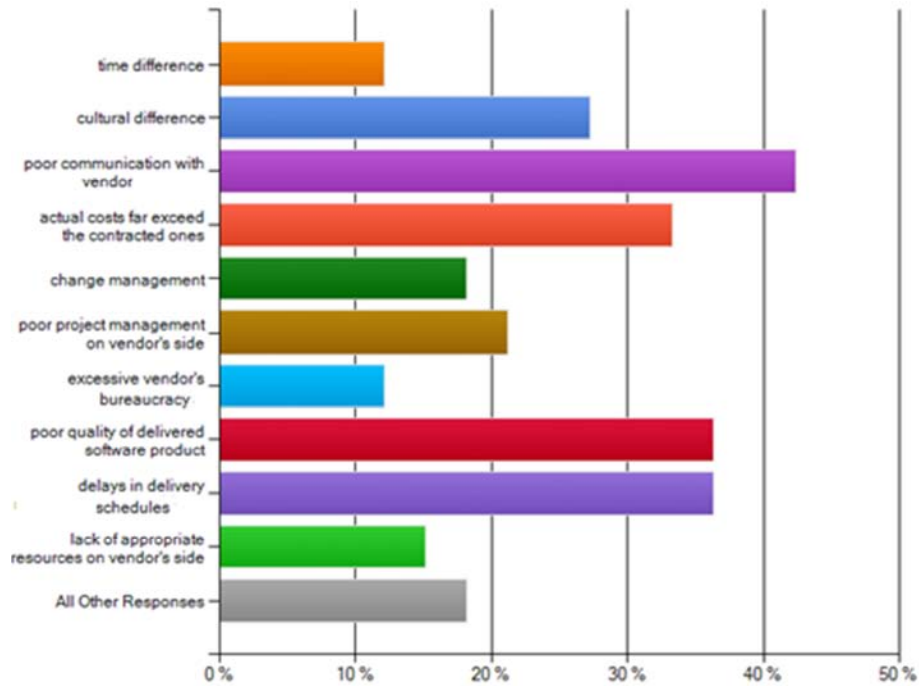
Factors' Rating In Terms Of Their Importance In The Choice Of The Outsourcing Partner



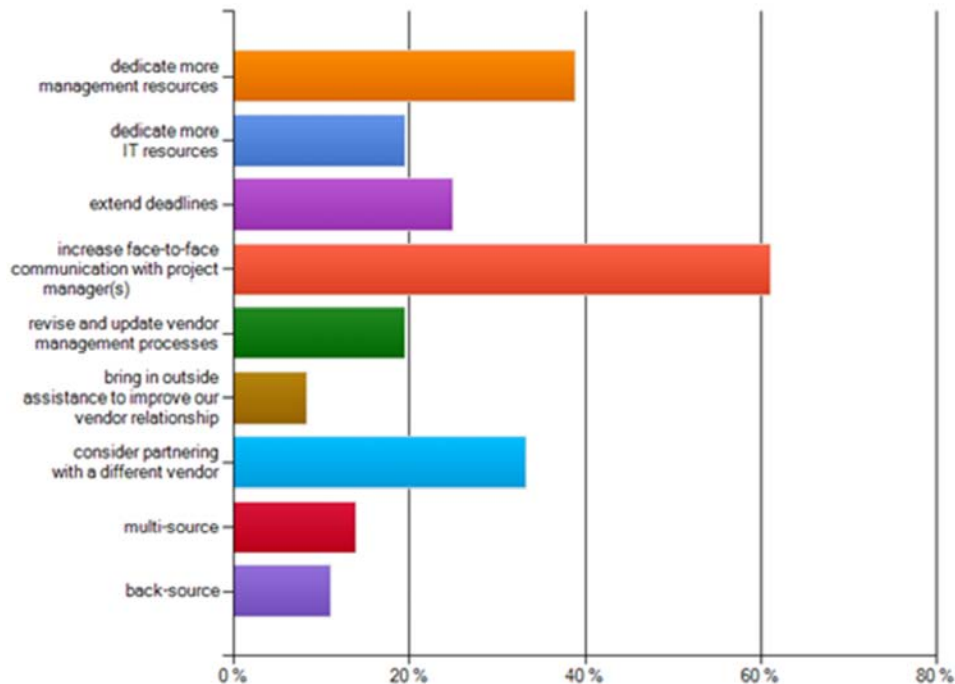


Outsourcing Challenges & Solutions

Main Challenges Of The Outsourced Software Development



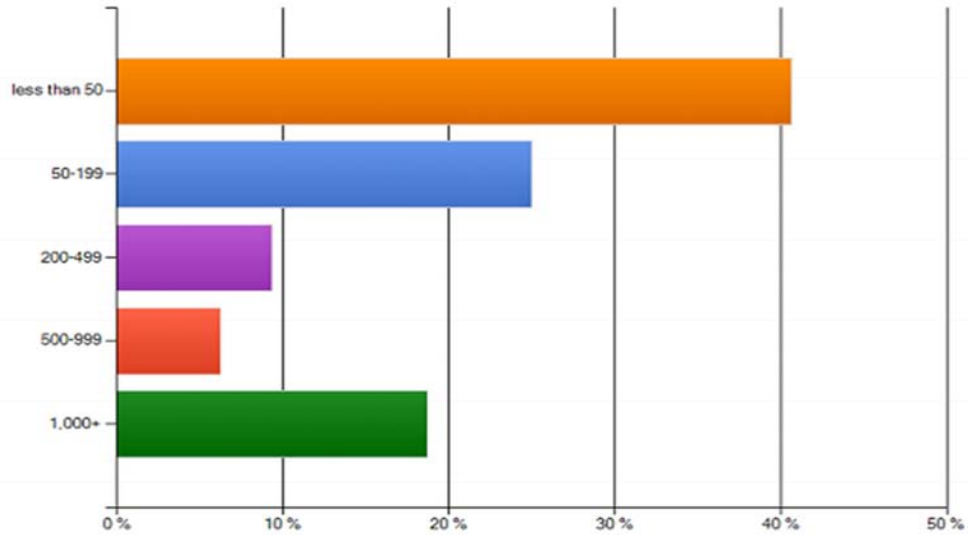
How Companies Respond To The Challenges



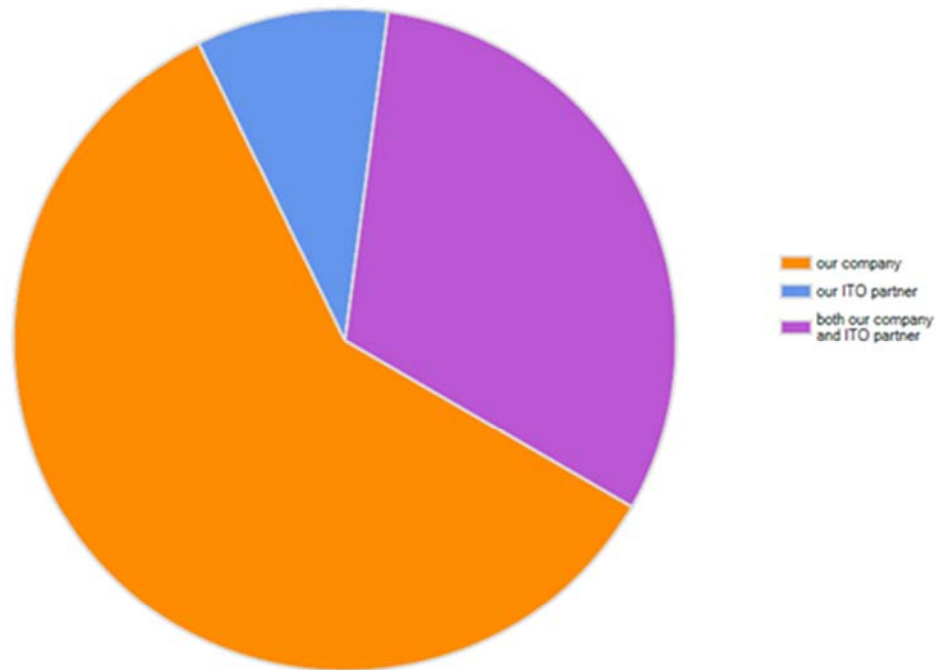


Client – Vendor Relationships

Size Of ITO Service Providers

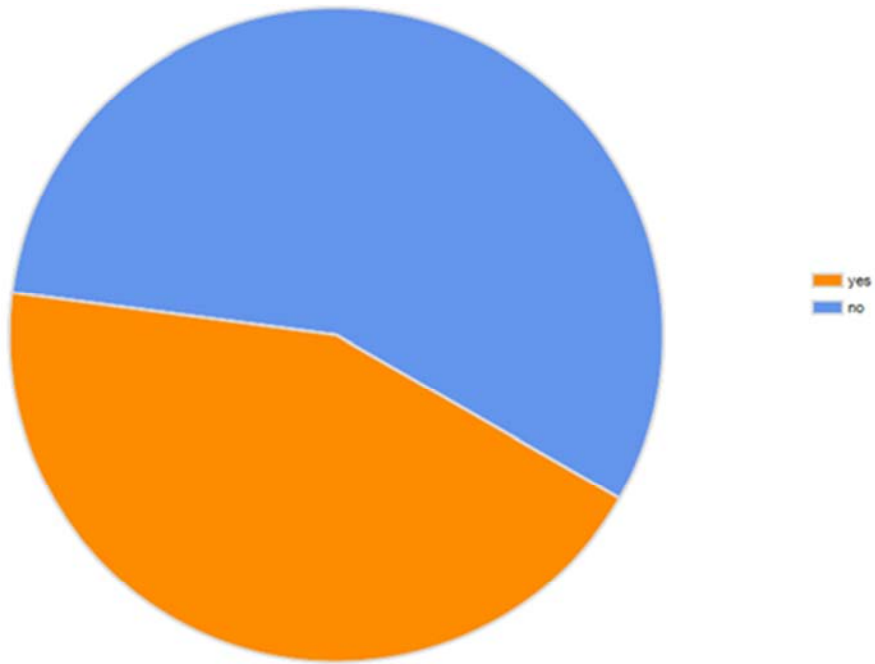


Who Selects IT Specialists To Be Involved In The Project?

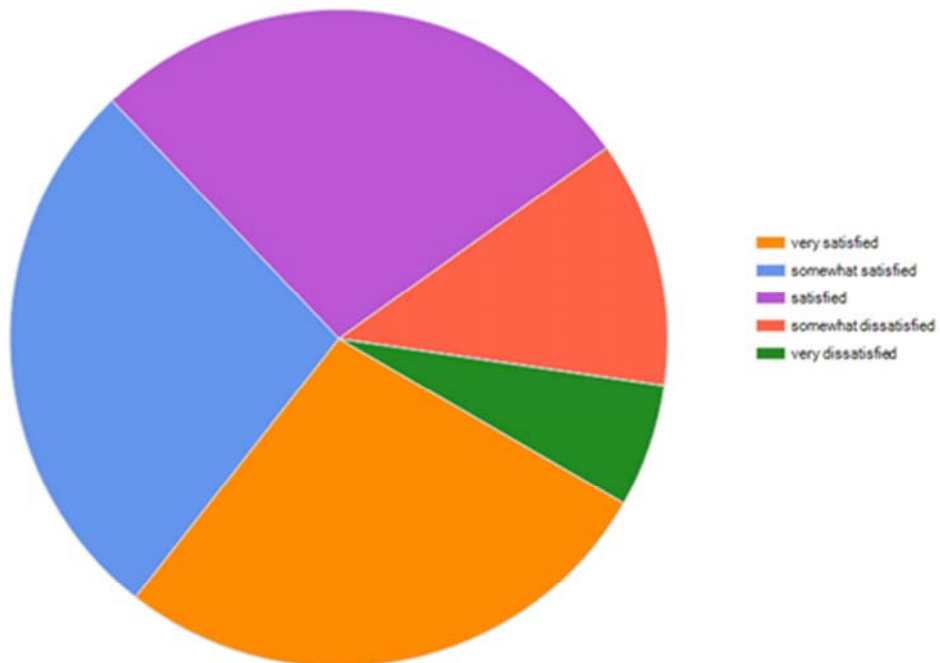




Do Companies Know Exact Salaries Of Each Of Their Developers On The Outsourced Teams?



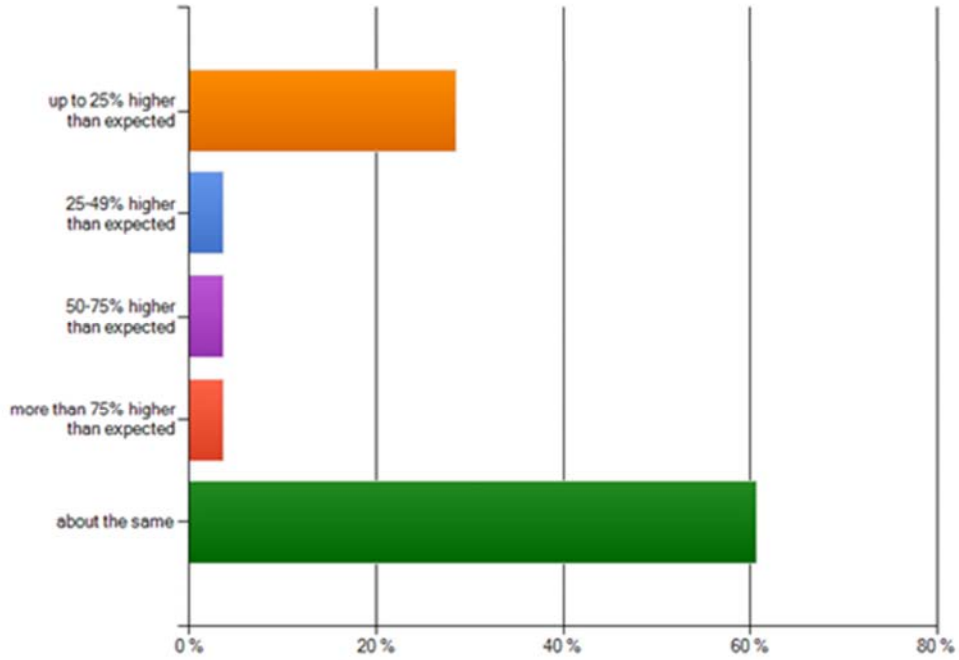
Satisfaction With ITO Service Providers



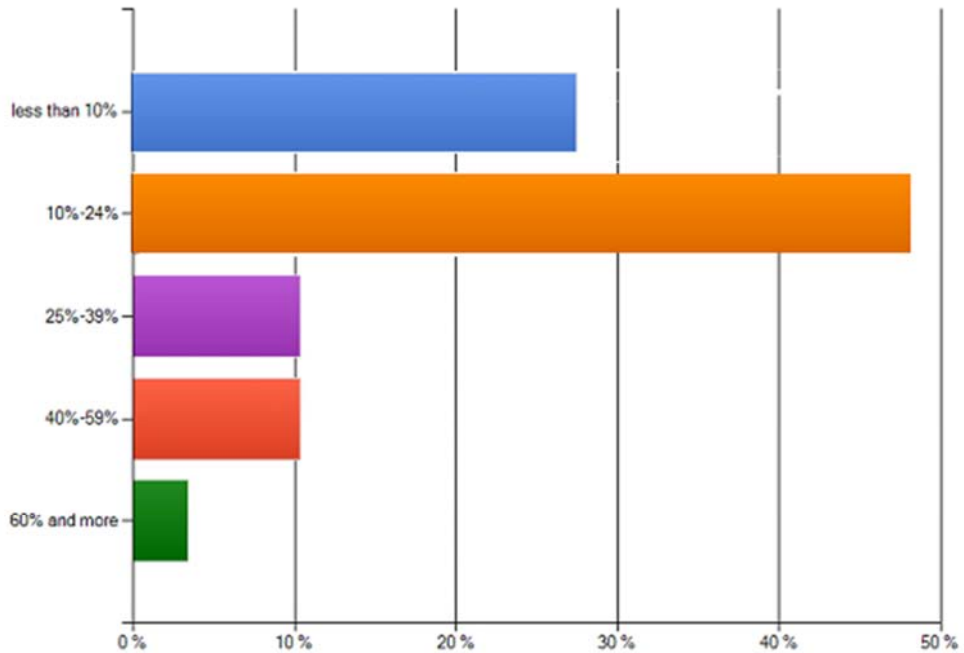


Outsourcing Costs

How Actual Annual Incurred Costs Of SD/ITO Compare To The Expected (Contracted) Costs

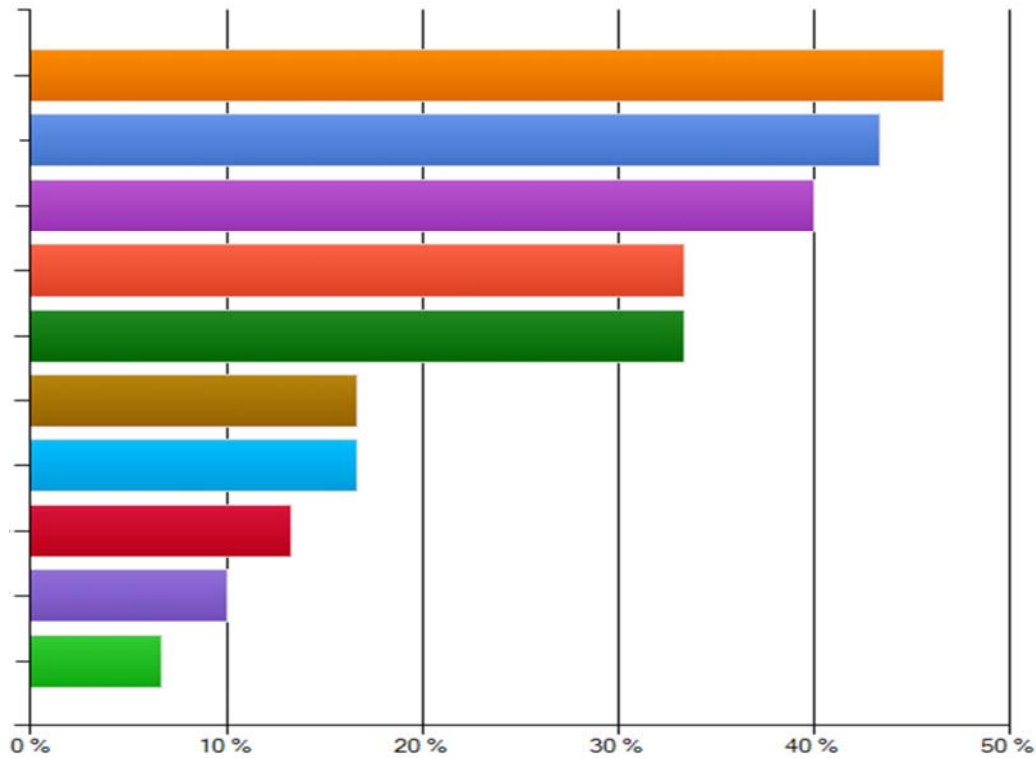


Actual Savings From The Outsourced SD/IT





Impressions of Outsourcing

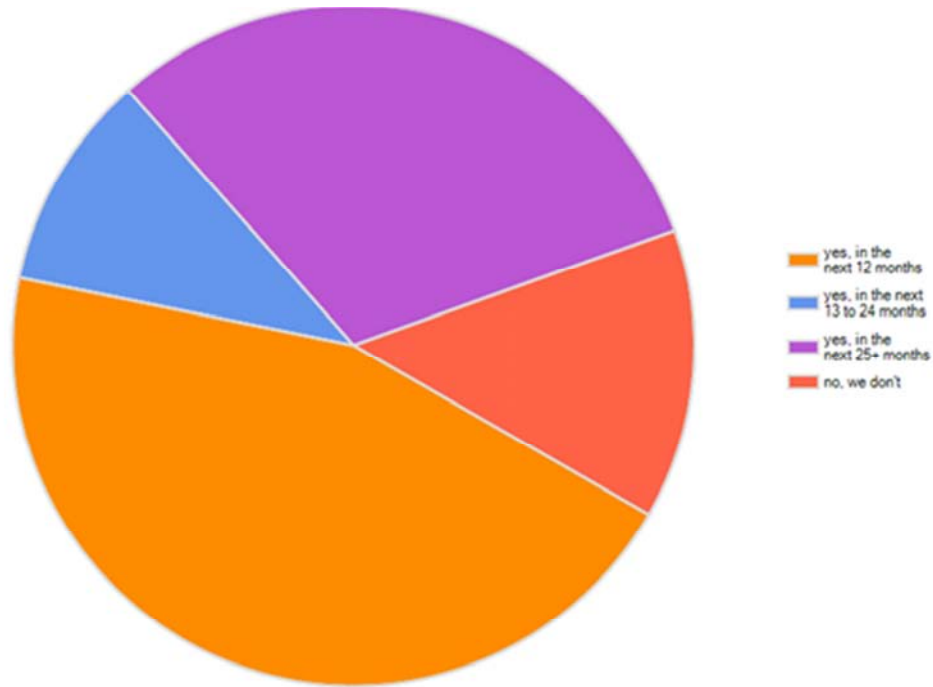


- outsourcing saves operating costs, but inevitably increases management costs
- outsourcing our software development has been the right decision
- costs are higher than expected
- overall, provider's work is of higher quality compared to in-house capabilities
- it is important to have the supplier's team working within or close to the same time zone
- providers have more disciplined methodologies, which can lower costs further in a longer-term perspective
- it is critical to have backup providers available in case the primary provider is unable to meet deadlines and/or commitments
- providers are unreliable and not focused on mid- and long-term cooperation
- overall, provider's work is of lower quality compared to in-house capabilities
- we are very dissatisfied with the decision to outsource our software development

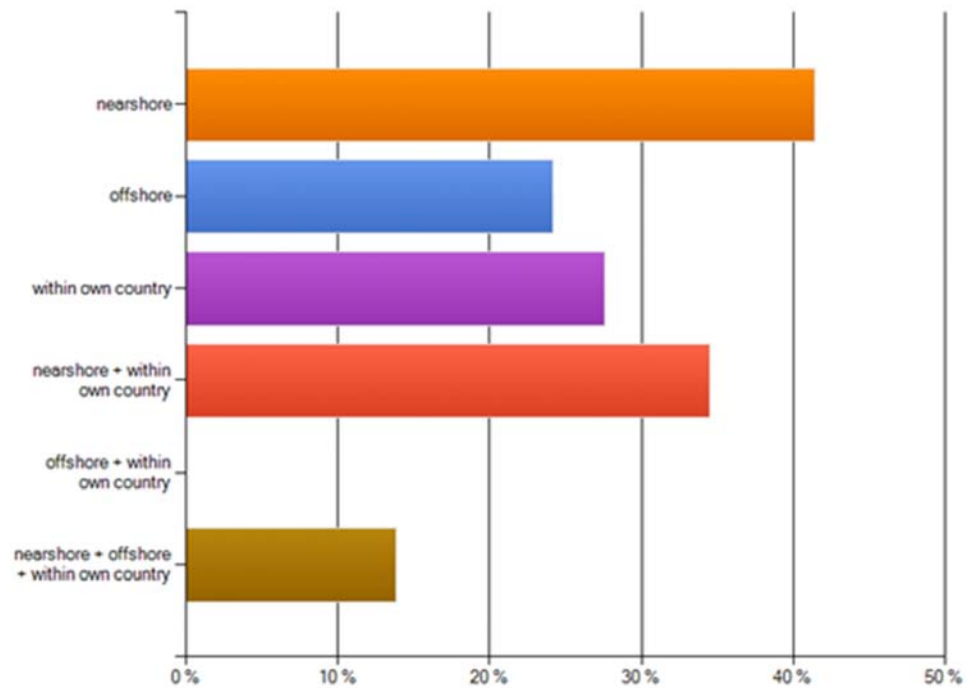


Future Outsourcing Plans

Do Companies Plan To Continue Outsourcing In the Future?



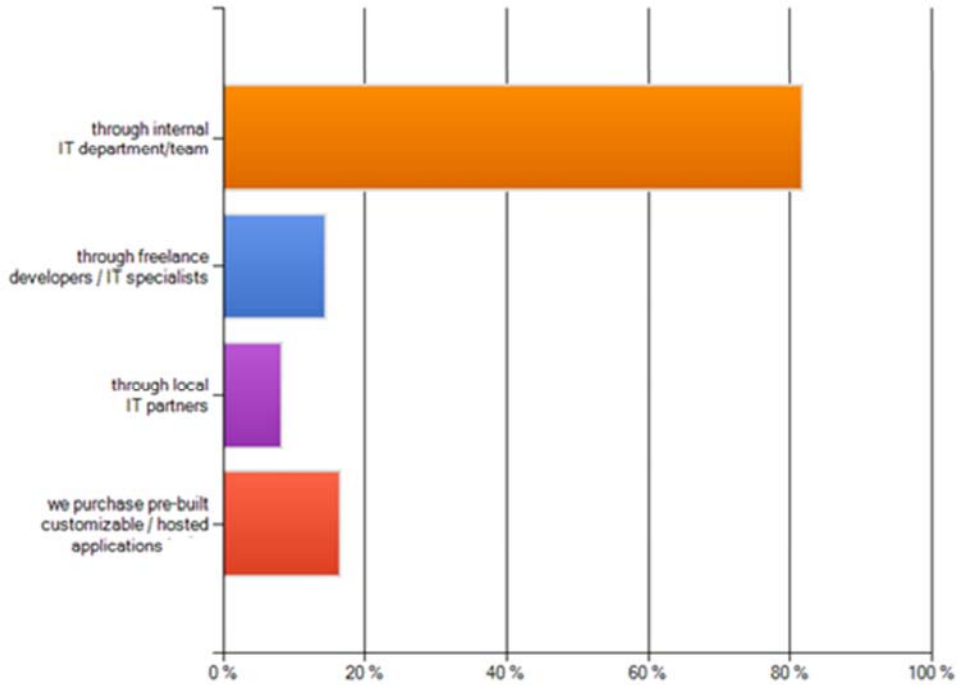
Future Outsourcing Destinations



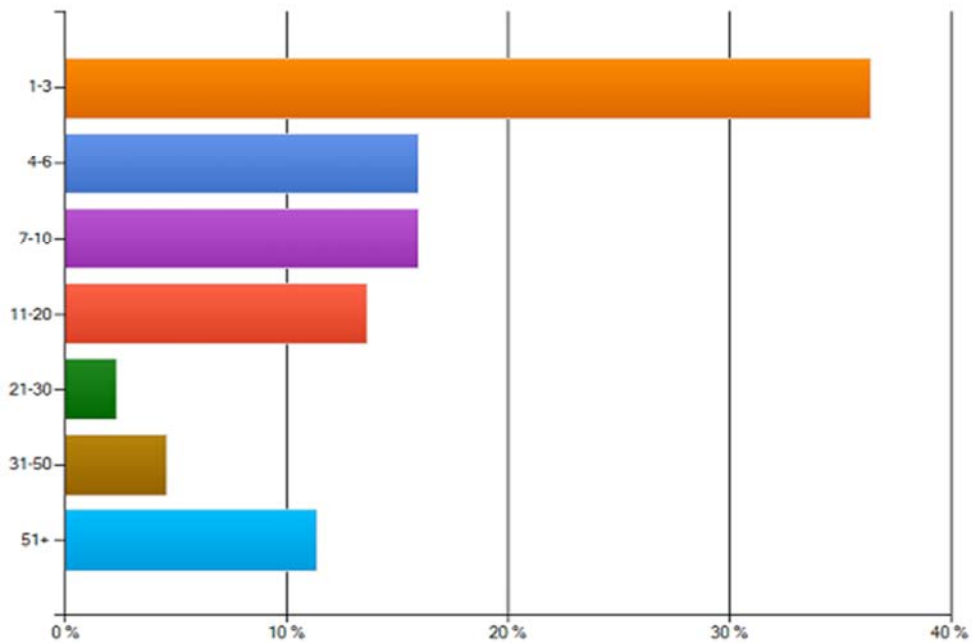


In-House Software Development Trends & Challenges

How Dutch Companies Develop / Manage Their Software

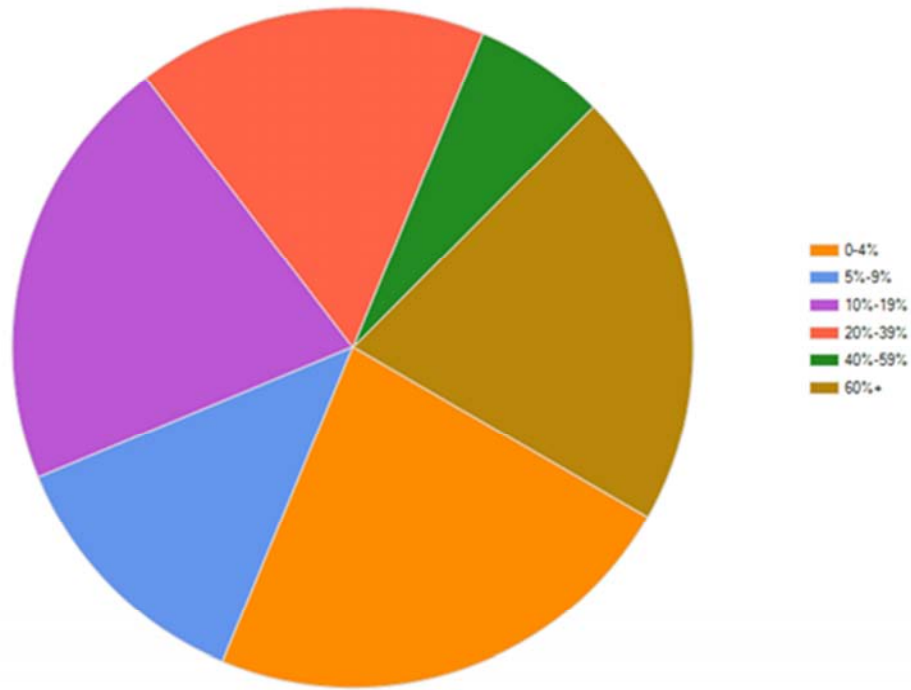


Size Of Internal IT Department/Team(s)

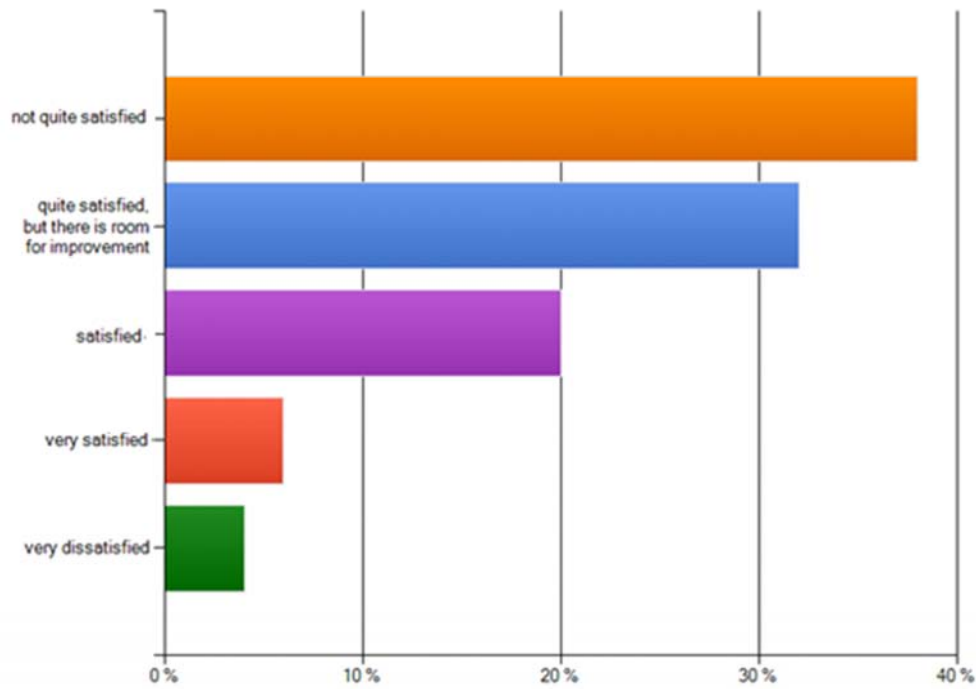




Part Of Corporate Budget That Dutch Companies Spend On IT

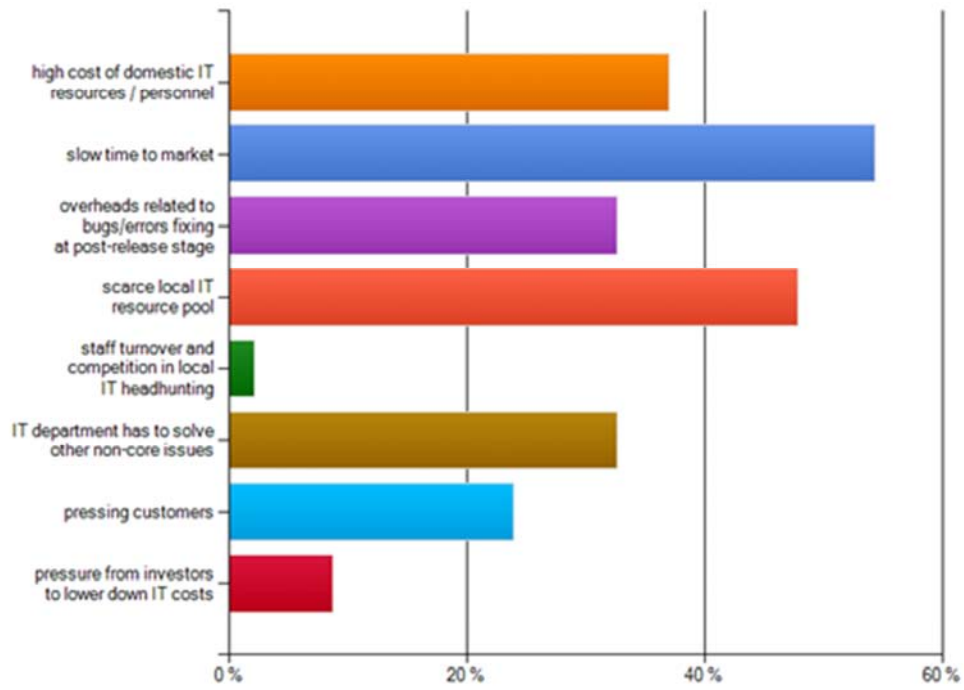


Level of Satisfaction With The In-House Development / IT

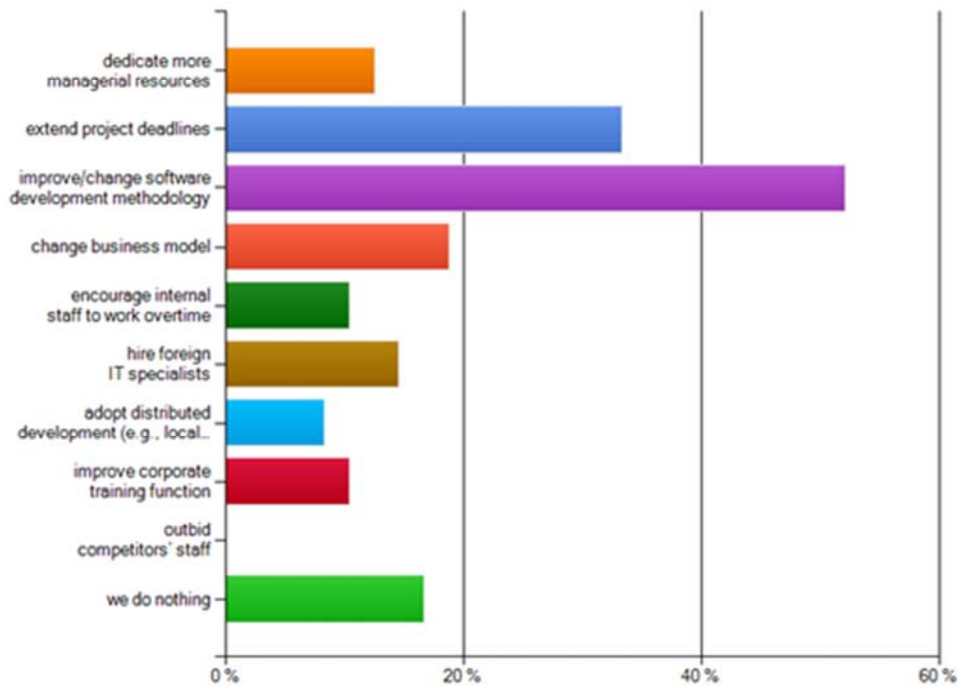




Key Challenges Of The In-House Software Development

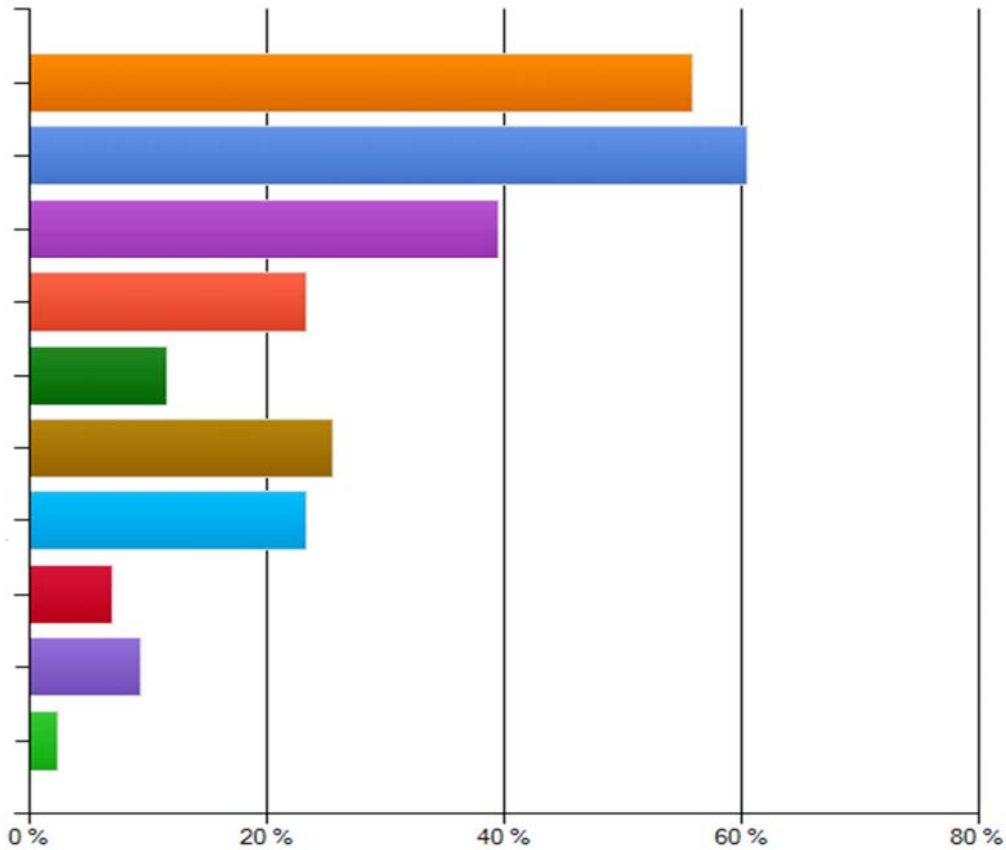


How Companies Respond To The Challenges





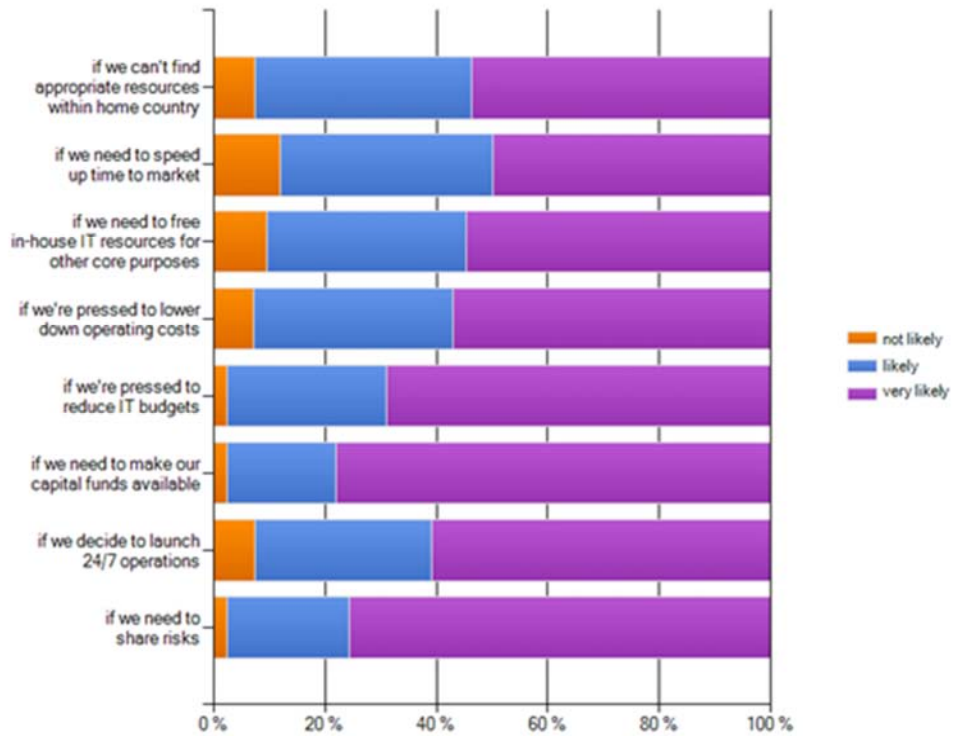
Factors Keeping Dutch Companies Away From SD/ITO



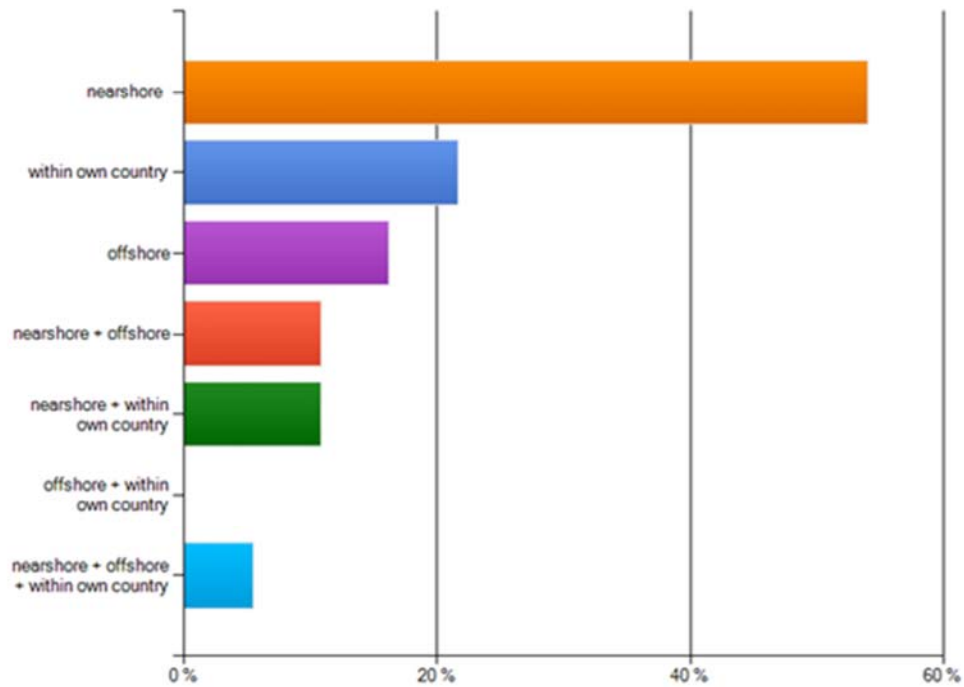
- we want to have 100% managerial control of our software project(s)
- we are too small and immature to outsource
- we're afraid that outsourcing will eventually cost us more money and 'headaches' than in-house development
- we think that the outsourced development will result in poorer software product quality
- we do not want to create any shared environments
- we're totally satisfied with our in-house development results
- we don't want to put our intellectual property at risk
- we don't get any pressure to cut costs from customers/investors/executive management
- we had some negative experience with the outsourced development in the past
- we think that outsourcing is unethical and work should be kept within own house



Circumstances In Which Companies Would Consider Outsourcing Their SD/IT In The Future

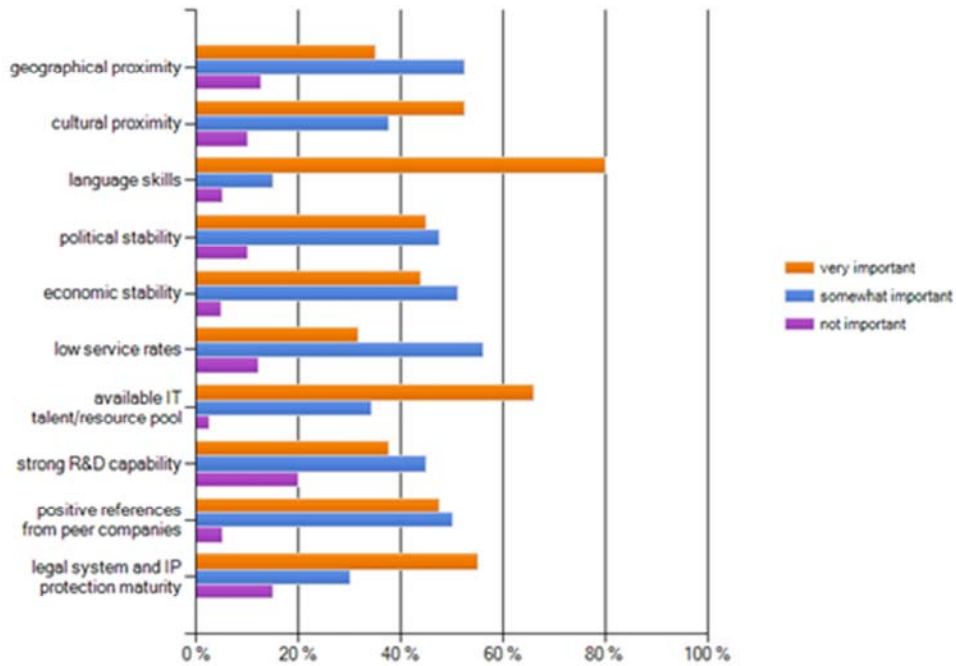


Where Companies Will Outsource If They Make Such a Decision In The Future

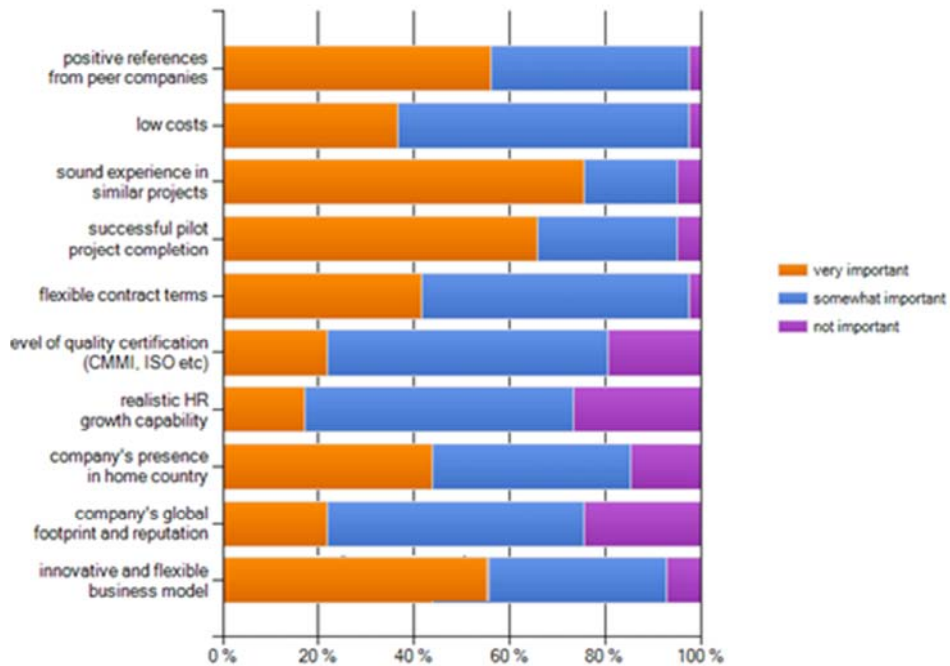




How Non-Outsourcers Will Rate Destination Selection Criteria If They Decide To Outsource In The Future



How Non-Outsourcers Will Rate Provider Selection Criteria If They Decide To Outsource In The Future





Key Findings' Highlights

In the Netherlands, software development / IT outsourcing gradually penetrates into different industries, but is most actively used by IT and software companies, followed by mobile computing, iGambling companies and games studios.

In 2011, the Dutch non-outsourcing companies outnumber those that outsource their SD/IT by only 3.6%, while in 2010 the non-outsourcers outnumbered the outsourcers by 26.8%. This finding proves the extremely rapid dynamics of outsourcing penetration into IT and/or business operations in the Netherlands.

Regarding the value of the outsourced projects, the following trends are observed in 2011 compared to 2010: the number of the €0-49K projects increased by almost 10%, the number of the €50-199K projects dropped by 4%, the number of the €200-499K projects dropped by 2% and the number of the €500+K projects dropped by 5%. The finding proves 2011 to be the year of smaller ITO contracts.

In 2010, the vast majority of the Dutch outsourcers (57%) partnered with their ITO service providers via a Dedicated Development Center (DDC) model. In 2011, only 20% of the companies use this model, while the vast majority of outsourcers – 56% - use Dedicated/Own Team model to engage with providers.

In 2011, the majority of the Dutch companies outsource Web solutions (up 25.2% from 2010), followed by Mobile (up 17.8% from 2010), Enterprise (up 1.3% from 2010), Embedded (up 1.1% from 2010) and SaaS/Cloud Computing solutions (up 18.3% from 2010). Significant growth of the outsourced mobile development and cloud solutions in 2011 proves the rapid dynamics of outsourcing penetration into the most innovative areas of expertise that require very fast time to market, access to the global resources and the ability to meet the rapidly changing market / consumer demands.

In 2011, the Dutch companies change their outsourcing destinations. Now more companies transfer their SD/IT functions nearshore – up 13% from 2010. The equal percentage of companies (29%) outsources offshore. Fewer companies outsource within the Netherlands – down 3% from 2010. Fewer companies outsource both nearshore and offshore – down 8% from 2010. More companies outsource nearshore and within the Netherlands – up 9% from 2010. Fewer companies outsource offshore and within the Netherlands – down 2% and more companies outsource nearshore, offshore and within the Netherlands – up 3% from 2010.

In 2011, the top two factors that drive Dutch companies' strategic decisions to outsource SD/IT are the same as in 2010: most of companies are still driven by the urge to reduce operating costs and gain access to the IT skills and resources that are in short supply within the Netherlands. However, the third key factor changed: in 2011 more Dutch companies outsource to focus on core competences, while in 2010 more companies outsourced to accelerate time to market.



When choosing SD/ITO destinations in 2010, the highest rated selection criteria among the Dutch companies were low rates and taxes, available talent pool and positive references from the peer companies. In 2011, the highest rated criteria are: language skills, available IT talent pool and political stability. The latter may be explained by the current uprising in social protests and armed rebellions in North Africa and the Middle East that most of the European businesses in general and Dutch businesses in particular are concerned about. The ongoing political restlessness in the above regions has already hit many European investors and, therefore, Dutch companies want to make sure that the hubs where they transfer their SD/IT are politically stable to avoid possible financial and security risks.

Regarding the highest rated criteria of the ITO partner selection, in 2010 they were positive references, low service fees and available IT resources. In 2011, the highest rated partner selection criteria are: successful pilot project completion, sound experience in the similar projects and innovative and flexible business / service delivery model.

In 2010, the key challenges of the outsourced SD/IT were: poor client-vendor relationships, delayed deliveries and /or missed project milestones and cultural difference. In 2011, the Dutch outsourcers continue to face delayed deliveries, but also point to the excessive overheads and lack of sufficient resources on vendor's side as their main challenges. Since more companies turn to Nearshoring this year, cultural difference stopped being a major challenge. On the other hand, delayed deliveries may in part be explained by the lack of appropriate resources on vendor's side and this challenge may be due to the wrong choice of the outsourcing partner. Many Dutch companies may be in a hurry to start outsourcing and, thus, do not spend enough time and resources on their potential vendor's evaluation. Or they may still engage with their ITO providers via a wrong business model (e.g., Fixed Price instead of a Dedicated Team), which inevitably increases the risk of facing the above challenges and/or leading to the outsourced project failure.

To respond to their major challenges in 2011, the Dutch companies use almost the same strategies as they used in 2010: increase face-to-face communication with vendor's project management and development teams, dedicate more management resources and extend project deadlines. However, in 2011 the Dutch companies are more flexible in terminating their current ITO engagements and partnering with different providers (up 25% from 2010) and consider back-sourcing, i.e. moving the outsourced operations back in-house or nearshore (up 5% from 2010). This finding suggests that the Dutch outsourcers become more demanding and challenge their ITO providers to be less process- and procedure-packaged, more flexible, deliver on time and on budget. It generally supports the existing thesis that in the future only providers focused on long-term relationships and offering transparent pricing and sustainable innovative solutions and business models will stay ahead of the competition.

In 2011, more Dutch ITO buyers know exact salaries of each of their developers on the outsourced teams – up 3.9% from 2010.

Overall, in 2010 the vast majority of the Dutch ITO buyers were somewhat satisfied with their ITO partners and services providers, while in 2011 the majority of outsourcers are very satisfied with their partners – up 20.4% from last year. On the other hand, the percentage of ITO buyers who are very dissatisfied with their ITO providers increased by 5.1% in 2011, compared to 2010.



Regarding the actual incurred versus the contracted costs of ITO, in 2011 fewer Dutch outsourcers report actual costs to be up to 25% higher than expected (down 23% from 2010) and 25-49% higher than expected (down 2% from 2010). The majority of companies report the actual incurred costs to be about the same as the contracted ones – up 29% from 2010.

Regarding the actual savings from the outsourced SD/IT, in 2011 the situation is not much different from that in 2010: the vast majority of the Dutch outsourcers still manage to save 10% - 24% from outsourcing (up 10% from 2010), followed by those that save less than 10% (up 7% from 2010). As for those that save 60% and more, their percentage dropped by 8% in 2011.

Regarding the Dutch ITO buyers' overall impressions of the outsourced operations, the majority of companies say that outsourcing their development / IT has been the right decision (up 20% from 2010), more companies believe that provider's work is of higher quality compared to the in-house capabilities (up 24% from 2010) and more companies think it is important to have the provider's team working within and/or close to the same time zone as the Netherlands (up 19% from 2010). However, 2011 observes more ITO buyers left dissatisfied with decisions to outsource – up 5% from 2010.

Conclusions

The 2011 Dutch ITO survey demonstrates the rapid dynamics of outsourcing evolution in the country. Outsourcing is gradually becoming a commodity practice that the Dutch companies adopt to reduce operating costs, get access to the qualified IT resources missing within the home country and free in-house staff for business development and other core business activities.

In 2011, more Dutch outsourcers focus on establishing long-term relationships with the ITO service providers and, therefore, seek reliable partners able to help them solve their business and IT problems quickly and creatively. More Dutch outsourcers go away from mere project outsourcing or dedicated development centers which do not allow them to have a predictable ITO spending and avoid overheads related to the provider's staff turnover, demotivation etc.

With the emergence of new technologies and rapid growth of innovative lucrative niches such as mobile computing, casual games development, social media applications, 3D animation and augmented reality, outsourcing is looked at as a way to differentiate from rivals, create ideas and share risks.

Overall, the 2011 Dutch ITO landscape looks healthier and more mature than in 2010, with an increased demand from small and medium-sized enterprises (SMEs) and for cloud capabilities. The facts that 37% of the Dutch non-outsourcing companies are not quite satisfied with their in-house software development outcomes, 49% of companies point to scarce local IT resources and 55% point to a slow time to market prove outsourcing to become more actively used over 2011 and in the years to come. Otherwise, the Dutch companies will simply not be able to respond to their current in-house software development / IT management challenges and withstand a touch competition at both domestic and global markets.



About IT Sourcing Europe

IT Sourcing Europe is a UK company specialized in nearshore IT Outsourcing consultancy, market research and analysis.

IT Sourcing Europe provides:

- Top quality quantitative and qualitative ITO market research and fieldwork services
- Evaluation of Central and Eastern Europe's ITO services providers and their factual capabilities to deliver innovative technological solutions on time and on budget
- Free consulting services for European companies planning to outsource IT / software development functions and / or change their current ITO strategy / engagement
- Ad-Hoc ITO strategy development and full-cycle support

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