


The Economy has turned the corner -- the sky is not falling anymore

Most firms have seen an upturn in their businesses -- CIO's now are running to make sure they have an adequate budget to meet their 1992 objectives

In the last few weeks there has been a re-birth in Southern California. Many companies are starting to think about what they have to do to meet the requirements of 1992. There is activity because of Europe 1992 and the free trade pact with Mexico and Canada. The impact on information systems is a new focus on how technology can help firms get and maintain customers. There still is heavy emphasis on cost reduction. However, this cost reduction is geared to productivity improvements not squeezing the "Buffalo off of a nickel".

Service is still one of the top critical success factors for many CIOs. Service level agreements are now more commonplace now. They are the wave of the future. Those firms that lack them will soon need them. One of the primary drivers for this will be outsourcing. As firms outsource there will be much less opportunity to drive business strategy with the application of technology. Before considering out-sourcing as an option take a serious look at the strategic implications of that decision. 

Programmer Productivity is Industry Focus

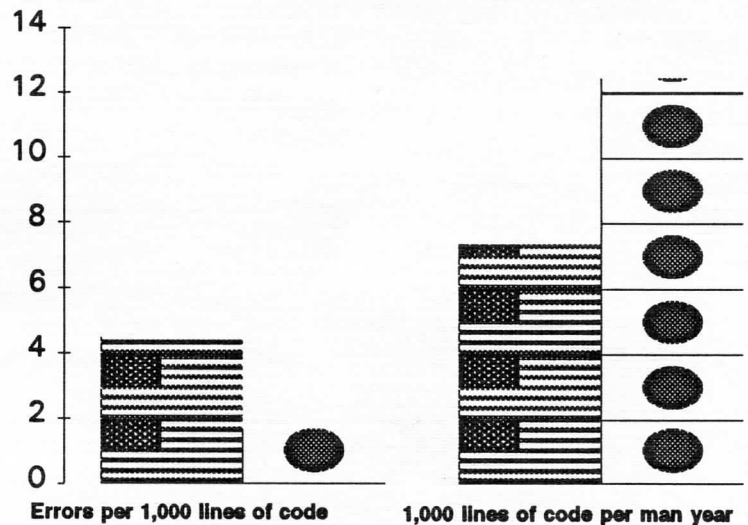
MIT Study shows Japanese software factory could eliminate American advantage

In a year long study it has been shown that Japanese programming factories produce about 70% more lines of code with fewer errors per thousand lines of code than their American counterparts. The Japanese have used their cultural approach of uniformity and conformity to implement superior planning, teamwork and standards. They have expanded on the American concept of reusable code to an extent unheard of in this country.

The programming facilities are not "nice" places to work. Rather they are crammed with workstation after workstation of programmers who are monitored for "output" and "quality". This approach has yet to create the first commercial success at the level of magnitude of Lotus' 1-2-3 or Ashton-Tate's dBase.

The history they are developing now will be the driver in their attempt to overtake us in the next several years. There are some lessons that we

(Continued on Page 3)



In This Issue

- The Economy turned the corner -- the sky is not falling anymore
- Programmer Productivity is Industry Focus
- Outsourcing: Future or Fad?
- Paying Too Much For Computer Hardware?
- Forecast Of The Southern California Job Market

Outsourcing: Future or Fad?

IS Executives Are Facing Career Threatening Decisions

by Robert Laskey

Outsourcing, Facilities Management, Down Sizing, Asset Management, or *business as usual*, which is the best approach for you? Most IS and Senior Management Executives are faced with tremendous pressure to contain or cut IS costs. Today's economy is prompting many businesses to assess the value they are receiving for their IS expenditures. Unless IS is perceived as mission critical, IS executives are facing career threatening decisions. In some instances, the entire IS function is at risk. In several cases, the traditional IS function has been eliminated. Is outsourcing the wave of the future, or is it a fad that will ultimately expose corporate America to a fortune in future costs?

What is outsourcing? In its simplest form it is the contracting for services with an external firm to replace internal function or capability. In government, it is called privatization. In many firms, print shop, janitorial, physical plant maintenance and other functions have been outsourced to external firms. Now outsourcing is now being aimed at IS. But can outsourcing be applied to an entire IS function?

While the answer is not clear-cut, we have noted the following trends. If the IS department performs an outsourcing study, the results are viewed with suspicion by senior management. IS is viewed as being biased against outsourcing if the study results in the conclusion that outsourcing does not make economic or business sense. IS in some cases has been forced to endorse outsourcing even when the long term benefits are less than obvious. Clearly, this is a "lose-lose"

proposition for the IS executive. If the outsourcing firm(s) perform a study, the results are viewed by IS as being biased against business as usual, in favor of outsourcing.

IS is viewed as being biased against outsourcing if the study results in the conclusion that outsourcing does not make economic or business sense

This is also a "lose-lose" situation since the IS function must defend itself against a potentially strong business case for reduced IS costs. In either event senior management keeps raising the issue because of intense pressure on cost containment.

Are there any benefits to outsourcing? Yes, there may be significant cost reduction opportunities. But the cost reductions may be nothing but blue sky depending on the assumptions that are imbedded in the outsourcing proposal. Unless business transaction growth can be accurately forecasted for the term of the outsourcing agreement then cost benefit projections may be nothing but pipe dreams.

Questions that IS management should consider include:

- What happens to rates after the outsourcing contract expires?
- What if the outsourcing firm goes bankrupt?
- What if your firm decides that IS is mission critical and wants to

(Continued on Page 3)

Paying Too Much for Computer Hardware?

Are you paying Retail, Wholesale or Dealer Prices for your computer hardware? Several clients recently discovered that the significant discount offered by their vendor were not so great. (both IBM and DEC are employing this tactic) Comparison shopping in the mainframe marketplace revealed the following: New IBM ES9000's are attracting significant discounts from list (we have heard cases, from more than one source, of substantially over 30 percent). Better yet, if you know where to shop, a previously owned ES can be had for a whopping 45% off list. The DEC 9000 is also available at substantial discounts. Both mainframes have been shipping for less than a year. Thinking of an equipment upgrade. This may be the time, the recession brings out great deals in both the new and used marketplace. For example, PSR recently assisted a client in bettering their large equipment position by over 10%, but it took research, tactics and tenacity.

Outsourcing: Future or Fad? - The Difference between success.... and unemployment !

(Continued from Page 2)

dissolve the outsourcing arrangement?


- What will the cost be to return to business as usual?

Outsourcing is a very new business. There is no track record for outsourcing firms or agreement renewals. Look closely before you sign is the best advice. But how do you prove that IS is mission critical to a cost conscious, skeptical senior executive?

A recent approach used in one client situation employed **Insourcing**, an approach developed by PSR. Dramatic results were identified, including a \$15,000,000 savings over the next 4 years. **Insourcing** uses a series of techniques developed by PSR to assist clients to fairly evaluate outsourcing and defuse the


outsourcing mystic. Benefits include identifying mission critical functions, improving service levels, improving productivity, reducing costs and strengthening asset management. **Insourcing** requires an indepth inspection of every IS service and service level. Not merely a tune up, it is a total re-engineering of the IS function to address the challenges of the 90's. It is a process that addresses management's concern about IS cost containment and reduction, without the risks and uncertainties associated with outsourcing.

As we continue with this series in the next issue we will provide you with some answers that we have found in our work. There are many questions that need to be answered before outsourcing is forced on to your organization. Remember the difference between success and failure is the survival of your organization -- and YOU -- or unemployment. Will your firm be better off if it outsources?

What about facilities management, down sizing and asset management? These will be discussed in Part II of this series. 

Programmer Productivity is Industry Focus -- Are you there ?

(Continued from Page 1)

can learn from the approach they have taken. Hopefully we can respond before it is too late. They include placing our attention on something other than the next quarter's operating results or how we will reduce IS expense. We have only a short time to respond. It now looks like when the first generation of truly productive CASE products comes out the Japanese will again take one of our best innovations and use it to drive us out of the market. Only time will tell if we let this opportunity slip out of our hands into the hands of outsiders..... 

RESOURCE MANAGEMENT -- These are two words that make CIOs "cringe" or "smile"

Those that cringe do because:

- ◆ They have lost control of their resources;
- ◆ They are not achieving their goals and objectives;
- ◆ They are over budget or their budget has been cut or frozen;
- ◆ They have been told to consider outsourcing; and
- ◆ They fear the loss of their jobs.

Those that smile do because:

- ◆ They are internally controlling and managing their resources to achieve IS goals and objectives within budget.

Let PSR turn your "cringe" into a "smile" through our **Insourcing** approach to Resource Management and Control.



Forecast Of The Southern California IS Job Market

It looks like we have turned the corner in Southern California.

The massive cutbacks have finally stopped. It looks like the Southern California IS job market is starting to absorb the excess capacity of resources. Some major new system initiatives have started and many companies are now starting to looking ahead and planning for 1992. Everyone is assuming that 1991 is going to be a bad year so they are trying to squeeze as much as they can into this budget year.

We passed a peak of over 10% unemployment in the Chief Information Officer position in the Southern California job market. At the low point it was getting so between three to five CIOs a week were calling to find out what types of positions were available. There are now several new one-


man consulting firms because of the recession. The really good new is this has stopped and it seems that everyone is now looking ahead. The focus is on planning for the next business cycle.

Orange County employers are continuing to be selective in their hiring plans. There still are a number of middle level positions that are open but firms are looking to fill them before the end of summer.

Car sales for both domestic and foreign models has improved somewhat. One of the Japanese-American firms has implemented a new version of its dealers' system. They are continuing to look ahead to a number of new major system initiatives.

In talking with a "Partner in Charge" of one of the "Big 6" firm's consulting practices, he said they had seen no slow down. They had just gone through the normal annual staff evaluations which resulted in some attrition. His staff on the other hand called it a lay-off. Again on the good side, the hiring plans at that firm have just been taken off of hold and they now are adding staff.

There is light in the health care firms and, just recently, entertainment firms. The summer blockbusters have infused a fair amount of cash and the studios that had hits are starting some major projects. One of the studios is still on the auction block. There is the possibility that the IS organization of that firm, or what is left of it, will be let go within the next 30 to 45 days.

The job market is firming up and a number of key positions will be filled before the end of the summer. With the large number of people still out there looking, the competition is stiff. It looks like the I.S. function as you and I know it is now in the process of forever being altered. I will talk more about this in future issues. 

Vic



Published by:

**M. Victor Janulaitis
Positive Support Review, Inc.**

Industry	Prospects Short Term	Prospects Long Term
Defense	Poor	Poor
Distribution	Poor	Good to Poor
Entertainment	Good	Good to Excellent
Financial Services	Poor to Good	Good
Health Care	Good	Good to Excellent
Manufacturing	Poor to Good	Good
National Consulting	Poor	Poor to Good