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IT OUTSOURCING VENDORS LIKELY TO BE HIT BY HIGH ACCOUNT TURNOVER AND LOW CUSTOMER LOYALTY

New study reveals companies suffering from Paradox of Excellence

SAN FRANCISCO, CA, November 15, 2005 – Over \$100 billion in existing IT outsourcing contracts may turn over in the next three years according to Emeryville, CA based Techtel Corporation, a leading supplier of demand tracking studies and Fresh Perspectives, a leading growth strategies consultancy based in Danville, CA. Derived from a survey of over 600 enterprise IT buyers and 18 different IT Outsourcing brands, the study also predicts serious financial difficulties for the industry resulting from the Paradox of Excellence, a concept revealed in the

acclaimed new book, *The Paradox of Excellence, How Great Performance Can Kill Your Business* by David Mosby and Michael Weissman.

“The IT Outsourcing Market is in deep trouble,” said Mike Kelly, CEO of Techtel Corporation whose organization fielded the study as part of their quarterly Enterprise IT Demand tracking service. “Only 38% of customers expect to be with their primary IT Outsourcing Vendor in three years. This is an astoundingly small percentage. Executives at outsourcing vendors and their investors should be very concerned.”

“All the earmarks of the Paradox of Excellence are evident with the IT Outsourcing industry,” said Michael Weissman, President of Fresh Perspectives. “We see commoditization, high risks of client turnover, dissatisfaction – even when performance is high, and loyalty more a result of clients being locked into their current vendor than because of satisfaction with the brand.”

The Paradox of Excellence posits that as performance improves, that performance becomes invisible – except when there is bad news. Perceived value erodes as customers take that higher performance for granted and forget all the problems that existed before the relationship began. As a result, victims of the Paradox of Excellence face tremendous price pressure, commoditization, high account turnover, declining brand equity and lower profitability.

High technology veteran and co-author of *The Paradox of Excellence*, Dave Mosby takes it further. “IT Outsourcing vendors who don’t aggressively begin steps to overcome the Paradox of Excellence should anticipate dramatic drops in market share, declining profit margins, shrinking market capitalization and noteworthy account attrition.”

Key Findings:

- *High turnover is likely.* Already, 9% of customers are confident they will be using a different supplier in three years with another 6% likely to switch if performance with their current vendor doesn't improve. An additional 40% of accounts are uncertain they will remain with their existing partner.
- *Customers aren't very happy today.* Only 57% of IT Outsourcing customers are satisfied at all and only 19% are completely satisfied with their current vendor. Without improvements in performance, dissatisfaction is expected to rise as much as 186%.
- *Improvements in performance won't necessarily lead to higher loyalty and retention.* Half of those people who expect to switch IT outsourcing brands in the next three years currently believe their vendor's service is staying the same or getting better.
- *IT Outsourcing is highly commoditized.* Nearly a quarter of all customers see no differentiation or uniqueness in their current brand. Only 11% of all customers see their primary vendor as highly differentiated or unique.
- *Current brand retention is more due to vendor lock-in than brand preference.* Only 34% of customers who are loyal actually prefer their vendor, whereas 42% stay with their vendor because of political or technical lock-in reasons.
- *The largest accounts are the least happy.* Companies with more than 10,000 employees, a critical market segment, are 41% more likely to be dissatisfied, 52% more likely to switch vendors, and are 18% more likely to view their vendor as a commodity.

- *IBM, Dell and HP represent the most recommended IT Outsourcing brands.* IBM Global Services is by far the most recommended brand with a net 28% of customers advocating on their behalf.

Study Details

The study was fielded from mid-September to early October 2005 with 607 members of the Techtel Enterprise IT panel and included the follow brands: Accenture, ACS, BearingPoint, Cap Gemini, CSC, Cognizant Technologies, Dell Services, EDS, Fujitsu, HP Professional Services, IBM Global Services, InfoSys Technologies, Oracle Services, Tata Consultancy Services (TCS), SAIC, Satyam, Unisys, and WiPro Limited.

About Techtel Corporation

Techtel Corporation, Emeryville, CA is a leading technology market research firm that has tracked demand for information technology solutions since 1984. With metrics in 25 categories covering more than 50 companies, Techtel's research is considered to be among the most comprehensive available. Techtel also measures advertising effectiveness, brand equity and customer loyalty.

Over the past 20 years nearly every major IT supplier has relied on Techtel information to discover how to capture more demand. For more information about Techtel, please call 510-655-9414 x 201 or visit them on the web at <http://www.techtel.com>.

About Fresh Perspectives

Fresh Perspectives, a Danville, CA strategy consultancy has delivered bold ideas and strategies that have successfully accelerated its clients' growth. Founded by visionary and popular speaker, Michael Weissman, co-author of *The Paradox of Excellence*, Fresh Perspectives has helped

leading public companies and dozens of smaller, private firms grow their sales, profits and value.

The Paradox of Excellence is an acclaimed new book that has appeared in Fast Company, Harvard

Business Review, Entrepreneur, on radio and in major domestic and international newspapers.

For more information about Fresh Perspectives, this study or The Paradox of Excellence, please

call 925-743-4103 or visit them at www.freshperspectives.net

KEYWORDS

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