



# EDS in EMEA – confidence rebuilt

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***Our recent meeting with the EMEA leadership of EDS revealed a company that has rediscovered its optimism. Contracts won over the last 12 months in the EMEA region have sent a message both to the market and, equally importantly, to headquarters in Texas, that EDS in EMEA is back as a vigorous and formidable competitor in the European outsourcing market.***

If there was a theme to this most recent meeting with EDS it was the well-worn one of globalisation making the world a smaller place and making international competition more prevalent. References were made to the apparently stark contrast between productivity gains made in the US over the last decade compared to the performance of the UK and European economies. Few IT services companies can speak about such lofty macroeconomic trends without provoking a 'so what?' reaction.

However, EDS has good reason to concern itself with macroeconomic trends. This is most obvious when one looks to its historical and its more recent track record of signing enormous central government contracts. From this point of view, EDS is playing up to its competitive advantage as one of the very few companies willing to take on the hugely complex and risky business of running central government IT functions.

That this is a risky business is shown by EDS's experience of well-publicised contracts that have gone sour. The most recent of these was the announcement that EDS has reached a settlement with the UK's HM Revenue and Customs, and will pay compensation of £71 million to this client (EDS had already lost the renewal of this £2 billion contract to Capgemini in 2004). In return for that risk, there is considerable reward: this bad experience did not hold the company back from winning several UK government contracts since then, most notably when it led the Atlas Consortium to a \$7.6 billion victory at the UK Ministry of Defence in March 2005.

## **Under the skin**

So much for grand strategy, how about real changes to make EDS a more appealing supplier? On this count, EDS has several qualities to shout about and a few more works in progress.

Worth shouting about (and it is learning to do this well with increased attention being paid to marketing) are its Agility Alliance and its initiatives in the industrialisation of its service offerings.



- **Agility Alliance.** In essence, EDS is quite a simple company – it manages its clients' IT systems. To do this well, it needs co-operation from a number of technology partners, ten of which it has grouped together under the Agility Alliance banner. Shared R&D investments (three centres), joint product development (EDS's global network is based on MPLS technology developed in co-operation with Cisco) and collaboration on bids (Cisco, EMC, Microsoft and Sun worked on the successful bid at Royal Ahold) are all factors that make this one of the most remarkable partnership strategies in the services world. Combined with its simplicity of purpose, the commercial weight of the Agility Alliance puts many of its competitors' partnership efforts in the shade.
- **Service Portfolio Industrialisation.** Again, EDS is not alone in its efforts to drive more automation and scalability into the way it delivers services to clients. All its peers are at it, but EDS is distinct in that it started what is a very complex task earlier, and at EDS it is a fundamental part of the corporate multi-year plan that is driven by the CEO to put the whole company back on track. This kind of executive sponsorship is required to drive such a fundamental change to operations, and its competitors either do not enjoy such a sense of urgency in their efforts or have received it later.

Works in progress include the company's positioning in the BPO market and its business in continental Europe.

- In terms of BPO, EDS does have a joint venture with Towers Perrin to offer HR BPO, and Towers Perrin is indeed one of its Agility partners. This notwithstanding, EDS's positioning in BPO in EMEA comes across as less mature than its peers and an area requiring further consideration.
- In Continental Europe, EDS has much more presence than is generally assumed. Clients are more distributed than in the UK, with public sector clients balanced with large clients from the retail, financial services and transport industries. Our understanding is that the European operations stopped a loss-making cycle in 2004 and are on track to record a profit in 2005. This is good news, but special effort will be required to sustain this positive trend on the continent, especially if EDS is to take advantage of positive (if still cautious) trends developing in France and Germany.

## Swings and roundabouts

Deserved or not, EDS has a reputation for taking no prisoners. Perhaps the most revealing anecdote from our recent meeting was the complete turnaround where EDS now believes it has strong prospects among CSC clients, partly due to recent uncertainty as to the future of CSC's ownership. Only 18 months ago, this situation was reversed and it was CSC expecting to take advantage of a weakened EDS. Given all the structural change currently under way among the large IT services companies (for example, detailed rumours about two large Europeans combining, and substantial redundancy programmes are under way at numerous suppliers), EDS emerges on balance as one of those most likely to take advantage of its competitors'



current difficulties in the EMEA region. *Figure 1* shows a selection of EMEA contracts that EDS won in 2005.



Figure 1 Selected 2005 EMEA contracts

Client	Date	Total contract value	Duration	Details
Royal Ahold	Nov 2005	>\$500 million	5 years	EDS will provide Ahold with IT infrastructure and application management services. The client company operates more than 4,000 supermarkets and retail outlets in Europe and the US. Under this contract, EDS has responsibility for purchasing, maintaining and supporting hardware and software. EDS will also assume responsibility for the retailer's IT infrastructure, which will include hosting Ahold's mainframe and mid-range servers, providing local area network and voice network support. Approximately 450 Ahold employees located in the US and in the Netherlands will transition to EDS. EDS will manage the company's computing workplace of more than 9,600 desktop and laptops, printers and email clients, and provide IT help-desk support for more than 10,000 users. Ahold expects an aggregate cost savings of approximately euro166 million in the coming five years as a result of streamlining its IT infrastructure.
First International Bank of Israel (FIBI)	Nov 2005	\$108 million	8 years	This contract was awarded to EDS, who will serve as the prime contractor, and Ness Technologies. Under the terms of the contract, FIBI will outsource its IT operations to EDS Israel, including approximately 100 employees of FIBI's IT subsidiary, and the IT infrastructure. Through this contract, EDS will manage the bank's IT infrastructure; host the bank's central, departmental and personal computer activity, and manage its communications network.
Department for Work and Pensions (UK)	Aug 2005	\$4,700 million	5 years	Although the annual amounts paid to EDS will drop, the company expects this renegotiated contract to provide greater certainty of income from the department which, subject to their performance, is valued at \$4.7 billion (£2.6 billion) over five years. If EDS performs well under the contract, the department could award the company additional work valued at up to \$324 million (£180 million) over the lifetime of the contract.
Prison Service (UK)	Aug 2005	£40 million	7 years	EDS has won a contract to develop the IT system for the National Offender Management Service (NOMS) for the UK's Prison Service. The seven-year deal will be for an initial £39 million, but has the potential for a further £40 million in additional services. The NOMS IT system is intended to create a single view of an offender, so that this can be passed through the criminal justice service (CJS), from the point at which an offender is arrested by the police, through to the courts and prisons, and eventually to probation.



Ministry of Defence (MoD)  
UK

Mar 2005

\$7,600 million

This contract was won by the EDS Atlas Consortium (consisting of EDS, Fujitsu Services, EADS, General Dynamics and LogicaCMG, as well as HP and IBM in minor roles). Although EDS has been selected based on its ability to deliver the entire ten-year requirement (with a value of \$7.6 billion or around £4 billion), initially the MoD will only commit to Increment 1 of the programme. Increment 1, valued by EDS at approximately \$4 billion, or £2.5 billion, will focus on 'maritime' (leaving time for the Army's Bowman implementation to be completed). Although not confirmed by EDS, it is our understanding that Increment 1 design, development and testing will be completed early in 2007 with the rollout continuing through to 2010. The MoD will only commit to Increment 2 and 3 with its chosen partner once the first phase has proven successful, although all three phases have been pre-negotiated. Increments 2 and 3 will focus on land and air.

*Source: Ovum*

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