


Achieving Competitive Advantage through Global Sourcing





The globally integrated enterprise

Around the world, businesses are transforming from multinational to globally integrated companies, making today's business world "flat." According to IBM's recent CEO Study, CEOs have moved beyond just globalization, and organizations of all sizes are adapting their business models – two-thirds are implementing extensive innovations while moving aggressively toward globally integrated business designs. Enabled by this "flat world," expansion of global trade is changing where and how business value is created.

Canada is enjoying the many benefits of a globalized economy, according to Bank of Canada Governor Mark Carney, who says: "By breaking down production processes along a global supply chain, [Canadian] firms are better able to find the efficiency gains that have led to increased productivity and lower prices." In addition to the rising trade in components, an entirely new class of tradable services has emerged.

In this global business environment, work flows to the places where it can be done best – whether it is goods or intellectual services that are being produced. Asian chipmakers are tapping engineers in the U.S. to improve their manufacturing technologies. Global investment banks are turning over their back-office processing operations to Dublin financial services firms. Pharmaceutical firms are developing research and manufacturing facilities in Singapore. And this is just the tip of the iceberg.

Open standards enable global componentization – global centres of excellence, flexible sourcing capabilities and Service Oriented Architecture. The result? Global marketplaces, global resource optimization, and streamlined infrastructure are seamlessly integrated.



Delivering More Value at Less Cost

In the Global Marketplace, organizations face a challenging environment. They are bombarded by change, and many are struggling to keep up. According to IBM's 2008 CEO Study, eight out of ten CEOs see significant change ahead, and yet the gap between expected change and the ability to manage it has almost tripled since our last Global CEO Study in 2006 (Source: IBM 2008 Global CEO Study). Change is coming from everywhere - the global nature of competition, new competitors and business models, new regulatory environments, and more demanding customers.

As a result, businesses are pushing their internal resources - to do more with less. They require more from their applications than ever before but must operate within constrained budgets and increasing technology support requirements. This requires leaders to confront the basics of their businesses, including what tasks they should be doing and how they should provision those responsibilities.

The question is: How can Information Technology and business executives deliver on the promise of their application portfolio without exceeding budgets, compromising on performance, missing schedules, or the expectations from this new brand of customers?



Global Sourcing: Right Skills, Right Time, Right Price

Many Canadian organizations have made global sourcing a key part of their application management strategy – and there are good reasons why. Acquiring, training and maintaining staff and resources in-house can be difficult and costly. At its core, global sourcing is more than the promise of lowered costs from less expensive labour. It's an affordable, incremental workforce that provides skills and flexibility organizations need. Whether addressing a back log of projects, or new application deployment, global sourcing provides the right resources whenever they are needed. It removes the burden of assembling and maintaining an expert staff and allows for more variable labour costs – and it enables organizations to focus on core competencies and efficiently manage non-core activities.

The greatest potential for benefits emerges when companies adopt a global sourcing strategy that transfers risk and accountability to a partner that specializes in Application Management. A global sourcing partner must be able to offer strong local management through a significant strategic Canadian perspective with consistent business controls, a reliable workforce and strong, local, Canadian presence.

When adopting a global sourcing solution, companies should seek a provider who manages applications as well or better than they can do it themselves – and at less cost. By choosing a global sourcing provider who offers proven best practices in processes, methodologies and integrated tools under a global delivery model, organizations can expect consistent, reliable and transparent quality of service – no matter where their applications or resources are residing.

Companies should look for a partner who offers the full range of flexible capabilities – resources, infrastructure, price, contractual terms, and a proven track record of ability to execute – to support a transition to global sourcing and delivery.



Global delivery of application services from IBM

IBM has one of the world's largest global delivery infrastructures, which enables economies of scale that we pass on to our clients. As a globally integrated company, IBM uses the global delivery model both internally and to deliver value added services to clients.

Under the IBM Global Delivery model, application expertise is drawn from a unique combination of local, regional and global resources, providing the right tools and expertise at the best price.

IBM's global delivery of application services has gone far beyond application development sourced on a project basis. These days, the full range of remote capabilities, high-value industry expertise and process knowledge of IBM's sophisticated centers of competency are available to clients anywhere in the world.

IBM application management projects typically utilize a blend of onsite, onshore and offshore resources, leveraging the specific strengths of each delivery site. According to IDC, IBM leads in the ability to seamlessly shift work from centre to centre around the world as client and delivery needs dictate. This allows IBM to do more work at less cost, frees up a client's strategic resources for higher value work, and provides access to the right skills at the right time.

Many of IBM's Canadian clients have adopted a global delivery model for application support. Agile business executives are integrating strategy and technology by standardizing, simplifying and optimizing. Standardizing processes and information drives effective integration and innovation. Simplifying enables technology integration, and optimizing the delivery model, often through outsourcing, helps to streamline processes and technology and increases organizational flexibility.



Generating savings to fund high-value initiatives

IBM's global delivery model reduces our client's IT expenses by providing the most cost-effective resources from around the world. Through IBM, your organization benefits from access to worldwide resources and skills, managed by local IBM Canada personnel.

It is estimated that global delivery generates a 25 percent average annual savings in IT operations and maintenance. Some of our clients have reduced costs by up to 60 percent. Given that the vast majority of IT spending goes for operations and maintenance, reducing those costs by 25 percent could fund as much as a 50 to 100 percent increase in IT development. (Source: Business Impact of Outsourcing: A Fact-Based Analysis)

Based on a quantitative analysis of 56 publicly traded companies performed by scientists at the IBM T.J. Watson Research Center, outsourcing is a strategic business decision that is likely to boost a firm's performance and improve key business metrics. (Source: Business Impact of Outsourcing: A Fact-Based Analysis)

Reasons to partner with IBM for global delivery go beyond the cost savings. Our global commitment offers many immediate advantages:

- Operations in 174 countries and 343 data centres worldwide.
 - Access to one of the world's largest experienced services skill set, with over 209,000 IBM Global Services employees around the world, including more than 96,000 application development practitioners in over 30 countries.
 - Multisite solutions spanning multiple time zones, allowing client projects to "follow the sun" without a night shift.
 - 24x7 testing and support for mission-critical applications and enabling infrastructure.
 - Multisite solutions in different economic zones, helping mitigate political and economic variables.
 - Continued expansion of our global infrastructure, with US \$150 million invested annually and billions of dollars spent every year on research.
- Those advantages translate into real business benefits:
- **Leverage skills where they exist.** Our team of highly skilled global resources provides diversity and new flexibility in addressing rapidly changing business conditions.
 - **Improve quality of products and services.** Utilizing the best skills—wherever they may be located—and applying proven methodologies and processes can help improve the overall quality of our clients' products and services. Our eight strategic global delivery centers are governed by a common set of processes, tools and methodologies – ensuring that IBM locations and employees deploy a consistent set of skills, communications, governance, and training and present a consistent level of experience for clients. Our management processes are certified under such designations as SEI CMM/Level 5, ISO 9000, Six Sigma and Baldrige Awards.
 - **Achieve strategic advantage.** IBM clients can leverage IT cost savings to invest in new strategic investments to help gain a competitive edge.
 - **Focus on high-value activities.** The depth of our global resources allows companies to make tactical workload adjustments in order to keep high-value employees focused on strategic initiatives.
 - **Lower internal cost pressure.** By following a global workload strategy, organizations can increase the productivity and efficiency of their existing IT environment.

IBM Canada: Local management, global resources



IBM Canada is the strategic application management focal point for Canadian clients. Local account and delivery management skills are crucial for smooth delivery of services. IBM client relationships within Canada have consistently demonstrated a deep knowledge of industry areas, internal organizations, business processes and goals.

That's not surprising, given that IBM Canada has over 90 years of innovation and leadership.

- We are a key contributor to the Canadian economy through R&D investment job creation, and the use of Canadian suppliers.
- In 2007, IBM Canada contributed over \$377 million CDN to R&D, while our export revenue for the same year was \$2.1 billion CDN.
- IBM Canada employs 18,720 regular employees, with over 2,000 employees dedicated to application services.

Regardless of where the resources reside, our clients benefit from IBM's full capabilities - from our virtually unmatched global reach to our valued skills, assets and business expertise. IBM provides an innovative and integrated geographically transparent approach that enables true global delivery - the right resources, from the right locations, at the right time, for the right cost. The result? IBM clients receive the highest quality services.





IBM global expertise matches local client needs

IBM has spent the last several decades developing offshore resources and capabilities – investing locally, sourcing talent from around the world, and continuously adjusting our offering portfolio to serve the evolving needs of clients.

IBM's vast global presence allows us to be able to deliver services from nearly any offshore location, and to use that presence to help clients become more global themselves. As a result, IBM can help mitigate the potential variables associated with global sourcing to maximize the benefit to our clients. Today, IBM provides a global delivery model that provides a unique combination of local, regional and global resources and expertise.

For example, IBM recently expanded its roster of skilled business strategy consultants in India, making them a crucial part of our Global Delivery Center services. India is IBM's second largest base of operations in the world and an important growth market for us.

- By 2009, IBM's investment in India will reach \$6 billion, with an employee headcount of about 73,000, increasing at a rate of at least 1,600 per month.
- Employee skills in India cover a broad range of business areas – with 80 percent working in global delivery and 30,000 employees dedicated to application services.
- Sixty percent of the employees have engineering degrees and 32 percent of them have Masters degrees.

The expertise IBM gains from India will translate to other high-growth emerging markets which will continue to differentiate IBM from the competition. In fact, IBM has made significant investments in Brazil, Russia and China, which are emerging global delivery centres for applications, infrastructure and business process outsourcing.

IBM leads the way in globally integrated innovation

As IBM is proving, the best bet for a sustainable business model is to move towards being a globally integrated enterprise. Traditional methods of managing talent and developing professionals are undergoing fundamental changes as project teams become more virtual, more global and more fluid. IBM's globally integrated business model draws on the industry's best talent and resources to operate global centers of excellence.

Canadian end-users reported to IDC that only 23 percent of the average budget is spent on innovation – but firms want to increase that to over 40 percent. (Source: Solving the Application Resourcing Crunch: The Capacity Model, IDC White Paper, 2008) Nearly all CEOs are adapting their business models to take advantage of global integration opportunities, moving aggressively toward global business designs, deeply changing capabilities and partnering more extensively. Two-thirds are implementing extensive innovations and more than 40 percent are changing their enterprise models to be more collaborative. (Source: IBM 2008 Global CEO Study)

So how do these firms adjust their workload to focus on the higher value projects they want to perform, and still satisfy their day-to-day requirements?

IBM is helping our clients drive business model innovation and growth by working with them on their most complex business problems. Our structural advantage is the combined strengths of IBM's consulting, research and software expertise. IBM's ability to develop replicable assets for clients in our Global Business Solution Center (GBSC) and SOA Solution Development Centers makes IBM unique and a leader in developing service-oriented architectures (SOAs) and solutions.

- IBM is committed to spending up to \$60 million in the next three years on the Global Citizens' Portfolio, a suite of programs to help employees enhance their skills and expertise to become global leaders, professionals and citizens.
- Another IBM program targeted at select global delivery employees from India and other emerging markets is the Global Delivery On-site Program. Through this initiative, employees are relocated to work with IBM clients in more mature markets, such as the United States, United Kingdom, Australia, Germany and Japan – not only to transfer technical knowledge, but to strengthen language skills, gain hands-on leadership experience and immerse themselves in the daily operations and culture of supporting clients across different industries.

- The Institute for Business Value (IBV), which is IBM's "business think tank," creates fact-based, industry and service area-specific thought leadership materials that will enable clients to realize business value. In March 2008, IBM announced the launch of the IBV in Bangalore, India.

IBM has another distinct advantage that companies with a single business niche can't match: 50 percent of IBM research is focused on software and services. This helps IBM anticipate where the market is moving and to have the people ready with the right skills when they are needed. It also helps IBM create innovative new workforce management and optimization capabilities.

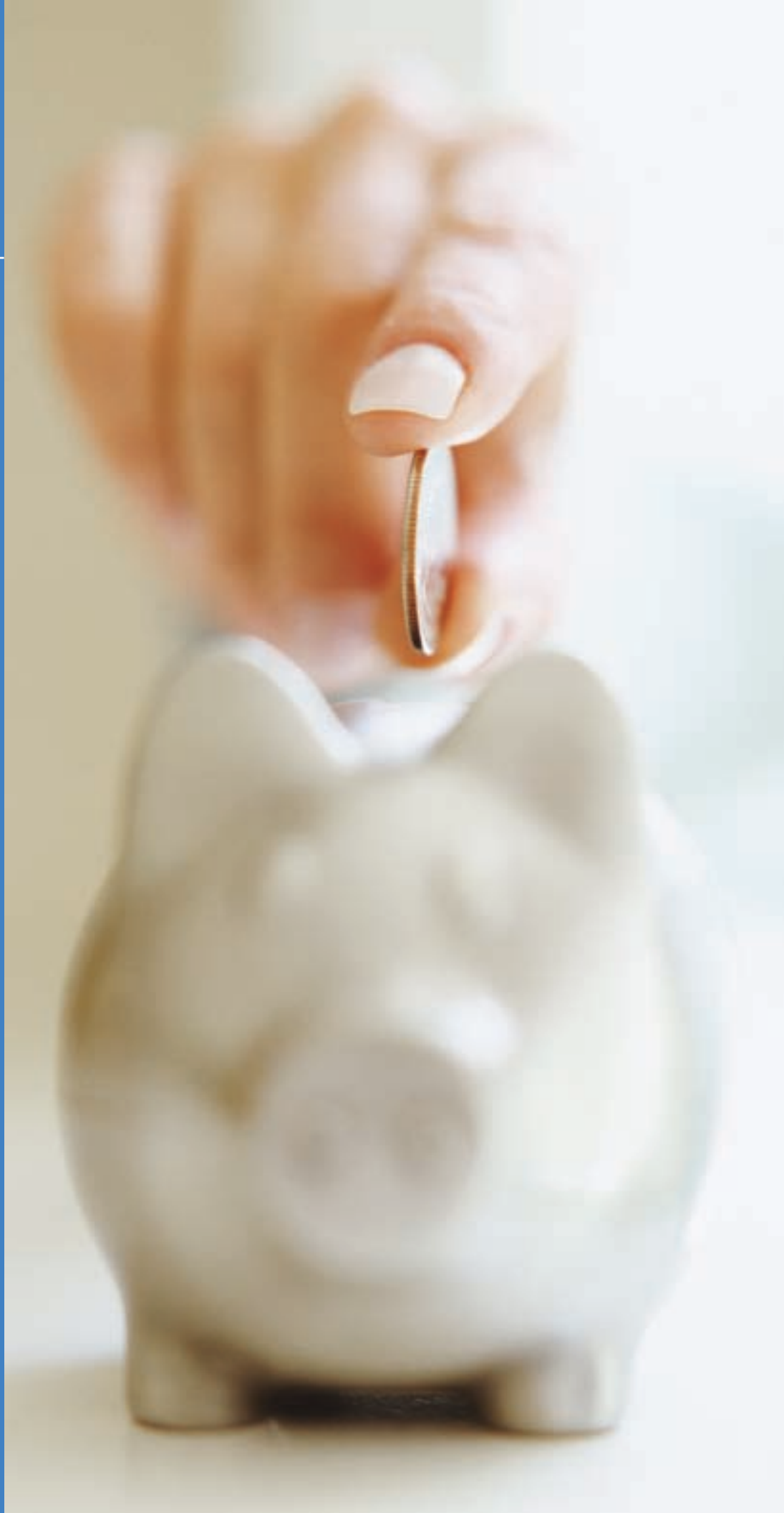


According to a 2008 IDC report titled “Solving the Application Resourcing Crunch: The Capacity Model,”

an emerging alternative to staff augmentation and traditional application outsourcing is the Application Capacity Model. This model provides clients with a long-term resourcing agreement for application skills. It allows organizations to retain organizational knowledge and take advantage of lower rates through a long-term contractual arrangement, flexible deployment, and difficult-to-find skills that can be available locally or globally. More importantly, the Capacity Model enables even moderately-sized Canadian firms to gain access to global centres of excellence without the concerns of managing remote global resources.

The Capacity Model contract:

- Provides flexibility and responsiveness to changing demand through cost-efficient resourcing.
- Comprises a long-term agreement for application development resources, taking advantage of lower rates on a local or global basis.
- Gives end users access to high-demand, hard-to-find technical skill sets through the provider's resource pool.



BMO Financial Group: Using Global Sourcing to Achieve Business Advantage

CUSTOMER OVERVIEW

Founded in 1817 as the Bank of Montreal, the BMO Financial Group is a highly diversified financial services provider. The company had total assets of \$367 billion at October 31, 2007 and almost 36,000 employees.

BUSINESS PROBLEM

BMO's application development organization had over 2,000 people and combined internal resources, short-term contractors, and some selective outsourcing. They were looking to optimize their staffing mix in order to deliver challenging business commitments. With business needs outpacing their internal skill set, BMO was looking for a solution that offered the flexibility to deal with uncertainty, the labour arbitrage from global resourcing, and the benefits of long-term continuity. As a result, BMO investigated global resourcing models to increase flexibility, lower costs, reduce the number of suppliers, achieve service consistency and realize overall business objectives.

SOLUTION

After a competitive bid process involving over 20 firms, BMO signed a master services contract with IBM Global Services. The Bank of Montreal wished simultaneously to improve how it sourced resources, dealt with vendors, and enhanced the IT department's ability to respond to their line of business needs. To date, the Capacity Model through global sourcing has enabled BMO to achieve their goals.

BMO is applying global sourcing in their IT operations that support diverse applications ranging from corporate financials to BASEL and Information Management. IBM is assisting with their mainframe-based applications, Internet-focused applications (including Jetform, Java, and .NET, and WebSphere), as well as data warehousing and business intelligence applications.

BMO intends to do more Capacity Model work with IBM. This will better enable the vendor to become part of the internal mix at BMO over time, maximizing the benefits for both parties.

RESULTS

Global sourcing with IBM has allowed BMO to:

- reduce costs by 25 percent and shift spending from sustaining and regulatory compliance activities to customer-oriented strategic investments and faster time to market
- diversify the mix of resources (IT professionals in lower cost countries) while tapping into industry best practices
- focus their valuable resources on more strategic initiatives and contract for more mundane and routine IT activities
- reduce their dependency on short-term contractors and gives them access to technical skills as needed.



For more information

Many Canadian organizations have already started on the global sourcing journey, fostering growth by focusing on core competencies and increasing efficiency by taking advantage of IBM's global delivery capabilities. Let IBM help your organization determine how to use global sourcing as a strategic advantage.

For more information about IBM Application Management Services and our global sourcing capabilities, contact your IBM representative or visit:

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