

IT OUTSOURCING VENDOR PROFILE OF:

CGI – Data Center Outsourcing

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1. Background

Headquartered in Montreal, Quebec Canada, CGI was formed in 1976 to deliver IT outsourcing services to Canadian organizations. CGI's data center outsourcing business grew largely organically as part of its IT services business. The growth came from taking over clients' data centers, such as John Hancocks in 2004, as part of bigger ITO deals. Acquisitions have since helped boost the business by expanding its scale and customer base for cross-and up-selling as well as presence in new geographies. Key acquisitions that have boosted its IT infrastructure services capabilities globally have included:

- The 1998 merger with Bell Sygma brought CGI the data center contract with Bell Canada, the telecoms operator. It also doubled the size of the company giving it scale
- IMRGlobal in 2001: IMRGlobal was a Canadian-headquartered company that boosted CGI's data center business and also brought in some offshore delivery capabilities in India
- Logica, in 2012, added scale to CGI's operations, primarily in Europe, bringing in >22.5k managed MIPS in data center space of ~14k m2, a worldwide data center presence including locations in the U.K., the Netherlands, Portugal, Nordics, Czech Republic, Brazil, India and Australia, and contracts such as IT infrastructure management/DCO contracts with Ofcom and the Finnish Defense Forces (FDF).

Today, CGI offers capabilities from infrastructure services through to BPO.

CGI will increasingly move its capabilities and service delivery to the cloud in keeping with the current market trend. A key component of this is to provide its own IP on the cloud. CGI's IP, such as assisted housing management software, offered on the cloud, will help reduce costs to clients as well as make use of CGI's full stack of data center capabilities and so help the bottom line.

CGI is also aiming to become a cloud service integrator and grow its cloud consultancy and advisory services.

To support targeted growth its IT infrastructure management business outside Europe, CGI has restructured in the U.S., where its outsourcing business was historically centered on applications services but it is now increasing its focus on IT infrastructure management opportunities.

Within Europe it is looking to win new IT infrastructure management services business in its French and German units.

2. Revenue Summary

Including a six-week contribution from Logica, CGI's 2012 IT infrastructure services revenue was \$685m; this represented 14.3% of full year revenues of \$4,772m.

DCO-related revenue is estimated 66% of IT infrastructure services revenue in 2012, at \$452m.

Exhibit 1 provides an overview of CGI DCO revenue (including six weeks of Logica's in 2012) and growth over the last three years.

EXHIBIT 1
CGI's DCO Revenues and Revenue Growth

	2012	2011	2010
Infrastructure services revenues	\$685m	\$822m	\$857m
Total DCO revenue	\$452m	\$587m	\$512m
Growth	-23%	15%	

Source: NelsonHall estimates

Revenue attrition in 2012 was mostly due to the loss of the large Desjardins Group contract to IBM at renewal time. The original ten-year contract, signed in 2001, had an estimated LTV of ~CDN\$1.2bn. The loss in the re-compete of its largest IT infrastructure services contract has been a major blow to CGI, who continues to generate between CDN\$40m and \$60m per year in revenue from Desjardins from its consulting and payroll services (not included here). The revenue growth in 2011 was due to a number of contract wins in 2010, including Atlantic Lottery Corp., Dessau and Rexel.

CGI's inorganic (i.e. excluding Logica's DCO revenues) DCO revenue growth is expected to be in single digits in 2013, as the company continues to integrate Logica and standardize its data center service practices and capabilities.

Exhibit 2 provides estimates for Logica's DCO revenue and growth over the last three years.

EXHIBIT 2
Logica DCO Revenues and Revenue Growth

	2012	2011	2010
Infrastructure services revenues		\$1,032m	\$1,010m
Total DCO revenue	\$730m	\$681m	\$666m
Growth	7%	2%	

Source: NelsonHall estimates

The estimated increase in Logica's DCO revenue between 2011 and 2012 is due to a number of contract wins in 2011, including wins in the public sector in Finland and Sweden and in the U.K.; e.g. a U.K.-based trade, transport and industry firm.

Exhibit 3 provides share of DCO revenue by geography based on combined CGI and estimated Logica 2012 figures.

EXHIBIT 3

DCO Revenue and Revenue Share by Geography (CGI & Logica Combined)

	2012 Revs (\$m)	Share of DCO Revenue (%)
Europe	645	56
Americas	452	39
APAC	56	5
South America	1	0
Total DCO Revenue	1,154	100

Source: NelsonHall estimates

CGI is now targeting revenue growth for larger contracts based on its new ability to take on larger-scale opportunities.

In Europe, CGI is targeting growth in France and Germany with its Logica expanded presence in the continent.

Exhibit 4 provides share of DCO revenue by country based on combined CGI and estimated Logica 2012 revenue figures.

EXHIBIT 4

DCO Revenue Share by Country and Region (CGI & Logica Combined)

	2012 Revs (\$m)	Share of DCO Revenue (%)
Canada	396	34
U.K.	207	18
Sweden	191	17
Finland	99	9
U.S.	56	5
APAC	56	5
Central & Eastern Europe	43	4
Norway	31	3
Portugal	27	2
France	25	2
Iberia	22	2
Brazil	1	<1%
Total	1,154	100

Source: NelsonHall estimates rounded to nearest significant figure

3. Key Offerings

CGI’s primary focus is on the provision of IT infrastructure services, including data center services, in outsourced relationships within multi-year contracts. Its value proposition is to improve clients’ operations through best practice and common tool sets across all its centers.

Exhibit 5 lists the data center services that CGI offers to clients and the percentage of CGI’s services that they currently represent.

EXHIBIT 5

DCO Services and Profile

Services	Processes	Profile: % of current activity
Data center Operations	Server operation and management	40%, within this activity Of the servers managed, 70% are Wintel, 30% Unix
	Diagnostic and guided problem isolation	
	Server impact analysis	
	Cross-domain correlation and root cause	
Mainframes	Consolidated event and performance Infrastructure life cycle management	20%, all IBM mainframes
	Hosting, system configuration, maintenance and monitoring, management	
	Plan and manage Mainframe-related projects (ex: z/OS new version or zSeries new server), disaster recovery plan or test	
	Develop systems exits, utilities & applications in Assembler (HLASM), COBOL, SAS and REXX	
	Manage your mainframe systems	
	Solve technical problems that need ‘internals’ knowledge and expertise	
Storage management	Web-enable CICS applications	15%
	Storage provisioning, management, backup and archiving	
Service level management	Storage provisioning, management, backup and archiving	15%
	Incident and problem management, release, change and configuration management, service desk and service requests, reporting on service levels and business level impacts via enterprise dashboards	
Security	Vulnerability scanning and patch management	10%
	Embedded security to close the most common exploits	

Source: CGI, Profile: estimated by NelsonHall

CGI offers three approaches to data center service delivery:

- Take over and run a client’s data centers: doing so for ~20% of clients
- Migrate the client to its own data centers: currently for 60% of clients
- Run the operations of clients’ data centers while the client maintains the ownership; typically required by public sector clients, ~20% of clients

CGI offers data center management services through a blended delivery model based on a combination of onshore, nearshore, and offshore service delivery, and has 23 delivery centers around the world. Some have more expertise in some technologies, such as Microsoft or mainframes, largely due to their legacy and history; e.g. set up to cater for the requirements of a retail client.

Exhibit 6 shows the location of CGI’s major delivery centers and their specialization.

EXHIBIT 6

CGI Global Delivery Center Locations and Specializations

Country	Town	Specialization
Canada	Fredericton, Halifax, Moncton Montréal, Québec City, Saguenay, Sherbrooke	Mid-range (Unix, Wintel), Mainframe, help desk
U.S.A	Athens (OH), Belton (TX), Lebanon (VA), Troy (AL)	
Czech Rep	Pargue, Brno	SAP ERP hosting
Estonia	Tallinn, Tartu	RIM services to Nordic clients
Hungary	Budapest	Server and app hosting to CEE clients, mainly in retail
Slovakia	Bratislava	Wintel
Poland	Warsaw, Krakow	Server and apps hosting to CEE clients
Portugal	Lisbon	Help desk, mainframes & mid-range servers
Spain	Madrid, Malaga	Help desk support, mainframes and mid-range servers, Spanish utility sector expertise
Egypt	Cairo	Microsoft, focused on France
Morocco	Casablanca, Rabat	
India	Bangalore, Chennai, Hyderabad	Mid-range systems (Wintel) helpdesk
Malaysia	Kuala Lumpur	Wintel, help desk
Philippines	Manila	RIM, Wintel, help desk

Source: CGI and NelsonHall

Helpdesk services are more specialized and tend to be delivered from certain offshore centers, such as Manila.

Where client proximity is required and where CGI does not already have an office near the client, it will set one up. To keep onshore delivery costs low, CGI typically chooses small town locations close to bigger cities where it can access resources such as university students or army veterans to train and staff teams for level 1 support. Today, CGI has five such centers in North America, including one in Texas that is staffed by army veterans.

CGI offers IT infrastructure services on the cloud, including:

- Infrastructure as a service (IaaS) and software as a service (SaaS)
- Storage
- Service management
- Managed security
- Infrastructure transformation services, including cloud-readiness assessments.

CGI offers IaaS on public, private and hybrid clouds. For hybrid clouds it provides private/VPN connectivity and implements trusted logical separation between the public and the private cloud infrastructure.

3.1 Pricing

CGI offers a mix of unit and output-based pricing models. It uses resource units, e.g. a back-up instant or a managed server, for pricing and SLA reporting.

Output-based pricing is increasing with adoption of IaaS; such as buying capacity or having an email box on the cloud.

4. Delivery Capability and Partnerships

CGI has ~5k FTEs delivering data center services supported by ~2.5k help desk agents that handle level 1 enquiries. Of those, ~ 1k are based in India where Logica was expanding its capabilities prior to its acquisition by CGI. India continues to be a primary focus area for expansion for CGI. The company currently has 865 FTEs in India, engaged in RIM service delivery, and 135 in help desk services. Delivery is done using best-shore principles with a global delivery model:

- Three centers in India (in Bangalore, Chennai and Hyderabad) can deliver remote data center services. These can provide support for:
 - Servers: Wintel, Unix, Linux, Citrix server and AS400
 - Mainframes
 - Database administration
 - Other: telecoms, exchange, transition and transformation.

The scale of the DC operations provided from India includes:

- 14,130 Wintel servers
- 2,680 Unix servers
- >950 Citrix servers
- 4,831 TB of storage and backup
- >250k backup jobs
- >10k database instances.

In Chennai and Bangalore CGI has brought its capabilities together into a command center format to provide automated DC monitoring and issue alerting. These provide:

- 24x7 operations
- L1 & L2 support and work for Wintel, DBA, Unix, SAN and telecoms
- Monitoring and scheduling of tasks
- Server management, escalation of incidents and third-party liaison.

An additional command center is planned in Bangalore.

CGI has >40 data centers across the globe. Exhibit 7 shows the locations of some of CGI’s data centers by geography.

EXHIBIT 7

Location of CGI’s Data Centers

Region	Country (# of Locations if >1)
Americas	Canada (6), U.S.A (2), Brazil
Europe	Finland, France, Germany, Netherlands, Norway, Portugal, Spain, Sweden, U.K.(2)
APAC	Australia, India

Source: CGI

Exhibit 8 provides the current scale of CGI’s data center services.

EXHIBIT 8

Current Scale of CGI’s Data Center Services

Assets Managed	Number
Servers	>32k
Raised floor capacity	>275k square feet
Storage managed	>12 petabytes

Source: CGI

4.1 Client On-boarding

Client on-boarding activities include:

- Initiation: current situation assessment, high-level architecture reviews, detailed planning
- Design and build: detailed design and build in waves of activity such as Wintel server upgrades or legacy server modernization
- Deployment in waves: activities are undertaken in waves such as transferring servers by type; a wave of Wintel servers transitioned across to CGI, followed by mainframes with the technical helpdesk transitioned in parallel.

Transition depends on a number of factors, including the age of the client’s environment, existing level of modernization, and the number of the client’s in-flight projects. These determine whether the environment is “forklifted” as-is into CGI’s operations or transitioned in stages with transformation taking place along the way.

Typically, a core team is assigned to the client to provide:

- Program and change management
- Industry and domain expertise
- Single point of contact (SPOC) for the client for program and projects.

The core teams typically consist of:

- A client services manager, who validates budgets and business requirements and oversees service delivery
- An architect and service delivery consultants, who handle technical requirements and implementation
- A production manager in charge of implementing the service.

A significant step in client on-boarding is bringing them into CGI's service management platform. This includes systems configuration and design information.

In addition, a proximity delivery team handles tickets and other face-to-face customer interactions such as domain-specific enquiries.

The nearshore and offshore resource pools provide remote management and monitoring of data centers, level 2 and 3 support, ad-hoc requirements, project work, special assignments and competencies.

Staff Transfers

CGI's on-boarding includes an HR service for employees that are to transfer from the client. The transfer is managed as a project using an approach that CGI refers to as having "harmonization principles". These treat client staff transfers in the same way as a corporate acquisition. Objectives include:

- Recognizing current seniority
- Equivalent total compensation
- Training in CGI's philosophy policies and practices
- Solutions developed in partnership with transitioning staff.

4.2 Tools and Best Practice

CGI partners with a number of technology suppliers to deliver its data center services; the major partnerships are with Microsoft, BMC, VMware and Cisco.

CGI is implementing ITIL V3 service management processes in all its delivery centers. It uses BMC Remedy software for IT service management and CMDB.

It also uses automation tools, such as BMC's Blade Logic for patch management and self-healing, and reporting.

CGI provides clients with a CIO dashboard that displays real-time information about operations and SLAs.

Co-location partners include Verizon and Orange.

5. Target Markets

For multi-process IT infrastructure services opportunities that have a data center component, CGI targets small and large enterprises, typically with annual revenues of >\$1bn, and government agencies. It particularly targets larger contracts for end-to-end IT infrastructure services that often also include end-user computing.

Although it will take on data center services without an end-user computing component, CGI does not often target end-user computing opportunities that do not also have a data center component. Overall, ~70% of CGI's infrastructure and data center contracts include end-user computing.

In North America, CGI has ~400 data center clients, including:

- Canada: Bell Canada, Canada Post, Rio Tinto Alcan and the Canadian federal Government
- U.S. public sector: Department of Homeland Security, GSA, State of Vermont, State of California and City of New York
- U.S. commercial sector clients: John Hancock, Rexell and Oce

The combined CGI & Logica company has ~2.4k DC clients in Europe, including:

- Sweden: Schenker, Teliasonera, Ahlsell and Skandia
- Germany : Swb AG and Univeg
 - Finland: Finnair, Neste Oil, VR, Helsinki, StoraEnso and Luottokunta
 - Portugal: EDP.

5.1 Client Examples

Ofcom

Ofcom, the U.K. government's media watchdog, awarded the five-year IT infrastructure management services contract to Logica in July 2010. The infrastructure has since been upgraded to improve resilience of servers and as part of the overall objective of lowering Ofcom's operational costs by >£7.5m over the five-year contract period. Another contract requirement is to reduce Ofcom's ICT carbon footprint by 60% by closing two of its four data centers, leaving ones in Hounslow and Woking and doubling server utilization. As part of the data center services component of the contract, CGI is managing data storage, disaster recovery, networks and technical help desk services. Service delivery includes same-day, on-site response, improved service desk management and reporting tools and delivery of best practice standards such as ITILv3, ISO 9001:2000 and ISO 27001 security.

John Hancock

CGI has been delivering infrastructure services to John Hancock Financial Services, a unit of Manulife Financial Corporation in North America for nearly a decade. Initially, in 2004, 300 staff transferred to CGI to build a delivery center in Halifax. 54 of those worked in a data center that also transferred to CGI.

CGI applied its transition methodology to define the scope of the work in detail, followed by the setting up of its operational framework that saw infrastructure services transferred over; in particular, 50% of workload in Toronto was transitioned to the new Halifax center, including the data center. The remaining 50% of work was left onsite, with 8 FTEs supporting offshore delivery. In all, the onshore/offshore mix of staff has changed from 100% onshore to ~70% onshore and the rest in India, with the overall headcount increasing from 402 to 414, as well as an additional pool of 50-60 personnel available in India for project work when needed.

Staff transfer was managed as a primary on-boarding project with the aim of ensuring that seniority was respected and equivalent compensation provided for the staff being transferred. The transitioning staff remained engaged in the project and work specification to ensure business continuity and knowledge and process transfer. The staff have since been re-badged as CGI personnel and redeployed leading to the development of a service delivery center in Halifax in Canada.

In 2012, John Hancock awarded CGI a further seven-year \$142m IT infrastructure management services contract for:

- DC consolidation
- IaaS with applications used to manage day-to-day operations delivered in the cloud.

Since the start of the latest contract, CGI has consolidated John Hancock's five data centers to two green data centers located in Northeast U.S.

5.2 Organizational Structure

CGI has a federated structure that is organized along geographic strategic business units (SBUs) that have responsibility for their own P&L. The SBUs have autonomy in assessing their local markets to identify their own targeting strategies.

Since the acquisition of Logica in 2012, CGI has put a structure – the Global Infrastructure Services (GIS) Management Leadership Council – in place to leverage the best of both CGI and Logica IT infrastructure practices.

6. Strategy

Until the acquisition of Logica in 2012, CGI had a small presence outside the Americas, accounting for ~5% of its business. The reverse was true of Logica. The combined group can now target larger IT infrastructure deals to support international companies with scalable and 24x7 data center capabilities. CGI is also continuing to build its capabilities in India to be able to tap into low-cost offshore resources to compete better with Indian-centric vendors on pricing.

CGI is investing ~\$50m in its data center estate, including \$4m to be devoted to data center consolidation. The objective is to modernize and standardize service delivery in all its centers and ensure that all countries have access to CGI’s ITSM suite, as OneITSM. The rollout and compliance with standards is managed through CGI’s GIS Management Leadership Council.

Exhibit 9 provides the current scale of CGI’s data center services.

EXHIBIT 9

CGI’s Top 10 Investments in DC Estate and Service Capabilities, Worldwide

Area of Investment	\$m
ITSM (BMC)	14
Storage refresh	11
Cloud email/VDI infra	6
Cloud IaaS enhancements	6
Network IPv6 readiness	4.5
Data center upgrades	4.5
Data center consolidation	4
Total	50

Source: CGI

Integration of Logica’s IT infrastructure services was helped by the fact that it also had started to implement BMC Remedy as its platform of choice for IT service management, prior to its acquisition by CGI. Some of the hardware in use was different to CGI’s and so some degree of standardization is currently underway. The effort to integrate Logica includes steps to embed CGI’s federated management approach (discussed in Section 5.2) into the newly-acquired Logica business, mapping the acquired assets and resources to their equivalent CGI regional groups where they will benefit from a high level of autonomy.

To grow its IT infrastructure management business, CGI has restructured in the U.S. and is increasing its focus on IT infrastructure management opportunities, from having been heavily focused on applications before. It is also increasing focus on IT infrastructure management services in its French and German businesses where it aims to gain new clients. This goal will be helped by the rollout of geography-led business unit structure (U.S., Canada, U.K., France; Northern Europe, Southern Europe and Latin America; Central Eastern Europe; and Asia-Pacific) with P&L responsibilities and removal of ambiguities from matrix organizations. It will target more infrastructure outsourcing contracts as part of its strategy to shift its revenue mix to a more recurring revenue model.

Revenue from renewals is expected to be smaller as clients shift to cloud; CGI is positioning as a private cloud provider to increase its share of the market. Steps taken to support its IaaS growth strategy include re-tooling, e.g. re-purposing its existing telecoms billing application to use for IaaS utility-style pay-per use model.

As part of its cloud business strategy, its GIS division is looking to carve a niche for itself as a cloud service integrator to manage multi-cloud relationships on behalf of its clients. It offers unified service management in hybrid and multiple cloud environments with one point of contact and one point for invoicing.

In addition, CGI is seeking opportunities where it is a cloud service integrator, managing multiple cloud service providers on behalf of clients. This includes service integration of its own private cloud and its own industry-based SaaS, such as those for the U.S. assisted housing.

CGI is positioning IaaS as the delivery vehicle for all CGI proprietary industry IP. This will support CGI's strategic objective to grow its IT infrastructure services capabilities in all geographies. The company is planning a focused marketing campaign to push its cloud capabilities.

7. Strengths and Challenges

7.1 Strengths

- Proven capability for data center consolidation and transitioning; e.g. Ofcom and City of New York
- The Logica acquisition has filled the gap that CGI had in providing clients with scale outside North America. This will enable it to bid for larger international opportunities or to offer additional scope to existing clients, which until now had focused only on their Americas operations in their contracts with CGI
- Ability to benefit from synergies of Logica acquisition, such as a common ITSM platform
- CGI domain expertise, e.g. public and energy sectors, gives CGI the potential to enhance DC offerings with domain-specific IaaS offerings; e.g. the cloud for information sharing by Nordic energy companies
- Strong presence in the U.S. public sector positions it well for emerging opportunities, particularly in state healthcare; e.g. data center capabilities for health information exchanges
- Ability to lead with offerings that cover the full stack, from infrastructure through to BPO complemented with consultancy capabilities
- Ability to offer its own IP on its own IaaS to reduce costs and increase sharing and reuse of resources.

7.2 Challenges

- The CGI brand is not well known in Europe
- Not enough marketing and messaging to highlight its capabilities around IaaS, while competitors such as Capgemini have articulated clear messages about cloud brokerage and service integration offerings
- Lags behind Indian-centric competitors on standardization and automation
- Industrialization is not yet a major focus of messaging
- The federated structure could lead to challenges in mobilizing sales and sales support teams for large international opportunities
- Hanging on to long-term contracts at renewal time; e.g. Desjardins, which was partly brought in-house and partly contracted to IBM
- Address IT IM margin and some contract performance issues in the U.K. and Sweden that Logica had started to address before it was acquired by CGI.

8. Outlook

- CGI will continue to implement best and standardized practices to streamline its data center outsourcing operations
- It will increase RIM capacity and capability by rolling out standardized tools; e.g. OneITSM
- It will improve monitoring and reporting of service quality across its centers by standardizing reporting requirements and metrics
- Continue to address contract governance and execution in Logica-heritage large contracts, both of which will be critical factors in margin improvements in Europe
- It will increase operations from offshore centers to reduce costs; e.g. the Command Center in Bangalore E-City coming on-line
- CGI will continue to focus on growing its cloud offerings, and will increase marketing and messaging around it
- A strong partnership strategy is key to success in the new age of hybrid and multi-cloud environments. CGI is likely to have to cement existing partnerships and build new ones, e.g. with more public cloud providers.



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