Is This Goodbye to the IT Outsourcing Megadeals?
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At first sight, the rupture of the computer services outsourcing contract that JP Morgan had signed with IBM in December 2002 –the second largest contract in the world that was valued at 4,111 million euros over a seven year period- has not only dealt a strong blow to Big Blue, but to all the sector. This is how many people see it. They think that the end has come for the mega outsourcing contracts that have been so common over the last decade.

However, there are certain circumstances that may have a bearing on JP Morgan’s decision. In July 2004 they acquired Bank One, an enterprise that had invested around 1,000 million dollars in updating its computer systems and whose heads had cancelled the contracts they had with IBM and AT&T, claiming that their technology was too important to them to lose control of it. This purchase and the resulting merger of the respective information systems drove JP Morgan to re-evaluate the convenience of outsourcing on a large scale, especially taking into account that Bank One had a strong technological culture.

In fact, the cancellation of the so-called megadeals is merely a response to a specific situation of the market. It is not the first, given that back in 2002 IBM had another contract cancellation with Halifax’s acquisition of the Bank of Scotland. Therefore, in a sector like banking, which is going through a period of concentration, it is perfectly logical that certain movements can affect its strategic partners, which in this case are the IT giants. In spite of the notable size the contacts may have (they say they can run to 2,000 pages in the case of IBM and JP Morgan), they are between titans and are no more than “an agreement to agree”, to cite the words of a top JP Morgan executive.

Seen from this angle, the annulment of the contract could also be interpreted as a stop along the way to re-evaluate the needs of the merged bank. As a matter of fact, it would not surprise anyone if JP Morgan once again sought the services of IBM. The bank itself maintains that Big Blue will continue to be one of its main technological partners. We must not forget that JP Morgan is far bigger than Bank One, therefore it stands to reason that they will need a partner to optimise their resources and cover those technological areas in which the bank, born from the merger, lacks experience. There are precedents: one

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**Highlights**

1. Gartner foresees that the global outsourcing market will go from 29,340 million dollars in 2003 to 42,920 million dollars in 2008, with an annual growth rate of 7.9%. In Spain, outsourcing technology services in 2003 generated some 1,562 million euros, according to a DBK report.

2. The study reveals that, although the sector comprises 20 companies, the big five -IBM, Indra; Accenture, EDS and T-Systems- make up 63% of the entire turnover. The most important customers that use these services are the banking and insurance sectors, followed by industry, telecommunications and Public Administrations.

3. For IBM, IT outsourcing accounts for 40% of its services (IBM Global Services), which amounted to 42,600 million dollars in 2003.

4. Although IT outsourcing has been around for decades, the development of network computing has boosted these sorts of alliances between large companies in recent years. HP has just signed an agreement with Nokia, worth 81 million euros a year, to supply technology over the next five years. In the banking sector, HP collaborates with CIBC (to the tune of 1,500 million dollars) and The Bank of Ireland (600 million dollars); IBM works with American Express (4,000 million dollars) and Deustche Bank (2,500 million dollars); EDS provides services for Bank of America (4,500 million dollars) and ABN Amro (1,300 million dollars).
day after Dow Chemical severed their contract with EDS, the chemical company
announced that IBM would provide their IT services for the following seven years.

In short, this is not the end to the IT outsourcing megadeals. Companies will continue to
trust third parties to carry out those functions and business processes if they think that
they themselves do not have the required internal capacity, or if those functions and
processes do not form part of their core business. In the case of IT, outsourcing will
continue to be a valid strategy.