IDC Conference Outsourcing 2008

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Paris, February 20, 2008

Driving improved financial performance, productivity and quality through a business driven outsourcing agreement.

Agenda

- The Business Context
- The FUSION Program
- Savings Achievements
- Need to go beyond
- The Challenging Objectives
- Setting up a strategy
- Outsourcing Evaluation
  - Decision
  - Implementation
  - Governance
  - Transition & Transformation
- A year later …
- Conclusion

The Business Context

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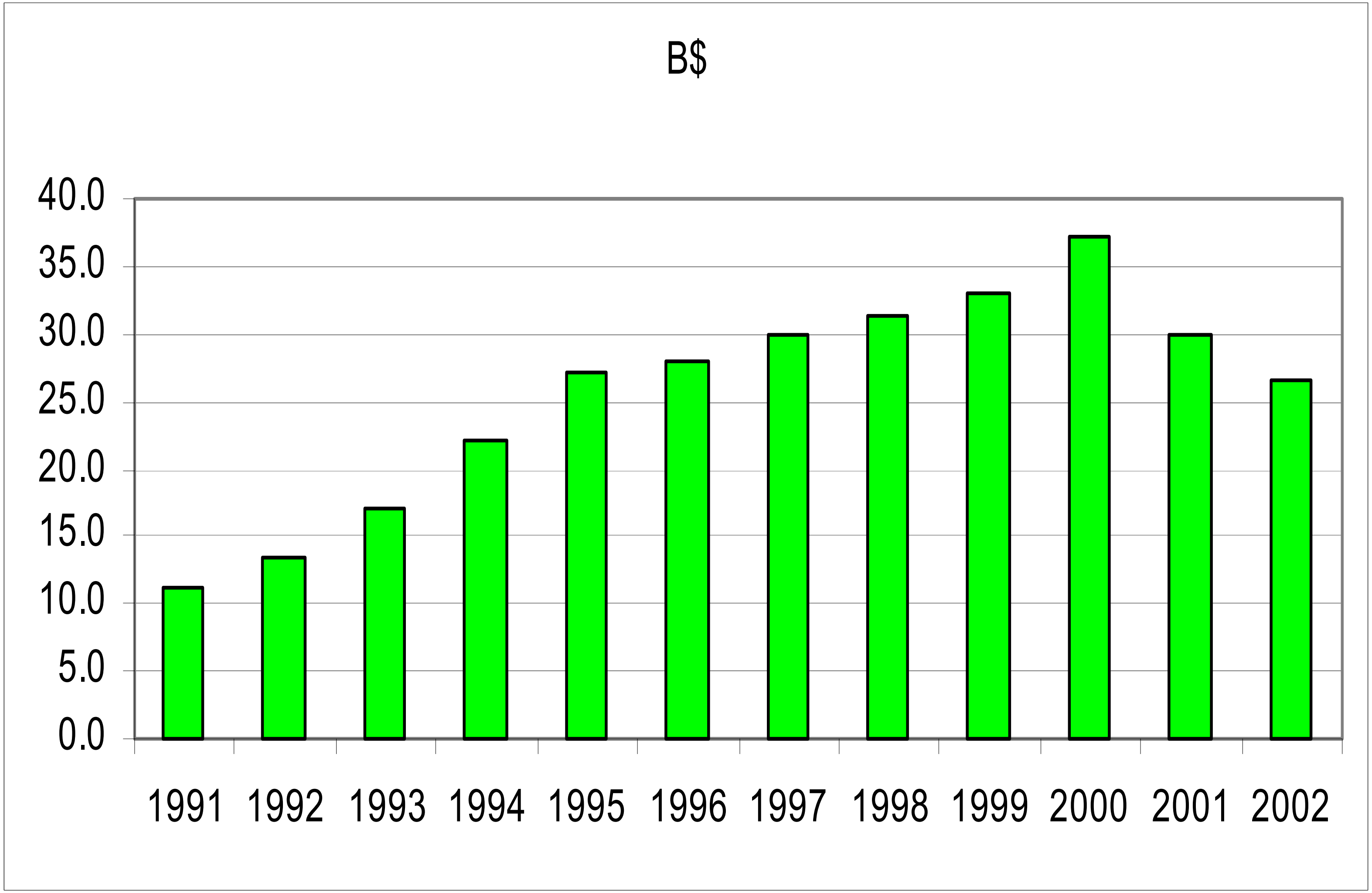
Motorola Annual Sales



Directions

- **Increase Profit**
- **Reduce Costs**
- **Reduce Headcount**
- **Reduce Asset**
- **Bring cash in**

- Reduction In Forces
- Site closure
- Do more with less
- Simplify
- Standardize
- Streamline
- Savings
- Centralization
- Globalization
- Consolidation
- ONE everything
- Fast
- Etc …

The FUSION Program

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FUSION Program Leadership

Information Technology
Simple, Common, Global and *Fast*

FUSION Office
B. W (mgr)
B. B
O. K
K. M (Eng)
T. M

D. S (Comm)
M. M (FIN)
G. A (HR)
S. N (HR)
M. W (InfoProt)

FUSION Program Executive Sponsor
M. M

FUSION Program Managers
A. F
K. C(Eng)
W. O

Business Transformation
P. H
(CIO Office)

J. W
(CIO Controller)

A. C
(Ent. Architecture)

Business IT Key Leaders
SPS – D. J
CGISS – P. C
IESS – R. M
BCS – B. T
GTSS – G. S
PCS – S. D

Engineering IT Key Leaders
BCS – G. A
CGISS – S. H
GTSS – K. F
IESS – I. F
PCS – K. B
SPS – M. I
GSG – T. W

$1.5M
Help Desk
J. R (Bus)
V. S (Eng)

$1M
e-Mail
K. F (Eng)
T. G (Bus)

$16M
Networks
J. A (Eng)
K. H (Bus)
W. O (Bus)

$12.9M
Computer Ctr
S. D (Bus)
J. L (Eng)
S. S (Eng)

Architecture
S. E (Bus)
T. Q (Eng)

$18M
Desktop
D. H (Bus)
D. N (Eng)

Eng Workstation
D. H (Bus)
D. N (Eng)

Contracts
T. A (Bus)
G. F (Eng)

$0.6M
eBusiness
B. G (Bus)
M. I (Eng)

Process and Results Acceleration
J. H (Eng)
E. P (Bus)

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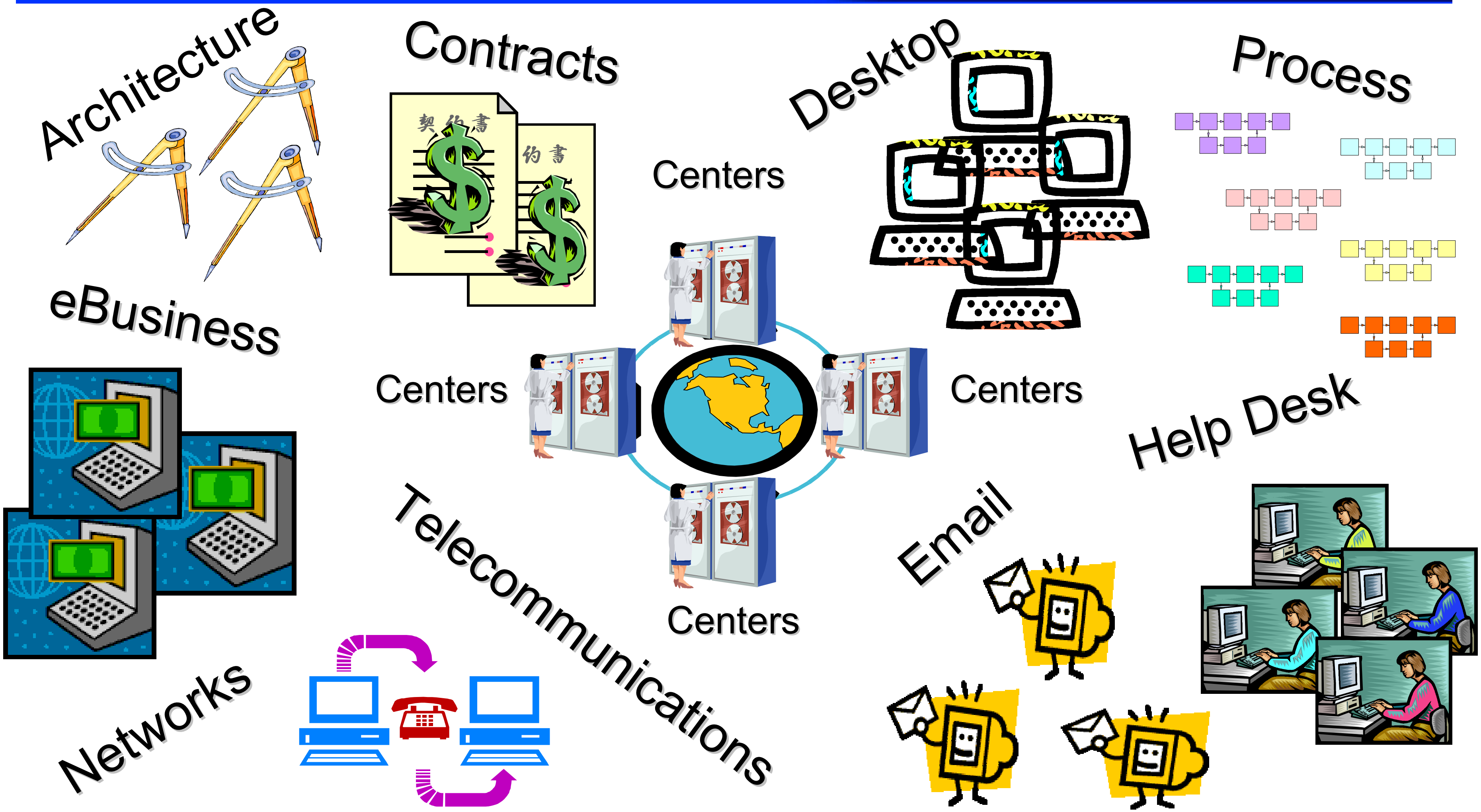
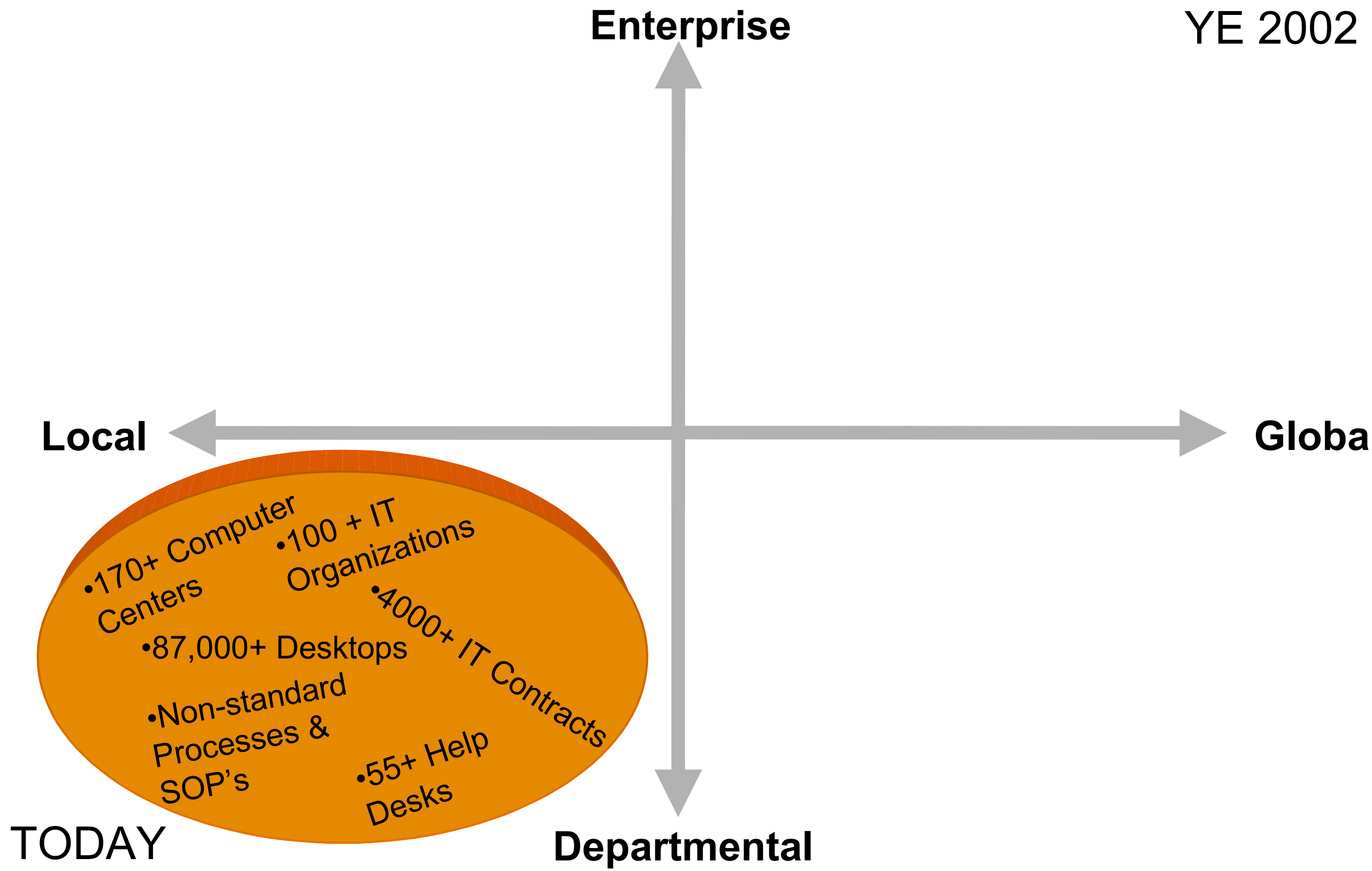
FUSION - Key Components

Information Technology
Simple, Common, Global and *Fast*

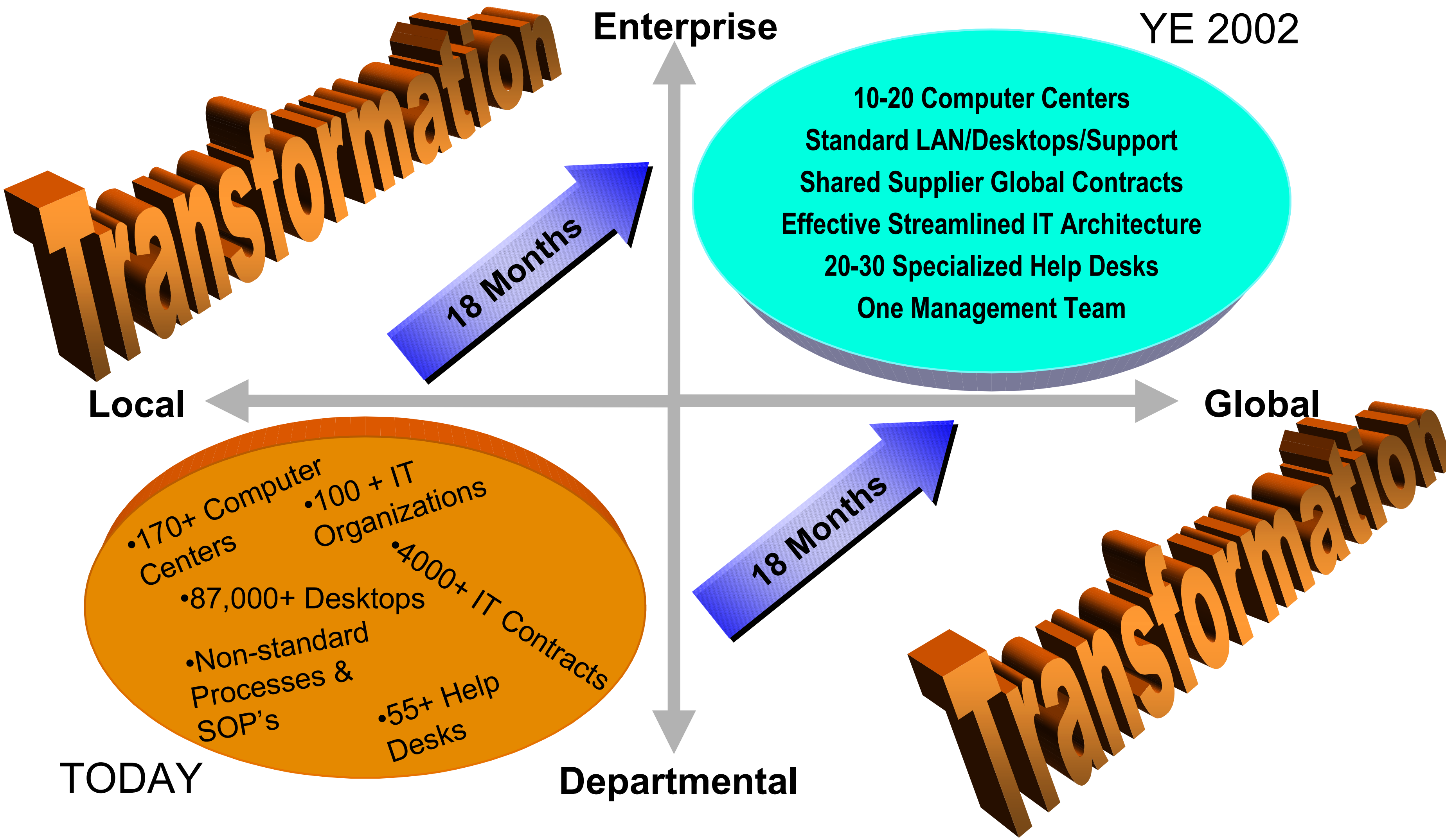


Where We Are Today



Where FUSION Will Take Us

Information Technology
Simple, Common, Global and *Fast*



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Savings Achievements

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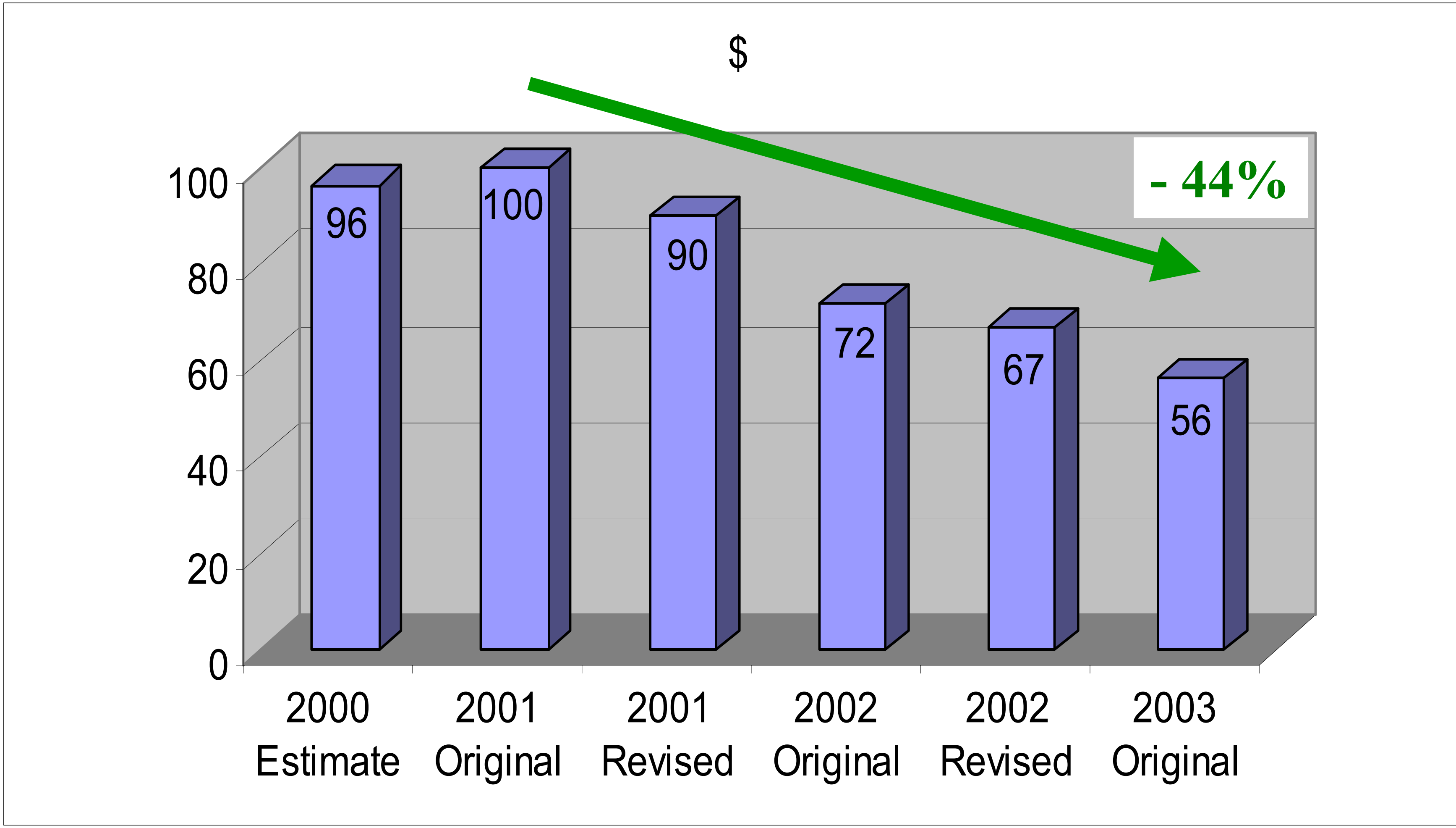
Global Infrastructure Solutions Budget Summary



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Achievements

- During the past 24 months GIS achieved major cost savings via Project FUSION (44% budget reduction)

- Significant progress through IT Infrastructure Standardization and Consolidations:

  - Consolidated 100+ computer centers
  - Consolidated 35+ primary Help Desks
  - Removed 130+ Email servers
  - 1000 IT Infra. Employees merged with GIS
  - Reduced support resources by 380
  - 1000+ contracts into master agreements
  - 7 Core Directories into 2
  - 6 separate asset databases into one enterprise database
  - Reduced 180 processes with 3000 variations to 86 with no variation

Need to go beyond

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Need to go beyond

Trend of IT Costs as % of Sales

	IT as a % of Sales 2001	2002	2003	World Class
PCS	2.4%	1.9%	1.5%	2.0%
BCS	1.7%	2.0%	2.1%	2.0%
IESS	2.2%	1.9%	1.3%	2.0%
GTSS	2.5%	2.5%	2.4%	2.0%
CGISS	4.4%	3.7%	3.0%	2.0%
SPS	7.8%	7.9%	6.4%	7.0%
Total	3.8%	3.9%	3.3%	3.0%

Note:

- World Class - Discrete Manufacturing (80-90th percentile) is 2.0%
- World Class - Discrete Manufacturing - Systems (80-90th percentile) is 2.0+%
- World Class - Semiconductor Industry (80-90th percentile) is 7.0%

Sources: McKinsey, Gartner, AMR, Forrester, and Metagroup

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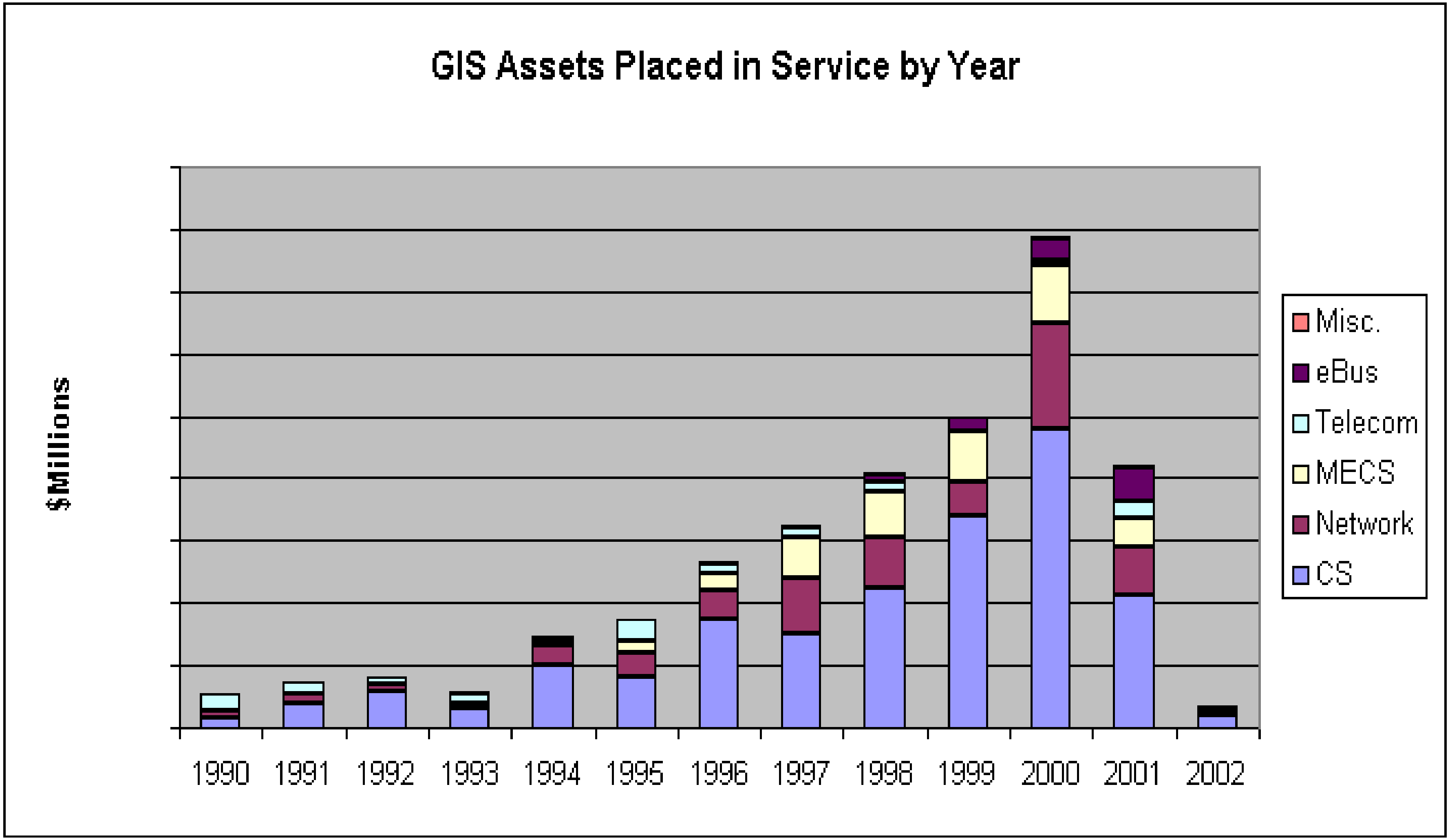
Capital Assets per Year



The Challenging Objectives

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The Challenging Objectives

- ***FINANCIAL PERFORMANCE*** **: Achieve World Class Cost Structure That Can Be Measured Against Industry Standards**
  - **Move from fixed to variable costs structure**
  - **No capital investment**
- ***PRODUCTIVITY*** **: Significantly Improve Service Levels**
  - **Processes**
  - **Metrics**
  - **Continuous improvement in % / year**
- ***QUALITY*** **: Aggressively Pursue Technology Refresh and Capacity Optimization**

"As good or better service for less cost"

Setting up a strategy

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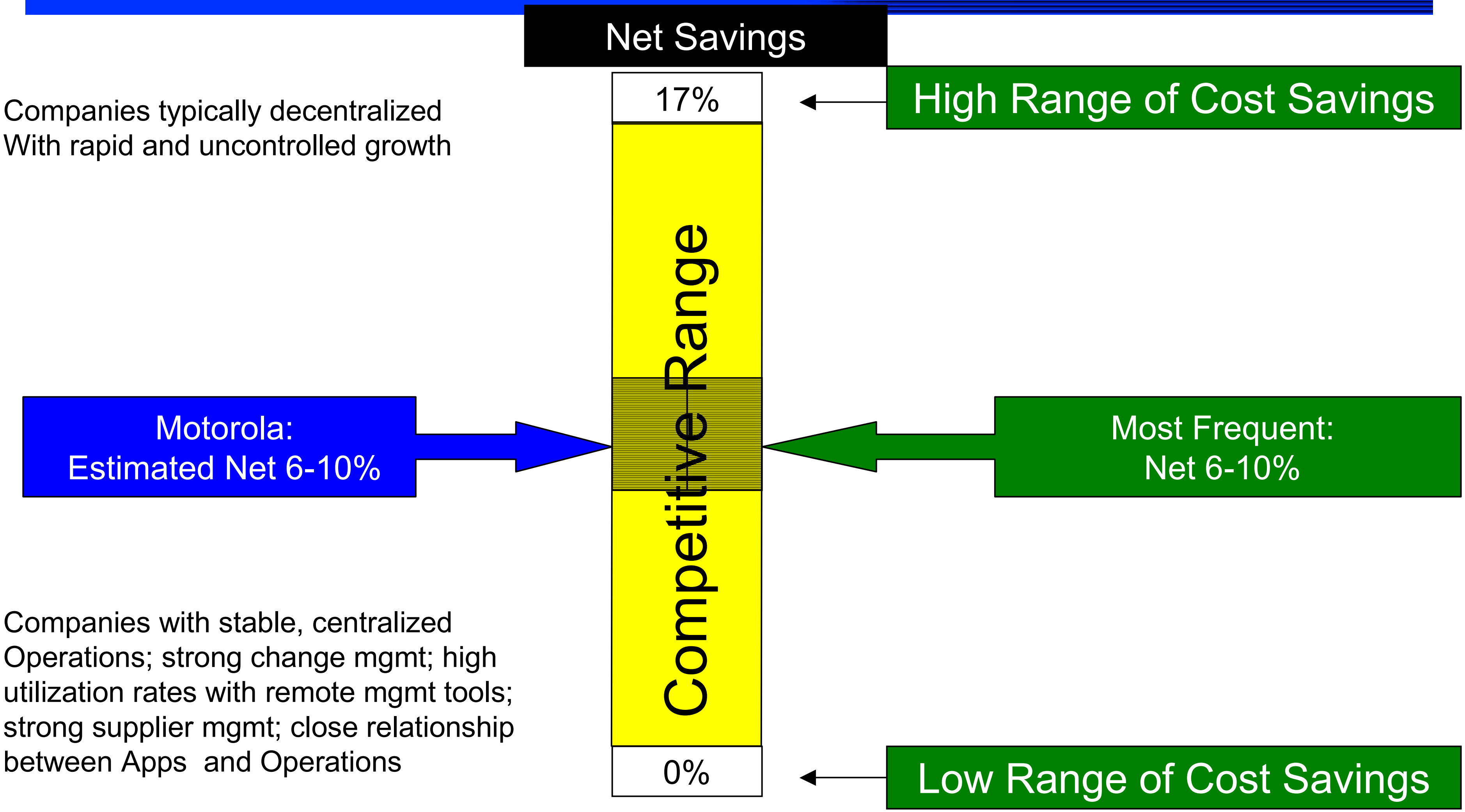
Options

- **Keep in House:**
  - **- continue <u>cost reduction</u> efforts**
  - **- risk <u>service level degradation</u>**
  - **- will only <u>address 1 of the 3</u> objectives**

- **Outsource:**
  - **- has potential to <u>address all 3 objectives</u>**

Industry Infrastructure Sourcing



Source: McKinsey

Industry Relative Comparisons

High Market Price

Competitive Band

Low Market Price

Motorola Costs:

- LAN – cost/network device
- WAN – cost/site
- Helpdesk – cost/call
- Telecom – voice cost/minute
- Servers – cost/server
- *Desktop–cost/dt supported

* Partially outsourced today

Source: McKinsey

Potential Benefits of a Sourcing Solution

FINANCIAL PERFORMANCE
World Class Cost Structure

- Reduces ongoing operating costs
- Shifts cost from Fixed to Semi- Variable
- Supplier invests in further consolidation and cost saving tools
- Limits requirement for significant future capital investment
- Reduced balance sheet assets
- Reduces back office support functions (A/P, Procurement, Asset Management, and Internal Control)
- CSC's solution frees up facilities space

PRODUCTIVITY
Improve Service Levels

- Standardization/ implementation of "best practices" and methodology
- Solutions provide full suite of integrated software
- Agility and flexibility going forward

QUALITY
Technology Refresh

- Suppliers assume responsibility for capital expenditures
- Allows GIS to focus on more strategic Sector business needs
- Gains access to Supplier skills and capabilities

Potential Risks of a Sourcing Solution

- Material Risk:
  - Requires "mindshift" from managing operations to managing results
  - Must move from independent and isolated environments and reduce our complexity index
  - Significant re-transition cost implications in the event of contract termination

- Manageable Risk:
  - Many potential sourcing suppliers are also Motorola's customers and competitors
  - Loss of intellectual capital over time
  - IT execution and business disruptions during RFP/supplier evaluation and transition phases
  - Supplier "low-balls" the bid to win award and fails to perform

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Conclusions/Recommendations

- Conclusion: Given all the data and information collected, the potential savings, benefits and opportunities are enough evidence to move forward to test the market and our assumptions.

- **Recommendation: Test the Market – (validate the potential opportunities via an RFP)**

  - Distribute RFP to solicit competitive proposals from 4 full scope global suppliers

  - Review results & recommendations with CIO and SLT in mid-November

Note: We need to be serious – suppliers will invest +$1M in the RFP process

We will have to manage the relationship with the suppliers we select to bid and the ones we don't

Outsourcing

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A year later …

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Year 1 Highlights

- ✓ <u>Employee Cutovers</u> and <u>Asset Sales Completed</u>
- ✓ <u>Account Executives</u> (AEs) and Service <u>Delivery Managers</u> (SDMs) <u>established</u> for all businesses
- ✓ <u>Core processes implemented</u>:
  - Daily Service Reviews (DSRs)
  - Escalation & Notifications
  - Service Restoration Teams (SRTs)
  - Root Cause Analysis (RCAs)
- ✓ <u>Migration to CSC Helpdesks</u> in Montreal, Kuala Lumpur and Luton <u>executed flawlessly</u>
- ✓ CSC <u>Data Center build outs completed</u> in Newark, Meriden, Maidstone and Kuala Lumpur
  - <u>initial</u> server <u>centralizations executed</u>
- ✓ <u>Wall to Wall Inventory completed.</u>
- ✓ <u>Service Level Metrics</u> Reporting <u>Established</u>
  - "Replacement Service Levels" defined with businesses and being baselined
- ✓ <u>Governance structure</u> and teams <u>implemented</u>
- ✓ <u>Customer Satisfaction baseline</u> survey <u>completed</u> and corrective action plans developed and being worked by CSC
- ✓ <u>Year 1 savings achieved $xxM</u>.

FINANCIAL PRODUCTIVITY

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	CSC - Deal	CSC – Year 1 Actual
Budgeted Baseline	$ x.xxx B	
10 Year Deal Value	$ x.xxx B = - xx%	
Nominal Operational Savings Year 1 Savings* Year 2 Savings* Year 3 Savings* *Updated for Final Business Case	Services & Asset Refresh $ (xxM) $ (xxM) $ (xxxM) $ (xxM) (xx%)	Services & Asset Refresh $ (xxM) $ (xxM) $ (xxxM) $ (xxM) (xx%)
10-Yr Nom. Savings $/% 10-Yr NPV Savings $/%	($ xxxM) / (xx%) ($ xxxM) / (xx%)	
Transition & Transformation Exp. (T&T)	$xxM $ xM Transition $xxM Transformation	$xxM $xxM Year 1 Total $xxM Year 2 Total
Asset Sale ($xx.x M Price)	Negotiations in process	Asset Sales Completed, $xx.xM
• Financial Terms – Service Level At Risk – Payment Terms – Minimum Commitment	• xx% of monthly revenue • Net xx days after receipt of services • No minimum, but unit pricing re-determined at xx% of baseline for	
Capital Expenditures - Servers	Projected Year 1 : $xxM	Year 1: $xxM est. (under-budget $xxM)

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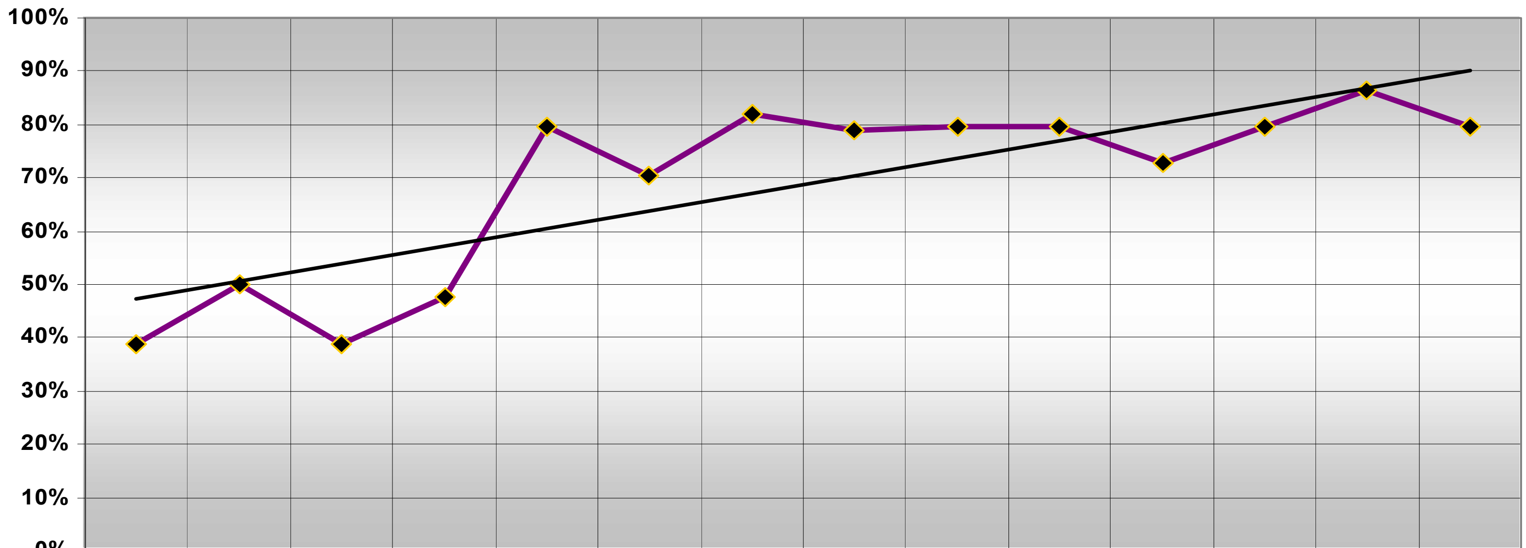
PRODUCTIVITY Service Levels

Percentage of All "Measured" Services that *Met* or *Exceeded*
Their Expected Service Level



	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04
All Services	39%	50%	39%	48%	80%	70%	82%	79%	80%	80%	73%	80%	86%	80%

PRODUCTIVITY Service Levels - RCA

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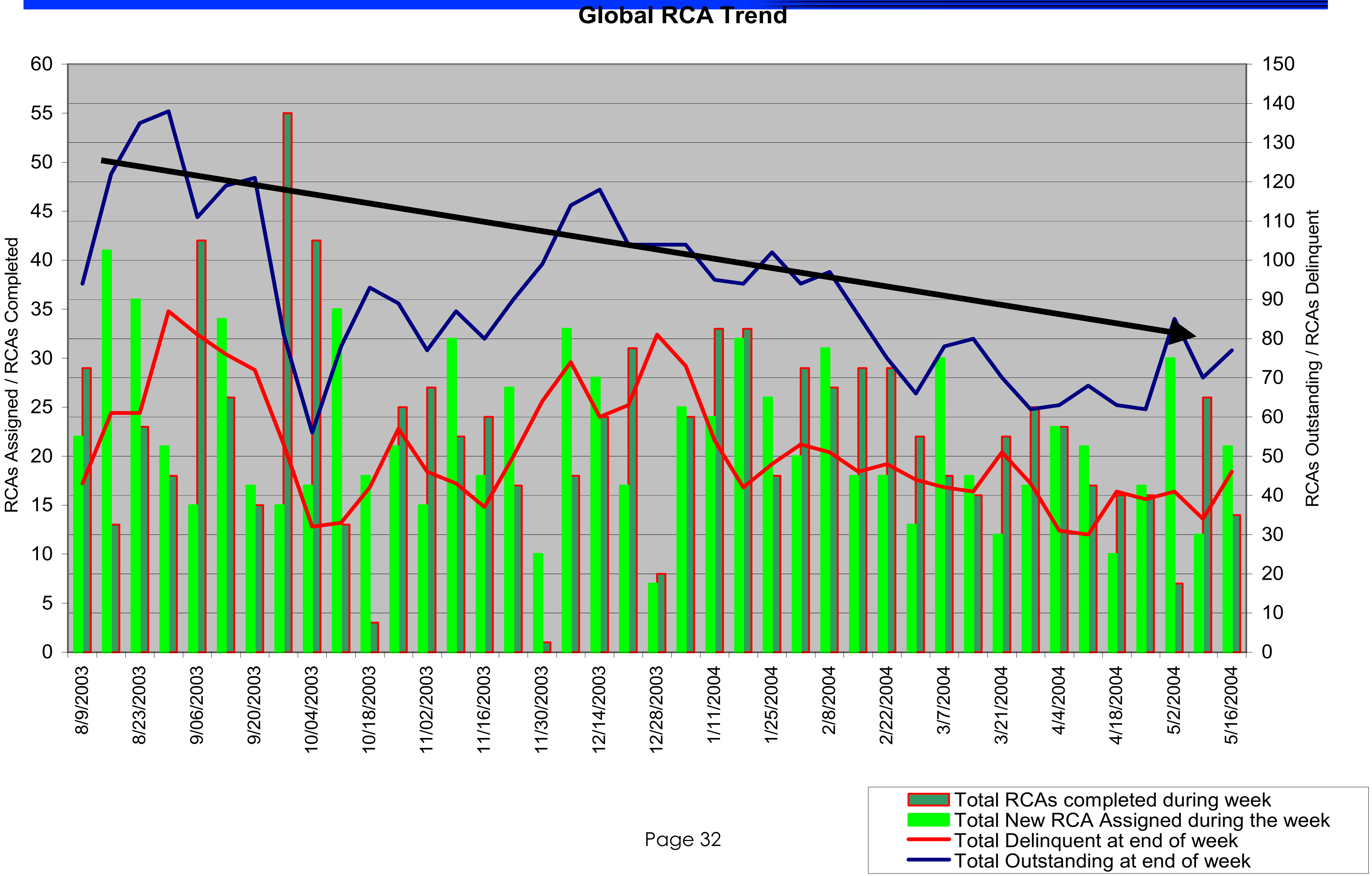

QUALITY Technology Refresh

Accomplishments:

- Institutionalized Global Operational Processes
- Refresh Criteria established in compliance with Architectural Standards
- Application Server Refresh on plan and under budget

Issues:

- Year 1 Refresh Targets missed for utility servers:
  - Unfocused resources
  - Resource Alignment
  - Lack of execution

- Remediation:
  - Established weekly "Deep Dive" Sessions with CSC
  - CSC assigned seasoned Program Manager
  - Missed targets are incorporated in Year Two Plan
    - Have established penalty for year 2 target misses

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Achieved through outsourcing

- ***FINANCIAL PERFORMANCE***
  - Reduced headcount
  - Reduced costs (to world class level)
  - Moved from fixed to variable costs
  - Reduced assets
  - Brought cash in
- ***PRODUCTIVITY***
  - Improved levels of service and availability
  - Reduced number of problems
  - Implemented standard sets of tools and processes
- ***QUALITY***
  - Refreshed technologies and increased capacities
  - High Quality top-of-the-art operational environment

Merci