CAP GEMINI SOGETI S.A.
A company profile

Written for the Euro-FIET meeting
Dublin, Ireland, Novembre 2-3, 1995

SOMO/Steven van Slageren

CONTENTS

1. COMPANY BACKGROUND

In 1967 Serge Kampf founded a company called 'Sogeti s.a.', based in Grenoble. Kampf was a former Bull employee, but left that company out of frustration at the difficulty of "getting anything done." The new company must be able to respond fast and flexible with a bare minimum of bureaucracy. According to these conditions, a combination of highly decentralized management with tight financial controls characterizes Sogeti.
The Cap Gemini Sogeti s.a. was created in 1975, as a result of the acquisitions, and following merger by Sogeti, of Centre d'Analyse et de Programmation (CAP) and Gemini.
CAP Gemini Sogeti s.a. (CGS) made its name as so-called 'body-shopper'. It hired out its programmers on a temporary basis to design individual projects at the customers premises, and with success. Since CGS published its first annual report in 1975, turnover has multiplied more than 40-fold and profits 70 times. In achieving these results, the company had to adjust to changing conditions and market demands. So has growth in custom programming fallen significantly over the past few years, while upstream marketsegments like system integration and outsourcing see annual growth from over 20%. CGS's upmarket movement started in 1988 with the purchase of French systemintegrator Sesa.
In the mean time, CGS invested in innovation to keep up the technological pace. For that reason Cap Gemini Innovation was created in 1984. It's principal mission was and is: staying on the leading edge of new technologies, experimenting with and validating technical advances in the profession, and transferring skills among the teams taking part in group projects.
Gemini Consulting, the other Sogati company, was created in 1991. Gemini Consulting is a joint undertaking of Sogeti s.a. (66%) and CGS s.a. (34%).

The CGS organisation showed a strong growth, nevertheless is the organizational structure still characterized by the original idea of decentralization. Starting on an operational level, CGS' structure consists of four levels.
Level 1: Operational Unit
On the operational level, three types of units do exist:
a. the Branch: responsible for sales and production activities in it's territory;
b. the Market Development Units are fully devoted to sales. A MDU has the competence to sign contracts and its mission may extend outside its own division;
c. Skill Centre is a repository of expertise or specialization in a type of service, sector or application.

Level 2: Division
Operational divisions, each with a staff of at least 500, cluster the operational units. In each country there is at least one operational division, even if the size of work does not justify that. In 1993 46 of these divisions exist.
Level 3: Strategic Business Area
The operational divisions are grouped by geographic and cultural affinity into Strategic Business Areas (SBA). There are seven of these SBA's, each with an average staff of 3,000. The SBA's have both a regional and a sectoral role.

Level 4: Corporate leadership
The SBA's are in general run by two out of 23 Group Vice Presidents (GVP). In addition, other GVP's run the company's one of five central administrative departments (Finance; Group Development; Image & Communications; Manager Development; Quality & Innovation). The GVP's are headed by a management team of four Presidents, among which an Executive Chairman.

CGS is controlled by Sogeti s.a., which itself is controlled by several institutions. Appendix 1 shows the organisation structure according to CGS's capital distribution as of April 30, 1995.

As of December 31, 1994, 53 million shares Cap Gemini Sogeti s.a. were issued with a nominal value of FF 40 each. These shares were held by:

Sogeti s.a.	61.5%
public	31.8%
CGIP	3.7%
managers	3.0%

This distribution makes Sogeti s.a. the controlling company.

Sogeti s.a. itself is directly and indirectly controlled by its President S. Kampf. He has a 7.4% direct interest and through SKIP, a joint undertaking with the investment group CGIP, an additional indirect interest of 45.1%.
CGIP has a 49% interest in SKIP, a 4.9% direct interest in Sogeti s.a. and a 4.7% direct interest in CGS s.a. Institutional investors such as Clinvest, SUEZ and Gaz et Eaux have a 7% interest.
Daimler-Benz owns the remaining 34% of the shares, which costs the company DM 1,005 million (FF 3,400 million) including an option on buying a controlling 51% of Sogeti s.a. Gaining this majority interest cost Daimler-Benz an additional DM 420 million (FF 1,425 million). This prize was agreed on in 1992 and based on that time share prize. Due to poor performance in recent year, share price dropped and the old option is unrealisticly high. Nevertheless Kampf did not use his option of out-buying Daimler, leaving the latter's option for a majority interest which expires the first of January 1996.

2. MAIN ACTIVITIES AND MARKETS GEOGRAPHICAL SPREAD

Activities and markets

Started as a 'body shop', nowadays CGS offers a wide range of services. Although successful, the company in recent years faced a decline in growth of custom programming. At the same time other sectors within the computer services business had promising prospects. This is especially true for system integration and outsourcing, with expected annual growth figures over 20%. Entering these areas, for example with the acquisition in 1988 of Sesa, the French system integrator, and Hoskyns, the British number one in the field of outsourcing in 1990, enlarged the ranges of services offered by CGS. Entering the area of outsourcing, or facility management, is CGS' answer on the tendency among many companies to refocus on core business. Facility management (Information Systems) business, accounts for over 20% of the group's revenue in 1994, as opposed to 0% in 1989. The enlarging of CGS' range of services was not only downstream, but also upstream, e.g. with the creation of a management consulting group. Most of these activities are performed by Gemini Consulting, a company legally and organizationally separated from CGS, in with CGS as a 34% interest, and Sogeti the other 66%.

CGS offers five complementary services:

- Project services: involving either customized development or the integration of heterogeneous elements (system integration). See Table 1.
- Information Systems Management: management to any extend of clients' information systems, including hardware, networks, system software and application software (facility management or centralized computing services). Furthermore: maintaining existing systems, such as adapting them to new user demands and technological changes.
- Consulting: combining strategic business planning with operational improvements and (practical applications) of information technology. More concrete: analyzing a given problem and developing possible scenarios; designing, planning and organizing information systems; implementing solutions either by developing customized software or by adapting already-existing applications. Strategic and organizational consulting is mainly provided by Gemini Consulting.
- Software products: developing, basic production, implementation and after sales support of all kind of software 'solutions'; methodologies and tools; standard applications.
- Education & Training: aimed at enabling clients' staff to adapt to and handling new applications of IT; management education, end user training, professional skills, as well as technical training.

Table 1: Relative share services offered by CGS 1992-1994 (%)

	1994	1993	1992
Project Services	64	60	61
Information Systems Management	21	20	21
Consulting	6	8	7
Software Products	6	7	6
Education & Training	3	5	5
Total	100	100	100

Chapter 1 describes CGS' organizational structure. All operational units are clustered in divisions that are part of so-called Strategic Business Areas. These SBA's are crucial in the new company policy as explained in more detail in chapter 4. The SBA's are formed out of former nationally operating companies that offered a complete range of services. They still do, but in addition they also have the responsibility to maintain and develop services for a specific sector. Which sector that will be, is influenced by the experiences of the regional company in question. SBA's cover both region and sector.

Scheme 1: Strategic Business Areas CGS

SBA 1:	United States	Gas & Oil
SBA 2:	United Kingdom	Financial Services, Outsourcing
SBA 3:	Nordic countries	Utilities
SBA 4:	Benelux	Distribution
SBA 5:	Germany	Industry
SBA 6:	Ile de France	Telecommunications
SBA 7:	French provinces, Spain, Italy, Switzerland, Austria	Space, Air Traffic Control, Railways

The local organization concerned accepts a project in a certain region. The performance of the project is subcontracted within the CGS organization to the SBA covering the specific sector.

Geographical spread

Nowadays, CGS is present in 120 cities in 15 European countries and the US. Recent acquisitions, alliances and joint-ventures had a enormous effect on the geographical distribution of CGS revenues, after the company faced an explosive internationalisation. Northern Europe (the Benelux and the Nordic countries) saw its relative volume increase from 17% to 33%. Sales in Germany went from 5% to 9% of total CGS sales but disappeared in 1994 as a result of the merging of Cap debis with debis Systemhaus.

France

Being the homemarket, France is still the most important market for CGS. However, its importance is diminishing, not only relatively but from 1992 on also in absolute figures.

During 1993 CGS and Matra have merged the activities of their respective subsidiaries Cap Sesa Dèfense and Matra MS2I (Matra SEP Informatique et Imagerie) in a joint-venture named Matra Cap Systèmes. The new undertaking

specializes in information systems for defense and spacial imagery. CAP Sesa Defense's skills lie in systems integration within the defence sector. It designs and develops information and communication command systems, as well as technical and general IT systems for the French ministry of defence.
Matra-Sep's expertise concentrates on information and imagery systems, including computerised command and mission preparation, earth observation and image processing systems.
As of the end of 1993, CGS sold Copernique to EMC, an American company.
In 1994 CGS acquired a 34% interest in Apis, which cost the company FF 90 million.

United Kingdom
July 1990, CGS acquired a 67% interest in Hoskyns. The interest was bought from GEC/Siemens. Hoskyns is a firm specialized in system integration and facility management, the unchallenged number one in the latter sector. Hoskyns realized in 1991 over 40% of its FF 1,989 million turnover in facility management. CGS was back on the island it left in 1975 after a 'partition' agreement with CAP-UK.
During 1993 CGS launched a bid on the remaining shares in Hoskyns held by the public. As of April 7, the shareholding of CGS has increased to 100%. CGS paid FF 1,1 billion for the remaining shares.
Hoskyns used it's experience and knowledge to enter the French facility management market. For that reason a new undertaking was formed, Cap Sesa/Hoskyns.

Benelux
Early 1992, CGS and the World Software group, the principal shareholder of the Dutch company Volmac, set up a joint venture Cap Volmac in which CGS holds 58%. Cap Volmac operates as the parent company of all Dutch (Cap Gemini-Pandata, Volmac) and Belgium (Cap Gemini Sesa Belgium) subsidiaries. The new company is by far the largest of its kind in the Benelux. The whole operation was some sort of self-financing one. CGS sold its Dutch and Belgium subsidiaries in exchange of its 58% interest in Cap Volmac, through which it controlled its just-sold subsidiaries.
Volmac's facility management unit was sold in two stages (in 1993 and 1994) to debis Systemhaus (Germany).
Cap Volmac itself came under larger control of CSG after the latter acquired the remaining 30% of the holding company controlling 58% of Cap Volmac.

Nordic countries
May 1992 CGS acquired Programator after a friendly take-over bid. Programator has just merged with all the local subsidiaries of CGS in the Nordic countries (Sweden, Norway, Denmark and Finland). This acquisition made CGS market-leader in the region.
Cap Programator sold its 50% interest in AU System Invest.

Germany
The most spectacular event in recent years was the formation of Cap debis in

Germany, in which CGS has a 49% share. Cap debis is a joint-venture from Cap Gemini SCS and debis Systemhaus, Daimler-Benz' computer services subsidiary. The new company is the number one on the German market. In exchange Daimler-Benz got a 34% interest in Sogeti, CGS' parent company.
Cap debis has a 20% interest in Computer Communications Services, whose principal activity is facility management. Debis Systemhaus holds the remaining 80%. The joint-venture would not last long. In 1994 Cap debis merged with on of its parents, debis Systemhaus. CGS's 49% interest in Cap debis was transformed in a 19.6% interest in debis Systemhaus.
CGS' sistercompany Gemini Consulting took over GTPin 1993, making Gemini Consulting one of the leading consulting firms in a market from which it was previously almost absent.

With smaller subsidiaries in Spain, Italy, Austria and Switzerland, CGS is by far number one in its field in Europe. CGS marketshare is about 7% of the fragmented European market and about twice that of its nearest rival Finsiel of Italy. With less than 1% of the US market and nothing in Asia CGS' appearance outside Europe is much less impressive.

United States
CGS US activities started back in 1981, but CGS is still associated with a second-tier firm instead of a leading computer services supplier. To change that situation CGS US strategy aims at the build up of the weak business in system integration, sell data processing services, run networks and sell software. The strategy is ambitious: expanding US operations from current FF 964 million to FF 5,000 million in 1996. A closer relationship with Gemini Consulting also is expected to boost US market presence. Reality, however, showes a steady increase of sales but by far not as fast as planned. In 1994 US sales increased to FF 1,083 million.
Revenues are mainly based on software development and in lesser extend on system integration.

Japan
CGS is in Japan represented only by 20 Gemini Consulting consultants.

3. SECTOR BACKGROUND AND COMPETITION

What is called software sector consists of different forms of software, computer services, training, etcetera. Until recently, software was not seen as a separate product differentiated from hardware. Software was a necessity for hardware to work. For mainframes and medium sized systems, software was delivered as part of the system. A large proportion of software developed today is still produced in-house or as a necessity for hardware to work and as such not tradeable in its own right. This is changing rapidly. The high demand for PC's, starting in the early eighties, is commonly seen as the most important factor for the creation of software and the development of the software market in general. Although, since the famous IBM 'unbundling' decision in 1969, in which the United States anti-trust authorities obliged IBM to separate hardware and software, we witnessed the growth of independent software suppliers in many countries.
The worldwide IT market is estimated at ECU 775 billion (FF 5,000 billion), the European Community market accounting for 29% and expecting to grow with 5% to 10% annually.
The software market, being a part of the IT sector, can be divided in several sub sectors. Table 2 shows the relative positions of these sectors.

Table 2: Software market Western Europe, 1990-1994

	1994	1993	1992	1991	1990	Δ%
Software products (%)	29.8	29.4	28.7	28.0	27.3	51
Professional services (%)	37.0	36.5	36.1	35.6	35.0	45
Processing and network services (%)	14.3	14.4	14.5	14.7	15.0	31
Hardware maintenance and support services (%)	18.8	19.7	20.7	21.7	22.7	14
Total (FF billion)	433	406	393	369	333	37
Growth (%)	6.7	3.3	6.5	10.8	n.a.	

Source: IDC/European Information technology Observatory 93

As we can see, the software market is still growing in the early nineties. Package software (products) is gaining market share on the expenses of both the processing/network services and hardware maintenance/support services, Interesting to known that network services have an annual growth rate of 16%. Processing services, however, have a groth rate far below avarage.
US IT services firms (EDS, Andersen, CSC), hardware manufactures (IBM) and software developers (Microsoft) have increased their market share in Europe, taking the European unification more seriously then their European counterparts. The American share of the European market was estimated in 1991 to be 63% in the package segment, approximately 20% in the software services and 40% in computer services segment. Japanese firms are absent, although they entered the world market already, led by CSK one of Japan's few independent software houses. One of the biggest attractions for Fujitsu of Japan to acquire ICL from the UK was the latter's FF 7.9 billion software and service business, making ICL an European outcast for some time.

The France market is the largest of the European Community, as shown in table 3, although other sources give this honeur to Germany.

Table 3: EC software and computer services market 1992-1998 ($ billion)

	1992	1993	1998	1993-98
France	19.0	20.0	27.9	40%
Germany	15.8	15.8	16.5	4%
United Kingdom	11.6	11.6	12.1	4%
Others	31.6	35.2	70.5	100%
Total	78.0	82.6	127.0	54%

Source: Input Ltd.

The European industrial scene consists of over 16,000 firms, most of them small and medium sized companies. The high growth rates and earnings, combined with low entrance requirements, are the main causes for this fact. Still, the differences between countries are evident. A handful large French firms dominates the France market. These firms realize the larger part of their turnover at their home market. The German market is characterised by a large number of small firms with a strong regional specialisation and hardly any international links whatsoever. The Italian and Spanish market have the highest growth rates and a strong foreign penetration.
Market share of the ten largest independent software firms in European Community countries varies in 1992 from 13% in Germany to 24% in France. For computer services the variation is much larger: from 10% in Germany up to 59% in the Netherlands.
Nevertheless, many subsectors of the software market are still very fragmented markets, with no one player taking more than 10% of European share.

A variety of firms supplies the variety of products and services covered by the software sector. These firms fall generally into the following classes:
- system houses supply turnkey systems (comprising standard hardware and standard software) and system integration services.
- independent software vendors selling package software and/or custom made software and services.
- consultants start selling software as part of their problem solution.
- computer centres offering facility management in their own premises or in the ones from their customers.
- professional training institutes offering training and consultancy.
- hardware manufacturers started selling standard software with their own hardware. As hardware margins deteriorate, they shift their activities to software. Table 4 shows this clearly. Note that profit margins on large machines are negative. Next, note that profit margins on software were the highest and tail off ever since.

Table 3: Profit margins by segment 1988-1992

	1988	1992
Big iron (mainframe, high-end minis)	12.8%	-7.6%
Micros (low-end workstations, PC's, laptops)	12.3%	6.0%
Software	18.0%	21.0%
Services	8.2%	11.1%

Software production in EC member states is mainly tied to the country of origin. British industry that exports 10% of its production is the number one industry in respect of exports. Internationalisation of the sector takes place along different lines. Most of the time a local company is taken over. In recent years many international mergers and acquisitions took place. Leading firms are forced to do so for several reasons. First, many of their clients attain international activities and want these activities integrated in one international network or management information system. The second reason is the increasing investments needed in the sector. High development costs call for a large, international market. The third reason is efficiency and cost consciousness. Combining international experiences can provide that.

A new market segment is emerging, the so-called multi-media market. To enter this market one has to combine the technology and experiences of telecommunications, software engineering, data base control and electronic publishing. Infrastructure for multi-media is the combination of telephone, television and personal computers. In most western countries the density of these 'carriers' is relatively high.

Table 4: multimedia density (number per 100 households)

	telephone	TV	PC
US	60	79	30
Denmark	60	55	19
Zweden	68	48	17
France	55	58	14
Netherlands	51	48	16
Germany	48	55	14
Japan	48	64	12
UK	49	45	15

On several occassions, CGS announced its interest in a partnership agreement with a multi-media company such as Bertelsmann, Matra-hachette, McGrawHill or TimeWarner. This partnership must replace own development, because CGS's activity on multi-media is only limited.

Service companies, stimulated by the entering of newcomers to their business, globalization of requirements and by increasing competition, are starting to move in four directions:

- concentration of forces. The 10 leading European software service firms hold over 15% of the market, in contrast with a 1985 share of 9.5%.
- formalization of methods, primarily through specialization by individual technology, line of business or sector of activity.
- integration of services offered, moving from simple design of solutions to the delivery of complete projects or management of all or part of the customers' information systems.
- reducing costs. Development and maintenance make up 60% of total software costs. Developing tools to industrialize the software development reduce software costs substantially.

Clients, under the pressure of nowadays demands, have the following priorities concerning IT:

- reduce expenditure by measuring and so controlling costs.
- achieve competitive edge by harnessing new technologies that make information systems more flexible and enable the process of business transformation.
- focus on core business by reducing time spent on IT management and increasing its value as a management tool.

Customers have shown a marked desire to cut costs by only commissioning smaller projects likely to produce fast returns. The shift to short term results has made the big, and more profitable, contracts more difficult to find.

In a market with all these changing conditions the pressure in Europe is on CGS, with EDS acquiring UK based SD-Scicon a few years ago, and IBM spending a lot of money to tie up national software specialist on the continent.

CGS is number four on the worldmarket for computer related services, preceded only by EDS, IBM and Computer Services Corporation. The target is on Europe now and in that arena CGS has the most to lose.

4. STRATEGY

At the beginning of 1990, CGS came to an important decision. Instead of jogging along as it had for the last 10 years, it opted for a more ambitious strategy aimed at positioning the group among the three or four worldleaders or even worldleader. The company had to set new goals and formulate new ambitions, because customer demands were changing, marketconditions were changing, and above all, stagnation means decline. The CGS top 550 managers had to select one of three possible scenarios. Scenario one implied an intelligent use of present 'turf'. 12% of the managers gathered were in favour of this scenario. Scenario two consists of going on with the traditional strategy, but more aggressively applied, 37% voted for this option. The accepted scenario was the most ambitious one: trying to reach wordleadership, with 51% in favour. A new phase in the history of CGS had begun.

The adopted strategy implied the following 4 planks:
1. Strengthen the group's presence in the major European markets in which it was still weak, in particular Great Britain and Germany.
2. Extending the range of services beyond customized software development and system integration.
3. Supplementing the company's geographical coverage with a strategy based on economic sectors, to create a more targeted sales approach.
4. Transforming the company's structure from a federation of national companies into a transnational one.

The impact of this new strategy soon showed clearly: in July 1990 CGS acquired SCS in Germany, doubling the group's German personnel to 1,000. In the same month a 70% stake in Hoskyns was bought from GEC/Siemens, making CGS the leading company in the United Kingdom. These acquisitions itself were not enough. CGS needed a strong industrial partner, to bring in cash and to stimulate the company's internationalization. Such a partner was sought and found and CGS position strengthen with the alliance between CGS and Daimler-Benz, with the latter taking a 34% stake in Sogeti, CGS's parent company. The alliance with Daimler-Benz has a triple profit for CGS. First it yielded DM 1.2 billion financing other acquisitions. Second, CGS hopes to get a share of the large Daimler-Benz automation projects, similar to what General Motors did for EDS. And third, debis Systemhaus is a steppingstone for CGS to the large German market. The share of debis Systeemhaus' performed work, done for customers outside the Daimler-Benz concern grew in 1992 from 28% to 40%. Recently Cap debis merged with debis Systemhaus.

CGS' services offered broaden with the creating of Gemini Consulting. To make an IT tool more competitive faster, a company must link its IT strategy to its overall corporate strategy, both human and organizational. That is the reason for the close ties between CGS and the group's management consulting practice, Gemini Consulting. The undertaking is complementary on CGS activities, rather than a diversification.
Although legally and organizationally separated, Gemini Consulting and CGS

work together closely. Gemini Consulting, created out of the French consultant firm Gamma International and US-based United Research, IKO and MAC Group, offers management consulting services, especially in relation to IT applications. The performance of the company is strong, with an internal growth in 1991 and 1992 of 30% and 39% respectively. Staff size grew from 1,300 to 1,700. In 1993 en 1994 growth still went on but on a more modest scale with turnover increasing 19% and 6% respectively. In 1994 Gemini Consulting employed over 2,000 people.
In 1994 the organizational structure was transformed by instituting so-called Global Market Teams. These teams are: Chemical & Enviroment, Consumer Products/Durable Goods, C4 (Computers, Content, Telecommunications and Consumer Electronics), Diversified Industries & Services, Energy, Financial Services and Health care Services.

The first two planks of the new strategy were in full development when the recession hit the IT industry, leaving the second two planks behind schedule. Management decided to keep on going in the same direction. As a result all more or less national companies of the group were transformed in a part of a transnational organisation. Crucial for this aim was the formation of so-called Strategic Business Areas (SBA). Furthermore sales approach, services provided, internal structure, quality and productivity system (PERFORM), etcetera were coordinated. As part of the program, a change program was set up, called Genesis, in with a many employees participated in 1992.
This transformation towards a transnational organisation was difficult. It was finding a new balance between the dose of centralisation needed to make it possible and the independent spirit that fosters vital creativity in service businesses. Controlling SBA's employing over 3,000 people is more difficult and must be done differently as 50-persons branches of which the old organisation consisted.
Second, enhancing the territorial responsibility of each unit (SBA), they were assigned a sectoral responsibility as well.
In this way, a SBA member branch can take an order from a local customer that might be outside its usual business sector or geographical area and subcontract it within the group.

The new strategy, combined with sound Research & Development exertion, must prepare CGS for the future. CGS invests over 5% of its revenues in Research & Development. The R&D work is done by Cap Gemini Innovation, which focuses its attention on software engineering, man-machine communication, knowledge engineering and new system architectures. The target was set ambitiously: doubling the productivity of development teams in five years. Presentday productivity rose at a rate of a few percentage points a year. Is has to be seen if these targets are met.
CGS' president Kampf claims he has finished the basic building of CGS. The company is ready to leap forward if an opportunity occurs. The question yet to answer is: what kind of opportunity? Kampf recognizes the importance of telecommunication and is not unwilling in finding a partner in that branch. The word goes that talks with France Télécom as well as with other telecom com-

panies are going on. Daimler-Benz confirms the importance of telecommunication, but probably doesn't prefer France Télécom becoming CGS' partner.
The president of the government related Compagnie Générale d'Industrie et de Partipations (CGIP), placed his 10% direct and indirect CGS equity at disposal for an interested telecommunication partner.
On the short term company executives plan to turn their attention to markets were the CGS presence is weak, namely the United States and some smaller European countries, such as Spain. CGS is on the outlook for acquisitions in the US, but the agreement with Daimler-Benz will probably boost organic growth as well.

CGS meets a double challenge with the IT industry in turmoil: the new organizational structure has to show its ability, and at the same time CGS heads for worldleadership.

5. PERFORMANCE

The inevitable happened in 1992: CGS made its first loss in history. With revenues still going up, profit decline in 1991 for the first time, 1992 was going to be even worse. The economic recession expected to end early 1992 at the latest, continued during the whole year. The company went back to basics: making the company's activities profitable again. Table 5 shows the development of revenues and profit.

Table 5: Consolidated revenues and group income 1988-1994

(FF million)	1994	1993	1992	1991	1990	1989	1988
Revenue	10,176	11,028	11,884	10,028	9,172	7,055	5,816
Income	-94	-429	-72	560	623	525	402

Slow growth in revenue (9%) characterizes 1991, compared to an average growth rate of 33% over the previous five years. In 1992 growth recovered to 18.5%, but still below average, and above all completly due to external growth operations. Reorganizing the entire company in a time of economic recession takes its toll. Management explained the disappointing results over 1991 with a reference to the reorganization and large acquisitions made in that year.
The main reason for the decline of net income in 1992 is, according to the management, a 24.9% rise of salaries and social charges. "Of course, it is the 6.4 point gap between revenue growth and the variation in the salary expense which provides the most telling explanation of the strong decline in operating earnings". Or in other words: the employees are to blame. If the workforce is not completely utilized, in a people-business as computer services business is, it shows in the profitability rate. A 18.5% rise in income did not compensate for a 24% rise in operating expenses, consisting for 62% of salaries and social charges. But other expenses like third party purchases and travel expenses went up as well. 1993 brought no improvement, but 1994 did with full scale cost reductions, including a 9% decrease of salaries and social charges due to a reduction of employees with 12%. Table 6 shows the evaluation of profitability rates.

Table 6: Profitability 1988-1994

(FF million)	1994	1993	1992	1991	1990	1989	1988
Profitability (%)	-0.9	-3.9	-0.6	5.6	6.8	7.4	6.9

As the table shows, profitability already declined in 1990. At the same time as when the new strategy and organizational structure was developed early 1990. 1992 closed with the first loss in de the history of the company, but mainly as a result of a strong increase of exceptional charges. These differ strongly comparing 1991 and 1992. In 1991 they accounted for +FF 88 million, mainly as a result of the selling of shares in the Bossard Group. Exceptional charges were -FF 148 million in 1992, mainly due to restructuring costs (-FF 266 million) and covering an expected reimbursement risk (-FF 117 million). These costs outweighed the exceptional income from assets disposal (+FF 318 million).
On the press conference on which the results over 1992 were announced, S.

Kampf gave as main reasons for the loss: economical stagnation in Europe, rapid changes within the IT-industry, and CAP's external growth. But the worst had still to come. In 1993 interest on borrowings, financing CGS's expension, increased sharply. So did the net exceptional items, because cost decreased marginaly but they were no longer compensated by gains as a result of selling assets. but even without these items, operating income halved from 1992 to 1993.
The turn for the better came in 1994. With a slight drop in revenues, costs dropped substantially, so did the net exceptional items. Nevertheless, 1994 was the third year showing a loss on a row. But even after the loss taken, the financial position of CGS remains strong.

A breakdown of revenues in geographical regions shows the fast growing importance of new markets in Europe, caused by the acquisitions in Sweden, Netherlands and Germany. The Benelux accounts for a quarter of CGS's revenues in 1994. Table 7 shows the breakdown.

Table 7: Revenue breakdown by region 1991-1994 (FF million and %)

	1994	1993	1992	1991	1994	1993	1992	1991
France	2,955	2,998	3,455	3,913	29	27	29	39
UK	1,849	1,778	1,822	1,990	18	16	15	20
Benelux	2,427	2,418	2,538		24	22	22	
Nordic countries	1,366	1,237	1,326		13	11	11	
Germany	--	1,091	1,108		--	10	9	
Other Europe	496	525	670	2,980	5	5	6	30
US	1,083	981	965	1,146	11	9	8	11
total	10,176	11,028	11,884	10,028	100	100	100	100

Note that fluctuating exchange rates especially influence US revenues.

6. SOCIAL ISSUES

In 1985 there were just over 4,900 people employed at CGS. At the beginning of 1990, there were less than 14,000 people in the group. In 1992 an average workforce of 21,675 people was counted. Nowadays, the group has a workforce of 19,000 in addition to the 2,000 people belonging to Gemini Consulting and excluding 1,700 people working for debis Systemhaus.
By far the most of the workforce are professional staff, a steady 85%. Tables 8 gives details.

Table 8: Number of employees 1985-1994

	1994[1]	1993[2]	1992[2]	1991	1990	1989	1987	1985
Average	19,001	20,900	21,675	17,971	16,489	12,974	8,908	4,910
professional staff	84%	83%	84%	78%	82%	91%	85%	85%

[1]: excluding 49% of the total workforce of the German company Cap debis
[2]: including 49% of the total workforce of the German company Cap debis

To accomplish the tasks set for the company and its employees, permanent training is necessary. A CGS University was established in the Paris' vicinity. The premises serve both for training, as well as a meeting ground for managers. With the second objective CGS tries to overcome not only the language barrier among managers but also the cultural diversity. As English is the official working language, the language problem is controlled reasonably well. The cultural issue is more difficult to master, although considered essential by CGS to become a truly transnational organisation.
CGS is also using its own affiliate Gemini Consulting. The new organisational structure of CGS and company policy e.g., was spread through the group with the help of Gemini Consulting, employing at one stage 500 people in a joint CGS-Gemini Consulting team.
Another tool to encourage more team behaviour, being a vital part of the new company policy, has been to alter the pay bonus system from rewarding individual performance only, to rewarding sector performance as well.

Notwithstanding all good intentions, 1991 was the first year since the company's creation in 1967 that closed with a workforce smaller than the preceding year. And that will not be the last time, although acquisitions and minority interests blurred the view on actual personnel figures. As a result of the diminished company profit, staff reduction went on in 1992, 1993 and 1994. For how long this dark area will continue, depends on the success of the company policy.

APPENDICES

I. MANAGEMENT

Management team
Vincent Grimond
Paul Hermelin
Pierre Hessler
Serge Kampf (Chairman)
Geoff Unwin

Area group vice presidents
Michel berty (USA - process industries)
Tony Robinson (UK - finance)
Anders Skarin (Nordic countries - utilities)
Chris van Breugel
Berend Brix (Benelux - distribution & logistics, travel transport & tourism)
Karl-Heinz Achiner (Germany - government & public services)
Henri Sturtz (Ile de France - telecom & media)
Alexandra Haeffner
Gennaro de Stasio (France, Austria, Italy, Spain, Switzerland - manufacturing)

Corporate group vice presidents
Jacques Collin
Jean-Paul Figer
Tony Fischer
Eric Lutaud
Jean-Louis Michelet
Nicolas du Peloux

II: MAIN ACQUISITIONS AND DISPOSALS

1990:	
Hoskyns (UK)	67%
SCS (Ger)	100%
Copernique (Fr)	69%
Sysdata (It)	100%
AIC (It)	100%
United Research (US)	34%
1991:	
Hoskyns	70% (+2%)
Copernique (Fr)	74% (+5%)
ITMI (Fr)	99% (+9%)
Bossard Group (Fr)	17% (-32%)
1992:	
Programator (Sw)	100%
Volmac (Neth)	58%
Cap debis (Ger)	49%
1993:	
Matra Cap Systemes (Fr)	50%
Hoskyns (UK)	100% (+31%)
Copernique (Fr)	0% (-100%)
1994:	
debis Systemhaus (Ger)	20%
Cap debis (Ger)	0% (-49%)
Apis (Fr)	34%
AU System Invest (Swe)	0% (-50%)

III: CONSOLIDATED COMPANIES

FULLY CONSOLIDATED:

FRANCE	
CAP SESA FINANCE	100%
CAP SESA HOSKYNS	100%
CAP SESA INDUSTRIE	100%
ITIM/APTOR	100%
CAP SESA INFORMATIQUE HOSPITALIERE	100%
CAP SESA MAINTENANCE	100%
CAP SESA REGIONS	100%
CAP SESA TELECOM	100%
CAP SESA TERTIAIRE	100%
CAP GEMINI INNOVATION	100%
CAP GEMINI SOGETI UNIVERSITY	100%
CAP GEMINI SOGETI SERVICE	100%
EUROPE	
CAP GEMINI AUSTRIA (Austria)	100%
CAP GEMINI ESPAÑA (Spain)	100%
CAP GEMINI ITALIA + subsidiaries (Italy)	100%
CAP GEMINI SUISSE (Switserland)	100%
CAP PROGRAMATOR + subsidiaries (Nordic)	100%
HOSKYNS + subsidiaries (UK)	100%
CAP VOLMAC + subsidiaries (Benelux)	58%
UNITED STATES	
CAP GEMINI AMERICA (USA)	100%

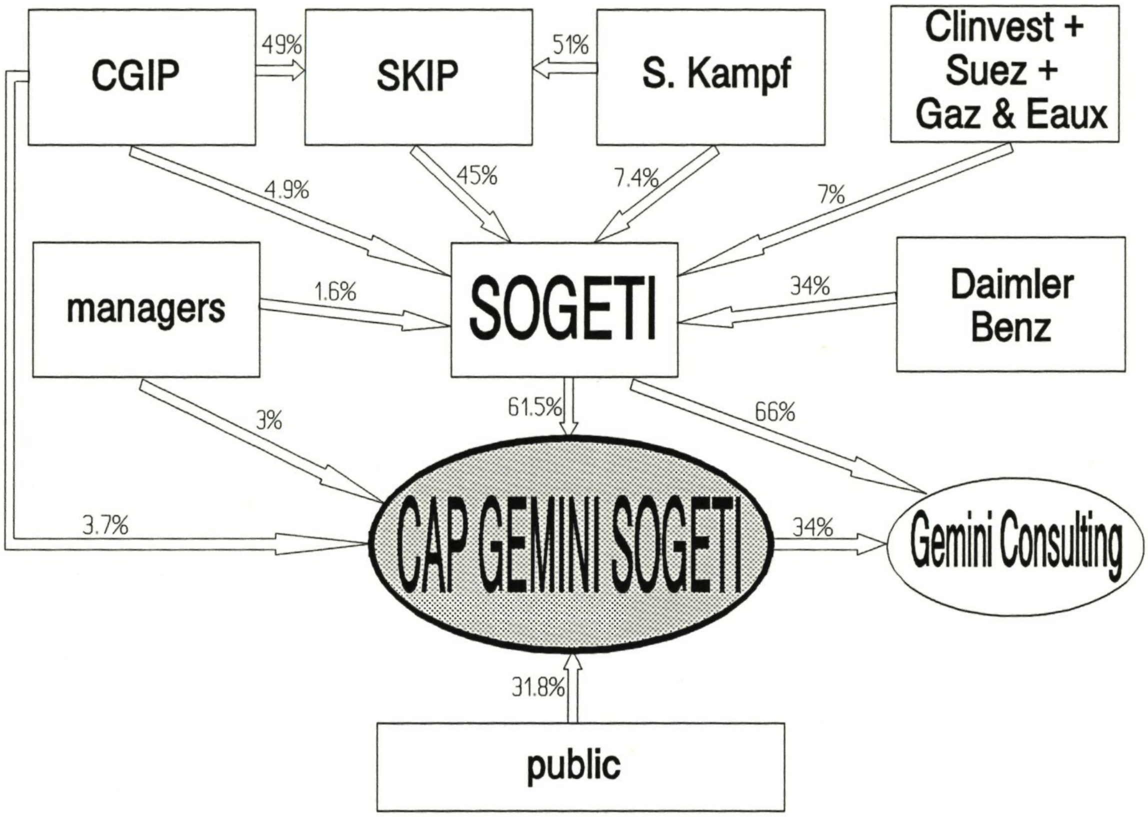
COMPANIES CONSOLIDATED BY THE PROPORTIONAL METHOD

MATRA CAP SYSTEMS (France)	50%

INVESTMENTS ACCOUNTED FOR ON THE EQUITY BASIS

debis SYSTEMHAUS and subsidiaries (Germany)	20%
GEMINI CONSULTING (France)	34%
CISI (France)	36%
CISI (France)	36%
AU SYSTEM INVEST (Sweden)	50%

IV: CAPITAL DISTRIBUTION (April 30, 1995)



somo

stichting onderzoek multinationale ondernemingen
centre for research on multinational corporations

Keizersgracht 132
1015 CW Amsterdam
the Netherlands
tel 020-6 39 12 91
fax 020-6 39 13 21
E-mail: Internet:
somo@antenna.nl