Topic: Application Outsourcing (AO) – Annual Report 2013: "Declining Productivity Rising Anti-incumbency"

Information Technology Outsourcing (ITO)
Annual Report: September 2013

EGR-2013-4-PD-0957

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1 Banking, financial services, and insurance

Background and methodology of the research

Background and scope

- Everest Group closely tracks the application outsourcing market. In this annual report we analyze the major trends in AO adoption, key factors shaping this market, and the outlook for 2014
- This research also provide the market share of leading service providers across different IT services such as applications, infrastructure, and consulting
- The key input to this report was Information Technology Outsourcing (ITO) Request For Information (RFI) exercise conducted in Q2 2013
- In the RFI 2013, we reached out to 30 IT service providers. They included large multinational (MNC) providers with headquarters in Europe, North America, India, APAC, and other regions

Methodology

- We asked RFI participants to report their 30 largest ITO deals (by total contract value) for 2012. This data was augmented by Everest Group SMEs tracking the application service market
- We also estimated the overall market size for IT services split across multiple dimensions such as type of service (applications, consulting, infrastructure), geographic region, and industry verticals
- The analysis herein is an aggregated summary of the responses by category (i.e., buyer geography, buyer revenue, and industry group)
- Based on the perspectives from Everest Group SMEs and a continuous interaction with the buyer community, the research also analyze the key trends shaping the application service market

Everest Group's AO research is based on two key sources of proprietary information

1

- Everest Group's annual RFI process with leading IT service providers (conducted in Q2 2013)
- RFI participants were asked to report their 30 largest ITO deals (by total contract value) signed in 2012
- We analysed a total of 432 ITO deals reported for 2012
- We asked the respondents about only their top 30 deals, so as to focus on the high-value ITO market

2

- Everest Group's proprietary database of AO contracts (updated annually) of major IT service providers. The database tracks the following elements of AO relationships:
  - Buyer details including industry, size, and signing region
  - Contract details including TCV, ACV, term, start date, service provider FTEs, and pricing structure
  - Scope includes coverage of buyer's geography as well as functional activities
  - Global sourcing including delivery locations and level of offshoring

Service providers reached out for the analysis

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Cognizant | CompuCom The Leading IT Outsourcing Specialist | CSC | DELL Services

epam | FUJITSU | GENPACT | HCL

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Infosys | L&T Infotech | Tech Mahindra | Mindtree Welcome to possible

MPHASIS an HP company | NIIT technologies | Softtek | SYNTEL Consider IT Done

TATA CONSULTANCY SERVICES | T-Systems

UNISYS | WIPRO Applying Thought | xerox

Note: We continuously monitor market developments and track additional service providers beyond those as stated above

Confidentiality: Everest Group takes its confidentiality pledge very seriously. Any information, that is contract-specific, will be presented back to the industry only in an aggregated fashion

Table of contents (page 1 of 2)

Table of contents (page 2 of 2)

Summary of key messages (page 1 of 2)

Application outsourcing (AO) is undergoing tremendous changes. The traditional value drivers of labor arbitrage, process efficiency, and standardization are unable to provide next level of value in AO engagements. Buyers are facing multiple challenges in their portfolio (e.g., rapidly declining productivity) and service providers are unable to respond to these issues. As a result of this, the market is witnessing significant number of service providers losing their existing AO engagements.

Buyers of application services will benefit from this report to understand the evolving AO landscape, key trends to watch out for, and outlook for 2014. Service providers will gain by understanding the major factors shaping the AO market, buyer expectations, and overall market trends

Some of the findings in this report, among others, are:

Major highlight

- There is an increasing frustration amongst the buyers due to declining productivity in their AO relationships. Buyers believe that service providers do no possess needed capabilities to provide incremental value
- Buyers are heavily investing in mobility, analytics, and cloud delivery models. These investments for the future are driving demand for consulting services within the broader AO engagement

Overview

- Due to the uncertain environment buyers are unwilling to invest for long duration. Most of them prefer unbundled AO deal, however, demand consulting services to be delivered within AO
- AO pricing discussions are now more granular. Buyers are not only interested in resource pricing but also push service providers to provide break-up by function points, application tickets, etc.

Summary of key messages (page 2 of 2)

Buyer adoption

- European buyers increased their AO activity. In North America, BFSI, healthcare & life sciences, and hi-tech industries led AO adoption. APAC lagged behind the other two major geographies
- BFSI led the overall AO. Moreover, industries such as retail also increased their AO activity whereas, manufacturing and telecom saw a decline

Key trends

- There are two distinctive trends in the AO market
- One addresses the traditional service space (typically cost take-outs) and the other focuses on next-generation investments (e.g., mobility, analytics, and cloud)
- Buyers require very different capabilities for these two objectives and service providers are facing challenges to cater to the demand

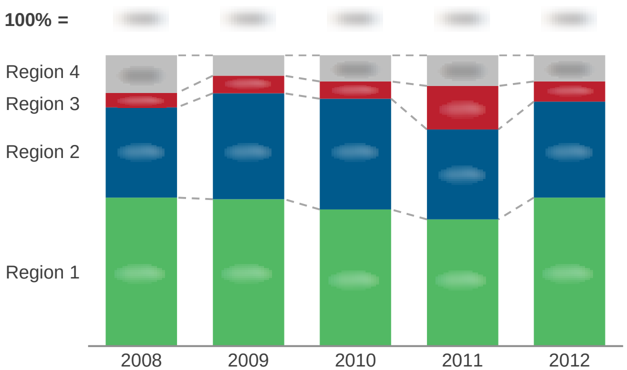
Outlook for 2013-2014

- The overall IT service industry will witness a fillip due to the improvement in the North American market (especially U.S.). Key industries such as BFSI and healthcare & life sciences will lead AO adoption
- Buyers will increase their vendor rationalization program. They demand more value from AO relationships and will not hesitate to change the service provider if required

Multiple factors are transforming the traditional AO market where earlier capabilities will not guarantee future success

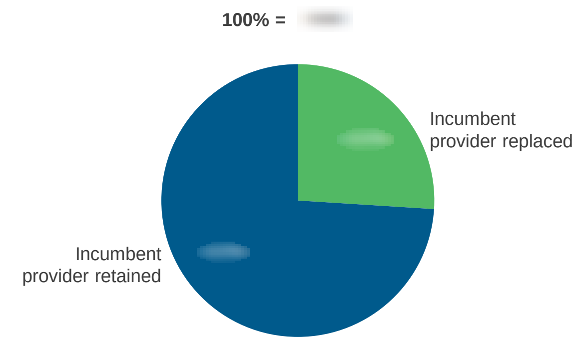
Increased AO activity in Europe and North America

Buyer adoption trends in AO engagements – by geography
2008-2012; Number of deals



Rising ant-incumbency in AO

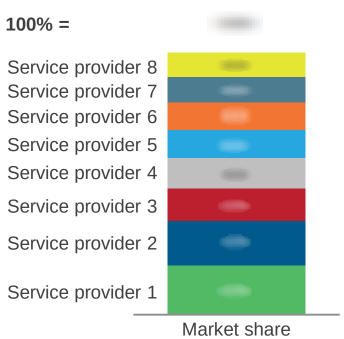
Impact of anti-incumbency in AO engagements
2012; Number of deals



Market share of leading service providers

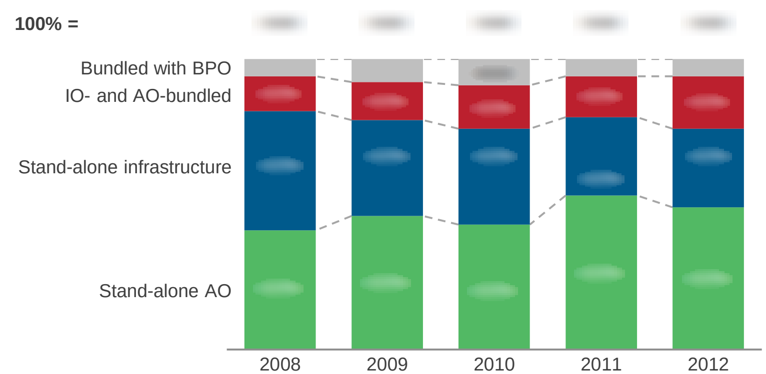
Market share of leading service providers by type of service1
2012; Percentage

Application outsourcing



Bundling trends in AO

Buyer adoption trends in AO engagements – by geography
2008-2012; Number of deals



Source: Everest Group (2013)

ITO research calendar

Published | Current

Topic	Release date
Application Services – Past, Present, and Future	January-2013
How to Overcome Roadblocks while Shifting to Output-based Pricing?	March-2013
Impending Contract Renewals: "A Futuristic View of the Renewals Market Place"	May-2013
Service Integration and Management: An Idea Whose Time Has Come	July-2013
AO – Annual Report 2013: "Increasing Anti-incumbency Declining Productivity"	September-2013
Infrastructure Outsourcing Market Update 2013	Q4-2013
Remote Infrastructure Management Market report	Q4-2013
Infrastructure Outsourcing PEAK Matrix Assessment and Profile Compendium	Q4-2013

Additional research recommendations

The following documents are recommended for additional insight into the topic covered in this research. The recommended documents either provide additional details on the topic or complementary content which may be of interest

1. **Application Services – Past, Present, and Future** (EGR-2013-4-R-0817); 2013: This research analyzes the history, current status, and expected future of application services. It provide insights into the evolving buyer expectations and the key success factors for service providers going ahead. It also analyzes the evolution of major constructs in an application service engagement

2. **Application Outsourcing Market Update 2012** (EGR-2012-4-R-0701); 2012: This research focuses on application services engagements and gives an insight into the buyer landscape segmented along geographies, industry, buyer sizes, etc. It covers detailed trends such as deal size, duration, scope of services, and bundling. It also analyzes the application services engagements of offshore and MNC providers and offers insights into the evolving application services market

For more information on this and other research published by the Everest Group, please contact us:

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