Topic: Application outsourcing – Annual Report 2014: “Rationalization Goes Hyper”

Information Technology Outsourcing (ITO)
Annual Report: May 2014 – Preview Deck

EGR-2014-4-PD-1120

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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 2015
- 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 Q1 2014
- In the RFI 2014, 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 2013. 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 application outsourcing research is based on two key sources of proprietary information

1

- Everest Group's annual RFI process with leading IT service providers (conducted in Q1 2014)
- RFI participants were asked to report the 30 largest ITO deals (by total contract value) they signed in 2013
- We analyzed a total of 570 ITO deals reported in 2013
- We asked the respondents about their top 30 deals only, so as to focus on the high-value ITO market

2

- Everest Group's proprietary database of application outsourcing contracts (updated annually) of major IT service providers. The database tracks the following elements of application outsourcing 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

Accenture, Atos, Capgemini, CGI, Cognizant, CompuCom, CSC, Dell Services, EPAM, Fujitsu, Genpact, HCL, Hexaware Technologies, HP, IBM, iGATE, Infosys, L&T Infotech, Tech Mahindra, Mindtree, Mphasis, NIIT Technologies, Softtek, Syntel, Tata Consultancy Services, T-Systems, Unisys, Wipro, Xerox

Note: We continuously monitor market developments and track additional service providers beyond those 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)

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Table of contents (page 2 of 2)

Summary of key messages (page 1 of 2)

Buyers are having a harder look at their applications portfolios than ever before, as they aspire for greater business agility and reduced management costs. Adoption of next generation technologies and automation is enabling enterprises to achieve effective application rationalization, cutting across the entire IT function. Enterprises are thereby able to free up a significant chunk of the IT budget, a majority of which is currently dedicated to core operations, maintenance, and support.

Buyers of application services will benefit from this report to understand the evolving AO landscape, key trends to watch out for, and outlook for 2015. 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 highlights and key trends

- The advent of cloud models and other technology disruptions is pushing enterprises to invest in radical enterprise-wide application rationalization initiatives covering the entire applications portfolio (hyper-rationalization)
- Commoditization of application services, automation, and technology disruptions are pushing AO service to offer competitive prices, resulting in unprecedented pricing pressures

Overview

- Buyers perceive that service providers are unable to provide value levers beyond cost reduction. This is leading to significant levels of discontent amongst buyers, and resulting in high anti-incumbency
- Adoption of SaaS and cloud computing principles continues to drive the requirement for applications consulting. However, buyers migrating to a SaaS model are not open to investing significantly on “highly priced” consulting engagements

Summary of key messages (page 2 of 2)

Buyer adoption

- European buyers, challenged by the economic conditions, continue to increase their AO activity. However, North America continues to lead the overall market
- While the BFSI industry continues to lead the AO market, the sector witnessed a dip in the number of large AO deals, driven by subdued adoption across North America and Europe
- Enterprises with mature outsourcing strategies are open to exploring more complex pricing models. However, input-based pricing continues to be the most preferred model due to the ease of negotiations

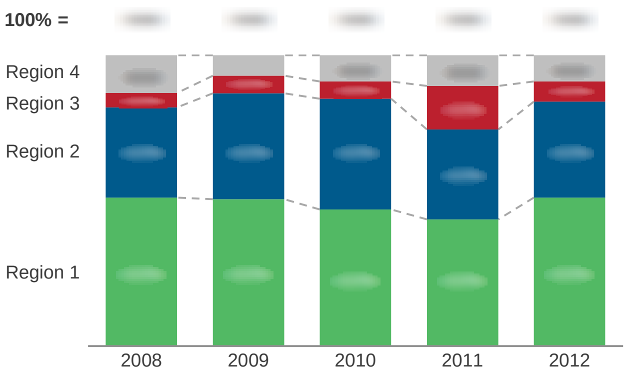
Outlook for 2014-2015

- Adoption of mobile and cloud-based services will drive AO discretionary spend amongst buyers. However, the buyers' will remain cautious about making large-scale investments, considering the prevailing economic challenges
- Mature buyers will consider insourcing parts of their applications portfolio incrementally to gain greater control over productivity and achieve better business alignment

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

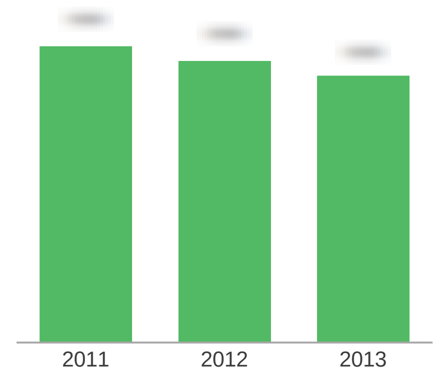
Increased AO activity in Europe and North America

Buyer adoption trends in AO engagements – by geography
2009-2013; Number of deals



Pricing trends in AO engagements

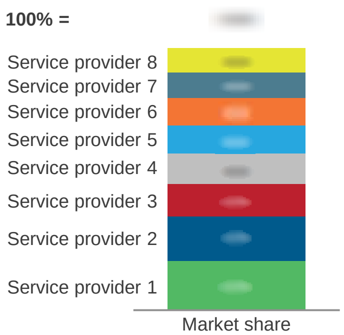
Average pricing in AO engagements
2011-2013; Index (base year 2011)



Market share of leading service providers

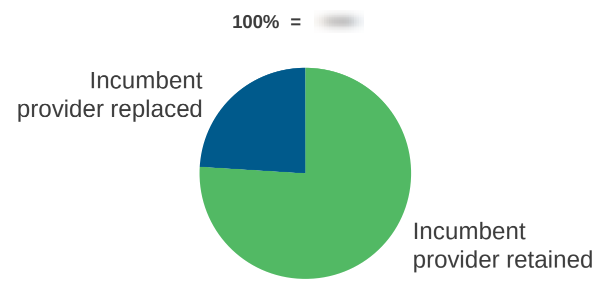
Market share of leading service providers by type of service
2013; Percentage

Application outsourcing



Rising ant-incumbency in AO

Impact of anti-incumbency in AO engagements
2013; Number of deals



Source: Everest Group (2014)

Everest Group RESEARCH

ITO research calendar

Published | Current

Topic	Release date
Infrastructure Outsourcing (IO) – Annual Report 2013: "Automating the Next Horizon"	November-2013
Infrastructure Services – PEAK Matrix™ Assessment and Profile Compendium 2013	December-2013
Remote Infrastructure Management – "RIMO is Dead, Long Live RIMO"	December-2013
European Infrastructure Services – Service Provider Landscape with PEAK Matrix™ Assessment 2014	January 2014
Upcoming Contract Renewals – Infrastructure Services	March-2014
Upcoming Contract Renewals – Application Services	March-2014
Contract Renewal Database (April 2014 to April 2016)	April-2014
In Search of ADM Productivity	May-2014
Application outsourcing – Annual Report 2014: "Rationalization Goes Hyper"	May-2014
Independent Testing Services PEAK Matrix Assessment	Q2-2014
Buyer Next-Generation Technology Adoption	Q2-2014
Infrastructure Outsourcing (IO) – Annual Report 2014	Q2-2014
Enterprise Mobility	Q2-2014
Big Data Analytics – Next Frontier	Q3-2014
Changing face of IO T&C	Q3-2014
Automating IT services	Q4-2014
Next- gen application service	Q4-2014

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 Outsourcing (AO) – Annual Report 2013: "Declining Productivity Rising Anti-incumbency"** (EGR-2013-4-R-0957a): This annual research analyses into the application outsourcing landscape. It provides data-driven facts and perspectives on the overall market. The research covers AO adoption trends, demand drivers, next-generation services such as mobility, analytics, and cloud. The research analyzes buyer challenges, and trends shaping the market

2. **Upcoming Contract Renewals – Application Services** (EGR-2014-4-R-1089); 2014: Nearly US$84 billion worth of IT and BPO contracts are up for renewal in the 24 month period starting April 1, 2014. This report explores trends in such contracts, with a deep-dive into analysis of IT renewals with a focus on AO and bundled contracts

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

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From **insight** to ***action***.

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- Through its practical consulting, original research, and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies, and management approaches
- Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms in six continents across all industry categories

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