Upcoming Contract Renewals – Application Services: "Buyers: To Replace or To Renew?"

Application Services (AS)
Market Report – February 2017 – Preview Deck

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Custom research capabilities

● Benchmarking | Pricing, delivery model, skill portfolio

● Peer analysis | Scope, sourcing models, locations

● Locations | Cost, skills, sustainability, portfolio – plus a tracking tool

● Tracking services | Service providers, locations, risk

● Other | Market intelligence, service provider capabilities, technologies, contract assessment

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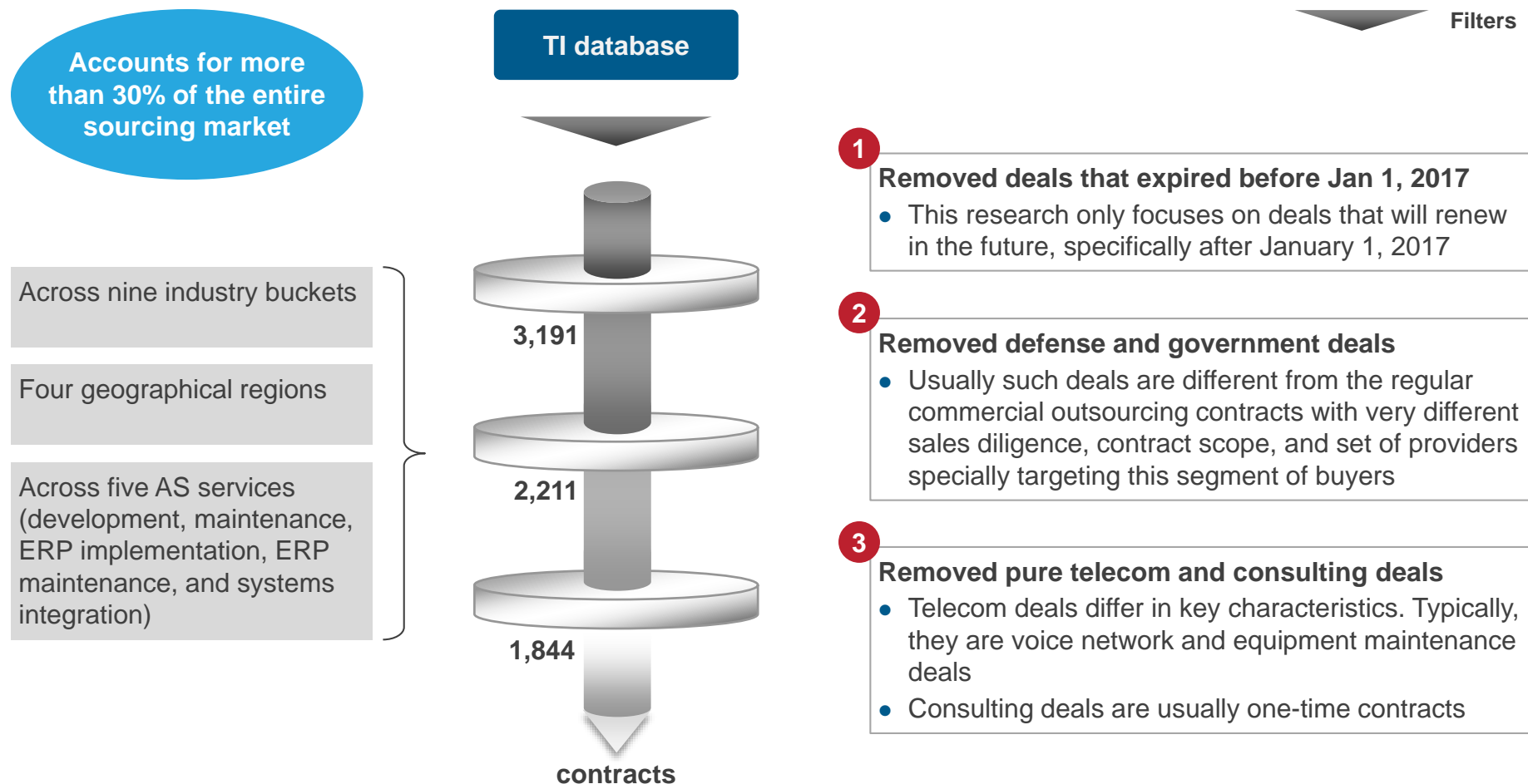# Background and methodology of the research

Background of the research

- Customer dissatisfaction/frustration with service providers is at an all-time high – traditional issues (e.g., project management, execution, and pricing) as well as lack of meaningful innovation in services continue to be areas of significant discontent. Everest Group's interviews with more than 130 enterprises over 2016 revealed that **nearly half of them are currently not satisfied** with their existing providers
- Renewals and recompetes provide an opportunity for non-incumbent players to expand their wallet shares amidst disruptive factors such as saturation, slowing growth rate, and new and more agile competitors. It also allows buyers an opportunity to make course corrections based on lessons learned during the lifetime of the just-concluded engagement, and adjust sourcing strategy to suit the business environment
- This research analyzes upcoming renewals in the next two years with a focus on application services contracts

The scope of this report includes:

- Analysis of the ITS and BPS markets with deals in scope that are to be renewed over the next two years and beyond
- Key vertical, geographical, and scope-based analysis with a focus on AS and bundled contracts
- Deep dive analysis of AS and bundled contracts across geographies by scope
- Key considerations for service providers for improving deal renewal success rates

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The analysis shared in this report is based on Everest Group's "Transaction Intelligence Database", the most comprehensive organized record of publicly-announced outsourcing deals

Filters

Accounts for more than 30% of the entire sourcing market

TI database

Across nine industry buckets

Four geographical regions

Across five AS services (development, maintenance, ERP implementation, ERP maintenance, and systems integration)

3,191

2,211

1,844

contracts

1 **Removed deals that expired before Jan 1, 2017**
- This research only focuses on deals that will renew in the future, specifically after January 1, 2017

2 **Removed defense and government deals**
- Usually such deals are different from the regular commercial outsourcing contracts with very different sales diligence, contract scope, and set of providers specially targeting this segment of buyers

3 **Removed pure telecom and consulting deals**
- Telecom deals differ in key characteristics. Typically, they are voice network and equipment maintenance deals
- Consulting deals are usually one-time contracts

The analysis was performed on 1,844 outsourcing deals that expire on or after January 1, 2017.

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Overview and abbreviated summary of key messages
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Disruption is taking center stage as incumbents gear up to battle amidst saturation, slow growth rate, and new and more agile competitors. As a result a large portion of the market scope comes back to the planning/negotiating table as contracts expire. This research analyzes renewals coming up in the next two years with a focus on application services contracts.

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

Service providers need to up their game	• Only 52% of the customers are currently satisfied with their incumbent service provider's performance • It is a matter of concern that about 25% of the enterprises are "highly dissatisfied" with their service providers • In today's dynamic IT services environment, offering high quality delivery/execution is a necessary but not sufficient criterion for client satisfaction • Service providers need to also work on building a broad set of organizational capabilities and solutioning best practices in order to increase deal renewal success
Overview of contracts ending near of term	• The outsourcing renewals marketplace presents an opportunity of US$68 billion over the next two years • BFSI, healthcare, and telecom verticals will witness the highest value of ITS renewal contracts in the next two years • BFSI, healthcare, and manufacturing will witness the highest value of BPS renewal contracts in the next two years • Defense and government contract renewals provide an opportunity of US$65 billion over the next 24 months

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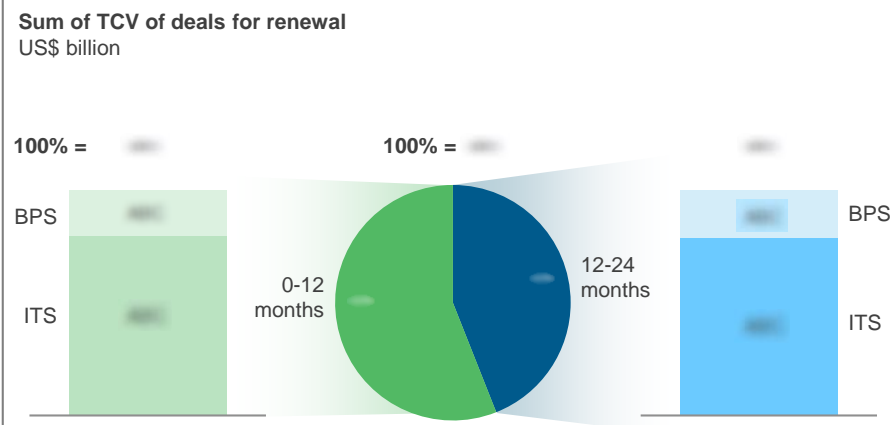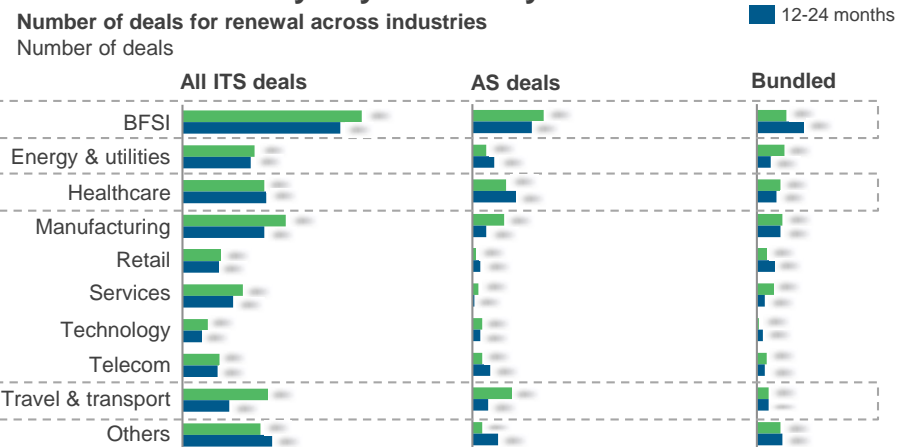| Deep-dive into deal characteristics of upcoming AS and bundled renewals	- Though BFSI leads the number of renewals over the next two years, healthcare has higher proportion of AS renewal opportunity - Western Europe presents significant renewal opportunity (by volume) in both AS and bundled categories over the next two years - Both AS and bundled contracts with mega service providers (revenue > US$10 billion) that are up for renewal present the most opportunity over the next two years
Analysis of application services contract renewals by scope across geographies	- Contracts nearing end of term have a healthy mix of IT functions in scope, thereby presenting opportunities for all types of service providers - Application development and maintenance account for the bulk of application services contracts up for renewal over the next 24 months - Western Europe will have a deluge of contracts with maintenance in scope up for grabs in the next two years - Big-ticket contracts with development in scope will come up for renewal in the next 12 months

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This study offers three distinct chapters providing a deep dive into key aspects of IT renewals with a focus on application and bundled deals over the next 24 months
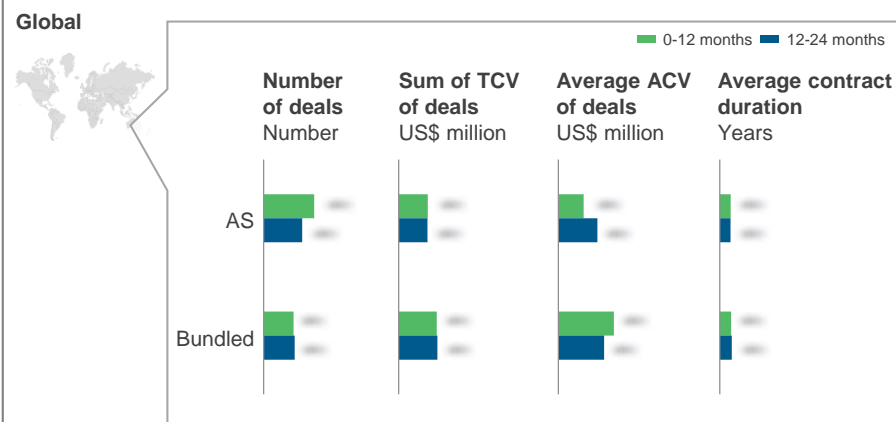
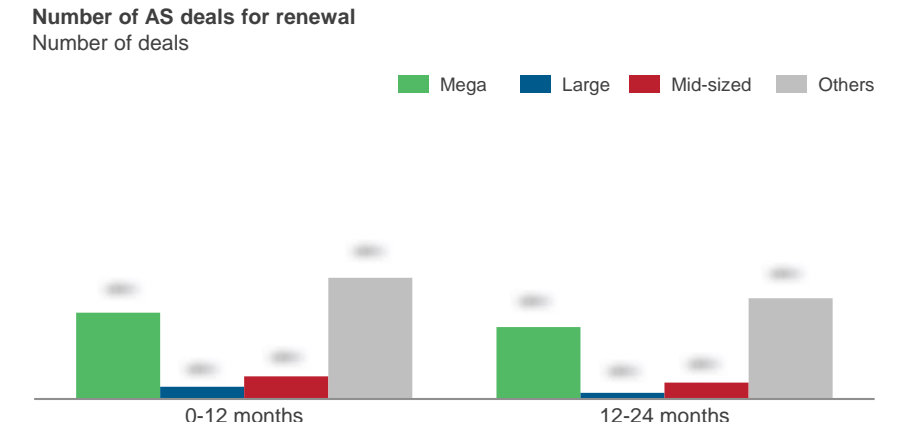## Overall IT and BPS renewal volumes

Sum of TCV of deals for renewal
US$ billion

AS deal renewals by buyer industry

Number of deals for renewal across industries
Number of deals

Legend: 0-12 months (green), 12-24 months (blue)

Industries: BFSI, Energy & utilities, Healthcare, Manufacturing, Retail, Services, Technology, Telecom, Travel & transport, Others

Categories: All ITS deals, AS deals, Bundled

AS deal renewals by buyer geography

Global

Legend: 0-12 months (green), 12-24 months (blue)

	Number of deals	Sum of TCV of deals	Average ACV of deals	Average contract duration
	Number	US$ million	US$ million	Years
AS				
Bundled				

AS deal renewals by service provider category

Number of AS deals for renewal
Number of deals

Legend: Mega (green), Large (blue), Mid-sized (red), Others (grey)

0-12 months, 12-24 months

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9

Almost half of the enterprises are not satisfied with their incumbent IT service providers[1]

Enterprises' overall satisfaction with IT service providers[2]
2016; Percentage of total discussion

100% = 132

Not satisfied
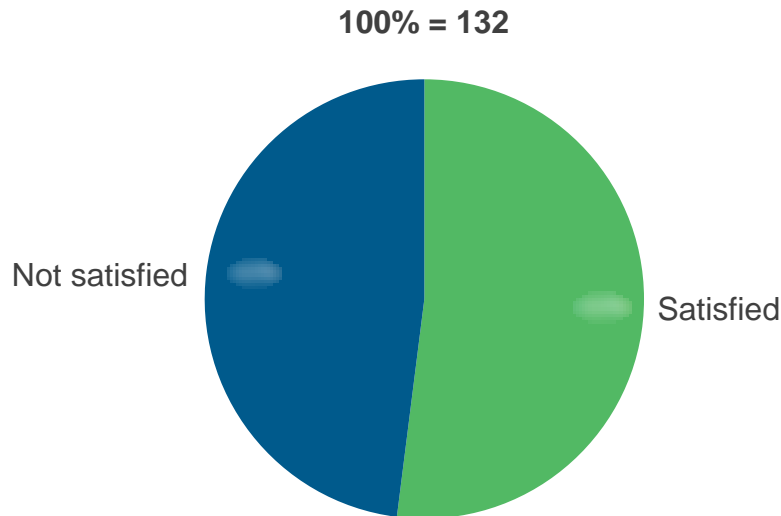
Satisfied

Enterprises' satisfaction level with IT service providers[2]
2016; Percentage of total discussion

Highly satisfied

Moderately satisfied

Somewhat unsatisfied

Highly unsatisfied

1   Based on over 130 interviews conducted in 2016 by Everest Group with enterprises across the globe
2   Satisfied: Satisfaction rating of eight or above; Not satisfied: Satisfaction rating below eight (out of 10)
Source: Everest Group (2017)

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Application services research calendar

Topic	Release date
Independent Testing Services – PEAK Matrix™ Assessment and Profile Compendium 2015	July 2015
Testing Services Market Update 2015 – Digital Testing, Buyers Beware!	February 2015
Upcoming Contract Renewals – Application Services	February 2016
SaaS Implementation Services – Market Trends and PEAK Matrix™ Assessment & Profiles Compendium	April 2016
CSC-HPE Services Merger	May 2016
Application Services – Annual Report 2016: "No DevOps No Digital"	May 2016
Independent Testing Services – Market Trends and PEAK Matrix™ Assessment & Profiles Compendium	June 2016
IT Application Services Automation: Think Benefits, Not Costs	Nov 2016
Customer (Dis)Satisfaction: Why Are Enterprises Unhappy with Their Service Providers?	January 2017
Upcoming Contract Renewals – Application Services: "Buyers: To Replace or To Renew?"	February 2017
Application Services – Annual Report 2017	Q1 2017
IT Automation in Application Services – PEAK Matrix™ Assessment for Products/Solutions	Q2 2017

Additional Application Services research references

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

1. **Customer (Dis)Satisfaction: Why Are Enterprises Unhappy with Their Service Providers?:** (EGR-2017-4-R-2077); 2017. Insights from our research reveal that almost 50% of the enterprises are dissatisfied with their service providers, whose average performance score as strategic partners is merely 5 on 10. Whereas service providers meet the technical requirements stated in the agreement, in reality, they seldom meet customer expectations on the softer engagement aspects. The enormous gap between the stated and the unstated expectations leaves the majority of customers discontented with their service providers

2. **IT Application Services Automation: Think Benefits, Not Costs:** (EGR-2016-4-R-1998); 2016. In this era of digitalization, enterprises need to be agile in order to deliver innovative products and services to their customers. As they look for new ways to reduce costs and improve productivity, they are leveraging emerging concepts such as automation and cognitive intelligence. These concepts, though not entirely new, are gaining traction in the context of application services as enterprises look beyond their traditional lever of labor arbitrage for cost reduction

3. **Contract Renewal Database** (EGR-2014-4-D-1090); 2014. The database of Contract Renewals includes data specific to deals nearing end-of-term, and provides rich information designed to help audiences take advantage of a better informed sales planning

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

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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