



## **Information Technology Outsourcing (ITO) Market Update: November 2007 – Preview Deck**

**Topic: How Structural Changes in the ITO Market  
are Likely to Affect the Industry**

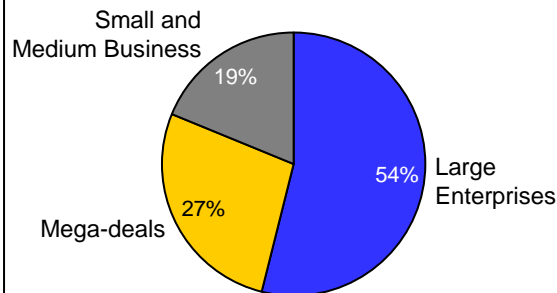
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Topic	Page no.
■ <b>Section I: Summary</b> .....	05
■ <b>Section II: ITO market structure</b> .....	06
■ <b>Section III: Mega-deals segment of ITO market</b> .....	10
• Summary of the messages .....	11
• IT outsourcing penetration of Fortune 100 companies .....	14
■ <b>Section IV: Large Enterprises segment of ITO market</b> .....	16
• Summary of the messages .....	17
• Competitive dynamics in IT Outsourcing .....	18
• Relationships consolidation trend .....	20
• Adoption of labor arbitrage trend .....	32
• Acceleration of market velocity .....	43
■ <b>Section V: SMB segment of ITO market</b> .....	48
• Summary of the messages .....	49
■ <b>Section VI: Implications for key stakeholders</b> .....	52
• Implications for buyers .....	53
• Implications for suppliers .....	54
■ <b>Section VII: Appendix</b> .....	55
• Mathematical model of the outsourcing market .....	56
• Glossary .....	60
• Additional ITO research recommendations .....	62

# The Structural Changes report will have over 60 pages of insightful information

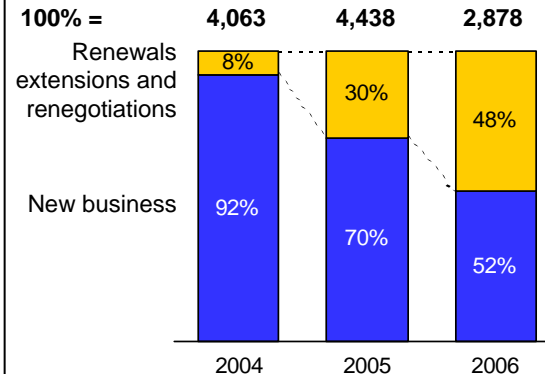
## ITO client segments

Segments of the ITO market  
2006; Percentage






## Renewal trends

Contract signings (ACV) by contract type<sup>1</sup>  
US\$ million, Large deals with ACV > US\$200 million

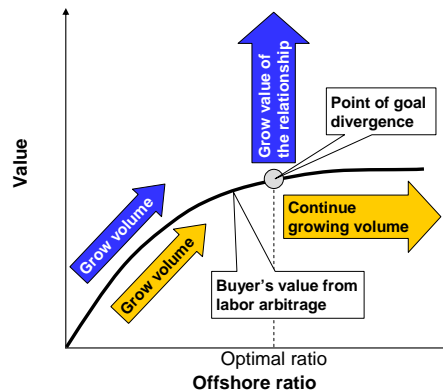


## Supplier acquisitions appetite

Acquirer	Target Company	Primary business	Revenue	Year
	Mphasis (India)	<ul style="list-style-type: none"> <li>IT outsourcing, primarily focused on ADM and emphasis on the mid-size segment</li> <li>BPO with the focus on call centers</li> </ul>	US\$210 million	2006
	Covansys (India)	<ul style="list-style-type: none"> <li>IT outsourcing and system integration services</li> <li>One of the first US-based IT services companies to establish offshore facilities in India</li> </ul>	US\$455 million	2007
	Kanbay (US/India)	<ul style="list-style-type: none"> <li>Management consulting, system integration, and IT outsourcing</li> <li>US-headquartered company with major operations in India</li> </ul>	US\$230 million	2006

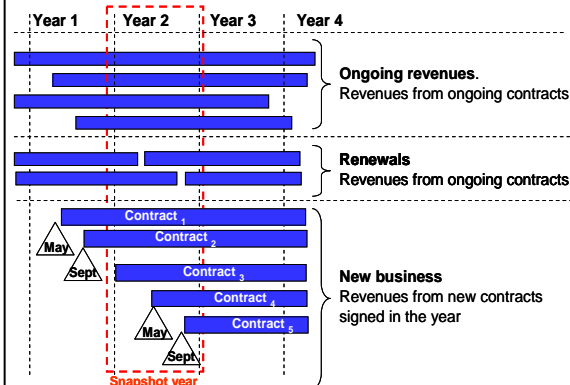
## Buyer/supplier goals divergence

Buyer's value in a typical outsourcing deal



## Outsourcing market dynamics

Hypothetical example

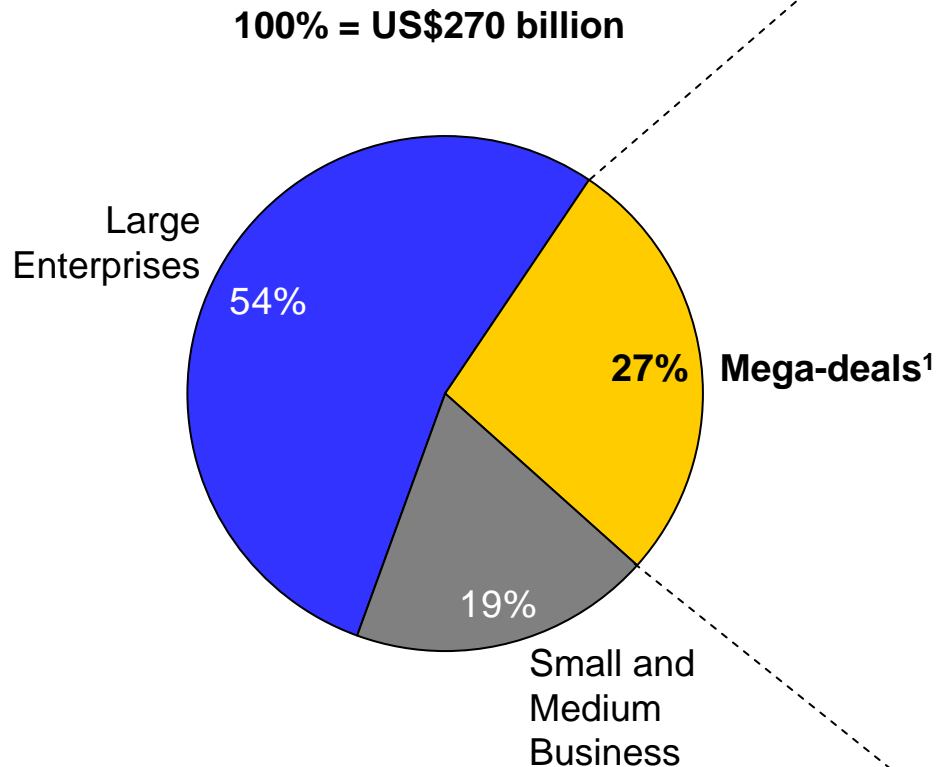


## Supplier implications

Trends	Implications for the suppliers	Offshore Tier 1	Offshore Tier 2
Decrease in mega-deals	<ul style="list-style-type: none"> <li>Likely to result in further signings decline</li> </ul>	Minimal effect due to lower exposure to mega-deals	N/A (do not play in this market)
Relationship consolidation	<ul style="list-style-type: none"> <li>Through better account management capabilities and market experience, traditional suppliers are well positioned to benefit from consolidation</li> </ul>	Will need to move beyond labor arbitrage to win the consolidation game	Will likely lose revenue due to buyers' internal pressure to consolidate
Adoption of labor arbitrage	<ul style="list-style-type: none"> <li>Will experience increased price pressure in infrastructure segment</li> </ul>	Mixed effect depending on their ability to include offshoring in their offerings	Buyers' openness to offshoring (e.g., RIMO) will bring new opportunities
Acceleration of market velocity	<ul style="list-style-type: none"> <li>Traditional suppliers will see increased competition especially in the renewal market creating both opportunities and challenges</li> </ul>	As primary challengers of the existing deal, they are likely to benefit	Continue to be considered for smaller projects and niche work
Status quo in SMB market	<ul style="list-style-type: none"> <li>N/A (limited exposure to SMBs)</li> </ul>	N/A (limited exposure to SMBs)	N/A (limited exposure to SMBs)

# The mega-deals will continue declining with most action shifting into renewals and re-competes

## Segments of the ITO market 2006; Percentage



### Observation

- The number of mega-deals significantly declined over the last seven years in terms of total number of deals, TCV, and ACV
- This decline is rooted in the saturation of the very large enterprises (i.e., there are few companies left in the Fortune 100 with the capacity to enter the ITO market with a brand new mega-deal)

### Conclusion

- With fewer companies announcing mega-deals, the action in this segment is likely to shift into renewals and re-competes
- Given 4-5% annual growth in IT expense a US\$1 billion deals signed seven years ago is likely to renew with ~40% higher scope
- Pressure to grow signings coupled with increased competition for renewals will drive increasing price pressure in the segment


<sup>1</sup> Everest defines mega-deals as deals with TCV above US\$1 billion or ACV above US\$200 million

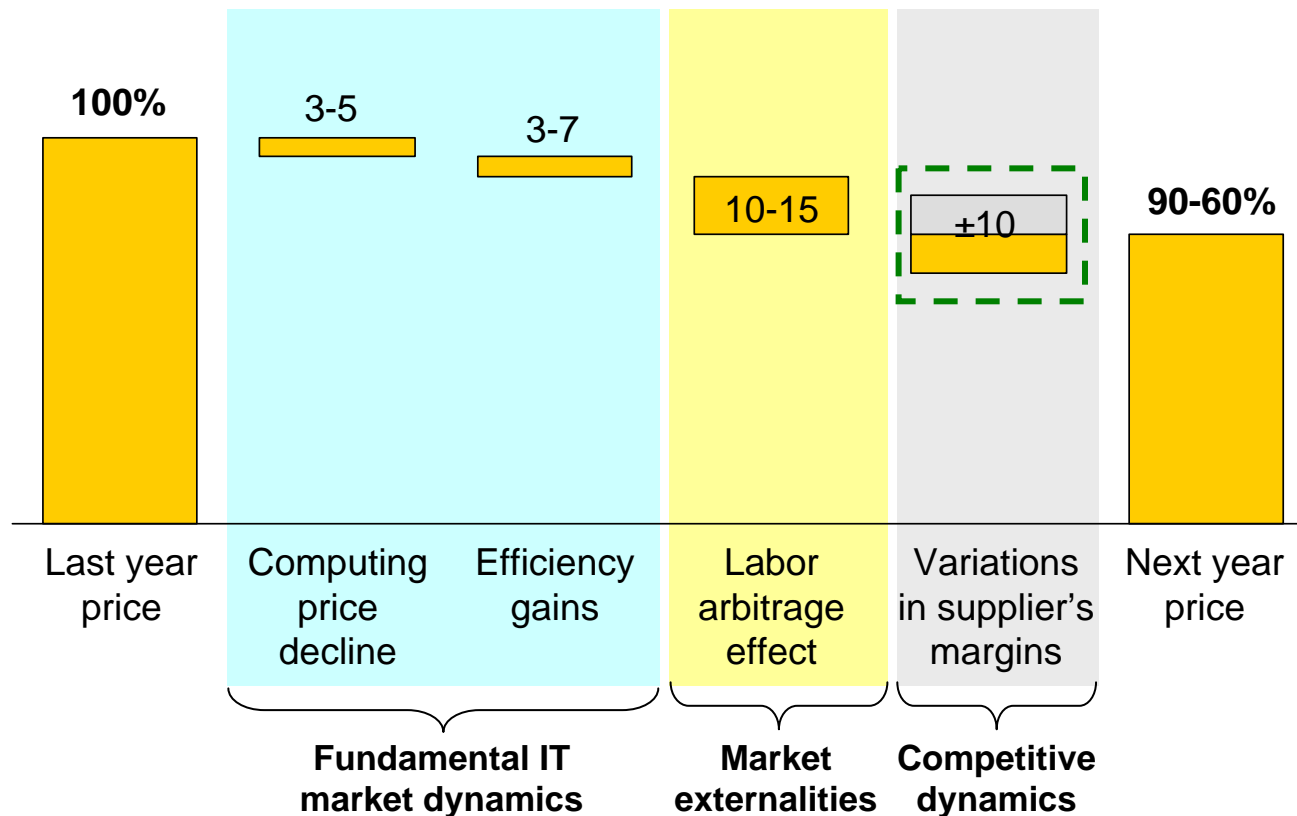
Sources: Bernstein Research; Everest Research Institute (2007)

# Competitive dynamics is one of the key determinants of the prices in IT outsourcing

## Typical annual price<sup>1</sup> change dynamics in ITO Percentage

ILLUSTRATIVE

 Focus of the analysis



- Price movements in ITO are driven by a set of fundamental, competitive and external drivers
- Competitive dynamics is the most unstable of them and can significantly affect direction of price changes

<sup>1</sup> Price in this context is defined as a charge per unit of IT output (e.g., price per server, price per MIPS)

Source: Everest Research Institute (2007)

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## **Everest Research Institute**

Two Galleria Tower  
13455 Noel Road, Suite 2100  
Dallas, TX 75240  
U.S.A.  
+1-214-451-3110  
[www.everestresearchinstitute.com](http://www.everestresearchinstitute.com)  
[info@everestresearchinstitute.com](mailto:info@everestresearchinstitute.com)

## **Everest Group**

150 E., 52<sup>nd</sup> Street, 16<sup>th</sup> Floor  
New York, NY 10022  
U.S.A.  
+1-646-805-4000

## **Everest Canada**

The Exchange Tower  
130 King Street West, Suite 1800  
Toronto, ON  
Canada M5X 1E3  
+1-416-865-2033

## **Everest UK**

83 Baker Street  
London, W1U 6LA  
United Kingdom  
+44-87-0770-0270

## **Everest Europe**

Atrium Building 3<sup>rd</sup> Floor  
Strawinskylaan 3051  
1077 ZX Amsterdam  
+31-2-0301-2138

## **Everest India**

Ground Floor, Tower A  
Unitech Business Park  
South City - I, Gurgaon  
National Capital Region  
India 122001  
+91-124-304-1000

## **Everest Australasia**

Level 6, 90 Mount Street  
North Sydney, NSW 2060  
Australia  
+61-3-9833-1018

## **Everest Australia**

409a Wattletree Road  
East Malvern  
Melbourne, VIC 3145  
Australia  
+61-3-9509-3933

