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Topic: Infrastructure Outsourcing – Annual Report 2014: "The Future is Software"

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

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  - **Information Technology Outsourcing (ITO)**

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Corporate Headquarters
Office: +1-214-451-3000
info@everestgrp.com

European Headquarters
Office: +44-207-129-1318
unitedkingdom@everestgrp.com

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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

1   Banking, financial services, and insurance

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Background and methodology of the research

Background and scope
- Everest Group closely tracks the Infrastructure Outsourcing (IO) market. In this annual report we analyze the major trends in IO 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 infrastructure services 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 infrastructure services market

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Everest Group's infrastructure 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 infrastructure outsourcing contracts (updated annually) of major IT service providers. The database tracks the following elements of infrastructure 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 — *High performance. Delivered.* | Atos | Capgemini — CONSULTING.TECHNOLOGY.OUTSOURCING | CGI

Cognizant | CompuCom. — The Leading IT Outsourcing Specialist | CSC | Dell Services

<epam> | FUJITSU | GENPACT | HCL

Hexaware TECHNOLOGIES | hp | IBM | iGATE — iTOPS for Business Outcomes

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 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

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Summary of key messages (page 1 of 2)

The infrastructure services market is witnessing unprecedented disruptions. In addition to cloud services, software-defined models are creating ripples across stakeholders. Not many providers or enterprises understand the impact of these models meaningfully. The market is also challenged by a poor perception regarding service provider performance. To manage delivery risks, buyers are increasingly leveraging a Service Integration and Management (SIAM) provider. This allows buyers to continue with a "best of breed" strategy, without significant management overheads.

This research provides fact-based trends impacting the infrastructure services market. It analyzes multiple aspects such as overall infrastructure service market, leading players, deal size, deal duration, and pricing. Buyers will gain by understanding these trends and evolving their sourcing portfolio accordingly. Service providers will benefit by aligning their strategy to cater to these trends.

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

Major highlights and key trends

- Software-defined models, though in infancy, can potentially disrupt the infrastructure services market. Service providers need to proactively invest to address this trend
- Buyers are frustrated with managing their multi-sourcing landscape. They will increasingly rely on an external SIAM provider for integrating and managing these services

Overview

- Buyers continue to prefer stand-alone infrastructure services engagements. The deal sizes have witnessed a steady decline in the last three years
- Infrastructure (especially hardware) is treated as a commodity, as buyers look to build functionalities in their software stack. Despite high anti-incumbency, buyers continue to outsource more, and plan to expand the scope of services

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Buyer adoption

- European buyers signed larger deals compared to their other global peers. The North American market provides a lucrative opportunity for rebid engagements
- North American buyers from the banking and healthcare industries displayed increased appetite for infrastructure services. APAC buyers were willing to experiment with complex pricing models
- Manufacturing buyers reduced their appetite for infrastructure services. Small-to-medium sized buyers offer a significant opportunity for service providers

Outlook for 2014-2015

- Drive towards offshore-centric infrastructure services will continue. This will be especially true for the continental Europe, as offshore-centric providers expand aggressively in this region
- Regulated buyer industries such as banking and healthcare will demand more domain competence from service providers. Therefore a "verticalization" of infrastructure services will take place to cater to these requirements
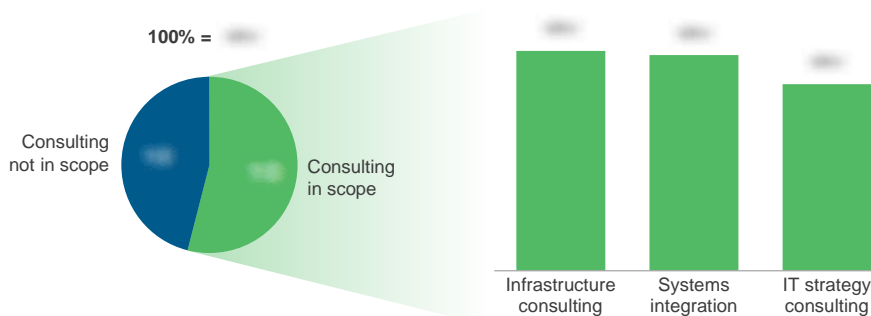
Software-defined models will have an unprecedented impact on infrastructure services

Strong demand for infrastructure consulting

Scope of service trends in IO engagements – consulting
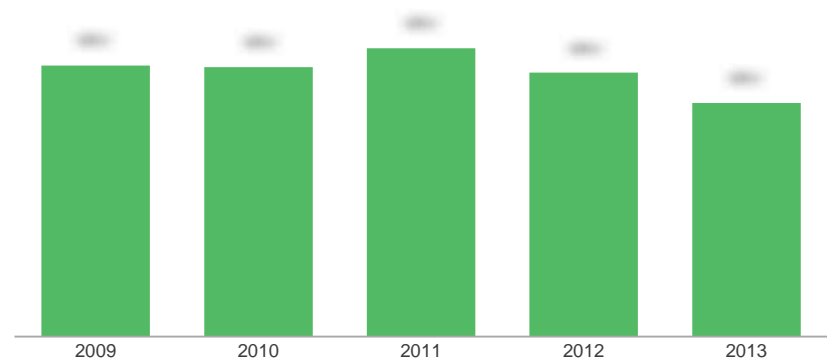2013; Number of deals

100% =

Consulting not in scope

Consulting in scope

Scope of consulting services
2013; Number of deals

100% =

Infrastructure consulting	Systems integration	IT strategy consulting

Deal sizes continue to decline

Average ACV trends in IO engagements
2009-2013; US$ million

2009	2010	2011	2012	2013

High anti-incumbency continues

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

100% =

Incumbent provider replaced

Incumbent provider retained
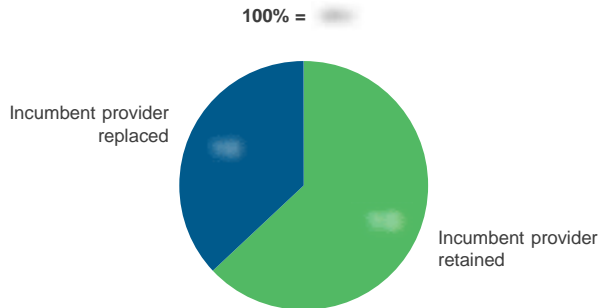
Software-defined infrastructure will disrupt providers

High ○ Low

Dimension	Impact	Description
Talent and skill management	●	• Service providers have to address an interesting challenge of "de-skilling" and "up-skilling" their people at the same time, to cater to these requirements • Training processes need to be augmented (e.g., a VMware vSphere certified professional will be of limited use without the knowledge of storage/network virtualization as well) • Most labor-driven strategies (onshore-offshore mix, large bottom of pyramid, etc.) have already been exhausted and service providers will need to think out of the box to address this new demand profile
Service focus	◔	• Service providers typically focus on the infrastructure tower they manage. There is a limited attempt to align efforts towards overall "service-based" delivery of infrastructure • This service-driven view was not possible till date with proprietary and "non-virtual" technologies deployed in the client's premises. However, with software-defined infrastructure, service providers cannot justify a disconnect between the underlying infrastructure and the eventual service level for business applications • The focus should shift from typical service catalogs and management to integrated applications and infrastructure stacks mapped to business services
Relationship management	◔	• Service providers focus on the client-side contact for managing a relationship. However, with software-defined infrastructure breaking the traditional silos (virtual or physical) across infrastructure teams, service providers will need to evolve relationship management practices and engage multiple client teams • The account managers need to understand the latest developments across the infrastructure spectrum and therefore, should have "domain centric" capabilities as well
Technology	◐	• Service providers continue to invest in tools and automation. A software-defined future will require significantly more investment and commitment in these enablers • Moreover, service providers may not be able to recoup their investments in the usual horizon as the entire infrastructure paradigm undergoes a disruption

Source: Everest Group (2014)

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ITO research calendar

	Published	Current

Topic	Release date
Application Outsourcing (AO) – Annual Report: "Declining Productivity Rising Anti-incumbency"	September-2013
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
Infrastructure Services in Europe – Market Update and PEAK Matrix™ Assessment	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
Application Outsourcing (AO) – Annual Report 2014: "Rationalization Goes Hyper"	May-2014
Infrastructure Outsourcing (IO) – Annual Report 2014: "The Future is Software"	June-2014
Buyer Next-Generation Technology Adoption	Q2-2014
Automating IT services	Q3-2014
Infrastructure Services – PEAK Matrix™ Assessment and Profile Compendium 2014	Q3-2014

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Additional research recommendations

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 which may be of interest

1. **Infrastructure Outsourcing (AO) – Annual Report 2013: "Automating the Next Horizon"** (EGR-2013-4-R-0994); 2013. This annual research deep dives into the infrastructure outsourcing landscape. It provides data-driven facts and perspectives on the overall market. The research covers IO adoption trends, demand drivers, in addition to buyer challenges, trends shaping the market, and also provides an outlook for 2014 for the broader IT as well as the IO market

2. **Upcoming Contract Renewals – Infrastructure Services** (EGR-2014-4-R-1067); 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 IO and bundled contracts

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

Jimit Arora, Vice President: jimit.arora@everestgrp.com
Chirajeet Sengupta, Practice Director: chirajeet.sengupta@everestgrp.com
Yugal Joshi, Practice Director: yugal.joshi@everestgrp.com
Ashwin Venkatesan, Senior Analyst: ashwin.venkatesan@everestgrp.com
Sivaram S, Senior Analyst: sivaram.s@everestgrp.com

Everest Group
Two Galleria Tower
13455 Noel Road, Suite 2100   Phone: +1-214-451-3110
Dallas, TX 75240   Email: info@everestgrp.com

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From **insight** to *action*.

At a glance

- With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of the next generation of global services

- 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

Dallas (Headquarters)
info@everestgrp.com
+1-214-451-3000

New York
info@everestgrp.com
+1-646-805-4000

Toronto
canada@everestgrp.com
+1-647-557-3475

London
unitedkingdom@everestgrp.com
+44-207-129-1318

Delhi
india@everestgrp.com
+91-124-284-1000

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