



Information Technology Outsourcing (ITO) Report: July 2011 – Preview Deck

**Topic: ITO Request for Information 2011 – A Market
Insights Report**

Background, scope, and methodology of the request for information



Background and scope

- Everest conducted the Information Technology Outsourcing (ITO) Request For Information (RFI) exercise in Q1 2011
- 16 ITO providers participated in the RFI 2011. They included large multinational (MNC) providers with headquarters in Europe, North America, India and other regions

Methodology

- We asked RFI participants to report their 30 largest ITO deals (by total contract value) for 2010
- We analyzed a total of 467 ITO deals reported; the overview section of this document describes the scope of the reported data in detail
- We asked the respondents for their top 30 deals only, so as to focus on the high-value ITO market and to limit extent of effort required for data collection
- The analysis herein is an aggregated summary of the responses by category (i.e., buyer geography, buyer revenue, industry group, provider type, etc.)

Important notes

- We based the RFI analysis only on the highest value ITO deals of providers; it explains well the behaviour of the mid-size and large deals segments of the ITO market. The trends described here might not apply to smaller market segments, such as, Small and Medium Businesses (SMBs)
- We added a separate analysis for ADM deals of Tier-1 offshore and MNC providers. This was done, recognizing the fact that ADM contributes significantly for Tier-1 offshore providers and hence needs a separate analysis

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Everest reached out to major outsourcing providers including the MNCs, Indian large providers, Indian medium sized providers, and other non-Indian medium sized providers to study the high-valued deals they signed in 2010. The findings have been analyzed in this report to bring out key trends on factors like buyer industry & geography, deal sizes & duration, pricing models and helps provide insights on the evolving buyer-provider engagements. The report will be useful for buyers and providers to understand the underlying drivers, challenges and opportunities and also for investors who are watching the trends in this evolving industry.

Overview and scope

- RFI data is well diversified in terms of buyer geography, industry, and revenue segment
- The majority of IO and ADM deals came from North America. EMEA's share of IO deals saw significant increase, though the share of ADM deals from EMEA remained relatively similar in 2010

Infrastructure outsourcing

- Most industries signed higher number of deals though of lesser size. However, most of the industries improved their share in deal number and value. MNCs signed longer duration deals across different industries
- Average IO deal size increased significantly in 2010 for offshore and MNC providers. Complex-priced deals fetched high deal sizes. Large buyers increased their exposure of RIMO model
- After achieving a significant penetration in the large buyer segment over the years, MNCs increased their focus on the mid-size and smaller buyer segments
- Large buyers displayed a preference for bundling IO deals of both offshore and MNC providers. They signed longer deals with MNCs, even as deal durations normally increased; they preferred complex priced deals with MNCs

Application development and maintenance

- MNCs signed larger and longer duration deals with buyers despite similar deal scope as offshore providers. IT consulting increased the average deal size of ADM contracts. Deal durations saw an upturn whereas, input-based pricing reduced
- MNCs signed larger deals across different buyer sizes. With large buyers, bundling of towers was similar for offshore and MNC providers. These buyers preferred MNCs for large complex-priced deals
- Financial services dominated the number of ADM deals, however, its overall contribution reduced. Bundling of towers was similar for MNCs and offshore providers, though bundling duration varied for industries across MNC and offshore providers
- EMEA contributed higher share of deals for offshore providers whereas MNCs had more contribution from North America. Renewal deals were higher in North America while EMEA had higher new deals
- Majority of MNC deals had complex pricing mechanism. Tier-1 offshore providers' deal size with input-based pricing was similar to MNCs, however, MNCs signed significantly large complex pricing deals

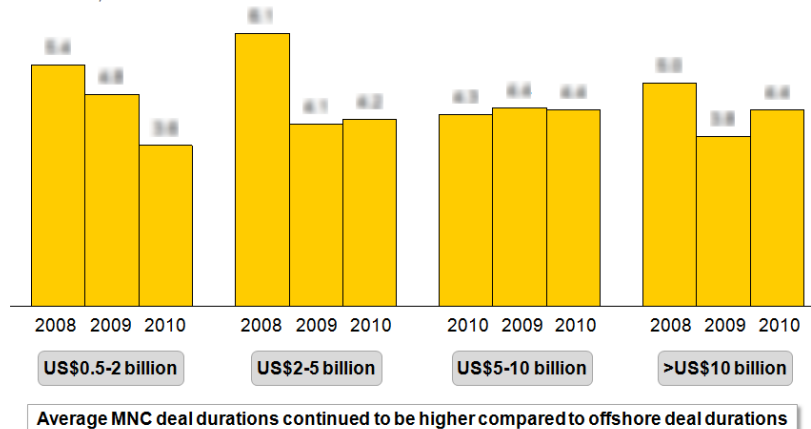
Bundling trends in ITO

- Pure ADM deals contributed the maximum number of ITO deals followed by pure IO deals. IO+ADM bundling deal proportion moved marginally up in 2010
- Offshore providers had the largest contribution from stand-alone ADM deals. However, MNCs had significant contribution from IO deals
- IO+ADM bundling did not fetch higher deal size compared to stand-alone deals

This study analyzes the high-valued ITO deals and brings out key trends based on geography, buyer size, deal durations and pricing models

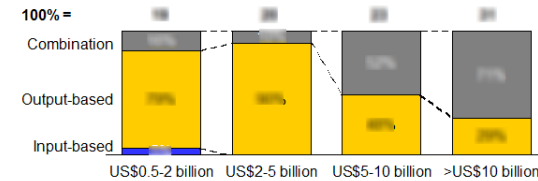
Deal duration trends across buyer groups

Average MNC IO deal duration by buyer size
2008-2010; Years

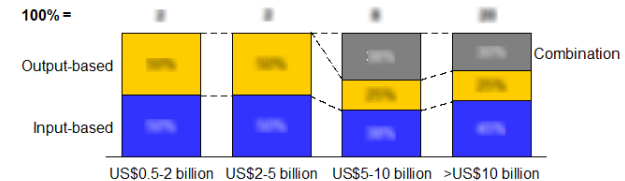


Output-based pricing versus input-based pricing

MNC deals by pricing model across buyer revenue buckets
2010; Number of deals

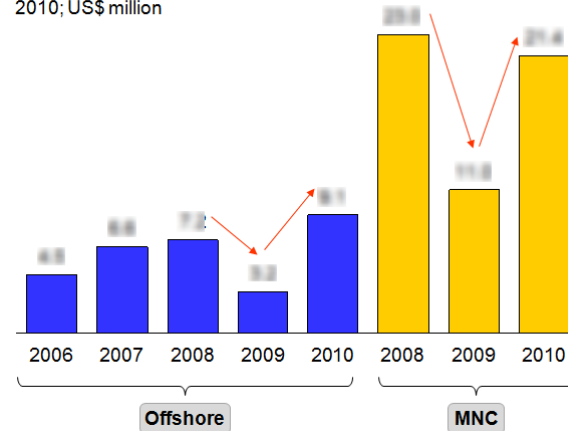


Offshore deals by pricing model across buyer revenue buckets
2010; Number of deals



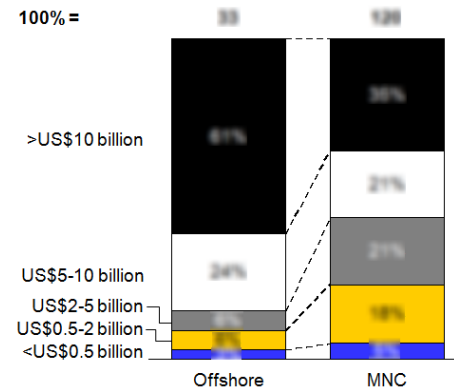
Infrastructure outsourcing deal size trend

Average ACV of IO deals
2010; US\$ million



Offshore versus MNCs: distribution of deals across buyers size

Deal distribution by buyer size for offshore and traditional MNC providers
2010; Number of deals



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

1. **Independent Testing Services – “Its time to innovate”** (ERI-2011-4-R-0557); 2011: This report discusses the testing services environment from multiple perspectives that include buyers, providers, verticals, and geographies. The analysis brings out the key innovations occurring in this field and the value drivers engaging the ITO industry in this arena
2. **ITO Request for Information 2010** (ERI-2010-4-R-0427); 2010. This report discusses key messages from the IT Outsourcing RFI 2010 and data-driven conclusions on the market trends in ITO and its key market segments. Both buyers and providers will gain a deeper understanding of the ongoing evolution in the ITO market, and will be better positioned to adapt to changing market conditions

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