Everest Group RESEARCH

Topic: Upcoming Contract Renewals – Application Services

Information Technology Outsourcing (ITO)
Market Report: March 2014 – Preview Deck

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EGR-2014-4-PD-1089

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1 Banking, financial services, and insurance

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Background and methodology of the research

Background of the research

- The sourced services is a large US$400 billion market with deals lasting for an average of two to three years. As a result, a large portion of the market scope comes back to the planning/negotiating table as contracts keep expiring. Most of these deals had originally been procured via a competitive process involving Request for Proposals (RFPs), capability assessment, and short-listing of service providers
- Renewals and recompetes provide opportunity for non-incumbent players to expand their wallet shares amidst disruptive factors such as saturation, slowing growth rate, and newer and more agile competitors. It also allows buyers a chance to make course corrections based on lessons learned during the lifetime of the just-concluded engagement, and adjust sourcing strategy to suit the current business environment
- In particular, buyers of application services with long-term multi-tower engagements are driving the productivity agenda hard, and are not averse to looking at alternative service providers to counter declining productivity levels
- 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 ITO and BPO markets with deals in scope that are to be renewed in the future
- Key vertical, geographical, and scope-based analysis with a focus on AO and bundled contracts
- Analysis of AO and bundled contracts by scope (development, maintenance, ERP implementation, ERP maintenance, and system integration) across geographies

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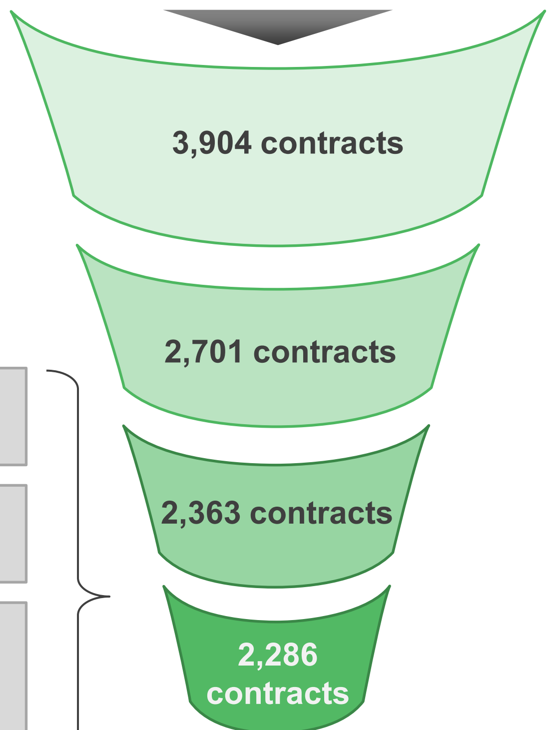
The analysis shared in this report is based on Everest Group's "Transaction Intelligence Database", the most comprehensive organized record of publicly-announced outsourcing deals

Accounts for more than 30% of the entire sourcing market

TI database



- Across nine industry buckets
- Four geographical regions
- Across five AO services (development, maintenance, ERP implementation, ERP maintenance, and system integration)

Filters

1. **Removed deals that expired before April 1, 2014**
   - This research only focuses on deals that will renew in the future, specifically after April 1, 2014
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
4. **Removed deals that cannot be categorized**
   - Certain deals cannot be categorized due to lack of sufficient information. This report ignores such deals

The analysis was performed on 2,286 outsourcing deals that expire on or after April 1, 2014

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Overview and summary of key messages
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This report investigates renewals coming up in the outsourcing market in the next 24 months starting April 2014. Analyses shared include average deal sizes, durations and numbers across industries, geographies, functions, and service provider categories. The report focuses on Application Outsourcing (AO) and bundled contracts that are up for renewal. The research also includes an AO service-level (viz. development, maintenance, ERP implementation, ERP maintenance, and system integration) analysis of upcoming AO and bundled renewals across geographies.

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

Overview of contracts nearing end of term

- Nearly US$84 billion worth of IT and BPO contracts are up for renewal in the next two years
- Though Western Europe leads the market place in terms of number of contracts for renewal, North America has a higher average net run rate of deals coming up for renewal
- Manufacturing and BFSI will dominate IT spending in the next year, while energy & utilities will be an important sector along with BFSI for BPO renewals over the same period

Deep-dive into deal characteristics of upcoming AO and bundled renewals

- While BFSI leads the AO renewal activity over the next 24 months, manufacturing will witness the maximum incidence of renewals of bundled contracts
- In terms of total value of AO and bundled contract renewals, industries such as BFSI and manufacturing will witness a decline over the "12 to 24 month" period, while industries such as travel & transportation will witness an uptick
- Western Europe will account for the highest AO renewal activity over the next 24 months; the APAC region presents a sizeable opportunity for AO spending over the "0 to 12 month" period
- Large multinational providers will dominate renewal spending among AO and bundled contracts over the next two years

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Overview and summary of key messages
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Analysis of application services contract renewals by scope across geographies

- Contracts that are 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 a majority of application service contract renewals over the next 24 months
- North America will witness an increased average value (ACV) across all application service lines in the "12 to 24 month" period, except for system integration
- In Western Europe, average value (ACV) of application development and maintenance contract renewals will witness an increase over the "12 to 24 month" period

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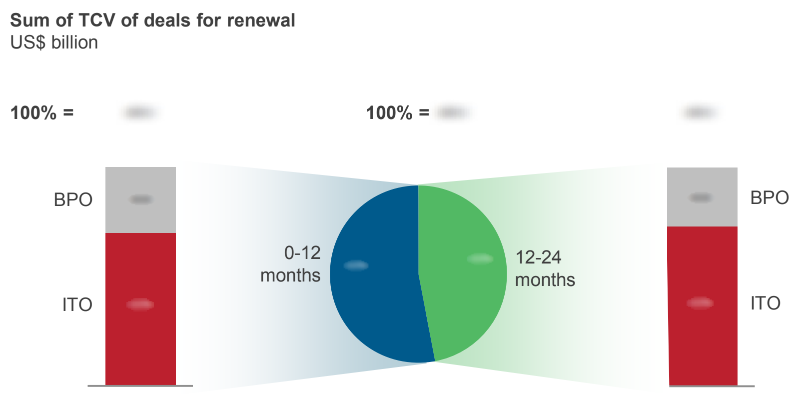
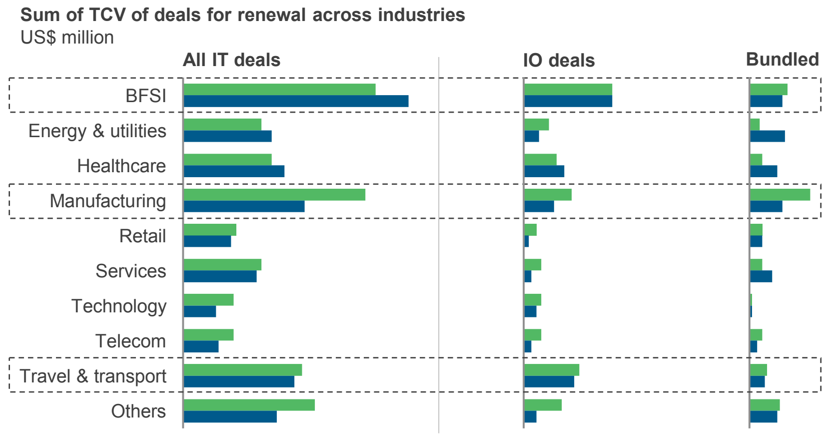
This study offers three distinct chapters providing a deep dive into key aspects of IT renewals with a focus on application and bundled deals over the next 24 months

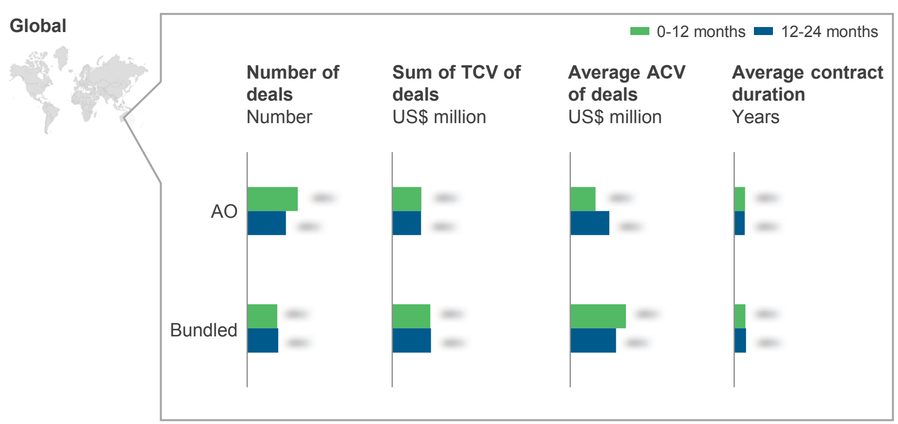
Overall IT and BPO renewal volumes



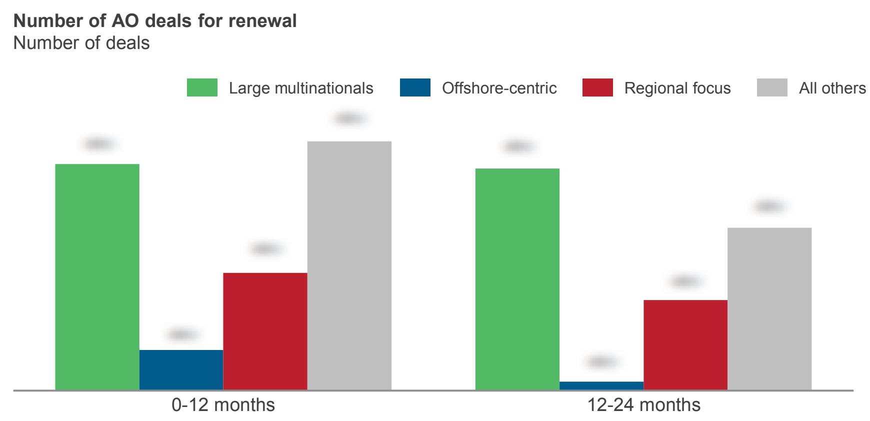
AO deal renewals by buyer industry



AO deal renewals by buyer geography



IO deal renewals by service provider category



Source: Everest Group (2014)

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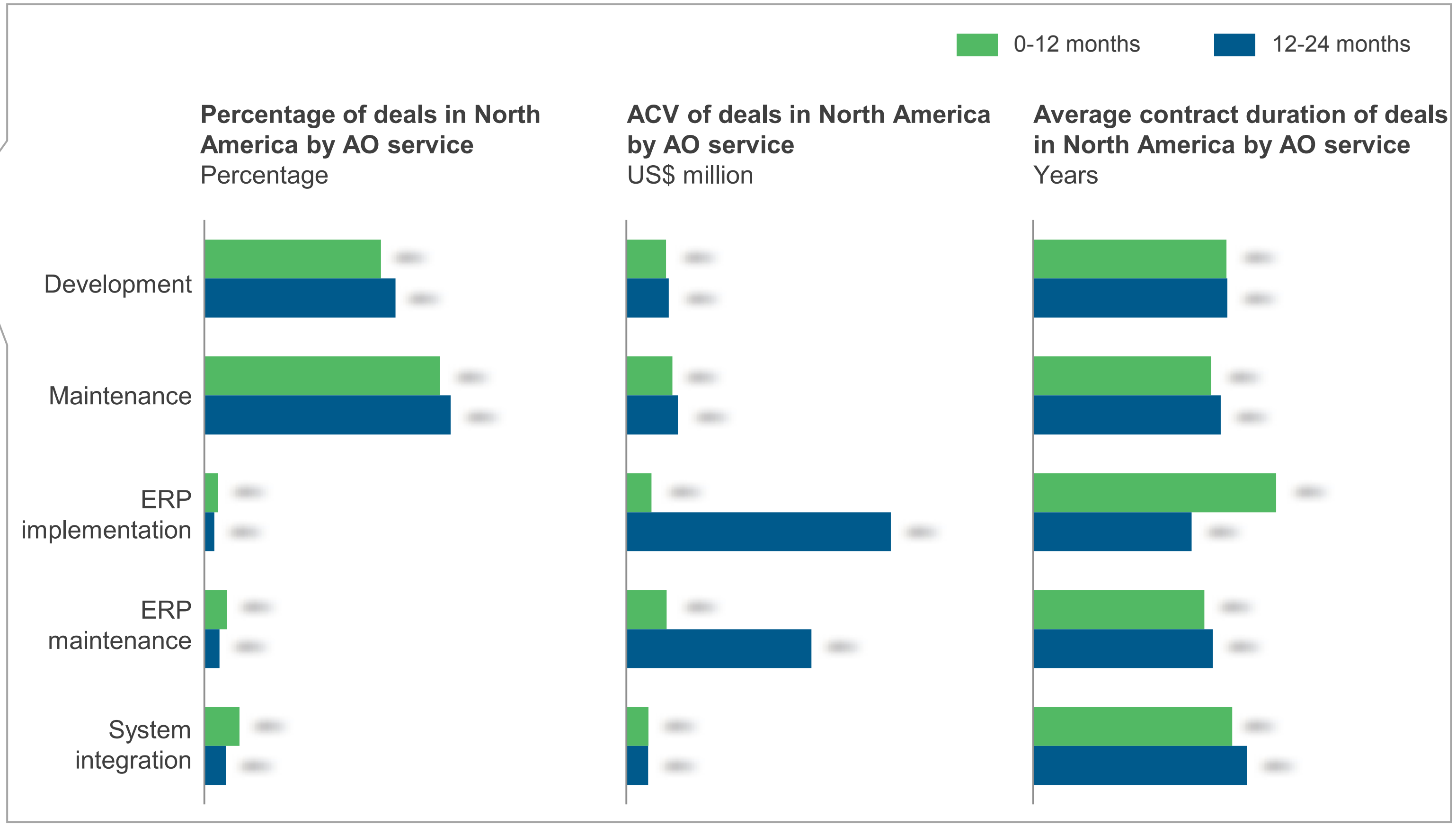
North America will witness an increase in average value in the "12 to 24 month" period across all AO services, except system integration

North America

SCOPE: AO & BUNDLED



Note: The average ACV calculated does not include contracts where TCV is unknown/estimated, and also factors in anomalies

Source: Everest Group Transaction Intelligence Database

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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)	Q2-2014
Next-gen application services	Q2-2014
Buyer Next Generation Technology Adoption	Q2-2014
Automating IT services	Q2-2014
Application Outsourcing Annual Report 2014	Q3-2014
Infrastructure Outsourcing Market Update 2014	Q3-2014

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Additional ITO research references

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. **Infrastructure Outsourcing – Annual Report 2013** (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 and demand drivers, in addition to buyer challenges and trends shaping the market. It also provides an outlook for 2014 for the broader IT as well as the IO market

2. **Infrastructure Services – PEAK Matrix™ Assessment and Profile Compendium 2013** (EGR-2013-4-R-1024): This research provides a comprehensive assessment of leading IT service providers featured on Everest Group's PEAK Matrix for enterprise infrastructure services. The report includes individual profiles that provide insight into their scale of operations, scope of coverage across the infrastructure services spectrum, domain investments, delivery footprint, and market success

3. **Upcoming Contract Renewals – Infrastructure Services** (EGR-2014-4-R-1067): This report investigates renewals coming up in the outsourcing market in the next 24 months, starting April 2014. Analyses shared include average deal sizes, durations and numbers across industries, geographies, functions, and service provider categories. The report focuses on Infrastructure Outsourcing (IO) and bundled contracts that are up for renewal

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