Application Services – Annual Report 2015: "Agile to DevOps? Not so Fast"

Application and Digital Services (ADS)
Annual Report: July 2015 – Preview Deck

EGR-2015-4-PD-1503

Our research offerings for global services

- **Market Vista™**
  Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available
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- **BFSI[1] Business Process**
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- **Procurement**
- **Human Resources**
- **Recruitment Process**
- **Contact Center**
- **Transaction Intelligence**

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

Subscription information

- The full report is included in the following subscription(s)
  - **Application & Digital Services**
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
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1 Banking, financial services, and insurance

Background and methodology of the research

Background and scope

- Everest Group closely tracks the Application Services (AS) market. In this annual report we analyze the major trends in AS adoption, key factors shaping this market, and the outlook for 2015-2016
- 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 Services (ITS) Request For Information (RFI) exercise conducted in Q1 2015
- In the RFI 2015, 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 IT services deals (by total contract value) for 2014. This data was augmented by Everest Group SMEs tracking the application service 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 application service market

Everest Group's application services 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 2015)
- RFI participants were asked to report the 30 largest IT service deals (by total contract value) they signed in 2014
- We analyzed over 700 IT service deals reported in 2014
- We asked the respondents about their top 30 deals, so as to focus on the high-value market

2

- Everest Group's proprietary database of application services contracts (updated annually) of major IT service providers. The database tracks the following elements of application services 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
  - Delivery locations and leverage of global delivery model

Service providers reached out for the analysis

accenture, Atos, Capgemini, CGI, Cognizant, CompuCom, CSC, Dell Services, epam, Fujitsu, Genpact, HCL, Hexaware Technologies, hp, IBM, IGATE, Infosys, L&T Infotech, Mindtree, Mphasis, Neusoft, NIIT Technologies, NTT Data, Softtek, steria, Syntel, Tech Mahindra, Tata Consultancy Services, T-Systems, Unisys, Wipro, 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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Everest Group RESEARCH

Summary of key messages (page 1 of 2)

Enterprises are cautiously adopting the Agile model of application delivery. However, they are also realizing that quick application delivery will involve operations as well. Therefore, the mandate has expanded to leverage DevOps principles where the entire value chain of application development, release, testing, and operations work in unison. This Agile-to-DevOps journey has its own set of challenges

Buyers of application services will benefit from this report to understand the evolving AS landscape, key trends to watch out for, and outlook for 2015-2016. Service providers will gain by understanding the major factors shaping the AS market, buyer expectations, and overall market trends.

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

Major highlights and key trends

- Enterprises have started to meaningfully adopt Agile principles for application development. However, they now also aspire to leverage DevOps model to enhance the speed and quality of development and operations
- Despite the focus on DevOps, most adoption is internal to enterprises with limited role played by service providers. Service providers will need to develop distinct capabilities to remain relevant in the world of DevOps

Overview

- Application services market grew by ~4%, higher than the overall industry growth of 3.4%
- Rapid technology disruption is making buyers to leverage consulting services from external providers. Moreover, the focus is shifting away from labour-only models to outcome-driven engagements

Summary of key messages (page 2 of 2)

Buyer adoption

- The BFSI segment again led overall deal activity with 30% share. Manufacturing and Healthcare and Life Sciences (HLS) witnessed increase in the average deal sizes
- The average deal size for the North American region continued to decline. However, it had the maximum share of 50% in deal volumes
- Most Europe buyers signed deals with higher values than their global peers. Though Europe is holding up strongly, the current crisis related to country defaults may impact the demand in near term
- APAC buyers lagged their global peers and their deal volumes share declined by 200 bps

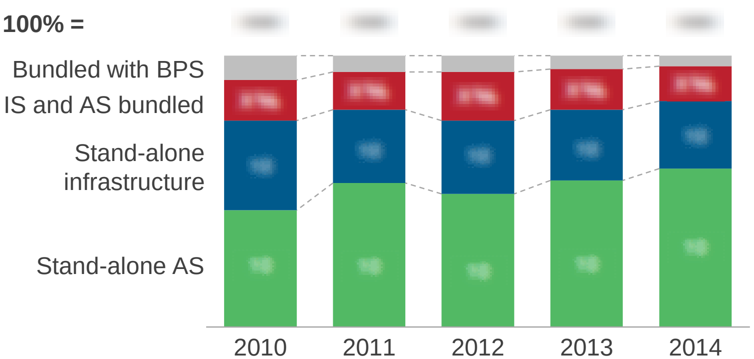
Outlook for 2014-2015

- Digital adoption will continue to drive appetite for applications. However, the bulk will be driven by traditional application services where the enterprises will demand 30-40% cut in operational spend
- Automation will play a key part in ensuring deal renewals. Service providers will have to offer significant cost savings for traditional application service deals
- North America will lead the growth of the broader industry. Europe will hold well, however, given the ongoing crisis may witness demand shock in the near term for a few service providers

This study analyzes the application services market in terms of size, growth, deal characteristics, and key trends

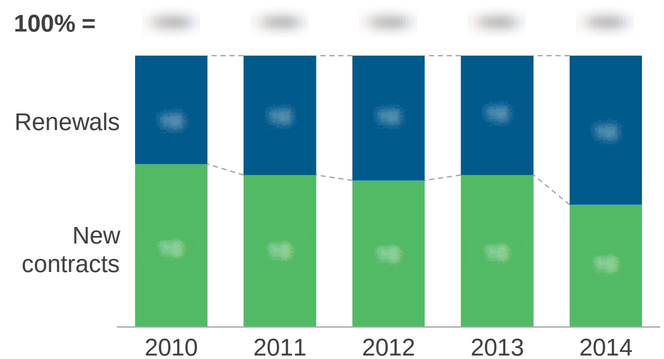
Stand-alone AS drives the market

Bundling trend in IT services deals
2010-2014; Number of deals



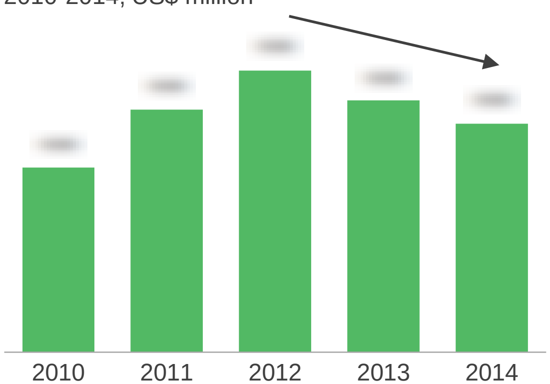
Application services deals – New & renewals

Trends in contract type in AS engagements
2010-2014; Number of deals



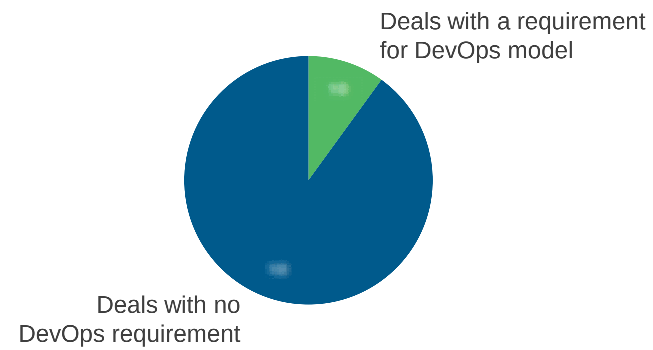
Deal value trend in application services

Average ACV trends in AS engagements
2010-2014; US$ million



DevOps in application services engagements

Inclusion of DevOps-based delivery in application services engagements
Percentage of deals



Source: Everest Group (year)

Application and Digital services research calendar

Published | Current

Topic	Release date
Optimizing IT Service Delivery: Technology is the Answer	February 2015
Practitioner Perspectives - Wayne Butterfield Interview	March 2015
Upcoming Contract Renewals – Application Services	March 2015
The Agile Journey: Following Agile to Being Agile	May 2015
Application Services – Annual Report 2015: “Agile to DevOps? Not so Fast”	July 2015
Enterprise Digital Adoption: High Returns, Will They Sustain	Q3 2015
Independent Testing Services Market Update	Q3 2015
PEAK Matrix – Independent Testing Services	Q3 2015
PEAK Matrix – Independent Testing Services - Europe Focused	Q3 2015
Digital Adoption Market Update	Q3 2015
Digital Adoption Market Update - Europe Focused	Q3 2015
PEAK Matrix – Digital Services	Q3 2015
PEAK Matrix – SaaS Implementation	Q4 2015
SaaS Market Update	Q4 2015
What's Your Mobility Strategy?	Q4 2015

Additional 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. **The Agile Journey: Following Agile to Being Agile** (EGR-2015-4-R-1453); 2015. This research focuses on pitfalls and suggest best practices for enterprises to scale their Agile adoption from a few teams to an enterprise level. It discusses they key challenges witnessed in this journey, mitigating factors, and a pragmatic approach to achieve Agile scaling across an enterprises

2. **Application Outsourcing – Annual Report 2014: "Rationalization Goes Hyper"** (EGR-2014-4-R-1120); 2014. This annual research analyses into the application services landscape. It provides data-driven facts and perspectives on the overall market. The research covers AS adoption trends, demand drivers, next-generation services such as mobility, analytics, and cloud. The research analyzes buyer challenges, and trends shaping the market

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

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About Everest Group

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