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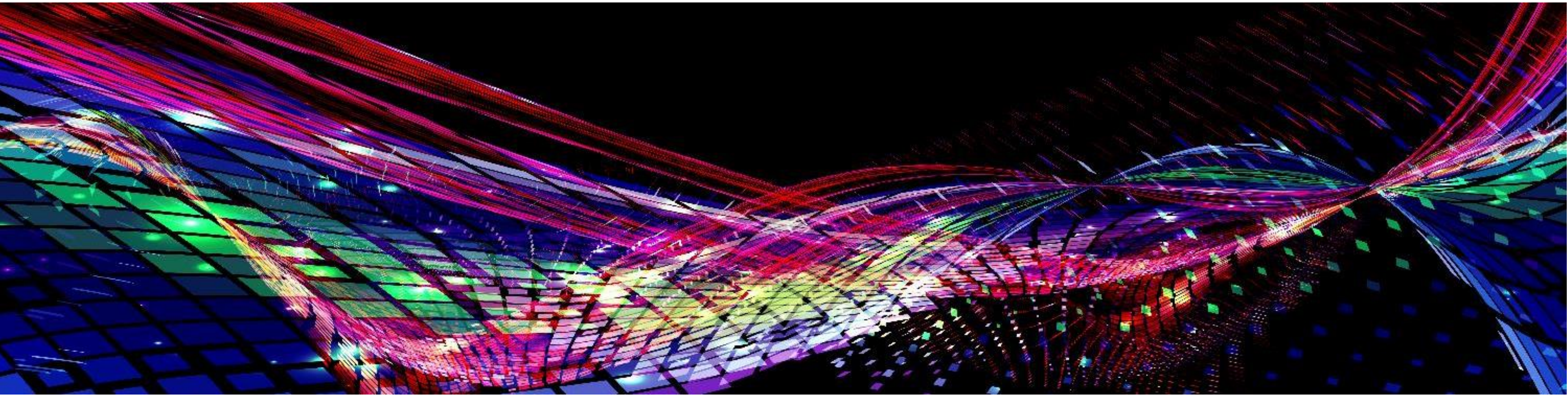
RESEARCH



Application Services – Annual Report 2017: Artificial Intelligence (AI) in SDLC? There is a Long Journey Ahead

Application Services (AS)
Annual Report – April 2017 – Preview Deck

EGR-2017-4-PD-2145

Our research offerings for global services

- **Market Vista™**
  Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available
- **Application Services**
- **BPS | Banking Financial Services**
- **BPS | Healthcare & Life Sciences**
- **BPS | Insurance**
- **Catalyst™**
- **Cloud & Infrastructure**
- **Contact Center**
- **Digital Services**
- **Finance & Accounting**
- **Human Resources**
- **ITS | BFSI***
- **ITS | Healthcare & Life Sciences**
- **IT Services Forecaster™**
- **Locations Insider™**
- **PricePoint™**
- **Procurement**
- **Recruitment & Talent Acquisition**
- **Service Optimization Technologies**
- **Transaction Intelligence**

Subscription information

- This full report is included in the following subscription(s)
  – Application Services
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
- **If you want to learn whether your organization has a subscription agreement or request information on pricing and subscription options, please contact us**

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

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* Banking, financial services, and insurance

Everest Group's application services research is based on three key sources of proprietary information

1
- Annual interviews and interactions with **200+ Fortune 1000 enterprises** on application services
- These interviews are designed to capture:
  - Priorities and investments for application services
  - Assessment of application services providers
  - Key technology investments and preferred vendors

2
- Proprietary database of **applications services** engagements (updated annually)
- The database tracks the following elements of each contract:
  - Buyer details including industry, size, and signing region
  - Contract details including contract value, term, start date, and pricing structure
  - Scope including coverage of functional activities, processes, and application service towers

3
- Proprietary database of **market developments across 100+ technology and IT service providers** (updated annually)
- The database tracks the following events for each company:
  - Major deals / solution implementation
  - New product/solution launches
  - Financial metrics (revenues, margins, and valuations)
  - Mergers and acquisitions
  - Alliances and partnerships
  - Investments in research and development

Illustrative list of service providers whose deals are included in this study

accenture High performance. Delivered.	Atos	Capgemini IGATE	CGI
Cognizant	CompuCom	CSC	DELL Services
epam	FUJITSU	GENPACT	HCL
Hexaware Technologies	hp	IBM	Infosys
L&T Infotech	Mindtree		Mphasis Unleash the Next
Neusoft Beyond Technology	NIIT technologies	NTT DATA	Softtek
steria	SYNTEL Consider IT Done		Tech Mahindra
TATA CONSULTANCY SERVICES			T-Systems
UNISYS	WIPRO Applying Thought		xerox

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)

Artificial Intelligence (AI) has become the buzzword in the industry, with its subsegments Machine Learning (ML) and Deep Learning (DL) gaining spotlight recently. These are expected to significantly impact the way applications are developed and maintained.

Buyers of application services will benefit from this report to understand the evolving AS landscape, key trends, and outlook for 2017-2018. Service providers will be able to identify areas that they should focus on to capitalize on the AI opportunity, in addition to buyer expectations, market trends, and demand drivers.

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

Major highlights and key trends

- Automation is "front end", with enterprises proactively demanding strategy, vision, and strong PoCs from service providers
- Current AI adoption is doing a disservice by focusing on developer productivity instead of making AI the "coder"
- A decline in deal sizes is a cause for serious concern for application services providers

Overview

- Stand-alone Application Services (AS) continue to dominate market activity
- Average deal sizes for AS engagements have declined over the previous year
- The three to five years timeframe emerges as the most preferred deal duration for AS engagements

Summary of key messages (page 2 of 2)

Buyer adoption

- Deal sizes in the energy & utilities vertical plummeted amidst strong industry headwinds
- Deal durations also witnessed a slight shrinkage across most industries, barring BFSI, which witnessed a jump from less than three years to almost five years average deal duration
- Deal activity continued to be dominated by small buyers (<US$5 billion)
- Europe has taken the lead from North America for the first time in the last several years

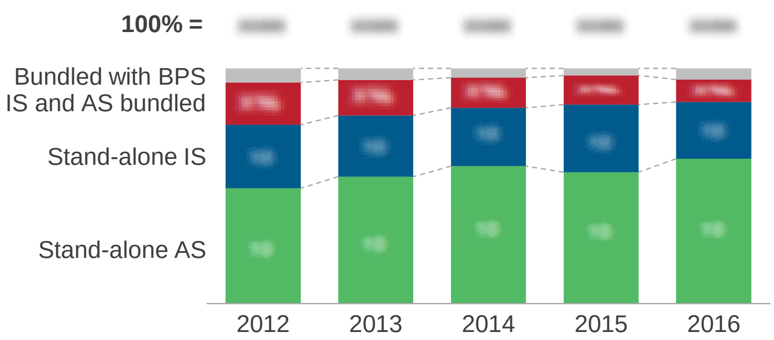
Outlook for 2017-2018

- Application services will continue to witness increased demand owing to digital pervasiveness across multiple channels, platforms, and devices
- Buyers will expect innovation from service providers beyond contractual commitments, as they undertake digital transformation initiatives to be future-ready
- Automation will become a high-priority investment for buyers owing to its direct impact on application cycles and speed-to-market
- AI, cognitive, and robotics will no longer be fringe technologies dominated by technology majors; they will begin to pervade the enterprise portfolio and will eventually become mainstream in the application landscape

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

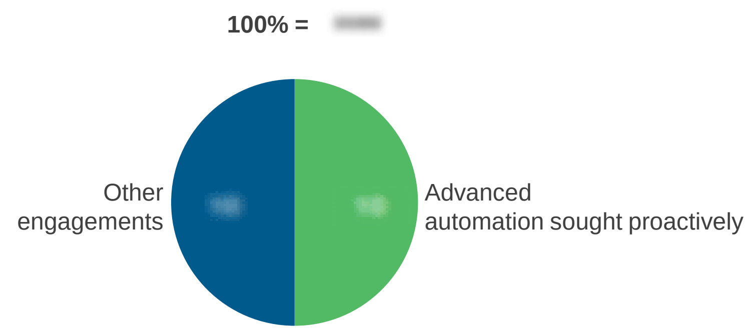
Stand-alone AS drives the market

Bundling trend in IT services deals
2012-2016; Number of deals



Automation is "front-end"

Advanced automation as sought by enterprises
2016; Number of deals

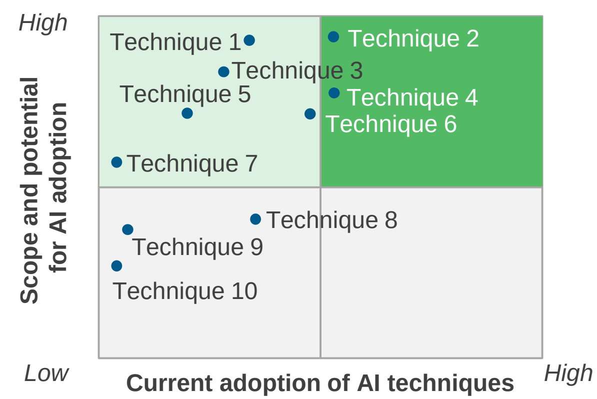


AI adoption in the enterprise

- These enterprises have proactively asked service providers to deploy AI-based solutions
- These requests are mostly focused on support activities that rely heavily on crunching data from application logs, ticket databases, and QA systems
- These "fence-sitters" believe AI has tremendous potential for application services, but they need more proof points
- Most believe that service providers are "AI washing" their solutions by erroneously referring to analytics as AI, the difference being that AI learns over time, while analytics does not

AI potential in application services

Opportunities for AI in application services activities



Source: Everest Group (2017)

Application services research calendar

Published | Current

Topic	Release date
Independent Testing Services – PEAK Matrix™ Assessment and Profile Compendium 2015	July 2015
Testing Services Market Update 2015 – Digital Testing, Buyers Beware!	February 2015
Upcoming Contract Renewals – Application Services	February 2016
SaaS Implementation Services – Market Trends and PEAK Matrix™ Assessment & Profiles Compendium	April 2016
CSC-HPE Services Merger	May 2016
Application Services – Annual Report 2016: “No DevOps No Digital”	May 2016
Independent Testing Services – Market Trends and PEAK Matrix™ Assessment & Profiles Compendium	June 2016
IT Application Services Automation: Think Benefits, Not Costs	Nov 2016
Customer (Dis)Satisfaction: Why Are Enterprises Unhappy with Their Service Providers?	Jan 2017
Upcoming Contract Renewals – Application Services	February 2017
Application Services – Annual Report 2017: Artificial Intelligence (AI) in SDLC? There is a Long Journey Ahead	April 2017
IT Automation in Application Services – PEAK Matrix™ Assessment for Products/Solutions	Q2 2017

Additional research recommendations

The following documents are recommended for additional insight into the topic covered in this research. These documents either provide additional details, or complementary content that may be of interest

1. **Customer (Dis)Satisfaction: Why Are Enterprises Unhappy with Their Service Providers?** (EGR-2017-4-R-2077); 2017. Insights from our research reveal that almost 50% of the enterprises are dissatisfied with their service providers, whose average performance score as strategic partners is merely 5 on 10. Whereas service providers meet the technical requirements stated in the agreement, in reality, they seldom meet customer expectations on the softer engagement aspects. The enormous gap between the stated and the unstated expectations leaves the majority of customers discontented with their service providers

2. **IT Application Services Automation: Think Benefits, Not Costs** (EGR-2016-4-R-1998); 2016. In this era of digitalization, enterprises need to be agile in order to deliver innovative products and services to their customers. As they look for new ways to reduce costs and improve productivity, they are leveraging emerging concepts such as automation and cognitive intelligence. These concepts, though not entirely new, are gaining traction in the context of application services, as enterprises look beyond their traditional lever of labor arbitrage for cost reduction

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

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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