Software Product Engineering Services Enterprise Pulse: Sustaining Enterprise Satisfaction Amid Growing Cost Pressures

August 2024: Complimentary Abstract / Table of Contents

Market Report
Software Product Engineering Services

Everest Group®

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- ▶ Payer and Provider Information Technology
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- ▶ Pricing Analytics as a Service
- ▶ Process Intelligence
- ▶ Process Orchestration
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- ▶ Retirement Technologies
- ▶ Revenue Cycle Management
- ▶ Rewards and Recognition
- ▶ SAP Services
- ▶ Service Optimization Technologies
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Contents

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Background of the research

- Software, the largest spend area in the product engineering space, continues to keep its upward march alive, albeit at a decelerated pace, primarily due to recessionary headwinds, geopolitical conflicts, talent constraints, and delayed decision-making at enterprises. Amid the macroeconomic turbulence, certain themes continue to propel the software R&D forward – a shift toward platform-based business model, increased adoption of AI-/gen AI-augmented and secure products, a focus on sustainability, and an enhanced emphasis on customer and developer experiences

- This pivot toward these transformative themes, coupled with the current economic scenario, is changing enterprises' expectations from their service providers. From seeking a provider solely focused on offering engineering talent, enterprises now aspire to engage with strategic partners capable of delivering savings, speed, and innovation concurrently

- In this research, we present a summary of various enterprises' views regarding the capabilities of service providers that they engage with across software product engineering services

- The assessment is based on 234 unique interviews conducted during 2023-24, with enterprises globally and across industries such as BFSI, healthcare and life sciences, ISV and internet, media and entertainment, retail, and telecom
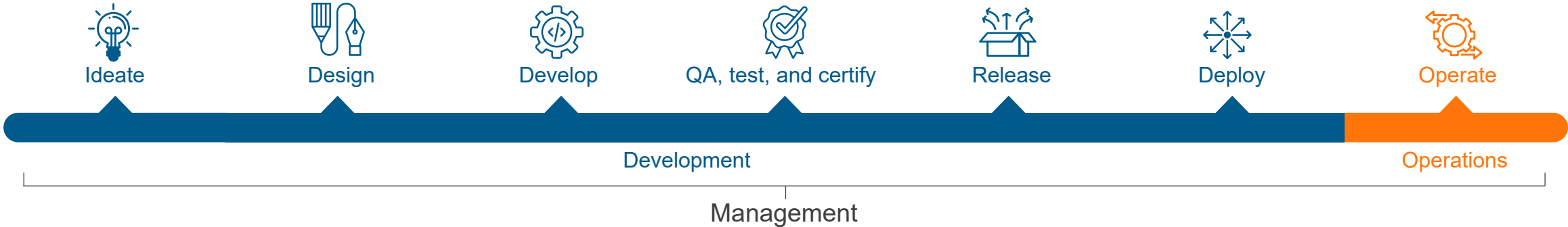
Scope of this report

Geography: Global

Services: Software product engineering services

Buyer references: 234 unique customer references

Service providers: 43 software product engineering service providers

The report focuses on software product engineering services and provides insights into how service providers are viewed by their enterprises

Ideate → Design → Develop → QA, test, and certify → Release → Deploy → Operate

Development — Operations

Management

Management
Exploring and implementing value-enhancement ideas for all functions and stakeholders in the software product ecosystem – engineers, management, and end-users –while looking from a business as well as a technical lens

Development
Entails building/upgrading, testing for robustness, and deploying key elements of a software product – technology stack, applications, interface, etc.

Operations
Entails all activities directed toward maintaining software product integrity and providing consistent experiences to product users, while the software product is up and running

Software product engineering services include:

- Development of Commercial Off-The-Shelf (COTS) products for enterprises
- Development of customer-facing software/portals/applications that are meant for revenue generation or service delivery

System integration services, development of custom applications for mid-/back-office operations, and services offered for embedded software development are excluded from the scope of this assessment.

Our research methodology is based on four pillars of strength to produce actionable and insightful research for the industry

01 Robust definitions and frameworks

Function-specific pyramid, Total Value Equation (TVE), PEAK Matrix®, and market maturity

02 Primary sources of information

Annual contractual and operational RFIs, provider briefings and buyer interviews, web-based surveys

03 Diverse set of market touchpoints

Ongoing interactions across key stakeholders, input from a mix of perspectives and interests

04 Fact-based research

Data-driven analysis with expert perspectives, trend-analysis across market adoption, contracting, and providers

Proprietary contractual database of large active contracts (updated annually)

Year-round tracking of 50+ Engineering services providers

Large repository of existing research in Engineering Services

Over 30 years of experience advising clients on strategic IT, business services, engineering services, and sourcing

Executive-level relationships with buyers, providers, technology providers, and industry associations

Executive summary

Enterprises have reported a slight decline in their satisfaction with software product engineering service providers, primarily due to increased cost pressures and competitive pricing challenges

Quality and scale of talent and resources is the top reason for selecting service providers, followed by prior relationships and trust

ISV and internet sectors lead in satisfaction due to their strong technical expertise, domain knowledge, and flexibility

Enterprises value service providers that introduce innovative, scalable solutions using next-generation tools

European enterprises are the most satisfied, citing competitive pricing, low attrition, and openness to feedback

Enterprises prioritize technical expertise and competitive pricing, along with flexibility and innovation in next-generation technologies

Different industries including BFSI, healthcare, media, and telecom have unique requirements and satisfaction drivers, highlighting the importance of tailored solutions
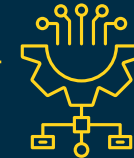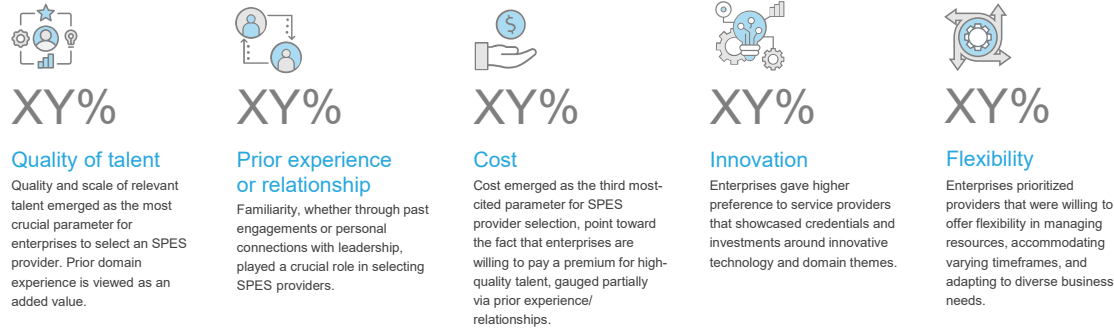
Providers need to focus on reducing talent turnover and adopting outcome-based pricing, revenue sharing, and risk-reward models to align better with business objectives

The study analyzes software product engineering enterprises' views on the capabilities of their service providers and their expectations from these vendors – below are few charts to illustrate the depth of the report

Top enterprise considerations for selecting a SPES provider

Factors stated by enterprises for selecting their service providers
100%= 150

XY%

Quality of talent
Quality and scale of relevant talent emerged as the most crucial parameter for enterprises to select an SPES provider. Prior domain experience is viewed as an added value.

XY%

Prior experience or relationship
Familiarity, whether through past engagements or personal connections with leadership, played a crucial role in selecting SPES providers.

XY%

Cost
Cost emerged as the third most-cited parameter for SPES provider selection, point toward the fact that enterprises are willing to pay a premium for high-quality talent, gauged partially via prior experience/ relationships.

XY%

Innovation
Enterprises gave higher preference to service providers that showcased credentials and investments around innovative technology and domain themes.

XY%

Flexibility
Enterprises prioritized providers that were willing to offer flexibility in managing resources, accommodating varying timeframes, and adapting to diverse business needs.

Overall satisfaction of enterprises with their SPES providers

Enterprises' overall satisfaction with service providers in 2022
100%= 84

XY%

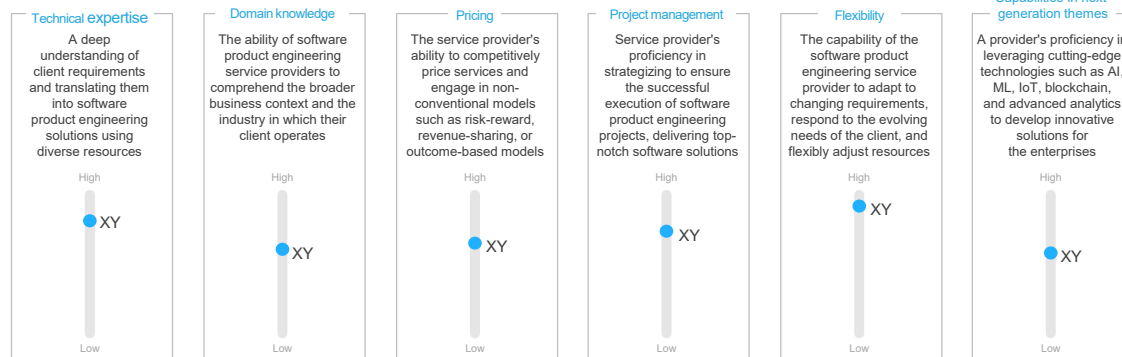**Enterprises' overall satisfaction[1] with service providers in 2023**
100%= 150

XY%

1 Satisfied: Satisfaction rating of 8 or above, not satisfied: satisfaction rating below 8 (out of 10)

- There has been a slight decline in the overall satisfaction of enterprises with their software product engineering service providers. Amid the prevailing cost pressures for enterprises across verticals and geographies, price competitiveness emerged as a key factor of dissatisfaction in 2023
- The satisfaction of enterprises with their service providers is primarily attributed to technical expertise and flexibility in project management. Additionally, enterprises consistently prioritize cost competitiveness when evaluating service providers
- The overall low score in capabilities across implementing the next-generation theme has negatively impacted enterprises' satisfaction. Another significant limitation cited is the retention of the top talent and addressing high attrition rates to maintain stable and skilled teams

Enterprises' satisfaction levels across following service delivery parameters

Enterprises were asked to rate their vendors and comment on how they fared with respect to the following parameters of service delivery

Technical expertise
A deep understanding of client requirements and translating them into software product engineering solutions using diverse resources

High
XY
Low

Domain knowledge
The ability of software product engineering service providers to comprehend the broader business context and the industry in which their client operates

High
XY
Low

Pricing
The service provider's ability to competitively price services and engage in non-conventional models such as risk-reward, revenue-sharing, or outcome-based models

High
XY
Low

Project management
Service provider's proficiency in strategizing to ensure the successful execution of software product engineering projects, delivering top-notch software solutions

High
XY
Low

Flexibility
The capability of the software product engineering service provider to adapt to changing requirements, respond to the evolving needs of the client, and flexibly adjust resources

High
XY
Low

Capabilities in next-generation themes
A provider's proficiency in leveraging cutting-edge technologies such as AI, ML, IoT, blockchain, and advanced analytics to develop innovative solutions for the enterprises

High
XY
Low

Note: Enterprises rated their vendors across these parameters on a scale of 1-10, with 10 being the highest possible rating

Enterprises' satisfaction levels across top industry verticals in SPES

Enterprise satisfaction across key industry verticals
CY2022 – H1 CY2023; rating (1 – lowest, 10 – highest)

Key industry verticals	Aggregated enterprise rating
ISV and internet	XY
BFSI	XY
Healthcare and life sciences	XY
Retail	XY
Media and entertainment	XY

- Enterprises across various industries express overall satisfaction with their service providers, driven by strengths in security, regulatory compliance, innovation, and effective customer engagement
- Service providers, however, need to work on the challenges such as high costs, software integration complexity, and the need for continuous updates and innovation to stay current with technological advances and market requirements

Research calendar

Software Product Engineering Services

Published   Current release   Planned

Reports title	Release date
Engineering Research and Development (ER&D) Outlook for 2024: Key Macroeconomic and Technological Trends Shaping the ER&D Industry	January 2024
Engineering Services CXO Insights: Key Issues Report 2024	January 2024
Talent Demand Trends | India IT Services – H2 2023	February 2024
Webinar Deck: Impact Sourcing: Empowering Communities, Transforming Business, and Creating Long-Term Impact	March 2024
Navigating the Platform Odyssey: Software Product Engineering Services PEAK Matrix® Assessment 2024	March 2024
Enterprise Immersive Experience Services PEAK Matrix® Assessment 2024	April 2024
Software Product Engineering Services – Provider Compendium 2024	May 2024
Enterprise Immersive Experience Services – Provider Compendium 2024	July 2024
Software Product Engineering Services Enterprise Pulse: Sustaining Enterprise Satisfaction Amid Growing Cost Pressures	August 2024
Software Product Engineering Services State of the Market Report 2024	Q3 2024
Software Product Engineering Services PEAK Matrix® Assessment 2024 – Key Verticals, Operations, Nearshore Delivery Capabilities	Q3 2024
Enterprise Engineering and Outsourcing Priorities Around AI-enabled Software Products	Q3 2024
Engineering Services Top 50 – 2024	Q3 2024
Leading the Pack: Trends for the Top 200 Engineering Research & Development (ER&D) Enterprises 2024	Q3 2024
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