



## **Information Technology Outsourcing (ITO) Market Update: June 2008 – Preview Deck**

**Topic: Emerging Supplier Dilemma in the Remote  
Infrastructure Management Market**

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## **Background of the research**

- The Infrastructure Outsourcing (IO) market continues to evolve with offshore suppliers entering the market through labor arbitrage, enabled by remote infrastructure management (RIM) technology
- The continued maturity of the remote infrastructure management outsourcing (RIMO) suppliers' offerings leads to a certain degree of convergence of various infrastructure models in terms of their target buyers and deal characteristics (e.g., deal sizes). In spite of this superficial convergence, the underlying dynamics of the value proposition of RIMO and traditional suppliers remain very different
- This convergence leads to a strategic dilemma facing RIMO suppliers. Leading RIMO suppliers realized this dilemma and started indicating their strategic directions

## **The scope and methodology of this report includes**

- Data-driven analysis of the evolution of different models in the IO market
- Analysis of the key differences between infrastructure service delivery models
- Overview of likely RIMO suppliers' strategies based on their market signals

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# Overview and abbreviated summary of key messages

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This report provides an update of the maturing RIMO market. Infrastructure Outsourcing (IO) market continues to evolve with offshore suppliers entering the market through labor arbitrage, enabled by remote infrastructure management (RIM) technology. Continued maturity of the remote infrastructure management outsourcing (RIMO) suppliers' offerings leads to certain degree of convergence of various infrastructure models in terms of their target buyers and deal characteristics (e.g., deal sizes). In spite of this superficial convergence the underlying dynamics of the value proposition of RIMO and traditional suppliers remain very different.

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

## **Continued evolution of the models in IO**

- Everest defines three models of IO: Traditional IO, Infrastructure Managed Services (IMS) and Remote Infrastructure Management Outsourcing (RIMO)
- These models vary significantly in the delivery approach, pricing and other deal attributes along with the way they enable innovation

## **Maturity of the RIMO model and signs of convergence**

- Offshore suppliers practice primarily the RIMO model and still hold a minor share of the IO market; nonetheless, there are increasing signs of the maturity of RIMO leading to a growing convergence of the models of infrastructure service delivery
- These signs are evident in offshore suppliers increasingly targeting similar buyers as traditional suppliers in terms of size, geographic, and industry profile

# Overview and abbreviated summary of key messages

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## IO suppliers' strategic dilemma

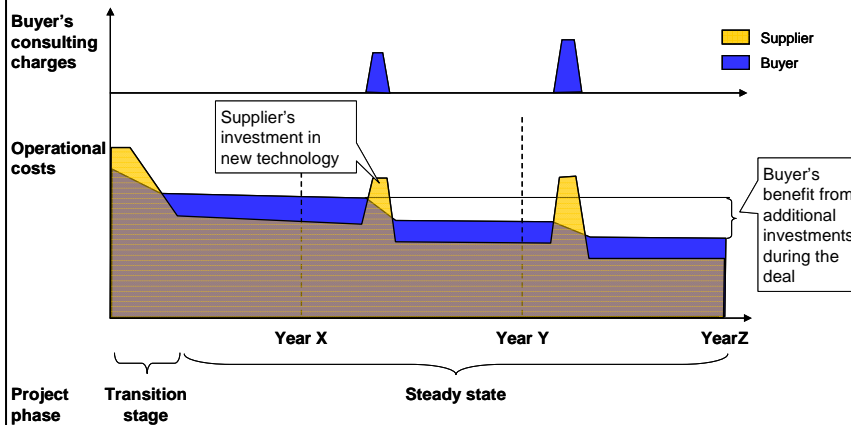
- The convergence of IO models is driving offshore suppliers to one of three choices: continue adopting key elements of the IMS model, building added value into their existing RIMO offering, or simply continuing to focus on the classical RIMO services, relying on labor arbitrage as a key driver
- Traditional IO suppliers are confronted with a simpler, but not less challenging option: focus on large end-to-end infrastructure deals avoiding competition or develop variations of a converged RIMO/IMS offering with an active role of labor arbitrage

This study offers three distinct chapters providing a deep dive into key aspects of the ITO market; below are four charts to illustrate the depth of the report

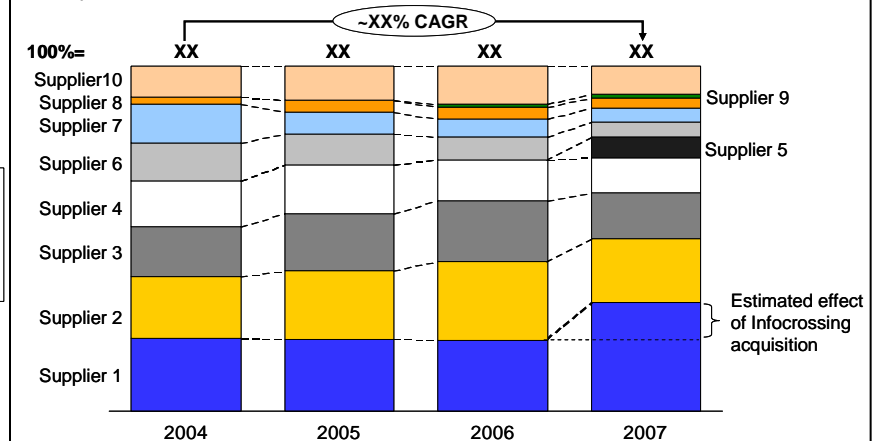


**ILLUSTRATIVE** RESEARCH INSTITUTE

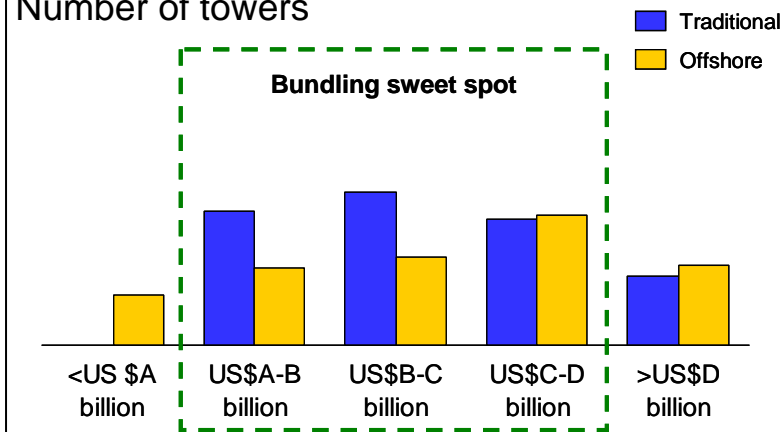
### Delivering innovation through consulting model



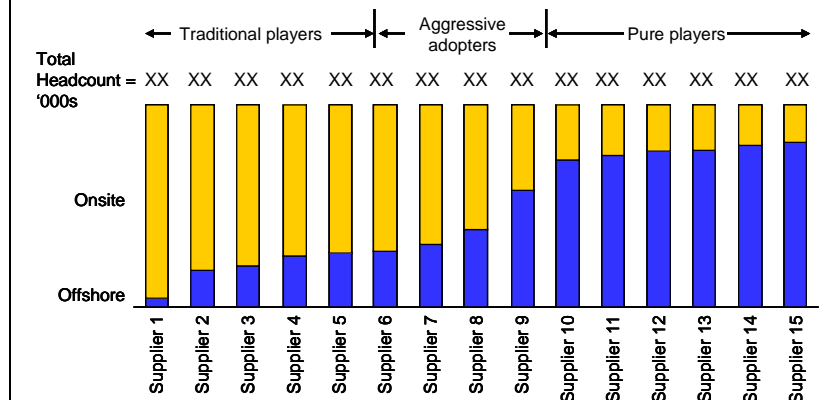
### Offshore suppliers market share US\$ million



### Bundling variation by buyer revenue Number of towers



### Offshore vs. onsite headcount mix across major IT services firms



Source: Everest Research Institute (2008)

The ITO report has over eight supplier profiles/buyer case studies/architecture of the survey questionnaire, etc.



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**ILLUSTRATIVE**

## Company X is an example of the IMS adoption strategy



### Company X logo

#### Market signals

- Company X launched its "XXXX" practice built around infrastructure services and focused exclusively on executing large end-to-end infrastructure deals
- Acquisition of Infocrossing – U.S.-focused provider of IT infrastructure services with focus on SMB
- Company X acquired Company Y, a technology infrastructure consulting firm with domain expertise in business service management (BSM) solutions

#### Likely rationale

- Company X's continuous efforts to expand global delivery network suggest an increasing focus on adoption of labor arbitrage in its IO offerings
- Company X's continued investments into certification of offshore RIM service centers suggests that these centers are likely to be customer facing, rather than simply a part of the delivery back office
- Company X is one of the few companies that included pure RIM offerings as a part of their IO portfolio to compete with the pure-play offshore firms

Sources: Everest Research Institute (2008); news reports

## Company X has built a network of offshore delivery centers to offer RIMO services

### Company X logo

#### Market signals

- Company X has significant infrastructure presence offshore, e.g.,
  - India-based centers in multiple cities including Chennai, Bangalore, and Indore
  - Center in XXXX to serve as nearshore delivery center in EU
- Company X India has been certified ISOXXXX, BSXXXX, and BSXXXX for its RIM services
- Company X announced "XXXXX," a strategic initiative to serve international customers from Indian offshore delivery centers

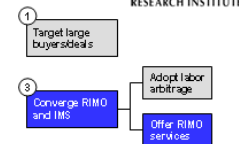
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Sources: Everest Research Institute (2008); publicly announced company business events

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#### HYPOTHESIS



#### Conclusion

Company X's efforts to actively ramp up its offshore RIM delivery network and recent announcements suggest that Company X is building RIM capabilities to offer RIMO services, similar to offshore firms

Source: Everest Research Institute (2008)

# Additional ITO research recommendations



The following documents are recommended for additional insight on 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. **ITO Annual Report (ERI-2008-4-R-0240); 2008.** The IT infrastructure outsourcing market This flagship research includes comprehensive coverage of the ITO market including market size and trends, service delivery models, market dynamics, and location optimization for remote service delivery
2. **IT Outsourcing RFI 2007 (ERI-2007-4-R-0227); 2007.** The Everest ITO Request For Information (RFI) exercise was conducted in Q3, 2007. We analyzed a representative sample of responses from 12 ITO suppliers. These included large multinational suppliers with headquarters in Europe, North America, and India
3. **Role of Tools in Infrastructure Outsourcing (ERI-2007-4-R-0209b); 2007.** This joint research report created by Everest Research Institute and Enterprise Management Associates investigates the role played by application-based tools used to manage and govern IT infrastructure. It discussed the multiple dynamics and capabilities of different categories of tools and how they impact IT infrastructure outsourcing

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