



RESEARCH INSTITUTE

Information Technology Outsourcing (ITO) Report: May 2011 – Preview Deck

Topic: Independent Testing Services – “It's Time to Innovate”

Background of the research:

- Testing services is growing faster than the overall growth for most of the providers. It is a focus area for large as well as other IT outsourcing providers
- Service providers believe they can reduce the overall cost structure of testing for clients and make their process more efficient, flexible, and scalable
- Providers have offered testing services for long time. However, they now realize the importance of innovation in testing practice not only in terms of technology but also delivery and engagement
- Despite significant opportunities for growth, there are certain challenges that the providers need to overcome

The scope of analysis includes:

- Overview of testing services
- Analysis of testing service adoption in terms of buyers' concerns, vertical adoption, geographical adoption, challenges that providers face, etc.
- Key innovations that will impact testing services
- Growth opportunities and challenges

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Overview and abbreviated summary of key messages

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This report analyzes the global testing outsourcing market from provider and buyers' perspective. It focuses on the adoption trends in different geographies, verticals, and buyer size. It discusses the challenges buyers and providers face, the opportunities, value levers, key innovations, engagement models, and the future ahead for testing services. It also provides key implication for buyers and providers of testing services

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

Supplier position and growth

- Testing applications continue to take significant cost in the application development process. Service providers have incentives to offer testing as an independent service
- Testing service providers leverage multiple value levers to reduce the cost of testing. Moreover, a stand-alone testing service usually offer innovative testing solutions to the clients

Testing services adoption trends

Buyer trends:

- Financial services is taking the lead in adopting independent testing services. North American buyers are aggressively leveraging independent testing services. Clients in UK also appear to be favorably inclined towards outsourcing testing
- Buyers cite different drivers and inhibitors for outsourcing testing. They are concerned about provider's domain competence and their own internal testing processes

Overview and abbreviated summary of key messages

(page 2 of 2)

Testing services adoption trends (continued)

Service provider trends:

- Revenue for independent testing services is seeing disproportionate contribution from North America. India is a clear choice for opening testing centers and hiring resources for majority of the providers
- Time and material pricing continue to dominate testing contracts. Most of the testing services engagement models are based on staff augmentation or co-sourcing

Innovation in testing services

- Innovations in leveraging the concepts of cloud computing, crowdsourcing, testing IP, and output/outcome driven engagement models will impact the evolution of testing services
- Providers need to devise strategies to monetize testing innovations, given a significant buyer perception bias about testing being a low value job with little business impact

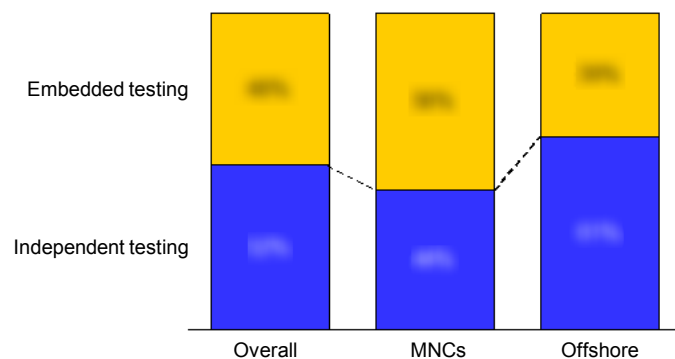
The road ahead

- Independent testing service is set for growth. There are certain challenges that the providers need to overcome to tap this market
- Various technology and business drivers such as ERP testing, mobility, and cloud will drive the testing service growth. However, the bulk of the revenue will keep coming from traditional, enterprise customer application work

This study assesses the independent testing market, key adoption trends across buyers, challenges in testing services, and the road ahead

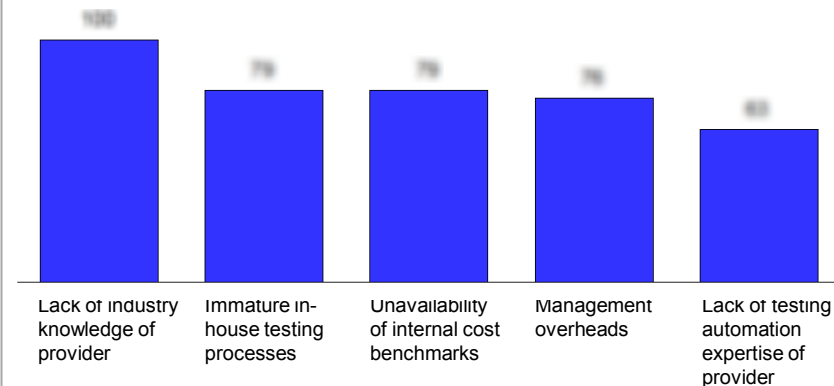
Embedded versus independent testing

Distribution of overall testing service revenue for service providers
2010; Revenue distribution



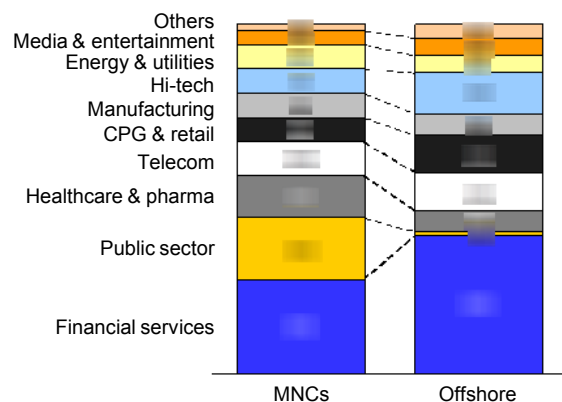
Buyers concerns on testing outsourcing

Buyers' perspective on hindrances towards adoption of independent testing services
Indexed comparison of reasons cited as hindrance towards outsourcing testing services



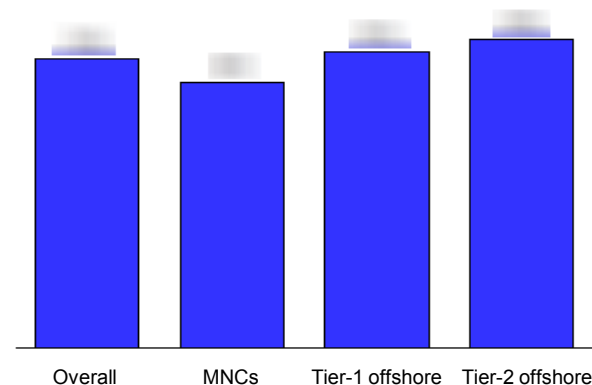
Revenue contribution from different industries

Distribution of testing service revenue for providers by buyer industry
2010; Revenue distribution



Typical offshore leverage in testing services

Average levels of offshoring leveraged in a typical testing outsourcing project
2010; Offshore leverage



Appendix: Additional ITO research recommendations



The following documents are recommended for additional insight into 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. **Service Provider Cloud Strategies – “As Unique as Everyone”**(ERI-2011-4-R-0495); 2011: This report evaluates cloud computing strategies of major IT outsourcing providers. The analysis includes overview of the different role these providers are carving out in terms of advisor, orchestrator, enabler, and engine provider. The report also describes the strategic intent of various providers in these roles
2. **ITO Request for Information 2010 – A Market Insights Report** (ERI-2010-4-R-0427); 2010: This report analyses various key trends across global ITO markets using data from major service providers about their top ITO deals across Infrastructure outsourcing, ADM outsourcing, and ITO bundling. The 19 participating service providers represent MNCs with headquarters in North America and Europe as well as Indian service providers. The analysis is segregated into various segments across buyer revenue, signing geography, industry segments, offshore/MNC service providers, and pricing models. Buyers and service providers will get key insights into the trends of ITO markets

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