

# Global Combined Sourcing and As-a-Service Market Insights

FOURTH QUARTER AND FULL-YEAR 2016

Hosted by:

Louis Miscioscia, CLSA

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imagine your future®

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# Welcome to the 57th Quarterly ISG Index

Covering the state of the  
combined sourcing and as-a-  
service industry for global,  
commercial contracts.



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Partner and President



Esteban Herrera  
Partner



Stanton Jones  
Research Director and  
Principal Analyst



Full-year Combined Market ACV up 9% driven by 38% growth in As-a-Service segment

4Q Combined Market down 5% Y/Y; Traditional Sourcing space falls short, despite gains in As-a-Service

Americas 4Q up Y/Y on strength in As-a-Service space

EMEA down Y/Y in 4Q; Traditional Sourcing slows in ITO and in the largest geographies

Asia Pacific 4Q up 15% Y/Y; both SaaS and IaaS 2016 ACV growth outpace that seen in other regions



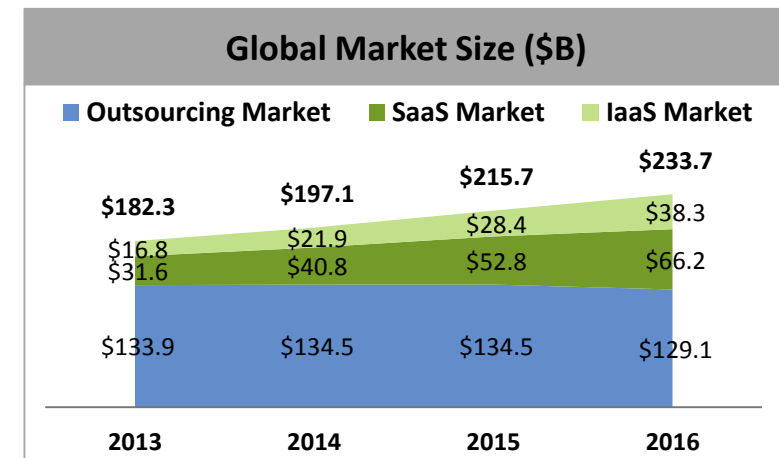
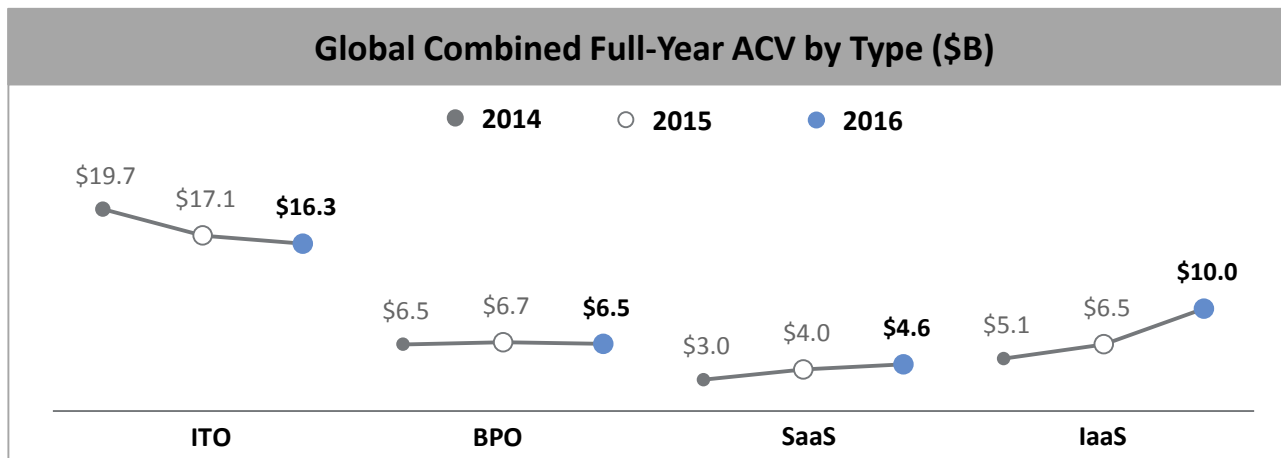
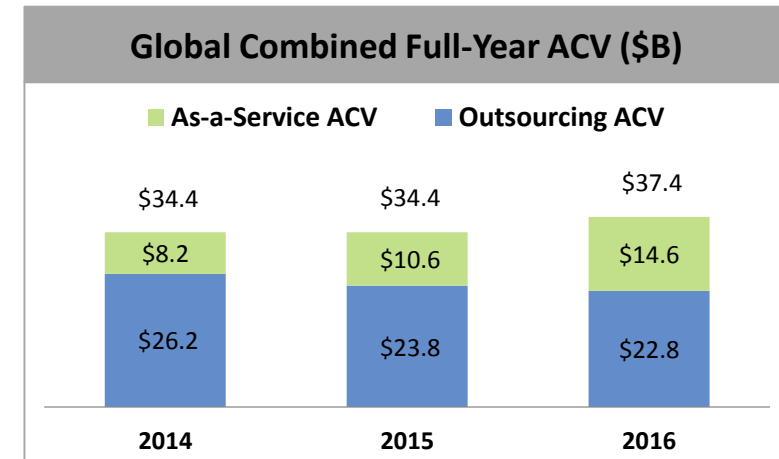
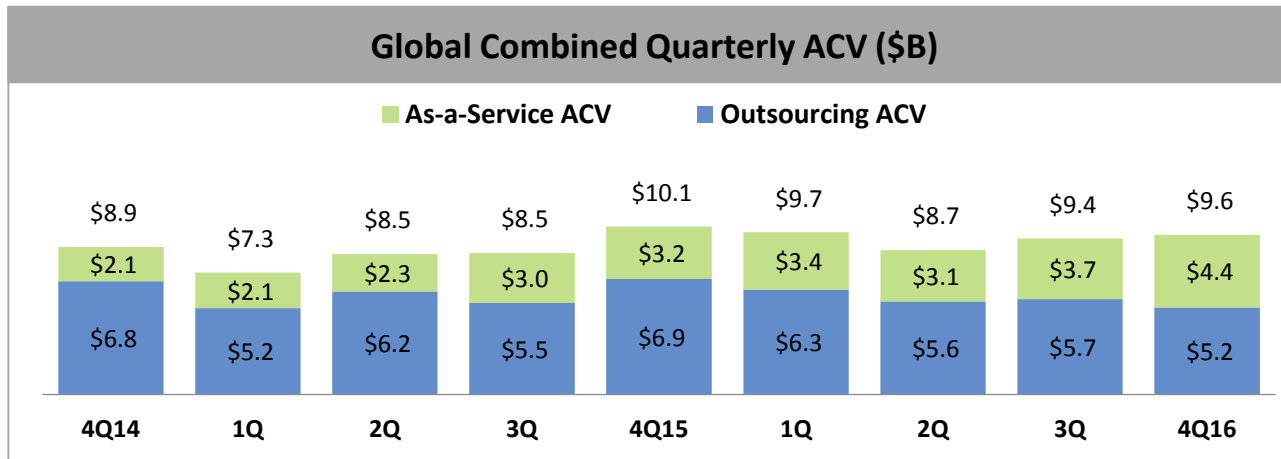
# At a Glance

Scorecard		4Q16 ACV (\$B)*	4Q Y/Y Change	4Q Q/Q Change	2016 ACV (\$B)*	Y/Y Change
<b>Global Combined Market</b>		\$ 9.6	-5%	3%	\$ 37.4	9%
<b>By Type</b>	Outsourcing	\$ 5.2	-25%	-8%	\$ 22.9	-4%
	As-a-Service	\$ 4.4	38%	23%	\$ 14.5	38%
<b>By Service</b>	ITO	\$ 3.2	-39%	-26%	\$ 16.3	-5%
	BPO	\$ 2.0	23%	53%	\$ 6.5	-2%
	IaaS	\$ 3.3	70%	31%	\$ 10.0	54%
	SaaS	\$ 1.1	-12%	3%	\$ 4.6	13%
<b>By Region</b>	Americas	\$ 4.7	5%	9%	\$ 18.4	14%
	EMEA	\$ 3.8	-19%	-2%	\$ 14.7	2%
	Asia Pacific	\$ 1.1	15%	3%	\$ 4.3	16%

\*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase®

# Global Combined Market Contracting Trends

2016 Combined Market up 9% over last year with as-a-service leading the way, up almost 38% over 2015.  
 Traditional Sourcing uneven in the midst of a structural change with increasing activity moving to the cloud.

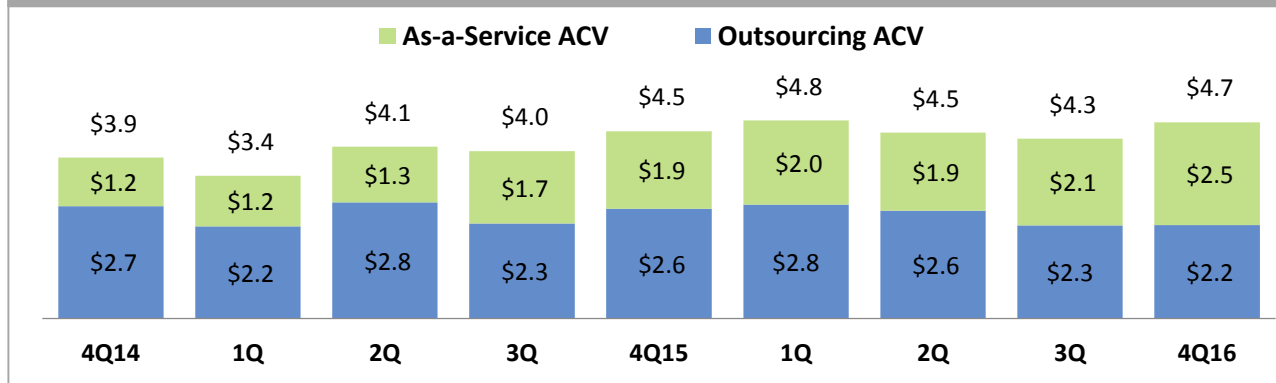


# Americas Combined Market Contracting Trends

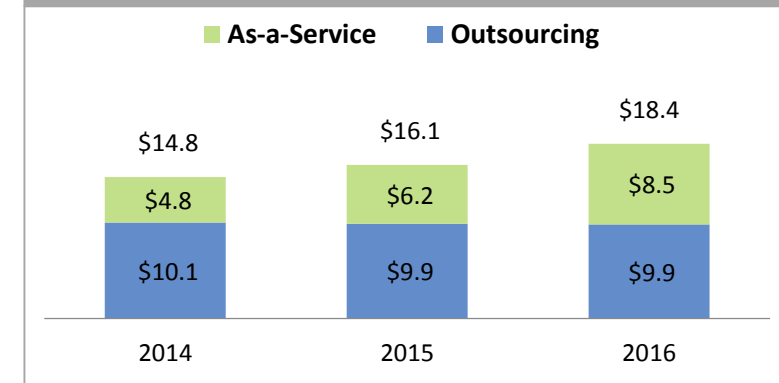
2016 Combined Market up 14% versus 2015; Both ITO and IaaS post solid ACV increases.

As-a-service ACV continues to close the gap with Traditional Sourcing’.

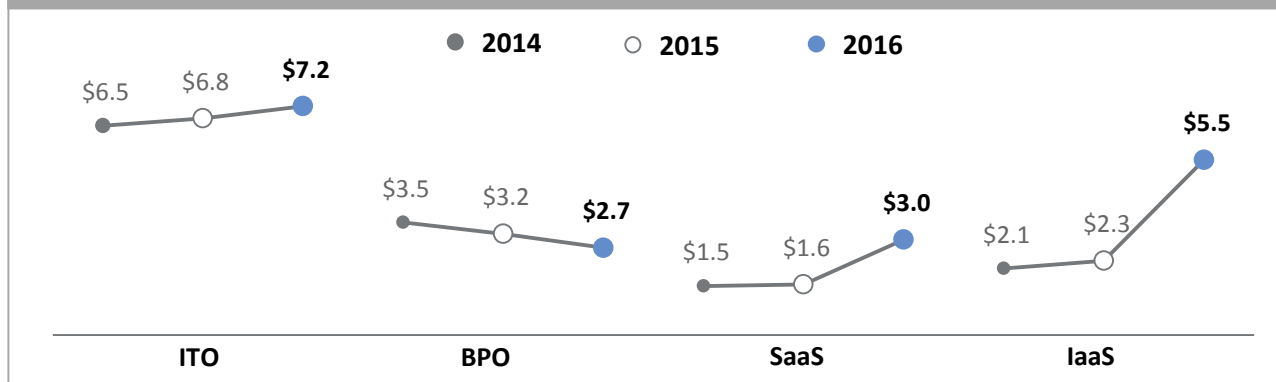
### Americas Combined Quarterly ACV (\$B)



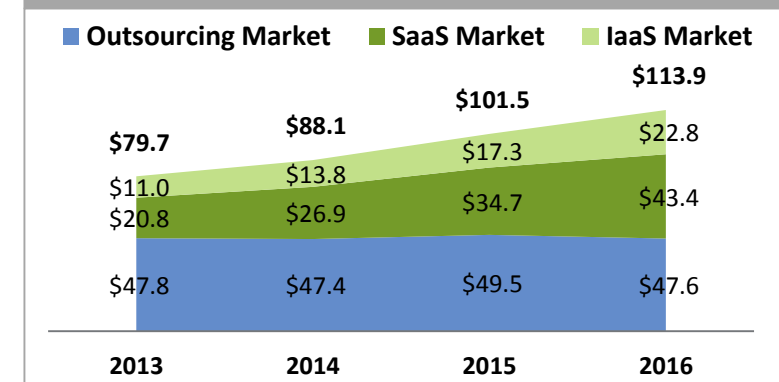
### Americas Combined Full-Year ACV (\$B)



### Americas Combined Full-Year ACV by Type (\$B)



### Americas Market Size (\$B)



# AMERICAS Sourcing Standouts



Our Contracts Knowledgebase® is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months.

## The Big 15 Co. Revenues > \$10 B

### Outsourcing Market

Accenture  
Capgemini  
Cognizant  
CSC  
HPE  
IBM  
NTT Data  
SYNNEX  
TCS  
T-Systems

### As-a-Service Market

Amazon Web Services  
Google  
Microsoft  
Oracle  
SAP

## The Building 15 Co. Revenues \$2 -10 B

### Outsourcing Market

CGI  
CompuCom  
Convergys  
DST Systems  
Genpact  
HCL  
Infosys  
Tech Mahindra  
Wipro

### As-a-Service Market

Adobe Systems  
Equinix  
FIS Global  
Iron Mountain  
Rackspace  
Salesforce.com

## The Breakthrough 15 Co. Revenues < \$2 B

### Outsourcing Market

Atento  
L&T Infotech  
Luxoft  
Mindtree  
Mphasis  
SITEL  
Sutherland Global  
Synacor  
TeleTech  
VirtusaPolaris

### As-a-Service Market

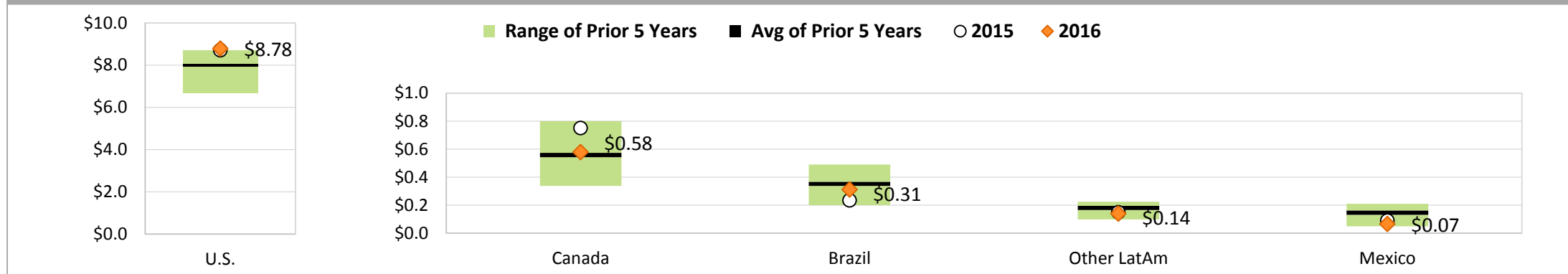
CyrusOne  
Digital Realty  
IPSOFT  
ServiceNow  
Workday

Providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings.

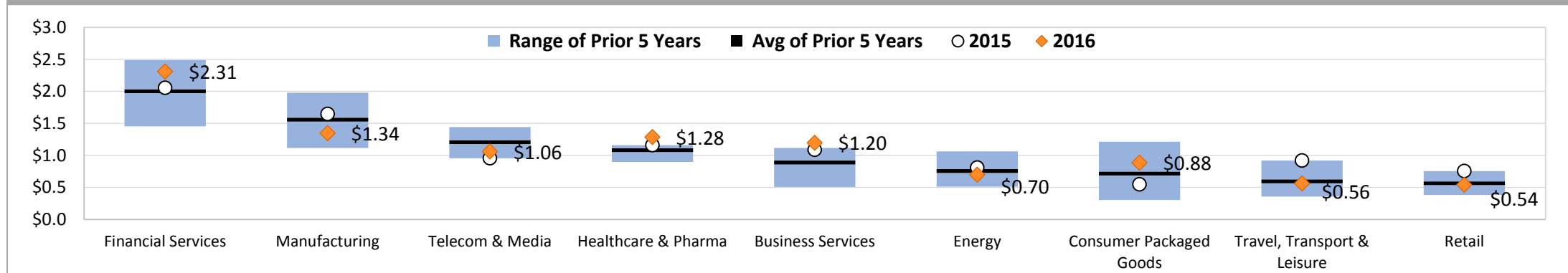
# Americas Traditional Outsourcing Award Trends

Financial Services and Healthcare markets post moderate gains in the Traditional Sourcing space, while Energy companies still face the headwinds of low commodity prices.

## Americas Sub-Region Full-Year ACV (\$B) - Traditional Outsourcing Only

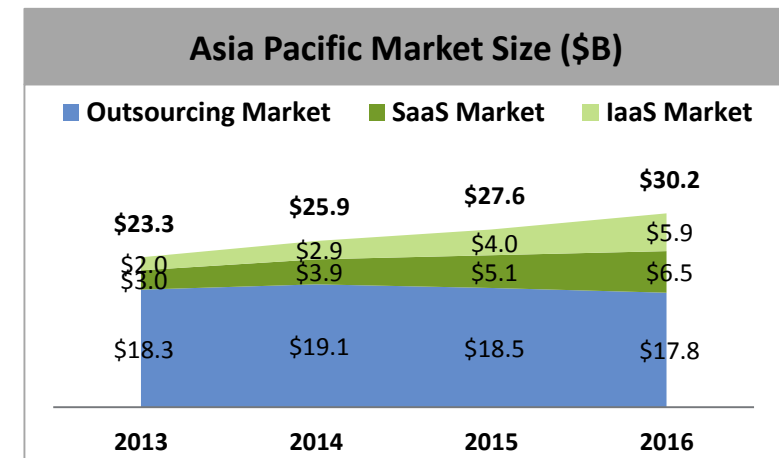
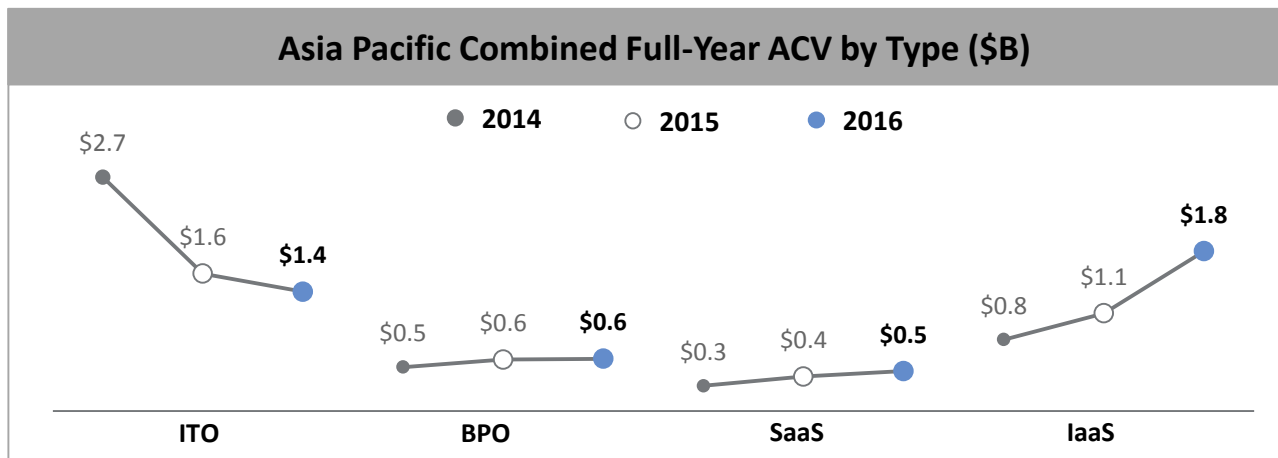
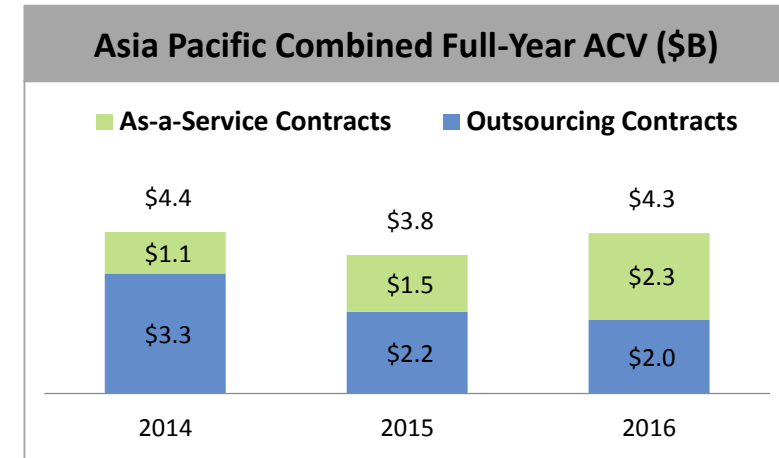
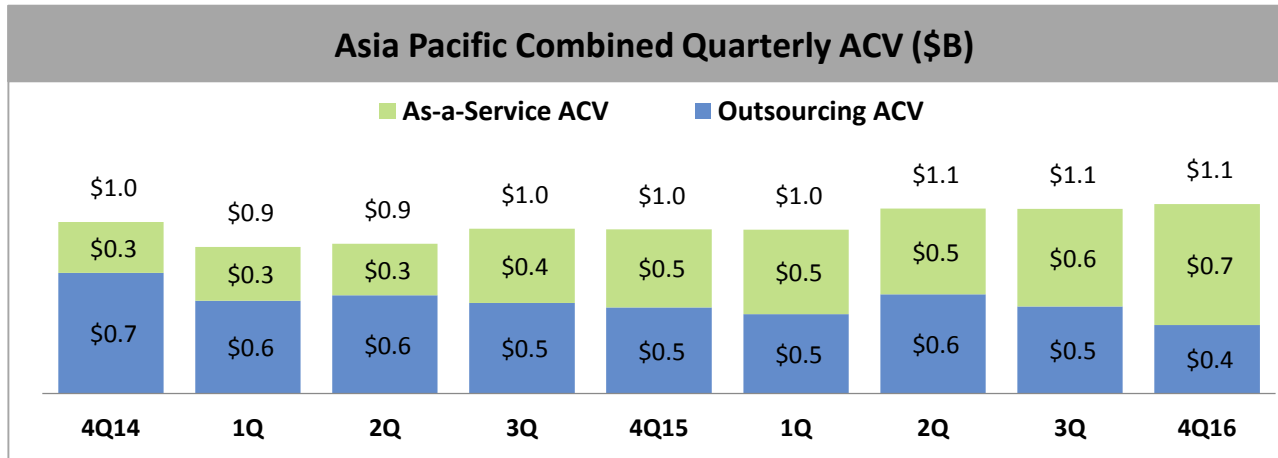


## Americas Industry Full-Year ACV (\$B) - Traditional Outsourcing Only



# Asia Pacific Combined Market Contracting Trends

2016 Combined Market up 15% over 2015; As-a-Service growth in both SaaS and IaaS segments is highest of the three major regions;  
As-a-Service ACV for the year overtakes Traditional Sourcing.





# Asia Pacific Sourcing Standouts



Our Contracts Knowledgebase® is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months.

**The Big 15**  
Co. Revenues > \$10 B

**Outsourcing Market**

- BT
- Capgemini
- Cognizant
- Fujitsu
- HPE
- IBM
- Sodexo
- TCS

**As-a-Service Market**

- Alibaba
- Amazon Web Services
- Google
- Microsoft
- NTT Data
- Oracle
- SAP

**The Building 15**  
Co. Revenues \$2 -10 B

**Outsourcing Market**

- Amadeus
- Avaya
- HCL
- Infosys
- Optus
- Sabre
- Tech Mahindra
- Unisys
- Wipro

**As-a-Service Market**

- Adobe Systems
- Equinix
- FIS Global
- Iron Mountain
- Rackspace
- Salesforce.com

**The Breakthrough 15**  
Co. Revenues < \$2 B

**Outsourcing Market**

- Ajilon
- Ebix
- Insurity
- Interactive
- KPIT Technologies
- Luxoft
- Posco ICT
- Sutherland Global
- WNS

**As-a-Service Market**

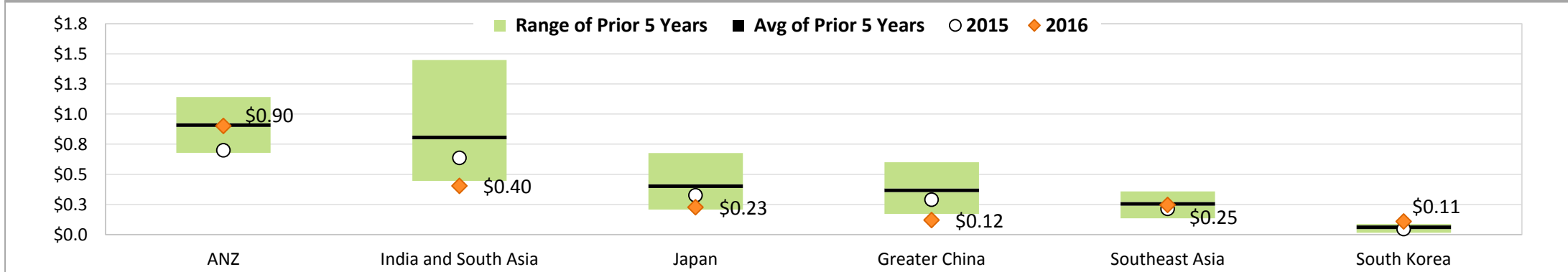
- Digital Realty
- IPSOFT
- Kingdee
- ServiceNow
- Xero
- Zoho

Providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings.

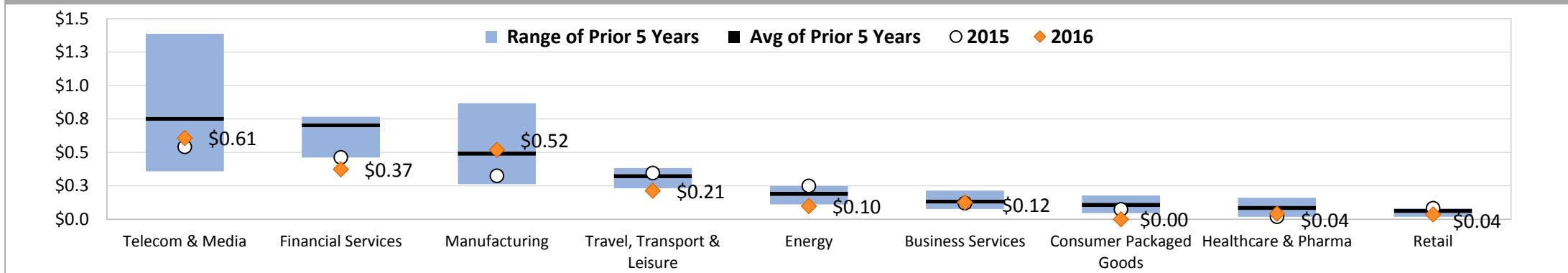
# Asia Pacific Traditional Outsourcing Award Trends

ANZ rebounds in 2016, up almost 30%, while India ACV continues to pull back;  
Telco rises 12% in 2016, but most major industry verticals fall below their prior-five-year averages.

### Asia Pacific Sub-Region Full-Year ACV (\$B) - Traditional Outsourcing Only



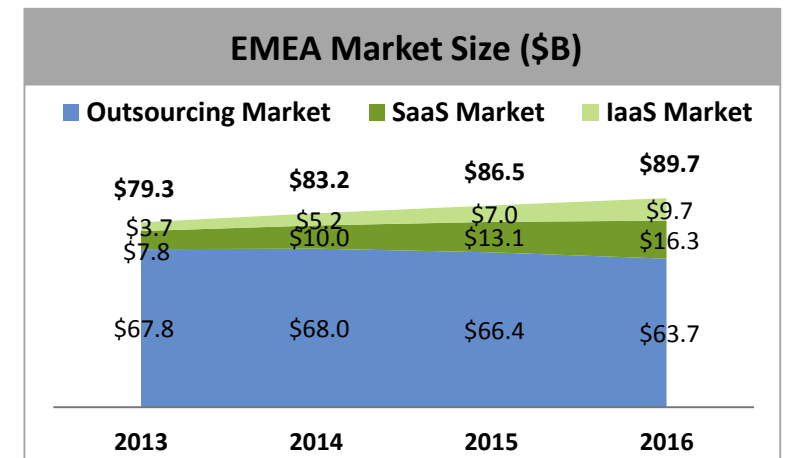
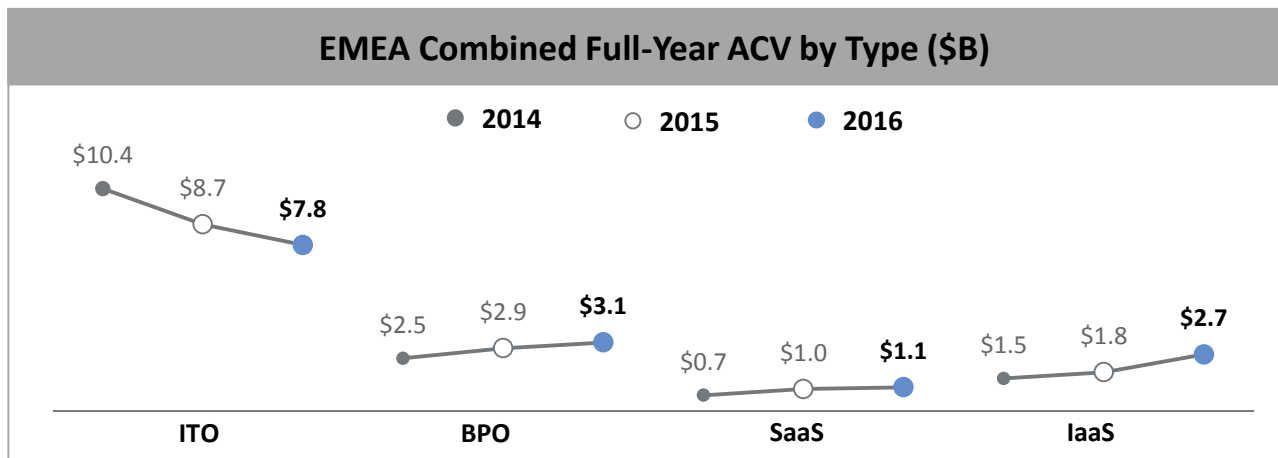
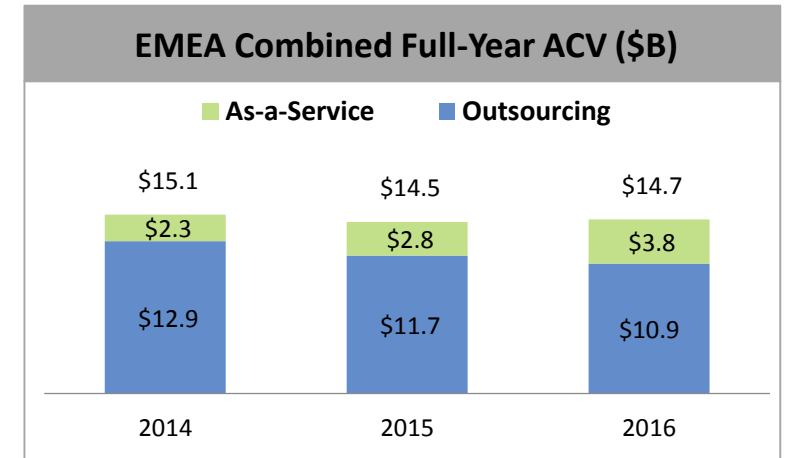
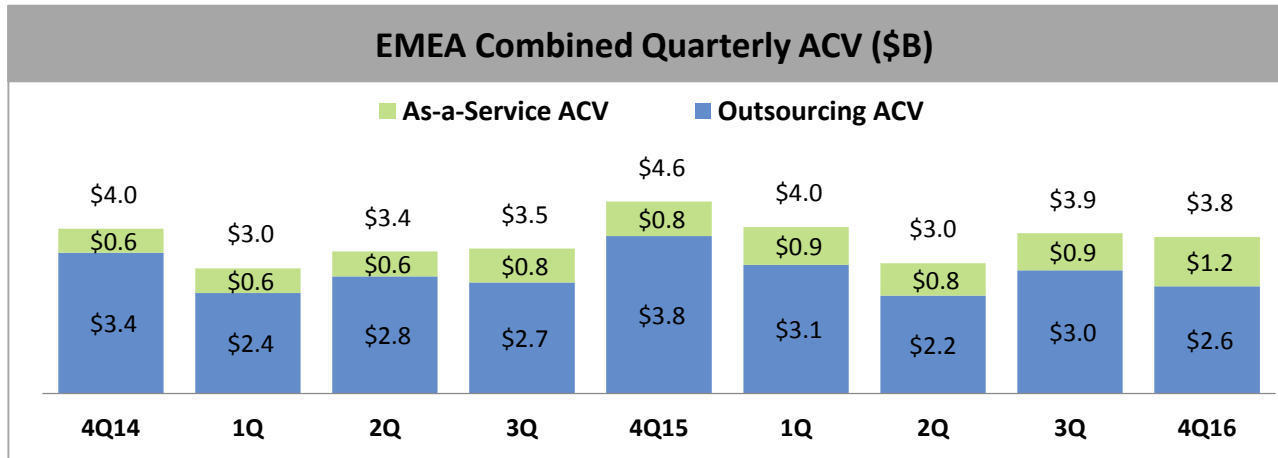
### Asia Pacific Industry Full-Year ACV (\$B) - Traditional Outsourcing Only



# EMEA Combined Market Contracting Trends

2016 Combined Market in EMEA ticks upward, 1.5% versus last year;

As-a-Service gains, up 42% off a small base, will continue momentum and we expect Combined Market growth in 2017.



# EMEA Sourcing Standouts



Our Contracts Knowledgebase® is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months.

**The Big 15**  
Co. Revenues > \$10 B

**Outsourcing Market**  
Accenture  
Atos  
Capgemini  
Cognizant  
CSC  
HPE  
IBM  
NTT DATA  
TCS  
T-Systems

**As-a-Service Market**  
Amazon Web Services  
SAP  
Google  
Microsoft  
Oracle

**The Building 15**  
Co. Revenues \$2 -10 B

**Outsourcing Market**  
Amdocs  
Arvato  
Capita  
Carillion  
CGI  
HCL  
Infosys  
Interserve  
Jones Lang LaSalle  
Orange Business Services  
Tieto  
Wipro

**As-a-Service Market**  
Adobe Systems  
Equinix  
Salesforce.com

**The Breakthrough 15**  
Co. Revenues < \$2 B

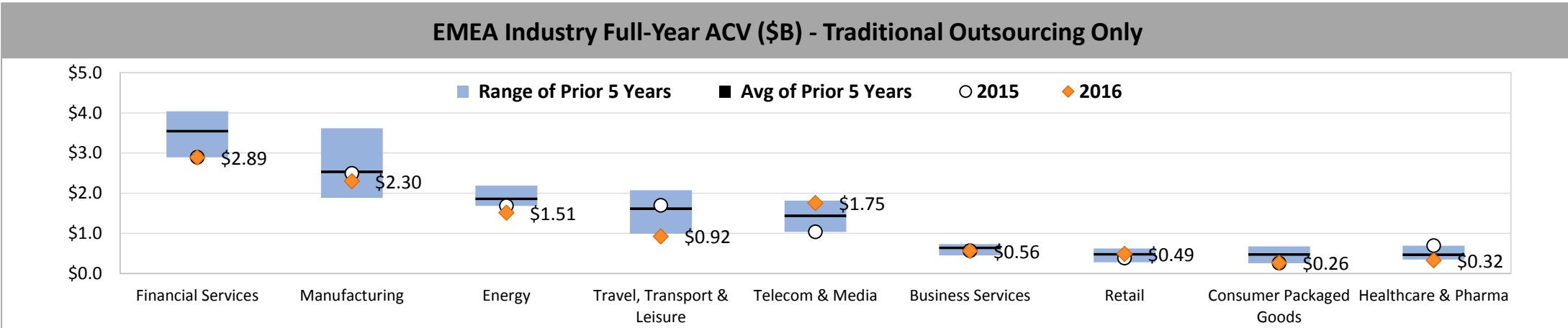
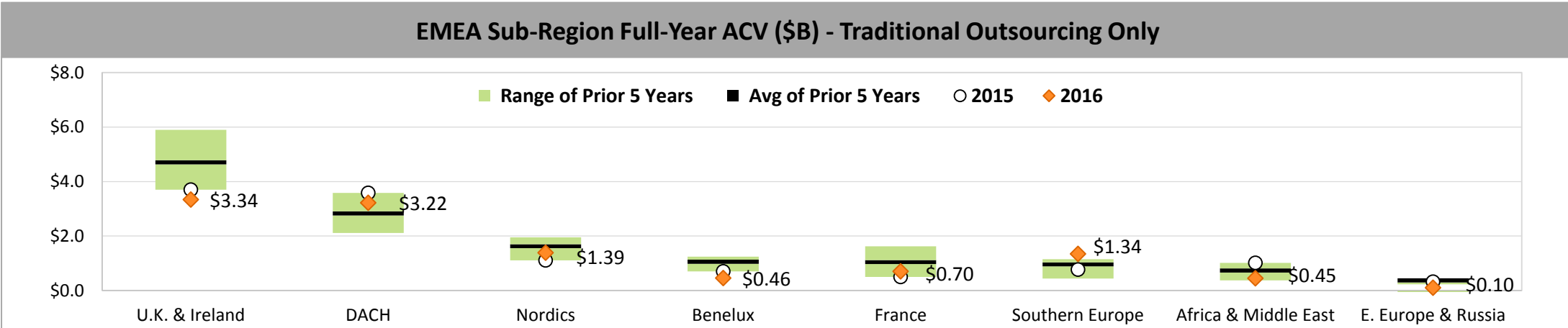
**Outsourcing Market**  
Atento  
Datagroup  
EVERY  
Frontica Business Solutions  
GFI Informatique  
Luxoft  
Mindtree  
NGA Human Resources  
NNIT A/S  
SIA  
VirtusaPolaris  
Webhelp  
WNS

**As-a-Service Market**  
Digital Realty  
Interxion

Providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings.

# EMEA Traditional Outsourcing Award Trends

Traditional Sourcing Activity is uneven due to sluggish results in the UK and DACH.  
Continuing softness across most major industries contributes to the annual shortfall.



4Q16 Index Inside Track from  
ISG Insights™

## The Digital Labor Imperative



Stanton Jones  
Research Director and Principal Analyst

# What is Digital Labor?

A virtualized human workforce — working faster, with better quality, for less cost



**Level 1** Digital Workforce  
Automates standard, repeatable processes

- Structured data – think spreadsheets
- Key Technology: RPA
- Rule-based process – like HR and F&A



**Level 2** Digital Workforce  
Designed for variations

- Semi-structured data – invoices, help-desk tickets
- Key Technology: Expert System
- Data that changes quickly, and requires a decision such as in IT operations or in fraud detection



**Level 3** Digital Workforce  
Machine learning for faster, better problem solving

- Unstructured data – e-mail and chat
- Key technology: Machine learning
- Starting to see many proof-of-concept projects emerge

# Digital Labor Benefits Enterprises and Providers

## Large Enterprises

are building out their digital workforces via internal initiatives with purchased software



**Global Telecom Company**  
L1 automates procure to pay

↓ FTEs  
**50%**



**Large Financial Services Firm**  
L2 builds a digital IT organization

↓ Incident Resolution  
from 4 hours  
to **10 minutes**



**Leading Beverage Manufacturer**  
L3 predicts which drinks sell by market

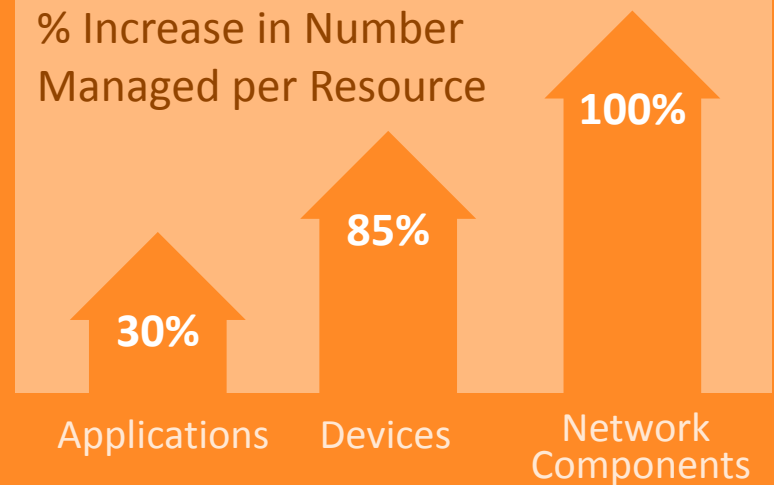
↑ Revenues  
**30%**

## Service Providers

are increasingly doing a lot more, with a lot less by building out their digital workforces

### ISG Automation Index™

Studies Provider ITO Productivity





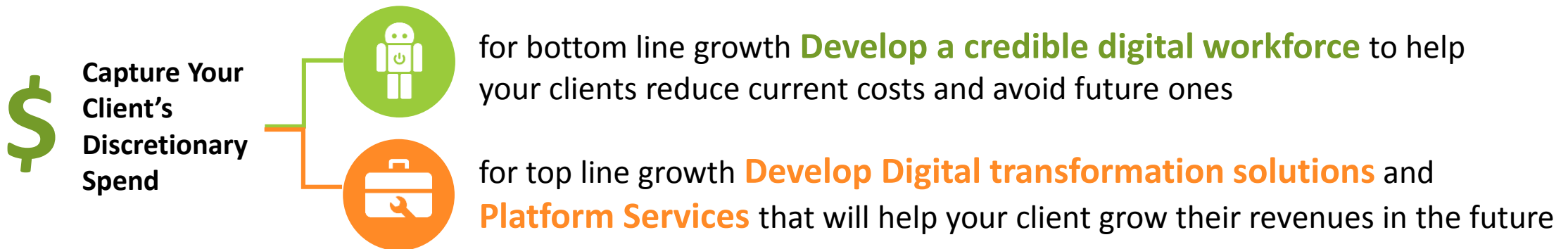
# Market Rewards Providers Who Grow in Two Ways



## Pricing pressure on big providers due to growth in Digital Workforce

- Digital Labor impacts the bottom line.
- Need to grow digital labor faster than downward pressure on rates.
- Digital labor scales up quickly enabling smaller providers to compete for big business.

But digital workforce productivity improvements are not enough!



# 4Q/FY 2016 ISG Index - Global Summary and Outlook

## Summary

- 2016 Y/Y ACV increases 9%. As-a-Service solutions are the buyers' choice.
- Americas growth came from both traditional ITO and Infrastructure-as-a-Service; As-a-Service spending doesn't have to come at the expense of Traditional Sourcing.
- EMEA As-a-Service is in the early stages. Traditional Sourcing ACV has been uneven.
- Asia Pacific As-a-Service accounts for more than half of the ACV this year.

## Outlook

- We forecast double-digit Combined Market growth in 2017.
- Expect As-a-Service growth in all three regions, with momentum building in EMEA due to public cloud expansion.
- Traditional Sourcing will have to find its footing as spending moves to business-led digital initiatives.

# Ask a Question

## Your Webcast Screen



- 1 Click the "Listen by phone" button.
- 2 The phone number and passcode will appear, and the web streaming to your computer will be automatically muted.
- 3 After you dial in, the operator will ask your name and company.
- 4 Now press \*1 to be added to the queue.

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# Appendix: Score Card for TCV

FOURTH QUARTER AND FULL-YEAR 2016



GLOBAL 4Q16

# 4Q/FY 2016 TCV Scorecard – Traditional Outsourcing Market Only

The ISG Outsourcing Index has moved to ACV as the primary measure of the Broader Market.

We will continue to provide a high-level TCV view of the market via a Scorecard analysis.

Scorecard	4Q16 TCV (\$B)*	4Q Y/Y Change	4Q Q/Q Change	2016 TCV (\$B)*	Y/Y Change
Global Outsourcing	\$ 15.9	-37%	-22%	\$ 76.9	-13%
New Scope	\$ 9.2	-35%	-31%	\$ 48.6	-19%
Restructurings	\$ 6.7	-40%	-4%	\$ 28.3	-1%
Mega-deals	\$ 1.0	-82%	-64%	\$ 7.4	-30%
ITO	\$ 10.0	-48%	-32%	\$ 52.9	-16%
BPO	\$ 5.9	-4%	5%	\$ 24.0	-6%
Americas	\$ 5.5	-40%	-36%	\$ 30.4	-5%
EMEA	\$ 9.2	-37%	-3%	\$ 38.3	-20%
Asia Pacific	\$ 1.2	-17%	-44%	\$ 8.2	-6%

\*Contracts with TCV ≥ \$25M from the ISG Contracts Knowledgebase®



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