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Market Trends & Insights Report[®]

2014 Service Line Report

Executive Summary

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Across ITO and BPO service lines clients want more strategic value from their outsourcing activity. Common outsourcing demand drivers now include the clients' desire to improve organizational agility, gain access to new technologies and support enterprise transformation. These current drivers are quite different from what has driven much outsourcing activity in the past, e.g., reducing costs and merely keeping operations running as cost-effectively as possible.

To pursue their strategic goals, clients continue to move away from the large, comprehensive outsourcing agreements of the past. In almost every service line, contracts that bundle multiple services are losing favor to standalone engagements where specific service lines — and even more specific functions within service lines — are contracted individually. Standalone contract volumes are climbing while bundled agreements are declining. This development is reducing average contract values and opening the market for more penetration by small service providers that may offer limited services or geographic reach.

Clients that migrate from a bundled to best-of-breed approach to outsourcing find they are left with more contracts and service providers to manage, which represents a growing market opportunity. Experienced clients are investing in service integration and management (SIAM) services and are exploring new governance models. In some service lines, particularly Managed Network Services, clients are appointing a master integrator that is responsible for coordinating activity among different contractors and ensuring that service levels are not hurt by lack of cooperation or technical incompatibilities. Clients have also become notably more open to new outsourcing models (e.g., with different onshore/offshore ratios or hybrid organizations) and to new pricing structures, especially pricing models that offer elasticity.

The individual chapters in this report provide more specific examples of how these and other developments are occurring in each service line. Here are some highlights:

ITO

Application Development & Maintenance (ADM) – Standalone contract volumes rose sharply as enterprises looked to multiple sources to satisfy their strong appetites for new applications. Speed is a key theme in this market. Organizations want to cut the time required to develop and deploy applications, which is driving internal development strategy and outsourcing activity. Companies are increasing ADM outsourcing to get more applications in their pipelines and are changing their approach to application development (e.g., by embracing agile development or DevOps) with the goal of shortening development and delivery cycles.

Managed Network Services (MNS) – Client networks and the role of MNS service providers are in transition. Many clients are shifting their outsourcing focus from finding a service provider that can keep networks running to identifying a group of service providers that can collaborate to modernize the client's network operations to support new modes of working. MNS clients are leaders in recognizing the value of SIAM and are updating their approaches to sourcing governance. In the enterprise segment of the MNS market, standalone contract volume surpassed bundled agreements in 2013, which helped India heritage service providers and Tier 3 integrators gain market share.

Data Center – Cloud computing and various other hosted offerings like IaaS, BPaaS and SaaS have been reshaping the scope of Data Center outsourcing opportunity for several years. Concurrently, remote management and automation tools have been getting more powerful. The result of these developments is that many enterprises have fewer assets in their data centers, and those that are left are easier to manage. Some clients have gone back to manage functions in-house that they used to outsource, which is contributing to an uneven sourcing market. Demand is shifting from basic system management to higher-level innovation and integration.

End-User Computing (EUC) – The EUC arms race continues as client demand remains strong for new and more powerful tools, despite the impressive improvements in desktop management ability that service providers have delivered over the years. The EUC market was somewhat soft and was affected by clients' increasing ability or preference to manage operations themselves. Clients are pursuing more strategic engagements with service providers, working with them to evaluate hosted desktop options, help develop strategy for new BYOD policies and pursue other activity beyond basic user support.

BPO

Human Resources Outsourcing (HRO) – Demand remains strong for platform solutions, and clients want social media and analytics features built into the platform. HRO tends to produce a high percentage of standalone contracts because of the array of functions within the service line (e.g., recruitment process outsourcing and benefits administration), but standalone activity was especially high in 2013. The increased outsourcing was driven in part by client desire to quickly add new functionality without going through a full-scale solution upgrade or replacement. There was also a surge of activity in the EMEA region, which surpassed the Americas in contract volume. The tactical nature of outsourcing activity helped smaller service providers win more clients.

Contact Center Services (CCS) – Demand for current technology is a strong demand driver in the CCS market. Client demand for technology is also reshaping the competitive set. There was significant merger and acquisition activity among contact center technology service providers as they strive to provide a comprehensive offering for prospective clients. There were also several acquisitions made to extend the service provider's geographic reach, which will affect competition for multinational CCS engagement opportunities.

Procurement – Procurement contracting went against the general trend and included many bundled agreements. This is one of several signs that clients are viewing Procurement outsourcing more strategically rather than using it simply as a cost-cutting tactic. Clients want to work with service providers that can extend spend management and spend analytics into new categories, and that can help them improve their category and vendor management. Contract activity has been especially strong in the Americas market, and there has been global growth in Procurement outsourcing by midmarket companies.

Finance & Accounting (FAO) – Contract volumes declined as clients are transitioning from a transactional to a strategic approach to Finance & Accounting outsourcing. Like Procurement services buyers, FAO clients want more than cost reduction from outsourcing. They want their service providers to offer expertise in areas like risk management and analytics. Clients are also interested in changing their service delivery models and in pursuing outcome-based agreements.

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