Global Sourcing and As-a-Service Market Insights

THIRD QUARTER 2017

Hosted by:
John King, Bank of America, Merrill Lynch
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ISG Index™

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Welcome to the 60th Quarterly EMEA ISG Index

Covering the state of the combined Traditional Sourcing and As-a-Service industry for the EMEA commercial market.

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Demand for cloud-based solutions spurs record As-a-Service ACV of €3.7 billion, up 43%

Combined global market up 16%, including slight increase in Traditional Sourcing

Americas ACV surges 45%, with both As-a-Service and Traditional Sourcing up over 40%

Despite record As-a-Service sourcing, EMEA stumbles on drop-off in Traditional Sourcing

Asia Pacific up 43%, with Traditional Sourcing slightly outpacing As-a-Service growth

At a Glance

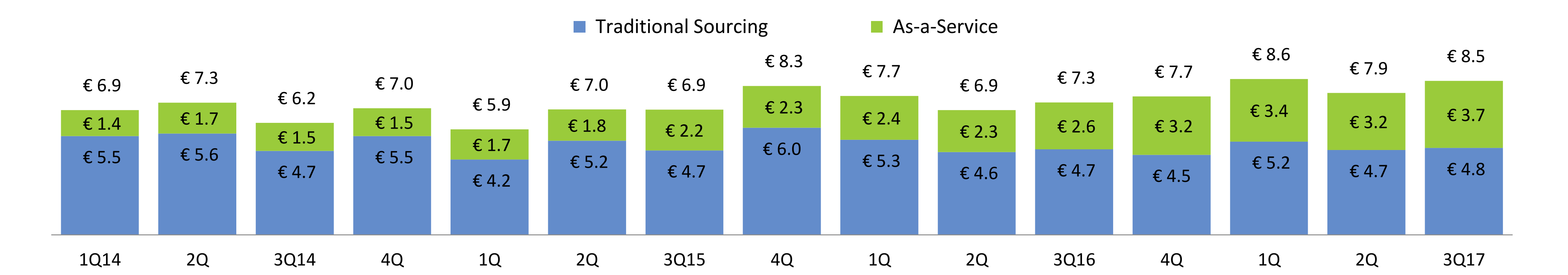
Scorecard		3Q17 ACV (€B)*	3Q Y/Y Change	3Q Q/Q Change	YTD ACV (€B)*	YTD Change
Global Commercial Combined Market		€ 8.5	16%	9%	$ 25.0	14%
By Type	Traditional Sourcing	€ 4.8	2%	2%	€ 14.7	1%
	As-a-Service	€ 3.7	43%	18%	$ 10.3	41%
By Region	Americas Commercial	€ 5.0	45%	31%	$ 13.0	20%
	EMEA Commercial	€ 2.3	-23%	-22%	$ 9.0	3%
	AP Commercial	€ 1.2	43%	16%	€ 3.0	25%

*Contracts with ACV ≥ €4M from the ISG Contracts Knowledgebase™

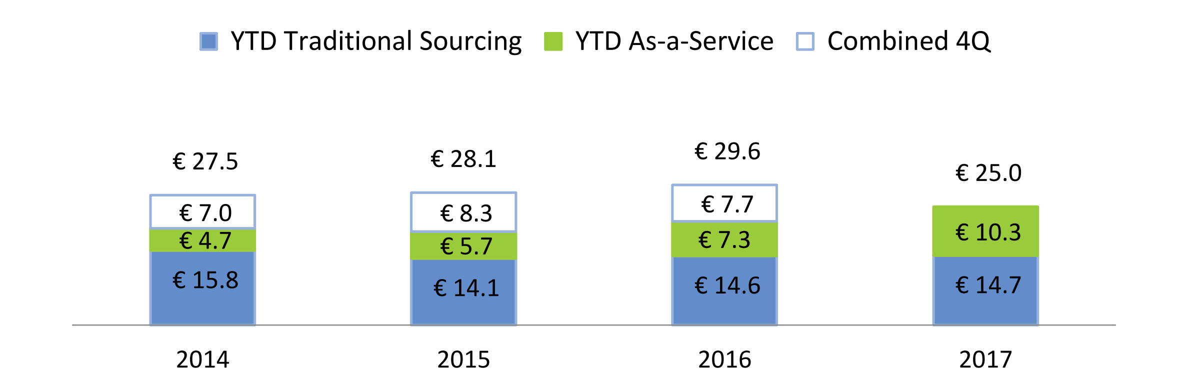
Global Commercial Sector Contracting Trends

3Q17 Combined Market ACV up 16% Y/Y on record high As-a-Service ACV;
YTD, Traditional Sourcing remains static but with record high contracting activity (based on number of awards).

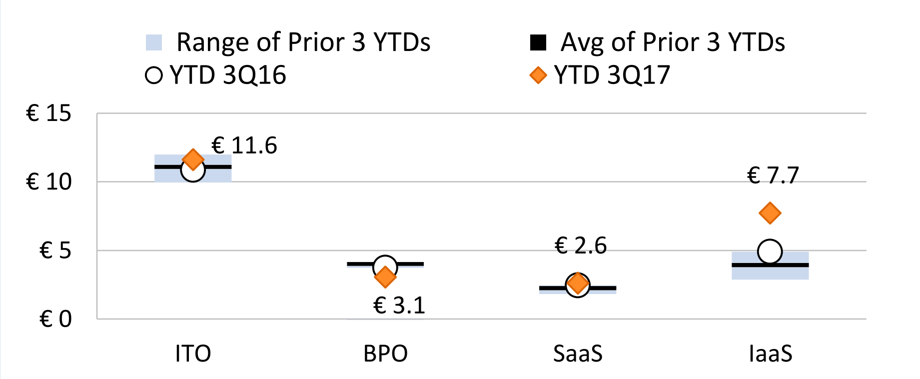
Global Commercial Sector Quarterly ACV (€B)



Global Commercial Sector YTD ACV (€B)

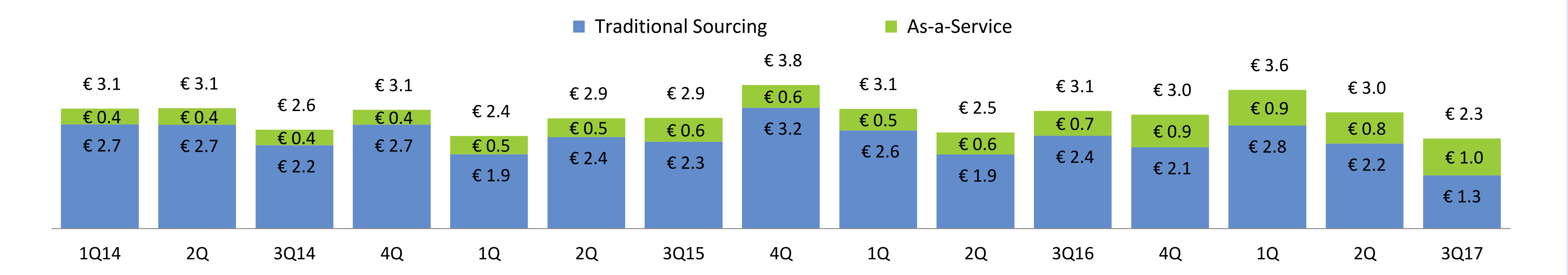


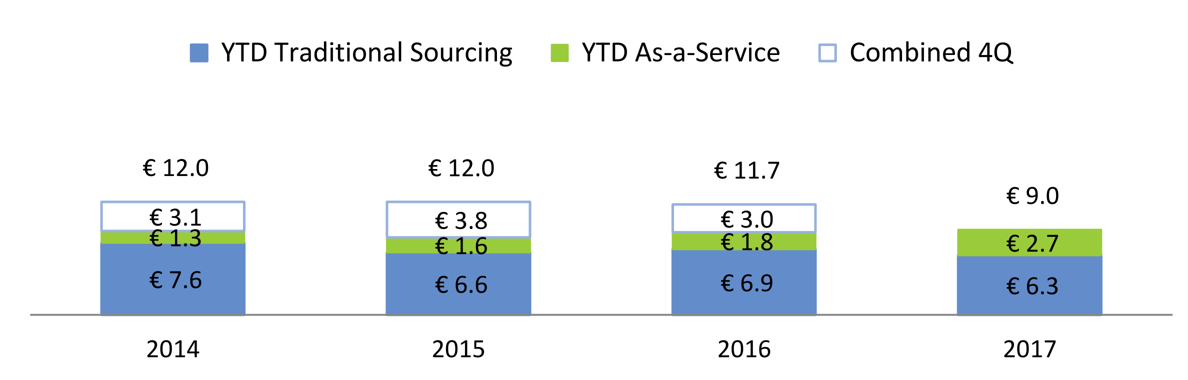
Global Commercial Sector YTD ACV by Type (€B)

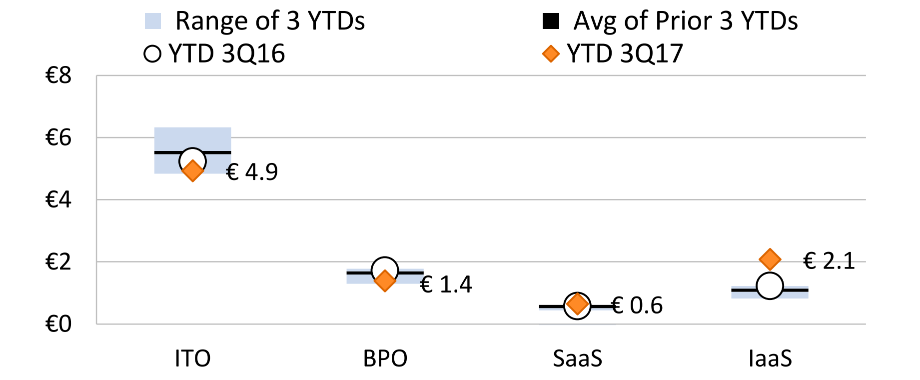


EMEA Commercial Sector Contracting Trends

Combined Market in EMEA declines 23% Y/Y; record ACV levels in As-a-Service (+48%) can't offset decline in Traditional Sourcing (-43%); YTD, Combined Market increases 3% with strength in IaaS and a flurry of Traditional Sourcing activity from early in 2017.





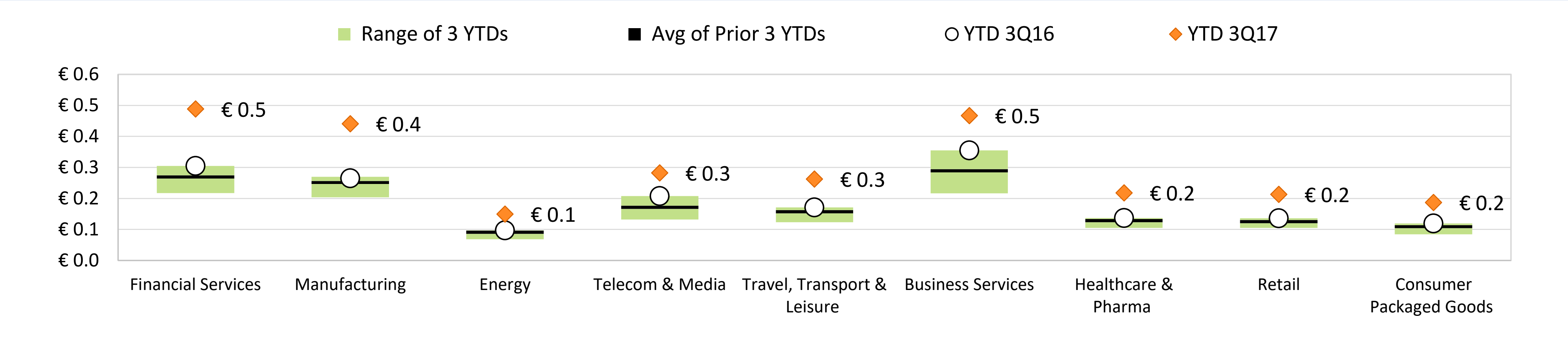


EMEA Commercial Sector Industry Award Trends

YTD, mixed results in many industry sectors with Financial Services leading and Manufacturing and Telecom lagging; Financial Services and mid-sized verticals CPG and Business Services lead the way with double-digit gains in both Traditional Sourcing and As-a-Service.

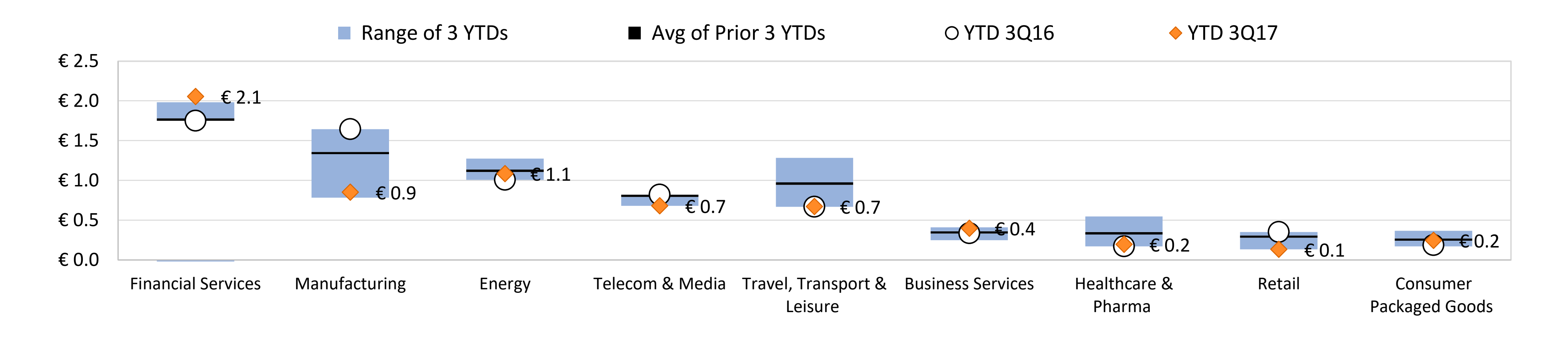
Traditional Sourcing YTD ACV (€B)

EMEA Commercial Industries



As-a-Service YTD ACV (€B)

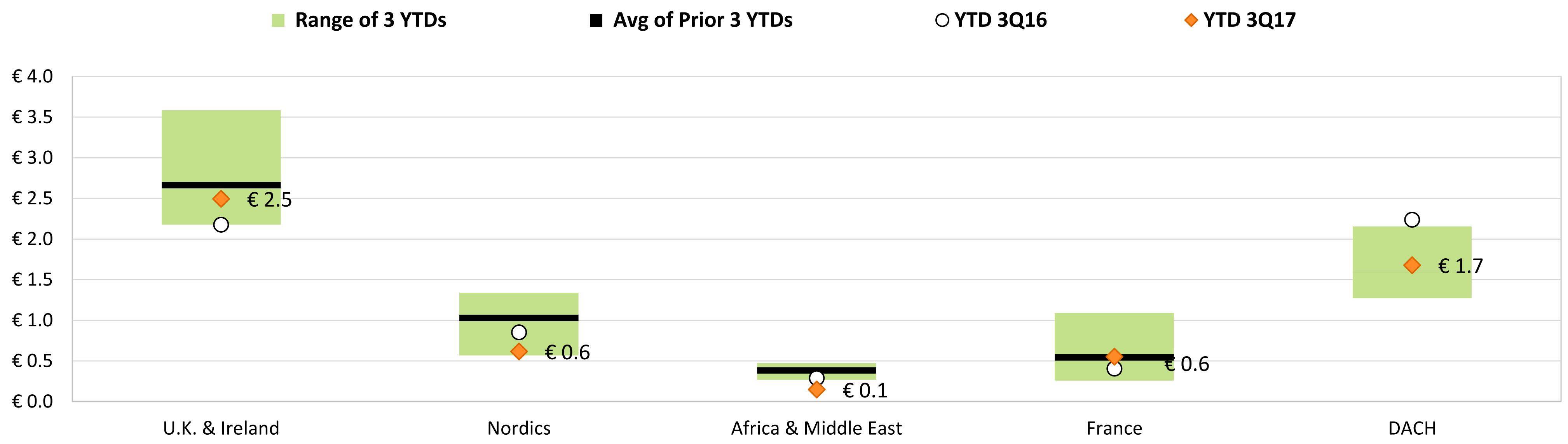
EMEA Commercial Industries



EMEA Sub-Regions - Traditional Sourcing Only

Despite the weak third quarter, UK and France saw strong YTD results. DACH fell 25% year on year but posted its third highest YTD ACV in a decade. Lacklustre performance in the Nordics was driven by an absence of large deals.

EMEA Commercial Sector Sub Regions – YTD ACV (€B) – Traditional Sourcing Only



EMEA
Sourcing Standouts

the ISG 15

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

Traditional Sourcing Market

Accenture
Atos
BT
Capgemini
Cognizant
DXC Technology
IBM
Infosys
TCS
T-Systems

As-a-Service Market

Amazon Web Services
Google
Microsoft
Oracle
SAP

The Building 15
Co. Revenues $1 -10 B

Traditional Sourcing Market

Atento
Capita
Carillion
Diebold Nixdorf
EVRY
HCL
Interserve
Orange Business Services
Sopra Steria
Tech Mahindra
Tieto
Wipro

As-a-Service Market

Adobe Systems
Equinix
United Internet

The Breakthrough 15
Co. Revenues < $1 B

Traditional Sourcing Market

Adare Group
Coor Service Management
Eulen
Firstsource Solutions
Hexaware
Ibykus
KMD
Luxoft
MAYKOR
NNIT A/S
Virtusa
WNS

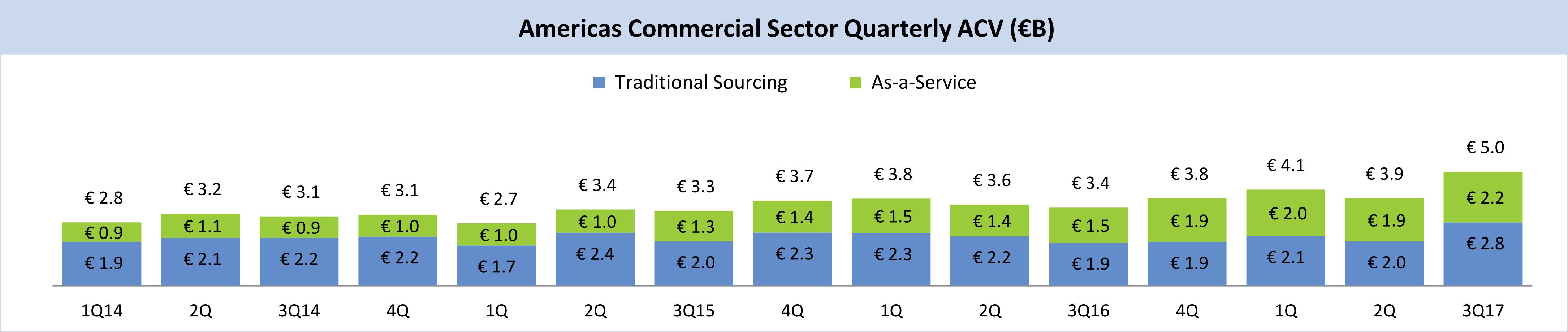
As-a-Service Market

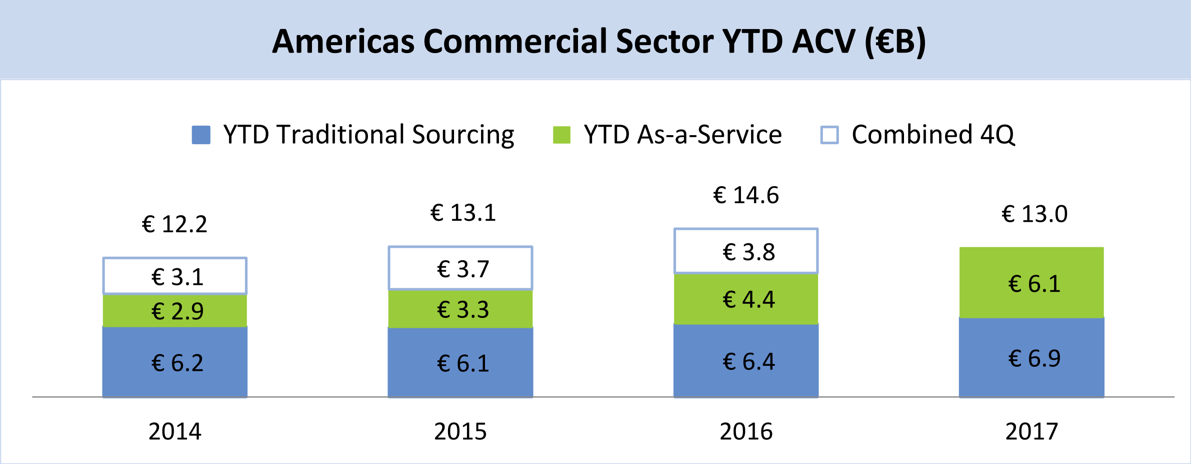
Interxion
LogMeIn
OVH

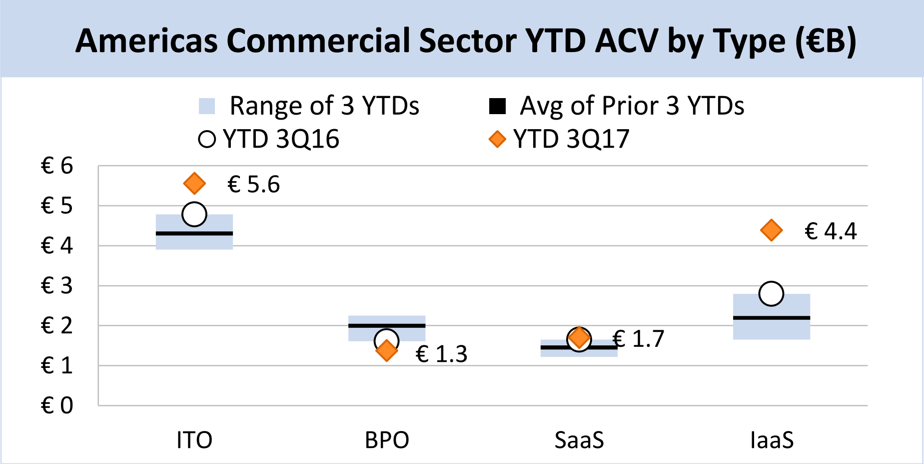
Providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings.

Americas Commercial Sector Contracting Trends

Commercial Market ACV is up 45% Y/Y as both Traditional Sourcing and As-a-Service segments exceed 40+% growth;
YTD, Combined Market up 20% on record highs in As-a-Service (37%) and Traditional Sourcing (9% Y/Y).





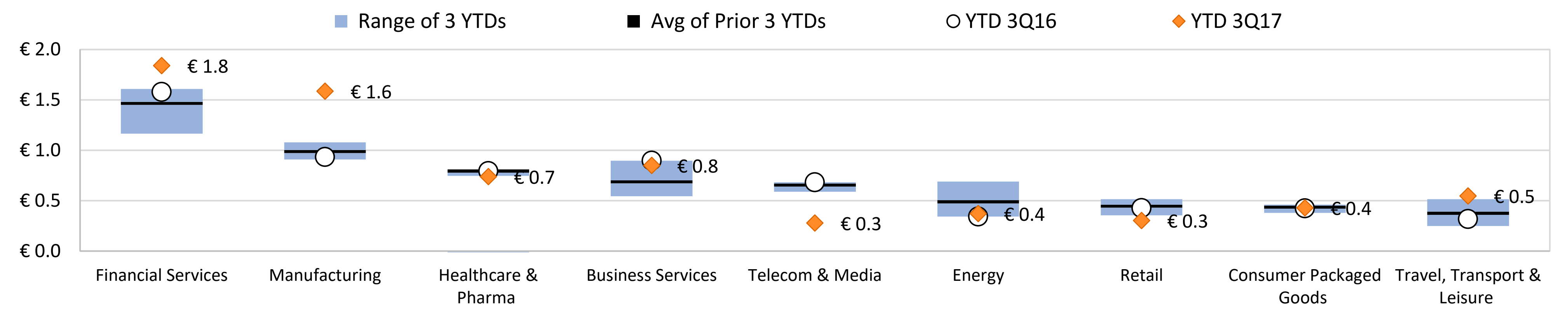


Americas Commercial Sector Industry Award Trends

Combined Market shows growth across all industries with the exception of Telecom;
largest verticals, Financial Services and Manufacturing, lead the way in Y/Y growth in both Traditional Sourcing and As-a-Service.

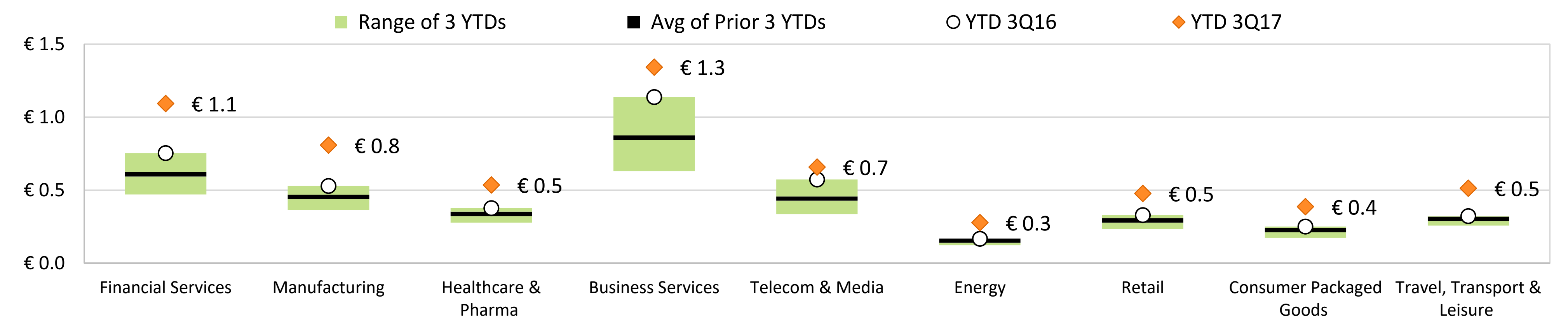
Traditional Sourcing YTD ACV (€B)

Americas Commercial Industries



As-a-Service YTD ACV (€B)

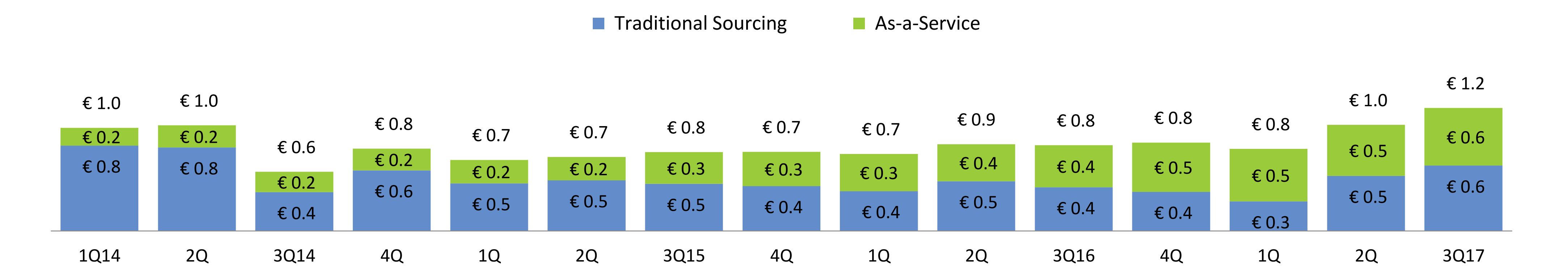
Americas Commercial Industries



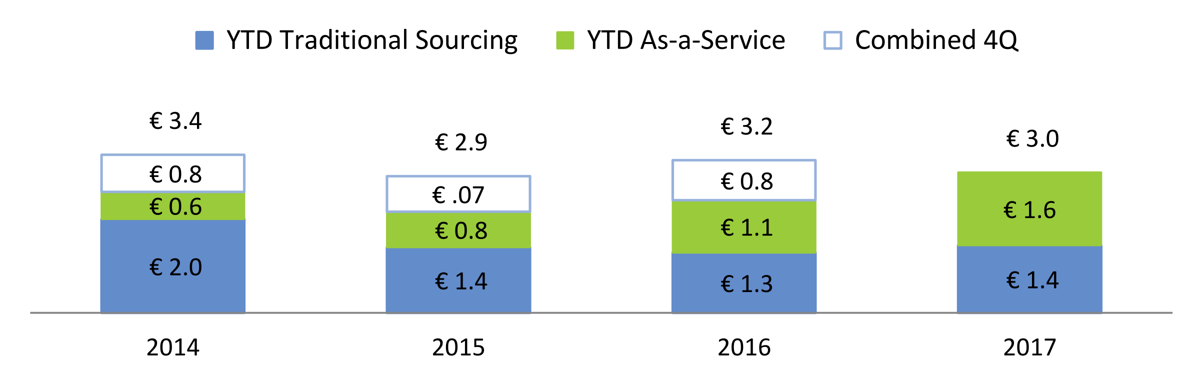
Asia Pacific Commercial Sector Contracting Trends

Combined Market ACV rises 43% Y/Y on record high As-a-Service awards and best Traditional Sourcing ACV since 2014;
YTD, Asia Pacific ACV is up 25% as both IaaS and ITO ACV increase 30+%.

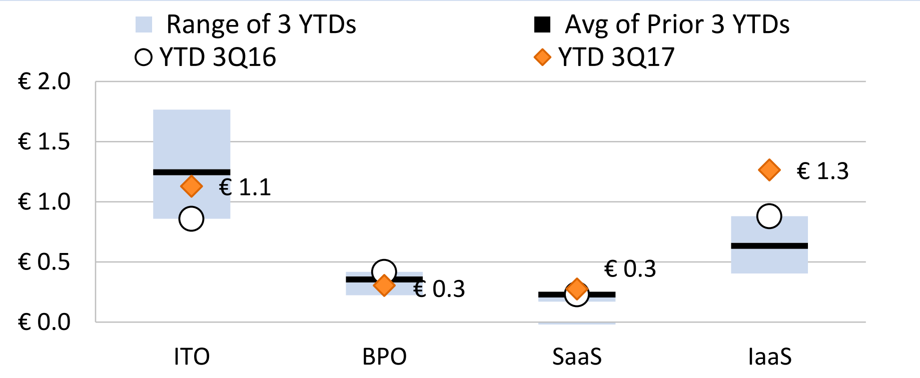
AP Commercial Sector Quarterly ACV (€B)



AP Commercial Sector YTD ACV (€B)



AP Commercial Sector YTD ACV by Type (€B)

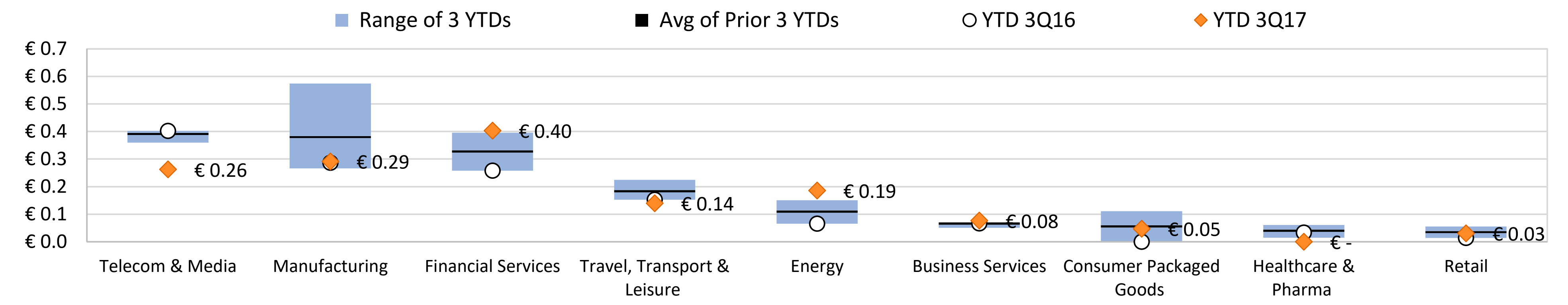


Asia Pacific Commercial Sector Industry Award Trends

Most industry verticals grow Y/Y in Combined Market ACV;
Financial Services and mid-sized markets such as Energy and CPG generate both strong Y/Y As-a-Service and Traditional Sourcing activity.

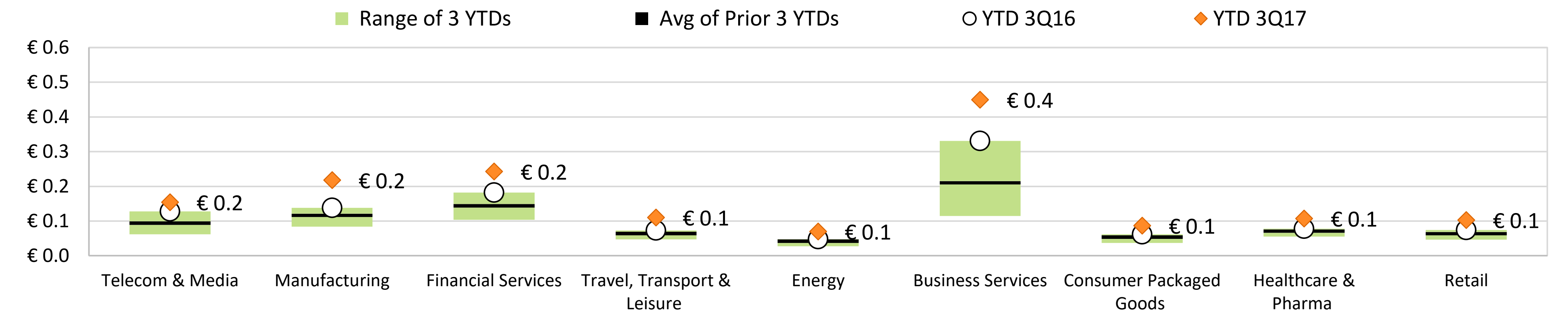
Traditional Sourcing YTD ACV (€B)

Asia Pacific Commercial Industries



As-a-Service YTD ACV (€B)

Asia Pacific Commercial Industries



3Q17 Index Inside Track from

ISG Insights™

The Rapidly Transforming Digital Contact Center

Wayne Butterfield

Director – Cognitive & AI Innovation and Automation

ISG Index™

EMEA 3Q17

Digital Drivers of Call Center Transformations

Change

A Labor Intensive Cost Center → **Rapid Transformation** → A Brand and Customer Connection Point

Drivers

1 Demographic Change

Millennials have significant buying power, and they expect a seamless, omni-channel experience.

2 Switching Costs are Very Low

A personalized brand experience – right products, right services, right time, right place – creates Customer stickiness.

3 Dramatic Intelligent Tech Improvements

Dramatic improvement in human-like "intelligent assistance" technologies that can understand conversation.

Over the next **2 Years** expect **2X Increase** in adoption of virtual agents and chat bots.

ISG Insights™

Contact Center Market Outlook

Outlook

A $60B Contact Center Market is expected to grow 2-3% percent then flatten in 2 to 3 years.

What's Driving the Flattening Market?

- Focus on improving call center customer experience drives repatriation of projects.
- Labor shortage of higher skilled agents, especially in U.S.
- Accelerated shift towards "intelligent assistance" operating models
- Technology buying increases while services buying drops

Sentiment

+50% of IT and business leaders feel +50% of offshore work will be repatriated due to intelligent automation

ISG Research 2017

Successful Service Providers

1010
0010
1101

Leverage new technology + Higher skilled workforce = Increased customer retention and brand awareness

Need More? Look the ISG Provider Lens™ Report on Contact Center Outsourcing, and a forthcoming Buyer's Guide to Intelligent Assistance for insights.

3Q 2017 ISG Index - Global Summary and Outlook

Summary

- Substantial Y/Y growth for the quarter in both the Americas and Asia Pacific, but that was offset by a decline in EMEA.
- As-a-Service segment rebounded from slowing 2Q with record-setting ACV; YTD, As-a-Service rose 40% with strength in IaaS segment, notably the public cloud, and high single-digit growth in SaaS.
- Several Industries generated both Traditional Sourcing and As-a-Service YTD growth, including Financial Services and smaller sectors such as Energy and CPG.

Outlook

- As-a-Service segment: forecast 20+% growth through next year, driven by further acceptance of public cloud and stepped-up activity occurring in both EMEA and Asia Pacific.
- Traditional Sourcing segment: forecast an increase of 2.5% next year

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Appendix: Score Card for TCV

THIRD QUARTER 2017

3Q 2017 TCV Scorecard

The ISG 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		3Q17 TCV (€B)*	3Q Y/Y Change	YTD TCV (€B)*	Y/Y Change
Global Commercial Combined Market		€ 25.9	27%	€ 67.9	16%
By Type	Traditional Sourcing	€ 20.3	25%	€ 52.3	4%
	As-a-Service	€ 5.6	39%	€ 15.6	27%
	ITO	€ 15.7	33%	€ 39.8	12%
	BPO	€ 4.6	2%	€ 12.5	-15%
	IaaS	€ 2.8	47%	€ 7.7	58%
	SaaS	€ 2.8	32%	€ 7.9	7%
By Region	Americas Commercial	€ 15.7	66%	€ 33.0	33%
	EMEA Commercial	€ 6.7	-23%	€ 26.9	2%
	Asia Pacific Commercial	€ 3.5	56%	€ 8.0	10%

*Contracts with TCV ≥ €20M from the ISG Contracts Knowledgebase™

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