# EMEA Sourcing and As-a-Service Market Insights

SECOND QUARTER 2018

Hosted by:
John King, Bank of America, Merrill Lynch
16 July 2018

ISG Index™

imagine your future®

# Welcome to the 63rd Quarterly ISG Index

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

Steve Hall
Partner and President
ISG

Barry Matthews
Partner, EMEA

Wayne Butterfield
Director, Robotics Process Automation & AI

Andreas Lueth
Partner, DACH

2Q18 Combined Market ACV up 31% Y/Y;
As-a-Service ACV accelerates, while Traditional Sourcing increases nearly 20%, surpassing € 5.6B

Americas ACV up 30%+, supported by As-a-Service growth while Traditional Sourcing breaks through the €2.4B ceiling for fourth straight quarter

EMEA ACV up 20%+ with As-a-Service now increasing at a faster pace than in the Americas; Traditional Sourcing rebounds and exceeds €2.4B in ACV for the first time in almost two years

Asia Pacific ACV up 40%+, exceeding €1.5B; As-a-Service ACV breaks through € 800M, while Traditional Sourcing registers its best quarter since 2014

# At a Glance

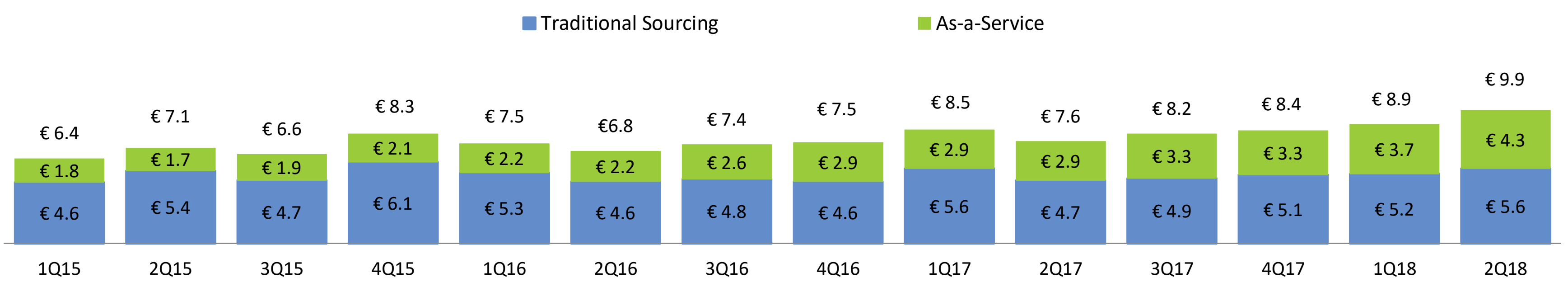
| Scorecard | | 2Q18 ACV (€B)* | 2Q Y/Y Change | 1H ACV (€B)* | 1H Change |
|---|---|---|---|---|---|
| **Global Commercial Combined Market** | | € 9.9 | 31% | € 18.9 | 17% |
| **By Type** | Traditional Sourcing | € 5.6 | 19% | € 10.8 | 5% |
| | As-a-Service | € 4.3 | 51% | € 8.1 | 39% |
| **By Region** | Americas Combined | € 4.7 | 33% | € 9.7 | 29% |
| | EMEA Combined | € 3.7 | 23% | € 6.6 | -4% |
| | Asia-Pacific Combined | € 1.5 | 44% | € 2.6 | 45% |

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

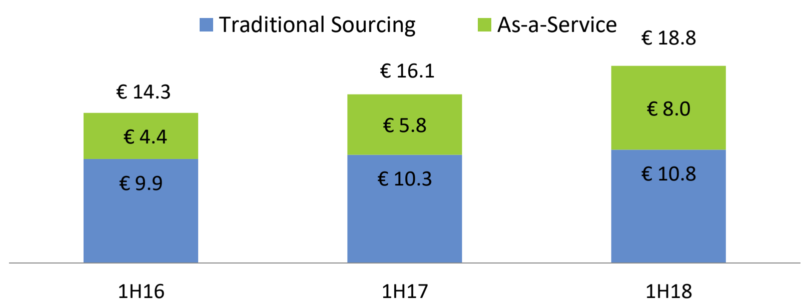
# Global Commercial Sector Contracting Trends

Combined Market sees its fourth straight successive quarterly growth period, up 31% Y/Y with As-a-Service tracking the same growth curve; Traditional Sourcing surpasses €5.6B mark for the first time since 2015, supported by growth in Applications Outsourcing.

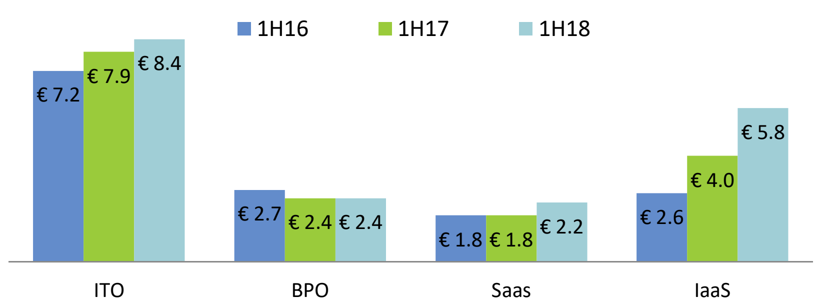
## Global Combined Market Quarterly ACV (€ B)




## Global Commercial Sector 1H ACV (€ B)



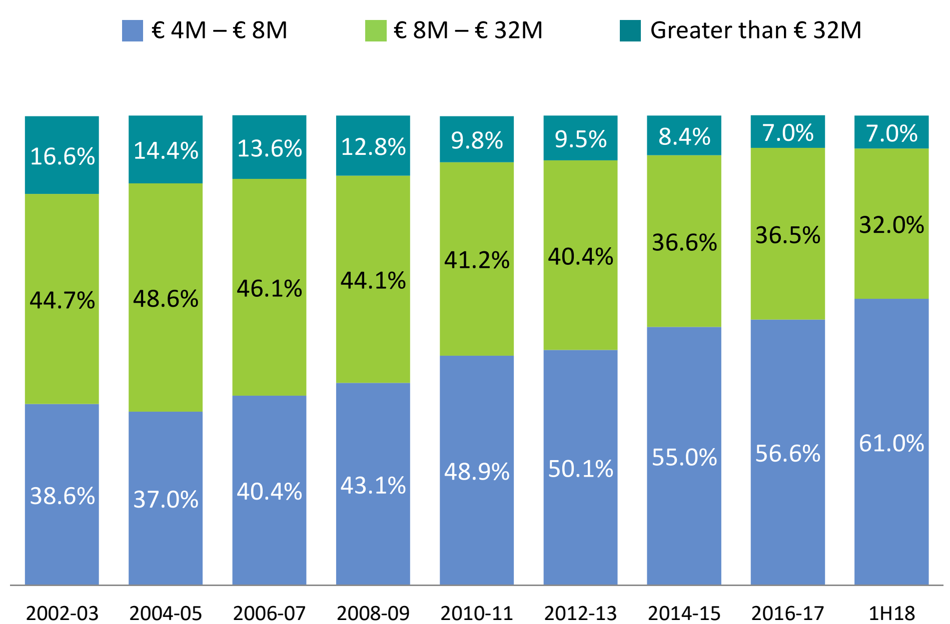

## Global Commercial Sector 1H ACV by Type (€ B)



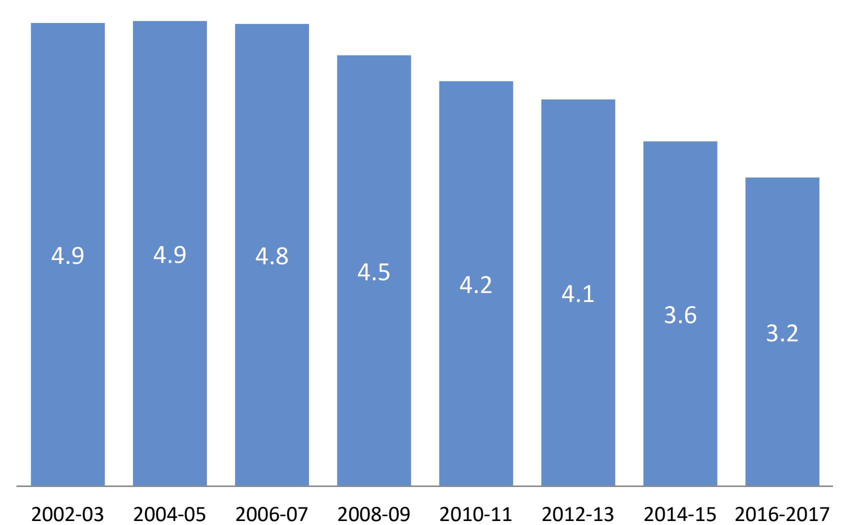
# Smaller Contract Awards and Shorter Contract Durations

With Digital maturing and scaling, award sizes are starting to become large enough to make the ISG Index threshold, resulting in a sizable increase in smaller contract awards; at the same time, clients are demanding shorter deal terms as they crave flexibility and speed to market.

## Two-Year View of the Percentage of Contract Awards by ACV Band



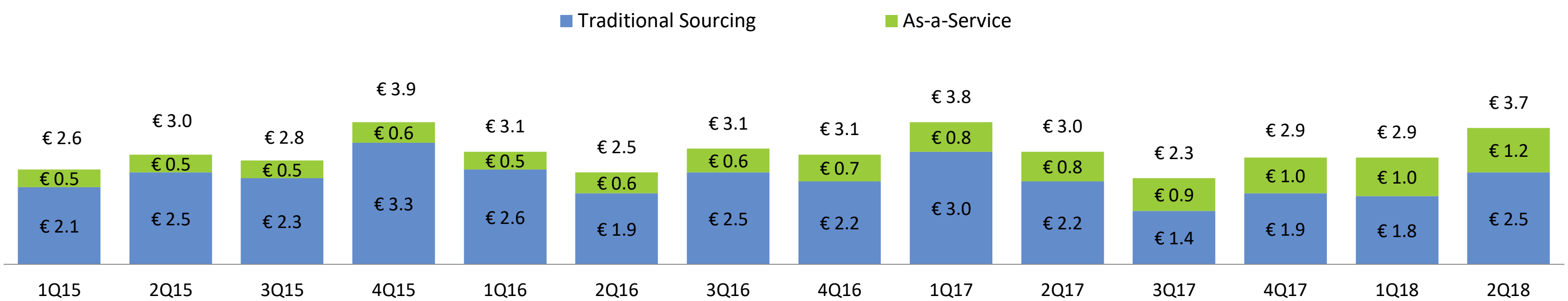

## Two-Year Contract Duration Trends (Years)



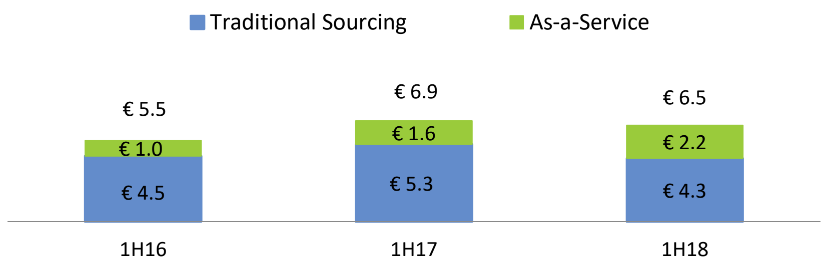
# EMEA Commercial Sector Contracting Trends

Combined Market ACV in EMEA up 23% Y/Y with As-a-Service setting record highs and accounting for 33% of market activity; Traditional Sourcing exceeds €2.5B in ACV for the first time since 1Q17 with strength in the Nordics and a rebound in the UK.

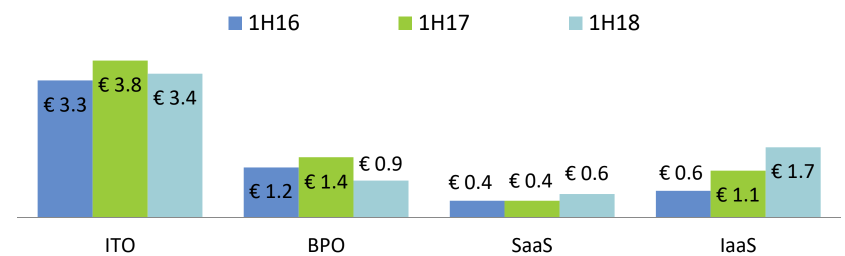
**EMEA Commercial Sector Quarterly ACV (€ B)**




**EMEA Commercial Sector 1H ACV (€ B)**



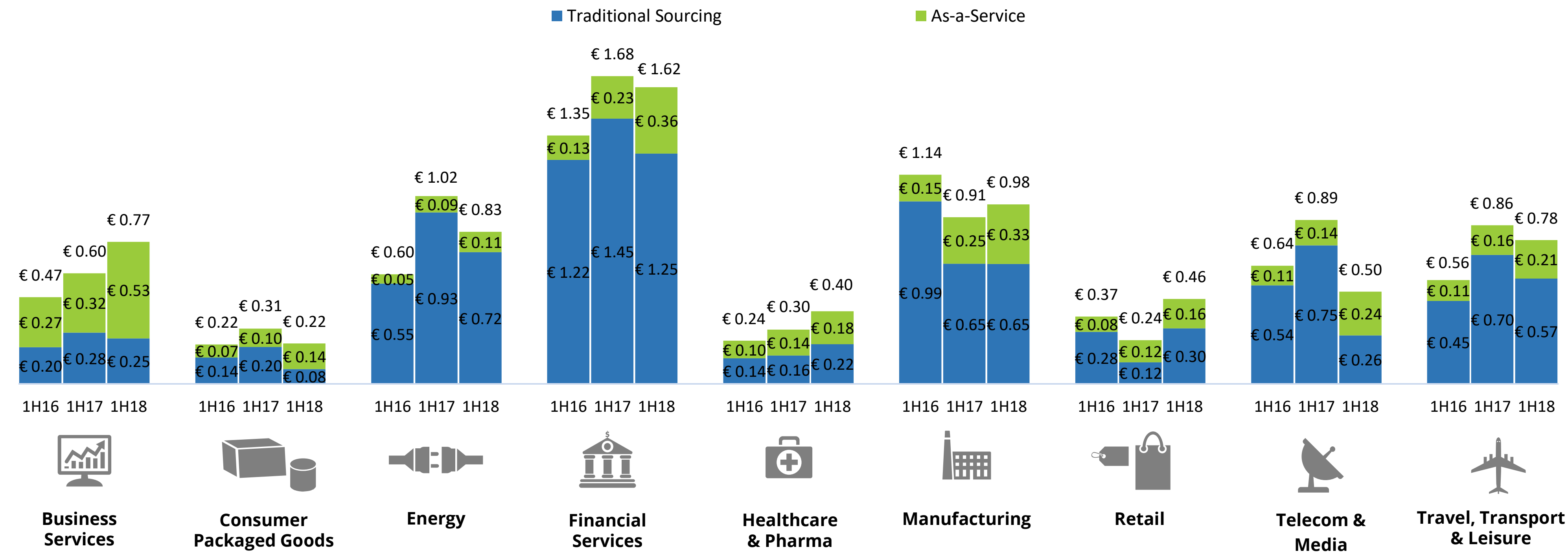

**EMEA Commercial Sector 1H ACV by Type (€ B)**



# EMEA Commercial Sector Industry Award Trends

All industry sectors in EMEA post positive growth in both Traditional Sourcing and As-a-Service;
Retail is the only sector to show positive growth in both As-a-Service and Traditional Sourcing.

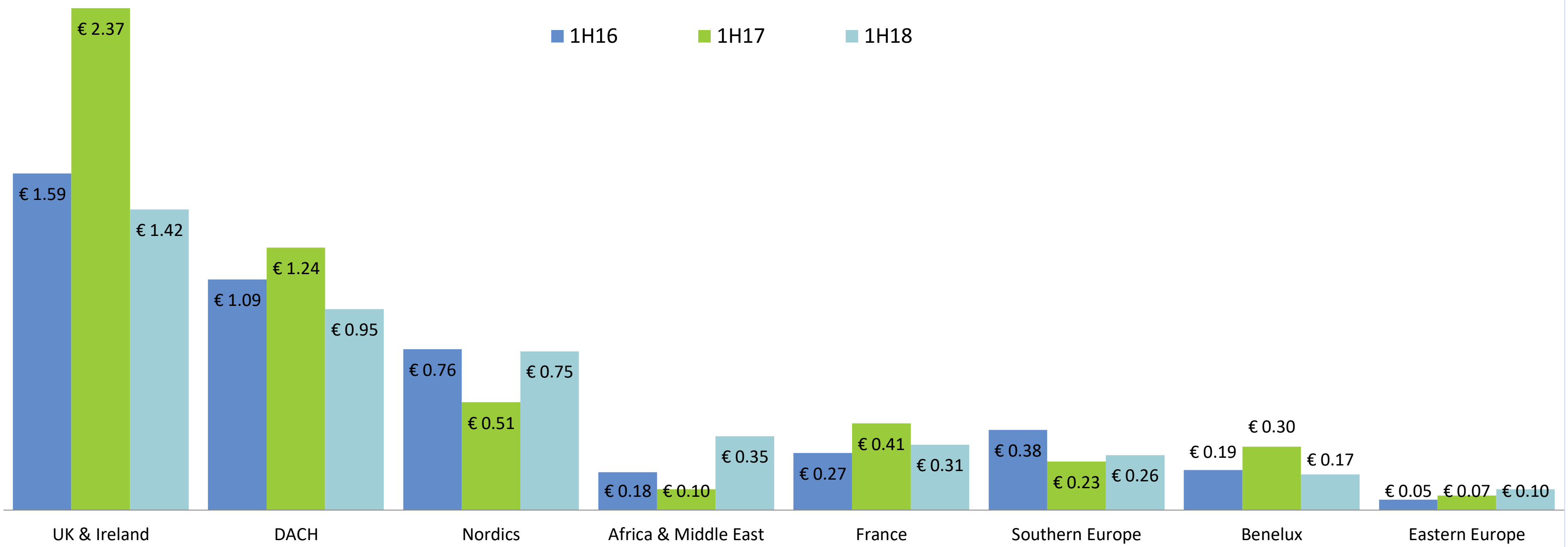
**EMEA Commercial Industries Half-Year ACV (€ B)**



# EMEA Sub-Regions - Traditional Sourcing Only

2Q strength in the UK and DACH was not enough to counter their weak start to 2018, Half year ACV in France was dragged down by sluggish 2Q contract activity; However, strength in the Nordics and the smaller EMEA markets lifted the regional results

**EMEA Commercial Sector Full Year ACV by Type (€ B)**



# 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
AT&T
Atos
BT
Capgemini
Cognizant
DXC Technology
IBM
Infosys
TCS
T-Systems

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

### The Building 15
Co. Revenues $1 -10 B

**Traditional Sourcing Market**
Bechtle
CGI *
Computacenter
Diebold Nixdorf
Econocom *
EVRY *
Giesecke & Devrient *
HCL
Indra Sistemas, S.A. *
Orange Business Services
Unisys
Wipro

**As-a-Service Market**
Adobe Systems
Equinix
United Internet

### The Breakthrough 15
Co. Revenues < $1 B

**Traditional Sourcing Market**
Allgeier SE *
Avaloq *
Bouvet ASA *
Comparex AG
EXL
GFT Technologies
Ibermatica SA
Mindtree
NNIT A/S
Reply SpA
Verifone
Virtusa

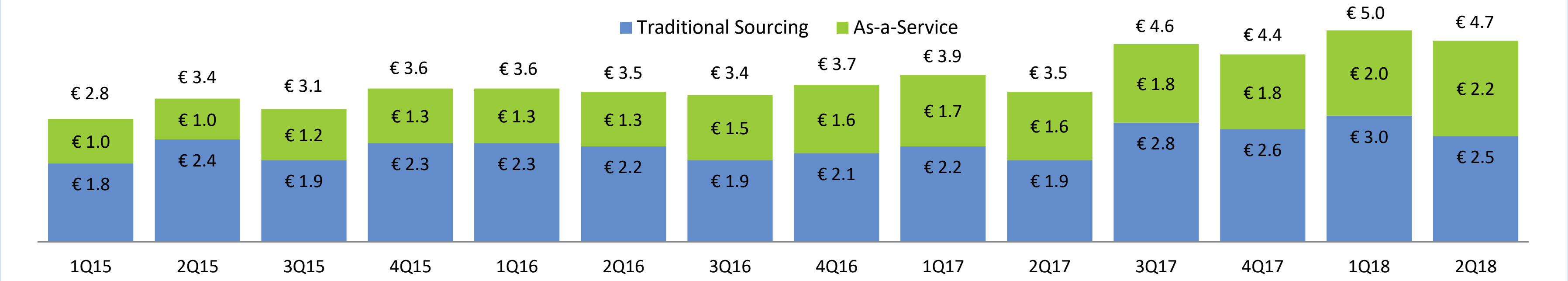
**As-a-Service Market**
Interxion
LogMeIn
OVH

Providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings.
* New to leaderboard since 1Q18

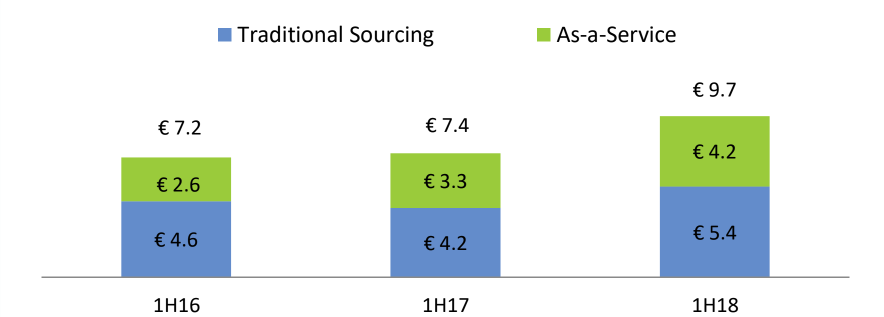
# Americas Commercial Sector Contracting Trends

Combined Market ACV up over 30% Y/Y as the Americas registers strong results in both Traditional Sourcing and As-a-Service ACV; Americas has fourth straight quarter with €2.5B+ in Traditional Sourcing ACV, supported by a surge in smaller deal activity.

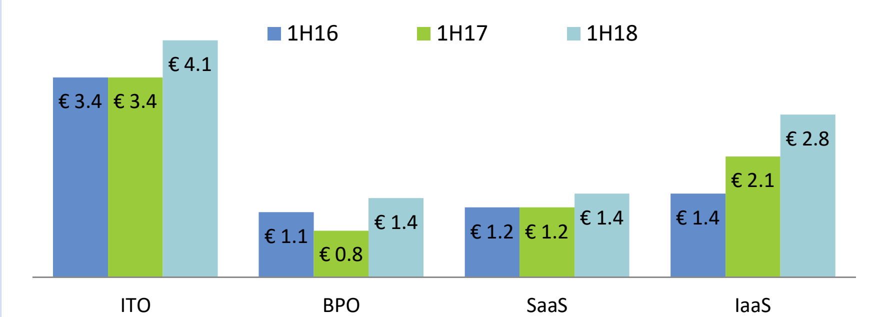
## Americas Commercial Sector Quarterly ACV (€ B)




## Americas Commercial Sector 1H ACV (€ B)



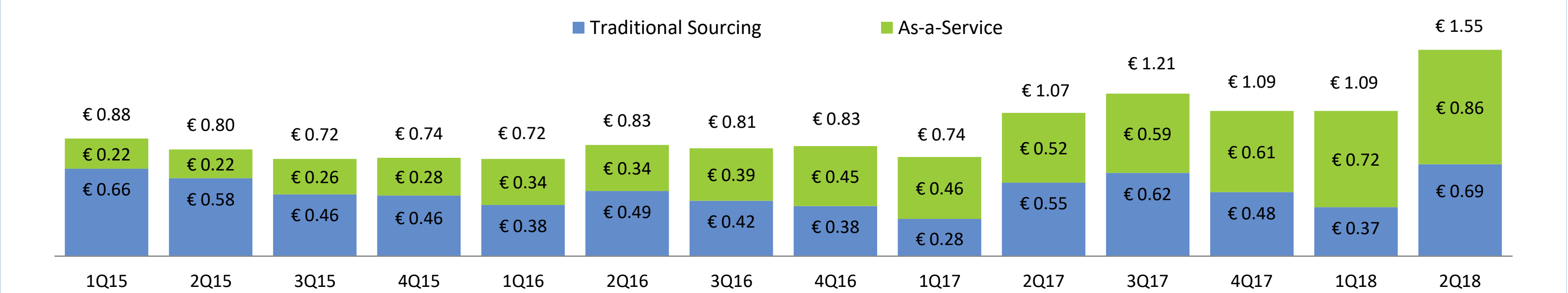

## Americas Commercial Sector 1H ACV by Type (€ B)



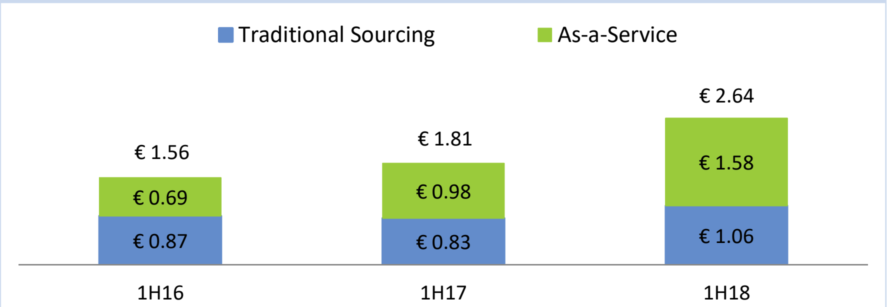
# Asia Pacific Commercial Sector Contracting Trends

Combined Market up over 40% with As-a-Service ACV growing faster than any other region; Traditional Sourcing sees its best quarterly performance since the beginning of 2014, driven by strength in ANZ and North Asia.

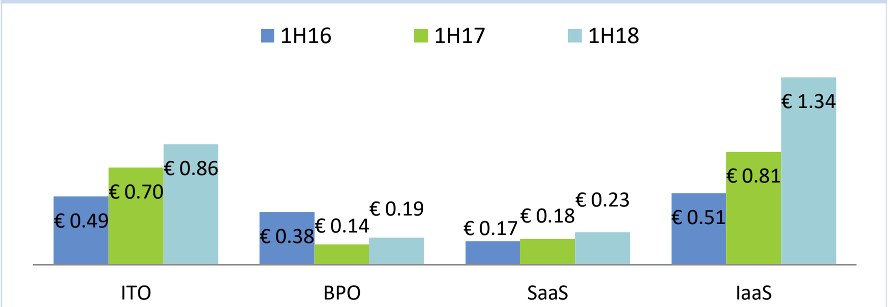
### Asia Pacific Commercial Sector Quarterly ACV (€ B)




### Asia Pacific Commercial Sector 1H ACV (€ B)




### Asia Pacific Commercial Sector 1H ACV by Type (€ B)



2Q18 ISG Index™ Inside Track from

ISG Insights™

# Tech Trends in BFS

Barry Matthews

Partner, EMEA

ISG Index™

EMEA 2Q 2018

# Business Imperatives

## Enhance Customer Experience

- Customer expectations (Millennials) – experience & security. Easier to switch
- Means of differentiation
- Increases customer 'stickiness' and associated wallet share
- Social media / brand reputation

## Optimize Data

- Data aggregation – single view of customer
- Data management and maintenance of data currency
- Data insights – data science
- Data monetization

## Improve Income & Profit

- Long period of income & profit stagnation
- New competitors – new banks, FinTech firms, Amazon?
- Much cost cutting has already been done since 2008
- Regulation – especially increased capital requirements

# The Approach – How to Transform

## Big Bang

Replace all legacy platforms and technology in a single modernization program.

## Parallel Running

Build/buy new platforms and adopt new technology for new business/customers while maintaining legacy platforms and technologies for existing customers.

## Progressive Renovation

A piecemeal or modular approach to transformation that either runs from the core to the customer or vice versa depending on the business/time imperatives.

# Implications for Service Providers

- Understand the scale and complexity of the challenges faced by BFS clients.
- Segment your clients according to the relative priority of their 3 Imperatives and their likely approach to transformation.
- Don’t present technology solutions, present business solutions.
- Be prepared to compete more often, more aggressively against more competitors.
- Proactively propose working with partners as part of an ecosystem solution.

2Q18 ISG Index™ Inside Track from

ISG Insights™

# Industry Mega-Trends


Wayne Butterfield

Director, Robotics Process Automation & AI


ISG Index™

EMEA 2Q 2018

# Digital Products Require a New Operating Model

## Cloud

- Rapid adoption of public cloud
- IaaS = $3.9B in 2Q18, +56%
- IaaS market 50% larger than ITO Infrastructure

## Automation

- Application development is automation nexus
- 50–70% productivity improvements
- New features being pushed to customers faster

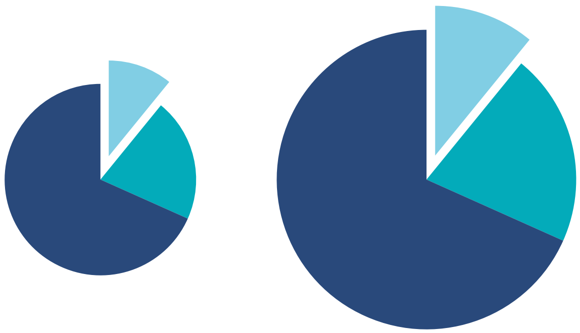
## Agile & DevOps

- New way of working inside IT
- Customer feedback drives rapid innovation
- 2/3 Traditional today; 2/3 Agile & DevOps in 18 months

=

- Lowering costs
- Improving productivity
- Increasing speed

# Creates Opportunity, and Disruption, for Providers



- Reducing cost and creating value now priorities
- Cloud + automation driving 50% cost reduction
- Reinvesting savings into new digital initiatives
- Renewal market will look different; sales cycles accelerate
- Overall pie getting bigger = cost + customer experience

# 2Q 2018 ISG Index – Global Summary and Outlook

**Summary**

- We continue to observe robust market growth with an abundance of awards in As-a-Service, ADM and Industry Specific BPO.
- Americas up 30% in 1H18 with surging As-a-Service ACV and Sourcing growth driven by smaller deals.
- EMEA growth rates in As-a-Service outpaces the Americas (although off a smaller base), while Traditional Sourcing had its best quarter in a couple of years.
- Asia Pacific exceeds €1.5B in ACV  with the strongest Traditional Sourcing result since 2014.

**Outlook**

- The growth of public cloud is accelerating and will exceed 45% growth rate through the rest of the year.
- We are increasing the SaaS forecast to 16% (previous forecast 14.8%) and the Traditional Sourcing to 4.4% (previous forecast 2.4%)

isg-one.com


**Steven Hall**
President, ISG EMEA
and Partner, ISG Digital Services
+44 7384 259676
steven.hall@isg-one.com

**Denise Colgan**
EMEA and AP Media Contact
+44 1737 371523
denise.colgan@isg-one.com

**Will Thoretz**
Americas Media Contact
+1 203 517 3119
will.thoretz@isg-one.com

**Esteban Herrera**
Partner, Global Leader
ISG Research
+1 972 730 1749
esteban.herrera@isg-one.com

**Paul Reynolds**
Partner, Chief Research Officer
ISG Momentum
+1 508 488 6361
paul.reynolds@isg-one.com

# Appendix: Score Card for TCV

SECOND QUARTER 2018

ISG Index™

EMEA 2Q 2018

# 2Q 2018 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 | | 2Q18 TCV (€ B)* | 2Q Y/Y Change | 2Q Q/Q Change |
|---|---|---|---|---|
| Global Combined Market | | € 24.5 | 25% | -3% |
| By Type | Outsourcing | € 17.8 | 19% | -8% |
| | As-a-Service | € 6.7 | 45% | 16% |
| | ITO | € 13.9 | 17% | 0% |
| | BPO | € 3.8 | 23% | -30% |
| | IaaS | € 3.1 | 58% | 17% |
| | SaaS | € 3.6 | 35% | 14% |
| By Region | Americas | € 10.6 | 31% | -23% |
| | EMEA | € 11.0 | 29% | 22% |
| | Asia Pacific | € 2.9 | -3% | 21% |

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

ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including 75 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data.

isg-one.com