

Managed Services & As-a-Service Market Insights

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HOSTED BY



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HDFC Securities

***ISG** Index™

2Q 2022

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Welcome
to the 79th Quarterly

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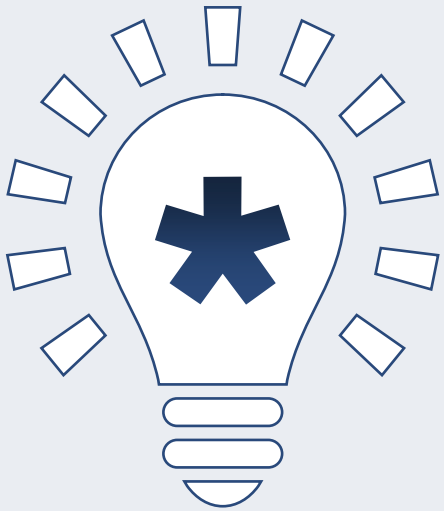


Bernie Hoecker
Partner, Enterprise
Cloud Transformation
Leader

Covering the State of the
Managed Services & As-a-Service Industry
for the Global Commercial Market

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2Q22: Three Big Thoughts



1

Contracting activity remains strong, with ADM, engineering and industry-specific BPO leading the way.

2

Labor markets remain tight; however, attrition is beginning to stabilize as record numbers of hires come online.

3

FX will continue to be a headwind as global economic conditions impact reported revenue numbers.



Global Broader Market Results

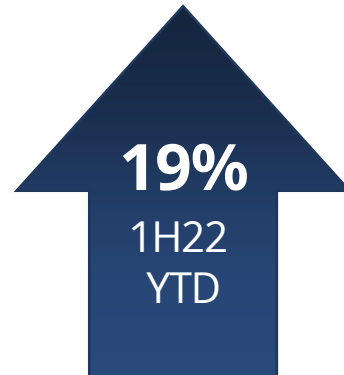
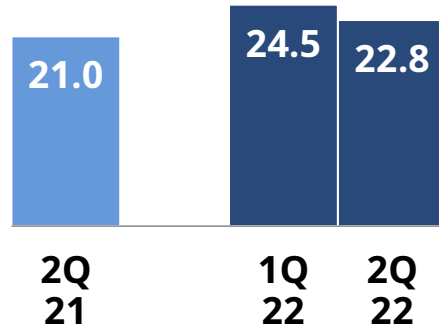
Quarterly Trends

Combined Market Y/Y growth up nearly 9% but with evidence of slowing contracting activity on a sequential basis

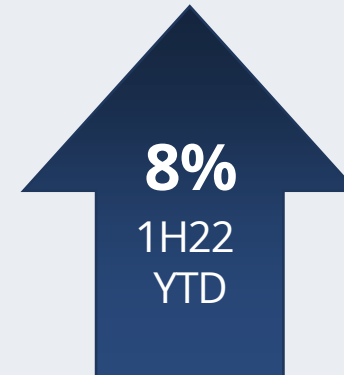
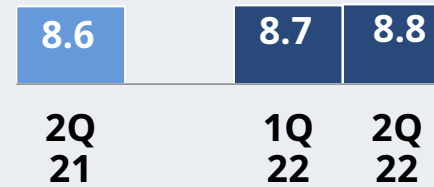
For fifth straight quarter, Managed Services ACV awards exceeded \$8B

After breaking through \$15B for the first time in 1Q22, XaaS ACV fell back in \$14B range and was down 11% sequentially

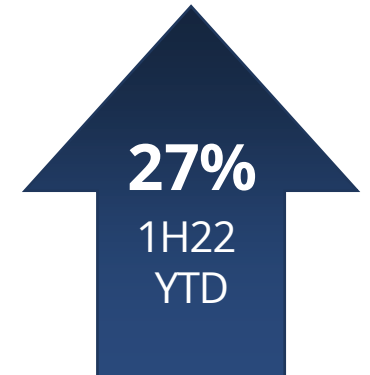
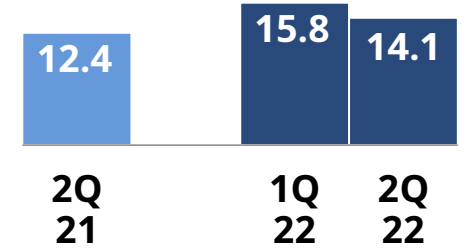
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value

Attrition Trends

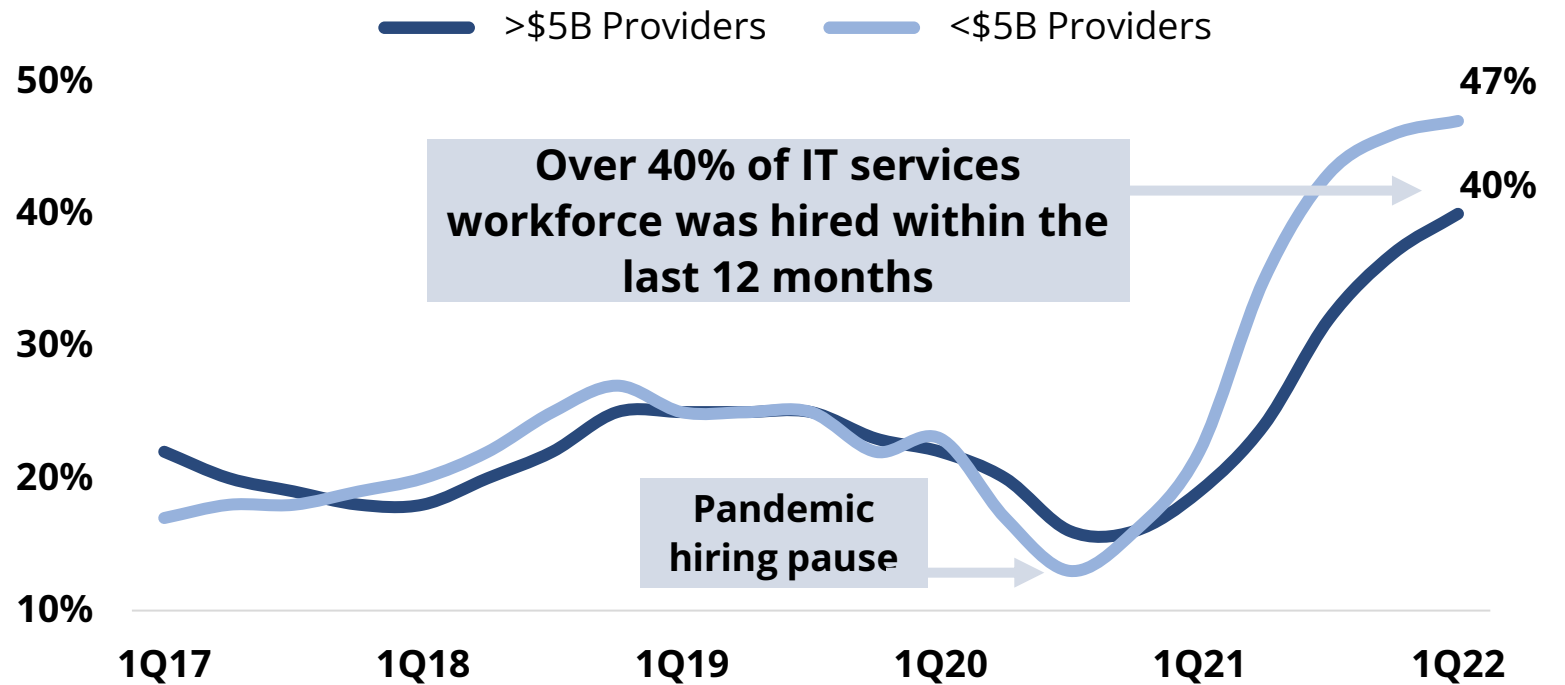
Key Trends

Demand for services is high, and a supply imbalance persists

Macroeconomic factors, hiring innovation, retention strategies and a slowdown in startup hiring are stabilizing attrition

The "Great Reshuffle" will put pressure on providers to scale their unique value proposition

Percentage of IT Services Workforce Hired Within the Last 12 Months



Source: ISG, 2022; Analysis of 18 leading IT service providers

Q2 Pricing Trends

Managed Services



Automation, pyramid staffing and reshuffling of off-shore locations are holding pricing steady



Competition for commodity-based services supports steady or continued Y/Y reductions



Renewals focused on right-sizing scope and services model help drive margin retention

T&M / Project Work



Retention is having an impact on pricing overall, particularly in India. Premium skills are commanding higher rates



COLA clauses are key in deals based on hourly or team-based rate cards



Outcome-based pricing focused on mutual success in revenue, margin and customer satisfaction is gaining market support



Managed Services ITO/BPO Results

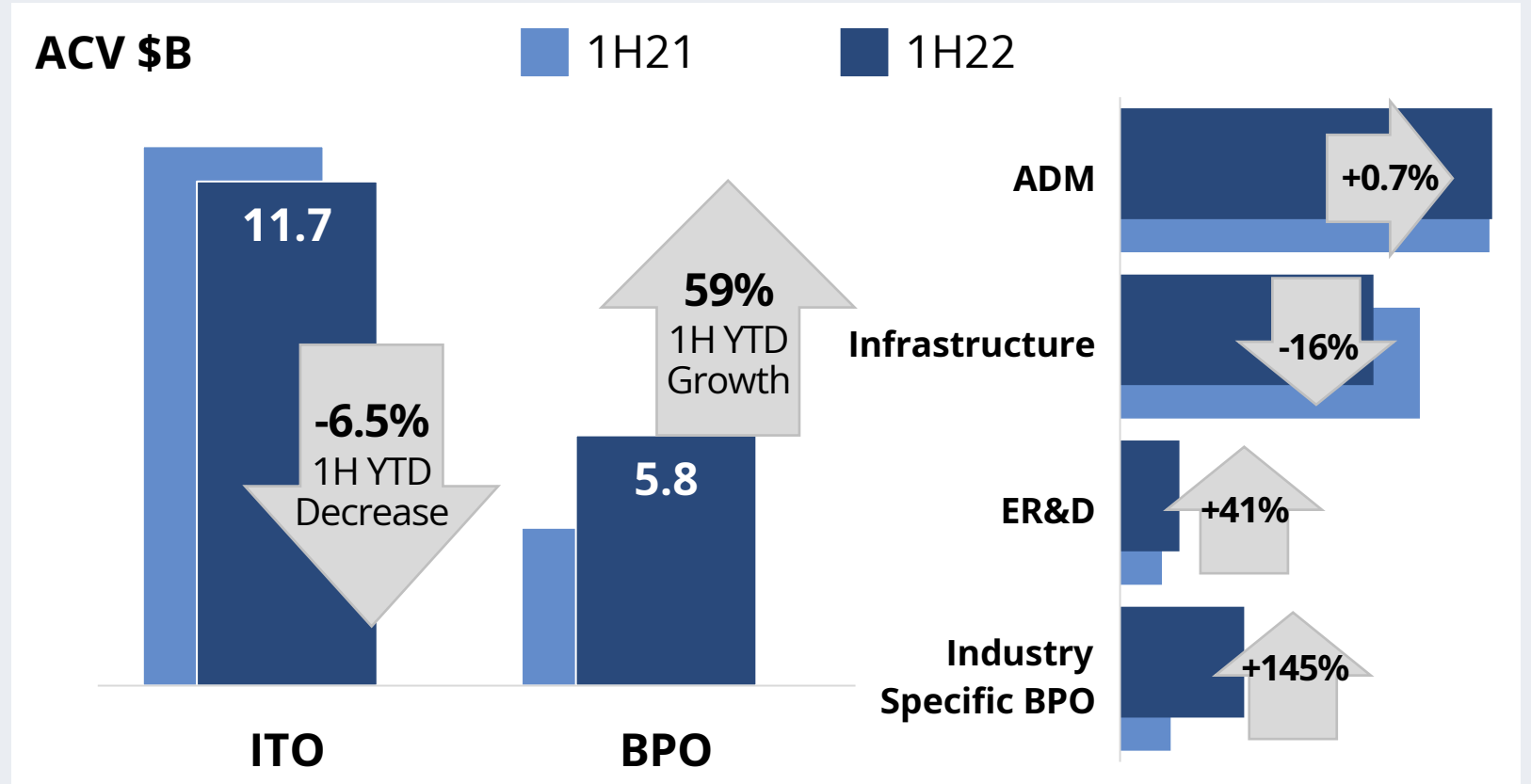
Half-Year Trends

Second-best 1H ever for ITO ACV, down 6.5% YTD

Slight gains in ADM ACV could not make up for sizable decline in legacy infrastructure

BPO Market had its best 1H ever as Americas and EMEA both surpassed 55% YTD growth

Functional areas such as Industry-Specific BPO and ER&D achieved 1H record highs



ACV = Annual Contract Value



XaaS SaaS/IaaS Results

Half-Year Trends

Even with a slowing 2Q, IaaS was up 30% YTD in 1H22

The Americas and EMEA posted excellent YTD IaaS growth, but Asia fell back on sluggish results in China

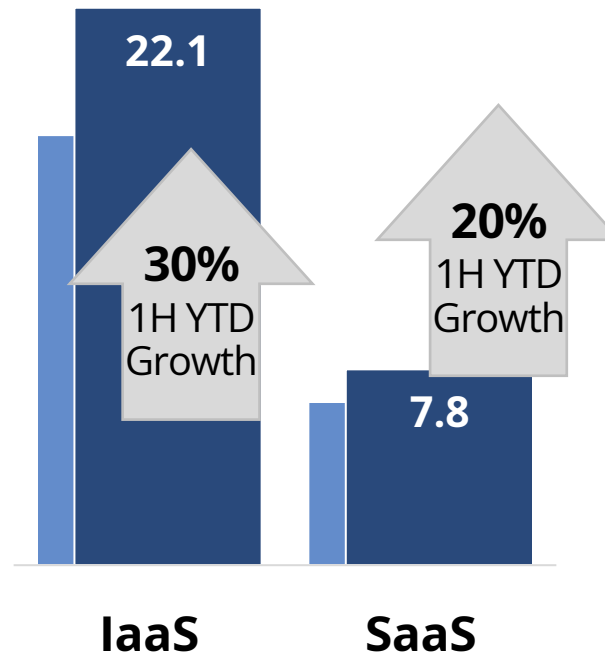
Big 3 hyperscalers (AWS, Azure and GCP) supported market growth, up 50%+ YTD

SaaS segment up 20% YTD but top 10 providers seeing share losses from 50% in 2019 to 44% in 1H22

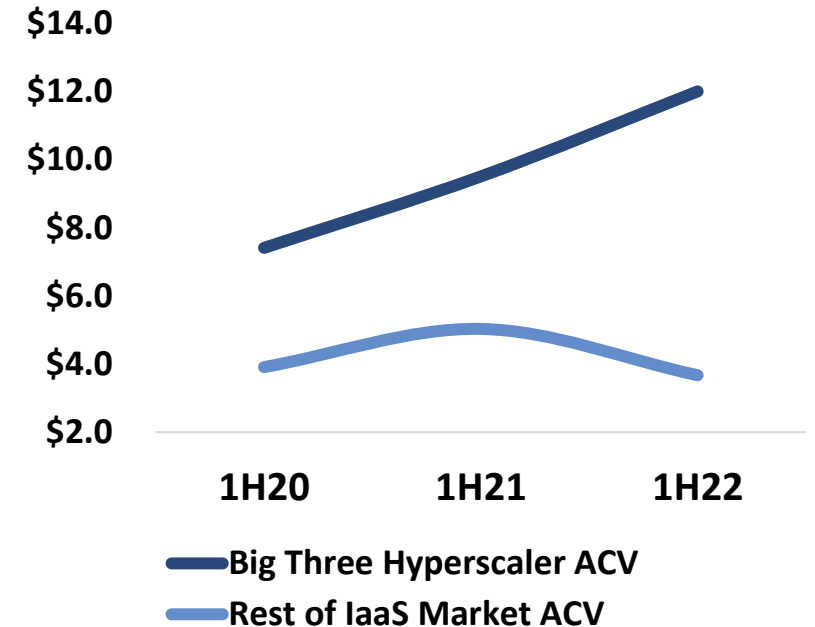
ACV \$B

1H21

1H22



1H IaaS ACV Growth



ACV = Annual Contract Value

Global Service & Technology Provider Standouts

THE ISG 15

Our ISG Contract KnowledgeBase™ is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months

The Big 15
The Building 15
The Breakthrough 15
The Booming 15



Service & Technology Provider Standouts – Global



Our ISG Contract KnowledgeBase™ is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months.

	The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
	Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
Managed Services Market	Accenture	Infosys	Amadeus*	OptumInsight*	Exela Technologies*	Mphasis	L&T Technology Services	
	Capgemini	Kyndryl	Concentrix*	Sabre	EXL	Rackspace	Birlasoft	Majorel*
	Cognizant	NTT Data	EPAM Systems	Sitel Group	Globant	Telus International*	ENDAVA	NNIT A/S*
	DXC Technology	TCS	Genpact	Tech Mahindra	LTI	Unisys	Ensono	Softtek
	HCL	Wipro†	Global Payments	Teleperformance	Mindtree	WNS Global Services		
	IBM Consulting			T-Systems				
As-a-Service Market	Amazon Web Services	Microsoft	Equinix	ServiceNow	Atlassian	Snowflake*	21Vianet	Kingsoft Cloud*
	Google	Salesforce	Palo Alto Networks	Workday*	CrowdStrike	Twilio	Cloudflare	MongoDB
					DocuSign*		DigitalOcean	Switch*
							Elastic*	Zscaler

* New or returning to leaderboard in 2Q22

† Provider moved tiers since previous quarter

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

M&A Trends

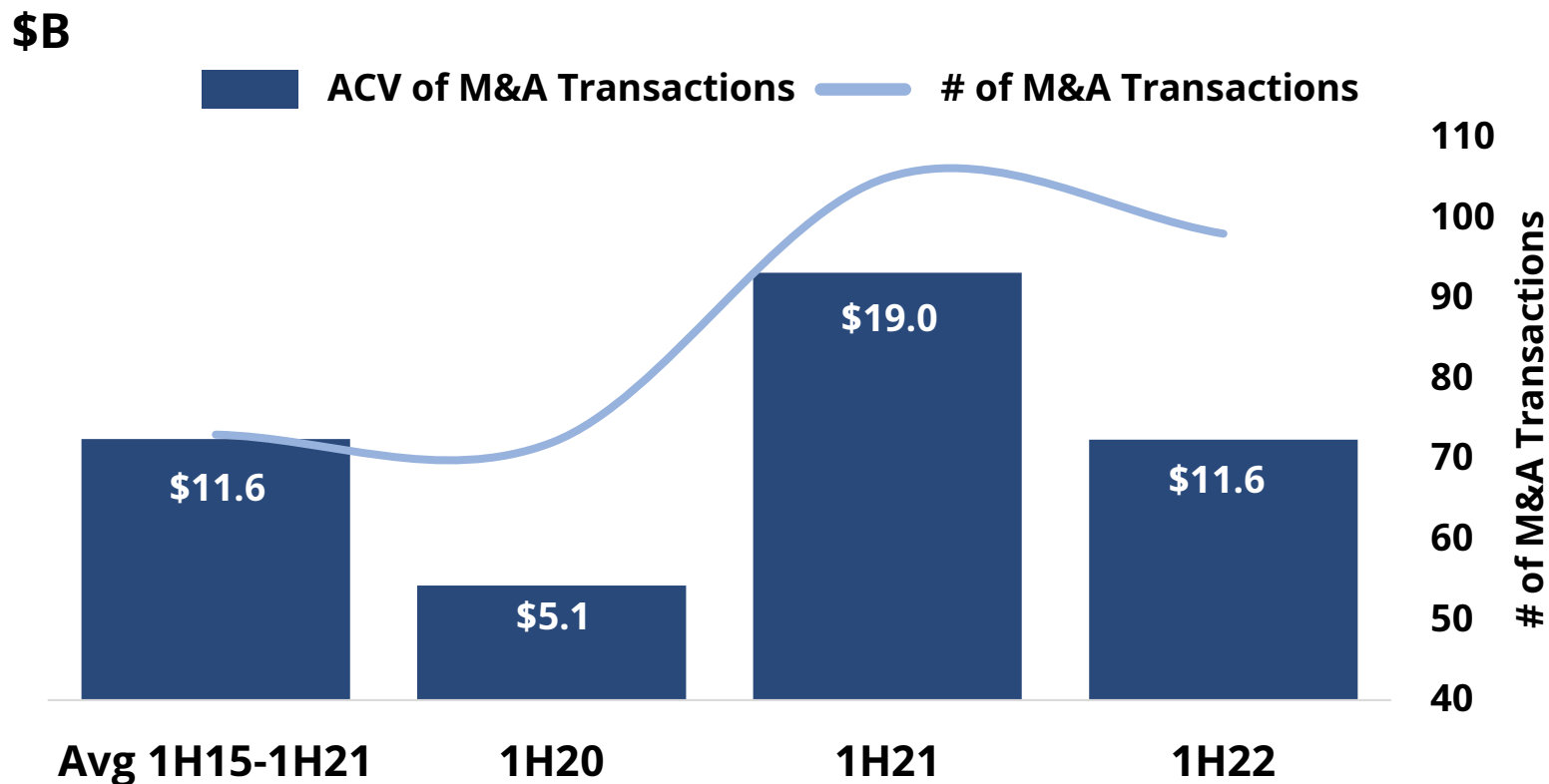
Half-Year Trends

Providers leveraged M&A to offset high sustained demand along with elevated attrition

Even with record high activity in 2021, M&A activity for IT Services down less than 7% in 1H22

Capital is readily available, and corporate balance sheets are flush with cash

Providers aggressively thinking through business structures and what they want to be 3-5 years out



Source: ISG, 2022; Analysis of top 50 IT Services in ISG coverage



Americas Broader Market Results

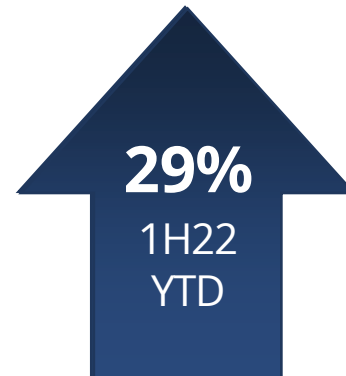
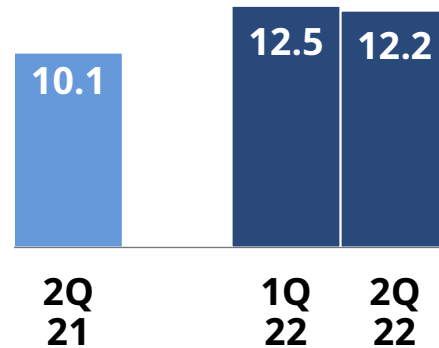
Quarterly Trends

Americas Combined Market ACV remained above \$12B with Y/Y ACV up 20%

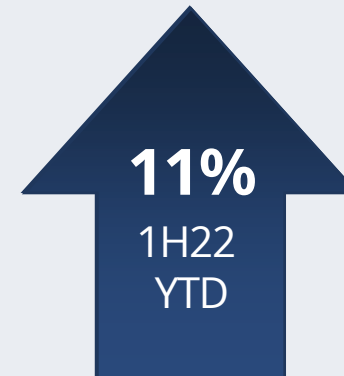
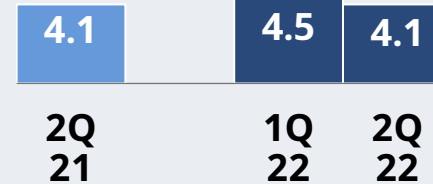
Managed Services had fifth straight quarter over \$4B, flat Y/Y but down sequentially

XaaS ACV surpassed \$8B for the first time ever; 36% Y/Y growth but slowing sequentially, up 2% Q/Q

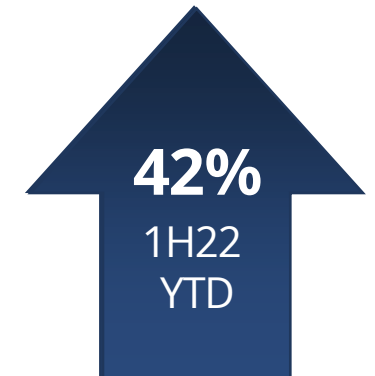
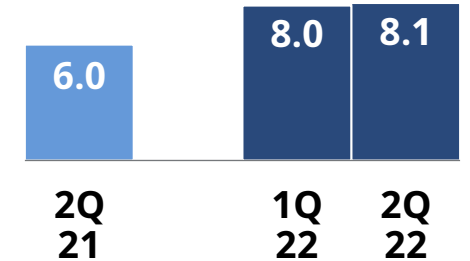
ACV \$B



Combined Market



Managed Services



As-a-Service

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EMEA Broader Market Results

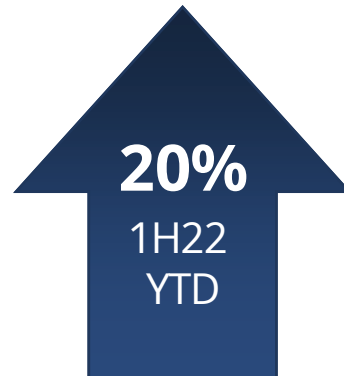
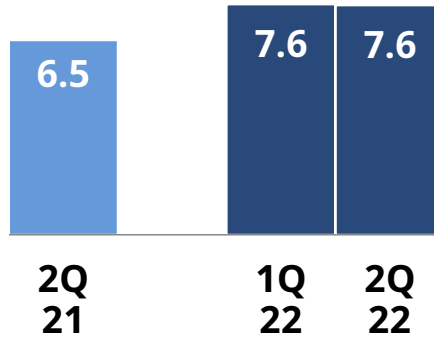
Quarterly Trends

EMEA Combined Market surpassed \$7B for third straight quarter, up 18% Y/Y

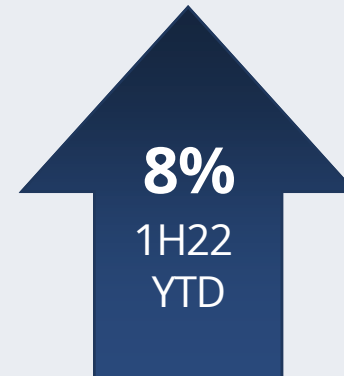
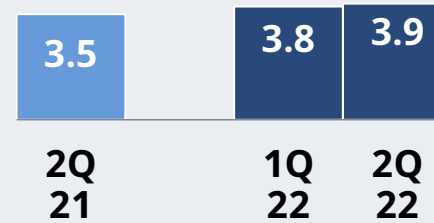
EMEA Managed Services segment was one of the few pockets that saw ACV growth both Y/Y and Q/Q

U.K. generated its third straight \$1B quarter and fourth in the past five quarters

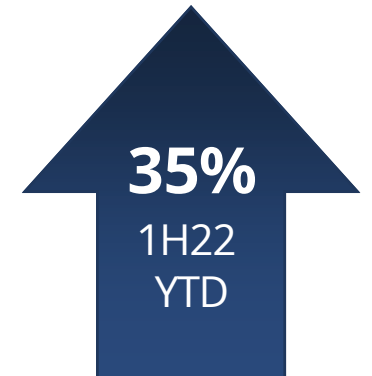
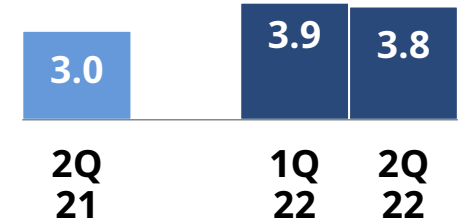
ACV \$B



Combined Market



Managed Services



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Asia Pacific Broader Market Results

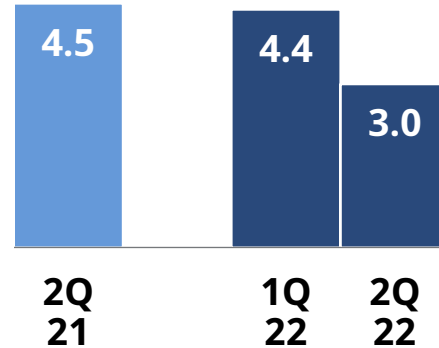
Quarterly Trends

Combined Market declined 33% Y/Y and fell back to 2020 levels

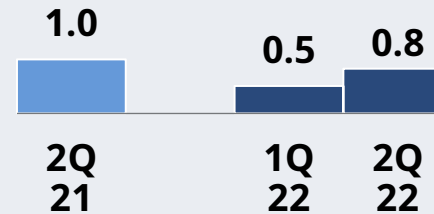
Managed Services ACV exceeded \$800M for the third time in five quarters; India and the SE Asia markets were up markedly Y/Y

XaaS ACV lowest level since 3Q20 as Chinese hyperscalers were pulled lower by regulation and COVID shutdowns

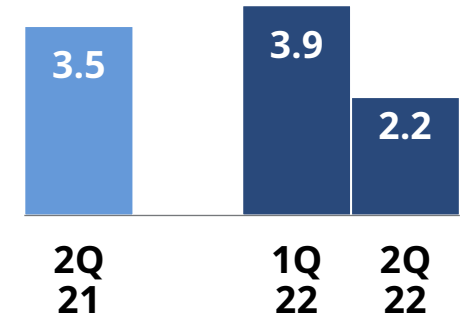
ACV \$B



Combined Market



Managed Services

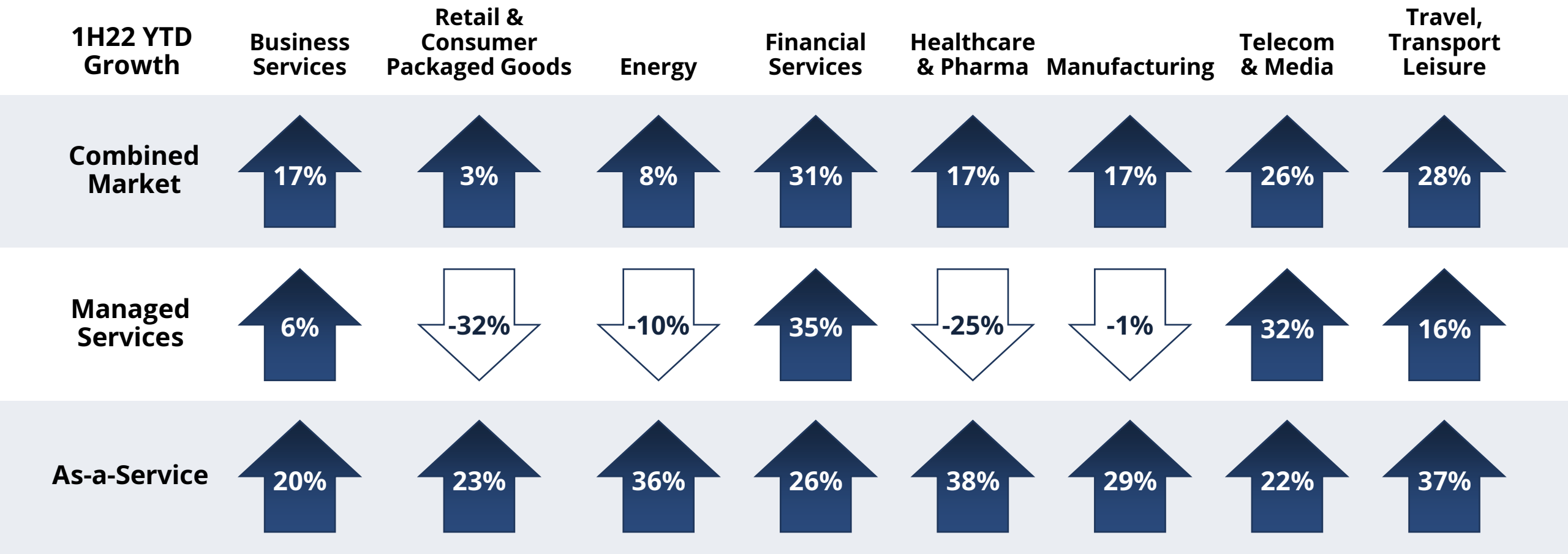


As-a-Service

ACV = Annual Contract Value



Global Technology Services Industry Award Trends



Special Topic – Cloud



Bernie Hoecker
Partner, Enterprise Cloud
Transformation Leader

“Accelerating
toward a Secure,
Intelligent,
Connected
Enterprise (SICE).”

Massive Cloud ACV Growth

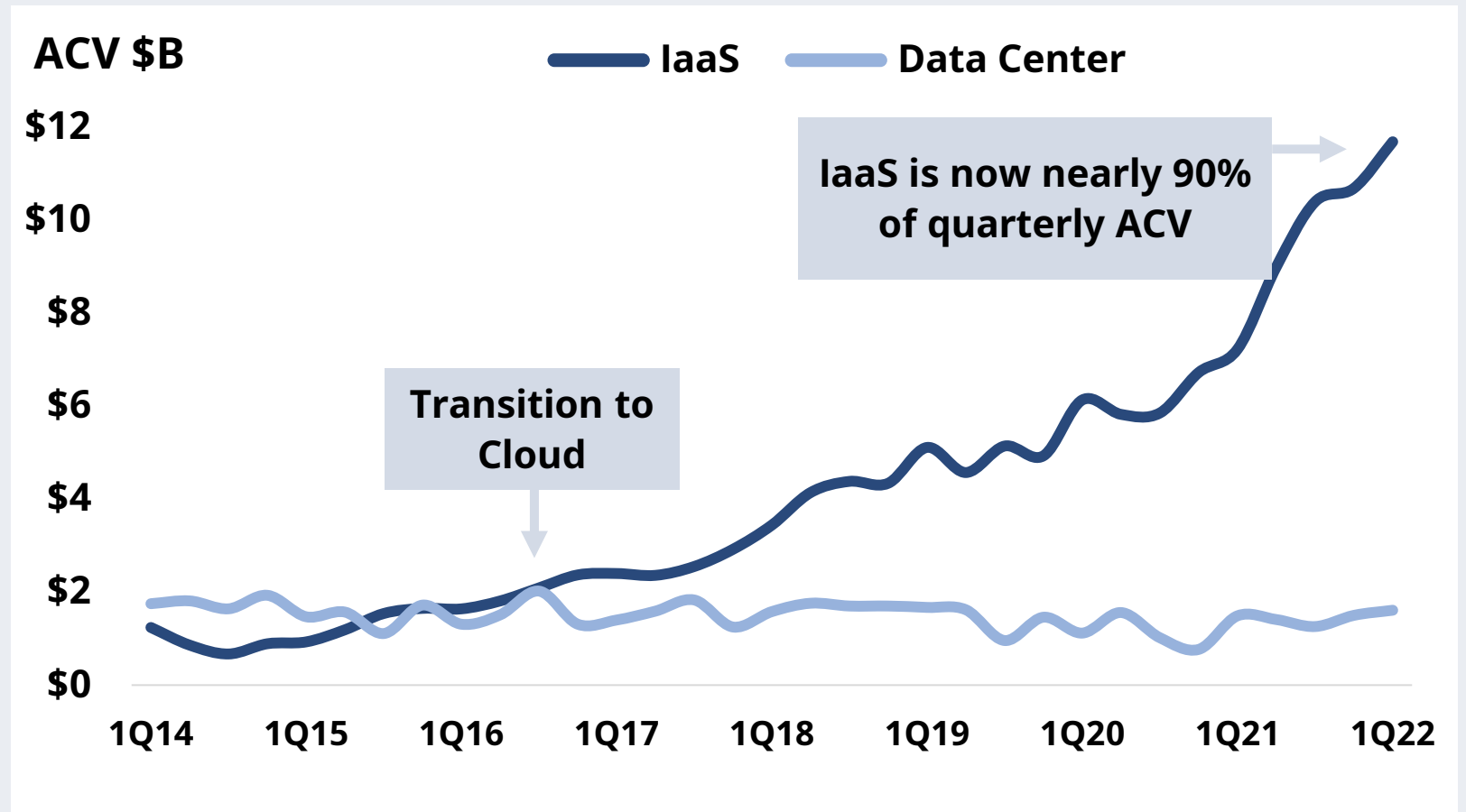
Cloud Trends

Migrations to the cloud have accelerated over the last 6 years

Enterprises are betting on the cloud to unleash innovation, agility, efficiency and lower costs

Data center ACV will continue to decline

Outsourcing models will evolve to multi/hybrid cloud estates and As-a-Service business models



ACV = Annual Contract Value

Big Three Challenges



Enterprise Challenges

Appropriate enterprise insights tailored to the vertical industry they serve. Applications must be optimized by industry.



Cloud Acceleration

Accelerate workloads moving to cloud – too many framework agreements with organizational blockers impacting cloud adoption.



Multi/Hybrid Clouds

Multi or hybrid cloud environments that require cloud management platforms and SIs to support migration and on-going operations.

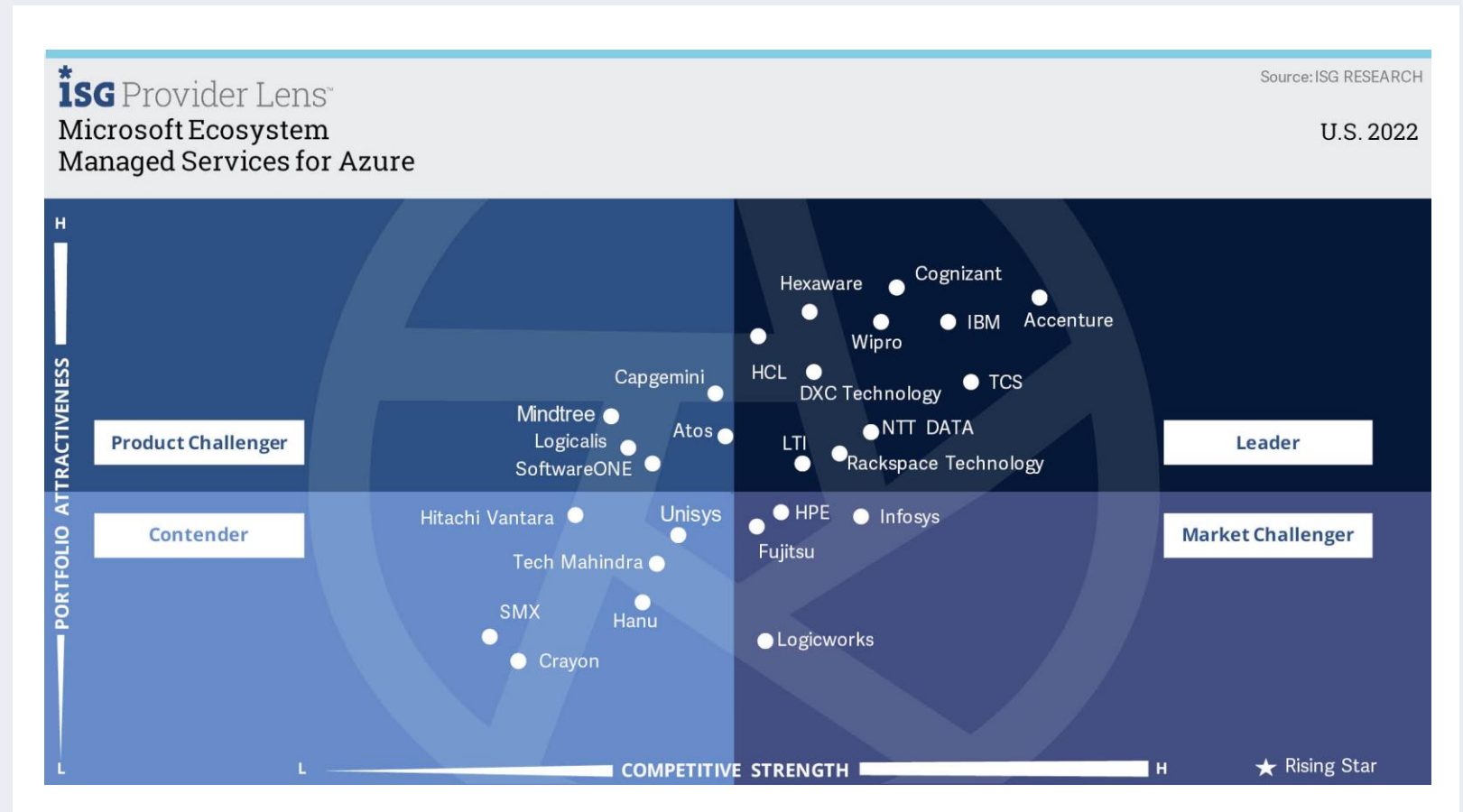
ISG's POV on the Microsoft Azure Ecosystem

Provider Tiers

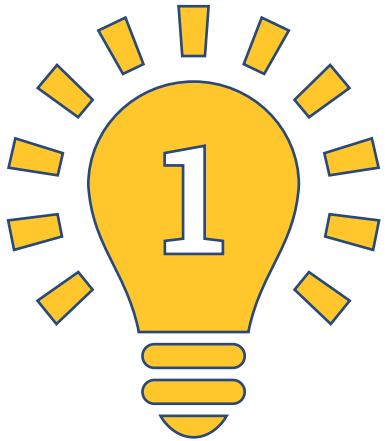
Leaders represent innovative strength and competitive stability to set the pace in the market

Product Challengers offer a portfolio of capabilities that reflect strong service and technology stacks

Market Challengers have a strong presence in the market and often major in a specific region or vertical market



What Does This Mean for the IT Services Ecosystem?



Cloud continues to be a critical enabler of innovation, agility, speed and advanced technologies to drive a competitive and healthy enterprise.



Cloud models are in their infancy, and a thorough and comprehensive multi-year cloud strategy is an imperative for every enterprise.

Summary and Outlook

Summary

Managed Services

- In the first half of 2022, Managed Services is up 8% in the 1H
- Rotation into new tech areas are supporting market growth
- ITO declined 6.5% in the 1H and is weighed down by a 15.5% 1H decline in legacy infrastructure ACV
- BPO growth is coming off of pandemic lows supported by Industry-Specific BPO, ER&D and Digital CX

XaaS

- SaaS ACV is up 20% in 1H, but the past four quarters have remained in a very tight range with no clear upside
- China hyperscalers weighed on IaaS ACV results as the segment posted the lowest ACV in four quarters

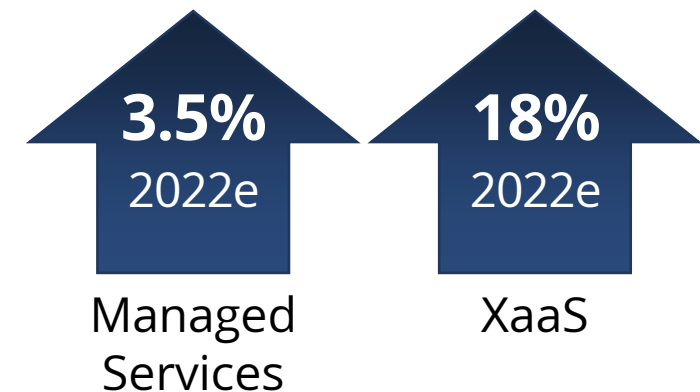
Market Outlook

Macro Risks

- Liquidity slowdown in a rising interest rate environment
- Supply chains remain under duress
- Fragile situation in Europe due to Russia-Ukraine conflict
- COVID lockdowns, regulatory environment in China
- FX exposure/inflationary concerns

Managed Services/XaaS Forecast

- Sustained enterprise demand
- Value placed on profitable growth
- Market technicals will be challenging



Thank you!

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