

Global Sourcing and As-a-Service Market Insights

THIRD QUARTER 2018

Hosted by:

Bryan Bergin, Cowen & Company

October 10, 2018



imagine your future®

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Welcome to the 64th Quarterly ISG Index

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



Steve Hall
Partner and President
ISG



Esteban Herrera
Partner and Global Leader
ISG Research



David Lewis
Partner & Americas
Lead Manufacturing



Stanton Jones
Director and Principal Analyst
ISG Research

“

3Q18 Combined Market ACV up 19% Y/Y;
As-a-Service continues to reach new heights
with Traditional Sourcing flat Y/Y

Americas ACV up 6% Y/Y supported by 30%+ growth in
both SaaS and IaaS; Traditional Sourcing remains above
\$3B on strength in ADM and Industry-Specific BPO

EMEA ACV up 56% Y/Y versus a softer 3Q17;
Traditional Sourcing up significantly on very strong
ADM activity; both SaaS and IaaS experience faster
growth than in any other region

Asia Pacific ACV up 2% Y/Y; As-a-Service accounts
for increasing ratio of Combined Market ACV;
Traditional Sourcing decline was broad-based across
ITO and BPO and most major geographies

”

At a Glance

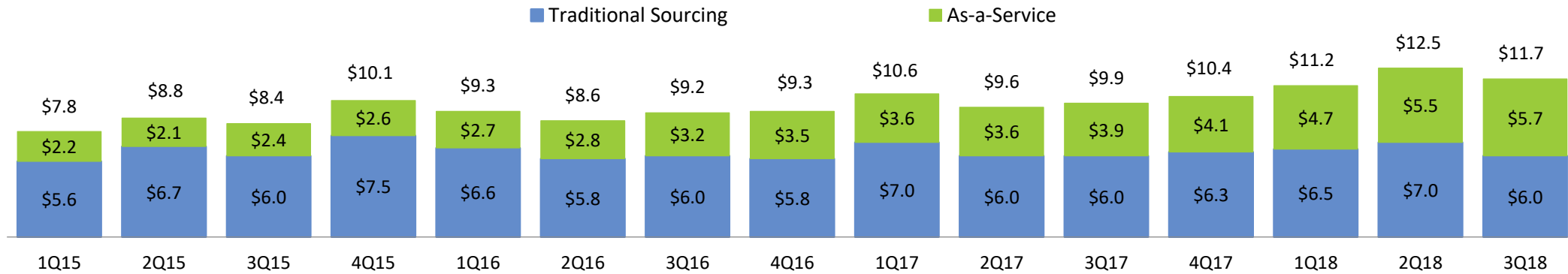
Scorecard		3Q18 ACV (\$B)*	3Q Y/Y Change	3Q Q/Q Change	YTD ACV (\$B)*	YTD Change
Global Commercial Combined Market		\$ 11.7	19%	-6%	\$ 35.4	18%
By Type	Traditional Sourcing	\$ 6.0	0%	-14%	\$ 19.5	3%
	As-a-Service	\$ 5.7	47%	4%	\$ 15.9	43%
By Region	Americas Commercial	\$ 6.1	6%	2%	\$ 18.2	20%
	EMEA Commercial	\$ 4.1	56%	-11%	\$ 12.3	10%
	AP Commercial	\$ 1.5	2%	-21%	\$ 4.8	28%

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

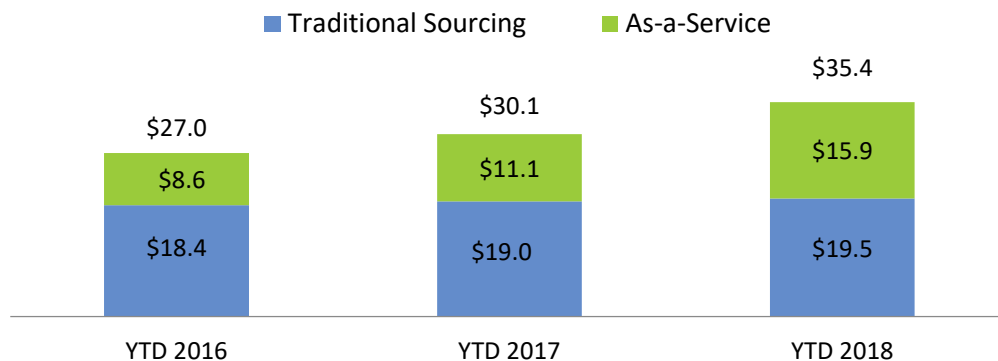
Global Commercial Sector Contracting Trends

Combined Market ACV up 19% Y/Y with As-a-Service sector reaching new heights;
Traditional Sourcing flat Y/Y as mid-single-digit growth in ITO is offset by BPO weakness in non-U.S. markets.

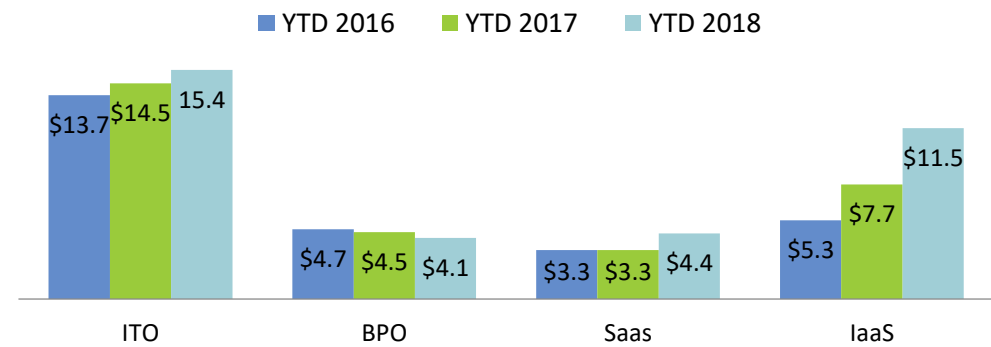
Global Combined Market Quarterly ACV (\$B)



Global Commercial Sector YTD ACV (\$B)



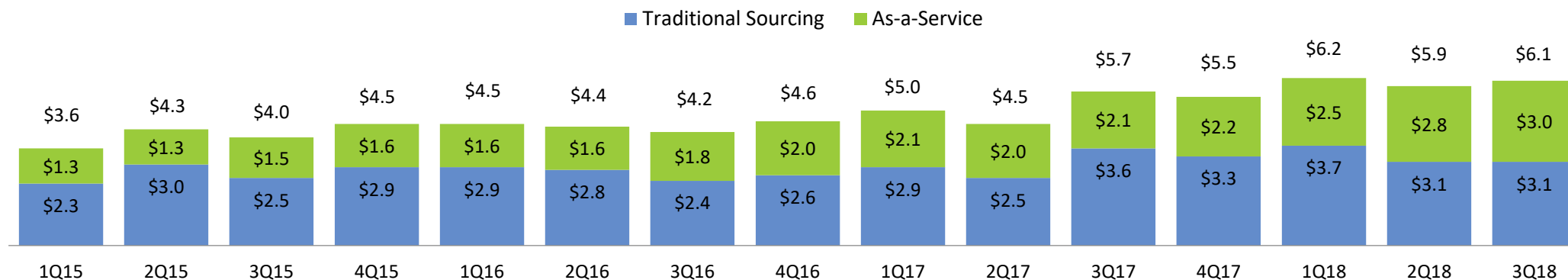
Global Commercial Sector YTD ACV by Type (\$B)



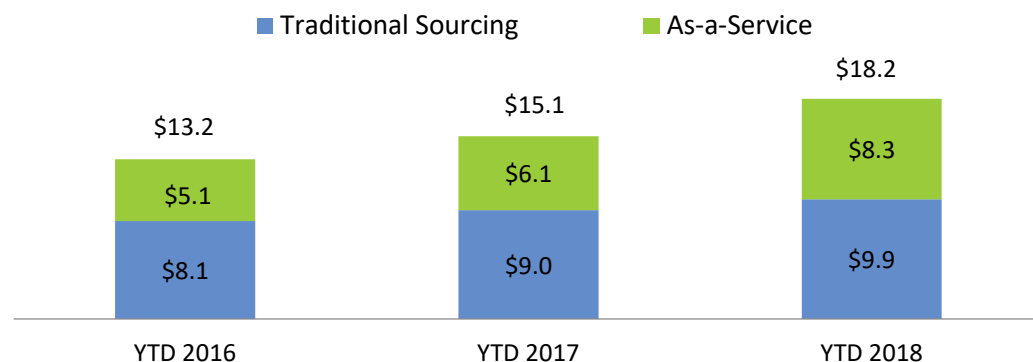
Americas Commercial Sector Contracting Trends

Combined Market ACV up 6% Y/Y driven by sustained 30%+ growth in both As-a-Service sectors;
Traditional Sourcing falls Y/Y; however, ACV remains above \$3B for the fifth straight quarter.

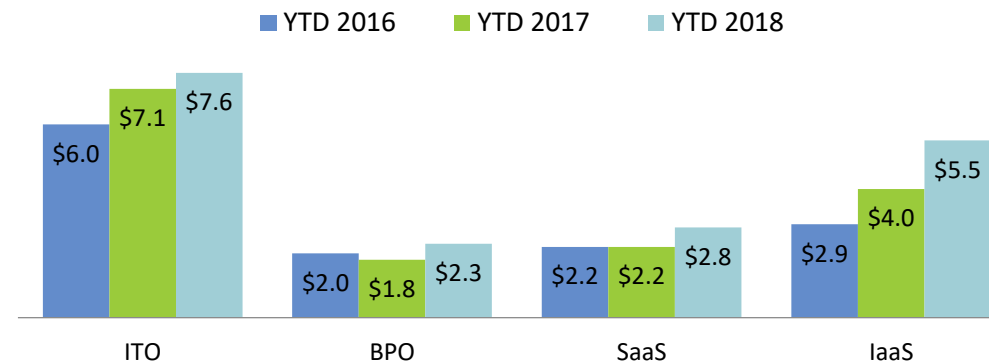
Americas Commercial Sector Quarterly ACV (\$B)



Americas Commercial Sector YTD ACV (\$B)



Americas Commercial Sector YTD ACV by Type (\$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.

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

* New to leaderboard since 2Q18.

The Big 15

Co. Revenues > \$10 B

Traditional Sourcing Market

Accenture
BNY Mellon *
Capgemini
CBRE
Cognizant
DXC Technology
IBM
Infosys
NTT DATA
TCS

As-a-Service Market

Amazon Web Services
Google
Microsoft
Oracle
Salesforce

The Building 15

Co. Revenues \$3 - \$10 B

Traditional Sourcing Market

Alliance Data Systems
Cerner Corporation
Conduent
First Data
HCL Technologies
OptumInsight
Sabre
SS&C
Tech Mahindra
Total System Services
Worldpay
Wipro

As-a-Service Market

Adobe Systems
Equinix
Iron Mountain

The Breakthrough 15

Co. Revenues \$1 - \$3 B

Traditional Sourcing Market

ASGN Incorporated
Diebold Nixdorf
FleetCor
Genpact
LTI
Mphasis
Pitney Bowes
Sutherland Global Services
TTEC
Unisys
WEX

As-a-Service Market

Digital Realty
Rackspace
ServiceNow
Workday

The Booming 15

Co. Revenues < \$1 B

Traditional Sourcing Market

CSG Systems
EXL
FirstSource Solutions
Hexaware
HGS
KPIT Technologies
Luxoft *
Mindtree
StarTek
Virtusa

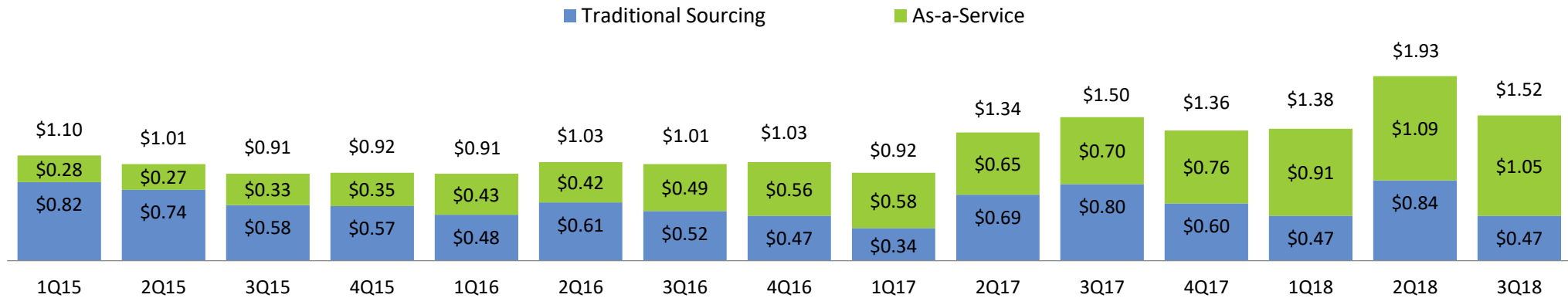
As-a-Service Market

Blackbaud *
CyrusOne
IPSoft
LogMeIn
RealPage *

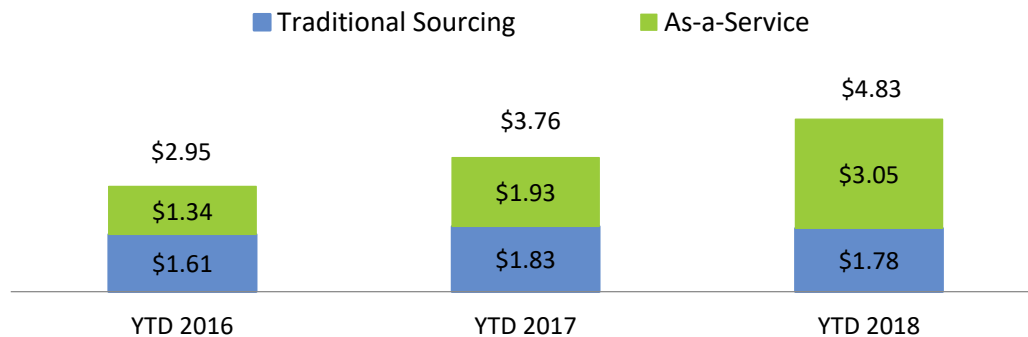
Asia Pacific Commercial Sector Contracting Trends

Combined Market ACV up slightly Y/Y; As-a-Service ACV accounts for nearly 70% of market flow and surpasses \$1B in ACV for the second straight quarter; Traditional Sourcing falls 40% Y/Y on weakness across ITO and BPO and most major regions.

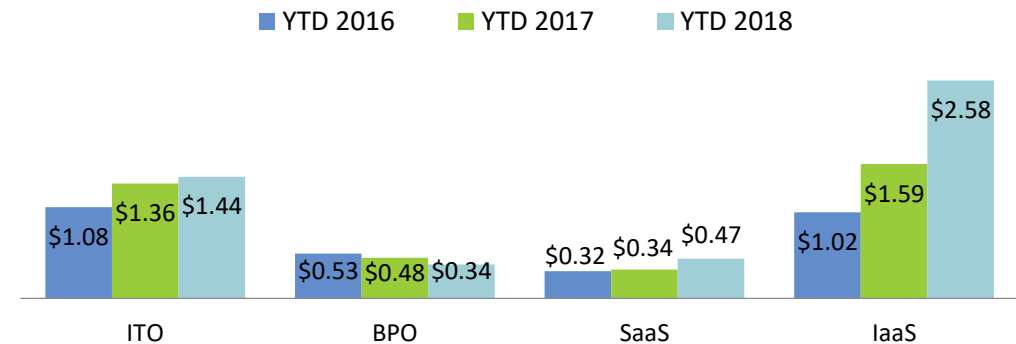
Asia Pacific Commercial Sector Quarterly ACV (\$B)



Asia Pacific Commercial Sector YTD ACV (\$B)



Asia Pacific Commercial Sector YTD ACV by Type (\$B)



Asia Pacific Sourcing Standouts

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The Big 15

Co. Revenues > \$10 B

Traditional Sourcing Market

Accenture
CBRE *
Cognizant
DXC Technology
Fujitsu *
IBM
Infosys
Nokia
NTT Data

As-a-Service Market

Alibaba
Amazon Web Services
Google
Microsoft
Oracle
Tencent

The Building 15

Co. Revenues \$3 - \$10 B

Traditional Sourcing Market

Amdocs
CEVA Logistics
First Data Corporation
HCL Technologies
IT Holdings (TIS)
ITOCHU Techno-Solutions
LG CNS
Nomura Research Institute
Sabre
Samsung SDS
Tech Mahindra
Telstra
Wipro

As-a-Service Market

Adobe Systems
Equinix

The Breakthrough 15

Co. Revenues \$1 - \$3 B

Traditional Sourcing Market

Chinasoft
Digital China
Genpact
JLL
Konica Minolta
Nihon Unisys
Pitney Bowes
Sumitomo SCSK
Sutherland Global Services
TTEC
transcosmos
Unisys

As-a-Service Market

Autodesk
PTC
ServiceNow

The Booming 15

Co. Revenues < \$1 B

Traditional Sourcing Market

Aspen Technology *
Beyondsoft
Chinasoft
CSG Systems *
Datacom
Fuji Soft *
Luxoft *
Neusoft *
PLDT *
Posco ICT
Relia
Sichuan Troy Information Tech
Taiji Computer Corp.

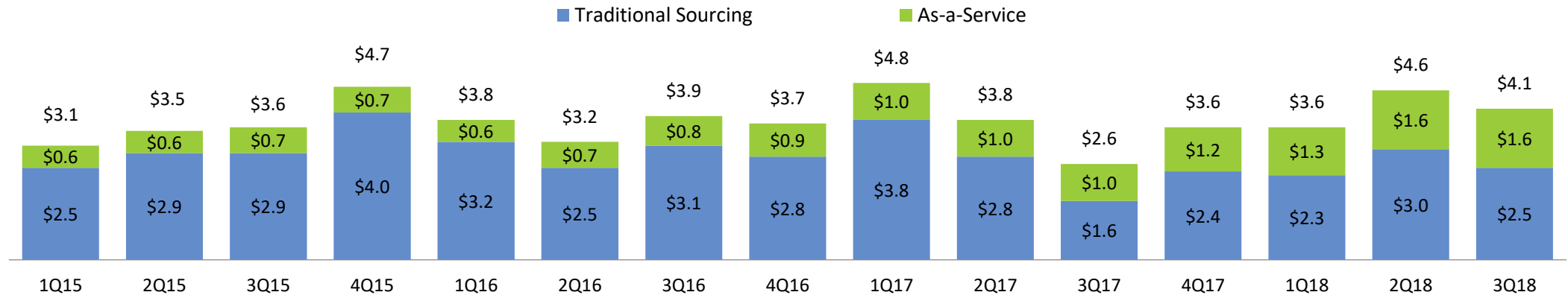
As-a-Service Market

Kingdee
LogMeIn

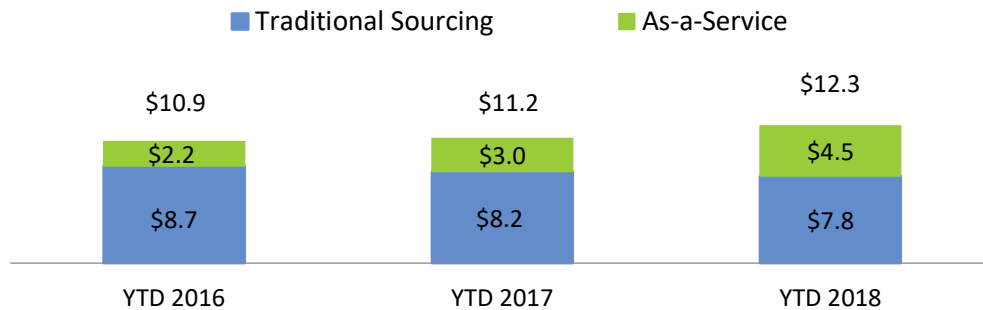
EMEA Commercial Sector Contracting Trends

Combined Market ACV up 56% Y/Y versus a softer 3Q17; SaaS and IaaS experience faster growth in EMEA than in any other region;
Traditional Sourcing up on very strong ADM activity.

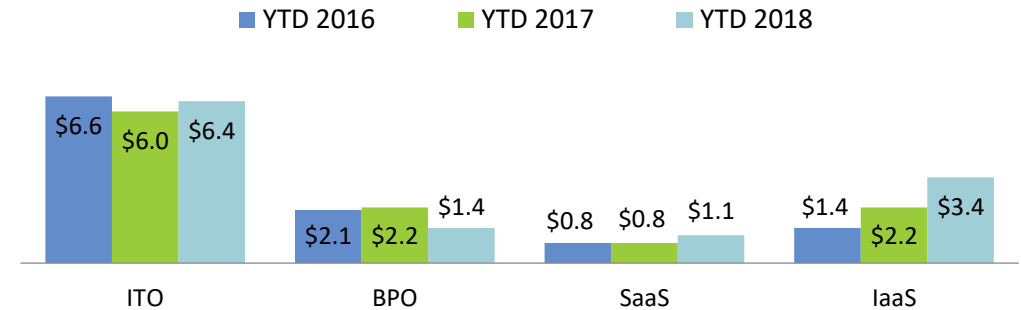
EMEA Commercial Sector Quarterly ACV (\$B)



EMEA Commercial Sector YTD ACV (\$B)



EMEA Commercial Sector YTD ACV by Type (\$B)



EMEA Sourcing Standouts

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Atos
BT
Capgemini
CBRE *
Cognizant
DXC Technology
IBM
Infosys
TCS

As-a-Service Market

Amazon Web Services
Google
Microsoft
Oracle

The Building 15

Co. Revenues \$3 - \$10 B

Traditional Sourcing Market

Bechtle
CGI
Computacenter
Econocom
HCL Technologies
Indra Sistemas
Interserve
Orange Business Services
Serco Group
SopraSteria
Tech Mahindra
Wipro

As-a-Service Market

Adobe Systems
Equinix
United Internet

The Breakthrough 15

Co. Revenues \$1 - \$3 B

Traditional Sourcing Market

Alten SA
Altran
Axians
Cancom
Diebold Nixdorf
EPAM Systems
EVRY ASA
Finanz Informatik
GFI Informatique
Giesecke & Devrient
JLL
Tieto
Unisys
Webhelp

As-a-Service Market

ServiceNow

The Booming 15

Co. Revenues < \$1 B

Traditional Sourcing Market

Allgeier SE
Avaloq
Bouvet ASA
Comarch *
Comparex AG
EXL
GFT Technologies
Ibermatica SA
Luxoft *
Mindtree
NNIT A/S
Reply SpA
Virtusa

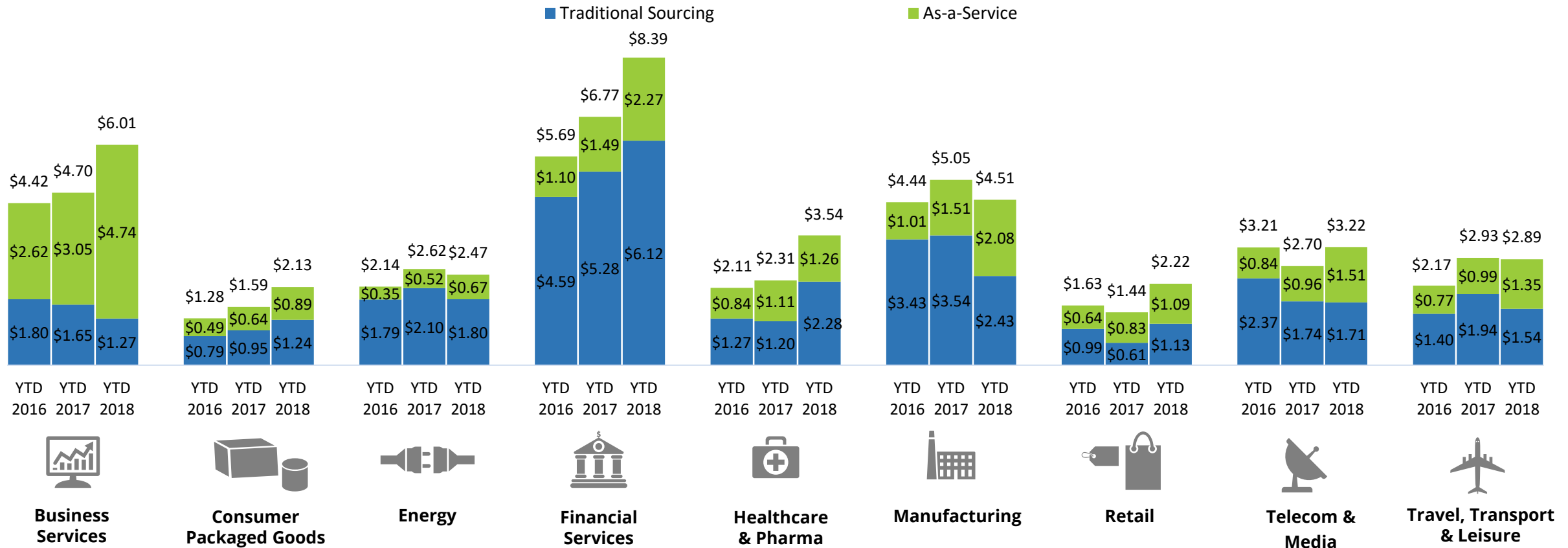
As-a-Service Market

Interxion
OVH

Global Commercial Sector Industry Award Trends

Financial Services leads among industry verticals with trends in Traditional Sourcing and As-a-Service remaining positive.

Global Commercial Industries YTD ACV (\$B)



3Q18 ISG Index™ Inside Track from



Manufacturing



David Lewis

Partner & Americas Lead Manufacturing



GLOBAL 3Q18

Key Technologies Facilitating Transformation

As technology accelerates the pace of change in the market, manufacturers are investing heavily to keep up.



Internet of Things

IoT is becoming a fundamental technology to enable **improved operations**, improved **customer interaction** and **new revenue streams**.



Virtual/Augmented Reality in Operations

AR/VR advancements in computer vision, IT and engineering have enabled manufacturers to deliver **real-time information** at the point of use – training, maintenance, inventory.



Digital Factories

Manufacturers are digitizing their operations using **Industry 4.0** concepts to achieve reduced cost, increased quality, reduced downtime and enhanced PLM.



Personalization Manufacturing

Manufacturers are creating a more personalized consumer engagement model via **advanced analytics**.



Digital Twin

Manufacturers are using digital twin to **create, test and build equipment** in a virtual environment – linking the physical environment to the virtual environment through IoT.



Connected Vehicles

Vehicle manufacturers are leveraging new technologies such as telematics, AD/AS, infotainment, OTA, sensor-based analytics to **improve the customer experience**.



Automation / AI

Manufacturers will use **automation and artificial intelligence** to enhance operations and supply chain processes to **reduce cost and improve service**.



Transparent Supply Chains

In the era of global sourcing, manufacturers are **optimizing supply chains** to reduce cost, manage supply/demand and enhance customer satisfaction.

Operational Improvements in the Manufacturing Sector

Few manufacturers have implemented digital transformation – most are still in Proof of Concept mode.

Early-Stage Challenges



Manufacturing Enterprises

Implementing full digital transformation

Building the business case for new digital initiatives

Finding talent, especially in advanced analytics



Service Providers

Flattening Traditional Sourcing market

Political conditions affecting offshoring

To be competitive

Manufacturers will have to stay current with disruptive industry and technology trends to:

- Drive down costs
- Improve quality
- Provide better customer experience

Service providers will need to keep up with the speed of digital disruption, or new niche providers will have the first-mover benefit

3Q18 ISG Index™ Inside Track from



RPA: Are Enterprises Bot 3.0 Ready?



Stanton Jones

Research Director and Principal Analyst



GLOBAL 3Q18

Measuring Enterprise RPA Capability: The Bot Framework

Framework encompasses multiple factors ranging from strategy, organization, best practices, governance and technology.



- New to RPA
- POC or pilot
- No COE

18%



- In production
- Launched COE
- Good qualitative

58%



- Mature COE
- Testing cognitive
- Excellent qualitative

17%



- Multiple functions
- Cognitive live
- Outstanding qualitative

7%

Industry Analysis

Industries are in different stages of their automation journeys.

BFSI



aaa

BFSI companies believe they'll run out of rule-based processes to automate within two years; however, a nearly unlimited ceiling of judgement-based processes exist.

Healthcare & Pharma



Early stages with 65% of companies automating fewer than 25 processes; Pharma companies exploring front-office processes once thought off limits.

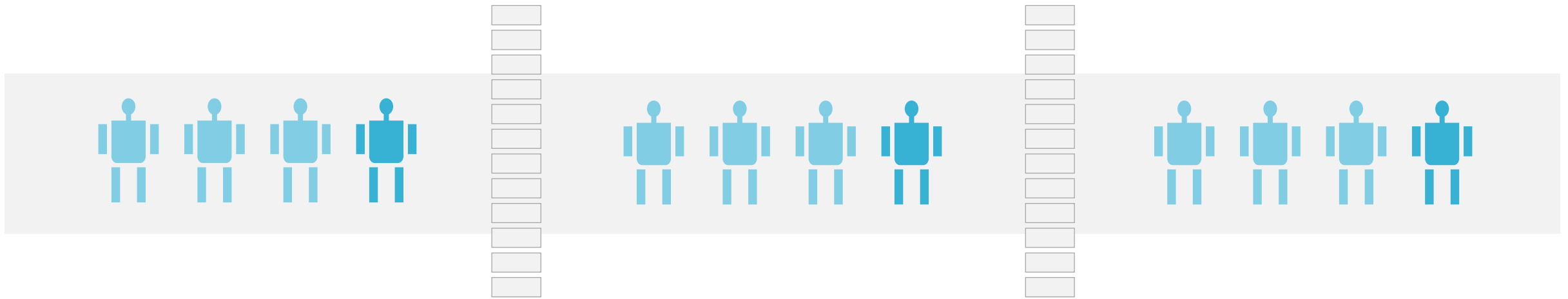
Retail



Extending RPA beyond Finance & IT; use RPA almost twice as much in supply chain and in customer service as compared with overall study average.

Breaking Through the RPA Wall

Organizational change management, governance and lack of awareness of advanced technology can limit automation growth.



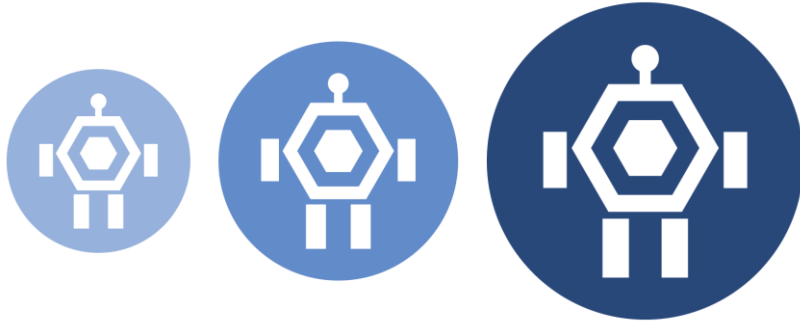
Many enterprises encounter difficulty in scaling beyond more than 20 processes

Organizational change management, governance and a lack of awareness of advanced technology inhibit growth

Basic RPA can only advance so far; must leverage cognitive automation vendors to process unstructured data

Market Opportunity

Bot 3.0 companies leverage multiple automation vendors and are more likely to work with third-party systems integrators, service providers and consultants to help manage complexity.



Market Opportunity

2018 estimated RPA Software

Market Size:

\$450M

2018 estimated RPA Services

Market Size: **3-4x of Software**

- Likely to see consolidation on the vendor side
- Large enterprise software companies may try to acquire one of the leading RPA vendors, leveraging them as underpinning technology
- Leading vendors are acquiring aggressive funding to quickly build up war chests, which may be used to further consolidate their current leadership positions

3Q 2018 ISG Index – Global Summary and Outlook

Summary

- Continue to observe a very robust spending environment with Combined Market ACV up 19% YTD.
- YTD, each of the three regions is up double digits; the Americas is up 20% with high marks in both Traditional Sourcing and As-a-Service ACV; the Americas is seeing enormous growth driven by a flurry of smaller deal activity – especially in the area of Applications and Industry-Specific BPO.
- EMEA and Asia Pacific are seeing a more rapid growth in As-a-Service ACV, but Traditional Sourcing for each has trended negative YTD due mostly to weakness in Infrastructure Outsourcing and BPO.

Outlook

- As-a-Service segment continues to see strong Public Cloud Infrastructure growth rates remain in the range we forecast last quarter (+45%) with the SaaS market gaining an extra percentage point up to 17% for the remainder of 2018.
- Traditional Sourcing market is now forecast at 3.8% for 2018, which is lower due to slowing third-quarter results and currency headwinds.

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

THIRD QUARTER 2018

3Q 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		3Q18 TCV (\$B)*	3Q Y/Y Change	3Q Q/Q Change	2018 YTD TCV (\$B)*	YTD Change
Global Combined Market		\$ 26.3	-9%	-15%	\$88.9	3%
By Type	Outsourcing	\$ 17.6	-23%	-21%	\$64.2	-6%
	As-a-Service	\$ 8.8	42%	2%	\$24.6	39%
	ITO	\$ 14.1	-14%	-19%	\$49.1	3%
	BPO	\$ 3.4	-45%	-29%	\$15.1	-25%
	IaaS	\$ 4.2	53%	6%	\$11.5	48%
	SaaS	\$ 4.6	34%	-1%	\$13.2	31%
By Region	Americas	\$ 14.1	-17%	6%	\$44.5	13%
	EMEA	\$ 9.4	27%	-33%	\$34.9	-4%
	Asia Pacific	\$ 2.9	-37%	-20%	\$9.5	-7%

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



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