

EXCERPT

Worldwide and U.S. Application Management Services 2009 Vendor Shares: IDC's Top 10 Vendors (Excerpt from IDC #223988)

Rona Shuchat

IN THIS EXCERPT

The content for this excerpt was taken directly from the IDC Competitive Analysis, *Worldwide and U.S. Application Management Services 2009 Vendor Shares: IDC's Top 10 Vendors* by Rona Shuchat (Doc # 223988). All or parts of the following sections are included in this excerpt: IDC Opinion, In This Study, Methodology, Situation Overview, Future Outlook, Essential Guidance, and Synopsis. Also included are Figure 1 and Tables 1, 2, & 3.

IDC OPINION

Worldwide discrete application management (AM) services revenue showed significant decline in 2009. Among the top 10 global players, YoY growth plummeted from an estimated 16% in 2008 to a low of -0.7% in 2009. In spite of the economic downturn, IDC's analysis of the top 2009 application management services vendors, as ranked by total global discrete or consolidated AM revenue, shows the top 3 spots continue to be held by IBM, Accenture, and HP Enterprise Services. Key highlights of the IDC analysis include the following:

- ☒ **Worldwide discrete AMS revenue estimates.** IBM led globally with an estimated 13% market share in 2009, growing at an estimated rate of 3.5% YoY. Accenture maintained a close second at 12.4% share. While many of the Indian outsourcers saw significant decline in historical AMS growth rates, Tata Consultancy Services (TCS), Infosys, and Wipro ranked globally at fourth, sixth, and ninth position, respectively. Cognizant, in particular, demonstrated highly accelerated global growth at 22.1%, well ahead of the competition.
- ☒ **U.S. discrete AMS revenue estimates.** Regionally, IBM led in the U.S. market, with a 15.3% market share, Accenture ranked second at 12.8% share, with Cognizant coming in third overall with YoY revenue growth of 18.2%. Key Indian vendors, including Tata Consultancy Services, Infosys, and Wipro, ranked 4, 5, and 9, respectively. Defense contractors Northrop Grumman and Lockheed Martin ranked 8 and 10, respectively, among U.S. providers.
- ☒ **Consolidated AMS revenue estimates (embedded and discrete combined).** IDC estimates that as of year-end 2009, \$30.3 billion was earned in application management revenue among the top 10 global application outsourcing (AO) providers, with an estimated 69.5% tied to discrete engagements and 30.5% integrated within larger IS outsourcing (ISO) contracts. IBM maintained a healthy lead in consolidated AMS revenue at an estimated \$8.1 billion. Global players,

such as HP and CSC, with sizable AM practices embedded within ISO contracts, worked to adapt AMS contracts to meet shifting client operational and economic requirements. IDC estimates that Indian pure-plays continued to build their discrete AM practices, with some vendors (e.g., Tata Consultancy Services, Infosys) pushing harder to build up their ISO services revenue.

IN THIS STUDY

This IDC study continues to assess how the top 10 global AO service providers performed in 2009, as they adapted their discrete and embedded AM service portfolios to meet client needs during turbulent economic times. This document provides suppliers and customers with greater visibility into the world of AO by maintaining an IDC focus on discrete AM revenue and continuing to analyze application management bundled within IS outsourcing engagements. This study presents an evaluation of the top 10 (discrete) AM services vendors, both worldwide and in the United States, and ranks them for these two geographic regions according to estimated 2009 discrete AM revenue. This study then presents a consolidated view of AMS service revenue, combining discrete and bundled AMS revenue, and ranking the top 10 vendors globally in this category. This study excludes AO that is embedded within larger business process outsourcing (BPO) contracts.

Methodology

The vendor revenue presented in this study represents IDC's best estimates based on the following methodology. Bottom-up/company-level data collection began in the winter of 2010, using multiple in-depth vendor interviews and analysis to refine detailed 2009 company models, which are updated on a quarterly basis. These interviews focused not only on AO but also on the larger financial company model to understand company strategies in how AO is packaged with other services, such as IS outsourcing, or linked into consulting or discrete project engagements, such as application development (AD) or systems integration (SI) services.

For public vendors, we evaluated financial data and adjusted our 2009 estimates accordingly. Additional information was provided through an analysis of the companies' financial statements, annual reports, press releases, position statements, vendor interviews, customer case studies, and other public information. This activity forms the basis of the vendor revenue estimates reported in this document.

As part of the due diligence used in deriving a top 10 list, we shared our revenue estimates with all of these companies, asking them to review our estimates and provide feedback about accuracy. Not all companies are able to comment on AM-specific revenue as defined by IDC; therefore, the revenue data provided in IDC's top 10 list is not based on published figures but is an IDC estimate.

All revenue is stated in U.S. dollars. Currency conversions are therefore required for companies that report outside the United States. IDC has standardized its exchange

rates and converts currency on a quarterly basis based on the latest calendar quarter rates and on an annual basis based on an average of the quarterly rates.

Note: All numbers in this document may not be exact due to rounding.

Methodology Changes

It is important to note that the analysis in this document reflects changes in IDC's view of the overall AM services market and the major vendors' 2009 revenue. Several changes include the following:

- ☒ **Updated company models.** IDC is continually updating its view of vendor revenue splits within internally produced company models. As IDC has gained more insight into the broader vendor model in regard to AO, this has required ongoing adjustments to the discrete component while bringing greater clarity to the bundled component.
- ☒ **Updated market forecast and market shares.** IDC updated the size of the overall AM services market in *Worldwide and U.S. Application Management Services 2010–2014 Forecast* (IDC #222385, March 2010). This change impacts the market share data presented in this study. Thus, it is not advisable to compare market shares listed in this study with those listed in *Worldwide and U.S. Discrete Application Management Services 2008 Vendor Shares: IDC's Top 10 Vendors* (IDC #218356, May 2009) because the size of the market has been changed.
- ☒ **AO consolidated revenue view per vendor.** 2009 marks the third year that IDC has developed an estimated bundled and discrete AO revenue view per vendor for the top 10 category.

Application Outsourcing Definition

AO is often used to indicate a broad set of outsourcing services, which include discrete application management (AM) functions that may be coupled with a range of project-based modernization activities.

Overall, AM services are designed to provide for the day-to-day operations, support, and maintenance of enterprise applications. AM services include, but are not limited to, end-user support, monitoring, proactive problem avoidance, issue resolution, service restoration, and root cause analysis. Patching, application enhancements, and operational responsibility for application performance and uptime are often core services. Various project-based activities can also occur within an AM contract, including package customization, implementation and integration, portfolio optimization, and legacy modernization. The main value proposition of AM services is that these services free IT budget and staff from the usually higher cost of in-house management of enterprise applications and allow access to the generally higher service levels and AM expertise offered by outsourcers.

Distinguishing Discrete and Bundled Application Management Revenue

The IDC revenue estimates in this study reflect our best understanding of service providers' discrete AM services revenue for 2009 and estimated AM services revenue bundled as part of larger ISO engagements. By *discrete*, we mean that this revenue is captured from contracts *primarily* designed to provide AM services with 24 x 7 application monitoring functions and SLAs included. AM engagements that incorporate an application development component (e.g., modernization or enhancements) are included. AM revenue that these companies collect inside of broader IS outsourcing is identified in the bundled view per vendor. AM revenue collected as part of business process outsourcing contracts is, to the best of our ability, excluded from this study.

To provide further guidance, most, if not all contracts, are made up of multiple statements of work (SOWs). If an AM SOW is tied into/added on to a distinct engagement in which the provider is primarily focused on managing the application(s), and it is not linked into a larger ISO deal, then IDC would view it as a discrete application deal. If an AM SOW is added on to a bundled ISO engagement where the primary purpose is IS outsourcing, then IDC would view it as part of a bundled ISO contract. This is illustrated in Figure 1.

FIGURE 1

IDC's Coverage of Application Management Services Revenue



Source: IDC, 2009

A Note on Application Outsourcing Versus Application Management

IDC often uses the terms *application outsourcing* and *application management* interchangeably. IDC's formal market name is *application management*, but the term *application outsourcing* is often used to indicate a broader set of services, including discrete application maintenance services. As this study reflects application maintenance services that may include a transformational component, in addition to AM bundling within larger ISO engagements, IDC has chosen to use both terms in

discussing vendor application outsourcing revenue and the ongoing importance of this revenue stream.

SITUATION OVERVIEW

IDC's 2009 Top 10 Discrete Application Management Services Vendors

The top 10 global AM vendors captured 52% of worldwide spending on discrete AM services in 2009. IDC estimates that global discrete AMS revenue fell to \$40.6 billion in 2009, with growth of -0.7% YoY.

Worldwide Top 10 Discrete Application Management Services Vendors

Table 1 lists the worldwide top 10 discrete AM companies by 2009 revenue. It is important to note that IDC made a best effort to count only discrete application management services revenue in this section of the analysis. AM revenue that companies collect as part of broader IS outsourcing or BPO contracts is not shown in Table 1.

The data presented in Table 1 shows that global providers such as IBM and Accenture continue to hold on to their significant market share positions. IBM led the discrete AM market, with a 13% global share, followed very closely by Accenture, with a 12.4% global share. HP Enterprise Services (inclusive of EDS), is estimated to hold a 5% market share in the discrete AM market. Tata Consultancy Services, Cognizant, and Infosys held the fourth, fifth, and sixth positions, respectively, in the discrete worldwide application management services market in 2009. More than other global players, Cognizant experienced rapid AMS growth in 2009, growing at 22.1% YoY. This reflected a deep focus on key verticals including banking and financial services and healthcare and life sciences. The top 5 vendors (IBM, Accenture, HP Enterprise Services, Tata Consultancy Services, and Cognizant) controlled an estimated 38% of the global discrete AM market in 2009. Infosys moved into the number 6 position, followed by Capgemini and CSC. Outsourcers such as Wipro and Atos Origin continued to rank in the top 10.

TABLE 1

Worldwide Discrete Application Management Services Revenue by Top 10 Vendor, 2009 (\$M)

Rank	Vendor	Revenue	2008–2009 Growth (%)	2009 Share (%)
1	IBM	5,277.1	3.5	13.0
2	Accenture	5,044.5	-3.9	12.4
3	HP Enterprise Services	1,994.1	-13.1	4.9
4	Tata Consultancy Services	1,666.8	4.7	4.1
5	Cognizant	1,599.8	22.1	3.9
6	Infosys	1,325.9	-2.2	3.3
7	Capgemini	1,186.1	-1.5	2.9
8	CSC	1,028.2	0.1	2.5
9	Wipro	994.9	-1.1	2.5
10	Atos Origin	991.3	-12.2	2.4
	Subtotal	21,108.7	-0.7	52.0
	Other	19,455.8	-0.6	48.0
	Total	40,564.5	-0.7	100.0

Notes:

Growth values reflect revised IDC estimates of 2008 revenue and do not necessarily correspond to the rankings or revenue published in *Worldwide and U.S. Discrete Application Management Services 2008 Vendor Shares: IDC's Top 10 Vendors* (IDC #218356, May 2009).

All discrete application management services revenue represents IDC estimates.

Source: IDC, 2010

U.S. Top 10 Discrete Application Management Services Vendors

Table 2 lists the top 10 U.S. AM services vendors by 2009 discrete AM services revenue. AM revenue that companies collect as part of broader IS outsourcing or BPO contracts is not included in Table 2.

The data presented in Table 2 shows a more concentrated market in the United States, where the top 5 vendors controlled 48% of the market and the top 10 vendors controlled 65.6%. These statistics reflect a greater maturity in the U.S. AM market, where the large vendors have amassed greater market share. While most vendors experienced a marked slowdown in 2009, Cognizant stood out with 18.2% growth YoY.

TABLE 2

U.S. Discrete Application Management Services Revenue by
Top 10 Vendor, 2009 (\$M)

Rank	Vendor	Revenue	2008–2009 Growth (%)	2009 Share (%)
1	IBM	2,405.9	2.9	15.3
2	Accenture	2,022.8	-1.1	12.8
3	Cognizant	1,263.4	18.2	8.0
4	Tata Consultancy Services	1,052.4	7.6	6.7
5	Infosys	807.5	2.0	5.1
6	HP Enterprise Services	746.7	-8.7	4.7
7	CSC	610.5	4.7	3.9
8	Northrop Grumman	515.7	-1.8	3.3
9	Wipro	497.7	-8.0	3.2
10	Lockheed Martin	420.3	12.4	2.7
	Subtotal	10,342.8	2.8	65.6
	Other	5,433.0	3.9	34.4
	Total	15,775.8	3.2	100.0

Notes:

Growth values reflect revised IDC estimates of 2008 revenue and do not necessarily correspond to the rankings or revenue published in *Worldwide and U.S. Discrete Application Management Services 2008 Vendor Shares: IDC's Top 10 Vendors* (IDC #218356, May 2009).

All discrete application management services revenue represents IDC estimates.

Source: IDC, 2010

IDC's 2009 Top 10 Consolidated Application Management Services Providers

The top 10 worldwide AM providers, in the aggregate, attained estimated revenue of \$30.3 billion in 2009, reflecting combined (IDC estimated) discrete and bundled AM revenue. The discrete AM revenue for this vendor group is estimated at \$21 billion for CY09, or nearly 70% of the total, while the AMS revenue bundled within ISO engagements is estimated at \$9.3 billion. This represents a 4.3% upward shift in discrete AM in the top 10 ranking compared with 2008 estimates.

Table 3 presents the estimated global AMS revenue, with percentage allocations identifying the distribution in discrete versus bundled AMS revenue (with ISO) for the top 10 category. Revenue estimates in Table 3 exclude AMS integrated into business process engagements.

TABLE 3

Worldwide Consolidated Application Management Services Revenue by Top 10 Vendor, 2009

2009 Rank	Vendor	Revenue (\$M)	AM Bundled with ISO (%)	Discrete AM (%)
1	IBM	8,145.0	35.2	64.8
2	Accenture	5,295.8	4.7	95.3
3	HP Enterprise Services	4,632.7	57.0	43.0
4	CSC	2,720.9	62.2	37.8
5	Tata Consultancy Services (TCS)	1,965.3	15.2	84.8
6	Fujitsu Limited	1,695.6	45.3	54.7
7	Cognizant	1,665.1	3.9	96.1
8	Capgemini	1,469.6	19.3	80.7
9	Infosys	1,445.0	8.2	91.8
10	Atos Origin	1,264.7	21.3	78.7
	Top 10	30,299.7	30.5	69.5

Notes:

Total AMS revenue estimates include both discrete AM and bundled AM within ISO.

Bundled percentage specifically represents estimated AMS revenue bundled with ISO services. Estimated AM revenue embedded within BPO is excluded.

Source: IDC, 2010

FUTURE OUTLOOK

The analysis of 2009 AO service revenue provides some support to the premise that the AO trend is shifting toward discrete, more modular service contracts. Indications from this research are that service providers that were offering highly flexible embedded or discrete options continued to win opportunities on both fronts. In some cases, having this broad portfolio capability remains key to inviting customers in to reassess how to best manage their own outsourcing strategies.

2009 was also a year marked by major vendor consolidation across many industries (e.g., banking, financial services, insurance, oil and gas) where multinational corporations made decisions to rationalize their vendor selections and improve the economies of scale that can be achieved with fewer vendors and more concentrated workloads and budgets per vendor.

IDC expects that global service providers will continue to look for ways to adapt their application service portfolios to drive toward greater operational efficiencies in AMS as customers continue to pursue improved AMS cost structures that provide higher overall value. Many providers report tighter linkages, collaboration, and improved operating results by bringing together consulting, discrete project, and outsourcing teams to allow for more effective mining of opportunities across existing clients. While most providers are going to market with a vertical domain focus and expertise, AM is still primarily sold as a horizontal service that is most effectively and efficiently delivered with this organizational approach.

The relative importance of business intelligence tools, use of analytics to monitor business performance, and independent or integrated validation services continue to show traction within the broader portfolio of enterprise service requirements. IDC expects these components will provide increasing value to the AMS offerings as companies continue to look for improvements in quality of service or product delivery, leveraging these services as part of a larger risk-mitigation strategy or accelerated time-to-market approach.

Customers will continue to push for global integrated delivery models that scale with fluctuating demand. This will require highly automated and virtualized operational vendor frameworks. As the economy slowly recovers, clients are expected to increase their expansion requirements regionally and globally and will be looking to outsourcers to adapt existing footprints to future demand and coverage needs. There will be continued pressure to improve operational performance, with clients requesting application management services that integrate infrastructure management tightly with AM for consolidated performance metrics and improved end-user experiences.

New service delivery models are gradually gaining ground, with both traditional outsourcers, telecom, and online providers pushing their as-a-service solutions (e.g., SaaS, PaaS, BPaaS). These new commercial ventures are now running in parallel with outsourcer assets that offer traditional custom, packaged, and integrated application services. Enterprises are looking out at the continuum of services they require, integrating legacy assets with newer service delivery solutions (e.g., hosted AM, SaaS, and infrastructure as a service). IDC expects that enterprises will continue

to keep an eye on evolving a consolidated data and IT system architecture where costs are contained as system needs grow.

It is expected that companies will look for additional cost efficiencies they can gain through private, hybrid, or public cloud-based models. Some will turn to hosted infrastructure providers that are offering hybrid models, allowing customers to hold a set of dedicated assets with the ability to scale with a shared virtualized pool of assets based on fluctuating demand curves. IDC expects that once companies become comfortable at leveraging utility-based models for storage- and infrastructure-level needs, they will increasingly turn greater interest toward applying virtualization at the application level. They will be expanding on their use of new Web 2.0 application platforms where the fit is appropriate to the application objective, as well as adapting portions of their legacy portfolio to fit into more modular, adaptable enterprise architecture.

ESSENTIAL GUIDANCE

The application outsourcing landscape is expected to remain highly competitive as customers continue to look for ways to reduce costs while introducing greater value into their outsourcing portfolios. While the top 10 global outsourcers held 52% market share worldwide in 2009, there are a number of smaller AM providers that continue to build presence in the Americas, EMEA, and APAC regions. Companies like Syntel, CIBER, Sapien, CACI, Patni, BlueAlly, Sierra Atlantic, UST Global, Softek, iGATE, MindTree, and others continue to grow, some focused on the upper midenterprise segment rather than the very large G50 or G500 corporations.

Even with the proliferation of cloud models, enterprises are still expected to continue to adopt AO as a means to drive increased cost efficiencies into their operations. With renewed growth still expected in this market segment, it is critical that the maturity, flexibility, and depth of service provider portfolios keep pace.

- ☒ **Outsourcing value proposition.** Outsourcers in the AO market need to continue to refine their value propositions, which should resonate with lower-cost, high-quality, proactive application management solutions that extend up the infrastructure and application stack. Elements of transformation and integration, speed and reliability of automation, and global scalability and security will remain important factors influencing this space. Ability to support vertical regulatory compliance requirements (e.g., SOX, Basel II, IFRS, HIPAA) will be key.
- ☒ **Expansion of application service capabilities.** Outsourcers will need to continue to optimize their traditional AM service portfolio. This will require the increased use of virtualization at the application layer, supporting advanced modular redesign for legacy and newer code development. Composite application life-cycle support is expected to take on a greater role as application integration and proactive AM services are needed in support of these newer development models.
- ☒ **Transparency into application portfolio performance.** Customers are looking to gain greater visibility and insight into how their outsourcing strategies are benefiting their internal constituencies. Providing dashboards with relevant KPIs that move customers beyond basic tracking of application and database availability is an

important element to consider. While less mature clients may be highly focused on AMS cost-reduction targets, CXOs want to understand impact to business, with options to link application management SLAs to specific business outcomes. While most SLAs are still productivity based, the ability to understand how a specific cluster of applications supports particular business processes can help an organization identify weaknesses in operations and work toward improvement strategies.

Synopsis

This IDC study presents both a discrete and an embedded AMS assessment for how the top 10 global AO service providers performed in 2009. While there was a significant decline in 2009 growth across most vendors compared with historical rates, this service line was still highly attractive to customers that were looking for ways to optimize and reduce operational costs through the volatile economic downturn.

"Discrete AM service revenue reached an estimated \$40.6 billion in 2009, with the top 10 providers holding a 52% market share worldwide," said Rona Shuchat, director of Application Outsourcing Services at IDC. "AO third-party services remain highly critical to enterprise customers as focus on increased operational efficiencies and cost containment continues through 2010."

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