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Press Release

Gartner Says Service-Led Solutions Will Displace Traditional Sourcing Approaches Through 2015

IT Service Providers Must Bridge Legacy Offerings and New Services
Gartner Analysts to Discuss the Future of IT Services at the Gartner Outsourcing & Strategic Partnerships Summit 2013, 9-10 September, in London

STAMFORD, Conn., 19 March, 2013 — The drive of organisations toward increased standardisation of infrastructure, applications and business processes, combined with expanding and more comprehensive provider ecosystems, shows that service-led solutions will displace traditional sourcing approaches through 2015, according to Gartner, Inc. To remain relevant, IT service providers must bridge legacy offerings and new services based on new technologies, new delivery models and new architectures.

"The IT services market plays a key role in bridging legacy offerings and new cloud delivery paradigms. IT services providers able to adapt to change, improve competitiveness and identify growth opportunities will thrive," said Eric Rocco, managing vice president at Gartner. "Growth opportunities certainly exist for service providers with life cycle solutions in relation to the Nexus of Forces (cloud, social, mobile and information). However, this requires IT services providers to adapt to significant changes, including the growing influence of business leaders in technology investment decisions."

Gartner predicts that the overall IT services market will grow 5.2 per cent in 2013 and continue strong growth through 2016. Growth will largely come from changes and opportunities brought on by the Nexus of Forces and newer delivery models, although not exclusively in the consulting and implementation segments.

Segments will not grow uniformly. Hardware support and software support are among the lower-growth opportunities in the IT services market while cloud-based Infrastructure as a Service (IaaS) and business process as a service (BPaaS) are growing strongly at 13.1 per cent and 47.3 per cent, respectively, in 2013. Agility, not cost, will be the primary reason that many organisations adopt cloud computing. Hybrid IT environments will dominate client IT architectures through 2016, underscoring the importance of skills in the old-world legacy environments as well as the new world "as a service" operating models.

"The big squeeze is on for early IT services providers to achieve sustainable value-based differentiation," said Mr Rocco. "This challenge is prominent in a time when economic uncertainty persists to the point of being essentially a certainty in its own right. Providers must be recognised by clients for delivering tangible business improvement to alleviate the cost reduction pressure, or they simply won't prosper or ultimately survive."

With this in mind, Gartner has identified three recommendations for IT service providers in 2013:

- **Stop undifferentiated bland marketing messages.** Cost reduction focus ignores opportunities to improve the business. Emphasise business value and modernisation/extension to transform clients'

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existing operations. Differentiate using value. Reinforce with references, and in doing so establish credibility and build trust to grow relationships with business buyers. Pricing models must also reflect the value being impacted. Providers must evolve unit-based pricing to outcome-based and value-based pricing.

- **Reinvent the service portfolio.** Restructure the portfolio of services delivered to heighten focus and impact. Asset-based and Internet Protocol-based service offerings are critical elements of future competitiveness. Assess, prioritise and invest in productising of existing IP assets. Modernise service delivery factories as fast as possible. Promote the value of process enhancement technologies and services (PETS) to your business process outsourcing (BPO) clients.

- **Determine if your business model is based on scale or specialisation.** Services themselves will continue to commoditise. Not all providers need to be business transformation enablers, but only providers focused on operational efficiencies driven by scale and cost discipline should bother committing longer term to services that are clearly more mature and rapidly commoditising, such as segments of the infrastructure outsourcing marketplace. Gartner research suggests it will be increasingly difficult for scale-based business models and highly specialised, higher-margin business models to successfully coexist within the same provider.

"Thriving, let alone surviving, in these conditions is equally challenging for established market share leaders, as it is disruptive for new entrants," said Mr Rocco. "Specialised skills, global delivery, verticalised service portfolios and satisfied customer references have formed the foundation of success for IT services providers in a competitive market. Nevertheless, these critical success factors are growing more complex and demanding. The strategic decision to build future value through scale or through specialisation is now the paramount determination that faces all IT service providers."

More detailed analysis is available in the report "The Gartner Scenario for IT Services Providers: The Future of IT Services." The report is available on Gartner's web site at http://www.gartner.com/resId=2355415.

More information on IT services and outsourcing trends and strategies will be provided at the Gartner Outsourcing & Strategic Partnerships Summit 2013, 9-10 September in London, UK, and 23-25 September in Orlando, Florida. Details on the London Summit can be found at www.gartner.com/eu/outsourcing. Members of the media can register for this event by contacting laurence.goasduff@gartner.com. Details on the US Summit can be found at www.gartner.com/us/outsourcing. Members of the media can register for a press pass by contacting janessa.rivera@gartner.com.

Information from the Gartner Outsourcing & Strategic Partnerships Summits 2013 will be shared on Twitter at http://twitter.com/Gartner_inc using #GartnerOUT.

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