

## Predicts 2009: Recession-Accelerated Shifts in IT Services

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Recessions have the powerful effect of accelerating shifts in the market. The need to lower cost, increase efficiency and conserve cash has increased the motivation of companies to turn to outsourcing and increased the appeal of alternative delivery models. The disruptive shifts in new demand and supply patterns will drive changes for how IT services are bought and from whom. Gartner's Strategic Planning Assumptions for the IT services market will help buyers and sellers plan their strategies.

### Key Findings

- Driven by a business crisis, a number of outsourcing decisions will be made in haste and be too simplistic and sudden to deliver real business advantage.
- As Indian providers seek new revenue growth opportunities, the potential for acquiring an indigenous European service provider versus organic growth presents a favorable option in terms of speed, access to an existing client base, local country presence, and optimizing complementary strengths.
- The acceptance of new delivery models that allow organizations to access services based on a per-user per-month or per-unit per-month basis will force all types of service providers, including traditional outsourcers, to move toward the new pricing model.
- Of the countries of Brazil, Russia, India and China (BRIC), China — with its large, developing domestic markets, combined with plentiful, low cost resources — will be the leading India-alternative offshore location for highly scalable resources, followed by Brazil, which has a stable geopolitical environment that is "friendly" to foreign direct investment. Russia, being viewed as offering only niche capabilities, will fall behind.
- Software and IT services business models are converging with software companies, incorporating IT services and software as a service (SaaS), while IT services providers are architecting and selling asset-based offerings that do not rely solely on leveraging labor as the underlying ingredient for revenue and profit margins.

### Recommendations

- Organizations should start their sourcing endeavor by building a solid sourcing strategy that focuses on creating short- and long-term value. This strategy should be aligned with the organization's sourcing management maturity and include business value scenarios, open options and a road map of value creation with a timeline of expected results.

- Indian providers aiming at acquiring a European service provider with a leadership position in the region will need to act swiftly but with resolve. They must, however, also act prudently to fill critical skills gaps and not "overpay," despite the likelihood of competition with other providers also pursuing acquisitions.
- Service providers must accelerate the development of industrialized IT services offerings, while carefully managing the mix of traditional services and alternative delivery approaches in their captive client base and with new prospects.
- Sourcing executives must take a long-term view of the developing global presence of countries that can provide high-quality resources at the right price point. If your geographic presence is diverse, seek providers that are not exclusively focused on Indian resources, so that you can mitigate risks (such as geopolitical instability) and also take advantage of the benefits of alternative countries, which may offer opportunities close to your own growth markets.
- Buyers should actively monitor the market to determine the best combination of software and IT services and service provider options to meet their requirements and specify their appetite for risk.

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## STRATEGIC PLANNING ASSUMPTIONS

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Through 2012, inflexibility caused by an excessive cost reduction focus results in business disruption in 30% of outsourcing deals, including the inability of the buyer to compete effectively.

By 2011, a Tier 1 Indian service provider will buy a Europe-headquartered IT services provider with a top 20 market share in Europe.

Based on the proliferation of advertising "IT as a service" as a pricing model, business buyers will force traditional providers to switch to per-user/unit per-month (PUPM) pricing models by 2012.

By 2012, of the BRIC countries, China will be the leading India-alternative offshore location for highly scalable resources, followed by Brazil, while Russia, being viewed as offering only niche capabilities, will fall behind.

By 2013, the convergence of software and IT services business models will lead to a 30% decline in the number of vendors in their respective markets.

## ANALYSIS

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### 1.0 Background

Powerful forces are driving change in the IT services market, including:

- The current tough economic condition is driving many companies to look to outsourcing as primarily a cost-cutting initiative.
- The current economic condition spares no vendor. Even the growth of the once high-flying Indian providers has moderated considerably, driving many to further their efforts and focus to expand in the European market.
- Cloud computing and SaaS paradigms are driving changes in how computing resources can be accessed and paid for.
- To meet the needs of multinational corporations, many providers are now investing in delivery centers in countries around the world beyond India — although it remains the leading offshore services destination.
- The boundary between software and IT services business models are blurring, leading to each encroaching on the other's space.

The following Strategic Planning Assumptions emerge from the interaction of those fundamental forces with today's supply-and-demand dynamics.

### 2.0 Strategic Planning Assumptions

**Through 2012, inflexibility caused by an excessive cost reduction focus results in business disruption in 30% of outsourcing deals, including the inability of the buyer to compete effectively.**

**Analysis By:** Claudio Da Rold and Frank Ridder

**Key Findings:** Outsourcing is anti-cyclical in nature, applied in good times and even more in bad times. Therefore, it is not a surprise that in the current difficult economic landscape, outsourcers' pipelines appear full of opportunities. This creates old problems and new opportunities.

Even during stable economic times, outsourcing has some specific drawbacks. It often delivers moderate (for example, 10% to 20%) cost reduction in exchange for moderate levels of satisfaction (typically 5 on a scale of 1 to 7, in which 7 represents the highest level of satisfaction), low levels of flexibility (4.8 — the lowest satisfaction score on Gartner outsourcing surveys), while causing high levels of lengthy renegotiation (more than 60% of deals are partially renegotiated in the course of their term). For more information, refer to the User Survey Analysis documents listed in the Related Research section.

The severity of outsourcing problems (for example, ineffective relationships, renegotiation and legal actions) used to fluctuate and reached a peak just a couple of years after the beginning of a bad economic period. The last bad period started in late 2001 (recession, 9/11, war on terrorism) and created a peak of negative outsourcing results from 2003 through 2005, which led to organizations' willingness to renegotiate (rise of 17 points to 69% in 2004) and a willingness to change provider (rise of 13 points to 49% in 2005) in multiple surveys over several years in Europe (number of respondents ranged between 100 and 300 per year). For more information, refer to the User Survey Analysis documents listed in the Related Research section.

In tough economic situations, such as the current recession, financial and market crisis, organizations often outsource, focusing on cost reduction only. Driven by a business crisis, a number of outsourcing decisions will be made in haste and be too narrowly focused on cost to deliver real business advantage over the long term. Instead, these hastily signed, cost-focused outsourcing deals will likely provide downstream problems in performance for both clients and providers.

**Market Implications:** Traditional outsourcing is not a quick fix and typically requires three to nine months of negotiation and six to 18 months of transitioning before actually realizing the objectives for both parties. In fact, an outsourcing deal can't be considered "successful" if the value delivered is one-sided.

Focusing outsourcing transactions on cost cutting only leads to a highly tactical relationship between the organization and the service providers. The client structures the contract, describing the current state of operations and services in which the client expects to reduce costs. In these cases, suppliers concentrate on meeting the agreed specifications in the contract and focus on contractually protecting their initial investments (and future margins). The contract quickly becomes a reciprocal trap that will inhibit change and flexibility.

Because we live in a dynamic and competitive world, we know that 12 to 36 months is a medium- to long-term planning cycle. During this time, contract renegotiations often occur because business changes arise and must be managed "earlier rather than later." Measuring the results of new initiatives against the original goals set forth in the outsourcing contract becomes harder with every change. There are not many cost-focused deals that can summarize the results against the original objectives after the deal terminates. Instead, many organizations bear the burden of a what becomes a "bad" outsourcing relationship with unrealized expectation, unsatisfactory service, and long and tough renegotiations (additional three to six months to get changes in place).

Organizations that focus on outsourcing's ability to create dynamic change may gain a competitive advantage during a downturn, but this requires more commitment (in terms of strategy and sourcing maturity) than just "point tactical outsourcing decisions." Setting up a strategic sourcing relationship, for change or support of transformation, may continuously drive business outcomes if the measures of the sourcing transaction are aligned with the business success measures. This approach will put organizations that focus on more than cost cutting alone in a better position, but most organizations won't apply this strategy because of lack of maturity or time, or even business urgency.

Up to 30% of the outsourcing deals signed in 2009 and 2010 will be far too focused on providing a quick fix for financial problems, creating additional problems that will hinder agility and business competitiveness.

### **Recommendations:**

Organizations should start their sourcing endeavor by building a solid sourcing strategy that focuses on creating short-, medium- and long-term value. This strategy should align with the organization's sourcing management maturity and include business value scenarios, open options and a road map of objectives and a timeline of expected results.

Organizations should work across the business units, IT and service providers to build an outcome-focused sourcing environment. This will help to avoid big-bang, financially focused outsourcing approaches. These approaches unavoidably lead to long-term deals that are unable to protect the return on providers' losses at the beginning of the deal (see "Don't Outsource Just to Save Money").

Businesses follow market dynamics. Therefore, they have to build dynamic sourcing environments. Full transparency and understanding between the involved parties helps to develop a flexible, proactive approach, trust and strong relationships that can balance the need for innovation with the need to cut costs.

Organizations that are not in a position to execute on the previous recommendations should at the very least increase their awareness of industrialized IT services offerings as they try to reduce their IT operating cost (see "Three Golden Rules of Cost and Risk Reduction in Outsourcing").

Service providers are already more selective when evaluating outsourcing prospects, but they must become highly vigilant in terms of financial exposure and overall risk. It is also essential that they accelerate the development and deployment of their industrialized IT services approach to maximize business growth, speed to market and their overall return in this economic downturn.

### **Related Research:**

"Renegotiate Outsourcing Contracts Early to Cut Costs"

"Six Ways to Build Flexibility Into Outsourcing Contracts"

"Use a Flexibility Framework for Agile Outsourcing Contracts"

"Best-Practice Process for Creating an IT Services Sourcing Strategy"

"Q&A on IT Services Industrialization"

"Alternative Delivery and Acquisition Models, 2008: What's Hot, What's Not"

"Case Study: Areva Gains IT Flexibility Through an Infrastructure Utility"

"Keiper: Adopting an Infrastructure Utility for Flexibility and Efficiency"

"ABB and IBM Demonstrate A Brave Outsourcing Relationship"

"Don't Outsource Just to Save Money"

"San Diego County Resolves Outsourcing Conflicts"

"User Survey Analysis: IT Outsourcing Becomes Mainstream in Western Europe"

"User Survey Analysis: IT Outsourcing, Asia/Pacific"

"User Survey Analysis: IT Outsourcing in Europe, the Evolution Is Ongoing"

"Dealing With Dissatisfaction in Application Outsourcing"

"User Survey Analysis: Strategies for IT Outsourcing, North America, 2005"

**By 2011, a Tier 1 Indian service provider will buy a Europe-headquartered IT services provider with a top 20 market share in Europe.**

**Analysis By:** Gianluca Tramacere

**Key Findings:** In the last decade, Indian service providers and traditional service providers have been competing in the market while focusing on filling their respective delivery gaps.

A critical objective for Indian providers has been to create the relevant front-end capabilities (beyond the sales and marketing roles), such as business solution experts, project managers and customer relationship managers, which are needed to support long-term growth in many geographies. They have achieved reasonable success in the United States, but in some cases, they still lack the relevant competencies necessary to be successful in European countries beyond the United Kingdom, where a much more diverse and varied country-level market exists. While on one side, the market has recognized the experience of major Indian players in underpinning globally delivered services with the necessary processes and methodologies, on the other side, Indian providers have achieved limited success in promoting their offshore model to European clients who weren't ready to move to "offshore services." Recently, these clients' willingness to adopt offshore services and the evolution toward a truly global delivery approach have increased even further the need for Indian providers to address European client demands for "nearshore" delivery, from locations such as Eastern Europe, to offer a more blended, multicountry delivery strategy.

Traditional providers have relied on long-standing relationships with many European key accounts. These relationships were often supported by strong country-level relationships and front-end capabilities, in which key skills, such as IT and business consulting, vertical or technical expertise, solution design and project managers, played a crucial role in reinforcing the level of customer intimacy.

However, in the last decade, customers increasingly looked at key objectives, such as cost optimization, scalability of resources and fast time to market, which exposed a "hole" in their delivery and forced the great majority of traditional service providers to redesign and reinforce the back-end delivery engine, especially in terms of lower-cost nearshore and offshore capabilities. As a consequence, they also had to focus on deploying and harmonizing the relevant processes, methodologies and tools that will allow them to integrate an efficient end-to-end service delivery.

**Market Implications:** As Indian providers seek new revenue growth opportunities, the potential for acquiring an indigenous European service provider versus organic growth presents a favorable option in terms of speed, access to an existing client base, local country presence, and optimizing complementary strengths. Specifically, the current persistent and tough economic scenario has driven many Indian providers to reconsider their reliance on and growth potential in the U.S. market. As a consequence, they are increasing even further their efforts and focus to expand in the European market. Although the economic downturn is also impacting Europe, a smaller presence in many key European markets offers to many leading Indian service providers the potential for achieving higher growth rates in this region through organic and inorganic strategies.

In fact, in terms of inorganic growth, acquiring a European IT services provider (or a portion of one) would allow them to:

- Reinforce their European presence and their brand in Europe
- Gain an existing client base and form relationships
- Acquire the much-needed front-end capabilities
- Enrich and diversify in terms of global delivery capabilities by acquiring nearshore capabilities located in regions such as Eastern Europe.

Two or three years ago, it would have been risky for a leading Indian player to acquire a European provider at a time when Indian providers were in the midst of their global delivery evolution and European providers were burdened with inefficiencies. Now, leading European service providers are at different stages of restructuring, reorganization and resource rebalancing.

As a consequence, the next two years are very promising for an acquisition in Europe. As such, the 2009 through 2011 time frame will be advantageous for acquisitions because the majority of European providers will have finished their program of restructuring by then. This situation represents an ideal opportunity for leading Indian providers (that remain cash-rich) to make an important acquisition of a service provider with a strong European heritage and presence.

While an early acquisition could have hit the profitability and/or bottom line of Indian players because of European providers' existing inefficiencies, the great majority of these providers' restructurings should be finished by 2011.

#### **Recommendations:**

Indian providers aiming to acquire a European service provider with a top 20 market share in the region will need to act swiftly but with resolve. They must, however, also act prudently to fill critical skills and country coverage gaps and not overpay, despite the likelihood of competition with other providers also pursuing acquisitions.

Current customers of existing European service providers should proactively require them to openly provide information concerning their financial stability, restructuring process and future growth and investment strategies by service line and geography. If possible, in current deals or moving forward in new deals, customers should introduce contractual provisions for a smooth exit strategy in the event of an acquisition.

#### **Related Research:**

"Offshore Providers Stealthily Gain Traction in Europe"

"Magic Quadrant for European Offshore Application Services"

"What Buyers Need to Know About the Changing Global Outsourcing Competitive Landscape"

"Dataquest Insight: IT Outsourcing Service Providers Must Develop Three 'New' Core Competencies"

**Based on the proliferation of advertising "IT as a service" as a pricing model, business buyers will force traditional providers to switch to per-user/unit per-month (PUPM) pricing models by 2012.**

**Analysis By:** Claudio Da Rold

**Key Findings:** In the last decade, marketing and delivery innovations, such as IT utility, on demand and pay per use, have enabled traditional service providers to experiment and work around the industrialization of IT services. This approach, however, has been with a combination of fear of commoditization and desire to be perceived as IT services innovators.

More money has been spent on marketing (on demand, for example) and investment in laboratory research than on actual service delivery. Most of the IT industry has been focused on protecting legacy margins against the rise of alternative delivery and acquisition models (ADAMs). The ADAM includes SaaS, infrastructure utilities, cloud computing, business process utilities and remote infrastructure management.

2007 clearly signaled the point of no return for the transformation toward industrialized, one-to-many, outcome-oriented IT services that Gartner had forecast for the second part of this decade. Investments of billions of dollars have been tracked over the past three years and will increase in the next three years. Additionally, companies such as Microsoft, Google and Amazon invested more than \$5 billion on cloud computing in 2008.

Cloud computing, in fact, represents the most-hyped aspect of this evolution toward IT as a service. While not all these investments will pay off (see "Predicts 2009: Cloud Computing Beckons"), we maintain that an entire set of new delivery models will be deployed in the next three to seven years. This will significantly affect the IT market and deliver new categories of industrialized services that client organizations will access on a per-user per-month or per-unit per-month basis.

This situation will accelerate the shift of client interest from direct investments on IT "means of production" into paying for "what you really get out of IT." In the tough economy and market conditions expected for the coming year, the major players in this evolution will be the clients' chief corporate officers, asking for more of these simple IT PUPM services (and providers, wanting to be trendy and easy to do business with). This cost emphasis will finally promote the shift in client organizations from the demand for custom solutions to the acceptance of one-to-many solutions.

This relatively simple shift and the apparent simplicity of the pay-per-use approach will force all types of service providers, including traditional outsourcers, to move toward the new pricing model, at least as an alternative to a more traditional pricing scheme.

**Market Implications:** Moving between pricing models, such as time and materials, fixed price, and shared risk/rewards, may appear to be a financial issue only. However, the reality of pay per use (or any type of utility pricing) requires an industrialized approach to service and the redesign of it for a one-to-many delivery model, which requires vendors and providers to make the right investment decisions on new offerings and delivery models.

As more new services based on ADAMs are created and delivered to the market on a PUPM basis, an increasing number of client organizations will adopt these new IT value propositions that shift risk and fixed costs to the providers, thus saving time and money by aligning to providers' industrialized services (refer to the Case Studies documents in the Related Research section).

#### **Recommendations:**

Client organizations willing to reduce their fixed IT costs and increase their business flexibility must:

- Increase their awareness about service offerings based on alternative delivery models and especially infrastructure utility, SaaS, cloud computing, remote management services and business process utility.
- Test/pilot services based on these new services and on PUPM pricing.

Service providers must accelerate the development of industrialized IT services approaches, while carefully managing the mix of traditional services and alternative delivery approaches in their captive client base and with new prospects.

## Related Research:

"Q&A on IT Services Industrialization"

"Vendor Survey Analysis: Investments in Alternative Delivery Models, Part 2, Global, 2008"

"Alternative Delivery and Acquisition Models, 2008: What's Hot, What's Not"

"IT Infrastructure Utility Services Reach 5% of Data Center Outsourcing Revenue"

"Oxea Shows How Infrastructure Utility Can Deliver Speed and Efficiency"

"Case Study: How IT Utilities Support Rio Tinto's IT Dynamics and Company Moves"

"Case Study: Japan Post Improves Customer Service Effectiveness With SaaS and APaaS"

**By 2012, of the BRIC countries, China will be the leading India-alternative offshore location for highly scalable resources, followed by Brazil, while Russia, being viewed as offering only niche capabilities, will fall behind.**

**Analysis By:** Ian Marriott

**Key Findings:** For several years now multinational service providers, Indian service providers and "captive centers" of user organizations have increased their India-based resources dramatically. In several cases, very large U.S.-based service providers have their second-largest resources pool in India. The result is that India has become the world's "de facto" premier offshore location.

To meet the needs of multinational corporations, many providers are now investing in delivery centers beyond India, in alternative countries around the world, with a particular interest in other scalable locations, such as in BRIC. While not intended to replace India, these centers provide a valuable addition to providers' delivery capabilities. These alternative locations are set up to deliver the right volume of resources, with the right skills, at the right place (and time zone) and at the right price point to meet the needs of their customers; they are also valuable in assisting risk mitigation by limiting exposure to a single location. By 2012, many providers will have established significant investments, as well as critical mass, in China to meet these needs. The emergence of China as an economic "powerhouse" has led many enterprises to look toward that market as a growth opportunity for its own products and services. Combined with the emergence of local service providers and the presence of large overseas providers, China leads the way in closing the gap on India's offshore services dominance.

**Market Implications:** Accessing an Indian "delivery hub" has helped organizations meet some of their need for cost benefits, advanced technical skills, speed in deploying their services, efficiency from their operations, effectiveness in delivering productivity gains, and innovative approaches to meet the changing demands of their business. However, enterprise investments in large, developing domestic markets — combined with plentiful, low-cost resources (such as China) and a stable geopolitical environment that is friendly to foreign direct investment (such as Brazil) — is raising the profile of these countries. Russia has clearly demonstrated strong technology skills in recent years, particularly in the area of application services and R&D. Unfortunately, ongoing geopolitical tensions involving Russia continues to undermine the efforts of some very capable service providers in the country. This, combined with the rising costs in the major business centers of Moscow and St. Petersburg, is set to limit Russia's ability to keep pace with China's and Brazil's efforts to close the gap on India's dominance in offshore service delivery.

## Recommendations:

Sourcing executives must take a long-term view of the developing global presence of countries that can provide high-quality resources at the right price point; short-term cost reduction objectives alone are not sufficient.

If your geographic presence is diverse, seek providers that are not exclusively focused on Indian resources, so that you can mitigate risks (such as geopolitical instability) and also take advantage of the benefits of alternative countries, which may offer opportunities close to your own growth markets. Service providers are already investing in multiple countries, but they still rely heavily on India as the foundation of their global delivery models. Increasing investment by providers in China and Brazil will lead to further opportunities for buyers.

#### **Related Research:**

"Analysis of Brazil as an Offshore Services Location"

"Analysis of China as an Offshore Services Location"

"Analysis of India as an Offshore Services Location"

"Analysis of Russia as an Offshore Services Location"

"Gartner's 30 Leading Locations for Offshore Services"

**By 2013, the convergence of software and IT services business models will lead to a 30% decline in the number of vendors in their respective markets.**

**Analysis By:** Frances Karamouzis

**Key Findings:** Gartner believes that software and IT services business models are converging. Software companies are actively incorporating IT services into their overall portfolios, while new SaaS vendors continue emerging and maturing. Concurrently, IT services providers are increasingly being driven to architect and sell asset-based offerings that do not rely solely on leveraging labor as the underlying ingredient for revenue and profit margins.

**Market Implications:** Software business models are under extreme pressure (that is, pricing models do not align with usage; shelfware [unutilized functionality] fatigue is pervasive; open source equates to free software; emergence of alternative business models, such as SaaS; and burgeoning buyer demand at lower price points from emerging locations, such as China and other countries). All of these market forces are leading to an inevitable change. The confluence of all of these trends are combining to create a growing realization among some software vendors that long-term survival will require a different approach — namely, adding some type of service(s) to their product portfolio or delivery model.

On the IT services side of the equation, here again, a significant number of market forces are creating incredible pressure on the core business model. One of the most visible issues is the need to break the direct linear relationship of capturing the next dollar of revenue to the need for increased billable labor hours. These issues give rise to the imperative for IT services companies to create asset-based solutions (consisting primarily of intellectual property). Asset-based solutions have much-higher profit margins.

The convergence of software and IT services will cause an overlap between target markets of an increasing number of vendors. This overlap will lead to the disintermediation of a vast number of vendors, which will lead to their demise. Gartner predicts that this convergence will lead to a 30% decline in the number of vendors in their respective markets.

#### **Recommendations:**

Clients should actively monitor the market to determine the best combination of software and IT services for their requirements and their appetite for risk. Clients should also ensure a significant level of due diligence.

Clients seeking competitive advantage in specific areas should consider first-mover opportunities as the vendors seek to develop and grow their offerings.

#### **Related Research:**

"Market Trends: Software as a Service, Worldwide, 2007-2012"

"Alternative Delivery Models Pose Threats and Create Opportunities for Consulting and Solution Implementation Firms"

### **3.0 A Look Back**

In response to your requests, this year we are taking a look back at a few key predictions from previous years. We have intentionally selected predictions from opposite ends of the scale — one where we were wholly or largely on target — as well as one we missed.

#### **On Target: 2006 Prediction**

**By 2009, technical support services for open-source software (OSS) applications will reach a point of maturity comparable to proprietary applications.**

**Analysis By:** Bob Igou

Gartner regularly surveys IT organizations about the use of professional and product support services. Very consistently during the last two surveys (most recently in November 2008), approximately 40% of respondents indicated they were currently using specific IT services from external service providers (ESPs). When asked about plans for the next budget year, 74% of respondents identified plans to use specific services from ESPs in the next budget year. Respondents in the November 2008 survey estimated 42% of the OSS-related service budget for next year to be used for technical support and maintenance services.

Another Gartner survey about IT services needed for mission-critical systems found that two-thirds of all respondents are using OSS in mission-critical situations. The results of the survey were published in April 2008 and included 304 users (for more information, see "User Survey Analysis: OSS Impacting Proprietary Software in Mission-Critical Support Services, North America, 2007"). Software categories represent full-function applications, such as CRM, database management system or ERP, which are being used as alternatives to, or replacements for, proprietary software.

Collectively, these trends indicate that the OSS portfolio and demand for related IT services have matured to look like the characteristics we would expect for a proprietary software portfolio.

#### **Recommendations:**

- IT organizations must begin quantifying their expenditure with ESPs for both open-source and proprietary software categories so they can budget appropriately in future years as their use of OSS becomes mainstream in their own organizations.
- IT organizations must expand their governance policies to include OSS, and they will need to review and consider open-source support providers not previously used.

#### **Recommended Reading:**

"Hype Cycle for Open-Source Software, 2008"

"Survey Finds Growing Use of Open-Source Software for Mission-Critical Applications"

**Missed: 2006 Prediction**

**By 2009, 80% of CRM projects will have an offshore or nearshore component to deliver consulting and system integration services.**

**Analysis By:** Matthew Goldman and Susan Tan

At present, about 50% of CRM consulting and system integration involves an offshore or nearshore component to deliver the solution. After a rather rapid ascent from 11% in 2003 to 50% in 2007, the movement to leverage offshore delivery of CRM projects appears to have slowed. While still a notable percentage of projects use this delivery model, there are contributing factors to this slowing expansion:

- Twenty percent of CRM projects don't involve implementing or enhancing software; even though more service providers with offshore capabilities are positioning offshore centers for nonsoftware work, the majority of offshore work still centers on software and technology implementations.
- A pronounced shift toward business-led CRM work away from technology-led work has resulted in more and greater need for business/industry skilled resources, which are more commonly found outside of global delivery centers.

Combined, these two factors have limited the expansion or use of global delivery to serve CRM consulting and system integration projects. However, the value in offshore and nearshore services remains very real for those who know how to leverage the model. Moreover, the current economic environment is fueling more interest in offshore delivery for cost-saving reasons. While the impact on offshoring from the fallout of Satyam's recent accounting fraud scandal remains to be seen, it is reasonable to assume that the offshore and nearshore component will rise from the current 50%.

**Note**

Recently, Gartner conducted an independent survey of its clients. Your direct feedback is underpinning the activities we have under way to continually improve our research. This year's Predicts report is one example of those changes.

You told us to simplify the number of different terms we use. In the past, we used two different terms to identify our most important statements about the future. We have standardized on one term — Strategic Planning Assumption (SPA) — and we continue to use this nomenclature.

You told us that you value our research most when we are direct. Your confidence in our advice comes from the facts and assumptions we provide in supporting our positions. The numerical probabilities we used with SPAs outlived their usefulness last year, and we will no longer use numerical probabilities.

You told us that you wanted us to be open about tracking the accuracy of our predictions. In this report, as in last year's, we are taking a look back and highlighting where we were on target — and where we were not — and why.

This research is part of a set of related research pieces. See "Predicts 2009: Challenges and Opportunities Abound" for an overview.

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