Gartner

Press Release

Gartner Says Worldwide IT Services Market On Track to Grow 9.5 Per Cent in 2008

Market Expected to Top $1 Trillion by 2012

STAMFORD, Conn., July 24, 2008 — Despite the uncertain economic situation, the IT services market is expected to remain strong as worldwide IT services end-user spending is forecast to exceed $819 billion in 2008, up 9.5 per cent from 2007, according to Gartner, Inc. Analysts said results in the first half of 2008 have shown mixed results.

"In the first quarter of 2008, results for the top nine providers came in above expectations, and several market leaders have expressed optimism for the remainder of 2008. In addition, the continuing decline of the US dollar has, and will continue to contribute to market growth as expressed in US dollars," said Kathryn Hale, research vice-president for Gartner. "However, at the recent Gartner Outsourcing Summit in Washington D.C. in May of this year, some providers indicated that some outsourcing contract signings are being delayed and some projects are being placed on hold."

Core outsourcing (IT management and process management) remains the highest growth area in the market. In 2008, core outsourcing services are on track to represent 42 per cent of total worldwide IT services end-user spending. Buyers look to process management — core business process outsourcing (BPO) — as a remedy for cost control for short-term impact, and the increase in availability of global delivery capabilities makes BPO an attractive cost option, bringing more companies to BPO that would have considered it in the past.

The consulting and development and integration (D&I) segments continue to exhibit steady growth (see Table 1). These segments are fueled by demands such as overall cost reduction, combined with demand for projects that can improve profitability or revenue growth. The worldwide consulting and D&I segments combined are forecast to reach $327 billion in 2008, up 10.1 per cent from $297 billion in 2007.

Table 1
Worldwide IT Services End-User Spending by Segment (Millions of Dollars)

Segment	2007	2008	2009
Consulting	64,656	71,002	75,500
D&I	232,452	256,045	272,356
IT Management	201,222	220,606	234,433
Process Management	110,694	121,353	132,250
Hardware Support	89,654	94,691	97,269
Software Support	49,346	55,409	60,636
Total Market		819,106	872,454

Source: Gartner (July 2008)

"Although we expect continued strong growth in IT services, there are two causes for concern," said Ms Hale. "First, the rate of innovation in providing new service offerings is sporadic, at best, and strong return-on-investment stories are hard to come by. At the same time, innovation in delivery is not growing as fast as hoped: Industrialisation is being adopted slowly. A second fundamental problem in IT services is the inability of providers to provide compelling value statements about the services they provide, whether in offerings or delivery."

"The result from this is a common buyer mentality that focuses on IT cost takeout and adopts a 'lowest cost wins' decision-making in its services and sourcing decisions," Ms Hale said. "This approach inhibits the needed innovation for IT to 'make a difference' and add value and also restricts the level of innovation

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that providers are able to offer. Buyers that are unable to work closely with providers on innovation in all its various forms are inhibiting the growth of this critical sector in IT."

In the Europe Middle East and Africa (EMEA) region, the slowing economy has not yet had a decreasing impact on the IT services market. In EMEA, the IT services end-user spending is forecast to reach €211 billion in 2008, up 5.3 per cent from 2007.

Table 2
EMEA IT Services End-User Spending by Segment (Millions of Euros)

Segment	2007	2008	2009
Consulting	19,225	20,162	21,058
D&I	63,232	67,533	71,514
IT Management	60,403	63,283	66,349
Process Management	16,426	17,557	19,194
Hardware Support	26,698	27,012	27,454
Software Support	14,162	15,223	16,511
Total Market	**200,145**	**210,769**	**222,079**

Source: Gartner (July 2008)

Emerging markets in both Eastern Europe and the Middle East are showing strong growth in 2008, 11.6 and 11.4 per cent respectively with key investments being made in technology, which is in turn driving spending in IT Services. These projects tend to be small in size and discrete in nature with very little outsourcing happening in either region at present except if they are part of larger pan region contracts.

BPO growth will remain strong in EMEA. The demand comes from back office processes such as finance and accounting and print services as companies look to reduce the cost of back office processes and take advantage of a possible recession to rationalise activities. In the long term, alternative delivery models will become more widespread; on one side they will offer more value for money, hence reduce the market growth; on the other, they will make outsourcing accessible to a wider set of organisations.

To conclude, principal research analyst Robert De Souza said: "There will be further consolidation in the EMEA market place. Vendors that have not introduced industrialisation, standardisation of processes and global delivery will likely become acquisition targets or look to better economies of scale through mergers."

Additional information is available in the report "Forecast: IT Services, Worldwide, 2008–2012." This report examines the state of the worldwide IT services market, looks at what trends are developing and provides a full forecast for the market. The report is available on Gartner's Web site at http://www.gartner.com/DisplayDocument?ref=g_search&id=713907&subref=simplesearch. Gartner analysts also examine the economic impact on the IT Services market in the report "Q&A: Economic Impact on IT Services, Midyear 2008 Update." The report is available on Gartner's Web site at http://www.gartner.com/DisplayDocument?ref=g_search&id=713411&subref=simplesearch.

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