



Gartner Dataquest Says IT Outsourcing Industry to Advance With Increased Demand in Offshore Outsourcing

Megadeal Signings Still Prevalent in the Outsourcing Industry

SAN JOSE, Calif., January 30, 2003 — As the IT services industry works through a difficult year, the IT outsourcing industry will look to applications services to drive growth in 2003, according to Dataquest Inc., a unit of Gartner, Inc. (NYSE: IT and ITB).

A November 2002 survey among 36 outsourcing vendors showed that offshore application management was ranked as the highest growth service opportunity for vendors in 2003, followed by nearshore application management. With the focus on lowest costs, there is a growing adoption of offshore outsourcing, primarily for applications, but also emerging in BPO and IT infrastructure management.

Offshore outsourcing accelerated during the past year, and it will continue in the next two years as a means to offer alternative lower-cost labor. Gartner Dataquest analysts said services vendors will look for more partnering opportunities with offshore companies, as well as acquisitions.

"Already some of the larger services companies have responded to offshore players in the area of applications support by acquiring or setting up their own offshore delivery capabilities through acquisition or significant alliances with lesser-known players," said Allie Young, chief analyst for Gartner Dataquest's IT Services program.

"As an alternative to Indian offshore, the near-shore outsourcing market, in particular the Canadian provider market, will be considered by global providers as a way to hedge their bets against political unrest and the potential calamity of a regional war in the Middle East," Young said.

While low-wage countries are attracting attention with application services, IT infrastructure outsourcing activity is hot on a grand scale around the world. As of year-end 2002, there were at least 14 megadeals worth a total of \$28.4 billion compared with nine megadeals in 2001 worth a total of \$15.1 billion. There are at least four pending megadeals, worth an estimated total of \$15.3 billion.

"Despite concerns that megadeals in outsourcing were drying up, 2002 saw an above-average number of contracts worth \$1 billion or more," said Bruce Caldwell principal analyst for Gartner Dataquest's IT Services program. "We've seen ample evidence that the 10-year deal is no longer the standard, and that multibillion dollar contracts, as well as consortia or alliances of vendors are increasingly common."

As of year-end 2002, IBM had won seven of the 14 megadeals awarded in 2002, and shared an eighth deal with Keane. CSC has won one and EDS won two deals, but both were in final discussions for several, separate megadeals. HP and Fujitsu landed their first megadeals, and CGI landed its third.

A review of the past 12 years of megadeals shows that EDS and CSC were clear early

leaders in this field, but IBM quickly surpassed them and now has a total of at least 32, nearly the same as EDS (21) and CSC (15) combined.

Additional information is available in the Gartner Dataquest Market Trends report [Cost, Caution and Consolidation Unsettle the Outsourcing Market](#). The report looks at the key market forces and trends shaping the IT outsourcing market today, and provides advice to outsourcers in this competitive market. This report can be purchased on Gartner's Web site.

Gartner will provide additional analysis on the outsourcing industry at Gartner Symposium/ITxpo 2003, to be held March 23-27 at the San Diego Convention Center in San Diego, California. Gartner Symposium/ITxpo is the IT industry's largest and most strategic conference, providing business leaders with a look today at the future of IT. For more details or to register for Gartner Symposium/ITxpo 2003, visit <http://symposium.gartner.com/section.php.id.2078.s.5.html> or call 1-800-778-1997. Members of the media can register for the event by contacting Maria DiMasi at 212-699-2734 or e-mailing GartnerEvents@middleberg.com.