

IDC: "Steady" Growth for Services in H2 2017

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According to IDC, global IT services and business service revenues total \$502 billion in H2 2017-- a 3.6% Y-o-Y increase. Services revenue for full year 2017 total "just shy" of \$1 trillion, a 4% increase over 2016.

Global Regional Services 2H17 Revenue and Year-Over-Year Growth (revenues in \$US billions)		
Global Region	2H17 Revenue	2H17/2H16 Growth
Americas	\$258.3	3.9%
Asia/Pacific	\$85.3	6.2%
EMEA	\$158.5	2.0%
Total	\$502.1	3.6%

Source: IDC Worldwide Semiannual Services Tracker 2H 2017

W. Europe is the 2nd largest global market, even if H2 2017 growth clocks at just 1% Y-o-Y. The emerging CEE and MEA markets are much healthier, showing 7% Y-o-Y growth, even if they remain relatively small. However the size allows a few large IT initiatives to drive up growth, and the fact organisations have fewer IT assets makes adoption of digital services "much easier."

The growth of services revenues slightly outpaces the global GDP growth rate, reflecting a brighter economic outlook, a shared urgency for large-scale digital transformation and, in some segments, new digital services offsetting the commoditisation of traditional services.

Project-oriented revenues outpace outsourcing and support & training with 4.6% Y-o-Y growth in H2 2017 (and 5% for full year 2017), the result of organisation freeing up pent-up discretionary spending from earlier years and bringing about digitisation through large scale projects. Most of the above-the-market growth comes from business consulting, whose revenue is up by almost 7.8% in H2 2017 and 8.2% for the entire year to \$115bn. High-touch business

consultants extract more value from large digital transformation projects than "mere" IT resources, and it comes to no surprise most major management consulting firms post strong earnings in 2017.

IT-related project services-- custom application development (CAD), IT consulting (ITC) and system integration (SI)-- make over 66% of the overall project-oriented market. The three markets show "significant" improvement over 2016, with 3.7% growth to \$251bn in full year 2017. IDC believes projects started ramping in 2017, helping drive spending in H2 2017. There was also a strong rebound in the software side, since IT project-related services are mainly application driven.

"As customers look to digital transformation initiatives to stay relevant in the new economy, vendors face both opportunities and challenges," the analyst remarks. "While automation and new cloud delivery models reduce overall price, new digital services will require clients to spend more time and resources to modernize their existing IT environment."

Outsourcing revenues are up by just 3.3% Y-o-Y to \$238m in H2 2017. Application-related managed services revenues (hosted and on-premise application management) outpace the general market with over 6% Y-o-Y growth in H2 2017 and 5.8% for the entire year. Buyers leverage automation and cloud delivery to "dramatically" reduce operation costs, but organisations are also increasingly relying on external service providers to supply talent with skills covering the cloud, analytics and machine learning. Digital transformation also demands the standardisation and modernising of existing application assets, and as such application outsourcing markets should continue outpacing other outsourcing markets in the near future.

On the infrastructure side hosting infrastructure service revenues are up by 4.9% Y-o-Y in H2 2017 thanks to the positive impact of cloud adoption. IT Outsourcing (ITO), a larger market, is down by -2%. Combined, the two markets are essentially flat. IDC believes the ITO market was affected by "cloud cannibalisation" across all regions, since cloud (particularly public cloud) reduces prices far more than demand can make up for. Thus the analyst estimates over 30% of ITO service revenue will be cloud related by 2021.

"As customers look to digital transformation initiatives to stay relevant in the new economy, vendors face both opportunities and challenges," IDC concludes. "While automation and new cloud delivery models reduce overall price, new digital services will require clients to spend more time and resources to modernise their existing IT environment."

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