It Outsourcing Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

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Report description:

The IT outsourcing market (hereafter referred to as the market studied) was valued at USD 526.6 billion in 2021, and it is expected to reach USD 682.3 billion by 2027, registering a CAGR of 4.13% during 2022-2027 (hereafter referred to as the forecast period).

Key Highlights
With digital transformation, organizations have become dependent on the success of creative applications and extensions that IT could provide. More certainly, IT has become a critical competitive edge for most organizations. Moreover, IT outsourcing has become more than a simple cost-reduction technique with the migrations and options of cloud services. Therefore, this new form is driven by organizational motivations regarding business growth, customer experience, and competitive disruption.
Multiple studies have suggested that Application Development and Maintenance have become the most frequently outsourced functions amidst the partial IT outsourcing trends. For instance, in 2021, Accenture PLC reported an increase in the revenue in its outsourcing business by 15% compared to fiscal 2020. The company also said that growth in outsourcing revenue was led by strong growth in North America and other markets, with solid growth in Europe.
Leading IT companies are experiencing growing demand to assist clients with application modernization and maintenance, cloud enablement, and managed security services. In addition, clients continue to be focused on transforming their operations through automation and AI, data, and analytics to drive operational cost savings and productivity.
Looking at application development, companies such as Slack, GitHub, Alibaba, and WhatsApp have successfully leveraged the benefits of outsourcing development. In its initial days, WhatsApp resorted to Eastern Europe for tech talent to keep operation costs low. It hired offshore developers from Russia for the software build and kept its in-house employees focused on customer support and operations.
Many established and technologically driven players are present across regions. The development of specializations has led to

market fragmentation with the vendors studied. With many options to choose from, the rivalry is also expected to be on the higher side as multiple strategies have been adopted to enter new emerging markets and acquire/partner with allied technology-driven companies.

The growing adoption of cloud services since the outbreak of COVID-19 is expected to create a favorable market scenario for the growth of the IT outsourcing market as enterprises using such services often outsource the maintenance and portion of development work to third parties.

IT Outsourcing Market Trends

Ongoing Migration Toward the Cloud and Adoption of Virtualized Infrastructure

Cloud migration and adoption software has led outsourcing customers to divert resources from low-value assets to specialized employees while focusing on more flexible, tailorable, and evolution-friendly solution.

Traditionally, IT outsourcing has been tangible, with servers, data centers, networks, specifications, person-hours, and lines of code deployed. With the rise of cloud-based services, more flexible, asset-free IT services are available on demand. On the other hand, cloud computing has also led to a fundamental shift in how companies pay for and access IT services.

Companies looking forward to outsourcing cloud services have regarded cost optimization as a significant aspect. Multi-cloud strategies, therefore, have been gaining momentum and allowing multiple providers to reduce concentration risk.

Similarly, according to Hashi Corp's State of the Cloud Strategy Survey, organizations invest significant resources in multi-cloud deployments. As per the survey, 76% of the respondents already use multi-cloud, 34% reported digital transformation as a top multi-cloud driver, and 47% mentioned that security is a top cloud inhibitor.

Furthermore, according to Flexera's State of the Cloud Report for 2021, 36% of enterprises responding to its survey said that their annual spending exceeded USD 12 million, and 83% reported that cloud spending exceeded USD 1.2 million. This was a significant increase over last year, wherein 20% of enterprises said an annual expenditure of more than USD 12 million, and 74% reported yearly spending of more than USD 1.2 million.

Asia-Pacific Accounts for the Largest Market Share

China has been one of the significant outsourcing destinations. The outsourcing industry weighs benefits that the majority of US companies find attractive. Reduced development costs play a crucial role in retaining the original uses of outsourcing. King White, CEO of Site Selection Group, a global location advisor, believes that China has the potential to become one of the lucrative outsourcing markets that are even more cost-competitive than India.

Over the past two decades, the IT industry in the country has witnessed impressive growth and has become a key industry in the country's overall economy. In the current 5-year plan, the government has significantly focused on making IT one of the seven strategic industries that will help the country move from a cheap-labor manufacturing outsourcing to a world-class, innovation-driven IT outsourcing.

India is one of the most mature global IT outsourcing destinations, with many options. The country has worked in this direction for over 25 years and has maintained its dominance among the top IT outsourcing destinations.

With the demand for skilled software developers rising, IT outsourcing companies out of the country rapidly expand their operations worldwide. The cost factor and talented skill pool have played a key role in assuring the country's dominance in the market. This has also led to India's average developer hourly rate hovering around USD 30.

Indonesia is yet another country in the Asia-Pacific region that is gaining ground and offering similar IT outsourcing services, especially software development services. Home-grown software development providers have been growing. This has assisted the

country in achieving a preference for being a nearshore/offshore software developer by opening up R&D centers.

Japan, as a country, has been facing severe talent shortage issues. The unemployment rate is steadily approaching 2%, highlighting the talent shortage. Thus, the government has been dependent on IT outsourcing and encouraging enterprises in the country to embrace diversity.

Over the past few years, Vietnam has emerged as a lucrative market for IT outsourcing in the global tech community. The country has slowly gained momentum as it moves from low-tech manufacturing to a service-oriented economy. Despite Vietnam's relatively short history of IT outsourcing (roughly 20 years), the country has risen to prominence in the sector, becoming the natural extension of global clients due to many inherent capabilities and transformations.

The IT outsourcing market has witnessed intense competition in the Asia-Pacific region, with India and China dominating the need for a long time. However, Malaysia has been steadily emerging as a lucrative market destination and is considered an emerging challenger across Southeast Asia.

Over the past few years, IT service companies in the country have witnessed substantial growth in the domestic market. However, the transition was limited due to the maturity of the domestic market. This has paved the way for IT outsourcing as South Korea's government considers this industry one of the growth engines in the country and other foreign markets.

IT Outsourcing Market Competitor Analysis

The IT outsourcing market is highly competitive owing to multiple vendors providing IT services to the domestic and international markets. To sustain in the market and retain their clients, companies are developing advanced technologies to play on the competitive edge, thereby intensifying the competitive rivalry in the market.

February 2022 - DXC Technology, an Oracle PartnerNetwork, signed a multi-year Managed Services agreement with the University of Newcastle to manage Oracle's PeopleSoft Campus Solutions application and infrastructure.

February 2022 - Infosys, a global leader in next-generation digital services and consulting, collaborated with Qualtrics, the leader and creator of the Experience Management (XM) category. Infosys has established a Qualtrics center of excellence to bring solutions on Qualtrics to the market. These solutions are a part of Infosys Cobalt cloud offerings and help clients improve their customer, employee, and supplier experiences.

January 2022 - Airbus, Nippon Telegraph and Telephone Corporation (NTT), NTT DOCOMO INC. (DOCOMO), and SKY Perfect JSAT Corporation (SKY Perfect JSAT) jointly began studying the feasibility of collaborating on future high-altitude platform stations (HAPS)-based connectivity services as part of a future space-based wireless connectivity ecosystem.

Additional Benefits:

 The market estimate (ME) sheet in Excel format
3 months of analyst support

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