Rise of IT Services Specialists: Delivering on the Service Contextualization Mandate

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Introduction

As enterprises ramp up their digital transformation initiatives, the strategic sourcing function faces the challenging task of establishing and orchestrating an IT services vendor portfolio that can help them fulfill their business objectives. This digital age sourcing model is aimed at pivoting the IT services sourcing portfolio design and selection to a "value-driven" provider model, from the classical "scale-driven" vendor categorization followed within traditional sourcing practices.

As a result of this shift, enterprises are increasingly gearing toward specialists to cope with business-specific complexities, regulations, and policies as well as to achieve key objectives such as faster time-to-market and user experience improvement.

Identifying a competent outsourcing partner that has the right set of capacities is an arduous task. The complexity of this process increases manifold in the case of specialist service providers, owing to the niche nature of their business and low market visibility. Enterprises also need to be aware of multiple challenges associated with specialists such as limited scale and management risk. Hence, identification of the right specialist requires due diligence and assessment on multiple critical metrics.

Need for evolved sourcing models

Everest Group take

The traditional IT services sourcing model has been designed with scale and cost-effectiveness as the primary objectives and a vendor selection/categorization premise. However, the digital IT services sourcing model requires distinct service provider roles that can help enterprises balance multiple objectives.

Need for new sourcing models

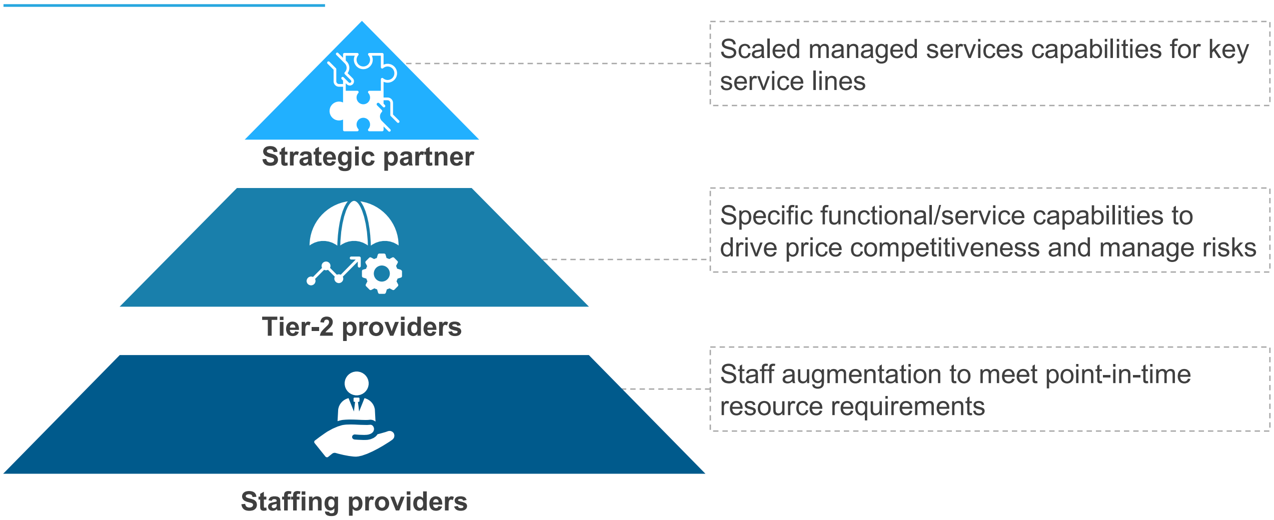
The pace of change in today's digital world is unparalleled, driven by business imperatives such as reducing time-to-market, enhancing customer journeys, curtailing costs, building business resilience models, and future-proofing the IT landscape. Such imperatives warrant a service delivery approach that is pivoted to speed, agility, and scalability, underpinned by contextual relevance. As enterprises seek to fast-track their digital transformation journeys, they recognize the shortcomings in the existing sourcing model and the need to evolve it.

Traditional outsourcing programs have been built around cost and labor arbitrage. Consequently, sourcing and vendor management programs have traditionally tiered suppliers by scale, with cost optimization being the key objective. In the digital era, enterprises need partners that can help them build transformation roadmaps that not only drive cost savings, but also offer the desired level of performance and resilience.

EXHIBIT 1

Traditional IT services sourcing model and its shortcomings

Source: Everest Group (2021)



Key limitations of this model			
Provider segmentation by scale rather than by strategic intent	Portfolio effectiveness measured by traditional, cost-centric metrics	Limited provider view into overall enterprise IT landscape and business objectives	Diffused provider focus and accountability

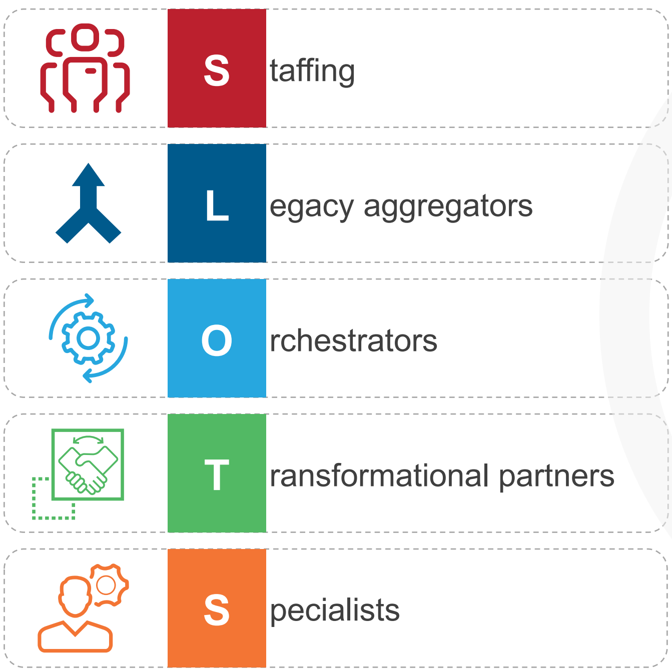
Enterprises shifting to an evolved IT services sourcing model

The “Specialist, Legacy Aggregator, Orchestrator, Transformation Partner, Staffing” (SLOTS) framework represents the reimagined IT service sourcing model for the digital age. The framework establishes five distinct IT service provider roles to help enterprises balance multi-fold objectives such as risk management, modernization, and building capabilities across change, manage, and run initiatives, etc. The underlying principle of the SLOTS framework is that deriving business value from IT requires enterprises to have access to best-of-breed capabilities across a broad set of themes. As part of this shift, there is a need to look at the specialist ecosystem.

EXHIBIT 2

Evolving methodology to differentiate vendors (SLOTS)

Source: Everest Group (2021)



Key benefits of this model:

- Designed to make the sourcing function efficient and effective for the business
- Business value and growth is the objective of the function
- Geared toward services efficiency, resilience, and agility
- Well laid-out provider roles and expected outcomes

Growing relevance of specialists

Everest Group take

Specialists bring technology-/function-specific domain expertise, contextualizing, and accelerating service delivery to meet clients’ unique business needs. Also, industries such as banking, financial services, healthcare, and life sciences are complex, characterized by multiple stakeholders, stringent regulations, and data standards; this further propels enterprises toward a specialized service delivery model.

Where are specialists relevant

"Context is king" when it comes to driving successful business and technology transformation initiatives. In today's environment, when enterprises are trying to cope with business-specific complexities, and regulations and policies (think of Payment Services Directive (PSD2) regulation and Medical Device Regulation (MDR) in Europe; CMS' Interoperability and Patient Access Final Rule in the US), there is a natural tendency to gravitate toward specialist IT service providers.

Most enterprises have highlighted the need for technological, functional/methodological, and industrial expertise to add value to business and technology transformation initiatives.

EXHIBIT 3

Key categories where specialists are needed

Source: Everest Group (2021)

REPRESENTATIVE LOGOS

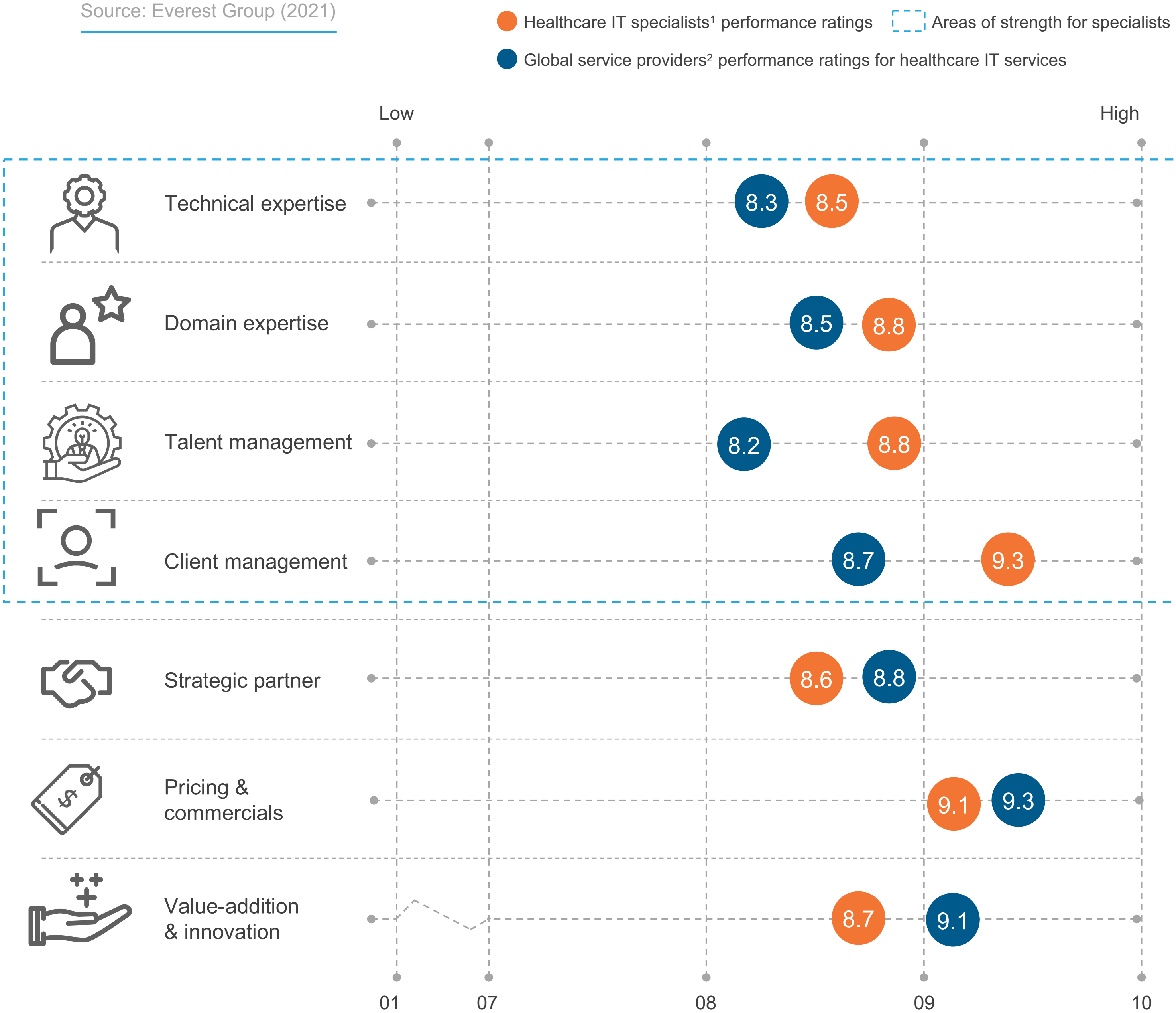
Technology stacks	Functional/ methodological	Industry / geographic-sub-segment
AWS, Azure, GCP, ServiceNow, Salesforce, Oracle, SAP, Automation Anywhere, UiPath, etc.	Agile/DevOps, risk and fraud, cybersecurity, digital workplace, digital marketing services, etc.	Retail, healthcare, banking, wealth management, P&C insurance, revenue cycle management, EHR management, etc.
blazeclan, Cloudreach, Crossfuze (The Workflow Company), GlideFast consulting, penrod, SpringML, Virsys12, THIRDERA	coresphere, leadsquared, Orange Cyberdefense, ResultsCX, Secureworks, B&A (Your Future. Our Mission.)	ACCOMPANY Consulting, ACCUTIVE, CitiusTech, emids (experience partnership.), icon solutions, IKOR, Impact advisors, NORDIC, XCEEDANCE
Key benefits		
• Proprietary platforms/frameworks/ accelerators • Onsite certified talent and skill set availability • Focused partnership ecosystem	• Agile and lean practices • Service delivery assurance • Focus on innovation • Continuous process optimization	• Vertical/domain consulting capability (regulations, region-specific nuances, etc.) • Credible industry-specific transformation use cases • Differentiated IP and frameworks • Talent and skill set availability

To understand how enterprises have started to perceive specialists, Everest Group conducted focused interviews in Q4 2020 with senior executives (CIOs and COOs) across the large and mid-sized healthcare payer and provider spectrum. The feedback from these conversations is encapsulated in Exhibit 4. Most of the buyers mentioned that their outsourcing initiatives with specialist service providers have been very successful across technical and domain expertise, talent management, and client management parameters.

EXHIBIT 4

Enterprise perception of specialists' capabilities; 2019-20; ratings on a scale of 1 to 10

Source: Everest Group (2021)



1 Healthcare IT specialists include emids, Citius Tech, GAVS, Infinite, Infostretch, and Nordic Consulting

2 Global service providers include Cognizant, Accenture, TCS, NTT DATA, HCL, Wipro, and Tech Mahindra

Need to identify the right specialist

Everest Group take

There are multiple challenges associated / perceived to be associated with specialists – such as limited scale, sourcing risk, and lack of synergetic partnerships. Hence, it is essential that enterprises identify and segregate the scope of work to be awarded to specialists and run a thorough evaluation, considering the unique criteria applicable to them.

Identifying the right specialist requires due diligence

Enterprises face unique problems in their transformation journey – lack of IT talent, financial distress, technical debt, etc., and the search for remedying these by identifying the right IT service partner is a real challenge. Identifying a competent partner with the right set of capabilities, referenceable market success, and deep business/industry context is an arduous task. The complexity of the process increases manifold in the case of specialists, owing to the niche nature of their business and low market visibility. Exhibit 5 enlists the key risks that enterprises need to be aware of while engaging specialists.

EXHIBIT 5

Key challenges with specialists

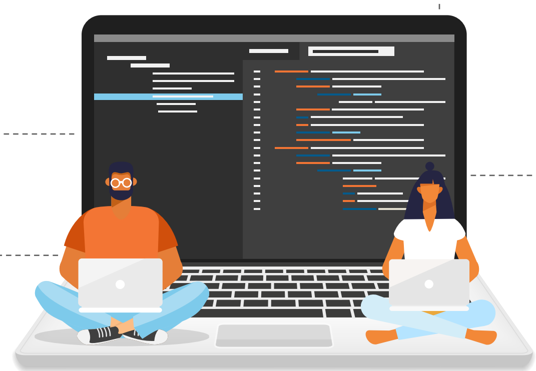
Source: Everest Group (2021)

Limited scale

Enterprises often witness a resource crunch as the engagement with specialists advances, or their role in projects starts to expand due to their limited scale and low bench strength

Lack of synergistic partnerships

While specialists focus on building their expertise in the niche area they operate in, their investment constraints restrict them from expanding their partnership ecosystem, limiting the scope of accelerated expansion and innovation



Sourcing risk

Specialists being smaller in size have an associated risk (or perception of risk) of getting acquired by larger service providers in the long run, which can defeat enterprises' purpose of having a specialist on board

Disintegrated transformation

Engaging multiple service providers can often result in disconnected transformation efforts for enterprises. Hence, specialists are vulnerable to the risk of exclusion during vendor consolidation exercises

Assessment of specialists – checklist

Everest Group take

While thinking of shortlisting vendors for outsourcing IT services, enterprises should be able to differentiate between specialist service providers and other kind of players in the SLOTS framework based on the areas of strengths and limitations of these individual player categories, in order to maximize value from their sourcing model. Similarly, it is imperative that enterprises look at the right set of parameters applicable for assessing each provider category.

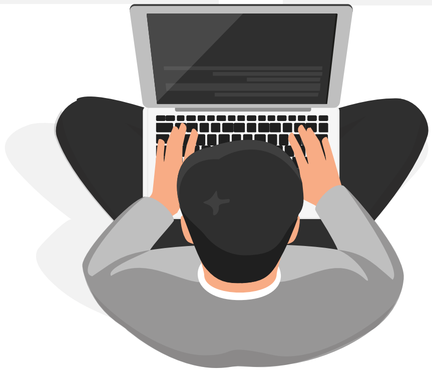
Sourcing for specialists

Identifying the right specialist requires due diligence that includes in-depth evaluation across multiple critical parameters. These parameters can be categorized under "capability" – to measure the ability to deliver services successfully – and "market impact" – to measure customer success. Given that both business models and services landscapes are witnessing disruption, the assessment parameters should also remain fluid and undergo regular reviews for course correction and ongoing alignment with business goals.

The representative checklist below will help enterprises evaluate specialist IT service providers:

Capability		
1	Depth of solutions/services offerings	✓
2	Leadership background and vision	✓
3	Quality of delivery team; onshore consulting talent; employee satisfaction and ability to attract and retain talent	✓
4	Agility in service delivery model; ability to ramp up	✓
5	Focus on innovation (co-innovation with partner ecosystem, investments in products and platforms, accelerators, etc.)	✓

Market impact		
6	Clientele and client testimonials	✓
7	Operation, cost, and business impact generated for clients	✓
8	Value delivered based on client feedback	✓
9	Market relevance (due diligence on funding, investors, etc.)	✓
10	Revenue base and YoY growth; sweet-spot deal size	✓



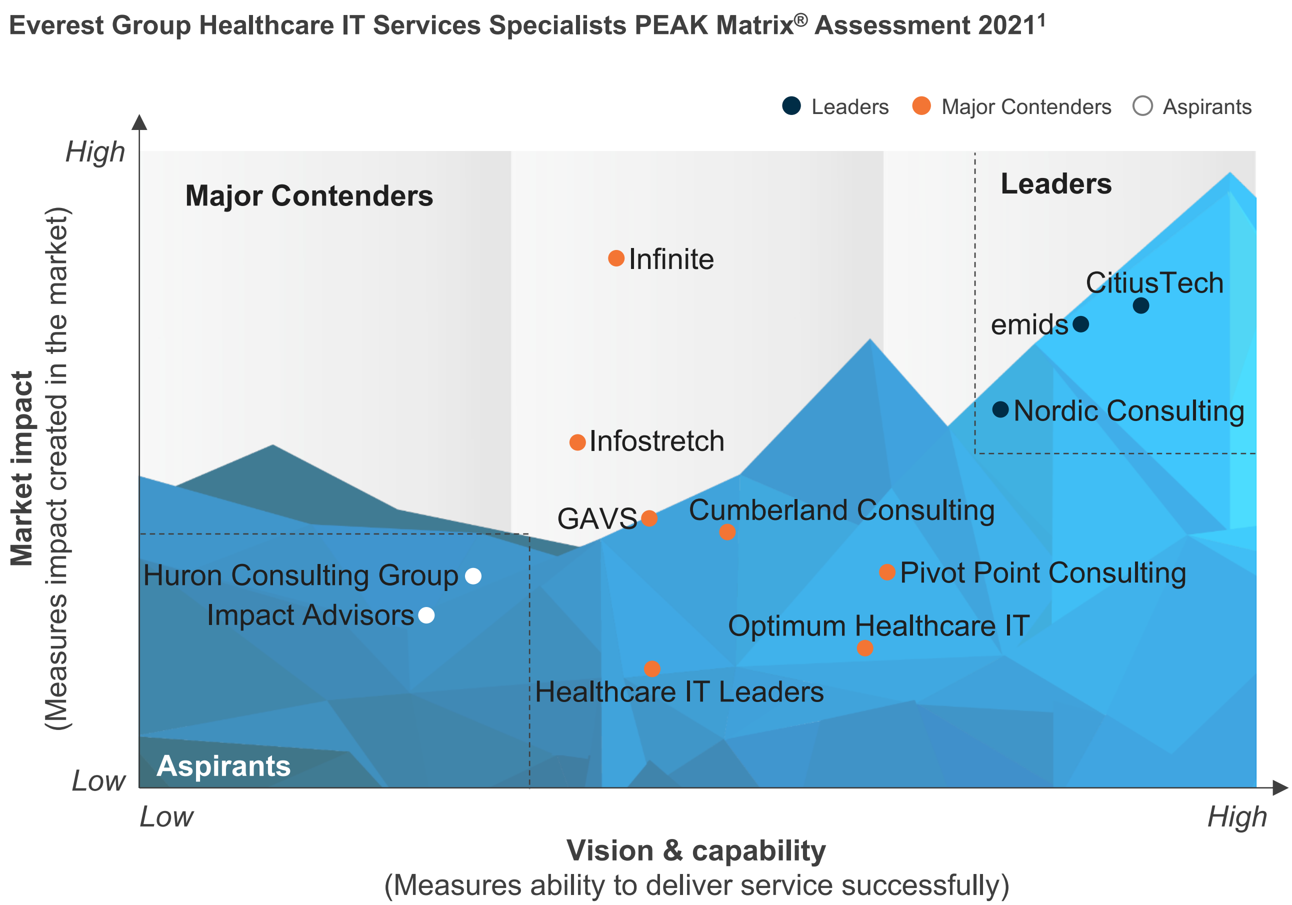
Everest Group ran an IT specialists assessment last year – Healthcare IT Specialists PEAK Matrix® Assessment for Services 2021 – where we looked at the current healthcare IT services specialists' landscape. The services providers were mapped on the Everest Group Specialist PEAK Matrix® framework, which is a composite index of a range of distinct metrics related to a vendor's capability and market impact.

In this assessment, specialists' quality of talent, depth of domain/technical expertise, partnership ecosystem, case studies, and client feedback were critically tested. In addition, the specialists were evaluated on parameters such as financial stability, impact generated in the market, and cost differentiation to assess their relevance in the long run.

EXHIBIT 6

Everest Group Healthcare IT Specialists PEAK Matrix® Assessment for Services 2021[1]

Source: Everest Group (2021)



1 Assessments for Cumberland Consulting, Healthcare IT Leaders, Huron Consulting Group, Impact Advisors, Optimum Healthcare IT, and Pivot Point Consulting exclude product vendor inputs and are based on Everest Group's proprietary Transaction Intelligence (TI) database, service providers' public disclosures, and Everest Group's interactions with healthcare enterprises that are buyers of healthcare IT services

Conclusion

The IT services market has historically been dominated by global service providers; however, in the past few years, as enterprise transformation journeys have become more unique and nuanced, there has been a logical gravitation toward niche IT service providers. These providers are establishing themselves as specialists in IT services delivery, pivoted to dedicated technology stacks or industry/geographic subsegments, or business functions / methodologies.

In summary, here are the key aspects that specialist services providers have showcased, thus enabling them to garner increasing enterprise mindshare:

- **Domain expertise :** Specialists bring technology-/industry-/function-specific expertise, contextualizing offerings and service delivery to clients' needs
- **Quality of talent :** Specialists bring differentiated talent and capabilities around specific problem areas where bigger service providers do not have sufficient expertise. In addition, specialist vendors have IPs (tools, frameworks, and accelerators) to accelerate service delivery
- **Agile business models :** An entrepreneurial mindset and strong focus on growth push specialists to be more flexible in their engagements and service delivery models

These three aspects, underpinned by client management capabilities, have enabled many specialists to see significant market success. Based on their unique value proposition centered around contextualized service assurance, several of them have started challenging the front runners directly, while a few others are creating a niche for themselves.

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