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Asia Pacific Demand for Cloud Solutions Reaches Record High in Q1, ISG Index™ Finds

Regional market continues to be propelled by as-a-service sourcing, even as managed services slumps in response to pandemic

SYDNEY, Australia, May 14, 2020 (GLOBE NEWSWIRE) -- Asia Pacific's demand for cloud-based as-a-service solutions soared to a new record in the first quarter, even as demand for managed services slumped in response to the coronavirus pandemic, according to the latest state-of-the-industry report from Information Services Group ([ISG](#)) (Nasdaq: [III](#)), a leading global technology research and advisory firm.

The ISG Index™, which measures commercial outsourcing contracts with annual contract value (ACV) of US \$5 million or more, found Asia Pacific's as-a-service market jumped 25 percent, to a record US \$1.7 billion of ACV in the quarter, while managed services dropped 27 percent, to US \$522 million. The two segments, combined, were up 8 percent, to US \$2.2 billion. As-a-service accounted for more than 75 percent of the region's combined market for the second consecutive quarter.

As-a-service sourcing was boosted by strong demand for Infrastructure-as-a-Service (IaaS), which climbed 32 percent, to a record US \$1.5 billion, despite some pandemic-related demand constraints in China during the quarter. Demand for Software-as-a-Service (SaaS), meanwhile, softened, with ACV of US \$213 million, down 8 percent off a record first quarter in 2019.

Managed services, although down compared with a robust first quarter last year, was up 26 percent sequentially from a weak 2019 fourth quarter. Within managed services, first-quarter demand was equally soft for IT outsourcing (ITO), down 27 percent, to US \$438 million, and for business process outsourcing (BPO), down 26 percent, to US \$84 million. Most major markets were down for the quarter, with the exception of Australia-New Zealand, which rose against a soft year-ago quarter—breaking a string of three consecutive down quarters.

“We continue to see growth in the IaaS segment as more and more enterprises shift their workloads to the public cloud, or to a hybrid cloud environment,” said Scott Bertch, partner and

head of ISG Asia Pacific. “Demand for managed services, on the other hand, was softer against a robust first quarter last year, and showed signs of pandemic-related weakness.”

ANZ was a bright spot this past quarter, with ACV of US \$149 million, up 33 percent, driven by solid demand from the manufacturing, consumer packaged goods and business services industries, Bertsch noted. “Thankfully, the impact of COVID-19 was more muted in ANZ compared with other parts of the world,” he said.

Trailing 12-Month Performance

Over the trailing 12 months, regional ACV in the as-a-service segment advanced 19.4 percent, to US \$5.7 billion, representing 69 percent of the combined market, while ACV for managed services declined 5.8 percent, to US \$2.6 billion, despite market vigor in China and India.

Within the as-a-service segment, IaaS soared 25.3 percent, to US \$4.9 billion, as demand for public cloud surged. A notable example of this shift was the migration of China’s Alibaba to its own public cloud. Google and Microsoft, meanwhile, have launched development centers in India, and Microsoft struck a 10-year deal with Reliance Industries to move its data centers to the Azure cloud. Hankook Tire in South Korea, also expanding its use of public cloud, signed with AWS to leverage its AI and Big Data capabilities.

Within managed services, ITO dipped 9 percent, driven by a double-digit decline in Infrastructure services, even as application services shored up overall ITO results. The much smaller BPO market regained some momentum, with facilities management and industry-specific BPO fueling ACV gains.

Among industries in Asia Pacific, telecom and media (up 50 percent), manufacturing (up 41 percent) and business services (up 18 percent) were the largest percentage gainers in combined market ACV. Financial services (down 23 percent), travel, transport and leisure (down 11 percent) and energy (down 6 percent) registered the biggest declines.

Global Forecast

ISG said it expects managed services ACV to decline 17 percent sequentially in the second quarter as overall spending slows in response to the pandemic. For the full year, ISG projects managed services spending will be down 7 percent versus the prior year. This compares with ISG’s preliminary forecast in January of 3.2 percent annual growth for 2020.

Second-quarter as-a-service ACV is expected to be flat, quarter over quarter, with some upside potential for IaaS, ISG said. For the full year, ISG forecasts as-a-service ACV will be up 12 percent versus the prior year. This compares with ISG’s preliminary forecast in January of 23.5 percent annual growth for 2020.

About the ISG Index™

The ISG Index™ is recognized as the authoritative source for marketplace intelligence on the global technology and business services industry. For 70 consecutive quarters, it has detailed the latest industry data and trends for financial analysts, enterprise buyers, software and service providers, law firms, universities and the media. In 2016, the ISG Index was expanded to include coverage of the fast-growing as-a-service market, measuring the significant impact

cloud-based services are having on digital business transformation. ISG also provides ongoing analysis of automation and other digital technologies in its quarterly ISG Index presentations.

About ISG

ISG (Information Services Group) (Nasdaq: [III](#)) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including more than 75 of the world's top 100 enterprises, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data. For more information, visit www.isg-one.com.