

NEAT EVALUATION FOR CIBER:

Software Testing

Market Segment: Consulting Focus

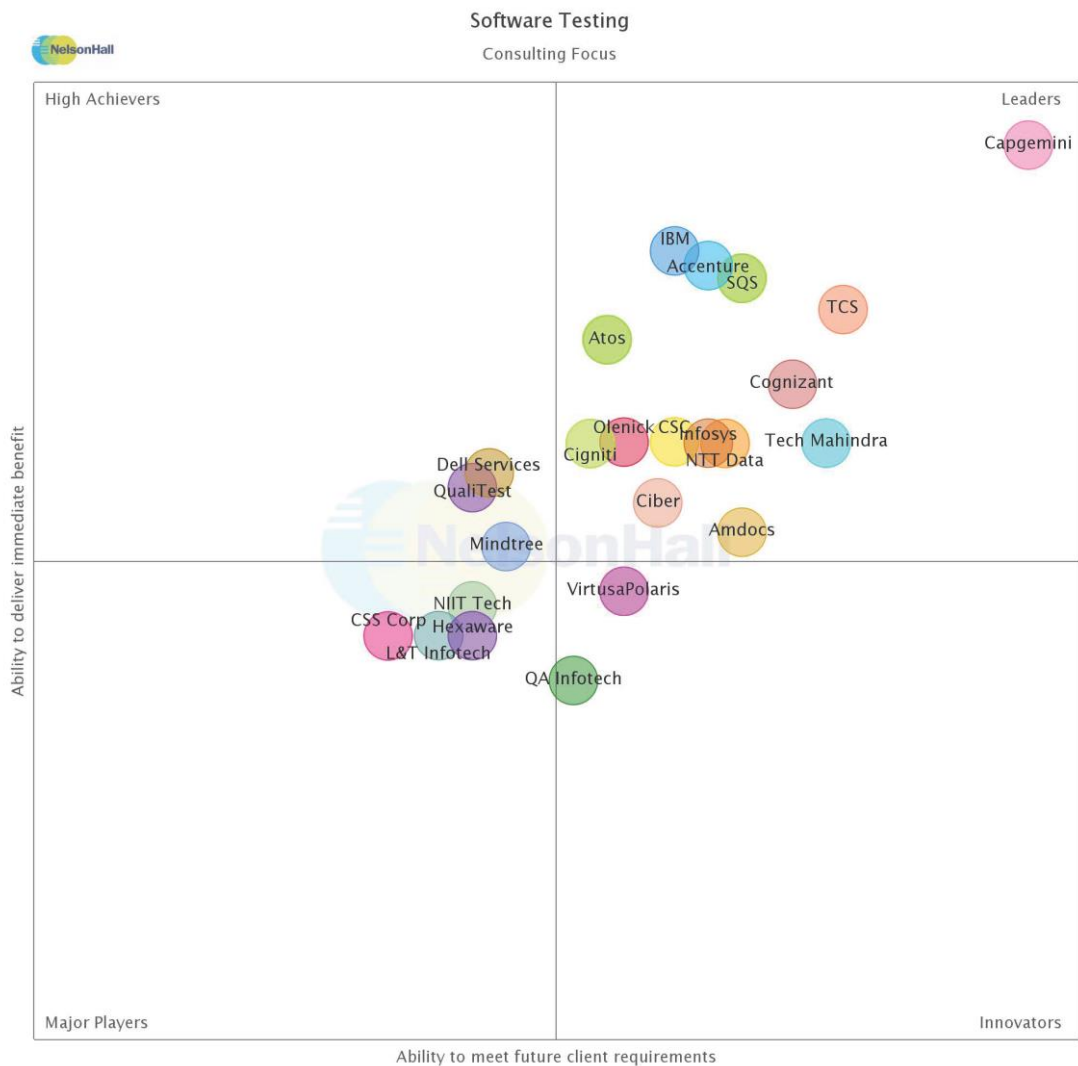
This document presents Ciber with the 2016 NelsonHall NEAT vendor evaluation for Software Testing (Consulting Focus market segment). It contains the NEAT graph of vendor performance, a summary vendor analysis of Ciber in Software Testing, and the latest market analysis summary for Software Testing. An explanation of the NEAT methodology is included at the end of the document.

The vendors evaluated are: Accenture, Amdocs, Atos, Capgemini, Ciber, Cigniti, Cognizant, CSC, CSS Corp, Dell Services, Hexaware, IBM, Infosys, L&T Infotech, Mindtree, NIIT Technologies, NTT Data, Olenick & Associates, QA Infotech, Qualitest Group, SQS, TCS, Tech Mahindra, and Virtusa.

Introduction

NelsonHall has assessed and evaluated Ciber's proposition against demand for Software Testing services, and has identified Ciber as a Leader in the *Consulting Focus* market segment, as shown in the NEAT graph on page 2.

NEAT Evaluation: Software Testing (Consulting Focus)



Source: NelsonHall 2016

The *Consulting Focus* market segment reflects Ciber’s ability to meet future client requirements as well as delivering immediate benefits to software testing clients with a specific focus on consulting services.

Buy-side organizations can access the Software Testing NEAT tool (*Consulting Focus*) [here](#).

Vendor Analysis Summary for Ciber

Overview

Ciber is an IT services vendor founded in 1974 and headquartered in Greenwood Village, CO, U.S. The company services mid-sized clients to large Fortune 100 clients. It had in 2014 revenues of \$864m and in Q1-Q3 2015 revenues of \$593m, flat at constant currency. NelsonHall estimates that revenues in 2015 will be \$795m, flat at constant currency and down ~9% at actual exchange rates. Ciber has a market cap of \$270m.

Ciber mostly provides application services, including ADM/staffing (64% of revenues) and ERP/COTS services (32% of revenues). The company is internationalized and derives 49% of revenues from North America and 51% from abroad (mostly U.K. and the Netherlands). It services clients spread over a variety of sectors: the largest verticals of the company are manufacturing and high tech (23% of revenues), government (16%), and hospitality and retail (13%).

The company's headcount is 6.5k, of which 1.3k in its global delivery network (representing 21% of headcount).

Ciber is in a transformation journey, which includes expanding offshore delivery, portfolio management (e.g. with the launch of Ciber Momentum, a SaaS legacy application code migration tool, and Ciber Transformation Services for reskilling IT personnel) as well as continuing on historical strengths on Oracle application (U.S. and U.K.), SAP, Infor, Microsoft and increasingly salesforce.com.

Ciber has a relatively complex structure in testing: the company has a main testing practice, which is India-centric; has local testing practices in its various countries (mostly in the U.S.).

The company has ~500 career testers in its testing practices both in India and onshore. It has in addition ~250 career testers in its SAP practice. It also has QA consultants in its consulting practice. In addition, the company has an unspecified number of developers and business analysts providing testing on a part-time basis.

Ciber is therefore a relatively small testing service vendor and its testing practice has positioned itself as a QA consulting-led testing services vendor, away from pure testing execution.

To be credible with this consulting-led value proposition, the testing practice uses the significant onshore presence that Ciber has in other units e.g. consulting (representing 3% of revenues). The approach spans across pure QA to involving non-career testers roles such as systems architects as part of larger scope contracts.

Ciber provides testing services both as standalone services and as part of contracts with larger scope, ranging from ADM to testing. The company will not disclose the ratio of standalone testing revenues, yet, NelsonHall estimates it to more than 50%. The company is increasingly stressing its software testing capabilities to help open new accounts.

Ciber's testing practice has a relatively wide testing services offering ranging from QA consulting to testing execution. Ciber in testing takes a consulting led-approach (see below), continues to develop its IPs, coordinate its offerings with the wider Ciber (in ERP services and in legacy modernization). Ciber takes a horizontal approach to testing, and therefore, contrary to most its peers, the practice does not take a vertical approach to testing.

The practice emphasizes a number of offerings, including:

- QA services and an overall quality approach to software development/maintenance across the SDLC, and not only the testing lifecycle
- Test execution services including IPs and accelerators
- Its ERP testing capabilities
- New offerings.

Financials

NelsonHall estimates that Ciber's testing practice had ~\$20m in revenues; and that combined testing practice and SAP testing services to \$30m.

Strengths

- A QA consulting approach and overall quality software engineering approach that relies on local onshore resources
- The right cost structure with 70% of personnel located in India and a high level of certification
- Small scale allows flexibility and short decision-making cycles.

Challenges

- Lack of scale: with ~750 career testers, the company is a small testing services vendor: this lack of size impact the testing practice of Ciber in terms of budget for funding new offerings and new IPs
- Not verticalized enough: Ciber lacks verticalized IPs and test case repositories. We think this is a by-product of the limited scale of Ciber in testing, which does not allow enough funding for developing test case repositories upfront (as opposed as developing test case artefacts for one client specifically).

Strategic Direction

Together with Ciber overall, the testing practice is also focusing on legacy application modernization. Ciber, at a corporate level, launched in 2015, a SaaS tool, Ciber Momentum, for converting code from COBOL to .NET. Ciber Momentum is a strategic initiative within Ciber: the company intends to grow revenues of Momentum to \$200m within two years and already signed a related contract (along with reskilling of personnel) with HP worth \$90m across three years.

Along with this transformation tool and service, the company provides testing services. This service is in particular useful to organizations that have no updated documentation of their legacy applications and for which Ciber's testing practice will provide database and data comparison, analyze coverage of code to determine if all code has been converted to the target programming language, as well as the traditional functional and regression testing.

Along with Momentum, Ciber's testing practice wants to build IPs and repositories around SAP, Oracle and Infor applications.

Other initiatives include:

- Developing a virtual test environment offering
- Continue its focus on client satisfaction and personnel fulfillment.

Software Testing: Market Summary

Overview

Key selection criteria for selecting a software testing services vendor are somewhat different by client segment:

- *“Efficiency organizations”* consider a large presence in India as a given and now look for automation capabilities, not just from the professional services skills to configure and deploy testing COTS, but for structured offerings (e.g. test support services such as test data management and test environment provisioning) and platforms (integrating accelerators with COTS and open source software)
- *“Transformation-focused organizations”* want success with their internal IT application rollout and do not benefit from the length of managed testing services to fund automation. They therefore require vendors that come with reusable assets for automation purposes, and also personnel ramp-up capabilities, as well as domain and application knowledge across career testers
- *“Revenue seekers”*, like *“transformation-focused organizations”* look for capabilities such as consulting expertise and understanding of new business models, and the ability to attract millennials across career testers, to help them drive the transformation of their business model and execute it. They are eager to have the onshore expertise combined with the low-cost delivery that will help them match limited budgets such as mobile app testing
- *“Digital natives”* have been engaged in digital for years and need to continue to develop their digital leadership over competitors, while benefitting from low-cost delivery that will help them reach profitability in the mid-term. Such clients need a partner working in the long-run, not a one-off provider.

Buy-Side Dynamics

Of the four buyer types, *“efficiency organizations”* have retained the most interest from vendors, largely because *“efficiency organizations”* purchased large managed testing contracts, focusing on process improvement, rollout of automation and offshoring. The market for new-scope managed testing services is gradually turning into a renewal market, and clients reconsider their managed testing spending, aiming to reduce costs, initially though further automation.

Outside of *“efficiency organizations”*, the three other client segments *“transformation-focused organizations”*, *“revenue seekers”* and *“digital natives”*, purchase mostly testing services through project engagements. *“Transformation-focused organizations”* focus on their internal IT projects. Their spending growth is heavily influenced by macro-economic conditions and varies in the 2% to 3% range currently. *“Revenue seekers”* and *“digital natives”* are investing in strategic digital projects and are therefore spending much more money, and will continue to do so at least for the next five years.

Market Size & Growth

Total global software testing spending was ~\$38.2bn in 2015, and this is forecast to grow to \$42.8bn by 2020 (3% CAGR).

The software testing services market is going through an important change in dynamics. Spending has been growing in recent years in the double-digits, in spite of the sub-prime and the resulting sovereign debt crises; managed testing services led this growth during the period. This trend is now probably over, with the market reaching saturation for managed testing services activities in the U.S. and U.K. Financial services has historically been the largest sector of adoption, representing 38% of spending globally.

While demand for managed testing services is decelerating, demand for digital testing is rising, initially through e-commerce and mobile app projects, often associated with agile methodologies (and increasingly associated by the underlying DevOps technology). Demand in digital testing is expanding from websites and mobile apps to cloud computing (and in particular SaaS application testing), analytics and big data, and is nascent in IoT.

In spite of the strong demand for digital testing, the sharp decline in growth in managed testing services results in overall software testing services dropping to single-digit numbers in 2016 and onwards. Volume is down and prices will also continue decreasing, as client organizations focus increasingly on automation and productivity gains. NelsonHall estimates that from 2016 onwards, spending growth in testing will be ~7%, with managed testing services growing by ~5% and project services by ~8%.

On the one hand, growth in functional testing is slowing down (to ~+3%) as a result of spending transferring to automation, and also because of the current decline in ERP/SAP/Oracle on-premise testing spending. On the other hand, spending in digital testing remains strong (to ~+13%) with continued momentum in e-commerce/mobile apps; and spending on specialized offerings also remains solid (~+9%) across the range, from non-functional to agile, and test support services, and to much lesser extent QA consulting (+~5%).

Outlook

Over the next few years, the main challenges of the software testing service industry are:

- Continuing investing in service portfolio with a specific attempt in separating hype and offerings with long-term potential. Currently, DevOps, agile, digital and UX, as well as platforms are the key priority and will remain. Looking ahead, possibilities are many: from AI and machine learning on the automation side, to IoT, big data, security, CBT and other statistical techniques. Of these, IoT is a certainty as well as (probably) big data. Looking further ahead, augmented reality is also a testing offering with strong potential, as it is similar to the mobile app ecosystem
- Creation of platforms and automation are a major trend in the industry and will remain so, as the industry cannot keep on being so linear and continue adding 25k new career testers each year. Along with platforms, technology partnerships are changing in nature, and have expanded from HP, IBM and Microsoft to partners that provide niche products or have aggressive pricing strategies. This is particularly true in digital testing
- Shared service centers, i.e. servicing clients through shared client centers, will also be a way of driving productivity again. This approach will be less functional testing-centric and will revolve around specialized offerings. We call this model factory based testing, where specialized testing services will provide services. Current examples of this factory

based testing model already include non-functional, mobile app testing, UX and usability testing, as well as localization testing.

NEAT Evaluation for Software Testing

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders:** vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements
- **High Achievers:** vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements
- **Innovators:** vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players:** other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Exhibit 1

‘Ability to deliver immediate benefit’: Assessment criteria

Assessment Category	Assessment Criteria
Offerings	<ul style="list-style-type: none"> Functional testing QA Performance testing Security testing Digital testing: Mobile Digital testing: Big data & analytics Digital testing: Cloud computing Digital testing: IoT Digital testing: UX Digital testing: DevOps Digital testing: Agile
Delivery	<ul style="list-style-type: none"> Indian delivery capability: Overall Indian delivery capability: Proportion of career testers Career tester headcount: N. America Career tester headcount: U.K. Career tester headcount: Continental Europe Career tester headcount nearshore for Continental European clients Transformation of test operations: Process improvement Automation of functional testing: Testing framework Automation of testing using proprietary tools: Test case repositories Automation of testing using proprietary tools: Digital platform Automation of testing using proprietary tools: DevOps platform Automation of testing using proprietary tools: Test case optimizer Automation of testing using proprietary tools: AI Automation of testing using proprietary tools: MBT Automation of testing using proprietary tools: Requirement analyzer Test support services: Test data management Test support services: Test environment provisioning Test support services: Service virtualization Provision of code quality analysis Sharing of factory-based personnel across clients

continued...

Customer Presence	Overall customer presence In N. America In U.K. In Continental Europe In RoW In BFSI sector In Telecoms sector
Benefits Achieved	Level of cost savings Increased application quality/reduced production downtime Increased speed to market of applications Increased speed to market of digital initiatives Increased end-user/business satisfaction

Exhibit 2

‘Ability to meet client future requirements’: Assessment criteria

Assessment Category	Assessment Criteria
Software Testing Investment	<ul style="list-style-type: none"> In support of functional testing In support of QA In support of security testing In support of digital testing: AI In support of digital testing: IoT In support of digital testing: Big data & analytics In support of digital testing: Cloud computing In support of digital testing: UX In proprietary IPs & tools
Software Testing Market Momentum	<ul style="list-style-type: none"> Extent of new client wins Level of M&A activity in software testing business Size & budget of testing CoE
Ability to Deliver Software Testing Innovation	<ul style="list-style-type: none"> Mechanisms in place to deliver client innovation Extent of client perception of innovation delivered Suitability of vendor to meet client future needs Strength of partnership
Financial Security	Financial Rating

For more information on other NelsonHall NEAT evaluations, please contact the NelsonHall relationship manager listed below.



research.nelson-hall.com

Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:

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