



AppLabs

Overview

Finding and fixing defects can account for a significant proportion of an IT software development project cost. As companies look at testing, there seem to be two main considerations at play – independence and expertise. Buyers are often faced with the dilemma that testing teams, that are an integral part of the development teams, may not extend the requisite objectivity while testing the product. Moreover, frequent product enhancements and the subsequent release cycles, increase in regulatory compliance, and integration of diverse technologies force companies to look at testing specialists that can offer improved quality and reduced time to market. These customer needs have triggered the market for independent testing services, which has been growing at an impressive rate of more than 50%.

AppLabs is a leading specialist IT testing services supplier catering to this rapidly emerging market. Founded in 2001, AppLabs has emerged as one of the front-runners in the quality management, testing, and certification services space. The company is headquartered in Philadelphia, Pennsylvania (USA), and is backed by Sequoia Capital, a large venture capital firm. AppLabs, with its testing focus and delivery centers in UK, U.S., and India, offers services to clients across a range of industries including financial services, software vendors, healthcare & life sciences, retail, and government.

Distinctive capabilities:

- **Specialist focus:** Testing services have traditionally been provided by large IT players offering testing as a supplemental offering to their development services. With the “testing-only” proposition, AppLabs has emerged as a specialist supplier offering quality, cost efficiency, and reduced time to market. To further strengthen its offerings, AppLabs has developed several testing tools and methodologies including the **AppLabs Test Methodology (ATM)**, a testing project delivery process which incorporates best practices from CMMi Level 5, ISO 9001, TMM, TMMi, and ISO 27001. The methodology imbibes key project management practices in the areas of risk management, communication management, knowledge management, process compliance, and monitoring and control. ATM also incorporates best practices in the areas of test strategy, test requirement analysis, test estimation, and test design.
- **Delivery maturity:** AppLabs was the first independent software testing company to be certified CMMi Level 5. It has also earned the ISO 9001, BS 7799/ISO 27001 and the CMM Level 5 certifications. AppLabs is also an official supporter of TMMi foundation that is focused on developing a maturity model for testing focused organizations. In order to develop all round competency and expertise in the field of testing, AppLabs has made several efforts including knowledge repository and reusable test assets, and forming strategic alliances with test data management and test management tool vendors. It has instituted **AppLabs Knowledge Center** with the objective of serving as a networking portal for collaboratively gaining and sharing knowledge through internal and external content, sharing experiences in best practices, and other project learning.

Year founded: 2001

Web site: www.applabs.com

Employees: 2,000

Headquarter: Philadelphia, PA, USA

Leadership:

- Sashi Reddi, Founder and Chairman
- Makarand Teje, President and CEO
- John Carmody, Senior Vice President and Head of Americas
- Doc Parghi, Senior Vice President and Head of Europe
- Vikash Sureka, Senior Vice President, Global Finance

Address:

1515 Market Street,
Suite 1110,
Philadelphia, PA 19102-1905
USA

Toll Free (USA): (877-277-5227)

Tel: +1-215-569-2020

Fax: +1-215-569-9956

Email: info@applabs.com

- **Scale:** AppLabs is the largest offshore-centric independent testing services supplier with over 2,000 employees engaged in offering these services. In the last few years, the firm showed a strong growth rate with revenues almost doubling every year to reach US\$67 million in 2008. The company offers services across the globe with testing centers in three continents, North America, Europe, and Asia.
- **End-to-end testing capability:** Over time, AppLabs acquired capabilities, organically and inorganically, to create an exhaustive portfolio of testing services. It offers a combination of consulting, outsourcing, offshore, and specialist services across all types of quality management, testing, and certification activity.

Company Profile

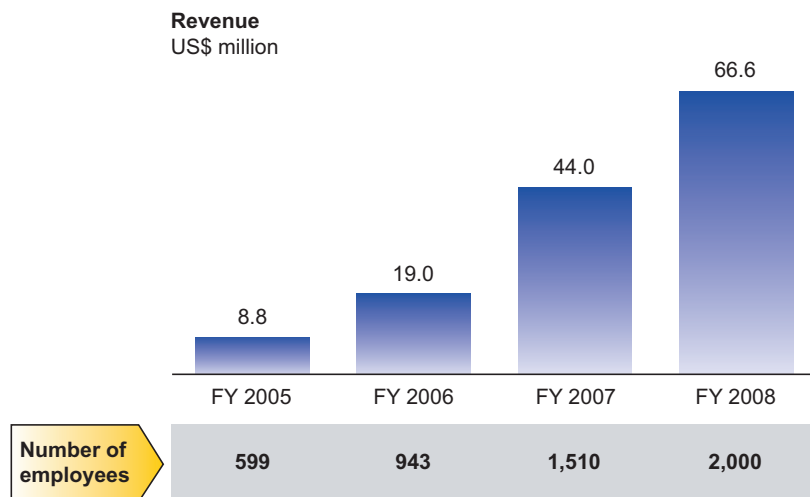
Size and growth

AppLabs witnessed an average annual growth of more than 90% during 2005-2008 to become a leading specialist independent testing supplier. During the same time, it expanded its employee base more than threefold to reach 2,000 employees by 2008.

EXHIBIT 1

AppLabs revenue and headcount growth

Source: AppLabs



In addition to organic growth, AppLabs leveraged an inorganic growth strategy to enhance its testing services offering. The acquisition of U.S.-based KeyLabs in 2005 brought AppLabs the expertise in software product certification and performance testing, mostly focused on independent software vendors (ISVs) and independent hardware vendors. Subsequently, the acquisition of UK-based IS Integration in 2006 added the capability to perform systems integration testing and test process consulting, in addition to providing a platform to serve the European market.

Key service offerings

AppLabs' service offerings span a wide spectrum of testing and allied services. Major offerings of the company are:

- **Test process consulting services** – Help companies optimize their IT and business quality management and testing capabilities. Offerings include test review, test improvement and test compliance

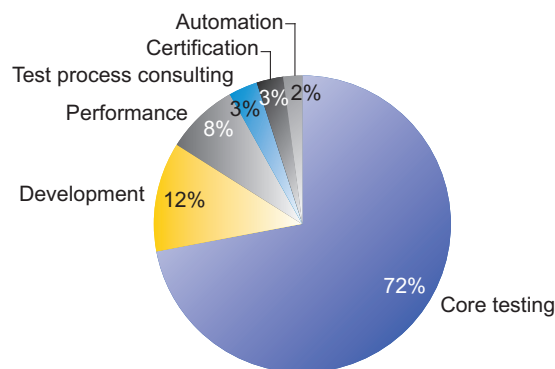
- **Core testing services** – The largest offering at AppLabs is an extension of the clients' in-house IT and business testing capabilities. Offerings include user acceptance testing (UAT), system and integration testing, operational acceptance testing, usability testing, agile testing, and database migration testing
- **Tool and automation services** – Enable clients to implement tools effectively and include automation tool review, framework development, tool configuration, and regression pack maintenance
- **Performance services** – Include performance testing, monitoring and engineering, and capacity planning
- **Security services** – Address mission-critical information security challenges, including Web application penetration testing, security code reviews, and disaster recovery / business continuity plan testing
- **Certification services** – Award industry certification including TRUSTe, Cisco, Novell, WHQL and Altiris

In addition, AppLabs provides solutions into new and emerging areas including SOA testing, SaaS testing, testing the cloud, SAP testing services, and compliance testing services.

EXHIBIT 2

AppLabs FY08 global business – service-line break-up

Source: AppLabs



Key market segments

The U.S. accounts for 62% of the business for AppLabs. Demand in the U.S. is led by core testing services and large enterprises setting up centralized testing centers of excellence (TCoE). Europe, which accounts for 37% of AppLabs' revenues, witnessed additional demand from enterprises that are adopting global delivery for the first time and choosing to select testing as an area to look for external help.

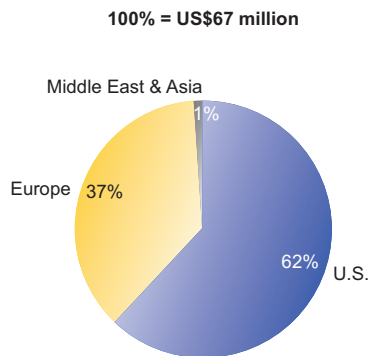
Financial services is the largest industry vertical for AppLabs, with 39% of revenues generated from this segment. Other major segments served are software vendors, healthcare & life sciences, and retail.

EXHIBIT 3

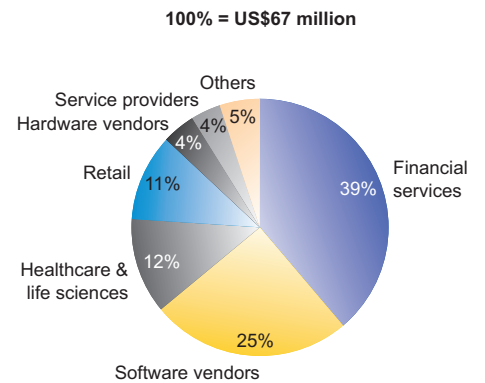
AppLabs FY08 business mix

Source: AppLabs

Distribution of total revenues by client geography
Percentage



Distribution of total revenues by client vertical
Percentage



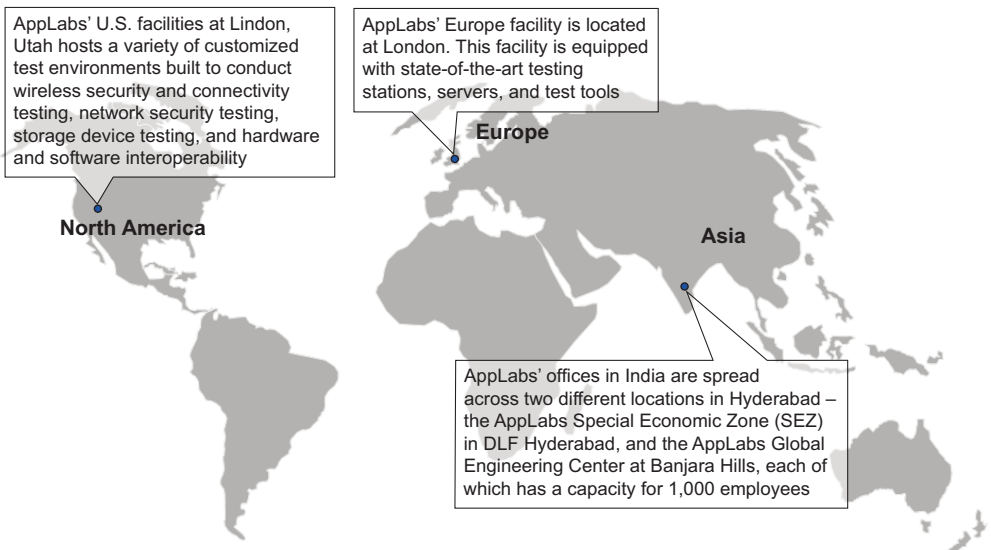
Delivery footprint

AppLabs has global delivery centers in the U.S., UK, and India. 80% of the company’s workforce is located in India, 15% operates from Europe, and the remaining is in the U.S.

EXHIBIT 4

AppLabs global delivery footprint

Source: AppLabs



Concluding Remarks

With its focus and expertise, AppLabs has been able to successfully create a unique position for itself as a “testing-only” specialist. In addition to investments in tools and methodologies for testing capabilities, AppLabs has also made some key acquisitions to enhance its portfolio of offerings in the testing space. AppLabs is now well positioned to cater to the growing needs of different types of testing services across industry verticals and geographies.

Case study

Client overview

Founded in 1928, Farmers Insurance (Farmers) is a leading insurance underwriter in the U.S. serving more than 10 million households and 17 million policyholders. Farmers operates in 41 U.S. states, and has more than 50,000 agents who help Farmers reach out to its clients.

Engagement overview

Client situation: Like most insurance firms, technology plays a critical role at Farmers. The IT environment at Farmers consists of a numerous applications including those for prospecting, sales, agent handling, underwriting, policy servicing, intranet, etc. Farmers uses an in-house technology group as well as a number of third-party suppliers for a wide array of IT applications services. While software testing was traditionally performed by a combination of the in-house team and external suppliers (that performed development services), over time, Farmers realized the need for an independent testing specialist to improve the quality and robustness of the service.

Scope: In late 2007, Farmers decided to pilot with AppLabs for testing a key business-related application. Impressed by the results shown by AppLabs Team, Farmers increased AppLabs involvement in a number of projects involving core and non-core applications. While AppLabs started with a 10-15 member team in 2007, the team grew considerably over time (reaching a peak strength of about 70-80 FTEs). In addition to testing for numerous applications, AppLabs is also assisting Farmers Insurance in developing a Testing Centre of Excellence (CoE).

Rationale for selecting AppLabs

Independence: In order to bring objectivity in testing, Farmers wanted an independent entity to improve the quality and robustness of its applications.

Specialist focus: Unlike other IT services players that offered testing as an allied service, AppLabs was a company that specialized in testing (i.e., considered testing a job and not a hobby).

Skills and frameworks: Given its sole focus on testing, AppLabs demonstrated expertise of its workforce in coming up with robust and innovative methods for different types of testing. Further, it offered unique frameworks and tools for testing and exhibited commendable credentials in its ability to do different types of testing.

Cost advantage: An independent testing service provider like AppLabs was able to offer comparable/better cost economics, given the robustness of its testing and reduced time for applications to become fully functional.

Key benefits/results

Farmers Insurance has reaped the benefits of engaging AppLabs across all three fronts – people, process and technology.

People: AppLabs offered skilled and motivated testing experts and also provided flexibility to ramp up or down aggressively to meet project requirements.

Process: Farmers witnessed significant improvements in the testing processes. For example, for a particular functional application, warranty defects reduced by 80-85% and test process errors reduced by ~90% in the first year of AppLabs' support.

Technology: AppLabs offered unique testing frameworks, tools, and methodologies as well as the ability to work on different types of technologies – an offering not matched by other suppliers.

“AppLabs brings significant expertise and unique testing methodologies. It has a highly motivated and talented workforce and offers flexibility in its team deployment. Overall, I am a satisfied customer and AppLabs is a great company to work with.”

– Srinivasa Parthasarathy,
VP Applications Development
and CTO, Farmers Insurance
Group

About the Everest Research Institute

Everest Research Institute (www.everestresearchinstitute.com) serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, suppliers, technology providers, and investors in the global outsourcing and offshoring marketplace.

The Institute addresses both business process and information technology sourcing topics, providing the global outsourcing and offshoring community with information that empowers highly productive, sustainable sourcing strategies and relationships. The Institute's wealth of knowledge and experience provides unique perspectives into today's marketplace and the competitive edge required to take advantage of emerging opportunities.

Everest Research Institute is the research arm of the Everest Group (www.everestgrp.com), a global consulting firm with offices in such leading business centers as Dallas, New York, Toronto, London, Amsterdam, New Delhi, Melbourne, and Sydney. Everest Group has earned a worldwide reputation for ongoing innovation as it helps clients achieve maximum value from their operations including sourcing strategy and implementation.

Please visit www.everestresearchinstitute.com for more information.

For more information about Everest Research Institute, please contact:

Everest Research Institute
+1-214-451-3110
info@everestresearchinstitute.com

For more information about this topic please contact the authors:

Jimit Arora, Research Director
jarora@everestgrp.com
Ankur Garg, Senior Research Analyst
agarg@everestgrp.com
Aminisha Gupta, Research Analyst
agupta@everestgrp.com