# Value Proposition of Tier-2/3 Cities for Global Services Delivery

Locations Insider™ (LI)
Market Report: July 2015 – Preview Deck


EGR-2015-2-PD-1473

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- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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1 Banking, financial services, and insurance

# Background and scope of the research

**Background of the research**

As the global services industry matures, there is a gradual shift in the mix of locations being leveraged. As the competition heats up, companies are looking to reduce costs and access additional talent pool for services delivery. The last few years have witnessed an increase in interest for global services delivery from tier-2 and tier-3 cities. The recent increase in activity in tier-2/3 cities is because both buyers and service providers have understood the benefits offered by these cities. At the same time, these cities offer challenges such as a lack of quality of infrastructure and talent. The report aims to illustrate the value proposition offered by tier-2/3 locations as delivery destinations for global services industry, and the key factors to be considered during selection of location for delivery center establishment.

**In this research, we analyze tier-2/3 cities as destinations for offshore and nearshore services delivery for global companies. The report is broadly divided into three sections:**

- Market overview and trends in adoption of tier-2/3 cities for services delivery
  - This section highlights the current market size, growth, and trends in adoption of tier-2/3 cities
- Value proposition of tier-2/3 cities
  - This section provides facts and examples to illustrate the key value proposition offered by tier-2/3 cities
- Key considerations and implications for operationalizing a delivery center in tier-2/3 cities
  - This sections provides key considerations and implications for service providers and buyers while operationalizing a delivery center in tier-2/3 cities

**The scope of the analysis includes:**

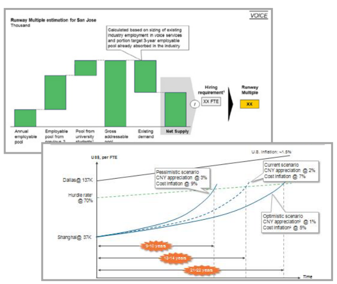
- Services – Voice and non-voice Business Process Services (BPS), Information Technology (IT) services, knowledge services (e.g., analytics), Research & Development (R&D), and engineering
- Geography – Asia Pacific, Middle East and Africa, Nearshore Europe[1], and Latin America and Caribbean
- Service providers – Global In-house Centers (GICs) and third-party service providers

1 Includes Central & Eastern Europe, Republic of Ireland, Northern Ireland, and Scotland

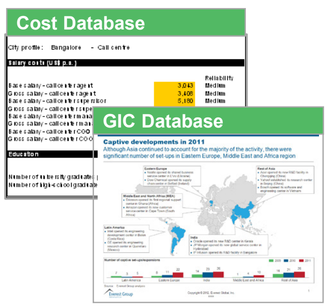
# Methodology – Everest Group's extensive databases, proprietary market intelligence, and inputs from market participants formed the foundation for this report

- Proprietary intelligence
- Market thought leadership
- Actionable and insightful research

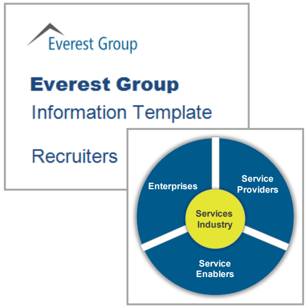
**1** Robust definitions and frameworks – location assessment, sustainability, and scalability



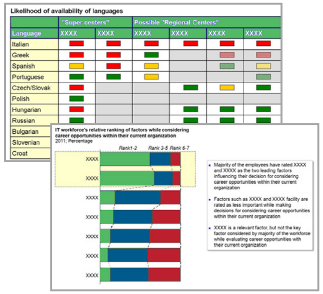
**2** Proprietary databases (global in-house centers, service providers, market activity, cost/labor, and transaction intelligence)




**3** Diverse set of touch-points with key global- services stakeholders for on-the-ground perspectives




**4** Fact-based research adequately informed by deep domain expertise and experience



- A dedicated team for global sourcing research, comprehensively supporting all location-related requirements of clients (information, strategy, tracking, etc.)
- Comprehensive, year-round tracking of global sourcing activity across outsourcing transactions, locations, Global In-house Centers (GICs), and service providers
- More than 20 years of advising clients on global sourcing decisions spanning strategy, optimization, and implementation
- Executive-level relationships with buyers, service providers, country/industry associations, and other industry stakeholders (recruiters, real estate firms, and legal firms)

# Cities can be classified into three broad categories based on the maturity of their global services delivery and economic profile

- Locations differ in terms of cost of operations, talent pool availability, business environment, and market activity
- To simplify location analysis, cities can be classified into three broad categories based on
  - Extent/maturity of IT-BPS market activity (includes aspects such as number of delivery centers of service providers/GICs and IT-BPS export revenue)
  - Overall socio-economic status of the city (includes aspects such as economic growth, infrastructure, population, and educational institutions)

| Location category | Typical characteristics |
|---|---|
| Tier-1 | • Large centers for global services delivery.<br>– Typically high competitive intensity within the IT-BPS market compared to tier-2/3 locations<br>• Large economic centers<br>• Primary education hubs with presence of large number of universities and significant talent migration from other locations |
| Tier-2 | • Moderate levels of market activity with presence of both service providers and global in-house centers<br>• Regional economic hubs, with a focus on particular industries<br>• Moderate presence of universities and migration of talent from smaller cities nearby |
| Tier-3 | • Limited instances of IT-BPS delivery<br>• Relatively smaller cities (population wise) with less economic activity compared to tier-1 and tier-2 cities<br>• Limited migration of talent from other cities |

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# Overview and abbreviated summary of key messages

The report provides current market trends on adoption of tier-2/3 locations for global services delivery. The report aims to illustrate the value proposition offered by tier-2/3 locations as delivery destinations for global services industry, and the key factors to be considered during selection of location for delivery center establishment.

**Some of the findings in this report, among others, are:**

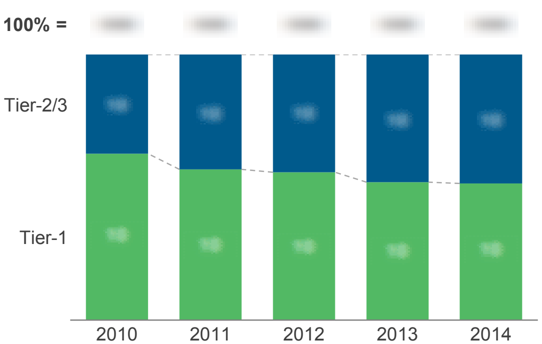
| | |
|---|---|
| **Market overview and adoption of tier-2/3 cities for services delivery** | • There is growing interest in adoption of tier-2/3 cities as global services delivery destinations<br>• Share of tier-2/3 cities in new delivery center setups has steadily grown by ~35% between 2010-2014. Going forward, the share of tier-2/3 cities is expected to increase even further<br>• There is more evidence of third-party service providers setting up delivery centers in tier-2/3 locations than enterprises. Tier-2/3 locations are preferred for transactional services, while tier-1 locations are preferred for more complex services |
| **Value proposition of tier-2/3 cities** | • Tier-2/3 locations typically offer 15-30% cost arbitrage over tier-1 cities across regions. This is primarily due to significantly lower salaries, rental costs, and overheads in tier-2/3 cities<br>• Although smaller than the talent pool in tier-1 cities, tier-2/3 cities also offer substantial fresh graduate pool<br>• Tier-2/3 cities offer favorable market landscape supporting talent acquisition (for experienced talent) and growth<br>• Tier-2/3 locations also help in geographic risk diversification, serving domestic/regional IT-BPS demand, supporting global companies in fulfilling CSR objectives, and may help reduce long term investments owing to additional government sponsored benefits available in these locations |
| **Key considerations for operationalizing a delivery center in tier-2/3 cities** | • Key dimensions to be considered for operationalizing a delivery center in tier-2/3 cities include: acquisition and development of talent, client engagement and contract type, role in delivery network, scalability of delivery centers, and creating an ecosystem<br>• While tier-2/3 cities offer advantages, multiple challenges exist, such as lower scalability, lack of an evolved ecosystem, limited breadth of skills, and competition from peripheral locations of tier-1 cities |

Source: Everest Group (2015)

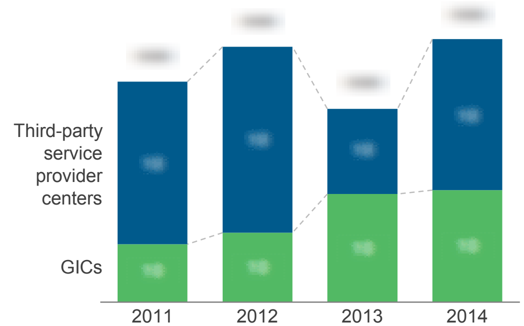
# This study offers three distinct chapters providing a deep dive into key adoption trends, value proposition, and key operational considerations for tier-2/3 locations

## Market overview and adoption trends

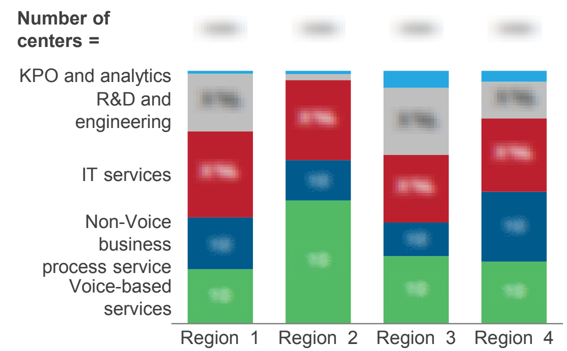
**Breakup of new centers (GICs and Service Providers) by city tiers**
2010-2014; Number




**Breakup of new centers setups in tier-2/3 cities by types of service providers**
2011-2014; Number

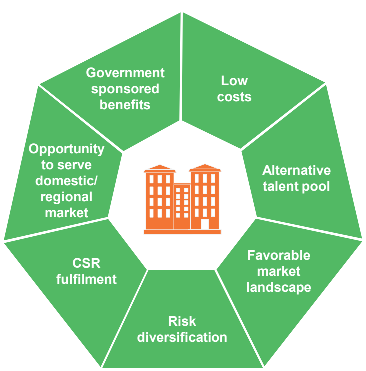



**Proportion of services delivered by new center setups at tier-2/3 cities by region**
2011-2014; Percentage



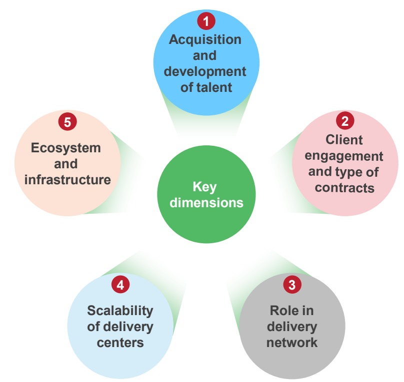

## Value proposition of tier-2/3 cities

**Assessment of tier-2/3 cities across seven value proposition planks identified by Everest Group**




## Considerations for leveraging tier-2/3 locations

**A five step approach to study key considerations for operationalizing a delivery center in a tier-2/3 city**




Source: Everest Group (year)

Everest Group RESEARCH

# LI research calendar

Published | Current

| Topic | Release date |
|---|---|
| Putting Egypt Back on Your Location Radar - The View from the Frontline of Operations | March 2015 |
| Cultural Affinity, Cost Savings, Coordinates – 3 C's of Targeting UK Contact Center Market | March 2015 |
| Next-wave Location Profile – Kochi, India | March 2015 |
| Nearshore Europe Is IT! IT Services Riding The Nearshore Advantage | April 2015 |
| Next-wave Location Profile – Penang, Malaysia | April 2015 |
| North America Domestic Outsourcing Services: Providers Embrace Onshoring – Is the World Still Flat? | May 2015 |
| "Next-wave" location profiles: Lithuania | July 2015 |
| Value Proposition of Tier-2/3 Cities for Global Services Delivery | July 2015 |
| "Next-wave" location profiles: Lodz, Poland | Q3 2015 |
| "Next-wave" location profiles: Puerto Rico | Q3 2015 |
| "Next-wave" location profiles: Brno, Czech Republic | Q3 2015 |
| "Next-wave" location profiles: Curitiba, Brazil | Q3 2015 |
| Annual Locations Webinar: Focus topic TBD | Q3 2015 |
| Global Locations Annual Report | Q3 2015 |
| Emerging Locations Trends report: SMAC delivery hotspots | Q3 2015 |
| "Next-wave" location profiles: El Salvador | Q3 2015 |

# Additional research references

**The following documents are recommended for additional insight on the topic covered in this report. The recommended documents either provide additional details on the topic, or complementary content, that may be of interest:**

1. **Tier-2/3 Locations in India for Offshore IT Services Delivery – Does Reality Meet the Hype?** (EGR-2014-2-R-1234); 2014. This report provides an in-depth analysis of Indian tier-2/3 cities as destinations for offshore IT services delivery for global companies, across various dimensions of market assessment, IT talent pool availability, and cost assessment with detailed analysis of seven key tier-2/3 cities. The report provides a perspective to buyers and service providers on multiple benefits and dimensions to be considered for operationalizing a delivery center in tier-2/3 locations for offshore IT services delivery. It concludes with providing insights on challenges associated with tier-2/3 city delivery

2. **Economies of Scale in Global Services - Realities and Limitations** (EGR-2014-2-R-1312); 2014 This viewpoint uncovers the enablers of economies of scale in global services, quantified its impact and also discusses realities and limitations of its "practical" implementation while designing/optimizing a global delivery portfolio

3. **Nearshore Europe Is IT! IT Services Riding The Nearshore Advantage** (EGR-2015-2-R-1432); 2015 This report analyzes the relative attractiveness of key cities in this geography for IT services delivery, and provide insights across dimensions such as talent availability, cost of operations, and risk profiles. It also describes how the amalgamation of these variables results in unique set of opportunities and challenges for each of these locations

4. **Market Vista: Q1 2015** (EGR-2015-8-R-1445); 2015. This report summarizes the key trends and developments for Q1 2015 in the global offshoring and outsourcing market

For more information on this and other research published by Everest Group, please contact us: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