Tier-2/3 Locations in India for Offshore IT Services Delivery – Does Reality Meet the Hype?

Locations Insider™
Market Report: September 2014 – Preview Deck

EGR-2014-2-PD-1234

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1 Banking, financial services, and insurance

Background and scope of the research

Background of the research

India continues to offer an attractive proposition for global companies, given the unique combination of low cost, scalable talent pool, and breadth and depth of available skills. Tier-2/3 cities add to the value proposition by providing additional cost savings of 8 to 12% when compared to tier-1 cities, owing to lower facilities cost and other operational costs. In the recent years, activity in tier-2/3 cities has witnessed a significant increase, as both buyers and service providers have understood these benefits in their quest for getting further savings and accessing additional talent pool.

In this research, we analyze Indian tier-2/3 cities as destinations for offshore IT services delivery for global companies, across various dimensions:

- Market characteristics
- Labor pool across entry level and employed talent
- Operating cost
- Key considerations for operationalizing a tier-2/3 city delivery center
- Implications for stakeholders

The scope of the analysis includes:

- Offshore IT services delivery
- Includes services sectors across Global In-house Centers (GICs) and third-party service providers
- Analysis of key tier-2/3 cities in India: Bhubaneswar, Chandigarh-tricity[1], Coimbatore, Jaipur, Kochi, Mysore, and Thiruvananthapuram (T-Puram)

1 Includes Chandigarh, Mohali, and Panchkula

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Everest Group RESEARCH

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Overview and abbreviated summary of key messages

This report provides an analysis of Indian tier-2/3 cities as destinations for offshore IT services delivery for global companies. The research also brings out key insights on market size and growth, talent pool availability, cost assessment, key dimensions for operationalizing tier-2/3 city delivery center, typical challenges, and implications for buyers and service providers

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

Overview of the market

- India is the largest location for offshore IT services delivery, accounting for ~68% of the global market; tier-2/3 cities contribute 7 to 10% to the overall India offshore IT services market
- Ten tier-2 cities account for 80 to 90% of offshore IT services revenue from tier-2/3 cities. Bhubaneswar, T-puram, Mysore, Mangalore, and Chandigarh-tricity[1] are the top five tier-2/3 cities

Assessment of talent pool

- Tier-2/3 cities account for ~50% of the employable IT graduate pool in India
- Jaipur, Coimbatore, and Bhubaneswar are the top three tier-2 cities in terms of employable entry-level pool for offshore IT services
- Coimbatore, Kochi, and Chandigarh have the highest market activity and scale of operations, therefore offering sizable experienced pools for offshore IT services delivery

Assessment of operating cost

- Moderate cost savings in tier-2/3 cities (8 to 12%) over tier-1 cities is likely to remain sustainable over the next five to seven years
- This cost advantage is driven predominantly by lower facilities, attrition, and transportation costs. There is limited difference in people costs between tier-1 and tier-2 cities

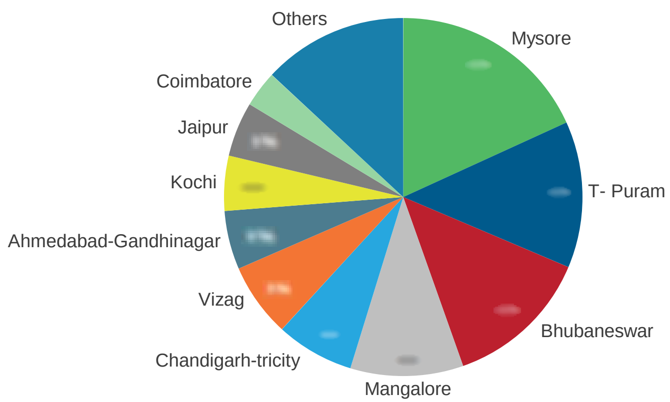
Key considerations for operationalizing a tier-2/3 delivery center

- Local talent availability at senior levels is typically low (approx. 20 to 40%) and most of it is relocated from tier-1 cities, implying need for effective talent hiring strategy
- Delivery centers in tier-2/3 cities either operate as a self-sufficient centers or as spokes to tier-1 city hubs
- While tier-2/3 cities offer advantages, multiple challenges exist, such as lower scalability, lack of an evolved ecosystem, limited breadth of skills, and weakened value proposition in comparison to peripheral locations of tier-1 cities

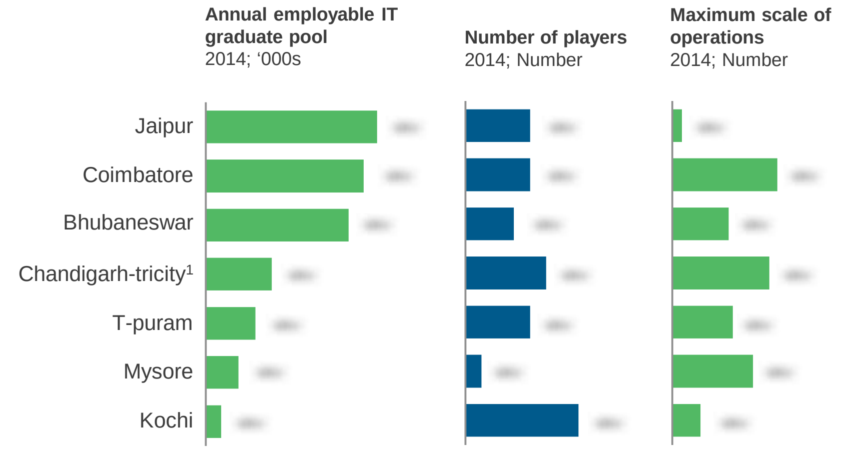
1 Includes Chandigarh, Mohali, and Panchkula

This study offers four distinct chapters providing assessment of tier-2/3 cities in India for offshore IT services delivery; below are four charts to illustrate the depth of the report

Market Overview

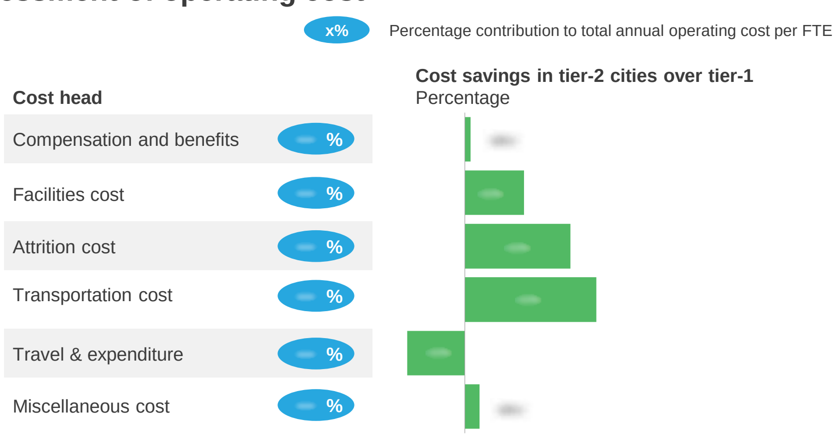


Assessment of talent pool

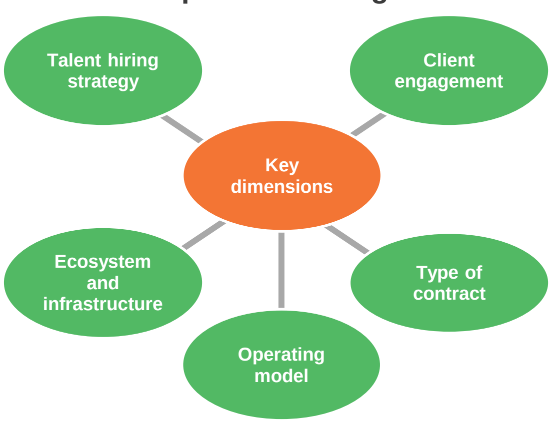


1 Includes Chandigarh, Mohali, and Panchkula

Assessment of operating cost



Key considerations for operationalizing a tier-2/3 delivery center



Source: Everest Group (2014)

LI research calendar

Published | Current

Topic	Release date
"Next-wave" location profile: Guatemala	November 2013
"Next-wave" location profile: Cebu	November 2013
Finance & Accounting in Latin America (LATAM)	December 2013
"Next-wave" location profile: Bulgaria	June 2014
"Next-wave" location profile: Peru	June 2014
"Next-wave" location profile: Romania	July 2014
"Next-wave" location profile: Chengdu, China	July 2014
"Next-wave" location profile: Vietnam	August 2014
"Next-wave" location profile: Nicaragua	August 2014
"Next-wave" location profile: Kenya	September 2014
"Next-wave" location profile: Latvia	September 2014
"Next-wave" location profile: Jaipur	September 2014
"Next-wave" location profile: Uruguay	September 2014
"Next-wave" location profile: Sri Lanka	September 2014
Tier-2/3 Locations in India for Offshore IT Services Delivery – Does Reality Meet the Hype?	September 2014
Global Locations Annual Report	Q4-2014
Delivery of BP services from the U.S.	Q4-2014
Is Philippines Stepping Up to Lead the Industry into the Next Horizon of Global Services?	Q4-2014
Locations for delivery of multilingual F&A services in Central and Eastern Europe	Q4-2014
Locations for delivery of English-language contact center services in Central America and Caribbean	Q4-2014

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. **Finance & Accounting in Latin America (LATAM)** (EGR-2013-2-R-1009); 2013. This report analyzes LATAM as a destination for nearshore/offshore FAO services in English language and the region's unique value proposition. The report would help buyers and service providers, who are evaluating entering or expanding their existing footprint in LATAM, to develop a holistic perspective of global services in FAO
2. **Next-wave Location Profile – Jaipur** (EGR-2014-2-LP-1213); 2014. Everest Group's Next Wave Location Profiles provide crisp, yet insightful assessment of emerging / "next-wave" countries or cities for services delivery. This report on Jaipur offers perspectives on global sourcing profile of Jaipur, key opportunities, drivers, and challenges, along with an overview of talent availability, operating costs, and environment risks
3. **Next-wave Location Profile – Uruguay** (EGR-2014-2-LP-1210); 2014. Everest Group's Next Wave Location Profiles provide crisp, yet insightful assessment of emerging / "next-wave" countries or cities for services delivery. This report on Uruguay offers perspectives on global sourcing profile of Uruguay, key opportunities, drivers, and challenges, along with an overview of talent availability, operating costs, and environment risks

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

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