North America Domestic Outsourcing Services: Providers Embrace Onshoring – Is the World Still Flat?

Locations Insider^{TM}
Market Report: May 2015 – Preview Deck

EGR-2015-2-PD-1455

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Corporate Headquarters
Office: +1-214-451-3000
info@everestgrp.com

European Headquarters
Office: +44-207-129-1318
unitedkingdom@everestgrp.com

1 Banking, financial services, and insurance

Background and scope of the research

Background of the research

The rise of offshored services during the 2000s attracted significant attention and criticism for its impact on organizations and people in United States and Canada. As the offshoring industry has matured, the need for onshore delivery has become clearer due to the unique role this model plays in fulfilling certain outsourcing objectives. Thus, buyers of outsourcing services demand greater use of domestic onshore delivery.

This analysis covers trends in domestic outsourced service delivery across locations, types of work being delivered, and the service provider landscape. We focus on:

- Relevance of domestic outsourcing
- Domestic outsourcing delivery landscape
- Talent model
- Role played by domestic delivery in provider portfolios
- Future outlook for domestic outsourcing

This report was released at RevAmerica 2015, an industry event focussing on U.S. Domestic Sourcing of IT and BPO services and key findings from the report were presented during the event

The scope of this report includes:

Outsourced IT services, business process services, and voice business process services being delivered from United States or Canada by 50+ leading service providers through their delivery centers. The analysis excludes services being delivered by internal models (e.g., central IT, shared services, and business units) and excludes work being delivered by providers in an onsite model

Table of contents

Everest Group's domestic outsourcing landscape research is based on multiple sources of proprietary information
(page 1 of 2)

1

- Detailed RFIs with **28 service providers,** covering the following aspects of their domestic delivery capabilities (see logos in the right box for list of participating service providers):
  - Delivery center locations
  - Year of establishment
  - Headcount[1]
  - Key services provided
  - Talent model
  - Growth plans
  - Key verticals served
  - Role played by the center

Illustrative list of service providers

1 Our research focused on domestic employees (permanent and contractors) and did not include employees traveling from other centers, typically for a project

Source: Everest Group (2015)

Everest Group's domestic outsourcing landscape research is based on multiple sources of proprietary information (page 2 of 2)

2

- The RFI responses were augmented by Everest Group's proprietary service provider database of **25+ additional service providers,** which is updated annually
- The database tracks the following elements of the domestic delivery capability:
  - Delivery center locations
  - Year of establishment
  - Headcount
  - Key services provided
  - Key verticals served

3

- One-on-one executive-level interviews with **15 service providers** to understand multiple aspects of domestic outsourcing:
  - Key drivers
  - Nature of services delivered from domestic delivery centers
  - Role of domestic sourcing in the overall global sourcing portfolio
  - Location strategy and associated talent model
  - Future outlook

Source: Everest Group (2015)

The analyses are designed to understand domestic sourcing along three major dimensions

Dimensions of analysis

- **Functions**
  - Information technology
  - Non-voice business process
  - Voice business process
- **Categories of service providers**
  - Traditional multinationals players
  - India-centric service providers
  - Domestic pure-plays
  - Other providers
- **Tiers of cities**
  - U.S. cities categorized into tier-1 through tier-5, and rural
  - Canadian cities categorized into tier-1 through tier-4/rural

Each of these dimensions is defined in detail in the following pages

The outsourced services landscape is segmented into three major functions and ten subfunctions

Functions

Subfunctions

Outsourced services

IT services

- Application Development and Maintenance (ADM)
- Infrastructure
- Testing
- System integration / consulting
- Others – cloud

Non-voice business process services

- Finance and Accounting (F&A)
- Human Resource (HR)
- Procurement / supply chain / logistics
- Others – marketing, legal, etc.

Voice business process services

- Contact center

Over 50 service providers are reflected; they are classified into four categories

Service provider category	Typical characteristics	Examples		
Traditional multinational players	• Service providers with global clients and delivery network • Typically have a U.S. or European origin	• Accenture • ADP • Aon Hewitt • CGI • Concentrix • Convergys	• CSC • Dell • HP • IBM • Sitel • Sutherland Global Services	• Sykes • Teleperformance • Teletech • Unisys • Xerox
India-centric service providers	• Service providers with Indian origin and multi-geography footprint • Serve global clients	• Cognizant • EXL • Genpact • HCL • HGS	• IGATE • Infosys • L&T Infotech • Minacs Group • Polaris	• Syntel • TCS • Tech Mahindra • Wipro • WNS
Domestic pure-plays	• Service providers with U.S. origin • Delivery network as well as client focus is also purely domestic in nature	• Ameritas Technologies • Catalyst IT • Collaborative Consulting • CrossUSA • Enquero	• Eagle Creek Software Services • Genesis10 • Liberty Source • Nexient • Onshore Outsourcing	• Prosperity America • Rural Sourcing • Saturn Systems • TMone • WaveCreste
Other providers	• Service providers who have a multi-geography footprint, but typically a regional client focus	• Alorica • Luxoft • NCO Group	• Serco • Softtek • Virtusa	• Xpanxion

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The local city for each of the 670+ delivery centers is aggregated into a metro city definition, resulting in 315 metro cities

Approximately 500 "local" cities

- The 670 reported delivery centers are located in about 500 different cities
- Locations reported are the specific mailing address city and, therefore, do not reflect the surrounding cities or economic/labor markets

Approximately 300 "metro" cities

- To reflect the available talent pool (individuals often travel out of their own city for work), ~270 cities in close proximity to each other (generally less then 10-20 miles) were grouped into a metro city definition
  - Suburban cities are aggregated into the main city (e.g., Irving, Plano, and Richardson, among others, have been grouped as Dallas-Fort Worth-Arlington)
  - Groups of cities sharing common talent pool are grouped together (e.g., Phoenix and Mesa in Arizona have been grouped as Phoenix-Mesa; Raleigh, Durham, and Cary have been grouped as Raleigh-Durham Research Triangle)
- The remaining ~230 cities are standalone entities and not aggregated into metro cities

Assignment to tiers

- To simplify location analysis, each metro city and standalone city is classified into a location tier based on population, education profile, and business environment (judgment-based classification)
- All the local cities associated with a particular metro city have the same location category as the metro city

The metro and standalone cities of United States and Canada are segmented into tiers based upon typical population, educational profile, and business environment (page 1 of 2)

UNITED STATES

Location category	Typical characteristics	Examples
Tier-1	• Large economic centers • Typically, have a metro population of 6-20 million • High availability of entry-level graduate pool because of the presence of a large number of universities and talent migration from other locations • High operating cost due to both wages and facilities cost	• Chicago, IL • Los Angeles, CA • New York, NY • Boston, MA • San Francisco, CA
Tier-2	• Smaller than tier-1 cities, but are still major business centers • Typically, have a metro population of 2-8 million • Talent pool is generally comparable to tier-1 cities in terms of breadth, but relatively smaller • Operating cost is typically 10-15% lower than tier-1 cities	• Atlanta, GA • Dallas, TX • Denver, CO • Houston, TX
Tier-3	• Typically, have a metro population of 0.5-2 million • Operating cost is either similar to tier-2 cities or slightly lower • Typically, have a large commercial airport • Operating cost is typically 5-10% lower than tier-2 cities	• El Paso, TX • Nashville, TN • New Orleans, LA • Omaha, NE
Tier-4	• Small cities with a typical population between 100,000-500,000 • Presence of one or two colleges • Lower availability of entry-level and experienced talent pool • Primarily, leveraged as low-cost delivery centers for domestic outsourcing services	• Mobile, AL • Des Moines, IA • Fargo, ND • Sioux Falls, SD
Tier-5	• Typical population between 25,000-100,000 • May or may not have a college • Generally do not have a commercial airport • Limited talent pool availability	• Albany, GA • Oak Ridge, TN • Midland, MI
Rural	• Rural locations with population below 25,000 • Typically, located beyond 25 miles of a tier-4 or larger city	• Jacksonville, TX • Grand Rapids, MN

The metro and standalone cities of United States and Canada are segmented into tiers based upon typical population, educational profile, and business environment (page 2 of 2)

CANADA

Location category	Typical characteristics	Examples
Tier-1	• Large economic centers • Typically, have a urban population of 1-5 million • High availability of entry-level graduate pool because of the presence of large number of universities and talent migration from other locations • High operating cost due to high wages and facilities cost	• Toronto, ON • Montreal, QC • Calgary, AB • Vancouver, BC
Tier-2	• Smaller than tier-1 cities, but are main business centers in their respective regions • Typically, have a metro population of 100,000-1 million • Presence of universities as well as ability to draw talent from tier-1 cities • Operating cost is typically 10-15% lower than tier-1 cities	• Winnipeg, MB • Halifax, NS • Moncton, NB • Edmonton, AB
Tier-3	• Typically, have an urban population of 50,000-200,000 • Have some business activity • Presence of universities/colleges, but otherwise limited talent pool availability • Operating cost is lower than tier-2 cities	• Sherbrooke, QC • Kingston, ON • Peterborough, ON • Fredericton, NB
Tier-4/rural	• Small towns or rural areas with a population below 75,000 • Geographically far (75+ miles) from main business centers • May or may not have a college, hence limited talent pool availability • Primarily, leveraged as low-cost delivery centers for domestic outsourcing services	• Corner Brook, NL • Liverpool, NS • Chatham, ON

Abbreviated summary of key messages (page 1 of 2)

Relevance of domestic outsourcing

- The domestic outsourcing market is sizable and is dominated by traditional multinational players
- The share of domestic delivery in provider portfolios varies across functions and verticals served, and is higher for functions that require accent similarity, cultural & local context, and/or deal with sensitive data
- In the past five years, the delivery center set up activity by service providers has increased, indicating growing interest in building domestic presence
- The key growth drivers for domestic outsourcing are diversification of buyer needs, intent to leverage soft skills of onshore talent, overcoming structural challenges associated with offshore delivery, and managing externalities (e.g., regulatory and visa norms)

Domestic outsourcing delivery landscape

- There are more than 670 delivery centers in United States and Canada, spread across ~300 cities, which indicates the breadth of location options available
- The South is the leading region with the highest number of delivery centers across all functions
- Tier-3 locations in the United States have the highest share of FTEs and delivery centers owing to a large talent pool and relatively lower cost of operations. In Canada, tier-2 locations have the highest share
- Although a majority of centers are used for delivery of a single function, multi-function centers are also present. The multi-function centers deliver two or more functions across IT, business process services, and contact centers
- Within the single-function centers, contact center services have the highest share. Among the multi-function centers, a majority of them deliver all the three functions IT, business process, and contact center services
- Traditional multinational players dominate the domestic outsourcing market, both in terms of headcount as well as the number of delivery centers
- The location selection varies by service provider type. While India-centric service providers are predominantly present in tier-1, 2, and 3 locations, traditional MNCs have a significant presence in tier-4 locations as well

Abbreviated summary of key messages (page 2 of 2)

Talent model and role played by domestic delivery

- The typical delivery center size is <500 FTEs, however, there are significant variations across service provider types and functions
- Traditional multinational players have larger delivery centers compared to others
- Contact center services typically have larger delivery centers as compared to IT and business process
- The talent requirement varies significantly across functions, which impacts the delivery center location selection. IT and business process delivery centers are typically located in tier-1 to tier-3 cities due to advanced skill-set requirements for these functions, which are difficult to find in tier-4 or lower. Similarly, contact centers typically hire high school and college graduates and are located in lower city tiers due to ease of talent availability and lower costs
- The type of resources (local/landed) being leveraged varies significantly by service provider, with India-centric service providers having a higher share of landed resources
- Depending upon the type of service providers, the role of domestic delivery centers varies from complementing offshore delivery, to providing specialized skills, to serving as the default delivery model

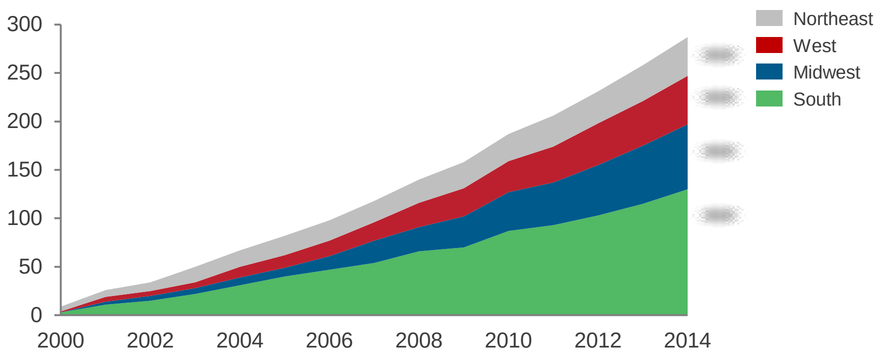
Future outlook for domestic outsourcing

- Majority of the domestic delivery centers are expected to grow headcount in the coming years, with almost no center expected to decrease in scale
- The growth of domestic delivery centers is expected to vary by city tier, with tier-2 and tier-3 cities poised to witness maximum growth
- India-centric service providers are expected to lead the growth
- Growth is expected to be the highest in the South, owing to a large number of delivery centers in the region
- Contact centers are expected to witness the highest growth due to higher demand

This study delves into multiple aspects of domestic outsourcing services delivery; below are few charts to illustrate the depth of the report (page 1 of 2)

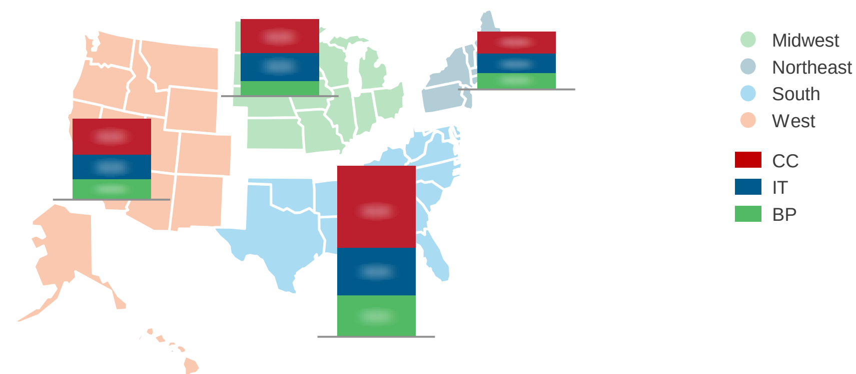
Growth of domestic outsourcing

Cumulative domestic centers set up in the United States by region since 2000
Cumulative number of delivery centers



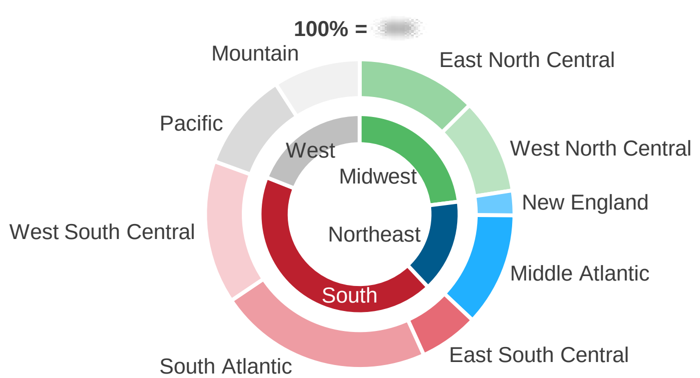
Delivery location landscape

Number of delivery centers by region and function



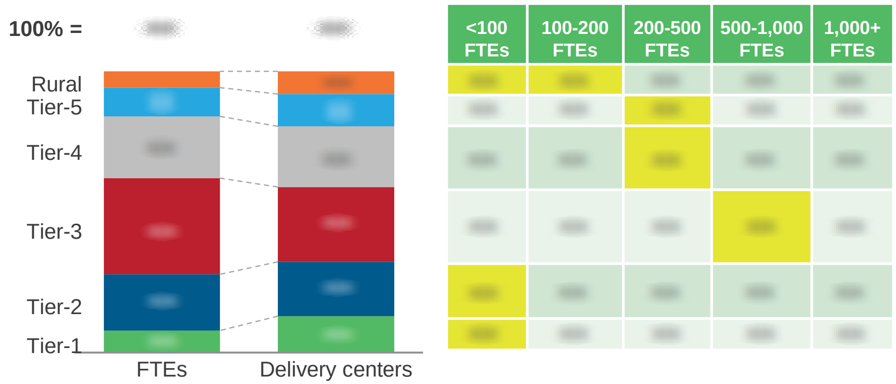
Delivery location landscape

Distribution of delivery centers in the United States by regions
Number of delivery centers



Delivery location landscape

Distribution of domestic FTEs and U.S. delivery centers by city-tiers
Number of FTEs and delivery centers



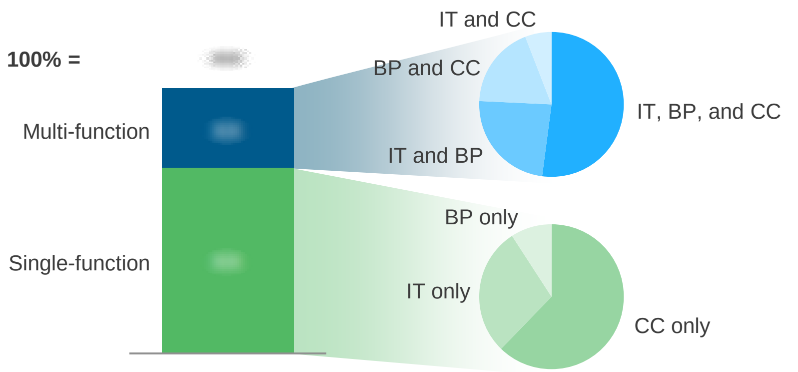
Source: Everest Group (2015)

Everest Group RESEARCH

This study delves into multiple aspects of domestic outsourcing services delivery; below are few charts to illustrate the depth of the report (page 2 of 2)

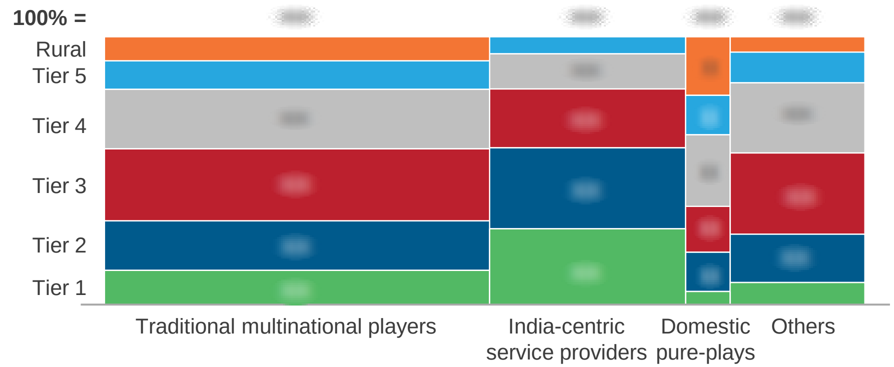
Type of work delivered

Share of domestic centers by number of services delivered
Number of delivery centers



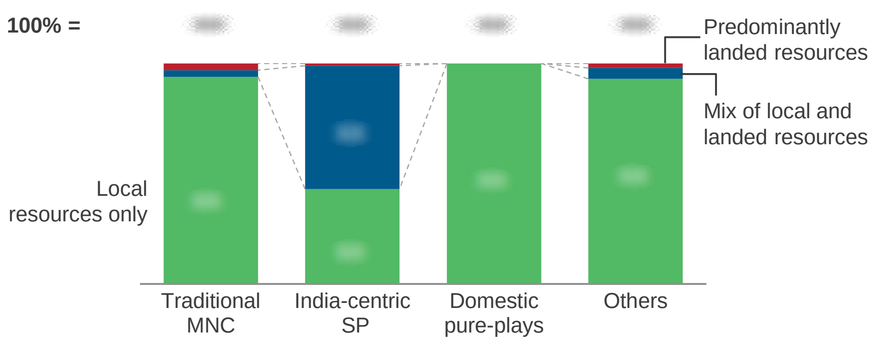
Service provider landscape

Distribution of delivery centers by service provider type and city-tier
Number of delivery centers



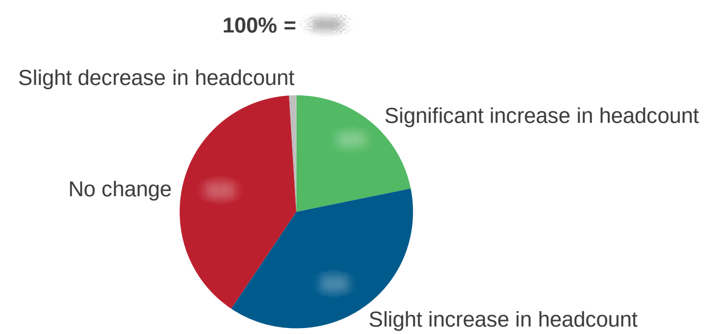
Talent model

Talent model preference by type of service provider
Number of delivery centers



Future outlook

Expected increase in headcount
Number of delivery centers



Source: Everest Group (2015)

LI research calendar

Published | Current

Topic	Release date
Central America and the Caribbean Answer the Call for English-language Contact Center Services	December 2014
Economies of Scale in Global Services – Realities and Limitations	December 2014
Global Location Insights: Demystifying the Impact of Incentives on Location Attractiveness	December 2014
"Next-wave" location profiles: Bangalore, India	January 2015
"Next-wave" location profiles: Manila, Philippines	January 2015
Cultural Affinity, Cost Savings, Coordinates – 3 C's of Targeting UK Contact Center Market	March 2015
"Next-wave" location profiles: Kochi, India	March 2015
"Next-wave" location profiles: Penang, Malaysia	April 2015
Nearshore Europe Is IT! IT Services Riding The Nearshore Advantage	April 2015
North America Domestic Outsourcing Services: Providers Embrace Onshoring – Is the World Still Flat?	May 2015
"Next-wave" location profiles: Lithuania	Q2 2015
"Next-wave" location profiles: Lodz, Poland	Q2 2015
"Next-wave" location profiles: Puerto Rico	Q2 2015
Emerging Locations Trends report: SMAC delivery hotspots	Q2 2015
Emerging Locations Trends report: Proposition of tier-2 and tier-3 cities for global services delivery	Q2 2015
"Next-wave" location profiles: Brno, Czech Republic	Q3 2015
"Next-wave" location profiles: Curitiba, Brazil	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. **U.S. Onshore Delivery Puzzle – Demystifying Location Selection** (EGR-2014-2-R-1269); 2014. Business Process Service (BPS) delivery from onshore locations in the United States has witnessed an increase in interest in the last few years. In this report we highlight the key factors to be considered during location selection for onshore delivery centers and provide an in-depth analysis of cost, talent, and player landscape of key location types available within the United States for onshore BPS delivery

2. **Cultural Affinity, Cost Savings, Coordinates – 3 C's of Targeting UK Contact Center Market** (EGR-2015-1-R-1420); 2015. This report analyzes the relative attractiveness of key cities in Nearshore UK locations (Scotland, Northern Ireland, Ireland) for contact center services delivery. It also provides insights into contact center outsourcing market, talent availability, cost of operations, and risk profiles. The report will aid buyers and service providers, who are evaluating entering or expanding their existing footprint in Nearshore UK, in developing a holistic perspective of contact center services

3. **Nearshore Europe Is IT! IT Services Riding The Nearshore Advantage** (EGR-2015-2-R-1432); 2015. Nearshore Europe has globally emerged as a leading Information Technology (IT) services delivery location. In this report, we analyze 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. We describe how the amalgamation of these variables results in unique set of opportunities and challenges for each of these locations

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

Eric Simonson, Managing Partner – Research: eric.simonson@everestgrp.com
Sakshi Garg, Practice Director – Global Sourcing: sakshi.garg@everestgrp.com
Hrishi Raj Agarwalla, Analyst – Global Sourcing: hrishi.agarwalla@everestgrp.com

Website: www.everestgrp.com | Phone: +1-214-451-3000 | Email: info@everestgrp.com

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Dallas (Headquarters)
info@everestgrp.com
+1-214-451-3000

New York
info@everestgrp.com
+1-646-805-4000

Toronto
canada@everestgrp.com
+1-647-557-3475

London
unitedkingdom@everestgrp.com
+44-207-129-1318

Delhi
india@everestgrp.com
+91-124-284-1000

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