



Market Vista™: Select Findings Q1 2018

October-December 2017

Everest Group®
MARKET VISTA™

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Market Vista | Overview

Covers global services market research, analysis, and insights to demystify the market and direct clear, impactful decisions

Overall sourcing market

- Detailed analysis of trends by industry vertical and geography
- Report of transaction volume, size, and momentum
- Perspective on events with significant industry impact (e.g., M&A)
- Implications of regulatory changes



Service provider landscape

- Updates on service provider market share, capabilities, and performance
- Service provider profiles, including data on:
 - Transactions
 - Location footprint
 - M&A activity



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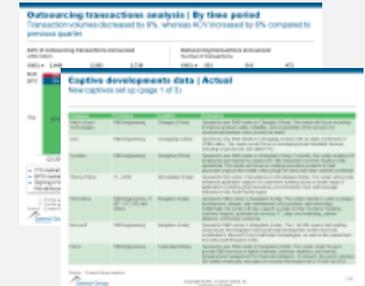
Location data and dynamics

- Data on market activity in key offshore geographies
 - Political
 - Macroeconomic
 - Promotion incentives
- Trends in wage inflation, attrition, and arbitrage



Processes and models

- Process-level trends
- Global In-house Center (GIC) set-ups, divestures, and overall trends
- Fact-based insights on adoption of emerging pricing models
- Data and perspectives on new opportunity areas



Quarterly
report

Primer

Location
database

Breaking
viewpoint

Location insights
e-newsletter

Industry
trends

Key changes in Market Vista™ reports

1 Introduction of digital dashboard – digital coverage in key indices dashboard and related sections

4 Increased coverage of service providers in Market Vista™ Index from 20 to 25

2 Interactive charts in excel deliverable to “custom” compare service providers’ activities

5 Change in delivery format of “key market developments” section for service providers from PDF to Excel

3 Expanded coverage of GICs with addition of onshore shared services centers and specific reference to centers supporting digital services

6 Reclassification of industries covered in Market Vista™ subscription

Global services | Key market trends in 2017

1

Reduction in growth of outsourcing services with increase in share of digital services in new outsourcing transactions

2

New GIC setups recorded an all time high activity due to increased preference for insourcing next-generation services

3

For the first time ever, digital-focused outsourcing deals surpassed traditional transactions; almost half of the new GICs support digital services

4

Location activity led by Asia Pacific and Central & Eastern Europe; Q4 recorded an all-time high activity in Middle East & Africa driven by setups in Israel

5

Leading service providers made several investments (e.g., grow onshore presence, explore opportunities for inorganic growth, and upskill/reskill talent) to remain competitive in the market

Global Services Dashboard: Q4 2017

● Share of digital-focused activity ■ Operating margin

Outsourcing/offshoring market overview

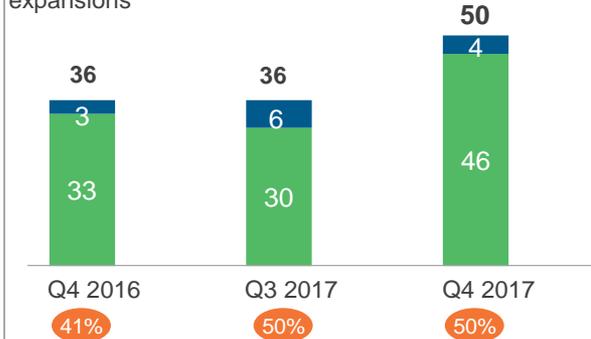
Increased growth rate in outsourcing demand compared to Q3 2017

Number of outsourcing transactions



High offshore and nearshore GIC activity in Q4 2017

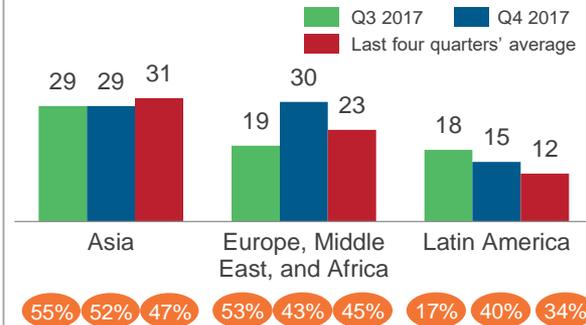
Number of new GIC setups and expansions



Location dynamics

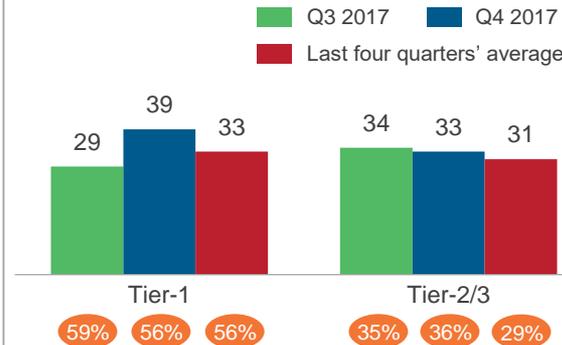
Location activity increased in EMEA but decreased in Latin America compared to Q3

Number of delivery center setups



Increase in share of tier-1 locations compared to tier-2 locations

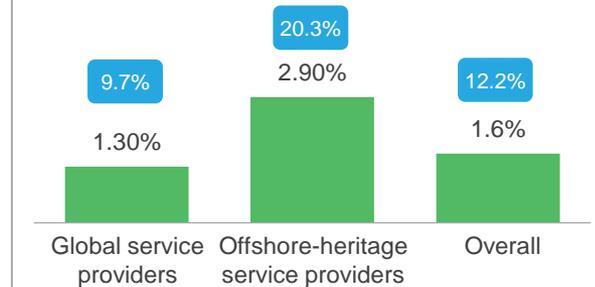
Number of delivery center setups



Service provider developments and trends

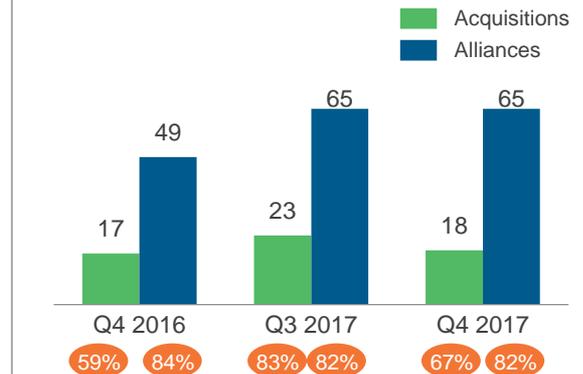
Revenue for offshore-heritage providers increased QoQ, but decreased for global providers

QoQ growth in revenue



Number of acquisitions announced

Number of acquisitions and alliances



Summary of key developments in Q4 2017 (page 1 of 2)

Transaction activity increased in Q4 2017 with 365 deals, compared to 350 in Q3 2017

- Increased growth in outsourcing demand, given the higher growth in ITO deals compared to the previous quarter; volume and relative share of BPO deals declined over the last quarter
- BFSI, healthcare, manufacturing, energy & utilities, retail & CPG, and technology & communication verticals saw an increase in volume of transactions, while the government sector reported a significant decline in the number of transactions over the last quarter
- Outsourcing activity across North America declined significantly, while Europe saw a sharp increase in volume of deals owing to a rise in demand across Rest of Europe
- The volume of renewals / restructured deals increased marginally over the last quarter
- Volume as well as share of medium-term contracts (five to seven years) increased significantly, while the number of very short-term deals (zero to three years) declined, compared to the previous quarter
- Application outsourcing processes witnessed an increase in adoption over the last quarter; BPO processes witnessed a significant decline in demand vis-à-vis Q3 2017

GIC market activity increased in Q4 2017 for offshore and nearshore locations, with 46 new setups, four expansions, and no divestitures

- New GIC set-up activity increased significantly compared to the previous quarter, with Europe driving the growth
- Leading companies, such as BT, Cushman & Wakefield, Google, Intel, MasterCard International, Mercedes Benz, MetLife, Nestle, Nokia, Samsung, and Uber, announced new centers
- In Q4 2017, onshore locations reported 27 new setups, and two expansions driven by activity in the United States. Leading companies, such as Airbus Group, Amazon, Baidu, BT, Burberry, Daikin, Hyundai Motors, Samsung, and SAP, announced new centers

Location activity in Q4 2016 was higher compared to the previous quarter, driven by significant growth in Nearshore Europe; activity in tier-1 locations was marginally higher than tier-2 cities

- New center set-up activity recorded an all-time high with 67 new delivery centers set up in Q4 2016. Activity was led by both GICs and service providers. Tier-2 cities experienced an increase in activity with 32 new center setups recorded in Q4 2016, compared to 27 in the previous quarter
- Key location risk/opportunity trends for Q4 2016 include – robustness of India's Internet connectivity was exposed due to a recent cyclone in Chennai; growing attractiveness of Argentina's global services industry due to economic and political changes; change in relative ranking of offshore and nearshore locations with currency fluctuations in 2016; and impact on global services industry given the recent election of Donald Trump as the President of the United States

Most service providers reported sequential growth in revenue

- There was a marginal increase in the revenue for global as well as offshore-heritage service providers. There was also a marginal increase in the operating margin for global as well as offshore-heritage service providers
- There was a marginal increase in the overall transaction activity; however, the share of Market Vista Index service providers increased significantly in Q4 2017 as compared to the previous quarter
- Overall M&A activity decreased due to a decline in acquisitions from both global and offshore-heritage service providers. On the other hand, alliance activity remained constant, compared to the previous quarter
- Overall location activity for leading service providers declined as compared to the previous quarter due to a significant decrease in activity for both global and offshore-heritage service providers

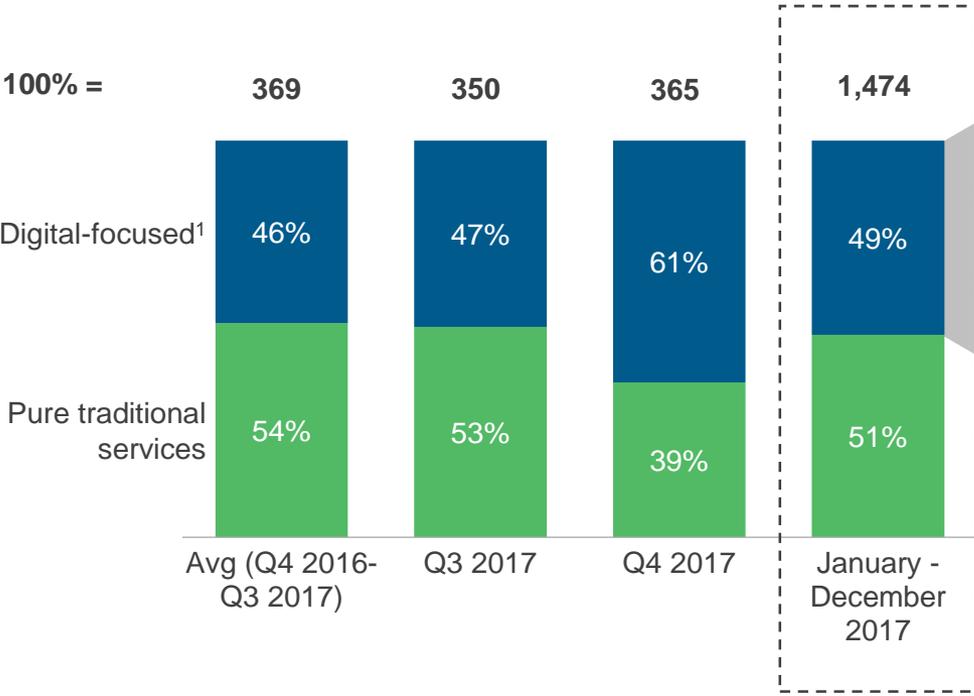
Key developments in the digital space – Q4 2017

(further details on the next five pages)

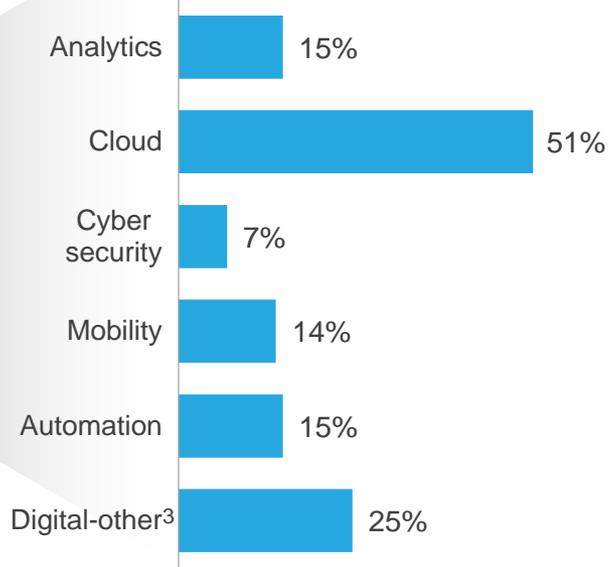


Outsourcing transaction activity was driven by an increased adoption of digital services

Outsourcing market activity
Number of outsourcing transactions



Distribution by digital components
Number of outsourcing transactions²

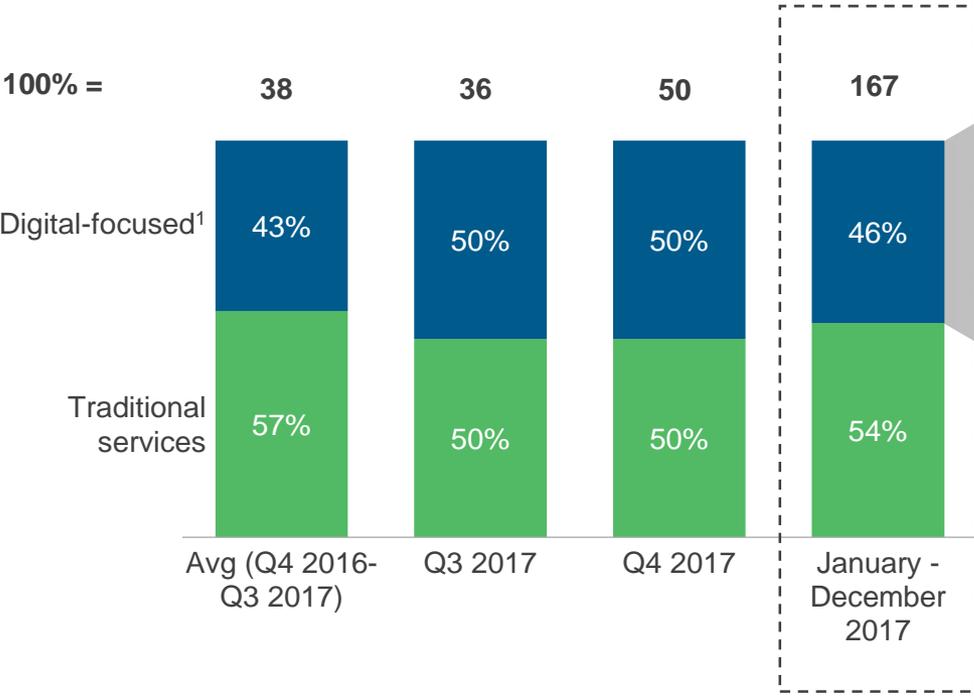


The share of digital-focused transactions increased from 47% in Q3 2017 to 61% in Q4 2017 vis-à-vis the pure traditional services, which showed a decline in adoption over the last quarter.

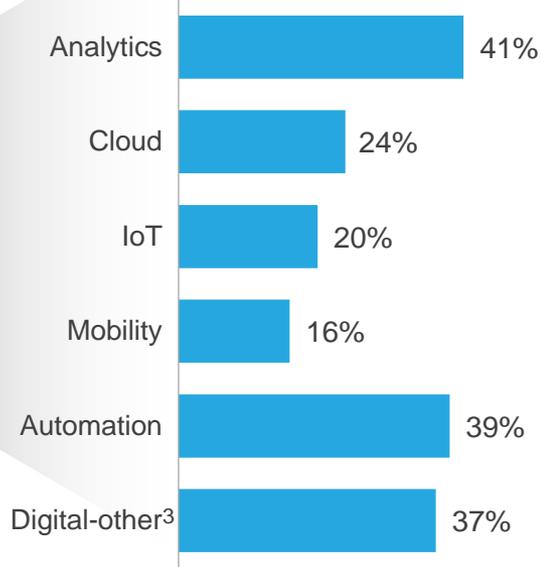
1 Includes centers that provide digital as well as traditional services
 2 Includes alliances which has multiple digital components
 3 Others include digital components such as social media, Internet of Things (IoT); and blockchain

Digital services in GIC setups continued to remain high, and in line with the previous quarters

Offshore GIC market activity
Number of GIC setups and expansions



Distribution by digital components
Number of outsourcing transactions²

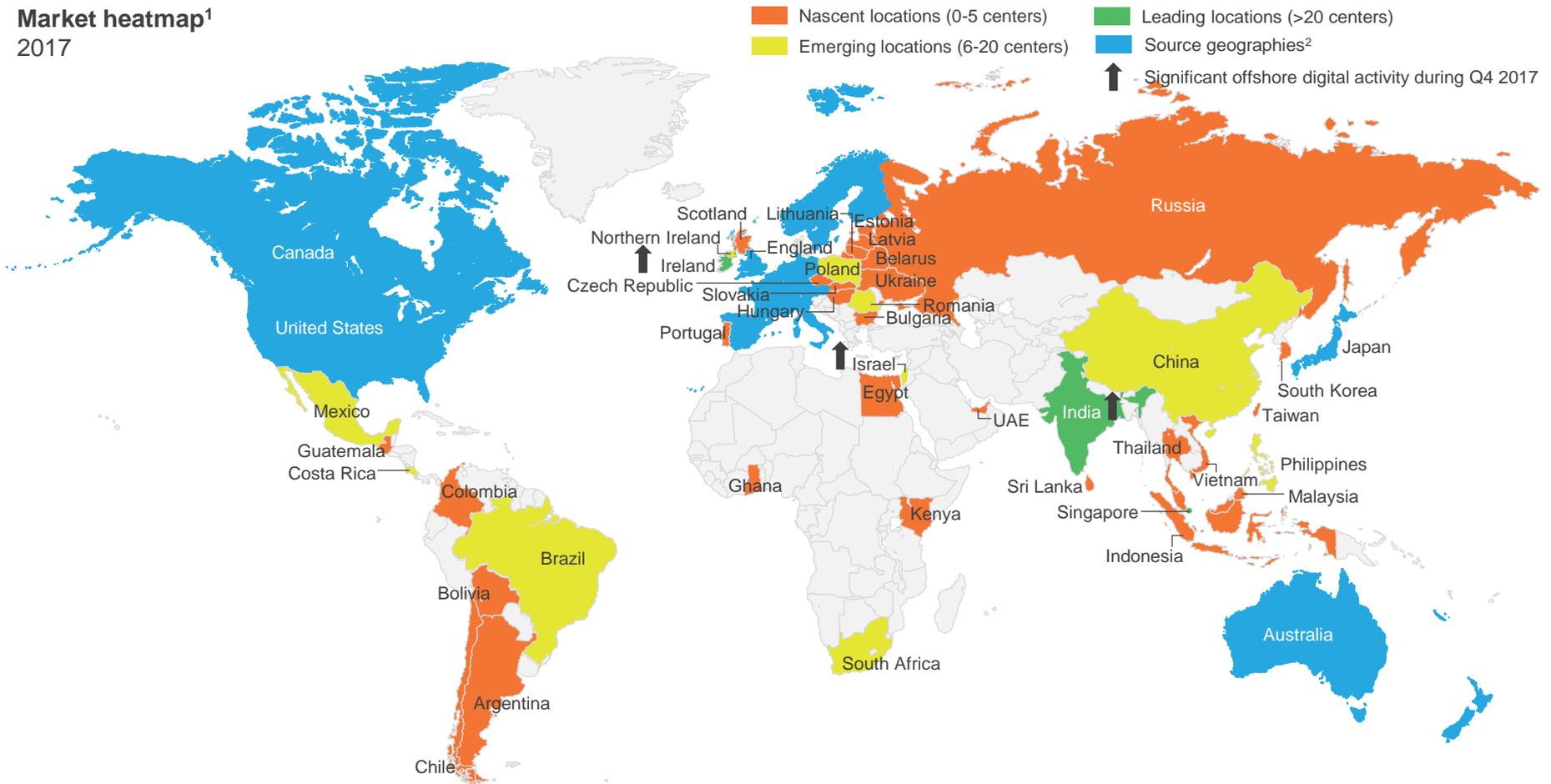


Analytics continued to account for the maximum share out of the total digital-based GICs setups during 2017. Automation gained traction as GICs are now exploring options to reduce cost beyond traditional means.

1 Includes centers that provide digital as well as traditional services
 2 Includes alliances which has multiple digital components
 3 Others include digital components such as social, cybersecurity, and blockchain

Digital market activity heatmap

Market heatmap¹
2017



1 Analysis based on number of center setups by service providers and GICs

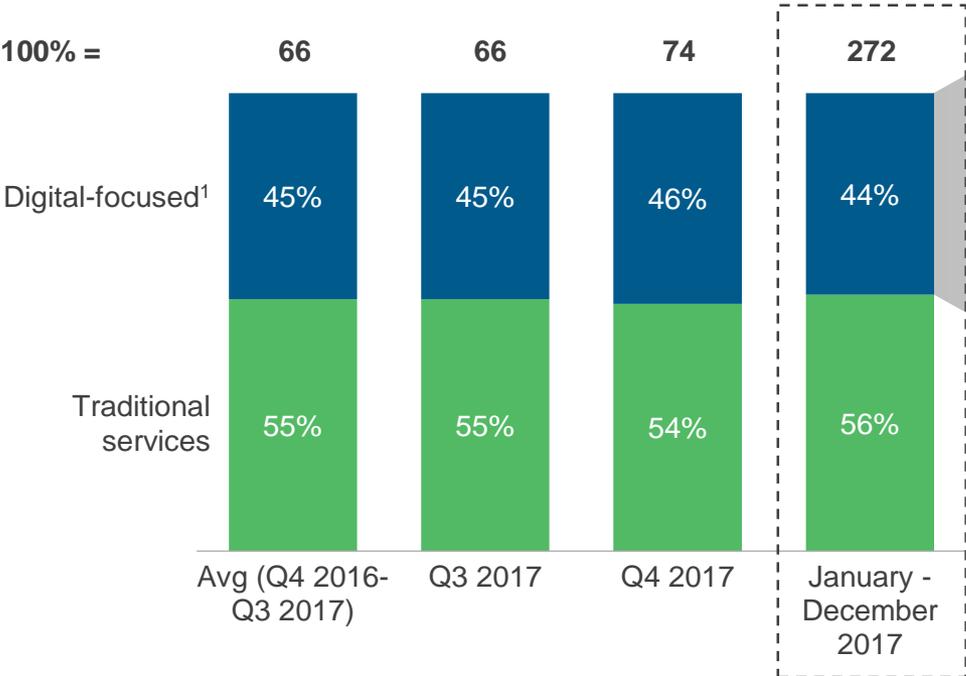
2 Indicates the high-cost locations typically offshoring/nearshoring information technology and business process services to other low-cost locations

Source: Country- / city-level investment promotion agencies, global services organizations, and Everest Group (2018)

Digital activity retained a high share in Q4 2017, with automation and analytics being the key areas of investment

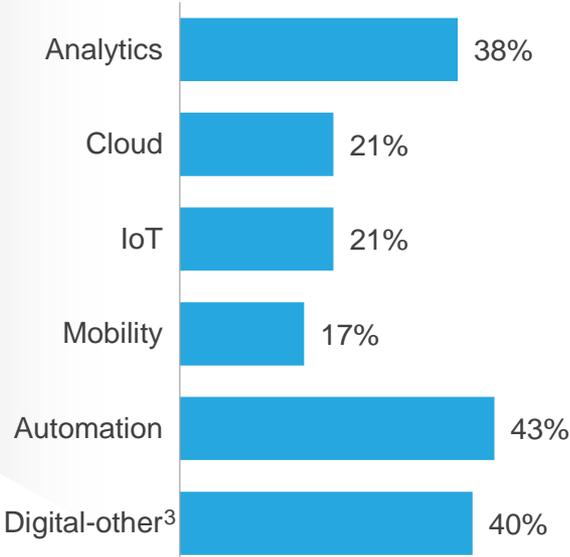
Locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up²



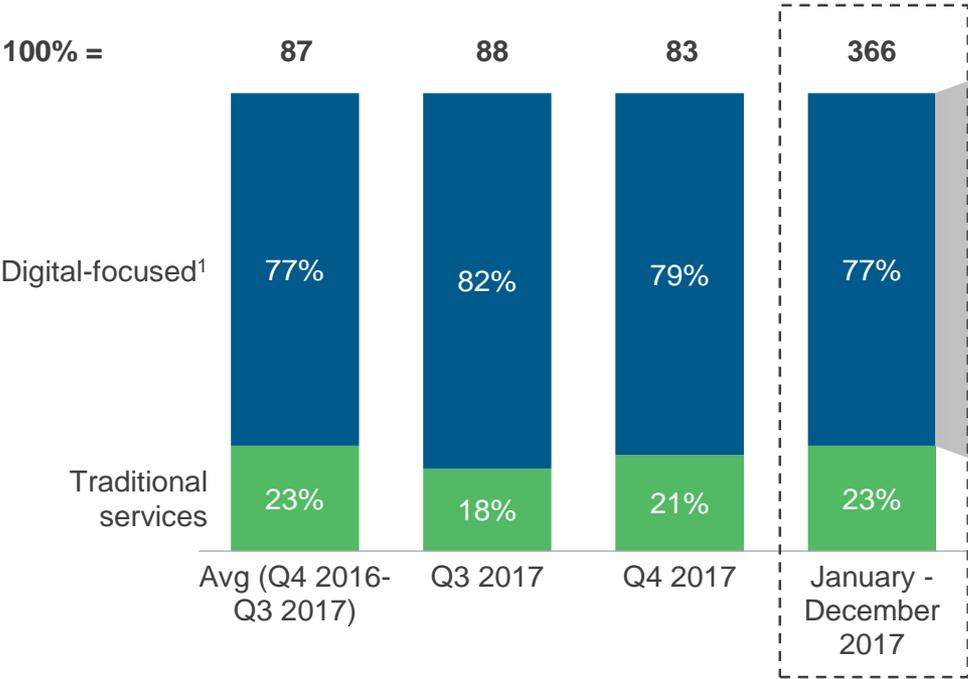
Digital activity retained a constant share over the period, with automation and analytics being the major components of new digital setups in 2017. The activity was largely driven by India, Singapore, and Ireland. In terms of organization, GICs accounted for the majority of centers with digital activity for Q4 2017. Among the service providers, there was limited activity by large providers.

1 Includes centers that provide digital as well as traditional services
 2 Includes alliances which has multiple digital components
 3 Others include digital components such as social, cybersecurity, and blockchain

Cloud and automation are the top digital components in alliances and M&A by service providers

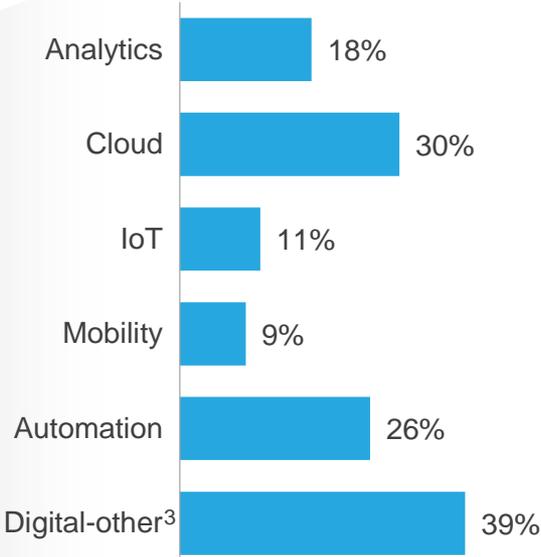
Alliances and M&A by type of service

Number of alliances and M&A



Distribution by digital components

Number of alliances and M&A²



Digital continues to be the key focus area within partnerships and acquisitions by the service providers. Cloud, automation, and analytics dominated the service provider alliance and M&A landscape during 2017

1 Includes centers that provide digital as well as traditional services
 2 Includes alliances and M&A which has multiple digital components
 3 Others include digital components such as social, cybersecurity, and blockchain

List of Market Vista Index service providers

Global service providers



Offshore-heritage service providers



- 1 Xerox spun off its business services division to create Conduent
- 2 DXC Technology was created through the merger of CSC and enterprise services business of Hewlett Packard Enterprise (HPE)
- 3 Report covers only the services division of Fujitsu that is referred to as Fujitsu Services
- 4 Report covers services division of IBM that is referred to as IBM Global Services (IBM GS)
- 5 NTT Data acquired Dell Services and the acquired entity is now called NTT Data Services

Additional research recommendations

The following documents are recommended for additional insight into 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. **Market Vista™ Q3 2017** ([EGR-2017-8-R-2415](#)); 2017. This report summarizes the key trends and developments for Q3 2017 in the global offshoring and outsourcing market
2. **Overview of Global Sourcing in Oil & Gas Vertical** ([EGR-2017-8-R-2339](#)); 2017. The Oil and Gas (O&G) industry has been a moderate adopter of global sourcing. However, with declining oil prices and associated cost pressures, the industry is going through a transformative phase. Leading players have increased their focus on cost optimization to deal with declining revenues and profit margins. As a result, firms have started adopting emerging technologies (e.g., analytics, mobility, and IoT) to enhance operational efficiency. Moreover, players have also explored global services in upstream processes, that have traditionally been supported onsite and internally
3. **Buyer Geography and Industry Trends reports:** Trends for Q3 2017. These reports provide data, developments, and insights on outsourcing and offshoring trends for a particular buyer geography / industry. These reports provide the research and analysis that enable users to navigate through complexity and make clear, effective decisions suited to their focus region or specific industry. These reports provide detailed information on transaction activities, Global In-house Center (GIC) developments, service providers' market shares, and key outsourcing transactions. Regions covered include: the United States and Canada; Europe; and Rest of the World. Industries covered include: Banking Capital markets and Insurance; Healthcare; Retail and CPG; Technology and Communication; Manufacturing; Energy & Utilities (E&U); and Government
4. **Advanced Locations Tool (ALT):** Covering 200+ locations globally, Advanced locations tool (ALT) provides access to data for 11 horizontal and 16-BFSI specific functions across various parameters. The tool is preconfigured for commonly used structure with flexibility to modify analysis format. Moreover, the choice of cities and analysis can be customized as per client's requirements

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