



## Market Vista™: Select Findings Q1 2016

January-March 2016

Everest Group

**MARKET** VISTA™

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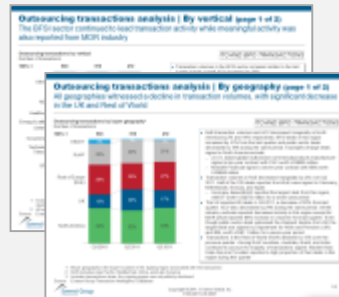
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# Market Vista | Overview

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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**MARKET VISTA™**

## 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

Service provider capability profiles

Industry trends

# Q1 2016 | Key takeaways

1

Strong Q1 demand for global services, especially in technology services, beating industry expectations and previous years' trends

2

Increase in demand led by “traditional buyer geographies” of Europe and North America

3

GIC activity continued to remain high with setups concentrated in Europe for buyers looking to leverage the nearshore proposition

4

Overall location activity also remained high with increased center setups in Latin America, compared to previous quarters

5

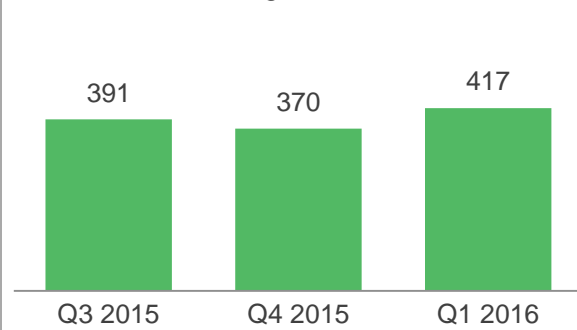
SDA adoption leading to lower headcount addition by leading service providers, compared to 2015

# Key market indices – Q1 2016

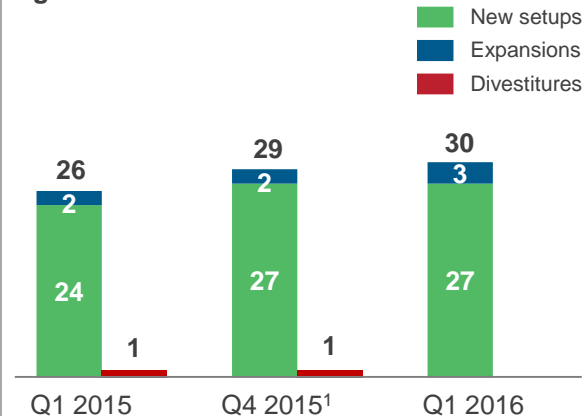
## Outsourcing/offshoring market overview

### Increase in outsourcing demand compared to the previous quarters

Number of outsourcing transactions



### The overall GIC activity continued to remain high

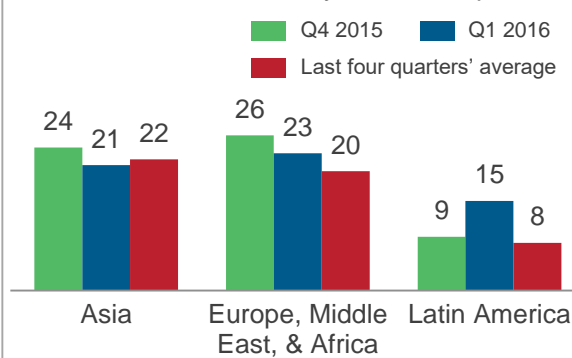


<sup>1</sup> Revised numbers for the previous quarter based on additional information available

## Location dynamics

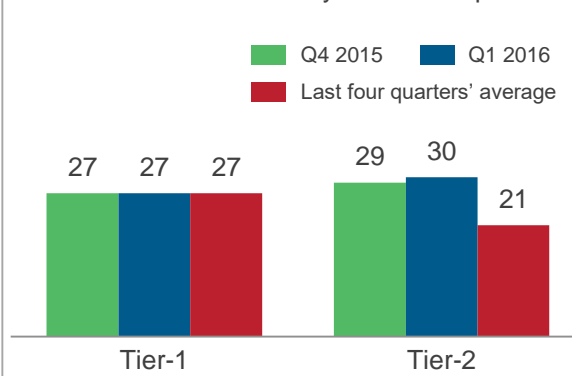
### Increased share of Latin America in new center setups

Number of offshore delivery center setups



### Similar to Q4 2015, tier-2 cities witnessed more activity than tier-1 cities

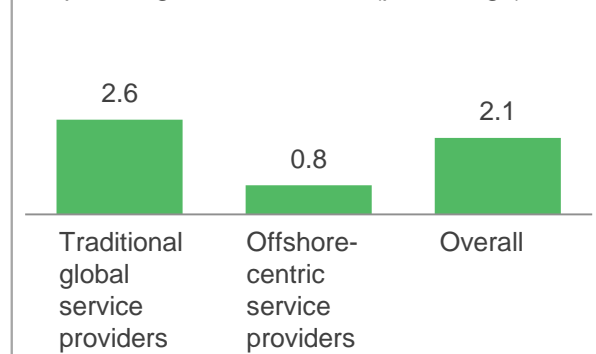
Number of offshore delivery center setups



## Service provider developments and trends

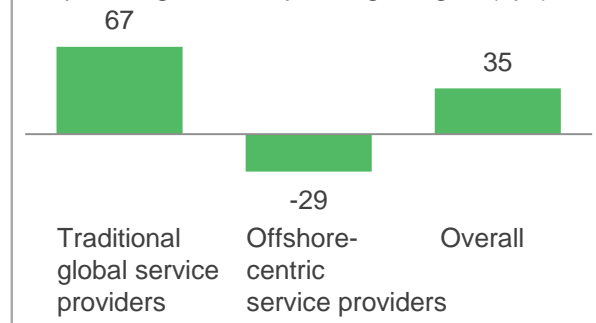
### Most leading service providers reported sequential growth in revenue

Sequential growth in revenue (percentage)



### Operating margins for traditional global providers improved; margins declined for offshore-centric providers

Sequential growth in operating margins (bps)



# Summary of key developments in Q1 2016 (page 1 of 2)

## **Transaction activity increased significantly in Q1 2016, recording 417 deals – higher than those reported in the previous 8 quarters**

- With 417 transactions, activity in the outsourcing market witnessed a significant rise; continued growth was seen in the ITO market
- The MDR vertical continued to grow, while the traditionally strong BFSI and public sector verticals also reported strong activity
- Significantly increased activity was witnessed in both North American and RoW, led by increase in demand for ITO deals from both regions
- Share of renewals / restructured deals remained similar to the previous quarter, however, there was an increase in the number of reported renewals, compared to Q4 2015
- Medium-term deals (five to seven years) continued to dominate the outsourcing market in Q1 2016
- The ITO market witnessed increased adoption for systems integration, while other activities remained similar or declined during the same period
- In the current quarter, 24 major deals were signed, along with 21 large deals and three very large deals; no mega deals were reported in this quarter

## **Activity in the GIC market continued to remain strong with 27 new setups and no divestiture**

- New GIC set-up activity was in line with the previous quarter, however, expansion activity in Q1 2016 increased as compared to the previous quarter
- Leading companies, such as American Express, Daimler, Eaton Corporation, and Uber, announced GIC setups in Q1 2016

## Summary of key developments in Q1 2016 (page 2 of 2)

### **Location activity in Q1 2016 was similar to the previous quarter, with majority of centers set up in Asia and Europe. Activity in Latin America was significantly higher than the previous quarter**

- There were 59 new delivery centers set up across GICs and service providers in Q1 2016, similar to the number of setups in Q4 2015. Similar to the previous quarter, activity in tier-2 cities was higher than tier-1 cities
- Key location risk / opportunity trends include locations beyond India for delivery of digital and legal process outsourcing services, impact of “Brexit” on companies planning to set-up / expand operations in UK, and key challenges and opportunities presented by Puerto Rico as a delivery location

### **Most service providers reported sequential growth in revenue**

- Consolidated operating margin improved slightly over the last quarter as well as annually, driven by an increase in margin of traditional service providers, however, it was offset by decline in margins of offshore-centric providers
- Overall transaction activity increased as compared to the previous quarter, however, the share of Market Vista Index service providers declined marginally
- Both alliance as well as M&A activity increased during the quarter
- Overall location activity for leading service providers increased as compared to the previous quarter, driven by significant increase in activity for traditional service providers

# Service delivery automation

## Scope & methodology

“Service delivery automation” is an ongoing trend observed among service providers. To identify key drivers and milestones achieved, news sources / databases and service providers’ websites have been tracked to assess service providers’ automation initiatives. The section provides a comparison of key benchmarks among service providers who witnessed significantly greater impact on their revenue, cost, and productivity. The objective is to help buyers, analyst communities, experts, and business executives assess the magnitude of impact due to “service delivery automation” initiatives by these service providers. The study further divides them into “best-in-class” and “leading providers” categories, based on their performance in each category including growth in revenue per employee, decline in net headcount addition, cost savings, productivity gains, and automation strategy. Revenue per employee and decline in net headcount addition comparison is done only for offshore providers:

### Growth in revenue per employee

Growth identified by comparing revenue per employee in 2015 vs. 2010 (only for offshore providers)

**Automation strategy**  
Key strategy to build automation capability – organic or inorganic

**Productivity gain**  
Productivity gains / efficiency improvement due to automation technologies



**Net revenue per employee**  
Net revenue per employee in 2015 vs. 2010 (only for offshore providers)

**Decline in net headcount additions**  
Decline observed in net headcount addition in 2015 as compared to addition in 2014

**Cost savings**  
Cost savings annually in terms of dollar value

# Service delivery automation

## “Service-as-a-software” transforming enterprises

■ Best-in-class service providers
 ■ Leading service providers

Attributes	Best-in-class providers vs. leading service providers
Revenue per employee growth (2015 vs. 2010 only for offshore providers)	
Revenue per employee (2015 vs. 2010 only for offshore providers)	
Decline in net headcount addition in 2015 over 2014 (only offshore providers)	<p>Five leading offshore service providers have added 24% less headcount in 2015 than the previous year, driven by service delivery automation</p>
Cost savings (annual)	A few best-in-class providers estimate cost savings between US\$100-300 million annually. Also a best-in-class provider saved almost half a billion dollars in past two years.
Productivity gain	Providers claim a productivity improvement of up to 50% due to automation. A leading best-in-class provider has observed benefit equivalent to 12 million annualized work hours in six months with the help of automation tools.
Automation strategy – organic vs. inorganic	Made multiple acquisitions to power service delivery automation initiatives with relatively larger size of investment. Providers also remain active on the partnership front for capability addition.

### Trends

- Service providers are embracing machine learning capabilities and cloud platforms together to gain an edge against competition. Automation has triggered a paradigm shift towards "service-as-a-software" concept where platform is being sold as a service and manual work is being automated through APIs to bring efficiencies and to improve quality of service delivery
- Service delivery automation is helping replace substantial amount of human yields resulting in significant cost saving for enterprises. Service providers are at the initial stage of “service delivery automation”, and a large scale integration throughout the delivery model is still developing
- End-to-end data entry, compliance check, account closing, administrative functions, helpdesk management, recruitment, and debugging tools are a few areas where service providers have seen the greatest impact through service delivery automation. This, in turn, enables them to offer better value proposition rather than just negotiating on cost arbitrage



# List of Market Vista Index service providers

## Traditional global service providers

**accenture**  
High performance. Delivered.

**Atos**

**AON Hewitt**<sup>3</sup>

**Capgemini**  
CONSULTING. TECHNOLOGY. OUTSOURCING

**CONVERGYS**  
Outthinking Outdoing

**CSC**

**DELL** Services<sup>1</sup>

**Hewlett Packard**  
Enterprise<sup>2</sup>

**IBM**<sup>4</sup>

**UNISYS**

**xerox**

## Offshore-centric service providers

**Cognizant**

**EXL**

**GENPACT**

**HCL**

**Infosys**<sup>®</sup>

**Tech Mahindra**

**TATA CONSULTANCY SERVICES**

**WIPRO**  
Applying Thought

**WNS**  
Extending Your Enterprise

1 Perot was acquired by Dell in September 2009, and was rebranded as Dell Services

2 EDS was integrated into HP, and the segment is called HP Enterprise Services (HP ES), which is now a part of Hewlett Packard Enterprise (HPE)

3 Aon acquired Hewitt in October 2010. The combined entity is now called Aon Hewitt

4 The services division of IBM is referred to as IBM Global Services (IBM GS)

# 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™ Q4 2015** ([EGR-2016-8-R-1691](#)); 2015. This report summarizes the key trends and developments for Q4 2015 in the global offshoring and outsourcing market
2. **Market Vista™ Global Services 2015 Year in Review – A Maturing Market Facing Disruption** ([EGR-2016-8-R-1717](#)); 2016. This report gives an overview of the developments that took place in the global services industry in 2015. The report highlights key trends and drivers pertaining to GICs, offshore/nearshore locations, select service providers, and outsourcing transactions. Besides providing an outlook for 2016, the report highlights implications for market participants as well. The objective is to help buyers, analyst communities, experts, and business executives assess sourcing market developments from service providers' and buyers' point of view, which can help them frame their opinion and take timely decisions
3. **Buyer Geography and Industry Trends reports:** Trends for Q4 2015. 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: U.S. and Canada; Europe; and Rest of the World. Industries covered include: Banking, Financial Services, and Insurance (BFSI); Manufacturing, Distribution, and Retail (MDR); Energy & Utilities (E&U); Healthcare; Technology; Telecom; Public Sector; and Travel and Hospitality

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## About Everest Group

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