



## Market Vista™: Select Findings Q2 2016

April-June 2016

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

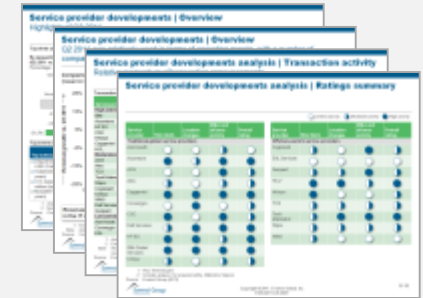
## Overall sourcing market

- 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



## 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

## Q2 2016 | Key takeaways

1

IT outsourcing market characterized by shift in demand from traditional services to digital technologies, DevOps, as-a-service models, and application modernization

2

Increase in outsourcing demand for BP services led by analytics and industry-specific processes

3

GIC activity continues to remain strong with few instances of buyers also exploring hybrid sourcing constructs for new setups (e.g., BOT)

4

Overall location activity increased to an all-time high with significant investment in IT services in onshore locations

5

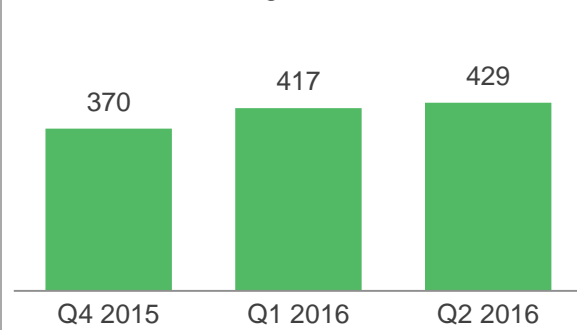
Leading service providers making investments in Blockchain in anticipation of future demand

# Key market indices – Q2 2016

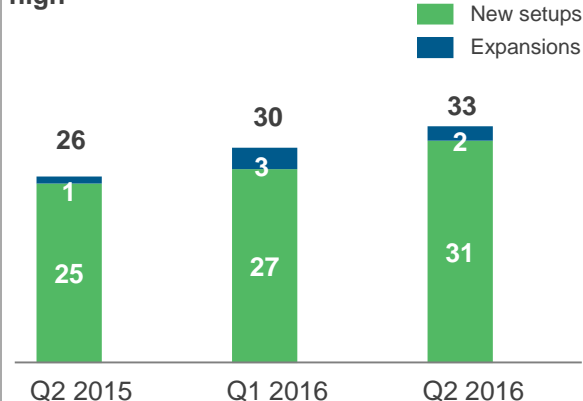
## Outsourcing/offshoring market overview

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

Number of outsourcing transactions



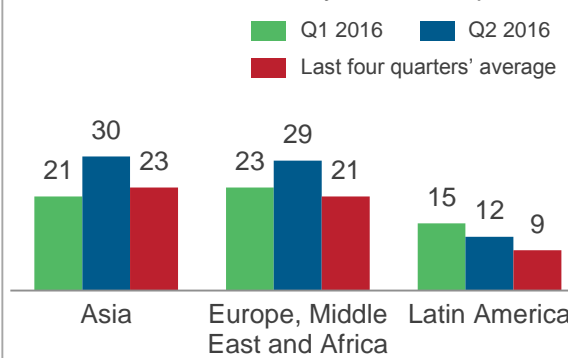
### The overall GIC activity continued to remain high



## Location dynamics

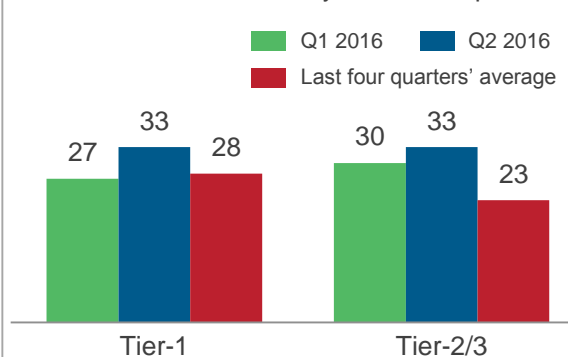
### Increase in new center setups in all regions except Latin America

Number of offshore delivery center setups



### Marginally higher activity in tier-2/3 cities compared to tier-1 cities

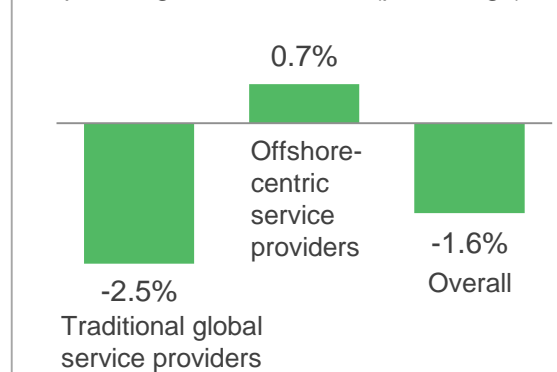
Number of offshore delivery center setups



## Service provider developments and trends

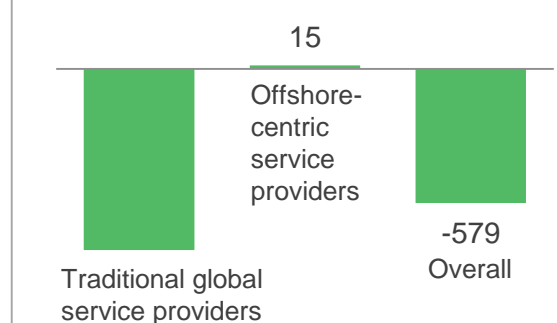
### Traditional global service providers reported sequential decline in revenue

Sequential growth in revenue (percentage)



### Operating margins for traditional global providers decreased; margins increased for offshore-centric providers

Sequential growth in operating margins (bps)



# Summary of key developments in Q2 2016 (page 1 of 2)

## Transaction activity increased significantly with 429 deals reported in Q2 2016

- ITO deal volumes marginally declined and the market was characterized by shift from traditional services to digital technologies, DevOps, as-a-service models, and application modernization
- On the other hand, volumes in BPO market increased significantly with growth led by analytics and industry-specific business processes
- Q2 witnessed increase in outsourcing activity from emerging markets after many successive quarters, while North America and Europe reported similar transaction volume compared to the previous quarter
- Share of renewals / restructured deals remained similar to the previous quarter
- Medium-term deals (five to seven years) accounted for the largest share of the outsourcing market in Q2 2016
- In the current quarter, 23 major deals were signed, including 12 large deals, 10 very large deals, and one mega deal

## GIC market activity continued to remain high with 31 new setups and no divestiture

- GIC activity continued to remain high with new setup concentration in India and Europe
- In Q2 2016, the new GIC set-up activity increased compared to Q1 2016 with leading companies such as Google, Walmart, Daimler, Microsoft, and Uber, announcing new setups
- Furthermore, there were also few instances of buyers exploring hybrid sourcing constructs (esp. BOT constructs) for new setups – examples include True Corporation, Cisco, and Huawei Technologies

# Summary of key developments in Q2 2016 (page 2 of 2)

**Location activity in Q2 2016 was higher than Q1 with most of center setups in Asia and Europe. There was marginally more activity in tier-2/3 cities compared to tier-1 cities**

- There were 71 new delivery centers set up across GICs and service providers in Q2 2016 compared to 59 setups in Q1 2016. There was also higher traction in IT services, especially with service providers. Location activity in R&D continued to increase with over half of the centers in Asia
- Key location risk / opportunity trends include impact of Brexit on growth plans of firms, state-level regulations in India having low-to-moderate impact on service delivery, impact of K-12 programme on the Philippines IT-BPM industry, and potential upside to investor confidence in Argentina with policy changes

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

- Consolidated operating margin decreased over the last quarter as well as annually, mainly due to decline in margin of traditional service providers, however, there was an increase 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 significantly
- Alliance activity increased marginally to remain high, while M&A activity declined significantly, compared to the previous quarter
- Overall location activity for leading service providers increased as compared to the previous quarter, driven by increase in activity for traditional service providers
- Leading service providers are collaborating with financial services organizations to help them in adopting blockchain technology

## Key trend to watch (Page 1 of 2)

### Impact of Brexit on the global services industry | Initial assessment

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*Overall picture: Article 50 (A50) of the Lisbon Treaty is unlikely to be invoked very soon, implying at least two years of no significant change. Furthermore, when A50 is invoked, exit negotiations can potentially run until the next UK General Election, which implies at least next 3-4 years of no change to regulations, but investment decisions would be on-hold or shelved*

Key potential areas of impact on global services industry are highlighted below:

#### **Outsourcing market growth**

- *Short-term:*
  - Demand for outsourcing through new contracts is likely to stagnate as UK-based firms (esp. public sector/ government) assess the current situation and await government strategy on Brexit
  - Renewals of existing agreements are also now facing uncertainty – in particular, crafting legal frameworks that adapt to the changing conditions will be challenging.
- *Medium-to-long term:* Likely to accelerate move towards automation for cost cutting, as depreciation of the Pound has made cost of “importing” services from nearshore and offshore locations higher for UK-based companies

#### **New areas of investments**

- *Automation:* Broad-based growth in automation initiatives as firms look towards optimizing costs
- *Big data:* Increasing investments, especially by BFSI firms, as firms look to manage and monitor risks



## Key trend to watch (Page 2 of 2)

### Impact of Brexit on the global services industry | Initial assessment

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#### Service provider business

- Currency fluctuations will cause volatility in service providers' contracts and business leading to providers exploring different ways of hedging and potentially contracting renegotiations
- Combination of Brexit uncertainty and budget cuts will enhance demand for services by outsourcing to service providers that are well established in the UK (e.g., Capita, Atos, HPE/CSC)

#### Location decision

- *Short-term:* Nearshoring to EU countries is likely to slowdown until the details of Britain's exit from the EU are worked out
- *Medium-to-long term:*
  - Overall, visa and immigration-related costs will increase for players operating in Europe and with centers in the UK. This may lead to a preference for placing more work in Europe (such as, CEE) as service providers will be able to more easily tap into the European labor market, especially when requiring European-language support
  - Global firms having multi-country operations will plan to optimize their headcount across the UK and other EU countries and its impact on the onshore-offshore model
  - In the longer term, there could be additional opportunity to nearshore work to Scotland if the Scottish independence referendum would succeed and an independent Scotland would be fast-tracked into the EU



# List of Market Vista Index service providers

## Traditional global service providers



## Offshore-centric service providers



The acquisition of Dell's IT division is expected to be completed by November 2016, Post that Everest group proposes to track NTT Data Corporation, a subsidiary of NTT, as one of the Market Vista top 20 service providers instead of Dell Technologies

- 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™ Q1 2016** ([EGR-2016-8-R-1755](#)); 2016. This report summarizes the key trends and developments for Q1 2016 in the global offshoring and outsourcing market
2. **Bulgaria – The Digital Engine of Europe?** ([EGR-2016-2-R-1796](#)); 2016. This report looks at Bulgaria as a location for delivery of global services, offering insights on key trends in the global services industry that are likely to influence growth and delivery portfolios, going forward. The report also provides perspectives on the role Bulgaria can play in the emerging global services industry, and imperatives for government and industry associations to enable growth
3. **Buyer Geography and Industry Trends reports:** Trends for Q1 2016. 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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