Market Vista™ : Select Findings Q3 2016

July – September 2016

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MARKET VISTA™

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
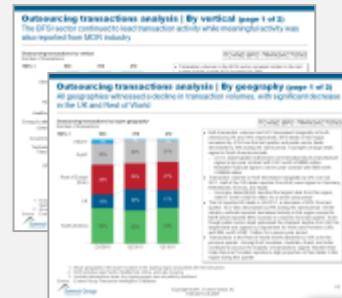
Service provider landscape

- 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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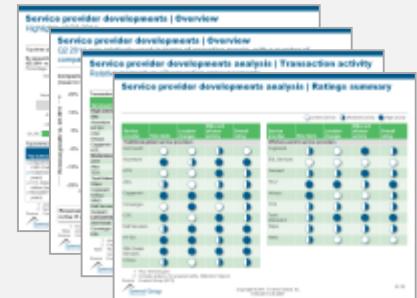
Location data and dynamics

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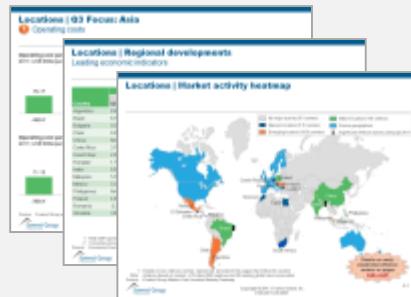
Processes and models

- 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 |

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Global services: Key market trends in Q3 2016

1 Sluggish outsourcing market growth with decrease in demand from Europe; growth in North America demand

2 Broad-based decrease in average deal duration across both ITO and BPO transactions

3 GIC activity at an all-time high, led by new adopters setting up their first delivery centers

**4** Decrease in service provider center setups, especially for tier-2/3 service providers

5 Leading service providers making investments in cybersecurity with growing adoption of digital services

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Key market indices – Q3 2016

Outsourcing/offshoring market overview

Decline in outsourcing demand compared to the previous quarter
Number of outsourcing transactions

- Q3 2015: 391
- Q2 2016: 429
- Q3 2016: 404
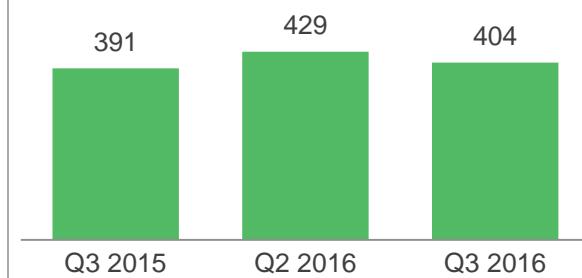
The overall GIC activity continued to remain high

Legend: New setups, Expansions

- Q3 2015: **25** (New setups 24, Expansions 1)
- Q2 2016: **33** (New setups 31, Expansions 2)
- Q3 2016: **38** (New setups 37, Expansions 1)
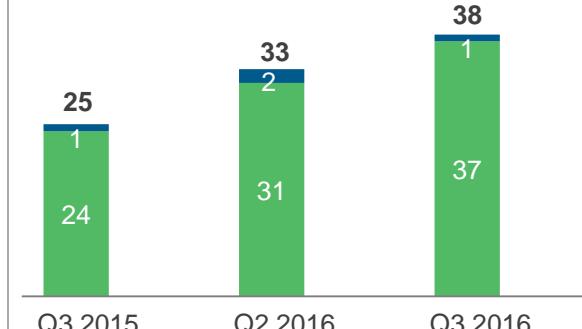
Location dynamics

Marginal increase in new center setups in Asia; activity in rest of the regions declined
Number of offshore delivery center setups

Legend: Q2 2016, Q3 2016, Last four quarters' average

- Asia: Q2 2016 = 30, Q3 2016 = 31, Last four quarters' average = 25
- Europe, Middle East, and Africa: Q2 2016 = 29, Q3 2016 = 20, Last four quarters' average = 22
- Latin America: Q2 2016 = 12, Q3 2016 = 11, Last four quarters' average = 11
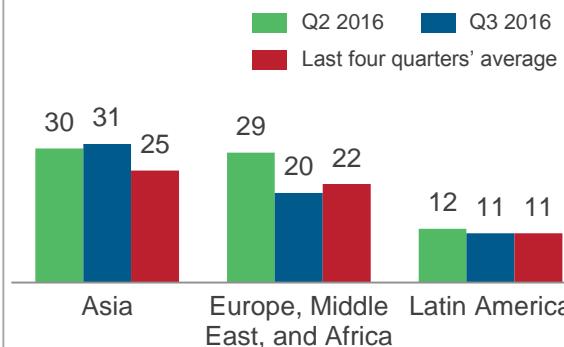
Significantly high activity in tier-1 locations compared to tier-2 cities in Q3 2016
Number of offshore delivery center setups

Legend: Q2 2016, Q3 2016, Last four quarters' average

- Tier-1: Q2 2016 = 33, Q3 2016 = 35, Last four quarters' average = 29
- Tier-2/3: Q2 2016 = 33, Q3 2016 = 27, Last four quarters' average = 27
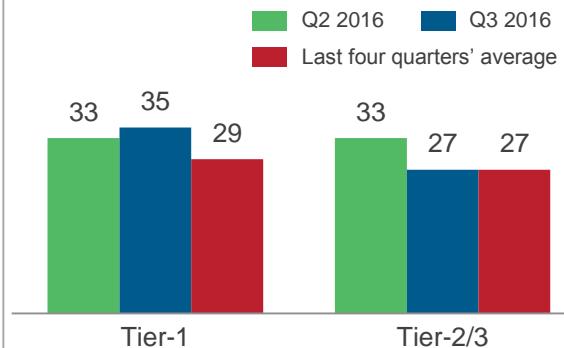
## Service provider developments and trends

Both traditional as well as offshore-centric service providers reported sequential growth in revenue
Sequential growth in revenue (percentage)

- Traditional global service providers: 4.3%
- Offshore-centric service providers: 3.7%
- Overall: 4.2%
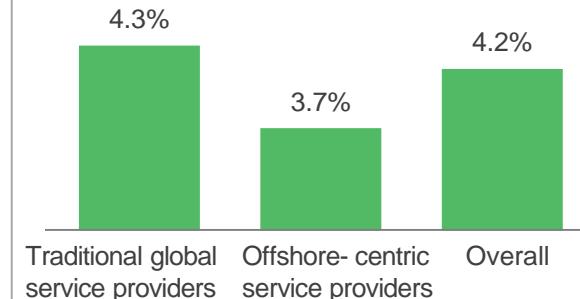
Operating margins for traditional global providers increased; margins declined slightly for offshore-centric providers
Sequential growth in operating margins (bps)

- Traditional global service providers: 407
- Offshore-centric service providers: -93
- Overall: 263

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Transaction activity declined significantly in Q3 2016 with 404 deals, compared to 429 in Q2 2016
- With 404 transactions, activity in the outsourcing market witnessed a notable decline owing to a fall in ITO as well as BPO deals
- The public sector vertical grew significantly, while the MDR vertical saw a notable decline in volume of transactions compared to the previous quarter
- The outsourcing activity across North America increased, however, there was a decline in the number of deals across Europe (except United Kingdom) and RoW
- The volume as well as share of renewals / restructured deals declined over the last quarter
- Contracts with very short-term duration (zero to three years) increased significantly; on the other hand, volume of medium-term deals (five to seven years) declined considerably vis-à-vis Q2 2016
- In the current quarter, 14 major deals were signed including eight large deals (TCV between US$50-199 million) and six very large deals (TCV between US$200-999 million)

GIC market activity increased in Q3 2016, with 37 new setups, one expansion, and no divestiture
- New GIC set-up activity increased compared to the previous quarter, with Europe and Rest of Asia, besides India, driving this growth
- Leading companies such as Apple, Deutsche Bank, Procter & Gamble (P&G), Samsung, Philips, and Fujifilm announced new centers

Summary of key developments in Q3 2016

Location activity in Q3 2016 was lower compared to the previous quarter driven by activity decline in Nearshore Europe; activity in tier-1 locations was higher than tier-2 cities

- There were 62 new delivery centers set up across GICs and service providers in Q3 2016, lower than the 71 setups in the previous quarter, whereas, still higher than the average value of the last four quarters. The activity was largely driven by GICs, while service providers experienced a decline
- Key location risk/opportunity trends for Q3 2016 include uncertainty in the Philippines' IT-BP sector due to recent changes in government, opportunities for delivery of contact center services in Asian languages from East and Southeast Asia, instances of ESR&D companies shifting their core design activities to India, and increased market activity in Portugal due to its geographic advantage and cost arbitrage

Most service providers reported sequential growth in revenue

- Consolidated operating margin registered an increase over the last quarter, while it declined annually. Offshore service providers' margin declined both annually as well as on quarterly basis
- Overall transaction activity declined as compared to the previous quarter, however, the share of Market Vista Index service providers increased significantly
- Overall M&A activity increased due to growth in acquisitions from traditional service providers. On the other hand, alliance activity declined significantly, compared to the previous quarter
- Location activity for leading service providers experienced a decline compared to Q2 2016, this was primarily driven by decrease in activity of offshore-centric service providers

Cybersecurity processes can be broadly classified into four major categories

Measures undertaken during application development life-cycle to protect them from threats due to flaws in application design, development, deployment, upgrade, or maintenance.
Examples:
- Input parameter validation
- User/Role authentication & authorization
- Session management, parameter manipulation, & exception management
- Auditing and logging

Application Security

Information Security

Protection of information from unauthorized access to avoid identity theft and ensure privacy.
Examples:
- Identification, authentication, and authorization of user
- Cryptography

Cybersecurity – technique to protect computers, data,, programs, and networks from unauthorized access and attack

Cybersecurity activities employed to protect the network. Examples:
- Anti-virus and anti-spyware firewall to block unauthorized access to network
- Intrusion Prevention Systems (IPS)
- Virtual Private Networks (VPNs) to provide secure remote access

Network Security

Disaster Recovery Planning

Recovery strategies employed in case of a disaster to ensure business continuity. Examples:
- Preventive measures
- Detective measures
- Corrective measures

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With increasing adoption of digitalization, cybersecurity becomes a "must-have" with need for providers to continuously evolve (e.g., security analytics support)…

Several factors driving investments from service providers in cybersecurity

- **Increasing demand from buyers:** Increasing adoption of digital services (e.g., mobility and Internet of Things) making data vulnerable and forcing need for a robust cyber-security system for both traditional (e.g., BFSI) and new industries (e.g., e-commerce)

- **Higher margins**: Given high complexity and need for innovation in cybersecurity services, this area commands a premium over traditional services. Thus, providing a higher margin to players

- **Builds closer ties with buyer organization**: Given the strategic importance of this service, cybersecurity is a critical area of support and often paves way to more strategic engagements

- **Ability of service providers to invest in cybersecurity (including R&D):** Service providers leverage their existing IT capabilities / IT labs / R&D centers to build a robust cybersecurity unit by scaling up their investments and operations

- **Others:** Constraints on buyers around investments, capabilities, or time forcing them to outsource, for example, Smaller organizations find it expensive to set up a GIC

Growth led by shift in capabilities and processes delivered from providers

- With increase in online space, the need for cybersecurity services from providers has shifted towards more strategic areas

Existing capabilities of service providers

- Skilled resources for security tools and products
- Following client's security initiatives by running Security Operation Center (SOC) and Network Operations Center (NOC)
- Manage security of applications and infrastructure

Desired capabilities of service providers

- Talent that can design the security architecture for clients
- Provide insights to clients through security analytics
- Offer security across application and infrastructure life-cycle such as design, development, and operations

- In addition, service providers are also aiming towards providing more advanced support:
  - **Threat intelligence / security analytics solutions**: To mitigate risk by profiling users for malicious activity, identification of IP addresses for potential threat, etc.
  - **Localized managed security services:** To ensure advanced hosted security services and incident response services

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…and build end-to-end capabilities in this space

● Protect and prevent existing technologies such as identity & access management and data loss prevention	**Managed Security Services**	● Detect and respond to potential threats (e.g., advanced analytics and threat intelligence)

Leading providers are bringing the two categories of services to offer end-to-end security services to clients. Service providers employ sophisticated technologies and highly trained personnel to quickly detect and respond to emerging threats. They also assist enterprises in managing technology and people resources to improve investments and continuously enhance cybersecurity processes

Inorganic growth strategy

Several service providers, such as IBM, Accenture, CSC, and Dell (along with SecureWorks), are expanding their capabilities by inorganic growth. Example, in 2015-2016, Accenture acquired FusionX, Cimation, and Maglan and CSC acquired Dalmatian Group

Organic growth

Apart from acquisitions, service providers are also investing in setting up new R&D centers. For instance, Accenture, Atos, and Capgemini opened up new centers to focus on development of new solutions and delivery of cyber defense services

Alliances

Many service providers are collaborating with other organizations to jointly develop solutions for clients. For instance, partnership with other technology firms, such as Siemens, Palo Alto Networks, CyberArk, and Splunk helped service providers expand the scope of their services

List of Market Vista Index service providers

Traditional global service providers

accenture
High performance. Delivered.

Atos

AON Hewitt [3]

Capgemini
CONSULTING.TECHNOLOGY.OUTSOURCING

CONVERGYS
Outthinking Outdoing

CSC

DELL Services [1]

Hewlett Packard Enterprise [2]

IBM [4]

UNISYS

xerox

Offshore-centric service providers

Cognizant

EXL

GENPACT

HCL

Infosys

Tech Mahindra

TATA CONSULTANCY SERVICES

WIPRO
Applying Thought

WNS
Extending Your Enterprise

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™ Q2 2016** (EGR-2016-8-R-1854); 2016. This report summarizes the key trends and developments for Q2 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 Q2 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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