Global Locations Annual Report 2017: Signs of Structure in a Disordered World

Locations Insider™

Annual Report – June 2017 – Preview Deck

EGR-2017-2-PD-2234

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- **Market Vista™**
  Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

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- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
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- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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* Banking, financial services, and insurance

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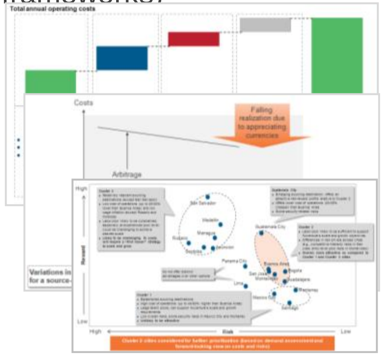
Our research methodology is based on four pillars of strength to produce actionable and insightful research for the industry

- Market thought leadership
- Actionable and insightful research
- Based on on-the-ground perspectives

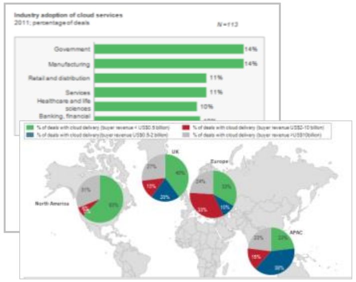
1

Robust definitions and frameworks
(Talent pool scalability and sustainability assessments, cost arbitrage sustainability, and risk assessment frameworks)



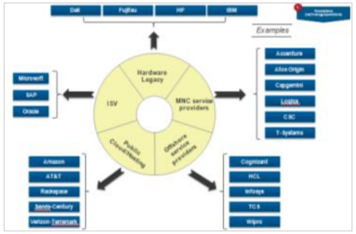
2

Primary sources of information
(Ongoing interactions with buyers, GICs / captives / SSCs, service providers, investment promotion agencies, recruiters, etc.)



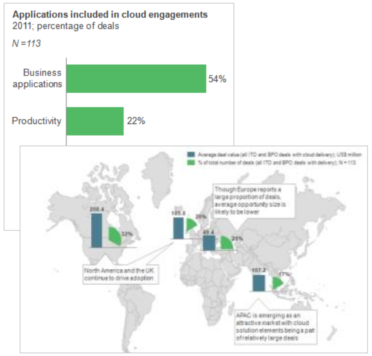
3

Diverse set of market touchpoints
(Ongoing interactions across key stakeholders, inputs from a mix of perspectives and interests, supports both data analysis and thought leadership)



4

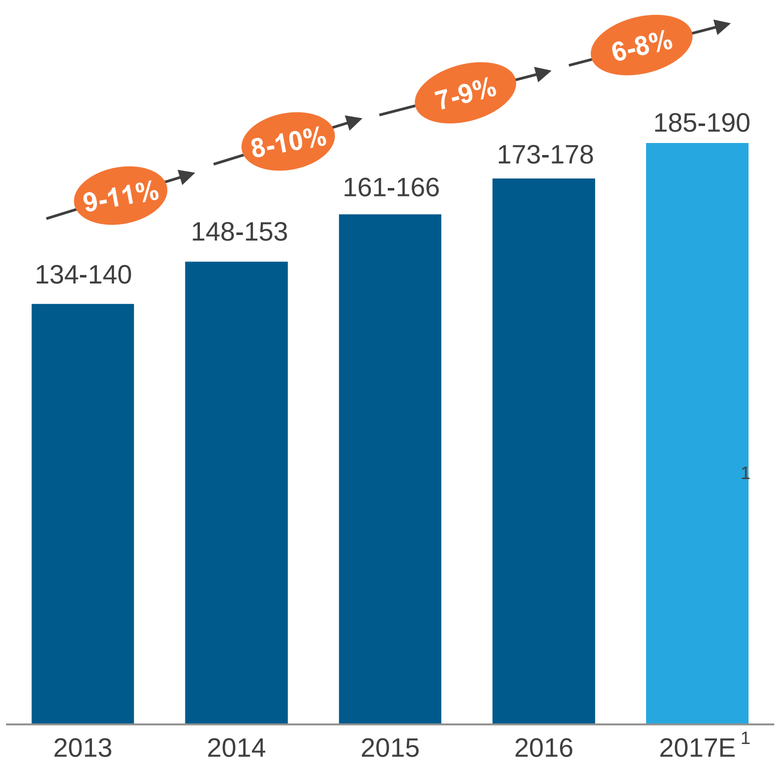
Fact-based research
(Data-driven analysis with expert perspectives, year-round tracking of location and service provider activity, and country briefings)



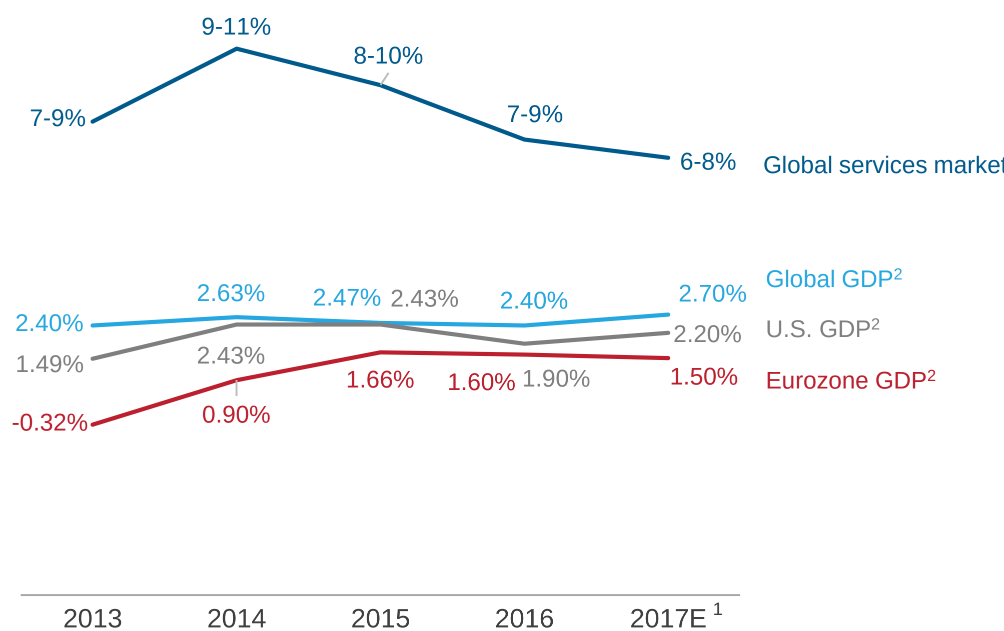
- Proprietary tracking and databases on operating costs, labor pool, market activity, and risks
- Year-round tracking of 200+ locations around the world
- Coverage across all offshore, nearshore, and onshore locations across regions (APAC, Europe, North America, LATAM, and Africa)
- Over 100 global projects on supporting clients on location decisions
- Executive-level relationships with buyers, service providers, technology providers, and industry associations

The global services market is expected to witness lower growth in 2017 due to political instability, macroeconomic slowdown, and volatile investment markets

Global services revenue and growth
2013-2017(E); US$ billion



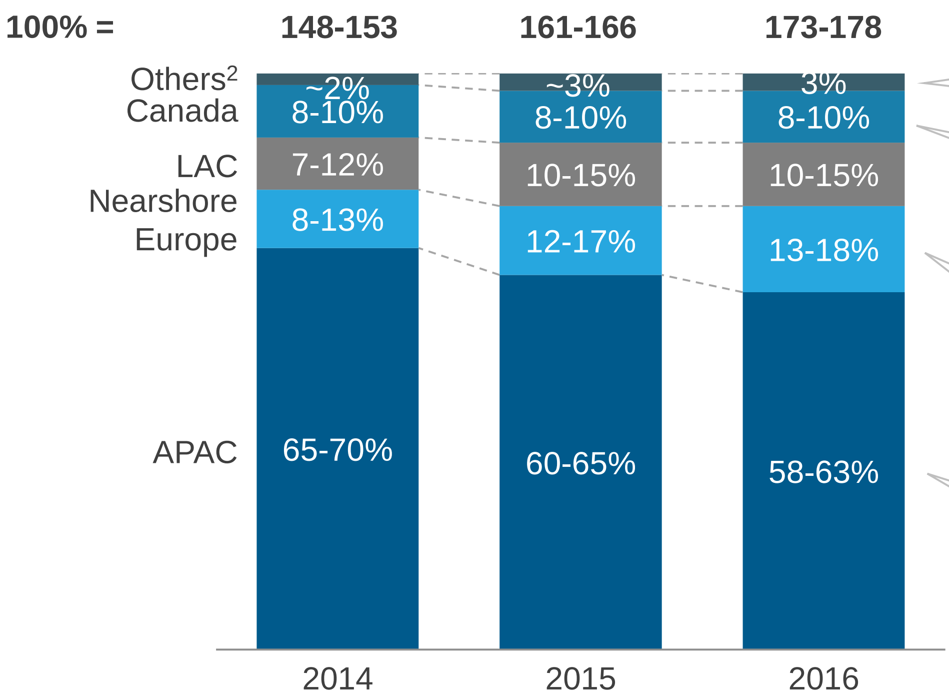
Growth rates of regional/global GDP and global services market
2013-2017(E)[1]; Percentage[2] (E)



1 Estimated figures for the year 2017
2 Data for constant Year-on-Year (YOY) prices, based on purchasing power parity
Note: Includes global services exports; excludes domestic market
Source: World Bank, country- / city-level investment promotion agencies, global services organizations (buyers, global in-house centers, and service providers), and Everest Group (2017)

The share of Asia Pacific region has declined since 2014, while Nearshore Europe and Latin America & Caribbean have increased their relative shares in the world revenue

Global services market | Share of delivery regions by revenue
2015-2016[1]; US$ billion



The revenue of Middle Eastern and African countries is steadily increasing, though their share has remained the same

Mexico, Argentina, and Brazil constituted the top three delivery locations in Latin America

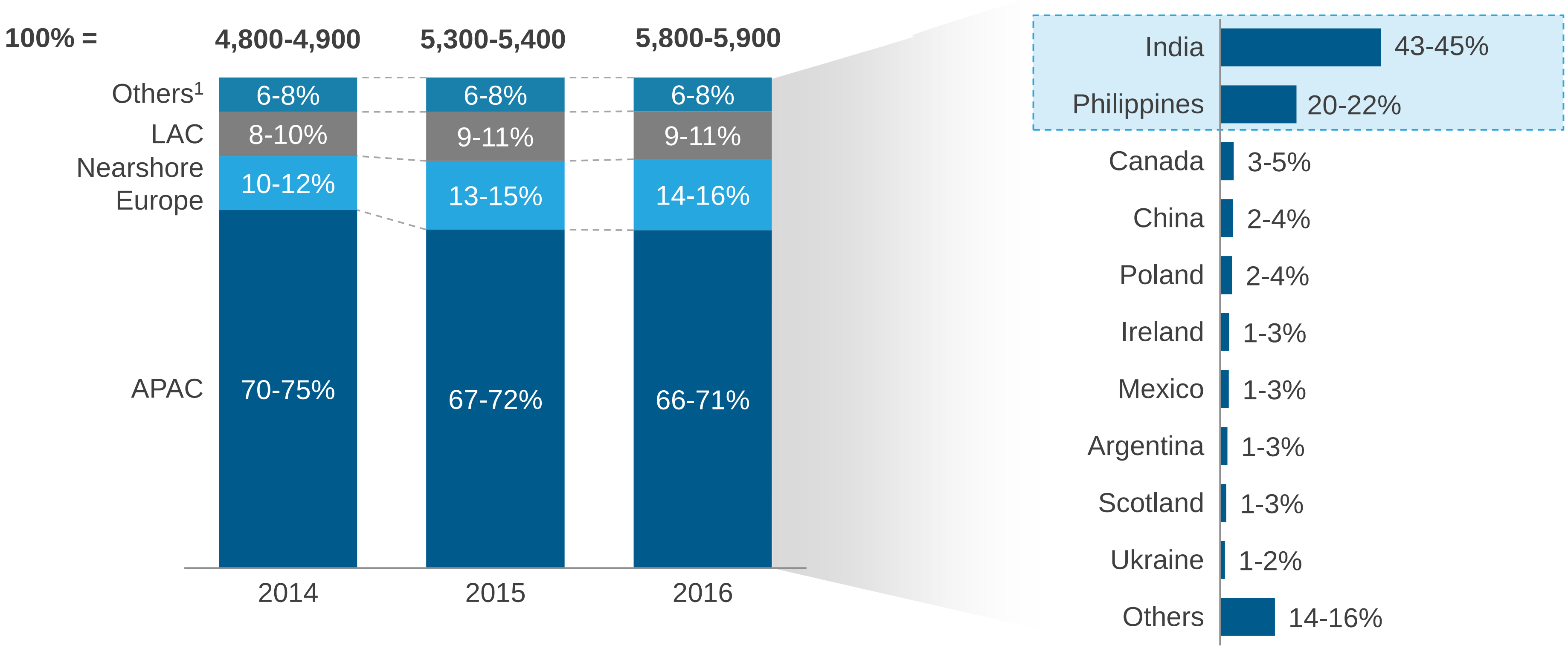
Nearshore Europe's share of global revenue has steadily increased since the last two years. Ireland, Poland, and Scotland are the top delivery locations, followed by Ukraine, Czech Republic, and Hungary

India and the Philippines continue to account for a mammoth share of APAC's revenue (~70%); China is the third largest country in terms of revenue share

1 Indicates end of 2016
2 Others include Middle East & Africa
Note 1: APAC – Asia Pacific; LAC – Latin America & the Caribbean
Note 2: Includes global services exports; excludes domestic market
Source: Country- / city-level investment promotion agencies, global services organizations, and Everest Group (2017)

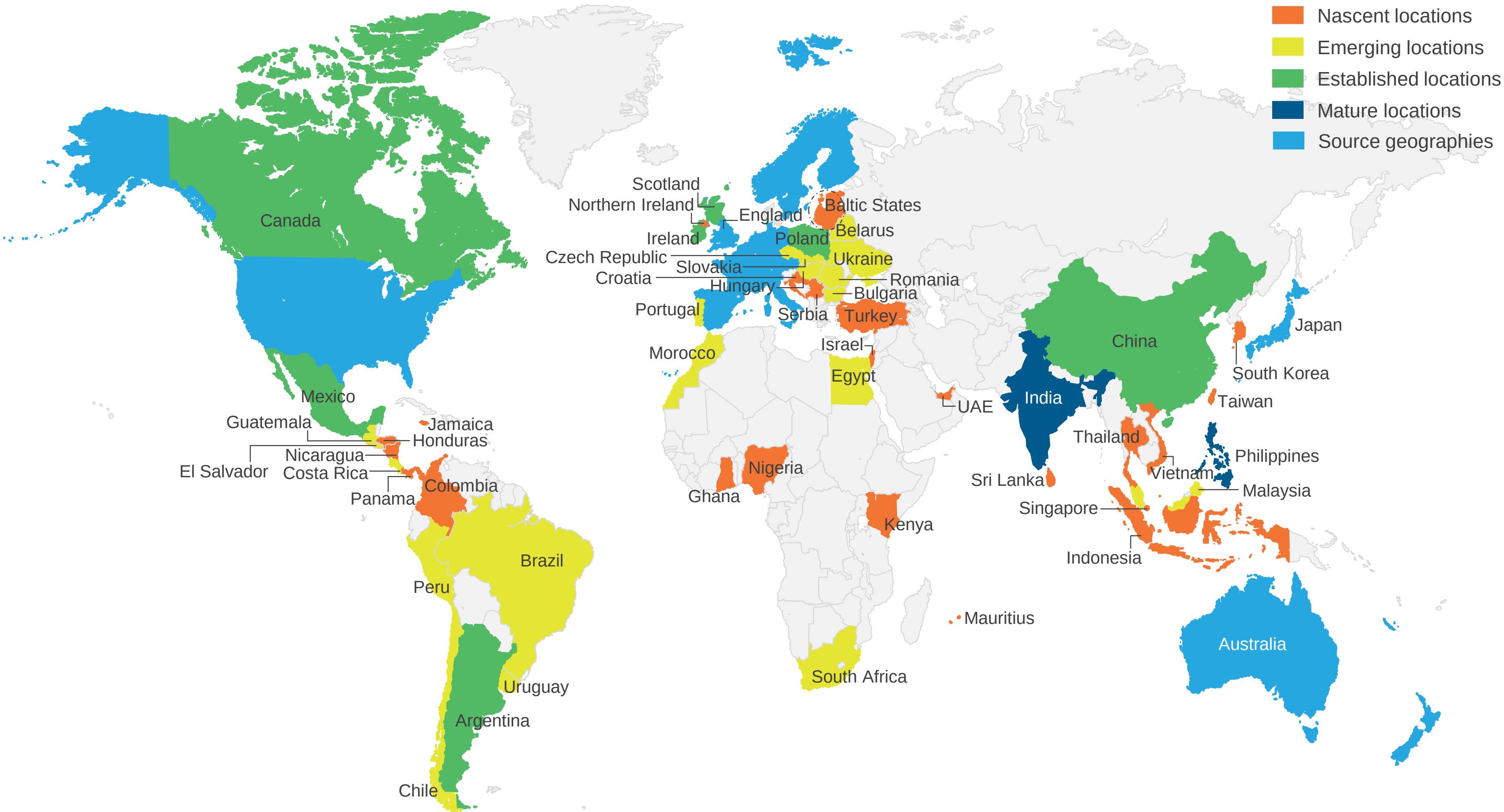
The share of geographies has remained largely the same between 2015-2016; Asia Pacific witnessed a marginal decline, whereas the share of Nearshore Europe increased

Global services market | Share of delivery regions by headcount
2014-2016[1]; Number of FTEs (in '000s)



1 Others include Canada, Africa, and the Middle Eastern region
Note: Includes global services exports for 39 leading locations. Excludes domestic market. Please refer to appendix for further details
Source: Country- / city-level investment promotion agencies, global services organizations, and Everest Group (2017)

Location heatmap

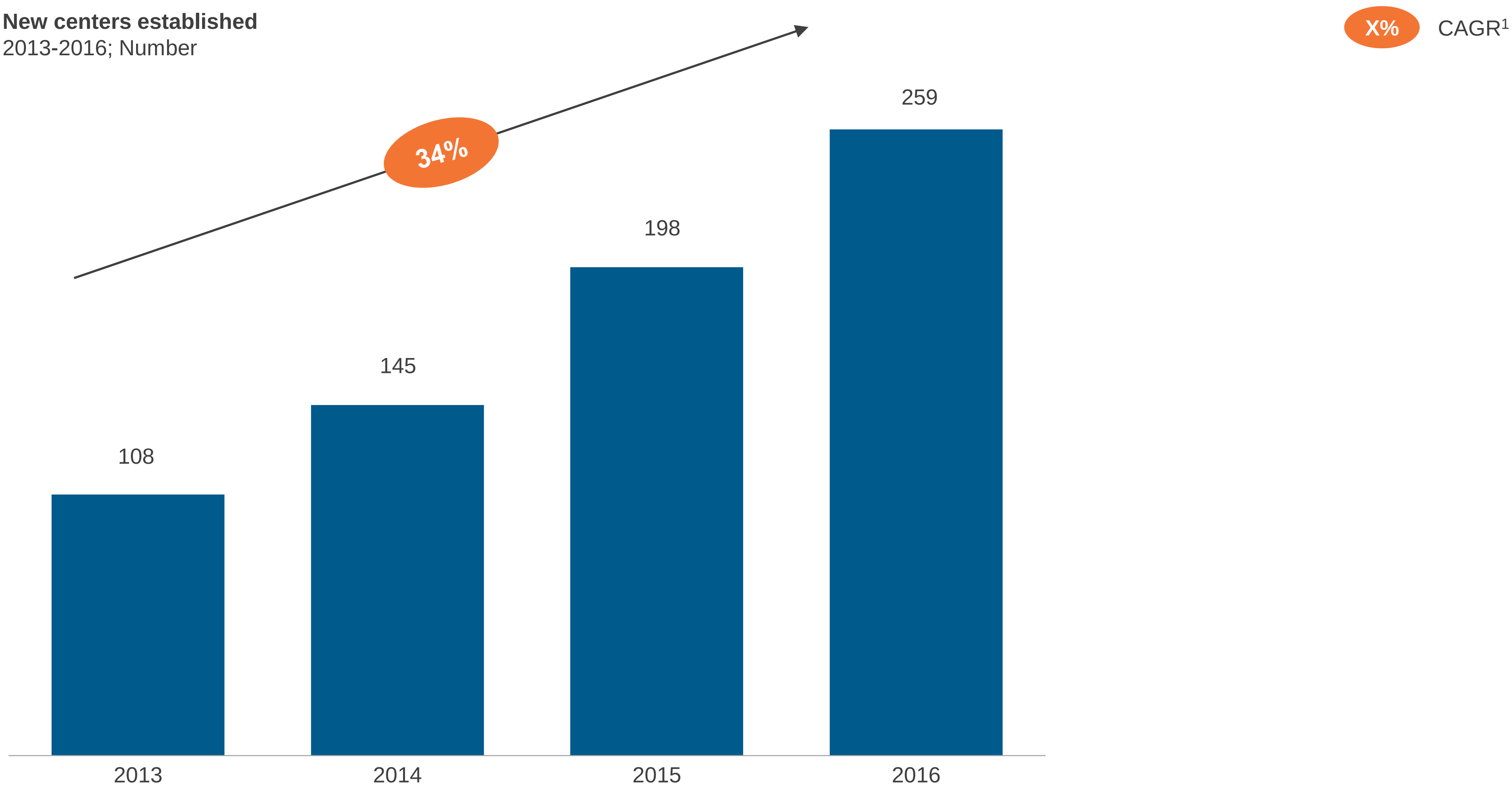


1 Analysis based on headcount for global services exports in 2016; please refer to Appendix for further details

Source: Country- / city-level investment promotion agencies, global services organizations, and Everest Group (2017)

The trend of increasing center set-up activity continued in 2016; Asia Pacific dominated most of the growth in the delivery center set-up activity

New centers established
2013-2016; Number

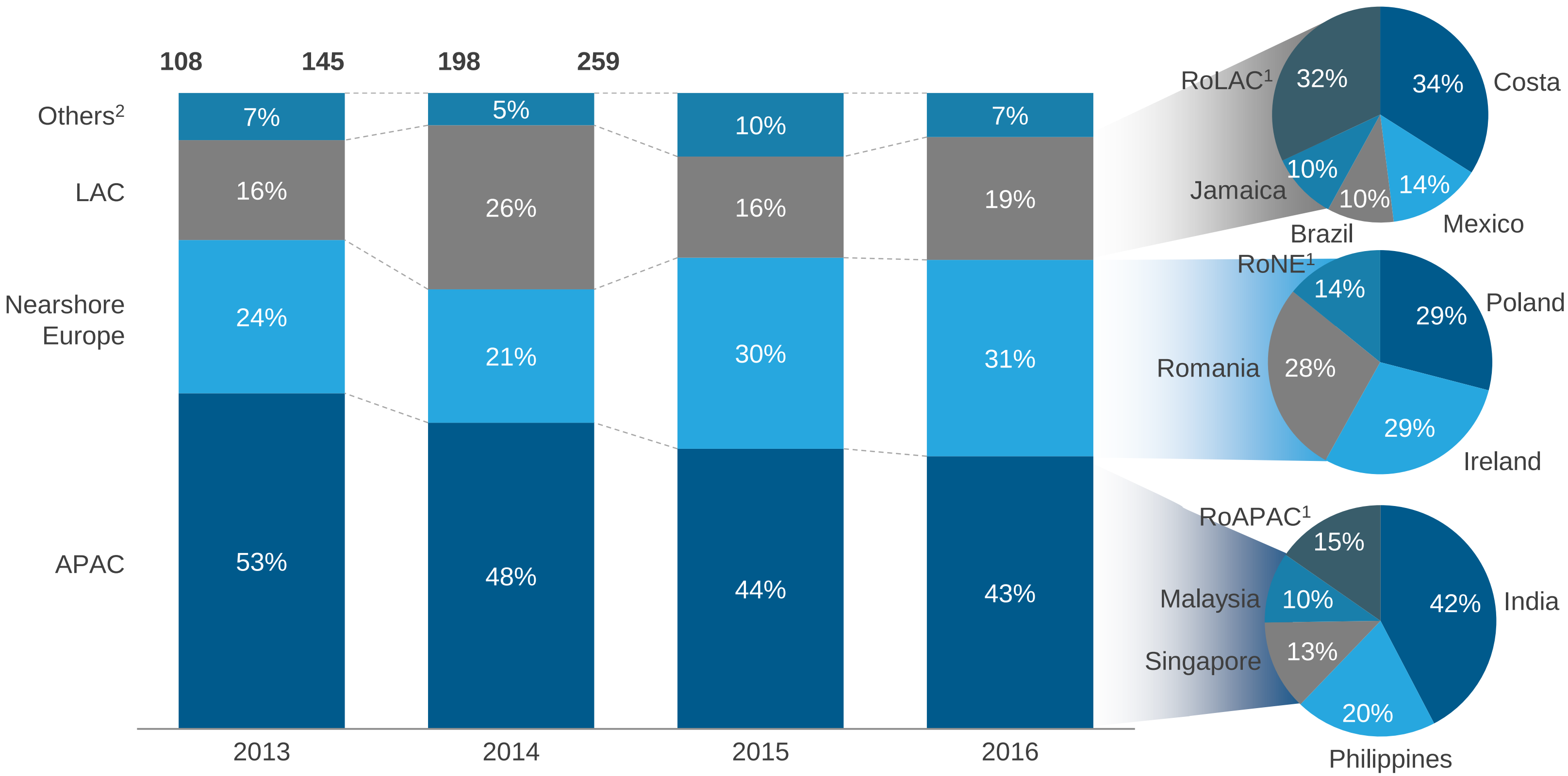


1 Compounded Annual Growth Rate from 2013 to 2016
Note: Includes global in-house centers and (third-party) service provider delivery centers
Source: Everest Group (2017)

Both Asia Pacific and Nearshore Europe maintained their shares in terms of new delivery center setups in 2016, while Latin America and the Caribbean witnessed an increase

Breakup of new centers by region
2013-2016; Percentage

Breakup of new centers by country
2016; Percentage



1 APAC = Asia Pacific; LAC = Latin America and the Caribbean; RoAPAC = Rest of APAC; RoNE = Rest of Nearshore Europe; RoLAC = Rest of LAC
2 Includes activity recorded in the Middle East and Africa region
Note: Includes global in-house centers and (third-party) service provider delivery centers
Source: Everest Group (2017)

The global services landscape is being shaped by multiple disruptive forces

Greater focus on delivery of IT and engineering/R&D services	• Significant increase in share of IT service delivery since 2013, with engineering/R&D services also maintaining their overall share across geographies • The share of voice business process services has dropped across all regions
Leverage of tier-2/3 cities by players to reduce talent pressures on tier-1 cities	• Increasing instances of players leveraging tier-2/3 locations with an almost equivalent split between tier-1 and tier-2/3 locations in terms of set-up activity • In terms of new delivery center setups in 2016, Latin America & the Caribbean had the highest proportion of tier-2/3 cities, followed by the Middle Eastern and African region; most of this movement is driven by service providers rather than GICs
Surge in new delivery center set-ups seen across both in-house and outsourced models	• Both GIC and service provider setups grew in 2016; service provider setups are now marginally higher than GIC setups • Nearshore Europe maintains higher share of GIC setups, whereas Latin America and the Caribbean has a high proportion of service provider setups
Increased instances of onshoring by top 20 service providers	• Increasing investments by the top 20 service providers[1] in onshore locations • The United States witnessed a spurt of growth in new onshore setups by top 20 providers[1] due to change in the stance of the current government on offshoring and immigration-related issues

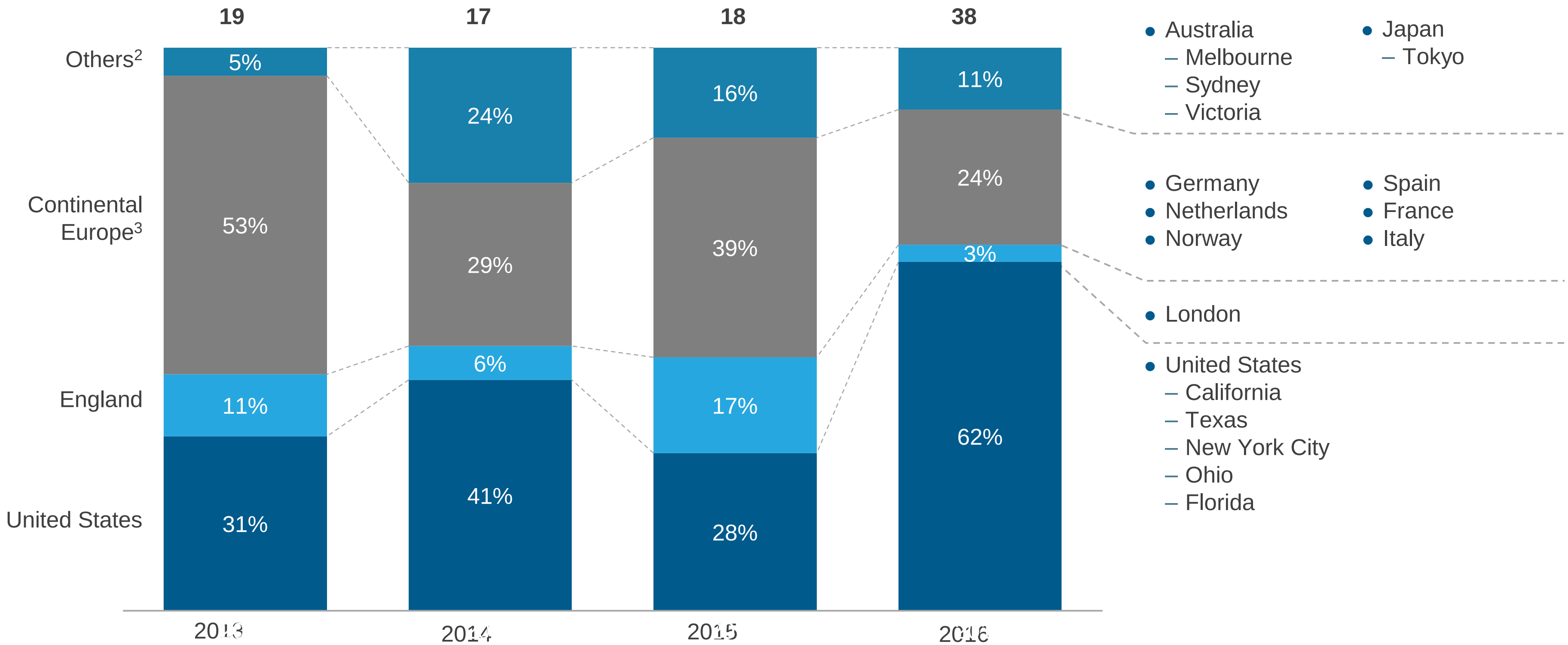
1 20 leading service providers across IT and BPS that Everest Group uses as "Index" providers to gauge market trends

Source: Everest Group (2017)

Locations activity | Onshore geographies (page 2 of 2)

The share of the United States in onshore center setups by the top 20 service providers increased significantly; United Kingdom witnessed a decline

New onshore delivery centers of top 20 service providers[1] by region
2013-2016; Number of centers



1 20 leading service providers across IT and BPS that Everest Group uses as "Index" providers to gauge market trends
2 Includes Australia, New Zealand, and Japan
3 Also includes Nordic and Scandinavian countries
Source: Everest Group (2017)

The global services industry is increasingly witnessing a foray into digital services

- Significant increase in both number and share of new delivery centers focusing on development of digital services
- Between 2013-2014 and 2015-2016, the number of such centers witnessed a growth of ~177%

The industry is witnessing a significant rotation into digital services

In terms of activity, Asia Pacific and Nearshore Europe dominated the growth of delivery centers for digital services

- In Asia Pacific, India and Singapore were the key delivery locations, whereas in Nearshore Europe, Ireland, Poland, and Romania were amongst the leaders
- Some of the digital segments that witnessed growth include cloud, Internet of things, and big data

- While both GIC and service provider setups have grown at a significant rate from 2013-2014 to 2015-2016, the share of GIC setups has overtaken that of the latter
- GICs in Asia Pacific and Nearshore Europe are developing a wide range of services, while conducting research on emerging technologies such as blockchain and cryptocurrencies

Both service providers and enterprises (through GICs) have invested in developing digital capabilities

Across geographies, tier-1 cities account for more than 70% of all digital delivery centers

- Traditionally, tier-1 cities have been leveraged on a greater scale due to availability of relevant talent and infrastructure
- However, increasingly, tier-2/3 cities are also gaining in momentum, as tier-1 cities start to witness saturation and intense competition

Source: Everest Group (2017)

MAP Matrix™ | Definition and key components

Everest Group's **Maturity | Arbitrage | Potential (MAP) Matrix™** provides an objective, data-driven, and comparative assessment of locations specific to a market segment (function and process). The MAP Matrix™ is built on the following three pillars of locations optimization:

Maturity

- The Matrix incorporates and highlights relative maturity of locations in terms of the breadth and depth of services offered
- Various factors, such as overall industry size, evidence of services being delivered, nature of players, and overall quality of employed talent pool, have been factored in the analysis

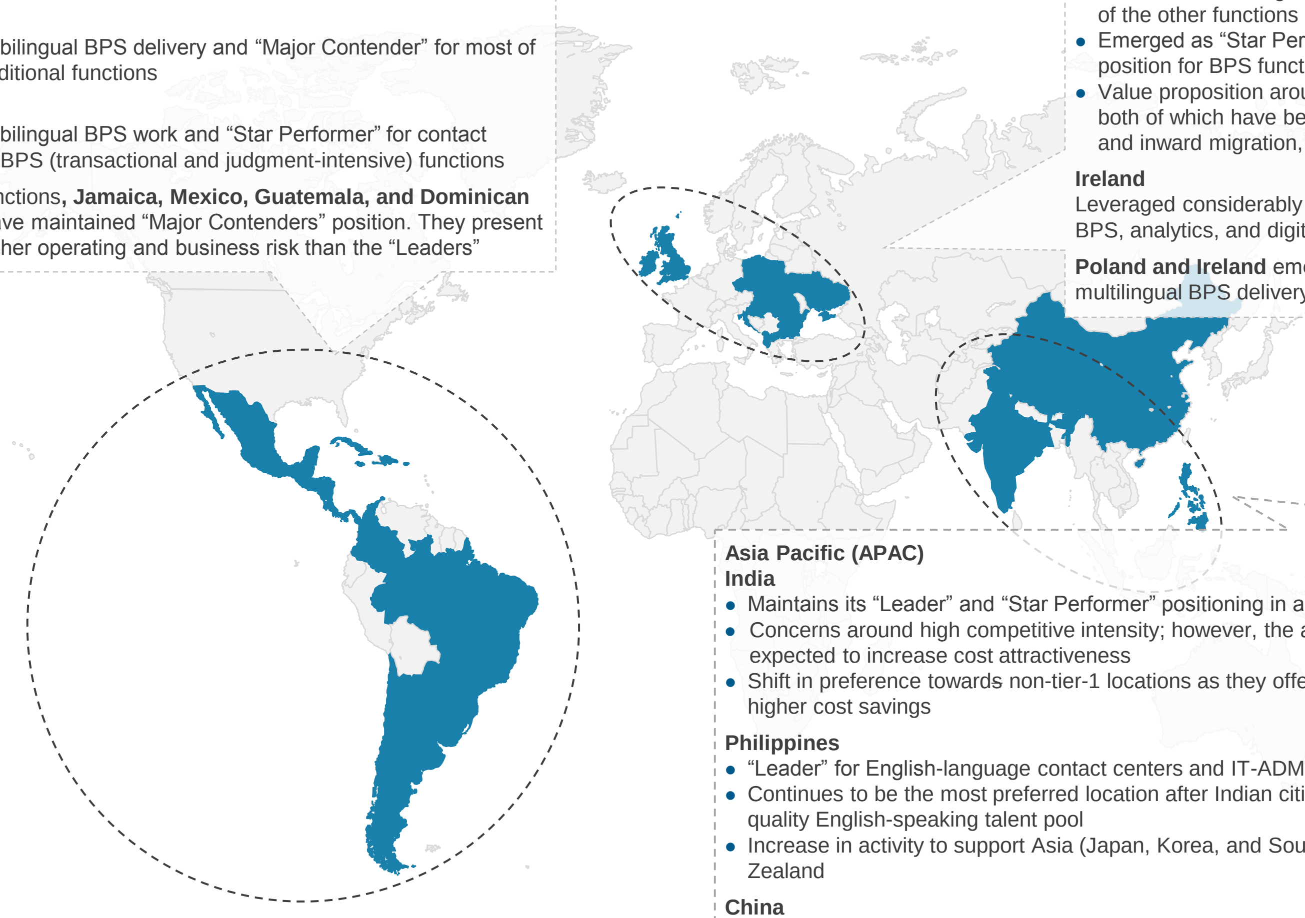
Arbitrage

- Cost savings or arbitrage, one of the most important factors while evaluating locations, has also been included in the analysis
- The analysis incorporates fully-loaded operating cost per FTE, and includes salary & mandatory benefits cost, facilities & equipment cost, technology-related expenses, and other operating costs pertaining to attrition & training

Potential

- Emerging opportunities or potential of these locations has also been highlighted in the analysis
- This metric includes a detailed analysis on a number of key parameters such as availability and quality of entry-level talent and employed pool, and risk profile
- Emerging opportunities in some of the locations have also been highlighted explicitly in the outlook sections

MAP Matrix™ | Summary of key messages



AMERICAS
Argentina
"Leader" for bilingual BPS delivery and "Major Contender" for most of the other traditional functions

Costa Rica
"Leader" for bilingual BPS work and "Star Performer" for contact centers and BPS (transactional and judgment-intensive) functions

For other functions**, Jamaica, Mexico, Guatemala, and Dominican Republic** have maintained "Major Contenders" position. They present relatively higher operating and business risk than the "Leaders"

Europe and Middle East Asia (EMEA)
Poland
- "Leader" in multilingual BPS and "Major Contender" for most of the other functions
- Emerged as "Star Performer" for IT-ADM and maintained its position for BPS functions
- Value proposition around cost saving and talent availability, both of which have been boosted by currency depreciation and inward migration, respectively

Ireland
Leveraged considerably for judgment-intensive and multilingual BPS, analytics, and digital delivery

Poland and Ireland emerged as "Star Performers" for multilingual BPS delivery

Asia Pacific (APAC)
India
- Maintains its "Leader" and "Star Performer" positioning in all language-agnostic delivery functions
- Concerns around high competitive intensity; however, the anticipated decline in currency is expected to increase cost attractiveness
- Shift in preference towards non-tier-1 locations as they offer access to a large talent pool with higher cost savings

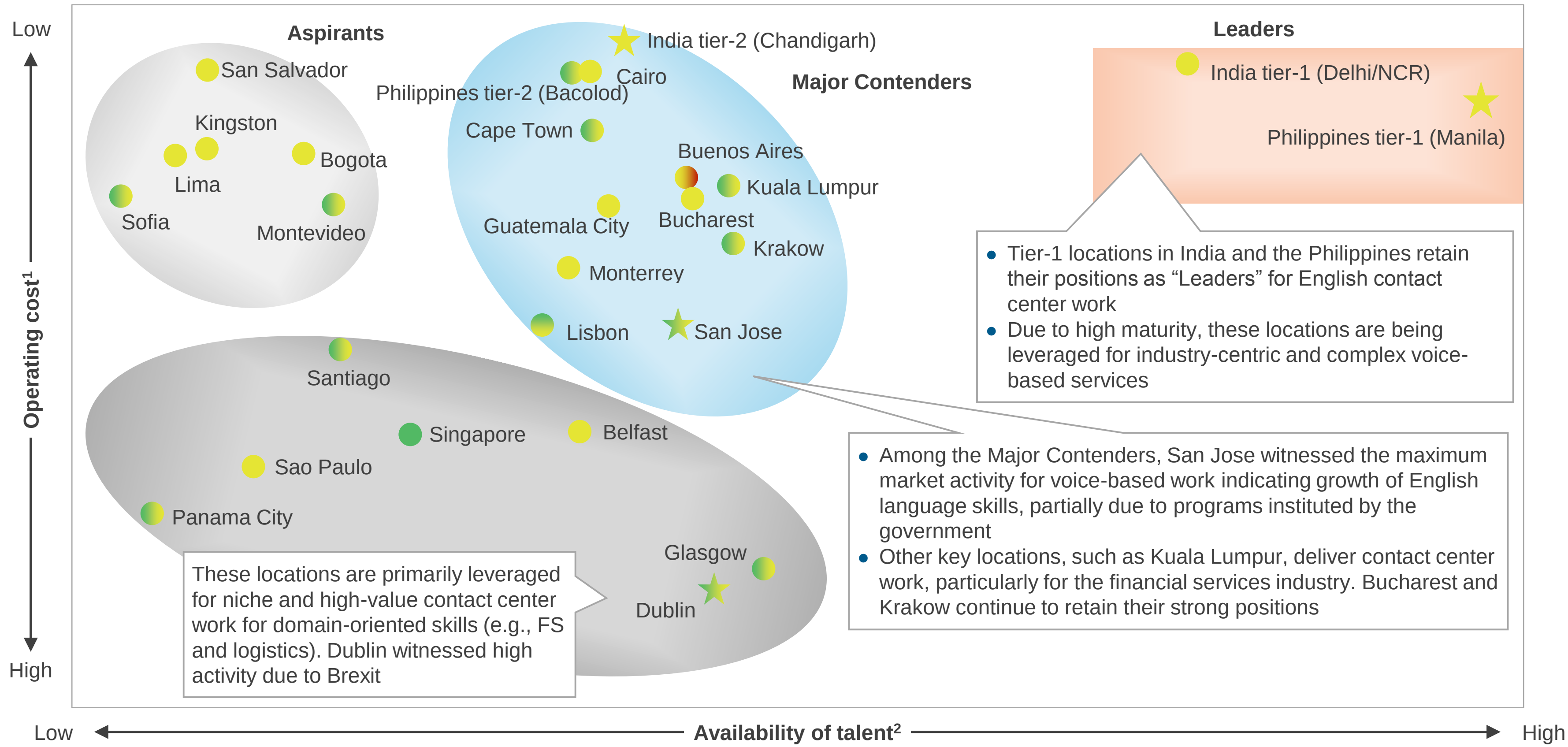
Philippines
- "Leader" for English-language contact centers and IT-ADM functions
- Continues to be the most preferred location after Indian cities due to significant availability of quality English-speaking talent pool
- Increase in activity to support Asia (Japan, Korea, and Southeast Asia) and Australia / New Zealand

China
"Leader" in IT-ADM and ER&D services, possibility of further decline in currency expected to boost cost attractiveness

Source: Everest Group (2017)

MAP Matrix™ | Contact center (English)

Risk profile: Highly favorable; Favorable, but some concerns; Significant challenge; ☆ Star Performer

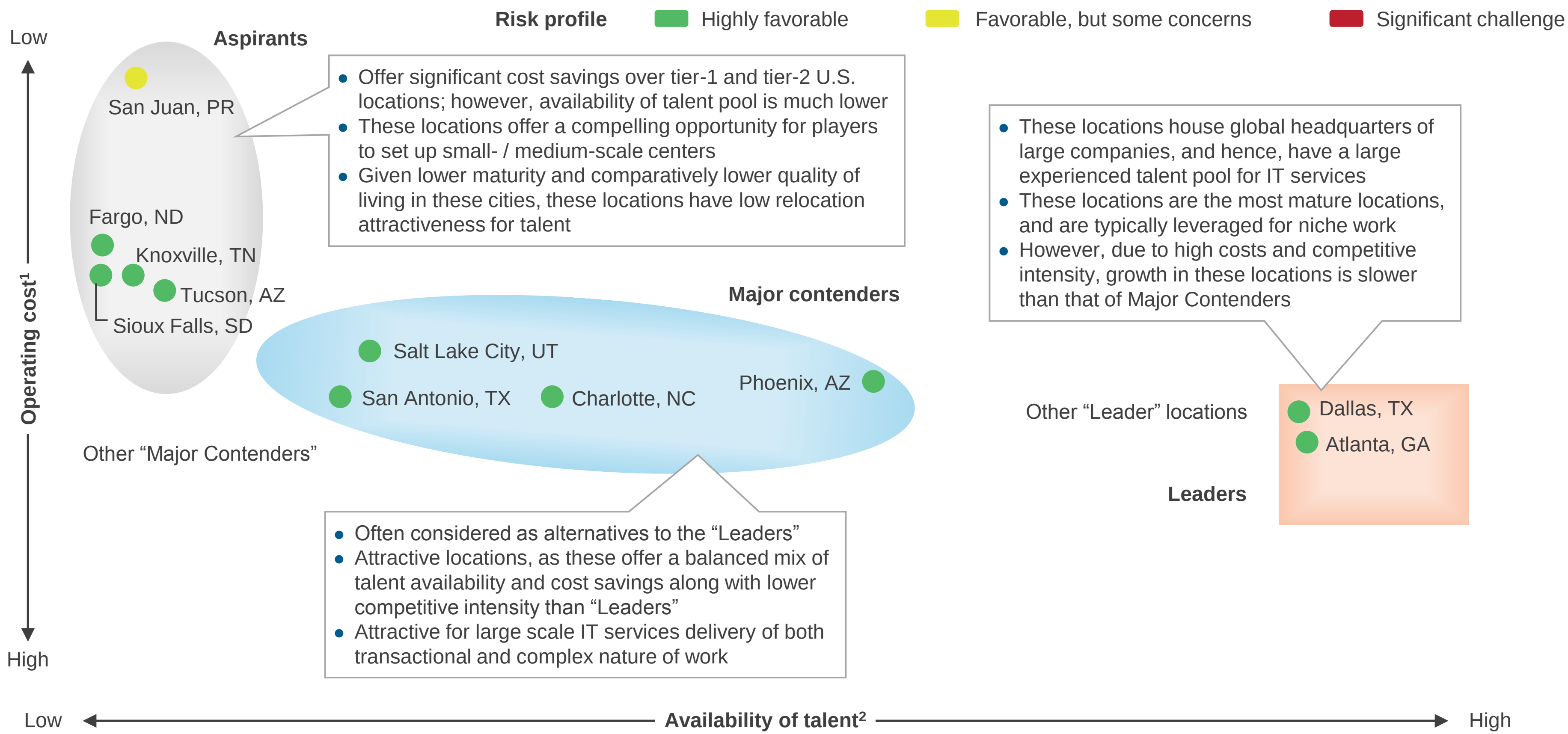


1 Fully-loaded, ongoing operating cost including compensation, facilities, and technology expenses
2 Considers relevant entry-level and experienced talent
3 The assessment has been done only for a representative list of locations

Note: We used representative cities to depict typical talent-cost positioning for tier-1 and tier-2 cities for some countries (e.g., Metro Manila as a tier-1 city and Bacolod as a tier-2 city in the Philippines); there could be other cities in the country that also offer comparable propositions to these cities

Source: Inputs from market players, recruitment firms, and investment agencies; Everest Group (2017)

MAP Matrix™ | IT services in the United States of America



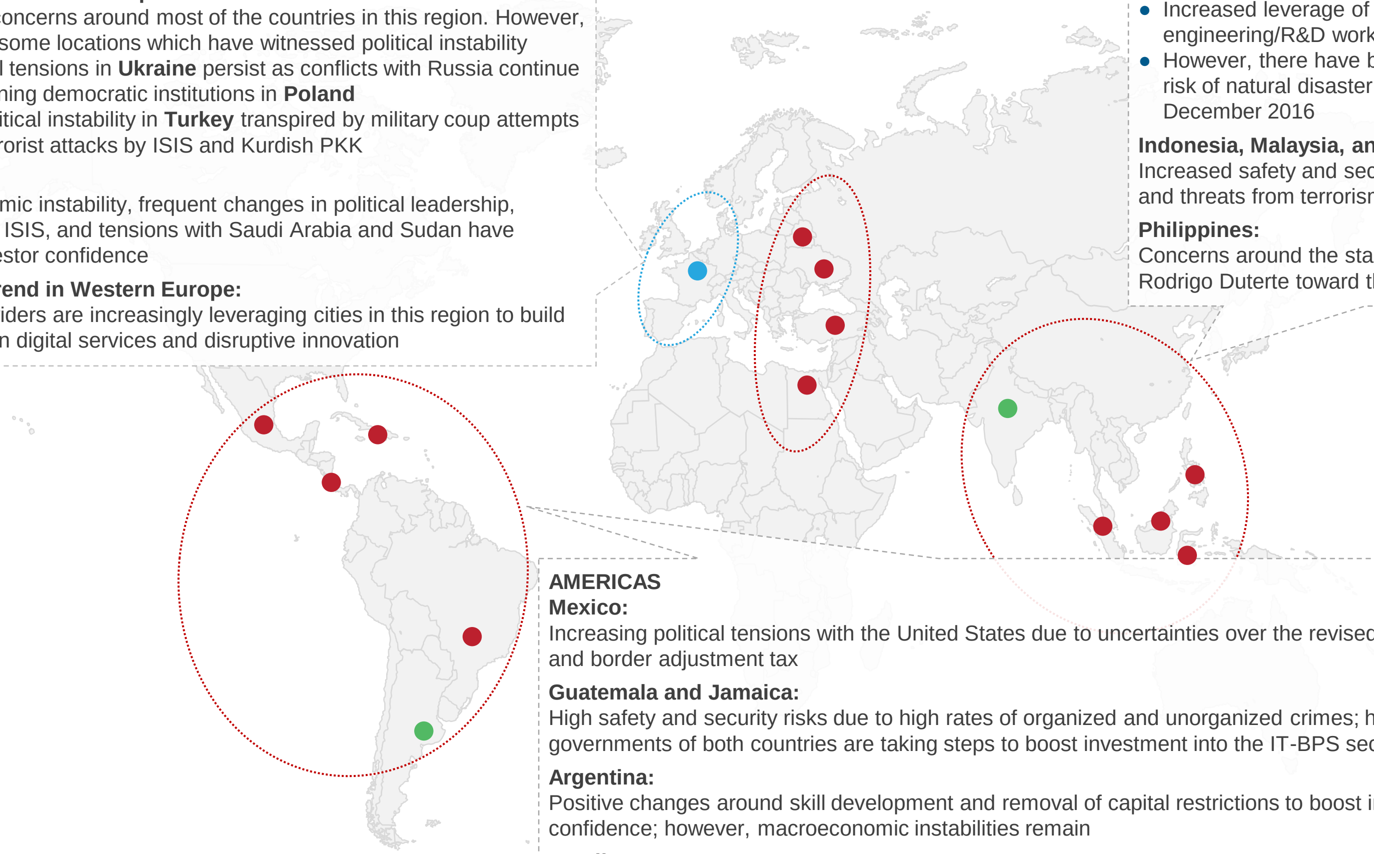
In addition to the cities listed above, companies also leverage tier-1 U.S. cities such as Chicago, Boston, and New York for delivery of IT services.

1 Fully-loaded, ongoing operating cost including compensation, facilities, and technology expenses
2 Considers relevant entry-level and experienced talent
3 The assessment has been done only for a representative list of locations
4 There are other cities in each of these clusters that are being leveraged for delivering IT services work; these cities are listed on the next page

Source: Inputs from market players, recruitment firms, and investment agencies; Everest Group (2017)

Risk watch | Summary of key messages

● Emerging trends ● Significant risk factor requiring attention ● Positive change in one or more risk factors



EMEA

Central and Eastern Europe:

- Low risk concerns around most of the countries in this region. However, there are some locations which have witnessed political instability
  - Political tensions in **Ukraine** persist as conflicts with Russia continue
  - Weakening democratic institutions in **Poland**
  - Geopolitical instability in **Turkey** transpired by military coup attempts and terrorist attacks by ISIS and Kurdish PKK

Egypt:

Macroeconomic instability, frequent changes in political leadership, attacks from ISIS, and tensions with Saudi Arabia and Sudan have affected investor confidence

Emerging trend in Western Europe:

Service providers are increasingly leveraging cities in this region to build capabilities in digital services and disruptive innovation

APAC

India:

- Increased leverage of India for global delivery of engineering/R&D work
- However, there have been concerns around increased risk of natural disaster. e.g., the cyclone in Chennai in December 2016

Indonesia, Malaysia, and Thailand:

Increased safety and security risks due to border issues and threats from terrorism

Philippines:

Concerns around the stance of newly elected president Rodrigo Duterte toward the United States

AMERICAS

Mexico:

Increasing political tensions with the United States due to uncertainties over the revised NAFTA and border adjustment tax

Guatemala and Jamaica:

High safety and security risks due to high rates of organized and unorganized crimes; however, governments of both countries are taking steps to boost investment into the IT-BPS sector

Argentina:

Positive changes around skill development and removal of capital restrictions to boost investor confidence; however, macroeconomic instabilities remain

Brazil:

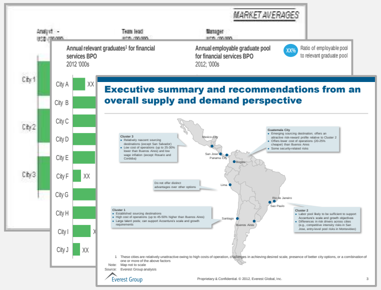
Increased tensions amidst macroeconomic and geopolitical uncertainties following impeachment of the president. However, other risk factors are favorable and Brazil continues to attract investment

Everest Group's Locations Insider subscription provides detailed information, analysis, and perspectives on global locations through multiple types of reports

Function focus location reports
*Identify and assess **function-specific** growth opportunities in **regions***

3 reports per year

- Comparative analysis of cities in a region for a specific function (e.g., IT-ADM, customer service)
- Comparison of cities on:
  – Operating costs
  – Talent pool
  – Key players
  – Risks
  – Future outlook



Emerging location trends
*Keep up with the **latest themes** in location strategy and management*

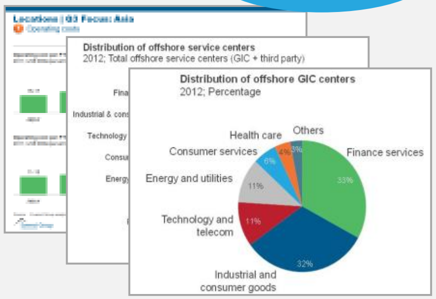
2 reports per year

- Reports/viewpoints addressing specific global/regional themes
- Examples of topics:
  – Tier-2/3 cities in CEE
  – Rise of onshoring
  – Emerging functional opportunities in locations

"Next-wave" location profiles
*Stay ahead of competition in understanding opportunities in **"next-wave" locations***

10 profiles per year

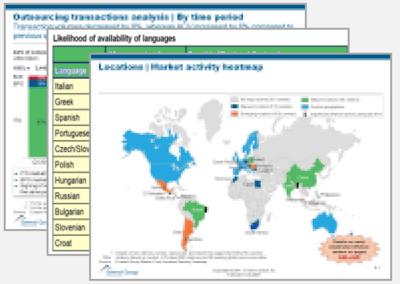
- Short profiles of emerging / "next-wave" countries or cities for global sourcing
- Coverage includes:
  – Global sourcing profile
  – Operating costs
  – Players present
  – Key risks, opportunities, drivers, and challenges



Global locations annual report
***Annual update** of locations activity, risks, perceptions, and plans*

1 report per year

- Annual report on activity and key developments across locations
- Analyses include:
  – Location set-up activity
  – Perceptions and plans of buyers and providers
  – Rankings of locations by function
  – Risk watch



Includes complimentary access to the annual locations webinar and access to analysts

Locations Insider research calendar

Published | Current

Topic	Release date
Global Locations Annual Report	October 2016
"Next-wave" Location Profiles – Kiev, Ukraine	November 2016
Argentina Global Services Industry – Breaking Political Shackles?	January 2017
Determining Scalability Potential of a Location – Not as Easy as It Seems!!	January 2017
"Next-wave" Location Profiles – Belo Horizonte, Brazil	March 2017
The Road Ahead After Brexit: A Global Services Perspective on the Impact of the Change	March 2017
The Philippines IT-BPM Industry: Cautious Optimism in Turbulent Times	March 2017
"Next-wave" Location Profiles – Cavite, the Philippines	March 2017
IT services delivery from Asia Pacific	April 2017
"Next-wave" Location Profiles – Jamaica	May 2017
"Next-wave" Location Profiles – Bangladesh	June 2017
"Next-wave" Location Profiles – Pune, India	June 2017
Global Locations Annual Report 2017: Signs of Structure in a Disordered World	June 2017
Emergence of Western Europe for Centralized Service Delivery to Europe	Q2 2017
Implications of Automation on Talent Requirements and Talent Hotspots for Automation CoEs	Q2 2017
Impact of Brexit on Contact Center Landscape in UK & Ireland	Q2 2017
"Next-wave" Location Profiles – Cork, Ireland	Q2 2017

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. **IT Service Delivery from Asia Pacific** (EGR-2017-2-R-2137), 2017. The Asia Pacific region accounts for the highest share of global IT services delivery. While IT services delivery in the region has traditionally been centered predominantly in India, companies have shown increased interest in exploring alternative locations such as the Philippines, China, Malaysia, Singapore, and even destinations such as Sri Lanka and Vietnam. In addition to lower costs than onshore U.S. and Europe, each of these locations have a unique value proposition, making them attractive choices for setting up alternative delivery centers / regional hubs for IT operations. This report assesses the key drivers for IT service delivery from the Asia Pacific region. It also aims to assist companies in selecting IT services delivery location in the Asia Pacific region (beyond India) by evaluating location proposition on talent, cost, and risks.

2. **The Road Ahead After Brexit: A Global Services Perspective on the Impact of the Change** (EGR-2017-2-V-2115), 2016: The United Kingdom voted to leave the European Union (EU) in the Brexit referendum held on June 23, 2016. Likely changes in the regulatory/policy and business environment could have a significant impact on the global services market and force companies to relook at their service delivery strategies. Although negotiations with the European Commission are yet to start, and the final shape of a post-exit Britain is uncertain, this paper analyzes the potential long term (post-Brexit) impact on the delivery locations strategy for companies.

3. **Global Locations Annual Report 2016: Persistent Growth in Uncertain Times** (EGR-2016-2-R-1957), 2016. The global services locations landscape continued to witness stable growth in 2016 in terms of market activity. However, the revenue growth rate was lower than the previous year owing to unstable macroeconomic sentiments, resulting in reduced investment. The period also witnessed a shift in growth from offshore to nearshore locations, primarily driven by initiatives of enterprises and service providers to rebalance and optimize their existing locations portfolio and selectively consider newer locations for delivery. The Global Locations Annual Report 2016 is a unique and comprehensive guide to understanding the nuances of the locations landscape and interpreting locations-related developments and trends to frame locations strategy. It presents insights into the size and growth of the global services market, update of locations activity, changes in risk profiles of locations, and an analysis of the maturity, arbitrage, and potential of locations (MAP Matrix™)

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