Market Vista™: Select Findings Q2 2017

April-June 2017

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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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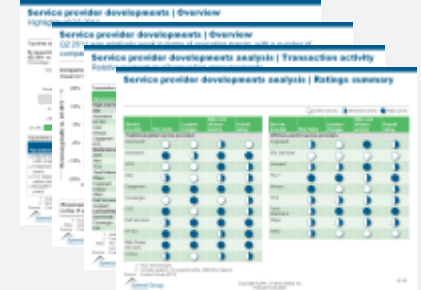
Location data and dynamics

- 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 Q2 2017

1 GIC activity continues to be driven by existing adopters, with focus on establishing R&D centers for next-generation technologies

2 Hype to reality: IoT is among the top three enterprise priorities for digital transformation across industries. Manufacturing and energy & utilities are the leading adopters of IoT

3 Outsourcing demand from the United Kingdom continued to remain low due to uncertainty with Brexit and reduced outsourcing by cash-strapped healthcare and government sector

4 Reduced revenue growth is pushing SPs to form partnerships rather than invest in acquisitions
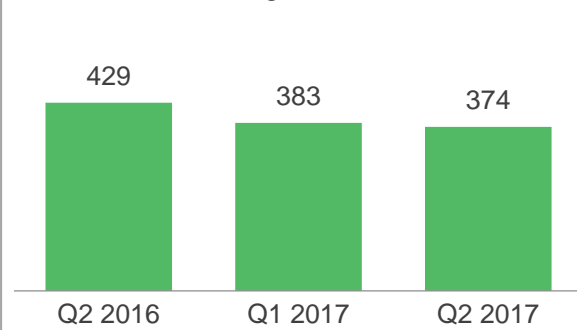
5 Leading locations – India in Asia Pacific, Northern Ireland and Romania in nearshore Europe, and Brazil in Latin America – witnessed spike in new delivery center setups
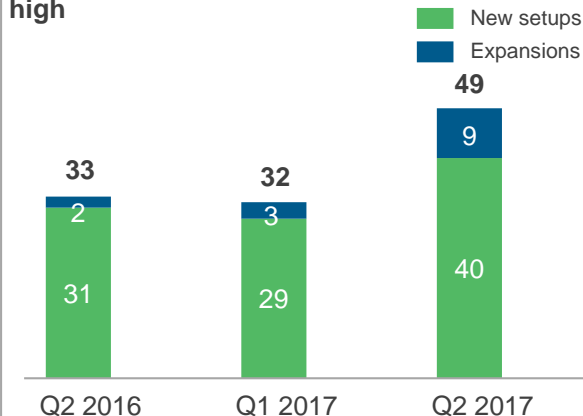
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Key market indices – Q2 2017

Outsourcing/offshoring market overview

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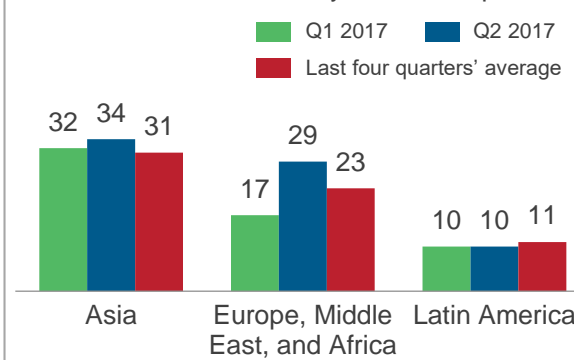Number of outsourcing transactions

Q2 2016	Q1 2017	Q2 2017
429	383	374

The overall GIC activity continued to remain high

Legend: New setups, Expansions

	Q2 2016	Q1 2017	Q2 2017
Total	33	32	49
Expansions	2	3	9
New setups	31	29	40

Location dynamics

Europe witnessed a significant growth in activity in Q2 2017
Number of offshore delivery center setups

Legend: Q1 2017, Q2 2017, Last four quarters' average

	Asia	Europe, Middle East, and Africa	Latin America
Q1 2017	32	17	10
Q2 2017	34	29	10
Last four quarters' average	31	23	11

Share of tier-1 locations was higher than tier-2 locations
Number of offshore delivery center setups

Legend: Q1 2017, Q2 2017, Last four quarters' average

	Tier-1	Tier-2/3
Q1 2017	32	24
Q2 2017	36	33
Last four quarters' average	34	29
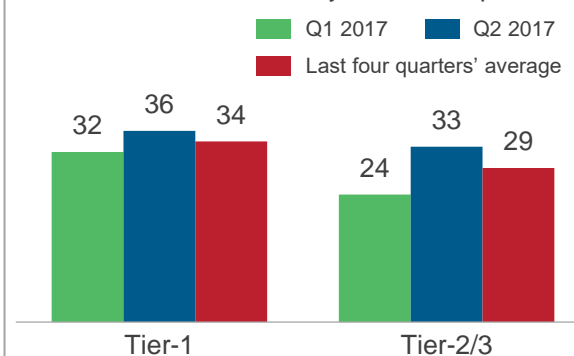
Service provider developments and trends

Both global service providers and India-heritage providers reported sequential increase in revenue
Sequential growth in revenue

Global service providers	India-heritage service providers	Overall
1.5%	1.6%	1.5%
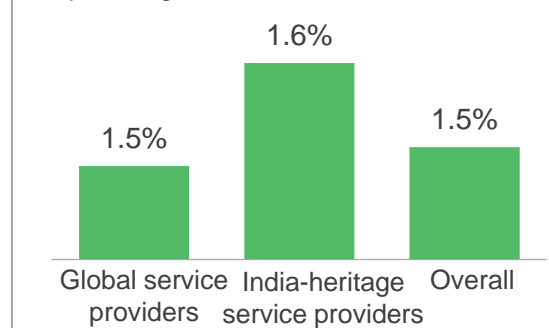
Operating margins for both global providers as well as India-heritage providers declined during the quarter
Sequential growth in operating margins (bps)

Global service providers	India-heritage service providers	Overall
-220	-66	-182

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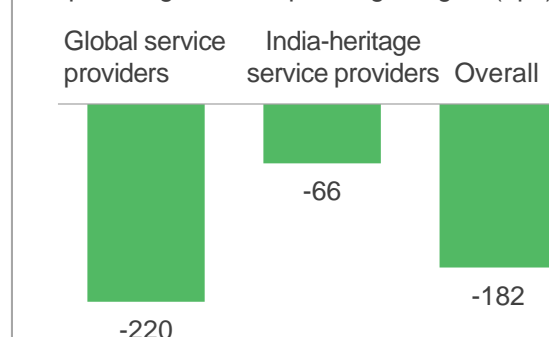
Summary of key developments in Q2 2017

Transaction activity declined in Q2 2017 with 374 deals, compared to 383 in Q1 2017
- Activity in the outsourcing market witnessed a decline on account of a fall in the volume of ITO deals; BPO deals, however, gained momentum over the last quarter
- Energy & utilities, manufacturing, and, retail & CPG verticals saw an increase in volume of transactions, while the healthcare and government sectors reported a decline in number of contracts vis-à-vis Q1 2017
- Outsourcing activity across North America increased significantly; Europe also witnessed a notable increase in volume of deals largely driven by Rest of Europe (ROE)
- The volume as well as the share of renewals / restructured deals remained unchanged over the last quarter
- Volume of long-term deals (more than seven years) increased over the last quarter, however, the number of short-term (three to five years), and medium-term (five to seven years) contracts declined vis-à-vis Q1 2017
- Demand for contact center services increased over the last quarter, while other BPO processes witnessed lower adoption during Q2 2017

GIC market activity increased in Q2 2017, with 40 new setups, nine expansions, and no divestiture
- New GIC set-up activity increased significantly compared to the previous quarter, with Europe and Asia Pacific driving this growth
- Leading companies, such as Apple, BT, Huawei, Ingram Micro, Mercedes Benz, Pearson, Procter & Gamble, UBS, and ZF Friedrichshafen, announced new centers

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Location activity in Q2 2017 was at an all time high, with Europe witnessing significant growth in activity compared to Q1 2017. Asia continued to lead, with the highest share in new setups

- There were 73 setups in Q2 2017, with Europe witnessing a significant growth in activity driven by Romania, Portugal, Hungary, and Northern Ireland, compared to Q1 2017. Asia continued to lead with ~46% share in new center setups. Activity continued to be more or less equally driven by both GICs and service providers
- Key location risk/opportunity trends for Q2 2017 include – Mexico is maintaining its competitiveness for IT-BPM industry despite uncertainty around the U.S. trade policies; Belarus, Serbia, and Croatia are emerging locations in CEE, witnessing robust market activity for IT services; tier-2 cities in China are emerging as engineering services and R&D hubs due to lower labor & operating costs, availability of high-quality talent, and low competition; and formation of labor unions in otherwise stable IT-BPM industry in India could potentially disrupt business continuity

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

- Operating margin decreased sequentially for global as well as India-heritage providers while revenue increased for both
- Both, the overall transaction activity, as well as the share of Market Vista Index service providers declined in Q2 2017 as compared to the previous quarter
- Overall M&A activity declined as both global and India-heritage service providers reported a decline in the number of acquisitions. On the other hand, global providers contributed to increased alliance activity, compared to the previous quarter
- Overall location activity increased significantly as compared to the previous quarter, attributed to an increase in activity for global service providers

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Internet of Things (IoT) is one of the top priorities for enterprises today with manufacturing and energy & utilities as the leading adopters

IoT definition and framework

IoT refers to the connection of devices to the Internet. It is a network of connected machines, processes, and people, enabling them to collect and exchange data using embedded sensors and facilitate smarter business decisions and actions
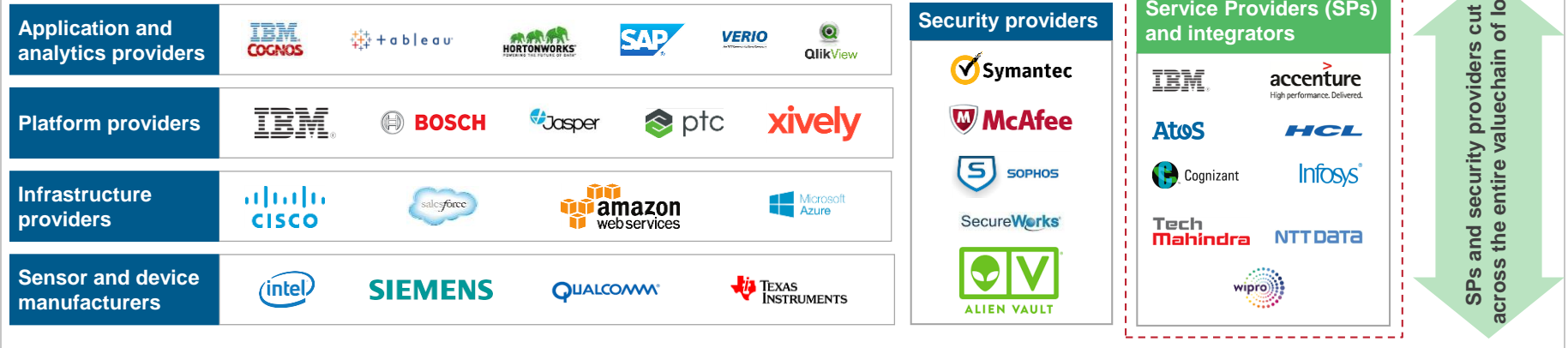
IoT is the latest product development buzzword. While people think of IoT as consumer wearables and smart home, for service providers Industrial IoT (IIoT) is of higher interest as it offers faster return on investment.

Consumer IoT

Consumer IoT includes applications used by end customers directly by means of wearables, consumer appliances, or other sensing devices. Examples of consumer IoT:
- Connected home: IoT applications for consumer electronics and smart home includes remote control, monitor device performance, smart TVs, and smart home appliances
- Other devices: Smart watches, Fitbit, and tracking devices

IIoT

IIoT includes applications used by enterprises by means of sensors installed across the desired ecosystem. IIoT is majorly adopted by manufacturing firms, followed by E&U, healthcare, and retail & CPG:
- Manufacturing: To increase machinery uptime and enable end-to-end supply chain visibility
- Energy & utilities: To reduce energy cost and prevent failures
- Healthcare & life sciences: To ensure accurate and timely information access and to facilitate telemedicine
- Retail & CPG: To optimize supply chain
- Limited adoption among travel and transport, telecom, public sector, media & entertainment, hi-tech, and insurance. Other industries such as agriculture, BFS, and mining are in the early stages of adoption

Source: Internet of Things Services – PEAK Matrix™ Assessment and Market Trends – IoT: Bigger than the Hype

To address the increasing demand for IoT, service provider are making large investments[1] in enhancing capabilities

- Service providers are leveraging startups to expand their capabilities across the IoT stack
- Recent examples: Accenture acquired Altitude to help companies develop IoT business models and capture new revenue streams. The firm also acquired Tecnilógica and MOBGEN to expand its capabilities to create and facilitate financial transactions related to IoT
- **IoT-specific acquisitions accounts for 10-12% of the total acquisition activity by Market Vista Index service providers**

Acquisitions

Alliances

New centers

- With the convergence of IT and Operational Technology (OT), service providers are aggressively partnering with providers in the IoT space to overcome the gaps in the ecosystem
- Recent examples:
  - Atos partnered with Dell EMC to build an IoT service management framework to allow customers create value from their connected devices
  - TCS collaborated with Siemens for Internet of Things (IoT) innovation
- **IoT alliances accounts for 30-35% of the total alliance activity by Market Vista Index service providers**

- Service providers are setting up Center of Excellence (CoE) and IoT innovation labs to help organizations with their digital transformation
- Recent examples: Fujitsu opened an Industry 4.0 Competence Center in Munich, Germany, that will bring together Fujitsu's manufacturing experience along with industrial IoT platform. IBM also opened a new IoT center in Kosice, Slovakia, to develop and implement innovative solutions using cognitive technologies
- **IoT-specific centers accounts for 28-32% of the total location activity by Market Vista Index service providers**

Leading[2] service providers	Solutions	Use cases
Accenture	Accenture Connected Platform-as-a-Service (CPaaS); AIP; Accenture IoT device platform	• Helped manufacturing client improve operations by building a Digital Services Factory that enabled the company to up-sell their field services • Helped an industrial equipment company to improve the operating performance by building a remote monitoring and machine configuration
Atos	The Internet-of-Things and Industry 4.0; Atos Codex Consulting	• Helped a goods manufacturer to monetize the data available by creating smart connected products • Developed connected vehicle solution for European truck manufacturer
IBM	IBM Watson IoT Platform	• Helped in ecosystem transformation for a manufacturing firm by delivering solutions for end-to-end remote asset monitoring and management
HCL Technologies	Platform Acceleration Suite (PAS); IoT Works	• Developed common platform for an office automation firm to monitor, track inventory, and replenish automatically based on consumption patterns

1 Based on total number to acquisition, alliances, and new centers from January 2016 till June 2017
2 Leaders on Everest Group's IoT PEAK Matrix

Source: Internet of Things Services – PEAK Matrix™ Assessment and Market Trends – IoT: Bigger than the Hype; Everest Group M&A database; Everest Group locations database; 2017

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From Internet of "Things" to Internet of "Everything"

IoT is among the top three priorities for digital transformation for enterprises across industries; however, to move forward, companies will have to overcome key challenges such as complex ecosystem, data privacy & security, infrastructure & platform, and investment challenges faced by the enterprises in current scenario.

Current Stage of IoT

Future of IoT

Legacy infrastructure and software being used are outdated and pose challenges for end-to-end connectivity needed for IoT implementation

Sensors, software, and communication technologies will interact with each other and the IT seamlessly

Complex ecosystem of partners where its various components such as devices, analytics, networks, and security are being provided by different service and technology providers

A common data model and control architecture that supports the flow of insights and action throughout an organization and its ecosystem of partners

Implementation is happening in silos: As IoT is at its early stages, companies are taking first steps on their IoT journeys by improving their operations

Holistic implementation across organization: Companies are expected to shift to service-oriented business models and transform every part of their organization around real-time data analytics

According to the sources, there are 8-10 billion connected things on Internet today

The world is expected to have 30-35 billion connected devices by 2020

IoT will evolve into an integral strategy of enterprises, with interconnected implementation across the organization to remain competitive within the industry.

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List of Market Vista Index service providers

Global service providers

accenture
High performance. Delivered.

ADP

Atos

CAPITA

Capgemini
CONSULTING.TECHNOLOGY.OUTSOURCING

CGI

CONDUENT [1]

CONVERGYS
Outthinking Outdoing

DXC.technology [2]

FUJITSU [3]

IBM [4]

NTT DATA [5]

T··Systems·

Teleperformance

UNISYS

India-heritage service providers

Cognizant

EXL

GENPACT

HCL

Infosys

SUTHERLAND
GLOBAL SERVICES

TATA CONSULTANCY SERVICES

Tech Mahindra

wipro

WNS
Extending Your Enterprise

1. Xerox spun off its business services division to create Conduent
2. DXC Technology 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

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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 2017** (EGR-2017-8-R-2168); 2017. This report summarizes the key trends and developments for Q1 2017 in the global offshoring and outsourcing market

2. **Mexico IT-BPM Industry: Maintaining Competitiveness Amidst Uncertainty** (EGR-2017-8-V-2222); 2017. The proposed withdrawal of the United States from NAFTA and implementation of Border Adjustment Tax (or outsourcing tax) is likely to negatively impact the IT-BP industry in Mexico in the short-term. Operating costs for IT-BP services from Mexico may increase by 10-30% and Mexico may lose favorable access to the United Sates market. In this viewpoint, we have examined the facts concerning the current situation and have presented our perspectives on the impact of political events on Mexico's IT-BPM industry

3. **Reimagining Location Strategy Due to Increasing Agile/DevOps Adoption** (EGR-2017-2-V-2278); 2017. Agile/DevOps adoption is gaining importance in the ever-dynamic IT services industry. In the current digital age, the traditional waterfall methodology is rapidly being replaced by Agile/DevOps methodology as it provides multiple benefits in terms of cost, effort, and quality. Adoption of Agile/DevOps will result in substantive changes to location strategy of firms. This will have important implications for both enterprises and service providers. This viewpoint specifically focuses on the impact of Agile/DevOps adoption on location strategies of companies and its implications, and evaluates both current impact and future trends

4. **Buyer Geography and Industry Trends reports:** Trends for Q1 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, Financial Services, and Insurance (BFSI); Manufacturing, Distribution, and Retail (MDR); Energy & Utilities (E&U); Healthcare; Technology; Telecom; Public Sector; and Travel & Hospitality

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