



Market Vista[™] : Select Findings Q3 2017

July – September 2017

Everest Group

MARKET VISTA[™]

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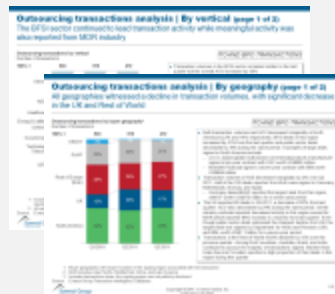
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Market Vista | Overview

Covers global services market research, analysis, and insights to demystify the market and direct clear, impactful decisions

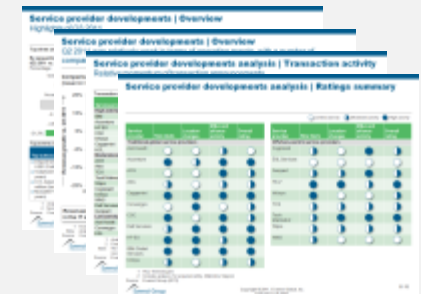
Overall sourcing market

- 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



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

Global services | Key market trends in Q3 2017

1 Location activity in Latin America at an all-time high driven by large number of center setups in Mexico, Colombia, and Costa Rica

2 Increase in R&D center setups by technology and communications enterprises given preference to insource next-generation services

3 Decrease in healthcare outsourcing transaction volume with uncertainty around regulatory changes in the United States

4 Decrease in operating margins for offshore-heritage providers due to appreciation of Indian rupee; operating margins for most global majors reducing because of falling revenue

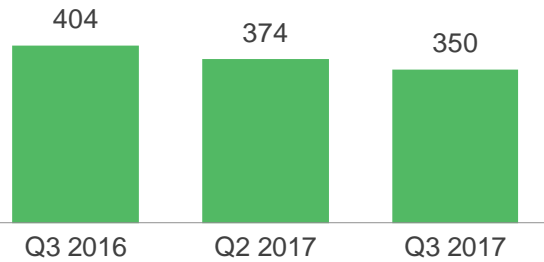
5 Significant differences in leading digital services supported by GICs vs. service providers

Key market indices – Q3 2017

Outsourcing/offshoring market overview

Reduced growth rate in outsourcing demand compared to Q2 2017

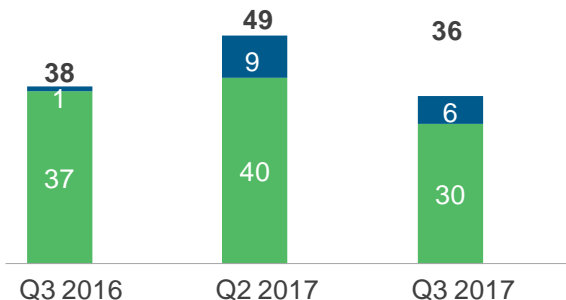
Number of outsourcing transactions



Lower GIC activity in Q3 2017 after an all-time high in Q2 2017

Number of new GIC setups and expansions

■ New setups
■ Expansions

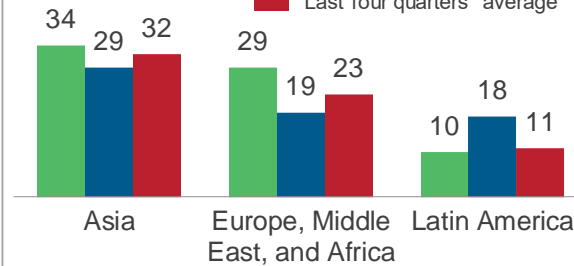


Location dynamics

Location activity decreased in Asia and EMEA but increased in Latin America compared to Q2

Number of delivery center setups

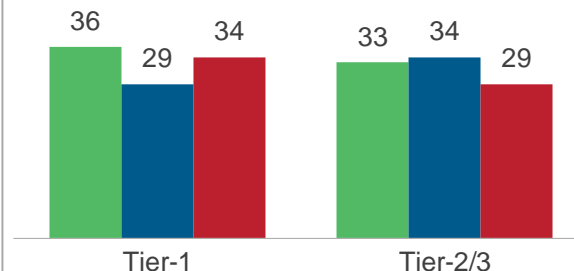
■ Q2 2017 ■ Q3 2017
■ Last four quarters' average



Increase in share of tier-2 locations compared to tier-1 locations

Number of delivery center setups

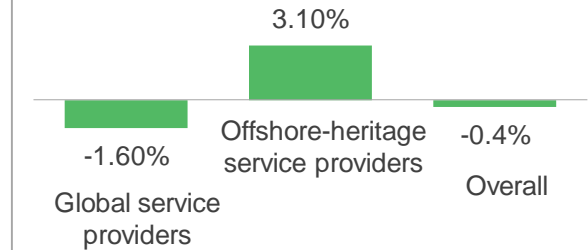
■ Q2 2017 ■ Q3 2017
■ Last four quarters' average



Service provider developments and trends

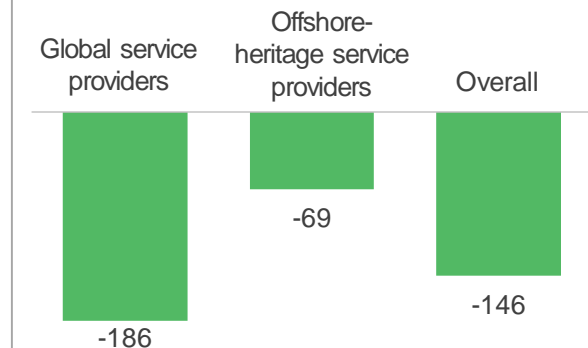
Revenue for offshore-heritage providers increased QoQ, but decreased for global providers

QoQ growth in revenue



Operating margin declined for both offshore-heritage and global service providers

QoQ growth in operating margin (bps)



Summary of key developments in Q3 2017 (page 1 of 2)

Transaction activity declined in Q3 2017 with 350 deals, compared to 374 in Q2 2017

- Reduced growth in outsourcing demand given lower growth in ITO deals compared to previous quarter; increase in volume and relative share of BPO deals
- Healthcare, manufacturing, energy & utilities, and technology & communication verticals saw a decline in volume of transactions, while the government, retail & CPG, and BFSI sectors reported no major change in deal activity over the last quarter
- Outsourcing activity across North America declined marginally, while Europe saw a sharp decline in volume of deals owing to a fall in demand across Rest of Europe (ROE)
- The volume as well as the share of renewals / restructured deals declined marginally over the last quarter
- Volume of medium-term contracts (five to seven years) increased significantly, while the number of very short-term deals (zero to three years) declined, compared to the previous quarter
- Industry-specific BPO processes witnessed an increase in adoption over the last quarter; application outsourcing services saw a decline in demand vis-à-vis Q2 2017

GIC market activity was lower in Q3 2017 after an all-time high in Q2 2017

- There were 30 new setups and six expansions reported in Q2; activity was significantly lower in Nearshore Europe
- Leading companies, such as Amazon, AstraZeneca, General Electric, Henkel, Hitachi, Hyundai Motors, LinkedIn, PayPal, S&P Global, and Visa, announced new centers

Summary of key developments in Q3 2017 (page 2 of 2)

Location activity in Latin America at an all-time high driven by large number of center setups in Mexico, Colombia, and Costa Rica

- The overall location activity in offshore/nearshore locations marginally decreased with 66 new center setups in Q3 2017 compared to 69 in Q2 2017, given significant decrease in center setups in EMEA
- Key location risk/opportunity trends include: Amendments within the TRAIN bill to impact cost competitiveness of Philippines' IT-BPM sector; impact of GDPR in European Union; impact of new cybersecurity law in China, and firms exploring tier-3/4 cities in Poland given saturation and concentration challenges in tier-1/2 cities

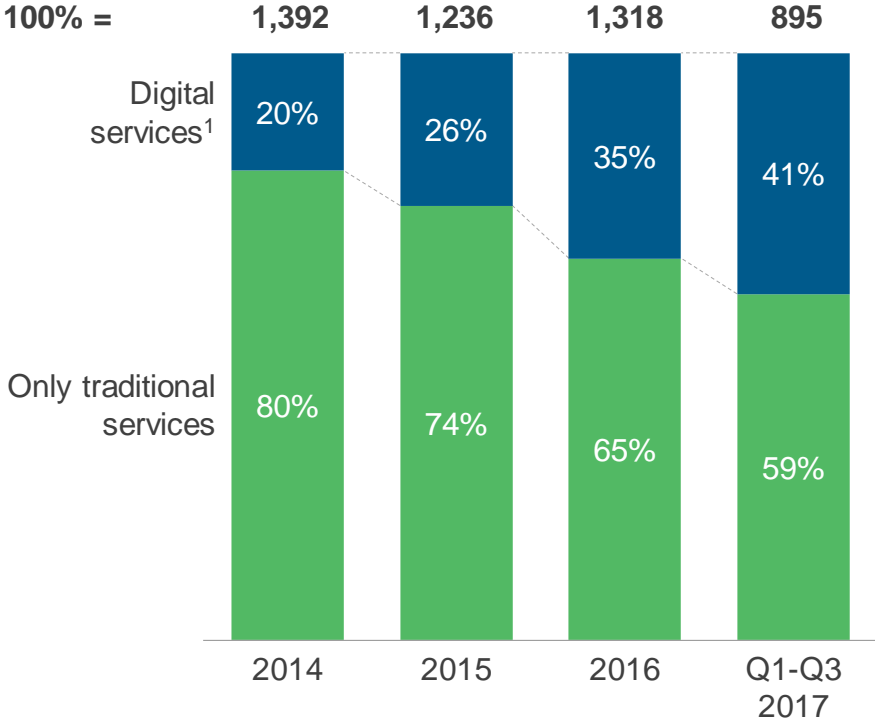
Revenue for offshore-heritage providers increased QoQ, but decreased for global providers during the same time period

- Operating margin decreased annually for global as well as offshore-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 Q3 2017 as compared to the previous quarter
- Overall Mergers & Acquisitions (M&A) activity increased as both global and offshore-heritage service providers reported an increase in the number of acquisitions. On the other hand, global providers reported a decline in the number of alliances in Q3 2017, compared to the previous quarter
- Overall location activity declined significantly as compared to the previous quarter, and this has been attributed to a decline in activity for both global and offshore-heritage service providers

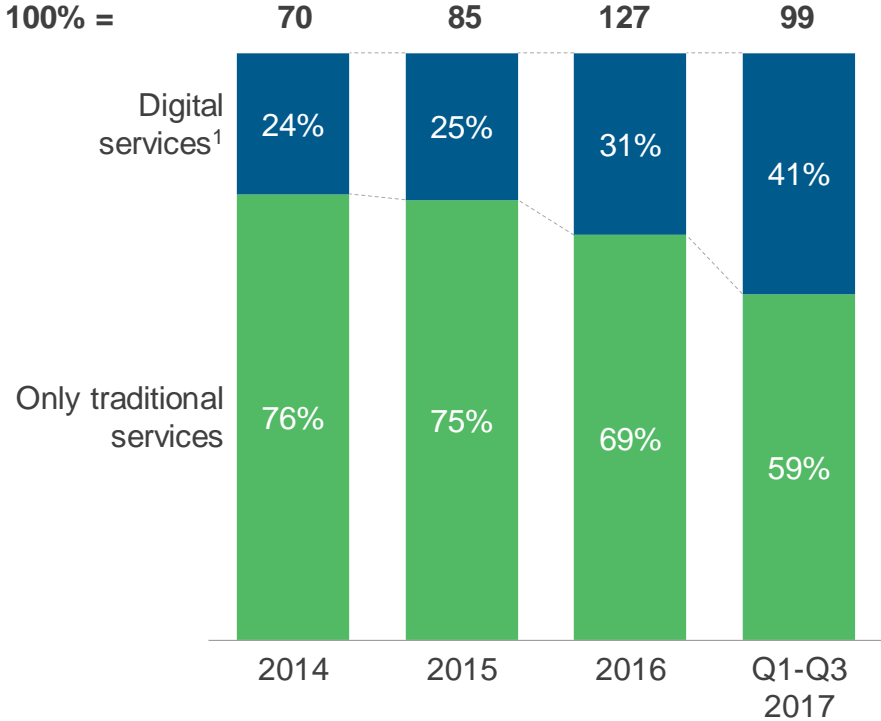
Q3 2017 Digital Dashboard | Increase in share of digital services in new outsourcing deals and GIC setups

Share of digital services¹ in outsourcing deals and GIC setups
2014-Q3 2017; Percentage

Outsourcing deals announced – IT services



New GIC center setups



¹ Supports delivery of one or more digital services (e.g., IoT, Cloud, Social Media, Mobility, Analytics, Big Data, Cybersecurity, Blockchain, and Automation)
Source: Everest Group (2017)

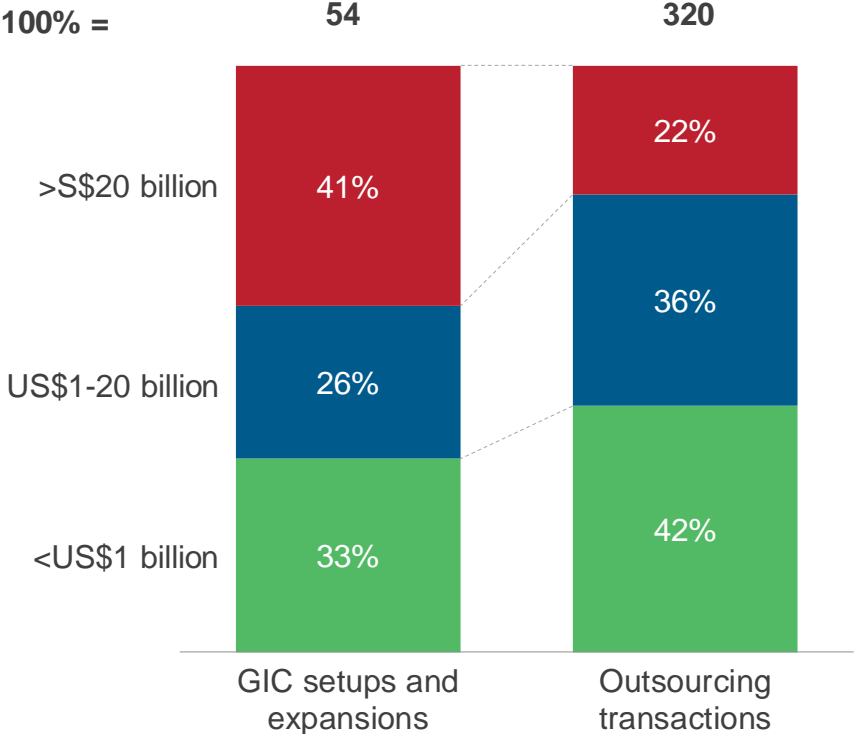
Q3 2017 Digital Dashboard | Similar to traditional services, digital GIC activity is led by large enterprises while digital outsourcing activity is led by small and medium enterprises

Offshore digital GIC market activity

Number of GIC setups and expansions with digital component April-September 2017

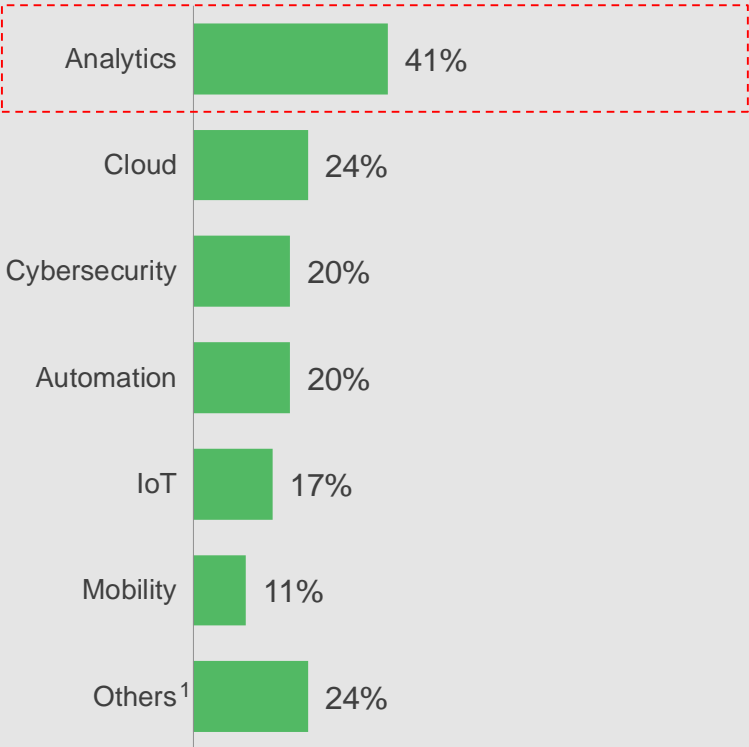
Digital outsourcing market activity

Number of outsourcing transactions with digital component during April-September 2017

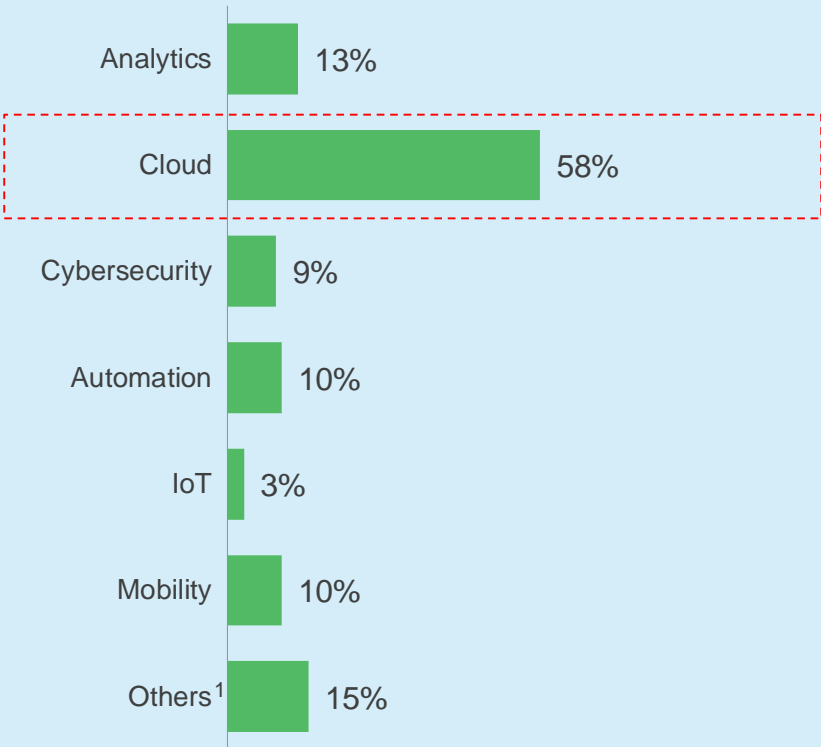


Q3 2017 Digital Dashboard | There are significant differences in leading digital services supported by GICs vs. service providers

Distribution of digital services supported by new GIC setups and expansions
Q2-Q3 2017; Percentage



Distribution of digital services supported by new IT outsourcing transactions
Q2-Q3 2017; Percentage



¹ Include social media and blockchain

Note: Total may exceed 100 percent given a new center / outsourcing deals may have multiple digital services

Source: Everest Group (2017)

List of Market Vista Index service providers

Global service providers



offshore-heritage service providers



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

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 2017** ([EGR-2017-8-R-2304](#)); 2017. This report summarizes the key trends and developments for Q2 2017 in the global offshoring and outsourcing market
2. **India Global Services Industry: A Look Back at the Last Decade and Our Future Outlook** ([EGR-2017-0-EB-2314](#)); 2017. A decade ago, Everest Group made some predictions about the India global services industry. In this Executive Briefing, we look back at our forecasts to see what we got right, what we got wrong, and where the market is today
3. **Buyer Geography and Industry Trends reports:** Trends for Q2 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
4. **Advanced Locations Tool (ALT):** Covering 200+ locations globally, Advanced locations tool (ALT) provides access to data for 11 horizontal and 16-BFSI specific functions across various parameters. The tool is preconfigured for commonly used structure with flexibility to modify analysis format. Moreover, the choice of cities and analysis can be customized as per client's requirements

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About Everest Group

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