



Market Vista™: 2017 Year in Review and Outlook for 2018

Annual Report – April 2018: Complimentary Abstract / Table of Contents

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Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

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- This report is included in the following research program(s)
 - **Market Vista™**
- In addition to published research, a membership may include analyst inquiry, data cuts, and other services
- **If you want to learn whether your organization has a membership agreement or request information on pricing and membership options, please contact us**

Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment



Corporate Headquarters

Office: +1-214-451-3000

info@everestgrp.com



European Headquarters

Office: +44-207-129-1318

unitedkingdom@everestgrp.com



Delhi Office

Office: +91-124-284-1000

india@everestgrp.com

Table of contents

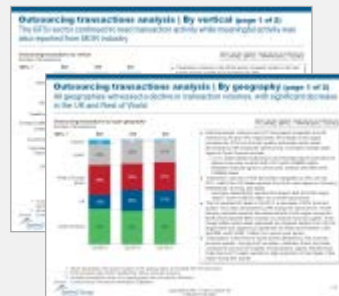
Topic	Page no.
Section I: Global services market developments in 2017	4
• Outsourcing trends analysis	8
• GIC market developments	14
• Location trends and risks	19
• Service provider developments	23
Section II: Global services market outlook for 2018	28
• Key trends which will shape the market in 2018	29
Section III: Implications for stakeholders	34
Section IV: Appendix: Detailed analysis of the global services market in 2017	36
• Outsourcing trends analysis	37
• GIC market developments	42
• Location trends and risks	44
• Service provider developments	52

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

Overview of the current document

The current document is a preview deck of “Market Vista™: 2017 Year in Review and Outlook for 2018” and showcases snippets from the detailed analysis conducted in the report.

The Market Vista Annual Report 2017¹, a 58 page report, provides an overview of the developments that took place in the global services industry in 2017. In addition, the report also highlights key trends and drivers pertaining to GICs, offshore/nearshore locations, service providers, and outsourcing transactions. It also covers the outlook for 2018 and potential implications for market participants.

The objective is to help buyers, analyst communities, experts, and business executives to assess sourcing market developments from service providers’ and buyers’ point of view. This can help them frame their opinion and take timely decisions.

Scope of this report:

- Outsourcing transaction trends and analysis (separate view across traditional and digital services)
- Offshore/nearshore GICs developments (separate view across existing and new adopters)
- Onshore/offshore locations trends and risks (latest view on change in leverage of locations in recent years and key locations being leveraged for digital services)
- Service provider developments (including latest development in digital services)

¹ Market Vista™: 2017 Year in Review and Outlook for 2018
Source: Everest Group (2018)

Global services market developments in 2017 | Summary of key trends

1

Outsourcing transaction growth reduced but share of digital services increased in new transactions

2

New GIC setups recorded an all-time high activity due to increased preference for insourcing next-generation services

3

Increasing number of new GICs support digital services

4

Location activity led by Asia Pacific and Nearshore Europe; decreasing share of top-10 offshore/nearshore locations as players adopt a more diversified location portfolio

5

Leading service providers continue to make substantial investments to maintain their competitiveness – increase onshore presence, explore opportunities for inorganic growth, and upskill/reskill talent

Global services market developments in 2017 |

Key dimensions assessed in this section

1

Outsourcing transactions

- Represents incremental demand from outsourcing in the global services industry
- Covers new outsourcing contracts/deals signed between enterprises and service providers

2

Global In-house Centers (GICs)

- Represents demand supported by enterprises through insourcing
- Covers new GIC setups, expansions, and divestitures

3

Location activity

- Represents new setups, expansions, scale-down, and shut-down of centers supporting global services delivery in offshore/nearshore locations
- Helps in identifying the changing landscape of locations and emergence of new geographies

4

Service provider developments

- Depicts the key developments for Market Vista Index service providers¹
- Includes assessment on operating revenue, margins, new center setups, expansions, M&A, and support on digital services

We have also highlighted differences between traditional and digital services, whenever appropriate

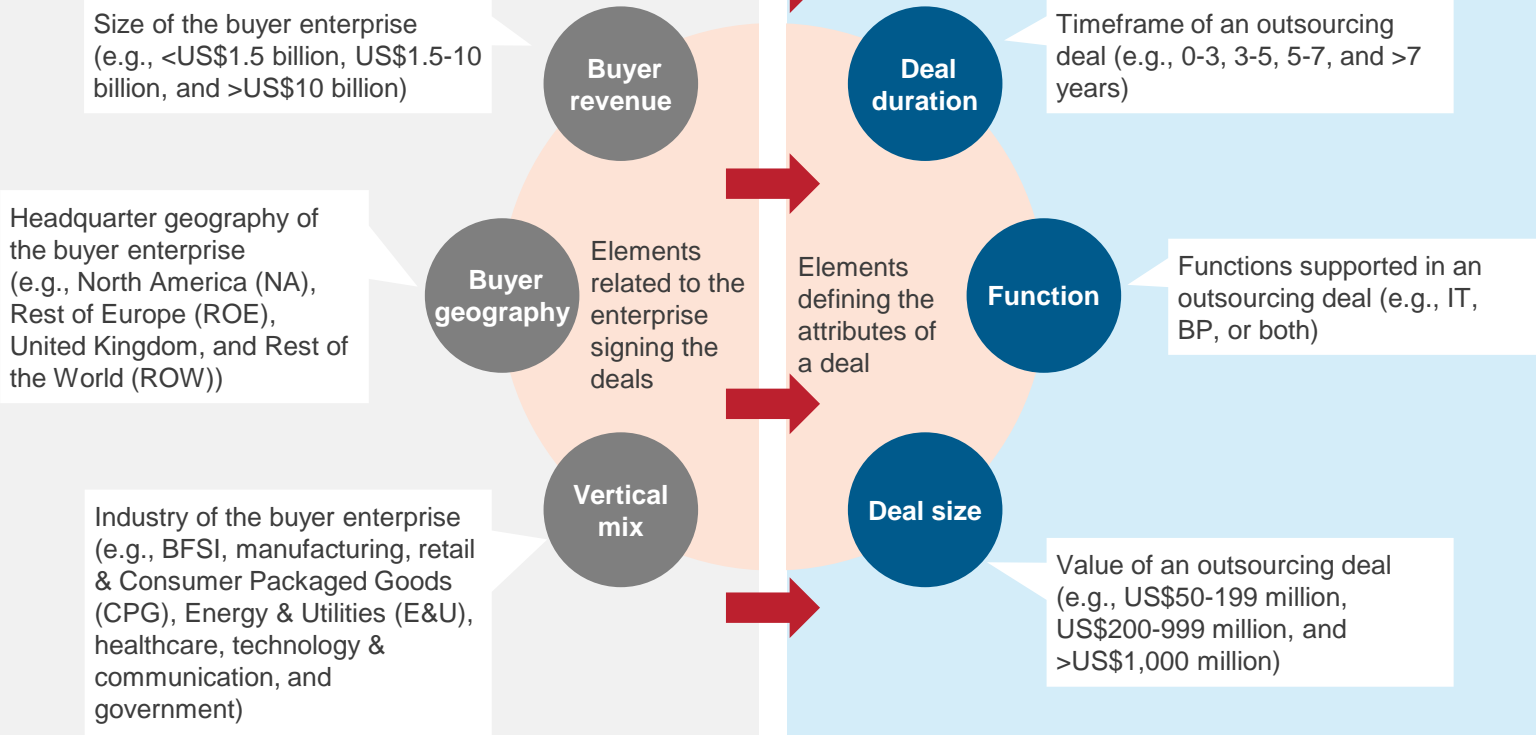
1 Represents Market Vista Index providers currently tracked under Market Vista subscription – see page 16 for details. Note that the list of providers is not fixed and can undergo change depending on emergence of new providers and decreasing relevance of the existing ones

Note: Represents information based on publicly available sources. Information from RFIs or other internal sources has not been included, given confidentiality constraints
Source: Everest Group (2018)

Outsourcing transactions | Framework for assessment

DEAL DRIVERS: Representative of global services demand from enterprises

DEAL ATTRIBUTES: Representative of incremental supply provided by service providers



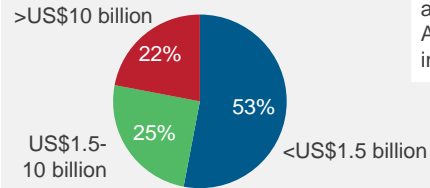
Outsourcing transactions | Overview

Activity was led by North America and ROE markets, United Kingdom witnessed a decline; small buyers had the major share in new outsourcing transactions, however, it declined compared to 2016

1

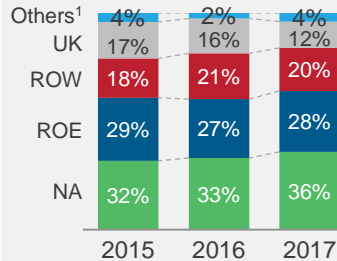
DEAL DRIVERS

Outsourcing deals by buyer revenue 2017; Percentage



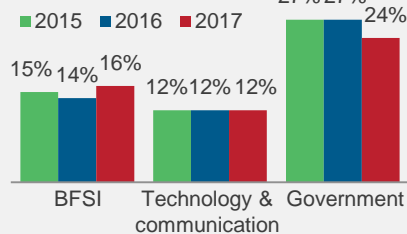
Largely driven by small buyer segments; however, they experienced a decline in share compared to previous year, while there was an increase for large and mid-sized buyers. Annual ACV of large buyers increased indicating increasing activity by this segment

Outsourcing deals by buyer geography 2015-2017; Percentage



The United Kingdom is experiencing a slowdown due to Brexit, deals driven by ROE and NA

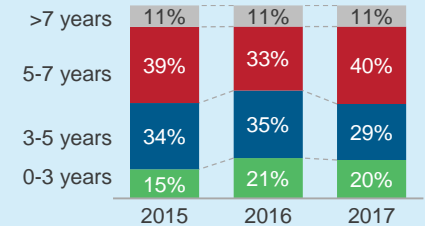
Outsourcing deals by industry 2015-2017; Percentage



Activity remains similar for the majority of industries. A slowdown recorded in government and an increase in BFSI deals

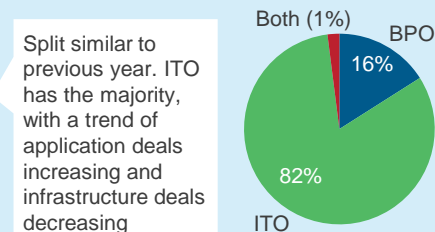
DEAL ATTRIBUTES

Outsourcing transactions by deal duration 2015-2017; Percentage



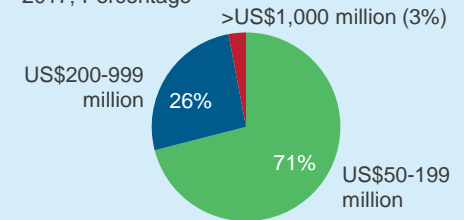
Contrary to the previous year, share of longer deals increases

Outsourcing deals by functions 2017; Percentage



Split similar to previous year. ITO has the majority, with a trend of application deals increasing and infrastructure deals decreasing

Outsourcing deals by size 2017; Percentage



Driven by smaller deals (71% deals with size US\$50-\$199 million and 3% with >US\$1 billion)

¹ Others include Asia Pacific, Latin America, Middle East, and Africa

Source: Everest Group (2018)

NEW GIC DRIVERS: Representative of global services demand from enterprises

NEW GIC ATTRIBUTES: Representative of incremental supply supported by Global In-house Centers (GICs)

Size of the enterprise (e.g., <US\$1.5 billion, US\$1.5-10 billion, and >US\$10 billion)

Buyer revenue



Region for the new GIC (e.g., Asia Pacific (APAC), Nearshore Europe (NE), Latin America (LATAM), and Middle East & Africa (MEA))

Region



Headquarter geography of the enterprise (e.g., Asia Pacific (APAC), North America (NA), Rest of Europe (ROE), UK, and Rest of the World (ROW))

Buyer geography

Elements related to the enterprise establishing the GIC

Elements defining the attributes of the new GIC

Function

Functions supported by the new GIC (e.g., IT, BP, or both)



Industry of the enterprise (e.g., BFSI, manufacturing, retail & CPG, E&U, healthcare, technology, and government)

Vertical mix

Center size

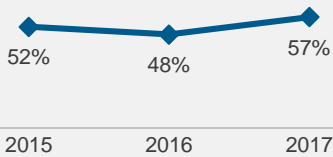
Size of the new GIC (e.g., <100 FTEs, 100-350 FTEs, or >350 FTEs)

GIC activity | Overview

Key characteristics in 2016: Increasing share of R&D services, adoption by small and mid-sized buyers, and higher share of APAC buyers

NEW GIC DRIVERS

Share of small and mid-sized buyers (revenue <US\$10 billion) in new GIC setups 2015-2017; Percentage

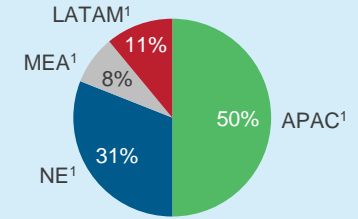


Small and mid-sized buyer (<US\$10billion) segments driving the growth – 57% share. The increasing success and efficiency of the GIC model is pushing these players toward the GIC model

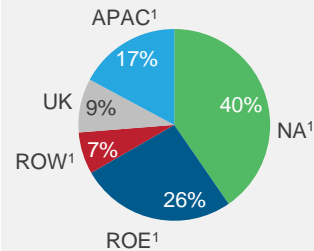
NEW GIC ATTRIBUTES

GIC activity recorded an all-time high. The majority (~81%) of centers were set up in Asia Pacific and NE. While APAC continues to be the leader, players are increasingly opting for NE over the past few years

GIC setups by regions 2017; Percentage

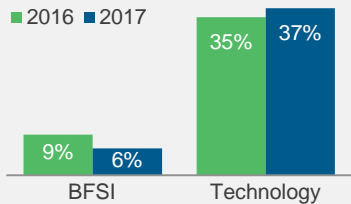


GIC setups by buyer geography 2017; Percentage

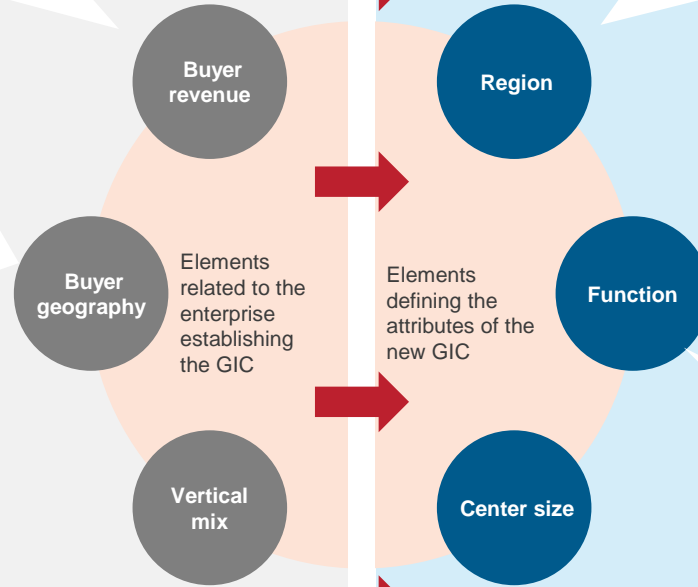


NA- and ROE-based players have historically been strong adopters of the GIC model. APAC witnessed increase in share compared to previous year

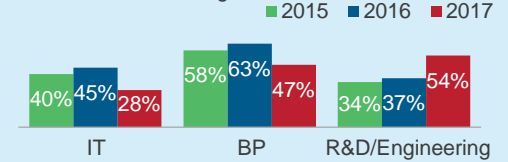
GIC setups by top verticals 2016-2017; Percentage



BFSI, technology & communication, and manufacturing continue to remain the three largest industries establishing GICs. However, they are maturing and stagnating

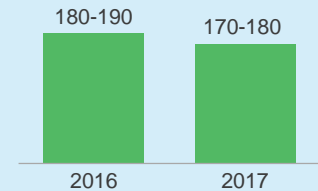


Share of functions in new GIC setups 2015-2017; Percentage



Compared to last year, share of IT and BP services declined due to players increasingly leveraging GIC model for IT-related R&D / engineering services

Average headcount of GIC setups 2016-2017; Headcount

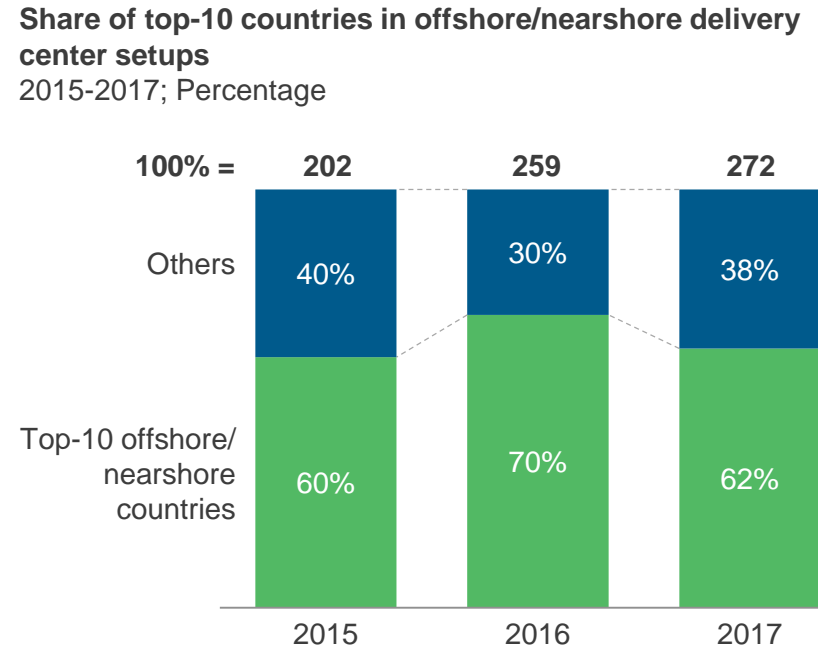
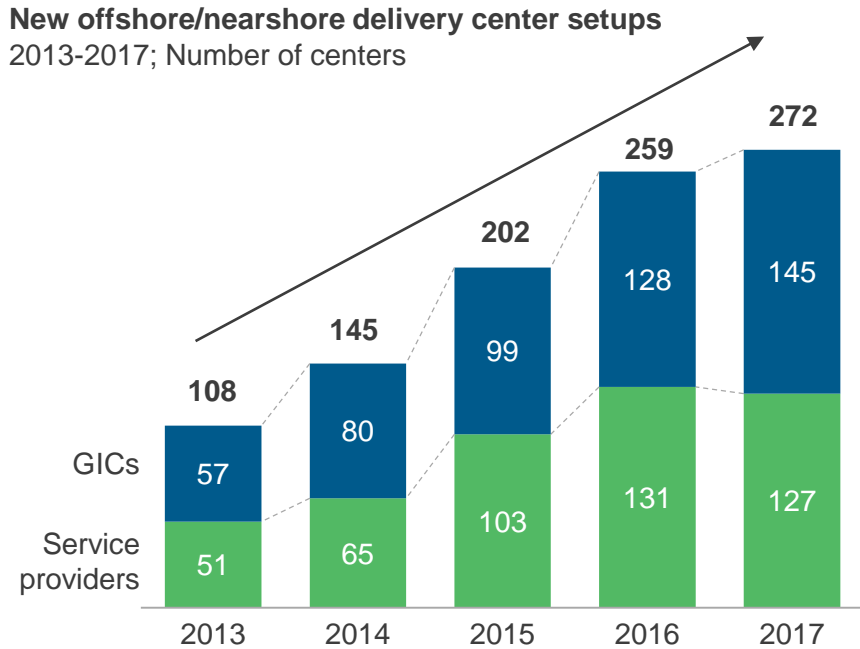


Overall center size decreasing continuously over the past three years

¹ ROE – Rest of Europe, ROW – Rest of the World, NA – North America, LATAM – Latin America, APAC – Asia Pacific, NE – Nearshore Europe, MEA – Middle East and Africa
Source: Everest Group (2018)

Location activity | Overview

Significant growth in location activity driven by GICs, but set up activity is more broad-based compared to last year



- Increase in location activity driven by GICs with service provider setups remaining similar
 - GIC: Growth driven by increased investments by existing adopters
 - Service provider: Growth led by mid-sized and niche service providers; However, an increase in center setups for Market Vista Index service providers¹ was also observed in 2017 compared to previous years
- The activity was more broadly distributed in 2017 compared to the previous year, leading to a lower share for the top-10 locations. A key reason for this change is the emergence of locations in Nearshore Europe and Latin America as attractive locations due to availability of relevant talent to support complex services or digital skills (e.g., SMAC, automation, IoT, blockchain, and cybersecurity)

¹ Represents Market Vista Index providers currently tracked under Market Vista subscription – see page 16 for details. Note that the list of providers is not fixed and can undergo change depending on emergence of new providers and decreasing relevance of the existing ones

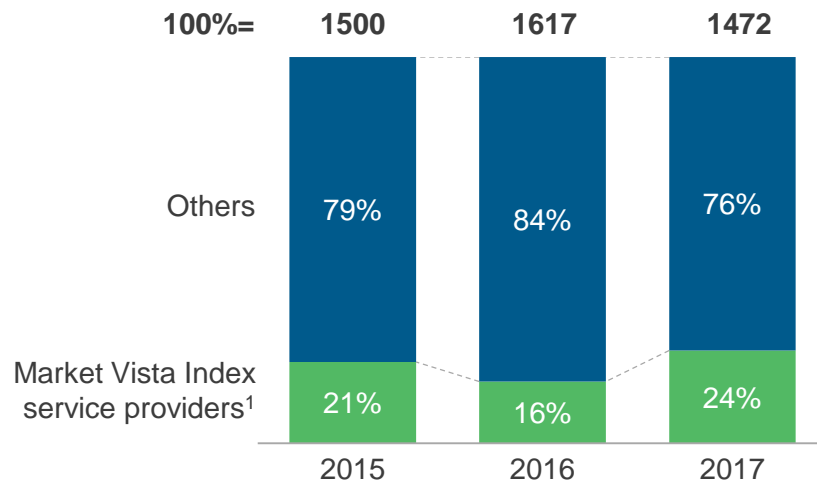
Source: Everest Group (2018)

Service provider developments | Share in outsourcing deals

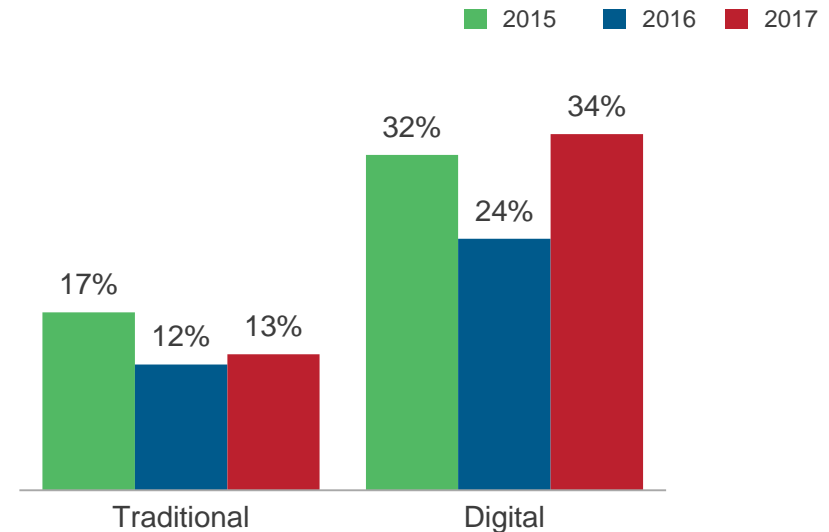
Share of Market Vista Index service providers¹ increased in outsourcing deals in 2017; this increase was driven by digital deals

4

Share of Market Vista Index service providers¹ in outsourcing deals (overall)
2015-2017; Percentage



Share of Market Vista Index service providers¹ in outsourcing deals (traditional vs. digital²)
2015-2017; Percentage



- Contrary to previous years, share of top-25 providers increased in 2017 due to increased investment in ITO deals
- Similar trend is observed in digital deals:
 - Share of top-25 service providers is much larger in digital deals as compared to traditional deals
 - The share of service providers has increased at a faster rate in digital deals as compared to traditional ones due to rapid growth in investments by leading service providers

¹ Represents 25 service providers tracked under Market Vista subscription – see page 16 for details

² Indicates centers supporting one or more elements of digital services (e.g., SMAC, IoT, blockchain, automation, and cybersecurity)

Source: Everest Group (2018)

Global services market | Outlook for 2018

Key trends which will shape the market in 2018



Increasing demand

After reduced growth in 2017, expect modest increase in demand for global services with increasing focus on higher value-add services



Growth in service provider revenues

Expect overall positive revenue growth for leading service providers, but growth will be driven by select segments



DIY model

Increasing preference for Do-It-Yourself (DIY) model, especially by first-time adopters of GIC model



Locations strategy

Leading adopters will leverage their Locations strategy to drive enterprise-wide delivery transformation

Service provider developments | 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™ Q1 2018** ([EGR-2018-35-R-2547](#)); 2018. This report summarizes the key trends and developments for Oct – Dec 2017 in the global services 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 Indian 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 Q4 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; Retail & Consumer Packaged Goods (CPG); Energy & Utilities (E&U); Healthcare; Technology & communications; and Government

For more information on this and other research published by Everest Group, please contact us:

Salil Dani, Vice President – Global Sourcing: salil.dani@everestgrp.com
Gargi Verma, Research Manager – Global Sourcing: gargi.verma@everestgrp.com
Priyanka Birla, Assistant Manager – IS, Research: priyanka.birla@everestgrp.com
Shivani Mudgil, Senior Information Specialist – IS, Research: shivani.mudgil@everestgrp.com
Sauban Nafees, Information Specialist – IS, Research: sauban.nafees@everestgrp.com

Website: www.everestgrp.com | Phone: +1-214-451-3000 | Email: info@everestgrp.com



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Dallas (Headquarters)

info@everestgrp.com
+1-214-451-3000

Bangalore

india@everestgrp.com
+91 806-781-9999

Delhi

india@everestgrp.com
+91-124-496-1000

London

unitedkingdom@everestgrp.com
+44-207-129-1318

New York

info@everestgrp.com
+1-646-805-4000

Toronto

canada@everestgrp.com
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