



## Market Vista™ : Select Findings Q2 2018

January-March 2018

# Market Vista | Overview

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

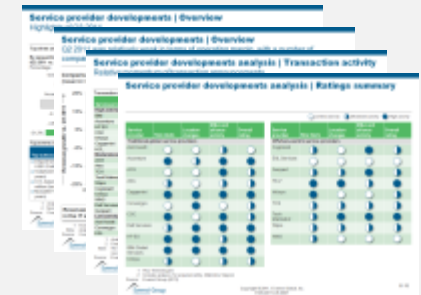
## Overall sourcing market

- 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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**MARKET VISTA™**

## 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

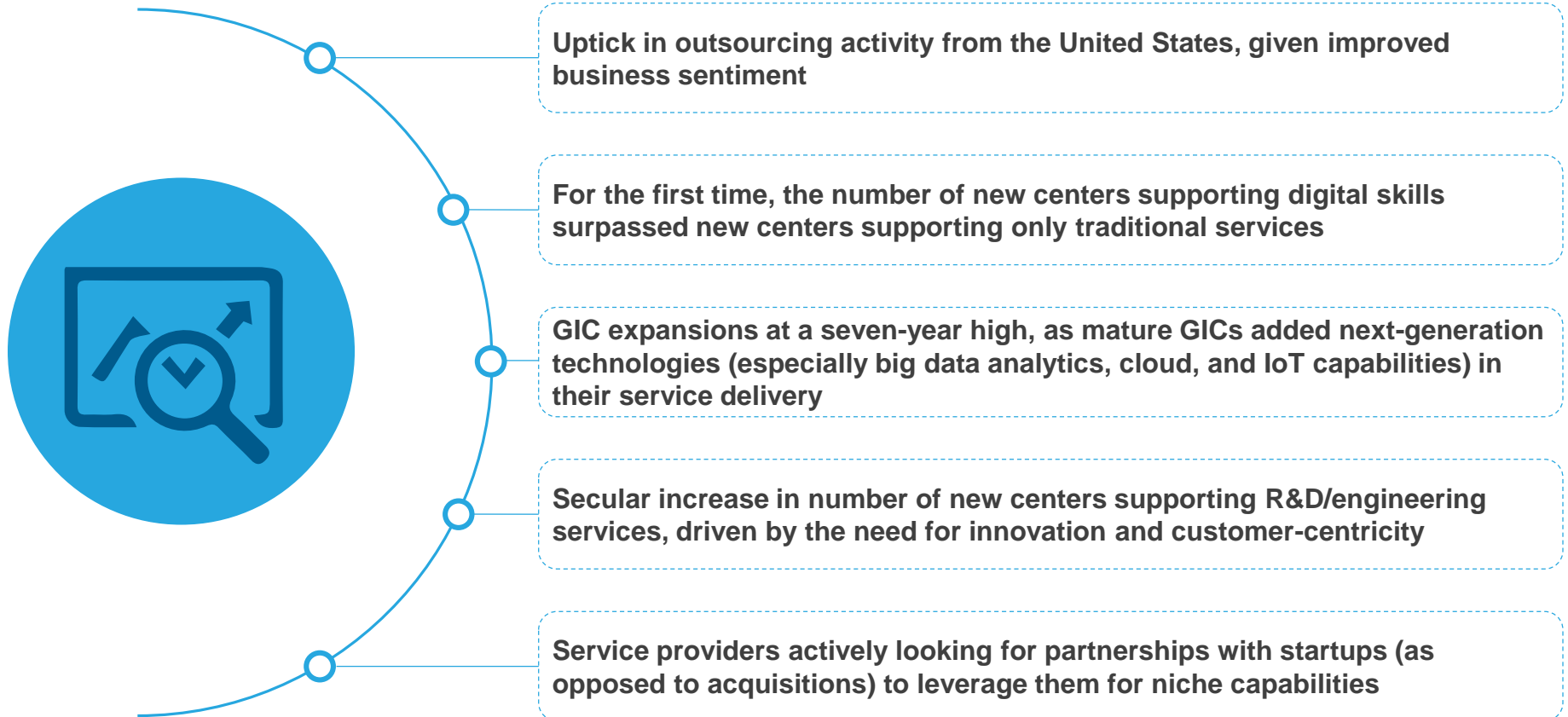
Location  
database

Breaking  
viewpoint

Location insights  
e-newsletter

Industry  
trends

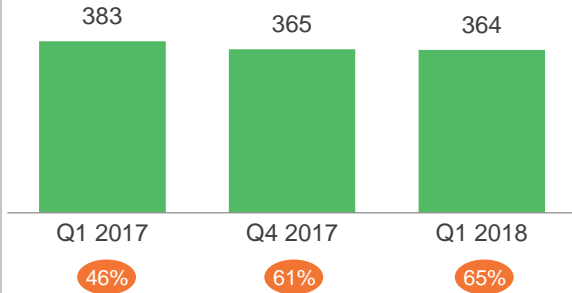
# Global services | Key market trends in Q1 2018



# Global Services Dashboard: Q1 2018

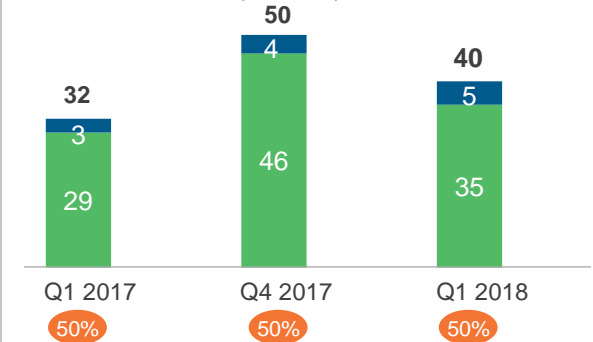
## Outsourcing/offshoring market overview

Outsourcing demand remained steady with a higher share of digital deals compared to previous quarter  
Number of outsourcing transactions



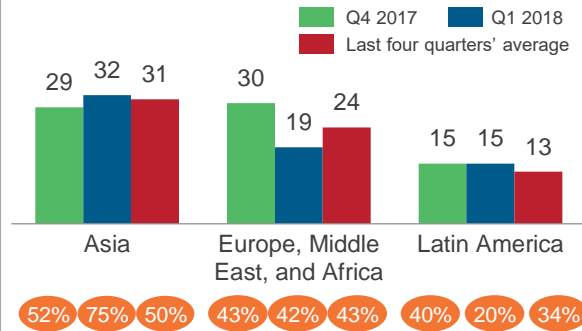
Decline in new GIC setups compared to an all time high set up activity in the previous quarter

Number of new GIC setups and expansions



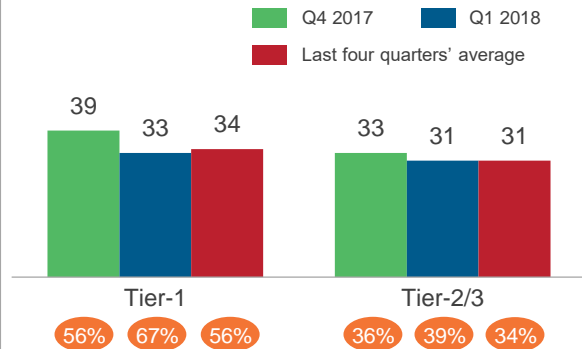
## Location dynamics

Location activity dominated by APAC, decline in Europe and Middle East compared to Q4 2017  
Number of delivery center setups



Marginal decline in the share of tier-1 locations compared to tier-2 locations in overall setups

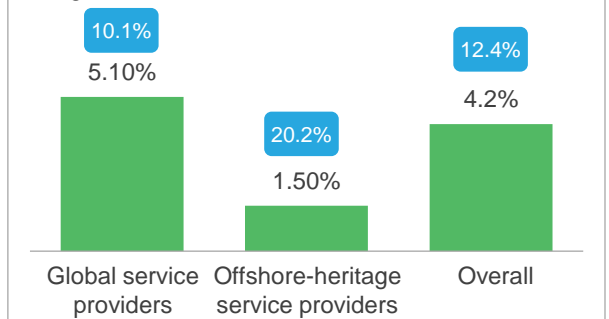
Number of delivery center setups



● Share of digital-focused activity ● Operating margin

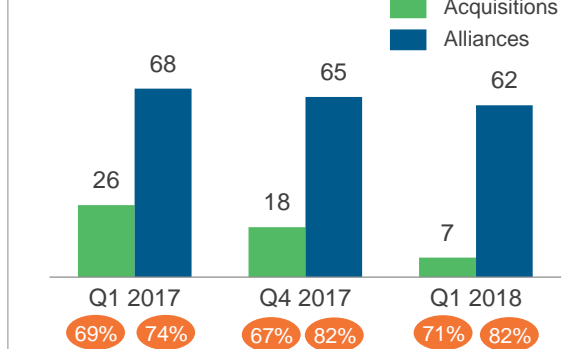
## Service provider developments and trends

Revenue for both offshore-heritage and global providers increased Quarter on Quarter (QOQ)  
QoQ growth in revenue



Both acquisitions and alliance activity declined during the quarter

Number of acquisitions and alliances



Note: Digital details around each parameter are added in respective sections

# Summary of key developments in Q1 2018 (page 1 of 2)

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## Transaction activity remained similar with 364 deals in Q1 2018, compared to 365 in Q4 2017

- Overall outsourcing demand remained similar. Higher growth in ITO deals was seen compared to the previous quarter; whereas volume and relative share of BPO deals declined over the last quarter
- Retail & CPG, and technology & communication verticals saw an increase in volume of transactions, while the BFSI and manufacturing verticals reported a significant decline in the number of deals over the last quarter
- Outsourcing activity across North America increased notably, while it declined significantly for Rest of Europe
- The volume of renewals / restructured deals increased marginally over the last quarter
- Volume of medium-term contracts (five to seven years) and short-term deals (three to five years) declined significantly, compared to the previous quarter
- Systems integration processes witnessed an increase in adoption over the last quarter; real estate process witnessed a significant decline in demand vis-à-vis Q4 2017

## Decline in new GIC setups compared to an all time high setup activity in the previous quarter. Q1 2018 saw 40 setups and five expansions

- New GIC set-up activity decreased significantly compared to the previous quarter, due to low activity in India
- Leading companies, such as ABB Group, Alibaba Group, AXA, Bayer, First Data, McDermott International, Mellanox Technologies, Microsoft Corporation, Roche, and Western Union, announced new centers
- In Q1 2018, onshore locations reported 11 new setups, compared to 27 new setups and two expansions in Q4 2017. Leading companies, such as Citigroup, Ernst & Young (EY), Konica Minolta, Kuehne + Nagel International, Metro Bank, Rolls-Royce Holdings, Tymphony, and Walmart, announced new centers

# Summary of key developments in Q1 2018 (page 2 of 2)

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## **Location activity in Q1 2018 was lower compared to the previous quarter due to decline in Nearshore Europe and Middle East; Marginal decline in the share of tier-1 locations compared to tier-2 locations in overall setups**

- There were 66 new delivery centers set up across GICs and service providers in Q1 2018. Activity was led by both GICs and service providers. Tier-1 locations saw a marginally higher activity than tier-2 locations
- Key location risk/opportunity trends for Q1 2018 include – Evolving attractiveness of Egypt amidst improving cost proposition and sustained political and geopolitical risks; BEAT provision in the United States will not have a major impact on outsourcing to offshore and nearshore geographies; Social security contribution introduced in Poland will have minimal impact on transactional IT-BP; Potential growth inhibitors and early evidence of a potential slowdown in the growth of the IT-BPM sector in the Philippines

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

- There was an increase in the revenue and operating margin for both global as well as offshore-heritage service providers
- The overall transaction activity remained in line with the previous quarter; however, the share of Market Vista™ Index service providers decreased marginally in Q1 2018 as compared to the previous quarter
- Overall M&A activity decreased significantly due to a decline in acquisitions from both global and offshore-heritage service providers. On the other hand, alliance activity decreased marginally as compared to the previous quarter
- Overall location activity for leading service providers remained in line with the previous quarter due to stagnant activity for both global and offshore-heritage service providers

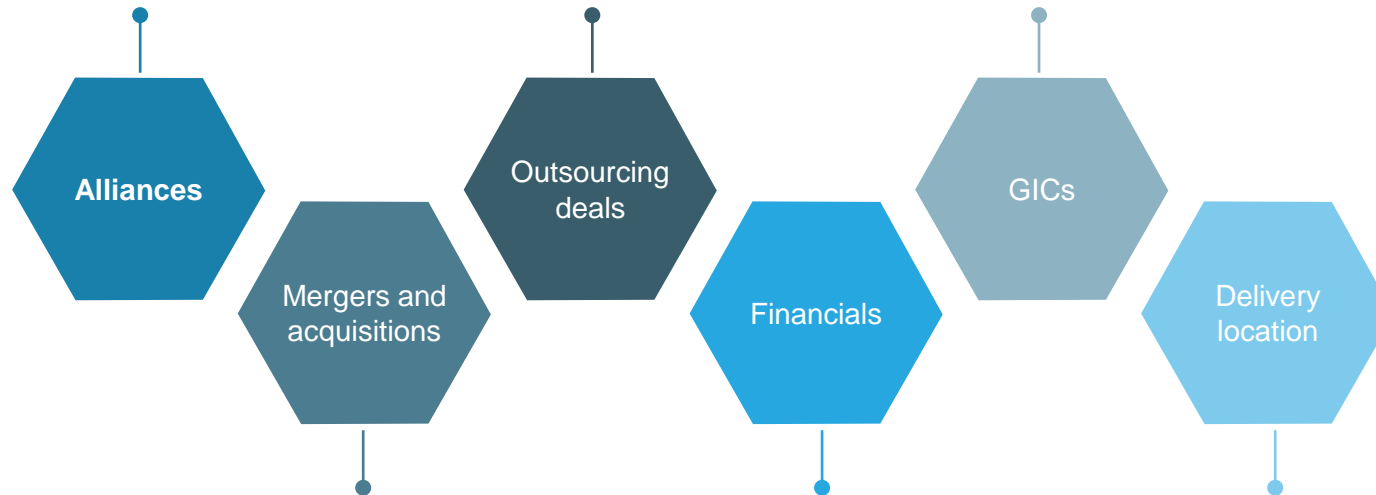
# Key developments in the digital space – Q1 2018

(further details on the next five pages)

- Accenture collaborated with Faurecia to develop products and services for connected and autonomous vehicles by leveraging digital technologies such as AI, advanced analytics, augmented and virtual reality, blockchain, and quantum computing
- IBM partnered with Mendix to provide AI, data analytics, and IoT services

- Transamerica Corporation selected TCS for cloud services
- Siemens selected Orange Business Services for cloud and IoT services
- Department of Veterans Affairs (US) selected SRA International for automation (AI) services
- Intrum Justitia selected Fujitsu for automation, cloud, and IoT services

Enterprises such as ABB Group, Alibaba Group, Aurecon, CBRE Group, Continental, Danfoss, Didi Chuxing, First Data, Kuehne + Nagel International, Lidl, Western Union, and Xylem opened GICs performing digital functions



- During the quarter, DXC Technology acquired M Power Solutions, a firm in the cloud space
- Leading providers such as Accenture, Capgemini, and NTT Data continued to expand their digital capability through acquisitions

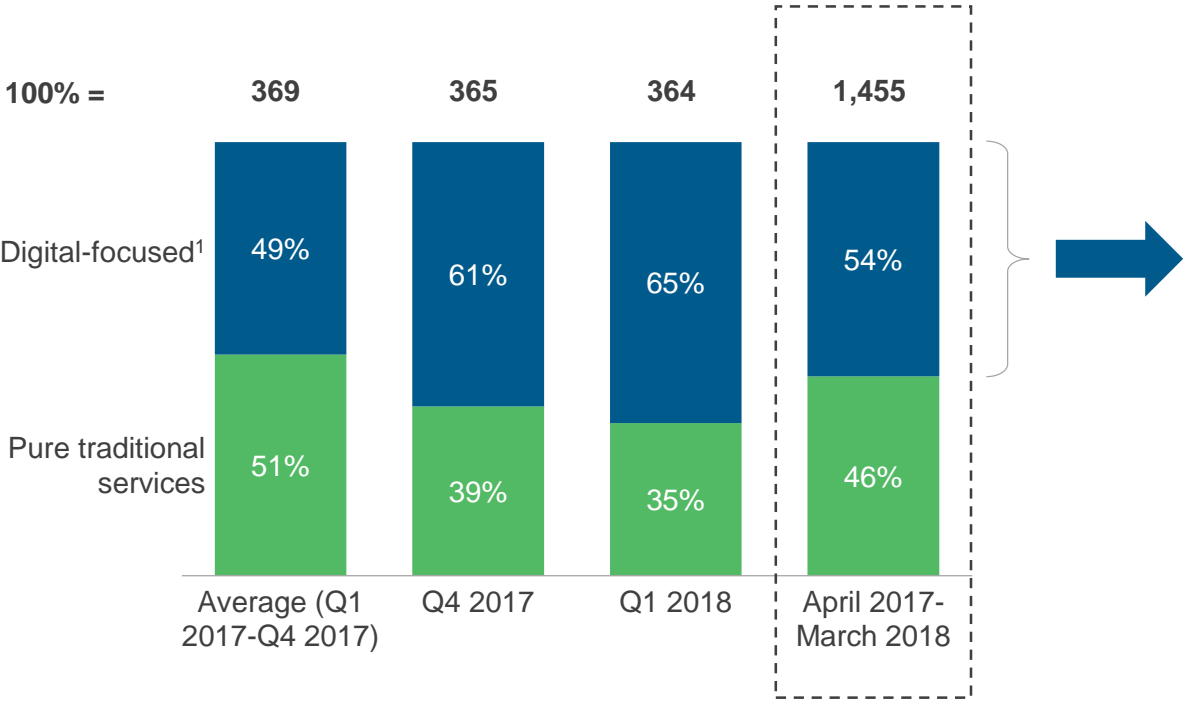
- Accenture's net revenues from "the New" increased by 30% YOY to reach US\$18 billion during FY 2017
- TCS' digital revenue accounted for 22.1% (~US\$1,060 million), a sequential increase of 13.9%
- EXL's analytics revenue reported a sequential growth of 3.5%

- ABB group opened a digital solutions center in Singapore to develop innovative solutions. The facility will help its customers to harness digitalization and increase operational agility across a number of industries
- Concentrix opened a delivery center in Montego Bay, Jamaica to support complex services such as analytics, robotic automation, and digital transformation

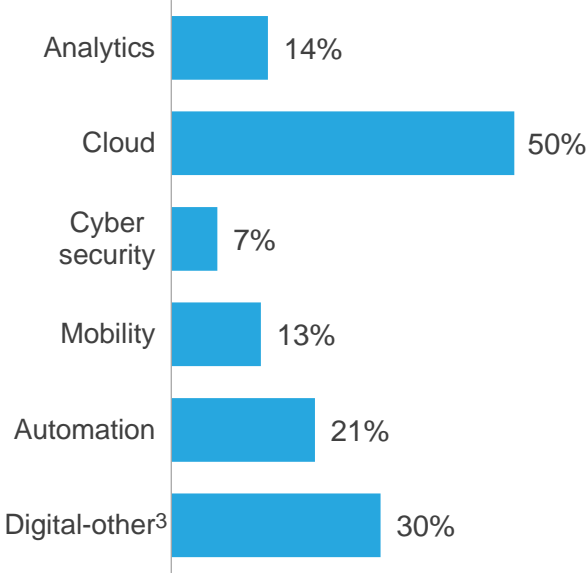


# Digital services continued to dominate the outsourcing activity, similar to the previous quarter

**Outsourcing market activity**  
Number of outsourcing transactions



**Distribution by digital components**  
Number of outsourcing transactions<sup>2</sup>



The share of digital-focused transactions increased from 61% in Q4 2017 to 65% in Q1 2018 vis-à-vis the pure traditional services, which showed a decline in adoption over the last quarter.

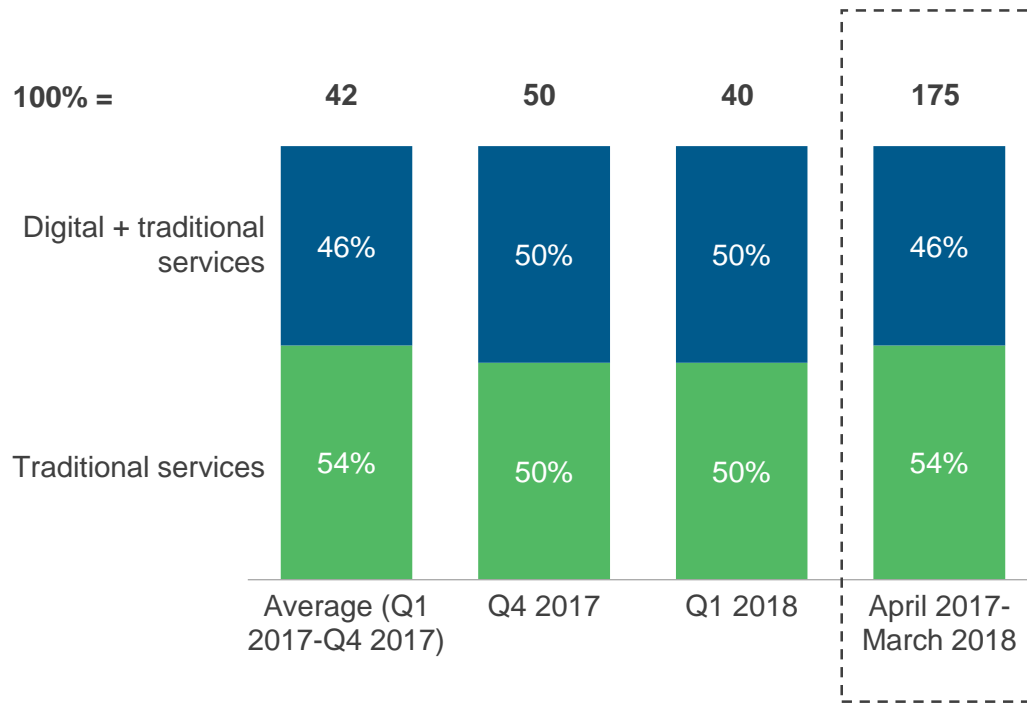
1 Includes centers that provide digital as well as traditional services  
 2 Includes alliances which have multiple digital components  
 3 Others include digital components such as social media, Internet of Things (IoT), and blockchain



# Digital services in GIC setups continued to remain high, and in line with the previous quarters

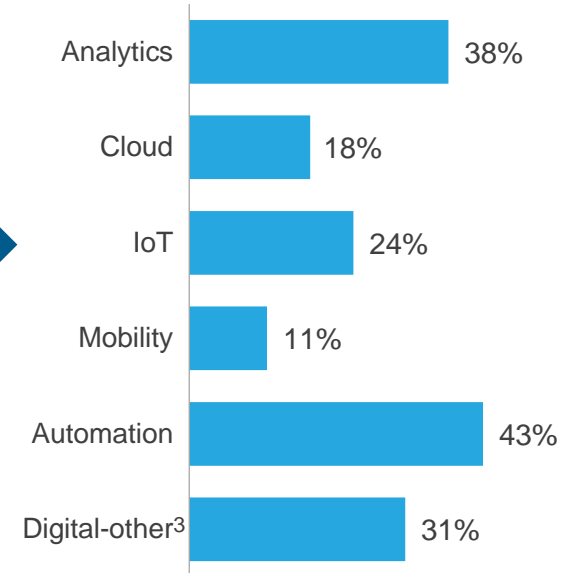
## Offshore GIC market activity

Number of GIC setups and expansions



## Distribution by digital components

Number of outsourcing transactions<sup>2</sup>

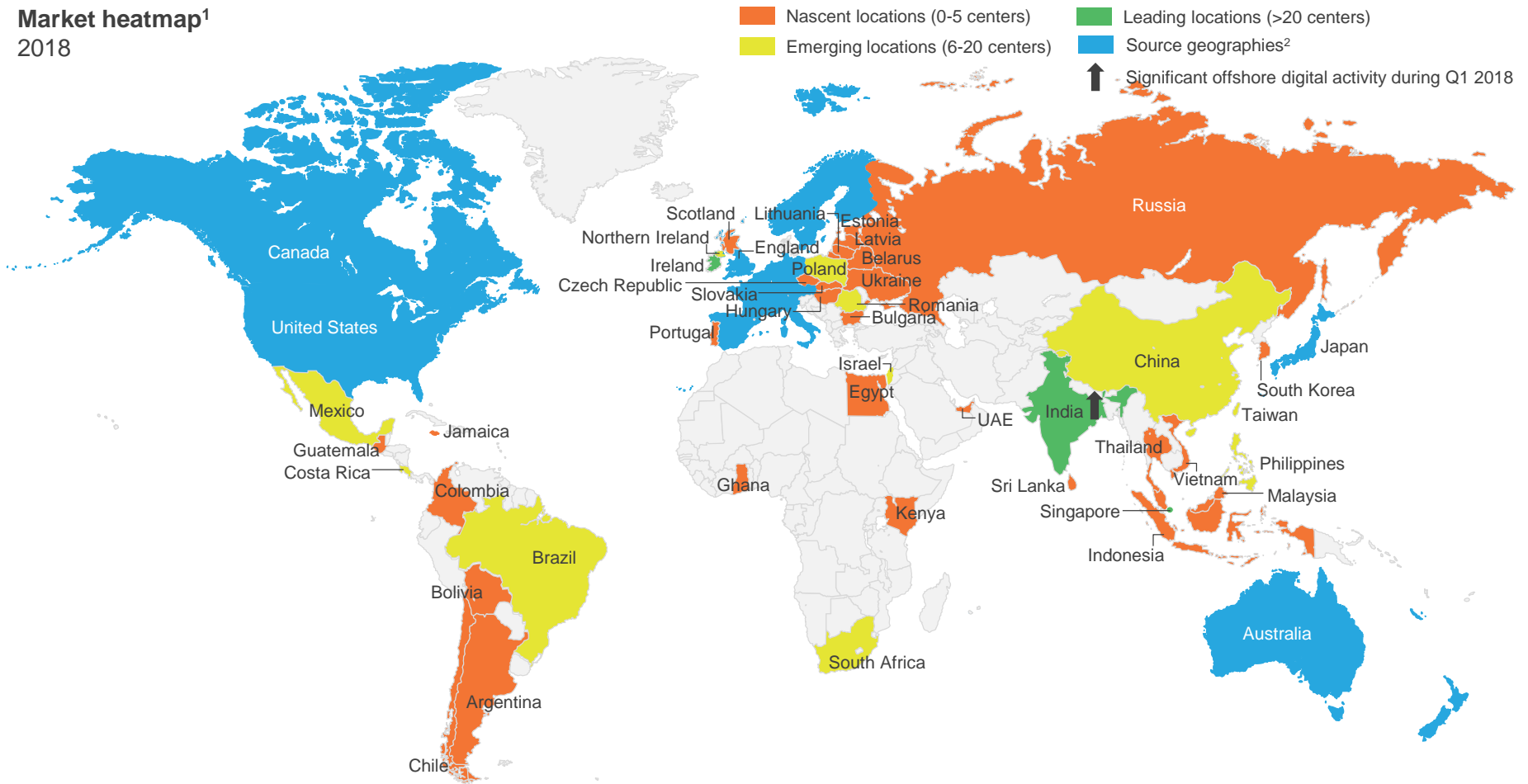


Automation is gaining traction and accounted for the maximum share of the total digital-based GIC-setups during Q1 2018, as GICs explore options to reduce cost beyond traditional means.

- 1 Includes centers that provide digital as well as traditional services
- 2 Includes alliances which have multiple digital components
- 3 Others include digital components such as social, cybersecurity, and blockchain

# Digital market activity heatmap

Market heatmap<sup>1</sup>  
2018



1 Analysis based on number of center setups by service providers and GICs

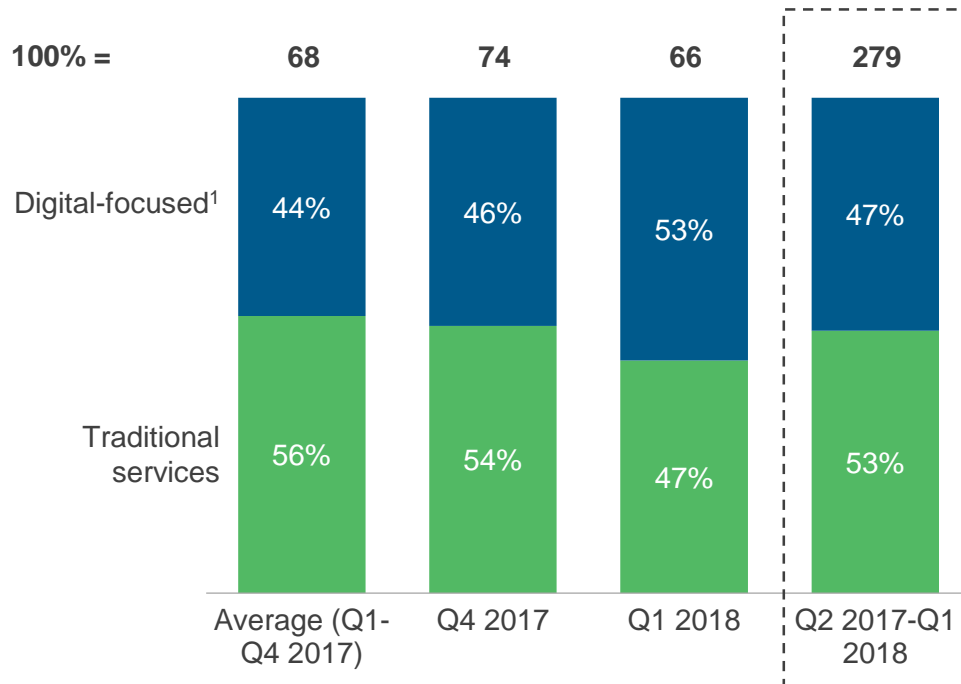
2 Indicates the high-cost locations typically offshoring/nearshoring information technology and business process services to other low-cost locations

Source: Country-/city-level investment promotion agencies, global services organizations, and Everest Group (2018)

# Digital activity saw a majority share in Q1 2018, with automation and analytics being the key areas of investment

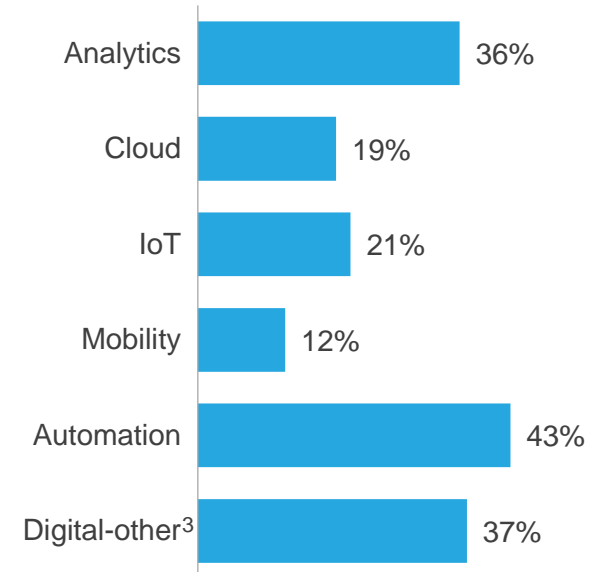
## Locations activity

Number of service delivery centers set up



## Distribution by digital components

Number of service delivery centers set up<sup>2</sup>



- In Q1 2018, for the first time, number of digital setups surpassed new center setups for traditional services. Analytics and automation continue to be the major services supported from the new centers. Activity was largely driven by Asia (India and Singapore)
- Activity continues to be driven by India, Singapore, and Ireland. GICs accounted for the majority of centers with digital activity followed by small and medium services providers; low activity recorded in large providers

1 Includes centers that provide digital as well as traditional services

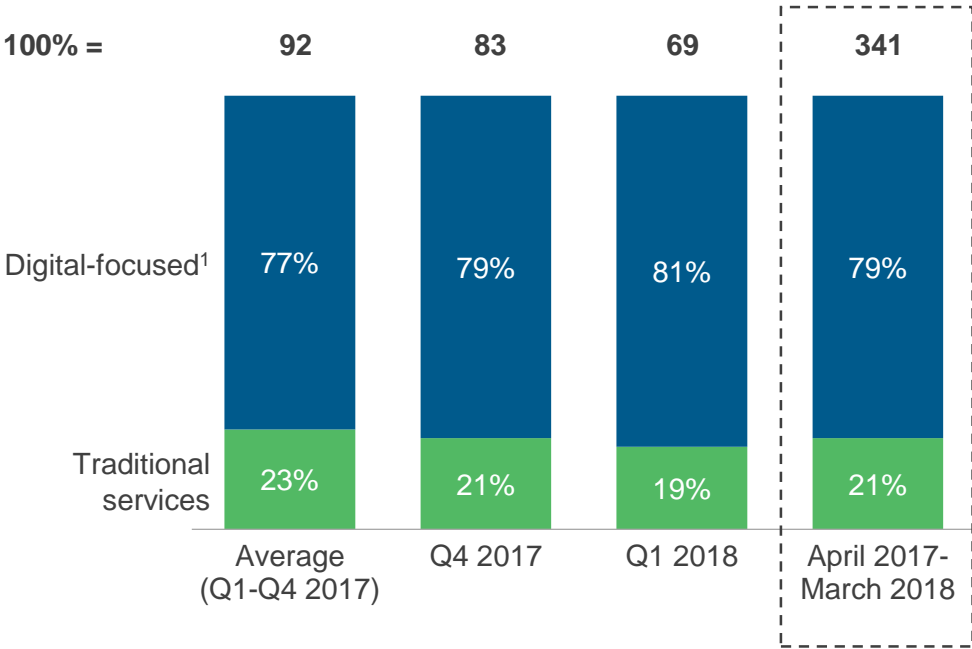
2 Includes alliances which have multiple digital components

3 Others include digital components such as social, cybersecurity, and blockchain

# Cloud and automation are the top digital components in alliances and M&A by service providers

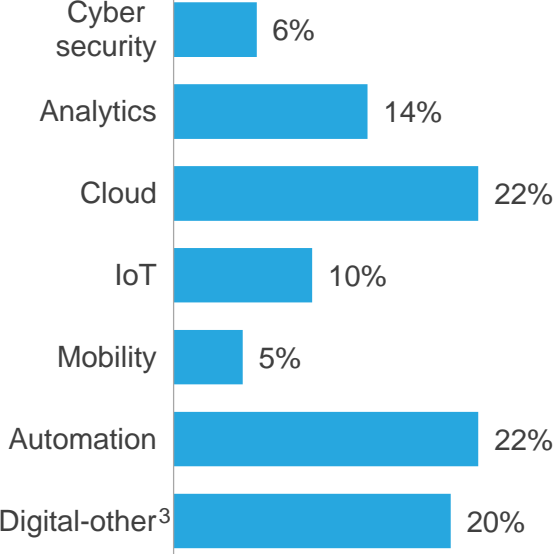
## Alliances and M&A by type of service

Number of alliances and M&A



## Distribution by digital components

Number of alliances and M&A<sup>2</sup>



Digital continues to be the key focus area within partnerships and acquisitions by service providers. Cloud, automation, and analytics dominated the service provider alliance and M&A landscape during Q1 2018.

1 Includes centers that provide digital as well as traditional services  
 2 Includes alliances and M&A which have multiple digital components  
 3 Others include digital components such as social, cybersecurity, and blockchain

# 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™ Q1 2018** ([EGR-2018-35-R-2547](#)); 2018. This report summarizes the key trends and developments for Q4 2017 in the global offshoring and outsourcing market
2. **Market Vista™: 2017 Year in Review and Outlook for 2018** ([EGR-2018-35-R-2605](#)); 2018. The report, Market Vista™: 2017 Year in Review and Outlook for 2018, gives an overview of the developments that took place in the global services industry in 2017. The report highlights key trends and drivers pertaining to GICs, offshore/nearshore locations, service providers, and outsourcing transactions. Besides providing an outlook for 2018, the report highlights implications for market participants as well
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 Capital markets and Insurance; Healthcare; Retail and CPG; Technology and Communication; Manufacturing; Energy & Utilities (E&U); and Government
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

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

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## About Everest Group

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