



Market Vista™ : Select Findings Q3 2018

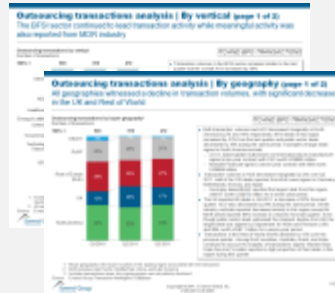
Data and Analysis – April-June 2018

Market Vista | Overview

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

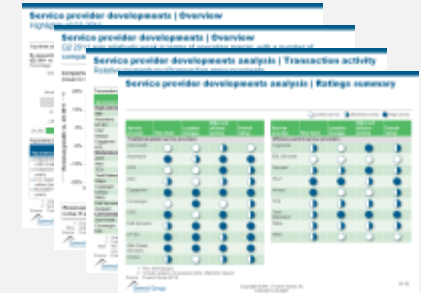
Overall sourcing market

- 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



Everest Group®
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

Global Sourcing
Adoption Report

Location
database

Viewpoints

Exclusive
webinars

Analyst
consultation

Global services | Key market trends in Q2 2018



Uptick in BFSI deals driven by U.S. tax reforms; Growth in healthcare outsourcing transactions driven by declining enterprise margins

Inorganic investments in digital and design capabilities is helping service providers augment their offerings for an enhanced user experience, leading to a surge in alliance and acquisitions activity

All-time high GIC setups in CEE driven by improved business sentiments, economic growth in Europe, and the impact of Brexit

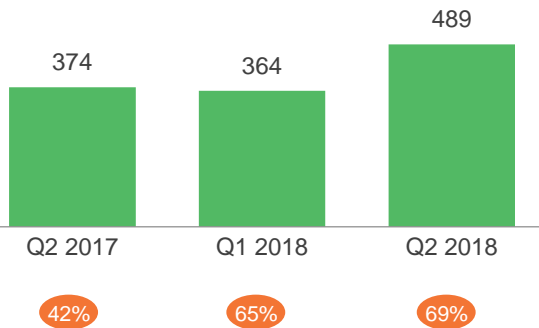
Tier-2/3 locations in the United States witnessed significant surge in new center setup activity for both transactional and transformational work, driven by low-cost skilled talent availability

Service providers identify gap in digital skills as a key growth challenge and are utilizing multiple approaches and exploring talent models to mitigate risk

Global services dashboard: Q2 2018

Outsourcing/offshoring market overview

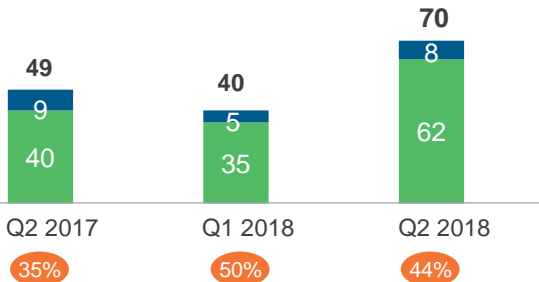
Outsourcing demand increased with a higher share of digital deals compared to the previous quarter¹
Number of outsourcing transactions



An all time high GIC set up activity

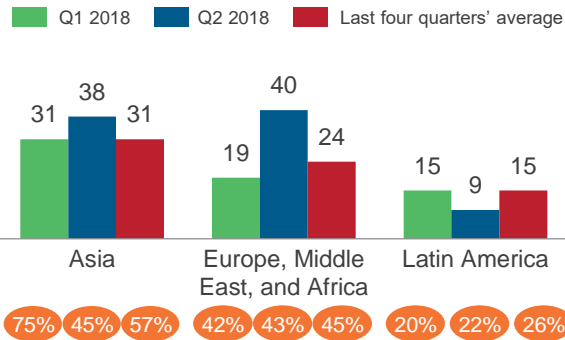
Number of new GIC setups and expansions

■ New setups
■ Expansions



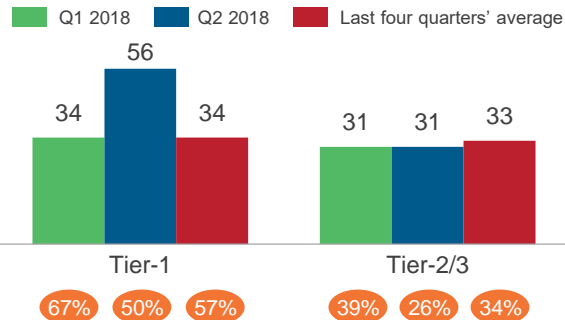
Location dynamics

Location activity dominated by APAC, significant increase in Europe and Middle East compared to Q1 2018
Number of delivery center setups



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

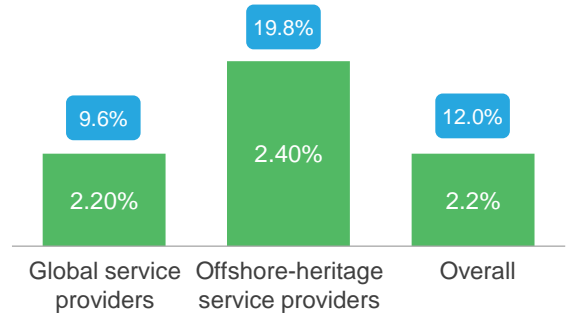
Number of delivery center setups



● Share of digital-focused activity ● Operating margin

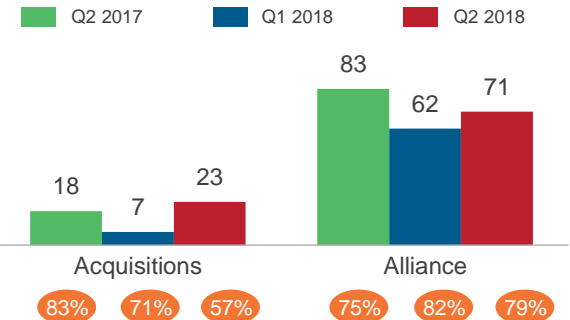
Service provider developments and trends

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



Both acquisitions and alliance activity increased during the quarter

Number of acquisitions and alliances



¹ The considerable increase in the deal volume is due to the revised methodology regarding scope of services (mainly inclusion of digital deals), from Q2 2018 onwards
Note: Digital details around each parameter are added in respective sections

Summary of key developments in Q2 2018 (page 1 of 2)

Transaction activity increased significantly with 489 deals in Q2 2018, compared to 364 in Q1 2018

- The overall outsourcing demand was higher. Higher growth in BPO deals was seen compared to Q1 2018
- The BFSI vertical saw the maximum increase in volume of transactions, followed by healthcare.
- Outsourcing activity across North America and Rest of the World increased notably over the last quarter
- The volume of new contracts increased significantly, compared to the previous quarter
- Volume of very short-term (zero to three years) and medium-term contracts (five to seven years) increased significantly, compared to the previous quarter
- Network and desktop services witnessed an increase in adoption over the last quarter

GIC market activity increased significantly in Q2 2018, with 62 new setups, eight 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 Alibaba Group, Analog Devices, Bharti Airtel, BMW, Cisco Systems, Continental, Dropbox, Honeywell International, Robert Bosch, Samsung, Standard Chartered Group, and Volkswagen, announced new centers
- In Q2 2018, onshore locations reported 44 new setups and three expansions, compared to 11 new setups and no expansion in Q1 2018. Leading companies, such as Airbus, Apple, Daimler, FedEx, First National Bank, LG, Robert Bosch, Salesforce, and Samsung announced new centers

Summary of key developments in Q2 2018 (page 2 of 2)

Location activity in Q2 2018 was at an all time high due to significant increase in Nearshore Europe and Middle East; Large increase in the share of tier-1 locations compared to tier-2 locations in overall setups

- There were 87 new delivery centers set up across GICs and service providers in Q2 2018. Activity was led by GICs while a decline in service provider setups. Tier-1 locations saw a significantly higher activity than tier-2 locations
- Key location risk/opportunity trends for Q2 2018 include – Positive movement in Poland regulatory risk profile driven by reduction in restrictions on employee background check regulation; Some of the emerging cities in U.S. are diversifying their service delivery proposition beyond contact center to technology-enabled services; Greater scrutiny of visa applications has multiple outcomes for business models of India-heritage service providers; Uncertainty around likely shape of Brexit continues to exist, potential challenges in talent management and increased operational costs

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 witnessed an increase compared to the previous quarter; similarly, the share of Market Vista™ Index service providers increased in Q2 2018 as compared to the previous quarter
- Overall M&A activity increased significantly due to a rise in acquisitions from both global and offshore-heritage service providers. On the other hand, alliance activity increased moderately as compared to the previous quarter
- Overall location activity for leading service providers increased significantly compared to the previous quarter due to heightened activity for offshore-heritage service providers

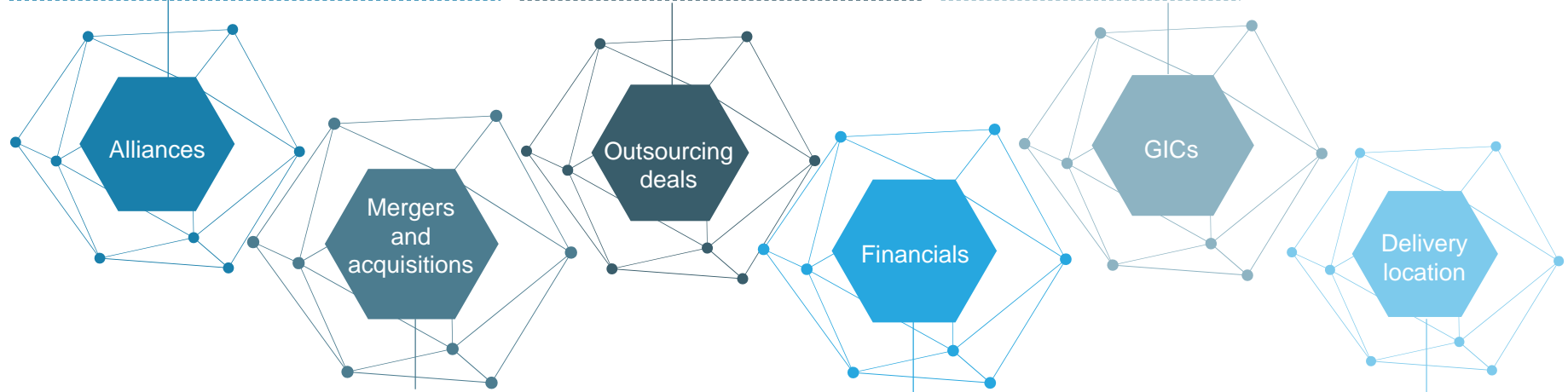
Key developments in the digital space – Q2 2018

Digital-focused activity

- Accenture collaborated with SAP to co-develop new intelligent solution to help defense and security agencies accelerate their digital transformation
- IBM partnered with Gazprom Neft, a Russian oil producer, to develop new technologies in the areas of AI, predictive analytics, big data, and industrial IoT for improved efficiency of geological exploration and production of onshore oil reserves

- Centers for Medicare and Medicaid Services (U.S.) selected Intelenet (earlier Serco) for analytics services
- Department of Homeland Security (U.S.) selected CACI International for cloud, cybersecurity, and mobility services
- KMD selected IBM for cloud services
- Npower selected Capita Group for automation (AI) services

Enterprises such as Alibaba, Analog Devices, Bharti Airtel, BMW, Cisco Systems, Continental, Dropbox, Honeywell International, Logitech International, Samsung, Standard Chartered, and Volkswagen opened GICs performing digital functions



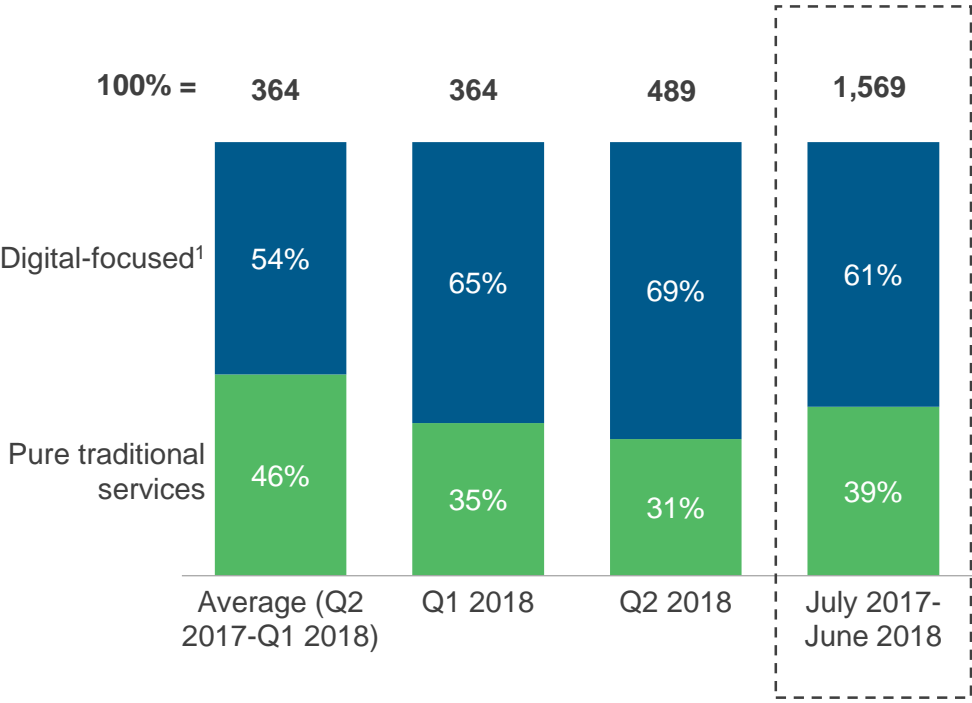
- Leading providers such as Accenture, Capgemini, IBM, and NTT Data continued to expand their digital capability through acquisitions
- During the quarter, Accenture expanded industry X.0 capabilities with the acquisition of Designaffairs

- DXC's digital revenue increased by 17% for FY2018
- Infosys' digital revenue reported a sequential growth of 3.6% and constituted ~25% of the total revenue (US\$2.79 billion)
- TCS' digital revenue accounted for 17.9% (~US\$890 million), a sequential decline of ~16%

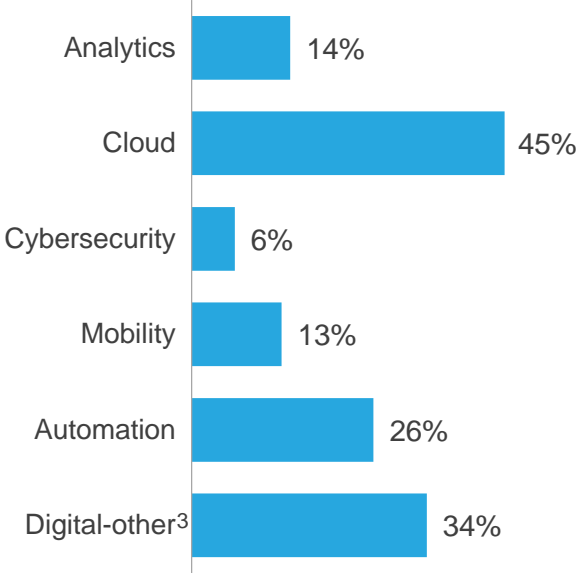
- Analog Devices established an R&D center in Bangalore, India, to develop technologies and solutions for the global automotive, industrial, healthcare, consumer, Internet of Things (IoT), security, communications, and energy markets
- Cognizant opened a new office in Riga, Latvia. The center will support clients in the Nordics with business transformation and will build technology models for the digital era. The center will employ approximately 300 people

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 transactions²

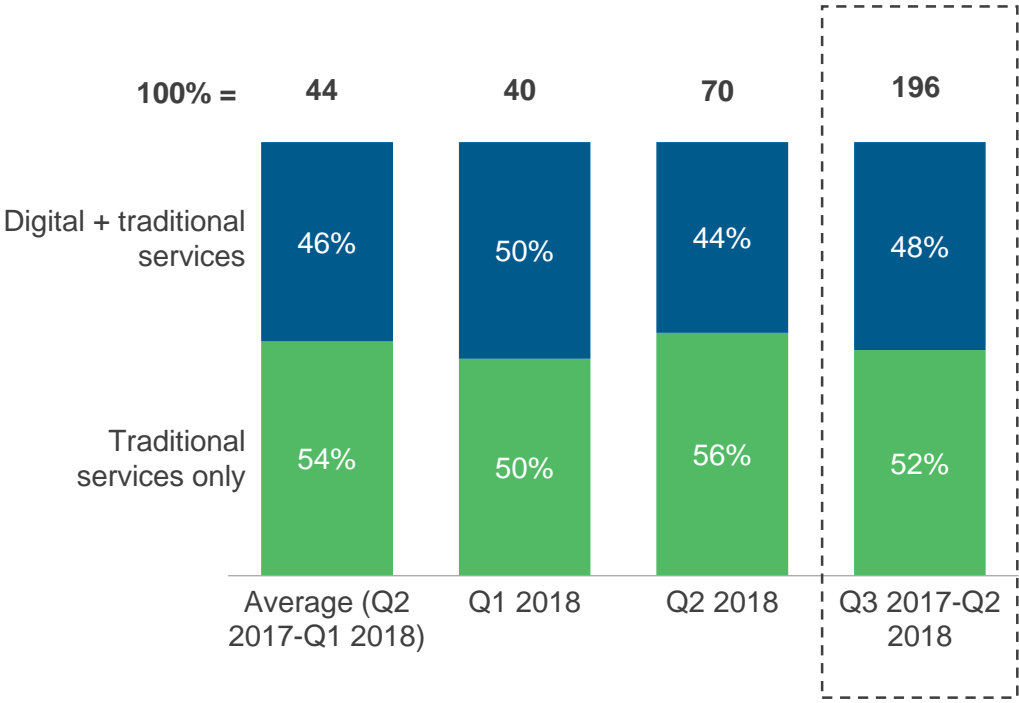


The share of digital-focused transactions increased from 65% in Q1 2018 to 69% in Q2 2018 vis-à-vis the pure traditional services, which showed a decline in adoption over the last quarter

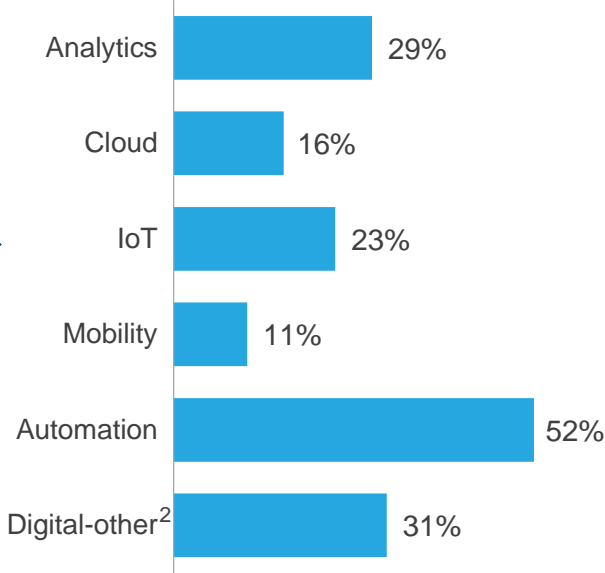
1 Includes centers that provide digital as well as traditional services
 2 Includes alliances which have multiple digital components
 3 Others include digital components such as social media, Internet of Things (IoT), and blockchain

Digital services in GIC setups declined as compared to the previous quarters

Offshore GIC market activity
Number of GIC setups and expansions



Distribution by digital components
Number of GIC setups and expansions¹

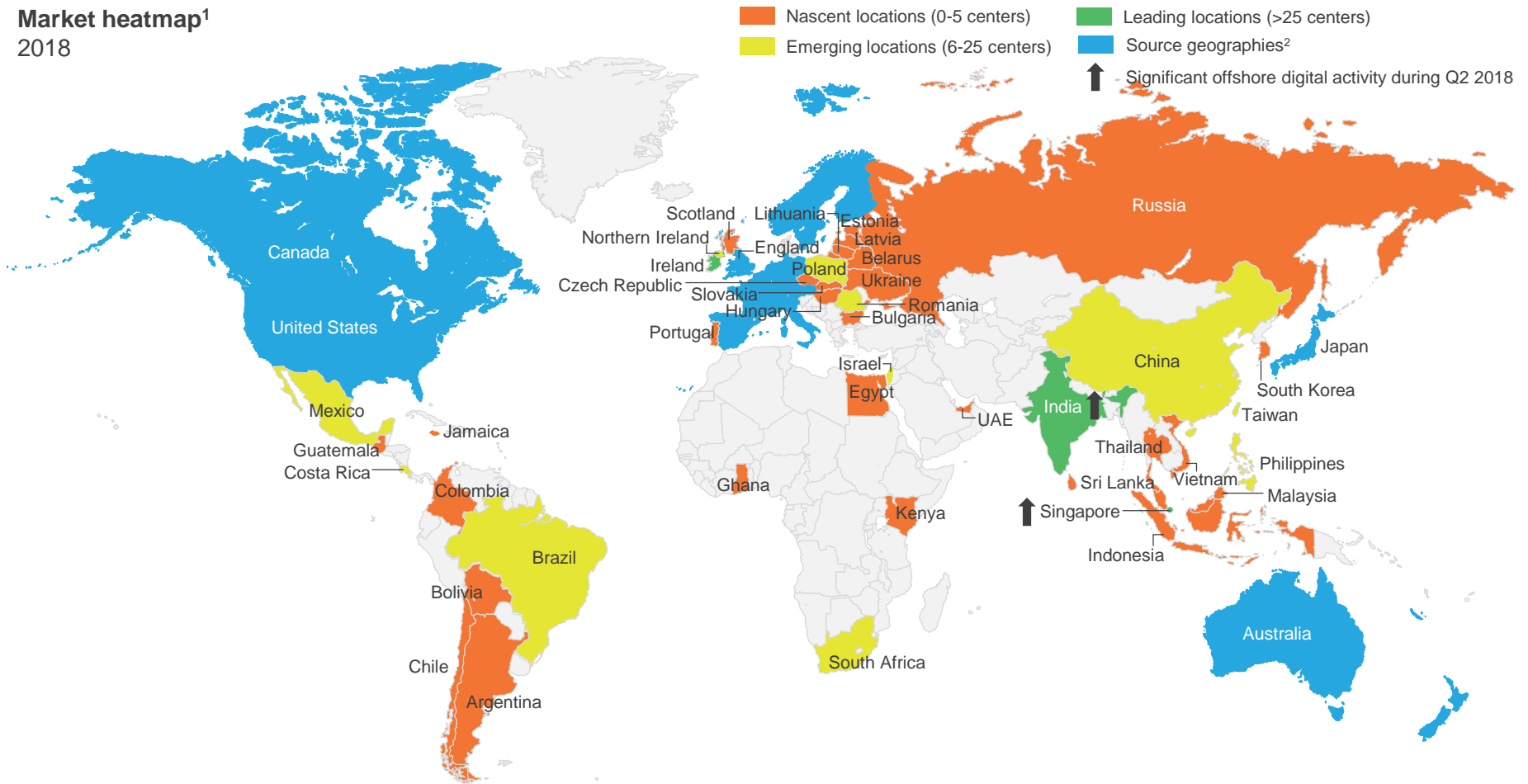


Automation continued to account for the maximum share of the total digital-based GIC setups during Q2 2018. Enterprises are exploring options to improve efficiency and deliver business value by leveraging artificial intelligence, machine learning, etc.

¹ Includes centers which have multiple digital components
² Others include digital components such as social, cybersecurity, and blockchain

Digital market activity heatmap

Market heatmap¹
2018



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

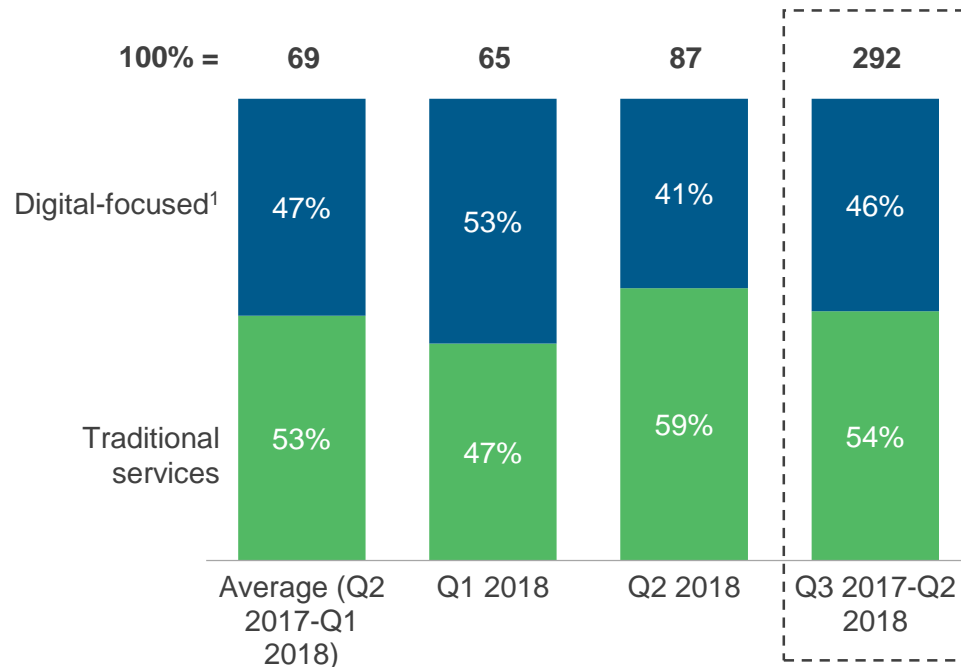
2 Indicates the high-cost locations typically offshoring/nearshoring information technology and business process services to other low-cost locations

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

Digital services activity saw a decline in share in Q2 2018 compared to the previous quarter, with automation and analytics being the key areas of investment

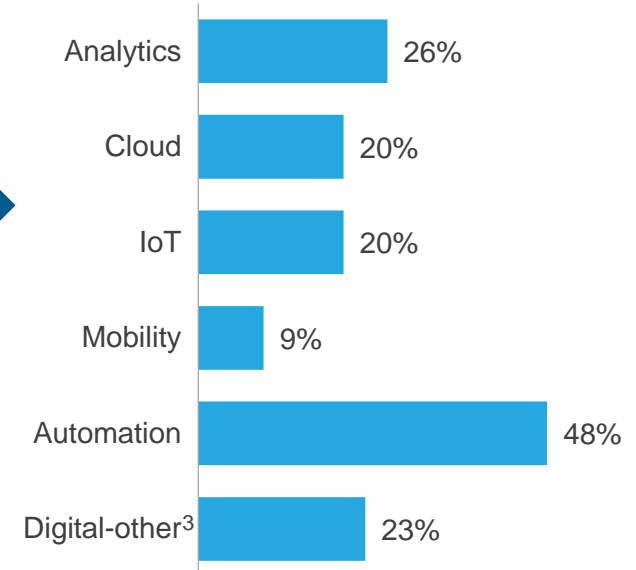
Locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up²



- In Q2 2018, there was a decline in the share of digital setups compared to the previous quarter. Analytics and automation continue to be the major services supported from new centers
- Digital services 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 service providers; low activity was recorded by large service providers
- Q2 2018 also saw a normalization in the share of digital center setups, after witnessing a high jump in the previous quarter

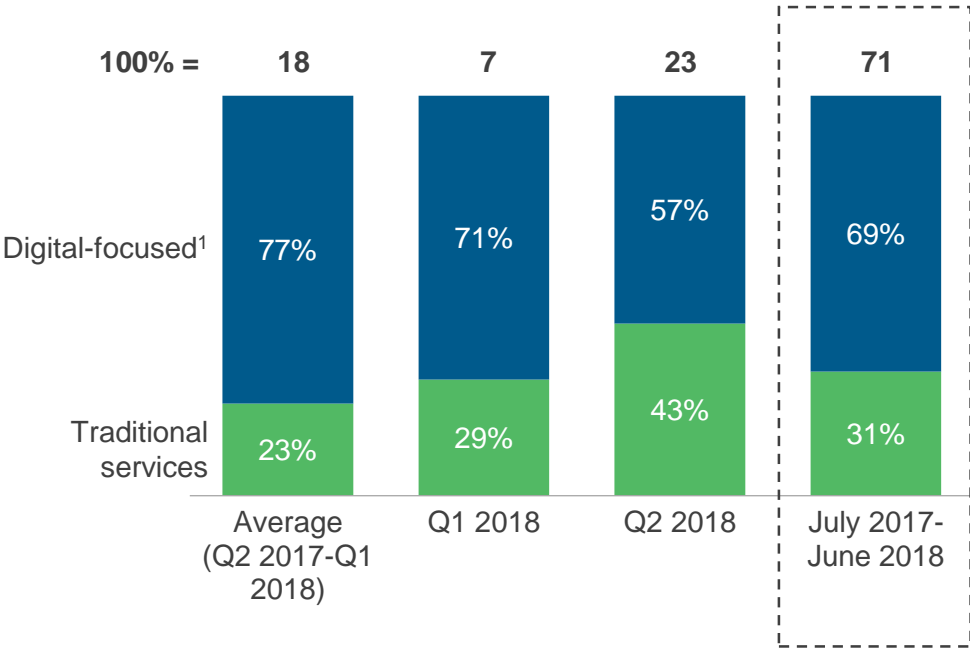
¹ Includes centers that provide digital as well as traditional services

² Includes alliances which have multiple digital components

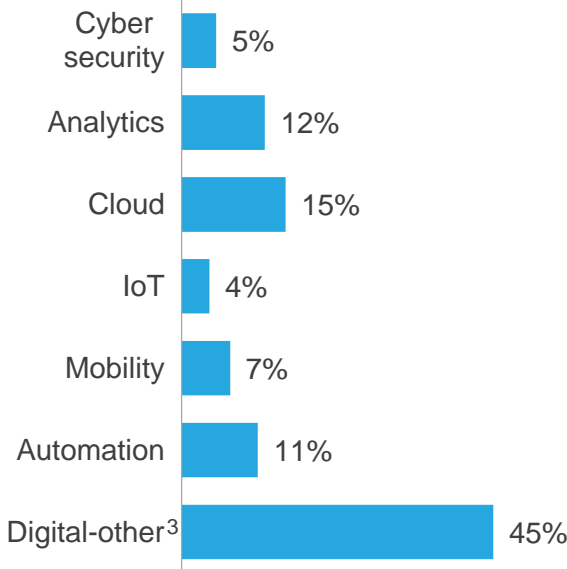
³ Others include digital components such as social, cybersecurity, and blockchain

Cloud is the top digital component of M&A activity by service providers

M&As by type of service
Number of acquisitions



Distribution by digital components
Number of acquisitions²

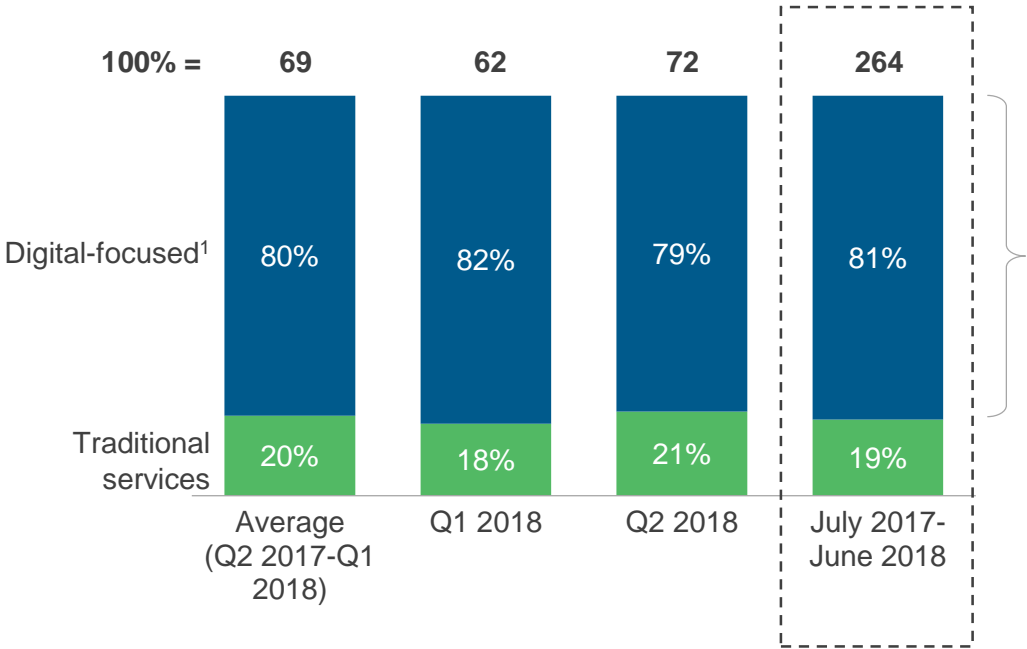


Digital-focused acquisitions continue to dominate the service provider acquisition landscape. Cloud, automation, and analytics are among the top focus areas for service providers within digital-focused acquisitions.

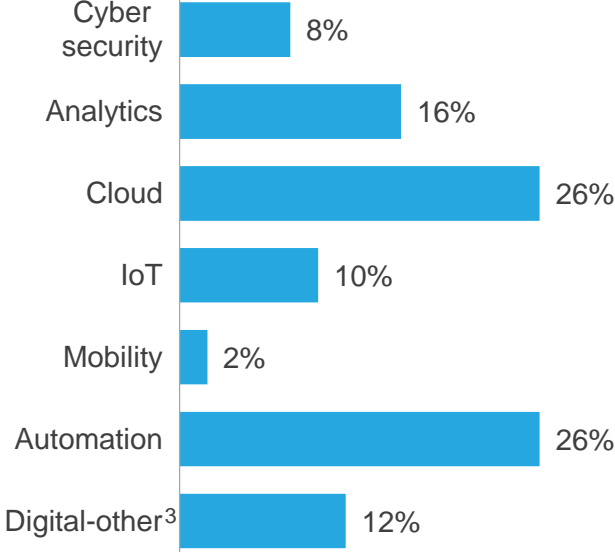
1 Includes centers that provide digital as well as traditional services
 2 Includes alliances which have multiple digital components
 3 Others include digital components such as social, cybersecurity, and blockchain

Cloud and automation are the top digital components in alliances by service providers

Alliances by type of service
Number of alliances



Distribution by digital components
Number of alliances²



Digital continues to be the key focus area within partnerships by service providers. Cloud, automation, and analytics dominated the service provider alliance landscape during Q2 2018.

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

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 the 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 2018** ([EGR-2018-35-R-2631](#)); 2018. This report summarizes the key trends and developments for Q1 2018 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 Q1 2018. 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

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